



BRIDGING THE GAP: MATCHING SUPPLY AND DEMAND FOR LONG TERM ASSETS

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The Demand for LT Assets

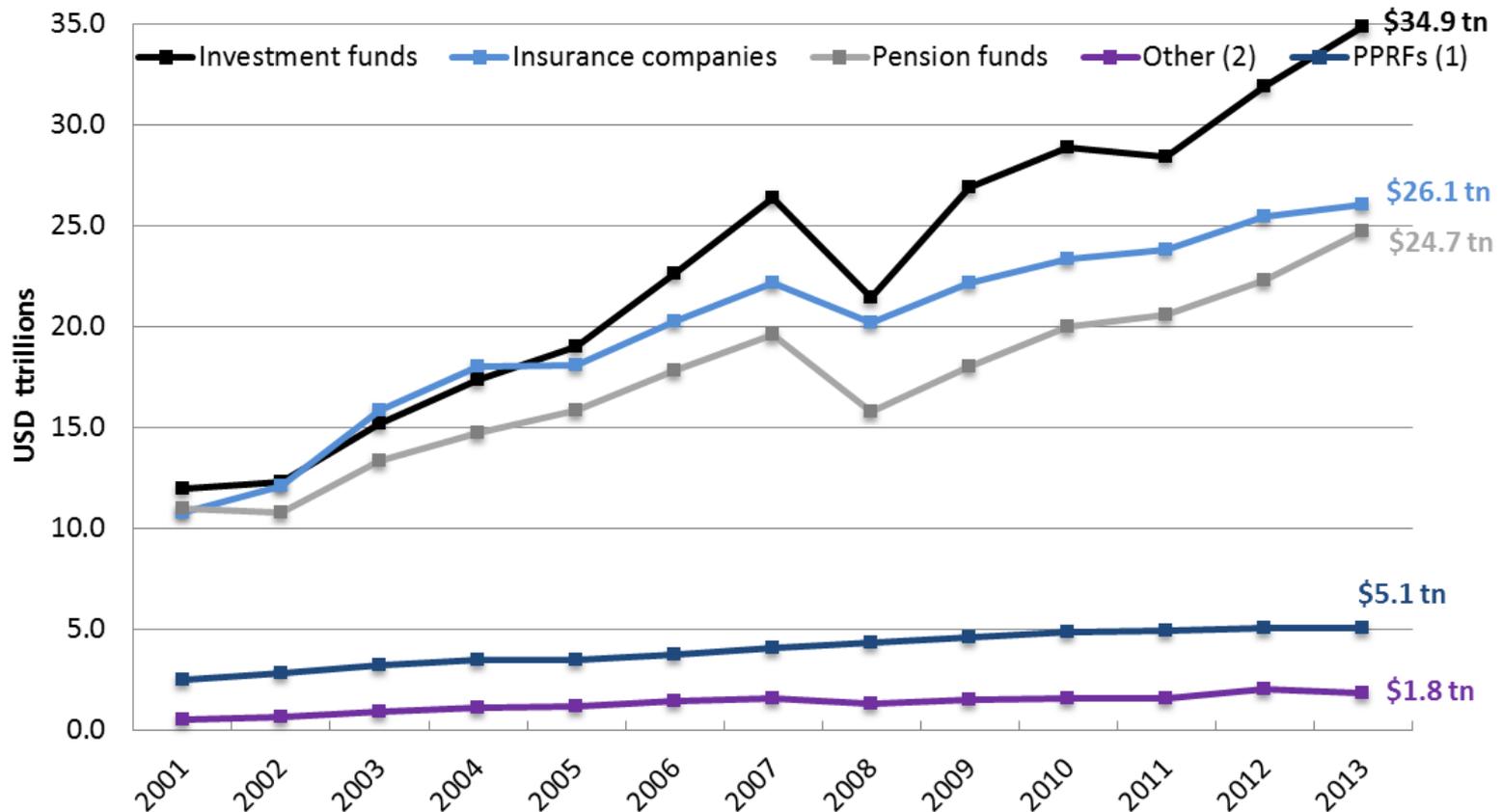
THE LARGE PENSION FUND SURVEY



Role of Institutional Investors

Inst Investors AUM have been growing to USD 92tr AUM in OECD countries [LPF Survey approx. USD 10tn surveyed]

Assets held by Institutional Investors in the OECD, 2001-2013 (USD Tn)



Source: OECD Global Pension Statistics, Global Insurance Statistics and Institutional Investors' Assets databases, and OECD estimates.



Adapting to a Challenging Environment

Emerging Trends and Practices coming out from the Survey..

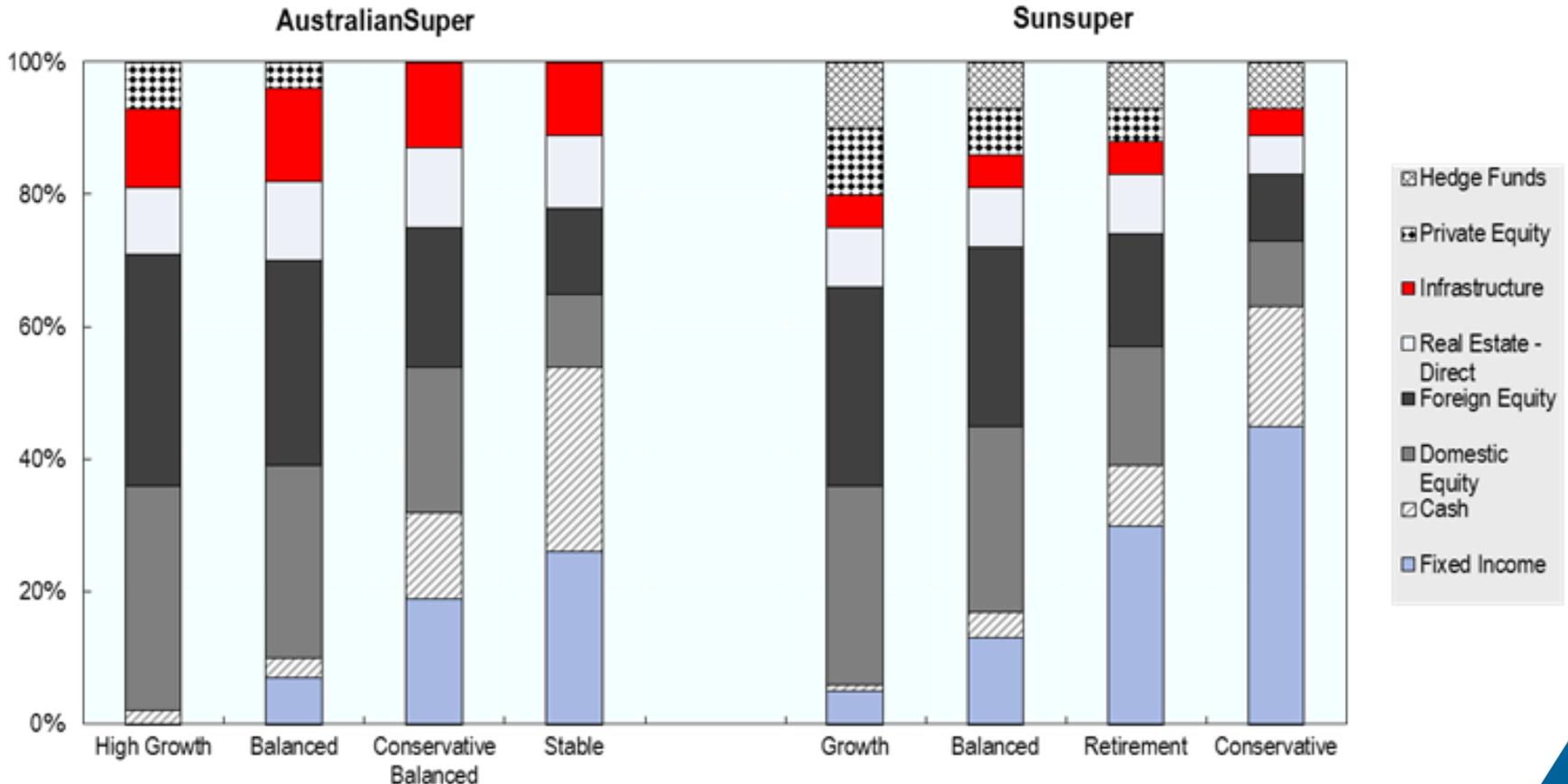
- Alternative Investment in DC systems
- Credit Opportunities (i.e. direct lending)
- Opportunistic Strategies and Alternative Techniques (i.e. Risk parity)
- LDI and De-risking Glide Paths
- Emerging Markets
- Green & ESG Investment
- Hedge Funds



Alternative Investment in DC systems

Experience of Superannuation Industry in Australia with illiquid assets..

Target asset allocation of select pre-mixed fund options:



Source: SunSuper Annual Report 2012-13, AustralianSuper Investing For Your Future, Annual Report 2013. Figures are based on strategic allocations for selected pre-mixed options.



Green Investments and ESG

Strong interest but several definitions of “Green” with different approaches from investors to environmental, social and governance factors

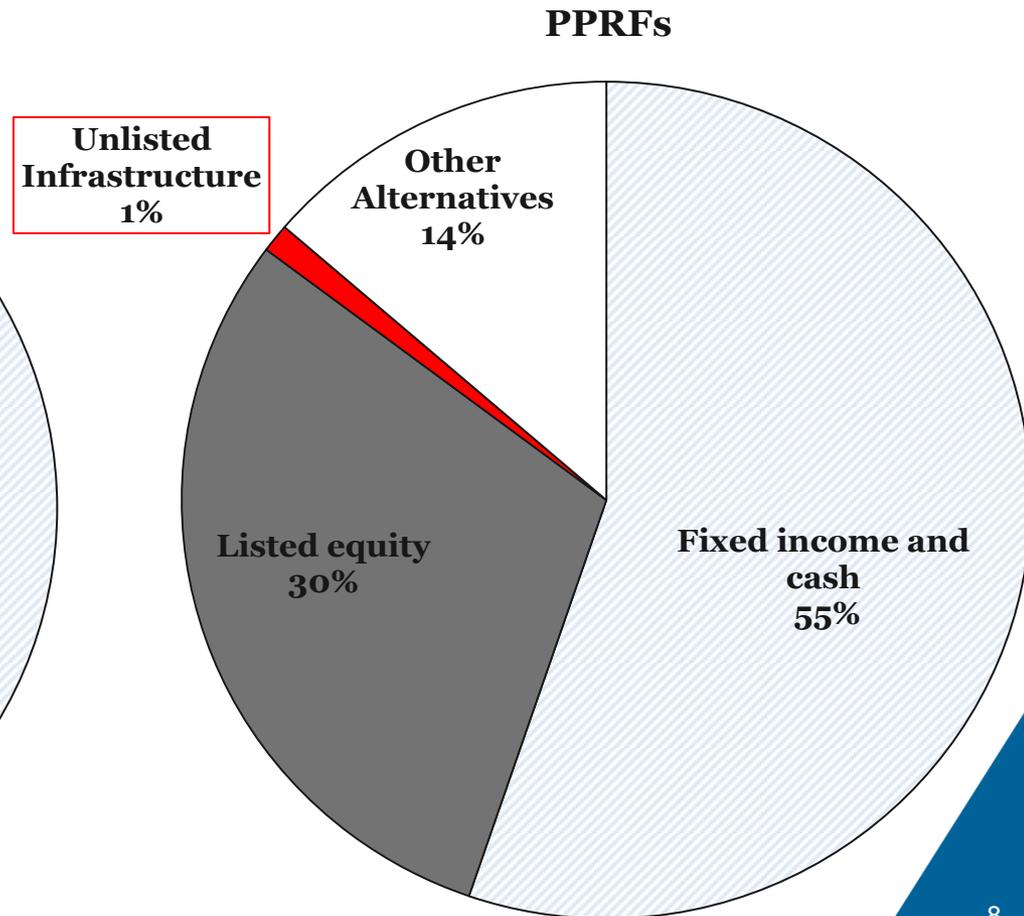
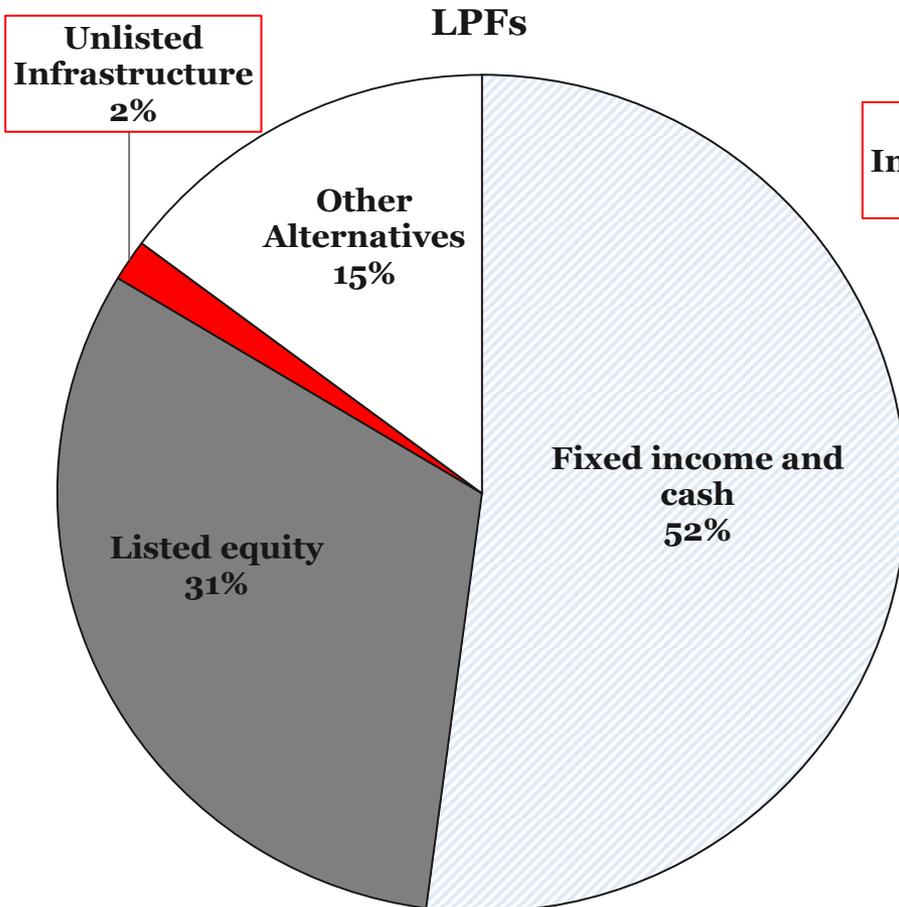
Country head office	Name of the fund or institution	Total investments in 2013 (in USD m.)	Green investments (as a % of total investments)			
			Green equity	Green bonds	Alternative green asset classes	Other green investments
Netherlands	ABP (1)	445,303	1.5	0.0	1.2	..
Netherlands	PFZW	189,397	1.4	..	..	..
United States	New York City Combined Retirement System	150,853	0.3	..	..	..
South Africa	GEPF	133,428	..	0.2	0.6	..
Brazil	Previ (2)	71,997	..	..	..	0.0
Netherlands	PMT	66,595	..	..	0.1	..
United Kingdom	USS (3)	66,442	0.0	0.0	0.0	0.7
Denmark	PFA Pension	54,515	0.2	..	0.1	..
United States	United Nations Joint Staff Pension Fund	51,366	..	0.2	..	..
Sweden	AP2	41,207	..	0.6	2.6	..
Sweden	AP4	40,456	2.7	..	..	..
Sweden	AP3	40,234	0.0	0.9	0.0	0.0
France	ERAFP (4)	23,832	27.0	0.0	..	..
New Zealand	New Zealand Superannuation Fund	20,629	0.0	0.0	0.0	..
Spain	Fonditel	3,941	0.9	0.0	0.1	0.0
Brazil	FAPES	3,479	0.2	0.0	0.0	0.0

Source: OECD



Trends in Asset Allocation - Survey

Average asset allocation of Large Pension Funds (LPFs) and Public Pension Reserve Funds (PPRFs) in 2013: Trend in Alternatives, limited investment in infrastructure



Source: OECD



Policy Implications

Investors are adapting to a challenging environment: New Opportunities but also New Risks

- Financing the real economy (i.e. infrastructure, SMEs & green economy)
- Risks at investor level
 - Risk Management
 - Governance of Funds
- Systemic risk – Financial Stability
- Role of Regulation



Investing in the Real Economy

Matching Demand and Supply for Long Term Investment



Potential Demand for Infrastructure

Target allocation higher than actual investment.. Average allocation could rise from 1 to 3%..

Country	Name of the fund or institution	Actual allocation to Unlisted Infrastructure (2013)	Target Allocation to Unlisted Infrastructure
Canada	OMERS	14.9%	21.5%
Australia	AustralianSuper	9.8%	11-14%
Mexico	Afore XXI Banorte	0.3%	5.0%
Netherlands	ABP	1.5%	3.0%
Canada	OTPP	8.4%	8.5%
United Kingdom	USS	4.4%	5.0%
Australia	Sunsuper	5.1%	4-5%
Canada	Quebec Pension Plan	4.0%	5.0%
Netherlands	PFZW	2.4%	3.0%
Netherlands	PMT	0.6%	1.0%
Argentina	Sustainability Guarantee Fund	13.6%	5-20%

Source: OECD



Barriers to Investment

But major barriers remain.. in a recent OECD/Euromoney outreach event, investors pointed to 2 major barriers:

1. Lack of Transparent and Stable Environment (*OECD work on PFI*)
 - Regulatory risk
2. Lack of investable projects (*OECD work on Taxonomy*)
 - Bankability of projects
 - Adequate risk/returns profiles

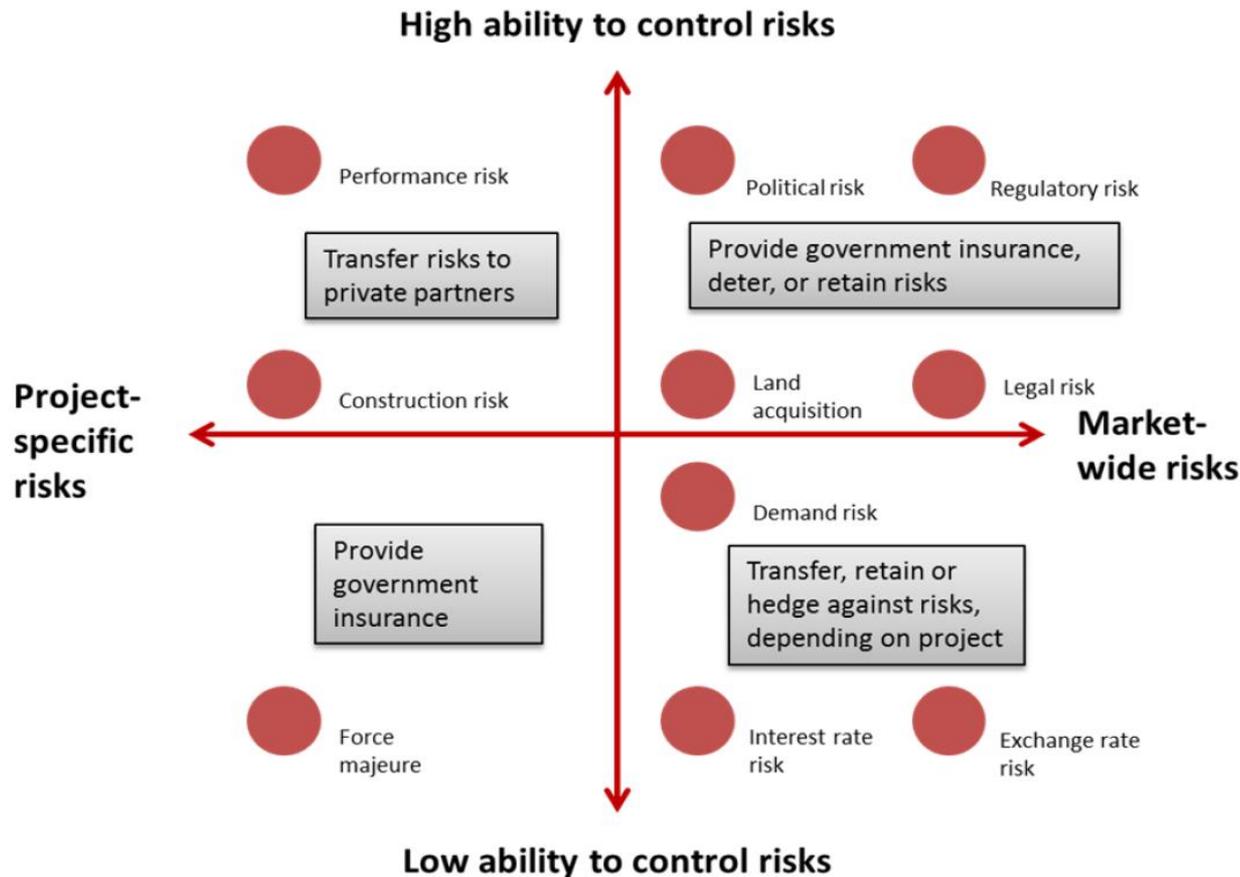


Leveraging Private Sector Capital: Policy Role

Risk transfer: What are the risks (Project/Market)? Who is best positioned to take those risks (public/private, banks inst. Investors)?

Proper risk transfers in public private partnerships

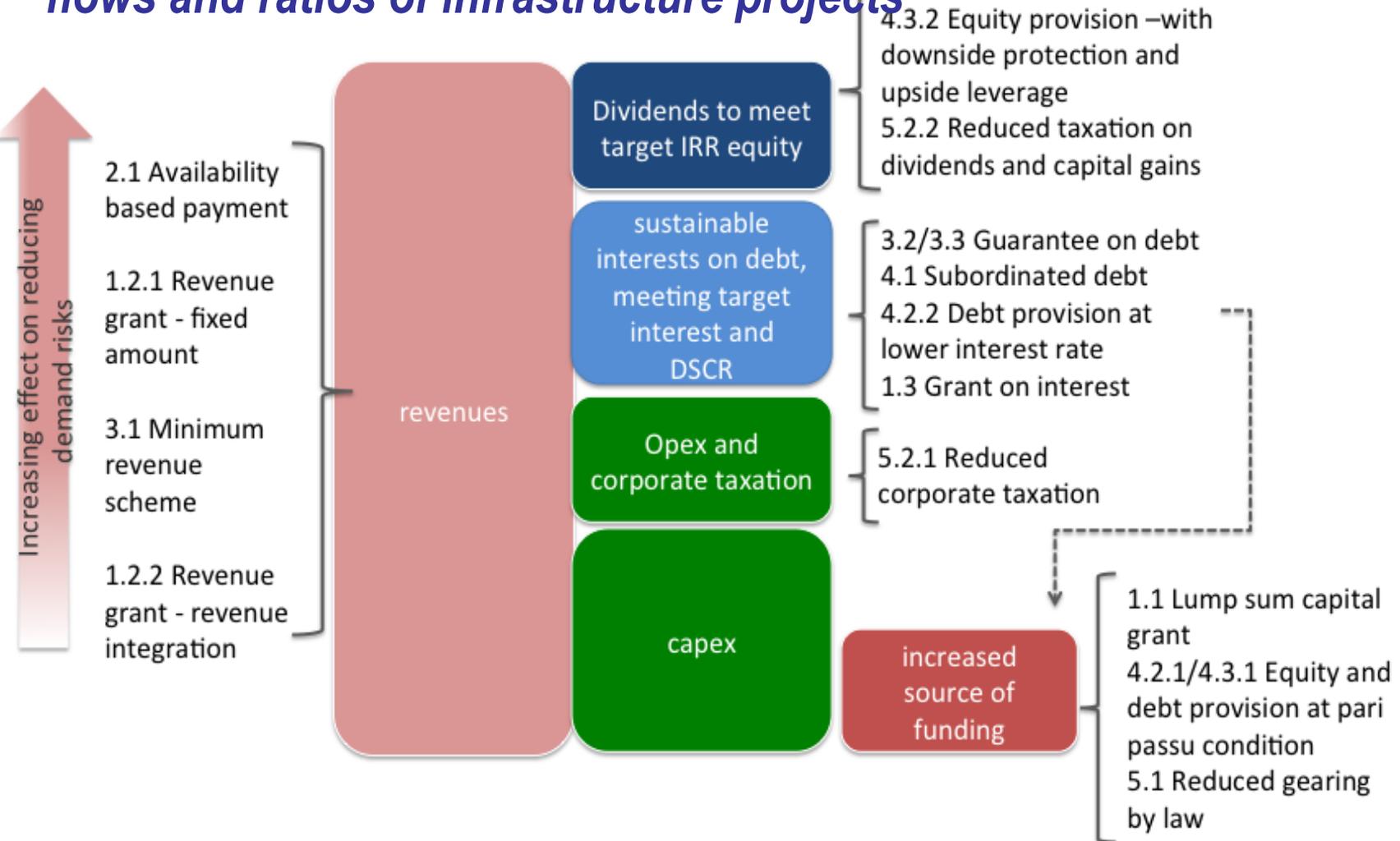
Figure 3





Addressing the Risks: Taxonomy of Instruments - PART I

.. different Instruments have a specific impact on risks, project cash flows and ratios of infrastructure projects

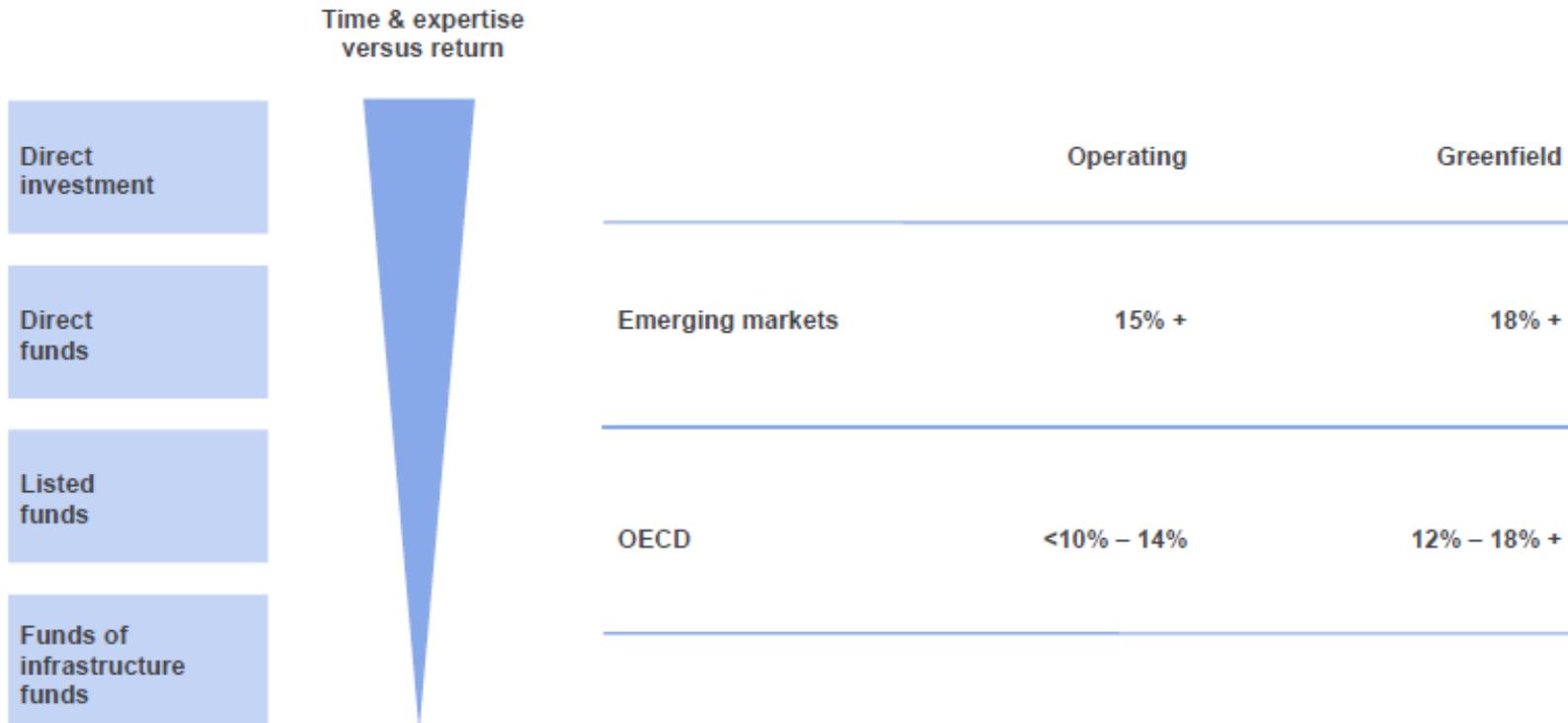




Access to Infrastructure: Taxonomy

PART II

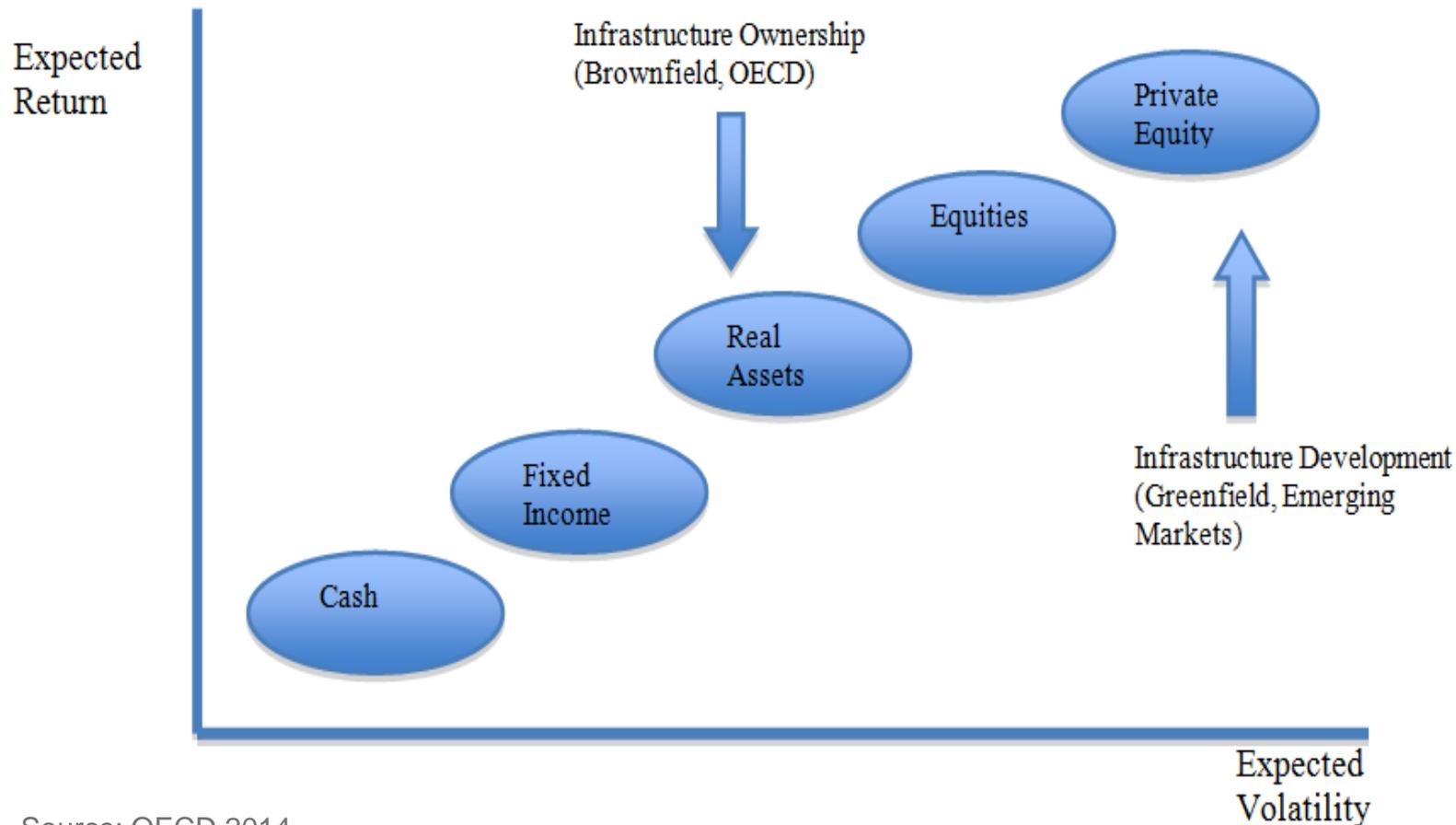
Different investment options imply different management capability, risk tolerance and returns i.e. different set of Investors





Closing the Viability Gap: Matching Supply and Demand

Infrastructure as an Asset Class: A different risk profile will imply different expected returns from investors





Relevance of Taxonomy for the Juncker plan

- **Proper risk transfer** needs to be undertaken to ensure an optimal allocation of risks (Public/Private, Bank, Inst. Investor) in order not to crowd out the private sector, the new EFSD's intervention should focus on the riskier parts of projects. This could include in the infrastructure sector:
 - Mitigation of Demand and/or Technology risks;
 - Enhancement of public counterparty risks that may constrain project risk.
- **Leveraging Private Sector Capital:** Multiplier effect *15 will be achieved through a different role of the EIB and new financial instruments
 - EIB to take more risk and act as co-investor and in a first loss absorption capacity (how to retain EIB AAA standing?)
 - New instruments addressing different risks having an impact on the cash flows of infrastructure projects
- **Access to finance:** Attracting institutional investors requires to bundle projects to reach a €100m minimum size (European energy transition will require funding myriads of small projects (less than €50m), need for new vehicles for small and medium pension funds/insurers to access infrastructure i.e. European Long Term Investment Fund



Other OECD Relevant work for the Taxonomy

OECD is developing a large amount of work, in G20 context relevant for the taxonomy

- Enabling Environment for Investment: OECD Policy Framework for Investment
- Optimization of the role of MDBs : Measuring Official support for Private Investment in Developing Country Infrastructure (circulated to G20 IIWG Aug 2014)
- Development of PPPs : OECD Network of Senior PPP officials (i.e. review of Indonesia and UK PPP system)
- Infrastructure as an Asset Class (i.e. benchmarking, project data collection)
- Engaging the private sector: New Institutional Investors and LTI network



An holistic approach to the barriers to long term investment

THE OECD Long Term Investment Project, G20 & APEC



OECD LTI Project

What does long-term investment mean and why does it matter?

- “Patient”, “Engaged”, “Productive” capital
- LTI investors/LT assets
- NB: Short Term not bad
- OECD, APEC & G20 relevance
- New Network of LTI Investors





G20-OECD work on long-term financing

Work developed through the G20/OECD Taskforce

- High Level Principles of LTI financing by institutional investors (Sep 2013)
- Survey Report on Pension Funds' LTI (Oct 2013)
- Pooling of Institutional investors capital – Selected Case studies in unlisted equity infrastructure (April 2014)
- Private Sector Financing of Infrastructure (Oct 2014)
- Report on Effective Approaches of the G20/OECD High-level Principles on LTI by Institutional Investors (Sep 2014)
- G20/OECD Checklist on Long-term Investment Financing Strategies and Institutional Investors (Sep 2014)



OECD LTI project Next Steps: Research & Events

- Forthcoming Research:
 - Large Pension Fund Survey – Dec 2014
 - Large Insurance Survey – Jan 2014
 - Taxonomy/ Analysis of Instruments and incentives for LTI -
 - Infrastructure as an Asset Class
- Future Events of the new LTI Network :
 - OECD/ADBI Workshop – Tokyo March 2015
 - G20/OECD High Level Roundtable on LTI under the Turkish G20 presidency, 2015

www.oecd.org/finance/lti - OECD long-term investment project