Institutional Ideas Exchange

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Author: Zachary Barsky | Director, Client Portfolio Management

The inaugural RPIA Institutional Ideas Exchange took place on February 1st, 2024 in Ottawa, ON. This event series brings together groups of local institutional investors for a dinner and panel discussion. Ottawa's panel covered an array of topics, including portfolio construction, risk management, and portfolio considerations in the current macroeconomic environment. While each institutional investor has unique objectives, a few over-arching themes emerged from our discussion, which we have summarized below.

Liquidity and Resilience are Vital

Liquidity can mean different things during a normal market environment based on each respective investor's cash flow needs. A predictable schedule of contributions or payments certainly helps from a budgeting perspective, and a Plan's asset mix should reflect these needs. This becomes especially important when considering stress environments. Scenario testing various market conditions can be a helpful input into the decision-making process, but it needs to be tied back to cash requirements. Institutions should be asking, "Hypothetically, would we have enough access to cash or short-term marketable securities to continue making our payments if the market drew down 10, 20, or 30% over a 10-day period?" An institution's response to this question can help inform their asset mix decisions.

The Continuous Flow into Private Assets

Private asset flows continue to be prominent, with some institutions seeing private assets reach 40-50% of their total portfolio. Most of these are commitments that were made years ago, while others are re-investments in the newer vintages of longer-dated relationships. Although the lack of pricing transparency can be a benefit to investors with a long-term focus, you can estimate "true" pricing volatility when comparing these assets to relevant public indices. Moreover, institutional investors should re-test their liquidity needs before increasing or re-allocating to new private investments. In today's market environment, an institution might not need to reach the upper bounds of their policy target given the relative attractiveness of public market alternatives (public credit compared to private credit, for example).

What Worked in the Past Might Not Work in the Future

Investors could have had strong returns over the past decade or so without having to do a lot of hard work. In other words, merely being in the right areas of the market - namely equities and private assets – would have delivered double digit returns on an annualized basis. This appears unlikely to repeat itself in the decade ahead, partly owed to sticky higher inflation and a potentially higher terminal rate environment. Intentionality in your asset mix and manager selection is critical in this environment. There is also the potential opportunity for quick wins from a portfolio construction perspective; an area where active credit appears very compelling.

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