HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

44th PARLIAMENT, 1st SESSION

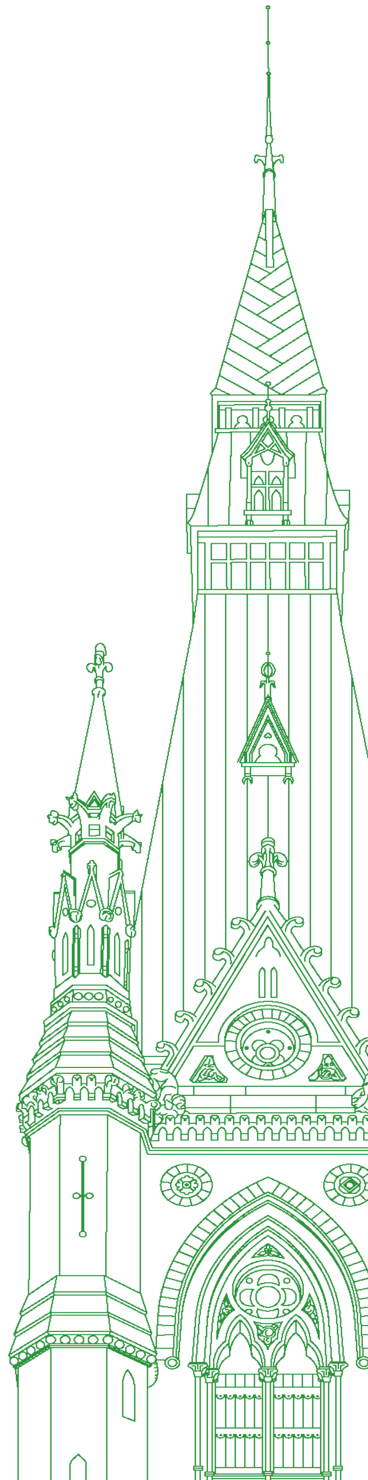
Special Committee on the Canada–People's Republic of China Relationship

EVIDENCE

NUMBER 020

PUBLIC PART ONLY - PARTIE PUBLIQUE SEULEMENT

Monday, May 8, 2023



Chair: Mr. Ken Hardie

Special Committee on the Canada–People’s Republic of China Relationship

Monday, May 8, 2023

● (1835)

[*English*]

The Chair (Mr. Ken Hardie (Fleetwood—Port Kells, Lib.)): I call the meeting to order.

Welcome to meeting number 20 of the House of Commons Special Committee on the Canada-People's Republic of China Relationship. Pursuant to the order of reference of May 16, 2022, the committee is meeting on its study of the Canada-People's Republic of China relations, with a focus on investment funds.

Today's meeting is taking place in a hybrid format, pursuant to the House order of June 23, 2022. Members are attending in person in the room and remotely by using the Zoom application.

There are a few comments to be made for the benefit of the witnesses and members.

Please wait until I recognize you by name before speaking. For those participating by video conference, click on the microphone icon to activate your mike, and please mute yourself when you're not speaking. There is interpretation for those on Zoom at the bottom of the screen. You can choose floor, English or French. Those in the room can use the earpiece and select the desired channel.

As a reminder, all comments should be addressed through the chair. For members in the room, if you wish to speak, please raise your hand. If you're on Zoom, please use the “raise hand” function. The clerk and I will manage the speaking order as best we can. We appreciate your patience and understanding in this regard.

In accordance with the committee's routine motions concerning connection tests for witnesses, I'm informing the committee that Mr. Cormier has gone through the tests—all witnesses are here—so we're all good there.

For members here, we will be taking the last 15 minutes of tonight's session for committee business. Because of the number of people who are here to give us testimony, your help in keeping to time in your comments and questions would be appreciated. I of course will be helpful in that regard as necessary.

We have some guests who are joining us. We have Randy Hoback for MP Michael Chong, the Honourable Ed Fast for MP Tom Kmiec and MP Arnold Viersen for MP Raquel Dancho. Later on, Mr. Genuis will be joining us.

On the Liberal side, we have MP Majid Jowhari for MP Emmanuel Dubourg.

Now we'd like to welcome our witnesses for our first panel.

From the Canada Pension Plan Investment Board, we have Michel Leduc, senior managing director and global head, public and corporate affairs. For Caisse de dépôt et placement du Québec, we have Vincent Delisle, senior vice-president and head of liquid markets, and Philippe Batani, vice-president, communications and public affairs. From the Public Sector Pension Investment Board, we have Eduard van Gelderen, senior vice-president and chief investment officer.

Each organization will have up to five minutes to deliver opening remarks.

We'll start with you, Monsieur Leduc, for five minutes or less.

Mr. Michel Leduc (Senior Managing Director and Global Head, Public and Corporate Affairs, Canada Pension Plan Investment Board): Good evening, Mr. Chair and members of the committee.

[*Translation*]

I'd like to thank the committee for its invitation.

I'm pleased to have this opportunity to answer your questions about our investment strategy.

[*English*]

CPP Investments is the professional investment management organization that invests CPP funds not currently needed to pay benefits. Our purpose is to help provide a foundation upon which more than 21 million contributors and beneficiaries can build lifetime financial security.

Our enabling legislation has very clear objectives—to achieve a maximum rate of return without taking any excessive risk, while also considering the factors affecting the overall funding of the Canada pension plan. A professional board of directors oversees the management of the enterprise. Assets are segregated from government funds and managed with the singular goal of repaying our contributors with their earned benefits today and for many decades to come.

The fund is composed of only two things: payroll contributions and net investment income. Assets of the fund now exceed $500 billion. Of that total, over $370 billion is from our investment operations.

Canada stands out as one of the very few countries worldwide with a solvent national retirement fund. Our organization was set up to expose the fund to capital markets to achieve financial returns. Optimal diversification and a long-term focus on growth have achieved a level of financial performance few institutional investors worldwide have matched. Recent third party benchmarkers ranked CPP Investments number one in performance among global peers.

Diversification allows us to capture global growth and withstand periods of market uncertainty. It is a powerful way to enhance returns and also to prevent concentration risk. When liabilities extend so far into the future—to pension obligations beyond 75 years—growth and resilience from diversification are predicated on exposure to emerging markets. These markets are expected to account for more than half the world's annual GDP within the next 10 years.

Exposing the fund to the Chinese market gives us access to one of the world's largest and fastest-growing economies in such sectors as consumer discretionary spending, logistics and real estate. In addition to growth from this demographic opportunity, China often moves in ways uncorrelated to developed markets, thus adding balance to our portfolio, yet we do absolutely understand that there are very significant risks, particularly in the face of important social issues and evolving geopolitical risks.

We aim to always conduct ourselves as principled and prudent investors with a view to acting in the best interests of contributors and beneficiaries. As we pursue global opportunities, we seek to avoid investments in companies involved in wrongdoing, especially violations of human rights.

We do this in different ways. We incorporate human rights into our investment decision-making processes for all major transactions. Second, we do strong diligence, including assessing political, legal and regulatory risks. Third, we have tools and systems to monitor and assess both passive and active holdings that do not meet our expectations on such issues as human rights.

As a long-term investor, we actively engage with and influence companies with human rights as a long-standing focus area. If that fails, we will exit or avoid making an investment in the first place.

All these processes apply to our investments in China. We recognize that any investment in China needs to be handled with care, sophistication and an acute understanding of the current political and geopolitical environment.

● (1840)

[*Translation*]

I'd like to thank the committee for inviting me.

I'd be happy to answer any questions you may have.

Thank you.

[*English*]

The Chair: Thank you, Mr. Leduc.

We'll now go to Caisse de dépôt et placement du Québec.

Mr. Delisle, you have five minutes or less.

[*Translation*]

Mr. Vincent Delisle (Senior Vice-President and Head, Liquid Markets, Caisse de dépôt et placement du Québec): Mr. Chair, members of the committee, my name is Vincent Delisle, and I'm Executive Vice-President and Head of Liquid Markets at Caisse de dépôt et placement du Québec. Joining me is Philippe Batani, Vice-President, Public Affairs and Communications at CDPQ.

We're here to represent Caisse de dépôt et placement du Québec, which was created in 1965 by an act of Quebec's National Assembly. We have net assets of $402 billion and manage the funds of 48 depositors—primarily public and parapublic pension and insurance funds in Quebec.

Tonight, to further the objectives of the committee, we'll provide an overview of CDPQ's international activities, including our activities in the People's Republic of China. We'll also talk about the measures we've adopted to conduct the most rigorous environmental, social and governance, or ESG, assessments possible.

So if we take a closer look at our total portfolio's international activities, the breakdown is as follows: Canada, 25%; United States, 40%; Europe, 16%; Asia Pacific, including Australia, 12%; and Latin America and other regions, 7%.

At the end of February 2023, our exposure to the PRC represented 2% of our total portfolio.

We invest more in liquid markets than private markets, which is a trend we expect to continue. Indeed, liquid markets—as the name suggests—give us more flexibility and agility to adjust our holdings based on the market environment and risks that may emerge over time.

Taking a more granular look at our exposure to the PRC, we have around 60% of our portfolio in liquid markets and 40% in less-liquid markets, particularly in real estate. Ultimately, we focus on Chinese companies that mainly serve their domestic market.

With total GDP of close to 20%, we see China as a market that contributes to our diversification and our depositors' long-term performance. Its economy also generated a quarter of global growth over the last 10 years.

As a global investment group, we take the same financial, geopolitical and legal risks into consideration in all the markets we invest in, as well as to ESG-related risks.

We believe that sustainable investing is necessary in terms of our responsibility toward communities and that it is also an important factor for the long-term viability of the companies in which we invest. These companies generate returns for our depositors, which represent over six million Quebeckers.

We know that the environment investors must navigate is complex and involves significant geopolitical tensions, so we take a cautious and measured approach.

Wherever we invest around the world, including in the PRC, we comply with all Canadian sanctions under all circumstances.

In terms of risks related to ESG criteria, including social factors, we follow a rigorous approach based on a sustainable investment policy that defines the framework under which we integrate them into our assets management process. The policy also sets out the primary tools available to our teams for them to achieve our objectives.

When making investment decisions, our teams use a variety of tools that emphasize applying ESG criteria, including background checks and a review of partners involved in the companies, thorough analyses based on the targeted ownership stakes, and a review of the ESG processes of all our external managers.

To conclude, we hope that this overview has been helpful in understanding CDPQ’s approach to international markets and the vigilance we apply to ESG risks.

We'd be happy to answer any questions committee members might have.

● (1845)

Thank you.

[*English*]

The Chair: Thank you very much, sir. I appreciate your timing.

We'll now go to the Public Sector Pension Investment Board.

Mr. van Gelderen, you have five minutes or less.

Mr. Eduard van Gelderen (Senior Vice-President and Chief Investment Officer, Public Sector Pension Investment Board): Thank you very much.

[*Translation*]

Good evening everyone.

I've been living in Canada for five years now and am very proud to have recently become a permanent resident. One of the commitments I have made is to learn French, and I hope to be able to speak with you in French on a future occasion.

[*English*]

I am Eduard van Gelderen, senior vice-president and chief investment officer at PSP Investments. In this capacity, I am responsible for overseeing PSP's total portfolio of over $230 billion and establishing our long-term investment portfolio strategy. My responsibilities also include government relations, sustainable investments, the complementary portfolio and PSP's internal and external communications.

I am pleased to appear before the committee today to discuss the nature and extent of our investments in the People's Republic of China.

PSP is a Crown corporation that operates at arm's length from the Government of Canada. It was established in 1999 to invest the amounts transferred by the Government of Canada for the funding of the post-2000 obligations of the following pension plans: the federal public service of Canada; the Canadian Forces; the Royal Canadian Mounted Police; and, since March 1, 2007, the reserve force pension plan.

PSP's statutory mandate is to manage the funds in the best interests of the contributors and beneficiaries and to maximize investment returns without undue risk of loss, having regard for the funding policies and requirements of the plans and their ability to meet their financial obligations. The government communicates its risk tolerance for the pension plans to PSP annually, and our task is to design and implement the most suitable investment strategy.

We take our job to support the long-term financial sustainability of the pension plans very seriously. Over our 22-year history, PSP has succeeded in its mandate and has supported the Canadian government in delivering on the pension promise. I am proud to report that over the last 10 years, PSP has achieved a return of 9.8%, which compares favourably with our benchmark. The difference amounts to an additional return of almost $26 billion.

The strong investment performance is based on our ability to invest globally via public and private markets. This allows us to allocate funds to regions with the highest economic growth and find the individual investment opportunities matching our long-term risk-return criteria.

Our geographical allocation is as follows: North America is 57%, which includes 10% in Canada; Europe is 19%; Asia and Oceania are 20%, of which 3% is in China; and Central America, South America and Africa are another 4%. We manage these investments from our four investment centres around the world: Montreal, where most of our staff is located; New York, with 57 employees; London, with 89; and Hong Kong, with 13.

PSP's sustainability activities are a key pillar of the CIO group's strategy and total fund approach. We believe ESG is not just about doing the right thing but also a financial reality. We became a signatory of the UN-supported Principles for Responsible Investment in August 2014. Since then, we have built a strong sustainability foundation and a robust ESG policy framework. Our sustainability and climate innovation group works intensively with the asset classes to oversee and implement activities across the total fund. They provide guidance on ESG themes and trends, build internal capacity through ESG knowledge sharing and collaborate with industry peers to drive systemic change on key ESG issues. We expect the same rigorous approach among the external managers and general partners with whom we work.

In closing, PSP's objective as a long-term investor is to be an insightful global investor focused on maximizing risk-adjusted sustainable value and keeping abreast of societal norms and values through active management.

● (1850)

This concludes my remarks today, and I look forward to your questions.

Thank you.

The Chair: Thank you very much, and we'll get to those questions now in our first round.

We'll begin with the Honourable Mr. Fast for six minutes or less.

Hon. Ed Fast (Abbotsford, CPC): Thank you very much to all of our witnesses. Thank you for appearing at our study.

Could each one of you tell me if you are aware of an executive order that was made in the United States by President Biden that prohibits American companies from investing in 59 Chinese companies? Are you all aware of that executive order?

I don't know if you were told that today we'd be broadly discussing investment in China, which doesn't only include ESG factors but also includes national security as an issue. I think all three of you mentioned ESG factors as a significant concern and as one that you have factored into your investment decisions. You didn't say much about national security concerns, as articulated perhaps a little more aggressively and assertively in the United States.

Perhaps I could ask each one of you to very quickly comment on whether those concerns are factored into your investment decisions.

Mr. Michel Leduc: Thank you.

Absolutely, we're aware of.... I believe it's called a U.S. entities list. One of the changing dynamics around being a global investor is that in the broad brush of geopolitics, it doesn't just surface in a particular country. We think about investing in China and what decisions the government may make that could change the rules of the game in that country. Over the last seven years, what we've seen is an erosion of predictability in global trade rules. That has also resulted in various countries, including the United States, thinking through their own relationships with other global trade powers.

National security has really risen to the top of the agenda among public policy-makers in Washington. It's an area that we're following very closely. One of the reasons we're following it very closely is that CPP Investments has been deemed to be an independent pension plan in the U.S. What that means is that we have a special status. There are some very rigorous rules when a foreign investor enters a market like the U.S., rules that could make it much more difficult and more costly to make investments. With the U.S. being the largest economy, it's very important for us to efficiently acquire assets. For example, we recently made an investment in a significant port system in the U.S. That would be very difficult to do without the status that we have. That status means that we have to engage with Washington and with policy-makers so that they understand our approach to China.

Hon. Ed Fast: Thank you.

Mr. Delisle, would you comment?

[*Translation*]

Mr. Vincent Delisle: Mr. Chair, diversification is our main emphasis in building our portfolio. Needless to say, when the geopolitical situation changes, so does the risk and performance profile for these investments. Our intention is to be a world leader in ESG criteria and investment, whether environmental, social or governance. When new situations arise, such as sanctions or tensions, we build these into our portfolio structure.

As I mentioned in my introduction, most of our investments in China, about 60%, are in liquid and public markets, mainly stock markets. When the situation changes, or if sanctions are in place, we comply and can adapt the portfolio or even withdraw because we can sell a position.

● (1855)

[*English*]

Hon. Ed Fast: Go ahead, Mr. van Gelderen.

Mr. Eduard van Gelderen: Thank you.

When we think about our investment process, there might be an idea that portfolio managers are making decisions by themselves. That is actually not the case. Almost every single investment, especially in private markets, has to go through a committee—what we call the risk and investment committee—which means that once a proposal is on the table, the risk team will look at it and our legal team will look at it and our responsible investment team will look at it. We really dice and slice an investment proposal in many different ways, including with regard to geopolitical risk and national security risk.

This is actually becoming, as my neighbour said as well, more and more important in our process. Before an investment decision is made, it has been looked at from many different angles, including national security and geopolitical risk.

The Chair: You have about 40 seconds left, Mr. Fast, if you want a quick question.

Hon. Ed Fast: Great. I'll go back to Mr. Leduc.

Canadians will want to know what percentage of their investments are invested in China.

Mr. Michel Leduc: It's 9.8%.

Hon. Ed Fast: Do you also have to divest yourself at times when you realize that the ESG risk, or the moral risk, of that investment is much too high?

Mr. Michel Leduc: Investments are made of three things: buying, holding and selling. On any given day, we do all three. If we're not satisfied with the level of risk or the information, we will absolutely invoke any one of those. In that case, it would be selling.

The Chair: Thank you very much, Mr. Fast.

We'll now go to Mr. Fragiskatos for six minutes or less.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you, Mr. Chair. I'll begin with Mr. Leduc.

Thank you, by the way, to all of you for being here tonight. It is appreciated.

To pick up on this point of 9.8% exposure, how has that evolved in, let's say, the past 10 years? Where were you a decade ago?

Mr. Michel Leduc: I don't have the precise figures in terms of how that has gradually increased. I will put it into some context.

For example, we're invested in the U.S. at about 35%. We're invested in Canada at above 14%. Again, to put it into more perspective, currently today, as my peers mentioned, China is around 20% of global GDP and Canada is just above 2%, so that gives you a sense of....

We don't invest based on country-specific exposure. We think about things more on a factor basis. What that means is that we look at developed markets and we look at emerging markets. What would be the types of exposure that we want so that the fund doesn't always move in the same direction? There are some areas of the fund that are not correlated.

I'm more than happy to give you the specific data in terms of how exposure to China has increased in the last decade.

Mr. Peter Fragiskatos: Perhaps you could table that with the committee at another time, after the meeting or in the coming days.

This question will go to each of you.

I take the points that you've raised on human rights. It sounds like each of the funds places a focus on that value. My question is on how attention to human rights is filtered down within each organization. How is that woven into the culture of each fund, so that when decisions are being made or analysis is being taken...?

For example, Mr. van Gelderen, you talked about the risk committee that exists. My question relates to precisely that. How is a culture of human rights put forward within each organization so that it is a key lens in decision-making?

We can begin with Mr. Leduc again, and then Monsieur Delisle and Mr. van Gelderen.

● (1900)

Mr. Michel Leduc: We—all of the professionals and practitioners who join CPP Investments—begin with a risk culture. It's important in our corporate culture and our guiding principles of high performance, integrity and partnership.

Human rights are increasingly an investment consideration. They are how we see the world. We strongly believe that any business, any asset, any company that does not take human rights seriously will just not be around. It's a destruction in value, especially given our very long investment holding. If we're going to hold a business for 10 years, we just don't think it's going to create value unless it takes....

Our perspective is that it's built into the professionalism of being a global investor.

[*Translation*]

Mr. Philippe Batani (Vice-President, Communications and Public Affairs, Caisse de dépôt et placement du Québec): Mr. Chair, the Caisse de dépôt et placement du Québec was very quick to incorporate ESG culture—environmental, social and governance—into its investment processes. This culture takes the form of a highly structured and rigorous approach to dealing with these ESG factors.

It begins with a sustainable investment policy that describes the organization's convictions, together with the approach, factors, and tools employed by our teams to implement the organization's decisions. This policy also describes the risks to be factored in, whether financial, operational, ESG or geopolitical, and that could be harmful to the Caisse's reputation. The policy applies to all the portfolios, teams and sectors in which we invest. It's a highly systematic approach that affects all of our investment activities, no matter what the geographical region in which we are investing. That includes China.

I'd now like to say a word about the process introduced by the Caisse, to help you understand what it all means concretely. To begin with, systematic filters are applied to our portfolios. That includes sanctions and sectoral exclusion, one example of which would be tobacco. It also applies to sectors which do not respect human rights…

[*English*]

Mr. Peter Fragiskatos: I'm sorry, Mr. Batani. I only have about 45 seconds left. I would like to get Mr. van Gelderen on the record.

Mr. Eduard van Gelderen: Thank you.

I would answer your question in the following way.

Our mandate that we get from the government is actually a very beautiful mandate, because it provides a lot of flexibility in terms of where and how to invest. For example, many people will claim that you have to build up a global portfolio according to GDP numbers, but there's nothing in our mandate to say that we have to have, let's say, 20% in China because it's 20% of global GDP.

When we start to build our policy portfolio and our strategic portfolio, we do take the world into account, but we start off with in-depth analysis of the different regions and countries. Again, we dice and slice this in many different ways to get a real feeling for what this country or region is about.

If there—

The Chair: Excuse me, Mr. van Gelderen. I'm afraid we've run out of Mr. Fragiskatos' time.

We now have to move to Mr. Trudel for six minutes or less.

[*Translation*]

Mr. Denis Trudel (Longueuil—Saint-Hubert, BQ): Thank you, Mr. Chair.

Thank you very much, gentlemen. You can't imagine how pleased I am about being able to hear witnesses speak French. This evening, the committee has heard more French spoken than when members of cabinet speak in the House of Commons.

This afternoon, something rather unusual occurred when a Chinese diplomat was expelled by Canada. Did that raise any alarm bells? Did you say to yourself that China would probably retaliate, likely in the form of sanctions? We can certainly expect a response from China. Did you perhaps think there might be an impact on the investment funds you manage?

Mr. Batani or Mr. Delisle, did this geopolitical event lead each of the organizations you represent think about what might happen, and what its impact might be?

● (1905)

Mr. Vincent Delisle: I'd like to return to one of the subjects we discussed this evening.

Portfolio diversification enables us to diversify risks, no matter what the region or sector. We try to mitigate eventualities. An ad hoc event doesn't change how the portfolio is structured. When we see events on the horizon that change the relationship between risk and performance, which is what a portfolio is built around, then of course we ask ourselves some questions. We ask questions like this often, no matter what the circumstances. We wonder how the geopolitical and macroeconomic contexts are changing and adapt the portfolio accordingly.

Mr. Denis Trudel: Mr. Leduc, do you have anything to add?

[*English*]

Mr. Michel Leduc: Thank you.

I'll just complement what my peer suggested. I won't add.

Definitely, diversification is critical. It's true that in the last couple of years, these events have been impacting bilateral and multilateral relations. When there's an event, sometimes there is a secondary event and tertiary events, and what we're finding is that there's no place to hide. The increasing level of diplomatic friction among some of the large markets that we invest in is something that we have to be very well aware of, and we have to go in with eyes wide open. As my peer suggested, diversification is the most powerful antidote to these events, and they're happening with increasing frequency.

[*Translation*]

Mr. Denis Trudel: Do you think there is a risk that China, as a form of retaliation, could do something like confiscate your current assets?

[*English*]

Mr. Michel Leduc: I don't think it would be constructive for me to speculate on what China might do, but it is the type of reaction that we've seen around the world. We won't speculate on that, but it's something that we always have to brace ourselves for.

[*Translation*]

Mr. Denis Trudel: All right.

Mr. van Gelderen, would you like to add anything?

[*English*]

Mr. Eduard van Gelderen: I have an answer similar to those of my two colleagues.

The event this afternoon for sure was noticed. It was discussed immediately with my team in Montreal in terms of how it will impact the pricing of geopolitical risk.

That's a very difficult topic, to be honest, because it's not isolated. When something happens in one country, it immediately has an impact on another country too. Diversification is one of the tools, the methods, to mitigate that risk. However, for sure we will have another discussion on what this means and whether enough of the risk is priced into the different markets.

[*Translation*]

Mr. Denis Trudel: As we saw this afternoon, it's the tip of the iceberg for a situation that has been ongoing for a few weeks, or even a few months, now.

Generally speaking, do your organizations believe that the risk level is higher? If so, was a new analysis done? Are you beginning to think that investing in China could be a problem?

I'll ask Mr. Leduc to answer first.

[*English*]

Mr. Michel Leduc: We also have to be very cautious to not be episodic and not overreact to events.

Again, I'll lean on our exceptionally long investment horizon and thinking about the importance of being exposed to emerging markets, knowing full well that there will be risks from time to time.

I would say that the overall geopolitical situation over the last five years has intensified. Those risks have increased in terms of portfolio construction and in terms of the sorts of factors that we're comfortable with.

It's a continuous process, based on a natural rhythm of thinking through what our risk appetite is among different sorts of risk. There are a variety of different trigger points that ensure that process happens. For example, most recently, the chief actuary of Canada did a very extensive, thorough review of the sustainability of the Canada pension plan, and there are a lot of forecasts and adjustments. That gives us an opportunity to assess where the fund is going in terms of the projections over the 75 years and to test whether our risk appetite continues to be prudent.

The same applies to other sorts of risk. Our approach is to develop a portfolio that will help sustain the fund, taking into account factors that drive that sustainability, being very well aware of the increasing geopolitical risks and other forms of risk, and taking into account the continuous, systematic process for portfolio construction and not being driven by episodes.

● (1910)

The Chair: Thank you, Mr. Leduc. Thank you, Mr. Trudel.

Next is Ms. McPherson. You have six minutes or less.

Ms. Heather McPherson (Edmonton Strathcona, NDP): Thank you very much, Mr. Chair.

Thank you all very much for being here this evening.

I know it's painful sometimes for all of us to be here late at night on a Monday. It's time that you probably could be spending with your families, so thank you very much for taking the time to share your expertise with us.

I'm not an expert on any of this, so I appreciate your bringing your expertise here.

This is one of the questions I have, and I'll ask it to each of you.

How ownership is determined within many different investment structures can be very complicated. For example, we know that in sub-Saharan Africa, much of the infrastructure is being funded by the Chinese government. We know that China has many assets throughout the world.

How do you determine that you are not in fact investing in Chinese companies? How do you measure that risk, knowing that it is not just what's happening in China but what's happening around the world as Chinese presence continues to spread through their belt and road initiative?

That's something I am interested in.

Mr. Batani or Mr. Delisle, I would perhaps start with you.

[*Translation*]

Mr. Vincent Delisle: The purpose of our exposure in China is to provide us with a form of sectoral diversification in areas that we don't find in other geographical locations. As I mentioned in my address, we decided to place an emphasis on liquid markets for our investments in China, which allows us to change our minds and resell these assets if circumstances call for it.

The investment process, whether in China or elsewhere, is the same. It is rigorous in terms of ESG indicators. In China, we need to consider not only our national exposure, but also the major American or European multinationals that do business there. Domicile is an important consideration for us, but the process to which we are subject is even more so. We're talking about China today, but virtually any company included in our portfolio is subject to the same criteria. Whether these are ESG indicators or other criteria, we assess the risks.

[*English*]

Ms. Heather McPherson: Thank you.

Mr. Leduc, I met with you and Mr. Downing about a year ago to speak about the Canadian pension plan. Thank you for being here.

I'd love to be able to ask you some questions about the Alberta pension plan, but I don't think that's the topic we're working with today.

Could you comment on how the CPP manages those risks?

Mr. Michel Leduc: It's a very good point.

When we think about the opportunities and risks associated with investing in China, we see that they're not limited to those geographic borders. We believe strongly that in order to get growth and the resilience for the fund over our investment horizon, we need exposure to emerging markets, and you can't be exposed to emerging markets without understanding China. It is a disproportionate amount of that emerging market.

That means being well aware of its place in the world as a large exporter. Our approach to engaging and investing in China begins by truly doing our homework, our due diligence, and it comes down to the “how”. The low-cost approach of passive investments doesn't allow us to really understand those risks. We believe in being an active investor and understanding the sectors we're comfortable with and understanding the sectors that we're simply not comfortable with. The “how” really matters in that context.

● (1915)

Ms. Heather McPherson: Thank you.

Go ahead, Mr. van Gelderen.

Mr. Eduard van Gelderen: I have one thing to add to what my neighbour just said.

This is not something that suddenly popped up. China and Asia have been very powerful forces for decades already. In the global economy, the interdependencies are huge, so your point is spot-on. It's not a bloc that you can ignore, because the interdependencies are so huge, even within the U.S. or Europe and China.

I totally agree with my neighbour that a long-term investor should be an active manager and should spend the time and the effort to really understand the value chains and business models to get a better grip and a better understanding of how things work and where countries have an impact or do not.

Ms. Heather McPherson: Just to follow up on that a bit, yes, the growth of China's investments in different places around the world hasn't been going on for a very long time, but I think there's a new belligerence that we are seeing from China. It could be echoed very much by investments that may be made in Russian investments. We've now seen that the reality on how we manage that has changed very quickly.

Knowing those changing levels of belligerence or the changing levels of how the Chinese government is acting, do you trust that the majority of pensions.... You don't even have to speak about your own. Do you feel that Canadians are protected? Do we have enough legislation in place? Are we doing enough to protect against the risks that perhaps are increasing?

Mr. Eduard van Gelderen: Well, I would—

The Chair: Excuse me, Mr. van Gelderen. We've come to the end of Ms. McPherson's time.

Ms. Heather McPherson: I'm sorry.

The Chair: She will have another turn to ask you some questions.

We now go in fact to our second round. We'll begin with Mr. Seeback for five minutes or less.

Mr. Kyle Seeback (Dufferin—Caledon, CPC): I'm going to try to ask direct questions very quickly to see if you can answer them quickly, because I have only five minutes.

You mentioned that you're aware of the executive order in the United States that listed 59 entities that the United States has banned. Do any of your investment funds have direct or passive investments in those 59 entities?

I'll start with you, Mr. van Gelderen, and then we'll just work our way down.

Mr. Eduard van Gelderen: Given the exposure we have to index tracking and passive management, I do expect that some of these names are in our portfolio.

Mr. Kyle Seeback: Thank you.

Mr. Leduc, you're next.

Mr. Michel Leduc: To the best of my knowledge, we have no direct exposure to any of the companies that are on that list.

Mr. Kyle Seeback: What about passive exposure?

Mr. Michel Leduc: That is something I will have to confirm.

Mr. Kyle Seeback: Go ahead, Mr. Delisle.

[*Translation*]

Mr. Vincent Delisle: We will give you the relevant details, but we do comply with sanctions. These lists are part of our systematic filters, and when we can, we apply them and make changes to the portfolio.

We could provide you with specific details.

[*English*]

Mr. Kyle Seeback: Thank you.

Mr. Batani, would you comment? Oh, you're the same.... I'm sorry. I apologize.

Second, are all of you aware of the Uyghur Forced Labor Prevention Act and the entities list that was created as a result of the Uyghur Forced Labor Prevention Act?

It's the same question. Do you have any direct investments or passive investments with companies that are listed under the UFLPA entity list?

I'll start again with you, Mr. van Gelderen.

Mr. Eduard van Gelderen: On this particular point, I'll have to double-check with my team. I don't know. I can't answer that question.

Mr. Kyle Seeback: Okay.

Mr. Leduc, go ahead.

Mr. Michel Leduc: I'm going to have to familiarize myself with that particular legislation, but we are exceedingly cautious in that particular region.

Mr. Kyle Seeback: Okay.

Mr. Delisle or Mr. Batani, go ahead.

[*Translation*]

Mr. Philippe Batani: For example, we voluntarily observe the list of entities identified by the Uyghur Forced Labor Prevention Act, the UFLPA, through our portfolio.

[*English*]

Mr. Kyle Seeback: Okay. That's great.

The next question is again on direct versus passive investment.

Hong Kong Watch put out a report in which they talked about various index funds with, for example, MSCI Emerging Markets Index, MSCI China Index and MSCI All World Index. For all of those index funds, they said there was forced labour in the supply chains of those companies or of others. Do any of your investments include any of those funds that I just listed?

We'll go down the line again.

Mr. Eduard van Gelderen: In our passive investment approach, we do have exposure to the MSCI AC Asia Index funds, so yes, there will be some names.

● (1920)

Mr. Kyle Seeback: Mr. Leduc, go ahead.

Mr. Michel Leduc: In the spirit of directness, the short answer is no, but I'm more than happy to explain a little bit about how we use indices. It's all through synthetics. There's no fund that actually gets into those companies.

Mr. Kyle Seeback: Okay.

[*Translation*]

Mr. Vincent Delisle: We use lists such as the MSCI China ESG Leaders index. We have some passive investments in China.

However, as we mentioned, when we detect undesired investments in liquid stock exchange markets, we quickly remove them from the portfolio.

[*English*]

Mr. Kyle Seeback: Then, given that there may be passive investments in these things—I think there are—and exposure to some of these indexes, would your recommendation be that Canada needs some legislation to ensure that these types of investments are not taking place?

Is there anyone who wants to take a stab at that?

Mr. Michel Leduc: I'm willing to say that this approach could be a blunt instrument. I think it really depends on the due diligence of these organizations. There could be unintended consequences in terms of having restrictions on our ability to invest broadly.

Mr. Kyle Seeback: Does anyone else want to...?

[*Translation*]

Mr. Vincent Delisle: We have always complied with Canadian laws and sanctions.

Making laws is not our role. That falls to the government, for whatever reasons or circumstances may arise.

Whenever we are informed of a new rule, we do everything possible to follow it.

[*English*]

The Chair: Thank you, Mr. Seeback.

We'll now go to Mr. Oliphant for five minutes or less.

Hon. Robert Oliphant (Don Valley West, Lib.): Thank you, Mr. Chair.

Thank you all for being here. Thanks to some of you for taking care of my money.

I say that because you are guardians of a public trust in different ways. That is the money that members—either in Quebec or in the rest of Canada—or public sector union employees might put in. We need to trust you, but we also need to question you. This is the kind of conversation I would like to have over a glass of wine, to talk to you about our concerns as legislators and the due diligence that you need to do.

There's even the fact that they probably briefed you on who each of us is. I'm a United Church minister. We have come at issues of investment from a moral standpoint for a long time. I don't always share that.

I actually think we come at this from an investment standpoint, and the risk that I want you to manage for Canadians is the risk of a bad investment because of geopolitical crisis, environmental degradation or human rights abuses. Necessarily, you are investing for a long period. I'm going to live a long time and I want my CPP to keep coming. I want money from the Caisse to keep coming to my partner. I want that to happen. It's from a financial standpoint, not a moral standpoint that I come to that. I don't actually believe you're in the morals business. I think you should be investing our money clearly.

I want to know a little bit about how you actually assess that risk. What are your sources? Where do you go to get information? You have over a trillion dollars among the three of you. How do you do that work? As opposed to having a legislative response, what is your practical response in keeping my long-term investments safe and free from human rights abuses?

Mr. Leduc, most of my money's with you, so you can start.

Mr. Michel Leduc: As a contributor, may you live a very long life.

● (1925)

Hon. Robert Oliphant: Thank you.

Mr. Michel Leduc: We're a knowledge-based organization. It begins first and foremost with the people. This is why the emphasis around the creation of CPP Investments, first and foremost, was to create a professional investment organization.

Of course, with the evolution of the investment landscape, the issues have become much more complicated in truly understanding the broader environmental and social governance. We talk frequently about our exceptionally long investment horizon, but that also comes with risks. The longer you hold on to a particular asset, the more likely it is that something will happen. If you own, say, a toll road in a particular country, there's the likelihood of something happening over a decade. Maybe government intervention in the rates is higher. We have to be very alive to the wide variety of risks that come forward.

Hon. Robert Oliphant: Do you read Human Rights Watch reports, Amnesty International reports—

Mr. Michel Leduc: Absolutely.

Hon. Robert Oliphant: —and transparency reports? Can you give us some comments—

Mr. Michel Leduc: We are a data-driven organization. That's both qualitative and quantitative information. As I said, we are a knowledge-based organization, so it really is based on as much information as possible and the best possible information.

It's also important that we have offices in our key markets. It's not enough to read a report that you can pull out or acquire. It's being on the ground, developing relationships with business partners who understand the local business culture, building relationships with governments everywhere we operate, not developing a relationship when bad things happen but having the relationship before bad things happen or good things happen, when they want to sell their assets to us.

I think it's relationships with data and information and being agnostic about the source of information.

Hon. Robert Oliphant: What role—maybe this is for the Caisse as well—do Quebec or Canadian values play in this, in addition to risk management? Do they play a part of your corporate culture as investors?

The Chair: We'll need a brief answer, if you don't mind.

[*Translation*]

Mr. Philippe Batani: As the investor for six million Quebeckers, the Caisse is inseparable from Quebec society. Naturally then, through our investments, we want to invest in a constructive manner that reflects our society's aims and values. We do that in a structured and thorough manner, as my neighbour mentioned, by acquiring the best possible talent and information to identify the issues you were talking about. We also do it by acquiring the best available information from international data lists and by complying with any lists of sanctions established.

[*English*]

The Chair: Excuse me, Mr. Batani. We've exceeded Mr. Oliphant's time now. You'll have another opportunity for sure.

In fact, another opportunity now goes to Mr. Trudel for two and a half minutes or less.

[*Translation*]

Mr. Denis Trudel: Thank you, Mr. Chair.

Mr. van Gelderen, my question is for you because I didn't have the opportunity to hear your answer to my last question.

For a week or two now, there has been a lot of pressure on the Trudeau government to expel the Chinese diplomat, which happened today. I heard a radio interview this morning that said the government should weigh economic and political interests, among other things, before taking action. It made its decision today, but were you consulted?

Given that these funds involve Canadians, does the government consult you and ask for your advice before making decisions like these?

[*English*]

Mr. Eduard van Gelderen: Thank you for bringing this forward.

As I said, it is very complex. It's not an isolated event. If you think about the consequences that we will face, you realize it's not just China. It's actually impacting our whole global portfolio.

To answer your question, has the government consulted us on their decisions? No, they haven't.

[*Translation*]

Mr. Denis Trudel: Were you consulted, Mr. Leduc?

[*English*]

Mr. Michel Leduc: No, they have not consulted. We consult, and governments consult with us around the world, on a broad range of matters—infrastructure, policy and different investment-related issues—but when it comes to diplomacy, that's not an area of our expertise, so....

[*Translation*]

Mr. Denis Trudel: So in the past week, then, no one from the government called you to warn you about a potential impact of some kind, or that they were thinking of making a decision like that, or that China might be imposing sanctions. Didn't they consult you on this?

[*English*]

Mr. Michel Leduc: No.

[*Translation*]

Mr. Denis Trudel: Mr. Delisle, they didn't consult you either?

Mr. Vincent Delisle: No.

Mr. Denis Trudel: So that didn't happen either.

Were you ever consulted for other countries, other sanctions or other geopolitical situations?

Does the government consult you before taking political action against certain countries?

Mr. Vincent Delisle: I'd have to say no.

Mr. Denis Trudel: It's never happened?

Mr. Vincent Delisle: If it has, then I wasn't there, but I'd be surprised to hear otherwise.

You know that when we build our portfolio, we base our assessments on long-term performance objectives. We try to see how risks might change over the long term. So when situations like this arise, we hope that we've been able to have discussions and geopolitical analyses that will enable us to see how the risk level will evolve, and we then adapt the portfolio accordingly. Our exposure to China is mainly in more liquid investments. In certain situations, we ask ourselves whether we can divest ourselves of some of them.

We have also curtailed some of our private investments to reflect the fact that the geopolitical context had become more risky.

● (1930)

[*English*]

The Chair: Thank you, Mr. Delisle.

We'll now go to Ms. McPherson for two and a half minutes.

Ms. Heather McPherson: It's two and a half minutes. Okay, thank you, Mr. Chair.

I was going to ask about legislation and I might get back to that, but I have another question I'd like to ask you, Mr. Leduc.

The mandate of the CPP is to invest its assets with a view to achieving a maximum rate of return without undue risk of loss, but that mandate does not always gel with protecting human rights, protecting the environment and ensuring indigenous peoples are protected. We've seen this time and again with Canadian companies. They go abroad and don't act with the same care we expect them to act with. It's certainly not the same care we would expect them to act with in Canada.

How does that work? How do you balance that? While I trust very much that you do a great job balancing it, how do we ensure it can be balanced within the sector?

Mr. Michel Leduc: What I would say is this: The legislation we operate under was crafted with a lot of foresight. Risk is not.... It changes over time in terms of commercial activity and what the broad stakeholder expectations are. I would suggest that those broad risks you mentioned are absolutely part of risk-adjusted returns. They're two sides of the same coin.

The CPPIB was established because the fund was going to be insolvent. It was not taking on enough risk. We were established to take calculated and sophisticated levels of risk. As time marches on, our understanding of what drives the value in corporations is determined by how they manage their relationships with their employees, their communities and first nations. That's part of risk.

Ms. Heather McPherson: I'm sorry to interrupt, but it feels as if.... I mean, we have a core ombudsperson in this country who has no ability to compel testimony or witnesses, and who has, in fact, found zero companies guilty of perpetrating any human rights abuses, even though we know very clearly this is happening.

How do we trust that? Where are you getting your information from? You can't compel testimony and witnesses from businesses either. Are you accepting that they say they're doing the right thing? Is that how we're going with it?

Mr. Michel Leduc: Well, I—

The Chair: At this point, we'll have to wait until Ms. McPherson's time comes around again.

Ms. Heather McPherson: Two and a half minutes is very short.

The Chair: Yes, two and a half minutes goes by very quickly.

We'll go to five minutes with Mr. Hoback.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, gentlemen, for being here.

I'll continue along that line with regard to ESG.

You're requiring ESG when you look at your different investments. How are you making sure the investments you're putting money into are doing the same thing? How are you getting that picture, at that next level where you have passive investments or even active investments, that they have a proper ESG strategy?

We'll have to be quick, because I have lots of questions. I'll start with you, Mr. Leduc.

Mr. Michel Leduc: Sure.

In the context of a direct investment, it's strong due diligence. It's looking management in the eye, having a data room and truly understanding their track record—

Mr. Randy Hoback: Quickly, right there, if it's a Chinese investment versus an American or a Canadian investment, do you use the exact same formula and criteria for the ESG requirements as you would for China?

Mr. Michel Leduc: No. It would be sectoral, first and foremost. Investing in a particular sector would be very different within a country.

In the context of China, for example, there are hundreds of companies in the Asia market, so we would pore through them and do our deep dive into all of those companies to understand what the purpose of their business is and what they are exposed to. If we don't have the necessary information at our disposal, we will engage. If we don't have the answers that make us comfortable, we will not invest. We have a process in place to ensure we do not get exposed to companies we're not comfortable with.

Mr. Randy Hoback: Go ahead, Mr. van Gelderen.

Mr. Eduard van Gelderen: Our approach is exactly the same. We use the same criteria, but it's definitely different in working in the U.S. with the same criteria compared to in other parts of the [*Inaudible—Editor*] markets.

Mr. Randy Hoback: How do they look at it from the other side, the other shoe? if I'm looking for that investment from you, how do I say that it's fair for me if I have to meet higher criteria for ESG factors than, let's say, a company out of China. Is that fair to say?

● (1935)

Mr. Eduard van Gelderen: I would approach it differently and say that we expect the U.S. companies or western companies to comply with a lot of criteria we bring forward. Most of the time they do, which requires less of a risk premium that we look for than when we go to other parts of the world.

Mr. Randy Hoback: You adjust it in the risk premium part of the equation?

Mr. Eduard van Gelderen: Yes, for sure.

If, like my neighbour said, there is more uncertainty, again, as I mentioned before, no one is telling me that I have to go into those regions. If the premium I ask is too high and is not given to me, I'm not investing.

Mr. Randy Hoback: On the Chinese belt and road initiative, we're very aware of what that is. Have you run into Chinese investment directly that has scooped deals on you as they go down that path? Also, do you know if you've invested in companies that are part of the belt and road initiative?

I'll start off with you, Mr. Leduc—it's easier in the middle—and then I'll go to Mr. Delisle.

Mr. Michel Leduc: To the best of my knowledge, we don't have a lot of exposure, understanding that countries that are impacted are not really part of our core markets.

With regard to the beginning of your question, we do, from time time as we invest around the world, run into Chinese investors. There's a large sovereign wealth fund that we would compete against, so that does happen.

[*Translation*]

Mr. Vincent Delisle: Our exposure to private markets and assets totals $4.4 billion, mainly in real estate, logistics and multi-residential, and includes private investments; it's therefore not in the belt and road initiative.

[*English*]

Mr. Randy Hoback: Okay.

Go ahead, Eduard.

Mr. Eduard van Gelderen: I can confirm that it's the same for us.

Mr. Randy Hoback: You're not necessarily active in that activity.

A voice: No.

Mr. Randy Hoback: Then I'm going to go right back to trying to understand the ratios that you use in the countries like China at this point in time.

What does it take to change those ratios around? Is that ratio today the same ratio that you would have had in your portfolio, let's say, in 2016? How would it compare?

Mr. Michel Leduc: Our investment pieces, as we think about emerging markets and as we think about China's place in that broad market, are something that we continue to evaluate on a year-to-year basis. We tend to think through multiple years; we tend to not tweak our portfolio on a 12-month basis. We do think in larger time periods. We have a strategic portfolio that is really more in terms of a five-year time frame, and we're absolutely seized with changes in geopolitical patterns and taking those into account, so it's under review for certain.

Mr. Randy Hoback: You talked before about how legislation would be a blunt instrument with regard to creating some sort of enforcement similar to what they do in the U.S. What would be a good instrument that wouldn't be so blunt, that could achieve the results that we want?

The Chair: Again, give a brief answer, please, sir.

Mr. Michel Leduc: It would be strong, transparent disclosure by all companies in a standardized way.

The Chair: Thank you very much, Mr. Hoback.

We'll now go to Ms. Yip for five minutes or less.

Ms. Jean Yip (Scarborough—Agincourt, Lib.): Thank you very much for coming to this evening session.

My question is for Monsieur Leduc.

First of all, it is impressive that CPP Investments has nearly 2,000 companies in its portfolio, among a potential universe of 10,000. How does your organization manage to incorporate and monitor the number of companies for ESG criteria effectively? It seems like a lot.

Mr. Michel Leduc: It is a lot. We're risk-focused, so it wouldn't be a process of combing through, say, 2,000 particular constituents. When it's a particular sector that may be involved in an area that would have a higher controversy score or is known to have issues around governance, then we're also able to acquire a wide variety of reports that are available to investors around the world. They're a little bit like report cards. If there are any red flags, it's a lot more efficient to then do a deep dive to understand how they treat human rights. We're risk-focused in understanding where we could best place, efficiently, our attention.

Ms. Jean Yip: Okay.

You mentioned in your opening statement the "exclusions and exits" section of your policy on sustainable investing. Could you elaborate on that? Are there timelines to provide a quick exit should an investment be contentious or very unfavourable?

● (1940)

Mr. Michel Leduc: Yes. As an example for the first part of your question, if there are things that are against policy, such as mines and munitions, we would obviously not invest in that area. That would be one.

In terms of exits, it's not a satisfactory answer to say "it depends". If it's a real asset, such as a toll road, for example, that's not easily disposed of. If it's a publicly traded security, we could do it very quickly. It all depends on what the nature of the asset might be.

Ms. Jean Yip: Did CPP Investments invest in any cryptocurrency?

Mr. Michel Leduc: No.

Ms. Jean Yip: Okay. Well, that's a good answer.

Does CPP Investments continue to have any investments with Tencent?

Mr. Michel Leduc: Yes, we do.

Ms. Jean Yip: Why is that?

Mr. Michel Leduc: It's an investment that we made almost a decade ago. We recognize that the organization has evolved and changed along with the issues associated with their operations. One example might be dual-use technologies. They were built for a particular intention, and then over time they may be used for intentions that were not contemplated at the time. It is something that we are seized with and are monitoring very, very closely.

Ms. Jean Yip: You're aware that certain parts of the business may be engaged in surveillance. How do you come to the decision that this is not acceptable and move on?

Mr. Michel Leduc: We haven't made any conclusion. It is an exposure we have that we're monitoring very, very closely to continue to understand the risks, including some broader human rights-related dimensions of that investment.

Ms. Jean Yip: Okay.

Aside from Tencent, what about the seven equities linked to forced labour and the six equities linked to the construction of other infrastructure, of less-than-desirable infrastructure?

Mr. Michel Leduc: I'm sorry; are those specific companies or entities?

Ms. Jean Yip: They're just equities.

Mr. Michel Leduc: Generally, we've improved our processes. It used to be that we had a very rigorous process, and we continue to have a very rigorous process, associated with direct investments where we would have a large exposure. When it comes to, say, an index with maybe hundreds of companies with tiny exposures, even there we've established the rigorous process we have for direct investment onto those broader index-based investments.

As I mentioned earlier, we did a very deep dive combing through all of the exposures, trying to understand what their business is and trying to understand where they may be exposed through supply chains that would be unacceptable to us. We're confident in that process and we're confident in the number of holdings that we were careful not to invest in, but the capital markets are dynamic. Bad guys are often ahead of the good guys. It's always a changing set of circumstances, but we continue to be very focused on monitoring the risks.

The Chair: Thank you.

We're now going into the third round. The order I have is Mr. Viersen, Mr. Cormier, Mr. Trudel and Ms. McPherson. If everybody sticks to the time, we'll get that done.

Mr. Viersen, it's over to you for five minutes or less.

Mr. Arnold Viersen (Peace River—Westlock, CPC): Thank you, Mr. Chair.

Thank you to our guests for being here.

This question is for the Canada Pension Plan Investment Board.

The Canadian pension fund is invested in the Postal Savings Bank of China. Does that investment continue?

Mr. Michel Leduc: I will have to get back to you on that. I'm sorry. I don't have that information with me right now.

Mr. Arnold Viersen: Okay.

It's interesting; China and Africa are similar in population. In terms of the percentage of your portfolio, why such a focus on China when it seems to be excluding...? Africa just gets lumped in with a number of other continents, and China is one country. What's the difference?

Mr. Michel Leduc: One difference is that China is one market. It's a complex market, but it's one market. Africa has dozens of very different markets with very different risks associated with each market.

Once we're in a market, we're in for the long run. As I mentioned earlier, it's about developing relationships and understanding the business culture, and it is much more efficient to do that in one market than to try to open up, say, 17 offices.

● (1945)

Mr. Arnold Viersen: How much of your investment in China ends up in Africa anyway?

Mr. Michel Leduc: That would be hard to reverse engineer.

As I said, we're very focused in the “how” in China, so it's not across all sectors. I mentioned the largest area, which would be consumer discretionary, which is really aimed at the consumer market in China. It's a demographic play. It's understanding the sheer size of the market. It's real estate, which means multi-family housing, and it's logistics. China is the largest exporter in the world, investing in things that help carry products and services around the world.

Those are the three buckets that—

Mr. Arnold Viersen: You can see how logistics would.... We invest in Chinese logistics companies for them to then do more business in Africa.

Mr. Michel Leduc: Certainly those products and services would make their way to Africa, absolutely.

Mr. Arnold Viersen: Mr. van Gelderen, would your investments coming through China end up in Africa?

I guess what I'm getting at is that China is doing a lot of work in Africa. Canadian investments in Chinese banking, for example, only facilitate Chinese influence in Africa. We could probably cut out the middleman and go directly to Africa ourselves.

Could you comment on that?

Mr. Eduard van Gelderen: It's a comment similar to what was said by my neighbour. Africa consists of 55 different countries. They are very different in nature and economic growth. If you were really looking at Africa as an investable continent, you would probably end up with only a few countries that would be interesting for us as very large investors.

You then come to the next challenge. Are there investments in Africa that are of interest? Are they really available to us? Again, there are many hurdles to overcome.

On a very limited scale, we do invest in agriculture.

Mr. Arnold Viersen: Of your investments in China, what percentage do you think ends up facilitating Chinese influence in Africa?

Mr. Eduard van Gelderen: I cannot answer that.

Mr. Arnold Viersen: Are you invested in any banking, such as the Postal Savings Bank of China?

Mr. Eduard van Gelderen: Large chunks of our investments in China are passive. For sure, there will be investments in financial institutions as well, and they will for sure invest in Africa, but I do not have a number for that.

Mr. Arnold Viersen: Do the folks from Quebec have any comments around your investments in China and how they may allow for Chinese influence in Africa?

[*Translation*]

Mr. Vincent Delisle: Our decision to invest in China is based on factor complementarity. Our exposure in China gives us access to an economy and sectors that are growing rapidly. As mentioned earlier, China represents 20% of global GDP and about half of global economic growth over the past 10 years.

What attracts us most to the Chinese market is middle-class growth and consumption. For us, there's no link between China and Africa.

[*English*]

Mr. Arnold Viersen: Thank you.

The Chair: Thank you very much, gentlemen.

We'll now go to Mr. Cormier for five minutes or less.

[*Translation*]

Mr. Serge Cormier (Acadie—Bathurst, Lib.): Thank you very much, Mr. Chair.

I'd like to thank the witnesses for being here with us today.

I'm not an investment expert either, but every time I look at my statements at the end of the year, I like to see that my modest investments have generated a small profit.

Mr. Leduc, you said that among other things, you checked to ensure that investors were respecting human rights. That's been a topic from the outset.

A few weeks ago, we had an Acadian witness from my region whose name I recognized. It was Mr. Carl Breau, the chief executive officer of two electronics companies. He told us the following:

> Overall, the business environment in China is actually very transparent… Most company information is public and readily accessible, including legal records, ownership structures, labour disputes, ..., etc.

Would you agree with what he said, to the effect that information about companies in China is readily accessible?

● (1950)

[*English*]

Mr. Michel Leduc: It varies significantly. I would hesitate to say information is easily accessible. It depends on what you're investing in.

If you're a direct investor, an active investor, and you're looking at a real asset, it's similar to a situation in Canada or the United States. In private markets, those companies and the management teams are not as constrained by very rigid securities-related rules, so we're able to enter the business and spend a lot of time with the management team, and if necessary the board of directors, and get information that would not otherwise be publicly available. That really allows us to calculate the risk-adjusted returns.

In China, it could be very similar. If we're buying a real asset, such as a logistics centre by a port, our ability to enter the business and understand it through our partners, through our local experts, means a significant advantage for information efficiency. On the thousands of publicly traded potential holdings through the China-Asia market, there again we depend heavily on the local securities rules of the Chinese markets. The China Securities Regulatory Commission has quite significant and sophisticated rules around disclosure.

[*Translation*]

Mr. Serge Cormier: Thank you, Mr Leduc.

Mr. Delisle, do you think that ordinary people care as much about investing in a company that respects human rights or other international laws as they do about their end-of-year profits?

It's not really a hypothetical question I'm asking, because I'd like an answer.

Have you recently noticed a change of this kind in investor behaviour?

Mr. Vincent Delisle: Yes, people talk about it a lot. Investors want to know that their money is being invested properly. Of course, performance and ESG criteria go hand-in-hand. The one does not exclude the other.

In fact, the Caisse de dépôt et placement du Québec's sustainable investment policy has been there for several years now—since 2017 in fact. It's based on the principle that companies which follow healthy environmental and social principles, and good governance practices, perform well for our investors.

So if ordinary people ask us about it, we tell them that they go hand in hand. Companies that follow best practices will likely perform better.

Mr. Serge Cormier: Among the types of investors you represent, by which I mean the 46 depositor groups, do any of these, in Quebec, handle farmers' pension funds?

Mr. Vincent Delisle: There are actually 48 depositor groups, but I couldn't name all of them. Among other things, they handle insurance funds and employee funds in the public and parapublic sectors.

For example, we manage Quebec's pension plan, the RRQ, and Quebec's government and public employees retirement plan, the REGOP.

All the depositor groups support us. They have encouraged us to adopt these sustainable investment best practices. They encourage us in all of the ESG policies we have been adopting as part of our processes.

[*English*]

The Chair: Thank you very much, Mr. Cormier.

We'll now go to Mr. Trudel for two and a half minutes or less.

[*Translation*]

Mr. Denis Trudel: Thank you, Mr. Chair.

Mr. van Gelderen, you said earlier that you had been consulted by the government in connection with the expulsion of the Chinese diplomat.

How does that work? I would imagine that this isn't the first time it's happened. Concretely, what form do these consultations take?

● (1955)

[*English*]

Mr. Eduard van Gelderen: You misunderstood me. There was no consultation whatsoever.

[*Translation*]

Mr. Denis Trudel: I see.

In this instance, the funds invested nevertheless involve a lot of money, $1 billion, in fact.

Do you think it would be appropriate for the government, before it imposes sanctions on countries in which you have invested, to explain the situation, the impact of the sanctions, and what comes next?

Mr. Vincent Delisle: We don't make the rules. That's the government's job. What we do is keep our ear to the ground so that we can consider possible options.

Mr. Denis Trudel: Today's decision could have an impact on your investments. We're talking about $400 billion, even though that's not only your investments in China, but your entire portfolio. It could nevertheless have an impact on it.

Do you think you should be kept informed before acting? Could that be a game changer?

Mr. Vincent Delisle: I don't think so.

As I was saying, I don't think it's up to us to intervene in such decisions.

Mr. Denis Trudel: Mr. Leduc, do you have anything to say about that?

[*English*]

Mr. Michel Leduc: I would say that we have the easy job in investing the money and making big decisions around—

[*Translation*]

Mr. Denis Trudel: You find that easy?

[*English*]

Mr. Michel Leduc: Well, relatively.... Everything is relative.

Making these big decisions is something for elected officials to do. We try to monitor as best we can and keep up with the changes and make decisions that are in the best interests of contributors and beneficiaries in the context of these diplomatic decisions.

Mr. Denis Trudel: Thank you.

The Chair: Thank you, Mr. Trudel.

We'll now go to Ms. McPherson for our final two and a half minutes.

Ms. Heather McPherson: Thank you, Mr. Chair.

Thank you all very much for being here.

Mr. Leduc, I'm going to focus on you again because I have some interesting questions for you.

First, before I get back to asking you a little bit about how you evaluate the risk versus the human rights, according to the budget in 2022, the federal government said that they would “move forward with requirements for disclosure of environmental, social, and governance (ESG) considerations, including climate-related risks, for federally regulated pension plans.”

Has there been any guidance from the Minister of Finance with regard to that?

Mr. Michel Leduc: There are various ways that we engage with the Canadian government and other stakeholders in Canada on those issues. There was a council that was created, the sustainable finance council, which is very focused on disclosure.

Ms. Heather McPherson: When was that created?

Mr. Michel Leduc: It was created about two years ago, I believe, and we're involved—

Ms. Heather McPherson: Since 2022, there's been no difference in the way that you receive the information.

Mr. Michel Leduc: I think the product of that work has been to develop a taxonomy in trying to better understand how you can create disclosure rules and standards that are very usable for investors like us. That has been the main focus of that work, and we are very encouraged by the work.

CPP Investments was part of a global task force—this goes back about five years ago—that started the focus on creating a standardized process globally for investors around climate change risks, for example.

Ms. Heather McPherson: Okay.

One thing you mentioned to my colleague Ms. Yip is that you are seized with the issue and are monitoring very closely. I have to say that this sounds like a lot of answers I get from question period. It doesn't give me much confidence. There's no transparency there for somebody like me, who is not an investment specialist.

Mr. Michel Leduc: That's a very good point.

I would say that we're very engaged and very involved. We're a participant in capital markets. Rules around climate change and human rights affect the value creation of the constituent parts—the businesses that are part of capital markets.

We're not a passive investor. We're an active, productive and engaged investor. It's having that long investor horizon and not being focused on making our 90-day numbers or even our annual numbers, but truly understanding the nature of the businesses as an engine of value creation. How they treat their employees and how they treat their communities are very important. We would say that the world is in a much better place with investors like us in it, investors who have the muscle to force change. If it were just passive investors, the billions of people who own little units and don't act together...

To have institutional investors with that power and influence is so important. Having us as active investors is also very important.

● (2000)

Ms. Heather McPherson: That was an excellent point to end on. Thank you.

The Chair: Thank you very much, Ms. McPherson.

That brings us to the end of our time with the “r greater than g” club, to conjure up Thomas Piketty.

Thank you, gentlemen, for your time this evening. It's been very illuminating.

Now we will take a quick break as we set up our next panel.

● (2000)

_____________________(Pause)_____________________

● (2010)

The Chair: We're back in session with our second panel this evening.

As a quick heads-up to everybody, I'll let you know that we will be going into committee business in about an hour and a half, so we will try to use our time as efficiently as possible.

Hon. Robert Oliphant: Sir, I have a point of order.

Really?

The Chair: Well, no, pardon me. It's an hour and 15 minutes.

Hon. Robert Oliphant: I think you will find that you have unanimous consent to adjourn at 9:30.

The Chair: I tried to whiff that one by you. All right. There we go. Okay—

Hon. Robert Oliphant: We don't want to go until 10:00, do we?

The Chair: —but we digress.

For the benefit of our witnesses joining us online now, I want to welcome you here, first of all.

We have Paula Glick, co-founder of Honeytree Investment Management Ltd., and Dr. Ari Van Assche, full professor at HEC Montréal.

From the British Columbia Investment Management Corporation, we have Jennifer Coulson, senior managing director and global head, ESG, and Daniel Garant, executive vice-president and global head, public markets.

From the Ontario Teachers' Pension Plan, we have Stephen McLennan, executive managing director, total fund management.

All of you have done your sound checks. Mr. Garant, we will ask you to speak up a little bit when it's your turn to either speak or answer a question.

We'll try to keep everybody pretty close to the times allocated for questions and answers so that we can get as many questions and answers accomplished as possible.

You've all had your Zoom set up, so you have the interpretation available to you, if you need that.

Without any further preliminaries, I would now like to go to Paula Glick.

You have an opening statement of five minutes or less, Ms. Glick. Please continue.

Ms. Paula Glick (Co-Founder, Honeytree Investment Management Ltd., As an Individual): Thank you.

I thought I would introduce myself. I'm speaking more as an individual than as a member of my firm, although I think it's beneficial to understand where I'm coming from, which is from the perspective of my investment career and Honeytree today.

I will share that I spent the first years of my investment career working in positions that provided me with a broad understanding of the investment industry, working on the brokerage and capital market side of the business as a licensed adviser and as an institutional trader as well as a retail trader. I worked in the asset management world and portfolio management and operations. This was in the late nineties.

In the early 2000s, I started to look for something that would provide me with more purpose. That's when I started to learn about ESG. At that time, I had applied for a job with what is now one of the leading ESG research providers, Sustainalytics, which has recently been purchased by Morningstar. I spent nine years there, working with pension plans, foundations, endowments and asset managers, helping them to understand the benefits of ESG as well as how to integrate it or consider it in their processes.

I then moved to MSCI, which I think you might be familiar with. I spent five years with them. They were very involved in building up the ESG part of their business in conjunction with their passive index development as well as their risk management platforms. They were looking to expand their index capabilities in relation to various investors who wanted to align with ESG within that passive index context.

After the 14 years of combined time at these two leading ESG research and analytics firms, I developed a real understanding of how asset owners and asset managers consider and integrate ESG. When I started my own asset management firm, Honeytree Investment Management, I was very aware of some of the shortcomings in the ESG space and wanted to create something that would be a bit different.

I also went from the passive world right back into the active, which is the wrong direction for most of the world. Our approach is a bit different from how I was seeing things being done in the past.

To step back, I would say there are three main reasons that investors are interested in ESG, and they're often overlapping. For me, one is that you want to align your values, whether they are institutional values or personal values. Two, you want to make the world a better place. Three is financial performance. As I said, they're often overlapping. I will mention the fourth, which is when government gets involved and there is a forced nature to having to consider ESG whether you care about it or not.

It's in the context of those first three reasons that Honeytree was born. I would explain that our approach to investing is that we believe long-term performance is inextricably linked to making a direct, positive impact on a range of stakeholders. That includes the environment, employees, supply chains, customers and society as a whole.

This is our thesis of responsible growth, which is the idea that stakeholder-governed companies are more purpose-driven, provide more positive impact and ultimately deliver better long-term performance.

As part of this investment approach and this thesis, we are taking a very select approach to how we invest, and we have industries that we avoid. We also look for positive thresholds that companies can meet, obviously on the financial side of the equation, but also including environmental and social considerations.

● (2015)

I'll make it very easy for you here. We avoid dictatorships, so—

The Chair: Thank you very much, Ms. Glick. We've come to the end of your five minutes.

We will now move to Dr. Ari Van Assche. You have five minutes or less, sir.

[*Translation*]

Dr. Ari Van Assche (Full Professor, HEC Montréal, As an Individual): Good evening Mr. Chair and committee members. It's a pleasure to participate in this meeting, and I would like to thank you for inviting me.

I'll be speaking here as an academic, and not as an investor.

[*English*]

My opening remarks will draw on my research on extended supply chain responsibility, which studies the efforts by governments and other stakeholders to increase the responsibility of lead firms for corporate misconduct that occurs in their global supply chains.

The central point I will make is that ending forced labour in global supply chains requires Canadian and Chinese companies to develop sophisticated new organizational capabilities that they currently lack. Creating these capabilities requires important structural changes that should not be ignored in the debates on extended supply chain responsibility policies. It also has implications for our discussions on the investments.

Forced labour continues to be an endemic issue in global supply chains. The committee has already heard testimony that large amounts of goods sold on Canadian markets are made with forced labour originating in, among other places, China's Xinjiang Uyghur Autonomous Region. You have also heard testimony about the investment of Canadian pension funds in Chinese companies that have been blacklisted by the United States for their complicity in human rights violations.

Recognizing these concerns, the Canadian government has followed the leads of several other western countries and introduced legal frameworks designed to encourage corporations to take responsibility for tackling forced labour in global supply chains and even holding them legally liable for human rights violations.

This includes Bill S-211, which was passed last week. It requires companies to report on the policies they've implemented to reduce the risks of forced and child labour in the supply chains of Canadian firms. Currently there are other bills under discussion that would require companies to adopt mandatory corporate sustainability due diligence.

The young age of these extended supply chain responsibility policies in Canada and elsewhere implies that we still have limited information about their effectiveness. My own research on private governance programs suggests policies that impose a high supply chain liability on Canadian companies will compel critical structural changes in their supply chain models that are costly and require time to be developed.

Academic research on voluntary private governance programs highlights that it is difficult for well-intended companies to rule out labour violations throughout their global supply chains. In private governance programs, lead firms—big firms—generally impose supplier codes of conduct on their tier 1 suppliers that identify the ESG standards to which they need to adhere and explain the penalty for non-compliance. They next use social auditing to verify suppliers' compliance to these standards and impose penalties if violations are uncovered. To ensure the standards cascade down to lower-tier suppliers, lead firms require their tier 1 suppliers to use the same private governance mechanisms on lower-tier suppliers, and this goes on and on.

Evidence shows that private governance programs work relatively well for detecting and dealing with labour violations among tier 1 suppliers with whom lead firms have long-standing contractual relationships. However, they fail to make a real change among lower-tier suppliers with whom lead firms have no direct contractual relation; these are often difficult to monitor by lead firms and sometimes even unknown to lead firms. It is unfortunately in these lower tiers of global supply chains that most human rights abuses happen.

Developing lead-firm interventions that can prevent labour violations in lower-tier suppliers is complicated and remains under-studied. However, what is known is that it requires lead firms to develop new capabilities that enable them to improve transparency, traceability, inclusiveness and, ultimately, control throughout global supply chains. This includes the development of supply chain mapping capabilities to improve their awareness of who is involved in their supply chains and where labour violations are most likely to sprout. It also includes the capability of supporting tier 1 suppliers to improve their monitoring of labour conditions among sub-suppliers and acting upon violations.

● (2020)

It also includes a capability of building new partnerships with NGOs and competitors to develop best practices on detecting and tackling forced labour—

The Chair: Thank you very much, Mr. Van Assche. We've come to the end of your five minutes, but you'll have a chance to add to your comments when you're answering the questions from our members.

We'll now go to Ms. Coulson or Mr. Garant. Will you be splitting your time?

Mr. Daniel Garant (Executive Vice-President and Global Head, Public Markets, British Columbia Investment Management Corporation): No, I'll deliver the opening statement.

Thank you.

The Chair: Very good, sir. Go ahead for five minutes.

Mr. Daniel Garant: Thank you.

[*Translation*]

Good evening, Hon. members of the Special Committee on the Canada–People's Republic of China Relationship (CACN).

My name is Daniel Garant, and I'm the Executive Vice-President and Group Head, Public Markets at the British Columbia Investment Management Corporation, or BCI. I'm here with my colleague, Jennifer Coulson, who is the Senior Managing Director and Global Head, Environmental Social and Governance, or ESG.

We are joining you from the traditional territories of the Lekwungen people and the Songhees, Esquimalt and W_SÁNEC first nations, where we are happy to work, live and play.

[*English*]

We welcome this opportunity to appear before you to answer your questions and to share insights on how BCI responsibly builds financially secure futures for our clients. We thank you for your patience as we gathered the necessary information to give the committee a thorough and transparent picture of our industry before confirming our appearance.

We are based in Victoria, B.C., and support 32 public sector clients, which include 11 public sector pension plans, three insurance funds and various special purpose funds. BCI is one of the largest institutional investors in Canada, with approximately $215 billion currently under management.

BCI takes our responsibility as fiduciaries very seriously. We support more than 715,000 pension beneficiaries and 2.5 million British Columbia workers. We focus on the long term, looking 70 years ahead and beyond, to try to sustain those values for our clients. BCI is proud of our level of accountability, demonstrated through our unique governance structure as an agent of the B.C. Crown, including the majority of our board being client representatives and our sole share being held by the Minister of Finance for the province.

● (2025)

[*Translation*]

My role at BCI is to manage a diversified portfolio of global investments that include index and active management strategies with respect to fixed incomes, shares, derivatives, currencies and absolute return investment strategies. I have been involved in investment management for more than 30 years and have acquired experience in public and private assets.

My colleague, Ms. Coulson, has extensive professional experience in environmentally responsible investment and resource management at BCI, as the Global Head of ESG. Ms. Coulson and her team of 16 ESG experts ensure that these factors are incorporated into the organization's operations and our investment processes. Our global ESG factors strategy includes integrating ESG practices into investment decisions, promoting positive change through engagement and interventions with the responsible authorities, investing in sustainable opportunities and sharing knowledge with a view to well informed decision-making.

[*English*]

We go above and beyond in our reporting obligations and provide audited financial statements for all investment pools, proxy disclosure for all of our public equities, and annual reports that are available on our website. We believe taking ESG matters into account enables investors to better understand, manage and mitigate risk and take advantage of opportunities associated with long-term investments.

In our due diligence, we simply do not invest until and unless a complete ESG and risk review is done. There are no exceptions.

[*Translation*]

To assist the committee with its study, we have proactively submitted our inventory of investments, which is available on our website, along with our 2022 annual report on ESG factors, and our guidelines on proxy voting, which explain investor expectations. These documents illustrate the transparency we provide every year to ensure that clients, recipients and…

Mr. Denis Trudel: Mr. Chair?

[*English*]

The Chair: Mr. Garant, are you concluding...?

Oh, I'm sorry. Go ahead, Mr. Trudel.

[*Translation*]

Mr. Denis Trudel: I'd like to point out that the interpreter has said the microphone is faulty and that she is going to stop working. That's a problem.

[*English*]

The Chair: We are continuing to have some audio difficulties, Mr. Garant, and we're unable to proceed with the French translation.

If you conclude your remarks *en français* that will be, I think, helpful. Can you speak a little louder too, please, sir?

Mr. Daniel Garant: I will do that. Thank you.

[*Translation*]

We know that the committee is focusing on institutional investments in China, but we also hope to be able to give a summary of our diversified global investment strategy, which to some extent includes China.

BCI's strategy emphasizes an active management investment approach.

[*English*]

The Chair: I'm sorry, Mr. Garant. Your audio difficulties have now extended to the English translation. I'm afraid we'll have to tidy things up here.

We'll go to Mr. McLennan with the Ontario Teachers' Pension Plan.

Sir, you have five minutes.

[*Translation*]

Mr. Stephen McLennan (Executive Managing Director, Total Fund Management, Ontario Teachers' Pension Plan): Good evening.

Thank you for inviting me here this evening. We believe the work of your committee is very important.

I'll be giving my presentation in English, my first language.

[*English*]

Thank you for inviting Ontario Teachers' to appear before this committee. I value the opportunity to be here today.

My name is Stephen McLennan. I am the executive managing director of total fund management. I have been with Ontario Teachers' for 20 years. My role at Ontario Teachers' is to oversee the total fund management department, which, among other things, coordinates the plan's asset allocation and top-down portfolio construction.

I would like to use my opening remarks, given the committee's focus, to introduce the Ontario Teachers' Pension Plan and describe how and where we invest.

The Ontario Teachers' Pension Plan was established in 1990 as an independent pension plan. We are a non-share capital corporation governed by the Teachers' Pension Act in Ontario. The pension plan is jointly sponsored by the Government of Ontario and the executive of the Ontario Teachers' Federation. Together they ensure that the plan remains appropriately funded.

Our professional board members are appointed by our two sponsors. Our board oversees the management of Ontario Teachers'. Our board members are required to act independently of both the plan sponsors and management, and they must make decisions in the best interests of all plan beneficiaries. Day-to-day activities are delegated to the professional staff of Ontario Teachers', who are responsible for investing assets and administering plan benefits. As an Ontario-based pension plan, we are regulated by the Financial Services Regulatory Authority of Ontario.

As at December 31, 2022, we had $247.2 billion in net assets. We have been fully funded for 10 straight years and have a $17.5-billion funding surplus. Since inception, we have earned a net fund return of 9.5% per year.

We are a long-term investor with an investment horizon measured in decades. A key tenet of our investment approach is diversification. This includes diversification by asset classes, such as equity and debt, as well as by regions, sectors and time horizons. This allows us to create a balanced portfolio that is designed to be resilient across a number of different economic environments and circumstances.

As such, we have a global portfolio spanning multiple asset classes. At the end of 2022, we had investments in over 50 countries, with 85% of our investments in developed markets, such as North America and Europe. The remaining investments are in developing markets, primarily within the Asia-Pacific and Latin America regions. Here in Canada we invest in assets from coast to coast, in such companies as Atlantic Aqua Farms in P.E.I. and Global Container Terminals in British Columbia.

In addition to diversification, another key to our investment approach is a keen focus on risk management. Our board, with the support of the executive team, establishes our risk appetite, which in turn guides management actions, including those relating to overall risk parameters, as well as underwriting various types of risks, including geographic and country exposures. We actively monitor and assess geopolitical developments as a core input into the investment process.

As part of our underwriting process, we perform a variety of ESG-related risk and opportunity analyses to ensure that the businesses we invest in are built for long-term sustainability and success. This analysis is conducted by internal staff with support from time to time from investing partners and consultants.

Turning to Asia, we first established an on-the-ground presence in Asia through the opening of an office in Hong Kong, which gave us boots on the ground to manage investments in the region. Since then, we have established offices in both Singapore and Mumbai.

Today, while China is the world's second-largest economy and Canada's second-largest trading partner, it represents a relatively small proportion of assets, at 2.3% of the fund. In recent months, as we assessed the changing post-COVID economic environment, recent regulatory changes in China and the continued deterioration of U.S.-China and Canada-China relations, we reduced our investment activities in China and paused further private investments. We will continue to responsibly manage our existing investments in the country as well as in other countries in the region.

Thank you very much. I welcome any questions you may have.

● (2030)

The Chair: Thank you very much, Mr. McLennan. We'll get to those questions right now.

We'll begin with Mr. Genuis for six minutes or less.

Mr. Garnett Genuis (Sherwood Park—Fort Saskatchewan, CPC): Thank you, Chair.

Mr. Garant, you represent the British Columbia Investment Management Corporation, or BCI, which invests on behalf of major public sector clients in British Columbia, such as teachers, university employees, municipal employees, etc. I was struck by the fact that you began your statement with an indigenous land acknowledgement. I was struck by it because of how discordant it is with the complete disregard your investments show for the dignity and rights of the indigenous peoples of East Turkestan.

Your company, according to a report from Hong Kong Watch, invested about $35 million in Hikvision, as one example. Hikvision is directly complicit in the persecution and genocide of Uyghurs. Hikvision actually has developed ethnic facial recognition technology with cameras that identify Uyghurs and marks them out for particular persecution.

Mr. Garant, do you acknowledge your investments in Hikvision? How do you feel about those decisions?

Mr. Daniel Garant: We do invest both actively and passively, so I cannot speak specifically about this company, but in the broad index we're using for—

Mr. Garnett Genuis: I'm sorry you can't speak specifically about that company, because that was my question. You must have expected it, coming before the special committee on Canada-China relations of Canada's Parliament.

Are you telling me you're unaware of whether your company has invested in Hikvision? I asked you to confirm that the information from Hong Kong Watch is correct. Are you invested in Hikvision?

● (2035)

Mr. Daniel Garant: We invested in broad index replication, so this is what it means when you buy pieces of a broad index. We don't make the specific choices of the underlying company. The index provided that.

Mr. Garnett Genuis: Are the figures correct that you own $35 million of Hikvision stock? I mean, you choose to buy an index knowing what's in it, right?

Mr. Daniel Garant: Well, actually, when you buy an index, it's because you need to have broader exposure and you need liquidity for portfolio balancing purposes, so—

Mr. Garnett Genuis: With all due respect, members of this committee know what an index is. They know why people buy indexes, but there should also be moral principles that underlying those decisions.

Are you prepared to acknowledge that you're invested to the tune of $35 million in Hikvision? It may be through an index or not, but that's not really the point. Do you think that's acceptable?

Mr. Daniel Garant: We're working with the index providers to improve what is in the underlying index for the benefit of our plan's beneficiaries. We need to have broad investments that are liquid for portfolio balancing purposes and liquidity, and—

Mr. Garnett Genuis: But, sir, there's a genocide going on. Parliament has unanimously recognized a genocide targeting Uyghurs, and Hikvision cameras, which deploy race-based facial recognition technology, are an instrument of that repression.

Do you think that the people you invest on behalf of—teachers, university employees and municipal employees in British Columbia—think it's acceptable that you are defending investments in a company that is complicit in a genocide on the basis of, “Well, you need to diversify your portfolio.”

I mean, if you were investing on my behalf, I would take slightly less return in exchange for knowing that you're not invested in companies that are complicit in genocide. I don't think that's necessarily the trade-off, but I would accept that trade-off if that's what it was.

Do you think the people you're investing for would find this acceptable?

Mr. Daniel Garant: We're not very happy with some of the components of the index, and we're doing something about it, but—

Mr. Garnett Genuis: But you're not prepared to divest from the index. Are you prepared to divest from the index on that basis?

Mr. Daniel Garant: Actually, we're engaging with index providers to improve what they put in the index.

Mr. Garnett Genuis: With all due respect, sir, that seems to me like getting on the wrong train and running down the corridor in the opposite direction.

Do you think your members would find it acceptable that you are, to the tune of $35 million, investing in a company that is complicit in the Uyghur genocide? You're saying, “Well, we asked the index providers to reconsider what they're doing.” You're still putting the money into it, sir. Do you think the people you're investing on behalf of would find that acceptable?

Mr. Daniel Garant: I would say that there are issues linked with indexing, and we're active in tackling those issues. There are different ways of doing it. We've usually done engagement. If engagement doesn't work, there are other ways to deal with it—

Mr. Garnett Genuis: Yes, I think one obvious way would be to not invest in companies that are complicit in genocide, sir. Frankly, I don't know how you sleep at night with your complete inability to answer these basic questions.

Hon. Robert Oliphant: I have a point of order.

The Chair: Go ahead, Mr. Oliphant.

Mr. Garnett Genuis: Yes, go ahead and defend him if you want, Mr. Oliphant.

Hon. Robert Oliphant: Mr. Chair, that is badgering the witness. It is not parliamentary. It is outside the rules of the standing orders of this committee—any standing committee—to badger witnesses with inappropriate comments.

Mr. Garnett Genuis: Just on that point of order, I control the time and—

Hon. Robert Oliphant: Mr. Chair, on that point of order, I don't think you had given anybody else the floor.

Mr. Garnett Genuis: Mr. Chair, I'd welcome the opportunity to respond to that point of order.

The Chair: Mr. Genuis, your time is up.

Hon. Robert Oliphant: He doesn't necessarily get the floor.

The Chair: Your time is up.

We'll continue on. Ms. Yip, you have six minutes or less.

Ms. Jean Yip: Thank you to all the witnesses for coming. I know the hour is late. We're very appreciative of you coming and answering our questions.

My first question is for Mr. McLennan.

Is cryptocurrency considered to be a safe investment for Canadians?

Mr. Stephen McLennan: I'm not going to comment necessarily on crypto as a broad asset class. I can only speak to how Teachers' has been thinking about it in terms of our own portfolio.

We've spent a lot of time analyzing it, and for a variety of reasons, at least from an asset allocation perspective, we determined it wasn't going to be an appropriate part of the overall asset mix. We would look at it from that perspective.

● (2040)

Ms. Jean Yip: Why wasn't it an appropriate asset mix?

Mr. Stephen McLennan: That is an emerging part of the capital market space. Certainly it has some characteristics that one might think have a place in a portfolio. However, when we did the analysis and looked it from the context of what the return drivers and the risk drivers are, again from an aggregate top-down perspective, we came to the conclusion it wouldn't be suitable from an asset mix perspective.

That's not to say there couldn't be some interesting activities from more of a business perspective or from a more direct investing perspective.

Ms. Jean Yip: Does OTPP have cryptocurrency investments?

Mr. Stephen McLennan: The only investment we would have in the crypto space would have been our FTX investment, which would have been well publicized late last year.

Ms. Jean Yip: Was there a financial loss on that investment?

Mr. Stephen McLennan: Yes, there was a financial loss. I believe we've disclosed publicly that we wrote that investment down to zero.

Ms. Jean Yip: Do you think there was enough due diligence to go into this emerging market with your investment?

Mr. Stephen McLennan: Look, we always strive to have the best due diligence in place. We're really disappointed when things don't turn out and when we lose money in any investment. I think we also recognize that due diligence need not be 100% fail-safe. When these issues do occur, we, as a learning organization, take it as an opportunity to improve the process and make it better for future situations.

Ms. Jean Yip: Thank you.

My next question goes to Professor Von Assche.

Today Minister Joly declared the Chinese diplomat Zhao Wei *persona non grata*.

Do you think there will retaliatory measures against businesses in Canada?

Dr. Ari Van Assche: I'm sure China will consider how to demonstrate its disappointment with the sending out of the diplomat. I would conjecture there might be some retaliation.

Ms. Jean Yip: [*Technical difficulty—Editor*] Canadian businesses in China?

Mr. Stephen McLennan: I'm sorry. I didn't hear the entire question.

Ms. Jean Yip: Do you think this will affect Canadian businesses in China?

Dr. Ari Van Assche: It depends how they will be retaliating. I'm not sure how they will do that.

Ms. Jean Yip: Okay.

My next question is for Mr. McLennan.

In recent news, we heard that China was barring thousands of citizens and foreigners from leaving the country. Most of this is due to pending civil matters, not criminal ones, and it is not necessarily related to national security. The PRC says they are open for business after COVID, but this seems to give a mixed message.

How will this affect financial investments?

Mr. Stephen McLennan: When we take a step back and think about what we're trying to do from a portfolio perspective, we are a fiduciary. We have a mandate to earn risk-adjusted returns, and part of that statement around risk-adjusted returns is thinking about the risk profile. One of those key considerations is the state of Canada-China relations and U.S.-China relations, and as that risk profile changes, we will look to adjust what type of exposure we'd like to have in the country.

To the extent that the statement or the issue you just raised is raising the risk profile or the geopolitical risk, all else being equal, we'll think about how that's going to affect our overall allocation.

Ms. Jean Yip: How will this accelerate the implementation of ESG requirements?

Mr. Stephen McLennan: When we look at our investment process, we look at things both from a commercial diligence perspective and from an ESG perspective. These types of issues should, hopefully, be picked up in any of the analysis that we'd be performing on the ESG side.

From the perspective of how this affects our incorporation of ESG, I think it emphasizes the importance of ESG in the investment process to ensure that we're delivering investments that satisfy the risk and return profile that we need to satisfy our pension promise.

● (2045)

The Chair: Thank you, Ms. Yip.

We'll now go to Mr. Trudel for six minutes or less.

[*Translation*]

Mr. Denis Trudel: Thank you, Mr. Chair.

Thanks to all the witnesses for being here this evening.

Mr. Van Assche, in an article in *La Presse* entitled "Du travail forcé dans votre t-shirt", about the repression of Uyghur people in China, you said that companies were caught between a rock and a hard place, and that if they did not condemn this situation in Xinjiang, it would project a poor image to western consumers, and that if they did, it would lead to problems with the Chinese government and public. Basically, you said that it was impossible for companies to be fully transparent.

To give an example, how can investment funds invest in companies knowledgeably when they don't know whether the companies are making children work or complying with ESG criteria? How does that work?

Dr. Ari Van Assche: Thank you for the question.

I was talking about companies in China that were allegedly using forced labour in Xinjiang. Based on their reaction, one might of course presume that they were caught between a rock and a hard place.

Mr. Denis Trudel: Do you have the name of a specific company to give us?

Dr. Ari Van Assche: Those at issue were companies like Zara, UNIQLO and H&M.

But on a positive note, we now pay more attention to the consequences of what we do, not only within the company, but throughout the global value chain. The use of forced labour is not a problem that companies can solve quickly. Many companies don't even know what's happening farther down the global value chain, but that's not the case for all companies.

For pension funds, it means that there is now a much higher risk level when situations like that occur. These risks are issues for which they can be held accountable, and reducing these risks is not easy.

At a previous meeting, witnesses spoke about the due diligence required of the firms in which they invest. Often, it's not these firms that use forced labour, but rather their suppliers and subcontractors. This is done by them clandestinely, of course. To solve the problem, our firms need a better understanding of what's going on. It's not easy to do, however.

Mr. Denis Trudel: And yet witnesses came to this committee to tell us that it was easy to have full transparency, that everything in China was public, and that it was possible to obtain information. We were told that it was easy to get all the human rights information from the companies.

Would you agree with that statement?

Dr. Ari Van Assche: It's easy to find instances of a pension fund being invested in a company involved in forced labour. But identifying all the possible cases in which investors or firms might be linked to forced labour is very complicated.

I don't agree that it's easy to get information readily on the Internet. Relations would have to be established with some firms to ensure that they are revealing accurate information about their subcontractors, etc. It's very complicated.

● (2050)

Mr. Denis Trudel: Okay.

How could the government intervene to create more transparency and enhanced access to information?

I understand that what happened today isn't going to help us plunge deeper into the workings of China so that we can know what's going on there.

Do you have any idea of what we could do to facilitate the transmission of information about whether public funds from Canada are being invested in firms that are not really respecting human rights.

Dr. Ari Van Assche: Thank you for your question.

I think that what the government is already doing, which is encouraging firms and investors to demonstrate a reasonable level of due diligence, is a good thing. It provides information. It also encourages companies to make more of an effort in this regard.

Of course, the government could also take initiatives. One of the problems facing the Canadian government is that a lot of forced labour is extraterritorial. It's being done in countries like China, but in many other countries as well.

As soon as we begin to provide information about what firms that do not respect human rights are doing, we will be disseminating information. That might be interpreted as a political issue, and it could lead to retaliation.

I believe that it would probably be important to work with other countries like the United States to develop this side of things.

[*English*]

The Chair: Thank you very much, Mr. Trudel. Your time has expired.

We'll now go to Ms. McPherson for six minutes or less.

Ms. Heather McPherson: Thank you very much.

Thank you to all of the witnesses who have joined us today. This is absolutely fascinating for me. Your expertise is very useful. Thank you.

I'm recognizing that we have a very complex economic system. These funds are extraordinarily complex. There are many moving parts in how decisions are made.

We heard in our first panel that because there is such a size to these investment funds, they have the capacity to change the direction that companies take. They could work in that way.

We know Canadians want to ensure that their investments are not benefiting from forced labour, human rights abuses, environmental degradation or harms to indigenous peoples around the world. However, we've seen time and time again the lure of dollars. We know there is an awful lot of money to be made in the Chinese market in working with Chinese companies. The lure to make money often overshadows or trumps the desire to respect human rights and environmental care.

I'd like to start with Ms. Glick and then I'll ask Mr. Van Assche this question.

Should Canadians be worried that their pension plans, their investment funds, are using forced labour, or worry about other human rights or environmental abuses, and should there be stronger legislation from the Government of Canada and perhaps even the provincial governments?

Ms. Paula Glick: Those are difficult questions. I don't know whether I can answer them directly head-on.

I would say that folks care about these issues, but not everybody does. A lot of people tend to look the other way when it comes to their investments. There's a disconnect.

To your point, there is an increasing interest and concern about ensuring.... Some people feel very strongly about a whole range of ESG issues and are looking to invest their money in that capacity.

For those people who are maybe not educated on or are not aware of what they're investing in, there needs to be greater education and better opportunity to make decisions in that regard. I do think that transparency is key.

Very quickly, I would point to certain products out there. In particular, since Russia—again, another dictatorship—invaded Ukraine, we've seen a lot of money moving to freedom indexes, indexes that don't invest in countries like this. There is definitely a group out there who are acting with their money.

● (2055)

Ms. Heather McPherson: Can you tell me about the legislation? Do you feel that our current legislative structure is sufficient? This is for you, Ms. Glick.

Ms. Paula Glick: It's a very complex world. China's the second-largest economy. There's a lot of interwoven connectivity. Over the years, we have seen the Canadian government step up on international conventions and take positions on other countries. If there's enough will to do something, then it can be done. I believe it can be done, but there's definitely a lot of conundrum when dealing with China and all of the complexities that we're facing.

Ms. Heather McPherson: Thank you so much.

Mr. Van Assche, would you comment?

Dr. Ari Van Assche: Do consumers care? Absolutely. We are seeing with the emergence of ESG investments that consumers and investors care increasingly about these types of issues. I think also that pension funds, as we've been hearing from the different witnesses, are also taking these issues more into account. Of course, there is much more that can be done.

One important issue, of course, is that investing in China can also be very much related to sustainability and can be very much ESG-confined. A lot of investment that goes into China can actually help in addressing development issues as well, so that's certainly something important to note as well.

Concerning legislation, I think the trend that we are seeing is going in the right direction. I think it is good to see that in Canada, in the United States and in lots of European countries, there is a move to push companies to look beyond what is happening within their firm boundaries toward where they can have an influence. I think this is a positive trend.

I think we still need to be thinking a bit further about the implications. For example, if we went further into making countries liable for what is happening in a supplier three steps away, it would be very difficult for companies to address. This could lead to companies reacting in a way that we might not want to see.

For example, would we want to see companies just deciding that they're going to be cutting their supply chains completely out of the least developed countries, because it's just very difficult to understand what is going on there? This is probably not something we would like to do. There is an important role for Canada and other countries in ensuring that the least developed countries can get integrated into the global economy.

We need to be thinking very carefully about cost issues, coping mechanisms that countries might be adopting, but I do think the trend is going in the right direction.

The Chair: Thank you, Mr. Van Assche.

We are now going into our second round. I think to wrap things up in time for our in camera session, we'll go to Mr. Hoback, Mr. Oliphant, Mr. Trudel and Ms. McPherson. That will round this off.

Mr. Hoback, you have five minutes or less.

Mr. Randy Hoback: Thank you, Chair. Thank you to the witnesses for being here.

Ms. Glick, I want to go through a few questions in regard to ESG. In your fund, ESG is a major factor in your investment decisions. What's your return on investment in your fund compared to other funds that don't necessarily have a heavily weighted ESG factor?

Ms. Paula Glick: I can't answer that right now. I would say that we are very competitive. I think we do very well. I have no concerns about our performance relative to those that do not consider ESG.

Mr. Randy Hoback: Would you have goals that go around 10%? Is that fair enough?

Ms. Paula Glick: That's not exactly how it works, but we definitely—

Mr. Randy Hoback: I'll move on to the next question. In the panels we had before, they talked about ESG being a different lens in Canada or the western world versus Asia. Do you see that as being quite common in the industry? Is that opinion something that you share?

● (2100)

Ms. Paula Glick: There is a certain level of transparency that's easier to have over in this part of the world than it is over there. There are generally different kinds of expectations and also different governance structures. There are all sorts of differences in cultures and how businesses are run.

In my particular case, I can afford to be picky. I have a very specific approach that's very concentrated, and I don't have the same issues that very large pension plans with massive pools of capital have in terms of diversifying their assets.

I also believe that investing in dictatorships adds to risk. I'm looking at it the other way, not from the perspective that diversifying gives a better risk-adjusted return, but rather that—

Mr. Randy Hoback: Thank you. I have only five minutes and I want to get to Mr. McLennan with the same questions.

When you're looking at your fund and you're using your ESG criteria for Teachers', do the criteria change based on the country you're investing in?

Mr. Stephen McLennan: No, not generally. What we'll do is look at every investment that we're considering with the same ESG lens.

What we will do, though, is focus on areas by sector or on other considerations that we think might involve more material risks associated with the particular characteristic in a sector. For instance, if it's a heavy industrial sector, one would think that there would probably be more health and safety considerations that you would need to spend a bit more time on.

Mr. Randy Hoback: In that sector, for example, it's not that you wouldn't invest in it; you just may want more of a premium or more of a return on investment in that sector, versus a sector that has a very simple and easy ESG risk to it.

Mr. Stephen McLennan: Potentially, I think it really comes down to the risks that have been identified and whether we think the company will be able to remediate those risks and/or incorporate that into their overall business plan.

Again, I think that when we take a step back and think about ESG more broadly, we look at whether it is really a risk that will impact both the financial returns of the business and the overall risk profile of the business. We do think that with the long-term lens we need to apply to our investment approach, we need to be thoughtful around how those ESG risks are going to affect the overall risk-return profile of the business. It really depends on the circumstances.

Mr. Randy Hoback: I get that.

You get two companies in the same sector in the same country, say, and one is good on ESG and one is not. What would be the difference, if you're invested in both of them, that you would offer those investments at? Would it be a premium of 4% or 5% for the company that is good on ESG versus the one that isn't? How do we get that value into the marketplace?

Also, as we look at investments in China, what type of premium would you need in a Chinese investment versus a similar investment in Canada?

Mr. Stephen McLennan: Yes, I think the interesting question.... I think that's a very difficult exercise to calibrate. I don't have a specific point estimate that says company X needs this type of return and company XYZ+ needs an extra return premium with a specific number. Directionally, though, I would agree that companies that have less risk, be that ESG or financial risk, would require a lower expected return.

Mr. Randy Hoback: How do you do transparency if it's mandatory for you to make every investment outside of Canada transparent? If you had to identify and say, “This is where we put our money”, would you object to that or be opposed to that? Would transparency bother you?

Mr. Stephen McLennan: Well, look, we'll abide by all Canadian legislation related to reporting and we'll use that as our guiding light in terms of what we would look to disclose.

Mr. Randy Hoback: Dr. Van Assche—if I mispronounce your name, I apologize—do you think transparency is a tool that's required in the Canadian sector? I know that we've talked about legislation, but one of the panellists from the last panel said that's too broad an instrument and thought that transparency and the social conscience that would come with that would be very adequate. Do you see that in the same lens?

The Chair: Could we have a very brief answer please, Mr. Van Assche?

Dr. Ari Van Assche: Transparency of course is going to make it easier to find out what companies are doing, so we always have to be careful that we're not leading companies toward having to take coping mechanisms in a different way that has other implications. Transparency, generally speaking, can be very good.

The Chair: Thank you very much, Mr. Hoback.

We'll now go to Mr. Oliphant for five minutes or less.

Hon. Robert Oliphant: Thank you, Mr. Chair.

I have two sets of questions, with the first one really aiming probably towards the teachers' pension fund.

I want to dig a bit into the decision to pause direct investments in the businesses and private assets in the PRC. What was the process in reaching that decision, and what do you think the ramifications are? What does that mean? What is a “pause”?

● (2105)

Mr. Stephen McLennan: A pause is really us pausing future direct investment activity in that country as it relates to our private investing portfolio.

The reason for the pause was really driven by our assessment that the risk landscape in China has substantially changed over the last two to three years. In U.S.-China relations or Canada-China relations, the shifting economic trends in a post-COVID world as well as some of the domestic regulatory changes that were made in China all signalled to us that there was a change in risk profile. Our key mandate, frankly, is to deliver on our risk-adjusted return goals. As part of that, as risk increases, we need to evaluate how much exposure we want to have in China from a top-down perspective. That really led to the decision to pause that particular set of activities.

Hon. Robert Oliphant: I'm just wondering whether Mr. Garant from BCI had the same analysis and whether or not they're considering a pause on direct investment.

Mr. Daniel Garant: Thank you.

We actually made the same decisions at BCI.

Hon. Robert Oliphant: Thank you very much.

I want to shift a little bit. It's really just me trying to understand a little bit about the issue of indirect investments and index funds, how investment decisions are made there and what kind of lobbying activity goes on to encourage index funds to invest in certain areas.

We talked earlier about the U.S. entity list. We've talked about what companies may be on that in the U.S. It may be Ms. Glick whom I want to talk to because of her background.

How do index funds make decisions? What is the role of lobbying that could happen? How do we have transparency when it comes to indirect investments, particularly in index funds, which then may find their way into pension funds or other large public assets?

Ms. Paula Glick: Actually, I think what would be more applicable is to talk to their clients. Some of these pension plans work with index providers and, as Monsieur Garant has suggested, they are actually engaging with the index provider. That is, in part, how indexes can make decisions.

I know that from an ESG perspective, a lot of custom ESG indexes can be made. That is just a client relationship: A client can say that they want to invest in this market or this index, but they would need to remove this or increase that. You literally customize an index and you create your own approach—

Hon. Robert Oliphant: They're not really index funds, then. If it's customized....

I'm naive. I don't have background in this. I thought an index fund mirrored the index, but maybe I'm wrong on that.

Ms. Paula Glick: The indexes all have rules. You could argue that nothing is truly passive, but the fewer rules there are, the more passive it is. If you just create a couple of key items to identify market cap and weight, off you go.

The more restrictions or parameters you put on it, the less passive it is. It's still considered a passive index.

Yes, you're—

Hon. Robert Oliphant: I'm just trying to understand whether there are surreptitious ways that the People's Republic of China is finding investment in North America—in Canada or the United States—through indirect ways through index funds.

Do you have some suggestions on how we can monitor that and stop it, particularly when it comes to national security interests?

Ms. Paula Glick: I don't have a particular viewpoint on how the indexes can be managed. I think talking with the index firms and figuring out where, you know—

Hon. Robert Oliphant: I thought you had an index fund as MSCI.

Ms. Paula Glick: I'm sorry?

Hon. Robert Oliphant: Is MSCI not an index fund?

● (2110)

Ms. Paula Glick: It's an index firm. They create indexes, yes.

Hon. Robert Oliphant: Okay.

The Chair: Mr. Oliphant, you're out of time, sir.

We'll go to Mr. Trudel for two and a half minutes or less.

[*Translation*]

Mr. Denis Trudel: Thank you, Mr. Chair.

Mr. Van Assche, in a fairly recent article published in *Le Devoir* on March 9, 2023, Mr. Saint-Jacques, the former ambassador to China, said that it was now more complicated to do business in China, owing to "the policies being pursued by President Xi Jinping".

Do you agree with him? How is it more complicated now?

Dr. Ari Van Assche: Thank you for the question.

It depends on which industry is involved. I think that for many of them, there's not much of a difference. However, we are beginning to see that certain strategic industries are wondering more about the role of China in terms of things like the resiliency of our economy. And China is doing more or less the same thing. We know now that it's very difficult for firms to say they are going to do business in the west as well as in China. Increasingly, these firms are having to make a choice.

Some policies, including the American CHIPS and Science Act, are already saying that companies will have to choose. If they decide to accept grants from the U.S. government, they will not, be able to engage in transactions that could help the Chinese semiconductors sector for 10 years. I fully agree that the realities have changed in strategic industries, and that things have become much more complex.

I would nevertheless like to once more underscore the fact that in many other industries in the consumer market, I don't think there's as much of a difference.

Mr. Denis Trudel: One witness told us that there was a lot of political instability at the top of the Chinese power structure.

Do you think it's been like that since Xi Jinping has been in power? Do you agree with this analysis?

Dr. Ari Van Assche: I'm not much of an expert in Chinese political issues. I nevertheless think that whenever there is, not an election, but a decision made to determine what will happen to the new member of the politburo and the central committee, there's a great deal of political danger.

I think that Xi Jinping is in a very strong position and that he will remain in power for some years to come.

[*English*]

The Chair: Thank you, Mr. Trudel. Your two and a half minutes flew by, as it always does.

Ms. McPherson, the last two and a half minutes are yours.

Ms. Heather McPherson: Thank you, Mr. Chair. Mine will fly by as well, I'm sure.

I'd like to ask these two questions to Mr. Garant and Mr. McLennan.

One of the things we've been discussing in the House today, as we deal with the Chinese misinformation within our elections, is the need for sunlight and transparency.

I'd like to follow up a little bit on what Mr. Hoback was bringing forward to the committee. I looked at some of the websites where we are supposed to be able to get this information very easily, and it is at a very high level. It is not at a low level, where you can actually see individual investments.

How could that be improved so that investors would know that information, and is that something that would be to the benefit of funds? It does seem to me that it's a little bit more work for you if those who have invested with you or those whose funds you are managing don't have the information. It gives you a little bit more coverage, for example, Mr. Garant, when you are investing in something that may be very distasteful, like the Uyghur forced labour within Xinjiang.

How does transparency work? How could we make it stronger? Is that something the sector would do on its own, or is it something that the government would very much need to impose upon the sector?

Mr. McLennan, perhaps I can start with you.

Mr. Stephen McLennan: Sure. Thank you.

Look, it goes without saying that we're going to comply with all laws and regulatory requirements. Our current standard is that we actually disclose above what is required by our accounting standards and by the law. You can go to our website, and there we have a list of material investments, and I think that has served us quite well.

I would also just note that the Canadian pension model is the envy of the world, and that's really premised on this independence of governance between the pension plan and the government sponsor. I think we need to be thoughtful around how additional rules and regulations might affect that.

● (2115)

Ms. Heather McPherson: When you say that you would follow the laws, you would be looking then for laws that would increase the transparency, I would assume.

Mr. Stephen McLennan: We'll follow the laws as presented and act within those boundaries.

The Chair: Ms. McPherson, you are out of time.

I want to thank the witnesses for appearing this evening. It's a little later for some than for others. Out on the west coast, I suppose, it's almost dinnertime there, but we thank you very much for your attention and for the information that you passed along to us.

We're going to break very briefly to go in camera.

With that, we'll suspend for just a moment. Thank you.

[*Proceedings continue in camera*]