BENEFITS AND PENSIONS MONITOR MEETINGS & EVENTS WEBINAR

CIBC MELLON

Consolidation Amid Complexity:

How Asset Owners Are Scaling Up Inside and Out

What does the new Pension Protection Act mean for you?

Experts discuss the impact and opportunities after the government announced new rules for defined benefit pensions.

Canadian asset holders are facing a rising number of challenges including global financial instability, higher interest rates, and an evolving regulatory landscape.

In response, they need to adapt their investment strategies while juggling the growing importance of data and increased competition for talent.

To address these concerns and others, **CIBC Mellon** recently sponsored a webinar called **Consolidation Amid Complexity: How Asset Owners Are Scaling Up Inside and Out.**

Hosted by Kristyn Dougall of Benefits and Pensions Monitor, the webinar was moderated by **Darlene Claes-McKinnon**, Executive Director, Relationship Management at **CIBC Mellon**, and included guests **Alistair Almeida**, Segment Lead, Asset Owners at **CIBC Mellon**; and **Kendra Kaake**, Director of Investment Strategy at **SEI**.

To start the discussion, Claes-McKinnon summarised the challenges facing asset owners today, including ongoing economic uncertainty, inflation, volatile interest rates, and ever-growing expectations from stakeholders.

Turning to Almeida, she asked what this means for asset owners.

Citing a recent survey commissioned by CIBC Mellon, Almeida said a number of concerns are on the minds of asset managers today, including macroeconomic stability, the need to diversify and search for yield, a need for transparency, and finally the complex data that is the lifeblood of the investment services business.

"One of the biggest challenges," he adds, "is the scarcity of talent in the marketplace. These are some of the global megatrends emerging today."

Kaake agrees, noting it's important to keep in mind that managing an investment portfolio relative to the broader business isn't a one size fits all exercise. The risks and rewards that apply to one organization might not apply to another.

Risk comes in many different flavours, she adds. This includes market risk in the form of volatile equities, credit risk, currency risk, as well as broader risks triggered by sharp rises in interest rates.

"There are many other sources of risk. Demographic risk is an example," she says, with increased life expectancy straining pension funds and creating more uncertainty. For charitable organizations a legal risk that comes to mind is the concept of perpetuity which can create unintended consequences, especially in the case of legacy funds.

"We need to really ensure that there's a strong governance framework," she adds. I can't emphasize that enough to ensure clear lines of responsibility and accountability."

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> Kendra Kaake, Director of Investment Strategy at SEI.

Outsourcing vs in-house

Perhaps complicating this need for more accountability, is the tendency to depend on outsourcing and external management. In response to this concern, Almeida noted that larger pension plans are starting to shift towards in-house management.

"Why are they doing this? To save on costs," he says. "According to our survey, three quarters of those who moved in-housed achieved cost savings, and about a quarter of them achieved close to a 50% reduction of costs."

Not every asset owner who brought asset management in-house was successful in their efforts to cut costs, however, and that points to the need to conduct a carefully managed shift to in-house management, Almeida says. One of the biggest challenges is a lack of skilled talent to manage a sophisticated asset class in the same way that you would pay a hedge fund.

Good governance is also key, along with an ability to manage data. "One of the biggest challenges I see when I speak to clients is the ability to consolidate data in a timely fashion, Almeida adds. "When you're looking for exposure to various geographies, you need it now to make an investment decision."

Consolidation

Asked about the benefits of consolidation for pension plans, Almeida mentioned scale.

"Scale is the biggest driver for expansion into new asset classes and regions," he says. "Whether it's a private credit fund, real estate, or infrastructure, when there's a lot of dry powder out there, it really requires scale."

But there are challenges too with consolidation. If a bigger pension plan absorbs a smaller pension plan they still need to ask if they're aligned from an investment strategy governance and ESG perspective.

Then there's culture, he adds. "The culture between two organizations can be very different – such as whether it's work from home or being in the office."

In response to a question from the webinar audience, Kaake addressed the pros and cons of outsourcing a CIO.

"It's a complicated question that depends on the asset owner's size, and the personality fit of the CIO," she says. "If you have a lot of alternatives and private assets, it's just really painful work to deal with the legal and regulatory issues, as well as all the cash flow and capital commitments that come out of those private assets."

Almeida agrees with the point about these kinds of decisions depending on the specific needs of a firm. "A smaller pension plan may see advantages to having an outsourced CIO," he says. But the needs of bigger firms can be very different.

Bigger firms are dealing with increased internal costs, so they're looking to build their own data warehouses, or having their own real estate portfolios.

"You have to look at what's right for you. No one size fits all." **BPM**

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