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The C.D. Howe Institute Commentary ‘The Canada Supplementary Pension Plan (CSPP) Towards an Adequate, Affordable Pension’ is being touted in some circles as one way to address the employer pension plan coverage issue in Canada. Currently, more than 60 per cent of Canadian workers do not have an employer sponsored pension plan.

Authored by Keith Ambachtsheer, director of the Rotman International Centre for Pension Management, it is a variation of his ‘TOPS’ (The Optimal Pension System) idea which he outlined in his book, ‘Pension Revolution: A Solution to the Pensions Crisis.’

Similar To CPP

The CSPP would be a Defined Contribution plan similar to the Canada Pension Plan (CPP), managed by a body comparable to the Canada Pension Board (CPPIB). It would be offered to all Canadian employees who are not members of a workplace pension plan. Contributions would come from both employers and employees. However, there would be opt-outs in terms of participation by both.

This is not a new idea. Writing in the October 2004 issue of Benefits and Pensions Monitor, Jean-Pierre Laporte and Reena Goyal outlined a plan whereby employers and employees could contribute to a CPPIB managed fund which would provide a workplace pension for Canadians who do not have an employer plan.

However, Ambachtsheer, in an April 2007 interview with Benefits and Pensions Monitor, downplayed the idea of using the CPPIB to manage this kind of fund. He acknowledged it has the scale, is arms length from government, and has good governance making it an appropriate vehicle. However, he believed “we run a risk if we put all our eggs in one basket.” We have to agree with that.

Similar models are now underway in places such as Australia.

Its superannuation funds are much like the CPP, except there are about 300,000 superannuation funds in operation in Australia. Employers are required to pay a portion of an employee’s earnings (currently nine per cent) into the fund, which can be accessed when the employee retires. Individuals can also make voluntary contributions. There is also an age pension in Australia which is financed by general revenues and pays a flat amount to anyone who qualifies. Indeed, Australia is finding many older persons spend down their assets to qualify.

In Canada, the first obstacle to any variation of the C.D. Howe proposal or the Australian system is that pensions are a provincial responsibility. Any effort to set up a national system would, no doubt, be shot down by provincial regulators intent on protecting their territory.

That, however, may not be a bad thing. With his ‘TOPS’ proposal, Ambachtsheer envisioned smaller entities, perhaps industry-based funds. Provincial-

Does CSPP Solve Pension Issue?

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Cost Factor

A bigger issue is the cost factor. That can go either way. Some sort of provincial or national scheme may be what enables small and medium sized employers to offer a plan. By reducing or eliminating the cost of operating their own plan, they might be more willing to participate. For others, any additional expense for pensions may see them turning to the opt-out option.

There is a danger. Employers already offering plans may try to bail and opt for the new plan, especially if it is less expensive to operate than their current pension plan. We could end up with broader coverage, but poorer pensions.
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Alberta Teachers’

Derek Brodersen will be the chief investment officer for The Alberta Teachers’ Retirement Fund Board. He replaces Ken Bancroft who is retiring. Bancroft has led its investment operations for the past 14 years. Brodersen has played a senior leadership role in the investment operations of the board since 1997 and has 20 years of diversified financial and investment experience.

FTSE

Ronnee Ades is business unit head, alternatives, at FTSE Group. She was, most recently, senior director of institutional markets at Dow Jones Indexes. She will be responsible for driving growth within FTSE’s existing alternative asset class index series.

Mawer

Michael Mezei is president of Mawer Investment Management Ltd. He has been an investment industry executive since 1994, with senior roles at Franklin Templeton Investments and ATB Investor Services in Calgary, AB.

Buck

Jacquie Walker, of Buck Consultants, an ACS company, has been named one of Consulting magazine’s ‘Top 25 Consultants for 2008.’ Walker is a principal in the firm’s Toronto, ON, office and a Fellow of the Certified Employee Benefit Specialist (CEBS) program. “Being selected for this prestigious list is truly one of the highlights of my 27-year consulting career,” says Walker.

Standard Life

Sophie Fortin is senior vice-president, human resources and corporate services, at Standard Life Assurance Company of Canada. She has more than 20 years of experience with national and international companies such as MAAX, Bristol-Myers Squibb, and Agropur.

Ernst & Young

Nadine Côté is national lead, compensation advisory services, at Ernst & Young LLP. Formerly, she practiced employment law and executive compensation at Torys LLP.

UBS

Marcel Larochelle is head of UBS Global Asset Management’s Canadian business. He has held senior roles with a number of consulting firms in Canada including Mercer Investments, Towers Perrin, and Buck Consultants.

Fogler, Rubinoff

Priscilla H. Healy is now with Fogler, Rubinoff LLP. A frequent contributor on pension issues to Benefits and Pensions Monitor, she was with Pallett Valo. John Varley has joined the firm. Previously with Pallett Valo LLP, he will continue his insolvency and pension insolvency practice.

Bentall

John Marotta is a senior vice-president at Bentall Capital. Based in Calgary, AB, he will have responsibility for development in its western region which consists of Alberta, Saskatchewan, and Manitoba. Most recently, he was vice-president of commercial properties at Pauls Properties Corporation.

Osler

Jean-Pierre A. Laporte is joining the pension and benefits practice at Osler, Hoskin & Harcourt LLP. He was previously with Hicks Morley.

Russell

Sadiq S. Adatia is chief investment officer at Russell Investments Canada Limited. He joined the firm in 2006, leading its Canadian equity funds and Life-Points portfolios.
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Employer DB Risk Challenged

Common assumptions about who bears the risk in Defined Benefit pension plans are overly simplistic and questionable, says a study by the C.D. Howe Institute. In ‘Risky Assumptions: A Closer Look at the Bearing of Investment Risk in Defined Benefit Pension Plans,’ James E. Pesando, an economist at the University of Toronto, found members of DB plans may bear substantial investment risk. The key issue is the extent to which members of DB plans grant wage or other concessions based on the contributions made by the plan sponsor, including any additional contributions required as a result of investment shortfalls.

‘E’ Now Means Employee

The ‘E’ in SERP now applies to ‘Employees,’ not just senior executives, says Buck Consultants’ survey of ‘Supplemental Employee Retirement Plans in Canada.’ With the average wage steadily climbing, more and more employees are finding their pensions restricted by the Income Tax Act limits for registered pension plans. In 1968, the maximum pension a full career employee could receive under a registered pension plan was about seven times the average wage at that time. Today the maximum pension limit is only about 1.8 times the average wage. As a result, employers are finding it increasingly necessary to offer supplemental pension arrangements not only for their senior executives, but for their middle-management employees as well.

ACPM Intervenes In Kerry

The Association of Canadian Pension Management (ACPM) will seek to intervene in the case of Elaine Nolan et al. v. Kerry Canada Inc. The ACPM says the two major questions before the Supreme Court of Canada (SCC) in the Kerry case are whether or not the ongoing costs of administering a pension plan are properly payable from the pension fund and if contribution holidays are properly permitted in a pension plan that combines both Defined Benefit and Defined Contribution provisions. The SCC has agreed to hear an appeal of the case and the ACPM noted that the issues raised in the appeal are of significant importance to occupational pension plans across Canada.

HSBC Changes Name

HSBC Investments (Canada) Limited is now HSBC Global Asset Management (Canada) Limited. The name change in Canada is part of the re-naming of the HSBC Group’s investment management businesses around the world. HSBC Global Asset Management is the core global asset management business of the HSBC Group. In Canada, the business provides investment management services to institutional, retail, and high net worth private clients.
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Ruling Reconciles Duty To Accommodate Rights

The Supreme Court of Canada has issued an important ruling on an employer’s duty to accommodate employees who suffer from a handicap or disability, says a Fasken Martineau DuMoulin Labour ‘Employment and Human Rights Law Bulletin.’ In ‘Hydro-Québec v. Syndicat des employés de techniques professionnelles et de bureaux d’Hydro-Québec, section locale 2000 (SCFP-FTQ),’ the court reconciles the fundamental rights of employees under the Quebec Charter of Human Rights and Freedoms and the rights of an employer under the contract of employment. This decision says the duty to accommodate does not distort the contract of employment and, in particular, the employee’s duty to perform his or her tasks through regular work attendance.

Perfect Storm Challenges Investors

A perfect storm of economic factors – including the crisis in the U.S. housing market and the dramatic rise in the value of the Canadian dollar – have challenged investors across the country, says Don Reed, president and CEO of Franklin Templeton Investments Corp. Speaking at its annual ‘Investment Outlook and Opportunities Forum,’ he said this means Canadian investors must get back to the basics and stick to proven investing principles in these times of market uncertainty.

BC Allows Letters Of Credit

British Columbia has revised its Pension Benefits Standards Regulations to permit the use of letters of credit to secure pension plan solvency deficiencies, says a Mercer ‘Communiqué.’ Letters of credit are an effective form of security that permit financially healthy plan sponsors to secure the pension promise through the combination of funding or security that is most appropriate for the organization.

Standard Life Introduces New Tool

The Standard Life Assurance Company of Canada has introduced a new website to allow group savings and retirement plan members to take ownership of their plans. Offering a ‘retirement dashboard,’ the site provides members with an overview of their planning activities, their contributions, account balances, asset allocations, and projected retirement assets, every time they log on to the website. For plan sponsors, it is designed to save them time and offer them cost-effective administrative solutions.

Teachers Provides Best Service

The Ontario Teachers’ Pension Plan provides the best-in-class pension service in North America, says a report from CEM Benchmarking Inc. It ranked the Teachers’ plan first among its peers in North America, based on an evaluation of 11 service categories, ranging from the payment of pensions to contact with members. Teachers’ also tied for first place internationally.

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Plan sponsors have many different requirements to juggle and, as a result, look to consultants for help. Overall, consultants say sponsors are doing a better job but still need to strike a better balance between their most pressing concerns and the many challenges that lie ahead.

The key, these days, is to always be aware of “what may be coming around the corner,” says Kevin Sorhaitz, principal and consulting actuary for Buck Consultants, an ACS Company. Controlling costs is, of course, most important, but there are so many different variables to consider that may indirectly affect cost down the road. These include changing business conditions and standards; attracting and retaining the right talent; and the needs and expectations of the incoming, younger workforce.

"Reactive" Mode

Unfortunately, many sponsors are still in a “reactive” mode right now and, perhaps, that points to where consultants are falling short, Sorhaitz says. Smaller organizations especially, without the proper resources or proper guidance from consultants, are dealing with issues without considering the consequences later on. For example, a common approach these days to control funding issues and costs is to eliminate Defined Benefit plans or freeze them to new hires, moving instead to Defined Contribution plans. However, before throwing something away in favour of reduced costs, he says sponsors should look to consultants to help them strike a balance. There are more options these days that provide less expense to an organization and attractive pension security to employees – thus, allowing a business to retain talent down the road.

"It’s all kind of the same stuff. Throwing away a DB plan for a DC plan to deal with cost today may be shortsighted," Sorhaitz says.

Many are catching on to the implications cuts have on human capital, says Kevin Aselstine, managing principal for Towers Perrin. During turbulent economic times, such as the current one, there has always been a tendency to cut back on benefits programs which reduces costs but, ultimately, results in a less happy and less healthy workforce.

A far more effective strategy is to think in a more ‘holistic’ way. “What’s unique about our current economic situation is that in the past, there’s been knee jerk reactions … What we’ve been focusing on during this time is balancing everything more. How do we control cost while growing top line workers and retaining key talent.”

Holistic Approach

David Caird, HR systems and benefits division manager for the Metro Vancouver Regional District, says it began working with a consultant group about one year ago because a new, more balanced approach was needed.

Caird says his consultants helped him see things as integrated rather than separate entities. Now its benefits plan is becoming a part of an overall compensation strategy, with a greater emphasis on health and wellness, and a new communications system.

He feels the more robust and integrated approach his consultants helped introduce will keep its workforce healthier and more satisfied down the line – ensuring longer-term success, on many fronts.

The increasingly complex investment arena also demands a more balanced approach, says Jacqui Parchment, national partner, Mercer investment consulting. Many sponsors have suffered poor returns in the last year, she says, resulting in higher contribution requirements and a reassessment of their options.

The elimination of the 30 per cent limit on foreign property investment, along with the stronger Canadian dollar, makes global equities seem much more attractive now. Alternative asset classes are also becoming a popular option. Sponsors need to consider new and evolving opportunities and, so far, she says they’re doing a better job.

New Direction

Colin Ferguson, general manager, hotel services and human resources, for Homewood Health Centre Inc., says its pension plan – currently in a solvency deficiency – has taken a promising new direction, thanks to his group’s consultants.

On their advice, they’ve increased investment in global equities and are reviewing the pros and cons of hedge funds. He considers his consultants invaluable to the process and is pleased they’ve been there every step of the way.

“They (its consultants) saw the need, they recommended a change, they educated us and guided us through a process, and they have helped us monitor progress,” Ferguson says.
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The eyes are wonderful, sensory organs comprised of many parts, all of which must function properly in order for us to see. Yet, for more than 830,000 Canadians, living with significant vision loss is a reality.

Vision health plays a vital role in the workplace. When it is jeopardized through injury, illness, or natural aging, productivity suffers. For employers, facing skill shortages and ever-increasing costs associated with accidents and injuries, taking a close look at how to mitigate the impact of vision loss makes good sense.

There are many things in a workplace that can harm the eyes. Chemical burns, followed by cuts, lacerations, or punctures were the most common causes. Not surprisingly, most eye injuries were sustained by males, aged 25 to 44.

Organizing a workplace eye safety education program has been shown to help prevent eye injuries. Through assessment, consistent review, and ongoing training, these programs can help ensure that employees understand the value of having their eyes tested frequently and learn protocols for how to proceed in the event of an accident.

The Natural Impact Of Aging Eyes

Older employees may also experience vision problems as part of the natural aging process. Their weakening eyesight may affect their ability to do their jobs safely and accurately because they have, for example, suffered a loss of depth perception which makes it difficult to judge distances or are experiencing difficulty in seeing contrasts and colour.

Often, normal age-related vision loss can be corrected with glasses, medication, or surgery. Even with more serious conditions, using vision aids and arranging accommodations in the workplace can help.

To allow employees with vision loss to operate at their most productive level, job accommodation is often required. Based on data from the Job Accommodation Network, most accommodations for blind and visually impaired workers cost less than $500. Many can be accommodated by low-tech solutions such as improved contrast, magnification, and lighting.

Looking Ahead

Education, prevention, screening, and accommodation are the keys to vision health management and keeping workers’ eyes safe. In some cases, it is as simple as ensuring that employers and supervisors take the necessary precautions to ensure workplace health and safety. In others, it’s a matter of education, modification, and communication. Regardless of the size and nature of the business, the impact of vision loss in the work environment is significant and warrants a closer look.
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Despite the recent slowdown, 130/30 investment strategies – or more broadly speaking active extension or short extension strategies – are still gaining increasing interest from plan sponsors in Canada. These hybrid products, which borrow from both traditional investing and hedge fund characteristics, have also garnered their share of publicity. Missing from many of the discussions, however, is a look at emerging 130/30 benchmarks.

What Is 130/30 Investing Anyway?
The term 130/30 refers to any strategy that partially relaxes the long-only constraints in a risk-controlled framework to enhance alpha opportunity, thus distinguishing it from a traditional long-only product. The main purpose of shorting in 130/30 is to enhance return, not to hedge. Beta is maintained as roughly one instead of zero.

Despite the promises of 130/30 investing, active extension in itself is not a magic bullet. Managers must have the necessary skill to successfully use the extra leverage to enhance performance.

By: Dawn Jia

Dawn Jia is a vice-president and head of Canadian quantitative equity at State Street Global Advisors Canada (dawn_jia@ssga.com).

Benchmark? What Benchmark?
Benchmark indices are critical scorecards for portfolio managers, plan sponsors, trustees, consultants, and the investing public. A properly designed index should reflect the market reality, be transparent, easy-to-maintain, and have low turnover and cost.

As new 130/30 strategies have been introduced, so too have new 130/30 indices. However, the concept of these actively managed indices has generated controversy in both academia and the professional investing world. Arguments have centered on the fact that an actively managed index is essentially an actively managed investment product and violates all the traditional characteristics of indexing. Some have suggested that only capitalization-weighted indices are consistent with the spirit of passive investing, making actively managed indices fundamentally flawed.

By the definition of Efficient Market Hypothesis (EMH), the market, or the capitalization weighted index, is the most efficient portfolio collectively owned by all investors. The actively managed index and the various 130/30 indices are mostly based on the ‘noisy market hypothesis,’ which seeks an active management strategy in a passive framework.

Most fundamental indices are value-biased because value styles tend to outperform growth in the U.S. market over the long term. However, it is not clear to us whether value stocks have had higher returns because they are riskier or because they are mispriced. If the effect is about risk, then there is no guarantee that value investing will continue to outperform after adjusting for risk. If it is about mispricing, there is no guarantee that the anomaly will last forever and not be arbitraged away.

Violate Very Nature Of Indexing
These 130/30 indices violate the very nature of indexing – being passive and cost-effective. If an investor believes the market is efficient, capitalization-weighted indices should represent the market; therefore, actively managed indices are inferior. If an investor believes the market is inefficient and active investing does add value, he or she should pursue active management as indices are only benchmarks to measure the active performance. Embedding active investing in a passive framework is neither passive nor active and should, therefore, be avoided.

Naïvely investing based on a fixed and static set of factors is no guarantee for success. Interestingly, almost all managed indices are designed this way. The market keeps changing over time. Different factors play different roles in different environments.

As a strategy, 130/30 investing is still in the traditional asset management space by relaxing the long-only constraint. An actively managed index violates the very nature of passive indexing. It is essentially a disguised form of active investing in an indexing shell. A passive, transparent, and low cost index remains the best benchmark for plan sponsors and investors to measure managers’ performance, on both long-only and active extension strategies.

Performance Measurement:
A Look At 130/30 Benchmarks
With the elimination of mandatory retirement in most provinces, employers cannot require retirement at age 65, nor compel their employees to make decisions on retirement. Consequently, employers who previously relied on the ability to require retirement at age 65 to manage (and predict) employee turnover will be looking for new ways to do both without breaching provisions of applicable human rights laws.

Further, most employers will have conflicting objectives regarding their older workers. Some employees will be encouraged to stay in order to retain valuable skills and experience, while other employees will be encouraged to retire for operational needs or poor performance and/or productivity.

Rights Of Employees

Given the conflict between rights of employees to choose their retirement date and the need of employers to have some degree of certainty on their employees’ plans regarding retirement, employment lawyers will be looking at how retirement agreements can bridge the conflict.

Employment lawyers have long recommended employment contracts to their employer-clients as a way to ensure clarity on important terms of the employment relationship and, in particular, to limit an employer’s liability for notice or pay in lieu of notice in the event the employer decides to terminate an employee without cause. Similarly, provided they are truly voluntary, retirement agreements can be used to confirm a fixed date for retirement and conditions leading up to a retirement date.

Over the years, the courts have considered numerous disputes regarding the interpretation and enforceability of employment contracts with the result that certain principles have evolved that make employment contracts more technical than an unsuspecting lawyer or client realizes. Also, employers and employees are not permitted to contract out of employment standards, labour codes, and human rights laws. Consequently, lawyers will want to ensure retirement agreements are drafted with these principles and laws in mind.

Given the unequal bargaining power of employers and employees, employers should carefully consider their communications to employees surrounding the entering into of these agreements so there is no doubt that employees freely entered into the agreement to fix their retirement date.

Voluntary or not, however, agreements by employees to blanket mandatory retirement policies will be void if they are deemed to be an attempt to contract out of the legislation referred to above.

As a first step, employers may want to consider sponsoring retirement planning seminars to encourage employees to think about their own circumstances and to better equip them to make informed decisions regarding planned retirement dates.

There must be some real consideration flowing to the employee in order to make employment agreements enforceable and this is equally true for retirement agreements. It will not be enough to promise ‘status quo’ in employment terms and conditions in exchange for an employee’s promise to retire on a certain date. Employers who want to actively encourage retirement (or retention) of their older workforce will need to consider incentives such as financial bonuses, new benefits, or other perquisites designed to appeal to older workers.

Material Changes

Because unilateral material changes to the employment relationship can expose an employer to a claim of constructive dismissal, it will be important to document, in writing, an employee’s agreement to any changes to title, work responsibilities, or hours of work. Also, what may seem like an attractive decrease in workload or stress to a senior employee may, in practice, result in a loss of influence or prestige that an employee did not anticipate. Consequently, employers will want to ensure their employees have faced up to these possible consequences at the outset and (preferably) documented their agreement in the retirement agreement itself.

Prior to the legislative changes which prohibited mandatory retirement, it was common for employers faced with under-performing employees to simply put up with the performance problems if the employee was close to retirement age. Now, more than ever, it is important to manage performance proactively. If employers do not already have performance review processes and practices which include performance
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improvement agreements with employees, they will want to consider implementing them because employers cannot institute performance management measures or criteria only on their older employees.

Employers should always be alert to the possibility that some performance problems may be based on a disability or illness (which triggers legal obligations on the employer to accommodate the employee to the point of undue hardship).

Done carefully, retirement agreements, which confirm retirement dates and provide for changed or phased reduction in work responsibilities, can be an effective way for an employer to meet its human resources planning needs.

Nicole Byres is a partner with Clark Wilson LLP in Vancouver, BC, and chairs the firm’s labour and employment practice group (nmb@cwilson.com).

Addenda
The following were not available for inclusion in the ‘Pension & Benefits Consultants Directory’ which appeared in the June issue of Benefits and Pensions Monitor:

**Advisory Capital Group**
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**Jarvis & Associates**
Leslie-Ann Holbrow, Principal; 8 King St. E., Ste. 1100, Toronto ON M5C 1B5 PH: 416-868-0880 Fax: 416-362-3729 eMail: lholbrow@jarvisassociate.ca Consulting Services: Group Benefit Plans, DB Pension Plans, DC Pension Plans, Administration Outsourcing Disability Management, Claims Management, Drug Cost Management, Employee Assistance Program, Administrative Support, Employee Assistance

**Pointbreak Consulting Group Ltd.**
Kevin Jeffrey, Principal; 214 – 3823 Henning Dr., Burnaby, BC V5C 6P3 PH: 604-639-8462 Fax: 604-639-8469 eMail: info@pointbreakcg.com Web: www.pointbreakcg.com Consulting Services: Group Benefit Plans, DC Pension Plans, Manager Search, Policy Development, Education & Communication, Transition Management
Since satellites began photographing Earth from space nearly four decades ago, their images have inspired excitement, introspection, and, often, geo-political friction. However, when the U.S. National Geophysical Data Center published in February 2006 a satellite data series that mapped changes in the location of permanent night-time lights on earth between 1992 and 2003, people were most surprised to see the expanse of new lights emanating from formerly dark regions of the planet. Newly-lit roads in Dubai were plainly visible, along with light shifts in Eastern Europe, China, and many other developing economies where industrialization and urbanization are underway pulling these companies out of economies based on rice paddies and farming and into the 21st Century. These regions are ‘lighting up’ the night view from space as they continue to invest in vast numbers of infrastructure projects to modernize their cities and towns, road and rail networks, electrical grids, ports, and more. This light show is expected to grow and intensify in years to come as the infrastructure boom in many emerging markets appears to be insulated from current global macroeconomic woes.

Drivers Of Infrastructure Investment

Industrialization and rapid urbanization have been the strongest drivers of emerging markets infrastructure spending in Asian countries as vast numbers of people pour into the cities from the countryside, attracted by the promise of steady work and higher wages. This urban migration exerts pressure on housing, transportation, power, communication, and sewer and water systems that are inadequate or non-existent after decades of underinvestment in infrastructure. Demographics also play a role in infrastructure spending for countries such as China where the ranks of the middle class are expanding due to a robust business climate. Chinese urbanites expect a rising standard of living as well as better roads for their new cars, higher-quality housing, more reliable electricity generation for their new appliances, and more extensive telecommunication networks.

Due to their improved fiscal positions and vested interest in maintaining strong GDP and job growth, developing economies recognize that abundant and reliable power, water, and transportation can further boost output and jobs while enabling a higher quality of life. With a rich history of Western industrialization ‘best practices’ to guide them, government leaders see that good infrastructure has always played a critical role in successful economic development – from the roads and aqueducts of ancient Rome to the factories, canals, and railroads of the United Kingdom and United States. In this sense, the need for more airports, power plants, ports, rail and road networks, pipelines, and other capabilities to boost a nation’s growth is not a new concept. What’s different today is that modern technological advances allow the industrialization process to happen much faster, smarter, and more economically, benefiting emerging economies now in the midst of their own industrial revolution.

While the sustainability of the emerging markets infrastructure-spending boom is not in question, just how fast it will happen or how much it may cost is less certain. Earlier this year, Morgan Stanley predicted that developing countries would spend $22 trillion on infrastructure over the next 10 years, with China alone accounting for 43 per cent of this sum.
While analysts’ spending estimates vary over different time frames, they are generally based on official infrastructure spending plans announced by the government sector. However, the variability of analysts’ projections is influenced by assumptions about each country’s ability to pay for planned infrastructure projects based on their available funding resources including currency reserve balances, sovereign wealth funds, and current account surplus positions. Countries that are net exporters of high-value energy, agricultural, or materials resources (Russia, Middle East, Brazil) face fewer execution risks in meeting stated spending goals thanks to their strong cash flows and positive current account positions.

In contrast, countries that are dependent on energy imports face potential headwinds in paying for their planned infrastructure improvements. Another potential headwind to infrastructure budgets is food inflation because food is generally a significant CPI component for most emerging economies. Politics, bureaucracy, and regulatory delays can also threaten the pace of infrastructure spending.

**Where The Money Is Headed**

Across the entire developing world, Merrill Lynch estimates that energy and transportation projects will account for approximately 70 per cent of infrastructure spending over the next three years. Over the next 10 years, Morgan Stanley predicts that 49 per cent of spending will be on property, including residential housing as well as commercial, retail, and tourist properties. Of course, where the investment is most needed varies by country. Infrastructure plans for top spenders over the next few years are highlighted in Chart 1.

**Chart 1**

**EM Infrastructure Spending: 2008-17**

**Regional Breakdown**

- **Asia**: 67%
- **Eastern Europe**: 15%
- **Latin America**: 11%
- **Africa**: 3%
- **Middle East**: 4%

Brazil: 5% of total spend.
China: 43% of total spend.
India: 13% of total spend.
Russia: 10% of total spend.
South Africa: 1% of total spend.

Source: Morgan Stanley, World Bank, Global Insight

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**◆ China**

The world’s fourth-largest economy already spends approximately 12 per cent of its GDP on infrastructure and has spent more in the past five years than in the entire 20th century. It plans to spend $1 trillion this year with most of this sum budgeted for expressways (24 per cent), railways (22 per cent), power generation (17 per cent), and power transmission and distribution (17 per cent). Every day brings 1,200 new cars to Beijing’s gridlocked streets. With car ownership expected to exceed the 100 million mark in China over the next three to five years, new roads are a priority. Covering just 7,000 kilometres in 1997, China’s expressway network expanded to 53,000 kilometres last year and is planned to reach 65,000 kilometres by 2010. Similarly, China has aggressive plans to extend its rail network to 120,000 kilometres, with a focus on high-speed trains capable of speeds exceeding 250 kilometres per hour.

Although there has been speculation that China might slow its infrastructure spending after the Olympics, only nine per cent ($40 billion) of its current budget is dedicated to the games and it is also preparing to host the even larger Shanghai World Expo in 2010. From a funding perspective, China’s significant wealth can easily support its aggressive infrastructure spending plans.

**◆ India**

Over the next five years, India has set ambitious targets to almost double its infrastructure spending to nine per cent of GDP (approximately $500 billion). Power projects are a primary focus of investment as power outages already cost Indian businesses seven per cent of sales, nearly six times the rate in China.

India’s GDP growth averaged nine per cent over the last four years and McKinsey, the management consultancy, estimates the country will need to nearly triple its generating capacity within the next decade to grow at even eight per cent per year. This means adding 10 times more generating capacity each year than India built on average during the previous 10 years.

Transportation and water/sanitation projects are also a priority as Goldman Sachs estimates that the percentage of urbanites in India will double to more than 60 per cent by 2050, an additional 700 million people. India’s infrastructure investment has failed to keep pace with investment in other parts of its economy, such as manufacturing and services, due to political and bureaucratic delays as well as budgetary constraints. However, India has successfully formed public/private partnerships to fund specific infrastructure projects and its spending plans are attracting unprecedented interest from private investors including large conglomerates, private equity firms, and wealth entrepreneurs.
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EAFE & EMERGING MARKETS

Russia
Russia’s recent prosperity belies a period of underinvestment in infrastructure that dates back to the collapse of the Soviet Union and financial crisis of the 1990s. The country’s recovery and subsequent growth have resulted in more demand and high utilization rates (more than 90 per cent for ports and electricity grids) for its aging assets. Although Russia operates the second largest railroad in the world, its technical condition is dated with high equipment depreciation levels that exceed 72 per cent for passenger cars and electric locomotives and 84 per cent for freight cars and diesel locomotives. In addition, road traffic and the number of cars have increased while the length and quality of Russian roads have decreased. To remedy such issues, Prime Minister Putin recently approved a $70 billion spending program to improve and expand the country’s roads, rails, and airports.

Electricity is another priority with $462 billion being spent on the ‘new electrification’ of Russia by 2020 to increase capacity by two-thirds.

Overall, the government plans to spend $1 trillion on infrastructure over the next decade. Enriched by revenues from its oil and gas exports, Russia has the financial means to support its infrastructure investment plans. Its plans to host the 2014 winter Olympics in Sochi should be an added incentive for expeditious completion of the most urgently needed projects.

Middle East/Gulf States
The six nations of the Gulf Cooperation Council – Saudi Arabia, Bahrain, Qatar, Oman, Kuwait and the United Arab Emirates (UAE) – earned $381 billion from oil exports in 2007 and another $26 billion from gas. With oil prices quadrupling since 2002, much of this money is flowing into infrastructure. Construction projects valued at $1.9 trillion are currently underway or in development, 43 per cent more than a year ago.

Merrill Lynch estimates that the Gulf economies will spend $400 billion over the next three years and notes that this figure is modest compared to the IMF’s $480 billion estimate. The IMF expects 75 per cent of the spending will be outside of the hydrocarbon sector as oil-rich nations continue to follow an industrialization theme designed to reduce the importance of petroleum exports in their economies. Saudi Arabia plans to build six new industrial centres focused on petrochemicals, aluminum, steel, and fertilizers that will also serve as housing and commercial hubs for its young and growing population. The government estimates that these cities will add $150 billion to GDP by 2020, create one million jobs, and house five million people.

Real estate and tourism projects play a prominent role in the infrastructure plans of the UAE. With $350 billion worth of infrastructure projects already underway, the country is home to approximately 20 per cent of the world’s 125,000 construction cranes in operation. The UAE intends to become a major transport hub between Europe and Southeast Asia and its infrastructure plans call for additional investments in airports, ports, and the world’s largest power and desalination complex.

Environmental Considerations
Human efforts to expand infrastructure often have an unintentional downside, a dramatic adverse impact on the natural environment. The infrastructure systems created by Western nations in the 19th and 20th centuries, and still in place today, were planned without much regard for their impact on nature. As Western economies matured, quality-of-life concerns rose to the forefront and cleaning up the environment became a priority – generating another wave of infrastructure spending to control water and air pollution and clean up rivers and streams.

While the infrastructure plans of emerging markets countries will no doubt struggle with many of the same ecological issues, they face significant pressures to build and expand in an environmentally friendly manner. China has a stated green development policy with guidelines in place to reduce the ecological impact of its factories and industrial sites. Many developing countries are taking advantage of modern technology to design and build infrastructure projects with a bias toward ecological awareness including more energy-efficient buildings and appliances, well-designed mass transit, and more efficient use of water resources. Indeed, many newly-built cities will be far more sustainable and resilient than most cities today. Naturally, there will be missteps along the way, but with the environmental stakes so high, governments are likely to address them quickly.

Rising inflation, soaring energy prices, and higher interest rates are unlikely to derail the developing world’s rapid pace of infrastructure spending as governments can’t afford to pull back on these badly needed investments and still sustain high rates of economic growth and success. In addition, the coffers are full as the biggest spenders have massive currency reserves, budget surpluses, and large current account surpluses to help keep their plans on course for the foreseeable future. Infrastructure spending is also becoming an increasingly significant driver of economic growth in the developing world as it creates employment opportunities that are likely to underpin sustainable consumer spending in these economies for decades to come.

The developing world’s aggressive investment in infrastructure is unprecedented in scale and scope, with the potential to transform today’s emerging economies into tomorrow’s developed markets. The age-old adages say, ‘A picture is worth a thousand words’ and ‘Seeing is believing.’ A decade from now, nighttime pictures from orbiting satellites will likely show breathtaking evidence of more and more bright cities lighting up the eastern hemisphere and South America.

Brent Jones is vice-president and portfolio manager, international equities, at GE Asset Management.

1. The U.S. National Geophysical Data Center publishes nighttime light pictures at a resolution of one pixel per kilometre. Images are compiled using data from the U.S. Defense Meteorological Satellite Program.
9. ‘How to spend it,’ The Economist, April 24, 2008.
10. ‘How to spend it,’ The Economist, April 24, 2008.
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**ADDENDA CAPITAL INC.** Joe DiMassimo, Senior Vice-president, Client Service & Sales; 36 Toronto St., Toronto, ON M5C 2C5 PH: 416-943-1010 Fax: 416-955-0808 eMail: j.dimassimo@addenda-capital.com Web: www.addenda-capital.com Portfolio Managers: 20 Research Analysts: 5 Minimum Investment - Pooled: $5M Separately Managed: $25M

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**ALLIANCEBERNSTEIN L.P.** Sandra Nuttall, Director - Client Relations, BCE Place, 161 Bay St., 27th Floor, Toronto, ON M5J 2S1 PH: 416-438-2335 Fax: 416-756-4405 eMail: sandra.nuttall@alliancebernstein.com Web: www.alliancebernstein.com Portfolio Managers: 179 Research Analysts: 356 (including Economists, Fixed Income Analysts, and Multi-asset Analysts) Minimum Investment - Pooled: $10M for a Canadian Trust Fund (a Canadian Pooled Fund) Separately Managed: $35M

**ARROWSTREET CAPITAL, L.P.** Bruce Clarke, Partner, President; 200 Clarendon St., 30th Floor, Boston, MA 02116 PH: 617-919-0000 Fax: 617-919-0001 eMail: info@arrowstreetcapital.com Web: www.arrowstreetcapital.com Portfolio Managers: 11 Research Analysts: 10 Minimum Investment - Pooled: $5M Separately Managed: $40M

**AURION CAPITAL MANAGEMENT INC.** James Clark, Vice-president, Business Development; 120 Adelaide St. W., Ste. 2200, Toronto, ON M5H 1T1 PH: 416-866-2445 eMail: jclark@aurion.ca Web: www.aurion.ca Portfolio Managers: 2 Minimum Investment - Pooled: $50,000 Separately Managed: $20M

**AXIOI INTERNATIONAL INVESTORS LLC** Shane McManion, Vice-president - Marketing; 55 Railroad Ave., 3rd Floor, Greenwich, CT 06830 PH: 203-422-8036 Fax: 203-422-8090 eMail: smcmahon@axinvest.com Portfolio Managers: 5 Research Analysts: 10 Minimum Investment - Pooled: US$5M Separately Managed: US$75M

**BAILLIE GIFFORD OVERSEAS LIMITED** William Pacula, Director of Marketing; Bailie Gifford International LLC, 757 Third Ave., 17th Floor, New York, NY 10017-2013 PH: 212-319-4633 Fax: 212-319-4639 eMail: william.pacula@bailiegifford.com Web: www.bailiegifford.com Minimum Investment - Pooled: Minimum annual fee of $200,000 Separately Managed: Minimum annual fee applicable of $200,000

**BANK OF IRELAND ASSET MANAGEMENT (U.S.) LIMITED** Vincent Marcus, Vice-president; 1000 de la Gauchetière W., Ste. 2400, Montreal, QC H3B 4W5 PH: 514-448-7538 Fax: 514-849-8118 eMail: vincent.marcoux@biam.boi.ie Web: www.biam.ie Portfolio Managers: 5 Research Analysts: 8 Minimum Investment - Pooled: $10M Separately Managed: $20M

**BARCLAYS GLOBAL INVESTORS CANADA LIMITED** Eric Leveille, Managing Director, Head of Canadian Institutional Business; Brookfield Place, 161 Bay St., Ste. 2500, Toronto, ON M5J 2S1 PH: 416-643-4000 Fax: 416-643-4049 eMail: eric.leveille@barclaysglobal.com Web: www.barclaysglobal.com Portfolio Managers: 305 Research Analysts: 140


**BLACKROCK** Tom Goodrum, Managing Director; 40 East 52nd St., New York, NY 10022 PH: 212-810-5300 eMail: tom.goodrum@blackrock.com Web: www.blackrock.com Portfolio Managers: 396 Research Analysts: 169 Minimum Investment - Pooled: Varies by product Separately Managed: Varies by product

**BNY MELLON ASSET MANAGEMENT** Richard Terres, Senior Vice-president; 320 Bay St., Toronto, ON M5H 4A6 PH: 416-643-6354 Fax: 416-643-5786 eMail: richard.terres@bnymellon.com Web: www.bnymellon.com


**BURGUNDY ASSET MANAGEMENT LTD.** Kelly Battle, Vice-president; 181 Bay St., Ste. 4510, Brookfield Place, Bay Wellington Tower, Toronto, ON M5J 2T3 PH: 416-869-3222 Fax: 416-869-9036 eMail: info@burgundyasset.com Web: www.burgundyasset.com Portfolio Managers: 53 Research Analysts: 127 Minimum Investment - Pooled: $15M Separately Managed: $60M

**CAPITAL GUARDIAN TRUST COMPANY** Michelle Savoy, President of Capital Guardian (Canada), Inc.; Brookfield Place, 320 Bay St., Ste. 3730, Toronto, ON M5J 2T3 PH: 416-369-0660 Fax: 416-815-2070 eMail: ms@capgroup.com Web: www.capgroup.com Portfolio Managers: 53 Research Analysts: 127 Minimum Investment - Pooled: $15M Separately Managed: $60M

**CIBC GLOBAL ASSET MANAGEMENT** Michel Jalbert, Vice-president, Head of Institutional Business Development & Marketing; 1000 de la Gauchetière W., Ste. 3200, Montreal, QC H3B 4W5 PH: 514-875-7040 x3647 Fax: 514-875-9364 eMail: michel.jalbert@cibc.ca Web: www.cibcam.com Portfolio Managers: 22 Research Analysts: 26 Minimum Investment - Pooled: $1M Separately Managed: $10M


**CORDIANT CAPITAL INC.** David G. Creighton, President & CEO; Ste. 2400 - 1010 Sherbourne St. W., Montreal, QC H3A 2R7 PH: 514-286-1142 Fax: 514-286-4203 eMail: info@cordiantcap.com Web: www.cordiantcap.com Portfolio Managers: 2 Research Analysts: 5 Minimum Investment - Pooled: $10M

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Portfolio Managers: 4 Research Analysts: 1 Minimum Investment - Pooled: $2M Separately Managed: $2M

LOMBARD ODIER DARIER HENTSCH GESTION (CANADA) INC. Michelle Di Gregorio, President; 1000 Sherbrooke St. W., Ste. 2200, Montreal, QC H3A 3R7 Ph: 514-847-7607 Fax: 514-847-7796 eMail: michelle.digregorio@lodh.com Web: www.lodh.com Portfolio Managers: 43 Research Analysts: 24 Minimum Investment - Pooled: $5M Separately Managed: $5M

MARTIN CURRIE INC. Dave Rochman, Vice-president; 1350 Avenue of the Americas, New York, NY 10019 Ph: 212-258-1900 Fax: 212-258-1919 eMail: drochman@martincurrie.com Web: www.martincurrie.com Portfolio Managers: 26 Research Analysts: 21 Minimum Investment - Pooled: $1M Separately Managed: $50M


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David Stone, Director, Marketing & Sales; 900, 603 7th Ave. S.W., Calgary, AB T2P 2T5 Ph: 403-262-4673 Fax: 403-262-4099 eMail: info@mawer.com Web: www.mawer.com
Portfolio Managers: 16 Research Analysts: 3 Minimum Investment - Pooled: $100,000 Separately Managed: $20M

MCLEAN BUDDEN LIMITED Alan Daxner, Executive Vice-president; 145 King St. W., Ste. 2525, Toronto, ON M5H 1J8 Ph: 416-862-0167 Fax: 416-862-0176 eMail: adaxner@mcleanbudden.com Web: www.mcleanbudden.com Portfolio Managers: 16 Research Analysts: 15 Minimum Investment - Pooled: $1M Separately Managed: $25M

MFC GLOBAL INVESTMENT MANAGEMENT
Stuart Graham, Vice-president & Managing Director; 107 Research Analysts: 96 Minimum Investment - Pooled: $200,000 Separately Managed: $15M

MFS INVESTMENT MANAGEMENT, INC. Sarah Donahue, Sales & Consultant Relations, Canada; 500 Boylston St., Boston, MA 02116 Ph: 617-954-7496 Fax: 617-954-6657 eMail: s1donahue@mfs.com Web: www.mfs.com
Portfolio Managers: 53 Research Analysts: 84 Minimum Investment - Pooled: $5M Separately Managed: $50M

MONTRUSCO BOLTON INVESTMENTS INC. Eric Bouchard, Vice-president, Business Development; 1250 René-Lévesque Blvd. W., Montreal, QC H2V 5J5 Ph: 514-282-5467 Fax: 514-282-2540 eMail: bouchard@montruscobolton.com Web: www.montruscobolton.com
Portfolio Managers: 5 Research Analysts: 10 Minimum Investment - Pooled: $3M Separately Managed: $5M

MULVIHILL CAPITAL MANAGEMENT Mark Carpani, Vice-president, Bonds/Marketing; 121 King St. W., Ste. 2600, Toronto, ON M5H 3T9 Ph: 416-881-3940 Fax: 416-681-3901 eMail: mcarpani@mulvilhill.com Web: www.mulvilhill.com
Portfolio Managers: 6 Research Analysts: 3 Minimum Investment - Pooled: $1M Separately Managed: $5M

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Portfolio Managers: 15 Research Analysts: 3 Minimum Investment - Pooled: $5M Separately Managed: $20M

NEWTON Charles Swanepoel, Managing Director, Sales; 2020 Winston Park Dr., Ste. 200, Oakville, ON L6H 6X7 Ph: 905-829-1131 eMail: cswanepoel@integra.com Web: www.newtoncapitalmanagement.com
Portfolio Managers: 32 Research Analysts: 29 Minimum Investment - Separately Managed: $100M

NOMURA ASSET MANAGEMENT U.S.A., INC. Matthew Butterfield, Regional Director; Two World Finance Center, 225 Liberty St., 22nd Floor, New York, NY 10281 Ph: 212-667-2109 Fax: 212-667-1431 eMail: mbutterfield@nomura-asset.com Web: www.nomura.com
Minimum Investment - Separately Managed: $20M

NORTHERN TRUST GLOBAL ADVISORS Wasyl Saluchok, Vice-president, Business Development; 145 King St. W., Ste. 1910, Toronto, ON M6H 1J8 Ph: 416-775-2215 Fax: 416-366-2033 eMail: ws27@ntrs.com Web: www.northentrust.com
Portfolio Managers: 96 Research Analysts: 34 Minimum Investment - Pooled: $5M Separately Managed: $25M

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Portfolio Managers: 4 Research Analysts: 4 Minimum Investment - Pooled: $25M Separately Managed: $50M

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Separately Managed:
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B3J 3N4 PH: 888-303-5055 Fax: 902-423-1518
eMail: jrudderham@seamark.ca Web: www.sea-
mark.ca Portfolio Managers: 6 Research Analysts: 6
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nett, Executive Vice-president, Institutional Retire-
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MSG 2N7 PH: 416-217-7584 eMail: michael.bar-
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Minimum Investment - Pooled: $1M Separately Managed: $20M
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eMail: mlerotux@sprucegrove.ca Portfolio Managers: 5 Research Analysts: 9 Minimum Investment - Pooled: $10M Separately Managed: $100M
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Jay Waters, Vice-president, Central Canada; 121
King St. W., Ste. 810, Toronto, ON M5H 3T9 PH: 416-367-2049 eMail: jay.waters@standardlife.ca Web: www.sli.ca Minimum Investment - Pooled: $2M Separately Managed: $50M
TD ASSET MANAGEMENT INC.* Robin Lacey, Managing Director; 161 Bay St., 34th Floor, Toronto, ON M5J 2T2 PH: 416-942-6585 Fax: 416-944-6158 eMail: robin.lacey@tdam.com Web: www.tdam.com Portfolio Managers: 33 Research Analysts: 29
* A wholly-owned subsidiary of The Toronto-Dominion Bank
UBS GLOBAL ASSET MANAGEMENT Angela Vidakovich, Executive Director; 161 Bay St., Ste. 3900, Toronto, ON M5J 5200 PH: 416-681-5200 Fax: 416-681-5100 eMail: angela.vidakovich@ubs.com Web: www.ubs.com Portfolio Managers: 142 Research Analysts: 124 Minimum Investment - Pooled: $10M Separately Managed: $50M
TD ASSET MANAGEMENT INC.
UBS GLOBAL ASSET MANAGEMENT
ADVERTISING WORKS!
You saw this one didn’t you?
Call John L. McLaIne
416-494-1066
### 2008 STATISTICAL LISTING

#### EAFE & EMERGING MARKETS

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>Canadian Clients</th>
<th>Canadian EAFE &amp; EM Clients</th>
<th>EAFE Separate</th>
<th>EAFE Pooled</th>
<th>Regional Separate</th>
<th>Regional Pooled</th>
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<td>Managed Since</td>
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<td>$14,390M</td>
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### 2008 Statistical Listing

**EAFE & Emerging Markets**

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<th>Canadian EAFE &amp; EM Clients</th>
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<th>EAFE Pooled</th>
<th>Regional Separate</th>
<th>Regional Pooled</th>
<th>EM Separate</th>
<th>EM Pooled</th>
<th>Total EAFE &amp; EM</th>
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</table>

**Note:** All totals in Canadian dollars unless otherwise stated.

**Sources:**
- AIMR (Association for Investment Management and Research)
- GIPS (Global Investment Performance Standards)

**Years Available:**
- KBSH: 1993
- LaSalle: 1980
- Legg Mason: More than 15 years
- Lincluden: 2000
- Lombard Odier: 25 years
- Mawer: 1987
- McLean Budden: 1993
- Montrusco: 18 years, Emerging Markets: 12 years
- Newton: EAFE: 2008
- Nomura: 1986
- MFS: 19 years
- Pyramis: 1997
- RCM: EAFE: 1993
- Putnam: 1971
- Pyramids Global Advisors: 1995
- Sceptre: 1971
- Seamark: 10 years
- SEI: 1997
- Sprucegrove: EAFE: 1992
- Standard Life: 19 years
- State Street: EAFE: 1981
- T. Rowe Price: 1981
- TD: EAFE: 1992
- UBS: 1981

**Other Sources:**
- 2008 Statistical Listing
- 34 Benefits and Pensions Monitor – August 2008
## 2008 Statistical Listing

### EAFE & Emerging Markets

<table>
<thead>
<tr>
<th>Total EAFE &amp; EM</th>
<th>Total Canadian Assets</th>
<th>Total Pension Assets</th>
<th>Manager Style</th>
<th>Compliance</th>
<th>Managed Since</th>
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<td>Active; Large Cap; Core</td>
<td>AIMR, GIPS</td>
<td>1981</td>
</tr>
</tbody>
</table>
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.
During a sunny pleasant lunch the other day, with the nice young woman who happens to be my administrative assistant (who I will call Eloise), I was expounding on my pet hobby horse— that is, the responsibility of women to look after their own retirement.

I was dismayed to hear that not only did she not participate in the firm’s Group RRSP, but she also thought she might have a personal RRSP but left all her savings and investments to her father to look after for her. She also admitted that she was a little spooked by the investment returns for the firm’s Group RRSP plan, but she was only aware of this because she had typed up an employee communication with respect to the plan. Last year was not a very good year.

Our firm has provided a Group RRSP for several years to its employees, with voluntary participation and a partial employer match.

Yes, we have member seminars, on-line information, investment education, and retirement planning tools provided by the service provider and benefit consultant.

And the firm is committed to providing a valuable employee benefit and assistance for retire-

Are There Many Eloises Out There?

Eloise is not an atypical employee, according to U.S. research on employer sponsored savings plans. Such research shows that mandatory participation increases member participation substantially, especially for lower income and younger employees. Further, once an initial investment choice has been made, members do not tend to change, notwithstanding changing financial circumstances. Worse still, members may believe that the money market default option among the investment choices must be a good choice because, after all, the employer selected it as a default.

We cannot blame Eloise. Which of us can say that we have carefully analyzed and optimized our own banking, television/telephone/internet services, gas supplier, and car/health insurance, despite being bombarded with information? Perhaps she is intentionally or unintentionally wiser than we give her credit for. Perceived wisdom is that the new tax free savings accounts are better for younger, lower income employees. Undoubtedly, group savings plans or combination plans for this purpose are in development.

Can Group RRSPs Be Effective Retirement Savings Vehicles?

Eloise’s situation also gives rise to a fundamental question as to the efficacy of employer-spon-

Capital Accumulation Plans: Paternalism Gone Full Circle

Can an employer sponsored savings plan make a significant contribution to a reasonable retirement income?

Will members and employers contribute enough?

Will members invest appropriately?

Who will provide investment advice to the members?

How will members manage the risk that they might outlive their money?

Clearly, unless sufficient monies are made available to invest in the first place by either the member or the employer, the savings will not be significant. Most plan members will be somewhat unsophisticated as to investing and financial planning (at least when they are young and immortal). They may think there is not much wrong with the default option, may not want to bother with evaluating the plethora of investment options in a plan, and will tend to stay with their initial choices although their circumstances may change. At the other end of the employ-
consideration be given to a lifestyle or target default option that is more suitable to long-term investing without much thought, that there not be too many investment choices (members may be deterred from making any choice at all), and that investment management and plan administration fees and charges that are borne by the members need to be considered, understood by employers, and clearly disclosed to plan members. Meanwhile, members need to be chivied and educated with dire warnings unless they put their heads up and heed the good advice being given them.

**Full Circle Back To Paternalism**

So, we have gone full circle. We (that is the employers and their pension advisors) justified in part (at least to plan members) the abandonment of Defined Benefit pension plans because of their inherent paternalism. Employees, after all, hold jobs, buy houses, and raise families. They are surely able, and probably would prefer, to take responsibility for their savings in the form of money purchase plans that can readily be understood.

To ourselves, we acknowledge that as well as costing a lot, DB plans are not understood and not appreciated. I remember meeting one middle management federal employee who was convinced she would have been better off if she had personally invested all the contributions that had been made by her and on her behalf to fund her pension. What can you say to a member of one of the richest pension plans in Canada, but ‘in your dreams.’

**Employers Have Feelings Too**

In the meantime, employers had thought they had shifted the risk and responsibility for employee pensions to the employees. Instead, they may have found that they indeed shifted the risk, and to a greater or lesser extent, the control, but have inadvertently retained the responsibility and potential liability for not adequately protecting the plan member against himself. Accordingly, the ACPM recommends, along with other legislative changes, a legislated ‘safe harbour’ – that is, protection from litigation from members, as long as the employer has followed prescribed obligations.

**The CSPP Solution: Paternalism Gone Amok?**

A solution to the Group RRSP effectiveness problem may lie in the recently released C.D. Howe Institute Commentary. Keith Ambachsteer, writing for the institute, urges the adoption of a Canada Supplementary Pension Plan (CSPP), essentially a Defined Contribution plan layered on top of the existing CPP. The CSPP would be a plan with

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**Socially responsible investing. It’s all about balance.**

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**Dale Ruttkay**

1-877-795-7272 ext. 3005
dale_ruttkay@cooperators.ca

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automatic enrolment of all workers who are not members of a workplace pension plan. It would have an automatic default contribution rate invested in a broadly diversified global portfolio managed by an arms length expert entity similar to the CPP Investment Board. There would be opt-outs as to participation and contribution level, and opt-ins by employers or individuals wishing to use the facility.

Interestingly, the paper contemplates contributions of low income earners into the new tax free savings accounts. No new tax room is contemplated; rather only the utilization of existing tax advantages.

The basic concept is, of course, not new. It was proposed by Stephane Dion in the course of his 2006 Liberal leadership campaign and has been seriously considered in a number of quarters including the CAW, the CLC, and even by former Governor of the Bank of Canada David Dodge.

Nor is it a perfect solution to the concern of Canadians that they will fail to save enough to live comfortably during what is getting to be a very protracted retirement period.

For one thing, it does not provide or encourage or even seem to contemplate investor education and financial planning. Moreover, the opt out provisions, both as to participation and contribution level, could render the plan ineffective. There still needs to be much more public education as to these matters, probably over the Internet, so that the average Canadian becomes, or has the opportunity to become, more knowledgeable.

A CSPP would be a boon to employers who would be relieved of potential liability over the selection and monitoring of investment options and for members’ less-than-wise investment choices. From the members’ perspective, there would be the strong likelihood that investment returns net of fees and charges would be greater than with the typical employer-sponsored plan, or with their personal investments.

Part of the pension industry would suffer. Group RRSP service providers and investment managers would have to provide very attractive products and services to compete with or withstand comparisons with the government-run plan.

The C.D. Howe proposal is thoughtfully developed. To quote from the commentary: “A growing body of behavioural finance research confirms that most of us aren’t good at personal financial planning and demonstrate behaviour that is at times overconfident, hesitant, inconsistent, and even irrational.” It just may be that the evidence coming in from the United States and our own Canadian experience is recognizing that a good dose of paternalism (with flexibility) is called for when it comes to retirement savings.

In the meantime, because a government-sponsored CSPP is probably very far off, I would urge all the Eloises to take full advantage of their employer’s Group RRSP (or employer-sponsored tax free savings accounts as these plans are developed); employers and service providers to design plans that will encourage the Eloises to do so; and legislatures to enact laws that will give the necessary flexibility to employers and service providers to design such plans.

Priscilla H. Healy was with Pallett Valo when she prepared this article. She is now with Fogler, Rubinoff LLP.
Defined Benefit pension plans face tough choices.

During the bull market of the 1990s, most companies with DB plans had a free ride. Because the equities markets kept rising, many companies didn’t have to make contributions to their plans and they included the surpluses in their earnings.

However, times have changed. Today, risk is increasing, the broader markets are underperforming and pension plans are coming under increasing pressure. The Ontario Teachers’ Pension Plan recently reported a $12 billion shortfall. In the U.S., the Pension Guaranty Corporation is stretched to the limit covering unexpected pension shortfalls.

According to a 2006 Watson Wyatt study, more than 60 per cent of Canadian chief financial officers surveyed believe DB plans are facing severe problems. These problems will only intensify as markets continue to stagnate. The ‘Mercer Pension Health Index,’ which measures the ratio of assets to liabilities, reflects the painful state of DB plans in 2008. It fell to a dismal 77 per cent on March 31.

New York Times columnist Mary Walsh recently reported that some of America’s biggest companies have begun to move out of stocks to shield their pension funds from market volatility. “Such a step has long been predicted by economists,” she says, “but was shunned until now by the vast majority of pension investment managers.”

Contrary to popular belief, stocks and bonds are positively correlated, and have been moving in similar directions for several decades. While it is true that from 1926 to 1969 the correlation between annual total returns for U.S. stocks and bonds was an attractive -0.02, since that time correlations between U.S. stocks and bonds have increased.

The 10-year rolling correlations from 1970 through 2004 ranged from -0.03 to as high as 0.80. Economist William J. Bernstein, author of ‘The Intelligent Asset Allocator,’ believes that this trend is unlikely to reverse because “as markets grow ever more integrated, asset class behaviour tends to become ever more correlated.”

Precious Metals Bullion: Strategic Asset Class

History shows us that equities do not perform well during inflationary periods. In light of current economic conditions — rising inflation, and the decade-long underperformance of common stocks compared to precious metals (see Figure 1) — a growing number of pension fund managers are beginning to add so-called “non-mainstream asset classes” into the mix — in particular, negatively correlated precious metals bullion. Calpers, for example, has benefited immensely from its $2 billion investment in commodities, including precious metals, because its exposure to negatively correlated assets has lowered volatility and improved its risk-adjusted returns.

A June 2005 study by Ibbotson Associates, ‘Portfolio Diversification with Gold, Silver and Platinum,’ specifically supports the assertion that risk-adjusted portfolio returns can be improved in both bull markets and bear markets by adding a component of precious metals bullion. Because mining stocks do not provide direct exposure to precious metals bullion, the Ibbotson study constructed an equally weighted portfolio of gold, silver, and platinum bullion which it named the Spot Precious Metals Index (SPMI). They used this index as a proxy for the precious metals asset class.

The results of this study demonstrated that over a 33-year period (February 1971 to December 2004), precious metals bullion was the most negatively correlated asset class to traditional financial assets. It also concluded that precious metals were the only asset class, excluding cash, with a positive correlation to inflation. Best of all, precious metals performed best when they were needed the most by providing positive returns when traditional asset classes entered bear market territory.

Rethinking Asset Allocation

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During the 11-year high inflation period (May 1973 to August 1984), the SPMI index was the top-performing asset class with the longest run of any of the asset classes. During the low inflation period, the SPMI had the lowest compounded annual return. During the high inflation period, the compounded annual inflation rate was 8.62 per cent and the SPMI had the highest compounded annual return of 20.83 per cent. Even throughout the long precious metals bear market of 1980 to 2002, the SPMI and precious metals outperformed both cash and inflation.

Ibbotson concluded that investors can potentially improve the risk/reward ratio in conservative, moderate, and aggressive asset allocations by including precious metals with allocations of 7.1 per cent, 12.5 per cent, and 15.7 per cent, respectively. These results suggest that including precious metals in an asset allocation may increase expected returns and reduce portfolio risk.

**Gold Versus The S&P 500**

As most investors are only too painfully aware, the S&P 500 has been effectively range-bound since the new millennium began. Gold, on the other hand, has provided excellent returns, as Figure 2 shows. In fact, it has outperformed every major North American stock index.

It is normal for the markets to move in
cycles. During these cycles, some asset classes are strong performers and others are underperformers. The simplest proof that stock markets run in cycles is to examine historic price/earnings (PE) ratios (see Figure 3). As economist John Mauldin points out, markets always go from overly high valuations (PE ratios) to overly low valuations and back again. The cycle can take decades, but long-term, the markets are always mean reverting. According to Standard & Poor’s, since 1936 the average PE ratio of the S&P 500 has been 16 times earnings. But PE ratios swing up and down from that average, moving in a range from undervalued (12 times earnings) to overvalued (20 times earnings or more) and back again. Despite the massive market correction in 2001/02, the current PE ratio of the stock market is about 20. The bad news for stock investors is that although this number has been falling, it is nowhere near a bear market bottom.

Warren Buffett has been telling investors they need to ratchet down their stock market expectations for the medium to long term. The best we can expect from the market, he says, is low single-digit returns. And this is in an increasingly inflationary environment.

Fortunately, as we have already noted, there is a negatively correlated alternative to stocks and bonds that is also a proven hedge against inflation. Precious metals bullion is unlikely to underperform in the near future as we are in the midst of a lengthy uptrend in hard assets while financial assets are being repriced downwards. Interestingly, demand for gold, silver, and platinum is increasing not only for their commodity attributes, but also for their monetary attributes. At the same time, annual mine production is declining. In addition, the purchasing power of currencies will continue to decline as central banks accelerate increases in money supply. Although the U.S. Federal Reserve stopped publishing M3 in March 2006, independent analysts have reconstructed this data and conclude that U.S. M3 is now growing at 16 per cent annually (see Figure 4). Since the Fed stopped publishing M3, it has grown from $10.4 trillion to $13.7 trillion – an increase of 31.2 per cent in just two years.

DB plans that choose to invest in precious metals can be protected from all these negative forces and thus provide superior returns during periods of stagflation and U.S. dollar depreciation.

The Volatility Myth

One of the prevailing myths about precious metals and, particularly, gold is that it is very risky and volatile. The data says otherwise. In fact, since January 2000, each of the individual Dow stocks has been more volatile while generating lower returns than gold, silver, and platinum. Figure 5 plots annual compounded returns against standard deviation.

Some investment managers believe that gold is an archaic relic with no role in today’s sophisticated financial system. The underlying facts refute this popular myth. Today, central banks still hold 29,000 tonnes of bullion in their currency reserves, down from 32,000 tonnes held in 1980. Both gold and silver have been a stable form of money for more than 3,000 years and platinum for more than 300 years. Precious metals are traded on the currency desks of most major brokerages and banks and not the commodity desks. The London Bullion Marketing Association reports that net daily clearing turnover was $29 billion in gold and $1.5 billion in silver in May 2008. Industry experts estimate that actual trading volume is anywhere from seven to 10 times the turnover rate. It is important to note these figures are only for physical bullion and exclude futures contracts. Given the magnitude of this trading volume, it is clear that they are trading as monetary assets, not simply as industrial commodities.

The total amount of aboveground gold in the world is estimated at 145,000 tonnes (approximately $1.8 trillion). However, the amount available in bullion form is less than half this total since a great deal of gold is in the form of jewelry, religious artefacts, or industrial components. Of the gold bullion, approximately 29,000 tonnes is held by central banks, leaving approximately $500 billion in private hands. Much of this bullion is held by the very wealthy for generational wealth preservation and may never come onto the market. Platinum and silver’s total aboveground stocks have been estimated to be only around $10 billion.

As at the end of 2006, McKinsey Global Institute estimated that global financial assets were $167 trillion. Today, the number likely exceeds $180 trillion. The limited amount of precious metals available relative to the size of the global financial assets

![Figure 4: Growth of Money Supply](image-url)
means a small shift in investments will lead to significant price changes for the metal (see Figure 6).

Precious metals bullion is the only asset class offering negative correlation to stocks and bonds. Because the vast majority of DB plans are not diversified into non-correlating assets, they are unnecessarily exposed to the risk of long-term capital loss. It is quite possible a secular bear market could last for a decade, wiping out bull market gains. But regardless of bull or bear, the markets are highly unlikely to produce the double-digit returns that the 1990s gave to investors. As asset mix decisions become an increasingly dominant factor in pension fund planning, company directors, pension and benefits managers, and consultants have a growing fiduciary responsibility to revisit and reassess their asset allocation strategy.

While some pension fund managers are already looking beyond stocks and bonds into alternative investments such as hedge funds and private equity, are these high-risk, unregulated investment vehicles really a good match for long-term pension investment policy?

Continued high exposure to equities and bonds without protection from negatively correlated assets will become a growing problem if the financial markets continue to underperform. As the global economy continues to be buffeted by inflation, rising oil prices, subprime credit issues, and declining earnings, precious metals bullion is poised to become a strategic diversifier – and a pension manager’s best friend.

Nick Barisheff is the founder and president of Bullion Management Group Inc.
The court case brought by some Bell Canada bondholders against BCE and its purchasers was an important hurdle in the largest leveraged buyout in global history – 10 times larger than any previous Canadian deal. The case was ultimately decided in favour of BCE and the purchasers in the Supreme Court of Canada. The reasons for the decision have yet to be released by the court. Subject to some subtleties, it is expected that the decision will uphold the principle that the main goal of directors in a change of control transaction is to maximize shareholder value and that bondholders must rely mainly on their legal contract with the company (the covenants contained in the trust indenture and supplements) for protection.

This ruling is already affecting the structure of bond covenants in the Canadian corporate bond market. Bond investors are increasingly demanding covenants that protect them if the company is subject to a change of control through a merger, acquisition, or leveraged buyout (a takeover financed with a large debt component), or if the bonds are downgraded. In light of the increased focus on covenants and event risk in the bond market, pension plans should be inquiring about external manager policies and methodology regarding security selection, valuation, and covenant analysis.

**Trends In Covenants**

As covenants place restrictions on the ability of issuers to carry on business, issuers generally prefer fewer covenants. There are trade-offs between covenant use and the yield on the bonds (the financing cost for the issuer), as well as the willingness of bondholders to purchase the securities (the size of the transaction). In some cases, investors will accept bonds with fewer covenants because market discipline decreases the likelihood that management will take actions that negatively impact bondholders. For example, if a company is growing and has an ongoing need to issue debt in the public market, there is an incentive for management to maintain a low cost of funds. Bondholders may have the ability to discipline management by withholding financing, demanding covenants, or pushing yields higher if the company changes its financial policies in a manner adverse to them.

After increased leveraged buyout (LBO) activity in the 1980s and the highly-publicized large LBO of RJR Nabisco in 1989, there was a period of greater use of protective covenants. This subsided as bondholders chose to accept fewer covenants. The global trend in investment grade bonds moved toward ‘covenant-light’ issues. Typical investment grade corporate bonds have included very little explicit protection, often just a ‘negative pledge’ that prevents the company from issuing debt that ranks senior to the existing debt. This trend away from covenants was fuelled by solid overall credit conditions, deleveraging of corporate balance sheets, and a decrease in LBO activity despite a large number of investors searching for yield and willing to sacrifice covenants to get it. Over the past few years, LBO activity has increased with private equity pushing into previously uncharted territory in terms of size of transactions and regulated industries, highlighting the need for covenant protection once again.

The boards of public companies generally seek to maximize shareholder value in evaluating potential transactions, including LBOs, which may alter the financial and operating strategies of the firm. LBOs can occur for almost any company, including very large companies, but are less likely for highly regulated companies such as utilities or financial companies. The likelihood of an LBO transaction may change over time as market conditions change and as company specific factors change, so that the event risk for a particular company is not constant.

**Value Can Fall**

A great deal of academic, rating agency, and practitioner research, as well as market evidence, has shown that bondholder value can fall when LBOs occur. Bondholders are aware of this risk, but different bondholders may have different estimates of the likelihood of an event and of the severity of its consequences.

When a company is ready to issue a specific bond, a supplemental indenture references a specific
trust indenture and/or shelf prospectus. Conditions in this supplemental indenture can take precedence over the trust indenture, so covenants can be altered as market conditions and investor preferences change. Investors express to dealers and to the company their interest in new issues with the existing features and covenants, their preference for different covenants, and the impact on yield or the size of their investment in the absence of covenants. The larger the investor or group of investors, the greater the potential influence on covenants and bond yield.

On an ongoing basis, bondholders perform credit analysis to understand the financial and business conditions and risks of a company and to evaluate the value of bonds considering the risks. Bondholders have the opportunity to consider covenants and other information in trust indentures and prospectuses, along with other market and firm specific information, before they make a decision to purchase a bond.

Reasonable Expectations

Bondholders also monitor statements made by management regarding the company’s financial policies to, among other things, determine whether there is any change in circumstance which would increase the likelihood of an event occurring. However, bondholders are aware that management statements regarding financing policies do not constitute a guarantee for the future, but reflect an intention that may change in response to changing market conditions and events.

This was an important point of contention in the BCE case. Under Canadian corporate law, in order to obtain a remedy, a complainant must establish that its reasonable expectations have been breached. Bondholders argued that they had a reasonable expectation that the company would live up to management’s previous statements that it intended to maintain an investment grade rating. The company argued that the statements were subject to changes in market conditions and that the company being ‘in play’ merited a change in financing policy in the best interests of shareholders, while taking into consideration the contractual rights of bondholders. I believe that sophisticated Bell Canada bondholders ought to have been aware that stated management intentions are subject to change and are not a guarantee or the equivalent of a covenant. Accordingly, it would have been unreasonable for Bell Canada bondholders to expect that BCE’s financial policies would remain unaffected even in circumstances where the company was subject to a change of control transaction and the board was under a duty to maximize shareholder value. Bondholders know the difference between a stated intention and a guarantee or covenant. When they are released, the reasons for the Supreme Court ruling in favour of BCE will shed additional light on this topic.

Even if there are no explicit covenants in place, event risk that may result in significant change in leverage can be avoided by monitoring characteristics of companies that make them vulnerable. For example, companies with a combination of low enterprise value relative to operating cash flows, low leverage, and poor recent equity performance are often good candidates for leveraged buyouts.

Ratings don’t generally offer much insight into the potential impact of event risk for bond investors. Event risks may, or may not, be incorporated explicitly in ratings depending on rating agency policies, timing, and market conditions. Analysis of covenant protection is part of all agencies’ regular ratings process, but the focus of ratings is on the probability of default without incorporating potential ‘exogenous’ events. Standard & Poor’s explicitly excludes generalized event risk from its ratings. When specific event risk becomes a rumour, S&P monitors closely and when there is a concrete action taken, it will put the company on credit watch. Its final rating decision is delivered only when details of the transaction become available and detailed analysis is feasible, and “not in relation to transient market sentiment.” This timing highlights the importance of investors’ due diligence throughout the period of a transaction’s completion.

DBRS does not currently incorporate event risk into ratings, which are focused on the probability of default throughout the cycle, but offers comments on covenants and event risk in their ratings analysis. Moody’s has a specific service (separate from its regular ratings) where it provides very detailed covenant analysis specifically in the context of events.

There is no standard language for change of control protection. Some covenants may not offer sufficient protection depending on how they are worded and different bonds issued by the same company may be subject to very different covenant protection. It is, therefore, very important that investors scrutinize covenant language and understand the subtleties.

For example, there were three different trust indentures involved in the BCE case, issued in 1976, 1996, and 1997. Some relevant differences in the trust indentures resulted in different treatment for various bondholders in the transaction. For example, there is a debt incurrence test in the 1976 and 1997 indentures that prevents the issuance of additional funded debt and the transaction met these covenants. None of the indentures contain change of control covenants. The 1976 and 1996 indentures contain provisions regarding the “reorganization” or “reconstruction” of the company that bondholders argued gave them a right to approve the LBO, but this argument was dismissed by the trial judge as well as the Court of Appeal.

Avoid Event Risk

Bondholders can obviously avoid event risk completely by choosing to invest in securities that are not subject to event risk or default risk such as Government of Canada bonds. In the current market environment in light of the BCE ruling, as well as trends in other markets, Canadian bond investors are pressuring companies to add covenants. Some new issues have already seen protective change of control language added and there is pressure to add covenants that increase the coupon payments in the event of a downgrade or that force the company to meet specific leverage constraints. These types of covenants can act as substitutes for each other as the main concern of bondholders is to control their risk profile or to be compensated if risk increases. Thus far, regulated companies and banks have not been subject to these covenants since their risk of takeover or LBO is perceived to be relatively low. Many investors are demanding extra yield to compensate them if protective covenants are not in place and many choose not to invest if the bond does not offer sufficient reward for their perception of risk. In current markets, the increased yield is likely in the range of 20 to 50 basis points depending on the risk level.

Plan sponsors should be discussing these issues with their bond managers to ensure that they are vigilant and that they understand the implications of the Supreme Court ruling once the reasons are released.

Marlene K. Puffer is managing director of Twist Financial Corp. (marlene.puffer@twistfinancial.com).
As most individuals are well aware, healthcare has certainly been in the news in Canada over the last six months. We have all seen the stories regarding misdiagnosis of testing and pathology samples that have occurred in both Newfoundland and New Brunswick. There are currently more than 24,000 cases from 1995 to 2007 in New Brunswick that are under review by a laboratory in Ottawa after serious errors and omissions were found during an audit of a sample of cases. More than 100 women have died as a result of inaccurate breast cancer test results received from a critical breast cancer screening test in Newfoundland and this has resulted in an ongoing judicial inquiry to review how hundreds of breast cancer patients over an eight-year period received questionable results from a hormone receptor test used to determine which course of treatment a woman should receive.

Healthcare Systems Stretched

Canadian physicians are well-trained and committed to their patients and their well-being, but provincial healthcare systems are stretched from a resource standpoint and physicians can only allocate a finite period of their time to reviewing diagnostic results and the care of each of their patients. The ever-increasing number of treatment options, along with the fragmentation of healthcare, makes management of patient cases increasingly complex.

With the recent issues surrounding the quality of care that we as individuals receive through our respective healthcare systems, how can we ensure that we are receiving the correct diagnosis and appropriate treatment when facing a potentially serious illness? Health benefits programs available through employers or insurers help to meet the financial needs of individuals when they are ill or incur medically related expenses such as prescription medications or vision care.

However, how do modern benefits programs assist members when they or one of their covered family is dealing with a serious medical illness? It is in the employer’s best interest to ensure their employees are diagnosed correctly and that they receive the appropriate treatment to allow them to make a full recovery. Receiving the correct diagnosis and treatment sooner, rather than later, potentially reduces time off from work due to illness and certainly assists with issues such as absenteeism and presenteeism in the workplace.

Increasingly, they are turning to value added diagnosis confirmation services that ensure that a member’s diagnosis is correct and that they are aware of the best treatment options for their particular case. These should be more than simply a second opinion service. The process must involve an exhaustive analysis of the member’s medical information by a multi-disciplinary team of physicians as well as retesting of all pathology by top pathologists using the latest staining techniques. The Best Doctors’ patented Medical Analytical Process (MAP), for example, offers analysis by a multi-disciplinary team of Harvard-trained physicians who essentially deconstruct and reconstruct the diagnosis. Once the analysis is completed, the team searches a network of 50,000 world renowned, peer-nominated top specialists (including 1,000 Canadian doctors) to find the appropriate medical expert to review the analysis and then submit a report of specific diagnosis and treatment options to the member and their treating physician.

Using this type of process can result in a changed diagnosis 22 per cent of the time with errors in pathology the major contributor to a change in diagnosis. The value these services can bring to cases where an individual is dealing with a potentially serious illness can be illustrated in the case below.

Persistent Cough

In early 2004, Lou caught a bad head and chest cold. Eventually the cold cleared up, but her cough was persistent. Lou was prescribed antibiotics by her GP, but could not get any relief. Lou continued to be assessed every two weeks and was prescribed different antibiotics and OTC medications which, in the end, were not effective.

By September 2005, Lou had developed pneumonia. It was so debilitating that she was off work for five weeks. Her GP ordered X-rays which indicated an infection in her right lung. As a result of pneumo-
nia, her cough had worsened. She continued to take antibiotics while her GP made arrangements for her to see a respirologist.

Eventually Lou started to experience a constant pain in her right lung. In December 2005, her respirologist ordered CT and bone scans. The CT scan showed a small spot hiding behind the infection in her right lung. In January 2006, her specialist ordered bronchoscopy.

The pain and severe cough remained and the pathology results from the procedure did not show much, at least nothing conclusive.

In February 2006, her respirologist ordered a fine needle biopsy on Lou’s right lung, the results of which were sadly inconclusive. Her respirologist suspected cancer, but the pathology did not support his suspicion. It was now March 2006 and he wanted Lou to undergo another fine needle biopsy or bronchoscopy.

It was at this time that Lou’s regional manager reminded her that they had a diagnosis confirmation service in their employee extended healthcare program and urged her to contact them. Lou initiated the process which started with the collection of her medical records and test results. This included unstained slides from her second biopsy which were sent for review. It is important to understand that even with the suspicion of cancer, without the pathology to support the diagnosis, treatment could not commence.

Based on local pathology reports all being inconclusive, her respirologist recommended consulting with a surgeon to undergo a surgical biopsy. Her consultation was scheduled for May 21, 2006. However, just three days before the surgery, the diagnosis confirmation service sent her respirologist a report confirming Stage 4 non-small cell lung cancer which had metastasized into her left hip. Lou’s respirologist immediately referred her to a regional oncologist.

**Trial Drug Treatment**

By mid-June 2006, Lou began a five-month, weekly chemo in conjunction with a trial drug treatment. The diagnosis confirmation service concurred that the trial drug treatment program with chemo could be beneficial in reducing the destruction of healthy cells throughout the chemo treatment.

As a patient in the trial drug program, she would also be monitored very closely.

By the end of her chemo in November, new bone scans and CT scans indicated the cancer had metastasized further, however, the tumor in her lung had not grown or changed. At this point, a single treatment of radiation for the three sites was recommended for pain management. As with anything good, it comes with a price. First the pain had to worsen, before it got manageable. Lou’s consultation confirmed this would be a positive process and recommended bone maintenance medication used to treat osteoporosis. Again, her oncologist concurred with the recommendation.

The benefits Lou personally experienced she quotes as being “overwhelmingly amazing, not only was it their pathologist who identified the cancer in time to prevent invasive surgery for the surgical biopsy, but it was caught in time to begin aggressive treatments sooner rather than later. When I asked my oncologist how much time I would have if I had not started the treatments when I did, his response was ‘probably not more than four months.’ With treatment, I may have as long as five more years.”

Given the demands on the healthcare system today and with aging workforces, employers can have a meaningful impact on the lives of their employees by giving them access to diagnosis confirmation services.

It really can be a case of life or death.

Jason Hutton is director of sales – corporate accounts at Best Doctors (Canada) (jhutton@bestdoctors.com).
At a recent industry seminar on DC plan issues, there was virtually no time for questions, given the fact that the agenda was chock full of speakers. However, that has never stopped me before, right? So I decided to put keyboard to paper to make the comments that I wasn’t able to voice.

The seminar was titled ‘Capital Accumulation Plans – Can They Meet Your Objectives?’ and dealt largely with the perceived problems of DC plans – adequacy being one of them. Now I am all for adequacy (so long as it is in moderation!).

However, I have a real problem with the current fad of applying Defined Benefit thinking to Defined Contribution issues. Is this, in fact, a case of actuaries delving into issues they don’t understand in order to turn them into issues that the rest of us don’t understand? I recall many years ago an article by two prominent actuaries espousing the idea of adding DC features to a DB plan – sort of doing away with both apples and oranges and substituting an orapple (or was it an appange?) That won’t work – if only because some people prefer apples and others oranges, even if both fruits have some disadvantages.

PPVPs And All That!

In My View
By: John Dalton

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Adequacy of retirement income is a DB concept which works well in that sphere. However, I would hazard a guess that 90 per cent of all DC plan sponsors – whether RPP, Group RRSP, DPSP etc. – entered into an arrangement with employees to contribute ‘X’ per cent of pay into a plan to help the employees save for retirement. In fact, I suspect that most, if not all, of these plans have a ‘Purpose of the Plan,’ as required under the CAP Guidelines, which reads something like “To provide employees with a vehicle to assist them to save for their own retirement.” Nothing about adequacy! Nothing about ‘Y’ per cent of final earnings per year of service! Nothing about replacement ratio! And it is because these are not part of the deal.

One of the problems of DB plans, we are told, is that employees do not understand the ‘pension deal’ because sponsors have never properly communicated it. So let’s not make the same mistake with DC plans! The deal is not adequacy, it is to provide a vehicle to assist in saving for retirement.

Future Lawsuits

Some argue that future lawsuits will arise due to DC pensions being less than employees expected. I would suggest that if the plan purpose is as I have indicated above, and that purpose is communicated to employees on a regular and frequent basis (and is consistent with all the other messages given), then lawsuits, based on that particular argument, will, in fact, be less likely.

That, of course, leads us into the more philosophical side of ‘adequacy.’ In the last 50 years or so, we have created for ourselves a ‘culture of expectation’ where 70 per cent of final pay, with inflation protection (plus personal savings) is the expected norm. This is a culture where retired couples, or even singles, should have the right to stay in their four-bedroom home, if they wish, and where we expect to pass on to our heirs a sizeable estate – so that they, in turn, can pass that on to their heirs, ad infinitum.

Now, I know that not all retirees have a 70 per cent pension, a four-bedroom house, or a sizeable estate, but I am sure you get my point. All of this is not ‘natural law.’ Up until 50 years ago, few of these expectations existed. Maybe we have to realize that these recent expectations are simply not attainable over the long term. Maybe 50 per cent is a really good pension. Maybe, if we want more, we should have to downsize our homes and/or use some of our inheritable estate. Maybe, horror of horrors, we might need to get assistance from our children – many already do!

Consider, over recent years we have had to accept that fully universal, ‘no cost’ healthcare at the best level available anywhere in the world is simply not achievable. Why not the same with pensions?

Oh, and what’s that about PPVPs? One of the presenters at the seminar quoted an employee survey wherein 58 per cent of respondents listed ‘vacations’ as the most important benefit that an employer can offer – the highest rating of all benefits. I got to thinking, why shouldn’t we do away with all the current plan names – RPPs, RRSPs, DPSPs etc. – and move to one overall name? My wife, on a regular basis (no, not distinguishing her from the other ‘irregular’ wives), remarks at how wonderful it is each morning not to have to go to work and, in addition, she still gets paid! So, my new name – Permanent Paid Vacation Plans – PPVPs.

Think about it.

John Dalton is managing consultant of his own consulting company, Tardis Benefit Services Inc. (jdalton,tardis@sympatico.ca).
Leading Canadian organizations are investing in the success of their organization by focusing on the health of their most valuable assets—their employees. Accordingly, organizations such as The Regional Municipality of York are embracing comprehensive workplace wellness programs as a strategic and integrated approach designed to create a supportive work culture and enhance the well-being of their staff.

Establishing a positive work culture involves significant dedication and effort. It emerges over time and takes a thorough understanding of the current organizational culture, commitment required, and the senior management support necessary. In response to feedback received from its ‘2003 Employee Satisfaction Survey,’ the region introduced a number of initiatives to increase employee satisfaction, retain skilled staff, and continue to provide high quality customer service. Some of these initiatives included:
- improving employee communication
- allowing employee flex time
- offering a career development and training program (including career counseling and corporate mentoring)
- creating an employee recognition program that salutes staff who exhibit the region’s corporate values (integrity, commitment, accountability, respect, and excellence)

By recognizing that a healthy employee is a happy and productive employee, the region also set forth to develop a comprehensive workplace wellness program for regional staff to use to address work-life balance concerns and issues related to workload and stress.

Initial Course Of Action
To initiate the process of developing the comprehensive workplace wellness program, a corporate wellness program developer was hired and an employee workplace wellness committee was created. Collectively, the group mapped out an initial course of action and, in November 2005, a preliminary health assessment was conducted by Buffett & Company Worksite Wellness Ltd. to understand the health of the region’s workforce—a key first step in establishing a strategic wellness program. The health assessment included a confidential employee health claims data analysis, a resource inventory, a health risk assessment review, a corporate culture audit, and an employee wellness interest survey which was offered to all active employees. The results of these analyses revealed the key areas which required targeted health programming and intervention. Along with offering innovative ideas, the committee also lends a hand with the program’s marketing effort to build interest and participation and assist in the planning and execution of wellness events.

As well, the region works with its wellness consultant to ensure a seamless, integrated approach to program design, promotion, implementation, and evaluation.

#### York Region: Cultivating Positive Corporate Culture

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##### Goal And Mission
The goal and mission statement of the wellness program communicates to all staff that ‘Wellness Works!’ and that it is committed to promoting health and well-being for employees and their families. The goal of the program is to create a supportive environment that will encourage employees and their families to make healthier life choices. This is accomplished through a broad range of health and wellness offerings encompassing topics such as nutrition, physical activity, work-life balance, financial health, smoking cessation and shift work health. Initiatives offered include:
- confidential cardiovascular screening clinics
- a traveling health fair
- cooking demonstrations
- on-site yoga classes
- a yearly team-based fitness challenge that motivates employees to engage in daily physical activity, encourages team cohesion, and improves employee morale

Nancy Patterson, manager of employee services at the region, is delighted to see the impact that the ‘Wellness Works!’ program is having on both employee health and organizational culture. She says the high participation rates in wellness programs speak to the significant changes in organizational culture. Since the inception of the program, she feels that “employees have an appetite for wellness initiatives” and that “initiatives are welcomed by employees with great enthusiasm.” Initiatives are filling up within hours, creating a need...
for waiting lists. She believes that having a strategic approach to wellness and offering programs identified as being of interest demonstrates the region’s commitment to health and well-being.

An employee satisfaction survey conducted in 2007 found that the majority of respondents feel that the region recognizes the importance of employee health and wellness.

Patterson also emphasizes the importance of having senior management support for the ‘program. This helps to create a positive and supportive work culture. For example, Bruce Macgregor, the region’s CAO, acts as a champion for the program by delivering health messages and promoting wellness activities. The CAO’s newsletter, ‘Keeping in touch, an update from Bruce Macgregor,’ is distributed monthly to all regional employees. It has featured different wellness topics such as ‘Keeping your Heart Healthy at York Region’ and ‘Balancing our Wellness Scales.’

**Powerful Message**

Furthermore, the CAO communicates a powerful message to all employees via the wellness website stating: “I encourage employees to participate in the ‘Wellness Works!’ program. Whether you work directly within our communities, or in an administrative support role, a healthy workplace can provide benefit to all of us. This program is all about you!”

In addition, directors and managers often invite the region’s workplace wellness co-ordinator to attend their team meetings to promote employee wellness and offer a stretch break.

At the same time, the website offers employees and their families access to monthly health-related tips, links to health-related Internet resources, healthy recipes, and information on the region’s Employee Assistance Program.

On a quarterly basis, a wellness newsletter, tailored to programming at the region, is also issued. It highlights upcoming and past wellness initiatives and provides health education on various topics.

More recently, the region has launched “Wellness Wednesday” announcements delivered to all staff via eMail bi-weekly.

The success experienced in the region’s wellness program has been captured in a number of ways. One of the best indications comes through employee testimonials.

One participant remarked “The workplace wellness program has increased my awareness with respect to my own self-care behaviours. It also provided me with important information about my physical health that has caused me to make small changes with big impact. I think that this program is essential and a great perk to being a York region employee. My only suggestion would be to expand this program!” Another employee said, “One of the best and smartest initiatives thus far ... a healthy employee is a productive employee ... when you feel good, the world seems a little brighter, you have more energy and a zest for life.”

In addition to offering wellness events, the region also has policies that help foster a healthy workplace culture. Some of these policies include:

- respect in the workplace with a focus on providing a workplace free from harassment and discrimination
- a policy against verbal and physical threats in the workplace
- corporate learning opportunities
- an employee recognition program
- In addition, introducing flex time and a compressed work week option help regional employees to balance their work and family responsibilities.

The region understands the value of its employees and their contribution to the organization as a whole. Given its commitment to the ‘Wellness Works’ program, it’s not surprising that York region has been recognized as one of ‘Canada’s Top 100 Employers’ and one of the top 50 employers in the Greater Toronto Area.

Wellness really does work at York region.

Francesca Bertucci is senior wellness consultant at Buffett & Company Worksite Wellness Ltd. (bertucci@buffettandcompany.com).
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The Hedge Fund Hotel will celebrate its second birthday with the inaugural ‘Canadian Hedge Fund Awards.’ There will be five awards presented including one for ‘Personality of the Year – 2008.’ The presentations will take place September 16 in Toronto, ON. Visit: http://www.hfh.to.com/pdf/Canadianhedgefundawards.pdf

Susan Enefer, manager, corporate governance, at BC Investment Management Corporation and John D’Agata, director, pensions and benefits, McGill University, will share their experience and insight on incorporating socially responsible investing (SRI) into their investment policies at the ‘Association of Canadian Pension Management’s 2008 National Conference.’ It takes place in Lake Louise, AB, from September 16 to 19. Visit: http://www.acpm.com

The 2008 Eastern Ontario HR Conference & Trade Show takes place September 18 in Ottawa, ON. This year’s conference is produced in partnership by the Ottawa Human Resources Professionals Association (OHRPA) and the Human Resources Professionals Association (HRPA). Visit: http://www.hrpa.ca/HRPA/Events/2008easternontariocconference

Dr. David Foot, professor, author, demographer, and economist, will be a featured speaker at TMAC’s ‘26th Annual Conference & Trade Show.’ Set for September 21 to 23 in St. John’s, NL, it will also feature Stan Marshall, president and chief executive officer of Fortis Inc. Visit: http://www.tmac.ca/

Dr. Dan Ariely, Alfred P. Sloan professor of behavioral economics at MIT, will be one of the featured speakers at this year’s IFIC conference. A behavioral economist, he will speak on predictably irrational investor behaviour. His research has shown that everyone succumbs to irrationality in situations where rational thought is expected. The 22nd annual conference takes place September 23 to September 25 in Toronto, ON. Visit: http://www.ific.ca/conference2008/index.html

‘Life in the Aftermath of the Great Credit Crisis’ will be one of the topics covered at the 2008 CPBI Atlantic Conference. Patti Croft, of Phillips, Hager & North Investment Management Ltd., will discuss the outlook for global growth, inflation, interest rates and currencies, and current asset allocation strategy. Theme of this year’s event is ‘Beaches, Bridges and Baby Boomers.’ It takes place September 24 to 26 in Brudenell, PEI. Visit: www.cpbi-icra.ca

Heenan Blaikie’s ‘2008 Managing The Workplace Conference’ will take place September 25 in Toronto, ON. The theme for this year’s one-day conference is ‘Technology and the Evolution of Labour and Employment Law.’ eMail: managingtheworkplace@heenan.ca

SHARE’s four-day ‘Pension Investment & Governance’ courses takes place September 29 to October 2 in Toronto, ON. Both basic and intermediate levels are being offered. The courses are interactive and hands-on, providing the practical knowledge and skills needed to serve plan members’ best interests. Visit: www.share.ca

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W are all very aware of the scary prospects that await Canadians, Americans, the Japanese, and individuals in most other industrialized countries. We are all getting older, retiring earlier, and living longer in retirement. Healthcare costs are going up and public health systems are scaling back, straining employers and those many individuals who didn’t save enough money.

Long-lived Defined Benefit pension plans are unstable as there are more retirees for every working person which means in a few decades most Canadian retirees will be supported by a single young worker left in Hamilton or Calgary. And that is for those lucky few with DB plans. The rest of us will be stuck with meagre results of our poorly made investment choices in our Defined Contribution or individual savings plans.

And don’t look for any public systems to jump in and provide significant amounts of cash to pull us out of this nasty and brutal retirement.

It is a bleak future and, even though it is one that is often repeated in the popular press, it isn’t quite true, writes Jeff Goldsmith, a professor of public health sciences at the University of Virginia. In his book, ‘The Long Baby Boom: An Optimistic Vision for a Graying Generation,’ he says many of the doomsday popular beliefs are just plain wrong.

Dependency Ratio
Take the idea of a dependency ratio, based on the relative sizes of old versus young age cohorts. The term ‘dependency ratio’ implies that those over age 65 are simply idle consumers of the tax revenue generated by younger workers. Yet, according to Goldsmith, people over age 50 own about 70 per cent of all the financial assets in the United States and, therefore, pay most of the capital gains taxes on the appreciation of those assets.

And these retirees aren’t about to liquidate these assets when they cross some magic threshold of age 65. Many, though not all, will not have to liquidate these substantial assets to pay living expenses. Instead, they will use these assets to capitalize much of North America’s future economic growth. The assets of tomorrow’s retirees will play a major role in generating jobs for younger workers. As Goldsmith notes, “this relationship is symbiotic, not parasitic.”

The fact that individual trends are often forecast, without giving any merit to the relationship between those trends, can also give rise to overly pessimistic outlooks. For example, it is hard to reconcile the forecasts for a growing labour shortage in some industries as today’s skilled workers reach retirement age in light of the real trend that retirees are also seeking some form of work in their lengthening retirement lives. Might not these active retirees be lured back, if only on a part-time basis, to meet the labour needs of some industries?

Another Fallacy
This leads to another fallacy that Goldsmith exposes – the idea that today’s trends will continue into the future indefinitely and that there is no human will or ability to do anything to change it. He notes that while healthcare spending is large and getting larger all the time, “It is absurd to argue that our political system is going to tolerate sustained hyper-inflation in healthcare costs for 50 years without doing anything. It is equally absurd to argue that there will be no change in our net tax burden given the cyclical character of budget deficits … Experience has shown that deficits have a marvellous way of concentrating policymakers’ attention on out-of-control spending.”

The Not-So-Awful Future

By: Jim Helik

Jim Helik is co-author of ‘Strategic Wealth Conversion,’ a textbook published by the Canadian Securities Institute. He also teaches at the School of Business, Ryerson University in Toronto.

Similarly, it is wrong to simply extend a notion of an ideal form of retirement and assume that this is broadly applicable. According to Goldsmith, “The golden years vision of retirement as an extended dry-land version of a luxury cruise is a failed social experiment, and one of relatively recent vintage. Many boomers who observed their parents’ and grandparents’ lengthy drift at the end of life have made a fundamentally different life plan.”

This different life plan includes:
◆ work in some form (either out of choice or out of necessity)
◆ more flexible definitions of both “work” and “retirement”
◆ increased mental and physical health and activity to go along with those increased lifespans

All of these result in an engaged and economically productive group.

Of course not everything is rosy. People are different and not everybody will share in this generally optimistic view of the future. Real debate and issues remain, especially in the public realm as long-standing social programs may not help everybody.

Issues of both choice and control over their retirement destiny remain. But just as unbridled optimism isn’t a productive strategy for the future, neither is one of doom and gloom with people passively waiting for trends to overtake them.
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