Cidel
Asset Management

Cidel Multi-Asset Class Strategies

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Q&A with Bill McKay

By James Porter, EVP, Canadian and Institutional Business

In early June, I sat down with Bill McKay, Head of Multi-Asset Class Strategies at Cidel, to discuss how alternative investments in client portfolios may be beneficial.

James Porter – **Bill, maybe we should start simply by defining an alternative investment?**

Bill McKay – The easiest definition is to describe an alternative investment as a different strategy than simply purchasing bonds and stocks in investment portfolios. An alternative investment can range from real estate, to arbitraging values between securities or markets, to infrastructure like roads and airports. Our real aim when we look at this space is 'How we can deploy alternatives to improve the risk-reward profile of a given investment portfolio for our clients?' Put simply, this is possible because the returns of alternative investments are frequently not highly correlated to public markets, whether shares or bonds.

James Porter – **What is Cidel's take on alternatives and how do we deploy them?**

Bill McKay – Firstly, we take a look at each client's situation carefully to understand their situation and objectives well. Alternatives can be a part of the solution for many clients when and where the fit is right. It is all about understanding our clients' needs from a cash flow, return, liquidity and preference standpoint. Fundamentally, for most clients, Cidel sees these strategies serving two core purposes.

The first is seeking a way to supplement the portion of a client's portfolio that, traditionally, would have been entirely allocated to bonds. The aim is to provide better returns than a typical bond portfolio may provide while still playing a key role in dampening overall portfolio volatility. This is reflected in the Cidel Relative Value strategy. The return we expect from this strategy is one that is well above inflation and taxes – while doing so with a very high degree of consistency from year to year. This strategy can also perform well in environments when bonds do poorly, such as when interest rates are rising, and thus acts as a good complement to bonds.

The second purpose is seeking equity exposure to benefit from potentially higher, longer-term returns while aiming to reduce the level of volatility that one typically experiences in the equity markets. These Long-Short strategies normally result in the client giving up some of the upside potential of equities, but benefitting from better downside protection. The managers are able to not only buy shares they believe have return potential, but also to sell short some companies they believe are overvalued with a view that the shares will go down in price.

In both cases, Cidel is expanding the toolkit that our team has to meet our clients' objectives. Some of the world's largest investors use these strategies and we have worked diligently to bring them to our clients with an aim of delivering better risk-adjusted returns.

James Porter – **How does Cidel put this all together for clients?**

Bill McKay – My team is focused on building the right strategies to meet client objectives. We look at building these strategies from a portfolio perspective. It starts with on-the-

ground research and sourcing leading alternative managers from around the world. This entails detailed due diligence such as advanced research, telephone interviews, and site visits to their offices to meet their team which allows us to understand the strategy thoroughly, what their particular edge is, and to get a view of their overall operations. We want to have a thorough understanding of both their investment and operational risks. Cidel reviews approximately 150 to 200 managers annually. From there, we develop shorter lists of managers that deserve deeper due diligence. We want to ensure that managers have sustainable processes to find returns in their space and that they have the capacities to deliver for years to come.

Following that work, we build a portfolio to accomplish each of the objectives noted above. The portfolio is diversified across strategies and managers, making sure that each manager can contribute to overall performance while still keeping the tolerances within our risk control framework. Cidel is able to access world class managers by doing on-the-ground work and combining client buying power to meet what are often considerable minimum sizes.

James Porter – Does this add to the costs for clients?

Bill McKay – Cidel does not charge an extra fee for managing alternative investments in our client portfolios. We look at including them in the portfolio just like any other investment type. The managers of the underlying strategies, however, do charge their own fees. In all of our analysis, we observe potential returns on an after-fee basis. The reality is that many of these managers have highly talented experts who understand their specific niches very well. If our work shows that managers can add value after they charge their fees and meet all our requirements, they would be a candidate for our strategies. If they cannot, or if we are not convinced, our team will eliminate them from consideration. We know clients seek value for their investment management fees and that guides how Cidel works in this space.

James Porter – Can you explain how the Relative Value strategy works?

Bill McKay – The objective of the Relative Value strategy is to create a similar risk (or volatility) as investment-grade bonds, but a return expectation greater than that of bond markets (and lower than that of equity markets). Also, it should not be negatively correlated to interest rates in the way that bonds are, and thus helps provide diversification to our clients' portfolios. This strategy allocates to four broad areas: credit strategies; event driven strategies (such as merger arbitrage); market neutral equity strategies (which take no directional equity market exposure); and diversifiers (largely macro strategies investing in currencies and interest rates). There tends to be a low correlation among these four broad areas and none of them are reliant on upward-trending equity markets to deliver returns.

For more information on how alternatives may add value to your portfolio, please speak with your dedicated Wealth Consultant.

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