

Have you called your MOM?

Moms often step in when we need help. And in this case, MoMs (manager of managers) can do the same for plan sponsors who are looking to expand their portfolio strategies.

By Joel Kranc

One of the attributes we can all relate to when we think of our moms is the way they do multiple tasks. They are able to organize their kids, delegate chores and get the most out of each family member. That's not unlike the MoMs (manager of managers) pension and endowment funds employ to handle their investment selection.

Many plan sponsors lack the internal staff and resources to make informed investment decisions and keep their investments in check. And when it comes to the selection, monitoring and due diligence associated with maintaining proper investments, MoMs can offer piece of mind for plan sponsors that would otherwise have to select from a slew of managers on their own. They act as an outsourced investment manager that selects sub-managers to create or establish a given portfolio that a pension or endowment fund could invest in. Investment styles are selected, due diligence and research is carried out, and balancing is handled all by the lead manager on behalf of the plan sponsor.



And although the strategy itself is not entirely new, what is new is more consultants are getting into the game alongside the investment management world. And with consultants both advising clients on investments and creating their own products for clients, questions of perceived conflicts arise. Are consultants giving the best advice without pitching their own services in investment selection? At the end of the day, plan sponsors want to know if they are getting the investment advice, service and selection that is in their best interest without there being a conflict of interest.

IF YOU BUILD IT

Plan sponsors, usually in the mid- to smaller-plan size, are definitely showing greater interest in MoMs. As a result, new players are joining the crowded list of firms in Canada. "It stems from the fact that so much is lost between recommendation and implementation," notes Ralph Loader, chief executive officer and chairman of the newly formed Brockhouse Cooper Asset Management, on why his firm has chosen to enter the MoM market. "Consulting is limited in what it can do for pension plan sponsors because it's limited to providing recommendations it cannot implement." Loader stresses that pension funds have not been able to fill gaps when hiring specialty managers. The process is a lengthy and complicated one, for plan sponsors only start with the research required to identify the world's best individual managers. That done, careful

and constant analysis is essential to achieve and maintain optimally diversified structures, which ultimately yield the alpha that everyone is looking for.

Ironically, Loader says the demand for MoMs, for him, started in Europe, and Brockhouse felt the philosophical trend would cross its way into North America.

The other new kid on the block in Canada is Montreal-based Mercer Global Investments. But demand for MoMs, or multi-manager outsourcing as Marcel Larochelle, president of Mercer Global Investments puts it, for his firm began in Australia 10 years ago. "More and more we were hearing from clients [in Canada], 'We love what you do for us on the investment side, but we'd like you to take on more responsibility—why don't you pick the managers?'" And at the end of the summer of 2006, Mercer went full-fledged into the MoMs market in Canada and ultimately added to the number of consulting firms offering this product.

As far as trends, and why plan sponsors are more interested in this type of outsourcing, David Lester, a director of SEI's Global Institutional Group based in its Toronto office, says complications in the investment world have grown, in terms of types of products, number of investment managers and volatility of investments. "We felt a lot of these things were overwhelming committees and plan sponsors." But the second set of trends that came after market complexity, notes Lester, were funding complexities and how plan sponsors were going to deal with them. This also lent itself to the popularity of MoMs.

But Lester says the established com-

panies do not necessarily fear the creation of new competition. "There are more providers getting into it, which helps the development of a new way of thinking. We've definitely seen a growing acceptance of this trend," he notes.

MIDPOINT

Despite the increased demand in Canada, and the entrance of new consulting firms offering them, MoMs are not for everyone. There are plan sponsors in the Canadian landscape such as the Ontario Teachers' Pension Plan or the Caisse de dépôt et placement du Québec that are so large, they employ a staff of investment experts and managers that know the diverse investments their plans are looking to invest in.

But others, such as the University of Western Ontario, are significantly smaller. With an operating and endowment fund of about \$200 million, the university uses a MoM strategy for the hedge fund component (which represents about 5% of the total strategy) of its total endowment fund. "We went with the [MoM] for three reasons, one is the additional diversification, the lack of in-house expertise with fund managers and access to the hedge fund universe that would be hard to get with a small allocation such as ours," says Stu Finlayson, treasurer with the university. He adds that there is only one full-time employee looking after investments within his department, which makes it hard to research, select and track managers.

"Picking a manager is part art and part science," notes Bruce Curwood, director, research and strategy, with Russell Investments Canada in Toronto. He says that many of the middle-size

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and smaller plan sponsors need the governance and committee wherewithal that comes with a larger fund. “Even with the best intentions, without process and governance, a committee structure won’t work, and dollars may slip out the door,” he notes.

Others in that space agree with Curwood’s sentiment. The “sweet spot” according to Larochelle is with clients that are (a) interested in outsourcing and (b) have assets that are relatively small. He says Mercer mostly deals with plan sponsors that have between \$20 million and \$300 million, but many fall within the \$20 million to \$100 million range.

CONFLICT RESOLUTION

But if you are a plan sponsor in Canada and your consultant, who you already have a relationship with, comes to you with a MoM product, certainly there would be a perceived conflict of interest. How can my consultant have my best interest at heart if it is pitching its own products?

Finlayson, with the University of Western Ontario, says his committee, which uses Russell, has only used it in a consulting capacity and not used any of its MoM products in order to avoid any potential conflict. In fact, Russell’s Curwood says, “There can sometimes be a perception of conflict, but it’s how you deal with the conflict.” So if Russell is engaged in a consulting relationship and eventually proposes a list of MoMs, the consultant will step away from the remainder of that consulting project if the plan sponsor chooses to include the Russell product in the search. This eliminates any of the con-

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—Marcel Larochelle, president, Mercer Global Investments Group

flict. The practice is a similar one engaged in at Mercer Global Investments. Others in the industry agree that perceptions need to be addressed, defined and weeded out.

“We always worry about the perception of conflict of interest,” says Loader. He says his firm has formal procedures in place that are communicated to employees as well as clients to avoid any negative perceptions or practices in the marketplace.

Fees can also be a sticky topic with regard to MoMs because, for plan sponsors, they are generally higher than going out and hiring their own individual managers. But for some, the extra expense is worth the extra services. “There is another layer of fees, but the committee is happy with that and is not too concerned with it,” says Finlayson.

Lester says he believes the MoM solution is a more cost-effective solution overall. “It generally has to do more with philosophy than the price—price is not an issue. I think it’s a misconception that exists in the marketplace.”

MOM BRANCHES OUT

With the defined benefit portion of the business being looked after by MoMs, it stands to reason that defined contribution (DC) plan sponsors are next in line. Curwood says that target-date funds and life-cycle funds lend themselves to MoMs, and even though the market is still small in the DC world, many plans are joining the fray. Lester adds that a multi-manager platform is a very powerful combination for plan sponsors. And with the Capital Accumulation Plan Guidelines leading DC plan sponsors’ thinking, he says they have seen an interest from them and the trend will continue.

It all boils down to this. Plan sponsors are very aware of the difficulty they have in monitoring, researching, diversifying and accessing the right managers for the right portfolio balance. More and more, rather than going it alone, they are calling their MoMs for help. **BC**

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