Session 5: Capital market development II (Institutional investors & connecting capital markets)

Presentation

Primary International Institutional Investors:
Long Term Liabilities but Short-Term Assets

by

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PRIMARY INTERNATIONAL INSTITUTIONAL INVESTORS: LONG TERM LIABILITIES BUT SHORT-TERM ASSETS

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VOLATILITY OF PORTFOLIO FLOWS DUE IN LARGE PART TO INSTITUTIONAL INVESTORS
### Primary institutional intermediaries (examples)

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Assets under management (estimates, 2012/13)</th>
<th>Asset allocation</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension funds</td>
<td>$33.9 trillion</td>
<td>• Traditionally dominated by liquid equities and debt instruments.</td>
<td>• Average life of 12-15 years for Defined-Benefits plans. 40% of assets distribution within 10 years; 60% within 20 years.</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>$24.4 trillion</td>
<td>• U.S.: 70% bonds, 10% equities. Europe: 90% bonds, 7% equities, 3% real estate.</td>
<td>• Average life insurance duration 7-15 years. 60% of assets distribution within 10 years; 40% within 20 years.</td>
</tr>
<tr>
<td>Sovereign Wealth Funds</td>
<td>$5.2 trillion</td>
<td>• 70% liquid investments in developed countries.</td>
<td>• Stabilization SWFs have probabilistic short-term liabilities. Savings SWFs have long term liabilities for future generations.</td>
</tr>
</tbody>
</table>

### Secondary institutional intermediaries (examples)

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Assets under management (estimates, 2012/13)</th>
<th>Asset allocation</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Equity Funds</td>
<td>$1.3 trillion</td>
<td>• Typically invest in start-up companies with an 'exit' strategy.</td>
<td>Generally 10 years with 2 optional one-year extensions.</td>
</tr>
</tbody>
</table>

Source: Pensions Estimation; UNDESA.
ASSET ALLOCATION OF ALTERNATIVE INVESTMENTS

- Alternative investments are primarily through funds (or “secondary intermediaries”)
- Largest exposure is to real estate funds, then private equity

POSSIBLE POLICY SOLUTIONS...

- Increase direct investments of primary intermediaries (along with building necessary capacity)
- Investment groups/consortiums/subsidiary funds
- Reforms to mark to market and other regulations
- Changing incentives including compensation structures, claw-backs, co-investments

WHAT LESSONS ARE THERE FOR LOCAL MARKETS?
Thank you!

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