



Ontario pension fund manager IMCO signs on new clients

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Investment Management Corporation of Ontario is bringing on board four new clients with a combined \$2.6-billion in assets, the first significant new money since the pension fund manager launched in 2017 with the goal of consolidating public-sector fund assets in the province.

Starting next year, IMCO will manage funds for the Financial Services Regulatory Authority of Ontario (FSRA), new home warranty provider Tarion, Ottawa's OC Transpo transit system and the Ontario Clean Water Agency (OCWA) after winning competitive bidding processes against third-party investment managers.

The new mandates double the size of IMCO's client base from four to eight portfolios, with its original clients – the Workplace Safety and Insurance Board and the Ontario Pension Board – still by far the largest. The new portfolios are modest additions to the \$73.3-billion IMCO currently manages, but they signal an important vote of confidence in the pension fund manager, which has been slower to consolidate assets from Ontario's public sector than it had anticipated at its launch.

“For all of our clients we provide them with an end-to-end investment solution that's cheaper than anything they could do on their own,” said IMCO chief executive officer Bert Clark in an interview. “And we now know that because we've competed on multiple occasions to win the clients that are joining, and that's what our clients told us.”

IMCO's mandate allows it to invest the assets of public-sector pension plans or investment funds in Ontario, including those of government agencies, municipalities, Crown corporations, non-profits and universities or colleges. That gives it a pool of about 100 potential clients managing \$140-billion of assets that it can pitch to win new business. But Mr. Clark said convincing clients to sign on is a slow process and will likely stay that way.

“It's taken longer than I thought, but in retrospect it's not taken longer than was realistic. I just probably had an overly optimistic perspective on how long it would take,” he said.

He now expects IMCO could add one to two new clients in a typical year. “Consolidation isn’t going to be a quick process,” he said.

In FSRA’s case, IMCO will manage the \$1.2-billion Pension Benefits Guarantee Fund, which protects beneficiaries in single-employer pension plans when bankrupt employers can’t meet their obligations to pensioners. Increasing investment returns for the guarantee fund “will provide greater protection to these beneficiaries, and we are confident in IMCO’s ability to improve these returns,” FSRA CEO Mark White said in a statement.

Similarly, IMCO will manage Tarion’s \$702-million guarantee fund, which provides protection to new homeowners making warranty claims, “from small issues right up to the worst-case scenario,” said Tarion CEO Peter Balasubramanian.

For the City of Ottawa, IMCO will manage a \$633-million defined benefit pension plan for transit employees that is closed to new members and will wind up over time. And it will also manage a \$50-million reserve fund for the OCWA, a Crown agency offering safe-water solutions to municipalities, First Nations and businesses, among others.

Importantly, Mr. Clark said IMCO now manages almost every type of client that falls within its mandate, including municipal and provincial funds, both closed and open pension plans, as well as insurance and reserve funds.

“The reality is most public funds and public organizations don’t like to be first movers,” he said. When IMCO courts a new client, “it gives us the ability to say, ‘We manage one of those already, you don’t need to be the first.’”

The pitch IMCO makes to prospective clients promises lower costs, with fewer fees paid to outside managers because of its larger scale and capacity to make direct investments. It also offers advice on the best mix of assets for a given fund, greater access to private-market investing in asset classes such as private equity and infrastructure, and risk management across the whole portfolio.

IMCO had disappointing investment results in 2022, with an average loss of 8.1 per cent across its clients’ portfolios, but still beat its benchmark. After three tumultuous years in markets, the investing outlook as 2023 draws to a close “looks significantly better today than it did back at the start of the year,” Mr. Clark said.

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