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Private Markets, Infrastructure and Venture Capital in the Post-Covid Era: The Pension Perspective

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The present primer is the second of a series of seven essays¹ summarizing some of the comments made by diverse experts attending the Singapore Economic Forum **EU ASEAN Roundtable** held 12 November 2020 and the WPC & **G7 Pensions** Global Financial Forum (GFF) held 14 – 16 December 2020, titled **Innovation, ESG & Inclusive Growth Transforming Capital Markets**. All thought leaders cited here spoke at the latter event, except otherwise indicated.

This short recension is by no means exhaustive or *verbatim*: it also incorporates critical remarks and analyses made by the co-authors at the time of writing and publication (1Q 2021) & thus shouldn't be considered as a transcript of any particular roundtable – all the more since some of the sessions were held under (partial) Chatham House Rule. The session titled **Social & Green Infrastructure** brought together experts from across the UK and the European Union (EU), including Ingrid Edmund, **Columbia Threadneedle** Investments (CTI), and global thought leaders e.g., Dr. Georg Inderst, author of the **Asia Development Bank** (ADB) Report on Infrastructure Investment and Private Finance and Nick Silver, Co-founder, **Climate Bonds Initiative** (CBI).

Nick Silver took the long view, insisting there is a great need in both developed and developing countries for investment in infrastructure in general, and 'green' infrastructure in particular, to meet the 1.5°C Paris target: "Infrastructure investment should be ideal for pension funds – it should provide long-term real returns which match pension funds' liabilities, especially in a world with near zero returns on government bonds." But the acclaimed author of **Finance, Society and Sustainability** also noted that "there is a great deal of variation between countries' pension sectors [involvement] in infrastructure, with nations such as Australia and Canada leading the way. However, in some countries with the most developed pensions sectors, notably UK and USA, it is woefully low, as pension fund regulation and the structure of the industry puts a premium on liquidity and causes short-termism, at the expense of long-term investment and patient capital."

Nick Silver: "In the US and the UK [and other European jurisdictions], pension fund regulation and the structure of the industry puts a premium on liquidity and causes short-termism, at the expense of long-term investment and patient capital."

Pension panellists looked at recent dynamics, notably the following issues raised by **Ingrid Edmund**, CTI :

- The attraction for pension schemes of investment in infrastructure is a combination of yield and long-term stability. What has been the impact of Covid-19 on this package?
- Longer term, we are likely to see increased concern for social responsibility in selection of infrastructure investments
- Tackling climate change continues to require action: (1) Renewable energy continues to grow, but not at sufficient pace (2) Electricity is being decarbonised [progressively, with varying degrees across Europe]

- Other growth sectors/concepts include: (1) Transportation; (2) Building; (3) Decarbonisation; (4) Transitional projects: Ms. Edmund mentioned ferry services in the **Channel Islands** – operating between Portsmouth, Poole, Guernsey, Jersey and St Malo, which was acquired by a Columbia Threadneedle led consortium.²
-and a green data centre in Norway; (5) Holistic focus on aspects of ESG

Conference co-chair David Weeks asked about and commented upon:

- Political risks in infrastructure projects in the **United Kingdom**, the European Mainland and neighbouring emerging markets **Africa, Western Asia**. Panellists took the view that potential investors must learn to manage these risks “holistically” [by developing the requisite financial and technical skills]
- Development of facilitating roles to match the cash requirements of the infrastructure with the financial requirements of those from whom they seek investment. Innovative solutions are being developed
- The World Bank and **European Union** (EU) institutions such as the **European Investment Bank** (EIB) are likely to play leading roles in this perspective . . .
- This trend was emphasized notably by **Bertrand de Mazières** (pictured), DG Finance, **EIB**, who delivered the opening keynote (a recension of his speech will be featured in the upcoming issue of the journal)



Infrastructure Investment, Innovation and the Quest for Yields
pictured here clockwise:

Bertrand de Mazières, DG Finance, European Investment Bank (EIB)

Edwardian era engraving of Hermes as “patron of commerce, innovation and the infrastructure industry”, issued by the Société pour l’Encouragement de l’Industrie Nationale (SEIN), Europe’s oldest think tank

Nick Silver, cofounder & chairman, Climate Bonds Initiative (CBI)

Michael Dennis, Head of Asia Pacific (APAC) Alternatives Strategy & Capital Markets, **BlackRock**, chaired the keynote session on *Private Markets: PE, Private Debt & Infrastructure Fostering Economic Growth & Financial Returns*, which leading experts in the field, including the Hon. Nick Sherry, founder & former minister, AUS Ministry of **Superannuation & Corporate Law**, one of the fathers of the Australian Pension Miracle.³ Dennis, who is based in Hong Kong, has been active for more than eight years in the Asia Pacific area (APAC) private markets space: “the most rapidly growing asset classes in the most dynamic geographic area” remarked Nicolas Firzli, chair, G7 Pensions dialogue, cofounder of the Singapore Economic Forum (SEF).

Michael Dennis, BlackRock, made the following remarks:

- Private markets are becoming larger, deeper and more complex. They continue to expand.
- Historic shifts are underway in the roles of public & private markets. The investable universe of public companies is decreasing as more complex & increasing regulations, combined with investor focus on quarterly earnings, is making life as a public company less desirable. We are seeing more and more companies accessing private markets, increasing opportunities for private market investors.
- ESG regulation will increase over the next decade across most jurisdictions, fostering more investment in renewable energy assets (*infra*) and green tech (*PE & VC*), including e.g., solar, wind, green hydrogen.⁴ “Sustainable energy considerations are reshaping fundamentally all financial markets the world over.”
- [apart from Singapore and other ASEAN jurisdictions] the key countries in which we expect to see activity are **Australia** (mature but growing fast); **India** (big credit gap) and **China** [second largest world economy with solid capital accumulation and long-term savings dynamics]. BlackRock are also looking at Taiwan.
- Dennis's five takeaways on private markets are: (1) Opportunities; (2) “Long game” [patient capital]; (3) Strategic partnerships; (4) in-depth portfolio analysis, including ESG monitoring ...
- ... and (5) the asset owners’ quest for yields will coincide with the secular shift towards private markets: “credit markets and infrastructure: marrying the two gives pension funds a powerful asset mix.”

The Hon. **Nick Sherry** concurred: “why would you be in [govt] bonds and cash? It’s a train wreck: these assets aren’t safe anymore! I shake my head when I talk to some [policy makers and pension board members] in the UK, South Asia or the EU, where pension investors and insurance companies still have to hold a relatively large proportion of their assets in zero-yielding financial instruments”. The need to fast-track the secular quest for yields was also a recurring theme expressed by many of the **UK** and **ASEAN** public pension board members (trustees) in the audience (reflected in the Q&A sessions).

Nick Sherry went on to remark:

- Australia has been an early mover into the infrastructure sector. Australian pension schemes are funded largely on a defined contribution basis. In consequence, they are inclined to take a long-term view of, say, 20 to 30 years’ investment perspective. Much investment in infrastructure fits readily into this frame.
- Australia has seen much interest in privatisation of public functions/assets. This has increased opportunities for private investment in infrastructure. It has, however, raised political discussion about the correct pricing of “monopoly assets”, such as large regional airports and water utilities etc.
- The diversification and extra yield provided by private markets in the past decade is clearly one of the three key factors behind the ‘Australian miracle’, the other being the sacrosanct autonomy of trustees and higher than **OECD** average pension contributions.

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Pension Funds Want into Private Assets, ESG and Impact

pictured here clockwise:

David Weeks, Co-Chair, Assn. of Member Nominated Trustees (AMNT)

The Hon. Chan Chun Sing, SGP Minister for Trade & Industry

Michael Dennis, Head, APAC, Alternatives & Cap. Markets, BlackRock

M. Nicolas J. Firzli, Co-Chair, SGP Forum & G7 Pensions Summit (GPS)

Dr Guan Seng Khoo, Lecturer, Singapore Management University (SMU)

Ingrid Edmund, Infrastructure, Columbia Threadneedle Investments (CTI)

The Hon. Nick Sherry, founder & former minister, AUS Ministry of Superannuation & Corp. Law, Co-Chair, Singapore Economic Forum

Speaking for the **Singapore Economic Forum (SEF)**, Nicolas Firzli insisted on the exemplary role played by the city-state in a complex period. “We’re preparing for change: the Covid crisis has accelerated the mutually reinforcing effects of the **Age of Empowerment** (ESG, Equity and Entrepreneurship/the Venture Capitalist Ethos), the **Age of Geoeconomics** (intensifying Sino-American competition) and **Datafied World** Economy (Digitalization, Ai, Cybernetics), and Singapore is positioned precisely at the crossroads where these three powerful currents meet.”

More recently, at the CNA **Climate Conversations** ⁵ digital conference, SGP Minister for Trade & Industry, **Chan Chun Sing** (pictured) insisted on the need to step-up the energy transition using new technologies in an intelligent, socially conscious way, arguing that the necessary economic modernisations must be gauged constantly against the needs of all citizens, including, of course, the working class: “I don't think it's mutually exclusive to say we want a higher quality of life, a greener life [...] and also mitigate the cost of living.”

That same week, Dr **Andrew Kuper**, the South African-Australian impact investing pioneer, announced that his private equity firm, **LeapFrog** Investments, entered into a US\$500 million partnership with Singapore’s **Temasek**: “when we launched LeapFrog, the impact industry did not exist, but we believed that Profit with Purpose was the future of business and investment [...] Through this landmark commitment, Temasek joins in our vision.”⁶ The twin trends towards private markets and SDG-driven finance seem to be accelerating, as noted in a recent **Nasdaq** primer quoting **World Pensions Council (WPC)** research: “Pensions want into PE [...] the WPC indicated **U.S.** [and **Canadian**] pensions now have about 8.5% of assets invested in such deals.”⁷

Torben Nordal Clausen, CEO, MFT Energy, the **Denmark**-based power trader, and founding advisory board member (ABM), Singapore Economic Forum, talked to Jakob Bloch, CEO, Commodity Global, re the need to infuse more entrepreneurial spirit in management: “we want to hire long-term partners, not just employees!”⁸, echoing the words of Silicon Valley grandee Gen. **Georges Doriot**, who pioneered the notion of **venture capital** (VC) at the HEC Paris Centre de Perfectionnement aux Affaires and **Harvard** Business School.⁹

“If I were a speculator, the question of return would apply. But I don’t consider a speculator — in my definition of the word — constructive. I am building men and companies.” (Gen. Georges Doriot, HEC Paris School of Mgmt., Harvard University)

These key issues for the future of our economy will be further discussed at the upcoming **G7 Pensions** (G7 P7) dialogue¹⁰ held in London, **11 June 2021**, on the sidelines of the **47th G7 summit** (Carbis Bay, Cornwall), which will include a special session on the blue economy: “the sustainable use of ocean resources for economic growth, improved livelihoods, and job creation.”¹¹ The Hon. Nick Sherry and **Suzanne Bishopric** invited leading pension and sovereign wealth fund (SWF) executives and board members (trustees) from across all G7 jurisdictions plus Australia, **China**, India and **South Korea** (‘G7 + APAC 4’) to join the debates in the UK or digitally via video link.

Some of the plenary sessions may be (partially) broadcast on European, ASEAN and North American financial news networks and livestreamed on various social media, including LinkedIn and YouTube. David Weeks, **Assn. of Member Nominated Trustees** (AMNT), acting as forum co-chair and rapporteur, and Nicolas Firzli, will summarise the main speeches and roundtable sessions for future publication in the present journal, Institutional Investment Research (IIR).



G7 Pensions 2021: Green Growth & Blue Economy

pictured here: excerpt from the **World Bank’s** classic primer ‘**Blue Bonds: Good for Business and the Planet**’, co-edited by Institutional Investment Research (IIR)

HM Government has invited key **maritime powers** to join the **47th G7** summit held in Carbis Bay, Cornwall: **Australia, South Korea, India** and **South Africa**, bringing the blue economy to the fore of the global policy agenda

The upcoming **G7 Pensions** dialogue held in London and via video link **11 June 2021** will include a special session on ‘**Innovation, Green Growth & the Blue Economy**’ chaired by the Hon. Nicholas Sherry, SEF, cofounder, G7 Pensions Summit

ENDNOTES

- ¹ Firzli, M. Nicolas J., and David Weeks. "Asset Allocation & Risk Management in a Fractured World Economy." *Institutional Investment Research (IIR)* (2021)
- ² Columbia Threadneedle Investments and Brittany Ferries to Acquire Condor, Ports EU, 18 Nov. 2019
- ³ "Pension Superpowers & Financial Markets in the Sino-American Century." *Private Debt Investor* (2020)
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3540154
- ⁴ Tom Washington, "Storage Companies Pivotal for Mitigating Energy Transition Risk," *S&P Global*, 26 Jan. 2021, report quoting Singapore Economic Forum (SEF) experts
<https://www.spglobal.com/platts/en/market-insights/latest-news/oil/012621-storage-companies-seen-pivotal-for-mitigating-energy-transition-risk>
- ⁵ Matthew Mohan, "First Water, Now Energy as Singapore's Key Challenge for the Next 50 Years: Chan Chun Sing" *Channel News Asia (CNA)*, 12 March 2021
- ⁶ "Temasek and LeapFrog Forge US\$500 mln Partnership, Largest Ever Commitment to an Impact Investor", 9 Mar 2021
- ⁷ cf. Nasdaq/InvestorPlace art. <https://investorplace.com/2020/08/pension-funds-want-into-private-equity/>, 10 Aug. 2020
- ⁸ "Shareholder Model Discussion with MFT CEO Torben Nordal Clause", video interview, YouTube, 11 March 2021
- ⁹ Christina Pazzanese, "The Talented Mr. Doriot," *The Harvard Gazette*, 24 February 2015
<https://news.harvard.edu/gazette/story/2015/02/the-talented-georges-doriot/>
- ¹⁰ G7 Pensions & SWF executives and board members (trustees) meeting in London 11 June 2021 on the sidelines of the G7 Cornwall (Carbis Bay) <https://singaporeforum.org/g7-pensions>
- ¹¹ Kemper, Karin, *The Seychelles Blue Bond: Good for Business and the Planet*, January 2, 2019 (edited by Nicolas Firzli), *Revue Analyse Financière*, available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3805926