Sanlam

Pension funds may be forced into scenarios

There's a "high probability" that regulators could require private sector pension funds to invest a minimum portion of their assets in certain infrastructure projects in future, Sanlam Employee Benefits' Dawie de Villiers said.

In a bid to develop SA and fuel growth, a minimum allocation to such asset classes has been discussed for years, but recent suggestions by Finance Minister Malusi Gigaba that Treasury could approach the Public Investment Corporation PIC to assist ailing state owned enterprises enraged unions and highlighted concerns about allocation of member funds to certain assets. The PIC manages money on behalf of the Government Employees Pension Fund.

De Villiers said it's very easy to justify legislative requirements to invest money in infrastructure projects SA needs investment, pension funds have the funds to help build infrastructure which could fuel economic growth.

It's not the asset class that's the problem, but how the investment is managed, he said.

Funding a business to do water desalination in Cape Town could be a great investment, but it depends how the business received the contract, who got paid for it and if it could be completed within the budget.

Pension funds generally lend themselves to investment in infrastructure projects. Regulation 28 of the Pension Funds Act allows for up to 15% of a fund's assets to be invested in alternative asset classes, but many local pension funds don't have such exposure.

However, he warned these investments must be transparent and the right players with appropriate backing must be on board. "Good deals" would be done within this space and members in certain funds would benefit.

"But if you open that window [legislating minimum allocations to infrastructure] and it is not done very, very well and the legislation isn't very clear, it just opens up another box of places where money can get lost and that's the problem I have with it.

"It doesn't mean it shouldn't happen."

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