

CPP Investments does it again

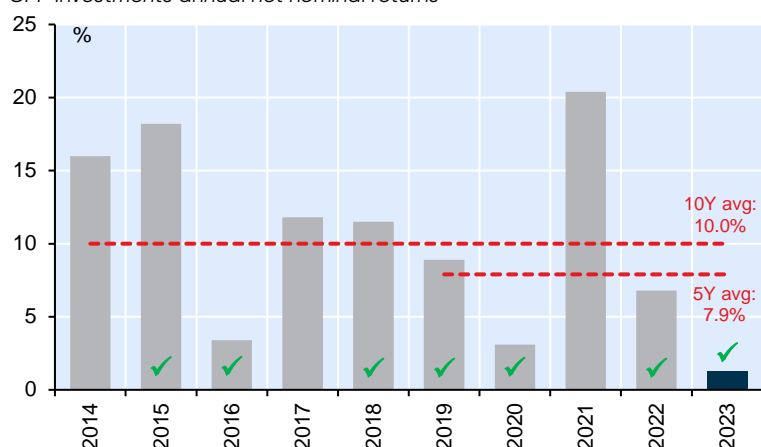
By Warren Lovely

Another year, another positive net return and step up in total AUM at CPP Investments, where the increasingly immense and broadly diversified pool of assets of the Canada Pension Plan are managed. Detailed results for fiscal 2022-23 are readily accessible online ([link](#)), with an independent audit providing a 'clean' opinion on the latest annual report (as it relates to generally accepted accounting standards and financial reporting controls/criteria). Rather than fully rehash the latest fiscal year results, we'll point out select highlights, including:

- 'The Fund', as managed by CPP Investments, posted a 1.3% net nominal return for the 12 months ending March 2023. Net investment income was equivalent to \$8 billion. This net return may sound relatively modest, but it bettered the blended 0.1% return of two key benchmarks;
- Outperformance has become the norm here, as realized net returns have topped reference portfolios in 7 of the past 10 years. Notably, the Fund has avoided financial potholes. So even though reference portfolios have stumbled from time to time (e.g., negative net returns of -1% in 2015-16 and -3.1% in 2019-20), annual net returns for the CPP Fund have been consistently positive throughout the past decade;
- With more than three-quarters of the Fund invested in foreign currency assets, a weakening Canadian dollar made a meaningful financial contribution in fiscal 2022-23. The Fund registered a foreign currency gain of \$25 billion, revaluation effects boosting returns more than 5%;
- It follows from the sizeable currency revaluation effects that the Fund remains well diversified geographically, Canadian assets currently accounting for just 14% of the total portfolio. The U.S. accounts for more than one-third of total assets (36%), followed by Asia Pacific (26%) and Europe (18%). Rounding things out, 6% of assets are invested in Latin America. The Fund is equally diversified across asset classes. A separate *Report on Sustainable Investing* will be updated/released this fall, but consistent with a 'net zero by 2050' pledge, CPP Investments aims to influence/spur energy transition and decarbonization via active investment (rather than 'blanket divestment'). The Fund's portfolio of green/transition assets, valued at \$66 billion as of 2022, looks to be more than doubled by 2030 (\$130 billion target);
- In addition to net investment income, the Canada Pension Plan continues to generate positive cash inflows, equivalent to \$23 billion last fiscal year. The combined result was a \$31 billion net increase in assets under management, propelling total assets to a cool \$570 billion (or 20% of Canadian nominal GDP). The total value of the Fund has surged \$160 billion since the pandemic-impacted 2019-20 fiscal year and has more than doubled since 2015-16. Net asset growth has widely outstripped earlier actuarial projections;
- The growth in the CPP Fund is particularly impressive when compared to other large pension funds. We'd note that CPPIB is hardly the only Canadian pension fund manager making a positive impression on the global stage, our nation's well-heeled pension funds (or PSEs if you prefer) long something of a strategic advantage from our vantage point. Moreover, the contrast between a large, vibrant and growing CPP Fund vs. depleting U.S. social security reserves really couldn't be more striking for two large, advanced countries living side-by-side;
- Debt financing is part of CPP Investments' relatively measured approach to leverage, with total investment liabilities (only a portion of which takes the form of capital market debt outstanding) growing to \$142 billion as at March 2023 (vs. \$131 billion as at March 2022). The bond program—where supply comes via CPPIB Capital Inc., which is explicitly guaranteed by CPP Investments—has more recently included an active CAD program. To us, this issuer has adopted a relatively investor-friendly approach to building out its domestic bond market footprint, with new issues priced at a positive/ attractive basis to lower-rated provincial bellwethers. With \$5.2 billion taken out the CAD market since the calendar year turned over, gross domestic bond supply already surpasses the full-year tally for calendar 2022. The result: more frequent and larger CPPIB benchmarks, the associated step-up in liquidity no doubt a growing plus for some investors;
- As a final point, it seems to us that CPP Investments (along with other high-quality, liquid Canadian PSEs and/or provincial governments) may serve as a potential alternative to Canada Mortgage Bonds going forward. As per the recent federal budget, the Government of Canada will consult on the potential consolidation of the extremely well-established and broadly distributed CMB program into the regular GoC domestic debt program. This is a whole separate, multi-tentacled topic subject that we have explored from a few angles already.

Chart 1: A longer-term focus (with outperformance a common theme)

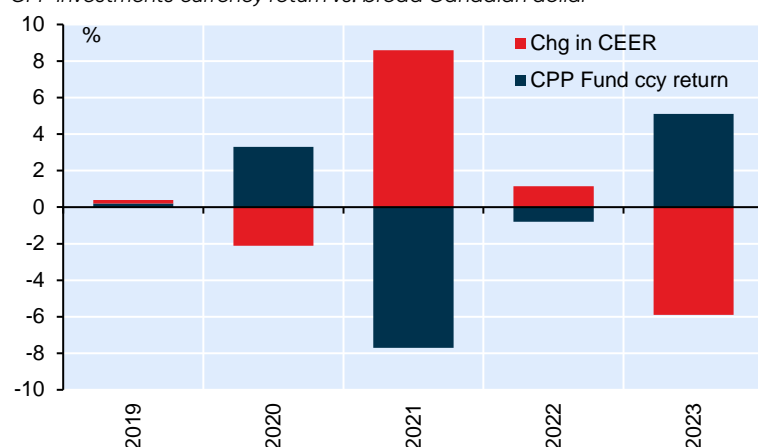
CPP Investments annual net nominal returns



Source: NBF, CPPIB | Note: Fiscal year ending 31-Mar; checkmarks denote fiscal year where realized return surpassed reference portfolios (i.e., 7 of past 10 years)

Chart 2: Currency diversification has non-trivial impact

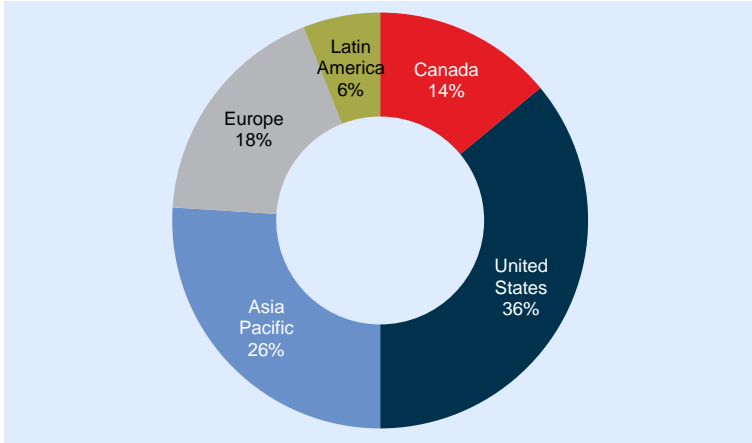
CPP Investments currency return vs. broad Canadian dollar



Source: NBF, CPPIB, BoC | Note: Fiscal year ending 31-Mar; CEER refers to broad Canadian-dollar Effective Exchange Rate

Chart 3a: The Fund broadly diversified geographically...

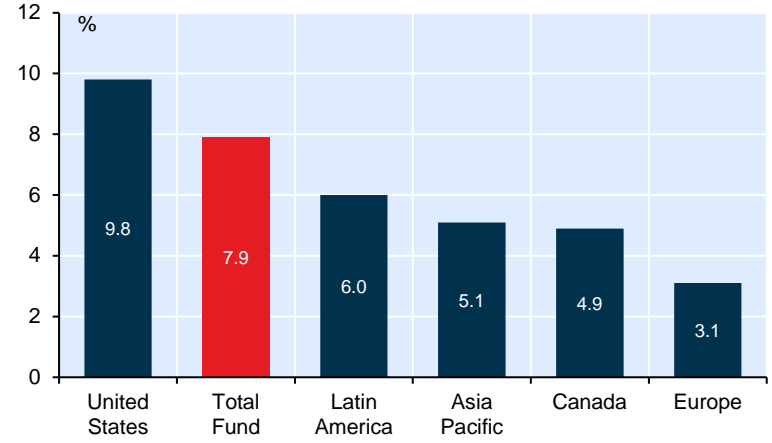
CPP Investments net assets by region: 31-Mar-23



Source: NBF, CPPIB

Chart 3b: ... with U.S. top performing region over half decade

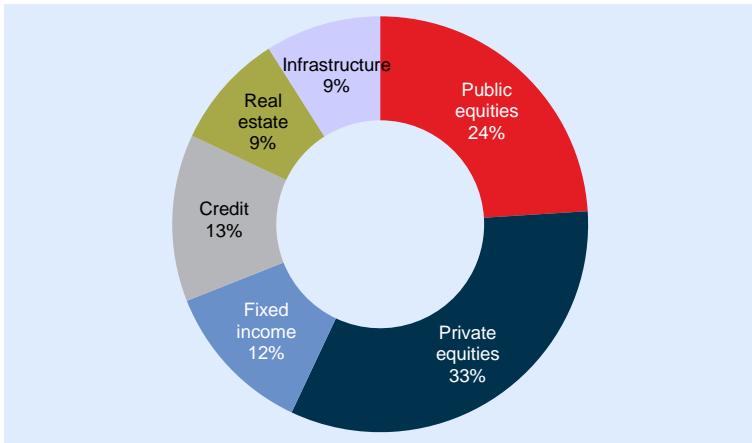
CPP Investments annualized net returns by region: 5 years to 31-Mar-23



Source: NBF, CPPIB

Chart 4a: A broadly diversified collection of assets...

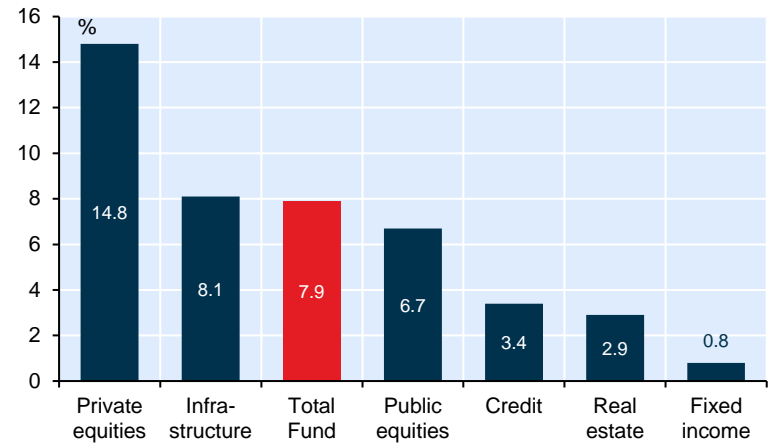
CPP Investments net assets by asset class: 31-Mar-23



Source: NBF, CPPIB

Chart 4b: ... with realized returns having varied (as expected)

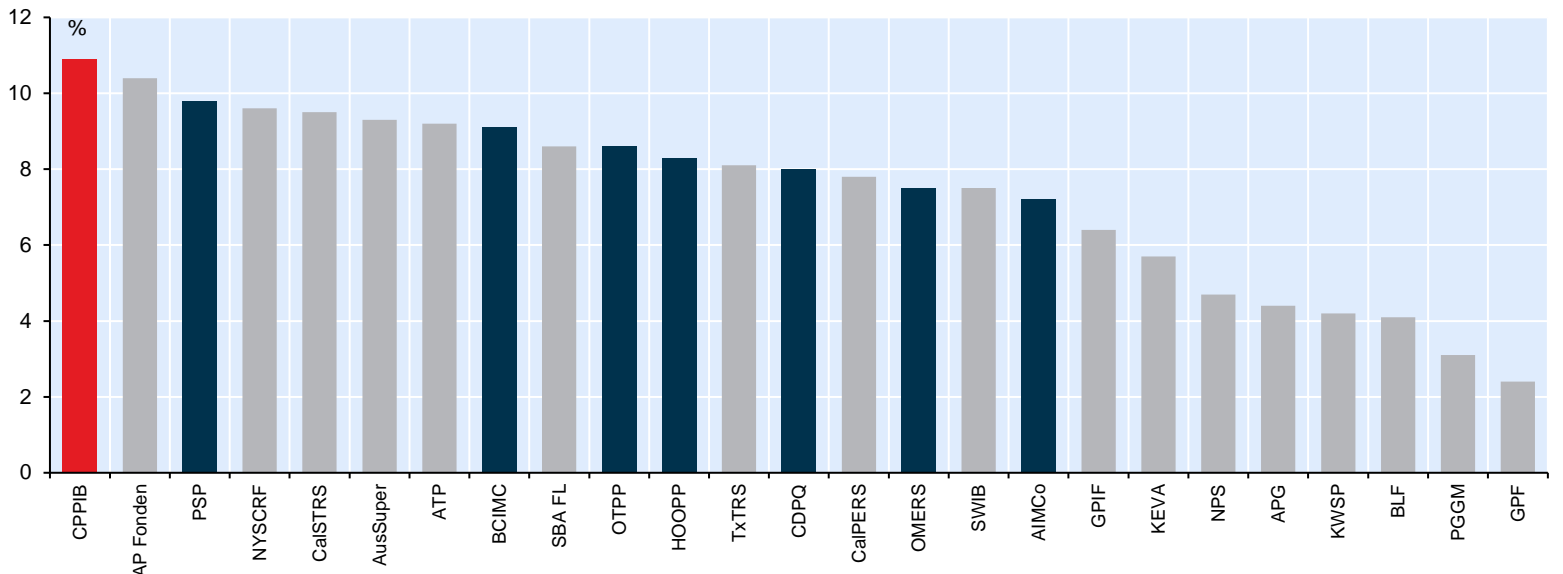
CPP Investments annualized net returns by asset class: 5 years to 31-Mar-23



Source: NBF, CPPIB

Chart 5: CPP Investments stands atop the public pension fund heap (with other Canadian funds quite well represented too)

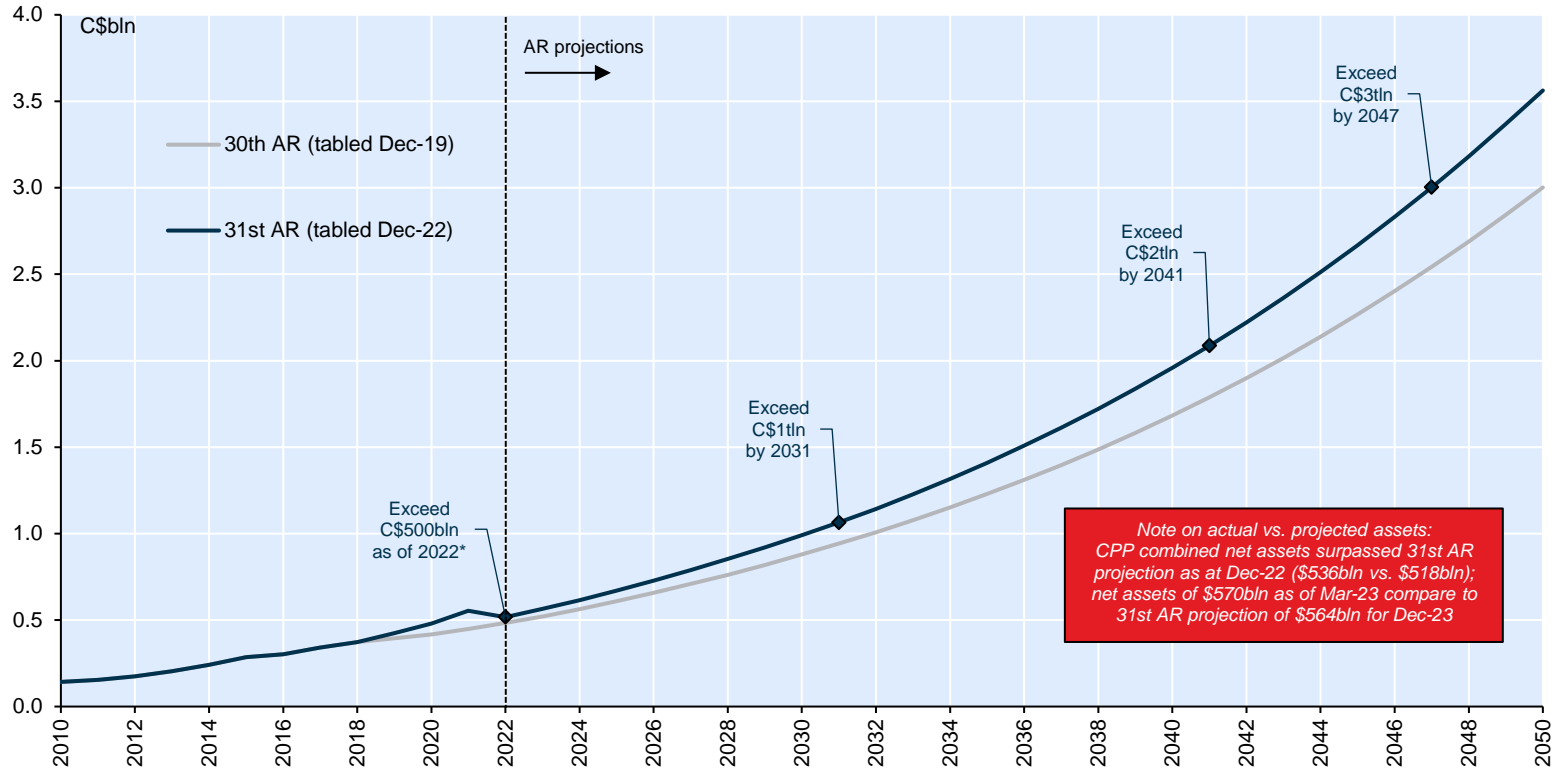
Compound annual growth rates in public pension fund assets: 2013-22



Source: NBF, CPPIB, Global SWF | Note: Canadian-based public pension funds/PSEs highlighted via red/blue shading

Chart 6a: A tale of two social security systems, with Canada's actuarially sound CPP contrasting mightily with...

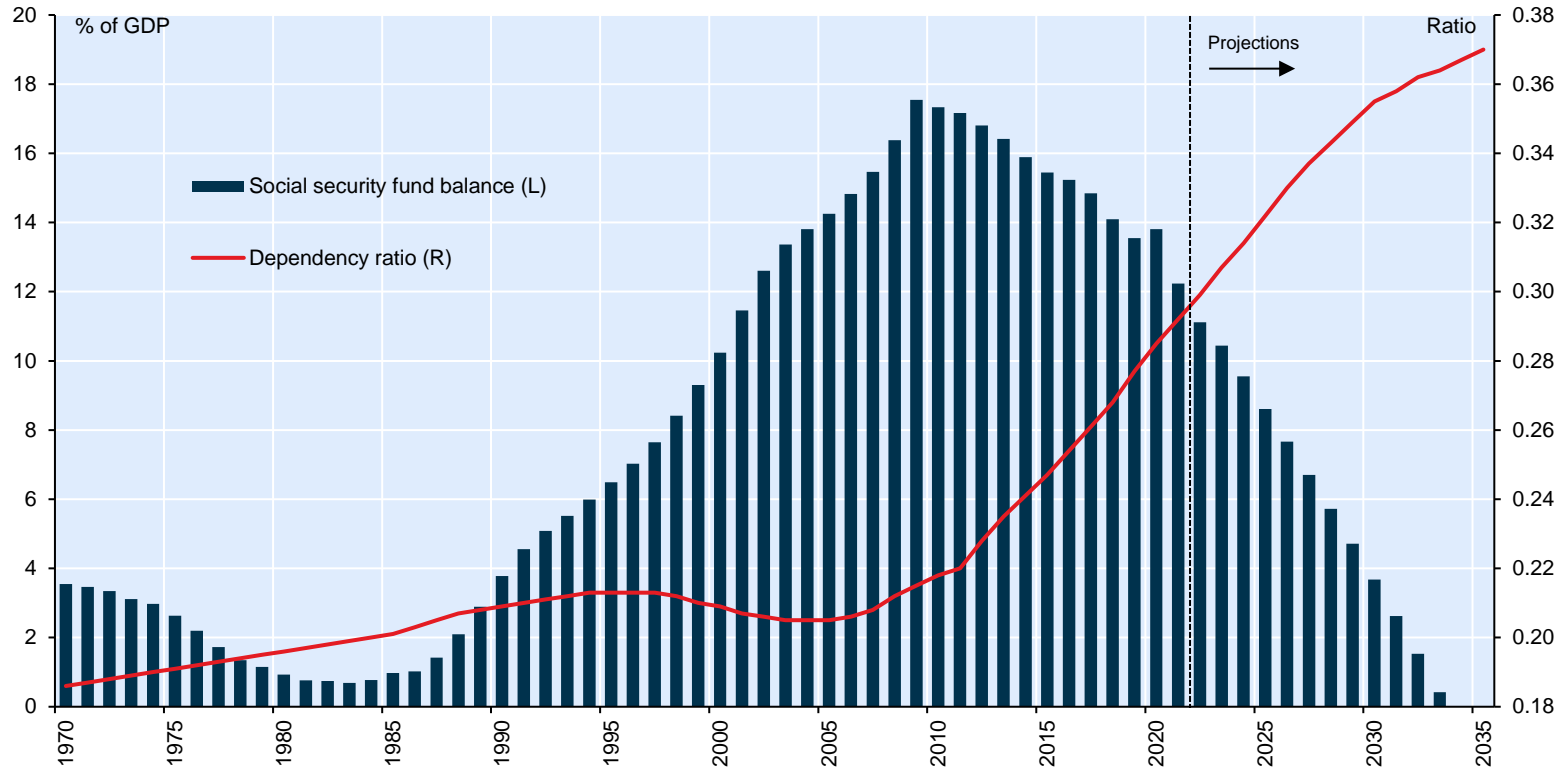
Actual & projected net assets of Canada Pension Plan, with project levels based on Actuarial Report (31st) on the Canada Pension Plan (tabled Dec-22)



Source: NBF, CPPIB, OCA | Note: Refer to text box embedded in chart, with net assets as at 31-Mar-23 having already surpassed the latest actuarial projection for 31-Dec-23

Chart 6b: ...an increasingly vulnerable U.S. social security system, where reserves could be depleted by 2034 (all else equal)

U.S. social security fund balance & old-age dependency ratio, including latest official projections



Source: NBF, Social Security Administration | Note: Dependency ratio is share of population aged 65+ relative to population aged 20-64



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