Q&A with Rossitsa Stoyanova

Chief Investment Officer

We asked Rossitsa to reflect on a difficult year for investors and what's in store for 2023.

Q: From the return of inflation to geopolitical conflict and slowing economic activity, 2022 was particularly challenging. How did IMCO manage the volatile investing environment?

RS: It was a difficult year because we came out of COVID and then had to contend with the war in Europe. This was one of the worst years for public markets in generations. Equities and bonds posted large losses, making it different from the global financial crisis in 2008. Inflation spiked and central banks raised rates by 400 basis points in a very short period. All public assets dropped, except for commodities, which were driven higher by the war in Ukraine.

Our strategy for navigating short-term turbulence is staying focused on the long term, systematic rebalancing and watching closely for investment opportunities that can arise from temporary dislocations. The key is not to try to significantly alter asset mixes or change strategies, but to have adequate liquidity available to ride out short-term volatility and in some cases, profit from it.

Q: What steps did IMCO take to make client portfolios more resilient?

RS: We stayed the course. We continued to invest in private assets and alongside our strategic partners. We also increased tools for liquidity and added leverage. We advise our clients to stick to their long-term asset mixes. We seek high-quality investment opportunities on their behalf during times of market stress.

For example:

- We added more credit to portfolios, as attractive private credit opportunities arose with public credit markets effectively closed;
- We added more real estate and infrastructure assets, which will help protect against inflation;
- We used alternative sources of liquidity, so as not to rely solely on selling government bonds;
- We used a prudent amount of leverage for the first time, to enhance overall risk-adjusted returns; and
- We added new external partners in all asset classes.

Q: It was a particularly rough year for public equities. U.S. market indexes had their worst year since 2008, dropping between 9 per cent (DJIA) and 33 per cent (Nasdaq). In Canada, the S&P/TSX Composite fell 8.7 per cent. How is IMCO managing volatility in public markets?

RS: Our public equities performance has been challenging. Thus, we are making adjustments with the objective of modest, but positive and steady value add. We are considering internalizing strategies and accelerating our shift toward factor, internal fundamental and index mandates.

Q: What were the bright spots in this challenging year?

RS: Our net value add was good, with strong outperformance by our private asset strategies. We delivered 0.3 percentage points of NVA, which shows the benefit of active investment management. This result would have been impossible for our clients with index investing.

We also finalized our five-year strategy and in it, identified the priorities that will enable us to deliver investment excellence.

We think that sharing strategic research insights with clients and integrating them into portfolio decisions is part of our role. That's why we developed our comprehensive World View which provides our perspectives on major global themes and their investment implications in the next five to 10 years.

We also completed planned initiatives that will reduce costs for clients. For example, we launched our first private asset pool, the Infrastructure Pool. In public equities, we continue honing our roster of external managers to reduce fees and are allocating more to factor and index investing. We also participated in more private co-investments with external partners. All of these will deliver savings. Costs matter because they directly affect net returns.

Q: What progress did IMCO make in responsible investing in 2022?

RS: Responsible investing and ESG integration play a growing role in our strategies, and I am confident that IMCO will become an industry leader. ESG topics are important to all our stakeholders, and we believe that companies that strategically manage material ESG risks and turn them into opportunities will outperform their peers. We have incorporated these views into every investment thesis across our portfolios.

We released our inaugural ESG report, followed by our Climate Action Plan in 2022, with details and targets to help our teams reduce IMCO's portfolio greenhouse gas emissions.

Q: What are IMCO's interim climate targets, and how will you achieve them?

RS: To reduce portfolio carbon emissions to net zero by 2050 or sooner, we set interim targets that will drive our investment decisions and engagement activities between now and 2030.

Our interim targets include a science-based 50 per cent reduction in portfolio emissions intensity by 2030, as measured against IMCO's 2019 baseline; and investments in climate solutions totaling 20 per cent of the portfolio by 2030. To reach the interim targets, we have plans for each investment team. We have already made significant investments in the energy transition.

Q: As a long-term investor, what are the key activities you're focused on?

RS: Our objective is to build resilient portfolios for our clients that can withstand the ups and downs of any investing environment. That never changes.

To deliver long-term NVA to our clients, we will improve our capabilities in the areas of strategic asset allocation, total portfolio management (liquidity, leverage, rebalancing), and internal asset management. We will continue to internalize our investing activities while working closely with strategic partners. We're also focusing on being a more innovative and nimbler investor, so we can take advantage of the trends identified in our World View, like investing in the energy transition and climate solutions.