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PRPPs: Done Like Burnt Toast?

By: Joe Hornyak, Executive Editor

In the late 1970s, as the Toronto Maple Leafs were about to oust the New York Islanders from the NHL play-offs (yes, they used to play something other than golf in the post-season), the immortal Dave ‘Tiger’ Williams declared the Islanders “done like burnt toast.” Pooled Registered Pension Plans (PRPPs), based on the news that Ontario has concerns with this pension coverage solution and would only entertain it in concert with an increase in Canada Pension Plan benefits, would now seem to be “done like burnt toast.”

Critical Component

Curiously, Ontario’s concerns came just days after Quebec announced what many believe to be a template for PRPPs. Its Voluntary Retirement Savings Plans would be mandatory, a critical component missing from the federal government PRPP outline.

Of course, it seems that outline was from 30,000 feet. It turns out that, in typical Canadian fashion, each province was going to be able to put its own spin on them. That alone should be their death knell. As Sun Life Financial’s Hugh Kerr told the Association of Canadian Pension Management’s spring seminar earlier this month, harmonization is critical if these plans are going to be offered across the country. Do any of Canada’s large group insurers want to get involved in a concept that may be isolated to a handful of provinces, each with its own rules? How, then, do they achieve the economies of scale necessary to provide them at a low cost?

The Ontario take is surprisingly logical for something coming out of the mouths of politicians. If you want Canadians to save more for retirement, simply hike the CPP contribution rate and increase the benefit. If you want employers to fund more of retirement savings, same thing.

And not only was the PRPP idea flawed from the start, there are better ideas out there. James Pierlot, a pension lawyer, has been floating the idea of a lifetime retirement savings limit which sets a maximum you can save on a tax deferred basis. Neil T. Craig, a senior pension consultant at Stevenson & Hunt Insurance Brokers Ltd., tweaks this by suggesting you allow employer contributions to RRSPs as a direct contribution with no payroll taxes. Employer adoption is mandatory if there is no other plan.

Mechanism In Place

Maybe this mechanism is already in place, albeit underutilized. The annual contribution limit for RRSPs carries over from year-to-year, similar to Pierlot’s idea. And, the beauty of the RRSP approach is there’s only one set of rules.

Hopefully, this is the last we will hear about PRPPs. We would lament their demise if they were a good idea that failed to find traction. But there was always a whiff of political expediency about them, that governments were only paying lip service to the issue of pension coverage.
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**AEGON**

James Kelly is senior vice-president, institutional sales, at AEGON Capital Management Inc. He will be responsible for building best-in-class solutions for institutional clients. Previously, he was a senior partner with Investeam Canada and managing director, head of fixed income sales, at RBC Capital Markets.

**Mackenzie**

Tony Elavia is executive vice-president and chief investment officer of Mackenzie Financial Corporation (Mackenzie Investments). He previously held progressively senior positions, including CIO and CEO, at a U.S.-based insurance company subsidiary and leadership roles at three asset management firms in the U.S.

**Van Berkom**

Simon Lussier is vice-president, business development and operations, at Van Berkom and Associates Inc. He has more than 20 years of industry experience in the small cap market. Prior to his current appointment, he served as senior vice-president, head of institutional equity, for Laurentian Bank Securities.

**Burke**

Michele Bossi and Sari Sanders are vice-presidents at Burke & Company, a boutique employee benefits consulting firm and claims auditor. Bossi has more than 23 years of experience in the employee benefits industry. Sanders is a lawyer with more than 20 years of experience consulting with clients on all legal aspects of employee benefit programs.

**18 Asset**

Mark Schmeer is joining the advisory board of 18 Asset Management Inc. He recently retired as CIO from Manulife Asset Management.

**CIBC Mellon**

Daniel Yardin is director, equity securities lending, at CIBC Mellon. He will be responsible for leading its international portfolio and further expanding the company’s international equity lending program. Prior to joining CIBC Mellon, he held various securities lending and operations positions in Canada, Australia, and the United Kingdom.

**SSgA**

Dawn Jia is head of active equities for North America for State Street Global Advisors. She was previously responsible for managing the Canadian active equity team. In this expanded role, she will also oversee U.S. active equity strategies.

**ISCEBS**

Wayne Murphy (CEBS) has been elected to serve on the governing council of the International Society of Certified Employee Benefit Specialists (ISCEBS) for a three-year term. The manager, corporate services, at Prudent Benefits Administration Services, Inc. (the PBAS Group) in Toronto, ON, is a fellow of the ISCEBS and has served the society as a member of the professional development committee and as a past president of the Toronto Chapter.

**Industrial Alliance**

Clark Steffy is regional vice-president, sales, group savings, and retirement, for Ontario, the Atlantic region, and Western Canada at Industrial Alliance Insurance and Financial Services Inc. He will be responsible for co-ordinating the efforts of sales teams in Toronto, ON; Vancouver, BC; Calgary, AB; and Halifax, NS.

**BMO Capital**

Charles J. (C.J.) Gavsie is global head of foreign exchange products at BMO Capital Markets. With the firm since 1996, he has held a number of posts including head, Canada FX sales, with responsibility for covering its corporate, institutional, and mid-cap client base. Darryl White is head of global investment and corporate banking. Since joining the company in 1994, he has served in various practices including M&A, diversified industries, and communications and technology. In 2010, he was appointed deputy head, investment and corporate banking, Canada, and global head, equity capital markets.

Submit your People items for consideration for publication in Benefits and Pensions Monitor to:

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Led by veteran portfolio manager Stephen Way, the AGF Global Core Equity Strategy has consistently outperformed the MSCI (All Country) World Index over the past 10 years:

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*Source: AGF Portfolio Analytics, Bloomberg and eVestment Alliance. Rankings and charts are as at December 31, 2011. Performance is in CAD and displays gross-of-fee returns. eVestment Alliance (eA) Global Core Equity Universe is 97.8% populated as of March 20, 2012, the date the charts were created and the rankings were recorded. The total number of active products in the Global Core Equity universe is 273. The AGF Global Core Equity strategy inception date is May 15, 1995. The composite inception date is January 1, 2006.
Drug Pooling Just ‘Starting Point’

The Canadian Life and Health Insurance Association industry drug pooling corporation is just a “starting point,” says Green Shield’s ‘Inside Story.’ The purpose of the drug pooling agreement is to help plan sponsors with fully insured plans to be able to continue to provide their plan members with coverage despite the financial impact of the increasing number of very high cost prescription drug therapies that are hampering the sustainability of employer sponsored health plans. It will require that participating insurers set premiums without reference to the number or value of their high-cost, pooled prescription drug claims. Although the pooling agreement is a starting point, in the longer term, it doesn’t address private plan sustainability for all plans (insured and non-insured) so it does not represent a complete solution, says Green Shield. Instead of immediate relief through passive approaches, it recommends that all plans – regardless of specific design – include sound claim management practices that foster a culture of cost containment and plan member responsibility.

AGF Earns GIPS Compliance

AGF Investments and its institutional investment strategies have achieved GIPS compliance. In addition, it has been independently verified by Pricewaterhouse Coopers LLP as GIPS compliant for the five years ending December 31, 2010. Global Investment Performance Standards (GIPS) are a set of voluntary standards used by industry-leading global investment managers to calculate and report their investment results to prospective clients.

Addenda

The following were not available for the February issue of Benefits and Pensions Monitor’s ‘Directory of Fixed Income Managers:’


Decline Of U.S. DB Overblown

The much publicized demise of the traditional U.S. corporate Defined Benefit pension plan is overblown as more than 70 per cent of participants in a Cutwater Asset Management and aiCIO survey intend to keep their plans open to new entrants. The survey found 72 per cent of respondents currently maintain open plans, while 22 per cent have closed their plans to new entrants. Only six per cent of all sponsors have frozen their plan. It also found a growing percentage of plans are adopting some form of liability-driven investing strategy, although the percentage of plans and allocations remain small; there are emerging differences in asset allocations between those who have already adopted or plan to adopt LDI and those who have no plans to do so; and, on average, the respondents are exposed to an outsized amount of risk, as defined by funded ratio volatility, compared to their stated risk tolerance.

Real Estate Investors More Focused On Income

Real estate investors are more likely than equity and fixed income investors to focus on income, says a global survey of fund managers by Aviva Investors. It found 83 per cent of real estate managers said their clients were more focused on income today than they had been previously, compared with 71 per cent of equity and 67 per cent of fixed income managers. Risk was uppermost in real estate managers’ minds, with 60 per cent citing market and economic conditions as the greatest challenge facing the real estate market. A third of managers said continental European real estate had been ‘overhyped’ and that emerging markets offered poor returns compared with the risks involved.

Longevity Swaps Slowly Growing

Uncertainty around inflation rates and concerns about market volatility have fuelled a steady increase in the number of pension schemes looking to de-risk their strategies over the past 12 months. Yet while the amount of longevity hedges and pensions buyouts continues to rise, numbers of longevity swaps have only just tipped into double figures, says a Clear Path Analysis survey. Its ‘Pension De-Risking: Longevity Hedging and Buying Out’ survey found 60 per cent of respondents indicated their surprise at the slow pace of development with 80 per cent suggesting this was due to costs and complexities of the transactions. Furthermore, 60 per cent of pension schemes stated that counter-party risk is gradually becoming the single most critical issue to address when considering a longevity hedge or buy-out transaction.
We are pleased to announce that Finance Canada has amended the tax measure on past service contributions to an Individual Pension Plan (IPP). This measure was originally introduced in the federal budget. The revised tax measure restores the effectiveness of the IPP as a solution to provide past service benefits to business owners or executives.

We anticipate that only a small number of IPPs will be affected by the new tax measures. Only IPPs for connected members are subject to the new tax measures introduced in 2011 (IPPs for non-connected members are not subject to any of these new tax measures).

Past Service Contributions

One of the advantages of an IPP is the ability of the sponsoring company to make tax deductible contributions to the plan. Generally, past service contributions to the IPP are permitted to capture years of service as if the individual had been a member of the IPP in the past.

A past service contribution consists of two parts:

- A transfer of assets from the member’s registered assets (RRSP, RRIF, LIRA, and/or money purchase pension plan assets) into the IPP, calculated in accordance with Canada Revenue Agency (CRA) rules and/or the giving up of unused RRSP contribution room
- A ‘top-up’ contribution from the company that is deductible for corporate tax purposes

Under the rules proposed earlier, the cost of past service was to be first satisfied by transfers from any registered assets belonging to the IPP member and/or a reduction in their unused RRSP contribution room. Only then would past service contributions from the company have been permitted. Following the recent changes, only a portion of the member’s registered assets will be considered to determine the qualifying transfer amount required to fund past service benefits.

This revised calculation to determine the qualifying transfer will preserve full past service benefits for the vast majority of plans, thus reinstating one of the IPP’s main benefits – the ability to have the sponsoring company, not the individual, fund a generous pension benefit for past years of service on a tax-deductible basis.

Minimum Withdrawals

For each year after a plan member attains age 71, the minimum annual amount to be withdrawn from an IPP starting in 2012 is equal to the greater of the following amounts:

- The amount of pension based on the terms of the plan
- The minimum withdrawal required from registered retirement income funds (RRIFs)

We feel that the IPP is still one of the best-kept secrets in retirement planning for entrepreneurs and executives. It is certainly a profitable tool for high-income individuals to accumulate additional retirement income.
Digestive disorders afflict more than 20 million Canadians each year. However, few sufferers feel comfortable speaking openly about digestive disorders and their influence on quality of life and productivity are often misunderstood and underestimated by health authorities, employers, family members, and the general public.

To paint a more realistic picture, here are a few facts from the Canadian Digestive Health Foundation:
- Digestive disorders cost $18 billion in healthcare costs and lost productivity
- 10 per cent of all hospitalizations in Canada are related to digestive disease
- The prevalence of Canadians with medically diagnosed bowel disorders has doubled over the past 10 years

Although they all have different causes, symptoms, and treatments, irritable bowel syndrome (IBS), Crohn’s disease, lactose intolerance, and gluten intolerance fall under the spectrum of digestive disorders. Each is a life-changing disorder that causes restriction and hardship, not only in an individual’s personal life, but in their professional life as well.

Irritable Bowel Syndrome

It is estimated 5 million Canadians suffer from Irritable Bowel Syndrome, making it the most common intestinal problem. An individual with IBS misses an average of 13 work days annually, which represents $8 billion of lost productivity per year. To offset this, sensitive employers can try to accommodate IBS sufferers in the workplace.

Because stress worsens IBS symptoms, lowering your employees’ tension can be key. Consider starting workshops for deep breathing exercises, visualization, or progressive muscle relaxation. Time management courses may also reduce anxiety and help stop the symptoms before they start. Obviously, these types of interventions are also good for many other employees to improve overall health and wellness so there is no need for disclosure or embarrassment about attending.

Crohn’s Disease

Crohn’s disease is an inflammatory bowel disease that typically affects the intestines. While its exact cause is unknown, Crohn’s is linked to the body’s immune system and is marked by periods of improvement followed by flare-ups. As such, it is an unpredictable condition.

The majority of Crohn’s sufferers will require hospitalization at some point and more than half will need surgery. So medical leaves will likely be required for employees with this condition. Allowing time off for flare-ups, flexible hours, or telecommuting when necessary would help both the worker and their workplace productivity.

Lactose Intolerance

More than 40 per cent of Crohn’s disease patients have also developed lactose intolerance which, simply enough, is the inability to digest lactose – a type of sugar found in dairy products. What can be done? Have buttermilk and cheeses, fermented milk products, goat’s milk, and lactose-free milk, and cream as alternatives in your cafeteria as they are easier to digest. As milk and lactose are often hidden within foods, make an effort to have these labelled properly in your lunch room. And be sure to offer lactose-free options when planning birthday celebrations, treats, and office lunch events.

Gluten Allergy

Twenty-five per cent of patients identified as lactose intolerant also have a gluten allergy, which affects about one per cent of the population. Gluten is found in wheat, barley, and rye and occurs when a sufferer’s immune system reacts negatively to the presence of gluten. If you know someone has a gluten allergy at your office, make an effort to label items that contain wheat, rye, or barley in your cafeteria or office refrigerator.

Unfortunately, digestive disorders are relatively common afflictions and affect millions of people. It is likely that you have employees suffering from one or more of these conditions, whether you know it or not.
To state the obvious, investing in U.S. equities has not been rewarding lately. Markets have been volatile and the bursting of sequential bubbles in technology and housing has left U.S. stocks about where they were more than a decade ago. This lost decade in stocks reflects the strong perception that the U.S. economy is stalled and that its politicians are not up to the task of getting it back on track. Inevitably, some people are even asking if the U.S. is headed for a protracted Japan-style malaise.

While Japan’s ‘lost decade’ may seem the perfect analogy for what’s happening in the U.S. today, we see only superficial similarities. As we will discuss, the most damaging factors behind Japan’s lethargy either don’t apply to the U.S. or are far less burdensome. More important, U.S. growth prospects are brighter.

No ‘Japan-ification’ Here
A cursory look at U.S. economic conditions reveals a number of eerie parallels to events in Japan over the past two decades. Like Japan, the collapse of a credit-driven asset bubble in the U.S. led to massive banking-system losses, persistent unemployment, and weak economic growth. However, there are important differences which fall into three main categories – faster post-crisis deleveraging, lower deflation risk, and better demographics.

Unwinding the enormous debt amassed during the global credit bubble is the biggest challenge facing the U.S. and most developed economies. Though it still has a long way to go and risks remain high, the deleveraging of the U.S. economy has made significant strides. U.S. household debt has fallen sharply, both as a percentage of disposable income and, in absolute terms, largely due to defaults. It has even returned to its long-term trend. Corporate debt, the more significant problem for Japan, was never much of an issue in the U.S. and U.S. financial institutions have been deleveraging for the past four years.

A key factor behind the U.S.’s deleveraging success has been its ability to sustain economic output, largely resulting from aggressive monetary actions (by lowering borrowing costs and weakening the dollar, which boost exports) and rising fiscal deficits (by maintaining government spending as businesses and households cut back, even as tax revenues plunged).
Though daunting, the scale of the U.S. debt problem is much smaller than Japan’s, in part because asset prices never became so inflated. At their respective bubble peaks, equity and real estate values in Japan were roughly two times those of the U.S., as a percentage of disposable income. Further, in Japan, aggregate income was falling along with asset prices, while debt loads remained constant. In the U.S., aggregate income has grown as debt levels and service costs have declined, further easing the burden.

In another key difference, the U.S. moved much more swiftly than Japan to scale back bubble-driven leverage of its banking system. In Japan, the government propped up ‘zombie’ banks for over a decade, unwilling to face the losses. Banks in the U.S. were forced to write off much of their toxic mortgage assets.

Though the deleveraging road in the U.S. is likely to be long and hard, we expect a virtuous cycle of strengthening economic activity and rising tax revenues to ultimately help bring the fiscal picture back into better balance. History shows that the faster a country deleverages after a financial crisis, the less overall damage to the economy and the better the prognosis for future growth.

Less Deflation Risk

Deflation is a destructive force. Once it takes root, as it has in Japan, it becomes self-reinforcing and extremely difficult to dislodge. It also makes it much harder to dig out from under excess debt.

Federal Reserve Chairman Ben Bernanke’s academic career focused on this very issue. Applying the lessons learned from Japan’s experience and the U.S. Great Depression, the Fed moved quickly and aggressively to combat deflationary pressures at the onset of the recession, injecting massive liquidity into the financial system via ultralow interest rates and quantitative easing. Though the Japanese ultimately followed the same path, it took more than a decade to get started, far too late to outrun expectations of deflation.

Today, U.S. inflation is showing signs of picking up and expectations remain positive. In measured doses, this is a good thing. With nominal interest rates so low, this leaves real rates negative. While terrible for savers, this stimulates consum-
tion and investment and helps recapita-

tize banks as they earn carry on their

higher-yielding investments.

**Better Demographics**

An economy faces structural problems if there are not enough workers to gen-
erate tax revenue to support retirement and other entitlements. In combination
with longer life spans, this demographic imbalance sets up an actuarial nightmare,
and lies behind many of the problems fac-
ing not just Japan, but Continental Europe
and many other Asian nations.

In contrast, the ratio of working popula-
tion to non-working in the U.S. is higher
than in Japan and will remain higher for
decades to come as the U.S. working age population continues to grow, both
because of a higher birth rate, and a more
open immigration policy.

In the U.S., stimulative monetary
policy and corporate restructuring are
beginning to bear fruit. Indeed, corpo-
rate profits have eclipsed pre-crisis lev-
eels. Meanwhile, the financial health of
American corporations has never been
better. Net debt is at an all-time low, rela-
tive to both assets and equity, and cash
balances as a share of total assets are at
an all-time high.

Many counter that the current level
of corporate earnings is simply unsus-
tainable. But, while margins are at
record levels, profit levels are on track
with the historical trend, not excessive.
So far this cycle, the lion’s share of the
margin expansion has come from rising
labour productivity and reduced capital
spending. Hence, even a small economic
tailwind would allow revenue growth to
rise on some of the lifting.

It’s not hard to make the case for fur-
ther profit growth. Consensus forecasts
are for nominal GDP growth of four per
cent, which has historically translated into
public company revenue growth of five
per cent. Assuming flat margins, earn-
ings can grow at least as fast as revenues,
and faster if the economy surprises on the
upside, which we believe it can. Tapping
the enormous financial firepower of cash-
rich, low-debt U.S. balance sheets could
provide yet another shot in the arm as
companies continue to invest in growth-
boosting initiatives and buy back shares.

Even so, stocks don’t necessarily need
earnings growth to do well. While earn-
ings growth and stock returns are related
over the long term, research going back
to 1938 shows virtually no correlation
between the two in any given year. Some
of the best years for stocks have occurred
when earnings.

Our suspicion is that the pushback
about profits is mostly an attempt to ration-
alize what is really an emotional issue –
investors are just afraid of the recent vola-
tility of stocks, volatility that is driven by
a lack of faith in future growth.

**Opportunity Cost**

For many investors, stock valuations,
while attractive versus history, still don’t
seem compelling enough to compensate
for the extreme uncertainties in the world
today. But investing is also about oppor-
tunity cost. Versus bonds, we think the
opportunity in equities has rarely been as
proactive as it is today. As a case in
point, the earnings yield of U.S. stocks –
a measure of cash earnings relative to
stock prices, adjusted to smooth out the
effect of business cycles – is exception-
ally high compared to the yield on Treas-
uries. In our view, the earnings yield
gap indicates that stocks are more than
amply compensating investors for the
greater risks of owning stocks relative to
Treasurys. We come to a similar conclu-
sion when looking at S&P 500 stock div-
idend yields, which are now identical to
10-year Treasury yields. By our reading,
the closing of the gap reflects investors’
lack of faith in future earnings growth.

But, as we noted before, corporate
balance sheets are overflowing with sur-
plus capital, much of which we expect
to be returned to shareholders in the
form of dividends or share repurchases.
What’s more, dividend payout ratios are
at all-time lows – 29 per cent of earn-
ings versus a long-term average of 42
per cent – which gives dividends room
to grow even if earnings do not. But we
do think earnings will grow.

At 14.5 times trailing earnings, U.S.
stocks are trading about even with the
average of 14.2 times since 1980. But,
with interest rates so low, the discount
for future earnings makes them worth
even more. In periods when the yield on
10-year Treasuries has been below four
per cent, stocks have sold at an average
of 19 times trailing earnings, consider-
ably higher than today’s level.

As we see it, these valuations do not
even begin to do justice to current earn-
ings, much less discount any future
growth. That’s because markets are for-
ward-looking. It’s also because of the all-
too-human inability to envision a future
that looks any different than the present.
For now, all that investors can see are rea-
tions to worry and to steer clear of stocks.

**Scariest Scenarios**

We don’t need robust economic or
corporate profit growth for stocks to
outperform. What we need is for some
of the scariest scenarios to be taken off
the table, and for anxiety to subside.
The recent rally in U.S. equities is about
just that. The European Central Bank’s
long-term lending operation dramati-
cally reduced the risk of liquidity-driven
transfer of Europe’s problems to U.S.
banks.

We think that investors are at a turn-
ning point – they crave safety, but safe
assets aren’t looking too safe these days.
They are also unlikely to generate the
kinds of returns that investors want and
need. Doing that will require taking on
more risk, and equities are the quintes-
sential risk asset. Though near-term
uncertainty remains high, companies are
more profitable and in better financial
shape than before the crisis, and stocks
remain attractively valued.

Meanwhile, with dividend yields
where they are today, investors are being
paid to wait. Equities also offer a strong
potential source of income as we expect
companies to continue using their large
cash hoards to raise dividends and buy
back their own stock. Apparently, they
are less shaken by world events than
equity investors!

**Joseph Gerard Paul** is chief investment offi-
cer, U.S. large cap value equities, and Chris-
topher W. Marx is senior portfolio manager,
value equities, at Alliance Bernstein.

**BPM**
AN OPEN LETTER TO CANADIAN PENSION PLAN SPONSORS, FOUNDATIONS, ENDOWMENTS AND THEIR ADVISORS

You may never look at risk the same way again

The traditional investment objective is to maximize returns at an acceptable level of risk. But with today’s uncertainty and market volatility, risks can quickly become unacceptable. And with the mounting pressure to meet funding obligations and liabilities, can you really afford to take chances?

For decades, TD Asset Management has developed risk reduction solutions for institutional investors. Our latest innovation is TD Emerald Low Volatility – a new category of equity strategy premised on a simple but powerful fact:

A low volatility equity portfolio can produce competitive returns with up to 30% less risk.¹

Simply put, some of the least volatile equities have produced some of the most impressive returns over time. At TD Asset Management, our proprietary risk models harness this phenomenon to help our clients pursue the returns of domestic and global equity markets with significantly less volatility.

At a time when traditional benchmarks no longer reflect the full complexity of risk, we’d like to show you a new way of thinking. Call me to find out why some of Canada’s leading institutions have already committed over one billion dollars to the TD Emerald Low Volatility equity strategy.

Yours truly,

Robin Lacey
Vice Chair, TD Asset Management
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¹Based on simulated and live returns of 21 years of Canadian equity history and 13 years of global equity history ending September 30, 2011. Actual returns may vary.

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Keith Smith, President, GE Asset Management Canada; 2300 Meadowvale Blvd., Mississauga, ON L5P 9P9 Ph: 905-858-6683 Fax: 905-858-5187 eMail: keith.smith@corporate.ge.com Web: www.geam.com Managed US Since: 1988 (Under its former name, GE Investment Management Incorporated, its predecessors or organizations have been managing investments for its employee pension and benefits plan for more than 80 years) Other Assets Managed: Equities: International (EAFE), Emerging Markets, Frontier Markets, Global, Europe, China, India, Canadian; Private Equity; Real Estate; Fixed Income

GLC ASSET MANAGEMENT GROUP LTD.

GUARDIAN CAPITAL LP
Joyce Hum, Vice-president, Consultant Relations; Commerce Court W., Ste. 3100, Toronto, ON M5L 1B8 Ph: 416-350-3146 Fax: 416-364-9634 eMail: jhum@guardiancapital.com Web: www.guardiancapitallp.com Managed US For: 9 years Other Assets Managed: EAFE, Global, Global GIS

HILLSDALE INVESTMENT MANAGEMENT INC.
Allan Hutton, Vice-president, Institutional Investment Services; 100 Wellington St. W., Ste. 2100, Toronto, ON M5K 1J3 Ph: 416-913-3946 Fax: 416-913-3901 eMail: ahutton@hillsdaleinv.com Web: www.hillsdaleinv.com

INDUSTRIAL ALLIANCE
Rene Lalflamme, Vice-president, Group Savings & Retirement; 1080 Grande Allee W., Quebec City, QC G1K 6M3 Ph: 418-684-5252 Fax: 418-684-5187 eMail: renee.lalflamme@inalco.com Web: www.inalco.com Passive Products: BlackRock US Index Relationships: MFS, Battery March, Jarislowsky Fraser - Third Party; In-house Manager (Industrial Alliance) Managed US For: 5 years Other Assets Managed: EAFE, Global

INTEGRA CAPITAL LIMITED
Renee Laflamme, Vice-president; 2 Queen St. E., 19th Floor, Toronto, ON M5C 3G7 Ph: 416-681-6679 eMail: renee.laflamme@inalco.com Web: www.inalco.com Passive Products: MFS, Battery March, Jarislowsky Fraser - Third Party; In-house Manager (Industrial Alliance) Managed US For: 5 years Other Assets Managed: EAFE, Global

J.P. MORGAN ASSET MANAGEMENT (CANADA)

INTEGRA CAPITAL LIMITED

INTREGA CAPITAL LIMITED

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18 Benefits and Pensions Monitor | April 2012

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JANUS CAPITAL GROUP INC. Susan Oh, Senior Vice-president, Head of Janus Capital Institutional; 151 Detroit St., Denver, CO 80206 PH: 800-227-0486 Fax: 303-394-7697 eMail: institutional@janus.com Web: www.janusinstitutional.com


JARISLOWSKY FRASER LIMITED Peter Godec, Partner; 20 Queen St. W., Ste. 3100, Toronto, ON M5H 4R8 Phone: 416-363-7417 Fax: 416-363-8079 eMail: pgodec@jfj.ca Web: www.jfl.ca Managed US For: ~50 years Other Assets Managed: EAFE & Global (not including Canadian Mandates)

LEG MASON CANADA INC. David Gregoire, Managing Director, Head of Distribution; 220 Bay St., 4th Floor, Toronto, ON M5J 2W4 PH: 416-594-2979 Fax: 416-860-6628 eMail: dgregoire@leggmasoncanada.com Web: www.leggmasoncanada.com


LINCLUDEN INVESTMENT MANAGEMENT Wayne Wilson, Vice-president; 1275 North Service Rd. W., Ste. 607, Oakville, ON L6M 3G4 PH: 905-825-3543 Fax: 905-825-9525 eMail: wayne.wilson@lincluden.net Web: www.lincluden.net Managed US Since: 1982 Other Assets Managed: Canadian Bonds of varying mandates including Universe, Short Duration, Long Duration, Liability Matching, & Real Return; All Capitalization of Canadian, US, EAFE, & Global Equities


MANULIFE ASSET MANAGEMENT Adam Neal, Head of Canadian Sales & Relationship Management; 200 Bloor St. E., Toronto, ON M4W 1E5 PH: 416-852-7498 Fax: 416-926-5700 eMail: adam_neal@manulife.com Web: www.manulife.com Passive Products: US Equities, Canadian Equities, DEX Universe Bonds Managed US Since: Late 1800s Other Assets Managed: Canadian Equity, Global Equity, EAFE Equity, Domestic & Foreign Fixed Income (including Money Market & Mortgages), Emerging Markets, Balanced, Alternative (including Real Estate, Timber, Agriculture, Oil, Gas)

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MFS MCLEAN BUDDEN Christine Girvan, Managing Director; 145 King St. W., 25th Floor, Toronto, ON M5H 1B8 Phone: 416-361-7273 Fax: 416-862-0167 Email: cgirvan@mfs.com Web: www.mcleandbudden.com Relationships: McLean Budden is wholly-owned subsidiary of MFS investment Management Managed US Since: 1996

MONTRUSCO BOLTON INVESTMENTS INC. Richard Guay, Senior Vice-president; 1501 McGill College Ave., Ste. 1200, Montreal, QC H3A 3M8 Phone: 514-842-6464 Email: guary@montruscobolton.com Web: www.montruscobolton.com Passive Products: S&P 500 Index Other Assets Managed: EAFE, Global

NORTHERN TRUST GLOBAL INVESTMENTS David Lester, Vice-president; 1910-145 King St. W., Toronto, ON M5H 1A9 Phone: 416-775-2215 Fax: 416-366-2033 Email: david.lester@ntrx.com Web: www.northerntrust.com Passive Products: Manages Equity Index accounts on separately managed account basis; through its global platform has pooled funds for S&P 500, MSCI World, MSCI Emerging Markets Index strategies Relationships: Active US Equity programs in Canada consists of third-party investment firms via Manager of Managers program Managed US Since: 1979 Other Assets Managed: EAFE, Emerging Markets, World Equity, US Dollar Cash


PIMCO CANADA CORP. Andrew Forsyth, Senior Vice-president; 120 Adelaide St. W., Ste. 1901, Toronto, ON M5H 1T1 Phone: 416-368-3349 Fax: 416-368-3576 Email: andrew.forsyth@pimco.com Web: www.pimco.ca Relationships: PIMCO LLC, Newport Beach, CA - Parent company Managed US Since: 1971 Other Assets Managed: Global Bonds, Emerging Markets Bonds, High Yield Bonds, Investment Grade Corporate Bonds, Inflation-linked Bonds; Single Country/ Regional Bonds, Synthetic Real Estate, Synthetic Commodities, Tactical Asset Allocation, Fixed Income Hedge Fund Style, Tail Risk Strategies, Global Equity


SPRUCEGROVE INVESTMENT MANAGEMENT LTD. Marcel Leroux, Vice-president, Marketing; 181 University Ave., Ste. 1300, Toronto, ON M5H 3M7 Phone: 416-363-5854 Fax: 416-363-6803 Email: mlou@sprucgrove.ca Managed US Since: 2001 Other Assets Managed: International (EAFE) Equities, Global (World) Equities


PHILLIPS, HAGER & NORTH INVESTMENT MANAGEMENT LTD.* John Skeans, Vice-president; 200 Burrard St., Vancouver, BC V6C 3N5 Phone: 604-408-6000 Fax: 604-685-5712 Email: data@phn.com Web: www.phn.com Managed US For: 47 years Other Assets Managed: Canadian & EAFE Equities, Canadian Fixed Income Mandates

PHILLIPS, HAGER & NORTH INVESTMENT MANAGEMENT LTD. *Part of RBC Global Asset Management

RUSSELL INVESTMENTS CANADA Dexton Blackstock, Director, Head of Institutional Business Development; 100 King St. W., Ste. 5900, Toronto, ON M5X 1E4 Phone: 416-640-6202 Fax: 416-362-4949 Email: dblackstock@russell.com Web: www.russell.com/ca Relationships: Cornerstone Capital Management; First Eagle Investment Management; Institutional Capital LLC (ICAP); Levin Capital Strategies; LP; Montag & Caldwell; Schneider Capital Management Managed US Since: 1994 (Russell Canada) Other Assets Managed: Canadian Equity, Canadian Fixed Income, Core Plus Fixed Income, Overseas Equity, Global Equity, Emerging Markets Equity, Money Market, Balanced Portfolios

MANAGERS OF U.S. ASSETS FOR CANADIAN PLAN SPONSORS ANNUAL REPORT & DIRECTORY

22 Benefits and Pensions Monitor | April 2012

Go to page 3 CONTENTS
MANAGERS OF U.S. ASSETS FOR CANADIAN PLAN SPONSORS

ANNUAL REPORT & DIRECTORY

T. ROWE PRICE

TRIASIMA INC.

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 Managed US Since: 1981 Other Assets Managed: Global, EAFE, & Regional Equity, Global Fixed Income; Real Estate; Infrastructure; Hedge Funds

VAN BERKOM AND ASSOCIATES INC.

WELLINGTON MANAGEMENT COMPANY, LLP
Susan Pozer, Vice-president & Director, Global Relationship Group - Canada; 280 Congress St., Boston, MA 02210 Ph: 617-951-1000 Fax: 617-263-4100 eMail: smpozer@wellington.com or mig@wellington.com Web: www.wellington.com Managed US Since: 1928 Other Assets Managed: Range of Equity, Fixed Income, Currency, Specialty, Alternative, Asset Allocation, Multi-strategy investment approaches (including Global, EAFE, Emerging Markets, Single Country, & Regional mandates)

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anita.lieberman@bmo.com
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## MANAGERS OF U.S. ASSETS
### FOR CANADIAN PLAN SPONSORS
### STATISTICAL LISTING

<table>
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<tr>
<th>COMPANY</th>
<th>Canadian Clients</th>
<th>Large Cap Value</th>
<th>Mid Cap Value</th>
<th>All Cap Value</th>
<th>Core Bonds</th>
<th>Passive</th>
<th>Bonds Active</th>
<th>Bonds Passive</th>
<th>Real Estate</th>
<th>Cash</th>
<th>Short-term Securities</th>
<th>Total US Assets</th>
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26 & 27 Benefits and Pensions Monitor | April 2012

Go to page 3 CONTENTS
The financial crisis has damaged the revenues, profits, share price, and reputation of banks of all kinds. And, it has left global custodian banks facing a particularly awkward dilemma – one largely of their own making.

The original attraction of the custody business to the management and shareholders of commercial banks was its annuity fee based revenue stream where investors paid them to safekeep and service their assets, rather than net interest margin on lending which is the normal commercial banking model. As well, the low level of capital consumption (because the assets belong to the investors they are held off the balance sheet) was another attraction.

Unfortunately, even fiduciary possession of assets presents bankers – whose business is built on using the property of their customers to generate profits for themselves – with a constant temptation. So, from the 1980s onwards, when the global custody business was invented, custodian bankers succumbed to it.

Fallen Dramatically
During this time, safekeeping fees fell dramatically. The fees dropped from around 20 basis points in the mid-1990s to less than one basis point today for Canadian custody, for example. What made this possible was, partly, the competition between the global custodians, despite the consolidation in the industry. In recent years, the providers, in their pursuit of economies of scale, have consolidated to the point where just four banks now look after three-quarters of the value of assets in global custody.

Part of the shrinkage in fees reflected increased productivity in the industry. Throughout the 1980s, there was the development of the market infrastructure with the introduction of central securities depositories and the immobilization or dematerialization of securities.

In more recent years, despite vast expenditure on technology and outsourcing of processing tasks to low cost jurisdictions such as India, the difficulty of integrating the clients, staff, and systems of a constant series of acquisitions has undermined efficiency. What enabled the global custodians to pare safekeeping fees over the last 10 years, while still increasing profitability year on year, was neither competition nor efficiency, but old-fashioned banking practices – namely, the lending of the assets of clients to third parties and benefiting from clients when they engaged in transactions. From the 1990s onwards, global custodians developed a model of business which entailed using the core services of safekeeping and asset servicing as loss leaders to attract assets which could be used for fees in the securities lending markets and for spreads in the markets for cash and foreign exchange.

Unfortunately, it gave the global custodian banks with a revenue model geared to the amplitude of the economic cycle.

Shrunk Significantly
Earnings from cash depend on the margin between the price at which a bank
funds itself and the price at which it can lend money in the marketplace. With short-term interest rates deliberately held at very low levels by central banks in many countries, that margin has shrunk significantly.

Revenue from foreign exchange trading, which likewise depends on the spreads between currency pairs as well as the volume of transactions, is down by more than a third in the same period.

But even this steep decline is eclipsed by the collapse of revenues from securities lending, which are down since the end of 2008 in excess of 70 per cent.

In retrospect, it is obvious that the apparently buoyant earnings of the global custodians in the run-up to the start of the crisis in 2007 were dependent on loose monetary conditions, positive rates of interest and rising equity markets, and the securities trading and investment, leverage, short-selling, and cross-currency transactional activity they stimulated. Today, even the fees earned from safekeeping, transaction processing, and asset-servicing are lacklustre, since the majority are not fixed or transaction-based, but ad valorem. Gearing revenues to market values sold to clients in the bull market as reasonable compensation for the risks being taken on their behalf, has not worked in the directionless markets of the last 10 years. Servicing fees still account for three-quarters of the revenues earned by the global custodians, but they have at best stood still in recent years. And if getting them back up again seems the obvious solution to the shrinkage of income from cash, foreign exchange, and securities lending, it is hard to implement in the tough economic conditions clients find themselves.

The majority of global custodians are reviewing their fee structures and schedules, as well as considering alternative ways of charging clients. All are caught between the benefits of missing a market upturn if they ditch ad valorem fees and the fear of a permanent stagnation of revenue if they do not charge clients properly for the services that they supply. At present, there are the first signs of banks daring to renegotiate fees. However, those global custodians that have attempted to unbundle and increase fees in competitive tender situations have found competitors are still willing to pursue the old model of virtually giving the core safekeeping services away in the expectation or hope of getting paid from ancillary earnings. This caution is understandable. Raising prices is harder than cutting them. A switch from riskier, cyclical rewards in the markets to a more reliable, but less exciting, fee income model might also lead to a re-rating of the business by staff as well as shareholders. But developments in the external environment mean that decisions on fee levels and structures cannot be postponed much longer.

Chief among them is the changing attitude of the institutional clients of the global custodians. Certain episodes in the crisis, notably the collapse of Lehman Brothers and the Madoff fraud, have taught them that asset safety cannot be taken for granted even at a major global custodian. Losses incurred on the reinvestment of cash collateral received in securities lending transactions (which were not indemnified by the lending agent) have alerted them to the boundaries of the indemnities offered by global custodians. The more diligent institutional investors now also understand that a relationship with a global custodian exposes their assets to a host of downstream risks, against which they are not indemnified by the global custodian. They want global custodians to absorb a higher proportion of these risks. However, the challenges faced by investors – which for pension funds include deficits inflated by poor investment performance and the low rates of interest applied to their liabilities – mean they are seeking lower fees, not higher ones from their custodian.

Dissimilar Pressure

Regulators are also exerting pressure. In a case now notorious throughout the custody industry, the French authorities insisted that a pair of global custodian banks make good losses incurred by three institutional investors in collective investment schemes for which they were depositories who invested via prime brokerage agreements with Lehman Brothers, even though the depositories played no part in the investment decisions.

In other words, regulators are forcing global custodians to assume a higher level of risk at a time when the fees they charge are at an historic low and their ancillary revenues have yet to recover from the financial crisis.

Regulatory pressure is also seen in the new capital adequacy regime being put in place and the ‘stress-testing’ of banks. This has resulted in much higher capital ratios being required for the custodian banks than was historically the case.

Secular Changes

These secular changes in the marketplace, with the reduction in market-based revenues and the implementation of significant new regulation, are why it is increasingly hard to see how the global custodians can avoid adapting their fee levels and structures to new realities. Instead, they have stuck to a strategy of cost reduction by consolidation and offshoring. By these means, they have elected to grow profitability by increasing scale and reducing cost. Now, squeezed from the top by institutional clients alerted by the crisis to custodial risk and by litigation to the hidden costs of custodial services, and from the bottom by an infrastructure of central securities depositories and central counter-party clearing houses trading at utility prices, global custodians face a significant challenge in persuading institutional investors that the services they offer are worth the fees they currently charge, let alone an increase in fees.

Roger Fishwick,
is director, investor services, at Thomas Murray
rfishwick@thomasmurray.com

Linda Bernard, is senior vice-president, North America, at Thomas Murray
lbernard@thomasmurray.com
GLOBAL CUSTODIANS
ANNUAL DIRECTORY

CANADIAN WESTERN TRUST
600 - 750 Cambie St., Vancouver, BC V6B 0A2 Contact: Matt Colpitts, Vice-president & General Manager Phone: 604-699-4858 Fax: 604-699-4902 eMail: matt.colpitts@cwt.ca Website: www.cwt.ca
Pension Assets Under Administration (In Canadian Dollars as of Dec. 31, 2011): Canadian: $3,397.5M; Total: $3,397.5M
Number of Canadian Clients: 539
Services Offered: Contractual Settlement, Internet Reporting, Proxy Voting, Benefits Administration, Accounting
Currencies Reported: 104
Global Networks: 104 countries, 104 covered by sub-custodians
Client Workstation Technology and Capabilities: Provides account information to users 24/7 via a secure internet site that includes transaction summaries, forms, consolidated reports, benefit payments information, plan holdings statements, and news and account statements. The site also includes a ‘Help’ section that provides page-by-page support to users.

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: 416-643-6400 eMail: david.linds@cibcmellon.com Website: www.cibcmellon.com
Services Offered: Securities Lending, Performance Measurement, SWIFT Interface, Cash Projection Reports, Contractual Settlement, Daily Compliance Monitoring, Internet Reporting, Portfolio Analytics, Fund Valuation, Tax Reclamations, Electronic Trade Affirmation, Trade Date Settlements, Proxy Voting, Accounting, Risk Measurement, FX, Cash Management
Currencies Reported: 73
Global Networks: 94 countries, 32 covered by sub-custodians, 1 by firm
Client Workstation Technology and Capabilities: Offers web-based transaction and engine that provides consolidated information on a near real time basis.

CITIBANK CANADA
123 Front St. W., Toronto, ON M5J 2M3 Contact: Donald King, Director, Client Sales Management Phone: 905-212-8988 eMail: donald.king@citi.com Website: www.citi.com
Pension Assets Under Administration (In Canadian Dollars as of Dec. 31, 2011): US: $1.5T; Non-north American: $3.7T; Total: $5.3T
Minimum Fund Size: $101M to $500M
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
Currencies Reported: 73
Frequency of Multi-currency Valuations: Daily, Weekly, Monthly
Global Networks: 94 countries, 32 covered by sub-custodians, 1 by firm
Client Workstation Technology and Capabilities: Offers web-based transaction and engine that provides consolidated information on a near real time basis.

DESJARDINS TRUST
1 Complexe Desjardins, succ. Desjardins, Montreal, QC H8B 1E4 Contact: François Gagnon, Vice-president Phone: 514-286-5807 Fax: 514-286-3168 eMail: francois.f.gagnon@desjardins.com Website: www.desjardins.com
Number of Canadian Clients: 357
Services Offered: Securities Lending, Performance Measurement, Cash Projection Reports, Contractual Settlement, Daily Compliance Monitoring, Internet Reporting, Portfolio Analytics, Fund Valuations, Tax Reclamations, Electronic Trade Affirmation, Proxy Voting, Benefits Administration, Accounting, FX, Unitholder Record Keeping
Currencies Reported: All assets’s local currencies are reported
Frequency of Multi-currency Valuations: Daily
Global Networks: 109 countries, 107 covered by sub-custodians, 2 by firm
Acts as Canadian Sub-contractor for: Yes, available on request

NATIONAL BANK TRUST
1100 University, 12th Floor, Montreal, QC H3B 2G7 Contact: Robert A. Daigneault, Vice-president Phone: 514-871-7361 Fax: 514-871-7147 eMail: robert.daigneault@bnc.ca
Website: www.bnc.ca
Number of Canadian Clients: 82
Services Offered: Securities Lending, SWIFT Interface, Cash Projection Reports, Contractual Settlement, Currency Hedging, Directed Brokerage, Internet Reporting, Fund Valuation, Tax Reclamations, Electronic Trade Affirmation, Fail Float, Trade Date Settlements, Proxy Voting, Benefits Administration, Accounting, FX, Cash Management
Currencies Reported: 62
Frequency of Multi-currency Valuations: Daily, Weekly, Monthly
Alliances With Money Managers for DC Plans: Natcan Investment Management Inc.
Affiliations with Other Custodians: Bank of New York Mellon
Global Networks: 62 countries, 62 covered by sub-custodians
Acts as Canadian Sub-contractor for: Yes, available on request

NORTHERN TRUST COMPANY, CANADA, THE
145 King St. W., Ste. 1910, Toronto, ON M5H 1J8 Contact: Rob Baillie, President & CEO Phone: 416-775-2217 Fax: 416-365-9484 eMail: rjb@ntrc.com Website: www.nortburntrust.com
Number of Canadian Clients: 68

For complete directory information, visit
www.bpmagazine.com/benefits_directories.html
Minimum Fund Size: $100M
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 Confirmation, Fail Float, Trade Date Settlements, Proxy Voting, Benefits Administration, Accounting, Risk Measurement, FX, Cash Management, Outsourcing Solutions for Institutional Investors, Provider of Administration & Middle Office Services for Hedge Funds & Institutional Investors with Complex Portfolios
Currencies Reported: Reports in all base currencies
Frequency of Multi-currency Valuations: Daily
Global Networks: 89 countries, 85 covered by sub-custodians, 4 by firm
Client Workstation Technology and Capabilities: Offers a client information system that integrates the firm and third-party information and analysis via industry’s portal, giving clients the ability to collect key plan investment information in a customizable format.

RBC DEXIA INVESTOR SERVICES
155 Wellington St. W., 10th Floor, Toronto, ON M5C 3G6
Contact: Kevin Drynan, President and CEO
Phone: 647-775-7777  eMail: kdrynan@statestreet.com
Website: www.statestreet.com
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 Confirmation, Fail Float, Trade Date Settlements, Proxy Voting, Benefits Administration, Accounting, Risk Measurement, FX, Cash Management
Frequency of Multi-currency Valuations: Daily, Weekly, Monthly
Affiliations with Other Custodians: The firm works with 125 sub-custodians around the world.
Clients: 5,800 corporate, 180 financial institutions, 505 pension plans, 195 asset managers

STATE STREET TRUST COMPANY CANADA
11th Floor, State Street Financial Centre, 30 Adelaide St. E., Toronto, ON M5C 3G6
Contact: Kevin Drynan, President and CEO
Phone: 647-775-7777  eMail: kdrynan@statestreet.com
Website: www.statestreet.com
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 Confirmation, 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: 108 markets, 104 covered by sub-custodians, 4 by firm
Client Workstation Technology and Capabilities: Provides a secure web portal offering clients consolidated access to the firm’s products and services globally; May 17th is the launch date of the new web-based portfolio analysis tool called Investment Analytics – Interactive that provides clients the flexibility to customize their own portfolio insight based on a range of analysis including performance, attribution, asset allocation, value-at-risk (VaR).

Coming In June Issue
Report and Directory: Benefit and Pension Consultants
Ad closing: May 21st
Call John L. McLaine
416-494-1066
jmclaine@powershift.ca

April 2012 | Benefits and Pensions Monitor
Canadians are living longer. The number of baby boomers approaching retirement is increasing. These aren’t startling facts, but what we need to realize is that having one year of retirement for every year of working is no longer a likely scenario for most Canadians. Does this mean Canada is facing a pension crisis? It doesn’t. Canada has one of the leading retirement systems in the world and key pension reforms are being advanced by our federal and provincial authorities which will help Canadians save towards achieving retirement income adequacy.

The infrastructure is already in place to effectively deliver more efficient and inclusive made-in-Canada retirement solutions. We need to build on that strength with proactive and practical changes to avoid problems in the future.

How We Arrived At Where We Are

Over the past 20 years, funding, administrative, and liability issues have caused many employers to move away from Defined Benefit plans as their primary source for employer-sponsored pension plans.

While DB plans remain an option for retirement savings, they’re impractical for small- and medium-sized businesses and many of these employers are finding that more flexible and easily managed Defined Contribution plans meet their pension plan needs. A number of large private sector sponsors are also moving away from more expensive and complex DB plans to DC plans that offer employers the ability to fix and predict their contribution liability.

The rise in DC plan popularity led to the introduction in 2004 of the Joint Forum’s Capital Accumulation Plan Guidelines – a series of best practices that created a solid foundation for the growth of DC plans through the first decade of the 21st century. The industry and plan sponsors embraced these guidelines and the foundation they established for the creation and maintenance of successful CAP savings vehicles: group tax-free savings accounts (TFSAs), deferred profit sharing plans (DPSPs), group registered retirement savings plans (RRSPs), and DC plans. The guidelines clearly defined the obligations of the sponsor, member, advisor, and service providers.

Where We Are Today

CAPs (Capital Accumulation Plans) are now far more prominent in the pension marketplace. The available support and features they offer have evolved to meet the changing needs of plan members, sponsors, and regulators. DC CAPs are often
significantly more cost effective than DB plans even with the level of member support required.

The manageability of Canadian DC CAPs is also evident by comparing them to U.S. 401(k) plans of similar size. Even though the U.S. market is 23 times the size of Canada’s, our plan costs are on par with similarly sized U.S. plans.

We stand to learn from the U.S. DC experience. Their DC marketplace has had more time to mature and there is a good understanding of member financial behaviour in relation to auto-features. Based on these U.S. findings, the Canadian industry has introduced auto-features into Canada’s DC landscape including:

- The introduction of newer self-completing investment funds, most prominently target date (or lifecycle) funds which allow a more hands-off investing approach for members and an easier investment decision process.
- The implementation of auto-enrolment which can substantially increase employee participation rates and their saving potential.

Introducing small changes to our existing DC pension system, like the ones outlined here, can positively affect retirement of Canadians for generations to come.

What's Around The Corner

We have one of the leading pension systems in the world. Current thinking about the DC plan evolution in Canada includes incorporating many of the provisions suggested in the recently proposed pooled retirement pension plan (PRPP) framework. For example, the legislation for Quebec’s voluntary retirement savings plan (VRSP) mandates an employer must offer the program to its employees. If introduced by employers, auto-enrolment and auto-escalation features as well as an offering of simplified investment choices would provide for an overall increase in savings by members and an improvement in retirement benefit adequacy. In addition, maintaining the portability of the plan and locking-in of funds will maintain the purpose of a retirement plan – the preservation of savings to fund future retirement needs.

The success of any group retirement program – whether it’s a DB, DC, or group RRSP – depends on a number of critical factors that combine to help determine the level of retirement income a plan member will achieve. They include:

- Joining early – A worker must enroll early enough for tax-free compounding to work effectively. Plans need to be made universally accessible to Canadians through their employers. Auto-enrolling members into a plan is a simple change that delivers significant results. Within an auto-enrolment environment, upwards of 86 per cent of all employees who are auto-enrolled choose not to opt-out of their retirement programs.
- Meaningful contributions – Successful retirement saving combines investment growth with regular, meaningful contributions. When employers make matching contributions, members experience higher levels of investment growth.
- Investment choice and age-adjusted investment risk – The plan member must choose an appropriate investment option that will maximize growth while recognizing individual risk tolerance. Appropriate investment options and, in some cases, appropriate default options such as target date funds make reasonable long-term growth more likely to occur in member retirement savings. As a plan member approaches retirement, efforts should be made to avoid the impact of dramatic market fluctuations on their portfolio. In addition, all members could benefit, including those nearing retirement, from features such as auto-escalation which allow for contributions to increase as plan members draw closer to retirement.
- Lessen the impact of withdrawals – Retirement plan success depends on keeping funds locked-in. Members who make withdrawals significantly reduce their retirement savings and income. For any plan to be effective, members must leave the money invested so it can realize its full potential.
- Portability – Making the savings plan portable from province-to-province and employer-to-employer helps maintain consistency and increases the likelihood of retirement funds staying locked-in and working towards the end goal of achieving retirement income adequacy.

Proposed PRPP legislation currently speaks to only some of these keys to success. To ensure the success of PRPPs, the plan must implement all of these keys as illustrated in Exhibit 1.

The Next Five To 10 Years

The ongoing public dialogue on Canada’s retirement income system, as well as the discussion around PRPPs and Quebec’s VRSPs, continues to promote DC CAPs as a key component of the retirement savings landscape. As we better understand the implications of introducing PRPPs and the potential to apply some of the proposed PRPP mechanisms (e.g., auto-enrolment and auto-escalation) to DC plans, we’ll see DC CAP solutions become a larger part of the retirement landscape for Canadians.

The higher profile of DC CAPs will encourage service providers to develop flexible product and investment solutions. These products will also provide new opportunities for more focused and effective forms of communication – including the use of mobile and internet-based delivery methods – across all demographics of members.

Plans designed with the key factors described earlier will result in more successful retirement outcomes for everyone, despite age, longevity risk, or investment volatility.

The future of retirement in Canada is promising. It’s time to take the next step and be proactive in our pension reform. We can implement auto-enrolment and escalation features; make group plans portable between employers and provinces; and make group retirement savings plans available to all Canadians, not just to some. While we don’t know what pressures will be facing our economy in the future, we do know this strategic approach will address the retirement savings needs of millions of working Canadians and help ensure the security and success of their retirement income in years to come.

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April 2012 | Benefits and Pensions Monitor 33
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Return Of The Investment Fiduciary

By: Mark Barnicutt

With the globalization of capital markets over the last few decades, there has been a marked increase in the range and complexity of investment opportunities available to investors. In fact, the array of investment options available today is virtually limitless – stocks, bonds, mutual funds, pooled funds, hedge products, structured products, private equity, income trusts, real estate, master limited partnerships, and commodities. The result of this trend has been an increase in the number of investment related participants which has ironically led to increased levels of complexity for pension plans.

Additionally, with the increased marketing and product focus touted by an expanding marketplace, sponsor focus has been led away from the real need to meet ‘consumption goals’ (ie: current and future pension disbursements/benefits) to that of relative performance based upon market or peer indices. This has resulted in managers being traded like commodities and corporate sponsors and their advisors attempting to maximize relative performance.

It is our view that the focus on superior relative performance, instead of the future consumption requirements of each plan, has been a major contributor (beyond the general rise in liabilities due to declining interest rates) to underfunded pension plans.
What Are Pension Sponsors Seeking?

All of these issues, in combination with the ongoing challenging capital market conditions of the past decade, are causing many pension sponsors and their boards to increasingly search for true professional support in the management and oversight of the wealth entrusted to them. Informed sponsors are more and more realizing that their pension plans are more than simply ‘pools of capital.’ In fact, they are actual ‘asset management businesses.’ As such, they need to be operated in a disciplined manner where assets, liabilities, revenues, and expenses are all managed in a prudent manner. It is our experience that sponsors and their boards/investment committees are desperately seeking someone who will:

- Provide real advice, not just a list of manager/product recommendations
- Be objective in the advice provided
- Be accountable (both ethically and legally) for the advice that they provide
- Collaborate with the sponsor, board/investment committee, and other professionals, such as actuaries, to create real sustainable solutions to their pension business problems
- Not ‘blow smoke at them’ by pitching new investment fads and trends as a purported ‘high return’ solution to their challenges
- Provide full transparency of all investment related fees and expenses

Given these requirements, we believe that the way forward for pension plans is to return to the roots of the asset management industry – the ‘Investment Fiduciary.’

We view a ‘fiduciary’ as someone who acts in a position of trust on behalf of, or for the benefit of, a third party. For this reason, an investment fiduciary is typically held to a higher standard of care than someone who is not a fiduciary. A true investment fiduciary is not someone selling a product or a consultant providing a list of suggestions and recommendations ... they are providing real and objective advice which they are ethically and legally bound to provide.

The Outsourced Chief Investment Officer

In Europe, especially the Netherlands, the use of fiduciary managers, also known as Outsourced Chief Investment Officers (CIOs), is a rapidly growing business. McKinsey & Company indicates that the Netherlands, the market for fiduciary management was €50 billion as of the end of August 2006. As outlined in his book, ‘Fiduciary Management: Blueprint For Pension Fund Excellence,’ Anton van Nunen describes how the prevailing investment management structures for pension funds were established such that “too many people had a role while no one had overall responsibility.” While the sponsor organization retains ultimate accountability for the plan, the Outsourced CIO is responsible for the day-to-day management of the wealth according to the following areas:

- Asset-Liability Matching
  The central theme to embarking on an asset liability study is to establish a well-funded position. Achieving a well-funded position results in lower expected future costs for contributors and protects beneficiaries.
- Risk and Return Analysis
  An Outsourced CIO will work in partnership with a firm’s actuary and/or other professionals to analyze and illustrate the impact of investment policy decisions in a framework that links funding and risk and return analysis with investment policy.
- Portfolio Construction
  A portfolio’s behaviour over time, and through various market cycles, is at least as important as the longer term returns that it generates. Also, while a particular portfolio structure may prove beneficial over time, if the plan sponsor is unable to tolerate shorter-term volatility, then counterproductive decisions may be made. As a result, without appropriate portfolio structuring, inappropriate actions can be taken at times of fear (when markets are financially dislocated) or optimism (when markets are overvalued). Similarly, constant manager turnover has a negative financial effect to the overall investment program.
- Selecting and Overseeing Investment Managers
  Pure mathematical methods for selecting future winning investment managers have proven to be less than reliable. As the commonly used disclaimer in the investment management business states, “past performance is not necessarily indicative of future returns.” Additionally, with the rise of global volatility in capital markets, prudent and effective manager due diligence is critical to protecting client assets.

While there is no perfect predictor, our experience has proven to us that it is the rigour of the process and the experience of the people that will most significantly influence future investment success. That is why we believe in the blending of prudent performance analysis with a heavy dose of qualitative research.

- Measuring and Reporting Portfolio Results to Sponsor
  The breadth, complexity, and continuous evolution of investment instruments and investment strategies, coupled with increased regulatory scrutiny and market volatility, make comprehensive data, modeling, and analytics more important than ever. Accurate, timely information that clearly illustrates the drivers of performance against each plan’s unique set of goals and risk tolerances is a must. Just as important is the experienced evaluation of these factors to ensure customized answers to complex pension challenges.
- Education of Plan Sponsors and Investment Committees
  As most plan sponsor executives and investment committee members are not practicing investment professionals, it’s imperative that true Outsourced CIOs provide ongoing educational support to their pension clients in order to enable them to make better informed decisions around the strategic management of their plans. Based upon the belief that pension plans are best viewed as ‘businesses’ instead of simply ‘pools of capital,’ the Outsourced CIO should be a key strategic member of the overall management team of the ‘pension business,’ instead of merely a seller of product or consultant of manager search services.

By executing successfully in these six areas, the Outsourced CIO ‘reunites
expertise and responsibility’ with the sponsor organizations.

Benefits Of Outsourced CIO
An Outsourced CIO provides clients with the following benefits:

► Comprehensive and Integrated Advice

The advice provided by an Outsourced CIO spans the full spectrum of the asset management function – policy, management, and review – but is accomplished within an integrated approach to goals-based portfolio construction, while stewarded with a fiduciary mindset

► Ongoing Relationship

Outsourced CIOs typically have an ongoing professional relationship with their clients. As a result, they are available for ongoing dialogue with their clients, and not just when investment manager changes are required.

► Unwavering Objectivity

Most Outsourced CIOs do not have their own proprietary investment products that they provide to clients. As a result, the investment solutions and services that they provide to their clients are fully objective and delivered with the client’s best interest in mind at all times.

► Shared Responsibility

We believe that plan sponsors do not want to bear the burden of full responsibility for every investment solution implemented – although they are clearly accountable. Instead, we believe that sponsors expect their professional advisors to share that responsibility.

► Value

Given the ongoing nature of the Outsourced CIO relationship, pension plans are typically provided with solid value as the costs of CIO services are normally amortized over the full-term of a multi-year professional services agreement, instead of being compacted into a series of one-off consulting engagements for manager search and due diligence assignments or hidden in proprietary investment products.

We believe that the pension plans will be better served if they seek support from professionals who do more than investment manager search and due diligence, but see themselves as Outsourced CIOs and have adopted a fiduciary manager approach. In doing so, we believe that sponsors will be far more successful in fulfilling their fiduciary obligations in a world in which global investment opportunities simultaneously exist with new and ever changing risks.

Future Of The Investment Fiduciary
In Canada, we have always known specific asset management roles – such as trustees and discretionary investment money managers — to be fiduciaries. With the rising standards of care demanded by both clients and regulators, the fiduciary manager or Outsourced CIO, as a professional solution to pension industry challenges, is rightfully receiving growing attention in the industry.

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As investment strategies of Canadian institutional investors become increasingly complex, traditional asset allocation frameworks need to evolve with the global markets. This evolution requires that investors not only reconsider their strategic asset allocation, but their intermediate and tactical allocation framework as well.

Canadian institutional investors, like their global counterparts, have been diversifying their strategic asset mix for years. They have increasingly shifted their exposure into non-traditional strategies such as real estate, infrastructure, private equity, hedge funds, and commodities—all with the objective of increasing diversification and enhancing returns.

Given the narrower investment opportunity set in Canada, Canadian institutional investors may not be positioning themselves optimally to achieve their investment objectives. This may be particularly true for smaller plans which tend not to be as globally diversified. Many Canadian plans also tend to maintain fixed strategic asset allocation policies over several years with little adaption to the current environment, all while maintaining a static rebalancing policy.

Over the last several years, asset managers such as J.P. Morgan Asset Management’s Global Multi-Asset Group (GMAG) have been developing tools that combine quantitative models with qualitative insights to deliver innovative asset allocation strategies. This approach allows managers to be more flexible and opportunistic and addresses some of the shortcomings of traditional asset allocation, which can add unexpected risks to portfolios or result in lower-than-expected returns.

Asset Allocation’s Evolution

Most investors make an initial decision about their asset allocation and rarely change it. Their strategic asset allocations, which are based on long-term capital market assumptions, form the basis for their final portfolios. But is that the optimal portfolio construction methodology?

In a typical balanced portfolio, more than 90 per cent of the portfolio’s risk stems from the systematic, or the beta, of equities. To be sure, equities have outperformed bonds over the long term. Investing a dollar in U.S. large-cap stocks over 90 years ago would have netted over 40 times the returns of bonds, says data from Ibbotson Associates. To put it another way, if those returns are divided into 20-year cycles, stocks outperformed bonds and cash in nearly every 20-year period except for the 1920s and 1930s.

But investors usually have shorter investment horizons and equity returns are rarely ‘average.’ For example, U.S. large cap equities posted inflation-adjusted annualized returns of about 15 per cent between 1950 and 1965 and between 1983 and 1999, says Ibbotson. Between 1966 and 1982, however, the real return to equities was zero and it appears to be headed in that direction for the 2000 to 2016 period. The upshot is for any given
A truly global perspective requires that Canadians think about both their strategic and tactical asset allocation framework in order to best adapt to the changing global environment. Thinking strategically en-courages investors to consider issues such as the home bias in stocks and bonds and allocations to alternative investments.

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What’s Fun Got To Do With It?

By: Sue Pridham

Working well is all about being physically, mentally, and emotionally fit for work. As stress in the workplace continues to rise and a sluggish economy keeps the pressure on, many organizations are looking for ways to build in the ‘Fun Factor.’ These companies understand that injecting fun into the work environment will go a long way to helping employees lighten the load, reduce stress, be active, and promote healthy relationships.

Here are a few examples from organizations who believe that the ‘Fun Factor’ is good for your health and good for business.

**Corporate Fun Day**

STAPLES Canada, in Richmond Hill, ON, hosts a ‘fun day’ every September as a way to recognize and reward associates for the extra effort they put in during the back to school rush. For many, Tri Fit’s ‘Wacky Olympics’ has become the favourite event of the year. This activity encourages associates to step away from their desks for an hour of team relays on the company property. “In a rich and varied wellness program, the ‘Wacky Olympics’ always stands out as a favourite. Our people love having fun at work,” says David Burt, general counsel and secretary and wellness program sponsor.

Autoliv Electronics Canada, in Markham, ON, also makes the ‘Wacky Olympics’ an annual tradition. Plant and office employees team-up to help embrace diversity and connect the plant and office workers. General Manager Steve Brohm is one of the first to sign up each year and employees get their share of laughs watching him try to conquer the water balloon toss or the Hula Hoop contest. The event wraps up with a visit by an ice cream truck and various prizes and gift cards are awarded to the most spirited and the best dressed teams. Everyone goes home a winner.

C.S.T. Consultants Inc., in North York, ON, decided to add some spice to its annual summer BBQ last year with ‘Wacky Olympics’ games. Employees competed in three-legged races, a golf ball toss, and a soccer ball noodle toss. It was ‘wacky’ indeed and supported its commitment to making C.S.T. a fun place to work.

Each company adapts the program to suit their physical environment, culture, and sometimes even incorporates their products and services. One year, Kellogg’s created a series of games around its cereal products including the Fruit Loop relay.

**FUN Raising**

OPTrust, in Toronto, ON, and Smucker Foods of Canada Corp. like to host ‘FUN Raising’ events which combine running events with fund-raising.

OPTrust has held a scavenger hunt two years running to raise money for The United Way. Employees have an hour to run around the downtown core in teams of three to solve puzzles, collect items, and visit some of Toronto’s major landmarks. They also hold an International Food Fair in support of The United Way. Employees celebrate diversity by dressing in traditional costumes and contributing specialty dishes from their countries of origin.

Recent research by John Zelenski, a Carlton University professor, has concluded that people are more productive when they are in a good mood. Mars, in Bolton, ON, took this to heart at a recent associates meeting. Eight massage therapists were brought in to provide break-time/lunch-time hand, neck, back massages, and aroma therapy hand massages. A stretching station provided demonstrations of stretches to do at your desk. The smiles on associates’ faces lasted throughout the day.

**FUN With Food**

Fun and food can be a winning combination when it comes to lifting spirits, making connections, and promoting healthy eating.

OTIP (Ontario Teachers Insurance Plan), in Waterloo, ON, holds an annual ‘Cook Off Throw Down’ to launch the much anticipated annual event, October’s Healthy Workplace Month. Teams sign up and decide on a healthy dish to cook for upwards of 200 OTIP foodies. Once all the food is gone, votes are cast and the ‘Throw Down Champion’ is crowned with all proceeds going to the KW Food Bank.

This fall, RBC promoted ‘Recipe for Wellness’ to connect its employees across Canada and the United States through fun and food. Employees submitted their favourite healthy recipes for a chance to be part of the ‘RBC Recipe for Wellness Cookbook.’ A panel of judges picked...
WELLNESS

a selection of the best for inclusion in this fun and nutritious resource that can be accessed by all employees.

Another interactive wellness event ‘Yogurt Confidential,’ was a smash hit at LV Lomas. A variety of healthy, plain yogurts (Greek and regular) were available to taste. Employees were invited to make their own healthy yogurt sundaes by adding toppings such as coconut, pineapple, pomegranate seeds, honey, and maple syrup. The sundaes were delicious and inspired many participants to change from pre-sweetened brands to plain yogurt.

Just for FUN
Other organizations like to have FUN just for the fun of it.

Last year, summer fun at Christie Digital, in Kitchener, ON, was all about the ‘Summer Bucket List’ challenge. Many employees got involved and most went out of their way to do something original. One stunt was a team plank on a school bus.

McNeil Consumer Healthcare, in Guelph, ON, a division of Johnson & Johnson, has a comprehensive health and wellness program called ‘Healthy Living’ which includes a variety of innovative programs and onsite wellness resources. In 2011, it also tackled its version of a ‘Wellness Bucket List’ with the HR site leader, Donna Graham, putting up a paid day off as the ultimate grand prize. Some of the more popular items on the ‘bucket list’ included stopping in to try out the onsite massage chairs in the ‘Revitalization Zone,’ challenging a co-worker to a game of ping pong in the ‘Creativity Zone,’ and trying a new exercise class in the ‘Fitness Zone.’

These fun and spirited wellness events have shown that employees who play together, stay together. Breaking down barriers and having fun at work boosts morale and retention while injecting humour and levity into the work day.

For best results, make sure you have plenty of time to develop, plan, and promote your event. Involve the leadership team in some capacity to increase the profile of your event. Pick a date following a busy time in your business schedule and when the leadership team is in the office and able to participate. Build healthy competition with teams and fun incentives. Involve a committee of employees in the planning process. Send out a challenge from the CEO inviting employees to participate. Combine it with a company BBQ or charity event. Align your event with your company culture, products, and services.

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Readers will share the observation that variations on the traditional group insurance model abound. Many of innovation’s more noteworthy early examples are today’s standard practice. These include:

- Crown Life’s first group EAP and emergency travel benefits
- Great-West Life’s modular claims management style LTD contracts
- Canada’s first authentic flex plan in 1986

Necessity often being the mother of invention, some innovations have been driven locally by brokers’ zealous protection of client relationships. Others have been the progeny of group insurer quests for scale and market share.

**Trail Innovation**

The benefits regulatory regime has tended to trail innovation rather than propel it. Although it would be a stretch to contend that the provisions permitting Employee Life and Health Trusts given assent in December 2010 were designed to open new doors for the venture minded, they certainly make replication of the arrangements sold by group insurers all the more feasible.

In order to grasp the service enablement potential of Employee Life and Health Trusts, it is useful to take stock of the environment in which current plans operate.

When viewed at a macro level, the employee benefits market’s exponential revenue growth has been aided by workforce and earnings growth and the unit costs of covered services and goods. Until recently, heavy market concentration in the hands of three insurers facilitated cost-push pricing, often creatively structured, to be flowed through to sponsors. Yet one other factor often escapes mention: preferential tax treatment of sponsors’ plan contributions and eligible benefits payments. Indeed, it could be argued that despite the dilution of the tax advantage over time (Quebec’s treatment of employer contributions as employee earned income being a case in point), today’s $32 billion market would be smaller in the absence of indirect subsidization.

Low investment returns notwithstanding, times have been good for group insurers, if not plan sponsors and members. If the definition of a benefit plan’s value could be expressed as the absorption of both members’ exposure to the financial consequences of adverse health events and sponsor’s moral and legal liability for those exposures, plans are clearly not as valuable as they used to be. Unsustainable cost is at the heart of the fundamental tension in the plan sponsor/insurer relationship, and has given rise to risk substitution and cost shifting behaviours such as the de-listing of certain benefits.

Some of the substitution behaviours have been facilitated through the creation of Health and Welfare Trusts for both single and multi-employer plans. This construct has also been the enabler of at least one open market HSA product which unconnected employers can join as participants in a master trust agreement. Arguably, this arrangement has been an ambitious group product innovation as delivery requires the successful integration of the financial management, recordkeeping, adjudication, benefits payment, compliance, plan administration, and client and member reporting functions traditionally performed by group insurers.

Health and Welfare Trusts have had a tumultuous existence. Though they are not referred to in the Income Tax Act, rules governing eligible benefits, beneficiaries, funding, and taxation have been handled as administrative accommodations. Over time, the need for clarifications spawned a number of technical interpretations and advance tax rulings on the Income Tax Act provisions that apply to them.

**Proverbial Onion**

When one peels back the proverbial onion for some of the plans managed under these trusts, there is little to distinguish them operationally from the conventional model – they assign risk to one or more insurers; they use insurers’ or BPO providers’ claims adjudication technology, and their disability claims are handled by insurers’ standard adjudication, case management, and rehabilitation protocols. They are also often tied to, or are otherwise established, by licensed brokers and agents who re-sell or distribute products offered under the trust. They have been ideal enablers of affinity group plans such as those offered by multi-employer plans under collective agreements.

Employee Life and Trusts, like their cousins, are taxable inter vivos trusts. They leave little to interpretation. The trust must be a Canadian resident trust and its objects must be limited to the provision of “designated employee benefits. All beneficiaries must be employees or former employees (inclusive of retired...
employees) of a single employer or “participating employers,” dependents of employees, or another Employee Life and Health Trust and the trust must be maintained primarily for the benefit of ordinary employees. Employers generally may not have any rights to distributions from the trust and multi-employer arrangements are allowed.

With respect to funding, the amount deductible for tax purposes is the amount prescribed by a report that has been prepared by an independent actuary, using accepted actuarial principles and practices, that the trust is reasonably expected to pay or incur in a taxation year in order to provide benefits to beneficiaries.

The clarity of the regulations should lessen the onus of interpretation for plan sponsors or entrepreneurs wishing to establish trusted plans. Proper due diligence for the assessment and ranking of plan design alternatives, operational feasibility, and risk assessment and management requires that certain CRA documents be taken into account. Due diligence, of course, must also encompass the several technical interpretations, advance rulings, and Technical News bulletins that have been issued by the CRA, both for Health and Welfare Trusts and, more recently, Employee Life and Health Trusts. Obtaining an advance ruling and a request for review of the proposed trust agreement should also be considered de rigueur.

Outsourcing can be a slippery slope. When insurers began to outsource the core competency of drug claim processing to independents more than 25 years ago, for instance, non-compete agreements were their assurance that these outsourced service providers would not cannibalize their customer relationships. Negotiating power has gradually shifted to the providers. Parties who possess the service design, operational, and actuarial competencies required to commercialize new benefits plans now have the enablement for offerings that parallel in all respects to those of both group insurers and broker-affiliated third-party administrators. All of the group insurance business processes and functional competencies are now available on an open market basis. Further, some providers have brand enhancing capabilities that are not being utilized by their insurance company clients.

General Prescriptive Comments

Trust agreement provisions, whether compliance-driven or for discretionary purposes, must leave no ambiguity about such aspects as fund accounting and benefit entitlements, or about distributions upon wind-up. This means sponsors must engage the most qualified operational, legal, and actuarial professional advice. Benefits trusts almost inevitably have capital surplus, reserves or liquidity float, and, therefore, sizeable assets to be managed. Note that Nortel’s Health and Welfare LTD trust had assets of $80 million at the end of 2009. Though not required explicitly, the concepts of prudence, the prudent person rule, and contingent asset allocation in the context of capital preservation as an explicit objective, must also be given substance in formal investment policies and procedures. Note that the investment governance parallels with pension, endowment, and charitable fund assets are intentional here.

Perhaps the time has come for the definition of a best practice Trusteed Benefits governance model. Benefits trusts are serious business, and like any undertaking that serves beneficiaries, should only be undertaken by trustees who have the requisite knowledge and skills as fiduciaries.

The alternative can have sobering consequences. The protracted discussions, not to mention the costs, related to agreement interpretation and disposition on wind up of Nortel’s trust, for instance – including, incredulously, the question of whether it was one trust or a number of sub-trusts – could have been avoided if greater rigour had been applied at inception.

Group insurers’ capabilities have never been more diverse and they are making major efforts in a static market being eroded by niche players to persuade plan sponsors that they are taking their cost escalation concerns to heart. In that context, the Employee Life and Health Trust can either help or hinder the insurers’ cause. Will they see them as the catalyst to model and prototype such innovations as target-based plan costing, value-driven dynamic plan design, and integrated health and wellness programs that actually deliver on their promises of employee well-being and productivity through sustained participation and utilization rates?

Perhaps the answer lies in the answer to another question: what would a Jobs or Edison do in the present circumstances?

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A full-day seminar organized by CFA Montreal will bring a fresh perspective on the role of ‘Emerging Markets’ in the investment process. Speakers from around the globe will share their visions of China, India, Russia, South East Asia, Latin America, and Africa. It takes place May 15 in Montreal, QC. For more information, visit www.cfa-montreal.org

Jacques Attali, an honourary member of the Council of State (France), a special advisor to the president of France, and founder and first president of the European Bank for Reconstruction and Development; and Yvan Allaire, executive chair of the board for the Institute for Governance of Private and Public Organizations and a member of the global council on the role of business of the World Economic Forum; will be among the featured speakers at ‘CPBI FORUM 2012.’ It takes place May 15 to 17 in Montreal, QC. For more information, visit www.cpbi-icra.ca

Gary Rabbior, chair of the Financial Literacy Action Group, will examine ‘The Need for Financial Education in the Workplace’ at an Employee Financial Education Forum educational event. Other sessions will look at how to effectively communicate and engage employees to increase participation and understanding the role of the company and the pension provider. It takes place May 16 in Toronto, ON. For more information, visit www.efef.ca

The International Foundation of Employee Benefit Plans’ ‘Canadian Legal & Legislative Update’ will provide an update on recently enacted and proposed employee benefits legislation and regulations. Topics will focus on the changes taking place in Canada as they relate to pension and health issues. It takes place May 24 and 25 in Victoria, BC. For more information, visit www.ifebp.org/canupdate

The future direction of the various pension constructs will be discussed by Malcolm Hamilton, a principal at Mercer, and Randy Bauslaugh, a partner at McCarthy Tetrault, at the Toronto CFA Society’s ‘2012 Annual Pension Conference.’ Theme of the event is ‘Keeping Up With the Rapid Change in Pensions.’ It takes place May 30 in Toronto, ON. For more information, visit www.torontocfa.ca/

A pension executive roundtable and the need for alternative investments in a portfolio will be among the topics examined at the ‘11th Annual Canada Cup Of Investment Management.’ It takes place May 31 and June 1 in Toronto, ON. For more information, visit www.imn.org

A full-day seminar organized by CFA Montreal will bring a fresh perspective on the role of ‘Emerging Markets’ in the investment process. Speakers from around the globe will share their visions of China, India, Russia, South East Asia, Latin America, and Africa. It takes place May 15 in Montreal, QC. For more information, visit www.cfa-montreal.org

Jacques Attali, an honourary member of the Council of State (France), a special advisor to the president of France, and founder and first president of the European Bank for Reconstruction and Development; and Yvan Allaire, executive chair of the board for the Institute for Governance of Private and Public Organizations and a member of the global council on the role of business of the World Economic Forum; will be among the featured speakers at ‘CPBI FORUM 2012.’ It takes place May 15 to 17 in Montreal, QC. For more information, visit www.cpbi-icra.ca

Gary Rabbior, chair of the Financial Literacy Action Group, will examine ‘The Need for Financial Education in the Workplace’ at an Employee Financial Education Forum educational event. Other sessions will look at how to effectively communicate and engage employees to increase participation and understanding the role of the company and the pension provider. It takes place May 16 in Toronto, ON. For more information, visit www.efef.ca

The International Foundation of Employee Benefit Plans’ ‘Canadian Legal & Legislative Update’ will provide an update on recently enacted and proposed employee benefits legislation and regulations. Topics will focus on the changes taking place in Canada as they relate to pension and health issues. It takes place May 24 and 25 in Victoria, BC. For more information, visit www.ifebp.org/canupdate

The future direction of the various pension constructs will be discussed by Malcolm Hamilton, a principal at Mercer, and Randy Bauslaugh, a partner at McCarthy Tetrault, at the Toronto CFA Society’s ‘2012 Annual Pension Conference.’ Theme of the event is ‘Keeping Up With the Rapid Change in Pensions.’ It takes place May 30 in Toronto, ON. For more information, visit www.torontocfa.ca/
We are pleased to announce that Dawn Jia has been appointed as Head of Active Equities for North America for State Street Global Advisors (SSgA), a key part of SSgA’s global Active Equity team, reporting to Dr. Marc Reinganum.

Ms. Jia was previously responsible for managing the Canadian active equity team. In this expanded role, she will also oversee US active equity strategies. Dawn will continue to be based in Toronto and report locally to Peter Lindley, President and Head of Investments for SSgA Canada Ltd.

A graduate of the MBA program from the Richard Ivey School of Business at the University of Western Ontario, Ms. Jia holds both a BS and an MS in Engineering from Tianjin University in China, and has earned the Chartered Financial Analyst (CFA) designation.

SSgA is a division of State Street Bank and Trust Company, a wholly-owned subsidiary of State Street Corporation.

APPOINTMENT NOTICE

CLARK STEFFY

Regional Vice-President, Sales, Group Savings and Retirement, Ontario, Atlantic & Western Canada

Renée Laffamme, Vice-President Group Savings and Retirement, Industrial Alliance Insurance and Financial Services, is pleased to announce the appointment of Clark Steffy as Regional Vice-President, Sales, Group Savings and Retirement, Ontario, Atlantic & Western Canada.

Clark brings to our organization more than 18 years of experience in the group savings and retirement field. He has worked with different insurance companies and he has enjoyed remarkable success. Clark’s mandate will be to increase our business volume, as well as consolidate and expand our distribution networks. He will also coordinate the efforts of our sales teams in Toronto, Vancouver, Calgary and Halifax.

Industrial Alliance is committed to growing its pension business in Canada. We are the fourth largest life insurance company in Canada, with assets close to $73.4 billion. The company offers a comprehensive pension product line-up, with more than $8.5 billion in pension assets under management and has experienced significant growth.

APPOINTMENT NOTICE

Dawn Jia, CFA, MBA, MS
Vice President, Head, Active Equities, North America

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STATE STREET GLOBAL ADVISORS.

APPOINTMENT NOTICE

Simon Lussier,
B. Comm., MBA Vice President, Business Development & Operations
Van Berkom and Associates Inc.

J. Sebastian van Berkom, President and Chief Executive Officer, is pleased to announce the appointment of Simon Lussier as Vice President, Business Development & Operations, effective March 1, 2012.

Mr. Lussier holds a Bachelor degree in Accounting and Entrepreneurship from McGill University and a MBA in Finance from École des Hautes Études Commerciales (HEC). He has more than 20 years industry experience in the small-cap market. Prior to his current appointment, Mr. Lussier served as Senior Vice-President, Head of Institutional Equity for Laurentian Bank Securities.

At VBA, Simon will be responsible for business development for our products in Canada, as well as becoming more involved in operations. He will also help with the sales and operations of VBA’s new Developed Asia Small-Cap Equity Product under our recently incorporated subsidiary Van Berkom Golden Dragon Limited, headquartered in Hong Kong.

VBA is a specialized institutional small-cap investment manager, headquartered in Montreal, for large Canadian and U.S.-based institutional clients for Canadian, U.S. and Asian small-cap mandates.

APPOINTMENT NOTICE

R. Gregory Ross, President and Chief Executive Officer, AEGON Capital Management Inc. (ACM), is pleased to announce the appointment of James Kelly, as Senior Vice President, Institutional Sales. In his new role, James will be responsible for building best-in-class solutions for institutional clients by leveraging the domestic money management expertise of ACM and global expertise of AEGON Global Asset Management.

Prior to joining ACM, James was a Senior Partner with Investem Canada, following 22 years with RBC Capital Markets, where he served as Managing Director, Head of Fixed-Income sales.

AEGON Capital Management manages more than $8 billion CAD in assets, comprised of institutional and asset liability matching investments. AEGON Capital Management is backed by the strength of AEGON N.V., a Netherlands-based insurance and financial services company, with more than US$56 billion in assets under management. AEGON N.V. stands at the centre of an integrated international network of 1,100 investment-related professionals located in investment hubs across North America, Europe, and Asia.

AEGON Capital Management Inc.
Toxic Investment Workplaces

We cover a lot of issues here at Benefits and Pensions Monitor and I can’t imagine too many readers are involved in both their company’s dental plan creation as well as making asset allocation decisions for their pension plans. So, our articles on workplace wellness and investment management apply to different segments of our readership.

However, there have been some issues raised around the people who populate the investment world and the types of workplaces they find themselves in. The most recent CFA magazine, in the article ‘The Financial Psychopath Next Door,’ talks of the close relationship between extreme financial risk-taking and problem gambling and how companies should do a better job of screening their job candidates to understand a candidate’s propensity to enter into extremely risky situations.

Anecdotal Evidence

But what about those ‘toxic’ workplaces that actually create problems for their employees? There has always been plenty of anecdotal evidence that workplace wellness and the often high stress investment management world collide. Think of the stories of floor traders, especially those in the commodity pits, emerging with lost voices, stress related injuries, and worse. (As the saying goes, ‘nobody has ever seen a 60-year-old pit trader’). A recent book, ‘Street Freak, a Memoir, Money and Madness at Lehman Brothers,’ details the ups and downs of an arbitrage and ETF trader who ends up spending some time in a psychiatric ward.

Putting a little more rigour to these stories is a paper by Alexandra Michel at Cornell University with the unwieldy title ‘Transcending Socialization: A Nine-Year Ethnography of the Body’s Role In Organizational Control and Knowledge Workers’ Transformation,’ (If you want a copy of the paper email me). In her study of ‘how work transforms employees,’ she looked at two investment banks and tracked sample employees over what turned out to be an almost decade long process.

She noted that while both of these workplaces stressed autonomy (no official work hours, no tracking of vacation time) and a good work-life balance, the reality was something different. Open floor plans encouraged bankers to become less autonomous as they would clock the arrivals and departures of their peers. As one director noted, “people ended up competing against themselves” in terms of recording billable hours. Benefits such as free child care, meals, and car service encouraged longer periods at work.

Did employees view any of this negatively? Not at first, says Michel. Comments included ‘I freely admit that I spend all of my time and energy at work. That’s what I choose to do.’

Pleasant Situation?

How long did this pleasant situation last? Michel saw signs of distress by employees’ fourth year, with 95 per cent of the bankers strongly agreeing with the statement, ‘My body is significantly more susceptible to breakdowns than before,’ while others spoke of working less hard (and blaming themselves and their bodies for not allowing them to keep up with their work flow).

By year six and beyond, you can add serious health issues, psychological issues, burnout (about 20 per cent of the employees left not just the firm, but the profession), and less attention to work.

The cause and effect linkages here are far from perfect (though it was clear in at least one instance where an employee decided not to get pregnant despite her wish for a family, so as not to become a ‘second class citizen’ at work). Understanding whether your workplace actually works for you and your employees remains vital, no matter what field you are in.

Jim Helik is a contributing author to the Managing High Net Worth and the Commodities As Investments courses published by CSI Global Education. He also teaches at the School of Business, Ryerson University in Toronto, ON.

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