John Graham, President & CEO
Canadian Club of Toronto
June 23, 2022
Check Against Delivery

The New Era of Active Investing

By John Graham, President & CEO, CPP Investments

Presentation to the Canadian Club of Toronto

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John Graham on The New Era of Active Investing

Thank you, Richard for that kind introduction and for inviting me to speak today.

Good afternoon. It is my distinct pleasure to be here in person and see so many familiar faces. In preparing for today I looked back at what I spoke about last year, and I noted that 2020 felt like a roller-coaster.

The beginning of 2022 has been equally as volatile and uncertain. And it looks like this will continue for some time.

I'm here today to share how CPP Investments is managing these ups and downs to deliver strong long-term results for the 21 million contributors and beneficiaries of the Canada Pension Plan.

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.

Now more than ever, I'm proud to be living and working in a country with one of the most advanced pension systems in the world. And I'm honoured to be leading a team that contributes to the financial security of millions of Canadians today and for generations to come.

Let's start with the state of the global economy and what we expect will be a prolonged period of uncertainty.

It's clear the current economic situation is presenting challenges…challenges we haven't seen in decades.

Geopolitical tensions have been rising for years and it is increasingly challenging for a global investor to navigate these risks. Going forward geopolitical considerations may override capital markets considerations. Now we know corrections in financial markets are expected from time to time, especially when they've been climbing for some time. They can help re-adjust and re-calibrate expectations, but they also add to short-term volatility and uncertainty.

We're seeing higher and more persistent inflation than a year ago, with gas, food, and housing at multi-decade highs. Inflation is steadily increasing, not just here in Canada and in the U.S., but in many countries around the world.

We expect inflation to remain elevated in the near term largely because the supply side has not been resolved. Both the lockdowns from the lingering pandemic, national security or independence considerations and the war in Ukraine are continuing to disrupt supply chains and the delivery of essential materials and components that fuel the global economy.

Add to that, rising interest rates as central bankers try to aggressively deal with inflation. All signs point to slower global growth which the IMF world economic outlook projects to be at 3.6% in 2022 and 2023, lower than in their January forecast. This grim picture might seem overwhelming, but in many ways CPP Investments, was built for times like this.

We were specifically designed 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 created to expose the CPP funds to capital markets. Capital markets can give but they can also take.

Over the past decade, markets have been robust. Valuations have increased around the globe and simply exposing capital to the markets was a winning strategy. Over the past few months, the markets have been taking back, and resetting levels and expectations.

We built CPP Investments to both expose the funds to the capital markets and to also deliver value added through active management.

That doesn't mean we're immune to volatility in the markets, it means we're well-positioned to weather the storm over the long term.

To be clear, this also means 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 decades to come.

The key is *active management* and *diversification.* We diversify across various asset classes and geographies, to mitigate concentrated risk and to deliver a stronger and more resilient portfolio.

We invest across a wide range of asset classes expecting them, to perform differently throughout the economic cycle.

For example, our investments in growth-oriented companies will benefit from periods of economic expansion while investments in infrastructure provide stable returns through the cycle due to long term, inflation protected contracts. It is difficult to get this benefit
if you are mainly a purely passive investor.

As I mentioned, over the past decade plus, the capital markets have been in a giving mood…simply ensuring exposure to the markets was a good strategy. I believe that when global capital markets are volatile, and we face a challenging geopolitical backdrop, active management really shows its value. Let me share our most recent results. In our fiscal year, ending March 31st,

The Fund grew from $497 billion to $539 billion. And, despite choppy market conditions in the fourth quarter, our performance was solid.

It's our long-term performance that matters most. I'm pleased to report, we achieved a strong 10-year return of just under 11% for the fiscal year ending March 31, 2022.

This year, seeing the challenges ahead, we continued to strengthen the resilience of our portfolio.

We reviewed and updated our market and credit risk models; performed various scenario analyses; and continued to closely track political and geopolitical risk implications to the Fund and its holdings.

We're keeping our eyes firmly focused on the long term yet flexible to quickly take advantage of opportunities and mitigate urgent risks.

Climate change is another aggravating factor in this prolonged period of uncertainty.

More than 10 years ago we started incorporating climate change risks and opportunities into our portfolio. One of this year's announcements that we're most proud of is our net zero commitment, and the appointment of our first-ever Chief Sustainability Officer, Deborah Orida.

We committed to bringing our operations to net zero by March 31, 2023 and our investment portfolio to net zero by 2050.

Now, I'd like to share some thoughts about how we are investing for the future.

I'm often asked, where are the places to invest when the capital markets are in such turmoil? Well, there's a couple areas I'll touch on.

Our investment teams continue to be active. We're looking for opportunities across all asset classes and for where to be opportunistic during periods of volatility.

We are not market timers. We do not try to call the bottom of the markets. We stay in the market and keep looking for quality assets.

Today, there is a large divergence in buyer and seller expectations on price, it is difficult to close transactions but that will narrow over time.

We are also seeing less competition for high quality assets, as short-term money is sitting on the sidelines.

Perhaps the most important investment decision an institutional investor makes, is to continue rebalancing your portfolio to your long-term risk target. To not lose conviction in your long-term beliefs during a market sell off. We are constantly making sure we stay at our long-term risk target. That means buying equities when equities are selling off.

The second area to focus on is energy markets. What's happening in global energy markets today is a strong reminder that the energy evolution is a whole economy transition and will take time.

Annual clean energy investment worldwide will need to more than triple
by the end of this decade to roughly $4 trillion if we are to reach net zero emissions by 2050.

So far, we've invested $68 billion in green and transition assets and we expect this will increase to at least $130 billion by 2030.

We will continue to build on our decarbonization investment approach that seeks attractive returns from enabling emissions reduction and business transformation in high-emitting sectors.

We have conviction that addressing essential and high-emitting strategic sectors is key to tackling climate change.

Looking ahead, I remain cautiously optimistic. Cautious on the markets but optimistic and frankly confident about CPP Investments' ability to navigate markets and add value for 21 million Canadian contributors and beneficiaries.

It is going to be an investors market going forward and active management is the best protection for today's market conditions, amid the slowing of global growth.

I'd like to close with a short story about my daughter. She's in high school and unbeknownst to me she decided to do her final project for Canadian history on the creation of the Canada Pension Plan. I guess she thought she'd have an inside track.

What she learned, and I think is worth reminding folks especially during times like this, is that the Canada Pension Plan was set up in the 60's, to deal with a huge social issue, poverty of seniors.

At that time approximately half of all seniors were in poverty and if you looked closer, at unmarried individuals, it was closer to 75%. Today poverty among the elderly in Canada is one of the lowest in the world. This is a tremendous national accomplishment. But we can't be complacent, especially now against an inflationary and volatile backdrop.

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.

I’m honoured to lead our incredible global team of 2000 world-class professionals who are committed to this purpose. We may have some challenging years ahead, but we’re creating value for generations.