LPF AND PPRF SURVEY UPDATE AND INFRASTRUCTURE AS AN ASSET CLASS

Workshop on Data Collection for Long-term Investment
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LPF AND PPRF SURVEY
Large pension fund and public pension reserve fund assets

Total retirement system assets in the OECD, 2001-2014

USD trillions

Source: OECD Large Pension Fund Survey based on OECD Global Pension Statistics, Institutional Investors’ Assets databases, and OECD estimates
• A population of Large Insurance Companies (LICs) is expected to be included in the report for the first time
  – Expands the report to include an important source of long-term investment capital
  – Data will be presented in a fashion similar to pension funds, in order to compare across sectors
• Nearly 100 institutional investors returned questionnaires for the 2016 survey
  – 63 LPFs
  – 17 PPRFs
  – 17 LICs
• Approximately 36 countries represented in the survey

• The re-launch of the 2017 survey for investors is expected to take place at the end of June
Institutional investment trends and infrastructure

- Understanding investment preferences of institutional investors is important
- Trends in asset allocation: where are funds increasing allocations? Where are they decreasing allocations?
- Alternative investments – growth in allocations, particularly in private equity, real estate, and in some cases, infrastructure
- Co-investment, partnerships in infrastructure and SME finance
  - Also includes other areas such as private equity, real estate, and timberlands
- Insourcing and expense reduction – direct investment by the largest funds in infrastructure
- Credit opportunities – infrastructure lending
- Emerging markets – fund investment in equities, local currency debt markets, and sometimes alternative investments
- Green and social investments
  - Sustainable infrastructure, renewable energy, alignment with the UN Sustainable Development Goals
- Investment constraints
Pension funds face structural challenges

*Although growth has been strong, some pension markets face major structural challenges*

Average funded status of select defined benefit pension funds in selected countries 2011-2015 (Assets as a percentage of liabilities)

Source: OECD
## Historical average asset allocation of select Large Pension Funds (LPFs) and Public Pension Reserve Funds (PPRFs) 2010-2014
(As a percentage of total assets)

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<td>Fixed income and cash</td>
<td>Listed equity</td>
<td>Unlisted infrastructure</td>
<td>Alternatives and other</td>
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<tr>
<td>2014</td>
<td>54.9</td>
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<td>2011</td>
<td>56.1</td>
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Source: [OECD Large Pension Fund Survey](https://www.oecd.org/finance/pension-funds-29813526.htm)
PPRFs – 2015 asset allocation, total survey population

Source: OECD Large Pension Fund Survey
2015 LPF – Unlisted infrastructure equity allocation, % total portfolio

Unlisted infrastructure equity

- Hostplus Superannuation fund
- Health Employees Superannuation Trust Australia
- Pension Denmark
- Construction & Building Unions Superannuation Fund
- QSuper
- OTPP
- Previ
- British Columbia Investment Management Corporation
- Sunsuper
- USS
- UniSuper Management Pty Ltd
- PFZW
- Pensionskasse Post
- Stichting Pensioenfonds ABP
- Varma Mutual Pension Insurance Company
- Telstra Superannuation Scheme
- Ilmarinen
- AFP Integra
- Menora-Mivtachim
- PMT
- KEVA
- GEFP
- PFA Pension
Limited investment in infrastructure, stable in the last years..

Historical unlisted infrastructure equity allocation of select Large Pension Funds (LPFs) and Public Pension Reserve Funds (PPRFs), 2010-2014 (1)

As a percentage of total assets

Source: OECD
2015 Foreign allocation of alternative investments (% total portfolio)
Infrastructure allocations by instrument (% total infrastructure allocation reported)
Infrastructure allocations by sector
INFRASTRUCTURE AS AN ASSET CLASS
Areas to address

- Principal/agent problems and asymmetric information
- Investment mandate ambiguity
  - The need to describe with strong empirical evidence the role of infrastructure investments in the portfolio
- Benchmarking and success metrics for infrastructure investment
  - Can include sustainability goals
- Legal and regulatory
  - Accounting standards, pension/insurance supervision, solvency, governance
Describing infrastructure as an asset class

• What are the common characteristics that differentiate infrastructure from other asset types?
  – Fundamentally, are the cash flows that infrastructure assets generate sufficiently different
  – Business activities or contractual arrangements that define the profile of future cash flows
  – Capital structure, leverage, regulatory environment, risk mitigation instruments, macroeconomics

• The need to describe with strong empirical evidence the role of infrastructure investments in the portfolio
  • Does infrastructure increase portfolio efficiency?

• Improving the quality and availability of information for investors to determine whether infrastructure makes sense as part of their long-term asset allocation
  – Benchmarking infrastructure investment

• Improve accessibility to information in order for investors to complete the due diligence process
What is an asset class?

• A group of assets that have fundamental economic similarities that are distinct from other assets
  – Similar risk and return profiles, high correlation with each other
• Non-overlapping and mutually exclusive with other asset categories
• Sufficient market depth in order to foster diversification and competition
• Low correlation of a group of assets with the market is not enough to distinguish it as a separate asset class (e.g. a long/short equity hedge fund)
• May be subject to similar laws and regulations
• Access to information about the fundamentals of an asset class is crucial for investors to complete the due diligence process
• The note focuses on “capital assets” which would include infrastructure finance instruments
  – Assets that generate future cash flows that may be discounted to a net present value
Global capital stock – The global market portfolio

Source: OECD
Fragmentation of pension fund markets

Source: OECD, TowersWatson