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Africa's Pension Funds: Playing It Safe Is the Biggest Risk

Oliver Müller of Accresco Investment Management explains how Africa's pension funds, while designed for long-term growth, remain constrained by overly conservative, short-term investment strategies that prioritise stability over meaningful wealth creation. Drawing on the philosophies of Warren Buffett, David Swensen and the Principles for Responsible Investment, he argues for a shift towards global equities, differentiated mandates and responsible investing to unlock sustainable, long-term returns.

Africa's pension funds are, by design, long-term investors. Their liabilities stretch decades into the future; their purpose is to safeguard and grow the savings of millions. Yet across much of the continent, their investment approach remains curiously short-term in instinct and conservative in structure. Portfolios are constructed to minimise visible losses rather than to maximise long-term wealth.

This is most evident in the prevailing model. Pension funds typically appoint several managers to run similar balanced mandates, maintain a bias towards domestic assets and fixed income, and increasingly turn to illiquid private markets in search of incremental returns. The result is diversification that appears prudent but delivers little real differentiation. Portfolios may be spread across asset classes and managers, yet remain strikingly uniform in their underlying thinking.

This is a costly illusion. The real risk is not short-term volatility, but the failure to compound capital over time.

There is a better way forward. It rests on three pillars: the investment philosophy of Warren Buffett, the institutional framework developed by David Swensen, and the principles of responsible investing championed by the United Nations. None of these ideas is new. Yet applied with discipline, they would challenge many of the conventions shaping pension fund management across Africa.

Buffett: Owning Businesses

Warren Buffett is widely regarded as the world's most successful investor. His core idea is simple: a share is not a piece of paper to be traded, but a stake in a real business. It should be analysed—and owned—accordingly.

For pension funds, this distinction is crucial. Too often, equities are treated as a volatile asset class to be adjusted tactically. Buffett would consider this a mistake. The role of equities is not to chase momentum, but to participate in the compounding of high-quality businesses.

Over time, listed equities—particularly global ones—have been the most reliable engine of wealth creation. Yet many African pension funds remain underexposed. A bias towards domestic markets and fixed income, combined with growing allocations to private assets, has limited participation in the very companies that drive global growth and innovation.

Buffett's evolution as an investor is instructive. He moved from buying cheap stocks to owning "wonderful businesses at fair prices"—companies with durable competitive advantages, strong cash generation and capable management. For institutions with multi-decade liabilities, this focus on quality is fundamental.

Equities should not be a tactical allocation. They should form the strategic core of a long-term portfolio—and be approached with the same discipline and conviction as if one were buying the entire business outright.

Swensen: Structure Matters

As chief investment officer of Yale's endowment, David Swensen built one of the most successful institutional portfolios.

His central insight was that returns depend as much on structure as on assets. This is where many pension funds fall short. In seeking diversification, they often appoint several managers to run similar multi-asset mandates. The result is a proliferation of portfolios that look different on the surface but behave much the same in practice.

Swensen would have regarded this as inefficient. Where genuine expertise exists, it should be used deliberately: equities managed by equity specialists, fixed income by bond experts. Where such expertise is absent, it is better to accept market returns than to pay for average active management.

Swensen's success is often attributed to alternatives—an oversimplification that misses the essence of his approach. The recent shift towards private assets among African pension funds reflects a search for diversification and higher returns, but it risks following a global trend without sufficient scrutiny. Private equity and private credit have a role, but they are no substitute for listed equities. The true advantage lies in allocating capital where skill and long-term discipline can genuinely add value.

PRI: Sustainability as Fiduciary Duty

The UN-backed Principles for Responsible Investment (PRI), supported by thousands of institutional investors worldwide, were established to promote the integration of environmental, social and governance factors into investment decisions. Their central message is straightforward: sustainability is part of financial performance.

For pension funds, they also form part of fiduciary duty. ESG considerations are not optional—they are essential to understanding long-term risk and return. Ignoring them does not reduce risk—it compounds it.

This is particularly relevant in Africa, where exposure to climate risk, governance challenges and social pressures is often more acute. Investments that overlook these factors may appear attractive in the short term but can prove fragile over time.

Properly applied, responsible investing directs capital towards businesses that are well-managed, financially sound and capable of adapting to change. In that sense, it aligns closely with the principles of quality investing.

From Diversification to Differentiation

Taken together, these perspectives point to a clear conclusion: Africa's pension funds need less replication and more differentiation.

The prevailing model—balanced mandates, domestic bias, heavy fixed-income allocations and incremental diversification into private markets—has delivered stability, but often at the expense of growth. It prioritises short-term comfort over long-term outcomes.

Not all returns are equal. Long-term wealth is created by owning high-quality businesses and allowing them to compound. This requires meaningful exposure to global equities, selecting managers with genuine expertise, and remaining invested through volatility.

In our experience, the most consistent source of outperformance lies in "active alpha": the disciplined selection of superior businesses to invest in through bottom-up analysis. By contrast, many pension fund managers focus on "active beta" through tactical asset allocation. While this can add value, it is rarely the main driver of long-term returns.

Conviction Over Comfort

Rather than assigning similar multi-asset mandates to multiple managers, pension funds would benefit from allocating distinct mandates to areas of genuine expertise. International equities, in particular, warrant greater focus. They provide access to the world's most successful businesses—but capturing that opportunity requires more than broad exposure. It demands disciplined stock selection, direct investment and conviction.

At Accresco Investment Management, this philosophy is central to how we invest. Our approach—Sustainable Value Investing—combines quality, value and responsible investing, grounded in long-term ownership and active engagement.

The challenge for African pension funds is not a lack of capital or opportunity. It is a question of mindset.

Prudence has too often been equated with conservatism: a preference for domestic assets, fixed income and strategies designed to minimise volatility. Yet over long horizons, such caution can itself become a source of risk—underperformance, unmet liabilities and erosion of purchasing power.

A more appropriate interpretation of prudence would recognise equities as a primary engine of growth, treat sustainability as integral to investment decisions, and allocate capital to managers with the expertise and conviction to deliver long-term results.

Buffett reminds investors what to own. Swensen showed how institutions should invest. The PRI makes clear that sustainability is inseparable from long-term value.

For Africa's pension funds, the question is no longer whether these principles are relevant, but how much longer they can afford to ignore them.