Why South African pension funds aren't moving on infrastructure

South African pension fund trustees are increasingly convinced of the long-term value of infrastructure. At every conference and boardroom discussion, the message is clear: infrastructure can diversify portfolios, hedge against inflation, and deliver meaningful developmental impact.

With changes to Regulation 28 expanding permissible allocations, and with mounting pressure to support the country's recovery, it would be logical to expect a significant reallocation of capital into this asset class. But that shift is slow to materialise. Despite widespread agreement on the strategic benefits of infrastructure, actual allocations by South African pension funds remain low – typically below 3% of assets under management. In contrast, global peers have already moved. Leading pension funds in Canada, Australia and Europe allocate between 10% and 20% of their portfolios to infrastructure – often through well-structured vehicles or via direct stakes in essential projects.

This gap between acknowledgement and allocation, the intention-action gap, lies at the heart of South Africa's slow progress. But what explains it?

UNDERSTANDING THE HESITATION

Some of the hesitation is structural. Trustees and investment committees are understandably cautious about illiquid, long-dated assets. The infrastructure project pipeline in South Africa is often perceived as limited, slow-moving, or overly exposed to municipal risk. There's also the question of internal expertise. Evaluating infrastructure deals, especially those involving a public–private partnership (PPP), demands a specific skillset and many funds rely on advisors who may also be navigating this asset class for the first time. But part of the problem is behavioural. Infrastructure is still viewed by some as alternative or high risk, despite its established role in global portfolios. Others may fear so-called headline risk (the reputational fallout of backing a deal that goes sour) and so choose inaction over imperfect action. This conservative stance may feel safer, but it comes at a cost.

THE COST OF WAITING

The longer funds delay, the more they miss out on the benefits: inflation-linked returns, low correlation to equities, and access to real assets that support job creation, service delivery and inclusive growth. The opportunity cost of inaction is growing – both in terms of investment performance and in failing to contribute to the national imperative for infrastructure renewal. South Africa has no shortage of infrastructure needs: from water and energy to affordable housing and digital networks. Private capital has a clear role to play and pension funds, as long-term investors with developmental mandates, are best positioned to lead.

CLOSING THE GAP: WHAT CAN TRUSTEES DO?

The first step is not a leap - it's a nudge.

- **Start small:** Allocate a pilot amount to a proven infrastructure vehicle. Exposure need not be binary.
- **Co-invest:** Collaborate with other institutional investors to build scale and share due diligence.
- **Seek simplicity:** Not all infrastructure deals are complex. Many offer stable, contracted cash flows and transparent structures.
- **Demand clarity:** Work with managers who can articulate the risk-return profile clearly and demonstrate a track record in local infrastructure.
- **Build internal capability:** Use training programmes and workshops to improve board and investment committee understanding of infrastructure as an asset class.

FROM STRATEGY TO STEWARDSHIP

South Africa doesn't lack policy vision. The revised Regulation 28 now allows up to 45% allocation to infrastructure across domestic and foreign investments. Multiple infrastructure funds are operational. Treasury has committed to streamlining PPP approvals. The tools are there. What's missing is follow-through. Trustees don't need to wait for the perfect moment. Infrastructure investing is inherently about managing uncertainty. But with experienced managers, appropriate governance, and patient capital, it's also about enabling transformation.

As stewards of long-term capital, pension fund trustees have a unique opportunity not only to secure the financial futures of their members, but to contribute to building the roads, networks, water infrastructure, and power that will sustain the next generation.

In the process, trustees need to do their homework and seek out managers investing in projects aligned with Sustainable Development Goals that resonate with their investment strategy and members' needs. To cite just one example, water is a critical and hugely problematic sector in South Africa. There are asset managers active in the sector, with our house having been invested since 2018 in the only two private water concessions in the country, via a PPP. The impact and success have been notable and the authorities have taken note of this PPP as a possible model to replicate. So, let's move from intention to action to close the gap.

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