



**CPP
INVESTMENT
BOARD**

“CPPIB in Australia: In it for the long term”

**Remarks by David Denison
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**Canadian-Australian Chamber of Commerce (CACC)
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INTRODUCTION

Good afternoon ladies and gentlemen, and thank you to Dominic Hudson¹ for that kind introduction. It is an honour to be invited to speak to a group like yours that is helping to forge ever closer ties between our two great countries. And it is wonderful to be back in Australia.

CANADA-AUSTRALIA SIMILARITIES

I think there are a great many similarities between our two countries and as a consequence a real friendship has developed between Canadians and Australians over the years; this gathering and the existence of the Canadian-Australian Chamber of Commerce are testament to that.

As a relatively young country, it's been said that Canada has more geography than history. The same can perhaps be said of Australia. By virtue of our joint Commonwealth heritage, we have evolved similar legal and political systems. In more recent times, both our countries have benefitted from strong banking and financial systems that have allowed our nations to weather the global financial crisis relatively well and stand out among developed countries around the world.

¹ CACC Board Member; Managing Director Head, Infrastructure, Asia-Pacific, RBC Capital Markets

We are both great trading nations. With relatively small populations, economies and domestic markets, we benefit from and have to fight to preserve global multi-lateral trade and investment regimes.

Another similarity is that we both live close to 'elephants' – namely China and the United States. That reference comes from Pierre Trudeau, one of our former Prime Ministers who, when speaking to an American audience said, "Living next to you is in some ways like sleeping with an elephant. No matter how friendly and even-tempered is the beast, one is affected by every twitch and grunt". In that regard we in Canada have certainly suffered the effects of the economic slowdown in the U.S., their heightened concerns about border security, and the political controversy surrounding President Obama's recent refusal to allow a pipeline to carry Alberta crude from its oil sands to Texas refineries to cite a few examples. I note that Australia has experienced a few twitches and grunts from China as well over the years, including their recent reaction to the new Australian-US defense pact.

Both our countries also have a great affinity for sports. In that regard, Canada is more than a bit humbled by your nation's prowess at athletics. Being in the host city of the wonderful 2000 Summer Olympics in yet another Olympic year, I note that Australia, with only $\frac{2}{3}$ the population of Canada, routinely wins over three times the number of summer Olympic medals.

Now we Canadians can take some solace that we reverse that standing in the winter Olympics. Some might quibble of course that we have an unfair advantage given that we live with abundant snow and ice for five months of the year but surely we deserve some small consolation for having to endure our frozen northern climate.

By way of background, perhaps I could briefly describe the organization I represent, the Canada Pension Plan Investment Board or CPPIB. We were established in 1999 to manage the assets of the Canada Pension Plan, Canada's national pension scheme, which is a mandatory contributory defined benefit-like plan covering 17 million Canadian contributors and beneficiaries.

We were designed to operate with a private sector model independent from any government involvement or influence, and were given a clear and singular mandate – to maximize investment returns without undue risk of loss. The funds we manage belong to contributors and are strictly segregated from general government accounts.

In the last number of years, the CPP Fund has become one of the fastest-growing and largest single purpose pools of capital in the world. Today the Fund is approximately \$155 billion and it's forecast to grow to more than \$300 billion within the next decade and then to more than half a trillion dollars by 2031.

At a time when countries around the world are being forced to address the sustainability of their national pension regimes and sometimes radically restructure them, I am happy to note that the Canada Pension Plan has recently been confirmed as sustainable over the next 75 years and beyond. Indeed, in a key note address at the World Economic Forum in Davos a week ago today, Canada's Prime Minister described the need for major transformations to several government programs across retirement income systems, immigration and R & D, but he singled out the CPP as the one system that did not need to be reformed.

Our job at the CPPIB is to contribute to that long-term sustainability by generating sufficient investment returns on the assets of the fund.

To do so, we have evolved to become an active investment organization with a wide range of internal programs and capabilities.

Our active investment strategy is designed to take advantage of certain structural advantages including the certainty of our asset base and future cash inflows, an exceptionally long investment horizon, and the large scale of our investment portfolio.

Given the Fund's size we need to look for investment opportunities well beyond the borders of Canada. Today the majority of the Fund is invested abroad, including more than \$10 billion in Asia Pacific. Of that amount, we have invested over half in this country, well beyond any normal market cap weighted allocation.

CPPIB IN AUSTRALIA

So why does our organization see such opportunity here? Many of the reasons relate to solid fundamentals that are eminently well known to all of you including this country's abundant commodities and proximity to and connections with fast-growing Asian markets.

But equally important from our vantage point are the important decisions you have made to create transparent, solid policy frameworks and a sensible tax regime which help to make Australia's environment particularly attractive for foreign investment capital.

For us, one especially important policy decision your state and federal governments have taken is to promote the private ownership of infrastructure operating within well governed regulatory regimes.

Long duration infrastructure assets are highly attractive investments for us because we manage a portfolio that spans multiple generations. We also believe we're good owners of these important assets as we have no intention or need to sell them and indeed every incentive to reinvest in them to ensure they continue to fulfill their intended purpose and generate cash flows over many years for our fund. Unfortunately, Australia is one of only a small number of countries that has embraced this private ownership of infrastructure model. When we talk to public officials in countries around the world about the possibility of privatizing infrastructure, we invariably point them to Australia as a successful example of how to execute the necessary policy framework.

Our CPP Fund has of course invested in many Australian companies through the public markets including BHP Billiton, Commonwealth Bank, ANZ, Newcrest Mining and many others. We have also made a number of sizable investments in the Australian real estate sector including:

- This past May, when we acquired a 50% joint venture interest in Melbourne's Northland Shopping Centre for A\$455 million.
- Alongside one of our key partners, the Goodman Group, we contributed A\$200 million to establish the Goodman Australian Development Fund.

- We built on our partnership with Goldman to make an A\$600 million investment to acquire the ING Industrial Fund which includes a portfolio of 61 prime industrial properties predominantly on the east coast of your country.
- We partnered with the Australian Future Fund and others in the restructuring and recapitalization of a retail property investment vehicle managed by Colonial First State Global Asset Management by committing A\$345 million.
- We have invested A\$180 million in the Dexus Wholesale Property Fund, which includes a mix of Australian office, retail and industrial assets.

CPPIB has also become a major infrastructure investor in this country:

- Through our acquisition of the Intoll Group at a total cost of A\$3.4 billion we acquired a significant stake in the Westlink M7 toll road.
- We also acquired 100% of the Macquarie Communications Infrastructure Group for A\$1.64 billion which resulted in CPPIB owning Broadcast Australia.

- Although we haven't invested alongside them in Australia, we have a very good partnership with the Westfield Group including a A\$450 million interest in Westfield Stratford, the largest shopping mall in the U.K. located next to the site of the 2012 London Olympics.

Our investments to-date in this country reflect our long-term confidence in Australia and its economy. We would like to grow CPPIB's presence here and become even more a part of the Australian economy and community which is one of the clear purposes of my trip this week.

I would note, however, that the ability for us and other investors to make the kinds of investments I have just summarized, be it in Australia or other countries, is predicated on two key factors:

- The openness of those countries for "foreign" ownership of their domestic companies and assets, and
- an adequate supply of long-term investment capital to match the profile and needs of companies and assets.

As an investor seeking opportunities in most markets around the world, I can say that we at CPPIB have some concerns on both these fronts.

Indeed, at a time when the world arguably most needs to accelerate trade, capital flows and economic activity to stimulate growth, we see growing signs that economic nationalism and protectionism continue to influence outcomes.

Earlier I mentioned the importance to Canada and Australia of having open access to markets around the world. Notwithstanding that, we need to look no further than my own country for countervailing examples, such as when our federal government denied approval for BHP Billiton's bid to take over Potash Corporation just over a year ago. More recently, a proposed merger between the London Stock Exchange and the Toronto Stock Exchange was voted down by shareholders with commentators suggesting that the negative political reaction and uncertain ultimate approval played a key role in that vote. In this country, your government turned down the proposed merger of the Australian and Singapore stock exchanges based on an assessment of Australia's national interest.

Staying in this Asia Pacific region, a few years ago our own bid to purchase the Auckland Airport in New Zealand was turned down at the political level after having been approved by shareholders and all other reviews.

There are many other examples in various countries around the world that we could cite with similar dynamics and outcomes. From our perspective, we appreciate that there are complex considerations at play in these circumstances and understand that there is an important and legitimate role for governments to play. However, we do urge policy makers to create transparent processes and decision criteria so that there is more predictability of outcomes for investors and corporations. I can certainly say that the presence of opaque policy criteria and decision making processes absolutely influences where we at CPPIB, and we believe other investors and companies as well, direct their efforts.

Another concern we have is that we see signs of a shrinking universe of long horizon investors and corresponding availability of true long-term capital.

Perhaps I should start with defining what long-horizon investing is before turning to why it matters. I think a useful definition is that it entails investing with the expectation of holding an asset for an indefinite period of time by an investor with the capability to do so.

Such investors are less focused on interim changes in asset prices and instead on long-term income growth and/or long-term capital appreciation both in their initial evaluation and continued interaction with their investments.

Our view is that there aren't many entities that fit this definition and worryingly some proposed regulatory and other changes would reduce the existing number. One reason for the short supply is that the business models of many investors be they hedge funds, mutual funds, institutional money managers, private equity GP's and the like, simply don't envision long-term investing. Unfortunately we are now seeing some enterprises whose traditional business models do line up with long horizon investing, such as those with long dated liabilities like pension plans and life insurance companies, change their orientation. In the case of pension plans, apart from the inexorable shift away from defined benefit to defined contribution, the strict solvency rules being proposed within the European Union and contemplated elsewhere, if enacted will likely materially hinder their ability to make long-term investments.

In a similar vein, the impact of mark to market accounting requirements on insurance company investment portfolios and other regulatory pressures on them is also reducing their capacity to act as long horizon investors.

I could cite other examples as well but let me turn instead to why we think this matters. One reason is because we believe that long-term investors can play an important role in helping to stabilize markets in times of stress – they can act as liquidity providers and counter-cyclical investors in such times to counter-balance the actions of other investors.

Engaged, long-term investors can also provide the patient capital and support for companies and corporate managers to pursue longer term value creation and help offset the quarter by quarter mindset and objectives of some analysts and shareholders. And importantly, they can be the providers of capital for important long-term projects such as infrastructure or the development of new energy capabilities for example. Consequently the public interest benefits of long-term capital are significant.

CPPIB by virtue of its mandate is able to, indeed I would say almost is compelled to act as a long horizon investor. While on the one hand our long horizon investing activities might be advantaged by diminished competition for those kinds of opportunities, our overarching belief is that there needs to be a large and strong presence of long-term investors for capital markets to function well and economies to flourish.

In both of the areas I have touched upon in my remarks, we hope policy makers consider carefully the perhaps unintended implications of some of their decisions and the policy frameworks and rule changes that are currently under consideration. We encourage them to make choices that will maintain more open investment regimes and foster long-term investing.

CONCLUSION

So let me close now by saying that we are here out of a conviction that Australia is and will remain attractive to us and other international investors. We vote our preferences very transparently by how we allocate our capital; we have a significant proportion of our Fund invested here and would like to add to that asset base. We see ample opportunities to invest in Australian businesses and other assets that will both generate economic activity here and provide the returns we need to sustain the Canada Pension Plan at home, and we promise that CPPIB will act as a good long-term owner and partner across all our investments in Australia.

Thank you.

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