



WHERE THE SMART MONEY IS GOING

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Retirement Portfolios at Risk

“May you live in interesting times.” That sounds like a benediction but it’s actually an ancient Chinese curse. The ancients must have known what they were talking about because today we are living in “interesting times”, where the wrong investment strategy can mean the difference between a financially care-free retirement and having to work for longer than you originally anticipated.

Everyone is looking to maximize their current (or future) retirement income but decent returns are increasingly difficult to come by and bonds can no longer be counted on to fund a retirement; and the likelihood that either will change any time soon doesn’t look favourable.

Where the Large Funds are Heading

So where is the smart money going? It’s following the big money – the institutional investors. Beginning with the success of the Yale University Endowment investment strategy, which realigned its portfolio from a simple mix of stocks and bonds to a heavy weighting in private alternatives – also known as the Exempt Market – there has been a significant shift in where the large funds allocate their investment dollars over the last decade.

More and more, institutional investors are looking for yield and stability in a world challenged by low or even negative returns and unpredictable market swings, and are turning instead to the Exempt Market for better yield and greater stability. This is the approach being implemented by an increasing number of pension funds and endowments around the globe.

The momentum has swung to private capital for Canada’s pension funds, who are looking to private investment to hedge against stock market volatility in the uncertain world of public markets. Ten years ago 82% of the Ontario Government Pension Fund was comprised of stocks and bonds. Ten years later, that allocation has been reduced to 57%, with a projected target of 52%. The OPB (Ontario Pension Board) is looking to balance its portfolio to include almost half of its assets in Exempt Market investments.

The Canada Pension Plan Fund is also on this trend. By the end of 2014 the Fund had 88.5 billion dollars in private assets including \$28.2 billion in private real estate, making it one of the largest private investment Funds in the world. As of the end of March 2015, approximately 40% of the CPPIB (Canada Pension Plan Investment Board) portfolio is invested in private alternatives and more than a quarter of that is held in private real estate.

Exempt Market Opportunities for Individual Investors

At one time private market investment was essentially the domain of institutional investors, but the demand for private alternatives from individual investors is rising as it becomes more and more difficult to negotiate the unexpected swings in public markets. Now real opportunities to invest in Exempt Market products are increasing for individual investors, but the challenge remains in understanding the best options to help maximize returns.

Private Real Estate Investment

Among the major asset classes private real estate is considered an essential component of the institutional fund portfolio; and now individual investors can take advantage of Exempt Market opportunities to add private real estate investment to the traditional investments in stocks, bonds and mutual funds.

Adding private real estate to your investment portfolio provides true diversification (as opposed to real estate stocks) backed by real assets and uncorrelated to public markets. As more uncertainty arises for individual investors, private real estate can help mitigate the two most pressing concerns for a healthy retirement portfolio – income and capital preservation. In this era of interest rates well below long-term averages and public market volatility, private real estate offers investors the advantages of low volatility, stable income flow, rational pricing and a hedge against inflation.

As public equities become increasingly volatile and yields continue to fall, the strength of private investments continues to attract individual investors who understand the real value of the institutional approach to money management and investment strategy, and who are interested in following the big money to a safe and secure retirement.

To learn more, please contact your financial advisor or email us at invest@centurionreit.com

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