

AMNT Report/ WPC Annual Forum (updated version of the 28 Dec 15 report)

WORLD PENSIONS COUNCIL:

FIFTH ANNUAL **WORLD PENSIONS FORUM: 2-3 December 2015**: Paris:

“The Long Term Assets of Pension, Sovereign and Insurance Investors in a Time of Economic Realignment and Climate Change”.

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INTRODUCTION

The forum programme spelt out the theme: “discuss the latest advances in pension regulation and governance, and investment strategies for a sustainable world: focusing on fixed income, equity and infrastructure assets”.

The forum took place at three landmark locations in Paris: Chimie Castle; Maison des Polytechniciens (where BNP Paribas Securities Services, as conference supporters, hosted a cocktail dinner); and Musée Social. Conference director Nicolas Firzli reminded those present that this last venue was the scene of much thinking on the origins of pensions in France during the 1860s. Representatives recalled others of the founding fathers of pensions systems in Europe: in Germany, Bismarck in the 1880s; in UK, Lloyd George and Winston Churchill in the 1900s, and the Beveridge report of 1942.

The forum was timed to coincide with “United Nations: Conference on Climate Change 2015: COP21/CMP11”. France chaired and hosted the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21/CMP11), from 30 November to 11 December 2015. “The conference is crucial because the expected outcome is a new international agreement on climate change, applicable to all, to keep global warming below 2 degrees C.”

The United Nations Framework Convention on Climate Change (UNFCCC) was adopted during the Rio de Janeiro Earth Summit in 1992. This Framework Convention is a universal convention of principle, acknowledging the existence of anthropogenic (human-induced) climate change and giving industrialized countries the major part of responsibility for combating it.”

OVERVIEW

The forum contained 19 sessions: 13 presentations and 6 discussion panels, spread over one and a half days. The headline conclusions are set out here. More detailed accounts of each session then follow.

Janice Turner, co chair of UK's Association of Member Nominated Trustees, introduced the AMNT's Red Line initiative (session 1). This aims to give all pension schemes, no matter how small, the capacity to direct how votes associated with their investment are cast. The Red Lines are a set of tightly drawn voting instructions, which cover a wide range of environmental, social and governance issues. They are in furtherance of the UN Global Compact and the UK Corporate Governance Code. The formal launch is scheduled for mid December 2015.

Professor Jeffrey Sachs, special adviser to the UN Secretary General, looked at COP21 climate change targets for the years up to 2030 (session 2). The important issue is to ensure that these targets are met in ways that help them to lead to zero emissions (full decarbonisation) by 2070. The US Senate and the Murdoch media empire are unhelpful influences, Sachs said. He urged the pensions industry, and other holders of financial stakes, to scrutinise the energy policies of companies that are in their investment portfolios. He supports the Red Line initiative that Janice Turner had just outlined.

Iain Richards of Columbia Threadneedle explored how investment can do good at the same time as it achieves sound returns (session 4). The two are not mutually exclusive. Bertrand Badre of the World Bank Group (WBG) (session 5) outlined some WBG successes to date in the promotion of greening. He looked at future opportunities, and at the issues that will need to be addressed in order to turn these into actions. John Arnesen of BNP Paribas (session 8) looked at the Third Basel Accord (Basel III) as a global, voluntary, regulatory framework for bank capital adequacy, stress testing and market liquidity risk. Overall, he thought that the credit crunch increased needs for liquid assets and for diversification.

Kay Parplies, of the European Commission (session 9), gave a detailed account of the Juncker Plan: the European Union's EUR €315 Investment Plan. Xuhui Wang of Industrial and Commercial Bank of China spoke on the Chinese approach to long term financing (session 11). ICBC has developed into the largest listed bank in the world. It has acquired a considerable track record in global project finance: especially in The Silk Road Economic Belt and 21C Maritime Silk Road. ICBC has also built solid performance in asset management both in China itself and in global markets.

Two presenters looked at UK pensions. Mark Fawcett of UK's National Employment Trust (NEST) looked at the options for defined contribution retirees (session 10). The UK government has recently widened the options that are available, and also increased the numbers who will be building up their own personal pension pots. He set out how NEST caters for these new markets. Kevin Le Grand, president of UK's Pension Management Institute (session 12), spoke on UK moves to strengthen the governance arrangements for defined contribution pension schemes. Changes came about in response to new Government policies: in particular (1) the launch of automatic enrolment into work based pension schemes; and (2) "Freedom and Choice" initiative. Changes in governance will also come in response to a survey of pension scheme trustees that the UK's Pension Regulator has just carried out.

Joshua Franzel, of US Center for State and Local Government Excellence (session 15), gave an overview of US public sector pension funds. His key facts included: (1) numbers of scheme, by type; (2) aggregate plan assets; and (3) allocation by asset classes. Franzel set out "a few considerations going forward".

Christopher Knowles, of European Investment Bank (session 16), spoke on fostering a greener economy through financial innovation. The task is for the world to stay on track to limit global warming to below a 2 degree Centigrade rise in average temperatures. He looked at the capital intensive work that will be needed to achieve this. The EIB will provide funding for catalysis. Private sector enhancement will then be needed. Knowles looked at some case histories to highlight how this formula can be made to work.

Robin Edme of the French Ministry of Ecology (session 18) looked at some of the political dimensions of environmental responsibility. Iulia Shpak of the University of East London (session 19) reported on a forthcoming research paper on the implication of asset price bubbles.

One discussion panel compared experiences on how pension investment can encourage renewable energy and green infrastructure in different parts of the world (session 3). A second panel looked at infrastructure as a new asset class (session 6). Geographical experience included both Austria and Australia. Panellists noted some of the snags that they have had to resolve.

Another panel explored regulation in an era of global governance (session 13). Panellists noted the impact on regulation of the financial crisis of 2008-09. Issues from the UK attracted attention: (1) Advice and guidance for individuals who have built up pension pots, but who are hazy about how to deploy these to best effect; and (2) fiduciary duties of pension schemes in relation to investment decisions: consideration of environmental, social and governance factors.

Panellists in one group (session 14) looked generally at some recent developments in pension policy and pension law:

- Whether current pension systems will remain sustainable in the long term
- Disparity between public and private sector pensions in some countries
- Belgium's pension reforms of 2013
- Size of pension pots that are needed in order to provide adequate income in retirement
- Tax incentives for pensions savings and pensions income
- Pension arrangements in India

A final panel (session 17) looked at “stepping up greening and growth in industrialised and middle income nations”. They noted experience from Romania, Japan and Brazil. They considered the OECD's report to G20 Finance Ministers and Central Bank Governors: “Mapping channels to mobilise institutional investment in sustainable energy”.

1. Janice Turner, co chair of the Association of Member Nominated Trustees (AMNT) of UK pension schemes opened WPC's proceedings. She spoke on: “Exercising ownership: learnings from the UK ‘Red Lines’ AGM pension voting”.

Red Line voting is a new approach to engagement and voting with regard to UK stock market listed companies. The purpose is to enable far greater direction from institutional investors in environmental, social and corporate governance. It is an initiative from the UK pension industry's Association of Member Nominated Trustees (AMNT). AMNT believes that it will improve the way companies are run. Research shows that better run companies outperform their peers, and therefore help pension schemes to improve the longer term performance of the companies in which they invest.

The Red Lines are a set of tightly drawn voting instructions, which cover a wide range of environmental, social and governance issues. The environmental Red Lines are in furtherance of the UN Global Compact, and were formulated with much guidance from CDP: previously known as the Carbon Disclosure Project. The social Red Lines are in furtherance of both the UN Global Compact and the UK Corporate Governance Code from the Financial Reporting Council. The corporate governance Red Lines are also designed to implement the UK Corporate Governance Code. Thus, the Red Lines take account of very modern sets of guidance.

The Association of Member Nominated Trustees throws its weight behind the initiative. This is an organisation run by and for member nominated trustees. It includes representatives and directors of both defined benefit and defined contribution schemes, in both the public and the private sectors. The organisation was formed in 2010. It now has over 500 members, representing around 400 pension schemes, and with total assets under management of around GBP £600 billion. AMNT undertakes a survey of members each year. In 2015 they asked what their members view as the biggest threats to their schemes. Second on the list came climate change.

Why has AMNT developed Red Line voting? At present, the situation that AMNT members face is like the English electoral system in 18C! Only the rich and powerful get to vote. AMNT believes that good standards of corporate governance should mean that owners know what is happening in their names. Trustees should not be saddled with accountability, but without powers. A major of pension schemes are, in practice, unable to set an agenda for their fund managers' engagement with the companies in which they invest. Nor do they direct how their votes are cast at company meetings. Some of them have been told that they are too small to become involved in this sort of thing. AMNT wants to change this, so that all pension schemes, no matter how small, become able to direct how votes associated with their investment are cast.

Most small and medium sized pension schemes invest in pooled funds. They may have been told that this prevents them from exercising any control over the engagement and voting of the fund manager. Some fund managers have been reluctant to allow investors to direct how the votes associated with their investments are cast. Such managers argue that it would be difficult for them to operate if they were to receive conflicting instructions from multiple investors. Red Line voting has been developed specifically to overcome these difficulties.

The Red Line initiative will be launched formally on 8 December 2015 at the City Corporation of London's Guildhall. The website can be found at: <http://redlinevoting.org/> It is free to use, and generally available. AMNT will look to include new targets in future years. To date, it has been produced solely for companies listed on the London Stock Exchange. Many suggestions have been made that it should be extended to other markets. Turner anticipates that foreign equities and fixed income will be added over time.

2. Professor Jeffrey D Sachs, director of Columbia University Earth Institute and special adviser on United Nations Millennium Development Goals to Secretary General Ban Ki-moon, spoke on: "Bringing about the age of sustainable development"

Sachs referred to his latest book and to his syndicated column. The book is "The Age of Sustainable Development" (2015). He wrote a syndicated column in the run up to the United Nations Climate Change Conference (COP21) in Paris. It is entitled "From good intentions to deep decarbonisation". In it, he insisted: "the most important issue is whether countries will

achieve their 2030 targets in a way that helps them to get to zero emissions by 2070 (full decarbonisation)”.

Sachs looks to use the power of money to find the right way forward in capitalism. Simple market mechanisms can get things disastrously wrong. The aim at COP21 is to realign markets. The issues are clear. Only the US Senate seems to resist. “Will the chosen path to 2030 provide the basis for ending greenhouse gas emissions later in the century?” We need to be at zero by 2070. This is the challenge. Is it possible? Yes, it is. We have sources of energy that are technically sound; we have a timeframe of some 30-50 years. What are the sources? A global collaboration of energy research teams has identified steps that need to be taken. These proposals involve better energy efficiency through smart buildings, power grids and transport. These rely on low carbon power, such as wind, solar, nuclear, geothermal or hydroelectric. We should not take any option off the table. We do not yet know what will make up the most effective mix. It will vary. Solar power or wind power? Each will have their adherents for action. The end game for COP21 is clear: get out of fossil fuel; achieve the task well within the 21C.

Carbon and fossil fuels gave us the modern world, it is true. But the use of these fuels also brings unfortunate side effects. Madison Avenue tried for a long time to hide this situation. Their case is, however, without foundation. The Murdoch press puts out pure propaganda. “Am I on the record? Asked Sachs, “I certainly hope so!” “The Wall Street Journal has become the Fox News of print journalism: another entertainment outlet of the Murdoch media empire.” The Murdoch media cause problems. First: “ideology is both fun and highly profitable, and Murdoch is nothing if not profit oriented.” Damagingly, however: “The Journal’s misinformation matters for its readers’ bottom line. Journal business readers will get wrong the rapid change in the business environment that they now face”. Overall: “The job of business leaders is to look ahead and around corners, to see what is coming next. The Journal is failing them badly in this task. The Journal is a shiny entertainment, a window into Murdochland, a clever and vigorous defense of 19C free market liberalism. But it is deeply misleading for the business community”. On balance, said Sachs: “For good and often surrealistic entertainment, read the Journal. I do every morning”. But note: “Taking the Wall Street Journal editorials as fact could cost the US its global leadership in the era of the high tech, low carbon world economy”.

Those in the pensions industry have the largest pool of savings. Those present at WPC control a good slice of this. Sachs urged his listeners to scrutinise the energy policies of companies in their investment portfolios. In that, he supports the Red Line initiative of UK’s Association of Member Nominated Trustees, which its co chair, Janice Turner, had just outlined.

Sachs turned to the US. The coal industry is now bankrupt. It is an investment mistake. Are the oil giants of Mobil and Exxon still good investments? Let them give an explanation. Seven out of every ten Americans want climate action. Not much happens, because the US Senate is in thrall to the oil industry. It is a tough industry, but its supremacy is coming to an end. Exxon claim to believe in the need for action to combat climate change, but avoid any specific targets. The latest example is the target to keep warming in sea temperatures to “well below 2 degree Centigrade”. Exxon is guilty of dissembling. It became clear several years ago that coal was on the way out. This year is probably the warmest ever on record. We must, therefore, now win over Exxon and the oil industry. President Obama knows that this is the way to go. “It’s the end game for these companies.”

What action is now needed? Sachs put down some markers. Set targets for cutting use of each specific fossil fuel. Apply principles of ESG (environmental, social and governance) to corporate management. Encourage fiduciary duties; in place of the sort of gambling that some hedge funds go in for. There is a future in renewables, in introducing low carbon energy. Wind and solar power: “these have to be good investments”. In infrastructure, smart cities will look to new forms of transport. Sachs’s last point was to investors: look at the climate risks for all companies; put a strong screen on all companies in your portfolios. “It’s weird when capital owners can’t control how their capital is employed.”

3. A panel explored: “Sustainability in action: pension investment in renewable energy and green infrastructure”.

Points that were raised included the following:

European Union has had climate change as a priority since 2009; the latest revision to the policy came in October 2015. The “2 degrees Centigrade question” receives attention. EU works with other institutions. Private funding, as well as public funding, is needed.

Climate change presents a real risk to private sector investment. This is the view that is held by realists. It is not confined to just a few fanatics.

Carbon emissions present a problem. Pollution is often the trigger that moves the topic up the political agenda.

In Australia, 15%-16% of energy is generated by hydroelectric power. The tax on carbon proved to be unpopular. It was a contributory factor in the recent collapse of Australia’s Labour government. The new Conservative government reversed the policies.

Australia has the fourth largest pension system in the world, despite having a population of no more than 24 million.

UK Association of Member Nominated Trustees (of pension schemes) launched the Red Line initiative to help smaller schemes in the UK’s fragmented pensions world to influence how their investments can exercise influence over the companies in which they invest. The Red Line initiative works on the basis that pension funds are asset owners themselves, and not just managers of other people’s assets.

4. Iain Richards, head of governance and responsible investment at Columbia Threadneedle Investments spoke on: “Responsible investment: doing well by doing good”.

Richards said that there is an eco system for responsible investment. It is fragmented. It contains a spectrum of approaches. Misunderstandings can arise between asset managers and asset owners. The managers should be clear with their clients on what they are trying to achieve. In the UK, a case in point arose when the Church of England’s Commissioners were mortified to become aware that “pay day lenders” were to be found in their portfolio. Lack of clarity and purpose needs to be addressed.

Investment should not be wholly mercenary in character. This sometimes was the case before the recent financial crisis. We can be tempted to put investments into little buckets, with each

investment designed to achieve just one purpose only. In fact, a combination of purposes can produce a good return. An investment can do good at the same time as it achieves a sound return. The two are not mutually exclusive.

Two case histories make this point. Firstly, take the property sector. Renovation of commercial property in the UK can achieve reduction in carbon usage. It can cut fuel usage in existing buildings. It can also be profitable at a time when opportunities for new build are limited. Columbia Threadneedle will partner the Carbon Trust and others. They will cut carbon as a means to good action for investment. Why do clients buy in? Longer term leases after renovation can produce a better revenue stream. "It's win, win!"

A second example is a diversified portfolio. There can be room for a bond strategy. Not every investment can be selected for a social impact, but some can be. Examples are infrastructure, job creation, the charity bond market. Asset owners and managers should, therefore, categorise and identify social benefits that could flow from all investments. Then we have a pool of new capital to reinvest as appropriate. Overall, you do not just invest capital. You can also use the capital to add value. You can, indeed, have both.

5. Bertrand Badré, managing director and chief financial officer of World Bank Group (WBG) addressed: "Long term capital: steadfast investment for greener, equitable growth".

Badré has responsibility for the financial and risk management strategies of the World Bank Group. This includes development of innovative financial products and services, oversight of financial reporting, risk management, and mobilisation of financial records in alignment with the Group's strategy. He chairs the World Economic Forum's Global Action Council on Sustainable Development.

Badré's theme was the World Bank and greening. He identified major stakeholders, together with their perspectives. There is long term capital. There are consumers. Pension holders seek secure retirement. Social capital has a gap. There are budgetary concerns, and there are commercial banking concerns. World Bank Group must adapt to the changing outlooks of all of these.

WBG invented Green Bonds in order to meet the need to provide responses to climate change. These meet the requirements of equity investors. At the same time, WBG can match the needs of customers. There is presently a funding gap of USD \$1.5 trillion. That is a big figure. It reduces in significance, however, when viewed against a figure of USD \$80 trillion. This is the estimated value of assets managed by institutional investors like insurance and pension funds. "Gone are the days of only government bonds financing big, complex, infrastructure projects; today, the need is such that institutional investors must become ever more actively involved."

The activity must not generate environmental liability. It must also be free of drama. That is to say, it must be predictable, it must be free of corruption risk, and yet it must remain affordable. Badre asked his audience of potential investors to consider what, in detail, their pension schemes seek from investment. Is their brief changing? How does it link to the business cycle, and to the long term investment cycle of developing markets? The investment should contribute both to income and to quality of life.

6. Georg Inderst chaired a panel to examine the question: “Infrastructure as a new asset class: what has changed?” Inderst is an independent adviser to pension funds, institutional investors and international organisations, based in London. He is the author of: “Pension fund investment in infrastructure”.

Panel participants included Kommunalkredit Austria AG: infra banking experts. The company was established in 1958, and has a long history in the two strands of public finance and infrastructure finance. It was nationalised in 2008, and privatised in September 2015. Infra investments are project driven, sustainable, catalysers for growth. Infra demand increases, because of infrastructure that is ageing, demographic development, urbanisation, and a backlog in investment. Kommunalkredit groups infra needs under four main headings: (1) broadening financing sources; (2) public debt limitations; (3) long term bank lending cap limited; and (4) constitutional investors' demand. They see five main strands to the bridging function that they provide: (1) provide sufficient pipeline; (2) identify political support and legal risks; (3) report with a high degree of transparency; (4) monitor and finance construction phases; and (5) manage contracts. They have expertise in three particular sectors of infrastructure: (1) energy and environment; (2) social infrastructure; and (3) transport.

Points that were raised included the following:

Pension schemes in Australia invest around 15% directly in infrastructure. Privatisation of government assets takes some of this investment: ports, airports, and the like. Australian governments of both left and right persuasion have pursued the initiative. Australia has the fastest growing population of any advanced country: this boosts the demand for infrastructure. Still to come will be health, age care, and public private sector partnerships.

Investment by pension schemes in infrastructure will probably expand across national borders.

The mechanics of investment in infrastructure will need attention. There can be political risks (including both national and regional), and also construction risks. The electoral cycle can present problems. Intermediaries will be needed to iron out problems. Public private sector partnerships are not a cure all. PPPs have to be able to demonstrate value for money and to respond to public views. PPP certainly has a bad name in UK, with a reputation for rip offs and complexity.

There may be a general need for infrastructure; but there is a lack of good specific projects. Good projects need to be bankable. They need to be based on a sound business model, to avoid conflict of interest, and to show acceptance of political risks by local interests. Evaluation of risk has sometimes been surprisingly naive in character. Political risk is not confined to emerging markets.

In earlier times, the private sector generally provided a bigger share of infrastructure than has applied recently.

Hospitals and schools can be over regulated. This can act to deter potential private investors. The “green gap” and green bonds may generate private sector interest in infrastructure.

7. There was a roundtable discussion on “Long term investment and risk management”.

Panel members compared notes on definitions as to what constituted a “long term” time frame and on what adequate “risk management” arrangements might look like.

8. John W Arnesen, global head of agency lending at BNP Paribas Securities Services, spoke on: “A modern approach to asset lending: evolving context, best practices and risk mitigation”.

Arnesen looked at a key trend in the securities lending market during 2007-15: value on loan collateral (cash, non cash and total) for all securities. Its two constituent elements of equities and bonds both displayed similar profiles. There was deleveraging and rebalancing. He contrasted the value on loan by market segment in August 2007, compared with that of September 2015. He highlighted some significant trends. The market share of insurance dropped from 13% to 6%. The market share of pensions dropped from 23% to 13%. Public pension plans meantime increased from 2% to 11%.

Arnesen surveyed the financial regulatory landscape. He looked at banking regulation, investor protection, shadow banking and market infrastructure. There were measures to influence solvency, liquidity and leverage ratios. There were some structural reforms and cross border aspects. Tax issues were involved, and there were also moves to stimulate economic growth.

Basel III (sometimes known as the Third Basel Accord) is a global, voluntary, regulatory framework on bank capital adequacy, stress testing and market liquidity risk. This third instalment of the Basel Accord was developed in response to the deficiencies in financial regulation that were revealed by the financial crisis of 2007-08. Basel III was devised to strengthen bank capital requirements by increasing bank liquidity and decreasing bank leverage:

- Liquidity Ratio (LR): Under Basel III, banks are required to maintain a minimum leverage ratio of 3%. Securities Finance Transactions are included in the Exposure measure for each bank.
- Liquidity Coverage Ratio (LCR): Under Basel III, between 1 January 2015 and 1 January 2019, banks are, and will be, required to hold a defined amount of High Quality Liquid Assets (HQLA) to cover their 30 day average net cash outflows.
- Net Stable Funding Ratio (NSFR): This is similar to the LCR. The NSFR covers the liquidity requirement for banks to ensure that they maintain a stable funding profile for a period of up to 12 months in relation to the characteristics of their on and off balance sheet activities. NSFR is calculated as the available amount of stable funding (ASF) expressed as a percentage of the required amount of stable funding (RSF).

Arnesen looked at some of the features of lending high quality liquid assets during a low interest rate environment. HQLAs are divided into three specific categories: Level 1, Level 2A and Level 2B. Level 1 represents assets that are highly liquid, and receive no haircut. Level 2A assets generally include assets that would be subject to a 20% risk weighting under Basel III. The heading includes assets such as GSE issued and guaranteed securities. These assets would be subject to a 25% haircut. Level 2B assets include corporate debt and equity securities, and are subject to a 50% haircut. Finally, Arnesen turned to risk mitigation and best practice. He surveyed:

- Counterparty risk (principal borrower; agent lender; collateral manager)
- Legal and collateral risk (unenforceability; litigation)

- Collateral and market risk (reinvestment; duration mismatch; volatility)

Overall, the credit crunch increased needs for liquid assets and for diversification.

9. Kay Parplies is head of unit in the European Commission's Directorate General for Economic and Financial Affairs, in charge of coordination with the EIB Group, European Bank for Reconstruction and Development and international financial institutions. He spoke on joining forces: in order: "to foster long term investment across Europe and the developing world".

Parplies looked at the European growth map for 2012 and the forecast for 2016. He concluded that: "The economic recovery is taking hold – but regional variations remain". In 2012, much of Europe was in negative growth. From north to south, this was the case in Finland, Denmark, Netherlands, Belgium, Czech Republic, Hungary, Slovenia, Italy, Greece, Spain, Portugal, Cyprus, Malta. Only three countries achieved 3% growth or more: the Baltic states of Estonia, Latvia and Lithuania. Only Poland and Slovakia achieved above 1%. By 2016, in contrast, all nations are forecast to show growth except Greece. Romania and Ireland power away at over 4%. Most of the rest figure in the band of 2%-3%.

The European Union's EUR €315 billion Investment Plan has the potential to bring investment levels back into line with the historic norms for gross fixed capital formation (GFCF). That is a ratio of GFCF investment to GDP of 21%-22%. Four main factors contribute to the need for the EU's investment plan:

- EU's investment and competitiveness gap;
- High liquidity in the market;
- Public budget constraints; and
- Barriers to investment, both financial and non financial

It is an ambitious infrastructure investment programme, first announced by European Commission President Jean Claude Juncker in November 2014. It aims to unlock public and private investment in the "real economy" of at least EUR €315 billion over a three year period from 2015. It brings together EU policy and budget plus European Investment Bank's capacity to mobilise private sector funds towards strategic investments. Private sources to be tapped include banks, institutional investors and capital markets.

The EU Investment Plan, the Juncker Plan, has three pillars:

- Mobilising finance for investment: It aims to boost investment in strategic projects and to provide access to finance through the European Fund for Strategic Investments: EFSI. It aims to boost cooperation between national banks and the European Investment Bank.
- Making finance reach the real economy: The European Investment Project Portal is: "A transparent portal of viable projects to ensure that investors have reliable information on which to base their decisions. Investors should be able to have the confidence they need to move forward with projects, and avoid any stumbling blocks and uncertainty". The European Investment Advisory Hub (EIAH) provides technical assistance. "The EIAH will be Europe's gateway to investment support. It will share good practices, lessons learnt and real life case studies on project finance and project management. The EIAH is a joint Commission and EIB initiative."
- Improved investment environment: in line with three main criteria: (1) improving predictability and quality of regulation; (2) removing non financial, regulatory, barriers in key sectors within the EU Single Market; and (3) structural reforms at national level:

“The Commission services now intend to engage in a dialogue with the Member States on the identification of these challenges and the possible actions to remove them.”

Improved investment environment will entail better and more predictable regulation at all levels. The investment plan will seek to make the most of the Single Market:

- Energy Union: “A European Energy Union will ensure that Europe has secure, affordable and climate friendly energy. Wiser energy use while fighting climate change is both a spur for new jobs and growth and an investment in Europe’s future.” The target is: “to bring about the transition to a low carbon, secure and competitive economy”.
- Digital Single Market: “It’s time to make the EU’s single market fit for the digital age – tearing down regulatory walls and moving from 28 national markets to a single one. This could contribute €415 billion per year to our economy, and create hundreds of thousands of new jobs.”
- Capital Markets Union: This: “is a plan of the European Commission to mobilise capital in Europe. It will channel to all companies, including SMEs [small and medium enterprises], and infrastructure projects that need it expand and create jobs. By linking savings with growth, it will offer new opportunities for savers and investors. Deeper and more integrated capital markets will lower the cost of funding and make the financial system more resilient.”

Improved investment environment will also entail structural reforms in the member states: “Since the crisis, investment has evolved differently across countries, both in terms of private and public investments. In addition, both regulatory and non regulatory challenges to investment remain. Identifying and removing those challenges to investment is part of the efforts to improve framework conditions and remove red tape and regulatory bottlenecks.” This will aid the so called third pillar of the Investment Plan for Europe.

The European Fund for Strategic Investments (EFSI) aims to overcome the current investment gap in the European Union by mobilising private finance for strategic investments which the market alone cannot raise. It will support strategic investments in infrastructure as well risk finance for small businesses. The fund will focus its financing on two main types of investments: (1) infrastructure and innovation; and (2) finance for small and medium sized enterprises.

The European Commission expects that the Investment Plan will mobilise at least EUR €315 billion additional investment in Europe within the next three years. Of this total, EUR €240 billion is targeted at the infrastructure window. The remaining EUR €75 billion is marked for “SMEs and mid caps”. The EFSI will have initial risk bearing capacity of EUR €21 billion: formed from a EUR €16 billion budget guarantee from the EU itself, together with EUR €5 billion from the European Investment Bank’s own resources. “Some people think that this will not work”, said Parplies, “but we are quietly confident”.

10. Mark Fawcett is chief investment officer at UK’s National Employment Savings Trust (NEST). His theme was: “Pension needs when entering retirement: delivering the right options for defined contribution retirees”.

In the UK, in 2014, the Chancellor of the Exchequer widened the options for income taking by those moving into retirement. Previously, almost everyone had to take an annuity. But the annuity market had stopped working well; so the Chancellor cancelled this requirement.

Suddenly, large numbers of pensioners faced taking decisions, when previously they would have slipped into the default option of an annuity.

“The National Employment Savings Trust (NEST) is a defined contribution work place pension scheme. It was set up to facilitate automatic enrolment as part of HM Government’s workplace pension reforms under the Pensions Act 2008. NEST has a public service obligation. It is open to any UK employer to use NEST to meet its new workplace duties as set out in the Pensions Act 2008.”

NEST currently has 2.5 million scheme members. It has around GBP £630 million of assets under management. This works out roughly as GBP £250 per pot: a tiny sum. NEST works with over 30,000 employers. They divide their individual scheme members into three main groupings:

- Those with high financial capability, who tend to be willing to pay to receive advice on their finances;
- Those with less financial experience, who are less likely to be prepared to pay for advice; and
- Those with very little financial experience, who may well have very little engagement at all in the retirement planning process.

What do people want in the new framework? They want regular fixed income. They want certainty that the income won’t run out. They want protection from stock market falls. They also want access to a lump sum in the event of an emergency, the facility to pass on money, and flexibility to change their plans. In other words, they want an annuity, but by another name, and without the strings.

So why don’t people choose an annuity? They can be put off by some drawbacks. A pension pot of £1 million produces an annuity of no more than £50k a year. In the early years of retirement, people are scared of running out of money, so they don’t spend it. In the later years of retirement, they wish that they had spent it earlier.

Fawcett looked at the behavioural factors that lie behind such views. People tend to have a bias towards the status quo, and a bias towards the present rather than to the future. They often have an aversion to loss. Large numbers have “difficulties in probabilistic thinking”, not to mention limited skills in mental accounting. The question that NEST then asks is this: “So can we design products that meet their stated preference, whilst recognising their behavioural and emotional biases?” In answer, NEST came up with six “guiding principles for core pathway”: (1) sustainable income; (2) manage investment risk; (3) manage inflation risk; (4) spend pots; (5) longevity protection; and (6) offer flexibility. NEST’s “blueprint core strategy: what a saver sees” can be set out as: “Regular secure income with ad hoc access to cash”. The retirement years can be divided into three phases: the first from age 65 years to age 75 years; the second phase from age 75 to 85; and the third phase from 85 through 95.

Fawcett looked at NEST’s main building blocks during this three phase strategy:

- Cash account across all three phases;
- Flexible income drawdown account, on a reducing basis, during phases 1 and 2;
- Monthly payments, on an increasing basis, during phase 1
- Later life protected income during phase 3

The three phases can be summed up: Phase 1: “Flexibility”; Phase 2: “Securing the future”; Phase 3: “Security for life”.

This is how NEST sets out to meet savers' needs in the new world of UK pension: freedom of choice, together with automatic enrolment. Savers will need bridges between the old world and the new. New solutions will be needed for the millions of new savers who will come forward.

11. Xuhui Wang is managing director for Europe at Industrial and Commercial Bank of China (ICBC). He spoke on: "The Chinese approach to long term financing: national and cross border infrastructure investments".

ICBC has developed into the largest listed bank in the world. In 2014, ICBC was named "Global Bank of the Year" by The Banker, ranked first among the Top 1,000 world banks, again by The Banker, and the largest enterprise in the world for the second consecutive year among the Global 2,000 firms listed by Forbes magazine. The Bank's total capital amounts to USD \$285 billion.

ICBC has worked on global project finance for The Silk Road Economic Belt and for 21C Maritime Silk Road. The Silk Road Economic Belt essentially includes countries situated on the original silk road through central and west Asia, the Middle East and Europe, and also south and south east Asia. The initiative calls for the integration of the region into a cohesive economic area, through building infrastructure, increasing cultural exchanges, and broadening trade. The Maritime Silk Road is a complementary initiative. It aims to invest in, and to foster collaboration in, south east Asia, Oceania and north Africa, through several contiguous bodies of water: the South China Sea, the south Pacific Ocean, and the wider Indian Ocean area.

ICBC has arranged project finance for 151 overseas projects, with total exposure of over USD \$33 billion. The number of intended projects has reached 335, with total investment of over USD \$430 billion. "One belt one road" projects number 119, with total investment of USD \$21 billion. Four types of investment are targeted: (1) electricity and power finance; (2) nature resource and mining finance; (3) manufacturing and equipment finance; and (4) infrastructure and transportation management.

Xuhui Wang described services that ICBC offers:

- Global enterprises finance: global corporate finance; global cash management; global supply chain finance; leasing services
- Investment banking: global bond issuance and undertaking; equity investment issuance and underwriting; merger and acquisition service
- Asset management: equity investment business; private banking service
- Private banking: ICBC Private Banking was established 2008, and is the first local private bank licensed under the China Banking Regulatory Commission. They have built strong momentum in client acquisition. Target clients are high net worth individuals, who have at least renminbi RMB 8 million yuan investable assets within the bank. (The exchange rate is around 10 Chinese yuan to one GBP £ sterling.) At June 2015, ICBC had over 53,000 private banking clients in China. The business has evolved into global asset allocation, in order to meet demands from these clients.

ICBC has built solid performance in asset management. At June 2015, ICBC Private Banking manages a total of renminbi RMB 910 billion of assets under management. Of this figure, roughly one half of assets have been invested with proprietary products of the private bank itself. Demands from clients have led ICBC to explore investment opportunities and to examine

ways to diversify asset allocation into global markets. They work from four regional hubs: Hong Kong, Singapore, Middle East and Europe.

12. Kevin Le Grand, president of UK's Pension Management Institute, spoke on: "Strengthening defined contribution governance: what can we learn from the British experience?"

The UK pension system contains both State Pension and also employer sponsored schemes. Employer sponsored schemes have been based, historically, on the governance model of trusts. The duties of a board of trustees are formal in character and are defined in law. In recent years, there has been a steady shift from defined benefit pension schemes to defined contribution schemes. Some defined contribution schemes continue to run on the trust model. Others, however, operate on a contract basis.

The UK launched automatic enrolment into work based pension schemes in 2012. This change will expand the scale of pension schemes as new members are recruited. Changes in governance will be needed to match the new membership profile. Changes will also come about as a result of HM Government's "Freedom and Choice" initiative for pensions. This initiative cancels the previous compulsory requirement to use individual pension pots to purchase annuities. Now, pensioners have wider possibilities. They can select instead the option of income drawdown: taking their pension pot in stages. Alternatively, they can take their pension pot, or some of it, in the form of cash. In parallel, the UK's Pensions Regulator has undertaken a survey of pension scheme trustees: "Trustee Landscape". The Regulator judged that too many boards of trustees are found wanting.

Le Grand highlighted some changes in governance that either have or should come about in response to these developments:

- Strengthen the default fund to make it more of an ideal through the period of membership
- Improve the transparency around management costs
- Require regular formal statements from the Chair of Trustees on the effectiveness of their Board's stewardship
- UK Pensions Regulator has issued a revised Code of Practice for defined contribution schemes.

The Pensions Management Institute, of which Le Grand himself is President, has created a new qualification: the Certificate in Defined Contribution Governance, needing some 60 hours of study to answer 90 multiple choice questions. Overall: "There is more work for trustee boards ahead!"

13. Hugh Wheelan, cofounder and managing editor of "Responsible Investor" magazine, moderated a discussion on: "Regulation in an era of globalized governance: learnings from Europe, Asia and the Americas".

Points that were raised included the following:

The impact on regulation of the financial crisis of 2008-09 should not be underestimated.

UK Government's recent moves to increase freedom in pension matters have increased the need for guidance and advice for those who now face new choices over how to deploy their

pension pots. Guidance comes in generalised terms; advice is specific to an individual. Problems have arisen. There is a shortage of advisers who have the calibre to inspire confidence. There is also reluctance on the part of pensioners to pay for the advice that is available. These are topics to which the UK's Pension Management Institute will give attention.

UK also sees discussion taking place on the fiduciary duty of pension scheme trustees: about how far they may, or may not, take into account ESG considerations in their decisions (environmental, social and governance).

14. Barry Parr, co chair of the Association of Member Nominated Trustees (AMNT) of UK pension funds, chaired a panel on: "Recent developments in pension policy and pension law".

Points that were raised included the following:

Current pensions systems may not remain sustainable in the long term. We are paying people not to work. Life expectancy continues to rise; thus, the time for this non activity increases. In parallel, the dependency ratio, of retired people to working people, continues to take a turn for the worse in many countries. Retirement ages will need to rise to reflect these changes.

In a number of countries, private sector pensions are less generous than public sector pensions. The advantage awarded to favoured or privileged groups has potential to fuel political unrest. In UK, firefighters have taken action recently over pensions, despite their generous treatment.

Belgium's minister for pensions in 2013 put 12 industry experts in charge of preparing a new instalment in pension reform. The reforms seek to achieve several key objectives:

- Extend retirement age to 66 by 2025, and to 67 by 2030
- Continue the reform of early retirement by extending the minimum age for retirement: initially, in 2017, to 62.5 years, with 41 years of a career
- Continue the reform of survival pension benefits by delaying access to the benefits to 50 years of age in 2025, and to 55 years in 2030.

Trade unions in Belgium criticise the measures, saying that these will have damaging effects (especially in terms of youth employment and unemployed people). They complain that there has not been adequate social dialogue before decisions were taken. Employer associations, by contrast, say that the structural reform is vital to protect Belgium's model of prosperity. Moreover, they stress, as does the Minister of Pensions, the need to follow the trend across the EU of extending retirement age.

In UK, the average level of pay is around GBP £26,500 a year. The estimate for a "living pension", to meet the needs of most pensioners, is around 2/3 of that figure. That is pension income of about GBP £17,500 a year. Of this desired total pension, some GBP £7,500 a year comes from the State Pension. That leaves about GBP £10,000 a year to be funded individually. The UK Government estimates that the size of a pension pot needs to be a multiple of around 20 times that of the desired income. That points to the need for an average pension pot to equal GBP £200,000. These figures resonate in Australia, too.

Governments need to give consideration to the thrust of their tax policies on pensions. Who should receive greatest incentives to save in the long term? Should it be those who pay the most tax, or those who are lower down the income scale? The UK saw a window of opportunity

for tax concessions during the years 2006-10. The UK limits for tax concessions increased sharply in 2006, both for lifetime allowance and for annual allowances. After 2010 the limits have been steadily reduced again.

India is in the early stages of developing pension policies.

15. Joshua M Franzel, vice president and head of research for US Center for State and Local Government Excellence (SLGE) presented: "US public pension funds in numbers: comprehensive national, state and plan-specific metrics".

Franzel gave an overview of US State pension plan structures for state employees. A majority of states, 31, have defined benefit plans. Three states have defined contribution plans; nine states offer a choice between plan types. Seven states have hybrid plans: DB/DC or cash balance.

Plan assets as at Q2 2015 are:

- Aggregate state and local defined benefit (DB) plan assets: \$3.8 trillion (that is, \$3,800 billion)
- Aggregate state and local defined contribution (DC) plan assets: \$544 billion

Aggregate funding ratio shows a steady decline: from 100%+ in 2001, down to around 77% in 2013

Annual required contribution and payroll shows a similar picture of decline. Employer's annual required contribution (ARC) as a percentage of payroll, and portion paid looks like this:

- 2001: ARC: 5.3%; none unpaid
- 2013: ARC: 16.3%; of which c 3% was left unpaid

There were changes in average state and local pension asset allocation over the ten years 2004-13. Percentage in equities: down from 60% to 51%. Bonds: down from 28% to 23%. Real estate: up from 3% to 6%. Alternatives: up from just 1% to 14%.

Franzel listed "a few considerations going forward..."

- Level of future funding contributions by US state and local governments
- Continued role of pensions in a human resource context
- Shifts in asset allocation

16. Christopher Knowles is head of the climate change and environment division at the European Investment Bank. He addressed the topic: "Climate change, financial change: fostering a greener economy through financial innovation".

Knowles set out his starting points:

- If the world is to stay on track to limit global warming to below a 2 degree Centigrade rise in average temperatures then world emissions must drop sharply over coming decades
- A significant portion of abatement must come from the energy sector. European Investment Bank estimates that to keep within the 2 degrees Centigrade trajectory will require investment in clean energy to double. This will require an additional \$8.6 trillion over the next 25 years: that is by 2040.

There are variations over the globe, but much of the work that is needed is highly capital intensive. We must put a worthwhile capital price on carbon. This would then place in rank

order of undesirability: wind power at lowest; then natural gas; with coal at the top end of the undesirability scale. Complications arise because the price levels of oil, gas and shale are all unpredictable. The challenges lead to a funding gap, with fewer new projects coming forward. In fact, the opposite is what is needed! Institutional investors might fill the gap, said Knowles. "You're the guys with the money!" The European Investment Bank seeks to pave the way with the issue of green bonds. The EIB is the largest green bond issuer to date: at a total of EUR €9 billion. The figure for 2014 alone was EUR €4.3 billion. More than 25% of total EIB lending goes to climate action.

Fund investments show the catalytic effect of the EIB. EUR €10 of EIB pump priming leads to EUR €90 of third party commitments. EUR €100 of equity thereby becomes available for projects that meet EIB objectives. EIB applies policy tests up front. The aim is to ensure that the primary focus for each project fits clearly with EIB objectives and desired economic benefits. EIB invests time to work with a fund manager from concept stage. The Bank is prepared to go into segments that have not yet become quite mainstream: bio diversity, land contamination, and land use/carbon are all examples.

Knowles provided information about some case studies:

- Althelia Climate Fund: for sustainable land use
- Layered risk funds
- Layered debt funds: such as Green for Growth Fund (GGF) in south east Europe and Turkey
- The GEE REF fund of funds, that provides global risk capital to energy efficiency and renewable energy projects in developing countries and economies in transition: African, Caribbean and Pacific regions, non EU eastern Europe, Latin America and Asia
- Renewable Energy Platform for Institutional Investors: REPIN: to provide a bridge between short term lenders and long term investors
- Project Bond Credit Enhancement: PBCE: to ensure debt service for project bond investors
- UK Offshore Transmission Owner (OFTO) asset class: Greater Gabbard wind farm: connection to the UK onshore grid
- Prime Finance for Energy Efficiency: PF4EE: " a joint agreement between the EIB and the European Commission which aims to address the limited access to adequate and affordable commercial financing for energy efficiency investments"

17. The concluding session focused on "Stepping up greening and growth in industrialised and middle income nations" with various national (Japan, Portugal, Romania) and supranational experts (EIB, OECD)

Hugh Wheelan (see above) moderated the roundtable.

Christopher Knowles (see above) was joined by Lucian Anghel, CEO, Banca Comercială Română Pension (BCR Pensii) & President of the Board of Governors, Bucharest Stock Exchange (BSE), Diogo Malato Moura, Head of Product Development & Investment Management Analysis, BNP Paribas Securities Services, Hideki Takada, Sr. Policy Analyst, Climate, Biodiversity and Water Division, Environment Dir., OECD and Hans-Peter Egler, Chief Executive Officer, Global Infrastructure Basel Foundation (GIB).

Points that were raised included the following:

Romania's Bucharest Stock Exchange has put in place mechanisms to ensure that good standards in financial reporting are maintained. Consideration is also in hand for a code of guidance to include sustainability ratings for companies, together with reporting on environmental, social and governance (ESG) considerations.

BNP Paribas Securities Services has put together advanced risk-measurement tools allowing institutional asset owners to have a more holistic understanding of (and, if need be, early warning signals re.) their specific risk exposure(s) – including climate and carbon-related risks affecting certain sectors such as. e.g. the auto industry etc.

Japan at both governmental and private-sector level gives great consideration to in-depth reporting of environmental factors.

The OECD has published a special report for G20 Finance Ministers and Central Bank Governors titled "Mapping channels to mobilise institutional investment in sustainable energy". This identifies barriers, and informs policy recommendations, on how to mobilise investment by institutional investors in sustainable energy through different channels. It proposes a framework that classifies investments according to different types of financing instruments and funds. It highlights the "risk mitigants" and "transaction enablers" that intermediaries can use to mobilise capital. It highlights also some promising channels that are now being analysed in depth by OECD:

- Green bonds
- Yield Cos: dividend growth orientated public companies that bundle renewable and/or conventional long term contacted operating assets in order to generate predictable cash flows

The said OECD report was annexed to the communiqué of G20 Finance Ministers in February 2015. It sets out a number of specific policy recommendations to overcome barriers and to mobilise institutional investment in sustainable energy.

Finally, most discussants agreed that "the long-term benefits of better integration of environmental and social aspects into investment decisions far outweigh a possible increase in initial costs."

DAVID WEEKS

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