# Rethinking pension fund investment

By Romeo Makhubela

28 Apr 2017

South Africa has a great deal of work to do in addressing the social and economic inequalities that exist today. The unemployment rate remains incredibly high (currently at an expanded unemployment rate of 35.6%), and retrenchments are on the rise.

It is important for businesses to realise the important role they play in improving job security in the country, especially through investments. A healthy savings and investment sector bodes well for economic development, which, in turn, translates into further job opportunities and economic growth overall.

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Workers, and specifically union members, in South Africa remain reliant on employer-provided pensions funds and it is often their only source of income at retirement. Unfortunately, the average employee's investment is not enough to provide for a comfortable retirement. In addition, those needing to provide for extended family members will inevitably need to make use of their retirement funds, as they are no longer able to generate a regular monthly income.

As the economy continues its negative outlook, more citizens will experience job losses, which will subsequently lead to a higher reliance on social services grants provided by the government (which has been steadily increasing for a number of years). For unemployed individuals, the only backup plan is to rely on working family members and survive on government social grants – as of 1 April, pensioners over the age of 60 receive R1,600 per month.

The global economy remains under pressure and pension funds will need to include alternative asset classes into their portfolios to ensure better fund performance. Over the past three years, pension funds have shown strained growth due to poor returns across traditional asset classes.

Performance remains a concern for investment consultants, fund managers, trustees as well as investors. While everyone has high expectations, the returns generated in the past cannot be expected under the current difficult economic conditions.

## Traditional asset classes

In an environment where traditional asset classes have underperformed, the advantages that alternative asset classes offer can no longer be ignored. Recent events that have influenced local financial market events, as well as persistently challenging global economic conditions, have meant that even large portfolios across various markets and industries have struggled to generate returns in excess of inflation. If businesses want to ensure that their workers are adequately provided for at retirement, it is important to reconsider investment strategies to realise the best growth rates possible.

However, the use of alternative asset classes within pension funds is not utilised enough compared to global standards and many pension funds still favour traditional asset classes.

In principle, a successful pension fund is one that is generating a return of above inflation. The South African workforce retirement funds mainly concentrate investments in traditional asset classes, which have disappointed of late.

Pension funds adopting strategies that include alternative asset classes are leveraging more stable returns as alternative asset groups have proven to have done well over both short and long term periods, are predictable and less volatile.

## Infrastructure funds

Not only do alternative investments provide an attractive investment opportunity, but it also benefits the South African economy. This is especially true in the case of infrastructure funds.

Infrastructure funds provide a good opportunity to secure a solid and stable investment return above CPI, however, it also provides the opportunity for individuals and institutions to invest and have a positive impact on society. The problem is that there are not enough good South African infrastructure products available for investment, and the industry is not driving a higher demand for such funds. This urgently needs to change.

Ultimately, one of the first steps we as an industry must take is to increase the financial literacy of South Africans. If we do not impart the knowledge and understanding of the necessity of financial planning, and the role of investing, we will never be able to truly empower South African worker’s to be, or want to be, self-reliant at retirement. Tools, be it a pick or a laptop, are not the only tools that workers should be given to better their quality of life and retirement.

## ABOUT THE AUTHOR

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