



True or False? CPP's Investments Are Mediocre Compared to Ontario Teachers' Pension Plan

Description

The Canada Pension Plan (CPP) delivered its second-quarter results November 10. The highlights, or lowlights, depending on how you look at it, included a 0.7% return from the end of June through the end of September with CPP fund assets of \$328.2 billion.

I'm writing this article because I happened to read a story about the CPP's quarterly report at the CBC website. After going through many of the 738 comments that have accumulated in less than a week, one of them made me ponder the question in my headline.

"Compared to a fund like Ontario Teachers, these guys are mediocre," said Paul Barry, talking about the Canada Pension Plan Investment Board (CPPIB), the professionals who manage the CPP fund for the people of Canada.

That got me curious about whether this is true or false. Let's have a look.

Different fiscal years

Putting together a definitive answer is made more difficult by the fact the CPPIB fiscal year is the end of March, while the Ontario Teachers' Pension Plan (OTPP) is the end of December. In the short term, this might be a problem, but over a more extended period, it's likely not to be a big deal.

Let's start with both plans' 10-year returns.

Plan 10-Year Return

CPPIB 6.7%

OTPP 7.3%

On this basis, you would say that the OTPP did a better job for its members by 50 basis points annually. However, a closer look at the numbers shows that the 6.7% return is after all of CPPIB's costs, while the OTPP's does not include administrative expenses.

Looking at all the costs of running the pensions, including administrative costs, CPPIB spent \$2.8 billion, or 0.88%, in its latest fiscal year to manage \$316.7 billion in net assets; OTPP spent \$1.16 billion, or 0.66%, on managing \$175.6 billion in net assets.

You might be able to shave 20-30 basis points off OTPP's return to account for administrative costs, but that still puts it ahead by 30-40 per year over the past decade.

Put in simple terms, a \$10,000 investment a decade ago in stocks such as **Seven Generations Energy Ltd.** (TSX:VII) and using a net return of 6.7% for CPPIB and 7% for OTPP, you'd have \$19,127 and \$19,672, respectively, after 10 years, a difference of \$545.

Over a decade, there's very little difference between the two. I'd hardly call CPPIB's performance mediocre relative to OTPP.

Another point of interest

If you examine the asset mix of the two plans, you'll see that OTPP's fixed-income allocation in fiscal 2016 was 44% of the total net assets compared to 22% for CPPIB.

Bonds don't perform nearly as well as equities, so if the OTPP has always been this heavily invested in fixed-income investments; it suggests the non-fixed income portion of the assets have done exceptionally well over the past decade.

I went back to the 2007 report for the two plans and found that the CPPIB's fixed-income allocation was 25% compared to 17% for the OTPP. In the 2016 report from OTPP, it does say that it's increased the fixed-income allocation to reduce the portfolio's overall risk.

Bottom line assessment

I would say that the performance of both plans over the past decade are very similar, and while the CPPIB does spend more managing the portfolio, at almost twice the size of assets, it's entirely understandable.

If I were a teacher, I'd be pleased with the performance of my pension plan. However, I definitely wouldn't celebrate the fact it's run the CPPIB out of the building.

That's simply not true.

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