RISKY BUSINESS

Canada's big pensions say they're investing responsibly — so why won't they tell us what they're investing in?

More and more workers want their money invested in a way that makes society better, not worse. But first they need to find out what their pension funds own. That's harder than you'd think.

By Christine Dobby Business Reporter
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Part 3 of the Star's Risky Business series

Facing a rent hike of 4.2 per cent — sprung on them during a pandemic no less — residents of an East York apartment complex are fed up.

It seems like yet another example of a large landlord spiffing up a building's common areas to justify rent increases above rent-control guidelines, a pattern critics say is pushing lower-income tenants out of affordable housing in droves.

Pearl Silverberg, a long-time tenant of the building, who is close to retiring from her customer service and data entry job at CIBC, worries about her neighbours. Some lost work during the pandemic and others, elderly and living on fixed incomes, have no way to cover the higher costs.

"Some people have been here 30 years. This is their community. Where are they going to go?" Silverberg said. "An increase of 4.2 per cent is really crazy. So we got together to fight this."

But first, they needed to figure out who owns the building they live in.

READ MORE: How does your pension stack up? Look up the returns and expenses of Canada's largest public-sector pension funds

The building, located at 130 Gowan Ave. in Toronto, is overseen by property management company Greenwin, but Greenwin doesn't really call the shots. It took a team of housing activists and a lot of digging to track down the real money behind it all.

It turns out the building is owned by real estate investment company Starlight Investments — a major Canadian landlord with more than 60,000 rental units — but it has a partner in this particular property: the Public Sector Pension Investment Board (PSP).

PSP, which manages more than $200 million in retirement savings for public servants, the Canadian forces and the RCMP, is one of Canada's eight largest public-sector pension funds.

Together, the big eight funds control almost $2 trillion in assets. They used to invest mainly in government bonds, but over the past three decades they've embraced complex alternative investments, such as toll roads, airports, shopping malls and office towers, a strategy that includes a big focus on real estate.

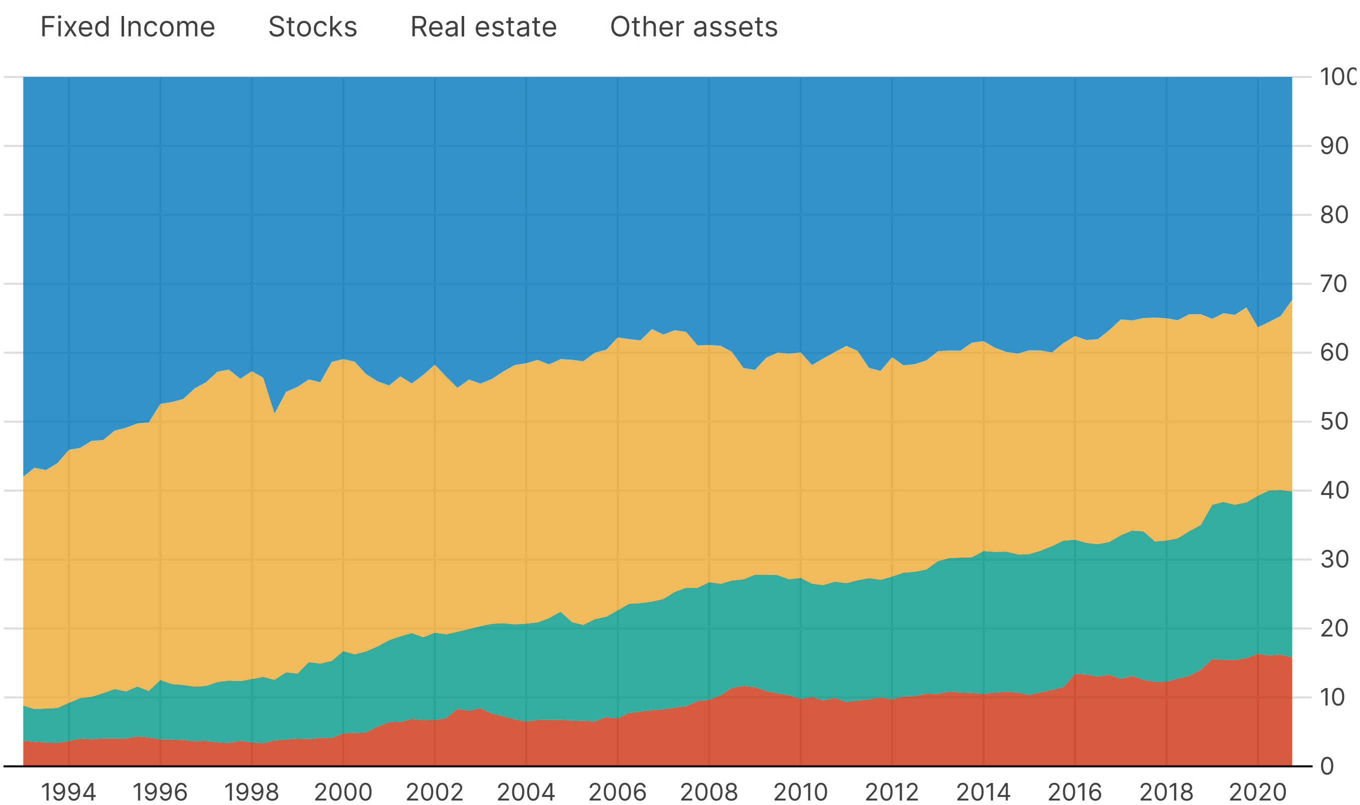
Now, perched atop sprawling business empires, the big pension funds are facing growing pressure from stakeholders — including their own pensioners — to be transparent about what they actually own. Amid concerns ranging from climate change to shameful working conditions to the steady erosion of affordable housing, Canadians are increasingly calling on the funds to take responsibility for how their investments affect the world and society as a whole.

"More and more pension funds are investing in rental housing and they're looking for returns," said Philip Zigman, a housing activist who researches above-guideline rent increases (AGIs) in Toronto and is working with the tenants at 130 Gowan.

"It's bad enough that you have these types of institutional investors that are profiting from people's basic need for shelter," he said. "But when they're invested in these types of practices that fuel displacement and increase rent at this rate, I think that's very clearly unacceptable."

Getting into real estate

In millions of dollars



SOURCE: STATISTICS CANADA

With a public campaign that includes a website titled "PSP displaces tenants," the residents of the East York building are hoping to shame Starlight and PSP into backing off on the rent hikes.

It's a strategy that's worked for other tenants in the past. After all, public-sector pension managers have big money to spend, but they're not faceless hedge funds — they're charged with investing the retirement savings of workers and pensioners, many of whom are struggling to manage the rising cost of living themselves.

"People are connecting the dots between injustice and how their money is being used," said Christie Stephenson, executive director of the Peter P. Dhillon Centre for Business Ethics at UBC's Sauder School of Business.

"Canadians are increasingly understanding how their deferred wages and their pension dollars are either contributing to the kind of world that they want or being used to drive environmental degradation and social injustice."

Stephenson pointed to the example of institutional owners behind privately run long-term-care homes (PSP's wholly owned subsidiary Revera is one example), where she says chasing quarterly returns contributed to "devastating outcomes for the elderly and, in the early days, fuelled the COVID-19 pandemic."

"Transparency is such a big piece of it," she said. "Workers, pension beneficiaries, members of pension plans are expecting pensions to be making strong commitments around environmental and social issues.

"But paired with that, they really want to see action, they want to see details so they can determine whether those commitments really are meaningful or not."

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"A lot of investors pay lip service to environmental, social and governance (ESG) criteria, but there's a very thin understanding of what ESG actually covers," said Leilani Farha, global director of housing rights group The Shift and former UN Special Rapporteur on the Right to Housing.

"The 'S' in ESG includes human rights … and a socially responsible investment has to incorporate the human right to housing."

"Affordability is at the crux of this housing crisis. And if (the pension funds) are contributing in any way to unaffordability, then they are contributing to the housing crisis," Farha said. "Is that how they want to position themselves?"

She said experts on the financialization of housing are calling for pensions to do more due diligence into real estate investments and to be more transparent with workers and pensioners about those investments.

The Star asked the big eight pensions — PSP, Canada Pension Plan Investments (CPP), the Caisse de dépôt et placement du Québec, Ontario Teachers' Pension Plan, B.C. Investment Management Corporation (BCI), Alberta Investment Management Corporation (AIMCo), Ontario Municipal Employees Retirement System (OMERS) and Healthcare of Ontario Pension Plan (HOOPP) — whether they've reconsidered investing in rental housing.

Most didn't provide direct answers or said they manage ethical risks in part by working with high-quality operators who run the properties. More generally, they said they take ESG factors into account when making investments and try to encourage better corporate behaviour at the companies in which they invest.

"There are very few sectors that don't have tricky dimensions to them. And so it's very important to partner with really strong operators," Michel Leduc, senior managing director and global head of public affairs and communications at CPP, said in an interview.

He added that rental housing is a very small area of investment for the fund (though last year CPP said it was taking a 95 per cent stake in an $840-million (U.S.) joint venture to develop and acquire single-family rental homes in the U.S.).

"Now, from time to time do we see things that we would prefer not happen? Yeah, and that's why it's very important for institutional investors to use their influence to ensure the highest practices are applied," Leduc said.

Neil Hrab, a spokesperson for OMERS, which owns the real estate company Oxford Properties, said in an email that only a small portion of its business is focused on rental housing and those buildings are a "vital component of the housing mix."

"Rental housing remains a high conviction segment for Oxford and we work closely with the local community to ensure that we are meeting affordable housing requirements," Hrab said.

PSP similarly sees rental housing as "a key component of our real estate portfolio," said spokesperson Maria Constantinescu. In an emailed statement she said the fund partners with operators "with recognized expertise and experience who are responsible for the day-to-day operations of the assets we invest in."

Constantinescu said PSP's partner Starlight is seeking the above-guideline rent increase at 130 Gowan (which must be approved by Ontario's Landlord Tenant Board) because it made structural improvements to the building along with energy and security upgrades. She said Starlight also made cosmetic upgrades but did not include those in its AGI calculations.

"Starlight Investments has made available to tenants a residence assistance program intended to allow any resident who is suffering from financial hardship to apply for financial assistance or rent relief," Constantinescu said.

But the tenants say that program is inadequate. They object to disclosing financial information to a landlord they say they don't trust and are calling for more disclosure of PSP and Starlight's own revenues and profit.

"If Starlight has the money to provide AGI (above-guideline increase) relief for the entire building then they can withdraw the AGI," the tenant organizers said in a written statement.

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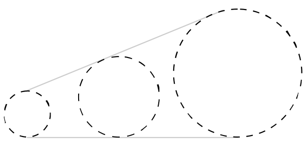
To call pensions out on their investments, stakeholders first need to know what the funds own.

Investments in sustainable assets

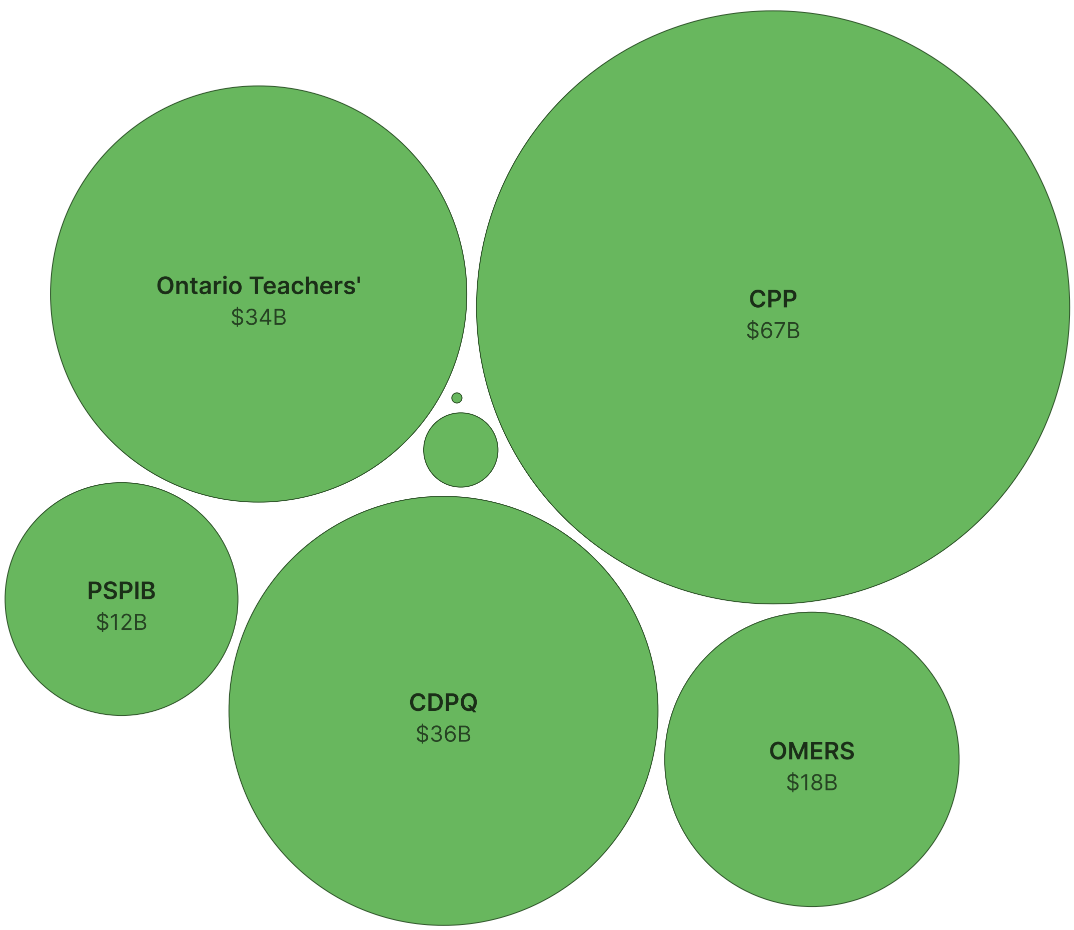
In a November 2021 report, the Smart Prosperity Institute reported on Canadian pension assets invested in "sustainable solutions," which could include investments such as renewable energy, sustainable forestry and green bonds. The report noted that disclosure on such investments varies significantly across the funds and the definitions provided are "sorely lacking in detail."

The data here is the most recent available (ranging from Dec. 31, 2020, to current) and is based on a combination of the Smart Prosperity report and more updated information some funds provided to the Star. The Star could not find the source of data referenced in the Smart Prosperity report for HOOPP and the fund said it does not have a calculation for this information, so it is not included.



Size of the circle is equal to the value of assets invested in sustainable solutions

Hover on a circle for more details



SOURCE: SMART PROSPERITY/FUND REPORTS

TORONTO STAR GRAPHIC

That can be a major hurdle, said Patrick DeRochie, senior manager at Shift Action for Pension Wealth and Planet Health, a charity working to hold Canadian pensions accountable on climate issues

After almost three years of digging for investments tied to climate change, Shift still has only a partial picture of what exactly is in the pension funds' portfolios.

DeRochie said he and his colleagues have been able to get a good sense of U.S. stocks owned by Canadian funds through filings with the American securities regulator, but otherwise rely largely on their own research, pension fund news releases and third-party reports to find out what they own.

The Canadian Centre for Policy Alternatives (CCPA) has also tried tracking pension holdings tied to the oil and gas industry but says there are "large gaps in disclosure for Canadian pension funds."

In a 2021 report, the CCPA was able to use data from Bloomberg to partially evaluate the assets of the CPP and the Caisse, but the other big funds do not provide similar disclosure or the data format is inaccessible to Bloomberg.

"Without the ability to see their pensions' investments over time," the CCPA report said, "Canadians cannot verify the investment managers' ethical claims."

Zigman said he was able to connect 130 Gowan to PSP because the fund, which is a federal crown corporation and subject to government disclosure rules, had previously responded to an access to information request for a list of all properties it owns.

There can be power in that type of information.

Take for instance the Parkdale rent strike in 2017, when hundreds of tenants of several buildings in the Toronto neighbourhood protested rent increases by withholding their monthly payments.

They also targeted the buildings' co-owner, Alberta pension and investment fund manager AIMCo, protesting outside its Bay Street office and enlisting the Alberta Union of Provincial Employees to the cause.

After three and a half months, organizers declared victory and said the landlord granted concessions, including reductions in the planned rent increases.

"The success of the Parkdale Rent Strike demonstrates that pension fund landlords, despite their billions of dollars in assets and commitments to maximizing returns, are not immovable objects," wrote Jamie Shilton in a 2021 article on pension-fund capitalism in Osgoode Hall Law School's Journal of Law and Social Policy.

"In comparison to other institutional investors, public pension funds appear unusually susceptible to public pressure campaigns," Shilton said.

Zigman and the tenants at 130 Gowan have sought the support of the Ontario region of the Public Service Alliance of Canada (PSAC), which represents 160,000 members who contribute to pension plans managed by PSP.

The union wrote to the fund's CEO earlier this year raising concerns over the above-guideline portion of the rent increase.

PSP's Constantinescu said the fund has been in touch with PSAC and provided information on the rent relief program as "part of the dialogue."

"When you have workers themselves saying we don't want our pensions to be used this way, it seems that much more obvious that this type of investor should not be fuelling or profiting from displacement, increasing hardship and increasing rents this way," Zigman said.

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Annual carbon footprint

Tonnes of CO_2e per $1 million invested

Calculated using: Enterprise value method Market capitalization method

CPP (entire portfolio)

51

CDPQ (entire portfolio)

49

Ontario Teachers' (70% of portfolio)

32

BCI (public equities; figure is 68.2 for BCI's fixed income portfolio)

110.7

PSP (entire portfolio)

101

AIMCo (85% of portfolio)

56

OMERS (69% of portfolio)

57

HOOPP (public equities and some real estate assets)

40.4

SOURCE: SMARTPROSPERITY.CA

Investing in all kinds of industries around the world may be good for portfolio diversification, but it can come with reputational risks, and the claim that big pension funds profit off the loss of affordable housing is just one example.

Responding to urgent demands to address climate change, most of Canada's large funds have ramped up spending on sustainable technologies and made pledges to reach zero carbon emissions in their portfolios by 2050.

DeRochie said the credibility of those pledges varies significantly from fund to fund and that more consistent and detailed disclosure from all is needed to evaluate their progress.

In recent years, several Canadian funds, including BCI, CDPQ, Ontario Teachers' and CPP, have also faced criticism from the human rights group Hong Kong Watch for investing in companies that are tied to China's military or complicit in human rights abuses in Xinjiang.

Calls to slash ties to Russia following its invasion of Ukraine illustrated the financial danger of propping up businesses that quickly turn toxic. Scrambling to divest when buyers for such assets are hard to find can mean taking big losses.

To balance ESG concerns with the goal of delivering reliable returns for pensioners, many funds say the solution lies in helping the businesses they invest in do better.

The big eight pensions all told the Star they use a variety of active management approaches to exert a positive influence, with strategies that include proxy voting (taking deliberate positions on shareholder votes), engaging with companies' management on ESG factors and requiring more transparency from the businesses they invest in.

While the funds also said they perform rigorous investigations before investing, several, including Ontario Teachers', OMERS, BCI and AIMCo, said they don't support blanket divestment from certain sectors.

"Broad divestment or exclusion does not encourage companies to amend their policies and practices," Gwen-Ann Chittenden, vice-president of corporate stakeholder engagement at BCI, said in an email. She added that a broad policy of selling off or not investing in an asset class could also hurt BCI's investment strategy and its clients' financial returns.

Dénes Németh, vice-president of corporate communications and public affairs at AIMCo, similarly said the Alberta investment manager "champions a 'voice over exit' philosophy."

"(We) prefer to leverage our position as investors to positively influence corporate behaviour rather than to divest and unnecessarily reduce the investible universe," Németh said in an email.

Still, despite the careful due diligence and ongoing engagement, there are situations where large investors can suddenly be left with no choice but to sell.

In the case of Russia, the big Canadian pension funds all issued statements saying either that they were selling off assets tied to the country or that they had no "direct" investments there (some held investments through passive funds they do not manage directly).

BCI hinted at the challenges of the situation, saying it began selling Russian investments before the invasion, "however trading in these securities has now ground to a halt, given international sanctions, trading restrictions, and Russia's ban on foreigners selling Russian securities."

"Regardless, we will continue to work to sell the $107 million in Russian stock that remains," BCI said in early March.

In CPP's case, Leduc said the fund made a deliberate decision not to invest in Russia but later learned it had small stakes in the country because of its investments in a passively managed fund that invests across global stock indices. It has since worked with the index to eliminate any Russian exposure.

CPP has also had to take action in other cases where it has been unaware of investments in a business whose values it does not support.

"We found that that is not a justification to be invested in the company, even if we're not aware of it and it's a tiny, insignificant amount in the context of a half-a-trillion-dollar fund," Leduc said. "We put processes in place to try to uncover those. And those have improved significantly in the last couple of years."

Those types of controls will be crucial going forward because the Ukraine conflict won't be an isolated case, warned Stephenson.

"It isn't just Russia. Any time you're taking a risk on a company's record on social or environmental issues you're taking a financial risk," she said. "As social expectations change, people's values and investment value become one and the same."

Still, those risks only tend to come to a head when they come to light, which is why Shift's DeRochie is pushing for more transparency and disclosure from the big funds.

While some people don't care about how their pension fund invests their money, DeRochie said, "Other people don't know, and when we actually show them, they're pretty outraged."

"I think there's a certain disconnect between the Bay Street finance crowd that manage these funds and the people who actually benefit from collecting a pension when they retire," he said. "I would like to see that gap close a lot more."

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