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Ontario Teachers' Pension Plan

Top Canadian pension fund plans C$70bn push into private markets

The Ontario Teachers' Pension Plan intends to shift its allocation as low interest rates hit returns

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The Ontario Teachers' Pension Plan is gearing up for a fresh C$70bn push into private markets, spanning assets from infrastructure to real estate, as one of the world's largest retirement plans tries to escape the punishing effect of low interest rates.

The C$221bn plan, which is responsible for managing the retirement savings of more than 300,000 Canadians, intends to invest the sum in private markets over the next five years, marking a break from the public markets it and other pension funds largely rely on for their returns.

"We are investing a lot more in private activities and will do so over the next five years — so the best part of C$70bn will go into private activities around the world," said Jo Taylor, the president and chief executive of the OTPP.

"For now, with very low yields available (from fixed income) we are looking to secure better, more balanced returns in other asset categories," he added.

The ambition is a significant step up from the C$45bn that the OTPP has in real assets. Its plans could see the share of real asset holdings rise to around a third of the portfolio, up from a fifth at the end of last year.

Private markets encompass both real assets, such as real estate and infrastructure, as well as the debt and equity of privately-owned companies.

Established in 1990, the OTPP is already a high-profile investor. Some of its biggest investments include White City Place, a "creative campus" in West London and The Ritz-Carlton in Toronto Complex. It recently bought Caruna in Finland, a utility business, and Evoltz in Brazil, an electricity transmission business.

However, Taylor said its deepening drive into private markets would lift the weighting the fund has to regions beyond North America from its current 30 per cent, with Europe and Asia a particular focus. Under the plan, 50 per cent of future private investments will be made outside North America.

Jo Taylor earlier this year unveiled plans to be "bolder and bigger" with investments in an effort to meet its target growing its assets to C$300bn by 2030

"This is a major departure from our current portfolio — where some 70 per cent of our assets are based in Canada and the USA," said Taylor. "We want to be an international investor".

Institutional investors, including pension funds, typically use bonds and equities as the two building blocks of their portfolios, with an investment horizon tied to the often long-term nature of their liabilities.

However, analysts say that a combination of low bond yields and expected lower gains from stock markets will force more pension funds to shift allocations to private markets, including credit and private equity, where returns can be higher but assets are typically less liquid.

"We expect asset owners, including pension funds, to continue raising allocations to the private markets," said Michael Cyprys, an analyst covering brokers, asset managers and exchanges at Morgan Stanley.

Taylor, who took over as head of OTPP in 2020, earlier this year unveiled plans to be "bolder and bigger" with investments in an effort to meet its target growing its assets to C$300bn by 2030 — an amount it calculates is needed to remain fully funded.

Headquartered in Toronto, OTPP also operates out of London, Singapore, Toronto, Hong Kong alongside smaller operations in New York and San Francisco. Given the planned allocation to private markets, the fund is expanding its in-house investingteam.

"We need the skills in-house to make sure that we continue to perform at a really high level, to make sure we get the returns to reach the $300bn target, taking the right amount of risk," said Taylor.

Addressing Asia, Taylor said "we do see strong growth" there "and would probably like to increase our exposure there over time".

"But that's not to say we don't still see great returns and growth in North America. The US market has been really successful for us for a long time. You can see with some of the stimulus there will probably be good growth coming through too."

Despite criticism of China's human rights record, the Canadian fund has been growing its investments there, including in the country's education and tech sectors.

"There are issues around the world in terms of the political agenda of governments," said Taylor.

"When it comes to the businesses we invest in, we try to be thoughtful. But our requirement is to look around the world and say how do we get to a balanced portfolio internationally of C$200-C$300bn dollars and it is probably quite challenging to do that if countries like China are excluded completely."