CIBC Mellon Canadian Asset Owner Study 2023 - 2024

RISING PRESSURE

CIBC MELLON

"CIBC Mellon's ongoing research explores how asset owners are adapting to a confluence of obstacles. Specifically, looking at the recalibration of investment strategies, how plans are embracing technology, the optimization of their operating models, the shifting talent landscape, and what consolidation strategies are being followed to better prepare Canada's pension industry and its stakeholders for the long road ahead."

RICHARD ANTON
Chief Client Officer
CIBC Mellon

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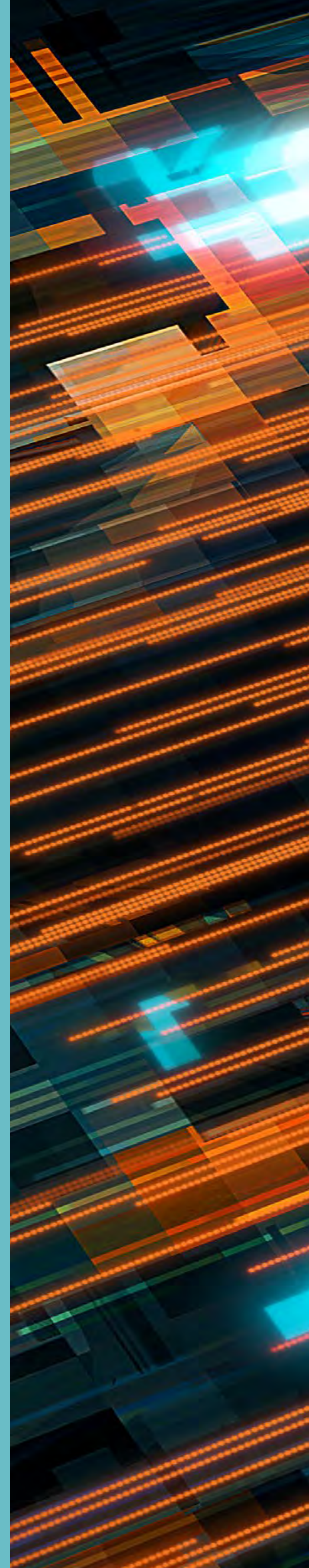


FOREWORD

WHAT'S WEIGHING ON CANADA'S PENSION INDUSTRY

Pension plans in Canada are contending with an abundance of challenges. While many plans have been building for some time already, others have been more proactive and altered course over the past two years. Managing longevity risk and ensuring that pension assets can support retirees over a longer time horizon is an evergreen challenge.

More recently, macroeconomic and market uncertainty, changing interest rate environment and the need to actively reallocate assets have made for significant short-term pressures. High interest rates eroded long-dated bond portfolios. Trustees have been forced to reappraise their strategic asset allocations while still securing steady income streams to support their members' plans.

Besides these macro concerns, societal trends continue to weigh heavily on asset owners. The shifting expectation that pension funds factor environmental, social, and governance (ESG) considerations into their investment decisions, while simultaneously maximizing returns, is among the thorniest challenges the industry is grappling with today — particularly as leading Canadian asset owners diverge from their US counterparts, leaning into the inclusion of nonfinancial factors even as some U.S. asset owners and managers pull back. For some, "Green-hushing" is the best way to square the circle of delivering results without dashing expectations or taking on the wrong kinds of liabilities: incorporating ESG into internal risk and return calculations while staying silent externally. For others whose stakeholders demand action, ESG investments come with public and member relations opportunities and risks alongside new valuation factors from an investment lens.

CIBC Mellon's ongoing research explores how asset owners are adapting to this confluence of obstacles, specifically looking at the recalibration of investment strategies, how plans are embracing technology, the optimization of their operating models, the shifting talent landscape, and what consolidation strategies are being followed to better prepare Canada's pension industry and its stakeholders for the long road ahead.

Perhaps the only guarantee pension plans can count on is increased scrutiny from their stakeholders, not only members and sponsors, but increasingly by the media and other institutions. The global pension industry recognizes Canada as a global centre of innovation as some jurisdictions consider opportunities to incorporate lessons learned and best practices of the "Canadian model" of shared-risk independently-governed pension organizations. Today in Canada, even the independence of pension plans is in focus, from campaigns to promote more domestic investment in support of nation-building at home, to media scrutiny of pension compensation arrangements designed to retain high performance investment teams.

Nonetheless, innovation abounds, with some pension plans seeking to gain scale through acquisition of new members and other plans, even as non-pension players from the insurance and asset management industry compete to offer pension-like structures.

The challenge is to stay focused on long-term obligations amid the intensity of current market needs in a world driven by rapidly shifting risks across geopolitics, technology, macroeconomics, demographics and more. Canadian plans have a tried and true record of outperformance envied globally: how and whether course corrections are needed to protect, enhance and navigate these challenges will remain at the forefront for pension managers, Trustees, stakeholders and, of course, their asset servicing providers.

We thank our clients for their ongoing input — especially those who helped shape this research during the preliminary release period with comments, suggestions and examples from direct experience. We welcome feedback, including opportunities for shared discussion in individual meetings. Please reach out to your client manager or contact us via **cibcmellon@cibcmellon.com**

RICHARD ANTON
Chief Client Officer
CIBC Mellon

CYNTHIA SHAW-PEREIRA
Vice President
Asset Owner Segment Head
CIBC Mellon

WHAT'S WEIGHING ON CANADA'S PENSION INDUSTRY

MACRO & INVESTMENT ENVIRONMENT

- Macroeconomic and geopolitical volatility
- Drive to diversify
- Race for alternatives
- Emerging asset classes and industries
- Capturing internal sources of yield

A GROWING FOCUS ON TRANSPARENCY

- Public, legislative and regulatory expectations
- Intense stakeholder scrutiny
- Rising reputational risk
- Changing plan member needs

ADDRESSING THE DATA CHALLENGE

- Data as a top priority
- Growing scale and scope
- Unprecedented complexity
- Tackling the challenges of delivery

ESG: IMPERATIVE, BUT AMBIGUOUS

- Rising recognition of ESG
- Diverse integration strategies
- Practical challenges
- Consensus remains elusive
- Significant divergence across regions

ARTIFICIAL INTELLIGENCE: OPPORTUNITIES AND RISKS

- Generative AI and natural language processing
- New potential for member, client and employee experiences
- Increasing cyberthreats
- Governance and regulatory implications

NEW SKILLS AND SCARCE TALENT

- New needs and skills
- Competition across industries
- Recruiting and engagement challenges
- Organizational culture as a value driver

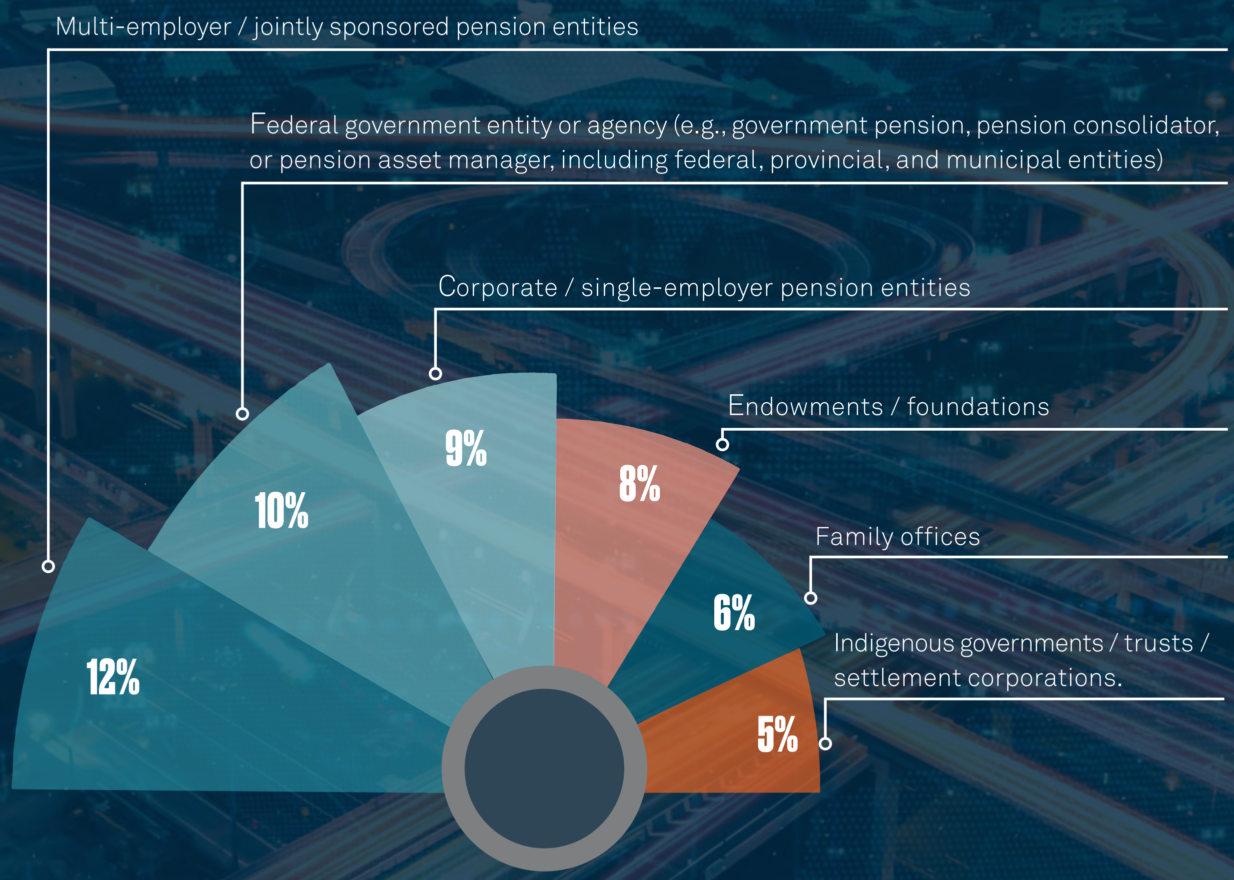
A MESSAGE FROM OUR CEO:

NOW IS THE TIME

> "We have the global scale, the resources, and access to differentiating technology to help our clients."

MAL CULLEN
Chief Executive Officer
CIBC Mellon

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



METHODOLOGY

In Q2 2023, CIBC Mellon's research provider interviewed senior executives, including CEOs, CIO and managing directors, from 50 asset owners headquartered in Canada to assess key trends, challenges and the future outlook.

The types of asset owners surveyed included multi-employer / jointly sponsored pension entities; federal government entity or agency (e.g., government pension, pension consolidator, or pension asset manager, including federal, provincial, and municipal entities), corporate / single-employer pension entities; endowments / foundations; family offices; and Indigenous governments / trusts / settlement corporations.

Among the asset owners surveyed, 19 had assets under management (AUM) between CAD$700m-CAD$5bn; 16 had AUM of between CAD$5bn-CAD$20bn; and 15 had AUM exceeding CAD$20bn.

Subsequent to this, CIBC Mellon's team presented the research to various pension industry stakeholders in small group formats, shared these findings at selected industry events, and reviewed the research individually with asset owner clients to welcome their comments regarding the findings.

CIBC Mellon clients interested in being part of pre-release focus groups or receiving advance copies of future research, please contact your client manager.

AMONG THE ASSET OWNERS SURVEYED:

19
had assets under management (AUM) between:
CAD$700M - CAD$5BN

16
had assets under management (AUM) between:
CAD$5BN - CAD$20BN

15
had assets under management (AUM) exceeding:
CAD$20BN

CIBC Mellon Canadian Asset Owner Study 2023 - 2024

RISING PRESSURE

RECALIBRATING INVESTMENTS AND MODELS

THE ALLOCATION GAME: ALTERNATIVES EXPOSURE ON THE RISE

RECALIBRATING INVESTMENTS AND MODELS

THE ALLOCATION GAME: ALTERNATIVES EXPOSURE ON THE RISE

Aggressive rate hikes by the Bank of Canada and central banks around the world to tame inflation upended the investment landscape in 2023. The scale and speed of this shift motivated many pension funds to take action — for many, this included shifting their allocation strategies. The biggest winners in this portfolio overhaul were alternatives / private capital asset classes and, to a lesser extent, fixed income. 2024 saw the market shift again as central banks dropped rates.

The recent appetite for greater alternatives exposure is part of a long-term trend that has served pensions well over the past decade, with private markets having delivered uncorrelated alpha and diversification benefits. Naturally, floating-rate fixed income products are also performing well through the recent monetary environment, whereas longer-term bonds saw large price declines.

The largest share of respondents (70%) say they have increased their investment allocation to alternative / private assets classes. More than half (58%) say they have upped their fixed income exposure. It should be noted, however, that pensions are still seeing value in public equity markets, with 56% having raised their allocations.

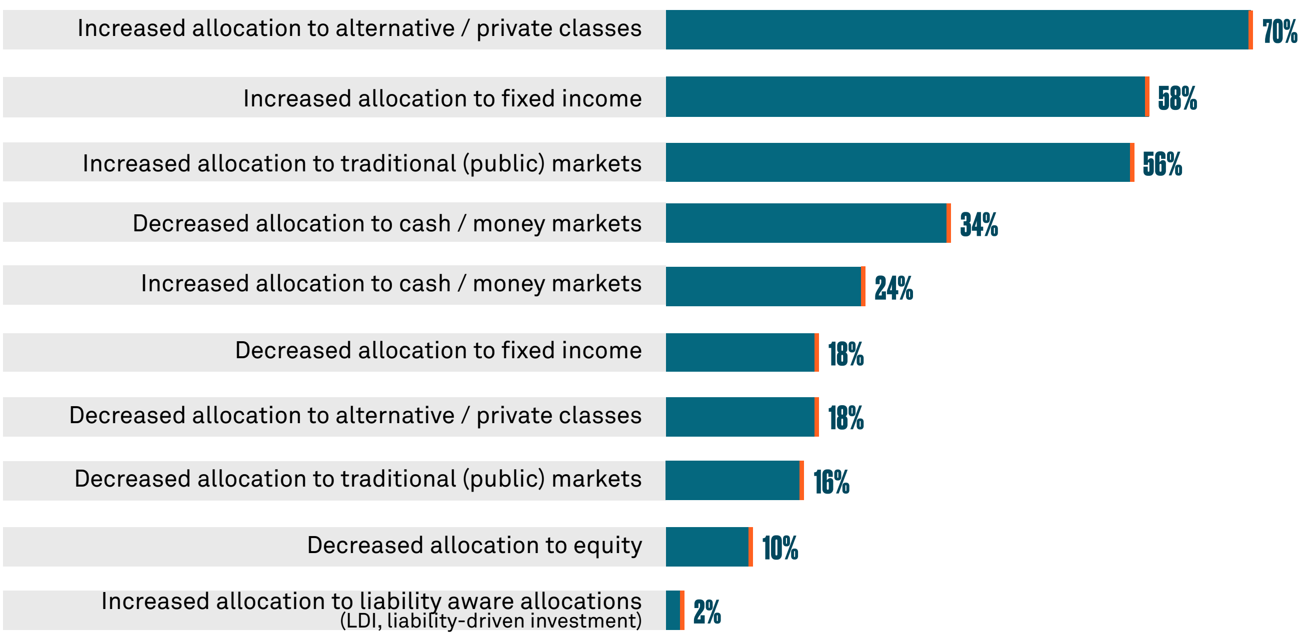
According to BNY's Global Risk Solutions fund-level tracking service, the median return of the BNY Canadian Asset Strategy View universe was 1.14% for the second quarter of 2024. The one-year median return as of June 30, 2024, was 10.10%, while the median 10-year annualized return was 6.63%.[1]

[1] https://tinyurl.com/5n8ds5pe

> With traditional markets facing increased volatility, pension funds are recalibrating their investment models, shifting focus to alternative assets. As private equity and fixed income strategies gain momentum, alternative exposures are becoming a key player in driving long-term returns"

DAVID COHEN
Vice President - Manager,
Investment Analytics
Consulting at BNY
Performance & Risk Analytics

How has your organization changed its investment allocations in response to market volatility? Select all that apply.



CANADIAN PENSIONS OPT FOR MORE DIRECT INVESTMENTS

Echoing the tilt towards alternatives, the most significant change that pensions have made to their investment models all pertain to accessing private assets. This falls in line with earlier findings in our research, but there is emerging evidence that pensions are leaning more towards taking their fortunes into their own hands.

Almost all respondents now employ co-investments (90%) and almost as many pursue direct investments and / or joint ventures (84%). Even so, investing in LP funds remains a popular approach, cited by 84%, and these are by no means mutually exclusive. Indeed, investing as an LP in private funds can optimize access to direct and co-invest deal flows. Asked to highlight their single most favored investment model, the largest subset of respondents, 28%, identify direct investments and joint ventures as their primary approach.

Illustrating the direction of travel, directs were also the most popular response in the previous edition of this study, when 24% of pensions favored this model, while investing indirectly via LP funds has become less of a primary focus. In the prior edition of this research ("Taking Control" **www.cibcmellon.com/takingcontrol**), 32% prioritized investing in funds as their single most preferred model, which fell to 20% last year and now to 18%.

Explore previous research into alternatives and Canada's pension industry:

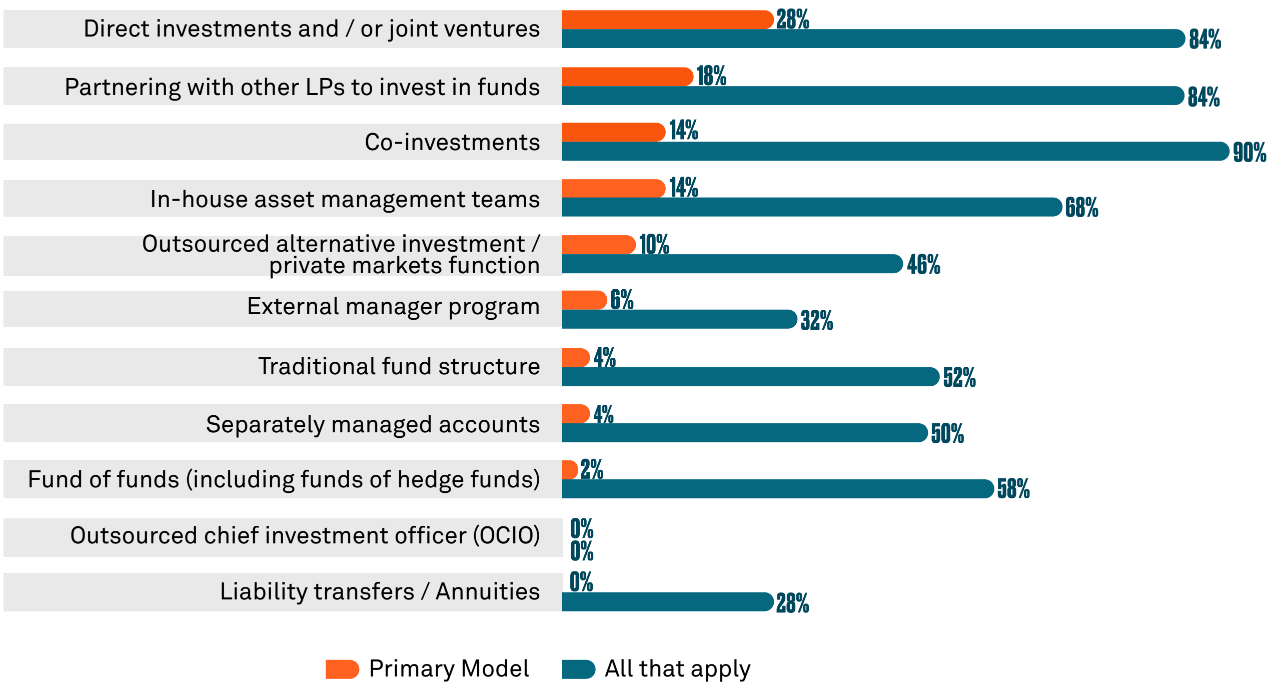
2019: **www.cibcmellon.com/raceforassets**

2020-2021: **www.cibcmellon.com/insearchofnewvalue**

2022-2023: **www.cibcmellon.com/takingcontrol**

Which investment models does your firm employ?

Select one primary model and all others that apply.



ALLOCATION WEIGHTINGS TO REMAIN LARGELY UNCHANGED OVER THE MEDIUM TERM

Canadian pensions may be investing more in alternatives such as private equity (PE) in the short term, but over a longer-term horizon minimal change is expected to their portfolio allocation weightings. Equities are and will remain the core asset class over the next 3-5 years, moving down marginally from a current allocation of 23% to 22% over this period. Allocations to fixed income also fell by one percentage point to 11% today, from 12%, potentially signalling investors' anticipation of future interest rate cuts — or simply reflecting a challenging investment environment where expectations that rates would eventually fall caused shorter duration instruments to generate higher yields.

Meanwhile alternatives, including real estate, infrastructure, and private credit, are expected to see single percentage point gains across the board, while PE — the most popular private capital strategy globally — is forecast to remain steady at 12%.

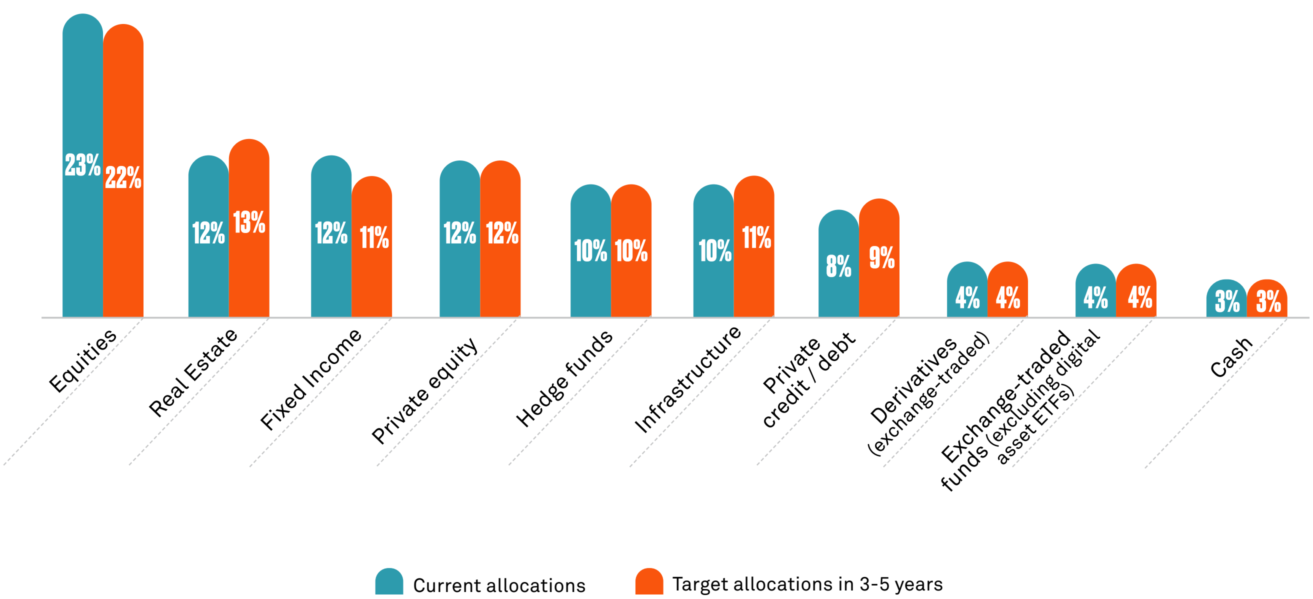
The most striking shift in current allocations from the prior year is that many pensions moved away from cash. Asset owners reported cash allocations of just 3% compared with 11.4% among 2022's cohort, a clear indication that Canadian pension funds are actively pursuing returns, having pivoted from defense to offense.

“We’ve changed our allocation strategy. There is more emphasis on alternative asset classes. Investing in fixed income has been reduced because the growth rate is very low. Significant changes in the allocation strategy will help us increase the returns in the mid-term. A long-term returns strategy with lower yield over time is not ideal at present.”

Chief Investment Officer
Endowment Foundation

How do you expect your level of investment to change in the following asset classes over the next 3-5 years?

For each asset class give current and target allocation where applicable.



> It was time to change our conservative investment strategy and increase our scope in the alternative asset market. We knew that if we didn't make these changes, we would not be as competitive in the coming years."
>
> Chief Operating Officer
> Multi-Employer / Jointly Sponsored Pension Entity

QUESTIONS WORTH ASKING

We recognize that asset owners face an array of opportunities and challenges, and that each organization's choices must be driven according to its own specific situation, circumstances and resources. We encourage our asset owners clients and their stakeholders to consider our research findings in their specific contexts.

1. ASSET ALLOCATION AND DIVERSIFICATION

- How are you approaching asset allocation in the current market environment, particularly in the context of shifting interest rates and inflation concerns?
- What strategies are you using to diversify your portfolio across asset classes to mitigate risk?

2. LONG-TERM VS. SHORT-TERM OBJECTIVES

- How do you balance long-term investment objectives with the need to respond to short-term market fluctuations?
- Are there any adjustments you're making to your strategy to better align with long-term goals, especially in light of economic uncertainties?

3. RISK MANAGEMENT

- What are your primary methods for managing risk in your investment portfolio?
- How do you assess and integrate emerging risks, such as geopolitical tensions or climate change, into your investment strategy?

4. SUSTAINABILITY AND ESG CONSIDERATIONS

- How has the integration of ESG (Environmental, Social, Governance) factors into your investment strategy evolved in recent years?
- Are there specific sustainability, diversity, Indigenous reconciliation or other frameworks you include or consider when evaluating potential investments?

5. PRIVATE MARKETS AND ALTERNATIVES

- How are you incorporating private market investments or alternative assets into your overall strategy?
- What role do alternative investments, such as private equity, real estate, or infrastructure, play in your portfolio diversification?

6. TECHNOLOGY AND INNOVATION

- How are advancements in technology and data analytics influencing your investment decision-making process?
- Are there specific innovations, such as AI or machine learning, that you've adopted to enhance portfolio management?

QUESTIONS WORTH ASKING... (Continued)

7. IMPACT OF REGULATION / LEGISLATION

- How are legislative changes impacting your investment strategy?
- Are you adjusting your strategies to comply with upcoming regulatory changes, particularly those affecting ESG or reporting requirements?
- What risks does your organization face related to government intervention in your investment or organizational activities?

8. LIQUIDITY MANAGEMENT

- How do you manage liquidity within your portfolio, particularly in light of potential market volatility?
- Are there specific strategies or instruments you use to ensure sufficient liquidity while pursuing long-term investment goals?

9. GLOBAL INVESTMENT OPPORTUNITIES

- How are you positioning your portfolio to take advantage of global investment opportunities, particularly in emerging markets?
- What factors are most critical when evaluating international investments in your strategy?

10. ENGAGEMENT AND STEWARDSHIP

- How do you engage with the companies or assets you invest in to influence positive outcomes or improve performance?
- What role does active stewardship play in your overall investment strategy?

> The emphasis on long-term investment strategies will be the key differentiator. Canadian pension funds have optimized their portfolios by focusing on long-term plans, dealing with the inflation and interest rate challenges in a systematic manner. In the coming years too, these strategies will pay off for Canadian pension funds.

ESG

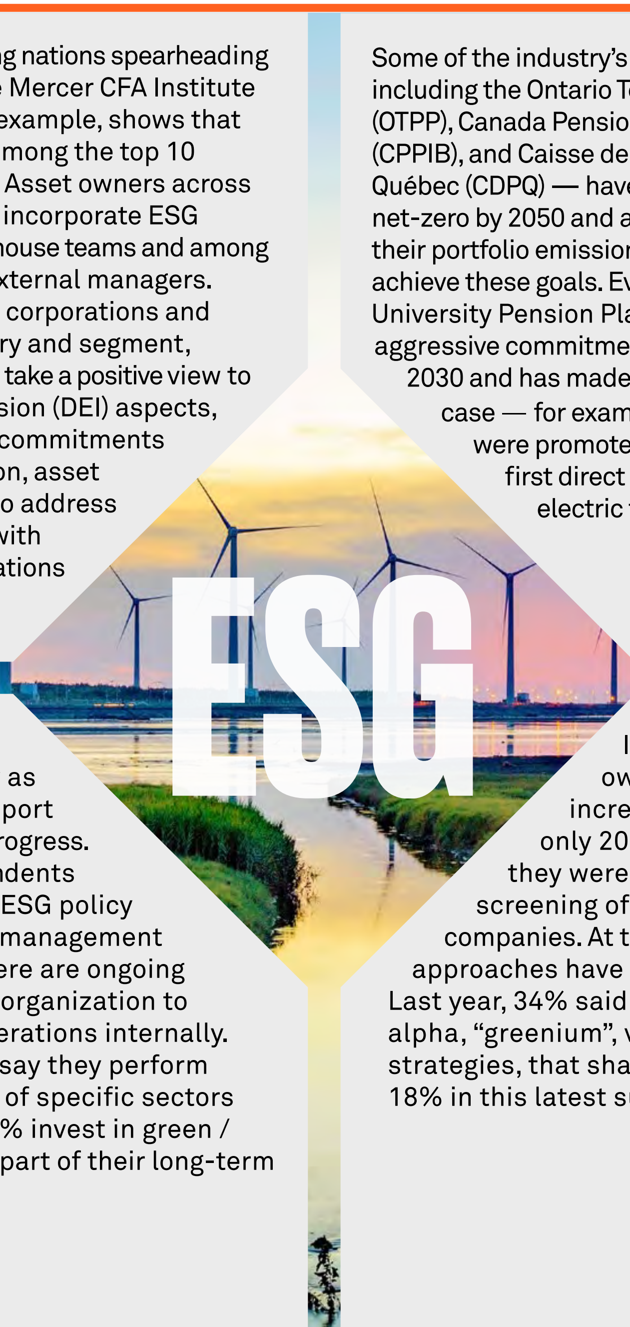
ASSET OWNERS LOOK INWARD (BUT UPWARD?)

ESG:
ASSET OWNERS LOOK INWARD (BUT UPWARD?)

CANADIAN PENSIONS EMBED ESG, SOME MORE QUIETLY THAN OTHERS

Canada is among the leading nations spearheading responsible investing. The Mercer CFA Institute Global Pension Index, for example, shows that Canadian pensions rank among the top 10 globally for sustainability. Asset owners across the country are moving to incorporate ESG considerations for their in-house teams and among their engagements with external managers. Consistent with Canadian corporations and institutions across industry and segment, Canadian asset owners also take a positive view to diversity, equity and inclusion (DEI) aspects, with many making public commitments and statements. In addition, asset owners have also moved to address Truth and Reconciliation with Indigenous peoples and nations across Canada.

Some of the industry's biggest organizations — including the Ontario Teachers' Pension Plan (OTPP), Canada Pension Plan Investment Board (CPPIB), and Caisse de dépôt et placement du Québec (CDPQ) — have all pledged to reach net-zero by 2050 and are working towards cutting their portfolio emissions in the immediate term to achieve these goals. Even more aggressive is University Pension Plan Ontario, which set aggressive commitments to move to net zero by 2030 and has made this front and centre in their case — for example, ESG considerations were promoted heavily as UPP made its first direct investment (into a UK-based electric train leasing company).



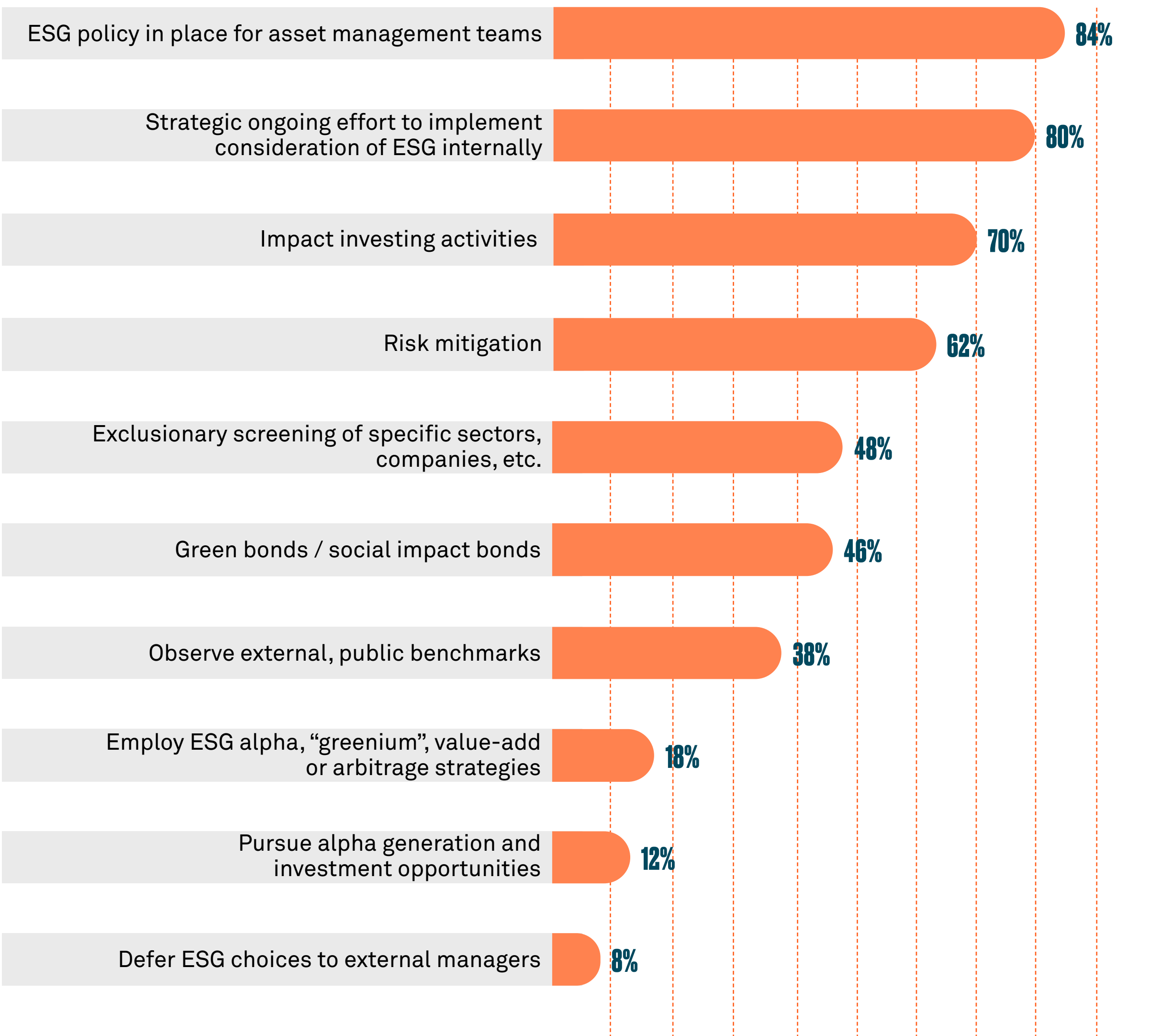
Our latest findings confirm that the industry as a whole continues to report substantial effort and progress. A clear majority of respondents (84%) report having an ESG policy in place for their asset management teams, and 80% say there are ongoing strategic efforts at the organization to implement ESG considerations internally. Almost half (48%) also say they perform exclusionary screening of specific sectors and companies, and 46% invest in green / social impact bonds as part of their long-term ESG programs.

It would seem that asset owners are exercising increasing discretion. In 2022, only 20% of respondents said they were performing exclusionary screening of specific sectors and companies. At the same time, value-centric approaches have become less prominent. Last year, 34% said they were employing ESG alpha, "greenium", value-add or arbitrage strategies, that share having since fallen to 18% in this latest survey.

"As investors operating under long-term investment horizons, we need to be both proactive in the long-term and responsive in the short-term. It's a matter of managing short-term volatility, while building for sustainable and stable value over the long-term. It takes a talented and experienced team, coupled with strong governance, to achieve this effectively. I'm proud that the Canadian pension plans are recognized as among the best in the world at doing so."

AARON BENNETT
Chief Investment Officer
University Pension Plan

To what extent does your organization incorporate environmental, social & governance (ESG) factors into investment processes? Select all that apply.



GREEN HUSHING?

Actions speak louder than words for Canadian pensions, but for many the focus is on internal work rather than public commitments, in particular as this relates to the incorporation of ESG principles into investments activities. Our research shows that a 54% majority are going further than simply maintaining their existing ESG investment strategies and instead continue to increase their focus on these principles internally and with managers, but are refraining from publicizing this ongoing progress.

However, despite a few high profile examples like UPP and Concordia University, most asset owners are taking a decidedly quieter approach to their ESG strategies — just 12% of asset owners are making public commitment, particularly notable given the high levels of conviction among Canadian asset owners with respect to views that ESG and DEI considerations improve — or at least are not a drag on — performance.

Most asset owners reported taking a cautious tack, at least when it comes to public statements. This is consistent with the challenge and uncertainty associated with the time for frameworks and policies to be embedded and yield measurable results. Asset owners are typically focused on very long horizons consistent with their liability timelines.

> “Releasing public statements before we are prepared would invite unnecessary attention to our actions. Already, there are companies making untrue green claims. If we are unable to succeed with our ESG incorporation plans, it might affect our reputation,” as a responsible entity said.

Perhaps asset owners are awaiting greater regulatory clarity, influenced by the clearer regulatory and legislative examples in Europe, as well as international standards such as UN Principles for Responsible Investment, standards released by the Task Force on Climate Disclosures and the Task Force on Nature Related Disclosures. (Global and domestic standards for Canada are also in various stages of review, including the work of the International Sustainability Standards Board (ISSB) (which has a Montreal, Quebec Office). More recently, the Canadian Securities Commission also recently published revised guidance for ESG disclosures **(https://www.osc.ca/en/securities-law/instruments-rules-policies/8/81-334/csa-staff-notice-81-334-revised-esg-related-investment-fund-disclosure).**

There are other potential explanations for asset owners' comparative reticence — it's difficult to walk back public statements, which might offer asset owners more time to solidify choices.

84% of Canadian asset owners in our study have an ESG policy in place for asset management.

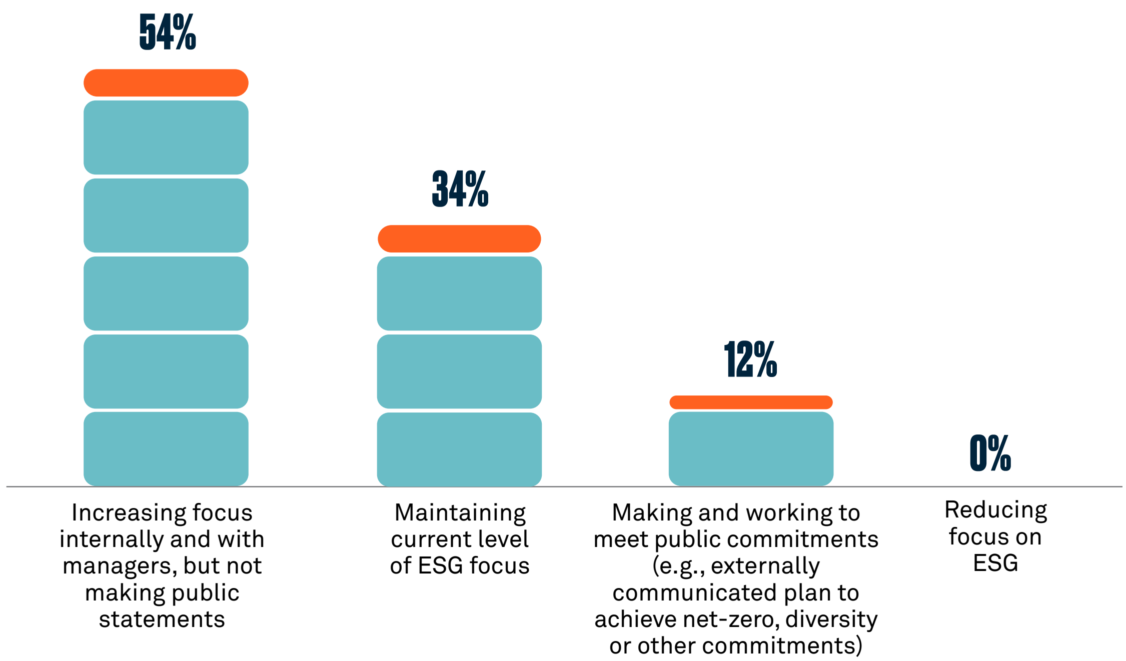
80% are undertaking a strategic ongoing effort to implement considerations of ESG internally.

54% say they are increasing focus internally.

12% publically communicating ESG Commitments.

(https://www.osc.ca/en/securities-law/instruments-rules-policies/8/81-334/csa-staff-notice-81-334-revised-esg-related-investment-fund-disclosure).

What is the overall trajectory of ESG consideration in your organization's investment processes? Select one.



> Increasing focus internally and with managers were essential to increase progress in terms of ESG. We are focusing on different areas including ecosystem sustainability, energy, food, infrastructure, carbon reductions, etc. It's important that we focus on conserving the natural environment. Our investment values should also support this focus."

Chief Financial Officer
Indigenous Government / Trust / Settlement Corporation

"Investing in responsible and sustainable businesses is one of the objectives for the next few years. ***We have increased ESG focus internally,*** training our teams on the best practices and ways to incorporate ESG in the investment selection process. ***However, we've not made public statements.*** It will take time to perfect reviews of non-financial aspects. We do not want to make public statements until we know the possible success rate of impact or ESG investments."

Director of Investments
Large Single-Employer Plan

CIBC Mellon Canadian Asset Owner Study 2023 - 2024

RISING PRESSURE

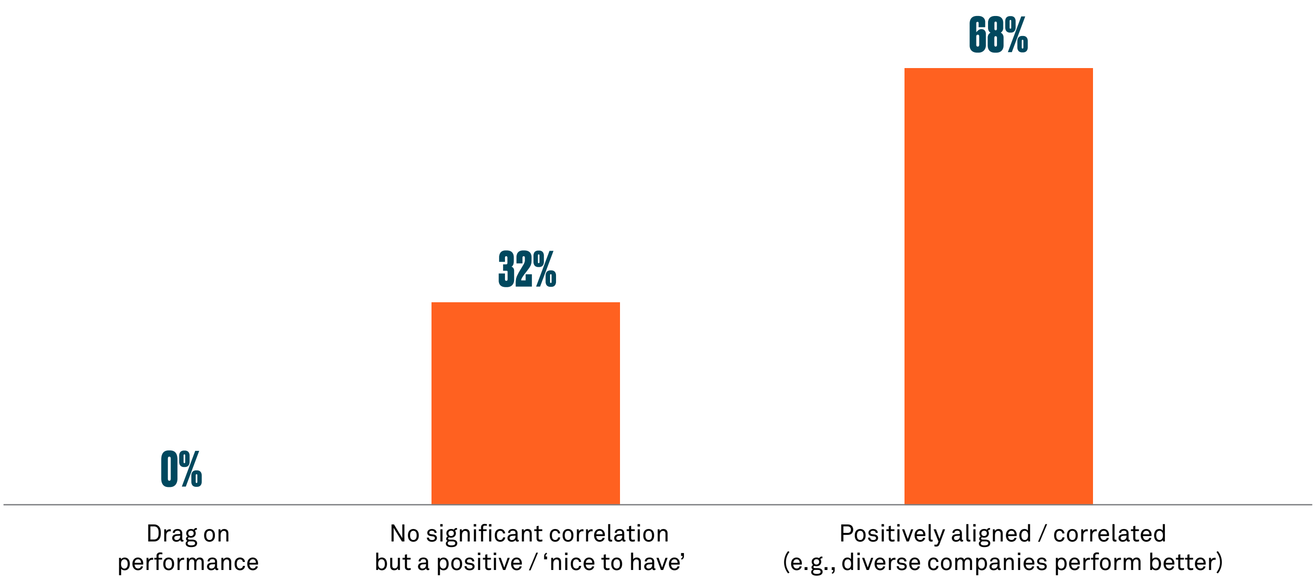
DIVERSITY, EQUITY AND INCLUSION:

MANAGING MANAGERS AND EXPECTATIONS

DIVERSITY, EQUITY AND INCLUSION:
MANAGING MANAGERS AND EXPECTATIONS

A burning question for asset allocators is the extent to which ESG and DEI in particular positively impact investment performance. There are a number of steps in the chain that can be addressed — diversity within pensions' own investment teams, across the asset managers with which they invest, and at the underlying asset level. Across these various tiers, most pensions are on the same page: 68% believe that diverse companies perform better financially.

How do you view the relationship between financial performance and incorporating diversity, equity & inclusion (DEI) matters in your organization's investment processes? Select one.

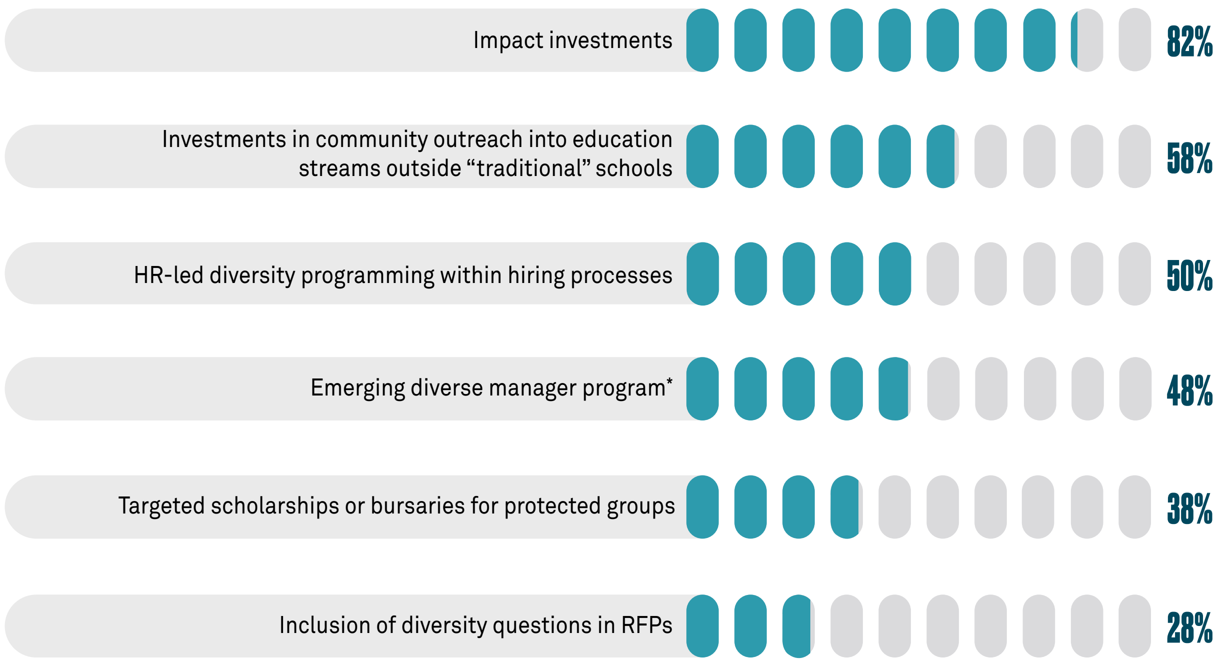


With this in mind, the most common approach is to invest capital into DEI-aligned companies and assets; as much as 82% of respondents say they carry out impact investments to increase diversity in their investment teams, asset managers and in their portfolios.

A less common but still popular approach is to promote diversity within their own ranks. Many asset owners have signed on as public supporters of the organized efforts of groups like the BlackNorth Initiative, the Reconciliation and Responsible Investment Initiative and Pride at Work Canada as part of their commitment to connecting underrepresented talent and fostering an inclusive and equitable work environment. More than a third of Canadian pensions (38%) currently offer targeted scholarships for protected groups, and well over half (58%) are making investments in community outreach education streams outside of "traditional" schools.

Another popular tack is backing upcoming asset managers that are majority-owned by people who are traditionally underserved in the industry, such as women or black, Indigenous and people of color (BIPOC) individuals. Almost half of respondents (48%) say that they operate an emerging manager program that addresses the shortfall in minority representation in the industry and increases their exposure to such teams.

What steps, if any, has your organization taken to increase the diversity of the investment teams and asset managers in its portfolio? Select all that apply.



* investing in funds that are majority-owned by people who are traditionally underserved in the industry, such as women or black, indigenous and people of color.

> More than a third of Canadian pensions (38%) currently offer targeted scholarships for protected groups, and well over half (58%) are making investments in community outreach education streams outside of "traditional" schools.

“We are providing secure and sustainable pensions for a positive future. We are aware of our social responsibility and our investment strategy is also well aligned with these intentions. **Maintaining the current level of ESG focus will help us be more successful with our current strategy. Constant changes to the ESG perception might be somewhat disruptive.”**

Chief Operating Officer
Multi-employer / Jointly-Sponsored
Pension Entity
$5B - $20B AUM

“We think that sound ESG practices will lead to optimum long-term returns. We recognize the importance of ESG in decision-making. We have to move beyond the approach where only financial stats are considered to finalize investment choices. Environmental and social factors affect investment outcomes. We want our investee companies to understand the positive outcomes of ESG incorporation. We are working on these objectives internally.”

Chief Operating Officer
Multi-Employer / Jointly Sponsored
Pension Entity

TRUTH AND RECONCILIATION:

ANSWERING A CALL TO ACTION

TRUTH AND RECONCILIATION:

ANSWERING A CALL TO ACTION

Given their leading position in stewarding capital, Canada's pension funds are well placed to advance ongoing reconciliation efforts and support the growth of the Indigenous economy. The Reconciliation and Responsible Investment Initiative is advancing this by mobilizing domestic institutional investors to develop responsible investment policies and practices that align with reconciliation goals and promote economic inclusion.

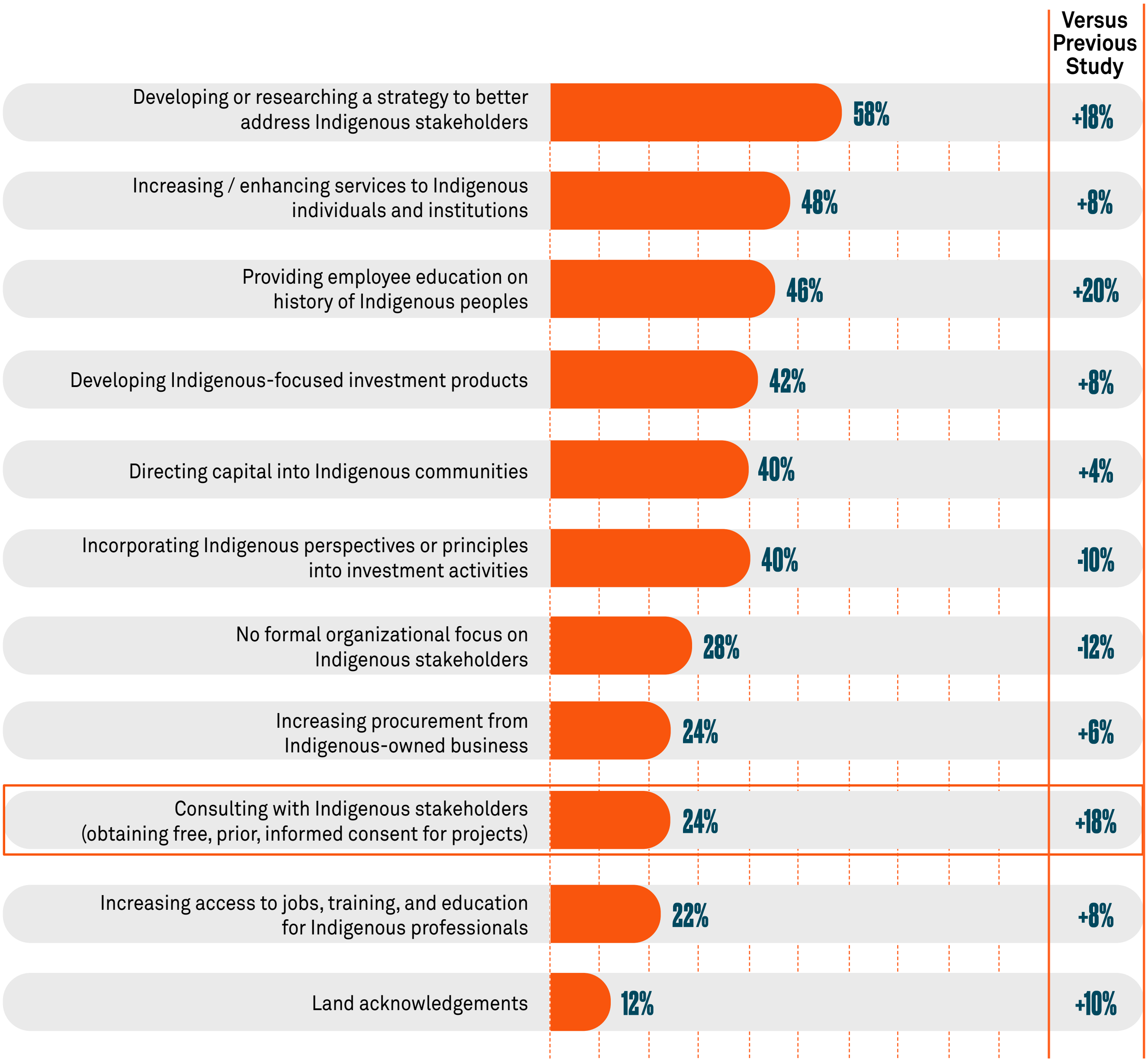
On this front, respondents are largely taking positive action. 58% of respondents say they are developing or researching strategies to better address Indigenous stakeholders, and just under half (48%) are increasing or enhancing services to Indigenous individuals and institutions. Large minorities of respondents are undertaking several other strategies, including providing employee education on the history of Indigenous peoples (46%), and developing investment products that benefit the interests of these marginalized members of Canadian society (42%), among others.

While a significant 28% proportion of respondents say they have no formal organizational focus on Indigenous stakeholders, showing there is further progress to be made by the industry, many more firms are now taking steps with respect to Indigenous economic reconciliation. In our prior study, 40% of respondents said there was no formal organizational focus on this area, and virtually every initiative covered by this report sees progress 12 months on. However, there is one exception: 40% report incorporating Indigenous perspectives or principles into investment activities, down from 50% in the previous edition of this study.

"Over time, the Canadian pension fund investing space will invest more in large-scale development projects. The pension space has been quite conservative with the investment selections. With the emphasis on stronger economic growth, investment selections will change compared to other funds, who will stick to traditional practices."

Chief Financial Officer
Indigenous Government / Trust / Settlement Corporation
$750M - $5B AUM

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



IN CONVERSATION WITH INDIGENOUS CORPORATE LEADERS: PROGRESS REQUIRED

In sharing these findings, a key area of concern emerged around action and consultation. Somehow the percentage of asset owners developing Indigenous focused products and services, incorporating Indigenous principles or even directing capital exceeded the portion of asset owners that are taking action to listen and consult with Indigenous stakeholders regarding actions. That said, while just one fourth of asset owners reported consulting indigenous stakeholders, this still represents significant progress versus 2022, our first year of gathering data, when just 6% of asset owners reported undertaking consultation.

> "There are additional steps we've taken to meet our public commitments. We want to increase awareness related to ESG standards and ways to improve these standards. Companies need to address their net zero goals effectively and it's important to push for benchmark standards."

Chief Operating Officer
Indigenous Government / Trust / Settlement Corporation
$5B - $20B AUM

IN-HOUSE AND / OR OUTSOURCE:

RISING NUANCE

IN-HOUSE AND / OR OUTSOURCE:
RISING NUANCE

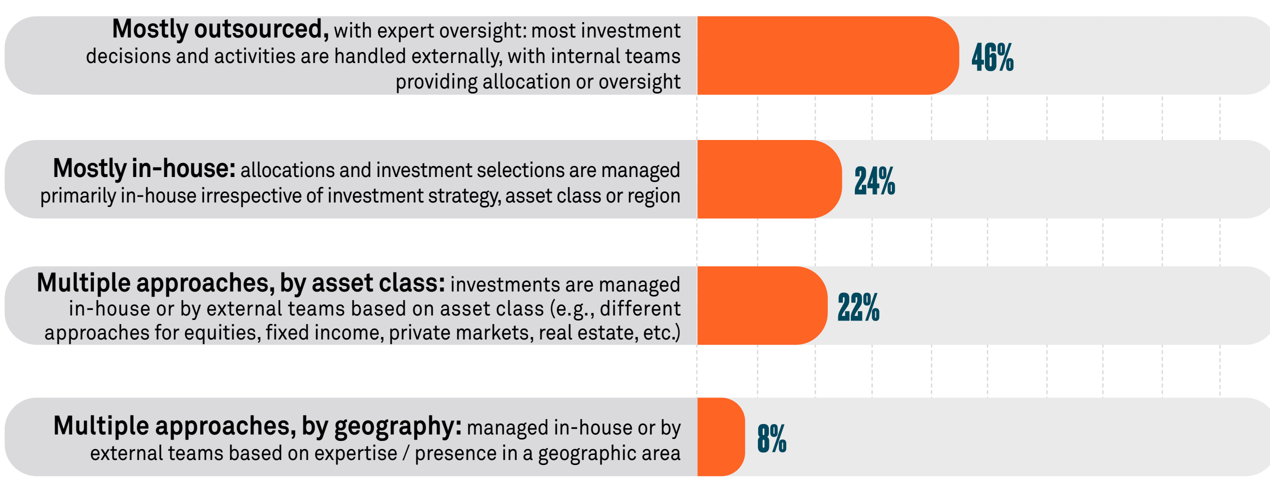
A time-honoured question for pension funds is whether they should keep their investment management under their own roof or outsource it to asset managers. In-house management confers greater flexibility and control over investments and a deeper connection to decision-making processes. However, this approach is not for all.

Smaller pension entities may struggle to build credible in-house teams due to resource constraints. A given plan's unique circumstances — including the availability of asset class expertise, the maturity of the plan, and its risk appetite — have a huge bearing on the optimal model. Of course, it is rarely a binary decision. Plans will generally strike a balance by taking a more nuanced approach rather than going all in on one or the other.

For the most part, Canadian pensions continue to employ a high degree of outsourcing: 46% of respondents describe their investment activities as predominantly entrusted to external managers, while maintaining internal teams for allocation and oversight purposes. Nevertheless, that leaves 54% who either choose to be entirely in-house or use a mix of both that best fits their capabilities and asset / liability profile.

When asked about changes in their investment approach over the past year, 56% of respondents report expanding their relationships with outsourced investment managers. In contrast, only 28% indicate an expansion of their in-house investment teams.

Which of the following service models best describes your firms' investment activities? Select one.



“Knowing and focusing on our core strengths is important, as is finding the right partners. At Plannera, we are stewarding the retirement futures of more than 100,000 plan members who count on us to deliver results, manage risks, and achieve efficiencies. Internally, we invest in areas where we can best deliver for our stakeholders, such as oversight, governance and member services. We partner with outside managers and providers who have capabilities that offer outperformance or scale to help us deliver better overall results.”

GARY HUTCH
Executive Vice President &
Chief Investment Officer
Plannera Pensions & Benefits

A FUNCTION-BY-FUNCTION APPROACH

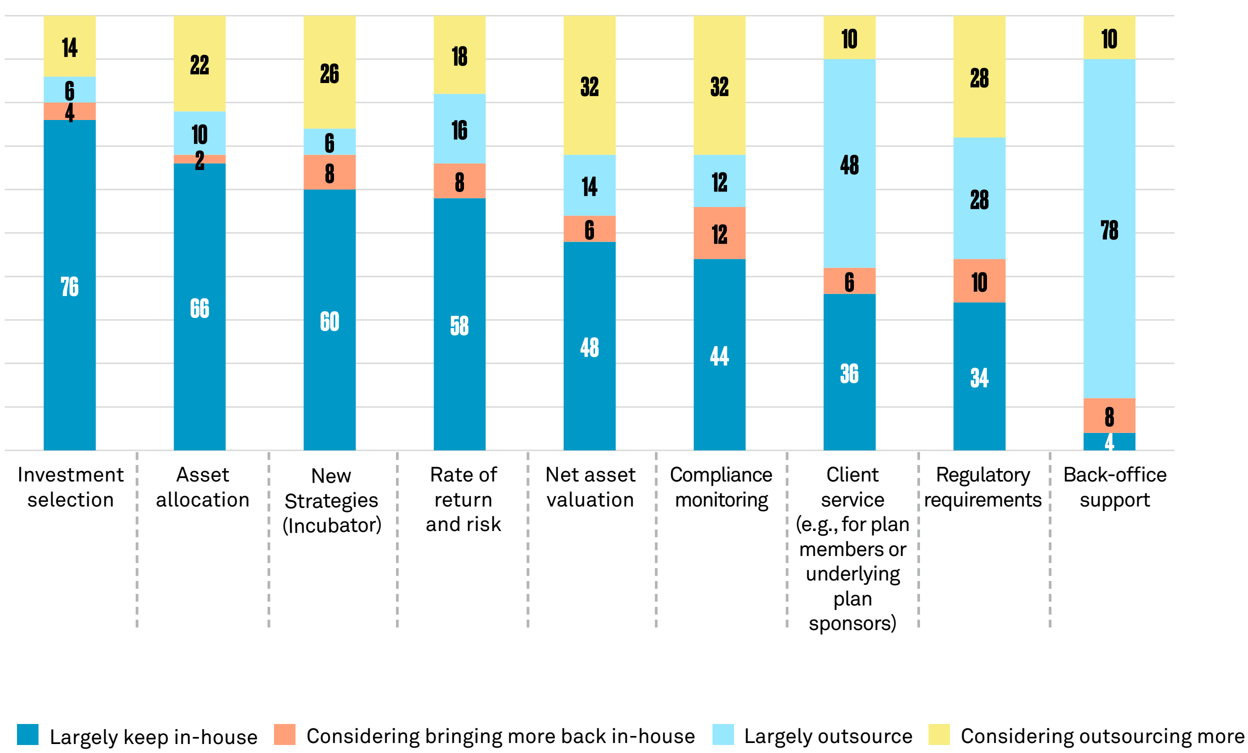
A nuanced picture emerges when delving into the specific investment activities that are either outsourced or managed in-house. Most respondents retain control over critical functions such as investment selection (76%), asset allocation (66%), decisions about new strategies (60%), and rate of return and risk assessment (58%). These are areas where internal expertise is seen as essential to fulfilling fiduciary duties by aligning investment strategies with long-term objectives.

Conversely, back-office support and client servicing are predominantly outsourced, with 78% and 48% of respondents opting for external partners for these functions, respectively. These operations are highly commoditized, require specialized skills and are scalable, making outsourcing a logical choice.

Interestingly, 48% of respondents currently manage net asset valuation and compliance monitoring in-house, but a sizeable minority (32%) are considering outsourcing more of these activities. Likewise, 28% of Canadian pensions currently outsource compliance, and 28% are considering further outsourcing in this area. A potential shift in favor of partnering with service providers for these administrative, resource-intensive tasks appears to be in play.

Which of these functions does your firm employ?

Select one option per function.



Although the largest proportion of pensions outsource the bulk of their investment activities, on average 52.4% of respondents' total portfolio is currently managed in-house, and this share is expected to increase slightly in the next 3-5 years to 53.52%. This is explained by the fact that those who outsource most of their investment activities still have a material proportion of their assets managed internally, as do those taking a hybrid approach dictated by asset class and geography.

This represents the continuation of a trend observed over the course of this research. In 2022, pensions indicated that 51% of their total portfolio was managed in-house.

Many of Canada's largest "Maple 8" pensions, including CPPIB, OTPP, CDPQ and OMERS, to name just a few, have built out direct PE investment platforms that have generated significant portfolio value. This approach also extends well down the spectrum, into the "Maple Middle" multi- and single-employer pension plans — those in this middle group of our study with between $5 billion and $20 billion of AUM. While these may lack the scale and purchasing power of plans ten-fold their size, they likewise recognize and are implementing some of the same capabilities. The high level of sophistication of Canadian plans relative to even much larger plans in other regions of the world is one more aspect that sets the Canadian market apart.

Access to talent and resources permitting, and with consolidation building across the industry, this model could see more aggregate portfolio value managed in-house over time. As explored in this study over years, plans are also identifying opportunities to grow and scale by consolidating assets from other entities.

TRANS-CANADA CAPITAL

Faced with a significant funding deficit, the team at Air Canada Pension Investments not only overcame the shortfall but propelled their plan into a substantial surplus. This transformation led to the creation of Trans-Canada Capital, a robust asset management entity that now manages investments for both the Air Canada pension plan and other prominent institutional investors.

CAAT PENSION

Originally established to serve 24 Ontario colleges, CAAT Pension Plan has innovated to expand access to defined benefit (DB) pensions in workplaces across Canada. Open to employers in all sectors, including the private, non-profit and broader public sectors, the plan has experienced significant, sustainable growth and now serves over 500 employers and 100,000 members. In its ongoing efforts to meet the evolving needs of members and employers, CAAT recently launched the GROWTHplus Investment Account, providing members with additional opportunities to grow their retirement savings through a secure and stable plan.

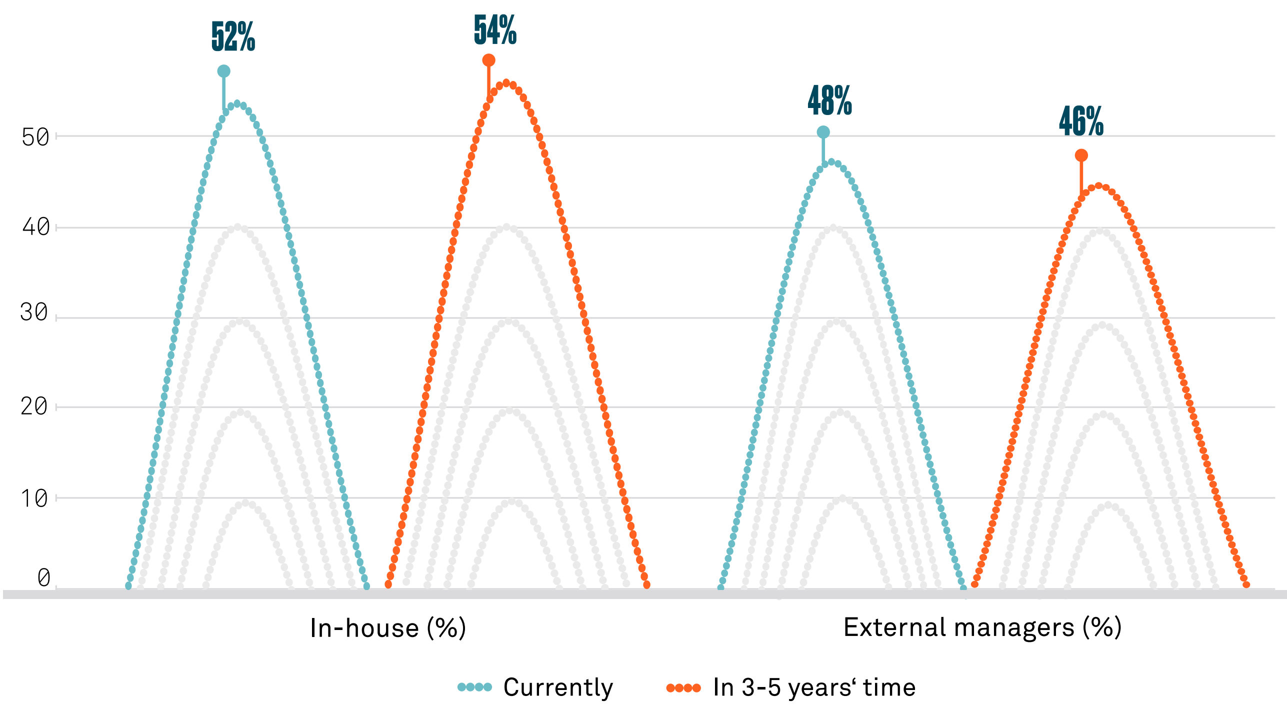
PLANNERA

For over 40 years, Plannera (formerly the Public Employees Benefits Agency) has been an industry leader in Canada. Plannera administers 11 pension plans with over $16 billion in assets under management and serves over 100,000 members. Plannera's pursuit of retirement planning innovation is reflected in its two largest pension plans, including the Municipal Employees' Pension Plan (MEPP) and Canada's largest defined contribution plan, the Public Employees Pension Plan (PEPP). While Plannera partners with world-class fund managers and financial firms, Plannera is always proud to call Saskatchewan home.


689.16
786.2

a) Approximately what percentage of your total portfolio is managed in-house versus managed by an external manager?

b) Approximately what percentage of your total portfolio do you expect will be managed in-house and managed by an external manager in 3 - 5 years time?



"Access to talent and resources permitting, and with consolidation building across the industry, this model could see more aggregate portfolio value managed in-house over time. As explored in CIBC Mellon's primary research over years, plans are also identifying opportunities to grow and scale by consolidating assets from other entities."

JACQUELINE CHANCE
Relationship Executive
CIBC Mellon

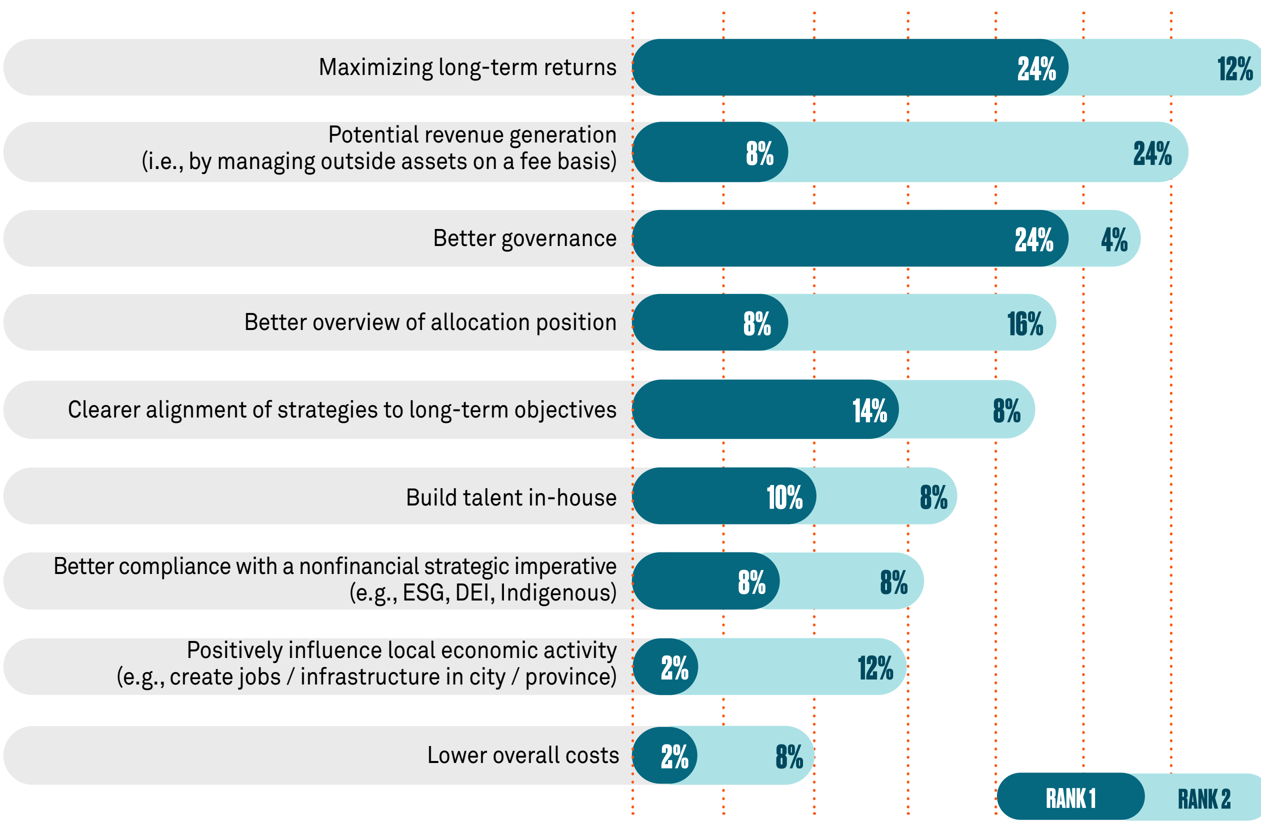
IN-HOUSE ASSET MANAGEMENT: UNEQUIVOCAL AND (SIGNIFICANT) SAVINGS

For many, the primary allure of in-house asset management lies in its potential to maximize long-term returns. This is especially true when viewed through the lens of consolidation, which is gathering momentum in Canada's pensions industry. The received wisdom is that larger pensions are able to achieve higher gross investment returns. This perspective is grounded in the belief that larger funds enjoy better access to highly desirable opportunities, especially in illiquid asset classes that offer market-beating returns. Building these capabilities can help funds to capture these returns.

A substantial 24% of Canadian pensions identify maximizing returns as the single greatest benefit of internal asset management. Achieving better governance is another pivotal driver, also receiving 24% of top-benefit votes, though fewer second-place ballots. Governance is the bedrock upon which successful asset management is built, and in-house teams often have a more intimate knowledge of the fund's inner workings, allowing for stronger oversight. However, achieving better governance garners fewer top-two votes overall (28%) than either maximizing returns (36%) or potential revenue generation (32%, albeit comprised largely of second-place votes.) Remarkably, despite the significant cost savings achieved by many plans (see next section), the achievement of lower overall costs actually came in far behind other benefits.

What are the main benefits of in-house asset management?

Select top two and rank 1-2, where 1 = most beneficial.



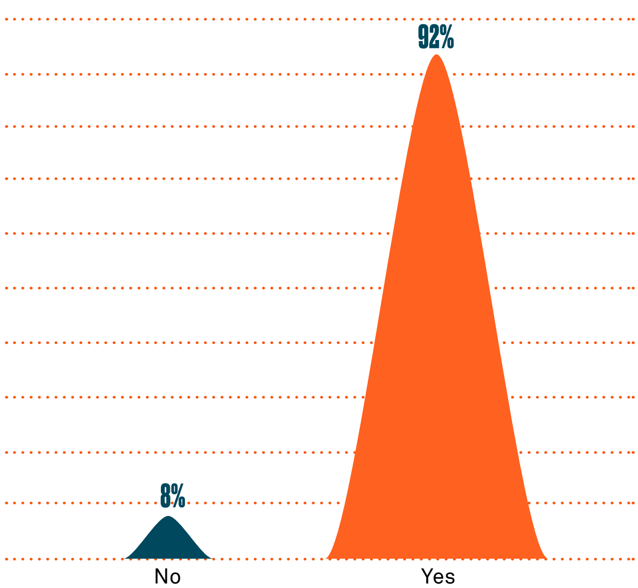
COST SAVINGS: THE BOTTOM LINE

One of the most compelling arguments in favor of in-house asset management is the potential cost benefits. At a time when financial efficiency and prudent resource allocation are paramount, these savings can translate into tangible net gains to pension funds' funded status, especially over a longer time horizon.

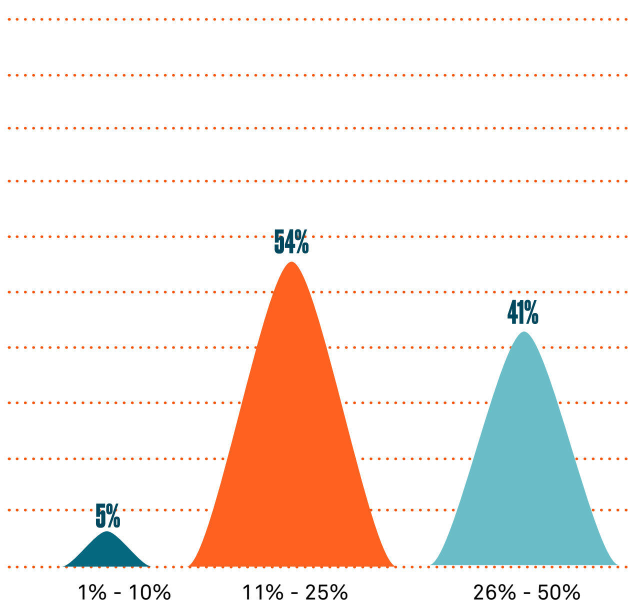
No fewer than 92% of Canadian pensions say they have realized cost savings by bringing some of their asset management in-house. This represents a significant uptick from our previous survey, in which 76% of respondents reported such savings, suggesting that schemes are taking resolute action by evaluating their current models and tweaking them accordingly to achieve better outcomes for their stakeholders.

This is by no means a marginal benefit. Of those who reported cost savings, 54% indicated a range of 11%-25% in savings compared to outsourcing asset management. Even more impressively, 41% enjoyed cost savings in the range of 26%-50%, up from 26% who said the same in 2022.

a) If your organization has taken asset management in-house, have you seen a cost-saving? Select one.



b) If 'Yes', what, approximately, has been the average percentage saving compared with outsourcing asset management? Select one.



IN-HOUSE CHALLENGES: DATA DELUGES

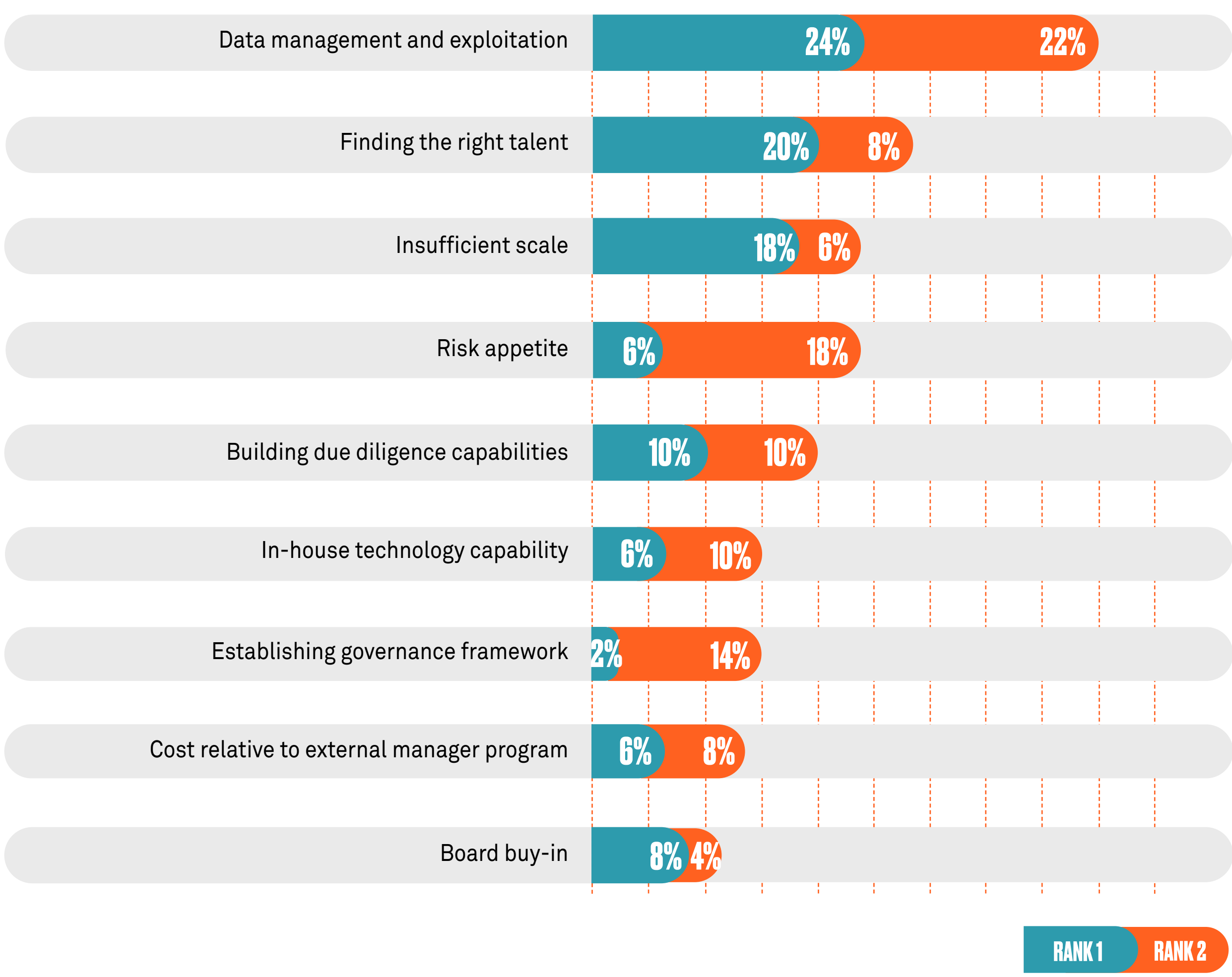
While there are distinct advantages to managing investments internally, this approach presents its fair share of challenges. Data management and exploitation stands out as the foremost hurdle. One of the primary tasks in data management is the efficient handling of vast datasets. Pension funds deal with an abundance of information from various sources, including market data, financial reports, ESG KPIs, and internal records.

Ensuring that this data is not only collected and organized but also extractable and exploitable is a task that requires considerable technical and analytical resources and capabilities. The sheer volume and complexity of this deluge of data can be overwhelming.

This is underscored by the fact that 24% of respondents identify data management as their number-one obstacle in managing assets internally. An additional 22% recognize it as a key secondary hurdle, reinforcing the magnitude of the issue.

What are the main challenges to in-house asset management?

Select top two and rank 1-2, where 1 = most challenging.



“**We plan to manage 70% of the portfolio in-house.** We can assess and ascertain best opportunities to align with our investment objectives overall. **We do not have the same control with external managers.**

There are many functions that will remain outsourced, though. We do not have the right resources to manage these functions in-house.”

Chief Executive Officer
Family Office
$750M - $5B AUM

"The portfolio managed in-house will be around 60%. We will be reducing the use of external managers somewhat over the years. The cost of services has increased in the midst of the inflation pressures. To deal with the cost challenges, we plan to increase in-house operations by a small margin."

Chief Financial Officer
Government Entity or Agency
$750M - $5B AUM

"We will outsource 60% of portfolio management to external managers. We do face concerns incorporating new data management and processing standards within our operations. External managers are better equipped to deal with the changing technology demands and data management compliances."

Chief Investment Officer
Endowment, Foundation

CIBC Mellon Canadian Asset Owner Study 2023 - 2024

RISING PRESSURE

TALENT: INSIDE AND OUT

FROM GREAT RESIGNATION TO THE GREAT RETENTION AS PENSIONS AND ASSET MANAGERS VIE FOR TOP TALENT

TALENT: INSIDE AND OUT

FROM GREAT RESIGNATION TO THE GREAT RETENTION AS PENSIONS AND ASSET MANAGERS VIE FOR TOP TALENT

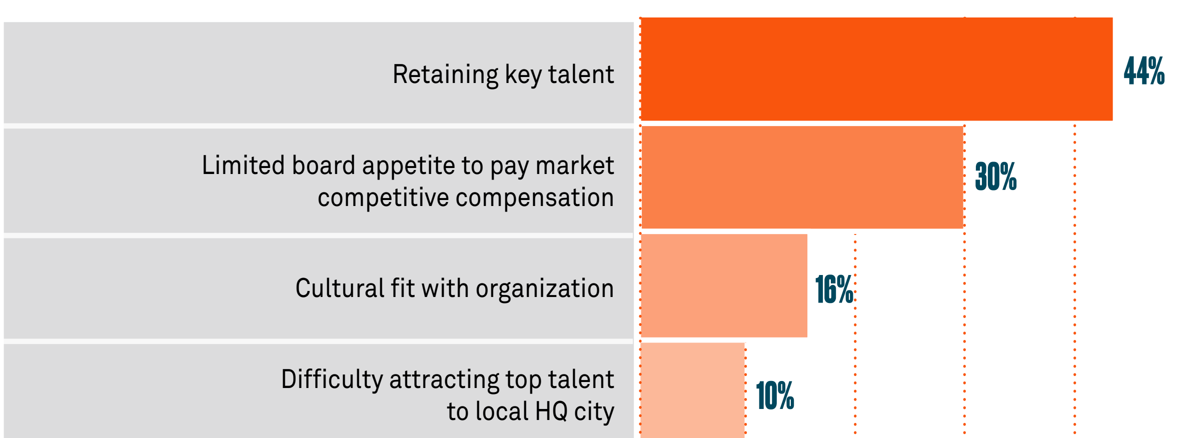
Ensuring investment teams are equipped with the right talent is another major challenge associated with in-housing, drawing 20% of first-choice votes. The ability to attract, nurture and retain skilled professionals who can navigate the intricacies of managing various asset classes and across multiple jurisdictions is a determinant of success.

The key challenge pensions face in developing their internal human resources is not so much in hiring, but in retaining key talent, which is cited by 44% of respondents as their number one challenge. High staff turnover can disrupt investment activities and hinder the development of institutional knowledge, potentially impacting returns.

Unlocking budgets to be able to attract the necessary people into the business, and keep them, is holding many firms back. Indeed, 30% of respondents cite limited board appetite to pay market-competitive compensation as a significant challenge when recruiting or retaining in-house expertise, underscoring the importance of benchmarking compensation packages.

In the previous study, only 26% reported that retaining talent was a primary challenge. This may reflect a more competitive labour market in line with fundamental shifts in financial markets, and therefore asset allocation strategies and demand for expertise. Attention has since turned from culture to compensation over this time, too. Only 16% of this year's respondent group identify 'cultural fit within the organization' as the top challenge of recruiting and retaining in-house expertise, compared with 30% previously.

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



PROVEN TRACK RECORDS AND RISK MANAGEMENT ARE PARAMOUNT

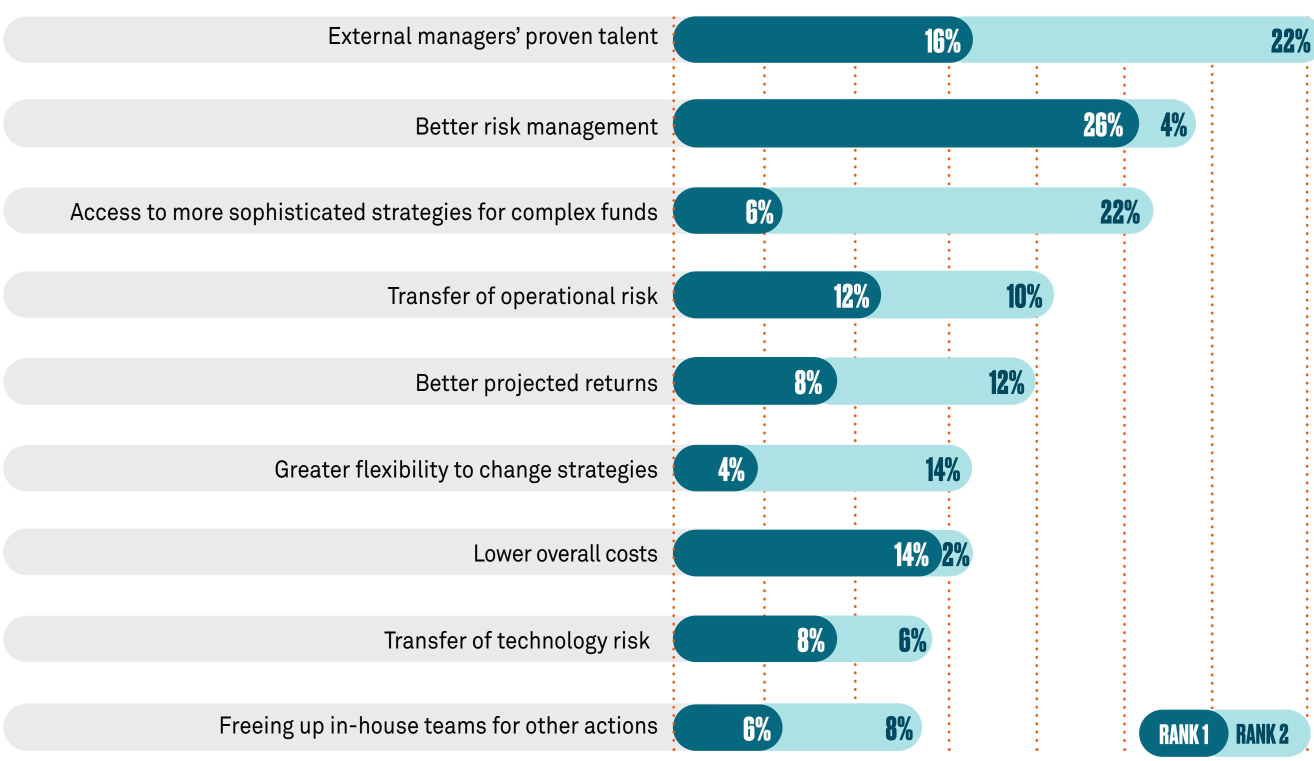
Consistent with their ultimate goal of achieving long-term returns, pension funds choosing to partner with external managers are sharply focused on demonstrable track records and risk management. Alpha is important for pension funds to help them generate higher returns for their members, and 38% identify proven track records as a top-two driver for selecting external asset managers, though only 16% put this above all else.

Effective risk management, meanwhile, is cited by 30% of pensions as among their top-two reasons for outsourcing investment activities, including 26% who put this as their main deciding factor when selecting managers with which to partner. Pensions have varying risk tolerances determined by their specific objectives, the demographics and benefit structures of their members, their funded status, and investment time horizons. Broadly speaking, however, these results demonstrate that Canadian pensions are highly risk-conscious, prioritizing capital preservation over alpha. Chasing returns may result in taking on excessive risk and undermine pensions' fiduciary responsibility to their members to protect their retirement savings.

This is consistent with previous findings from this research, which also showed track records and risk management as the main variables that influence asset management outsourcing decisions. The only notable change over this period is that funds are now slightly more cost-sensitive; 14% of respondents say that the ability to achieve lower overall costs is a motivation for partnering with outside asset managers, up from only 4% previously.

What are the key drivers for using external asset managers over in-house management?

Select top two and rank 1-2, where 1 = most influential.



> "80% of the portfolio will be managed by in-house teams. I feel that we are prepared for this responsibility. Our teams are well-aware of the challenges that we might face getting more processes in-house. This step will need adequate technology and resource planning. However, to maintain a good risk appetite and also avoid any liabilities, in-house management is more favorable for us."

Chief Operating Officer
Corporate / Single-Employer
Pension Entity

"With 44% of firms citing retention as their biggest challenge, attracting and keeping top talent has become a critical factor in navigating today's competitive asset management landscape. As pension funds and asset managers vie for skilled professionals, the ability to offer competitive compensation and align with evolving workplace cultures is key to sustaining long-term success."

IAN FULTON
Relationship Executive
CIBC Mellon

“The total portfolio managed in-house will remain at 80%. I think we’ve outsourced enough functions. We’re considering the outsourcing of some complex business functions. But, we will maintain these numbers. Maintaining a better percentage of the portfolio in-house can help us with cost-reduction and help us focus more on long-term objectives.”

Chief Executive Officer
Government Entity or Agency
$20B AUM+

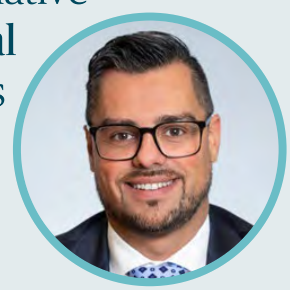
EMBRACING TECHNOLOGY: A PARADIGM SHIFT

Technology is among the strongest driving forces in the pension fund industry, ushering in transformative changes and presenting both opportunities and challenges. The findings from our most recent survey make it abundantly clear that adaptation and adoption is imperative for the industry's continued success.

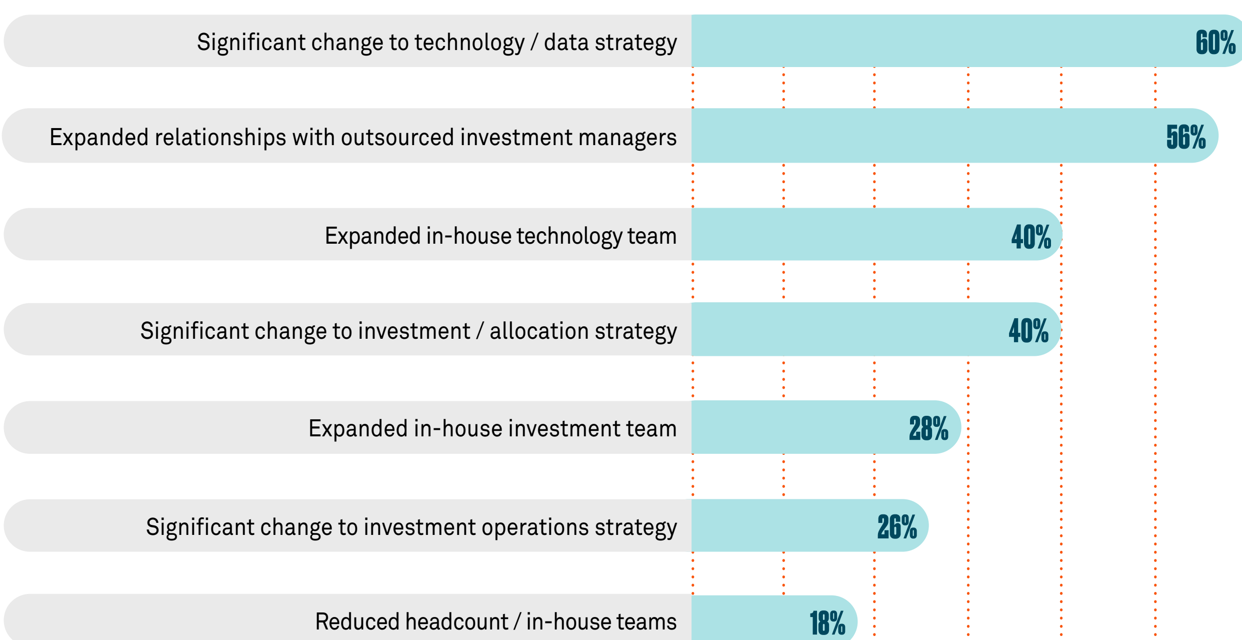
The greatest changes over the last year to respondent organizations' approaches to investing relate predominantly to their application of technology solutions. Specifically, 60% of respondents have made significant changes to their technology / data strategy, recognizing the pivotal role of technology in optimizing investment decisions and member services, and 40% have expanded their in-house technology team, reflecting a commitment to harnessing tech-driven capabilities internally.

> "Technology is among the strongest driving forces in the pension fund industry, ushering in transformative changes – **such as the rise of generative artificial intelligence** – and presenting both opportunities and challenges."

MATHIEU PACHECO
Relationship Executive
CIBC Mellon



How has your organization updated its approach to investing over the last year? Select all that apply.



“As data enrichment emerges as the top challenge for 48% of firms, the need for seamless integration, tracking and consistency across diverse sources has never been more critical. In today’s data-driven world, ensuring information is actionable is key to effective stakeholder reporting. With the growing complexity of data systems and the rise of real-time reporting demands, organizations must prioritize robust solutions that turn raw data into meaningful insights.”

MIKE GARNEAU
Vice President
Relationship Management
CIBC Mellon

CIBC Mellon Canadian Asset Owner Study 2023 - 2024

RISING PRESSURE

MAKING DATA COUNT

MAKING DATA COUNT

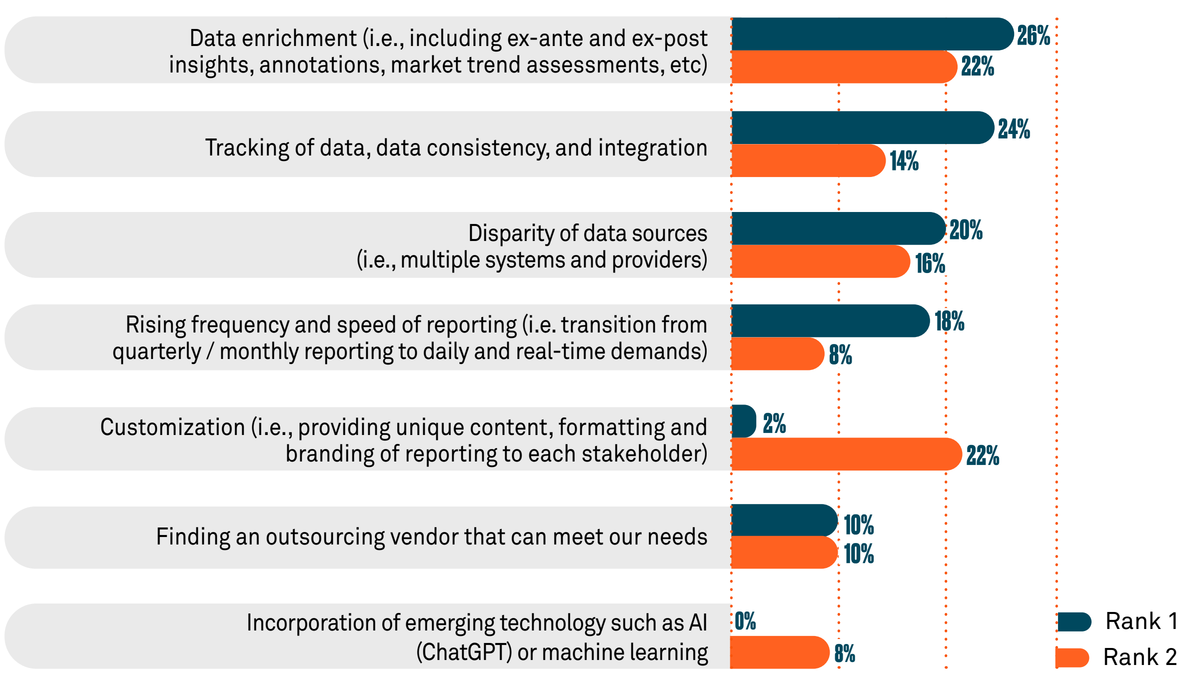
For all of its immense potential, technology also presents sizable challenges, especially as it pertains to stakeholder reporting. Data enrichment — encompassing aspects like ex-ante and ex-post insights, annotations, and market trend assessments — emerges as the foremost challenge, cited by 48% of survey respondents overall. A substantial 26% consider data enrichment to be their single greatest obstacle with respect to stakeholder reporting.

Data tracking, consistency, and integration follow closely as primary hurdles, identified by 24% of respondents. Meanwhile, in third place with 20% of votes is the disparity of data sources, as institutional investors must compile and make sense of a growing array of information. These challenges highlight the critical need for robust data management systems that can seamlessly consolidate information from diverse sources while ensuring accuracy and consistency. Data is nothing if it is not reliably actionable.

Only 8% of respondents, the smallest share, identify incorporating emerging technology — including generative AI tools such as ChatGPT — as a hurdle in performing stakeholder reporting. While generative AI is showing remarkable progress, according to conversations with our pension stakeholders many remain in the exploration rather than implementation phase in terms of not only implementing these technologies but also to finding their limits in the context of stakeholder reporting. We expect to explore this topic in detail in a future edition of our research.

Of the following, what is the biggest challenge your organization faces in respect of stakeholder reporting?

Select top two and rank 1-2, where 1 = greatest challenge.



OVERCOMING BOTTLENECKS IN DATA ACCESS

Collecting and storing data is one thing, but this does not guarantee its availability. In the event of an urgent need for data, respondents pinpoint specific bottlenecks that hinder their ability to access necessary information when needed.

The primary bottleneck identified by 62% of respondents is long processing times, with 38% citing this as their top concern. Lengthy delays in data retrieval can impede timely decision-making, a critical setback when navigating dynamic capital markets.

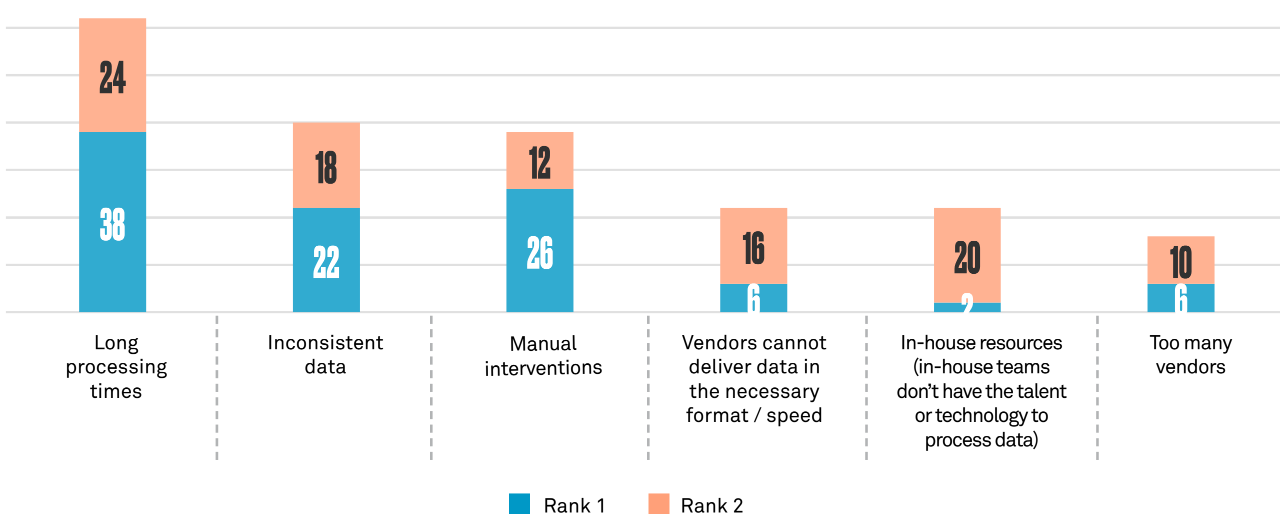
Another noteworthy bottleneck is the need for manual intervention, cited by 26% of respondents. Manual processes are not only time-consuming but also susceptible to human error, which is why automating data-dependent tasks is so important. This is followed by inconsistent data, noted by 22% of respondents as a significant impediment. Ensuring data consistency across various platforms and sources is vital for reliable reporting and decision support.

Organizations should strive to keep and closely manage a so-called golden copy — a single source of truth for all data-related activities that is synchronized across all systems and applications.

> “The primary bottleneck identified by 62% of respondents is long processing times, with 38% citing this as their top concern.”
>
> **MILLIA DEQUARTEL**
> Relationship Executive
> CIBC Mellon

In the event of an urgent need for data, what are the main bottlenecks in getting necessary answers to support decision-making?

Select top two and rank 1-2, where 1 = biggest bottleneck point.



"It's worth noting that while institutional investors often have parallel or overlapping goals, each client has their own nuances. In many cases, clients will be best served by selecting the right offerings from a continuum of solutions and expertise rather than an "off the shelf" single operating model. More open architecture provides the flexibility to choose best-in-class systems for investment activities and capture insights from a wide variety of data sources."

RICHARD ANTON
Chief Client Officer
CIBC Mellon

"Changes in our technology strategy became inevitable. We needed technology to optimize the collaboration between our in-house functions and external teams. There was a lack of communication, and it affected the outcomes of our investment strategies. We wanted to ensure that there was no information sharing gap."

Chief Financial Officer
Government Entity or Agency

"Having a strong technology strategy has allowed us to assess the return and risk ratios more optimally. There are quite a few functions that we manage in-house, so technology upgrades cannot be delayed. In the past year, technology upgrades have been made, mainly to optimize risk assessments, facilitate deeper research and analysis."

Managing Director
Endowment / Foundation

"I feel that the biggest challenge is tracking of data. Data is received from multiple sources. Collating internal and external data and tracking data are quite time-consuming. The expectations of stakeholders has increased greatly. In terms of speed and frequency of reporting, there are newer demands. The main demand is related to real-time reports and analysis. This is challenging to arrange."

Managing Director
Endowment / Foundation

> Enhancing the value of data is one of the greatest challenges. We cannot use the data that comes in from different streams without a complex enrichment process. Another challenge is finding an outsourcing vendor who can meet our needs on time. As markets become more competitive, these challenges will continue to increase.

Chief Executive Officer
Multi-Employer /
Jointly-Sponsored Pension Entity

https://vimeo.com/cibcmellon/fuelproblemstatement

"Data enrichment challenges are the biggest at present. Collection of data cannot be streamlined any further. The quantity of data is not the concern here. It's the poor quality of data, especially when it comes to non-financial metrics."

Chief Operating Officer
Multi-Employer /
Jointly-Sponsored Pension Entity

CIBC Mellon Canadian Asset Owner Study 2023 - 2024

RISING PRESSURE

CONSOLIDATORS GO BIG

CONSOLIDATORS GO BIG

Canada has a highly fragmented pension fund industry, not least owing to the country's federal system of government, with each province and territory having its own pension laws and regulations. According to Statistics Canada, there are over 1,200 pension plans in the country, with assets totaling CAD$3.2 trillion, with the top 10 funds accounting for over half of the industry's assets. Consolidation is moving ahead as operators seek to benefit from economies of scale, improve governance and risk management, and lean more heavily into resource-intensive active and direct investing.

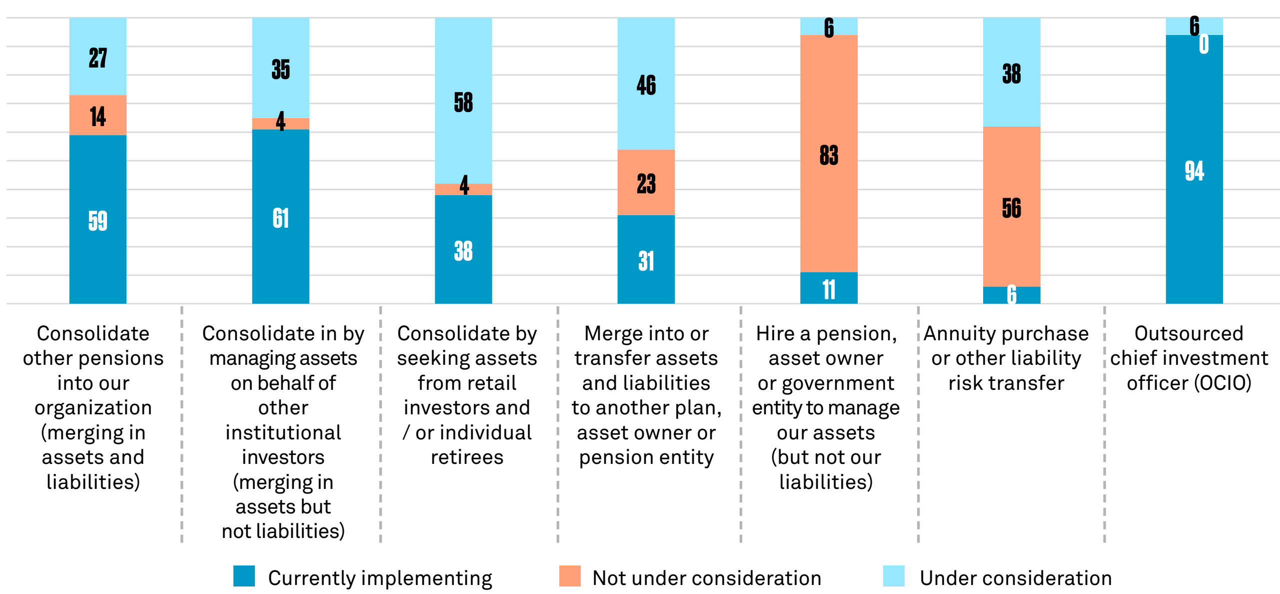
Our research shows that most respondents are already taking steps to incorporate the investments as well as liabilities of other schemes: 61% are currently implementing the management of assets on behalf of other institutional investors (merging in assets but not liabilities), and 59% are consolidating other pensions into their organization (merging in assets and liabilities).

It is not just institutional assets that firms are increasingly stewarding. Over a third (38%) are in the process of consolidating by seeking assets from retail investors and individual retirees, and a further 58% are considering taking up this approach.

Moving up the value chain, 46% of organizations surveyed are currently considering merging into or transferring assets and liabilities to another plan, asset owner, or pension entity, and 31% are currently implementing this strategy.

In terms of comparatively fewer respondents identifying certain well-known routes to scale — mergers into government, annuity purchases or OCIO strategies — readers are reminded that this study focuses on midsize and larger asset owners (at least $750M in assets, with most plans well into the multi-billion-dollar range). Anecdotally, we understand that scalable strategies like these do continue to find traction and success among smaller asset owners, especially those whose primary organizational purposes are outside of the pension space.

Do you use or are you considering using the following approaches to inbound or outbound consolidation? Select one for each approach.



THE GROWING PACE OF CONSOLIDATION

Consolidation as a whole is clearly gaining traction, and over a remarkably short period of time. In the 2022 edition of this research, just 36% of respondents shared that they were in the process of bringing the management of other organizations' assets under their purview, and only 26% reported the same in 2020-21. Similarly, only 20% in 2022 were implementing the consolidation of other pensions, including their liabilities, into their plans, and 18% said the same 12 months prior.

Canada faces the same forces that drive scale and consolidation in other regions such as Australia, the Netherlands and the UK, which have set a clear precedent in recent decades. In 2000, there were 1,000 Dutch pension funds, which fell to as few as 200 by 2022. A major catalyst has been the introduction of defined contribution (DC) schemes, which has seen the closure of smaller corporate defined benefit (DB) schemes. Australian super funds are also gaining global awareness — and increasing cross border engagement and shared learning with Canadian peers. Canadian organizations continue to innovate, bringing new structures to market and with a wave of potential consolidation still in the pipeline.

"In the Canadian pension fund investing space, there has been significant growth since the 90's. The pension space has collectively maintained a good reputation. In the next 10 years' time, the Canadian pension space may go through changes due to new market entrants, but it will remain resilient nonetheless."

Chief Investment Officer
Multi-Employer / Jointly-Sponsored Pension Plan
$5B - $20B AUM

CONSOLIDATION BENEFITS: ECONOMIES OF SCALE AND BOLSTERING GOVERNANCE

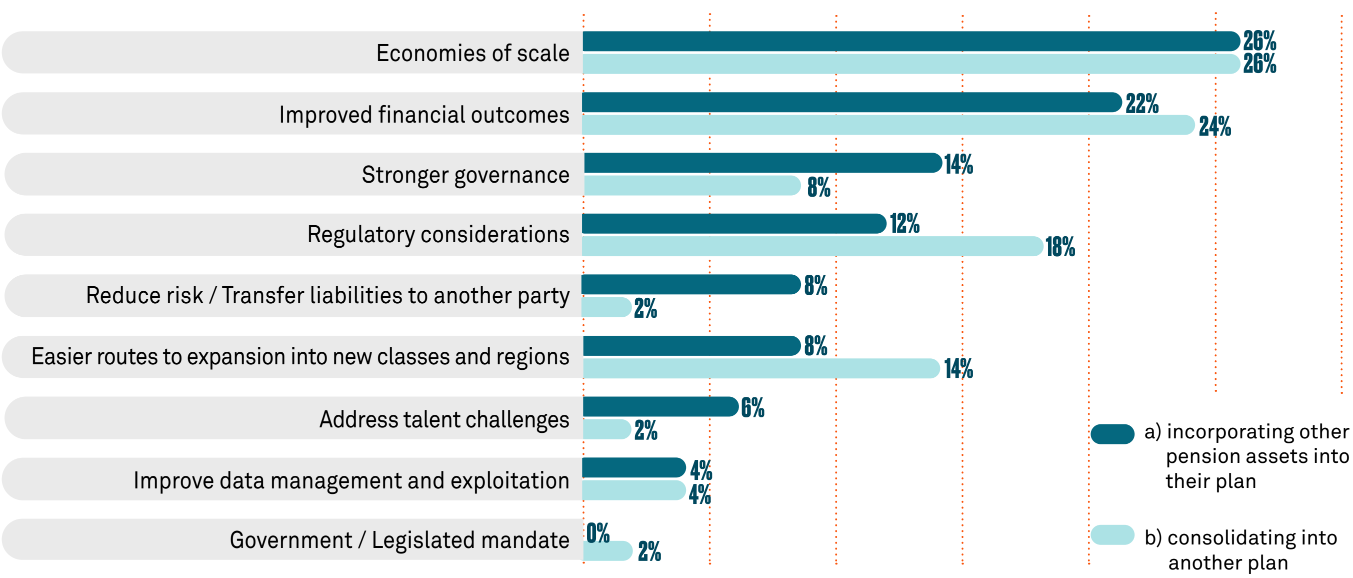
There is a widespread recognition that tapping into economies of scale is a primary benefit of consolidation, whether through incorporating other pension assets into their existing plan or merging into a different one. Over a quarter of respondents (26%) cite this as the key motivation for pursuing each strategy, resonating with the industry trend towards enhancing efficiencies and reducing operational costs.

Closely trailing economies of scale, 22% see the primary benefit of asset integration being improved financial outcomes, and 24% view this as the core advantage of fully consolidating both assets and liabilities with another pension plan. Combining assets can open access to more effective investment strategies and risk management. As funds scale through mergers, they can also negotiate lower fees with external investment managers, diversify their portfolios more effectively, and spread administrative costs over a larger asset base, all in the name of maximizing net returns and improving their ability to meet their long-term obligations.

Notably, the survey also indicates a significant increase in the recognition of stronger governance and the ability to meet regulatory obligations as benefits of consolidation. Governance benefits have risen from a mere 4% of votes in 2022 to 16% in the latest findings, while regulatory considerations have moved from 12% to 18%. Canadian pension funds appear to be increasingly aware of the importance of rigorous governance practices, which in turn improve transparency, accountability, risk management, and the robustness of investment strategies, thereby ensuring alignment with the expectations of members and regulators.

The main benefit of consolidating into another plan identified by respondents in the 2022 edition of this research, meanwhile, was finding easier routes to expansion into new classes and regions, highlighted at the time by 22%, the largest such share. Although this has fallen to 14% of votes, with a fourth-place position it remains high on the list of reasons to integrate with a peer.

What would be the MAIN BENEFIT for an organization of either a) incorporating other pension assets into their plan or, vice versa, of b) consolidating into another plan? Select one for each column.



NAVIGATING THE COMPLEXITIES OF INTEGRATION

A strength-in-numbers approach does not come without its challenges, of course. Chief among these when incorporating other pension assets is navigating investment strategies or policy requirements, cited by 24%. This is followed by workforce concerns, as well as greater scrutiny and visibility, which both accrue 18% of votes.

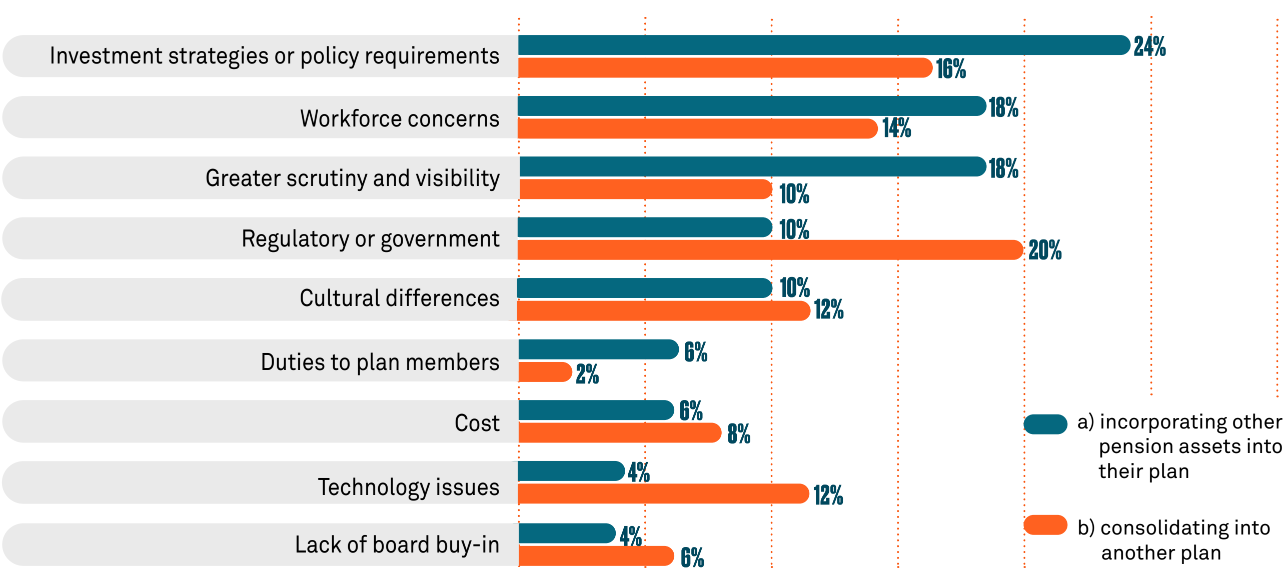
Navigating investment strategies or policy requirements also scored highly in the previous edition of this research, with 30% of respondents having identified it as the greatest challenge of incorporating other pension assets into their plan. Meanwhile, greater scrutiny and visibility and workforce concerns are now more frequently cited as key challenges; each respectively accrued 10% and 12% of votes in last year's edition of this research.

Consolidating the full pension including liabilities presents greater risks than simply merging assets into another program. A full merger increases the potential for a funding shortfall for the combined plan, not to mention the regulatory complexities that come with a wholesale consolidation. In the case of fully consolidating with another plan, 20% see regulatory or government-related hurdles as the biggest challenge, followed by 16% who consider navigating investment strategies or policy requirements as the greatest obstacle to success.

> "Navigating investment strategies or policy requirements also scored highly in the previous edition of this research, with 30% of respondents having identified it as the greatest challenge of incorporating other pension assets into their plan."

ROCCO LOGOZZO,
Relationship Executive
CIBC Mellon

What would be the GREATEST CHALLENGE for an organization of either (a) incorporating other pension assets into their plan or, vice versa, of (b) consolidating into another plan?



> “Compared to the rest of the world, the investing space is quite favorable. There are very strong governance systems supporting the growth in the Canadian pension fund investing space. There are many people who depend on these returns, so pension funds will continue to think about their decisions with stakeholder interests in mind.”

Chief Operating Officer
Multi-Employer / Jointly-Sponsored Pension Entity
$5B - $20B AUM

CIBC Mellon Canadian Asset Owner Study 2023 - 2024

RISING PRESSURE

THE LONG ROAD AHEAD

THE LONG ROAD AHEAD

As Canadian pension funds chart their course for the future, they are up against a surfeit of risks that demand urgent attention. Among these, two major focal points have emerged: macroeconomic pressures and technology.

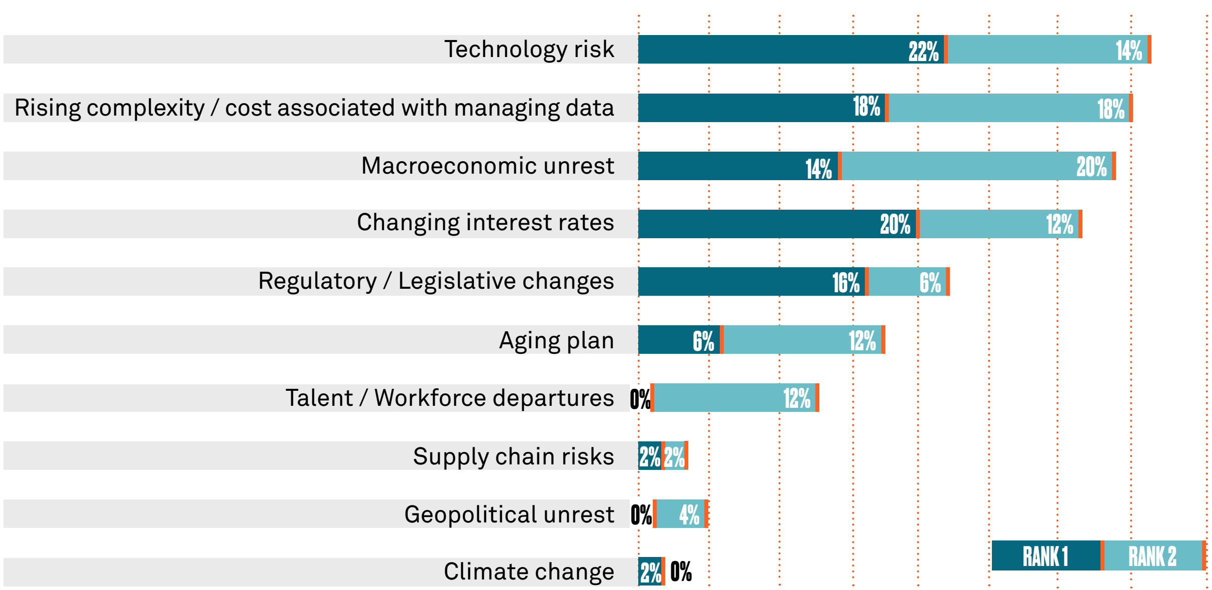
Amid a generational shift in monetary policy, and the attendant uncertainty this has brought for markets and asset allocation, 32% of respondents cite changing interest rates as one of their two greatest risks, including 20% who view this as the leading risk they face over the next 12 months. The surge in interest rate concerns underlines the sensitivity of pension funds to macroeconomic factors, given their far-reaching implications for returns and portfolio management. Only in 2022, just 6% were apprehensive about rising rates in the near term.

However, it is technology that has catapulted to the forefront of concerns, with 36% of respondents citing it as a top-two risk, including a substantial 22% naming it as their chief concern. Accelerated digital transformation across industries has brought with it both opportunities and vulnerabilities. Pension funds now recognize the imperative of harnessing this technology to their benefit while guarding against its inherent risks. This is a major departure from our prior research, when a mere 2% flagged tech among their risk priorities.

At that time, geopolitics were very much front of mind, drawing 48% of top-two votes, versus 4% this year. The year-on-year decline suggests a shift in focus from global political dynamics, which may have now been mitigated against to the best of asset allocators' abilities, to more immediate, predictable, and tangible challenges.

Alongside technological risks, respondents voiced related apprehensions regarding the rising complexity and cost associated with managing data. An equal 36% acknowledged this as a top-two risk factor, with 18% considering it the most significant issue. Across the spectrum of all industries, not just the financial sector, data analytics, data management and cybersecurity have become mission-critical. Pension funds must grapple with ever-expanding volumes of data from an increasing number of sources while ensuring its security, accuracy, and relevance for effective decision-making.

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.



SCANNING THE HORIZON: MACRO REMAINS IN FOCUS

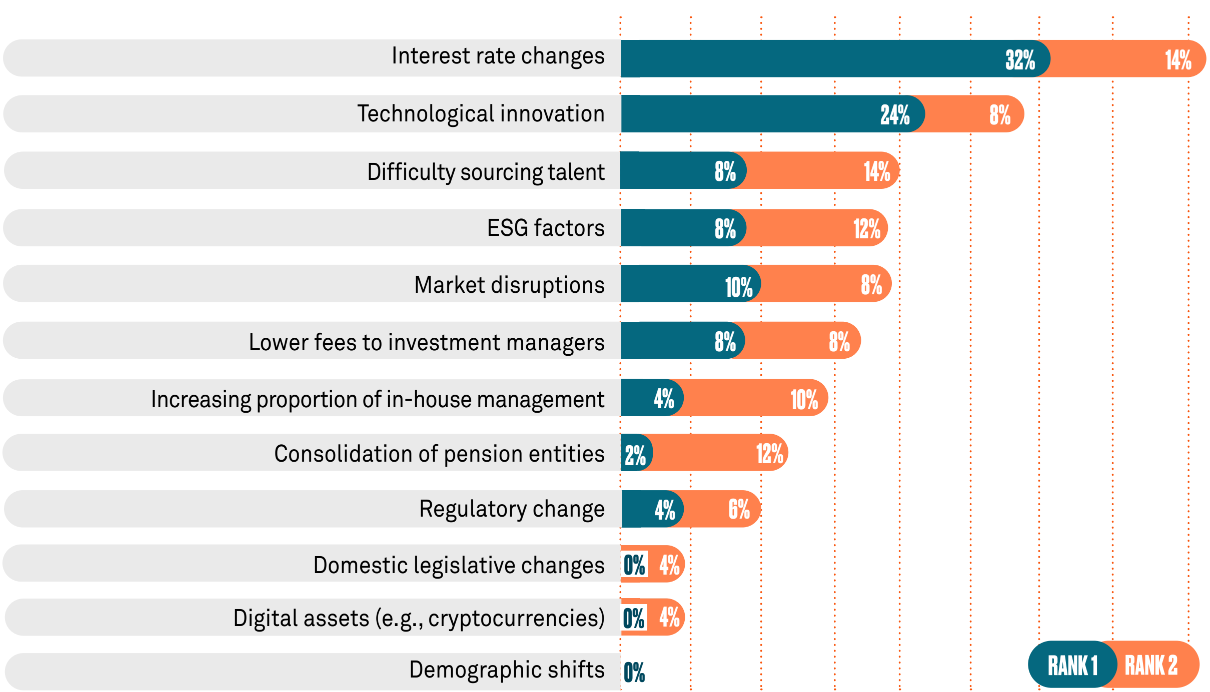
Looking further out, macro concerns show little sign of abating. In anticipating the next three years, 46% of Canadian pensions see interest rate changes as one of the two biggest themes impacting the industry, of which 32% consider it the top trend. Again, this stands in stark contrast to our prior "taking control" research (**www.cibcmellon.com/takingcontrol**) when interest rate changes were barely on the radar, with only 8% expressing this as a key issue for the longer term. It is more than just rates that pensions will be evaluating, but how to adapt their portfolio management in response to prevailing macro and market conditions.

Simultaneously, technology innovation and its impact on the future of the industry is gaining prominence: 32% of respondents view this as a top-two trend and 24% consider it to be the single biggest theme shaping the industry for the next few years at least. This marks a steady ascent from the previous year, where it captured 24% of top-two votes. Advanced data analytics, AI-driven insights, and algorithmic trading are transforming investment decision-making and are key to optimizing returns, ensuring sustainability, and meeting the needs of pension members in what is an increasingly tech-powered world. Adapting is no longer optional; it is a necessity.

Intriguingly, ESG factors, which dominated the outlook a year ago with 30% of respondents considering them the top trend, have receded in importance, garnering 20% of top-two votes. While not diminishing in significance entirely, this shift may suggest that ESG has recently become more fully integrated into pension fund strategies in Canada, transitioning from an emerging trend to foundational principles on which pensions' base their core activities and investment decisions. Alternately, some pensions may simply have encountered a rising array of even greater pressures that required urgent attention over the short term.

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.



“The Canadian pension fund investing space has always performed better than many others across the world. The approach to investing has always been positive, with a long-term intent. This is one difference that we will see in the next few years, as the rest of the world is more intent on reducing risk exposure. Canadian funds are ready to take on more calculated risks based on the extensive research and predictions.”

Head of Investment
Multi-Employer / Jointly Sponsored
Pension Entity

"Compared to pension funds in other countries, the Canadian pension fund structure is more resilient. The investments are made in diversified assets to reduce the risks and maximize the income capacity. However, when other funds follow these practices, they've failed to hit their returns mark. I expect similar trends to continue."

Executive Director
Government Entity or Agency

"Canadian pension funds will seek alternative investments more often in the next 10 years as compared to the rest of the world. Many funds in Europe and Asia are struggling to derive returns with their traditional investment model. But Canadian pension funds are relatively more advanced in their investment approach."

President
Corporate / Single-Employer
Pension Entity

> "The main difference will be the level of in-house activities. Portfolio management tasks have been outsourced mostly by funds in the rest of the world. I think this approach has been useful for them. But, when it comes to the Canadian pension fund investing space, there will always be more emphasis on in-house management."

Chief Investment Officer
Government Entity or Agency

> "Compared to the rest of the world, there will be more operations managed in-house by Canadian pension funds. I feel that Canadian pension funds are more comfortable assessing asset classes and managing decisions in-house. There is more control on the outcomes and retirement value provided overall."

Chief Investment Officer
Government Entity or Agency

To register for advance copies of forthcoming research or to learn more about some of our solutions available through CIBC Mellon, contact your client manager or email us at:

cibcmellon@cibcmellon.com

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