Alberta Woes Continue: Pension Fund Loses $2.1 Billion

Description

Alberta's pension fund manager is in the pressure cooker for incurring outsized losses during the coronavirus-induced market turmoil. The trading strategy of Alberta Investment Management Corp. (AIMCo) failed and resulted in nearly $2.1billion in losses in April 2020.

AIMCo manages about $120 billion for 31 pension, endowment and government funds in the Canadian province. However, because of its "wholly unsatisfactory" performance, there are calls to strip AIMCo from managing some of the province's funds.

Investment strategy gone wrong

Based on the 2019-20 Alberta Heritage Savings Trust Fund annual report, the market value of the province's long-term savings fund fell from $18.2 billion in February to $16.3 billion in March. AIMCo lost partly due to the volatility trading program called VOLTS.

The VOLTS strategy did not pay off because it will only profit from low volatility in equity markets. Hence, the investment strategy burned money instead of protecting the pension of thousands of hardworking people.

Some quarters are demanding a judicial review of AIMCo given the scale of the losses. In response to the VOLT losses and to further mitigate its risks, AIMCo's board of directors approved a plan to wind down VOLT and permanently close the strategy.

Comprehensive review

A comprehensive review of the strategy is underway to prevent the re-occurrence of the losses and institute necessary changes. AIMCo's Internal Audit Group and its Chief Legal Officer will have assistance from Barbara Zvan, retired Chief Risk Officer of the Ontario Teachers' Pension Plan, and accounting firm KPMG.

Furthermore, AIMCo has a new Chairman of the Board effective July 1, 2020. Mark Wiseman, former CEO and president of the Canadian Pension Plan Investment Board (CPPIB) has replaced outgoing chairman Richard Bird. Wiseman brings with him a strong governance and investment decision-making experience.

Future-proof asset

Canadians who are fortunate and still receiving a steady paycheck during the pandemic should consider investing in future-proof assets. The stock market is open for business. Your extra cash can help you save for retirement.

Algonquin Power & Utilities (TSX:AQN)(NYSE:AQN) is a defensive stock for risk-averse investors. This $9.8 billion Canadian firm owns and operates a portfolio of utility assets (generation, distribution, and transmission). It is unique in the sense that the company generates more than 90% of revenues in the U.S. Also, 75% is regulated, while 25% is renewable energy.

In a challenging environment like today, your investment choice should be stable and capable of growing cash flows and dividends. Although the stock price sunk at the height of the market selloff in March 2020, the utility stock has risen since. As of this writing, it's trading at $18.59 or a year-to-date gain of 3.62%.

The dividend offered is 4.54%. Assuming your position is $25,000, the potential earning is $1,135.00. Your seed money will triple to $75,858.18 if your holding period is 25 years, and the yield remains constant. A company like Algonquin that engages in electricity, gas, water, and sewer operations is an excellent asset to own for decades.

Avoid risk-prone strategies

Far more considerable losses are inevitable if your strategy is prone to risk. Minimize the risk by focusing on companies that can weather market struggles and deliver reliable, long-term results.

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cliew