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INFRASTRUCTURE

Space in the Portfolio

Pension funds 'ideal' for long-term infrastructure investment

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Using pension funds for long-term investments in infrastructure is an increasing trend worldwide, with the 2008 global financial crisis having resulted in several challenges for pension funds.

This is according to specialist fund manager Mergence Investment Managers portfolio manager **Mark Van Wyk**, who tells *Engineering News* that a significant drop in asset prices has created a funding gap for some pension plans.

The 2008 financial crisis also negatively impacted on risk budgets and part of the solution for pension funds is to create efficiency of the pension fund portfolio.

Pension funds allocate assets to fund managers, who invest either through debt or equity in projects that construct the infrastructure.

"There is a place for fund managers in the wider infrastructure arena. Projects can no longer be funded by traditional sources of bank funding alone because of stricter regulations and liquidity constraints after the global financial crisis," Van Wyk says.

Adding infrastructure assets to an institutional portfolio improves the return per unit of risk.

With yields of inflation-linked government bonds at low levels, investors are interested in income-generating assets that can offer similar long-term, inflation-linked sustainable returns, Van Wyk adds.

"The infrastructure-debt asset class is attractive, as it is a productive fixed asset with a government-supported income stream," he adds.

Some of the most popular investments include those in renewable energy, toll roads and public–private partnerships.

The benefits of investing funds in infrastructure include the improvement in portfolio efficiency at a pension fund level and, at a national level, supporting government's infrastructure plans.

Van Wyk advises that investing in infrastructure is not suitable for individuals or companies, but is more suitable for institutional investors, such as pension funds and insurance companies.

Meanwhile, Van Wyk was part of a delegation at a ceremony held last month to connect the 27 MW Klipheuwel-Dassiesfontein wind energy facility, near Caledon, in the Western Cape, to the energy grid.

The power purchase agreement was awarded to the Dassiesfontein wind farm in Round 1 of the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP).

MARK VAN WYK
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Renewables developer and independent power producer Biotherm Energy is the private equity investor in the Klipheuwel-Dassiesfontein project and Mergence has invested in the project development debt with other lenders, financial services firm Standard Bank and the Industrial Development Corporation.

To date, Mergence has invested in ten Round 1 renewable-energy projects on behalf of its clients, with a total investment exceeding R1-billion. Mergence has identified renewable-energy projects in the first three rounds of the REIPPPP, in addition to identifying smaller write out in full projects, where it can invest more than R1.5-billion.

In terms of the social aspects of renewable-energy projects, Van Wyk says Mergence aims to invest in projects that are structured to deliver socioeconomic targets exceeding the minimum thresholds, taking into account local content, local procurement and local ownership.

The Klipheuwel-Dassiesfontein project is structured as such that the community, located within a 50 km radius of the facility, will benefit through a trust that has been established for community upliftment and support.

A total of 1 212 jobs were sourced locally during the construction period from May 2013 to January 2014, with more indirect jobs created or sustained at local manufacturers and suppliers. During the 20-year operational period of the wind farm, operation and maintenance, security and engineering-control jobs will also be created.

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