

# **GOVERNMENT EMPLOYEES PENSION FUND**

## **DEVELOPMENTAL INVESTMENT POLICY LAUNCH EVENT**

**8 APRIL 2011**

### **Speech by Mr Arthur Moloto Chairman: Government Employees Pension Fund**

Minister of Finance, Mr Pravin Gordhan

Deputy Chairperson of the Board, Mr Prabir Badal; my fellow trustees and GEPF executives,

Chairperson of the PIC, Mr Nhlanhla Nene; and his fellow directors

The CEO of GPAA, Mr Phenias Tjie; and his executives

Former Chairperson of the GEPF Board, Mr Martin Kuscus,

All leaders of the different organisations represented here,

Ladies and gentlemen,

Good morning,

As Chairman of the Board of the Government Employees Pension Fund, it gives me great pleasure to welcome you to the official launch of the GEPF Developmental Investment Policy. Speaking on behalf of my fellow trustees and the GEPF executive, please accept our thanks and appreciation for joining us today on this auspicious occasion.

Many of you were at the launch of the GEPF's Responsible Investment Policy a little over a year ago in Soweto. The launch of the GEPF's Responsible Investment Policy marked a great turning point in GEPF's approach to investing. Since the launch we have established, together with the PIC, an ESG working committee to oversee the implementation of the RI Policy and corporate engagement in line with our commitment to the UN backed PRI. This is ensuring that we don't only launch policies but see to it that they get implemented.

Ladies and gentlemen, Today is not about giving feedback about the implementation of the RI Policy, but rather it is about unveiling the details relating to our developmental investment framework.

Today's event highlights our commitment to invest in a way that will benefit our members and pensioners in the long term, while at the same time impacting positively towards addressing some of the pressing challenges facing our country, continent and the world at large. We are convinced that this policy will provide a strong foundation for future developments in the area of developmental investing

The financial crisis of 2008 – 2009, of which we have not yet fully recovered, acted as a catalyst for the GEPF to review its investment strategy in search of new opportunities for improved portfolio diversification and improved long-term returns.

The financial crisis saw many pension plans, especially those in developed markets, being exposed as a result of the collapse in equity markets and a simultaneous drop in long-term yields, leading to lower pension asset value and a rise in actuarial liabilities resulting in substantial funding and solvency problems. These issues, coupled with lower expected real returns from equities and other traditional growth assets, necessitated a review of investment strategies.

According to the Organisation for Economic Co-operation and Development (OECD)<sup>1</sup>, many pension funds and even sovereign funds globally have started to include infrastructure investments in their overall investment strategy as a separate asset class to be pursued for investment on the basis that infrastructure investment provides diversification benefits and excellent long-term returns. This trend certainly bodes well with what we have observed in our research efforts that in turn led to the Developmental Investment Policy being launched today.

Today's launch allows us to publicly announce to our members, pensioners and stakeholders that through the DI Policy, we are going to commit 5% of the GEPF's portfolio of assets, which based on current assets amounts to R45 billion, to pursue opportunities as identified in the DI Policy.

Our commitment to this policy will not only ensure that we achieve a greater level of diversification within our portfolio of investment, but will also generate

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<sup>1</sup> Inderst, G. (2009), "Pension Fund Investment in Infrastructure", *OECD Working Papers on Insurance and Private Pensions*, No. 32, OECD publishing, © OECD.  
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long-term sustainable returns that can match the duration of our actuarial liabilities.

We are all very familiar with the challenges facing South Africa at present. These challenges range from inadequate access to clean water, poor road network infrastructure, unsecured supply of energy, lack of supply and funding of affordable houses for our members and pensioners to global issues such as climate change. Such challenges, if left unchecked, will lead us into an unsustainable future. This need not be the case, as some of these challenges present investment opportunities that can be pursued through a framework and policy such as this one. Our commitment to this policy is a bold step towards investing in a sustainable future.

I am sure you will agree that the launch of this policy will make a substantial contribution to South Africa's continued growth and development. Our commitment towards a sustainable future for all South Africans will become evident as the four pillars of the developmental investment policy are unpacked during today's proceedings.

The DI Policy came about after the Fund asked itself the following fundamental question:

*How can the GEPF structure its portfolio to play a greater and more direct role in investing for South Africa's long-term economic development and social upliftment without compromising the fiduciary responsibilities of the board?*

In our efforts to answer this question, the Board commissioned economic consultants, Genesis Analytics, to design and implement a consultation process in early 2009. The Board wanted all stakeholders, both internal and external stakeholders of the Fund, to share their views on the developmental portfolio. These stakeholder inputs were then used to set out a developmental investment approach based on the stakeholder feedback.

Some of you seated here today may well have been approached for your input and your comments. Your contributions, along with contributions from other GEPF stakeholders such as National Treasury, the Public Investment Corporation, the labour unions, investment industry colleagues, and academia have been incorporated into the policy resulting in the policy as it stands

today. The consultation process showed strong support for the GEPF to play a more strategic and direct developmental role in South Africa.

Many stakeholders argued that, as the largest fund in the country with 1.2 million contributing members, 330 000 pensioners and beneficiaries, and net assets just shy of R1 trillion, the GEPF should set an example to other institutional investors by leveraging its investments to the benefit of South Africa. The Board shares the opinion that the Fund can play a strategic role in supporting the national development agenda.

Over the last decade, South Africa has increasingly relied on short-term foreign portfolio inflows to finance capital investment. This has come at a cost, recently a strong rand. High levels of portfolio investment have left the economy exposed to the vagaries of international capital market sentiment. Development experience, especially from Asia, has shown that countries with high domestic savings rates, linked to local investment, have a better chance of sustaining long-term growth.

The GEPF Board of Trustees has come to agreement that investment capital can be used to pursue social justice without compromising on returns. Sound investments can in fact be combined with socially useful outcomes; and that the GEPF can make good financial returns for its members and pensioners while helping to make South Africa more competitive by reducing social backlogs, creating jobs, supporting transformation and making the economy more sustainable.

The board is furthermore of the view that developmental investments provide large-scale and long-term investment opportunities which are well suited to the needs of the GEPF as a large investor with long-term liabilities; and that such investments have been shown to generate impressive returns, which are uncorrelated to global market volatility and are thus a good form of investment diversification. Developmental investment furthermore enhances the sustainability of returns in the long-term, which is in the long-term interests of the GEPF's members, pensioners and their families.

Our research into the drafting of the developmental investment framework over the last two years has been further supported of late with the launch of

government's New Growth Path Framework announced in November 2010. The New Growth Path further indicates the relevance of our DI framework. Because at the centre of it, is the call for massive investments infrastructure by the private sector.

During the Budget Speech, Minister Pravin Gordhan spoke of inclusive growth and the need to sustain it:

*"...we must take measures to ensure that our young people can look forward to decent work in productive, competitive enterprises. It means that we will continue to strengthen social expenditure, enabling families to commit to participating in education and community activities, while supporting old and sick. Inclusive growth means strenuous efforts to cut back poverty and shrink the inequality that continue to blight us. The South African growth path we envision is not measurable by GDP alone. It must be an inclusive growth, which especially benefits the many South Africans who have been left behind."*

The GEPP's Developmental Investment Policy acknowledges the challenges of working towards inclusive growth, offering the benefits of a thriving economy

to all South Africans, while at the same time recognizing that these same challenges can translate into investment opportunities.

Before I conclude, I would like to use this opportunity to announce to our members, pensioners and stakeholders that the Fund has been able to further diversify its portfolio in recent months to include offshore investments in the form of foreign equity (3%), foreign bonds (2%) and increased allocation towards exploring opportunities on our beloved continent (5%).

On behalf of the Board, I would like to express our thanks to the Minister of Finance, Mr Pravin Gordhan, for his role in making such investments possible by allowing this portfolio diversification. The board is eager to investigate how the Developmental Investment Policy can be applied to our offshore investments on the African continent.

To conclude, I would like to echo the remarks offered by President Jacob Zuma in the *State of the Nation Address* delivered in February:

*“Compatriots,*

*Our goal is clear. We want to have a country where millions more South Africans have decent employment opportunities, which has a modern infrastructure and a vibrant economy and where the quality of life is high.*

*We all have a responsibility to work hard to make this a reality.*

*Everyone must think of how they can contribute to the jobs campaign through creating opportunities for themselves and others.”*

Thank you.