MSCI VestCor - Fireside chat

Transcript

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MSCI recently published a case study highlighting the enhanced risk management tools that Vescor adopted to meet its increasingly complex investment challenges.

Vescor provides a global investment management and pension administration for public sector plans and has grown substantially over the past five years.

Now we're pleased to have John Spinney, CIO of Vescor and Mark Carver, Head of Equity Analytics for MSCI, join us for a discussion around risk management.

Well, John, Mark, great to have both of you with us.

Thank you.

Thanks, Jenna.

Great to be here.

So, John, let's start with you.

Could you walk us through Vascor's transformation and growth as well as some of the challenges that this growth has created for you?

Sure.

Happy to.

Best Core was really formed by amalgamating 2 separate entities, the previous investment management and pension admin divisions for the province of New Brunswick.

And really what's happened is that over the past five to 10 years, Best Core has really grown a lot in terms of the number of asset owners that were servicing, the scale of the assets under management that we're managing and also just the scope of our ambitions in terms of active management.

And so I, I think when Vestcor was originally created, we would have started with three to four asset owner clients at that time and in general just had fairly more modest ambitions in terms of active management.

Since then, we've grown significantly, adding 7 to 8 new asset owner clients over the past five to seven years, increasing our assets under management during that.

By a significant amount and also increasing the amount of active management that we're doing internally as well.

Just to put some numbers on that, over the past decade or so, the amount of alternative assets in our asset mix has increased from about 12% of total assets to more over 30% today.

And while we can have different definitions of how much active management is going on within a particular strategy, the scope of our AUM that would be considered at least partially active has increased from about 50% of the total asset center management to over 80% today.

Turning to you, Mark, MSCI works with a number of asset owner clients.

What would you say is particularly unique about Vesco's evolution?

Like the thing that's very unique, obviously we, we congratulate John and his team on tremendous success and growth that they've had.

But the thing that I find unique is what he was touching on at the end, which is the ability to move money in house.

And well, you know, people might hear that and say, aren't a lot of asset owners moving money in house?

The answer to that is yes.

But often when, when, when organizations like Vescor move money in house, they start with passive equity and they'll run develop market passive equity in house.

But that's not what's happening here, but rather they're moving alternative and active strategies in house.

And that's playing against maybe what a lot of his peers are doing, particularly the level of active management and the willingness to bring that in house, in source it and then have greater control.

And because of that, it means that they needed a different infrastructure and a support base.

A lot of asset owners worked with MSCI historically for our enterprise risk solutions.

More and more asset owners like Vescor are are doing that and going beyond moving toward factor risk to allow them to move from the middle office to the front office and actually utilize MSCI tools in the portfolio construction and the development of new ideas.

So I think that's the exciting and and very interesting thing.

It'll be interesting for us also to see whether or not that is becoming more calming or is it something that's very, very unique to best for?

To follow up on Mark's comments there, John Fescor employs a process that's typically more common to larger providers.

How are you able to convince your stakeholders to allow you to handle more complex active funds in house than before?

And what were some of the key changes that you made to the investment process?

Absolutely.

I think in general these transitions definitely imply a pretty significant increase in complexity for the management of the investment operations overall from a day-to-day management of portfolios to a strategy and also reporting consideration as well.

This course comparatively smaller investment team, you know, when we're considering relative to our larger peers definitely means that judicious investment in technology is going to be required to make sure that we can maximize the productivity and capability.

From that point of view, having a consistency between our middle office risk models and also our front office portfolio management systems, it's not necessarily critical in all cases, but for us it definitely makes communication between front and middle office staff a lot easier and increases your ability to speak in a coherent way with your clients and trustee boards as well when you're talking about your portfolio management processes.

And I think from this point of view, that's really the key thing that's been allowing us to actually significantly increase the amount of active management we're doing in house in that we're able to have a significant and substantive conversations with our asset owner trustee boards, not just prior to putting portfolios in place during the implementation process and in the ongoing management process later on as well.

We wouldn't be able to do what we've done without the significant investments in technology.

But it can't be overstated how important it is to be able to have that open and transparent communication with your trustee boards as well.

Ultimately, a lot of the strategies that we're implementing here will go through cycles in terms of when they're in favour in markets and when they're going through relatively more challenging periods.

And I find that in general, those investment managers that have done a better job communicating with their trustee boards in terms of understanding the true characteristics of their strategies and understanding the market environments in which they're going to perform well, when they're going to be a little bit more challenged and when they might need a little bit more attention.

That's key to actually being successful in the long term, which, you know, for a lot of us means being able to stick with the strategy in the long term.

And so for us, having a platform for investment risk, both from a front office and middle office perspective meant that we were able to have a better understanding of the assets that we're managing and the styles of strategies that we're implementing.

It meant we were able to have better conversations with our trustee boards.

I think overall it was able it it allowed us to increase the comfort those trustee boards had when they actually saw that the strategies were performing as we expected them to over the long term.

And sticking with you here, John, when you were adding a platform for factor and enterprise risk, what were the key elements that you were looking for to support your infrastructure?

Absolutely.

I think that asset owners and investment managers are faced with a lot of choices when they're looking at risk model vendors or investment analytics vendors out there.

And I think from our point of view at at best core, from the point of view of an asset owner, a couple of things were of primary importance for us.

The first was that we need a coverage of the majority of our asset mix, not just the relatively easy to model public market investments.

We needed to have an approach that allowed us at least some measure of consistency between those public market strategies, but also illiquid alternatives as well as well as the liquid alternative strategies.

Also, while modeling alternatives definitely brings with it some challenges and complexities and a few compromises at times, a coherent approach that allows you to express your risk in terms of coherent factors across the entire asset mix was important.

Many vendors do a great job of modeling public market risk, but they struggle a little bit in terms of bringing the rest of the portfolio into the platform.

That was one key thing with us with the MSCI platform that allowed us to have comfort in choosing this.

And secondly, I've alluded to this already, but having the same platform available for both our middle office risk management staff and also our front office portfolio management employees.

It's not necessarily key from a day-to-day perspective.

But over the long term, having those two teams be able to speak the same language, to see the same analytics and actually understand risks through the same lens, that ultimately allows us to do a better job communicating what's going on with our trustee boards.

And Mark, finally, what are some of the key initiatives that MSCI pursued to help support institutional investors in their transformation journey?

I I think John actually hinted at some key things quite well, which is that for a long time people have known MSCI for our, our, our enterprise risk and time series risk obviously for our market leading factor risk.

But the other things that we've made a lot of investments on over the last several years are in those private markets.

We know that more and more asset owners, frankly more and more investors are allocating more money to private markets.

You need to have an infrastructure to be able to to model and manage the risks of those private, those private assets.

We've made big investments there.

We've recently actually increased those investments with the the purchase of Burgess.

And so we're going to continue to invest in that.

Something that he didn't hint to, but I also think is quite important is our ability to to look at the liquidity of a portfolio.

And particularly for those organizations that are moving money in house, running active money in more complex strategies, the liquidity of that portfolio becomes quite important.

So it's not enough necessarily to know, do you like or dislike an asset, but can you trade in and out of that position?

And that's a that's obviously an important element of risk.

So we've made big investments in, in that component of of risk management.

As you know, Jenna, recently we launched a new set of equity factor models that also had some innovative features in them, not just in terms of the way we're measuring risk, but actually in the factor structure itself where we brought in elements of sustainability, which are more and more important for asset owners around the world.

So the combination of enhancing what we are already well known for around factors and time series risk, the investments around liquidity and obviously the investments in private assets, we think makes MSCI, you know a great choice.

And I think that was one of the reasons that that best court worked with us.

Well, John, Mark, great to have you with us.

And I'm sure our audience learned quite a bit about risk Management Today.

Thank you.

OK, thank you.

Great to be here.

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