THE RISE OF THE BOUTIQUE ASSET MANAGER

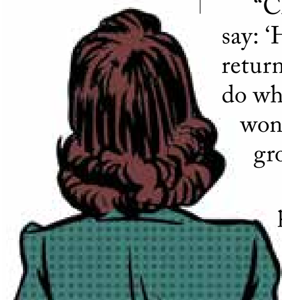
By *Jann Lee*

Forty years ago, insurance and trust companies dominated the pension investment industry. But by the early 1980s, the landscape began to change as boutique asset managers started to take a growing chunk of the business.

Boutique managers were attractive to investors because they specialized in a type of asset or style of investing, says Zev Frishman, chief investment officer at Morneau Shepell Asset & Risk Management Ltd. The insurance and trust companies, he notes, were primarily conservative managers offering balanced investment solutions. Frishman notes that prior to the entrance of boutique managers, investors had less involvement in the intricacies of their portfolio construction.

"Clients would go to the insurance company and say: 'Here's the size of my fund. I want a certain return. Here's my risk parameters. You go out and do what you can to get that return for me.' They won't specify whether they want value investing or growth investing."

But as boutique managers grew, pension funds, particularly larger ones, started changing their approach to investments, says Frishman.



Today, most pension funds will seek a consultant and run actuarial studies to find the best asset allocation that meets their return and risk requirements, he says. They'll then seek specialized money managers that suit their style and asset allocation.

Pension funds have also changed their asset mix over the years, says Marcus Turner, a director and senior investment consultant at Willis Towers Watson. "Funds were primarily invested in equities and fixed income, but there's been a transition to an allocation of real assets. It's accelerated to the point that for years, real assets were referred to as alternative assets. But at this point, they've largely become mainstream."

And as pension funds explore non-traditional assets, they're looking at newer alternatives such as hedge funds, private equity and smart beta, says Turner. He says smart beta, in particular, has started attracting the interest of Canadian institutional investors.

"Smart beta is a way of methodically slicing the market that isn't based on your traditional cap-weighted factors," says Turner. "It allows you to invest in other common factors, so you may have a smart-beta solution that identifies stocks with low volatility in the past cycle."

What's ahead?

The use of outsourced chief investment officers is gathering momentum, especially for small- and medium-sized plans, says Turner. "As pension liability becomes a significant component on the balance sheet, some companies are deciding they don't want to be in the pension fund business."

By outsourcing the investments of their pensions, companies can free up resources or work on their governance, says Turner. "Almost every company is facing increasing financial stress and strain and they're looking for every opportunity they can to improve leverage level and look at how internal resources are applied. If you're a tech company, the pension plan can be a distraction on financials and resources."

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THE CHANGING FACE OF ASSET MANAGEMENT

Top money managers in 1980	
Total pension assets managed (millions)	
Royal Trust	$2,612
Canada Trust	$1,808
Jarislowsky Fraser	$1,800
Sun Life	$1,603
Montreal Trust	$1,477

Source: *Benefits Canada* archives

Top money managers in 2016*	
Canadian pension assets (millions)	
TD Asset Management	$91,924.6
BlackRock Asset Management Canada Ltd.	$82,695.8
Phillips Hager & North Investment Management	$56,871.6
Manulife Asset Management	$38,986.9
Beutel Goodman & Co. Ltd.	$30,083

*Figures are as of Dec. 31, 2016

HOW HAS THE GROUP INSURANCE MARKET CHANGED SINCE 1977?

By *Sara Tatelman*

In 1977, when *Benefits Canada* published its first group benefits providers report, the industry was much more crowded. The big companies on the scene today weren't yet the massive entities that now dominate the market. More U.S. insurers had their hats in the ring. And the big players had yet to acquire some of the scrappy underdogs.

Leading that first list of insurers with more than $1 million in group health premium income was Great-West Life. Forty years later, Great-West Life still leads when it comes to group health insured premiums, while Sun Life tops the overall list of group insurance providers. And while Manulife and Desjardins also top the list of group life and health insurance providers in 2016, the silver medallist in 1977 was Confederation Life, which went out of business in 1994. Next were London Life and Excelsior Life, neither of which are still independent entities.

"The markets were ready for some consolidation," says Anthony Perlman, senior vice-president and national practice leader for health and benefits at Aon Hewitt in Toronto. He notes the acquisitions were inevitable as some of the smaller players didn't have sufficient penetration in the Canadian market to take on their larger competitors.

Great-West Life eventually absorbed names such as London Life and Canada Life, says Perlman. Manulife took over Confederation Life, Maritime Life and, most recently, Standard Life. And as for Sun Life, its acquisitions have included Clarica Life.

What it means for employers

From a plan sponsor perspective, the consolidations, which occurred over several decades, have been significant, says Perlman. For employers with unique programs, there was no guarantee the acquiring company would continue offering plans tailored to each sponsor to the same degree that smaller insurers did. Even today, smaller insurers can be nimbler, he says, adding players such as Green Shield Canada, SSQ and the Blue Cross group have been "like dogs at the heels" of their larger competitors. "And clients like to have some selection."

Perlman also notes today's plan sponsors are much more comfortable with risk. The original 1977 report, for example, didn't have a separate section for insurers working with administrative services-only plans, since they were simply less common. At the same time, the move towards administrative services-only plans means fees have become more transparent. "On an insured basis, the numbers tended to be all over the place," says Perlman.

"Clients didn't necessarily have an idea of what their advisors were being paid," he adds.

In the next few decades, Perlman predicts the current big players will remain dominant. But he notes disruptors beyond smaller, nimbler players are likely to emerge, such as technology companies like League, Collage and Zenefits. "That's what clients want," he says, noting plan sponsors are looking for choice.

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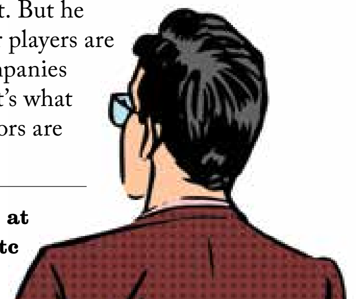

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GROUP INSURANCE PROVIDERS THEN AND NOW

Top providers in 1977		Top providers in 2016	
Group life premium income:		Group life insured premiums:	
Sun Life:	$78 million	Great-West Life:	$803.7 million
Group health premium income:		Group health insured premiums:	
Great-West Life:	$92 million	Great-West Life:	$4.5 billion

Note: Sun Life was the largest group insurance provider overall in 2016 when including both insured premiums and non-insured deposits.

Sources: *Benefits Canada's* group benefits providers reports for 1977 and Dec. 31, 2016