



WITH MORNEAU SHEPELL, CIO FRISHMAN AIMS TO OFFER MORE TO F&E'S

BY NICK LILOUDIS | MARCH 31, 2016

In an unconventional investment landscape, Morneau Shepell CIO Zev Frishman has found that a traditional consulting approach has not been working for clients with fewer resources and more spending needs, which is why he has advocated for the greater use of delegated solutions by institutions.

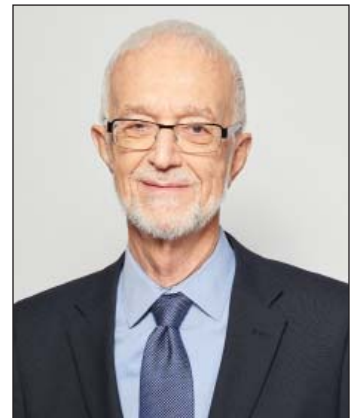
"Many of these plans have consultants, they will come in once a quarter, but they do not have the fiduciary responsibility of managing [an investment portfolio] and executing the investment process day-by-day," said Frishman, who recently joined the firm after an investment career that includes serving as v.p. of global equity strategies for the Ontario Teachers' Pension Plan, and most recently, as senior v.p. of investment management and cio of outsourced cio firm Open Access.

Frishman's joining Morneau Shepell was borne out of a mutual interest to offer an outcome-oriented solution through the outsourced cio model to institutions such as foundations, endowments and pension funds that is not currently prevalent in the marketplace, he said.

"I met [Partner and Investment Consulting Practice Leader] Rob [Boston] from Morneau and thought it was a great environment where this can be developed and pushed forward," he said.

Frishman said the firm's investment management arm, with \$4.5 billion in assets under management, was the perfect size to be nimble and entrepreneurial, with enough depth from its longstanding investment consulting services arm to push the outcome-oriented solution forward.

"There's only so much a board of directors or an investment committee can do in a couple of hours once a quarter or even once a month. You can get so much more than that by hiring someone who can look at your portfolio on a day-to-day basis," he said.



Zev Frishman

A VALUE-ADDED INVESTMENT APPROACH

When taking a 50-foot approach to understanding a client's portfolio, Frishman continues to believe that asset allocation takes precedence over manager selection.

"I really strongly believe, and significant empirical evidence supports the idea, that asset allocation is a stronger driver of performance than manager selection," Frishman said. "Not to say that manager selection is not important, but to me it will always be

secondary. If you get the asset allocation wrong, you will have a tough time compensating for that. The critical importance of asset allocation is also supported by firms such as GMO and Research Affiliates.”

Beyond asset allocation, Frishman said his long-term view is that returns are driven by valuations, which is consistent with the consulting and asset management leadership teams of Morneau Shepell, whose senior professionals include Boston, Principals Joseph Connolly and Marcus Turner and Managing Partner Jean Bergeron.

“If you buy a market cheap, it may not be worth more a month or three from now, but ultimately you will get paid if valuations return to the mean over the long term. In my experience, the last few years have only confirmed it,” he said.

In working with the manager research team, Frishman said he hopes to incorporate passive, quasi-passive and active strategies into client portfolios, with the latter coming in areas such as alternatives where there is a return premium being presented for the higher fees that are typically being charged by firms.

“Ten-to-15 years ago [manager selection] was arguably somewhat of a binary solution. You could purchase the broad market via index/passive funds, or you could hire active managers who charged much more—particularly in niche areas such as small-cap or emerging markets—and hope they can provide alpha net-of-fees. Since then there has been a significant evolution through ETFs and structured products,” he said.

Frishman used ETFs as an example of being able to buy into areas of the market with stronger valuations to create a diversified portfolio.

“Today you can go out and achieve most or all of the positions you want without the need for the more traditional, higher fees active managers,” he said, but rather select a lower cost ETF or pooled fund strategy in what he calls “a structured/model driven active approach” that will address the sensitivities for institutions concerned about fees.

Active managers still play a role, particularly in areas such as less liquid or other non-traditional products including real estate, commercial mortgages or bank loans.

However, that does not mean active equity managers will not be used by Morneau Shepell clients, as Frishman looks to expand the firm’s research on more traditional active managers based on his years of experience identifying firms globally.

“We will never offer a solution that is cookie-cutter to a client or say here’s a benchmark and put it against what everyone else does. We understand their needs and policies, and advise the client on what we think will work better for them based on what they’re trying to achieve for an outcome-driven solution,” he said.

SERVING A GROWING OCIO MARKET IN CANADA

While it can be argued that the U.S. outsourced cio market is saturated, the Canadian marketplace offers a great deal of opportunities due to institutions being slower to handing over the manager selection reins that come along with using an outsourced cio.

“There’s a cliché in Canada with people lamenting about the fact that Americans are more risk takers and Canadians are more conservative. It’s a stereotype, but frankly many Canadian investors and fund sponsors will say it’s a good idea, but wait for others to try it first—there is fear of the maverick risk,” he said, finding now that after a few years, organizations are more comfortable with the outsourced cio model, seeing the benefits from governance and performance perspectives.

“One quote we heard from several senior executives was that we’d never seen [the investment committee] as engaged as they are now. They focus on the more important, total fund issues and don’t have to spend their scarce time on ‘beauty contests’ of manager interviews,” he said.

With the growing knowledge of the outsourced cio sector by the Canadian marketplace, Frishman believes that the adoption of Morneau Shepell’s model will resonate with a greater audience more now than ever before.

“In one presentation we made we told the attendees, ‘you have an audit committee here, but you never really find or it’s really rare to hear about the audit committee doing the audit itself.’ They delegate the audit to expert auditors. The same rationale should work for the investment committee: you provide the oversight, select an outsourced CIO you’re comfortable with and have an expert manager” to oversee your portfolio, he said.

Further information on Morneau Shepell’s asset management and investment research offerings will be available on a new website slated to be launched in April, Frishman said.

Current information on the firm can be found [here](#).

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