The Institutional Investment Landscape:
The Times They Are A-Changin'

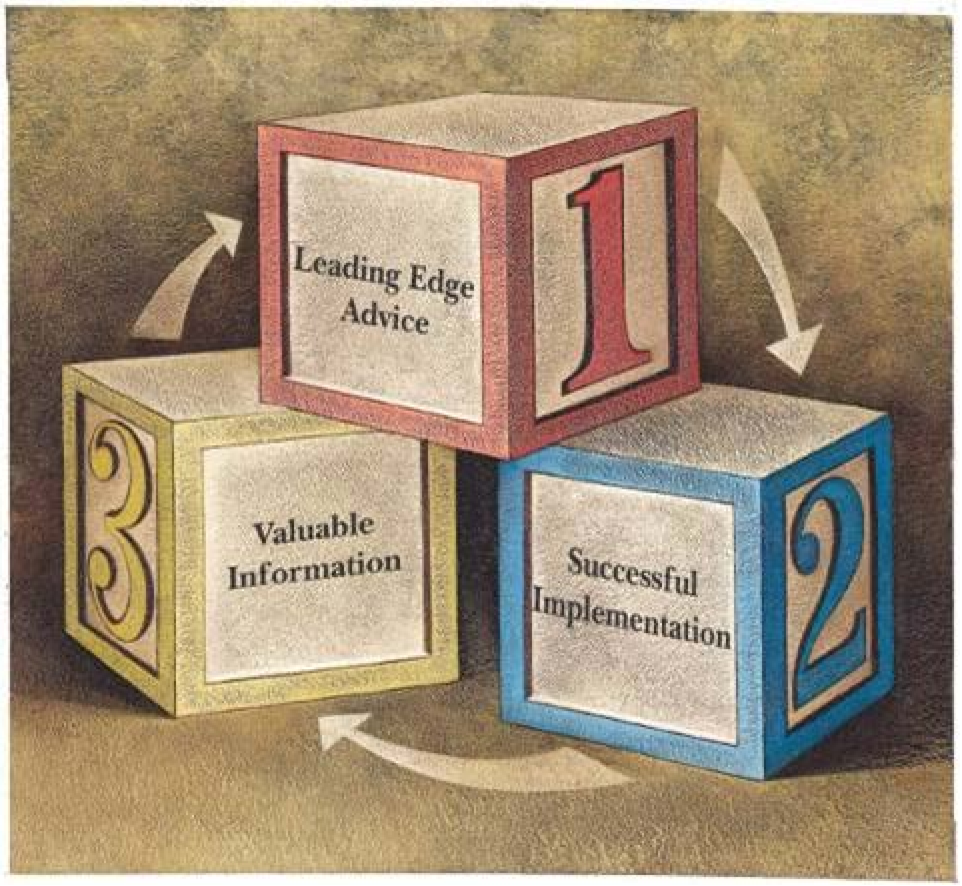
Hillsdale Investment Management

Harry Marmer, CFA, MBA – Executive Vice President, Institutional Investment Services
416.913.3907/hmarmer@hillsdaleinv.com

Discussion Topics

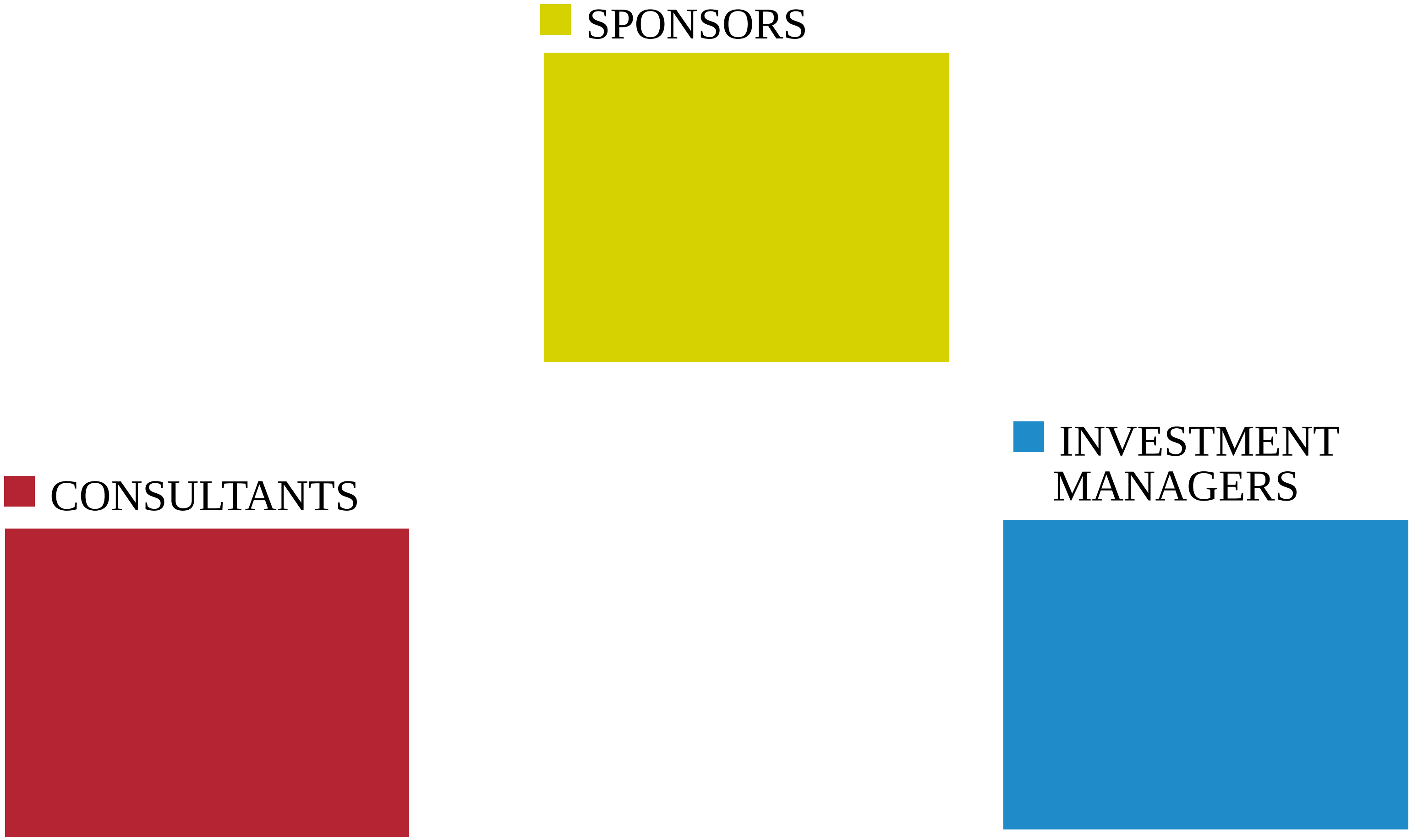
- The Three Key Building Blocks For Successfully Managing Institutional Assets
- The Three Key Building Blocks Have Crumbled, Why?
- Where Do You Want To Work?

The Three Key Building Block for Successfully Managing Institutional Assets



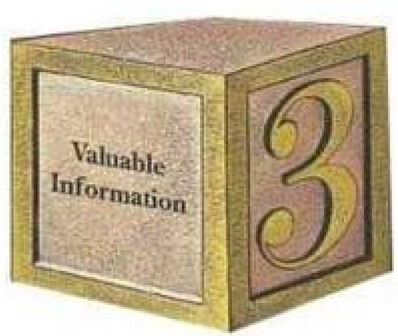
 Source: Harry Marmer *"Perspectives on Institutional Investment Management" 2002*

The Institutional Investment Troika or “Holy Trinity” Reflected these Three Key Building Blocks



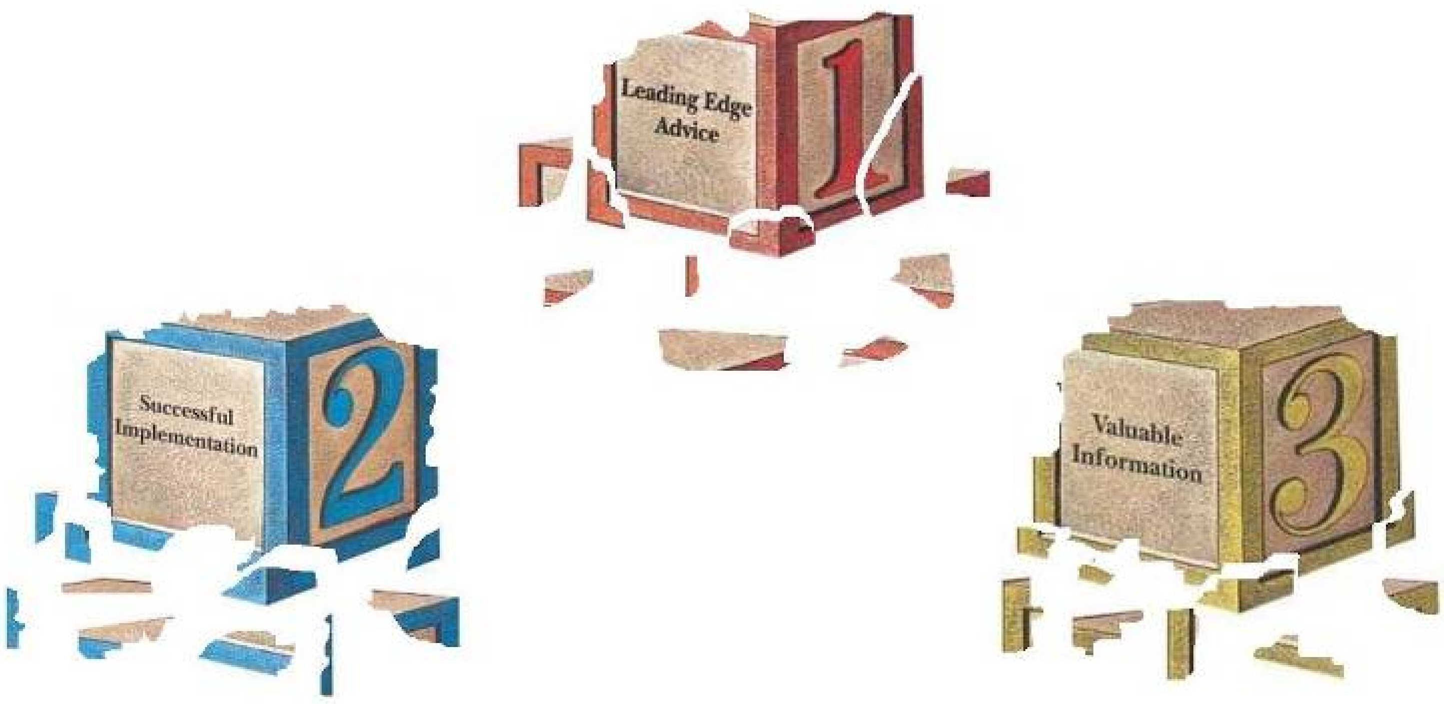
What Was The Traditional Institutional Landscape

- CONSULTANTS
- INVESTMENT MANAGERS
- SPONSORS



Where Are We Today?

The 3 Building Blocks have Crumbled!!



Key Factors Melting The Building Blocks

Main Drivers or Themes Include:

- Technology
- Financial Innovation
- Extremely Competitive Landscape
- The End of the Foreign Investment Limits
- Powerhouse Sponsors
- DC for Declining Confidence

The Rise Of Technology

Technology Has Significantly Impacted Consultants

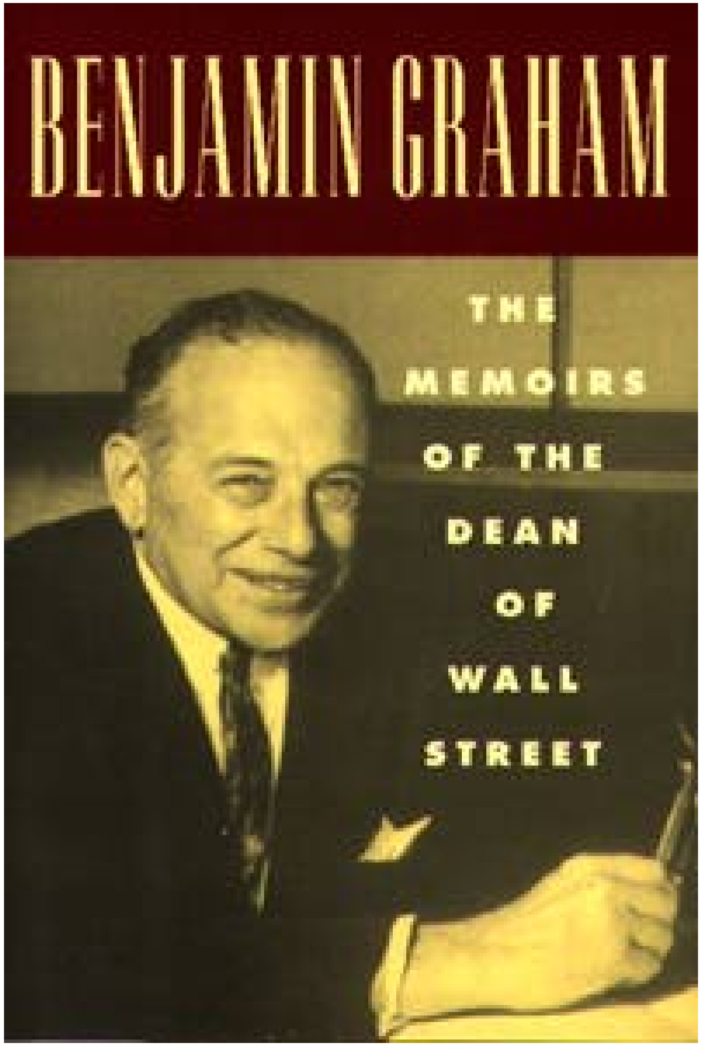
- Investment Manager Databases– Quantitative and Qualitative Data
- Optimal Asset Mix Programs
- Asset/Liability Spreadsheets
- Capital Market Data
- Stock Fundamentals

Implications for Consultants

- Increase in Sources of Competition
  - Brokerage
  - Insurance Companies
  - Money Managers
  - Non-domestic

- Reduced Demand – Commoditization - Margin Pressure – Professional Turnover

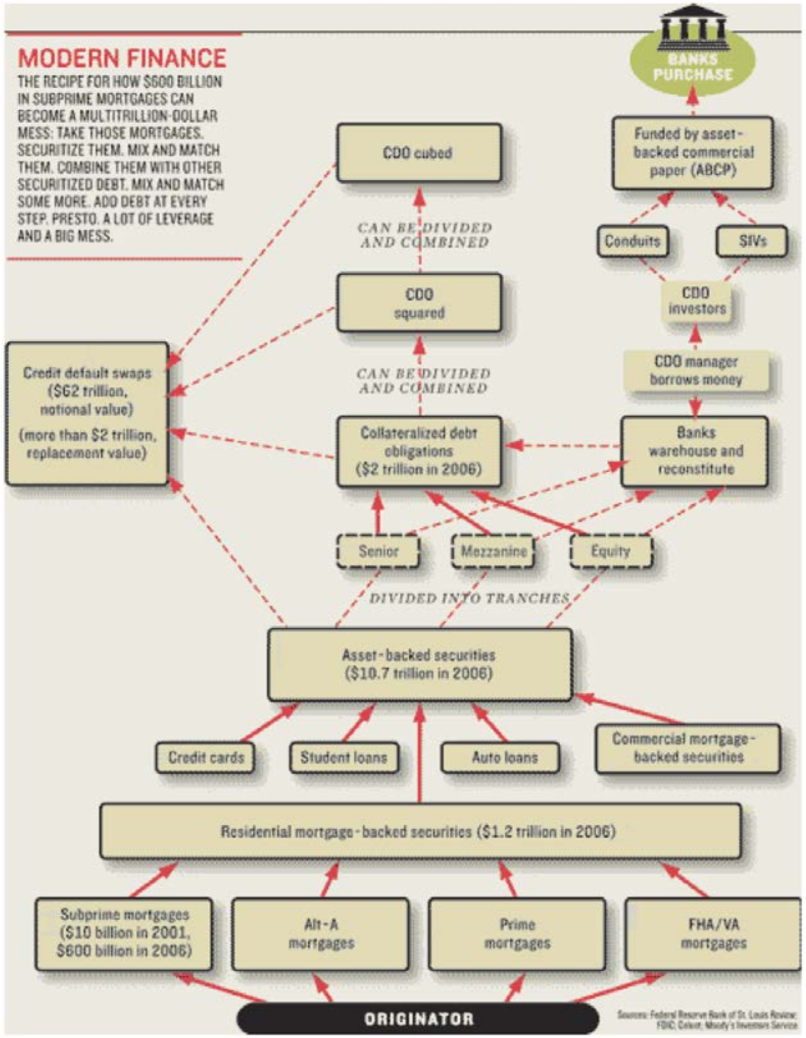
The Evolution of Investment Management



The Advancement In Computing Power Has Led To Innovations In Financial Thinking, Approach, Markets & Products

- Pure Mathematical Modeling
- Rise of Quants
- Freely Competitive Exchanges
- High Frequency Traders
- Securitization

Financial Innovation – The Ugly



Source: Federal Reserve Bank of St. Louis Review.

How Many of These Managers Were in The Top 10 in 1979?

Top 10 Money Managers in 1979	
Royal Trust	✓
Morguard Investments Ltd	✓
Sun Life	✓
Canada Trust	✓
Standard Life	✓
Confederation Life	✓
Nation Trust	✓
Canada Life	✓
Montreal Trust	✓

Why? Many Reasons

1. The End Of The Foreign Investment Limits

- Protection for ‘Canadian” Money Managers Disappears
- “Non-Canadian” Firms Chase All Asset Classes
- Opportunity to Consider More Non-Domestic and Alternative Strategies

2. The Rise of Passive Management

3. The Increase In Alternatives

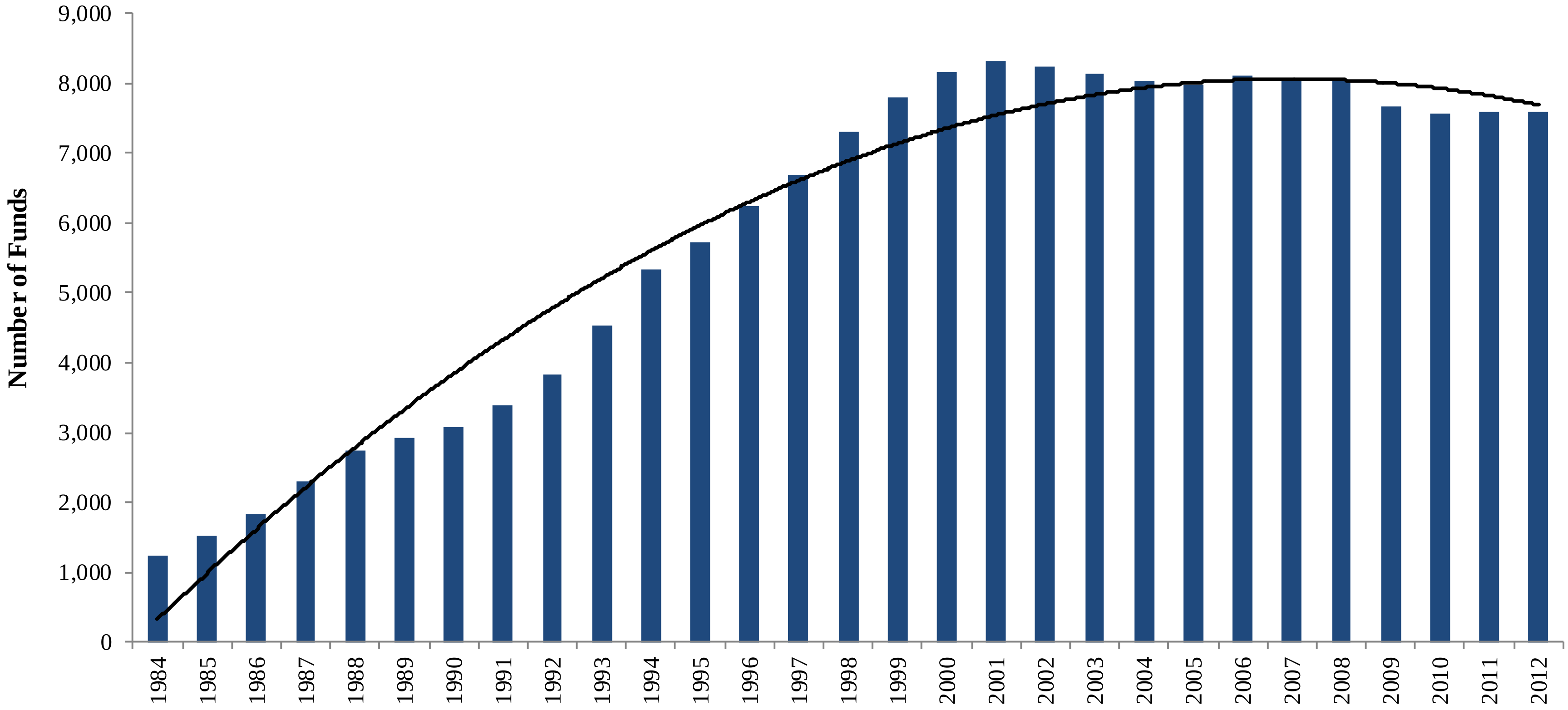
4. Industry Maturity

Industry Maturity – There Are More Mutual Funds Than US Stocks

At The End Of 2013 There Were 5,008 U.S.-listed Stocks[1]

Number of Mutual Funds

Yearly, 1984 - 2012



1 – Wall Street Journal

Source: Investment Company Institute 2013 Investment Company Fact Book.

Powerhouse Sponsors – Vertical Integration

The S-Cubed Factor

- Scale

- Sophistication

- Smart

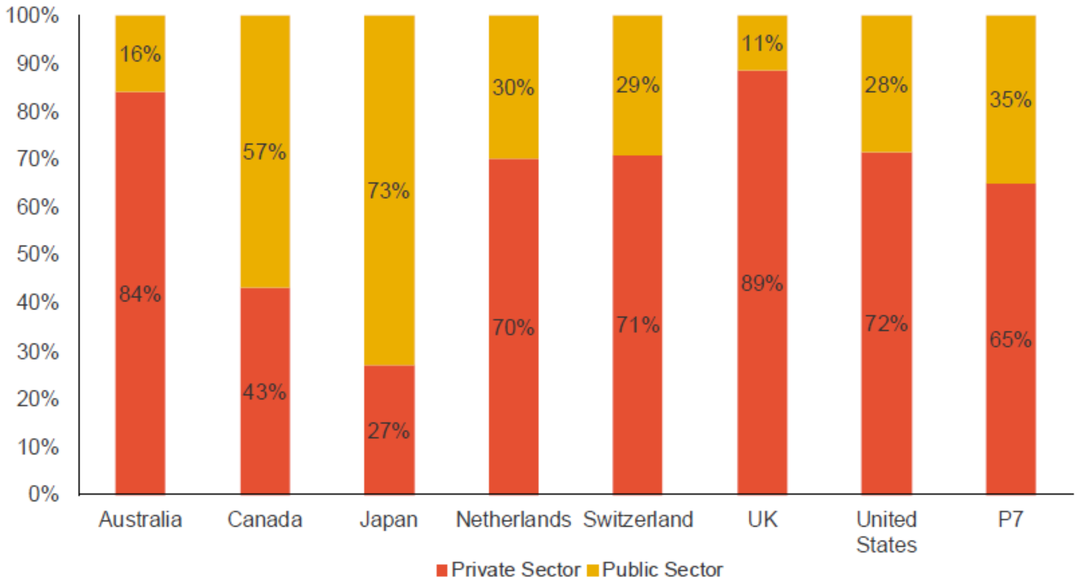
Vertically Integrated

These Powerhouse Sponsor Are Public Sector

P7

Public vs. private sector

By markets – estimated values at 2011



- Considering the pension assets of the P7 group, 65% of them are held by the private sector and 35% by the public sector.
- In the UK and Australia the private sector holds the biggest portion of pension assets, accounting for 89% and 84% respectively of total assets in 2011.
- Canada and Japan are the only two markets where the public sector holds more pension assets than the private sector, holding 57% and 73% of total assets respectively.

Source: Towers Watson and secondary sources

Methodology does not provide an estimate for 2012