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Mergence calls for more institutional investment in infrastructure

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South Africa’s current market conditions and the compelling value offering of infrastructure assets will further encourage pension funds to consider allocation to this asset class, according to Mark van Wyk, Head of Unlisted Investments at Mergence Investment Managers.

“The private sector – through retirement funds - can potentially make a massive contribution to furthering the aims of the National Development Plan,” he said.

In terms of Regulation 28 of the Pension Funds Act, South African pension schemes are allowed to invest up to 15% in alternative investments.

“Whereas in Canada, for example, investors allocate an average 5,2% of assets under management to infrastructure investments, in South Africa Mergence estimates this is limited to effectively 0,5% of total pension fund assets or an equivalent R10bn," said van Wyk.

He added that the macro-economic climate with low economic growth and low interest rates is highly conducive to pension funds diversifying portfolios into infrastructure, citing stable income generation, growth uncorrelated to GDP and other diversification benefits as key advantages of this growing asset class.

Speaking at the launch of Mergence’s 2015/16 Impact Report, which details the asset manager’s investments in unlisted entities, largely through debt funding, van Wyk said that misconceptions abound.

Unlisted investments are commonly regarded as opaque, risky, illiquid and complex but according to van Wyk if they are managed by experts, they can produce competitive financial returns as well as yield positive social impact.

The Mergence High Impact Debt Fund for example has returned CPI + 3.5% since inception six years ago and in trying economic conditions, through taking conservative credit exposure into non-listed companies across the housing, education, transport and energy sectors.

Van Wyk said that South Africa’s highly successful Renewable Energy Independent Power Producers Procurement Programme (REIPPPP) could serve as a model for similar initiatives in sectors other than energy, citing water and student accommodation as examples.

Mergence was the first asset manager to launch a dedicated debt fund in the renewable energy space in South Africa, in 2012, through which it has invested into 12 projects across Rounds 1 and 2 of the REIPPPP.

All 12 projects, representing 23% of the total megawatts allocated in the first two rounds are complete and feeding energy into the national grid.

Mergence has now turned its attention, together with the IDC, to funding the so-called “Smalls” project which enables local companies to invest in the REIPPPP via biomass, wind and solar technologies.

In addition to debt investing, Mergence has also broadened its strategy to include infrastructure equity, through its recently launched Infrastructure and Development Fund whose benchmark is CPI + 7%.

Mergence Investment Managers is an independent majority black-owned boutique asset management company founded in 2004.