
Why are pension funds abandoning Canada?

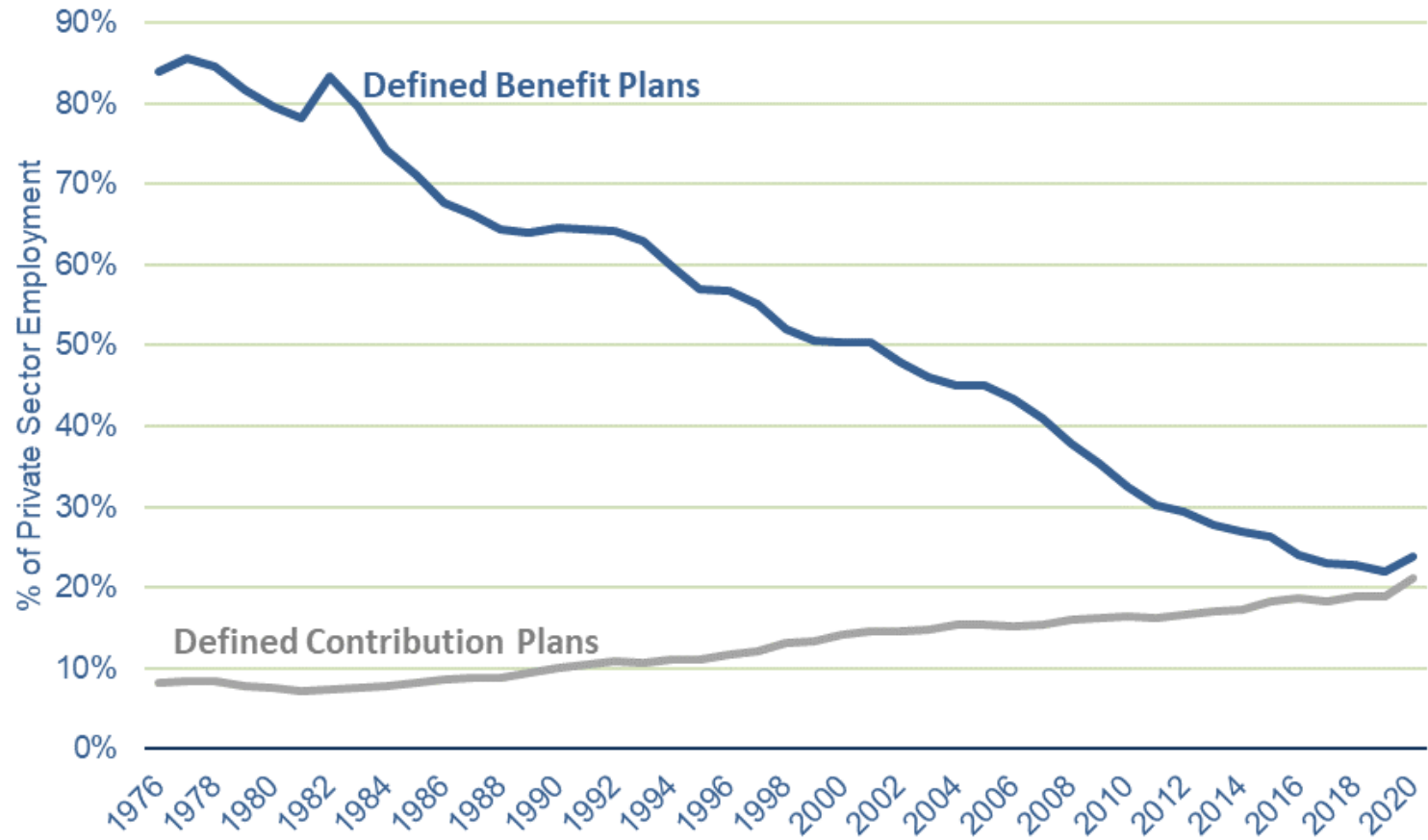
Presentation by Daniel Brosseau to PMAC CEO Dinner and Presentation, November 13, 2023, Toronto

Les Hors-d'œuvre

These are meant to be eaten quickly

We will not be talking about this

Private Sector Retirement Plans (1)



We will not be talking about this

Define Contribution Plans Compared to Defined Benefit Plans ⁽¹⁾

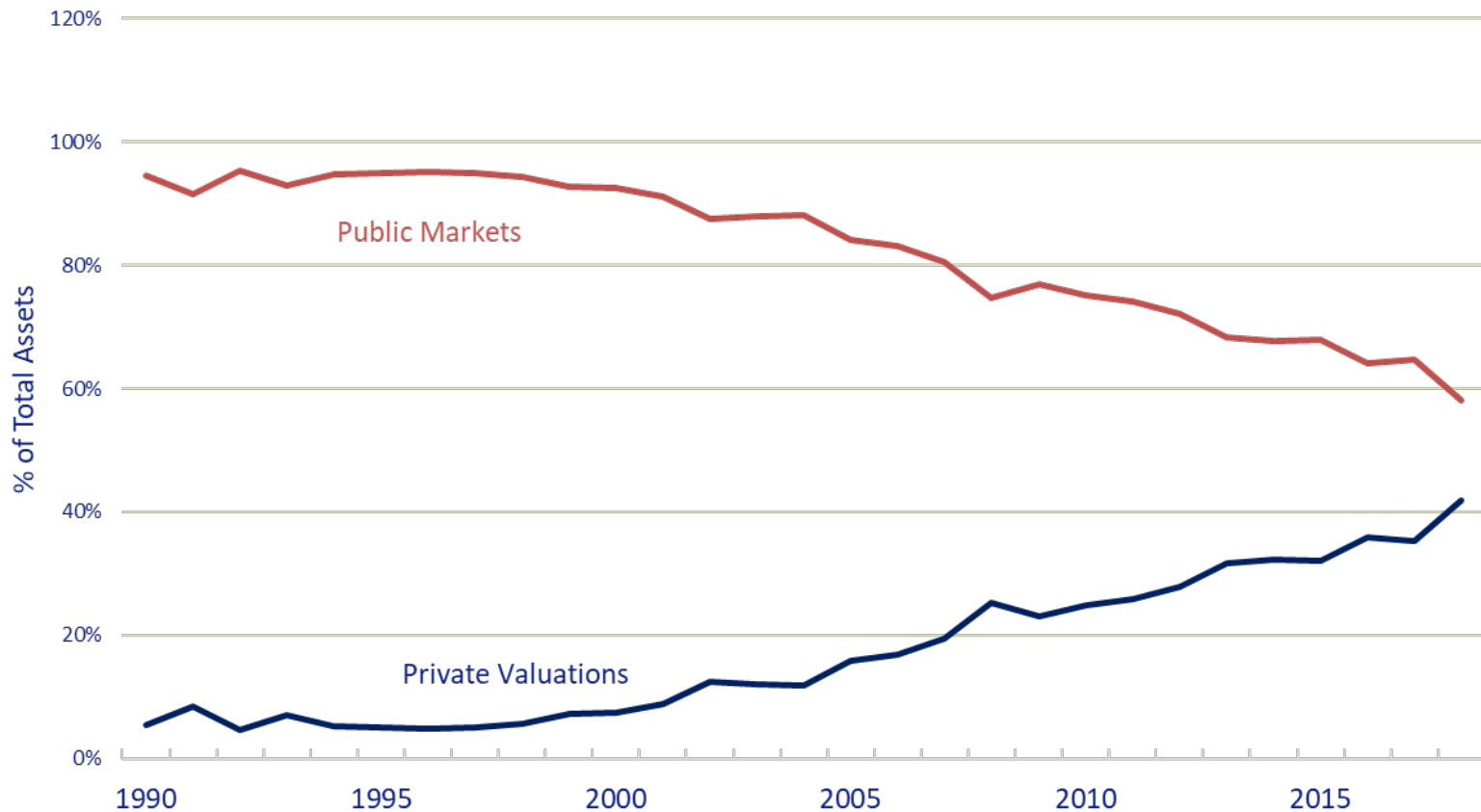
For the same life-time savings of
\$500,000

Defined benefit pension:	\$50,000
Defined contribution pension:	\$25,000

-50% !

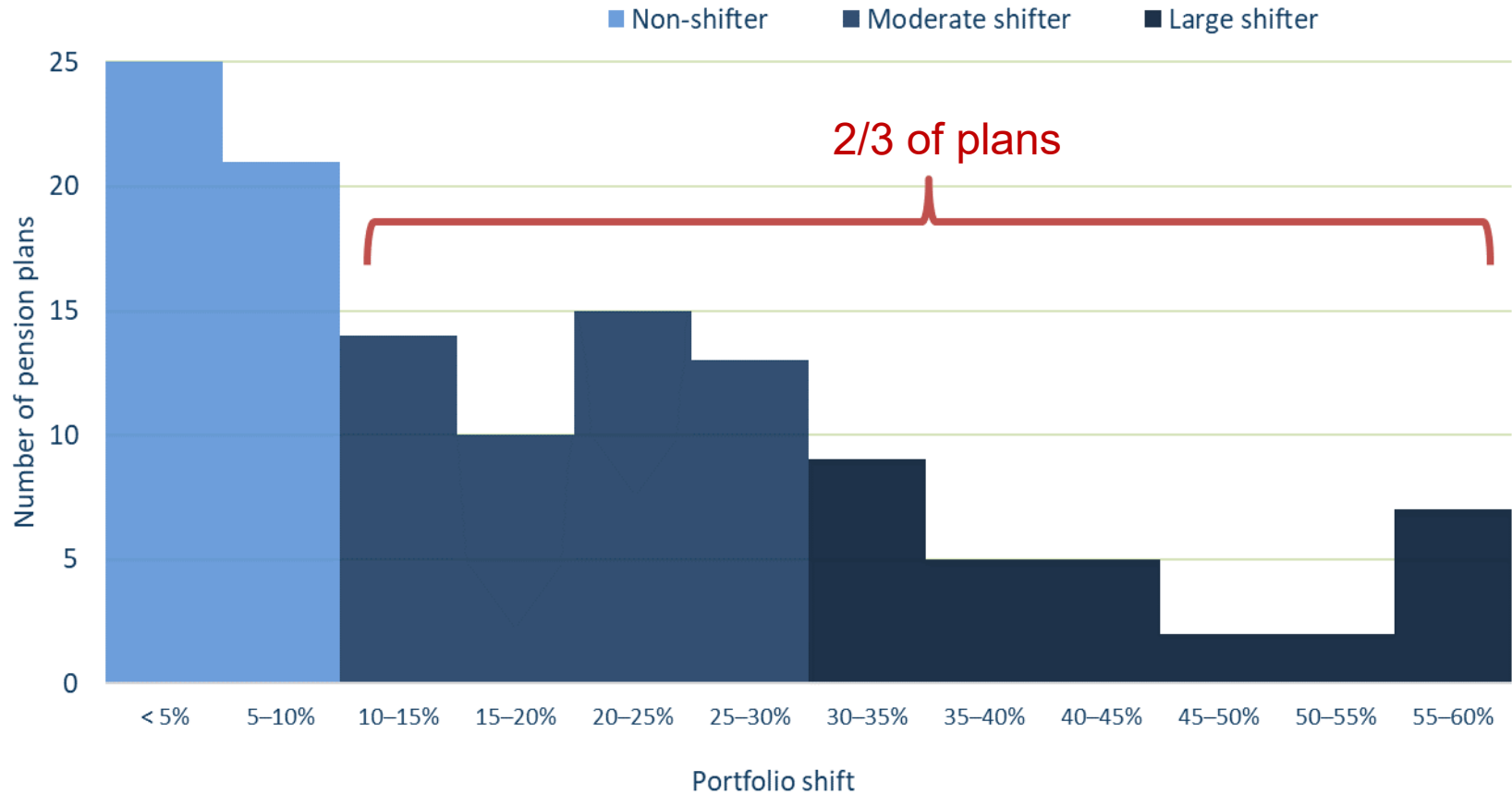
We will not be talking about this

Valuation Method of Pension Assets (1)



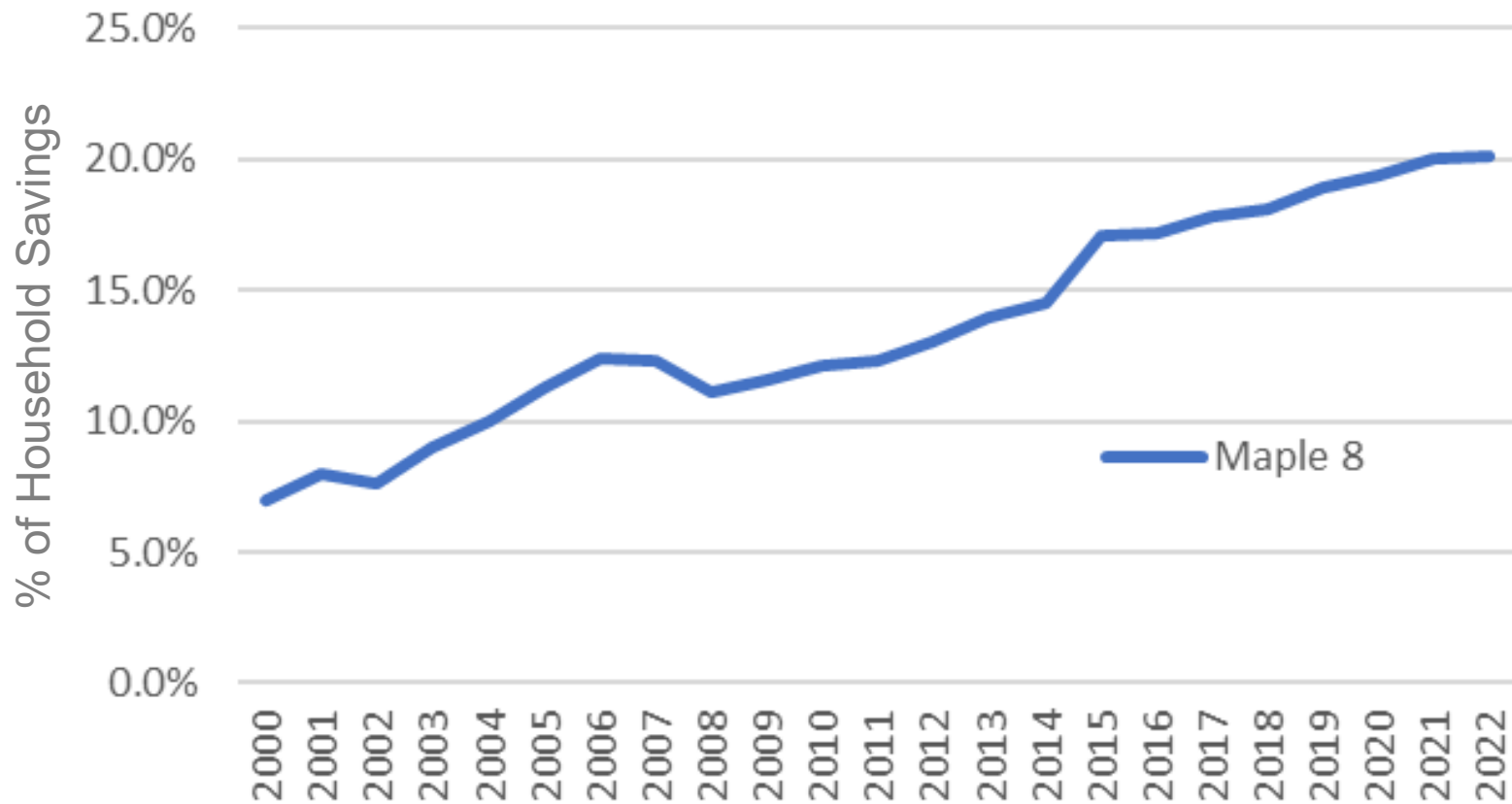
We will not be talking about this

Pension plan LDI shift between 2004 and 2018 (1)



We will not be talking about this

Increasing Concentration of Control of Canadian Savings (1)

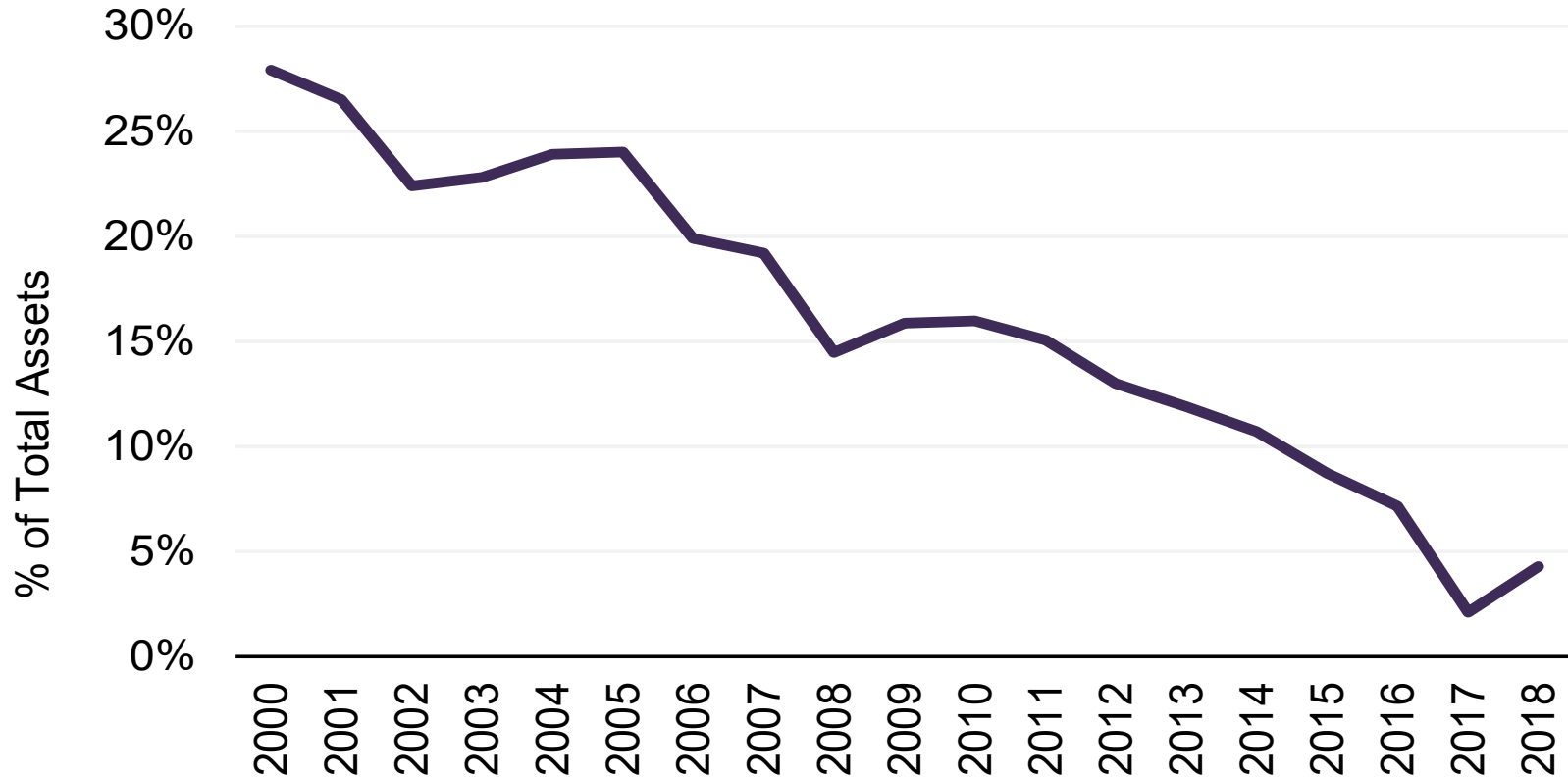


L'Entrée

The First Course

This is what first drew our attention

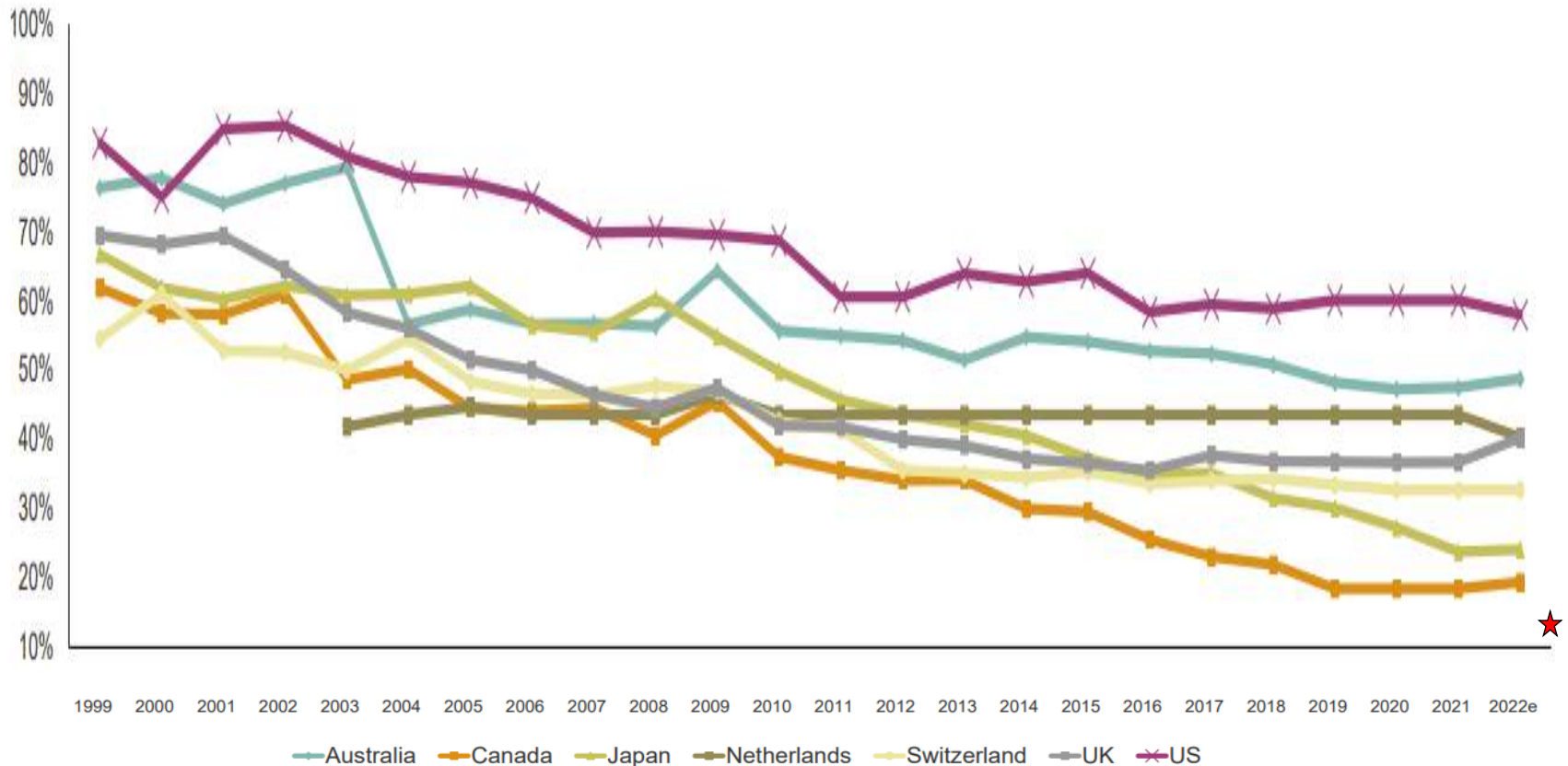
Canadian Public Equities as a % of Total Assets⁽¹⁾



Canada has seen a 7-fold decrease in exposure to Canadian public equities.

Then we saw what was happening elsewhere

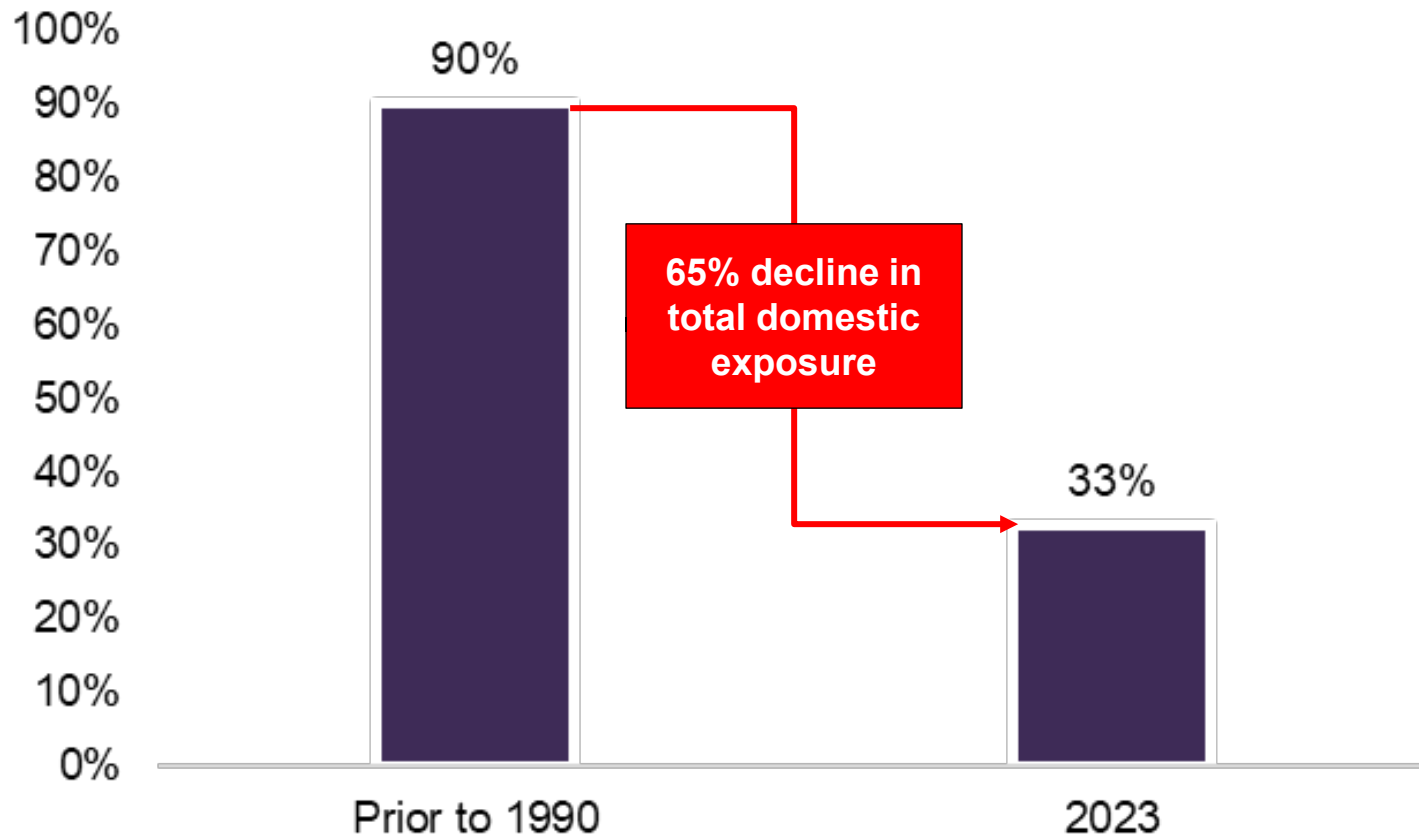
Domestic Equity Over Total Equity Exposure Has Declined The Most Out of Its Peers⁽¹⁾



Canada has significantly cut back investing domestically compared to all its peers!

Then we looked at total exposure to investments of all forms

Canadian Exposure Has Plummeted in All Forms of Investment⁽¹⁾



Then We Looked at The Exposure by Asset Class

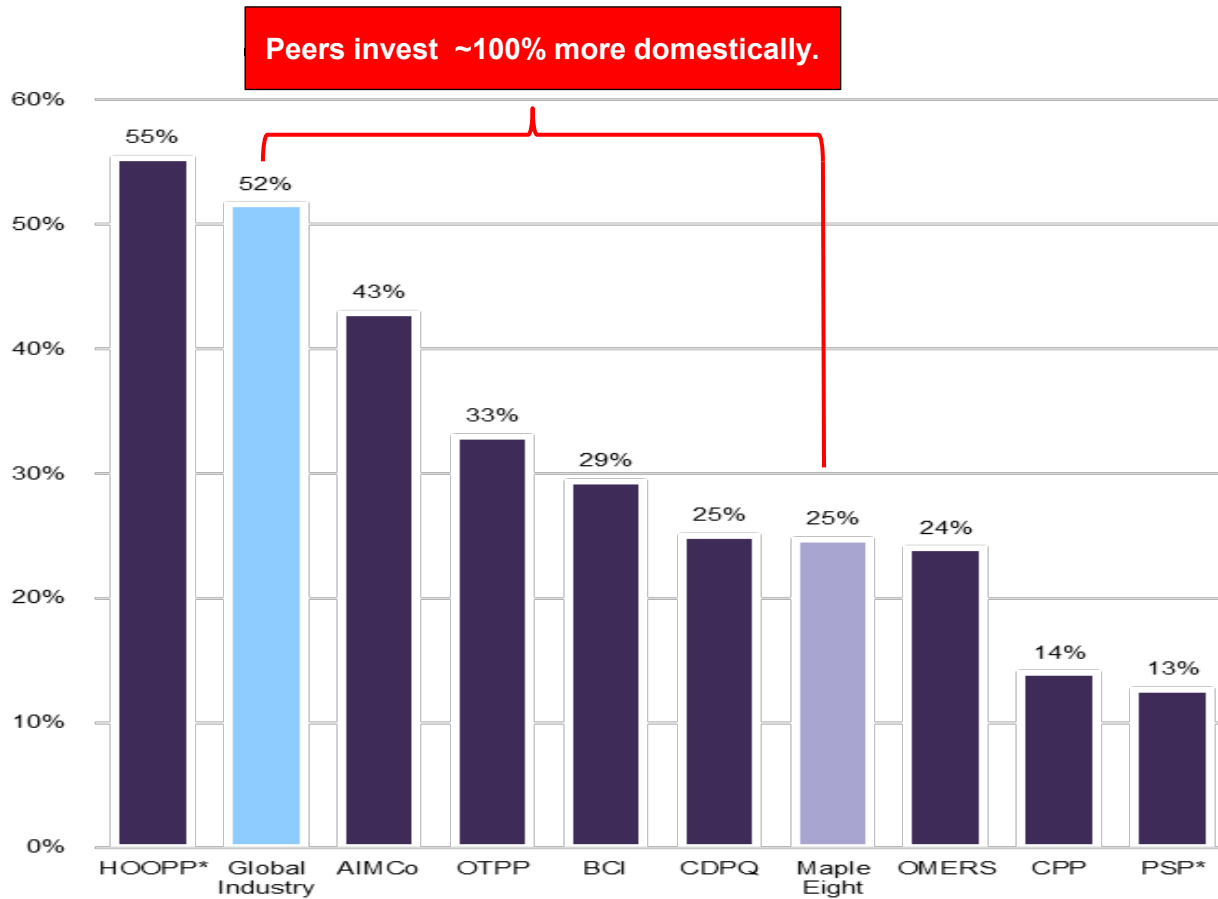
Collective Maple 8 Investment By Asset Class⁽¹⁾

Asset Class	Total	CAD	Non CAD	Total	CAD	Non CAD
Public Equities	\$449	\$52	\$396	22%	3%	19%
Private Equities	\$424	\$29	\$394	21%	1%	19%
Fixed Income	\$442	\$266	\$176	21%	13%	9%
Credit	\$210	\$34	\$176	10%	2%	9%
Real Estate	\$271	\$88	\$183	13%	4%	9%
Infrastructure	\$269	\$41	\$228	13%	2%	11%
Total:	\$2,064	\$511	\$1,553	100%	25%	75%

For every \$1 managed by the eight largest pension funds in Canada, over 75 cents is invested outside of Canada.

And Compared it to The Global Industry

Total Domestic Exposure As a % of Net Assets^(1,2)



Le Plat Principal

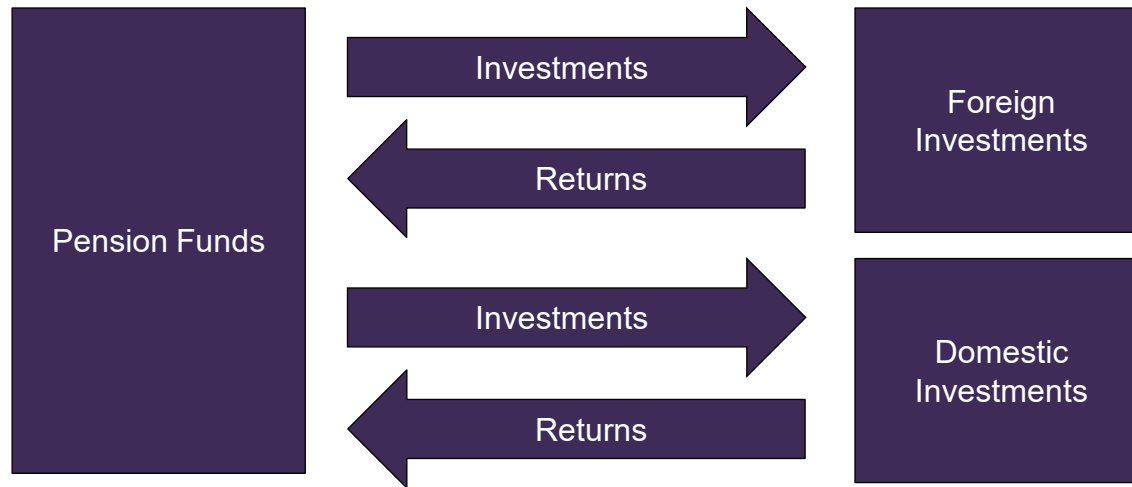
The Main Course

Pension Funds are Important and Very Special?

Canadian Savings ⁽¹⁾	CAD (\$ Bil)	%	Preferred Asset Type
Bank Deposits	\$2,716	37%	Shorter Term Debt
Pension Savings	\$2,709	37%	Debt and Equities
Insurance Assets	\$1,642	23%	Short and Long Term Debt
Other Lenders	\$195	3%	Shorter Term Debt
Total	\$7,263	100%	

*Investment is how countries grow, build their future, create high quality jobs.
Canada is no exception.*

The Pension Funds Investable World?



Investment Opportunities Exist All Over the World and Canada Represents 3% of Them

Foreign and Domestic Investments Are Different

Foreign Investment

CASE 1. A Canadian invests \$100 abroad. After one year, they repatriate the \$100 and \$10 of profit. Their return is 10%.

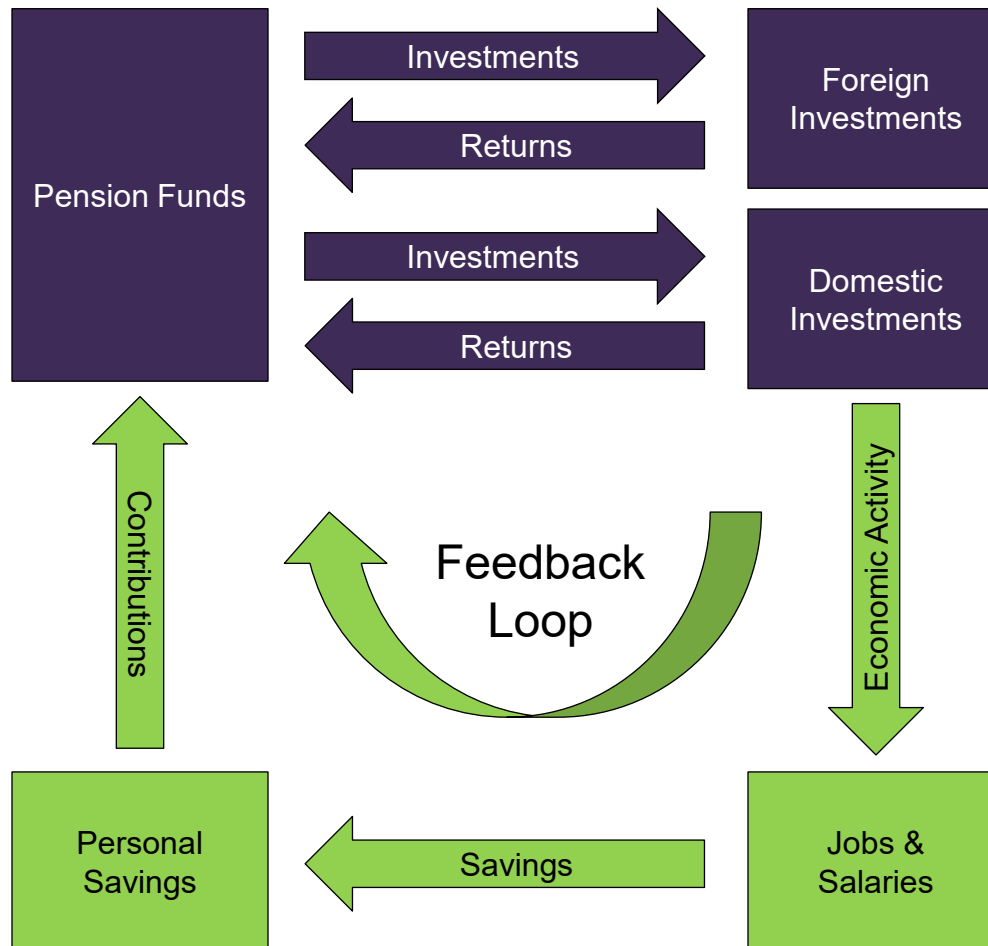
Domestic Investments

CASE 2. A Canadian invests \$100 in a machine that produces \$205 of product in the year. The costs are \$100 of salaries and \$100 of wear on the machine, leaving \$5 of profit. Their return is 5%.

In CASE 1 Canada's GDP rises by \$10, the profit. In CASE 2, GDP in Canada increases by \$205, the salaries, the machine, and the profit.

From the Canadian investor's point of view, the foreign investment gives a higher return but from a GDP perspective, from a GDP per capita perspective, from the perspective of Canada's ability to save, the domestic investment is by far the better one.

The Feedback Loop Cannot Be Ignored



The Impact of Domestic Investments on the Contributions of a Pension Fund cannot be measured.

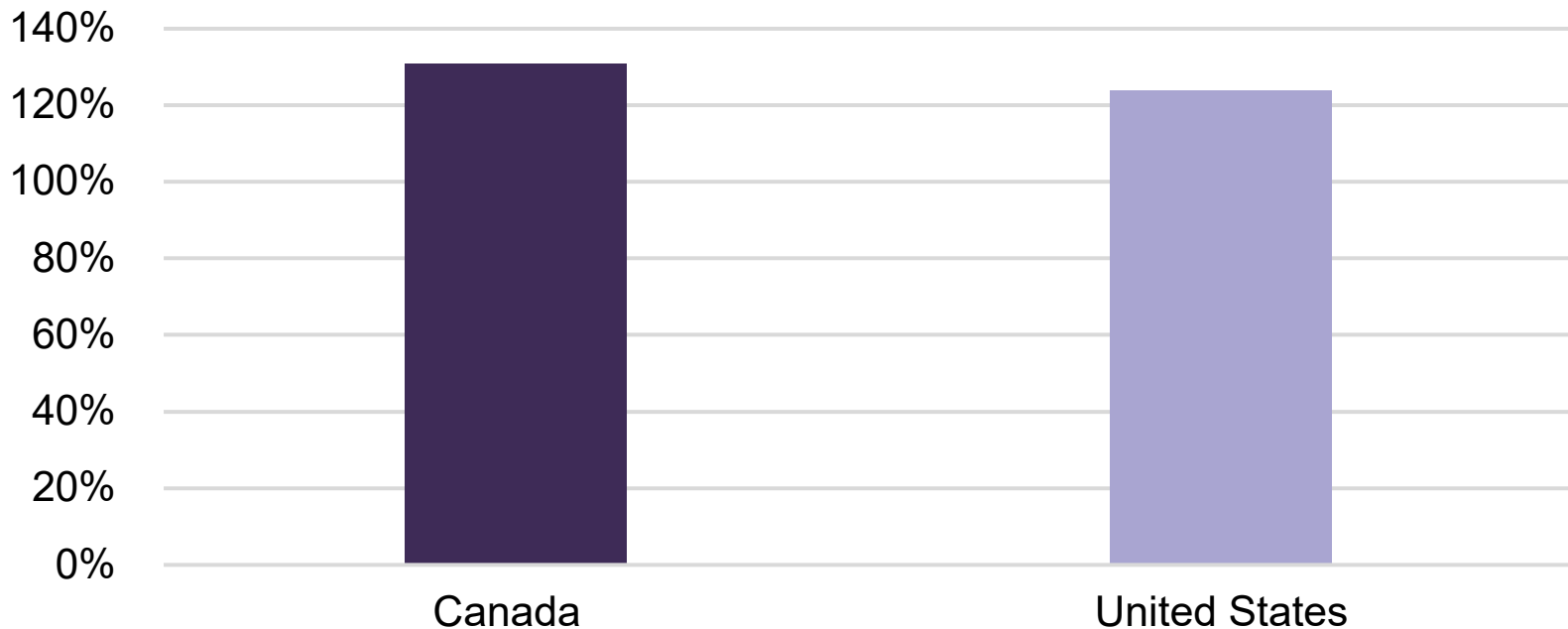
Les Fromages

An Interlude Before the Dessert

Canada Is Not Too Small To Invest In

Canada's Pensions Assets Are In Line with the United States⁽¹⁾

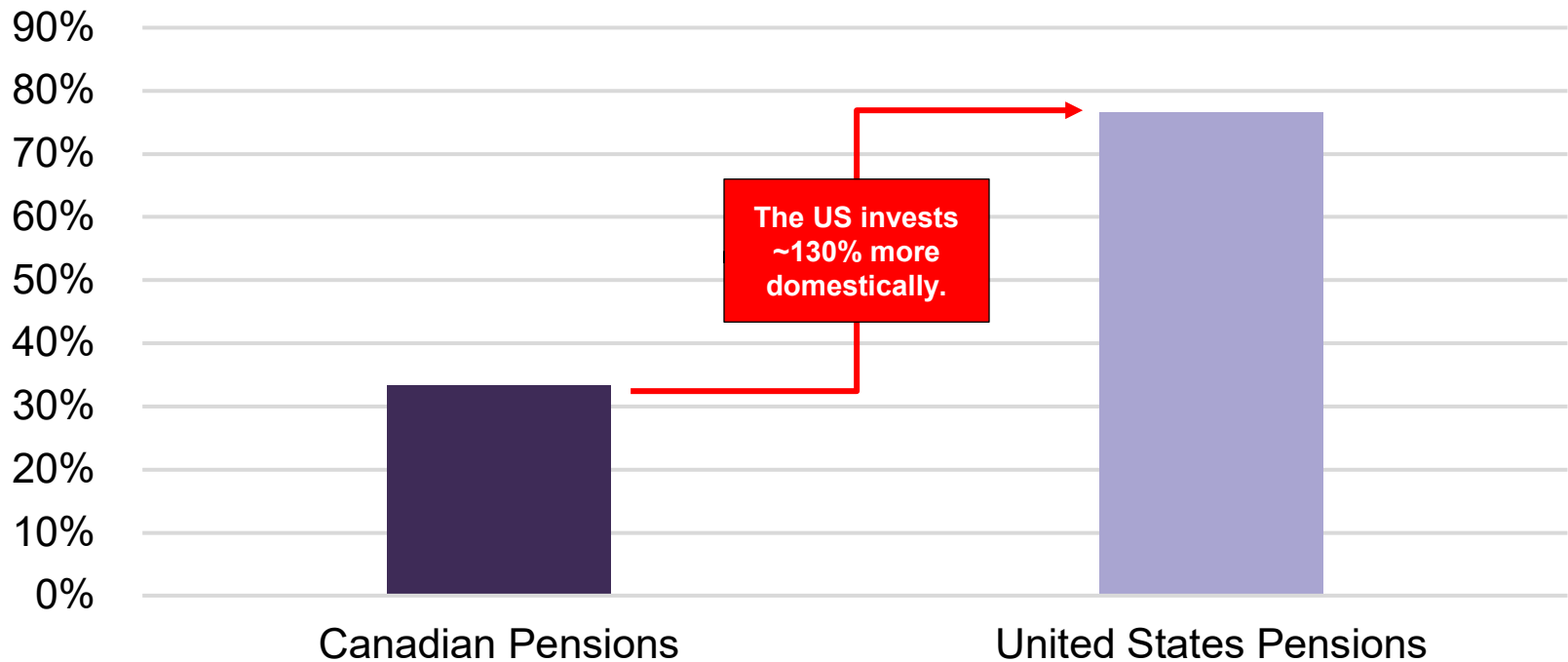
Total Pension Assets/GDP ratio (%)



Canada Is Not Too Small To Invest In

Yet Americans Invest 130% More Domestically⁽¹⁾

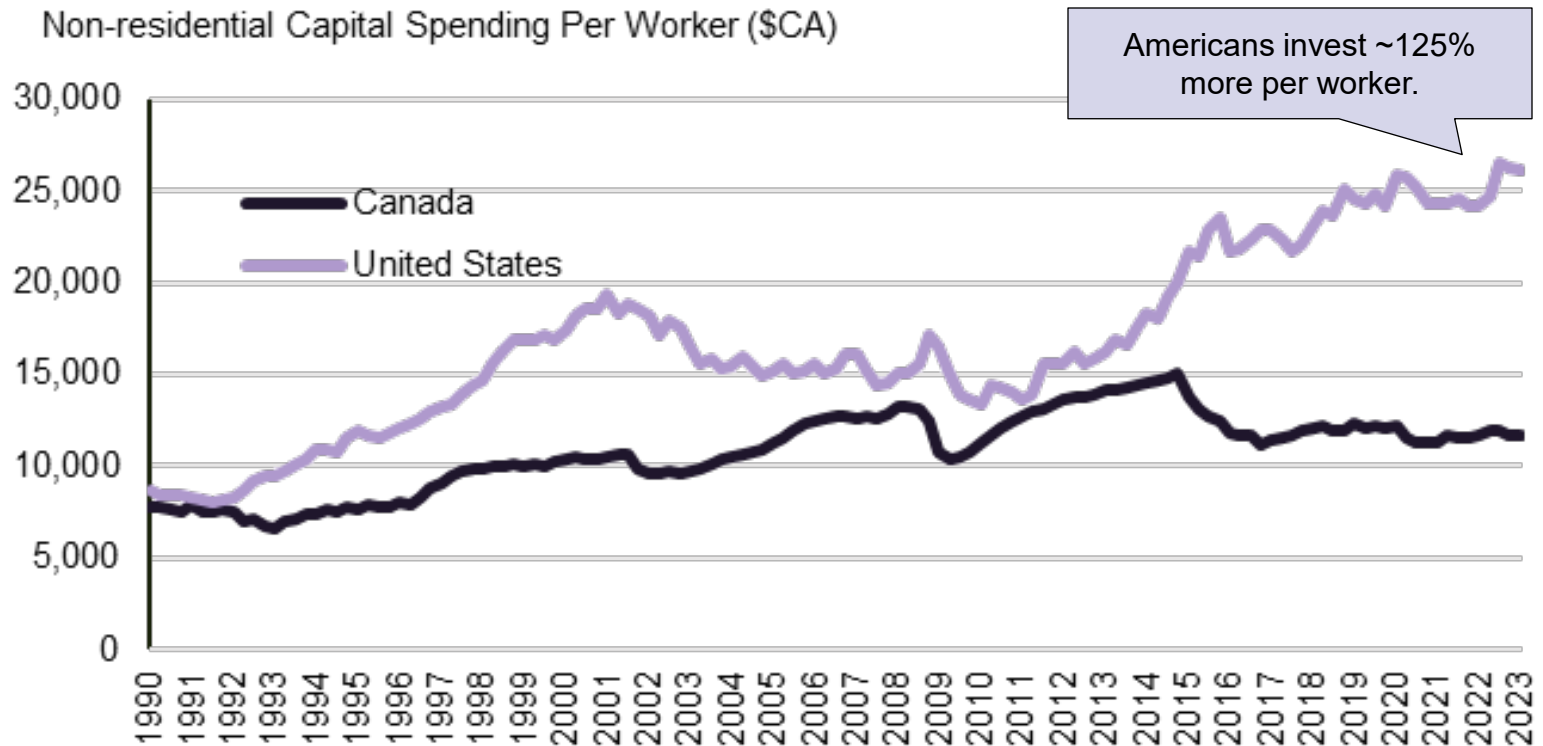
Total Domestic Exposure (2021)



American pensions invest 130% more domestically – Canada is rich with opportunity.

Canada Is Underinvesting in Its Workers

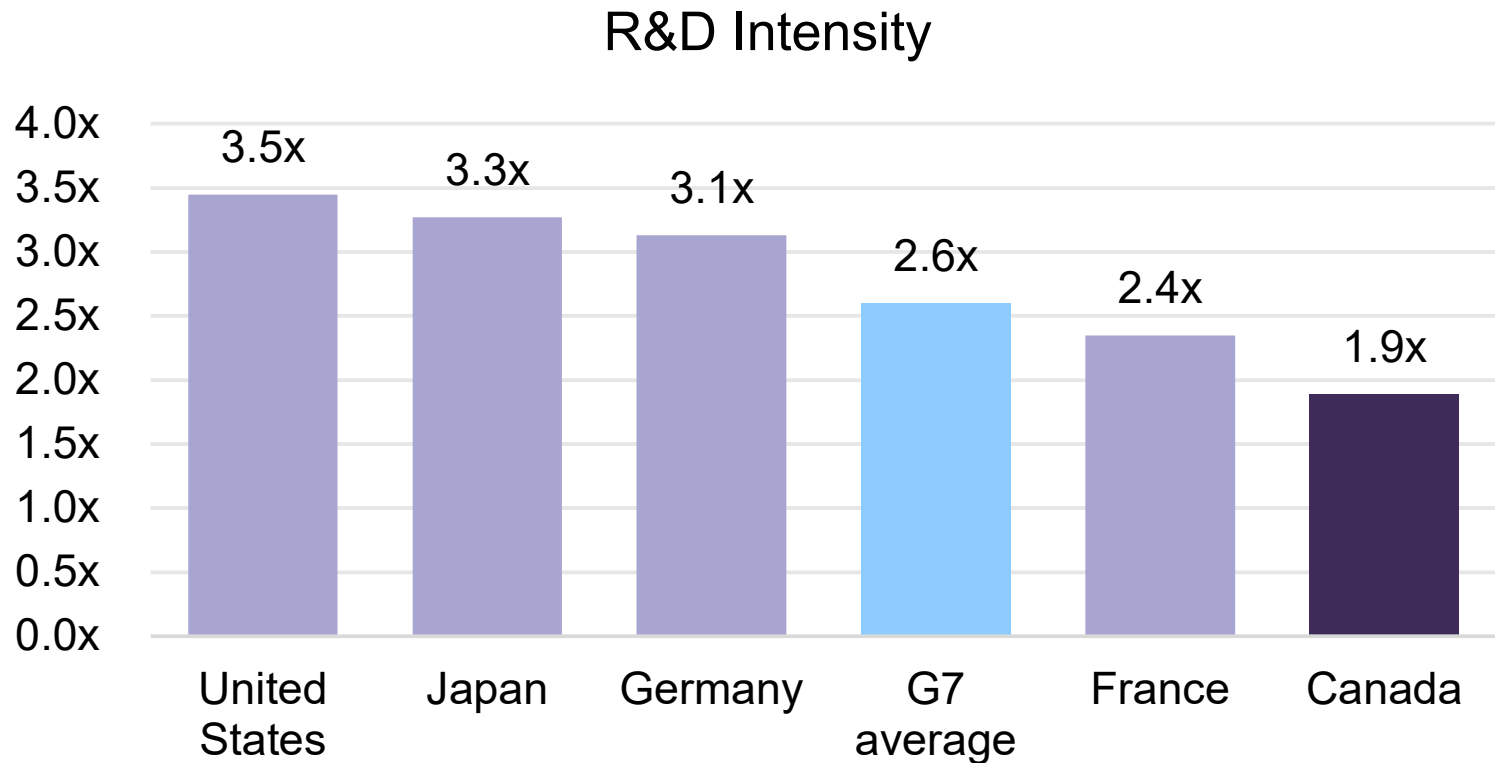
Canada Is Underinvesting In Its Workers⁽¹⁾



This must impact productivity

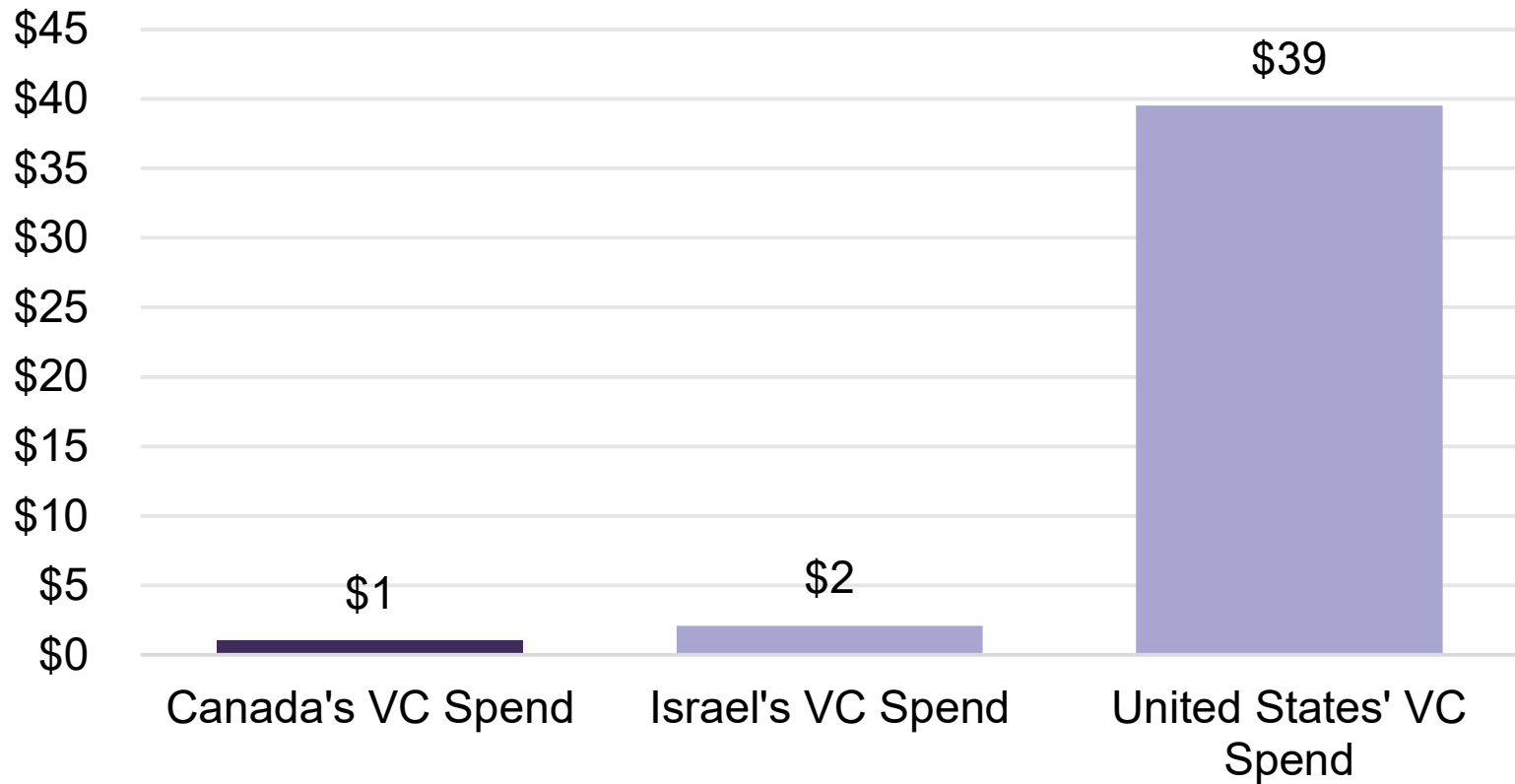
Canada Is Underinvesting in Innovation

Canada Is Underinvesting In Innovation⁽¹⁾



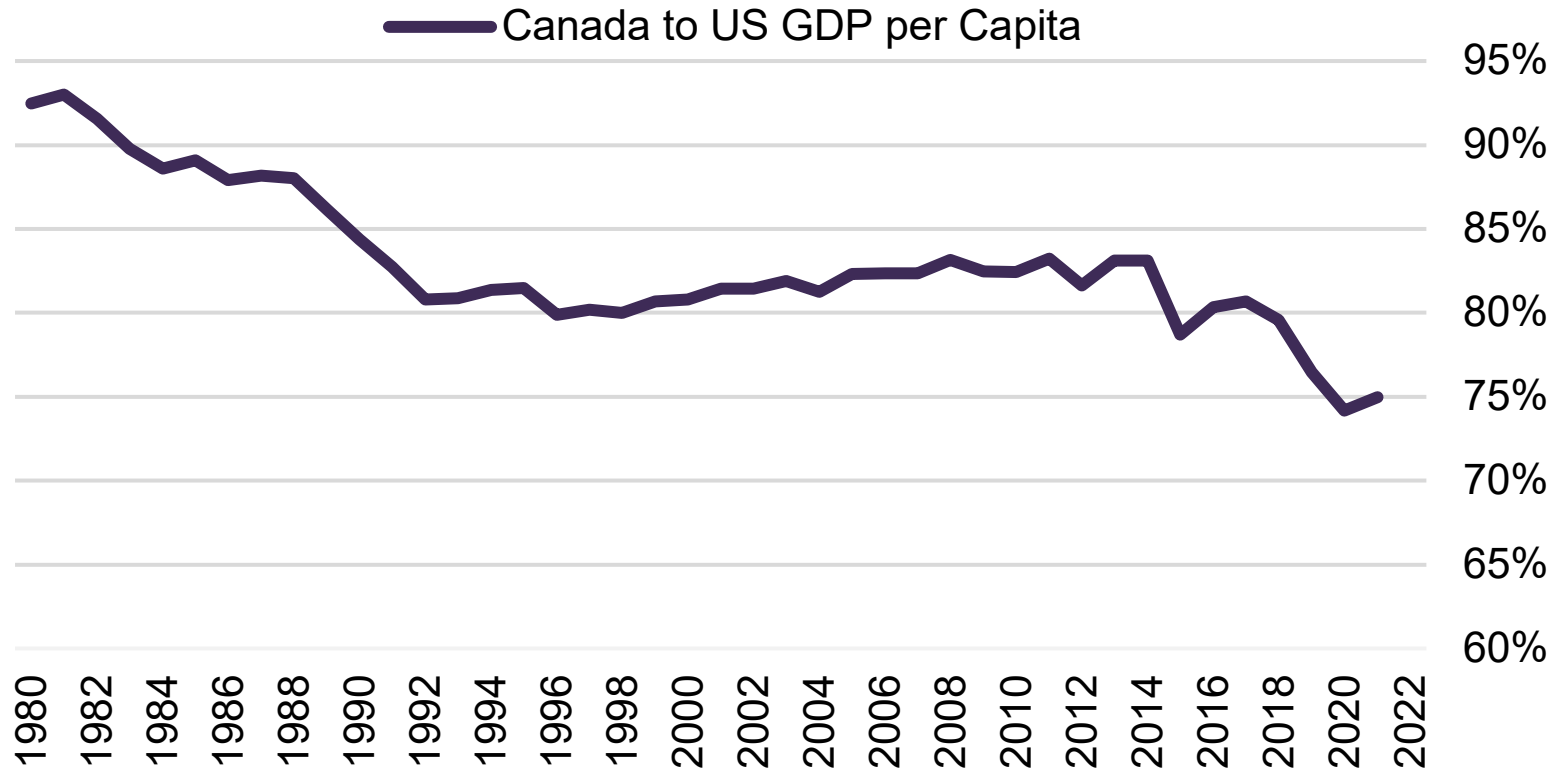
Canada Is Underinvesting in Startups

Canada Is Underinvesting In Its Startups⁽¹⁾



Guess What, Canadian GDP Per Capita is Falling Behind

Canada to US GDP per Capita⁽¹⁾

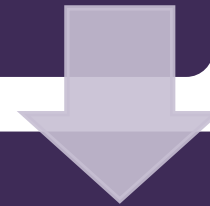


Canada invests substantially less in our workers, in R&D, and in our own startups.

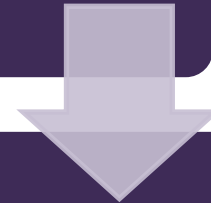
Le Dessert

Our Closing Remarks

Pension Funds Are Leaving Canada, But Their Managers Are Not to Blame



Only Government Regulations Can Deal With The Problem



Canada Must Start Investing In Itself

Les Mignardises

After Dinner Mints

Quick Pub Quiz – Which is Canada, Which is the United States?

Which Market is Most Concentrated? ⁽¹⁾

Is Canada country A or B?

	Country A <i>% of GDP</i>	Country B <i>% of GDP</i>
Largest Market Cap	6%	12%
Largest 5 Market Cap	23%	38%
Largest 10 Market Cap	37%	51%
Largest 50 Market Cap	88%	91%
Largest 100 Market Cap	104%	113%
GDP	100%	100%

Quick Pub Quiz – Which is Canada, Which is the United States?

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Largest 100 Market Cap	104%	113%
GDP	100%	100%

The US market is more concentrated by company than Canada's market

Quick Pub Quiz – Canada, United States, or Europe?

Concentration of Savings in Canada, United States and Europe ⁽¹⁾

Which is Canada? A, B, or C?

	Region A <i>% of GDP</i>	Region B <i>% of GDP</i>	Region C <i>% of GDP</i>
Largest Fund	2.2%	2.8%	19.7%
Largest 5 Funds	6.3%	7.7%	58.6%
Largest 10 Funds	9.8%	11.5%	79.4%
GDP	100.0%	100.0%	100.0%

Quick Pub Quiz – Canada, United States, or Europe?

Concentration of Savings in Canada, United States and Europe ⁽¹⁾

	EU <i>% of GDP</i>	USA <i>% of GDP</i>	Canada <i>% of GDP</i>
Largest Fund	2.2%	2.8%	19.7%
Largest 5 Funds	6.3%	7.7%	58.6%
Largest 10 Funds	9.8%	11.5%	79.4%
GDP	100.0%	100.0%	100.0%

Canada is 7 times more concentrated than the US and 8 time more then Europe

Quick Pub Quiz – Which is Canada, Which is the United States

Concentration of Industries in Canadian and US Markets ⁽¹⁾

Is Canada country A or B?

Country A		Country B	
Industry	Weight	Industry	Weight
Industry A	29.4	Industry A	30.0
Industry B	14.1	Industry B	16.8
Industry C	10.6	Industry C	13.8
Industry D	10.0	Industry D	12.5
Industry E	8.5	Industry E	6.7
Industry F	8.2	Industry F	4.8
Industry G	6.5	Industry G	4.5
Industry H	4.6	Industry H	4.3
Industry I	2.8	Industry I	3.7
Industry J	2.7	Industry J	2.5
Industry K	2.6	Industry K	0.3

Quick Pub Quiz – Which is Canada, Which is the United States

Concentration of Industries in Canadian and US Markets ⁽¹⁾

United States		Canada	
Industry	Weight	Industry	Weight
INFORMATION TECHNOLOGY	29.4	FINANCIALS	30.0
HEALTH CARE	14.1	ENERGY	16.8
CONSUMER DISCRETIONARY	10.6	INDUSTRIALS	13.8
FINANCIALS	10.0	MATERIALS	12.5
INDUSTRIALS	8.5	INFORMATION TECHNOLOGY	6.7
COMMUNICATIONS SERVICES	8.2	COMMUNICATION SERVICES	4.8
CONSUMER STAPLES	6.5	UTILITIES	4.5
ENERGY	4.6	CONSUMER STAPLES	4.3
UTILITIES	2.8	CONSUMER DISCRETIONARY	3.7
MATERIALS	2.7	REAL ESTATE	2.5
REAL ESTATE	2.6	HEALTH CARE	0.3

Canada is slightly more concentrated than the United States, but not by much.

Quick Pub Quiz – Rank the Maple 8

Which has the highest Canada weight? Which has the lowest?

% of Assets	Highest																		Lowest					
	%	CAD	Non CAD	%	CAD	Non CAD	%	CAD	Non CAD	%	CAD	Non CAD	%	CAD	Non CAD	%	CAD	Non CAD	%	CAD	Non CAD			
Public Equities	14%	2%	13%	31%	6%	25%	7%	0%	7%	26%	0%	26%	30%	6%	24%	13%	2%	11%	24%	2%	22%	16%	2%	14%
Private Equities	12%	2%	10%	9%	2%	7%	25%	4%	22%	12%	0%	12%	14%	2%	11%	24%	2%	22%	33%	0%	33%	14%	0%	14%
Fixed Income	60%	46%	13%	23%	23%	0%	33%	15%	18%	27%	12%	15%	19%	10%	9%	10%	10%	0%	12%	9%	3%	20%	6%	14%
Credit	0%	0%	0%	5%	0%	5%	5%	4%	1%	9%	7%	2%	13%	2%	11%	10%	0%	10%	13%	0%	13%	12%	0%	12%
Real Estate	11%	6%	5%	17%	10%	7%	11%	7%	4%	16%	7%	8%	13%	3%	10%	23%	6%	18%	9%	2%	7%	16%	3%	14%
Infrastructure	3%	0%	3%	15%	2%	14%	19%	3%	16%	10%	2%	8%	11%	2%	9%	19%	5%	15%	9%	2%	7%	22%	2%	20%
Total:	100%	55%	45%	100%	43%	57%	100%	33%	67%	100%	29%	71%	100%	25%	75%	100%	24%	76%	100%	14%	86%	100%	13%	87%

AIMCo	
BCI	
CDPQ	
CPP	
HOOPP	
OMERS	
OTPP	
PSP	

Quick Pub Quiz – Rank the Maple 8

Which has the highest Canada weight? Which has the lowest?

% of Assets	HOOPP (\$103)			AIMCo (\$158)			OTPP (\$244)			BCI (\$215)			CDPQ (\$402)			OMERS (\$128)			CPP (\$570)			PSP (\$244)		
	%	CAD	Non CAD	%	CAD	Non CAD	%	CAD	Non CAD	%	CAD	Non CAD	%	CAD	Non CAD	%	CAD	Non CAD	%	CAD	Non CAD	%	CAD	Non CAD
Public Equities	14%	2%	13%	31%	6%	25%	7%	0%	7%	26%	0%	26%	30%	6%	24%	13%	2%	11%	24%	2%	22%	16%	2%	14%
Private Equities	12%	2%	10%	9%	2%	7%	25%	4%	22%	12%	0%	12%	14%	2%	11%	24%	2%	22%	33%	0%	33%	14%	0%	14%
Fixed Income	60%	46%	13%	23%	23%	0%	33%	15%	18%	27%	12%	15%	19%	10%	9%	10%	10%	0%	12%	9%	3%	20%	6%	14%
Credit	0%	0%	0%	5%	0%	5%	5%	4%	1%	9%	7%	2%	13%	2%	11%	10%	0%	10%	13%	0%	13%	12%	0%	12%
Real Estate	11%	6%	5%	17%	10%	7%	11%	7%	4%	16%	7%	8%	13%	3%	10%	23%	6%	18%	9%	2%	7%	16%	3%	14%
Infrastructure	3%	0%	3%	15%	2%	14%	19%	3%	16%	10%	2%	8%	11%	2%	9%	19%	5%	15%	9%	2%	7%	22%	2%	20%
Total:	100%	55%	45%	100%	43%	57%	100%	33%	67%	100%	29%	71%	100%	25%	75%	100%	24%	76%	100%	14%	86%	100%	13%	87%

	AIMCo	43 %
	BCI	29 %
	CDPQ	25 %
	CPP	14 %
Highest →	HOOPP	55 %
	OMERS	24 %
	OTPP	33 %
← Lowest	PSP	13 %

Further Reading

We invite you to read:



FAQs

- A short “Pension System Frequently Asked Questions” which further examines the impact of the pension system on the domestic economy, why government regulation is required, the comparative capacity of the Canadian economy to absorb investments, and the recommended tools to bring about change.

Research
paper

- A longer paper on several unintended and undesirable problems with the pension system and how regulations can deal with them.

Both documents available upon request.

End Notes

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