# Best Caisse Scenario

A debate is raging over whether Canada's pension plans invest enough of their vast assets at home. And Charles Emond – the man charged with producing big returns while contributing to Quebec's economy – is at the centre of it all.

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Charles Emond leans into the microphone, ready to act out a perennial ritual for the CEO of Quebec's largest pension fund manager: parrying questions from politicians about whether its investments in its home province—which account for one-fifth of its $434-billion portfolio—are enough.

It's late April, and Emond is appearing at a hearing at Quebec's National Assembly, where parliamentarians are zeroing in on a perceived dilution of the share of assets the Caisse de dépôt et placement du Québec has invested at home, from 26.1% a decade ago to 20.3% today. Shouldn't the Caisse, they ask, at least get back to that previous threshold?

Speaking softly in French, Emond reminds MNAs that the Caisse set a target two years ago to boost its assets in Quebec from $78 billion to $100 billion by 2026. But what's even more relevant, he says, is that with $88 billion now invested in a province with a GDP of nearly $500 billion, "the Caisse is the pension fund that is the most invested, in the world, in its local economy."

Seated at Emond's left elbow, a powerful ally—Quebec Finance Minister Eric Girard—comes to the Caisse's defence. "We must take into account the size of the fund, the size of the Quebec economy. We can't compare percentages from different eras," Girard told the MNAs. "What's important is the Caisse is a partner to the Quebec economy."

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More than ever, Canada's largest pension funds are being pressed to play the same role in the rest of the country. The eight largest pension managers oversee more than $2 trillion in assets, and a fiery debate has erupted around whether they invest enough of that vast pool of capital in Canadian companies, infrastructure and innovation. In March, more than 90 business leaders—including Darren Entwistle of Telus T-T, Tony Staffieri at Rogers RCI-B-T, National Bank's NA-T Laurent Ferreira and Bombardier's BBD-B-T Éric Martel—wrote an open letter to the country's finance ministers, urging them to change the rules for Canada's major pension funds to encourage more domestic investment. And Ottawa has struck a working group, led by former Bank of Canada Governor Stephen Poloz, to find ways to make it happen.

Some of the pension world's most senior figures, meanwhile, argue that Canadian funds have thrived—and drawn international praise—thanks to a strict principle of freedom from political meddling. Anything that interferes with the singular goal of strong returns with manageable risk, they argue, is a threat to the pensions their depositors expect over the long run.

This national debate has shone an even brighter spotlight on the Caisse's unique mandate, which includes not just seeking "optimal returns" for its six million depositors (through 48 different pension and insurance funds), but doing it "while contributing to Quebec's economic development," as enshrined in the provincial law that governs the Caisse.

Those two objectives are not equal: Returns come first. But in an economy where the Caisse plays an outsized role, the second part of that mandate is never far from mind—a balancing act that defines Emond's job. "It's not as if we say, 'Okay, today this investment will be just about economic development, and this one will be just about returns, and hopefully, on average, it'll be okay," Emond says in an interview at the Caisse's Montreal headquarters. "Each deal is done with a huge level of financial discipline. Why? All eyes are on us, way more than elsewhere."

Indeed, though the Caisse has assets in nearly 70 countries (spanning real estate, infrastructure and private equity, as well as stocks and bonds), it's the centre of gravity for Quebec Inc., the tight-knit firmament of private and public companies that drive the province's economy. It has significant stakes in most of Quebec's flagship companies, many of which leaned heavily on the Caisse as they grew into industry champions, including Alimentation Couche-Tard ATD-T, CGI CGI-T, Intact Financial IFC-T and WSP Global WSP-T.

The Caisse also has a track record of standing by struggling companies that are major employers and key cogs in the local economy. That includes bolstering Bombardier's balance sheet at a critical moment in 2015 by buying a 30% stake in its trains unit. When French company Alstom acquired the rail business in 2021, the Caisse became Alstom's largest shareholder. Its stake has since lost two-thirds of its value. (For more on Bombardier, read "Nothin' but jet" on page 22.)

The Caisse also stuck by engineering giant SNC-Lavalin ATRL-T (now known as AtkinsRéalis), even as its share price plunged amid fraud and bribery charges, and an ensuing political scandal. The Caisse's leaders were sharply critical, calling for the company to be overhauled. But they didn't sell their 20% stake. The Caisse has been rewarded for its patience: AtkinsRéalis's stock is up 75% over the past year.

In a fishbowl of public scrutiny, and through a period of global upheaval—while steering construction of the Caisse's ambitious Réseau express métropolitain (REM), a 67-kilometre light-rail system in Montreal—the fund has largely performed well under Emond. Since he took over in February 2020, it's posted annual returns of 7.7%, 13.5%, -5.6%—that was 2022, amid surging interest rates, when many large investors took losses—and 7.2% last year. Over 10 years, it has earned an average of 7.4% annually.

CPP Investments, meanwhile—Canada's largest pension investor, with the Caisse at No. 2—has a 10-year return of 9.3%. But it's hard to directly compare their returns, because pension funds cater to clients with different demographics, investment goals and tolerance for risk, and therefore measure themselves against different benchmarks. So, there's a case to be made that the Caisse has held its own. "They both significantly outperformed their benchmark over the past five to 10 years," says Keith Ambachtsheer, co-founder of pension consultancy KPA Advisory and director emeritus of the International Centre for Pension Management. "If you take that as an indication of the quality of management, they're pretty much the same."

From Emond's first weeks as CEO, global investors have been blasted by successive unforeseen headwinds. "Inflation, wars, equity and bond markets going down at the same time, geopolitical risk, pandemic—name it," he says. "It provides confidence, because it's the ultimate test, in a certain way."

His predecessor, Michael Sabia, had spent a decade restoring stability after the Caisse suffered huge losses during the global financial crisis of 2008-09. At the same time, Emond was rising through the ranks at Scotiabank, spending four years as the investment bank's head of Quebec. Then he moved to Toronto to lead the bank's entire Canadian corporate banking and global investment banking teams.

In 2019, the Caisse and Sabia lured him back to Montreal to head up its Quebec operations, private equity division and strategic planning. A year later, he beat out a handful of insiders for the top job after Sabia stepped down to lead the Munk School of Global Affairs & Public Policy. "What we were looking for, after Michael, was someone a bit different, and with different experience, too," says Robert Tessier, who stepped down as chair of the Caisse in 2021, after 12 years.

The job puts Emond in charge of 2,300 employees, plus more at its subsidiaries. Colleagues and fellow CEOs praise Emond for his decisiveness, quick mind and no-nonsense approach. Bonus: He picks up the phone. If the CEO of one of the Caisse's portfolio companies—it's invested in 5,000—needs help, they can reach him on his cell. "He responds, like, lightning-speed," says Louis Tremblay, CEO of Quebec City–based electric-vehicle charging network provider Flo.

Jean St-Gelais, who succeeded Tessier as chair, calls Emond "the right person at the right time in the right place."

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In the depths of the pandemic and its aftermath, it fell to Emond to prevent a slide back into turmoil—no easy task, considering Caisse-owned malls, office towers, airports and trains were all sitting empty. Fewer people in Quebec were working, so there were fewer contributions flowing into the Quebec Pension Plan (whose funds the Caisse invests). And dozens of construction sites along the multibillion-dollar REM route had fallen silent under strict health and safety rules.

As the crisis dragged on, Emond says, "every company called in, and we sort of checked with them: 'How much cash you got, for how long?' So it became very, very immediate."

As part of its response, the Caisse earmarked $4 billion to support Quebec companies suffering the most. "To us, that's part of our mandate—to say, 'We're there when it's going well, but when you think the world is falling apart, we're open for business.' And that was a huge rally in Quebec—that we're still there to help you," says Emond. "We want to be seen and used as sort of a signature of what we call 'constructive capital.' And I think it paid off, because when I look at a lot of situations, with governments or elsewhere, they remember how we actually behaved."

Earlier this year, the Caisse's board rewarded Emond by extending his mandate as CEO until 2029—a decision that required approval from the Quebec government. But that's just another facet of Emond's balancing act.

WSP Global is a perfect illustration of the Caisse's above-and-beyond mentality. An engineering heavyweight, it designs bridges, offices, transportation systems and energy projects around the world, with 66,500 employees, including 12,200 in Canada. It's also the single largest publicly traded investment in the Caisse's portfolio—and likely owes its global clout in part to the pension fund's support.

In the summer of 2012, Montreal engineering firm Genivar, which had been rolling up rivals in Canada, offered $442 million to buy British-based WSP, hoping to gain a foothold in international markets. But Genivar needed help. "At the time, we were a very small firm from Canada. When you want to convince a British firm to sell itself to a cousin in Canada, I mean, we needed some credibility, and we needed some backing," says Alexandre L'Heureux, now CEO of WSP Global.

The Caisse and CPP Investments each owned 10% of Genivar, and both agreed to buy further shares to help finance the deal. But the Caisse wrote more than a cheque. "We asked the Caisse to write a letter on our behalf to WSP to say, 'Those guys are credible, those guys are great, those guys are solid, and you should trust them—and by the way, we're there to support them financially,'" says L'Heureux. "And that had a huge impact in building credibility with the seller."

Today, the Caisse's stake in WSP is worth nearly $4.2 billion, and the pension fund remains a steadfast backer. "If you are going through a rough patch, they are aware of the repercussions that this could have to our employees, to our headquarters," L'Heureux says. "I feel the Caisse has always been very sensitive to that, and I have to say it has not been the case through all pension funds."

Emond says the close, almost familial relationships the Caisse has built with its portfolio companies are an offshoot of its dual mandate—and they're key to its effectiveness. "That's a signature we have. It's not a constraint to the employees—it's a source of pride."

Many eminent pension fund leaders are skeptical. In March, seven of them—including former Ontario Teachers' Pension Plan CEOs Claude Lamoureux, Jim Leech and Ron Mock; and ex-CPP Investments CEOs David Denison and Mark Wiseman—co-wrote an op-ed under the headline, "Don't meddle with Canada's pension-plan model." It took aim at any policy change "introducing unclear mandates not related to financial returns."

Evan Siddall, the CEO of Alberta Investment Management Corp., went further in his own opinion piece, arguing that prodding Canadian pension funds to invest more in Canada "asks pensioners to foot the bill for Ottawa's failure to promote Canadian economic growth and productivity."

Siddall continued: "A dual mandate muddies the waters, the opposite of a 'clear mission.' Worse, any hint of political influence over our conduct undermines independent governance."

Choosing to give a pension fund a mandate oriented toward a specific country or province looks like "a trade-off," Ambachtsheer says. "It is a consequential decision, and the data proves that in spades... The good side is, you should know more about what's happening close to home. There just has to be a diversification cost attached to having that mandate. And the upside is very hard to measure."

"You've got to tread the line carefully," Emond says, and he's wary of governments directing pension funds to invest in a certain way. But he's adamant that serving a dual mandate doesn't mean living under the government's thumb. "We're independent," Emond says three separate times during our interview. That independence is written into the Caisse's charter, and the dual mandate is deliberately vague about the extent to which the Caisse has to contribute to the province's economy.

"Will they"—meaning the provincial government—"sometimes ask us to look into something? Yes. We've looked at many transportation projects, and for a lot of them, we said, 'Maybe you could do it, but we can't, given this or that,'" Emond says. "It's about having an open dialogue with them, and they fully understand what our role is, our obligations and all of that. In the end, in terms of talking about pressure, I never felt that pressure."

There have been, and always will be, politically sensitive investments. When Quebec-based hardware chain Rona Inc. faced a 2012 takeover bid from U.S. competitor Lowe's, the province vowed to find a way to fend it off. The Caisse initially increased its stake in Rona but, four years later, when Lowe's tried again, the Caisse agreed to sell.

"That caused us political grief, but it was the right decision to make, and the Caisse decided," says Carlos Leitão, who was Quebec's finance minister from 2014 to 2018 and now serves on the Bank of Canada's board of directors. "I think 20 years ago, the decision would have been made differently. In the last 15 or 20 years, I think we are getting it right, or we're getting it close to being right in terms of a workable dual mandate. There were some problems in the past, clearly. But I think the governance of the organization has been greatly improved."

There are checks and balances that help guard the Caisse's independence, says **François Dauphin**, CEO of the Montreal-based **Institute for Governance of Private and Public Organizations (IGOPP).** One is the intense scrutiny on the Caisse. **"**People want to make sure that they do get the same returns as they would**"** in any other pension fund, **Dauphin says**.

The Caisse's long investment horizon, and the fact that its leaders sometimes outlast governments, affords another layer of protection.

The government selects board members, including the chair, and approves the CEO, which certainly gives it influence. But those appointments are guided by recommendations from board committees, and if government ignored all input, “you would see people resigning from the board,” **Dauphin says**. “They wouldn’t accept that.”

Tessier, the former chair, held his fingers up in the shape of a zero to show how many times the government called to tell him to do something. “It never happened,” he says.

The current chair, St-Gelais, who spent his career in finance and provincial government, says he “would never agree to let the government put its hands in the Caisse decision-making process. I will just stand up and tell the government, ‘You have to stop doing this—it won’t work with me, and you will have to find someone else if you want to go this way.’”

Ultimately, **says Dauphin**, there may be one sure-fire defence against undue influence or criticism: “Good results, and long-term good results. They did not let go of their returns to invest in the local economy. In that sense, I think it’s probably the best answer they can give.”

Just east of the tracks at Du Quartier station, where the new REM trains link Brossard to downtown Montreal, new condos, apartments, offices and retail stores are springing up next to the big-box shopping centres that mark the border with green farmers’ fields.

The Solar Uniquartier real estate project is billed as a “transit-oriented development” that’s capitalizing on the new commuter rail line. There are 4,300 housing units being built, and major firms such as Laurentian Bank of Canada, private equity firm Novacap and consulting giant KPMG have taken office space.

The new complex is part of the $9 billion in economic impact Emond says the REM has already created for Montreal, with only one five-station line up and running, and three more lines with 21 additional stations still to come.

The REM project, with $4.6 billion in investment from the Caisse, is a tangible example of the pension fund’s role in the province’s economic development. It’s ambitious, important infrastructure that’s been highly scrutinized and often criticized, but provides a template for what the Caisse can do.

When the pension fund embarked on the REM in 2015, under Sabia, it created a separate subsidiary, CDPQ Infra, to manage major infrastructure projects. That represented a bold leap in its business strategy, from investing into managing construction and operating large infrastructure, and CDPQ Infra now has 111 staff. Emond wants the Caisse's infrastructure teams to do fewer, larger projects, and the REM has been a lesson in the promise in peril of that strategy.

The two-car driverless trains on the REM route to Brossard are smooth and modern. They arrive every three and a half minutes at peak hours, bypassing the bridge traffic over the St. Lawrence River that routinely snarled the commuter buses it replaces. But it hasn't been an easy ride to get here. There were construction delays, including from an unexpected detonation of century-old explosives inside the Mount Royal Tunnel. CDPQ Infra made a public apology for service disruptions last November, and the system that manages the trains from a central control room needed a January update to make it more reliable. There were also noise complaints from residents in the Griffintown neighbourhood, since mitigated by grinding the rails and installing plastic sound absorbers.

"It's not easy. The people at the Caisse are learning what it is to be involved in day-to-day operations and construction of such a big project," says St-Gelais. "For now, the goal is to deliver. That's what we're doing. Afterwards, we'll look at the lessons learned, and see to what extent we want to continue in the same way or change things for future projects. But so far, we're very pleased with what we've done."

The Caisse's depositors and pensioners should be happy, too, Emond says. "We're going to make great returns out of this."

The REM experience, combined with the increasingly turbulent investment climate in key markets abroad, such as China, the Middle East and India, will shape the Caisse's future plans for large projects. "I'd rather do REMs or other types of adjacent projects in Quebec or close by in our country than to go do another REM, for example, on the other side of the planet," Emond says. "If I have to have an impact somewhere, why not start with our own backyard?"

As one possibility, the Caisse is drawing up a bid to invest in a federal high-frequency rail project linking Toronto and Quebec City, but there are also alternatives. “There’s things that are being brought to us in terms of social infrastructure that might be quite appealing,” Emond says. “I’d rather broaden and diversify here, and then replicate and multiply the same thing abroad.”

The first year of Emond’s second term will be pivotal, for the pension fund manager and the global economy.

Economic growth is likely to be lower. Interest rates are expected to come down but remain higher than they were for much of the previous decade. Ditto inflation. Artificial intelligence could reshape investing and day-to-day business, and geopolitical tensions are likely to be high. “It ain’t gonna get less complicated,” Emond says. “We’re getting used to it. We’ve got to brace for it. But I think the last four years proved the fact that we have a portfolio that is well diversified and that our strategies have been paying off, and that it can withstand a lot of turbulence.”

Pension funds, known for patiently placing long-term bets, have had to adapt quickly to volatile markets.

When the pandemic reshaped working and shopping habits, pressure mounted on commercial real estate owners that owned malls and office towers. In response, the Caisse has completed about 300 transactions worth $50 billion in the past three years, cutting its exposure to offices and malls in half, and pouring money back into logistics, industrial and residential properties that are performing better.

Now, with a restructuring of its real estate arm under way—merging subsidiaries Ivanhoé Cambridge and Otera Capital with its in-house investment teams—the Caisse expects to save about $100 million a year. More than that, Emond expects it to yield a simpler, nimbler organization. “You had three different boards of directors, three investment processes, duplication, triplication, systems that didn’t talk to each other,” he says.

With public markets becoming more volatile, the Caisse has also retooled its processes to allow it to adjust its positions more quickly, and blended data scientists into investing teams to better use data to inform decisions.

To squeeze better performance out of the Caisse, Emond has tried to instill a culture where everything it does can be put on the table and debated. “I’m a big, big believer in actually having a mindset of pushing our limits all the time,” he says.

Is that hard for a large pension fund, responsible for safeguarding hundreds of billions of dollars for pension payments owed decades into the future?

“Here? No. And I’ll tell you why,” Emond says. “This dual mandate brings a DNA… I’m privileged because I don’t have to find a mission for this organization.”