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V-C's speeches

Pension funds should be into commodities

THE fundamental and obvious recourse for pension funds in times of declining paper money values is to become as involved as possible in commodities, Rhodes University Principal Prof Derek Henderson said yesterday.

Opening the annual Association of Pension and Provident Funds conference in Port Elizabeth, Prof Henderson made some interesting observations about the deployment of surplus income in tangible, simple, durable and useful commodities, writes JOHN MULCAHY.

He used the example of a pension fund acquiring a few hectares alongside a brickfield and stacking it with bricks purchased from the field. In order to spread the risk, however, the exercise could be repeated with other basic, non-perishable commodities such as coal, building sand and stone, as well as other key commodities.

Each member's share of the pension fund could then be computed in terms of a basket of raw materials and when an individual goes on pension an actuarially computed yearly share of the commodities could be sold and the proceeds paid to the retiring member.

Prof Henderson points out that such a pension fund would protect a member's pension from inflation and his contribution to the commodity pool would not be subject to the vagaries and vicissitudes of paper currencies and securities.

In the case of a mature fund there would be no actual need to sell the commodities, but the money value could be computed, and the sum paid to the pensioner from the amounts received from contributing members.

An argument against the application of a simple scheme with pension payments annexed to the cost of a putative basket of commodities, is that the physical, measurable and tangible existence of the assets guarantees a member's pension, for which he has worked, in the same way as a gold coin currency cannot be manipulated by weak-kneed politicians.

The argument that physical asset stockpiles do not produce a yield can be countered by one that they can be made to produce yields by, for example, allowing the producer to draw from the stockpile at will, for a modest fee of, say, 2,5 percent, payable in kind rather than cash, with new production of identical quality.

This system would provide the producer with a production stockpile, as well as an effective insurance against breakdowns, while also protecting against labour unrest, or strikes, when staff realise the existence of a significant production stockpile in the vicinity, to negate the effect of work stoppages.

Prof Henderson makes the point that a further expansion of the commodity investment concept would be to build the stockpile not for immediate delivery, but on a futures basis.

This would allow a further expansion into commodities trading, which, if the fund manager is adept, must return a reasonable profit.

In times of weak demand for a particular commodity the stockpile would be built up strongly and reduced when demand improves.

Prof Henderson notes there is a significant social benefit in this system, a classic example of which is platinum, where depending on fluctuations in demand, the town of Rustenburg has often been either a boom-town or a ghost-town, with undesirable social consequences in any event.

This problem could be alleviated substantially by pension fund holdings in a platinum stockpile.

Prof Henderson feels investment in commodities to be delivered at a future date is far from a sterile investment, and the scheme has enormous possibilities for the expansion of South Africa's mineral and agricultural production, with the risk element being reduced to a very low level by confining investment to fields where expansion is taking place in an already proven mining or agricultural regime.

An interesting side of the pension funds' possible investment is the purchase of part of the Government's oil stockpiles for delivery in the future, a condition being that the State retains full control of the oil in the interim, together with the right to repay in cash at the ruling price if it wishes to retain the oil.