From the ground up: The Canadian LP building things differently

Jennifer Hartviksen joined IMCO in 2020 to lead its creation of a global credit portfolio. She reflects on how the organisation has plotted a way forward

Jennifer Hartviksen is managing director of global credit at Investment Management Corporation of Ontario, an independent long-term investor for the public sector in Ontario, the Canadian province. Hartviksen joined IMCO in 2020 to build and run the global credit portfolio, with the aim of creating a globally diversified collection of public and private credit assets across the risk spectrum.

Private Debt Investor caught up with Hartviksen to find out more about how the organisation has been going about constructing its portfolio from scratch, including by blending public and private market exposures.

Q Could you tell us about the organisation and your role within it?

IMCO is an independent investor that manages the assets of Ontario public sector funds. We currently have four clients with $73 billion of AUM and we're growing. Over the coming years, we have the potential to manage an incremental $100 billion or so through adding eligible new clients.

Our scale allows us to provide clients with asset management services that would otherwise be difficult for them to access on their own, such as professional risk management and portfolio construction. We have sophisticated investment teams with global experience, capable of managing across a variety of asset classes including private credit, global credit, private equity, infrastructure and real estate.

Q In terms of portfolio construction, you have a blending of the public and private domains. Could you explain how that approach works and what the benefits of it are?

IMCO approaches credit as a global stand-alone asset class. We do not differentiate between corporate credit and other types of credit, and do not silo off real estate credit and infrastructure credit.

We are constructing a portfolio that spans across all credit segments, both public and private. On the public side, we look at investment-grade credit and high-yield credit, and we also invest on the private credit side, which for us includes corporate, real estate and royalty streams.

This portfolio construction allows us to be flexible and creative in response to the market opportunities that present themselves and it also allows us to provide our clients with a single allocation to credit that provides both a total return and has a good sense of the best relative value returns between public and private credit.

Q Isn't that a bit different to how a lot of other pensions would go about things?

Other pensions may silo credit off into public or private, but IMCO is starting from the premise of providing a single credit asset class. Approaching credit as one holistic asset class allows us to pick up parts of the credit market that may not necessarily fit neatly into any one credit market segment.

Newer team members have noted that they wouldn't have had the opportunity with their previous employers to look at some of the deals we're considering in the direct space, as they don't neatly fit into public or private, direct mid-market lending or distressed lending.

There are currently attractive deals that fall into a burgeoning space for capital solutions. We see a lot of value in the credit markets that don't neatly fit into a public market segment but equally don't necessarily fit neatly into direct mid-market lending or private equity. They fall in a space in between and provide the borrower with something that's not just straight debt but more of a holistic solution to financing needs they may have. For instance, an M&A need they may have, the need to keep their transactions private or confidential, so they just want to go to one specific source of funding to keep the lending group more cohesive and keep information from seeping out.

For that reason, our approach to credit is more flexible and can be creative enough to go into those spaces and provide us with opportunities that some of our competitors may not be able to focus on. Most importantly, this provides our clients with the ability to achieve the most attractive credit returns in the market and be structured in such a way as to move to where the market is going – in this case, private credit.

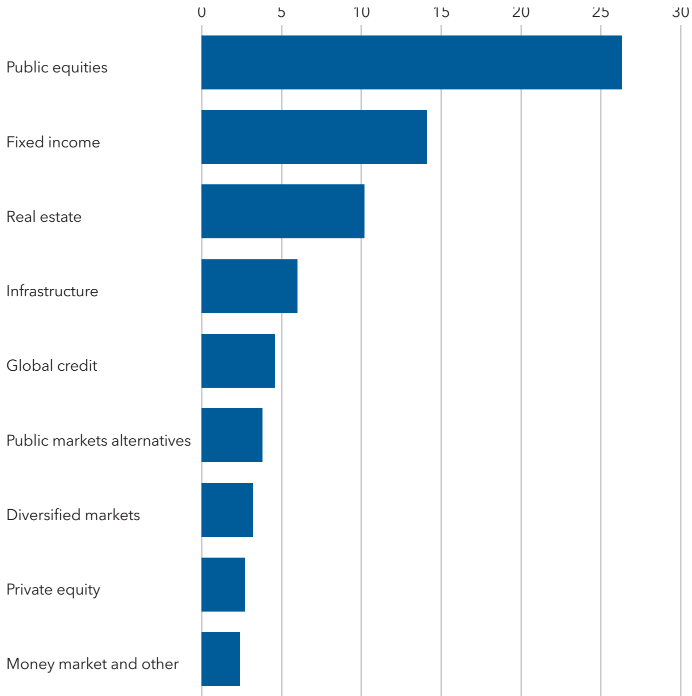
Q One of the keys to portfolio construction is balance and making sure you have the risk-return spectrum fully covered. How do you go about achieving that?

Offering our clients access to a multi-sector credit strategy that spans public and private was job number one for me when I joined IMCO.

We did a great deal of thinking in 2020 and the first part of 2021 about how to allocate to each of those different segments. We constructed an initial target portfolio that breaks down between public and private credit markets. Within each of those segments, we considered allocations to liquid investment-grade credit, public structured credit and high-yield bonds.

On the private side, we broke down our allocations into corporate lending, direct mid-market lending, special opportunities, distressed debt and also real estate and infrastructure credit, as well.

IMCO assets under management by asset class ($bn)



As at 31 December 2020
Source: IMCO

We then started to build our portfolio to allocate to each of those segments, while staying mindful of our ability to move tactically around each of those allocation bands. Part of that is thinking about liquidity versus illiquidity, income versus total return and balancing the portfolio allocation for those factors as well as constructing a diversified portfolio that still has the flexibility to move across the different asset segments as the opportunities present themselves.

For example, when valuations on the private side are tight, we want to tactically pivot to public credit and await opportunities as they present themselves on the private side. In 2020, as the markets sold off following the initial shutdown from covid, the opportunity for dislocated credit presented

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itself very quickly, as did opportunities for distressed credit. We were able to use our liquidity at that time to pivot and make allocations into each of those segments to take advantage of a market opportunity.

That's a good example of how we can be both flexible and creative and still provide our clients with a portfolio that is well diversified across the different asset segments, while taking into consideration blending the income-generating assets like direct mid-market loans with more interesting total return opportunities like special situations credit.

Q You stated that you wanted to build a diversified portfolio over three to five years. How far advanced are you with that and are there other areas you're looking at to diversify even further?

We are in the early stages of building out that portfolio across the public and private market segments. Initially, our allocations have been focused on the public segments because that's where we can most quickly ramp the exposure within that three- to five-year period, while we patiently wait for the private market opportunities to present themselves.

We have made some allocations to external managers to help us from what I would describe as a strategic platform perspective. These are managers who have very broad platforms of public and private credit and, on the private credit side, have teams that can manage corporate credit, alternative credit, real estate credit and infrastructure credit.

Those managers are helping us get initial exposure to public credit and then will pivot into private credit as those segments ramp up over the next three to five years. So, I'd say we're still in the relatively early stages of building that diversified portfolio. We're also in the early stages of internalising some of the investing ourselves, to bring down fees – which is another important aspect of our value proposition for our clients – and to be true partners with these platforms that we have made our initial allocations to.

Q Could you tell us more regarding how you've gone about manager selection?

We first identified segments that we want initial and growing exposure to over the next three to five years and developed a portfolio construction plan to guide our growth. We focused on identifying managers that we describe as strategic platform partners, and these are credit managers like Ares who have very broad platforms across different credit segments and are looking to partner with organisations like ourselves, who can co-invest alongside them as we internalise our strategies.

Once we identified platform partners, we looked for managers who have not only demonstrated their ability to achieve good returns across these asset classes but also those who invest in a fashion similar to ours and who look for investments that our team will internalise. It's about finding like-minded partners who have deep investment skills across a range of those segments and have also demonstrated superior returns.

The next step was to focus on segments like emerging markets, and we've been working over the past year to identify managers with deep expertise in emerging markets on the public side that we can use to get exposure to that very narrow market. We're also beginning to look at some real assets investors that focus on North America and Europe. There are not a lot of global players and we think the focus there makes sense on a more regional basis. So, it's about combining global platforms with managers with more narrow focuses on segments that we want to get access to.

Q What does it mean for an organisation like yours as managers – such as Ares, which you mentioned – to develop a capacity to target the larger end of the debt market?

Partnerships that enable IMCO's co-investing abilities are important to us. One of the attributes for our external partners is the ability to help us generate co-investment ideas and opportunities. Ares is moving to the higher end of the market and beginning to syndicate out some of those deals and that was an important consideration for us when identifying our strategic platform partners. We want to grow our allocations and also be good partners for them as a source of capital for some of their deals. ■