

How Vestcor Gained New Insights Into Pension Risk Exposure



Overview

- » Vestcor Inc., a CAD \$20 billion Canadian not-for-profit company providing global investment management and pension administrative services to public sector pension plans, sought to expand its capabilities to keep pace with significant growth it had experienced in recent years.¹
- » The organization subscribed to MSCI equity factor analytics to adopt new portfolio construction tools, strengthen its risk culture, meet the demands of more engaged clients, and appeal to a wider market of asset owners.
- » MSCI worked to provide analytics to help Vestcor meet its distinct risk assessment goals and strengthen its role as a fiduciary to its clients.

¹ Vestcor Inc. is a client of MSCI Inc. and MSCI ESG Research LLC and consented to its inclusion in this case study. Vestcor Inc. did not receive any compensation in connection with this article. Any results achieved by Vestcor Inc. are specific to its use case and are cited for informational purposes only. Other investors may not experience similar outcomes.

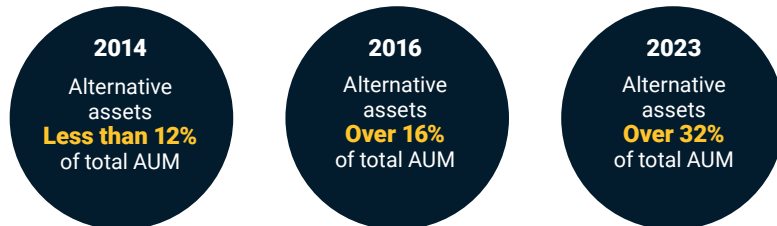


Challenge

Vestcor is an independent not-for-profit company that provides global investment management services to 10 different public sector client groups representing approximately CAD \$20 billion in assets under management (AUM).² It administers the day-to-day operations of 11 public sector pension plans and four employee benefit plans, representing over 111,000 active and retired members from 140 employer groups.

The organization comprises over 140 service professionals providing investment management, and pension and employee benefits administration service solutions.

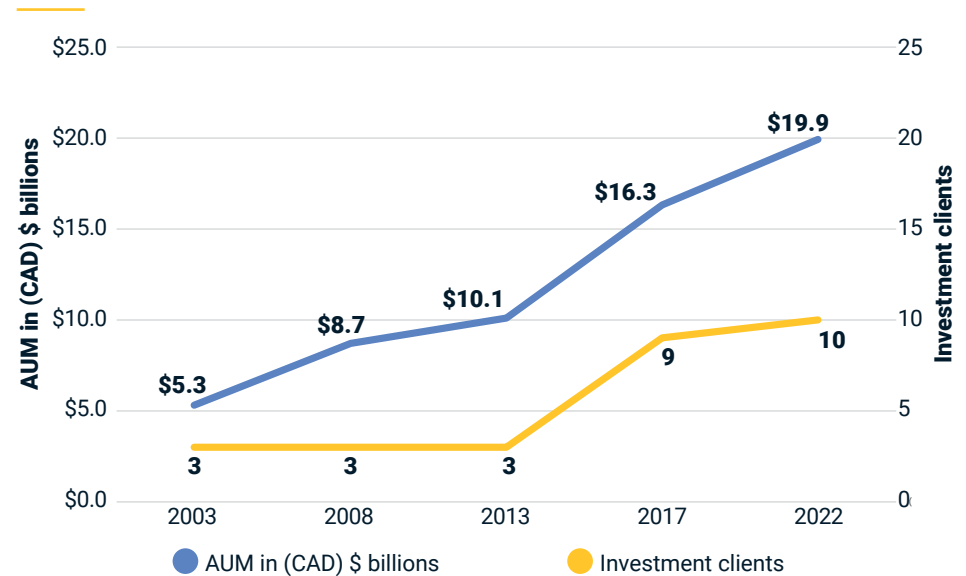
Vestcor has grown significantly since its inception in 1996, evolving into a more sophisticated and globally focused organization. However, despite the increased complexity inherent in the firm's shift toward increasing alternative investment and active strategies, Vestcor manages over 80% of all AUM internally using its own in-house investment teams.



More recently, most pension plans Vestcor manages converted to a slightly more complicated target benefit structure, in some cases referred to as shared risk, necessitating significant evolution within its internal investment program to manage portfolios with tighter risk limits.

Vestcor's structure closely resembles that of the "Maple Model," typically implemented by the larger Canadian pension funds, and characterized by an extensive reliance on in-house management, significant allocations to alternative investment strategies, and a strong focus on effective governance.

Vestcor's growth trajectory



Source: Vestcor

Over the past 20 years, Vestcor has seen its AUM nearly quadruple – reaching CAD \$20 billion at the end of 2022 – nearing the AUM of the smallest of the large pension funds that have implemented the model.

The developments better positioned Vestcor to compete in global markets, where scale is an important contributor to success, but also meant that the firm needed a new risk management structure that could support its aggressive growth trajectory and more challenging operations, as well as improve its ability to communicate meaningful risk information to stakeholders.

The firm sought a solid analytical platform to manage and measure risk in a significantly more complicated portfolio, while being able to quickly react to market shifts and navigate an increasingly demanding risk culture.

Action

Vestcor subscribed to MSCI equity factor analytics, which include factors such as sustainability, crowding and machine learning, and are designed to empower investors with the confidence to construct more resilient portfolios, manage downside risk, and make more informed investment decisions.

Using MSCI's equity factor analytics, Vestcor was able to implement an analytical platform that served as a shared connection between the front and middle office. It introduced a common language for the quantitative investment team to speak to the risk team, for example, whether for client communications or internal decision-making.

The firm opted not to build internally, feeling it required a specialized partner for its complex hybrid structure as an asset manager managing over 80% of its portfolio in-house while also providing significant public sector services.

To reach its decision, Vestcor surveyed the vendor landscape for a platform that allowed for flexibility while it executed on its range of diverse strategic goals.

Vestcor sought a third party that was intensely focused on the needs of asset owners but was also able to deliver analytics to firms providing

MSCI equity factor analytics

Financial tools that enable investors to:



Identify and manage investment characteristics that influence stock and portfolio risks and returns.



Classify and estimate equity risk, and assess relationships between securities and returns.



Construct portfolios by targeting specific dimensions and attribute investment performance across factor characteristics.

day-to-day investment management services. With its multi-employer plan organization, it manages several different investment pools of capital, each with their own goals and constraints. It wanted to manage the risk of adding new asset owner portfolios, for example, without compromising its oversight of existing portfolios.

Vestcor, a longtime subscriber of MSCI index, analytics and climate solutions, including our Barra factor models, progressively integrated more of

MSCI's data and tools as the scope and complexity of its operations increased as part of our roughly 20-year relationship.

It identified MSCI's long-standing relationships with global asset owners, and the insights those relationships yielded, as one of the reasons it ultimately chose MSCI. It also noted our ability to deliver analytics that offered extensive portfolio coverage, whether through equity, alternative, private equity, real estate or infrastructure models.

Impact

For Vestcor, the analytics played a critical role in positioning the firm to better mitigate emerging risks from inflation to deglobalization – to build institutional resilience and react more efficiently to market shocks with deeper insights into its risk and return drivers.

Vestcor became better equipped to understand its exposures and due diligence mandates, manage its operational risks, identify market opportunities, and make short- to medium-term investment decisions for clients.

With risk assessment integrated as an essential component in the investment approach, it can better prepare pension plan investment trustees for how portfolios might behave under various market conditions, conveying data and analytics in a real-world context.

Our analytics were designed to support Vestcor’s risk assessment capabilities with a more robust risk governance framework, helping the firm put the interests of clients above all else while working to preserve and grow retirement funds.

Vestcor was able to leverage MSCI’s tools and data to help fortify its fiduciary role through MSCI’s total plan risk analysis, and portfolio construction and optimization capabilities. These

Looking deeper into the portfolio

MSCI equity factor analytics positioned Vestcor to:

Gain more insight into drivers of risk and return for clients.

Quickly react to market shifts and navigate an increasingly demanding risk culture.

Implement an analytical platform to serve as a shared connection between the front and middle office.

Build a stronger risk governance framework and improve client communication.

include enhanced rebalancing, with potential for further integration supporting other risk dimensions, such those related to environmental, social and governance issues.

Ultimately, MSCI helped Vestcor maximize its potential to improve its interactions with clients and increase its capacity for growth.

“Vestcor had grown significantly in complexity, scale and ambition, and we needed a relationship that could grow along with us, supporting our equity portfolio construction and investment process. We leveraged MSCI’s solutions to **gain new insights into the drivers of our risk and return for clients** – and we see potential for this relationship to expand as the firm seeks other innovative ways to respond to market shifts.”

Vestcor CIO Jon Spinney



For more information about Vestcor, visit: [Vestcor.org/en/about-us/](https://vestcor.org/en/about-us/).

Want to learn how MSCI equity factor analytics can help you build more adaptive and resilient portfolios?

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About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process.

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