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THE KEY TO SUCCESSFUL INFRASTRUCTURE INVESTMENT INTEGRATION

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Over the past decade, we have witnessed a paradigm shift where JSE equity listings have become less prevalent and are in fact dwindling. It is becoming increasingly important for retirement funds to embrace alternative assets to ensure the longevity and growth of their portfolios, particularly in the infrastructure sector. Retirement funds should not only consider the diversification benefits of these allocations but also recognise the critical role they can play in promoting economic growth while generating risk-adjusted returns.

An enabling environment to incorporate these assets into the retirement fund space is important. This has been forthcoming in changes to Regulation 28 of the Pensions Fund Act, where more focus has been placed on infrastructure investments by placing an overall cap of 45%. notwithstanding the fact that retirement funds could previously invest in such assets under the prevailing 35% unlisted limit.

Given that infrastructure assets are long term in nature, they serve as a natural asset/liability match for retirement funds. It is thus important to ensure that actuaries and asset consultants appropriately integrate infrastructure projects into the overall strategic asset allocation consideration for the fund. Each infrastructure project will likely require funding across various asset classes and it is important that the appropriate risk and return expectation is ascribed to each investment. This ensures that infrastructure becomes fully integrated into the fund's strategic asset allocation and risk budget.

Risk-reward ultimately trumps all other considerations, and therefore returns must be offered on fully commercial terms. Subsidised finance can play a role in making some transactions bankable, but only through so-called Development Finance Institutions.

For institutional investors to access infrastructure investments, the government first needs to address the bankability of the infrastructure finance gap, which is expected to be greater than R2 trillion over the next two decades and includes a wide variety of infrastructure and development projects. It is critical that projects move swiftly through their respective project life cycles. The private sector (which also represents institutional investors), alongside government, can play a vital role in reducing the gap, but, ultimately, legislation can only go so far and bankable deal flow is a requirement to feed the market.

Some success stories: funding green opportunities

The long-term viability of alternative infrastructure deals depends on a clear and concise government policy that addresses how budgeted money is utilised across all departments of government. This has not always been the case and government has

been slow in formulating plans that tend to fall over when it comes to execution. Still, we are starting to see some success stories emerging from the establishment of Infrastructure SA and the Infrastructure Fund under the Development Bank of SA, but more can and should be done.

South Africa's REIPPPP programme is a prime example of a successful public-private partnership. The programme has been running for more than 10 years, and its planned reform of the power sector and transition to cleaner energy has received international recognition and significant support. Futuregrowth's Power Debt and Infrastructure funds have more than R9.5 billion invested in 31 renewable energy projects that use a variety of technologies ranging from wind power, solar PV, and solar CSP to hydropower. These represent some of the opportunities that can enable a clean energy transition, with the recent COP27 meeting emphasising the need for creative climate finance.

In support of growing the green economy, the South African government has announced a R300 billion investment pipeline, with a potential 19 green hydrogen projects for accelerated development, which is also promising. This falls under South Africa's Green Hydrogen National Programme, which is recognised as a Strategic Integrated Project for rapid development under the country's Infrastructure Development Act.

Why is all this important?

As asset managers, it is our fiduciary duty to act responsibly by allocating capital into sustainable businesses that enable us to produce long-term, commercial returns for our clients while minimising risk. This includes assessing both financial and non-financial (i.e., climate-related) risks, as part of our investment process, and integrating such considerations into a risk-return framework. This includes supporting the transition to a low carbon economy and related infrastructure projects, in a way that will drive the significant economic and social development that our clients and stakeholders want to see, while helping combat the challenges of climate change. In sum, enabling the integration of infrastructure investing into mainstream pension fund investments provides a potentially powerful means for South Africans to meet funding requirements and improve quality of life.

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