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THE INTERNATIONAL NEWSPAPER OF MONEY MANAGEMENT

MONEY MANAGEMENT

Sun Life sees brighter U.S. presence in future Canadian manager eyes liftouts, acquisitions as ways to expand footprint

By Rick Baert

Sun Life Investment Management wants to expand its U.S. business with more real estate, private credit and infrastructure investment offerings, said Stephen Peacher, president.

"I think we can expand on our real estate capability," Mr. Peacher said in an interview, going beyond subsidiary Bentall Kennedy (U.S.) LP's core real estate approach to include global, core-plus and opportunistic strategies. Also, he said, "We're a big infrastructure lender, but we could be in infrastructure equity as a potential area. There are areas in private credit that we're not in yet."

Such investment expansion could be done, Mr. Peacher said, through hiring investment teams from other firms or by continuing Sun Life Investment Management's acquisition of money managers. Sun Life Investment is the Boston-based U.S. money management unit of Canadian insurer Sun Life Financial Inc., Toronto.

"I think it depends" how those capabilities are expanded, Mr. Peacher said. "In some areas, I think we could hire a person or small group of people and create the capability we want. In other cases, it'd be through acquisitions. I think we're flexible." But, he added, "the answer is definitely yes" as to whether Sun Life would like to do further acquisitions.

The acquisition of three firms in 2015 added Bentall Kennedy, active fixed-income manager Ryan Labs Asset Management and insurance asset manager Prime Advisors Inc. Sun Life Investment Management had \$50 billion in worldwide AUM as of March 31, while Bentall Kennedy ran another \$20 billion; Ryan Labs, \$9 billion; and Prime, \$18 billion. All assets are as of March 31. All figures in this story are in U.S. dollars.

(Sun Life Financial acquired MFS Investment Management in 1982, but that business is run separately from Sun Life Investment Management.)

While Mr. Peacher said Sun Life would like to add more private credit strategies, he said he's "really pleased" with how the firm's current private credit strategies have done in Canada.

"In 2014, we launched a (mid-duration) private credit fund and took \$100 million in assets off our balance sheet and put it in this fund. Today we have three private credit funds, and that's based on institutional demand." The funds have durations of 2½ years, 6½ years and 10 years, and have a combined \$2.5 billion in assets, mostly from pension funds.

New hire

To expand its capabilities in the U.S., Sun Life Investment Management in January hired Sam Tillinghast as president, U.S. private credit. Mr. Tillinghast had been co-CEO of private credit manager THL Credit Advisors. Mr. Tillinghast "is building out the same strategies for us" as he did with THL, Mr. Peacher said. "We're just now starting to get into that."

Along with private credit, Sun Life Investment Management has looked to broaden its high-yield, bank loan and collateralized loan obligation capabilities through its Ryan Labs business, said Randy Brown, Boston-based chief investment officer of Sun Life Financial and head of investments at Sun Life Investment Management. Ryan Labs in November hired Senior Managing Director Mark Pelletier and his team from American Capital Leveraged Finance Management LLC to add those strategies, Mr. Brown said in a separate interview.

Mr. Brown said Sun Life Investment Management has been organized as a boutique asset manager, with Ryan Labs, Prime Advisors and Bentall Kennedy and MFS Investment Management running their own business with their own CIOs, "but we do collaborate with them. My role is to oversee the overall strategic investment plan of Sun Life."

In fixed income, Mr. Brown said: "We've created tangential concentric strategies. My team doesn't do municipal bonds, but Prime does, and now we have high-yield and other fixed-income strategies. Synergies with the managers can be created because they have these different capabilities ... A lot starts in Canada. First, we have a large distribution and managing platform. In the U.S. with Prime and Ryan Labs as core fixed-income managers, now (investors) can add more private credit, mortgage-backed securities if they want it, and real estate equity."

Mr. Brown said that using Sun Life Financial's insurance balance sheets as an incubator for new varieties of fixed-income investment strategies also could be applied to infrastructure equity. "We do a lot of infrastructure debt in Canada and the U.S., but we have not done a lot of equity," Mr. Brown said of Sun Life Financial. "The equity side is a perfect area to offer what the balance sheet uses. I'd consider it for the balance sheet and then for third parties."



Stephen Peacher said the firm is 'flexible' on how it will go about adding to its U.S. capabilities.

Using the insurance balance sheet as an incubator for new strategies is an important strategy for Sun Life Investment Management, Mr. Brown said. "As an insurance company, some of our strategies are different than what an endowment, a sovereign wealth fund, a public pension plan might use. I can't incubate everything. The majority of what we do in fixed income is investment grade, high quality. The public debt market is looking for more juice, much higher yield. We're in the same position as a lot of corporate pension plans. I think having a balance sheet is an advantage."

Looking to expand

Mr. Peacher said that while fixed income has been a focus of Sun Life Investment Management given its insurance heritage, the firm is looking to expand in the U.S. with strategies that can be used by asset owners like public plans, endowments and foundations, which "is a small area for us, but as we add to our alternative capabilities, I think that becomes a bigger target market for us."

Sun Life Investment Management's approach to growth in the U.S. will be "a little different than in Canada because we're starting at a different base," Mr. Peacher said.

"In Canada, we have a great team, great brand recognition, and we could leverage that and go to pension funds with a brand that's well known. In the U.S., Sun Life isn't as well known. ... In Canada we started from scratch, and in the U.S. we'll be working through the managers that we've bought," Mr. Peacher said.

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