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The **traditional** investment strategies you’d expect from a world-class institutional asset manager.

And some **alternatives** you wouldn’t.

Canadian Equity

U.S. Equity

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Asset Allocation

Fixed Income

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*Worldwide assets under management as of June 30, 2008 (represented in USD).
Institutional investors – pension funds, investment companies, insurance companies, banks, and foundations – owned 76.4 per cent of the stock of the largest 1,000 U.S. corporations by the end of 2007. In just 20 years, institutional ownership of stock in these companies has gone from 46.6 per cent to the present level, says the U.S. Conference Board’s ‘Institutional Investment Report.’

Concentration Of Ownership

It also shows that concentration of ownership is going up. In 1985, no company had institutional ownership of 60 per cent or above. As of the end of 2007, 17 companies did.

As well, at the end of 2006, the equity market value of institutional equity holdings reached $12.9 trillion (66.3 per cent of total U.S. equity markets), up from $571.2 billion in 1980 (37.2 per cent of total U.S. equity markets). And pension funds are at the vanguard of this with $10.4 trillion (38.3 per cent) of total 2006 assets.

No comparable report shows the situation with Canadian pension funds. However one can guess that it might be worse with even more institutional and pension ownership of stocks and companies.

The experience in international investments may support this. Historically, U.S. pension funds have very little in international equities, says the Conference Board report. The largest 25 internationally invested U.S. pension funds have about 15 per cent of their portfolios in foreign stocks.

Compare this to Canada where many funds are pushing past the 30 per cent mark, due, in part, to the limited scope of the Canadian equity markets.

However, the other driver is the tremendous appetite pension funds have for investments, all investments. With every single pay cheque, contributions from employers and employees are coming into pension funds. These funds cannot afford to let the money sit around doing nothing, it must be invested.

The Case For Trills

As traditional asset classes are exhausted, they must look elsewhere – hedge funds, infrastructure, private equity. A recent C.D. Howe Institute ‘Commentary’ argued that there is a need to create a GDP-linked-bond issued by the Government of Canada. ‘The Case for Trills: Giving Canadians and their Pension Funds a Stake in the Wealth of the Nation’ suggests these would help pension funds meet their exposure to the income growth they need and fill the gap created by the limited number of real return bonds the government issues.

Adding fuel to the fire is the changing nature of the pension obligation as funds find the number of retirees drawing benefits is surpassing the number of contributors.

It is no wonder that we see the Ontario Teachers’ Pension Plan buying BCE or OMERS attempting to take over Teranet. Not only do they get the benefit of the increase in stock price if the companies are run well, but they can also generate steady income.

Where does it end? Are we going to wake up one day and realize that all of our largest, most successful companies are owned and operated by pension funds and other institutional investors?

And if that day does come, will we be better off for it?
Our goal is to deliver outstanding portfolio performance. With a total of over 300 investment professionals in MFC GIM (Canada) and its affiliates in key markets across North America, Europe and Asia, and a comprehensive suite of asset management solutions, MFC GIM is a true leader in global investment management.

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

Members of MFC Global Investment Management (MFC GiM) (Canada) Equity and Fixed Income Teams

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OMERS

Jennifer Brown is executive vice-president and chief pension officer at OMERS. She joined OMERS in July 2001 and was appointed senior vice-president, pensions, in December 2005. Blair Cowper-Smith is executive vice-president, corporate affairs and chief legal officer. He was previously with McCarthy Tétrault where he was a senior partner co-heading the firm’s private equity practice.

Aurion

Mai Lake is a portfolio manager with the real estate team at Aurion Capital Management. Most recently, she worked at a major international commercial real estate brokerage, leading a securitization process and overseeing the treasury aspects of the company. Prior to that, she worked at Borealis Capital and OMERS Realty Management Corp.

CPPIB

Joseph Masri is vice-president and head of investment risk management for the CPP Investment Board (CPPIB). Most recently, he was global head of investment risk management with Barclays Global Investors.

Franklin Templeton

Duane Green is senior vice-president, institutional investment services, at Franklin Templeton Investments. Prior to joining the firm in 2004, he was a vice-president with an international insurer.

Presima

Vincent Lépine is chief investment officer and strategist at Presima, an affiliate of the Caisse de dépôt et placement du Québec. He will be responsible for managing portfolios containing global real estate securities and their related investment strategies. Most recently, he was vice-president, research, global asset allocation, at CIBC Global Asset Management.

Teachers’

Marcia Mendes-d’Abreu is vice-president, human resources, at the Ontario Teachers’ Pension Plan (Teachers’). Responsible for the pension plan’s human resources department, she joins Teachers’ from the Canadian Tire Corporation where she was vice-president, human resources, corporate and diversified businesses.

Phillips, Hager & North

William John is joining the fixed income team at Phillips, Hager & North. He was, most recently, director, co-head U.S. government bond trading, at Barclays Capital New York. Bruce Geddes will join the fixed income team early in the fourth quarter of 2008. Previously, he was managing director, portfolio management, head of institutional quantitative fixed income and derivatives-based solutions, at TD Asset Management.

Constitution

Jason R. Stefanelli is senior vice-president at Constitution Capital Partners. Formerly with Wellington Management Company, he will be focused on business development and fund-raising in Canada and the United States with the private equity firm based in Boston, MA.

SSQ

René Hamel is CEO of SSQ Financial Group. An actuary by training, he joined the firm in 1986. Since 2001, he has been senior vice-president of group insurance.

Beutel, Goodman

Peter D. Clarke is senior vice-president and partner at Beutel, Goodman & Company Ltd. He brings more than 30 years experience to the asset management industry including, most recently, as managing director of the Canadian division of UBS Global Asset Management.
Maximize returns. Control risk.

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By providing flexible, customized solutions.

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And controlled risk.
Call Centre Employees Use EAP More
Call centre employees access their employee assistance programs at a higher rate than other industries, and for a specific set of stressors related to their jobs, says a study by the Shepell-fgi research group. It found that, when compared to other industries nationally, call centre employees accessed EAP at a seven per cent rate versus five per cent of all other industries. The findings estimate that among 100 recent hires at a call centre, 14 per cent may be experiencing high levels of stress, and 10 per cent may experience high levels of depression.

HSBC Offers Canadian Dollar Fund
The HSBC Canadian Dollar Liquidity Fund, a sub-fund of HSBC Global Liquidity Funds plc, is now available for purchase internationally. The fund has an Aaa/MR1+ rating from Moody’s Investors Service and an AAAm rating from Standard & Poor’s. It offers daily liquidity for companies seeking a competitive yield for their cash reserves.

ABN AMRO Now Fortis
ABN AMRO Asset Management Canada Limited has officially changed its name to Fortis Investment Management Canada Ltd. The name change follows the acquisition of ABN AMRO Asset Management by Fortis last April. Christine Girvan will remain chief executive officer for the Canadian operation, and has also been appointed head of sales for North America.

Moderate Increase In LDI Use
The number of Canadian pension plans currently using LDI strategies increased moderately from 21 per cent to 27 per cent between 2007 and 2008, says an SEI Global Quick Poll. A comparison with last year’s poll demonstrates an ongoing change in how plan sponsors are defining LDI with “a portfolio designed to be risk managed with respect to liabilities (34 per cent)” and “matching duration of assets to duration of liabilities (30 per cent)” being the most popular definitions. Furthermore, poll participants continue to identify a wide range of very different goals and benchmarks for LDI strategies. In fact, more than half (57 per cent) of those polled said that increasing or maintaining funded status was the benchmark for success while less than a quarter (20 per cent) said absolute return was their goal.

DC Plans Need Fee Disclosure Policy
A standardized international policy on fee disclosure would help pension plan participants become better informed consumers of Defined Contribution plan investment and administrative services, says a research paper from the Rotman International Centre for Pension Management. ‘Fee Disclosure to Pension Participants: Establishing Minimum Requirements’ says while the cost of greater disclosure has been raised as an issue, the cost borne by pension contributors would be at most small and there could be a reduction in costs paid due to contributors switching to lower cost funds. Each year, participants in DC pension plans around the world pay billions of dollars in fees.

Sound investing is like running a marathon: short-term bursts of speed count for little. Discipline and long-term strategy win investment marathons, producing better than market returns. 30 years of investment experience has taught us this and other rules for success. To learn more, visit our Web site or call us at (403) 262-4673.
WE KEEP IT SIMPLE!

You want a group plan that’s easy to understand and simple to administer. That’s exactly what we keep in mind when developing online solutions. Just take our secure website, for example, which allows you and your plan members to access all your Industrial Alliance contracts with a single user code and password.

AT INDUSTRIAL ALLIANCE, IT’S ALL ABOUT YOU!
Telework Gains As Employee Reward

Telework has shown the most significant 12-month increase as an employee reward program in Canada, says the ‘2008-2009 WorldatWork Salary Budget Survey.’ It says the combination of rising gas prices, leading-edge technology, and the push for work-life flexibility prompted the increased usage. Telework grew considerably in Canada with 25 per cent of organizations saying they offered it to employees in 2007, rising to 40 per cent this year.

OSFI Comments On Commuted Value Report

While it agrees that the commuted value should reflect current financial market conditions, any mathematical model developed to estimate a market value of pension entitlements is, by its nature, limited and cannot be validated by actual experience, says OSFI’s submission to the Actuarial Standards Board of the Canadian Institute of Actuaries on the Commuted Value Standard for pensions. If a financial market for pensions existed, it is probable that it would behave differently in practice from any model that could be developed, as factors that are not considered in the model would come into play, it says. These factors include the credit rating of the plan sponsor backing the pension promise and the health status of the beneficiary.

State Street Launches Derivatives Platform

State Street Corporation has launched an over-the-counter (OTC) derivatives servicing platform. The OTC Hub is a global, end-to-end servicing solution that automates a number of stages in derivatives processing including customer reporting, electronic trade flow, and the reconciliation of positions and cash flows between the middle and back offices. OTC derivatives is one of the fastest growing asset classes. Since 1999, the volume of derivatives contracts has surpassed an estimated US$600 trillion, 83 per cent of which has originated in the over-the-counter (OTC) market.

AIM Trimark Now Invesco Trimark

AIM Funds Management Inc., which was carrying on business as AIM Trimark Investments, is now Invesco Trimark Ltd. The new name reinforces the bringing together of the strength of parent company Invesco’s global resources. Invesco is one of the world’s largest independent investment managers, with more than 5,300 employees in 13 investment centres worldwide serving clients in 100 countries.

Mackenzie Takes Over Saxon

Mackenzie Investments will join forces with Saxon Financial Inc. through a friendly takeover supported by agreement from Saxon’s principal shareholders. Saxon Financial’s institutional and private client businesses operate under the brand name of Howson Tattersall. Richard Howson, CIO, and Robert Tattersall, president and CEO, will actively lead the Howson Tattersall investment management team through 2010 and oversee their personal succession plans announced in 2005.

Canadian Serving On Committee

Richard Lyall, president of RESCON – Residential Construction Council of Ontario, has been elected to serve on the executive committee of the International Foundation of Employee Benefit Plans. He is the second Canadian to serve as an elected officer of the executive committee which holds authority over all programs and business affairs of the International Foundation.
Diversity in times of adversity

In times of adversity and uncertainty, institutional investors look for carefully structured and widely diversified investment solutions. But you also want the best possible performance.

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- First quartile among leading Canadian surveys for 1-, 3- and 5-year periods*
- Best performing pooled investment fund in Canada over the 3-year period ending December 31, 2007**
- Annualized return of over 11.1%*
- Consistent outperformance over the past decade, outperforming our benchmark by 68 basis points annualized*

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For more information please contact:

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Past performance is not a guide to future returns. You may get back less than you invested.

* As at December 31, 2007
** As per Mercer’s pooled fund survey

Standard Life Investments Inc. has been providing investment management services in Canada since 1973 and manages $26.9 billion of Canadian client assets.* Standard Life Investments Inc. is a subsidiary of Scotland-based Standard Life Investments Limited, a leading asset management company with $263.6 billion of assets under management as at June 30, 2008.
The World Wide Web is a useful tool for obtaining industry-related information of any kind. Then again, the vast range of sites offered these days can be overwhelming at times and tough to navigate for some.

Overall, sponsors say that there is indeed a lot to learn and gain online, but that they prefer to get their pension and benefits information fast and uncomplicated. “I just want information on the Internet to be useful. I don’t like wasting time trying to find something. I need it quick and easy,” says Monique DesLauriers, director of human resources for the Association of Universities and Colleges of Canada.

Pertinent Material
So, websites that deliver pertinent material in a clear and concise way may be the most appreciated by sponsors. We asked members of the editorial advisory board for Benefits and Pensions Monitor which sites they would recommend to sponsors.

Marilyn Lurz, pension consultant, Lynmar Associates Limited, says ‘www.An-Actual-Actuary.com’ is a good all-around site for pension plan sponsors, offering clear-cut interest rate data and, most importantly, an extensive list of links to finance, account-source for legislative news and updates. Another is the International Pension and Employee Benefits Lawyers Association (IPEBLA) site at ‘www.IPEBLA.org.’ Bauslaugh says this site is unique because it is truly international in scope. Although the site lacks a bit in user friendliness, all papers and presentations are published in English and provide interesting comparative information on case law, legislation, and regulatory developments in a variety of countries.

For legislative news and tools, sponsors can also look to various legal firms in Canada. Ted Patterson, director of the Centre for Employee Benefits at Humber College, says ‘www.EmondHarnden.com/links.shtml’ features a useful array of links to other legal and human resource websites across the country.

For Canadian plan sponsors, Patterson suggests other valuable resources can be found through:

- Canadian Revenue Agency – ‘www.CRA-ARC.gc.ca//tx/rgstrd/lnks-eng.html’
- Canadian Association of Pension Supervisory Authorities – ‘www.CAPSA-ACOR.org’

Expert Panels
And certainly, plan sponsors should be aware of expert review/panel sites across Canada, such as:


Boiling Down The Web For Sponsors
By: George Di Falco

George Di Falco is Benefits and Pensions Monitor’s staff writer (gdifalco@powershift.ca).
We’re ready.

Four out of five Canadian employees want their employers to offer a tool to help them assess their health risks. They also want workplace wellness programs, including education about topics related to their health.*

Your employees are ready to do more about their health, and they look to you as a source of information. Great-West can help you take action. With our Health Factors: work-life solutions program, we can work with you to provide the wellness support your employees are looking for.

* Source: the sanofi-aventis Healthcare Survey 2007

Make the healthy choice. Call Great-West or ask your benefits advisor about Health Factors today.
Feeling Moody?
Mood disorders can be any number of mental diseases including anxiety, depression, or bipolar disorder. One in five Canadians will experience some form of mood disorder in the course of their lifetime, imposing economic strains on society as a whole, as well as individual workplaces. Unfortunately, negative stigmas of weakness still surround mood disorders even though they are a proven medical illness like heart disease or diabetes.

Depression is particularly common among the Canadian workforce. Approximately 1.4 million workers suffer from this disease. Mood disorders may involve depression only or they may include manic episodes, as in bipolar disorder, classically known as ‘manic depressive illness.’ Individuals suffering can exhibit significant distress or impairment in social, occupational, educational, or other important areas of functioning.

It’s especially important for employers to know what to watch for. Anxiety and slowing of thoughts are common symptoms. For more senior individuals, depression is often expressed through vague complaints of physical aches and pain. Individuals with depression often feel worthless, sad, and empty to the extent that these feelings impair effective functioning. They may also lose interest in their usual activities, experience a change in appetite, suffer from disturbed sleep, or have decreased energy.

On the other hand, individuals with mania are overly energetic and may do things that are out of character such as spending freely or showing a lack of judgment. These symptoms are severe and last for several weeks, interfering with everything from social life to work.

Not only are mood disorders detrimental to an individual’s quality of life, they can have major economic repercussions as a result of healthcare and productivity costs. Depression is now the fastest growing category of disability claims in North America with 30 per cent of all claims related back to mental illness.

Lost work time among those who suffer mood disorders is 60 per cent greater than that of any other employees. Even more foreboding is that the onset age of mood disorders is getting progressively younger. Today, 40 per cent of depression cases are found in 20-year-olds.

When it comes to mood disorders, gender plays a decisive role. The ‘Depression and Anxiety among Canadian Women in the Workplace Executive Summary’ discovered that one in five female Canadians in the workplace have been diagnosed or have symptoms of depression or anxiety. The study also found that most of these women are between the ages of 35 and 55, live in a city or a suburban community, and have children. The women crossed most occupation types, education levels, and income segments.

The survey found that the symptoms of mood disorders are greater barriers to a woman’s success in the workplace than some of the traditional obstacles such as pregnancy. Many working women reported negative experiences at work due to symptoms related to their depression and anxiety. In the extreme, one in four of the individuals had symptoms so severe that they hid in their workspace or bathrooms to avoid their colleagues.

Mood Disorders In The Workplace

Check Up At Work
Thankfully, depression and anxiety are treatable diseases. Being aware of the symptoms and encouraging an open line of communication between management and employees can promote early intervention and ensure a healthy working environment. There are a handful of things that employers and companies should be aware of to promote positive change. They include:

◆ Knowing the symptoms and watching for signs
◆ Realizing early intervention is crucial
◆ Opening communication to encourage discussion
◆ Using education to discourage stigmatization

By: Caroline Tapp-McDougall

Caroline Tapp-McDougall is the publisher of Solutions: Canada’s Family Guide to Home Health Care and Wellness and the author of The Complete Canadian Eldercare Guide (solutions@bcsgroup.com).
“Employers who consider using Best Doctors as part of their benefit plan reinforce their values as a supportive and caring organization.”

Anna-Maria,
Director, Human Resources, DRAFTFCB

“If I felt like I was being taken care of by someone I’d known my whole life.”

Rhonda, Morrisburg, ON

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

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

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Plan sponsors have long employed index benchmarks as a tool for broad market exposure due to their transparency, low fees, and low turnover. The selection of a benchmark also helps establish the risk and return threshold desired in order to meet the investment objectives of a portfolio.

However, asset allocation and fund manager selection are often given greater consideration than the selection of an appropriate benchmark. Selecting a benchmark that neither matches investment requirements, nor represents a fair measure of the mandate given to a fund manager, can adversely affect a plan’s portfolio and undermine the fiduciary’s responsibilities. These issues can easily be resolved by more thorough screening of the index, including the calculation methodology, historical performance, and relevance to the market it is designed to represent.

Primary Importance
The following criteria are of primary importance in evaluating index construction:

**Accurate Representation**
For a benchmark to be valid and gain broad acceptance, it must accurately reflect the market it measures. However, the subject of representation is often confused with the quest for coverage. The critical element of representation is the extent to which an index accurately captures the market it measures.

**Transparency**
Index methodology should be clear, understandable, and widely disseminated. The index’s rules should be applied in a consistent and predictable fashion, under the objective governance of an independent market practitioner committee.

**Free Float**
All index constituents should be fully free float adjusted in accordance with index rules to reflect the actual availability of stock in the market for public investment.

**Buffer Zones**
To limit unnecessary turnover at index reviews, there should be a clear dividing line between stocks that would lead to significant movements of securities between size categories without significantly changing the risk or performance profile of either grouping.

**Minimum Cap Size**
Minimum cap size should be one of the standard criteria for index eligibility and for determining in which cap size band companies should be classified.

**Liquidity**
All index constituents should be checked to ensure sufficient liquidity in their underlying stocks. A consistent approach to liquidity measurement provides the most accurate representation of the opportunity set.

**Meeting Market Needs**
It is best to use an investor based index committee to determine the requirements that a market must meet, ensuring that the indices remain the best possible match to investors’ needs.

Index construction and management standards have changed considerably over the past few years and new asset classes, markets, and weighting schemes have been introduced. Many index providers have created products which are designed to counter the shortage of alpha in conventional products by transporting the many advantages of good equity index management, such as transparency and replicability, to alternative asset indices measuring markets and asset classes that have historically been opaque, poorly priced and, therefore, difficult to assess, measure, and manage. Examples include hedge funds and private equity indices.

**Global Equity Benchmarks**
When examining the scope of global equity benchmarking, plan sponsors are becoming increasingly willing to broaden their mandates outside their domestic markets. Expansion beyond traditional developed, large, and mid-cap equities into small cap equities and emerging markets and frontier markets provides a range of options for portfolio diversification and risk tolerance. This necessitates an even closer inspection of index construction as many index providers differ in the way they subdivide their global equity indexes in terms of both development status and market capitalization.

Overall, a mismatch between mandate and benchmark favours neither the plan sponsor nor the fund manager as it allows too much scope for risk to be adopted by the manager or for unfair criticism of managers by plan sponsors.

What Makes A Good Benchmark?

**MARKET MONITOR**

By: Jerry Moskowitz

Jerry Moskowitz is president of FTSE Americas (jerry.moskowitz@ftse.com).
Public markets thrive on information. In fact, it is the lifeblood of the market. After all, what’s a dollar, but a piece of information that tells a buyer and a seller that the goods they are trading have value.

Today’s markets need information on how companies interact with the world around them. Many institutional and individual investors want to know how companies treat their employees, customers, shareholders, and communities. After all, corporations who are socially responsible and support their communities gain goodwill from their customers resulting in increased loyalty. The likelihood of a customer doing business with the company in the future increases the possibility of earnings growth which results in higher current share values. Good community relations help a company expand and grow its business. Companies that are concerned about their reporting detail for environmental risk among Canadian resource companies, prompting a precise list of examples where improvements were necessary. Disclosure is critically important as environmental risks can produce financial liabilities and impact corporate value. This is the risk management aspect of responsible investing and addresses the long-term investor’s need for preservation of capital.

Contrary to long held belief among money managers, it’s not just traditional SRI investors who are interested in this information. In April 2006, 30 of the largest pension funds in the world got together and developed the UN Principles of Responsible Investment (see ‘Sticking To Principles’ on page 20). These principles recognize that environmental performance, social responsibility, and corporate governance (ESG) factors can affect the performance of investment portfolios. Since then, the principles have been adopted by 280 institutional investors and asset managers with $13 trillion under management.

One key emerging ESG risk that is rapidly gaining investor scrutiny is the potential impact of climate change on company value. Human induced climate change, increasingly recognized with greater certainty among scientists and policy makers, is leading governments around the globe to take action. Carbon dioxide and other greenhouse gas emissions, which have been largely unregulated until now, are beginning to come under the regulatory umbrella. For shareholders, climate change poses systematic and non-systematic risks. Over the medium and long term, its global environmental and economic impacts on GDP will affect all markets while specific risks, such as regulatory action aimed at reducing fossil fuel demand, influence particular sectors and individual companies in unique ways.
The Carbon Disclosure Project (CDP) is an investor-led initiative whereby companies report on their readiness to address climate change risks, opportunities, and strategies, as well as emissions accounting, management, and board governance over the issue. The CDP is currently supported by institutional investors who manage more than $57 trillion in assets. Its secretariat seeks out and publishes information on how 3,000 of the world’s largest companies are addressing and preparing for risks driven by climate change. The best companies understand these risks and are engaged in developing transformational technologies, as well as mitigation and diversification strategies. Simply allowing for continued growth in greenhouse gas emissions, without mitigation, is no longer a realistic scenario. However, some oil and gas companies continue to behave as if that is a possibility. How does all of this information come to bear on investment strategies?

A Responsible Portfolio Strategy

Investment models should be guided by sustainability, focusing on companies that balance the interests of key stakeholders – customers, communities, employees, and shareholders. Companies must demonstrate an ability to evaluate and mitigate ESG risks. To be eligible for investment, a company must also demonstrate an understandable business model and should have sustained above-average earnings growth and profitability versus its peers. To illustrate this strategy in action, let’s look at the Canadian stock market.

Everyday we read stories about energy security, gasoline price volatility, and global political uncertainty around oil supply. And we hear that developing economies in India and China have created a growing demand for higher volumes of oil. All of this impacts the price for oil, causing gasoline and heating oil to soar in price and Canadian energy companies to increase in market value. Today, nearly 30 per cent of the market capitalization of the TSX composite index is comprised of oil and gas producers. With energy companies making up a large part of the domestic equity markets, how does a responsible fund manager invest in the energy sector?

Energy companies are in the business of extracting resources and converting them into useful products. Like all resource companies, they have a direct environmental impact and usually produce waste materials which have the potential to create financial liabilities. The costs associated with some of these liabilities are known. These include the cost to clean up soil or water contamination. However, some social costs – such as mitigating the impact of climate change on northern First Nations communities – are less certain, although likely to emerge as the cumulative effects start to take hold. For example, there will be costs associated with relocating communities impacted by land subsidence as permafrost melts. Eventually, governments will begin looking for funds to cover these and other such costs, just as they are currently pursuing tobacco companies for healthcare costs.

While oil, gas, and coal have legitimacy as sources of energy, once the magnitude of the climate change problem and its mitigation costs start to dawn on the public and decision-makers, the producers of these products will certainly need to demonstrate best efforts at curtailing impacts. In effect, today’s external costs will become tomorrow’s liabilities.

Due Diligence

So, in addition to conducting financial due diligence prior to investing, the company’s exposure to, and awareness of, key ESG risks must also be assessed. For energy companies, we take a particular interest in management of environmental risks and the prospective company’s commitment to risk reduction programs and policies.

Some environmental risks are easier to review than others. For site contamination and remediation, the company accrues liabilities that are recorded in the MD&A documents which are publicly available. As previously noted, the Ontario Securities Commission has given new guidance on the exercise of greater board responsibility among publicly traded companies for ensuring more detailed environmental risk disclosure is forthcoming. We anticipate that improvements in disclosure will lead to even greater opportunities for deeper ESG analysis and risk assessment, particularly with companies that have failed to meet standards of disclosure to date.

For longer-term issues, such as climate change, we look for evidence that the company is engaged in pro-active emission reduction programs, investing in alternative energy, or supporting R&D in mitigation technology. These actions serve as a hedge against future regulatory requirements. Companies that have their sights on the regulatory horizon and take the necessary action will be better positioned to address new regulations and emerging liabilities.

Both sets of activities indicate the degree to which a company is being responsible. By engaging in trade-offs between future impacts, future earnings, present day investment, and returns, companies demonstrate their competence in addressing complex issues. While some of the latter strategies have been less likely to show up in an MD&A, they are the subject of routine research and analysis by responsible investment practitioners.

How well does the Canadian oil and gas sector hold up to scrutiny? There are a variety of ways companies in the sector are addressing uncertainty around environmental risks. Some energy companies have taken action to reduce climate risks intentionally, while some have reduced these risks by developing lower carbon energy sources as a component of their day-to-day business. Others are using mitigation as a new business opportunity. Specifically, a number of oil and gas companies are developing business lines or engaging in joint ventures in alternative energy such as wind energy projects and ethanol plants. Others have increased their involvement in natural gas production and created significant opportunities for future growth by marketing gas as a cleaner fuel. Since natural gas produces less carbon dioxide per energy unit, it can be used as a substitute fuel for some oil products or coal resulting in a lower impact on climate change.

Geothermal Energy

In the oil sands sub-sector, companies are looking for alternatives to natural gas including geothermal energy as a means of reducing fuel input costs and greenhouse gas emissions. Some companies are also investing in mitigation technologies to capture and market carbon dioxide from processing plants. This captured carbon dioxide can be piped to depleted oil fields and used to enhance oil recovery by pressurizing the underground field. As a byproduct of the enhancement process, the captured carbon dioxide is expected to remain locked in an underground reservoir.

By rationally analyzing the ESG profile of the diverse companies in the oil and gas sector, fund managers identify companies who are addressing these risks intelligently and responsibly. Within the sector, significant opportunities may be captured by investing in companies that have lower exposure to these risks, as company greenhouse gas emissions profiles vary widely in both emissions intensity and absolute emissions. Combining both sets of companies – low risk and good risk managers – in a well diversified portfolio, allows a prudent fund manager to stay within the risk tolerance of an institutional mandate and achieve a competitive return without compromising responsible investment criteria.

Companies that manage and monitor ESG performance will be ready and able to mitigate risk, while strategically seeking opportunities for long-term shareholder value. Fund managers who incorporate ESG/sustainability into the security selection process are well positioned to capture this value while meeting the investment needs of beneficiaries.

Dermot Foley is vice-president, strategic analysis, at Inhance Investment Management Inc. (dermotfoley@inhance.ca)
Socially Responsible Investing

Support for the UN Principles for Responsible Investment (UN PRI) has grown considerably in a short amount of time. In early 2005, UN Secretary-General Kofi Annan invited a small group of the world’s largest institutional investors, including the CPP Investment Board (CPPIB), to join a process to develop the principles. This initiative has its roots in the growing understanding that investment decision-making and ownership practices could better integrate the consideration of environmental, social, and governance (ESG) issues.

Today, there are approximately 362 signatories to the UN PRI, representing US$14 trillion in assets under management. While the bulk of these firms (41 per cent) are European-based, Canada has a strong showing with a total of 17 signatories.

Founding Signatory

As a founding signatory to the UN PRI, CPPIB takes seriously its commitment to a best practices framework to integrate ESG issues into investment decision-making. However, in order to understand the UN PRI’s importance and how it can be used as a tool by institutional investors, it is important to understand the mandate under which the CPPIB operates.

The CPPIB has a unique governance structure. It was created as a crown corporation, but operates at arm’s length from governments competing in the private sector world of investment management and financial markets. The investment professionals of the CPPIB report to an independent, qualified board of business experts.

The nature of the legislated mandate and the investment mission are relevant in two ways. First, we operate within an investment-only mandate with the purpose of maximizing returns without undue risk of loss for the benefit of CPP beneficiaries and contributors. Second, the CPPIB operates with a very long-term investment horizon.

It is with these frameworks in place that the CPPIB created a ‘Policy on Responsible Investing’ in October 2005. Because of our investment-only mandate, the policy is based on engagement, recognizing that companies which manage ESG issues well are more likely to deliver long-term financial performance and they affect long-term corporate performance. In so doing, the CPPIB is concerned with ESG factors only as they affect potential risk and return of investments. Consistent with the CPPIB’s belief that constraints decrease returns and/or increase risk.

Sticking To Principles

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UN Principles

The UN principles reflect the view that ESG issues can affect the long-term financial performance of investments. Effective management of ESG issues can be material to the performance of portfolios over the long term and investment analysis should incorporate ESG factors to the extent that they affect long-term risk and return. Implementing these principles can lead to a more complete understanding of a range of material issues.

But what are the ‘UN Principles for Responsible Investment’ and how can institutional investors incorporate them into their investment decision processes? There are six principles:

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the principles.
- Principle 6: We will each report on our activities and progress towards implementing the principles. Essentially, the principles are designed to be compatible with the investment styles of institutional investors that operate within a fiduciary framework.
The principles apply across the whole investment business and are not designed to be relevant only to traditional socially responsible investment activities. They point to a number of emerging approaches such as active ownership and the integration of ESG issues into investment analysis.

’Possible Actions’

Institutional investor signatories voluntarily implement the principles in a manner consistent with their fiduciary role. CPPIB implements the principles in a manner that is consistent with, and relevant to, our mandate to maximize returns without undue risk of loss. Below are some examples of CPPIB’s activities by principle. However, it is by no means an exhaustive list of our responsible investing initiatives.

◆ Principle 1 (Investment Analysis): CPPIB is a member of the Enhanced Analytics Initiative. Members commit to allocate trading commissions to encourage better investment research on the long-term materiality of ESG factors.

◆ Principle 2 (Active Ownership): CPPIB executes its Proxy Voting Principles and Guidelines for all its public equity holdings, approximately 2,600 companies globally.

◆ Principle 3 (Disclosure): CPPIB supports the Extractive Industries Transparency Initiative (see the February 2007 issue of Benefits and Pensions Monitor), a multi-stakeholder coalition of investors, governments, companies, and non-governmental agencies seeking transparency and good governance regarding government revenue from the oil, gas, and mining industries to improve local community development and greater long-term shareholder value.


◆ Principle 5 (Collaborative Engagement): CPPIB is a signatory to the Carbon Disclosure Project, a coalition of 385 global investors managing more than US$57 trillion who are actively encouraging companies around the world to disclose the implications of climate change to their businesses.

◆ Principle 6 (Reporting): CPPIB publishes a summary of its proxy voting activity on an annual basis. This year, we will also begin to report on our engagement efforts.

Annual Benchmarking Process

In addition to the Principles framework, the UN PRI supports investor implementation with working groups, an Engagement Clearinghouse, and an annual benchmarking process. The Engagement Clearinghouse is an online forum where investors can post ideas and proposals for collaboration with peers. The annual benchmarking survey is a requirement for signatories within two years of joining and helps signatories measure their progress. The benchmarking survey leads to the annual ‘UN PRI Report on Progress’ which highlights responsible investing best practices around the world. We were pleased to be recognized in the 2008 report for our active ownership and collaborative initiatives.

The UN PRI is an important component of CPPIB’s responsible investing strategy as a means to learn from, and work with, global peers on relevant, long-term ESG factors. The UN PRI enables CPPIB to build and maintain a leading approach to responsible investing within a fiduciary framework. We encourage other investors to consider becoming a signatory to the ‘UN Principles for Responsible Investment.’

David McCann is vice-president, head of relationship investments, at the Canada Pension Plan Investment Board. For more information on the CPP Investment Board’s policy and activities, refer to the Responsible Investing section of its website (www.cppib.ca).

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Trustees responsible for asset pools with long-dated liabilities could be forgiven for feeling that the risks they confront today are much more complex than they were even one decade ago. In addition to the risks of cyclical market and economic exposure, trustees now need to consider broader financial system risk, the risks imposed by climate change, and the risks posed by scarcity of essential resources. As these risks increase, trustees need a way to hedge against them and produce alpha returns. Furthermore, the risks associated with climate change and resource scarcity are only going to increase.

Take, for example, the risks associated with resource scarcity. Over the course of modern economic history, growth and progress have led to a steady decrease in the share of economic resources dedicated to essential commodities such as food, energy, and water. The value of food and energy consumed declined from more than 50 per cent of global GDP at the beginning of the 20th century to approximately 10 per cent at the beginning of the 21st. Over that time, manufacturing, and then the service sector, have grown to take the place of food, energy, and water, as the dominant economic forces.

Catch Up
If the first years of this century are any indication, this trend may be changing. At 2008 prices – with oil over $100 per barrel and food prices racing to catch up – food and energy represent, by our calculations, nearly 20 per cent of global GDP, a near doubling in less than a decade. The increased resources we have had to dedicate to these sectors have come at the expense of the broader economy, reducing growth in the service sector below what it might otherwise have been. With services representing 70 per cent of the developed world economy, returns to diversified investment portfolios are imperiled by the risks associated with increased resource expenses.

Institutional investors have partially responded to these risks by increasing their allocations to commodity-linked investments. However, commodity producers face many of the same scarcity and climate change risks that confront the broader economy and, therefore, are not an ideal way to hedge. Clean tech investments are likely to be more effective at directly mitigating these risks because these investments produce alpha exactly where returns are diminished by these risks in the broader market. In this article, we consider specifically how clean tech mitigates these risks as they affect traditional energy and why clean tech, as an emerging sector, is rife with opportunities for knowledgeable active managers to produce alpha in ways not available in the broader market.

Clean Tech Versus Traditional Energy
Over the past five years, alpha has been available in both traditional energy and clean tech. We believe that this alpha is driven by both energy prices and environmental regulation. The higher alpha from traditional energy over the past five years has likely been the result of the primacy of the first driver (high energy prices). However, going forward, environmental regulation will likely become a more important driver, increasing the alpha of clean tech versus broader market indexes.

That said, currently, there is an inefficient distribution of information about each of these drivers, and their effect on the emerging clean tech sector (and the individual companies within it). Accordingly, certain market risks and opportunities associated with these drivers have not yet been accurately priced and, therefore, alpha opportunities abound in clean tech. Specifically, this alpha may be produced by investing broadly in clean tech versus the general market index and by investing actively within the sector.

Alternative Returns In Clean Tech
We believe greater alpha will be produced by the Clean Tech sector (in relation to the general market) than will be produced by traditional energy because the market inaccurately values the long-term effects of rising energy prices and environmental regulation on both sectors.
The rise of crude oil prices (from around $20 at the beginning of the decade to more than $100 today) has improved oil companies’ revenues, but also led to increased costs of production, potentially squeezing margins. The effect of rising oil prices on the clean tech sector has been much more benign. While it is true that clean tech production incurs some of the same commodity and energy costs as traditional energy, these are relatively minor as a percentage of total costs. Furthermore, higher energy costs just add to the business case for investing in alternative energy and energy efficiency.

And the gap in production cost trends between traditional energy and clean tech is only going to widen in the future. While the oil industry has been forced, due to decreasing supply, to drill in increasingly difficult locations using increasingly expensive techniques, alternative energy producers are in no danger of running low on cheap sources of wind and sun. Indeed, with continuous technological improvements, the cost of clean energy production has nowhere to go but down.

Traditional energy is also subject to regulatory and legal risks that are substantially avoided by clean tech, and which the market has not yet adequately priced.

The Importance of Active Management

While we believe that investing in the clean tech sector as a whole can produce alpha versus the S&P 500, the opportunities to profit from this alpha will likely be missed (to a large degree) by passive clean tech indices because of the inefficient distribution of information about the technologies, markets, and companies within this emerging sector. This inefficiency can, and does, lead to inappropriate valuations.

The risk of inappropriate valuations is a particular concern in clean tech. Valuations in this sector tend to be quite high (and volatile) because clean tech is an emerging industry that is fairly small and has high growth rates. Consequently, the expected cash flows of businesses are heavily weighted to the future and valuation depends critically on the risk levels (discount rates) that investors assign to these expected cash flows. Further, there are a large number of competing technologies in clean tech, many of which have not had to prove their economic merit outside the shelter of government subsidies and regulation. These may not survive as more competitive markets develop.

Investors, as was the case in the 2000 technology bubble, may tend to underestimate the risks and assume high growth rates can continue for most clean tech companies, assigning inappropriate risk levels (low discount rates and high multiples) to their valuation and opening up a source of alpha for more knowledgeable portfolio managers. The dependence of valuations on high-growth assumptions has lead clean tech stocks to be relatively high in beta compared to traditional energy. The downside risks of the high growth assumptions and high beta returns can be seen in the major declines (30 to 70 per cent) in the solar energy segment during the first quarter of 2008.

Passive indices are more vulnerable to inappropriate valuations because they typically do not adjust weights for performance. As a result, stocks that achieve high valuations often gain higher weights in indices over time. Naturally, actively managed funds can add alpha by taking profits at high values and investing in the less-appreciated technologies that could be the next big winners.

As a result of these informational inefficiencies, the clean tech sector is full of opportunities for the active manager to produce alpha. This alpha advantage, when coupled with clean tech’s value as a hedge against rising commodity and environmental risks, means that clean tech represents an important sector in which pensions and foundations should consider investing.

Greg Payne is head portfolio manager at Investeco, an environment-sector fund manager (gpayne@investeco.com).
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Christine Girvan, CEO; Simon Segall, Vice-president, Institutional Sales & Client Service; 79 Wellington St. W., 15th Floor, Box 114, TD Centre, Toronto, ON M5K 1G8 PH: 416-365-6785 or 416-367-7972 Fax: 416-365-2945 eMail: christine.girvan@abnamro.com or simon.segall@abnamro.com Web: www.asset.abnamro.ca Products/Services Offered: Fortis Equity Environmental Sustainability World Managed Since: 2001 Philosophy: Companies are selected based on three sustainability issues – Clean Energy, Water, Waste. Companies with the highest environmental benefits and offering the best return potential are included in the portfolio.

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Michael Peck, Vice-president, Institutional; 40 King St. W., Scotia Plaza, 55th Floor, Toronto, ON M5K 2E3 PH: 416-867-2559 Fax: 416-366-2568 eMail: michael_peck@acuityfunds.com Web: www.acuityfunds.com Products/Services Offered: Clean Environment Equity Fund, Pooled Social Values Canadian Equity Fund, Social Values Canadian Equity Fund, Social Values Global Equity Fund, Social Values Balanced Fund Managed Since: 1991 Philosophy: Purchases reasonably valued securities with appealing growth characteristics to hold over the mid- to long-term. Companies with better-than-average balance sheets versus their sector peers are preferred.

ADDENDA CAPITAL INC.
Joe DiMassimo, Senior Vice-president, Client Service & Sales; 36 Toronto St., Ste. 1150, Toronto, ON M5C 2C5 PH: 416-943-1010 Fax: 416-955-0808 eMail: j.dimassimo@addenda-capital.com Web: www.addenda-capital.com Products/Services Offered: Fixed Income, Domestic Balanced, Canadian Equity, US Equity Managed Since: 1992 Philosophy: Manages assets using established styles, then applies SRI screens with a zero tolerance approach to industries excluded by the mandate. A ‘best of sector’ approach is applied to industries identified for targeted investing.

B.E.S.T. FUNDS / B.E.S.T. INVESTMENT COUNSEL
David Offeriers, ICPM/Retail Venture Capital Fund; 15 Toronto St., #400, Toronto, ON M5C 2E3 PH: 416-203-7331 Fax: 416-203-6630 eMail: info@bestfunds.ca Web: www.bestfunds.ca Products/Services Offered: Discoveries Fund Series I, II, III, Total Return Fund Series I (RVC); Cleantech Fund I, II, III, IV, Health Care Fund I; Telemetrics Fund I Managed Since: 1996 Philosophy: Discoveries Fund and Total Return Fund are sustainable venture capital funds with a focus on provincially-based technology companies. Investments include growth stage companies in the renewable fuels sector, healthcare, software, and financial services.

BEUTEL, GOODMAN & COMPANY LTD.
William W. Ashby, President; 20 Eglinton Ave. W., Ste. 2000, Toronto, ON M4R 1K8 PH: 416-485-1010 Fax: 416-485-1799 eMail: marketing@beutelgoodman.com Web: www.beutelgoodman.com Products/Services Offered: Willing to discuss SRI products on a segregated basis. Philosophy: Delivers results through the consistent application of fundamental, bottom-up value philosophy, supported by internal research capability.

BLACKROCK
Tom Goodrum, Managing Director; 40 East 52nd St., New York, NY 10022 PH: 212-810-3729 Fax: 212-935-1370 eMail: tom.goodrum@blackrock.com Web: www.blackrock.com Products/Services Offered: Experience managing portfolios with social, environmental, and religious considerations and can restrict individual issuers for client separate account portfolios. Philosophy: Belief is that investment professionals using a disciplined investment process and sophisticated analytical tools will consistently add value to client portfolios.

CIBC GLOBAL ASSET MANAGEMENT
Michel Jalbert, Vice-president, Head of Institutional Business Development & Marketing; 1000 de la Gauchetière W., Ste. 3200, Montreal, QC H3B 4WS PH: 514-875-7040 x3647 Fax: 514-875-9364 eMail: michel.jalbert@cibc.ca Web: www.cibcam.com Products/Services Offered: Canadian Equity Managed Since: 1986 Philosophy: Search for firms that rank highly for addressing social, ethical, and environmental concerns and with healthy corporate practices. Eliminates socially unacceptable stocks based on client-specific constraints and ethical requirements.

CORDIANT CAPITAL INC.

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DEXIA ASSET MANAGEMENT
Christophe Vandeviele, Head of Dexia Asset Management Canadian Representative Office; 77 King St. W., 32nd Floor, Toronto, ON M5W 1P9 PH: 416-974-9055 Fax: 416-955-6226 eMail: christophe.vandeviele@dexia.com Web: www.dexia-am.com Products/Services Offered: Equity – Sustainable Emu, Equities L Sustainable Emu, Sustainable Europe, Sustainable Pacific, Sustainable North
Socially Responsible Investing


*Canadian Representative Office

FIERA CAPITAL INC. Chantale Bacon, Director, Institutional Markets; 1501, avenue McGill College, Ste. 800, Montreal, QC H3A 3M8 PH: 514-954-3300 Fax: 514-954-3325 eMail: cbacon@fieracapital.com Web: www.fieracapital.com Products/Services Offered: Canadian Equity Value, US Quant, Active Fixed Income Managed Since: 2001 Philosophy: Incorporates social and environmental concerns into portfolio construction using charter of rights and freedoms, environment, corporate ethics and practices, community involvement, labour relations, and product safety criteria. Alcohol, hazard, weapons, nuclear power, pornography, and tobacco industries excluded.

GENUS CAPITAL MANAGEMENT Christina McLeod, Portfolio Manager, Partner, 999 West Hastings St., Ste. 1690, Box 2, Vancouver, BC V6C 2W2 PH: 604-683-4554 Fax: 604-683-7294 eMail: cmcleod@genuscap.com Web: www.genuscap.com Products/Services Offered: Biosphere Plus Pooled Funds (Fixed Income, Canadian Equity, Global Equity), Segregated asset management also available for SRI mandates Managed Since: 1994 Philosophy: Built around three principles – companies with superior fundamental valuations will be rewarded; research capabilities verify these fundamentals; and a diversified, risk-managed portfolio of companies with superior fundamentals produces consistently better-than-market returns.

GUARDIAN ETHICAL MANAGEMENT INC. John Clancy, Managing Director; 3100 - 199 Bay St., Box 201, Commerce Court W., Toronto, ON M5L 1E8 PH: 416-350-6880 Fax: 416-947-8003 eMail: jclancy@gemportfolios.com Web: gemportfolios.com Products/Services Offered: Canadian Equity Pool, Fixed Income Pool, Global Equity Pool, Balanced Pool, Diversified Income Pool, Segregated Mandates Managed Since: 2005 Philosophy: Using a GARP investment discipline, focuses on principles of sustainability that incorporate the values of unit-holders while, at the same time, allowing the pursuit of the optimal level of risk and return.

GWL INVESTMENT MANAGEMENT LTD. Patrick J. Clarke, Vice-president, Investment Counselling; 100 Osborne St. N., Winnipeg, MB R3C 3AS PH: 204-946-8701 Fax: 204-946-8818 eMail: sara.mosher@gwl.im.ca Web: www.gwl.im.ca Products/Services Offered: Ethics Fund 9.02G, Canadian Equity Index Fund 16.01G, Canadian Bond Fund 16.02G Managed Since: 2000 Philosophy: SR equity funds invest in shares of publicly traded Canadian companies, with some exposure to foreign companies, that conduct business operations in a socially responsible manner according to ‘ethical’ screens, and show strong growth prospects using an integrated top-down, bottom-up style. SR bond fund invests in Canadian federal and provincial government debt obligations and an ‘ethical’ screened listing of medium- high-quality corporate debt securities.


HSBC GLOBAL ASSET MANAGEMENT (CANADA) LIMITED Francis Chartier, Vice-president, Institutional Investments; Ste. 300 - 2001 McGill College, Montreal, QC H3A 1G1 PH: 514-286-4559 eMail: francis_chartier@hsbc.ca Web: www.assetmanagement.hsbc.com Products/Services Offered: Global Equity, Global Thematic Equity, Regional Equity, Single Country Equity, Balanced Mandate, Global Fixed Income, Regional Fixed Income; Quantitative Single Country, Regional, and Global Strategies Managed Since: 1994 Philosophy: Embodies the commitment with which it develops innovative products and customized solutions. Draws on the global presence of the HSBC Group to benefit from an understanding of sustainable development issues. Offers clients new investment opportunities all over the world and in line with SRI values.
MCLEAN BUDDEN LTD. Alan Daxner, Executive Vice-president; 145 King St. W., Ste. 2525, Toronto, ON M5H 1J8 PH: 416-361-7264 Fax: 416-862-0167 eMail: adaxner@mcleanbudden.com Web: www.mcleanbudden.com Products/Services Offered: Canadian Equity (Pooled Fund), Fixed Income (Pooled Fund), Balanced Fund (Pooled Fund), Global Fund (Pooled Fund) Managed Since: 2000 Philosophy: Builds portfolios based on established investment expertise. SRI portfolios screen for alcohol, tobacco, gaming, armaments, pornography, and adherence to local employment standards. Screening is based on both internal and external research.


NATCAN INVESTMENT MANAGEMENT Pierre Czyzowicz, Vice-president & Director of Responsible Investment; 1100 University St., 4th Floor, Montreal, QC H3B 2G7 PH: 514-871-7360 Fax: 514-871-7531 eMail: pczyzowicz@natcan.com Web: www.natcan.com Products/Services Offered: Social Value Canadian Equity Fund Managed Since: 1993 Philosophy: Approach consists in buying out-of-favour stocks with attractive profit-enhancing catalysts to generate value added while limiting downside risk. Objective is to exceed the S&P/TSX Index both in financial and ESG performance while avoiding companies involved in controversial business activities.

PHILLIPS, HAGER & NORTH INVESTMENT MANAGEMENT LTD. Brent Sutton, Vice-president; 20th Floor, 200 Burrard St., Vancouver, BC V6C 3N5 PH: 604-408-6000 Fax: 604-685-5712 eMail: bsutton@phn.com Web: www.phn.com Products/Services Offered: Pooled investment services using Community Values Funds – Community Values Balanced Fund, Community Values Bond Fund, Community Values Equity Fund, Community Value Global Equity Fund; Segregated investment services Managed Since: Early 1990s Philosophy: Funds are modeled after its ‘core’ funds and managed according to the Community Values Investment Principles, which are applied to a company’s social and environmental record. Investments are not made in companies that score poorly against this criteria.
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Innovest Strategic Value Advisors

Michelle McCulloch, Director; 225 East Beaver Creek Rd., Ste. 290, Richmond Hill, ON L4B 3P4

UBS Global Asset Management (Canada)

Philosophy: SRI products reflect the ideas and principles of sustainable development. Using a primarily quantitative approach, establishes meaningful environmental and social ratings and deploys all available financial instruments and techniques to allow investors to invest according to their sustainable investment preferences without compromising risk and return.

Jantzi Research Inc.

Sarah Smith, Sales & Marketing Representative; 215 Spadina Ave., Ste. 300, Toronto, ON M5T 2C7

Social Investment Organization

Eugene Ellmen, Executive Director; 184 Pearl St., 2nd Floor, Toronto, ON M5H 1L5

Other Providers

Mercer

Jordan Berger, Principal, Head of Responsible Investment, Canada; 161 Bay St., Box 501, Toronto, ON M5J 2S5

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Jantzi Research Inc.

Philosophy: Jantzi Research is an independent external research firm that provides a wide range of services including stock analysis, market research, and business screening services. Jantzi Research is dedicated to helping investors make informed decisions by providing them with critical information about companies and industries.

INNOVEST STRATEGIC VALUE ADVISORS

Michelle McCulloch, Director; 225 East Beaver Creek Rd., Ste. 290, Richmond Hill, ON L4B 3P4

UBS Global Asset Management (Canada)

Philosophy: UBS Global Asset Management (Canada) is committed to offering clients a range of SRI products, including SRI equity, fixed income, and sub-advisory asset management services. They focus on a wide range of investment strategies, including emerging markets research, carbon beta company analysis, global compact® screen, business activities screen, sovereign screens, portfolio audits, fund analysis, new product consulting, and more.

Innovest Strategic Value Advisors

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About four years have passed since the Joint Forum of Financial Market Regulators released the Guidelines for Capital Accumulation Plans (CAP). So far, the guidelines have helped provide a clear and uniform framework for the operation of CAPs and, in particular, Defined Contribution plans.

In order to assess how successful they’ve been in meeting objectives, the Joint Forum is currently reviewing the guidelines and considering possible changes. Nurez Jiwani, chair of the Joint Forum’s CAP Guidelines Review Committee, says they’re seeking feedback from across the industry through surveys sent out to plan sponsors, members, and service providers throughout Canada. The plan is to gather the survey results and present final recommendations to the Joint Forum by next spring.

When released in May 2004, the aim was to establish a set of best practices for CAP sponsors and a way to continuously improve and develop industry practices.

Greg Hurst, principal and national DC practice leader at Morneau Sobeco, believes the CAP guidelines are a useful tool. Yet, it’s become clear, over the years, that running a proper DC plan is, indeed, a complex task that now requires a more in-depth set of guidelines, he says.

Investment Monitoring Incomplete

The guidelines thoroughly cover what should be done, but, in some instances, they fail to outline how, leaving too much to interpretation, Hurst says. The guidelines, for example, state the need to periodically review investment options and the need to establish criteria for doing so, but provide no real guidance on how to carry those tasks out.

He admits that clearly outlining a generic way for monitoring investments, applicable to both large and small plans, may be difficult to fit into the guidelines. However, the subject is far from simple and should be given more attention.

Mariette Matos, legal consultant and manager of the research and compliance group for Buck Consultants, an ACS company, finds the guidelines useful on many levels because they alert her clients to all the risks involved with running a DC plan. Yet, the guidelines do not pay enough attention to the risks and issues associated with plan members who choose, default options – a problematic area for her clients, she says.

The guidelines do state the importance of having a policy outlining what happens if a member does not make an investment choice. If a default is used, members must be supplied with information on the defaults, but it doesn’t specifically mention the need to keep track of those default vehicles and members who stick with them for long periods of time, she says.

Bill Turnbull, general manager of the Co-operative Superannuation Society Pension Plan, one of the largest DC plans in Canada, feels recent developments, such as now-popular autopilot features and target date funds, should be addressed within the guidelines. Specifically, the guidelines should focus more on adequate disclosure and monitoring of these funds.

Turnbull also feels the guidelines don’t concentrate enough on fees charged to members and the impact fees have on the accumulated benefits at retirement when compounded over a working lifetime. In the future, he says he would like to see the guidelines cover the importance of reducing fees and more guidance on the subject for sponsors.

The Service-Provider Conundrum

Another area the CAP guidelines fail to fully cover deals with how to monitor service providers and how to ensure they are CAP guideline compliant. They do state the importance of periodically reviewing service providers and setting up criteria to measure them on, but suggests no course for doing so.

Many plan sponsors, especially smaller employers, says Hurst, lack the depth and resources to properly monitor their service providers.

“A lot of service providers don’t provide robust enough reporting back to sponsors and will some-
times simply say to them ‘just trust us’… Sponsors can’t change everything to fully make sure they’re CAP compliant, so what do they do? There’s a big gap there.”

Cheryl Neighbour, executive director, operations, for the University of British Columbia Faculty Pension Plan, agrees responsibility under the CAP guidelines needs to be extended. She feels the guidelines have truly helped to standardize and improve the governance of DC plans, but believes service providers should also follow the guidelines and should be held more accountable under them.

“Younger plans usually outsource to a financial institution and my opinion is that these institutions must take responsibility for adhering to the guidelines,” Neighbour says.

User Friendliness

One of the problems preventing sponsors from fully embracing the guidelines is that they can seem quite onerous. Matos says many of her clients feel overwhelmed by the content since adhering to every principle can require a great deal of time and money.

And because of the onerous nature of the guidelines, many organizations – especially smaller organizations limited in resources – misinterpret and assume their service providers are looking after the guidelines. She would like to see the guidelines become more user-friendly and easier to understand.

Ultimately, of course, one of the biggest problems with the guidelines is that they are simply guidelines – presenting problems on various levels, Hurst says. The guidelines do provide a level of coherence, but they are not enforceable by law so no one is obliged to follow them. As a result, sponsors are left balancing the best interests of the plans with what the guidelines merely suggest, and they cannot be considered wrong, in the eyes of the law, for doing so.

Hurst would like to see an effective and uniform regulatory system around CAPs, as in the U.S. Employee Retirement Income Security Act and Pension Protection Act 2006, but with much less complexity (particularly in regulatory reporting requirements). That, however, would require more initiative from levels of government and might be hard to obtain in Canada considering the regulatory fragmentation surrounding CAPs here.

Safe Harbour?

The hope is that the CAP guidelines will one day be used to form a common law, giving rise to a regulatory system that offers DC sponsors more clarity and consistency in how to operate plans. Eventually, Hurst says, many of his clients would like to see safe harbour rules put in place to protect those that are operating responsibly and diligently.

As a sponsor, Neighbour also supports the notion of one day seeing safe harbour rules evolve out of the CAP guidelines. It’s become plain to see, she says, that the industry expects too much from organizations that work hard to educate and inform members of their investment options. They should have a clear set of rules in place to ensure their protection. The CAP guidelines may one day serve as a springboard towards such an arrangement.

“I would like to see a safe harbour rule developed for employers… We expect members to know what to do with their money just because we give them reams of information to make a decision…” she says. “The employer may be held responsible for those poor investment choices, even though the employer did everything it could to ensure that the employee made the right decisions.”

George Di Falco is staff writer for Benefits and Pensions Monitor (gdifalco@power-shift.ca).
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Emerging markets decoupling is becoming more accepted as a trend to consider in investment portfolio construction. ‘Decoupling’ describes the ability of an emerging market country to become less dependent on exports to the U.S. or G-8 economies to drive its economic growth. Decoupling is supported by the increasing importance of domestic consumption and improved trade links between emerging markets. Given these trends, investors looking for growth in their portfolios should consider adding exposure to the opportunities presented by emerging markets decoupling.

The challenge facing investors is how to invest in emerging markets in ways that minimize the risks and maximize the potential returns. As an emerging markets veteran, I can offer some guidelines and suggestions.

◆ Understand the importance of domestic consumption

Consumption spending in emerging markets is growing at about seven per cent per year, supported by governments and monetary authorities which have lowered interest rates and contained inflation. Some countries have experienced the development of a middle class and the consequent rise in domestic consumption much more than others.

◆ Invest in businesses which can benefit from increased domestic demand

If emerging market economies have subtle, but important, differences, so too do different industries and sectors in those economies. Investors looking to maximize the benefits of decoupling should look for a portfolio with exposure to businesses which are more reliant on domestic demand than export growth.

◆ Invest in transparent public companies

Securities regulation and disclosure requirements have largely caught up with G-8 countries and you can find many transparent public companies in emerging markets. However, this is only beneficial if a portfolio manager makes the conscious decision to invest in publicly-traded companies. Some investors looking to capitalize on the rise in energy prices, for example, see opportunities in Russia, which has vast energy reserves. However, many of these Russian oil reserves are being developed by private companies. Without the disclosure required of public companies, it is difficult to do sufficient analysis to adequately manage such risks.

◆ Invest in liquid securities

Another consideration in selecting individual securities is their relative liquidity. In developing economies, there are many small companies aiming to grow with their markets. However, volatility is a reality of today’s markets and liquidity in a portfolio helps reduce its volatility. There are plenty of opportunities in emerging markets to invest in established companies with solid track records and attractive valuations. You just have to do the research to find them.

◆ Diversify holdings

Emerging markets constitute 26 countries, so investors need to look beyond the BRIC countries (Brazil, Russia, India, and China). A diversified portfolio will undoubtedly include some BRIC exposure, but geographic diversification demands that investors also seek investments elsewhere. Sector diversification is equally important, especially for Canadian investors with significant exposure to commodities in their domestic portfolios. Commodities can form a significant portion of emerging markets portfolios, but they could be volatile. It’s important to diversify across sectors when positioning a portfolio for long-term growth.

◆ Don’t forget the fundamentals

Finally, while investing in emerging markets is different at some levels, the foundations of successful investment remain. Solid fundamental research is required to find sound businesses that can generate and maintain positive earnings growth. Any emerging markets portfolio should be based on a thorough analysis of both country and company fundamentals. Investors will only benefit from decoupling if the manager handling their portfolio has done the research necessary to uncover sound businesses mispriced by the market that can generate sustainable earnings growth and economic value-added returns. Investors who apply the lessons learned in other equity markets, while remembering the guidelines outlined above, will be well positioned to benefit from decoupling in emerging markets.

Patricia Perez-Coutts is senior vice-president at AGF Funds Inc. (AGF.com).
With a nod to Newton’s third law, it seems that for every innovation there’s an equal and opposite hesitation. For too many companies, social media is the latest innovation to approach tentatively. Many are focusing most of their energy on the risks of social media, instead of considering the potential benefits.

But, just as Newton’s science could not be resisted, social media will make its mark on organizations, whether they like it or not. Those who ignore this likelihood will ultimately lose the opportunity to shape its impact.

Put bluntly, social media dramatically changes the expectations of internal business communication. Would you rather participate in a conversation or sit in the audience for a lecture? This is the dynamic that social media injects into employee communication. It’s no longer about limiting communication to attendance at a town hall meeting or reading the email/newsletter/policy handbook or an intranet page that pushes out the information the organization shares.

Instead, it’s about employees deciding not only which questions to ask and post, but offering up their views on the answers as well. It’s about power sharing and trust – and that’s the scary part for most organizations. If we let employees craft the message, who knows what they’ll say?

Surprisingly, what’s overlooked in all this concern is a simple equation – participation equates to engagement. And employee engagement has been the Holy Grail for HR, specifically, and companies, generally, for several years now.

As the communication tools employees use in their personal lives evolve quickly and on multiple fronts, employers cannot afford to sit on the sidelines. Would you give an employee a typewriter or a slide rule today and expect them to be effective and engaged? This situation is not that different. Whether it’s ‘wikis’ or ‘blogs’ or simply a more interactive intranet, employees who embrace social media technology and explore what’s in it for them will fare much better than those who simply try to ignore it.

**Putting Social Media To Work**

**A New Communication Platform**

Consider this example. You’re launching a new balanced scorecard for your incentive program. You publicize all the new supporting resources, present lunch-‘n-learn sessions to explain how it works, update your guides and handbooks, and answer any questions you receive. You even assemble an FAQ document on your intranet that you update periodically. However, unless you have established specific feedback and measurement tools, you won’t really know at the end of the launch process what your employees are going to retain about the program, how much they’ve bought into it, and what else they need to know to accept it. Even if you have measurement tools in place, you can’t find out a key piece of information – what employees are saying about the program among themselves.

Now what if, in addition to these resources, you introduced a ‘New Incentives wiki’ as part of your intranet? The ‘wiki’ is a collaborative social media tool that allows everyone in the organization to read it, add content, correct other people’s entries, and generally build an information resource that is created and shared by the entire employee population. You could still hold the lunch-‘n-learn launch sessions and publicize the program resources you’ve created. However, at these sessions you would point employees to the creative education opportunity provided by the ‘New Incentives wiki.’ Since ‘wiki’ content is created by its users and the structure provides sections for explanatory information, discussion threads, and revision history, the evolution of the content and related discussion will tell you what your employees understand, value, and question. You may also see knowledgeable ‘champions’ emerge who will take ownership of the topic and help to clarify information for other employees.

The big problem in most orga-
organizations about ‘wikis,’ employee ‘blogs,’ and other social media tools is that typically the people in charge (often boomers like me) don’t understand them and fear that we can’t control them. Of course, there is potential for these tools to be abused, but, remember, these tools are only available within the organization to the extent that you allow. Just like any other program, they must be introduced with guidelines for acceptable behaviour.

Another benefit is that as a resource that is ‘owned’ by the employees, ‘wiki’ participants will tend to police themselves. The largest ‘wiki’ in the world – Wikipedia – is open to the global population and while it does suffer some vandalism, these acts are accessible and is infrequently updated or intentionally static. Tools that could make internal communication more effective are used in archaic ways (like using the intranet to post PDFs of print material). The potential for dynamic communication is usually not exploited.

While organizations think they’re doing a good job of adopting current tools, employees are overwhelmingly unimpressed with internal communication resources. A recent Watson Wyatt study revealed that 80 per cent of employees believe their company’s intranet needs improvement and 50 per cent find the search feature ineffective. The most commonly accessed resources are the employee phone directory, cafeteria menu, expense reports, and pay stubs. That’s great if that’s all companies want out of their intranets, but they could be achieving so much more.

**Pandora’s Box**

Just because many companies are not supporting these tools and discussions internally doesn’t mean they aren’t happening. Just type your company name into an internet browser and see how many people have something to say about your organization. The best way to have an influence on the message and the outcome of these conversations is to create the forum for them to take place in-house.

Contrary to expectations, the challenge of opening the apparent Pandora’s Box of social media in organizations should not be seen as all that scary. Change is an opportunity and managing change is something successful companies have learned to do well. The people who don’t understand the change social media represents understandably fear it the most.

Those who see the potential this change represents just want to get on with it. Multiple user statistics are available online, but, according to research by Deloitte, more and more people are exploring the range of communication possibilities available to them. More than 72 per cent of respondents use broadband, 69 per cent consider their computer more entertaining than their TV, 45 per cent create personal content for others to see, 32 per cent consider themselves broadcasters of their own media, and 36 per cent use their cell phone as an entertainment device. Today, many of your employees are already acting as critics, educators, editors, publishers, broadcasters, and consumer advocates – and that’s not their day job!

The companies that really understand and maximize the opportunity social media gives them to connect with their employees will position themselves to be more successful in achieving their goals. Why? It’s simple. The collective effort really is more effective and energizing than the individual contribution. We already know this in organizations – it’s what brainstorming and teamwork is all about and we’re very used to working like that. Of course, with free exchanges of ideas and energy feeding on energy, there are bound to be some off-the-wall ideas and results, but the final outcomes are generally worth it. In a nutshell, social media takes the concepts of brainstorming and team work online and into the broadest possible organizational forum.

**Conquer Their Fears**

Companies that conquer their fears about social media will find ways to make them effective tools in their management kit. They understand that technology does not drive change, it enables change. They know that the underlying principles of effective communication and the requirements for successful employee engagement remain constant. Two of the saddest words are ‘if only’ – if only we’d known it sooner, if only we’d recognized that opportunity, if only we’d seen what our competitors were doing, if only we’d seen where the market was going. The potential of social media is there for everyone to see who is not willfully blind. It’s time to stop debating if or why your company will use social media tools and start planning for when and how.

Jacqueline Taggart is a senior communication consultant at Watson Wyatt (jacqueline.taggart@watsonwyatt.com).
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Sarah is 36 years old, married, and the mother of two children. She is an administrative assistant for a multi-national automotive parts company and has been with the company for nine years. During her tenure with the company, Sarah received positive performance appraisals and was well-regarded by her colleagues and supervisors. She has been involved in a number of corporate committees and has often commented on how she loves the work she does.

Welcome Distraction
For the past 11 months, Sarah has been struggling to cope with personal issues related to family and finances. She has not discussed these issues with anyone in the workplace, hoping that work would be a welcome distraction from her troubles at home. Over the last five months, she has experienced an increase in sick days and a decrease in productivity. Her rate of errors has climbed to the extent that project work must now be reviewed by her supervisor prior to formal submission. On occasion, Sarah has become argumentative and tearful for no apparent reason. Her most recent performance appraisal was poor and she was placed on a performance improvement plan. The day after this appraisal, Sarah submitted a doctor's note to the company's occupational health nurse, advising that due to illness, Sarah would be unable to work at this time and for the foreseeable future. Sarah applied for and was approved for short-term disability due to depression and anxiety. Her employer is now left with the onerous and costly responsibility of replacing Sarah while she is away from the workplace. This will involve shifting another employee into Sarah's position until such time that a temporary staff member can be selected and trained.

Unfortunately, Sarah's story is all too common. The statistics on mental health in the workplace and its impact on corporate Canada are staggering. All Canadians will be confronted with mental illness at some time in their life; either through orders yet still on the job, there is a cost associated with the reduced quality of work and productivity.

Preventing And Managing Depression In The Workplace

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Signs And Symptoms
If Sarah or her employer identified the signs and symptoms that she experienced at an earlier stage, there is a chance that Sarah’s mental health issues could have been addressed sufficiently to prevent her deteriorating performance and absence from the workplace due to depression and anxiety.

What can employers do to recognize signs and symptoms of depression and how can they prevent and manage mental health issues when they do become a reality in the workplace?

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to diagnose potential mental health issues. It is, however, beneficial to be aware of the signs, symptoms, and behaviours that may indicate that an employee is being adversely affected by mental illness of some sort. This recognition can be a starting place to assist an employee in need.

Given that mental illness includes a broad range of symptoms and behaviours, a key indicator that an employee may be experiencing mental health difficulties relates to them acting uncharacteristically for a prolonged period of time without consistent improvement. Sarah, for example, was historically a happy, socially engaged, patient, cheerful, and productive employee. These personal and professional characteristics gradually eroded over a period of months and she became tearful, argumentative, and socially withdrawn. The quality of her work suffered to the extent that her work required supervision.

**Professional Intervention**

Behaviour changes similar to those experienced by Sarah may reflect personal issues that will be resolved in a short period of time via personal problem-solving strategies. Individuals may experience stressful times in their lives for a number of reasons. These reasons may include marital, financial, job satisfaction, elder care, or child care issues, to name a few. These same behavioural changes may, however, indicate that an employee is experiencing a mental health issue that extends beyond a short-lived personal problem that can be resolved with one’s own strategies to one that may require professional intervention.

Signs and symptoms that exist in the workplace that may be indicative of an employee with mental health challenges, particularly when these behaviours vary from the employee’s historical work behaviours and last for a prolonged period, include:

- Arriving late for work/meetings
- Frequent absences/sick days
- Difficulties working co-operatively with colleagues
- Increased errors
- Decreased productivity

Unfortunately, many employees fail to confront the reality of their mental health challenges by engaging their employer to assist and support them, due to the stigma that continues to surround illnesses of a psychological nature and the fear of consequences that accompanies being ‘found out.’ As a result, employers are unable to initialize support systems and resources to assist their employees suffering from mental illness.

**Proactive Steps**

Employers can take proactive steps to prevent mental illness or, at the very least, lessen the duration and impact of mental health conditions amongst employees. Corporations that proactively address mental health in the workplace can realize significant benefits. Practices that are ‘mental health friendly’ can assist in realizing increased productivity; reduced costs associated with mental illness; and improved employee retention. They can, in fact, positively impact the entire culture of the company.

The first step in this process is soliciting commitment from senior management to frontline supervisors to not only establish corporate initiatives to assess, develop strategies, and address mental illness in the workplace, but to breathe new life into these same initiatives. Breathing life into these initiatives involves seeing them through from design to delivery, ensuring proper communication of these programs and resources are being made to employees, engaging and incenting employees to participate, and continuously assessing and evaluating these programs to determine their effectiveness.

Before being able to develop, implement, and assess policies and procedures related to mental health in the workplace, a company needs a clear picture of where they stand in relation to incidence of employee mental health claims. A thorough review of existing mental health claims experience (STD and LTD claims) will provide a much needed benchmark to determine the starting point for corporate initiatives and the impact these initiatives have on preventing or reducing mental health claims. Further to this, examine employee absenteeism rates, morale, and overall productivity.

The data and details secured through this exercise will lend itself to establishing the next step which is assessing where you are and where you want to be. Once aware of the current state in relation to the existing impact of mental health issues in the workplace, employers can then determine how to cultivate a mentally healthy environment. The selection of potential programs and procedures are plentiful and must be selected with the unique needs of your company in mind.

**Knowledge Is Power**

Next is educating frontline employees and managers about mental health conditions. Knowledge is power. Having management and frontline employees knowing and understanding mental illness is the key to disarming misconceptions, debunking the social/workplace stigma attached to these illnesses, recognizing when mental health may be an issue impacting an employee in the workplace, and increasing awareness of programs and resources to assist those with mental health challenges. This education can take the form of workplace wellness training for managers to assist in providing guidance regarding how to identify an employee impacted by mental health issues. They should also know how to address potential mental health issues with employees and what resources exist to assist these individuals.

In addition to educating management and frontline employees about mental health issues, it is imperative that strategies and resources are put in place to assist struggling employees. Some strategies for consideration include (but are not limited to):

- Targeted Mental Health Management Programs
- Mental Health Screening
- Nutrition
- Work/Life Balance
- Stress
- Anger Management
- Employee Assistance Program
- Communicate to employees about what it is, how it can help, confidentiality and how to access
- Remind employees of its availability on a regular basis and at times of need
- Conflict Resolution Resources
- Ensure a neutral ‘go to’ contact in the workplace to hear an employee out and assist, where possible, in facilitating resolution
- Establish an external workplace conflict facilitation resource to assist in facilitating resolution to conflict in the workplace when this cannot be resolved internally
- Return to Work Resources
- Seek and secure the assistance of return to work (RTW) experts, either internal or external, to the organization to support employees in reclaiming their mental health and functionality (counseling, activation, communication with physicians)
- Ensure RTW experts assist with coordinating their efforts so that safe and sustainable reintegration to the workplace is made after a period of absence

The case of Sarah is not an anomaly in the typical Canadian company. She is a reality employers must recognize and address in order to ensure a healthy corporate environment and, ultimately, a strong bottom line. By assessing the existing work environment/culture, reviewing existing policies, educating management and employees in the area of mental health issues, and providing resources and supportive reintegration strategies into the work environment, employers can prevent or, at the very least, decrease the ultimate toll of mental illness in their organization.

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As expected, the Canadian Accounting Standards Board is implementing new accounting rules for publicly accountable enterprises. For fiscal years beginning on or after January 1, 2011, it will adopt International Financial Reporting Standards (IFRS) in place of the current CICA Handbook rules.

All accounting standards are affected by this, including CICA Handbook Section 3461 on employee future benefits. However, these changes will require analysis long before 2011.

Since financial reporting normally requires comparative data for the prior year, a company displaying its 2011 financial results will also need to show 2010 results on the same basis. So a company with a calendar year fiscal year will need to have actuarial valuations or extrapolations done under IFRS on its pension and post-employment benefits programs as at January 1, 2010, to cover both years.

**Transition**

Planning will have to commence even earlier than that. Financial reports at the end of 2008 will require a general note on the company’s transition plan for the new accounting rules. Keep in mind that is not just accounting for employee future benefits, this plan must address all aspects of financial reporting.

Financial reports at the end of 2009 will require a more specific overview of the impact of the new accounting rules. This may necessitate an actuarial valuation at January 1, 2010, and then analysis of how this would affect the balance sheet and income statement if the new rules were in place. The actual reports would still be done under the current Canadian accounting rules.

Financial reports at the end of 2010 will continue to require an overview of the impact of the new rules. Again, the actual reports would, for the last time, be presented under the existing rules.

IFRS 1 covers first-time adoption of International Financial Reporting Standards and generally requires a fresh start approach (at January 1, 2010), under which the balance sheet would be adjusted to equal the actual financial position of the plan. Any unamortized gains or losses, unamortized vested past service costs, or remaining transitional amounts from adoption of CICA 3461 will be collapsed into the balance sheet and the company’s retained earnings will be adjusted accordingly. The exception is non-vested past service costs, including any such items within the transitional amounts which would continue to be amortized over the period to full vesting.

Reconciliation will be needed between the old and new balance sheet amounts at the end of 2010 and 2011. Gains and losses will need to be quantified for 2010 and 2011, as well as any past service costs. The rules of IAS 19 on employee benefits will have to be applied.

It is notable that the International Accounting Standards Board (IASB) released a discussion paper, ‘Preliminary Views on Amendments to IAS 19 Employee Benefits,’ in March 2008. An exposure draft is expected in 2009, with the changes likely taking effect in 2012 or 2013. So the rules underlying the Canadian accounting changes in 2011 are likely to be modified not long after we adopt them.

**Notable Differences**

There are notable differences between CICA 3461 and IAS 19, including:

- Under CICA 3461, compensated absences that do not vest (like LTD) are recognized only when the event occurs. Under IAS 19, they are recog-
IASB Discussion Paper

The March 2008 document proposes some changes and identifies other areas for further consideration. Comments are requested by September 26, 2008. Proposed changes are in the following areas:

- Deferral of gains and losses
- Presentation of Defined Benefit obligations
- Accounting for plans that provide the greater of DB and DC with guaranteed returns

IASB is proposing to eliminate the deferral of recognition of gains and losses which currently occurs through amortization and the corridor approach. Instead, all gains and losses would be fully recognized when incurred. There would be no separation between expected and actual fund returns, and non-vested past service costs would also be immediately recognized.

Following the change to the gain and loss deferrals, three possible approaches have been offered for presentation of DB obligations in the income statement:

- All changes would flow through income and expense as they occur
- Only the current service cost, past service costs, and the impact of assumption changes, other than the discount rate, would flow through income and expense; all other components of expense go into ‘other comprehensive income’
- Everything flows through income and expense except the impact of changes to the discount rate and other financial assumptions.

It is notable that the Financial Accounting Standards Board (FASB) in the United States is also looking into some of these issues. The IASB and FASB hope to co-ordinate their reviews and learn from each other’s experiences. Whether these two bodies end up adopting common or different changes remains to be seen.

Gary Stoller is with Morneau Sobeco.
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SHARE’s four-day ‘Pension Investment & Governance’ courses take 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

Jim Rogers, co-founder of the Quantum Fund with George Soros; and Myles Zyblock, chief institutional strategist at RBC Capital Markets; will be the featured speakers at the Toronto CFA Society’s ‘51st Annual Forecast Dinner: Global Perspectives’. It takes place October 2 in Toronto, ON. Visit: http://www.torontocfa.ca/

David Schaffner, of Leith Wheeler, will examine the origins and long-term impact of the credit crunch at the CPBI Western Region Conference. He will look at the subprime mortgage market blowup, excess use of leverage by investors, and the contribution of bond rating agencies. It takes place October 8 to 10 in Kelowna, BC. Visit: www.cpbi-icra.ca

The ‘4th Annual The Essential Course in Pensions: A Legal and Practical Guide for Lawyers and Other Professionals’ will take place October 14 and 15. This Osgoode Professional Development program was developed to provide a comprehensive overview of critical pension issues to the many professionals and executives whose work involves pension issues or pension-related responsibilities. Topics to be covered include pension language and terminology and the legal responsibility for those responsible for pension plans. Visit: http://www.osgoodepd.ca/cle/pensions/index.html

The 12th Annual Health Work & Wellness Conference 2008 takes place October 15 to 18 in Calgary, AB. This year’s theme is ‘Moving Forward... Giving Back.’ Visit: http://www.healthworkandwellness.com/

The ‘HRPA Annual HR Law Conference’ will take place October 22 in Toronto, ON. Three Superior Court justices and 18 employment lawyers will provide commentary and advice on Canada’s evolving legal climate, including the latest developments on notable cases such as Keays vs. Honda Canada Inc. Visit: http://www.hrpa.ca/HRPA/Events/hrlawconference.htm

‘Pensions and Employee Benefits in Mergers and Acquisitions’ will be presented by the Canadian Bar Association’s National Pensions and Benefits Law Section and the Continuing Legal Education Committee November 21 and 22 in Toronto, ON. It will deal exclusively with pensions and benefits in the context of mergers, acquisitions, and corporate reorganizations. Visit: http://www.cba.org/CBA/CLE/main/pensions_benefits_08.aspx

ADDENDA

The following listing was not available for publication in the EAFE and Emerging Markets Report in the August issue of Benefits and Pensions Monitor:

ARTIO GLOBAL INVESTORS Jeff Horbal, Director of Institutional Investments; Brookfield Place, 161 Bay St., Ste. 2600; Toronto, ON M5J 2S1 PH: (416) 862-2237 Fax: (416) 862-2600 eMail: jeff.horbal@artioglobal.com Web: www.artioglobal.com Portfolio Managers: 23 Research Analysts: 6 Minimum Investment - Pooled: $5M Separately Managed: $50M Canadian Clients: 12 Canadian EAFE & EM Clients: 10 Assets under management (SCDN millions) for Canadian clients as of March 31, 2008: EAFE Separate – $1,216.8M EAFE Pooled – $73.1M Regional Separate – $240.5M Regional Pooled – $24.9M EM Separate – $215.2M EM Pooled – $9.1M Total EAFE & Emerging Markets Pension Assets – $1,821.7M Total Canadian Pension Assets – $1,846M Total Pension Assets – $29,150.8M Manager Style: Active, Large Cap, Core Compliance: GIPS Managed Since: 1995
The interplay between large shareholders and company management is complex, subtle, and involves both actions and threats. These can be difficult to model in real world situations. However, you don’t need to wage a proxy battle to have an impact. Sometimes in the world of finance, the best way of doing something is to appear to do nothing at all.

It has been a quiet summer this year, punctuated only by continued reports of falling real estate prices, decreasing market liquidity, increased risk, choppy equity markets, and increasing financial losses for most large institutions.

In the pension world, there was a brief flurry of articles and responding letters to the editor in one of Canada’s national newspapers over the Canada Pension Plan’s investments in tobacco companies. While it is increasingly difficult to have economic arguments around the politicized world of tobacco, a couple of thoughts are in order here around the ideas of what happens when institutions avoid, or sell, certain companies.

**The Cost Of Avoiding Stocks**

First, on the specific issue of tobacco, the folks at the California State Teachers’ Retirement System (CalSTRS) produced a document this summer about the role of the tobacco industry as part of its Benchmark Modification Policy. The policy’s intent is to eliminate sectors that are likely to face judicial, regulatory, and institutional investor pressures which, in turn, are likely to result in lower corporate earnings. Note that these choices are made for sound economic reasons, not for broader ‘social’ reasons. Since the policy came into effect in the year 2000, the tobacco industry was the only industry that has met the criteria for exclusion.

It should be noted that external money managers are not prohibited from buying either the equity or debt of tobacco companies. Rather, these equities are removed from performance benchmarks so the choice to buy these companies represents a significant bet away from performance marks. The practical implications, CalSTRS has found, is that their external managers have avoided these securities.

CalSTERS estimates that over the 7½ years since the policy was put in place, it has suffered an opportunity loss of more than $1 billion by not investing in a market weighting in the tobacco industry – all of this for a fund with about $175 billion in total assets.

**A Non-Random Walk Down Wall Street**

A criticism of this practice is that it is actually inconsistent with shareholder activism. While it may have an opportunity cost to the shareholder (as in the tobacco example), it will have no impact on the company being exited.

However, this view may not be correct. In a recent research paper, ‘The Wall Street Walk and Shareholder Activism: Exit as a Form of Voice,’ Anat Admati and Paul Pfleiderer, both at the Graduate School of Business, Stanford University, produce a complex model that concludes that the threat of exiting by large shareholders can impact managerial decisions, as managers will care about their firm’s stock price, at least in part, because:

- their compensation is tied to the stock price
- large shareholders are able to affect stock prices as a result of their decisions to exit

Exiting can be a form of market discipline as it punishes ‘bad’ corporate behaviour (for example, spending money on a corporate jet). However, it can also be used as a way to encourage ‘good’ behaviour such as rewarding a company’s long-term spending on research and development. In this case, selling a company’s shares is threatened if such good corporate behaviour isn’t put into place.

**Is Avoidance Enough?**

While there seems to be a real cost in avoiding at least one set of stocks, some commentators believe that merely avoiding certain stocks isn’t all that large shareholders can, and should, do. It has long been the case that while major shareholders can take a more activist role in improving corporate governance through proxy fights, strategic voting, and take-over battles, few shareholders have done so. In their defence, it has been pointed out that these activities can be costly, are highly visible, and can often lead to unintended consequences. Instead, larger shareholders typically take ‘The Wall Street Walk,’ by selling their shares or by avoiding and walking away from certain companies or industries in the first place.
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