



Reframing Finance: new models for long-term investment management

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Why do we study Long Term Investors?

- ▶ Perhaps the most important organizations on earth after governments and businesses

(Pensions, Sovereign Funds, Endowments, Foundations).

- ▶ The base of modern capitalism... \$150 trillion of risk capital.
- ▶ The foundation of modern social welfare... these funds exist to solve big problems (e.g., paying for pensions).



Why are these funds created?

- ▶ Answer: To keep the cost of a promise down...
- ▶ NOTE: All future promises have three parts to consider:
 - ▶ The promised amount (Future Benefit)
 - ▶ The saved amount (Today & Past Contributions)
 - ▶ The performance (Past, Present and Future Returns)
- ▶ Why so many institutional investors in the world? Governments realized this logic:
 - ▶ If you deliver amazing performance, you don't need to save as much!
 - ▶ And you can spend money on other things, like roads and schools.

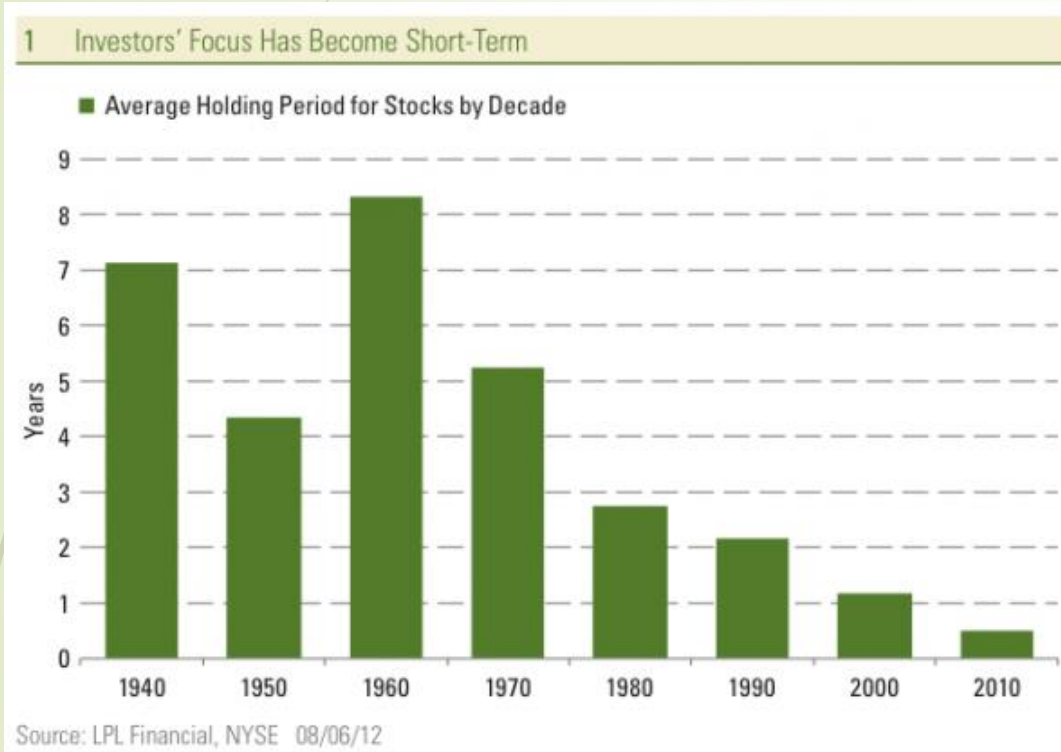


A Long Term Mystery

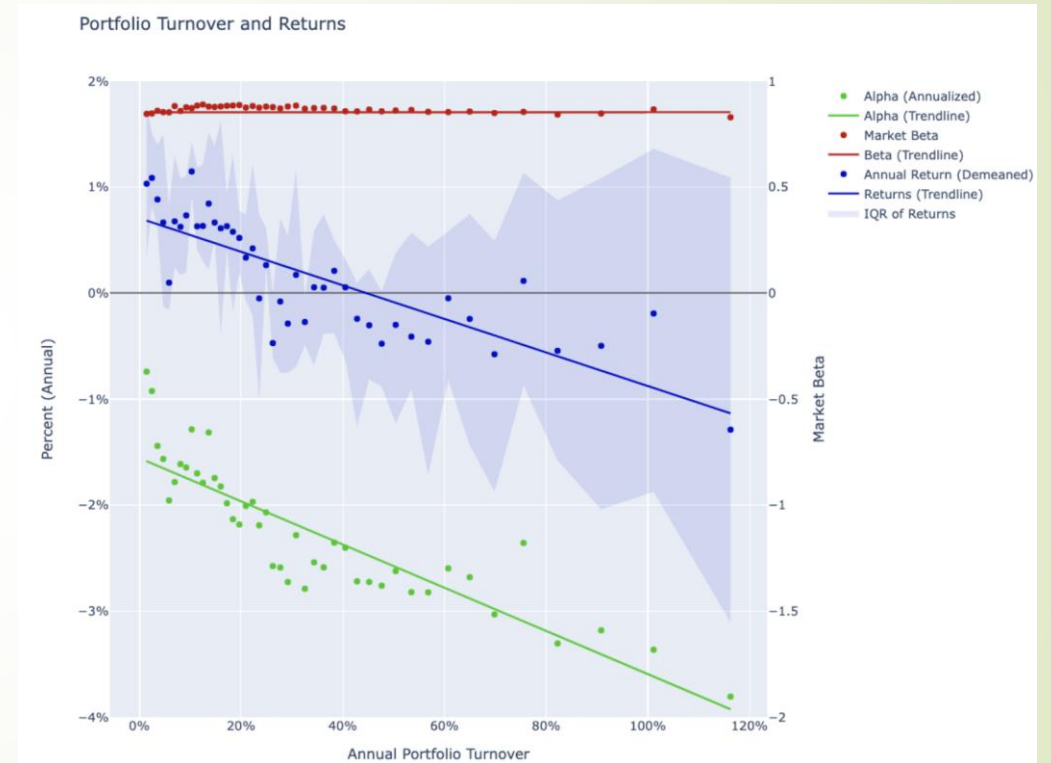
- ▶ Asset owners are inherently LONG TERM:
 - ▶ Asset owners (e.g., pension funds, endowments) are often meant to operate in perpetuity, with liabilities that can extend for decades (centuries?)
- ▶ Patience is (by far) the most underutilized resource among institutional investors:
 - ▶ Buffer against transient downturns and superficial changes; allows 'noise' to be ignored
 - ▶ Permits emphasis on possibilities, rather than probabilities
 - ▶ In times of massive disruption, long-range/global thinking matters most
 - ▶ Operate in markets where supply of capital is limited

If long-termism is so valuable...why is so short-termism rampant?

Short termism is rampant...

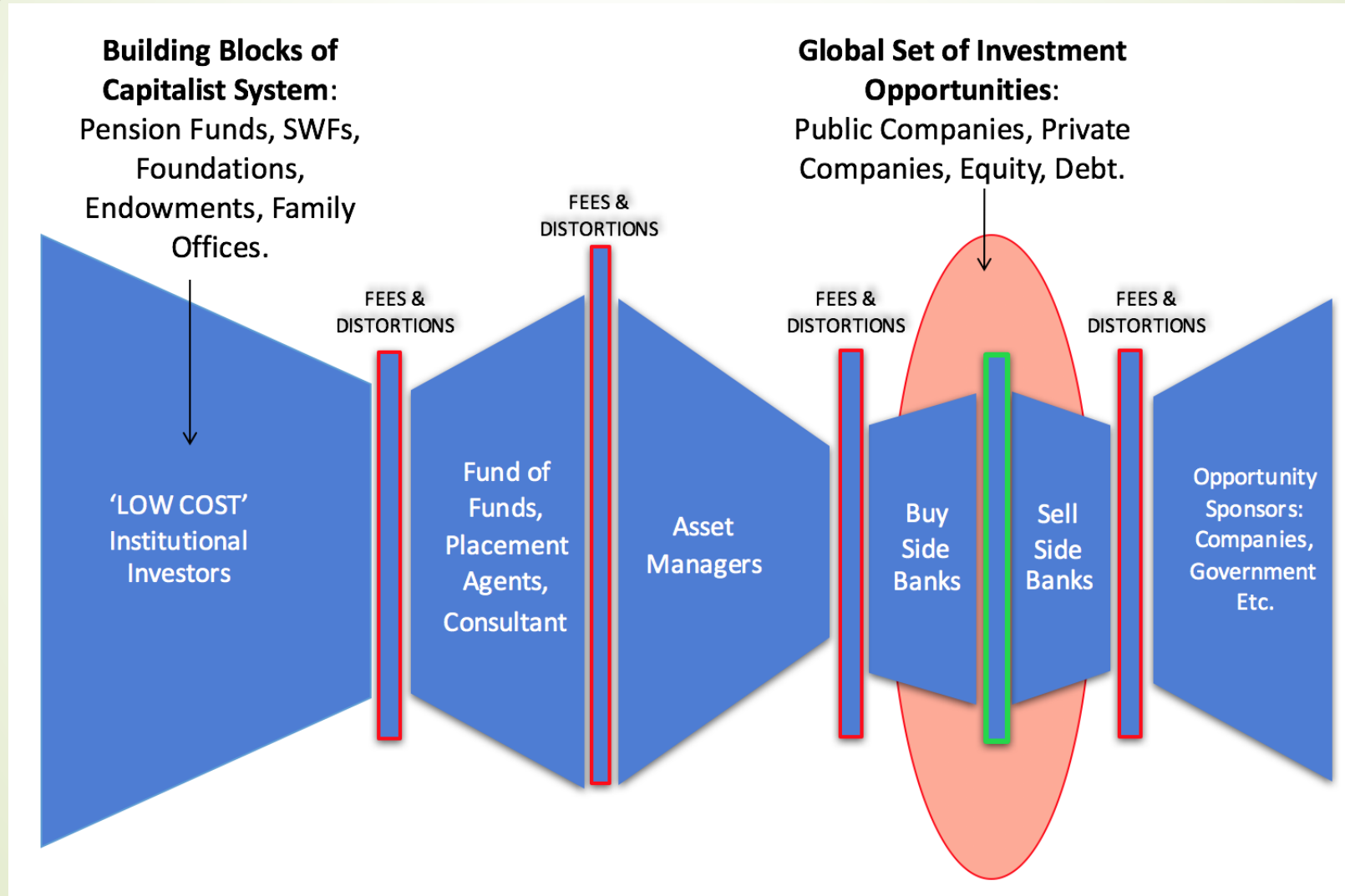


**Shorter
Horizons**



**Potentially Lower
Returns**

Long Term vs Short Term

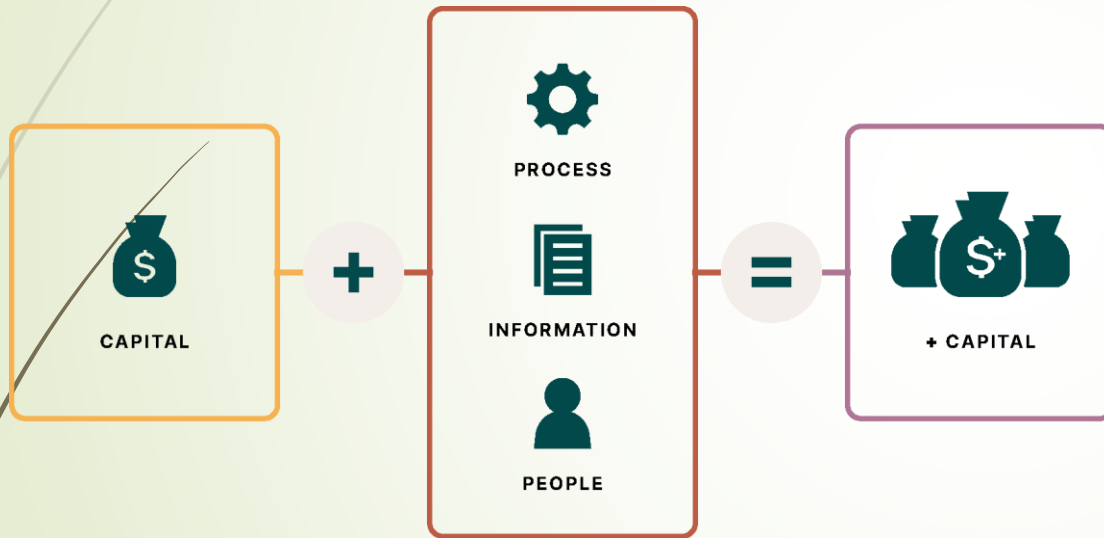




Investor Diversity

- Diverse sponsors (government, corporation, university)
- Different geographic locations (i.e. New York City, Juneau, Abu Dhabi, Oslo)
- Distinct resources (government funding, funding from managed assets)
- Variable capabilities (investment skills, technical skills, proficiencies in insourcing or outsourcing) and objectives (defined benefits, defined contributions)
- Unique histories (path dependencies)

Investor Identity



Inputs



Enablers



Models and Investor Identity

The Three models of Institutional Investment:

- 1. Norwegian Model** – in-source, traditional public markets
- 2. Endowment Model** – out-source, alternative assets
- 3. Canadian Model** – in-source, alternative assets

Reframing Finance

We put forward a 4th model of institutional investment – **The ‘Collaborative’ Model**

The ‘Collaborative’ Model

=

co-operative investment
partnerships/platforms for
long-term assets

- *Co-investment platforms*
- *Seeding managers*
- *Platform companies*
- *Joint ventures*
- *Collaboration initiatives
with peers*

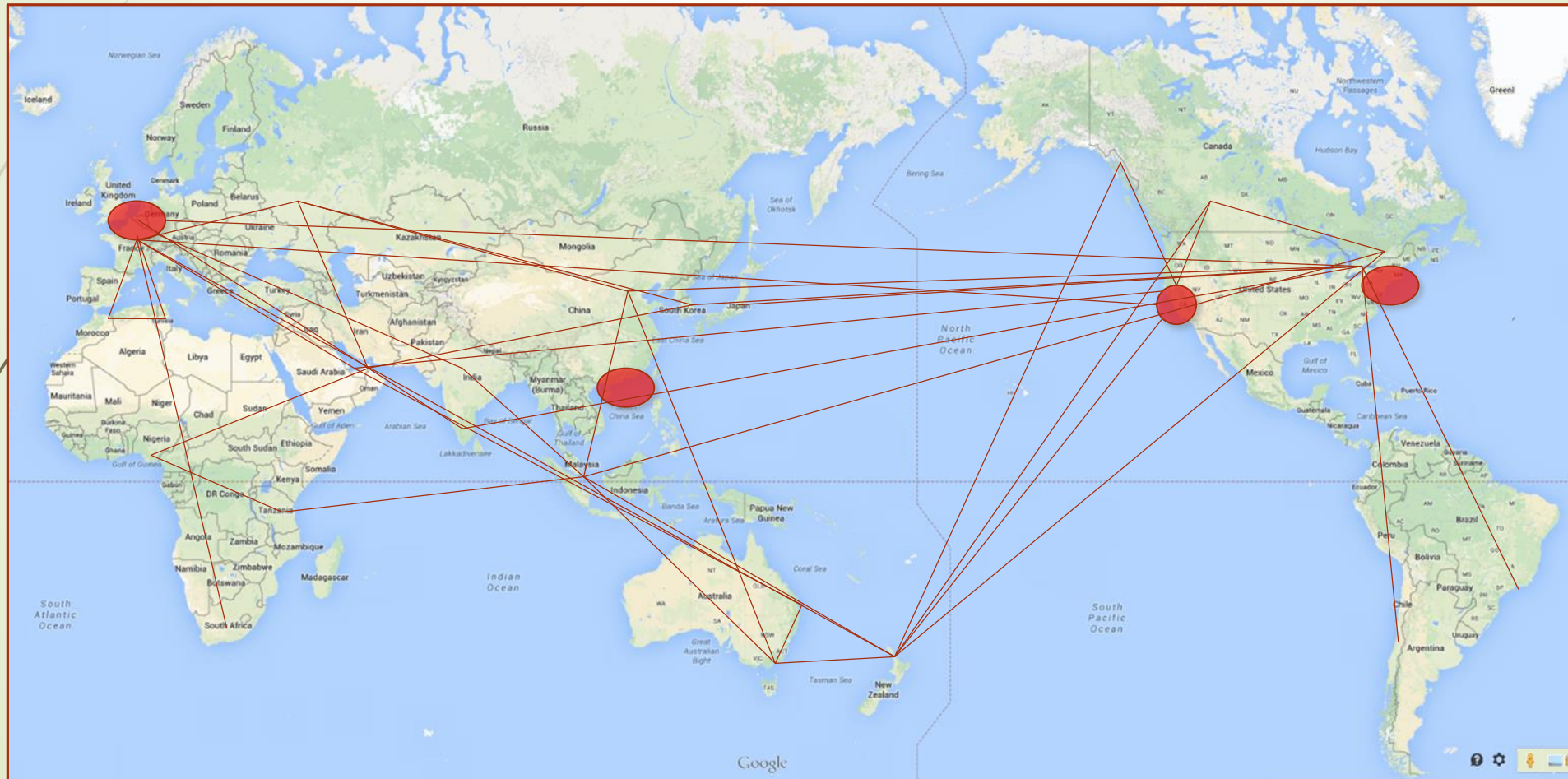


- *Infrastructure*
- *Real estate developments*
- *Clean energy*
- *Private equity*
- *Agriculture*
- *Timber*

The Collaborative Model

Reducing dependence on 'Agglomeration Economies'

Replaced with 'Network Economies' among Institutional Investors




Collaborative Model in Practice: CalSTRS



The CalSTRS Collaborative Model:
Evolution of CalSTRS Investment Program

Scott Chan
Deputy Chief Investment Officer
May 2019



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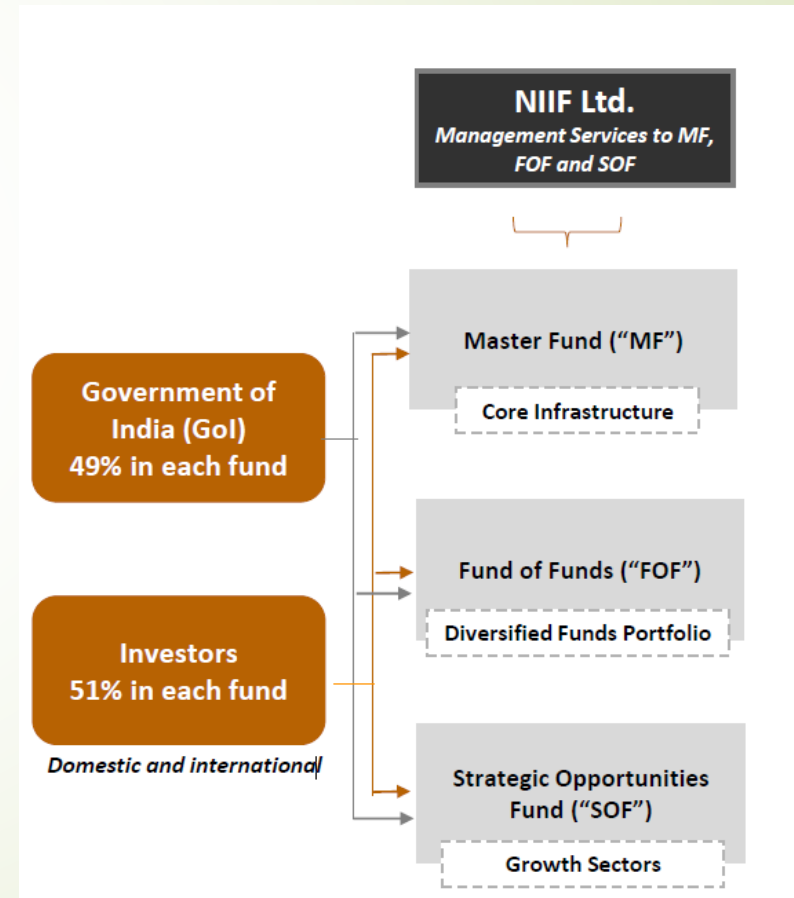
PENSION FUNDS
November 14, 2022 12:00 AM

CalSTRS' costs fall despite alts-rich portfolio
Pension fund officials say their collaborative model gets the credit

The collaborative model has saved CalSTRS an estimated average of \$195 million annually over the past four years, according to its latest collaborative model savings report.

Collaborative Model in Practice: National Investment and Infrastructure Fund (NIIF)

- NIIF created as a trust by the Government of India (GoI) in 2015.
- Collaborative investment platform for international and Indian investors,
 - Founding investors have ownership in Manager
 - Managing over \$4.3 billion assets across three funds



NIIF in the Context of other SIFs

Strategic Investment Fund	Inception Date	Fund Size (\$mn)	Govt. Capital %	Sectors
Nigerian Sovereign Investment Authority (NSIA)	2012	1000	100%	Infrastructure, PE, Public Markets
Philippine Investment Alliance for Infrastructure Fund (PINAI)	2012	625	64%	Infrastructure
Ireland Strategic Investment Fund (ISIF)	2014	8499	100%	Public and Private Markets
Marguerite Funds I, II (Europe)	2010	2120	100%	Infrastructure
FONSIS (Senegal)	2012	3256	100%	Private Markets
Indonesian Investment Authority (INA)	2021	1000 (capital) 4000 (SOE shares)	100% (currently)	Private Markets

NIIF Key Stats Snapshot:

Total Fundraising: >**\$4,300mn**

Govt. Capital: **\$2,645mn**

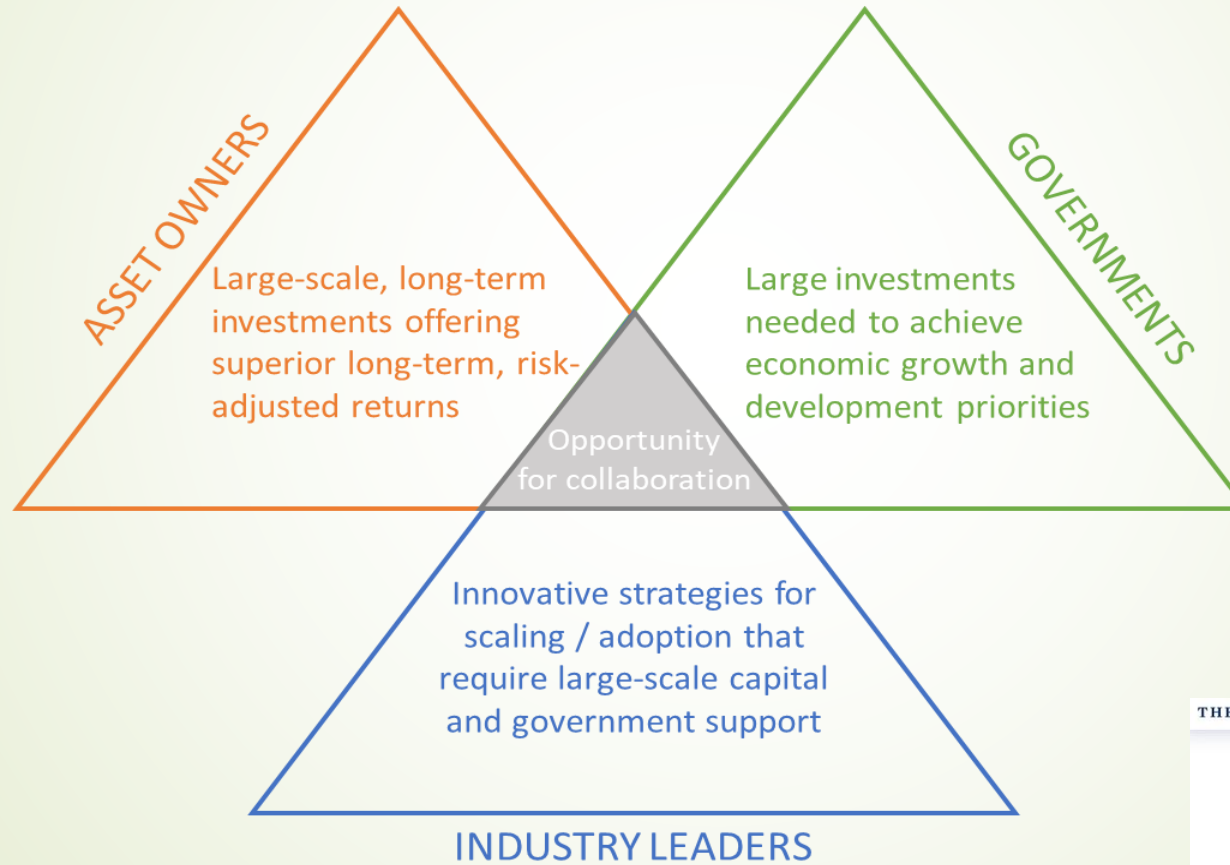
Institutional Investor Capital:
\$1,300mn

Domestic Capital: **\$145mn**

MDFI: **\$300mn**

Amongst Strategic Investment Funds around the world, **NIIF is a leader** in attracting foreign institutional investor capital into a domestic investment vehicle.

The Collaborative Model, LTIs and Govts.



THE WHITE HOUSE



24. India and the United States are also advancing the creation of investment platforms to lower the cost of capital and accelerate the deployment of greenfield renewable energy, battery storage and emerging green technology projects in India. Towards this end, India's National Investment and Infrastructure Fund and the U.S. Development Finance Corporation exchanged letters of interest to each provide up to US\$500 million to anchor a renewable infrastructure investment fund.

Key Lessons/Takeaways

- ▶ Thinking long-term is crucial for Asset Owner Investors and Society alike
- ▶ Understanding an Investor's Identity will help dictate which models should be adopted across different asset classes
- ▶ The collaborative model is the latest distinct model that seems to be emerging for different types of long term investors

