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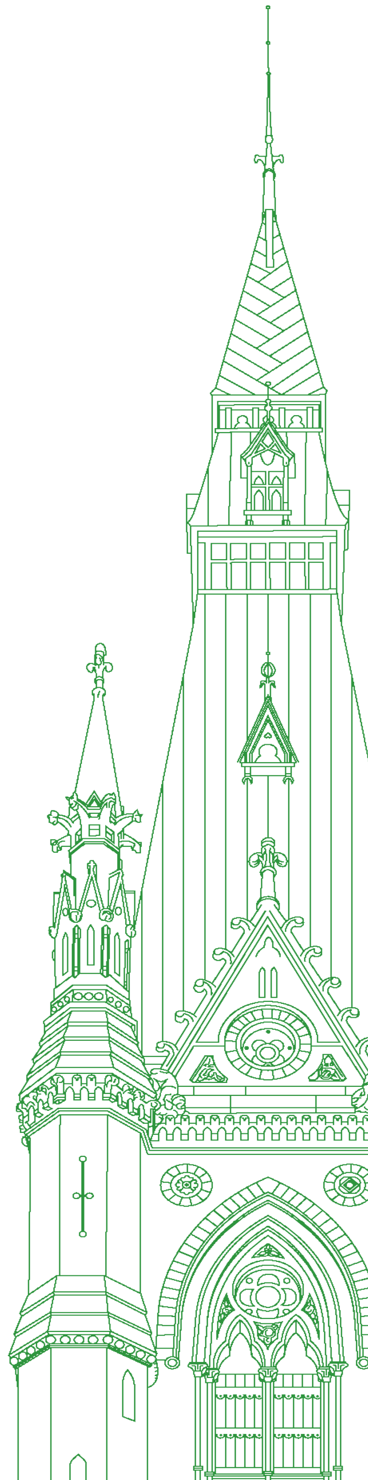

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# Standing Committee on Finance

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Thursday, June 9, 2022

Chair: Mr. Peter Fonseca

# Standing Committee on Finance

**Thursday, June 9, 2022**

● (1620)

[*English*]

**The Chair (Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.)):** I call this meeting to order.

Welcome to meeting number 56 of the House of Commons Standing Committee on Finance. Pursuant to Standing Order 108(2), the committee is meeting to discuss the Canada Pension Plan Investment Board.

Today's meeting is taking place in a hybrid format pursuant to the House order of November 25, 2021. Members are attending in person in the room and remotely using the Zoom application. As per the directive of the Board of Internal Economy on March 10, 2022, all those attending the meeting in person must wear a mask, except for members who are at their place during proceedings.

I'd like to make a few comments for the benefit of the witnesses and members.

Please wait until I recognize you by name before speaking. For those participating by video conference, click on the microphone icon to activate your mike, and please mute yourself when you are not speaking. There is interpretation for those on Zoom. You have the choice, at the bottom of your screen, of floor, English or French. For those in the room, you can use the earpiece and select the desired channel.

I remind everyone that all comments should be addressed through the chair. For members in the room, if you wish to speak, please raise your hand. For members on Zoom, please use the "raise hand" function. The clerk and I will manage the speaking order as well as we can, and we appreciate your patience and understanding in this regard.

I would now like to welcome our witnesses for the first hour. From the Canada Pension Plan Investment Board, we have president and chief executive officer John Graham. With Mr. Graham is senior managing director and global head of public affairs and communications, Michel Leduc. Welcome.

Mr. Graham, you now have the opportunity to give your opening remarks to the members.

**Mr. John Graham (President and Chief Executive Officer, Canada Pension Plan Investment Board):** Good afternoon, Mr. Chair and committee members.

[*Translation*]

My name is John Graham, and I am the president and chief executive officer of CPP Investments. I am accompanied by my colleague Michel Leduc, who is our senior managing director and global head of public affairs and communications.

This is my first time appearing before the House of Commons Standing Committee on Finance. Thank you for the invitation and I look forward to our discussion today.

Transparency is the foundation of public trust. Although we are a commercial enterprise, our organization is defined by its public purpose, which is to help secure the retirement security of 21 million Canadian contributors and beneficiaries.

Public accountability is a central tenet of how we operate. We go beyond our legislated requirements to ensure federal and provincial governments, as well as Canadians, are well informed of our activities. The session today is an important example of that.

Before moving to questions, I will briefly touch on our organization, the Fund's performance over the last fiscal year and share some operational highlights.

[*English*]

CPP Investments is a professional investment management organization that manages Canada pension plan assets. We invest around the world in public equities, private equities, real estate, infrastructure and fixed income. We are governed by federal legislation—the Canada Pension Plan Investment Board Act—which was passed by Parliament in 1997. The decisions made by policy-makers at that time set us on the path to become the organization we are today.

We operate under clear objectives to maximize returns without undue risk of loss, taking into account the factors that may affect the funding of the plan. Assets are strictly segregated from government funds and managed professionally and exclusively to pay benefits.

We operate at arm's length from federal and provincial governments under the oversight of an independent, highly qualified, professional board of directors. Any amendments to our act require the consent of at least two-thirds of the provinces that participate in the CPP, representing two-thirds of the population. Our governance structure and clarity of mandate are internationally recognized as a leading example of sound management of national retirement plans for other countries to emulate.

We create value for the fund through active management. Our investment strategy is structured to be resilient in the face of wide-ranging market and economic conditions. Diversification helps mitigate risks of the CPP's inherent exposure to Canada—the only country from which it draws contributions. We are nevertheless highly overweighted in Canada compared to its relative proportion of global GDP and capital markets. We will continue to be so, given our strong knowledge of the Canadian market.

We recognize that active management is not a simple, low-cost strategy. Each dollar used for expenses is a dollar not invested. Cost management and disclosure are key to our public accountability.

Nearly 25 years after receiving our first $12 million of contributions to invest, the fund has surpassed $500 billion. When we first began to operate in 1999, everything was passively concentrated in Canada and the fund was not expected to reach this milestone until 2028. Since that time, with investments in more than 50 countries, CPP Investments has contributed $378 billion in cumulative net income to the fund, after all costs.

Our most recent fiscal year, which ended March 31, was solid despite turbulent market conditions in the fourth quarter. We achieved a net nominal return of 6.8% and the fund grew from $497 billion to $539 billion. The volatility affecting public equities at levels not seen since the beginning of the pandemic muted returns achieved through the first nine months. Bond prices also declined at a pace unseen in more than 40 years.

On top of the ongoing pandemic, the war in Ukraine continues to send shock waves around the world. In Canada, many of us are deeply impacted by the tragedy and our hearts go out to the people of Ukraine.

Despite economic and geopolitical headwinds, our diversified portfolio demonstrates resilience as we outperformed our benchmark. That benchmark represents what could be achieved through a low-cost passive alternative.

Since 2006, we have generated $41 billion of additional income through active management. This fiscal year, our active programs, including private equity, infrastructure, real estate and credit, were the main contributors to the fund's overall performance.

Because the CPP is designed to serve multiple generations, long-term performance is what matters most. To that end, we achieved a 10-year nominal return of 10.8%, with a cumulative net income of $329 billion over the same time frame. All of our performance results are reported net of cost.

This year we appointed our first chief sustainability officer, who is now responsible for integrating an enterprise-wide approach to sustainable investing, with a focus on climate change. This follows on our commitment that our investment portfolio will be net zero for GHG emissions by 2050. As an initial step, we will boost our investment in green and transition assets to roughly twice their current level by 2030.

As part of our announcement, we made it clear that we do not believe in blanket divestment. We went beyond that and announced a dedicated decarbonization strategy that will support and partner with companies that are innovating and developing new technologies to lower their emissions. If we lose our conviction that a particular company is achieving its decarbonization plan, we will not hesitate to sell. We believe our overall, constructive approach to contributing to the transition is more productive towards the global goal of net zero compared to divestment.

These steps build on work the organization has been doing for more than a decade to increasingly incorporate risks and opportunities associated with climate change into our decision-making. We developed a comprehensive program that ensures the assessment of climate change is embedded into our investment process. Our engagement and influence through proxy voting helps push our portfolio companies to improve their climate change practices. We are pressing the market for better standards and disclosure.

We believe that on the spectrum of perceived wrongdoings by corporations, a violation of human rights is one of the most severe and indefensible. A failure to address human rights issues is among the top reasons we will not invest in a company. We believe that companies that uphold human rights will perform better. We have been strengthening our systems and processes to capture not only direct but indirect exposure to companies that do not uphold human rights. This includes how those companies address potential issues in their supply chains.

● (1625)

[*Translation*]

It has been 25 years since parliamentarians decided to create our organization to serve as the investment manager of the CPP Fund. Our 2,000 world-class professionals, in nine global offices, are dedicated and purpose driven. They have a track record of investment performance and operational excellence. We are committed to growing the Fund and helping current and future beneficiaries achieve retirement security.

I am honoured to be in this position and excited about what the future has in store.

With that, we look forward to your questions.

[*English*]

Thank you.

**The Chair:** Thank you, Mr. Graham and Mr. Leduc. Thank you for the work you do on behalf of Canadians' pensions. I know the members will have many questions for you.

We are going into our rounds of questions. In this first round, each party will have up to six minutes to ask questions.

We are starting with the Conservatives, and I have MP Chambers up for six minutes.

**Mr. Adam Chambers (Simcoe North, CPC):** Thank you very much, Mr. Chair.

Welcome to both Mr. Graham and Mr. Leduc. It's a pleasure to have you with us.

Mr. Graham, since it's our first time meeting, congratulations on your appointment. Obviously, you should be very proud to lead this important organization on which many Canadians rely for retirement security, but also one that is looked very highly upon throughout the world with respect to pension plans.

In your opening statement, you mentioned a bit about structure and governance and a bit about independence. I wonder if you wouldn't expand a little about how important independence is with respect to investment decisions. In this political climate, there are often many calls for pension plans and others to change their investment decisions based on some political factors, as opposed to sound investment decisions or long-term horizons, as you've laid out.

● (1630)

**Mr. John Graham:** I would describe the independence as essential. We have a single fiduciary duty, and that is to maximize return without undue risk of loss, taking into account the factors that impact the funding of the plan. We have 2,000 professionals in the organization who are focused on delivering investment returns and the best investment returns for the contributors and beneficiaries.

That independence allows us to be a global investment organization. We are a pension plan. We're an investment organization. We're not a sovereign wealth fund. We're able to make investment decisions that are in the sole best interests of the contributors and beneficiaries.

**Mr. Adam Chambers:** You just mentioned sovereign wealth funds. I understand that the CPPIB has an exemption in the U.S. from how it would look at sovereign wealth funds with respect to independence

Can you give us a brief discussion about why that distinction is important to maintain that exemption?

**Mr. John Graham:** CPP Investments is an exempted investor in the U.S. under CFIUS. That allows us to be active in lots of different markets on the private and the public side, and in many ways be treated like a domestic investor in the U.S. without going through a national security review. The U.S. is our biggest market. It's the largest market in which we invest. It allows us to operate very much as a domestic investor.

**Mr. Adam Chambers:** A metric the government often likes to use—governments of all stripes, by the way, over the last number of years—is this notion of what it calls “net debt-to-GDP”. That measure includes the assets of the CPP.

Does that metric imply that there is a bit less independence between the CPP and government? Does that potentially pose a bit of a problem, as we talk about these ratios and how well Canada's doing, if we do get an exemption on the basis of the independence?

**Mr. John Graham:** Our independence is pretty clear, and the funds are there for the sole purpose of paying out benefits. They are segregated funds.

With respect to some of the specific accounting rules on how they get accounted for, I'm actually not that familiar. The funds that CPP Investments manage are there solely to pay benefits.

**Mr. Adam Chambers:** Our position would be that those assets are not to be used or are available for government and for pensioners.

This may be a more of a general question. Large and passive ETFs now control a significant number of voting securities and publicly traded securities across the world, but in particular in North American markets.

Do you believe these ETFs should continue to have the ability to vote at shareholder meetings and exercise a significant amount of influence? I'm thinking about some of the political influence, or the political winds that sometimes blow, that these large ETFs can now implement on corporate entities across North America.

**Mr. John Graham:** Maybe I'll share how we think about voting our proxies, and we actually publish on our website our principles for voting our proxies. As an active manager, which we are, we do think it is important as a fiduciary to vote the proxies.

We're very clear on what our policies and what our principles would be, and they're all grounded in value creation. They're all grounded across different metrics, different categories, but all really focused on areas where we feel it drives value and drives long-term value for companies.

I won't comment specifically on the ETFs, but for us as an active manager, we do think it is important that we vote our proxies, and we're very transparent on our website as to how we're going to vote.

**Mr. Adam Chambers:** Thank you very much.

I have one final question in my last 30 seconds. Obviously, there are lots of critics in this discussion between active and passive investment. There are some pension plans in the U.S. that primarily use a passive strategy. Can you just talk very briefly about how you manage personnel costs and maybe how you benchmark personnel costs to know that Canadians are receiving full value for active management?

● (1635)

**Mr. John Graham:** Yes, it's an important question for sure as we think about active management. As I said in the opening remarks, active management is not the low-cost path. In our view, it is the path that drives the most value, and we're here to maximize return without undue risk of loss for the contributors and beneficiaries. We certainly take the perspective and really take the approach that every dollar that we spend on expenses is a dollar that's not in the fund to invest.

When the decision was made to pursue active management, there was a view that CPP Investments would have certain comparative advantages. We have scale. We have time horizon. We have certainty of assets, and these would allow the organization to compete in the global capital markets. To date that's been a successful strategy. Since the inception of active management, we delivered $41 billion of dollar value added, as we would call it, and those are funds that are in the portfolio now that wouldn't be there if we didn't pursue active management.

As we think about expenses, we think about it very much from a return on investment perspective, and we think about how we need to allocate our internal resources, allocate them towards value-added activities to maximize the value added and maximize the return.

**Mr. Adam Chambers:** Thank you, Mr. Graham.

**The Chair:** Thank you, MP Chambers and Mr. Graham.

Now we go to the Liberals. We have MP Baker for six minutes.

**Mr. Yvan Baker (Etobicoke Centre, Lib.):** Thanks very much, Chair.

Thank you both for being here today. Before I get into my questions, I'll just say, Mr. Graham, it's a pleasure to have a chance to ask you some questions. Thank you for being here. I had the pleasure of meeting with some of your representatives, who spoke a little bit about some of the topics you've already spoken to, and I look forward to having this conversation.

I will say I've had a number of former colleagues from one of my prior employers at the Boston Consulting Group join your company, join CPPIB, and I think you are fortunate to be benefiting from their expertise as well.

My first question is around the current context we find ourselves in globally. We've had the pandemic, we still have the pandemic, and we've had the war in Ukraine. Can you talk a little about how the pension plan has been affected by these macroeconomic forces and how you've had to adjust your management of the plan as a result?

**Mr. John Graham:** One of the keys, and I touched on it a little during my opening remarks, is around diversification. The organization made a decision years ago that it's important and it's the right path for long-term value creation to have a diversified portfolio, to have a diversified portfolio across asset classes and a diversified portfolio across geographies. That allows us to get access to the sources of global growth, to have a more diversified portfolio and to look for opportunities to drive alpha or value added. As the fund grows, having that global footprint and having the global capabilities and the relationships have been really important.

I think it's fair to say that right now, as we look forward, navigating the geopolitical landscape is one of the biggest challenges that's going to face institutional investors. You highlighted a few of the challenges. How we would think about it is that we have a diversified portfolio, diversified across all the major regions of the world and the ability to allocate capital to where we see the best regions, but as I mentioned, I think for investors one of the big challenges going forward is navigating geopolitics.

**Mr. Yvan Baker:** Let me expand on that, if I could.

If we think about some of the risks going forward, there could be future pandemics. We're not through COVID yet, so we don't know where that will go, although we hope we're getting towards the tail end of the pandemic. There is climate change, and you spoke about that in your remarks. In my view, there is a risk of future wars, especially if the world doesn't effectively stand up to Vladimir Putin in terms of what he's doing in Ukraine, because if we don't, it could encourage others to do the same or Russia to do more of the same.

How significant, in your view, are these risks and others that perhaps we haven't faced in past decades to the same degree? How do you mitigate them? My constituents are watching this. How do they know that their pensions are secure?

**Mr. John Graham:** Two things that we've already touched on I'll come back to. One is diversification and the ability to be diversified across asset classes and geographies.

The other, which we actually just touched on, is active management and the importance of active management: the importance of having built out the capabilities across asset classes, across geographies, and having the relationships, the infrastructure, to invest in all these different areas. Going forward, I think the value of active management is going to be even greater because of the importance of navigating these risks.

● (1640)

**Mr. Yvan Baker:** When you say “active management”, for those folks who are watching at home, active management to me means that you are not just investing in what most folks would consider passive investment—something like a mutual fund. Am I right? That's something where you put in the money and you expect that it will grow over the long term.

This is a situation where you're actively buying and selling assets. Is that what active management means to you?

**Mr. John Graham:** Yes, what active management means to me is that we think about security selection. We are looking across the globe for the best opportunities, the best companies and the best assets to invest in.

The way we think of portfolio construction is to think about it at a very high level without being too prescriptive on the allocations for asset classes and geographies, but having a general sense and then building the portfolio asset by asset: finding the best companies and finding the best assets to invest in.

There is another component to this, too, and that is actually being an active owner of those assets and pursuing value creation opportunities within the companies to extract more value and, as we talked about, by voting on proxies and being an owner who influences the value creation within the companies.

**Mr. Yvan Baker:** We find ourselves in a high-inflation environment at the moment. I only have about 60 seconds left, but can you talk briefly about how that is impacting your returns—in other words, the money that you raise to pay people's pensions? How is that affecting the demand for pensions, the amount that people need to pull out to receive their pensions?

**Mr. John Graham:** I will focus on the asset side. If you zoom back and think about CPP contributions, benefits and demographics, it's a much longer answer.

I'll focus on the asset side and maybe keep coming back to the word “diversification” and the importance of diversification. We build a portfolio for the long term. We build a portfolio that we think will be resilient over the long term and will be resilient across multiple economic environments, including high inflation.

Our portfolio has a fair number of real assets in it, which are assets that will somewhat protect us in inflation, but I think it's fair to say that, with asset prices in general across the broad market, inflation will be challenging.

**The Chair:** Thank you.

Thank you, MP Baker.

We are moving to the Bloc now, with MP Ste-Marie for six minutes.

[*Translation*]

**Mr. Gabriel Ste-Marie (Joliette, BQ):** Good afternoon, gentlemen. Thank you for taking the time to appear and congratulations on your appointment.

I just want to digress for a moment to thank the analysts for the outstanding work they do before each meeting. I take my hat off to them and thank them. Their work allows us to be well prepared to welcome all the witnesses we meet. Given the many intensive sessions we have had, the committee’s analysts have often worked impossible hours, and I want to highlight their work. We are very grateful to them.

Gentlemen, are your net assets indeed $539 billion? Very well.

According to your new calculation method, the cost of management is $7.9 billion. Is that correct? I’m talking about the total cost profile.

**Mr. Michel Leduc (Senior Managing Director and Global Head of Public Affairs and Communications, Canada Pension Plan Investment Board):** It’s closer to $5.9 billion.

**Mr. Gabriel Ste-Marie:** This obviously makes for an acceptable ratio.

Let’s talk about changes in the geographic distribution of your investments. For example, in 2006, almost two thirds of your investments were in the Canadian economy. Currently, as you said earlier, 36% of your investments are in the U.S.; 16% in Europe; 26% in Asia Pacific; 6% in Latin America; and 16% in Canada.

What accounts for your choice to invest less in the Canadian economy?

[*English*]

**Mr. John Graham:** I wouldn't describe it as investing less in Canada. As the portfolio has grown to $539 billion, we have continued to grow our investments in Canada. I said we have 16% of the portfolio with exposure to Canadian assets, which, at $539 billion, would correspond to $80 billion to $90 billion in assets. Canada continues to be an important market for us and continues to be a market in which we look for opportunities, but we are a global investor.

We are an investor that looks for opportunities all over the world. As we think about investing at CPP Investments and we think about maximizing return without undue risk of loss, taking into account the factors that impact the funding of the plan, we also believe, as I mentioned in my opening remarks, that it's important for us to diversify away in some ways. One hundred per cent of the contributions come from the Canadian economy. These assets are solely for the beneficiaries, and diversifying the assets to the global economy is in the best interest of the contributors and beneficiaries.

We still, as I mentioned, have 16% invested in Canada, which is a material portfolio. If we look at other funds around the world.... For instance, in the Norwegian fund, they will completely diversify away from Norway to ensure that 100% of the assets are invested outside of Norway to provide that diversification, but we still view Canada as an important investing market for us.

● (1645)

[*Translation*]

**Mr. Gabriel Ste-Marie:** The objective of the Canada Pension Plan Investment Board is really to maximize returns, and international investments help ensure that while minimizing risk. As I understand it, your organization is different from the Caisse de dépôt et placement du Québec, whose concurrent objective is to develop Quebec’s economy.

Thank you.

When we look at your rates of return, which are excellent overall, we see that, in 2016, returns were lower than expected.

What accounts for this anomaly and what are you doing differently this year? Is it different from other boards or other investment funds?

[*English*]

**Mr. John Graham:** I don't have that answer offhand. We can come back with respect to 2016.

As we think about today and we think about going forward, the 10-year returns for the organization have been 10.8%. That stacks up incredibly well against, really, any global institutional investor.

We sit here today and look forward to the global markets, and I would say we're cautious. We've already talked a little about inflation. With inflation where it is within many countries around the world, with rates expected to rise and growth expected to slow, I think we're cautious and we're cautious about the headwinds going forward.

[*Translation*]

**Mr. Gabriel Ste-Marie:** That’s a credit to you and I thank you for it.

We’re hearing a lot about cryptocurrencies right now.

Has the Board made what I would call “speculative” investments in cryptocurrencies? If so, what is your exposure and what is your view on that?

[*English*]

**Mr. John Graham:** We have not invested in crypto.

[*Translation*]

**Mr. Gabriel Ste-Marie:** Why didn’t you do it?

[*English*]

**Mr. John Graham:** We have spent quite a bit of time—it's a growing market; it's a trillion-dollar plus market—trying to study blockchain, digital currencies and crypto, but as things sit right now and as we think about investing, we have not invested in crypto.

[*Translation*]

**Mr. Gabriel Ste-Marie:** Thank you.

**The Chair:** Thank you, Mr. Ste-Marie.

[*English*]

We are now going to hear questions from the NDP and MP Blaikie for six minutes.

**Mr. Daniel Blaikie (Elmwood—Transcona, NDP):** Thank you very much.

Thank you for being here today to answer questions. It's very much appreciated.

I read with interest the section of your report about investing in the path to net zero. I wanted to know what kind of public reporting you do on your progress to date. Do you have an annual report on that? How do you report out on that?

**Mr. John Graham:** In February of this year, we made a net-zero commitment. As part of that, we also published our principles for the net-zero commitment and around investing in the entire economy transition, not going down a path of blanket divestment and looking to double our investment in green and transition assets. We've also been very actively engaged in measurement and reporting. This is an area that, as we think about the path forward, work needs to be continued.

With respect to how we report, we have an annual report, called our annual “Report on Sustainable Investing”. Within that, it is more than just climate. We provide disclosures on our portfolio and disclosures on our own emissions.

● (1650)

**Mr. Daniel Blaikie:** I believe it's maybe going back five or six, or maybe a few more years now, when there was a task force on climate-related financial disclosure. I'm wondering if you guys have adopted some of the reporting requirements from that.

What work are you doing to ensure that when you report out on climate-related investment goals, folks are able to compare, apples to apples, the work that you're doing with other countries or other blocs, like the European Union?

How do your metrics compare? Are they publicly available?

**Mr. John Graham:** I'll ask my colleague Michel Leduc, who's involved with the TCFD's work.

I'll quickly say that, for us, this is something that's very important. It's something that, as an organization, we have been historically.... We're one of two pension plans that was at the table for TCFD, and it's something that we continue to be actively engaged in with different standards bodies around the world to ensure that there is comparability across geographies. As we think about that as a global investor, it's important.

Michel, maybe you want to share a bit on the history.

**Mr. Michel Leduc:** Yes, I'll reinforce that we were very honoured, as one of only two pension plans that were invited to join the task force and be an architect of these disclosures.

The rationale for us wanting to be heavily engaged in being an architect is that the best interests of the contributors and beneficiaries are very well served by companies being increasingly more transparent. It's very difficult for us to undertake due diligence on the potential for 10,000 securities globally. Of course, we can do a lot of that hard work when we're making a direct investment and we're a significant investor in a company. Going into the due diligence process, we've developed a specialized tool kit for us to better understand the strategy of those companies and how they're moving forward to abate and decarbonize their operations.

If a significant component of the portfolio continues to be widely held across thousands of securities, we're dependent on disclosure and on that transparency, so it's an area where we've been actively involved. It's an area where we're continuing to be a thought leader and to push other organizations, particularly in areas that haven't necessarily been considered in the past.

We could talk about that a little later, if that question comes up around abatement. That means, basically, what the companies are doing that is very hard to decarbonize. There's cement and steel, for example. It's not just the quick wins. It's also those things that will be heavily dependent on innovation and technology.

**Mr. Daniel Blaikie:** What's the process for establishing a taxonomy of investments that will count for you as green investments? Where is that publicly available? If it's not currently, when do you anticipate its being publicly available?

**Mr. John Graham:** For green and transition assets, there is a technical definition. It's in our annual report and in our “Report on Sustainable Investing”.

**Mr. Daniel Blaikie:** Does that include carbon capture and storage technology? If so, who's making that decision and where are the opportunities for input into what is a proper technology or venture that's going to reduce emissions?

We know that, in the market, there are a lot of things that claim to be green and aren't, so what kind of process do you have to make changes to that taxonomy as time goes on? Where are the opportunities for public input on that?

**Mr. Michel Leduc:** First, I would say that looking for consistency is probably the single biggest challenge for a lot of these issues, particularly carbon capture or other areas.

One area we've been working in is the international standards board. They've been making considerable progress, though perhaps not as quickly as we would like as an investor. Canada has been a very active participant in that process. Part of the international standards board offices will be in Canada. This will allow us to have more direct access, particularly around these new technologies and how they're classified and measured. Carbon capture, as you mentioned, will be very important.

● (1655)

**Mr. Daniel Blaikie:** When you say that Canada is involved, is that the CPPIB or the Canadian government?

**The Chair:** Thank you, MP Blaikie. That's the time.

**Mr. Michel Leduc:** It's the Canadian standards offices, as a member of. The international standards board will have an office, partly, in Montreal.

**Mr. Daniel Blaikie:** Thank you.

**The Chair:** Thank you.

We are moving to our second round, members. We have the Conservatives up first.

MP Lawrence, you have five minutes.

**Mr. Philip Lawrence (Northumberland—Peterborough South, CPC):** Thank you, Mr. Chair.

Congratulations, Mr. Graham.

Congratulations to both of you for running a first-class organization. I had the opportunity, when I was on public accounts, to study your organization and the great things coming. In fact, my advice to you would be to continue being staunch advocates for your own independence. It's my personal belief that the road to poverty is paved with politicians' good intentions, so I would encourage that.

This will be the line of my question.

I think most folks know this, but it's important to put it on the record. What happens if your fund dramatically underperforms? Not that it will, but what would happen if it dramatically underperformed?

**Mr. Michel Leduc:** It's important for us to be humble. What I mean by that is that investment income is only one of the components that drive sustainability, which is measured on a 75-year horizon. Historically, not to get too technical, if I think of the different accounts, there's the base CPP and, after recent reforms about four or five years ago, there's the additional CPP. They're structured differently.

The base CPP is largely dependent on economic and demographic factors, such as immigration rates, fertility rates, mortality and, obviously, net income. With the additional CPP, because it's fully funded, a greater part of that account is dependent on net income. What that means is that we're working really hard, under John's strategy and leadership. It's very important for us to lean in on those important words created by parliamentarians around maximizing returns. The more returns we produce, the more we create additional buffers against those other factors outside of our control.

It would be difficult for us to make a promise to Canadians and say the fund will continue to be sustainable forever. There are a number of factors we don't control.

**Mr. Philip Lawrence:** I'll simplify it, because I'm just a simple politician and lawyer.

If, in fact, the fund underperforms, contributions have to go up or benefits will go down. Would I be incorrect in saying that?

**Mr. Michel Leduc:** If that were to happen.... At the end of this year, the chief actuary of Canada will release its triennial report—it's every three years—after a deep dive looking at all the factors, including inflation and all of those demographics. If, for example, down the road in the future, the chief actuary were to say—as they did, in fact, in the mid-1990s—the fund was going to go bankrupt, which was one reason we were established.... If that were to be the case, the 10 finance ministers representing the jurisdictions would need to come together to make those very difficult decisions.

If they can't come to an agreement, there's actually an autopilot. There's a default mechanism that would fix...in looking at whether the contribution rates would need to go up.

**Mr. Philip Lawrence:** If, in fact, politicians started to corrupt your focus on maximizing returns, and if those returns were to be eroded, it would hurt workers and seniors going forward. Would that be correct?

**Mr. Michel Leduc:** It would be a disaster for the 21 million contributors and beneficiaries.

**Mr. Philip Lawrence:** Thank you for that.

As one last note, we look at the oil and gas sector, and clearly we want to invest in renewables and to be sustainable, but when we look at pulling funds from sectors like oil and gas, it often has unintentional consequences, more than what politicians started thinking. In this case, by underfunding oil and gas, if that were to ever be done by pensions or by any funding, you're empowering countries like Russia.

We'll just get your comments on that. Are we invested in Canadian oil and gas, and what would be the return rate we have received from that, year to date?

● (1700)

**Mr. John Graham:** We are invested in Canadian oil and gas. We don't disclose the specifics down into the sector level. As part of our net-zero commitment, we are very clear that we're not going down a path of blanket divestment. We think it's counterproductive to the transition to net zero.

As we think about the oil and gas sector, we think about investing in energy companies and investing in energy companies that have engineering and scientific know-how to produce energy and to get it into people's homes on an industrial scale. That's going to be required for this transition.

We've been quoted as saying that blanket divestment is a short on human ingenuity. It's essentially excluding part of the economy from what has to be an economic transition.

**The Chair:** Thank you, MP Lawrence.

Now we'll hear from the Liberals.

We have MP Dzerowicz for five minutes.

**Ms. Julie Dzerowicz (Davenport, Lib.):** Thank you, Mr. Chair.

I want to thank both of our guests for being here, and thank you so much for the important service you provide to Canadians.

I'm always thinking about the residents of my riding of Davenport. Maybe you could start off by talking about the value that the Canada Pension Plan Investment Board offers in comparison to options for self-managing a retirement.

**Mr. John Graham:** As Michel started to introduce, there's the base CPP and the additional CPP. The base CPP is the plan that has been around since the 1960s. It was always designed to be one of the three legs of the stool for Canadian retirement, along with workplace pensions and savings. With workplace pensions moving away from defined benefits to defined contribution, the CPP is increasingly important. That's part of the rationale for moving to the additional CPP.

Going forward, I personally believe that the CPP's relevance for retirement in the decades to come will only increase with the additional CPP. It's one of the reasons we are really trying to continue to educate on what the CPP provides and its importance in decades to come to the retirement of Canadians.

Maybe, Michel, you would like to add something.

**Mr. Michel Leduc:** I would just say that, probably for all of us, the single biggest financial risk we all face is outliving our assets. As John indicated, with the majority of Canadians not having a workplace pension, the erosion of defined benefits versus defined contribution, and even your own personal saving through tax incentives like the TFSA or RRSP, none of those provide longevity risk. For most Canadians, the only source of longevity risk is the CPP.

**Ms. Julie Dzerowicz:** Thank you so much.

The next question might sound a little odd. There is a rise of misinformation and disinformation that has infiltrated, not only our lexicon but also how people report information and what is reported. Is that something that is of concern to CPPIB as you're researching and determining who you're investing in? Is that a consideration?

**Mr. John Graham:** Maybe I'll make a couple of comments first on diligence and then how we think about CPP Investments and how we present CPP Investments to the Canadian public.

On the diligence side, this gets back to the importance of active management and the importance of building out capabilities to be able to do deep diligence on the opportunities we see. It's why we think it's also important to have a global footprint, to not be a suitcase investor and to be able to have those local relationships. We use our internal teams. We complement that with experts, when needed, to do due diligence into the different areas.

With respect to CPP Investments, it's also one of the reasons why we feel it's important to be sharing our results and to be as transparent as we are. Again, I mentioned in the opening remarks the importance of transparency. I, Michel and other senior members of the team are continually sharing the CPP Investments story.

**Ms. Julie Dzerowicz:** Thank you.

The next question I have is around net zero. I know there's been a conversation around standards. To what extent does CPPIB say we're only investing in companies that are moving to net zero and that have some sort of a plan on mitigating the risk due to climate change?

● (1705)

**Mr. John Graham:** Yes.

As we talked about a little bit, we view the transition to net zero as an economy-wide transition. The whole economy has to move to net zero. It's not going to be a linear path. In industries like steel, aviation, transportation and concrete, barring really dramatic changes in consumer behaviour, there are opportunities to make these industries more green.

We've developed an internal framework called our abatement capacity framework to look at an opportunity, look at a company, and think about how much carbon we can take out of that company and how much can be removed with very little cost today, and then look at escalating prices of carbon and how much can be removed. Then there are often some that can't remove carbon without some technological innovation.

I think what's important here is that when we think about our investing in the companies—we call it our decarbonization strategy—we don't take a binary view that it's either all or nothing. Let's start going down the path and removing what we can, and what's economical today, and move as far as we can, but let's actually start going down the path.

We're looking at one investment recently where we could get 86% of the way there. We couldn't get the remaining 14% of the way there without some technological innovation, but the important thing is to actually start moving there today, as opposed to divesting because we can't get 100%.

**The Chair:** Thank you, MP Dzerowicz.

Now, we go to the Bloc, and we have MP Ste-Marie for two and a half minutes, please.

[*Translation*]

**Mr. Gabriel Ste-Marie:** Thank you, Mr. Chair.

I will continue along the same lines as my colleague, Ms. Dzerowicz.

In terms of your commitment to make your portfolio investments and operations carbon neutral by 2050, why did you choose the year 2050 rather than 2040 or 2060?

What would be the expected impact on your average annual portfolio return?

[*English*]

**Mr. John Graham:** We set our net zero for 2050 to be aligned with global standards. Maybe I'll share a little bit about how we think about the near term, and how we think about investing in decarbonization in the near term.

As we mentioned, we believe the whole economy needs to transition. We actually believe at CPP Investments that this represents a generational investment opportunity. Whether the number is $2.5 trillion, $3.5 trillion, $4 trillion or $5 trillion, the global economy needs a lot of capital to transition. What it needs is patient capital, partnership-driven capital, to transition. That's the type of capital that CPP Investments has.

We've been building out a real competency for investing in this economy transition. What that means is that, as we invest in companies and work with them to decarbonize, the actual carbon intensity of our portfolio may increase in the near term, but it will actually have the bigger impact of working with these companies to decarbonize.

[*Translation*]

**Mr. Gabriel Ste-Marie:** Yes, thank you.

How do you manage climate change risks in your portfolio, exactly?

[*English*]

**Mr. John Graham:** It's a good question. I think this is where we've spent a lot of time over the past 10 years thinking about climate and really looking through the portfolio, looking through new investments and actually thinking about the climate risk with respect to physical risk and transition risk. We're putting in the appropriate risk management to look at the portfolio and to look at exposure in the portfolio. Every new investment that comes in goes through this risk assessment.

Coming back a little bit to our decarbonization strategy, I think this was the real step forward for the organization in transitioning from thinking of this just as a risk to an opportunity, and a real opportunity for the organization.

[*Translation*]

**Mr. Gabriel Ste-Marie:** Thank you very much.

**The Chair:** Thank you, Mr. Ste-Marie.

[*English*]

Now we go to MP Blaikie, from the NDP, for two and a half minutes.

**Mr. Daniel Blaikie:** Thank you very much.

I note that between 2006 and 2022 real estate as a percentage of your total asset mix went up from 4.2% to about 9%. There has obviously been a lot of talk about the housing market. One of the things at play in the housing market is institutional investors acquiring buildings with affordable units and renovicting tenants and jacking up rents. While it seems to produce a good return, it's not a good strategy from the point of view of ensuring that Canadians are housed. It's not a good strategy from the point of view of ensuring that employers can find employees, because of course housing is one of the real pressure points for employers when they're trying to attract talent.

I'm wondering if CPPIB has any policies in that respect to make sure that it's not one of the investors in the housing space that is evicting tenants out of affordable units.

● (1710)

**Mr. John Graham:** Residential housing is not a focus for us. We will have some small exposures in our real estate portfolio. Our focus, especially over the past few years, has been building out logistics, with the transition to e-commerce, and data centres, with the transition to digital. The residential side has not been a real focus for us, and we don't have a lot of exposures. It's not an area that we've spent a lot of time on.

That being said, for every company, every investment we have within the organization, we have an expectation of how the companies will operate. We use our influence, as an owner, with respect to that.

**Mr. Daniel Blaikie:** Do you have any particular policies on renovictions and similar kinds of acquisitions that end up displacing existing tenants?

**Mr. Michel Leduc:** Probably the single most important decision we make when we invest in real estate is the partner. Where the team would spend most of their time would be on exactly that.

Let's say we're partnering with a particular Acme Inc. that owns 50% and is 100% the operator. We will look at their policies. We will understand how they treat their tenants. That's probably the single biggest risk management, because the brand is important, both for the operating company but also upstream, for the organization as well.

**The Chair:** Thank you, MP Blaikie. That's the time.

We'll now hear from MP Stewart for the Conservatives for five minutes.

**Mr. Jake Stewart (Miramichi—Grand Lake, CPC):** Thank you, Mr. Chair.

Thanks to the two of you for being here today. I did some research before I came. I'm not an expert in what you do for a living, and I have great respect for that.

I'm curious with respect to your benchmark. I looked into it a little bit. I read the words “mid-cap European” at some point, and it seems that some people with a little more knowledge than I have feel that your benchmark is not used by many others.

Could you explain anything and everything about the benchmark so that I can understand it?

**Mr. John Graham:** I'm not actually familiar with the reference to mid-cap European, but I think the benchmark that we report against is the reference portfolio. The reference portfolio is a risk-equivalent mix of global equities and fixed income. It represents a very simple, passive alternative that's at the same risk level as our portfolio.

If you think about the global equities component, it would be a large mid-cap. It will capture all of the big global companies across all of the big major geographies. It actually represents a very challenging benchmark because it really represents global economic growth.

Michel, do you have anything to add?

**Mr. Michel Leduc:** Yes, I'll just say that one way to think about it is that 85% of the reference portfolio—our benchmark that John referred to—is composed of the S&P Global large mid-cap, which, as John referred to, is broadly.... It actually represents an investable portfolio.

When we talk about active management, this particular portfolio is one that is the low-cost, passive alternative. When we talk about dollar of value add, it's the money that we make over and above what we would have had we invested in this portfolio. It is an investable index that anyone could invest in.

**Mr. Jake Stewart:** Thank you for that.

Can you list other countries or jurisdictions that use a similar benchmark or exact same benchmark?

**Mr. John Graham:** I can't list ones that use the exact same benchmark, because benchmarks are set to represent the risk level of the organization. Even if we look across the other Canadian peers, they will have different benchmarks based on the risk level they take.

In our annual report, we actually provided quite a bit of information on our attribution and the different sources of returns, starting with the reference portfolio and how we break it down. That provides a lot of disclosure in how we think about the sources of return in a portfolio.

● (1715)

**Mr. Michel Leduc:** I'll just add very quickly, one of the reasons we picked that is that it's very transparent and accessible. For Canadians to be able to hold our feet to the fire on whether we are really adding value, they could immediately see very clearly....

One criteria as to why we picked it was that it's transparent. It's available, and people can go online to look at how it's doing.

**Mr. Jake Stewart:** Thank you. I appreciate those answers. That gives me a lot of things to think about.

Another question I have is with respect to the real returns to the Standard and Poor's 500. What does it look like this year, and how does it relate to other years? Give me a little background on how those are going and what it looks like.

**Mr. John Graham:** Do you mean the actual markets right now?

**Mr. Jake Stewart:** Yes.

**Mr. John Graham:** We have a March 31 year-end, but I think what you're asking is more around the calendar year and how the markets are performing over the calendar year.

**Mr. Jake Stewart:** Yes.

**Mr. John Graham:** I think it's fair to say that this calendar year has been a challenging year for global capital markets. U.S. markets are down 10% to 15% depending on the market. Technology is down 20+%, so I think global capital markets have had a challenging first part of the year.

**Mr. Jake Stewart:** Thank you, Mr. Chair.

Thank you for the answer as well.

I have one last question. Could you explain to the committee how you, in your position, would define equities? What does it mean to the pension fund when you're managing day to day? Can you give us an explanation?

**Mr. John Graham:** Yes, as we define equities, it's essentially being a shareholder in a company. It's owning shares in a company.

**Mr. Jake Stewart:** I appreciate that. Thank you.

I have no further questions, Mr. Chair.

**The Chair:** Thank you, MP Stewart.

We are going to our last questioner and this will conclude this second round but also our opportunity here with CPPIB.

We have MP Chatel for the Liberals for five minutes.

[*Translation*]

**Mrs. Sophie Chatel (Pontiac, Lib.):** Thank you very much, Mr. Chair.

[*English*]

Thank you, Mr. Graham and Mr. Leduc, for being here with us today, and congratulations, Mr. Graham, on the appointment. It's very important work, indeed, that you do.

I will continue with the line of questions that my colleague Mr. Blaikie had about your net-zero investment strategy. I'm very interested in green finance and very happy to hear that you were involved with the TCFD's work, so well done. It's very important work.

I want to talk about what we call the ISSB, the International Sustainability Standards Board. One branch will be in Montreal. That's very big news for Montreal and for Quebec. I'm very happy about that, but it's a game-changer—isn't it?—because for you and for the companies, this will allow companies to provide strategic information about their environmental impact and that's really what you're looking at to define what would be a green portfolio.

Could you tell us more about what the impact would be of having very good, robust standards on green finance?

**Mr. John Graham:** I'll say a few words and then maybe I'll ask Michel to talk a little bit about ISSB. He's been quite involved, and it is important. It's important for an investor to have consistent reproducible measurements. Think about the carbon intensity in different companies and, as we've talked about already, the ability to compare companies across geographies, across industries. It's critically important. Just as an example, in our portfolio we do publish, in our annual report, the carbon intensity of our portfolio, but of that, only around 30% to 35% of the numbers we have are actually reported by companies. For 60% to 70% of the numbers in there, we are using industry averages. We're proxying to get to what we believe is a representation of our portfolio, and it moves around. It's volatile, because every quarter—and this is a good thing—more companies come out and disclose more information and there are restatements and people refine the methodology, but it adds volatility.

As we think about the transition to net zero when we have stable, consistent, comparable measures, it will be really important, which is one of the reasons that as a firm we're actually dedicating time to being involved and trying to be part of this process.

● (1720)

**Mr. Michel Leduc:** Now I'll just say, look, it is absolutely a big deal that Canada will host one of the offices around the international standards board. This is by far one of the most important accounting dimensions that we will see going forward. As John has indicated, climate change is a significant risk and significant opportunity for institutional investors to have better data and better information. Also, as we challenge boards of directors, in terms of the companies and overseeing their management teams, it gives us additional information to be able to track and measure whether they're meeting their own targets and their own progress.

The fact that the international standards body selected Canada, I think, says a lot about the reputation this country has around this information. It's a very big deal for the country and for climate change risk analysis.

**Mrs. Sophie Chatel:** Thank you so much.

[*Translation*]

If I may, I will continue in French.

Can you tell us about the value you offer compared to self-directed retirement options?

I'm very interested in comparing what you do in investments and what self-directed retirement options have to offer.

[*English*]

**The Chair:** Madame Chatel, can you repeat your question?

**Mrs. Sophie Chatel:** I asked about the value you offer in comparison to the option of self-managed retirement plans for pensioners.

**Mr. John Graham:** As we think about CPP and CPP Investments, there are several benefits worth highlighting. One is the mutualization of the risk across the country and the ability to have risk sharing. There's diversification across the Canadian economy, and this provides stability over the long term.

As was already highlighted, the CPP is a pension plan that provides defined benefits over time. It also provides one of the few real checks and balances against longevity risk. As I mentioned earlier, the additional CPP is really just starting now—it's very early. We certainly believe the value will become very evident over time, as it becomes a bigger part of people's retirement.

**The Chair:** Thank you, MP Chatel.

**Mrs. Sophie Chatel:** Thank you.

**The Chair:** We've reached the time.

Now there is an opportunity to thank Mr. Graham and Mr. Leduc from the Canada Pension Plan Investment Board. We thank you on behalf of the 21 million Canadians who contribute to the pension plan and for the investments you put those contributions into.

As MP Ste-Marie mentioned, I want to thank the analysts. They do a great job for us with briefing notes, questions and so on, which helps us. I'd also like to thank the clerk, the entire finance committee and everybody here. We really thank you for coming before us.

I'm new to this role, but I understand you do this annually. I don't know if we always do it at the same time of year. The Clerk says more or less, so we look forward to seeing you in a year's time, when you'll update us on how the CPPIB is doing.

Thank you.

**Mr. John Graham:** Thank you.

**The Chair:** Members, we're going to suspend now. We're going to go in camera, so we'll give the remote members an opportunity to transition to the other Zoom.

Thank you.

[*Proceedings continue in camera*]