



# FEAR FACTOR

**By Yaldaz Sadakova**

**To preserve recent gains, pension funds are diversifying their assets—and facing the risk issue head-on**

**W**hat if the best way to control risk was to embrace it?

After seeing asset increases and funded status improvements over the past two years, Canada's pension funds are now focusing on keeping their gains. They know they can achieve this through de-risking—but, for many of them, giving up returns in the current environment induces anxiety.

So, in an effort to extract much-needed yield while controlling risk at the same time, DB pension funds are adding more opportunistic types of fixed income to their portfolios and increasing their alternative holdings.

“They’re taking a good hard look at the risk side of the equation and making sure

that they aren’t assuming too much risk and that they’re positioned for future volatility that we may see in the marketplace,” says Duane Green, head of the Canadian institutional group at Franklin Templeton Investments (No. 15 on the Top 40 Money Managers list).

The issue of risk—when and how, exactly, to take it on—is a tricky one. Risk management usually comes to the forefront when pension plans are in deficit, but that’s also when it’s most difficult—or least affordable—to actually take risk off the table, says Ken Choi, director of investment consulting at Towers Watson. “Conversely, when times are good and plans are in surplus, that’s when plan sponsors have tended to become perhaps

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(No. 1 manager on the November 2014 Top 40 list)

**FASTEST-GROWING MANAGERS**

» <\$1 billion » \$1 billion to \$10 billion » >\$10 billion

**TOP CAP INVESTMENT MANAGER**

**BIGGEST CLIMBER**

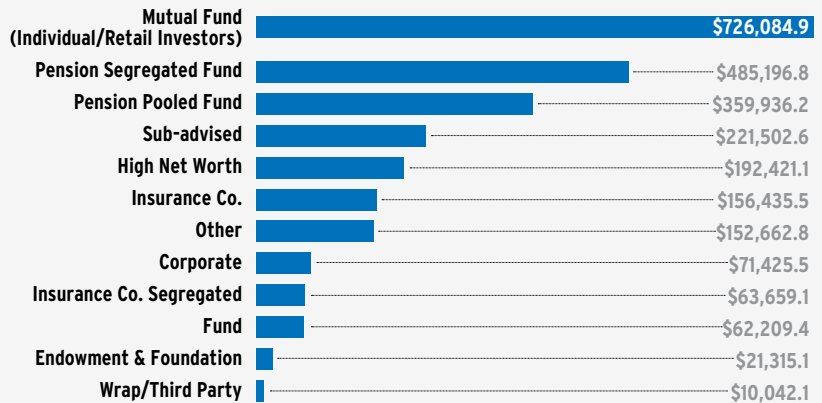
(Moved up the most places on the Top 40 list)

**We hope to see you there!**



**BREAKDOWN | CANADIAN ASSETS UNDER MANAGEMENT**

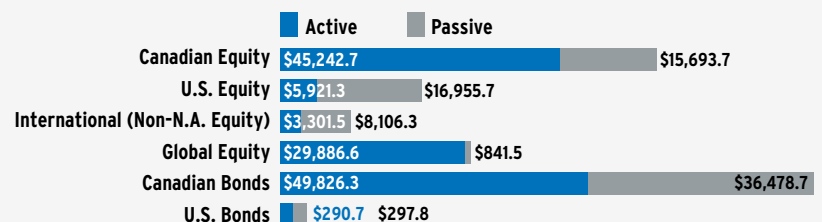
ASSETS (MILLIONS) AS OF JUNE 30, 2014



Note: Canadian-domiciled clients only

**BREAKDOWN | POOLED FUND ASSETS UNDER MANAGEMENT**

ASSETS (MILLIONS) AS OF JUNE 30, 2014



Source: Firms participating in the Canadian Institutional Investment Network Spring 2014 Top 40 Money Managers Survey

a bit complacent about risk.”

But it's the good times that are best for de-risking, Choi explains. Most of Canada's DB pension plans are currently either fully funded or close to fully funded. “Now is the time to *not* be complacent about risk because you can afford to do something that you couldn't do before,” he adds.

So what are pension funds and their portfolio managers doing to manage risk?

**Afraid of the Dark?**

Historically, pension funds have turned to fixed income in an effort to de-risk. Many pension plans are still increasing fixed income allocations as a de-risking strategy, but it's not as easy today compared with 10 years ago, when interest rates were higher.

“The challenge is that, 10 years ago, you could almost have a free lunch,” says Choi. “You could hedge your liabilities and get a decent return while doing so.”

In today's low interest rate environment, if investors want to hedge their liabilities with more fixed income or with longer duration fixed income, they will get lower returns, Choi explains.

“Investors are desperate to try and find yield somewhere,” says Marija Finney, senior vice-president and head of institutional sales and service with BMO Global Asset Management (No. 39).

Enter opportunistic fixed income.

To get both yield and hedging out of

***“Now is the time to not be complacent about risk because you can afford to do something that you couldn’t do before”*** – Ken Choi, Towers Watson

## TOP 10 | CAP INVESTMENT MANAGERS

ASSETS (MILLIONS) AS OF JUNE 30, 2014

| Company  | 2014 CDN CAP AUM  |
|--|-------------------|
| 1   BlackRock  | \$19,417.4        |
| 2   GLC Asset Management Group Ltd.                          | \$10,488.7        |
| 3   TD Asset Management                                      | \$9,572.0         |
| 4   MFS Investment Management Canada Ltd.                    | \$9,341.2         |
| 5   Standard Life Investments Inc.                           | \$9,004.0         |
| 6   Sun Life Global Investments                              | \$7,270.0         |
| 7   Pyramis Global Advisors (a Fidelity Investments Company) | \$6,401.1         |
| 8   Connor, Clark & Lunn Financial Group                     | \$5,793.4         |
| 9   Invesco  | \$5,398.9         |
| 10   Greystone Managed Investments Inc.                      | \$4,848.5         |
| <b>Top 10 Total:</b>   | <b>\$87,535.2</b> |

bonds at a time of exceptionally low interest rates, pension funds are turning to more opportunistic products such as high-yield corporate bonds (also known as junk bonds), other kinds of distressed debt, emerging market debt and catastrophe bonds (high-yield instruments issued by insurers, intended to raise money in the event of natural catastrophes). Some of these fixed income offerings, such as distressed debt and catastrophe bonds, are classified as alternatives.

High-yield types of fixed income can be much less liquid but real alpha generators, adds Green.

Peter Muldowney, senior vice-president of institutional strategy with Connor, Clark & Lunn Financial Group (No. 7), agrees. “If you can get a manager who can add 100 basis points on something, then that added value is quite significant.” Also, he notes, these opportunistic products are not as sensitive to interest rate changes as traditional bonds are.

## TOP 10 | POOLED FUND MANAGERS

CPA = CANADIAN PENSION ASSETS; ASSETS (MILLIONS) AS OF JUNE 30, 2014

| Company   | 2014 CPA           |
|---|--------------------|
| 1   BlackRock   | \$56,045.7         |
| 2   TD Asset Management   | \$37,324.2         |
| 3   Phillips, Hager & North Investment Management (RBC Global Asset Management) | \$18,927.6         |
| 4   MFS Investment Management Canada Ltd.                                       | \$14,158.1         |
| 5   Brookfield Asset Management   | \$13,752.0         |
| 6   Connor, Clark & Lunn Financial Group  | \$13,442.1         |
| 7   Standard Life Investments Inc.  | \$12,929.3         |
| 8   Beutel, Goodman & Company Ltd.  | \$12,873.0         |
| 9   State Street Global Advisors, Ltd.  | \$11,422.6         |
| 10   Pyramis Global Advisors (a Fidelity Investments Company)                   | \$10,330.1         |
| <b>Top 10 Total:</b>  | <b>\$201,204.7</b> |

### Seeing the Light

Opportunistic types of fixed income typically aren’t implemented on a stand-alone basis, notes Carlo DiLalla, vice-president in the fixed income institutional advisory group with CIBC Asset Management (No. 14). Instead, many pension plans are adding these riskier products to their core holdings of investment-grade bonds in order to maximize returns while improving diversification. The resulting approach is known as core plus.

The “core” usually represents 70% to 80% of a core plus portfolio, and the manager’s freedom to add opportunistic assets represents the remaining 20% to 30%, DiLalla explains. “Core plus is basically an enhancement to core,” he says, adding that it does not replace the core fixed income allocation of

Source: Firms participating in the Canadian Institutional Investment Network Spring 2014 Top 40 Money Managers Survey

# TOP 40

# MONEY MA

## TD ASSET MANAGEMENT

**1**

Rank 2013: **1** ↑ 17.6%

2014 CPA: \$79,650.4

2013 CPA: \$67,737.0

Total Assets 2014: \$232,921.2

## BLACKROCK

**2**

Rank 2013: **2** ↑ 23.0%

2014 CPA: \$73,345.9

2013 CPA: \$59,628.3

Total Assets 2014: \$147,833.7

## PHILLIPS, HAGER & NORTH INVESTMENT MANAGEMENT (RBC Global Asset Management)

**3**

Rank 2013: **3** ↑ 14.0%

2014 CPA: \$50,333.6

2013 CPA: \$44,141.6

Total Assets 2014: \$235,062.3

## BEUTEL, GOODMAN & COMPANY LTD.

**4**

Rank 2013: **4** ↑ 17.6%

2014 CPA: \$35,330.0

2013 CPA: \$30,039.1

Total Assets 2014: \$41,609.0

## STATE STREET GLOBAL ADVISORS, LTD.

**5**

Rank 2013: **5** ↓ 6.2%

2014 CPA: \$27,141.8

2013 CPA: \$28,943.2

Total Assets 2014: \$41,791.4

## FIERA CAPITAL CORP.

**6**

Rank 2013: **6** ↑ 14.0%

2014 CPA: \$26,223.6

2013 CPA: \$22,995.7

Total Assets 2014: \$73,807.5

## CONNOR, CLARK & LUNN FINANCIAL GROUP \*

**7**

Rank 2013: **7** ↑ 6.1%

2014 CPA: \$23,541.6

2013 CPA: \$22,193.9

Total Assets 2014: \$52,231.9

## J.P. MORGAN ASSET MANAGEMENT (CANADA) INC.

**8**

Rank 2013: **11** ↑ 28.6%

2014 CPA: \$21,898.6

2013 CPA: \$17,026.2

Total Assets 2014: \$29,225.6

## GREYSTONE MANAGED INVESTMENTS INC.

**9**

Rank 2013: **8** ↑ 2.9%

2014 CPA: \$21,617.7

2013 CPA: \$21,017.3

Total Assets 2014: \$33,561.8

## STANDARD LIFE INVESTMENTS INC.

**10**

Rank 2013: **12** ↑ 21.6%

2014 CPA: \$20,451.8

2013 CPA: \$16,816.5

Total Assets 2014: \$40,032.1

## MFS INVESTMENT MANAGEMENT CANADA LTD.

**11**

Rank 2013: **9** ↑ 3.1%

2014 CPA: \$18,406.1

2013 CPA: \$17,858.5

Total Assets 2014: \$25,929.1

## LETKO, BROSEAU & ASSOCIATES INC.

**12**

Rank 2013: **13** ↑ 14.8%

2014 CPA: \$17,631.7

2013 CPA: \$15,358.1

Total Assets 2014: \$28,459.7

## PYRAMIS GLOBAL ADVISORS (a Fidelity Investments Company)

**13**

Rank 2013: **17** ↑ 29.7%

2014 CPA: \$17,223.9

2013 CPA: \$13,281.9

Total Assets 2014: \$93,087.4

## CIBC ASSET MANAGEMENT INC. \*

**14**

Rank 2013: **10** ↑ 16.9%

2014 CPA: \$15,746.5

2013 CPA: \$13,468.7

Total Assets 2014: \$101,250.1

## FRANKLIN TEMPLETON INSTITUTIONAL

**15**

Rank 2013: **21** ↑ 34.8%

2014 CPA: \$15,263.7

2013 CPA: \$11,320.0

Total Assets 2014: \$48,985.8

## GLC ASSET MANAGEMENT GROUP LTD.

**16**

Rank 2013: **18** ↑ 15.7%

2014 CPA: \$15,069.9

2013 CPA: \$13,022.0

Total Assets 2014: \$37,504.3

## JARISLOWSKY, FRASER LTD.

**17**

Rank 2013: **15** ↑ 2.2%

2014 CPA: \$14,833.0

2013 CPA: \$14,517.0

Total Assets 2014: \$33,022.0

## MANULIFE ASSET MANAGEMENT

**18**

Rank 2013: **23** ↑ 30.0%

2014 CPA: \$14,628.0

2013 CPA: \$11,250.0

Total Assets 2014: \$53,399.0

## BNY/MELLON ASSET MANAGEMENT LTD.

**19**

Rank 2013: **16** ↑ 0.4%

2014 CPA: \$13,849.7

2013 CPA: \$13,794.1

Total Assets 2014: \$18,358.6

## BROOKFIELD ASSET MANAGEMENT

**20**

Rank 2013: **14** ↓ 8.6%

2014 CPA: \$13,752.0

2013 CPA: \$15,051.0

Total Assets 2014: \$35,453.0

*“If you can get a manager who can add 100 basis points on something, then that added value is quite significant”*

— Peter Muldowney, Connor, Clark & Lunn Financial Group

# MANAGERS

CANADIAN ASSETS (MILLIONS) UNDER MANAGEMENT AS OF JUNE 30, 2014

CPA = CANADIAN PENSION ASSETS

↑ ↓ Indicates an increase or decrease in variance from 2013 to 2014

## BENTALL KENNEDY (CANADA) LP **21**

Rank 2013: **19** ↑ 12.3%

2014 CPA: \$13,665.0  
2013 CPA: \$12,167.0

Total Assets 2014: \$22,629.0

## WELLINGTON MANAGEMENT COMPANY LLP **22**

Rank 2013: **20** ↑ 12.3%

2014 CPA: \$13,562.0  
2013 CPA: \$12,071.9

Total Assets 2014: \$17,317.0

## LEITH WHEELER INVESTMENT COUNSEL LTD. **23**

Rank 2013: **24** ↑ 22.9%

2014 CPA: \$12,863.6  
2013 CPA: \$10,466.5

Total Assets 2014: \$16,852.4

## PIMCO CANADA CORP. **24**

Rank 2013: **26** ↑ 22.7%

2014 CPA: \$11,867.0  
2013 CPA: \$9,669.0

Total Assets 2014: \$22,334.0

## MORGUARD INVESTMENTS LTD. **25**

Rank 2013: **25** ↑ 9.2%

2014 CPA: \$10,807.8  
2013 CPA: \$9,897.1

Total Assets 2014: \$14,401.3

## ADDENDA CAPITAL INC. **26**

Rank 2013: **27** ↑ 14.5%

2014 CPA: \$10,514.5  
2013 CPA: \$9,186.2

Total Assets 2014: \$24,420.6

## ABERDEEN ASSET MANAGEMENT PLC **27**

Rank 2013: **28** ↑ 19.4%

2014 CPA: \$9,703.2  
2013 CPA: \$8,124.5

Total Assets 2014: \$15,054.2

## SPRUCEGROVE INVESTMENT MANAGEMENT LTD. \* **28**

Rank 2013: **22** ↑ 10.5%

2014 CPA: \$9,623.8  
2013 CPA: \$8,709.0

Total Assets 2014: \$14,430.5

## BAILLIE GIFFORD OVERSEAS LTD. **29**

Rank 2013: **29** ↑ 28.0%

2014 CPA: \$8,168.0  
2013 CPA: \$6,381.0

Total Assets 2014: \$10,537.0

## SUN LIFE GLOBAL INVESTMENTS **30**

Rank 2013: **31** ↑ 29.7%

2014 CPA: \$7,270.0  
2013 CPA: \$5,604.8

Total Assets 2014: \$7,270.0

## GUARDIAN CAPITAL LP **31**

Rank 2013: **30** ↑ 18.4%

2014 CPA: \$7,060.4  
2013 CPA: \$5,964.4

Total Assets 2014: \$21,805.1

## INDUSTRIAL ALLIANCE GROUP \*\* **32**

Rank 2013: **n/a** ↑ 20.3%

2014 CPA: \$6,610.8  
2013 CPA: \$5,496.1

Total Assets 2014: \$74,087.8

## HEXAVEST INC. **33**

Rank 2013: **32** ↑ 16.5%

2014 CPA: \$6,530.7  
2013 CPA: \$5,604.5

Total Assets 2014: \$7,639.3

## MAWER INVESTMENT MANAGEMENT LTD. \* **34**

Rank 2013: **34** ↑ 33.2%

2014 CPA: \$6,286.4  
2013 CPA: \$4,720.5

Total Assets 2014: \$25,408.2

## BURGUNDY ASSET MANAGEMENT LTD. **35**

Rank 2013: **37** ↑ 44.0%

2014 CPA: \$6,265.3  
2013 CPA: \$4,351.0

Total Assets 2014: \$15,973.1

## FOYSTON, GORDON & PAYNE INC. **36**

Rank 2013: **33** ↑ 13.1%

2014 CPA: \$6,214.0  
2013 CPA: \$5,493.0

Total Assets 2014: \$13,738.0

## MERCER GLOBAL INVESTMENTS CANADA LTD. \*\* **37**

Rank 2013: **38** ↑ 40.6%

2014 CPA: \$6,107.3  
2013 CPA: \$4,344.8

Total Assets 2014: \$6,213.2

## INVESCO \* **38**

Rank 2013: **39** ↑ 21.3%

2014 CPA: \$5,352.3  
2013 CPA: \$4,413.0

Total Assets 2014: \$33,359.3

## BMO GLOBAL ASSET MANAGEMENT <sup>1</sup> **39**

Rank 2013: **n/a** ↑ 44.4%

2014 CPA: \$5,153.6  
2013 CPA: \$3,570.2

Total Assets 2014: \$80,198.0

## UBS GLOBAL ASSET MANAGEMENT (CANADA) INC. \*\* **40**

Rank 2013: **n/a** ↑ 20.5%

2014 CPA: \$4,646.0  
2013 CPA: \$3,856.4

Total Assets 2014: \$5,203.0

Notes: \* Restated June 30, 2013 pension value \*\* Offers delegated services/implemented consulting  
<sup>1</sup> BMO Global Asset Management acquired F&C Investments in the spring of 2014. Going forward, BMO Global Asset Management encompasses BMO Asset Management Inc., BMO Asset Management US., Money, LGM Investments and Pnyford International reporting under one entity.

Figures in this report are based on responses provided by the survey participants. Benefits Canada assumes no responsibility for the accuracy of the data provided. All totals are subject to a +/- variance due to rounding.

2014 Top 40 Total: **\$704,211.2**  
2013 Top 40 Total: **\$609,551.0**  
% Variance: **↑ 15.5%**

investment-grade bonds. That core is meant to satisfy a typical pension plan's need to preserve capital and remain aware of liabilities.

Another fixed income approach that pension funds are using in their search for yield is a global multi-sector strategy. Like core plus, the global multi-sector strategy allows managers to add more opportunistic types of fixed income from around the world. However, "global multi-sector goes further and uses a wider spectrum of

fixed income instruments including currencies, mortgages [and] asset-backed securities, as well as derivatives, to manage duration risk," says Leona Fields, director of York University's pension fund, which is preparing to deploy that strategy soon. The global multi-sector approach is often described as unconstrained.

"The manager will make—and change—allocations to the various strategies or sectors to get yield and manage risk. The allocation to high-yield



## TOP 5 | FASTEST GROWING (%) - LESS THAN \$1.0 BILLION

CPA = CANADIAN PENSION ASSETS; ASSETS (MILLIONS) AS OF JUNE 30, 2014

| Company   | 2014 CPA | 2013 CPA | % Variance |
|---|----------|----------|------------|
| 1   Morneau Shepell Asset & Risk Management Ltd. ** | \$739.5  | \$378.0  | ↑ 95.6%    |
| 2   Sionna Investment Managers Inc.                 | \$996.4  | \$589.7  | ↑ 69.0%    |
| 3   Wise Capital Management Inc.                    | \$178.0  | \$131.0  | ↑ 35.9%    |
| 4   Acorn Global Investments Inc.                   | \$3.5    | \$2.7    | ↑ 28.5%    |
| 5   Fiera Properties Ltd.                           | \$737.5  | \$580.6  | ↑ 27.0%    |

Note: \*\* Offers delegated services/implemented consulting

## TOP 5 | FASTEST GROWING (%) - \$1.0 BILLION TO \$10.0 BILLION

CPA = CANADIAN PENSION ASSETS; ASSETS (MILLIONS) AS OF JUNE 30, 2014

| Company                                      | 2014 CPA  | 2013 CPA  | % Variance |
|--|-----------|-----------|------------|
| 1   Triasima Portfolio Management Inc.       | \$2,152.4 | \$1,060.3 | ↑ 103.0%   |
| 2   CGOV Asset Management                    | \$1,313.5 | \$666.8   | ↑ 97.0%    |
| 3   QV Investors Inc.                        | \$2,825.2 | \$1,548.0 | ↑ 82.5%    |
| 4   Burgundy Asset Management Ltd.           | \$6,265.3 | \$4,351.0 | ↑ 44.0%    |
| 5   Mercer Global Investments Canada Ltd. ** | \$6,107.3 | \$4,344.8 | ↑ 40.6%    |

Note: \*\* Offers delegated services/implemented consulting

## TOP 5 | FASTEST GROWING (%) - GREATER THAN \$10.0 BILLION

CPA = CANADIAN PENSION ASSETS; ASSETS (MILLIONS) AS OF JUNE 30, 2014

| Company  | 2014 CPA   | 2013 CPA   | % Variance |
|--|------------|------------|------------|
| 1   Franklin Templeton Institutional                         | \$15,263.7 | \$11,320.0 | ↑ 34.8%    |
| 2   Manulife Asset Management                                | \$14,628.0 | \$11,250.0 | ↑ 30.0%    |
| 3   Pyramis Global Advisors (a Fidelity Investments Company) | \$17,223.9 | \$13,281.9 | ↑ 29.7%    |
| 4   J.P. Morgan Asset Management (Canada) Inc.               | \$21,898.6 | \$17,026.2 | ↑ 28.6%    |
| 5   BlackRock  | \$73,345.9 | \$59,628.3 | ↑ 23.0%    |

Source: Firms participating in the Canadian Institutional Investment Network Spring 2014 Top 40 Money Managers Survey

## “People are desperate to try and find yield somewhere” — Marija Finney, BMO Global Asset Management

bonds will vary depending on where the manager sees value at that time,” Fields says of the global multi-sector approach, adding that high-yield bonds will likely make up less than 10% of her pension fund’s fixed income allocation.

With global multi-sector, the exposure to a wide range of fixed income products does not necessarily exclude the core holdings of the bond portfolio, giving the manager greater latitude.

### Finding Shelter

Another way Canadian pension funds are trying to keep their gains while protecting on the downside is increasing and diversifying allocations to alternative asset classes. Which alternatives are most appealing to them? “We see the most interest in real estate, infrastructure and private equity,” says Finney.

These assets don’t exhibit the same kind of volatility that equities do, so they are a great diversifier, Finney explains.

## TOP 10 | DB INVESTMENT MANAGERS

|                      |   | ASSETS (MILLIONS) AS OF JUNE 30, 2014 |
|----------------------|---|---------------------------------------|
| Company              |   | 2014 CDN DB AUM                       |
| 1                    | TD Asset Management   | \$69,557.6                            |
| 2                    | BlackRock   | \$52,814.3                            |
| 3                    | Phillips, Hager & North Investment Management (RBC Global Asset Management) | \$45,762.4                            |
| 4                    | Beutel, Goodman & Company Ltd.  | \$25,241.0                            |
| 5                    | State Street Global Advisors, Ltd.  | \$24,686.2                            |
| 6                    | Fiera Capital Corp.   | \$22,817.6                            |
| 7                    | J.P. Morgan Asset Management (Canada) Inc.                                  | \$21,898.6                            |
| 8                    | Greystone Managed Investments Inc.  | \$18,623.0                            |
| 9                    | Connor, Clark & Lunn Financial Group  | \$17,768.0                            |
| 10                   | Letko, Brosseau & Associates Inc.   | \$16,789.0                            |
| <b>Top 10 Total:</b> |   | <b>\$315,957.7</b>                    |

Source: Firms participating in the Canadian Institutional Investment Network Spring 2014 Top 40 Money Managers Survey

## TOP 10 | TOTAL CANADIAN ASSETS UNDER MANAGEMENT

|                     |   | ASSETS (MILLIONS) AS OF JUNE 30, 2014 |
|---------------------|---|---------------------------------------|
| Company             |   | 2014 CDN AUM                          |
| 1                   | Phillips, Hager & North Investment Management (RBC Global Asset Management) | \$235,062.3                           |
| 2                   | TD Asset Management   | \$232,921.2                           |
| 3                   | BlackRock   | \$147,833.7                           |
| 4                   | CIBC Asset Management Inc.  | \$101,250.1                           |
| 5                   | CI Investments Inc. (including CI Institutional Asset Management)           | \$99,882.0                            |
| 6                   | 1832 Asset Management L.P. <sup>1</sup>                                     | \$95,815.8                            |
| 7                   | Pyramis Global Advisors (a Fidelity Investments Company)                    | \$93,087.4                            |
| 8                   | BMO Global Asset Management   | \$80,198.0                            |
| 9                   | Industrial Alliance Group **  | \$74,087.8                            |
| 10                  | Fiera Capital Corp.   | \$73,807.5                            |
| <b>Top 10 Total</b> |   | <b>\$1,233,945.8</b>                  |

Notes: \*\* Offers delegated services/implemented consulting

<sup>1</sup> Formerly listed as Scotia Global Asset Management. All assets are managed by 1832 Asset Management L.P., a wholly owned subsidiary of Scotiabank.

Source: Firms participating in the Canadian Institutional Investment Network Spring 2014 Top 40 Money Managers Survey

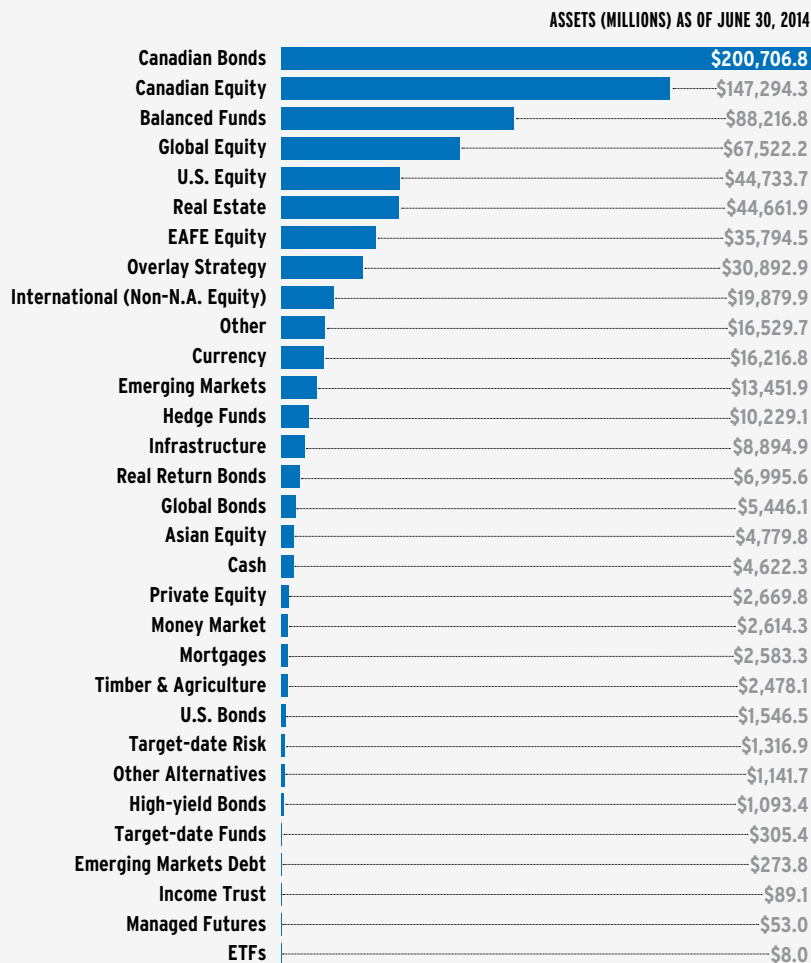
## THE NUMBERS

- At the end of June 30, 2014, Canadian pension assets for the Top 40 money managers totalled **\$704.2 billion** compared with **\$609.6 billion** the year prior. (Some 2013 figures were restated.) That's an increase of **15.5%**.
- Franklin Templeton Institutional** had the biggest jump, moving up six places—from **No. 21 to No. 15**.
- Thirty-eight** of the Top 40 money managers reported an increase in pension assets, with only two reporting a decrease.
- Thirty-two** of the Top 40 money managers reported double-digit increases in assets under management versus 23 managers in last year's report.
- Three managers are new to this year's list: **Industrial Alliance Group** (No. 32), **BMO Global Asset Management** (No. 39) and **UBS Global Asset Management (Canada) Inc.** (No. 40).

Source: Firms participating in the Canadian Institutional Investment Network Spring 2014 Top 40 Money Managers Survey



## TOTAL | CANADIAN PENSION ASSETS UNDER MANAGEMENT BY ASSET CLASS



Source: Firms participating in the Canadian Institutional Investment Network Spring 2014 Top 40 Money Managers Survey

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***“Global multi-sector goes further and uses a wider spectrum of fixed income instruments including currencies, mortgages [and] asset-backed securities, as well as derivatives, to manage duration risk”*** — Leona Fields, York University

And, Muldowney adds, they're also not as sensitive to interest rate changes, as long as those changes are moderate.

For all of these reasons, York University's pension fund plans to increase and diversify its alternative allocations. Currently, the university allocates 5% of its overall pension portfolio to alternatives, all of which is dedicated to infrastructure, according to Fields.

The target is to increase alternative allocations to 20% of the overall portfolio and to include real estate in the alternatives bucket. The goal is for real estate to make up 10%—half of the total alternatives portfolio, Fields adds.

While alternatives used to be accessible only to the biggest pension funds, now even smaller players can access a wider range, thanks to new investment vehicles. In certain instances, the asset management industry is able to create bespoke portfolios at smaller asset levels, says Andrew McCaffery, global head of alternatives with Aberdeen Asset Management PLC (No. 27).

Investors can get these bespoke portfolios by opening new types of separate accounts that don't require the high amounts of capital typically needed to open them, he explains. "In some cases, we are creating portfolios across alternative investments that can be as low as, or even below, \$25 million and \$50 million."

Investors that don't have the capital or desire to open individual accounts can use different commingled alternative funds, which pool the assets of several investors. Those include funds that use more liquid alternative strategies, such as hedge fund strategies. The liquid alternative vehicles—which are open-end pooled funds and thus have no limitations on the number of shares they can issue—allow individual institutional investors to participate with as little as \$1 million, or potentially even less, says McCaffery.

When it comes to less-liquid real assets, pension funds can also invest in

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open-end real estate and infrastructure funds. Open-end funds target mainly smaller investors so they can get the diversification the big pension funds have, says Muldowney.

“An open-end fund just makes it easier for a smaller investor to get access to these alternatives because it doesn’t come with the same amount of administration the previous vehicle, the closed-end fund, would have assumed,” says Muldowney. Closed-end funds—which trade on the open market and issue a limited number of shares—require greater administration because they have an expiry date. Upon expiration, the assets are liquidated, forcing investors to look for another closed-end fund, if that’s what they want to do.

Additionally, Canadian pension investors can access alternatives through offshore mutual funds, says McCaffery. These funds are based in countries with lower taxes and possibly lighter regulations, which translates into easier administration—and, potentially, lower fees.

## TOP 10 | ENDOWMENT & FOUNDATION FUND MANAGERS

|                      |   | ASSETS (MILLIONS) AS OF JUNE 30, 2014 |
|----------------------|---|---------------------------------------|
| Company              |   | 2014 CDN E&F AUM                      |
| 1                    | Fiera Capital Corp.   | \$6,065.3                             |
| 2                    | TD Asset Management   | \$5,802.2                             |
| 3                    | Mawer Investment Management Ltd.  | \$2,923.0                             |
| 4                    | Jarislowsky, Fraser Ltd.  | \$2,744.0                             |
| 5                    | J.P. Morgan Asset Management (Canada) Inc.                                  | \$2,603.0                             |
| 6                    | Connor, Clark & Lunn Financial Group  | \$2,599.4                             |
| 7                    | Letko, Brosseau & Associates Inc.   | \$2,595.0                             |
| 8                    | State Street Global Advisors, Ltd.  | \$2,414.1                             |
| 9                    | Burgundy Asset Management Ltd.  | \$2,266.0                             |
| 10                   | Phillips, Hager & North Investment Management (RBC Global Asset Management) | \$2,255.7                             |
| <b>Top 10 Total:</b> |   | <b>\$32,267.7</b>                     |

Source: Firms participating in the Canadian Institutional Investment Network Spring 2014 Top 40 Money Managers Survey

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# “You want to be able to manage and move your allocations through time”

— Andrew McCaffery,  
Aberdeen Asset  
Management Inc.

This ability to build a portfolio through a wider range of vehicles and exposures allows investors not only to diversify their assets, but also to manage liquidity and cash flow throughout the investment cycle, explains McCaffery. This helps investors avoid excessive liquidity or illiquidity at the wrong times of the cycle.


“You don’t always want to be invested in real estate or private equity or some hedge fund strategies. You want to be able to manage and move your allocations through time,” says McCaffery. “You could hold relatively liquid hedge fund-type strategies if you like them or if you feel they beat a cash holding. But these can quickly be re-deployed into illiquid investments, such as private equity or debt, if valuations suggest it is attractive to do so.”

Pension plans are not only increasing and diversifying their alternative allocations. The most sophisticated ones are also applying alternative strategies directly to the stock and bond allocations of their portfolios. For example, says McCaffery, some are embedding long-short strategies—typically seen in

the hedge fund sphere—to their equity allocations in order to improve their risk-adjusted equity returns.

This means that, in their effort to control risk, the most sophisticated pension investors are moving away from seeing their portfolios comprising separate stock, bond and alternative portions.

“Thinking about alternative exposure across the overall portfolio—rather than seeing it as a small and separate bucket that can protect you against having the majority [of your assets] in equity or bond exposure—can be much more effective,” McCaffery explains.

Canada’s pension funds now have a unique window of opportunity to face their biggest ever-present fear. Some investors are still “in a happier state than they should be because the markets have been very kind,” says Muldowney. However, those that aren’t complacent are taking steps to manage risk: by embracing it, but in a highly calculated manner. 

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