May 11, 2018 Pensions&Investments PIonline.com CRAIN
THE INTERNATIONAL NEWSPAPER OF MONEY MANAGEMENT

MONEY MANAGEMENT

Ontario provincial manager sees progress made, more work ahead


Investment Management Corp. CEO Bert Clark

By Rick Baert

Imagine an institutional money management startup — one seeded with about C$56 billion ($43.6 billion) to invest and a potential client base of as many as 75 public pension funds, endowments and foundations, and other asset pools in Canada's largest province.

That's been what Bert Clark has been overseeing as he leads the Investment Management Corp. of Ontario, Toronto, through its formative first year. Created by the Ontario Parliament in 2016, it was launched last July and now manages money for the C$29.4 billion Workplace Safety and Insurance Board and the Ontario Pension Board, which administers the C$26.4 billion Public Service Pension Plan, Toronto. The two asset owners have provided assets and investment staffs to create the foundation for the new firm, which operates independently from the Ontario government.

Mr. Clark's first order of business since becoming IMCO's president and CEO in October 2016 was combining the investment management cultures of two somewhat disparate public agencies — a pension plan and workers' compensation organization.

"I spent my first six months merging, frankly," Mr. Clark said in an interview at IMCO's Toronto offices; "merging two organizations with all of the types of challenges that are typical in any merger, regardless of the type. We had two compensation schemes, two different risk systems, employees were in two different benefit programs, we had two different IT systems, we had two different segregated portfolios. And so we had to figure out how to bring all those people and capabilities into one organization. Effectively, what we were negotiating was a joint venture agreement to establish IMCO between WSIB and OPB."

With that well underway, Mr. Clark now can direct IMCO's attention to its prescribed goal of managing assets — not for the large Toronto-based provincial plans like the C$189.5 billion Ontario Teachers' Pension Plan, Toronto, but for the 75 pension plans, endowments and other public institutions in Ontario, each with assets in the hundreds of millions of dollars, that are targeted by IMCO as prospective clients, Mr. Clark said.

"We completed what I would call Phase I of the project, which was merge the two organizations," Mr. Clark said.

The second and third phases, which in some cases are happening at the same time, are now underway with a goal of bringing on external clients sometime in 2019.

"Phase II is to take what we inherited and turn it into an institutional asset manager capable of taking on more clients," Mr. Clark said. "That's no small task because what we inherited was investment capabilities from two organizations, but not the full suite of capabilities you would expect from an asset manager. Phase III is enhancing our investment capabilities. We want to provide a better platform, but to go beyond that, to have great portfolio construction capabilities that offer more asset classes than (asset owner clients) have today. There's a big appetite for infrastructure, for example ... also to provide great risk reporting. That's going to take a few years, to be honest."

IMCO was modeled after government-created public money managers like the C$298.5 billion Caisse de Depot et Placement du Quebec, Montreal; C$135.5 billion British Columbia Investment Management Corp., Victoria; and the C$103.7 billion Alberta Investment Management Corp., Edmonton. But unlike those organizations, which are mandated to manage assets for all public asset owners in their provinces, membership among asset owners in the Ontario corporation is voluntary, Mr. Clark said. So IMCO executives have to learn how to market the organization.

"For example, (WSIB and OPB) didn't have a head of client service. They had no external clients; they were internal investment teams. But if you're going to solicit clients, you better have someone to interact with clients. They didn't have a standardized way of reporting to clients. Why would they? They had internal reporting documentation, which looks quite different from what you'd need to construct for clients. So we had to build up that capability. … We needed to develop products for clients. We didn't have any products; we had two segregated portfolios. We had to take what we got and turn that into a full set of products. So that's Phase II, which we're in right now."

IMCO clients will control their own asset allocation, similar to the model in Alberta, British Columbia and Quebec, and like them, IMCO will provide advice on any allocation questions. "They can't delegate 100% discretion to us," Mr. Clark said, "but it's important to use our investment expertise to provide advice on allocations, risk tolerance, time horizons."

Ultimately, IMCO will offer 15 strategies "that clients can assemble the way that suits their particular investment beliefs and liabilities," Mr. Clark said. "It's actually anything but a one-size-fits-all platform. We're trying to construct a set of products they can assemble in a variety of permutations and combinations. ... We're trying to see what range of products you could offer a client, sit down with them and meet almost everyone's liabilities."

Currently IMCO has eight asset-class strategies that came from WSIB and OPB: public equities, fixed income and money market, real estate, diversified markets, infrastructure, absolute return, private equity and private debt. Neil Murphy, IMCO spokesman, said the seven asset classes that will be part of the new product suite are still being formed but will "evolve" from those that currently exist.

In alternative investments, Mr. Clark said IMCO won't necessarily have a disadvantage in generating returns or in competing for deals with the large public plans in Ontario that have been internally managing private markets, infrastructure and real estate for years. "The alternative asset classes are less 'alternative' today than they were 15 to 20 years ago," Mr. Clark said. "They've become pretty accepted as parts of a typical portfolio. Twenty-five years ago, what was cutting edge at (Ontario) Teachers, to get involved in infrastructure, private equity, real estate in a direct way, is no longer a distinguishing investment strategy. All the large Canadian institutions are doing it and doing it directly. I think it's still worth us being in those asset classes, but nobody should expect too much differentiation in returns for merely being in those asset classes."

He said IMCO will set itself apart from the other provincial public plans on alternatives by creating its own specializations.

"It's not enough to just say, 'I'm going to be doing infrastructure, I'm going to be doing it internally.' You have to say, 'I'm going to be doing infrastructure, I'm going to be doing it internally, and I've got some differentiating expertise,'" he said. "We're comfortable with construction risk in greenfield infrastructure, and we've developed an expertise in that regard. That makes you different from everybody else. We will show up if we can bring something distinctive to ownership of that asset class or that particular investment. ... That's one of the advantages of showing up 25 years after everyone else ... Our organization doesn't reflect the strategies of 10, 15 years ago that may be less powerful now."