CPP Investments

Canadian Club John Graham

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Male 1: Our club has always been a forum for public figures, thought leaders and decision makers to share their ideas. Here we offer access to dynamic political, business and published personalities.

Female 1: We are dedicated to encouraging debate on the issues that matter to the city, this province and this country.

Male 2: Canadian Club is one of the most is one of the most important podiums anywhere in the world that a Canadian can speak to, tell Canadians what it is that they think, develop those thoughts. And so I want to thank you for that very, very much.

Female 2: Please join me in thanking our esteemed panelists today.

Male 3: Through our programs and events, including our youth and young leaders' programs, our diversity partnerships, our joint events, and our media and social media opportunities, we offer you access to dynamic political, social and business figures from abroad and right here at home.

Male 4: The platform from which the eloquence of Canada has flowed all of that time, whether it be business, education, politics, sports, arts and culture. If someone wants to say something to Canadians about this country and about the future of this country, this is the venue you choose.

Anita McOuat: Good afternoon. Good afternoon members and guests, and to our online viewers who have just joined us. Once again, my name is Anita McOuat and I am the Past President of the Canadian Club Toronto.

This year our club celebrated its 125th anniversary. And I can tell you, it certainly looked different these past few years as we moved from a live event club to a virtual event club, and that reached far beyond the borders of Toronto and Canada. And now we're back to a I would say hybrid club. One thing that hasn't changed is the desire for information from respected and accomplished thought leaders like today's special guest.

We encourage those joining us virtually to engage with us on social media. Hashtags are on your tables for those in the room, or on your screens. And I'm sure those of you in the room do have questions for the President and CEO of CPP Investments, so please use the Q&A cards at your table. Raise your hand, someone will come and collect them and share them with our moderator today. And for those joining remotely, please hit the Submit a Question button and send your questions through.

Today's event is generously sponsored by PWC, Canadian Credit Union Association, and Torys LLP. We are a non-profit with a mission to engage

Canadians in the conversations that matter most, so we thank you for your generous support.

At this time I would like to call upon Richard Pay, Deals Leader and Transaction Services Leader for PWC Canada.

Richard Pay: Good afternoon. Good afternoon head table, Canadian Club members, and indeed everyone attending this service lunch both in person and virtually. On behalf of PWC, it's our great pleasure and privilege to co-sponsor this event, and we really do appreciate the great work that the Canadian Club continues to do.

It's my pleasure to have the opportunity to introduce John Graham today. John is the President and CEO of the Canada Pension Plan Investment Board, and in that context John is responsible for CPP investments and its investment activity.

Almost a year ago exactly to the day, PWC Canada's CEO Nicolas Marcoux introduced John at a very similar Canadian Club event, albeit that that was fully virtual. And at the time, Nicolas remarked quite the time to become President and CEO of CPPIB. I think this event was one of John's first public-speaking engagements after taking on that role in the context of the challenges at the time, you had the pandemic, supply-chain challenges, the great resignation, virtual working, etcetera.

Now that notwithstanding, I think the investment market at the time was relatively strong still, and a number of other variables still very strong. And some of us, myself included, maybe had a slight thought that we had a bit of the wind at our backs. Maybe things were starting to get just a little bit better.

Fast forward 12 months, I don't think many or any of us could have predicted the incremental challenges overlay that business and society is dealing with now. Clearly the very challenging geopolitical environment, including the tragic conflict in Ukraine, the inflation, Central Bank interest rates rising, public market valuations falling, credit markets tightening, clearly a very challenging environment and one which makes challenges for society and also for significant investors, global investors no less.

Also, this time last year, in fact this very week last year, PWC announced its new strategy called The New Equation. That strategy was driven around two key areas which we thought were key focal points for our clients going forward as they try to navigate technological disruption, climate change, and the ongoing fact of the pandemic. And those two key areas were building and maintaining trust and delivering sustained outcomes.

And over the last 12 months, through lots of discussions with our clients, we've absolutely seen those points resonate as our clients have tried to navigate through those points. And we've seen them anchoring in on those two elements, trust and sustained outcomes, as they try to address the challenges of the moment and also build in that corporate flexibility, muscle memory and agility to be able to deal with the challenges to come. And clearly, based upon the dynamics that I outlined a minute ago, plenty of challenges yet to come.

Now some of those challenges do present opportunity. And I think we'll be very interested – and I'm sure Rita will touch on this with John – to see where some of those areas might be for Canada's largest pension plan and a significant global investor with pension capital such as CPPIB. In a moment John will come to the stage and make some prepared remarks, and after that Rita Trichur will join him for a conversation.

Rita is an award-winning journalist. She's the senior business writer for the Globe and Mail and a columnist therefore, having previously served as the Financial Services Editor for the Globe and Mail. And prior to that, amongst many other things, spent two and a half years as a reporter for the Wall Street Journal.

So without any further ado, I'll welcome John Graham to the stage and would ask all of you to welcome him with a round of applause. Thank you.

John Graham: Great. Well it's very different being in front of people as opposed to being in front of a screen, so it's great to see so many familiar faces. Thank you, Richard, for that kind introduction. And thank you for the invitation today to come and speak to everyone.

In preparing for today, I did look back on what I spoke about a year ago. I was in the role for a few months and I commented that 2020 felt like a rollercoaster, thinking that maybe we were through the rollercoaster. The beginning of 2022 has felt very similar. It's been pretty volatile and uncertain, and it looks like we may be in this for some time. So today I'm going to talk about how we at CPP Investments are managing these ups and downs and delivering strong long-term results for 21 million Canadian contributors and beneficiaries.

As the investor of the CPP Fund, the largest single pool of capital in the country, we play a vital role in the lives of Canadians. And now more than ever, I'm incredibly proud to live in a country that has one of the most advanced pension systems in the world. And I am truly honoured – and I see many of my colleagues here today – truly honoured to be leading a team that contributes to the financial security of millions of Canadians today and for generations to come.

So I'll start with a few words on the global economy and what we expect will be a prolonged period of uncertainty. And it's clear that the current economic situation is presenting challenges, challenges that we haven't seen in decades. Geopolitical pensions – and they have been rising for a little while, but it's becoming increasingly challenging for a global investor to navigate these risks. And going forward, geopolitical considerations may override capital markets considerations for investors, and that may be for the next five, 10 years.

Now we know, we all know in this room that corrections in financial markets are expected from time to time, and especially when the markets have been climbing, and climbing as they have been for the past 10 years. They can help readjust expectations, readjust the levels, but they also add short-term volatility and uncertainty, and anxiety for people. And we're seeing, as we're all seeing, higher inflation in fuel, in food, in housing, and some multi-decade highs here in Canada, the U.S., in many countries around the world and Europe.

And we like many others do expect inflation to remain high in the near term, largely because the supply side has not been resolved yet. The lockdowns from the lingering pandemic, the zero COVID policies, national security, independence considerations, war in Ukraine; these are all continuing to disrupt supply chains, and disrupt the supply of essential materials that fuel the global economy.

Because of this we have rates rising, and as central bankers are looking to try to aggressively deal with inflation that is running at decades' highs. And all of this points to slower global growth. The IMF World Economic Output projects global growth to be at around 3.6% for this year and next year, and they're calling that down from January.

And this might be a grim picture and I don't want to talk too much about a grim picture, and it may seem overwhelming, but at CPP Investments we were built for markets like this. We were specifically designed at CPP Investments for the very long term and to create value over the very long term, and to be resilient in the face of wide-ranging market and economic conditions.

CPP Investments was actually created to expose the funds to the capital markets. And capital markets can give and they can also take. And over the past decade the capital markets have been pretty robust. Valuations were increasing almost across the board for risk assets, and simply exposing capital to capital markets was a winning strategy.

Over the past few months, really through this calendar year, the markets have been taken back and resetting levels and resetting expectations. We built CPP Investments to both expose the funds to the capital markets and to also add value through active management. And just to be clear, that doesn't mean that we're immune to volatility. It means that we're well positioned to weather the storm over the long term.

And to be clear, it also means that we might have a tough year or two, but as a generational investor, we're here to invest for our 21 million contributors and beneficiaries today and for generations to come. And as I said, the key – and we all believe the key is active management, and a big part of that is diversification. We diversify across asset classes, we diversify across geographies to mitigate concentration to risk and to deliver a stronger and more resilient portfolio.

We invest in asset classes really expecting them to perform differently through the economic cycle. We have investments in growth companies and we expect those companies to do well when the economy is expanding. We also have a really large infrastructure portfolio and we expect our infrastructure portfolio to deliver stable through-the-cycle returns, because these investments are underpinned with long-term inflation-protected contracts. Now it's difficult to get this kind of benefit and to get this exposure to all these asset classes if you're purely a passive investor.

Now as I mentioned, over the past decade plus the capital markets have been in a giving mood, and simply ensuring exposure to these markets was a good strategy. I believe that when global capital markets are volatile and we face the type of geopolitical backdrop we face today, active management really shows its value.

And I'll share a little bit of our long-term results and our last year's results, and in March 31st the fund grew from 497 billion to 539 billion. And despite choppy market conditions in the fourth quarter, those results are very good. But as we say at CPP Investments, it's a long-term performance that matters most. And I'm pleased to report that our 10-year performance is just under 11% at 10.8% for the year ending March 31, 2022.

This year, through this fiscal year, this calendar year, seeing the challenges ahead, we've continued to strengthen the resilience of our portfolio and of the fund. We reviewed and updated our credit and our equity risk models, performed various scenarios, sensitivity analysis, and continued to closely track political and geopolitical risk implications to the fund and to its holdings. We keep our eye firmly focused on the long term but ensure we have the flexibility and the agility to react to near-term opportunities and to mitigate short-term risks.

Climate change is another aggravating factor in this prolonged period of uncertainty. It's more than 10 years ago that at CPP Investments we started to incorporate climate risk into how we manage the portfolio, and over the past two years we've transitioned that to also thinking about opportunities with respect to climate. And one of this year's announcements that we’re most proud of as an organization is our net-zero commitment. And we appointed our first ever Chief Sustainability Officer, Deb Orida. We committed to bring our operations to net zero by March 31, 2023 and our portfolio to net zero by 2050.

And now I would like to share some thoughts about how we’re investing for the future. So one of the questions I often get in these type of environments is how is CPP investing? What are we thinking about? What are we investing in? And there's a couple areas that I'll just quickly touch on.

The first and where we’re focused on as an organization is our investment teams continue to be active. They continue to stay in market. They continue to look for opportunities across all asset classes and look to be opportunistic in these periods of market volatility. We are not market timers and we don’t try to call the bottom of a market. We stay in the market and we keep looking for high-quality assets.

Now today there's a real divergence in expectation between buyers and sellers. There's a real divergence in expectations on value. And the bid-ask spread is pretty big, so while we’re in market, we’re not closing a lot of transactions at this time. But if we go through this prolonged period of uncertainty, that will close over time.

We’re also seeing less competition for assets. We’re seeing less competition for high-quality assets as short-term money sits on the sidelines. And perhaps the most important investment decision that a long-term institutional investor can make is to continue to rebalance the portfolio to your risk target, and to not lose conviction in your long-term investment beliefs during a market selloff. And we are constantly as an organization making sure that we stay at our long-term risk target, and that means buying equities when equities are selling off.

Now the second area that we’re focused on as an organization and a little bit more specific is the energy markets. And what's happening today in the global energy markets is a strong reminder that the energy evolution is a whole economy transition and it will take time. The annual clean energy investment worldwide will need to triple over the next few years to four trillion dollars a year to meet our goals by 2050.

CPP Investments thus far has invested $68 billion in green and transition assets with a goal of doubling that to 130 billion by 2030. And we also continue to build our decarbonization investment approach. We’re looking for attractive returns from enabling emissions reductions and business transformation in high-emitting sectors. We have strong conviction that addressing essential high-emitting strategic sectors in the economy is actually key to addressing climate change.

So looking ahead, I describe myself and I'll describe the organization as cautiously optimistic; cautious on the markets and cautious with respect to geopolitical considerations, but optimistic and frankly confident, confident about CPP Investments' ability to navigate the markets and add value to 21 million Canadian contributors and beneficiaries. It's going to be an investors' market going forward, and active management is the best protection for today's market condition amid the slowing global growth.

So I'd like to close my prepared remarks with a short story about my daughter. She's in grade 10 in high school. And unbeknownst to me – and genuinely unbeknownst to me, I didn't know this – she decided to do her final project for grade 10 Canadian history on the creation of the Canada Pension Plan. [Laughter] And I didn't know. I genuinely didn't know. But she did think she had an inside track. She thought she had a ringer in the house.

And what she learned – and I actually don't know what the grade is yet so I haven't found out. But what she learned, and I think it's worthwhile reminding everybody, especially during volatile times like this, that the Canada Pension Plan was set up in the 1960s to deal with a huge social issue, and that's poverty in seniors. At that time, approximately half of all seniors lived in poverty. And if you look closer at unmarried individuals, 75% lived in poverty. Three quarters lived in poverty.

Today, poverty among the elderly in Canada is one of the lowest in the world. And that's a tremendous national accomplishment, but we can't be complacent, especially now against this volatile and inflationary backdrop. And CPP Investments is dedicated to continuing to deliver the kind of sustainable value. We all need to ensure peace of mind in the decades ahead.

So I am truly honoured to lead our incredible global team of 2,000 world-class professionals who are committed to this purpose. And we may have some challenging years ahead, but we're creating value for generations. Thank you. [Applause]

Rita Trichur: Hi, John.

John Graham: Hi, Rita.

Rita Trichur: Thank you for your remarks and taking the time to speak with me today. I am someone who is fascinated by what you do but also by risk, and so my first question has to do with risk. Has the pandemic changed CPPIB's approach to risk management?

John Graham: The short answer is, fundamentally, no. And part of that is – we've had board meetings recently – part of it is, to ensure that we have risk management, we have risk governance, we have investment processes that are built through the cycle. If you're having to modify how you're thinking about risk management during a crisis, then you should really think about your entire risk-governance process.

Over the past five years we've been putting in place a risk framework for the organization. And even going through the beginning of the pandemic with COVID, I think it's served the organization tremendously well. And we sit here today in a good position with respect to liquidity, with respect to managing our market risk, our credit risk, our interest-rate risk. So I'd say fundamentally it actually hasn't changed.

Rita Trichur: OK, so just a quick follow, and this is a little bit of a nerdy kind of question, but anyone who follows pension funds I think might appreciate it. Have you adjusted your mortality expectation as a result of the pandemic?

John Graham: That's a good question. And maybe there's a little bit of a nuance here as we think about CPP Investments and the role of CPP Investments. We manage the funds of the CPP. And the CPP, the Canada Pension Plan, is administered by the government.

Every three years there's an actuarial review by the Chief Actuary of Canada on the sustainability of the plan. And they work through and think about the sustainability of the CPP is more than just investment returns. It's mortality. It's immigration. It's birth rates. It's a whole bunch of factors. Investment returns is just one of them, which is why we talk about we contribute to the sustainability of the plan.

A few years ago, the last one was three years ago and showed that CPP is sustainable for 75 more years. The next review is actually coming out later this year. And with respect to embedding and thinking about mortality, it's a great question for the Chief Actuary. [Laughter]

Rita Trichur: All right. Well I'll have to follow up. OK, so given all the volatility that we have seen in the markets, I'm really interested to know what your approach is to investing in new frontiers such as crypto, blockchain, cannabis, and even AI.

John Graham: OK well that's a bit of a mix. And maybe I'll put AI aside, we'll think about it, so thinking about moving into new markets and thinking about how we build the portfolio. And we take I would say a very long perspective on building the portfolio and start with the type of exposures we want with respect to asset classes, with respect to geographies, and then build out our active teams to then go find opportunities.

Certainly we're always looking – you know crypto, maybe I'll spend a little bit of time on that – we're always looking at these new areas and trying to understand them, because it's a trillion-dollar market. We have to understand it. We haven't invested in it because, for a whole bunch reasons, but we haven't invested in it. Again, investing, you don't want to just be investing with FOMO. You want to really think about what the underlying intrinsic value is of some of these assets and build your portfolio accordingly. So I'd say crypto is something we continue to look at and try to understand, but we just haven't really invested in it.

AI is a little bit different. In there we have been investing in firms with a belief that AI machine learning, advanced analytics, alternative data, that's just the way the world's going. And technology is no longer a vertical; it's a horizontal that cuts across every investment group that we have, and it also can have a profound impact on how we manage the organization itself. So we've actually invested not only within the AI machine learning space but we've invested in trying to build an internal competency that we can embed in how we manage the portfolio.

Rita Trichur: OK. So I'm going to pivot here. China is a huge geopolitical risk. Are you still bullish on China?

John Graham: Are we still bullish on China? So maybe I'll spend a moment talking through how we think about portfolio construction from a geography perspective. And even going all the way back to my opening remarks of who we are, and we manage the money and we have 21 million Canadian contributors and beneficiaries.

And we are here to maximize return without undue risk of loss, taking into account the factors that impact the funding of the plan. And we feel it is very prudent for us to diversify the asset portfolio. We have 16% of our assets in Canada, which makes us a very large investor domestically, and we have the rest invested globally. And we do that to get exposure to global growth, to get diversification, to broaden the opportunity set.

An area we've been quite focused on over the past few years is thinking about emerging markets; China, India, Brazil, the big emerging markets. These are the drivers of global growth. These are economies that at some point are going to account for 40, 50% of the global GDP. As we think about investing not just for today but for generations, we need to have the ability to invest in the biggest markets in the world. We need to have that understanding, the relationships, the infrastructure to invest in these markets, so we have built a global portfolio.

Now I tend not to use words like bullish and bearish. I just think about it as what are we doing to build a portfolio for generations, and a view that we need to continue to have that global portfolio. We need to continue to invest in the big economies around the world. But the how we do it really matters. How we invest in different economies around the world really matters. And I could spend the next two hours going through our internal processes and how we think about managing these different risks as we become a global investor, but we continue to be of the view that it is prudent for us to be a global investor.

Rita Trichur: OK. So you spoke about the energy transition during your remarks, and so a key question that a lot of Canadians have is why don't you believe in blanket divestment to meet your net-zero goals?

John Graham: Yeah, we have stated many times that we do not believe blanket divestment is actually the – we believe it's counterproductive to achieving net zero.

Rita Trichur: Why is that?

John Graham: We believe that this is an entire economy transition. This is going to be hard. This is going to be non-linear. This is going to require lots of capital. And if the goal is to actually remove carbon from the economy, then selling doesn't achieve that. All selling does is sell it to someone else who may not share the same values, may not have the same objective.

Our view is to be an engaged owner-investor within the companies we invest in, and express our expectation of a path towards net zero. But we continue to invest in oil and gas with a view that here we have a sector that understands energy, that understands how to get energy into people's hands. And divestment away from that sector is cutting off all the engineering and scientific knowhow that resides within that sector.

Rita Trichur: OK. Institutional investors play such an important role in advancing corporate governance, and one of the issues that I read a lot about is diversity and inclusion. And I've got to tell you, John, I'm really sick of writing about this. [Laughter]

We know that women and diverse candidates continue to be under represented on corporate board and on senior management teams. What is it going to take to finally create meaningful change in corporate Canada? And shouldn't pension funds such as CPPIB take a more aggressive stance on this issue?

John Graham: When you say aggressive stance, what do you mean?

Rita Trichur: I mean higher than the requirement that you have now.

John Graham: So our board is actually 50/50.

Rita Trichur: No, I'm not talking about your board; I'm talking about when you vote against –

John Graham: Oh I see, I see. Yeah, so just for the benefit – and I can talk about how we think about it internally and how we also think about it as we vote with our proxy vote. An expectation that there is diversity on the board, and if we don't see an appropriate level of diversity we'll vote against the nomination of new directors.

We started that out in certain countries and have been expanding it globally. And it’s not just us; it’s actually a lot of institutional investors around the world have been doing this. And now I think trying to expand it beyond just gender diversity but think about other dimensions of diversity. So I'll take away the thoughts about the numbers, but it has thus far proven to be a pretty effective mechanism for enacting change on corporate boards.

Internally, it’s something that is a high priority for me. It’s a high priority internally. CPP Investments, we have about 47% of our workforce would identify as a member of a minority group, 44% women. And I think where we continue to have work to do is actually at the senior ranks is having more representation at the senior ranks.

Some of the other areas we’re focused on is providing opportunities for members of the black community, the indigenous community, actually very proactively recruiting in these communities for interns. And also ensuring, actually now spending more time reaching out to communities with people with disabilities.

Rita Trichur: OK. I'm glad that you’re taking an aggressive tone from the top because that really is what matters. [Applause] Another question that a lot of Canadians have, and my colleague Andrew Coyne in particular seems to have this perennial question when he writes about CPPIB, and it’s are you deriving enough value and active management to justify the cost? So John, what is your response to those who would critique your cost structure?

John Graham: Yeah. So as I mentioned in my opening remarks, the organization has gone down the path of building an active manager with a view that CPP Investments will have some structural advantages in the marketplace, that we’ll have scale, we’ll have certainty of assets, we’ll have duration, we’ll be able to be a long-term investor. And we have an opportunity to extract and to make alpha from that.

And the way I think about active management is there's two dimensions to it. One is just we have an expectation that after all costs we will outperform the market. The past fiscal year we added $10 billion of what we would call dollar value-added. So $10 billion more in the fund from active management after all costs. Inception to date, the fund has $41 billion of cumulative dollar value-added, so $41 billion more in the CPP Investments fund from active management activities. And so I think we’re very comfortable that the fund continues to deliver value.

The other dimension of it is really portfolio construction and how we think about building a portfolio and building a more resilient portfolio, a portfolio that, as we experienced through the beginning of COVID, can really weather these storms. We don’t expect it to go down as much when the markets sell off, don’t expect it to go up much when the markets go high, but over the long run providing a better risk-adjusted return.

Rita Trichur: OK I'm going to get to some audience questions very soon, but I do have two more questions for you. My colleague David Milstead and I were talking about this the other day; we were talking about how old we're getting. But one of the things he mentioned is that CPP is on track to becoming a $1 trillion plan before he and I retire. How do you find investments when you are that large, and when individual investments can no longer move the needle? Tell us about that challenge?

John Graham: Yeah, I think it's a myth that that scale becomes – the scale becomes counterproductive and get too big. I think it's a myth.

Rita Trichur: OK, tell me why.

John Graham: As the organization has continued to grow, and we've gone, I've been here 14 years, we were sub 100 billion, and we are half a trillion today and we'll go to a trillion. As we grow in size, the opportunity set just gets bigger and bigger. And the opportunity to actually monetize our comparative advantages of scale, certainty of capital, time horizon, they just get more and more valuable with scale.

And if we look at, we added $10 billion of DVA last year at – we continue to add value. And so I think this is one area that scale matters. And in the investing markets going forward, scale matters.

Rita Trichur: OK. And so I like to end my interviews off on a positive note whenever possible. It's not always possible. But you know these are uncertain times, so what would you say are some of the bright spots for investors?

John Graham: Yeah. Yeah, I mean this is the question we always get, right, is what are you looking at? And as I say, it's not crypto and it's not cannabis. And I don't give financial advice, so that is also one thing; I don't give financial advice. What I mentioned in my opening remarks I think is so important is be an investor, not a speculator. And invest and look for value and look for long-term quality assets and not speculate on the hottest, latest thing.

So where we're seeing bright spots in our portfolio is where we've seen bright spots for years. As a global investor we've built out this global capability. India, we have a team in India. We've announced some recent transactions there that we're excited about. Brazil, which is much earlier in its rate hike cycle than we are and they're ahead of us, there's some interesting opportunities there. Infrastructure, continues to be some interesting opportunities there. So I think all the groups I've said are out there looking and finding interesting opportunities.

Rita Trichur: OK. I'm not putting my money in crypto either. OK. Here's an audience question. With the coming recession and rising interest rates, is a Canadian housing crash all but certain? Nice and easy.

John Graham: Yeah, we don't have a lot of exposure to Canadian housing and I'm probably going to not comment too much on the Canadian housing market. I'll just comment more on just rising interest rates and something that we certainly see, and certainly see coming, and the impact on the portfolio, and the broader impact on the portfolio. And as real rates rise, that puts a real headwind into asset prices. So I think risk assets in general will feel the effect of rising interest rates.

Rita Trichur: OK, another audience question. How do you juggle higher growth in Asian investment opportunities and not support human rights abusers?

John Graham: So I think respect, as I mentioned, we certainly believe it's important to be a global investor, and certainly believe it's important to tap into the sources of global growth. But the how really matters, and the how you invest really matters.

As we think about which sectors to invest and equally which sectors not to invest in, we go through a process, both within our active portfolio and our passive portfolio, of ensuring that we don't have positions in our portfolio that have exposure to companies that have human rights concerns. I think it's a pretty foundational, fundamental belief that if a company doesn't respect human rights, it's hard to believe it belongs in the portfolio of a long-term investor.

Rita Trichur: OK. Another reason why corporate governance is so important. What would CPP need to want or be incented to invest more at home and less abroad? Oh, this is an interesting question because there is that criticism that pension funds may not be enough of Canadian champions. What a marginal difference this could make in Canada in vital need of growth-generating investment. How do you respond to that?

John Graham: I'll come back to my daughter on this one. I'll come back to my daughter and her project on the creation of the CPP. Because what I didn't share in my opening remarks is the next chapter of that creation of the CPP which is the creation of CPP Investments.

So CPP was created in the 1960s and it was a tremendous success. But the plan was restructured in the '90s because of a concern that it wasn't sustainable. And it was restructured and part of it was to create CPP Investments. Create a professional, independent money manager to manage the funds in the best interest of contributors and beneficiaries. And that's what we've done.

So we have the funds of the CPP we manage in the best interest of 21 million Canadian contributors and beneficiaries. And we're here to contribute to their financial security in retirement, which is the most vulnerable time in people's lives. So as we think about the CPP Fund and we think about CPP, it's important for us to have a diversified portfolio. It's important for us to build a global diversified portfolio.

And if you take, kind of zoom out and think about it, 100% of our contributions come from Canadians. CPP is exposed to a lot of factors within the Canadian economy. So we're one part of that. And investing globally is in the best interest of the Canadian contributors and beneficiaries.

Now as I mentioned, we still have 16% of the fund in Canada. Canada's contribution to global GDP is 3%. So we have a tremendous amount of capital invested in Canada because we know Canada. There's great investment opportunities. And it is part of our investable universe and we continue to look, but we also go back to why were we created and what's our mandate.

Rita Trichur: OK. Somebody here wants me to ask you if you have investments in Russia. And if so, will you pull?

John Graham: Obviously the Russian invasion of Ukraine is a tragic situation. And we made the decision going on, almost predates my time at the organization 14 years ago, that Russia really wasn't an investable market, and so we did not actively look at opportunities in Russia. And so when we came into this year, we had no positions within our active portfolio in Russia, so we didn't have anything to divest because we didn't have anything.

Rita Trichur: OK. Well there you have it folks. Some people are looking ahead. Here's another audience question. How is CPPIB prepared for unlikely but possible events that would change scenarios fundamentally, for example if China invades Taiwan?

John Graham: Yeah, I think that that's one of many scenarios and sensitivities that we think through. And as I mentioned in my opening remarks, geopolitical considerations right now are top of mind for everybody. And I think the Russian invasion of Ukraine was a bit of a gamechanger for people in thinking about the impact. And I can think of many reports that were written just weeks before the invasion that put the probability of invasion at 30% or 20% or 40%, but we have a full-on armed conflict right now.

So we think about the resilience of a portfolio and we think about it not just through the scenario you mentioned but through many other scenarios, and ensuring that we have a portfolio that is resilient through lots of different shocks. And that's active management, right? That's active management of really designing the portfolio so it can have the resilience against these shocks.

Rita Trichur: OK, we have less than five minutes left and I've gone through the audience questions, but I of course have plenty of questions for you. So there is a criticism that private equity investments are not easily valued. I believe it's referred to as the mark-to-myth critique, basically that institutional investors have too much leeway when assigning value for private for assets so perhaps we can't really trust them. Should there be more transparency and rigor around this valuation process?

John Graham: Well I'm happy to share how we think about valuations and how we do valuations. And I think we're very comfortable with the rigor of our process and we're very transparent with our process. And if people are interested, they can go on our website and look at how we do our valuations and can also go through our annual report. And looking at we have clearly alternative assets, private assets, and we actually mark to market our assets on a quarterly basis. So we look at both the fundamentals of the assets and do a mark to market on a quarterly basis.

Looking at market comps, looking at transactions, multiple points – and I think there's probably some people in the room that are involved in it – but it is something that we've spent a lot of time on. We've put in place a rigorous process with multiple checks, both internal and external. And we're an organization that does believe that we should be marking that book as close as we can to market.

Rita Trichur: OK. And just one more because we just have a few minutes. Canadians are also curious to know what is CPPIB's role relative to that of the Canada Infrastructure Bank?

John Graham: Ah, it's very different. Yeah, very different. So CPP Investments is, in some ways we're kind of unique in that we are a crown corporation at our heart, but we execute on our mandate in a completely commercial way. And we present ourselves to the market as a commercial organization because we are.

So we occasionally get compared to other crown corporations. And I think what is really unique about CPP Investments is our mandate, which we've talked about, around the 21 million Canadian contributors and beneficiaries. And equally important is our independence, that we have a professional Board of Directors of very senior, seasoned, experienced Canadian and international directors from the corporate world and various backgrounds. And we operate and we execute on our mandate completely independent of government interference, so we don't answer to the government for the investment returns. So we have a different mandate than the infrastructure bank. So I think those are the two big differences.

Rita Trichur: Excellent. We're going to have to leave it there. Thank you so much, John, for offering your insights today for everyone who's here in person and online. [Applause]

John Graham: Thank you.

Anita McOuat: Mr. Graham, on behalf of the Canadian Club Toronto, thank you for confidently reassuring us of the future of the Canada Pension Plan, yes, and for clarifying that is a good rate of return.

Despite rising inflation and market volatility as a result of global events, CPP Investments has clearly been able to navigate these challenges, and the impressive 10-year net return is testament to the effect strategy focusing on the long term. So thank you for your adept stewardship and we wish you continued success at the helm in your mission to provide Canadians with a comfortable retirement.

Rita, we're also really grateful that you were able to join us today. Thank you for your interviewing prowess and being a part of this dialogue.

I do want to give another round of thanks to our sponsors today; PWC, Canadian Credit Union Association, and Torys LLP. And let me conclude by thanking our AV supplier, Van Valkenburg Communications and LiveMeeting.ca for making it possible for us to gather virtually today as well.

Members and guests, thank you for being with us in our last event of the season. It's been a privilege to host you in person once again. Have a wonderful and safe summer and we'll see you in the fall. [Applause]

[End of recorded material 00:50:25]