Ontario fund manager IMCO earned 9.9% in 2024, its best year since inception

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Investment Management Corporation of Ontario's first five years in the market included a global pandemic, war in Ukraine and high inflation – and even after that, chief executive officer Bert Clark said it feels "jarring" to watch the current chaos and uncertainty gripping investors.

On Wednesday, IMCO reported an average gain of 9.9 per cent for its clients in 2024, which was the pension fund manager's best single-year performance since it was created to consolidate public-sector fund assets in Ontario in 2017.

Yet the wild swings in public markets over the past week – as U.S. President Donald Trump surprised investors with the severity of tariffs imposed on trading partners – had Mr. Clark looking nostalgically back to a calmer time last year.

"None of us have been in an environment where it feels like the stock market is being driven entirely by one person's pronouncements," Mr. Clark said in an interview. "That's quite unusual."

The challenge, he said, is how to test the pension fund manager's portfolios against conditions that are constantly changing. Within hours of the interview, Mr. Trump announced a 90-day pause on reciprocal tariffs he announced one week earlier, but doubled down on his trade war with China.

Trade upheaval is prompting IMCO – and other major Canadian pension funds – to reassess how much exposure they want to the United States and the U.S. dollar. IMCO has 52 per cent of its $86-billion of assets invested in the United States.

"The U.S. is currently signaling that it wants to play a fundamentally different role in the international community, and as regards international trade," he said.

"Does that mean you need to fundamentally rethink the role the U.S. and the U.S. dollar play in your portfolio?" he added. "Those are exactly the questions that we're asking ourselves, and we haven't come to any conclusion yet."

Last year, IMCO's publicly-traded stock portfolio gained 24.2 per cent, and private equity investments were up 16.4 per cent. Infrastructure and credit assets returned 8 per cent, while real estate lost 0.8 per cent.

Over its first five years of investing, IMCO's average annual return was 4.2 per cent, which fell short of IMCO's long-term targets. That is partly a result of a tumultuous half-decade for investors that included IMCO's 8.1-per-cent loss in 2022.

But it is also an offshoot of the years of work IMCO has been doing to knit together the disparate collection of legacy assets it inherited when its clients joined to form a portfolio with a more coherent strategy.

IMCO has eight clients, the largest of which are the Workplace Safety and Insurance Board and the Ontario Pension Board.

"This is a year we're proud of, and we're particularly proud of it because it reflects a lot of work over the last five years to reposition every one of the strategies and the client's total portfolios," Mr. Clark said. "These are returns that feel like our returns, and they reflect our approach to investing."

Mr. Clark said the major work to revamp IMCO's portfolio is done, and that recent returns – this year's 9.9-per-cent gain, and last year's 5.6-per-cent return – are a better reflection of what clients can expect in the future.

To be sustainable over the long run, IMCO needs to earn 6.5 per cent to 7.5 per cent per year, on average, he said.

In pursuit of steadier returns, Mr. Clark said IMCO aims to avoid “unnecessary complexity,” does not try to time the market, and steers clear of big bets that could punch a hole in its returns.

After European battery maker Northvolt AB filed for bankruptcy protection last year, IMCO marked down its US$400-million investment in the company, as did other major investors. “That was of a size where it didn’t impact overall good returns,” Mr. Clark said.

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