Hopefully you've updated your wardrobe, it's probably time to update your portfolio too!

Managing Your Money

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Did you know that despite Canada's relatively small population, it's home to TWO of the world's largest pension funds – the Canada Pension Plan (CPP), and the Caisse de dépôt et placement du Québec (CDPQ)? Together, their value is approaching $1 trillion dollars! If you ever worked in Quebec and/or Canada, you've likely got money invested in one of these plans.

These plans are so massive that they have a huge amount of 'market power'. Meaning that their investment decisions can have substantial impacts on Canadian and even global markets.

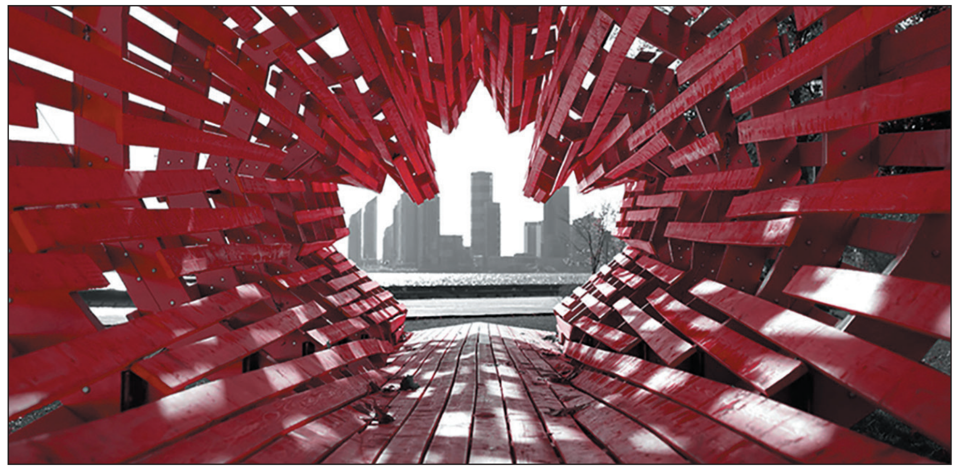
Should you care how they're managing "your" investments? I would argue an emphatic YES, and I'll tell you the reasons why.

"With almost a half a trillion dollars under management, CPP Investments is a beacon to look to for intelligent investment guidance."

Let's start by considering the mission of CPP Investments: "to help ensure Canadians have a strong foundation of financial security in retirement."[1] Isn't that what we all want for our retirement? The overarching investment objective of CPP investments is to "maximize returns without undue risk of loss." Again, isn't that what we all want as investors?

With almost a half a trillion dollars under management, CPP Investments is a beacon to look to for intelligent investment guidance. Granted, as regular Canadians, we certainly don't have access to the same investment opportunities that they do, but we can still get tremendous insights.

CPP Investments has eight *Investment Beliefs*, which provide a compass as they navigate global capital markets to carry out their mandate on behalf of all Canadians. These Investment Beliefs provide clarity and consistency in the decisions they make and help them to stay the course as a long-term investor. We'll take a look at three of those Investment Beliefs and see how we can apply them to our own investments.



RISK: "Deliberately and prudently taking investment risk is necessary to earn long-term returns above the rate achievable on a minimum-risk investment. Risk characteristics of differing asset types and investment strategies vary over time but they are significantly more stable than return outcomes." So managing the risk in your investments should be the priority. It is far more predictable in the long-term than returns.

LONG-TERM VIEW: Long-term investing can provide opportunities for greater rewards.

Having a long-term view allows investors to resist the pressures of short-term market events and await the rewards of patient investing. Long-term investors can profit from opportunities created by shorter-term investors who don't have patience.

DIVERSIFICATION: "Diversification is the most powerful way to enhance investment returns at a targeted level of total risk. Truly effective diversification goes beyond standard categories such as asset classes, countries and currencies. Participation in both public and private investment strategies substantially broadens the range of investable assets and available skills."

None of these investment beliefs are going to be new or surprising to most experienced investors. However, most experienced investors still don't follow these investing fundamentals. I'm often asked to give a second option on people's investment portfolios. Few people are properly diversified, and most don't clearly understand the risk level in their investment. I started in this industry in the 90's when a "60/40" or "balanced" portfolio was becoming the trend, with a home bias to investing in Canada. Prior to that, the trend was Canadian bonds, not surprising as interest rates in the 80's were sky high. But as Bob Dylan sang, 'the times they are a-changin'. And I just don't see people's portfolios adapting to the current environment.

1999		2006		2021	
Asset Class	**%**	**Asset Class**	**%**	**Asset Class**	**%**
Cash		Cash	0.6	Cash	0
Bonds & Fixed income	100	Bonds & Fixed income	31.7	Bonds & Fixed income	23.1
Public Equity		Public Equity	58.5	Public Equity	29.2
Real Assets*		Real Assets*	4.7	Real Assets*	21
Private Equity		Private Equity	4.5	Private Equity	26.7
Canada	100	Canada	64	Canada	15.7
Global		Global	36	Global	84.3
* Real Assets include Real Estate, Infrastructure, energy, etc					

These trends I mention above were also followed by the CPP. However, unlike most Canadian investors who continue to be stuck in a "60/40 balanced" portfolio, CPP Investments has evolved to embrace new trends, as the economic world changes. As you can see by the chart below the CPP portfolio has evolved tremendously. Notice the decreases highlighted in **RED**, and the increases highlighted in **GREEN**. There are clear and solid reasons for these changes. I've written articles about this in the past. The reasons include market correlation, risk, inflation hedging, and more.

Why haven't most Canadian investors (including many investment advisors) moved on from the "60/40 balanced" portfolio? Imagine if we were still stuck in 80's and 90's fashion trends!? Hopefully you've updated your wardrobe, it's probably time to update your portfolio too! Or at least get a second opinion.

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[1]Source: CPPIB Annual Report 2021