On the Sustainability of the Canadian Model

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Introduction

- Genesis of the model dates back to the restructuring of the Ontario pension plan in the ’90s
- Sense of urgency: inadequate funding pension pay-outs of the baby-boomers during 2020-2040
- Main principles laid out by Peter Drucker*:
  - Government should not get involved in investment decisions
  - Pensions should be run as a business with professional Boards
  - Patient capital and active ownership

**Peter Drucker (1976) “The unseen revolution: how pension fund socialism came to America”*

Introduction (cont'd)

- Significant praise for the Canadian model
  - World Bank (2017): delivering retirement security
  - Lipschitz & Walter (2020): model for US pensions
  - Beath (2020): superior performance
  - Ambachtsheer (2021): superior performance
  - Betermier et al (2024): entrepreneurial mindset

- But some criticism too
  - C.D. Howe (2019): is the model sustainable in low-yielding world
  - IMF (2019): risk profile is changing without proper oversight

- Several issues: write-offs ABCP during GFC, liquidity issues during Covid, blown-up volatility trade, bribes in India…

Purpose of the Research

- The Canadian model has successfully managed the funding problem, based on the following pillars:
  - Governance around investment responsibilities, incl. professional Boards
  - Long-term investment focus
  - Large allocation to private markets
  - Internalization of investments
  - Competing compensation

- Is the Canadian model still relevant and future-proof given the changes in the internal and external environment?

Two Research Questions

1. Is the Maple-8 a homogenous group?

   The Maple-8 is the group of larger Canadian institutions managing defined benefit public pension plans

2. Are fundamental changes to the five pillars needed?

   The Maple-8 have grown significantly in size and find itself in surplus. Mission completed! But, what’s next?

Research Methodology

1. Research question 1
   - cross-sectional analysis
   - Analysis of literature and documents

2. Research question 2
   - Multi-case study by means of CEO interviews
   - Discussions with subject matter experts
   - Canadian media coverage

Research Results RQ1

- What the Maple-8 institutions have in common is that they have the government as a sponsor and that they manage defined benefit public pension plans

- The Maple-8 serve different plans: federal, provincial and occupational

- Broader governance is not alike. Composition of sponsors and Boards differ, delegation of responsibilities differ, mandates differ

- Some are single-client, others multi-client. Client base is defined by law, but could include pension plans, insurance companies and foundations

- The Maple-8 tend to follow the 5 pillars, but in varying degrees

Research Results RQ2

- All participants bring forward that the social license to operate is under pressure and fear the politicization of pensions
- Many claim that the best way to cope is to continue to generate solid performance
- The Maple-8 embraces the current governance and sees no use for more oversight
- Despite the aging of the plans and the realization that the first-mover advantage is gone, the Maple-8 continues to invest in private markets
- More emphasize is given to total fund management; a shift takes place from bottom-up deal origination to top-down asset management

Observations

- The discussion regarding the social license to operate should be taken seriously and provides an opportunity as Canada scores relatively low on the Mercer Global Pension Index.

- Given the life-cycle of most plans, the focus on investment return should at least be combined with a focus on long-term resilience.

- In general, if no formal oversight is put in place, the Maple-8 should boost their risk management activities.

- The Maple-8 should not ignore the impact of new technologies, including artificial intelligence, on their investment model.