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How much income do you need in retirement?

That is the burning issue today as the demise of the private sector Defined Benefit pension plan means more and more emphasis is being put on Defined Contribution plans. And the recent financial market turmoil was a setback for many of those with DC plans, raising questions about benefits adequacy.

Correct Answer

The correct answer for perhaps 60 per cent of Canadian employees, those with neither a DB or DC plan, is ‘how much do I have?’

For many of these Canadians, those of the boomer generation, talk of pension reform, is too late. Unless they have made their own arrangements, all they will have is the Canada Pension Plan, OAS, and GIS.

Of the remaining Canadians, those in the public sector will have pension security. And, frankly, despite warnings that the average Canadian will soon be up in arms over the disparity between public and private sector pensions, in some cases, Ontario teachers, for example, they have paid for their pensions. They have been compelled to contribute enough of their wages each year to pay for their pension promise. In private sector DC plans, one of the biggest concerns/complaints is that members do not appreciate that an annual contribution of three per cent just isn’t going to provide the 50 per cent, 60 per cent or 70 per cent of pre-retirement income that various retirement planning experts have said is necessary.

Of course, Mercer’s Malcolm Hamilton has been preaching for years that these retirement income targets are way off base. Pay down your bills, pay off the home, get all the travel done in the first five years of retirement, and then buy a big screen television for as many days is the secret to a financially secure retirement and happily watch comedy reruns for the rest of your days is the secret to a financially secure retirement for many.

Now, Morneau Sobeco’s ‘Saving for Retirement – a Fresh Perspective’ report floats the idea of a neutral retirement, based on assets from the fourth pillar. It says Canadians who save through RRSPs can take comfort in knowing a neutral retirement income target is within reach.

To get there, however, they need to keep a reasonable retirement age in mind, pay off their mortgage by retirement, start saving early enough, and be prepared to use some of their Pillar 4 assets. Morneau Sobeco calls Pillar 4 assets the ‘x-factor’ that bails out many Canadians who would otherwise find themselves falling short of their retirement goals.

For instance, some couples might sell their principal residence at retirement and downsize to a smaller, less expensive home and use the proceeds to supplement their income. Pillar 4 also includes taxable savings and TFSA.

Fortunately, we have been told that the only folks who have to worry are the middle class. Low income Canadians will actually be better off financially with just the government programs as their retirement income. Upper income wage earners should be able to provide for their own retirement.

Fifth Pillar

For those who have not saved, working past age 65 could well be the Fifth Pillar of retirement income. Historically, when 65 was picked as the age of retirement, it was chosen because most people died before that age. No-one envisioned a time when we could be in retirement for as many years as we worked, yet that is becoming more and more normal.

So really, do we even need to debate how much income people need in retirement? Those who realize they need to prepare themselves, do so. Those who do nothing will simply have to live within their means.

jhornyak@powershift.ca
PEOPLE

Submit your People items for consideration for publication in Benefits and Pensions Monitor to admin@powershift.ca

FSCO
Normand Lépine is a pension investment specialist with the Financial Services Commission of Ontario (FSCO). In this role, he will provide expertise for the development/review of the pension investment risk assessment and monitoring program of the provincial pension industry to ensure compliance of pension plans in Ontario. He was previously with Johnson & Johnson.

McCarthy Tétrault
Kim Ozubko is counsel in the pensions, benefits, and executive compensation practice at McCarthy Tétrault. She has extensive experience in all matters relating to the legal and regulatory aspects of pension, group benefit, and profit-sharing plans including implementation, administration, governance, funding, and wind-up.

AIMA Canada
Gary Ostoich, of Spartan Fund Management, is chairman of AIMA Canada for 2010-2012. The executive committee also includes deputy-chair – Eamonn McConnell, Manna Asset Management; legal counsel – Michael Burns, McMillan LLP; secretary – Andrew Doman, Man Investments Canada Corp.; and treasurer – Chris Pitts, PricewaterhouseCoopers.

MFC
Jacqui Allard is global chief operating officer of MFC Global Investment Management. Before joining the firm as vice-president and chief administrative officer, she was a senior vice-president at State Street Corporation where she held various senior technology, operations, and client management positions.

BNY Trust
Robert Arnould is a sales representative for Western Canada at BNY Trust Company of Canada. He was formerly a senior vice-president at EFG International, a Canadian financial advisory firm.

RBC Dexia
John W. Thompson is chief financial officer at RBC Dexia Investor Services. Previously, he held senior roles with CIBC, where he led the financial management and transformation of a number of major business units in the U.S. and Asia Pacific regions.

AGF
Gordon Forrester is executive vice-president, marketing and product, strategy and development, at AGF Investments Inc. He will lead marketing strategy and product development initiatives for both the retail and institutional channels. He comes to the firm with nearly three decades of experience in the financial services and investment industry, most recently in the U.S.

RBC
Patricia Croft has announced her retirement from the investment industry. The chief economist at RBC Global Asset Management will depart at the end of September after almost three decades in the investment industry. She is part of the team that manages the asset mix for $25 billion in balanced fund mandates for Phillips, Hager and North Investment Management Ltd. and other RBC Global Asset Management affiliated companies.

CPP Review
Rob Brown will chair the three-member committee appointed to review the ‘25th Actuarial Report on the Canada Pension Plan.’ Brown chairs the International Actuarial Association’s Social Security Committee and has reviewed the CPP Actuarial Report in the past. He also a former president of the Canadian Institute of Actuaries.

Sun Life
Marie Foggetti is regional business development director for group retirement services at Sun Life Financial. She will be responsible for both consultant-driven and direct sales in central Canada.
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‘New Normal’
Really Deviation

The ‘New Normal’ is not normal and the current environment can be best described as the “Great Deviation,” says Harry Marmer, executive vice-president, institutional investment services, at Hillsdale Investment Management. He told an investment session at the 2010 Ontario CPBI conference that a number of “Black Swan events” – events that are beyond the realm of regular expectations – have caused typical asset class returns to have non-normal return distributions. Recent “Black Swans” include the 1998 Russian default and the 2008/09 credit crises. During this “Great Deviation,” economic and political policies have become “more interventionist, less rules-based, and less predictable.” As a result, he said now is not the time to move out of equities and into LDI. As well, one way to capture the equity risk premium is through minimum risk equity portfolios or to employ strategies that perform well in the tails.

O’Connell Buys Davis-Rea

Boutique asset manager Davis-Rea Ltd. is being bought by John O’Connell, founding partner of the Harbour Group at RBC Dominion Securities. Davis-Rea offers discretionary money management services to individuals, companies, institutions, and foundations. It currently has more than $400 million of assets under management. O’Connell has been in the investment industry for more than 24 years as a portfolio manager and investment advisor.

Damages For Mental Injury Increasing

Financial rewards for damages caused by mental injury at work have increased over the past five years by as much as 700 per cent, says a report from the Mental Health Commission of Canada (MHCC). The ‘Tracking the Perfect Legal Storm’ report has been prepared by Dr. Martin Shain, an academic lawyer and leading expert in workplace mental health issues who has written for Benefits and Pensions Monitor. It warns that a perfect legal storm is brewing in the area of mental health protection at work as employers are confronted with a legal duty to maintain not only a physically safe workplace, but also a psychologically safe workplace. Courts and tribunals are scrutinizing behaviour that may cause mental injury to employees and legal actions are being taken in key areas of law including human rights tribunals and occupational health and safety law.

Sustainability Prompts Forward-thinking

Companies with superior positioning and performance on sustainability tend to be more forward-thinking and strategic, more agile and adaptable, and better managed, says Dr. Matthew J. Kiernan, chief executive, Inflection Point Capital Management. Speaking at the Legg Mason ‘Global Investment Forum on ESG,’ he called on the industry to reconsider its approach to sustainable or socially responsible investing and instead think of it as strategic investing. There are a number of megatrends, such as climate change, now taking place and investors need to be aware of them. Using sustainability issues and drivers as indicators along with traditional financial analysis gives a more complete picture of a company’s true competitive risks, value potential, and future performance, he said, allowing for a strategic approach to investing.

Vaz-Oxlade Advises Manulife Members

Manulife Financial’s Canadian group retirement plan members will be able to turn to financial writer and TV personality Gail Vaz-Oxlade for insights and suggestions designed to help them manage their personal finances and build an effective retirement plan. The host of the television series ‘Til Debt Do Us Part’ and the author of ‘Debt-Free Forever: Take Control of Your Money and Your Life’ has entered an exclusive arrangement with Manulife to provide her approach to financial management to its clients. Initially, she will provide articles for member updates and communications along with a series of web-based seminars for plan members.
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Multi-nationals Should Centralize Pension Expertise

Multi-national companies should centralize their pension expertise to better manage their liabilities, says PricewaterhouseCoopers (PwC). The recommendation follows an analysis of pension liabilities for the 25 companies in the Amsterdam Exchange index (AEX). It also calls for improving efficiency through joint investment policies and risk management, and using the benefits of scale through collective international contracts to manage pension arrangements. It found that company pension funds had a combined shortfall of $18.1 billion at the end of 2009 after their sponsors made worldwide additional contributions of $7.1 billion the previous year. Since 2004, companies spent less than 50 per cent of their contributions for new pension accrual and a steadily increasing amount to account for shortfalls.

Aon Hewitt Formed

Aon Hewitt is open for business. The merger between Aon Corporation and Hewitt Associates, Inc. is now completed. “Through Aon Hewitt, we will provide our clients with a broader portfolio of innovative products and services focused on what we believe are two of the most important topics facing today’s global economy – risk and people,” says Greg Case, president CEO of Aon. The company predicts the cost savings of the merger will be approximately $355 across Aon Hewitt in 2013, primarily from reductions in back office areas, public company costs, and management overlap, as well as leverage of technology platforms.

Two Speed World Emerging

Pension plan and institutional investors must come to grips with the “two speed” world of the developed and emerging markets economics, says Yvan Breton, Canada and Latin America leader at Mercer’s investment consulting business. Over the past 25 years, the developed world has driven growth and equity prices. Now, however, growth is slowing and most global economic growth is coming from emerging markets, he told a media session prior to its ‘Americas Investment Forum.’ Investors need to take advantage of the “two speed” world and reassess the weighting of emerging markets in their portfolios. “Clients should really consider rethinking their investment strategies going forward, and pay more attention to the potential from the east, or emerging economies,” says Breton.

ESG Moving Into Mainstream

Mainstream institutional investors are beginning to incorporate environmental, social and governance (ESG) factors into their decision-making, says a publication from the Canadian Institute of Chartered Accountants (CICA). “Institutional investors tend to have a longer investment time horizon and are increasingly showing signs of interest in ESG factors,” says Lisa French, principal, guidance and support, CICA. “These investors are expressing their expectations for corporate disclosures beyond what is currently provided in financial reporting.” The publication states that regulators have a responsibility to ensure that material information needed by capital markets is provided in regulatory filings.

Employers Must Show Undue Hardship

An employer must show that it cannot accommodate an employee’s disability without facing undue hardship or face undue hardship to provide further accommodation if it wants to terminate the employee, says Christian Paquette, of Heenan Blaikie. Speaking at its ‘Managing Disability in the Workplace’ seminar, he said this may involve looking at the cost to accommodate, health and safety issues, and even the impact on employee morale. The threshold to accommodate will also vary based on the resources of the employer. The duty to accommodate only requires the employer to provide a reasonable, not a perfect, accommodation. As well, the employer is not required to create a position to accommodate an employee.
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Just like every pension plan sponsor, the federal government is always trying to find out if it is doing a good job communicating its pension plan to plan members.

The Treasury Board Secretariat, responsible for strategic direction and policy for the Public Service Pension Plan (PSPP), decided to conduct a baseline survey of active and retired PSPP members to assess awareness, knowledge, and understanding of their pension plan and to evaluate the effectiveness of the communications products currently in use. The results of the survey were published this spring.

Plans Are Complex

Pension plans are complex and it’s difficult to communicate any pension plan, whether it is a Defined Benefit plan, a Defined Contribution plan, or some combination. However, communication needs to be a ‘two-way street’ and giving members information does not always help them to gain understanding. Allowing them to give feedback and ideas on how, what, and when to communicate can only help plan sponsors and administrators get ‘the biggest bang for the buck’ by enabling them to better target their communications.

Survey Assessed Member Awareness

The survey provided a wealth of useful information, including:

◆ Most members (86 per cent) understand the basic method used to calculate their pension.
◆ Almost 75 per cent of members know that their pension increases after retirement to account for inflation.
◆ The majority of members (62 per cent) remember having received their annual pension statement.
◆ Only 16 per cent of members had the right answer about how much their employer contributes to the pension plan. The majority of members were either uncertain or thought the employer matched their contributions. (The correct answer is that the employer contributes more than the members.)
◆ Less than one-half of the members fully understand how their pension benefit is integrated with the Canada/Quebec Pension Plan.
◆ The most common source of information for members is “a friend or colleague,” followed closely by the Public Service Pension and Benefits Web portal, which is the federal government’s one-stop-shop for pension and benefit information (www.pensionandbenefits.gc.ca).
◆ Answers from retirees were, not surprisingly, different on some issues. Of particular note was the fact that 66 per cent of them felt they had received all the information they needed about retirement before leaving the public service.


The federal government is in the process of analyzing the survey results. There is no doubt that its communications strategies over the next few years will be guided to a great extent by the information it has gained from this important survey.

Annual Statement

I can only speculate, but I think they will want to focus their efforts on at least some of the following:

◆ The annual statement – finding ways to incorporate the information that members want and need, and looking at ways to improve the impact of the statement (so that the number of members who say they remember having received their statement will improve over time).
◆ Answering the big question – why does my pension reduce at age 65? This question is a tough one for every plan sponsor who has an integrated plan. There are various ways to tackle this, but it’s definitely an issue for all sponsors/administrators of this type of plan.
◆ Beefing up communications around the employer’s contribution commitment – a plan sponsor would want their employees to ‘get it’ when it comes to how much money is spent on this benefit and, consequently, how valuable it is to employees.

It is gratifying to see this kind of attention being paid to pension communications by the federal government. Impact assessment is an important step in a successful communications strategy.
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For more information, please contact Naoum Tabet, Naoum TABET@avivainvestors.com, or visit www.avivainvestors.ca.
Governance is crucial to pension schemes, and there are three key reasons to focus on it now – return, responsibility, and regulation.

The downturn has profoundly impaired many funds, accentuating the need to optimize asset performance. Of course, the onus of oversight remains with trustees and only enhanced governance can ensure they are equipped to shoulder this responsibility. Moreover, governments across the globe are preparing to introduce sweeping new regulations, which will surely affect pension trustees.

The good news is that there are pragmatic and commercially sustainable steps that every pension fund can take to improve governance. Indeed, most schemes already have more than 80 per cent of the information they require to attain best practice. But, it is the inefficient use of this information that leaves many achieving 50 per cent of their potential. We believe that a few small changes to the way schemes collect, access, and utilize their investment data will make a considerable difference to the level of governance they can achieve.

These steps fall into three distinct categories:

- **Process**
  - Managing Data
    - Use technology to systemize the process of collecting, consolidating, verifying, reconciling, and reporting transactional data.
    - Leverage the information you already have.
  - Monitoring And Checking
    - Verify transactions through a process of reconciling holdings, transactions, income, and corporate actions with fund managers and custodians.
    - Implement an automated compliance monitoring process that will notify the appropriate people when things go wrong.
  - Measuring And Comparing
    - Widen your analysis beyond traditional performance measurement. Instead, use multiple litmus tests included in your governance process.

- **Oversight**
  - Access
    - Flexible reporting and online tools bring brevity to 90 per cent of reports and clarity to the 10 per cent that demand additional information.
    - Work with your asset managers to reduce the time lag to information being made available for analysis.
  - Visibility
    - Your asset managers hold all the data you need to achieve genuine transparency. Simply ask for it.
    - Pension schemes need to know exactly what they are paying for. Demand full disclosure from external suppliers of all spreads, both direct and indirect, applied to your assets. Monitor these factors on a regular basis.
  - Understanding
    - Use multiple methods when testing for value. Review results from transaction costs, risk, attribution, scenario analysis, and manager delta scores in conjunction with performance to create a more complete picture, leading to better understanding.
    - Work with professionals if internal resources are not available; the fees will be justified.

- **Communication**
  - Expedite Information Delivery
    - Avoid time-consuming report preparation – use the web to deliver the relevant information directly to the people who need it.
  - Enhance Reporting
    - Automate and customize reports to fit the needs of your team.
    - Too much data is counterproductive. Keep information succinct and applicable.
  - Dialogue
    - Communicate with internal and external teams more frequently, using online tools to share information.

It is important to remember that governance is not an end unto itself. This process will tackle long-held industry bugbears, such as lack of transparency and disclosure, while addressing the well-known problems associated with traditional client reporting, such as accuracy, timing, flexibility, and cost of acquisition.
How refreshing.

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In January 2009, a Toronto mother of two was diagnosed with breast cancer. At the time she was working for a property management company as a leasing agent. She advised them that she would eventually need to take an indefinite leave of absence to undergo treatment, but stated she was well enough to work until time of the treatment. They responded by informing her that her position with the company had been terminated.

In July 2010, Ontario’s Human Right’s Tribunal ruled that the woman had been discriminated against on the basis of her disability and her employer was made to pay $20,000 in general damages in addition to her lost wages. During the investigation, the company openly admitted that it believed it could legally terminate her employment because of her illness.

In a recent survey of breast cancer patients, 16 per cent of respondents said they were fired and 20 per cent returned to work before they were ready because of financial pressure. Nearly half dipped into their savings to pay for treatment and living expenses while they were off work and 27 per cent borrowed money. Forty-four per cent completely depleted their savings and retirement funds and 17 per cent were unable to return to the same job title and salary.

A cancer diagnosis can be terrifying, but many victims say it is the financial and work-related concerns that weigh heaviest on them. In many cases, the stress of financial matters may hinder a successful recovery.

One In Nine

With 11 per cent of Canadian women expected to develop breast cancer in their lives (and one in three Canadians expected to be diagnosed with some form of cancer), the issue of working with a disability is one that needs to be addressed. Yes, breast cancer does fall under the category of a ‘disability’ and employers do have an obligation to accommodate disabled employees short of ‘undue hardship.’

What should employers know about dealing with an employee who is being treated for breast cancer? First, they should remember that they cannot legally fire an employee for a diagnosis of any kind, including breast cancer. Employees with cancer are also legally entitled to 15 weeks of sickness benefits paid by employment insurance from the government and any other health insurance benefits available under a group policy from the company.

When an employee reveals that she (or, about one per cent of the time, he) has breast cancer, an employer is not legally permitted to ask for details about treatment. Rather, questions regarding the illness can only be directed at the impact on overall job performance. An employer may also ask about what kind of accommodations he or she can make to allow the employee to do the job. These may include:

- time off for doctors’ appointments
- short breaks during the work day to rest
- transfer to a less demanding position
- allowing exceptions to the dress code, like wearing a hat or scarf, or more comfortable clothing

What To Expect

If you’ve never had to watch a friend or loved one undergo breast cancer treatment, consider yourself lucky, though you may be wondering what to expect.

Treatment may include surgery and recovery time varies. For a lumpectomy, the woman may be ready to return to work within a week or two, but for a full mastectomy, it can take several weeks or longer for them to be fully well again.

Chemotherapy is an ongoing treatment option and, again, results will vary. Some women are able to continue working with minimal interruption while others will need more time off. If your employee does decide to work through her recovery time, expect her to be nauseated and tired immediately after treatment.

Radiation therapy is continuous and treatment happens about five days a week for five to seven weeks. Most women are able to continue working through this treatment option with only mild fatigue.

Hormone therapy only works on certain kinds of breast cancers. Treatment is taken in pill form and therefore does not directly require time out of the office. Women on hormone therapy, however, may suffer any number of side effects including bone and joint pain, fatigue, dizziness, or headaches.

It’s important to remember that a woman undergoing breast cancer therapy of any kind is dealing with a lot, emotionally and physically. To continue working through recovery is a difficult choice and any support you can offer will be much appreciated.

Breast Cancer: Curing Employee Concerns

Yes, breast cancer does fall under the category of a ‘disability’ and employers do have an obligation to accommodate disabled employees short of ‘undue hardship.’

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).
Given the continuing demand for tax-efficient employee benefits and rising healthcare costs, employer health and welfare trusts are increasingly popular. At the same time, the trustees who manage these trusts are called upon to ensure maximum benefits for employees which includes minimizing the taxes paid by these trusts.

There are, however, a number of tax issues for health and welfare trusts (HWTs) that are not clear cut since these trusts are not specifically defined in the Income Tax Act of Canada. Guidance on their tax treatment is dealt with in the 1986 interpretation bulletin IT-85R2 as well as technical interpretations and advanced tax rulings issued by the Canada Revenue Agency (CRA) over the years. In order to effectively minimize taxes, trustees need to be aware of these issues, especially those related to capital gains, minimum tax, and the 21-year deemed disposition rule.

**Tax Fundamentals**

First, consider the tax fundamentals of HWT trusts. One of the reasons that HWTs are so popular is that the contributions by an employer required to fund the benefits are generally deductible for income tax purposes in the year the legal obligation to make the payment to the trust arises. In addition, any income tax advantage that an employee would otherwise benefit from is not affected by the use of an HWT as an intermediary. Any income earned inside the trust is generally not taxed. These are all good.

An HWT essentially operates like a group sickness and accident insurance plan, a private health service plan or a group term life insurance policy – or a combination of these. Thus, to qualify as an HWT, a trust can only provide the same benefits as these plans – prescription drugs, dental and vision care, medical equipment and devices, short- and long-term disability, insurance premiums for private health plans as well as life insurance policies, and so on.

The CRA allows these trusts to be effectively treated as ‘conduits.’ The employees who receive the benefits from the trust are taxed such that the result is the same as if the employer provided the benefits directly. If an employer provides employees with private group health insurance, for example, the premiums would not be taxable to the employee while the cost of the premium is deductible to the employer.

**‘Administrative Concession’**

An HWT is basically an ‘administrative concession’ established by the CRA. Along with being restricted to providing only specified benefits to employees, an HWT trust must meet other conditions. For example, once funds have been deposited by an employer into the trust, they must be used to provide health and welfare benefits for employees – the employer cannot later withdraw the funds.

In meeting these conditions, an HWT receives preferential tax treatment. The CRA allows concessions regarding what these trusts can deduct against income. The only income generated within an HWT would generally be investment income and capital gains on the investments held to provide benefits. The CRA allows an HWT to deduct expenses incurred to earn this income, such as investment management fees, as well as expenses related to the administration of the trust (such as dues collection, reviewing claims, etc.) and benefits that are taxable to the employees (such group life insurance premiums). By balancing expenses against income, HWTs can usually reduce taxable income to nil and the full benefit of the trust’s income goes toward providing health benefits to the employees.

As an administrative concession, however, HWTs fall into a grey area of taxation. They are a trust under the Income Tax Act, but are not specifically defined in the act. Therefore, not only health and welfare trustees, but even CRA representatives, are sometimes challenged to determine the correct tax treatment in certain situations.

Following are three ‘grey areas’ where health and welfare trustees may need to be alert to potential income tax liabilities.

- **Realizing capital gains**
  - Financial statements for health and welfare trusts...
are presented on a fair market value basis. Unrealized gains or losses are, therefore, reflected in these statements. However, for income tax purposes, an HWT is treated like an individual and taxed basically on a cash basis.

When it comes to the investments held in an HWT, unrealized capital gains are typically accrued and recognized each year for financial reporting purposes, but, as the gain is not realized, it is not reported for income tax purposes. When trustees decide to sell an investment with a large accrued capital gain, this could create a tax liability if the trust does not have sufficient eligible expenditures to offset the gain.

Here’s an example.

Over a five-year period, an HWT has $50,000 in excess expenses (investment expenses incurred in earning income plus expenses related to the normal operation of the trust in excess of the trust’s income for tax purposes). HWTs generally cannot create a loss that can be carried forward and used against taxable income in a later year. Thus in a typical year, the trust does not have taxable income or a loss carry forward.

**Expensive Tax Hit**

In year six, the trustees decide to cash a security to fund some benefits. The trust has held this investment for a number of years and the sale triggers an accrued $600,000 capital gain. Since 50 per cent of a capital gain is generally taken into income, $300,000 would be taxable. The trust has only $50,000 in excess expenses that year to claim against this increase in taxable income; therefore, about $250,000 of the gain is exposed to tax. This is a very expensive tax hit.

This scenario, however, can be avoided. If the trustees had realized $100,000 of the gain in each year for five years, it would have had a $50,000 taxable capital gain each year. The annual $50,000 of excess expenditures available each year would have offset the annual taxable capital gain. When the trustees then cashed the remaining security in year six, there would have only been $100,000 of the gain left to recognize for tax purposes. Since only 50 per cent, or $50,000, would be taxable, that year’s $50,000 of excess expenses would have reduced taxable income to nil.

This points out the importance of careful capital gains management for health and welfare trusts.

- **Alternative Minimum Tax**

  Alternative minimum tax (AMT) is another issue that can impact the tax liability of an HWT, particularly when it realizes a capital gain.

  Alternative minimum tax was introduced to address concerns about high income taxpayers paying relatively little income tax due to ‘tax-preference items.’ Since a trust is considered an individual for tax purposes, it is also subject to AMT. The tax-preference item that most commonly impacts an HWT is capital gains, only 50 per cent of which is included in taxable income.

  When calculating income for AMT purposes, a trust’s taxable income is adjusted for tax-preference items. The CRA’s long standing administrative position, however, was that a trust was allowed no deductions in excess of its gross income for regular tax purposes. This could subject a health and welfare trust to paying AMT even though it may not have paid regular tax had it included 100 per cent of its capital gain in income for regular tax purposes.

**Offset The Income**

As an example, an HWT has $150,000 of gross income for regular tax purposes; $50,000 of this is a taxable capital gain. The trust has $250,000 of eligible expenditures and uses $150,000 to reduce its regular taxable income to nil. For minimum tax purposes, the CRA required the trust to report $180,000 of gross income because 80 per cent of the capital gain is included in income for minimum tax purposes. However, the trust would only be allowed to claim the $150,000 of expenses used to bring the HWT’s income to nil for regular tax purposes. The HWT would, therefore, have $30,000 of income subject to minimum tax, even though it had sufficient eligible expenditures available to offset the income subject to minimum tax.

Following years of debate, the CRA has published a technical interpretation that allows HWTs to claim the additional deduction in order to reduce income for minimum tax purposes. Still, some HWTs continue to be assessed alternative minimum tax.

Trustees should, therefore, ensure that when triggering capital gains, sufficient expenses are available to offset income for minimum tax purposes – and also be prepared to file an objection where AMT is inappropriately assessed.

- **The 21-year Rule**

  Another taxing issue for HWTs arises with the 21-year rule which states that trusts must pay tax on accrued capital gains every 21 years. This means that unless trustees carefully manage realization of capital gains, the administrative interpretation of the legislation as it applies to HWTs may force a large tax liability on the trust due to the 21-year rule. Conceivably, an entire trust portfolio could have a deemed disposition at fair market value on its 21st anniversary, with 50 per cent of the inherent unrealized capital gain included in taxable income. Many HWTs would not have sufficient eligible expenditures to offset the income inclusion and could owe a large tax bill.

  Again, this interpretation of the tax rules may need to be defended with the CRA. To begin with, while all trusts are subject to a deemed disposition every 21 years, there are exceptions to this rule, some being employee trusts, employee benefit plans, and trusts where all interests have vested indefeasibly.

**Not Vested Indefeasibly**

An HWT is not included in the Income Tax Act definition of an employee trust or an employee benefit plan. The CRA has also looked at HWTs under the ‘vested indefeasibly’ exception and has concluded that this exception would also not apply. This conclusion is based on the CRA’s interpretation that, even though the funds in the trust might be allocated to an employee, in the event that employee quits his or her job, this individual will not receive health and welfare benefits from the trust. The employee’s interest in the trust has, therefore, not vested indefeasibly and the trust would not be exempt from the 21-year rule under this exclusion.

The ITA makes another exception, however, to the 21-year rule for a trust where all, or substantially all, of the property of a trust is held for the purpose of providing benefits to individuals, in respect of, or because of, an office or employment or former office or employment of an individual. It appears that this exception was added to the list of exclusions to the 21-year rule to include HWTs since they would otherwise not be exempted. Since the CRA does not process HWT trust returns on a consistent basis, however, this interpretation may need to be presented.

Thus, when it comes to minimizing taxes for HWTs, trustees should be attentive to these grey tax areas. You also have to be prepared to defend a position if the CRA disagrees with your interpretation.

At the same time, there are steps that trustees can take to minimize tax liabilities. Monitor income subject to tax as well as eligible expenditures to ensure that capital gains are realized gradually with sufficient eligible expenditures to offset income for both regular and minimum tax purposes.

When it comes to saving dollars that can pay for health benefits rather than taxes, trustee vigilance could prove to be invaluable.

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Sudoku is a favourite pastime of many retirees. One reason they like Sudoku is the belief that it helps them stay mentally alert. Sudoku may also provide them with a clue for managing their retirement finances.

Everyone has their own methods for solving a Sudoku, but one method is to know what does not belong in a box. If you know that the ‘9’ must appear in one of two blank boxes then you know it does not appear in the other blank boxes. Sudoku can be solved by knowing what does not belong.

What Does Not Belong

A successful retirement also involves knowing what does not belong. What does not belong in a successful retirement is the fear of outliving your money. When a retiree outlives their retirement money about all they can do is turn to the government for help — or their children.

The recent equity market drops are a problem for many retirees. But these retirees can compensate for a reduction in income by reducing their expenses. Given enough time they may even fully recover from the economic losses. Outliving their money is a far greater risk than a drop in income.

Sudoku And Pension Reform

The problem is that no one, not even the actuaries, knows when someone is going to die. A 30-year retirement seems like a long time, but if the retirement starts at 55 then the money will run out at 85. There are many active 85-year-olds around and, given the trends in mortality, there will be lot more active 85- and even 90-year-olds around in the coming decades.

The traditional method for eliminating mortality risk is to buy an annuity from an insurance company. The insurance company then has to worry about retirees outliving the premiums.

The risk of outliving your money is never eliminated. However, you can manage that risk by transferring it to either an insurance company or to your employer.

While the single-employer Defined Benefit pension plan is decreasing in popularity, these plans manage the risk that retirees could outlive their money. In these plans, the company assumes that risk and it’s the company that has to worry about retirees living to 100.

These days, fewer and fewer employers are willing to assume all the risk associated with DB plans. In the future, workers will have to be more creative in how they transfer the mortality risk to another party.

Many unionized workers already pool their resources and assume the mortality risk within the pool. In a union-run multi-employer plan, it is the members who take on the mortality risk.

However, for non-unionized workers there is currently no way to join a pool and to share the mortality risk. The good news is the political environment is ripe for pension reform and now is the time for some creative solutions in sharing the mortality risk.

Expanding the union-sponsored multi-employer concept to include non-union workers would be a good first step. The Income Tax Act and Pension Benefits Acts would have to be revised to allow these types of pension plans. But, the ideal plan would be open to any employer and their employees. The trustees of the plan would set contributions and benefit rates. If the balance between contributions and benefits became tipped unfavourably, the trustees would have the ability to decrease benefits in order to bring the plan back into balance.

Achieve A Target Benefit

In one form or another, this type of plan has been suggested by various organizations. Insurance companies have offered this as a solution. They would be the trustees deciding upon the contribution rates and benefit rates. Others call these Target Benefit Plans because the contributions are originally set to achieve a target benefit. But if the ‘target’ has to be lowered due to bad experience, the trustees can lower the benefit. A target plan could be created by employers or unions or by a professional group.

The greatest risk to all the boomers facing retirement over the next 10 to 20 years is not stock market volatility, but the risk that they will live too long and outlast their money. Maybe it’s too late for them, but they could leave behind a legacy that would keep their children from the same fate. A pension system based on member-controlled Target Benefit Plans would be a good first step.

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I
n the 30 to 40 years since most multi-employer and public sector pension plans have been in existence, the most significant change in funding requirements occurred in the late 1980s when the majority of jurisdictions introduced solvency funding requirements. More recently, while there may not be complete agreement on the reasons for additional change or the type of change required, plan sponsors, members, regulators, and the Canadian Institute of Actuaries (CIA) have all expressed opinions that changes to the funding rules are now required. This article places this important development in context and addresses the implications for sponsors of multi-employer and public sector pension plans.

Rising Funding Costs
The economic conditions in the late 1980s facilitated the introduction of solvency funding as pension plans were generally well funded and interest rates were high. Generally, solvency funding was a non-issue for most pension plans when the concept was first introduced.

Over the last two decades, both going-concern and solvency funding requirements have increased. During that period, solvency funding has replaced going-concern funding as the primary determinant of funding for most pension plans due to decreasing interest rates and the corresponding increasing commuted values. For the majority of active members in a pension plan, the solvency liability is equal to a member’s commuted value. As depicted in Chart 1, pension plan commuted-value payments have been increasing continuously and, for the most part, relentlessly since 1990 in conjunction with declining interest rates.

Plan Sponsors’ Concerns
Single employer pension plan sponsors are seeking a solution to the asymmetrical rules that expose them to significant liabilities in the face of poor experience, while constraining the gains resulting from any good experience. Combined with rising and volatile funding requirements, the corporate response in this environment has been predictable – minimize funding, freeze the accrued pension and convert to a Defined Contribution approach, or terminate the Defined Benefit coverage completely.

Multi-employer plan stakeholders have been fighting their own battle against solvency funding requirements. The relatively inoffensive introduction of these rules in the late 1980s turned invasive when lower interest rates meant that going-concern funding requirements were superseded by solvency funding standards. Mandated benefit reductions revealed the fallacy of the benefit security argument for solvency funding requirements as applied to multi-employer plans. Affected plan participants received a crash course on the nature of their ‘guaranteed’ pension plans and much of the bad news has yet to be shared as required corrective actions arising from 2008 year-end actuarial valuations are still being developed.
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By contrast, public sector pension plan stakeholders have been relatively quiet. However, their concerns are rising because public sector plans are just as susceptible as other plans to rising pension funding costs. Jointly funded pension plans were the first to attract attention as the cost of these arrangements surpassed 18 per cent of pay en route to cost levels that can now easily exceed 30 per cent of pay. Where a joint funding approach is not in place, taxpayers have been bearing the rising costs. At some point, even this may change as the majority of Canadians are facing the harsh realities of readjusting their retirement expectations.

Simply put, there is significant turmoil in the pension world.

The CIA’s Initiatives On Funding

In light of all the pressures mounting on pension plans and the diverging needs of the different types of these arrangements, the Canadian Institute of Actuaries’ pension plan standards of practice are currently undergoing a significant overhaul. At the core of the changes is support for the development of a funding policy for each pension plan. Each funding policy would be tailored to the specific needs of each pension plan and would include a mandatory assessment of the risks to which that plan is exposed. The changes will also unmask some of the mystery behind an actuary’s work, transforming the actuarial valuation process into a more open, educational undertaking.

The adoption of a funding policy conceivably could result in single employer pension plans being funded solely on a solvency basis. Conversely, public sector and multi-employer pension plans could be guided solely by going-concern considerations. With this latter approach, the solvency ‘safety net’ would be replaced by measures that promote the development of appropriate provisions to protect against potential future adverse events.

To support the changes being sought, the CIA published draft revisions to its standards of practice. The final form and timing of the new rules is not yet known, but they are unlikely to become a required part of actuarial practice until late 2010 or later.

Role Of The Regulators

The changes being pursued by the CIA would create tools that can be used by plan sponsors and regulators to achieve their goals. Implementation of the tools is not a given and the success of the changes being pursued will largely be assisted, or hampered, by pension regulation. While the CIA plays a role in fulfilling public policy, public policy itself is defined through legislation. As such, regulators will play a key role in determining the extent to which funding policies will influence pension plans in the future because plan defined funding objectives are superseded by legislated funding requirements. Plan sponsors will also be less inclined to develop customized risk management policies if legislation hinders their implementation.

Even prior to the market collapse and the CIA’s initiative, pension regulators were becoming increasingly concerned with the low or non-existent levels of margins included in some going-concern actuarial valuations. It also became apparent that the one-size-fits-all approach to regulation and funding has significant shortcomings. There is widespread recognition among regulators that solvency funding in its current form is not working as envisioned. This is evidenced by the number of temporary solvency funding relief measures initiated by various jurisdictions while permanent solutions are sought. However, there is no consensus on how funding should be reformed.

After years of effort, harmonization of funding rules across the jurisdictions remains an elusive goal. In fact, we are
seeing increasing signs of divergence from some regulators. Even amongst those jurisdictions that may embrace the new tools being developed, the timing and extent of the changes adopted could vary considerably.

One commonality that is surfacing among regulators is the resurgence of the perceived value of DB arrangements. Governments are generally embracing the concept that their role should not be restricted to the regulation of these arrangements and should include the establishment of a framework that encourages growth in DB pension coverage for all Canadians.

The Risk/Return Tradeoff

In the midst of regulatory uncertainty, some pension plan sponsors have already commenced development of formal funding policies that aim to identify and measure risk as the first step towards mitigating risk where appropriate. Even prior to the adoption of any changes in legislation or actuarial standards, the work completed to date by more proactive plan sponsors has provided additional insights and awareness and has supported some difficult decisions facing these plan sponsors in the wake of the equity market collapse. Perhaps more importantly, these plans provide regulators with concrete evidence that properly constructed funding policies can better address the needs of public policy than the status quo.

No amount of actuarial expertise will ever be able to determine the ‘right’ amount of contributions required to support a given benefit structure, or alternatively, determine the plan design or funding strategy that perfectly addresses all future adverse events. However, improved identification and assessments of risk, along with enhanced explanations of the margins in place to cover those risks, should lead to better and more informed decision-making by plan sponsors. While far from a guarantee of success, it should illuminate many of the pitfalls discovered to date.

In situations where the prior assumption of risk has resulted in benefit curtailments, there may be a desire to eliminate risk completely. While this strategy may be desirable in some circumstances, it will not represent the best course of action in most circumstances any more than the best course of action for DC arrangements is to promote 100 per cent of investments be directed towards T-Bills and government bonds. A risk/reward tradeoff will always exist and it is the role of the actuarial profession to educate all pension plan stakeholders on the nature and implications of the tradeoff.

Actuaries have several analytical tools available to them to assess and communicate the inherent risk of pension plans. These tools can be used both to educate plan sponsors on the pension plan’s risk, short- and long-term, and to aid in the development of comprehensive funding policies. Use of stochastic modeling techniques can provide sponsors with more robust information than the traditional, single-outcome deterministic best guess. These stochastic models can also illuminate future expectations of a plan’s funded status and the related distributions. Plan sponsors can then use this information to broaden their understanding of total plan risk to help shape and guide their pension plans to achieve the desired risk/reward tradeoff.

When used effectively, these tools assist plan sponsors in properly discharging their fiduciary and governance obligations.

No Quick Fixes

While all of this activity will be occurring in a relatively short-term period, the long-term implications of the changes being brought about by the actuarial profession, combined with each jurisdiction’s decisions, will not be known for many years. There are no quick fixes to the changing economic realities and, even in an environment of reasonable investment returns, it will take years to rebuild the levels of margins once enjoyed by most pension plans.

Nevertheless, there is now a sense of cautious optimism that the pension community is headed in the right direction. Plan sponsors may want to play an active role in shaping pension funding policy by sharing their concerns with regulators.

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Each year as more and more traditional Defined Benefit pension plans are frozen and closed to new members, the need for Capital Accumulation Plans to replace them as an attraction and retention tool grows.

Yet, CAP plans are facing new challenges in the wake of rocky financial markets which drained many Canadians of their retirement savings and exacerbated the traditional challenge of engaging plan members.

Joining education and information in the toolbox plan sponsors use to manage their plans is governance. This new emphasis on governance is fuelled in part by the responsibility sponsors feel to provide retirement savings for their members and the growing realization that what they do in terms of managing the plan can, in fact, assist plan members in reaching their retirement goals.

To examine their renewed emphasis on governance, Joan Johannson, president, and Ron Sinnaeve, director, administration and business solutions, of BMO Group Retirement Services Inc., hosted a roundtable discussion on governance of Capital Accumulation Plans in 2010.

The panelists are Michelle A. Loder, Canadian Defined Contribution leader, Towers Watson Canada Inc.; Mark Newton, a partner and national practice leader in pension law at Heenan Blaikie LLP; Marc Poupart, general manager, pension and retirement programs, Hudson's Bay Company; and Deborah Beesley, payroll and benefits financial specialist, CNA Canada, Continental Casualty Company.

Joe Hornyak, executive editor, Benefits and Pension Monitor, is the moderator.

MODERATOR: Are the primary reasons for starting, or changing to, a Defined Contribution pension plan in the past – providing an employee benefit and cost control – still true today?

MARK NEWTON: The fundamental reasons have changed. Retirement savings, whether DB or DC, are a fundamental part of the overall compensation package.

What has happened in the Canadian marketplace is that DC has moved from being a secondary vehicle. It is now the primary vehicle. That changes the whole emphasis. The way you communicate a plan and the delivery of a plan are quite a bit different. There’s a different mindset among employees, at least within the private sector.

The fundamental objective, to provide retirement savings in a tax effective basis, is the same as it was 25 years ago. The vehicles have just changed.

MARC POUPART: Another historic reason was to provide members with more latitude to do what they want. It’s funny, years ago, the expected returns from markets were probably higher than what we have today, so it was viewed as an opportunity shift, not a cost reduction.

Today, I would suggest that is probably not the case. Sponsors see Defined Benefit pension plan costs as ‘out of control.’ So let’s control that and DC is one way to control it.

DEBORAH BEESLEY: From a plan perspective or a plan sponsor perspective, we now have a more mobile workforce. DB is more complimentary to longer service employees. With a workforce with a shorter term, they’re taking their benefit with them, that would be another reason for going to a DC plan.

As well, funding on the budgeting side is so much easier to manage and predict.

MODERATOR: Are there any other compelling arguments for starting or switching to a DC plan today?

MICHELLE LODER: A survey we did this year found many reasons.

Certainly the most often cited reason, by far, was for competi-
People, a DC plan might actually work to your advantage. If you want to attract experienced talent, you need to know whether the employer portion of costs increase. It’s getting members more engaged to appreciate the risk that they will not have the income they need at retirement without careful planning.

What about benefit adequacy? From an HR point of view, can you really talk about it if you don’t know the members’ other retirement assets?

MODERATOR: Why, as a sponsor, do you feel that you need to know whether the employer portion of their retirement savings is adequate?

NEWTON: Employees become interested in adequacy as they get into their 50s and then they realize ‘I’m not in a DB plan, but I have this lump of money here—it’s going to provide?’

It’s difficult to communicate effectively about income adequacy for employees in their 20s, whether they’re in a DB or a DC environment. It’s when people get into those older years that the attraction tool comes into play.

JOHANNSON: That’s true. Somebody moving in at that age would only have so long in a DB. If you want to attract experienced people, a DC plan might actually work to your advantage.

LODER: Do employers really focus on how much their DC members are going to get at retirement, or is it just making sure the plan is competitive?

Let’s say a six per cent contribution is competitive. Often, DB members were in a plan whether they knew they were in a plan or not. They were automatically enrolled. DB members are accustomed to receiving an annual statement projecting what their retirement income would be under certain assumptions. In the DC world, we’re starting to see some movement towards that type of annual checkpoint. How are you progressing towards that goal and what’s the probability or variability around that target? I’d like to see the market, or the industry, move in the direction where that becomes the accepted practice for the DC member as well.

BEESLEY: For my organization, we always go back to what is the purpose of our plan? Is the purpose to provide a retirement benefit or is it to provide some part of your retirement income?

I believe it’s a shared responsibility and we try to communicate that. We build education around bringing in information on what’s available outside of your private pension plan and how to incorporate your private savings with government programs.

Our service provider offers tools that are not numbers driven. It’s more lifestyle; what sort of lifestyle do you want at retirement? From there, it moves to what sort of income do you need at retirement and then works backwards from that point in time, which I think members understand a little bit more.

When you start talking replacing 60 or 70 per cent of your pre-retirement income, and you need to save 10 to 20 per cent over 35 years, that’s mind boggling. When you start to talk lifestyle, what do you want to do at retirement, that brings it to something an individual member can understand.

POUPART: I believe the biggest challenge is engagement. You ask employees what lifestyle do they want and what they need to get there. And they look at it and say ‘it’s impossible’ or they just tune out or they don’t get it.

That’s the biggest challenge as a sponsor. Whether for our DB plan or DC, you try to provide a benefit that’s adequate, but they don’t get it. I have DB members that I send a statement to every year. And when they retire, I send their pension option statement and they say ‘is that it?’

LODER: Just because it’s DB, it doesn’t mean it’s going to be adequate necessarily. But it will be defined.

JOHANNSON: That’s right. Relative to DC programs, members are provided with the tools they need to take into account their company plan, government programs, and external savings with the opportunity to project different ‘what if’ scenarios. They have the opportunity to be better informed in and control.

POUPART: Then there’s the issue of complying with the CAP guidelines and giving them all the information they need. But, if
In my view, the guidelines are totally inadequate today.

MODERATOR: Where do the CAP guidelines fit in those when they are in retirement. This can be part of member communication to achieve an employer match and save meaningfully for the future. Employers can help them free up contributions to accomplish both. Engaging them with how to meet their needs in retirement. They need to look at how to manage their money now when they are trying to finance today’s needs, let alone finance their future thinking today.

SINNAEVE: Yes, funding adequacy and understanding what adequacy means are important, however, I think this all leads back to a key point that Deborah raised when she spoke to defining the purpose of the plan. Is it to provide a significant contribution towards retirement savings or to promise a fully funded retirement benefit? Plan sponsors are making a significant contribution and certainly wish to provide the information and tools to assist plan members but does their promise extend to assuring adequacy for lifestyle needs whether in a DB or DC plan?

MODERATOR: Are providers switching the focus from providing education to members, to helping sponsors engage their members to use these tools?

JOHANNSON: Engagement is part of the challenge Marc mentioned. For example, if you have an employee base with a lot of 20-somethings, it’s going to be hard to engage them in retirement savings discussions. It just isn’t relevant in terms of what they’re thinking today.

To me, we have to find realistic ways to engage employees early in life when compounded savings can deliver such a tremendous benefit. We need to speak to what interests them now and leverage that into trying to save for the future.

How can you engage that younger employee? To me, it’s a matter of speaking to both sides of the balance sheet. Younger people are trying to finance today’s needs, let alone finance their future in retirement. They need to look at how to manage their money to accomplish both. Engaging them with how to meet their needs of today more efficiently can help them free up contributions to achieve an employer match and save meaningfully for the future.

But to get there, you have to speak to their current needs, not just those when they are in retirement. This can be part of member communications, seminars, and tools to better engage the younger employee.

MODERATOR: Where do the CAP guidelines fit in today?

NEWTON: In my view, the guidelines are totally inadequate when you compare the level of regulation and guidelines that we have here versus the U.S., totally inadequate. They don’t capture a wide range of issues around fiduciary obligations and other obligations that employers have. They really don’t cover off the leading edge of what a CAP plan could and should provide.

Numerous times during the discussions developing these guidelines, the CAP committee chair expressed the view that they were intended more for the mom and pop shop with a dozen employees as it is assumed that the expertise is already out there for the bigger employers like Hudson’s Bay.

I disagree. The guidelines should be here to present a model that employers try to reach. These are really minimum practice guidelines and that’s not where we want to be in the Canadian marketplace.

BEESELEY: As a small sponsor, we have less than 150 members and just trying to administer a plan keeps me running. We have to rely heavily on our service providers.

Maybe if there was a balance between governance and some of the safe harbours that the U.S. has, that would be better.

When you are presented with a certain amount of risk, you have to mitigate it somehow. For us, it is necessary to look for ways to outsource or otherwise find a balance between member needs and the needs of the employer or sponsor.

We find it really difficult.

LODER: It’s a really big struggle for plan fiduciaries these days to govern programs appropriately or to even think about what is appropriate because the guidelines, in some aspects, are very much open to interpretation as to what adequate compliance means.

However, governance budgets for DC plan sponsors are diminishing, especially if committee members have multiple roles within an organization. You’re basically balancing two things. You’re balancing risk management, which often becomes the primary focus, with the often competing objective of maximizing the outcome for the employee.

MODERATOR: How about from a provider perspective? Do you feel that the CAP guidelines are adequate? Would you be amenable to tightening them up?

SINNAEVE: Objectively, there’s certainly a fundamental need for recognizing what the goal of the program is and actually putting it in the full context.

There are many variables and it’s very much a continuum. And that means different things for different people in their own situations in their lives.

What we need overall are appropriate standards, not necessarily just for the CAP guidelines, but in terms of the fundamental access that individuals have to all sources of potential retirement income across all aspects of the Canadian retirement system. As this can evolve over the timeline of an individual’s working life—or the life of a DC plan—we have to be more dynamic and open-minded in our thinking.

From the plan member’s perspective, they are the centre of the universe and they really have to have a sense of awareness of all aspects of the retirement system available to them—the government programs, plan contributions and its variables, and their own savings capacity. If, as a plan sponsor or an industry service provider, we’re working towards helping people understand what they need to do in terms of overall planning, that’s a starting point.
LODER: True, however, no planning can ever happen if you don’t know where you’re going, if you haven’t set a target level of retirement income, and you don’t know how many years you’re going to need it. Most people overestimate how much income they’re going to need and probably severely underestimate how long they’re going to need it. A DC member is essentially running their own ‘DB plan for one’. They have a liability to fund a lifetime pension starting at their anticipated retirement age and they have a set number of years in which they have to make contributions and invest their account. They need a funding strategy and an investment strategy to achieve that goal. They need to track their progress along the way like a DB sponsor would routinely do to make adjustments to their strategies, either funding levels or investment selections, to meet their goal.

JOHANNSON: These are really good points. The DC members have to make their own retirement goal promise to themselves – this is the benefits promise. It is self-defined. Of course, this is a major difference from DB plans where the plan sponsor makes the benefit promise. In DC, it is a bit like a healthcare benefits plan – the employee has to manage their own health, taking advantage of the financial benefits and educational support provided by their employer. The employer does not promise they will be healthy, but the employer does provide help.

With DC, the plan sponsor does not promise a healthy financial situation in retirement, but they provide help – financial and educational – to assist the plan member with getting there.

As an industry, we have to be careful not to put too much of an onus on the plan sponsor to own the responsibility for the financial health of their members in retirement. However, we do have to ensure they understand their fiduciary obligations and standards of care necessary to support their programs. Mark suggested earlier that the guidelines should sketch an ideal for plan sponsors. I think this is a great concept, but would recommend, if adopted, that we still outline the minimum standard as well as a recommended ideal to cover the smaller plan as well as the standard setters such as Hudson’s Bay.

POUPART: I believe this comes back again to member engagement. I like the example of health benefit versus pension. The problem with pension programs is everything happens at retirement – that is when you feel the impact of your years of engagement or lack thereof. With your health benefit plan, you get sick and it’s a reminder to go to the doctor.

But Michelle mentioned a form of reporting back to the member on progress against their goals – maybe this could show that they have a pension ‘sickness’ to force them to look at their pension in time. Most don’t recognize the sickness until they are about to retire.

LODER: I also wouldn’t go so far as to say a plan sponsor should be responsible for the financial well-being and retirement of members. But I do think there’s a really valuable role for the plan sponsor to play in helping members get there and in helping members appreciate and understand it.

Perhaps we should be thinking about going beyond compliance and taking more of a leading role, as a plan sponsor, to suggest reasonable targets to think about, such as 60 per cent, depending on the characteristics of the group. We want you to make your own target, but this is reasonable as a starting point. And we’re seeing plan designs where plan sponsors start contributions at a certain amount or they suggest an appropriate percentage contribution for member consideration as a starting point.

MODERATOR: What sort of improvements should there be to the CAP guidelines and our regulatory situation?

NEWTON: I don’t think the CAP guidelines have any teeth. If you don’t comply with them, you’re not going to be hauled off to jail, you’re not even going to be fined.

I’ve heard some advisors say, for instance, regarding the CAP governance guideline, it’s better if you ‘don’t even look at the governance questionnaire and don’t do a governance review.’ Although I don’t agree with this, the point is that because these guidelines don’t have teeth and are very vague, employers don’t have anything firm to grasp onto as a standard.

POUPART: I would suggest that as a sponsor, you’re looking to the guidelines to reduce your risk, to reduce the liability if you can. In some respect, you’d like a bit more teeth. On the other side, if there’s too much teeth, there’s too much compliance around it to manage efficiently.

NEWTON: It would be useful to have a few safe harbours for compliance that employers could take refuge in.

POUPART: But safe harbours should also be reasonable. If we look at this with a little more savvy, we say it’s great to have guidance because it gives you some room to manoeuvre to some extent. But without an actual requirement, there’s no safe harbour. If there’s too much of a requirement, the administration of this can become horrendous and nobody can do it. Then we risk that all firms will move out of pension plans.

NEWTON: I also think we need a regulator that is equipped to deal with CAPs and our legislation right now doesn’t really deal effectively with DC plans in the first place.

There is nothing in the legislation with any teeth dealing with CAPs as a whole. Also, the CAP guidelines don’t deal with all capital accumulation plans, they only deal with those where you have choice.
SINNAEVE: I agree. And to further Mark’s point, without bet-

could not take place here.

past in the States and there’s no reason why those types of actions

are a couple of dozen class actions that have happened in the recent

it’s around fees, improper education, or improper promises. There

Well, it will just take that one large action, whether

NEWTON: Yes.

JOHANNSON: And it’s misleading, as it assumes that the courts

will not hold you to the same standard if you only have one choice.

There are no precedents to guide us. The courts may well hold

plans with one choice to higher standards in terms of investment

selection and monitoring. The assumption has been that the guide-

lines do not apply so standards would be lower. There is no evi-

dence of this and so this exclusion could be misleading.

LODER: I have always thought it unfortunate that the guidelines

appeared to provide an exemption for plans that offered no invest-

ment choice.

NEWTON: There was a lot of back and forth on that issue on the

CAP committee. At the first stage, that qualification wasn’t there.

And then there was a lot of backlash from some employers who had

CAP plans that were invested exclusively in employer stock. They

said, ‘we shouldn’t have to comply with the CAP guidelines, we’re

just offering one plan. We don’t really have to educate employees, so

really the bulk of the CAP guidelines wouldn’t apply to us, therefore

we should be exempt.’

There are employers, as we all know, in all parts of the spec-

trum; some with no choice, some with some choices, a dozen or

so choices, and some who just put you in a plan with hundreds

of choices.

BEESLEY: Then why are plan sponsors so concerned?

NEWTON: Well, it will just take that one large action, whether

it’s around fees, improper education, or improper promises. There

are a couple of dozen class actions that have happened in the recent

past in the States and there’s no reason why those types of actions
could not take place here.

SINNAEVE: I agree. And to further Mark’s point, without bet-
ter clarification and substance to the guidelines, plan sponsors in

Canada may be pleased that they are not held to these standards in

law, but they also have neither safe harbour nor comfort that the

standards they are following will be sufficient.

MODERATOR: Concerning designing your CAP pro-
gram, how important are the demographics of an

organization in delivering an effective program?

JOHANNSON: You have to know the demographics of your

population. Are they across the age spectrum or do you have a

heavy concentration in the boomer segment, requiring more pre-

retirement transition support versus having a younger population

that is more challenging to engage in a retirement discussion? They

are in different places in their lives with very different immediate

concerns.

NEWTON: One way to help engage employees with a pension

or savings plan is not to have a stand alone plan, but to com-

bine it, in some way, with other services such as banking and

mortgages, bringing in providers with different services to act

together to get employees to think about retirement savings on an

ongoing basis.

They’ll see that by providing different services, the employer will

better engage employees and likely trigger action for retirement

savings. Employees will say ‘oh, yeah, the pension plan, the sav-
ings plan. I use the same provider for my mortgage, maybe these

parts of my financial life should work together’

All these services help employees to think about their finances.

JOHANNSON: And it speaks to where they are in their life

stage, and how should they manage their money at each stage to

meet their overall needs. It has always been difficult to engage

the younger employee who is more concerned with financing

today’s needs rather than those when they retire in 30 years. If

we can speak in relevant terms to their current life stage and

provide services that are more tailored to this stage, then we

can capture their attention and help them with today’s needs as

well as start contributing sooner to their retirement. Addition-

ally, we can then speak more holistically to the needs of the

older employee and how they should handle their dollars as they

approach retirement.

NEWTON: Exactly, it might help them decide whether to put

more into their mortgage at times and, at other times, more into

their pension plan.

JOHANNSON: True, or how can I use my RRSP funds to acquire

a home but still work towards my long-term retirement goals? For

older members, it may be more about debt consolidation and better

debt pay down strategies to free up money for retirement invest-

ment and post-retirement lifestyle.

NEWTON: But, if the employer has some subsidized product

offering on the mortgage side, on the banking side, pension and

savings, and they all work together, it really helps with communica-

tion and engagement.

SINNAEVE: That would certainly be attractive to plan members

and encourage them to take charge of their overall financial situa-

tion to better secure their personal retirement promise.
POUPART: The example of choosing to pay down your mortgage rather than increasing your RRSP is, from a financial point of view, probably rather more personal than for many people think.

When they contribute to a group RRSP through payroll, they’re upset when they don’t get a refund when they file their tax return. We’re saying, ‘well, it’s more efficient if the $100 you are putting in is only costing you $60. But they wanted that $40 so they could spend it.

LODER: It really does need to become a more holistic financial planning model, a full financial wellness type of model that enables a member to consider all elements and how they inter-relate.

JOHANNSON: This appears to also be part of the financial education and literacy challenge.

LODER: Sponsors do need to tread carefully when it comes to the selection of a provider for financial education of this kind, that goes beyond decisions members make with respect to their participation in the retirement plan.

JOHANNSON: True. Again, larger plans can afford more alternatives in this area than smaller ones. It is a similar challenge for financial or investment advice. There is demand for it, but larger plans can afford more alternatives than the smaller ones. We have to be able to provide solutions for all plan sponsors.

LODER: There’s definitely a need for it. Everyone’s asking for it. Members are especially asking for it, saying that they need and want advice. I’m not sure, however, that advice is defined the same way for everybody. What one person means by advice is ‘someone tell me, should I buy or sell this stock or fund?’ For others, advice means, ‘is it better to pay down my mortgage or is better to have retirement savings?’

Even with certain investment products, such as target date funds for instance, it can be argued that it’s providing ‘advice’ as they reduce equity risk as time to retirement shortens. So, for me, I see advice being given in a multitude of formats already.

POUPART: Whatever you decide as a default fund, that’s advice. It directs them.

LODER: Yes. With the ‘investment policy’ essentially decided in the default, maybe there is an opportunity now to focus members, particularly the defaulters, on the ‘funding element’ of their strategy and encourage them to focus on the future outcomes of the decisions they make about joining, contributing, and withdrawing from the plan, rather than on the ‘here and now’ of what is reported on their account statement. How can we do that?

POUPART: It all boils down to ‘does the member have the capacity to understand?’ You’re saying, ‘we’re all assuming that they want this and they’ll embrace it.’ Most of them just don’t care. It’s too bad because they should.

So you decide to make it simple and create a default.

BEESLEY: But that, in itself, is a decision. If you can’t engage a member to listen, the member is making a choice by accepting the default. You can’t force them to make an active decision.

POUPART: We’ve chosen, as a company, that our plan is mandatory. If you work for Hudson’s Bay Company, after two years, like it or not, you’re in the plan. And some are still protesting, ‘no, no, no, I’ll do it later.’

So, that’s a conscious decision we made as their employer and, over time, some of the people who complain the most are the ones I find, years later, who are thanking me.

SINNAEVE: It really comes down to almost a life skill. We talked before about the person being the centre of their own universe when it comes to finances and their own pension promise. I think the onus is with the individual to acquire this knowledge and ability.

And that’s really something generally not in our culture here in Canada. It is not instilled in people through their families. It’s not part of the education system. It is a life skill that is somehow expected to be just picked up along the way. Service providers work with consultants and clients to try to bridge this gap. But this seems to be a fundamental problem that, as a country, there’s a sense of paternalism here in the expectation that everything will be fine, that we don’t have to think about it, right?

LODER: To some degree, our systems have been developed that way.

SINNAEVE: That’s the general context that everyone exists in here. But, there’s a need to look at everything holistically, like health for the body. The body is not healthy unless it’s entirely healthy. And people could use that as an analogy from a financial perspective, including retirement savings adequacy. It’s the need to be aware of all of those things concurrently to set appropriate goals, to have a plan, but, most importantly, to have a financial plan that consolidates all of those aspects and to monitor progress against that plan as best as possible.

POUPART: How can we, as an industry, change the mindset, which is basically saying the government, sponsor or somebody will take care of me? How do we change this feeling of entitlement that we will be taken care of without personally taking charge?

BEESLEY: We have to start them young, teach them to save.
MODERATOR: In terms of this responsibility for adequacy, is there more that plan sponsors could be doing or are they at the peak of what they can do?

LODER: I don’t know if it’s more, I think it’s different. Education in the past has been very much around how to find the tool, how to log on to get the tools, how to reset your password, what the phone numbers are, what the forms are, and here’s a pile of fund fact sheets that you can use to construct an investment portfolio. We’ve all made valiant efforts to move people towards becoming investment knowledgeable or more investment savvy.

And perhaps we’ve not spent enough time on the fundamentals and basics. Maybe we should be dialing back a little bit on what we expect DC members to be able to grasp.

SINNAEVE: I agree, we need to get back to the basics and keep it simple but relevant. Start with the fundamentals and then relate these to the employee’s lives.

MODERATOR: Are we talking about communications and education programs that are a lot harsher, a lot blunter, maybe a warning on pay-cheques that not saving is hazardous to your retirement?

POUPART: It’s a matter of focus, right? I look at our statements and they’ve changed from being all your investments and all the charts. Now, the projection and the basic messages are in the forefront.

We’re also going the other way. We’re using bigger fonts and fewer messages to get the point across, sort of giving them the answer of how we got there. Go to the other side of the page, and all the other information is still there. It’s a cleaner message, maybe not harsh, but to the point.

JOHANNSON: This is an advantage to the member because you’re letting them determine what more they need to do to reach that goal, since your role isn’t necessarily to give them a certain income. Their role is to do that. As Michelle said, they’re their own DB plan.

LODER: It’s messaging and managing expectations toward the goal. The goal is to reach my desired retirement date with the annual income I need from all sources to meet my standard of living expectations. So, it makes perfect sense that you should measure that as the goal and how you’re progressing towards that on page one.

BEESLEY: From a member education standpoint, we have a small group of people, but I find year after year that people become more engaged the more they accumulate. Once they get that, it’s like, ‘oh yeah, what about this.’ The nickel finally drops when they understand the whole concept. And it’s very encouraging, in a small group, to see them realize, ‘okay, I’m finally getting that and understanding the basics of investing.

LODER: So you really need to communicate the message just as often as it takes and as often as you can and over and over and over until it gets understood and applied. Nobody learns anything by being told once.

Employees are not always prepared to hear it when you are offering it, because they are all at different points in their lives, under different circumstances, but through repetition, most will eventually hear and will learn it. And that’s just part of the process.

Of course, designing a communication strategy to address the issue of different needs and interests within a group through meaningful segmentation and targeted communication can help to encourage faster absorption.

Multiple media, as well, is important, because not everyone reads, not everyone has a computer.

It seems so over simplified to say it, but it has to be kept simple and relevant to the audience.

MODERATOR: What do you feel the key takeaways in terms of governance are from this discussion today?

POUPART: It’s pretty much a focus on communication. There’s been so much effort in investments, I think members are confused. Go back to fundamentals. So, simplified communication is one thing.

SINNAEVE: The theme is one where this is a life-long holistic approach from a financial and real life perspective, starting with education and awareness. This requires prudent planning at appropriate stages and measuring against goals in order to take advantage of all the resources along the way – whether they come from the plan sponsor, the government, or personal sources.

We have to look towards fundamentals around some simple messaging of communication and constant reinforcement. Taken together, this should be a significant step in building a governance structure for this program.

LODER: I like to think of governance as having two objectives. First there is operational governance – am I compliant, are my statements issued on time, are my reviewing managers acting in accordance with my stated investment policies, and is my plan functioning the way it should?
Secondly, consider value-added governance which is the extent to which we can encourage a higher level of member engagement and increase the probability of a plan’s members retiring well. Examples of value added governance could include targeted communication strategies and more robust reporting or tools to enable members to track towards a retirement goal. I think both objectives are important, but the degree to which one is weighted more than the other is basically a sponsor-by-sponsor decision and one every sponsor should really challenge themselves to think about.

NEWTON: The general over-arching statement I would make is in Canada, we have to develop more of a savings culture because if we’re not saving, it doesn’t matter how well we invest, we simply will not have enough for retirement.

That gets back to the role employers will play in developing the savings culture, but the communication has to be simple. It simply has to encourage savings.

The more intricate investment education that employers have tried to do has not really worked. So, the messaging has to be really, really simple. Put more money in the pot. More than likely, then, you’ll have enough to retire.

So, to the extent employers can then provide vehicles to enable that to happen, the better. And the more integration between the savings and retirement plans and the other aspects of people’s lives – such as the mortgage, bank accounts, et cetera – the more sense this whole picture is going to make to employees and enforce the message to save, save, save, and make the best use of their money.

That’s the way we used to be as a country and we need to rediscover this fundamental heritage and bring it back into our culture.

BEESLEY: As a small plan sponsor, we’re going to continue to lean on our consultants to help us meet our governance and compliance responsibilities.

Between the member and the plan sponsor, I think it’s really important to just build trust. That goes a long way towards acceptance of the plan, getting more benefit for the member and the sponsor, and increasing engagement – it all hinges on whether there is a healthy level of trust.

JOHANNSON: I really like the way you have linked this discussion back to appreciation for the plan and trust in your employer because this also goes back to what we were saying at the beginning which is ‘why do we have these plans.’

If we keep it simple, if we keep it relevant, and if we’re looking after the plan member and the operations, then we’ve gone a long way towards good governance.

At the end, you need the plan member to be able to appreciate this and to have an understanding of how far the plan sponsor has gone in their interests to look after them.

It may be a very paternalistic program or it may be one in which the member has to make more decisions. Whichever way the plan sponsor is going, it’s an area where service providers and consultants can work together in helping to develop a communications strategy, an educational plan, and an appropriate range of financial options that make sense to plan members in each stage of their lives. If we keep it relevant and we keep it simple, our chances of engagement and success with our plan members increases substantially.

After all, looking after the plan member is fundamental to good governance.

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Passive management refers to a simple buy and hold management strategy. In passive management, the manager creates and maintains a portfolio that closely tracks a market benchmark. For our purposes that portfolio will be measured by a leading market index, the API BPI which is used for balanced funds along with a separate comparison using CPI, plus four per cent, a common benchmark for total fund values of a pension plan.

In contrast, active investment involves a selection of securities in an asset class and more frequent buying and selling of securities. An active manager seeks to build a portfolio with selective securities that are undervalued compared to others in the same class and, thus, earn an above average return.

**Market Timing Strategy**

Second, by employing a market timing strategy, the manager hopes to buy securities when the market is down and sell securities when the market is up, as opposed to a buy and hold strategy for passive management. The argument for active management is that the financial market is not efficient in the sense that securities are not always fairly valued.

*Chart 1.1* illustrates the proportion of funds in a given asset class that have performed better than an index over one-, five-, and 10-year compounded periods along with the quarter ending June 30, 2010. Over 10 years, and ignoring management fees, most active managers have benefited the investor in all asset classes.

Over a 10-year period just over a quarter of balanced pooled funds beating this benchmark.

However, when fees are added - 50 bps for example - we find some changes taking place. The most noticeable difference is found in bonds as over a 10-year period the proportion of funds above the index dropped by 45 per cent indicating that many active bond managers do not provide better than 50bps.

Over a 10-year period, only 44 per cent of managers beat the benchmarks of the index plus 25 bps.

From this we can also infer that half of all bond managers reviewed earn between zero and 50bps above the index over a 10-year period.

**Significant Decrease**

Based on the ability of a fund to add value to the relative asset class market index, the analysis suggests that it pays to pursue an active investment strategy over some time periods and a passive investment strategy in others.

When fees are introduced, there is a significant decrease in the manager’s ability to better the benchmark. Each asset class should be viewed as having a window of opportunity and the plan sponsor should be cognizant of their investment manager and how they perform throughout the investment cycle. Over long periods of time, an active investor has the ability to beat an index. However, over shorter periods this becomes more difficult.

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**Active Versus Passive**

**By: Robert Dyck**

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Benefits and Pensions Monitor – October 2010

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There is almost universal acceptance that emerging economies have taken over as the engine of world growth. The dynamics of their economies, their growing share of world trade, and increasing importance in global equity market terms are trends of fundamental and long-term significance. This has seen increasing recognition from institutional investors that emerging markets are an integral part of their equity allocations.

Emerging markets as an investable asset class have also undoubtedly been the primary beneficiaries to emerge from the financial crisis, attracting large capital inflows from investors searching for higher growth prospects. However, with the larger emerging markets enjoying the vast majority of fund flows, frontier markets have fallen out of favour. Indeed, as an asset class they have lagged both emerging and developed markets (See Figure 1).

By: Nick Beecroft

Rethinking Equity Investment
In Frontier Markets

Identification And Evolution

The term ‘frontier markets’ is generally regarded as having originated in the mid-1990s when Standard & Poor’s began using it as a label in its index calculations. Where exactly the boundary lies between frontier and emerging depends on the precise definitions used, as do questions of when a market is no longer emerging, but developed.

The common thread is not demographic or economic, but rather an underdeveloped equity market. Frontier markets tend to be young, thinly traded equity markets with weak regulatory frameworks and low levels of transparency and foreign ownership. Importantly, however, with the evolution of the asset class in recent years, it has given investors the possibility to explore a much more expansive opportunity set (See Figure 2).

Additionally, as frontier markets have become more subject to indexing, we have also seen exchange-traded funds edge into this nascent asset class.

Of course, emerging markets have enjoyed much of the spotlight since markets bottomed in March 2009. However, it is important to recognize that the fundamental reasons cited for investing in frontier markets in the first place are still valid. The asset class remains under-capitalized and under-owned, with tremendous potential for economic growth. Corporate and personal debt levels have risen in recent years, but remain low by global standards and, although the pace of growth has been negatively impacted by the global recession, it is unlikely that this will continue. Indeed, many regions have made great economic strides in recent years and, across these markets, government balance sheets are generally in good order (excluding Eastern Europe).

This robust growth is additionally underpinned by a young population in most frontier countries at a time when the developed world is aging rapidly.

Encouragingly, growth in both frontier and emerging markets is set to remain an enduring theme. Massive projected urbanization means that not only are resources required to build cities but, as their wealth grows, this is likely to spur corporate and consumer spending. After years of neglect, there is also an urgent need for infrastructure investment. Additionally, with frontier countries generally under-leveraged compared with both developed and emerging economies (See Figure 3), there is also strong potential for future credit growth.

There is also strong evidence that frontier countries have a long way to go with regards to capitalization. Today, frontier markets represent just over one per cent of world market capitalization and, as a share of their own GDP, have ample room to catch up with both their developed and emerging market counterparts (See Figure 4).
Against this positive backdrop, however, investors still have to remember that frontier markets do carry higher individual risk. These are markets that are at the beginning of their evolution and this brings with it its own inherent challenges. What perhaps is more prudent for investors to consider, however, is that these markets are very much where emerging markets were 15 or 20 years ago. With investors generally recognizing how important emerging markets are today to their equity allocation, an allocation to this area may prove sagacious.

**True Diversification Benefits**

One of the challenges for investors in recent years has been the rising correlation among asset classes that has reduced diversification. Even rising correlations among the more mature emerging markets have required investors to look farther afield for diversification opportunities. Of course, while the recent financial crisis emphasizes how strongly the world becomes correlated when we encounter a protracted slowdown and a subsequent bear market, frontier markets do continue to harbour greater diversification benefits compared with their emerging counterparts. Not only have frontier markets tended to have much lower correlations to world equities than their more mature emerging market brethren, they also provide additional diversification within the emerging market space itself.

There are a number of reasons for this low correlation. Frontier markets remain quite local in character, driven by their own internal economic and political dynamics. Foreign investors also tend to play a less important role in these markets. Moreover, the small number of securities in many of these markets means company-specific factors play a far more important role.

**The Search For Returns**

Due to their nature, it is more difficult to evaluate valuation metrics compared with other asset classes. Investors are hampered by a lack of reliable consensus earnings forecasts for most markets, while even historical valuation data can prove difficult to retrieve. Since January 2008, MSCI has calculated trailing P/E, P/B, dividend yield, and ROE data for each market. However, these multiples, while useful, can give a distorted view given that:

- most country indices have only a handful of stocks and are thus heavily affected by company-specific anomalies
- earnings visibility is generally low in these markets

It is clear, however, from data now available that frontier markets have become less expensive. The region’s trailing P/E has fallen from 17.8x in February 2008 to 13.2x as of June 2010, while the P/B has fallen from a 3.3x to 1.4x over the same period. This is a reasonable de-rating and does represent reasonable value.

As we discussed earlier, however, 2009 has seen frontier markets underperform. Much of this can be attributed to their more mature counterparts, with the reality being that back in February 2009, when investors were venturing back into the emerging space, they were primarily attracted to the larger BRIC countries. These were large economies that investors were confident of surviving the crisis and that were trading at historically low valuations. In other words, why invest in perhaps more unknown entities such as Oman, Qatar, Nigeria, Vietnam, etc. when it was possible to invest in China on low double-digit valuations. Consequently, the larger emerging markets enjoyed strong returns, while frontier market prices struggled.

With valuation discrepancies rising, however, it may require investors to look elsewhere within the emerging world to find value. If true, this could herald a wave of interest again for frontier markets. This may have already started with the first half of 2010 reflecting outperformance versus other regions of the world.

A key consideration for investors is the difficulty of generalizing across a widely dispersed set of economies facing very different levels of development, economic conditions, and structural constraints. Frontier markets are not homogenous. There is considerable varia-
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tion in political stability, economic performance, openness to foreign investors, corporate governance practices, and exposure to exchange-rate risk.

One common thread, however, does emerge. A number of frontier countries have a strong correlation to the price of commodities. This is especially high in the Gulf, African, and Latin American regions. Indeed, we have seen many oil-producing countries' fiscal and current accounts turn positive as a result of rising commodity prices. Therefore, the outlook for commodity prices is an important factor that investors should consider when approaching investment.

**Bottom-up Research Critical**

Frontier markets also operate in a much less efficient space in terms of analytical coverage. This lack of broad research coverage often leads to price anomalies. Within each region, there can be quite polarized underlying returns. As such, there is a pressing need for active management. The ability to conduct in-depth research and identify high-quality companies with low-leverage, cycle-tested management teams is imperative to any investment approach. However, this requires sufficient resources and a research platform that can effectively synthesize industry and stock-specific analysis.

Approaching investment can be tackled in a number of ways and it is sensible for potential investors to investigate their existing global, emerging, or regional managers to ascertain what capabilities they have in this area and to ascertain whether they need to augment their exposure.

However, it is important that any manager who invests in frontier countries has the resources and ability to delve deeper into the opportunity set. Importantly, regardless of how one accesses frontier markets, their investment potential is apparent. Yet, there are risks associated with investment and, on an individual basis, some countries will continue to remain high risk. Therefore, the evergreen theme of bottom-up fundamental research is imperative to understanding both the opportunities and risks associated with this nascent asset class.

**Potential Risk Factors**

Frontier markets exhibit higher risks than other countries, with varying levels of liquidity, valuations, and corporate governance. Even the most stable of countries still faces the natural vulnerability that comes with being a small, open economy subject to the whims of financial markets and global economic trends. The events in Dubai last year make this all too clear. As a result, it is important to manage these risks appropriately by maintaining a broad exposure across the investment universe. Liquidity is also much lower than in emerging and developed markets, while regulatory frameworks are still in an early state of evolution. There is limited history of public ownership of corporations in most of these markets and many frontier market firms have been slow to improve transparency and communications with investors.

Another factor to consider when investing is the political backdrop. Encouragingly, we have seen greater political stability in recent years, particularly in Africa, but there still remain problems on an individual basis. Therefore, an allocation to frontier markets deserves serious thought. Investors in the asset class are strongly advised to set long-term goals for investment and, overall, need to be comfortable in accepting a generally higher degree of risk-tolerance.

As the emerging markets of today eventually progress to become part of the developed world, investors will begin looking for the next emerging story. While available information is often sparse, local regulations are varied and complex and research coverage by analysts and brokerage firms is limited. However, these were also obstacles that emerging markets encountered 20 years ago. Challenges such as these create opportunities for investors to uncover neglected companies with healthy or improving operations and to identify stocks that have been ignored by the mainstream investment community.

How to gain exposure to frontier markets is up for debate and investors should question how deep down the opportunity set managers or plans explore. There are also higher risks associated with investment and, therefore, active management is crucial. Importantly, the long-term fundamental reasons for investing remain largely intact and with the flexibility of a broad range of investments across a large opportunity set, the asset class does offer opportunities for the experienced investor to generate alpha.

Nick Beecroft is a portfolio specialist at T. Rowe Price Associates, Inc. (wendy_brodkin@troweprice.com)

1. Free float adjusted market cap in millions as at November 30, 2009
<table>
<thead>
<tr>
<th>Company Name</th>
<th>Established</th>
<th>Address</th>
<th>Web</th>
<th>Phone</th>
<th>Contact Person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberden Asset Management Inc.</td>
<td>1983</td>
<td>1050, Toronto, ON M5C 2C5</td>
<td>acbmanagement.com</td>
<td>416-865-0731</td>
<td><a href="mailto:ciabbertt@amipartners.com">ciabbertt@amipartners.com</a></td>
</tr>
<tr>
<td>ACM Advisors Ltd.</td>
<td>1983</td>
<td>1140 Homer St., Vancouver, BC V6B 2X6</td>
<td>acma.ca</td>
<td>604-682-3265</td>
<td><a href="mailto:ahowe@acma.ca">ahowe@acma.ca</a></td>
</tr>
<tr>
<td>Acadian Asset Management LLC</td>
<td>1984</td>
<td>66 Wellington St. W., 33rd Floor, Toronto, ON M5K 1E9</td>
<td><a href="http://www.acma.ca">www.acma.ca</a></td>
<td>416-385-9875</td>
<td>Louis <a href="mailto:Fortin@amundi.com">Fortin@amundi.com</a></td>
</tr>
<tr>
<td>ACM Advisors Ltd.</td>
<td>1984</td>
<td>666 Bay St., Toronto, ON M5C 3G7</td>
<td><a href="http://www.amipartners.com">www.amipartners.com</a></td>
<td>416-862-2600</td>
<td><a href="mailto:jehhoral@arrowhedge.com">jehhoral@arrowhedge.com</a></td>
</tr>
<tr>
<td>Addenda Capital Inc.</td>
<td>1996</td>
<td>36 Toronto St., Ste. 750, Toronto, ON M5K 1E9</td>
<td><a href="http://www.addenda-capital.com">www.addenda-capital.com</a></td>
<td>416-323-3199</td>
<td>m <a href="mailto:purdy@arrowhedge.com">purdy@arrowhedge.com</a></td>
</tr>
<tr>
<td>Altrinsic Global Advisors LLC</td>
<td>1997</td>
<td>36 Toronto St., Ste. 750, Toronto, ON M5K 1E9</td>
<td><a href="http://www.amipartners.com">www.amipartners.com</a></td>
<td>416-862-2600</td>
<td><a href="mailto:jehhoral@artigo-global.com">jehhoral@artigo-global.com</a></td>
</tr>
<tr>
<td>Alteon Capital Management LLC</td>
<td>1998</td>
<td>36 Toronto St., Ste. 750, Toronto, ON M5K 1E9</td>
<td><a href="http://www.amipartners.com">www.amipartners.com</a></td>
<td>416-862-2600</td>
<td><a href="mailto:jehhoral@artigo-global.com">jehhoral@artigo-global.com</a></td>
</tr>
<tr>
<td>American Century Investments</td>
<td>1998</td>
<td>36 Toronto St., Ste. 750, Toronto, ON M5K 1E9</td>
<td><a href="http://www.amipartners.com">www.amipartners.com</a></td>
<td>416-862-2600</td>
<td><a href="mailto:jehhoral@artigo-global.com">jehhoral@artigo-global.com</a></td>
</tr>
<tr>
<td>Arton Management LLC</td>
<td>1999</td>
<td>36 Toronto St., Ste. 750, Toronto, ON M5K 1E9</td>
<td><a href="http://www.amipartners.com">www.amipartners.com</a></td>
<td>416-862-2600</td>
<td><a href="mailto:jehhoral@artigo-global.com">jehhoral@artigo-global.com</a></td>
</tr>
<tr>
<td>Arrow Hedge Partners Inc.</td>
<td>1999</td>
<td>36 Toronto St., Ste. 750, Toronto, ON M5K 1E9</td>
<td><a href="http://www.amipartners.com">www.amipartners.com</a></td>
<td>416-862-2600</td>
<td><a href="mailto:jehhoral@artigo-global.com">jehhoral@artigo-global.com</a></td>
</tr>
</tbody>
</table>

**Note:** The table includes detailed information about each company, such as establishment year, address, web address, phone number, and contact person. The companies are listed in alphabetical order by company name. The table also includes a section for contact person details, including name, title, and phone number.
AURION CAPITAL MANAGEMENT INC. Christopher D.C. Wright, Vice-president, Business Development; 120 Adelaide St. W., Ste. 2205, Toronto, ON M5H 1T1 PH: 416-866-2420 Fax: 416-363-6206 eMail: cwright@aurion.ca Web: www.aurion.ca Investment Professionals: 12 Established: 1996 Minimum Investment - Pooled: $1M Separate: $10M Style - Size Bias: Large Cap Style Bias: Growth Management: Active Fixed Income: Active Bonds: Duration, Credit, Yield Curve

AVIVA INVESTORS CANADA Doug MacDonald, President; 121 King St. W., Ste. 1400, Toronto, ON M5H 3T9 PH: 416-360-2766 eMail: doug.macdonald@avivainvestors.com Web: avivainvestors.com


BENTALL LP Malcolm Leitch, Chief Operating Officer; #1800 - 1055 Dunsmuir St., Vancouver, BC V7L 1C4 PH: 604-646-2812 Fax: 604-646-2805 eMail: mleitch@ben- tall.com Web: www.bentall.com Investment Professionals: 21 Established: 1911 Minimum Investment - Pooled: $1M Separate: $100M Style - Size Bias: Core Bias: Credit


BLACKROCK Eric Leleveland, Managing Director; 161 Bay St., Ste.2500, Toronto, ON M5J 2S1 PH: 416-643-4040 Fax: 416-643-4049 eMail: eric.leleveland@blackrock.com Web: www.blackrock.com Investment Professionals: 1,594 Established: 1988 Minimum Investment - Pooled: Varies by mandate (for a commingled vehicle, there is generally no minimum account size) Separate: Varies by mandate (for a commingled vehicle, there is generally no minimum account size) Style - Management: Active, Passive Fixed Income: Active, Passive Other: Active Fundamental, Model-based, Index Fixed Income Strategies


BNY MELLON ASSET MANAGEMENT CANADA, LTD. Richard Terres, Senior Vice-president & Director of Marketing; 320 Bay St., Toronto, ON M5H 4A6 PH: 416-643-6354 Fax: 416-643-5786 eMail: richard.terres@bnymellon.com Web: www.bnymellon.com Established: 1869 Minimum Investment - Pooled: $5M Style - Size Bias: Small, Mid, Large, All Cap Style Bias: Value, Growth, GARP, Core Management: Active, Passive Fixed Income: Active, Passive Bonds: Duration, Credit, Yield Curve


BULLION MANAGEMENT GROUP INC. Nick Barisheff, CEO & President; 60 Renfrew Dr., Ste. 280, Markham, ON L3R 0E1 PH: 905-474-1001 Fax: 905-474-1091 eMail: n.barisheff@bmgbullion.com Web: www.bmgbullion.com Investment Professionals: 35
Established: 1998 Minimum Investment - Separates: BF: $293.4M, GF: $59.9M

BURGUNDY ASSET MANAGEMENT LTD. Kelly Battle, Vice-president; Bay Wellington Tower, Brookfield Place, 181 Bay St., Ste. 4510, Toronto, ON M5J 2T3


CANADIAN URBAN LIMITED Onita Blankenfeld, Senior Vice-president, Business Development & Marketing; 10572 105 St. N.W., Edmonton, AB T5H 2W7

Established: 1991 Minimum Investment - Pooled: Varies by mandate Separate: Varies by mandate Size: Style Bias: All Cap Style Bias: Value, Growth, Core Management: Active


CAPITAL GUARDIAN Michelle Savoy, President; Brookfield Place, 181 Bay St., Ste. 3730, Toronto, ON M5A 1K5


CLUSTER ASSET MANAGEMENT Peter de Auer, President; 9 Deer Park Cr., Ste. 1106, Toronto, ON M4V 2C4 PH: 416-413-3802 eMail: pdeauer@sympatico.ca Web: deauercapitalmanagement.com Investment Professionals: 2 Established: 1999 Minimum Investment - Separate: $100,000 Style: Size Bias: Small Cap - 60%, Large Cap - 40% Style Bias: GARP Management: Active Fixed Income: Active Bonds: Duration, Credit, Yield Curve


CORDIANT CAPITAL INC. David Creighton, President & CEO; Ste. 2400 - 1010 Sherbrooke St. W., Montreal, QC H3A 2R7 PH: 514-286-1142 Fax: 514-286-4203 eMail: info@cordiantcap.com Web: www.cordiantcap.com Investment Professionals: 10 Established: 1999 Minimum Investment - Pooled: $10M

DALTON, GREINER, HARTMAN, MAHER & CO., LLC Michael Dunn, Vice-president, Director of Sales & Marketing; 565 Fifth Ave., Ste. 2101, New York, NY 10017 PH: 212-400-2230 Fax: 212-557-4898 eMail: mdunn@dghm.com Web: www.dghm.com Investment Professionals: 12 Established: 1982 Minimum Investment - Pooled: SMAs - $100,000, LPs - $500,000 Separate: $5M Style: Size Bias: Small, Mid, Large, All Cap Style Bias: Value Management: Active


DINAN INTERNATIONAL FUND ADVISORS Ted Simpson, Vice-president; 1299 Ocean Ave., Santa Monica, CA 90401 PH: 310-395-8005 Fax: 310-576-1181 eMail: tjs@dimensional.com Web: www.dfaus.com Ownership: Privately-held Investment Professionals: 106 Established: 1981 Minimum Investment - Pooled: $10,000 Separate: Separate accounts are offered on a case-by-case basis and generally require a minimum investment of US$100M Style: Size Bias: Small, Mid, Large, All Cap Style Bias: Value, Core Management: Active Fixed Income: Active Bonds: Duration, Yield Curve


EAGLE ASSET MANAGEMENT INC. Nancy Clark, Senior Vice-president, Institutional Marketing; 880 Carlaw Parkway, St. Petersburg, FL 33716 PH: 813-237-3101 Fax: 727-567-8020 eMail: nancy.clark@eagleasset.com Web: www.eagleasset.com Investment Profession-


FOSTER & ASSOCIATES Hugh L. Innes, Director; Client Relations; 350 Bay St., Ste. 800, Toronto, ON M5H 2S6 PH: 416-369-3203 Fax: 416-369-1070 eMail: hinnies@fostergroup.ca Web: www.fostergroup.ca Investment Professionals: 5 Established: 1994 Minimum Investment - Separate: $60M Style - Size Bias: All Cap; Style Bias: Active - Duration, Credit, Yield Curve


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FRANKLIN TEMPLETON INSTITUTIONAL Duane Green, Senior Vice-president, Institutional Investment Services; 200 King St. W., Ste. 1400, Toronto, ON M5H 3T4 PH: 416-957-6165 Fax: 416-364-6643 eMail: dgreen2@franklintempleton.ca Web: www.franklintempletoninstitutional.ca Investment Professionals: 486 Established: 1940 Minimum Investment - Pooled: $1M Separate: $20M Style - Size Bias: Small, Mid, Large, All Cap Style Bias: Value, Growth, Core Management: Active Fixed Income: Active Bonds: Credit, Yield Curve


GOODMAN & COMPANY INVESTMENT COUNSEL Bruce Ferman, Executive Vice-president - Head of DW Investment Counsel; 1 Adelaide St. E., Toronto, ON M5C 2V9 PH: 416-350-5111 eMail: bferman@goodmanprivate.com Web: www.goodmanprivate.com Investment Professionals: 28 Established: 1985 Style - Size Bias: Small, Mid, Large, All Cap Style Bias: Value, Growth, Core Management: Active Fixed Income: Active Bonds: Duration, Credit, Yield Curve


Benefits and Pensions Monitor – October 2010
HIGHLAND AVENUE INVESTMENT MANAGEMENT
Allan Hutton, Vice-President, Institutional Investment Services; 100 Wellington St., Toronto, ON MSK 1J3 PH: 416-934-3000 Fax: 416-934-3001 eMail: ahutton@highlandinv.com Web: www.highlandinv.com Investment Professionals: 9 Established: 1996 Minimum Investment - Pooled: $2M Separate: $25M Size: Small, Mid, Large, All Cap Style: Bias: Value, GARP, Core Management: Active Fixed Income: Duration, Credit, Yield Curve

HORIZONS EXCHANGE TRADED FUNDS
Chris Sheridan, Vice-President, Institutional Sales; 26 Wellington St. E., Ste. 700, Toronto, ON M5E 1Z2 PH: 416-601-2496 Fax: 416-777-5181 eMail: csherid@horizonsetfs.com Web: www.horizonsetfs.com Established: 2005

HSBC GLOBAL ASSET MANAGEMENT (CANDADA) LIMITED
Francis Charter, Head of Institutional Investment Sales; 100 Wellington St., Toronto, ON M5K 1J3 PH: 416-286-4559 eMail: francis.charter@hsbc.ca Web: www.hsbcassetman.com Investment Professionals: Canada - 10, Globally - more than 250 Established: Canada - 1980, HSBC Group - 1865 Minimum Investment - Pooled: $1M Separate: $10M Size: Small, Mid, Large, All Cap Style: Bias: Value, Growth, Core Management: Active Fixed Income: Active Bonds: Duration, Credit

HUSC CAPITAL MANAGEMENT

INTEGRA CAPITAL MANAGEMENT CORPORATION

INTEGRAL INVESCO
Bruce Winch, Senior Vice-President; 120 Bloor St. E., Toronto, ON M4W 1B7 PH: 416-324-7448 Fax: 416-590-7742 eMail: bruce.winch@invesco.com Web: www.invesco.com Investment Professionals: 591 Established: 1981 Minimum Investment - Pooled: $2M Separate: $50M Size: Small, Mid, Large, All Cap Style: Bias: Value Management: Active Fixed Income: Active Bonds: Duration, Credit, Yield Curve

J. ZECHNER ASSOCIATES INC.

J.P. MORGAN ASSET MANAGEMENT (CANDADA) INC.

JANUS CAPITAL GROUP INC.
Jason R. Stefanelli, Managing Director, Canada; 151 Detroit St., Denver, CO 80206 PH: 781-326-5701 Fax: 303-394-7697 eMail:
LEGG MASON CANADA INC. David Gregoire, Managing Director, Head of Distribution; 220 Bay St., Toronto, ON M5J 2W4 PH: 416-860-0616 Fax: 416-860-0628 eMail: dgregoire@leggmason.com Web: www.leggmasoncanada.com Investment Professionals: More than 500 worldwide Established: 1972 Minimum Investment - Pooled: $1M Style - Size Bias: Small, Mid, Large, All Cap, GARP, Core Management: Active Fixed Income: Active Bonds: Credit, Duration, Yield Curve


LASALLE INVESTMENT MANAGEMENT Zelick Altman, International Director, Canada; 150 King St. W., Ste. 2103, Toronto, ON M5H 1J9 PH: 416-304-6000 Fax: 416-304-6001 eMail: zelick.altman@lasalle.com Web: www.lasalle.com Established: 1980, Canada - 2000

LAZARD ASSET MANAGEMENT, LLC Robert Harrison, Senior Vice-president; 130 King St. W., Ste. 1800, Toronto, ON M5X 1E9 PH: 416-945-6627 eMail: robert.harrison@lazard.com Web: www.lazard.com Investment Professionals: 201 Established: 1970 Minimum Investment - Pooled: $1M Separate: $5M Style - Size Bias: Small, Mid, Large, All Cap Style Bias: Value, Core Management: Active Fixed Income: Active Bonds: Credit, Yield Curve Other: Fundamental, Relative Value approach for Interest Rates, Credit, Currencies


LOOMIS, SAYLES & COMPANY, L.P. Fred Sweeney, Director of Consultant Relations; One Financial Center, Boston, MA 01867 PH: 617-346-9709 Fax: 617-443-0074 eMail: fsweeney@loomis sayles.com Web: www.loomis sayles.com Investment Professionals: 201 Established: 1926 Minimum Investment - Pooled: $13.8M Separate: $398.2M Style - Size Bias: Small, Mid, Cap Style Bias: Core Management: Active Fixed Income: Active Other: Broad Market Full Discretion & Relative Return, Sector Specific & Global, Alternatives

MADISON SQUARE INVESTORS LLC Steve Saxey, Managing Director - Head of Sales & Client Services; 1180 Avenue of the Americas, 22nd Floor, New York, NY 10036 PH: 212-938-8151 Fax: 212-938-8181 eMail: steve.saxey@msinvestors.com Web: www.msinvestors.com Investment Professionals: 41 Established: 2009 Minimum Investment - Pooled: $1M Separate: $5M or $15M depending on mandate Style - Size Bias: Large Cap Style Bias: Core Management: Active


MANNING & NAPIER ADVISORS, INC. Michele Caccamise, Senior Marketing Liaison; 290 Woodcliff Dr., Fairport, NY 14450 PH: 585-325-6880 Fax: 585-325-5617 eMail: mccaccomis@manning-napier.com Web: www.manning-napier.com Investment Professionals: 50 Established: 1970 Minimum Investment - Pooled: US$1M Separate: US$500,000 - Generally, the firm’s separately managed products require a minimum account size of US$500,000. However, for the firm’s Core Non-U.S. Equity separately managed account, the minimum account size is US$5M and the


MFS INSTITUTIONAL ADVISORS, INC. Christine Girvan, Managing Director of Sales - Canada; 161 Bay St., 27th Floor, Toronto, ON M5J 2S1 PH: 416-572-2711 Fax: 617-954-7999 eMail: cgirvan@mfs.com Web: www.mfs.com Investment Professionals: 180 Established: 1924 Minimum Investment - Pooled: $5M Separate: $50M Style - Size Bias: Mid, Large Cap Style Bias: Value, Growth, GARP, Core Management: Active Fixed Income: Active Bonds: Duration, Credit, Yield Curve


MORRISON WILLIAMS Richard Herscovitch, Senior Vice-president, Sales & Marketing; Ste. 305, One Toronto St., Toronto, ON M5C 2V6 PH: 416-777-2922 Fax: 416-777-0954 eMail: rherscovitch@rogers.com Investment Professionals: 6 Established: 1992 Minimum Investment - Pooled: $150,000 Separate: $5M Style - Size Bias: Large Cap Style Bias: GARP Management: Active Fixed Income: Active Bonds: Duration, Credit, Yield Curve

MORRISON WILLIAMS Richard Herscovitch, Senior Vice-president, Sales & Marketing; Ste. 305, One Toronto St., Toronto, ON M5C 2V6 PH: 416-777-2922 Fax: 416-777-0954 eMail: rherscovitch@rogers.com Investment Professionals: 6 Established: 1992 Minimum Investment - Pooled: $150,000 Separate: $5M Style - Size Bias: Large Cap Style Bias: GARP Management: Active Fixed Income: Active Bonds: Duration, Credit, Yield Curve


NORTHERN TRUST GLOBAL INVESTMENTS David Lester, Vice-president; 145 King St. W., Toronto, ON M5H 1J8 PH: 416-775-2215 Fax: 416-366-2033 eMail: david_lester@ntrns.com Web: www.northerntrust.com Established: 1889

NORTHERN TRUST GLOBAL INVESTMENTS David Lester, Vice-president; 145 King St. W., Toronto, ON M5H 1J8 PH: 416-775-2215 Fax: 416-366-2033 eMail: david_lester@ntrns.com Web: www.northerntrust.com Established: 1889

O’SHAUGHNESSY ASSET MANAGEMENT, LLC Chris Loveless, President & CEO; Six Suburban Ave., Stamford, CT 06901 PH: 203-975-3304 Fax: 203-975-3368 eMail: cichls@gmail.com Web: www.osam.com Investment Professionals: 9 Established: 2007 Minimum Investment - Separate: $5M Style - Size Bias: Small, Large, All Cap Style Bias: Value, Growth, Core Management: Active Other: Quantitative
SEAMARK ASSET MANAGEMENT LTD. Darren Kosack, Senior Vice-president, Client Relations & Market-

SEI INVESTMENTS Terry Cameron, Marketing Director: 70 York St., Ste. 1600, Toronto, ON M5J 1S9 Ph: 416-777-9700 Fax: 416-777-9093 eMail: ttcameron@seic.com Web: www.seic.com Investment Professionals: 90 Established: 1968 Minimum Investment - Pooled: $10M Separate: $100M Style – Other: Style Neutral Manager of Manager Investment Programs

SIGMA ALPHA CAPITAL Jean-Sebastien Garant, Vice-president & Portfolio Manager; 1002 Sherbrooke St. W., Ste. 2060, Montreal, QC H3A 3L6 Ph: 514-393-1234 Fax: 514-393-3527 eMail: js.garant@sigma-alpha.com Web: www.sigma-alpha.com Investment Professionals: 4 Established: 2003 Minimum Investment - Pooled: $25,000 Separate: $500,000 Style – Other: Discretionary Top-down approach

SIONNA INVESTMENT MANAGERS Stephanie Kremer, Institutional Relationship Manager; 8 King St. E., Toronto, ON M5C 1S9 Ph: 416-203-2732 Fax: 416-203-8033 eMail: stephanie_kremer@sionna.ca Web: www.sionna.ca Investment Professionals: 6 Established: 2002 Minimum Investment - Pooled: $2M Separate: $10M Style - Size Bias: Small, Mid, Large, All Cap Style Bias: Value Management: Active

SIPCL GROVE INVESTMENT MANAGEMENT LTD. Marcel Leroux, Vice-president, Marketing; 181 Uni-

SQUGROVE INVESTMENT MANAGEMENT LTD. Marcel Leroux, Vice-president, Marketing; 181 Uni-

SSQ FINANCIAL GROUP Martin Leclair, Vice-president, Business Development; 5160 Yonge St., Ste. 730, Toronto, ON M2N 6L9 Ph: 416-580-9916 Fax: 877-669-1881 eMail: martin.leclair@ssqa.ca Web: www.ssq.ca Investment Professionals: 4 Established: 1946 Style - Size Bias: Small, Large Cap; Style Bias: Value, Growth, Core Management: Active, Passive Fixed Income: Active, Passive Bonds: Duration, Credit, Yield Curve

SSQ INVESTMENT MANAGEMENT LTD. Martin Leclair, Vice-president, Business Development; 5160 Yonge St., Ste. 730, Toronto, ON M2N 6L9 Ph: 416-580-9916 Fax: 877-669-1881 eMail: martin.leclair@ssqa.ca Web: www.ssq.ca Investment Professionals: 4 Established: 1946 Minimum Investment - Pooled: $2M Separate: No minimum investment; minimum annual fee Separate: No mini-

STATE STREET GLOBAL ADVISORS, LTD. Patrice Denis, Vice-president, Business Development & Client Service; 770 Sherbrooke St. W., Ste. 1200, Mon-
treal, QC H3A 1G1 Ph: 514-282-2413 Fax: 514-282-3048 eMail: patrice_denis@ssga.com Web: www. ssga.ca Investment Professionals: 446 Established: 1978 Minimum Investment - Pooled: No minimum investment; minimum annual fee Separate: No mini-

STONEBRIDGE FINANCIAL CORPORATION Louis Belanger, Assistant Vice-president; 20 Adelaide St. E., Ste. 1201, Toronto, ON M4W 156 Ph: 416-364-3001 x242 Fax: 416-364-1557 eMail: lbelanger@stonebri-
dge.ca Web: www.stonebridge.ca Investment Professionals: 16 Established: 1999

STANDARD LIFE INVESTMENTS INC. Jay Waters, Vice-president, Central Canada; 121 King St. W., Ste. 810, Toronto, ON M5H 3T9 Ph: 416-367-2049 eMail: jay. waters@standardlife.ca Web: www.sli.ca Investment Professionals: 56 (includes US Equity Team in Boston) Established: 1973 Minimum Investment - Sepa-
rate: Varies Style - Size Bias: Small, Mid, Large, All Cap Style Bias: Value, Core Management: Active, Passive Fixed Income: Active, Passive Bonds: Duration, Credit, Yield Curve Other: Structure Bonds (Liability Driven Investing), Global Index Linked Bonds (GILB), Alternative - Global Absolute Return Strategy (GARS)

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T. ROWE PRICE  Wendy Brodkin, Director, T. Rowe Price (Canada) Inc.; 161 Bay St., Ste. 2700, Toronto, ON M5J 2S1 T. ROWE PRICE - 14
Investment
www.ubs.com/1/e/globalam/americas/canada.html

UBS GLOBAL ASSET MANAGEMENT (CANADA) INC.; 161 Bay St., Ste. 2700, Toronto, ON M5J 2S1 PH: 416-572-2582 Fax: 416-572-4085 eMail: wendy_brodkin@troweprice.com Web: www.trowe-
Price.com Investment Professionals: 36 Established: 1937 Minimum Investment - Pooled: $250,000 Separate:
$250,000 Style - Size Bias: All Cap Style Bias: Value - 50%, Growth - 50% Management: Active Fixed Income: Active

VAN BERKOM AND ASSOCIATES INC. J. Sebastian
van Berkom, President & Chief Executive Officer; 1130 Sherbrooke St. W., Ste. 1005, Montreal, QC H3A 2M8 PH: 514-985-5759 Fax: 514-985-2430 eMail: contact@vbassociates.com Web: www.vbassociates.com Investment Professionals: 9 Established: 1991 Minimum Investment - Separate: $5M Style - Size Bias: Small Cap Style Bias: GARP, Core Management: Active

VANCITY INVESTMENT MANAGEMENT LTD. Allan Pankratz, President; 300-900 West Hastings St., Vancouver, BC V6C 1E5 PH: 604-871-5355 Fax: 604-
877-4963 eMail: vcim@vancity.com Web: www.vcim.ca

VICTORY CAPITAL MANAGEMENT INC. Paul Pasicznyk, Managing Director, Corporate Segment Leader; 127 Public Square, 14th Floor, Cleveland, OH 44114 PH: 216-689-0956 Fax: 216-689-8315 eMail: paul_g_pasicznyk@victoryconnect.com Web: www.victorycon-
nect.com Investment Professionals: 67 Established: 1894 Minimum Investment - Pooled: $5.3M Separate:
$10.6M Style - Size Bias: Small, Mid, Large Cap Style Bias: Value, Growth, Core Management: Active Fixed Income: Active Bonds: Credit Other: US Equi-

WELLINGTON MANAGEMENT COMPANY, LLP Susan Pizor, Vice-president; 75 State St., Boston, MA 02109 PH: 617-790-7441 eMail: spizor@wel-
lington.com or migl@wellington.com Web: www.wel-
lington.com Investment Professionals: 481 Established:
1928 Minimum Investment - Pooled: $5M - Account minimums vary by investment approach Separate:
$25M - Account minimums vary by investment approach Style - Size Bias: Small, Mid, Large, All Cap Style Bias: Value, Growth, GARP, Core Management:
Active Fixed Income: Active Bonds: Duration, Credit, Yield Curve Other: Equity, Fixed Income, Multi-strategy and Alternative, Specialty, Active Currency Manage-
ment

WISE CAPITAL MANAGEMENT INC. Sam Wise-
man, CIO; 1305 - 2200 Yonge St., Toronto, ON M4S 2H4 PH: 416-483-1900 Fax: 416-483-1930 eMail: info@ wiselycapitalmanagement.com Web: www.wisecapi-
talmanagement.com Investment Professionals: 3 Established: 2001 Minimum Investment - Pooled:
$150,000 Separate: $1M Style - Size Bias: Small, Mid Cap Style Bias: Value Management: Active
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2010 Statistical Report

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Retail/ Mutual Fund

Other

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**Total Pension Assets**

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- **$1,280.3M**
- **$15,915M**
- **$42,563M**
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- **$2,505.4M**
- **$1,526.6M**
- **$630.0M**
- **$2,503.2M**
- **$154.3M**
- **$2,416.3M**
- **$152.7M**
- **$16,686M**
- **$18,545M**
- **$45,376M**
- **$1,905.9M**
- **$12,967M**
- **$1,847M**
- **$2,154.8M**
- **$745.1M**
- **$2,503.2M**
- **$2,503.2M**
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- **$152.7M**
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- **$12,967M**
- **$1,847M**
- **$2,154.8M**
- **$745.1M**

**2010 Statistical Report**

**MONEY MANAGERS**

Benefits and Pensions Monitor – October 2010
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**Total Pension Assets**: $3,677.5M
## 2010 Statistical Report

### Money Managers

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<th>Company</th>
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### Appointment Notice

**Francis Veilleux, CFA**  
Senior Vice-President,  
Client Services  
Standard Life Investments Inc.

Standard Life Investments Inc. is pleased to announce the appointment of Mr. Francis Veilleux to the position of Senior Vice-President, Client Services. He oversees all servicing activities for Canada.

Francis has over 20 years of experience in the investment industry. He has worked for investment organizations of national and international scope in Institutional Services related positions both in Eastern and Western Canada.

Standard Life Investments Inc. has been providing investment management services in Canada since 1973 and manages approximately $28.3 billion of assets.  
(www.standardlifeinvestments.ca)

Standard Life Investments Inc. is a subsidiary of Edinburgh-based Standard Life Investments Limited, a leading asset management company with approximately CDN$227.3.  
(www.standardlifeinvestments.com)
## 2010 Statistical Report

### Money Managers

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|              | $657M           | $15M                  | $672M     | $4,807M       | $444M  | $672M       | $1,260M         | $2,513M      | $394M        | $4,807M          |

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**Thank You To Our Corporate Sponsors!**

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57 Benefits and Pensions Monitor – October 2010
The last two years have given investors a wild ride. On May 20, 2008, the S&P/TSX Composite Index fleetingly (for one day) exceeded the 15,000 mark with an all-time high of 15,047.34. Nine months later, the index bottomed out at 7,566.94, a 49.8 per cent loss in value. Just over one year later, the index had recovered much of its losses, with a 62.3 per cent increase to 12,210.70.

From the perspective of an employee stock purchase plan (ESPP), the real story lies in the impact of dollar-cost averaging in such a volatile environment. Dollar-cost averaging is the process of purchasing the same dollar-value of stock at regular intervals. The natural result of such a process is to accumulate stock gradually, buying more units when the price is low, and fewer when the price is high, leading to smoother and generally higher returns than would be achieved through market timing.

Various Moving Periods

Chart 1 illustrates these results over various moving periods. It shows that, in spite of the recent wild ride in the financial markets, an investor who used dollar cost averaging together with a buy and hold strategy over periods of four and five years did not lose any money (even when dividends are excluded). This may be a factor in the renewed interest in these plans.

It is generally acknowledged that the advantages of dollar-cost averaging are magnified by the random volatility of an investment. Thus, it is a particularly important concept in the operation of ESPPs that typically restrict employees to investing only in the stock of the employer and, consequently, subject members to very high levels of volatility with no opportunity for diversification.

The secret of investment success through dollar-cost averaging under an ESPP lies in the discipline of periodic contributions via payroll. However, the advantage is lost when the member engages in attempts at market-timing by tactically cashing out of the ESPP at seemingly opportune times. It is notable that exchange trading volumes tend to spike at peaks and troughs in the market. As there must always be a buyer and a seller in any such transaction, it is reasonable to conclude that it is the mostly sophisticated traders who are selling at the peaks and buying at the troughs. Mostly less sophisticated traders are on the other side of the transaction, exhibiting the irrational herd impulse of buying stocks that are in favour and trading at a premium, and conversely selling unpopular stocks that have lost value. Such activity implies that to the extent that members of ESPPs, who by-and-large are not sophisticated professional traders, attempt to market-time their investments rather than sticking with dollar-cost averaging, the poorer the results we should expect from their investments.

Investment education is, of course, one approach to deal with unsophisticated investor behaviour and its importance is not to be minimized. However, despite great effort and resources that plan sponsors, as well as CAP providers and recordkeepers, have spent on such education, experience suggests that effective investment education of most group plan members has remained very elusive. In general, it seems that investment education is most effective in helping employees who already have a keen interest in investing, while the majority either do not access or do not appreciate the information provided.
Inappropriate Investor Behaviour

Accordingly, in the absence of effective investment education as a tool to minimize inappropriate investor behaviour, counter-productive market-timing becomes a significant governance issue for ESPP plan sponsors and one that requires serious consideration. To approach this governance issue, it is helpful to first consider their purposes in offering an ESPP in the first place. Most sponsors who are asked this question tend to gravitate to one or more of the following as objectives of the ESPP:

◆ Encourage employee engagement through an alignment of their interests with the long-term success of the company
◆ To facilitate employee savings through payroll deduction
◆ To provide additional employee pay in a form that has cash flow or tax advantages to the company

Some ESPPs, are simply a facility that allows employees to acquire employer stock via voluntary payroll deduction. Such plans do not constitute additional employee pay in the form of employer contributions and the employer-provided benefit is limited only to the facilitation of payroll deduction services and, perhaps, subsidies on trading and administration costs. Since the employer-provided value of such a program is relatively minor, one could argue that it has only a minor impact on the investment decision of employees and simply makes it easier for those who would otherwise have purchased the stock through their personal brokerage accounts to purchase it in this more convenient form.

Most ESPPs, however, feature employer contributions, often as a full or partial match of employee contributions. (In some cases, the employer contribution takes the form of offering the stock at a price that is below market.) Such programs are intended to foster a sense of ownership of the enterprise and also have an element of compensation to them. Since these are an explicit incitement by the employer for employees to invest in company stock, employers offering them have to consider carefully the responsibility that stems from such encouragement, bearing in mind that any employee group can be assumed to consist mostly of unsophisticated investors. The purpose of these plans seems inconsistent with permitting employees the ability to attempt to market-time their transactions for the following reasons:

◆ The communications messaging around such a program would likely tend to encourage employees to hold the stock, which would be inconsistent with trading on a market-timing basis

◆ The incentive of employer contributions will be attractive to less sophisticated employees who may not otherwise be comfortable with the concept of investing in stock and who may not be equipped to understand the consequences of market-timing when conducting discretionary trades

Of course, employees must still ultimately have the discretion to sell their shares, possibly subject to forfeiture rules or suspension of future employer contributions. Thus, the governance approach must balance trading which is consistent with the purposes of the plan against any restrictions designed to discourage trading.

Ownership Culture

This attempt at balance leads to the question of what frequency of trades may be appropriate for most ESPPs that are intended to foster an ownership culture among employees. Trading frequency is a function of the administrative framework, which could limit full discretionary trading by employees. Thus the administrative...
framework utilized for the ESPP serves as a good starting point to address the question.

Some ESPPs use unitized pools of stock, which requires work to carry out the unitization calculation. Transactions would usually be processed in accordance with the unitization frequency under these plans. Daily unitization is about 20 times more costly than monthly unitization, both in terms of the unitization work and batch processing of trades of underlying stock. The cost difference would likely be immaterial for large plans, but could be significant for small plans.

Other administrative frameworks allow for direct hold of stock under employee accounts and thus require no unitization. Under this approach, trades may be batched (either daily or less frequently), or they may be processed in ‘real time.’ Batched trades are much more cost-efficient for a number of reasons:

- Under a batched trade, a single brokerage transaction replaces many individual ones such as a single purchase of 1,000 shares replacing 10 separate purchases of 100 shares.
- Batched trades are typically large and subject to flat trading fees, while small individual trades may be subject to proportionately much higher minimum fees. A single $20 trading fee could be charged versus 10 transactions each subject to a $5 minimum fee.
- Batched trades allow for netting of purchases and sales at the plan level, rather than requiring each member to buy or sell shares, independently of each other – a member buying 100 shares nets off against a member selling 100 shares resulting in no net trade (and simply a recordkeeping adjustment) versus two independent trades, each subject to minimum brokerage fees.
- Batch trades are predictable, being executed at a fixed time each day, while real-time trades require resources to be constantly allocated in the event that a trade is requested.

Employers may feel less concerned over trading costs when, as often is the case, the costs of frequent trading are passed on to the plan member through explicit transaction charges. However, in the context of a group plan in which the (sophisticated) employer is encouraging the (unsophisticated) employee to invest, there exists a risk that the employer could be held accountable for plan design features that act against the employee’s interests.

Typical Employee

One approach which may be helpful in framing the issue would be to ask whether a typical employee – who has been fully informed – would choose to have their trade executed in batch at the end of the day, at no charge, or processed in real-time and be subject to transaction fees. One could even envision a plan structure which poses this question to plan members at the time of each transaction, though this may be going overboard.

A few further observations that are germane to the question of determining what frequency of trades may be appropriate are:

- The plan sponsor bears the cost of batch trades made according to contribution cycle.
- Subject to vesting, forfeiture rules, and the objectives of the ESPP in respect of share ownership, withdrawals are permitted once per month, quarter, or year (as determined by the plan sponsor).
- Withdrawals are batch-processed daily, weekly, or monthly for large, medium, or small plans, respectively, in order to ensure that the costs in respect of each individual trade are not excessive.

The framework above provides an effective governance and optimally cost-effective administrative framework that imposes reasonable restrictions on discretionary trading activities and will help ensure that advantages of dollar cost averaging benefit most plan participants by minimizing market-timing trading activities.

Greg Hurst was with Morneau Sobeco.
‘Thriving in a 30-VIX World’ is the focus of the next AIMA Canada session. Panelists Howard Atkinson, Horizons Exchange Traded Funds; Nicolas Papageorgiou, HEC Montreal, BrockhouseCooper; Richard Croft, The Croft Group; and Chris Guthrie, Hillsdale Investment Management; will look at different ways to thrive in a volatile, post-crash world. It takes place November 2 in Toronto, ON. Visit: http://aima-canada.org/cgi-bin/seminars_user.cgi

Hedge Funds Care Canada’s seventh annual Toronto gala will again support Canadian organizations that focus on the prevention and treatment of child abuse and neglect. It takes place November 3 in Toronto, ON. In Canada, it has raised more than $1 million in support of the cause. Visit: http://www.hedgefundscare.org/event.asp?eventID=30

The current state of deal flow and what it takes to create deal flow now will be the focus of the ‘Creating Deal Flow: Ready, Set, Go ... But Where Do We Go from Here?’ session at the ‘12th Annual Canadian Summit Private Equity.’ It takes place November 15 in Toronto, ON. Visit: www.insightinfo.com/privateequity

‘Prudence in Pension Administration – An Increased Focus’ will be the focus of a session at the ‘43rd Annual Canadian Employee Benefits Conference.’ It will provide an overview of the latest published material, the implications for the administrator, and the impact on the operations of the pension plan and the pension fund. It takes place November 21 to 24 in San Diego, CA. Visit: www.ifebp.org

Effective accountability for pension management will be among the areas examined at the ‘Essential Skills for Pension Committee Members’ session. Taking place November 22 to 24 in Toronto, ON, it will also look at managing pension assets in a risk control framework and a union perspective on pension committees. Visit: www.federatedpress.com

Jill Wagman, a principal at Eckler Ltd., will look at ‘Target Benefit Plans – An Option for Single Employers?’ at the ACPM Ontario region’s ‘impACT 2010: Scoring Pension Plan Goals – While Staying Out of the Penalty Box.’ In this half-day seminar, a collection of experts will share innovative approaches to pension plan design, funding, and risk management. Wagman will discuss the main features of target benefit plans and some considerations and challenges in adapting them to a single employer environment. It takes place November 23 in Toronto, ON. Visit: http://www.acpm.com/

Developing an employee intranet to enhance benefits communication will be a session at the Strategy Institute’s ‘Communicating Compensation & Benefits.’ Sessions will also look at communicating the rewards program brand to employees and communicating compensation, pension, and benefits changes. It takes place November 29 and 30 in Toronto, ON. Visit: www.federatedpress.com

Working with Defined Contribution and Capital Accumulation Plans will be the focus of a session at Osgoode Professional Development program’s ‘6th Annual Essential Course in Pensions.’ Susan G. Seller, of Bennett Jones LLP, and Marc Poupart, general manager, pension and retirement programs at Hudson’s Bay Company, will examine areas such as plan texts and service agreements, as well as compliance/governance issues. It takes place November 30 to December 1. Visit: http://www.osgoodepd.ca/clehome_list.html

Benefits and Pensions Monitor – August 2010
Let your mind drift back to the time you were first studying finance. Your university textbook, or the Canadian Securities Course, presented you with two ways of understanding securities. Fundamental analysis looked at a company’s financial statements, while technical analysis looked at past prices and other indicators to forecast a security’s future movement. You memorized these differences and passed the test. And that was probably the last time you ever thought of technical analysis.

That truth reflects the thinking of the majority of the investment world which places a large emphasis on the fundamental side and little or no emphasis on the technical aspect.

Another Perspective

It wasn’t always this way. Decades ago, sell-side dealers, and money managers often had at least one technical analyst on board to provide another perspective to the numerous fundamental analysts. But those days are past. A recent book from Andrew Lo at MIT, ‘The Heretics of Finance: Conversations with Leading Practitioners of Technical Analysis,’ notes that many of the big names of technical analysis (such as John Murphy, Laszlo Birinyi) are running their own one-person advisory firms, at least in part because of the marginalization of technical analysis.

Yet, there is increasing evidence that once you get past some of the talk of ‘fibonacci cycles that occur in both markets and in nature,’ there is some real merit in some technical indicators. Lo has produced many academic papers over the past decade, as he sought to test the effectiveness of technical analysis. A key first step was to remove the subjectivity from the identification of many of the patterns found in technical work. Instead, he provided simple geometric rules to identify head and shoulders patterns, triangles, rectangles, and other such patterns, and then tested their ability to forecast future prices. His work has found that over some time periods, and especially for smaller capitalized stocks, there is some predictive power of technical analysis.

Applicable in Futures

A survey of more than 130 academic studies was undertaken by Cheol-Ho Park and Scott Irwin, both at the University of Illinois. ‘The Profitability of Technical Analysis: A Review’ notes that technical analysis is more generally believed to be applicable in futures and foreign exchange markets, rather than for equity markets, and more profitable for the short term rather than the long term. In equity markets, technical trading strategies appear to have been profitable in U.S. markets up until the late 1980s, but not more recently. However, several studies have found continued profits to be available in emerging equity markets. For foreign exchange markets, technical trading strategies were profitable at least until the early 1990s, but declined in recent years. In futures markets, several technical indicators worked in the 1970s and 1980s, with little indication of continued performance since then.

But can these technical rules work in the real world? Many of these studies examined are susceptible to ‘data snooping,’ choosing rules after the fact that fit the data that is being examined. In these cases, there might be no indication that the trading rules were ever followed by real investors at the beginning of the study period. Other studies noted small profitable opportunities that would quickly disappear when looking at implementing real world issues such as commission costs, bid-ask spreads, and other execution costs.

It is this last issue which has renewed interest today in technical analysis. Changes in technology and equity markets (such as 24-hour trading and the increased liquidity from electronic communications networks and liquidity pools) allow instant order flow to take advantage of any short-term indications, and all at sharply reduced trading costs. At the same time, computers are now able to process tick-by-tick information (by one estimate, a single day of tick-by-tick data is equivalent to 30 years of daily observations), in the search for these technical patterns. This is the world of high-frequency trading that is characterized by firms that enter tens of thousands of automated orders per day and hold their positions for minutes (usually fewer than 10 minutes) and often just seconds.

‘Get A Feel For The Trend’

The analysis of high-frequency trading firms today is markedly different from the lone analyst plotting the daily close of a stock by hand on a piece of graph paper in order to ‘get a feel for the trend.’ But if the applicability of more traditional technical indicators has disappeared of late, the profitability of some high-frequency trading firms shows that there is still life left in technical analysis.

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