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TIME TO RETOOL

Investment managers rework their products to adapt to shifting markets

By *Caroline Cakebread*

It's a promise that's getting harder to keep. Sponsors of Canada's DB pension plans are struggling against formidable odds to keep the pension promise alive for members, retirees and future members as equity markets roil and interest rates remain depressingly low in the wake of the 2008 financial crisis. Plan deficits are proving stubbornly hard to eliminate, and some plans are simply closing or turning to drastic solutions. General Motors' decision to orchestrate a pension buyout, shifting the risk of its pension plan to an insurance company last year, proved this point.

The challenges faced by plan sponsors have also wrought big changes on the money management industry that serves them. Canada's Top 40 money managers have undergone substantial changes as they seek to provide better solutions to pension clients during difficult times. Today's money managers are more focused than ever on providing solutions rather than products, and many businesses have been overhauled in an effort to service pension plans that are fundamentally different than they were 10 years ago. With new tools at their disposal, money managers are proving that better portfolio construction and investment management are key pillars of the solution to the challenges pension plans face today.

What Plan Sponsors Want

Indeed. A decade ago, many DB pension plan managers were far more focused on returns than they were on managing risk. Jim Keohane, CEO of the Healthcare of Ontario Pension Plan (HOOPP), says that a lot of plans today are in trouble because they failed to realize what the real risks were early on. Instead, they focused on adding value rather than simply delivering on the pension promise. This has changed fundamentally as plans today focus on liabilities rather than returns. While HOOPP remains fully funded and has weathered the 2008 crisis well, much of the success lies in making wise portfolio management choices and taking advantage of a host of new tools and products that weren't available in the past. "There are better tools today to construct a portfolio than there were 40 years ago," Keohane explains. "They allow you to create better portfolios."

As new portfolio management tools become more widely available, they are proving to be a key pillar for plan sponsors seeking help dealing with challenging markets. Sandy McPherson, chief investment officer with the City of Edmonton, is pleased with the range of tools that are now at plan sponsors' disposal and believes the money management industry is getting better at creating products that are more suited to plans seeking to meet their liabilities in today's tough market conditions. "The investment management industry is reaching to meet these different demands," McPherson says. Whether it's opening up the opportunity set for fixed income or creating equity products that help manage volatility, plan sponsors now have access to better products that recognize their challenges. "Today, there is a vast array of products out there for the unique circumstances of different pension plans," he says.

The shift to better solutions has its roots in a changing conversation between plan sponsors and money managers, says Tim Thompson, senior vice-president with TD Asset Management (No. 1 on the Top 40 list). "Ten to 15 years ago, the investment management business that served pension funds was siloed and even somewhat adversarial," he explains. "Plan sponsors would hire consultants that would engage with investment managers to fill different slots in the investment portfolio." Today, Thompson says, the relationship between money managers and plan sponsors is far more collaborative, with managers now much better able to offer solutions based on holistic conversations with pension clients. "It's not as product-driven," he notes.

Bruce Geddes, head, Canadian institutional, with Phillips, Hager & North Investment Management (No. 3), says, "What we are hearing from plan sponsors is that they are looking to investment managers to help them analyze their investment challenges and bring solutions that are more relevant to solving the task at hand. Today, managers need to understand how influencing factors like volatility work in the context of the pension promise. We are much more focused on solutions as opposed to simply focusing on products that have favourable

TOP 10 | FASTEST GROWING MANAGERS ($)

ASSETS (MILLIONS) AS OF DEC. 31, 2012

	Company	2012 Canadian Pension Assets	2011 Canadian Pension Assets	$ Variance
1	TD Asset Management*	$69,812.0	$62,399.0	↑ $7,413.0
2	Beutel, Goodman & Company Ltd.	$28,016.0	$21,766.0	↑ $6,250.0
3	BlackRock	$54,182.7	$49,931.7	↑ $4,251.0
4	Wellington Management Company, LLP	$10,877.9	$7,430.0	↑ $3,447.9
5	Phillips, Hager & North Investment Management (RBC Global Asset Management)	$45,743.1	$42,307.0	↑ $3,436.1
6	J.P. Morgan Asset Management (Canada)	$15,268.0	$12,401.0	↑ $2,867.0
7	Aberdeen Asset Management PLC	$7,418.9	$4,586.9	↑ $2,832.1
8	State Street Global Advisors, Ltd.*	$25,209.9	$22,406.5	↑ $2,803.4
9	Connor, Clark & Lunn Financial Group	$21,001.9	$18,267.3	↑ $2,734.6
10	Franklin Templeton Institutional	$10,798.0	$8,291.0	↑ $2,507.0

Notes: * Restated 2011 pension numbers. Rankings are based on top growth of *all* money managers participating in the Canadian Institutional Investment Network spring 2013 *Top 40 Money Managers Survey*. The table encapsulates organic growth, new mandates and returns, *not* growth due to mergers and acquisitions.

return profiles." That means starting at the core and coming at product creation from the perspective of the unique investment challenges of pension funds, each with its own unique set of objectives and constraints. "DB plans are not one big bucket of investors," says Geddes. "We as managers must dig a little deeper and recognize the differences between plans."

"Plans have definitely shifted their focus," says Warren Stoddart, CEO of Connor, Clark & Lunn Financial Group (No. 6). "They've moved from looking at how bond and equities managers are outperforming a benchmark to questions about whether they will have enough assets to meet their liabilities. Money managers need to address those needs. That means offering customized solutions that are highly focused on LDI and include a broader range of asset classes. Stoddart also sees many plan sponsors limiting the number of managers they deal with, perhaps due to staffing challenges or the fact that they are being pulled in other directions (i.e., focusing on risk).

As managers rethink their relationship with their pension clients, it's led to a major overhaul in the product space, with a host of innovative new tools emerging that are expressly designed to support both DB and DC plan sponsors as they continue to offer good pensions to Canadian employees.

The Hunt for Better Beta

Perhaps the biggest shakeup has been in the equities space, where the financial crisis has been particularly tough on active managers. As the 2008 market meltdown drove global equity markets to huge losses, plan sponsors began to take a hard look at active managers and the value they deliver. According to Wendy Brodkin, managing director with AllianceBernstein, the big focus on active management of public equities that dominated in the 1990s is gone. "What there is in public equities no one wants," she says, noting that plan sponsors don't want the volatility that comes with owning stocks. In place of traditional active equity management, a new generation of products is springing up that better suits the needs of pension funds. Equity-based products today are more focused on low volatility or higher yield, all the things that we used to get from fixed income, Brodkin says. At the same time, alternatives are now doing what fixed income used to do, with asset classes such as real estate and infrastructure taking more of a role in pension portfolios. "Nothing is like it used to be."

Another big shift in pension portfolios is from active to passive, as plan sponsors rethink the role of equities in their portfolios. "Plan sponsors have become dissatisfied with many of their active managers with active management post-financial crisis," says Peter Lindley, president and head of investments of State Street Global Advisors (No. 5). "Some active managers are now finding ways to help plan sponsors be in passive mandates, providing exposure to non-traditional or alternative beta approaches." This has led to a proliferation of products that help investors passively access specific niches of the market such as low beta stocks, small or large cap stocks, or high dividends.

Greg Walker, managing director, head of iShares institutional business, Canada, also sees more plan sponsors turning to passive mandates to manage risk, a direct response to new and innovative products on the market. Plan sponsors still want to be in equities, Walker explains, noting that "they don't want to be so de-risked they miss the swing back with equities, not just domestic but also international." To help plan sponsors stay in the game, the industry

TOP 40 MONEY MANAGERS

CANADIAN ASSETS (MILLIONS) UNDER MANAGEMENT AS OF DEC. 31, 2012
CPA = CANADIAN PENSION ASSETS
↑↓ Indicates an increase or decrease in variance from 2011 to 2012

Rank	Firm	Rank 2011	Variance	CPA 2012	CPA 2011	Total Assets 2012
1	TD ASSET MANAGEMENT*[1,5]	1	↑11.9%	$69,812.0	$62,399.0	$194,901.0
2	BLACKROCK	2	↑8.5%	$54,182.7	$49,931.7	$134,381.5
3	PHILLIPS, HAGER & NORTH INVESTMENT MANAGEMENT[1] (RBC Global Asset Management)	3	↑8.1%	$45,743.1	$42,307.0	$193,670.2
4	BEUTEL, GOODMAN & COMPANY LTD.	5	↑28.7%	$28,016.0	$21,766.0	$32,742.0
5	STATE STREET GLOBAL ADVISORS, LTD.*	4	↑12.5%	$25,209.9	$22,406.5	$38,999.1
6	CONNOR, CLARK & LUNN FINANCIAL GROUP	9	↑15.0%	$21,001.9	$18,267.3	$42,779.1
7	GREYSTONE MANAGED INVESTMENTS INC.[2]	6	↓4.5%	$20,638.8	$21,607.1	$32,975.4
8	FIERA CAPITAL CORP.*[3]	13	↑41.0%	$19,219.1	$13,629.0	$58,138.3
9	MFS McLEAN BUDDEN	7	↓6.9%	$19,088.6	$20,508.0	$24,079.7
10	CIBC GLOBAL ASSET MANAGEMENT INC.[1,2]	11	↑9.4%	$17,703.9	$16,185.6	$86,606.4
11	STANDARD LIFE INVESTMENTS INC.	10	↓2.0%	$16,098.4	$16,424.8	$34,375.4
12	BROOKFIELD ASSET MANAGEMENT	15	↑16.0%	$15,554.0	$13,408.0	$17,497.0
13	J.P. MORGAN ASSET MANAGEMENT[1]	16	↑23.1%	$15,268.0	$12,401.0	$20,643.0
14	JARISLOWSKY, FRASER LTD.	8	↓19.5%	$15,202.0	$18,876.0	$32,373.0
15	LETKO, BROSSEAU & ASSOCIATES INC.	12	↓0.3%	$14,204.0	$14,246.0	$22,302.0
16	GLC ASSET MANAGEMENT GROUP LTD.	17	↑9.9%	$12,684.7	$11,537.8	$33,663.5
17	PYRAMIS GLOBAL ADVISORS (a Fidelity Investments company)	19	↑9.9%	$12,316.6	$11,210.6	$69,589.6
18	BNY MELLON ASSET MANAGEMENT LTD.	18	↑6.9%	$12,313.9	$11,523.8	$16,698.4
19	BENTALL KENNEDY (CANADA) LP	20	↑9.4%	$11,696.0	$10,692.0	$19,809.0
20	WELLINGTON MANAGEMENT COMPANY, LLP	27	↑46.4%	$10,877.9	$7,430.0	$13,288.0
21	FRANKLIN TEMPLETON INSTITUTIONAL	25	↑30.2%	$10,798.0	$8,291.0	$37,469.0
22	ADDENDA CAPITAL INC.	14	↓22.9%	$10,483.9	$13,597.7	$25,520.8
23	MANULIFE ASSET MANAGEMENT	21	↑8.6%	$9,923.5	$9,135.0	$37,549.0
24	SPRUCEGROVE INVESTMENT MANAGEMENT LTD.	24	↑15.9%	$9,887.4	$8,528.3	$11,913.0
25	LEITH WHEELER INVESTMENT COUNSEL LTD.*[5]	26	↑12.9%	$9,795.4	$8,673.0	$12,515.8
26	MORGUARD INVESTMENTS LTD.	23	↑11.9%	$9,605.5	$8,586.0	$12,870.6
27	PIMCO CANADA CORP.	22	↑2.0%	$9,085.0	$8,906.0	$14,207.0
28	ABERDEEN ASSET MANAGEMENT PLC	35	↑61.7%	$7,418.9	$4,586.9	$10,764.8
29	UBS GLOBAL ASSET MANAGEMENT (CANADA) INC.[1,2]	30	↑25.4%	$6,704.9	$5,348.6	$11,815.9
30	GUARDIAN CAPITAL LP	32	↑21.8%	$5,990.5	$4,917.8	$17,005.5
31	BAILLIE GIFFORD OVERSEAS LTD.	36	↑32.5%	$5,451.0	$4,112.7	$7,527.0
32	FOYSTON, GORDON & PAYNE INC.	29	↓4.9%	$5,384.0	$5,664.3	$11,658.0
33	GE ASSET MANAGEMENT CANADA COMPANY	31	↓5.1%	$4,878.5	$5,143.3	$5,368.3
34	RUSSELL INVESTMENTS CANADA LTD.[2]	34	↑1.3%	$4,768.8	$4,706.5	$13,919.8
35	SUN LIFE GLOBAL INVESTMENTS[2,4]	n/a	↑65.2%	$4,541.6	$2,749.3	$5,489.9
36	SEI[1,2]	38	↑12.3%	$4,375.8	$3,895.6	$9,193.5
37	INVESCO	37	↑3.3%	$4,144.8	$4,011.6	$28,762.7
38	CANSO INVESTMENT COUNSEL, LTD.	40	↑20.5%	$4,008.5	$3,326.0	$9,461.1
39	MAWER INVESTMENT MANAGEMENT LTD.	n/a	↑106.6%	$3,977.0	$1,924.7	$14,316.6
40	BURGUNDY ASSET MANAGEMENT LTD.	n/a	↑36.6%	$3,889.9	$2,847.8	$10,568.7

"The move is toward packaged investment solutions in the DC space"
— Tom Reid, Sun Life Financial

Notes: * 2011 value has been restated
1. Includes overlay strategies **2.** Includes assets managed by third-party managers **3.** Formerly listed as Fiera Sceptre. Merged with Natcan Investment Management to form Fiera Capital Corp., effective April 2, 2012. **4.** Sun Life acquired a portion of McLean Budden assets, September 2011 **5.** 2011 pension numbers restated due to the reallocation of "insurance co. segregated" into pension assets
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.

2012 Top 40 Total	$591,944.3
2011 Top 40 Total	$535,709.1
% Variance	↑10.5%

Source: Firms participating in the Canadian Institutional Investment Network spring 2013 *Top 40 Money Managers Survey*

TOP 10 | FASTEST GROWING MANAGERS (%)

ASSETS (MILLIONS) AS OF DEC. 31, 2012

	Company	2012 Canadian Pension Assets	2011 Canadian Pension Assets	% Variance
1	Mawer Investment Management Ltd.	$3,977.0	$1,924.7	↑106.6%
2	CGOV Asset Management	$630.9	$319.5	↑97.5%
3	Brookfield Investment Management Inc.	$264.0	$135.1	↑95.4%
4	Walton Asset Management	$150.0	$90.0	↑66.7%
5	QV Investors Inc.	$1,213.3	$730.2	↑66.2%
6	AlphaFixe Capital	$1,268.0	$780.0	↑62.6%
7	Aberdeen Asset Management PLC	$7,418.9	$4,586.9	↑61.7%
8	Pyrford International Ltd.	$957.3	$604.1	↑58.5%
9	Sionna Investment Managers Inc.	$507.2	$338.7	↑49.7%
10	Wellington Management Company, LLP	$10,877.9	$7,430.0	↑46.4%

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has come up with low-volatility products and, beyond that, minimum-volatility products that also allow investors to participate in the upswing in equity markets. These products, he says, are relatively new but garnering a lot of attention in the pension space.

The Rise of Alternatives

As plan sponsors rethink their equity allocations, where is that money going? One huge area of growth is the alternatives space, an area that has many Canadian managers staffing up to meet the demand. "We've seen a lot of interest in the alternatives space over the last several years," says Rob Vanderhooft, CEO and chief investment officer of Greystone Managed Investments (No. 7). "Our business has evolved such that we're now seeing a lot of interest in alternative areas like income-oriented equities, real estate, mortgages, structured bonds and infrastructure." This is in response to a big reduction of interest in traditional areas such as core equities and bonds. "This shift has changed the industry," he says, adding that just about every asset liability study being done right now has a component of real estate in it as well as infrastructure and, to some extent, private equity.

Catherine Ann Marshall, vice-president, client services, with Fiera Properties (No. 8), also says that alternatives are on the rise in pension portfolios. This shift is changing the investment management space in Canada as firms move to offer those products that better match pension liabilities and still meet actuarial rates of return. "What's going on here at Fiera is reflective of the changes going on among the most proactive investment managers. Here, there is rapid expansion of staffing and resources focused on alternatives," she says, noting that real estate in particular is drawing interest from pension clients eager to embrace assets that are better suited to their liabilities at a time when interest rate movements are highly uncertain.

De-risking in the DC Space

While de-risking is still a huge story in the DB space, it's also a big trend for DC plan members who are increasingly wary of volatility. Tom Reid, senior vice-president, group retirement services, with Sun Life Financial (No. 35), says, given the recent steep drop in the price of gold and the fact that the S&P/TSX still hasn't reached its pre-crisis highs, it doesn't feel as if the financial crisis is over. As a result, DC plan members are de-risking. Target date products with a guarantee are garnering a lot of attention. "Plan members want certainty of outcomes around both the upside and the downside," Reid says. He also notes that some asset classes from the DB space (e.g., real estate funds and public infrastructure funds) are now making it onto DC provider platforms. Going forward, Reid sees an even stronger move toward packaged investment solutions such as target date funds and passive investment management, which incorporate different asset classes such as real estate. "This is a prominent trend."

Jean-Daniel Côté, vice-president, retirement, with ACT | actuaries, also believes that ready-made solutions for plan members are the big trend of the future in the DC space. Plan sponsors are recognizing that a vast majority of plan members, no matter how much education they are given, are not interested in becoming investment experts. He sees DC providers drawing on lessons from the DB space and finding solutions for plan members that use best practices from that side of the pension business. "Alternative investments, for example, are beginning to make their way into DC plans, but it's lagging by about three years," he says. However, in the future, more providers will be using tools from the DB playbook to offer better constructed portfolios for DC plan members.

Caroline Cakebread is editor of *Canadian Investment Review*.
caroline.cakebread@rogers.com