1st Annual World Pensions & Investments Forum held at the OECD

The first edition of the World Pensions & Investments Forum was held at the OECD on Dec. 10 2010. This institutional event was organized jointly by the Organisation for Economic Co-operation and Development (OECD) and the World Pensions Council (WPC) and hosted by the OECD. WPC founders Vincent Bazi and M. Nicolas J. Firzli discuss the key takeouts from the conference with the editors of *Revue Analyse Financière.*

Can you please give us some background information on your organization?

Vincent Bazi: The World Pensions Council (WPC) is a Paris-based think-tank dedicated to innovative research and analysis that helps strengthen and disseminate academic and professional research on a wide array of pension related topics such as demographics, actuarial science and statistical methods, public and private pension policies, asset allocation, and pension fund governance across Europe, Asia and the Americas. Having worked closely with key European, North American and Asian institutional investors and having taught financial analysis and portfolio management at leading business schools for more than two decades, I've always felt the need to bridge the gap between the academic world of pension and investment research and the 'real world', so to speak, of fund managers, pensions executives and trustees. In essence, the World Pensions Council came out of this reflection. We believe that our pragmatic, multifaceted approach will foster national and cross-border cooperation between all pension stakeholders by helping both scholars and practitioners to develop new interdisciplinary research projects, and thus build bridges between the academic world, government agencies, and multilateral organizations, as well as pension professionals and investment experts from leading public and private institutions.

Who attended the first conference? What kind of audience?

Vincent Bazi: The first edition of our World Pensions & Investments Forum was organized jointly with the Organisation for Economic Co-operation and Development (OECD)- it was held on Dec. 10 2010 at the OECD in Paris. We had approximately 120 participants- representatives (heads of investments, chief trustees…) of some of Europe's leading pensions funds, caisses de retraites and insurance companies, as well as delegates from North American and Asian financial institutions, policy makers, central bankers, regulators and researchers... Our goal is for the World Pensions & Investments Forum to serve the dual purpose of providing a platform for networking and exchanging ideas between leading academics, pension professionals, policy makers and fund managers, as well as showcasing research advances that will benefit the investment community at large: we're pleased with the results of our first conference and delighted by the positive feedback we've received so far.

VINCENT BAZI, DIRECTOR AND HEAD OF EQUITY INVESTMENTS AT NEXTSTAGE,
a Paris-based investment fund (with €270m AuM).
He has 25 years experience in equity research, sales and asset management in various investment houses (Cheuvreux, JP Morgan, Schroder, Oddo, and Dexia). He is President of the World Pension Council (WPC), and Deputy Chairman of the European Federation of Financial Analysts Societies (EFFAS) and of the French Society of Financial Analysts (SFAF). He is a graduate of Institut d'Etudes Politiques de Paris and Columbia Business School and holder of CIWM (Certified International Wealth Manager).

M. NICOLAS J. FIRZLI, COFOUNDER AND MANAGING DIRECTOR OF THE WORLD PENSIONS COUNCIL (WPC), a Paris-based think-tank dedicated to pension research, and a member of the International Commission of the French Society of Financial Analysts (SFAF). A statistician by training, Mr. Firzli has more than 12 years of capital market research and institutional asset management experience, focusing on Canadian, Asian and MENA area pension funds, sovereign wealth funds and central banks.
Mr. Firzli is a graduate of McGill University, and an alumnus of the HEC Paris School of Management; he conducted research at the Catholic University of Louvain (UCL) Doctoral School of Economics.

From left to right : Juan Yermo, M. Nicolas J. Firzli and Vincent Bazi

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Can you give us an idea of some of the key issues discussed at the forum?

M. Nicolas J. Firzli: Dr. van Nunen's critical assessment of the "Dutch model" focusing on the negative investments outcomes of recent regulatory reforms that forced pensions to strictly **match assets to liabilities** drew a lot of attention: he argued that, although motivated by the best of intentions, the regulator had lost Holland's pensions industry 15% of its assets in the past two years by trapping pension funds in "an assets-destroying circle", in essence, by imposing arbitrary bonds-based risk metrics forcing them to sell long-term assets such as equities at the worst possible time, thus locking thousands of future Dutch pensioners into poverty. Dr. van Nunen insisted that "it is not the duty of pensions to hedge liabilities- especially not when liabilities are calculated incorrectly…Risk, not money, is the only 'asset' a pension fund has at its disposal".

Governance was also a key topic: Dr. Catalán of the International Monetary Fund laid the ideal (some thought idealist) case for increased pensions involvement, arguing that, moving forward, to avoid a "stagnant and segmented financial world" scenario characterized by insufficient capital flows toward emerging economies with 'delayed' population aging whereby the 'saving glut' is resolved sub-optimally within the group of large economies with 'advanced' population aging (low returns on investments across the board + more world poverty), Western and emerging economies had to collaborate (international policy coordination) and work on improving accountability and governance in the developing economies of Asia and Latin America and enact bold pension and fiscal reforms plans in Europe, North America and Japan.

Dr. Cairns of the Maxwell Institute/ Heriot-Watt University (Edinburgh) insisted that longevity risk constitutes by far the most significant source of risk after interest rate and inflation hedging, and that, unlike interest rates and inflation risks, longevity shocks persist over time.

Until 2005, there was a generally poor **understanding of the real nature of longevity risk** and a lack of reliable modeling to measure that specific risk, and, correlatively, a lack of sophisticated financial and legal instruments needed to hedge it properly. Dr. Cairns argued that "companies with a commitment to quality DB plans" will eventually "need to develop longevity risk sharing benefits" and described the kind of innovative solutions that could offer the required level of hedging for longevity risk in the future, focusing on customized longevity swaps and index-based longevity hedges (both embryonic markets). Dr. Antolin, Principal Economist, Financial Affairs Division, OECD, informed us that the OECD was set to launch a longevity risk research project in early 2011, focusing notably on the required regulatory frameworks and the creation of robust life expectancy indices, thus filling an important gap in the field of longevity risk management. ■

KEYNOTE SPEAKERS AND ROUNDTABLE PANELISTS

- **Adrian Blundell-Wignall,** Deputy Director in the Directorate for Financial and Enterprise Affairs, Special Advisor to the Secretary-General on Financial Markets, OECD and **Giampaolo Trasi,** Head of Equity & Credit Research at Intesa Sanpaolo Group, and Chairman of the European Federation of Financial Analysts Societies (EFFAS) who made the opening remarks;
- **Anton van Nunen,** author of *Fiduciary Management Blueprint for Pension Fund Excellence* who discussed the changing role of pension regulation with **Juan Yermo,** Head of Private Pensions Unit, OECD, **Mads Gosvig,** Chief Risk Officer of Denmark's Arbejdsmarkedets Tillægspension (ATP) and **Anton Wouters,** Head of LDI & Fiduciary Management at BNP Paribas Asset Management;
- **Michael Dempster,** Founder of the Center for Financial Research of the University of Cambridge, who discussed advanced asset allocation modeling with **Michel G. Maila,** fmr. VP Risk Management at the World Bank (International Finance Corporation), **Fiona Stewart,** Principal Administrator, Financial Affairs Division, OECD, and **Philippe Uzan,** CIO, Edmond de Rothschild Asset Management;
- **Mario Catalán,** governance expert at the International Monetary Fund (Western Hemisphere Division) who focused on the rise of environmental, social, and governance issues, that he discussed with **Mark Fawcett,** CIO of the UK's National Employment Savings Trust (NEST) and **Steffen Hörter,** Director of Allianz Global Investors' RiskLab GmbH;
- **Andrew Cairns,** professor of actuarial mathematics at Heriot-Watt University (Edinburgh) who presented the findings of his latest research on pension risks – focusing on longevity risk and discussed them with **Erik Goris,** Managing Director of Board Advisory Services at Holland's PGGM, **Pablo Antolín,** Principal Economist, Financial Affairs Division, OECD, **Henri Ghosn,** fmr. CFO of France's Fonds de Réserve pour les Retraites (FRR) and **Patrick Legland,** Global Head of Research of Société Générale Corporate & Investment Banking.