OECD/Euromoney Conference on Long-term Investment Financing

2015 CONFERENCE REPORT

19-20 November 2015
Paris, France

This document compiles a summary of the discussions and transcripts of keynote speeches from the OECD/Euromoney Conference on Long-term Investment Financing held on 19-20 November 2015. The opinions expressed and arguments employed herein are those expressed by industry and conference participants and do not necessarily reflect the official views of the OECD and its member countries.

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Introduction

Over 145 participants attended the recent Conference on Long-term Investment (LTI) Financing, representing pension funds, insurance companies, and sovereign wealth funds from around the world, including countries such as Australia, Canada, Korea, China, and Turkey. This outreach event targeting financial industry practitioners and co-hosted by the OECD and Euromoney, provided an opportunity for institutional investors to discuss recent OECD research and policy issues related to long-term investment, in particular in G20 and OECD context. Such forums are an important part of the OECD's Project on Institutional Investors and Long-term Investment and its related Network of Institutional Investors which together work towards broadening policy makers' knowledge and understanding of institutional investors' needs and challenges. This most recent Conference follows a similar event held last year in Paris, with other events in 2015 including the G20/OECD High-level Roundtable on Institutional Investors and LTI held in Singapore, and the OECD/ADBI High-level Panel on Institutional Investors and Long-term Investment Financing held in Tokyo. Future events will be organised to advance the discussion on long-term investment by investors (www.oecd.org/finance/lti).

The speeches and remarks given at the conference are included in this document, as well as a summary of the discussion provided for each panel, and the relevant background notes and agenda at the back of this document.

Opening Remarks:

Stefan Kapferer,
Deputy Secretary-General, OECD

Speeches and Interviews

Angel Gurría, Secretary-General, OECD: Closing Remarks

Long-term investment: What's the problem?

In our Economic Outlook we expect the global economy to grow by less than 3% in 2015. This is the weakest growth since 2009 and well below the long-run average. This largely reflects further weakness in EMEs, with recessions in Brazil and Russia and the slowdown in China hitting activity in its key trading partners. Credit remains subpar in many advanced countries, particularly in the euro area and particularly for SMEs.

Stronger investment is crucial to strengthen economic growth. It will foster demand today, while at the same time laying the foundations for higher potential growth in the future. Some positive trends with respect to investment have been identified in the G20/OECD report on G20 investment strategies agreed by the Leaders this Monday. Based on G20 Members' projections, average investment growth in the G20 should be higher than average GDP growth over the next few years. So there seems to be some light in the tunnel, at least in the emerging world. In OECD countries, by contrast, total investment is expected to remain subdued. In our Economic Outlook we project it to rise by a mere 3.2% per annum over 2015-16.

Having adopted fiscal stimuli during the crisis, many advanced countries have limited room for manoeuvre in terms of public investment. And as we have subjected banks to stricter regulations and scrutiny, they are less willing – or less able – to lend. Institutional investors have to fill the gaps, and indeed, they are becoming increasingly important in providing financing for productive investment. The assets of institutional investors have reached new levels, having increased substantially since the financial crisis: together, pensions, insurance and mutual funds managed around USD 90 trillion in assets by the end of 2014. And, as QE has soaked up large parts from the bond market, institutional investors are actively seeking attractive assets to invest their money. In fact, some preliminary estimates put the excess demand by institutional investors that QE has created at almost USD 5 trillion – a large gap that creates an important opportunity for investment in 'real assets'.

Long-term investment will also be crucial for the successful transition to a low-carbon economy. The start of COP 21 here in Paris is less than two weeks away, adding to the importance of events such as this. New investment in renewable energy increased by 17% in 2014, to USD 270 billion, recovering from a decrease of 10% in 2013. While this is promising, much more is needed. And as Mark Carney has pointed out in the speech he gave at Lloyds in September, it is in fact in the interest of institutional investors to finance the de-carbonisation of our economy. Not only does this present an important business opportunity, it would also reduce their exposure to assets that might become stranded as regulation to fight climate changes makes the use of fossil fuels too expensive.

Long-term investment: What's the solution and how are the G20/OECD helping?

Investment is also a top priority for the G20. It is one of the Turkish Presidency's three I's: inclusiveness, implementation, and investment.

Investment, combined with increased trade and competition and supportive macroeconomic policies, are central to the G20's goal of lifting the regions' GDP by at least a cumulative additional two per cent over the next five years. Ambitious country-specific investment strategies, a core part of the plan, were endorsed by G20 leaders in Antalya earlier this week. If fully implemented, these strategies will contribute to lifting the aggregate G20 investment to GDP ratio by an estimated 1 percentage point by 2018. While more is surely needed, this would already be a good start.

Improving the investment ecosystem, supporting the financing of SMEs, fostering institutional investors' involvement, and supporting the development of alternative capital market instruments and asset-based financing models are key to implementing this plan. This sounds like a 'no brainer', but there are numerous obstacles that need to be overcome.

The OECD has been supporting countries in their endeavour to lift investment on several different fronts. The OECD has supported the implementation of the G20/OECD High-Level Principles of Long-Term Investment Financing by Institutional Investors, which were endorsed by G20 Leaders in 2013. These principles set out solution-oriented policy recommendations aiming to mobilise productive investment by institutional investors. This year, the OECD delivered effective approaches for the implementation of these Principles and conducted a survey of how countries meet them based on an agreed checklist for country strategies.

The OECD has also developed Principles of Corporate Governance, which were endorsed by the G20 in Antalya last weekend to become the G20/OECD Principles of Corporate Governance. These principles aim at ensuring a strong corporate governance framework which incentivises companies to undertake more productive investment.

Regarding infrastructure investment, regulatory uncertainty is the number one issue. But investors also have to negotiate in an often harsh business climate, and there is a lack of profitable and "bankable" projects or appropriate financial vehicles. All of this is compounded by severe information gaps between interested parties. In all these areas, policymakers can play a constructive role. The OECD has sought to advance work on market-based financing for infrastructure, for instance laying out a comprehensive Taxonomy of Financial Instruments and Risk Mitigation Techniques used in the financing of infrastructure.

Long-term investment: What are the next steps?

Long-term investment is a key contributor to growth, job creation and stability. And it can help finance the low carbon transition as will be discussed at the upcoming COP21. Given the constraints on government budgets and the considerable need for long-term investment now and in the future, particularly for infrastructure, it is essential that countries improve the efficiency of the use of resources and partner with the private sector to meet some of these investment needs.

Besides working on enhancing the macroeconomic and legal environments, many G20 governments currently have a key role in fostering long term investment not only by the direct use of funds, but also by playing an important catalytic role with respect to the mobilization of private financing.

Next year, the OECD will work with the Chinese G20 Presidency both to deepen and broaden the analysis on LTI financing. A program of work is emerging, including promoting diversified and innovative financing, addressing data gaps on infrastructure investment, and assessing the scope for infrastructure investment to become an asset class from the institutional investor perspective.

The OECD Long-term Investment project and this network of long-term investors will play an important role to advance the work and ensure effective policy responses. Thank you for having participated in this two-day event on long-term investing!

Stefan Kapferer, Deputy Secretary-General, OECD: Extract from the opening remarks

A financial sector that works for people: Reforming finance and supporting Long term investment

At the OECD we are working intensely with Member and Partner countries to ensure that the financial system can perform its vital role as an efficient intermediary between savers and borrowers.

We need sound and efficient financial markets and institutions, operating according to rules and procedures that are fair, transparent, and free from conflicts of interest, instilling consumer and investor confidence. At the same time we must also ensure the contribution of finance to growth, focusing on financing the real economy and the role of institutional investors in long-term investment financing.

Such considerations are at the heart of the OECD Long Term Investment Project, which acting as a bridge between investors and governments, aims to facilitate long-term investment by institutions.

The importance of long-term finance lies in its pivotal role in satisfying long-term physical investment needs across all sectors in the economy and specifically in key drivers of growth, competitiveness and employment such as infrastructure, real estate, R&D and new ventures.

With over USD 92 trillion in assets in OECD countries alone[1], institutional investors such as pension funds and insurers are frequently cited as alternative sources of financing. However these investors are facing challenges of their own which may lead to hesitation on their part to commit to long-term investment opportunities.

Long-term promises and the funding gap: the challenges facing pension funds and life insurers

The current low-growth, low-interest rate environment poses particular problems for pension funds and life insurers. These financial intermediaries, which offer long-term financial promises, rely on investment returns to honour their obligations. Our recent publication Business and Finance Outlook- to be further discussed in a special session this afternoon identifies significant funding gaps as annuity promises based on existing mortality tables show shortfalls in many countries, both from rising longevity risk and from lower interest rates.

Increasingly, therefore, pension funds and life insurers are feeling the pressure to chase yield, and to pursue higher-risk investment strategies that could ultimately undermine their solvency. This not only poses financial sector risks, but potentially jeopardises the secure retirement of our citizens.

As pension funds and insurers allocate more capital to alternative assets, and increasingly interact with the shadow banking system, regulators and policy makers will need to remain vigilant. At the same time, promoting infrastructure and other long-term, productive investments by these institutions can help raise real returns on capital in advanced economies more generally, thereby improving structural conditions for business and the financial sector.

[1] OECD Annual Survey of Large Pension Funds and Public Pension Reserve Funds, OECD 2014.

Facilitating the participation of Institutional Investors

The role of institutional investors in long-term financing is constrained by the short termism increasingly pervasive in capital markets, as well as structural and policy barriers such as regulatory disincentives, lack of appropriate financing vehicles, limited investment and risk-management expertise, lack of transparency, and a dearth of appropriate data and investment benchmarks for illiquid assets.

Given the constraints on government budgets and the considerable need for long-term investment now and in the future, particularly for green infrastructure, it is essential that countries improve the efficiency of the use of resources and partner with the private sector to meet some of these investment needs. Here, a recent OECD Taxonomy of Financial Instruments presented to the G20 describes the available investment channels and investment instruments (such as project bonds or equity funds) that the private sector is using to deploy capital in infrastructure assets.

Tools for governments to leverage institutional investment include public–private partnerships to develop clear and transparent project pipelines for major green infrastructure projects, green banks, which provide low-cost financing for clean-energy projects, and various risk mitigants such as guarantees and stronger contract design that build confidence in long-term infrastructure investment. These risk-mitigation and credit-enhancements tools (the Juncker Plan is one example) can help to ensure that institutional investors gain access to financial vehicles with the appropriate risk-return profile.

It is therefore conclusive that G20 governments currently play an important catalytic role with respect to the mobilization of private financing, in addition to any direct funding provided for projects.

We still have a long way to travel to make financial markets work for people. We can certainly escape the ghost of secular stagnation and we can achieve more resilient, more inclusive and more sustainable growth. But we will only succeed by using new economic thinking, focusing on the quality of growth. This is what we are doing at the OECD through our Institutional Investors and Long-Term Investment project. And we are ready to partner with the institutional investors community for example through our large Network on Institutional Investors to keep developing new solutions, new theories, new and better policies for better lives.

The full version of the Deputy Secretary-General's speech can be found on:
www.oecd.org/daf/fin/private-pensions/2015-oecd-euromoney-lti-conference.htm

Ignazio Visco, Governor, Bank of Italy: Extract from the Keynote Address

Investment Financing in the European Union

The Banking Union and the Capital Markets Union share a common goal: fostering investment and, ultimately, growth. Since its peak in 2007, gross fixed capital formation in the EU has dropped by about 10 percent in real terms. The need to support investment – national and European, private and public – in order to strengthen the recovery in the euro area, is paramount. Finance for growth has been one of the priorities of the Italian Presidency of the Council of the European Union in 2014. In many analyses the need to support investment stands out singularly as a shared priority.

The ongoing push to diversify the sources of financing for investment contributes to the building of a stronger and safer financial system. However, banks will generally remain the primary source of credit for non-financial companies, notably SMEs. It is thus paramount to continue all efforts in strengthening the European banking sector.

Completing the Banking Union is a priority. The Single Supervisory Mechanism (SSM) must be implemented across countries in a consistent way. The Single Resolution Mechanism (SRM) will be fully in place as of January 2016. Further progress is now proceeding or being discussed in three directions: ensuring a level playing field by addressing options and national discretions allowed for by the CRD/CRR; setting up a common public backstop to the new Single Resolution Fund; and establishing a common European Deposit Insurance Scheme. We have to move in these directions with the necessary care in order to avoid "unintended consequences" but at the same time without waiting for another financial crisis to occur.

The free movement of capital is a long-standing objective of the European Union, which dates back to the Treaty of Rome. The single currency, the Banking Union, and the need to relaunch investments and potential output make it as important as ever.

A stable, efficient and well-diversified financial system is also the result of effective structural policies. Both investment and investment financing flourish in sound economic environments. The rule of law, a low level of taxation on productive factors, competitive markets, efficient public administration and effective financial supervision, these are the basic ingredients of a system that is able to foster entrepreneurship and innovation, allocate resources to the most productive sectors and create good jobs.

The full version of the Governor's speech can be found on: http://www.oecd.org/daf/fin/private-pensions/2015-oecd-euromoney-lti-conference.htm

John Kay, Economist and Author: Keynote Address

Other People's Money

How does the financial sector relate to the actual needs of the real economy? There are four primary things that finance needs to do:

1. Facilitating the payment system and transactions between businesses. This is what most people do in the finance sector
2. Wealth management allows for savings to make up for deficits in various life stages
3. Capital allocation of savings to where investment and liquidity is needed
4. Risk management

Capital allocation is the theme of this conference. Institutional investors are a critical part of the allocation of savings to productive investment. There are two ways to look at the capital of a nation. One is the physical capital stock (infrastructure, real estate, business investment) and household wealth. Savings of households need to add up to finance capital stock and investment. The difference between net and gross capital stock is very important and significant in size. Although gross figures for overseas assets and liabilities are very large, net flows are much smaller; most developed countries finance virtually all of their capital stock domestically.

New sources of finance ultimately mean new channels of finance, and all sources are direct/indirect household savings. Residential housing markets are the largest sources of wealth in modern economies. Three major issues that disrupt the flow of capital are:

1. The current debt and interest rate problem, exacerbated by QE
2. Project selection
3. Potentially disruptive innovation on the horizon

Governments can now raise finance at extremely low cost. Therefore it's a paradox to think there is a problem with debt finance. The truth is that we are building a perfect storm for the future by not building infrastructure we need in the future and by not getting the real rate of return we need to fund our future pensions. Instead, we are paying off debt. We would do better to apply a bit of common sense instead of applying arcane economics about QE.

All of us are in favour of infrastructure provision. But there is good infrastructure investment and there is bad. When looking at current infrastructure proposals, one should think about what the future generation is going to be grateful for, not only the numbers. Cost/benefit ratio is important but all too often high profile projects get preferred.

The third point covers disruptive innovation. In transportation and energy disruption has not happened on a major scale. We can almost be certain this will change. Driverless transportation, drones, energy improvements - that does not mean we should not be building infrastructure, on the contrary. It means we need to maintain flexibility for these structures to cope with a future world. Risk is not the one year volatility risk; innovation is the real long-term risk.

We need to devise financial markets and financial systems that are tailored to the needs of the underlying users of this system: companies, households etc., instead of the actual market participants.

Interview with Matt Whineray, CIO, New Zealand Superannuation Fund, the Investor Intelligence Network (IIN) and the OECD[2]:

In the run-up to the Paris conference, Matt Whineray spoke to IIN's Matt Craig and Joel Paula of the OECD on his views on the investment outlook and return expectations, NZSF's investment beliefs and its recent strong performance, and a number of other issues, from greenfield infrastructure to using currency to add value.

Matt Craig, European Content Director, Investor Intelligence Network (IIN): *There is a view that future return expectations are low, do you share this view?*

Matt Whineray, Chief Investment Officer, New Zealand Superannuation Fund: The last six months have been a bit ugly but for the last five years and more, we have had very strong returns from buying the big bounce of equity markets coming out of the GFC. When we look at our five year performance and think about that, versus our expectations for any particular five years, and our returns are in the 93rd percentile. So on only 7% of occasions would you expect to see better returns. That tells you that we have had an extremely favourable environment for the last few years. In addition, the fact is that you are now at a higher starting point now and given that valuations have risen, we would expect to have lower returns in the future. Our expectation, going forward, is still that our median returns are about 8% or so, rather than around 17%, which we have seen recently. You cannot expect to get a 17% return all the time. If your median is 8%, you are going to expect to have something somewhat lower than that over time.

Matt Craig, IIN: *Do you still expect to see attractive growth in certain markets? If so, which?*

Matt Whineray, NZSF: Our base portfolio, which is what we call our reference portfolio, is tilted towards growth assets. The core for reference portfolio construction is 80% growth assets, which is comprised of 75% global equities, 5% New Zealand equities and then 20% sovereign bond and credit. In our reference portfolio, we have a strong growth bias and that reflects our mandate, which is to maximise returns over a long period of time, without undue risk and that reflects the risk tolerance of the board. Away from that, over and above the reference portfolio, we are longer equities than in the reference portfolio, so we own a bit more in emerging markets and a bit more in Europe. We are short bonds versus the reference portfolio; those are our tilts. We have a strong growth bias in the reference portfolio and are a little bit above that in the actual portfolio at the moment.

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[2] *On November 19-20, 2015, the OECD/Euromoney Long-term Investment Financing Conference took place in Paris. Matt Whineray, Chief Investment Officer at the New Zealand Superannuation Fund was scheduled to speak at the event, taking part in a panel discussion on long-term investment in a volatile market but was subsequently unable to due to the events in Paris just before the conference. This interview was taken prior to this occasion.*

Joel Paula, OECD: *Can you describe what has led NZSF's strong performance in the near term?*

Matt Whineray, NZSF: A big chunk of it is driven by the asset allocation that we choose in the reference portfolio. Having a strong weighting for equities has, over the last few years, driven a strong performance in the reference portfolio. Over and above that, we have added quite a lot of value from our active strategies. Those include strategic tilting, which has been a big contributor to fund returns, but also some of our other unlisted strategies. Timber has been a big contributor and a couple of our hedge fund investments have been strong contributors over time as well. Last year, for example, we had a total portfolio performance of slightly over 14.5%, so we had a value add of roughly 4% or slightly more. We outperformed the reference portfolio, which is our benchmark portfolio by a significant margin. That was largely driven by that tilting strategy, where we take broad market positions. A good chunk of that came from our currency tilting last year, driven partly by weakness in the New Zealand dollar and strength in the US dollar. We have made money because the markets have been good and we have also because we managed to add a bit of value over and above that market performance.

Matt Craig, IIN: *How much of an issue is volatility to you?*

Matt Whineray, NZSF: We don't have any explicit liabilities and our mandate and our legislation is to maximise return without undue risk, so we deliberately choose to have a big growth exposure in the reference portfolio. We know that when we make that decision, there'll be a lot of bouncing around from month to month. We have seen that in the last three months and we are a highly transparent fund; you can read all about us on our website and we publish monthly results. Monthly results for a very long term fund are going to have a lot of noise in them, but it is just part of our commitment to transparency. We have just published them today for September and we saw a -2% or so figure. We often have discussions with local media here, Adrian [*Adrian Orr, NZSF CEO*] had one last month, when the fund was down 1.4 billion and they said 'isn't that terrible and what are you doing about it?' Our response is, 'Well, apart from perhaps buying some more equities, because equities have got cheaper, we're not changing our asset allocation in response to that'. That's the noise we would expect from a fund with this much equity exposure. We are certainly conscious of it but that short-term noise doesn't affect our long-term investment decisions.

Matt Craig, IIN: *Can you describe some of your investment beliefs as a long-term investor and also how you think about the definition of being a long-term investor?*

Matt Whineray, NZSF: We take a simple approach to that and say a long-term investor is one that can hold an investment strategy for as long as they want. The key point is that you are never forced to sell something.

There are a couple of components that go into being a long-term investor. One is that you have a long time horizon from a fund prospective and we do. We expect to start paying money back to the New Zealand government in about 2030. The way that the formula works, we would still expect to grow through to about 2080, so we are going to continue to grow for another 65 years. The other key thing is that we know what our liquidity requirements are. Those two things are really important to be a long term investor.

In terms of our beliefs, as a result of the combination of those two endowments, the long horizon and the certainty of our liquidity needs, we're able to withstand month to month, or even year to year volatility, if we think that over time we're going to get paid for taking that risk. That informs the reference portfolio with a significant growth component in it, but it also informs the strategic tilting strategy, which relies on that long-term horizon, because what we say with that is that we expect markets to return to the mean over time, even it if takes a number of years. So we may underperform our benchmark by a significant margin while we wait for markets to return to the mean expectation that we have. That strategic tilting strategy is a very important manifestation of our long horizon.

Some other manifestations of our long horizon are our investments in forests and farms. We think they are good diversifiers but we wouldn't want to sell them in a hurry if there was a downturn. That's been another focus for us in terms of exploiting that long term horizon.

Matt Craig, IIN: *What other assets do you hold where you are providing capital over the long term?*

Matt Whineray, NZSF: We have some infrastructure assets, held directly and through funds as well. At the moment, we think that infrastructure, particularly core or brownfield infrastructure, is a bit expensive. That's largely driven by our view on bonds being expensive and there being a significant fixed income factor in infrastructure returns.

The key criteria is, is it going to improve the performance of the portfolio? Are we getting compensated for the risk that we're taking on? We do have some emerging market exposure in the portfolio, mostly in listed assets but we do have some unlisted fund exposure, both in real estate and in infrastructure. We have some other domestic infrastructure assets. Regulation and regulatory changes can have a big impact on infrastructure returns. More broadly in infrastructure, there are some interesting opportunities but there is a fairly limited supply of what investors would think of as easily investable structure. More and more investors are saying, 'Yes, we'd like a bit of infrastructure in our portfolio. Let's add it in'. As a result of that, you have seen prices move quite a lot in the infrastructure space for brownfield, core infrastructure assets.

Matt Craig, IIN: *Have you ever come under government pressure to invest in areas like infrastructure?*

Matt Whineray, NZSF: No, we have not and that is a great benefit to us, that independence is really important. It is part of our legislation, we have an independent board and make investment decisions on a purely commercial basis. That independence of governance is really important. We don't get told by the government 'go and have a look at this or that'. That's critical because we've got a mandate and you can't serve two masters. If you try and do that you'll disappoint both of them. However, there is a desire around the world, and New Zealand is not alone, in terms of getting more money in to infrastructure. One of the difficulties is that what governments want is new infrastructure, but what investors find easiest to price is old infrastructure, that has already constructed and doesn't have any construction risk. Infrastructure where the demand levels are already established so, for example, on toll rolls, you don't have any risk around how many people are going to drive on them once they open. You know, it's getting money in to the greenfield infrastructure which is where it's really needed whereas investors find it easier to go in to the brownfield stuff. That's the challenge for, sort of, governments around the world, I think which is being able to channel invested money in to greenfield infrastructure and that's a tougher thing to do.

Matt Craig, IIN: *Does the fund invest in greenfield infrastructure?*

Matt Whineray, NZSF: We made a commitment to a New Zealand fund which was established a few years ago to focus on what was called social infrastructure. PPPs focused on providing, for example, roads or schools or prisons and that is invested in some New Zealand school projects. It is invested in a new prison that's being built and also in a convention centre. We found a structure that we were comfortable with, in terms of being able to direct some money in to those greenfield opportunities. We haven't done it offshore, it depends a lot on the nature of the manager and the structure that is put in place. One of the difficulties with infrastructure assets is that they often are in private equity fund structures where, in order to pay an infrastructure investment manager, you have to sell an asset that you'd like to own for quite a long time, to be able to pay them their performance fee. The fund structure is inconsistent with the underlying asset. Trying to find structures that are consistent or coherent with the underlying asset is a problem for infrastructure investors generally.

Matt Craig, IIN: *Are you getting more interest in the ethical or environmental social and governance aspects of investing? Is that becoming more prominent on the radar?*

Matt Whineray, NZSF: It is something that is increasingly being integrated into the whole investment process. It's not just a, 'let's have a look at it at the back end of an investment due diligence process' and saying, 'do the responsible investment people like this or not?' Rather, it is a question of 'where should we be allocating our risk and how do we take in to account the risks that are presented by environmental, social governance issues?' You are increasingly seeing investors develop investment beliefs specifically around ESG which is an important way of formalising it in to a strategy and putting more demands on managers in terms of how they are thinking about and managing these risks.

The full interview can be found on: http://www.oecd.org/daf/fin/private-pensions/2015-oecd-euromoney-lti-conference.htm

Summary of the interview with Chris Hitchen, CEO, Railways Pension Trustee Company, the Investor Intelligence Network (IIN) and the OECD

Key Issues for Long-term Investors from Greenfield Assets to Action on Climate Change

On November 19-20, 2015, the OECD/Euromoney Long-term Investment Financing Conference took place in Paris. Chris Hitchen, Chief Executive Officer, Railways Pension Trustee Company (Railpen), spoke at the event, taking part in a panel discussion on long-term investment in a volatile market.

Key points:

- As a return-oriented pension fund, the Railways Pension Trustee Company (Railpen) has an annual real return target of inflation plus 4%, which it aims to make by market returns plus an additional 100 basis points from variety of means.
- In the last couple of years, it has revised its governance and investment strategies in order to meet its investment objectives. It is now focussed on greater use of in-house investment and a more direct approach to areas such as private equity and hedge funds.
- Another live debate is over possible action on climate change. Chris Hitchen commented: "We are driven by our fiduciary duty and are very cognisant of the fact that we don't want to deliver pensions in a world that is so diminished that it is not worth living in. For me, all of these things join up by thinking what is likely to lead to the best long-term returns."

The Railways Pension Scheme is one of the UK's largest pension funds, managing over £21 billion in assets for over 100 employers and over 350,000 members and pensioners. Its assets are managed by the Railways Pension Trustee Company (Railpen) and its chief executive, Chris Hitchen, spoke to IIN European content director Matt Craig.

On Railpen's return-seeking approach

"We do set out our stall to be a long-term investor and frankly we need to be. Unlike many other pension funds we are primarily return-oriented, rather than liability-matching oriented. The railways pension scheme is sectionalised for different employers and the largest part is train operating companies and Network Rail. It is open to new entrants, so it is still accruing final salary benefits. Also we have a shared cost funding approach, so the long-term cost matters both to employers and members. Our job is producing good long-term real returns, and in order to do that we have to ride out market cycles to some extent.

"We have a relatively high allocation to real assets and we think in terms of risk factors, not assets, for asset allocation. The equity risk factor is by far our most important return driver. In a low return environment, we don't want to leave many scraps on the table, so we do some judicious tilting of the portfolio to take account of the relative valuations between assets."

On its real return target

"We have a long-term real return target of for most assets. We aim to achieve RPI (the Retail Price Index, a UK inflation measure) plus 4% a year in our main Growth Pool. We know that in order to get that we have to take what the market gives us and add 1% on top of that by a combination of methods.

"As a way of judging how we are doing, we have a reference portfolio, which is a simple equity-bond composite. We set out to beat it by 100 basis points over a rolling three-year period by a combination of means, including investing in illiquid assets and some use of tilting, as well as setting a strategy which is geared towards sources of value.

Improving Governance

"We did quite a lot of work with Roger Urwin at Towers Watson on the way we thought about governance [*Railpen's Investment Transformation Programme which started in 2013*]. We did this thinking on re-organising governance and decision-making a couple of years ago, but we are still putting some of the building blocks, to make the fund governance as good as it can be, into place. We want to be a world-class investor and believe it is partly about having world-class governance. The trustees agreed to replace their investment committee with a professional investment board, the majority of whom are professionals with investment knowledge. We also have complete ownership of the investment outcomes, which means that there is a much greater tendency to manage assets in-house, so we have greater control. One corollary of that is reducing the amount spent on external managers and cutting out complexity. Unless we clearly see the value added, we are much more judicious in our approach to using external managers."

Using Real and Illiquid Assets

"For real estate, we have been fortunate in having a stable outsourced real estate team for 25 years. With any team one has to keep succession issues under review. For private equity, we are looking to invest directly and are trying to find places where our capital is wanted, but we do not want to compete head-on with say, the large Canadian funds, as they can write pretty big cheques. We will certainly collaborate if opportunities come up, but some institutions seem to require a lower rate of return than we do. We are quite choosy about what we are willing to invest in; we are only going to invest where there is a need for our money and our expertise is valued as part of the partnership. Origination is the difficult part of private markets and we accept that we are going to need to work with people to get access to the best opportunities."

The Infrastructure Mismatch

"The problem with the first wave of infrastructure vehicles from the mid-2000s is that they contained blended pools of assets managed in a private equity style. That meant there was a misalignment of incentives between us and the manager; we wanted long-term, inflation-linked cash flows and they wanted capital appreciation. Many funds learnt from that experience.

"We now participate in the Pensions Infrastructure Platform [a UK platform for pension funds to collaborate on infrastructure investment] and I think that has considerable potential to change the terms of trade between UK pension funds and infrastructure providers. There are precedents for it, such as the IFM in Australia, which is a successful infrastructure manager owned by Australian superannuation funds. We are moving in the right direction, but there is probably quite a way to go. The problem right now is that there is a still a shortage of supply of the right kind of asset and yields tend to be bid down to the point where they are not attractive."

Infrastructure and Co-Investing

"Different funds have different requirements; we are not the same as other PiP members. There is some flexibility in the PiP structure to allow different members to take different pieces of a transaction and collectively we are still stronger than we are individually. Co-investing very much fits with our approach of trying to reduce our overall costs, on the basis that costs are certain but returns are not. It is one way to get costs down, but it is important to be careful here, as there are a number of studies showing that returns from co-investments are lower than returns from funds in the private equity space. This could be due to particular vintage years attracting too much money, but it shows that you have to take each opportunity on its merits. If the numbers stack up with the risk-return profile we look for, we will do a deal, but if not, we won't."

On Governments Replacing Infrastructure

"Larry Summers made the point; if you can't renew infrastructure when interest rates are near zero, then when can you do it? The counter argument is that Japan tried this and built a lot of roads to nowhere in the nineties. There is a tendency for governments to see institutions as free pools of capital that they can use to achieve political objectives, whereas I interpret our fiduciary duty differently. It drives everything we do and whilst we very much want to be part of the solution, it has to be on terms which are financially acceptable to our members and stakeholders."

Greenfield Infrastructure Assets and Railpen's Approach

Because our scheme is sectionalised, every employer has their own liability balance sheet, so we can't run one investment strategy. We have to cluster them as far as we can. We have a small number of pools of capital and the largest pool is the growth pool. Our diversified growth fund is aiming to achieve inflation plus 4%. We also have an illiquid growth pool, which is really private equity in various forms, where we aim to achieve inflation plus 5% to 6%. At the other end of the scale, we have a long-term income fund where we are happy to take on illiquid investments with a stable cash flow, so its target is inflation plus 1% to 2%. So greenfield infrastructure has to stack up against private equity."

"One piece of thinking that we are still working through is that an asset could potentially move through our framework of different return pools over its lifecycle, for example starting as a greenfield asset in private equity, moving through to an illiquid asset providing a stable cash flow. But it would have to make sense for an asset to fit into each strategy over each stage of its life-cycle".

Hedge Funds

"We do have some hedge funds, but fewer than we used to. It was treated as an asset class in portfolio construction, even though we knew it wasn't, and was run as a highly diversified fund of funds. We have now changed our approach to hedge funds and we use them now if they can provide something very specific; a source of return we cannot obtain elsewhere, or for vital investment intelligence which we get from a manager. We try to identify the underlying source of returns in a portfolio and that makes us reluctant to pay alpha prices for inflated beta."

Emerging Markets

"We try not to follow a market cap weighting and increasingly we are expressing the equity portfolio by exposure to a number of different alternative risk premia. This gives a different blend of risk and return to building up an equity portfolio through conventional asset allocation. We also think about emerging markets separately although there are two schools of thought here. One is that valuations are more attractive than developed markets and we certainly have run overweights in emerging markets historically. The other school of thought is that the world is increasingly about knowledge companies, rather than manufacturing companies and these are found more in developed markets, than emerging markets. This is an investment debate we are having on where long-term growth will come from."

Climate Change and Divesting or Engaging with Carbon Producing Companies

"It is live debate here and there are several strands to our approach. A significant part of our approach is to engage with companies, because we believe that company management should be a major part of our approach as an asset owner. We really want company management to manage our capital for us, so we look through the fund manager to the management of underlying companies. We are trying to encourage companies to see this holistically and to take a long-term view themselves. If certain companies, or even certain industry sectors don't get it, should we avoid them? It is something that is under active consideration but we have not yet concluded our thinking on this. We are driven by our fiduciary duty and are very cognisant of the fact that we don't want to deliver pensions in a world that is so diminished that it is not worth living in. For me, all of these things join up by thinking what is likely to lead to the best long-term returns. So for instance, are we holding too much in what could become stranded assets and so not conducive to long-term returns? Essentially, it is a financial argument framed by a long-term perspective."

Summary of the discussion

Panel I: Long-term Investment in a Volatile Market: Investment Policy Implications

> *"A long-term investor might simply mean someone that does not like the present."*

On long-termism: The first panel of the day consisted of a lively discussion on the principles of long-term investment, and on how members would describe what long-term investing meant to them. One panellist stressed that it is important to focus on outcomes instead of paying too much attention to volatility, and to evaluate success over a very long time horizon. Another panellist described the importance of being able to act in an unconstrained manner, and to not be limited by liquidity issues. In pre-interviews for the panel, a member indicated that a long-term investment philosophy is simply stated as never being forced to sell something, which again implies that long-term investors have long-term liabilities and do not need to hold excess liquidity, providing that funds are able to meet any potential short-term liquidity requirements such as benefit payments, margin calls[3] or capital calls.

Financial markets themselves present information in a rapid continuous basis, and it is tempting for investors to react to news – however focusing on long-term opportunities requires resisting short-termism and to instead look at long-horizon performance objectives. While it is important to overcome short-termism, there may be opportunities on the margin to benefit from short-term dislocations in markets – tactical portfolio allocations are designed to take advantage of such situations without sacrificing long-term objectives. As an example, the New Zealand Superannuation Fund has been successful in implementing a dynamic asset allocation. The fund has added value through strategic tilts to the primary asset categories (such as growth) which is essentially a long-term mean reversion strategy to valuations.

The Canadian Pension Plan Investment Board (CPPIB) has moved from an essentially traditional portfolio of public equity and fixed income in 2005 to a diversified portfolio that invests nearly 45% in alternative asset categories. Asset allocation, for the most part, is anchored around market-based indexes, but the question was posed as to the need to overcome "anchoring bias", looking beyond traditional asset allocation techniques.

Aligning long-term investment goals with remuneration is an important objective, yet one panellist experienced push-back from consultancies and other agents. Five years seemed to be the maximum amount of time that remuneration could be linked to long-term performance objectives. Still the point was made that linking remuneration with long-term objectives should become more standard.

The low interest rate environment and quantitative easing: A panellist's observation pointed out that quantitative easing has contributed greatly to volatility in currency markets as assets are pushed into foreign markets seeking higher returns. Once QE reverses, volatility is likely to switch to rates

[3] More on the issue of margin calls on derivatives is explained in the summary notes in Panel II: Regulation and Long-termism

markets. According to a panellist, 75% of EU government bonds trade at negative rates. Switzerland was able to issue 10 year government bonds at negative interest rates. Panellists generally agreed on the call for less central bank activism and the need for better structural reforms in financial markets, although the example of Japan, which embarked down the QE road years ago, throws another dose of uncertainty in the mix as Japanese inflation has not been reignited in decades. Although a benefit of QE has been a lower cost of capital for investment in Europe and the US, it hasn't had the stimulative effect that policy makers had hoped for.

What followed the conversation on QE and its effects on long-term investors was a general discussion about how public capital markets are failing at their primary function of channelling productive savings into investment. The flow of capital has been reversed by corporations who engage in share buybacks and aggressive dividend strategies. Despite the run-up in equity markets, a price bubble does not seem apparent as P/E ratios are not excessively high, but perhaps what is a bubble are the corporate actions that provide an illusion of shareholder value when in fact corporations are not creating long-term investment opportunities.

This underscores the attractiveness of private market investments and direct infrastructure investment, where funds have increased their exposures. A panellist mentioned the continued opportunities in credit disintermediation. Institutional investors may, through direct lending strategies, benefit from current market conditions in credit markets. The attractiveness of infrastructure loans was discussed, particularly as a way to diversify fixed income exposure.

<u>What is the way forward</u>? It was clear that having a long-term view on investment, and matching this view with beneficiaries' beliefs, is key to achieving financial success, according to one panellist. However, the economic realities of some pension systems are under severe stress due to many reasons. As it is, a panellist mentioned that revisiting pension promises may be necessary in some cases. In the future, a greater amount of risk sharing in pension design in defined benefit schemes (and/or hybrid schemes), or a greater reliance on defined contribution schemes was thought to be likely.

Besides looking at available returns, the issue of reducing costs and revisiting expensive outsourcing of asset management is an important trend amongst large institutional investors. As one panellist mentioned in a pre-session interview "costs are certain, returns are not". Direct and co-direct investments have been a way for funds to lower expenses, and to better align investment objectives.

A question from the audience suggested that the Silver Economy should be viewed as an investment opportunity. This is the most experienced and wealthiest part of the economy. Viewing demographics in this light – as an opportunity, instead of a looming economic problem – fuelled an interesting conversation amongst panellists about the future of pension funds.

OECD Role

The OECD is leading international policy analysis and standard setting on the role of institutional investors in long-term investment (LTI) financing, but is also developing several other projects related to the financing of LTI including, for instance, a multiyear project on the analysis of market-based and governmental initiatives and instruments promoting long-term investment financing. An important element of this work is the OECD Annual Survey of Large Pension Funds and Public Pension Reserve Funds, carried out under a G20 mandate and now in its fourth edition. The purpose of this exercise is to monitor and compare the investment behaviour of some of the world's leading pension funds in each region or country, analysing in greater depth the general trends observed at a national level. This information is used to inform regulators and other policy makers in order to help them better understand the operations and interests of institutional investors in different countries and regions, yielding important insights necessary to produce appropriate regulation, while also being of value to investors. The OECD is also analysing the role of institutional investors in financing the low-carbon transition.

G20 Leaders emphasised the importance of boosting investment, particularly for infrastructure and SME financing at the recent Antalya Summit in November 2015. The inclusion of institutional investors and the use of alternative capital market instruments and asset based-financing models in these processes were highlighted as areas of work to be continued. The OECD continues to contribute to this global effort, notably through the G20/OECD Task Force on Institutional Investors and Long-Term Financing.

OECD Long-term Investment Project

Raffaele Della Croce, Lead Manager, LTI Project, OECD

Keynote Address: ***Investment Financing in the European Union***

Ignazio Visco, Governor, Bank of Italy

Panel II: Regulation and Long-termism: Addressing Barriers to Long-term Investment Finance

Solvency regimes are essential to ensure financial stability; however they should not unduly undermine the ability to take a long-term view. The creation of separate risk categories in the Solvency II regime is a step in the right direction (in particular the reduced charges for qualifying infrastructure equity investments), but recognising the long-term nature of some capital investments needs to be further acknowledged in regulations. According to one panellist, what regulators should do is link assets and liabilities in determining solvency regimes and in accounting practices. For example, a speaker representing an insurance company mentioned that they do not mark assets to market on the balance sheet, yet their asset management company that manages money for external clients must mark assets to market. It is therefore difficult to find asset managers that are in-line with the insurance company's long-term investment horizon.

"One of the good things to come out of Solvency II is eliminating investment caps on certain asset classes. Insurers are now investing in direct lending, for example."

Some pension funds face solvency tests such as achieving certain funded ratios. If a Dutch pension fund, for example, falls below a coverage ratio of 105%, it must submit a recovery plan. Because both assets and liabilities are reported at market value, this can significantly impact a fund's ability to take a long-term view, since it is now much more concerned about compliance with a shorter-term solvency requirement. Mark-to-market regimes also promote pro-cyclicality in markets, according to another panellist.

The issue of derivatives market regulation is particularly important for institutional investors. In the words of one panellist, insurance companies are treated as "traders" in the Solvency II framework. There is no distinction between derivatives used for hedging purposes versus those used for speculative purposes. Insurance companies mostly buy long-term derivatives contracts for long-term risk management. Furthermore, only accepting cash as collateral forces insurers to hold excess cash, increasing expenses.

The same could be said for pension funds that use OTC derivatives: pension funds would have to post the same collateral as for example a hedge fund engaging in speculative derivatives trading, tying up liquidity that could be used for other purposes. A pension fund using derivatives to hedge liability exposure, for instance, is thus forced to bear an extra cost.

The scarcity of bankable infrastructure projects is related to market regulation and the policy framework. According to one panellist, infrastructure investments are attractive, yet it is very difficult to find good infrastructure projects. Most are in developed markets, and there is a lot of competition for quality assets, which can lead to high prices. In Europe, the Juncker Plan is welcomed by insurance investors for addressing issues such as the need to develop a pipeline of projects, the removal of investment barriers through reforms, and the use of public money in the procurement process. Having a fully transparent process in the creation of the pipeline can also limit the financing of "vanity projects", meaning those projects that have low viability but are politically popular.

Are we assuming fragility in the financial system? With financial institutions that are adequately capitalised, monitored by regulators, risk-aware through thorough risk management processes, and suitable transparency is in place to limit systemic concerns, uncertainty in financial markets would diminish. Yet, as pointed out by one panellist, the assumption that market fragility will persist has a feed-back effect in risk taking and the policy response.

OECD Role

A review and analysis of investment regulations governing pension funds and insurers has been undertaken and delivered to the G20 Finance Ministers and Central Bank Governors in September 2015. This report builds on existing OECD information on investment regulations for pension funds and insurers. The report first presents a conceptual framework to assess the different regulations that exist across countries for pension funds and insurance companies. Secondly, the report looks at the existing investment regulations for pension funds and insurance companies with respect to quantitative limits, risk-based requirements and qualitative requirements. Thirdly, the report provides a preliminary assessment of the implications that these regulations may have on the investment strategies pursued by pension funds and insurance companies. The OECD and other international organisations continue to research the impact of regulation on the asset allocation of institutional investors, including the possible effects of recent reforms.

Interview Session: ***Impact of Tax Reforms Discussed at G20 Level (e.g. BEPS) on Institutional Investors***

Tom Neubig, Deputy Head, Tax, Policy & Statistics Division, OECD
Interviewed by Giada Vercelli, Content Director, Euromoney Conferences

Special Session: ***Keeping Promises in a Low Interest Environment – Pension Funds and Insurance Companies: Can the promises be kept?***

Adrian Blundell-Wignall,
Special Adviser to the Secretary-General and Director, Directorate for Financial and Enterprise Affairs, OECD

Panel III: Emerging Markets: Long-term Finance as a Vehicle for Growth and Development

The macroeconomic conditions in emerging markets: Panellists noted the divergence in emerging economy performance, which over the recent time period has been the result of several factors. First of which is the decline in commodities markets, led primarily by energy. Oil and natural gas exporting countries have suffered much more, while energy importing countries have benefitted from a lower cost. The effects of quantitative easing in developed markets have also affected performance in emerging countries: very low interest rates in the US, Europe and Japan have had the effect of pushing liquidity and return seeking capital into emerging markets, most notably into local currency bond markets.

Some local currency bond markets have grown to include a larger percentage of foreign ownership, which can contribute to volatility in interest rates. Asset managers that invest in local markets can quickly change their investment strategies, and are not necessarily long-term holders of local bonds, like some pensions or insurance companies. A question from the floor asked whether investment managers that own large amounts of local debt should be described as systemically important. When considering financial shocks, such managers may provide conduits to transfer risks to emerging markets, or exacerbate volatility in local markets.

The last ten years has seen a great deal of liberalisation in capital markets in emerging countries, yet this is not guaranteed in the future. With increased volatility (particularly in capital flows), a return to greater capital controls (for example as seen in Nigeria) may not be ruled out.

Even with a decline in near-term growth in emerging markets, one panellist affirmed their view that the majority of future global growth will still originate in emerging countries, and that long-term investors who seek growth assets will continue to be attracted to emerging markets investment. The need for investment is large in emerging countries, yet with a general lack of domestic savings for large scale investment (especially infrastructure) foreign sources of capital are still important in meeting investment needs.

As compared to 2012 levels, government debt levels are not that much different in the recent time period. There has been growth in emerging corporate debt levels, primarily in hard currency markets. The cycle of credit upgrades in emerging countries ended a few years ago, now with some downgrades occurring. One panellist expects local corporate debt markets to grow, but very slowly and unevenly across different countries.

ICurrency risk is a major consideration in emerging countries. Volatility has been extreme in the recent time period, with some currency pairs dropping 30-60%. According to a panellist, one way to deal with currency risk is to maintain a long-run view, as currency risks tend to wash out over long-term periods (mean reversion). Developing markets may also go through periods of real currency appreciation. In the short-term hedging is an option, when costs are reasonable.

"Within emerging markets, [CPPIB] thinks that the global organization can increase access to more and better developing opportunities. These are also a source of diversification and offer different risk premia."

Infrastructure investment in emerging countries: For international investors, investment in emerging markets infrastructure is still quite low. Political and conflict risk are a big reason for this. Much of the investment has also been led through private equity type structures, which aren't necessarily ideal for long-term investors (due to their often shorter-term lifespan). For domestic investors the story is very different. Some pension funds, particularly in Latin America, have significant investments in infrastructure equity and debt. In order to encourage more local investment in infrastructure, institutions need to play a crucial role to enhance project structure and to provide security. Some countries do have a track record in local infrastructure procurement involving the public sector. There are also cases where sovereign wealth funds have taken a lead role in a project, seeking to attract other investors.

Turkey has been successful in implementing PPP contracts for infrastructure procurement, particularly in social sectors such as healthcare. Much of the private finance in Turkish infrastructure has come from external investors. ESG issues have been an important issue in the domestic Turkish market and there has been demand for projects to meet these criteria. Such projects present a strong link between investment and development objectives in health and general well-being.

OECD Role

The OECD is bringing together several relevant work streams to promote finance for development. At the G20 level, OECD is contributing to the Infrastructure Investment Working Group and the Development Working Group, including through a note on risk perception in Low Income Countries, focusing on infrastructure investment. The OECD is also undertaking research to on institutional investors as a source of capital for sustainable development and on leveraging private and public sector capital for infrastructure in developing economies. The OECD Policy Framework for Investment and G20/OECD Principles of Corporate Governance aim to foster the domestic investment environment in emerging economies.

The Sustainable Development Investment Partnership, an ambitious joint initiative of the OECD and World Economic Forum is seeking to close the financing gap required to achieve the Sustainable Development Goals by mobilizing USD 100 billion in private financing and investment for infrastructure projects in developing countries over 5 years. To achieve this, innovative financing and risk sharing techniques will be explored. The Partnership also includes several governments and large institutional investors. The OECD is also playing a key role in a global social impact investment initiative launched in 2013 during the U.K. Presidency of the G8. While social impact investment can bring greater effectiveness, innovation, accountability and scale for the economic and social benefit to all economies, a growing share is invested in developing markets.

Panel IV: Infrastructure Investment: Moving from a Niche to Mainstream Investment

Panel IV began with a debate on the role of the public and private sectors in infrastructure procurement. Getting risk sharing right between the public and private sectors is important for sustainability. In developed markets, private sector provision of infrastructure does not necessarily relieve budgetary pressures. Here, differentiating between the funding of infrastructure (who ultimately pays) and the financing (upfront capital invested in infrastructure), is the distinction. For example, a road capitalised by private sector investment still may rely on government funding if availability payment contracts are used. This can still burden the public sector, and splits the risk between private (project and construction risk) and public (revenue risk, demand risk).

> *"A global infrastructure pipeline would consist of a list of priority projects with the greatest benefits relative to costs, requiring coordination amongst countries"*

Interest rates are so low right now in developed markets that governments can lock-in long-term financing at attractive rates for infrastructure investment. Furthermore, providing the cost/benefit analysis is favorable, such borrowing and investing paves the way for the eventual repayment of debts and is not viewed as filling budget deficits. There needs to be more stress placed on quality infrastructure investment in order to have the greatest economic impact, especially given limits imposed on public debt.

PPPs have not been universally successful and are not a panacea to infrastructure procurement by the private sector. A panellist pointed out that PPPs have been very successful in Canada, but less successful in the UK; although the point regarding the UK was debated by several panellists and the audience. In the opinion of one audience member "bad projects were chosen by bad public servants" leading politicians to "blame PPP as a concept". In general, the question of how to describe success in PPP and PFI is open and ill defined.

One panellist talked at length about the experiences in Germany, where the reputation of PPPs was somewhat tarnished. With the decline in trade and transportation due to the global financial crisis, PPPs that were initiated by local authorities did not perform well. Going forward, building trust in private sector investment is necessary in Germany, and the government can play a role in doing this. A potential solution is for Germany to reform and expand the PPP advisory agency, making it neutral and independent from the private sector, and allowing it to advise on conventional public investment project in addition to PPPs . The hope is that demand from local government authorities for this service will increase as the agency proves to be independent and builds trust in the public sphere

The German government realises that the private sector cannot solve fiscal problems. Even if infrastructure projects could in principle switch from tax funding to user funding, people may not be willing to pay fees for a service that was previously free without first demanding lower taxes. This strongly relates to replacing aging infrastructure or renovating brownfield assets in OECD countries

Australia's experience dates back to the early 1990s, where initially there were many successful toll road projects financed and built by the private sector. Later, demand forecasts became too loose as the sector matured and there were a number of defaults where equity was completely wiped out, and debt holders experienced losses. Since then, risk management has improved. Now, roads are built by the government: once they are in operation for two to three years, they are sold to the private sector as equity investments when the demand patterns are understood and there is long-term visibility.

One panellist pointed out that equity investment provides the incentive for private investment to be efficient. In many instances, the private sector does not actually own the asset, but instead enters into a long-term contract, which is like a lease on the asset. Therefore the contract modalities are extremely important in determining value. Furthermore, there should be mechanisms for the contracts to be revisited in the future where necessary.

It is important for investors to spend more efforts on understanding what the level of risk in infrastructure truly is. There are several initiatives supporting efforts to establish an infrastructure benchmark, and to address data gaps. Another factor is that ESG risk in infrastructure still needs to be thoroughly examined. ESG risk is more important in long-term, high visibility projects like infrastructure, where for example negative environmental consequences can be devastating.

A global infrastructure pipeline needs to be not just a list, but a prioritised, organised, informative (impact analysis, financing needs) list of projects that is coordinated between countries. There is also a distinct need to coordinate efforts across institutions working to build infrastructure pipelines and address data gaps.

Ultimately, taking infrastructure from niche to mainstream requires judging whether infrastructure makes sense as part of the strategic asset allocation. Determining whether infrastructure assets have an attractive Sharpe ratio and low correlation to other assets is at the heart of this process.

OECD Role

The OECD is taking a multi-faceted approach to research infrastructure investment. As part of this effort, the OECD recently published a taxonomy which describes comprehensively the capital market channels for the financing of infrastructure, along with risk mitigation mechanisms (instruments and incentives) the public and private sectors can use to leverage financing in infrastructure in particular targeting institutional investors (for example guarantees, grants, fiscal incentives, etc.). The annual survey of large pension funds' and public pension reserve funds' investment activities is carried out under a G20 mandate. A similar exercise for insurance companies has been launched.

Additionally, the OECD is preparing a data collection exercise on infrastructure investments at the micro level to address the lack of comprehensive financial information. In this effort, the OECD is exploring further collaboration with other international organisations (FSB, IMF, World Bank Group), and private sector initiatives.

Panel V: Good Governance and Long-term Value Creation

“An investment policy statement should clearly describe the change you want to bring about in the companies you invest in.”

Panellists led a discussion on the factors and practices that lead to good corporate governance and sustainable value creation. One panellist noted that there are three critical steps to introduce long-term value creation into an organisation. They are: 1) creating a policy and investment beliefs statement; 2) Clear statement of investment managers’ incentives and oversight, including ESG monitoring; and 3) Engagement with companies and policy makers. Most investors track investment performance primarily through investment returns. Good practice includes evaluating portfolios both before and after ESG criteria and risks have been included. In addition, a growing number of institutional investors are committing capital to finance organisations or projects with the explicit expectation of a measurable social, as well as financial return. These social impact investments go beyond ESG in that they seek to proactively address particular social or environment challenges.

One panellist mentioned that it is important to their organisation to ensure that the governance framework and investment beliefs are in-line with those of their constituents. This is in fact a regulatory requirement. Governments are getting more involved in aspects of fiduciary duty and are considering how supervisors and regulators can play a role in shaping institutional investment practices. For instance, the Dutch Central Bank made responsible investment a priority in 2016.

Fiduciary duty and ESG considerations: In some jurisdictions a re-visiting and potential reformulation of fiduciary duty is being considered. This would involve a reinterpretation of legislation and regulatory guidance on fiduciary duty to explicitly include ESG criteria. For example, the Dutch legal formulation of the prudent person principle refers explicitly to ESG. In the Netherlands, regulators are working with investors to understand what their capabilities are and to monitor ESG.

According to one panellist, Modern Portfolio Theory is based on Sharpe ratios and correlations and is blind to systemic risk[4]. “Fiduciary capitalism” theory is emerging: diversified long-term investors

[4] For example, it is observed that during extreme market events and financial stresses, the correlations between asset classes increase towards 1, diminishing the benefits of diversification. Systemic risks therefore affect all asset classes outside of the risk-free asset.

have a duty to examine the portfolio as a whole, not just stock by stock and using one dimensional metrics like standard deviation. Interconnections and intergenerational connections are important. This opens room for the usage of new tools and the consideration of systemic risks of climate change and other ESG considerations.

While it may seem that quantifying climate change risks is the endgame to this process, and this may be possible in the future as climate science and long-range forecasting becomes clearer, investors cannot ultimately put a number on climate change risk, costs and probability of events, according to one pannelist. This could be viewed instead as a systemic risk, which is difficult to quantify to begin with. When addressing systemic risk, one should not think about numbers. It is better to instead think about how to change corporate behaviour and to diffuse such risks.

An interesting question from the audience asked about the comparisons between Internal Rate of Return (IRR) and External Rate of Return (ERR), the latter of which captures macro-level effects of a project as opposed to just the micro-level inputs typical of IRR analysis. ERR may therefore capture the externalities of projects and provide a different investment signal as to investibility that may meet ESG criteria.

OECD Role

The updated G20/OECD Principles of Corporate Governance were endorsed by G20 Leaders at the Antalya Summit held on 15-16 November 2015 and include a new chapter on "institutional investors, stock markets and other intermediaries". The G20/OECD High-Level Principles on Long-term Investment Financing by Institutional Investors also address the topic of governance of institutional investors.

The Corporate Governance, Value Creation and Growth Initiative was launched in 2013 by the OECD Corporate Governance Committee. This initiative addresses how better corporate governance policies can support corporate access to capital, value creation and economic growth.

An OECD project on Responsible Business Conduct in the Financial Sector was launched in the summer of 2015. Through this initiative the OECD is engaging in a process with industry to clarify the potential approaches for application of the OECD Guidelines for Multinational Enterprises, particularly with regard to ESG due diligence, across financial products and services.

Opening Remarks, Day 2:

Juan Yermo,
Deputy Chief of Staff, OECD

Closing Remarks:

Angel Gurría,
Secretary-General, OECD

Panel VI: Long-term Investment and Clean Energy Finance

> *"A strong policy signal would be an important output of the COP21 meetings in Paris"*

Governments are starting to take action in response to climate change. China, holding the 2016 presidency of the G20, desires to make green finance a major theme in next year's policy dialogue. The three I's of the G20's Turkish presidency: Inclusiveness, Implementation, and Investment for growth, all include objectives for sustainable, balanced growth and also investment in energy efficiency and infrastructure. In France, the Energy Transition for Green Growth Act is an example of legislative action undertaken to steer the French economy towards energy efficiency and low-carbon energy consumption. Asked what the panellists expect from the COP21 meetings, members agreed that a global carbon price is not an expected outcome, but what is expected is a roadmap to attain carbon neutrality and to address climate change, with commitments to reduce emissions by countries.

Within emerging markets, there are two salient trends: decarbonisation for health reasons and decarbonisation for climate reasons. In developing countries where energy demand is growing rapidly, there is an opportunity to invest in new renewable energy infrastructure. Coal demand was flat last year and actually declined this year. Does this signal peak coal? One panellist pointed out that Europe had already reached peak carbon emissions in 1979, mainly by reducing coal as a source for power generation. At first this change was driven by health reasons – a switch to cleaner sources of energy.

Scaling up has occurred in some sectors of the green bond market. Issuance to finance energy efficiency projects and even some high yield issuance of green bonds are positive signals to the broadening of the market. So far, much of the issuance in green bonds has been highly-rated securities through multi-lateral development banks and corporates. Encouraging scale through more corporate and asset-backed issuance are positive developments.

The warehousing of loans for securitisation and developing a pipeline of investments can also help scale up the financing of green energy. More generally, panellists agreed that a better alignment of the financial system with the clean energy transition would help to unlock investment. Addressing barriers – whether regulatory or market based – is crucial to achieving this objective. For example, in smaller scale projects in renewable energy and energy efficiency retrofits, one panellist observed a lack of instruments – and suggested that perhaps crowdfunding could be a solution. Small scale loans could also be warehoused and later bundled in securitisations.

Project preparation funds were an idea raised by one panellist. Institutional investors, donors, and energy companies fund the preparation stage together, including preparation of bundles of small projects.

In order to deliver green financing governments can provide subsidies, or price the externalities, but it's also necessary to provide better understanding of the risks of high carbon investments. More information for the financial sector to incorporate climate change risks is needed. Notably, the FSB is starting work on this. Policy makers should open dialogue with investors to understand how they measure and capture climate change risk, and how they react to it. Institutional investors in this sense are of particular interest.

Regulatory uncertainty is an issue that must be addressed in order to build confidence in financial markets. How should one assess regulatory uncertainty? Long-term investment is supported by subsidy schemes in a lot of technologies. Some of these subsidies will go away, as technologies will diminish in relevance, but it is not always certain which. For example with batteries, energy efficiency gains may reduce needs for storage. However governments subsidise both batteries and energy efficieny technologies. Obsolescence is a risk also for policy makers, especially in times of fiscal constraints. Risk of obsolescence could be reduced by providing transmission and measurement technologies that are flexible, and that can be adapted to various generation technologies

OECD Role

The OECD is undertaking extensive research on the financing of sustainable energy infrastructure, led by the Environment and Financial and Enterprise Directorates. The report "Mapping Channels to Mobilise Institutional Investment in Sustainable Energy" was annexed to the communique of G20 Finance Ministers and Central Bank Governors in February 2015. It provides an in-depth examination of sustainable energy as a discrete sector within the category of economic infrastructure and contributes to the broader G20/OECD project on "Mapping of Instruments and Incentives for Infrastructure Financing: a Taxonomy". The OECD is significantly involved in the upcoming 21st Conference of Parties (COP21) in Paris. Relevant events organised by the OECD include: 3rd December: "Special Session on Climate Change and the Insurance Sector", OECD Insurance and Private Pensions Committee; 7th December: "Governance of Institutional Investments: Fiduciary standards for addressing Green Finance and the portfolio impact of Climate Change.", an OECD side event organised in collaboration with the UNEP; 9th December: OECD/IIGCC/ERAFP High-level Investor Breakfast at COP 21: "Institutional Investors and the low carbon transition" and 10th December, OECD/Bloomberg Green Bonds Roundtable.

Special Session:
Policy Conclusions and
G20 Agenda on Long-term
Investment

Background information

Background to Panel I

Volatility is a key concern for institutional investors. Institutional Investors such as pension funds and life insurance companies need to meet payment obligations that are spread out from the near-term to the distant future. Making long-term projections is always challenging, but even more so in a time of economic uncertainty. Low yields are a prime concern; however, over the long-term, low growth could have far-reaching consequences for institutional investors.

The macroeconomic environment plays an important role in investors' considerations and is key for asset allocation decisions and risk management processes. A prolonged period of low interest and growth rates leads investors to look beyond traditional asset classes such as cash, fixed income and listed equities. The economic, policy and regulatory environment is important in that it provides guidance for and supports the efficiency of asset allocation. Thus the effects of recent regulatory decisions in response to the financial crisis need to be carefully considered. Monetary policy has shaped much of the financial market environment, and while it has benefitted the economy, it also had costs; e.g. in distorting risk-pricing and thus asset allocation which need to be carefully monitored going forward. Fostering trust in the financial system, both from investors and the wider public, is crucial to underpin sustainable investment and growth.

Institutional investors are conscious of this challenging environment. OECD research shows an overall increase in alternative investment among large institutional investors, however this is not a universal trend. While using innovative investment processes and targeting smaller markets can provide a significant competitive advantage, it can also come with greater risk and additional regulatory concerns.

Issues for Discussion

- What are the most salient trends amongst institutional investors in this challenging investment environment? Much is said about the search for yield, but what about the search for underlying sustainable growth?
- Given historically low interest rates, what are the policy and asset allocation implications for institutional investors? What are the unintended consequences of current policies?
- In the post global financial crisis period, are institutional investors better protected against potential financial shocks? What are investor perceptions of financial risks? Do lower risks sufficiently compensate for lower yields?
- Overall trends in asset allocation indicate a continued increase in so-called alternative investments yet some funds are drastically changing some alternatives programmes citing high costs and lackluster returns. How can investors optimize allocations to alternative investments and maximize long-term value-added? What about direct lending and credit opportunities, and other yield-enhancing strategies?
- Is the regulatory and supervisory framework adequate to address shifting risk profiles of investors that embrace alternative asset allocation models (such as factor investing) and investments? Is the risk of being "different" an impediment to implementing non-traditional asset allocation techniques or asset classes?

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Background to Panel II

Institutional investors need to operate in their given regulatory framework. It is important for policy makers to ensure that high-quality, long-term investment decisions are not overly constrained by regulation. At the same time, regulation needs to ensure stable and transparent financial markets. This is sometimes a difficult balance to find.

Risk-based regulation of insurers has been a trend in prudential regulation around the world over recent years. They key to appropriate risk-based regulation is the understanding of what the real risks are that prudential measures aim to capture. In the case of long-term investments that are held to match long-term liabilities, the risks can be much different than the risks emerging from investments that are held for frequent trading. These differences should be appropriately captured in the design of the regulation, otherwise the wrong incentives can be created.

International, regional and national regulatory reforms in response to the most recent financial crisis could have an impact on long-term investment (such as Basel III, Solvency II, IORP II, and OTC derivatives reforms). Regulatory capital charges might make some asset classes unattractive, while tailoring capital charges to asset classes in an efficient way requires better data on investments. Solvency regulation and quantitative limits on asset classes might hamper the ability of investors to protect themselves against systemic risk, The valuation of balance sheet items is another important factor of regulatory reforms, potentially creating balance sheet volatility where assets and liabilities are not discounted using the same method and metrics. The implications for long-term investments need to be considered.

Accounting rules, binding actuarial assumptions, prudential oversight and broader financial regulation have been identified as potential obstacles to long-term investment. Accounting rules, such as valuing assets at market prices, might prove detrimental to long-term strategies. Inadequate assumptions about longevity made in the past have contributed to the current funding shortfall of life insurance and pension plans, putting pension funds and insurance companies in a difficult position to deliver on their promises. What should the regulatory response be to funding shortfalls in pension plans, without further undermining the economic position of pension funds?

A recent survey of FSB members indicated that while concerns about the possible negative impact of regulatory reforms on long-term investment exist, it is difficult to make conclusions at this stage. International organisations such as the FSB and OECD, as well as regulatory bodies such as EIOPA, are undertaking efforts to project the impact of such reforms. The uncertainty about pending regulatory frameworks further increases uncertainty for investors, especially when it comes to long-term commitments.

The IOPS, the international standard setting body in the area of pension supervision, is currently running a project that investigates the supervision of the investment process including long-term investment aspects.

Issues for Discussion

- Are accounting rules, prescribed actuarial assumptions, financial markets regulation, and prudential oversight of pension funds and insurance companies conducive to long-term investment? How can solvency regimes be balanced with prudent investment goals and objectives?
- How do regulatory pressures, such as the need to mark assets (or liabilities) to market, affect institutional investors' ability to deliver long-term returns? Does this fuel pro-cyclical behaviour?

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Background to Panel III

While the majority of large institutional investors are located in developed economies, most are active investors in emerging markets. Higher growth, and the accompanying opportunities for investment, has attracted foreign institutional investors. From a policy perspective, foreign institutional capital has been welcomed to finance the real economy of emerging markets, thus driving growth and contributing to development.

However emerging markets do not only present unique opportunities, but also a particular set of challenges. Costs and risk of investment can be higher than in developed economies, including a less transparent governance framework and less of a track record of implementation of governance principles. Here it is important to identify where perceived levels of risk do not match actual risk and take steps to remedy this.

Institutional investors have gained exposure to emerging markets via various asset classes. While in general capital markets in emerging economies are less developed than in advanced economies, markets for alternative assets, such as infrastructure, are particularly shallow. Where investors have been able to access markets, sharing experiences could yield valuable insight.

Institutional Investors have been identified as important drivers of growth and development in the broader policy dialogue. Identifying high-quality projects both economically interesting to investors and important for regional development could yield important benefits. Some institutional investors have special mandates to foster regional growth. While this is not the primary goal for most of them, there is certainly a role to play in financing development.

Issues for Discussion

- Through which markets have investors gained exposure to emerging markets (equity, debt, private markets)? Have global institutional investors adjusted their allocations to emerging markets investments? In what areas do they see opportunities?

- What are some of the barriers -regulatory or market- that institutional investors face when considering investments in emerging markets? How can they be overcome? How can institutional investors play a role in the Addis Ababa Action Agenda for financing development (an agenda that promotes social inclusion, environmental protection, poverty alleviation, and innovation)? How can institutional investors from non-OECD countries contribute and what has been their experience?

- Infrastructure investment in emerging markets: What has the investor experience been thus far? How do investors gain exposure to infrastructure investment in emerging markets? What factors enable greater institutional investment in infrastructure in emerging markets? How could experiences be shared more efficiently?

- What can governments and institutions do to improve project viability, are financial instruments available by Development Finance Institutions the right ones and are they correctly calibrated in order to bring institutional funds into long term projects in emerging markets.

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Background to Panel IV

Over the last two decades, encouraged in part by the processes of privatisation, liberalisation and globalisation, institutional investors such as pension funds, insurers and sovereign wealth funds have started to invest in infrastructure assets. Long-term investors have identified infrastructure as an area of growing interest to them. However, OECD data shows that infrastructure investment by large institutional investors remains small.

Infrastructure investment comes with a variety of specific risks, which can be classified as (i) political and regulatory risks, (ii) macroeconomic and business risks, and (iii) technical risks. Some of those risks are linked to or a consequence of the long-term nature of such assets. Projections of political and regulatory developments in particular are an important consideration for long-term projects.

New and alternative funding and financing models can potentially align public and private sector interests in infrastructure provision and management. As different types of private investors are willing to take on different types of risks, risk allocation is a crucial factor in determining the pool of willing investors. To attract alternative sources of finance such as institutional investors, new financial instruments and forms of collaboration beyond traditional instruments such as direct equity stakes and bank loans, may be needed. This can make infrastructure as an asset class more accessible to a broader group of investors and help to diversify the large risks of infrastructure projects - currently shouldered to a large extent by the banking sector and the public sector through guarantees - across many groups of investors through the capital markets.

A range of tools for risk mitigation and risk sharing exist. The public and private sector have to work together to allocate risks efficiently. While the new forms of risk sharing can increase efficiency and effectiveness, transferring risk comes at a price. The public sector through appropriate financial planning must be able to decide when this price is appropriate and when risks should be retained. On the other hand an understanding of private sector risk appetites and drivers for investment are important to ensure the bankability of the projects

What are the next steps, both at the policy level and at the investor level, that are necessary to move infrastructure from a niche to mainstream investment category?

Issues for Discussion

- How are large institutional investors investing in infrastructure? What are the key characteristics that describe the infrastructure market -- are they unique enough to warrant describing infrastructure as a separate asset class? To what degree is differentiation of risks of greenfield vs. brownfield projects useful?
- What are the best ways in which investors can align interests with managers? What are trends in infrastructure fund management that achieve this goal?
- What is the role of the public sector in mitigating infrastructure investment risk? What is the role of the private sector? What tools and techniques are available to mitigate risk in infrastructure investment? What is the role of governmental Agencies in facilitating infrastructure investments?
- Political risk is a major concern of investors. Infrastructure investment horizons can last up to 20 to 30 years or longer. How can governments reduce political risk over such a long investment term? Are sovereign risk ratings a useful measure in this regard?

- How can we better facilitate information flows and expectations between Governments as providers of projects and private sector investors? What information do investors require to better help them understand, assess and value infrastructure investments?

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Background to Panel V

The investment strategy and the degree of corporate governance engagement by institutional investors are closely linked to their business model. For some, active firm-specific engagement in a few companies is important, while others primarily rely on a hands-off approach linked to broad index or trading practices based on technical analysis.

Recent developments have also shown that various investors, including some pension funds and insurance companies are willing to take action, including on ESG issues. For this purpose, the internalisation of the positive externalities of their actions and the benefits for beneficiaries needs to be well understood.

Issues for Discussion

- How do institutional investors verify that their actions with respect to ESG have net benefits for individual beneficiaries as well as long term positive effects for the economy as a whole?
- When are mandatory laws and regulations necessary to address ESG as opposed commercially motivated initiatives by institutional investors?
- On what matters are institutional investors and corporate leaders most likely to disagree when it comes to corporate strategies for long-term value creation?
- What is the role of regulators and policymakers in promoting ownership engagement and long-term value creation among good institutional investors and corporations?

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Background to Panel VI

Market-based and more broadly private financing for clean energy infrastructure has grown to become an important topic in the transition to a low-carbon and climate-resilient economy. To this end, institutional investors have been identified as potential sources of capital. There are several reasons for this, including the capability of institutional investors to invest in large scale assets, the ability to invest in illiquid long-lived assets, and the need to address portfolio risks of climate change in a holistic manner. Potential climate-related risks include material risk resulting from for example weather-related events, liability risks in connection to damages and transition risks resulting from adaptation to new policies and regulation. Risks associated with stranded assets (devaluation of assets, in this context due to climate related events or regulation) stretch across all three categories and could represent a considerable source of volatility in many investors' energy portfolios. Investors need to build up capacity to assess the extent of such complex risks, while regulators should communicate clear, long-term forward looking plans.

Many institutional investors have specific policies targeting green investment including direct asset investment, or screen investments using Environmental, Social, and Governance (ESG) approaches. Financial markets have created products such as green bonds, investment funds, and other instruments specifically designed to channel capital into green and sustainable investments. Mapping which vehicles have been used and examining the ensuing results is important to enhance the quality of information. The question if and how "non-financial" factors are part of investors' fiduciary duty (the duty of loyalty and care to manage assets in the best interests of members) needs to be addressed both by regulators and by investors themselves.

Some investors have been reluctant to embrace green investment due to transaction costs and political/regulatory factors that are not fundamentally aligned with a low carbon transition. For institutional investors in OECD countries which manage a very large share of national savings, a fundamental pre-condition for investing in sustainable energy infrastructure is the presence of investment grade policies – the domestic framework of policies that provides clear price signals and predictability and policy coherence that investors need. While simple enough in principle, such a framework often proves difficult to achieve in practice, as retroactive policy changes, weak carbon pricing, fossil fuel subsidies and unintended effects of non-climate-related (e.g. financial and pension fund) regulations can undermine policies that are otherwise supportive of the low-carbon transition.

A key element of a strong domestic policy framework is the establishment of specific financial policies, instruments, funds and risk mitigants that provide transitional support for new low-carbon and climate-resilient technologies. There is an important role for governments in both reducing barriers to investment and supporting the development of specific financial products.

Issues for Discussion

- Institutional investors are important stakeholders in the COP21 discussions. What does COP 21 need to do to create the circumstances in which institutional investors will allocate more capital to this space?
- Is a lack of or unstable policy/regulatory environment a barrier to institutional investment in clean energy?
- For investors that have deployed capital in clean energy, what vehicles have been used? How do investments in clean energy compare to traditional investments? How can they be made

competitive with other portfolio investments? How can investors contribute to the sustainable design of these vehicles?

- What are some key actions that governments can take to attract institutional investment in green energy and infrastructure?
- Recognizing that there are global efforts to stimulate long-term investment, how can regulators align institutional investor prudential policy frameworks with other important government initiatives like climate change risk (e.g. G20/FSB analysis of climate risk and French climate risk disclosure law) and investment in clean energy? What tools are needed so investor can better evaluate the risks of climate change and/or energy transition, including the real risk of stranded assets? How do the rules governing institutional investors need to be adjusted to take into account sustainability factors and climate-related risks?
- Is a framework to make investors accountable for their ESG policy/performance needed? How could this be designed? How can policy makers support investors to build up capacity related to ESG issues?

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Annex: Draft Agenda

Conference on Long-term Investment Financing

Thursday 19 – Friday 20 November 2015
Hotel Marriott Champs-Élysées Paris

08.00-09.00	**Registration and Coffee**
09.00-09.10	OECD Welcome: **Stefan Kapferer, Deputy Secretary-General, OECD**
09.10-09.20	Euromoney Welcome: **Christopher Garnett, Director, Euromoney Conferences**
09.20-09.35	The OECD Long Term Investment Project: **Raffaele Della Croce, Lead Manager, LTI Project, OECD**
09.35-10.45	Panel I: **Long-term Investment in a Volatile Market: Investment Policy Implications**
	Moderator: **Christopher Garnett**, Director, **Euromoney Conferences** Panellists: **Alain Bokobza**, Head of Global Asset Allocation, **Societe Generale Cross Asset Research** **Edwin Cass**, Senior Managing Director and Chief Investment Strategist, **Canada Pension Plan Investment Board** **Jérôme Haegeli**, Managing Director, Head of Investment Strategy, **Swiss Reinsurance Company** **Chris Hitchen**, Chief Executive Officer, **Railways Pension Trustee Company (RailPen)**
10.45-11.20	**Coffee Break** *Salon 1*
11.20-12.25	Panel II: **Regulation and Long-termism: Addressing Barriers to Long-term Investment Finance**
	Moderator: **Chris Ostrowski**, Director, Long-term Investment, **Euromoney Conferences** Panellists: **Sara Bonesteel**, Managing Director, Head of Portfolio Strategy, **Prudential Financial** **Olav Jones**, Deputy Director General, Director of Economics and Finance, **Insurance Europe** **Scott Kalb**, Executive Director, **Sovereign Investor Institute** and Former Chief Investment Officer, **Korea Investment Corp** **David Whiteley**, Chief Executive Officer, **Industry Super Australia**
12.25-12.45	*Investment Financing in the European Union* Keynote Address: **Ignazio Visco, Governor, Bank of Italy**
12.45-14.00	**Lunch**
14.00-14.20	*Other People's Money* Keynote Address: **John Kay, Visiting Professor of Economics, London School of Economics and Author, *Other People's Money***
14.20-14.35	Interview Session: *Impact of Tax Reforms Discussed at G20 Level (e.g. BEPS) on Institutional Investors* Speaker: **Tom Neubig, Deputy Head of the Tax Policy and Statistics Division, OECD** Interviewed by: **Giada Vercelli,** Content Director, **Euromoney Conferences**
14.35-14.55	*Keeping Promises in a Low Interest Environment - Pension Funds and Insurance Companies: Can the Promises be Kept?* Speaker: **Adrian Blundell-Wignall, Special Adviser to the Secretary-General and Director, Directorate for Financial and Enterprise Affairs, OECD**

14.55-15.55	Panel III: **Emerging Markets: Long-term Finance as a Vehicle for Growth and Development**	14.55-15.25	**Deep Dive Sessions** *Le Louvre*
	Moderator: **Joel Paula,** Policy Analyst, LTI Project, **OECD** Panellists: **Yann Burtin,** Senior Underwriter, MIGA, **World Bank Group** **Vedat Akgiray**, Professor of Finance, President, Centre for Corporate Governance, **Boğaziçi University, Turkey** **Georg Inderst**, Principal, **Inderst Advisory** **Axel Röhm**, Head of Emerging Market Debt, **PGGM Investments**		Deep Dive Session: **Investment Opportunities in Sharjah** Hosted by: **Sharjah Investment and Development Authority - Shurooq**
15.55-16.20	**Coffee Break**		
16.20-17.25	Panel IV: **Infrastructure Investment: Moving from Niche Investment to Mainstream Investment**		
	Moderator: **Raffaele Della Croce**, Lead Manager, LTI Project, **OECD** Panellists: **Frédéric Blanc-Brude**, Research Director, Head of Infrastructure Investment Research, **EDHEC Risk Institute** **Andrew Davison,** Senior Vice President, Infrastructure Finance Group**, Moody's Investors Service** **Richard Timbs**, Senior Director, **Global Infrastructure Hub** **Jeromin Zettelmeyer**, Director-General, Economic Policy, **Federal Ministry for Economic Affairs and Energy, Germany** **Eugene Zhuchenko**, Executive Director, **LTIIA (Long-term Infrastructure Investors Association)**		
17.25-17.30	Day 1 Closing Remarks: **Chris Ostrowski, Director, Long-term Investment, Euromoney Conferences**		

DAY 2:

08.30-09.00	**Registration and Coffee**
09.00-09.10	OECD Welcome: **Juan Yermo, Deputy Chief of Staff, OECD**
09.10-10.10	Panel V: **Good Governance and Long-term Value Creation**
	Moderator: **Mats Isaksson**, Head, Corporate Affairs Division, **OECD** Panellists: **Nathan Fabian**, Director of Policy and Research, **PRI** **Claudia Kruse**, Managing Director, Head of Governance and Sustainability, **APG** **Rob Lake**, Principal, Independent Responsible Investment Adviser, **Rob Lake Advisors** **Raj Thamotheram**, Founder and Chief Executive Officer, **Preventable Surprises** **Kerrie Waring**, Managing Director, **International Corporate Governance Network**
10.10-10.40	**Coffee Break**
10.40-11.40	Panel VI: **Long-term Investment and Clean Energy Finance**
	Moderator: **Chris Ostrowski**, Director, Long-term Investment, **Euromoney Conferences** Panellists: **Jean Boissinot,** Head of Banking and Financial Sector Analysis, Finance Department**, Direction Générale du Trésor de France** **Pierre Georges**, Director, Sector Specialist for the EMEA Utilities Team, **Standard & Poor's Ratings Services** **Nick Robins**, Co-Director, **UNEP Inquiry into the Design of a Sustainable Financial System** **César Ortiz Sotelo,** Deputy Director, International Department**, ENGIE**
11.40-12.30	Special Session : **Policy Conclusions and G20 Agenda on Long-term Investment**
	Moderator: **André Laboul**, Deputy Director, Directorate for Financial and Enterprise Affairs, **OECD** Speakers: **Franco Bassanini**, President, **Long-Term Investors Club (LTIC) John** **Campbell**, Chairman, **Campbell Lutyens** **Manuela Zweimueller**, Head of Regulations, **European Insurance and Occupational Pensions Authority (EIOPA)**
12.30-12.45	Closing remarks: **Angel Gurría, Secretary-General, OECD**

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