

Rising Pressure: What's Weighing on Canada's Pension Industry?



Sharing some of the findings from the research CIBC Mellon conducted with 50 of Canada's leading pension plans, Darlene Claes-McKinnon, Vice President, Relationship Management, Asset Owners and Consultants at CIBC Mellon, says, "Every client in every segment is under pressure these days. We hear and see that everyone is changing in their own way, to meet their own needs. We know this to be the situation from our research, from BNY Mellon's studies, and from our own client conversations. Everyone is under rising pressure and they know they need and want to enact change."

Joined by Michael Graham, CFA, Vice President, Relationship Management, Quebec and OCIO Segment Head at CIBC Mellon, in a *Benefits and Pension Monitor* Meetings and Events webinar, the two discuss how clients can understand what their peers are up to and how to keep pace with a very challenging market environment.

Market pressures and institutional change

The current market environment places every client segment under significant pressure, driving a need for change and adaptation. Asset managers in particular are notably investing in talent and data. This has implications for asset owners as they go through a period of tremendous change. In some cases, those changes require updated hiring practices in the war for talent, to help navigate organizations through this transition. Data has been taking a priority as well and we're seeing this as clients look to implement the right data strategy to build the scale they need to expand internal management.

Graham says, "In essence, despite our investment ecosystems becoming more difficult, asset owners are finding innovative ways to cut through the noise and to transform."

Global trends and pension research methodology

Global trends in the asset owner space include rapid macro and investment environment changes and increasing demands for transparency. CIBC Mellon's latest pension research surveyed senior executives from Canada's leading asset owners, revealing insights into long-term pension strategies and the importance of scale in operations.

A significant theme in the research is the balance between in-house and external portfolio management. While many asset owners have expanded their relationships with outsourced investment managers, the survey shows a trend towards increasing in-house management, albeit at a slower pace than anticipated. Challenges in managing complex assets internally and finding the right talent were notable hurdles.

Claes-McKinnon says, "Organizations have updated their approach to investing over the last year. 56% of respondents say they have expanded their relationships with outsourced investment managers, versus just 28% who say they have expanded their in-house investment team."

"Canadian Asset Owners continue to

increase the portion of assets managed by in-house management teams. If we compare this to the last survey's results, we can see that asset owners have been successful in bringing more of their funds in-house but not quite to the degree that they had anticipated in 2021."

Talent and technology: key factors in asset management

The research underscores the critical role of talent in asset management. Many asset owners are revisiting their hiring practices, seeking generalist talent capable of navigating through transitions. The importance of governance, data strategy, and technology infrastructure in supporting in-house management also emerged as pivotal elements.

Despite the challenges, a significant majority of respondents reported substantial cost savings from in-house asset management. However, data management, talent acquisition, and risk appetite remain major barriers. The survey reflects a shifting emphasis towards talent as a driver for employing external asset managers, especially for managing complex or less efficient markets.

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- Michael Graham

Graham also highlights, "I think compensation is key. With two of Canada's largest pension investors based in Montreal, most clients are competing with these organizations for talent. Not all corporate sponsors have the compensation structure that allows them to tap into this talent."

"In some instances, it means creating a compensation package that is benchmarked against peer organizations in the pension or asset management industry and not benchmarked against internal roles. That isn't always easy to implement."

Consolidation: A strategic focus for pension plans

One of the major themes identified in CIBC Mellon's research is the trend of consolidation within the Canadian pension plan industry. The survey reveals that a significant portion of respondents (61%) are currently managing assets on behalf of other institutional investors, signifying

a shift to inbound consolidation as more organizations in the Canadian market are seeking to manage merged-in assets on behalf of other entities. Additionally, along the theme of consolidating in, 59% of respondents are integrating other pensions into their organizations. The research also indicates that fewer asset owners are inclined to outsource only asset management and not liabilities; their preference is for merging in both. The various approaches of consolidation currently underway are not only seen as a path to achieving scale but also as an opportunity for talent retention and development, especially in a shrinking pension deficit environment.

The primary benefits of consolidation, as identified by the survey respondents, include achieving economies of scale and improved financial outcomes. This emphasis on consolidation reflects the ongoing efforts of asset owners to adapt to market challenges and enhance their financial stability and operational efficiency.

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Non-financial factors: ESG and Truth and Reconciliation

The survey also addressed important non-financial themes, such as ESG factors and the Truth and Reconciliation movement in Canada. A significant majority of respondents (58%) are developing strategies to better address Indigenous stakeholders, and 48% are enhancing services for Indigenous individuals and institutions. Despite a strong emphasis on ESG policies within organizations, only a small fraction (12%) have made public commitments related to ESG, a phenomenon known as 'green hushing.'

Outlook for the future: identifying key risks

Looking forward, the survey asked respondents to identify the most significant risks facing their organizations in the next 12 months. The results highlight two main areas of concern: technology risks and broader economic challenges. Approximately a third of respondents view changing interest rates and macroeconomic unrest as significant risks, while an equal proportion cite technology risks and the complexities and costs associated with data management as major concerns.

The survey concludes with a reflection on the challenging environment faced by asset owners. Key global themes impacting them include the complex economic environment, the importance of recruiting and retaining talent, ESG considerations, and the critical need for effective data management. The survey indicates that, despite these challenges, Canadian asset owners are making progress in their priority areas. This adaptability and focus on critical issues underscores the resilience and strategic agility of Canada's pension plan industry.

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