4th Annual World Pensions Council Forum held in Paris

The 4th edition of the World Pensions & Investments Forum – Paris, October 23 & 24 2014 - was held against the backdrop of severe economic slowdown in Mainland Europe, resurgent military tensions in Eastern Europe and the Arabian Gulf, declining oil and commodities prices affecting nations as diverse as Australia, Canada, South Africa and Mexico, and, more generally, a sense that the global economic landscape was still marred by menacing "legacies, clouds and uncertainties." [1]

***David Weeks** has prepared a longer compilation of the 4th Annual WPC Forum plenary speeches and roundtables, available on the AMNT website: http://amnt.org/latest-news/2014WorldPensionsconference/*

The Rt. Hon. **Nick Sherry**, former **Minister for Financial Services, Superannuation and Corporate Law** of Australia, sounded a cautionary note: "politicians are finding it difficult to deliver promises either on pensions or on healthcare. Extremist parties on both right and left have gained ground in consequence, as disillusionment sets in. It is tempting to blame migrants, big banks, or whoever…I am not sure that there is an easy way out".

Joshua Franzel, VP of Research for the **US Center for State and Local Government Excellence (SLGE)** presented on the **hybrid retirement plans** that use a combination of defined benefit and defined contribution components or employ a cash balance framework[2]. **Darren Philp,** Head of Policy, **Building and Civil Engineering (B&CE)** Pension, formerly of the **National Association of Pension Funds (NAPF)** and of Her Majesty's Treasury, focused on the broader landscape in the UK, by far Europe's leading nation when it comes to overall pension industry size (with retirement assets larger than those of France and Germany combined) and generally viewed as "quite good" ("B" according to the Mercer Index). The speaker insisted EU regulations may need to be watched carefully to avoid potential damage to UK schemes: this applies to issues of both solvency and governance. Prof. **Elsa Fornero** of the **University of Turin**, former **Minister of Labour & Social Policies** of Italy, highlighted the stark economic reality her country faces today: Italy, together with Japan, still has one of the worst dependency ratios in the world, with decreasing numbers in the active workforce to support growing numbers of pensioners. **Jerry Moriarty**, CEO, **Irish Association of Pension Funds**, said Ireland wasn't much different from other OECD countries, regretting that "it is difficult to persuade people to contribute more when the Government keeps moving the goalposts."

RISK, RETURN AND LONGEVITY METRICS

Pablo Antolín-Nicolás, Principal Economist and Head of the Private Pension Unit, **OECD**, presented his latest research on mortality assumptions and longevity, insisting there should be appropriate instruments to hedge and mitigate longevity risk – such as "longevity swaps [which] constitute the most attractive option, although they bring in counterparty risks". **M. Nicolas J. Firzli,** Director-General, **WPC**, concurred, remarking that, unfortunately, the market for longevity swaps hadn't really taken off, even in sophisticated jurisdictions such as the US and the UK. **Sean Kidney**, CEO, **Climate Bonds Initiative,** for his part described the remarkably rapid development of the market for Green Bonds and Climate Bonds, from a starting point of only USD $1 billion in 2011, to an expected total of USD $40 billion in 2014, and announced the launch of the "Climate Bond Partners Program".[3] **Barry Parr,** Co-Chair of the British pensions industry's **Association of Member Nominated Trustees (AMNT)**, said it was essential for trustees to forcefully increase their stewardship over pension investments in an era marked by financial short-termism and (at times) uneven oversight from the part of some asset owners. **Pauline Vamos,** CEO, **Association of Superannuation Funds of Australia (ASFA)** concurred, adding in her keynote address that "pension schemes need to be accountable and transparent."

The keynote roundtable on **'Understanding & Managing Financial & Investment Risk'** was chaired jointly by Arnaud Claudon, Global Head of Depositary & Fiduciary Services and **Dietmar Roessler,** Global Head of Asset Owners Dpt. at **BNP Paribas Securities Services**, a leading asset servicing bank and global custodian. **Paul Woolley,** Chairman, Centre for the Study of Capital Market Dysfunctionality, **London School of Economics**, former Head of Borrowing and Investment, International Monetary Fund, described the latest findings of a research project conducted with his LSE colleagues, analyzing thoroughly 40 years+ of US and global equity data: "the great risk/ return inversion" means that high risk assets don't necessarily deliver higher returns than low risk assets. Woolley's counterintuitive conclusions which further challenge the accepted views of "asset pricing theory" were well received by many of the experts in attendance- notably **Anton van Nunen** of **Syntrus Achmea,** author of the acclaimed "Fiduciary Management: Blueprint for Pension Fund Excellence". Dr. Van Nunen insisted that "actual results differ hugely from expectations…[And yet] Expected returns remain the most important driver of asset allocation" in spite of recurring "disenchantments". **Arnaud Claudon** described the challenging financial landscape within which asset owners and asset managers have to operate, with ever complexifying risk forms. He concluded that a modern, collaborative approach, bringing together forcefully risk and compliance experts amongst depositaries and their institutional partners (asset owners, asset managers, banks and other clients) as well as lawmakers and regulators is crucial if we are to conceive well-designed, effectively robust risk containment strategies.

NEW FIXED INCOME AND INFRASTRUCTURE ASSETS

Jean-François Bay, Managing Director, **Morningstar**, covered *"core vs. non-core: the quest for 'new fron-*

tiers' in fixed income assets in a low yields environment", while **Jean-Louis Laurens**, General Partner, Global Head of Asset Management, **Rothschild & Cie Gestion**, showed how institutional investors can invest in international trade finance within a risk controlled fixed income framework. **Helmut Urban**, Member of the Executive Board, **Kommunalkredit** shared his views with **Salvatore Casabona**, Director, **Italy's National Supplementary Pension System** and **Fausto Felli**, President, **Integrate Policy Research Center**, focusing on the effectiveness of modern debt instruments to fund ambitious infrastructure projects including renewable energy assets.

Climate bonds and infrastructure debt roundtable
From left to right: Dr. Helmut Urban, Member of the Executive Board, Kommunalkredit, Dominik Zunt, Policy Officer, European Commission DG Economic and Financial Affairs, Fausto Felli, President, Integrate Policy Research Center, Salvatore Casabona, Director, Italy's National Supplementary Pension System ('2nd pillar') and board member of the CGIL labor organization, Sean Kidney, Co-founder and CEO, International Climate Bonds Standards & Climate Bonds Initiative.

Erik Goris, MD, **PGGM**, the Dutch pension powerhouse, described how even advanced nations with seemingly solid pension systems (Holland has always been ranked amongst the 'three best countries in the world' according to the Mercer Index) need to adjust to mounting burdens such as stricter requirements for board members, weakening sponsorship by employers...etc. **Philippe Desfossés**, CEO, **French Public Service Additional Pension Scheme – ERAFP** sounded an equally cautious note, insisting that "[many] *economies across the world had become unsustainable even before the financial crisis of 2007-2012* […] *A challenging context where several disconcerting fault lines have started to appear"* notably in terms of excessive levels of public debt and deflation risks.

Dominik Zunt, Policy Officer, DG Economic and Financial Affairs, **European Commission**, reminded the audience that investment in infrastructure has always been at the heart of EU policy, insisting that the newly installed **Juncker Commission** would probably produce further proposals by the end of 2014. **Cormac Murphy**, Head of Structured Finance/ Infrastructure - Project Bonds, **European Investment Bank (EIB)** summarized the progress that had been made to date, notably in terms of completing the pilot phase of the EU Project Bond Initiative (funding projects in Spain, the UK, Belgium…etc.).

Bayo Oyewole, Principal Operations Officer, **International Finance Corporation**, presented the recently established **World Bank Group Global Infrastructure Facility** known as **'GIF'** that will bring together key donors, multilateral and regional development banks, insurance companies, investment banks and asset managers, pension and SWF investors to foster investment into commercially viable infrastructure projects in emerging and frontier markets. **Hang Chen**, Asst. General Manger, **China Construction Bank (CCB)**, shared with the audience the managerial and strategic insight that led to the rapid rise of CCB, making it the world's second largest listed company , notably its determined focus on risk-controlled infrastructure finance in PRC and abroad[4]. **Prof. Andrew Mc Naughton**, Technical Director, **High Speed 2 (HS2)**, described the UK's planned mega-railway project connecting London to Birmingham, Manchester, Leeds and the Central Belt of Scotland, probably the world's largest transportation infrastructure project (outside of China) and the expected impact on the local economy – including real estate prices in the English Midlands, Yorkshire…etc. **Alain Rauscher**, Chief Executive Officer, Founder & Managing Partner, **Antin Infrastructure**, focused on the need for institutional investors to factor-in thoroughly all risk metrics before committing to long-haul investments such as infrastructure equity assets in the European context, insisting one shouldn't hesitate to *"walk away from a deal if he doesn't feel comfortable"*.

Guido Schmidt-Traub, Executive Director, **UN Sustainable Development Solutions Network** explained how institutional investors can help "fast-track sustainable investments and foster quantifiable development goals", while **Robin Edme**, Coordinator, Responsible Finance, **French Ministry of Ecology**, President, **Group of Friends of Paragraph 47, the Inter-Governmental Sustainable Development** Initiative, talked about the usefulness of "sustainability reporting metrics". Many institutional investors and regulators present concurred, expressing hope that the **UN Climate Change Conference (COP21)** held in Paris in December 2015 would lead to concrete headways. M. Nicolas J. Firzli, **WPC**, announced that the **5th Annual World Pensions Forum** would be held **in Paris December 2 & 3 2015** in association with **supranational organizations, regional think-tanks** and **pension and SWF investors** present in Paris for the Climate Change Conference. ■

(1) http://blog-imfdirect.imf.org/2014/10/07/legacies-clouds-and-uncertainties/

(2) http://slge.org/wp-contentuploads/2014/11/Joshua-Franzel-presentation-WPC-World-Pensions-and-Investments-Forum-2014.pdf

(3) http://www.climatebonds.net/2014/10/climate-bonds-partners-program-launched-world-pensions-investments-forum-paris-join-ranks

(4) 'Chinese banks top Forbes Global 2000 list of world's biggest companies' http://www.theguardian.com/media/2013/apr/17/chinese-banks-forbes-global-2000