

# Addressing Infrastructure Deficit



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## The investment and impact opportunity for retirement funds

An infrastructure deficit is defined as the shortfall between current infrastructure capacity and the requirements needed for optimal functionality within the economy. South Africa is not alone in grappling with this issue; other nations, notably developing countries, are also contending with significant infrastructure gaps that hinder economic growth and social development. Increasing infrastructure capacity has a positive impact on economic growth and human development.

Public-private partnerships (PPPs) are essential for infrastructure development as they provide a means to share risks and leverage resources from both the public and private sectors. Government's role is to create an enabling environment through sound policies, regulations and institutions, while the private sector brings in expertise, technology, and financing to deliver projects efficiently.

For investors such as retirement funds, investing in infrastructure presents a compelling opportunity to achieve inflation-beating returns. Infrastructure investments are beneficial for retirement funds because of their long-term investment horizons. Retirement funds seek investments that not only protect against inflation but also ensure that the value of members' savings grows in real terms. Infrastructure projects are often characterised by long-term cash flows and essential nature, offer a hedge against inflation and the potential for stable, attractive returns.

Furthermore, infrastructure investments align with sustainability goals, offering a dual benefit: financial returns and positive environmental and social impact returns. Many infrastructure investments contribute to sustainable development, addressing United Nations Sustainable Development Goals (SDGs) such as clean energy, water access, and sustainable cities. The focus on both financial and impact returns is increasingly important to investors seeking to align their portfolios with Environmental, Social, and Governance (ESG) principles.

At the July 2024 Batseta conference, the theme "Cultivating Sustainability & Inclusion Now" highlighted the role retirement funds play in advancing climate goals, social development, and that the substantial benefits of a green economy transition are shared widely through infrastructure investments. At the conference, local and global experts emphasized the growing trend of allocating retirement funds to infrastructure as a strategic move to capitalize on the vast opportunities available and meet long-term investment objectives. The response from retirement fund trustees to these discussions was encouraging and highlighted that there is a strong demand for this investment asset class.

### Sanlam Infrastructure Investments

Sanlam offers several infrastructure investment options that provide financial return and addresses the impact objective.

#### Sanlam Investments Property Impact Fund

- Focuses on social infrastructure, including:
  - Rural and township retail properties
  - Affordable housing
  - Education
  - Student accommodation, and
  - Healthcare facilities
- Target portfolio size of **R4 billion**
- Tapping into a market estimated at over R2.5 trillion

#### Sanlam Sustainable Infrastructure Fund

- Invests in areas with considerable growth potential:
  - ICT
  - Energy
  - Water, and
  - Transportation
- Portfolio size **+R1 billion**

Both funds align with SDGs and provide impact reporting frameworks, enabling investors to assess the achievement of impact objectives alongside financial returns.



## Retirement fund access to Infrastructure Investments

Infrastructure investments are available for retirement funds with varying governance budgets, risk and liquidity appetite. Larger retirement funds with sufficient investment governance budget tend to allocate directly to infrastructure investments. Smaller retirement funds and those with smaller investment governance budgets might consider life-pooled multi-asset balanced funds that include infrastructure as part of the portfolios.

Sanlam's multi-asset balanced funds, such as the Sanlam Wealth Creation and Sanlam Accumulation portfolios, incorporate infrastructure investments within their private-markets programs, offering indirect exposure to infrastructure while diversifying and reducing portfolio volatility.

## Closing the gap

Infrastructure deficits present a significant investment opportunity for retirement funds. Public-private partnerships are essential to address these deficits. By investing in infrastructure, pension funds can achieve inflation-beating returns, support sustainable development, and contribute to positive social and environmental impacts. The trend towards infrastructure investment is likely to persist, driven by both the need to address existing deficits and the growing appetite for sustainable investment solutions.