

BACK TO BLACK

Managers have put the recession behind them, but complete recovery may still be a long way off.

BY CAROLINE CAKEBREAD

In our May 2009 *Top 40 Money Managers Report*, institutional money managers were seeing red, logging mammoth losses in the great train wreck that was 2008. Just last year, we reported that the Top 40 money managers had \$300 billion shaved off the value of assets under management, prompting one manager to comment that the business had been “eviscerated” by the global financial crisis.

Fast-forward to 2010, and most managers are in the black again. Assets under management for the Top 40 grew by 10.7%—a jump fuelled by a recovering global economy and a stock market that has roared back to life. The question now is, What’s next for a business that’s been to the brink and back? With the recession behind us, the Top 40 managers are helping their clients deal with risk: understanding it, managing it and eliminating the concealed risks that became evident during the carnage of 2008. This year, risk management is the watchword—and managers say we’re not out of the woods yet.

Risk-shy Sponsors

Despite good numbers, managers say their clients aren’t taking any chances. Most plan sponsors are gun-shy about the hit they took in 2008, and their approach now is to scope out, understand and eliminate the hidden risks in their portfolios. “Plan sponsors are using the financial crisis as a wake-up call,” says Perry Teperson, vice-president and portfolio manager with Vancouver-based Leith Wheeler Investment Counsel Ltd. (No. 22). “They have come to the realization that nothing is foolproof, nothing works in every cycle.”

Teperson says clients are focused on risk management within their plans and are working to tie together their portfolios and strategies with their liability streams. That means, after a few years of kicking the tires, liability driven investment (LDI) approaches will finally gain traction in Canadian pension funds.

Bill Chinery, managing director with

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TOP 40 MONEY MANAGERS

Canadian assets (millions) under management as of Dec. 31, 2009. ▲▼ indicates an increase or decrease in variance from 2008 to 2009.

1 BlackRock¹
 Rank 2008: **N/A** ▲ **3.0%**
 Total Pension Assets 2009: **\$46,799.9**
 Total Pension Assets 2008: **\$45,456.4**
 Total Assets 2009: **\$108,014.4**

2 TD Asset Management Group
 Rank 2008: **2** ▲ **26.1%**
 Total Pension Assets 2009: **\$46,775.0**
 Total Pension Assets 2008: **\$37,087.0**
 Total Assets 2009: **\$151,202.0**

3 RBC Global Asset Management²
 Rank 2008: **3** ▲ **8.0%**
 Total Pension Assets 2009: **\$32,279.0**
 Total Pension Assets 2008: **\$29,895.9**
 Total Assets 2009: **\$157,252.5**

4 State Street Global Advisors Ltd.
 Rank 2008: **4** ▼ **3.1%**
 Total Pension Assets 2009: **\$24,014.8**
 Total Pension Assets 2008: **\$24,787.1**
 Total Assets 2009: **\$33,374.0**

5 McLean Budden Ltd.
 Rank 2008: **6** ▲ **18.4%**
 Total Pension Assets 2009: **\$22,582.0**
 Total Pension Assets 2008: **\$19,067.0**
 Total Assets 2009: **\$33,176.0**

6 Jarislowsky, Fraser Ltd.
 Rank 2008: **8** ▲ **18.7%**
 Total Pension Assets 2009: **\$21,837.0**
 Total Pension Assets 2008: **\$18,401.0**
 Total Assets 2009: **\$43,497.0**

7 Greystone Managed Investments Inc.
 Rank 2008: **5** ▲ **10.8%**
 Total Pension Assets 2009: **\$21,549.9**
 Total Pension Assets 2008: **\$19,449.0**
 Total Assets 2009: **\$32,205.8**

8 Beutel, Goodman & Company Ltd.
 Rank 2008: **13** ▲ **42.0%**
 Total Pension Assets 2009: **\$17,087.0**
 Total Pension Assets 2008: **\$12,029.0**
 Total Assets 2009: **\$18,969.0**

9 Connor, Clark & Lunn Financial Group
 Rank 2008: **10** ▼ **3.0%**
 Total Pension Assets 2009: **\$16,181.1**
 Total Pension Assets 2008: **\$16,686.4**
 Total Assets 2009: **\$33,532.9**

10 AllianceBernstein Institutional Investments
 Rank 2008: **9** ▼ **13.0%**
 Total Pension Assets 2009: **\$15,983.0**
 Total Pension Assets 2008: **\$18,372.0**
 Total Assets 2009: **\$26,695.0**

11 Addenda Capital Inc.
 Rank 2008: **7** ▼ **14.9%**
 Total Pension Assets 2009: **\$15,674.9**
 Total Pension Assets 2008: **\$18,418.0**
 Total Assets 2009: **\$33,423.7**

12 Letko, Brosseau & Associates Inc.
 Rank 2008: **12** ▲ **20.7%**
 Total Pension Assets 2009: **\$14,806.0**
 Total Pension Assets 2008: **\$12,271.0**
 Total Assets 2009: **\$24,139.0**

13 Standard Life Investments Inc.
 Rank 2008: **17** ▲ **36.7%**
 Total Pension Assets 2009: **\$12,879.9**
 Total Pension Assets 2008: **\$9,419.5**
 Total Assets 2009: **\$29,236.9**

14 BNY/Mellon Asset Management Ltd.³
 Rank 2008: **11** ▲ **24.2%**
 Total Pension Assets 2009: **\$11,716.0**
 Total Pension Assets 2008: **\$9,430.8**
 Total Assets 2009: **\$15,024.0**

15 CIBC Global Asset Management Inc.
 Rank 2008: **14** ▲ **2.4%**
 Total Pension Assets 2009: **\$11,489.5**
 Total Pension Assets 2008: **\$11,215.9**
 Total Assets 2009: **\$57,992.3**

16 J.P. Morgan Asset Management
 Rank 2008: **16** ▼ **2.6%**
 Total Pension Assets 2009: **\$10,506.0**
 Total Pension Assets 2008: **\$10,788.0**
 Total Assets 2009: **\$33,532.9**

17 Fidelity Investments Canada ULC
 Rank 2008: **20** ▲ **43.3%**
 Total Pension Assets 2009: **\$10,132.0**
 Total Pension Assets 2008: **\$7,070.0**
 Total Assets 2009: **\$58,008.0**

18 Franklin Templeton Institutional (Franklin Templeton Investments)
 Rank 2008: **22** ▲ **44.8%**
 Total Pension Assets 2009: **\$9,745.0**
 Total Pension Assets 2008: **\$6,730.0**
 Total Assets 2009: **\$40,850.0**

19 Bentall LP
 Rank 2008: **15** ▼ **13.3%**
 Total Pension Assets 2009: **\$9,636.0**
 Total Pension Assets 2008: **\$11,110.0**
 Total Assets 2009: **\$16,245.0**

20 UBS Global Asset Management (Canada) Inc.
 Rank 2008: **18** ▲ **15.7%**
 Total Pension Assets 2009: **\$8,712.0**
 Total Pension Assets 2008: **\$7,528.7**
 Total Assets 2009: **\$18,038.2**

21 Fiera Capital Inc.
 Rank 2008: **19** ▲ **6.8%**
 Total Pension Assets 2009: **\$7,881.1**
 Total Pension Assets 2008: **\$7,378.5**
 Total Assets 2009: **\$21,345.6**

22 Leith Wheeler Investment Counsel Ltd.
 Rank 2008: **23** ▲ **24.9%**
 Total Pension Assets 2009: **\$7,788.0**
 Total Pension Assets 2008: **\$6,233.0**
 Total Assets 2009: **\$9,719.0**

23 Sprucegrove Investment Management Ltd.
 Rank 2008: **21** ▲ **8.2%**
 Total Pension Assets 2009: **\$7,599.6**
 Total Pension Assets 2008: **\$7,021.2**
 Total Assets 2009: **\$9,324.0**

24 Morguard Investments Ltd.
 Rank 2008: **25** ▲ **19.9%**
 Total Pension Assets 2009: **\$6,876.0**
 Total Pension Assets 2008: **\$5,737.0**
 Total Assets 2009: **\$9,075.0**

25 Russell Investments Canada Ltd.
 Rank 2008: **37** ▲ **68.4%**
 Total Pension Assets 2009: **\$5,676.4**
 Total Pension Assets 2008: **\$3,371.7**
 Total Assets 2009: **\$12,296.5**

26 Foyston, Gordon & Payne Inc.
 Rank 2008: **29** ▲ **25.1%**
 Total Pension Assets 2009: **\$5,670.0**
 Total Pension Assets 2008: **\$4,534.0**
 Total Assets 2009: **\$12,287.7**

27 Goldman Sachs Asset Management, LP
 Rank 2008: **28** ▲ **11.9%**
 Total Pension Assets 2009: **\$5,425.5**
 Total Pension Assets 2008: **\$4,849.3**
 Total Assets 2009: **\$7,197.2**

28 Guardian Capital LP
 Rank 2008: **27** ▲ **4.3%**
 Total Pension Assets 2009: **\$5,328.9**
 Total Pension Assets 2008: **\$5,110.7**
 Total Assets 2009: **\$12,813.4**

29 PIMCO Canada Corp.
 Rank 2008: **36** ▲ **55.6%**
 Total Pension Assets 2009: **\$5,265.0**
 Total Pension Assets 2008: **\$3,384.0**
 Total Assets 2009: **\$6,130.0**

30 GWL Investment Management Ltd.
 Rank 2008: **26** ▼ **0.1%**
 Total Pension Assets 2009: **\$5,150.4**
 Total Pension Assets 2008: **\$5,156.5**
 Total Assets 2009: **\$15,141.5**

31 GE Asset Management Canada Company
 Rank 2008: **32** ▲ **27.4%**
 Total Pension Assets 2009: **\$4,908.9**
 Total Pension Assets 2008: **\$3,853.8**
 Total Assets 2009: **\$4,972.1**

32 Wellington Management Company, LLP
 Rank 2008: **24** ▼ **20.6%**
 Total Pension Assets 2009: **\$4,903.0**
 Total Pension Assets 2008: **\$6,177.0**
 Total Assets 2009: **\$6,536.0**

33 Sceptre Investment Counsel Ltd.
 Rank 2008: **30** ▲ **6.5%**
 Total Pension Assets 2009: **\$4,691.8**
 Total Pension Assets 2008: **\$4,406.3**
 Total Assets 2009: **\$7,354.0**

34 MFC Global Investment Management
 Rank 2008: **33** ▲ **13.6%**
 Total Pension Assets 2009: **\$4,094.6**
 Total Pension Assets 2008: **\$3,604.0**
 Total Assets 2009: **\$94,346.1**

35 Invesco⁴
 Rank 2008: **35** ▲ **18.2%**
 Total Pension Assets 2009: **\$4,008.5**
 Total Pension Assets 2008: **\$3,391.6**
 Total Assets 2009: **\$30,684.4**

36 Natcan Investment Management
 Rank 2008: **39** ▲ **15.4%**
 Total Pension Assets 2009: **\$3,784.0**
 Total Pension Assets 2008: **\$3,278.0**
 Total Assets 2009: **\$24,510.0**

37 London Capital Management Ltd.
 Rank 2008: **38** ▲ **13.8%**
 Total Pension Assets 2009: **\$3,737.6**
 Total Pension Assets 2008: **\$3,285.7**
 Total Assets 2009: **\$13,067.6**

38 Integra Capital Management Corp.
 Rank 2008: **34** ▼ **0.2%**
 Total Pension Assets 2009: **\$3,579.4**
 Total Pension Assets 2008: **\$3,585.0**
 Total Assets 2009: **\$3,579.4**

39 SEI
 Rank 2008: **31** ▼ **8.1%**
 Total Pension Assets 2009: **\$3,546.5**
 Total Pension Assets 2008: **\$3,860.5**
 Total Assets 2009: **\$8,436.2**

40 Mondrian Investment Partners Ltd.
 Rank 2008: **N/A** ▼ **3.4%**
 Total Pension Assets 2009: **\$3,396.8**
 Total Pension Assets 2008: **\$3,517.6**
 Total Assets 2009: **\$4,450.0**

2009 Top 40 Total \$483,697.8
2008 Top 40 Total \$436,948.1
% Difference ▲ 10.7%

Notes: 1. As of Dec. 1, 2009, BlackRock merged with Barclays Global Investors Canada Ltd., and 2008 pension assets were an aggregation of both companies operating as separate entities. 2. Formerly listed as Phillips, Hager & North Investment Management Ltd. Phillips, Hager & North is now part of RBC Global Asset Management, the investment management arm of the Royal Bank of Canada. 3. 2008 pension assets have been restated. 4. Formerly listed as Invesco Trimark.

*As of May 2009, New Brunswick Asset Management will no longer be included in the ranking.

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.

TOP 10 FASTEST GROWING (%)

Assets (millions) as of Dec. 31, 2009

Company	2009 CDN Pension Assets	2008 CDN Pension Assets	% Variance
1 Russell Investments Canada Ltd.	\$5,676.4	\$3,371.7	▲ 68.4%
2 PIMCO Canada Corp.	\$5,265.0	\$3,384.0	▲ 55.6%
3 Franklin Templeton Institutional (Franklin Templeton Investments)	\$9,745.0	\$6,730.0	▲ 44.8%
4 Fidelity Investments Canada ULC	\$10,132.0	\$7,070.0	▲ 43.3%
5 Beutel, Goodman & Company Ltd.	\$17,087.0	\$12,029.0	▲ 42.0%
6 Standard Life Investments Inc.	\$12,879.9	\$9,419.5	▲ 36.7%
7 GE Asset Management Canada Company	\$4,908.9	\$3,853.8	▲ 27.4%
8 TD Asset Management Group	\$46,775.0	\$37,087.0	▲ 26.1%
9 Foyston, Gordon & Payne Inc.	\$5,670.0	\$4,534.0	▲ 25.1%
10 Leith Wheeler Investment Counsel Ltd.	\$7,788.0	\$6,233.0	▲ 24.9%

Source: Firms participating in the Canadian Institutional Investment Network Spring 2010 Top 40 Money Managers Survey (among the Top 40 managers only)

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BlackRock in Toronto, agrees that LDI is set to take off as risk-averse plan sponsors deal with this post-recession, post-financial-crisis investment climate. "Corporate pension plans, in particular, are going to continue to drive down this route, even with low interest rates," he says. "However, interest rates are going to go up, and once you get a whiff of 5%, 6% or 7% long-term rates again, LDI will come back with a vengeance."

LDI is also going to change the kinds of conversations that managers have with their plan sponsor clients. In the old days of 60/40 asset management, managers could focus on adding value through the management of a specific asset class. But as plan sponsors seek to match assets and liabilities, this could put the pressure on managers to engage in a broader and deeper discussion of how their approaches fit into the overall plan structure.

As Peter Lindley, president and head of investments with State Street Global Advisors Ltd. (Canada) in Toronto, puts it, "In the past, you had one-size-fits-all products and solutions. But the outcomes of the plan are really diverse, so money managers have to get under the hood of a client." Overall, he sees managers getting more "consultative" in their discussions with clients as they look at both the investment and liability sides together. But, he adds, a lot of work remains to be done.

Doing the Math

While plan sponsors are trying to unearth unwelcome surprises in their plans, there is one major wild card in the marketplace: policy-makers. With unprecedented levels of monetary stimulus flowing through the post-recession global economy, managers are engaged in a waiting game to see what its long-term effects will be.

As governments take on debt, the macroeconomic picture isn't looking all that healthy. "[Governments] pumped a huge amount of liquidity into the system, especially in the U.S.," says Chinery, whose firm was involved in helping the U.S. government buy mortgage-backed securities. "They have to get US\$1 trillion off their balance sheet but, at the same time, they have high unemployment, and they want to keep their mortgage rates low. It can't add up." Most managers agree that something has to give when it comes to policy-makers and the global economy.

Jeff Munroe, chief investment officer of Newton Investment Management in London, England (part of BNY/Mellon Asset Management Ltd., No. 14), says markets are in wait-and-see mode as they assess the impact of the credit crisis and governments' reactions to it. "The credit crisis has called a halt to consumer leveraging," he explains. "Governments have stepped in with a massive amount of stimulus to a degree that we have never seen before. The question is, How is this going to manifest itself in

"PLAN SPONSORS ARE USING THE FINANCIAL CRISIS AS A WAKE-UP CALL. THEY HAVE COME TO THE REALIZATION THAT NOTHING IS FOOLPROOF, NOTHING WORKS IN EVERY CYCLE."

— PERRY TEPERSON,
VICE-PRESIDENT AND
PORTFOLIO MANAGER,
LEITH WHEELER
INVESTMENT COUNSEL LTD.

markets? Where is all this liquidity and money going to go?” He foresees ongoing volatility in asset prices and, overall, “a very challenging investment backdrop for investors to try and create returns.”

“I don’t think there’s ever been a situation where we have been more exposed to this kind of risk,” says Lindley, when asked about his concerns over policy-makers’ response to the credit crisis. “We have this massive risk based on monetary and fiscal policy and regulatory response. Decisions made in Ottawa or London, for example, are going to have enormous outcomes. Right now, the stimulus is still working its way through the system. What happens when it stops?”

Bruce Winch, senior vice-president, institutional investments, with Invesco in Toronto (No. 35), says investors are also waiting to see what happens. “We haven’t worked through the credit issues yet. There are many companies today that would not exist without government intervention or low interest rates,” he explains, citing auto manufacturers as an example.

For managers, the waiting game with policy-makers will create volatility and challenges for investors seeking solutions

to battle low interest rates and flat equity market returns. Chinery sees interest rate uncertainty pulling the focus to fixed income products and real return assets. “The more real return assets you have (like bonds and Treasury Inflation Protected Securities, for example), the more protected you are if policy-makers have to re-inflate the economy.” Plan sponsors are also turning to hedge funds in droves, Chinery points out, noting that this might appear counter-intuitive after some strategies took a big hit during the downturn. “[Plan sponsors] are thinking if they do their homework and find the best funds out there, they can add to that return.” He adds that clients are putting a lot of pressure on hedge fund managers to lower their fees. “The days of two and 20 in hedge funds fees are gone—there’s a lot of pressure to bring those fees down.”

Warren Stoddart, managing partner with Connor, Clark & Lunn Financial Group in Toronto (No. 9), says clients are hoping for better returns and less volatility. “They are looking at asset classes that will deliver these types of characteristics. They want cash flow visibility and less correlation.” In addition, he says, “there is a desire

“[INVESTORS] HAVEN’T WORKED THROUGH THE CREDIT ISSUES YET. THERE ARE MANY COMPANIES TODAY THAT WOULD NOT EXIST WITHOUT GOVERNMENT INTERVENTION OR LOW INTEREST RATES.”

**— BRUCE WINCH,
SENIOR VICE-PRESIDENT,
INSTITUTIONAL
INVESTMENTS, INVESCO**

MOVING UP

The biggest trend in our May 2010 *Top 40 Money Managers Report* is improved numbers, with many managers recording impressive gains.

- › **Total assets under management were up by 10.7%—topping last year’s dismal losses.**
- › **Russell Investments Canada Ltd. (No. 25) and PIMCO Canada Corp. (No. 29) led the pack, growing assets by 68.4% and 55.6%, respectively.**
- › **Other big gainers were Franklin Templeton Institutional (No. 18, at 44.8%), Fidelity Investments Canada ULC (No. 17, at 43.3%) and Beutel, Goodman & Company Ltd. (No. 8, at 42.0%). Beutel debuted among the Top 10 this year, moving up from No. 13 in 2009.**
- › **Another change to our Top 10 list: BlackRock makes its first appearance at No. 1 after merging with Barclays Global Investors in 2009.**
- › **A new arrival on the Top 40 list: Mondrian Investment Partners Ltd. makes it in at No. 40.**
- › **The majority of the Top 40 money managers posted gains this year. Only 11 money managers reported losses in 2009, compared with 33 reporting losses in 2008.**

right now for illiquid alternatives such as infrastructure, real estate and private equity.” Stoddart explains that these types of assets are perceived as less volatile because they came through the market meltdown relatively well.

Hard Assets

Stuart Waugh is managing director and managing partner with Northleaf Capital Partners in Toronto, the newly branded result of a November 2009 spinout from TD Capital Private Equity Investors. He says private equity took a major hit during the 2008 downturn and has refocused private equity managers on long-term value creation and core business-building initiatives following a few years of headline-making buyout deals such as BCE Inc. and Chrysler.

While Waugh has seen the recession shake out the private equity space, it has revealed both losers and winners—and a huge performance gap in between. “For a while, private equity looked easy,” he explains, pointing out that during the “go-go” years before the recession hit, some investors piled into the asset class without any long-term planning to commit capital steadily over time or ensure access to top-tier managers. Since performance was strong across the board, it appeared easy to pick managers.

But the recession has changed all that, laying bare some of the weaker strategies and managers. “Private equity has always had a much broader dispersion of returns than public markets,” Waugh adds. “If you look over the last decade, there is a 15% spread between top- and bottom-quartile managers. Public equities, by contrast, stand at around 5%.” He says the heady days of big take-private deals are also over—as for much of private equity’s history, the best opportunities are now in the small- to mid-market buyout and growth equity size space.

“IT ALL COMES DOWN TO RISK CONTROL. FOR MANY PLANS, THEIR SINGLE BIGGEST RISK IS EXPOSURE TO FOREIGN EXCHANGE RATES. FOR EXAMPLE, A 15% ALLOCATION TO U.S. EQUITIES IS A 15% EXPOSURE TO CURRENCY RISK.”

— PETER LINDLEY,
PRESIDENT AND HEAD
OF INVESTMENTS, STATE
STREET GLOBAL ADVISORS
LTD. (CANADA)

Real estate is another area that is attracting interest, particularly because it didn't do as badly as other asset classes during the downturn. Malcolm Leitch, chief operating officer with Bentall Investment Management in Vancouver (No. 19), says that while asset prices dipped during the recession (along with everything else), real estate still provided stable income return. And while more esoteric strategies and investments have made their way into the pension space, real estate remains an easy asset for trustees and plan sponsors alike to grasp. "It's tangible," he explains. "You can touch it; you can even drive by the buildings and see what you own."

However, Leitch does see some bumps ahead. On the commercial real estate front, for the time being, businesses are more likely to stay put—expanding within their existing space, reticent to move and take on more risk and expense. He also sees any significant interest rate hikes putting downward pressure on asset values.

As if interest rate and inflation risk weren't enough for plan sponsors to deal with, the Canadian dollar is also moving fast, flirting with parity against its U.S. counterpart. Managers see their clients taking different approaches to manage currency risk, with some taking on hedging strategies and others sitting tight. Lindley says his firm has seen a lot of interest in hedging strategies. "It all comes down to risk control. For many plans, their single biggest risk is exposure to foreign exchange rates. For example, a 15% allocation to U.S. equities is a 15% exposure to currency risk," he explains.

For his part, Teperson has not observed a flood of plan sponsors moving to hedge currency. Although there are a lot of new products out there, he says his firm isn't seeing a big uptake of currency hedging products. Instead, he believes plan sponsors will look at dynamic hedging strategies: those that allow for hedging in smaller amounts over time. Chinery has also seen increased interest in dynamic currency hedging in addition to passive hedging and active currency management. "Over the long term, the Canadian dollar is going to rise," he says. And if it continues to outperform the U.S. dollar, more plan sponsors will have to consider currency hedging.

Whichever way the markets go, Stoddart says the biggest task at hand, post-recession, is for managers to rebuild their clients' confidence. "Like all market shakeouts—and this is the second in 10 years—it exposes businesses that have

been better and worse managed. Rising markets can cover a multitude of sins, and even poorly run businesses can benefit." He adds that the financial crisis and the recession will put pressure on managers going forward to prove their value to plan sponsor clients—no matter what markets may throw at the industry. **BC**

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