Emerging Manager Monthly

FEATURES/PROFILES | 01.11.23 | JANUARY 2023 ISSUE

Quebec Program Accelerates Growth Of Local Emerging Mgrs., Local Ecosystem

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Emerging managers in Canada are increasingly seeking support from the C$400 million Quebec Emerging Manager Program, a fund-of-funds program that granted mandates to five firms within the province this past year.

QEMP, launched in 2016 by Innocap and Finance Montréal's Entrepreneurship Work Group in an effort to promote local talent and give back to the community, saw the addition of alternative managers Authentic Asset Management, Bastion Asset Management and Gestion Plant-E Management as well as global equity managers Borealis Global Asset Management and Clear Skies Investment Management in 2022, bringing its total manager count to 15.

The program has an ongoing search process open to Quebec-based emerging managers offering traditional strategies, including Canadian equity, global equity, fixed-income, U.S. equity and sustainable or ESG funds, as well as alternative strategies such as hedge funds and real assets.

"For the managers, when they go through the selection process, they'll see the major players in Quebec," Program Director Carolyn Cartier-Hawrish said. "So, the investors… we've got consultants from Mercer, Aon and other players in Quebec … they'll get good visibility, and they get a stamp of approval from the community. For investors, they're looking at new strategies, new managers. It's been a long process, but to see [global alternative ESG manager] Nordis Capital and [Canadian fixed-income manager] Nymbus [Capital] getting their first institutional allocation, it's great because the objective is to give them visibility."

While Cartier-Hawrish largely attributes QEMP's latest activity to a C$110 ($81.8) million strategic investment it received from the Government of Québec through Investissement Québec and initial investors Caisse de dépôt et placement du Québec (CDPQ), the Fonds de solidarité FTQ and Fondaction in 2021, she has seen additional interest from managers outside of Quebec and finance professionals returning to Montreal after working in cities like Boston, New York and Toronto.

“I think that the QEMP getting known, the strategic investment and the possibility of having an allocation can maybe play a role where you establish your office,” Cartier-Hawrish said. “Authentic [Asset Management] had [Director of Business Development and Portfolio Manager] Eric Green in the U.S. and Toronto. So, because of the PGEQ [Programme des Gestionnaires en Émergence du Québec], they said, ‘Let’s establish the head office in Montreal.’”

Authentic launched its Authentic Event Driven Fund in May with an approximately C$22 million allocation from the QEMP, which has provided the now Montreal-based firm with “enormous tailwinds for a variety of reasons,” according to Green.

“Number one, it’s helped us as a firm bring all of our risk management processes and investment processes up to institutional-level quality,” he said. “It was a painful process, but it was one that had to be done and we were able to do that with the assistance of our benefactors there … Hydro-Québec and Caisse de dépôt [et placement du Québec], among others, who are part of that emerging manager program,” he said.

“The second point is that it lends a great deal of credibility to have institutional backing when you’re out there trying to raise capital because we’ve been vetted and that provides a great deal of comfort to potential investors that they aren’t the first ones in but they’re actually getting into a fund and into a firm that has the backing of some very large institutional investors. The third point is that it also helps us keep the lights on and it allows us to create revenues to finance further expansion,” he continued.

QEMP’s unique governance structure sees Innocap conduct due diligence and allow managers to benefit from its brokers and service providers, while an advisory board, consisting of consultants, financial professionals and institutions, offers guidance on manager selection.

Charles Lemay, a member of QEMP’s advisory board and president of the Emerging Manager’s Board, a nonprofit organization with the mission of promoting and contributing to the growth of emerging managers in Canada, noted that the two entities often collaborate to further assist managers.

“For the Quebec program, you can get knowledge of the Emerging Manager’s Board, then you can say ‘Oh, I can get a mandate through the QEMP, but I need to have certain industry institutional standards,’” Lemay said. “So, once you kind of bring up your shop through the Emerging Manager’s Board, you’ve been at it and can say ‘Okay, I’m educating myself. I see the requirements on the website and try to pitch for it. Maybe it doesn’t work the first time, or maybe I really do impress, and it works better. But, then you’re in a select committee and you go, ‘Yes, I got approved and I get a mandate and I need to perform during that mandate from a performance perspective of my strategy, but also, from a firm growth perspective.’ What are you doing in institutional business development? Who are you hiring with the revenues that we’re giving you as a firm? How are you deploying that budget from the revenues that we’re paying? That’s something that we try to monitor and make sure that they push for their growth and it’s not just an extra paycheck for them.”

Borealis Global Asset Management, which saw the QEMP select the Borealis Global ESG Midcap Equity Fund for a C$19 million mandate in October, echoed Lemay’s sentiments, noting the firm’s participation in the program allowed for team expansion and operational advancements, Managing Partners Valérie Cecchini and Florent Salmon said, in an e-mailed response to questions.

“The asset management industry is a global competitive business where scale is critical and barriers to entry are high,” Cecchini and Salmon said. “Emerging managers face many hurdles early on and having partners such as QEMP and the Emerging Manager’s Board clearly increases their chance of success. The QEMP provides emerging managers with their first institutional mandate, allowing them to build the necessary track record so crucial to attract allocators. It also represents a mark of confidence in your strategy and your team, by a peer group that knows you best.”

Borealis recently became “the first asset manager to achieve B Corp certification in Quebec” and the fund returned 14.3% from Oct. 11 through Dec. 15, outperforming its MSCI ACWI ESG Leaders Index benchmark “by 370 basis points,” they added.

Similarly, Clear Skies has benefited from an operational standpoint due to the C$19 million allocation it received from the QEMP in October, according to Director of Operations and Strategy Polina Gamayunova.

The firm developed its first institutional strategy for the program, known as the iWorld Equity Fund, by carving out the global equity portion of its existing Balanced Impact Fund that focuses on the United Nations' Sustainable Development Goals.

"We started working with an order management system and, through the help of QEMP and Innocap as well, they were able to guide us and consult us to make sure that the transition is very fair, that we're able to allocate transparently across all platforms," Gamayunova said. "It helped us be able to just secure those trades and also prepare us for further scaling in the future as we add subscribers to the fund."

She noted that the firm hired a sixth employee in September and is discussing the launch of a new fund focused on biodiversity, developments both spurred by its participation in the program.

For Cecchini and Salmon, assistance and recognition from large institutions is not only integral to the success of emerging managers, but to the province's investment industry as a whole.

"Expanding and nurturing local expertise brings tremendous value to the Quebec financial ecosystem, by fostering innovative investment structures and processes," they said. "It also impacts our community at large, providing attractive career opportunities, supporting education and research, maintaining thought leadership and accelerating transition to a more sustainable way of being and doing. For this reason, institutional investors from large financial hubs outside of Canada have integrated systematic allocation to emerging managers in their investment policies, a move that has proven mutually beneficial for both investors and allocators."

One pension plan in the U.S. has taken on a similar approach to the QEMP through a local emerging manager program, which aims to enhance its returns while supporting small, local firms.

The $954 million Pittsburgh Comprehensive Municipal Pension Trust Fund hired Wexford, Pa.-based Gridiron Partners to handle an initial $3 million allocation at a Dec. 1 board meeting as part of its local emerging manager search, the plan said, in an e-mail.

The plan's program may invest "up to 3%" of its "investable assets" in firms located in the Pittsburgh metropolitan area that have a minimum of $200 million and a maximum of $2 billion in assets under management, according to its investment policy.

The plan also has a roughly $3.6 million domestic large-cap core equity mandate with TWIN Capital Management, based in McMurray, Pa., and a $2.5 million domestic small-cap core mandate with CIM Investment Management based in Pittsburgh.

Cartier-Hawrish noted that the QEMP is trying to learn from emerging manager programs within the U.S. but takes pride in its local-based approach as Canada typically defines emerging managers as firms with under C$1 billion in assets under management versus the U.S., which tends to focus on minority-ownership and assets under management up to $2 billion.

Still, Lemay believes the advantages of local programs are dependent on the ecosystem that it aims to support, with the U.S. being slightly ahead of the curve compared to Canada.

“Here, in Montreal, there’s an 80/20 rule where 20% control 80% of the AUM and I think it’s probably even 5% control 95%,” he said. “So, that’s the weakness of our ecosystem, where we need more small- and medium-sized businesses to grow to hire all the good college grads that we have or else they’re going to go to Toronto and New York and wherever else there are jobs.”

“And the other thing that’s unfortunate, while we’re lucky to have the QEMP, we need more AUM,” Lemay continued. “Because now the QEMP is a C$400 million program, which is good, right? But at C$400 million and giving mandates of C$25 million, unfortunately, that’s not enough of a game changer to bring you to that level where that’s more than just a sustainable business. Let’s say C$250,000 on a C$25 million mandate, it seems like a lot of money, but what’s your hurdle to get past an institutional level? So, if I went to [the $233.2 billion] New York [State] Common [Retirement Fund] with C$60 million AUM of C$25 million of the QEMP and then I have another C$35 from friends and family, I’m still C$60 million AUM, which is too small for them to even look at me. So how do I get to C$500 million so I can actually get that kind of support? In the U.S., you can through different emerging manager-of-managers programs that are deeper, more developed and, to get that in Canada, is tougher.”

Cartier-Hawrish also recognizes that the program would benefit from additional government involvement and is currently working on alignment with investors and discussing revenue sharing with some managers as a possibility for receiving larger allocations.

“It’s like the chicken and the egg; [managers] need more AUM to get a bigger size allocation,” she said. “It’s about the same for us … we speak with people from bigger pension plans, and they’ll say, ‘We don’t usually give tickets under C$100 million.’ So, because the program is C$400 million, it’s hard for us to grow the same as our managers.”

The QEMP expects to launch a new ESG Canadian equity strategy next month and is focusing on “PGEQ 3.0,” which entails further professionalizing the program, working with Close Consulting Group to conduct an ESG assessment of all managers at both the investment process and firm levels and providing managers with more resources like access to industry experts, she added.

“We’ve done mentorships, but it was done on a pro bono basis, with the advisory board giving their time,” Cart ier-Hawrish noted. “Now, we want to make ourselves more like a VC [venture capital] firm to have more support with the manager earlier and put them in the growth stage and give them tools like access to lawyers or trying to build their relation ship with distributors. How can we position them better and give them more support? So, the advisory board has been doing that pro bono and I’ve been the only employee with lots of support from Innocap. But, since we’re now with 15 managers on the plat form, we need more hands.”