



**CPP
INVESTMENT
BOARD**

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INVESTING ON THE WORLD STAGE FOR CANADIANS

Address to the CD Howe Institute Toronto

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President and Chief Executive Officer
September 26, 2013

CHECK AGAINST DELIVERY

Thank you David, and good afternoon, everyone.

I'm delighted to be here today. My predecessor, David Denison, spoke here in June 2012, and having just recently completed my first year as CEO, I have the honour of continuing this tradition.

I will cover two topics today:

First, the evolving story of CPPIB as Canada's largest global investor and our strategy to position the organization for long-term success.

Then I'll broaden the perspective to discuss Canada's opportunity on the world stage, and some thoughts on how we can seize this opportunity.

First, CPPIB.

CPPIB's story is framed by what is arguably the single biggest financial risk that Canadians face in their lifetime – the risk of outliving their financial assets. CPPIB's critical purpose is to help provide the Canada Pension Plan with a foundation upon which Canadians can build lifetime financial security in retirement.

When David was here, he mentioned that CPPIB had been dubbed one of the "Maple Revolutionaries" by the *Economist*. It is not often that one hears the words 'pension fund' and 'revolutionary' in the same breath. But we are indeed revolutionary.

The main difference between CPPIB and other national pension plans is our governance structure, which enables us to think and act long-term. We have an arm's-length, investment-only mandate, and I report to an independent, professional board of directors, not to government. In short, our decisions are not influenced by politics; by regional, social or economic development considerations; or by any other non-investment objectives.

Simply put, our sole job is to maximize returns without undue risk of loss.

CPPIB's governance model has made us a best practice leader in the global community of national pension funds. This leadership not only reinforces Canada's strong and growing reputation as having one of the best-managed financial sectors in the world but is also good news to the CPP's 18 million contributors and beneficiaries.

Yet despite the benefit of our governance structure, we still struggle with the same issues and barriers that impact other business leaders, investors and policymakers. Taking a long-view is not easy in a world dominated by an insatiable appetite for fresh information... an addiction to the instant, 24/7 news cycle.

However if you look at demographic trends, CPPIB's focus on our long-term purpose grows more important with each passing year.

Between 1926 and 2005, males in Canada gained 20 additional years of life. And not to be out done, Canadian females gained 22.7 extra years.ⁱ By the time Canadians reach 65, the normal age of retirement, females are expected to live for another 21.6 years and males 18.5 years.ⁱⁱ

And, as a result of this longevity trend and falling birth-rates, the ratio of the elderly to the working-age population – known as the senior dependency ratio – is expected to nearly double over the next 20 years. In 2006 there were just over 5 persons aged 15 to 64 years for each person aged 65 years and over. By 2056, there will be only 2.2 working age persons for each person aged 65 years or over.ⁱⁱⁱ

This trend makes the role of the CPP and CPPIB that much more important.

As such, our mandate to support the multigenerational sustainability of the Canada Pension Plan requires us to take a long-term perspective in both our investing and our organizational strategy. It keeps us focussed on the long game in a rapidly changing world. As an investor we must “skate to where the puck is going to be, not to where it’s been”, as Wayne Gretzky famously said.

And our world is rapidly changing:

- The centres of economic and demographic power are shifting. By 2025, India, Brazil, China, Indonesia, South Korea, and Russia will be responsible for over half of all global economic growth.^{iv}
- And, the CPP Fund itself is growing rapidly. From a mere \$12 million portfolio in 1998, we’ve grown into a global investment organization with a portfolio of approximately \$190 billion. By 2030, the Fund is projected to be almost half a trillion dollars.

These factors influence how and where we execute our investment strategy in order to leverage long-term global trends. As an institutional investor housed in a country that represents less than 3% of world market capitalization, CPPIB’s ability to access markets beyond Canada’s borders and to flourish in international economies is crucial to our success. Indeed, 65% of our portfolio is invested outside Canada today. A percentage that I expect to increase as the Fund’s overall size expands.

In this context, it is easy to see how our long-term horizon, our global diversification and our global leadership are all inextricably linked.

CPPIB’s strategy is enabled by our comparative advantages, namely the scale of our assets, the certainty of those assets – which are based on the annual contributions of workers in Canada – and our long investment horizon.

To some, \$190 billion in assets may sound big. But in the world of global institutional investing, size matters. Consider some of the global competition we face in securing prized assets:

- Norway’s Government Pension Fund Global is valued at about \$715 billion and China Investment Corporation at about \$569 billion.



- And the Canadians command similar scale. Manulife Financial and its subsidiaries have \$567 billion in assets under management,^v with its Manulife Asset Management division managing more than \$247 billion. The Sun Life Financial group of companies has total assets under management of \$591 billion^{vi}.

In this context, our scale and certainty of assets from CPP contributions are comparative advantages:

- First they allow us to invest in the sophisticated systems and structures that are necessary to succeed in a highly competitive global market. And we are doing precisely that today. One might say that CPPIB remains in ‘building mode’ as we continue to develop an organization that will be able to successfully and efficiently invest the growing CPP Fund for decades to come.
- Our scale also allows us to compete for and participate in the world’s largest deals. For four consecutive years, we participated in the largest or second largest private equity transactions in the world.
- Finally, they enable us to be a patient investor and to use our liquidity to seize opportunities in times of economic stress when other investors cannot.

As I mentioned a moment ago, the Canadian market is simply too small for an investor of our size and appetite for long-term, risk-adjusted returns. To succeed, we must continue to invest in the resources we need to succeed in highly competitive global markets.

CPPIB currently has international offices in London and Hong Kong. Our international footprint gives us the insights, connections and access to deal flow that would not be available without an on-the-ground presence. It allows us to participate in complex, sizeable investment opportunities and to cost-effectively source and secure them.

Today, almost 10% of CPPIB’s total headcount is located internationally. We’re not merely investing in local talent, but in top talent as well. Investment management is highly competitive and critically dependent on the intellectual capital you bring to the table. We need to hire the top global talent in all of our offices, including attracting top quality international employees to Toronto.

We also need to replicate this international expertise at the board of directors and governance level. In December of last year, CPPIB made a proposal to amend the *Canada Pension Plan Investment Board Act* so that up to three of our twelve directors could be persons not resident in Canada, or “international directors”.

Our investment in both local and top talent– and in the sophisticated international investment programs that support them – is paying off with strong international deal flow. Here are some notable examples:

- In Australia, we invested A\$1 billion to develop two waterfront office towers that are part of the Barangaroo South Project in Sydney’s Central Business District.

- In the United Kingdom, we entered a 50:50 joint venture to own and develop Victoria Circle in London. The project involves five new buildings opposite the Victoria Station, with an estimated value of more than £1 billion.
- In Latin America, we acquired significant minority stakes in five major Chilean toll roads for C\$1.14 billion.
- And just over three weeks ago, we announced the purchase of a 50% interest in a real estate investment trust that owns a Grade A office complex in Seoul, South Korea.

Earlier, I said that our long investment horizon is a comparative advantage for CPPIB. Aside from the fact that it allows us to be a patient and countercyclical investor, it also compels us to be a responsible investor and consider environmental, social and governance factors, or ESG, into our investment choices. To us, responsible investing is simply part of intelligent long-term investing. We fundamentally believe there are financial benefits for all investors who do the same.

So far, I've been talking about CPPIB's global leadership. But we are merely part of a larger story. A recent study commissioned by several of Canada's ten largest public pension funds – including CPPIB – shows how this peer group not only provides one of the strongest retirement systems in the world, but is also raising Canada's profile on the world stage.

Collectively, the top ten Canadian funds manage \$714 billion in pension assets, of which \$314 billion are invested internationally. They comprise four of the top 20 global commercial real estate investors and four of the top 20 global investors in infrastructure assets.^{vii} This comes as no surprise given that real estate and infrastructure are ideal sectors for long-term investors.

These numbers are impressive. There is no question that in the global financial and investment community, Canada is 'punching above its weight'. But there is more to our stellar international reputation than numbers.

Canada's public pension plans are strong proponents of good corporate governance, with an eye towards improving the efficiency and effectiveness of capital markets to the benefit of all participants. This emphasis on governance is both shared and amplified by our banks, insurance companies and other financial institutions. This cumulative impact has finally caught the world's attention, particularly in the aftermath of the global financial crisis. And it all rests on taking a long-view. As investors and institutions we are committed to working towards the best long-term outcomes, instead of voting with our feet when short-term interests arise.

All this suggests that Canada has a unique opportunity to seize... the opportunity to play an outsized role setting the global agenda. The recent appointment of Mark Carney as Governor of the Bank of England – and his ongoing role as Chairperson of the Financial Stability Board - is a perfect example of our ability to influence international affairs in the most positive way imaginable.

I need hardly convince this audience of how much Canada – a relatively small domestic economy dependent on multilateralism and foreign markets – benefits from this larger role on the world stage.



And there is no better time than now for us to step up. Prominent members of the global community continue to face major structural economic, political and social challenges that are and will profoundly impact their ability to lead in the near future. There is European fiscal uncertainty and high youth unemployment... US legislative gridlock and significant debt problems... China's need to 'fundamentally change its growth strategy'^{viii} to peacefully change course to fuel domestic consumption... India's internal issues that continue to stymie its economic growth^{ix}... the list goes on.

Against this backdrop, Canada's international reputation continues to grow. The United Nations *World Investment Report* ranked us 10th among the top 20 host economies for foreign direct investment in 2012^x, and 7th on the top 20 investor economies list. The World Bank and IFC's *Doing Business* report ranked Canada 4th on the list of countries in which investors are most protected and the 3rd easiest country in which to start a business.

Canada is well positioned to lead. But, to fully seize this opportunity, we need a long-term perspective. And, it is not clear to me that we are creating one.

Compare for example Australia, perhaps the jurisdiction that is most comparable to our own. In 2012, the Australian Government issued *Australia in the Asian Century*, a roadmap to prosperity outlining 25 national objectives to be achieved by 2025. This is a great example of a national strategy that positions a country to leverage its unique comparative advantages – in Australia's case its proximity to China being one of them- for long-term success in a rapidly changing world.

A solid, long-term roadmap for Canada would be a giant leap forward. We need to look closely at Canada's inventory of comparative advantages – natural resources, financial services, institutional investment, multiculturalism and so on – determine how they can be leveraged to position us for long-term success on the global stage, and identify and advocate for the conditions required to deploy these advantages globally.

I've spent a large part of my remarks today telling you the CPPIB story for a number of reasons – none of which have anything to do with my role as CEO or the pride that comes with leading an organization dedicated to helping Canadians achieve a financially secure retirement.

Instead, I wanted to offer a uniquely Canadian case study that demonstrates the power of long-minded thinking...a shining example of Canadian governments coming together to develop the structures to address a long-term problem.

Today, that case study is the Canada Pension Plan Investment Board. Sometime in the near future, I am hoping it will be how Canada seized the initiative, adopted a long-term perspective, and positioned itself globally for long-term success.

This is Canada's moment on the world stage. Let's make sure the opportunity does not slip away.

Thank you.



ⁱ Statistics Canada. Canadian Demographics at a Glance. Published January 2008. <http://www.statcan.gc.ca/pub/91-003-x/91-003-x2007001-eng.pdf>

ⁱⁱ Statistics Canada. *Table102-0512 - Life expectancy, at birth and at age 65, by sex, Canada, provinces and territories, annual (years)*, CANSIM (database).

ⁱⁱⁱ Statistics Canada. Canadian Demographics at a Glance. Published January 2008. <http://www.statcan.gc.ca/pub/91-003-x/91-003-x2007001-eng.pdf>

^{iv} World Bank - [Global Development Horizons 2011, Multipolarity: The New Global Economy](#)

^v At June 30, 2013.

^{vi} At June 30, 2013.

^{vii} The Top 10, Investing for Canada on the World Stage. *Canada's Top Ten Pension Funds Help Drive National Prosperity, Landmark Study Finds*. June 2013.

^{viii} Economist Michael Pettis of Peking University, <http://www.npr.org/blogs/parallels/2013/08/12/211202243/too-much-too-fast-china-sees-backlash-from-massive-growth>

^{ix} 'Only India can stop India from becoming an economic power'. Richard French, *CN-Tellier Professor at the Graduate School of Public and International Affairs of the University of Ottawa. Past president of Tata Communications*. Globe and Mail August 12 2013.

^x http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf. Page xiv.