Head to head: Should pension plans be investing actively or passively?

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Two experienced pension professionals weigh in on the longstanding debate regarding whether pension plans should be investing actively or passively.

Blair Richards, chief investment officer at the Halifax Port ILA/HEA pension plan

To see why passive investing should be a part of every portfolio — particularly in today's environment — first consider its traditional benefits: low fees and high transparency; less decision-making around buying or selling and including timing; and the possibility of tax minimization, which lends itself to a low expense ratio.

As well, a conviction that the market reflects all probable, known information isn't a prerequisite to enjoying the lower cost and lower volatility of the passive approach.

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For a demonstration of how a passive mandate delivers competitive returns via a smoother ride, just look at this spring's stock market correction and recovery. Starting in March, many markets sold off then subsequently rebounded. While nearly all stocks in certain indices dropped, the recovery was led by a narrower few.

Research is clear that the majority of actively managed funds can't consistently make the buy-and-sell calls and with the precision timing it requires to outperform their benchmarks over the longer term. Passively investing in an index that also serves as a recognized benchmark coupled with a rebalancing strategy is a winning formula.

Or, if fixed income is a concern, check an active mandate against the universe benchmark for congregation around the mean. You might discover you're paying active fees but receiving passive returns. Beware of closet indexers.

Read: **Why more group retirement plans are including passive investments**

People and organizations mainly invest in ways that reflect their goals, risk tolerances, personality, beliefs and time horizons. There are definitely times and places for allocation where passive makes sense either totally or partially.

Today's sophisticated technology, coupled with extensive products and services, allows investors to make just one critical decision. Go passive selectively and deliberatively. Then sit back, relax and enjoy the results over time.

Duncan Burrill, managing director and chief executive officer at the Canadian Broadcast Corp.'s pension plan

At the CBC pension plan, we're big believers in the benefits of active management at the portfolio, asset class and plan level. That is, at all levels of the organization.

We use active management to over- and under-weight securities, industry sectors, countries, geographic regions, styles and factors such as value and low volatility. Since we follow a liability-driven investment strategy, we also use active management to create fixed income portfolios that can best hedge our interest rate risks.

Read: When does active investment trump passive?

While it doesn't add performance or lower risk every month, quarter or even every year, over time, it has been an effective tool for both adding return and managing risk.

Our belief in active management is in spite of our belief that markets are efficient overall and are becoming more efficient over time.

This means alpha is not easy to find or plentiful, but it does exist, especially if you are able to take a long-term time horizon. We think one of the greatest sources of alpha available to pension plans is being patient long-term investors in diversified (but not passive) portfolios.

Read: Can machine learning help active managers outperform passive peers?

While active management has the most potential in less efficient markets, such as private and emerging equity markets, we have achieved success with active management in all markets and asset classes.

The Achilles heel of active management is the higher costs relative to passive investing. In fact, we believe the switch to passive investment over the past 50 years is partly a function of active managers failing to outperform their much higher fees.

However, this is largely a retail phenomenon and, by focusing on cost-effective institutional investment managers, pension plans can make active management an effective tool for achieving their mission.