CPP INVESTMENT BOARD

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Mark Machin: Introductory Remarks

Address to the House of Commons Finance Committee

Mark Machin
President & Chief Executive Officer
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Good afternoon Mr. Chair and members of the committee,

I will keep my remarks to 10 minutes.

Thank you for having me here today to discuss and answer questions regarding the Canada Pension Plan Investment Board and how we are helping ensure the CPP remains sustainable for future generations of Canadians.

To my right is Michel Leduc, our Senior Managing Director of Public Affairs and Communications, and to my left is Ed Cass, our Chief Investment Strategist.

I joined CPPIB four and a half years ago as the first President of Asia and then became Head of International in 2013. Prior to that, I worked for Goldman Sachs for twenty years in Europe and Asia. While I am a new resident to Canada, so far I've had the pleasure of travelling across the country meeting with finance ministers, the stewards of the CPP and some of our contributors.

I was enormously honoured to be chosen by CPPIB's Board of Directors to lead such an important professional investment organization with a compelling public purpose. International organizations such as the OECD, the World Bank, Harvard Business School and The Economist, have all praised the 'Canadian model' of pension management due to its strong governance and internal investment management capabilities.

Our governance structure is a careful balance of independence and accountability, enabling professional management of the CPP Fund while ensuring that we are accountable to the federal and provincial governments, and ultimately the Canadian public. We know that contributions are compulsory and so we are motivated to work even harder to earn that trust.

We hold ourselves to an extensive disclosure policy, including quarterly reporting, annual reports, triennial reviews, special examinations, and we announce all major investments and corporate developments.

It was just over twenty years ago that the Chief Actuary of Canada projected that the CPP would run out of money by 2015 if changes were not made to the management of the CPP. In 1997, the federal and provincial governments addressed this challenge head on by increasing the contribution rate and creating CPPIB to manage the contributions not required to pay benefits. There was a clear imperative: to expose the Fund to capital markets in order to achieve growth objectives.

Since then, CPPIB has been focused on getting the best investment returns possible. Our 10-year rate of return is 7.3% and 5-year return is 12.0%. More than half of the assets of the CPP Fund is now the result of investment returns, not contributions. The Chief Actuary noted in his report last month that over the last 3 years investment income was 248% higher than anticipated due to the strong investment performance of CPPIB.

Most importantly, the Chief Actuary reported that the CPP Fund would be sustainable for the next 75 years with an assumed 3.9% net real rate of return, after inflation and all expenses. CPPIB's 5-year net real rate of return, as at September 30th, 2016, is 10.5%.

At CPPIB we know we can't take these results for granted. It is a difficult investment climate around the world. Single years can produce very different results. In 2009, we had our worst year ever, losing over 18%. In 2015, we had our best year with a gain of over 18%. We know we can't focus on yearly results. Our ability to see past these short-term pressures and pursue the best long-term strategy depends on strong, independent governance and the clarity of our mandate.

With the CPP's risk exposure, including wage growth, demographics, longevity, and economic risks, being highly weighted towards Canada, it is especially important that CPPIB's investments hedge against these risks.

To address these risks, CPPIB is diversifying the Fund around the world and across asset classes. Currently, over 80% of the CPP Fund's assets are in international jurisdictions in a variety of asset classes, from private equity, infrastructure, real estate, to public markets.

While we are confident this is the right strategy, we also know that competing with the largest investment firms around the world to secure the best assets comes with costs.

CPPIB, at approximately $300 billion in assets under management, is a mid-size organization competing against global giants. BlackRock, the largest asset manager in the world, has over $5 trillion in assets under management. Closer to home, Sun Life Financial has almost $900 billion. Among global competition, we fall well down the list in size.

To fulfill our long-term investment goals, CPPIB took the decision 10 years ago to pursue an active management strategy that would both maximize returns and create a more resilient, diversified portfolio.

Pursuing an active, global strategy, was a decision taken very seriously with considerable analysis. Success depends on sufficient resources to compete and manage risk effectively, and this is important context when looking at our costs. In order to compete we need expertise and skill as a knowledge-based enterprise. There's no doubt that the winners will be those investment firms with the most talented investment teams and a global footprint to cultivate critical relationships with partners and governments, to secure deal flow and manage the risks over time, in order to maximise returns and manage risks for our contributors and beneficiaries.

Before concluding, I would like to address Bill C-26. CPPIB is currently analyzing the legislation to ensure we are completely ready to implement the amendments that affect us.

With or without reform, the CPP Fund is projected to grow significantly in the future and we are well prepared to manage a larger Fund. When we evaluate investment programs, new processes or supporting technology, we always want to ensure that they can be scaled to take into account increased size. We are very confident that we will be ready to manage the additional funds.

Bill C-26 requires separate and joint financial statements for both the base CPP and additional CPP. While we are working through details, we will be able to meet this new requirement.

We believe that it is possible to manage the consolidated Fund while having regard to the funding and requirements of the base CPP and additional CPP. We recognize the additional reliance upon investment income for the additional CPP due to its fully funded nature and therefore a need for a more conservative asset mix for the additional CPP. We will be working closely with the Chief Actuary, Finance Canada, and provincial governments to ensure that we are meeting the intent of the legislation.

To conclude, in order to successfully achieve our mandate for Canadians, our competitiveness is predicated on capabilities to buy assets that will create enduring value-building growth. It is a deep privilege to serve and we believe that we are on track. Public confidence is critical and we must continue to work hard to earn that trust each day. We submit that Canadians have reason to be confident as the hard work continues.

Thank you and on behalf of my colleagues we look forward to answering your questions.