The second edition of the World Pensions & Investments Forum jointly organised by the OECD and the WPC was held in Paris on 8-9 Feb. 2012 at the headquarters of the Society for the Encouragement of National Industry (SEIN), with debates focusing on long-term assets, infrastructure investments and emerging markets. World Pensions Council cofounders Vincent Bazi and M. Nicolas J. Firzli present the key takeaways from the conference.

The 2nd edition of the World Pensions & Investments Forum was held against the backdrop of economic turmoil in Europe and political upheavals in the MENA (Middle East and North Africa) area, a particularly delicate juncture for CIOs of pension and sovereign wealth funds entrusted with maintaining and developing the wealth of governments and future pensioners. The event was attended by 170 participants, including senior representatives of the OECD, the World Bank Group/IFC, the European Commission, the Bank for International Settlements, the African Development Bank, the China Council for Energy, Transportation and Financial Affairs, as well as senior delegates from Scandinavia, Asia, Latin America and MENA area central banks and sovereign wealth funds. Participants represented more than 30 countries, including: Belgium, Brazil, Bulgaria, Canada, Chile, China, the Czech Republic, Denmark, Ethiopia, Finland, France, Germany, Holland, Italy, Lebanon, Lithuania, Mexico, Morocco, New Zealand, Norway, Peru, Poland, Portugal, Romania, Singapore, Spain, Russia, Switzerland, the United Kingdom, the United Arab Emirates, and the United States.

The Solferino Bridge in Paris, an emblematic infrastructure work near the Caisse des Dépôts, Europe’s first infrastructure investor.

Carolyn Ervin, Director, Directorate for Financial and Enterprise Affairs, OECD, reminded us in the opening keynote address for the forum that the average allocation to infrastructure typically represents only 1% of assets under management by pensions- excluding more traditional investments through ownership of shares of listed utility, construction and infrastructure firms. Juan Yermo, Head of the Private Pensions Unit, Financial Affairs Division, OECD, told the conference that recent regulatory, accounting and solvency-driven changes had sometimes led pension investors to become less long-term oriented in their investment outlook, with negative consequences for the world economy. The OECD Long-Term Investment Project was established to better understand and address these complex issues and thus help devise public policies that are truly propitious to long-term, sustainable, growth.

Konstantin Semenovich Ugrumov, President, Russian National Association of Pension Funds, highlighted the coming of age of large private pensions in the Russian Federation within the broader context of his country’s impressive progress on the economic and legal fronts and the strategic role played by non-state enterprises (NSEs) across key sectors of the Russian economy such as energy, transportation and financial
services... Legendary fund manager turned academic Paul K. Woolley, Founder, Centre for the Study of Capital Market Dysfunctionality, London School of Economics (LSE), pension industry veteran Raymond Haines, Head of UK Liability Driven Investing, State Street Global Advisors, and Philippe Desfossés, CEO, ERAFP. France’s Public Sector Additional Pension Scheme, discussed LSE’s latest research on long-term investing in relation to the visible shortcomings of the “Efficient Market Hypothesis”. Dr. Woolley pointing to the principal-agent problem as the main underlying cause of asset mispricing. Oscar Franco, President, Association of Mexican Pension Fund Managers (Amaforo), one of Mexico’s foremost experts, mentioned the tangible progress made by Latin America’s financial markets in terms of maturity, stability and size of investment.

LEARNING FROM EUROPEAN, US AND ASIAN PENSION LEADERS

P. Brett Hammond, Managing Director & Chief Investment Strategist, TIAA-CREF, a leading US pension institution with a 20-year history of investing in “hard assets over a long period of time” and a major investor in both listed assets such as shares and bonds and non-listed assets such as infrastructure projects across the Americas, focused his presentation on how to devise and implement successful diversification strategies within an asset class, concentrating on equity and alternative investments, a topic he discussed with his distinguished European peers: France’s Yves Choquemailly, Founder & President, TOBAM, who pioneered the Anti-Benchmark approach to diversification; Jan Soerensen, Head of Hedge Funds, PGGM Vermogensbeheer B.V. (PGGM), the Dutch pension powerhouse, and Elizabeth Fernando, Deputy CIO & Head of European Equities, USS, the second-largest British pension fund. David Wilton, CIO and Managing Director of the European Equities Funds, International Finance Corporation, World Bank Group, and Prof. Bernard Y. Yeung, Dean of the National University of Singapore Business School, Member of the Financial Research Council of the Monetary Authority of Singapore (MAS) pointed to the lack of qualified human resources—notably at the managerial and board level (which Mr. Wilton said “can be mitigated by engaged private equity investors through training-by-doing and progressive skills transfer”), pervading governance inadequacies in some areas and infrastructure-related bottlenecks in key Asian economies such as China and India. Mr. Wilton stressed that the World Bank has made market-beating returns on private equity investments in emerging markets by betting on homegrown investment partners grounded in local economic realities—“engaged GPs seen as valuable partners by the local entrepreneurs”… Dr. Yeung and seasoned emerging markets expert Thomas Gerhardt, Head of Global Emerging Markets & Commodities, Edmond de Rothschild Asset Management (EdRAM), showed notably how South Korea and other countries had surmounted similar hurdles in the past (through improved governance, and renewed entrepreneurial dynamism), thus sounding a rather optimistic note as to these nations’ capacity to identify and manage their own “growth pains”. Matti Leppälä, Secretary-General of the European Federation for Retirement Provision (EFRP) insisted on the need to streamline the increasingly complex regulatory constraints faced by European institutions investing abroad. Finally, Ulfk Dan Weuder, Head of Infrastructure, Arbejdsmarkedets Tillægsparfundsforvaltning, showed why infrastructure is clearly an attractive asset class providing pension investors with advantages such as matching returns with liabilities over a long period of time, (often) protection against inflation, and financial diversification (relatively low correlation with bonds, equity…), highlighting the tangible benefits “the private sector can bring to the table: disciplined evaluation of project economy, innovation in project design, construction, operation, maintenance and expansion, as well as concrete, quantifiable, PPP savings – project cost, funding and timing. He discussed his plenary presentation with some of Europe’s key infrastructure investors: Eric Hayoun, Chief Financial Officer, CDC Infrastructure, CDC Group; France’s leading institutional investor incorporated in 1816 specifically to deploy public capital across long term assets such as seaports, roads, bridges, social housing projects, schools and research facilities, thus making it a pioneer in the field of modern infrastructure investment, Holland’s Stefan Lundbergh, Head of Innovation Centre, All Pensions Group (APG) and Austria’s Christian Kummer, Managing Director, Infrastructure, Kommunalkredit.