



Insights into Evolving Asset Allocations

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Canadian institutional investors continue to rebuild and show their resilience amid the persistent remote working environment and across shifting market, regulatory and stakeholder needs. Change, challenge and opportunity continue to accelerate. The potential for renewed volatility and market disruption continue to weigh on asset owners as they contemplate the investment, operational and risk management lessons from the pandemic.

Asset owners have recognized the critical importance of data and technology capabilities that can easily support an internal team's ability to understand, execute and justify investment decision-making – but the pandemic environment has significantly accelerated this trend.

Delivering against rising needs requires taking a different approach from the past, as well as a digital and data-driven mindset and skillset. Institutional investors are looking to data for a competitive advantage, to help more meaningfully gather asset allocation, improve investment performance, and other imperatives. Asset owners are increasingly focused on managing and using data to drive competitive advantages that can offset fee and cost pressures. They also recognize the importance of improving the stakeholder experience and addressing key stakeholder demand for increased transparency across asset classes.

Increased transparency is a driving factor behind asset owners' need to achieve pan-asset class reporting. Clients are seeking to understand their exposure on both the private and public sides of their multi-asset class portfolios. Asset owners and allocators are paying close attention to both sides of the performance equation, and looking to hold both internal and external asset management teams accountable for both costs and returns.



Explore with us

We would be pleased to discuss these themes further, including exploring them in the context of our ongoing Canadian and global research efforts. Please don't hesitate to contact your relationship manager to arrange a discussion.

Asset Allocations are Evolving

CHALLENGES FOR ASSET OWNERS:

	Access to alternatives asset classes
	Complexity and lack of transparency
	Administrative requirements
	Risk and performance monitoring
	Reporting for key stakeholders

Taking all the challenges associated with investing in alternative assets into consideration, determining the right mix of investments and executing on that strategy is critical to the success of asset owners. Some are used as longer-term investments, and receiving an accurate valuation of an investment like private equity or real estate at any given time can be difficult – valuation of these assets is lagged, meaning reporting isn't always current. Others, like funds of hedge funds, offer little visibility into the value of underlying funds that make up each hedge fund.

Asset owners are responsible for collecting investment data and turning it into meaningful information for investment committees, boards, trustees, plan members and other key stakeholders. This can be challenging for asset owners that don't engage extensively in alternative asset classes, as alternatives add a level of complexity that can make it an even greater challenge.

In an effort to find new ways to diversify their portfolios, increase alpha and reduce risk, asset owners are accelerating their investments in alternative asset classes, such as funds of hedge funds, private equity, real estate and liquid alternatives. Alternative assets, such as private equity, real estate, infrastructure, and private debt have been viewed as offering institutional investors shelter for their capital from short-term risks and market movements while also generating strong returns.

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A NUMBER OF CHALLENGES ARE FACING INVESTORS AS THEY SEEK GREATER RETURNS ON THEIR INVESTMENTS

- 1 The evolving geopolitical landscape, low yields on fixed income and equities, and questions on timing and long term outlook around interest rates all continue to dampen returns
- 2 Institutional investors are engaging in alternative investments at record levels
- 3 Alternative investment classes have generated higher returns than traditional options recently, and alternatives provide an increased level of diversification
 - [BNY Mellon Asset Allocation Trust Universes](#) provides insights regarding alternative asset classes. Private Equity reported a positive quarterly median return of +0.61% and Real Estate reported a quarterly median return of +4.65%.
- 4 To keep up with this demand, asset owners continue to expand alternative asset strategies, but alternatives tend to be more complex and pose challenges with respect to reporting and transparency

There are many different investment strategies for institutional investors, such as increased alpha, increased beta, de-risking glide paths, co-investments, liability-driven. As CIBC Mellon's original research reiterates¹: asset owners are employing a diversity of approaches and no one size fits all. Before increasing exposure to alternatives, asset owners should consider the characteristics of each asset type to determine which one(s) fits into their overall investment strategy. Asset owners should also consider the administrative and reporting requirements for each and determine whether they will be able to provide adequate transparency to stakeholders with their available resources. Asset owners also carefully need to consider the wide array of structures through which they can access their target exposures.

1 - In Search of New Value" published 2021, and forthcoming research to be published in 2022. Contact your relationship manager to learn more.



Increased alternative investment allocations require enhanced analytics and reporting capabilities



ACCELERATING DATA

Institutional investors seek comprehensive solutions allowing them to leverage their own data to improve the investment process while obtaining a single view across their multi-asset portfolio.

Clients require deep expertise and a comprehensive solution set that offers transparency across an array of data sources and requirements. A few examples include traditional and alternative asset classes, solutions to track manager fees and capabilities to monitor and manage Environmental Social Governance (ESG) factors and more. A provider that can offer transparency across asset classes at the total portfolio level is key to managing the investment process.

Technology is also widely regarded as a route to the greater transparency that investors are now demanding. New tools that connect investors with detailed information about the way their funds are performing – and how they are managed – offer exciting advances in this regard.



EFFICIENT OVERSIGHT

As allocations to alternative investments rise, there is increased demand for pan-asset class analytics and flexible, integrated reporting.

Asset owners face complex risk pressures such as complying with new regulations, managing transparency concerns and mitigating investment risks across diverse asset classes. They need the support of robust analytical tools on the front lines of risk management.



ENHANCED CAPABILITIES

Institutional investors have a growing desire for more advanced capabilities including total portfolio and risk analytics, performance attribution and what-if modelling.

Performance measurement and attribution, alongside risk-return analysis are considered to be important features when it comes to modeling, analyzing and monitoring investments. Clients are seeking robust market intelligence capabilities that help them understand asset allocation and performance trends.

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MAKING SMARTER DATA-DRIVEN ALLOCATION DECISIONS

In this enhanced digital environment, one key factor of change surrounds emerging new technologies. Technological innovation is bringing many opportunities to the table, including the rise of digitization and data management.

Today, more companies are moving away from closed-information technology systems and towards open platforms that provide benefits by collaborating with third parties. Embracing this collaboration is about emphasizing a culture on partnerships. Our alliances are about aligning with key providers in the marketplace, including large technology companies, and even our clients in order to offer additional flexibility and additional capabilities while combining those with our expertise, breadth and resources.

The drivers that are affecting many asset owners today include the increased focus on governance, managing risk and oversight as well as the increased allocations to complex investments, such as alternative investments and derivatives.

Operating under monthly or quarterly reporting cycles is no longer sufficient for many asset owners, particularly as they seek to make faster decisions based on timely data. For a growing array of asset owners, there is growing recognition and even expectation that data should be available daily to the level of detail one needs, even when the investment structures are more complex than the traditional model would support.

Many institutional investors have had to cobble together solutions to support the growing complexity of their investment program and they are now at the point where they are past the effectiveness of those solutions. Excel is a well-known tool, besides its low cost, it is near-universally installed in user machines, and known to corporate IT teams from an information security perspective, but it is not a robust platform for managing an investment program. Most users have basic familiarity with its uses and interface, for example users can easily copy or paste data into a spreadsheet and apply a formula to get analytics. However, although Excel's complex spreadsheets can be easily shared and exported, they may not have documentation on how they were built, moreover they can lack data quality oversight and can be quite a manual process to maintain.

Asset Owners are Innovating to Fulfill Their Missions

Long-term macro trends, focus on transparency and oversight into investment processes, and recent impacts of the global pandemic make it critical for asset owners to adapt to the rising needs and opportunities brought on by changing realities.

Rising Needs and Opportunities Ahead



OPTIMIZING INVESTMENT PERFORMANCE AND MANAGING RISK

Institutional investors are seeking solutions that allow them to leverage their data to improve investment decisions, while obtaining a single view across their multi-asset class portfolio.

With advanced analytics, investors can access their data in real time to understand the state and performance of their investments first hand.



MOVE TO ALTERNATIVES TO GENERATE LONG TERM ALPHA

Asset owners continue to diversify their portfolios to reduce volatility and seek new ways to increase returns. Hence why alternative assets, offering diversification and a different type of return profile, are attracting significant interest from Canadian pension funds.



TRANSPARENCY AND OVERSIGHT INTO THE INVESTMENTS PROCESS

Competitive fees, transparency and a collaborative approach to investment strategy look more important than ever in the post-COVID-19 environment. Technology is widely regarded as a route to the greater transparency that investors are now demanding, with 30% of pension funds focusing on transparency as a key theme to watch.



ASSET OWNERS BECOMING ASSET MANAGERS

Increasingly, we are seeing consolidation in the market, where asset owners that traditionally only invest in funds are joining with other asset owners, or becoming asset managers themselves to seek scale and exposure to direct investments. Our findings confirm that Canadian pension funds are working hard to ensure continuity while keeping a close eye on costs and considering their consolidation options.

The drivers that are affecting many asset owners today include the increased focus on governance, managing risk and oversight as well as the increased allocations to complex investments, such as alternative investments and derivatives.

Questions for Clients to Consider Moving Forward

1. What alternative asset strategies do you employ within your investment portfolios? What are the biggest challenges you face when investing in alternative asset classes?
2. Does a risk management framework exist across your organization today?
3. Do you have enough flexibility and detail in your analysis to be able to provide strategic insights to key stakeholders'?
4. Are your investment operations processes, technology and teams aligned to current and future needs around data?

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