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Chair

The Honourable Wayne Easter

Standing Committee on Finance

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● (1105)

[*English*]

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

Today we're studying the Canada Pension Plan Investment Board. We're fortunate to have with us Mr. Machin, the president and chief executive officer; Mr. Leduc, the senior managing director and global head of public affairs and communications; and Mr. Cass, the senior managing director and chief investment strategist.

Before we go to Mr. Machin, Mr. Albas has a notice of motion he wants to present. We'll get that out of the way.

Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC): I appreciate that, Mr. Chair. I'll be very brief. This is the notice of motion:

[*Translation*]

"That the Standing Committee on Finance undertake a comprehensive study on the first report by the Advisory Council on Economic Growth and that the committee report its findings to the House."

[*English*]

The Chair: Notice has been given. The notices of motion have been translated, so you can pass them around.

Mr. Machin, the floor is yours.

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

[*Translation*]

Thank you for having me here today to speak with you and answer questions regarding the Canada Pension Plan Investment Board and how we are helping ensure that the CPP remains sustainable for future generations.

[*English*]

With me are Michel Leduc, our senior managing director of public affairs and communications, and Ed Cass, our chief investment strategist.

I'm Mark Machin. I joined the CPPIB four and a half years ago as their first president for Asia and then became head of international work in 2013. Prior to that, I worked for Goldman Sachs for 20 years in Europe and Asia. While I'm a new resident of Canada, so far I've had the pleasure of travelling across the country meeting with finance ministers, the stewards of the CPP, and some of our contributors.

I was enormously honoured to be chosen by CPPIB's board of directors to lead such an important professional investment organization with a compelling public purpose. International organizations such as the OECD, the World Bank, the Harvard Business School, and *The Economist* have all praised the "Canadian model" of pension management due to its strong governance and internal investment management capabilities.

Our governance structure is a careful balance of independence and accountability, enabling professional management of the CPP fund while ensuring that we're accountable to the federal and provincial governments, and ultimately to the Canadian public. We know that contributions are compulsory, so we're motivated to work even harder to earn that trust.

We hold ourselves to an extensive disclosure policy, including quarterly reporting, annual reports, triennial reviews, and special examinations, and we announce all major investments and corporate developments.

It was just over 20 years ago that the Chief Actuary of Canada projected that the CPP would run out of money by 2015 if changes were not made to the management of the CPP. In 1997 the federal and provincial governments addressed this challenge head-on by increasing the contribution rate and creating CPPIB to manage the contributions not required to pay benefits. There was a clear imperative: to expose the fund to capital markets in order to achieve growth objectives.

Since then, CPPIB has been focused on getting the best investment returns possible. Our ten-year rate of return is 7.3%, and our five-year rate of return is 12%. More than half of the assets of the CPP fund today are now the result of investment returns, not contributions. The chief actuary noted in his report last month that over the last three years investment income was 248% higher than anticipated due to the strong investment performance of CPPIB.

Most importantly, the chief actuary reported that the CPP fund would be sustainable for the next 75 years, with an assumed 3.9% net real rate of return after inflation and all expenses. CPPIB's five-year net real rate of return as at September 30, 2016, is 10.5%.

At CPPIB we know we can't take these results for granted. It's a difficult investment climate around the world, and single years can produce very different results. In 2009, we had our worst year ever, losing over 18%, but in 2015, we had our best year ever, with a gain of over 18%. We know we can't focus on the yearly results. Our ability to see past these short-term pressures and pursue the best long-term strategy depends on strong, independent governance and the clarity of our mandate.

With the CPP's risk exposure, including wage growth, demographics, longevity, and economic risks, being highly weighted towards Canada, it's especially important that CPPIB's investments hedge against these risks.

To address these risks, CPPIB is diversifying the fund around the world and across asset classes. Currently, over 80% of the CPP fund's assets are in international jurisdictions and in a variety of asset classes, from private equity, infrastructure, and real estate to public markets.

While we're confident that this is the right strategy, we also know that competing with the largest investment firms around the world to secure the best assets comes with costs.

CPPIB, at approximately $300 billion in assets under management today, is a mid-sized organization competing with global giants. BlackRock, the largest asset manager in the world, has over $5 trillion in assets under management. Closer to home, Sun Life has almost $900 billion. Among global competition, we fall well down the list in size.

To fulfill our long-term investment goals, CPPIB took the decision 10 years ago to pursue an active management strategy that would both maximize returns and create a more resilient, diversified portfolio.

Pursuing an active global strategy was a decision taken very seriously, with considerable analysis. Success depends on sufficient resources to compete and manage risk effectively, and this is important context when looking at our costs. In order to compete, we need expertise and skill as a knowledge-based enterprise. There's no doubt that the winners will be those investment firms with the most talented investment teams and a global footprint to cultivate critical relationships with partners, governments, and others to secure deal flow and manage the risks over time in order to maximize returns and manage risks for our contributors and beneficiaries.

Before concluding, I'd like to address Bill C-26. CPPIB is currently analyzing the legislation to ensure that we are completely ready to implement the amendments that affect us.

With or without reform, the CPP fund is projected to grow significantly in the future, and we're well prepared to manage a larger fund. When we evaluate investment programs, new processes, and supporting technology, we always want to ensure that they can be scaled to take into account increased size. We are very confident that we'll be ready to manage the additional funds.

Bill C-26 requires separate and joint financial statements for both the base CPP and additional CPP. While we're working through the details, we will be able to meet this new requirement.

We believe that it's possible to manage the consolidated fund while having regard to the funding and the requirements of the base CPP and the additional CPP. We recognize the additional reliance upon investment income for the additional CPP due to its fully funded nature and therefore a need for a more conservative asset mix for the additional CPP. We will be working closely with the chief actuary, Finance Canada, and provincial governments to ensure that we are meeting the intent of the legislation.

To conclude, in order to successfully achieve our mandate for Canadians, our competitiveness is predicated on capabilities to buy assets that will create enduring value-building growth. It is a deep privilege to serve, and we believe we are on track. Public confidence is critical, and we must continue to work hard to earn that trust every day. We submit that Canadians have reason to be confident as the hard work continues.

● (1110)

[*Translation*]

My colleagues and I will be pleased to answer your questions.

Thank you, Mr. Chair.

[*English*]

The Chair: Thank you very much, Mr. Machin.

Starting first, with a seven-minute round, we have Mr. MacKinnon.

[*Translation*]

Mr. Steven MacKinnon (Gatineau, Lib.): Thank you, Mr. Chair.

Mr. Machin, congratulations on your appointment and welcome to the Standing Committee on Finance.

You mentioned that the Canada Pension Plan Investment Board has $300 billion in assets under management. Is that correct?

[*English*]

Mr. Mark Machin: Thank you very much for the question, and thank you for your congratulations.

Yes, we have now, in our latest quarter, which we'll formally announce next week, assets under management of $300.5 billion.

[*Translation*]

Mr. Steven MacKinnon: We can all agree that the board plays one of the most essential roles in Canada. It manages the nest eggs, investments and pension funds of Canadians. This should be mentioned.

The last time one of your predecessors appeared before the committee was in 2002. Do you agree that it has been too long since a board representative has met with us?

[*English*]

Mr. Mark Machin: I'm delighted to have received and accepted the invitation to appear here. I look forward to future invitations to appear again.

Mr. Steven MacKinnon: You'd be happy to receive those future invitations, and you would agree that we should see you more often.

Mr. Mark Machin: If the committee would like to see me more often, I'd be delighted to come here more often.

Some hon. members: Oh, oh!

Mr. Steven MacKinnon: Very good. I know that a number of my colleagues will have questions.

You outlined in your presentation some important information as to how you judge risk and manage risk, and how you manage assets. The fund has gone from a 70% equity equivalent, I think, in terms of assets under management, to 85%. How do you reassure Canadians that this is not incurring undue risk on their behalf?

● (1115)

Mr. Mark Machin: Thank you for the question. I'll give some comments, and I think Mr. Cass may want to as well.

We believe that our mandate is very clear. We need to maximize returns for our pensioners and contributors while also not taking undue risks. When we look at maximizing returns without undue risk of loss, we believe that it is prudent to gradually increase our risk up towards the 85% equity equivalent risk, and we're doing so over an extended period of time. We're doing that over three years.

One of the reasons why we took that decision recently was that since active management—we made that decision back in 2006—we've had quite a successful run despite extraordinary volatility in markets over that period of time and despite weathering the global financial crisis. We've had returns over that period of 7.3% and we substantially outperformed what would have been the passive alternative that we measure ourselves against, what we call the reference portfolio. We've created over $17.1 billion of additional value.

When we look at that, we are fairly confident in our ability to manage our active strategies and confident that they are creating value. So we see an opportunity to take a little more risk given the very long-term nature of our outlook. We think that is prudent within the context of the structure of the fund.

The Chair: Mr. Cass, go ahead.

Mr. Edwin Cass (Senior Managing Director and Chief Investment Strategist, Canada Pension Plan Investment Board): By way of additional comment, it's important to recognize that the base CPP is a modified pay-as-you-go plan, and that's in contradistinction to the additional CPP, which will be a fully funded plan.

As for a pay-as-you-go plan, we're a relatively young investment organization with contributions still exceeding benefits payable, so arguably the risk tolerance of it is higher than a standard pension fund, and that's why we're taking the decision to up the risk equivalent nature of our investments over the next few years.

The additional CPP is a fully funded plan, and as Mark pointed out in his opening remarks, that implies a heavier reliance upon investment income, both now and in the future, and this will mean that the additional CPP will have to be invested with a lower risk tolerance than the existing fund.

Mr. Steven MacKinnon: Thank you very much.

I know that even a $300-billion fund, which is a hard number for Canadians to understand, is not a particularly large fund in a global context, but as we grow with CPP 2 we will move up the league table, so to speak, in terms of size. What I'd like to ask you about is perhaps a more philosophical question in terms of accountability and transparency to Canadians.

In terms of your cost structures and your governance structure, what do you envisage philosophically in terms of how the CPP reports to Canadians? What level of accounting will it provide to Canadians? How understandable will that accounting be? How will CPPIB be governed? Could you provide your reflections on those topics so that we can consider them, both in the context of evaluating Bill C-26, and also in performing our role of oversight and reassuring Canadians that their pension funds will be there when they need them?

Mr. Mark Machin: Thank you very much for the question.

On governance, we're governed by a professional board of 12 directors who are appointed and selected based on their financial, business, and other related expertise. They take their governance role extremely seriously and challenge management in that regard.

The governance framework that has been set up for CPPIB, with its accountability to the federal and provincial governments and ultimately to the beneficiaries and contributors, to Canadians, is being held up as a gold standard around the world when we look at our peers around the world and the studies that have been done, whether by the World Bank or *The Economist* or others. It's a robust governance system, and one that is incredibly important.

We also have disclosure that we think is over and above what any of our peers do. We report quarterly and have done so since inception. We have quite extensive quarterly reporting. We have an extensive annual report, a 130-page annual report, with very detailed disclosure. Then we have a triennial review by the chief actuary, plus the other triennial review that happens. We have the special exam that happens on a regular basis.

There is a series of governance and controls and checks and balances externally, and then internally as well. Disclosure-wise, it's not just the annual report and the quarterlies: every single major investment we make, we disclose, and we have thousands of pages of disclosure on our website. We believe that it's important to be transparent and have good disclosure that everybody can access. Also, every two years, we go out and we have physical meetings in every province where we have a steward. We do a public meeting that is accessible to all Canadians. That's what we do on a biennial basis.

Disclosure and governance are very important. We think they've stood the test of time so far, and we'll continue to look for ways to enhance them.

Mr. Steven MacKinnon: My last—

● (1120)

The Chair: Please be very brief, Mr. MacKinnnon.

[*Translation*]

Mr. Steven MacKinnon: I'll keep it short. I have a final question to ask you and it concerns the Official Languages Act.

You're the CEO of a major Canadian institution. Can you reassure anglophone and francophone Canadians that the investment fund will comply with the Official Languages Act?

[*English*]

Mr. Mark Machin: I can. We are subject to the act, and we will continue to honour that commitment.

Mr. Leduc.

[*Translation*]

Mr. Michel Leduc (Senior Managing Director and Global Head of Public Affairs and Communications, Canada Pension Plan Investment Board): Thank you for the question, Mr. MacKinnon.

Rest assured that we'll keep distributing our communication products in English and French. Even our international offices are bilingual. Our posters and documents are also bilingual, even when modern communication technology such as Twitter is used. We'll keep applying the Official Languages Act.

Mr. Steven MacKinnon: Thank you.

[*English*]

The Chair: Thank you.

We were considerably over time on that round.

Mr. Deltell.

Mr. Gérard Deltell (Louis-Saint-Laurent, CPC): Thank you, Mr. Chair.

Gentlemen, welcome to your Parliament, and welcome to your House of Commons committee. It's a great honour for us to welcome you here. You have perhaps not been here for many years, but it's never too late to be good. It's maybe also an indication that you have to be away from the political agenda to do some things, and you have done so well.

Mr. Machin, you arrive in a brand new role as the head of a crown corporation, which is very inspiring for all Canadians.

[*Translation*]

The board's results in the past 10 years speak for themselves. After making an adjustment for inflation, we can see there was a net growth of 5.6% in 10 years. Also, in the past five years, there has been a return of over 10%. That's what we call a very respectable result. It's an excellent result that benefits all Canadians. The magic number of $300 billion may make our head spin, but it can also serve as an inspiration to continue making progress, as you have done so nicely for many years.

You know that Quebec has an equivalent institution, the Caisse de dépôt et placement. About a year and a half or two years ago, the Caisse de dépôt et placement decided to invest in a municipal infrastructure program, the Montreal public transit system. This surprised many people, but also piqued people's curiosity.

I want to hear your thoughts on this type of investment. I'm not asking for your opinion on the Caisse de dépôt et placement's decision. However, as a manager, do you think the board could make this type of investment? Does it currently have the power to do so?

● (1125)

[*English*]

The Chair: Mr. Machin.

Mr. Mark Machin: Thank you for the question and for the comments on our performance. We're very grateful for those.

Infrastructure is one of the strategies that we invest in. It's a strategy in which we've invested approximately $16 billion over the years, and we have about $22 billion of current value invested in Canada and around the world in infrastructure. We've invested in a variety of different types of infrastructure from toll roads to pipelines to ports and will look to continue to find opportunities.

One of our challenges is that in order to maintain a reasonable cost structure internally our team can't be too big. We need to keep a relatively small team. That team therefore generally restricts itself to look for quite large investments. That's the way we can keep our costs reasonable. We generally look for investments of over $500 million when we're looking for new investments. We welcome more opportunities to look for those types of investments.

Mr. Gérard Deltell: Am I correct in saying that you have invested, you can invest, and you will invest in the future? You don't have another thing to do for that: you have all the power to decide by yourself if it's good to invest in infrastructure in Canada. Am I correct?

Mr. Mark Machin: That's correct. There's nothing additional that we need in order to look at Canadian infrastructure investment. Our largest investment is in Canada, where we own a stake in the 407 motorway around Toronto. That's a significant infrastructure investment that we have made, so yes.

[*Translation*]

Mr. Gérard Deltell: Okay.

I'll summarize in French what you said. You told us that you have already invested in infrastructure in Canada and around the world. You mentioned that you have invested, you are currently investing and you could invest in the future. You have all the tools on hand to invest in infrastructure if you think it would be profitable for Canadians. I simply wanted to say it in French. I see Mr. Leduc nodding his head, so I assume my interpretation is correct.

However, Mr. Machin, if someone from the political world were to call you to say that it would be a very good idea for the board to invest in Canadian infrastructure, would that constitute political interference?

[*English*]

Mr. Mark Machin: I think that one of the secrets of the success of the Canadian model of pension funds and of our governance has been that separation of the management and the decision-making around investment and government. I think the fact that we are accountable to government, but are kept at arm's length when we're making our professional judgments on investments, is really important, and it is something that we hope would continue. To the extent that it crosses that line and a call is made that exerts undue pressure, that would not be a good thing.

I would say that if there are additional opportunities here or elsewhere in the world where we can assess things and look at them professionally, based on whether they maximize returns without undue risk of loss for our beneficiaries and contributors, we'd welcome looking at those opportunities.

Mr. Gérard Deltell: If we look at the results you have had in the last 10 years, and especially in the last five years, with a more than 10% return on investment, I think the policy you have is good, so any attempts by the political side to grab some of your power would be wrong.

Thank you.

The Chair: You have time for one more question.

Mr. Gérard Deltell: One more? Okay.

You have a lot of international experience. What is the reputation of Canada around the world with regard to your new portfolio, with what you have now with your institution?

Mr. Mark Machin: I think the reputation of the Canadian pension funds, particularly CPPIB, is quite good around the world. I think people see us as high-performing organizations that have an ability to make good professional judgements on investments, and as sound and reliable partners for other organizations, and we have high integrity. That combination is respected and welcomed around the world, and as we become more known around the world, it has opened up more opportunities. I think that will continue over time. They are qualities that people like.

● (1130)

The Chair: Thanks to both of you.

Mr. Duvall.

Mr. Scott Duvall (Hamilton Mountain, NDP): Thank you, Mr. Chair.

Thank you, gentlemen, for being here today. It's much appreciated. I have a couple of questions, and one isn't on investments.

The CPPIB owns one and a half million shares of a Canadian company called Nevsun Resources Limited. Nevsun Resources is the major owner of the Bisha mine in Eritrea. In 2016, a United Nations Commission of Inquiry on Human Rights found the country's military dictatorship responsible for crimes against humanity and that Nevsun Resources was engaged to supply labour at the mine under conditions that have been described as slave labour.

Can you describe the measures and procedures that are in place to ensure that CPPIB avoids investments in companies linked to human rights violations?

Mr. Mark Machin: Thank you for that question. It's a very important question.

I would say on environmental, social, and governance responsibilities that we take them very seriously. We publish an annual report on sustainable investing, which covers all of our policies and how we think about them. This year, we added human rights as an additional focus area of concern.

I can't comment on the specific investment itself. We can revert on the specifics there, but I suspect it's within the passive portfolio, so its probably part of an index. I'll come back and confirm on that.

But what I can say on human rights in particular is that we're involved in a number of initiatives. One that is related would be that we're part of a coalition trying to improve the supply chain of cobalt mining in the Democratic Republic of the Congo. We're working in collaboration to improve the supply chains for electric vehicle companies, the battery companies, and the associated electronics companies that get their cobalt from the Democratic Republic of the Congo. We're concerned about similar practices there and are exerting due pressure to improve those practices and improve supply chains.

That's something that is not exactly answering your question, but it's a similar initiative, and it is an important area for us to focus on.

Mr. Scott Duvall: If a company were found guilty of these crimes, would we withdraw our shares?

Mr. Mark Machin: We've had a policy of engaging and trying to improve practices, whether that's through our voting as a shareholder or engagement with other partners to make sure these practices change. That's more of a philosophy of engagement and trying to exert change rather than divesting and letting someone else, who may be less able, deal with the problem. That's been our philosophy.

Mr. Scott Duvall: Thank you. In—

The Chair: Mr. Duvall, Mr. Leduc wanted to add something.

Mr. Michel Leduc: Yes, if I may, I'd just put a final point on that. I think it's an excellent question, and it does give us an opportunity to make a clear distinction between passive investing and active investing. We'll get back to you on the facts on this particular holding. We have exposures to over 2,000 public companies around the world, so we'll look at this one.

In the active management dimension, it's been commented—we've taken note—that maybe the CPP could be broadly invested in an exchange traded fund, which would be purely passive. If you look at the active management, you see that what it does is give an organization, an institutional investor that is willing to be patient, productive, and highly engaged, a look at those specific practices to understand how management behaves.

We take a very strong view that management that takes on social and governance responsibilities and engages with their local community is a really good proxy for excellent management. Most importantly for us, because of our exceptionally long holding periods—particularly on active and the decisions we make, we will hold that active for a very long time—we can have influence in working with management and the board. That's because we have a strong conviction that those organizations that pay particular attention to those facts will build much more value than a comparable organization that does not.

● (1135)

Mr. Scott Duvall: Thank you. I appreciate that.

In terms of the report, what factors explain the increase in the CPPIB operating expenses since 2007, and to what extent are these rising operating expenses a cause for concern?

Mr. Mark Machin: We take our expenses extremely seriously, because every dollar we spend on expenses is a dollar less for our pensioners. It's important that we minimize them as much as we possibly can.

There are really three elements when we look at costs. The first is the expenses that we pay to external fund managers. That's the bulk of the costs. It's probably about a half of the costs. There, when those fund managers are doing well, they generally end up with higher performance fees. It's a good sign, to some extent, that those fees are going up. At the same time, we negotiate extremely hard with those external fund managers to make sure we minimize the fees as much as we possibly can. We have teams that keep a very close eye on all of those fees and make sure they are kept to a minimum.

We also try to make sure that we maximize the opportunities where we can: invest alongside those funds in a low- or zero-fee basis and therefore average down the fees across those funds. Those funds are generally private equity funds, and there are some public market fund strategies. We only invest in those funds where we believe that it's going to be too challenging or too costly to develop equivalent internal expertise. The more that we can do internally, the better.

For example, earlier, I mentioned our infrastructure investing portfolio. We've invested about $16 billion in infrastructure over the years. If we were to do that externally, through external funds, that would probably cost somewhere between $650 million to $700 million. It costs less than a tenth of that to do that internally, so to the extent that we can develop teams that have capability, then we will do that internally. For external management, we only look for where, net of all of those costs, they could still outperform what we think we could achieve internally. As I say, the two main areas are select public market strategies and private equity.

Then there are also the transaction costs that are driven by the number of private deals we negotiate. Again, the teams spend a lot of time trying to minimize those transaction costs.

Finally, there are the operating costs of operating the offices and employing the people. That runs at about 32 basis points, so far, of cost.

That's where we are today.

The Chair: Thanks to both of you.

Mr. Machin, on the information that you indicated you would provide, you can forward that to the clerk and she will distribute it to the members.

Mr. Sorbara.

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

I welcome you this morning, Mr. Machin. Welcome to the Standing Committee on Finance and also welcome to Canada. It's been a few months. Welcome aboard. Congratulations on your new role.

Last night I took a read of the actuarial report, the 28th report, which came out after the CPP agreement was signed. In that report, I'm looking at the investable assets, the additional CPP assets, that are going to grow to $1.5 billion by 2019, to $70 billion by 2025, and to $196 billion by 2030.

I'll quote from page 15 of the report: “It is expected that a separate investment policy will be developed by the CPPIB with respect to the additional CPP assets.” When do you think we'll have that policy laid out if we don't have it yet? I want to clarify that.

● (1140)

Mr. Mark Machin: First of all, thank you for your comments and your welcome to Canada. I very much appreciate those comments.

Secondly, on the additional CPP and the investment portfolio there, as I said in my opening remarks—and in a minute I'll let Mr. Cass add in on this as well—we recognize that for the base CPP and additional CPP the risk profile will need to be different. There will need to be a more conservative asset mix for the additional CPP. That's due to its fully funded nature. We recognize that and we're working through the details, but I'll let Mr. Cass add to that.

Mr. Edwin Cass: The first funds are anticipated to be received in 2019, and I would anticipate that we'd have an investment policy for the additional funds at that time.

Mr. Francesco Sorbara: Thank you. The report is based on a certain assumption of a mix of the assets between equities, fixed income, or real assets, as they're called.

With regard to operating expenses—and I'm going to put that not just under operating expenses but the whole umbrella—my personal view of CPPIB, even in working in the private sector side in dealing with the process, is that CPPIB is probably one of the best run—if not the best run—fund manager or asset manager in the world. It is a model, I believe, for dealing with retirement issues and beneficiaries, especially in light of the demographics that the western world is facing. When I say that, I say that here in Canada. for the first time ever, this year we have have more retirees than people under 15.

On the expense side, I'd like you to comment on this. The CPPIB has done a great job on operating expenses and maintaining that. On external management fees, can you provide some colour on the trend there and what is going on with external management fees? I see that in 2016 there was $1.3 billion in external management fees paid. Could you give some perspective on that, please?

Mr. Mark Machin: Yes. First of all, I want to say thank you for your kind comments on CPPIB's performance so far. We very much appreciate that.

With respect to external management fees, and considering my earlier comments, the external management fees are driven by two major areas. One is our investment in private equity funds, where we have relationships with about 77 external fund managers. Similarly, then, the second area is on the public market funds side, where we have about 57 external portfolio management relationships.

In these two areas, if we believe that it's challenging for us to build sufficient internal expertise, with all the costs involved internally, and we compare that with the external returns and all those costs, if we think we can make more money for our pensioners, more money for the contributors and beneficiaries externally, then we'll make that decision.

On that $1.3 billion, we report all of our results net of all that cost. It's net of all of that cost, so for the pensioners, our 7.3% ten-year return is after all of that cost.

Mr. Francesco Sorbara: Of course, and I have one quick follow-up.

The Chair: You have two minutes.

Mr. Francesco Sorbara: Thank you.

On page 24 of the 28th actuarial report, there was one thing that I was very happy to see. Obviously we need to look at things in constant dollars, just because something in 2050 may be 20 times bigger than it is today. You have to give perspective. I was happy to see the virtual standstill in operating expenses. With the additional CPP contributions from 2019, you'll have $99 million in expenses relating, and then it trends down and stabilizes on a percentage basis. I am very happy with that.

I'd like to ask just a general question. The Bank of Canada governors come out with “lower for longer”, in that companies need to expect lower returns when they're looking at their WACC calculation, or the cost of capital. That also has the implication for pension funds, in that in the future pension funds may expect or may have to anticipate lower returns. Could you give your perspective on what the Bank of Canada governor and the deputy governor have spoken about in the last few months in relation to returns for CPPIB going forward?

● (1145)

Mr. Mark Machin: Thank you.

Let me just comment on those operating expenses on page 24 of the 28th actuarial report. They relate to the administrative cost of the CPP itself, but yes, they do level off, and there is an efficiency in that. That's different from the CPPIB costs.

On the lower-for-longer point, this is a challenge. It is a challenging investment environment globally given global central banks' activity, whether it's in Japan, Europe, the U.S., Canada, or other countries. Interest rates have been driven to low levels and are likely to stay low for a while. We have to find ways of making sure that we continue to have reasonable returns, and therefore, diversification across both geography and asset type is important, as is strategy.

We have a broadly diversified portfolio. We have 25 different investment strategies that we implement. We have investments through some private investments in 42 different countries, so we try to diversify to avoid having all our eggs in one basket or having to depend too much particularly on the low interest rates.

Mr. Edwin Cass: I would point out that it is recognized, certainly by the Office of the Chief Actuary, that returns will be lower than what he expected even in the last actuarial report—and they are at 26. It's something we're cognizant of. It's a primary reason why we still aggressively insist upon diversifying the fund and trying to raise the risk-adjusted returns over time to try to combat some of the effects of the changing demographics globally.

Mr. Francesco Sorbara: Thank you.

The Chair: Thanks to all of you.

We're going to five-minute rounds.

Mr. Albas.

Mr. Dan Albas: Thank you, Mr. Chair.

I want to pick up where Mr. Cass left off. Obviously, there's a lot of pressure on the board to produce returns. When you say that it's more important now than ever to look at diversification, let's be clear what that is. That means moving money outside of Canada, correct?

Mr. Mark Machin: Diversification means a number of things. It means having broad geographical exposure. Or it can be mean broad sector exposure and broad strategy. It means a number of things. Today, we have just under 20% invested in Canada. When we look at the global public market index, Canada represents just under 3% of the global market index. It's very substantially overweighted in Canada today.

Mr. Dan Albas: The importance of this is that diversification means that we're basically able to invest those funds outside Canada's economy, so if Canada's having a recession we don't see the same pressures on those monies if they're invested outside of Canada. Is that correct?

Mr. Mark Machin: Yes, that's important. As I said in my opening remarks, given that we're very heavily exposed in terms of wage growth, demographics, and longevity in Canada, it's important to diversify.

Mr. Dan Albas: Further to Mr. Sorbara's comment, though, on the Governor of the Bank of Canada, who has again lowered the bank's expectations for economic growth, the second argument for seeing more of the funds invested abroad on behalf of Canadians is that there's more growth potential. Is that correct?

Mr. Mark Machin: Again, having a broad diversification is important. Ultimately when we look at an investment, we look at the returns versus the risks. Growth is one factor we look at, but it's not always the case that high growth creates value, so—

Mr. Dan Albas: If we were to reverse course, let's say, and parliamentarians decided that we wanted to see more investment here in Canada, you would say that this may not be in the pension fund's best interests.

Mr. Mark Machin: I think it's always in our interest to see a bigger array of potential investment opportunities that we can assess on behalf of our pensioners. If we can find investments that have good returns versus the risk involved, if we can maximize returns without undue risk of—

● (1150)

Mr. Dan Albas: That's a nice way of saying it would be a high-risk strategy, though, if we put those kinds of constraints on the board's ability to diversify and grow.

Mr. Mark Machin: Oh yes. If there were an actual constraint imposed on where we could invest, a constraint imposed on diversification, then that would be a challenge.

Mr. Dan Albas: Let's say it wasn't a legal constraint. Let's say that there was political pressure or even just a general sentiment by Canadians that there should be investments in Canada. Would you think that the governance structure you touted earlier would push back against such moves?

Mr. Mark Machin: I'll let Mr. Leduc add a bit on this, but, yes, as I said before, the governance framework that has been set up for CPPIB has worked extremely well, where we're at arm's length from government but accountable to it.

Mr. Dan Albas: I'd like to change subjects, if you don't mind, sir. I'd like to talk—

The Chair: I'll not take your time away, but Mr. Machin said in his remarks that "the best long-term strategy depends on strong, independent governance and the clarity of [the] mandate". In quoting that, I think that's where you're at in this discussion.

Go ahead.

Mr. Dan Albas: Thank you, Mr. Chair.

Sir, you've talked about the importance of transparency in keeping the public trust. I believe you've done that. Your organization has done that in many ways, but again, as with everything else, better is always possible.

Mr. Andrew Coyne, who is a nationally syndicated columnist with the *National Post*, or with Postmedia, and who is also on the CBC quite frequently, has had two articles, I believe, that have asked some very pointed questions about the active management strategy and its current and rising costs, and whether or not this strategy is best for pensioners.

That's an open-ended question. I have not seen any response publicly to Mr. Coyne, but again, I'd like to hear, first of all, why there hasn't been a public response, and second, what it is, because I'd like you to give it now if possible.

Mr. Mark Machin: I will let Mr. Leduc address the public response, because I believe we have made public responses to a variety of his articles.

We believe that active management, net of all of the costs over time, will benefit our pensioners and contributors and create additional value. When you look at it over the last 10 years, you see that we've created over $17 billion of additional value for our pensioners, over and above what the passive alternative would have been. We think active management has created a lot of value over the last 10 years, and we have a high conviction that it will continue to do so.

Mr. Dan Albas: That's been with the pay-as-you-go and you also mentioned that with Bill C-26 we would actually see the fund become self-sustaining and therefore have less tolerance for risk. The question I would have, then, is, do you foresee that this active management strategy, which has doubled in its cost, roughly, over the past seven years, by going from a half a point of assets to now $2 billion of assets...? Will the same approach increase similar costs or will we see marginal returns because there will be less capacity for risk?

Mr. Mark Machin: If I understand the question, I think that as the assets will grow under management we believe that we should be able to see more economies of scale as each of the strategies build out. We should be able to manage costs effectively over time as we continue to grow the assets. Again, we think the active management strategy will work well for both the base and the additional CPP. It's something that will add value over and above any passive alternative.

The Chair: You have two minutes, Mr. Albas.

Mr. Dan Albas: Okay. I would like to hear Mr. Leduc address many of the criticisms in those two articles.

Mr. Michel Leduc: Thank you for the question.

I will tell you that interest in CPPIB has grown significantly with the fund itself and our activities. Canadians are paying more and more attention to what we're doing. You see that broadly with reporters, columnists, and bloggers. What I will say is that when we receive information that might be more negative, we welcome that. We're a public trust. We have to be able to tell our story. We need to continue to work even harder to tell our story. I'll tell you quite frankly that we have a good story, and when we take time to speak with people who understand our story, the reaction is quite positive. Whether engaging with—

● (1155)

Mr. Dan Albas: External management fees have gone up from $25 million to $782 million.

The Chair: Dan, you're well over. Mr. Leduc gets the floor.

Mr. Michel Leduc: I would like to answer the question on the costs and fees as well.

I think it's very important to look at the trajectory of our costs in the context of what I would say is unprecedented growth for an organization in a very short time, which I believe is unprecedented in the Canadian financial sector. Absolutely, we started as a very small office, and of course the costs reflected a tiny office, but in a very short time this organization has transformed into a truly global powerhouse that is able to buy prized assets for Canadians, and that takes teams.

Of course, in referring to some of our operating expenses, we had at the time one or two investment programs and now have 25. The key question is, what are Canadians getting for that? Are they getting value for those additional costs? We produce all of our performance net of all costs. We also put a lot of disclosure in a very granular level of detail as to what those cost. To be as blunt as I can be, the fund would shrink by $17 billion if it wasn't for active management.

The Chair: We're going to have to leave that discussion there.

Ms. O'Connell.

Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.): Thank you very much.

Thanks to all of you for being here.

In terms of the declines, I'm assuming that you have a copy of the chart that the Library of Parliament provided in terms of your rates of return. I'm sure you know them. For example, you mentioned that 2015 was one of your best years at 18.7%, and 2016 is looking at, you said, 3.9%, but here we have 3.7%. I'm assuming it's just that not all the final facts and figures are in for the year.

Is it the case that the significant decline is related to the oil and gas sector in investments, in commodity prices, or is it something else?

Mr. Mark Machin: To clarify, our return year to date so far, which we will formally announce week, net of all costs, is 6.3%. That's not annualized. That's the return year to date.

Ms. Jennifer O'Connell: Okay.

Mr. Mark Machin: This year, it's so far so good.

The next year after that was a lower return year than the previous year. Our reporting is from April 1 through to March 31, so when you compare us, you need to look at our performance relative to other funds over those periods. Part of that performance would be a sell-off in commodities in other public markets over that period, which weighed on the results over that period in the last year. It would be one of the factors that's in there for last year.

Ms. Jennifer O'Connell: Thank you.

The point of that question is similar to what some of my colleagues have already talked about in terms of your ability to adjust and change as markets are changing. I realize that one of the reasons for this is that, according to “World Energy Investment” for 2016, oil and gas is still the number one investment despite a drop in returns. They're projecting a further 24% drop for 2016.

I'm just wondering if you have the ability or the if the focus is.... When you see numbers like that and you're dealing with pensioners' money, are you able to adjust quickly enough? Also, what is your focus on things like renewables? My understanding is that this is where you're getting returns at all, and it's a shorter return window versus oil and gas. Those tend to be longer windows of opportunity and payback. What is your ability to really adjust? How quickly can you deal with the markets?

I guess my very long three-point question is really this: what is your focus when it comes to renewables and climate change, especially taking into account our government's recent policy positions?

● (1200)

Mr. Mark Machin: Thanks for the question.

To addressing climate change in particular, earlier I mentioned our ESG focus, our environmental, social, and governance responsibilities. Climate change has been one of those focuses for the last 10 years and is something that we take seriously. We think it's a risk factor that we need to understand across our portfolio and need to factor into all of our direct investments, which we do, and then understand how it might impact our portfolio overall and respond to that.

I mentioned that we publish an annual report on sustainable investing. Our head of sustainable investment is a member of the Financial Stability Board's task force on climate-related financial disclosure. This is the committee that is chaired by Michael Bloomberg, and it's one that we think is important for improving the disclosure on climate change across companies around the world, so that we can understand those risks better and factor them into what we're doing.

Specifically on renewables, we have a strategy on investing in renewable energy. We have a team that's focused on that. Again, it's in our report on sustainable investing, with a profile that team and their focus. We have a senior professional who we have hired from GE, who has lengthy experience in that area and is pursuing investments in that area. We agree, and we see great potential to invest in that area.

Ms. Jennifer O'Connell: Speaking about—

The Chair: Just a short one, Jen.

Ms. Jennifer O'Connell: We were handed the annual report called “People. Purpose. Performance.”, and I quickly flipped through it and I'm curious. This is more of an operational question.

I looked at your senior management team and some of the photos of your investment teams. Does that really reflect the diversity of Canada? Out of 12 on your senior management team, you have three women. What is the focus? You are at arm's length from the government, but you're still part of the government and representing Canada. Even in looking at your board, I notice your chair is a woman and you do have fairly good representation of women and men on the board, but it's not necessarily a very diverse-looking board. What is that overall plan? It's more of an operational question than on the pension board itself.

Mr. Mark Machin: It's an important question. When we look at diversity across our organization, it has been a big focus of the organization. It's in all of our departments' annual objectives for this year to continue our focus on improving male-female diversity in particular. We have an objective that, by 2020, 40% of our new hires will be women. We've made improvements over the last couple of years, and we are on the way to achieving that objective. We particularly focus on the senior levels of the organization as well. We continue to have work to do, but it is a focus of our organization.

The Chair: Mr. Liepert, go ahead.

Mr. Ron Liepert (Calgary Signal Hill, CPC): Thank you, gentlemen, for being here.

I'd like to pursue a bit of what Ms. O'Connell was asking, but in a slightly different way. We hear a lot today that the jobs of the future are going to be in renewables—green infrastructure, green energy. Your organization invests, to a large extent, on the basis of long-range returns, not short-gain returns. If, in fact, what some of these organizations—like the two political parties in the room besides us—are advocating.... It would seem to me that if this is where all the jobs are going to be, and where all the investment is going to go, you should be jumping in with both feet. I suspect that's not the case.

I got the impression from your comments when you talked about climate change that it was more the ethical kind of investing, recognizing that political correctness is how you look at climate change for investments, not necessarily because it will be a good long-term financial return investment. I'd like you to comment a little about that, and if in fact I am not correct, give me some examples of what you are investing in today that you anticipate will have terrific above-average returns over the next 10 years in that green category.

● (1205)

Mr. Mark Machin: Thank you for the question.

To be clear, we have a very clear, singular mandate, which is to maximize the returns without undue risk of loss for our contributors and beneficiaries. That's the lens through which we look at everything. When we look at climate change, it's the same. We look at it through what it will do to returns and risks across our investments and across our portfolio.

When we look at climate change, we have to anticipate what regulatory developments could impact it; how demand for various sources of energy from consumers, corporates, and governments will evolve over time; how the shift in sources of energy supply will unfold over time; what the physical impact of climate change can be, and its impacts on our investments; what technological developments will happen that are related to climate change; and what the impacts will be on sectors other than energy, such as transportation, agriculture, retail manufacturing, or other areas that may be impacted by climate change. That's the lens through which we look at climate change.

Specifically, on your question about renewables and how we are looking at those investments, this is a relatively new effort. We hired the head of this team in April of this year, so the team is getting going and looking at how opportunities will emerge. I would say that within some of our infrastructure investments there have been expansions into the renewables area. Some of our North American infrastructure investments in power generation have moved more towards renewables, so that's something that's happening within our existing investments.

With regard to specific new investments in renewable energy, we are looking forward to finding those opportunities and making those investments in the coming months.

Mr. Ron Liepert: I think if you look through that singular lens that you mentioned at the outset.... Everything I heard you say was that the climate change factor is a risk factor. It isn't a solid investment decision that's going to return average or higher-than-average returns over the longer term.

I'd like to focus strictly on whether or not green is a good investment, not factoring in the regulatory side of it. In other words, I understand that you are not going to invest in coal, because governments are making coal go away, but are there green investments that, setting aside all the regulatory requirements, stand alone? Are you seeing anything you can invest in?

Mr. Mark Machin: I'd say with respect to climate change that it's both a risk factor and also an opportunity for high returns as well. It's both risk and return. We evaluate everything through that lens. I'd say that when we look at solar projects, wind projects, or other renewable energy projects around the world, we will evaluate those based on the risk-and-return potential of those projects.

Mr. Ron Liepert: Do you have any investments today in solar, or do you plan in the near future to be investing in solar?

Mr. Mark Machin: To the best of my knowledge, we don't have a specific investment today in solar. I believe that some of our existing infrastructure investments, some companies, have solar within their portfolios, and we see that growing dramatically around the world. In the U.S., I think that 65% of new capacity additions are solar and wind combined. It is something that's growing rapidly, and we're looking for those specific opportunities.

● (1210)

The Chair: Thanks to both of you.

Mr. Grewal.

Mr. Raj Grewal (Brampton East, Lib.): Thank you, Mr. Chair.

Thank you, gentlemen, for coming today. I really appreciate it. You guys also came and gave the committee a detailed presentation last year, which was very thoughtful of you and very much appreciated. Like some of my colleagues, I want to congratulate you on your performance. If I was half as decent at investing my own money, maybe I could retire a little earlier.

In talking about the geographical distribution—

Sorry?

The Chair: On this side over here they're liking the fact you might retire.

Some hon. members: Oh, oh!

Mr. Raj Grewal: That doesn't mean that it's going to go to the other side.

Some 19.5% of the investments are in Europe. Can you comment on what's recently gone on in Europe with Brexit and the general financial instability and how that's going to affect our investments there? By “our”, I mean the board's investments. Also, could you comment on the outlook in the United States?

Mr. Mark Machin: Thank you very much again for the kind comments about our organization's performance. We appreciate that.

With respect to Europe, it has been a significant destination for our investments, the U.K. in particular. We have about 7.5% of our assets invested in the U.K.

Michel may not want me to drift off into the realm of policy, but speaking as a Brit, I'm disappointed in Brexit. I'm disappointed with that decision.

Speaking as president and CEO of CPPIB, I will say that we're concerned about the impact it will have on valuations and growth prospects in the U.K. We're monitoring that carefully. We hope that it will not have any impact on the openness to investment that the U.K. has displayed.

Europe overall continues to have relatively low growth, very low interest rates, and a number of other financial sector risks that we monitor very carefully and navigate around carefully.

Mr. Raj Grewal: Thank you.

Again, we're also very heavily invested in the United States. They've done relatively well in the last five years, but I think the future there, given the political climate, might be a little bit uncertain. Do you have any comments on how that affects our investment strategy on this side of the border?

Mr. Mark Machin: Yes. The U.S. is by far the largest destination for our capital, with approximately 40% of our investments. That's driven by the fact that it is still by far the largest economy in the world, and the largest capital market in the world by far. Even with some political uncertainty, it's still a place where we've been able to find investments that maximize returns without undue risk of loss, and across many different asset classes, because of the depth of the capital markets and the range of investment opportunities available. It's one place that we would expect will continue to provide many opportunities for different types of investments.

Mr. Raj Grewal: Thank you.

The Chair: Mr. Cass, do you want in?

Mr. Edwin Cass: I was just going to point out that our culture is very much focused on risk. When we're evaluating any investment, we have to incorporate all the risks that we perceive for that investment. Certainly, the risks have risen in Europe and, arguably, have risen in the U.S., depending on the outcome of the election on November 8.

Those are things that we have to take into account when we're evaluating the investment, and we have to make sure we're getting compensated for them. Sometimes when risks are rising in a particular jurisdiction, it's actually something that allows us to demand more compensation and a higher expected return. That's something we have to take into account at the time of valuation.

Mr. Raj Grewal: That's excellent. Thank you so much.

I'm a big fan of the active investment strategy you employ, but at the general macro level, are you able to recruit the best and brightest to come and work for you?

Mr. Mark Machin: That's a very good question.

We work very hard to recruit the best and the brightest. In Canada and in other markets, we're respected for the high-performance culture that we have.

Also, there is an element for a lot of us in the fact that we are doing this for a very worthwhile cause. We're doing this to look after the retirement savings of 19 million people in Canada. That's also something that is appealing to a number of us.

We have to fight hard to hire the best and the brightest and to motivate and retain those people against all the temptations of the other opportunities that these high-performing people see across the financial industry.

● (1215)

The Chair: Thank you, Raj and Mr. Machin.

Before I turn to Mr. Duvall, I have two questions.

You talked a fair bit about teams and their importance. Could you elaborate a bit more on that? I believe you emphasized 25 areas where you would have specialized teams in terms of investing. Why do you have it that way?

Second, you emphasized in your written submission the importance of “scale” in terms of your approach. Could you perhaps elaborate on that a little more as well? What do you mean by scale?

Mr. Mark Machin: I'll start, and Mr. Cass can add to it.

On the 25 teams, we feel that it's important, again, to diversify, not just geographically, but across the types of investments and strategies that we have. We have specialists who look at different types of public market strategy. We have specialists who look at credit strategies, whether it's private credit or real estate credit. We have specialists who look at private equity, specialists who look at fund investments, and specialists who look at infrastructure, real estate, and other types of private investing around the world.

When you look at all the different strategies, it adds up. There are approximately 25 different strategies. We believe that those strategies can add value when we look at the risk-and-return profiles of those strategies over time.

On scale, when we're competing for larger investments there are fewer people competing for them, so we can find better value. Not always, but in certain strategies, we believe that you're in more rarefied territory where there's less competition. Therefore, we can demand better compensation for the risks we're taking on and better pricing. Scale helps us in quite a few strategies.

The Chair: Okay.

Do you want to add anything, Mr. Cass?

Mr. Edwin Cass: No, I think he got it.

The Chair: He got it all? That's great.

Mr. Duvall, and then Mr. Ouellette.

Mr. Scott Duvall: Thank you, Mr. Chair.

Would the changes to the CPP that are being proposed in Bill C-26 result in adjustments to the CPPIB investment strategies? What would be the nature and extent of any such adjustments?

Mr. Mark Machin: Thanks for the question.

On the changes in Bill C-26, we recognize that there will need to be separate and joint financial statements, and we're working through those details. We think it will be possible to manage the consolidated fund while taking into account the funding requirements and the difference between the base and the additional CPP. As I said previously, we think there is an additional reliance on investment income in the additional CPP because of its fully funded nature. We think there will be a need for a more conservative asset mix for the additional CPP. That is something the details of which we'll be working through carefully in the coming months.

Mr. Scott Duvall: Last, are any changes needed to the CPPIB Act? If so, what changes are needed, and why?

Mr. Mark Machin: Michel will answer.

Mr. Michel Leduc: That's a terrific question.

As for what we'll say, we'll look back to the time when the act was created, bringing together 10 governments. There is a fantastic book that I recommend to everyone. It's called *Fixing the Future* and it describes the debates and the policy analysis taking place as to how you design this organization with a commercial purpose but with a public purpose at the same time.

We engage with interested parties all over the world, including important outlets like the *Financial Times* and other newspapers, and when they ask what the secret recipe is for Canada, we point to the elements in the act, such as the strong governance framework, the clarity of the mandate, and the requirement to have high disclosure, because our transparency is what ensures public trust. The more transparent we are, the more we can gain public trust.

What we would say is that it's within the hands of our stewards to decide whether there are any changes to the act. However, when people ask us what has made us successful, we point to the act. We point to this document that was created with a lot of careful balancing of different interests. It's worked really well for the organization.

If I were in the room and giving advice, I would say, “Do no harm.”

● (1220)

The Chair: Thanks to both of you. That's pretty good advice.

Mr. Ouellette, you have the last question, and then we have a motion in the last five minutes.

Go ahead.

Mr. Robert-Falcon Ouellette (Winnipeg Centre, Lib.): Do I get just one question?

The Chair: Go ahead. You have five minutes.

Mr. Robert-Falcon Ouellette: Okay.

Thank you very much for coming here today. I very much appreciate it.

I was thinking about the infrastructure bank. I wonder if you could describe some of the advantages and the disadvantages from your perspective of having an infrastructure bank, not only for yourselves, perhaps, but for Canadians. I was also thinking about competition from other large investment funds that will also be coming in and perhaps competing with you in Canada, which you know really well.

Mr. Mark Machin: Thank you for the question.

We've noted the advice of the council on the recommendation on the infrastructure bank, and we'll watch carefully how that unfolds and what comes from that.

As an infrastructure investor principally on the equity side, I'd say that anything that increases that pipeline of scale opportunities, whether in Canada or elsewhere.... As I said previously, we tend to look at opportunities of over $500 million in size, and that's been one of the biggest challenges in Canada and around the world. There have just not been enough of those scale opportunities, either in size or that are prepared for our type of investment, which generally doesn't invest in greenfield opportunities but more in operating infrastructure over time, where we find that the risk-and-return characteristics are ones that we can understand and that we can be compensated for adequately. We hope there will be more of those opportunities here and elsewhere that we can evaluate and that will be good investments for our pensioners.

Mr. Robert-Falcon Ouellette: Could you describe any disadvantages?

Mr. Mark Machin: On the disadvantages of having an infrastructure bank, I think things that improve the pipeline of opportunity are good. More opportunity for investment are good. We welcome competition, and we deal with competition around the world against other people. I think the devil will be in the details of how everything is implemented, if it's so decided to implement.

Mr. Robert-Falcon Ouellette: I think some of the disadvantages when you do infrastructure projects is that governments can change course. They can change policies. You could be left holding a bag of goods that might not be to your advantage or, I guess, to the pensioners' advantage in the long term.

Mr. Mark Machin: We'd agree with that statement. That is one of the major risks when we're making infrastructure investments. Infrastructure investments by nature are very long-term investments, and therefore the stability of regulatory regimes around those investments is very important. That includes regulatory regimes, tax regimes, and other factors that may influence the returns on those investments.

In order for governments to get the lowest cost of capital to invest, it will help governments if they can provide that long-term stability of a regulatory framework. That's important, and it's something that we focus on anywhere in the world where we're looking at making infrastructure investments.

● (1225)

Mr. Robert-Falcon Ouellette: I also heard that you have something like a postal bank. You're part of a group in China where you're earning dividends for CPPIB through a postal bank in China. Could you describe the success of that operation and how it's working for you in China and whether you see more opportunity elsewhere doing something like that?

Mr. Mark Machin: Yes. With regard to the Postal Savings Bank of China, we made an investment in it about a year ago. It was a private investment at the time. That bank has gone public since then. It's one of the larger banks in China. It has some 400 million customers and 40,000 branches. It's an extremely big bank.

We think it's one that is very exposed to the rise of consumption, particularly the rise of people being pulled out of lower incomes into the middle incomes in the more agricultural and rural areas of China. We think that trend will continue for quite a long time. We're hopeful that we'll benefit from that trend over the years to come.

The Chair: We'll have to end it there. We have to deal with a motion.

There's a motion that is in order, if Mr. MacKinnon wants to move it.

[*Translation*]

Mr. Steven MacKinnon: Thank you, Mr. Chair.

[*English*]

The Chair: We'll be back in a minute, gentlemen.

[*Translation*]

Mr. Steven MacKinnon: I want to thank the board's representatives for meeting with us today. I hope it wasn't too difficult for them.

Mr. Machin, on behalf of my colleagues, thank you for taking the time to meet with us.

In relation to the first question I asked, I move the following motion:

> That the Standing Committee on Finance invite the CEO of the Canada Pension Plan Investment Board to appear before the committee to review the board's results on an annual basis.

[*English*]

The Chair: The motion is in order. Is there any discussion? All those in favour?

(Motion agreed to)

The Chair: Mr. Machin, Mr. Cass, and Mr. Leduc, I think you've heard some comments of appreciation from members on all sides on the performance of the Canada Pension Plan Investment Board, and that's to your credit.

Mr. Machin, on my behalf and that of the committee as well, congratulations on the role of president and CEO. As you heard around the table, there's certainly a lot of responsibility in terms of taking on that position. You recognize that, and we do as well.

With that, thanks to all of you for your presentation and your forthrightness in terms of your remarks.

We will adjourn. Thank you very much.