



TAKING CONTROL:
The Road Ahead

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CHAPTER 4

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Canada’s pension plans are simultaneously dealing with familiar and novel challenges, including longer life expectancies in the aging population, rising interest rates, and evolving regulatory requirements. For some, these pressures are further magnified amid uneven global economic prospects, rapidly shifting markets and a host of new investment opportunities driven by both disruption and technology. Across the many available choices, Canadian pension plans continue to take their obligations seriously, to work to continuously refine their investment, technology and operating models, and to work relentlessly to deliver the right outcomes for their underlying plan members and stakeholders.

We thank the many clients, industry stakeholders and enterprise leaders who contributed their expertise, insights, and experiences to this report – and we look forward to further discussions.”

Alistair Almeida
Segment Lead
Asset Owners



CONTENTS

Foreword

Spotlight on Human Capital

Meeting the ESG Challenge

Opportunities and Risks





Foreword

Canadian asset owners face an array of daunting challenges and remarkable opportunities amid today's evolving market and business landscape. Rising expectations, longstanding challenges and still-emerging unknowns continue to increase the demands on asset owners, even as innovative solutions and new strategies have the potential to better equip asset owners to rise to meet the current moment as well as better address the long-term future outcomes for which they are ultimately accountable.

Like many organizations, Canadian asset owners are being stretched between the need to address the pressing challenges of today while also making critical choices about where to invest for the future. Asset owners must navigate — or in some cases spearhead — a path through the ongoing disruption of the Covid-19 pandemic and ongoing global economic volatility. As they do so, they also face critical strategic and operational choices with long term implications. Roles, objectives, investment strategies and operating models are all changing, asset owners are now reimagining their roadmaps. Innovation has redefined its role in this space insofar as it demands the support of cutting-edge technology.

Questions that once were looming on the horizon are now at the forefront of the minds of Canadian asset owners:

- How should they balance in-house and outsourced asset management?
- What do modern and future asset allocations look like, and how should asset owners plan to sustain, oversee and manage these choices?
- How do they meet rising Environmental, Social and Governance (ESG) imperatives, which are simultaneously urgent and ambiguous?
- Where and how should they invest in innovative technology solutions?
- What is the right talent strategy today, and what types of talent will organizations need to recruit, retain and motivate in the future?

To find out how the industry is approaching these many issues, we surveyed 50 of Canada's leading asset owners. Our research explores the wide-ranging concerns that are top of mind for Canadian asset owners, how they plan to rise to these challenges, meet demands and expectations from stakeholders, and accelerate on the path forward.

Canadian pension plans, funds and their managers continue to be seen as industry leaders within Canadian financial services markets and across the globe. The "Canadian model" of jointly trustee, shared risk, strongly-governed modern defined benefit plans continues to find rising awareness on the global pension stage.



The themes that hold true to Canada's financial landscape — innovation, stability and resilience — all carry weight for Canada's asset owners as similar motifs can be uncovered not only across our primary research but across a parallel array of client conversations, reviews of market documentation and comparisons with global market trends. In many aspects, Canadian asset owners are ahead of global peers, and the insights found here offer relevant applications and critical strategic questions worth investigation by other institutional investors and pension industry stakeholders who are likewise concerned about navigating today's challenging investment landscape even as they look to secure the pension promise for pension plan members over decades ahead.

In this multi-part report, we present the findings of our research; there is much to unpack. The research also revisits themes and findings from our previous research. "In Search of New Value" (www.cibcmellon.com/isonv), in particular extending the core theme that "no one size fits all": asset owners are building, exploring and deploying a diversity of approaches based on their unique strategic goals.

The CIBC Mellon team will continue to collect insights through client and industry conversations with asset owners and their industry peers. To learn more, to request an individual consultation for your organization, or to share comments with our research stakeholders, please reach out to your CIBC Mellon relationship management contact or email us directly at research@cibcmellon.com.

4

CHAPTER 4

The itinerary for Canadian asset owners is replete with a myriad of pressing matters, prominently featuring a spectrum of challenges. Amidst considerations of operational efficacy between internal and external management, deliberations on consolidation strategies, and the imperative of talent management, they are compelled to engage in the discourse surrounding Environmental, Social, and Governance (ESG) criteria, all the while vigilantly surveying the landscape for nascent risks.



Spotlight on Human Capital

Pension plan sponsors, pension asset managers, OCIO providers, insurers and other Canadian pension industry participants are leveraging their leading talent, advanced governance models, and investment expertise as they compete in a challenging market, seek to more efficiently access scale, and above all, work to deliver better results for their stakeholders. In addition to in-house expertise, many participants are engaging third-party experts for insights, advice, independent oversight and even hands-on participation in such aspects as governance, transformational project management, complex investment and operational strategies, and plan member services.

Earlier in our research, we discussed how finding the right talent is a pertinent challenge for in-house investment teams. However, concerns connected to the workforce delve much deeper.

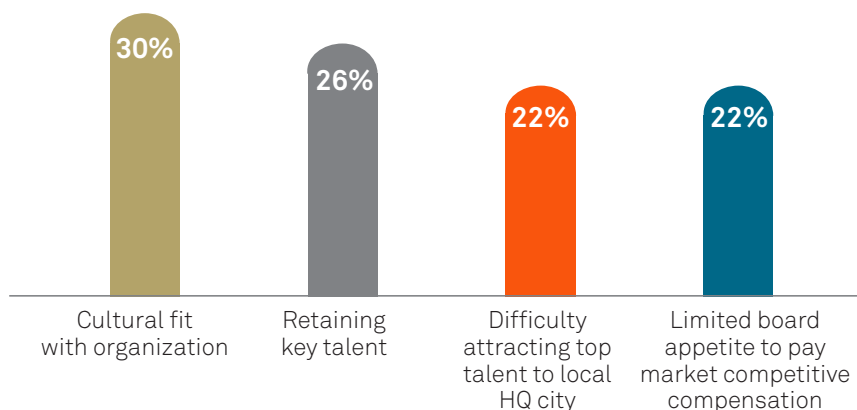
There are a range of obstacles standing in the way of recruiting the necessary talent. It is not simply that the supply of suitably skilled and experienced candidates for many roles is limited, though organizations are often searching for talent.

In addition, 30% of asset owners cite “cultural fit” as a recruitment problem, while 22% say attracting the top talent to their physical location can be a hinderance. The same percentage note that their boards are unwilling to compete through remuneration and reward.

Moreover, in such a competitive marketplace, keeping staff appears to be as difficult as hiring them in the first place.

More than quarter of asset owners (26%) point to the difficulty of retaining their key talent.

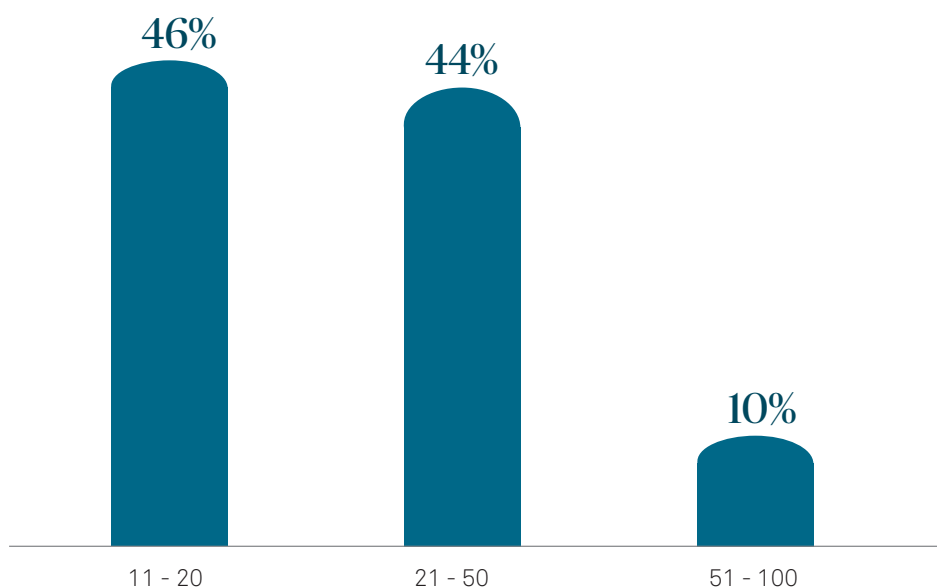
What is the top challenge you face to recruiting and retaining in-house expertise? Select One.



As data science in investment management grows as a field, specialist expertise is increasing in demand and cost. Securing staff with data management expertise or broader technology skills may be especially challenging, given the pace of innovation in the asset management sector. While it is likely that many asset owners will want to strengthen their in-house technology teams, their ability to do so may prove to be constrained in a relatively shallow and competitive marketplace.

Currently, almost half of respondents (46%) employ 11-20 members of staff in data or technology roles related to investment functions. However, many asset owners have already recruited significantly larger teams: 44% have 21-50 members of staff in these roles, and 10% have even greater numbers.

How many members of staff in your organization work directly on data or technology related to investment functions? Select One.

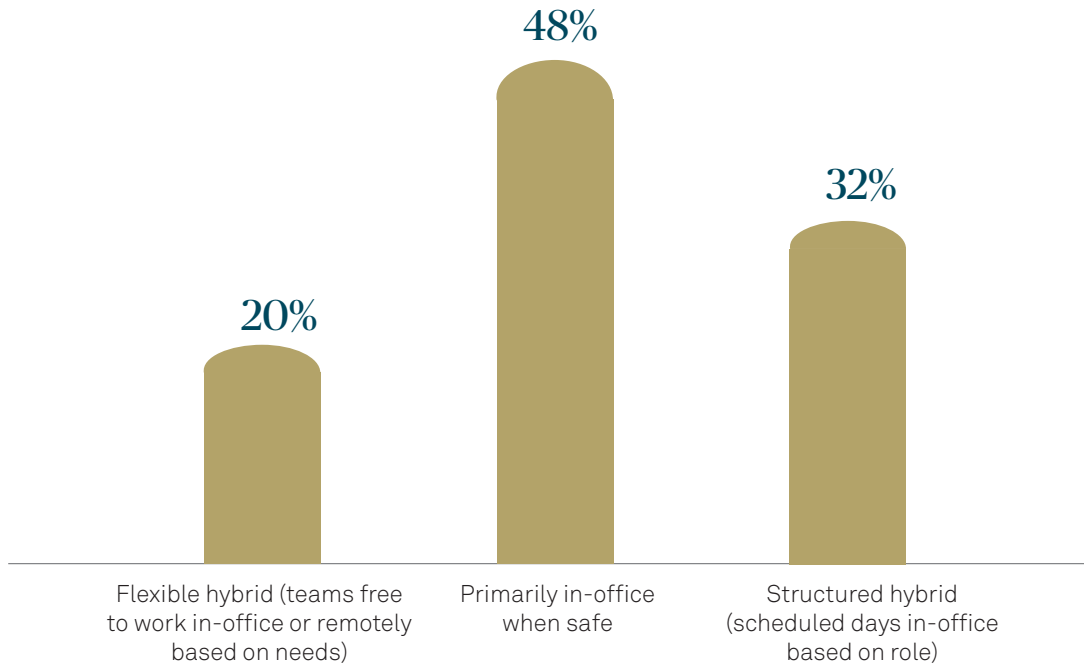


One strategy for improving recruitment and retention may be to offer more flexible working practices. Indeed, it appears many asset owners are already adjusting to the new reality.

More than half (52%) plan to offer a blend of remote and in-office working even after health authorities deem that it is safe, from a Covid-19 perspective, for everyone to return to the office. The 48% not planning to go down this route may find themselves at a competitive disadvantage in this regard.

This is not to insinuate that asset owners should acquiesce to a state of unfettered laissez-faire. Just under a third of respondents (32%) plan to formalise their arrangements — for example, by asking staff to come to the office on specific days. This could enable them to secure the benefits of physical proximity — greater scope for collaboration, learning and social interaction, for example — while retaining some flexibility for staff.

What are your organization's plans in terms of balancing remote work with returning to offices? Select One.



Still, hybrid working does bring additional challenges. For now, most respondents say remote working practices have not prompted them to review their outsourcing plans, though this may change as new arrangements become entrenched.

Among those asset owners that have begun reviewing outsourcing in the context of remote working, 50% cite the importance of ensuring the resilience of their technology and managing cyber risk. The need to focus on operational resilience has been a priority for 38% of respondents.

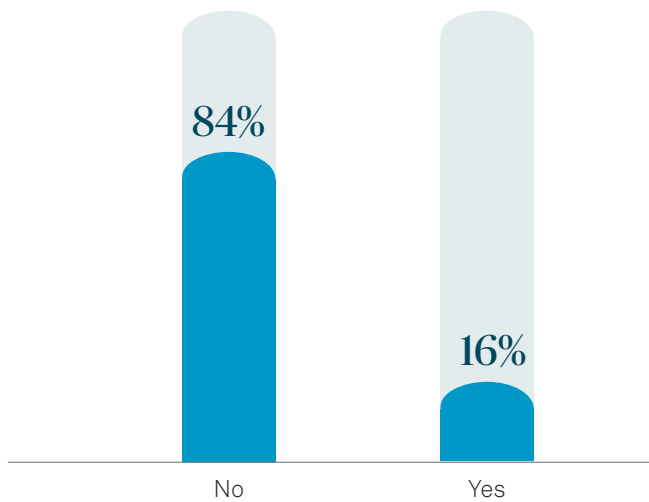
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Pension and asset management organizations cite significant concern about collaboration, culture, and connection as leaders contemplate remote, flexible and in-office models. Some see the physical office as central to the collaboration that drives value, while others are seeking ways to retain culture and employees' sense of belonging in a remote or hybrid workforce.”

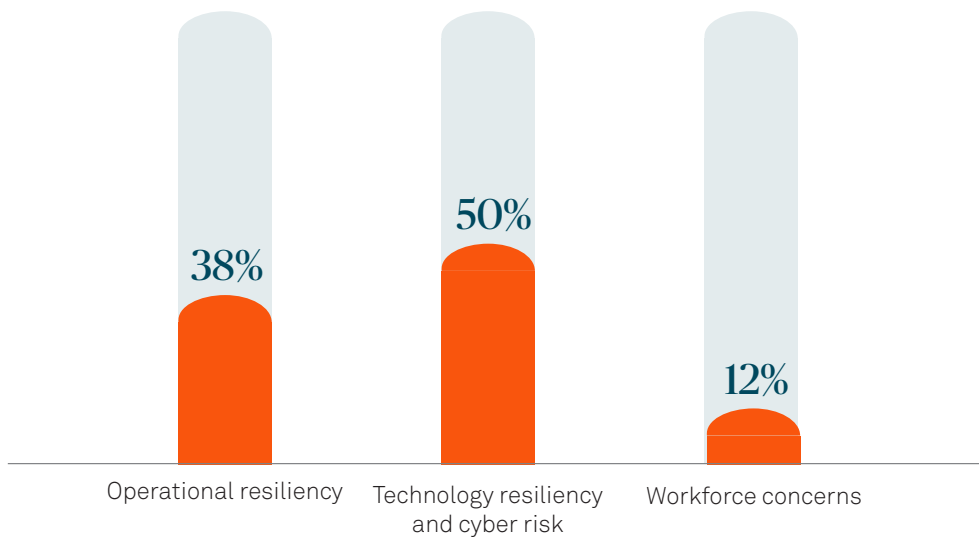
Alistair Almeida
Segment Lead
Asset Owners



A) Has the adoption of remote working prompted your organization to review its outsourcing plan? Select one.



B) If 'Yes', what was the most important consideration behind your decision? Select one.



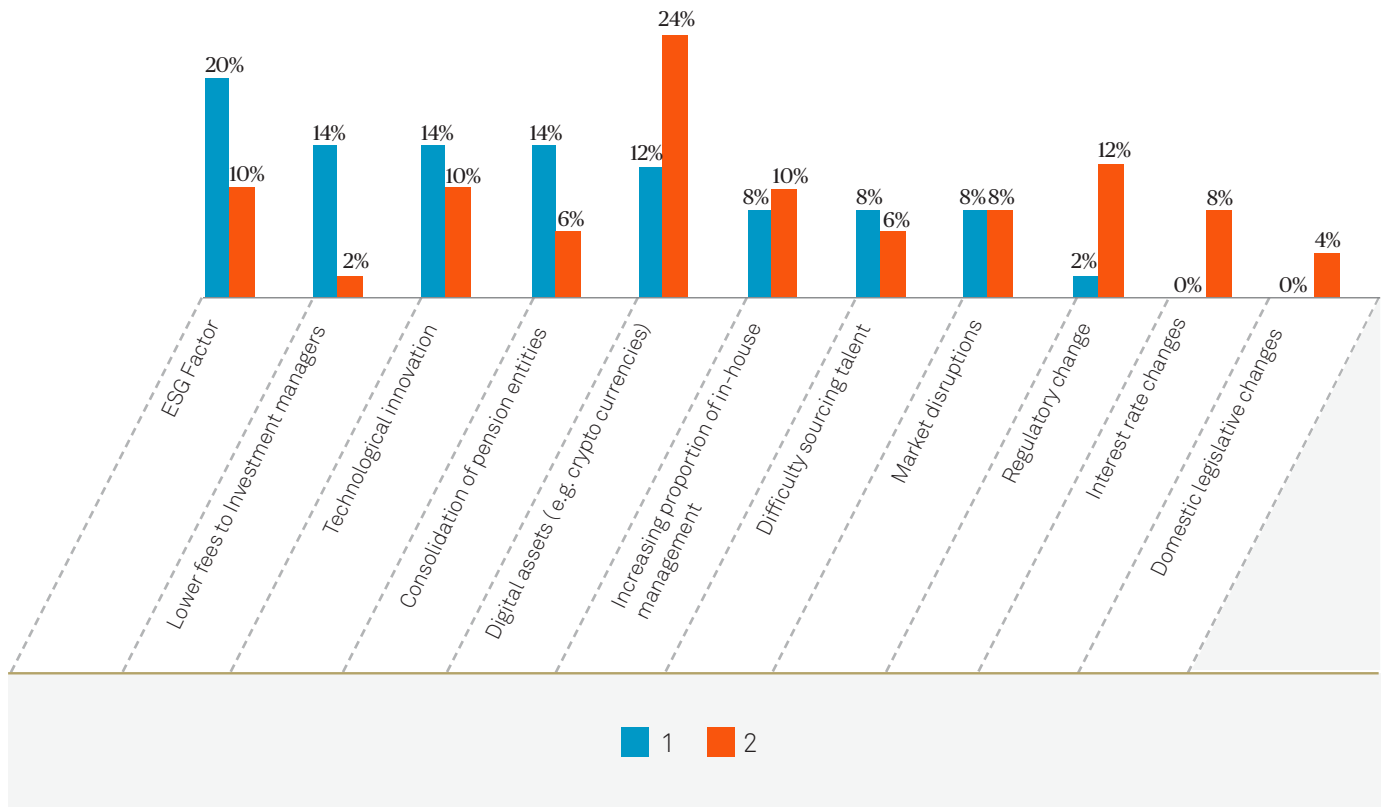
Meeting the ESG Challenge

Canadian asset owners see a broad range of significant trends impacting their marketplace over the next three years, but one in particular stands out — 20% of respondents think the rise of the ESG agenda will be the single most important theme they will have to deal with, well ahead of any other issue.

That reflects the growing demands of a broad range of stakeholders, from employees to plan members, as well as policymakers and special interest groups — and not just relating to the environment and climate change. Social issues have also become more important, and the link to good governance is increasingly clear.

Nevertheless, asset owners point to the importance of taking a measured and strategic approach to ESG, rather than rushing in. “Before we move ahead with ESG strategies for our investments, implementing good practices internally is essential,” says the CEO of a government entity. “We must lead by example.”

What will be the most significant trends in the Canadian pension fund investing space over the next three years? Select top two and rank 1-2, where 1 = most important.



Many asset owners have taken significant strides. Well over three-quarters (84%) have already introduced an ESG policy framework to govern the decisions made by their asset management team, while 74% are focused on strategic work to incorporate ESG issues into internal processes and policies.

Equally, many investors are proactively investing in ESG activities, moving on from simply being careful to avoid certain areas. Only 20% of asset owners now manage assets by screening out specific sectors — but 68% have begun investing for impact.

ESG is increasingly incorporated in everyday asset management decisions, says the managing director of a multi-employee pension entity. “Our ongoing investment strategy does incorporate strict rules,” the executive explains. “We have set out guidelines to explore the ESG-friendliness of potential targets.”

The managing director of an endowment goes further, underlining the opportunities to be found in the ESG space. “We are clear about ‘greenium’ opportunities,” the managing director says. “Earlier, there was some scepticism because many of the opportunities were unknown. Now, we are emphasizing impact investing.”

Many institutional investors are at a tipping point as the value proposition on ESG continues to rapidly change and develop. As more organizations consider how to incorporate ESG into their everyday processes, they will still be faced with challenges in determining which sources of ESG best align with their investment approach. Therefore, looking ahead, we anticipate continued and evolving discussions with our clients on their approaches.



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Before we move ahead with ESG strategies for our investments, implementing good practices internally is essential. We must lead by example.”

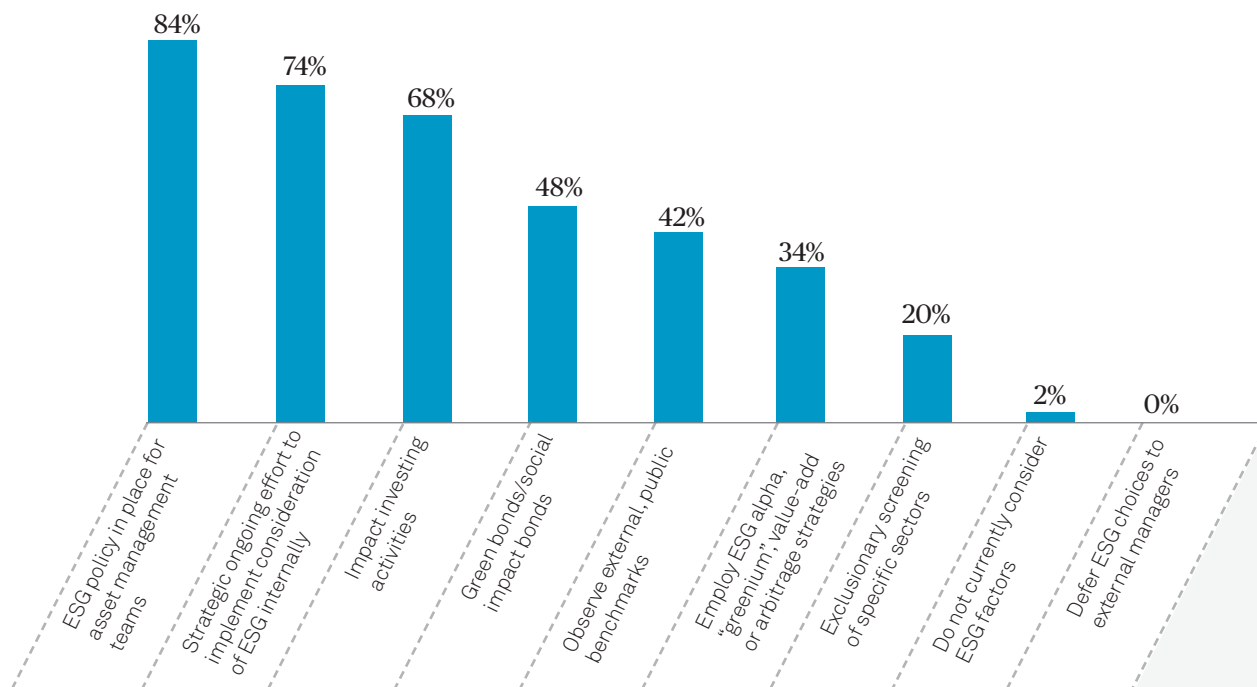
Chief Executive Officer, Government Entity

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ESG is increasingly incorporated in everyday asset management decisions. Our ongoing investment strategy does incorporate strict rules. We have set out guidelines to explore the ESG-friendliness of potential targets.”

Managing Director, Multi-Employer Pension Entity

To what extent does your organization incorporate ESG factors into investment processes? Select all that apply.

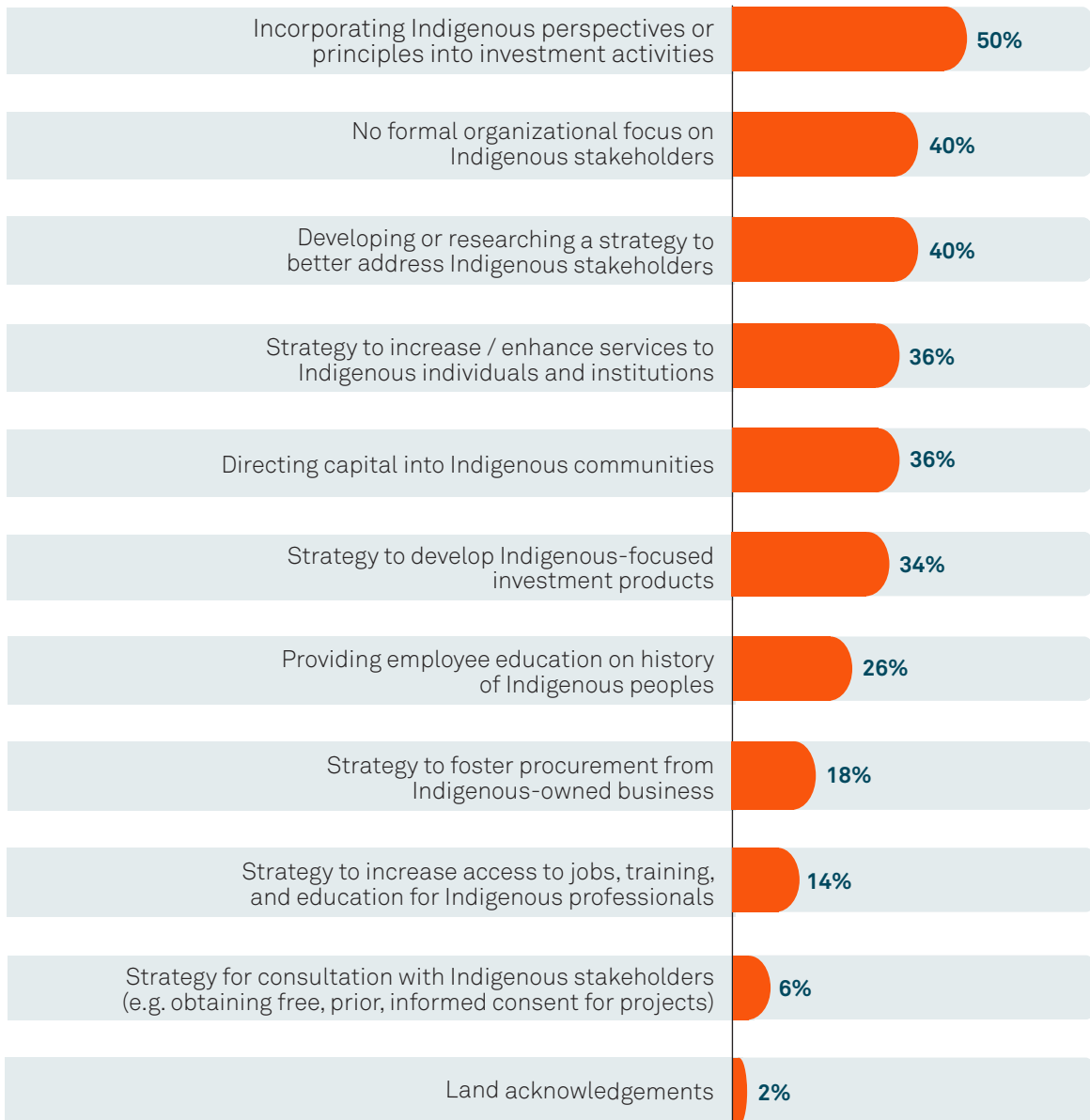


One developing area of the ESG debate — and specific to Canada — is the approach that asset owners are taking to reconciliation with the country’s Indigenous population, an issue with which society continues to grapple.

Many respondents believe they can play an important role in this regard. “Procurement from indigenous businesses will help move the organization in the right direction,” says the CEO of a multi-employer pension scheme. “We are also increasing services and education to indigenous people.” The head of investments at an endowment adds: “We are researching new strategies to address indigenous stakeholders to ensure our future strategies are aligned with the indigenous economy goals.”

In many cases, work is at an early stage. Half of respondents (50%) say they are now incorporating indigenous perspectives in their investment activities, but tangible moves are less common. For example, only 36% of asset owners are directing capital towards indigenous communities, and just 34% are developing investment products aimed at this part of the community. Work is underway across the industry, but 40% of respondents concede they have no formal organizational focus on indigenous stakeholders.

What steps is your organization taking with respect to Truth and Reconciliation / Indigenous economic reconciliation in Canada? Select all that apply.





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We are clear about ‘greenium’ opportunities. Earlier, there was some scepticism because many of the opportunities were unknown. Now, we are emphasizing impact investing.”

Managing Director - Endowments

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Chief Executive Officer,
Multi-Employer Pension Scheme

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Head of Investments - Endowment

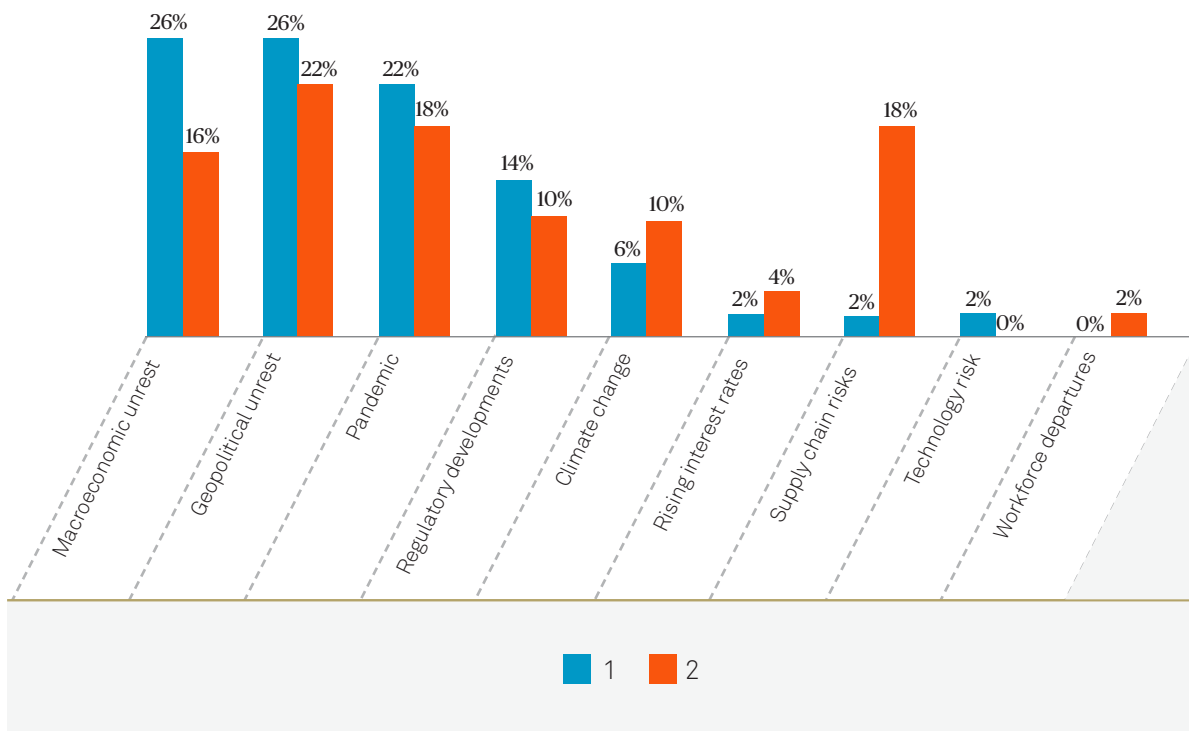
Opportunities and Risks

Against a precarious market backdrop, Canadian asset owners are anxious to balance risk and opportunity. For example, more than a third of respondents to this research (36%) see the growth of digital assets, including cryptocurrencies, as an important trend for the industry to deal with over the next three years, bringing both potential for value creation and the risk of volatility.

More broadly, the risk register is very full. Big-picture problems loom large, ranging from the tightening of monetary policy to tackle inflation to war in Ukraine. Almost half of respondents (48%) are concerned about the risks posed by geopolitical unrest, and 42% are nervous about macroeconomic difficulties. Supply chain disruption is also a concern for many asset owners.

“Macroeconomic unrest will not be resolved quickly,” warns the managing director of a multi-employer pension scheme. “Things will take years to get back on track. Geopolitical pressures are also altering the confidence with which we take decisions.”

What are the most significant risks facing your organization over the next 12 months?
 Select top two and rank 1-2, where 1 = biggest risk.



Still, in the longer term, Canadian asset owners have plenty of reasons to be optimistic. Diversification is now accelerating, says the head of investments at one endowment: “The use of new asset classes will become more familiar for Canadian pension funds”. Another respondent points to the increasing use of technology: “Compared to the rest of the world, we will be well ahead of the technology trends,” says the chief investment officer of a multi-employer.

There is also hope that Canadian asset owners can take the lead on ESG. “Compared to the rest of the world, Canadian pensions funds will become more ESG friendly,” says the managing director of a government entity. “They have already started opting for investments that clearly engage in a more modern way.”

A man in a blue shirt and glasses is standing in a server room, looking at a laptop. The room is filled with server racks and glowing blue and green lights, creating a futuristic and high-tech atmosphere.

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Compared to the rest of the world, we will be well ahead of the technology trends.”

Chief Investment Officer
Multi-Employer

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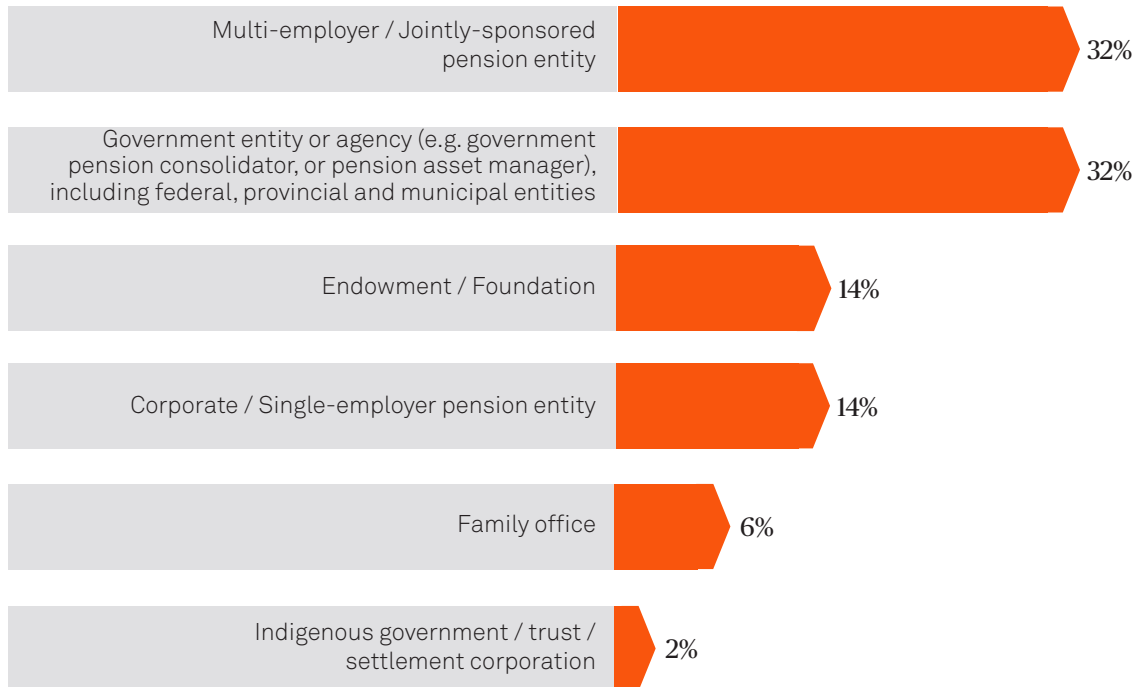
Managing Director
Multi-Employer Pension Scheme

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Canadian asset owners have plenty of reasons to be optimistic. Diversification is now accelerating”

Head of Investments - Endowments

Which of the following best describes your organization's primary structure? Select one.



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Compared to the rest of the world, Canadian pensions funds will become more ESG friendly. They have already started opting for investments that clearly engage in a more modern way.”

Managing Director
Government Entity

Considerations and questions for asset owners

1. What will you do in-house and what will you outsource?

- a. What is the likely cost profile of your operational model?
- b. Does your plan have the necessary level of capability and sophistication, and how does this compare to a lift-out outsourcing of investment operations?
- c. What are your needs and requirements from a vendor for areas you choose to outsource?

2. How will your plan achieve efficiency and scale while providing a user-friendly experience for plan members across payments and member information — including across complex multi-employer entities and underlying plans?

3. How is your plan engaging with alternatives, and how will your approaches evolve over time?

- a. What talent do you need in-house and what talent can you source from suppliers and partners?
- b. What technology and tools do you need to achieve the necessary transparency, governance and investment data outcomes?

4. How will you keep pace with rising stakeholder expectations?

- a. Boards, Trustees and other stakeholders are demanding enhancements to reporting, oversight. How is your plan supporting the necessary compliance with the regulatory environment of today and the year ahead?

Watch for future research from CIBC Mellon as we explore topics in collaboration with Canadian asset owners, asset managers, insurance companies and global investors into Canada. To discuss our research efforts, learn more about the themes we are exploring, contact your CIBC Mellon relationship manager.

Methodology & Respondent Profile

In Q1 2022, CIBC Mellon's research provider interviewed senior executives from 50 asset owners headquartered in Canada to assess key market and management trends. Of the asset owners surveyed, 19 have AUM of between C\$700m-C\$5bn; 16 have AUM between C\$5bn-C\$20bn; and 15 have AUM over C\$20bn.

Just under a third of respondents (30%) say that their main operations and leadership are in Toronto. Almost two-thirds of respondents work for a multi-employer or jointly sponsored pension entity (32%) or a government entity or agency (also 32%).

To register for advance copies of forthcoming research or to learn more about some of the performance, accounting and data solutions available through our global enterprise, contact your relationship manager or email [**alistair.almeida@cibcmellon.com**](mailto:alistair.almeida@cibcmellon.com)

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