Public Pension Fund Investing

CPP Investment Board

Public Pension Fund Investing: The Canadian Experience

Presentation

by

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It is an honour to be invited back to attend this second global conference on public pension fund management.

It is through information exchanges of this nature that we can learn from each other on how better to financially care for our ageing populations.

In many respect, the world faces a ticking demographic time bomb. Working populations are in decline in Europe and Japan, and will be called upon to support a swelling pensioner population.

At the same time, young populations are expanding rapidly in many developing countries, leading to a different set of political and economic challenges.

Demographic shifts to growing populations of retirees have profound ramifications for global economic growth, financial markets, political expression and government fiscal stability.

In all this, we share many common challenges.

How can we keep the most financially vulnerable in society out of poverty in their retirement years?

How can we ensure that money set aside to pay future pensions is not used for other political purposes?

How should pension funds be invested to avoid onerous contributions by tomorrow's workers?

I will answer these questions from the Canadian perspective. And I will do so by isolating four factors that drive the investment aspects of our public pension reform.

The first is our governance model and how it protects against the risks of political intrusion.

The second is the integrity of the organization. Who decides what is right or wrong — and how do you benchmark what are essentially moral judgments?

The third is what I will describe as an unencumbered investment mandate. Canada's national pension fund has few investment constraints.

The fourth factor that drives the Canadian experience is our leadership on transparency. The commitment to robust public reporting and accountability underpins the credibility of our governance model.

In reviewing these four factors, I will share with you our investment philosophy and practices … as well as our progress and performance since the Canada Pension Plan Investment Board became operational in October 1998.

But first, some brief background on Canada's public pension system. I apologize if you have heard this before. It is important, however, to know the background in order to understand why we did what we did in terms of reforms.
Canada is a federal state. We have a central national government, 10 provincial governments, and three territorial governments.

The provinces have considerable powers and responsibilities and share some of them with the federal government. One responsibility that they share is stewardship of our public pension plan.

Canada has considerable experience in responding to the retirement needs of our people. We have existed as a sovereign state for nearly 136 years. For 75 of those years we have provided financial relief for the elderly. In 1927 Canada introduced an old age security program as the first step toward reducing poverty among seniors.

The next major milestone in the creation of Canada's income retirement system was the establishment of the Canada Pension Plan in 1966.

The Canada Pension Plan was created by the federal and provincial governments as a pay-as-you-go scheme indexed to inflation. It is a mandatory plan and all employees and their employers must contribute. It is the joint responsibility of the federal government and nine provinces. The tenth province, Quebec, opted out and has its own plan that parallels the Canada Pension Plan.

By the way, this is not a state sponsored plan. The federal and provincial governments have no financial liability for the plan although the federal government does fund two social security programs for the elderly out of general revenues. Known as the General Income Supplement and Old Age Security, these programs are available to everyone, based on need.

The Canada Pension Plan is solely for working Canadians. The only contributions governments make are to match the contributions of their employees, just like any other employer.

There appears to be confusion in some of the literature on pension reform about the ownership of our pension assets.

Indeed, the excellent paper on "The Global Retirement Crisis" issued in April 2002 by the Center for Strategic and International Studies, in commenting on the reforms being undertaken by Canada and Ireland, states:

"The success of these reforms will depend on whether Canada and Ireland are better at building fire walls between public pension reserve funds and general government revenues than other countries have been."

In the case of Canada, pension reserves are totally segregated from general government revenue. They are accounted for separately.

The equity assets of the CPP are carried on our balance sheet at the CPP Investment Board. The securities are held by a private sector custodian in a segregated fund. Government can only ask for the return of funds to pay pensions and for no other purpose.

The remaining CPP assets, bonds and a cash reserve, are currently administered by the federal government. These assets will be transferred to our balance sheet over the next three years. Once this transaction is completed, all CPP assets will be protected by the firewall already in place.

However, as stewards of the Canada Pension Plan, the federal and provincial governments are responsible for the plan's design, administration and funding policy. They set contribution rates. They determine benefits. And the federal government collects contributions, pays entitlements, and administers the plan.

From the beginning, the Canada Pension Plan was not designed to be fully funded. Instead, the idea was that each generation would pay the pensions of the previous generation.

That made sense back in the 1960s. The number of Canadians over 70, the retirement age in those days, was small relative to the working population.

Over the next 30 years, the Canada Pension Plan worked fairly well. Substantially more money flowed in than flowed out to provide all working Canadians with retirement income, as well as financial help to their families should the breadwinner die or become disabled.

Along the way, the eligibility age for a full pension was lowered to 65 and to 60 for a reduced pension.

Let's fast-forward 30 years to the mid-90s.

By 1996, more money was going out than was coming in. In that year alone, $17 billion was paid out in benefits but only $11 billion was collected in contributions – leaving a one-year deficit of $6 billion.

The plan was headed for serious trouble. Particularly worrisome was the changing ratio of seniors to workers. In 1966, when the Canada Pension Plan began, there were seven workers for every pensioner.

Today that ratio is five contributors for every beneficiary. By 2030 there will be only three workers to support every pensioner and by 2050, 1.6 contributors per retiree. According to IMF projections, only the United States and the United Kingdom will have healthier ratios.

This is a dramatic demographic shift with huge economic repercussions, although other nations face more severe change than Canada.

According to United Nations data, Canada's working population is expected to increase by 14 percent by 2050. While that is half the working population growth rate forecast for the United States, the working population of other OECD countries are projected to shrink by 8 percent in France and as much as 42 percent in Italy.

For North America, the driving force is high immigration that replenishes the workforce.

Our impending pension crisis sparked an extensive review by the federal and provincial governments and led to important changes in 1997.

One key change was increased contribution rates. They have gone up by more than 60 percent over the past six years from six percent in 1997 to 9.9 percent last January. For this year, the contribution rate applies to earnings of up to $39,900.

Another key change was improved plan administration. A third was the creation of an independent organization separate from the plan itself to manage the reserve assets.

All this means that the Canada Pension Plan is moving from an exclusively pay-as-you-go scheme to being partially funded. This is the state pension plan model that appears to be popular throughout the world.

In Canada's case, the goal is to build up assets from eight percent of liabilities in 1996 to over 20 percent by 2017.

Good progress is being made. Since 1996, CPP assets have grown by $11 billion to total more than $55 billion.

This growth has come equally from two sources. One is higher contributions from workers and their employers during a period of much expanded job creation in Canada. The other is investment income from CPP assets.

The federal and provincial governments believe that maintaining the contribution rate at 9.9 percent, combined with investment income, will keep the Canada Pension Plan in a steady funding status indefinitely.

As a result, more money will flow into the plan than is needed to pay pensions for at least another 18 years.

Back in 1996, our governments debated what to do with the excess funds until they are needed to pay benefits.

They decided to invest them in capital markets through a corporation under professional management … and independent of government.

That corporation is the CPP Investment Board.

With that background, let me return to the factors that drive Canadian public pension reform on the investment front beginning with how the CPP Investment Board was set up to immunize it politically.

As Robert Palacios concluded in his recent paper for the World Bank on OECD initiatives in managing public pension reserves: “In the past, most public pension funds have not been invested effectively, largely because of political interference.”

The concern here is two fold. Interference with directors or trustees in fulfilling their fiduciary duty. And interference with the decision-making of the investment professionals.
Canada stands as a strong example of how to do it right, thanks, I must stress, to the foresight of federal and provincial politicians. They decided on a governance model that balances independence from political and government influence with rigorous public reporting and accountability.

Yet the threat of interference is a real one in the minds of Canadians. According to public opinion research, nearly 70 percent worry that governments will eventually meddle in our investment decisions.

The directors and management of the CPP Investment Board are confident that they will not. Let me explain why.

Our legislation requires that the board of directors have “a sufficient number of directors with proven financial ability or relevant work experience”. In other words, a knowledgeable board.

How our 12 directors are appointed is quite unusual. It is a departure from the traditional practice for government-owned corporations and differs from most public pension funds that are governed by nominees or representatives of government, unions and employers.

In our case, the federal and provincial finance ministers appointed a special nominating committee comprised of public and private sector people and chaired by an individual from the private sector.

The committee identifies suitable board candidates and submits a list of nominees to the federal finance minister.

The minister selects directors from the nominating list and makes appointments in consultation with provincial finance ministers.

This consultation is itself a check on partisanship and cronyism. At any particular time, federal and provincial governments in Canada are led by different political parties.

Once appointed, directors serve for up to three terms of three years each. The nominating committee also makes the recommendations on their re-appointments. No director may be removed other than for cause during any three-year term.

The federal finance minister also appoints the chair of the board in consultation with provincial counterparts and the directors already appointed.

As a result of this process, our board consists of professionals with accounting, actuarial, economic, and investment credentials. They are experienced in the private and public sectors. They have informed opinions on public and private sector governance. And they are not only independent but also independently minded.

Our board, by the way, has a rigorous process for evaluating its own performance and that of its committees. This is an important component of good governance in any organization.

The self-evaluation process keeps the directors focused on their fiduciary duties of representing the best interests of Canadians who contribute to and benefit from the Canada Pension Plan.

Our legislation gives the board powers that re-enforce the buffer between governments and the investment professionals. For example, the board appoints the chief executive officer, who reports to the board. For most crown corporations, the CEO is appointed by the prime minister and then reports to a minister.

Our board approves policies that frame management's discretion in making decisions … as well as our annual business plan and budget. For most crown corporations, these approvals are given by a cabinet minister.

The board has the responsibility and full authority to appoint external and internal auditors, who report to the board's audit committee. Most crown corporations are audited by the Auditor General, an independent audit office serving Parliament.

In providing oversight of management, our board sets the compensation for management, which is linked to performance. The compensation at most crown corporations is determined by the government.

And our board reviews and approves management's recommendation of external investment managers and other major suppliers. For most crown corporations, this process is controlled by government.

As CEO, I appreciate reporting to knowledgeable directors. They are adept at asking questions based upon experience. This gives me and my management team the comfort of being tested on every aspect of how we invest by exceptional people whom we respect.

My reporting to an independent board is a dynamic process. The board sets my compensation and performance objectives. After year end, it reviews what the organization has accomplished and what incentive payments, if any, I deserve. It then approves our objectives for the next year.

I put my senior executives through a similar process consistent with the best practices of the private sector corporate governance model.

Now, I don't want to leave the impression that we could operate as some rogue government agency, doing whatever we want with other people's money.

Despite our corporate powers, government can check on what is being done with CPP money. For example, the federal finance minister must authorize a special examination of the CPP Investment Board's books, records, systems and practices every six years. This will occur, in consultation with the provinces, within the next two years.

At his discretion, the federal finance minister also has the authority to appoint a firm of auditors to conduct a special audit.

And the federal and provincial finance ministers review our legislation and regulations every three years as part of their mandatory review of the Canada Pension Plan.

Let me turn now to the second factor that drives our reform, the integrity of the organization.

Our legislation empowers the board of directors to approve a code of conduct and conflicts of interest procedures. In other words, the directors are required to determine the ethical standards for the organization.

The CPP Investment Board faces an interesting challenge in finding its ethical roots because we have one foot in the private sector and the other in the public sector.

On the one hand, we are a federal crown corporation operating at arm's length from governments in the public sector. On the other hand, we are an investment management company competing in the private sector.

How should we balance the standards on conflicts of interest for the public and private sectors?

Those who view the CPP Investment Board as an instrument of public policy, to help secure the financial future of the Canada Pension Plan, will be inclined to apply public sector expectations.

Those who see the CPP Investment Board as an investment management company competing in capital markets will be inclined to apply private sector expectations.

In most cases the standards and expectations are the same. In other instances, they are a challenge. For example, in the public sector, blind trusts are a standard method of separating private investment interests and public duties. In the private sector, such a notion is alien.

Frankly, we were concerned that we would have difficulty recruiting qualified employees and directors if they were obliged to put their personal investments in a blind trust.

Our legislation accepts that conflicts of interest for directors and executives are inevitable. That is why it requires the board to develop procedures to resolve them, not necessarily to eliminate them.

One obvious goal is to ensure that directors and employees do not profit or otherwise benefit from a transaction by or with the CPP Investment Board. We enforce demanding disclosure of any interest that they may have.

Directors must also disclose any personal relationships that may appear to compromise their independence or ability to provide an impartial and objective decision.
And they must disclose any business activity directly or indirectly affecting the activities of the CPP Investment Board, or that could be construed as a conflict.

We have a clear process for discussing such issues, culminating with the board's governance committee recommending a resolution to the full board.

The conflicts of interest procedures have worked well. In more than 40 board meetings since the CPP Investment Board was established, four directors excused themselves on half-a-dozen occasions from discussions involving transactions in which they had a real, potential or perceived conflict.

These transactions mostly concerned the board's consideration of suppliers to provide investment or operational services as the result of a competitive request-for-proposal process. The conflicted directors did not participate in the discussion of, or vote on, these matters.

The conflict of interest procedures and code of conduct for employees are much the same, only stricter.

We also have tough personal trading procedures. We maintain lists of restricted securities in which directors and employees are not permitted to trade. They must pre-clear the buying and selling of any securities with our general counsel and cannot trade securities on the restricted lists.

Directors must provide written confirmation semi-annually that they are in compliance with the trading procedures. Employees must have their broker or financial advisor file monthly or quarterly statements with our external auditor disclosing all securities transactions.

The CPP Investment Board is a major presence in Canadian capital markets with $18 billion already invested. By 2014, we expect to have more than $160 billion in assets under management. Being a large shareholder in hundreds of Canadian companies will attract great public interest.

And undoubtedly, other conflicts – real or perceived – could arise. So how should we benchmark acceptable behaviour? One way is to ask the experts what they think.

And that is what we did last May. We asked three specialists on private and public sector ethical conduct to review our policies and procedures. We wanted to know whether our policies and procedures were robust enough to guide us through a period of rapid growth and change.

The independent advisors rated highly our established standards and procedures and suggested several enhancements.

One was to define what is meant by a potential and perceived conflict of interest, in addition to our definition of a real conflict of interest. We have now done that.

By the way, there were no handy definitions of potential and perceived conflicts. We had to do the work ourselves, guided by a former superior court judge who specializes in ethical matters.

We also defined what is meant by a private economic interest to help our directors and managers gain a better understanding of how to deal with the potential conflict of private interests with the public interest.

We introduced the notion of a self-administered loyalty test, again to get at any potential problems that our directors might have in also serving on the boards of companies in which the CPP Investment Board owns shares.
Our directors are expected to support the achievement of the objects of the CPP Investment Board without reference to any other association they may have.

Another suggestion by our outside advisors was that we consider appointing a part-time external advisor on conflicts and ethical conduct.

Our board accepted this suggestion and will appoint an external part-time conduct review advisor this year. The advisor will be accessible to directors, employees and even concerned stakeholders to advise on often complex and difficult issues in an environment of changing expectations.

Overall, I think we can fairly say that many of our policies on conduct, conflicts and related issues are leading edge. Certainly we have made the attempt to be so.

Our governance model and commitment to high ethical standards shape the culture in which management makes investment decisions.

We are fortunate to have an investment mandate that is unencumbered by non-investment considerations. This is the third factor that drives the Canadian experience.

Permit me to offer a quick reminder on our legislated mandate. We have two investment objectives.
First, we must manage CPP assets in the best interests of Canada Pension Plan contributors and beneficiaries. Right now, that means in the best interests of 16 million people.

Second, we must maximize investment returns without incurring undue risk, having regard for the Canada Pension Plan's financial requirements and future obligations.

We are not allowed to conduct any business that is inconsistent with these two objectives.

This year, we will have a third objective – to provide cash liquidity to the Canada Pension Plan so that it can meet its pension obligations.

Our investment mandate differs from that of many public pension funds in other nations.

We are not a captive source of credit for governments. We do not have to buy government debt unless we decide to build a bond portfolio. And even then, only if the terms are attractive and in keeping with our legislated and fiduciary duties.

We are not required to make loans to state-owned firms. Nor do we have social investment requirements.

In short, we do not invest according to any public policy objectives other than to help keep the public pension promise. This alone is a worthy social objective that deserves a focused investment mandate undiluted or distracted by other public policy goals and social causes.

And let's not forget that the money we invest belongs to individual Canadian workers … not to government. It is not public money but rather mandatory private savings.

Our unfettered investment mandate means that we can invest in any assets that we believe will maximize returns without incurring undue risk of loss. We are in the business of maximizing risk-adjusted returns.

Our investment strategy has been evolving over the past five years. The asset mix profile that is emerging is similar in many respects to that of other large public sector pension funds in Canada and the United States.

When we began in October 1998, CPP assets were solely 20-year government bonds and liquid short-term government securities.

Earlier I touched on the steady state funding policy of our federal and provincial finance ministers. With the contribution rate set at 9.9 percent, that funding policy assumes CPP assets will earn a real return of four percent … that is four percent above the rate of inflation.

Government bonds will not achieve that level over the long term, so we must assume risk to earn higher returns.

Furthermore, because we have at least 18 years before we are expected to pay income into the Canada Pension Plan, we can assume greater risk than a pension fund that needs income today to pay pension benefits today.

From the beginning, we decided to invest excess funds in equities. First, to diversify the asset base. Second, because history tells us that equities pay a premium over the long term for the extra risk assumed compared with bonds.

Consequently, investing in equities makes sense in its own right, although earning that risk-adjusted premium means weathering a good deal of short-term market volatility.

For most of the past four and a half years, we have been investing passively in public equities through externally managed funds that replicate stock indexes in Canada, the U.S. and globally.

While our investment mandate is “unencumbered” we do face a significant constraint.

We must invest 70 percent of assets at cost in Canada … and thus only 30 percent outside the country. This requirement, known as the foreign property rule, applies to all pension plans, as well as to individual registered retirement savings plans.

We are in strict compliance with this constraint, although like any investor we would prefer to have no constraints. As a rule, any investment constraint has a cost.

There are many reasons why we chose to invest outside Canada to the maximum permitted by law. One is to gain portfolio diversification by geographic market. Not all economies in the world move in lock step. While Canada has had one of the strongest economies among developed nations in recent years, there are faster-paced opportunities in other markets.

Consequently, over the long haul, foreign investing can offer the prospect of higher returns for the risks assumed.

Another reason has to do with the size of the Canadian economy, where equity markets represent less than two percent of global capitalization.

Consequently, being required to invest 70 percent of our assets in a relatively small economy has risks.

Furthermore, the only major Canadian index for equities is a thin representation of the Canadian economy. Some productive sectors are not represented at all, while others consist of only two or three companies. And there is over concentration in some sectors.

We are also in the early stages of moving away from traditional index fund investing toward a strategy of investing passively on an economic sector basis from the global perspective. There are 10 to 12 key economic sectors internationally. The Canadian economy is under-represented by a good choice of companies in health care and technology, for example, and over-represented in such sectors as financial services and energy. Our goal is to build a more efficient global portfolio than one constructed using geographic capitalization weighted indexes.

Bonds and publicly traded equities are, of course, cornerstones of a diversified portfolio. Since we met last, we have begun to diversify beyond these two asset classes.

Almost two years ago, we moved into private equities, including venture capital. These investments are being made through private equity specialists in Canada, the United States and Western Europe.

Our goal is to invest as much as 10 percent of CPP assets in private equities on a global basis. While private equity assets can take eight to 12 years to realize full value, we believe the wait is worth it for the higher risk-adjusted returns compared with public equities and bonds.

We are also committed to investing a portion of our total portfolio in real return assets, such as real estate, infrastructure, natural resources and real return bonds.
We have the support of our board to invest as much as five percent of CPP assets in real estate and infrastructure assets.

In January we acquired our first direct ownership in Canadian shopping centres. We have also committed funds to real estate investment firms. Ultimately we will own office, industrial, retail and multi-residential properties.

We are considering investments in infrastructure. These assets fit within our mandate as long-term investor. They require large amounts of capital and patience to produce the level of returns we need.

And we are also considering natural resource assets and real return bonds. Real return bonds are a good match for indexed pensions as they guarantee returns above inflation. However, the supply has dried up and current returns are below the minimum required to sustain the Canada Pension Plan's steady state contribution rate.

What all this means is that the future security of the Canada Pension Plan will rest on a diversified asset base. As of December 31, 2002 bonds at $32 billion represented 58 percent of CPP assets, equities at $18 billion were 32 percent of the total and the cash reserve at $5 billion was nine percent.

We will decide our long-term asset mix policy later this year after further discussion with our board of directors.

Again, let me stress that governments have no say on our asset mix policy. Nor do they choose to.

Overall, CPP assets have earned annualized nominal returns averaging 3.8 percent since 2000. Of course, those returns have been volatile, ranging from a high of seven percent in 2001 to a low of 0.8 percent so far this year. In a few days we will release our year-end results and expect a negative return of slightly more than one percent.

Our results compare favourably with other Canadian public sector pension funds … which like the CPP have experienced declining equity markets for three consecutive years offset by fixed-income gains.

I hope this gives you a good idea of how we are executing our unencumbered investment mandate … and where it should lead us in the future.

Despite our rapidly growing asset base and our destiny as Canada's largest pension fund investor, the CPP Investment Board is actually quite a small organization.

Our operating budget is only $14 million a year with a current staff of less than 35 people. We set the investment strategy and retain the best talents in the marketplace anywhere in the world to implement that strategy.

More than 45 firms with different areas of expertise have been retained so far and our staff monitors and reviews their progress against performance expectations.

These external fund managers report to management, not to our board of directors. Consequently, we are accountable for their performance and behaviour.

An aspect of our investment mandate that I want to touch on is how we exercise ownership rights as a shareholder in approximately two thousand companies throughout the world.

Again, governments are not consulted on our proxy voting guidelines nor how we vote corporate shares.

We do not, of course, seek to manage the companies in which the CPP Investment Board owns shares. What we want to do is focus corporate management on serving our best interests. After all, management works for the shareholders, not the other way around.

Consequently, we support resolutions that empower boards of directors on behalf of the shareholders and reaffirm management accountability.

We also support performance-based incentive programs that require executives to put their capital at risk, just like the shareholders, by owning a minimum value of shares while they are with the company. For us, this goal is better achieved through stock grants at market value than through stock options.

Most of all, we want boards and management to take a long-term view of the company's best interests and those of the shareholders.

The CPP Investment Board is a long-term investor, consistent with the long-term needs of the Canada Pension Plan. With billions of dollars committed to equity ownership, we cannot, nor do we choose to, walk away from companies by selling our shares every time we feel they are not acting in our best interests.

We will support boards and management teams through difficult periods as long as their long-term visions and strategies are clear, compelling and focused on the enhancement of long-term shareholder value.

We oppose resolutions that are likely to diminish long-term shareholder value even though they may produce short-term gains. It is profit growth that ultimately drives returns on equities. Management's priority should be to enhance sustainable long-term profitability.

Many Canadians believe that there is more to share ownership than supporting profit making to improve share price. We agree. Employees, customers, suppliers, governments and the community have a vested interest in good corporate conduct that can influence future value.

Consequently, we support reasonable shareholder resolutions that ask companies to make full disclosure on issues that relate to social responsibility, ethical behaviour, sustainable development and corporate citizenship. There is ample scope for companies to demonstrate leadership on disclosure to build and sustain investor and public confidence in the free market system.

Let me turn now to the fourth and final factor that drives the Canadian experience. That is, our decision to demonstrate leadership on pension fund disclosure … and in the process assuage any public anxieties about our ability to operate at arm's length from governments.

Full and timely disclosure is, of course, one of the most important governance principles. It is a wonderful discipline. To paraphrase a well-known maxim: Daylight is the best policeman; sunlight is the best disinfectant.

Our public accountability and reporting is extensive and goes beyond legislative and regulatory requirements.
We are accountable to Parliament through the federal minister of finance, who tables our annual report.

Actually, we send our annual report to all members of the federal parliament and the provincial legislatures, as well as to stakeholder groups such as trade unions, pensioner associations, business associations, economic and social policy research institutes, universities and every public library in the country. We also publish it on our web site.

We are required to disclose a good deal of information in the annual report. Audited financial statements. Our corporate governance practices including the duties, objectives and mandate of the board of directors. The board's committees, their composition, mandates and activities. The decisions of management requiring the board's prior approval. The procedures for the board to assess its own performance. And the directors' expectations in respect of management.

We are also required to disclose in the annual report our objectives for the past year and how they were met, as well as our objectives for the coming year.

And we must disclose the individual compensation of the top five officers and the total compensation of the directors.

We are accountable to federal and provincial finance ministers and file with them our quarterly financial statements. As I noted earlier, they also review our legislated and regulatory requirements every three years as part of their mandatory review of the Canada Pension Plan.

And we are accountable to Canadians through public meetings required in each province that participates in the Canada Pension Plan. So far, we have held two series of public meetings from coast to coast.

We have adopted a more proactive approach to disclosure and reporting than the governments envisaged.

We release our quarterly financial results to news media and post them on the web site. I hold a media conference call when we release our results. And we publicly announce all new investments and external partnerships.

Our disclosure policy is bold. We crafted it just last May. Let me read the opening paragraph:

"Canadians have the right to know why, how and where we invest their Canada Pension Plan money, who makes the investment decisions, what assets are owned on their behalf and how the investments are performing."

This policy shapes our web site where we post our policies, including those dealing with governance, investment, codes of conduct, conflicts of interest guidelines, procurement, and personal trading by directors and staff.

You will also find on our web site a full list of public equities and their market values, as well as a summary and market valuation of the fixed-income securities and private equity holdings, along with historical investment results.

Furthermore, you will find a discussion of our investment strategies, details on firms retained to implement our investment and operating strategies, and biographies on all directors and managers.

No other Canadian pension fund and few internationally discloses as much as we do … let alone quarterly.

This degree of accountability and reporting means that the politicians and public can keep a close eye on us. At the same time, it makes it even more difficult for governments to interfere in our investment mandate.

I am sure you are thinking, "if you commit to full disclosure, aren't you setting yourself up for a fall when things go sour?"

Our view and experience is that if you give people the bad news as well as the good … and paint the full picture, they understand.

We have reported some miserable quarterly results for equities. Of course, a pension fund that invests over decades should not have to worry about what happened in the past three months. But the public has the right to know.

Full and timely disclosure is a discipline that keeps us focused on how people who contribute to our pension plan feel about what we are doing with their money. It forces you to explain yourselves in terms and with a fullness that they can accept.

Our experience shows that the effort is worth it in building confidence in our mandate and investment strategy.

In conclusion, these are four driving factors behind our reform that I wanted to share with you.

A strong governance model created by governments to ensure that professional management is able to operate independently of them under the watchful attention of a knowledgeable board of directors.

The commitment to creating and testing ethical standards that respond effectively to our unusual role as a government corporation in the public sector competing as an investment management company in the private sector.

An investment mandate that is unencumbered by public policy priorities and social investment criteria, giving us the freedom to invest in the best interests of Canadian workers who pay into the Canada Pension Plan and expect it to deliver them a pension when they retire.

And a true commitment to full accountability to Parliament, the provinces and the public so that they know what we are doing with their money on a regular basis.
Obviously there are many aspects of Canada's political, economic, judicial and social mosaic that make all these factors possible.

I hope, however, that there are aspects of our experience that can be adapted to your state pension fund structure.

After all, in the end, we all have the same goal – to enable people to retire in dignity and with some financial comfort at the end of their working lives.

Thank you.