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With economies around the world in crisis and governments working on redesigns of the global financial system, the issue of pension fund reform should be front and centre, suggests the Network for Sustainable Financial Markets.

Its paper, ‘Modernizing Pension Fund Legal Standards for the 21st Century,’ notes that pension funds are the dominant players in the global financial system. In the U.S., for example, institutional investors now own up to 76 per cent of the stock market. So when they take a 20 per cent plus hit as they have in recent months, it is cause for alarm not only because of the decline in markets and asset values, but in the extra cash that large Defined Benefit pension plan sponsors have to kick into their plans. That money comes out of corporate pockets which means that their stock value takes an additional hit which impacts the pension fund and, well, you get the idea. It ends up being a case of throwing the baby out with the bath water. We’re going to protect that pension fund and we don’t care if it drives the company into bankruptcy.

Opportunities Shrinking

The other problem which arises out of this is the ‘Quest for Returns.’ When a pension fund has a shortfall and the employer has to make it up, that money still needs to be invested. Employer and employee contributions are constantly flowing into plans and this cash needs to be put to work. However, the opportunities for investment are shrinking as institutional investors dominate more and more asset classes.

So the pension funds start casting around for other places to invest. Infrastructure is a popular area today. So too is real estate. In both these classes, the pension funds and other institutions are starting to dominate. The idea of the Canada Pension Plan Investment Board owning Canada is not far-fetched. It needs to invest the dollars that are constantly streaming in.

This ‘Quest for Returns’ may well account for some of the irrational investments that have been made in the past couple of years. Why else would the Caisse de dépôt et placement du Québec hold onto, and add to, its asset backed commercial paper holdings even after the rest of the investment world started to bail on it?

Consider too that pension funds are among the victims of Bernard Madoff, prompting the pure of heart among us to wonder how they could be taken in? They must not have performed proper due diligence! Well, they probably performed their very best due diligence and could not find anything that overcame that promise of a 12 per cent annual return.

Due Diligence

In fact, if everyone followed their due diligence as if it were a sacred vow, we likely would see an industry that was paralysed because every investment comes with risk. You can risk manage them to death and still end up in a deficit position. There are pension funds right now that are paragons of due diligence looking at shortfalls of 20 per cent and more because who could have foreseen the events of the last 12 months?

And, frankly, it may well get even worse. Pension funds will get bigger. They will demand more and more asset classes and this appetite may lead them to consider riskier investments, increasing the chances of new asset backed commercial paper and ‘Madoff’ incidents.
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Aurion

Adam Bomers is director, investment research and solutions, at Aurion Capital. He brings more than a decade of financial services, investment, and client relationship experience to his new role where he will direct investment research and portfolio and asset class analytics for Defined Benefit and Defined Contribution pension funds and institutional portfolios.

Standard Life

Anthony Cardone is senior vice-president, corporate strategy, communications, and public affairs at The Standard Life Assurance Company of Canada. He will head corporate strategy for the Canadian operations, leading the development and implementation of its strategic business plan.

Watson Wyatt

Dan Morrison is rejoining Watson Wyatt Worldwide as a senior consultant. Based in Calgary, AB, he will focus on expanding its Defined Contribution consulting capabilities. His pension consulting experience includes serving as actuary to two of the five largest pension plans in Canada.

Toronto CFA Society

Peter Jarvis is executive director of the Toronto CFA Society. He was formerly chief investment officer and executive vice-president, investments, at BIMCOR.

MGI

Chris Lennox is vice-president, group retirement division, at MGI Financial Inc. (formerly known as Rice Financial Group). He is responsible for leading the Canadian group retirement operations division.

Guardian Capital

George Mavroudis is president of Guardian Capital Group Ltd. He has been with the company since 2005 as senior vice-president, strategic planning and development.

UBS

Stephen Foote is executive director, institutional business development, at UBS Global Asset Management. Most recently, he was vice-president, global head of marketing, client service and analytics, for Northwater Capital Management.

PIMCO

Stuart Graham is president of PIMCO Canada. In this role, he will manage its Canadian business and build and strengthen relationships with clients, regulators, and industry organizations in Canada. Most recently, he was vice-president and managing director of institutional investments at MFC Global Investment Management.

SLI

Neil Matheson is senior vice-president, investment strategy, at Standard Life Investments Inc. (SLI). In his new role, he retains his existing responsibilities and will chair the new SLI investment committee, which will oversee its investment management activities and the investment process. He joined the firm in 1989 and since that time has been given increased investment responsibilities.

HealthSource

Danny Patton is vice-president of group retirement solutions at HealthSource Plus. Previously, he held senior executive roles with Greenshield Canada and Buck Consultants. In these roles, he has been responsible for providing pension consulting leadership in plan design, funding, administration, and governance.

Cooperators

Judy Grant is vice-president, group benefits, for the Cooperators Life Insurance Company. She has 20 years of experience in the group benefits industry in a variety of roles, including group sales and business development.
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**SAM Opening Canadian Office**

SAM (Sustainable Asset Management) is bringing its sustainability investment strategies to institutional and private investors in Canada. It plans to open an office in Toronto, ON. Its Canadian operation will advise institutional investors on implementing sustainability investing for their stakeholders and provide individual investors with a select array of its strategies. Since its establishment in 1995, it has focused its activities on the development and management of sustainability investment strategies.

**Disability Managers Join Forces**

Two of Canada’s disability management companies are joining forces to offer a wider array of services to companies and insurers across Canada. Banyan Work Health Solutions and Aptitude Santé have merged their operations and will now operate as Banyan Work Health Solutions with operations centered out of Montreal, QC, and Toronto, ON. The two have enjoyed a successful strategic alliance for the past two years, but believe that a merger will answer the need for a truly national full-service proactive disability management firm.

**Panel Rejects ‘Safe Harbour’**

To put ‘safe harbour’ rules in place for Canadian Defined Contribution pension plans would be impractical and harmfully prescriptive, says the report from the Nova Scotia Pension Review Panel. As a result, ‘safe harbour’ rules should not be included in the province’s pension regulations. The U.S. has a provision for a ‘safe harbour’ which protects employers from litigation if they follow certain ‘best practices.’ However, the panel says prudent attention and action under the established investment policies for the plan should be sufficient mitigation of liability. To see the report, visit www.bpmmagazine.com/pension_commissions.html

**Sponsors Acting Proactively**

Canadian plan sponsors are, for the most part, dealing proactively with the recent turmoil in the markets and are taking their fiduciary responsibilities seriously, says Aon Consulting Canada’s ‘2008 Retirement Pulse Survey.’ As evidence of a lack of complacency, it found 67 per cent of the Defined Benefit respondents indicated that they would participate in lobbying efforts to convince pension regulatory authorities to consider introducing some form of relief for the significantly increased solvency funding that will surely result from the current turmoil. Companies overwhelmingly responded that they have reviewed their Defined Contribution plan’s core investment fund line-up in response to the turmoil.

**Manulife Offers ‘Personal Benefits’**

Employers who provide benefits plans can now introduce their employees to portable life and critical illness insurance coverage through ‘Personal Benefits,’ just launched by Manulife Financial Group Benefits. With portable coverage, Manulife contracts directly with the employee which allows employees to retain their coverage, regardless of the status of their future employment. It takes on the administration and deals directly with the member from the first inquiry through to collection of premiums, allowing employers to enrich their employee’s protection without increasing administration or the cost to their benefits program.

**Industry At Inflection Point**

The investment industry is at a “true inflection point,” says Saker Nusseibeh, global head of equities at Fortis Investments. Speaking on ‘The Stock Market Crash ... and the Return of Alpha,’ he said this is a true inflection point because the crash of 2008 was a “huge” crash, rivaling the stock market crash of 1929. As a result of what caused this crash and the crash itself, he said the industry has to change the way it invests. Going forward, he suggested that instead of trend-spotting, asset managers will have to go back to picking stocks to find alpha. Since 2003, he said it didn’t matter what stock you picked. People were playing sectors, but they were buying all the stocks in a sector and they were all moving in the same direction. Now, they will have to look at what is happening at individual companies to get alpha. This, in turn, may mean a return to plain vanilla approaches and hard work.
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Integra Capital Limited and Principal Global Investors have announced a strategic alliance to serve institutional clients in Canada. Through this alliance, Principal will offer separate account management services and act as a sub-adviser for a wide range of pooled fund investment strategies offered in Canada by Integra. Principal managed US$228 billion as of September 30, 2008, and offers expertise in three areas of investments – equities, fixed income, and real estate.

Pensions Moving To Payroll Tax

Pensions may be moving from being part of total compensation packages and to becoming a payroll tax, says Gretchen Van Riesen, interim head M&A and global head of pensions and benefits for RBC. Speaking at a CPBI Ontario region seminar on the recommendations of the Ontario Expert Commission on Pensions, she said the cost implications of satisfying some of the recommendations in the report could drive more plan sponsors away from Defined Benefit pension plans. If there is an alternative, such as a second tier to the Canada Pension Plan as proposed in the report, it could prompt employers to buy into that and get rid of the internal resource commitment they must make to DB plans.

Health Forces Retirement

Approximately one in four retired Canadians cited health issues as the main reason for their retirement, says the 19th Annual RBC RRSP Poll. However, only nine per cent of pre-retired Canadians believe that health issues will trigger them to retire. Besides health issues, qualifying for a pension (24 per cent) and company downsizing (13 per cent) were the leading factors that prompted Canadians to retire. The study also found that health is top of mind for retired Canadians. In fact, when retirees were asked to state the best gift they could receive in retirement, good health (53 per cent) ranked higher than no financial worries (30 per cent). The reverse is true for Canadians who have not yet retired, with 38 per cent ranking no financial worries over health (34 per cent) as the best gift they could give themselves in retirement.

Addenda

The following directory listing was not available for the August 2008 Consultants’ Directory in Benefits and Pensions Monitor.

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Keeping administration services in-house or relying on an outside group or third-party administrator (TPA) to handle pension-processing tasks is an important issue all sponsors must grapple with.

For many, the decision on how to handle these jobs – such as compliance management, recordkeeping, and communications – comes down to what’s most cost effective.

For others, a mix of reasons – important to a plan and its members – may factor in. These may include wanting to have access to the best technology and expertise.

Val Holloway, manager, pension and benefits for the Canadian Wheat Board, says it would be too expensive to provide administration in-house, given the sheer size and complexity of its hybrid pension plan and the asset transfer that took place five years ago. Since withdrawing from the federal public service plan and establishing its own plan in 2003, its TPA has been vital in easing the transition and minimizing costs, she says.

Large, well-established TPAs offer administration knowledge and capabilities that add significant value to a plan, Holloway explains. These members are doing more things electronically, and fees are not coming down, then you have a negotiating stick to use with providers.”

Fees aside, Paton is quick to point out that it’s not all about cost, it’s about the best possible service to plan members. Whether done internally or externally, the lowest cost solution will likely not be the most sustainable in the long run as it likely won’t deliver the services needed.

Bob Tangney, compensation, pensions, and benefits director, for the Woodbridge Group, is currently unsatisfied with aspects of its providers’ services and is considering how to internalize some of the processes.

A fundamental drawback to third-party administration, Tangney says, is that workers may not realize where DC plan contributions truly come from. They may perceive it, instead, as their own separate RRSP or may think their TPA is the provider of the benefit rather than the employer.

Going It Alone

To Tangney, the issue of how to handle administration services comes down to the size and complexity of an organization. It makes sense for smaller organ-

Sponsors Weigh Benefits Of Third-party Administration

days, that kind of expertise is especially hard for companies to find and bring in on their own.

“Whether in-house or outsourced, it is a challenge to attract and retain administrators with extensive expertise. Future Gen Y-ers generally aren’t looking for a lifetime career in pension administration …”

Evolving technology and systems development are the biggest reasons Hugh Paton, senior benefits consultant for Bell Aliant Regional Communications, favours outsourced administration services. For its 7,500 members, outside firms handle administration for its Defined Contribution plan and group RRSP.

Minimizing Administration Costs

By benchmarking fees from time to time and working collaboratively with its providers, Paton says they’ve managed to keep rates at affordable levels. One area that’s helped to negotiate lower fees is a commitment to more electronic processes.

In the past, his group’s providers have helped identify ways to get members to use more online tools and direct deposits. “If our

SPONSOR’S DESK

By: George Di Falco

George Di Falco is Benefits and Pensions Monitor’s staff writer (gdfalco@powershift.ca).
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Eldercare and its super hero responsibilities are the new facts of life for aging Canadians and the invincible baby boomers. Today, as adult sons and daughters with high-maintenance careers or as spouses with ailing partners or relatives, we find ourselves juggling work, life, and care responsibilities. We are, as the saying goes, ‘sandwiched’ between the care needs of others and our still dependent children.

**Invisible Backbone**

Family caregivers provide care and assistance for spouses, children, parents, and other extended family members who are in need of support because of age, debilitating medical conditions, chronic injury, long-term illness, or disability. They have been described as the ‘invisible backbone of the health and long-term care system in Canada,’ contributing more than $5 billion of unpaid care.

Employers and governments identify productivity, absenteeism, presenteeism, and retention as key factors for their aging workforces with the statistics pointing to eldercare as one of the biggest hurdles to overcome.

However, research shows that families are, for the most part, unprepared for the eldercare challenges that lie ahead. Many move directly into ‘care in crisis’ mode, make plans on the fly, and regret not making decisions about aging issues in advance.

Planning ahead and being realistic about the caregiver’s resources and abilities, as well as the older adult’s needs, are critical to both providing appropriate care and managing the process.

**Recognize The Challenges**

Many employers are beginning to recognize the challenges of caregiving and the loss of productivity it can cause. Just as employers launched childcare initiatives a few years ago, some new attractive eldercare programs have started to surface as eldercare remains in the forefront of the news, political forums, and the daily life of millions of Canadians. As one in five employees is facing the struggle of balancing caregiving and work, HR professionals would be wise to take a leadership role in seeking out new opportunities and pioneering assistance programs.

There are a few options for employees needing workplace flexibility:

- **Caregiver leave** – Similar to maternity leave, companies allow a six-to-eight week absence for family or extended care for elderly family members. Based on recent public opinion research, the federal government has introduced a compassionate caregiver leave of absence program.

- **Flexible work arrangements** – Consider flextime, a compressed workweek, a shorter work day, or job sharing. Occasionally, depending on the nature of the position, a company might be open to letting the caregiver work from home for a certain number of days per week.

- **Special compensation plans** – Additional services might be available through a benefits program. Review the ‘items on the menu’ that might not have been previously noticed or applicable and advise employees that such programs or options are available.

Encouraging employees to investigate programs in the workplace that promote health, reduce stress, and provide access to caregiving resources. Support groups and ‘lunch and learns’ are valuable options where employees can more easily determine their options and meet others in similar situations.

**More To Be Done**

However, there is more to be done than hosting seminars and awareness days. Truly embracing longer-term programs that have a positive effect includes bringing the resources, literature, and experts in-house by having libraries or resource centres available in the workplace as well as online. Inviting guest speakers from local chapters of the Parkinson Society, the Alzheimer’s Society of Canada, or the Heart and Stroke Foundation to educate employees on the conditions and interventions is an invaluable way to demonstrate support.

Whether it is providing home care, arranging placement in a long-term care facility, or offering support for parents who need assistance with medical appointments or shopping, many of your employees are ‘on the hook.’ Sympathetic, open discussions, accommodations, and easy-to-access assistance with eldercare issues can avert a family crisis that may mean time off work. With access to eldercare resources and workplace support programs, a proactive contribution can be made to reduce stress, create job satisfaction, and ensure on-going employment.

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**Family Caregiving And Workplace Health**

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**HEALTH MATTERS**

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).

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Infrastructure has been attracting greater attention in the investment community around the world. The current economic slowdown is driving governments towards ‘greenfield’ (or new build) infrastructure projects that can stimulate economic growth and create jobs.

In Canada, there is an obvious need to upgrade and increase infrastructure assets such as roads, ports, and pipelines. Some estimates show that Canada could spend upwards of $33 billion on badly needed upgrades and enhancements to existing infrastructure and this doesn’t include any ‘greenfield’ projects.

So, from an investor perspective: what are the opportunities?

Infrastructure – An Asset Class

The appeal of infrastructure investment to private capital and investors is the relatively long operational lives and high operating margins of these projects. In light of the recently increased shyness toward the equity markets and traditional fixed income investments, the popularity of infrastructure assets is increasing among investors as it offers reliable long-term cash flows usually with some form of inflation protection.

Infrastructur: Is Now The Time For This Pure Play Asset Class?

Infrastructure fund managers are typically value investors with a focus on the cash generative potential of targeted assets. The infrastructure fund manager is responsible for the sourcing of deal flow, the execution of transactions (both acquisitions and, later in the life of the fund, divestments) on behalf of the fund, and the ongoing management of those assets held by the fund.

Infrastructure managers employ execution and asset management teams that are comparable to private equity investment teams, albeit with specific skills and experience in relation to the regulatory and market considerations that apply to infrastructure assets.

It is true that infrastructure funds are not delivering the same absolute returns as private equity funds. However, absolute returns are only half of the story. Infrastructure fund managers claim that they can deliver compelling risk-adjusted returns, after fees, when compared to private equity or any other asset class.

Current Market Valuations And Trends

The infrastructure sector most exposed to variations in GDP, the transport sector, is showing clear signs of a downshift in activity. Port volumes in many regions are down materially and toll road traffic and airport passenger numbers are also showing adverse impacts from deteriorating economic performance and the prior escalation of fuel prices.

Notwithstanding the transport sector, the operational performance of infrastructure assets has, in general, remained robust. The distress that has emerged in the sector is primarily related to excessive leverage in some listed infrastructure funds and holding companies.

In spite of the relatively low exposure of non-transport infrastructure investments to the business cycle, the current financial and economic circumstances may have potential adverse impacts on individual infrastructure assets. For example, refinancing risk remains high as the scarcity of bank debt impacts both the quantum of funds and the cost of finance.

Despite the co-ordinated moves to improve financial system liquidity and monetary policy easing, lending margins and fees have increased dramatically. Provided that investee companies have sustainable capital structures, infrastructure investments are well-placed to manage this risk.

Here’s why:

♦ The long life of the physical assets in the sector provide flexibility in respect of the timing of capital expenditure and, moreover, as demand pressures subside, construction costs will likely ease as the contractor market becomes more competitive.

♦ The high operating margins and distributions that characterize the sector provide flexibility to defer distributions and fund capital expenditure and an increase in working capital from operating cash flows.

On a positive note are the counter-cyclical fiscal expansions announced by the Canadian government and many major governments across the OECD. The Canadian federal government announced an expenditure of $7 billion in infrastructure spending in its recent budget’s stimulus package. This improves the medium-term outlook for capital expenditure in the sector and, in the longer term, the increased fiscal stress created by government policy responses to the financial crisis and subsequent economic downturn is expected to create additional pressure for private provision of infrastructure services.
While 2008 was a challenging year for securities lending, the industry was able to weather the storm and deliver record-setting revenues to many plan sponsors. Among the obstacles faced by the industry last year, two significant events stand out above the rest:

◆ the default of Lehman Brothers
◆ short-selling bans imposed in various major markets including Canada

In relation to the Lehman Brothers default, safeguards in securities lenders’ programs worked as designed to protect the securities’ owners. Legal contracts performed effectively and, in the vast majority of situations, collateral was adequate to facilitate the timely return of borrowed securities. The safeguards worked exactly as they were set up to work.

The short-selling bans introduced in September across various major markets were initially greeted with enthusiasm. However, the effectiveness of the bans is now being questioned by market participants and academics around the world.

Securities Lending Demystified

Before exploring the mechanics of securities lending transactions, it is important to understand that the global securities lending market has significant scale. At the end of October 2008, assets available for lending in Canada were approximately $902 billion, according to the UK-based securities lending consultant Data Explorers. Of these assets sourced from Canadian institutions, approximately $109 billion was on loan.

In general, the securities lending process is quite straightforward. Plan sponsors lend their securities to borrowers – typically through intermediaries such as custodian banks acting as securities lenders or as agents – to generate incremental returns. Plan sponsors (or beneficial owners) transfer the title of their securities to qualified borrowers against collateral (which is held by the securities lender or agent) in amounts which are in excess of the value of the lent security. Beneficial owners receive any equivalent dividend payments or interest earned on lent securities during the term of the loan.

In Canada, collateral requirements for borrow-
help restore confidence in the credit markets and to encourage financial services companies to continue lending to their clients in order to stimulate the economy. In the cases of Lehman Brothers, Bear Stearns, AIG, and others, rapidly declining equity prices had an appreciable impact on confidence in these institutions among their largest trading counterparties.

It appears, however, that short sellers were not the cause of fundamental weakness in these companies or the financial sector itself. First, these financial services companies were already reeling from the shock of the global subprime mortgage meltdown, weakened balance sheets, and record-breaking asset write-downs. Second, long-term holders of these securities exerted strong selling pressure as the value of their long-term investments became increasingly vulnerable to severe decline.

From a Canadian standpoint, the Investment Industry Regulatory Organization of Canada (IIROC) released an analysis on October 6 outlining evidence of further unexpected consequences resulting from the bans. Among other things, surveillance data showed that the bans brought “no appreciable impact on the price of [these] securities” and a “significant increase” in volatility of restricted shares.

Academic research echoed these observations, arguing that short selling was not the ultimate cause of failing financial services firms. Arturo Bris, professor of finance at IMD in Switzerland, demonstrated that short sellers were not the cause of steep market declines and to encourage financial services companies to continue lending to their clients in order to stimulate the economy. In the cases of Lehman Brothers, Bear Stearns, AIG, and others, rapidly declining equity prices had an appreciable impact on confidence in these institutions among their largest trading counterparties.

Continued on page 53
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Despite the best efforts of plan sponsors to impress on their members the importance of selecting their Defined Contribution pension plan options, too many fail to take any action and default instead into sub-optimal investment structures which could negatively impact their final retirement payout. The industry is responding, however, by creating lifecycle funds. These are gaining in popularity as a viable default option which manage a member’s retirement savings in spite of their inaction. Colin Ripsman, of Phillips Hager & North Investment Management Ltd., and Chris Brisebois, of BonaVista Asset Management Ltd., discuss the evolution of lifecycle funds as a better default option.
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Osgoode Professional Development’s ‘Pension and Benefit Entitlements Upon Marriage Breakdown: The Legal Guide’ will take place March 11 in Toronto, ON. This program was developed to provide lawyers and other professionals with the information and guidance they need in handling the division of pension and benefits. Speakers include Peter Shena, senior vice-president, stakeholder relations and pension policy, for the Ontario Pension Board; and Karen Mostyn Kahanisky, senior legal counsel, legal affairs, at EDS Canada Inc. Visit: http://www.osgoodepd.ca/cle/home_list.html

The ‘2009 Summit on the Future of Pensions: From Crisis to Sustainability’ will explore how to manage the immediate crisis while tackling the long-term structural challenges. Topics will include an examination of the Alberta/BC, Ontario, and Nova Scotia pension regulation reports and how major organizations are lobbying the federal government for change. It takes place April 20 and April 21 in Toronto, ON. Visit http://www.conferenceboard.ca

Key strategies relating to Canadian healthcare, retirement issues, and current and proposed legislation affecting plans will be among the areas covered at the ‘Canadian Legal & Legislative Update.’ Set for May 7 and 8 in Ottawa, ON, it is especially designed for public service trustees, labour and management trustees of multi-employer plans, administrators, and professional advisors looking to keep current with the latest legislative developments. Visit: http://www.ifebp.org/Education/0960canupdate.htm

EXECUTIVE EDITOR’S MESSAGE

By: Joe Hornyak

Given the demands on Defined Benefit plans, employers who want to help their employees save for retirement are being left with no other choice than some sort of Defined Contribution arrangement.

In theory, DC arrangements see the investment risk and fund management shift from the employer to the employee. However, it also calls for the fees to be shifted from the employer and the plan to the individual employees and this is an important change.

INCREASED SCRUTINITY

So is it any wonder that DC plan fees are coming under increased scrutiny?

In his article ‘Nothing Is Certain, But Death, Taxes, And Fees’ (see Page 12), Neil Lloyd, of Mercer’s global DC business, offers a number of reasons why fees are being examined around the world. For example, studies show that a difference in fees of 0.5 per cent per annum can add up to a 10 per cent difference in account balances over 30 years. At a time when the adequacy of DC retirement savings is a real concern and the industry is casting about for ways to get employees to contribute more to their plans, this is a significant problem.

Front and centre in the debate over fees is the disclosure issue. The thinking is that if members know how much they are paying for what, it could eliminate some of the supposed ‘information asymmetry.’ This presumption suggests that since members are poorly informed and poorly motivated, service providers, as a group, have an opportunity to charge in excess of the fair value for their services.

However, given our knowledge of plan member apathy and disinterest towards their DC plans, why should anyone believe that a little disclosure will get them interested in what their plan is costing them?

Certain to add to the concern over fees, however, is an information which recently came to light from the U.S. Center for Retirement Research. It suggests wealth is being transferred as a result of DC fees because most plans charge participants a fee that is expressed as a percentage of their assets. It has found that higher balance members end up paying twice the management fee, even though they do not incur twice the cost, effectively reducing their returns. Simply put, those most concerned about their plan and those long-term employees who deserve to be rewarded for their service end up subsidizing disinterested, short-term employees. Does this strike anyone as fair?

BEST VALUE

Clearly, sponsors and regulators have to step in. Sponsors need to negotiate the best value for their members, even if it means unbundling services or eliminating them all together. If you have a single balanced fund plan, how much do you really need to spend on education and information?

And regulators must step up to the plate if service providers are, in fact, charging in excess of fair value for their services.
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Panel Calls For Separate Section For DC

Investment regulations in Nova Scotia should continue to emphasize prudent management, with a new section on Defined Contribution pension plans, says the report from the Nova Scotia Pension Review Panel. The expansion of Schedule I should include a separate section on the investment of DC plans and other plans where the member is involved in the decision process which will affect the investment results for his/her own pension and thereby the adequacy of pension income. The panel believes that improving the regulations in this manner, combined with the renewed emphasis on accessibility to members of all plan governance documents, will create a better future environment for the understanding of the partnership between administrator and members in Defined Contribution plans.

It also recommends that sponsors should determine the investment choices to be offered to employees, keeping in mind the following requirements:

- The options offered to employees by the sponsor should be chosen prudently.
- There should be good communication to the members about the investment choices available.
- The member should be provided with information and projection tools in order to calculate the possible results and risks from various choices and the effect on his/her ultimate pension.

It also calls for legislation that permits a plan to require default enrolment of members when they become eligible to join the plan and default investment mix selection for members of DC plans who fail to make their own selection.

However, it says ‘safe harbour’ rules should not be included in the regulations, even though there are calls for amendments to the legislation which would protect employers from litigation if they follow certain ‘best practices,’ much like the ‘safe harbour’ rules in the U.S. The panel says to put ‘safe harbour’ rules in place would be impractical and harmfully prescriptive. Prudent attention and action under the established investment policies for the plan should be sufficient mitigation of liability.

Employers Use Automatic DC Features

Employers offering a DC plan were more likely to offer an automatic feature which employers have utilized in recent years in an attempt to increase participation and account balances, says the International Foundation of Employee Benefit Plans ‘Employee Benefits Survey: U.S. and Canada: 2009’ Key Canadian Pension/Retirement Findings.

Over half, 54 per cent, of respondents have implemented automatic enrolment and 35 per cent use target risk/lifestyle funds. Managed accounts and target retirement date/lifecycle funds are each used by 27 per cent of respondents.

The survey found that 40 per cent of Canadian respondents offered a Defined Contribution plan and 65 per cent offered a Defined Benefit plan. As expected, public employers were the most likely to offer a DB plan, followed by multi-employer plans, corporations, and professional service firms. For DC plans, the reverse was true.

Target-date Funds Eliminate Extremes

Severe volatility in the equity markets has led some to worry about 401(k) investors who may be too aggressively invested. That’s in contrast to the perennial concern among 401(k) plan sponsors about participants who invest so conservatively that they avoid stocks altogether.

A study from Vanguard demonstrates that target-date funds can help eliminate both of these extremes in investor behaviour and provide participants with a well-diversified portfolio for retirement. ‘Target-Date Funds: Plan and Participant Adoption in 2007’ shows that the participants who did not invest in target-date funds tended to exhibit greater extremes in their equity holdings. Fully 30 per cent held risky, all-equity portfolios, while 16 per cent held highly conservative, zero-equity portfolios. In contrast, the stock exposure of target-date investors ranged generally from 40 per cent to 90 per cent, depending on their age and time to retirement.

The study found that target-date investors have a markedly different pattern of equity exposure by age compared with non-target-date investors. For non-target-date investors in the study, allocations to stocks declined by less than 10 percentage points between the ages of 25 and 65. The equity allocations of target-date investors, on the other hand, declined more than 40 percentage points over the same age range.
DC Trends

Nothing Is Certain, But Death, Taxes, And Fees

Defined Contribution pension plan fees are coming under increased scrutiny these days as plan sponsors and the industry grow more concerned about the adequacy of savings for retirement for the average member. Neil Lloyd, intellectual capital leader of Mercer’s global DC business, looks at how the issue of fees is being handled around the world.

By: Neil Lloyd

Benjamin Franklin once said, “In this world, nothing is certain but death and taxes.” In the financial services world, we can adapt the quote to “Nothing is certain but death, taxes, and fees.”

Throughout the world, Defined Contribution pension plan fees have been attracting increased attention for a variety of reasons including:

• Studies show that a difference in fees of 0.5 per cent per annum can add up to a 10 per cent difference in account balances over 30 years.
• There has been considerable criticism of the ways fees are disclosed by the industry. As a result, Australia has extensive disclosure requirements and the U.S. Department of Labor has issued three sets of proposed regulations on fee disclosure.
• The level of fees themselves has been questioned.
• Concern has been expressed at the ‘information asymmetry’ where members are regarded as being poorly informed and poorly motivated whereas the service providers are well-informed and highly motivated.

The theory is that this provides service providers, as a group, the opportunity to charge in excess of the fair value for their services.

In the UK, the level of fees was initially addressed through stakeholder pensions which initially limited fees to one per cent of assets per annum. The UK is now introducing a personal accounts system where one objective is the attainment of economies of scale and the consequent lowering of fees.

In the recent Alberta/BC Joint Expert Panel report, there was a proposal for an ‘ABC Plan’ where fees would be below 0.5 per cent of assets per annum.

Excessive Fees

In the U.S., fees have caught attention, partly as a result of lawsuits which, among other issues, allege that fiduciaries failed to monitor administrative service providers’ excessive fees.

In addition, a working paper sponsored by the International Organization of Pension Supervisors (IOPS), ‘Information for Members of DC Pension Plans: Conceptual Framework and International Trends,’ provided a member perspective stating: “…detailed and sophisticated information is likely to be useful only if members are endowed with the degree of literacy needed to understand, interpret, and make use of it.”

To demonstrate the complexity of DC plan fees and disclosure, we can look to the ongoing debate in the UK on how to fund personal accounts. After extensive consultation on the issue, Paul Myners, Personal Accounts Delivery Authority chairman, said, “the responses to this consultation show there is no easy answer. What is clear is that the charging structure will be a key design decision for the scheme … and will have a direct effect on member outcomes.”

So where does Canada sit in this debate?

In August 2008, the Rotman International Centre for Pension Management released its ‘Fee
Defined Contribution Monitor — February 2009

Disclosure to Pension Participants: Establishing Minimum Requirements’ study. Among other issues, it created a scorecard assessing the current fee disclosure in six countries – Australia, Canada, Chile, Sweden, the UK, and the U.S. This paper made some interesting comments, two of which included:

- In regard to the magnitude of fees, “The high level of fees in Canada suggests that fee disclosures have not been effective in bringing about a competitive market for financial services”
- In regard to misleading disclosure, “Where prospectuses list ‘Fees and expenses payable by the funds’ and then separately list ‘Fees payable directly by you,’ the language could easily be misleading. In fact, all fees are ‘payable by you,’ either directly or indirectly as charges to your account”

The overall scorecard for fee disclosure was also interesting (See Chart 1). According to this report, Sweden, Australia, and Chile lead the way, with Canada, the U.S., and UK being somewhat behind.

**Bundled Approach**

One of the challenges in the Canadian environment is that recordkeepers generally offer a fully ‘bundled’ approach, where an all-in fee is charged for:
- Custody, recordkeeping, and administrative services including plan sponsor support and reporting
- Investment management fees
- Member communication, decision-making tools, and investor education

The practice of bundling is increasingly being challenged in many countries, but unbundling remains rare in Canada. Although it is true that bundling has the potential to bring economies of scale and simplicity to DC plans that lack the resources to buy individual services from multiple providers, the attractiveness of this initial convenience can soon diminish. Issues regarding bundling and unbundling include:

- With bundling, often poor products will be mixed with good products, yet there is no alternative but to take the poor product.
- Although the aggregate fees may be disclosed with a bundled product, it may be difficult – if not impossible – to assess the fees paid for specific services. An example in the Canadian context is that the asset-based fee paid on DC plans is often interpreted as being an investment management fee paid to the investment manager. However, in reality, a portion of the asset-based fee is being used to cover costs of the recordkeeper. However, it’s not that easy to discern what goes to the recordkeeper and what goes to the investment manager.
- If one cannot assess the fee paid for a particular service, how can one truly evaluate the service received?

A big move in the U.S. has been for sponsors to unbundle investments and utilize a ‘best-in-class’ investment line-up. The reality is that a best-in-class investment line-up would be expected to provide superior returns and, in itself, could justify higher fees.

However, what has often been found is that through an unbundled structure, the plan sponsor can, to a far greater extent, control the costs that are paid for investments and recordkeeping costs, as well as potentially leverage other relationships already in place. The experience in the U.S. has been that for the larger plans, it is possible to move to an unbundled structure, provide a superior investment line-up, and reduce the fees that are being paid. That sounds like a win-win.

So why the prevalence of bundling in Canada? One possible reason is that the current bundled structure in Canada is more oriented to smaller plans which may be less fee sensitive (or aware) and cannot afford customized services. A significant portion of the industry is served by the broker community which largely relies on providers to offer communication, education, and governance services.

**Viable Option**

As mentioned earlier, bundling is not always bad. For example, a bundled arrangement may be the only viable option for plans with insufficient scale. In addition, at a member level, bundled fees can be easier to understand. In Australia, to a large extent, the superannuation plan fees are bundled, but subject to strong fee disclosure requirements. Another possibility is to have the services unbundled (which the sponsor can then manage), but still have fees bundled for the plan member.

What lessons can be learned from other countries?

Chile introduced a mandatory individual account system for retirement

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**Chart 1**

Score Card for Fee Disclosure Six Countries – 2008

<table>
<thead>
<tr>
<th>DISCLOSURE</th>
<th>AUSTRALIA</th>
<th>CANADA</th>
<th>CHILE</th>
<th>SWEDEN</th>
<th>UK</th>
<th>US</th>
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<tr>
<td><strong>Amount Paid</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
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<td>N</td>
<td>Y</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
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<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Investment Transactions</td>
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<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Participant-initiated Transactions</td>
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<td>N</td>
<td>NR</td>
<td>NR</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td><strong>Per Cent of Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative Expenses</td>
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<td>N</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Investment Management</td>
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<td>Y</td>
<td>Y</td>
<td>Y</td>
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<tr>
<td>Investment Transactions</td>
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<td>N</td>
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</tr>
<tr>
<td><strong>Other</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Participant Education on Importance of Fees</td>
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<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td><strong>SCORE</strong></td>
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<td>1</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations

Note: Y=Yes, N=No, NR=Not relevant. The score is the sum of the ‘Yes’ responses. The disclosure in Sweden refers to the mandatory individual account system. In Chile, the administrative expenses and the investment management costs are combined. Participant education refers to education or information provided in conjunction with fee disclosure.

pensions in 1981 and this model was recommended by the World Bank in many other countries. The Achilles’ heel of the Chilean system has been fees. According to research issued by the World Bank in 2005, over the working life of the average Chilean worker who retired in 2000, 28 per cent to 33 per cent of the contributions they made went to the payment of fees. Chile is now trying to address the magnitude of fees.

Sweden introduced a similar mandatory funded individual account system to Chile, but in order to reduce costs, uses a central government agency to administer the accounts. The Swedish structure is complex, but they have placed a priority on fee transparency and the experience is that fees, when compared to other countries, continue to trend low.

In South Africa, a report was released that highlighted the high fees relative to other countries. In addition, a lot of attention has been focused on fee transparency and there has been a lot of public criticism of bundling. South Africa is in the midst of pension reform where a personal accounts type structure could be an outcome. However, a reduction in fees and trying to ensure fee transparency are key reform objectives.

A common theme is ‘fees are important.’ However, there is one caveat. Whether in Canada or any other country, fees are not the full story. Ultimately, fees are only one part of any cost benefit analysis, but the lack of full fee transparency makes that analysis difficult.

**STARTING POINT**

As a starting point for Canadian sponsors, we believe they should ensure that they:
- Understand what fees are being paid
- Benchmark these fees against alternatives
- Know whether they are paying a premium or paying a discounted fee
- Assess the benefits of the service for which they are paying
- Determine whether the benefits justify the costs

In particular, if the costs are greater than alternatives, can they be justified?

In Canada, we expect to see fees gaining greater attention and references have been made about the need for economies of scale in the reports of the Alberta/BC Joint Expert Panel and the Ontario Expert Commission. Currently, the Joint Forum’s ‘Capital Accumulation Plan Guidelines’ do provide some direction in terms of fee disclosure, but certainly do not go as far as many other countries.

The level of fees will also undoubtedly attract attention, particularly with Alberta and BC discussing a proposal where fees are limited to 0.5 per cent of assets, which is far lower than the fees paid on most DC plans. Economics will also play a factor since until 2008, DC plans asset bases have been growing strongly. As a result, the fees earned by recordkeepers have also been growing very strongly. The market pull back in 2008 will have reduced asset values and, hence, reduced recordkeeper revenues and this must present some future challenges.

Fees, bundling, and transparency, are all hot issues with DC plans globally. They may not have caught as much attention in Canada yet, but they will and they should.

Neil Lloyd is principal and intellectual capital leader of Mercer’s global DC business (neil.lloyd@mercer.com).
The Impact Of The Financial Crisis

The stock market decline and economic slowdown are prompting those responsible for pension plans to take a closer look at what they are doing. However, writes Andrew Zur, of Morneau Sobeco, while these are creating new challenges for Defined Benefit pension plans, the impact of the financial crisis on Defined Contribution pension plans may be even more serious.

By: Andrew Zur

The current fiscal crisis has led to a greater spotlight being put on the state of employer-sponsored pension plans in Canada. The stock market decline and economic slowdown have led to a greater awareness of the challenges faced by sponsors of Defined Benefit pension plans as well as the long-term decline in Defined Benefit plan coverage.

Less attention has been paid, arguably, to the impact of the financial crisis on Defined Contribution pension plans and their members. From the perspective of an employer, of course, a DC plan is a lower cost, lower risk plan. Yet, from the perspective of the employee, the risks in a DC plan are greater and more direct than the risks in a DB plan.

Employers who sponsor DC plans will want to consider the impact of the financial crisis on employees when crafting employee communications and making plan design decisions. Over the long term, the financial crisis is likely to raise expectations on employers in terms of plan governance, investment options, and member education.

**Background On The Financial Crisis**

After a slight rebound at the end of the year, global stock markets lost roughly 35 to 45 per cent of their value in 2008. The decline in the Canadian dollar versus the U.S. dollar provided some relief to those who invested internationally. Canadian bond returns were positive, although corporate bonds lost value.

In light of these returns, an individual who began the year with a typical investment portfolio invested 60 per cent in equities and 40 per cent in bonds faced losses of between 10 per cent and 20 per cent. Individual investment losses depend on investment allocation, individual fund performance, and investment fees.

Beyond stock market returns, the financial crisis affects employees in other ways. The continuing decline in interest rates lowers the income expected to be available from an investment portfolio. Employees may also face lower home equity prices as well as increased risk of job loss.

All these factors damage the financial position of DC plan members and raise anxieties. Consequently, employee benefits administration companies have reported a significant increase in member account inquiries, both by telephone and online.

**Risks Faced By DC Plan Members**

Most or all of the risk in a DC plan is born by plan members. It is helpful, however, to identify specific types of risks facing DC plan members that will affect their ability to reach their financial planning goals. These include:

- Investment Risk – Employees face the obvious risk that their long-term investment rate of return is inadequate to provide the required retirement income.

All these factors damage the financial position of DC plan members and raise anxieties. Consequently, employee benefits administration companies have reported a significant increase in member account inquiries, both by telephone and online.

- Home equity prices as well as increased risk of job loss.

- All these factors damage the financial position of DC plan members and raise anxieties. Consequently, employee benefits administration companies have reported a significant increase in member account inquiries, both by telephone and online.
• Sequence of Returns Risk – Employees who face investment losses or low returns late in their careers or early in retirement will receive a lower overall return because of the impact of early withdrawals on a diminished portfolio. York University finance professor Moshe Milevsky calls late career and early retirement the “retirement risk zone.”

• Longevity Risk – A 65-year-old individual has a life expectancy of about 20 years (higher for women, lower for men). An individual who lives longer than expected faces a higher possibility of outliving his or her investments.

• Inflation Risk – An individual faces the risk that savings will prove inadequate as prices and wages rise. (See ‘What Will The Next 20 Years Bring?’ by Fred Vettese in the June 2008 issue of Benefits and Pensions Monitor)

• Interest Rate Risk – As interest rates fall, the amount of income that can be provided from a portfolio diminishes.

MANAGING EXPECTATIONS

Employers need to manage the expectations and anxieties of employees. As always, there is a fine line between providing financial education and financial advice and one should avoid providing specific advice to individual plan members.

It would be prudent, however, for plan sponsors to remind employees of some basic financial planning principles. Employees should be reminded of their responsibility to manage their own investments and that they should consider obtaining professional financial advice. Investment decisions within a pension plan should be taken with a long-term view, although the investment time horizon shortens with advancing age.

However, a long-term view does not mean that changes are unnecessary. Plan members may need to rebalance their portfolios in order to reach their target asset allocations. This is taken care of in a balanced, asset allocation or target date fund. Asset allocations should be related to the investor’s age, time horizon, and risk tolerance. Furthermore, employees should be reminded to reconsider whether they are adequately diversified.

Generally, employers should avoid sugar-coating the impact of the financial crisis on employees. A stock market decline, or even a lengthy period of low returns, could prove to be a permanent and real setback for employees approaching retirement as well as retirees living off of savings. (In contrast, younger employees may benefit from improved long-term investment opportunities.) Possible courses of action, unappealing as they may be, for employees concerned about their retirement prospects are as follows:

• Delay retirement – Delaying retirement reduces the length of time an individual needs to be supported by investments as well as increasing the time available to save. It also allows individuals to invest with a longer-term view.

• Save more – Individuals should consider maximizing their potential contributions under pension plans, group RRSPs, and tax free savings accounts (TFSAs).

• Withdraw less – Reducing withdrawals in the early years of retirement provides more time for investment portfolios to recover.

• Accept more risk – Although not necessarily advisable, individuals who feel that they are behind in their retirement planning may choose to accept more investment risk in the hope of achieving the returns they consider necessary.

GOVERNANCE

Employers should avoid the temptation to ignore or downgrade the importance of plan governance as it is a necessary risk management and legal compliance tool.

While employers should have reached compliance with the Guidelines for Capital Accumulation Plans by the end of 2005, it is worth periodically reviewing whether the plan remains in compliance. Employers should also be aware of the Canadian Association of Pension Supervisory Authorities Pension Plan Governance Guidelines.

Further, any plan rules or guidelines that have been established under the CAP Guidelines should be followed. These can involve protection of personal information, review of investment options and supervision, and selection of service providers.

INVESTMENT OPTIONS

Given the long-term focus of pension plans, most plan sponsors are standing pat on their investment options. This is the proper exercise of fiduciary discretion. Changes in investment options require significant thought and planning and should be made with a long-term focus.

Nevertheless, plan sponsors should not allow DC plan investment options to become static because of inertia. An annual review of the plan’s Statement of Investment Policies & Procedures is, in fact, a requirement of most pension legislation. The CAP Guidelines set out factors to be considered by an employer when setting investment options and, to the extent the economy has permanently changed, plan investment options need to be reviewed.

Plan investment options should be periodically reviewed for past performance against benchmarks as well as fee structure. A more formal investment review by a consulting firm can provide an opportunity to consider new investment options as well as fee negotiation or renegotiation.

As part of this review, plan sponsors should review investment funds that provide guarantees. With respect to the offerings of insurers, new investment options with guarantees have recently been developed. These offerings have features such as equity guarantees, guaranteed minimum lifetime withdrawals, or life annuity benefits.

There are, of course, additional costs associated with the provision of equity and life annuity benefits. In addition to those costs, other issues to consider are the complexity of the products and whether plan members can be adequately educated to make appropriate decisions in utilizing such investment options.

Another consideration is the long-term viability of some of these products. Individual guaranteed lifetime minimum withdrawal benefit products, for example, have proven riskier than expected.

‘Employers should avoid the temptation to ignore or downgrade the importance of plan governance as it is a necessary risk management and legal compliance tool.’
during the current financial crisis for insurers.

Finally, it is worth pointing out that the guarantees provided by such products only have potential value as long as the investment remains with the company. If the individual terminates employment and transfers the proceeds to a locked-in vehicle, the guarantee may be lost. Even if an ‘in-kind’ transfer to an individual account can be accomplished, the retail version of the fund will certainly not have the same value proposition for the member as the group version. Moreover, the employer would potentially be permanently required to continue to provide the investment option, at least as a legacy, even if it chose to change investment fund providers.

**Restructuring**

Generally speaking, DC plan sponsors are more likely to ‘stay the course’ in a recession than DB plan sponsors. Reducing plan contributions or discontinuing a program may send a rather negative message.

Nevertheless, an employer may choose to reduce employer contributions to a DC plan. In order to make an ‘adverse amendment,’ most jurisdictions require advance notice to employees. As a matter of employment law, it is generally better to communicate such changes as far in advance as possible since they amount to a reduction in compensation and could give rise to a claim of constructive dismissal in some situations.

Canada Revenue Agency policy requires that the employer contribute a minimum one per cent of earnings under a DC plan. Therefore, it is generally not possible to suspend or close employer contributions to a DC plan without terminating the plan.

DC employers who restructure their businesses could potentially be subject to a full or partial plan wind up. While it is less likely that a regulator would see the need for a wind up for a DC plan, the mass termination of plan members does constitute potential grounds for a superintendent-declared wind up in most Canadian jurisdictions.

Employers may also wish to consider consolidating or reorganizing their DC plan arrangements with a view to reducing costs and simplifying administration. Such a consolidation may be informal, for example, by harmonizing investment options and contribution rates, or formal, through plan mergers or asset transfers. Asset transfers and plan mergers can be fairly cumbersome for DB plans, but are relatively easier for DC plans.

**Long-term Impact**

Any discussion of the long-term impact of the financial crisis and the future of the Canadian pension system is necessarily speculative. Nevertheless, certain trends can be identified:

- Increased focus on governance – The focus on governance will only increase, with the potential for governance guidelines to be formally enshrined in law. Plan members may gain a greater say in governance, for example, through pension committees.
- Increased scrutiny on fees – Reports and studies are starting to emerge stating that investment fees are higher in Canada than in other markets. Plan members and regulators may demand greater disclosure and tighter expense management from plan administrators.
- Third-party investment education and advice – It is becoming increasingly apparent that many plan members are unable or unwilling to personally direct their investments. Furthermore, there appears to be a significant demand by individuals for person-alized, non-commissioned financial planning services. Employers may be pushed to provide more financial education and advice.
- More investment and retirement products – The current either/or choice between annuitization and locked-in transfers is increasingly seen to be inadequate. Individuals approaching retirement have little idea on how to turn savings into income and manage risk over the entire retirement period. Products that offer guaranteed minimum withdrawal benefits may prove to be useful for individuals approaching the transition to retirement.

Generally speaking, most DC employers are maintaining the status quo for the time being and this may be the best approach. Employee communications can help manage employee anxieties and help them with long-term financial planning. However, employers should not ignore the impact of the financial crisis when examining plan governance and investment options. The financial crisis can be a useful spur to re-examining and improving DC plan administration and investment policies.

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Maximizing Retirement Income Levels: The Evolving Lifecycle Fund

Despite the efforts of plan sponsors to educate Defined Contribution plan members, they continue to default into sub-optimal investment structures. Colin Ripsman, of Phillips Hager & North Investment Management Ltd., and Chris Brisebois, of BonaVista Asset Management Ltd., discuss the evolution of lifecycle funds as a better default option.

By: Colin Ripsman & Chris Brisebois

Defined Contribution pension plans require members to plan and fund their retirement income needs. A typical DC plan will allow employees to contribute to the plan and receive an annual company contribution which will often be structured as a match of employee contributions. The employee determines how the funds are invested and utilizes the accumulated plan balance to finance their retirement income needs.

The ultimate retirement income levels of a DC participant are influenced by the contribution levels made to the plan and by the investment decisions applied to the fund.

The contribution decision is made by the employee and, in many cases, is driven by a desire to maximize potential company matching contributions.

Greatest Obstacle

Arguably, the greatest obstacle for members to maximizing their DC plan entitlements is their failure to implement an effective long-term investment strategy for the plan. The challenge faced by plan sponsors is to engage members to make a prudent initial investment decision under the plan and to modify those investment decisions as their situation changes.

Over time, plan sponsors have seen an evolution in the structure of DC investment lineups. It was not uncommon in early DC plans for the plan sponsor to mandate that all assets be invested in a balanced fund. Balanced funds were the investment strategy of choice since they offered a well-diversified blend of equity and fixed income assets. However, the balanced fund did not take into account the unique risk profile of individual members.

The limitations of a single fund structure is that, while it may be optimal for the majority of members, it will be sub-optimal for other members. In a DC plan, where members fully shoulder the investment risk, plan members may be uncomfortable with this approach.

As a result, DC plans began offering a range of investment choices so that plan members could customize their desired mix of funds. To facilitate this process, members were provided with more advanced communication materials to assist with the investment decision.

Array of Choice

While this worked for plan members who were comfortable making investment decisions, it did not work as well for less sophisticated members who often reacted to the array of choice with paralysis. Plan sponsors were faced with a large percentage of employees who would enroll in the plan, but fail to provide investment direction.

Plan sponsors responded to this prob-
Defined Contribution Monitor — February 2009

Problem by introducing a plan default choice which governed in the absence of a decision by the members. The typical default fund choice in Canada was a money market fund which was felt to expose members to the highest degree of capital preservation.

Despite the considerable efforts of plan sponsors and their recordkeepers to educate plan members about investments, large percentages of plan members were defaulting into sub-optimal investment structures that would significantly underperform balanced portfolios over longer time frames. A secondary problem encountered in DC plans was member market timing. Despite the long investment time horizon of a typical employee, plan activity evidenced large inflows into outperforming asset classes and large outflows from underperforming funds.

Lifecyle Funds

Lifecycle funds were developed by the investment industry to help address these problems. These are single-fund investment solutions that are designed to assist members in better managing their asset mix. They include target risk funds and target date funds.

The first iteration of lifecycle funds was target risk funds (also referred to as asset allocation funds). Target risk funds offer investors a series of balanced funds with varying risk/return profiles. They are supported by a questionnaire that slots members into the fund best suited to their risk profile.

The benefits of target risk funds include:

• They assist less sophisticated members in making an effective asset mix decision
• The asset mix decision is tailored to the member’s individual risk tolerance and financial circumstances
• They help avoid extreme asset mix decisions and market timing
• They are rebalanced periodically to their benchmark
• They are easier to utilize than a traditional DC investment line-up

A drawback to target risk funds is their reliance on the completed risk questionnaire. While the questionnaire is easier to master than acquiring the basic investment skills necessary to build a customized investment solution, plan sponsors continue to experience significant, albeit lower, default levels under their programs.

Equally problematic is the fact that the asset mix employed in each fund is static over time. As member’s age and their circumstances change, their optimal asset mix and appropriate target risk fund change. To operate effectively, members need to re-visit the risk questionnaire periodically and change funds when their risk profile shifts. Given the inertia experienced among DC members, this rarely occurs.

Target Date Funds

Target date funds were designed to address these limitations. Target date funds consist of a series of balanced funds that use a dynamic asset mix path (or glide path) to provide members with an optimum asset mix throughout their career. The members select their optimal asset mix (or fund) based on the time to their planned retirement date. The funds are usually offered in five- to 10-year intervals and the member selects the fund that is closest to their retirement date. The asset mix for each fund shifts as the fund approaches the target date. Typically, funds that are 20 years or more away from the target date employ a higher equity weighting than typical balanced funds. The proportion of the fund in equities reduces over time as the target date approaches. By the time the target date is reached, the proportion of the fund invested in equities is generally lower than a traditional balanced fund.

The advantage of target date funds over target risk funds is that they greatly simplify the enrollment process. Instead of answering a more detailed questionnaire, members need only specify their expected (or desired) retirement date. Furthermore, once a target date is selected, the fund automatically adjusts the asset mix as the member approaches the target date to reflect the shortened time horizon.

These features make target date funds suited for use as a default option. If a member doesn’t make an investment election at enrollment, the member can be placed into the target date fund that matches their expected retirement date.

The first target date funds were introduced in Canada in 2005. While target date funds have attracted a lot of attention since their introduction, Canadian DC plan sponsors have only recently started seriously considering them as a key component of their DC programs. Their acceptance in Canada has closely followed the release of U.S. guidelines on approved default options (QDIAs) in the ‘2007 U.S. Pension Protection Act’ and subsequent department of labour guidelines.

Target Date Fund Selection

A defining feature of a target date fund is its glide path. There are significant differences in the glide path across different products for the same target date. These differences can be attributed to a variety of factors including optimization of different risk/return metrics (income versus wealth, real versus nominal returns), different capital market assumptions, the impact of product features (such as insurance), or the capabilities of the manager. Some glide paths will have a higher equity allocation at each date and may be more appropriate for a more aggressive population. Other products may have a lower equity allocation at each date and may be more appropriate for a more conservative population.

When evaluating target date funds, a plan sponsor should consider:

• Passive versus active – Some funds are built utilizing index funds or ETFs which are intended to replicate market performance. Other funds utilize active management in an attempt to outperform the market.
• Single manager versus multi-manager – Some funds utilize one manager for all asset classes. Other funds utilize specialist managers in different asset classes.
• Single style versus multi-style – Some funds utilize individual mandates within an asset class which may result in a style tilt. Other funds combine managers with offsetting styles within key asset classes to introduce an element of style neutrality.
• The asset classes utilized – Some funds are supplementing the traditional asset classes with alternative asset classes – such as inflation linked bonds, real estate, and commodities – in an attempt to enhance the risk and return profile of the fund.

• Principal guarantees – Some products offer a guarantee feature that is enacted at the fund maturity. The nature and benefit of the guarantee must be evaluated in light of the addi-
tional cost of the guarantee feature. Some products that offer guarantees may restrict portability or limit the guarantee upon early cashing.

• Benchmarking – It can be difficult to compare the performance of different target date funds due to the differences in glide path. Accordingly, the ability to effectively track an appropriate benchmark is critical.

• Time horizon of product – Many products move to a static asset mix at the target retirement or soon after. Some products offer glide paths that continue beyond the target retirement date.

Although lifecycle products show great promise in helping plan members meet their specific needs, the plan sponsor must ultimately make sure they conduct thorough due diligence in selecting and monitoring these options.

**FUTURE OF LIFECYCLE FUNDS**

While lifecycle funds offer many advantages to DC members over conventional balanced funds, they will continue to evolve.

A principle drawback to the first generation of target date funds is their failure to consider the unique risk tolerances and financial circumstances of different members. Under traditional lifecycle funds, two individuals of different ages and drastically different financial circumstances (different level of savings, debt, expenses, family circumstances), with the same desired retirement date, will be directed to the identical fund and asset mix.

A new generation of lifecycle funds has been developed that combines the beneficial features of a target date fund with the customization of a target risk fund. These matrix funds offer multiple glide paths for investors with different risk profiles (conservative, moderate, and aggressive). For members who do not wish to complete a risk questionnaire, they act as a traditional target date fund. They would direct members to the appropriate target date fund on the moderate glide path. Those members who want a more customized solution can complete the risk questionnaire and will be directed to the glide path that best matches their risk profile.

Additionally, most lifecycle products focus exclusively on the accumulation phase. As more DC members start to retire, innovative products will be required to help retirees manage their assets in the decumulation phase in a cost effective way. This will likely involve lengthening the term of glide paths well beyond the target retirement date and introducing income options.

As DC plans continue to grow, lifecycle funds seem destined to play an increasingly important investment role. As the market segment grows and product innovation continues, it is critical that plan sponsors remain abreast of emerging trends and products in order to ensure that they continue to offer members the best opportunity to maximize the benefits from their plan.

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It’s hard to imagine anyone in recent months arguing that the fundamentals of the U.S. economy were strong, as one Washington insider did publicly in August 2008. Over the past 18 to 24 months, most of us would have wholeheartedly disagreed with any politician or pundit that claimed the underlying building blocks of the U.S. economy remained “solid.”

Throughout the first half of 2008, the U.S. was facing skyrocketing oil prices and a deteriorating housing market. This toxic combination threatened the consumer’s spending power and net worth. At the same time, concern grew about a banking system that appeared under-capitalized, as the seeds of a credit crisis began to take root. Investors who were underweight financials well in advance of the earliest cracks in sub-prime (the failure of the Bear Stearns hedge fund in the summer of 2007) benefitted in the subsequent months. However, after the demise of the investment banking model and meltdowns within the banking system, it may now be time to reconsider this positioning.

Business activity has fallen off in the U.S. and around the globe at an astonishing pace. Economic data reports released over the past few months indicate that spending and output have been sharply curtailed as consumers and businesses deleverage rapidly. Consumer confidence fell to at least a 41-year low and the housing recession has also deepened with December housing starts (550,000) plummeting to their lowest levels since the Commerce Department started compiling statistics in 1959.

In 2008, the U.S. equity markets broke, or came close to breaking, such records as the largest annual decline, the steepest monthly fall, the greatest daily rise, and the greatest number of high volatility days, to name a few. By all accounts, 2008 was a bruising year for equity investors. While the Dow Jones Industrials (-31.9 per cent) outpaced the other U.S. indices for the calendar year 2008, it still had its third-worst year ever, trumpeated only by losses in 1931 and 1907. However, U.S. stocks were far from being the worst hit in 2008 as equities fell 55 per cent to 72 per cent in the BRIC economies (Brazil, Russia, India, and China), which had exhibited more robust growth than developed countries in recent years.

With a decline of this magnitude, it almost seems of small consolation for a manager to post strong relative performance or earn a spot in the top quartile among the institutional and mutual fund peer groups. However, active management skill has helped to shield some portfolios from the full force of the market declines and this approach has the potential to continue to add value in U.S. equities.

For example, amid rising volatility levels in the second half of 2008, the market for equities in the U.S. and the rest of the world became very macro-driven. This type of market is characterized by a high degree of correlation between the performance of stocks within industry groups. There was very little valuation differentiation among companies as stocks traveled in ‘packs.’ Getting the sector bets right in this environment was crucial and managers were in a position to add tremendous value by underweighting financials,
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for example, or favouring relative outperforming sectors such as consumer staples. While volatility remained high in the first months of 2009, there is a possibility for more differentiation between stock valuations as the year progresses – a potential advantage for stock pickers as we look ahead.

Seeds Of Hope

Some investors believe now may be a prudent time to consider adding to U.S. equity investments. The seeds of hope for U.S. equity investing may be planted in fertile ground due to four key factors:

- the unprecedented levels of support the Fed and U.S. Treasury have implemented to ease the financial crisis
- the outlook for an equally large Obama stimulus plan to restore financial and economic stability
- the significant competitive advantage and flexibility of U.S. corporations to cut costs and implement change
- the fact that the U.S. acted aggressively before the rest of the world to enact policy to ease the crisis

What are the seeds of hope? They are reversion to the mean, attractive valuation levels, and the prospect of a recovery snap-back.

- Reversion to the Mean

As measured by the S&P 500, U.S. equities have now posted their worst annualized (P/E) and price-to-book (P/B) ratios of the S&P 500 are at the low end of their historic valuation ranges, and both measures of S&P 500 valuation stood well below their 10-year averages at December 31, 2008.

- Attractive Valuation Levels

U.S. equities could be viewed as attractively valued by many measures. Consensus estimates for both price-to-earnings bear market recovery of 45 per cent. (See Chart 1)

While the negatives – severe global economic recession, rapidly deteriorating corporate profits, declining housing and employment statistics, and high corporate borrowing costs in a locked up credit market – clearly outweigh the positives in the early days of 2009, investors must be mindful that every market bottom has had similar imbalances. Credit market stabilization is a key prerequisite before investors might expect improvement in equity performance. Once signs of fixed income stabilization appear (corporate spreads coming in from historic highs, commercial paper issuance outpacing Fed commercial-paper purchases, and lending standards loosening from record-high levels), the stage could be set for a significant U.S. equity market rally.

2009 Outlook

As we enter 2009, most investors will look to Washington to see what the Obama administration and the Federal Reserve will do to help revive the economy and the ailing financial system. Despite the tremendous support offered by the Fed and the government to date, it is likely that consumers will continue to face stiff headwinds for at least the next six months in terms of falling wages, rising unemployment, and a short supply of credit. A stock market rebound may depend on how successful policymakers are in stabilizing the economy and the credit markets, restoring confidence, and getting the banks to lend again.

The Fed has indicated that it will keep its overnight target lending rate close to zero. While investors feared rampant inflation just six months ago, the sharp correction in commodities has eased food and energy inflation considerably. The question is whether this trend will continue and cause a downward deflationary spiral, or will the U.S. realize the inflationary effects of a rapid build-up of its monetary base? Ultimately, it may be a fine balance – deflation now versus hyper-inflation on the back end of the cumulative policy response. Investors must be nimble to capitalize on the opportunities each scenario presents.

Mary Green is vice-president, client portfolio manager – U.S. equities, at GE Asset Management.
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**ALLIANCEBERNSTEIN, LP** Sandra Nuttall, Director - Client Relations; 1345 Avenue of the Americas, New York, NY 10105 Ph: 212-969-1000 Fax: 212-756-4405 eMail: sandra.nuttall@alliancebernstein.com Canadian US Asset Clients: Canadian US Asset Clients: $1,096M Large Cap Growth: $60.2M Mid Cap Value: $59.1M Small Cap Value: $32.6M Bonds (Active): $16.4M US Assets Managed: $1,264.3M


**AURION CAPITAL MANAGEMENT INC.** James Clark, Vice-president, Business Development; 120 Adelaide St. W., Ste. 2205, Toronto, ON M5H 1T1 Ph: 416-866-2445 eMail: jclark@aurion.ca Web: www.aurion.ca Canadian US Asset Clients: 1 Assets Managed - Index with Option-based Overlay: $229M US Assets Managed: $229M

**AXIOM INTERNATIONAL INVESTORS LLC** Shane McMahon, Vice-president - Marketing; 55 Railroad Ave., 3rd Floor, Greenwich, CT 06830 Ph: 203-422-8036 Fax: 203-422-8090 eMail: smcmahon@axinvest.com Canadian US Asset Clients: 7 Assets Managed - All Cap Growth: $123.1M Other: $123.1M

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Phone: 212-371-9000 Fax: 212-371-9111 email: cmcdonald@eimusa.com Canadian US Asset Clients: 1 Assets Managed - Fund of Hedge Fund: $46.1M US Assets Managed: $46.1M

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Phone: 416-974-9055 Fax: 416-955-6226 email: christophe.vandewiele@dexia.com Web: www.dexia-am.com
*Canadian Representative Office*
SPECIAL REPORT AND DIRECTORY
MANAGERS OF U.S. ASSETS
FOR CANADIAN PLAN SPONSORS


KBBSH CAPITAL MANAGEMENT INC. Craig Auwaerter, Vice-president, Head of Institutional Marketing; One Toronto St., Ste. 700, Toronto, ON M5C 2V6 PH: 416-815-4320 Fax: 416-866-1770 eMail: cauwaerter@kbsh.ca Web: www.kbsh.ca Canadian US Asset Clients: 17 Assets Managed - All Cap Growth: $49.5M* US Assets Managed: $49.5M*

*Formerly London Life Investment Management Ltd.

LEGG MASON CANADA INC. David Gregoire, Managing Director, Head of Distribution; 220 LEgg MASON CANADA INC. David Gregoire, Managing Director, Head of Distribution; 220 LEgg MASON CANADA INC. David Gregoire, Managing Director, Head of Distribution; 220 LEgg MASON CANADA INC. David Gregoire, Managing Director, Head of Distribution; 220 LEgg MASON CANADA INC. David Gregoire, Managing Director, Head of Distribution; 220 LEgg MASON CANADA INC. David Gregoire, Managing Director, Head of Distribution; 220 LEgg MASON CANADA INC. David Gregoire, Managing Director, Head of Distribution; 220 LEgg MASON CANADA INC. David Gregoire, Managing Director, Head of Distribution; 220 LEgg MASON CANADA INC. David Gregoire, Managing Director, Head of Distribution; 220 LEgg MASON CANADA INC. David Gregoire, Managing Director, Head of Distribution; 220 LEgg MASON CANADA INC. David Gregoire, Managing Director, Head of Distribution; 220 LEgg MASON CANADA INC. 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PUTNAM INVESTMENTS
Jessica Hazzard, Managing Director, Director of Client Service & New Business; One Post Office Square, Boston, MA 02109 PH: 617-292-1000 Fax: 617-760-1618 eMail: jessica.hazzard@putnam.com Web: www.putnam.com Canadian US Asset Clients: 2 Assets Managed - Large Cap Value: $62.5M Mid Cap Growth: $129.7M US Assets Managed: $192.2M

RBC ASSET

RCM

RUSSELL INVESTMENTS CANADA
Mike Sandrasgra, Senior Client Executive, Americas, Institutional (Canada); 100 King St. W., Ste. 840, Toronto, ON M5H 3T9 PH: 416-364-8211 Fax: 416-362-4494 eMail: msandrasgra@russell.com Web: www.russell.com/ca Canadian US Asset Clients: $51* Assets Managed - Core: $281.4M US Assets Managed: $281.4M

SCOTIA CASSELS INVESTMENT COUNSEL LTD.
Ed Callicchia, Director & Portfolio Manager; One Queen St. E., Ste. 1200, Box 85, Toronto, ON M5J 2W5 PH: 416-933-2238 Fax: 416-933-7481 eMail: eddie_callicchia@scotiacaselles.com Web: www.scotiacaselles.com Canadian US Asset Clients: 5 Assets Managed – Large Cap Value: $3.4M Bonds (Active): $76M US Assets Managed: $79.4M

SEAMARK ASSET MANAGEMENT LTD.
Darren Kosack, Senior Vice-President, Client Relations & Marketing; Ste. 310, 1801 Hollis St., Halifax, NS B3J 3N4 PH: 416-569-8498 Fax: 902-423-1518 eMail: dkosack@seamark.ca Web: www.seamark.ca Canadian US Asset Clients: 20 Assets Managed - Core: $144.7M US Assets Managed: $144.7M

SEI

SPRUCEGROVE INVESTMENT MANAGEMENT LTD.
Marcel Leroux, Vice-president, Marketing; 181 University Ave., Ste. 1300, Toronto, ON M5H 3M7 PH: 416-363-5854 Fax: 416-363-6803 eMail: mleroux@sprucegrove.ca Canadian US Asset Clients: 1 Assets Managed - All Cap Value: $885.4M US Assets Managed: US$885.4M

STATE STREET GLOBAL ADVISORS, LTD.

STATE STREET GLOBAL ADVISORS, LTD.

STANDARD LIFE INVESTMENTS INC.
Jay Waters, Vice-president, Central Canada; 121 King St. W., Ste. 840, Toronto, ON M5H 3T9 PH: 416-367-2049 eMail: jay.waters@standardlife.ca Web: www.st.ca Canadian US Asset Clients: 153 Assets Managed - Core: $380.1M ($1,022M institutional assets) Passive: $239.5M ($239.5M institutional assets) All US Assets Managed: $619.5M

T. ROWE PRICE

TD ASSET MANAGEMENT INC.

TETREM CAPITAL MANAGEMENT LTD.
Robert Veloso, Manager, Consulting Services; 401 Bay St., Ste. 2315, Box 124, Toronto, ON M5H 2Y4 PH: 416-364-9993 x113 eMail: veloso@invest21.com

UBS GLOBAL ASSET MANAGEMENT
Angela Vidakovich or Stephen Foote, Executive Directors; 161 Bay St., Ste. 3900, Toronto, ON M5J 2S1 PH: 416-681-5200 Fax: 416-681-5100 eMail: angela.vidakovich@ubs.com or stephen.foote@ubs.com Web: www.ubs.com Canadian US Asset Clients: 8 Assets Managed - Large Cap Value: $86.4M Large Cap Growth: $31.3M Core: $484.7M US Assets Managed: $516M

WELLINGTON MANAGEMENT COMPANY, LLP

All asset totals in Cdn $ millions as of September 30, 2008, unless otherwise stated

Advertise in April
The Canada Pension Plan Investment Board (CPPIB) does it. The British Columbia Investment Management Corporation (BCIMC) does it. Some of the largest institutional investors in the U.S. and Europe do it. What has historically been a tool of the socially responsible investment industry is now gaining traction among large institutional investors as they attempt to reduce portfolio risk and identify investment opportunities.

This investment tool is shareholder engagement and it is no longer on the fringe of the investment industry. It is a particularly powerful approach for institutional investors considering how stock ownership has shifted over the years from direct individual ownership to the situation today in which approximately half of all outstanding shares are held by institutions. While such investors in Canada have been relatively slow to adopt an engagement strategy for the companies they own, other jurisdictions illustrate some valuable lessons learned in the value of shareholder engagement.

The California Public Employees’ Retirement System (CalPERS) was an early adopter of shareholder activism. Since 1987, CalPERS has annually established a list of firms that they will target for engagement. A November 2006 study estimated that short-term wealth creation by CalPERS’ activism from 1992 to 2005 totaled US$3.1 billion with long-term benefits being as high as US$89 billion.

Similar results have been documented in the United Kingdom by the Hermes U.K. Focus Fund. An independent study by the European Corporate Governance Institute (ECGI) and the London Business School found that this fund substantially outperformed benchmarks largely associated with the engagements undertaken by the fund.

Institutional investors such as CalPERS and Hermes have long recognized the added value of shareholder engagement. The underlying logic is that an involved and active share owner in a corporation is more likely to lead to superior long-term returns for shareholders. Being an active shareholder includes taking proxy voting responsibilities seriously, engaging in dialogues with corporations in your portfolio, and where necessary, filing shareholder proposals.

Proxy Voting

Although more attention has been given to the importance of proxy voting recently, institutional investors continue to treat their voting rights as subordinate to other investment activities, even though the voting rights attached to ownership of shares are now recognized as valuable assets that should be exercised with care and proper due diligence.

A 2007 survey by the Shareholder Association for Research and Education (SHARE) notes that two-thirds of investment and proxy voting firms’ clients were not involved in decision-making around the voting of proxies. The same study also cites that just over one-third of the responding firms have dedicated staff with proxy voting responsibilities. Despite this lack of attention to proxy voting, it is one of the few methods investors have to register dissatisfaction with board structure, executive compensation policies, and a range of environmental and social risk management policies.

When proxy voting responsibilities are delegated with no oversight or due diligence, investors fail to accept their roles as owners in the corporation with a right to be involved in crucial decision-making that will ultimately affect returns to shareholders. The initial step for any institutional investor should be the establishment and publication of comprehensive proxy voting guidelines that allow stakeholders to view how proxies will be voted on their behalf.

In 2000, the Ethical Funds Company was the first mutual fund in Canada to disclose its proxy voting guidelines. It then reported on actual voting activity in 2001. Such transparency is now mandatory for mutual funds. However, these regulations do not apply to other institutional investors and, therefore, there is still a lack of transparency around proxy voting procedures.

As important as proxy voting is, it is only the beginning when choosing to be an active owner.

Quality Of Management

During the stock selection process, investment managers often speak of the importance of ‘quality
of management.’ This tends to be a factor only assessed through speaking directly with top executives within a firm and determining how likely they are to earn shareholders a return on their investment.

Shareholder activists take this further by delving into detailed conversations on the quality of a company’s environmental, social, and governance policies and performance. Such conversations are the only way to get a true picture of how well a company is positioned to manage overall risk and capitalize on emerging investment opportunities.

The world of shareholder engagement looks very different today than it did only eight years ago when Ethical Funds began its formal shareholder action program. At that time, it was more difficult to get the attention of company executives at the highest levels. There were also fewer allies, at least in Canada, and institutional investors were largely absent from the dialogue table.

In 2008, company executives seeking the input of the sustainable investment community and corporate engagement among institutional investors is on the rise. This trend can largely be attributed to the ‘mainstreaming’ of engagement activity through the United Nations Principles for Responsible Investment (UN PRI). It sets out six principles to which asset owners, investment managers, and service providers voluntarily sign on. Being an active owner is one such principle.

**Practice Of Engagement**

The UN PRI’s annual progress report affirms that the practice of engagement is most firmly rooted among PRI signatories in North America. In 2008, 64 per cent of North American signatories reported using collaborative engagement to a ‘large extent’ compared to only 31 per cent in Europe and 19 per cent in the Asia-Pacific region. The North American figure was 44 per cent only one year earlier.

Engagement for Ethical Funds (GEM) involves both individual dialogues with companies as well as collaborative industry-wide actions. On an individual level, a group of 40 to 50 companies are selected annually to comprise a Focus List. Issues and companies are selected based on a variety of criteria including portfolio exposure, and company specific performance. A status report is published annually that outlines accomplishments of the engagement work undertaken throughout the year that provides a high degree of transparency to stakeholders.

These individual dialogues have yielded many successes over the years. All five Canadian banks have improved their risk management procedures by incorporating environmental and social risk factors into lending activity. Petro-Canada has established and implemented a human rights policy covering international operations. Loblaw Companies will improve their transparency and begin to report to shareholders on environmental, social, and governance risks. These are but a few examples of what discussions based on mutual respect have yielded.

Another approach to corporate dialogue is collaborative efforts that bring together institutional investors and utilize the collective strength of assets. A great example of this is the Carbon Disclosure Project (CDP) – a global initiative to improve company disclosure on climate change risks and opportunities. What started in 2002 with 35 signatory investors representing US$4.5 trillion in assets has now grown to involve 385 signatories with more than US$57 trillion in assets under management. The CDP has now become the primary vehicle for companies to disclose financially relevant information to investors related to climate change.

While many in the sustainable investment world would like dialogue activity to render immediate results, the reality is that change within corporations takes time. Traditional mindsets entrenched in corporate practices are being challenged as sustainability makes its way into the C-suite. Just as individual habits do not change overnight, new corporate policies take years to develop and implement in order to have meaningful impact.

**The Shareholder Proposal**

Most corporations see value in being responsive to shareholders and for most institutional investors, dialogue with companies is a constructive process. However, there are occasions when further steps are necessary to get management’s attention. The most useful of these is the shareholder proposal.

Submitting a shareholder proposal is the legal right of shareholders of a company registered under the Canada Business Corporations Act (CBCA) and some provincial jurisdictions, although not all. While there are still some restrictions as to what a shareholder proposal can address, regulations are much less restrictive following revisions to the CBCA in 2001. Shareholder proposals are particularly useful when a company is either completely unresponsive to information requests or when an impasse exists in the dialogue process. It is also common for a shareholder proposal to kick-start a dialogue where companies prefer not to have a proposal that will only attract attention from other shareholders distributed in the proxy circular.

When shareholder proposals are voted on at AGMs, it is important to note that they rarely receive majority support. However, even with support of 10 per cent of investors, a strong signal is sent to management that concern exists and shareholders require assurances that have not already been provided.

For instance, a proposal to the Power Corporation requested that it adopt a human rights policy to guide investment activity. The concern was that they had investments in a company operating in a military dictatorship with no policies to mitigate the human rights risk such an investment posed. Despite receiving less than 10 per cent of the overall vote, Power subsequently adopted a corporate social responsibility policy addressing human rights, providing some level of assurance to investors that the company was managing the risks of its investment portfolio.

It is crucial that the shareholder proposal process not be abused so that it retains its usefulness for institutional investors. Proposals should only be submitted where more readily available forms of communication between investors and management do not succeed.

**Active Ownership Strategies**

The institutional investor’s world is likely to change significantly over the coming years as active ownership strategies continue to spread. With some of the groundwork that has been laid by the sustainable investment community and the mainstreaming that is underway with the growth of the UN Principles for Responsible Investment, shareholder activism may be considered due diligence in the not-too-distant future.

An increase in transparency around proxy voting is very likely with a corresponding increase in accountability for how such votes are cast. This is the low hanging fruit for institutional investors as it only requires a slight deviation from current practice.

What remains to be seen is how many institutional investors will enter the world of corporate engagement. This sphere of activity requires not only a change in investment philosophy, but specialized environmental, social, and governance knowledge to engage in dialogue on such issues. As seen in other jurisdictions, the value of engagement in terms of both risk management and financial performance should not be overlooked.

1. This study can be found at www.gsm.ucdavis.edu/Centers/index.aspx?id=178&lc=1786&m=3&km=75
Most, if not all employers purchase their group policies from insurance companies operating in their respective countries, in other words local insurers. Given the myriad of local laws, taxes, customs, languages, government benefits, and market practices that are unique to each country, the practical need to directly insure locally is not likely to change anytime soon.

However, multinational pooling is a method used by multinational organizations for consolidating the risks of two or more locally insured employee benefit plans located in two or more countries.

Potential Volatility

As a general rule, the long-term cost of a benefit program will increase as the amount of risk insured (or transferred) increases. For this reason, many larger local companies that can accept the potential volatility in benefit costs from year to year will adopt a risk sharing or self-insured arrangement.

Many multinational organizations comprised of a number of smaller operations in multiple countries are faced with a challenge. They are sufficiently large on a global basis to adopt some kind of risk sharing or self-insured arrangement, but the potential volatility of benefit costs within each country is too great to adopt such arrangements at the local level.

Because of the local nature of employee benefits as already described, these multinational organizations cannot turn to a single global benefit plan to solve their dilemma. For these organizations, multinational pooling may be the answer.

Under such an arrangement, the business units (affiliates, branches, subsidiaries, etc.) within each country maintain local benefit plans with local insurers. The financial results of these local contracts are then consolidated through a ‘facilitator’ that contracts with the multinational organization and the local insurers to form the multinational pool.

**Key Benefits**

There are four key benefits to this consolidation:

◆ The availability of global refund accounting arrangements to reduce the aggregate insurance margins paid to insurers
◆ The availability of higher underwriting limits
◆ The ability to facilitate the movement of employees between countries
◆ The enhancement of global program management through consolidated global benefit plan reporting

By consolidating the local programs from each country under one multinational pool, the multinational organization spreads the risk of insured losses over a larger base. As a result, the loss experience observed under the pool will exhibit a lower degree of volatility from year to year than any of the local programs on their own. With this reduction in loss volatility, the multinational organization gains access to global refund accounting arrangements not necessarily available, or desirable, at the local level within each country. In turn, the global refund accounting arrangements give the multinational organization access to a significant portion of the insurance margins included in the local premium rates through the accrual of global experience rating refunds.

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**EXHIBIT 1**

**Consolidation Plan Financial Statement**

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Assume Responsibility

Of course, to gain access to global experience rating refunds, the multinational organization must also assume responsibility for experience losses that may arise from time to time. However, it is reasonable to assume that the pricing practices of the local insurers will produce profits over time and, therefore, the plans will generate financial gains and net experience rating refunds over the long term.

The global refund accounting arrangements work in the same manner as those that are available to large local plans in the Canadian marketplace. The benefits delivered to employees continue to be insured in accordance with the local insurance policies, while the financial results arising from the plans accrue to the multinational organization in accordance with the multinational pooling agreement.

Exhibit 1 provides an example illustrating the consolidation of one year of long-term disability experience over three countries. If we assume that none of the local plans would qualify for a refund accounting arrangement on their own, the overall global cost of insurance for the year, without multinational pooling, would be the total local premium paid, or $163,128. If the plans were consolidated under a multinational pool that qualifies for a global refund accounting arrangement, the consolidated plan year financial result is a gain of $48,327.

In general, a multinational pooling arrangement will be financially beneficial to the multinational organization when the local plans do not qualify for financial risk sharing arrangements on their own and when the local insurers are following their customary pricing practices. As direct financial benefits are not the only ones accruing to the multinational organization from a multinational pool. The broader spread of risk created by the financial consolidation of the plans generally allows for higher and globally harmonized non-evidence (sometimes referred to as free-cover limits) and overall coverage limits. This may be an important factor in delivering competitive benefit packages in those jurisdictions where the multinational organization must compete for local staff with much larger local firms that qualify for higher benefit limits within the local market. It may also be a very important factor for those multinational organizations that need to make regular transfers of employees from one country to another.

Valuable Tool

Consolidated global benefit plan reporting is another benefit arising from the multinational pooling arrangement. It can be a valuable tool providing the global management team with important financial and performance metrics related to the global benefit programs. At a minimum, it would include an annual consolidated benefit plan financial statement to calculate the accrued multinational gain or loss arising from the pool. Additional interim financial and performance metrics, along with high level coverage summaries, may also be included as part of the overall package of services that fall under the multinational pooling agreement.

A fundamental element of a multinational pooling arrangement is that the local business units of the multinational organization maintain local benefit plans with local insurers. These insurers could be branch offices, affiliates, or subsidiaries of larger global insurers. However, they must be recognized players that compete for business in the local marketplace. This is the most effective way to ensure that the plans comply with local legislation, customs, and competitive practices.

In theory, a multinational pool could be formed with whatever group of insurers a multinational organization does business. The advantage would be that the multinational organization could be completely free to choose its insurer, or insurers, in each country. Unfortunately, this would be prohibitively expensive as the pool facilitator would have to negotiate new pooling contracts with each insurer for each multinational customer. In most cases, the cost of setting up and managing the pool would exceed any benefits derived from the arrangement.

To make the process of setting up and managing a pool efficient and cost effective, the multinational organization can contract with an existing multinational pooling network. Each network negotiates a contract with a representative insurer in each of many countries throughout the world. These contracts define the terms under which the representative local insurers agree to cede to a pool. The insurers should be competitive market leaders with strong local reputations for delivering good service. This will help to instill organizational confidence in the program and gain the local support necessary for its effective day-to-day management.

Choosing A Network

For most multinational organizations, the most important consideration in choosing a network should be the ‘quality’ of the local insurers in the countries to be included in the pool. The insurers should be competitive from an existing insurer to the multinational organization can contract with an existing multinational pooling network insurer to underwrite the plan. The local insurers must be competitive with a representative insurer in each of many countries throughout the world. These contracts define the terms under which the representative local insurers agree to cede to a pool the financial results of those local benefit plans that are included under a multinational pooling contract formed between the multinational organization and the network.

Exclusive Arrangement

In most countries, the multinational pooling network will enter into an exclusive arrangement with only one insurer. However, multiple insurers may be added in those countries where it is necessary to cover the spectrum of benefits generally available in the marketplace as there may not be a single insurer that offers all the benefits available in the marketplace. Nevertheless, each network will only be able to offer the multinational organization a limited choice of insurers in each country. The multinational organization that wishes to include a particular local plan in its pool with a particular network must select the network’s local insurer to underwrite the plans.

Before considering the multinational pooling option, the multinational organization should first review the country specific and consolidated financial performance of the respective benefit plans over the past three to five years. If the analysis shows that the local insurers are collectively earning consistent and significant margins from the plans, multinational pooling may be a way to recapture a significant portion of these margins.

However, even if the direct financial benefits from multinational pooling are minimal, the availability of higher underwriting limits, enhanced employee mobility, and enhanced global program management tools may still make such an arrangement worthwhile.

In addition to the technical pros and cons of a multinational pool, there are a number of internal factors to consider. Important among these is the level of involvement, and roles and responsibilities, of the local and global management teams. For larger and/or more complex local plans, moving from an existing insurer to the multinational network insurer may be costly and disruptive. For local plans with employee contributions, fiduciary considerations may be important.

Once the decision to move forward with a multinational pool is made, there are a number of factors to consider when evaluating a particular multinational pooling network.

Choosing A Network

For most multinational organizations, the most important consideration in choosing a network should be the ‘quality’ of the local insurers in the countries to be included in the pool. The insurers should be competitive market leaders with strong local reputations for delivering good service. This will help to instill organizational confidence in the program and gain the local support necessary for its effective day-to-day management.

Other key considerations include:

- The level of control or influence the network facilitator has over the local insurers.
- The financial terms defining how consolidated global financial results will be determined and how the resulting account balances will be handled.
- The breadth, depth, and timing of the available plan management reporting.
- The availability and professional qualifications of the network representatives providing account management services.

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June 18, 2008, the Alberta Court of Queen’s Bench dismissed an action brought by former Alberta employees of Imperial Oil Limited (IOL) in respect of a 1991 amendment to IOL sponsored pension plans. This decision is just the latest stage in a dispute which began in Ontario in 1995 between former members of the plans and IOL.

The Alberta decision, while essentially upholding an earlier ruling of the Pension Commission of Ontario (PCO), builds on developing pension jurisprudence from other Canadian jurisdictions. In particular, it confirms that appropriate processes under pension legislation should be followed before seeking judicial intervention and acknowledges the growing recognition by the courts of the need to balance the interests of plan sponsors and members.

1991 Amendment

Prior to the 1991 amendment, the plans provided for enhanced early retirement benefits for members who had a minimum of 10 years of service with IOL and were terminated by IOL for reasons of efficiency. Following the amendment, members were further required to be eligible to retire within five years of termination and to be at least age 50 to qualify for enhanced early retirement benefits.

Shortly after the plans were amended, IOL terminated a number of employees in a downsizing effort. A group of these employees were under age 50 at the time of their termination and, therefore, were not eligible to receive enhanced early retirement benefits under the new requirements. However, as they had met the original 10-year service requirement, they decided to challenge the validity of the amendments before the PCO, as the plans were registered in Ontario.

Members of the plans living in Alberta, including a number of the current plaintiffs, were involved in the initial Ontario challenge in 1995. The PCO dismissed that complaint holding that IOL had not breached the section of the Pension Benefits Act (Ontario) (PBA) prohibiting amendments which reduced ancillary benefits of members who had met all eligibility requirements. The reasoning of the PCO rested on the fact that termination for reasons of efficiency was an eligibility requirement under the plans and, as none of the affected members had been terminated at the date of the amendment, they had not satisfied all of the eligibility requirements when the amendment became effective. Further, the PCO held that IOL did not owe the members a fiduciary duty under the PBA as IOL was not acting in its role as administrator in amending the plan. The decision of the PCO was not appealed to the Divisional Court of Ontario.

In 1997, the plaintiffs filed a Statement of Claim in Alberta alleging that the 1991 amendment was invalid as it was prohibited by both the Employment Pension Plans Act, 1986 (Alberta) (EPPA) and the terms of the plans. Additionally, the plaintiffs alleged that by amending the plans as it did in 1991, IOL had breached both its common law fiduciary duties associated with its role as administrator of the plans and its duty of good faith owed as sponsor of the plans.

Res Judicata

The plaintiffs’ claims that the amendment breached the EPPA, the plans’ terms, and IOL’s fiduciary duty were dismissed on the basis that the issues had already been decided by the PCO. The principle of res judicata prohibits the re-litigation of an action on which a judicial or quasi-judicial body has previously rendered a final decision, with a view to limiting the ability to question such decisions in subsequent actions, aside from the proper appeals channels.

In ruling on the res judicata issue, Associate Chief Justice Wittmann noted that recent decisions of the Supreme Court of Canada “suggest that there is a strong preference for parties to avail themselves of the administrative process, particularly in the context of pensions, which are subject to a complex regulatory scheme and fall within the jurisdiction of highly expert tribunals.”

To reach its conclusion that the plaintiff’s claims had already been decided, the court applied a broad form of res judicata. In determining that the relevant legal criteria had been met, the court held that the
PCO was a “court” and, further, that the decision of the PCO was rendered final by virtue of the complainants’ decision not to appeal, despite their entitlement to do so under the PBA.

As well, the court found that, given the authority of the Ontario pension regulator to consider the legality of the amendment under both the Alberta and Ontario legislation, both the Alberta and Ontario members of the plans were effectively bound by the outcome of the proceedings before the PCO.

In addressing the plaintiffs’ arguments that the PCO had not dealt with the EPPA or considered the specific provisions of the plans in its decision, the court held that the plaintiffs could have challenged the amendment on those grounds before the PCO, but that they had chosen not to and were now prevented from raising these arguments. In addition, the court found that the issue of fiduciary duty had been argued, considered, and decided by the PCO. Further, as the fiduciary duty imposed by statute was, in these circumstances, indistinguishable from that which may arise under common law, the fact that the PCO had based its decision on the PBA rather than common law was considered to be irrelevant to the finding that the matter was previously determined.

In the event that its decision regarding res judicata was found to be incorrect on appeal, the court also considered the merits of the plaintiffs’ claims.

**Terms Of The Plans**

Under the terms of the plans, IOL was prohibited from making amendments which reduced benefits that had accrued to members prior to the date of the amendment. The court held that the amendment did not breach those terms, as ancillary benefits would not accrue until a plan member met all of the eligibility requirements.

Prior to the 1991 amendment, in order to be eligible for enhanced early retirement benefits under the plans, a member must have had at least 10 years of service and have been terminated by IOL for reasons of efficiency. As none of the plaintiffs had been terminated at the time of the amendment, they had not met all of the applicable eligibility requirements and their entitlement to enhanced retirement benefits had not yet accrued to them. Therefore, the amendment did not reduce an accrued benefit. This decision is in line with decisions in other jurisdictions with respect to the meaning of “accrued” as it applies to ancillary benefits, including the earlier decision of the PCO.

At the time of the amendment, the EPPA prohibited amendments that reduced “a person’s benefits in respect of employment on or after the initial qualification date and before the effective date of the amendment.” The plaintiffs argued that this prohibited IOL from making amendments which affected eligibility for ancillary benefits.

In rejecting the plaintiffs’ interpretation, the court recognized that the EPPA was intended to balance employer and employee interests and that to accept the plaintiffs’ interpretation would “effectively freeze all ancillary benefits at their high water marks,” fundamentally restricting the ability of plan sponsors to make amendments. The court held that this interpretation was not supported by the language of the EPPA, nor did it take into account the purpose and scheme of the legislation. It concluded that the EPPA had always allowed employers to amend pension plans in a manner that would reduce ancillary benefits for which members had not met all eligibility requirements.

**Fiduciary Duty**

In determining that IOL did not owe a fiduciary duty to plan members in amending the plan, the court adopted the ‘two hats’ principle established in the original PCO decision in this case and since accepted and applied in other jurisdictions. In essence, the ‘two hats’ principle acknowledges the inherent conflict between an employer’s roles as plan sponsor and plan administrator, and imposes a fiduciary duty on an employer only when acting in the capacity of plan administrator. The court stated that a pension plan sponsor exercising its power of amendment is not subject to a fiduciary duty, regardless of whether a plan administrator’s fiduciary duty arises under statute or common law. As such, in amending the plans, IOL “was acting as employer and plan sponsor and within the scope of the authority granted to it …” by the plans. In light of this aspect of the ruling, the decision explicitly recognizes that the ‘two hats’ doctrine applies in Alberta and brings Alberta clearly in line with other Canadian jurisdictions.

Finally, with respect to the argument that IOL had breached its duty of good faith in making the amendment, the court followed both Justice Michael Bastarache’s comments in the Supreme Court of Canada’s decision in Buschau v. Rogers Communication Inc., and the recent Ontario Superior Court of Justice decision in Sutherland v. Hudson’s Bay Company. The court, in line with these decisions, recognized that an employer owes a duty of good faith when exercising the power of amendment under a pension plan. However, to the extent that IOL was subject to a duty of good faith in exercising its power of amendment, that duty did not require IOL to act solely in the best interest of the plan members.

The court further stated that where the outcome of the plan sponsor’s action is otherwise consistent with the scope of the pension plan, the fact that the sponsor may have acted in its own self-interest is irrelevant, especially as, in this case, there was “no evidence that Imperial was acting in an underhanded manner or for some collateral purpose.” In reaching its conclusions, the court also noted that an employer acting in its capacity as employer and exercising its right to amend in accordance with the plan and the applicable legislation cannot be said to have been acting in bad faith.

**Growing Recognition**

Although this well-reasoned decision does not establish new legal principles in the pensions context, it clearly reflects the growing recognition by Canadian courts that the rights of pension plan sponsors and members must be balanced. In the case of amendments to a pension plan, relevant legislation, common law, and the terms of each plan all play some distance to providing protection to plan members and their benefits. However, in order for plan sponsors to effectively manage their retirement and compensation programs, they must be afforded some leeway to make changes to their pension plans as circumstances may dictate.

As well, the decision explicitly applies principles with respect to fiduciary duties and the duty of good faith established in other jurisdictions to pension jurisprudence in Alberta, and further reinforces the fact that pension plan members must seek out the appropriate processes under pension legislation prior to seeking judicial intervention. Ultimately, this case provides comfort to Alberta pension plan sponsors by formally recognizing their legitimate interests as plan sponsors and by clearly applying legal principles enumerated in other jurisdictions to Alberta pension law.

As it has been determined that there will not be an appeal, the court’s decision shall serve as the defining pronouncement on these issues in Alberta, at least for the time being.

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Benefits and Pensions Monitor – February 2009
Times are tough, and it is natural to ask what caused the mess that we are in. As investors and regulators look around for the origin of today’s collapse in the economy, and as they ultimately search for scapegoats, people have repeatedly noted that “the financial models didn’t work.” It seems that this broad judgment includes everything from financial forecasting models to asset pricing models and models for complex instruments such as subprime CDOs and credit default swaps.

A Few Thoughts
I have a few thoughts on the matter, including:

◆ Yes, The Models Were Wrong
Let’s not be cute or coy here, trying to say that “ultimately, the models will be proven right” or that, in most cases, but just not this instance, your favourite forecasting model works. Models didn’t predict this. End of story.

◆ But, Nobody Else Saw This Coming Either
I didn’t see this coming, and neither did you. Yes, some investors may have been spooked out of the market at some point, but if they really believed things were going to get bad, they would have shorted everything in sight – from equities to oil. They didn’t.

That lends itself to testing. Emanuel Derman and Paul Wilmott, two of the most famous financial quants out there (and defenders of the use of financial modeling), recently stated “Physicists study the world by repeating the same experiments over and over again to discover forces and their almost magical mathematical laws. For example, Galileo dropped balls off the leaning tower and giant teams in Geneva collide protons on protons. Financial theory has tried hard to emulate the style and elegance of physics in order to discover its own laws.

However, markets are made up of people who are influenced by events, by their ephemeral feelings about events, and by their expectations of other people’s feelings. The truth is that there are no fundamental laws in finance.”

So do we toss out the model? No, we use them for what they are designed for – as a method of testing our ideas about markets and the future. Derman and Wilmott say that “models are at bottom tools for approximate thinking: they serve to transform your intuition about the future into a price for a security today.” In other words, we use them to test ‘what if’ scenarios, which means that we have to understand the sensitivity of the models themselves. This sensitivity comes in two directions – sensitivity on the input side (what happens if we assume X takes place) and sensitivity on the output side (yes, the model says that Y will happen, but does that make sense to us using our own knowledge and judgment).

All-time Correct Model
An understanding of what models can, and cannot, do means that we can stop our search for the ever elusive all-time correct model. However, this also means that we can never be satisfied with our current financial models. They need to be continually validated, and adapted, as we learn from them.

We will need models in the future, especially to understand increasingly complex financial instruments. And we will need to continually update, change, and correct our models. Ultimately, we will need people who can apply their own wisdom, supported by models, to the ever-changing real world.
Global Custody Report

Securities Lending Weathers the Storm

Continued from page 19

they were merely reacting to what was already happening in the market. He examined short-selling volumes on September 9, 2008, when rumours of a Lehman Brothers bankruptcy were widely discussed. On that day, short sellers sold well after long investors began selling mass quantities of Lehman Brothers stock.

Considerable academic evidence suggests that short selling contributes to stronger financial markets by providing efficient price discovery, less volatility, and greater liquidity. In addition, short selling creates new investment opportunities for institutional investors, efficient derivatives market-making among dealers, and the chance to generate further portfolio income for beneficial owners.

Looking Forward

Although 2008 was a challenging year, the Canadian securities lending industry remains strong, having successfully navigated the storm. Securities lenders demonstrated they can manage risk and protect the interests of their clients in the face of major systemic shocks. From this position of confidence in the industry, pension plan sponsors are encouraged to initiate deeper dialogue with lenders. Securities lending remains a safe and valuable way for plan sponsors wishing to support sagging portfolio values.

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The Private Equity Symposium – a collaborative event between Financial Executives International Canada (FEI Canada), the Canadian Institute of Chartered Business Valuators (CICBV), Toronto CFA Society, and Canada’s Venture Capital & Private Equity Association (CVCA) – will take place March 3 in Toronto, ON. Now in its fourth year, the symposium provides an opportunity for financial executives to network with colleagues from all sides of the private equity market. Speakers will include D. Brooks Zug, senior managing director and founder, HarbourVest Partners, LLC; John Albright, managing partner, Albright Partners; and Ron Tepper, executive chairman, Fastfrate Inc. Visit: www.feicanada.org

Osgoode Professional Development’s ‘Pension and Benefit Entitlements Upon Marriage Breakdown: The Legal Guide’ will take place March 11 in Toronto, ON. This program was developed to provide lawyers and other professionals with the information and guidance they need in handling the division of pension and benefits. Speakers include Peter Shena, senior vice-president, stakeholder relations and pension policy, for the Ontario Pension Board; and Karen Mostyn Kahansky, senior legal counsel, legal affairs, at EDS. Visit: www.osgoodepd.ca/clehome_list.html

The ‘2009 Summit on the Future of Pensions: From Crisis to Sustainability’ will explore how to manage the immediate crisis while tackling the long-term structural challenges. Topics will include an examination of the Alberta/BC, Ontario, and Nova Scotia pension regulation reports and how major organizations are lobbying the federal government for change. It takes place April 20 and 21 in Toronto, ON. Visit: www.conferenceboard.ca

‘Imagine. Innovate. Inspire’ is the theme of this year’s Health & Safety Canada 2009 Conference and Trade Show. Set for April 20 to 22 in Toronto, ON, it will look at what the future holds in the ever-changing world of work. Keynote speakers include Dr. Jill Bolte Taylor, a neuroanatomist and author of ‘My Stroke of Insight: A Brain Scientist’s Personal Journal;’ and Tim Flannery, author of the ‘The Weather Makers: How We Are Changing the Climate and What It Means for Life on Earth.’ Visit: www.iapa.ca

Learn how to spend your wellness dollars most effectively at this year’s ‘Employer Forum: Effective Programming on Any Budget.’ Set for April 29 to May 1, it takes place in Niagara-on-the-Lake, ON. Visit: www.connexhc.com/conferences.asp?id=3

Announcement

Judy Grant – Vice President, Group Benefits

Co-operators Life Insurance Company is pleased to announce the appointment of Judy Grant to the position of Vice President, Group Benefits.

As Vice President, Group Benefits, Judy is responsible for providing leadership to all areas of our Group Benefits Operations including client services and operation, underwriting, claims, and pricing and valuation. She is also responsible for the development and implementation of strategic and operational planning.

Judy has 20 years experience in the group benefits industry in a variety of roles, most recently as Regional Manager, Group Sales and Business Development, Western Canada. In that role, Judy gained a strong understanding of the needs of our clients and partners. Judy has also held management positions in claims and underwriting.

Judy holds her Fellow, Life Management Institute (FLMI) and Certified Employee Benefits Specialist (CEBS) designations.

The Co-operators is the leading Canadian-owned multi-product insurance company.
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At Desjardins Financial Security, we know what it takes to keep company retirement plans successful. Employee participation is essential. That’s where our Education Team comes in. We help plan sponsors throughout Canada ensure that their participants have a complete and thorough understanding of their plans, using communication tools recognized by the Insurance & Financial Communicators Association. That way, participants get all the information they need to make informed investment choices, and plan sponsors can focus on the big picture, secure in the knowledge that no detail will be overlooked.

For a head start on successful group retirement solutions, give us a call. We’ve got the team.
To be successful in any business, attention to detail is crucial. And this is especially true when it comes to providing retirement services for your employees. At Great-West Life we are completely committed to the highest principles of accountability and providing superior, reliable group retirement services. If you want your group retirement plan to run as smoothly as you wish everything else did, give us a call at 1-800-452-0025 or visit www.grsaccess.com

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