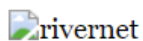




3 Key Takeaways at SWFI's Institute Fund Summit Europe in Amsterdam

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Walking the streets of Amsterdam, often you must traverse across three lanes to make it to the sidewalk – two for automobiles and one for bicycles. It provides an apt metaphor – investors often see the cars, but fail to calculate the risk when crossing the third bicycle lane. SWFI recently held its fourth annual European summit in this historic city at Hotel Okura. Institutional investors, mostly from EMEA, were much more optimistic compared to our past two European events in London and Frankfurt, respectively. This event focused on responsible investing, ESG and the topic of decarbonization. Why? Well, the upcoming Paris talks on government climate change policies, coupled with a wider adoption among governments on the role of ESG, carbon policy and investing certainly provided a relevant backdrop. These “green” themes weaved many of the panel discussions together. And yes, Volkswagen came up in several instances and so did the emerging company risk of tax avoidance by large listed companies. Furthermore, heads swiveled, as one panel had over US\$ 1 trillion in public institutional investor capital being represented.

1. Talk of Carbon Smart Beta and Decarbonization

Increasingly, pensions in Europe and in other parts of the world are forging a consensus on how to manage climate change risk by adopting some measures of portfolio decarbonization. Northern Trust's Mamadou-Abou Sarr educated the audience on ESG implementation and the numerous ways asset owners can address carbon-related goals. Sarr expressed optimism about the possible historical significance of the upcoming Paris Climate Talks.

A group of pensions and wealth funds at the conference felt that carbon was a risk (though there views varied on how big of an actual risk.) Questions loomed on the quality and methodology when looking at true carbon exposure in a portfolio. Linked to this issue, a common theme throughout the summit was how to deem which companies are carbon compliant and which are not. One panelist brought up an example of a large French company that ranks not so high on several carbon indices, but the product that it manufactures reduces energy consumption and thus drastically positively impacts the overall environment.

Another debated topic was engagement. Is it better to exclude “fossil fuels” from a portfolio or include and fight for changes in practices to the board? One panelist compared this debate on whether to include or exclude carbon stranded assets similar to the active versus passive management argument. Also the idea of carbon stranded assets like coal, could be unstranded if carbon capture technologies were to make coal clean. Thus carbon risk can go both ways. One of the investor panelists talked about carbon smart beta and how it can be used as a factor.

And yes, we had a smart beta / factor-based panel that tackled emerging problems and innovations. One of the main things the panelists could agree on was that smart beta was not something new. A major issue that came up is knowing which factors work in certain time horizons. Several people expressed that value factors must be held for long periods of time. Mark Mansley, chief investment officer of the U.K. Environment Agency Pension Fund, illustrated a clear picture on how the pension fund evolved on its ESG position to take a more active stance.

2. New Ways to Measure GDP Growth

With rampant innovations in technology, the advent of the “sharing economy” and the proliferation of apps to solve daily tasks, are gross domestic product figures accurately capturing a nation’s true output in a post-modern era? Bundesbank board member Andreas Dombret kicked off the Institute Fund Summit Europe event highlighting this issue of GDP during questions. He also gave a detailed keynote on Europe, China and the current economic state of Germany, saying in his speech, “These changes will have an impact on public finances and potential output. In the future, there will be fewer people to finance public expenditure, but more people with claims on the government’s budget. This is not exactly beneficial for public finances. The European Commission expects age-related expenditure in Germany to rise by 5 percentage points of GDP by 2060. According to the German Council of Economic Advisors, this means that public debt will rise to almost 250% of GDP over the same timespan if policy remains unchanged.”

[See his speech here](#)

3. Sectors Not Countries (For Europe)

Another key takeaway that was debated on a number of panels is what sovereign wealth funds and large pensions look at when making strategic investments. Rather than focus on shifty macroeconomic figures, wealth funds seek out sectors where they have expertise, can navigate, find a local partner (government or private) and cherry pick at the right price. These investors also seek managers that can do this. One of the panelists commented, some Gulf sovereign funds are

not looking at inflation as a major concern when investing large sums of money in Italy. Some sectors have much more attractive valuations in Europe than their American counterparts.

The views in this article are expressed by Michael Maduell.

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