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The Maple 8 are in flux

Canada's largest pensions are revamping their private real estate platforms

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Editor's letter

The Maple 8's dominance is no longer a given

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The Maple 8 are in upheaval. Canada's largest pensions – which include Caisse de dépôt et placement du Québec, CPP Investments, BCI, Public Sector Pension Investment Board, Ontario Teachers' Pension Plan, Alberta Investment Management Corporation, Ontario Municipal Employees Retirement System and Healthcare of Ontario Pension Plan – have long been fixtures on *PERE*'s annual ranking of the world's most active capital allocators to real estate, thanks in large part to their direct investment style known as the Canadian model.

But changes underway could make it difficult for the Maple 8 to remain a force in private real estate. In this month's cover story, we look at how six of the eight pensions have been affected by real estate leadership departures over the past two years. Two are also restructuring their real estate businesses to create leaner, more streamlined teams. Meanwhile, these investors have also come under pressure to invest more pension assets in their home country, raising questions about the potential impact on their capital flows overseas, including in real estate.

> **"Changes underway could make it difficult for the Maple 8 to remain a force in private real estate"**

Amid this transition, Canada's pensions have been less active abroad. Although outbound cross-border real estate investment activity has declined overall, the drop has been more pronounced with the Maple 8. The investors' overseas asset purchases have declined by an average of 27 percent each quarter on a rolling, four-quarter basis since the second quarter of 2022, according to data provider MSCI. In contrast, outbound cross-border acquisitions saw an average annual decline of 18.4 percent globally and 8.4 percent in the US over the same period.

In their interviews with *PERE*, Canadian pensions make it clear they intend to remain active in private real estate. However, their continued dominance in the industry is no longer a given.

Evelyn Lee

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Canada's Maple 8 hit an inflection point

Cover story

The country's biggest pension plans are undergoing significant changes that could have wider implications for their real estate investment activity. By Kyle Campbell

Change is in the air for Canada's top real estate pension investors. Among the largest institutional investors in the world, Canada's biggest retirement systems – known collectively as the Maple 8 – have reached an inflection point.

Since 2022, five of the groups have seen their real estate heads leave. A sixth is set to depart this summer. Two of those leadership changes came as part of broader restructuring efforts that involve the pension investors bringing their independent property arms in house, abandoning the direct investment style that characterized the so-called Canadian model.

Bill Ferguson, head of Chicago-based executive search firm Ferguson Partners, sees the changes as a strategic shift by the pensions toward a less hands-on approach to their real estate investments. "The investment strategy of the Maple 8 has changed based upon the recognition of capital as their competitive advantage, leading to a focus on platform and portfolio investing rather than being owner-operators," Ferguson says.

Sebastien Betermier, a finance professor at McGill University in Montreal, says periodic shakeups are to be expected within such expansive operations. "What I'm seeing in terms of the restructuring here doesn't shock me as a fundamental change in the industry," says Betermier, whose research focuses on pension investment. "When you have a big vertical integration of the value chain, there's a lot of pieces to fit together. I expect, from time to time, to see some changes in the structure of that whole chain."

At the same time, Canada's federal government is exploring ways to encourage the nation's various pensions to invest more heavily in their home market. Industry participants and analysts do not expect stiff mandates for real estate investment. But, for now, it is an uncertain variable during a period of upheaval.

Amid this transition period, Canada's pensions have been less active abroad. Overseas asset purchases by the Maple 8 have been trending down since the second quarter of 2022, when they totaled $17.4 billion on a rolling, four-quarter basis, according to MSCI data on transactions greater than $10 million. That total has dropped by an average of 27 percent each quarter, falling to $1.4 billion during the first quarter of this year.

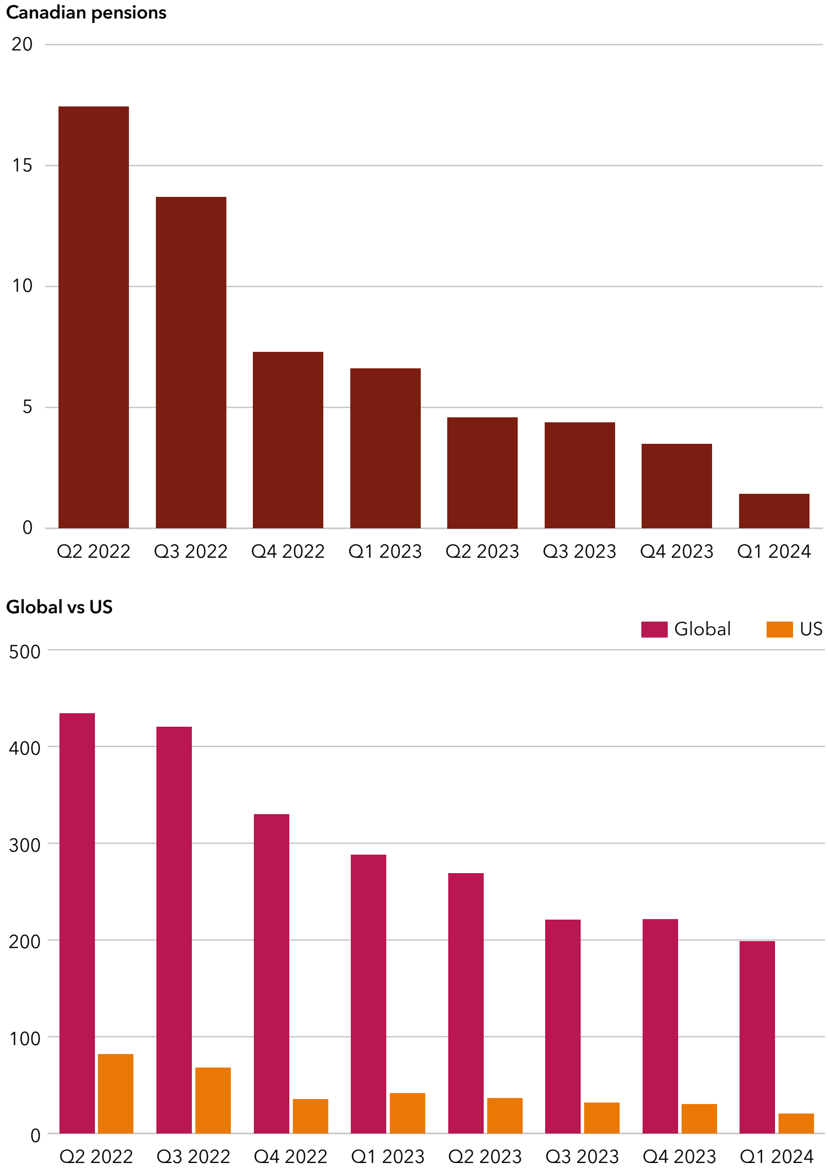
By comparison, in the US and globally, outbound cross-border acquisitions picked up during the third quarter of 2022 before charting a downward course. During the third quarter of 2022, the four-quarter total was $434.4 billion globally and $81.7 billion in the US. Those volumes fell to $198.5 billion and $20.2 billion during Q1 2024, respectively, with an average annual decline of 18.4 percent globally and 8.4 percent in the US, the MSCI data showed.

The Canadian pensions "are, like most investors today, very focused on asset managing their existing investments because of what's happened to real estate markets," says Riaz Cassum, head of international capital, Americas for JLL Capital Markets. "They will not have as much new incremental capital to deploy as they had in past years."

A model in flux

Collectively, the Maple 8 groups oversee more than C$1 trillion of assets, including roughly C$360 billion ($260 billion; €240 billion) in real estate. In the asset class, the groups have tended to deploy directly, largely favoring long-term investments in platforms and companies, or joint ventures

Overseas acquisitions activity* by Canadian pensions has fallen more sharply than that of the global buyer pool ($bn)



*On a rolling four-quarter basis
Source: MSCI Real Assets

with other institutional investors and managers.

As platform investors, "they are directly active in the firm's development and strategic decisions," Betermier says. "That means they're both investors as well as developers and, in some cases, they're also managers because sometimes those subsidiaries continue the management of the asset itself."

At its core, the Canadian model aims to marry the agility of a private sector investor with the perpetual capital of a public pension. This approach is best encapsulated by Caisse de dépôt et placement du Québec, Ontario Teachers' Pension Plan and Ontario Municipal Employees' Retirement System, each of which acquired private companies to serve as their real estate arms.

In 1990, CDPQ purchased the Ivanhoé Corporation and later combined it with Cambridge Shopping Centres Limited, forming its real estate equity subsidiary, Ivanhoé Cambridge. OTPP followed suit in 2000, purchasing Cadillac Fairview. OMERS bought Oxford Properties in 2001. But, after spending decades building these platforms into global brands and garnering plaudits for their innovative approach to pension investing, two of these three groups are walking away from the model.

CDPQ and OTPP both internalized their real estate teams this year. CDPQ absorbed both Ivanhoé Cambridge and its real estate debt platform Otéra Capital, purchasing all outstanding minority shares for the two companies. Ontario Teachers, meanwhile, launched a 50-person in-house real estate team tasked with diversifying the pension's portfolio, both in terms of property type and geography. Cadillac Fairview will continue to operate the system's domestic assets, which are primarily office towers and retail properties.

Both CDPQ and OTPP said the internalizations would result in cost savings – with CDPQ projecting C$100 million annually – and help them harmonize their investment strategies and governance practices across their organizations. Both groups declined to discuss their changes for this article.

Bill Tresham, who was president of Ivanhoé Cambridge from 2014 to 2017, says the move away from external real estate subsidiaries is long overdue. He argues subsidiaries create excessive overheads and do not result in meaningfully better results. He adds it is no longer necessary for pensions to sacrifice the benefits of an in-house team to get the talent and capabilities of an independent subsidiary.

"It's just a duplication, and you're not really running an integrated organization," he says. "They may have had a reason to do it in the beginning. They don't have a reason to do it now."

At the inception of the model in the late 1990s, Tresham says, groups

All Maple 8 pensions rank in the top 50 of the 2023 PERE Global Investor 100.

	Caisse de dépôt et placement du Québec	Canada Pension Plan Investment Board	BCI (British Columbia Investment Management)	Public Sector Pension Investment Board (PSP Investments)
New real estate head	Rana Ghorayeb	TBD	-	Louis Véronneau
HQ	Quebec City	Toronto	Victoria, BC	Ottawa
GI100 rank	12	13	20	25
Real estate allocation	$35.2bn	$34.1bn	$26.7bn	$23.0bn

Source: PERE

were looking for ways to compensate high-level investment professionals without bumping into disclosure requirements or triggering the public scrutiny that came with paying people on par with private sector competitors. Now, he noted, there is no stigma about the pensions paying investment officials competitive wages.

Likewise, Tresham adds the speed advantage subsidiaries once enjoyed – from being able to transact without first having to clear an investment committee approval process – has also dissipated. “These big pension funds have become incredibly agile,” he says. “Big pension funds can act just as fast, or faster maybe, today, than the real estate subsidiaries.”

Further, Tresham believes the subsidiary structure has served the officials running the subsidiaries better than the pensioners they are supposed to serve. As the number of retirees increases and returns become harder to generate in a higher rate environment, he expects pensions to scrutinize these entities more thoroughly.

Sticking to their guns

Still, two pensions remain firmly committed to the real estate subsidiary structure: OMERS and British Columbia Investment Management Corporation.

OMERS chief executive Blake Hutcheson asserts the independent nature of Oxford enables OMERS to pay competitively, maintain a large staff and manage outside capital. Oxford’s direct investment approach also aligns with the needs of a pension fund better than the traditional fund allocation model, he adds.

“We are rewarded to think long term,” he says. “Our liabilities are long term, our assets are long term, my view is long term and that’s just the way it is.”

BCI, the latest entity to embrace the Canadian model, remains similarly bullish. Launched in 2016, QuadReal has orchestrated a rapid expansion of the pension’s real estate business, roughly doubling its equity exposure to the asset class to C$36 billion. Factoring in leverage, the footprint totals roughly C$78 billion.

The company – now the fifth-largest North American real estate investor – has achieved this growth by establishing five platforms and acquiring six others. It also changed the complexion of the portfolio from being primarily focused on Canadian offices to being globally diversified and two-thirds residential and industrial.

QuadReal chief executive Dennis Lopez says his firm would not have been able to grow as rapidly as it has – or continue to grow during a period of elevated interest rates – without its platform-focused, direct investment approach. In a more challenging market environment, he adds the more hands-on approach of a real estate subsidiary will be necessary for pensions to remain fully funded.

Lopez notes the approach is not for everyone. He says that while the Canadian model results in significant savings by eliminating management fees and other expenses, it also entails running and maintaining a very large organization. “To truly execute this model, you have to be willing to do

Six have made real estate leadership changes in the past two years

Ontario Teachers' Pension Plan	Alberta Investment Management Corporation	Ontario Municipal Employees Retirement System	Healthcare of Ontario Pension Plan	
Pierre Cherki	Paul Mouchakkaa	Daniel Fournier	-	New real estate head
Toronto	Edmonton	Toronto	Toronto	HQ
28	34	39	43	GI100 rank
$21.4bn	$16.8bn	$15.6bn	$13.4bn	Real estate allocation

what we've done. We have created a truly vertically integrated real estate firm with boots on the ground in all our target markets."

Unlike other subsidiaries, which are governed directly by their respective pensions, QuadReal has its own board of directors. The body comprises six real estate industry experts and two BCI officials. A BCI spokesperson says this distinct approach carries the "dual benefit of autonomy and accountability," allowing QuadReal to be nimble in its day-to-day decision-making while keeping it tethered to the broader organization's strategic goals and capital plans.

Hutcheson says OMERS has benefited from keeping Oxford under direct pension oversight. This approach, he notes, fits with the organization's emphasis on integration and co-ordination across teams and platforms. "We want to speak with one voice, with one balance sheet, with one team," Hutcheson says. "The cultures are not identical, but the values are totally aligned."

> *"To truly execute this model, you have to be willing to do what we've done"*
>
> **DENNIS LOPEZ**
> **QuadReal**

Smaller but nimbler

Some Canadian pensions that have not restructured their real estate businesses have also experienced significant leadership change.

Michael Turner, who served as president of Oxford for five years, was abruptly replaced last spring by former Ivanhoé Cambridge CEO Daniel Fournier. At the time, OMERS stated Fournier was the "perfect candidate" to build upon Turner's advancements for Oxford, which included expanding its global footprint and building up its capabilities to take on outside capital.

"Daniel is the ideal person for this stage of Oxford's growth and development," Hutcheson tells *PERE*. "He is a proven and terrific leader of people and has successfully navigated huge businesses through multiple market cycles."

The string of changes began in 2022 with Alberta Investment Management Corporation's appointment of Paul Mouchakkaa – previously the head of real assets for the California Public Employees' Retirement System – to head its real estate team. Soon after, the Public Sector Pension Investment Board appointed Louis Véronneau as its head of real estate.

While both groups shun fund commitments in favor of direct investment in properties, joint ventures with large operators and strategic co-investments, they have never had independent subsidiaries.

The same is true for Canada Pension Plan Investment Board, which is set to lose its long-time real estate head Peter Ballon this summer. A successor has not been announced and CPP declined to discuss the search process. Ballon's departure will come roughly one year after Andrea Orlandi, who served as CPP's head of Europe and India for more than a decade, left the pension.

At OTPP, former DWS Group managing director Pierre Cherki took the reins of the pension's new in-house real estate platform in January.

Meanwhile, CDPQ's internalization effort cost it Ivanhoé Cambridge CEO Nathalie Palladitcheff, who was viewed as a rising star for the organization. Subsequent to her departure in April, her counterpart at Otéra Capital, Rana Ghorayeb, now leads CDPQ's internalized real estate platform.

Considering these restructurings, Ferguson says he expects the pensions to be smaller but also nimbler, focusing on "partnering with a smaller number of firms that are actively acquiring and managing assets around the world." And while this approach will not require the same staffing volume as the external subsidiaries did, Ferguson says this type of platform-focused investing will require the pension to form "integrated, fully functioning teams" with a variety of capabilities.

"The change in strategy should allow the Canadian pension funds to become more active global investors, but it does have challenges and risks," he says. "Investing in operating platforms globally requires them to ensure that the right team with the right incentives is in place at the portfolio company or operating partner level, pursuing the appropriate investment strategy – a challenge to be sure."

Canada first?

Ferguson is not alone in expecting the ongoing restructuring efforts within Canada's pensions to result in more cross-border investment. But doing so could induce government headwinds. In its most recent budget, the government of Canada encouraged pensions to invest more heavily in domestic assets, including real estate.

"Canada's own economy is full of investment opportunities in these asset classes that could provide valuable contributions to pension fund portfolios," the document notes. "Opening up more opportunities for investment by pension funds in these domestic assets would help one of Canada's largest pools of savings contribute to the growth of the Canadian economy."

The budget singles out building housing on public land as one type of investment that pensions could engage in more heavily. But the full scope of the policy objective could go beyond that. The government has convened a working group, headed by the former governor of the Bank of Canada, Stephen Poloz, to identify specific investing opportunities for the pensions. Poloz declined to discuss the review process or the feedback he has received.

Pension investors and others well versed in the Canadian market expect the resulting policy to be incentive-based rather than mandate-driven. The belief is the initiative will focus heaviest on infrastructure assets – airports were called out in the budget – and corporate equities, public and private.

The Maple 8 already has significant exposure to domestic real estate markets, so some say they do not need a government program to encourage them to think locally. "Two-and-a-half percent of the global GDP is in Canada and around 25 percent of our

Weaker performers

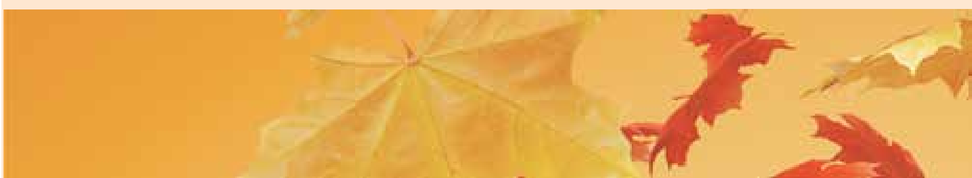
The Maple 8's upheaval coincides with recent poor performance

CDPQ, OMERS, OTPP, CPP and the Healthcare of Ontario Pension Plan, or HOOPP, all delivered negative one-year returns for their real estate portfolios in 2023, according to the pensions' annual reports. PSP's results were positive, but barely at 0.2 percent.

At press time, the other two Maple 8 members, AIMCo and the British Columbia Investment Management Corporation, or BCI, had not yet released their 2023 results.

The results followed broader market trends and were better than average. The National Council of Real Estate Investment Fiduciaries, or NCREIF, Property Index tracked an unleveraged return of -8.39 percent from the fourth quarter of 2022 through the third quarter of last year.

But underperformance by the Maple 8 groups is not merely a 2023 development. OTPP reported a five-year return of -3.1 percent compared with a target of 3.9 percent. CDPQ's five-year annualized return was -0.5 percent against a 0.8 percent index benchmark.



book is in Canada, so we are arguably quite overweight Canada from a diversification standpoint. But we're very comfortable with that amount of allocation," Hutcheson says of OMERS and Oxford. "We understand the rule of law, we like the Canadian dollar, we have deep, deep relationships here for over 60 years and our pensioners reside here. They can relate to some of these assets we own, and we've been getting great returns out of our Canadian book."

Nine percent of CPP's real estate portfolio, in terms of equity carrying value, is in Canada. But Thomas Jackson, head of real estate Europe, says the pension plan is not bound by set allocation targets for geographies or sectors.

"We are running a global real estate investment program at CPP Investments. There's no mandate to invest a certain portion of the fund in Canada. We focus first and foremost on where we see the best risk-adjusted returns," Jackson says. "We have C$4 billion of equity invested in real estate in Canada currently. If we saw great risk-adjusted return opportunities there, then that number could increase."

> *"We are rewarded to think long term. Our liabilities are long term, our assets are long term, my view is long term and that's just the way it is"*
>
> **BLAKE HUTCHESON**
> **OMERS**

Still, given that Canada's few institutionally investable markets are already dominated by its pensions, a mandate for more domestic investment could force the retirement systems to take on additional concentration and liquidity risks.

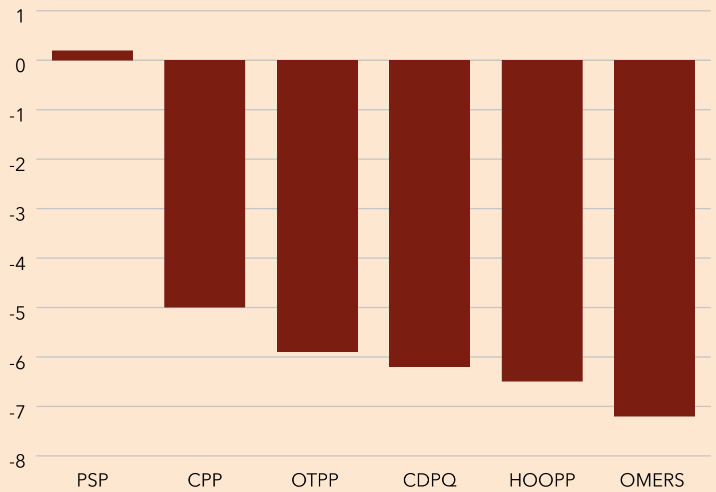
According to RCA's liquidity index – a scoring system based on deal volumes, number of active investors and other factors – Canada's biggest city, Toronto, has consistently tracked below Chicago, the third most populous city in the US, even as the latter has trended down on institutional wish lists amid rising crime, budget issues and a falling population in the city.

"For similarly sized markets, in the United States there is just more liquidity, historically, than in Canada," says Jim Costello, head of real estate economics at MSCI. "Chicago is just a more liquid market than Toronto, and we do this with matched pairs for a bunch of markets [in the US and Canada] of the same size, and we get about the same story."

Whether or not they are mandated to invest more domestically, however, few doubt Canada's pension investors will remain active participants in global real estate capital markets. And as more institutional investors mimic their platform-focused, direct approach, the Maple 8 pensions are unlikely to entirely abandon the model they have pioneered.

"That's where the world is going in terms of how institutions are investing. Some will do passive investments into funds, but many are investing directly into operating platforms too," JLL's Cassum says. "The Canadians have been at the cutting edge of that for 10-plus years, and they will continue to be." ■

Poor performance for real estate in 2023 sets a challenging backdrop for the changes underway across the Maple 8 (%)



AIMCo and BCI have not reported 2023 results at press time
Source: Pension plans' websites