OPINION

Federal government should not be pushing pension funds to invest more in Canada

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Minister of Finance Chrystia Freeland responds to a question from the Opposition after she delivered the 2023 Fall Economic Statement in the House of Commons, on Nov. 21.

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The Canadian model of pension investment management is seen around the world as the gold standard in safeguarding retirement savings. Despite defining the standard, Canada's retirement system is under pressure. We should all be concerned.

Our high ratings have fallen, according to the Mercer CFA Institute Global Pension Index 2023, primarily because of mounting concerns about the ability of plans to operate in the most efficient manner, unfettered by political influence.

Finance Minister Chrystia Freeland's fall economic statement did not help. It included proposals that would have Canadian plans obfuscate our clear, risk-adjusted return-driven mandate to add a focus on economic development. However, this so-called "dual mandate" would be confusing and would dilute our fiduciary obligation to deliver safe, secure and growing pension investments for the people we serve. Inherently, it asks pensioners to foot the bill for Ottawa's failure to promote Canadian economic growth and productivity.

Remarkably, this comes at a moment when the business of investing is already tough: Inflation pressures, volatile financial markets and geopolitical tensions make it harder to do our jobs.

The Canadian pension model of long-term investing was built for this: to be resilient in difficult conditions. It rests on three pillars: stand-alone pension investment firms with unambiguous missions; strong, independent governance; and the ability to hire professional resources and highly qualified investing talent. As a result, Canada is the envy of the world and houses some of the best investment firms anywhere.

Ms. Freeland proposes to interfere with two of these three pillars. A dual mandate muddies the waters, the opposite of a "clear mission." Worse, any hint of political influence over our conduct undermines independent governance, which the World Bank called "the most important element of the Canadian model."

As the investment manager for several Alberta-based pension plans, AIMCo does not believe we need to increase our investments in Canada. While our public disclosure makes clear we invest nearly half of our clients' portfolios domestically, AIMCo must be free to seek investment opportunities by achieving the portfolio benefits of global diversification. In short, we will pursue the best investments wherever they exist, consistent with our fiduciary responsibility to maximize risk-adjusted net returns.

Regrettably, the inherent value of diversification is being overlooked by those pressuring Canadian pension funds to increase domestic investments. It is well understood that an investor can reduce risk without reducing returns by avoiding a portfolio of correlated investments whose fortunes rise and fall together, such as having too many assets in any single country – like Canada.

It may seem appealing to encourage pension funds to invest more of our combined funds of over $2-trillion in Canada. Letko Brosseau has launched a lobbying and letter-writing campaign to compel us to buy more of the Canadian equities that they principally invest in. It is not our role to prop up Canadian equity markets. Their self-serving and amateurish critique of Canadian pension plans overlooks our far larger investments in Canadian fixed-income securities, real estate, infrastructure and private debt and equity. Their analysis reflects a profound lack of understanding of investing on behalf of pension funds.

As it is, pension funds are already highly exposed to the Canadian economy, employment levels and wage growth. Rather than doubling down on these risks, AIMCo is unapologetically expanding our global presence in order to increase the potential sources of diversification and higher returns for our pension clients and beneficiaries.

It is wrong to seek to expropriate the savings of hard-working Canadians to achieve policy objectives. Tax measures and economic incentives are more direct means of attracting domestic pension funds' interest, and other global investors' attention as well.

Rather than interfering with our clear mandate, there are many levers available to the Canadian federal government to grow our country's economy. We welcome the potential of lifting the archaic 30-per-cent cap on our ownership of Canadian businesses. A reinstatement of pension-friendly inflation-hedged Real Return Bonds would also result in an immediate increase in our investments in Canada. Making large-scale infrastructure projects currently owned by the Government of Canada available for private investment would be another useful demonstration of Ottawa's desire to increase pension-fund investments in Canada.

Pressuring pension funds to "make Canada great again" is not the way Canada will grow its economy. Indeed, it will harm the very individuals on whose behalf they are investing. The pension savings of Canadians are not our country's economic development department.

Canadian plans work on behalf of teachers, nurses, police officers, judges, professors, firefighters and civil servants. Our political leaders owe these hard-working Canadians safe and secure retirement savings. We have already shown the world how: through dedicated pension organizations with clear, undiluted missions and independent governance that is free of any hint of interference.