CPP INVESTMENT BOARD

Canada Pension Plan Investment Board
One Queen Street East, Suite 2500
Toronto, ON Canada M5C 2W5
www.cppib.com

INVESTING FOR THE LONG TERM

Address to the Canada-United Kingdom Chamber of Commerce

Mark Wiseman
President and Chief Executive Officer
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CHECK AGAINST DELIVERY

Thank you William and good afternoon, everyone.

I'm delighted to be here today. Our former CEO David Denison spoke to the Chamber in May 2012, and I am honoured to continue this tradition.

Since David's visit, the pace of Canadian pension fund activity in the United Kingdom has accelerated. In fact, this past June, the Financial Times published an article headlined "*March of maple leaf quickens as Canadian investment grows.*" Appearing days before Mark Carney became Governor of the Bank of England, the article noted that Canadian pension funds led £11.7 billion worth of acquisitions in Europe in 2012, a five-fold increase since 2008. The U.K. was the single largest recipient of these investments, with about £4.7 billion worth of deals completed in 2012.

The best news is that all this activity may require me to visit London more frequently – a prospect that I would truly welcome.

I'm going to cover two topics this afternoon:

- First, the evolving story of CPPIB as Canada's largest global investor.
- And second, the critical need to focus our markets, businesses and regulatory environments on the long term particularly as it relates to the global infrastructure gap.

Let me start with CPPIB's global investment story.

At the start of 2012, CPPIB held approximately $100 billion in foreign assets[i]; by the end of June 2013, just 18 months later, that figure had climbed to over $120 billion[ii]. Today we have over 65% of our portfolio invested internationally, up from only 25% in 2005 and, during the same period, we have seen the size of the CPPIB pie increase to $193 billion from less than $70 billion (in spite of the global financial crisis).

Some of this growth has come from inflows of pension savings, but, even with the events of 2008, at our last year-end we had returned 7.4% (or close to 5.6% real) over the last 10 years to the benefit of the 18 million contributors and beneficiaries to the Canada Pension Plan. In dollar terms, this represents over $75 billion of investment income. And, as we have grown the scale and scope of our portfolio, we have seen commensurate growth in our world-class investment team. Last year, we had 750 employees at our Toronto headquarters; today there are 858. Here in London in our offices in Portman Square, we've grown from 38 to 56 employees in the past year. In Hong Kong, we've almost doubled in size, from 23 people to 40.

CPPIB continues to benefit from our independence and investment-only mandate. I report to a professional board of directors, not to government. Our decisions are not influenced by politics; by regional, social or economic development considerations; or by any other non-investment objectives.

Today, CPPIB remains a global best practice leader among national pension funds and our long-term mindset is unwavering—which should be welcome news to those 18 million contributors and beneficiaries, who are living increasingly longer after age 65.

And with the benefit of our governance structure, we continue to pursue a long-term investing strategy enabled by our distinct comparative advantages. Our size, certainty of assets and long investment horizon all contribute to our unique position as a global investor.

Let me give you a flavour of our recent investment activity all around the globe:

- Last month, we partnered with Ares Management LLC to acquire luxury retailer Neiman Marcus Group in the United States for US$6.0 billion.

- In November 2012, we entered a joint venture with Global Logistic Properties to expand their real estate portfolio in Brazil. Our total commitment was US$343 million.

- This past July, we announced a US$500 million increase in our equity allocation to Goodman China Logistics Holding, alongside our partner the Goodman Group.

- And in May, we announced a 50/50 joint venture with Hammerson to acquire a 33.3% stake in Birmingham's Bullring Shopping Centre for £307 million. Also here in London we are working on the £2.2 billion redevelopment of Nova, Victoria and have a 25% ownership interest in Westfield Stratford, just to name a few of our investments.

Overall, with Canada representing less than 3% of world market capitalization, our ability to secure such significant, international investments is crucial to our success.

Our mandate keeps us focused on the long game in a rapidly changing world. It's been projected that the emerging economies' share of Fortune Global 500 companies will jump from just 5% in the year 2000 to 45% in 2025[iii]. And during this period the CPP fund itself will grow rapidly. From $12 million in 1998, we've grown to almost $200 billion today. By 2030, the Fund is projected to be almost half a trillion dollars.

In the game of global investing, the play will be among the world's fastest growing economies. As a long-term investor with a growing pool of capital, we will continue to build a highly sophisticated investment organization that can compete in this environment and invest the CPP Fund for long-term success. Our strategy is to position ourself for 'where the puck is going to be, not to where it is today'.

Now, let me move on to my second theme--- thinking for the long-term, particularly as it relates to critical infrastructure. CPPIB is hardly alone in having to think and act long-term.

Governments and countries alike must also adopt long-term mindsets and implement long-term strategies to prepare for a global economy that—in the not too distant future—will be strikingly different than the one today.

Take for example, Australia. In 2012, the Australian Government issued *Australia in the Asian Century*, a roadmap to prosperity outlining 25 national objectives to be achieved by 2025, including amongst other things a systematic national framework to enable governments and the private sector to plan and prioritise infrastructure needs at least 20 years ahead.[iv] Well beyond the scope of any politician's term or the next election cycle.

Unfortunately, on a global scale we see little evidence of such long-term thinking translating into action. The persistence of the global infrastructure gap—which runs to the trillions of dollars—is perhaps the largest evidence of this inability to act for the long-term.

Now a multi-trillion dollar infrastructure gap is abstract to grasp so it is worth remembering what this astounding figure actually represents: a lack of investments in new airports, schools and hospitals; bridges and rapid transit systems that are not being built; essential yet aging municipal water and power grid systems that are not being renewed; new sources of energy and other natural resources that are not being found or developed.

In sum, this gap represents a failure to provide essential services to citizens...to make investments that create good jobs, boost productivity and efficiency… investments that fuel a country's economic engine …

The question is who will pay to meet these needs? Governments globally, in particular here in Europe, continue to face significant fiscal challenges. Clearly, the solution for many isn't a home-baked one. Rather, governments need to acknowledge that the need to attract capital to serve these long-term purposes is a major challenge that they must address.

In today's world, such long-term capital is scarce, and where there is scarcity, there is competition. In order for countries to win the race to attract long-term capital, they need to take a long-term perspective. They need to encourage the growth of long-term capital, and they need to convince providers like CPPIB to invest in their markets, companies and assets.

And in this regard, the U.K. is hoping to pull ahead of the competition as it seeks to double U.K. FDI to £1.5 trillion by 2020 and maintain your long-standing position as the top destination for FDI in Europe.[v] Of most interest to CPPIB, in a recent conversation with Canada's *Globe and Mail* newspaper, the CEO of UK Trade and Investment expressed that the U.K. wants to continue and grow the role of Canadian pension funds as 'very big investors in British infrastructure, in particular.' Mr. Baird highlighted Canada as quote, 'that rare thing, which is a developed economy that has a very strong growth path between now and 2020.'[vi]

As the U.K. and other governments around the world compete for much needed long-term capital, I urge them to remember one clear fact: **long-term capital is attracted to long-term thinking**.

Last fall, I had the good fortune to attend McKinsey and Company's Global Infrastructure Initiative Conference in Istanbul. The gathering included leaders of companies, countries, cities and global institutions.

The group reached consensus on three essential conditions that investors look for when investing. When you hear them, the expression "that's not rocket science" might come to mind. Yet, like many of the most profound problems we face in the modern world, the solutions are both maddeningly straightforward and maddeningly difficult to execute.

The first essential condition is stable political leadership. Planning and building infrastructure is *de facto* a long-term undertaking that requires political support over a time frame that is typically much longer than that of a single election cycle. And, as noted in the conference's report, this 'continuity challenge' grows even more complex when a project involves multiple jurisdictions.

The second essential condition is thoughtful prioritization of infrastructure needs that has incorporated public input. Engagement of *all* stakeholders—including the public, private and financial sectors—is critical from the start of planning throughout the entire asset lifecycle.

And finally, the third essential condition is a stable legal and regulatory framework. To put it bluntly, when countries make radical and frequent changes to their regulatory environment, they are shooting themselves in the foot in terms of their future ability to attract long-term capital.

As I have said, tackling long-term issues like infrastructure requires stable political support and a commitment to pursue a strategy, or stay-the-course, *beyond* the next election cycle.

Now let me provide you with a positive example of long-term thinking I see here in the U.K. The Armitt Review of Long-term Infrastructure Planning calls for, quote, "a new independent National Infrastructure Commission to look **25-30 years** ahead at the evidence for the U.K.'s future needs across all significant national infrastructure, and set clear priorities; for example, nationwide flood prevention or energy supply."

The three essential conditions – stable political leadership, thoughtful prioritization of needs that includes public input, and stable laws and regulations – are what long-term investors like CPPIB look for globally when we decide where to invest to meet our long-term mandate to 18 million workers back at home in Canada. When we decide to allocate capital to an asset for a period of years, or decades, we do so because we have confidence in our projections of the long-term returns we can expect these investments to provide.

In our view, the countries that will win the competition for long-term capital will be those who demonstrate they are open to foreign ownership of their domestic companies and assets, and who have put in place predictable and transparent regulatory environments.

This is the **entry price** in the global marketplace.

For investors like CPPIB, long-term thinking is central to our mandate. We look for investments in long-term asset classes like private equity, real estate and infrastructure to deliver significant long-term returns—in fact, almost 40% of our portfolio in invested in these private asset classes. To be clear, having a long investment horizon requires us to be prepared for and accept periods of short-term volatility – but it means we cannot let the pursuit of our strategy be sidetracked by them.

By the same token, I believe that governments and policymakers must not let short-term interests distract them from delivering the best long-term outcomes for their markets and citizens.

They must be willing to address tough structural issues and create markets that work. I'll point to the U.K.'s leadership in this regard with *The Kay Review of UK Equity Markets And Long-Term Decision Making.* This report took a frank look at the short-sighted structures and actions at play in markets here and elsewhere, and sets about ways to begin to address such value-destroying forces to instead support: 'innovative, sustainable long-term business performance.'[vii]

Governments are not alone in the need to conduct such introspective exercises. The corporate and investment communities have a clear role to play in furthering the adoption of long-term minded thinking in our world today. This is why CPPIB, alongside McKinsey and Company, launched a multi-year, action-focused initiative called *Focusing Capital on the Long Term*.

In addition to our two organizations, we are engaging other leading investors and corporations to take a deep look inside to collaboratively identify structures and metrics which would support longer-term behaviours and enhance long-term value creation in the investment industry and in the boardroom.

Changing deeply ingrained attitudes and behaviours is no easy task. It will take time, persistence and commitment from all involved. But from our perspective, that's not a problem.

After all, we're in this for the long term.

Thank you very much.

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[i] As at March 31, 2012
[ii] As at June 30, 2013
[iii] http://www.mckinsey.com/Insights/Urbanization/Urban_world_The_shifting_global_business_landscape?cid=other-eml-alt-mgi-mck-oth-1310
[iv] http://asiancentury.dpmc.gov.au/white-paper/executive-summary/25-national-objectives
[v] UKTI at a glance 2013/14 - UK Trade & Investment www.ukti.gov.uk/download/file/493940.html
[vi] Globe and Mail. 28 October 2013. Why Britain is interested in investment from Canada. Iain Marlow
[vii] http://news.bis.gov.uk/Press-Releases/Kay-review-sets-out-measures-to-transform-UK-equity-markets-67d81.aspx