

GREY POWER

The rise of pension fund capitalism.



When the Feds eliminated the foreign property rule just a couple of years ago, all eyes turned outside Canada for new investment opportunities. Who knew that just a couple of years

later, the pension investment story of the century to date would sprout up here at home. Today, the future of one of Canada's biggest companies is in the hands of the country's largest public sector pension funds. Canada Pension Plan, together with the Caisse de Dépôt et placement du Québec and New York-based private equity firm, Kohlberg Kravis Roberts & Co., are planning what could be one of several bids for the blue-chip Canadian company, including a bid from the Ontario Teachers' Pension Plan.

Valued at nearly \$40 billion, the sale of BCE would be the biggest deal in Canadian history—in fact, it would be one of the largest in North America. No doubt, Peter Drucker's prediction that the era of pension fund capitalism was soon to be upon us is coming true. Drucker believed that the rise of pension funds as dominant owners and lenders would be one of the most

“startling shifts in economic history,” as they moved from being large owners of stock to active owners of whole companies. Leading the way, he predicted, would be the big public pension funds.

While a pension-driven deal for BCE could be a positive shift for members of public sector pension funds (including recipients of the Canada Pension Plan benefit), it's hard to wonder what will happen to members of that other threatened species of pension plan—the corporate defined benefit plan. Could more deals such as this one begin to shrink the choices in public markets? And, if so, where will sponsors of DB plans search for their own pools of alpha in the future when the big money is to be made in high-leveraged deals like this one? If more and more deals like this happen, is the future of pension investment out of reach for all but the biggest public sector pension funds? Let's hope not. ■

— *Caroline Cakebread*

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