

The Wise Search

Alternative roads less travelled



EDITORIAL

“Search well and be wise,” said the Greek dramatist Aeschylus. Those words speak to the current search of many pension plan sponsors for improved investment returns during a severe market downturn. Call it the quest for alpha.

The theme of searching is prominent this spring in *Canadian Investment Review*. Many plan sponsors are looking beyond traditional investments to alternative strategies in order to generate positive returns. Sponsors also are interested in investment vehicles offering returns that are not correlated to the movements of struggling capital markets. These non-traditional instruments include hedge funds, private equity and venture capital. Some sponsors have already incorporated non-traditional investments; others are still kicking the tires.

Overseas markets also present alternatives for plan sponsors searching for even more broadly diversified investment opportunities. However, last month's budget from federal Finance Minister John Manley did not offer increased opportunities to diversify. While Ottawa raised contribution limits for registered pension plans and RRSPs, it chose to hold the Foreign Property Rule (FPR) at 30 per cent. The lack of movement on the FPR was disappointing.

Shortly before budget day, Ottawa was urged to scrap the FPR by the authors of a study jointly sponsored by the Pension Investment Association of Canada and the Association of Canadian Pension Management (ACPM). The study argued that the elimination of the FPR would

provide Canadians with additional diversification benefits ranging from between \$1.5 billion and \$3 billion annually. Manley was not swayed.

The ACPM said it believes that Manley and senior Finance officials understand the argument for eliminating the FPR and it remains “optimistic” this proposal will be adopted. So, pension plan sponsors remain limited in their choice of a desired foreign investment position.

In an environment of low real investment returns, rising liabilities and increased risk, how can sponsors of pension plans narrow the gap between their assets and liabilities? The search for ways to establish sustainable pension plan arrangements in such an environment will not be comfortable, but it is necessary. Is there another option?

Since taking over as the editor of *Canadian Investment Review*, I have been told that this is a “challenging” time to write about the pension industry. A Chinese curse—“May you live in interesting times”—keeps popping into my thoughts. Nevertheless, I welcome the opportunity to work with academics, institutional investors and practitioners to publish original ideas and insightful research during these times. The journal and its three related conferences are robust platforms for sharing perspectives on institutional investment and economic theory. I look forward to the challenge of the wise search. ■

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