

GOVERNANCE AND INVESTMENT OF **PUBLIC PENSION ASSETS**

Practitioners' Perspectives



Editors

Sudhir Rajkumar
Mark C. Dorfman



THE WORLD BANK

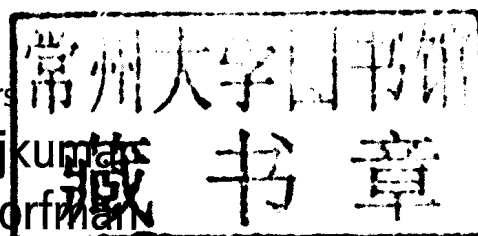
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Foreword

The global financial crisis of 2008–09 hit pension funds hard, reducing the value of their assets dramatically. Together with increased fiscal pressures and the longer-term aging trend in populations, it has brought the pension funding challenge to the top of the policy agenda in many countries. Much of the solution to this challenge, of course, lies in addressing the scale and structure of promised benefits and burden sharing among different stakeholders. But governance and investment policy—the subjects covered in this volume—also play a crucial role.

Public pension funds are among the largest pools of assets in many countries, and therefore are an important category of long-term institutional investors. At the same time, investment returns on public pension funds in many countries have been below the inflation rate or lagged growth in per capita income, undermining the financial sustainability of these pension systems. Weak governance, susceptibility to political interference, and a low level of transparency and public accountability to often contribute to this troubling outcome, as does the public sector’s unwillingness or inability to invest adequately in the human capital and physical infrastructure essential to achieve adequate risk-adjusted returns.

In an effort to address some of these weaknesses in governance and investment capabilities, and contribute to the World Bank’s broader development mission, the World Bank Treasury partners with pension funds and other public sector asset managers in our member countries as they build the capacity to address these issues. These partnerships are grounded in the essential cooperative nature of our institution, and build on the Treasury’s 60 years of experience in managing assets in global markets across a broad spectrum of asset classes.

Governance and Investment of Public Pension Assets: Practitioners’ Perspectives brings together contributions from more than 30 pension fund practitioners, policy makers, regulators, and experts from around the world. It illuminates key issues related to the governance and investment management of pension funds using real-world examples. The editors designed the volume as an accessible guidebook for senior policy makers seeking practical ways to tackle the issues they face in governance and investment of public pension assets.

I believe this book meets a widely acknowledged need for more practitioner-oriented information on these issues, and should catalyze further work in this important field.

Kenneth G. Lay
Vice President and Treasurer
World Bank

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This book could not have been possible without the contribution and collaboration of a large group of individuals inside and outside the World Bank. More than 30 practitioners who hold leadership positions in public pension funds, and pension policy making and regulatory agencies in different parts of the world, as well as experts in various global and multilateral organizations, took the time from their busy schedules to contribute papers for this book. Their knowledge and experience in the practical aspects of the governance and investment of public pension assets, coupled with their professional insights, will without a doubt be highly useful for governing board members and other officials of public pension funds, as well as government officials responsible for pension policy and regulation.

We are grateful for the insights offered by Jeffrey Carmichael, Chief Executive Officer of Promontory Financial Group Australasia, and Jai Parihar, retired Chief Investment Officer of Alberta Investment Management Corporation, both of whom provided objective and constructive comments as external reviewers on earlier drafts of the book. Jeffrey and Jai's efforts allowed us to fashion the structure, clarify the content, and improve the overall utility of the book.

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PART ONE

Summary and Key Messages

Governance: Summary Findings

Investment Management: Key Messages

