Financial Focus
Lessons from Pension Funds

For many Canadians pensions are a component of their retirement plan. Often we are the beneficiary of pensions, receiving payments. Steady income during retirement is certainly helpful, however there is additional value to pensions, they can also guide our investment strategy. Pensions usually have conservative investment practices and focus on mitigating risk. The Canada Pension Plan (CPP) is a good example. We have all paid into CPP and there is now over $300 billion in the program. There is an investment board, Canada Pension Plan Investment Board (CPPIB), that investments all that money. The investment board has to ensure they have a defensive strategy that protects their capital while achieving enough growth to maintain CPP payments to a growing number of Canadians. Protecting capital, earning a decent return and ensuring adequate income, themes that would apply to folks saving for retirement as well as many retirees. Every year the CPPIB produces an annual report, detailing their investment strategy and the results. According to the 2017 annual report the return over the last ten years for their low risk strategy has been an average of 6.7% per year. With over $300 billion of assets CPP is one of the largest retirement funds in the world and can access opportunities and investments you and I will never see, however there are still a few lessons from the pension fund that could be helpful:

Long Term Mindset

In the 2017 annual report it mentions that the investment board expects short-term periods of market volatility. They anticipate that one year in ten will be negative. It should be noted that short term in this context is not a month or a quarter, but one year. To achieve higher long term returns CPPIB expects to have to endure some volatility.

Global Diversification

Most investors have a home bias, investing in companies and assets of the country they live in. That is understandable there is comfort investing close to home. However concentrating investments in one market leaves you exposed to risks unique to that market. As well the Canadian market represents about 3% of the world's capital market. To properly manage risk and diversify a global approach is required. CPPIB has diversified their portfolio with the majority of their holdings outside of Canada.

Real Assets

CPPIB has a growing number of real assets in their portfolio. Big, bulky, cash flow producing real estate and infrastructure investments. The steady cash flow from real estate and infrastructure investments can help reduce risk and further diversify a portfolio. The steady income is also a great addition to a retirement portfolio. According to the 2017 annual report CPPIB has about 20% of their portfolio in real estate and infrastructure.

You have to be comfortable with your investment portfolio and ensure it fits your retirement plan and meets your goals. It is best to chat with your advisor before implementing the above strategy.

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