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Private Assets Ascending: Public Pension Capital and New Financial Market Forces

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Asset Ownership and the Fifth Industrial Revolution (FIR)

The authors of this article, Nicolas Firzli, WPC, David Weeks, AMNT, and the Hon. Nick Sherry, SEF, co-chaired the main financial roundtable during the **COP21/Paris Agreement** conference: the Paris Climate Finance Roundtable (CFR)[1], alongside Dr. Jeffrey Sachs, Director, Center for Sustainable Development (CSD), Columbia University. Dr. Sachs's often quoted plenary address highlighted the need for asset owners to flex their fiduciary muscles more forcefully: "Every energy company in your portfolio needs to be scrutinised. 'Why is this [a company] we would want to hold over a five-to-twenty-year period?' […] We have to take a fiduciary responsibility – these are not good bets."[2]

This high-level conference spearheaded the twin notions that a "climate smart future is an imperative for meeting the Sustainable Development Goals, known as SDGs,"[3] and that "the secular quest for yields" fuelled by monetary complacency, combined with "the coming Sino-American rivalry", would eventually accelerate the deployment of pension and sovereign wealth fund (PSWF) capital towards "private market assets" such as real estate, infrastructure, private equity, and venture capital.[4]

As part of the preparatory work ('*travaux préparatoires*') of the 2021 **ESG Summit** and **G20 Pensions** Forum held later this year in Paris (28 & 29 October 2021), on the sidelines of the G20 Summit (Rome Summit, 31 October 2021), the authors sat with experts from key jurisdictions, including the United Kingdom, Singapore, the United States, the European Union (EU), Australia, China and the MENA area, to take stock of and discuss key issues such as 'the rise of private market assets', the '**Biden Infrastructure Investment Plan**' in the United States, the G7's 'New Global Infrastructure Initiative' (NGII) focusing on the Indo-Pacific area, Centra Asia and Africa, and, more generally, the rise of fiduciary capitalism in the 'Post-Covid Era'.

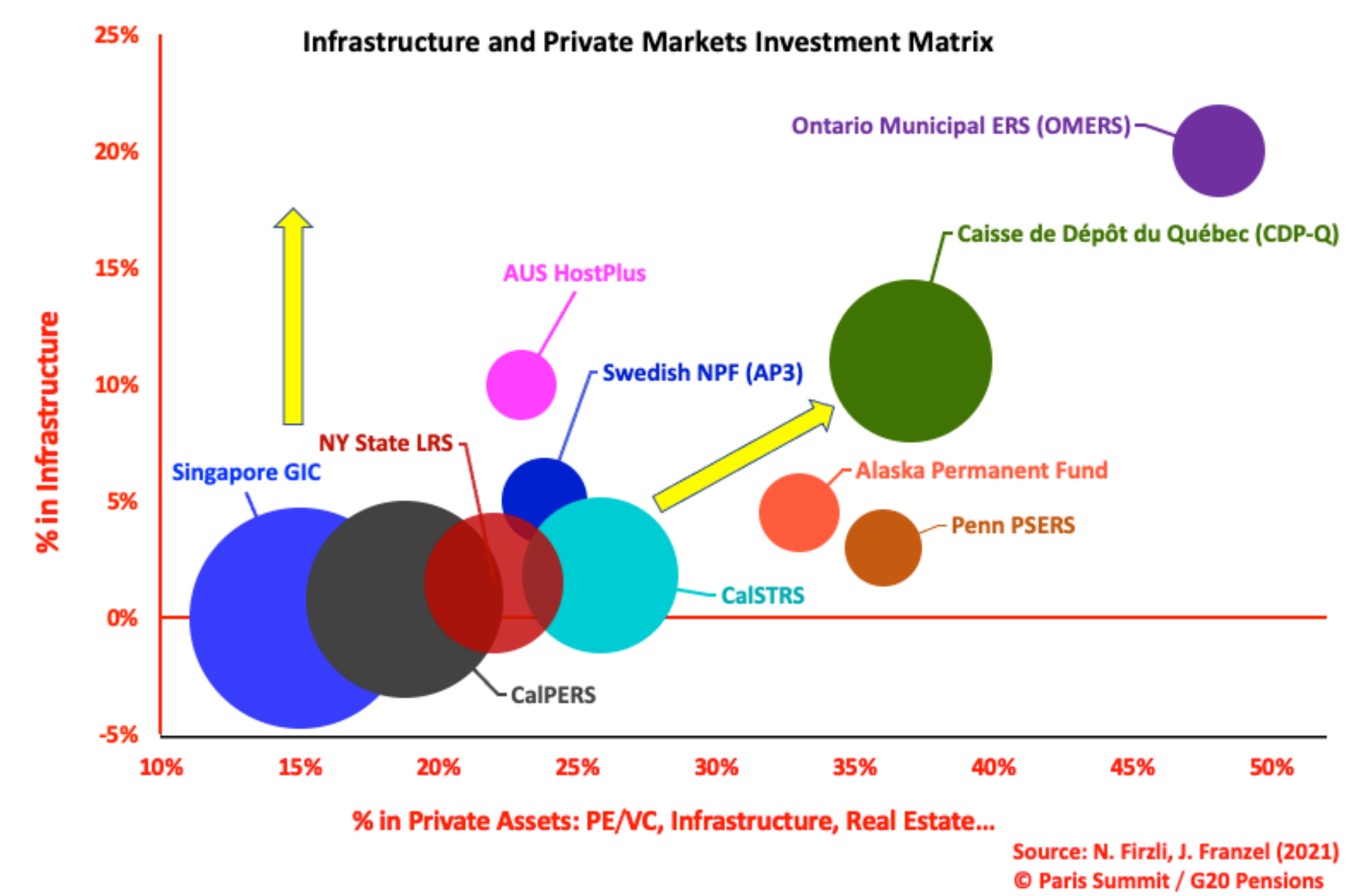
Green Finance as Socio-Economic Catalyst in the US, Canada, Asia, and the EU

The present primer is the first of a series of five essays summarizing some of the comments made by the authors in (both public and private) discussions with leading asset owners, policy makers and financial regulators they met in Washington DC, Brussels, Riyadh, Beijing, and Canberra in the past three months (2Q 2021). The views expressed here are, however, the authors' alone, writing in their personal capacity. As predicted by Nicolas Firzli and the Hon. Nick Sherry at the onset of the crisis (see notably '**ESG Metrics, Global Risks and the Great Financial Transformation**' interview series with Anam Khan), the Covid Crisis has accelerated the effects of deeply rooted financial economics (asset allocation), legal (fiscal, regulatory) and geoeconomic (country risk) trends: "caring capitalism will require craft (new skills), courage (breaking with orthodoxy) and a changed corporate culture" (real governance).[5]

It's hard not to emphasize the importance of such new cultural-political dynamics coinciding, as it were, with 'Post-Covid Era' preoccupations (including supply chain and digital distrust, reshoring etc.), the **EU–UK TCA** which marks the end of the **Brexit** transition period, and the accelerating Sino-American race for global trade and tech supremacy: institutional investors are witnessing their mounting impact by the day across economic sectors, asset classes and geographies (with Europe and Africa often caught in the crossfire), and they're having to adjust their investment strategies accordingly. It's important for pension board members (trustees) to realise that the accelerating "quest for yields" is happening against this troubling backdrop, which Dr. Guan Seng Khoo, EU ASEAN ABM, **Singapore Economic Forum** (SEF), calls "the fractured world economy".

The bitter televised exchanges on display at the US – China **Anchorage Summit** (18 – 19 March 2021) followed by the **47th G7 Summit** held in Cornwall (11–13 June 2021) are mere symptoms of this deeper malaise, or, as Jeffrey Sachs put it: [as the economy undergoes] "a remarkably choppy period of disruption and transition", we need to "face [these crises] together, cooperatively, with a sense of decency, we'll have some pride that the waters were very high and very choppy but we made it through" […] "If we face it as each one is on your own, then we're going to look back with a lot of regret."[6]

Fig. 1: Infrastructure vs. Overall Non-Listed (circle: size of fund, yellow arrows: accelerating shift 2021 – 2025)



Private Equity and Infrastructure: Mapping the Quest for Yields

The Private Market Assets Matrix (PMAM), also called Infrastructure and Private Markets Investment Matrix, is an original strategic assessment tool first developed at the start of the previous decade[7] by M. Nicolas Firzli, Cofounder & Director General, **World Pensions Council** (WPC), the Paris based think-tank and asset owners association, and US and Canadian policy experts. This strategic mapping has been used by pension investors and policy makers in various jurisdictions, including the European Union (EU), GCC countries, Africa, and the Asia Pacific area.

This updated and expanded version of our PMAM strategic matrix (see Figure 1) was first presented by Firzli at the '*Frontiers in Innovative Finance'* session (24 May 2021) of the **World Bank Infrastructure Forum** 2021, held in Washington DC and digitally (17 – 27 May 2021). The matrix allows pension and sovereign fund investors to visualize succinctly their funds' exposure to non-listed assets, with the percentage allocated to infrastructure shown on the Y axis, and the overall percentage allocated to all private assets including private equity, venture capital, infrastructure, farmland, and forestry etc. shown on the X axis.[8]

The data points visualized here are for a selection of significant public pension institutions from the United States: **CalPERS**[9], **CalSTRS**[9], the New York State and Local Retirement System, **NYSLRS**[9], the Pennsylvania State Employees' Retirement System, **Penn PSERS**,[9] and a non-federal sovereign fund: the **Alaska** Permanent Fund,[9] key Canadian provinces, with the **Caisse** de Dépôt [10] du Quebec (CDP-Q) and **OMERS**,[10] the European Union, with Sweden's Third National Pension Fund, **AP3**,[10] and, for the Asia-Pacific area, Australia's **HostPlus**[9] superannuation (pension) fund and Singapore's **GIC**,[9] one of the world's largest sovereign wealth investors. All metrics shown here are based on 2019–2020 (fiscal years) and 2020 (calendar years) fund documents as indicated in the endnotes section, except for fund size (AuM) in the case of Singapore's GIC, for which the authors used estimative data (no publicly available information).

Shifting $ Trillions Every Year

The Private Market Assets Matrix "allows you to map out the future of institutional investment by visualizing dynamically the proportion of assets allocated to infrastructure (Y axis) and non-listed assets overall (X axis) for a cross-section of pension funds perceived as highly representative." The yellow arrows indicate the accelerating shift to infrastructure, private equity, and other illiquid assets, fuelled by the "quest for yields" and changing risk perceptions. According to research conducted by Nicolas Firzli, based on discussions with policy thinkers, investment executives and trustees in North America, including Norman Anderson, **CG-LA**[11], Europe and Australia, large institutional asset owners could double their allocation to such assets in the next four years, shifting hundreds of billions of dollars annually towards infrastructure assets domestically and accelerating the investment flows coming into the **United States** from cash-rich Canadian, Northern EU, Singaporean, Gulf Arab and Australian pension and sovereign wealth funds. As a consequence, private market assets under management (PM-AuM) may grow by up to 20% per annum in the coming years (2021 – 2025), more than double the current rate.

London, Paris, Melbourne, 28 June 2021

ENDNOTES & RESOURCES

[1] "5th World Pensions Forum held on the Sidelines of UN COP21", Revue Analyse Financière, Q2 (2015) https://amnt.org/wp-content/uploads/2016/05/5th-World-Pensions-Forum-UN-COP21__RAF__Q2-2016.pdf

[2] Andrew Pearce, "Jeffrey Sachs: Fund managers Have a Duty to Dump Fossil Fuels", Financial News, 7 December 2015 https://www.fnlondon.com/articles/sachs222-20151207

[3] M. Baldinger interview, "Climate Smart Future: Imperative for Meeting the SDGs", Responsible Investor, 1 Dec. 2020

[4] cf. e.g., Thought Leadership: Investment in the Age of Geo-Economics, Investments & Pensions Europe (IPE), Apr. 2019

[5] "ESG Metrics, Global Risks, and the Great Financial Transformation" interviews, 30 April 2020 & 28 Oct. 2020 https://www.youtube.com/watch?v=o0YlzJevTV0 (conducted by Anam Khan, Foxon Media)

[6] Dr. Jeffrey Sachs, CNBC, 10 Aug. 2020 https://www.cnbc.com/2020/08/10/jeffrey-sachs-geopolitical-cold-war-with-china-is-a-dangerous-mistake.html

[7] see N. Firzli, and J. Franzel. "Infrastructure Investment: Harnessing LT Capital", *Public Management*, Dec. 2014, pg. 19 https://icma.org/sites/default/files/12_1214_PM_FullBook_Final2_LRes.pdf

[8] a slightly modified version, known as 'Infra vs. PE & Real Estate', shows PE/VC and real estate data on the X axis, *excluding* infrastructure assets from the abscissae

[9] as of end of fiscal year 2020 (FY reports), based in part on public pension data from https://publicplansdata.org/

[10] as of 31 December 2020 (calendar-year reports)

[11] see Norman Anderson, Forbes, 21 Jun. 2021 "*This doubling is going to happen — it should be a key objective of the Biden Administration that U.S. pension funds participate, helping us achieve otherwise unachievable domestic investment levels.*" https://www.forbes.com/sites/normananderson/2021/06/21/the-infrastructure-bill--pension-fundsa-3-trillion-action-item/?sh=22d046e649b1