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two months into 2011, the topic on the tip of everyone’s tongue appears to be sustainable investing.

For example, State Street announced it was teaming up with F&C Investments to provide an environmental, social, and governance (ESG) reporting service to help investors meet their stewardship goals. The service reportedly would benefit investors such as pension fund managers and trustees seeking to implement best practices for responsible investment to enhance the long-term value of their investments.

Around the same time, a Sustainalytics study highlighted links between sustainability, performance, and shareholder value. ‘Sustainability and Materiality in the Natural Resources Sector’ looked at environmental and social practices in the forestry, mining, and oil sectors and found positive correlation to competitiveness in each sector.

Along the same lines, a report by the Shareholder Association for Research & Education (SHARE) suggested timberlands are a sustainable, long-term investment that offers many advantages to pension funds.

Investment And Climate Change

Finally, in mid-February, ‘Climate Change Scenario — Implications for Strategic Asset Allocation’ was released (see ‘Investment And Climate Change’ by Elisabeth Bourqui, of Mercer, on Page 30.) This was a collaborative effort by a group of investors and experts including Mercer, the IFC, the Carbon Trust, the Grantham Research Institute on Climate Change and the Environment, the London School of Economics and global institutional investors such as CalPERS in the U.S. and Canada’s Ontario Municipal Employees Retirement System.

The goal of the project was to develop a framework around climate change that would assist institutional investors. It concluded that assessing the risks and impacts of climate change; anticipating policy, economical, and behavioural change; and, therefore, eventual opportunities associated with climate change fit naturally into the long-term perspective of an institutional investor.

We’re actually delighted that the pages of our magazine can provide a gateway to research into the whole area of sustainable investing as Benefits and Pensions Monitor has provided a spotlight on socially responsible investing (SRI); environmental, social, and governance (ESG) principles for investing; sustainable investing; or whatever else you want to call it. We published the first, and only, industry report on this kind of investment back in June 2005. And, other than moving it to the September issue, it has been a mainstay of our publishing schedule since then.

Last September, this annual report featured a roundtable on sustainable investing sponsored by TD Asset Management. If you haven’t read it, visit our website, www.bpmmagazine.com, click on archives and click on the September 2010 issue.

We devote space, time, and energy to this topic because, frankly, it is important. Whether you believe in global warming/climate change or not, or if you don’t believe that oil resources are finite (the Abiotic theory of oil is that the earth is constantly producing new oil), whatever … the one reality is that we have only one planet and if we want to maintain and improve the quality of life of mankind, something needs to be done.

Growing Evidence

Now, however, there is growing evidence that we can ‘save the planet’ and still earn the dollars needed to fund pension plans and create investment returns.

Heck, we’re putting our principles to the test and have gone sustainable in our own little way with the launch in December of the first digital issue of the magazine. For those reading this on their tablets, the future is in your hands, today.

By Joe Hornyak
Executive Editor
Global investor, local partner

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Hicks Morley

Susie Taing is an associate in the pension and benefits practice group at Hicks Morley Hamilton Stewart Storie LLP. Called to the Ontario Bar in 2009, she was most recently a pension and benefits lawyer at an international consulting firm in Toronto, ON.

Sunny Mann is legal counsel at 18 Asset Management. Previously a lawyer at Research in Motion, her duties included writing and monitoring adherence to compliance policies as well as interfacing with the regulatory community.

Dexia

James Clark is senior relationship manager and Michael Tuira is a relationship manager for the Canadian office of Dexia Asset Management. They will be responsible for promoting its asset management products and services to Canadian investors.

Mawer

Scott Campbell is senior institutional portfolio manager at Mawer Investment Management. He has more than 17 years of experience in the investment management industry and previously worked at Mclean Budden. He will be working in Calgary, AB, for the next three months before opening up the Toronto institutional office, Mawer’s first office outside of Calgary. Peter Dmytruk is an analyst. He previously worked at ATCO Pipelines as a project leader.

Equitable Life

Martin Chung is joining Equitable Life’s drug plan management and health and productivity efforts and focus. A pharmacist by profession, he was, most recently, a vice-president at Aon Hewitt Consulting focused on product and business development in the areas of pharmacy and employee wellness solutions.

Thomas Murray

Linda Bernard will head Thomas Murray’s business in North America. Prior to joining the firm, she was director of product management for foreign financial institutions at CIBC Mellon.

NAV Canada

Paul Fahey is vice-president, pension investment, at NAV Canada. Most recently, he was a managing partner at Aurion Capital Management.

AIMCo

A.J. (Pine) Pienaar is senior vice-president of client relations; Michael Baker is senior vice-president, operations; Robert Mah is senior vice-president of infrastructure and timber investments; and Jean David Tremblay-Frenette is vice-president, global tactical asset allocation, at Alberta Investment Management Corp. Pienaar was previously president and CEO of J.P. Morgan Asset Management (Canada) while Baker was executive vice-president, retail financial services, at ATB Financial. Mah was most recently managing director at Scotia Capital, responsible for investment banking and, prior to that, mergers and acquisitions. Tremblay-Frenette was formerly chief analyst, strategy and corporate development, with the National Bank of Canada.

Mackenzie

Mary C. Taylor is senior vice-president, product and marketing, at Mackenzie Financial Corporation. She will lead the marketing and product development teams for its retail, institutional, and investment funds. She has more than 25 years of strategic leadership, marketing, and product development experience in the financial services industry. E. Blake Moore, Jr. is executive vice-president, head of distribution. In this capacity, he will lead the strategic growth of its retail and institutional distribution businesses. Most recently, he served as CEO of the U.S. retail distribution group of a global asset manager.

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Plan Design Needs Bold New Direction

It is time for a bold new direction when it comes to Defined Benefits pension plan reform, says Kevin Sorhaitz, a principal and consulting actuary at Buck Consultants. Speaking at its ‘Pension Plan Redesign’ session, he said the dilemma is that everyone knows where we are starting from and where we want to be, but they don’t know what to do about everything in between. For years, he said, “we have been playing by the old rules and the results are dismal.” The perfect plan would feature fixed contributions, no volatility in employer costs, and a predictable income. However, that is not realistic, he admits. One solution, in his opinion, is “Dynamic” Defined Contribution plans which would be more robust with investment decisions outsourced because “we can’t expect members to become financially literate.” He also sees the industry pushing for target benefit plans which are a good compromise between DB and DC, but they are “not a panacea.”

Merger Forms Financial Services Firm

Blevins Insurance Group has entered into a merger agreement with Jones DesLauriers & Reynolds Financial Services Group Inc. to form a Tier 2 financial services firm. The new consolidated brokerage will take the name Jones DesLauriers Blevins Insurance Group Inc. David Blevins will continue to lead the company as president. “We are pleased to be merging with an established firm that shares our corporate values, customer service standards, and professional expertise,” says Blevins. “This is a decisive move that will accelerate our growth and perpetuation strategy. It will enable us to provide even greater value to our clients and insurance partners.”

Guidelines Outlined For OSFI Intervention

For the first time, the Office of the Superintendent of Financial Institutions (OSFI) has issued guidelines on the interventions administrators can expect from it. The ‘Intervention Guide for Federally Regulated Private Pension Plans’ summarizes the circumstances under which interventions may take place. The objective is to promote awareness and enhance transparency of the intervention process used by OSFI for federally regulated private pension plans.

Plan Designed For Small Employers

The Great-West Life Assurance Company has launched a simplified group retirement and savings plan designed for businesses with fewer than 35 employees who want to offer their employees a convenient way to save for retirement. Jeff Aarssen, vice-president, group retirement services, sales and marketing, says many small businesses want access to the same services offered to larger plan sponsors at a competitive cost, but may not have the human resources infrastructure in place to set up and administer their own pension plans. Its ‘Performers’ allows smaller employers to offer their employees an easy way to save, with strong investment options, convenient online services, and a member communications program.

AIMCo Acquires Australian Forest

The Alberta Investment Management Corporation (AIMCo) has partnered with the Australia New Zealand Forest Fund to acquire the timberland assets of Great Southern Plantations. The assets are being acquired out of receivership and represent a diversified rural land portfolio encompassing more than 2,500 square kilometres in prime forestry and agricultural regions across six Australian states. By area, this transaction represents the largest private forestry estate transaction in Australia to date. New Forests Pty Limited, a Sydney-based timber investment management firm specializing in sustainable forestry investments, will manage the estate. Leo de Bever, AIMCo’s CEO, says it “wants to capitalize on growing world demand for timber and agricultural products.”

Safe Harbour Problematic

U.S. officials are moving to close a problem with the Pension Protection Act, says Sandra Cohen, of Osler, Hoskin & Harcourt LLP. Speaking at its ‘Managing the Impact of Pension Reform’ seminar, she said the act originally provided for safe harbours for providing investment advice and permitted the use of professional advisors. However, it failed to prevent these advisors from advising about products from which they would benefit. As a result, a proposal has been made which requires professional advisors to offer a level fee arrangement whereby the fee is the same regardless the product chosen by the plan member. The safe harbour also permits the use of independently developed computer programs.

Politician Pensions Under Review

An independent review of pensions for members of the Nova Scotia legislative assembly will be carried out. Speaker of the House of Assembly Gordie Gosse says “The time is right to review the plan to ensure it provides a pension that’s fair for people who leave their careers to enter public service and, at the same time, recognizes that the province has to consider everything in its effort to live within its means.” The review will be conducted by an independent panel and be completed and presented in late spring.
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**Timberlands Offer Advantages To Pension Funds**

Timberlands are a long-term investment that offers many advantages to pension funds and other institutional investors, including long-term, sustainable cash flows with strong risk-adjusted returns, portfolio diversification, and inflation hedging properties, says a report by the Shareholder Association for Research & Education (SHARE). It was produced to assist institutional investors in selecting among the major forest certification schemes available in Canada to mitigate environmental risks and protect the long-term value of their timberland investments. It provides an in-depth comparison between the sustainable forest management standards of the Forest Stewardship Council (FSC), the Canadian Standards Association (CSA), and the Sustainable Forestry Initiative (SFI). The report also found that as investors with very long-term investment time horizons, pension funds have an interest in protecting the long-term value of their timberland investments and future returns by ensuring that timberlands are managed sustainably. Forest certification can be used to verify that forest managers are following a set of adequate predetermined environmental (and social) standards.

**Empire, Aspiria Create EAP**

The Empire Life Insurance Company and Aspiria Corp. have created a new employee assistance program (EAP), AssistNow. Designed specifically for Empire’s group benefits customers, it offers expert assistance to employees and their families, as well as to managers and company leaders. It includes confidential counselling, life coaching, health information, self-assessments, interactive training modules, management consultation, and a crisis management service.

**Solution Improves DB Management**

Aon Hewitt has introduced a delegated investment consulting solution for better management of Defined Benefit pension plans of all sizes. The starting point for the delegated investment consulting solution is partnering with the plan sponsor to define the plan’s “endgame” — whether long-term sustainability or termination — and then designing a customized “de-risking glide path” to reach that point smoothly and efficiently. The end result is managed pension plan risk, with decreased balance sheet volatility. “This approach enables us to partner with our client’s investment committee and assume investment management and fiduciary operations to effectively manage the cost, risk, and governance of their Defined Benefit plan,” says Rob Vandersanden, a Calgary-based principal with Aon Hewitt.

**PH&N Offers LifeTime Funds**

Phillips, Hager & North Investment Management has launched a series of LifeTime Funds for Canadian institutional investors. These are target date investment solutions that offer a glidepath extending 25 years beyond the target date to support ongoing investment and income withdrawal of Defined Contribution investors into retirement. The fixed income structure is “designed to mirror the duration and term structure of a DC members’ future income stream, in order to moderate the volatility of the future income generated,” says Colin Ripsman, vice-president and portfolio manager.
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Mandatory retirement has disappeared across Canada and a new reality is setting in among employers. Sponsors are re-assessing plans to accommodate an ever-growing over-65 workforce.

The number of workers choosing to stay past 65, of course, is not yet large enough in most industries to warrant major adjustments to benefits. However, sponsors say they are closely monitoring the situation and taking some action, mostly at a moderate pace.

At Nestlé Canada Inc., a small segment of the workforce is currently over the age of 65. A few are planning to continue working past that age, says Carl Jafrabad, director of compensation, benefits, and pensions. As a result, plans have not yet been greatly impacted. “Nestlé’s strategy has been to provide a comprehensive ‘total rewards’ package to employees irrespective of their age,” Jafrabad says.

Since mandatory retirement was eliminated, it has made subtle changes to group benefits plans with the intent of allowing over-65 workers to continue to work. Its health and dental programs and other group benefits that are self-administered continue to be available to employees until their chosen date of retirement. And its pension plan continues to accrue service until age 69 in accordance with the Income Tax Act (ITA) regulations.

Bridging Gaps
Jafrabad welcomes the experience and hands-on knowledge of over-65 workers. With the mergers and acquisitions that Nestlé and its industry has seen lately, older workers bring valuable insight that can bridge critical knowledge gaps, he says. In order to retain that key knowledge, it has implemented phased retirement and post-retirement re-employment initiatives which have been beneficial to the company so far.

Phased retirement or over-65 individuals returning to work on a casual basis are increasingly popular concepts among employers and currently being practiced among some agencies represented by the Saskatchewan Association of Health Organizations (SAHO), says Bud Anderson, director of employee benefit programs.

Out of about 40,000 members, there are a small, “but significant,” number of individuals over the age of 65 currently employed among its organizations – a slightly growing proportion since mandatory retirement was eliminated in 2007 in Saskatchewan, Anderson says. So far, SAHO has adjusted its benefits plan gradually and in direct response to member feedback.

Based on reaction from members about inadequate life insurance for those choosing to stay on, SAHO decided to increase its life insurance coverage to one times annual salary to a maximum of $250,000 for over-65 workers who work on a permanent full-time, part-time, casual, or temporary basis. Previously, over-65 workers had a flat $2,000 of coverage. Employees under the age of 65 have two times salary to a maximum amount of $500,000.

May Be Challenged
As for its dental, health, and short-term disability coverage, there are no age limits under the plans. Coverage for long-term disability for the four plans SAHO administers ends at age 65 – a provision that may be challenged in the future, Anderson says. But, at this point in time, “we’re not about to make that change because it would be significantly costly for both employees and employers.”

While Anderson does expect this group of workers to have a positive impact on the workforce through their valuable skills and experience, he predicts that life insurance premiums will edge up slightly to cover those over 65. And as more work past 65, health plan costs will likely go up too.

Ultimately, employers will experience added costs as more and more choose to work past 65, says Pat Beanland, manager of finance and HR for the Conexus Arts Centre. But the interesting question looking forward is “will the benefits outweigh the expenses.”

In her experience, she finds that the over-65 workers employed by the centre generally have a great work ethic and can be counted on. In Beanland’s industry, “they’re not looking to make a fortune” and may just want casual hours, which is what it has to offer anyway.

However, this specific group of employees is naturally more prone to injuries and it may be harder to address some of the performance-related issues such as hearing or memory loss, she explains. And thus far, it has seen an increase in sick leave use among older employees. These factors are a concern with its workers compensation rates “as we don’t want to see them increase because of more injuries.”

Adjusting To The Over-65 Workforce

George Di Falco is Benefits and Pensions Monitor’s staff writer (gdifalco@powershift.ca).
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1 Combined AUM of Pyramis, Fidelity Investments and FIL as at March 31, 2010 (U.S. dollars).
2 Resources described reflect the combined resources of Pyramis, Fidelity Investments and FIL as at March 31, 2010.

For institutional use only. Distributed by Fidelity Investments Canada ULC, an affiliate of Pyramis Global Advisors. Past performance is no guarantee of future results.
The word ‘diabetes’ often leads employers to have concerns about loss of work time, thereby influencing their willingness to hire or promote a person with diabetes, says the Canadian Diabetes Association. For this reason, experts suggest that individuals with diabetes may decide to conceal their condition and, as a result, miss an injection or a blood glucose test, or postpone a meal.

A Preventable Epidemic

Let’s explore the condition a little more to understand opportunities and implications.

Insulin is a hormone that helps the body use blood sugar for energy. Diabetes occurs when blood sugar rises above normal levels because the pancreas is either unable to produce insulin or the body is unable to effectively use the insulin the pancreas manufactures.

There are three main types of diabetes:

- Type 1 occurs when the pancreas is unable to produce insulin. It is usually diagnosed in children or adolescents and there is no known cause.
- Gestational diabetes is a temporary condition that occurs during pregnancy and affects up to four per cent of all pregnancies.
- Type 2 diabetes affects the other 90 per cent of diabetics. It usually develops in adulthood and is one of the fastest growing diseases in Canada with more than 60,000 new cases diagnosed each year. Two of the culprits are Canadians’ increasingly sedentary lifestyles and poor diet.

Who’s At Risk?

If left untreated or improperly managed, diabetes results in a variety of complications such as eye disease, kidney disease, and heart disease. Diabetes has also been linked to Alzheimer’s or during the day. Individuals with the condition may require a private place to test blood sugar levels, to take insulin, and may need time to rest until blood sugar levels return to normal. Time off for doctors’ appointments and treatment may be necessary as well.

It is a good idea to make sure that someone else in the office knows how to administer medication in the case of an emergency. Most diabetics carry medication on them at all times, which may include pills or syringes.

Lifestyle Management

On-site education programs make a difference. Research has shown that 30 minutes of moderate physical activity every day can significantly reduce the risk of diseases including Type 2 diabetes.

Eating well is essential. If possible, try to find ways to promote healthy eating. Small, nutritious snacks during the day instead of large, heavy meals at lunchtime are best.

Facilitating ways for employees to get tested for diabetes on-site or at a medical clinic (along with blood pressure and cholesterol, which can be diabetes indicators) makes good business sense.

The good news is that while diabetes is chronic, it is not, on its own, a progressive disease. Communication, co-operation, and accurate information for everyone will change lives. By maintaining a healthy weight, monitoring blood sugar regularly, and following dietary guidelines for diabetics, people with the condition can lead healthy, active lives and make significant, ongoing contributions to your workplace.
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The Case For U.S. Equities In 2011

By: Mary F. Green

The S&P 500 marked a second consecutive year of double-digit gains, rising 15 per cent* in 2010, and ending the year above pre-Lehman Brothers collapse levels. However, 2010’s advance was no easy climb, amid uncertainties and debates regarding the durability of the economic expansion. As investors climbed a wall of worry, their concerns included persistently high unemployment and government debt levels, a precarious European sovereign debt situation, uneven economic reports, and the tumultuous May ‘flash crash’ technical glitch.

Still, equities worked their way higher – even if it felt unnatural at times – underpinned by strong corporate earnings growth. Eventually, the tone of the markets improved after Ben Bernanke, chairman of the United States Federal Reserve, announced more quantitative easing (QE2) in late August, igniting a close-to 20 per cent rally through year-end. Aggregate earnings rose at a double-digit pace for the year, in line with stock prices, leaving the price/earnings ratio (P/E) essentially unchanged for the year.

Investor enthusiasm for the U.S. mid-term elections also contributed to the year-end magic in the U.S. equity markets. Republican gains in the House and Senate gave rise to the prospect of more business-friendly policies coming out of Washington.

What Worked In 2010?

During 2010, smaller capitalization stocks outperformed as is typically the case in the early innings of an economic recovery. Smaller companies are generally seen to have superior flexibility to ramp up production capacity as demand re-emerges. Last year, they also benefitted from increased merger and acquisition activity as larger companies looked to spend excess balance sheet cash (and borrowings financed at historically low interest rates) on strategic acquisitions. This cyclical phenomenon generally proved a headwind to large cap equity strategies as large cap companies are typically the acquirers and not the targets.

Low quality also outperformed high quality with an approximately 22 per cent increase in S&P 500 C-rated companies for the year, as opposed to a 15 per cent increase for the high-quality A-rated companies. In the early stages of an economic recovery, when higher-risk, lower quality companies get re-rated, they can often outperform.

During 2010’s equity market roller-coaster ride, sector leadership fluctuated from ‘risk on’ (favouring cyclical) to ‘risk off’ (favouring defensive sectors) according to the macro backdrop. The cyclical sectors were the strongest performers with the consumer-cyclical, industrial, and materials sectors all up in excess of 20 per cent. Technology was an exception, rising only 10 per cent for the year. Among large cap companies, growth modestly outperformed value during the year, with performance differentials more pronounced among small cap companies in favour of growth over value.

2011: Navigating Equity Volatility

We have a constructive view of the U.S. equity market at the start of 2011. Stimulus remains strong, both fiscal and monetary, and estimates of economic growth have been revised up in recent months. Corporate earnings have continued to come in above Wall Street estimates, providing valuation support for the market.

But the macro fears are still significant and will likely result in continued market volatility. Topping our list of worries are the sovereign debt woes of Europe. We believe global macro issues will likely flare up and negatively impact the U.S. stock market.

Supporting a positive market view is the corporate financial condition, strong overseas growth, and the prospect of continued earnings growth. There is still a great deal of cash that could be put to work,
if not in direct U.S. equity investments, in activities supportive of U.S. equity prices including mergers and acquisitions, dividend increases, and share repurchases. Corporations have more than $1 trillion in cash and corporate cash-to-asset ratios of non-financial firms have hit record highs (7.4 per cent in the third quarter of 2010 versus a high of 7.5 per cent in the fourth quarter of 1959). Strengthening demand – especially from overseas – will likely continue to drive corporate earnings higher, albeit not at the blistering pace of the early recovery (approximately 38 per cent in 2010 driven by cost cutting and top-line growth). While the past certainly does not predict the future, the direction of the market has historically correlated with the direction of earnings and, absent a double dip recession, we believe earnings should continue to grow.

Looking Ahead

We do not profess to be market forecasters. However, as long-term investors we cannot ignore the valuation opportunities that the last two years have presented us. We concur with those who say that this market has brought about once-in-a-generation buying opportunities – for example, large cap technology stocks with double-digit earnings growth trading at, or in some cases below, market multiples. Such a degree of valuation compression can translate into long-term buying opportunities for investors seeking high quality companies. As we look ahead, we believe the large cap companies with the highest earnings growth can regain historical valuation premiums.

For example, when the market began to melt down in 2008, as the financial crisis emerged, we noted the valuations of many technology stocks traded into the low end of their historical valuation ranges. Valuation compression among the highest quality growth companies continued to make these types of stocks look attractive. Chart 1 illustrates the valuation rationale for considering quality growth stocks.

This chart looks at the top 10 per cent of growth stocks in a large cap universe, and where they have traded from a valuation perspective vis-a-vis the market (S&P 500) over time. On average, the highest growth stocks have traded at a 30 to 40 per cent premium to the market. The last time they enjoyed that premium was in May 2007, as indicated with an arrow in the middle of the figure. Stocks have traded as high as approximately 2.5 times a market multiple in the beginning of the decade of the 2000s, at the height of the tech bubble. Some active managers were able to identify the valuation aberration at the time and go underweight in technology stocks, thereby shielding portfolios from the full magnitude of the market decline once the tech bubble burst.

Recently, the top 10 per cent of large cap growth stocks have lost their historical valuation premium and have been trading at virtually no premium to the overall market corresponding to the arrow on the lower right of this chart. If you note the percentiles along the chart’s horizontal axis, in late 2010, stocks traded in the bottom decile of a 34-year range of relative P/Es – a mispricing event as extreme as the tech bubble. As opposed to the tech bubble – when growth was expensive – recent data suggests growth has become significantly undervalued versus the overall market. Factoring U.S. GDP growth in the low single digit range, we believe that growth stock valuations have an opportunity to be re-rated, as they potentially revert to historical market multiple premiums.

Active Management Matters More

Another boon for active stock pickers could be falling levels of correlation. In 2010, correlations of performance among S&P 500 stocks reached levels unseen since the Great Depression as macro concerns drove the market. With regulatory fervour out of Washington, and amid uncertain global growth prospects due to debt crises in Europe and the Chinese government’s efforts to curb economic growth, correlations skyrocketed. It was difficult for the active manager to differentiate as top-down factors moved the markets and fundamentals were largely ignored. This seeming disconnect between fundamentals, valuations, and performance created a source of frustration for many large-cap active managers in 2010.

We believe fundamentals are going to begin to matter more as the slow growth recovery continues to unfold and valuations should diverge in favour of the strongest companies. Presuming earnings growth of the overall market moderates in 2011, we believe that large cap companies with sustainable earnings growth can be rewarded with expanding multiples as the economy muddles through.

Mary F. Green is vice-president, U.S. equity client portfolio manager, at GE Asset Management.
SPECIAL REPORT AND DIRECTORY
MANAGERS OF U.S. ASSETS FOR CANADIAN PLAN SPONSORS

ABERDEEN ASSET MANAGEMENT INC.

*Global Equity clients with exposure to US Equities

ADDENA CAPITAL INC.

ALLIANCEBERNSTEIN

AMERICAN CENTURY INVESTMENTS

AXIOM INTERNATIONAL INVESTORS, LLC

BEUTEL, GOODMAN & COMPANY LTD.

*Not including those with US assets as part of their Balanced Mandates

BLACKROCK
Eric Levelle, Managing Director; 161 Bay St., Ste. 2500, Toronto, ON M5J 2S1 Ph: 416-643-4000 Fax: 416-643-4049 Email: eric.levelle@blackrock.com or gcg-rfp@blackrock.com Web: www.blackrock.com Canadian Clients: 166 With US Assets Managed - Large Cap Growth: $223.2M Core: $1,435.5M** Passive: $5,946.1M US Bonds Active: $1,319.5M Passive: $88.4M Other: Global & Non-dollar Fixed Income, Equity, Alternatives Mandates for Canadian Pension Funds - $39,139M Total US Assets Managed: $9,012.6M Passive Products: Yes

*Reflects US Small/Mid Growth assets
**Active US Equity assets

BNY MELLON ASSET MANAGEMENT

*All are subsidiaries of BNY Mellon Financial Corp.

BRANDES INVESTMENT PARTNERS, L.P.
Clifford Schireson, Director - Institutional Services; 11988 El Camino Real, Ste. 500, San Diego, CA 92130 Ph: 858-755-0239 Fax: 858-755-0916 Email: rfps@brandes.com Web: www.brandes.com Canadian Clients: 6 With US Assets: 0 Total US Assets Managed: $1,040M**

*4 accounts are Global Equity Mandates which include US Equities
**Canadian institutional pension funds invested in the firm's global equity product amount to $1,040M in assets, with approximately 41% invested in US Equities

BROOKFIELD ASSET MANAGEMENT INC.
Eric Bonnor, Senior Vice-president, Private Funds Group; 181 Bay St., Box 762, Toronto, ON M5J 2T3 Ph: 416-956-5152 Fax: 416-365-9642 Email: eric.bonnor@brookfield.com Web: www.brookfield.com Canadian Clients: 12 With US Assets: 10

BROOKFIELD INVESTMENT MANAGEMENT INC.
Angela Vidakovich, Director, Marketing & Client Service; Brookfield Place, Ste. 300, 181 Bay St., Toronto, ON M5J 2T3 Ph: 416-869-3214 Fax: 416-869-3220 Email: kbbattle@burgundyasset.com Web: www.burgundyasset.com Canadian Clients: 44 With US Assets: 5 US Assets Managed - Large Cap Value: $202.6M** Small Cap - Value: $293.1M** Balanced: $608.4M Global Equity: $154.5M Total US Assets Managed: $495.8M

*5 Canadian pension clients have US equity mandates, 33 have US equities as part of their asset mix
**Represents US Equity Mandates

CI INSTITUTIONAL ASSET MANAGEMENT*

*A division of CI Investments Inc.

CIBC GLOBAL ASSET MANAGEMENT INC.

DIMENSIONAL FUND ADVISORS Kevin Mariano, Vice-president; 221 Woolwich St., Guelph, ON N1H 5V4 PH: 519-265-9015 Fax: 519-265-8210 eMail: consult@dimensional.com Web: www.dfaus.com Canadian Clients: 7* With US Assets: 3* US Assets Managed - Small Cap Value: $56.1M Core: $28.7M Total US Assets Managed: $84.8M
*Does not include clients from approved fee-only financial advisors


*Franklin Templeton Investments


GREYSTONE MANAGED INVESTMENTS Louis Martin, Managing Director & Global Client Strategist; 300-1230 Blackfoot Dr., Regina, SK S4S 0G6 PH: 306-779-6400 Fax: 306-584-0552 eMail: louis.martin@greystone.ca Web: www.greystone.ca Canadian Clients: 160 With US Assets: 46 US Assets Managed - Large Cap Value: $121.6M Growth: $968.6M Total US Assets Managed: $1,090.2M Manager Relationships: Goldman Sachs Asset Management*
*Subadvises two specialty US large cap value & Growth funds

GUARDIAN CAPITAL LP Joyce Hum, Vice-President, Consultant Relations; Commerce Ct. W., Ste. 3100, Toronto, ON M5L 1E8 PH: 416-350-3146 Fax: 416-364-9634 eMail: jhum@guardiancapital.com Web: www.guardiancapitallp.com Canadian Clients: 41 US Assets Managed - Core: $4.9M

GWIL INVESTMENT MANAGEMENT Patrick J. Clarke, Vice-President Investment Counselling; 100 Osborne St. N., Winnipeg, MB R3C 3A5 PH: 204-946-8701 Fax: 204-946-8818 eMail: sara.mosher@glc-amgroup.com Web: www.glc-amgroup.com US Assets Managed - Mid Cap Growth: $42.6M All Cap Growth: $168.7M Core: $1.2M Total US Assets Managed: $212.5M Passive Products: Yes Relationships: AGF Investments, Beutel Goodman, McLean Budden

HILLSDALE INVESTMENT MANAGEMENT INC. Harry Marme, Executive Vice-President, Institutional Investment Services; 100 Wellington St. W., Ste. 500, Toronto, ON M5K 1S3 PH: 416-913-3907 Fax: 416-913-3901 eMail: hmary@hillsdaleinv.com Web: www.hillsdaleinv.com Canadian Clients: 12 With US Assets: 3 US Assets Managed - Small Cap Growth: $35.7M Total US Assets Managed: $35.7M

HSCB GLOBAL ASSET MANAGEMENT (CANA- ADA) LIMITED Francis Chartier, Head of Institutional Investments; Ste. 300 – 2001 McGill College, Montreal, QC H3A 1G1 PH: 514-286-4559 eMail: francischartier@hsbc.com Web: www.assetmanagement.hsbc.com Canadian Clients: 43

INTEGRA CAPITAL LIMITED Charles Swane- poel, Senior Vice-President & Deputy Chief Investment Officer; 2020 Winston Park Dr., Ste. 200, Oakville, ON L6H 6X7 PH: 905-829-1131 Fax: 905-829-0726 eMail: contactus@integracap.com Web: www.integracap.com Canadian Clients: 100 With US Assets: 30 US Assets Managed - Large Cap Value: $49.4M Mid Cap Growth: $26.5M Core: $87.6M Total US Assets Managed: $843M Manager Relationships: Atlantic Trust Pell Rudman; Barrow Hanley Mewhinney & Strauss; Analytic Investors; NWQ Investment Management*
*Sub-advisors to the funds


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President
BMO Group Retirement Services Inc.
joan.johansson@bmo.com
416-594-5075

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RUSSELL INVESTMENTS CANADA
Brian Goguen, Associate Director, Institutional Investment Services; 100 King St. W., Ste. 9000, Toronto, ON M5X 1E4 Ph: 416-640-6898 Fax: 416-352-4904 eMail: bgoguen@russell.com Web: www.russell.com/ca Canadian Clients: 40 With US Assets: 35% US Assets Managed - Core: $330.1M Total US Assets Managed: $634.8M Active and enhanced equities are included

STANDARD LIFE INVESTMENTS INC.

STATE STREET GLOBAL ADVISORS, LTD.


SCOTIA ASSET MANAGEMENT LP
Ron Smith, Head & Vice-president, Institutional Sales; 40 King St. W., 52nd Floor, Toronto, ON M5H 1H1 Ph: 416-933-0685 Fax: 416-933-7481 eMail: ron.smith@scotiaprivateclient.com US Assets Managed - Large Cap Growth: $920,000 Total US Assets Managed: $920,000 Passive Products: Yes

SEAMARK ASSET MANAGEMENT LTD.
Darren Kosack, Senior Vice-president, Client Relations & Marketing; 1801 Hollis St., Ste. 310, Halifax, NS B3J 3N4 Ph: 416-569-8493 Fax: 902-423-1518 eMail: dkosack@seamark.ca Web: www.seamark.ca Canadian Clients: 16 With US Assets: 11 US Assets Managed - Core: $100.3M Total US Assets Managed: $100.3M

SEI INVESTMENTS

SPRUCEGROVE INVESTMENT MANAGEMENT LTD.
Marcel Leroux, Vice-president, Marketing; 181 University Ave., Ste. 1300, Toronto, ON M5H 3M7 Ph: 416-363-5854 Fax: 416-363-6803 eMail: mleroux@sprucegrove.ca Canadian Clients: 52 With US Assets: 2 US Assets Managed - All Cap Value: $1,166.9M Total US Assets Managed: $1,166.9M

TD ASSET MANAGEMENT INC.
David Coyle, Director; 161 Bay St., Ste. 4000, Toronto, ON M5J 2S1 Ph: 416-681-5200 Fax: 416-681-5100 eMail: david.coyle@ubs.com Web: www.ubs.com Canadian Clients: 188 With US Assets: 3 US Assets Managed - Large Cap Growth: $32.2M Core: $542.1M Total US Assets Managed: $574.3M

TRIASIMA PORTFOLIO MANAGEMENT
Brian Burke, Vice-president; 1555 Peel St., Ste. 1205, Montreal, QC H3A 3L8 Ph: 514-906-0667 Fax: 514-284-3060 eMail: bburke@triasima.com Web: www.triasima.com Canadian Clients: 6 US Assets Managed - Core: $32M

UBS GLOBAL ASSET MANAGEMENT
David Coyle, Director; 161 Bay St., Ste. 4000, Toronto, ON M5J 2S1 Ph: 416-681-5200 Fax: 416-681-5100 eMail: david.coyle@ubs.com Web: www.ubs.com Canadian Clients: 188 With US Assets: 3 US Assets Managed - Large Cap Growth: $32.2M Core: $542.1M Total US Assets Managed: $574.3M

VAN BERKOM AND ASSOCIATES INC.

WELLINGTON MANAGEMENT COMPANY, LLP
Susan Pozzer, Vice-president & Director, Global Relationship Group - Canada; 280 Congress St., Boston, MA 02210 Ph: 617-951-5000 Fax: 617-263-4100 eMail: spozzer@wellington.com or mig@wellington.com Web: www.wellington.com Canadian Clients: 26 With US Assets: 9 US Assets Managed - Large Cap Value: $257.2M Growth: $455.1M Mid Cap Value: $292.2M Core: $370.5M* Short-term Securities: $17.7M Other: Emerging Markets Equity - $548.3M Global Equity - $2,857.1M EAFE Equity - $448.2M Currency - $181.8M Total US Assets Managed: $1,392.7M *Includes Large, Mid, Small Cap Mandates
The market crash that occurred two years ago has left many private and institutional investors scrambling to stay afloat and searching for a path to recover from the ravages of the market downturn. Canadian pension plans were no exception. In 2008, the Canadian pension market lost $150 billion in value and demonstrated a zero growth-rate over the previous year. Solvency levels of pension plans have also deteriorated to record lows hovering around and even falling below 70 per cent.

It should not, therefore, come as a surprise that institutional investors have been looking for ways to recoup their losses, as well as to obtain an edge over the pack. This has led many investors to look for exotic and somewhat unconventional investment options including venturing into new geographic locations and market segments. To be successful, the benefits of a global partner: providing clients with the tools, contacts, and information to make informed decisions in any market. The search for alpha has also driven institutional investors, even those considered conservative, to broaden their portfolios with other exotic investments. This includes derivatives, infrastructure and real estate, private equity, hedge funds, and foreign currency exchange transactions (FX). According to the OECD, the proportion of pension plans’ asset allocation in non-traditional assets continues to climb from 4.55 per cent in 2001 to more than 11.19 per cent in 2009. As assets and infrastructure grow in value and complexity, fund managers are starting to realize the magnitude of the administrative burden, increased documentation requirements, and potential for greater regulatory and fiduciary oversight that comes with such investments.

Global Custody Services In A Changing Market

As unconventional investments in FX transactions and hedge funds become commonplace, so too do the managers’ requirements from custodians. With FX transactions, for example, investors are increasingly seeking custodians who are able to provide local access to FX transactions on a global basis and offer greater transparency on each transaction. Such transparency can and should be provided by the custodian offering to tie the transaction to a wide variety of benchmarks (beyond the Bank of Canada noon rate), as well as time stamp each transaction. If your custodian is not willing to provide this service, you should insist on it. Localized benchmarking gives the investor comfort in gaining fixed competitive rates based upon interbank dealing rates. This is achieved without the operational burden and added cost of continuous negotiation in the pursuit of best execution these types of investments often require on-the-ground support and close supervision to navigate a path through different regulatory environments and tax systems.

Most global custodians have a network of sub-custodians around the world and real benefit comes to the client from a global custodian with a large proprietary network of sub-custodians who have an intimate knowledge of the local market and its players. As an example, a North American-based asset management firm that was using a local third-party asset manager to manage its assets in India was interested in assessing the current strategy and possibly partnering with a local manager in the market itself. The client, working with its global custodian whose sub-custodian was a proprietary branch, was put in touch with colleagues on the ground in India and, as a result, was exposed to several different options on how to manage those assets. This is one example of
to maximize returns to the fund.

As with FX investments, some large pension funds have tested the waters with other alternatives – such as hedge funds – in order to improve yields. Historically, these fund managers chose to funnel investments into many of the large well-known hedge funds. However, nowadays investors are looking for a customized experience with an institutional separate account. Research conducted by Preqin found 16 per cent of institutional investors already have allocations to institutional separate accounts, with another one in four contemplating this solution for their hedge fund investments.

Under this type of investment, custody and administration services are provided by the client’s preferred custodian(s), rather than by the hedge fund manager. Hence, when a hedge fund manager wishes to execute a transaction, trade instructions are first routed to the custodian. This level of service provides plan sponsors and investors with an unprecedented degree of flexibility and transparency:

- The custodian can offer the client full transparency of the portfolio, even in real time.
- The client, via predetermined rules or ad hoc alerts, can direct the custodian to reject an individual trade which is not in line with the investor’s investment policy guidelines.
- Because the institutional separate account is a stand-alone solution, the institution is not co-mingled with other clients, thus avoiding scenarios of forced selling which might depress asset prices in the portfolio and lead to poor performance.

**Risk Management And Transparency**

The collapse of Bear Stearns, the bankruptcy of Lehman Brothers, and Bernard Madoff’s perpetrators of the largest Ponzi scam in history are just some of the recent events that have forced institutional investors to place risk, compliance, performance, and accounting practices under deep scrutiny.

The need for transparency, risk mitigation, and clarity on financial positions in such an environment is paramount. Today’s funds are often held in multiple accounts and geographic locations, recorded on incompatible reporting systems, and using multiple accounting methodologies. A global custodian can bring this data together to provide an accurate, minute-by-minute snapshot of the state of play of the fund.

Acting as custodian to some of the largest institutional investors and with a physical custody presence in 60 markets around the world, we see first-hand the issues of risk management and the requirement for timeliness of information. Some of these challenges include:

- Access to timely and relevant credit rating data – Today, market events are often outpacing the frequency in which investment information is updated and available to fund managers and treasurers for effective and prudent risk management. For example, daily incidences of credit rating changes that may be fragmented across multiple accounts and asset allocations make it a challenge to stay current and properly support downstream processes such as accounting.
- Cash visibility and cash flow forecasting – As cash is typically held in multiple locations and managed using various bank-provided systems, data is compiled from many different sources and may not always provide up-to-the-minute accurate visibility over positions. This may lead to a delay in deal determination and execution. Additionally, the lack of immediate and accurate cash visibility also hinders the ability of portfolio managers to properly assess and anticipate future cash flow for proper planning.
- Issuer concentration management – In the post-Lehman era, it becomes a standard practice to limit exposure to any single issuer. However, with organizations merging or being acquired at a growing pace, changes in issuer exposure become more frequent and difficult to track.
- Another common challenge faced by institutional investors is the need to benchmark risk and performance against multiple markets, strategies, and/or indices. Investors are required to do so while maintaining accurate accounting across regions, platforms, and portfolios, while ensuring compliance with investment policies.

Responding to these challenges by providing firm-wide solutions that address an investors’ need for timely and accurate data is becoming the gold standard of custodian services. Granting additional administration and operational responsibilities to custodians – along with the use of automated reporting and analytical tools – enables asset managers and plan sponsors to concentrate on managing their portfolios, gain strategic insights into their asset allocations, and execute their investment strategies while effectively managing risk.

**Cost Containment**

Today some of the major costs for asset managers include custody services, fund and portfolio valuation, trade execution, and technology and infrastructure enhancements. By outsourcing these back and middle office services to a third-party administrator, asset managers can change these costs from fixed to variable. When outsourcing services, asset managers can increase cost savings through utilization of the administrator’s network and scale.

Beyond geography, custodians can provide cost savings through additional services that move up the value chain. While numerous asset managers outsource custody, and many outsource other ‘back-office’ functions such as portfolio valuation and pensioner/unitholder recordkeeping, incremental savings can be gained through outsourcing ‘middle-office’ services. For example, Citi’s Execution-to-Custody service allows portfolio managers, once they have decided which assets they want to buy or sell, to enter the trade only once with the administrative burden (including finding the best price for execution, confirming the trade, and liaising with the custodians) all falling on the custodian. Additionally, this service is custodian-agnostic, meaning even if (and especially if) the client is using multiple custodians and execution partners, the client gets value from reducing their administrative burden. By relying on their partners to perform these non-core functions, managers can eliminate the need for continual investment in technology and infrastructure, remove a significant amount of fixed costs, and align variable revenues with variable costs.

By building and growing a partnership with their custodian and administrator, asset managers can focus on their core business and provide better returns, risk management, and transparency to their clients.

Gurmeet Ahluwalia is the head of Citi’s Securities and Fund Services (SFS) business in Canada (gurmeet. ahluwalia@cit.com).

1 National Union of Public and General Employees
2 Mercer Pension Health Index
3 OECD: “Pension Indicators: Asset Allocation”
4 Preqin Research Report: ‘Managed Accounts on the Upswing’

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**ANNUAL REPORT AND DIRECTORY OF GLOBAL CUSTODIANS AND RECORDKEEPERS**

Benefits and Pensions Monitor – February 2011

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CANADIAN WESTERN TRUST
600 - 750 Cambie St., Vancouver, BC V6B 0A2
Contact: Scott Scoeb, Vice-president & General Manager
Phone: 604-685-2081 Fax: 604-699-4902 eMail: scott.scoeb@cwt.ca
Website: www.cwt.ca
Pension Assets Under Administration (In Canadian Dollars as of Dec. 31, 2010): Canadian: $2,826.6M; Total: $2,826.6M
Number of Canadian Clients: 578
Services Offered: Contractual Settlement, Internet Reporting, Proxy Voting, Benefits Administration, Accounting
Currencies Reported: 104
Affiliations with Other Custodians: State Street Trust Company of Canada (sub-custodian)
Global Networks: 104 countries, 104 covered

CIBC MELLON GLOBAL SECURITIES SERVICES COMPANY
320 Bay St., 8th Floor, Toronto, ON M5H 4A6
Contact: David Linds, Senior Vice-president, Business Development & Relationship Management
Phone: 416-643-5300 Fax: 416-643-6409 eMail: david.linds@cibcmellon.com
Website: www.cibcmellon.com
Currencies Reported: Able to report in any currencies
Frequency of Multi-currency Valuations: Daily, Weekly, Monthly
Global Networks: 104 countries, 103 covered by sub-custodians, 1 by firm
Acts as Canadian Sub-contractor for: The Bank of New York Mellon and more than 150 foreign financial institutions

CITIBANK CANADA
123 Front St, Toronto, ON M5J 2M3
Contact: Gurmeet Ahluwalia, Director, Canada Head Securities & Fund Services; Donald King, Director, Canada SFS Sales Head; Elizabeth O’Dea, Vice-president, Canada Global Custody Product Manager
Phone: 905-212-8714 or 905-212-8988 or 416-947-5733 Fax: 905-361-0328 eMail: gurmeet.ahluwalia@citi.com or donald.f. king@citi.com or elizabeth.odea@citi.com
Website: www.transactionservices.citigroup.com/transactionservices/home/
Pension Assets Under Administration (In Canadian Dollars as of Dec. 31, 2010): Canadian: $148B; US: $1.7T; Non-north American: $4T; Total: $5.7T
Number of Canadian Clients: 10
Services Offered: Securities Lending, Performance Measurement, SWIFT Interface, Cash Projection Reports, Contractual Settlement, Daily Compliance Monitoring, Currency Hedging, Directed Brokerage, Internet Reporting, Portfolio Analytics, Fund Valuation, Tax Reclamations, Electronic Trade Affirmation, Fail Float, Trade Date Settlements, Proxy Voting, DC Communication, Benefits Administration, Accounting, Risk Measurement, FX, Cash Management
Other Specialized Services Or Services Under Development: Precious Metals Custody, E2C – Execution-to-custody, Mutual Fund Order Routing, ETF’s – Exchange Traded Funds
Currencies Reported: Able to support multiple currencies as required while reporting as frequent as daily
Frequency of Multi-currency Valuations: Daily, Weekly, Monthly
Global Networks: 93 countries, 38 covered by sub-custodians (including 2 ICSD’s), 55 by firm
Acts as Canadian Sub-contractor for: Provides sub-custody services for most Global Custodians in multiple jurisdictions

DESJARDINS TRUST
1 Complexe Desjardins, Box 34, Desjardins Station, Montreal, QC H5B 1E4
Contact: Francois Gagnon, Executive Vice-president Phone: 514-286-5807 Fax: 514-286-3168 eMail: francois.a.gagnon@desjardins.com
Website: www.desjardins.com
Number of Canadian Clients: 371
Services Offered: Securities Lending, Performance Measurement, SWIFT Interface, Cash Projection Reports, Contractual Settlement, Daily Compliance Monitoring, Internet Reporting, Portfolio Analytics, Fund Valuations, Tax Reclama-
tions, Electronic Trade Affirmation, Trade Date Settlements, Proxy Voting, Benefits Administration, Account-
ing, Risk Measurement, FX, Cash Management, Cross-border Pacing, Trade Execution, Foreign Exchange, Commission Management, Investment Accounting, Reporting and Valuation, Per-
formance Analytics, Risk Monitoring and Reporting, Compliance Monitoring Tools, Enhanced Alter-
native Asset Reporting Tools, Trade Execution Analysis, Data Warehouse, Fund Accounting, In-
stitutional Transfer Agency, Trustee, Investment Operations Outsourcing, Safekeeping, Settle-
ment, Derivatives Processing, Benefit Payments, Income Collection, Corporate Actions. Currencies Reported: Ability to report in any currency requested by clients Frequency of Multi-currency Valuations: Daily Global Networks: 102 countries, 98 covered by sub-custodians, 4 by firm

RBC DEXIA INVESTOR SERVICES
155 Wellington St. W., 10th Floor, Toronto, ON M5V 3L9 Contact: Brent Wilkins, Head, Sales & Distribu-
ing, Internet Reporting, Portfolio Analytics, Fund Valuation, Tax Reclamations, Electronic Trade Affirmation, Fail Float, Trade Date Settlements, Proxy Voting, Benefits Administration, Account-
ing, Risk Measurement, FX, Cash Management. Frequency of Multi-currency valuations: Daily, Weekly, Monthly Global Networks: 106 countries, 103 covered by sub-custodians, 3 by firm

STATE STREET TRUST COMPANY CANADA
State Street Financial Centre, 30 Adelaide St. E., Ste. 1100, Toronto, ON M5P 2M6 Contact: Kevin Drynan, President and CEO Phone: 416-775-5731 eMail: kdrynan@statestreet.com Website: www.statestreet.com Pension Assets Under Administration (In Canadian Dollars, as of Sept. 30, 2010): Canadian: $331,620M; Total: Canada: $610,758M, Worldwide: $15,290B Services Offered: Securities Lending, Performance Measurement, SWIFT Interface, Cash Projection Reports, Contractual Settlement, Daily Compliance Monitoring, Currency Hedging, Directed Brokerage, Internet Reporting, Portfolio Analytics, Fund Valuation, Tax Reclama-
tions, Electronic Trade Affirmation, Fail Float, Trade Date Settlements, Proxy Voting, Benefits Administration, Accounting, Risk Measurement, FX, Cash Management Frequency of Multi-currency valuations: Daily, Weekly, Monthly Global Networks: 106 countries, 103 covered by sub-custodians, 3 by firm

ACTUARIAL SOLUTIONS INC.
Joe Nunes, President, 1695 Manning Rd., Ste. 202, Tecumseh, ON N8J 2L9 PH: 519-979-4600 Fax: 519-979-4699 eMail: joe@actuarialsolutionsinc.com Web: www.actuarialsolutionsinc.com Client Profile: DB Plans – 37 Other – 2 Professional Staff - 10

BAYNES & WHITE
James White, President/ Managing Partner, 121 King St. W., Ste. 2100, Toronto, ON M5H 3T9 PH: 416-863-9158 Fax: 416-863-9158 eMail: info@bayneswhite.
com Web: www.bayneswhite.com Professional Staff – 13

BBB
Shylo Kennett, Director of Communications, 500 – 2755 Lougheed Hwy., Port Coquitlam, BC V3B 5Y9 PH: 604-464-0313 Fax: 604-464-7997 eMail: shylo.kennett@bbd.ca Web: www.
bdd.ca Client Profile: DB Plans – 2,400 Group RRSPs – 4 Professional Staff – 77

NORTHERN TRUST COMPANY, CANADA, THE 145 King St. W., Ste. 1101, Toronto, ON M5H 1J6 Contact: Dianna Price, Vice-president, Business Development Phone: 416-775-2209 Fax: 416-365-9484 eMail: dp73@nttrust.com Website: www.northerntrust.com Pension Assets Under Administration (In Canadian Dollars as of Dec. 31, 2010): Cana-
dian: $28,593M; US: $1,123,335M; Non-north American: $28,779,797M. Number of Canadian Clients: 58 Minimum Fund Size: No Minimum fund size but charge a minimum custody fee Services Offered: Securities Lending, Performance Measurement, SWIFT Interface, Cash Projection Reports, Contractual Settlement, Daily Compliance Monitoring, Directed Brokerage, Internet Reporting, Portfolio Analytics, Fund Valuation, Tax Reclamations, Electronic Trade Affirmation, Fail Float, Trade Date Settlements, Proxy Voting, Benefits Administration, Account-

BMO GROUP RETIREMENT SERVICES INC.
Anita Lieberman, Vice-president, Business Develop-
ment, 181 Bay St., Ste. 2820, Toronto, ON M5J 2T3 PH: 866-289-6769 Fax: 866-362-2659

Benefits and Pensions Monitor – February 2011

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eMail: anita.rieberman@bmo.com Web: bmo.com/gps Client Profile: DC Plans – 24
Group RRSPs – 645 (includes plans transitioning from other areas of BMO FG) Other – 14 Professional Staff – 22

BUCK CONSULTANTS Jim Reid, National Practice Leader, Administration Solutions; 155 Wellington St., W., Ste. 3000, Toronto, ON M5V 3H1 PH: 416-644-9295 Fax: 416-865-1099 eMail: jim.reid@buckconsultants.com Web: www.ackbuckcanada.com Client Profile: DB Plans – 955 DC Plans – 23 Group RRSPs – 99 Other – 21 Professional Staff – 214

CORPORATE BENEFIT ANALYSTS, INC. Cam MacNeil, Vice-president, Group Retirement & Savings Plans, 640 Riverbend Dr., Kitchener, ON N2K 3S2
Professional Staff – 21

COUGHLIN & ASSOCIATES LTD. Mark Hogan, Senior Vice-president, 466 Tremblay Rd./175 Development Group Retirement Savings, 1 Commerce Place, 21e etage, Montreal, QC H4Z 0A4
Professional Staff – 39 (partial services) Targeted Plans – 1,311 DC Plans – 35 (partial services) Group RRSPs – 1,630 Other – 527 Professional Staff – 418

ECKER LTD. Todd McLean, Principal. 900-110 Sheppard Ave. E., Toronto, ON M2N 7A3

GREAT-WEST LIFE ASSURANCE COMPANY Jeff Aarssen, Vice-president, GRS Sales & Marketing, Wealth Management, 255 Dufferin Ave. T540, London, ON N6A 4K1

INDUSTRIAL ALLIANCE Renee Laflaamme, Vice-president, Group Pensions, 1080 Grande Allee W., Quebec City, QC G1K 6M3

MANULIFE FINANCIAL Nancy Campbell, Assistant Vice-president, Marketing – Group Retirement Solutions, 715 Waterloore, ON N2J 4A9
PH: 519-747-7000 Fax: 519-747-6772 eMail: nancy_campbell@manulife.ca Web: www.manulife.com Client Profile: DC Plans – 1,929 Group RRSPs – 2,608 Other – 527 Professional Staff – 418

MCFBEDARD GROUP INC. Charles Bedard, President; 465 Richmond St., Ste. 200, London, ON N6A 5P4
PH: 519-690-1452 Fax: 519-690-1463 eMail: cbedard@mcfbedard.com Web: www.mcfbedard.com Client Profile: DB Plans – No DC Plans – Yes Group RRSPs – Yes

MORNEAU SHEPELL LTD. Pierre Chamberland, Chief Operating Officer & Executive Vice-president; 800 Place Victoria, Ste. 4000, P.O. Box 211, Montreal, QC H4Z 0A4

PBAS GROUP THE Terry Crawford, Director, Marketing – 110 – 61 International Blvd., Toronto, ON M9W 6K4
PH: 416-674-3350 Fax: 416-674-8019 eMail: terry_crawley@pbas.ca Web: www.pbas.ca Client Profile: *DB Plans/ Targeted Plans – 5 Group RRSPs – 1 Other – 1 Professional Staff – 27
*Represents less than 20% of total participants/plan.

PIB ACTUARIAN CONSULTANTS LTD. Susan Chortyk, Vice-president & Consulting Actuary; Ste. 1070, One Bentall Centre, 505 Burrard St., Box 42, Vancouver, BC V7X 1M5
PH: 604-647-3230 or 877-687-8056 Fax: 604-687-8074 eMail: susan_chortyk@piactuarial.ca Web: www.piactuarial.ca Client Profile: DB Plans – 4 Professional Staff – 29

PENAD PENSION SERVICES LIMITED Matthew Price, Vice-president, Global Business Development, 194 Weber St. E., Kitchener, ON N2K 1E4
PH: 519-743-9000 Fax: 519-743-8346 eMail: information@penad.ca Web: www.penad.ca Client Profile: DB Plans – 24 Professional Staff – 17

PROTECTORS GROUP, THE R. Brian Porter, President, 215 George St. N., Peterborough, ON K9J 3G7
PH: 705-748-5181 Fax: 705-748-4831 eMail: brianporter@protectorsgroup.com Web: www.protectorsgroup.com Client Profile: DC Plans – 88 Group RRSPs: 28 Other: 5 Professional Staff – 6

STANDARD LIFE FINANCE ASSURANCE COMPANY OF CANADA Claude Leblanc, Vice-president, Sales & Public Affairs, Group Savings & Retirement, 1245 Sherbrooke W., Ste. 1900, Montreal, QC H3G 1G3
PH: 514-499-7999 Fax: 514-841-2960 eMail: claude.leblanc@standardlife.ca Web: www.standardlife.ca Client Profile: DB Plans – 522 DC Plans – 1,133 Group RRSPs – 3,320 Other – 758 Professional Staff – 475

SUN LIFE FINANCIAL Nadia Darwish, Vice-president, Client Relationships & Business Development, 225 King St. W., 5th floor, Toronto, ON M5V 3C5
PH: 416-408-8786 Fax: 416-595-1773 eMail: nadia.darwish@sunlife.com Web: www.sunlife.ca Client Profile: DC Plans – 1,630 Group RRSPs – 4,720 Other – 1,254 Professional Staff – 698

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Climate change is a tricky topic for Canadian investors. The government of Canada supports an approach to climate change that achieves real environmental and economic benefits for all Canadians, yet this approach is not bringing Canada to the forefront of the climate change file globally or establishing Canada as a leader in climate related policy or investment decision-making.

Moreover, with an economy heavily geared towards resource stocks and significantly strong equity performance in some sectors over the last decade, tackling the unknowns of climate change seems an unlikely focus point for Canadian investors.

Nevertheless, a number of broad facts are generally accepted by investors pushing climate considerations onto board and investment committee agendas:

- **Climate change will bring change** – These changes may be environmental (hotter, colder, wetter, or less certain weather), reflect a policy framework that regulates or puts a price on carbon emissions (explicitly or implicitly), or relate to shifts in technology and innovation.

- **These changes could impact investors** – The changes above could impact investors in any number of ways such as through a direct impact on assets (real estate, infrastructure) or through the impact of policy change on assets held (such as companies which are heavy carbon emitters and face a potential cost should a carbon price be introduced). As well, specific investment opportunities may arise such as in the clean energy and energy efficiency sectors.

- **We don’t know what these changes, or impacts, will be** – The uncertainties arising around the modeling of climate change – the ‘how’ and ‘when’ binding global or regional agreements on a climate change mitigation framework may be reached and what they will entail – leads to an uncertainty of investment convictions on the topic. Taking into account these broad facts, research on the impacts of climate change in the economy and, more importantly, the translation of these facts into an investment language is starting to take place.

In 2006, the UK government engaged economist Sir Nicholas Stern to study the economic impact of climate change. The first wide scale study of its kind, the ‘Stern Report’ concluded that climate change is “the greatest market failure the world has seen” (Stern Review, 2007). Using the results from formal economic models, the review estimates if we don’t act, the overall costs of climate change will be equivalent to losing at least five per cent of global GDP each year, now and forever.

**Costs Of Action**

In contrast, the costs of action – reducing greenhouse gas emissions to avoid the worst impacts of climate change – can be limited to around one per cent of global GDP each year.

Stated in such simple terms, an argument to mitigate is clear. In practice, things are trickier. Election cycles are short and the public is often unwilling to give up short-term gain for longer term outcomes, particularly on an issue which is not well understood. In such a vacuum, inaction reigns.

Until 2009, relatively little research has focused on the investment implications of climate change at the total portfolio level and how institutional investors might respond. As a pension fund, how do you assess concretely the systemic risks of climate change facing capital market health and take into account long-term liabilities and associated investment horizons?

Uncertainty is a key stumbling block in climate change research, making it impossible for investors to guess how climate change might impact their investments.

Due to high levels of uncertainty, probabilities cannot be assigned to future outcomes with any confidence. This means that investors cannot rely too heavily on quantitative modelling tools as they require probability distributions to underpin the parameters of their investment models.
Institutional investors must develop new tools to more effectively model systemic risks such as climate change. These tools require an expansion of the way we think about portfolio risk, looking beyond mere volatility. Describing probable scenarios, identifying the potential sources of risks, and measuring and monitoring them over time are the components of an improved risk management strategy that seeks to protect the long-term assets that institutional investors oversee on behalf of their stakeholders.

Climate Change Report
Mercer believed that these complex questions were an area of inquiry that could benefit from investors working together. Hence, it engaged a collaborative group of investors and experts to look at the implications of climate change for strategic asset allocation. Brought together were the IFC, the Carbon Trust, 14 global institutional investors, and a research group comprised of The Grantham Research Institute on Climate Change and the Environment, London School of Economics, Vivid Economics, and other specialist practitioners. The resulting research report, ‘Climate Change Scenarios – Implications for Strategic Asset Allocation,’ was released February 15, 2011. (The report can be found at http://www.mercer.com/climatechange.)

The participating investors, representing more than $2 trillion in assets under management, included API (Sweden), CalPERS (U.S.), Environment Agency Pension Scheme (UK), Ontario Municipal Employees Retirement System (Canada), PGGM (Netherlands), and VicSuper Pty Ltd (Australia).

The goal of the project was to develop a framework around climate change that would assist institutional investors in their decision-making, risk management, and strategic reviews. To better analyse the investment impact of climate change, Mercer developed the “TIP” risk framework to examine which factors drive asset class returns into the following three areas:

- **Technology** – broadly defined as the rate of progress and investment flows into technology related to low carbon and efficiency which are expected to provide investment gains
- **Impacts** – the extent to which changes to the physical environment will impact (negatively) on investments
- **Policy** – the cost of policy in terms of the change in the cost of carbon and emissions levels that result from policy depending on the extent to which it is co-ordinated, transparent, and timely

The framework is to enable investors to gain additional insight to the risks within their current investment policy and gain direction on how best to manage the additional risks allowing them to pursue associated opportunities arising from consideration of climate change.

The Findings
The key findings of climate change impacts on investments relate to each of the TIP factors and are important considerations for future asset performance:

- **Technology investments could accumulate to $5 trillion by 2030.**
- **Impact costs could accumulate to $4 trillion by 2030.**
- **Policy measures could increase the cost of carbon emissions by as much as $8 trillion by 2030.**

Having identified the key drivers of investment return arising from climate change analysis, the next step was to link these with individual investment asset classes. A bottom up analysis of the core drivers and sensitivities of each asset class enabled the development of sensitivities to the TIP factors. The conclusion is that infrastructure, private equity, real estate, and some commodities (timber, agriculture, and carbon) are highly sensitive to the climate change risk factors, particularly the policy and technology factors. For Canada, particularly, public utility is highly sensitive to the climate change risk factors.

A Scenario Based Framework
In considering how climate change might have an impact on a portfolio’s asset mix from now until 2030, four scenarios were developed. The scenarios provide a framework for considering the key climate change drivers from an investment perspective over the coming decades. Together with Grantham LSE/Vivid Economics, we can distinguish between four climate scenarios:

- **Regional Divergence,**
- **Delayed Action**
- **Stern Action**
- **Climate Breakdown**

These scenarios consider the ranges of degree of economic co-ordination, policy response, consumer/business transformation, and resulting carbon emissions. Based on these scenarios, the analysis concluded, for example, that sustainable assets could act as a hedge to climate risk. Sustainable assets’ perform comparatively well across the mitigation scenarios compared to core assets. Exposure to sustainable-themed equities, efficiency/renewables in listed and unlisted assets, timberland and agricultural land can, therefore, improve the resilience of a portfolio mix across the climate scenarios.

This type of scenario analysis within an asset allocation framework is relatively new and a considerable amount of intellectual capital around how to do this was developed as part of this project. The approach could be utilized to model any number of factors, such as demographic change or resource scarcity.

Adopting A Thematic Investment Approach
A number of suggested actions emerged for the 14 pension funds participating in the study. Among these is the conclusion that adopting a thematic investment approach centred on climate change will be advantageous.

Assessing the risks and impacts of climate change: anticipating policy, economical, and behavioural change; and, therefore, eventual opportunities associated with climate change fit naturally into the long-term perspective of an institutional investor. This approach can provide a forward looking outlook on global financial markets, positioning investors to benefit from upcoming changes. In the case of climate change, many associated opportunities relate to technological advancements in green technologies, for example. A major impediment to take into account for the translation of climate change impacts into investment decisions is what can be referred to as the ‘thematic investment paradox.’ The difficulty in finding the right opportunities in a scarce and immature market and the insertion of climate change thematic parameters (qualitative and quantitative) in a strategic asset allocation framework are both factors that introduce challenges for investors that wish to integrate a thematic approach in a concrete manner in their investing. Tackling these challenges requires new tools, models, and assumptions – all of which were developed as part of this collaborative project.

Indeed, we believe that by working together, pension funds have the opportunity to develop a range of new approaches and opportunities within the field of institutional investment.

Elsabeth Bourqui is with Mercer (elsabeth.bourqui@mercer.com)

1. http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/stern_review_report.cfm

2. In the report, sustainable assets are defined as investments that integrate long-term sustainability issues into the core investment-making processes. At its broadest level, sustainable investment seeks to support sustainable economic development, enhance quality of life, and safeguard the environment.
In overseeing an investment process that blends a quantitative approach to alpha discovery and a disciplined portfolio management team approach to portfolio construction, I’ve been asked frequently over the last few years “has traditional quantitative investing come to an end?”

Any discussion on quantitative investing needs to first look back to the 1990s. This was the prelude to the quant cycle of the 2000s. The late ‘90s witnessed the emergence of global convergence or material correlation spikes across different asset classes. High correlation, which in turn explains high systemic volatility, deeply upset many, with quant factors moving far more in tandem than expected. The advent of the European Union in the mid-1990s catalyzed the continuing convergence of developed economies and markets. This convergence led to a breakdown of traditional alpha factor sources such as region, country, and size and style factor allocation.

By late 2007, quants had enjoyed a strong, but benign, market cycle that offered the mirage of factor consistency and low volatility. Given the secular growth in markets, a crowded trade developed in long momentum and long value. The integration of momentum and value (the traditional pillars of quant investing) led to a significant long exposure position to financials. However, we now know factor modeling was inadequate in capturing the inherent risks in that most of us were also short quality, or inherently long credit. In the end, it was these unintended and unknown exposures which made this period so uncomfortable when the credit bubble burst.

This exogenous event, in turn, resulted in large amounts of money tracking these same factors, resulting in no material factor arbitrage (mean reversion offsets). What resulted was a repeat of unexpected correlation of factor distributions across local markets around the world. The information coefficient (IC) distributions and decay patterns exhibited strong similarity across all local models.

Factor Convergence

Can we live with it? This factor convergence, unlikely to be reversed, puts process engineering and factor modeling at the forefront of alpha generation. This evolution was validated in a very proprietary sense through dynamic factor allocation research in the mid-2000s and an on-going search for new factors beyond value and momentum. Firms were rewriting the way conventional architecture is applied to both top down as well as bottom up processes.

For quantitative managers, the only way to keep producing consistent excess returns is to always be on the front line of research.

For example, most quant factors are based on financial data (Fama French), but there are many ways to interpret and derive information from it than simple linear techniques. The current environment has caused us to speculate on the value of dynamic factor weightings in models. Endowed with raw computing power and wide spread adoption of quantitative investing, quants are now able to build complex models, learn from past experience, make more informed decisions, and eventually arbitrage away their own and other people’s mistakes.

Unfortunately, factor correlations and volatility are not going to go away. One just cannot afford to build alpha models without taking factor correlations and volatility into account.

Build Adaptive Schemes

To make correlation your friend rather than your enemy, one has to accurately capture and measure it. Once measured, it can be used to build adaptive schemes to neutralize volatility and could be used as a substitute to mean-variance optimization with surprising efficacy. An adaptive model that allows for factor weights to change based upon its potency can generate multi-factor portfolios more aligned with the underlying alpha models, while still controlling for the volatility implied by the risk model. For example historical analysis of a single factor across different economic sectors within countries respectively shows material dispersion. This warrants dynamic weighting for a single factor across multiple sectors. But what is not discernable to the naked eye is that across regions, the factor behaviours are increasingly reflective of higher correlations. This makes factor clusters based upon countries less relevant and common sector based dynamic factor weighting more relevant across borders.

Factor Correlations

We believe factor correlations are a fundamental part of the portfolio management process and not just a parameter to be optimized. We have to admit that if we don’t take factor correlations into account, we will be powerless over it, our portfolios subject to fat tails at the whims of factor behaviour.

Factor correlations and resulting portfolio volatility are going to be our constant companions, so quants have to make them their friends and get to know them better. Global warming or highly correlated volatility is thawing conventional thinking. Worldwide factor correlations are the biggest iceberg to hit the industry both on the alpha as well as on the risk side.

Sri Iyer is senior portfolio manager, head of global investments, at Guardian Capital (rbroley@guardiancapital.com).
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2010 DEAL OF THE YEAR

Yellow Point Equity Partners has won the private equity deal of the year award this year for its management buyout of CCI Industries. Yellow Point’s investment in May 2005 generated an internal rate of return of 127% and a multiple of 8.5 times invested capital, when the company was sold to Tricor Pacific Capital in December 2009.

2009 DEAL OF THE YEAR

In 2009, Clairvest Group Inc. won, for the second year running, the private equity category award for its investment in Shepell•fgi. Clairvest’s investment in October 2005 with follow-on investment in September 2006 generated an internal rate of return of 108% and a multiple of 6.6 times invested capital.

2008 DEAL OF THE YEAR

CVCA’s 2008 “Deal of the Year Award” in the private equity category was awarded to Clairvest Group Inc. for its investment in Gateway Casinos Inc. Clairvest’s investment in January 2000 generated an internal rate of return of 50% and a multiple of 9.1 times invested capital.

Representing the industry for over 35 years, CVCA – Canada’s Venture Capital & Private Equity Association represents more than 1800 individual members. Its member funds manage the majority of Canada’s pools of capital designated to be committed to venture capital and private equity investments. CVCA members’ collectively manage over $75 billion.

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Considerable headway has been made with CAP fee disclosure in Canada driven by the CAP Guidelines issued in May 2004 and CAPSA Guideline #4 issued in October 2004. The Office of the Superintendent of Financial Institutions (OSFI) waded into the pool by issuing a draft Disclosure Guideline for Defined Contribution Plans in September 2009 (although they are currently redrafting the document in light of recently passed pension reform legislation). Despite these guidelines, open and complete fee disclosure by insurance brokers who work on Capital Accumulation Plans (CAP) remains the final frontier.

Investment management fee disclosure has been reasonably addressed by the insurance companies that dominate the CAP recordkeeping landscape. However, a significant disclosure gap exists with a large number of medium and small-sized CAP plan sponsors who utilize the services of a commission-compensated broker/advisor. Due to a lack of disclosure requirements, plan sponsors may find themselves unable to adequately assess the full costs that are ‘built-in’ to the investment management fees that their members pay. Equally important, without full disclosures, a plan sponsor cannot properly assess whether they are receiving fair value in terms of service and expertise from their broker/advisor for the commission being paid. In both cases, plan sponsors risk not fulfilling their fiduciary responsibilities or the CAP Guideline fee disclosure principles.

Current Regulations Only Go Part Way

At present, insurance industry regulations do not require group pension/insurance brokers to disclose the amount of commission income earned for acting as the plan sponsor’s advisor for their group retirement plan. With the majority of CAP plans operating in Canada contracted with Canadian life insurance companies, the Canadian Life and Health Insurance Association Inc. (CLHIA) established guidelines in 2005 for the disclosure of broker commissions under CAP contracts. As part of its ‘Sample Advisor Disclosure Document,’ intended to be provided to the plan sponsor, the following sample wording is provided as part of a broker’s disclosure statement to their client:

“My compensation is arranged between the insurance company and me and is an element of your rate calculation. Arrangements could vary depending upon the service you require. Any future increases in the compensation schedule will require your written approval. I may also be eligible for additional compensation such as bonuses, persistency, profit-sharing, or non-monetary benefits such as conferences that I could qualify for, depending on various factors such as the volume or persistency of business with any or all of the carriers that I place business with during a given time period.”

While the Disclosure Reference Document goes on to reference the fact that the CAP Guidelines Section 4.4 requires that the plan sponsor provide CAP members with the description and amount of all fees and expenses related to the plan including “fees for services provided by service providers,” the CLHIA Reference Document suggests that specific dollar amounts and commission schedules are not required unless specifically requested in writing by the plan sponsor.

Similarly, a recent article published for licensed advisors by Advocis – The Financial Advisors Association of Canada outlined its position regarding recent initiatives by British Columbia and Alberta regulators seeking to reform their regulations requiring disclosure of commissions paid under group insurance contracts (pension and benefits). The following summarizes its position:

“Advocis does not believe that consumers will be well served by any requirement to disclose the discrete amount of compensation between the insurer to the group policyholder or administrator or creditor, as this will be confusing, not meaningful (especially in light of the varying business models through which such insurance is provided) and will not improve the consumer’s ultimate purchase decision.”

It is difficult to believe that a CEO/president; a vice-president, finance; or a vice-president, human resources – those most often responsible for engaging the broker and signing group retirement plan insurance contracts – would find such...
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disclosure confusing, not meaningful, or not help with their purchase decision. Since a plan sponsor of a group retirement program is contracting for services to be provided to their employees who pay a fee for those services (in the form of investment management fees), many would argue that the plan sponsor not only has a moral, but a fiduciary obligation to know what commissions are being charged and the effect they have on their employee’s costs under the program.

For the record, the concept of commission-based broker compensation is not necessarily inappropriate. For many plan sponsors, using a commission-based broker is the only way they can afford to operate a group retirement plan and receive the expert assistance needed to run the program. Fortunately, most brokers provide valuable expertise, time, and effort to help a plan sponsor manage their group retirement program and their compensation is commensurate with the value they deliver. In the real world, however, the degree of expert assistance provided by brokers can vary widely.

An Inconvenient Truth

Plan sponsors who use fee for service pension consultants often pay consulting fees directly, without members bearing the cost. This fee for service arrangement is openly transparent as the plan sponsor approves each bill submitted for payment – usually paid corporately when CAPs are involved. In this case, the cost versus value of services received can be easily evaluated.

For plan sponsors who work with pension brokers, commissions that the insurance company pays to the broker increase the investment management fees paid by members and decrease the GIC rates paid for guaranteed investments. Directly negotiated with the insurance company by the broker, the specific commission arrangements can vary widely and are normally structured around the group retirement plan’s total assets under management and ongoing contributions. Without specific knowledge about how much commission is being loaded into the plan pricing, a plan sponsor cannot adequately evaluate the cost imposed versus the value of the services provided.

Because personal relationships may be involved, plan sponsors may feel uncomfortable asking their broker to disclose what commissions they are being paid. Plan sponsors have a responsibility towards their organization and employees to ensure their best interests are being served – relationships are important, but business is business! A broker who is providing quality expertise and service for the commissions they receive should have no fear or concern over disclosing fees. In fact, there are many brokers today who proactively disclose their full compensation to their clients. On the other hand, a broker who contributes little expertise or direct service in support of the program may well resist disclosing their commissions as they might risk losing a client.

Commissions And Your Retirement Program

Commissions can take many forms with broker assisted plans. While any given commission structure is established by the broker and insurance company on a client by client basis, commissions and their effect on plan pricing can take one or more of the following forms for a given client:

- Asset based commission or trailers – The typical asset commission charged ranges from 0.2 per cent to 0.1 per cent which is charged against the total assets within the group retirement plan(s). The percentage amount of asset based commissions are directly added to the investment management fees charged (and reduces the GIC interest rate enhancement paid) under the plan.
- Cash-flow commissions – Similar to a front-end load, a cash-flow commission is paid based on a percentage of each regular contribution made into the group program. The typical cash-flow commission ranges from two per cent to 0.5 per cent of each remittance made by the plan sponsor. While cash flow commissions do not reduce the amount credited to a member’s account (like a retail mutual fund front-end load fee), the insurance company will increase the investment management fees and decrease the GIC interest rates credited to offset the expense.
- Asset transfer commissions – When a group retirement plan is moved to another service provider, a lump-sum asset transfer commission may be paid based on a percentage of the total plan assets being transferred. Depending on the total assets in the group program, a typical asset transfer commission may range from one per cent to 0.5 per cent of assets transferred. Since the asset transfer commission is normally recovered by the insurance company over a five-year period, the higher fees are amortized over a similar number of years. As one might expect, asset transfer commissions can result in very large commission payments, although this may well be justified by the sometimes considerable additional work required to co-ordinate a change in service provider. Plan sponsors might raise a red flag if their broker advises changing carriers every five or six years (unless the service/pricing conditions warrant a change) as this may signal an opportunity to generate more income.

As noted above, each arrangement is different and may include one or more of these types of commission in combination. It really isn’t complicated and both the broker and insurance company can confirm the amount of compensation paid.

Wait, there’s more.

All the major DC insurance company recordkeepers have so-called ‘broker bonus programs’ that financially reward participating brokers to move or keep business with the respective insurance company. These programs commonly pay additional asset based compensation based on the block of business under management and this can amount to substantial compensation. Insurance companies may also offer other incentives such as all-expense paid trips based on the new business a broker may bring in during the contest period. While compensation paid under these programs are not directly included in a given clients’ fees, it does increase the total costs incurred by the insurance company. These incentives are vaguely acknowledged in the normal broker engagement letters signed by plan sponsors. However, brokers and insurance companies should be encouraged to disclose the value of such incentives. Without disclosure of the value of these special incentives, how can plan sponsors be assured that the advice they are receiving is completely unbiased?

What Should A Plan Sponsor Do?

Open a dialogue with your broker about the commission arrangement in place for your program. It is not unreasonable for a plan sponsor to ask the broker for a copy of the commission agreement they have with the insurance company. Specific information should also be requested about who they place their business with and what bonus program payments are associated with their group program. If not already in place, the plan sponsor should also request a schedule of the services that are to be performed by the broker as part of the arrangement. In the majority of cases, the dialogue will lead to a strengthening of the plan sponsor/broker relationship. In a few cases, the plan sponsor may realize that their employees have been paying excessive fees in relation to the broker services provided and a review might be warranted.

As with any business relationship, open and honest disclosure is the only way to go.

Paul A. Gillis is senior vice-president at EFG Canada, a pension and investment advisory firm (paul.gillis@efgcanada.com).
The London Chapter of the CPBI Ontario region is hosting its 3rd annual networking event, ‘The Chef’s Club.’ In addition to the network opportunity, it will feature a gourmet meal. It takes place March 3 in London, ON. Visit: www.cpbi-icra.ca

‘Growth & Opportunity’ is the theme of the CPBI Saskatchewan Regional Conference. It will feature high-profile speakers who will provide in-depth information on the latest developments and opportunities created by pension reform and new trends in employee benefits. It takes place April 19 to 21 in Regina, SK. Visit: www.cpbi-icra.ca

Investing in innovative employee health solutions is the focus of a Connex Health conference. The event will explore health and benefit solutions that affect employee health outcomes and corporate performance. It takes place May 11 and 13 in Niagara Falls, ON. Visit: www.connexhc.com

Best practices in LDI and a global view from benefits consultants will be among the featured sessions at ‘CPBI FORUM 2011.’ This year’s theme is the ‘Next Wave’ and it follows up on the theme from 2009, the ‘New Normal. It takes place May 18 to 20 in Vancouver, BC. Visit: www.cpbi-icra.ca

Appointment Notice

Rosanna Carusone
Head of Marketing Operations, North America
BNP Paribas Investment Partners
rosanna.carusone@bnpparibas.com

Simon Segall, Chief Executive Officer, Canada and Laura Manley, Regional Head of Marketing for North America are pleased to announce the appointment of Rosanna Carusone as Head of Marketing Operations, North America. Over the past eight years, Rosanna has successfully led our marketing efforts in Canada, including our very well-regarded educational seminar series for institutional investors and distributors. Within this newly created position, she will be responsible for using her proven expertise and passionate beliefs to build the BNP Paribas Investment Partners brand across all of North America.

BNP Paribas Investment Partners is one of the world’s largest asset managers with an exceptional range of investment capabilities.
The belief that many in the financial industry are too highly compensated or, more exactly, that their compensation structures lead some individuals to make non-optimal decisions for their firms and, ultimately, for their shareholders, has a long history.

The recently released book on the 1933 hearings around the stock market crash, ‘The Hellhound of Wall Street,’ notes that 80 years ago the public was at least as outraged by the remuneration of the bankers who took the witness stand (ranging from $750,000 to $3.5 million annually) as by their ability to profit when shareholders, depositors, and investors lost out. Today, as well, charges are made in the public arena by both politicians and some regulators that faulty compensation structures lead financial executives to undertake risky behaviour with their firms, either causing, or at least exacerbating, the current financial meltdown.

Compensation Arrangements

So nearly 80 years later, what have we learned when looking at the compensation arrangements of those CEOs who were caught up in our most recent crash? This is the question asked by Rudiger Fahnenbrach, at the Swiss Finance Institute, and Rene Stulz, at Ohio State University, in the working paper ‘Bank CEO Incentives and the Credit Crisis.’

Specifically, they ask whether the interests of bank CEOs were aligned with those of their shareholders before the start of the crisis, whether this alignment or misalignment can explain their firms’ subsequent poor performance, and how the CEOs themselves fared during the crisis. ‘Banks’ was defined very broadly to include investment banks – such as Goldman Sachs – and other financial firms – such as SLM Corp and Lehman Brothers – as well as true banks both large and small.

They found that:

- The vast majority of executive compensation stems from performance-based pay. The average CEO base salary of $760,000 was less than 10 per cent of their average total compensation.
- For the median CEO, the value of their company stock and options was more than eight times the value of their total one-year compensation. The median value of the CEO’s equity stake is about $36 million. This large size is “not consistent with the view that somehow the typical CEO knew that there was a substantial risk of a crash in the stock price of his bank.”
- Compensation practices were not different at investment firms that suffered large losses. Using firms that received funding from the Troubled Asset Relief Program (TARP) as a proxy for firms that suffered large financial losses, there was no difference in executive incentives between TARP and non-TARP firms. Using other measures of firm performance – such as return on assets or return on equity – again, there was no relationship found between incentives and high (or low) returns and the compensation make-up at the firms being studied. In fact, there was some evidence in some study periods that firms that had CEOs whose compensation was well aligned with the interests of shareholders actually performed worse during the crisis.
- CEOs did not trade out of their stock exposure as the crisis expanded during 2007/2008. There was no evidence of large selling efforts by CEOs. On average, CEOs lost almost $29 million on the company shares they held and almost $3 million on the shares they sold. CEOs also suffered large losses on their option portfolios as about 70 per cent of all options granted before 2007 were still out-of-the-money by 2010.

So if CEOs took risks that they knew were not in the interests of their shareholders, or if they had focused on the short-term at the expense of the long-term, they would have been punished. That they didn’t is not necessarily the fault of their compensation plans.

The fact that faulty compensation didn’t cause the meltdown doesn’t mean that compensation structures are worthless or even that we have to toss out those plans that are in place. It just means that we will have to continue to think about how to optimally design plans and will also have to look elsewhere if we are looking for villains in the financial crisis.

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The Back Page

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Asset Servicing expertise. For today’s investor, there is no room for error, imprecision, or delay. To succeed in this demanding environment, you need an asset servicing partner who is committed to the business. CIBC Mellon provides the stability and resources you need. With the financial strength of two industry leaders, we deliver unparalleled tools and expertise. All designed to help you feel more confident about your investment processes and decisions.

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After a hard day analyzing medical claims data, we like to unwind for a few hours and focus on dental claims.