

# Positive Energy

The industry faces low assets under management and soaring manager search activity. So why are money managers in such a good mood?

BY JODY WHITE

**I**t pays to be an optimist in this industry. Indeed, it couldn't be any other way. Money managers are, by necessity, natural

believers in the markets' ability to provide returns—so long as prudence and foresight are wielded—regardless of the forces acting on the economic landscape. So, as the rest of the country steels itself for the onset of the bleak Canadian winter, managers see a different season emerging. The economy is warming. Equity markets are surging. For the institutional money management industry, it is spring, and green shoots are everywhere.

Part of the reason for this bright outlook may be that it couldn't get much worse. An October report by Watson Wyatt found that assets under management by the world's 500 largest fund managers fell by more than 23% in 2008, a loss of C\$16.8 trillion. "2008 was a dreadful year for fund managers, with the majority posting record losses," says Carl Hess, global head of investment consulting with Watson Wyatt. "Even after the strong market recoveries since March this year, our expectation is that values will remain below 2007 levels, meaning that the outlook for this year's revenues and earnings in the sector remains poor."

Despite the ability of the Canadian economy to avoid the worst of the global recession, the country's money management industry is not immune to the trend. Indeed, the past 12 months have been unpleasant for Canadian managers, with the

Top 40 posting a 15.3% decline in pension assets under management, from 2008. Only seven firms of the Top 40 were in the black for this report, led by PIMCO Canada with an increase of 21.4%.

Within the top 10, not much has changed since the November 2008 report, except that AllianceBernstein Institutional Investments (now No. 8) has swapped places with Greystone Managed Investments (No. 5). Barclays Global Investors Canada retains the top spot with total pension assets of \$45.3 billion, albeit down 12.2% from 2008, and TD Asset Management Group is still in second place with \$37.4 billion in pension assets, down 3.4%.

The top performer by far this year is PIMCO Canada (No. 33, up 21.4%), followed by Russell Investments Canada (No. 35, up 8.9%), Standard Life Investments (No. 15, up 7.4%), Goldman Sachs Asset Management (No. 30, up 5.2%), Morguard Investments (No. 25, up 3.9%), Fiera Capital (No. 20, up 1.0%) and Beutel, Goodman & Company (No. 11, up 0.4%). However, none of these firms managed to crack the top 10.

Gone from the Top 40 are Capital Guardian Trust Co. (No. 28 in 2008), Legg Mason Canada (No. 33 in 2008) and Brandes Investment Partners (No. 39 in 2008). Newcomers to the list include PIMCO Canada (No. 33), Russell Investments (No. 35), London Capital Management (No. 37), SEI (No. 39) and Mondrian Investment Partners (No. 40).

In light of the heavy losses of 2008, managers see their client base reaching out in search of new ideas. Clients are looking to reassess their strategies, rebalance their portfolios and redefine risk management. In many cases, they're also looking for new blood, as underperformance from the previous 12 months has left a bad taste in their mouths. For firms that specialize in the skills and capabilities that institutional investors are looking for, 2010 may very well start with a bang.

## A Few Good Managers

Manager search activity is up across the board. Not surprisingly, much of it is a result of less than stellar performance now that the dust is beginning to settle from the global financial crisis. Enough time has elapsed to give institutional investors a

peek at the competition's performance and consider a chat with their managers.

However, search activity goes deeper than that. Considering the enormous volatility in markets over the past year, many institutional investors are in dire need of rebalancing, requiring moves to new asset allocations—and, by extension, new managers.

"There are some managers who are being replaced for performance reasons, but the vast majority of selection activity isn't necessarily performance-based," says Janet Rabovsky, Watson Wyatt's practice leader for central Canada. "It has to do with changes in mandates and initiating new asset classes."

## Top 10 Fastest Growing \$

As of June 30, 2009

Company	Pension Assets (millions) 2009	2008	Variance \$
1 Lincluden Investment Management	\$1,941.8	n/a	\$1,941.8
2 Aberdeen Asset Management PLC	\$1,627.0	\$467.7	\$1,159.3
3 CI Institutional Asset Management <sup>1</sup>	\$911.0	n/a	\$911.0
4 LaSalle Investment Management	\$3,016.6	\$2,186.9	\$829.7
5 Standard Life Investments Inc.	\$11,380.2	\$10,597.0	\$783.2
6 PIMCO Canada Corp.	\$3,675.0	\$3,027.1	\$647.9
7 Russell Investments Canada Ltd.	\$3,602.1	\$3,307.6	\$294.5
8 Pier 21 Asset Management Inc.	\$700.0	\$423.5	\$276.5
9 Goldman Sachs Asset Management, LP	\$4,729.0	\$4,494.0	\$235.0
10 Canso Investment Counsel Ltd.	\$712.0	\$488.5	\$223.5

Note: 1. Formerly listed as CI Financial.

## Top 10 Fastest Growing %

As of June 30, 2009

Company	Pension Assets (millions) 2009	2008	Variance %
1 Aberdeen Asset Management PLC	\$1,627.0	\$467.7	247.9%
2 Canso Investment Counsel Ltd.	\$712.0	\$488.5	45.8%
3 LaSalle Investment Management	\$3,016.6	\$2,186.9	37.9%
4 QV Investors Inc.	\$226.3	\$165.0	37.2%
5 MFS Investment Management	\$837.6	\$688.0	21.7%
6 PIMCO Canada Corp.	\$3,675.0	\$3,027.1	21.4%
7 Hexavest Inc.	\$1,167.6	\$986.4	18.4%
8 Horizon 360 and Associates Inc.	\$376.0	\$332.0	13.3%
9 Philadelphia International Advisors, LP	\$28.0	\$25.0	12.0%
10 Canadian Urban Ltd.	\$469.0	\$430.0	9.1%

Source: Firms participating in *Benefits Canada's*/CIIN Fall 2009 Money Manager Survey

Damon Williams, president of Vancouver-based Phillips, Hager & North, has seen an uptick in search activity relating to fixed income strategies as plan sponsors attempt to get a handle on their risk profiles.

“If you’re going to have a mismatch between assets and liabilities, it better be for a good reason—which is typically for a higher return,” he explains. Williams suggests that some clients have decided that they have too much risk on the table in the form of equity allocations or short-term bonds as opposed to longer-term bonds. “We’ve seen searches related to that activity. We’ve also seen an increase in targeted searches for corporate bond-specific mandates due to the spreads and the overall economic environment.”

Michael Quigley, senior vice-president of distribution with Natcan Investment Management in Montreal, says that while the first half of 2009 was slow in terms of search activity, the pace has picked up, creating a

wealth of possibilities for new business. “It’s a welcome opportunity for firms that did relatively well through the crisis,” he says. “Some long-term relationships are coming loose, and it gives us an opportunity to break into those relationships.”

And the nature of those relationships may be changing. While the May 2008 *Top 40 Money Managers Report* portrayed an industry being forced into either niche specialization or consolidation, some in the industry say the new trend that seems to be emerging is a demand for large full-service shops with multiple asset allocations and skill sets.

“It’s a great time for a shop that has a solid infrastructure and the ability to partner with clients,” says Duncan Webster, chief investment officer with CIBC Global Asset Management in Toronto. “Money managers who are on the fringe—the smaller players, the boutiques, which are dependent on a

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## Money in Motion Roundtable

For this year’s *Top 40 Money Managers Report*, we brought together money managers, consultants and plan sponsors in a virtual roundtable to discuss investment decisions that plan sponsors are making, how they translate into action and the trends we can expect in the next few years. Highlights of the dialogue are on the following pages. For the full discussion, go to [www.benefitscanada.com/extras](http://www.benefitscanada.com/extras).

### Participants:

**Peter Arnold**, national practice leader, investment and CAP consulting, Buck Consultants  
**Roger J. Beauchemin**, president and CEO, McLean Budden  
**Martin Bélanger**, director, investments, The University of Western Ontario  
**Robert Chepelsky**, principal, asset consulting, Morneau Sobeco  
**Peter Chiappinelli**, senior vice-president, asset allocation strategies, Pyramis Global Advisors, a Fidelity Investments Company  
**Zaheed Jiwani**, senior investment consultant, Hewitt Associates  
**Paul Lorimer**, vice-president, finance and operations, The Christian and Missionary Alliance in Canada  
**Len Racioppo**, president and director, Jarislowsky Fraser Ltd.  
**Brent Smith**, senior vice-president, chief investment officer, Franklin Templeton Managed Investment Solutions  
**Bruce Winch**, senior vice-president, institutional investments, Invesco

### Top 5 Fastest Growing % Less Than \$1.0 Billion

As of June 30, 2009

Company	Pension Assets (millions)		Variance %
	2009	2008	
1 Canso Investment Counsel Ltd.	\$712.0	\$488.5	45.8%
2 QV Investors Inc.	\$226.3	\$165.0	37.2%
3 MFS Investment Management	\$837.6	\$688.0	21.7%
4 Horizon 360 and Associates Inc.	\$376.0	\$332.0	13.3%
5 Canadian Urban Ltd.	\$469.0	\$430.0	9.1%

### Top 5 Fastest Growing % \$1.0 Billion to \$10.0 Billion

As of June 30, 2009

Company	Pension Assets (millions)		Variance %
	2009	2008	
1 Aberdeen Asset Management PLC	\$1,627.0	\$467.7	247.9%
2 LaSalle Investment Management	\$3,016.6	\$2,186.9	37.9%
3 PIMCO Canada Corp.	\$3,675.0	\$3,027.1	21.4%
4 Hexavest Inc.	\$1,167.6	\$986.4	18.4%
5 Russell Investments Canada Ltd.	\$3,602.1	\$3,307.6	8.9%

### Top 5 Fastest Growing % Greater Than \$10.0 Billion

As of June 30, 2009

Company	Pension Assets (millions)		Variance %
	2009	2008	
1 Standard Life Investments Inc.	\$11,380.2	\$10,597.0	7.4%
2 Beutel, Goodman & Company Ltd.	\$14,169.0	\$14,114.0	0.4%
3 TD Asset Management Group	\$37,418.0	\$38,746.0	-3.4%
4 J.P. Morgan Asset Management	\$11,429.0	\$12,446.0	-8.2%
5 Letko, Brosseau & Associates Inc.	\$13,231.0	\$14,645.0	-9.7%

Source: Firms participating in *Benefits Canada's*/CIIN Fall 2009 Money Manager Survey

**In light of the market turmoil, how confident are plan sponsors about their investments and advisors?**



**Lorimer:** We are confident of the quality in our investments and our fund managers and advisors, and we monitor this area closely relative to industry benchmarks. In the past, we have changed fund managers who underperformed over a market cycle. We would

# Top 40 Money Managers

Canadian assets (millions) under management as of June 30, 2009  
 ▲ ▼ indicates an increase or decrease in variance from 2008 to 2009.

**1 Barclays Global Investors Canada Ltd.**  
 Rank 2008: 1 ▼ 12.2%  
 Total Pension Assets 2009: \$45,329.8  
 Total Pension Assets 2008: \$51,639.8  
 Total Assets 2009: \$1,956,507.1

**2 TD Asset Management Group**  
 Rank 2008: 2 ▼ 3.4%  
 Total Pension Assets 2009: \$37,418.0  
 Total Pension Assets 2008: \$38,746.0  
 Total Assets 2009: \$164,127.8

**3 Phillips, Hager & North Investment Management Ltd. (RBC Global Asset Management)**  
 Rank 2008: 3 ▼ 10.6%  
 Total Pension Assets 2009: \$30,318.0  
 Total Pension Assets 2008: \$33,894.4  
 Total Assets 2009: \$199,102.3

**4 State Street Global Advisors Ltd.**  
 Rank 2008: 4 ▼ 33.4%  
 Total Pension Assets 2009: \$22,013.6  
 Total Pension Assets 2008: \$33,062.3  
 Total Assets 2009: \$1,808,806.7

**5 Greystone Managed Investments Inc.**  
 Rank 2008: 8 ▼ 13.1%  
 Total Pension Assets 2009: \$20,759.3  
 Total Pension Assets 2008: \$23,882.1  
 Total Assets 2009: \$29,563.4

**6 McLean Budden Ltd.**  
 Rank 2008: 6 ▼ 20.1%  
 Total Pension Assets 2009: \$20,416.0  
 Total Pension Assets 2008: \$25,550.0  
 Total Assets 2009: \$33,835.0

**7 Jarislowsky, Fraser Ltd.**  
 Rank 2008: 7 ▼ 17.5%  
 Total Pension Assets 2009: \$19,875.0  
 Total Pension Assets 2008: \$24,089.0  
 Total Assets 2009: \$43,315.0

**8 AllianceBernstein Institutional Investments**  
 Rank 2008: 5 ▼ 29.1%  
 Total Pension Assets 2009: \$18,423.0  
 Total Pension Assets 2008: \$25,979.0  
 Total Assets 2009: \$519,067.0

**9 Addenda Capital Inc.**  
 Rank 2008: 9 ▼ 20.7%  
 Total Pension Assets 2009: \$17,004.2  
 Total Pension Assets 2008: \$21,434.0  
 Total Assets 2009: \$34,576.0

**10 Connor, Clark & Lunn Financial Group**  
 Rank 2008: 10 ▼ 22.1%  
 Total Pension Assets 2009: \$16,181.1  
 Total Pension Assets 2008: \$20,764.0  
 Total Assets 2009: \$31,280.0

**11 Beutel, Goodman & Company Ltd.**  
 Rank 2008: 13 ▲ 0.4%  
 Total Pension Assets 2009: \$14,169.0  
 Total Pension Assets 2008: \$14,114.0  
 Total Assets 2009: \$15,592.0

**12 Letko, Brosseau & Associates Inc.**  
 Rank 2008: 12 ▼ 9.7%  
 Total Pension Assets 2009: \$13,231.0  
 Total Pension Assets 2008: \$14,645.0  
 Total Assets 2009: \$21,544.0

**13 CIBC Global Asset Management Inc.**  
 Rank 2008: 14 ▼ 13.5%  
 Total Pension Assets 2009: \$11,720.2  
 Total Pension Assets 2008: \$13,543.0  
 Total Assets 2009: \$55,278.8

**14 J.P. Morgan Asset Management**  
 Rank 2008: 15 ▼ 8.2%  
 Total Pension Assets 2009: \$11,429.0  
 Total Pension Assets 2008: \$12,446.0  
 Total Assets 2009: \$1,361,076.0

**15 Standard Life Investments Inc.**  
 Rank 2008: 17 ▲ 7.4%  
 Total Pension Assets 2009: \$11,380.2  
 Total Pension Assets 2008: \$10,597.0  
 Total Assets 2009: \$233,973.0

**16 Bentall LP**  
 Rank 2008: 16 ▼ 11.3%  
 Total Pension Assets 2009: \$10,168.0  
 Total Pension Assets 2008: \$11,461.0  
 Total Assets 2009: \$17,237.0

**17 BNY/Mellon Asset Management Ltd.**  
 Rank 2008: 11 ▼ 37.8%  
 Total Pension Assets 2009: \$9,483.0  
 Total Pension Assets 2008: \$15,255.3  
 Total Assets 2009: \$860,000.0

**18 Franklin Templeton Investments (Franklin Templeton Institutional)**  
 Rank 2008: 19 ▼ 15.7%  
 Total Pension Assets 2009: \$8,685.5  
 Total Pension Assets 2008: \$10,300.0  
 Total Assets 2009: \$524,749.3

**19 Fidelity Investments Canada ULC**  
 Rank 2008: 20 ▼ 6.8%  
 Total Pension Assets 2009: \$8,469.0  
 Total Pension Assets 2008: \$9,085.0  
 Total Assets 2009: \$1,786,465.0

**20 Fiera Capital Inc.**  
 Rank 2008: 26 ▲ 1.0%  
 Total Pension Assets 2009: \$7,503.7  
 Total Pension Assets 2008: \$7,426.0  
 Total Assets 2009: \$18,799.6

**21 UBS Global Asset Management (Canada) Inc.**  
 Rank 2008: 18 ▼ 29.9%  
 Total Pension Assets 2009: \$7,403.7  
 Total Pension Assets 2008: \$10,556.0  
 Total Assets 2009: \$634,911.9

**22 Sprucegrove Investment Management Ltd.**  
 Rank 2008: 22 ▼ 17.4%  
 Total Pension Assets 2009: \$7,121.6  
 Total Pension Assets 2008: \$8,622.4  
 Total Assets 2009: \$15,241.8

**23 Leith Wheeler Investment Counsel Ltd.**  
 Rank 2008: 24 ▼ 10.4%  
 Total Pension Assets 2009: \$6,808.0  
 Total Pension Assets 2008: \$7,599.0  
 Total Assets 2009: \$8,947.0

**24 Wellington Management Company, LLP**  
 Rank 2008: 25 ▼ 15.6%  
 Total Pension Assets 2009: \$6,277.0  
 Total Pension Assets 2008: \$7,441.0  
 Total Assets 2009: \$520,242.0

**25 Morguard Investments Ltd.**  
 Rank 2008: 32 ▲ 3.9%  
 Total Pension Assets 2009: \$5,590.0  
 Total Pension Assets 2008: \$5,381.0  
 Total Assets 2009: \$7,847.0

**26 Sceptre Investment Counsel Ltd.**  
 Rank 2008: 30 ▼ 6.9%  
 Total Pension Assets 2009: \$5,293.3  
 Total Pension Assets 2008: \$5,683.5  
 Total Assets 2009: \$7,990.8

**27 GWL Investment Management Ltd.**  
 Rank 2008: 29 ▼ 11.0%  
 Total Pension Assets 2009: \$5,150.9  
 Total Pension Assets 2008: \$5,784.9  
 Total Assets 2009: \$14,504.0

**28 Guardian Capital LP**  
 Rank 2008: 23 ▼ 35.9%  
 Total Pension Assets 2009: \$5,012.7  
 Total Pension Assets 2008: \$7,823.5  
 Total Assets 2009: \$11,843.2

**29 Foyston, Gordon & Payne Inc.**  
 Rank 2008: 27 ▼ 17.3%  
 Total Pension Assets 2009: \$4,981.4  
 Total Pension Assets 2008: \$6,025.0  
 Total Assets 2009: \$11,344.4

**30 Goldman Sachs Asset Management, LP**  
 Rank 2008: 37 ▲ 5.2%  
 Total Pension Assets 2009: \$4,729.0  
 Total Pension Assets 2008: \$4,494.0  
 Total Assets 2009: \$823,531.0

**31 GE Asset Management Canada Company**  
 Rank 2008: 38 ▼ 6.6%  
 Total Pension Assets 2009: \$4,030.4  
 Total Pension Assets 2008: \$4,313.3  
 Total Assets 2009: \$109,537.6

**32 MFC Global Investment Management**  
 Rank 2008: 34 ▼ 25.6%  
 Total Pension Assets 2009: \$3,730.4  
 Total Pension Assets 2008: \$5,012.2  
 Total Assets 2009: \$291,214.4

**33 PIMCO Canada Corp.**  
 Rank 2008: n/a ▲ 21.4%  
 Total Pension Assets 2009: \$3,675.0  
 Total Pension Assets 2008: \$3,027.1  
 Total Assets 2009: \$978,442.0

**34 Invesco<sup>1</sup>**  
 Rank 2008: 35 ▼ 23.7%  
 Total Pension Assets 2009: \$3,648.0  
 Total Pension Assets 2008: \$4,780.0  
 Total Assets 2009: \$451,813.0

**35 Russell Investments Canada Ltd.**  
 Rank 2008: n/a ▲ 8.9%  
 Total Pension Assets 2009: \$3,602.1  
 Total Pension Assets 2008: \$3,307.6  
 Total Assets 2009: \$176,300.0

**36 Integra Capital Management Corp.**  
 Rank 2008: 40 ▼ 14.5%  
 Total Pension Assets 2009: \$3,529.8  
 Total Pension Assets 2008: \$4,126.1  
 Total Assets 2009: \$3,857.5

**37 London Capital Management Ltd.**  
 Rank 2008: n/a ▼ 6.2%  
 Total Pension Assets 2009: \$3,514.0  
 Total Pension Assets 2008: \$3,747.5  
 Total Assets 2009: \$12,066.2

**38 Natcan Investment Management**  
 Rank 2008: 31 ▼ 39.4%  
 Total Pension Assets 2009: \$3,350.0  
 Total Pension Assets 2008: \$5,525.0  
 Total Assets 2009: \$23,672.0

**39 SEI**  
 Rank 2008: n/a ▼ 15.4%  
 Total Pension Assets 2009: \$3,251.0  
 Total Pension Assets 2008: \$3,844.1  
 Total Assets 2009: \$136,000.0

**40 Mondrian Investment Partners Ltd.**  
 Rank 2008: n/a ▼ 8.0%  
 Total Pension Assets 2009: \$3,147.1  
 Total Pension Assets 2008: \$3,420.4  
 Total Assets 2009: \$57,067.0

**Top 40 2009 Total: \$447,822.0**  
**Top 40 2008 Total: \$528,426.5**  
**% Variance: ▼ 15.3%**  
 (2009 versus 2008 results of same Top 40 plans)

**Notes:** Northwater Capital Management Inc. will no longer be participating in this report.  
 1. Formerly listed as Invesco Trimark.  
**Source:** Firms participating in *Benefits Canada's*/CIIN Fall 2009 Money Manager Survey. 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.

carefully review any fund manager in an underperforming situation so that plan members can have confidence in the quality of our managers, their investments and their return-on-investment results.



**Smith:** Many, if not all, investors and advisors are reassessing their true risk tolerance. I would say many had focused only on the return part of the equation and had lost sight of the risk part. 2008 has changed that.



**Beauchemin:** The rebound since the March lows has helped restore some confidence, but our sense is that from a sponsor perspective, this will eventually lead to profound and lasting change in plan risk, design and implementation. There will be more emphasis on de-risking plans, better liquidity provisions and more investment transparency.

#### How do plan sponsors feel about alternatives?



**Bélanger:** Our view on alternative investments hasn't changed as a result of the market volatility. Since

we have a defined contribution (DC) plan, many types of alternative investments are not appropriate since they don't have adequate liquidity. The only type of alternative investment we may potentially consider is real estate.



**Racioppo:** Plan sponsors have mixed views with regard to 'alternatives.' Clearly, some alternatives did

not behave as advertised or simply were not properly understood by clients. Nevertheless, there is still a trend in place to take funds out of traditional stocks and bonds. However, the lessons learned in the last year are such that decisions on alternatives must go beyond quantitative calculations.

## Top 20 Total Assets Under Management

As of June 30, 2009

	Company	Assets (millions) 2009
1	Phillips, Hager & North Investment Management Ltd. (RBC Global Asset Management)	\$154,132.3
2	TD Asset Management Group	\$135,055.0
3	MFC Global Investment Management	\$83,191.3
4	Barclays Global Investors Canada Ltd.	\$70,937.2
5	CI Financial	\$60,123.0
6	CIBC Global Asset Management Inc.	\$54,945.1
7	Fidelity Investments Canada ULC	\$49,602.0
8	Jarislowky, Fraser Ltd.	\$40,529.0
9	Franklin Templeton Investments (Franklin Templeton Institutional)	\$38,367.7
10	AGF Management Ltd.	\$35,474.4
11	Addenda Capital Inc.	\$34,576.0
12	McLean Budden Ltd.	\$31,988.0
13	BlackRock	\$31,278.0
14	Jones Heward Investment Counsel Inc.	\$31,007.6
15	Goodman & Company, Investment Counsel Ltd.	\$30,335.0
16	State Street Global Advisors Ltd.	\$29,854.9
17	Connor, Clark & Lunn Financial Group	\$29,761.0
18	Invesco	\$29,749.3
19	Greystone Managed Investments Inc.	\$29,563.4
20	AllianceBernstein Institutional Investments	\$28,636.0
<b>Top 20 Total</b>		<b>\$1,029,106.2</b>
<b>Money Management Industry Total 2009</b>		<b>\$1,564,178.8</b>
<b>Money Management Industry Total 2008</b>		<b>\$1,654,496.5</b>
<b>Variance %</b>		<b>-5.5%</b>

Source: Firms participating in *Benefits Canada's/CIIN Fall 2009 Money Manager Survey*

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single asset class—are going to remain challenged for the foreseeable future. We see institutional investors that are looking at their models and seeking more of a partnership approach than they were in the past.”

Webster feels the challenge for the smaller players lies in keeping pace with the bigger shops in terms of manpower and technology, both of which require deep pockets. For this reason, he expects to see more consolidation in the industry.

State Street Global Advisors' managing director for Canada, Gregory Chrispin, echoes Webster's remarks. “We've definitely seen a flight to quality, in terms of firms tying their fortunes with [managers] that are well established and stable,” he explains. “We're being asked to take a look at competitor portfolios and see how we can work them into our framework and take over the management.”

However, at least one of the larger firms still sees a role for boutiques. “The [2008] trend has not changed,” says Bill Chinery, managing director and head of Canada for Barclays Global Investors. “In fact, there has been increasing commentary indicating that consolidation will continue in the asset management space—much like the BlackRock acquisition of BGI.” He explains that the “core and explore” style of investing also applies to how clients look at strategic partnerships, with large multi-strategy managers (core) and interest in boutique managers (explore). “The ‘mushy’ middle of medium-size firms, which are not boutique and not large enough to be full-service, will fall out of favour.”

#### Asset Allocations

And what, exactly, are clients looking for? For some, a complete assessment



**Chepelsky:** Plan sponsors continue to treat alternatives with trepidation. The main reasons for this are the overwhelming choices, the lack of internal expertise, the lack of comparatives to judge performance, short histories related to performance, the challenge in educating the governing body, and the cost and time to perform proper due diligence on such complex strategies.

**Smith:** We still believe that areas such as infrastructure, venture capital and managed futures, to name a few, can certainly benefit a portfolio longer term. From a portfolio management perspective, we will continue to look at alternatives for ways to enhance the risk-return profile of our portfolios.



**Winch:** Although some are leery of the complexity of alternatives, many realize that alternatives may be essential to managing the risk in their overall portfolios. While not many Canadian plans have holdings in hedge funds, the few that had directional hedge funds are feeling discouraged. Despite some pockets of apprehension, we are seeing more interest in non-directional, market-neutral, low-correlation funds. For the most part, the plans with direct real estate and infrastructure holdings are pleased. Real estate investment trusts have seen a recent upswing in popularity, but the last 18 months have been challenging. We have seen very little demand for private equity, perhaps because plan sponsors have concerns regarding the lack of liquidity and the long-term lock-in periods.



**Chiappinelli:** We are entering a phase that we refer to as 'Alternatives 2.0.' There is little doubt that the market crisis tapped the brakes on the slow but steady adoption of alternative strategies, particularly hedge funds. However, it is just a temporary slowdown, not a

## Top 20 Pooled Fund Managers

As of June 30, 2009

Company	Assets (millions)
1 Barclays Global Investors Canada Ltd.	\$31,339.5
2 TD Asset Management Group	\$18,083.0
3 McLean Budden Ltd.	\$14,023.0
4 Phillips, Hager & North Investment Management Ltd. (RBC Global Asset Management)	\$9,035.1
5 State Street Global Advisors Ltd.	\$8,064.2
6 Standard Life Investments Inc.	\$7,341.9
7 Fidelity Investments Canada ULC	\$5,193.0
8 Sprucegrove Investment Management Ltd.	\$5,037.1
9 Jarislowsky, Fraser Ltd.	\$5,027.0
10 GWL Investment Management Ltd.	\$4,743.5
11 Connor, Clark & Lunn Financial Group	\$3,972.0
12 Russell Investments Canada Ltd.	\$3,602.1
13 Invesco	\$3,548.0
14 SEI	\$3,251.0
15 Franklin Templeton Investments (Franklin Templeton Institutional)	\$3,090.9
16 Beutel, Goodman & Company Ltd.	\$3,024.0
17 AllianceBernstein Institutional Investments	\$2,988.0
18 J.P. Morgan Asset Management	\$2,813.0
19 Greystone Managed Investments Inc.	\$2,745.0
20 London Capital Management Ltd.	\$2,578.9
<b>Top 20 Total</b>	<b>\$139,500.2</b>
<b>Money Management Industry Total 2009</b>	<b>\$182,896.1</b>
<b>Money Management Industry Total 2008</b>	<b>\$208,747.6</b>
<b>Variance %</b>	<b>-12.4%</b>

Source: Firms participating in Benefits Canada's/CIIN Fall 2009 Money Manager Survey

of investment philosophy is under way, beginning with some hard questions on the traditional equities/fixed income split.

"Most plans are currently underfunded, and the 60/40 asset mix isn't working in many cases," says Keith Smith, president of GE Asset Management Canada. "They're looking at alternatives, especially those that have some form of indexation in their liabilities. They want to preserve purchasing power, so asset classes such as real estate, infrastructure, commodities and real return bonds are on their radar."

Smith also observes that there has been a steady movement toward foreign equities at the expense of their Canadian counterparts, despite the fact that the former have underperformed over the last couple of years. The reason, he says, is that the Canadian market is relatively small and—due to its reliance on financials and natural resources—not overly diversified.

Williams says he's seen some movement

with regard to asset allocation, but nothing dramatic. "Short term, we saw some movement related to rebalancing, particularly as equity markets got hit hard," he says. "We saw some trade out of fixed income into equities, as equity allocations had fallen far below what their policy targets had been. As the crisis has stretched out, clients have been thinking about whether the allocations have been suitable, such as funds that have been betting on high equity returns, which have been hurt in this environment."

However, some institutional investors—with a firm eye to reducing their risk exposure—are making drastic cuts to their allocations to equities, says Rabovsky.

"We already had clients that were 50/50 [equities to fixed income], and we have some clients that are moving to the 20% to 30% range, but they're correspondingly increasing their allocation to other asset classes, such as alternatives," she says. "I'm hoping that what

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turnaround. We are entering a new phase characterized by a more discerning evaluation of which hedge fund strategies make more sense and what firms/business models plan sponsors want to deal with. Hedge funds is a big term and encompasses a variety of strategies. The lesson of the past year is not that hedge funds failed, but that some strategies may be a better fit than others in a pension setting. Examples could include a wider adoption of truly market-neutral strategies (zero-beta) instead of directional strategies.

### Have you seen an increase in manager search activity?

**Bélanger:** We have been told by some managers and consultants that there has been an increase in manager searches. For us, it's been business as usual.



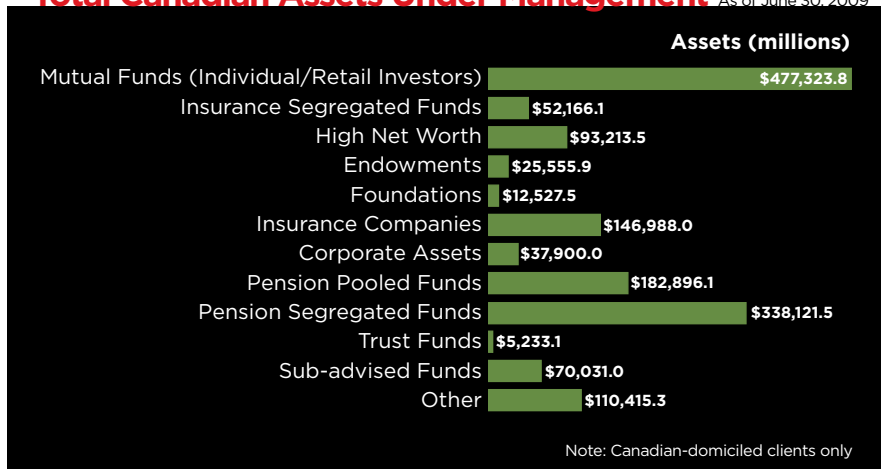
**Arnold:** We haven't seen an increase, but we have seen a marked increase in the level of sponsors understanding what they are investing in and how it fits in their programs.

**Chiappinelli:** The more interesting phenomenon occurring is not the quantity but the tone and tenor of the types of searches we are seeing. The world is shifting from a vendor relationship (Can I buy a global equity product from you?) to a strategic partnership model (I have a problem. How can you help me?). This new model does not fit nicely in the long-established mode of hire a consultant, create a long list, winnow it to a short list, do the finals, then fund a mandate. Instead, plan sponsors are identifying key firms that have multiple strategies under one roof (or access to multiple strategies) and then giving them wider latitude to create specific solutions for them.

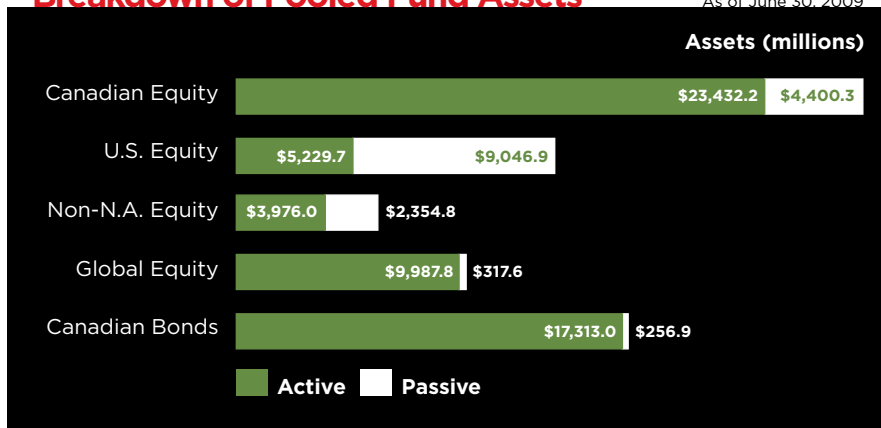


**Jiwani:** Investment management firms were not immune from the massive reductions in workforces that were taking place, and

## Total Canadian Assets Under Management As of June 30, 2009



## Breakdown of Pooled Fund Assets As of June 30, 2009



## Total Canadian Assets Under Management by Asset Class As of June 30, 2009



Source: Firms participating in *Benefits Canada's*/CIIN Fall 2009 Money Manager Survey

some chose to reduce their investment management teams at a time when one could argue that investment research was needed most. These three qualitative factors—issues with investment processes, organizational structure and changes in investment personnel—when combined with poor relative performance, led to an increase in manager searches over the last year.

**What investment trends do you expect over the coming months? Are there any near-term investment opportunities?**

**Winch:** We suggest there will be a continued focus on risk management. As well, we foresee a continued interest in investment transparency at both the corporate and mandate levels. Risk aversion is still high, with clients re-evaluating their risk profiles. As a result, demand for fixed interest mandates remains high as clients concentrate on risk management and seek to lower the volatility in their portfolios.

Within fixed interest, preferences have moved back toward sovereign and broad-based credit markets, rather than 'core-plus' strategies. There has also been an increase in interest in long-only equity mandates. Passive management strategies are also popular, often in reaction to underperformance of active managers, with exchange-traded funds and quantitative strategies seeing greater levels of interest.

**Chiappinelli:** Any trends, opportunities, 'oncoming trains' in the short term have historically been difficult for any large pension plan either to take advantage of or to avoid. Pensions are slowly coming to grips with this reality. And this is what plans around Canada are wrestling with—should we give, and how much more latitude should we be giving, to our investment management teams?

**What will be the most significant drivers of change for the pension industry, in terms of investing, in the next five to 10 years?**

**Arnold:** The concept or the return of

## Top 10 Endowment Fund Managers

As of June 30, 2009

	Company	Assets (millions)
1	Jarislowsky, Fraser Ltd.	\$3,175.0
2	Letko, Brosseau & Associates Inc.	\$2,891.0
3	Phillips, Hager & North Investment Management Ltd. (RBC Global Asset Management)	\$2,089.5
4	TD Asset Management Group	\$1,917.0
5	Scotia Cassels Investment Counsel Ltd.	\$1,907.0
6	CIBC Global Asset Management Inc.	\$1,646.5
7	McLean Budden Ltd.	\$1,514.0
8	Natcan Investment Management	\$1,493.0
9	Connor, Clark & Lunn Financial Group	\$1,104.0
10	Barclays Global Investors Canada Ltd.	\$849.9
<b>Top 10 Total</b>		<b>\$18,586.9</b>
<b>Money Management Industry Total 2009</b>		<b>\$25,555.9</b>

## Top 10 Foundation Fund Managers

As of June 30, 2009

	Company	Assets (millions)
1	TD Asset Management Group	\$2,728.0
2	Fiera Capital Inc.	\$1,805.7
3	Mawer Investment Management Ltd.	\$1,043.4
4	Guardian Capital LP	\$917.4
5	Burgundy Asset Management Ltd.	\$892.0
6	State Street Global Advisors Ltd.	\$726.1
7	Franklin Templeton Investments (Franklin Templeton Institutional)	\$710.0
8	Highstreet Asset Management Inc.	\$365.0
9	HSBC Global Asset Management (Canada) Ltd.	\$336.9
10	Leith Wheeler Investment Counsel Ltd.	\$304.0
<b>Top 10 Total</b>		<b>\$9,828.6</b>
<b>Money Management Industry Total 2009</b>		<b>\$12,530.5</b>

Source: Firms participating in *Benefits Canada's*/CIIN Fall 2009 Money Manager Survey

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happened in 2008 made people realize that reliance on equity risk premium and interest rates (the bond/equity split) can lead to outcomes you just don't want to live through. The problem is that many of these other asset classes come with increased monitoring and compliance, and not everybody can do it."

### Risk Management

No conversation about today's money management industry would be complete without mentioning risk management, and with many clients putting a premium on it, managers are drawing whatever lessons they can in order to prepare for a lengthy discussion.

Benoit Durocher, executive vice-president

and chief economic strategist with Addenda Capital in Montreal, says the main lesson from the crisis is that it brought awareness to the dangers of complacency. "You can't necessarily plan for the worst, but you have to be aware that the worst may arise," he says. "Managers, in general, were complacent with regard to risk, and you may find a hint of that again today. Bond yields are down, interest rates are down, and that hurts pension plans a lot. They still have a hunger for returns and for yield."

There's more than a hint of the old attitudes toward risk, according to David Mather, executive vice-president with Integrated Asset Management in Toronto. "Plan sponsors learned some really hard lessons last year, and I've heard that some of them have already

## Top 20 Managers of High Net Worth

As of June 30, 2009

Company	Assets (millions)
1 TD Asset Management Group	\$14,986.0
2 Phillips, Hager & North Investment Management Ltd. (RBC Global Asset Management)	\$14,754.0
3 Scotia Cassels Investment Counsel Ltd.	\$9,646.0
4 AGF Management Ltd.	\$9,161.5
5 Jarislowsky, Fraser Ltd.	\$8,528.0
6 Letko, Brosseau & Associates Inc.	\$4,168.0
7 Natcan Investment Management	\$3,801.0
8 McLean Budden Ltd.	\$3,430.0
9 HSBC Global Asset Management (Canada) Ltd.	\$2,584.0
10 Franklin Templeton Investments (Franklin Templeton Institutional)	\$2,159.0
11 Burgundy Asset Management Ltd.	\$2,077.3
12 Connor, Clark & Lunn Financial Group	\$1,814.0
13 Goodman & Company Investment Counsel Ltd.	\$1,500.0
14 CIBC Global Asset Management Inc.	\$1,181.8
15 Mawer Investment Management Ltd.	\$1,060.2
16 CI Institutional Asset Management <sup>1</sup>	\$953.0
17 Montrusco Bolton Investments Inc.	\$813.8
18 Fiera Capital Inc.	\$810.5
19 AEGON Capital Management Inc.	\$779.9
20 Foyston, Gordon & Payne Inc.	\$734.2
<b>Top 20 Total</b>	<b>\$84,942.2</b>
<b>Money Management Industry Total 2009</b>	<b>\$93,213.5</b>
<b>Money Management Industry Total 2008</b>	<b>\$137,471.6</b>

Note: 1. Formerly listed as CI Financial.

Source: Firms participating in *Benefits Canada's*/CIIN Fall 2009 Money Manager Survey

begun to forget," he says. "The trading volume in collateralized debt obligations and collateralized loan obligations is going up sharply. They were a principal contributor to the crisis, and hedge funds are now trading Lehman bankruptcy claims with each other."

On the whole, however, Mather says the past 12 months have been instructive in fundamental lessons on investing that had largely escaped the industry. "It's less about learning something new and more of a powerful reinforcement of principles we already understood. What we know for sure is that there's no such thing as adequate risk management. You have to work hard to build the very best risk management systems that you can, as opposed to building them and saying, 'I'm glad we're finished that—we should be in good shape now.' You can never afford to be satisfied. They can always be better."

In terms of actual strategies, de-risking

is manifesting itself in different ways, says Rabovsky. "It could be, 'I want to reduce my overall level of risk and therefore I'm moving more to bonds, perhaps with more matching types of bonds.' Or it could be, 'I want to reduce the amount of risk, but I want to take it where I'm best compensated,' and that's why you're seeing people move in to things like infrastructure and emerging markets," she says. "In other words, giving your manager a little more breadth to add value."

"But I think the general view is, 'I'd like to de-risk, especially as a mature defined benefit plan, but we can't afford to go all the way right now.' So how do you get there? What's the path you're going to take to de-risk over time?"

### Black Swans

By far the hottest metaphor to take the financial world by storm in recent memory, Nassim Taleb's theory of black swan events

enterprise-wide risk management will be more pronounced in the sponsors that simply 'have to.' Invariably, these are the poorer versus richer companies that can afford to either do things the old way or modify at their pace. The investment landscape will also emerge into a revised core/satellite approach where the core is some combination of interest sensitive/fixed income to match specific plan risks and an equity/alternatives component that is low or controlled volatility versus customized benchmarks.

**Racioppo:** There will finally be a move toward more foreign content by Canadian funds. In the last few years, there has been little interest in increasing foreign content despite the relaxing of rules. The Canadian stock market has been strong in recent years and so has the performance of the Canadian dollar. Now, however, we find our Canadian benchmark, the TSX, dominated by just two sectors, with energy and financial services making up approximately 60% of the index. So it's not just foreign exposure that is lacking but industry diversification as well. Clients are now discussing the use of global products as opposed to U.S., EAFE and emerging markets separately.

**Chepelsky:** Recently, there have been many expert commissions and panels that have suggested ways of improving the pension industry. If some of those suggestions take hold, this would affect pension plans going forward.

Demographics should play a huge role as more and more of the baby boomer cohort retires. Not only will this put strains on pension plans, but it will also give retirees a larger voice when, and if, new pension reforms are implemented.

**Lorimer:** There will be an increasing need for members to better understand the risk/return characteristics of their DC pension plan investments. Having said that, risk/return questions come up much less often in situations of positive ROI results versus negative ROI results. I think there is a need for plan sponsors and members to review the risk/return characteristics of their default investment options, and there will be an increasing trend to move further along the investment education/investment advice continuum. **BC**

is occupying a new place in the world of risk management. Defined as events that are unpredictable with massive repercussions—and, with the benefit of hindsight, appear more predictable than they actually were—the global financial crisis and its effect on capital markets has delivered a stark example of a previously obscure and poorly understood theory. So what effect has it had on the industry's concept of risk management?

"The value of the black swan movement is that it has shown that the one-in-a-million probability event happens every day," says Quigley. "That being said, you can't really model for a black swan event. If you did, you'd never invest in anything."

The point, he explains, is to focus on low-probability, high-impact events, now known as outliers. He says the whole debate on black swan events will have served the industry well but cautions against attributing too much to the theory. "We have to be careful not to start seeing black swans everywhere."

Mather suggests that the terminology is less important than the lessons learned. "If the global financial crisis was a black swan, there will be another one," he says. "We don't know how or when, or what form it will take, but you have to reasonably conclude that there will be another one." At the very least, he says the industry needs to learn to recognize deteriorating situations sooner, react faster and construct portfolios with lower correlations to each other.

"One of the things that made the collapse of the fourth quarter [of 2008] so devastating for plan sponsors is that some of the things they owned, which were supposed to be uncorrelated, all fell together," says Mather. "The good securities got marked down with the bad. There's a saying: the greater the stress, the greater the tendency for the correlations of the different asset classes to move toward one, and that happened. Everything they owned went down at the same time."

Such lessons are all well and good, says Williams, except that the likelihood of the next event resembling the experience of late 2008 is almost nil. "The industry will certainly be better prepared to deal with risks associated with credit quality and investments dependent on easy liquidity, but that's not the next problem," he says. "The next problem is going to be something else."

### Good Times, Bad Times

Coming out of the worst economic period in a generation, with record declines in asset values and restless clients, there's not much to be happy about, and one would expect to find an industry in crisis. While the bad news is that increased search activity means many firms will likely lose clients, the good news is that many firms will likely *gain* clients, which is the brass ring for the time being.

"This is a very good time to be a money manager," says Smith. "There are tremendous opportunities for thought leadership and for strategic partnership with plan sponsors and consultants. Plan sponsors are looking for not only tailored solutions but also trusted advisors they can work closely with."

"It depends on the asset class," adds Rabovsky. "Is it a good time to be an infrastructure manager? Absolutely. But a hedge fund, not so much."

According to Mather, the question of whether these are good or bad times for money managers is beside the point. "This is a new reality," he says. "Past market cycles have always been based on the assumption that we'll return to normal, but the question many of us are quietly asking ourselves now is, What if we don't return to normal? To work in this business you have to be a natural optimist." **BC**

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