

## 6<sup>th</sup> World Pensions Forum held in London: Greening, Governance and Asset Ownership

The sixth annual World Pensions Forum was held on 23-24 February 2017 in London. Over 120 representatives attended: from pension and sovereign funds, central banks and government agencies including financial regulators. Topics discussed included environmental, social and governance ('ESG') factors and the role of supranational institutions acting as facilitators, issuers and co-investors alongside pension funds. The Forum also addressed the economic implications of pension reform in Europe and the United States, the empowerment of employee-nominated pension trustees and women board members, and how 'best-in-class pension investors' from the US, Britain, Australia, Canada, France and the Netherlands can foster a more effective form of asset ownership: fiduciary capitalism.

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ine years on from a 'global financial crisis' seemingly caused by the collapse of Lehman Brothers in the United States and Royal Bank of Scotland in the United Kingdom, and aggravated by complacent monetary policies detrimental to pension investors<sup>1</sup> that culminated with negative interest rates, voters in both nations appeared inclined to break with the economic orthodoxies of the past (Brexit, election of Donald Trump). This halt in growth for the notion of "un-coerced [borderless] interactions of free people through open markets" (Milton Friedman) comes at a time when traditional forms of pension investment management are increasingly challenged by the dual rise of 'low-cost' indexing<sup>2</sup> and non-listed assets such as infrastructure<sup>3</sup> and private equity. Pension funds also face mounting solvency concerns, rising longevity

risks and other gathering clouds. But, as Hellenistic Wisdom affirmed long ago, the word 'crisis' itself can also mean intellectual discernment and the ability to make informed decisions that will change the future...

### SUPRANATIONAL THOUGHT LEADERS

The opening keynote address was delivered by **Joaquim V. Levy**, Chief Financial Officer & Managing Director, **World Bank Group**, who explained why, going forward, private capital flows will constitute a key element of development finance: "it is a major paradigm shift that is being actively supported by most multilateral development banks, as well as bilateral development institutions and donor countries", insisting that "a whole range of new opportunities in emerging market and developing economies [EMDEs], from Latin America and India, to Africa and Southeast Asia— [will be further]

supported by public mechanisms to make these opportunities compatible with the risk capacity" of pension investors and other institutional asset owners.

This ambitious perspective was echoed by **Bertrand de Mazières**, Director General of Finance, **European Investment Bank (EIB)**, the **European Union's** multilateral development bank, who reminded the audience that the persistent, "dual drive" for socially-beneficial financial innovation and increased collaboration with pension and insurance investors across the continent has always played an important part in the EIB's thinking: "this is precisely how green bonds came into being."

**Sergio Arvizu Treviño**, Chief Executive Officer, **United Nations Joint Staff Pension Fund (UNJSPF)**, delivered the third keynote address, showing how a large, complex supranational pension fund with



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beneficiaries residing in 190+ countries could reinforce its strong governance and risk-management apparatuses and, simultaneously, preserve the needed operational nimbleness, progressive, gender-equitable ethos and informational transparency vis-à-vis members and beneficiaries: "the Fund's funded ratio is now above 100% [...] [and] women comprise 60 percent of our staff", exemplary advancements achieved in a relatively short period of time. The opening roundtable titled 'Public Sector Pensions: Long Term

Investment & Risk Management' was held under Chatham House Rule. It brought together **Chris Rule**, CEO, **Local Pensions Partnership** (LPP), managing the assets of the **London Pensions Fund Authority** and **Lancashire County Pension Fund**; **James Duberly**, Director of Pensions Investments, **BBC Pension Trust**; **Étienne Lessard**, Head of Pension Investment, **Bank of Canada Pension Trust**; **Olivier Rousseau**, Member of the Executive Board, **France's Pension Reserve Fund** (FRR); and **Marco Vetrone**, Director, International, **Canada Pension Plan Investment Board** (CPPIB).



Joaquin V. Levy, Chief Financial Officer & Managing Director, World Bank Group.

## EXERCISING ASSET OWNERSHIP

The second roundtable titled 'Governance & Capital Stewardship' was chaired by **Chris Hogg**, Chief Executive, **Royal Mail Pensions Trustees** (RMPT) who said "it has always seemed strange to me that [many] UK pension schemes often operate without any significant executive resource, especially in the context of the ever increasing complexities faced by trustees. The creation of more scale could help rectify this, although it is very important to acknowledge that scale does not in itself lead to great governance". His fellow panellists **Peter Curtis**, Head of Investment Operations, **AustralianSuper** (AS), Holland's **Gert Dijkstra**, Member of the Board & Chief Strategy, **Algemene Pensioen Groep** (APG) and Prof. **Bill Trythall**, Director & Member of the Board, **Universities Superannuation Scheme** (USS) agreed that "demand for governance excellence is on the rise...

likewise for greater inter-national collaboration, notably when it comes to engaging with the management of [the listed] companies" whose shares are majority-owned by pension and insurance investors. In his closing remarks, **Iain Richards**, Head of Responsible Investment, **Columbia Threadneedle Investments** insisted "responsible investment can include a variety of approaches and objectives in embracing [asset owners'] values. The emphasis may be on ensuring good standards of practice in companies, i.e. investing in those with a high quality approach. It may be on allocating capital to companies responding to the needs of society and our economies, through innovation, products and services, i.e. creating sustainable success. Our focus [...] is on understanding these and delivering solutions that capture the value they offer", thus demonstrating how active asset managers can help bring about the multifaceted economic, environmental and/or social outcomes

sought by asset owners.

**Florence Fontan**, Head of Strategic Change & Member of the Executive Committee, **BNP Paribas Securities Services**, observed for her part "responsible investments constitute a [real,] rising trend: [they're] here to stay. As a consequence, beneficiaries and regulators both require [deeper levels of] transparency. Disclosure regulation will come into force in France next June but other countries and regions are preparing similar requirements. As a responsible bank, BNP Paribas is accompanying our assets owners and asset managers' clients across the globe, providing advanced ESG reporting and analytical tools."

Discussions on the 'Sustainability After the Paris COP21 Agreement' included **Catherine Howarth**, Chief Executive, **ShareAction**, Europe's foremost ESG action platform for civil society campaigners; **Mark Thompson**, CIO, **HSBC Pension Scheme** (HSBC PT), who pioneered the notion of 'smart sustainability'

jointly with **FTSE Russell**, the global index provider (London Stock Exchange Group) and other UK experts (November 2016); and **Janice Turner**, Co-Chair, **Association of Member Nominated Trustees** (AMNT), the driving force behind the Red Line Voting framework, a new approach to engagement and voting with regard to UK stock market-listed companies<sup>4</sup>. Alluding to the hidden manufacturing and transportation externalities attached to many consumer and durable goods mass-produced overseas, panellist **Philippe Desfossés**, CEO, France's **Public Service Supplementary Pension** (ERAFP), argued persuasively that it is "society as a whole which ultimately [will] have to pay a high price for such supposedly 'cheap' products."

**James Close**, Director, Climate Change Group, **World Bank**, and **Colin Melvin**, Chair, London's **Social Change Exchange**, one of the original drafters of the United Nations **Principles for Responsible**

**Investment** (PRI), shared with the audience their unique understanding of the policy dynamics of responsible investment. **Alison L. Dempsey**, Canadian business conduct scholar, author of *'Evolution in Corporate Governance'* insisted that business ethics (at both pension and corporate board level) was intimately linked to environmental sustainability.

#### LEVERAGING PUBLIC AND PENSION CAPITAL

The infrastructure roundtable brought together the World Bank Group and EIB CFOs, **Dmitry Pankin**, Chairman of the Management Board, **Eurasian Development Bank** (EDB), **Mike Weston**, Chief Executive, Britain's **Pensions Infrastructure Platform** (PiP), **Federico Merola**, CEO, ARPINGE, **Italy's National Pension Infrastructure Investment Fund**, and **Stephan Rupert**, Director, Infrastructure, Canada's **Public Sector Pension Investment Board** (PSP Investments), who noted "co-investment alongside [sophisticated] supranational institutions could also bring additional assurances regarding environmental, legal and regulatory concerns".

**Joaquim V. Levy**, WBG, further developed the notion, adding "there are many reasons why investing in countries with young populations can be an excellent way to reduce the pension gap in advanced economies. But the issue of risk appetite and capacity is real and should be treated also from the angle of efficient fiscal expenditure [...] Using public resources from advanced economies to creating opportunities for deploying excess savings by helping address certain risks in Emerging

Markets and Developing Economies (EMDE) investments can [also] be a good fiscal policy. And MDBs can be an effective instrument to implement it, not only by using their balance sheet, but also by helping improving the business conditions in hosting countries and the level of disclosure and information in this space. This is today's challenge."<sup>5</sup>

Focusing on US pension funds, **Michael Urban**, DPhil candidate, **Oxford University**, showed that their "proximity to one of the country's leading financial centers (New York, Boston, Chicago and San Francisco) has a detrimental effect on their ability to manage their assets in-house". On the structural front, **Joshua M. Franzel**, President and CEO, U.S. **Center for State & Local Government Excellence** (SLGE) noted "close to a decade after the 2007-09 recession, virtually all state and many local governments in the United States have enacted reforms to their pension benefits [...] and are in the process of overseeing [reform] implementation." **Hank H. Kim**, Executive Director, **US Natl. Conference on Public Employee Retirement Systems** (NCPERS) and **Colin Wilson**, Deputy Government Actuary, Britain's **Government Actuary's Department** (GAD) & President, **UK Institute and Faculty of Actuaries** then discussed comparatively recent evolutions in reform planning and risk assessment for public service pensions on both sides of the Atlantic. **Prof. David Blake**, Cass Business School, **City, University of London**, Director, **Pensions Institute**, broadened the debate by providing an au-fait overview of longevity risk and how to

manage it in (both public and private) pension plans.

#### US AND AUSTRALIAN BEST-IN-CLASS PENSIONS

Reflecting on the legal and regulatory roots of the 'Australian pension miracle', the Rt. Hon. **Nick Sherry**, fmr. Minister **Corporate Law & Superannuation**, Australia, Chairman, Asia-Pacific, **FNZ**, noted that "pension trustees [have to] to keep-up constantly with the latest evolutions of Common Law thinking regarding retirement, including evolving statutory obligations at national level and the increasingly demanding cultural-political expectations coming from civil society."

The closing remarks were delivered by the doyenne of impact investing in the Western Hemisphere: **Lauren Burnhill**, MD, **One Planet Ventures**, Investment Committee Member, **Calvert Social Investment Foundation** and Chair, Oxford's **Global Climate Adaptation Partnership** (GCAP). She said "the world needs private capital to achieve a sustainable and inclusive future. The challenge is that those trying to do good lack understanding of capital markets, regulators or institutional investors, which weakness is evident in the financial products they bring to market. It is incumbent upon long-term investors, like pension funds, to steer the dialogue toward risk-return adjusted financial instruments that are fair to investors and enable the do-gooders to get on with their good work."

**M. Nicolas J. Firzli**, Director-General, **World Pensions Council** (WPC), concurred, adding it was essential, going forward, for "established multilateral banks, US, Canadian and

Australian best-in-class public investors to work closely with the emerging financial powerhouses of Europe and Asia, notably the Beijing-based **Asian Infrastructure Investment Bank** (AIIB), to advance the impact agenda in the Greater South Asia region, Africa and the MENA area..."<sup>6</sup> **Nicolas Firzli** and **Vincent Bazi**, President, **World Pensions Council**, thanked the participants and announced that the **7<sup>th</sup> World Pensions Forum** will be held in the spring of 2018 in a G7 capital in collaboration with the European Association of Paritarian Institutions, **AEIP**, the Pensions Management Institute, **PMI**, and **AMNT**. ■

(1) *Sinead Cruise*, "Zero Return World Leaves Pension Savers Stuck," *Reuters*, Aug 3, 2012

<http://uk.reuters.com/article/uk-europe-pensions-idUKBRE8720T320120803>

(2) *Government Actuary's Department (GAD)*. "Reasons for a Passive Strategy." *Investment News: Monthly Bulletin from the Investment & Risk Team* (2015): 2

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/465743/Sep\\_2015\\_update.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/465743/Sep_2015_update.pdf)

(3) *Firzli, M. Nicolas, and Vincent Bazi*. "Infrastructure Investments in an Age of Austerity: The Pension and Sovereign Funds Perspective." *Revue Analyse Financière* n°41 (2011): 34-37

(4) For more on the **AMNT's Red Line Voting** framework, cf. <http://redlinevoting.org/what-is-red-line-voting/>

(5) cf. transcript of Dr. Levy's address: <https://www.worldbank.org/en/news/speech/2017/02/23/speech-by-world-bank-group-md-and-cfo-joaquim-levy-bridging-the-pension-and-infrastructure-gaps>

(6) *Nicolas J. Firzli*, "Chinese Revolution Could Lure Overseas Investment" *Dow Jones Financial News*, October 12 2015 <https://www.inlondon.com/articles/chinese-revolution-could-lure-overseas-investment-nicolas-firzli-20151012> and also "Canada Gets Approval to Join Controversial China-Led Infrastructure Bank" *The Toronto Star/Canadian Press*, March 23 2017 <https://www.thestar.com/business/2017/03/23/canada-gets-approval-to-join-controversial-china-led-infrastructure-bank.html>