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Monitoring the performance of our money managers

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We work with various portfolio management teams who select the individual investments for your portfolios. These managers must continuously prove and improve themselves, otherwise they may be replaced by stronger alternatives. We have a dedicated team that monitors and evaluates their results, led by Marchello Holditch, Director, Multi-Asset Management. This month, I have interviewed Marchello to give you an overview of the team's process.

Alfred: Can you tell our readers about your experience?

Marchello: I obtained an Honours Bachelor of Mathematics degree in actuarial science and finance from the University of Waterloo and I hold the Chartered Financial Analyst (CFA) designation. Prior to joining CI, I worked at a major global consulting firm where I assisted a wide variety of institutional clients, including defined benefit and defined contribution pension plan sponsors. I have worked with the investment committees of large multinational corporations. I selected and oversaw best-in-class money managers and every decision I made was meant to ensure the best outcome for pension plan participants.

Alfred: How does your team select portfolio management firms?

Marchello: We currently have relationships with 22 portfolio management groups that provide investment management on specific asset classes and styles. Portfolio managers are selected based on a proven philosophy and process, strong teams, solid track records and how well the portfolio management teams complement each other and add value to our overall program. We favour managers who excel at security selection and who are not afraid to deviate from the benchmark to achieve attractive returns and potentially lower risk. We have five individuals on our team and each of us is responsible for monitoring a subset of the 22 portfolio management teams.

Alfred: Can you describe your portfolio manager review process? Has it changed over the years?

Marchello: We follow a defined process and regularly monitor the performance of the portfolios. Our team regularly compares manager performance to peers and benchmarks and monitors the composition of the holdings for any unintended changes in sector, style or currency exposure. Our team holds a formal bi-weekly meeting to discuss shorter-term performance and any major changes in portfolio positioning or holdings. On a quarterly basis, detailed performance attribution is created using holdings-based and factor-

based methods. Our team also meets with the portfolio managers at least twice a year to review and discuss performance, investment process and resources and to gain further insight into their investment outlook, strategies and portfolio positioning. The rigorous selection and monitoring process applied by our team has become more formalized over the years as we have invested in new technology to help us better monitor the portfolios.

Alfred: Under what circumstances would you replace a portfolio manager?

Marchello: A portfolio manager or strategy may be replaced in the event of a major change in people (such as a key portfolio manager leaving the firm), business (the firm being bought, sold or merged with another organization), process (a key change in the way securities are evaluated) or performance (several periods of underperformance). In general, we prefer to work with the manager to resolve any issues. Research on potential internal or external manager replacements is done on an ongoing basis. Recently, several senior investment professionals left one of our portfolio management teams. We met with the remaining investment professionals and decided we had a better alternative. For that reason, we replaced them. We hired a money manager who was on our radar for several years and possessed a long history of successfully managing portfolios with the same strategy.

Alfred: Lastly, what are your thoughts on passive investing?

Marchello: Passive investing is based on the notion that there is one portfolio (the market portfolio) that is optimal for all investors. However, we do not agree. Each investor needs to understand his or her own goals and tolerance for risk to determine which investment strategy suits them best. In addition, numerous studies point to the existence of substantial market inefficiencies at the security level that can often be exploited to generate excess returns over the long term. Our managers seek to invest in quality securities that offer better investment potential than the overall market. They also avoid jumping on the bandwagon when a particular “hot” stock or sector starts to take off, fuelling an irrational buying frenzy that could eventually lead to a permanent loss of money.

Combined top 15 equity holdings as of October 31, 2017 of the Evolution 40i60e Standard portfolio with Alpha-style exposure:

1. Canadian Natural Resources	6. Alphabet Class A	11. SNC-Lavalin
2. Microsoft	7. Walgreens Boots Alliance	12. AltaGas
3. Apple	8. Suncor Energy	13. Praxair
4. Atco	9. Wells Fargo	14. Franco-Nevada
5. UnitedHealth	10. Athene Holding	15. PrairieSky Royalty