25TH ANNIVERSARY SECTION

More Bends In The Road Ahead

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INVESTMENT

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Let me begin by congratulating *Benefits and Pension Monitor* on its 25th anniversary, which is a remarkable milestone. I'm delighted to have been asked to join in the celebration by offering TD Asset Management's outlook on some key trends we believe will unfold over the next three to five years; we certainly believe it will be an interesting period. As we begin to drive toward the end of the decade, the investment industry will continue to evolve and asset managers and their clients will have to navigate more bends in the road than ever before.

Of course, change is nothing new in our industry; it's constantly evolving. Globally, regulatory powers have been continually raising the bar since the 2008/2009 global financial crisis, increasing oversight and reporting requirements as they attempt to protect investors and forestall the possibility of another such crisis. Moreover, economies are mired in a low growth environment which is expected to last for a prolonged period. Against this backdrop, yields are likely to remain low for a long time; longer than many investors are expecting.

Moving forward, the relentless pursuit of innovation, strategic clarity, and operational excellence have never been more critical. We have identified four key areas of focus that will be paramount in ensuring that we continue to grow and service our clients effectively in the years ahead:

▶ Evolving Our Role

Understandably, investor trust in Wall Street waned following the financial crisis. As a result, simplicity, transparency, honesty, and integrity are now more important than ever when plan sponsors are choosing an investment manager, a trend we expect to continue. Increasingly they will look for investment management 'brands' they can trust.

We expect asset managers will continue to work hard to reestablish trust and to educate and stimulate the exchange of ideas to find the most appropriate solution to client challenges rather than simply sell investment products. This move towards a relationship model rather than a sales model will promote an emphasis on ethics and acting in partnership with clients.

▶ Deep Understanding

We believe it will become increasingly important for asset managers to have a deep understanding of client needs and to work closely with clients in their decision-making processes. Information, education, and greater visibility will be important functions for investment managers in order to develop the broader and deeper strategic relationships that will be required.

▶ Changing Our Approach To Solutions

Today's investing environment is markedly different from any we have witnessed in the past. Deeply entrenched low economic growth plus the trial and error monetary and fiscal policies developed to address it threaten to keep interest rates at historically low levels for a prolonged period. In this environment, a traditional 60/40 strategy may become economically unsustainable for pension plans as returns are likely to be insufficient for funding future obligations. We expect that this, coupled with legislative changes that are creating new funding rules and new pension designs, will sustain the move away from traditional benchmark-relative investing toward outcome-oriented solutions as pension plan stewards adapt to their new realities. In tandem with this, the role of traditional products will also change, increasingly becoming components of solutions rather than stand-alone investments, which we are already seeing in multi-asset and lifestyle funds.

This shift from relative-return benchmarks to outcomes tied to specific investor needs will require new thinking from asset managers. They will need to create innovative product solutions, such as risk managed equities and dynamic asset allocation strategies, in order to address clients' outcome needs.

▶ Embracing New Markets

With 40 per cent of global developed market government debt and seven per cent of corporate debt currently offering negative yields and interest rates expected to remain low for a prolonged period, a traditional public market fixed income strategy alone won't be enough to help clients achieve their investment goals or requirements. In addition, domestic fixed income investors will have difficulty creating a diversified portfolio as the corporate bond universe in Canada, like our economy, tends to be concentrated in financials and energy.

In response, we believe clients will increasingly turn to private markets for both equity and fixed income, in search of returns and diversification opportunities. We estimate that there is already approximately $8 billion in private debt deals done each year in Canada and we believe this number will continue to grow, spurred by increased fiscal spending and changing demographics. For example, increasing urbanization will drive large-scale infrastructure development that will require financing, which is likely to be at least partially achieved via private debt issuance.

Asset managers must identify the evolving industry landscape and be ready to embrace change in order to successfully help meet investors' needs. The asset managers of the future will have already started to build a roadmap and implement initiatives on the key areas of focus, much like the ones I have outlined. Those that act with integrity, work collaboratively with clients to fully understand their needs, and develop outcome-oriented strategies that help clients meet their targets are likely to be the ones that lead the pack for years to come. **BPM**