

Visit **Benefits and Pensions Monitor** magazine online at: <http://www.bpmmagazine.com>

---

## **A Conversation With... Stephen A. Jarislowsky**

By: Fred Weinberger

To mark its 15th year of publishing, **Benefits and Pensions Monitor** is featuring a series of conversations with people who have made a significant contribution to the industry.

Stephen A. Jarislowsky was one of the very first **money managers** of **pension fund assets** in Canada and has a track record that spans more than 50 years.

The following is an edited version of the conversation between Jarislowsky and **Benefits and Pensions Monitor** Executive Editor Joe Hornyak.



BPM: What prompted you to start Jarislowsky Fraser Limited back in 1955?

Stephen Jarislowsky: At that time, I had taken a leave of absence from Alcan where I had worked since finishing school. The leave of absence was to settle the estate of my in-laws who had lived in New York.

We had just had a child and we were living in New York in hotels. It wasn't exactly to my liking. We had also just bought a house in the town of Mount Royal in Montreal so, for about a year, I went back and forth between Montreal and New York to settle things.

In the meantime, to keep myself busy, I started, together with my friends, a number of entrepreneurial companies. One was with a fellow who also had been at Alcan, J. J. (Jack) Brown. It was just supposed to be in your field, publishing. We were doing a service that featured a system of analyzing stocks.

Jack was supposed to head this operation and I was supposed to be a shareholder. However, after six months, I realized we did not share the same philosophy. He was not conservative enough so I bought him out at 10 times what he had invested in it. That's a pretty good return after only six months. However, we only invested \$100 in total, so he received \$370 from me. Since I bought him out, I had to run it and I'm still sitting here.

At that time, we were the only outfit doing field research on Canadian companies. As a result, big fund managers in the United States and England got in touch with us because they felt we knew the Canadian companies pretty well and they liked our style. With time, we were co-managing Canadian pension funds with Royal Trust and Sun Life. We were on retainer and Sun Life or Royal Trust would get the full fee.

Then slowly, we earned some private accounts and, eventually, because of our research and because of the co-managing of these accounts, we got into the pension fund business.

BPM: When would that have been?

SJ: That must have been in the early 1960s. We were founded in 1955. The first few years were basically the investment values tables service and then came the field research and private accounts.

BPM: When you started to manage money, was it just pensions or was it private wealth as well?

SJ: No, it was pretty well simultaneous. We worked for pension funds, but we also worked for financial companies in London, New York, and Chicago. That was strictly on a research basis. In other words, we would visit companies, which wasn't done at that time in Canada, and write up our findings.

BPM: Where did the idea for doing field research come from?

SJ: It wasn't the normal practice at all in those days. Hardly any field research was being done and, if it was, it was mainly done by outfits in the United States. There was a fellow named Fred Roe, a partner at Stein Roe & Farnham in Chicago, IL, who had heard of us. He came to see me in Montreal because they wanted to get some people to do research in Canada who knew Canada. From there, it spread to New York and London. So it was really humble beginnings.

BPM: What was it like managing pension funds back then?

SJ: I think it was relatively easy because our competitors were mainly the trust companies and insurance companies. They were terribly conservative. They still had the insurance industry type of benchmarks, which dated back to the Depression, so they were totally risk adverse.

Most of their stocks were the normal stocks that you would have expected – the banks and other insurance companies, Bell Telephone, and, maybe, Imperial Oil.

We knew the other Canadian companies far better than they did because of our visits so we had a real advantage over them in terms of choosing securities and, consequently, this was reflected in our performance.

BPM: How then, against this background where it was primarily being provided by trust companies, does an independent asset manager like yourself encourage these pension funds to let you manage their money?

SJ: After we did the first pension fund ourselves, our reputation spread. We were known for having very good results at relatively low risk and we became besieged by pension plans wanting us to be their manager. The demand was so great that our infrastructure really couldn't keep up with it.

It peaked at the beginning of the 1990s and our performance suffered a bit. That seemed to indicate to the consultants, because the consultant business had sprung up by then, that they could make some money by recommending that their pension fund clients change managers.

We lost a bit of business because the consultants have ever been very good at picking managers who were at the top of the wave and getting rid of the ones they should have been hiring. It is easy for the consultants to convince pension committees to hire somebody who has done very well. But different investment styles do not do well in all fashions of markets.

BPM: Today, you've become synonymous with corporate governance and the Canadian Coalition for Good Governance (CCGG). When did that start?

SJ: We were always involved with that, right from the beginning. The Canadian Coalition and the Quebec institute, La Gouvernance, which we also set up here, are just ways of trying to get some sense into the industry and into the corporations by having institutional investors and other organizations which have influence band together to make changes. But I tell you, it's not easy.

BPM: You said that it's always been something that you've been interested in right from the beginning, but it's really only in the last five years that there has been an organized effort, the Canadian Coalition for Good Governance, which you helped to found. Why did it take so long?

SJ: It was the first time we were able to do it by law. Late in 2001, the Canadian Corporations Business Act was amended. Before that, shareholders did not have a say. The investors were totally dispersed. The small investor couldn't really do anything and a lot of the big investors were beholden to the corporations to get their business. It was the CEOs who had all the influence.

So the only way we could actually act this way was by getting together and that became possible in late 2001 and the CCGG came into being the next year.

BPM: Is the coalition making a difference?

SJ: It is making some difference, but not yet with this excessive type of compensation, which has become so complex.

I just read an article by two researchers in Boston who found out where the top executives of the Fortune 500 companies are living, and the bigger the house, the worse the performance of the stock.

What is happening is the consultants are saying "Joe is earning so much a year at ABC company. Comparatively, your company is bigger, therefore, you should have more." At the same time, this board has three other CEOs on it who say, "gee, this guy could help me too."

But, if somebody makes too much money, he isn't hungry anymore, and that is what is happening. It starts with a signing bonus and ends with a change of the control bonus. So all the executives will have all these options immediately come vested and they'll be getting a big bonus, about three years pay, because the company is being taken over, and the next day they are working for the new corporation.

BPM: Is part of the problem, perhaps, that we've become so obsessed in the financial markets with growth equals performance? Unless a CEO is driving growth at the expense of all else, we do not consider it a good company?

SJ: I don't even think it is growth; I think it's manipulation. For instance, if you raise the return that you're going to get on your pension fund, like they did in the 1990s, from five to nine per cent, your earnings go up because you pay less into the pension fund.

A company can also manipulate its depreciation to make it appear as though its earnings have gone up. I was taught that depreciation was 'wear and tear,' obsolescence. Now the obsolescence is being looked after by a special charge. In the old days, you had to show actual depreciation. Now you don't.

There are all kinds of these gimmicks that create rising earnings without doing anything.

BPM: So the way out of it is what?

SJ: I think what has to happen is that we don't attack the CEOs, we attack the boards. By law, a director is supposed to be a fiduciary for all the shareholders. In reality, a director is a fiduciary for the CEO or for the majority shareholder. At the heart of any improvement would be to really go after the boards, insisting that they perform their fiduciary duty and remove directors who do not.

-----

Born in Berlin, Germany, in September 1925, Jarislowsky emigrated to the United States in 1941. After studying mechanical engineering at Cornell University, he served in the U.S. Army and, on his return to the U.S. in 1946, he returned to school and earned an MA with Phi Beta Kappa Honors from the University of Chicago.

He then completed his MBA studies at Harvard Business School, graduating in 1949. He first came to Montreal, QC, while with Alcan Aluminum. In June 1955, he launched Jarislowsky, Fraser & Company Limited.

Over the last 40 years, he has directed the growth of the company as it has become one of the largest and most successful investment management firms in Canada.

A champion of corporate governance in Canada, in 2002 he helped found the Canadian Coalition for Good Governance and, in 2006, he co-founded the Institute for Governance of Private & Public Organizations, a research and training centre in Montreal.

His book 'The Investment Zoo,' a mixture of autobiography, advice, and his views on international policy published in 2005, knocked the French edition of the 'The Da Vinci Code' off the bestseller lists in Canada.