Socially Responsible Investing
Annual Report & Directory
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Someday, the world was going to run out of fossil fuels and nuclear energy was there to help. By the 1970s, the world was in the grips of an energy crisis and producing energy with coal was considered a bad idea. In this context, nuclear energy was seen as a good alternative.

However, even that was not clear. We recall a debate on what was then becoming known as socially responsible investing which featured Patrick Walsh (then of SEI) who argued that if you wanted to protect the environment, you were in favour of nuclear energy to produce electricity and against producing it with coal. If you were concerned about the threat to the planet because of nuclear melt-down, you were in favour of coal-burning electrical power generation.

That, of course, was at a time when global warming was starting to be raised as a concern, before it became Al Gore’s resurrection into public life and before it became a commodity with its own carbon trading market.

Since then, responsible investing moved into the mainstream, and became environmental, social, and governance – ESG – investing. This was, basically, a justification to invest in anything with good conscience.

But it doesn’t stop there.

Sustainable Investing

Dr. Matthew Kiernan, who has been championing responsible investing for more than two decades, now is talking about sustainable investing, an investment approach which seeks to maximize return and, at the same time, social good. Of course, if you do a search for the definition of sustainable investing, it includes socially responsible and ethical investing.

So what we call it is really an exercise in semantics and, probably, the cause of the confusion.

What cannot be dismissed today, however, is that responsible investing has become mainstream and is quickly becoming a requirement for investment considerations. Gone are the days when pension plans could dismiss socially responsible investment on the basis that their only objective was to maximize returns.

Indeed, today, as Randy Bauslaugh, national practice leader, pensions and benefits, at McCarthy Tétrault LLP, suggests in the article ‘Mainstreaming SRI And ESG: What Pension Fund Administrators Need To Know’ (on page 22 of this issue) in Canada the “consideration of ESG and similar factors in the context of evaluating potential investments is not only legally permissible, but arguably required.” Further evidence is that Ontario, unnoticed by many, is proposing a requirement for pension plans to file Statements of Investment Policies and Procedures (SIP&P) which disclose whether or not their SIP&P addresses environmental, social, or governance (ESG) factors (See ‘Raising The ‘ESG’ Bar: Potential Disclosure Requirement In Ontario,’ on page 28).

Still, Ontario is a bit late to the party. The Ontario Municipal Employees Retirement System (OMERS) already includes this in its SIP&P. The Ontario Teachers’ Pension Plan and the Canada Pension Plan Investment Board feature their views on responsible investing on their websites. Plus, the CPPIB, the BC Municipal Pension Plan, the Healthcare of Ontario Pension Plan, and the Caisse de Depot et Placement, are signatories to the United Nations Principles for Responsible Investment (UN PRI), as are asset managers including Fiera Sceptre, TD Asset, Montrusco Bolton, and Natcan.

The United Nations actually has taken a leadership role in this as it unveiled its principles in 2006. They offer a framework for investors to address ESG considerations within their investment strategies.

So why should we care? Well, yes, there is still an element of saving the planet, but now there is a case being made that the most responsible and sustainable companies are those that are committed to the environmental and social practices. They tend to be transparent, well-run, and, yes, profitable. They are generating the returns that shareholders such as pension funds have always been seeking. They are the kinds of companies we should be investing in.

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In The Beginning, There Were Screens

In the 1970s, when the world was in the grips of an energy crisis, nuclear energy was seen as a good alternative to producing energy with coal. However, even that was not clear. We recall a debate on what was then becoming known as socially responsible investing which featured Patrick Walsh (then of SEI) who argued that if you wanted to protect the environment, you were in favour of nuclear energy to produce electricity and against producing it with coal. If you were concerned about the threat to the planet because of nuclear melt-down, you were in favour of coal-burning electrical power generation. That, of course, was at a time when global warming was starting to be raised as a concern, before it became Al Gore’s resurrection into public life and before it became a commodity with its own carbon trading market.

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Common Sense
Jason R. Stefanelli is managing director, institutional services, at Common Sense Investment Management. With more than 15 years of experience in the investment management industry, he will be responsible for bringing its specialized resources and tailored alternative investment strategies to institutional investors across Canada. Previously, he was a managing director with Janus/INTECH and served for five years as vice-president, business development, with Wellington Management Company, LLP.

Doug Crocker is chairman of the advisory board at 18 Asset Management. He was a founder, chief risk officer, and co-head of the investment team at Highstreet Asset Management prior to his retirement in 2008.

Desjardins
David Charbonneau is senior vice-president, group retirement savings, at Desjardins Financial Security. He will focus on developing and implementing the accelerated growth strategies for the group retirement service offering. Jean-François Pelletier is regional vice-president, business development, national accounts, group retirement savings. He will be responsible for business development with Canadian consulting firms. Danny Martin is business development manager, national accounts, group retirement savings, responsible for business development with consulting firms in the Montreal, QC, and Ottawa, ON, regions.

Industrial Alliance
James McLaren is regional director, sales and service, Ontario and Atlantic Canada, in the group insurance division at Industrial Alliance. He has more than 15 years’ experience in the group insurance industry, most recently with Empire Life. Michel Daoust is regional director, sales, Montreal, QC. He has spent the past 10 years with Industrial Alliance.

McLean Budden
Jean-Philippe Giguère is vice-president at McLean Budden. In this new role, he will support its ongoing efforts to help institutional clients implement strategies to manage risk and maintain the financial integrity of their pension plans. He brings an actuarial background to his role, having focused on liability driven investing, asset management, and risk budgeting prior to joining the firm.

Guardian Capital
George Mavroudis is president and CEO of Guardian Capital Group Ltd. He fills the vacancy created by the passing of John Christodoulou, the firm’s long-serving chairman and CEO. Mavroudis has been a senior executive of Guardian since 2005 and has been president since January 2009.

Williamson Group
Kelly De Freitas, CMA, is vice-president of finance and corporate services at the Williamson Group. She will oversee the finance department and ensure legal and regulatory compliance for all its accounting and financial reporting functions. Prior to this appointment, she worked for several international corporations in the telecommunications, accounting, and insurance sectors.

Northleaf
Daniel Dupont is a managing director for Northleaf Capital Partners. He joins the firm following more than a decade at Coller Capital, where he led deal sourcing and investment execution for primary and secondary private equity investments globally, as well as business development activities with a focus on Europe, Canada, and Asia. He previously held senior positions in the private equity group at the Caisse de Dépôt et Placement du Québec.

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Institutions Adjusting Portfolios

Institutions have made a massive portfolio readjustment in the past five years, moving from equities to alternative assets and long-duration bonds for liability-driven investing, says the eVestment Alliance. In all four years, managers in its database reported redemptions of $18 billion by institutions from growth strategies, or 14 per cent of the category’s managed assets at year-end 2006. As well, another $8 billion of net outflows from growth strategies took place in 2011’s first quarter. Institutions have been disappointed with growth strategies because, when measured from the perspective of market cycles, their performance has not been distinctive versus value approaches.

Ontario Leads Accessibility Push

The Ontario government is leading the provinces in its push for accessibility for people with disabilities, a ratio which is estimated to rise to one in five people by 2025, says Fasken Martineau’s ‘HR Space.’ In accordance with a regulation under the ‘Accessibility for Ontarians with Disabilities Act’ (AODA), employers will be required to make their workplaces barrier-free for customers and employees. Although the AODA came into force in 2005, the regulations dealing with employment have just been introduced. Employers will be required to provide accommodation for applicants with disabilities in the recruitment process. After hiring, the employer must provide the successful candidate with its accommodation policies and consult with the employee to provide accessible for- ful candidate with its accommodation policies and needs and economic realities.

Teachers’ Elected To Hall Of Fame

Teachers’ Private Capital has been elected the Private Equity Hall of Fame in recognition of its exemplary and enduring contributions to venture capital, buyout, and related private equity disciplines. Dow Jones Private Equity Analyst selected Teachers’ for its distinguished and consistent track record in investing in private equity. It will receive the award at an induction ceremony to be held at the 18th annual ‘Private Equity Analyst Conference’ September 27 in New York, NY.

Pension Contribution Trend Reversing

A trend that for decades saw pension funds receiving more money from new contributions than they needed to spend on benefit payments is starting to reverse, says Aon Hewitt’s ‘Radar.’ Citing research in the ‘Rotman International Journal of Pension Management,’ it says, as a result, two problems have emerged. One is ‘contract incompleteness,’ whereby incurred losses are carried forward to future generations instead of being fully assumed by the current generation. The second is ‘contract unfairness’ which sees younger workers paying full contributions to ensure current retirees in an underfunded plan receive full benefits. To address these problems, mature DB plans need to be redesigned around four key principles – hard individual entitlements, soft individual entitlements, soft positive collective entitlements, and soft negative collective entitlements. By choosing an appropriate mix of these four design principles, a new form of pension contract can be constructed that balances participant needs and economic realities.

DB Plan Accounting Changes Coming

The Canadian Accounting Standards Board (AcSB) is proposing changes for Defined Benefit plans, says an Eckler ‘Special Notice.’ Under the section on employee future benefits which applies to private entities and not-for-profit organizations, the AcSB is proposing the immediate recognition on the balance sheet of the full amount of the accrued benefit obligation. As well, it is calling for a remeasurement component similar to IAS 19. However, whereas the revised version of IAS 19 requires these remeasurements to be recognized in OCI, the AcSB is proposing their recognition in income. It is also calling for the use of the discount rate to determine the expected return on assets component of pension expense, eliminating the use of an expected return on assets assumption. The AcSB is also proposing that plan assets and the accrued benefit obligation be measured as at the balance sheet date, instead of at a date up to three months prior to the balance sheet date; and that administration costs for the management of plan assets be deducted from the return on plan assets. An exposure draft is expected later this year.

Letter to the editor


Of course it does, with the following caveats. Large pools of capital do not set stock prices. As Gordy Eberts once put it, it’s the last 100 shares traded that do.

In the short run, anything goes. In the long run, the ‘good guys’ always win. However, as I wrote in an earlier article in Benefits and Pensions Monitor, it is not easy to be a long-term investor.

The original purpose of the stock market was to finance ventures which cost more than a single investor could afford. However, the wealthy could provide the funds.

This is still the case. The rest is noise.

Peter de Auer
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Caisse Looks Abroad
The Caisse de dépôt et placement du Québec will look to Asia and Latin America to generate returns in a turbulent market and weak growth environment, says Michael Sabia, its chief executive, after the Caisse reported a return on depositor funds of 3.6 per cent for the first six months of 2011. The Caisse reported that its assets grew to $157.9 billion for the first half of this year, up $6.2 billion year over year. By comparison, net assets at the same point a year earlier were $151.7 billion. Its overall portfolio returns for the last two years ended June 30, 2011, is 14 per cent per year, outperforming the benchmark portfolio return by 2.7 per cent per year.

Global Oversight
Trend Starting
The increasing visibility of retirement and benefit programs at senior levels within multi-national companies has started a trend towards global oversight, says Mercer’s ‘Global Benefits Governance Survey.’ It found 80 per cent of multi-national firms are amending their frameworks to improve financial risk management and monitor global volatility. It says as multi-national companies often have fewer resources available on the ground to manage these programs locally and fewer headquarters’ resources available to oversee them centrally, the importance of having a robust global governance framework is greater today than it has ever been. This framework includes both the structure and the supporting processes needed to achieve the desired level of central oversight and frequently include written policies on design, funding and investment, clear delegation of authority, assignment of responsibility related to benefit programs, and a defined approach to monitoring and mitigating risks.

BMO Expands With Acquisition
BMO is expanding its institutional retirement services commitment in North America with the acquisition of Milwaukee, WI-based Marshall & Ilsley Corporation. BMO Group Retirement Services (BMO GRS), operating in Canada under Joan Johannson, will join the new BMO Institutional Trust Services (BMO ITS) which, including the U.S. institutional business, represents more than $72 billion in assets under administration and custodial services. BMO’s Private Client Group will oversee the combined operations of BMO ITS in the U.S. and Canada. With the acquisition, BMO ITS, led by James Cahn, becomes one of the few group retirement service providers owned by a major international financial institution to offer services in both Canada and the United States, allowing the bank to exponentially grow this strategic market segment in each nation. The acquisition gives it the ability to leverage the services, resources, and expertise of its colleagues in the U.S., while delivering the Canadian solutions and expertise its clients have come to trust.

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Paul works as a lab technician for a national pharmaceutical company. He didn’t know much about retirement planning until he discovered Desjardins Financial Security’s your way, plain and simple® program. It gave him all the tools and information he needed to actively plan his retirement strategy and measure its progress every step of the way.

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It was five years ago when Fern Tardif first heard the idea for a healthcare coalition while attending a benefits conference in the United States. The former chairman of the board of trustees for the health, welfare, and pension plans of the IBEW (International Brotherhood of Electrical Workers Local 625) was impressed by the group’s success and the thousands of dollars of savings for plans. He returned home to Nova Scotia with the inspiration to start a similar coalition for Atlantic Canada.

The Atlantic Canada Health Care Coalition Society (ACHCCS) was officially incorporated in July 2008 with Tardif as executive director and in just over three years the coalition has grown from four founding groups and 2,000 members to include 41 groups with members, spouses, and dependents totalling more than 200,000 people from across Nova Scotia, New Brunswick, Prince Edward Island, and Newfoundland.

The success of the organization comes from encouraging plan members to use a preferred network of pharmacies for their prescription drug needs. By doing so, the coalition can negotiate drug plan savings, lower administration fees and premiums, and create co-pay based incentives with the pharmacy benefit managers.

The first big step towards the creation of the coalition took place when Tardif negotiated a deal with Managed Health Care Services, the only pharmacy-owned-and-operated benefits management company in Canada. Members get coverage on drugs at Sobeys in-store pharmacies, the Lawtons group of pharmacies, and Sobeys Pharmacy by Mail with their MHCSI drug card.

Purchasing Power

With a growing number of people willing to use what the provider has to offer, costs can be negotiated and reduced. “The more members we have, the better purchasing power we have with our providers,” Tardif says, and the coalition continues its efforts to expand its numbers and add more providers. For example, the Co-operators Insurance Company and Travel Insurance Coordinators Limited have recently been added as providers and 10 more groups of members are now in the process of coming on board.

Current coalition members include NSGEU; CUPE Nova Scotia; the steelworker locals of Atlantic Canada; IBEW locals representing employees with Nova Scotia Power, NB Power, Newfoundland Power; and the Nova Scotia Government Retirees and Employees Association.

The cost for each group to join the coalition is an initiation fee of $150, plus an annual fee of $50. Each group elects a representative to the coalition’s board of directors who attends its annual meeting.

Spreading The Word

When the coalition was first established, Tardif says there was concern from benefit plans about losing their autonomy and being consolidated into one big plan. However, he was able to calm their fears. “The view of the coalition is that when a group becomes a member, it has the choice whether it wants to take advantage of the benefits and savings we negotiate with the provider.”

In the early days, it was a challenge communicating all of the merits of the coalition to potential members, but once the ACHCCS established a proven track record, it was much easier to demonstrate the point. Now Tardif can consult the coalition’s records and statistics during presentations to give an example of the type of savings that could be achieved with the plan.

As far as he knows, there is no other coalition in Canada with the purchasing power and savings potential of ACHCCS. Tardif says since establishing it, he has been contacted by groups as far west as Alberta inquiring about his experience developing the coalition, which brings the possibility that groups in other provinces may try to establish something similar in the future.

These days Tardif spends most of his time meeting with boards of trustees and boards of benefit committees in local unions to acquaint them with the idea of the coalition. The coalition recently launched its official website (www.achccs.ca) as a communications platform and it also preparing to reach out to more unions and benefit plans by spreading the word at industry conferences and conventions.

As Tardif continues recruiting more groups into the coalition, the menu of products and services will continue to expand. Next up, he is working on including a vision care plan into the available coverage, as well as a life insurance option.
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In a survey conducted by the Heart and Stroke Foundation of Canada in 2000, 43 per cent of participants reported being ‘frequently stressed’ and suggested that the main culprit was ‘work.’ The second-largest category was family. Combined, these two stressors can result in a sense of work-life imbalance which, according to the Canadian Mental Health Association, affects more than half of the population and can be detrimental to workplace productivity.

When you ‘get to know’ stress, you will learn that the physiological response humans have to stress is referred to as our ‘fight or flight’ response, a survival mechanism that stimulates a variety of chemical and hormonal reactions.

A bit of stress can be good for us. It can be invigorating and performance-boosting. It can get us out of potentially dangerous situations. However, prolonged periods of stress can cause a number of not-so-good physical, psychosocial, and behavioural issues. These include headaches, chest pain, high blood pressure, anxiety, depression, fluctuations in weight, substance abuse, and neglect of responsibility. Health Canada also reports that stress is believed to be a risk factor in many ailments including herpes, heart disease, mental illness, and some forms of bowel disease. It may also make blood sugar levels unmanageable for those with diabetes.

Of course, all these can seriously affect an employee’s well-being, productivity and, in time, a company’s bottom line.

Lack Of Balance
The Canadian Centre for Occupational Health and Safety defines workplace stress as “the harmful physical and emotional responses that can happen when there is a conflict between job demands on the employee and the amount of control an employee has over meeting these demands.” There are several factors that can trigger this kind of tension, one of the strongest among them being an insufficient work-life balance.

Employees who experience this kind of disparity may report difficulty concentrating as well as feeling overwhelmed and guilty about neglecting certain aspects of their lives. The health implications are immense, as are the costs to employers, since stress can lead to high rates of absenteeism and expensive disability claims. In fact, Statistics Canada estimates that lack of work-life balance has an annual financial drain of $12 billion.

A few simple changes in policy can help make things more manageable. Research shows that flexible hours, telecommuting, and job sharing that allow employees to set their own pace and ensure that deadlines are met in a more comfortable way are effective stress reducers. Encouraging workers to take time off for vacation, sick leave, or personal leave also promotes mental health and fosters much-needed downtime to recharge.

Physical Space
A comfortable physical space is vital to employee productivity. Investing in ergonomic furniture and supplies, proper lighting, private spaces, and good air quality is essential. A fair and respectful environment is also key to employee well-being. People in managerial positions should be encouraged to ask for feedback, taught how to remain sensitive, and watch for signs of stress such as increased smoking, use of non-prescription drugs, extreme mood swings, apathy, muscle tremors, or poor personal hygiene.

Employees themselves are beginning to recognize the need for a healthy work-life balance and doing more about it than in the past, especially those who are members of the younger generation. The Canadian Mental Health Association cites a study that found it to be a key element in job selection for more than 50 per cent of workers, especially those aged 21 to 30, who felt work-life balance was even more important than financial growth and advancement. An accommodating work environment that acknowledges and tries to prevent overwork and stress will look increasingly attractive to new workers and go a long way in retaining existing staff.

And, one of the most effective ways in which employers can reduce workplace stress is to learn to recognize it. Taking action early, before frustration, time off work, or resignations occur, will ensure the best outcomes for all.
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The current low-interest rate environment is challenging for fixed income investors. With government of Canada bonds generating negligible yields, investors looking for additional return with an appropriate level of risk are pressed to find suitable alternatives.

Commercial mortgage funds, long an investment fixture with life insurance companies and large pension plans, may provide a good solution. With strong underlying Canadian commercial real estate fundamentals, conservative lending standards, and a healthy credit spread environment, this asset class continues to perform well on a risk-adjusted basis and is worth closer examination.

Registered Charge

Like a bond, a commercial mortgage is a fixed income instrument that is used to secure the repayment of a loan advanced to a borrower. Security for these loans is a registered charge against income-producing real property, most often retail, office, industrial, and multi-family properties. Hotels, seniors’ housing facilities, self-storage facilities, land, and manufactured home communities are other asset classes that may also be used as security.

Canadian Commercial Mortgages: An Attractive Alternative

The amount of loan advanced is driven by two key ratios: loan-to-value and debt service coverage. Institutional lenders have traditionally lent to a maximum of 75 per cent of the estimated market value of the property while ensuring that the net operating income generated by the property is sufficient to cover the annual debt service obligations created by the mortgage to a ratio of not less than 1.25 times. Adherence to these ratios provides capital and cash flow downside protection should the property and/or owner experience challenges during the loan’s term.

The interest rate for commercial mortgages has two components: the yield on a term-equivalent government of Canada bond and a credit spread. Historically, mortgage credit spreads have averaged 130 to 175 basis points, reflecting the strength and quality of the borrower (and, if applicable, guarantors), property characteristics (asset class, location, tenants, leases, vacancy rate and income), transaction metrics (loan-to-value and debt service coverage ratios), and prevailing market conditions.

Today, credit spreads for high quality mortgages are slightly higher than historical norms and are in the 175 to 200 basis points range. With 10-year government of Canada bonds yielding approximately 2.5 per cent, credit spreads of this magnitude provide investors with a significant yield premium. For investors and pension plans that have between 40 per cent and 60 per cent of their investments in fixed income products — including government of Canada and provincial bonds — high quality commercial mortgages provide an opportunity to enhance their fixed income returns on a conservative basis.

Strong Fundamentals

Despite the global economic uncertainty of the past few years, the fundamentals of the Canadian commercial real estate market have remained solid. The primary driver of this stability is the relative balance of the supply of, and the demand for, commercial real estate assets. Unlike the United States, speculative development is not a significant component of the Canadian market and vacancy rates for retail, office, and industrial metrics are all within the range of normal market activity across the country.

These strong fundamentals, coupled with conservative lending parameters, have translated into very stable mortgage loan performance. DBRS Limited tracks mortgage delinquency and default rate statistics for commercial mortgage-backed securities on a monthly basis, providing a good proxy for the asset class. The Canadian commercial mortgage-backed securities delinquency rate as of July 2011 was negligible at 0.47 per cent as compared with 10.19 per cent in the United States.

With interest rates in Canada widely expected to remain low for the foreseeable future, fixed income investors seeking higher returns will continue to explore alternatives. With a number of positive characteristics well-suited to pension plan investors, it would be worthwhile to consider Canadian commercial mortgage funds for their portfolios.
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Past superior performance does not persist into the future is the finding of Rogers Casey research of investment manager performance for the past decade.

While the study observed some anomalies, the results generally confirmed its long-held view. Specifically, there is a lack of persistence within most equity peer groups and persistence within the core fixed income universe.

Implications For Plan Trustees

The study provides empirical support for much of what we observe anecdotally – chasing above-median managers will, for the most part, lead to disappointing results given the lack of performance persistence. In fact, the study suggests that successful manager selection can come from below-median managers as they tend to perform better over subsequent periods. We know, however, that hiring a successful, below median manager is not easy and will depend on the governance structure and decision-making at the committee level.

It is very difficult for a trustee committee to maintain an underperforming manager, particularly a manager that has underperformed for what may appear to be a long period of time. The pressure to terminate a manager grows as under-performance persists and managers are occasionally terminated unnecessarily. The subsequent changes are disruptive and costly.

Conversely, the opposite is equally true. A satisfactory performing manager may be undergoing structural changes that could be potentially more alarming than a manager that is underperforming for what is considered the right reasons. A successful investment program should be able to assess what is driving performance.

It is no secret that long-term outperformance requires a high tolerance for short-term underperformance. An investor cannot experience one without the other and on occasion, the short-term may actually appear quite long.

The study used our EQuest investment manager database for the underlying data. The universe was narrowed to only include separate accounts with at least 10 years of performance data as of December 31, 2010. Finally, it was limited to the universes where robust data points could be reasonably assured:

- U.S. large cap core
- U.S. large cap growth
- U.S. large cap value
- U.S. small cap growth
- U.S. small cap value
- International equity
- U.S. core fixed income
- U.S. core plus fixed income

The surviving sets of managers were ordered into quartiles according to their performance in the first five-year period (FFYP – January 1, 2001, to December 31, 2005); thereafter, the performance of top quartile managers was followed over the subsequent five-year period (SFYP – January 1, 2006, to December 31, 2010). Additionally, performance persistence was defined as 50 per cent or more of the top quartile managers in FFYP remaining in the upper half of the peer universe in SFYP.

Past No Predictor Of Future

As noted previously, the results of the 2010 study generally confirmed our long-held view on performance persistence. Specifically, we observe a lack of persistence within four of the six equity peers group and persistence within the U.S. core fixed income peer group. Three peer groups that have not historically demonstrated persistence did so in 2010 – U.S. core plus fixed income, U.S. large cap value, and U.S. large cap core.

Persistence Observed

Persistence was observed within the U.S. core and U.S. core plus fixed income peer groups during 2010. However, persistence within the U.S. core fixed income peer group did not come as a surprise. For the past 10 years of the performance persistence study, the performance of core fixed income managers has persisted in nine out of the 10 periods (Figure 1).

The core plus fixed income managers also dem-
onstrated persistence during 2010, as 54 per cent of the first quartile managers finished in the top two quartiles during the SFYP (Figure 2). A review of the underlying top quartile managers that persisted into the SFYP did not identify a discernable common thread. However, investors should be cautioned about using performance screens to identify managers within the core plus space. After all, of the core plus managers that finished in the bottom quartile during the FFYP, 69 per cent finished in the top two quartiles during the SFYP. This means investors using performance screens to select a core plus manager five years ago would have had a greater chance of success choosing from managers in the bottom quartile than from the top quartile.

Within the equity universe, four of the six peer groups failed to demonstrate persistence. One of the most notable observations of the studies is the lack of persistence for U.S. small cap growth and value managers. The lack of persistence within both peer groups held true once again during 2010 (Figures 3 and 4). In fact, the small cap value and growth peer groups have only demonstrated persistence in two of the past 10 years. Clearly, investors should steer clear of relying on trailing five-year performance numbers when selecting U.S. small cap equity managers.

Interestingly, the U.S. large cap core peer group demonstrated persistence for the third straight year. We believe this persistence can be classified as an anomaly. It is not a recognizable trend for a number of reasons. Large cap core managers showed lack of persistence during the seven years prior to 2008 (Figure 5). The years 2008 and 2009 proved to be quite different as 68 per cent and 63 per cent of the top quartile managers remained in the upper half of the large cap core universe during the SFYP, respectively. However, the level of persistence in 2010 (54 per cent) was not as significant as the level of the two prior years. Borrowing from the title of last year’s performance persistence paper, it appears that the large cap core peer group is reverting back to normal.

The U.S. large cap value peer group was the other equity peer group to persist in 2010 as 57 per cent of top quartile managers from the FFYP remained in the upper two quartiles during the SFYP. A review of the underlying managers could not identify a common characteristic. The group included managers of all styles including deep value, relative value, and dividend focused. As such, the best explanation is that a number of stock pickers who performed well during the FFYP, by chance or by skill, continued to perform well in the SFYP ended in 2010. Based on these findings, the conclusion is that selecting asset managers based on past performance, especially within the equity space, will lead to disappointing results. When selecting active managers, we recommend that investors need to adopt a forward-looking approach when selecting active managers.

Claude Macorin, CFA, is managing director, investment solutions, for Rogerscasey Canada (claude.macorin@rogerscasey.com). Patrick Chrysler, CFA, is director, global portfolio solutions, and Mike Evans is an analyst, alpha research, at Rogerscasey.
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The administrator of a pension fund in Canada is subject to general fiduciary duties imposed by pension standards legislation and by common-law. At a very high level, a pension fund is essentially a trust established to provide financial benefits. As a result, profit maximization with security ought to be a primary investment objective.

Where does socially responsible investment (SRI) fit into this picture? In my view, SRI and its sibling – environmental, social, and governance (ESG) concerns – if properly understood, should be considered by pension fund administrators. Those who ignore these considerations, do so at their peril.

Fundamental Misconception

The main problem with bringing SRI and ESG into the mainstream in Canada appears to be a fundamental misconception about what SRI or ESG investing is within the context of a pension fund. Another is a lack of legal clarity.

Several of my pension fund clients initially dismissed SRI or ESG as too airy fairy for the proper discharge of their fiduciary obligations. The prevailing belief seemed to be over conflict with the profit maximization objective. That objective derives from a 1984 English case called ‘Cowan v. Scargill’ which held that administrators should not invest on the basis of political, social, governance, or similar factors, but need to stick to the numbers. In that case, the court held that trustees of a pension fund appointed by a coal miners’ union failed to fulfil their fiduciary duties when they adopted a policy to not invest overseas or in industries which compete with coal. The case clearly states that where a trust is established for the provision of financial benefits, such as a pension fund, “the paramount duty of the trustees is to provide the greatest financial benefits for the present and future beneficiaries.” In my view, this does not exclude proper consideration of SRI or ESG factors and, in fact, as noted below, may suggest that SRI and ESG must be taken into account.

Another common belief is that SRI or ESG involves the imposition of negative screens that conflict with the fiduciary duty to act in the best interests of plan stakeholders. Indeed you will still find investment managers purporting to provide SRI or ESG services by advertising their ability to provide “ethical screens.” This too is misguided.

SRI and ESG do not necessarily entail ethical screens. An ethical screen is invariably a negative screen; a blunt instrument that avoids all investment in any entity whose operations are objectionable to the investor, such as investment in tobacco, gambling, pornography or weapons, without regard to other factors. Appropriate SRI and ESG investing is more likely to use a more positive approach which looks for enhanced performance based on ESG or SRI criteria, but this usually involves integrating ESG factors into investment models as an additional evaluative lens – not a screen. For example, a weapons manufacturer may be quite profitable, but if it has a large division that produces cluster bombs and ESG research shows that an international treaty on the elimination of cluster bombs is about to be signed, that ought to be a factor in any decision to make a long-term investment in that company.

Ethical Screens

That is not to say that negative ethical screens are wrong or cannot be implemented by pension funds. They can be, but it requires some direction to that effect in the governing plan documents or trust deeds. In the 1980s, many plan investors imposed ethical screens to avoid investment in South...
Admittedly the environment for SRI and ESG considerations is confusing. It is easy to define what it is not (an ethical screen), but harder to say what it is. It can cover a broad spectrum between investors who have a moral perspective and do not want to be blind to the impact of their investments on the fabric of society – “we want to be financially successful while doing good” – and those who see consideration of ESG and other social factors as purely economic inputs to be assessed as part of a best practices investment strategy.

For fund administrators who are motivated by doing good, there is certainly a danger that trustees may veer offside of the legal imperative by relying too much on political or social/economic belief; however, as long as they can keep perspective and demonstrate a correlation between the SRI or ESG considerations, positive potential economic performance and the best interests of the beneficiaries, they should be alright.

Those closer to the other end of the spectrum who simply use ESG factors as part of the matrix for evaluating investments, are not only more likely to be on safer legal ground, but arguably may be on safer ground than those who do not. In other words, in Canada it is probably the case that consideration of ESG and similar factors in the context of evaluating potential investments is not only legally permissible, but arguably required!

Awkward Legal Position

Nonetheless, the Canadian legal environment for ESG or SRI considerations is not well-evolved. It puts pension fund administrators in an awkward legal position. They can be criticized (or sued) if they take ESG or SRI into consideration and they can also be criticized (or sued) if they don’t.

Fiduciary responsibility requires investment decision-makers to follow correct processes in reaching their decisions. This means having regard to all considerations relevant to the decision, including those that affect value. In view of the increasing body of evidence that financial service providers are incorporating ESG and SRI considerations into credit ratings, debt financings, and other investment transactions, it is difficult for pension fund administrators to ignore these considerations. There is also a body of evidence demonstrating positive performance achievements when ESG and SRI factors are considered, including downside protection in bear markets and better upside performance in both equity and fixed income markets. On the other hand, while many financial institutions appear to have bought-in to the ESG and SRI investment mantra, there appears to be no routine integration of the criteria, no consensus on what the criteria are, and there are those who would challenge the substantial empirical evidence that SRI and investment value are intertwined due to a lack of long-term analysis of the relevant data. This is not to mention the cost to obtain relevant SRI or ESG investment information, which may be a problem for smaller funds. The legal problem is that SRI presents potential opportunities as well as costs. Both ought to be considered by pension fund investors.

How is a pension fund administrator to respond? There are a number of avenues whereby ESG and SRI principles can safely be incorporated into investment decision-making. A preferred route is to add references to constating documents, such as plan texts or funding documents (assuming they can be amended to do this). A second-best approach is to follow the path taken by several of Canada’s more sophisticated pension plans, and incorporate ESG and SRI into governance documents, such as the required statement of investment policies and procedures (SIP&P). Many good precedents can be found on line such as the SIP&P and proxy voting guidelines for the Ontario Municipal Employees Retirement System (OMERS). It should also be noted that some of Canada’s largest pension funds are signatories to the United Nations Principles for Responsible Investment (UN PRI), including the BC Municipal Pension Plan, the Caisse de Depot et Placement, and the Canada Pension Plan Investment Board. The UN PRI offers a framework enabling investors to address ESG considerations within their investment strategies. It is not clear whether adherence to such principles provides signatories with the necessary ability to elevate ESG considerations to a clear legal obligation vis-à-vis the pension funds they administer.

Better Answer

A better answer for Canadian pension fund administrators would be legislation to clarify the common-law obligation. Manitoba helpfully amended its pension legislation in 2010 to make it clear that non-financial considerations will not constitute a breach of trust or pension standards laws.

Other Canadian legislators have been slow to address ESG in their respective pension and trustee legislation. In Ontario in 2008, the report of the Expert Commission on Pensions recommended that “plan statements of investment policy should reveal whether, and if so, how, socially responsible investment practices are reflected in the plan’s approach to investment decisions.” There has been nothing in the reform legislation that has followed from the expert commission report to deal with ESG and SRI. The British Columbia and Alberta Joint Panel on Pension Standards voiced concern about specific references to ESG in reform legislation, preferring instead to recommend that plan administrators only consider relevant factors “as they affect the potential risk and return of investments.”

Until legislation clarifies the landscape, fund administrators are well-advised to consider their investment policies and procedures and assess whether and to what extent ESG or SRI fits within their investment goals and objectives, and to what extent it ought to be articulated in governing documents or policies.

The perception that SRI and ESG is somehow linked only to ‘ethical investing’ is simply wrong. Consideration of SRI and ESG does not mean introducing negative criteria or ethical screens, and it should not mean investing with one arm tied behind the investor’s back, or giving credence to non-conformist, flower child ideals. It should mean incorporating relevant knowledge and information into investment decision-making. Contrary to popular misconceptions about SRI and ESG, such considerations are not likely to result in a breach of fiduciary duty under pension standards legislation or common-law. However, until there is some legislation or case law to clarify this, it is not entirely clear where the legal boundaries are. One thing is certain however, not giving consideration to SRI and ESG where there is potential for material financial impact from those factors puts plan administrators at risk of breaching their fiduciary obligations.

Randy Bauslaugh is national practice leader, pensions and benefits, at McCarthy Tétrault LLP (rbauslaugh@mccarthy.ca).
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Renee Arnold, Head of Business Development, Canada; 161 Bay St., 44th Fl., TD Canada Trust Tower, Toronto, ON M5J 2S1  Ph: 416-777-5571  Fax: 866-290-9322  eMail: renee.arnold@aberdeen-asset.com Web: www.aberdeen-asset.com  SRI Products/Services: EAFE Plus, Global Equity Managed Since: 1995 Canadian Clients: 3 SRI Philosophy/Style: Employs bottom-up fundamental analysis, focusing on absolute return; invests in companies with sound fundamentals that pass the investment criteria of quality and price; for SRI mandates, companies must also pass a screening process for acceptable social behaviour.

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HSBC GLOBAL ASSET MANAGEMENT (CANADA) LIMITED Francis Chartier, Vice-president, Institutional Investments; Ste. 300 - 2001 McGill College, Montreal, QC H3A 1G1 Ph: 514-286-4559 eMail: francis.chartier@hsbc.ca Web: www.assetmanagement.hsbc.com SRI Products/Services: Global Equity; Global Thematic Equity; Regional Equity; Single Country Equity; Balanced Mandate; Global Fixed Income; Regional Fixed Income; Quantitative Single Country, Regional, and Global Strategies. SRI investment teams are also able to design customized solutions, responding to any number of specific needs and constraints a client may have including alignment with the corporate mission, influence from beneficiaries and stakeholders, reduction of investment risk, legislative environment, employee saving plans. Managed Since: 1994 SRI Philosophy/Style: Investment philosophy embodies the commitment with which it develops innovative products and customized solutions. Drawing on the global presence of the HSBC Group, it benefits from an understanding of sustainable development issues and is able to offer its clients new investment opportunities all over the world and in line with SRI values.

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NATCAN INVESTMENT MANAGEMENT Jo-Anne Pinto, Vice-president, Institutional Services; 1100 University St., 4th Floor, Montreal, QC H3B 2G7 Ph: 514-871-7102 Fax: 514-871-7476 eMail: japinto@natcan.com Web: www.natcan.com SRI Products/Services: Social Value Canadian Equity Fund, ESG Corporate Bond Fund Managed Since: 2004 (although it created the Social Value Canadian Equity Fund in 2004, it has offered Responsible Investment services since 1993). Canadian Clients: 71 SRI Philosophy/Style: Approach consists of buying out-of-favour stocks with attractive profit-enhancing catalysts to generate value added while limiting downside risk; fund's objective is to exceed the S&P/TSX Index in both financial and ESG performance while avoiding companies involved in controversial business activities

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PICTET ASSET MANAGEMENT INC. John Maratta, Senior Vice-president; 1000 of the Gauchetiere W., Ste. 3100, Montreal, QC H3B 4WS Ph: 514-288-0253 Fax: 514-288-5473 eMail: mitt-inst@pictet.com Web: www.pictet.com SRI Products/Services: SRI strategies currently marketed in North America – Clean Energy Fund, Water Fund (Other SRI products are available upon request). Managed Since: 1999 Canadian Clients: 2 sub-advised mandates SRI Philosophy/Style: Clean Energy product aims to invest worldwide in shares of companies that contribute to, and profit from, the world’s transition to less carbon-intensive energy. The Water product invests worldwide in shares of companies focused on the water related sector.

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COMING IN OCTOBER
2011 REPORT & DIRECTORY OF MONEY MANAGERS
Closing date: September 26, 2011
Earlier this spring, the Ontario government proposed that pension plans registered under the Pension Benefits Act be required to “file Statements of Investment Policies and Procedures (SIP&Ps) with the regulator and disclose whether or not their SIP&Ps address environmental, social, or governance (‘ESG’) factors.” If passed, Ontario would be the first jurisdiction in Canada to require plan administrators to expressly disclose this information.

Global Trend
This development follows the introduction of similar requirements in multiple countries. In 1999, there was a change to a regulation under the UK Pensions Act to require a fund’s Statement of Investment Principles to cover its policy on “the extent (if at all) to which social, environmental, or ethical considerations are taken into account in the selection, retention and realization of investments.” This coincided with my joining Mercer’s London office, and – having completed a Masters in Political Economy and International Development and working for CEM Benchmarking – the development brought together my interests and experience. I volunteered to help clients respond and haven’t looked back since.

In Australia, the Financial Services Reform Act (2000) requires that all products with an investment component – including superannuation funds and mutual funds – include disclosure of the extent to which labour standards or environmental, social, or ethical considerations are taken into account in the selection, retention, and realization of the investment. Similar requirements exist in Sweden, France, Germany, Norway, Belgium, Italy, and Austria, with legislation pending in Spain and in discussion at the EU level.

Disclosure Versus Action
The approach taken by regulatory authorities relies largely on disclosure requirements for pension funds to inform beneficiaries of the extent to which ESG or ethical factors are incorporated into the fund’s investment strategy.

While regulatory developments have not mandated the adoption of responsible investment practices – defined as the explicit consideration of ESG issues in investment decision-making and ownership practices – the requirements to disclose have served to prioritize a discussion of this area by investment committees and boards, and functioned to remove some of the barriers that exist to heightened responsible investment activity.

Penny Shepherd, chief executive of UKSIF, the sustainable investment and finance association, notes that “a key impact of the (UK) disclosure requirement was to help dispel the myth that considering ESG issues is inconsistent with a trustee’s fiduciary duty. If regulators require funds to disclose how they address the area, ergo, they should have a thoughtful and defensible approach to it.”

ESG Signals
Similar to other regions, Ontario’s potential ESG disclosure requirement follows a number of industry signals placing enhanced focus on ESG and active ownership principles. These include:

◆ The requirement stems from the Ontario Expert Commission on Pensions 2008 report. Recommendation 8-23 stated that “Plan statements of investment policy should reveal whether, and if so, how, socially responsible investment practices are reflected in the plan’s approach to investment decisions.”

◆ The National Round Table on the Environment and the Economy’s (NRTEE) Capital Markets and Sustainability report (2007) called for the enactment of similar regulations to that of the UK, requiring pension funds to disclose annually the extent to which ESG factors are taken into...
account in the selection, retention, and realization of investments, as well as proxy voting and corporate governance engagement activities.

- NRTEE also called for pension plans disclosure of their proxy voting activity, which was similar to the 2004 amendment contained in National Instrument 81-106, requiring continuous disclosure by Canadian mutual funds of their proxy voting policies and proxy voting records.

While timing is unknown, indications suggest this disclosure requirement could take effect by March 2012, in time for the annual reporting period to beneficiaries. The disclosure requirement is expected to progress independently of the outcome of the provincial Ontario elections in the fall.

Practical First Steps

Given this, plan administrators and fiduciaries should consider their approach to ESG (and associated disclosure) and be prepared to respond to questions from beneficiaries. There are a number of practical first steps a fund can take towards considering its approach to ESG, including having a fulsome discussion about the topic, developing an understanding of the issues, and moving towards an approach that makes sense for your organization.

Possible questions for discussion include:

- Is the fund concerned that ESG factors could have a material impact on the assets in its care?
- What are emerging best practices among peers?

The body of academic and practitioner literature to address the first question is growing. Similarly, to the second point, an increasing number of pension plans are writing RI policies, hiring full-time ESG staff, monitoring managers on ESG criteria, and making thematic investments. These examples can help to guide other funds’ approaches.

Looking ahead

Did the disclosure requirement have impact elsewhere? It seems to have led to accelerated action on ESG in regions that don’t have the requirement, including Canada. It will be interesting to see how local developments unfold.

We expect the announcement of the proposed Ontario budget disclosure requirement to result in an increased focus on ESG factors by Ontario based pension funds, and it is possible that other provincial jurisdictions may follow Ontario’s lead.

Jane Ambachtsheer is partner and global head of responsible investment, Mercer (jane.ambachtsheer@mercer.com).


In today’s competitive work environment, employers are looking for strategies to attract top talent, engage employees and foster a work environment where employees feel recognized for who they are as well as for what they do. Top employer awards have been a means for many organizations to review their people practices and put in place innovative and employee-centric policies, programs, and services.

Many award winners have embraced workplace wellness as part of their winning strategies, recognizing that creating a healthy workplace is a win/win for employees and employers alike. The workplace is an ideal environment to inform, involve, and inspire employees to lead a healthy lifestyle. Research shows that 70 per cent of illnesses are lifestyle related. Supporting employees to be physically active, eat well, manage their weight, and prevent injury will meet the employee’s wellness needs and interests and reduce the incidence of Canada’s most prevalent disease states.

The World Health Organization claims that “80 per cent of premature heart disease, stroke, and type 2 diabetes, and 40 per cent of cancer can be prevented through healthy diet, regular physical activity, and avoidance of tobacco products.

Fun Factor
While much of the research on the ROI of workplace wellness programs has been focused on reducing healthcare costs, progressive employers also see the correlation between healthy employees and employee engagement. They recognize that a strategically planned and implemented wellness program builds relationships, provides a fun factor, breaks down silos, and promotes health, energy, and performance. Employee engagement surveys show that wellness programs are at the top of the list of benefits employees are looking for from their employer. Wellness programs are highly valued by all generations in the workplace and send a clear message to employees that the company cares about their well-being.

Profiled below are three ‘top employers’ who have invested in workplace wellness and moved beyond the traditional HRA, biometric screening, and health fair. These organizations, while vastly different in size and industry, have several things in common. They have all approached wellness with a long-term view, developed a customized program that reflects their brand and corporate culture, and established metrics from which to measure success. While these programs are at different stages of development, each organization can confidently say that workplace wellness reaps rewards.

LV Lomas Ltd., headquartered in Brampton, ON, is one of the largest chemical distributors in North America and the leading specialty chemical distributor in Canada. It was recognized for the third consecutive year as one of Canada’s 100 Best Workplaces 2011 from the Great Place to Work Institute Canada. The confidential employee survey, or ‘Trust Index,’ produced high ratings in the institute’s five pillars of best workplaces — credibility, respect, fairness, pride, and camaraderie.

With the help of Tri Fit, consultants in workplace fitness and wellness, Lomas developed a wellness plan to reflect the needs of its 230 diverse office, manufacturing, and sales staff located in Brampton, ON; Delta, BC; and Dorval, QC.

Wellness consultants were brought on board at all three locations in June 2010 to be ‘the face of wellness’ and to support employees. Their high touch/high tech programs were designed to achieve their mission and goals.

Its mission statement was to encourage and support the health and well-being of all employees through communication, education, needs driven health promotion activities,
and fun. To do so, it set a number of goals:

- To provide resources and activities to heighten awareness around fitness, work life balance, general health, and well-being
- To support healthy eating and weight management goals
- To create a work environment that enhances safe working practices and minimizes injury

Into its second year, the wellness program has become a vital part of its workplace culture. Employees of this family-owned business participate in a wide offering of programs including a work stretch break program, a healthy recipe club, quarterly e-campaigns, and challenges on nutrition, fitness, and weight loss.

Lomas is delighted with the enthusiasm and participation in the program to date. Sheila Kendall, its human resources manager, says it “believes strongly that a healthy and engaged staff contributes to an improved corporate culture. In turn, a strong people-oriented corporate culture satisfies not only our employees, but also our principals, customers, and shareholders.”

Enbridge Gas Distribution Inc. has been named one of Canada’s Top 100 Employers for six consecutive years. The annual competition recognizes companies who offer their employees the best places to work and lead their industries with best practices in attracting and retaining employees.

Enbridge is Canada’s largest natural gas distribution company and provides distribution services in Ontario, Quebec, New Brunswick, and New York State. Approximately 1,500 employees are headquartered in North York, ON, with several hundred additional employees located in the greater Toronto area and throughout Eastern Ontario including Barrie, Thorold, Oshawa, and Ottawa.

**Commitment to Health**

This company’s commitment to health goes back 23 years, starting as an integrated disability management program called ‘HealthWise.’ Over the years, the direction of the program has evolved with the focus now on illness and injury prevention, and ensuring that resources and energy are spent helping people stay healthy and safe.

Its health and fitness model is a collaborative effort between the health centre and the on-site fitness and health consultant. Volunteer fitness instructors and occupational health nurses support the day-to-day operations including overseeing a 4,000 square foot fitness centre at its head office.

Currently, there are smaller fitness facilities in the Thorold and Ottawa offices and all sites have access to the programs offered by the fitness consultant, excluding on-site fitness classes. Employees who work in locations without an on-site fitness facility are eligible for an annual fitness subsidy up to a total of $350 as part of the benefits program. A new fitness facility will be included in the state-of-the-art technology and operations centre currently under construction in Markham.

With an average employee aged 45 and 39 per cent of its employees female, its health and fitness programs are designed to reflect the needs and interests of these groups. Group exercise classes, department stretch breaks, roving department wellness displays, weight loss challenges, walking and running programs, desk stretches, and e-campaigns are a few of the more popular programs.

Enbridge has also had a positive response from combining fitness with its CSR programs. In 2011, it was the lead sponsor for the ‘Ride to Conquer Cancer’ bike ride from Toronto to Niagara Falls. For six months leading up to the event, 40 employees trained at the fitness centre to participate in the 200 kilometre ride with all 71 members of the Enbridge team completing it.

“There is a lot of energy and spirit created through team events such as the ‘Ride for Heart,’ the ‘Bay Street Rat Race,’ the ‘Enbridge CN Stair Climb for United Way,’ and dragon boat racing. We also like to celebrate diversity in our workplace with potluck lunches featuring healthy international cuisine,” says Bill Ross, former vice-president, finance and information technology, and an avid cyclist and fitness enthusiast.

Enbridge has had some positive indicators that its programs are achieving results.

Forty per cent of the North York office are members of the fitness centre and up to 200 employees participate in the annual health fair, wellness campaigns, and challenges. In 2007, it experienced a 23 per cent reduction in its long-term disability (LTD) claims resulting in a savings of $466,000. Plus, it has not had a LTD premium increase for the past three years.

Christie Digital Systems Canada Inc., of Kitchener, ON, has received numerous top employer awards over the years including Canada’s Best Employers for New Canadians in 2011.

Christie, a global visual technologies company, offers diverse solutions for business, entertainment, and industry. With expertise in film projection since 1929 and professional projection systems since 1979, it has established a reputation as the world’s single source manufacturer of a variety of display technologies and solutions for cinema, large audience environments, control rooms, business presentations, training
facilities, 3D and virtual reality, simulation, education, media and government. As a market leader, Christie has installed more than 100,000 projection solutions worldwide.

**Made A Pitch**

In 1999, its human resources department made a pitch to the executive management team for an on-site fitness centre and wellness program at its Canadian Engineering and Manufacturing facility in Kitchener. The justification for a comprehensive program was based on common sense assumptions that it would:

- be a selling perk to attract young engineers
- help launch the new Christie brand – ‘Christie Cares about You’
- simply make good sense that promoting and ‘living’ wellness would benefit all employees.

In 2000, the wellness program was launched with the opening of a 400 square foot fitness room. Popular programs facilitated by an on-site wellness consultant included regular exercise classes that are held in an empty office space, wellness clinics, health fairs, wellness challenges, and daily stretch breaks.

Ten years later, the program has accomplished its goals. Kimberly Hogan, vice-president of human resources, says the program is highly valued. Christie truly believes that the program enhances both its internal and external brand as an innovator and helps with recruitment and retention. The employee turnover rate for the salaried organization is less than three per cent a year. Annual benefit renewal costs are far below industry standards. The average annual benefit renewal from 2001 to 2010 was 1.8 per cent. The savings on annual benefit renewals more than covers the cost to run the fitness and wellness program.

**Core Beliefs**

Guerin believes that its wellness program is anchored in one of its core beliefs – ‘people are the key to our business success.’ While it hasn’t been focused on tracking return on investment, he believes that it makes sense on so many fronts. “A corporate commitment to health and wellness is a natural extension of our core business and is aligned with our values,” he says. “In a tight labour market, it also helps to attract and retain employees, enhances job satisfaction, and helps us to be an employer of choice.

Developing a healthy workplace is a sound investment. It makes sense that an ounce of prevention is worth a pound of cure. Investment upfront in the prevention of disease will cost far less than treating illness down the road.

Sue Pridham is president of Tri Fit Inc. (sue@trifit.com).
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The e-world is growing by leaps and bounds. As a result, Capital Accumulation Plan (CAP) providers are offering personalized websites, real-time statements, retirement calculators, webinars, e-learning modules, and an array of other materials. At the same time, CAP sponsors are going the extra mile by partnering with providers and financial planning experts to offer retirement planning seminars, face-to-face investment sessions, and more specialized communication.

The single goal of all these efforts is to help employees save adequately for retirement. Nevertheless, apathy – or, at least, inactivity – remains high amongst plan members. Many employees are not actively making investment decisions, not maximizing available employer contributions under company match provisions, and, in general, are simply not saving enough to fund their retirement.

Lack Of Concern
But limited plan involvement does not necessarily indicate a lack of concern. Data gathered from employees as part of Aon Hewitt’s ‘Best Employers in Canada’ study shows that only 35 per cent thought they were saving enough for retirement, 42 per cent believed they weren’t saving enough, and 23 per cent had no idea. Many plan members are crying out for help in making decisions and taking actions. They want simple, straightforward, understandable communication. They want easy, short, personalized guidance. As one employee put it, “Don’t give me all this stuff and expect me to decide. I don’t have 20 hours to read all this stuff.”

The vast array of communication options means that employees are literally overwhelmed with information. There is so much material, plan members don’t know how to make sense of it all. Volume overload in this electronic age is a barrier to getting important messages across.

When it comes to inspiring employees to take informed action, more communication is not better. In fact, less is better – provided it’s effective. Consider a few examples where short, hard-hitting communication changed behaviour.

#1 - One Minute Makes A Difference In Motivating Employees To Maximize Contributions
HR leaders from Aon Canada Inc. were troubled by the fact that some plan members were not maximizing the employer match under the company’s savings program. What did HR do?

Members not maximizing their contribution were sent a short, personalized, targeted statement that showed them how many dollars they left on the table. The first thing employees saw upon opening their mail statement was a buck slip that showed the actual dollar amount that could be theirs if they increased their contribution to take full advantage of the company match.

“I knew I needed to do something that would make an impact, something to get their attention,” says Linda Bicho Vachon, national manager, pension and benefits. What happened? Dozens of employees changed their contribution level.
#2 - One-page Communication Drives Dramatic Results

Sobeys Inc. wanted to make sure plan members understood the importance of making additional voluntary contributions to the pension plan (the convenience of payroll deduction; immediate tax savings; impact to overall retirement savings). Employees needed to understand how this could impact their retirement savings.

David Tutty, director – national pension programs and services, says Sobeys was interested in promoting the voluntary contribution feature to improve upon member uptake. There was a need to get their attention, but how?

Focus groups were conducted with employees across the country and the surprising result showed that many did not know they had the option of contributing more! One employee said, “Making voluntary contributions was the best advice my manager gave me 18 years ago.” Sobeys wanted to make sure all employees got this message early in their careers.

What did Tutty do? He spearheaded the development of an electronic payroll stuffer – one page that positioned the benefits of making additional voluntary contributions. It showed how contributing a small amount every pay would impact future savings. Sobeys delivered a focused, simple, visual message that was designed to get employees’ attention.

The result was hundreds of employees decided to make additional voluntary contributions for the first time within just a couple of weeks of receiving the message from Sobeys. Mission accomplished!

Engaging A CAP Audience

The moral of these stories is that plan communicators need to take a step back and design communication that is targeted, personalized, and very streamlined! Some may think doing so is impossible, given all they need to communicate. However, success lies not in doing away with the detail completely, but in incorporating short, meaningful messaging.

This type of communication can and does have dramatic results. Diane Park, program manager, education at Sun Life Financial, refers to this approach as “nudge” communication. Following a recent mail campaign to employees’ homes, she saw a 60 per cent increase in plan membership, just from one poster that visually showed the benefits of joining.

From Park’s perspective, print, face-to-face, and e-communication all need to be incorporated. “We still use a lot of print; it isn’t going away any time soon. E-communication, of course, has its advantages, especially the ‘real time’ benefits. But you still need to get personal.” Diane says that e-mail and print represent the most effective media for member communication with e-mail number one.

What’s especially great about electronic delivery? Electronic pension communication is easy to access (86 per cent of Canadians have access to the Internet), personally tailored to the individual, and completely secure. In less than a minute, plan sponsors can deliver short, meaningful, targeted communication that opens the member’s eyes.

Employers are embracing electronic communication like never before. According to Aon Hewitt’s ‘2011 Canadian Talent Survey,’ 53 per cent use electronic forms of communication more than any other form and 42 per cent have committed to a major investment in enhancing electronic communication over the next three years. E-mail was also the number one communication vehicle for employers who participated in the survey.

E-Communication Has Many Benefits

Secure access 24 hours a day. Personalized websites. Relevant, meaningful push-and-pull communication. The ability to layer communication, starting off with a short, impactful message that allows the employee to drill down to further detail. These are just a few of the benefits of e-communication.

Younger employees are being targeted and encouraged to enroll in pension plans through social media channels such as Twitter and Facebook. E-shots alert members to changes in information or matters of interest. The software behind these e-shots enables the provider to track what members are accessing, giving valuable information to enhance future communication.

Member mailboxes can be set up so that confidential documents can be posted and accessed by members. These mailboxes have the same security as online banking sites. The information is personalized, specific to the employee, and represents real time values.

One of the really neat features of electronic communication is the ability to segment the population and deliver targeted, meaningful communication based on demographics. Doing so results in targeted communication that can further engage employees in managing their savings accounts.

Once the electronic platforms are set up, costs are reduced, given that there is no need to spend as much money on printing and mailing. Even though providers are not totally moving away from print yet, the banking industry is a good indicator of what is to come. Now many people access their account information and statements online. This is something that no one could have envisioned, even five years ago.

There is every indication that e-communication will keep evolving, allowing plan sponsors to produce more impactful, personalized, and demographically targeted messaging. What CAP sponsors need to realize is that increasing member communication using all available media is not going to improve engagement. That goal is more likely to be achieved by strategically utilizing appropriate media to provide relevant, bite-sized messages that inform and inspire members to take action.

Diane McElroy is a senior vice-president in Aon Hewitt’s Toronto office (diane.mcelroy@aonhewitt.com).
The International Foundation of Employee Benefit Plans’ ’30th Annual Employee Benefits Symposium’ provides information on everything from healthcare reform to retirement, compensation, legal, and economic issues. It takes place October 2 to 5 in San Antonio, TX. Visit: www.ifebp.org/Education/11symp.htm

Social media will share the stage with traditional communications at this year’s ‘Annual Conference of the Insurance & Financial Communicators Association (IFCA).’ This year’s theme is ‘Making Music With Media’ and the meeting will focus on how professional communicators can guide strategic use of all forms of media within their organizations. It takes place October 2 to 5 in Nashville, TN. Visit: www.ifcaonline.com

Connex Health is presenting a workshop designed to help employers with smoking cessation programs. It includes sessions on medications, the quitting process, online support from Smokers’ Helpline, nutrition, and fitness while quitting. It takes place October 4 in Burlington, ON. Visit: www.connexhc.com/

‘Preventing Workplace Meltdown’ will be examined at the ‘15th Annual Health Work & Wellness Conference 2011: A Business Imperative.’ Mary Ann Baynton, program director, Great-West Life Centre for Mental Health in the Workplace, and Dr. Martin Shain, founder and principal, Neighbour at Work Centre, will describe what not to do by sharing actual legal cases that resulted in employers being held legally liable for failing to provide a psychologically safe work environment. They will offer alternative approaches and strategies that could result in fewer workplace meltdowns. It takes place October 4 to 6 in Toronto, ON. Visit: http://healthworkandwellness.com/

Yvon Charest, president and CEO of Industrial Alliance Insurance & Financial Services Inc.; and Blake Goldring, chairman and CEO of AGF Investments Inc.; will be among the speakers at the Investment Funds Institute of Canada’s ‘2011 Annual Conference.’ It takes place October 14 in Toronto, ON. Visit: www.ific.ca/Content/Content.aspx?id=6642

‘Why do quant investors need to look beyond borders?’ will be the focus of ‘Quant Invest Canada 2011.’ It will examine areas such as how the convergence of developed markets affects Canadian investors and the impact of emerging market performance. It takes place October 17 to 19 in Toronto, ON. Visit: www.terrapinn.com/2011/quant-invest-canada/partner-albourne-village.stm

Registration is now open for the ’2011 CPBI Ontario Regional Conference.’ A featured session will be ‘A Lifetime Retirement Savings Limit: Why you need it and how it will completely change retirement saving in Canada.’ It features James Pierlot, of Pierlot Pension Law; Malcolm Hamilton, of Mercer; and William B.P. Robson, president and chief executive officer, C.D. Howe Institute. The conference takes place October 19 to 21 in Ottawa, ON. Visit: www.cpbi-icra.ca/

For a complete listing of upcoming events, visit www.bpmmagazine.com/benefits_events.html

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**STARCH RESEARCH**

Benefits and Pensions Monitor is pleased to announce that the respected STARCH RESEARCH firm conducted face-to-face interviews with BPM readers the research firm selected from our national circulation. The researched issue was October 2010. Interviews were recently completed and the report published in February 2011. We would like to express our thanks to those readers for their time.

**Here are just a few of the results to consider:**

- 81% of our readers keep their copies for future reference.
- Readers pick up the magazine for reading an average of 2.4 times, providing multiple ad exposures.
- MONITOR has a total average readership of 6.7 readers per copy. Just imagine the total potential audience!
- Only 57% of our readers regularly read our closest competitor.

It is our view that all magazine readership research should be dated and sourced by an independent and qualified research firm to be valid.

For more information, please contact John McLaine at 416-494-1066.
“It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to heaven, we were all going direct the other way.....”

Charles Dickens was speaking in ‘A Tale of Two Cities’ of the French Revolution, but he could just as easily have been speaking of the pension market of the past few years. The Organization of Economic Co-operation and Development (OECD) has just released dozens of spreadsheets of data about world public and private pension fund assets. These numbers give us both cause for hope and reasons for despair, and all of this before the market gyrations of August 2011.

The Good:
- Pension funds (both public and private) in OECD countries (generally the developed countries in the world) experienced an average positive net (after expenses) return of 4.3 per cent in nominal terms in 2010. Top performers were the Netherlands and New Zealand, with returns in the low double digits, while Canada was in at 8.5 per cent.
- The result of these two years of positive growth was that most OECD countries had total pension fund assets (in terms of local currency) climb back to December 2007 levels.
- Interestingly, non-OECD countries (lesser developed countries such as Colombia, Peru, Romania, Bulgaria, and Thailand) fared better than OECD countries. Their average 2010 returns were more than twice those recorded for OECD countries and by the end of 2010 pension assets were above December 2007 levels in all major non-OECD countries.
- The United States is still the largest OECD pension market, but its share has declined from 67 per cent in 2001 to 55 per cent in 2010, due to growth in the United Kingdom, Canada, and the Netherlands. As a whole, OECD countries account for 96 per cent of the world’s pension assets, with non-OECD countries coming in at $700 billion or four per cent.
- Looking now at just private pension plans, assets in Defined Benefit plans were roughly equal to those assets held in Defined Contribution plans when looking at all OECD countries.

The Not-So-Good
- Market collapses in 2008 did not result in widespread asset allocation changes. Asset allocations in most countries did not radically shift during this time period (though in Austria, Finland, and Poland equity exposure increased substantially, while in Greece cash and money market instruments increased substantially), but allocations did vary widely from country to country. In most OECD countries, bonds and treasury-type bills were the dominant (more than 50 per cent) asset class. Bonds were also the dominant asset class in non-OECD countries, averaging 55 per cent of total assets.
- Public pension plans underperformed overall averages and thus their private pension plan cousins. Most public funds had positive returns in 2010, but averages were below those reported in 2009. Two countries had negative yearly real rates of return in both 2009 and 2010 – France and Ireland.
- Operating costs for private plans still far exceeded those for public plans. Costs associated with private plans ranged from 10bps to more than 140bps, depending on the country.
- The surprises here are that for many funds, bonds are still the dominant asset class, especially for the OECD countries. It is also surprising that so few funds changed strategies and allocations as a result of the crash. Instead, they waited for the markets to bail them out (which is ultimately what happened). Also there were large similarities between plans in OECD countries, in terms of both asset allocations and ultimately returns. And despite their size and lower operating costs, public funds underperformed.
- The big question is, after all this market turmoil, are funds better positioned for the market gyrations to come? For this, we will have to wait and see.
To be successful in any business, attention to detail is crucial. And this is especially true when it comes to providing retirement services for your employees. At Great-West Life we are completely committed to the highest principles of accountability and providing superior, reliable group retirement services. If you want your group retirement plan to run as smoothly as you wish everything else did, give us a call at 1-800-452-0025 or visit www.grsaccess.com

If we were in reception, the flowers would always be fresh.
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