Institutional Investment Research

Finance & Geoeconomics Series 29 October 2024 [vol. 22]

Road to Rio: Pension Superpowers, Private Market Assets, GDP Growth and the New Wealth of Nations . . .

M. Nicolas J. Firzli
Nicholas John Sherry
Dr. Iuliia Shpak
Christopher Smith

The Future of Asset Ownership Project
Policy Innovation/Governance Research
EU ASEAN Centre and World Pensions®

SINGAPORE FORUM
APAC+G12 SUMMIT

A Changed Geopolitical and Financial Markets Context

This short primer summarizes succinctly some of the comments made by the authors in various forums and policy gatherings in the past four months – notably but not exclusively the International Seminar of Brazil's National Association of Pension Funds**, Abrapp**, (Madrid, 24 May 2024), the **50th G7 Summit** (Borgo Egnazia, 13 – 15 June 2024), meetings with UK members of Parliament, trade union leaders and policy thinkers (July 2024), and the CEE4Impact European conference (Budapest, 3 October 2024).

Immediately upon taking office (5 July 2024), Keir Starmer (Prime Minister) and Rachel Reeves (Chancellor of the Exchequer) signalled their will to experiment with a new centrist and centre-left policy mix. The high ranking civil servants at the helm of **His Majesty's Treasury** adopted a new economic strategy combining "modern supply side economics",[1] the generalisation of public private partnerships (PPPs) and the progressive deployment more pension capital domestically, into UK infrastructure (energy, transportation), rapidly growing non-listed enterprises and venture capital funds focusing on tech and high-value-added startups (the firms of the future). The new UK government is clearly inspired by Australian and North American (in particular Canadian) economic policies.

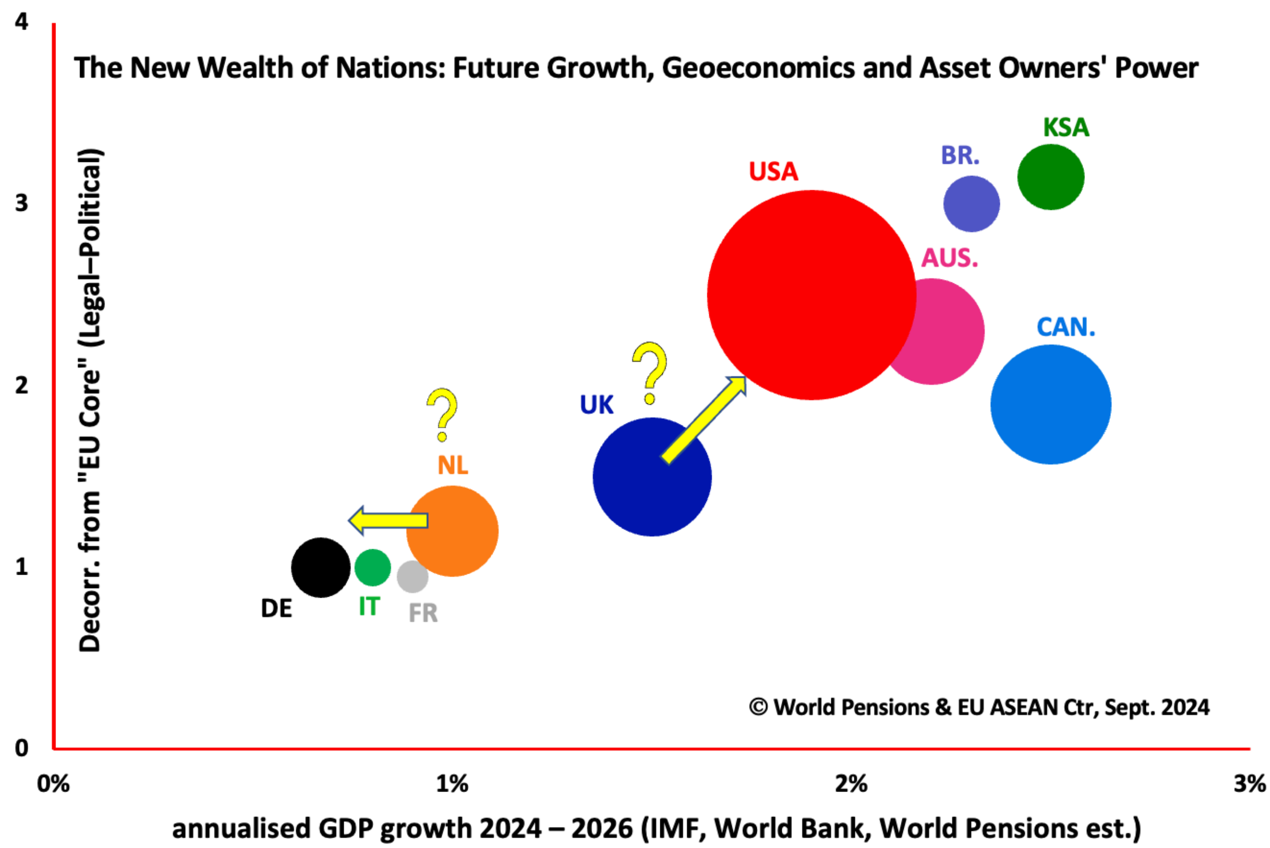
Unlike other large European economies (Germany, France, Italy), Britain is a **pension superpower** with large pension assets which, in the words of the new UK Chancellor, can be harnessed to "fire up the UK economy".[2] This formerly overlooked economic potential is moving centre stage as a new voluntarist government seeks to mobilise all the nation's strategic advantages in the intensifying "global race for growth": the new era of intense economic and technological competition which Chinese and American policy planners already call "Cold War 2" or **"post-globalization"**. In a certain sense, this policy mix combines key features from **Igor Ansoff**'s strategic planning insights transferred, as it were, from corporate to national level, [3] and Edward Luttwak's hyper ambitious recipe for economic growth and techno-financial prosperity ("turbo capitalism"), where the central government, the management of blue chip companies and cash rich pension funds and SWFs all work hand in hand for the national interest.

Pension Superpowers and the Age of Geoeconomics

Such a policy mix isn't entirely new: as noted by **Theodore Roosevelt** (1912 presidential platform), "the time has come when the Federal Government should co-operate with manufacturers and producers in extending [...] foreign commerce. It is imperative to the welfare of our people that [...] in every way possible our Federal Government [and the private sector] should co-operate in this important matter. Germany's policy of co-operation between government and business has, in comparatively few years, made that nation a leading competitor for the commerce of the world".

Today, what truly distinguishes our world from America and Germany in the late Edwardian era is the emergence of a fourth autonomous player, apart from “the state, producers and the people”. At a time when government spending faces unprecedented limitations (fiscal austerity, debt crises, end of quantitative easing) and traditional sources of long-term capital such as banks (‘financial producers’) are constrained by draconian regulations (Basel solvency rules), institutional asset owners i.e. large pension funds, sovereign wealth funds and endowments have become the main source of capital in many countries. [4]

And their “share of voice” is set to rise further in the coming years: pension funds are now, by far, the world’s preeminent asset owners, with more than **$ 55 trillions in combined assets**. [5] For perspective, this amount represents practically 90% of the overall **GDP of all OECD countries** put together. The largest pension funds are found in the United States, Canada, Australia, Japan, the Netherlands, the UK and Scandinavia (**‘pension superpowers’**). How they are managed, their funding levels, their annual costs, the actuarial assumptions they use, and the way the invest their money have received increased attention from policy makers and asset management companies alike, from Ottawa to Canberra.



Understanding The New Wealth of Nations

To better understand these defining issues, the authors of this article have developed the notion of "new wealth of nations" with the Hon. **Nicholas Sherry**, the former pension minister of Australia, chairman of **TWU-SUPER**, the transportation industry pension fund, and one of the fathers of the 'Australian pension miracle', and **Christopher Smith**, chairman, **Westminster Pension** Fund (WCCPB). This original policy making tool builds upon earlier research conducted jointly by M. Nicolas J. Firzli, Executive Director, World Pensions, and Dr. **Joshua Franzel**, Senior Executive & Director, Research & Data Analysis, US **National League of Cities** (NLC). Our findings are summarised in the data chart shown here (see pg. 3).

In the **New Wealth of Nations and Pension Superpowers** mapping (cf. chart), bubbles represent the relative size of a country's overall pension assets, the US being slightly rescaled here (America should look larger). Clearly, the EU's big three, Germany, France and Italy, have tiny domestic pension assets, which could constitute a financial impediment going forward: poor domestic capital base eventually hindering economic growth. Here, annualised **GDP growth 2024 – 2026** is based on IMF and World Bank data as well as World Pensions proprietary research. The Y-axis shows "Decorrelation from EU Core", a hybrid **legal–political-monetary metrics**, level "1" meaning perfect alignment with Berlin (German government) and Brussels (European Commission) etc. Yellow arrows simply show some possible economic trajectories, among others, e.g., for the Netherlands, we show a "pessimistic pathway" as an example of "what could happen in the future".

These important issues will be further discussed by the authors with a wide range of pension executives and board members (trustees), trade union leaders and policy thinkers at the upcoming **World Pensions** conference held in the **City of London**, **21 – 22 October** 2024, and the **G20 Pensions** Roundtable (G20/P20 Rio, 18 November 2024), a high-level nonpartisan seminar held on the sidelines of the **2024 G20 Rio** Summit (19th G20 summit). Learn more: **ESGSummit.org**

M. Nicolas J. Firzli *is founder of the World Pensions conference, the retirement & savings industry research and advocacy platform, co-chair of the G20 Pensions Roundtable held on the sidelines of the G20 Summit, founding-member of the Advisory Board for the Global Infrastructure Facility (GIF), the World Bank and G20–led global initiative, and managing director of the Singapore Economic Forum (SEF). Nicolas is a graduate of Canada's McGill University (Statistics & Financial Economics), an alumnus of the HEC Paris School of Management (MBA Corporate Strategy & Marketing) and the University of Paris Law School (LL.M. Corporate Law) and has conducted research at the University of Louvain (UCL) Doctoral School of Economics and Management in Waals Brabant (Belgium)*

The Hon. Nicholas John Sherry *is the former pension minister of Australia (Minister for Superannuation) and one of the fathers of the 'Australian pension miracle'. Nick Sherry is the cofounder of the EU ASEAN Centre (EuAC), Singapore Economic Forum (SEF), which he chairs, chairman of TWUSUPER, the Australian transport industry pension fund, and chairman of the board of Household Capital, a leading Australian fintech providing home equity retirement funding and longevity income. He was educated at the University of Tasmania (BA Classics & Political Science) and is a fellow of the Australian Institute of Superannuation Trustees (AIST) and a graduate of the Australian Institute of Company Directors (AICD).*

Dr. Iuliia Shpak, *PhD is Co-Head, Fundamental Investing Strategies, Xantium Fund, at Tudor Investment Corp. Dr. Shpak is cofounder of the EU ASEAN Centre at Singapore Economic Forum (SEF), and advisory board member of the G20 Pensions Roundtable (P20).*

Chris Smith *is Chairman of the Board of the City of Westminster Pension Fund in London, Branch Secretary (West.) of UNISON, the UK's largest trade union, and founding member & co-chair of the G20 Pensions Roundtable (P20).*

The views expressed herein are solely those of the authors and do not necessarily represent the views or positions of Tudor Investment Corporation or the Xantium Partners Funds

ENDNOTES & RESEARCH RESOURCES

[1] Firzli, M. Nicolas J. and Nick Sherry. "Labour's Modern Supply Side: Infra & Tech Driven Growth, VC Hubs and Pension Capital." Video Voice Series. 2024 July 9.

[2] UK Government Press Office. "Chancellor Reeves: Pension Funds Can Fire up the UK Economy." 7 August 2024. https://www.gov.uk/government/news/chancellor-reeves-pension-funds-can-fire-up-the-uk-economy

[3] Ansoff, Igor. "Managing in Turbulent Environments: Igor Ansoff's Strategic Success Model", *Singapore Institute of Management* (1990): 1-4.

[4] Firzli, M. Nicolas J. "Pension Superpowers and Financial Markets in the Sino-American Century." *Private Debt Investor* (2020).

[5] Updated estimates based on earlier research work conducted by Nicolas Firzli and Joshua Franzel, see notably "Public Pension Plans and Inflation in the United States and Other Selected Jurisdictions." *Revue Analyse Financière* (2013).