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—
Chair

The Honourable Wayne Easter

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• (1110)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): I call the meeting to order.

Today we'll be hearing from the Canada Pension Plan Investment Board, pursuant to Standing Order 108(2), which is the study of the Canada Pension Plan Investment Board. We hear from them at least annually.

With us today we have Mr. Machin, who is the President and CEO, and Mr. Leduc, who is the Senior Managing Director and Global Head of Public Affairs and Communications. I believe members have received their report as well.

I believe, Mr. Machin, you have an opening statement. We'll start there and then go to questions. We have basically an hour.

Welcome.

Mr. Mark Machin (President and Chief Executive Officer, Canada Pension Plan Investment Board): Good morning, Mr. Chair and members of the committee.

[*Translation*]

This is now my third time appearing before this committee since assuming the role of President and Chief Executive Officer at the Canada Pension Plan Investment Board. This meeting has become an important milestone on the CPPIB's calendar. It furthers the CPPIB's public accountability through Parliament along with the tabling of the organization's annual report.

[*English*]

I am accompanied by my colleague Michel Leduc, who is our Senior Managing Director and Global Head of Public Affairs and Communications.

CPPIB is a strong believer in the value of our public accountability and transparency. While we operate at arm's length from government, CPPIB is subject to rigorous accountability requirements, which are laid out in the CPPIB Act.

We go beyond our legislated requirements and make every effort to ensure federal and provincial stewards, as well as Canadians, are kept informed of our activities. As you know, we released our 2019 annual report earlier this month. It contains a wealth of information about our organization's activities over the course of the last year and key data related to our performance.

Both Michel and I welcome the opportunity to discuss with parliamentarians how CPPIB invests the funds entrusted to it and our role in helping ensure the Canada Pension Plan remains sustainable for future generations.

CPPIB invests in a well-diversified global portfolio composed of multiple asset classes with different sources of returns and different risk levels. This approach clearly comes through as our investment teams take advantage of our international reach and competitive strengths.

Our fiscal year began on a positive note, with global equity markets rising broadly. We then faced a public equity market downturn in our third quarter, followed by a sharp rebound in our fourth quarter of this fiscal year.

Geopolitical risks are more acute, with unpredictable potential outcomes witnessed around the world. Uncertainty caused by the U.S.-China tensions and Brexit are putting a drag on global economic growth. Against these difficult market conditions, our investment departments worked creatively to find, assess and execute on new investment opportunities.

Another factor reshaping the global investment environment is climate change. As a long-term investor, we seek to be a leader in understanding the risks and opportunities stemming from climate change. We've developed a comprehensive climate change program to ensure those risks are effectively considered throughout our portfolio, consistent with our investment objectives.

We launched our inaugural green bond, becoming the first pension fund to do so globally.

CPPIB maintains its focus on our long-term investment strategy and objectives. We've gradually built a diversified, global investment platform and are focused on executing a multi-year strategy. These are key drivers of our financial performance and our future success.

CPPIB has a critical public purpose: to help Canadians build financial security in retirement. To achieve that objective, our mandate is clear: to invest the assets of the CPP fund with a view to achieving a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the plan.

I'm pleased to report that in fiscal 2019, CPPIB achieved a net nominal return of 8.9% as the fund grew to \$392 billion. This represents an increase of \$35.9 billion compared to last year, \$32 billion of which were gains due to investment income, with \$3.9 billion from net CPP contributions.

While these are strong annual results, our focus is on contributing to the long-term sustainability of the fund. The fund achieved 10-year and five-year annualized net nominal returns of 11.1% and 10.7% respectively. All of our performance results are reported net of all costs.

In 2006, CPPIB made a strategic decision to move away from largely passive investments toward an active management strategy. The purpose was to capitalize on our inherent comparative advantages of scale, certainty of assets and long-term investment horizon.

CPPIB measures the performance of its active management strategy against rigorous market-based benchmarks. These reference portfolios represent passive portfolios of public market indices.

CPPIB has generated \$29.2 billion of compounded dollar value added since we started to build and operate our active programs. In fiscal 2019, active management produced returns that were \$6.4 billion higher than the passive alternative.

We believe actively managing the fund is prudent, responsible and consistent with our statutory objectives. We remain confident that this approach will continue to generate value-building growth for generations to come.

However, in some periods we anticipate the fund will experience negative performance, and periodic drops in value are consistent with the deliberate balancing of risk and returns in the portfolio. We need to take a prudent amount of risk in order to deliver strong long-term performance over multiple generations.

Finally, I'll update the standing committee on the additional CPP.

After extensive preparation over the last two years, our new investment framework for the additional CPP was successfully launched, with the first transfer received and invested in January.

The centrepiece of our preparatory work was the careful design of an investment structure that allows CPPIB to meet its statutory objectives, while taking into account the unique features of additional CPP.

As the base and additional CPP have different actuarial funding requirements, they therefore have different risk profiles. There are no changes to the risk-return profile of the base CPP, while the additional CPP will have a more conservative risk target due to its fully funded nature. Most importantly, our structure ensures both portions efficiently draw on the proven global investment platform that we already had in place.

It has now been 20 years since we received the first \$12 million to invest on behalf of Canadian contributors and beneficiaries. To achieve our public purpose and help ensure that the CPP remains sustainable, CPPIB must continue to perform as an organization. We have a strategy in place to ensure that we're prepared for the range of possible investment environments in the future.

On behalf of my colleagues, I again thank the House of Commons Standing Committee on Finance for inviting us today. I look forward to our discussion, and we're pleased to answer any questions.

•(1115)

The Chair: Thank you very much, Mr. Machin. Also, thank you for the annual report.

We'll go to five-minute rounds throughout, starting with Ms. Bendayan.

[*Translation*]

Ms. Rachel Bendayan (Outremont, Lib.): Thank you, Mr. Chair.

[*English*]

Mr. Machin, thank you for your testimony this morning.

You certainly noted the strong annual results of this year and the health of the CPP and the CPP expansion. It's good news for Canadians.

I have a few questions with respect to the investments made or located in Canada.

Could you describe some of the criteria used by the CPPIB in selecting infrastructure assets and the extent to which that would include or favour infrastructure assets located in Canada?

Mr. Mark Machin: Absolutely.

We like investing in infrastructure. It is aligned with competitive advantages and the characteristics of what we're trying to achieve with the investment, which is long-term investment.

We like the long-term stability of infrastructure investments. In particular, we like places where there are highly predictable regulatory regimes, highly predictable tax regimes, a highly predictable long-term framework around those assets, and we like long-term concessions.

Most importantly, though, we like scale investments, because in order to manage the cost of running the fund, we can't have enormous teams on standby in many different countries around the world. We have to focus the attention where the big opportunities are. Generally, in infrastructure we're looking for investment opportunities of over \$500 million in size. We tend to focus time and attention where there's a consistent pipeline of opportunities of \$500 million or more, where we can see what's coming this year, next year and the next few years, and be prepared to assess those opportunities.

We like the infrastructure investments that we have in Canada today. Highway 407 around Toronto is our largest investment in infrastructure globally. It's one of our largest investments in any asset class globally. We also have renewable power assets in Ontario, the joint venture with Enbridge, and energy-related infrastructure assets in Alberta.

We have a range of infrastructure investments in Canada, which we like, and we'd love to see more scale opportunities in Canada, as elsewhere.

[*Translation*]

Ms. Rachel Bendayan: You gave some examples of infrastructure investments in Ontario and Alberta, but do you have any examples for Quebec?

[English]

Mr. Mark Machin: I don't think we have any scale investments in Alberta in direct infrastructure. Two of our largest investments in Quebec are related. There's WSP. We're a major shareholder in WSP. We own about \$1.5 billion of that company, and I guess that's related to infrastructure in that it's an engineering-related company.

We also have a significant investment in Canadian National Railway.

Ms. Rachel Bendayan: Okay.

Mr. Chair, do I have time for one more?

The Chair: Yes, you do.

Ms. Rachel Bendayan: To what extent do you take into account environmental, social and governance factors in your investment decisions?

Mr. Mark Machin: That's very important to us. In fact, we publish every year a detailed review of how we take into account those ESG factors. We publish a sustainable investment report every year, going through all the detail of how we incorporate those factors. It is something that we take into account for every investment that we make, whether it's an infrastructure investment, a private equity investment or a public market investment.

• (1120)

Ms. Rachel Bendayan: Thank you very much.

The Chair: Do you have a quick one on hand?

Ms. Rachel Bendayan: No, that's it.

The Chair: Mr. Kmiec is next.

Mr. Tom Kmiec (Calgary Shepard, CPC): Thank you, Mr. Chair.

Could you give me about a two-minute warning, because I want to skip subjects?

According to the Library of Parliament, you had 368 employees in 2007-08. In 2017-18 you had 1,498 employees.

Can you explain why this immense increase in staff has happened at CPPIB? Is this all part of the move from passive to active investment?

Mr. Mark Machin: I'd say there are two or three factors that affect the growth in the number of people. One is the increase in the size of the assets that we have under management over the time frame.

If I take 2010 to 2019, our assets increased from \$127 billion under management to the \$392 billion today. That would be the first thing.

The second thing, as you point out, is that active management does take more expense to actively manage, to have the skill to outperform the passive alternative, so we need the teams that have the expertise to do better than average after all the expense. It's really critical that we are performing after all the expense.

When we build teams, when we start a new strategy, it has to be proved out over time that they have the skilled performance over time. It's not in every quarter, but over some longer period of time

that they're demonstrating skill versus what we could just do passively—

Mr. Tom Kmiec: I'm sorry to interrupt you. For the total operating costs, then, for 2018-19, would you happen to have those numbers? What is the expected total operating cost of the CPPIB?

Mr. Mark Machin: Yes, the total operating cost is about 32 basis points of cost, which has remained steady as—

Mr. Tom Kmiec: I'm just asking for absolute numbers, not the percentage, because your operating cost has gone up more than 100%.

Mr. Mark Machin: Yes, exactly.

The total operating expense is \$1.2 billion, so 32.8 basis points of operating expense, which is in line with a five-year average, versus the assets under management.

Mr. Tom Kmiec: According, again, to the Library of Parliament, over the past 10 years, the net contribution amounts.... For all the Canadians who are watching this, in case they're worried about their investment, the net is the total amount collected by the Government of Canada and put in, less the total amount withdrawn as contributions. That's the net. It's been going down every single year that I can see here. It went from \$7 billion in 2007-08, and it's down in 2017-18 to \$2.7 billion. That would be the difference that's being added to the basic amount. Then there's the investment income that you have, and the investments that you make are based on that net contribution amount.

What was it then in 2018-19, and what does the future hold for the fund? I ask because if that ever goes negative, it means the taxpayer is going to have to put in more money. The Government of Canada would have to make up the difference, would it not?

Mr. Mark Machin: No, with respect, that's not how it works.

That tailing-off of net inflow has been anticipated by the Office of the Chief Actuary for many years now, and it's made up by investment returns. Gradually, over a long period of time, on the base CPP, more of the benefits need to be supported by investment return, but it's a relatively modest amount over time.

Mr. Tom Kmiec: Okay.

Mr. Mark Machin: On the additional CPP—

Mr. Tom Kmiec: Can I just interrupt you, sir? I'm sorry, but I got the two-minute warning I had asked for.

I'll switch subjects. The CPPIB—and Mr. Leduc, I think you were quoted on this—has started a human rights review specifically on China, and this is what I want to ask you a question on now.

The Chinese government has interned between 800,000 and 1.2 million Uighurs, Muslim Uighurs, in its westernmost province. I have constituents who've come to see me over the past few weeks because they have family members who've been interned. The CPPIB has invested in the Hangzhou Hikvision Digital Technology Company and the Zhejiang Dahua Technology Company. One of those companies is owned directly by the Chinese military, China Electronics Technology Group. Why is the CPPIB still investing? If you have divested yourselves, please let me know. This is a major human rights violation against the Uighur population, the Muslim Uighur population, in China.

These two companies I mentioned, which you have invested in, are also heavily involved in the manufacture of camera equipment, combining video surveillance and advanced computer recognition technology involving gait, which is the speed of your walk, and facial recognition. They are directly involved in the repression of Muslim Uighurs in western China.

If you are not involved anymore, please put it on the record that you've divested yourselves. If you're still involved in this, why are you?

• (1125)

Mr. Michel Leduc (Senior Managing Director and Global Head of Public Affairs and Communications, Canada Pension Plan Investment Board): That's a very important question. Thank you for that.

If you think of CPPIB, we have more than two dozen investment programs. In the way they are classified, there are those that fall into the broad category of fundamental investments. For those, we look at the details of a specific company, asset or stock, and that's really taking a larger position in fewer companies.

Then there are the broad quantitative ones, and quantitative means taking relatively tiny positions across the potential 10,000 companies of securities around the world. Two of our programs fall into this quantitative category, and for those our investment programs look at factors, as generated by computers and algorithms, that may or may not read what the particular operations of a particular company are. The two assets or companies that you've cited fall into that category. That just gives you context in terms of how they end up in our portfolio.

That being said, we're responsible for anything that's in our portfolio. With regard to human rights, it's not only recently that we have factored in human rights. We've been factoring in human rights for more than a decade and integrating them into our investment decision-making. We've been able to do that in a very deliberate way, fundamentally because those human rights factors and our ESG factors as well, our reputation factors, and our political risks are part of due diligence in that fundamental analysis.

Until recently, it hasn't been practical and it has been very cost-prohibitive to apply that type of assessment across a potential 10,000 holdings. Recently—and this predated the coming to light of those two assets—we found a tool that will allow us to identify red flags, including human rights. We've just recently put in that tool, and it allows us to continue with our integrity of risk-adjusted return. What I can tell you is that we are looking at those specific positions today related to the issues that you've identified in terms of human rights.

We disclose our investments on the fundamental side, or dispositions, in the same way that a publicly listed company would do, in a timely and continuous manner. Because of the nature of potentially 10,000 holdings, we disclose the holdings annually, so we will be updating those lists at year-end once we've made the investment decisions.

I can tell you that those two assets have been red-flagged, and we're applying our ESG, reputation, human rights and political risk associated with that.

The Chair: Thank you. We're well over time.

I'll go to Mr. Dusseault, unless you have an absolutely necessary....

Mr. Dusseault, I'd better go to you. We're three minutes over.

[*Translation*]

Mr. Pierre-Luc Dusseault (Sherbrooke, NDP): Thank you, Mr. Chair.

Mr. Leduc and Mr. Machin, thank you for being here today.

We're discussing an extremely important subject. This committee has an important role to play, since it reviews your results each year in order to be accountable to Canadians. Basically, you're taking Canadians' savings and investing them. Hopefully, you're getting a return that will satisfy the investors, meaning Canadians. This discussion must take place.

I was wondering about the board's investments in agricultural land in Saskatchewan, a subject that attracted attention from 2013 to 2015. I know that the matter has sparked some discussion and that, in your organization, you've started to review the whole issue of the purchase of agricultural land.

In Quebec, foreigners are purchasing huge amounts of agricultural land, which is driving up prices and raising serious concerns. It's becoming extremely difficult for local farmers and family farms to grow in this ecosystem.

However, you seem to be involved in this in Canada, but even more so abroad. I'd like an update on the practices used to take control of huge amounts of agricultural land in Canada and abroad and the factors that you consider in your assessment of these practices.

• (1130)

[*English*]

Mr. Mark Machin: Let me address that question. It's a good question.

When I sat in the seat and took over as CEO, we reviewed again the programs that we had, the different investment strategies we had. We looked at that particular strategy of acquiring agricultural land around the world, which seemed theoretically to be a very good idea for a long-term investor. It's one that's aligned with population growth and people's improving wealth and ability to buy food around the world. It seemed something that would be aligned with a long-term investor and less subject to sort of short-term market movement. It seemed like a good strategy.

The challenge was exactly as you've identified, which was that the local challenges of buying farmland were really challenging, not just in Canada but around the world. We'd identified several different markets where we thought we could buy a significant scale of agricultural land.

Everything we do has to be scalable; otherwise the costs we have don't make sense. We need to keep our costs under control and have programs in which we can have a few people and do very scalable investments. The challenge was that when we actually tried to come and accumulate a significant amount of land, there was a lot of resistance and different challenges in different markets, whether it was in Canada, Australia or Brazil.

In the U.S. we had managed to accumulate one very significant platform. At one point we were the largest owner of standing irrigated row crop land in the U.S. We owned a company called Agriculture Company of America. Given the challenges we had in the rest of the programming, and also where pricing had gone, we decided to divest that, so we sold that land program in the U.S. and we have scaled back. We no longer have that program of trying to buy and accumulate agricultural land around the world.

[*Translation*]

Mr. Pierre-Luc Dusseault: You've put a stop to these practices for the moment, and even disinvested in this area. That's good. Thank you for your answer.

This doesn't resolve the broader issue of other foreign funds in Canada. Small farmers are finding it increasingly difficult to access land to produce quality food grown in Canada. I'm more familiar with the situation in Quebec. However, I'm sure that the same thing is happening in the other provinces.

My other question is about ethical investments, monitoring and the practices of the companies in which you've invested. You spoke to my colleague about two systems. In the first system, which is more automated, it's harder to predict issues. In the second system, you make larger investments, so you have more influence.

How are you reassuring Canadians that their money isn't being invested in tax havens or in companies with questionable tax practices that aim to pay as little tax as possible in all countries? We all know about this issue. I'd like to know how you influence these companies to change their practices, either by sitting on their boards of directors or by other means.

•(1135)

[*English*]

Mr. Mark Machin: I think that when we engage on ESG matters and when we engage with companies that we have investments in, obviously one of the areas is making sure that they are complying with appropriate tax policies and the tax regimes in the countries where they operate. It would certainly be an issue for us if we found that the companies were not complying.

In particular, where we have large direct investments, we'd insist that those companies be compliant with all the relevant tax requirements in the countries in which they operate.

The Chair: Thanks, all of you.

Mr. Sorbara is next.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Mr. Chair.

Welcome, gentlemen.

One of the things you get from door-knocking is that you always hear some feedback from residents. This past weekend, one resident was talking about retirement.

We want to ensure all Canadians have a secure and dignified retirement. We have the enhanced CPP, which we brought in and signed with all the provinces. It was great to work collaboratively with all our provincial partners at that time.

Also, there is an actuarial assessment of the CPP that happens. One was in September 2016—it's triennial—and one will happen in September 2019. For the wonderful Canadians listening or watching at home today, I want to make sure they understand that the CPP is going to be there today, 10 years from now and 30 years from now, and it's actuarially sound. Can you please speak to that, Mark?

Mr. Mark Machin: Yes, with pleasure. This is one of the messages that Michel and I and our organization are trying to get across in Canada, because there's a troublingly low awareness amongst Canadians about the robustness of the Canada pension plan.

I say, don't believe me; believe the Office of the Chief Actuary. That's where these reports and the analysis come from. As you said, the Office of the Chief Actuary, in 2016, in the last triennial review, and again at the time of the enhancement of the CPP, published reports confirming that the CPP is sustainable not just over 10 or 20 years, but over 75 years, based on their projections. Obviously, we'll have to wait for that triennial review toward the end of this year, but we anticipate that this will be confirmed again.

I think that robustness and sustainability of the plan are something that all Canadians should have confidence in. They should not be troubled either by the history of 20 years ago or when they look across the rest of the world where plans are not sustainable. Canada's plan is sustainable.

Mr. Francesco Sorbara: Yes. The unfunded liability that exists in countries around the world in terms of their pension or medicare obligations is huge.

Going to another topic, probably on the other side of this tangent, the CPPIB obviously entertains a lot of external managers and has contracts with them to manage and look at assets. On the operating expense side, I've just read through your statement for fiscal year-end. I just wanted to get a sense of your judgment in using external managers rather than bringing it in-house. Last year, you had \$1.6 billion in external management fees on total operating costs of roughly \$3.3 billion, when you add in transaction costs.

I understand that, but we need to hold organizations to account. You're here today at our committee, and I really want to understand and ensure that these investment management fees you're paying to external managers.... What's your decision-making in terms of not going in-house? You have the size to bring a lot of stuff in-house. I want to get your thoughts on that, please.

Mr. Mark Machin: Most of the programs we do run in-house. When we can be competitive versus other investors around the world, net of costs, then we will do that. The example that I cited earlier in front of this committee, which still holds true, is our infrastructure program, which we manage entirely in-house. We estimate that if we did that externally, it would cost about 10 times as much money versus doing it internally. For this program, we believe we can have a small team that continues to be competitive versus the best talent and asset managers around the world who are competing for infrastructure.

We can't say that for every single asset class. Talent in investing is extremely scarce and expensive. There are top-decile managers in the world, whether in private equity or in public funds, who we think outperform in the long term even after all of the costs, but we're extremely conscious of the fact that when we're paying that money, we need those returns net of cost to exceed anything we can do in internally.

• (1140)

Mr. Francesco Sorbara: I'll just stop you there because I want to go to one more topic.

The Bank of Canada has identified climate change as a risk. You've spoken about it today.

In terms of your review of the companies you've invested in, both on the equity bond or the physical hard asset side, where are you folks in terms of that review of those companies that are exposed because of climate change? In fact, I don't mean just those companies directly, but also those that might be indirectly impacted by climate change.

Mr. Mark Machin: It's a massive issue and one that we think is a really important issue for long-term investors.

Climate change is happening, and we need to be able to understand all of the risks associated with it. Those risks are multi-faceted. They can be geographical change; they can be regulatory change; they can be customer preference change. There are a myriad of changes that are happening. We need to be able to anticipate where they are going and make sure that we're making investments at valuations with anticipated returns that compensate us for those risks we're taking on.

That's key when we look back at what we're charged to do by the acts of Parliament, which is to maximize returns without undue risk. We need to not just understand the returns but all the risks associated with the investment. We have both a top-down review of all the risks in our portfolio, and then every direct investment now has to go through a screen of the climate risks involved in that particular investment.

Mr. Francesco Sorbara: Thank you.

The Chair: Thank you to you both.

Mr. Poilievre is next.

Hon. Pierre Poilievre (Carleton, CPC): You mentioned the trouble the CPP was in 20 years ago. That trouble resulted from the fact that the CPP was then heavily influenced by politics. Politicians believed they could direct the CPP to lend to or buy assets that were politically convenient for the politicians. In the mid-1990s, the then

Liberal government made an extremely wise decision, and that was to depoliticize the CPP and turn it into a true investment fund. They put professionals with real private sector track records in charge of the portfolio and let them invest it with a simple and clear mandate: maximize returns without undue risk.

The government, to its credit, has appointed you to this important task. You have an exceptional reputation and track record, so I commend them on that appointment. I am worried, however, that slowly but surely this government is trying to re-politicize the CPP to encourage, through public declarations by ministers, trendy investments that make for good headlines and talking points, to have you fund advertising in favour of political decisions, and to direct your investments based on the latest trendy causes that have captivated the present government's imagination.

As I see it, CPP exists for the sole purpose of the 20 million Canadians who are part of the fund. You have really only two stakeholders: workers and retirees. That's it. If you want to improve social justice, get a better return, as you have been, to your credit. That minimizes the cost to the worker and maximizes the benefit to the retiree. If you want to advance the cause of women and indigenous people, there are millions of them who are counting on you to turn their contribution into a secure and prosperous retirement. Stick to that basic mandate, and you will advance all the great social causes that politicians love to drone on about.

I want to get very specific here. In the most recent reporting period, in dollar value, how much bond issuance did the CPPIB perform?

• (1145)

Mr. Mark Machin: I'll probably have to get back to the clerk with the exact number of issuances over the last year, unless you have it at hand, Michel.

Mr. Michel Leduc: I don't.

Maybe I could just address one of the points that you made while we're looking, specifically the point around advertising and reaching out to Canadians.

The rationale is a CPPIB decision and had nothing to do with any of our stewards. The precise rationale is exactly what you've indicated: It's our own concern around the potential for the politicization of CPPIB in the future.

Any financial system requires public trust as its lifeblood. We see that around the world. If you look at our submission on page 6, you'll see a very worrisome, stubborn trend around low public trust in the system. In our view, good times are one thing, but during rough waters, that's when we will need that public trust that we are not politicized. I just wanted to address that point. It's to deal with—

Hon. Pierre Poilievre: Okay, I'm sorry. I'm just on a very limited amount of time here.

How much money did CPPIB raise in bond issuances in the last reporting period?

Mr. Mark Machin: I'll get you that number through the clerk. We have about \$30 billion outstanding as of today, so it was a few billion dollars.

Hon. Pierre Poilievre: I understand why a pension fund buys bonds. What is the purpose of a pension fund selling bonds?

Mr. Mark Machin: That's a great question.

If I could just make one small correction to what you said earlier, I'm not appointed by the government; I'm appointed by the—

Hon. Pierre Poilievre: By the board.

Mr. Mark Machin:—independent board of directors, so it was the board of directors that chose me.

Hon. Pierre Poilievre: I was being overly generous to the government in giving them credit for your appointment.

The Chair: That's unusual.

Go ahead; take the time and answer, Mark.

Mr. Mark Machin: We issue bonds to get to the right risk level that we think.... When we manage the portfolio, we target a level of risk for the portfolio that we think is an appropriate level of risk, and then we maximize returns at that risk level.

It allows us to have a very diverse number of investments across what are relatively low-risk investments—for example, real estate—or across infrastructure investments that are low risk, and then we can get the risk back up to the target risk level by using some leverage. That's what we're doing.

The Chair: Okay.

We will go to Ms. Rudd, back to Mr. Kmiec, and then back to Mr. Fragiskatos. I don't know if Mr. Fragiskatos and Mr. McLeod can split some time so that Mr. McLeod can get in.

Go ahead, Ms. Rudd.

Ms. Kim Rudd (Northumberland—Peterborough South, Lib.): Thank you, Mr. Chair.

Thank you for being here.

One of the things that I think you, as an organization, are doing well is you're helping to educate people about what it is that you do. I think that up until fairly recently, the Canada pension plan was this thing that was over there, kind of behind a door, and we really weren't sure what it was all about. I think that Canadians have had an opportunity to sort of peek behind the curtain to ask for a list of what the investments are, to talk about returns and to talk about the 75-year horizon—not necessarily the methodology that will get us there, but the confidence that we'll get there.

That goes back to the public confidence piece, and I absolutely agree with you on that, Michel.

I have a couple of things. My colleague suggested that you were looking at things that were trendy. I hope that he's not suggesting that climate change is trendy, because it is one of the emerging themes that we're hearing from investment around the world, and you mentioned it in your remarks.

You also talk about the inaugural green bond. Can you tell us a little bit about what that green bond is, why you did it and what the results of implementing it have been?

Mr. Mark Machin: Yes, with pleasure.

We issued the first green bond last year. It actually happened, I think, on the day I was here last year. We did a \$1.5-billion Canadian bond issue, and we followed that up with a euro issuance. What we're using it for is to fund investments in qualifying areas of our investments. Renewable power is one example. We used it to fund a number of our renewable power investments, both in Canada and around the world. LEED-certified, green-certified buildings also qualify, so a portion of our real estate portfolio can also qualify for that type of investment.

We were very pleased with both bond issuances. They were very well received around the world. There's a lot of money that's dedicated to green finance investment, so it's something that we will probably continue over time.

• (1150)

Ms. Kim Rudd: Thank you for that.

I just returned from three days at the Clean Energy Ministerial, CEM10, which just wrapped up. Twenty-five ministers from around the world came to talk about clean energy, and of course a lot of the conversation was around climate change. As Canada was hosting this year, what we did was bring in 70 young people so that we could listen to them and their concerns about climate change, their concerns about government and businesses and how we are recognizing that risk, and how we are addressing it in a way that will ensure that they have infrastructure and other things that will withstand what we know is going to be a challenging time.

The Insurance Bureau of Canada has said that last year there was \$1.8 billion in insurance-related payouts related to climate change.

You talked a lot about infrastructure. Can you talk a little bit about how you actually factor that risk into what you're doing, particularly with regard to infrastructure, because infrastructure is a huge piece of your portfolio?

Mr. Mark Machin: Yes, it's important, not just because it's a large part of our portfolio—infrastructure is about a \$33-billion investment—but also because it's a super-long-term investment, so we have to consider the types of changes that can happen over the longest period of time. It's something that we look at and examine.

I'll say that there are a whole raft of issues that we look at. It could be physical changes that will happen to the assets that we're investing in or it could be technological change. For example, electricity grid investments that we have around the world could be disrupted by more local power generation, rather than everything coming from one central power station. That's something that we have to be aware of as storage technologies improve. We anticipate that they're going to grow at a very rapid rate. We anticipate that storage is going to grow five times in the next five years, for example. It's the fastest-growing part of renewables. That can disrupt a lot of what we thought were more stable, long-term infrastructure investments around the world.

It's a really complex and multi-faceted area that we look at, but we look at every single investment on that basis.

Ms. Kim Rudd: Thank you.

Apparently I'm out of time.

The Chair: Yes.

We'll go to Mr. Kmiec, and then back to Mr. Fragiskatos and Mr. McLeod.

Mr. Tom Kmiec: Thank you, Mr. Chair. Can I get a two-minute warning?

The Chair: Yes.

Mr. Tom Kmiec: Thank you very kindly.

How much was the ad buy for the NFL playoffs in January?

Mr. Michel Leduc: The total was \$300,000. For clarification, we never acquired any time on any NFL game. As part of the rotation that networks would do, it was a freebie. What we did—

Mr. Tom Kmiec: It was free during the playoffs?

Mr. Michel Leduc: It was the Canadian NFL broadcast. It didn't broadcast in the U.S.

Mr. Tom Kmiec: Still, I'm an NFL fan. I wonder that it's free.

Mr. Michel Leduc: We targeted demographics, meaning that we looked at programs and channels where we would hopefully achieve a greater number of millions of Canadians.

Mr. Tom Kmiec: What was the reach?

Mr. Michel Leduc: I have the impressions number. It's into the tens of millions. I'm more than happy to provide that.

We were very pleased with the reach.

Mr. Tom Kmiec: When do you think you could provide it to the committee?

Mr. Michel Leduc: We could give it to the clerk today.

Mr. Tom Kmiec: Today? Is that a hard commitment?

Mr. Michel Leduc: That's a hard commitment.

Mr. Tom Kmiec: Sorry; you sound very reasonable, but the CMHC keeps telling me they'll give me stuff, and then they don't give me the things they agree to at the committee.

You seem reasonable. I'm going to take you at your word that you'll give it to me today by the end of the business day.

Mr. Michel Leduc: I might even be able to give it to you before I walk out of this room.

Mr. Tom Kmiec: That's fabulous.

The Chair: He's happy.

Mr. Tom Kmiec: That's very impressive, unlike CMHC.

I'm going to go back to my human rights question one more time on these “concentration camps”, I'm going to call them, because that's what the Uighurs, Canadians of Uighur heritage, have called them. That's basically what they are.

Euphemistically, the Chinese government calls them “re-education schools” where they do training and education, but let's be serious: They're internment camps. Over half the population has been interned in the province of Xinjiang. The Chinese official who runs that province is the same one who ran the Tibetan province and ran the mechanisms of the Communist Party of of China's system of oppression against Tibetans.

I'm going to ask you again. You gave me a very cold answer earlier that these two organizations, these two companies, were red-flagged. Will you commit to divesting CPPIB funds, the funds that Canadians are paying?

Each of us here, every single Canadian, is basically paying into these companies in equity stakes to facilitate the oppression and repression of Muslim Uighurs in western China for nothing more than their ethnicity and their religion.

●(1155)

Mr. Michel Leduc: Our commitment has to absolutely be tied to our investment programs. It can't be a personal decision.

We could agree with you, but it can't be an individual having a value judgment and flicking a switch and making a divestment. What we're committed to doing is to taking very seriously the issues that you've identified and making sure we put them into the decision-making process for an investment. Otherwise, if you think of, again, 10,000 securities around the world, if we were to make decisions based on what we may believe or we may know or may not know, it really goes to undermining the risk-adjusted returns.

Therefore, our commitment is to applying our process.

The Chair: You have two minutes left.

Mr. Tom Kmiec: Thank you, sir.

Mr. Leduc, I want to put something on the record so you have the information. Jim Millward, a professor of history at Georgetown University, has done ample research on this case. If you need to find more details about it, I suggest a Sinica podcast, the two hosts of which speak immaculate Mandarin as well. It is a wealth of information on this particular subject. They spent an hour with experts discussing it.

This issue has been covered by the BBC and other international organizations. In fact, Human Rights Watch has written “China’s Algorithms of Repression”, which identified Hikvision, one of these companies—the Hangzhou Hikvision Digital Technology Company—as the winner of a contract to supply China’s integrated joint operations platform. That is the platform being used to oppress not just Muslim Uighurs in the province, but also dissidents, democracy activists, human rights activists and lawyers across the People’s Republic of China.

Again, I know you’re saying you can’t say right now, but this is both an operational and a board-level decision that needs to be made much more quickly than an end-of-year type of thing. These camps are expanding day to day, week to week, month to month, and there are more Muslim Uighurs who are being oppressed in this way.

Therefore, on behalf of my constituents, I’m pressing the point that you need to make a decision much more quickly than in the next five or six months.

Mr. Mark Machin: Just to add to what Mr. Leduc was saying, this is something we are aware of. We’ve been looking at it for a little bit of time now to make sure that we are aware of the risks around these investments. We are going to put them through this very systematic process we now have.

These are not direct investments. Again, just to remind you, these are ones that are just in indices. They’re just in the quantitative programs, and they’re very small investments that are part of an index. Having said that, we’ve now expanded these processes so that they capture these passive indexed investments. We’re going to put those through that rigorous process we have in place. That was something we’d planned previously to do.

The Chair: We are going to end it there. Thank you for that exchange. I think the message has been put, and hopefully, heard loud and clear.

Go ahead, Mr. Fragiskatos.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you, Chair. Thank you to both of you for being here today.

I have one question. How well funded is the fund as compared to other funds in other industrialized democracies where institutions have also been created to prepare citizens for retirement?

Mr. Mark Machin: I think the important headline is that the fund is sustainable, very comfortably sustainable. Again, I refer back to the Office of the Chief Actuary and the reports that have consistently come out on a triennial basis. When the enhancement to the CPP was made, the chief actuary published two other reports at that point. They have consistently confirmed that the fund is sustainable over the 75-year time horizon.

Mr. Peter Fragiskatos: Okay, that’s fine. You’ve been very clear on that. That’s a great thing to put on the record, a great thing for Canadians to know, and it provides enormous reassurance, but how do we compare? How does the fund compare to similar funds in other countries? Where do we rank on the list in terms of the long-term viability?

• (1200)

Mr. Mark Machin: One of the things to look at is the anticipated investment return level. The Office of the Chief Actuary anticipates

that we will make returns of 3.9% over inflation on the base CPP over that 75-year time frame.

I think you’ll find that assumptions in other countries.... For example, the U.S. pension funds have much higher return expectations in order to get to their sustainability estimates. The question, in a low interest rate environment, is whether those numbers are achievable. We’ve comfortably exceeded 3.9% over inflation over the last 10 and 20 years. One way of looking at it and comparing is to ask whether those estimates in other countries are reasonable.

The Chair: Go ahead, Mr. McLeod.

Mr. Michael McLeod (Northwest Territories, Lib.): Thank you, and welcome back.

When you came before this committee last year, we discussed CPPIB’s efforts to become a more inclusive and diverse organization. In your submission, you noted some of the steps that have been recently taken by your organization. I asked you specifically about having targets for people of colour and indigenous employment. You stated, “It’s something that I think we should look at over the next year or so, so by the next time I come here, I should certainly have a crisper answer for you than telling you where we are today and where we aim to be.”

With that in mind, do you have that crisper answer for me today?

Mr. Mark Machin: I do.

We have a target today of 1.3% of our Canadian office to be indigenous Canadians. That’s the target we’re aiming for.

Mr. Michael McLeod: I have a final question.

You mentioned in your report that your organization is required to host a public meeting in each of the participating provinces every two years. Could you clarify if that includes the north, the territories, and if you have been including the territorial north in your tours?

Mr. Mark Machin: There are a couple of things in that connection.

First of all, what was required in the act doesn’t require specifically the northern territories, but we have presented to the ministers and staff. I had the pleasure of presenting to all of the ministers in the December meeting; the territories’ ministers were present, along with their staff, and I think we’re going to expand our engagement into the northern territories.

Mr. Michael McLeod: Thank you.

The Chair: Thank you very much for the discussion. I believe you’re going to get back to the committee with further information, some really fast and some maybe a little more slowly. Congratulations on your efforts in working for Canadians.

With that, we will suspend for five minutes and go into committee business.

There is a point of order. What’s the point of order?

Mr. Pierre-Luc Dusseault: Mr. Chair, I see in the agenda today that we are moving to committee business. Is that what you're about to do?

The Chair: Yes.

Mr. Pierre-Luc Dusseault: I see that it's in camera. It's not the usual practice at this committee to do committee business in camera, so I'm wondering why we are moving in camera.

The Chair: It was just a decision that was made to move in camera.

If you want to move a motion to do otherwise, we can see where it goes.

Mr. Pierre-Luc Dusseault: Whose decision was it to do that?

The Chair: I guess it was we who made it. Was it, David?

I'll accept responsibility for it, but if you....

Thank you, gentlemen. I don't want to hold you up. I know you're trying to get that information for Mr. Kmicic.

There were a number of motions and things that we needed to deal with, so I made the decision to go in camera. Sometimes they're open; sometimes they're not.

Mr. Pierre-Luc Dusseault: Well, I would move that, as is the usual practice of this committee, committee business be done in public. If there is a particular subject that needs to be in camera, I will be considering it, but I move that we stay in public.

The Chair: Is there debate? There is a motion on the floor to do committee business in public rather than in camera.

I want to make a couple of quick comments, and then....

Mr. Poilievre, I believe you had your hand up. Go ahead.

•(1205)

Hon. Pierre Poilievre: I'm sorry; you said you wanted to make your comments first.

The Chair: No, I'm fine.

Hon. Pierre Poilievre: I don't see what we have to hide here. Let's just keep it open. The default should be towards transparency. I don't think there is any intensely personal information or commercially sensitive data that would come out of the meeting. I can't imagine that the government would plan to release information that would affect the stock market or some other commercial sensitivity by having the meeting out in the open.

As a result, why don't we just default that way?

The Chair: Normally we do. There was a good reason for going in camera that relates to the pre-budget consultations. Normally we do those discussions about how we're going to do those fall pre-budget consultations in camera. I have no problem with the rest being open, but I think we need to discuss that specific point in camera.

Mr. Pierre-Luc Dusseault: I'm not against in camera discussions on some particular issues, such as discussing witnesses, because there are personal names and those kinds of matters, but I think that as a general rule we should be in public. When we come to issues that need to be in camera, at that point we move in camera.

The Chair: Okay. Are we in agreement to go in camera to deal with the pre-budget consultations first, because we have to do that, and then open it up to the public?

Are we okay with that? That one we really need to deal with in camera, and I had forgotten that this was the reason we made the whole business portion in camera.

Go ahead, Mr. Fragiskatos.

Mr. Peter Fragiskatos: Mr. Chair, I think we should stay on the path we were originally on. Let's move in camera and stay in camera.

That's my view.

The Chair: Okay. We'll have to go to a vote on the motion, then.

You have a motion on the floor.

Are we ready to vote on the motion?

Mr. Tom Kmicic: I call for a recorded vote.

The Chair: It's a recorded vote.

The motion is, Mr. Clerk, that the meeting be held in public.

(Motion negatived: nays 5; yeas 4)

The motion is lost, so we'll be in camera.

We'll suspend for five minutes and then move in camera.

The meeting is suspended.

[Proceedings continue in camera]

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