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Financial News reports from key conferences around the globe last week

Digging deep: Infrastructure investments should come from a mix of players

Investors warn against 'infrastructure nationalism'

Mark Cobley in Hong Kong

Some of the world's biggest institutional investors have warned governments against "infrastructure nationalism", particularly in Europe, as countries privatise assets and seek funding for projects worth €3 trillion over the next 20 years.

At an investment conference last week in Hong Kong, speakers from the €140 billion Dutch pension manager PGGM and the €500 billion French public investment group Caisse des Dépôts argued that if national assets are privatised, they should ideally be sold to a mix of domestic and foreign investors.

Gautier Chatelus, director of CDC Infrastructure, Caisse des Dépôts' infrastructure investment arm, said: "You need both foreign and domestic investors. We are ready to work with whoever wants to work with us in France. Having purely French investors in French assets is not good. Having no French investors in French assets is not good either. You need a mix."

Chatelus presented European Union figures showing a need for €3 trillion of new investment in European infrastructure assets up to 2030.

Also addressing the gathering, organised by industry group the World Pensions Council, Georg Inderst, an adviser to pension funds in Europe, said: "Governments need money; new sources of finance. The tightness of government budgets, the euro crisis, means that governments are calling for more private capital to help finance infrastructure investment.

"I would warn about infrastructure nationalism. Infrastructure investment is global and always has been. When conditions are right you don't have to force domestic funds to invest in national assets."

Philippe Desfossés, chief executive of the French public servants pension fund ERAPF, said he was concerned about domestic investors on the one hand being "bullied" into financing national projects that turned out to be bad investments, or investing in good projects for which the government later changed the rules. He said: "Let's imagine the government changes the rules… They will be less likely to do that if I have a Chinese sovereign fund investing alongside me."

Erik Goris, managing director of policy advice at PGGM, said: "You need both kinds of investors for this, domestic and foreign." Goris set out how, following negotiations with domestic investors, the Dutch government has set up a Netherlands Investment Institution to facilitate greater involvement by Dutch pension funds in the country's infrastructure, healthcare and residential mortgage markets.

Goris said: "They said, why are you investing your money outside the country? We said, show us the projects that have the risk-return profile we need. Over the last six months we have been working with the government on preconditions. Just two weeks ago they set up the Netherlands Investment Institution. It's purpose is to match projects to the needs of investors."

Pan-European pension pots put forward

Sarah Krouse in Paris

A Brussels think tank has called for the creation of a pan-European long-term savings product that is portable across different countries. It is eyeing funds modelled on the Ucits framework to address fragmentation in the region.

The concept follows a year of work by a partnership between the Centre for European Policy Studies and European Capital Markets Institute on creating a single long-term savings market in Europe.

The group's proposals would require the blessing of European lawmakers, but they envision a market in which people who work in several countries for different companies could bring their pensions pot with them as they move.

The products they envision would be portable to different jurisdictions across Europe in a similar way to Undertakings for Collective Investment in Transferable Securities mutual funds. Part of the think tank's proposal is the creation of funds that are larger than European mutual funds available today.

Karel Lannoo, chief executive of CEPS, said through a translator at a Paris press conference, hosted by Carmignac Gestion: "We need a product that is mobile that can be brought to different countries."

He called on European lawmakers to "harmonise" the market and stressed the need for scale in the products the group envisioned.

The report's authors say the products, aimed at retail investors, would have less liquidity than mutual funds, locking up their cash for a longer period of time. This would enable the funds to invest in less liquid assets such as infrastructure, the researchers said.

Jean-Baptiste de Franssu, the former president of the European Fund and Asset Management Association and a non-executive director at Carmignac Gestion, which sponsored the report, said: "We need to put in place a single standard throughout Europe."

He added that European policymakers had spent too much time on the financial transaction tax, a "complete distraction" and not enough time on long-term savings.

De Franssu said through a translator: "[Politicians] would have been better advised to spend their energy and time on this topic."

Still, numerous challenges stand between the think tank's vision and its implementation. There could be little incentive for financial institutions to create the products and little appetite among policymakers to approve the framework that would allow for their creation.

At a product level, asset managers would have to consider the risk appetite of clients, the liquidity of the funds themselves and whether the long-term savings funds offered payments in a lump sum or through annuities.

Iosco chief calls for action on boards

Joe McGrath in Brussels

Global regulators must take action to remove "megalomaniac CEOs" and "weak boards" if the world is to avoid another financial crisis, the International Organization of Securities Commissions has warned.

Speaking at the European Fund and Asset Management Association's Investment Management Forum in Brussels, David Wright, secretary general of Iosco – the body that represents national regulators – said corporate governance in companies was more important than ever because of the impact it could have on society.

Wright said: "The regulatory community and society should not accept incompetent people running major firms. Who pays in the end? Society as a whole.

"When you see the megalomaniac CEO and the weak boards, regulators have got to step in. Looking at firms that failed, it was because of weak governance. These were run by people whose sole objective was that of the CEO's."

Wright also encouraged regulators to do more by introducing compulsory testing of board members' knowledge.

He said: "To make sure that big firms are properly managed… Why not have some tests? If people don't pass the test, they are not going to be on the board. It is all about the effect on the rest of society."

In his speech Wright also referenced the International Monetary Fund's managing director Christine Lagarde, who told the United Nations that there was a need for "ongoing 21st century policies for a 21st century global economy".

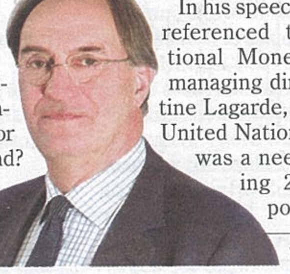
Wright said the approach was equally appropriate for the asset management industry.

He added: "We are seven years into this crisis. We have had seven years of famine and now we are going to have our seven years of feast so let's hope we don't overdo it again."

Wright also said there was a need for a global approach to regulation as the rules governing the financial industry were being created on an increasingly international basis.

"It makes me very cross when a group of people turn up in Madrid at Iosco and tell me they are in charge of consumer protection for the world."

He confirmed there were five current areas of focus for Iosco: dispute resolution, the issues around bank capital, over-the-counter derivatives, shadow banking and benchmarking.



Wright: corporate governance is more important than ever