THE EXCHANGE

Hot for Teachers

Canada's largest pension funds don't like to draw too much attention to themselves. That changed when Jo Taylor took over the Ontario Teachers' Pension Plan in 2020 vowing to make bigger, bolder bets

BY TREVOR COLE

If there are a few hundred thousand Ontarians who've slept more soundly than the rest of the province for the past 32 years, it's because their retirements have been funded in part by the Ontario Teachers' Pension Plan. Ever since the provincial government handed the management of teachers' pensions to an outside body in 1990, about the only time members have had cause to consider the wizardry behind the curtain is when the plan has changed wizards. In 2020, Jo Taylor made everyone aware that someone new was in charge at Teachers when, after taking over from Ron Mock, he announced he wanted the plan to make "bolder and bigger" investments. The U.K.-born Taylor, who had run the plan's London office for eight years, then said he wanted Teachers to be more "entrepreneurial" and started talking about its "brand." The plan hasn't been this interesting since it sold its stake in the Toronto Maple Leafs in 2011. (1) We spoke to Taylor in February via Zoom.

The markets have been on a trampoline so far this year. How does OTPP cope with volatility?
We're a long-term investor trying to fund contributions to members on a 30- to 50-year time frame. You're really looking to stay with businesses where you believe in their growth prospects and that they are actually disruptive in a market that has attractive characteristics. And you're not put off by short-term implications, which may have nothing to do with the business. We have a lot of investment in private companies; they're less prone to massive fluctuations. The last thing to say is, we entered this year with some—I think *concerns* is the right word. We lightened our equity weighting a bit. Valuations toward the end of 2021 were pretty full in a number of markets. But let's be honest: Depending on what happens in Ukraine, things might start to look a little different.

Your plan has provisions for major adverse events. Can you give me a sense of what they are?
Let's be clear: A plan of our size, you can't cover all adverse events that could impact you. So, a massive shock to the exchanges around the world—we'll feel that. The other thing that affects a plan like ours is inflation. We try to do our best. I set the task for everybody when I started to increase the assets of the plan from $200 billion to $300 billion by 2030. To do that, we're creating about $150 billion of growth (2), so you're almost doubling the plan over that period. Which, frankly, is an interesting challenge.

How are you addressing the inflation threat?
We've leaned more into real assets, infrastructure and real estate, where you can have inflation-protected revenues, whether it's rents or payments from government on an infrastructure basis. We're pretty long on commodities. We have about 14% of the portfolio in commodities, deliberately to give us an inflation hedge.

Two years into the pandemic, how has the investment landscape changed?
It's harder to be an international investor, because people are thinking much more locally these days. It's hard to be an active investor in China and the U.S., because those two countries are going in quite different directions, politically. A number of sectors we would invest in have been really impacted by COVID. We're seeing quite a lot of disruption and digitization, as well as some businesses having to re-engineer themselves to be successful. So, how do we help them? We're an involved investor. We try to make sure our businesses are agile and can be, eventually, market-leading businesses.

Some change created by the pandemic is permanent, some is temporary. How do you tell which is which?
Honestly, I'm not sure you know at the time. Probably where we've changed the most is, we've really leaned into disruptive businesses we didn't own. Our Teachers' Innovation Platform, or TIP (3), is probably the highest-risk part of our portfolio. They've been very active through the pandemic, investing in 17 companies around the world, and the selection of companies is probably different to what it might have been pre-pandemic because of the disruption that's happened.

One more pandemic-related question. Have you seen a difference in the retirement rate of your membership?
A little bit. The profile of our membership, between retired and contributing teachers, is going in one direction. On average, teachers contribute for 26 years, and they retire and collect for 32-plus. We have to be very careful about the risk

1. OTPP sold its 79.5% stake in Maple Leaf Sports & Entertainment for US$1.3 billion. Noting the plan stood to make about four times its investment, Forbes called it "the greatest sports deal ever."

2. Last year, contributions from members and the Ontario government totalled $3.2 billion, with retiree benefits at $6.7 billion. That $3.5-billion gap is expected to increase annually. By 2030, the plan will pay out roughly $50 billion more than it takes in.

3. TIP is led by Olivia Steedman, who joined OTPP in 2002.

PHOTOGRAPH MIGUEL ARENILLAS

allocation we take.

When you took over Teachers in 2020, you said one of your goals was to make "bolder and bigger" investments. What level of risk are you comfortable with?

I was very deliberate around this $300-billion target. I've set a growth mandate agenda for everybody, with a difficult exam question: How do you do it, whilst taking, in some cases, half the risk of our competitors? **(4)** That's the skill. We've generated annual returns since inception of almost 10%. **(5)**

But given the demands on the plan, you saw the need to grow it even more. Was the plan not growing fast enough under Ron Mock?

Ron did a very good job, and the plan was fully funded under his leadership. As we go forward, we have to make sure the plan remains fully funded. We generate just under 80% of the returns. **(6)** And we have this outflow that is increasing—it's about $3.5 billion per year now, and it'll be about twice that in 2035. In a plan with our funding dynamic, if you have a really bad year, it's quite hard to recover. Which is one of the reasons we've decided to move quite a lot of our portfolio into private assets. They give us better, more predictable returns. **(7)**

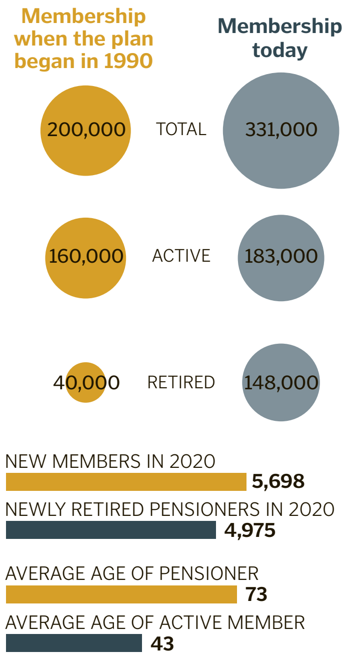
You made an investment in Elon Musk's SpaceX. What was the point of that investment?

We have invested in a number of businesses involved in providing satellites in orbit, to be able to provide features for people on Earth. What interested us around SpaceX was their ability to really dominate the low-orbit satellite installation world, because of their recoverable rocket fleet.

Was there publicity value for you, as well?

There's value and there's issues with SpaceX. Some people have exactly the same reaction—is this just a publicity stunt rather than a real investment? Which it wasn't, just to say it. But it is a known business. We say we want to back disruptive companies

THE RISING TIDE OF THE RETIRED



that are in our innovation platform. When you mention SpaceX, everybody gets it.

What sort of annual return are you expecting from your more venture capital–like investments?

Probably north of 20%. And we've been achieving above that since we launched the team.

Is that a predictable return or good fortune?

It's been a favourable market. I think we have backed some interesting companies that other people are now very interested to buy off us or to help co-invest in. It's a volatile portfolio within our overall mix, so we have to be thoughtful about that. To be honest, for a $230-billion pension plan, it's about 3% of our portfolio, but it's growing very rapidly.

That's not a great amount of money. What is its value to you?

It's good for our brand. It shows we're innovative. We buy businesses that are making a difference, that are disruptive, and that adds some lustre to our other activities. In some of our geographic regions, where we back a high-profile, high-growth business, we build more familiarity. For example, we've owned the National Lottery in the U.K. for about 13 years. We had more profile backing Graphcore, a chip business, than we had with the lottery, because it was a sexy, high-growth tech business.

You've said Teachers will be investing more of its money—half of all private investments—in foreign markets. There are special risks in investing overseas, where you don't know the nuances of the markets. How do you avoid making mistakes?

The best way is to employ local investors, because they understand that market better than I might from here. Historically, we've invested in about 50 countries. We've baked that down to nine **(8)**, to have that very clear, locally based strategic focus on how we win in those markets. The key considerations for me are: Is the government predictable and stable? What's our view of the economy? What's our view of regulation, and is it predictable? And the last one, which is also super important, is, What's the currency doing? We've had some countries where we've been able to make attractive local returns, but by the time you convert it back to Canadian dollars, it's less attractive.

It seems some Canadian investors are moving away from the domestic market. "Fleeing" was one description. Are you part of that trend?

One of the challenges is finding businesses of scale to support. Honestly, we'd love to do more. Infrastructure investments are highly competitive because there are eight large Canadian pension plans, and the number of opportunities are limited, compared with an international landscape. Our mindset is to invest in Canada whenever we can. If we find a good opportunity, we will really run quite hard at it. **(9)**

One area you're moving out of is oil and gas.

We've always been very low in oil and gas **(10)**, and we've been reducing it recently because we know members aren't that keen

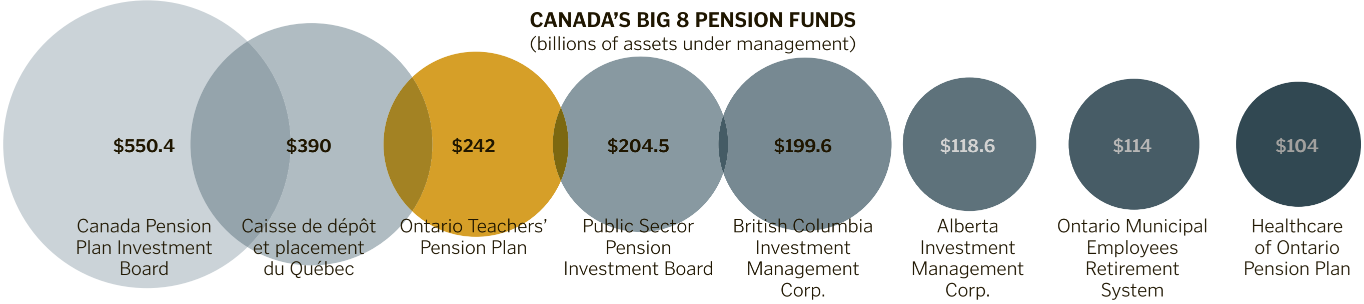
4. OTPP allocates approximately 40% of its portfolio to risk assets such as equities. Taylor says many of its peers, such as CPPIB, allocate closer to 80% to risk assets.

5. To achieve its $300-billion target by 2030, OTPP says it must generate an inflation-adjusted return of just under 5%. With inflation at 5%, its annual average return must reach at least 10%.

6. The provincial government and working members contribute about 11% each.

7. Over the next five years, OTPP plans to invest about $70 billion in private assets.

8. The nine countries are Canada, the U.S., Brazil, the U.K., France, Germany, India, China and Australia.



on us holding fossil fuel assets.

Teachers has targeted a 67% reduction in carbon emissions by 2030, and you want to be net zero by 2050. What's your mandate for that?

Just for clarity, we are looking at carbon-intensity emissions, different from absolute carbon reduction. We have to look at the overall intensity for assets we own, because if you buy more assets and just look at absolute footprint reduction, it gets quite difficult to deliver. (11) Why do we do it? I think because we believe in it, directed by our stakeholders. We've had very clear feedback from our members that they expect us to do it. We do it because we think we'll make better returns, because if we improve these companies with a better carbon footprint, they're more attractive and more valuable to third parties. And we do it to avoid having businesses that nobody wants to own, in case we want to dispose of them at a later date.

There's no official standard for what constitutes an ESG investment. Some funds are accused of greenwashing. How do you ensure you're investing in something truly green?

The easiest thing to do is to go out and raise a green bond. When we raise debt—labelled as a green bond—to fund green assets, everything you invest in is certified by an external expert who has said it's truly green. We've also asked consulting firms to look at our existing portfolio and say how much of it is green already. We have around $30 billion to $35 billion of green assets in our portfolio. So, we are walking the talk.

9. A third of OTPP's private investments are in Canada. When all assets, including fixed-income securities, are considered, 49% of the plan's investments are Canadian.

10. Oil and gas exploration amounts to about 3% of the plan's assets.

11. Teachers says that since 2019, it has reduced its carbon intensity by about 30%.

12. Taylor met the Queen, Boris Johnson and other U.K. officials during a summit of financiers in October 2021. Taylor admits he has not yet met Justin Trudeau.

You mentioned earlier that one of the things you focus on when investing in foreign markets is whether the government is stable. Do you consider the United States to be a stable government?

Well, there's an interesting question. I think if you look at the U.S. market at the moment, there are features in it that are quite similar to overseas markets that are seen to be higher-risk. Political stability could be one of those. If you look at things like inequality and the consistency of regulation across all states, there are some issues there for us. For balance, the U.S. has been far and away our best-performing market over 30 years. So you criticize it or move away from it only with careful thought.

What are your concerns about China's regulatory crackdown?

I do not have a crystal ball, and it's hard to know exactly where future changes will impact you as an investor. It's back to those three things—does it meet those tests of being stable politically, economically and from the regulatory point of view? I would say our bigger issue with China, Trevor, is the perception of investing there at the moment, given the historic situation with the two Michaels and the human rights situation, which we are very mindful of.

It really sounds like public perception influences your investment decisions as much as potential returns.

If that's what you've heard, I've given you the wrong impression, so I apologize. I have never been a proponent of investing for style purposes or for PR notoriety. Having said that, we're trying to develop a brand that is consistent with what we do. And we are very clear that, as well as making great returns and being thoughtful about our climate footprint, we also want our companies to have a positive social impact. We actually do want to do the right thing. And that's not just social greenwashing. That is something that is important to me.

You once said being an outsider allowed you to be more direct and challenging than someone who is part of the community. How has that worked for you?

I think there's a large premium in directness, honesty and candour in all things you do. Within the business, people know my style is basically, say it as it is and deal with difficult discussions, rather than try to avoid them. It's been a lot harder to connect with the Toronto community, meet people and build friendships in a pandemic where everything's locked down. At some point we'll get through this, which hopefully will allow me to make those relationships.

You did get a chance to meet the Queen, though. (12)

I did, yes. And Prime Minister Boris Johnson. He said to me, "You're one of these Canadian plans that own quite a few of our assets." And I said, "No, *we* own quite a lot of your assets." I ran down the list, and he went, "Wow. I didn't realize it was that extensive." But it was delightful to meet the Queen.

This interview has been edited and condensed.

Trevor Cole is the author of five books including the novel Practical Jean, *which won the Stephen Leacock Medal for Humour.*