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Intelligence MEMOS

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From: Kate Koplovich, Alexandre Laurin and Colin Busby

To: 'Nation Building' Observers

Re: THE NEW SOVEREIGN WEALTH FUND: SO MUCH MONEY, SO MANY QUESTIONS

Ottawa is pitching Canada's "first" national sovereign wealth fund as a way to give every Canadian "a stake and the opportunity to benefit" from nation-building projects.

The plan? Borrow $25 billion to capitalize the fund, which aims to invest in major infrastructure projects, such as clean and conventional energy, critical minerals, agriculture and other sectors.

But key details remain unresolved, including the fund's investment mandate and how it will avoid overlapping with existing federal financing tools.

For more than a decade, weak business investment has undermined labour productivity and wage growth. In 2025, Canadian workers expected to receive only 55 cents for every dollar of investment in comparable workers in the United States. Boosting business investment was a low priority for governments in Canada until the downward pressure on the standard of living became tangible for Canadians. Reversing this trend will be no small feat.

It's encouraging to see policymakers searching for solutions. A sovereign wealth fund could ultimately help to fill investment gaps, de-risk projects for the private sector in the short run, enhance productivity and develop new export markets. But on its own, this fund is not enough to make Canada a more attractive place to invest.

It is also not the only sovereign fund in Canada. Quebec's Generations Fund invests revenues from hydroelectricity, while the Alberta Heritage Fund invests oil and gas revenues – similar in principle to Norway's model.

A key distinction is that these funds invest dedicated revenue streams, often from surpluses, with a mandate to maximize financial returns while supporting their domestic economies.

The new federal fund, in contrast, will be built on debt. Its assets will be financed through borrowing, whether from bond markets or potentially individual Canadians. As a result, investment returns will need to at least cover borrowing costs.

In many respects, the fund resembles existing federal vehicles such as the Canada Infrastructure Bank (CIB) and the Canada Growth Fund (CGF). This raises a natural question: where does it fit?

The CIB, like the newly proposed entity, is funded using federal resources and has a similar mandate to invest in revenue-generating infrastructure across similar sectors such as energy, transportation and trade-enabling infrastructure.

Will fund risk replicating the CIB's role? And, more pointedly, how will it interact with the Major Projects Office (MPO), which was recently created to advance nation-building projects?

The MPO works with federal departments and Crown corporations such as the CIB, CGF and Export Development Canada to structure financing for projects referred to it. It is also guided by criteria on what constitutes a project of national interest.

Will this new fund be bound by the same criteria? What additional financial criteria will it apply to ensure acceptable returns for Canadians? And what happens if a project is designated as being of national interest by the MPO, but is later deemed non-investable by the independent managers of the fund?

None of the MPO's criteria explicitly relate to return on investment, with the exception of one criterion referring more broadly to "economic or other benefits to Canada." This is central: Major projects are supported not necessarily for the strength of their direct financial returns, but for their broader economic benefits: job creation, increased investment and higher gross domestic product.

From the outset, the MPO has been designed to support projects that enhance economic security, resilience and clean growth where private investment alone may be insufficient.

The new spring economic update said the fund would invest on a "fully commercial basis." If the fund is to invest in nation-building projects, it may not generate high financial returns, at least not in the short term. Many large-scale infrastructure projects involve long development timelines and uncertain revenue streams. Therefore, what level of return is being targeted?

Indeed, many transformative projects under consideration – such as the Alto high-speed rail line, Ontario's small modular reactors, the Mackenzie Valley Highway, the Grays Bay Road and Port in Nunavut and the Arctic Economic and Security Corridor – may take decades to yield returns, if they do so at all in strictly financial terms.

Long-term, patient capital is well suited to such investments, but this model sits badly with retail investors. Some level of subsidy may therefore be required to attract them, defeating the purpose of the fund.

More broadly, regulatory barriers remain the key obstacle to private investment in Canada. Public equity participation in infrastructure projects may help signal viability and crowd in private capital – arguably a more effective approach than the TransMountain expansion took. Still, there is a risk of drifting toward a model where only projects backed by public capital proceed.

Questions remain, but one conclusion is clear: This new sovereign wealth fund will not resolve Canada's investment challenges on its own.

Kate Koplovich is a senior policy analyst, Alex Laurin is vice-president and director of research and Colin Busby is director of policy engagement at the C.D. Howe Institute.

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