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# The ins and outs of **OCIO**

**Challenging business climate among factors pushing plan sponsors to outsource investment work**

*By Sara Tatelman*



**W**hen a pension plan hires an outsourced chief investment officer, it can't just hand over the keys, nap in the backseat and forget about how its investments will perform.

If a plan sponsor can't decide on asset allocation or its investment policy, hiring an outsourced chief investment officer won't help it, says Brad Rowe, a principal at Eckler Ltd. in Halifax.

"They have bigger issues that they have to deal with simply because an OCIO will not take full fiduciary responsibility for a policy."

Plan sponsors that benefit most from outsourcing, he says, are those that can design investment policies and oversee

## BREAKDOWN

## CANADIAN ASSETS UNDER MANAGEMENT

ASSETS (MILLIONS) AS OF JUNE 30, 2016

Mutual fund (individual/retail investors)	\$829,853.4
Pension segregated fund	\$456,431.3
Pension pooled fund	\$427,365.3
High net worth	\$295,917.8
Sub-advised	\$278,790.7
Insurance company	\$170,442.1
Corporate	\$109,938.9
ETFs	\$90,082.4
Insurance segregated fund	\$73,107.9
Sum of other	\$58,260.8
Wrap/third party	\$48,904.3
Foundation	\$30,486.0
Endowment	\$26,414.3
Trust fund	\$10,551.4
First Nations	\$1,853.3
Government	\$572.0

**Total:**

**\$2,908,971.9**

Note: Canadian-domiciled clients only

Source: Firms participating in the Canadian Institutional Investment Network's spring 2016 top 40 money managers survey

**“Twenty years ago, it was easy to have a diversified portfolio that kind of made you money. A lot more uncertainty, lower expected returns — the world of investing is a lot harder today.”**



## TOP 10 | CAP INVESTMENT MANAGERS

CPA = CANADIAN PENSION ASSETS; ASSETS (MILLIONS) AS OF JUNE 30, 2016

	Company	2016 CAP CPA
1	BlackRock Asset Management Canada Ltd.	\$27,514.1
2	GLC Asset Management Group Ltd.	\$19,123.1
3	Epoch Investment Partners, Inc.	\$16,028.0
4	TD Asset Management	\$12,792.9
5	Beutel, Goodman & Co. Ltd.	\$10,665.0
6	Sun Life Global Investments	\$10,472.7
7	MFS Investment Management Canada Ltd.	\$9,084.9
8	Fidelity Canada Institutional <sup>1</sup>	\$7,524.3
9	Connor, Clark & Lunn Financial Group	\$6,616.9
10	Phillips, Hager & North Investment Management (RBC Global Asset Management)	\$5,138.6
	<b>Top 10 total:</b>	<b>\$124,960.5</b>

Note: 1. Formerly known as Pyramis Global Advisors (a Fidelity Investments Company)

## TOP 10 | POOLED FUND MANAGERS

CPA = CANADIAN PENSION ASSETS; ASSETS (MILLIONS) AS OF JUNE 30, 2016

	Company	2016 CPA
1	BlackRock Asset Management Canada Ltd.	\$64,283.0
2	TD Asset Management	\$45,325.5
3	Phillips, Hager & North Investment Management (RBC Global Asset Management)	\$25,196.1
4	Brookfield Asset Management	\$21,427.0
5	GLC Asset Management Group Ltd.	\$20,891.4
6	Connor, Clark & Lunn Financial Group	\$13,792.8
7	MFS Investment Management Canada Ltd.	\$13,619.3
8	Fiera Capital Corp.	\$12,709.7
9	Beutel, Goodman & Co. Ltd.	\$12,106.0
10	Fidelity Canada Institutional <sup>1</sup>	\$11,926.3
	<b>Top 10 total:</b>	<b>\$241,277.1</b>

Note: 1. Formerly known as Pyramis Global Advisors (a Fidelity Investments Company)

performance but don't have the resources to execute acquisitions and sales on a daily basis. Smaller plan sponsors with few finance staff most often struggle with a lack of resources. After all, pension plans aren't most companies' top priority. Linda York, senior vice-president at Market Strategies International in Cambridge, Mass., says she has seen a recent uptick in outsourcing among plans with less than \$1 billion in assets. According to York, 19 per cent of U.S. corporate pension plans are using an outsourced model.

"[Smaller plans] are trying to do their best to compete with the big funds — the OMERS, the Teachers', the CalPERS in the U.S. — because obviously, they're competing for the same investments but they do not have staff, skill and resources to do that," says Dany Lemay, Montreal investment leader at Willis Towers Watson. "And oftentimes, they came to the conclusion that we're still underfunded, we haven't had the result that we had hoped for, so maybe it's time to change a bit our governance and our approach to [our] pension fund . . ."

Lemay has also seen increased interest in outsourcing from foreign companies operating in Canada. "Sometimes, they don't have all the staff on the ground here in Canada to be familiar with all the rules and regulations, the reality of our domestic market."

Lemay says he has seen Willis Towers Watson's outsourced chief investment officer practice pick up since the 2008 financial crisis. And Edward Ng, head of portfolio management for BlackRock Inc.'s U.S. outsourced chief investment officer business in New York, suggests the challenging business climate is another factor in the growing use of outsourcing by pension plans. "Twenty years ago, it was easy to have a diversified portfolio that kind of made you money. A lot more uncertainty, lower expected returns — the world of investing is a lot harder today.

Source: Firms participating in the Canadian Institutional Investment Network's spring 2016 top 40 money managers survey

# TOP 40

# MONEY MA

## TD ASSET MANAGEMENT

**1**

Rank 2015: **1** ↑ 16.9%

2016 PA: \$95,825.4  
2015 PA: \$81,978.9

Total assets 2016: \$269,369.0

## BLACKROCK ASSET MANAGEMENT CANADA LTD.

**2**

Rank 2015: **2** ↑ 3.2%

2016 PA: \$83,036.0  
2015 PA: \$80,440.5

Total assets 2016: \$157,463.1

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

**3**

Rank 2015: **3** ↑ 0.8%

2016 PA: \$57,935.0  
2015 PA: \$57,496.1

Total assets 2016: \$273,246.1

## MANULIFE ASSET MANAGEMENT

**4**

Rank 2015: **4** ↑ 4.9%

2016 PA: \$35,295.0  
2015 PA: \$33,661.9

Total assets 2016: \$104,601.4

## BEUTEL, GOODMAN & CO LTD.

**5**

Rank 2015: **5** ↓ -8.7%

2016 PA: \$29,704.0  
2015 PA: \$32,533.8

Total assets 2016: \$36,406.0

## FIERA CAPITAL CORP.

**6**

Rank 2015: **7** ↑ 0.8%

2016 PA: \$28,187.4  
2015 PA: \$27,962.1

Total assets 2016: \$74,297.5

## CONNOR, CLARK & LUNN FINANCIAL GROUP

**7**

Rank 2015: **8** ↑ 3.0%

2016 PA: \$28,107.2  
2015 PA: \$27,277.6

Total assets 2016: \$62,325.7

## STATE STREET GLOBAL ADVISORS, LTD. <sup>1</sup>

**8**

Rank 2015: **6** ↓ -25.3%

2016 PA: \$24,273.4  
2015 PA: \$32,507.4

Total assets 2016: \$44,514.1

## CIBC ASSET MANAGEMENT INC.

**9**

Rank 2015: **10** ↑ 4.9%

2016 PA: \$22,150.0  
2015 PA: \$21,124.3

Total assets 2016: \$134,432.6

## BROOKFIELD ASSET MANAGEMENT

**10**

Rank 2015: **15** ↑ 22.9%

2016 PA: \$21,427.0  
2015 PA: \$17,433.0

Total assets 2016: \$61,982.0

## GREYSTONE MANAGED INVESTMENTS INC.

**11**

Rank 2015: **11** ↑ 0.6%

2016 PA: \$20,964.7  
2015 PA: \$20,836.5

Total assets 2016: \$31,615.4

## GLC ASSET MANAGEMENT GROUP LTD. <sup>2</sup>

**12**

Rank 2015: **22** ↑ 61.4%

2016 PA: \$20,891.4  
2015 PA: \$12,941.5

Total assets 2016: \$49,546.4

## FIDELITY CANADA INSTITUTIONAL <sup>3</sup>

**13**

Rank 2015: **12** ↑ 12.4%

2016 PA: \$20,557.0  
2015 PA: \$18,285.8

Total assets 2016: \$121,548.5

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

**14**

Rank 2015: **9** ↓ -6.6%

2016 PA: \$20,373.9  
2015 PA: \$21,819.8

Total assets 2016: \$24,192.9

## LETKO, BROSEAU & ASSOCIATES INC.

**15**

Rank 2015: **14** ↓ -4.4%

2016 PA: \$17,022.6  
2015 PA: \$17,814.3

Total assets 2016: \$27,418.2

## MFS INVESTMENT MANAGEMENT CANADA LTD.

**16**

Rank 2015: **13** ↓ -7.9%

2016 PA: \$16,500.9  
2015 PA: \$17,909.0

Total assets 2016: \$26,809.8

## PIMCO CANADA CORP.

**17**

Rank 2015: **19** ↑ 14.6%

2016 PA: \$15,538.0  
2015 PA: \$13,555.0

Total assets 2016: \$30,032.7

## WELLINGTON MANAGEMENT GROUP LLP

**18**

Rank 2015: **17** ↑ 0.9%

2016 PA: \$14,653.0  
2015 PA: \$14,525.0

Total assets 2016: \$20,183.0

## BNY/MELLON ASSET MANAGEMENT LTD.

**19**

Rank 2015: **21** ↑ 11.0%

2016 PA: \$14,648.0  
2015 PA: \$13,195.1

Total assets 2016: \$22,385.0

## FRANKLIN TEMPLETON INSTITUTIONAL

**20**

Rank 2015: **16** ↓ -13.9%

2016 PA: \$13,488.7  
2015 PA: \$15,675.0

Total assets 2016: \$44,290.0



**“ [Smaller plans] are trying to do their best to compete with the big funds — the OMERS, the Teachers’, the CalPERS in the U.S. — because obviously, they’re competing for the same investments but they do not have staff, skill and resources to do that.”**

# NAGERS

CANADIAN ASSETS (MILLIONS) UNDER MANAGEMENT AS OF JUNE 30, 2016

CPA = CANADIAN PENSION ASSETS

↑↓ Indicates an increase or decrease in assets from 2015 to 2016

## JARISLOWSKY, FRASER LTD.

21

Rank 2015: **20** ↓-0.1%

2016 PA: \$13,463.0

2015 PA: \$13,480.0

Total assets 2016: \$33,513.0

## MAWER INVESTMENT MANAGEMENT LTD.

26

Rank 2015: **32** ↑30.0%

2016 PA: \$9,515.0

2015 PA: \$7,320.6

Total assets 2016: \$37,596.2

## BAILLIE GIFFORD OVERSEAS LTD.

31

Rank 2015: **29** ↓-13.1%

2016 PA: \$7,427.7

2015 PA: \$8,550.0

Total assets 2016: \$12,664.9

## CANSO INVESTMENT COUNSEL, LTD.

36

Rank 2015: **40** ↑27.1%

2016 PA: \$6,311.4

2015 PA: \$4,964.7

Total assets 2016: \$19,255.6

## LEITH WHEELER INVESTMENT COUNSEL LTD.

22

Rank 2015: **23** ↓-10.4%

2016 PA: \$11,527.0

2015 PA: \$12,858.9

Total assets 2016: \$17,015.5

## BURGUNDY ASSET MANAGEMENT LTD.

27

Rank 2015: **31** ↑16.9%

2016 PA: \$9,369.6

2015 PA: \$8,014.9

Total assets 2016: \$21,826.1

## ABERDEEN ASSET MANAGEMENT PLC\*

32

Rank 2015: **24** ↓-32.6%

2016 PA: \$7,088.3

2015 PA: \$10,514.6

Total assets 2016: \$10,716.5

## INVESCO

37

Rank 2015: **38** ↑1.8%

2016 PA: \$5,779.6

2015 PA: \$5,678.3

Total assets 2016: \$32,738.4

## SUN LIFE GLOBAL INVESTMENTS

23

Rank 2015: **30** ↑23.8%

2016 PA: \$10,472.7

2015 PA: \$8,458.9

Total assets 2016: \$14,075.3

## MERCER GLOBAL INVESTMENTS CANADA LTD.

28

Rank 2015: **27** ↓-11.7%

2016 PA: \$8,389.5

2015 PA: \$9,504.3

Total assets 2016: \$10,143.8

## GUARDIAN CAPITAL LP

33

Rank 2015: **34** ↑1.5%

2016 PA: \$7,048.7

2015 PA: \$6,946.1

Total assets 2016: \$22,807.6

## SPRUCEGROVE INVESTMENT MANAGEMENT LTD.

38

Rank 2015: **28** ↓-36.9%

2016 PA: \$5,748.2

2015 PA: \$9,106.3

Total assets 2016: \$8,445.5

## ADDENDA CAPITAL INC.

24

Rank 2015: **26** ↓-5.6%

2016 PA: \$9,862.0

2015 PA: \$10,450.7

Total assets 2016: \$27,669.2

## MORGUARD INVESTMENTS LTD.\*

29

Rank 2015: **25** ↓-2.2%

2016 PA: \$7,970.6

2015 PA: \$8,148.9

Total assets 2016: \$13,191.5

## HEXAVEST INC.

34

Rank 2015: **35** ↓-5.0%

2016 PA: \$6,419.4

2015 PA: \$6,754.3

Total assets 2016: \$7,428.2

## BENTALL KENNEDY (CANADA) LP<sup>4</sup>

39

Rank 2015: **18** ↓-61.5%

2016 PA: \$5,372.0

2015 PA: \$13,942.0

Total assets 2016: \$20,284.0

## GOLDMAN SACHS ASSET MANAGEMENT, LP

25

Rank 2015: **N/A** ↑10.7%

2016 PA: \$9,696.8

2015 PA: \$8,759.7

Total assets 2016: \$12,269.8

## INDUSTRIAL ALLIANCE GROUP

30

Rank 2015: **33** ↑9.5%

2016 PA: \$7,925.8

2015 PA: \$7,240.1

Total assets 2016: \$82,992.9

## ALLIANCE BERNSTEIN CANADA INSTITUTIONAL INVESTMENTS

35

Rank 2015: **36** ↑7.1%

2016 PA: \$6,418.4

2015 PA: \$5,993.0

Total assets 2016: \$13,932.8

## ARROWSTREET CAPITAL, LP

40

Rank 2015: **47** ↑49.8%

2016 PA: \$5,256.9

2015 PA: \$3,509.0

Total assets 2016: \$6,752.1

Notes: \*Restated 2015 numbers; 1. Decline is a result of a change in reporting standards to better align with SSGA Global; 2. Growth is a result of GLC's portfolio solutions group moving to report under GLC Asset Management Group; 3. Formerly known as Pyramis Global Advisors (a Fidelity Investments Company); 4. Decline is a result of the establishment in June of the B.C. Investment Management Corp.'s new investment arm, QuadReal, which moved the fund's Canadian real estate assets in-house from Bentall Kennedy and two other external managers  
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.

2016 top 40 total: \$761,641.2

2015 top 40 total: \$749,167.9

Variance: ↑ 1.7%



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

CPA = CANADIAN PENSION ASSETS; ASSETS (MILLIONS) AS OF JUNE 30, 2016

Company	2016 CPA	2015 CPA	Variance
1   Sun Life Global Investments	\$10,472.7	\$8,458.9	23.8%
2   Brookfield Asset Management	\$21,427.0	\$17,433.0	22.9%
3   TD Asset Management	\$95,825.4	\$81,978.9	16.9%
4   PIMCO Canada Corp.	\$15,538.0	\$13,555.0	14.6%
5   Fidelity Canada Institutional <sup>1</sup>	\$20,557.0	\$18,285.8	12.4%

Note: 1. Formerly known as Pyramis Global Advisors (a Fidelity Investments Company)

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

CPA = CANADIAN PENSION ASSETS; ASSETS (MILLIONS) AS OF JUNE 30, 2016

Company	2016 CPA	2015 CPA	Variance
1   Unigestion SA	\$1,570.2	\$801.7	95.9%
2   Arrowstreet Capital, LP	\$5,256.9	\$3,509.0	49.8%
3   Sun Life Institutional Investments (Canada) Inc. <sup>2</sup>	\$1,958.7	\$1,309.0	49.6%
4   Fiera Properties Ltd.	\$1,501.3	\$1,014.9	47.9%
5   Integrated Asset Management Corp.	\$2,287.0	\$1,646.0	38.9%

Note: 2. Formerly Sun Life Investment Management Inc.

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

CPA = CANADIAN PENSION ASSETS; ASSETS (MILLIONS) AS OF JUNE 30, 2016

Company	2016 CPA	2015 CPA	Variance
1   Romspen Investment Corp.	\$131.0	\$77.6	68.8%
2   Nuveen Investments Canada	\$325.2	\$226.9	43.3%
3   Presima Inc.	\$794.1	\$558.9	42.1%
4   Barrantagh Investment Management Inc.	\$311.8	\$249.2	25.1%
5   Stonebridge Infrastructure Debt Fund	\$525.7	\$479.1	9.7%

Note: Two companies that didn't have Canadian pension clients in 2015 reported significant pension assets in this category in 2016: Galibier Capital Management (\$204.6 million) and Federated Investors (\$139.3 million).

Source: Firms participating in the Canadian Institutional Investment Network's spring 2016 top 40 money managers survey

**“Any time, during a full OCIO arrangement or a partial OCIO arrangement, when they can bring more scale to the table, we can negotiate even better fees for our clients.”**

I think that will also be a driver to shifting from DIY to outsourcing.”

### Apples versus oranges

More corporate plans use outsourcing than public sector organizations, says York. That’s partially because, with many plans having closed, plan sponsors have a better idea of when they have to pay liabilities. As a result, they can more easily develop investment policies for outsourced chief investment officers to work with.

Among the corporate pensions, many plan sponsors are from certain industries, such as manufacturing, and particular regions, such as the U.S. Midwest and Northeast, where that sector has typically been strong, says Gabriella Barschdorff, senior strategist for BlackRock’s outsourced chief investment officer business. “[They’re] not necessarily concentrated in any one sector within

## TOP 10 | DB INVESTMENT MANAGERS

CPA = CANADIAN PENSION ASSETS; ASSETS (MILLIONS) AS OF JUNE 30, 2016

Company	2016 DB CPA
1   TD Asset Management	\$83,032.5
2   BlackRock Asset Management Canada Ltd.	\$53,675.9
3   Phillips, Hager & North Investment Management (RBC Global Asset Management)	\$52,796.4
4   Fiera Capital Corp.	\$23,406.2
5   State Street Global Advisors, Ltd.	\$21,862.5
6   CIBC Asset Management Inc.	\$21,605.8
7   Connor, Clark & Lunn Financial Group	\$21,491.9
8   Brookfield Asset Management	\$21,427.0
9   J.P. Morgan Asset Management (Canada) Inc.	\$20,844.7
10   Beutel, Goodman & Co. Ltd.	\$19,039.0
<b>Top 10 total:</b>	<b>\$339,181.90</b>

Source: Firms participating in the Canadian Institutional Investment Network’s spring 2016 top 40 money managers survey

## TOP 10 | TOTAL CANADIAN ASSETS UNDER MANAGEMENT

ASSETS (MILLIONS) AS OF JUNE 30, 2016

Company	2016 CDN AUM
1   Phillips, Hager & North Investment Management (RBC Global Asset Management)	\$273,246.1
2   TD Asset Management	\$269,369.0
3   BlackRock Asset Management Canada Ltd.	\$157,463.1
4   CIBC Asset Management Inc.	\$134,432.6
5   Fidelity Canada Institutional <sup>1</sup>	\$121,548.5
6   1832 Asset Management LP (Scotiabank)	\$110,744.9
7   CI Investments Inc. (including CI Institutional Asset Management)	\$109,594.0
8   Manulife Asset Management	\$104,601.4
9   BMO Global Asset Management	\$94,134.6
10   Industrial Alliance Group	\$82,992.9
<b>Top 10 total:</b>	<b>\$1,458,127.1</b>

Note: 1. Formerly known as Pyramis Global Advisors (a Fidelity Investments Company)

Source: Firms participating in the Canadian Institutional Investment Network’s spring 2016 top 40 money managers survey

**“The person does not sit in your firm, obviously, but a representative of the organization you select is essentially a senior member of your team. You’re looking for a fit in terms of the people. You’re looking for rigorous internal controls. You are giving a huge responsibility over to someone.”**

**TOP 10** | ENDOWMENT & FOUNDATION FUND MANAGERS

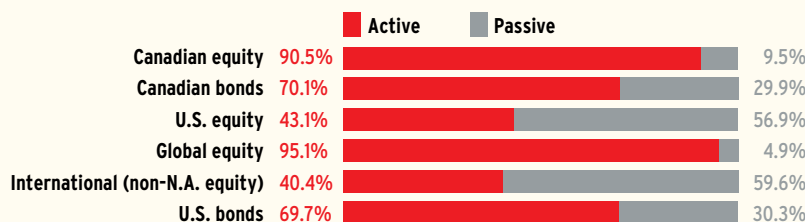
ASSETS (MILLIONS) AS OF JUNE 30, 2016

Company	2016 CDN E&F AUM
1   TD Asset Management	\$5,676.9
2   Fiera Capital Corp.	\$3,741.7
3   Mawer Investment Management Ltd.	\$3,225.8
4   Jarislowsky, Fraser LTD.	\$2,885.0
5   Burgundy Asset Management Ltd.	\$2,815.2
6   State Street Global Advisors, Ltd.	\$2,657.4
7   BlackRock Asset Management Canada Ltd.	\$2,596.7
8   Letko, Brosseau & Associates Inc.	\$2,325.9
9   Phillips, Hager & North Investment Management (RBC Global Asset Management)	\$2,280.1
10   Guardian Capital LP	\$2,044.9
<b>Top 10 total:</b>	<b>\$30,249.6</b>

Source: Firms participating in the Canadian Institutional Investment Network's spring 2016 top 40 money managers survey

**BREAKDOWN** | DB FUND ASSETS UNDER MANAGEMENT

ASSETS AS OF JUNE 30, 2016



Source: Firms participating in the Canadian Institutional Investment Network's spring 2016 top 40 money managers survey

that but definitely in what one might characterize as old economy,” she says, noting BlackRock entered the outsourcing space in Canada recently after reaching an arrangement with a multinational company.

Once a plan sponsor decides to proceed with an outsourced chief investment officer, it must choose which company to work with. “Let’s drop the O for a moment,” says Rowe. “It’s one of the C-level people in your firm. The person does not sit in your firm, obviously, but a representative of the organization you select is essentially a senior member of your team. You’re looking for a fit in terms of the people. You’re looking for rigorous internal controls. You are giving a huge responsibility over to someone.”

Both consultancies and asset managers offer outsourced chief investment officer services and, depending on plan sponsor needs, one may be preferable to another.

Asset managers can be nimbler in terms of acting on market trends, says Barschdorff. “We have the ability to actually . . . move assets from one fund to another fund or from a growth strategy to a hedging strategy. . . . That’s a very different operational setup compared to a consultant that perhaps generates a monthly or maybe even quarterly report — or in some cases, even annual — of how [the plan sponsor’s] portfolio is allocated in relation to liabilities.”

On the other hand, consultants may provide more help in developing investment policies. “If you need a lot of help on the planning side, either through de-risking or various sophisticated processes for the management of your





## THE NUMBERS

- » At the end of June 30, 2016, Canadian pension assets for the top 40 money managers totalled almost **\$762 billion**, compared with about **\$749 billion** the year before. That's an increase of **1.7%**.
- » **GLC Asset Management Ltd.** had the biggest jump, to **No. 12 from No. 22**, after its portfolio solutions group moved to report under **GLC Asset Management Group**.
- » **24** of the top 40 money managers reported an increase in pension assets, while **16** reported a decrease.
- » **12** of the top 40 money managers reported double-digit increases in assets under management, the same number as last year's report.
- » Two managers are new to this year's list: **Goldman Sachs Asset Management, LP** (No. 25) and **Arrowstreet Capital, LP** (No. 40).

**Source:** Firms participating in the Canadian Institutional Investment Network's spring 2016 top 40 money managers survey

plan, there may be a consultant firm that has deeper resources in that area," says Rowe. "It's not necessarily that one is better than another. They're both very good at it. It just depends on what the plan sponsor needs for the ultimate goals."

### The impact of scale

Some plans choose to partially outsource their asset management, whether they want to dip a toe in external waters before fully committing or simply want to retain a favourite manager in a certain asset class.

But such partial delegation can be inefficient. When building a portfolio, an outsourced chief investment officer will use the same set of expected returns and risks to determine a client's optimal investment strategies, asset classes and managers, says Barschdorff. So when one element of the portfolio follows other parameters, the outsourced chief investment officer faces "a bit of a black hole" where certain investments will operate "at an information disadvantage," she adds.

Since fees decrease as assets under management rise, those that opt for partial delegation may also pay higher rates than those using fully outsourced services. "If we have a full OCIO arrangement with them, they will be invested in what we call a zero-fee share class, so the only thing they would pay would be the underlying investment manager fees," says Lemay.

Clients using partial delegation services, on the other hand, may invest in fee-based share classes. "And any time, during a full OCIO arrangement or a partial OCIO arrangement, when they

## BREAKDOWN | PENSION ASSET BY CLASS

ASSETS AS OF JUNE 30, 2016

Canadian bonds active	19.88%
Canadian equity active	12.07%
Global equity active	9.69%
Balance	9.49%
Canadian bonds index	8.29%
Overlay strategies	5.87%
Real estate equity	5.07%
EAFE equity	3.21%
U.S. equity active	2.77%
U.S. equity index	2.67%
Emerging markets equity	2.20%
Other	2.18%
Infrastructure	2.15%
International equity index	1.59%
Canadian equity index	1.50%
Hedge funds	1.43%
International equity active	1.26%
Money markets	0.99%
Global bonds	0.95%
Canadian equity small cap	0.93%
Real return bond	0.84%
Private equity	0.80%
Target date risk	0.75%
Target date fund	0.68%
Mortgages	0.51%
High yield bond	0.47%
Global equity index	0.44%
Asian equity	0.30%
Commodities	0.28%
Emerging markets debt	0.25%
Cash	0.23%
U.S. bonds active	0.16%
U.S. bonds passive	0.07%
Mutual funds	0.01%
ETF	0.01%

**Source:** Firms participating in the Canadian Institutional Investment Network's spring 2016 top 40 money managers survey

can bring more scale to the table, we can negotiate even better fees for our clients,” says Lemay.

Investment managers, Lemay points out, are often willing to reduce fees for clients that choose to outsource because they don't have to worry about recruiting and retaining them. “We feel that by bringing our scale for the benefits of our clients, we help them decrease investment

management fees and we feel it's going to help drive better outcomes for them in the long run. That scale component becomes more and more of a factor in the partial OCIO arrangement.”

But even if fees seem high, Lemay argues clients make up for that with improved speed of execution. “I've seen some cases where, because it took [a plan sponsor] a year and a half to fire

an underperforming manager, they lost two, three, four per cent in terms of returns. [OCIO fees are] nothing compared to the negative impact of having a delayed execution.”

### Conflict zone

And then there's the elephant in the room — the potential conflict of interest that arises when a firm with proprietary funds can also buy them on behalf of its clients.

“Everyone sits and says the OCIO is conflicted,” says Rowe. “And I sort of step back and say, ‘Whenever you use the words fiduciary duty, you will follow that up with the potential for conflict of interest.’ I've yet to see an investment policy in my career or any governance policy that didn't have a conflict of interest. And you talk about mitigating conflicts of interest and how you manage them. It's about transparency, it's about disclosure and it's about internal controls and audit.”

Eckler, he adds, will help clients find an outsourced chief investment officer but it doesn't offer the service itself.

Other consultancies follow that approach as well, in part to avoid the conflict of interest issue altogether.

“We're not going to be promoting any kind of proprietary product,” says Neil Craig, area senior vice-president for group retirement services at Arthur J. Gallagher & Co. in London, Ont. “We're more likely going to be looking at what do the guys out there offer and are they in a position of a conflict of interest? If they're doing the services and a lot of the funds are their own funds that they're using in their mixes, who's monitoring that? That's the way we want to go.”

For asset managers and consultants that provide outsourced services, a frequent first step to mitigate conflict of interest is simply to separate the two sets of offerings within the firm, says York. “Many of these firms . . . are developing separate teams, separate areas of expertise. It's not affiliated with the asset management business at all, even though it's under the same umbrella brand.”

For its part, Willis Towers Watson tries to mitigate conflicts of interest through transparency for both its outsourced chief investment officer and consulting clients. “Even in a consulting business, you're


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always incentivized to do more for your clients because it generates more revenue,” says Lemay.

“I think OCIO is no different, but we believe properly handling how you mitigate those conflicts of interest and how you’re transparent with your fees and your revenues with your clients is a way to have your clients more comfortable,” he adds, noting clients can see on their invoice how much they pay to the firm as well as external investment managers.

The firm also minimizes its use of proprietary funds, since the more sophisticated the investment, the higher the fees, Lemay adds. “For some of the more alternative asset classes or specialty asset classes where we feel there’s no one product that we can really invest in on behalf of our clients in the way we’d like to, we’ve built a very small number of proprietary funds where we build a manager-of-manager approach within these funds. So we pick and choose the best managers for the strategy.”

But for clients that have full outsourcing agreements with the firm, it doesn’t charge additional fees for proprietary funds, he adds.

What’s the future of outsourcing? While few companies are introducing defined benefit pension plans, many foundations, endowments and insurers outsource their chief investment officer positions. And even within the pension industry, Barschdorff says outsourced services have a robust future. As people live longer, pension benefits have to last longer as well. And in increasingly complicated investment environments, more and more plan sponsors may rely on outsourcing. “They’re not going away any time soon,” she says. 

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