ABAC-APFF Virtual Roundtable

Mobilizing Pension Funds for Growth

Co-organized by
APEC Business Advisory Council (ABAC)
Asia-Pacific Financial Forum (APFF)

27 March 2024, 10:00-12:30 JST

ROUNDTABLE REPORT

Pension funds[1] have great potential as critical sources of capital in our region. They manage large amounts of capital that can be mobilized to finance growth. However, pension fund investments have traditionally focused on a limited range of assets to ensure that these investments are prudent and diversified and avoid the risk of significant losses. At the same time, the long era of low interest rates has made it more difficult for them to meet expected targets without taking on more risk, that is in turn limiting their ability to provide adequate support for the region's rapidly aging societies.

There remain huge opportunities for investment in private markets, including infrastructure, private equity and private credit among others, where there are important funding gaps that need to be bridged. One important area is funding for many small and medium companies that have attained a level of success and have significant growth potential but are finding it difficult to obtain financing for their next stage of growth. The APEC Business Advisory Council (ABAC) and the Asia-Pacific Financial Forum (APFF) are exploring ways to enable pension funds to help bridge these funding gaps while also ensuring adequate returns and thus their ability to meet their obligations.

Expanding the range of assets that pension funds can invest in to bridge important financing gaps does not necessarily mean lower returns or higher risks. Managed properly, it can enable them to improve the performance of assets while maintaining prudence. There has been a growing realization of this in many jurisdictions, particularly in the more advanced markets, where various innovations have been introduced, such as for example the use of emerging managers. Many of these innovations are being considered by a growing number of economies.

The Roundtable explored ways for APEC member economies to facilitate the successful adoption of these innovations. The first session discussed the current landscape of pension fund investing in the region, and the challenges and opportunities in various markets. In the second session, participants considered ideas and lessons from experience and identified principles and measures that can be considered by economies to expand pension funds' ability to play a larger role in financing growth while enabling them to achieve improved risk-adjusted returns. The event brought together experts, practitioners and key stakeholders to discuss these issues and develop recommendations that will be incorporated in the 2024 ABAC reports to the APEC Finance Ministers and Economic Leaders.

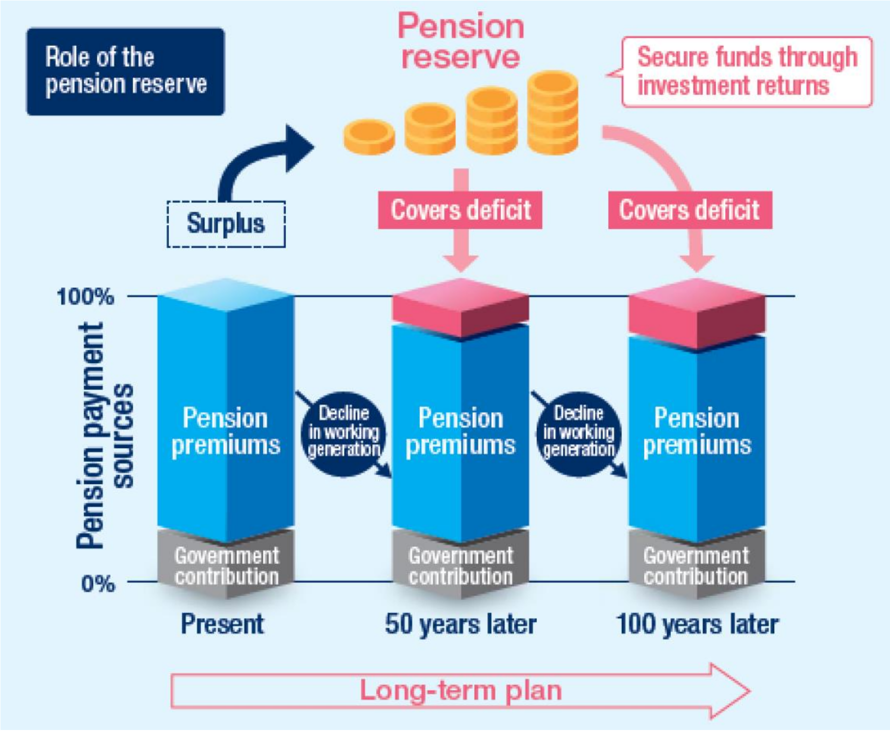
[1] Including both domestic and foreign pension funds.

THE LANDSCAPE OF PENSION FUND INVESTING IN THE ASIA-PACIFIC REGION

This session looked at the current situation of pension funds in the region with respect to their investment strategies and how these are impacted by regulatory, policy and other factors. It discussed the challenges they face as well as the opportunities they see as these affect their views on how these investment strategies should be further developed in the future.

Japan's Government Pension Investment Fund (GPIF), which is a public pension scheme that is currently the world's largest pension fund, manages and invests the pension reserves as source of the economy's pension premium, contributing to the stability of Japan's pension schemes [see Figure 1]. GPIF calculates asset allocation to achieve the target return for its beta exposure in line with the growth of the global economy with minimal risks. Generally, the policy asset mix (beta) is evenly distributed across four types of assets - domestic bonds, foreign bonds, domestic equities and foreign equities, subject to certain deviation limits. To fulfill its fiduciary duty, GPIF invests the pension reserves solely for the benefit of the pension beneficiaries.

FIGURE 1: Japan's Public Pension Scheme



Source: Government Pension Investment Fund

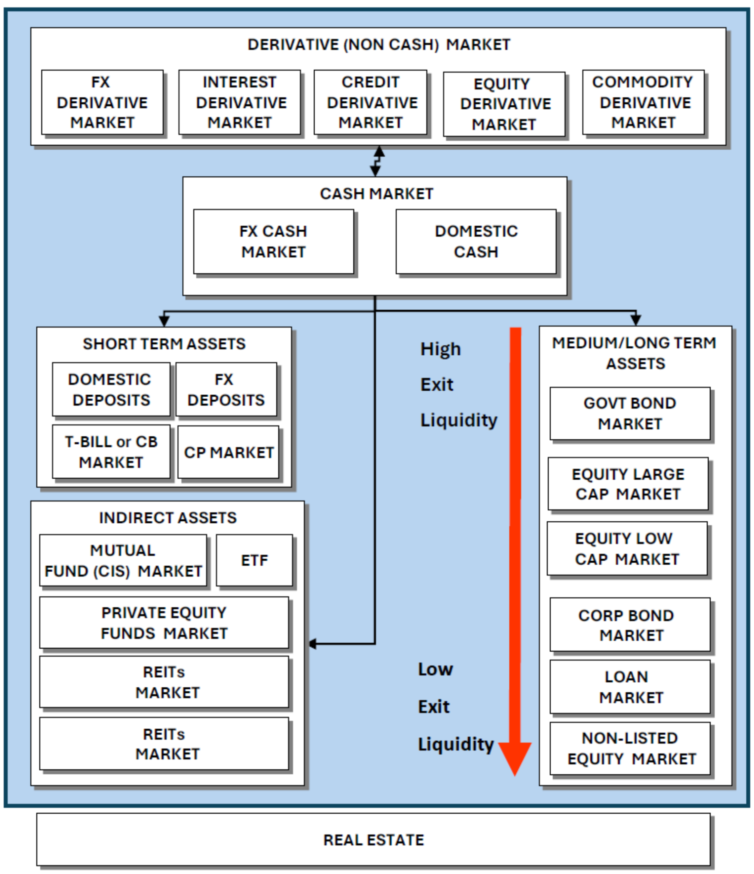
Through the years, GPIF's policy asset mix has been stable enough to gain positive returns in four years out of five. Its investment strategy is to maintain a level of stability of this beta exposure and to diversify the sources of alpha, such as among active funds, alternative funds and strategic asset allocation. For example, GPIF has been gradually adding active funds for equities since 2022 and constructing the portfolio with a very high information ratio.

Most OECD member economies' pension plan and public pension reserve fund assets are invested primarily in bonds and equities, although there is wide variation as to how they are distributed in portfolios across economies. Public sector bonds, rather than corporate bonds, make up most of these economies' direct bond holdings. Cash and deposits accounted for a significant portion of pension plan assets in some economies, while loans, real estate, unallocated insurance contracts and private investment funds take up much smaller shares of these investments, with a few exceptions.[2]

While investors look at opportunities across a wide range of assets [see Figure 2], pension funds, especially in Asia, face complexities related to valuation, access and transaction costs.[3] Their investment strategies are influenced by a broad range of considerations, including:

- level of market development and asset allocation strategies;
- size of pension fund, intermediary relationship network and outsourced investment managers network;
- mandate, internal capacity and regulatory barriers;
- cost of investment management vs impact to benefit; and
- domestic investment mandate for the economy's development vs regional aspirations.

FIGURE 2: Range of Investment Opportunities for Pension Funds



Source: Asian Development Bank

In the Asia-Pacific region, asset owner considerations may be divided into demand-side and supply-side factors. Considerations on the demand side include the following:

- market context (political, capital market and socio-economic factors);

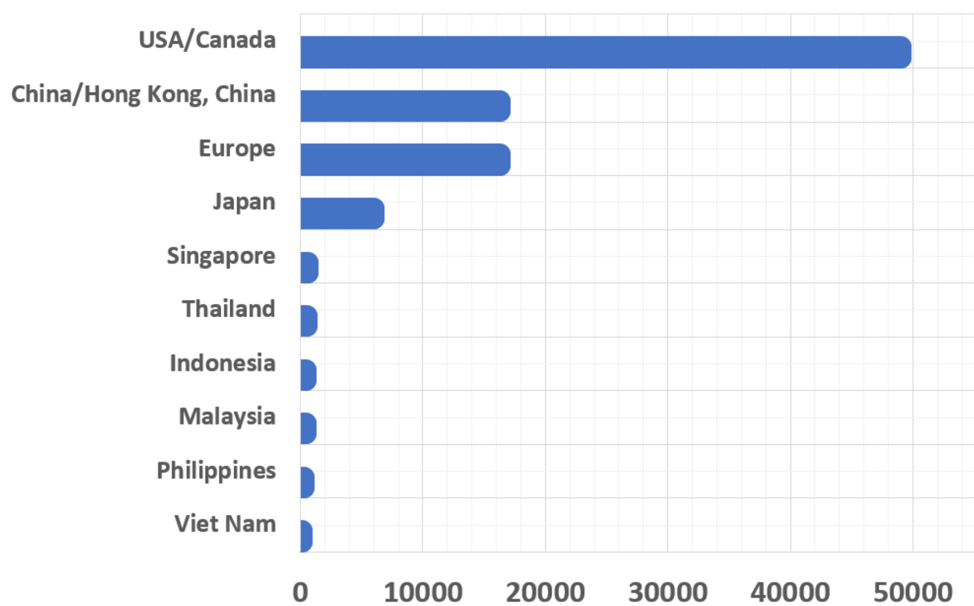
[2] OECD, Pensions at a Glance 2023: OECD and G20 Indicators, https://www.oecd-ilibrary.org/sites/a65d968d-en/index.html?itemId=/content/component/a65d968d-en

[3] Pension funds invest via external managers and their funds, via separately managed accounts or directly, with most across the region investing via managers, in which case it is more difficult to influence where the capital goes.

- institutional investor categories: (defined benefit funds, defined contribution funds, among others);
- investment strategy (strategy and expected outcomes, investment beliefs, strategic asset allocation and tactical asset allocation);
- investment universe (statutory/jurisdictional restrictions, political and currency context, capital market maturity);
- asset class preferences (public market, private markets, domestic, regional, global);
- risk appetite (general, markets/asset classes, private market);
- investment implementation method (direct/separately managed accounts, managers/active limited partnership, fund of funds);
- investment governance (board mandate/experience, strategic investment decisions, innovation, advise, oversight);
- internal considerations (internal expertise, ticket size, cash flow/horizon); and
- other aspects (ESG/Sustainability, global asset owner brand, partnering).

Supply side considerations center around the size of markets [see Figure 3]. On one hand, a few markets (USA/Canada, China/Hong Kong, Europe and Japan) make up around 80 percent of the world's total USD109 trillion stock market capitalization. On the other hand, overall institutional and externally managed assets amount to around USD17 trillion, of which 24 percent are managed externally. As a region, Asia (including China and Japan) has become the second largest private markets destination.[4]

FIGURE 3: Stock Market Size (Selected Markets), 2023



Source: Josef Pilger, Asset Owner Considerations for APAC (Presentation in the Virtual Roundtable)

An important constraint faced by pension funds in investing in emerging Asian bond and equity markets, sustainable assets and small and medium enterprises is the shortage of skilled investment professionals who have expertise in assessing investments in many developing Asian private equity markets. This highlights the need to invest in emerging managers locally to develop these markets and overcome the lack of efficiency, sophistication and depth, as well as the challenges posed by market volatility. Cases

[4] Coalition Greenwich, 2023 Key Trends in Institutional Asset Management - Asia (ex. Japan), https://www.greenwich.com/asset-management/2023-key-trends-institutional-asset-management-asia-ex-japan

such as that of the New York State pension fund's successful track record in responsible and sustainable investment could provide useful lessons.

The following are key questions facing Asia-Pacific asset owners:

- Do they have adequate desire and capabilities to focus more actively on private markets?
- How can experienced overseas peers be leveraged to de-risk and accelerate the achievement of success?
- What other partners can be relied on to achieve success?

Mobilizing Pension Funds for Growth

This session focused on the experiences of pension funds with initiatives to expand the range of their investment and their role in promoting economic growth, the lessons that can be learned from these experiences and possible ways forward. It also discussed principles that asset owners could consider adopting and ways by which governments and regulators can support the broader mobilization of pension funds to finance inclusive and sustainable growth.

Case Study: Japan

The case of Japan illustrates the growing trend in efforts to expand the role of pension funds in financing economic growth. It highlights the Japanese government's recent initiative to overhaul the investment chain by re-orienting pension funds towards supporting growth. Japan's pension system is comprised of government-run public pension funds and private pensions. The latter include corporate pensions and pension plans offered by life-insurers. Together, they form the biggest group of asset owners that make up the pension system. The size of assets under management by these different asset owners totaled JPY485 trillion at the end of 2023 (Japan's nominal GDP, in comparison, amounted to JPY 591 trillion).

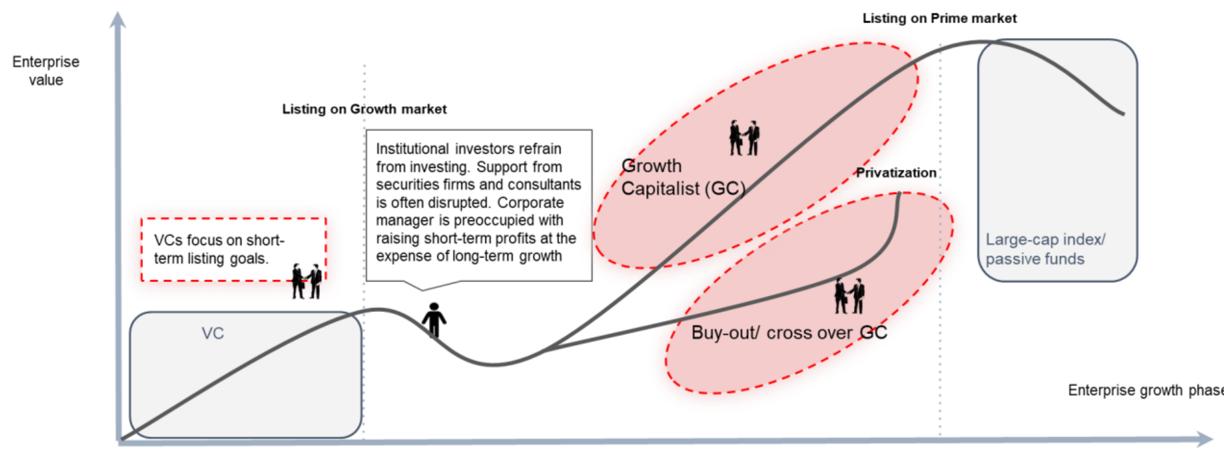
Like many other economies in the Asia-Pacific region, Japan remains a bank-centric economy, where the main intermediary function has been performed by the banking sector. The investment chain, which would be an alternative funding channel to the banking sector in providing growth capital has not fully functioned thus far. For this reason, the Japanese Government embarked on an initiative aimed at reforming asset owners and asset managers so that long-term capital can be invested in risk assets where potential for growth lies and generate higher returns over time.

A well-functioning investment chain requires enhanced roles played by both asset owners and asset managers. A new type of asset managers - emerging asset managers - are expected to function as intermediators of capital for growth, or growth capitalists (GCs) [see Figure 4]. In Japan, it has often been the case that venture capitalists (VCs) focus on short-term listing goals and only invest in companies between the founding stage and IPOs. Once VCs are gone, the post-IPO companies are left unattended with small market capitalization. The lack of post-IPO support has largely to do with the fact that major Japanese institutional investors and traditional asset managers tend to refrain from investing in small companies with less than JPY 200 billion in market value. As a result, small and mid-cap stocks with low corporate value and liquidity are often unable to obtain investors' attention even if they have high growth potential, and thus are deprived of growth opportunities after the IPO stage.

The entry of GCs is expected to fill the gap by providing continued support for companies after their IPOs to make sure they remain on a sustained growth path. Alternatively, they could privatize the listed companies again, if judged necessary, to revert to a missed growth trajectory. In this way, the asset management industry is expected to play a vital role in channeling capital for growth to the economy. Therefore, vitalizing the asset management industry through enhancing the investment skills and improving the governance structure is of critical importance. Equally significant is the promotion of new entry of domestic and overseas asset managers into the market, which will lead to healthy competition.

As a part of the measures to promote new entry, the government in its reform plan for asset owners and asset managers is committed to removing entry-barriers as well as to introducing a new program called the Emerging Manager Program (EMP) to support new entrants. This program aims to enhance the entry of emerging managers, who are typically active with small assets under management (AUM) and relatively short track records, but with high investment performance.

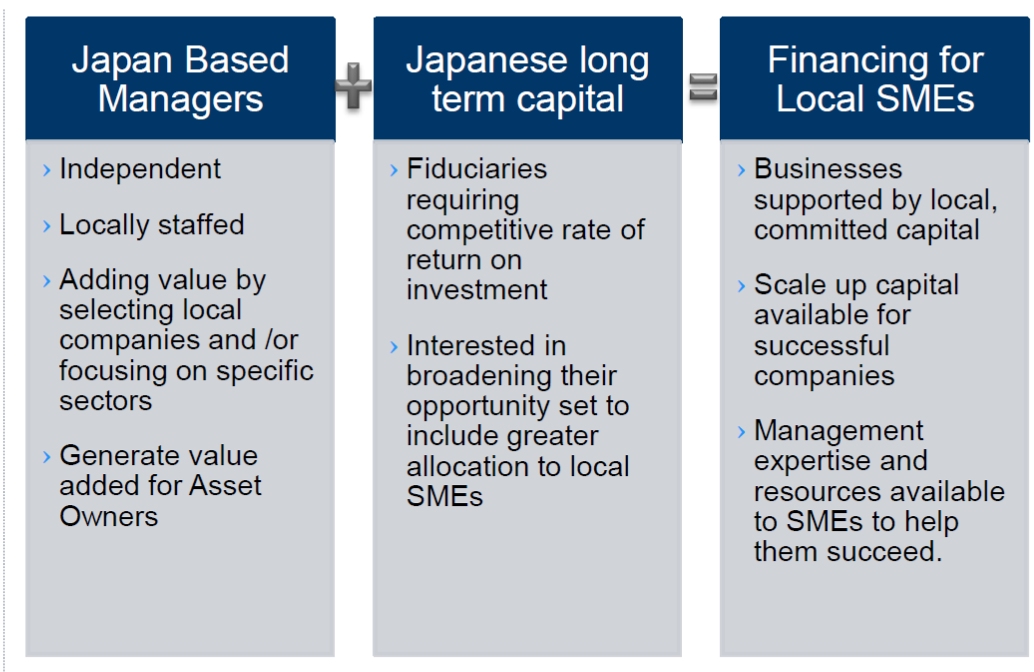
FIGURE 4: The Role of Growth Capitalists



Source: The Organization of Global Financial City Tokyo (FinCity.Tokyo)

A successful emerging manager program can serve as an important conduit to support the scaling up of funding for Japanese SMEs [see Figure 5].

FIGURE 5: Role of Emerging Managers in the Financial Market Ecosystem



Source: Mountain Pacific Group, LLC

These efforts are supported by government policy that aims to achieve a virtuous cycle of growth and distribution through an increased flow of household savings into productive investment. To encourage this trend, the government has reached out to various entities in the investment chain to promote Japan as a leading asset management center. This plan builds on two policy initiatives already put into implementation: a plan to double asset-based income and corporate governance reforms. The remaining piece now being undertaken is the reform of the asset management sector and asset ownership.

- Reform of the asset management sector aims to enhance managers' capabilities and governance and promoting new entry by domestic and foreign managers. This involves a call for major financial groups to develop their plans to describe their asset management business strategy, enhance their investment management capabilities and improve governance; the establishment of special zones (a policy package for such zones is planned to be published in the summer of 2024); and the Emerging Manager Program.
- Reform of asset ownership involves the development of asset owner principles in the summer of 2024 (to include common principles related to investment policy, governance and risk management); and the reform of occupational pension funds.[5]

Other supporting elements of the policy plan include promoting financing for growth (including investment in start-up companies with good growth potential) and diversifying investment opportunities, including alternative investments and sustainable investments; promoting effective implementation of stewardship activities through engagement efforts between institutional investors and companies; and strengthening public relations and communications, such as through the launch of an Asset Management Forum. Japan's policies to promote sustainable finance, green transformation, transition finance and impact investment are also very relevant to expand investment opportunities for pension funds.

Pension Funds' Role in Accelerating Productivity Growth by Funding Innovative SMEs

Funding innovative SMEs is one of the best ways to commercialize better ideas faster. Improving standards of living requires productivity growth and redesigning technologies to be more productive, sustainable, and energy efficient. Most innovative technologies originate in small SMEs. SME product development is slowed down by intermittent access to capital. However, change is not easily accepted, and large firms tend to improve their 'status quo' technologies gradually, as they are reluctant to adopt competing innovative replacements. Funding SMEs to commercialize better ideas faster can be both profitable and socially desirable.

An important obstacle to supporting new ideas in large organizations is personal return/risk considerations. What is best for the organization may be risky for one's career. Thus, there is logic to avoid being associated with any unconventional project. The typical tenure in any position is 6 years or less, thus the reward for starting a transformational project will likely go to one's successor. Supporting new ideas may devalue personal expertise with old ones. The safest strategy is thus continuous improvement in processes that are already well-known.

Nevertheless, it is important for pension plans to support funds to finance innovative SMEs. Intermittent access to capital slows down commercialization. Entrepreneurs spend most of their time raising money. It can take 15 years to become a success. That could be cut to around 5 years with more consistent funding. Pension plans sponsoring funds financing SMEs will (a) speed up product development and get

[5] Current plans call for the following: In the case of defined benefit (DB) pensions, promoting the review of the selection of investment companies entrusted for the best interest of beneficiaries and encouraging the pension fund association to improve its joint management scheme, including enriching service lineups for the small-scale defined benefit pensions. In the case of defined contribution (DC) pensions, promoting disclosure of information such as those related to investment policy and investment portfolio (to facilitate selection of appropriate products by pension beneficiaries). For both DB and DC pensions, promoting the disclosure of investment information n a comparable manner by the Ministry of Health, Labor and Welfare.

the product to market faster; (b) increase the negotiating position of SMEs with potential adopters; and (c) increase return on capital in an underserved market.

There are several operational issues that need to be addressed:

- Pension plan reporting on SME funds. SME funds should report to the very top in pension plan management to insulate them from the conventional asset-class culture. A case in point is a major US company that insulated innovative projects in its independent "skunk works," based on the consideration that introducing a new idea into a big organization is the best way to kill it. Pension plan results are measured against annual return benchmarks and peer return performance, even though official goals are long-term. SME results will likely be very volatile annually. Pension plans generally do not have good knowledge of real engineering. Thus, hiring more young engineers with an understanding of finance would be advisable.
- SME funding should be long term. Intermittent funding increases SME mortality, making them vulnerable to more mature competitors, who only need to wait for them to run out of cash. Long-term pension plan funding will increase the rate of success. Release of funding should be based on 'milestones' being met, with some allowance for unforeseen circumstances and provisions for changes in SME leadership and change of control.
- Fund manager performance evaluation. Evaluation horizon for managers needs to be long-term. Funding innovative SMEs meets a long-term objective. It makes no sense to measure outcomes in the short run. A short-term evaluation horizon reduces risk-taking by managers and defeats the purpose of long-term SME funding. Conventional benchmarking makes little sense. Idiosyncratic risk for any portfolio of SMEs is high. Outcomes critically depend on potential technology adopters overcoming their tendency to protect investment in old technology. While failures tend to come early, successes take longer to emerge.

Emerging Manager Programs: Goals, Best Practices and Lessons Learned

The concept of emerging managers has been adopted in several markets.[6] There are variations in features depending on the goals of program sponsors, asset class focus and other criteria. In general, an emerging manager has the following characteristics:

- Independent –not affiliated with a major investment firm, bank, or insurance company.
- Newly established –less than a certain number of years in business (typically 3-5 years). For private equity managers, the general partner raising its first, or second fund.
- Small –less than a certain level of Assets Under Management (typically USD 2-3 billion).
- Specific Asset Class/Sector Focus –such as for example small cap equities, or private equity.
- In the United States, some of the Emerging Manager Programs are focused on selecting managers which are representatives of specific ethnic and gender identities.

An emerging manager program can provide attractive returns for program sponsors (asset owners) by enabling the undiscovered talent of emerging managers. It can help build an ecosystem of successful independent managers and develop a local talent pool. It can support broader policy goals, such as fostering innovation by making capital available to start-up companies in certain sectors and industries or making capital available to small cap listed companies. It can support the development of financial centers. A prerequisite for success of an emerging manager program is the formulation of clearly defined and articulated goals that provide effective incentives.

[6] Among the first emerging manager programs introduced in the USA was the California Initiative led by CalPERS, which started in 2001 with just under USD 0.5 billion.

Following are critical factors to be considered for the success of Emerging Manager Programs:

- *Asset owners and program sponsors need to provide top-level multi-year commitment, strong leadership of the program and strong and effective support to emerging managers*. Key factors: (a) multi-year commitment and support from top management with merit-based increases in AUM designated for Emerging Manager Programs; (b) strong leadership of the Program - the team implementing the program must have the relevant manager selection and asset class experience combined with high personal integrity and knowledge of the challenges that early-stage managers encounter; (c) clearly defined goals and objectives of the Program; (d) clearly specified criteria for who qualifies as "Emerging Manager," including a "graduation" and "divestment" process; (d) careful selection of talented manager teams to include in the Program; (e) emphasis on entrepreneurship and innovation; (f) support and resources to allow managers to focus on investments, (e.g., operational, accounting, back office, marketing, etc.); and (f) providing networking opportunities for emerging managers to exchange best practices and for capital introductions.
- *Selection of managers should be based on the following critical considerations: (a) en*trepreneurial drive and strong desire to innovate; (b) demonstrated willingness to take risk; (c) track record of prior success; (d) specialist skillset that is underused in larger firms; (e) ability to manage a new enterprise; (f) integrity; (g) strong work ethic; (h) ability to work together as a team and manage a new enterprise; and (i) manager incentive structure and motivation aligned with the goals of the asset owners.
- *The Emerging Manager Program should be designed to engage truly entrepreneurial managers with access to long-term capital*. Among the key considerations are the following: (a) who would administer the program and select the managers; (b) how large is the commitment and over what period of time; (c) setting up the right governance structure to enable understanding of the risks, such as higher failure rate, ability to make decisions quickly, flexibility to adapt to changes; and innovation and "out of the box" thinking; (d) benchmarking and measurement that is realistic, timely, and encourages an appropriate level of risk-taking; (e) clear criteria for selection and graduation of managers; (f) results-oriented funding for managers and setting performance milestones linked to access to additional capital; and (g) making operating capital support available to managers as part of the program.
- *A friendly and supporting ecosystem will enable emerging managers to focus on investments by making it easier for them to manage and grow their business.* Best practices include the following: (a) support in the areas of administration, compliance, legal, and marketing; (b) going through a practice due-diligence process with an emerging manager's operations team; (c) maintain a list of prequalified service providers willing to work with emerging managers (custodians, administrators, law firms, auditors, etc.); (d) developing a set of templates for standard documentation (e.g., fund offering documents) that emerging managers could, but are not compelled, to use; (e) developing standardized performance and risk reporting; (f) facilitating capital introductions including for co-investment in portfolio companies; and (g) exchange of knowledge and best practices through conferences and seminars.

Experiences with emerging manager programs so far demonstrate that if properly structured, they can assist in bridging the funding gap for small and medium companies. However, it is important to take into consideration the lessons from these experiences:

- Investing in SMEs is perceived as risky and the deal size tends to be small which makes them less attractive to large managers.
- Talent recruitment for the Emerging Manager Program is likely to be a major challenge. It takes a special combination of experience, willingness to take risk and hard work to succeed. Most

businesspeople and investors are risk averse. Large company structures tend to strongly reinforce that behavior.

- It takes time and support to foster innovation.
- The Emerging Manager Program needs to enable and reward risk taking.
- Manager success is path dependent. Early investment success is often a key determinant of survival and long-term success of the Manager's business.

Trends in Emerging Manager Programs

Geopolitical conflicts, inflation, the impact of COVID-19 and more volatile markets have created a challenging environment for emerging managers in the Asia-Pacific region. However, recent regulatory developments are opening up new opportunities for emerging managers. Among them are the following:[7]

- *Singapore*: The introduction in 2020 of a new corporate structure, the Variable Capital Company (VCC), provides a flexible and efficient vehicle for fund managers to establish and operate investment funds. This structure provides tax benefits (e.g., exemption from the Goods and Services Tax and dividend withholding tax) and expanded options available to fund managers by permitting both open-ended and close-ended funds.
- *Japan*: The introduction of the Limited Partnership System (LPS) in 2019 provides greater flexibility (allowing investment funds with separate legal personalities and limited liability for partners) and reduces administrative burdens (introducing simplified reporting and disclosure requirements) for fund managers compared to traditional investment structures.
- *Hong Kong, China*: The Hong Kong Limited Partnership Fund (HKLPF), which was launched in 2020, provides a new legal framework for limited partnership funds that includes tax benefits (e.g., exemption from profits tax on income from qualifying transactions) and enhances transparency and regulatory oversight of private equity and venture capital funds.

A recent market survey[8] reveals that despite current market turbulence and rising interest rates and expectations that large and established asset managers will attract all the new allocations, allocators continue to tentatively consider opportunities in emerging managers. More than two thirds of limited partners are at present invested with emerging fund managers. Key factors for consideration are higher alpha opportunities and unique investment strategies. Nevertheless, GPs' increased preference for established markets in North America and Europe amidst a difficult fundraising environment indicates a challenging period for emerging managers over the next several months. The most important factors named by LPs behind their hesitance to invest with emerging managers are difficulties in assessing their investment process and strategy and conducting due diligence, regulatory and compliance concerns and limited transparency and reporting.

Emerging managers face a number of operational challenges. One is the large amount of AUM that custodians require for managers they are willing to work with – typically over USD5 billion for large global custodians and USD1 billion to USD2 billion for second-tier global custodians. Another is the difficulty of finding fund services providers (usually bundled with custody) to value and service assets and provide related services such as KYC and regulatory reporting. A third relates to registry providers, which in most cases are focused on scale and prefer to work with managers with a large number of investor accounts rather than with emerging managers that have a small though highly focused investor base. Finally,

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[7] Vivian Zou, "Overcoming Challenges with APAC Strategies for Emerging Fund Managers," SS&C Blog, 9 February 2024 [https://www.ssctech.com/blog/overcoming-challenges-with-apac-strategies-for-emerging-fund-managers]

[8] SS&C and Private Equity Wire, Embracing the New: Decoding LPs' perspectives on emerging managers, 2023.

emerging managers do not have sufficient time and resources to establish the required infrastructure to be able to connect to the markets.

In order to succeed, emerging managers need to meet pension funds' expectations of an efficient and robust operating model. This requires:

- ability to undertake operational due diligence reviews;
- ability to manage complexity, given that emerging manager strategies are not standardized;
- ability of staff to understand the investments and identify nuances;
- systems designed to suit the investments and cater to varied asset types;
- global support model across multiple time zones and markets;
- integrated platforms that enable automation;
- fast, reliable and accurate data to manage investments and report back to investors;
- regulatory reporting across multiple jurisdictions; and
- experience, flexibility and long-term perspective.

However, there continue to be successful cases of emerging managers even under the current challenging environment.[9] The survey concludes with a cautious optimism that emerging managers who are able to live up to these expectations can gain the competitive edge in a market that is poised to grow with greater interest rate stability and a more favorable fundraising environment.

CONCLUSION

Following are the main conclusions of the Roundtable:

- ***A well-designed and sustainable pension system can provide an important source of capital for growth*** in the Asia-Pacific region. Global growth remains important, not only for individual economies, but also for pension funds in the region collectively, as they expand cross-border investment in pursuit of global diversification strategies.
- ***Mobilizing pension funds and investment by a new breed of emerging asset managers in the untapped deep universe of small and midcap companies*** in the Asia Pacific Region will help them make further progress along the growth trajectory. Overhauling the pension system and the investment chains in the APEC economies opens an opportunity to mobilize pension funds to be effectively invested in potential areas that support the region's overall economic growth.
- A ***holistic approach is needed to upgrade the investment chain with asset owners and asset managers as key players***. This will need to involve a policy plan with a particular focus on improving the roles to be played by the asset management industry and asset owners. Key areas include diversification of investment opportunities, including, in particular, in infrastructure assets, and effective implementation of stewardship activities. In entrusting asset management to emerging asset managers, asset owners and financial institutions including banks and life-insurers, should not exclude emerging asset managers from the selection process of fund managers simply because their track records are short.
- With regard to the asset management industry, emerging asset managers can play an important role in improving investment returns. Creating an ***enabling ecosystem for emerging managers*** is of critical importance. This will need to include (a) a build-up of data-based investment performance or track records of individual emerging managers and providing a list of eligible managers based on that data;

[9] See for example the case of Farrer Capital, https://www.afr.com/markets/commodities/this-hedge-fund-is-betting-big-on-la-nina-s-return-20240308-p5fasx.

(b) standardization of documentation templates and performance and risk reporting; and (c) maintenance of a list of pre-qualified service providers, such as custodians and law firms.

- ***Adoption of asset owner or more broadly emerging manager program sponsor principles*** could be promoted within individual jurisdictions to provide guidance for asset owners' asset management, governance, and risk management. The principles could include top management commitment and support, clearly defined goals and clear qualification criteria for emerging managers, among others. They may also include a provision that encourages asset owners, for example, to allocate a certain portion of funds to emerging managers with a view to generating higher returns for the sake of their beneficiaries.
- Many ***emerging managers are themselves startups or SMEs and thus need to be treated accordingly in their infancy***. For example, in terms of regulation, they may be allowed to outsource middle- and back-office operations. Likewise, they should be made eligible to access public support on equal terms as the counterparts in other industries. Typically, they should be covered by the public credit guarantee system so that they can borrow from banks against the guarantee to finance the working capital for their own sake. There may also be a case for favorable tax treatments while they are in the startup phase.
- ***Financing SMEs is challenging in most economies***, where there is no deep capital market-driven funding culture and there is inadequate local market expertise and scale. Challenges include ways to channel funds to SMEs that can be drivers of productivity improvements but with typically small ticket size, low market capitalization and low liquidity. Ways to enable information dissemination by SMEs themselves should be explored, in order for them to communicate investment opportunities to the investor community. Political and currency risks are two of the biggest barriers to investment by foreign pension funds that multilateral agencies could help address.

RECOMMENDATION

Enabling pension funds to expand and diversify investment in private markets (including real estate, infrastructure, private equity and private debt) and small- and mid-cap companies will require addressing obstacles that arise from various supply- and demand-side factors, particularly the structural and operational factors affecting investment decisions in large asset owners and the shortage of skilled investment professionals in many of the region's economies. Recognizing the varying levels of market development across the Asia-Pacific, such an initiative needs to rely on a strategy that encourages the more mature economies to accelerate reforms and at the same time provides a capacity building platform to prepare the less mature economies to follow in this path.

Launch an **Inclusive Long-Term Investment Pathfinder Initiative** to (a) encourage more mature member economies to introduce reforms enabling pension funds to expand investment in private markets and small- and mid-cap companies and (b) support less developed economies in developing capacity to undertake these reforms in the future. This initiative can focus on the following components:

- **Policy reforms** such as: (a) improving ***corporate governance***; (b) ***reforming the asset management sector***, which could include facilitating the entry of new domestic and foreign asset managers, regulatory reforms, standardization of documentation templates and performance and risk reporting, establishment of data-based investment performance or track record of individual emerging managers and a list of eligible managers based on the data, maintenance of a list of pre-qualified service providers (e.g., custodians, law firms) and establishment of special economic zones, among others; and (c) ***reforming asset ownership***, which could include the development of new asset owner principles, disclosure of comparable information on pension funds' investment strategies and performance and pension fund reform among others.

- Development of **Best Practices for Emerging Manager Programs**, including best practices for asset owners'/program sponsors' support for emerging managers, criteria for selection of emerging managers, design of Emerging Managers Programs and the creation of an enabling ecosystem for emerging managers.
- **Convening key policy, industry and multilateral stakeholders** through existing or new initiatives to (a) provide political and commercial reinforcement for the mobilization of risk capital from asset owners and managers; (b) stimulate discovery of new opportunities in small ticket investments that will tease out real barriers through showcasing of local investment opportunities in emerging markets; and (c) identify creative solutions and partnerships between public and private (including fintech) sectors and multilateral institutions.

AGENDA

(*Times displayed are Japan Standard Time*)

5 minutes (10:00-10:05)	**OPENING SESSION** **Welcome Remarks** Mr. Hiroshi Nakaso, Chair, ABAC Finance and Investment Task Force; Chairman of the Institute, Daiwa Institute of Research; and Chairman, FinCity.Tokyo
60 minutes (10:05-11:05)	**SESSION 1** **THE LANDSCAPE OF PENSION FUND INVESTING IN THE ASIA-PACIFIC REGION** *This session will look at the current situation of pension funds in the region with respect to their investment strategies and how these are impacted by regulatory, policy and other factors. It will discuss the challenges they face as well as the opportunities they see as these affect their views on how these investment strategies should be further developed in the future.* Moderator: Dr. Peter Morgan, Senior Consulting Economist and Advisor to the Dean, Asian Development Bank Institute
	Mr. Eiji Ueda, Executive Managing Director and Chief Investment Officer Government Pension Fund, Japan (GPIF) Mr. Faris Rabidin, Principal Financial Sector Specialist, Asian Development Bank Mr. Josef Pilger, NED, Senior Advisor, Author and Former EY Global Pensions & Retirement Leader Ms. Vanessa Wang, Head of Asia-Pacific, DWS Group **Open Discussion**
80 minutes (11:05-12:25)	**SESSION 2** **MOBILIZING PENSION FUNDS FOR GROWTH** *This session focuses on the experiences of pension funds with initiatives to expand the range of their investment and their role in promoting economic growth, lessons that can be learned from these experiences and possible ways forward. It will also discuss principles for asset owners and ways by which governments and regulators can support the broader mobilization of pension funds to finance inclusive and sustainable growth.*

	Moderator: Dr. Julius Caesar Parreñas, Coordinator, Asia-Pacific Financial Forum; and Senior Advisor, Daiwa Institute of Research
	Mr. Hiroshi Nakaso, Chair, ABAC Finance and Investment Task Force; Chairman of the Institute, Daiwa Institute of Research; and Chairman, FinCity.Tokyo
	Ms. Jolanta Wysocka, CEO, Mountain Pacific Group, LLC, United States
	Mr. Hideki Takada, Director for Strategy Development, Financial Services Agency, Government of Japan
	Dr. Leo de Bever, Senior Advisor, Mountain Pacific Group, LLC
	Mr. Enrique Gonzalez, Head of SS&C GlobeOp for Australia and New Zealand
	Open Discussion
5 minutes	**CLOSING SESSION**
(12:25-12:30)	**Concluding Remarks** Mr. Hiroshi Nakaso, Chair, ABAC Finance and Investment Task Force; Chairman of the Institute, Daiwa Institute of Research; and Chairman, FinCity.Tokyo