The View from Canada’s Ontario Teachers’ Pension Plan - With Jo Taylor, OTTP CEO

Simon Brewer

Today, we travel to Canada as we continue our journey around the world to discuss investment approaches with the leading figures at some of the world's top institutional allocators, dubbed “The Super Allocators”, and that list includes one of Canada's most recognisable investors, Ontario Teachers' Pension Plan, known for its investments in international airports, which include London City, Copenhagen, Birmingham and Brussels, to Apple Watches in the US, global commercial property, autonomous vehicles in Asia, and even Elon Musk's SpaceX, along with the usual tools of the trade, global debt and equity. So today, we're linking Toronto with London. But with great judgment so often evident in Canada, Ontario Teachers’ have a British CEO, and it's my pleasure to welcome Jo Taylor, their CEO, to the Money Maze Podcast today. Welcome, Jo.

Jo Taylor

Thank you, Simon. Delighted to join.

Simon Brewer

Well, I smiled when I watched you speak at the Canadian Club of Toronto in September of last year, and you observed that your vanity had triumphed over practicality, and you weren't wearing your glasses and so you might misread the script. Well, I'm running the same risk, I have to say, today. So let's hope you can make sense of me. As I went through your education, I saw that at a very similar time, we were at universities across the road from each other. You were at King's College for your undergraduate and I was at the LSE, and we'll come later on maybe to your MBA, but let's just travel back please. What were the hallmarks of your youth, at least those you can disclose?

Jo Taylor

If I look all the way back there, this feels like a few years now, I was born in Essex just south of the Tiptree jam fields, so I was able to sneak under the back fence and have the raspberry from time to time sort of fill me up. But I grew up in Bolton, which is, for most people in the UK would know, in the North West. It was very much then an engineering town where they replaced the mills that had been working there. I had a pretty straightforward I would say middle-class upbringing, Simon. So I went to Bolton School, famous Old Boys of old school, people like Sir Ian McKellen the actor or Nigel Short, the chess grandmaster. And then as you say, I went down to London to study history. I think you've had one or two people in the past on your podcast interested in history. I studied medieval and modern history but with a twist, where my specialist subject was the Russian revolution, which I did with Martin McCauley at the School of Slavonic and East European Studies. And then really after that, I said, 'Well, what do I want to do?' I wasn't really sure so I thought I'd do an MBA. I did it at Manchester. The MBA was great because it really taught me rather than perhaps a career in marketing I was thinking of, finance was probably a better bet. And from Manchester, I went straight into what was really the forerunner of 3i where I worked for quite a while. 3i is a fantastic business. They call it the 'University of Private Equity', I think broadly is, lots of people who've worked there and a lot of the famous firms that have been built since I joined in '84. And for me, really it was a fabulous education also, partly in investing in business is in volume, but also being able to invest internationally, which I think has always struck me as a key criteria.

Simon Brewer 05:51

That's great because you were there between '84 and '08, a long time and managing partner towards the end. But what would you say were the key one or two business and investing lessons that you acquired?

Jo Taylor

Well, I was very fortunate to cover things like venture capital, growth equity and private equity all in one place, which is relatively unusual these days I'd say. Back to your question, I think people judgment is a really important criteria, and it's underestimated in the world today in terms of the analysis one does. Certainly, on the venture side, the closest correlation between success or failure is really can the team execute the plan you've signed up to back. The other thing is, it's just a lot harder than you think to make a return. So being involved in many investments and having to turn around a few of them, you realise that actually, you really earn your money when things don't go right straight out of the gate. And if you can work with the team or some revamped elements of the team, it's really then down to you about trying to understand what will work better than perhaps what's happening to date.

Simon Brewer

I actually had a little look because I haven't looked at 3i for a long time, and of course, it has been this UK listed company. I think it has a £13 billion market cap. I actually see that over 30 years, it's compounded its EPS at over

11%, which is an extraordinary achievement, and actually, given the explosion in private equity, probably sort of sits in the shadow of much more recent firms.

Jo Taylor

I think 3i has being a bit of an up and down experience. I think today, it's looking in great shape and it's got a really good team and they're focused on making great returns. Congratulations to them. I'm still a shareholder so I could say that from a close basis. I tend to like to own things in businesses I know something about a little bit. The issue with all private equity firms is really trying to figure out what you're really good at and then sticking to it.

Simon Brewer

Let's turn to Teachers. You administer Canada's largest single professional pension plan. I think it's 330,000 active and retired teachers. There's nothing like it in the UK or in many parts of the world. So just to give us a flavour for genesis and how it's evolved.

Jo Taylor

They talk a bit about the Canadian model, but I think we were genuinely the first out of the gate where the provincial government of Ontario decided that they were trying to essentially deal with the liability for one profession, so that was all the teachers in the province. So we look after currently about 330,000 retired and working teachers. It's a good thing to do with one professional group, in my opinion, because you can interact with them more closely and understand their needs, as well as perhaps what you're trying to do yourself. We both invest for them to make a return to make sure that pensions are fully funded, but we also administer the pension plan, which is also a little different within the Canadian plans. To give you an idea, for every dollar that is required for a pension, about 10 cents is put in by the provincial government, 10 cents by the members themselves, and we have to fund the other 80 cents through our returns. And since inception, roughly 1990, we've got just a shade under a 10% return over that period, 9.6%, which I'd say if my pension was growing by 9.6% every year, I'd say it's probably okay. I think the key question, if I could just say one other thing, that both the provincial government and the members got right was really at the outset, they decided to recruit a professional board of non-executives to oversee the governance of the plan. And that board decided that a key requirement was essentially to pay market rate salaries for an investment team that could actually invest on behalf of the members and provincial government. That's allowed us to essentially assemble a team worldwide, we have about 450 investors worldwide, where that allows us to look after about 80% of the assets we administer directly, and that's a big change for many UK pension plans. Back to your question, Simon, where a lot of them tend to essentially work through third parties where you see dilution to fees and carry on the returns that you're able to secure.

Simon Brewer

Got it. If you can, just encapsulate size, number of offices, number of people.

Jo Taylor

We're about $240 billion I think in our last published accounts, Canadian that is. We operate through offices here in Toronto, but we also have offices in London, Singapore, Hong Kong, Mumbai. We have one in San Francisco, one in New York and we have a partnering team that works with us in Chile in Santiago. So that's pretty good coverage of the world in terms of the investments we want to make. We do that predominantly because investing in private assets, we think it's often better to be on the ground rather than trying to operate a flying model. And in terms of the focus we've had in more recent years, we've been building our exposure to private assets, where in last four years, we've grown that by about $50 billion, the material number for a plan of our type, and they perform very well. So to give you a couple of other stats if I could, since 1991, almost inception, our private equity teams secured a rate of return of just a shade under 20%. So that's 19.4%, I think. I know you had Sir Nigel Wilson on your show talking about their 20% return on equity as one of their standout features. We probably see our 20% returns across private equity as our badge of honour. But we've had great returns out of most of our asset groups, things like infrastructure, where we've had a 10% rate of return since we started investing there in around 2000. We've also had strong returns in our other private asset groups as well. One of the key differentiators about Teachers' is our agility on capital allocation, and I think that's really been one of the things that's differentiated us from a lot of other plans in terms of how much we've been able to do that in recent years.

Simon Brewer

So you have actually nicely gone right into my next question, which is strategic versus tactical, a big discussion. How much can you move? CalSTRS have really narrowed the bands of movement. I've read your reports and seen what you've done. So tell me just first of all about how much flexibility you're allowed by your mandate.

Jo Taylor

I think it's one of our great strengths, a good question to ask. We have a huge amount of flexibility, and we use it. If you look at when I took over as CEO in the beginning of 2012, we had about 45% of our balance sheet in bonds or fixed income. By the end of the year, we'd taken it down to 15%. So about $60 billion, we'd moved out of fixed income into other asset groups. I don't think of too many pension plans who one, will be able to do that or who could probably be brave enough, Simon, to make that choice moving away from what's traditionally been a cool product for the business. If you take 2022 where we saw inflation coming along as a potential issue, it's a big risk for a plan like ours because all of our liabilities are fully inflation protected. We decided to move into commodities and inflation-sensitive assets, as well as investing more aggressively in what we call real assets. So that would be things like infrastructure and real estate where we have a little bit of inflation protection. And if you look at those two categories, I think we put up the best part of $24 billion into that area to 2022 to crease that exposure. And that was one of the reasons. We're really one of the few plans out of the pathway this year which was able to produce a positive return when a lot of people were finding that they were seeing negative returns. That was really because we had a high exposure to inflation-sensitive assets and very little in fixed income and listed equities, which was a very deliberate decision. Again, perhaps aping back to some other people you've had on your program, really interesting to see Nicolai Tangen talking about how do you operate for a long time with high conviction in a counter-cultural, counter-cyclical area. I think that's one thing that Teachers' does really well. We do actually take a view, exercise our mandate of flexibility, and actually take an outsized position in certain asset categories and we're judged on how well they do. And to date, I think Teachers' performed hugely well by doing that.

Simon Brewer

So I noted that big asset allocation shift in fixed income in 2020 you just observed, and you could be allowed a pat on your back. You deployed a lot of those assets, as I understand it, into higher risk in terms of certainly private assets with significantly less liquidity. Now we've got a big back-up in yield. The question that struck me is haven't you locked yourself into an asset class with significantly less liquidity so you can't reverse that trade very easily?

Jo Taylor

You're right to say investing in private assets is inherently less liquid. So we were quite conscious of that when we took the decision to invest as I said earlier about $50 billion into private assets we've done. Teachers' has always had a lot of surplus liquidity. We've been very cautious about how we think about liquidity. When we had the pandemic, we were one of the few plans that really had no issues around liquidity to right-size our portfolio, make sure they were fully covered from an equity perspective at the banking issues. And we're still in a very strong position in terms of liquidity we have. We are, however, being thoughtful about how we go forward from here in terms of the mix of the balance sheets. So within the categories that we have, we still have a lot of liquidity in certain categories. For example, what I just said. Commodities, inflation-sensitive, we can move in and out of that category pretty well. But I think we're inevitably saying, how do we make sure we have sufficient liquidity to really move forward? So at that end, I think we're being more of the optimising the portfolio rather than just adding certain asset categories. Our ability to generate realisations and actually think about the length of time we want to be in an asset is very relevant. We look at that because we're a pension plan. We want to think on a 30-year basis, not a 3-year basis, like some other investors. To do that, we need to be able to stay there from start to finish. I would say, Simon, that's important not only for making returns, it's also to deliver our impact strategy which is a key component of what we're trying to do. We're trying to make the investments we make and the businesses we're working with better companies as a result of our involvement. That takes a bit of time. So we also have to make sure liquidity is available to those assets on our overall performance so that we can truly invest to make a mark, which is our strapline, and we can actually help them with their diversity and inclusion, we can help them with their climate footprint in terms of emissions, and we can help them really in terms of their social component in terms of really being a better business in terms of the communities and businesses they serve. So to carry all that through, you need a bit of time and you need to be very focused that it's the right strategy for us.

Simon Brewer

Let's come back to the decision-making process. I remember Barton Biggs, who was Morgan Stanley's global strategist and wrote some great stuff. He used to complain that the larger the investment committee, the more impotent it was. How do you organise yourself and who takes that responsibility ultimately for cutting fixed income from 46% to 15%?

Jo Taylor

At the end of the day, delegation authority flows from the board to me, and then through me to our CIO. So unlike some of the other pension plans you may talk to or sovereign wealth funds, we have one individual, Ziad Hindo, who is actually responsible for actually making those choices. He would talk to me about it, we would share it with the board more for risk limit purposes. But essentially, we've really narrowed it down in terms of everyone knows who's actually responsible for those choices. We have a sophisticated large team which we call total fund management that actually thinks about capital allocations on a five-year, but rolling basis, each year to try and make sure we've got this point I mentioned earlier, which is agility and balance for the economic world that we see ahead of us. Let's be honest, that's probably looking less charitable for 2023 than it did in the past few years. Finally, we have a large and sophisticated risk team that actually looks at what we're doing and actually saying, does it actually make sense both to sit within the risk boundaries the board's delegated, but also that on an individual basis, we're getting the right return for the risk we're taking. If you look at probably the stats I'd be most proud of for Teachers', it's actually the return we made over the last 20 years on the risks we take. So we're often making the same level of return as other larger pension plans or sovereign wealth funds who take a lot more risk than we would day in, day out.

Simon Brewer

Before we talk about public versus private, can we talk a little bit about passive versus active? If we just put the spotlight on global equity markets, global debt markets, how do you approach them in terms of passive versus active?

Jo Taylor

We're an active investor, I would say, is the general label for Teachers'. As I said earlier, 80% of our assets we manage ourselves. We do invest through third-party funds. So that would happen in a smaller amount infrastructure, a larger amount in private equity. And also around capital markets team, we do tactical hedge funds that actually give us exposures that we feel it's more effective to go with those specialists than building our own team. But overall, we take the view that we want to be able to influence the outcome on the investments that we're involved with. So that's partly to make sure the returns shape up in the way we anticipated or we wanted, but also to try and drive some of the things I mentioned a minute ago. We have a plan for 40% gender of women on the boards that we invest in. We can only drive that if we're a material investor in the business, either a control investor or a large minority investor. We have our climate commitment. We've said we're going to reduce our climate emissions across the whole portfolio we have by 45% by '25 and 67% by '30. Now, you can only do that, again, if you're actually involved and influencing not only the capture of data, but actually making sure the business improves its climate emission footprint. We've been doing that pretty well so far. I think we're down 32% so far from our 2019 start metric. So we're trying to say not only how do we deliver return for our members, but how can we build businesses that we'll be proud of? To do that, you really have to be actively involved. When it comes to public equities, you asked that question, let me just deal with it. We're very active on governance. We vote and we give our opinions to businesses. If we don't like what they're doing for too long, we divest. But we try to generally take a view, I would say, of trying to improve and influence businesses from the inside rather than try and sell them and leave the problem to somebody else. One of the big debates we have at the moment would be things like fossil fuels. What's our policy to that within the climate world? We have taken a view, I have taken a view with our CIO, Ziad, that we want to actually help those businesses to be better in terms of their climate emission footprint and we're more able to do that being an investor rather than selling on the problem to somebody else.

Simon Brewer

Yeah. I did note that, which is interesting. We'll come back to Canada in a minute given it's a resource-rich country. But as we just stay with those big ponds, debt and equity, I absolutely understand you're a return-seeking organisation. Am I right in saying because you have allocated the hedge funds and other specialist funds, you are, unlike some, prepared to accept higher fees for particular talent?

Jo Taylor

If you ask any investor who's going to invest in the GP, they're going to say we'd like to have less in terms of fees and carry. I think that's a truism really. What we try to do is generally, Simon, have bespoke programs for us. And if we can get that, then actually we can look at the fees and the carry we pay to the investor and say, does it make sense for us? So particularly on the hedge fund side, we get them to do things which are quite specialist, it probably is more cost-effective to ask them to do it for us. If they deliver, that's fine. We've built that into our calculation of the returns we expect to make. If they don't, we tend to move away and move into a different area. So we're pretty direct with our partners about what we expect of them and what we want them to do that's different to what we could do ourselves. I think you're in a huge advantage when you can do it yourself because you can always the judge third-party about are they doing it as well or better than you could do on your own. The answer to that is, no. You don't feel obliged to keep giving them the capital. So we've actually got the exposure to most product areas we would like. One of the ones we've been building more recently would be credit, for example, where I think we've historically bought some great credit funds in Europe and around the world and I think we're now looking to build that ourselves because for that very reason, I think some of the things we could do on our own and make the gross return and capture it ourselves rather than see the dilution. So we sort of move around a little bit is that agility point, I would say, but actually, we hold our third-party managers to a pretty high standard. And also, we try to hold them to a high standard in terms of, beyond making returns, how they behave. So if they don't fit with our impact program, then I think we would be pretty keen to tell them that or to say that they should no longer be one of our relationships.

Simon Brewer

I noticed early on, you said that in your growing concerns last year about inflation, you allocated more to commodities. Obviously, Canada sits there with some of the largest reserves itself in oil and coal and timber and potash and silver and the list is long. How have you chosen to invest in the world of commodities?

Jo Taylor

Well, today, I would say our primary focus has been around scarcity, so precious metals and metals going into battery technology. I think we've been looking at those pretty actively and trying to capture more exposure in things like nickel and certainly lithium. In terms of if you look at a broader commodity description, we've been in things like timberland and some other agricultural products for quite a while. I think agriculture and land is quite an interesting area. A number of our peers have been buying that up quite actively recently. I think that looks like a smart move if you believe there's going to be food scarcity through '23 and '24, which I think is quite a real risk given the Ukraine situation. I think beyond that, we try and move from time to time in and out of the other main basket of inflation-sensitive commodities, which would be really oil and gas. So we have a very light oil and gas footprint in the main in terms of our direct investing. But if we feel we want to have a more balanced commodity exposure, we have to get access to that from time to time, which we did a little bit more of last year in '22.

Simon Brewer

I see from the report that you put out that I read the three priorities: international expansion, innovation and impact. Maybe you can just give me a couple of sentences on why each of those.

Jo Taylor

International expansion is really balanced. I'm a huge believer, because I've invested all around the world, that actually you don't want to be overexposed to any one market. The US has been a fabulous market for us over the years but we want to make sure that ideally, we get a balance around the world to get counter-cyclical growth as well as access to companies which are just different in terms of the way they've been set up mainly around technology, I'd say. So one of the things we've been trying to do is have a better balance between North America and other parts of the world. So we're ideally looking for closer to a 50/50 balance in new opportunities we can access, hence the international office network. I think if you look at innovation, it's in our blood. We innovate to be better at what we do year in, year out. And I think you also have to try and say, what are you doing which is really backing businesses that are truly disruptive? So we set up, about three years ago, our teacher venture growth team, you might have noticed, which is essentially a venture growth equity team which has performed fabulously really since we set it up. You mentioned SpaceX in your introduction. That'd be one of our investments there. But they've got a broad basket of interesting businesses around the world, whether it's in our California office, London or Asia, and they're making strong returns on it, albeit we know we're taking a higher level of risk. So those are two, I think, positive areas that we've been doing for a little while. Impact, your third point, is a little different. That's newer to our strategy that I started to offer when I took over. Impact for me is all around this point about how do we genuinely show some purpose to our investing activities beyond making returns. And I think the question I always get asked here is, are you willing to compromise your returns to be able to deliver impact, to which the answer is always no. We have to make the right returns for our members. That's my fiduciary duty running the plan. But if we can do impact as well to actually make better businesses, make a positive impact in and around the world and do it in a methodical and a thoughtful way where we can actually explain how we make those choices, we get away from some of the criticism that's been around on ESG greenwashing. We actually are doing it where we know why we picked a particular business because we think it delivers something that is unusually beneficial in the area we've chosen.

Simon Brewer

So Teachers' venture growth, I have read, correct me if I'm wrong, you are on a 3% allocation to venture capital growing to 7% to 10%. Now, there are some sovereign wealth funds out there that just think venture capital is too difficult, their size is too big, returns are too uncertain. So I guess how have you got yourself comfortable? What is it inherently? You're right out at the end of the risk curve with VC.

Jo Taylor

We have risk boundaries that the board delegates to me to use within the plan so that actually sets overall our active and our actual risk limits that everybody's comfortable with. So Teachers' venture growth as a proportion of the portfolio has to fit within those prescribed control areas. I think the second thing is that on a personal basis, I'm more comfortable because I was a venture investor for 20 years, so I know the good and the bad associated with that and I think it allows me to be able to interact with the team. I seem to do the opposite, perhaps, what you're running to there, Simon, which is to encourage them to take risk. We are in the risk business so we have to make sure if we're going to run a venture growth team, that they're actually culturally able to take the right risks to generate the returns we're looking for. And then I think, finally, it's really trying to use the whole benefit of our network to actually allow those businesses that are being considered by the TVG team to actually benefit from connections they can make with the rest of the portfolio. And that's really worked in terms of accessing really great companies, because they look at an investor like Teachers' and say, 'I get two immediate benefits. I've got a portfolio of well over 100 companies I can work with, they're fantastic businesses in their own field. And secondly, I'm working with an investor that's got a longer-term investment time horizon, and in many ways looks like a great alternative proxy to doing an IPO.'

Simon Brewer

When I looked at your geographic priorities, there were 10 countries, no surprise Canada, US, UK were there, nor India. I was intrigued about Mexico. So I went and had a little look and I see that the Mexican authorities state that businesses see a 40 to 50% reduction in labor costs on the average hourly wage, even if it's a little bit odd, it's $3.50 an hour. What are you investing in in Mexico?

Jo Taylor

To date, we've largely invested in real assets in that country. So we've got a number of toll roads, we also have some prime real estate, both office and retail that we've invested in around Mexico City. I think the real question for us as we go forward with that location is really what's the capacity to look at our broader mandate of opportunities from credit through to private equity and even riskier projects in that country. For me personally, what I think is really interesting about Mexico is actually its proximity to the US. So if you take the view of changing sourcing plans for the US, and actually, where you may be able to both manufacture and supply products with cost-effective rates of labor, I think Mexico looks really interesting. I think that is one for us to reflect on as we go forward over the next four or five years. It's not without risk. It is actually a country where there is a little bit of volatility in what's going on, so we have to factor that in as well. It comes back to my earlier point which I said, Simon, which is, are we making the right risk-adjusted return if we invest in Mexico for the different asset groups we look at? And if we can say that is available to us, then we're happy to go ahead. It's also sort of open to inward international investment more than some other countries. So we are finding the geopolitics of being an international investor has got a lot more complicated over the last few years and it does help. Countries like India would be another example where actually the regime is actually quite receptive to investors of our type who provide long-term patient capital to larger businesses.

Simon Brewer

As of course you've done under the infrastructure umbrella with airports, with I think five investments in airports around the world, did that start somewhat opportunistically and has now become quite an important theme?

Jo Taylor

We largely got into airports because we were a minority investor in Sydney Airport and actually did a swap with Macquarie to actually change that out so that we got access to Brussels and Copenhagen instead. That was a great move for us I think when we made it at the time. Our UK airports are slightly different in they're more of a regional nature. I'd say, overall, London City is a little bit different. So we're trying to really have a balance between connecting hub airports in Europe but also some of the regional traffic we can see in the UK. And clearly, airports suffered with the pandemic. I think everybody who had been involved in them would be honest in saying that, but they do bounce back pretty quickly. So if you look at the volumes that are happening at the moment, they really bounced back to where they were pre-pandemic. And for us, they're a really interesting long-term investment. So a lot of the airports we invest in are freehold rather than longer concession so we can hold them as long as we like if we choose to do so.

Simon Brewer

Ontario Teachers' is synonymous with a lot of this international investing. But I noted in some of your materials that you wanted a more distinct brand. Just tell me why you think you need a more distinct brand.

Jo Taylor

The Canadian pension plans work really well together as a co-investing group. So back to your airport analogy, if you look at some of those airports, you'd see a lot of the Canadian plans working together to actually be long-term investors in those businesses. But at the same time, we're often competing for brilliant international opportunities. So if you look at the large wind farm investment we made recently alongside SSE on offshore wind, there were a number of the sovereign wealth Canadian pension plans looking to try and win that investment. So my point here is, why would a great business like SSE or other businesses looking for capital, why would they pick Teachers' rather than somebody else? And I think that's the distinctive personality I'm trying to build for our plan, which is that people know what they get. They know what expertise we have, they know why they should choose us over another investor, and that makes it a lot easier for us to then have a clear and a positive discussion when there's time to be talking about them accessing capital. I suppose the other thing which we've noticed from time to time is we can be talking to a partner in Asia and they'll list of lots of characteristics of Teachers' where you realise they're actually talking about one of the other Canadian plans. And actually, I'd rather make sure that's a rare exception rather than the norm.

Simon Brewer

When we think about culture, you referred to Nicolai Tangen and how he's gone about driving the Norwegian sovereign wealth fund, which is a government entity. You mentioned earlier on that you pay market rates. You're trying to build this culture, you want investment excellence, but we know there's always the bid away, a good hedge fund want to lure away a great portfolio manager or analyst. So how difficult is it to get that cohesion, but also to have, if not stars, have and retain really great talent?

Jo Taylor

If I get it right as the CEO of Teachers', I'll have a team that's really proud to work here and feels like this is the only place really that they would want to be operating. It's a pretty high bar, as you can imagine, to be able to deliver that irrespective of the compensation question and a lot of other features that are very relevant. Where Teachers' scores really highly is that we invest in our people. So we have a really strong learning culture. We actually do train up a lot of people from being an analyst or associate right the way up to the top of our organisation, so that progress is clearly possible. And we also invest in people's mental welfare. We did a lot of that around the pandemic and since to actually make people feel that we're really looking after them and actually trying to promote a culture where it's a collaborative team environment rather than those with the sharpest elbows make the most progress. But at the end of the day, you've got to pay people enough so that they feel that all their efforts and their contribution is fully acknowledged and rewarded. And I guess in that vein, we're looking for people with a long-term career aspiration with a plan like ours rather than somebody who says, 'If I back one really fantastic investment, my proportionate share of the rewards will mean I can retire afterwards.' That probably doesn't work for our organisation. The other thing we do which is a little different from a lot of the hedge funds, private equity funds that exist is we're essentially working with people on a long-term basis where we need to think about rewarding them on valuation movement rather than realised return. And that's where it gets quite complicated in that we have to make sure we get that balance appropriately accurate. It's a mix of things but I'd say more than anything, if you talk to a lot of people in our plan, they'd say, 'I love working here, I don't really want to work anywhere else.' We did lose some people in '22, the market was very hot, and we do get people rifle shoving our talent like other institutions, but I guess it's my job and the job of our senior leaders to actually make them feel that they are understood, they're well looked after, they're paid appropriately. I think the thing you forget about a little bit is they get the ability to learn because they work on a lot of really interesting transactions very early on in their career, and that's relatively unusual. We give people a fair amount of delegated responsibility which they like, and we just have to make sure there are the right control environments around them in terms of what they're doing.

Simon Brewer

I want to come back to just an earlier comment you made and I read it in your materials that I think is very important, and that's that fossil fuel companies are more likely to decarbonise with you as owners than handing it over to somebody else. I'm persuaded by that, but I wonder how much opposition you face A, and B, how you do interact with those big energy companies to be able to make that more of a very nice statement.

Jo Taylor

In the autumn of last year, we came up with a new proposal which was essentially what we call high carbon transmission assets, so HCTS. It's where we say, we're actually going to target, unusually for a plan which is sensitive about its climate reputation and footprint, we're going to target companies that have a very high carbon emission footprint. So that might be coal power stations, it might be chemical businesses, it might be methane-producing businesses as well, potentially. We do that and we're sort of picking businesses that maybe 20 or 30 times more intensive than our average business to actually demonstrate that we can deliver this, we can actually work with those businesses and improve their carbon intensity emission footprint. So we've reserved a small amount, $5 billion, to be able to try this out on three or four businesses and actually show to not only our stakeholders but also our partners that actually were able to deliver this. And I think, really, what you have to do there is look at a business and say how would you make a transition? What does it need to change to be better in terms of its carbon emission footprint? And then how long do you need to do that? Because I think you need to be able to make sure you can do it in a timeframe where people would still want to buy it after you've finished making that effort in improving what it does. The second part of your question was what do our stakeholders feel about that, and some of our members would encourage us to be divesting fully out of fossil fuels. We have the occasional pressure group that also tries to make that impact on what we're up to ourselves. I think my answer to that would be in two parts, Simon. So the first thing is, I think fossil fuels are necessary for the next few years to be able to see worldwide the transition to sustainable opportunities. So natural gas particularly, I don't think we're going to get away from that over the next 5 to 10 years. So we see that as probably the most obvious one where we do have some ongoing exposure. But we're also investing in lots of really interesting lead technologies in new areas. So hydrogen is one of the very popular areas for debate. We've got a number of investments in NextEra Energy and other things, we were doing interesting projects around that, and hydrogen. Also through our businesses in the UK, we're running a project in providing hydrogen to Aberdeen as a project to see whether that could work as we link that to ESG and part of our national grid business. We're also looking at fusion and lots of other ways of actually doing interesting new things. But if you talk about sustainability at the moment, it's largely solar, wind, and a little bit of some of these new technologies. In terms of green assets, we've made a commitment to move our footprint from about 30 billion of assets today to 50 billion in the near future. That will mean we'll have to be pretty active in that area as well as the fossil fuel territory.

Simon Brewer

Good. Thank you. We're going to move towards some closing general questions, but one of the inevitable characteristics of this business, and you and I have been in slightly different shades of it but for a long time, is that when performance is tough, it's a hard business to be in. How do you deal with it? How do you deal with a team when it is easy to get disillusioned?

Jo Taylor

Well, I think we're right in the eye of that storm just at the moment. If you want an opinion, I think that if you look at 2023, there's a lot more risk on the downside than there is on the upside just at the moment. So last year was a really tough year for businesses of our type to make returns. We will make a positive return last year, I'm pretty sure, which will be pretty unusual. But actually, if you look at how we deal with this, I think you're really trying to manage the point where people are working very hard, very creatively, and doing really good things, but the outcome looks a little less than what you would ideally have hoped for and maybe a little less than what you achieved in the past with a much stronger tailwind. So what does that mean? I think what you need from your teams is resilience. I think what you need from your teams is actually a remuneration structure that actually is more longer-term orientated so you can actually show them the future as well as perhaps a longer period of the past to be able to look at that compensation. We do both of those. And I guess you need people who really believe in the desire to get to your endpoint. I was very clear when I took over at Teachers' in 2012 that from a base of $200 billion of assets, my target in five years was to get us to $300 billion. And that's been a pretty good rallying cry for everybody. So how do we make that happen and how do we work systematically towards that objective? So we're a bit ahead of the plan at the moment, which is great. As you probably know, the plan is genuinely fully funded on very conservative assumptions, so we have a surplus which also helps us when times are a little leaner. But we absolutely can't be complacent. When you have a plan of our scale with fully inflation-linked liabilities, you really have to be on making sure you continue to make every year some sort of positive contribution, and more than anything, make sure you avoid the really bad year where you might see a 10% or 20% reduction in the assets of the plan, because it's very hard for us to recover from because our cash flow every year is negative in terms of what the stakeholders pay in and what we pay out in terms of contributions to our membership.

Simon Brewer

Okay, a few more general questions. You've seen lots of businesses. In those years, which is the business you've admired most?

Jo Taylor

Oh, that's a tricky one. I've seen a number of great businesses. I would say, pre-teachers, the business I really admired was Shire Pharmaceuticals which Kate Bingham and managed to back very early on when we were still youngsters figuring out how to invest in the biotech world. I think that business did go on to do some really interesting things and make a difference. And that's probably the point. I'm probably more impressed with businesses that make a difference rather than necessarily go to very high market capitalisation. You mentioned SpaceX, maybe that's one I should talk about briefly. Not too many pension plans would back a business where its mission statement is to get people to Mars. The reason we did invest in SpaceX is we invested in several other satellite businesses and we looked at the launch program, the satellite deployment program for that business. It looked really interesting as a complementary business to some of the other things we've been investing in. So that was really more of our logic, and they've executed really well in an area which is pretty fraught. If you have a failed launch, it tends to get everybody more anxious about your enduring sustainability. If you look at what they're doing now deploying satellites from many countries around the world, I think they've done a pretty good job.

Simon Brewer

Well, very different and very intriguing. I'm glad you mentioned Kate Bingham because you probably know she was a guest back in November on the Money Maze Podcast. The fact you co-invested with her in Shire is interesting. She's actually coming to talk at Money Maze Corporate Partners dinner next week. Boy, she has a grasp of that world of venture capital and biotech, unlike many I've listened to. Two final questions, what's the skill that you'd like to wake up tomorrow morning having acquired that you don't have today?

Jo Taylor

In my job, I need two skills, and maybe I could wake up tomorrow, Simon, and hold them both. Firstly, I need to be patient. Things don't always go right. It doesn't always happen straight out the gate in terms of things you would like colleagues to do. And I think it's therefore that you have a patient outlook then you allow people to sort of come around if they don't immediately see what you think is the right course. I think for a plan like ours operating on a longer-term basis, patience is what I would often give as a common advice to new joiners. I think the other one as the CEO of a plan, this might not be what you expect me to say, is I need to have a sense of humor. The reason I say that is actually people perform way better if they enjoy what they're doing. If they look up to a CEO who actually has a positive outlook, a bit of humor, and can actually motivate and encourage people to do the things that you want them to do, I think that goes a long way.

Simon Brewer

Actually, sometimes, I know when to stop, and sense of humor is such an important point that I'm just going to stop there because that can just resonate. Nobody has said that in 100-plus interviews, so well done, Jo. We always summarise with a couple of things and I'm going to take two things, which is that of all the skills in investing when it comes to venture capital, people judgment is perhaps the most critical, number one; and that unlike some others that we've interviewed and are interviewing in this program on the super allocators, size need not be an enemy of mobility as you have demonstrated with some of your quite large asset allocation shifts. The other thing you noted at the beginning is that you're historian who specialised in Russia, I had to give a plug for our December guest Simon Sebag Montefiore, who of course, came to talk about 'The World' and has written that great book 'Stalin'. So please, please if you haven't, he was fantastic. With that, Jo, it has been just a great pleasure talking to you. Thank you for your time. I look forward to meeting you.

Jo Taylor

Thank you, Simon. Really enjoyable talking to you and thank you for inviting me to join today.