



# The Investment Management Industry: Yesterday, Today & Tomorrow



**October 24, 2018**

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## Discussion Topics

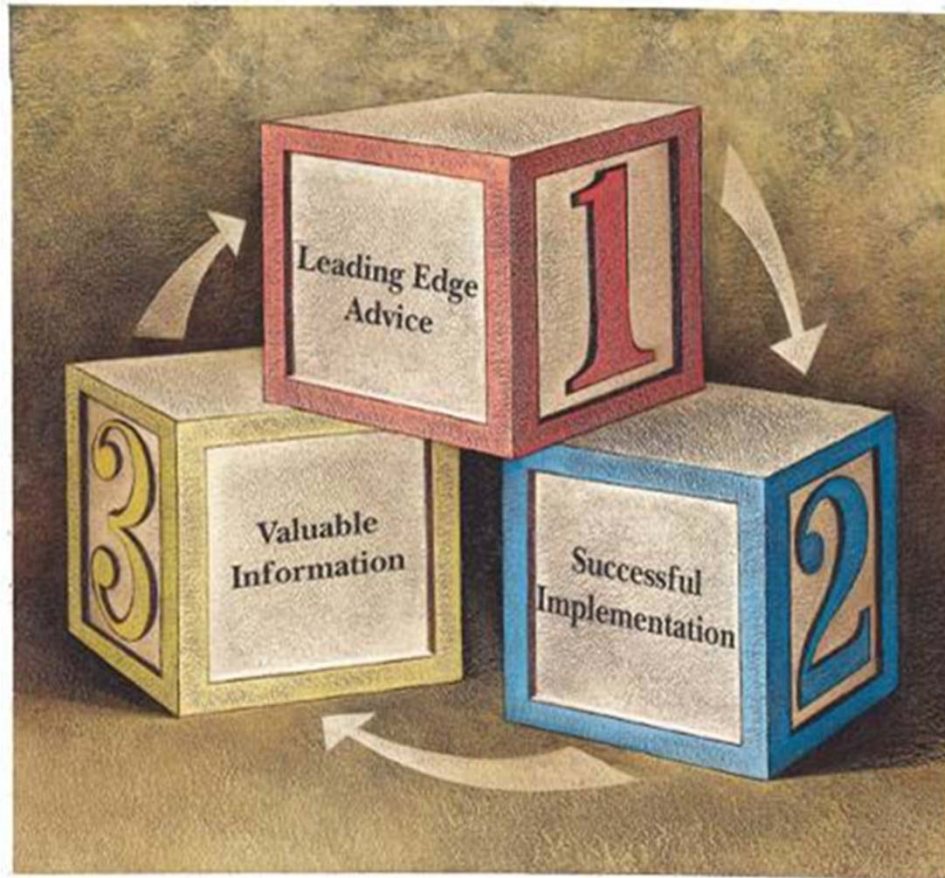
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- The Institutional Investment Industry As We Knew It
- Technology As A Great Disruptor
- Why Consultants Are Now Money Managers
- The Rise Of Canadian Pension Powerhouse Sponsors
- The Evolution Of The Institutional Asset Mix
- Smart Beta vs Dumb Beta
- The Future Of The Investment Management Industry

# The Institutional Investment Industry Paradigm 20 Years Ago

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## Consultants, Money Managers, Sponsors



Source: Harry Marmer "Perspectives on Institutional Investment Management," Rogers Publishing, 2002

# These Three Building Blocks Have Crumbled

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■ CONSULTANTS - ADVICE



■ MONEY MANAGERS – IMPLEMENT



■ SPONSORS – INFO/PLAN



# Key Factors Melting The Building Blocks

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## Main Drivers or Themes Include:

- Technology
- The Quantification of the Industry
- The End of the Foreign Investment Limits
- Extremely Competitive Landscape
- The Rise of Powerhouse Sponsors
- The Growth of DC Plans





# Technology Is A Major Disruptor

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The term "disruptive technologies" was coined by Clayton M. Christensen and introduced in his 1995 article *Disruptive Technologies: Catching the Wave*,<sup>[4]</sup> which he co-wrote with Joseph Bower. **Disruptive** innovation is a term in the field of business administration which refers to an innovation that creates a new market and value network and eventually disrupts an existing market and value network, displacing established market leading firms, products, and alliances.

Photo: Source: Google, "Cell Phone" 1983

# The Quantification Of The Investment Industry

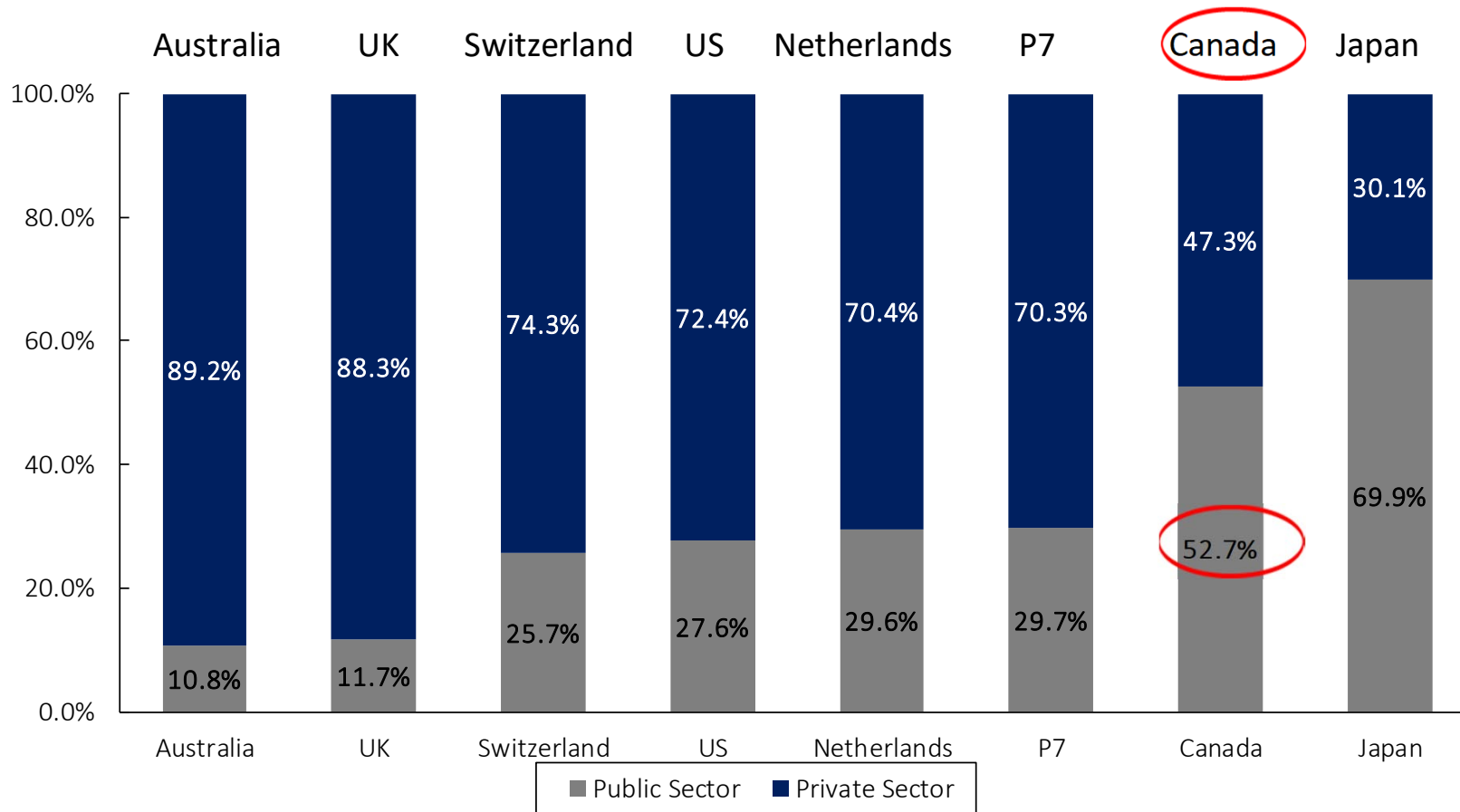
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- **Financial Innovation**
  - Smart Beta
  - ETF's
  - Securitization
  - Arbitrage
- **Increased Competition**
  - Robo Advisors
  - Outsourcing
  - Public Plans
  - The Rise of DC Plans
- **Security Pricing**
  - Freely Competitive Exchanges
  - Databases & Software
  - Security Valuation
  - Big Data, Machine Learning
  - Mathematical Modeling
  - New Types of "Investors" – HFT for e.g.



# Canadian Public Sector Pension Are Global Pension Fund Leaders

## Public vs. Private Sector By Market Values (Estimated Values at 2014)



Source: Towers Watson, "Global Pension Asset Study 2015", Published February 2016



# Technology, Scale & Industry Professionalism Have All Contributed To The Rise of Canadian Powerhouse Public Pension Funds

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Caisse de dépôt et placement  
du Québec



TEACHERS'  
PENSION PLAN



OPB

Your Pension. Our Promise.



CPP  
INVESTMENT  
BOARD



HOOPP

Healthcare of Ontario  
Pension Plan



OPTrust

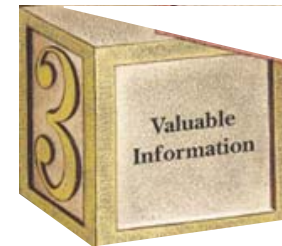


# These Powerhouse Plans Are Vertically Integrated

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## Vertically Integrated Pension Funds Are:

1. Sponsors



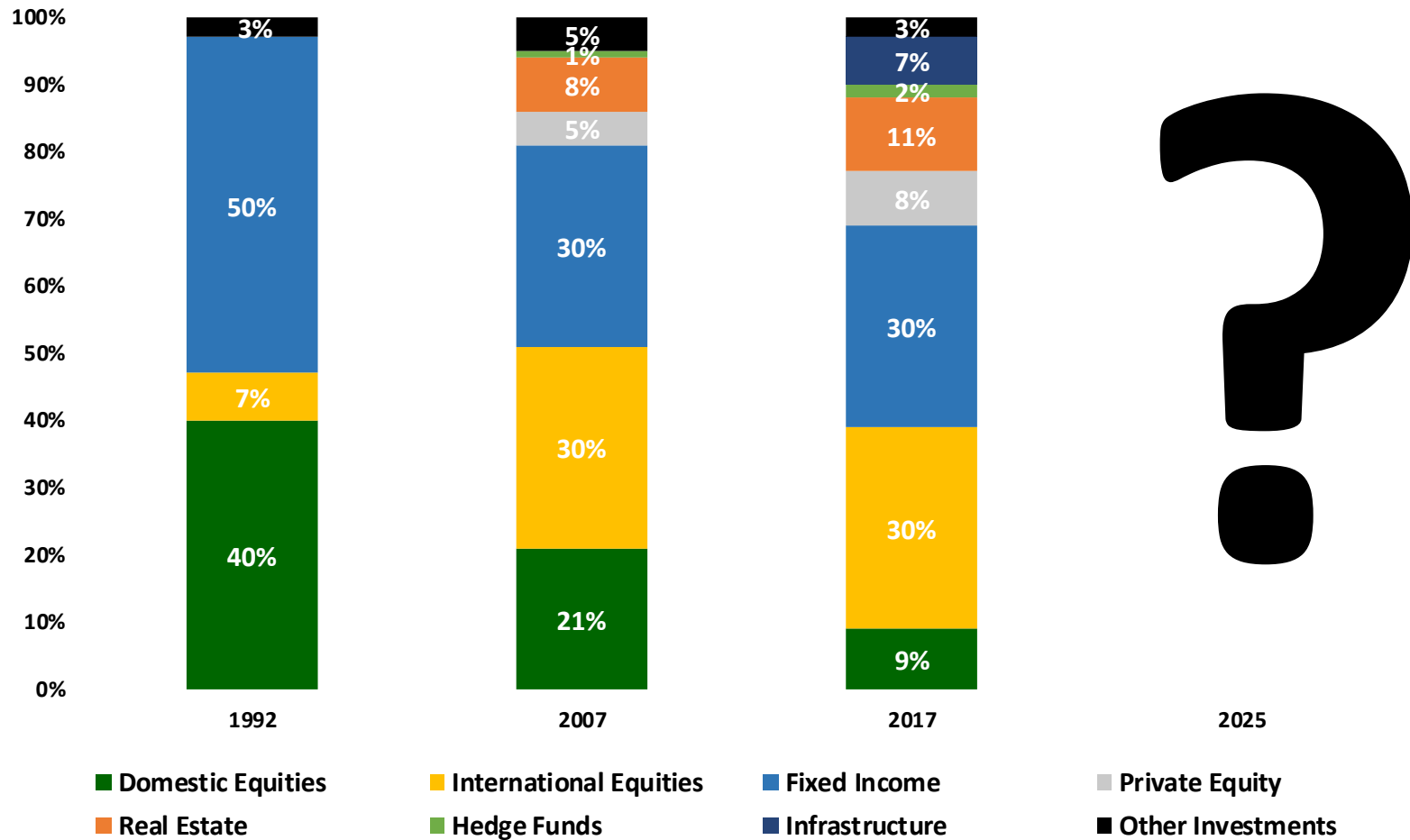
2. Consultants



3. Money Managers



# Institutional Investors Have Reduced By 80% Cdn Equities, Replaced By Non-Cdn Equities and Alternatives



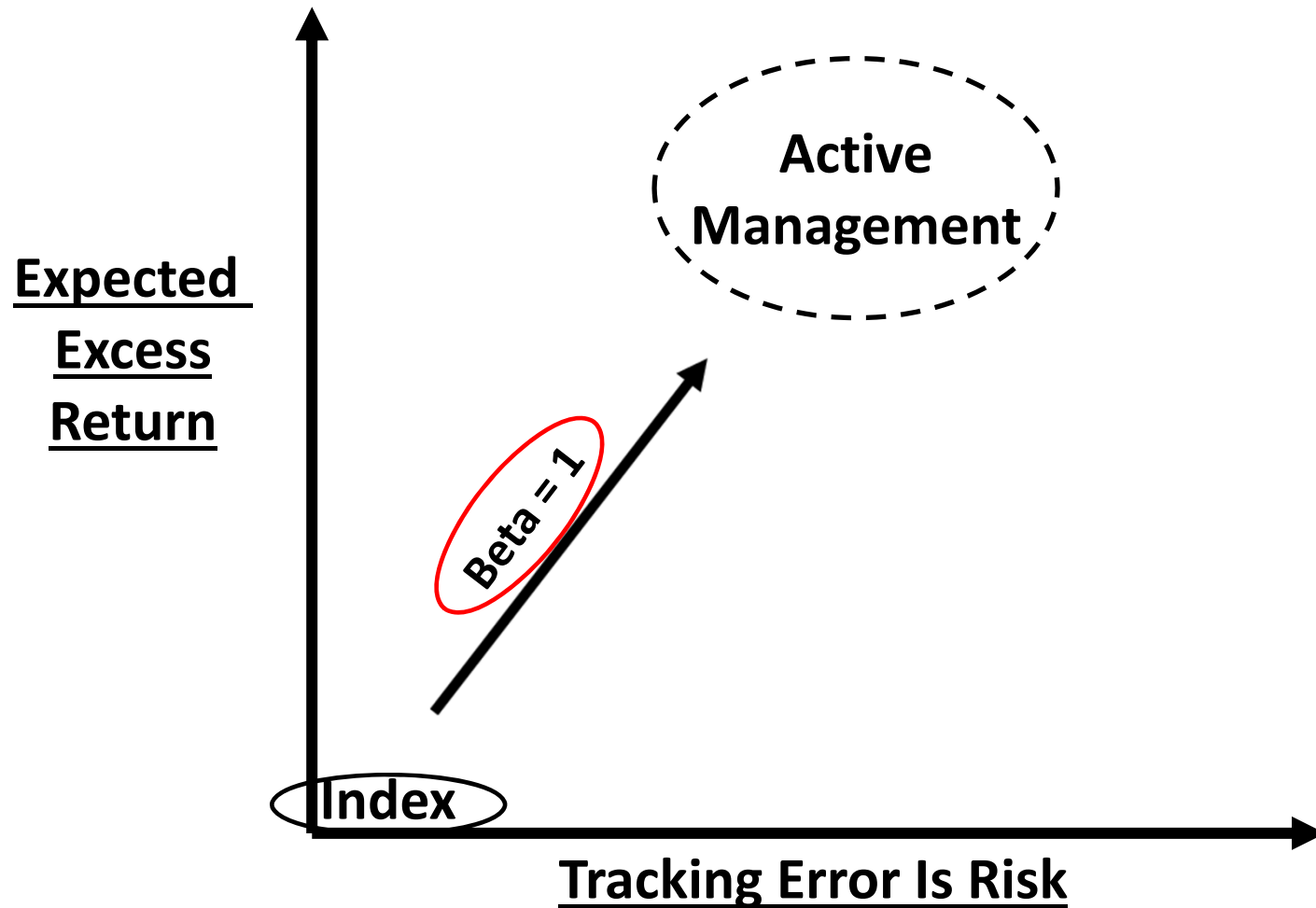
Note: Assets are projected to the Greenwich Associates universe of Canadian institutional investors. "Other" includes Non-Canadian bonds, commodities, traditional guaranteed investment contracts, stable value investments, traditional balanced funds, target retirement funds, target risk fund, real estate investment trust, money market, cash and short-term investments, and other.



Source: Greenwich Associates, Canadian Institutional Investors 2017 and Harry Marmer.

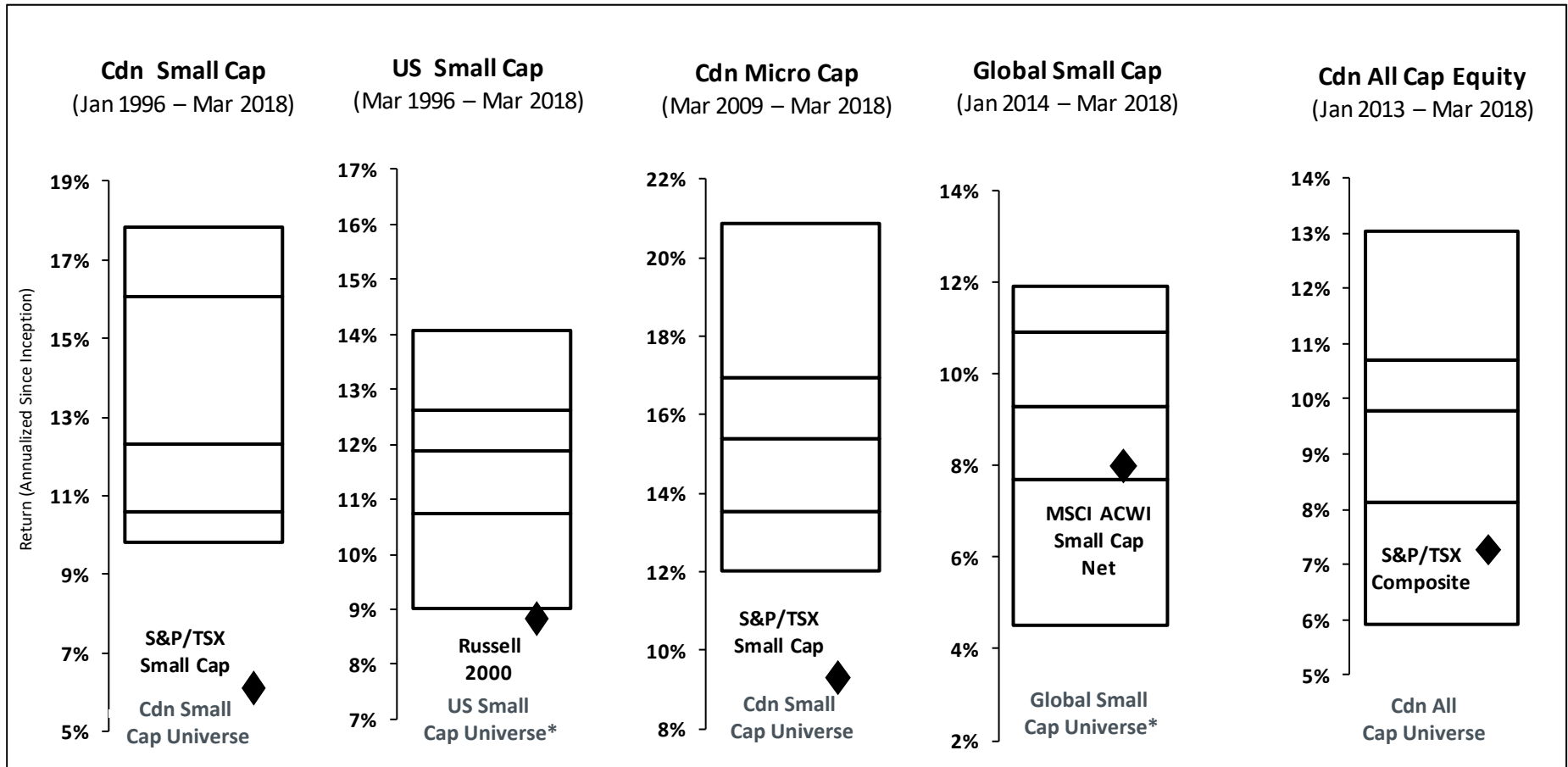
# The Promise of Active Management

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# The Long Term Promise of Active Management Has Been Realized

## Performance Ranking



\*Performance denominated in USD

Source: eVestment Alliance March 31, 2018. Returns are gross of fees. Past performance is not indicative of future return.

S&P/TSX Small Cap Index performance is represented by the TSE200 before Feb 2000.

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## The Stampede Into Smart Beta

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### Largest Smart Beta ETF's

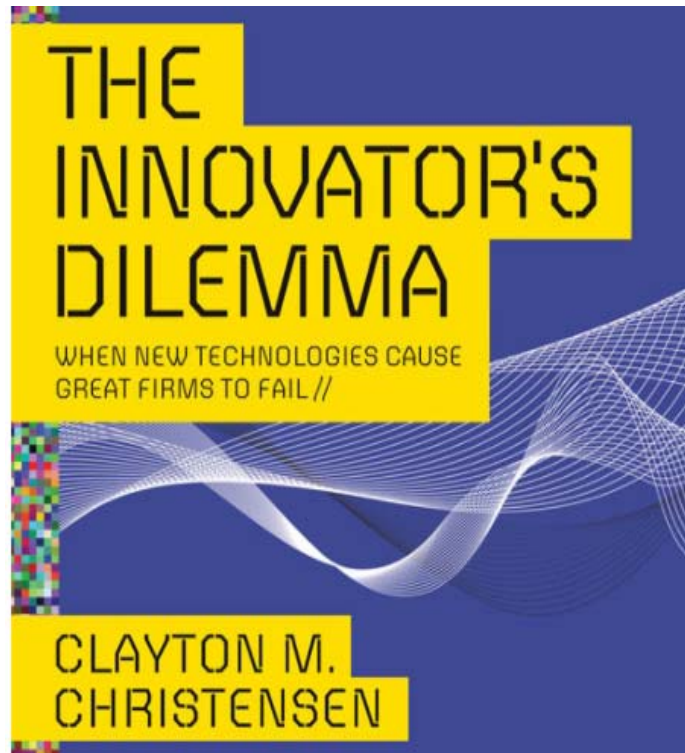
ETF Name	MER (%)	AUM (\$US Billion)
iShares Russell 1000 <b>Value</b> ETF	<b>0.20</b>	<b>\$39</b>
iShares Russell 1000 <b>Growth</b> ETF	<b>0.20</b>	<b>\$45</b>
Vanguard <b>Value</b> ETF	<b>0.05</b>	<b>\$45</b>
Vanguard <b>Growth</b> ETF	<b>0.05</b>	<b>\$38</b>
Vanguard <b>Dividend</b> Appreciation ETF	<b>0.08</b>	<b>\$31</b>
Vanguard High <b>Dividend</b> Yield ETF	<b>0.08</b>	<b>\$23</b>
SPDR S&P <b>Dividend</b> ETF	<b>0.35</b>	<b>\$17</b>
iShares S&P500 <b>Growth</b> ETF	<b>0.18</b>	<b>\$23</b>
iShares Edge MSCI <b>Min Vol</b> USA ETF	<b>0.15</b>	<b>\$17</b>



Source: See ETF.Com, As of October 14, 2017.

## Smart Beta Is A Disruptive Industry Innovation

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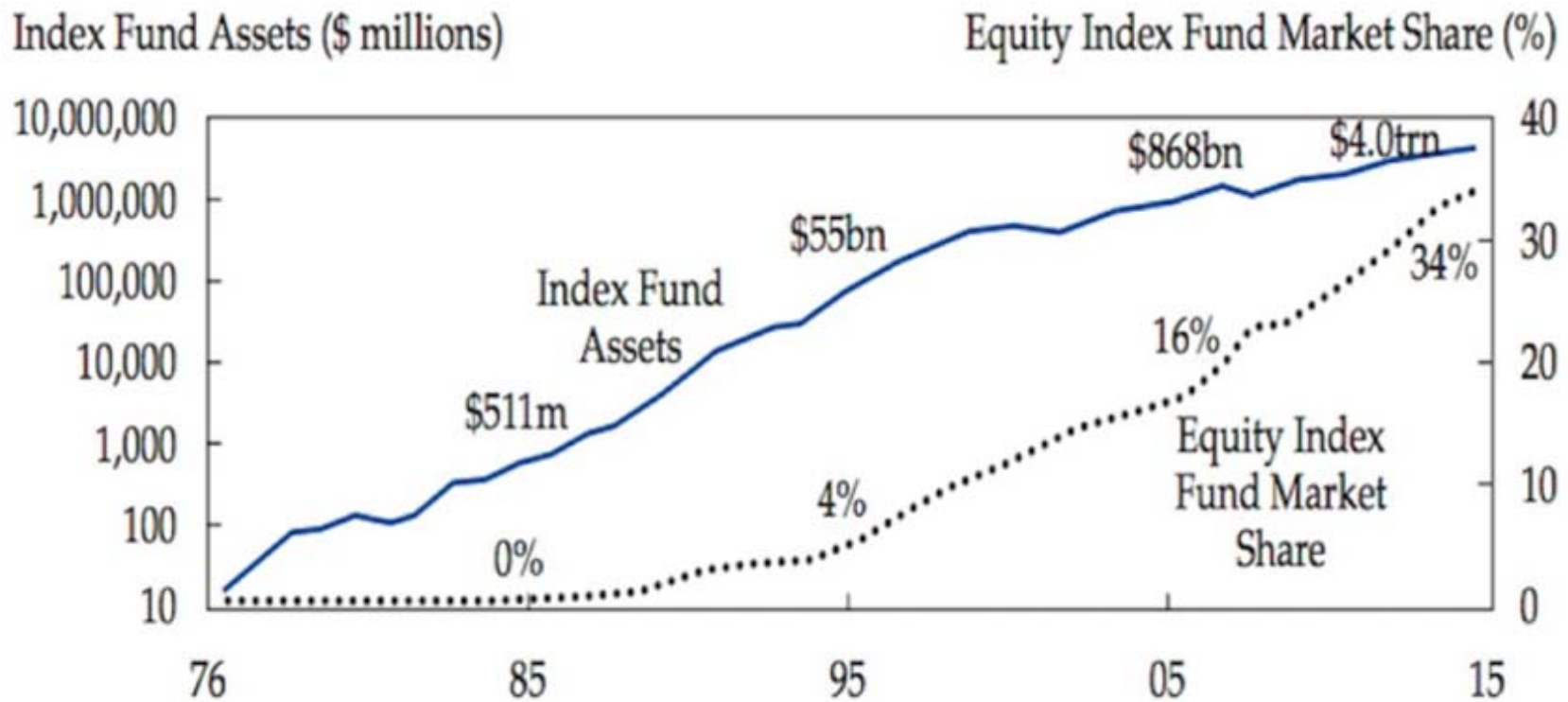


- » **Blurs the Lines Between Active vs Passive & Between Fundamental vs Quantitative Strategies**
- » **Resembles Active Management But Is Priced Much Lower**
- » **As A Disruptive Innovation, Smart Beta Strategies Imply That An Active Investment Manager's Strategy Can Be Replicated At A Much Lower Cost**



# An Optimistic Outlook For Active Management: Over \$4 Trillion Invested In “Non-Information Based” Investing

## More Than \$4 Trillion In Equity Index Fund Market Share 1976 - 2016



Sources: Morningstar; Strategic Insight Simfund.



<http://www.businessinsider.com/index-fund-assets-under-management-2016-Jan>

The incredible rise of the \$4 trillion equity index fund business in 1 chart

## The Future Of The Business & Consequences

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- Technology Has Flattened the Playing Field of The Money Management Business & Will Continue Doing So In The Future
- Large Public Pension Funds Will Increasingly Compete for Talent, Securities & Headline News. Will Diseconomies Set In?
- Skillful Money Management, Either in the Form of Smart Beta or Smart Alpha, Will Always Be Elusive
- Smart Beta Is A Disruptive Industry Innovation Creating More Noise, Capital Misallocations and Popularizing Quantitative Strategies
- An Optimistic Outlook For Active Investment Management Due To The Rise Of Non-Information Based Investing



# Appendix

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## Individual Investor As CIO

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30 Years Ending 2015

Average Equity Fund Investor: +3.7%

S&P500: +10.4%



# Harry S. Marmer

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**Harry S. Marmer**, CFA, MBA, BBA, Partner. Prior to joining Hillsdale in 2008, Mr. Marmer led the Canadian institutional business of Franklin Templeton Investments and before that the institutional business at Russell Investment Group. He was also a principal and co-leader of Mercer's Canadian Investment Consulting Practice. Before this he was a senior investment analyst at Sun Life Canada.

Mr. Marmer is a frequent conference speaker and has authored more than 49 articles and a book entitled, "Perspectives in Investment Management." Currently, he continues to volunteer for the CFA Institute on the Speaker Retainer Program and is a member of the Investment Committee of the Canadian Friends of Hebrew University.

Mr Marmer is currently on the Editorial Board of the Journal of Investing, was past president of the Toronto CFA Society, and served on a number of other industry boards. He was awarded the Toronto Society's Research Award and received the Society's Volunteer of Distinction Award.



# Footnotes And References

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## **Footnote 1 – Source of Data**

All data presented is from Hillsdale’s proprietary database unless indicated otherwise. This open architecture database consolidates information from a variety of selected sources supporting Hillsdale’s research, portfolio management and reporting activities.

## **Footnote 2 – Backtest**

Performance and other data in this presentation are shown for illustrative purposes only. Backtested returns are based on a quantitative testing process where stocks are selected based on specific investment objectives including both expected return and risk metrics. All backtested returns are shown gross of fees and are calculated in Canadian dollars or in another currency as indicated. No representation is being made that the investment process will achieve similar returns on a going forward basis. Investors should not take the data included in this presentation as an indication, assurance, estimate or forecast of future results. Actual returns may differ materially from the returns shown for reasons including, but not limited to, investment restrictions and guidelines, fees and other expenses, cash holdings, timing of trade execution and fluctuations in the market.

