Reach + Service

It’s the new math: take market and product breadth, and add exceptional service.

Whether you’re entering new markets or enhancing service to your clients, RBC Dexia delivers both sides of the equation.

From global custody to fund and pension administration, shareholder services to securities lending, RBC Dexia’s award-winning service* is there for you in 15 countries around the world.

The result? Your goals, achieved.

Find out more: rbcdexia-is.com/converge

* #1 overall global custodian in client surveys from Global Investor (2004-2007) and R&M Consultants (2005-2007)
RBC Dexia Investor Services Limited is a holding company that provides strategic direction and management oversight to its affiliates. All are licensed users of the RBC trademark (a registered trademark of Royal Bank of Canada) and Dexia trademark and conduct their global custody and investment administration business under the RBC Dexia Investor Services brand name.
CONTENTS | April 2008

Features

19 In The News
Bear Stearns’ Demise A Sign Of The Times
George Di Falco

21 Annual Report 2008
Fixed Income Managers
Portable Alpha – Does It Make Sense for
Canadian Bond Allocations?
Margaret Isberg

25 Annual Directory 2008
Fixed Income Managers

33 Annual Report On Group Insurance
Group Benefits And Group Retirement
The Next Decade – More of the Same?
Brian Lindenberg

37 Annual Directory
Group Benefits

39 Annual Directory
Group Retirement

42 Pensions
Group Members Earn More Than They Realize
Éric Perrault & Anick Huet-Richard

45 Investment
BRIC: The Next Episode
Habib Moudachirou & Patrick Gautier

49 Investment
Responding To Responsible
Investment Demands
Jordan Fremont & Lisa Mills

53 Benefits
Sending Employees To Olympic Games
Richard Culver

54 Employee Benefits
Tax-free Savings Accounts –
New (Tax) Math That Works!
Richard Beliveau & Greg Hurst

53 Benefits
The Home And Auto Insurance Option
Albert Wintjes

Departments

Editorial 5
People 7
News 9-11
Sponsor’s Desk 13
Health Matters 15
Market Monitor 17
Letters 60
Conferences 61
The Back Page 62
The investment experience of Fidelity.

The focus of a firm dedicated to institutional asset management.

Pyramis Global Advisors

When you combine the resources of Fidelity with an unwavering focus on institutional asset management, you get a business designed to perform. Pyramis Global Advisors delivers a broad range of traditional and alternative investment strategies, grounded in time-tested processes with a commitment to performance excellence and client service. For more information, call Fidelity in Canada at 1 800 817-5448 or visit fidelity.ca/retirementsolutions.

Distributed by Fidelity Investments Canada ULC, an affiliate of Pyramis Global Advisors. Copyright 2008 FMR LLC. All rights reserved.
True story.
A few years ago I was at the 25th anniversary party for a couple I knew from years ago. He was a teacher, like most of the other people at the party.

In every conversation you dropped in on at that party, the subject was whether or not Ontario would change the ‘Rule of 85,’ the rule which said if age plus years of service equal 85, you can retire with a full pension. This was brought in at a time when Ontario was looking for ways to cut costs. With a bunch of aging teachers, letting them retire as early as age 57 shuffled more expensive teachers out of the system to be replaced by younger, ‘cheaper’ teachers. The cost of supporting those retirees out of the system to be replaced by younger, as early as age 57 shuffled more expensive teachers out of the system to be replaced by younger, ‘cheaper’ teachers. The cost of supporting those retirees was being passed on to the pension plan.

All those teachers were living in fear that they might have to hang around longer. Fortunately, the rule wasn’t changed and many of them are indeed now retiring.

However, when news of a $12.7 billion shortfall in the Teachers’ pension plan broke early in April, there were renewed calls for changing the ‘Rule of 85.’

Want to know why pension plans are in trouble? Read the comments of Ontario Education Minister Kathleen Wynne and NDP Leader Howard Hampton.

Both jumped on the ‘Rule of 85’ as the problem. Both were wrong. The ‘Rule of 85’ is not the problem, it is a byproduct of the real problems facing pension plans in Canada.

Let’s start with the absurd assumption that pension plans funded out of the public purse have shortfalls or surpluses. They have neither. However, by maintaining that they do, our regulations create situations where ‘imaginary’ surplus has to be used to enhance benefits and shortfalls need to be funded up to full solvency levels.

The only shortfall in any given year is when contributions are less than benefit payouts, and that is the amount on a year-to-year basis which could come out of taxpayer pockets.

Treated As Endowments
However, even that would be unnecessary if we treated Defined Benefit pension plans as endowments. There would be no shortfall in any pension fund if there had been no limit on the amount of surplus in their plans during the last years of the 20th Century when all markets were supercharged. There would be no deficits in pension funding going forward if plans were allowed to invest to get the maximum return at the least risk.

Politicians such as Hampton better understand this now, because the factors that have created this shortfall in the Teachers’ plan are going to worse. Its ratio of working members to pensioners is now 1.6 to one. This costs the plan $4 billion a year in benefits, almost twice the $2.1 billion it receives in contributions. As teachers age, retire, and, perhaps most importantly, live longer in retirement, it will get worse. And it is not just ‘Teachers’, this is OMERS, it’s CAAT, it is HOOPP, and virtually every other pension plan. All of these plans should have been allowed to go ‘pedal to the metal’ from day one to generate enough money to cover these future liabilities.

End Of The World
Because, the only thing that is going to cause solvency funding and surplus decisions to become an issue with these large public sector plans is the end of the world. Otherwise, under what other scenario will they be closed and wound-up? Total economic failure of government might do it, but that will seem like the end of the world.

Short of that, they need to be equipped to generate the revenue to pay out pension benefits – without dipping into the public purse – to today’s retirees, tomorrow’s retirees, their children, their children’s children …

Besides, the day the world ends, no-one will care about who gets what leftover money, much less winding up the plan.

By Joe Hornyak
Executive Editor
FORUM 2008 marks a brand new start for CPBI’s annual national conference, developed with the help of members from across the country, FORUM provides you advanced-level content and networking opportunities, with expert panel sessions and high-profile Canadian and international speakers.

Our speakers along with a spectacular entertainment program, will be the catalysts for this unique event that will energize the pension, benefits and investment community and mark it for the years ahead.

To register, visit our website at:
http://www.cpbi-icra.ca
CPBI National office, Tel.: 514 . 288 . 1222
Managers Global

David Shepherd has launched Managers Global to assist asset managers in accessing foreign markets by providing institutional marketing capabilities to traditional and alternative asset managers outside their domestic markets. He was previously a principal at Marvin & Palmer Associates.

Hillsdale

Harry Marmer is executive vice-president, institutional investment services, at Hillsdale Investment Management. He is also a partner. He will work directly with investors and consultants to provide investment strategies tailored to their core needs and requirements. Dr. Taha Jaffer is director of research. Previously, he was vice-president, research and hedge fund investments, at Northwater Capital Management.

Genus

Brent Chernenkoff is vice-president, institutional sales, at Genus Capital Management. He has more than 13 years investment experience, having previously worked with the Bank of Ireland, UBS, and Scotia Cassels. James Bruce has become a shareholder and strategic advisor to Genus Capital Management. His financial career includes senior management roles at Pemberton Securities, RBC Capital Markets, and TD Securities.

Best Doctors

Jason Hutton is director of sales, corporate accounts, with Best Doctors Canada. He has held roles of progressive responsibility within both the pharmaceutical and medical device industries and brings more than 14 years of successful experience in both sales and business development to the position. Jodi Marrin is director of marketing. She has more than 10 years of experience in consumer and B2B marketing for clients such as Bank of Montreal, Mosaic MasterCard, Shred-it Document Destruction, Liberty Mutual Insurance, Delta Hotels, and Queen’s School of Business.

Industrial Alliance

Michel Tremblay is executive vice-president, investments, at Industrial Alliance Insurance and Financial Services Inc. In the last 20 years, he has held various management positions in investments and wealth management and has worked for several major financial institutions including Optimum Group, ING, and the National Bank.

AlphaMetrix

Dr. Ranjan Bhaduri is managing director of research at AlphaMetrix Alternative Investment Advisors, LLC. Most recently, he was vice-president of the Graystone Research group at Morgan Stanley. Bhaduri has been a contributor to Benefits and Pensions Monitor.

Man

Clive Morgan and Bernice Miedzinski are executive vice-presidents of institutional relationship management at Man Investments Canada Corp. Morgan was previously president of York Investment Strategies, which he co-founded in 2000. Miedzinski was managing director of York.

Sun Life

Lori Bak is vice-president, marketing, for Sun Life Financial’s overall Canadian operations. She had been vice-president, client relationships and marketing, for the group retirement services division.

Baring

Bill Tsotsos is chief representative and managing director (Canada) for Baring Asset Management. He was most recently director of institutional sales for Scotia Cassels Investment Management Limited.

Morneau Sobeco

Bethune Whiston has been made a partner in the Toronto retirement consulting practice at Morneau Sobeco. She joined the firm in 1991 and now manages its Toronto pension legal team.

Submit your People items for consideration for publication in Benefits and Pensions Monitor to admin@powershift.ca
Ten years.
Three Morningstar® Fixed-Income Manager of the Year awards.
One investment philosophy.

Some might call that consistency.

As recipients of the 2007 Morningstar Fixed-Income Manager of the Year award, Bill Gross and team are the first ever to receive the award three times—all in the last 10 years. We did it by adhering to a single investment philosophy that focuses on the long term and never loses sight of the risks. Some might call that consistency. We call it staying true to our mission of providing our clients with the best investment management in the world.

PIMCO has been harnessing the power of this winning team for Canadian clients since 1998.

To learn more about PIMCO Canada, please call 416 368 3350. Inquiries are welcome.

PIMCO Canada Corp.
120 Adelaide Street West, Ste. 2005
Toronto, Ontario
Canada, M5H 1T1

www.pimco.com
OTC Drugs May Be Restricted
The recent federal budget may force corporate drug plans to stop covering over-the-counter medications, says Watson Wyatt. It says benefits and insurance companies have asked the Canada Revenue Agency how a measure to tighten up the medical-expense tax credit by removing over-the-counter drugs from the program will affect employee benefit plans. Many company drug plans provide coverage for non-prescription medications if ordered by a doctor which is permitted by the Canada Revenue Agency. With rules becoming tighter, drug plans may amend coverage to match them.

Gold Price Will Surprise
Gold is a commodity people try to relate to in supply and demand terms, but it is really a currency issue, says Andrew Marchese, portfolio manager and Canadian director of research for Pyramis Global Advisors. Speaking at its Global Market Update Conference, he said with real rates flat or negative, and likely to become more negative, he is extremely bullish for gold. He said everybody will be surprised to see the price of gold going forward and it will happen in relatively short order. However, “if you think moves have been parabolic now, wait a few years and they’ll surprise you even more.”

Real Estate Favoured Alternative
Real estate is the most popular alternative investment among public pension plans in the U.S. and Canada, says a report by the Government Finance Officers Association. Real estate was the favourite alternatives asset class for 85 per cent of respondents, followed by private equity (60 per cent), venture capital (44 per cent), and hedge funds (42 per cent). Overall, 52 per cent of the 150 public pension plans polled either invest or plan to invest in alternatives. The ones that do not invest are typically either barred by law or by investment policy from doing so or are governed by conservative boards of trustees.

Ethical Funds Sustainable Leader
The Ethical Funds Company was named Canada’s sustainable investment and banking leader at the 2008 Globe Awards for Environmental Excellence Gala. The award is in recognition of its success at marketing socially responsible investing (SRI) to investors by showing how individual investments can help to change the world. Ethical has been at the forefront of this industry for more than 20 years and has $2.6 billion in assets under management.

DB Health Delays Shift To DC
While the proportion of Defined Benefit plans closed to new employees jumped to 26 per cent in 2007 from 22 per cent in 2006 in the United States, the share of closed Canadian funds has been stable at about 20 per cent for the past three years, says Greenwich Associates’ “2008 Canadian Investment Management Research Study.” At the same time, the share of Canadian plan sponsors operating DC plans has been steady at about 50 per cent. Canadian plan sponsors are under less pressure to close their DB plans in part because the plans themselves are better funded. The average funding ratio for Canadian pension plans now stands at 99 per cent, up from 97 per cent last year.
We make buying the world a bit easier.

Start with a disciplined, research-driven investment process.
Add access to the local economic and market insights of GE business leaders around the world.
The result? The confidence to invest in today's complex, global marketplace.
Tap into the power of GE. Let us help you buy the world.

keith.smith@corporate.ge.com  Tel: (905) 858-6683 or
louis-daniel.desjardins@ge.com - Tel: (514) 394-2936

www.geam.com
Congress Examines Canada’s Pension Model

David Denison, president and CEO of the Canada Pension Plan Investment Board (CPPIB), has told two U.S. congressional sub-committees that the CPPIB is not a sovereign wealth fund. In fact, he invited U.S. policy makers to examine the structural characteristics and maximum-strength governance model that distinguish the CPPIB from sovereign wealth funds. “At the heart of the sovereign funds issue is the question of political control and the potential that sovereign funds may be used in support of national or political – rather than economic – goals. The governance model of the CPPIB is instructive in this regard because it was specifically designed to protect against political interference, while maintaining a high degree of accountability,” he said.

Pension Funds Using Private Equity

Canada’s pension plans have proven to be valuable strategic partners in private equity investment, says a Blakes’ perceptions study. The perception of the increased importance of pension plans is reflected in the study with almost 40 per cent of respondents expecting new sources of capital coming from pension funds in the coming months and a majority of respondents believing that institutional investors have been the most influential factor in the growth of private equity in Canada. Private equity investments by the plans have covered a wide spectrum including LP investments, co-investments with private equity funds, direct and co-sponsored buyouts, and infrastructure.

Strategy Now Available To Canadian Plans

JPMorgan Asset Management’s fundamental U.S. large cap 130/30 strategy is now available to pension fund investors in Canada through a Canadian-domiciled pooled fund trust. Established in July 2004 and with more than $5 billion in assets under management, the strategy is one of the largest and long-established of its kind. Utilizing active stock selection with a systematic valuation process, it invests in a diversified portfolio of U.S. large cap equities with a target average exposure of 130 per cent long and 30 per cent short.

Co-operators Combines With Addenda

The Co-operators Group plans to combine Co-operators Investment Counselling Limited with Addenda Capital Inc. The new entity will operate as Addenda Capital Inc. It will have almost $40 billion under management and unite Co-operators’ expertise in balanced funds, Canadian equities, U.S. equities, commercial mortgages, and fixed income with Addenda’s specialized skills in fixed income management. Offices will be in Montreal, QC; Guelph and Toronto, ON; and Regina, SK.

PH&N Joins Forces with RBC

The Royal Bank of Canada (RBC) will acquire Phillips, Hager & North Investment Management Ltd. (PH&N). With combined assets under management in Canada exceeding $160 billion (based on RBC’s and PH&N’s respective year-ends), the two businesses will form one of the largest private sector asset managers in Canada. This also makes RBC one of the top five managers in the Canadian institutional market for Defined Benefit and Defined Contribution pension plans.

Investors Exit Emerging Market Bonds

Investors are now exiting emerging markets bonds, says Samarjit Shankar, director of global strategy at the Bank of New York Mellon. Speaking at a CIBC Mellon breakfast seminar, he said until 2006 investors had been moving into the sector. Now they are being much more selective, “picking and choosing by country.”

Desjardins & Co.

Putting all of Desjardins to work for your business.

At Desjardins Trust, we treat your business like one of our own. And our seasoned asset custody team has reliable and flexible business solutions just for you.

- Asset custody
- Settlement of transactions on national and international markets
- Income control and collection
- Capital cash inflow from matured or redeemed securities
- Foreign tax management
- Foreign exchange operations
- Market event monitoring
- Proxy follow-up
- Administration of derivative products
- Securities lending

Desjardins: an informed business team.

For further information, please contact the Asset Custody Team at 514-286-3100, extension 0, or 1-800-361-6840, extension 0.
WE LOOK AT SOLUTIONS FROM A DIFFERENT PERSPECTIVE: YOURS.

At Industrial Alliance, the focus is on you: the Client. Our Canada-wide team of group pension and group insurance professionals are steadfast in their day-to-day mission to design, develop and deliver flexible solutions and cutting-edge tools that are in line with each client’s specific needs while also providing business partners, sponsors, administrators and members with superior customer service every step of the way.

AT INDUSTRIAL ALLIANCE... IT’S ALL ABOUT YOU!
Providing employees with a certain level of encouragement and appreciation goes a long way in keeping a workforce motivated, energized, and on track toward business goals.

Plan sponsors say exceptional employee recognition programs are critical on a number of different levels. Not only do they ensure positive performance among workers, but they also help retain workers and allow everyone to be focused on the same important objectives that define a business.

Ann Marie Heffernan, manager of human resources, Enbridge Pipelines Inc., says in 2007 her company embarked upon a culture shift that they hoped would lift it to a higher potential. To take this next step forward, an effective recognition program was needed to communicate and develop six new team values – teamwork, respect, integrity, excellence, courage, and fun – which all employees were expected to work towards.

Recognizing Values

“Each of our six team values is a reflection of what we believe is important and what behaviours we want to emulate as employees and as team members. Recognizing and rewarding demonstration of our team values reinforces these behaviours,” Heffernan says.

To successfully instil these values throughout its workforce, she says the company had to tackle employee recognition on several key fronts, namely:

- Monetary Recognition
  - Salary Adjustments
  - Short Term Incentives
- Non-Monetary Recognition
  - Management Acknowledgement
  - Peer Recognition
  - Team Recognition

At the monetary level, she explains that employees are eligible for base salary merit adjustments each year if team values are demonstrated through performance evaluations. There are also short-term incentive programs (STIPs) based on a combination of company, business, and individual performances which provide workers with bonus opportunities as well.

At the non-monetary level, Heffernen says the company emphasizes employee recognition in a variety of ways – from a simple ‘thank you’ to gift certificates, tickets to sporting events, artwork, and travel vouchers. Employees are acknowledged for their outstanding work and demonstration of team values at monthly management meetings, monthly lunches, and year-end celebrations.

Recognizing Responsibility

Catherine Melvin, manager, employee communications, for the Coast Mountain Bus Company, says for a service-based company like hers, recognizing workers is essential. “Recognizing safety in the workplace promotes our corporate goal of safe and reliable transportation. Our employees feel good about their achievements and good safety records build trust with our customers,” Melvin says.

The company celebrates safe driver milestones in five-year intervals, with growing awards at each level. Employees that achieve 30 years of safe driving are recognized at an awards ceremony. Bus maintenance and overhaul workers are also recognized as safe workers in similar five-year intervals.

Recognizing Teamwork

At SKF Canada Limited, rewarding those that provide extra help to fellow employees is important. Joanne Neglia, manager, human resources, says workers rely heavily on each other in a variety of ways, especially within its customer service department. As a result, rewarding outstanding teamwork and co-operation has become a popular practice there.

To promote mutual appreciation among fellow workers, the company has taken a unique approach with its ‘Thanks A Million’ boards located throughout its offices. Workers can rip notes off the board, whenever they want, and send it to those that they think did a great job on a recent project or simply as a ‘thank you.’ A copy of the note also goes to someone in the HR department who submits the name into a quarterly draw for a $25 gift voucher of the winner’s choice.

“We wanted to create a culture of recognition at our company. We weren’t really getting it at the management level, so we dropped it down and put it in the employees’ hands,” Neglia says. “They seem to like it a lot because it’s visible. They can rip it off and they can pin it up on their walls to show who they appreciate most.”

Recognition Ensures Positive Performance

By: George Di Falco

George Di Falco is Benefits and Pensions Monitor’s staff writer (gdifalco@powershift.ca).
Every disability claim is unique.

What sets Co-operators Life Insurance Company’s disability claims management program apart from the rest: **the personal touch.**

We believe that behind every disability claim is a unique individual faced with unique circumstances. That’s why we work closely with individuals, their plan sponsors and their treating physicians to build a disability management plan specifically tailored to them. Strong relationships and collaborative planning achieve better disability management results.

There are no “one size fits all” solutions at The Co-operators.

See how The Co-operators disability management program helps employees just like yours by visiting our website at www.cooperators.ca/disability

Contact a Regional Manager today at 1-800-880-6588 to learn more about The Co-operators approach to group benefits and group retirement services.
John is a middle-aged accountant for a national company. Considered a natural athlete in his younger years, lately he hasn’t been quite so active. So when a co-worker invited him to join a weekly pick-up game of soccer, he was excited to once again be on the field.

The first two weeks of games came and went without incident. He loved that he was once again getting fit and the positive effects of exercise were paying off not only in his personal health, but also in improved productivity at work.

Then, during the third week, John ran out on the field and twisted his leg. He instantly dropped on the field, clutching his leg and screaming in pain. Helped from the field, he was taken to the hospital for a diagnosis of his injury.

A Healthy Paradox

As employers and managers, we often encourage our employees to be active. We know that healthy employees are not only more productive, but also use fewer sick days and make fewer claims on company healthcare plans. Still, we are taking unnecessary risks if we encourage our employees to get fit without taking necessary precautions.

Exercising Smart

The good news is that most sports injuries can be prevented. It’s wise for savvy employers and managers to creatively advise staff on how to exercise smart and how to avoid unnecessary sprains and strains. Consider passing along these tips in your next employee newsletter or staff meeting, or posting them on your bulletin boards:

◆ Start slow – If you haven’t exercised for quite a while, running around a soccer field for an hour will be quite a shock to the system. The safest way to start is to perform at a low intensity until your muscles ache slightly or feel heavy. If this occurs after only a few minutes, then you should only exercise that long and take a break or stop exercising. Your endurance will build naturally as you continue to exercise regularly over the next few weeks.

◆ Take your time – You only need to exercise for 30 minutes a session, three times a week, to achieve and maintain fitness.

◆ Warm up and cool down – Never try to stretch ‘cold’ muscles. Instead, take a brisk walk or perform some other aerobic activity for a few minutes to get the blood circulating. Then, hold each stretch for 20 to 30 seconds. You should also stretch when you’re finished exercising as part of your cool down.

◆ Exercise regularly – If you play pick-up hockey once a week, try to exercise on two other non-consecutive days. Performing short, but correct, workouts during the week will likely make any weekend sports not only more enjoyable, but also safer.

◆ Listen to your body – As you become more active, you’ll have a greater awareness of your body. You’ll know when you’re exercising too much or too often and will be able to tell exercise fatigue from serious injury. As you’re starting out, however, err on the side of caution. If you have any muscle soreness, pay careful attention to how long it lasts. If it continues for more than 36 hours after a workout, you’ll likely want to visit your doctor.

A Reasonable Regimen

It turns out that John, who was injured playing in the pick-up game of soccer, seriously tore his anterior cruciate ligament (ACL). He missed the next week of work, using all of his remaining sick days, for his required surgery. And during the next few months, he missed quite a few half days for various physiotherapy and medical appointments. His injury was quite serious and his absence from work, although understandable, affected a number of important projects.

The urge to be active is healthy, but should be tempered with caution. Those of us who haven’t exercised in quite some time should be aware of our limitations.
Multiple perspectives. Better vision.

At T. Rowe Price, extensive analyst and portfolio manager interactions across sectors and asset classes promote a broad research perspective and, ultimately, seasoned judgement. In our experience, intelligent collaboration is integral to a sound investment process and creates lasting value for our clients.

With fixed-income markets experiencing virtually unprecedented volatility, we believe our research-intensive approach is uniquely positioned to identify alpha-rich investment opportunities. For a closer look at how T. Rowe Price can help with your fixed-income strategy, please visit troweprice.com/globalbonds.

Invest With Confidence®

Please Contact Wendy Brodkin, 416-572-2580 | wendy_brodkin@troweprice.com
troweprice.com/institutional

T. Rowe Price, Invest With Confidence and the bighorn sheep is a registered trademark of T. Rowe Price Group, Inc. in the United States, Canada, and other countries.

Issued by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services. T. Rowe Price (Canada), Inc. is not registered to provide investment management business in all Canadian provinces. Our investment management services are only available to select clients in those provinces where we are able to provide such services. This material is intended for use by accredited investors only.
If institutional fund managers are not already reviewing their international and small cap investment policy in light of changes to world equity indices, they should be. Combined with the index modification and mounting evidence – including our own recent research – small caps deserve serious consideration.

This May, Morgan Stanley Capital International (MSCI) is completing the final stage of implementing its new MSCI Global Investable Market Indices (MSCI GIMI). Broadly speaking, the new approach offers deeper small cap coverage and eliminates the overlap between the standard and small cap indices. The implication is that even if the minority of institutional managers migrate towards the new index, it will affect global demand for small cap stocks and stock prices.

Growing Body Of Research

This move gives institutional managers good reason to reconsider their international investment policy. The argument for international investment diversification was laid out in the early portfolio modeling in the 1950s and the logic for expanding the investable universe into small cap stocks follows the same line. The small cap field is vast, with more than 5,800 stocks globally, more than double the total of large and mid cap stock combined. A 2007 study found that a fully diversified large cap portfolio greatly reduces risk compared to individual security holdings, but a portfolio diversified internationally and in the small cap asset class reduced risks by a further two thirds.

The asset class offers another main benefit of greater upside potential. Fewer analysts cover the sector so the incidence of market inefficiency and under-valuation due to lack of coverage is higher. That fact alone offers greater upside potential. Following the same theme of greater upside potential, it’s worth the reminder that today’s small cap stocks are tomorrow’s large cap stocks. If you consider that Canada’s own Research in Motion Inc. was, in 1999, a $10 stock in the TSX’s small cap sub-index, the point is well made.

Perhaps the most compelling case for small caps is in the long-term returns. International small cap equities have historically delivered consistently strong absolute and risk-adjusted returns relative to international large caps and other asset classes. Over a five-year period to December 31, 2007, the Provisional MSCI EAFE Small Cap Index, for example, added 14.8 per cent on an annualized basis in Canadian dollars, (See Figure 1).

Our research indicates that institutional managers will continue to tip their asset allocation towards international small caps. The Pyramis 2007 Defined Benefit Survey, ‘Exploring New Ground: Key Global Pension Strategies for Today’s Investment Landscape,’ found that 21 per cent of corporate and public plans that already invest in non-Canadian small cap assets plan to increase their allocation to the class.

Potentially Pay Off

It’s a trend that could potentially pay off, as small caps take a greater focus in the new MSCI indices, which aim to cover 99 per cent of the free-float adjusted market cap in every country. The MSCI Global Small Cap Indices will cover companies in the lowest 15 per cent by free-float adjusted market capitalization above roughly $150 million to $400 million in US dollars. As of March 2007, for example, the new indices expanded small cap coverage to 2,193 from 1,187.

The small cap asset class has always been compelling and the MSCI changes offer a chance for institutional managers to reconsider their investment policies with clients. The trend towards greater international and small cap investing is likely to continue to rise as investors look for greater diversification and growth opportunities.

So, given these changes, what options are available to institutional managers? It’s easiest for institutional managers to follow the status quo and make no changes to mandates. The decision requires no investment policy changes, but avoids the opportunity completely. Simply extending policy statements to include small cap coverage is appealing, but it’s a large universe of stocks to consider for a manager who is already pre-occupied with the deep large and mid cap mandate.

The final choice is to add another mandate all together, a solution that may appeal to investors who can afford the time to administer and oversee investment in a class with different characteristics. The case for small caps at least means that each choice is worth the consideration.

The Case For International Small Cap

![Figure 1](image)

**Five-Year Annualized Returns**

Source: MSCI Barra, Factset; returns as of 12/31/07

Global Small Cap Indices will cover companies in the lowest 15 per cent by free-float adjusted market capitalization above roughly $150 million to $400 million in US dollars. As of March 2007, for example, the new indices expanded small cap coverage to 2,193 from 1,187.

The small cap asset class has always been compelling and the MSCI changes offer a chance for institutional managers to reconsider their investment policies with clients. The trend towards greater international and small cap investing is likely to continue to rise as investors look for greater diversification and growth opportunities.

So, given these changes, what options are available to institutional managers? It’s easiest for institutional managers to follow the status quo and make no changes to mandates. The decision requires no investment policy changes, but avoids the opportunity completely. Simply extending policy statements to include small cap coverage is appealing, but it’s a large universe of stocks to consider for a manager who is already pre-occupied with the deep large and mid cap mandate.

The final choice is to add another mandate all together, a solution that may appeal to investors who can afford the time to administer and oversee investment in a class with different characteristics. The case for small caps at least means that each choice is worth the consideration.
Our goal is to deliver outstanding portfolio performance. With a total of over 300 investment professionals in MFC Global (Canada) and its affiliates in key markets across North America, Europe and Asia, and a comprehensive suite of asset management solutions, MFC Global is a true leader in global investment management. For the global perspective and experience you need, combined with local talent and expertise, trust the team at MFC Global Investment Management.

To get MFC Global’s expertise working for you, please contact Stuart Graham, Vice-President & Managing Director, Institutional Investments at 416 852-3013 or by email at stuart_graham@mfcglobal.com

MFC Global Investment Management is the asset management division of Manulife Financial. Investment management services are offered in Canada through MFC Global Investment Management (Canada). Affiliates of MFC Global (Canada) may not be registered in and may not be permitted to provide investment advice in any Canadian jurisdiction. The services of any MFC Global affiliate may be available to Canadian clients through sub-advised funds or otherwise through MFC Global Investment Management (Canada), only as specifically permitted and subject to applicable regulations and restrictions. MFC Global Investment Management, Manulife and the block design are trademarks of The Manufacturers Life Insurance Company and are used by its affiliates including Manulife Financial Corporation.
The shock of the U.S. housing crash and subprime lending practices is being felt throughout the global financial system. But it’s still difficult to tell how deep the problem will run and how, exactly, it will all play out.

However, the swift collapse, government rescue, and takeover of Bear Stearns – in business since 1923 and recently ranked the fifth largest investment bank in the U.S. – is considered a strong barometer for many experts.

Andrew Martyn, vice-president, portfolio manager, Davis-Rea Ltd., says the fate of Bear Stearns ties together many important aspects of the current American housing crash, credit crunch, and sliding investor confidence. A company this size with its rich history coming under such an attack is a rare event that may come to define the economic era years from now.

The last time there was a similar situation was probably eight years ago when Enron and WorldCom collapsed. “In terms of scale, it’s huge. In terms of speed of destruction of capital, it’s remarkable.”

As significant as the actual downfall were the actions taken by the government to rescue the bank. The Federal Reserve Bank of New York stepped in to provide $29 billion in special financing for the deal. And for the first time since the Depression, the Fed announced, on the day of the deal, that large investment firms could borrow billions of dollars from its discount window.

Mistakes Of The Past

John Johnston, chief strategist of the Harbour Group at RBC Dominion Securities, feels the aggressive measures taken by the Fed to bail Bear Stearns out say a lot about the true severity of the situation. Its willingness, however, to step in and avoid such a collapse is a positive sign and may mean that, perhaps, the Fed has learned from the mistakes of the past.

He says Ben Bernanke, chairman of the U.S. Federal Reserve, is a student of the stock market crash in 1929 and its aftermath. “It wasn’t the stock market crash that caused the depression. Rather, there was a major liquidity squeeze and the Fed failed because it didn’t provide liquidity. This time around the Fed and the Treasury stepped in and said ‘we’re not going to let the financial system go’.”

Although some may disagree with the government’s decision to step in to a free market system to save Bear Stearns, Johnston says the actions were necessary and may have avoided a chain reaction of even worse system-wide problems.

Gerry Brockelsby, of Marquest Investments, views the collapse of Bear Stearns as “a turning point” for equity markets. “While we are not out of the woods yet, and expect additional bad news on both the credit market and economic fronts, we believe we have passed the point of greatest fear,” he says in the Marquest Market Commentary - April 2008. He notes that “equity markets have a strong period of performance following a financial crisis as the liquidity from the stimulative monetary policy goes into the markets. Following the past five financial crises, going back to Penn Central in 1970, the S&P 500 has gained, on average, 40 per cent within a year.”

Wall Street Cleaning Necessary

To Martyn, the public’s reaction to Bear Stearns is all part of a periodic shift in the system that’s needed from time to time. The deceptive subprime lending that lead to Bear Stearns’ demise harkens back to other major points in history, when questionable financial practices were finally met with regulations.

“To be blunt, I would suggest that about once a decade Wall Street has to be cleaned out of people that are probably too smart for themselves,” Martyn says. “In our current case, there was no clear regulation against deceptive lending practices because everyone was making big bucks out of it, so it got out of control. Looking back, five years from now, we’ll see significant legislation against what will commonly be called predatory lending practices.”

Government investigations into insider trading during the junk bonds era of the 1980s, or the enactment of The Sarbanes-Oxley Act of 2002 in response to corporate and accounting scandals involving Enron and WorldCom, serve as defining points in U.S. and world economic history. The measures taken to deal with Bear Stearns and others taking part in subprime lending practices may come to symbolize an important moment as well, he says. The question, of course, is what will those measures be and what other major firms will be affected?
At SSgA, the range of our fixed-income products are designed to meet our client's needs. Our rank as the world's largest institutional money manager* is a testament to our ability to deliver a wide range of solutions across many disciplines. The experience and strength of our investment management teams and our underlying entrepreneurial spirit drive our growth and innovation. Our offerings include:

Active/Enhanced Strategies
> Active Canadian fixed income
> Enhanced Canadian fixed income
> Enhanced long-term Canadian fixed income
> Canadian short-term investments

Passive Strategies
> Passive Canadian real return bonds
> Passive long-term Canadian all-government fixed income

Customized Solutions
> LDI strategies
> Targeted duration strategies
> Customized benchmark strategies

For more information, contact Randy Oswald (randy_oswald@ssga.com) for Ontario at +1 647 259 3789 or Patrice Denis (patrice_denis@ssga.com) for eastern and western Canada at +1 514 282 2413.

The information provided herein does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. We encourage you to consult your tax or financial advisor. Not all products will be available to all investors. Please contact SSgA for further information regarding a strategy.
When equity markets stumble and bond yields drop, falling funding ratios spur many pension plans to re-examine their portfolio strategies in search of higher returns. Canadian fixed income allocations, which haven’t traditionally been expected to deliver alpha, get increased attention. Enterprising investment managers from asset classes other than bonds begin to pitch portable alpha solutions.

What Is Portable Alpha?

Descriptions vary, but the fundamental components of a portable alpha strategy are ‘beta’ or passive market return and ‘alpha’ or excess return generated by active management. Traditionally, active manager returns have been comprised of both alpha and beta. A portable alpha approach simply separates the desired beta from the active management, allowing investors to transport the alpha from one strategy or manager to the beta of their choosing. While simple in theory, putting portable alpha into practice requires careful attention to operational details (See Operational Considerations).

The term beta is generally associated with equity market returns, but, technically, it can refer to any asset class – bonds, stocks, commodities, real estate, etc. In the majority of portable alpha strategies, beta is obtained on a forward basis using derivative instruments such as futures and swaps. There is a cost, often referred to as the financing rate or borrowing cost, associated with gaining forward exposure to beta. This is true of any arrangement where one obtains an asset such as a house or car or washing machine without fully paying for it up front. The borrowing cost of beta is typically embedded in the forward price and is tied to a money market interest rate, usually LIBOR (London Interbank Offered Rate). The borrowing cost can vary to a considerable degree across different asset classes and market indexes.

Because beta is typically financed in a portable alpha approach, most of the cash from the beta allocation is available for investment in the alpha portfolio. The alpha strategy is designed to generate excess return over the borrowing cost of the beta. If it is successful, the investor will be left with the return of the beta plus the excess return of the alpha strategy.

If an alpha strategy embeds undesired beta, it will need to be removed with an offsetting hedge. Since hedging is not free, the alpha strategy will also have to generate sufficient returns to cover the cost of the hedge.

Portable Alpha: Does It Make Sense For Canadian Bond Allocations?

Is Canadian fixed income a good asset class for the typical portable alpha approach? In our view, no. We don’t believe it makes sense for all asset classes. In the case of Canadian bonds, the typical portable alpha approach is too costly, probably reduces plan diversification, and, most importantly, is unnecessary.

Disadvantages

The disadvantages of portable alpha for Canadian fixed income start with the fact that, as mentioned above, it is too costly. Most portable alpha strategies obtain synthetic exposure to a desired beta using derivatives and there is always a borrowing or financing cost embedded in the price of the derivative. In the case of Canadian bond index exposure, that cost is typically a money market rate (CDOR) plus 25 basis points. However, today, thanks to dislocation in...
In investing, like archery, greater focus has the potential to lead to greater performance. Because our analysts are industry specialists, they can focus more intently. They can dig deeper, become semi-obsessed. Greater focus can add up to more informed decisions. Loomis analysts. Exceptionally focused.
credit markets, it is about CDOR plus 50 basis points. That cost is a dead weight, meaning that a synthetic portable alpha strategy starts out with a disadvantage versus a traditional cash or physical bond portfolio – the alpha strategy must cover that cost of financing before the investor realizes any alpha. Moreover, the alpha engines used by many portable alpha strategies are hedge funds, which often cost more in management fees per dollar of performance than traditional unlevered strategies.

Secondly, a portable alpha strategy for fixed income beta may reduce diversification. The alpha engines for many portable alpha approaches are equity-oriented absolute return strategies, which often have a materially positive correlation with equities. Since equity market risk already accounts for more than 90 per cent of expected risk or volatility in most pension plans (assuming equity allocations of 60 per cent or greater), an equity related portable alpha approach for the bond allocation may reduce plan diversification even further and overwhelm the capital preservation and other qualities that motivated the bond allocation in the first place.

Better Alternatives
Finally, portable alpha strategies for Canadian fixed income are unnecessary. There are better alternatives.

Contrary to the popular belief in Canada, the fixed income market can be a good place to source alpha. Successful managers have been able to generate alpha from fixed income markets on a consistent basis, particularly core plus managers who exploit opportunities from other fixed income markets.

Arguably, a Canadian core plus bond style is a portable alpha approach because it harvests opportunities from global bond and credit markets, as well as from the Canadian bond market. But, in ‘porting’ alpha from other fixed income markets, core plus avoids the extra costs, incremental risks, and operational complexities of the typical portable alpha approach.

Margaret Isberg is president of PIMCO Canada (margaret.isberg@pimco.com).
Beyond Canadian Bond Managers

INTGRA: YOUR PASSPORT TO GLOBAL BOND PERFORMANCE

With no more foreign investment restrictions on Bonds, it’s time to explore the bigger fixed income world. Integra has the pooled funds and separate accounts to meet your needs.

Contact Jamie Colliver at 905-829-7288 or email jcolliver@integra.com  
www.integra.com
ANNUAL DIRECTORY 2008

FIXED INCOME MANAGERS

ABN AMRO ASSET MANAGEMENT Christine Girvan, CEO; Simon Segall, Vice-president, Institutional Sales & Client Service; 79 Wellington St.W., 15th Floor, Box 114, TD Centre, Toronto, ON M5K 1G8 PH: 416-365-6785; 416-367-7972 Fax: 416-365-2945 eMail: christine.girvan@abnamro.com; simon.segall@abnamro.com Web: www.asset.abnamro.ca Manager Style: Yield Curve, Credit, Structured Products, Quantitative, Global High Yield, Global Emerging Market Bonds, Portable Alpha Overlays, Swap Overlays

ACUITY INVESTMENT MANAGEMENT INC. Michael Peck, Vice-president, Institutional; 40 King St. W., Ste. 2750, Montreal, QC H3B 1X9 PH: 416-865-2445 Fax: 416-363-6206 eMail: michael_peck@acuityfunds.com Web: www.acuityfunds.com Manager Style: Credit, Core


AEGON CAPITAL MANAGEMENT INC. Dino Manuel, Client Account Analyst; 5000 Yonge St., Toronto, ON M2N 7J8 PH: 416-883-5803 Fax: 416-883-5790 eMail: info@aegoncapital.ca Web: www.aegoncapital.ca Web: www.aegoncapital.ca Manager Style: 6 Assets Managed (as of 12/31/07) - Universe: $111.9M Corporate: $502.7M Insurance Corporate Assets (asset/liability matching): $5,521.1M Total Assets: $38.4M Manager Style: Credit, Immunized

ALLIANCEBERNSTEIN L.P. Sandra Nuttall, Director of Client Relations & President of AllianceBernstein Canada, Inc.; BCE Place, 161 Bay St., 27th Floor, Toronto, ON M5J 2S1 PH: 416-520-4064 eMail: sandra.nuttall@alliancebernstein.com Web: www.alliancebernstein.com Manager Style: Institutional Canadian Clients: 40 Assets Managed (as of 12/31/07) - Global Bonds: $26,363M US Bonds: $57,644M Mortgages: $670M Corporate: $51,452M Emerging Markets Debt: $2,874M High Yield: $9,706M Other: $37,090M Total Assets: $2,354M Manager Style: Yield Curve, Credit, Structured Products, Quantitative, Bottom-up & Top-down Research *Represents Regional Non-US Fixed Income Assets including $2,618M in Canadian strategies

AMI PARTNERS INC. Craig Labbett, Vice-president, Marketing; 26 Wellington St. E., Ste. 800, Toronto, ON M5E 152 PH: 416-865-0731 Fax: 416-865-9241 eMail: clabbett@amipartners.com Web: www.amipartners.com Canadian Clients: 14 Total Assets: $589M

AURION CAPITAL MANAGEMENT INC. James Clark, Vice-president, Business Development; 120 Adelaide St. W., Toronto, ON M5H 1T1 PH: 416-866-2445 Fax: 416-363-6206 eMail: jclarke@aurion.ca Web: www.auirion.ca Canadian Clients: 2 Assets Managed (as of 12/31/07) - Universe: $251.8M Real Return: $395.1M Total Assets: $646.9M Manager Style: Yield Curve, Credit, Index

BARRETT STRATEGIC INVESTMENT MANAGEMENT LLP Robert Cruishank, Vice-president; 100 Yonge St., Ste. 1700, Toronto, ON M5C 2W1 PH: 416-868-6295 Fax: 416-868-6593 eMail: mcruickshank@barrantagh.com Web: www.barrantagh.com Canadian Clients: 3 Assets Managed (as of 12/31/07) - Universe: $55.0M Total Assets: $46.4M Manager Style: Yield Curve, Credit


BLACKROCK Doug Waggoner, Managing Director; 40 East 52nd St., New York, NY 10022 PH: 212-810-3388 Fax: 212-935-1370 eMail: douglas.waggoner@blackrock.com Web: www.blackrock.com Canadian Clients: 3 Assets Managed (as of 12/31/07) - Long: $1,028M Global Bonds: $351M Total Assets: $1,379M Manager Style: Yield Curve, Credit, Sector Allocation & Issue Selection, Duration & Yield Curve Management

THE BANK OF NEW YORK MELLON Richard Terres, Senior Vice-president & Director of Marketing; 320 Bay St., Toronto, ON M5H 4A6 PH: 416-643-6354 Fax: 416-643-5902 eMail: richard.terres@bny Mellon.com Web: www.bnymellon.com Canadian Clients: 1 Assets Managed (as of 12/31/07) - Global Bonds: $2,000M US Bonds: $125,000M Core Plus: $30,500M Total Assets: $30M Manager Style: Yield Curve, Credit, Structured Products, Index, Immunized, Quantitative

BRANDES INVESTMENT PARTNERS, L.P. Clifford Shireson, Co-head of Fixed Income; 1198 El Camino Real, Ste. 500, San Diego, CA 92130 PH: 858-755-0239 Fax: 858-755-0196 eMail: rfps@brandes.com Web: www.brandes.com Manager Style: Credit; Bottom-up Security Selection; Evaluation of Portfolio Duration & Yield Curve Exposure; Assessment of Credit Risk; Assessment of Cash Flow & Structural Features; Valuation & Determination of Discount to Long-term Value; Committee Review & Oversight

HOWSON TATTERSALL INVESTMENT COUNSEL
Taras Klymenko, Director, Institutional; 70 University Ave., Ste. 1100, Box 20, Toronto, ON M5J 2M4
PH: 416-227-1617 Fax: 416-979-7424 eMail: taras.klymenko@htic.ca
Web: www.htic.ca
Canadian Clients: 8 Assets Managed (as of 12/31/07) - Universe: $140M Total Assets: $140M
Manager Style: Yield Curve, Credit

HSBC INVESTMENTS (CANADA) LIMITED
Murray McLean, Head of Institutional Investments; Ste. 600 - 70 York St., Toronto, ON M5J 1S9
PH: 416-868-1584 Fax: 416-361-6345 eMail: murray_mclean@hsbc.ca
Web: www.hsbcinvestments.com
Canadian Clients: 5 Assets Managed (as of 12/31/07) - Universe: $67.9M Global Bonds: $1,166.1M Total Assets: $1,234M
Manager Style: Yield Curve, Credit, Structured Products, Index, Immunized, Quantitative

INTEGRA CAPITAL MANAGEMENT
Stephen Johnson, Partner; 2020 Winston Park Dr., Ste. 200, Oakville, ON L6H 6X7
PH: 905-829-1131 Fax: 905-829-2726 eMail: info@integra.com
Web: www.integra.com
Canadian Clients: 111 Assets Managed (as of 12/31/07) - Universe: $505.7M Global Bonds: $98.5M Total Assets: $604.2M
Manager Style: Multi-manager/Multi-style Domestic Bond Fund, Global Bond Strategy,* Canadian Fixed Income Plus Strategy**
*Managed by Newton Capital Management
**Managed by Putnam Investments & State Street Global Advisors

HYPERION BROOKFIELD ASSET MANAGEMENT, INC.
Stacey Berkman, Vice-president; 200 Vesey St., 10th Floor, New York, NY 10281-1010
PH: 212-549-8469 Fax: 212-549-8309 eMail: stacey.berkman@hyperionbrookfield.com
Web: www.hyperionbrookfield.com
Total Assets: $22,490M

INDUSTRIAL ALLIANCE
René Chabot, Senior Vice-president: 1080 Grande Allée W., Quebec City, QC G1K 7M3
PH: 418-684-5252 Fax: 418-684-5187 eMail: rene.chabot@inalco.com
Web: www.inalco.com
Canadian Clients: 2,068 Assets Managed (as of 12/31/07) - Universe: $581.7M Long: $102.4M Short-term: $30.4M Immunization Mandates: $193.1M Total Assets: $907.6M Manager Style: Yield Curve, Credit, Short-term, Mid-term, Long-term, Universe Immunization

ING INVESTMENT MANAGEMENT INC.
Marc Provost, Senior Vice-president, Managing Director & Chief Investment Officer; 2000 McGill College, Ste. 920, Montreal, QC H3A 3H3
PH: 514-350-8530 Fax: 514-350-8550 eMail: manon.guindon@ingcanada.com
Web: www.ingim.com
Canadian Clients: 1 Assets Managed (as of 12/31/07) - Universe: $268M Total Assets: $268M
Manager Style: Yield Curve, Credit, Quantitative
Demand more from your fixed income manager

We focus on creating customized solutions to meet our clients’ needs.
Our credentials include:

- A successful track record of managing Canadian portfolios. For example: Universe, long-term, real return, corporate/high yield and money market
- Active and index management capabilities
- Liability driven investment solutions (LDI) to help you better manage your risk without forfeiting your long-term growth potential
- Experienced fixed income and quantitative management teams, working together within a global investment platform
- CDN $16 billion of fixed income assets under management.

To take advantage of our fixed income expertise, please contact:

Bob Milner, Western Canada:
(403) 531-1104

Patrick Lamontagne, Eastern Canada:
(514) 499-2538

Jay Waters
Harold Lounds
Andrew Marshall, Central Canada:
(416) 367-2177

Standard Life Investments manages approximately CDN $27 billion of assets in Canada and CDN $281 billion worldwide.

All figures as at December 31, 2007.

Standard Life Investments Inc., with offices in Calgary, Montreal and Toronto, is a wholly owned subsidiary of Standard Life Investments Limited, a company registered in Scotland (no SC 123321) with the Registered Office located on 1 George Street Edinburgh EH2 2LL.
ANNUAL DIRECTORY 2008

FIXED INCOME MANAGERS

NATCAN INVESTMENT MANAGEMENT

Donald Couture, Vice-president, National Sales; 1100 University St., Ste. 400, Montreal, QC H3B 2G7 Ph: 514-871-7645 Fax: 514-871-7531 E-mail: dcouture@natcan.com Web: www.natcan.com Canadian Clients: 107 Assets Managed (as of 12/31/07) - Universe: $1,873M Corporate: $261M Total Assets: $2,134M Manager Style: Yield Curve, Credit, Index, Quantitative

NEW YORK LIFE INVESTMENT MANAGEMENT LLC

Shane McMahon, Director - Institutional Sales; 1180 Avenue of the Americas, 21st Floor, New York, NY 10036 Ph: 212-938-8153 Fax: 212-938-8182 E-mail: shane_mcmahon@nylram.com Web: www.nylrm.com Institutional Manager Style: Credit - Core Investment Grade, Floating Rate Senior Bank Loan, High Yield Bond, Emerging Markets, Private Placement Structured Products - Asset-backed Securities, Index - Core, Investment Grade Immunized - ALM

NORTHWATER CAPITAL MANAGEMENT

Mohamed Khaki, Vice-president; 181 Bay St., Ste. 4700, Toronto, ON M5J 2T3 Ph: 416-360-0671 E-mail: mkhaki@northwatercapital.com Web: www.northwatercapital.com Canadian Clients: 14 Assets Managed (as of 12/31/07) - Universe: $195M Long: $303.8M US Bonds: $52.8M Core Plus: $1,957.3M Mortgages: $74.9M Hedge Fund: $199.7M US Commodity Real Return: $3.1M Total Assets: $2,591.5M Manager Style: Active Bond Management with Long-term Focus

PYRAMIS GLOBAL ADVISORS

* Michael E. Barnett, Executive Vice-president, Institutional Retirement Services; 483 Bay St., Ste. 300, North Tower, Toronto, ON M5G 2N7 Ph: 416-217-7584 Fax: 416-307-5511 E-mail: michael.barnett@pyramis.com Web: Fidelycare.com

RBC ASSET MANAGEMENT INC.

Hermann Leinningen, Vice-president, Institutional Investments; 77 King St. W., 37th Floor, Toronto, ON M5K 1H1 Ph: 416-955-2849 E-mail: hermann.leinningen@rbc.com Web: www.rbc.com

RUSSELL INVESTMENTS CANADA LIMITED

* A Fidelity Investments Company

SECTRE INVESTMENT COUNSEL LIMITED


SEAMARK ASSET MANAGEMENT

Rémi Roger, Head of Fixed Income; 1801 Hollis St., Ste. 310, Halifax, NS B3J 3N4 Ph: 902-423-2488 Fax: 902-422-0462 E-mail: roger@seamark.ca Web: www.seamark.com

www.monttrucombolton.com Canadian Clients: 18 Assets Managed (as of 12/31/07) - Universe: $1,229M Global Bonds: $34M US Bonds: $6M Total Return: $95M Total Assets: $731.6M Manager Style: Credit

MULVIHILL CAPITAL MANAGEMENT INC.

Mark J. Carpani, Vice-president, Bonds/Marketing; 121 King St. W., Ste. 2600, Toronto, ON M5H 3T9 Ph: 416-681-3940 Fax: 416-681-3901 E-mail: mcarpani@mulvihill.com Web: www.mulvihill.com Canadian Clients: 9 Total Assets: $87.5M Manager Style: Yield Curve, Credit, Quantitative, Active Interest Rate Anticipation, Active Credit Manager, Quantitative Top-down

PIMCO CANADA CORP.

Andrew Forsyth, Vice-president; 120 Adelaide St. W., Ste. 2005, Toronto, ON M5H 1T1 Ph: 416-368-3349 Fax: 416-368-3576 E-mail: andrew.forsyth@pimco.com Web: www.pimco.com Canadian Clients: 11 Assets Managed (as of 12/31/07) - Long: $303.8M US Bonds: $52.8M Core Plus: $1,957.3M Mortgages: $74.9M Hedge Fund: $199.7M US Commodity Real Return: $3.1M Total Assets: $2,591.5M Manager Style: Active Bond Management with Long-term Focus

PUTNAM INVESTMENTS LLC


SCEPTRE INVESTMENT COUNSEL LIMITED

RUSSELL INVESTMENTS CANADA LIMITED

Mike Sandrasaga, Regional Director, Defined Contribution Services; 100 King St. W., 37th Floor, Toronto, ON M5K 1H1 Ph: 416-955-2849 E-mail: hermann.leinningen@rbc.com Web: www.rbc.com

NT GLOBAL ADVISORS, INC.

Wasyl (Waz) Saluchok, Vice-president, Business Development; 145 King St.
ca Canadian Clients: 15 Assets Managed (as of 12/31/07) - Universe: $849M US Bonds: $31M Customized: $16M Total Assets: $225M Manager Style: Yield Curve, Credit, Structured Products, Index
SEI David Lester, Director, National Accounts; 70 York St., Ste. 1600, Toronto, ON M5J 1S9 PH: 416-847-6370 Fax: 416-777-9093 eMail: dlester@seic.com Web: www.seic.com Canadian Clients: 43 Assets Managed (as of 12/31/07) - Universe: $546.1M Long: $138.4M Global Bonds: $17.9M Real Return: $129.7M Short-term Bond: $4.2M Money Market: $36.1M Total Assets: $872.4M Manager Style: Yield Curve, Credit, Structured Products, Index, Immunized, Quantitative

STANDARD LIFE INVESTMENTS INC. Jay Waters, Vice-president, Central Canada; 121 King St. W., Ste. 840, Toronto, ON M5H 3T9 PH: 416-367-2049 eMail: jay.waters@standardlife.ca Web: www.sli.ca Canadian Clients: 196 Assets Managed (as of 12/31/07) - Universe: $2,710.4M Long: $144M Real Return: $25.3M Corporate: $3.3M High Yield: $9.5M Money Market: $342M Liability Driven Investments (LDI): $1,029.4M Total Assets: $1,730.4M Manager Style: Yield Curve, Credit, Structured Products, Index, Immunized, Quantitative

STATE STREET GLOBAL ADVISORS, LTD. Robert Weston, Managing Director - Marketing & Client Relations; 161 Bay St., TD Canada Trust Tower, Ste. 4530, Toronto, ON MSX 1A9 PH: 416-956-2465 Fax: 416-956-2464 eMail: robert_weston@ssga.com Web: www.ssga.ca Canadian Clients: 46 Assets Managed (as of 12/31/07) - Universe: $1,730.4M Long: $951.7M US Bonds: $122.5M Real Return: $190.2M Immunized/Dedicated: $216.1M Cash - Active: $18,921.9M Cash - Enhanced: $1,292.9M US Short-term Assets: $17.7M Blended Benchmark: $68.9M Total Assets: $23,512.4M Manager Style: Yield Curve, Credit, Structured Products, Index, Immunized, Quantitative


TD ASSET MANAGEMENT INC. Robin Lacey, Managing Director; 161 Bay St., 33rd & 34th Floors, TD Canada Trust Tower, Toronto, ON M5J 2T2 PH: 416-982-6585 Fax: 416-944-6158 eMail: robin.lacey@tdam.com Web: www.tdassetmanagement.com Canadian Clients: 146 Assets Managed (as of 12/31/07) - Universe: $10,223M Long: $6,073M Global Bonds: $3M Real Return: $806M Corporate: $405M Money Market: $436M Short Bond: $177M Immunization: $312M Total Assets: $18,435M Manager Style: Yield Curve, Credit, Structured Products, Index, Immunized, Quantitative, Duration Extension, High Yield, Portable Alpha

UBS GLOBAL ASSET MANAGEMENT Angela Vidakovich, Executive Director; 161 Bay St., Ste. 3900, Toronto, ON M5J 2S1 PH: 416-681-5166 Fax: 416-681-5200 eMail: angela.vidakovich@ubs.com Web: www.ubs.com Canadian Clients: 26 Assets Managed (as of 12/31/07) - Universe: $615.5M Long: $125M Total Assets: $1,024.8M Manager Style: Yield Curve, Credit, Structured Products, Index, Immunized, Quantitative, Duration Extension, High Yield, Portable Alpha


ADVERTISING WORKS!
You saw this one didn’t you?
Call John L. McLaine
416-494-1066

Get what you need every morning...
We’ll notify you each morning of the news items you need. Best of all, it’s FREE!
Relax – now you can get more out of your day

Take comfort in knowing we can enhance your existing benefits plan with the RBC Insurance Group Home and Auto insurance program. You’ll be getting more out of your day without the extra work – and it’s at no cost to you.

We’ll take care of:

› Designing an easy-to-implement program with no minimum enrolment
› All insurance sales and service to save you time
› Providing top-of-the-line call centre service to your employees
› Supporting you with customized promotional and educational marketing materials

It’s an easy way to strengthen your relationships with existing employees and another way to help attract top talent. They’ll get preferred group rates, 24/7 access to emergency claims, eligibility for discounts, a 60-day quote guarantee*, our Click. Quote. Buy Online.® service, and more.

Talk to a sales representative at 1-866-808-3270 or visit www.rbcinsurance.com/relax today. We’re here to help you get more out of your day.

RBC Insurance®
Ten years ago, we published an article in *Benefits and Pensions Monitor* entitled ‘Group Insurance, These Times Are Definitely Changing.’ At the time, the market was going through fundamental change – featuring demutualization, considerable marketplace consolidation, and a renewed focus on profitability.

The article cited the following broad market trends of the day:

◆ At the time, pharmacy benefit managers such as Assure Health (now Emergis), ESI, and RxPlus (now ClaimSecure) were gaining considerable traction. Insurers were looking for process efficiencies particularly in the relatively low margin business of health claims adjudication and plan sponsors saw the value in greater employee convenience and the promise of more rigorous claims management. We suggested that plan sponsors may wish to go to these vendors direct and eliminate the ‘middle man’ – the insurer.
◆ In 1998, we suggested that by using technology, and the internet in particular, that workplace marketing of a full array of financial products direct to employees would become more common. In fact, it would be too difficult for insurers to pass up this opportunity in their ongoing battle with other financial institutions to capture additional market share, particularly in the more profitable wealth accumulation and individual insurance markets.
◆ Finally, we predicted that the group insurance marketplace would continue to evolve with more market consolidation; the explosion of niche players; and the further development of specialty players such as employee assistance organizations.

So how did we do on these predictions?

**Pharmacy Benefit Managers**

Without question, the group insurance marketplace is an incredibly dynamic industry, but what is most striking is – relatively speaking – there has not been a significant amount of market innovation in the last 10 years. The predictions we made have come true, but not to the extent expected.

Let’s examine what happened.

The flight to pharmacy benefit managers (who now adjudicate more than just drug claims) continues. Perhaps the best measure of this is the percentage of plan sponsors that have implemented pay-direct prescription drug cards. According to the Mercer Plan Design Database, the prevalence of cards has more than doubled in the last 10 years with approximately 60 per cent of drug plans using one.

And it should be noted that these services are just not available through pharmacy benefit managers, but also through organizations such as the Blue Cross network in Canada and Greenshield.

What has not happened is plan sponsors trying to negotiate directly with these specialty providers. With relatively few exceptions, insurers (and pharmacy benefit managers) guard these relationships closely and ‘going direct’ has not been an option. Still, it was an intriguing concept at the time and one that might have pushed the market innovation in this area beyond where it is today.

**Workplace Marketing**

While the potential exists, workplace marketing has not caught on in a big way. It has only been in recent years that a few insurers have truly integrated their employee contact technology offerings. Some new products geared to the individual are being...
The only way your plan members’ estimated retirement income could be more obvious.

Only Steps® from Manulife Financial gives plan members a regular update of estimated annual retirement income. Displayed automatically on statements and on the secure member internet site, Steps uses members’ real information to create their personal estimates.

For more information about Steps and other Manulife resources, contact your local Group Savings & Retirement Solutions office.
introduced into the market such as critical illness. We expect this trend to continue particularly as plan sponsors grapple with increasing benefit plan costs by using individual products to reduce corporate exposure to increasing benefit costs.

Market Consolidation

The group insurance marketplace is now dominated by three insurers with in excess of 60 per cent of the market. The other insurers – for the most part – have been left to specialize or focus on specific segments of the market. Plan sponsors have become increasingly aware of their role in the management of costly disability claims and they are now starting to see the longer term potential in employee health and wellness. For the insurer, technology is now the price of entry to compete for business. These predictions have all come true.

Change, without question, but evolution rather than revolution has happened. For the early part of the last decade, the insurance market was primarily internally focused on dealing with the inevitable acquisition ‘hangover’ – integrating systems, people, and organizational cultures. In recent years, there have been some impressive advances in the use of technology to facilitate the claims adjudication process and to promote employee self-service. It would be unfair to not characterize these advances as innovative, but the world of technology has exploded in the last 10 years and, in many respects, the insurer industry is merely keeping up.

The biggest surprise of the decade is the current competitiveness of the insurance marketplace. With market consolidation and the demutualization of many of the major players since 1998, we saw insurance costs start to increase as insurers became more accountable for the profitability of their group insurance businesses. And, with the reduction in the number of insurers, it would be difficult to not foresee reduced competition and, therefore, less price pressure.

Fast forward to today and the insurance market is as competitive as it was 10 years ago. Insurers still find themselves competing on price more than they would like.

However, they have been able to do so by focusing on internal efficiencies to drive profits and by being more selective in the types of risks they are prepared to underwrite. From a plan sponsor perspective, more and more they must fit within the insurer’s ‘standard box’ or they may find themselves on the outside looking in.

The Next Decade – More of the Same?

If we consider the broad market trends of today, we should be in for an interesting ride over the next 10 to 20 years. The aging population, increased workforce, decreased access to healthcare, and so on are starting to create, and will create, significant challenges. Benefit plans have a role to play in addressing these issues and insurers will need to be positioned to provide solutions for plan sponsors.

Our predictions, for the group insurance market place for the next 10 years are:

◆ The benefits plan of today will look nothing like the benefits plan of tomorrow. More and more benefits will be positioned within the context of a total rewards strategy which will allow employees the opportunity to flex components of their entire compensation package. But the definition of a ‘benefit’ will also change. Concierge services, educational assistance, transportation allowances, and other programs will become more prevalent in the increasing war for talent. Insurers will be asked to participate in this expanded definition of benefits.

◆ Believe it or not, employee wellness is here to stay and the importance of these programs will only increase over time. Health promotion and/or the active management of employees with health issues are the only way of ensuring an active and productive workforce in the future. Many insurers have started to introduce employee wellness materials and tools to employers and their employees, but these are passive strategies. The wellness program of tomorrow will feature active management of employee health with access to health coaches, specialized disease-state management programs, proactive identification, and management of health risks.

◆ Cost will continue to be an issue — perhaps more so within the next few years with the current economic uncertainty. As benefit plan costs continue to increase, plan sponsors will expect insurers to manage (and just not pay) these claims appropriately. For any insurer who can demonstrate that they manage benefit claim costs better than the competition, this will become an important point of differentiation. There will also be continued focus on the insurer administration costs related to the running of a benefits program. Technology has been helpful in driving these costs down, but insurers will be forced to look at other opportunities to drive costs even lower. We predict that many insurers will look at outsourcing or off-shoring of the high volume, transactional related aspects of their business to gain further cost advantages. Those that can will be able to compete on price across all lines of business, those that cannot will be forced to specialize in areas where they can add value and, perhaps, command a higher price, for example, the management of disability claims. With off-shoring comes the potential for more competitors entering into the Canadian market.

◆ Technology needs to continue to evolve. The benefits industry still relies too heavily on paper. Why do employees have to submit paper claims and receipts for health spending account claims, why not use existing credit card or POS technology to facilitate immediate payment on a pre-loaded, employee specific credit/debit card? And how about using technology more effectively in the communication of benefits?

◆ Finally, workplace marketing made a lot of sense 10 years ago and it still makes sense today. Increasingly individual products will be relied upon to fill the gaps in corporate benefit plan coverage and/or to enhance the overall employee experience by simply making these products available. We expect to see more in the way of long-term care and medical access products in the future and it only makes sense for these types of programs to be offered through some sort of workplace marketing program. Insurers are in a perfect position to facilitate this process.

The group insurance market in 2018 will look nothing like the current market in 2008. The benefit plan of tomorrow will be broader than it is today, serving a more diverse range of needs and wants.

Brian Lindenberg is leader of the Canadian health and benefits professional group at Mercer (brian.lindenberg@mercer.com).
Let’s get started today.

At Great-West, it’s our job to help you manage your benefits coverage. Providing first-rate group benefits and services is what we do. Let us work with you.

Whatever your size or benefits goals, our people have the knowledge and tools to help identify and meet your needs.
ANNUAL DIRECTORY

GROUP BENEFITS

ALLSTATE INSURANCE COMPANY OF CANADA
Bernie Korte, Group Business Development Manager; 27 Allstate Parkway, Ste. 100, Markham ON L3R 5R9 PH: 905-475-4505 Fax: 905-415-4531 eMail: bkorte@allstate.ca Web: www.allstate.ca Products & Services: Group Home & Auto Insurance Program, Personal Insurance Products & Services

AXA ASSURANCES INC. Michael Finnegan, Vice-president, Group; 27 Allstate Parkway, Ste. 100, Markham ON L3R 5R9 PH: 905-475-4505 Fax: 905-415-4531 eMail: michael.finnegan@axa-assurances.ca Web: www.axa.ca Products & Services: Accident Death & Dismemberment, Expatiate Medical, Inpatient Medical, Critical Illness, Creditor’s Life Insurance, Creditor’s Disability Insurance, Volunteer Firefighters Insurance Program, Amateur Sports Insurance Program, Student Accident Insurance Program

BLUE CROSS LIFE Christine Thibault, Manager, Distribution Relations; 644 Main St., Box 220, Moncton NB E1C 8L3 PH: 506-867-4215 Fax: 506-867-4646 eMail: christine.thibault@bluecross.ca Web: www.bluecross.ca Products & Services: Extended Health, Pay Direct or Reimbursement Drug Plans, Dental, Life Insurance, AD&D, WI, LTD, Critical Conditions Benefits, Employee & Family Assistance Programs, Health Spending Accounts, Flexible Benefit Plans, Out-of-Country Emergency Medical, Drug Program Management, Individual Health & Dental Plans

MANITOBA BLUE CROSS Andrew Yorke, President & CEO; Box 1046, Winnipeg MB R3C 2X7 PH: 204-775-0161 Fax: 204-774-1761 Web: www.mbb.bluecross.ca

MEDAVIE BLUE CROSS Laurier Fecteau, Vice-president, Group Business; Atlantic & Ontario; 644 Main St., Box 220, Moncton NB E1C 8L3 PH: 506-867-4691 eMail: laurier.fecteau@medavie.bluecross.ca Web: www.medavie.bluecross.ca Products & Services: Hospital, Travel, Extended Health, Pay Direct Drugs & Dentals, Reimbursement Drugs & Dental, Health Spending Accounts, Health Risk Assessment, Employee & Family Assistance Program, Attendance Support Program, Enhanced/Wellness Benefit Modules, Flex Benefits Plans, Web/Online Reporting, Provider Claim Submissions over the Web, Cost Plus


SASKATCHEWAN BLUE CROSS Tenny Carter, Vice-president, Corporate Development; Box 4030, Saskatoon SK S7K 3T2 PH: 306-667-5274 Fax: 306-664-1945 eMail: tcarten@sk.bluecross.ca Web: www.sk.bluecross.ca Products & Services: Extended Healthcare, Dental, Travel, Income Replacement, Life Insurance, Critical Illness, Health Spending Accounts

CIGNA LIFE INSURANCE COMPANY OF CANADA Anna Liu, Controller; 55 Town Centre Court, Ste. 606, Scarborough ON L1T 3M7 PH: 416-290-0666 Fax: 416-290-0602 eMail: anna.liu@cigna.com Web: www.cigna.com Products & Services: Expatiates Benefits, Disability, Life, Short-term Disability, Travel Accident AD&D, Personal Accident

CO-OPERATORS, THE Stephanie Fletcher, Director, Group Marketing; 5660 Canscos Ct., Mississauga ON L5R 3E9 PH: 905-507-5531 Fax: 905-755-8546 eMail: sfletcher@hhgrprns.com Web: www.cooperators.ca Products & Services: Group Life & AD&D, Short- & Long-term Disability, Early Intervention Services, EAP Services, Extended Health including Pay Direct Drug Cards, Emergency Travel Assistance, Vision Care, Dental including Electronic Submission of Claims, Online Administration Services

DESJARDINS FINANCIAL SECURITY André Simard, Vice-president, Sales, Group and Business Insurance; 2, Complexe Desjardins, East Tower, 23rd Floor, Montreal QC H5B 1E2 PH: 514-285-7888 or 800-363-3072 x788 Fax: 514-285-2442 eMail: asimard@difs.ca Web: www.desjardinsfinancialsecurity.com Products & Services: Dental Care, Extended Healthcare, Long-term Disability, Weekly Indemnity, Travel Assistance, EAP Programs, Drug & Dental Payment Card, Rehabilitation Services, Disability Management, Health Spending Accounts, Internet Administration Services

EMPIRE LIFE INSURANCE COMPANY, THE Jim Norris, Director, Group Marketing; 800-2550 Victoria Park Ave., Toronto ON M2J 5A9 PH: 416-494-6834 x4237 Fax: 416-494-7224 eMail: jim.norris@empire.ca Web: www.empire.ca Products & Services: Life, Dependent Life, Optional Life, Optional AD&D, Spousal Optional Life & AD&D, STD, LTD, EHB, Dental, ASO

EQUITABLE LIFE OF CANADA, THE Karen Mason, Senior Vice-president, Group; One Westmount Rd., N. 1, Waterloo ON N2T 4C7 PH: 800-722-6615 Fax: 519-883-7421 eMail: kmason@equitable.ca Web: www.equitable.ca Products & Services: Life, AD&D, Short-term Disability, Long-term Disability, Extended Healthcare, Dental

GREATWEST LIFE ASSURANCE COMPANY Jeff Macoun, Senior Vice-president, Group Sales & Marketing; 60 Osborne St., N. Winnipeg MB R3C 3A5 PH: 204-946-2927 Fax: 204-946-8829 eMail: jeff.macoun@greatwestlife.ca Web: www.greatwestlife.ca


INDUSTRIAL ALLIANCE INSURANCE AND FINANCIAL SERVICES INC. Scott Heard, Assistant Vice-president, Sales & Marketing; 1080 Grande Allée W., Quebec City QC G1K 7M3 PH: 416-585-8911 Fax: 416-598-5131 eMail: scott.heard@inalco.com Web: www.inalco.com Products & Services: Life Insurance, AD&D, Health & Dental, Drug, Long- & Short-term Disability, Disability Insurance & Management (including Ergonomic Assessment, Absence Management, Early Intervention, Claim Assessment, Wellness Programs, Rehabilitation Services, Supplementary Hospital, Small Group Business Product, Services For Salary Continuance Plans, Cost Plus, WCB Services), Critical Illness, EDI Dental & Drug Cards, Flexible Benefits, Healthcare Spending Accounts, Employee Assistance Programs, Travel Insurance & Assistance, Internet-based Administrative Tool, Communication Material

Benefits and Pensions Monitor – April 2008 37
Health and dental benefits is a serious business. Lucky for you, we have almost no sense of humour.

greenshield.ca  ▼  1-800-268-6613
Desjardins & Co.

Group retirement specialists providing the support and guidance you need... across Canada.

At Desjardins Financial Security, we’re proud to have put together a team of specialists, led by Monique Tremblay. Their job: to ensure that plan sponsors and participants receive the high-quality service they deserve. So if you want to get a head start on winning group retirement solutions, give us a call. We’ve got the team.

1-866-565-3145 desjardinsfinancialsecurity.com/team
EQUITABLE LIFE OF CANADA, THE

Michael Davé, Senior Vice-president, Individual; One Westmount Rd. N., Waterloo, ON N2J 4C7 Ph: 800-722-6615 Fax: 519-883-7421 eMail: mdave@equitable.ca Web: www.equitable.ca Products & Services: DC Pension Plans, Group RRSP, Group DPSP; Investment Only, Defined Benefit Pension Plans (administered by TIS Actuarial Services) (IO), Group Annuities (Deferred & Payout)

FIDELITY INVESTMENTS CANADA LTD.


INDUSTRIAL ALLIANCE

René Chabot, Senior Vice-president; 1080 Grande Allee W., Quebec City, QC G1K 7M3 Ph: 418-684-5252 Fax: 418-684-5187 eMail: rene.chabot@inalco.com Web: www.inalco.com Products & Services: Defined Contribution Plans – RPPs, SPPs, RRSPs, DPSPs; Defined Benefit Plans – RPPs, IPPs, SERPs; Retirement Compensation Arrangements; Annuity Products – Insured or Guaranteed Annuities, RRIFs, Lifes, Investment Services – Investment Only, Up to 58 Investment Funds, Dynamic Asset Management, Guaranteed Investments, Life Cycle Portfolios

INTEGRA GROUP RETIREMENT SERVICES

Joan Johannson, President & Managing Director; Ste 200, 2020 Winston Park Dr., Oakville, ON L6H 6K7 Ph: 905-829-1131 Fax: 905-829-2276 eMail: joan.johannson@integra.com Web: www.integra.com Products & Services: Recordkeeping & Administrative Services for DC Plans including MPPPs, GRRSPs, DPSPs, EPSPs, Stock Purchase Plans, Taxable Savings Plans; Services for Flexible Components for BBPs; Personal Service; Customized Solutions; Member Education; Decision Support; Open Architecture System; Proprietary Tools such as Governex, IntegraLink & LifeGARD

LA CAPITALE ASSURANCES ET GESTION DU PATRIMOINE

Jacques Tardif, Sales Director, Edifice le Delta II, 2875 boul. Laurier, bur. 100, Quebec City, QC G1V 4H5 Ph: 418-644-8942 Fax: 418-644-4352 eMail: jacques.tardif@lacapitale.com Web: www.lacapitale.com Products & Services: Group Annuities, Group RRSP

MANULIFE FINANCIAL

Nancy Campbell, Director of Marketing; Box 396, Waterloo, ON N2J 4A9 Ph: 519-747-6371 Fax: 519-747-6372 eMail: nancy_campbell@manulife.com Web: www.manulife.ca/gro Products & Services: RPP, RRSP, DPSP, NRSP, Directly-held Stock Plans, Investment Only - including IPPs

RBC ASSET MANAGEMENT

Denise Costa, National Sales Manager; 20 King St. W., Toronto, ON M5H 1C4 Ph: 416-955-6032 Fax: 416-955-5196 eMail: denise.costalrbc.com Web: www.rbcinvestments.com/gfs Products & Services: Group RRSP, DPSP, Group Investment Account (GIA – Non-registered Savings Account)

SEI

David Lester, Director, National Accounts; 70 York St., Ste. 1600, Toronto, ON M5J 1S9 Ph: 416-847-6370 Fax: 416-777-9093 eMail: dlester@seic.com Web: www.seic.com

SSQ FINANCIAL GROUP

Marc Trépanier, Vice-president, Business Development; Box 10510, Succ. Sainte-Foy, Quebec City, QC G1V 4H5 Ph: 418-688-1858 x5215 Fax: 418-688-3848 eMail: marc.trepanier@ssq.ca Web: www.ssq.ca Products & Services: Annuity, DPSP, EPSP, INV, IPP, LIF RRSP, LIF, LIRA, Locked-in Self-directed Account, LRIF, RRIF, RRSP, Self-directed Account, SPP, SPP Defined Benefits, SPP Defined Contributions, RCA

STANDARD LIFE ASSURANCE COMPANY OF CANADA, THE

Anna Del Balso, Director, Strategy & Research; 1245 Sherbrooke St. W., Ste. 1900, Montreal, QC H3G 1G3 Ph: 514-499-7999 x8871 Fax: 514-499-8858 eMail: anna.delbalso@standardlife.ca Web: www.standardlife.ca Products & Services: DB Plans, MPP Plans, Deposit Administration, Group RRSPs, DPSPs, Non-registered Plans, Group Annuities, Group RRIF/UP Plans, Communication Materials, Toll-free Information Line, Recordkeeping, Investment Management, Website

SUN LIFE FINANCIAL - GROUP RETIREMENT SERVICES

Gregory Bell, Vice-president, GRS Operations & Corporate Accounts; 227 King St. S., Waterloo, ON N2J 4C5 Ph: 519-888-3900 x5153 Fax: 519-888-2062 eMail: gregory.bell@sunlife.ca Web: www.sunlife.ca Products & Services: DC, Group RRSP, DPSP, Savings & Non-registered Plan, Stock Plans, Investment Only; Integrated Group Retirement Services & Group Benefits Access, Websites, Online Member Education & Financial Planning Tools, Custom Education, Communication & Design Services, Pensioner Payroll Services, Call Centre & Automated Phone System

TD FUTURE BUILDER GROUP SAVINGS PLAN

Mark Ross, National Manager; 161 Bay St., 2nd Floor, Toronto, ON M4G 3H3 Ph: 416-308-3258 Fax: 416-308-4950 eMail: mark.ross@tdtt.com Web: www.tdfundtrast.com/groupsavings.Products & Services: Group Savings Plan Services
Have employers that offer group pension plans ever told their employees that they’ll be contributing to their financial well-being even after they’ve left the company? Although pension plans are too often seen as an expense – or, rather, a necessary evil – for employees, they constitute an additional component of their salary. In many cases, employees don’t fully realize the importance of their pension plan until they leave the company and receive their statement of options. This is especially true with Defined Benefit plans where the educational component of retirement planning is often glossed over since the responsibility for investment instructions and performance risk lies with the employer. Just setting up a pension plan shows an employer’s desire to provide its employees with an attractive, complete compensation package that will ensure their quality of life after retirement. Although a member’s monthly pension plan contribution can sometimes seem quite small, the accumulation of contributions over the years can often be quite substantial – in many cases adding up to tens of thousands of dollars. This is a benefit that should be highlighted rather than overlooked.

An Exclusive Privilege

The fact that only around one in three Canadian workers (see Figure 1) participate in a registered pension plan also shows that these plans are a real competitive advantage and an exclusive privilege offered by certain employers. Excluding the public sector where 86 per cent of workers have the chance to contribute to a registered pension plan, just one in five Canadian workers (22 per cent) has the opportunity to participate in a registered pension plan.

Group pension plans offer benefits that are not found with individual plans. The most attractive and most distinctive of these benefits is the pooling of many investors’ savings within the plan, allowing for centralized administration. As a result, members can benefit from lower investment management fees than those typically charged for individual plans.

To understand the impact that a 0.5 per cent difference in management fees can have, let’s look at a concrete example. If we assume a net return of 7.5 per cent under an individual plan, and a net return of eight per cent under a group plan, the 0.5 per cent difference is equal to a net gain of more than $40,000 over a 40-year accumulation period if the member contributes to a group plan rather than an individual plan. This is based on a deposit of just $100 per month. Imagine the impact of a deposit of $200 or $300 per month!

In addition, when contributions are made by payroll deduction, employees receive an immediate tax refund which translates into a lower payroll deduction than the contribution amount. What’s more, investing small amounts on a regular basis offers the benefit of dollar cost averaging, which reduces the risk associated with market fluctuations. It also has the major advantage of eliminating any subjectivity in purchasing decisions, thereby reducing the stress that could be caused by fluctuations in the financial markets. Deductions at source also make it easier to establish good savings habits. Other benefits such as free fund-to-fund transfers and no minimum deposit requirements are also good reasons to promote group pension plans for eligible employees.

Defined Benefit RPPs: A Well-kept Secret

We already mentioned that one in three Canadian workers belongs to a registered pension plan. Most of these privileged workers (84 per cent) belong to a Defined Benefit plan. Note, however, that a good many of them are government employees.

Employees are even less aware of the value of DB plans than Defined Contribution plans. The reason for this is that employees with these types of...
plans are virtually uninvolved in managing their retirement savings, a task that is, instead, assumed by the employer. Only the employer can communicate the true value of the plan and there are some good reasons to do so! With these types of plans, employers are not only offering a plan that guarantees their employees a comfortable standard of living upon retirement, they’re also taking on the financial risk by guaranteeing a fixed income when the employee retires.

When stock markets are low, this kind of plan is invaluable. Some employers provide their employees with a total compensation statement which goes beyond the minimum requirement by illustrating the monetary value of each employee benefit on top of the annual salary. Any employer that offers its employees a DB plan should take the opportunity to provide this kind of statement because it communicates to employees the value of the plan.

A similar statement should also be provided to candidates the company wishes to hire. Imagine a situation where a company wants to hire a candidate who can’t decide between two employers that offer the same salary. For an employer that offers a DB plan, it would be advantageous to tell the candidate the monetary value the plan represents.

Since all the indicators suggest that we’re heading into a labour shortage, it’s imperative for employers to highlight the full compensation package they offer. Every employer should make a habit of telling the candidates it wants to hire, as well as its employees, the amount of the annual salary plus the total compensation amount – in other words, the annual salary plus the monetary value of all additional employee benefits.

Defined Contribution RPPs: A Benefit That Can’t Be Passed Up!

With DC plans, plan providers generally give their clients a wealth of educational materials on retirement planning, as well as basic economic and financial concepts. These materials are often available in print format or through a secure website. Why not take advantage of these information gold mines? A wealth of information, tools, and articles are available to explain financial concepts and to make plan members aware of the importance of good retirement planning. Plan sponsors could put a link on their company website to these educational materials to demonstrate the value and importance of a group pension plan. Sending out regular statements and making account balances available online are also excellent ways to make members aware of the monetary value of their plan as they watch their account balance grow.

For those who don’t have Internet access, a toll free line is generally available to answer any questions members might have.

Here again, it’s important to stress that the plan should be promoted when the employee is hired. Passing along this information is vital, particularly with DC plans where the employer makes contributions on the employee’s behalf only if the employee contributes as well. Employees who do not enroll in the plan are missing out on part of the compensation package offered by the employer, and often don’t even realize the sacrifice they’re making. It’s like walking past a $100 bill without picking it up, or even noticing it!

The Dangers Of ‘Automatic Pilot’

DC plans that run on ‘automatic pilot’ – where enrolment is mandatory and the contribution rate and investment selections are automatic (default option) – are growing in popularity. In fact, they are one of the best solutions to date for increasing the amount Canadians are saving, which, according to a study by the Canadian Institute of Actuaries (CIA), is far from adequate. However, they have the unfortunate side effect of keeping members in the dark about retirement planning and the value of their plan. This type of plan actually benefits from member inertia by turning the situation to their advantage. It is a huge asset for promoting better retirement savings, but communicating the monetary value of this benefit to plan members is essential. It is in the best interest of employers to ensure that the major financial benefits offered by their plans do not go unnoticed.

It’s essential that employees have a good understanding of their pension plan, not only so they can maintain the same standard of living after retirement, but also so they can recognize the monetary value of this important asset. Annual pension plan meetings, information sessions, accessible information about the terms of the plan, and even a reminder on employees’ pay stubs are all effective ways of making members aware of the value of the employee benefit. These actions will sometimes lead to questions, but, in most cases, the answers will simply eliminate concerns and give employees a more positive perception of their working conditions.

Keep in mind that there is no law requiring employers to provide a pension plan for their employees. Contributing to a pension fund, from both an administrative and financial standpoint, is tangible proof that an employer wants to offer its employees an attractive, complete compensation package.

Plan sponsors have a lot to gain by making their employees aware of the valuable benefits offered by the plans they have in place. The value of group pension plans has been a well-kept secret for too long, now it’s time to let the secret out!

Éric Perrault is customer relations manager, group pensions, (eric.perrault@inalco.com) and Anick Huet-Richard is marketing analyst, group pensions, (anick.huet-richard@inalco.com) at Industrial Alliance.

1. Canadian Institute of Actuaries, Document 207055, June 2007

Affiliate services/products are available through Legg Mason Canada Inc. to Canadian resident investors only.

Toronto 1-800-565-6781  
Waterloo 1-800-565-6810  
Montreal 1-800-948-8599  
Vancouver 1-877-682-1455

© 2007 Legg Mason Investor Services, LLC. Member NASD, SIPC.
Over the last few years, everybody has surely heard the popular emerging market tune of Brazil, Russia, India, and China – aka the BRIC countries. These are the emerging giants that are expected to drive the world economy in decades to come.

The hype surrounding these countries has mainly focused on their potential for significant long-term economic growth. The commonly propounded arguments are that Brazil, Russia, India, and China are all vast countries. They total one-fourth of the world’s land surface and have an abundance of natural resources, a large, young population, and a booming middle class. Indeed, the BRIC population totals 2.7 billion, which is more than 42 per cent of the world’s population. Yet, they accounted for just a little over 12 per cent of world GDP in 2006.

Goldman Sachs coined the acronym BRIC back in 2004 when it released a study on the tremendous growth opportunities these markets offered. Naturally, the question on everyone’s lips today is ‘Is it still a good time to invest in these markets?’ After all, even if they are attractive markets, they still entail many risks that investors must bear in mind. Identifying and mitigating these risks should be a major focus for any investor wanting to reap the promising rewards these markets have to offer.

The Appeal Of BRIC

Countless are the voices conveying the fact that the BRIC countries are on the fast track to becoming economic giants. Improving general statistics and macro-economic figures make a strong case for the BRIC’s attraction. Indeed, the BRIC’s combined GDP in 2006 amounted to more than 20 per cent of that of the top six developed countries – the U.S., Japan, Germany, UK, France, and Italy. Projections for 2035 show the BRIC’s combined GDP outgrowing these countries’ combined GDP. By that time, all four countries will be in the top seven largest economies by GDP in the world, alongside the U.S., Japan, and Germany. Historically, these have been countries that have relied heavily on exports to sustain their economic development. More recently, however, the burgeoning middle-class in these countries is now expected to fuel domestic demand, which will increasingly become the predominant engine for their economic development, decreasing their dependence on the developed world and its economic cycles.

Another compelling feature of their story is that these four countries focus on different economic sectors for their economic growth. Brazil has natural resources; Russia has energy; India has a widespread services sector; and China has strong manufacturing capabilities. When taken as a group, the BRIC markets provide a substantial element of diversification. Thus, the economic potential is undoubtedly intact.

However, investors are interested in how this economic potential translates into market returns. This begs the question ‘Do these markets still offer return potential following their recent rise?’

Is It Too Late For BRIC?

Despite the BRIC markets’ sharp rise in recent years, we believe there is still room to take advantage of further market growth as the countries themselves are entering more mature and stable stages of their development. Investment managers will venture into these markets to capture returns only if they believe that they still offer value. Therefore, they need to have a reliable means of valuing the markets.

Price-to-earnings ratios – P/E ratios – have been well-known tools for measuring stock value in the developed world and the same principles apply to the BRIC markets. Thus, when we compare the 2007 forecast P/E ratios of the MSCI World index at 15.5 and the MSCI BRIC index at 15.2, we can conclude that the BRIC markets still offer value. The similarity between the P/E ratios is the result of greater earnings in the BRIC markets where there is a higher risk premium.

One of the countries mentioned recently in the media as potentially overvalued is China. To better understand this specific situation, let us look at this in more detail.

Essentially, the type of access an investor can get to Chinese equities depends on whether or not the investor is a Chinese resident. Chinese residents get to Chinese equities depending on whether or not the investor is a Chinese resident. Chinese resi-

BRIC: The Next Episode

INVESTMENT

By: Habib Moudachirou & Patrick Gautier
With target-date-only funds it’s as though something critical is missing

Introducing Franklin Templeton LifeSmart. Target-date portfolios with a target-risk overlay.

When you offer Franklin Templeton LifeSmart, you’re giving plan members the opportunity to enjoy a better retirement. An easy solution designed specifically for the pension community, Franklin Templeton LifeSmart allows members to select a portfolio based not only on their target date, but also on their individual risk profile. With the proven target-risk investment process that is backed by the depth and breadth of our global resources, our leading wealth management specialists look after in excess of $8 billion in managed programs. Franklin Templeton LifeSmart makes target date-only funds seem like there’s something missing. To learn more, contact Duane Green today or visit www.smartlifecycle.ca.

Duane Green
VP, Strategic Alliances
416.957.6165
dgreen2@franklintempleton.ca
dents have access to the mainland exchanges such as Shanghai and Shenzhen while non-residents have access to the Hong Kong exchange. Concerned warnings of risks such as Shanghai and Shenzhen while students have access to the mainland exchange offer the benefits of greater liquidity and are Chinese firms listed in Hong Kong and abroad stock market frenzy on the mainland. Chinese companies – shows a P/E ratio around 20. Indeed, Hong Kong investors seemed to be paying little attention to the stock market frenzy on the mainland. Chinese firms listed in Hong Kong and abroad offer the benefits of greater liquidity and are trading at more reasonable levels than their mainland counterparts.

BRIC markets have also greatly evolved as an asset class over the last five years. An increasing number of indices are now available – MSCI, S&P, Dow Jones, and FTSE International being among the main issuers. Besides physical stocks, an arsenal of alternative instruments such as Depositary Receipts, Certificates, Exchange Traded Funds (ETF), and various derivatives have also been developed. The total stock market capitalization of the BRIC countries is approximately US$2.2 trillion and is projected to soar. Liquidity is on the rise as shown by the average daily trading volume in these markets which has increased from almost six million shares in 2001 to approximately 10 million shares in 2006. Additionally, the increasing availability of information and better quality of economic data continuously enhances the transparency of these markets. For example, I/B/E/S (Institutional Brokers Estimate System) provides nearly 20,000 pieces of analysis covering the BRIC universe today. Statistics show lower P/E valuation ratios for the BRIC markets compared to developed markets. Historically, this valuation gap has been attributed to the higher risk premium demanded by investors to compensate for the added risks of investing in less developed countries. While these risks still exist, they have been reduced as a result of the continued development of these markets. This, in turn, has brought their P/E ratios closer in line with the developed world. So, while we believe that current valuation levels are not excessive, and even if risks have moderated to some degree, these risks need to be clearly identified and understood before treading in these markets.

Risk Management, The Centre Of Any BRIC Investment Process

One must constantly remember that emerging markets are higher risk markets than developed markets and have been subject to more frequent crises than developed markets. This has been illustrated over the last 15 years by:

- the Mexican crisis in 1994
- the 1997-1998 Asian crises
- the 1998 Russian crisis
- the Brazilian currency meltdown in early 1999
- the economic collapse of Argentina in 2001-2002

These crises are currency crises, banking crises, debt crises, political crises, or some combination of the four. As the BRIC economies enter more stable eras of development, these risks should be lessened over time.

Investing in BRIC markets also means being exposed to the countries’ specific risks. These are:

- Brazilian dependence on commodities and expansionary tax policies
- Russian dependence on oil and gas
- Signs of overheating in India’s economy
- China’s tendency towards protectionism

The good news is that, in accordance with financial theory, these specific risks can be mitigated through diversification by investing in all four complementary economies.

From the beginning to the end of the investment process, risk control should be at the forefront of the investor’s mind when dealing with these markets. Faced with the increasing overflow of available data, the investor must zero in on the information that really influences prices in order to detect market opportunities.

One important piece of data is expected earnings – and the markets relatively cheap or expensive in relation to their anticipated market returns and can we take advantage of that? To recognize a fair price, one needs to be able to identify the economic variables that consistently influence these prices. This capability enables the investment manager to separate rational from irrational behaviour and remain calm in times of volatility.

Decisions of whether or not to take a position must always be weighed against the risks associated with that position, even when the expected return is considerable. Consequently, a sound risk/return optimization process proves to be an essential tool for the investment manager allowing for the best risk-adjusted expected return when constructing a portfolio. Investment limits – such as a tracking-error vis-à-vis a recognized index, minimum and maximum limits for individual countries in the portfolio, and concentration limits – also help mitigate the risks.

Another risk management aspect pertains to the implementation stage. Naturally, a cost-effective process must be in place to exploit the market opportunities without offsetting potential gains through ineffective actions. For example, the availability of American Depositary Receipts (ADR), Global Depositary Receipts (GDR), and certificates listed on well-established stock exchanges, such as New York and London, clearly moderate the operational risks, such as liquidity and settlement issues, compared to local stocks in Russia. Let us not forget that liquidity issues can result in costs, which are a good reason for the manager to set liquidity rules when investing.

In the end, active management paired with a risk conscious mindset throughout the investment process is critical for steady performance. The promising rewards of the BRIC markets are definitely worth the risks provided that they are well identified and controlled. Also important to note is that a prudent investor should be looking to the BRIC markets with a long-term strategy aimed at capitalizing on the regions’ economic growth story and not just short-term gains. Framing the BRIC markets growth potential and risks within an appropriate investment horizon makes their case even more cogent.

The markets combined in BRIC have proven themselves to be one compelling and indisputable investment universe. The foundations for solid growth are being laid and investors now anticipate regular market returns. Ultimately, the purpose of investing is for the potential market returns. Still, this is only half the story. We believe that the BRIC markets will continue to offer promising investment opportunities. Given their unique nature, we emphasize the need to identify and understand their specific characteristics from a risk standpoint as well as one of growth potential, and to have an investment process with this philosophy at its core.

Patrick Gautier is equity portfolio manager, international, eurozone, and emerging markets, at Sinopio Asset Management. Habib Moudachirou is vice-president, quantitative business development, at HSBC Investments (USA) Inc. Sinopio is the global quantitative specialist of the HSBC Group.

1. Source IMF
2. Source Goldman Sachs
4. 114 per cent is the average performance of both Shanghai and Shenzhen representing the Mainland.
5. 86.3 per cent is the average performance of both Shanghai and Shenzhen representing the Mainland.
6. MSCI China Index
7. Source Bloomberg
8. I/B/E/S is a registered trademark in the United States of IBES Inc. (Institutional Brokers Estimate System)
9. On an almost four-year span of time, November 2003 to July 2007, the MSCI BRIC USD shows a volatility of 18.7 per cent, more than twice the volatility of the MSCI World USD (9.2 per cent) – Source Bloomberg.
GET THE JOB DONE.
WE’VE GOT YOUR BACK.

Get back to working and enjoying life. Chiropractic is right behind you, helping 4.5 million Canadians a year return to active, healthy lives. It’s health care that works — for you, and for your business. Find out more at www.chiropractic.on.ca.

In recent years, pension funds have come under increased pressure to adopt investment practices that are responsive to environmental, social, and governance (ESG) concerns. Demands for ESG responsive investment practices are coming from pension plan members, corporate stakeholders, special interest groups, and the public at large.

Noticeable in the media has been related lobbyist activity in which pension funds are typically directed to divest holdings in ‘offending’ corporations. Universities – with their large, highly-educated, and liberal-minded student and faculty populations – have been early targets for such demands. Global organizations such as Amnesty International, Greenpeace, and the World Wildlife Fund and student groups such as Education-Bringing Youth Tobacco Truths, Students Taking Action Now: Darfur, and the University Share Power Campaign of Amnesty International Canada have all actively sought to influence university investment, mainly on environmental and social issues.

Some pension fund administrators have shown a willingness to modify their investment practices, but have cited fiduciary obligations as a reason for rejecting investment decisions based on ESG practices endorsed by special interest groups. Fiduciary duties may well present a barrier in some cases, but it is now generally accepted that ESG-based investment (also referred to in this article as Responsible Investment) policies can be formulated and applied so as to be congruent with fiduciary obligations. In particular, UK and American cases have recognized the validity of ESG considerations in certain investment decisions and a growing number of pension plan administrators are adopting Responsible Investment policies.

Fiduciary Duties And Responsible Investment

For pension plan administrators, fiduciary obligations are defined both by statute and common law. As a fiduciary, a pension plan administrator has a duty of prudence and a duty of loyalty to the plan’s members and beneficiaries. The duty of prudence requires that investment decisions take into account appropriate plan-specific factors, the specific nature of the investment under consideration, and the investment portfolio at large. The duty of loyalty requires that the administrator act honestly, in good faith, in the best interests of the beneficiaries of the pension plan, and that all pension plan beneficiaries are treated with an even hand.

In the Responsible Investment context, the crux of the issue is whether the best interests of the plan beneficiaries entitles a pension plan administrator to look beyond the beneficiaries’ financial best interests (to the extent that one agrees that consideration of ESG issues may not be in the beneficiaries’ financial best interests) and to take into account non-financial criteria which, viewed expansively, could include such things as personal ethics, community values, and morality.

The 1984 decision in Cowan v. Scargill is most often cited in discussions of Responsible Investment. The issue in this UK case was whether the union-appointed trustees of a pension plan for National Coal Board employees were in breach of their fiduciary obligations for refusing to approve an investment policy for the fund unless it limited foreign investment and investments in energy industries that competed with the coal industry. The court held that the outright refusal to authorize the investment policy due to social or political reasons was in breach of the trustee’s duty of loyalty and duty to act prudently. Cowan v. Scargill has historically been held out as the basis for refusing investment decisions that had been based on, or influenced by, ESG considerations.

The Martin v. City of Edinburgh District Council decision in 1987 can be seen as weakening the Cowan v. Scargill stance against consideration of non-financial criteria in investment policy. In this case, the trustees had divested the trust of investments in South Africa as a protest against apartheid. A Scottish Court found that the trustees were in breach of their fiduciary duties for failing to seek professional advice about whether it was in the best interests of the beneficiaries to divest from South Africa and not considering whether it was in the beneficiaries’ best interests. However, the court went on to state that
the best interests of the beneficiaries did not require investment in the most profitable of possible investments. The court acknowledged that the trustees have a pre-existing set of beliefs, preferences, and principles. The legal requirement is not to ignore these, but rather to exercise judgment in as fair and impartial a manner as possible.

Similarly, in 1989 in Board of Trustees v. Mayor of Baltimore City, pension plan trustees and beneficiaries challenged a series of city ordinances that required trustees of municipal pension plans to divest their holdings of companies doing business in South Africa and Namibia, claiming that to do so would result in a breach of the trustees’ fiduciary duty to plan beneficiaries. The court held that where the cost of considering social consequences of investment decisions is ‘de minimis,’ the duty of loyalty is not violated. In this case, the expected cost to the pension fund was in the range of 1/16th of one per cent of the assets under management, which, although it was a large dollar figure in absolute terms, was considered to be insignificant in relative terms.

Although not a pension case, the 1993 decision in Harries v. Church Commissioners for England is of interest in that the church’s ethical investment policy was found to be justifiable as it did not “significantly” reduce investment returns. The court found that the consideration of non-financial criteria would not in and of itself constitute a breach of fiduciary duty so long as the investment is not projected to produce a significantly reduced investment return.

These decisions illustrate that the common law has evolved to recognize that it is not necessarily incongruent with fiduciary duties to have investment decisions based on or influenced by ESG factors. In fact, it is arguable that, in certain instances, it could be a breach of fiduciary obligations to not take these factors into consideration.

Responsible Investment Experience In Canada

According to a March 2007 report of the Social Investment Organization (SIO), the assets invested according to Responsible Investment guidelines in 2006 exceeded $500 billion, up from just $65 billion in 2004. The dramatic increase in Responsible Investment practices is largely attributable to the recent adoption of Responsible Investment policies and practices by several large Canadian public pension funds including the Canada Pension Plan Investment Board, the Ontario Teachers’ Pension Plan Board, and the Ontario Municipal Employees Retirement System. Each has policies which generally involve giving consideration to the potential long-term impact that non-financial factors are likely to have on investments.

Rather than screen investments based on Responsible Investment factors, the preferred approach is to promote disclosure and performance on Responsible Investment factors, usually through proxy votes, shareholder resolutions, and other forms of corporate engagement. This is premised on the view that effective corporate behaviour on ESG factors can have a positive influence on long-term risk and financial performance. These policies provide a guide as to the Responsible Investment trend in Canada, at least amongst large public pension plans. Other plans, which may be less well resourced and that have Responsible Investment policy ambitions, are also likely to adopt similar approaches, but will likely need to rely more heavily on external advisors and managers for support.

Unique Considerations For DC Plans

Defined Contribution plans that offer investment choices to members are, however, subject to several unique concerns since a plan administrator must also ensure that the level of disclosure and transparency provided to the members is sufficient. Moreover, the menu of investment options should allow plan members to fashion an appropri-
ate investment portfolio, taking into account their individual risk and return profiles.

If a Responsible Investment option is to be made available, the plan administrator must be prudent in adopting the investment mandate and manager. In some cases, this could require that a search for an appropriate manager include managers outside Canada. If possible, the same process that is used to select non-ESG managers ought to be followed for evaluating managers and mandates for the Responsible Investment option(s). The fact that an administrator departs from its usual investment manager selection process should not negate the prudence of that process, as long as the process remains rigorous and there is a cogent reason for adopting a different approach.

Provided the costs associated with the Responsible Investment option are borne solely by the pension plan members who invest in that option, and the net return expected is still commensurate with the risk profile of the investments. The fact that Responsible Investment mandates usually attract higher investment management costs than other investments should not in itself be a deterrent to establishing a Responsible Investment option. However, when selecting a Responsible Investment manager, it is critical for the administrator to consider, amongst other appropriate factors, the investment management costs of one Responsible Investment manager over another.

Some commentators argue that offering a single Responsible Investment option may not be prudent on the basis that a plan member may feel restricted to investing, for example, 100 per cent in an equity fund even though their ideal Responsible Investment portfolio of investments would be weighted at only 50 per cent equity exposure. Another perspective on this issue is that a member must choose from amongst the investment options made available and must strike the balance between investing ‘responsibly’ and investing in accordance with their financial risk tolerance profile. Furthermore, investment options with exposure to other asset classes, although not labelled as ‘responsible,’ may indeed meet the individual’s set of Responsible Investment principles.

Because a plan member might wish to consider whether the philosophical approach of an available Responsible Investment option is consistent with their own investment philosophy, it will be important to consider whether a Responsible Investment demands greater disclosure than other options. This might entail providing greater disclosure concerning the securities which have been included in a Responsible Investment option than is typically the case with other investment options. Moreover, it will be important to identify and communicate whether there are any increased member fees associated with the management and/or administration of a Responsible Investment option.

Finally, although a prudent selection and monitoring process is required to minimize the risk that a Responsible Investment option may be seen to have been imprudently selected, this is not on its own sufficient to discharge all responsibilities of a Defined Contribution plan administrator. Information about the special risks, costs, and mandates for the Responsible Investment option must also be communicated to plan members to allow them to make an informed investment decision.

Prudent Selection Process

A prudent selection process, involving appropriate external advisors and thorough documentation of the process, reasons, and decisions made, are the best defences against a challenge by a plan stakeholder. Although there are additional and unique considerations for Responsible Investment decisions, especially in the Defined Contribution pension plan context, they should, in general, be subject to the same basic legal principles as apply to other investment policy and investment manager decisions.

Jordan Fremont (jordan-fremont@hicksmorley.com) and Lisa Mills (lisa-mills@hicksmorley.com) are lawyers in the pension and benefits group at Hicks Morley Hamilton Stewart Storie LLP. Kathryn Bird, student-at-law, assisted with the article.
LIFE’S BRIGHTER WHEN YOU KNOW
you’re headed in the right direction

Do you have a handle on your organization’s health risks? Do you know how those risks are impacting your benefit costs? With our HealthyRETURNS™ Strategic Support Services, we can help you get the insights and answers you need so you can better target the money you’re spending.

With the right strategy, life’s brighter under the sun.

HealthyRETURNS™
the profits of prevention

www.sunlife.ca
* Sun Life Assurance Company of Canada

Sun Life Financial
In August, all eyes will be on Beijing as it plays host to one of the world’s largest sporting events. The Olympic Games are China’s chance to showcase itself to the world.

For corporations deploying employees to assist with businesses involved in the Olympics, it will take exceptionally detailed planning and coordination to ensure that they have a truly safe and enjoyable experience.

Due Diligence

Organizations that do not exercise due diligence and care for their employees risk litigation for negligence, as well as potentially severe damage to brand and reputation. More than ever, firms need effective emergency response planning that ensures immediate and effective action when things go wrong and is founded on accurate, detailed, timely, and tailored information and intelligence to support all of the decisions that need to be made.

Unlike some prior competitions where the host city is the central location for most sporting venues, the China Games will have events in 31 locations which presents particular challenges from both a medical and security perspective.

While the tremendous growth of China’s economy means first class hotels and fine dining for visitors in major cities, a substantial gap remains in the quality of services such as healthcare, particularly in outlying areas.

Cash Upfront

For example, most medical facilities will demand cash upfront before offering any treatment, even for critical cases. Credit cards are rarely accepted. Prompt attention can be further complicated because local hospitals have limited experience with international medical insurers.

In some places, there may also be a tendency to favour traditional Chinese medicine, which is not always suitable for Western patients.

Companies with staff in China for the games should be prepared for a wide variety of medical problems ranging from complications from pre-existing conditions to food and water borne diseases, heat stress and stroke, minor sprains and fractures, traffic accidents, and respiratory ailments related to high pollution levels.

As with all large events where groups of visitors come together, security is also a concern. Issues may range from mild disturbances and theft to natural disasters and terrorism.

So what can companies who are sending employees to China do?

Warnings And Recommendations

To start, ensure everyone is educated before they leave about what diseases and security issues they may encounter. Information includes warnings and recommendations, a list of Canadian government contacts in the country, a summary of local laws and customs, and climate and health information.

Make sure your employees take measures ahead of time to ensure they know how to safeguard their health and safety when travelling to China. Encourage them to find out what immunizations they need and to get them. Remind them to take an ample supply of prescription and routine medication in their carry-on luggage. Also, travellers may find it useful to bring a first-aid kit as these are not readily available in China.

Ensure your employees have access to their vital documents even when away from home. Before they leave, ensure they scan copies of passports, driver’s licences, and credit cards. Have those documents eMailed to an account the traveller can access from the Internet. Tell them to ensure that emergency contacts are listed in multiple places.

One approach to make the planning easier and more complete is to use an international assistance company. These can help you plan for and deal with any medical or security issues that may affect your employees, from translation services to emergency medical evacuation and repatriation.

Richard Culver is the senior director of security services for the Americas region at International SOS (richard.culver@internationalsos.com).
When the federal government handed down its 2008 budget, one concern was how to get Canadians to start saving. The solution it came up with was the Tax-free Savings Account (TFSA).

Starting in 2009, Canadian residents aged 18 or older will be eligible to contribute up to $5,000 annually to a TFSA. While contributions will not be tax-deductible, investment earnings and withdrawals will be tax-free. Withdrawals may be made at any time and for any reason. Amounts withdrawn in a year will be added to the account-holder’s contribution room for the subsequent year. In addition, unused contribution room can be carried forward indefinitely.

However, what does the Tax-free Savings Account (TFSA) mean for employers sponsoring retirement and savings programs? More specifically, why would a typical employer that offers a Defined Benefit pension plan, a Defined Contribution pension plan, or a Group RRSP (or even all of these) bother with a group TFSA?

The answer is simple. The TFSA is, in many respects, simply a better savings vehicle for your employees than an RRSP. Yes, you read it right, a TFSA is better than an RRSP!

We can hear the rumblings, how could that be? Well, here is a list of advantages unique to TFSA over RRSPs:

- The TFSA provides more tax-assistance than the RRSP for employees with earnings below $39,000 (See Figure 1).
- TFSA’s are more tax-efficient than RRSPs when an employee is expecting to be subject to higher tax rates in the future. This could be, for example, for a new hire who expects to quickly climb the corporate ladder (See Figure 2).
- Spousal TFSA contributions are allowed without reducing your own TFSA contribution room and (better than RRSPs) if your spouse withdraws funds there is no income attribution to the contributor!
- Amounts withdrawn from TFSA create contribution room for future savings. In other words, amounts withdrawn can be re-contributed in future years. This is almost too good to be true!
- Withdrawals from TFSA will be tax-free. This means TFSA withdrawals will not affect eligibility for federal income-tested benefits and credits. For instance, TFSA withdrawals would not be counted in determining the infamous OAS ‘clawback.’ Death benefits transferred to a spouse also have no consequences (RRSP death benefit transfers can result in minimum income withdrawals at a higher marginal tax rate)
- Unlike an RRSP, there are no ages at which you have to start drawing down your TFSA. If you wish, you can continue to accumulate in it tax free until you die!

Tax Efficiency

Other features of the TFSA are generally equivalent to RRSP features. For instance, they are comparable to RRSPs in terms of tax efficiency. Also, upon your death, amounts under your TFSA can be fully rolled over on a tax-free basis to your spouse.

There is little doubt that employees will be interested in TFSA’s. In fact, for employees, the introduction of the TFSA means there is little or no intrinsic value to the RRSP tax deduction (relative to the choice of depositing to an RRSP or a TFSA), other than the potential gain (or loss) arising from the basic difference in marginal tax rates between the times of deposit and withdrawal. This means many employees will prefer the option of a TFSA, at least in respect of their own contributions made to either a group RRSP or registered pension plan. Obviously, for high-earners, the TFSA is an additional tax shelter that will be welcome.

Still, from an employer’s perspective, registered pension plans such as Defined Contribution pension plans offer distinctive features such as the locking-in feature and the exemption of employer contributions from payroll taxes. So, there might be very valid reasons for employers to keep existing programs in place.

Yet, TFSA is the most significant development in tax-assisted savings since the introduction of

---

**Implementing Benefits**

By: Richard Beliveau & Greg Hurst

---

**Employee Benefits**

By: Richard Beliveau & Greg Hurst

---

**Tax-free Savings Accounts – New (Tax) Math That Works!**
Figure 1

Tax-Free Savings Accounts
Financial Facts And Figures

Maximum Limits
The $5,000 maximum TFSA contribution is superior to the 18 per cent RRSP maximum contribution limit relative to lower income individuals. TFSA will shelter in excess of 18 per cent of earnings for those who earn less than $39,000 to $45,000 (depending on provincial tax rates):

<table>
<thead>
<tr>
<th>Rates</th>
<th>TFSA</th>
<th>RRSP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment income</td>
<td>Up to</td>
<td>45,072</td>
</tr>
<tr>
<td>Pre-tax contribution</td>
<td>8,113</td>
<td>—</td>
</tr>
<tr>
<td>Tax (Québec marginal rate)</td>
<td>38.37%</td>
<td>(3,113)</td>
</tr>
<tr>
<td>Net contribution1</td>
<td>5,000</td>
<td>8,113</td>
</tr>
<tr>
<td>Investment income</td>
<td>5.50%</td>
<td>9,589</td>
</tr>
<tr>
<td>Gross proceeds</td>
<td>14,589</td>
<td>23,672</td>
</tr>
<tr>
<td>Tax (Québec marginal rate)</td>
<td>38.37%</td>
<td>(9,083)</td>
</tr>
<tr>
<td>Net proceeds</td>
<td>14,589</td>
<td>14,589</td>
</tr>
</tbody>
</table>

In other words, for Quebec employees earning less than $45,000, the new TFSA provides more tax shelter than the 18 per cent RRSP.

Figure 2

Changes In Tax Rates

The tax deduction for RRSP deposits has the highest value when a taxpayer is at the highest marginal rate of tax. For individuals who can reasonably expect earnings to grow in excess of average wage rates (in particular younger people who have recently entered the workforce), it will be sensible to defer contributions to RRSPs and use a TFSA instead until such time as they reach their highest expected marginal tax bracket.

Figure 2(i) and 2(ii) demonstrate that RRSPs are the superior retirement savings vehicle if marginal tax rates decline between time of deposit and time of withdrawal, and TFSA are superior if marginal tax rates rise.

It is worthwhile to observe that personal income tax rate changes are usually announced in advance of the taxation (calendar) year in which they take effect. If this practice continues, people who choose TFSA over RRSPs will have ample notice to take advantage of any decline in personal tax rates by moving funds out of their TFSA into their RRSP for the taxation year prior to the application of the new tax rates.

Figure 2(i)

Tax Rates Decline Five Per Cent Between Deposit & Withdrawal

<table>
<thead>
<tr>
<th>Rates</th>
<th>TFSA $</th>
<th>RRSP $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment income</td>
<td>Up to</td>
<td>40,345</td>
</tr>
<tr>
<td>Pre-tax contribution</td>
<td>7,262</td>
<td>7,262</td>
</tr>
<tr>
<td>Tax (Ontario marginal rate)</td>
<td>31.15%</td>
<td>(2,262)</td>
</tr>
<tr>
<td>Net contribution1</td>
<td>5,000</td>
<td>7,262</td>
</tr>
<tr>
<td>Investment income</td>
<td>5.50%</td>
<td>9,589</td>
</tr>
<tr>
<td>(20 years, compounded annually)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross proceeds</td>
<td>14,589</td>
<td>21,189</td>
</tr>
<tr>
<td>(Net contribution + investment income)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax (marginal rate)</td>
<td>26.15%</td>
<td>—</td>
</tr>
<tr>
<td>Net proceeds</td>
<td>14,589</td>
<td>15,648</td>
</tr>
</tbody>
</table>

Figure 2(ii)

Tax Rates Increase Five Per Cent Between Deposit & Withdrawal

<table>
<thead>
<tr>
<th>Rates</th>
<th>TFSA $</th>
<th>RRSP $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment income</td>
<td>Up to</td>
<td>39,671</td>
</tr>
<tr>
<td>Pre-tax contribution</td>
<td>7,141</td>
<td>7,141</td>
</tr>
<tr>
<td>Tax (BC marginal rate)</td>
<td>29.98%</td>
<td>(2,141)</td>
</tr>
<tr>
<td>Net contribution1</td>
<td>5,000</td>
<td>7,158</td>
</tr>
<tr>
<td>Investment income</td>
<td>5.50%</td>
<td>9,589</td>
</tr>
<tr>
<td>(20 years, compounded annually)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross proceeds</td>
<td>14,589</td>
<td>20,886</td>
</tr>
<tr>
<td>(Net contribution + investment income)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax (marginal rate)</td>
<td>34.98%</td>
<td>—</td>
</tr>
<tr>
<td>Net proceeds</td>
<td>14,589</td>
<td>13,545</td>
</tr>
</tbody>
</table>

1. This figure depends on provincial income tax rates and ranges to a high of $45,000 for Quebec employees.

RRSPs in 1957. So, the question really is not whether you should contemplate the introduction of a Group TFSA in your organization, the question is how fast can you implement one.

Need To Wait Until 2009

The government has indicated that TFSA will be first allowed in 2009. So, while you need to wait until 2009 to put your Group TFSA in place, you should consider the following key elements.

Similar to a Group RRSP, you will need to select a provider for recordkeeping and also investment options. While it can be expected that major financial institutions will be frenetically working at launching TFSA products by year-end, now may be the perfect time to review the performance of your current provider and evaluate its ability to cope with the new landscape.

You need to think about the governance of your Group TFSA arrangement. It would seem appropriate to use the same governance framework as you are using for your Group RRSP to handle your Group TFSA. Now would be the perfect time to perform a CAP audit. Remember these CAP guidelines that came into effect on December 31, 2005?

Financial Retirement Planning

The success of your Group TFSA will depend on several factors. Good employee communication combined with nifty employee decision tools will go a long way to ensuring the success of your launch. Should an employee contribute to the Group TFSA or to the Group RRSP? How does TFSA fit into the employee’s financial retirement planning? Employees will need to be well guided at the onset. This would be a perfect time to introduce on-line employee decision-making tools to assist employees at the onset and support them afterwards as their personal situation evolves. Needless to say, seamless integration of the administration of your Group TFSA within your existing savings programs will ensure continued success and employee satisfaction.

As an employer, it would definitely not be appropriate to wait until 2009 before starting to think about TFSA. You need to think about them now and start taking action immediately if you wish to assist your employees to take advantage of them early in 2009.
"Employers who consider using Best Doctors as part of their benefit plan reinforce their values as a supportive and caring organization."

Anna Marie,
Director, Human Resources, DRAFTFCB

"I felt like I was being taken care of by someone I'd known my whole life."

Rhonda*, Morrisburg, ON

If the diagnosis were serious, wouldn't you want some of the world's best medical minds reviewing your case, without leaving home? As part of your company's benefit plan, Best Doctors® helps your employees ensure they are receiving the right diagnosis and treatment options by connecting them with their loved ones and their treating physicians with the Best Doctors network of 50,000 renowned specialists worldwide.

Best Doctors helps to bridge the knowledge gap in medicine. Best Doctors services are designed to enhance the health care system — not replace it. While working collaboratively with the treating doctors and specialists, Best Doctors provides empowerment to your employees through knowledge, guidance and one-on-one support.

The results speak for themselves. Since 1989, Best Doctors has changed a diagnosis 22% of the time, helped modify treatment plans 61% of the time and reduced invasive surgery by 67%. The quality of care for your employees is improved while reducing absenteeism and lowering staff costs.

Empower your employees with knowledge, guidance and support. Discover why more than 3,000,000 Canadians are members of Best Doctors. Contact your group insurance carrier, benefits advisor or Best Doctors directly for more information.

For more information:
Call 1-877-293-BEST (2378)
or visit www.bestdoctorscanada.com

*Visit our website to read Rhonda’s full story.
BEST DOCTORS and other trademarks shown are trademarks of Best Doctors, Inc.
Employers are constantly looking for new and interesting ways to attract and retain employees. This is no surprise considering Statistics Canada forecasts that, by 2016, the number of people approaching retirement (aged 55 to 64) is expected to outnumber those about to enter the labour market (aged 15 to 24).

In an environment where job seekers have the opportunity to choose the position that best suits their needs and lifestyle, employers need to be able to provide a competitive offer to attract and retain top talent.

One solution is group home and auto insurance. These offer employees preferred pricing for everything from cars, snowmobiles, and trailers to residential homes and seasonal properties.

Offering a group home and auto insurance plan provides employees with an easy choice to a complicated product. People often think of insurance as difficult to understand, so it’s no surprise that many Canadians don’t review their insurance needs as part of their complete financial plan. A recent RBC Insurance/Ipsos Reid survey found that only one in four (23 per cent) insured Canadians regularly review their insurance needs without prompting and one-third (33 per cent) of Canadians don’t know if they even have additional accident protection. Insurance companies may also extend convenient payment options with no monthly interest or service charges.

Another growing trend is online quotes for auto insurance policies. Some companies offer discounts if you go online for an insurance quote.

This enables employers to offer an attractive employee benefit without having to worry about any administration or paperwork – as this is typically handled directly through the insurance company. Employers can also benefit from a workforce that has secured their financial well-being and is protected from potential mishaps and unfortunate circumstances. From this perspective, it’s a win-win situation as both employers and their staff can benefit.

**Plan That Works Best**

Not all group home and auto insurance programs are the same, so it’s important you know what to look for to select the plan that works best for your company and employees. Here are a few things to keep in mind:

- Does the insurance company feature a dedicated toll-free number that puts your employees or members at the front of the line when they call? This can ensure preferred service for every call.
- Is there a 24/7 claims service for emergencies and extended service hours for regular claims?
- Does the company offer a valet service where a representative brings a rental car to the client and takes the damaged vehicle away for repair?
- Will the plan include a customized web page for your organization that welcomes your employees or members, as part of your organization, when they go online for quotes or service?
- Is a comprehensive online quoting system available as part of your package? This plan can offer discounts and simplified access for you and your employees.
- Have you considered a plan with flexible payment options and preferred pricing? These features ensure that you obtain the best price for your employees with no monthly interest or service charges.
- Do you have employees in different regions within Canada? If so, consider a plan with coast-to-coast coverage for home and property insurance.
- Are there caps on auto discounts? Make sure you understand what options will be available to employees.

To maintain competitiveness and growth in today’s workplace, an organization needs to attract the right employees by building a competitive benefits package. Group home and auto insurance plans provide an effective and efficient opportunity to offer your staff a value-added employee benefit option.

Albert Wintjes is director of group distribution with RBC Insurance (albert.wintjes@rbc.com).
These days, almost every employer offers some sort of benefits package. Consequently, it is no longer a question of simply offering such benefits, but how the benefits you are offering set you apart from everyone else. Adding a legal assistance plan to your current benefits package is an inexpensive way to greatly increase its value.

Regardless of who you are, legal issues will arise from time to time. Problems such as divorce, identity theft, and bankruptcy are sources of both emotional stress and confusion for most people. Retaining a lawyer to deal with such matters can be both costly and time-consuming, taking its toll on the normal day-to-day functioning of peoples’ lives.

Access To Legal Advice

Legal plans often allow access to legal advice outside of regular business hours. This grants employees the option of contacting a lawyer at their convenience. In the current business world where most offices are set up with cubicle seating, this can also help to ensure confidentiality.

Through telephone legal advice, employees are also able to resolve their legal issues quickly, often avoiding waiting days, and possibly weeks, to get an appointment to see a lawyer. This helps to reduce some of the stress and anxiety associated with confronting most legal issues.

Having a legal assistance plan is also of high actual value to employees. The free telephone legal advice can often save employees from incurring legal fees for relatively minor issues and simple questions where legal advice is beneficial, but retaining the full services of a lawyer may be too expensive.

Access to telephone legal advice can also help to reduce the time an individual will spend, in person, with a lawyer later on, further reducing the legal costs they will incur. Many legal assistance plans offer reduced rates when the employee is referred to a lawyer through the plan. This can help to save an employee thousands of dollars in legal fees when they retain a lawyer from their legal assistance plan’s referral panel.

In addition to providing value to employees, legal assistance plans are also of high value to plan sponsors. Adding a plan can greatly enhance the sponsor’s current benefits package, often at an insignificant incurred cost. Sponsors can either pay on a per use basis or be charged a minimal monthly fee that grants entitled employees unlimited access to the service.

Such plans also provide other benefits to sponsors. For example, employers benefit from a decrease in absenteeism and an increase in productivity as employees are no longer making phone calls to their lawyers on company time or rushing off to appointments. Also employees are better able to concentrate on their work when their legal matters are taken care of efficiently and in a timely manner, thus reducing stress and anxiety. Legal assistance plans also prove to be beneficial to plan sponsors by boosting employee and member retention through the added value to the sponsor’s benefits package.

In addition to being of low cost to the sponsor, a legal assistance plan is easy to add. These plans are virtually hassle free as administration is handled entirely by the carrier. It can be implemented very quickly and adjustments can easily be made to accommodate the specific needs of a particular group. Such modifications vary greatly and can be as simple as a legal assistance provider including an employee claims adjudication component to the standard telephone legal advice and local lawyer referral plan, for a minimal price increase. Other plans customize the type of legal assistance they provide, tailoring the offering to meet the needs of the intended demographic.

Customize Their Plan

Another option for plan sponsors is to customize their plan to include material fulfillment, such as offering print information or member discounts for different services to eligible employees. As some legal assistance providers brand the plan as per the dictates of the plan sponsor, using their logos and even a customized corporate salutation, employees really associate the value of the service to the plan sponsor.

Given how minimal the cost of adding a legal assistance plan is to employers and how much it increases the value of their benefits package, it really does pay for itself.

Sarah Beyea is client satisfaction co-ordinator at Sykes Assistance Services Corporation (sarah.beyea@sykes.com).
Obituaries

Frank Livsey

Frank Livsey, a leading actuary and retired senior managing partner at Hewitt Associates, passed away in Venice, FL, February 10, 2008, at the age of 72. His funeral was held in Florida. He is survived by his wife of almost 47 years Joan, daughter Elizabeth, and son Michael. At a memorial reception at the Toronto Hunt Club February 27, the club was packed, attesting to the love and respect for the man that Frank was. Family, relatives, friends, past colleagues, and business associates – including former clients from his pre-retirement days – were among the attendees gathered to reminisce and celebrate Frank’s life. Frank was a highly successful actuary, a good friend, and a loving husband and father.

In the actuarial and pension arenas, Frank was greatly revered for his profound knowledge in his field, his professionalism, integrity, and dedication.

He was born in Lancashire, England, September 20, 1935, and worked for the Refuge Assurance Company before moving to Canada in 1961. He was a consultant at William M. Mercer Ltd. and an executive of Tomenson Alexander before joining Hewitt Associates.

Frank was a leader in the actuarial profession. He established the actuarial practice for Hewitt Associates in Canada and was a major contributor to its growth to the current capacity. He retired in 1994. He was a Fellow of the Institute of Actuaries and the Canadian Institute of Actuaries (CIA) and an Associate of the Society of Actuaries. He was a member of the Board of Governors of the CIA and served on various committees on professional conducts of CIA members. As well, he was a member of the first editorial advisory board for Benefits and Pensions Monitor. He was an accomplished athlete in lacrosse, tennis, curling, and lawn bowling.

In recent years, he and Joan had been spending their winter months in Florida. They also traveled extensively.

Frank was an inspiration to all who came into contact with him. He is deeply missed and fondly remembered by all who had the fortune to know him in any capacity.

Written by Michael Sze

Barry Sutton

Personal tributes to the late Barry Sutton, retired CEO of Buck Consultants in Canada who passed away March 5, reveal a man of honour, responsibility, and faith. For many in the benefits consulting field, Barry is remembered and respected for his innovative approach to the way he conducted business. His legacy, not only within the company he started with partner John Seltzer, but in the industry itself, is as important as it is unsung.

Barry Sutton was, for many years, the youngest actuary in Canada, having qualified at the age of 23. John Seltzer, then working at Murray F. Bulger & Associates, hired him as chief actuary and, in 1972, they became partners in a new Canadian company, GBB Associates Ltd. – which eventually became Buck Consultants Ltd.

Barry had a fine mind for sorting out technical and complex issues behind benefits design, especially issues surrounding retirement savings. He wrote highly-regarded, detailed advisories on complex issues such as draft regulations for the retirement savings taxation and many of his thoughts on the proposed rules resulted in adjustments to the proposed tax structure for retirement savings plans. Barry managed all communications pieces from Buck, which earned him high regard from clients, competitors, and others in the industry.

Barry was also an early champion of technology, campaigning at Buck’s parent company’s board level for its adoption from day one. He saw clearly the potential that computerized administration systems offered to clients. He pioneered online benefits administration in mainframe environments.

With the development of the personal computer, he was quick to capitalize on moving valuation and administration processes from mainframe to PCs. At his insistence (and in spite of the misgivings of staff and peers), Buck Canada was one of the earliest firms to institute desktop processing throughout the company, with a desktop PC on every desk from the mailroom to the executive offices.

As Barry built the Buck business in Canada, he kept it as simple as possible so people could concentrate on client work and consulting work.
Photo Inflammatory
Re: Defined Contribution Monitor, February 2008 — DC Plans Need To Be Greatly Improved

The picture that accompanies the article ‘DC Plans Need To be Greatly Improved’ which shows a homeless person as a former DC member is highly inflammatory and biased. Just ask the members of many of the Defined Benefit multi-employer plans who have had an in-service reduction in their benefit if they feel all warm and fuzzy about DB plans?

If you provide the same level of contribution per capita to either plan type and invest in the same investment structure at the same cost, you will produce very similar benefit amounts. I have seen more than one consultant compare a five per cent DC plan to a two per cent FAE plan and point out how superior the DB plan is.

If you can show me a start-up DB plan for a standard mix of employees that would be able to provide a two per cent FAE plan on a five per cent contribution, then I will be truly converted. Reduced longevity risk is a plus for DB plans, but at what cost?

Neil T. Craig
Stevenson & Hunt Insurance Brokers Ltd.
**CONFERENCES**

‘Why Are You Paying Too Much For Your Employee Benefits? The Advanced Tools of the Benefits Industry’ will be the topic of an HRPAO Professional Development Program. The seminar lifts the veil on how these are actually constructed. It takes place May 8 in Toronto, ON. Visit http://www.hrpaoo.org/

The Toronto Area Chapter of the International Society of Certified Employee Benefit Specialists (ISCEBS) will hold two full-day primary seminars designed for those looking for a quick overview of employee benefits. Topics to be covered include health and dental and life insurance in the group benefits session and setting up a pension plan and DC plans from accumulation to payout in the pension benefits session. It takes place May 8 and 9 in Toronto, ON. eMail wayne_murphy@pbas.ca or call Wayne Murphy at (416) 674-2407 X 237

CPBI FORUM 2008 will take place May 12 to 14 in Toronto, ON. FORUM 2008 has been developed to provide the very best content and networking opportunities. Visit: www.cpbi-icra.ca

The International Foundation of Employee Benefit Plans’ Canadian Public Sector Pensions and Benefits Conference will take place May 13 and 14 in Ottawa, ON. This two-day institute will provide information on the latest issues affecting benefit plans. Visit www.ifebp.org/canadaPE

The Changing Institutional Landscape will be the topic at a Toronto CFA Society event in Oakville-Mississauga, ON. Harry S. Marmer, executive vice-president, institutional investment services, at Hillsdale Investment Management Inc., will discuss a number of issues that are causing the landscape of the institutional business to change. It takes place May 29 in Oakville, ON. Visit http://www.torontocfa.ca

**APPOINTMENT NOTICE**

Randy Oswald, CFA Vice President
State Street Global Advisors is pleased to announce that Randy Oswald has recently been appointed as a Vice President. He is responsible for business development focusing on SSGA’s broad array of investment strategies serving the needs of institutional investors. Randy is based in SSGA’s Toronto office.

Prior to joining SSGA, Randy served as Vice President, Relationship Management at TD Asset Management, a broad-based investment management firm with a focus on institutional investors in North America. Prior to this, Randy was a Relationship Manager in TD Bank’s commercial lending group.

Randy received his MBA from Ivey School of Business in 1995 and earned the Chartered Financial Analyst designation in 2001.

SSGA’s focus on meeting clients’ needs has spurred the creation of a full spectrum of investment solutions. Our products and services cover all asset classes, risk profiles, regions, and styles. With 12 investment centres around the world, we offer clients a level of attention and a degree of flexibility unmatched in the industry.

For more information, please visit our website at www.ssga.ca.

**TURN UP THE VOLUME**

This year in BC, more than 280 women will be diagnosed with ovarian cancer...

Ovarian cancer is known as the silent killer because many women are not aware of the symptoms of ovarian cancer and most cases are detected in advanced stages. When caught early, the 5 year survival rate is up to 90%.

The Benefits of Caring is a charity auction event in support of Ovarian Cancer Canada created by volunteers from the benefits, pension and investment community in BC. The past four events have raised over $425,000, allowing OCC to raise the profile of ovarian cancer across the country.

Please help to Turn Up the Volume and increase awareness of the symptoms, risk factors and how to reduce the risk of ovarian cancer.

Join us for a night of fun and friendship, and support this worthy cause.

**BENEFITS OF CARING**

Charity Auction

November 6, 2008
The Four Seasons Hotel
Vancouver, BC

For tickets and information about sponsorship opportunities contact:
Norah Joyce (Hewitt) at 604 844-7968 or norah.joyce@hewitt.com
Kathy Pereira (Interlock) at 604 431 3712 or kpereira@interlockeap.com
Karen Bell (Pacific Blue Cross) at 604 419-2700 or kbell@pac.bluecross.ca

Ovarian Cancer Canada
Cancer de l’ovaire Canada
Pension funds share some important characteristics with endowments. They are both large pools of capital with long-term investment horizons. Of course, there are differences too, including some notable restrictions for pension funds around their ability to invest, or concentrate their investments, as they see fit. Another emerging difference between them is the above average investment returns of many endowments, which has resulted in newfound interest and scrutiny.

The University of British Columbia’s William Ziemba, in a book titled ‘Scenarios for Risk Management and Global Investment Strategies,’ notes that the top performance of university endowments, in particular, is a ringing endorsement of active management. He says, “the finance and economics departments of these universities are filled with faculty that believe in efficient markets, so it is not to them that the superior returns are attributable since they would basically suggest investment in passive index funds or active risk premium closet index funds trying to get a little alpha.” He notes that Yale University’s endowment, under the management of David Swensen, was the first institutional investor to follow absolute return strategies as a separate asset class. The returns were high and were not correlated to overall market returns.

Private Equity
Yale was also among the first institutional investors to invest in private equity, making its first commitment to leveraged buyouts in 1973, and to venture capital in 1976. Its current asset mix devotes almost 25 per cent to absolute return strategies, and a further 28 per cent to real estate. More traditional categories, such as domestic equity, come in at under 12 per cent and a paltry four per cent is allocated to fixed income.

If exposure to alternative assets is the big secret of endowments, then why aren’t more pension funds getting in on the action? Josh Lerner, of the Harvard Business School, along with Antoinette Schoar and Jialan Wang, both at MIT, ask this question in a paper titled ‘Secrets of the Academy: The Drivers of University Endowment Success.’

They note that there is a large skewness in the distribution of endowment sizes. In 1992, the top 10 per cent of endowments had total asset values 160 times that of the bottom 10 per cent, while by 2005 the top 10 per cent of the endowments had a total value which was nearly 400 times that of the bottom 10 per cent. While fundraising accounted for some of this difference, the divergence in endowment growth was mostly driven by investment returns. Endowments which had invested earlier and more heavily in alternative assets, had dramatically outperformed those endowments which did not.

However, the authors note that, “To conclude that more investments in alternatives will lead to higher returns is simplistic.”

Three Factors
They note three factors that may also be critical to success. The first is experience which is very important in the success of an alternative investment program. As there is a great deal of disparity in the returns of individual managers within the alternative asset class, there is a premium on the selection of the right money manager.

The second factor is the related factor of access since many of the top private equity and hedge funds are closed to new investors and have been so for many years. One advantage to having been pioneers in alternative investments is that top endowments enjoy a ‘seat at the table’ in some highly desirable funds. By contrast, an endowment beginning in alternative investments today is unlikely to be able to access the same funds.

Finally, timing of the investments in these many different alternative investments may be an issue, with the ready availability of debt, a robust market for new issues, and an abundance of value investment opportunities all helping to boost alternative investment returns in the past decades. Whether this environment will continue in the future is a valid question.

Gaining Access
So choosing and gaining access to the right money manager is of ultimate importance, a fact borne out through the dozen interviews with chief investment officers in a book by Lawrence Kochard and Cathleen Rittereiser titled ‘Foundation and Endowment Investing: Philosophies and Strategies of Top Investors and Institutions.’ What all these top investors share is a devotion to understanding how to source, evaluate, and monitor their external investment managers. After all is said and done, they note that the qualitative issues of comfort, transparency, and trust are just as important as the quantitative issues around return. Finding and developing talent outside and within their fund is critical, and is something that all of us can learn from and apply to our own organization.
To be successful in any business, attention to detail is crucial. And this is especially true when it comes to providing retirement services for your employees. At Great-West Life we are completely committed to the highest principles of accountability and providing superior, reliable group retirement services. If you want your group retirement plan to run as smoothly as you wish everything else did, give us a call at 1-800-452-0025 or visit www.grsaccess.com.
To build superior investment performance, you need the right architect.

Who’s helping you?

- Over US$1 trillion AUM
- Diversified and focused investment styles
- Expertise delivered to solve your needs
- Unique solutions through collaboration

For more information, please contact
Richard J. Terres
1 416 643 6354

bnymellonassetmanagement.com