



Pension Investment  
Association of Canada

Association canadienne des  
gestionnaires de caisses de retraite

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**Re: Review of Leverage Use within Pension Plans February 2019**

The purpose of this letter is to provide comments from the Pension Investment Association of Canada (PIAC) on the recently released Communique on the Review of Leverage Use within Pension Plans.

PIAC has been the national voice for Canadian private and public pension funds since 1977 in matters related to pension investment and governance. Senior investment professionals employed by PIAC's member funds are responsible for the oversight and management of over \$2 trillion in assets on behalf of millions of Canadians. PIAC's mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries. PIAC's positions on public policy reflect the fiduciary framework in which member funds operate and its commitment to work in the best interests of plan members.

While we appreciate CAPSA is not looking for formal comments on the communique, we nonetheless believe it would be useful to provide some high level observations.

- PIAC agrees with CAPSA that the use of leverage is becoming more common within pension plans, with the primary motive to achieve better asset-liability matching while maintaining adequate exposure to return-generating assets in a lower-return environment. We believe the use of leverage at the fund level is a newer development as leverage has long been embedded in many underlying portfolio holdings such as equities, real estate and non-recourse third party managed funds. We also agree with CAPSA that it is important to consider the balance of benefits and risks from the perspective of the overall pension plan balance sheet, and not strictly from an asset-only perspective.

- PIAC believes leverage is a legitimate strategy which can be managed effectively within a prudent person framework and we agree with CAPSA that governance, process and expertise are key considerations. To the extent CAPSA does further work in this area, PIAC recommends it take a principles-based approach to policy development (rather than rules-based) given the varying situations and objectives that arise from plan to plan.
- We further note Canada lacks policy consistency with pension plans required, in some instances, to incur extra costs and employ sub-optimal structuring to comply with Income Tax Act requirements as they pertain to borrowing. This is analogous to the situation that existed with respect to the foreign property rule for many years.

Finally, we note the use of leverage in pension funds is a complex issue requiring careful consideration and it is worth taking time to get policy right. To the extent CAPSA continues its research in this area, we encourage it to consult with PIAC as this is part of our fundamental mandate and we have significant expertise in this area among our members, in both large and small plans.

We appreciate this opportunity to share our perspectives.

Yours sincerely,



Deanne Allen  
Chair