



The AMBACHTSHEER Letter

Sustainable Pension Design • Effective Pension Management

September 2024

‘PENSION FUND CAPITALISM’ AND ‘OWNERSHIP INVESTING’:

ARE THESE LOFTY IDEAS USEFUL IN PRACTICE?

“As an active owner we can choose to engage with our portfolio companies to improve management of such factors as effective board governance, climate change, health and safety, human rights, community engagement, cyber security, sourcing and deployment of AI, and other factors material to the long-term success of companies.”

CPP Investments Annual Report 2024

“Portfolio Value Creation (PVC) works closely with deal teams, portfolio company management, and deal partners to create value within portfolio companies. Working across all sectors, geographies, and deal phases, PVC helps with diligence, enhances governance, monitors portfolio companies, drives operational change, and facilitates transfer of best practices across all areas of CPP Investments’ asset management and value-creating activities.”

CPP Investments Website

‘Pension Fund Capitalism’ and ‘Ownership Investing’

The [March 2024 Letter](#) titled “Travelling The Road To ‘Pension Fund Capitalism’: A Progress Report” discussed Peter Drucker’s ‘pension fund capitalism’ idea, and the [August 2024 Letter](#) titled “A Pragmatic Theory Of ‘Pension Fund Capitalism’: Implications For Managing Pension Organizations” explored its ‘ownership investing’ implications. This *Letter* addresses a logical follow-on question: the ideas set out in the two earlier *Letters* may make for lofty theory, but do they also lead to better investor practice and performance? That is the question this *Letter* addresses.

We do so with the help of the *CPP Investments (CPPIB)* organization, which manages the accumulated assets of the *Canada Pension Plan*, valued at C\$632B at the end of FY2024, and projected to pass C\$1trillion in 2032. Its investment policy is heavily skewed towards taking equity positions in operating businesses, as well as in organizations managing real assets in the infrastructure and real estate sectors. According to its 2024 Annual Report, 31% of invested *CPP* assets were in private equity, 28% in public equity, and 16% in real assets. This adds up to a 75% weighting in ownership assets overall.

The first quote at the top of this *Letter* makes it clear that *CPPIB* has an ownership mentality in making investment decisions. This mindset follows logically from its *Canadian Pension Model* heritage (i.e., organizational independence, good governance, and scale economies), and from its legislated mandate to ‘maximize return without taking undue risk of loss’. The second quote above describes an important means through which the organization is achieving its mandate: the *Portfolio Value Creation (PVC)* Group.

The Portfolio Value Creation (PVC) Group

The *PVC* idea germinated some 15 years ago as part of *CPPIB*'s decision to take a more active approach to investing *CPP* assets. The implication was to start playing an active role in assisting portfolio companies 'build better businesses'. Since then, the *PVC* Group has grown considerably, numbering some 40 professionals today, spread across offices in Toronto, London, Hong Kong, Mumbai, San Francisco, and Sao Paulo.

As already noted, its mandate is to *"work closely with deal teams, portfolio company management, and deal partners to create value within portfolio companies. Working across all sectors, geographies, and deal phases, PVC helps with diligence, enhances governance, monitors portfolio companies, drives operational change, and facilitates transfer of best practices across all areas of CPP Investments' asset management and value-creating activities."*

What kind of skills/experience set is required to do this broad mandate justice? Here is a composite CV of the 14 senior members of the *PVC* Group roughly organized into five categories:

- Corporate governance, corporate strategy, organization design and effectiveness, cost structure optimization
- Mergers and acquisitions, post-merger integration
- Product branding, environmental technology, biomedical engineering, waste management, decarbonization technology, infrastructure management
- AI-based analytics, telecommunications, digital transformation
- Real estate finance, litigation strategies

The collective skills/experience package of *PVC*'s leadership group was built partially through direct, hands-on experience working in commercial organizations, and partially through consulting projects while working for major consulting organizations such as *Bain*, *Boston Consulting*, and *McKinsey*.

The PVC Group In Action...In Their Own Words

So how does the *PVC* Group engage with *CPPIB*'s portfolio companies to protect and create long term value? Here is their answer when asked the question:

Most of our engagements fall into one of three categories:

- *Comprehensive strategy review and formulation*
- *Operational transformation*
- *Stand-up of new businesses and carve-outs*

Examples in each category follow.

COMPREHENSIVE STRATEGY REVIEW AND FORMULATION

- *Situations can change after a portfolio investment has been made. For example, business models can shift, or new market opportunities can emerge. Such changes could warrant a strategic review of the investment.*
- *In such cases, PVC's approach is to focus on identifying how the investment's key value-drivers may be changing, and engaging its senior management to adjust its strategic plan accordingly. These reviews typically involve leveraging subject experts in the sector, and clearly understanding the geographical and cultural contexts.*

- *Two examples of this kind of intervention involved a USA-based mid-market private lender and a global digital infrastructure provider. In the former case, new profit pools were unlocked with the design and implementation of a new line of business. In the latter case, a priority-setting challenge was addressed through a PVC-led strategic review. The result was renewed clarity on which businesses to invest in further, which businesses to downplay, or even fully exit. In each of these examples, PVC worked closely with investment team colleagues to undertake the strategic review and collaborated with the portfolio company's senior executives to bolster their strategy and business plans.*

OPERATIONAL TRANSFORMATIONS

- *We expect all our portfolio investment companies to have clear value-creation plans. Situations arise where such plans become stale and need to be updated. PVC can identify such situations and help boards and senior managements discover what is needed to drive transformation.*
- *This may involve sales force design, product or services pricing, and/or their cost-effective delivery (e.g., supply chain optimization, procurement, or operational effectiveness). PVC helps portfolio companies focus on actions that move the needle and ensure that the right resources are assigned to the work.*
- *For example, over the last five years, PVC has supported an infrastructure company management team in developing and implementing several efficiency programs. These programs have delivered US\$70M /yr in run-rate savings while maintaining high asset integrity. Three examples are restructuring a major third-party service contract, leveraging GenAI to create operational efficiencies, and building an incentives-supported 'lean' management culture.*

STAND-UP OF NEW BUSINESSES AND CARVE-OUTS

- *PVC runs a standard onboarding process for new CPPIB investments. This sometimes leads to an opportunity to unlock a promising business unit from a larger company. Such a unit may have been neglected and suffered from underinvestment. In such a case, PVC may assist the portfolio company in building out organization functions in HR, Finance, Legal, IT, and recruiting the requisite leadership team. At the same time, it ensures that the new policies and procedures are fit for purpose and bring consistency in governance oversight for the private asset portfolio.*
- *For example, CPPIB invested in a financial services unit that was being carved out of a global conglomerate, which created an opportunity to build an attractive stand-alone business. In this case, PVC negotiated a transition services agreement with the seller. This enabled the continuity of the business while setting up its new long-term operational framework. Interim executives were brought in to cover the key functional roles until permanent hires could be made. PVC ran an extensive process to select these key executive leaders, as well as directors for the newly established board.*

Measuring Value-Creation

While the work the PVC Group describes above should be value-creating, is that in fact the case? The performance-measurement section of CPPIB's FY2024 Report offers insight into this question. Specifically, the CPP total asset pool earned a net 7.7%/yr over the 5yr period ending March 2024. Not surprisingly, by far the largest contributions to that 7.7% return came from broad asset mix policy exposures, 5.7% of the 7.7% specifically.

However, a Report section titled 'Contributions to the 5yr returns by Investment Departments' decomposes the remaining 2.0% return into six 'value-added' subcomponents. Three of these 'value-added' components are Active Equities, Private Equities, and Real Assets, and their estimated contributions to the total fund 2.0% 'value-added' are 0.1%, 0.4% and 0.4% respectively, making up almost half the total.ⁱ While the combined contribution of the three value-added components was 'only' 0.9%/yr, that adds up to a highly material C\$5.7B/yr in a C\$632B portfolio.

Lofty Ideas Can Be Useful In Practice Too

Connecting and activating the ideas of 'pension fund capitalism' and 'ownership investing' is more than just lofty idealism. At a macro economic level, activating the two ideas integrated and implemented at scale can boost productivity, offsetting the negative productivity impact of aging populations in the developed world in the decades ahead.ⁱⁱ At a micro level, activating the two ideas in your pension fund has the potential to materially boost its long-term performance.ⁱⁱⁱ

Keith Ambachtsheer

Endnotes:

- i. *Most of the other half came from CPPIB's 'Total Fund Management' and from 'Capital Markets and Factor Investing' Departments.*
- ii. *The recent initiative by the new UK Government to understand, and possibly adopt, the Canadian Pension Model is an interesting development logically consistent with the proposition that 'lofty ideas can be useful in practice too'.*
- iii. *For pension funds that do not have the scale to insource a PVC function, it could be outsourced to a 3rd party investment management organization. We noted in the August Letter that Ownership Capital, MFS Investment Management and BNP Paribas Asset Management offer 'ownership investment' services.*

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