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Managers sweat out 5th season

Barry Critchley, Financial Post

The rest of us get by with four seasons, but for those whose job it is to manage investments for pension funds, there is the all-important fifth season -- performance-review season. It has just started and is expected to run for another few months. It can, for some managers, be more brutal than the winter season from which we are emerging.

"There will be some changes," said Vaino Keelmann, a principal and consultant at API Asset Performance, a pension consulting firm, when referring to the results from meetings held between the plan sponsors, their trustees, the consultants and the money managers. Keelmann said the trend is underway, referring to the recent request from one pension fund client for the name of its worst-performing manager.

Keelmann expects the trustees will give special focus to the two-year results posted by managers, meaning to what extent the manager recouped the significant losses that were made in 2008. "We are looking at in two years who has made it back," said Keelmann, whose firm measures the performance of money managers. API does that by focusing on the results for pooled funds offered by the managers to the pension funds.

Why is a manager's two-year performance the key measure? Keelmann said this term shows how well a manager has recovered after the harrowing days of 2008. "Everyone gritted their teeth with the huge losses that were sustained in 2008. And the managers said 'they would recover' when the markets did recover. Now we know which managers have recovered," he said, adding that over the two years to the end of 2009, the overall market, as measured by the S&P/TSX composite index, has still not recovered. It is off by 4.6% over the two years.

According to API's numbers, the list of managers that have posted positive compound returns over the two years in the local market is short. The Van Arbor Canadian Advantage Fund was the top performer with two-year gains of 17.4%. Three pooled funds managed by Goodman Investment Counsel -- the equity value fund, diversified real-estate fund, and dividend equity fund -- have also fully recouped the losses. Some small funds -- Guardian Income Trust, Hexavest Canadian Equity, Howson Tattersal Canadian Value, Jones Heward Canadian Equity, Montrusco Bolton Equity Income, Natcan Social Value Canadian Equity Strategy -- also posted positive two-year numbers. Trimark Canadian was also ahead over the two years. Among small-cap funds, Beutel Goodman, CC&L, J. Zechner & Associates and Natcan, all recorded two-year results.

At the other end of the scale is HighStreet Canadian Growth Fund, a small-cap fund that was off by 18.1%. Acuity's small-cap fund, Greystone's small-cap fund. MFC Global's Canadian large-cap core fund. Hillsdale's performance equity fund and Montrusco Bolton's quantitative Canadian equity fund also recorded double-digit two-year losses.

A group of managers -- including Industrial Alliance, Jarislowsky Fraser and Wise Capital Management -- posted negative returns but better than the benchmark.

So what are the pros and cons of changing managers? Keelmann said the main reason to change is that a manager's "downside volatility is in excess of their upside, meaning the manager doesn't make up the losses when the market returns. It's all a function of how they manage the money," he said.

On the other hand, managers will argue they haven't had enough time to display their wares.

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