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TAKING THE LONG VIEW: CANADA AND AUSTRALIA IN THE 21ST CENTURY

Address to the Canadian Australian Chamber of Commerce

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CHECK AGAINST DELIVERY

Thank you Jeannie and good afternoon, everyone. I'm delighted to be here today, and I want to thank both the Chamber and KPMG for hosting this luncheon.

It's been a little more than a year since my predecessor, David Denison, spoke at a Chamber event. He addressed some of the reasons why Asia Pacific is a key focus for CPPIB's global strategy, and how we see Australia as a major gateway to the region. I'll briefly touch on this topic again today.

Now, there are many reasons that bring me to Australia, but I would be less than candid if I did not admit the unbridled joy that Canadians feel whenever they escape the clutches – if only briefly – of our long, cold winter. Our nations have a great deal in common, but a temperate climate is not one of them.

But, in spite of the distance and dissimilar meteorology, we have much in common.

First, our shared heritage and comparable political and legal systems makes us ideal learning grounds for each other. When Canadian policymakers are scouring the globe for best practices in such areas as financial literacy, personal savings or pension reform, their eyes often light on Australia. This country has made tremendous progress in several areas of economic and social policy, and there is much we can learn from your example.

Second both our countries lie next to elephants: the United States in our case, and China in yours. We feel every twitch and grunt coming from our neighbours. As the notorious saying goes, when the USA sneezes, Canada catches a cold. The same could surely be said today for you about China. But we also share the tremendous advantage of having geographic proximity to these elephantine markets.

In the case of China and the Asia Pacific region more broadly, the market is vast not only in size but in potential – everyone wants to be 'in on the action'. For Canada, it is a matter of diversifying our export markets, not only for our abundant energy and natural resources, but also for services like banking and insurance.

For CPPIB in particular, it is a matter of finding investments that offer our 18 million Canadian contributors and beneficiaries the best long-term, risk-adjusted returns available. Today and in coming decades, it is clear many of these investments will be in the emerging economies of Asia Pacific.

Just as Canada is perceived by foreign investors as a gateway to the U.S. market, so too is Australia a gateway to the fastest growing economies in the world. That fact, combined with your own great natural resource wealth, vibrant cities, stable democratic government and healthy economy, (not to mention an inviting climate for most of the year) make you very attractive to investors like CPPIB.

Indeed, today we have 3.6% of our fund invested here[1] and own interests in important assets such as the Westlink M7 toll road and Broadcast Australia. While 3.6% may not seem like a big percentage, today, that represents $6.2 billion and a percentage that is about one and a half times Australia's share

[1] As at December 31, 2012

of global GDP[2] and share of global market capitalization[3]. So, by any measure, we are substantially overweight Australia and with Australia's economy boasting an unmatched 21 continuous years of growth[4], we are here in scale because we believe that this is where the puck is and is going to be for decades to come.

This past year alone, we made two significant investments in Australia to further complement our portfolio. In July, we announced a $1 billion investment in a joint venture with Lend Lease Corporation and the Australian Prime Property Fund Commercial. The partners will develop and hold two waterfront office towers (International Towers Sydney) that are part of the Barangaroo South Project in Sydney's Central Business District. (And because this is a development project and funds in stages, it is by and large, not included in the $6.2 billion figure I just cited).

And in October, in a joint-venture with AMP Capital, we acquired a $436 million equity stake in two prime Australian shopping centres – the familiar Macquarie Center in Sydney and the iconic Pacific Fair Shopping Centre on the Gold Coast.

These real estate investments are a perfect fit with CPPIBs' long-term investment strategy. With the CPP Fund worth close to $173 billion Canadian at December 31st and slated to grow to close to half a trillion dollars by 2031, we are also one of only a handful of global investors who can make investments of this size.

Australia and Canada both have a relatively limited domestic investment market for homegrown institutional investors like CPPIB and the Future Fund, which have truly grown into global players. While this is a constraint at home, it is also an opportunity globally, and one that is illustrated by multiple deals CPPIB has struck through our strong relationships with both Goodman Group and the Westfield Group.

The first such deal, the Goodman North American Partnership, represents an investment of US$490 million by Goodman and US$400 million by CPPIB. Together, we will target logistics and industrial properties in key North American markets. The second deal delivered an increase in equity allocation to Goodman China Logistics Holding. CPPIB put up US$400 million and Goodman $100 million, bringing our total commitment to this venture to $800 million. The money will go towards high quality logistics properties in prime locations across mainland China.

Next, we've had an ongoing partnership with Westfield, one of your largest corporations, in multiple geographies. In 2010, we acquired a 25% interest in Westfield Stratford City, adjacent to what was then the future site of the 2012 London Olympics. Today, Westfield Stratford City is the largest urban shopping centre in Europe. And in February of last year, we announced an agreement to form a joint venture with Westfield consisting of interests in 10 regional malls and two redevelopment sites located in the U.S. The properties have a total gross value of US$4.8 billion. Our 45% interest in the joint venture helped us become one of the largest institutional owners of regional shopping centres in the U.S.

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[2] Australian Government. Australia Benchmark Report 2012. Page 2: Australia comprises 2.2% of 2012 forecast total world nominal GDP in US$
[3] Total market cap that includes closely-held shares
[4] Supra note 2 at page 4

These partnerships are great examples of how CPPIB is forging relationships with Australian companies to our mutual benefit on the global stage. They are also windows into CPPIB's mandate and investment strategy, which I will briefly describe.

CPPIB manages the assets of the Canada Pension Plan for the benefit of 18 million Canadians. Given that our investment decisions have a direct impact on the retirement security of generations of Canadians, creating financial security through long-term value creation is central to our mandate.

CPPIB's investment horizon is **75 years**. That is the timeframe set by Canada's Chief Actuary when he assesses the CPP's long-term sustainability. As a result, for us, a quarter is more akin to 25 years, not the usual 90 days that so many investors have become accustomed to. This fact makes us a very different type of investor and creates a strong comparative advantage.

In addition to our long time horizon, we have one of the strongest governance systems in the world and we operate at arm's-length from government. This gives us the freedom to relentlessly focus on *thinking* and *acting* for the long-term, without the pressure of short-term results or shortsighted interventions.

Yet despite the benefit of our governance structure, we still struggle with the same issues and barriers that impact other business leaders, investors and policymakers alike. Indeed, it is a constant effort when we issue performance results every three months, to discuss and frame results within the context of our exceptionally long investment horizon.

And that brings me to my central theme today – the challenges faced by long-term, global investors like CPPIB in a world that is frankly dominated by short-term thinking.

Such thinking poses a real problem to large pension funds, like us, and life insurance companies with obligations to planholders that stretch over several decades. As institutions we need solid, long-term opportunities in both our home countries and abroad to match long-term liabilities. We need to invest in countries, companies and assets that will generate sustainable value over the long-term.

And the returns these investments provide do not only benefit the investors. Long-term investments in assets such as infrastructure or commitments of patient capital to fuel product development have a direct impact on job creation, innovation, productivity, long-term GDP growth and the environment. These returns benefit society as a whole.

The underlying problem for Canada and Australia – and in fact for countries around the world – is the short-termism of investment markets and the ability to attract patient capital. It's a double-edged sword that hurts both invest***ors*** and invest***ee*** companies and projects – and ultimately society.

I've already mentioned the difficulty of institutional investors like CPPIB in a world of limited opportunities for patient capital. Now let's look at the invest***ee*** side of the equation. Around the world, vital infrastructure renewal projects – repairs to municipal water and sewage systems, roads and bridges; investment in public transit– lie on the drawing table for want of long-term investment. Global estimates of the need run to trillions of dollars. Then there are capital-intensive and job-creating infrastructure projects, such as new hydro dams or transmission lines, that also can't find sufficient long-term capital – especially private sector capital – to finance them.

Where will the money be found for all these essential projects? Taxpayers? That's a solution that no government wants to embrace or can afford.

The ground is shifting beneath our feet. Populations are greying, birth rates are falling, and economic power is shifting from established markets to emerging markets – from west to east. The impacts of these tectonic shifts will shape our world for decades. We need to start making decisions today that will create long-term value for business and society.

We need a strong global market for long-term capital.

Now before I elaborate on the challenges to this need, I'd be remiss if I didn't first acknowledge Australia's superior performance attracting long-term capital as compared to most other jurisdictions. Your stable, attractive framework for infrastructure has drawn in investors from around the world, including CPPIB.

But when we shift to a macro view of the global economy, including both private market and public market participants, embracing long-term perspectives when it comes to investing is a challenge for us all. Indeed, we live, think and act in a short-term paradigm.

Tune into any 24/7 business news channel, or pull up Twitter on your Smartphone, and you'll get a glimpse of the problem. The barrage of information we're exposed to every waking minute of every day has a dramatic impact on how we discuss and evaluate economic matters, government policy decisions and corporate performance. Our decisions are filtered through this very short-term lens and pressured to be instant.

Think of this information barrage as an image so large that its individual pixels are visible. If we stand too close, we see only the pixels. We can't discern the entire image – the big picture. As we move back, the image gradually comes together and makes sense. Sadly, we are living in a society that shifts focus from pixel to pixel, missing the proverbial forest, not just for the trees, but for individual leaves and pine needles.

Yet in a world of instantaneous information, stepping back is not that easy. People have an inherent need to stay close, to stay connected with one another, and technology allows us to do that today as never before. We've developed an insatiable appetite for fresh information and new results… an addiction to the instant, 24/7 news cycle.

Now add to this the fact that governments are facing increasingly shorter election cycles and mandates…that investors are fixated on short-term, quarterly profits… and that corporate management is becoming a revolving door. Here in Australia, the median tenure of an ASX100 CEO has fallen to 3.9

years and the CEO turnover rate spiked to **22%** during the volatility of 2009 [5]. The Wall Street Journal recently commented wryly that we should now be writing CEO names in pencil.

Short-termism is an issue CPPIB faces in Canada, in Australia and in all markets we invest in. How can we think and act long-term when the world around us is caught up in this 'myopia of the moment'?

In my view, all market participants – be they investors or governments - desperately need a long-term lens. While we may discuss practical, actionable items for reform, I am convinced that unless we first address this short-term, structural paradigm, we will fail to create a policy environment that supports fundamental and lasting change.

I'm going to focus the remainder of my remarks on three issues that I see as central to creating long-term value for investors like CPPIB and our beneficiaries, and ultimately for business and society at large:

i. The first is the issue of counter-balancing short-term thinking in public markets;
ii. The second involves frameworks that support responsible investing; and
iii. The third issue is the need for governments to focus on longer-term thinking.

Let's start with public markets. The American economist and best-selling author Paul Samuelson was quoted recently in the Australian Financial Review in an article about the long-term performance of superannuation funds. Samuelson said, "Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas."[6]

Today's markets feel more like a trip to Vegas. Program trading and technology glitches trigger market crashes. So-called "whisper numbers" on the street cause unwarranted earning expectations. High frequency trading allows investors to hold equity positions for mere fractions of a second, looking for microscopic advantages, in a strategy played out tens of thousands of times per day.

On today's stock markets, most trades occur without any regard to a company's business fundamentals. This technology-driven gaming of the market is placing the management of public companies under enormous pressure to boost short-term performance at all costs. In one recent study, 55% of CFOs indicated they would forgo an attractive capital investment project today if the investment led them to even **marginally** miss their quarterly earnings target[7].

In such an environment, it is small wonder that the long view gets short shrift, and corporate leaders are pushed to make decisions that benefit stock price for the next quarter, as opposed to the next quarter century. But does 90 days really have that much impact on a company's value?

Or are investors and corporate managers bound up in short-termism because it is the only road to increasing share price?

[5] Goldman Sachs. April 8, 2012. Global Investment Research. Environmental, Social & Governance – Australia. Page 2.
[6] The Australian Financial Review. 30 January 2013. Time heals super funds' wounds.
[7] Graham, Harvey and Rajgopal. 2011. Value Destruction and Financial Reporting Decisions. Page 8.

To answer that, let me return to that Financial Review article that discussed the performance of superannuation funds and the benefits of taking a long-term horizon to investing.

Over the past 20 years, the average balanced superfund exceeded its earnings target. Over the past 10 years, the average gain for balanced superfunds was 7.4% per year, or 4.7 percentage points above inflation over the same period.[8] These results were achieved by taking a steadfast long-term approach and fighting the short-term temptation to be sidetracked in the face of periods of extreme market volatility, including the 2008 crash.

CPPIB itself is an argument for the profitability of long-term investing. Today CPPIB's ten-year annualized rate of return is 6.7%. Of course, I would prefer to give you a 20-year number but I'll note we don't have one yet because we remain an adolescent, having only made our first investment in 1999 and just beginning active management in 2006.

We've also contributed **$3.3 billion**[9] in value-added returns above and beyond that of the CPP Reference Portfolio – our performance benchmark – since we started active management. These returns are net of all costs and evidence of the significant value our investments in long-term asset classes like private equity, real estate and infrastructure deliver during periods of short-term volatility. We expect this value-added figure to only increase as we also realize the long-term gains of such assets.

At CPPIB, we firmly believe that investors must look beyond market volatility, rise above the status of mere spectators and focus on business fundamentals. And we practice what we preach, even on the public markets side.

Through our Relationship Investments program we take significant direct minority investments in public companies, providing them with strategic capital to help them outperform their peers over the long term. These investments typically range from $100 million to $1 billion and represent from 5% to 25% positions in the company. We are active, engaged owners, working closely with management teams and boards of directors to achieve transformative growth.

We also have an in-house Responsible Investing group that conducts in-depth research on environmental, social and governance issues within companies, industries and assets. We've embedded such ESG considerations into our investment evaluation process.

Responsible investing is not about winning at all costs, or about meeting quarterly projections in order to keep short-term investors happy. In the corporate world, who wins and who loses has a direct and profound impact in terms of jobs and working conditions, on communities and on environments. It is about investing in society's future and benefitting from doing so.

CPPIB's long-term mandate compels us to factor environmental, social and governance issues into our investment choices. We fundamentally believe there are **financial** benefits for all investors who do the same. For us, so-called 'responsible investing' is simply smart long-term investing.

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[8] Supra note 6.
[9] At March 31, 2012

Take any two investment choices. All else being equal, if you pick the company whose management team demonstrates better ESG performance, you are choosing the company that will build growth and value over the long-run.

For CPPIB, such ESG minded investing is not only important in our public market activities, but also increasingly important as we take on the role of principal investor in private markets. And there is no better example of this than the Barangaroo South Project –over 3 million square feet of commercial real estate that will be carbon neutral, zero waste, and water positive. One of Sydney's largest real estate developments this century will enhance the wellbeing of its community.

Great opportunities like Barangaroo are out there. It is the responsibility – the imperative – of organizations like CPPIB, other institutional investors and indeed the investment community at large, to find them…to engage with and build relationships with the organizations we invest in, and to demand attention be given to ESG factors. Such active, long-term minded engagement allows investors to steward sustainable value creation over the long-term – to the benefit of our beneficiaries, the organizations and society in general.

Yet despite the many advantages of long-term investing that I've described today – long-term value creation for investors… funds for essential infrastructure renewal and for job-creating capital projects… opportunities for pension funds and governments to invest in the future and meet their obligations to present and future retirees – despite all these advantages, neither investors, corporate managers nor shareholders will take a long-term view without the right conditions in place.

A key barrier is regulatory uncertainty, particularly with respect to the environment. And this uncertainty lies at the feet of government. The sooner governments everywhere bring certainty to environmental regulation, the better for all companies, the better for all investors, the better for all citizens.

There is no escape for governments, policymakers and for institutional investors like CPPIB when it comes to the environment. Infrastructure and real estate are CPPIB's two most important long-term investment targets. For us to ignore environmental factors when making long-term valuations would be the same as playing Russian Roulette with the pensions of 18 million Canadians.

Governments around the world have to tackle these issues sooner rather than later, but they need help. When the world's leading insurance companies call for action on climate change due to their increasing liability risks arising from environmental factors, and when major pension funds like CPPIB more actively demand that the companies they invest in or partner with pay close attention to ESG, the barriers start to come down.

This is the kind of cooperation between business and government that we need to see more often. The future is a shared responsibility.

I said at the outset that Canada often looks to Australia as a global best practice country when it comes to enlightened policymaking. There is no finer example of this than *Australia in the Asian Century,* the roadmap to prosperity published last year that outlines 25 national objectives for 2025. In a world in which many governments don't think about policy making beyond the next election cycle, this long-term perspective is commendable. Countries who take such a long-term view to developing their strategy as a nation, will be those who prosper for decades to come.

Highly notable among the many objectives cited in Australia's roadmap, is the following which I will quote directly:

> "Australia's agriculture and food production system will be globally competitive, with productive and sustainable agriculture and food businesses. Australian food producers and processors will be recognized globally as innovative and reliable producers of more and higher quality food and agricultural products, services and technology to Asia."

It is hard to overstate the global significance of this goal to become, in effect, Asia's 'food bowl'. But it also represents huge opportunities for long-term investors like us. This national strategy will commensurately require large-scale investments in, for example, water and port infrastructure, not to mention in advanced agriculture, research and development.

If time permitted, I could go on.

I could talk about last year's "Infrastructure Financing and Funding Reform Report" that calls for better investment planning and a more efficient market to get projects off the ground.

I could discuss the recommendation that the Australian government prepare 20-year infrastructure strategies, or the estimated $76 billion that will be needed in long-term capital to address the full list of priorities identified by Infrastructure Australia.

But I think you take my point. While there are always arguments that you could do more, Australia is looking forward with a long-term lens. As a nation, you are moving beyond what is quick and generally expedient. You are moving beyond short-termism to build long-term value. And for that you are to be commended. However, don't rest on your laurels… it is all too easy for politicians and policy makers to move back into the pixel myopia, especially as elections loom and fickle public opinion rules the day.

In short, I encourage Australia to remain long-term focused, which will guarantee that you will remain an ideal investment partner for CPPIB. Our mandate is to scour the globe for solid investment opportunities that offer the best long-term, risk-adjusted returns to our Canadian planholders. My job as CEO is to guide that effort and to advance this discussion around the need for a return to business fundamentals and long-term value creation – 'capitalism for the long term', as it has been aptly named.

I am happy to say that, in Australia at least, this concept has found fertile ground to plant this seed.

Thank you very much. I would be delighted to take your questions.