Annual Report & Directory

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Employers around the globe are buying into the wellness concept. A survey by Buck Consultants at Xerox, Cigna Corp., and the Global Healthy Workplace Awards show 78 per cent of the world’s employers are strongly committed to creating a workplace culture of health.

The reasons are plentiful. They believe this culture will boost individual engagement and organizational performance as well as attract and retain employees. Other reasons include the big one, controlling healthcare costs (the top reason for sponsoring wellness programs) and increasing productivity by improving employee morale and reducing sick days and presenteeism (where employees are at work, but not fully functioning.)

**Clear Strategy**

However, to achieve this, Canadian employers, for example, say they need a clear articulated strategy instead of a patchwork of wellness programs. Keri Allletson, a consultant in health and productivity practice at Towers Watson, says these strategies should include health programs as part of the employee value proposition that differentiate them from their competitors. And employers want to feel the risks and responsibilities for improving workplace health are being shared.

The challenge is this: those employees who already lead healthy lifestyles buy into employer programs while those that do not, don’t. In both Canada and the U.S., employment engagement ranks as the number one obstacle. There are other obstacles such as budget and evidence of a return on investment, especially for those companies that are doing more programming and not seeing the results they would like for the time and money spent.

For Allletson, this means the challenge is to find ways to reach and influence employees that will make a difference.

And there are lots of ideas. One idea is to take a page from your marketing handbook and craft employee value propositions for each segment of your workplace. After all, a message that encourages Baby Boomers may not work with Gen X. Better use of communications programs given that everyone has a smartphone and more and more people are on social media is another idea.

Another idea is to target employees holistically and build programs from the employee out, taking into consideration their work engagement, health choices and habits, spending and savings habits, and work/life balance.

**Root Of The Problem**

Perhaps the real root of the problem is the last, work/life balance. We want employees to eat better, exercise, and take care of their health so they can be more productive at work and reduce the impact of paying for their benefits. However, we want them to do it on their time. Yes, yes, we know they benefit too, but that message is not engaging them. So if employers want employees to be healthier for the benefit of the employer, perhaps we need to allow employees to do so on the employer’s time.

We do it for education and training. Employers will give employees time off to take courses. They’ll even pay for it and pay the employee’s wages while they are on the course. So if the employer wants the benefit of wellness, perhaps they need to take the same approach? How many more employees would be engaged if they could exercise during the working day, not after?
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Pension Funds Need To Find ‘Next Frontier’

Pension funds and other institutional investors need to get out of their comfort zones to take advantage of “the next frontier” of long-term investing, says Leo de Bever, CEO of the Alberta Investment Management Corp. He told a CFA Institute conference that they need to find return “between the cracks” of asset silos. For AIMCO, the “big themes” in long-term investments – energy, food, materials, and robotic technologies – are in a similar position to where infrastructure, timberland, and commodities were to pension funds in the 1990s. However, it can be difficult to get pension trustees on board with such investments because they are difficult to find and people have a tendency to work in silos.

Wellness Requires Clear Strategy

Canadian employers say they need a clear articulated strategy instead of a patchwork of wellness programs, says Keri Alletson, a consultant in the health and productivity practice at Towers Watson. Speaking at its ‘Engaging Employees in Health & Wellness’ session, she said some common themes are emerging in organizations trying to drive their employees to healthy behaviours. They want shared responsibility and risk by providing the tools, resources, and information for employees to use to secure their own health and wealth. However, they want a compelling total experience that transcends any one element while delivering a measurable value to cost ratio for both the employer and employee. The challenge, then, is to find ways to reach and influence employees that will make a difference, she said.

Themes Offer Real Estate Opportunities

Canadian real estate investors need to refocus their strategies by seizing opportunities linked to demographics, technology, and urbanization, says LaSalle Investment Management. Its ‘Mid-Year 2014 Investment Strategy Annual (ISA)’ report says seeking out attractive global and Canadian investment opportunities related to these themes is vital to boosting net operating income and counteracting the potential for falling returns in a low interest rate environment. “We are seeing the fifth year of a below-par recovery for the real economy, which is slowly improving fundamentals for global real estate demand,” says Jacques Gordon, global head of research and strategy for LaSalle Investment Management. Overall, the Canadian industrial and retail sectors continued to improve in the first half of 2014, in line with expectations.

PSP Records Solid Performance

The Public Sector Pension Investment Board recorded an investment return of 16.3 per cent for the fiscal year ended March 31. The performance was driven primarily by strong results in public market equities as well as in the private equity, renewable resources, real estate, and infrastructure portfolios. The fiscal year 2014 investment return exceeded the policy portfolio return of 13.9 per cent.

Disabled Underutilized In Workforce

Employers consistently overlook a skilled, stable, and underutilized segment of the workforce – people with disabilities, says research by the Conference Board of Canada. It shows people with disabilities are generally as well-educated as people without disabilities, but are three times more likely to be unemployed or out of the labour force. ‘The Business Benefits of Accessible Workplaces’ also reveals the many areas in which businesses benefit when they invest in accessible employment practices, including higher attendance, enhanced job performance, and improved brand image.

Natixis Focusing On Canada

Natixis Global Asset Management has kicked off a new business development initiative in Canada. The expansion will focus on forging and strengthening its relationships with institutional and sub-advisory clients. It will initially focus on the institutional markets in Ontario and Quebec. It manages more than US$899 billion in assets through its affiliates.
Mapol
Michael Marentette is director, health economics and reimbursement, at Mapol Inc. He has more than 17 years of pharmaceutical industry experience in market access, health economics, and outcomes research, including senior positions at Merck and Janssen in Canada.

TD
Bruce Cooper will assume the role of chief investment officer of TD Asset Management (TDAM) effective January 2015. He joined TD in 1993 and currently leads the fundamental equity, quantitative equity, and asset allocation teams.

OPTrust
Gavin Ingram is co-head private markets group, managing director, and global head of infrastructure at OPTrust. He is responsible for overseeing its globally integrated infrastructure strategy. He joined OPTrust in 2006. Sandra Bosela is co-head private markets group, managing director, and global head of private equity. She is responsible for overseeing its globally integrated private equity strategy. She joined the organization in 2012. Previously, she was with EdgeStone Capital Partners.

Aon Hewitt
Kim Siddall is an associate vice-president at Aon Hewitt Canada in the health and benefits practice. Previously, she was a principal with AQ Group Solutions. Janice White is a senior consultant. Previously, she was a senior consultant at Towers Watson, a position she held for more than 12 years.

Fengate
Lou Serafini Jr., president and CEO of Fengate Capital Management, has been selected as a finalist for the ‘2014 Ontario Entrepreneur of the Year Award.’ He joined the group of companies in 1995 and has served as president since 2002.

Greystone
David Blyth is vice-president, defined contribution, at Greystone Managed Investments Inc. He joins the firm from BNY Mellon Investment Management where he was vice-president, client relationship manager. He has also spent time with Russell/Mellon as a relationship manager, portfolio analytics.

Mackenzie
Michael Schnitman is senior vice-president, product, at Mackenzie Investments. He has more than 17 years of financial services industry experience in progressively senior roles, most recently as senior vice-president, product strategy and development, at a major U.S. investment firm.

CFA
Marg Franklin is the recipient of the CFA Institute’s ‘2014 Alfred C. ‘Pete’ Morley Distinguished Service Award.’ The award honours members who have made an extraordinary contribution to the institute and its predecessor organizations. Over her years of service, she championed the organization’s voice in the global financial industry in an effort to restore the public’s trust in the investment profession.
The debate about the benefits – or not – of global diversification has been protracted, but the global financial crisis settled the score in favour of diversification. Even commercial real estate (CRE) markets that traditionally have a strong positive correlation, such as Canada and the USA, saw a notable variation in the severity of devaluations during 2008/09. Indeed, the disparity in CRE performance amongst key global markets is significant on a cyclical basis, as is illustrated in Chart 1.

Of course one of the key criticisms of CRE data and indices is around smoothing and their construction from valuation data rather than strike prices. In order to achieve a truer volatility measure, Chart 1 uses capital value transaction linked indices from the Investment Property Databank (IPD). IPD has developed a hybrid index which incorporates transaction information with the standard valuation data in order to give a more robust measure of the volatility. In the chart, REIT markets are grouped together in one series (Global REITs). To illustrate the performance of commercial real estate debt, we use the U.S. data series provided by Gilberto Levy which produces mark-to-market data on investment grade mortgages, albeit only for the U.S. – no other data series currently exists for Europe or Asia.

Diversified Exposure

The data clearly supports the case for a diversified exposure across both geographies and multiple CRE investment vehicles – direct, REITs, or debt. Over the period since 2001, the range in capital value indices between the major global indices equates to 200 per cent or 10.5 per cent per annum. In the period since the GFC, values in the weakest performing market (Ireland) underperformed the strongest market (Canada) by 270 per cent or by 30 per cent per annum.

Simply looking at historic capital values and volatility is not enough to support a global diversification strategy. Understanding how correlated the markets are will also be relevant:
- Only three markets (Canada, Australia, and the U.S.) display a correlation of greater than 70 per cent. This excludes Germany and the Eurozone where the weight of the former in the index skews these results.
- CRE debt shows very low or negative correlation with all other markets.
- Germany shows the lowest relative correlation to its neigh-

Is Global Diversification Necessary?

By: Anne Breen & Matthew Mowell
bours amongst the EMU markets.

Sweden is generally the least correlated to any other real estate market globally.

Is There A Solution?

Despite the case for diversifying, we acknowledge the obstacles for building a global real estate portfolio. Investors on a multi-national strategy experience complexities of domestic ownership and the evolution of real estate asset types globally. Equally important are the levels of transparency, liquidity, and risk in the underlying real estate markets where investors can be exposed to local variations in tax, legal structures, transparency, and trading volumes. That said, we can demonstrate that investing across global markets and across the capital stack on a multi-asset basis (directly, REITs, or CRED) improves diversification.

Investing on a multi asset basis requires, fundamentally, an understanding of the valuation of the underlying real estate assets (which varies globally); an ability to analyze, track, and score financial metrics in tradable securities; the holistic collation and interpretation of market data across lending and equity sources; and a solid process of forecasting prospective returns. With these skills in hand, we have constructed additional infrastructure around the existing SLI real estate ‘Houseview’ in order to build a global ‘relative value’ view across multiple real estate asset types. Within each asset type, this approach indicates across markets where we see greatest value and within each market/ geography provides a recommendation dependant on the method of accessing exposure. For the second quarter of 2014, this suggested:

- increasing exposure to private vehicles and real estate debt in Europe outside of the UK
- maintaining a high exposure to the UK direct and listed markets; increasing exposure to direct Japanese real estate
- maintaining a cautious approach to investing in a number of other key Asian centres given the risk of cooling residential markets and excess construction

There is a compelling case for diversification in CRE – both by market and by asset type. We suggest that diversifying both across geographies and the capital stack enhances returns, reduces risks, and can provide investors with a liquidity solution should they seek one.

This message is very relevant to Canada’s most visible market participants. The country is home to some of the world’s largest pension funds. An MSCI/IPD asset owner survey reports that Canada’s institutional asset owners allocate roughly 12 per cent of their assets to CRE and are already equipped with a successful global platform as more than 30 per cent of their property assets are located outside Canada, more than their American and British counterparts.

Room For Improvement

Where there is room for improvement among the group is mixing up their CRE capital structure allocation. MSCI/IPD indicates these funds are overwhelmingly tied to the traditional methods of accessing CRE such as in-house purchases, unlisted funds, or JV partnerships. However, there is no reported allocation to REITs, a vehicle that is poorly correlated to direct property in the short-term and offers greater liquidity. Also, real estate debt instruments offer exposure with a low-to-negative correlation to the underlying assets, as exemplified by the U.S. market’s experience.

Taking a new approach will become increasingly important to Canadian institutions as the domestic market is unlikely to repeat its past performance. Slowing housing and consumer sectors, along with the spectre of rising interest rates, are poised to provide macro headwinds and are a weight on market fundamentals. The upshot is that large Canadian funds should build upon their global platform to better take advantage of market cycles at home and abroad. This includes seeking out new geographies, but also branching out across the capital stack.

Anne Breen is head of real estate research and strategy at Standard Life Investments Limited

Matthew Mowell is real estate investment analyst (Americas) at Standard Life Investments (USA) Limited
Discover The True Value Of Data Analytics
By Putting Them To Work For You

By: Bryan Ferguson

The Limitations Of Basic Reporting
Most current reporting tools are static; they have limited ability to cut, cross-tabulate, and summarize categorical data. A medium- to large-sized plan sponsor may get up to 70 reports every time a request is made for an update on the plan’s performance. But without the tools to link all the critical pieces together, these reports don’t deliver the depth of understanding of dynamics that are driving costs, what needs to change, and who is affected. Most current reporting is also time-restricted to quarterly or annually which is not ideal in a real-world setting where early warning signals are necessary to change course if needed.

Another challenge is information overload. Employers, benefits consultants, and advisors receive large amounts of data, but it’s difficult to distill which numbers are important without additional analytical plug-ins and tools to integrate all the elements. For example, a report showing the top 50 drugs used by your plan members does not tell you much unless your data adjusts for numerous forms of the same molecule so you get a true ‘apples-to-apples’ comparison. Looking at an entire class of drugs leads to actionable conclusions whereas trying to deal with individual products that may or may not be related will lead nowhere. The raw data is available, but it’s what the analytics team does with that data that derives true value.

Current reporting methods have limited ability to forecast and measure the impact of, for example, drug use on other wellness and HR initiatives. To get the most value, organizations really benefit from reaching out to advisors and insurers who provide reports that cut through immense amounts of data and focus on the strategically important highlights. This is where new interactive reporting tools become key to filling in important gaps.

An Innovative Approach: Interactive Reporting
We are constantly exploring new ways to obtain insights from data. These sophisticated reporting tools bring together different components for a holistic overview of a benefit plan. Interactive reporting starts with a comprehensive data warehouse, securely linking health claims and plan design parameters at the level of each plan member, while still protecting the employee’s privacy.

Interactive reporting also provides simulation capabilities; the ability to adapt key variables to meet individual employers’ needs, the power to break down data by geography and certain sub-populations, and provide benchmarking tools. Naturally, large organizations have much more data and can drill down deeper than smaller organizations, but employers of all sizes...
can benefit from an integrated and holistic view of their plan.

Analytics is done with full protection of all privacy and security conditions. Best practices ensure data is only examined at an aggregate level, with no ability to identify any individual plan member. Using statistical methods, there are procedures to mask data where less than a set number of individuals are involved. Using internal data governance can also ensure compliance and adherence to the strict privacy policies of its partner insurance carriers.

Case Study: Putting Our Analytics To Work

In a recent endeavour to put analytics to the test, TELUS decided to analyze the company’s drug plan by using in-house knowledge and expertise as well as the analytics tools offered to its own customers. Its drug plan costs had doubled in the last 10 years and, without any changes, were projected to increase by one to six per cent on an annual basis.

Its health analytics team examined drug claim data from more than 30,000 plan members and identified four cost containment programs to lower costs while ensuring plan members continued to receive the full range of cost-effective medicines. Ultimately, the measures adopted lowered the cost base by 10 per cent while maintaining a very competitive drug plan for team members and enabling the company to reinvest these savings into other wellness initiatives.

One tool implemented was Maximum Allowable Cost (MAC) on five classes of medicines. MAC pricing dictates the maximum amount that a plan will pay for individual drugs within a given class. For all drugs within the class which have the same mechanism of action and where no difference in efficacy has been clinically demonstrated, the plan will pay up to the price of the most cost-effective product. This can be a brand or a generic product, depending on the therapy. In total, MAC provided 4.4 per cent of the total 10 per cent in cost savings.

Keeping The Workforce Informed

Identifying required changes to a plan design is one thing, but ensuring plan members accept those changes is another. Before implementation, it’s important to recognize the need to shape the path for plan members to ensure they understand and accept the changes. As part of the implementation strategy, employers need a communication plan with clear, simple language, customized where necessary to reflect provincial differences. The plan should include:

- Face-to-face information sessions
- Supplements to the benefits manual that provide detailed information about the benefits plan and the changes being introduced
- A direct-mail piece from the insurance carrier to all plan members that are directly impacted by the changes
- A benefits internal web page, video, e-newsletter, or other electronic communication that can be stored on the company intranet for quick reference

These communication elements will help ensure employees are well-informed and on board with the changes, as well as help to mitigate potential issues.

The Face Of Future Benefit Plan Administration

One of the biggest challenges in benefits administration is to find and analyze the linkages between drug plans, long-term disability, and wellness programs to make well-rounded decisions. As we advance our knowledge, technological capacity, and analytical techniques, employers will have a more fulsome basis for decision-making about solutions that maximize the return on benefit spending.

We can also foresee that analytics can be a way to bring all players together, including public health program managers, to communicate more effectively on how to best deliver coverage for people most vulnerable to high-cost services and medicine.

The Value Of Analytics: Numbers Speak Volumes

Numbers can guide decisions, but they need to be supported by the right team. Good reporting systems require an extensive data warehouse, the right technology, and a multi-disciplinary team of IT and BI specialists, economists, biostatisticians, and actuaries. This level of resourcing means that it will increasingly be up to organizations to provide data and tools to their partners and to benefit advisors.

Analytics is truly part of the new frontier in benefits management and the long-term sustainability of the benefits plan.

Bryan Ferguson is managing principal, Health analytics, at Telus Health Solutions
measured by the replacement ratios they deliver, defined contribution plans have fallen short of their original promise to deliver defined benefit plan benefits.

If my observations at the 2014 DC Summit at Whistler, BC, are any guide, HR and pension professionals are greatly ill at ease with this fact. They are deeply committed to the welfare of their employees—including retired ones. Yet, even a limited discussion on the efficacy of our current DC arrangements revealed a great deal of discomfort.

Solutions are hotly debated, but before any action is taken, it is vital that we pause to examine how and why DC plans are ailing and how we can make them better retirement vehicles.

In this article, I argue that:

- The shortfall is due to original DC designs and practices adopted two to three decades ago when existing capital market returns were at historic highs and the experience with DC plans was modest.
The current typical DC arrangement is a product of piece-meal changes over time, guided by a confluence of factors nobody could have seen at their inception. Furthermore, the existing regulatory framework and newly-identified behaviour biases (heuristics) have kept DC arrangements from adapting to new circumstances and needs.

In order to ‘fix’ DC arrangements, we must first acknowledge the reality of their current design and try to move them towards income generation. This will require us to apply a different ‘framing’ (as behavioural economists call it) to the situation.

An Objective Look

Who hasn’t heard the phrase ‘form follows function?’ The ‘function’ of a pension plan is to provide retirement income! If so, it is worth analyzing the ‘form,’ the actual features of existing DC arrangements, to see if they do indeed fulfill this function. The answer is that this is rarely the case.

Today, DC plans are thought of merely as saving plans and not as retirement income generators. This is a serious issue as approximately 60 cents of every retirement dollar will come from returns earned after retirement. Without addressing the cost-efficient conversion of assets into income (i.e. decumulation), the danger of significantly lower retirement incomes looms large.

My studies and observations of DC plans go back to the mid-1990s. At that time, Cortex (of which I was the founder) developed a method of articulating a sponsor’s investment principles and beliefs (SIP&B for short). This has since become standard industry practice.

The idea was to infer and make visible what sponsors must have believed in order to run their investment programs. Of course, nobody ‘believed’ these ‘implied beliefs,’ as they did not exist. But that was the point! As investment programs had been gradually modified through a myriad of features added individually over time, it meant the program no longer had a coherent, conscious design. That begged the question: Why run such a program? To help sponsors redesign their programs, we then asked them what they actually believed and worked from there.

Now almost 20 years later, it is time once again for reflection and to apply the same scalpel to a new organ. Let’s boldly state the implied or apparent beliefs behind our existing DC plans. Our DC arrangements are designed as if we believed:

- DC assets exist to grow with no direct or indirect relationship to retirement incomes. Success is measured by achieved rate of returns and standard deviation.
- While pension systems shift consumption from one’s working life into retirement and cover a period of 65 to 70 years, only the 35 to 40 years of employment (but not the next 20 or so after retirement) are worthy of corporate and professional attention.
- DC members are rational decision makers, who after proper instruction will have the capacity to act in a role similar to that of a pension fund CIO. This instruction, in the form of quarterly newsletters and occasional written pieces (only an infinitesimal number of DC members avail themselves of seminars or face-to-face education or use websites), are sufficient to turn them into such CIOs.
- The nine to 10 per cent combined savings rates of typical DC plans (which replaced DB plans en masse only 15 to 20 years ago) will yield DB-comparable replacement ratios.
- DC assets can be turned into incomes at fair prices by the individual retirees on their own.
- Financial intermediaries (banks, money managers, insurance companies, brokers, etc.) will, through market forces, voluntarily introduce practical, cost-effective, and transparent products and solutions that individual members can use to convert their assets into income on their own.
- Individual members have the ability to overcome the information asymmetry and agency problems inherent in face-to-face negotiations with financial intermediaries.

These implied beliefs are truly heroic! Our research over the past five years has failed to identify even a handful of industry professionals who would accept even one of the above. The adage that consensus is what people profess in chorus, but not hold in private, has never rung more accurate.

Furthermore, in a recent survey, 75 per cent of CFOs believed employees are not and never will be capable of dealing with decumulation issues.

Landscape Has Changed

The world today is very different from the one in which our existing DC programs developed, yet our approach hasn’t changed. At the time of most DB to DC conversions (in the midst of the longest and greatest market boom in history), capital market return expectations of seven to eight per cent looked rather conservative. The existing target ‘median’ combined contribution rates of nine to 10 per cent of payroll (equivalent to the level of sponsors’ DB contributions then) is a product of that era. Today, this target is clearly insufficient to deliver a decent replacement ratio.

Once the switch to DC plans took place, the industry gradually lost sight of what they were designed for – income generation – and DC plans over time became perceived as nothing more than savings vehicles. So, given the DB structure, it made sense that sponsors were focusing on investments (as it was their pension promise to keep and their contribution to minimize). Assets-to-income conversion was a non-issue for DB plans. But DC plans are different financial instruments! Without addressing such conversion, even ‘best practice’ corporate savings efforts (design, investment line-up, education, monitoring, governance, reporting, etc.) become moot.

In fact, what started as a prudent measure of limiting corporate financial exposure, gradually became an unarticulated industry belief that ‘creating pensions’ was solely the members’ responsibility. The heavy task of converting assets into income (decumulation) landed on the

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inexperienced and unprepared shoulders of the members.

Up to that point, members had never been expected to do anything concerning their pensions. They retired and the promised cheque duly arrived the next month and every month. And while no one disputes that members need support to make proper investment decisions and such support is provided in the accumulation phase, this support, simply disappears at decumulation decisions which are far more complex and have far more impact than those in accumulation.

**DC Plans Unchanged?**

The status quo, which was based on the ephemeral experience of a previous era, has remained unchanged despite our collective subsequent experience to the contrary. Why is this?

The winner of the 2002 Nobel Prize in economics, Daniel Kahneman, discovered systematic flaws and biases (he calls them heuristics) that may offer one explanation. He suggests that as the original purpose and assumptions of a system fade, we diligently begin looking for rationalizations to avoid radical rethinking (which usually causes considerable short-term pain).

Another less visible, but probably more powerful, reason for the lack of change in DC programs is that when only mere compliance with the existing regulatory framework is required, systemic flaws are simply not revealed. These two reasons – biases (such as confirmation, status quo, framing, availability, and a myriad of others) and an uncertain regulatory framework – have conspired to keep our misconceptions and mistakes from being corrected.

In hindsight, the moment the task of income generation was shifted to the member, everything should have been rethought. Longevity risk, income adequacy, members’ ability to make such decisions, and the sponsor’s DC role should have been the new focus of thinking. Instead, we (this author not excepted) kept the investment focus.

Reading the ’2004 CAPSA Guidelines #3 for Capital Accumulation Plans’ unearths no reference to retirement income or pension, the very purpose of such plans. In fact, based on those guidelines, the most reliable longevity protection, annuities, could not have been deployed as options. Their volatility as investment vehicles is extremely high and, therefore, they are not safe by the measures listed in the guidelines.

Clearly, what we have here is an acute case of what Kahneman calls a “framing” problem. By switching to DC plans, corporations merely wished to limit the size and volatility of their pension contributions. In practice, the switch resulted, by accident, in a confluence of factors that morphed into a time bomb, whose slow-fuse explosion is being felt today and will be for many years to come.

None of this was, or realistically could have been, foreseen 15 to 20 years ago. There is no villain in this drama. Most industry players, including members who decided to switch to DC plans, acted rationally based on the best information available at the time. Of course, what is thought to be the best information at any given time, inexorably turns out to be sadly outdated in just a few short years. But our collective ‘optimism’ and ‘overconfidence’ biases, coupled with self-interest, kept us from designing systems for the worst-case scenario.

DC plans can be made much better, and they must be, as such arrangements – rightly or wrongly – will remain the main retirement vehicles for millions of Canadians for many years to come.

The first step on the road to fixing them is evident. We must start with acknowledging that their purpose is to provide income for retirees. Without that first step, the rest of the road will surely prove a hard slog.

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Playing The Long Game:

Why Environmental Themes Should Be Front And Centre For Institutional Investors

By: Martin Grosskopf

Two decades after world leaders gathered at the 1992 Earth Summit in Rio de Janeiro, Brazil, the signs of impactful action on global warming are still sparse despite the rising involvement of the financial community. While some continue to debate the science and ultimate impact of human activity on temperature trends, rapid innovation in the field of sustainability has been disrupting the status quo, pushing the boundaries of traditional industries and producing compelling and marketable solutions to the climate change challenge.

Asset owners like pension funds must revisit and adapt their investment models to both foster and benefit from this fundamental transformation of the global economy and the capital markets that serve it. Sustainable themes are now an important opportunity set in global markets as investors seek out companies and trends that will innovate and drive economic growth in the future.

Disruption In Action

The rationale for sustainable investing is clear: the global population is growing and resources must be used efficiently to meet increased demand while ensuring environmental impacts are minimized. Over the last 10 years, ample support has emerged for fiduciaries overseeing long-term assets to consider these material risks within their investment decisions. But asset owners also need to understand that sustainable investing isn’t just a means of risk reduction, it is an opportunity to invest in those very areas of the economy that will drive growth in the decades to come. Consider just a few of the many booming sectors that are responding to growing demand and rapidly transforming traditional industries in the process.

► Efficient vehicles - In order to meet local air quality concerns and address broader issues of carbon emissions, policymakers have set aggressive fuel efficiency targets for passenger and commercial vehicles thereby creating a surging demand globally for hybrid-electric and electric vehicles. Tesla is the current leader in this disruptive trend sweeping through the industry. In Canada, plug-in electric vehicle sales have more than quadrupled over the past three years (Source: Green Car Reports, as of July 2014), while the U.S. has seen similar exponential growth. Electric vehicle sales have more than tripled from the first quarter in 2012 to the first quarter of 2014 (Source: Stifel Nicolas Research, as of April 2014). Today, consumers can buy electric vehicles not just from Tesla, but from other major auto manufacturers like BMW, General Motors, and Nissan.

► Solar technology - It only takes an hour for the sun to produce enough energy to meet global energy demand for a year and yet solar energy today accounts for a meager one per cent of global power consumption. That is changing as rapid cost reduction and new financing structures improve returns and increase penetration. In an increasing number of regions, solar energy presents a direct threat to conventional utilities.

Despite the obvious disruptive nature of these technologies, expertise in understanding their investment implication largely remains the remit of specialist funds. The financial industry model of sector specialists is not conducive to the thematic analysis that would place appropriate emphasis on these technologies. For example, should residential solar be analyzed as a consumer product, power technology, or financing model?

Still, the relative lack of attention given to sustainable lighting - The widespread ban on incandescent light bulbs is one of the many forces transforming the lighting field. Smart lighting, dominated by solid-state technologies such as LEDs, has been growing rapidly as policymakers push builders and consumers to adopt energy-efficient practices. It is projected that LEDs will represent 45 per cent of the global lighting market by 2015 (Source: Phillips, as of April 2013), and residential LEDs could represent 70 per cent of the general light market by 2020 (Source: McKinsey & Co., as of 2013).
Risk Aversion And The Funding Gap

Many of the most innovative environmental companies receive significantly less attention than their counterparts in conventional industries for a rather simple reason, they are riskier when using conventional metrics. In almost every case, disruption of 100-year-old industries is not only difficult, but capital and time intensive. Post the great recession of 2008-2009, asset owners of all stripes have prioritized near-term cash flows and low volatility over future potential. This is not particularly surprising, at least for pension plans with defined benefit obligations.

It is somewhat difficult to reconcile this risk aversion with the increasing call for a long-term investment focus. While capital rushes towards the conventional energy industry to progress easily defined opportunities in drilling, mining, and transport, environmental innovators, particularly in the public markets, often remain underfunded relative to their opportunity. The few exceptions have been ‘Yield Cos’ that are harvesting cash flows from long-term utility contracts with little or no technology risk. Few investors see it as their role post-2008 to provide risk capital to long horizon themes, regardless of the movement towards responsible investing. When asset owners do make thematic environmental commitments, it is usually within the private market, yet even this strategy has suffered post recession due a lack of exit opportunities.

The nuances of capital flows for environmental solutions providers would not be of much concern if it were not for the tremendous level of commitment being made by the financial community to address key environmental issues such as water and carbon emissions.

For instance, the United Nations-supported Principles of Responsible Investment initiative, which encourages organizations to incorporate environmental, social, and governance issues into their investment practices across asset classes, has over 1,200 signatories representing US$45 trillion of assets under management globally, including both asset owners and investment managers (Source: UNPRI.org).

Despite the commitment, investors continue to prioritize stability over transition. So, while US$5 trillion is suggested for a clean energy transition between now and 2020, it is projected investors will pour US$19 trillion into fossil fuel investments. Similarly, an IMF report in 2013 estimated total subsidies to fossil fuel industries at $1.9 trillion (Source: ‘Energy Subsidy Reform: Lessons and Implications’, International Monetary Fund, as of January 2013). This dwarfs renewable energy subsidies which totaled just US$88 billion in the same year (Source: European Wind Energy Association, as of February 2013). Most investors will understandably not heed calls for ‘divestment’ of fossil fuel producers given their importance in index referenced strategies, but will instead ‘engage’ with their primary portfolio holdings in an effort to improve environmental performance. In effect, the environmental objectives are rather more flexible, nuanced, and long term than the financial ones.

The Thematic Solution

So how can long-term asset owners like pension funds overcome the ‘short-termism’ inherent in global capital markets today? A major part of the solution lies with large institutional asset owners themselves. While many have already signed on to the United Nations Principles for Responsible Investing, very few strategies are funded or evaluated based on their ability to promote long-term objectives such as reduced carbon emissions.

A thematic approach allows investors to go beyond ESG monitoring and to delve into the specific mid- and long-term trends and structural changes that are at play and perhaps even mould the future in their interest.

We have identified four environmental mega-themes which will remain relevant for decades:

- energy and power technologies
- waste management and pollution control
- water and waste water solutions
- environmental health and safety

The trends in resource efficiency and environmental mitigation reshaping the global economy are directly challenging existing industries and providing companies with opportunities for innovation to emerge. Within each of these themes, it is possible to find companies at different stages in the value chain and of corporate maturity resulting in portfolios with high active share and significant diversification benefits.

The solutions are out there, but they require investors willing to match their long-term horizons with a readiness to invest in innovation.

Martin Grosskopf (MBA, MES) is vice-president and portfolio manager at Acuity Investment Management Inc.

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Socially Responsible Investing

Challenges And Responsibilities

Responsible Investment Association

Benefits and Pensions

monitor
Responsible Investing In Canada: Conference Covers Key Bases

By: Cary Krosinsky

ust back from what was an excellent, buzzing responsible investing conference in Toronto, ON. Called the RIA, what was until last year known as the SIO, is an annual gathering of financial professionals interested in or already working with applying environmental and social considerations to investment. Around 350 professionals gathered to hear a variety of topics discussed, all of which are gaining in relevance.

First off was a panel on the issue of economic inequality, featuring excellent speakers including Bob Walker and Michelle de Cordova, of NEI Investments; Kevin Ranney, of Sustainalytics; and Adam Kanzer, of Domini. Of particular interest was the recent effort to pass a shareholder resolution on Google paying a fairer share of corporate tax. Recent articles go into the details on this such as a recent piece in the Guardian.

Divestment Campaign

Next was myself, along with Dermot Foley, of Vancity and IA Clarington, on ‘Carbon Constraints and Investment Strategy.’ As per my recent About.com piece on ‘The Problems with the Divestment Campaign,’ I argued at length for those pitching for a divestment campaign to instead consider how to influence investment strategy, so that capital can enable the necessary energy transition. Foley eloquently stated the case for the strategies his firm deploys and, as he stated earlier this year for Corporate Knights, “It’s part of our overall strategy of encouraging all participants in the market to wake up to the possibility of very real carbon constraints.”

Another plenary went into detail on impact investing in Canada, one more case of the need for capital not yet met by adequate projects on the ground, as well as additional creativity within the sphere of allowable investment infrastructure. An impact investing fair followed, along with the first opportunity for detailed networking as conference attendees considered all they were hearing and learning.

For myself, the following morning provided the opportunity to sit in on one more panel on climate change and investment strategy, in which we went into more depth on this subject, including hearing from a representative of 350.org.

Prior to this, Mariam Dao Gabala, West African regional representative for Oikocredit, gave an eloquent and touching overview of impact investing in practice in Africa. He talked about a project to build a market for uneducated women to sell their produce which was a rousing success, leading to further related education and health facilities on the ground. Scaling such smaller ideas into capital which can be deployed to a larger extent is clearly the next hurdle, but providing case studies of success is as always a necessary first step.

Other concurrent panels on the second day included talks on RI basics and anti-corruption, followed by a panel on the performance myth, how extractive companies can try to be sustainable, and more on human rights and digital technology.

Future Of Responsible Investing

The conference wrapped up on the final day with an in-depth discussion on the future of responsible investment. While SRI is starting to make serious inroads, ESG really needs to be integrated by all mainstream investors, or certainly many more assets than currently is the case, so that meaningful environmental and social progress can be made and realized.

The annual responsible investing conferences in Canada are always excellent, as was the equivalent event in Montreal, QC, two years prior. This was the first iteration of RI Week in Canada, including other side events hosted by PRI and others.

In late September in Montreal, there is another week of events, in this case the Global PRI events, both the PRI In Person and Academic Network events. They are being co-hosted by the excellent folks at Concordia University. Not to be missed.

Canada is right in the middle of all that is happening in many ways – a resource rich country that is also keenly socially aware and focused, and environmentally concerned. Keep a keen eye on Canada as a country willing to dive in and tackle the world’s toughest problems.

Cary Krosinsky is an advisor, teacher, and author on issues pertaining to the nexus of sustainability and finance. He teaches and advises on sustainable investing curriculum for Columbia University’s Earth Institute, in conjunction with Kerry Kennedy’s RFK Center for Human Rights & Justice. He is also a senior associate at the University of Cambridge.
Responsible Investing… Investing In The Future

By: Deb Abbey

Responsible investing has changed. It isn’t about my values or your values anymore. It’s about managing risk to long-term shareholder and stakeholder value. In the ’80s and ’90s investors were convinced that companies should focus entirely on shareholder value. We know better now.

Companies don’t operate in a vacuum. They have employees, customers, suppliers, communities where they operate, sectors, regulatory environments, governments, international norms, and so on.

Responsible Investment, or RI, has come to represent socially responsible investment, ethical investment, sustainable investment, community investment, mission-based investment, and, more recently, impact investment. They are all components of RI.

Reflects The Evolution

RI reflects the evolution from just screening out companies that we don’t like to integrating environmental, social, and governance or ESG criteria into the selection and management of investments.

Responsible investors have long known that the integration of ESG factors can provide superior risk adjusted returns and positive societal impact. What’s changed in the past decade is that it’s becoming a mainstream function of good investment practice, resulting in better, more informed investment decisions.

So why is this the case? It is because our world is very complex and the tools that investment managers have traditionally used to manage risk simply aren’t up to the task anymore. Quarterly results just aren’t enough. We need to know how the companies we invest in are managing the future and ESG analysis gives us a bigger and better window into their operations. It’s just common sense.

Increasingly, investment managers are incorporating ESG analysis as a means of reducing risk, recognizing opportunity, and generating superior long-term financial returns.

In a world where climate change, water scarcity, and global supply chain issues dominate the business pages, that job has become a lot more challenging. There’s a growing consensus that accurate valuations and proper risk management are only possible with adequate disclosure of how companies are addressing these issues.

The UN Sustainable Stock Exchanges Initiative has brought together eight exchanges to explore how they can work with investors, regulators, and companies to increase transparency on ESG issues. The world’s largest stock exchange, the NYSE Euronext, recently joined the initiative.

Understand The Link

The goal is to encourage responsible, long-term approaches to investment. Stock exchanges are beginning to understand the link between profitability and responsibility. And recent research has shown that analysts are giving more positive recommendations to companies that address ESG risk.

With a growing body of evidence that ESG considerations have an impact on the financial performance of securities, the UK, Australia, France, and Germany now require that investment decision makers disclose the extent to which they take these factors into account. The Ontario government is considering similar legislation.

The RIA’s 2012 Responsible Investment review reported that there are over $600 billion in RI assets in Canada. That represents 20 per cent of the overall assets under management (AUM) in Canada.

Those numbers reflect the views of Canadians. A Standard Life/Ipsos-Reid Survey in 2011 showed that 87 per cent of Canadians are interested in Responsible Investments if the performance is as good or better than other investments.

And a recent study by NEI Investments showed that four out of five investors expect advisors to have at least a broad knowledge of Responsible Investing. Their study also showed that many investors are more likely to work with an advisor who talks about Responsible Investing.

Reduce Risk

There are many RI managers in Canada who incorporate ESG factors to reduce risk and add value to active management strategies. Others use a best of sector approach. They identify the companies that are the best in their sector or class in terms of environmental protection, supply chain management, alternative energy, executive compensation, consultation with aboriginal communities, and so on.

Because it’s not just about mitigating risk, still others take a thematic approach and invest in sustainable businesses. These are companies involved in energy efficiency, green infrastructure, and clean fuels, as well as companies providing adaptive solutions to some of the most challenging issues of our time. These are investments that present solutions to our problems and provide great opportunities for investors.

Deb Abbey is the co-author of the ‘50 Best Ethical Stocks for Canadians’ [2001] and the author of ‘Global Profit and Global Justice, Using Your Money to Change the World’ [2004].
As a major commercial real estate investor, HOOPP (Healthcare of Ontario Pension Plan) places a great deal of importance on ensuring that the buildings it owns are ‘healthy’ buildings. And, as a long-term investor, it believes that enterprises that effectively implement environmental, social, and governance (ESG) standards are likely to be better managed and more financially successful than those that do not; making them better investments over time.

It is with this commitment to sustainability and industry best practices that the LEAP (Leadership In Environmental Advancement Program) Awards were launched in 2012.

The inaugural LEAP awards were presented to the ‘Low Energy Leader’ and energy and carbon certificates at HOOPP’s commercial buildings recognized top energy performance. Since its launch, LEAP has recognized outstanding performance in the areas of sustainability and leadership engagement with industrial and retail tenants.

In future years, the awards program will look at other environmental indicators such as greenhouse gas emissions, carbon reduction, water consumption, and waste diversion. By building healthy, energy efficient, and high-performing buildings, HOOPP is delivering a long-term benefit to its tenants and to HOOPP’s members.

With over $8 billion in real estate assets and more than 180 properties in Canada and around the world, real estate is an important asset class for the pension plan. Real estate produces regular monthly income which aligns perfectly with the need to provide pension benefits for its more than 286,000 active and retired members. HOOPP has more than $51.6 billion in net assets and is fully funded.

HOOPP is rapidly gaining an international reputation in responsible investment and environmental sustainability winning the Best Real Estate Investor Award in 2013 and the LEAP program has been recognized by the National Association for Industrial and Office Properties.

Lisa Lafave
Senior Portfolio Manager, Real Estate
HOOPP (Healthcare of Ontario Pension Plan)
Why The SASB Is Important

By: Bruno Bertocci

S tandards make a difference. While the importance of standards in our lives may not be obvious, their existence cannot be understated.

The comparability of financial data is reliant on common accounting and disclosure standards. The development of common accounting standards allows investors, asset owners, and analysts to compare the financial accounts of companies around the world on an ‘apples-to-apples’ basis. While some local adjustments may be necessary, and some judgment is involved in these comparisons, the key financial metrics that determine revenues, margins, assets, and liabilities are generally easily comparable.

Until recently, analysts that wanted to compare different companies with respect to their energy use, environmental waste, personnel practices, or safety records could collect data from a variety of sources. However, commonality of disclosure and comparability was challenging. In addition, determining the most material data was also difficult and subject to varying opinions.

The creation of the Sustainability Accounting Standards Board (SASB) in 2011 addressed these issues directly. The mission of SASB is to create “a world where transparent corporate sustainability performance and a shared understanding of its significance drive companies and investors to make decisions that increase long-term value and improve sustainability outcomes.”

We believe that SASB is in the process of identifying the key data items that are most material to the assessment of a company’s sustainability profile and it is also writing the accounting rules for the disclosure of this information. These developments should result in the elevation of sustainability data to the same plane, quality control, and certainty that we have for financial data.

Given that this information is material, we believe that there will no longer be any reason for investors to ignore it. On the contrary, academic work suggests this can improve and enhance the investment process, helping investors expand their mosaic of relevant data and adding to the batting average of stock-selection processes.

Bruno Bertocci
Senior Portfolio Manager and Managing Director
UBS Global Asset Management
SRI: Where You Fit Makes A Difference

By: Brian Holland

It appears that there are three basic categories of SRI investors and understanding where you fit will make all the difference.

The first group of investors are those that simply wish to placate their stakeholders by saying that, ‘yes, indeed, the fund does employ an SRI manager.’ You may say this is cynical but let’s face it, socially responsible investing is a relatively new field and not everyone is onboard. For these individuals, you have numerous choices. Many investment managers have employed the services of an SRI screening service and use this data to modify an existing investment strategy. Based on the SRI screening report, a few names are eliminated and, voila, an SRI portfolio. In hiring such a manager, the normal criteria would apply (i.e. return, risk, style etc). In addition, one needs to assess the effect that SRI investing has had on the returns over time – if any.

The second group is those that wish to align the portfolio with their values. Normally these investors know which company or group of companies they dislike whether they are tobacco or fracking companies. In such a circumstance, a specialist SRI portfolio manager may not be needed, but rather the client instructs the investment manager what stock(s) to eliminate. But be warned; this approach requires effort on your part. The first hurdle is to have a well-informed understanding of the issue. It is not unheard of that companies are targeted for protest and internet vilification long after remedial action has been taken so it will take some effort to stay current on excluded companies. Just as important, if too many stocks are eliminated, it may be difficult for the manager to add value or build a properly diversified portfolio, not to mention the measurement of investment results. So don’t be surprised if the manager pushes back on your request. The best approach for such portfolios is to limit your focus and be well-informed.

The final SRI group is ‘active owners.’ To satisfy the needs of this group, a comprehensive understanding of the company, industry, and government regulations is required. It involves the SRI manager trying to make their presence felt by ensuring that their proxy vote reflects their concerns, by engaging with corporate management directly, and by asking questions at the company’s annual general meeting (AGM). Also, and if it is warranted, as a shareholder you have the right to put a proposal forward at the AGM.

Socially Responsible Investing for a Small World

Guardian Ethical Management (GEM) is a joint venture between Guardian Capital LP, one of Canada’s longest-established investment management firms, and NEI Investments, home to Ethical Funds – Canada’s leading socially responsible mutual fund family for more than 25 years.

GEM combines the investment management expertise of Guardian Capital LP and the comprehensive environmental, social, governance, and engagement program developed by Ethical Funds.

For more information please contact Brian Holland:
bholland@guardiancapital.com
416-350-3146 1-800-253-9181
www.gemportfolios.com

Guardian Ethical Management Inc.
Finally, such SRI programs might try to change the rules of the industry by engaging government regulators or industry associations. All these tactics take time and, as such, investment managers using this approach typically employ specialist SRI researchers that focus on these issues. These SRI programs can be very effective, but it is not worth the effort if you or your stakeholders just want something ‘green.’

In summary, SRI programs and investment manager offerings can be very different. The place to start is to try to understand what you really want.
Pursuing sustainable impact and returns.

At UBS Global Asset Management, we believe that:

- Sustainable growth trends are in their infancy and present investment opportunities.
- Companies focusing on sustainability strengthen their competitive position, create value and often have superior business models.
- Investors can make a positive impact while doing well financially.

Learn how the UBS (Canada) Global Sustainable Equity Fund can fit into your portfolio.

Please contact UBS-Global-AM-Canada@ubs.com for more information.
AGF MANAGEMENT LIMITED (AGF) Michael Peck, Senior Vice president, Head of Canadian Institutional; 66 Wellington St. W., 31st Floor, Toronto Dominion Bank Tower, Toronto, ON M5K 1E9; 416-865-4253 Fax: 416-865-4247 eMail: michael.peck@agf.com Web: www.agf.com/institutional/Products/Services: Offers clients access to an environmentally focused strategy through its global sustainable growth strategy Managed Since: 1991* Philosophy/Style: Its strategy utilizes a rigorous investment process to identify reasonably priced growth securities with long-term capital appreciation potential; it then focuses on specific investment opportunities within four key themes where innovative solutions are being applied to critical environmental issues; this offers investors exposure to high-growth environmental themes and catalysts

AMUNDI CANADA INC. Gilbert Lavoie, President; 2000 McGill College Ave., Montreal, QC H3A 3H3; 514-982-2902 Fax: 514-982-2915 eMail: gilbert.lavoie@amundi.com Web: www.amundi.com/Products/Services: All investment processes can incorporate ESG factors in portfolio construction, either bonds or equity Managed Since: 1989 Philosophy/Style: Best-in-class approach in a global universe where an extra financial rating is based on an agency consensus and then enhanced by internal analysis stemming from the SRI analysts’ meetings with companies and their stakeholders; extra financial team consists of 14 analysts dedicated to research

FIERA CAPITAL CORPORATION David Pennycook, Vice-chairman & Executive Vice-president, Institutional Markets; 1501 McGill College Ave., Montreal, QC H3A 3M8; 514-954-3325 Fax: 514-954-3326 eMail: dpennycook@fiерасаpital.com Web: www.fieracapital.com/Products/Services: Active Fixed Income Ethical, Canadian Equity ESG -Selenium, US Equity ESG, International Equity ESG, Balanced EFT Fund Managed Since: 2004 Canadian Clients: 3 Philosophy/Style: Integrates three approaches to establish its ESG strategy; begins by screening from the investment universe the companies which operate in ineligible industries; then ranks the remaining companies on their ESG performance and applies rigorous governance practices

GENUS CAPITAL MANAGEMENT J.P. Harisson, President, 6th Floor - 900 W. Hastings St., Vancouver, BC V6C 1E5; 604-683-4554 Fax: 604-683-7294 eMail: info@genuscap.com Web: www.genuscap.com/Products/Services: Impact Equity, Biophase Dividend Equity, Bio
sphere Canada + Global Equity, Biosphere Corporate Bond Managed Since: 1994 Philosophy/Style: Specializes in building globally diversified portfolios made up of high-quality companies with good fundamentals that are also attractive in terms of their price momentum; believes this combination of attributes helps minimize portfolio risk and leads to long-term outperformance.

GLC ASSET MANAGEMENT GROUP LTD. Craig Christie, Vice-president, Institutional Investment Counseling; 100 Osborne St. N., Winnipeg, MB R3C 3A5 PH: 204-946-7988 Fax: 204-946-8818 eMail: gclcinstitutional@glc-amgroup.com Web: www.glc-amgroup.com Products/Services: Ethics Fund 9.02G, Socially Responsible Canadian Bond Fund 16.02G, Commercial Mortgage Fund Managed Since: 2002 Canadian Clients: 122* Philosophy/Style: SR equity fund invests in shares of publicly traded Canadian companies that conduct business operations in a socially responsible manner, according to ‘ethical’ screens that show strong growth prospects, some exposure to foreign companies that meet these criteria; integrated top-down, bottom-up style; SR bond fund invests in Canadian federal and provincial government debt obligations and an ‘ethical’ screened listing of medium- to high-quality corporate bond debt securities
* As at April 2014

GUARDIAN ETHICAL MANAGEMENT Brian Holland, Senior Vice-president, Client Services; 199 Bay St., Commerce Court W., Ste. 3100, Toronto, ON M5J 1A7 PH: 416-350-3146 Fax: 416-364-9634 eMail: bholland@guardiancapital.com Web: www.gemportfolios.com Products/Services: Canadian Equity, Global Equity, Fixed Income, Balanced, Dividend Strategies Managed Since: 2005 Canadian Clients: 4 Philosophy/Style: Believes that engaging management is the most effective approach to change in corporate practices.

LETKO, BROSseau & ASSociATES INC. Lisa Caswell, Client Services; 145 King St. W., Ste. 2101, Toronto, ON M5H 1A8 PH: 416-426-1780 Fax: 416-426-1587 eMail: lisa.caswell@lbca.ca Web: www.lbca.ca Products/Services: ESG Balanced Fund Managed Since: 2010 Philosophy/Style: Mission to safeguard and responsibly grow entrusted assets; uses fundamental long-term approach with rigorous in-house analysis of companies, industries, economies; employs broad international diversification with careful price discipline; seeks high credit quality fixed income; companies screened for environmental care, corporate governance, social rights.

LINCLUDEN INVESTMENT MANAGEMENT Wayne Wilson, Vice-president; 1275 N. 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 Products/Services: ESG Mandates - Canadian Equities, US Equities, MSCI EAFE, MSCI World Managed Since: 2012 Canadian Clients: 3 Philosophy/Style: Value investors who believe that while financial markets are efficient in the long term, they can be inefficient in the short to medium term and financial markets will often misprice the stock price of a company in the short run giving an investor the opportunity to buy securities at a discount to their economic or intrinsic value; ESG analysis is integrated in all portfolios in forming of the assessment of the quality and stability of each company’s cash flows.

MFS INVESTMENT MANAGEMENT CANADA LIMITED Christine Girvan, Managing Director; Sales, Canada; 77 King St. W., 35th Floor, Toronto, ON MSK 187 PH: 416-361-7273 eMail: cgirvan@mfs.com Web: www.mfs.com Products/Services: Offers a range of four pooled funds which are managed with SRI considerations: Responsible Balanced Fund, Responsible Canadian Fixed Income Fund, Responsible Canadian Equity Fund, Responsible Global Research Fund; offers customized screening for separate portfolios Managed Since: 2000 Canadian Clients: 11* Philosophy/Style: Socially responsible investing is an investment strategy that seeks to maximize long-term financial return through investments in companies that more consistently promote environmental stewardship, consumer protection, human rights, and diversity
* As of March 31, 2014

MONTRUSCO BOLTON INVESTMENTS INC. Richard Guay, Senior Vice-president; 1501 McGill College Ave., Ste. 1200, Montreal, QC H3A 3M8 PH: 514-842-6464 Fax: 514-282-2550 eMail: guay@montruscobolton.com Web: www.montruscobolton.com Products/Services: SRI guidelines applied to all fundamentally managed strategies Managed Since: 2005 Canadian Clients: 1 Philosophy/Style: Filters include alcohol, tobacco, adult entertainment, risk countries; shareholder engagement strategies include management meetings, formal requests to boards of directors, shareholder proposals, collaborative engagement strategies.

OPTIMUM ASSET MANAGEMENT INC. Gérard Gagnon, Vice-president, Investment; 425 de maisonneuve Blvd. W., Montreal, QC H3A 3G5 PH: 514-288-7545 Fax: 514-288-4280 eMail: ggaqnon@optimumasset.com Web: www.optimumasset.com Canadian Clients: 16 Philosophy/Style: Believes that a company having good ESG standards and practices will, in the long run, be better managed and, therefore, get better results.

PHILLIPS, HAGER & NORTH INVESTMENT MANAGEMENT John Skens, Head of Consultant Relations (Canada); 20th Floor, 200 Burrard St., Vancouver, BC V6C 3N5 PH: 604-408-6238 Fax: 604-685-5712 eMail: data@pnh.com Web: www.pnh.com Products/Services: Pooled investment services using Community Values Funds and RBC Jantzi Fund - Community Values Balanced Fund, Community Values Bond Fund, Community Values Canadian Equity Fund, Community Values Global Equity Fund, RBC Jantzi Balanced Fund, RBC Jantzi Canadian Equity Fund, RBC Jantzi Global Equity Fund, Segregated Investment Services Managed Since: 2002 Canadian Clients: 2 Philosophy/Style: Community Values Funds are modeled after its ‘core’ funds, and managed according to Community Values Investment Principles, which are applied to a company’s environmental, social, and governance record; investments are not made in companies that score poorly against these criteria in the investment principles; the RBC Jantzi funds utilize Sustainalytics to implement ESG criteria in the funds’ investment process.

* There is a Canadian non-profit organization invested in two of its SRI strategies.

RENEWAL FUNDS Nicole Bradbury, Vice-president; 500-163 W. Hastings St., Vancouver, BC V6B 1HS PH: 604-844-7747 Fax: 604-844-7441 eMail: valerie@renewalfunds.com Web: www.renewalfunds.com Products/Services: Canadian Limited Partnership, US Limited Partnership, Canadian Trust Managed Since: 2008 Philosophy/Style: Believes the way we are currently living on the planet is unsustainable and that by
supporting businesses that empower consumers, businesses, and governments to make more resilient choices we can create social, environmental, and financial returns

SARONAS ASSET MANAGEMENT Khan Huynh, Investor Relations; 55 Victoria St. N., Kitchener, ON N2H 5B7 PH: 519-883-7557 eMail: sarona@saronafund.com Web: saronafund.com Products/Services: Private equity fund-of-funds in emerging markets Managed Since: 1993 Philosophy/Style: Private equity fund-of-funds investing in small/mid-market companies in frontier and emerging markets

STANDARD LIFE INVESTMENTS INC. Jay Waters, Client Director; 121 King St. W., Ste. 810, Toronto, ON M5H 3T9 PH: 416-367-2049 Fax: 416-367-1329 eMail: jay.waters@standardlife.ca Web: www.sli.ca Products/Services: Offers separate accounts according to screening criteria specified by the client Managed Since: 1999

UBS GLOBAL ASSET MANAGEMENT David Coyle, Executive Director; 161 Bay St., Ste. 4100, Toronto, ON M5J 2S1 PH: 416-681-5200 Fax: 416-681-5100 eMail: david.coyale@ubs.com Web: www.ubs.com Products/Services: Global Sustainable Equity available as segregated accounts and compliant mutual fund Managed Since: 1997 Canadian Clients: 2 Philosophy/Style: Global Sustainable Equity invests in attractively valued companies with strong fundamental valuation as well as a long-term sustainable business model: the strategy is actively positioned to benefit from themes such as water and energy conservation and demographics

SARONAS ASSET MANAGEMENT (CANADA) INC. Heath Cooke, Director, Institutional Clients; TD Canada Trust Tower, 161 Bay St., 27th Floor, Toronto, ON M5J 2S1 PH: 416-370-2025 eMail: hec Cooke@unigestion.com Web: www.unigestion.com Products/Services: Incorporates ESG considerations within the investment processes for pooled funds and segregated mandates in all four of its investment lines: risk managed equities (Global, EM, US, Europe, Asia Pacific, Japan), Private Assets, Hedge Funds, Cross Asset Solutions Managed Since: 2004 Canadian Clients: 33 Philosophy/Style: As UNPRI signatories, it is committed to incorporating responsible investment principles into investment practices; investment philosophy is focused on understanding all kinds of risks, including ESG related risks, and actively managing them to deliver outperformance and protection against downside exposure Managed Since: 2004

WELLINGTON COMPANY LLP Susan M. Pozer, Director, Consultant Relations; 280 Congress St., Boston, MA 02210 PH: 617-951-5000 eMail: mig@wellington.com Web: www.wellington.com Products/Services: SRI guidelines are client directed, wishing to discuss these guidelines for most of US, Global, and International Equity and Fixed Income products; signatory to the UN PRI Managed Since: 1994 Philosophy/Style: Has assisted clients in the development of investment ‘screens’ or complete investment styles that seek to achieve specified investment goals while complying with the restrictions

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In recent years, companies in a range of industries have decided to move production back to North America, reversing a decades-old pattern of outsourcing to China and elsewhere. Many analysts are hopeful that such “insourcing” will help drive U.S. economic growth in the coming years, primarily by boosting manufacturing employment. We believe we are only in the early stages of re-industrialization and we are keeping a close eye on the companies and sectors that are already benefiting from increasing U.S. manufacturing competitiveness.

Factors Driving Insourcing

Given the many moving parts in the global economy, a number of factors have been at work in encouraging companies – both U.S. and foreign – to move production back to the U.S. T. Rowe Price managers and analysts agree that several drivers have been especially important:

- Rising wage costs in China have narrowed the once-massive cost advantage enjoyed by Chinese manufacturers. Boston Consulting Group, which was early to identify the insourcing trend, reports that Chinese wages were 20 times lower than those in the U.S. in 2000, on the eve of China’s entry into the World Trade Organization. The wage gap has narrowed considerably in recent years, however, as the supply of new workers from the Chinese countryside has slowed and as a rise in the cost of living in China’s cities has prompted demand for higher wages.

- Transportation costs have gone up pretty dramatically, which has added to the final costs of goods produced in China and elsewhere overseas. High oil prices and a sharp decline in shipbuilding following the financial crisis of 2008 have raised the price of container shipping.

- Rapid prototyping, short product cycles, and other facets of the digital age have increased the importance of locating production near design and end markets, which is known as “near sourcing.” Nearby factories offer companies the
chance to limit inventory while assuring quality control.

► Producing overseas often means sharing trade secrets and technologies. This has meant particular problems in some areas, including China, where intellectual property protections are weak. Many companies have chosen to avoid this risk by moving production to the U.S.

► The recent boom in U.S. energy production from shale reserves may have been the tipping point for many companies’ decision to locate manufacturing in the U.S. Sustainable and reliable sources of oil and gas supply are highly appealing to manufacturers, especially as energy supplies from the Middle East, Russia, and elsewhere periodically come under threat. As a result, companies have been willing both to repurpose existing production facilities and to build new ones.

How Re-industrialization Will Affect The U.S. Economy

Just as the decline in U.S. competitiveness played out over several decades, it is likely that the U.S. is only in the early innings of the process of re-industrialization. A rebound in manufacturing is likely to move through the economy like a slow-moving shockwave, driving change in some industries and sectors well before it hits others.

Among the first to feel the effects have been energy-intensive industries that can take the most advantage of the new domestic shale supplies. Primary among them has been the petrochemical industry, which produces chemicals derived from petroleum for use in plastics, dyes, fertilizers, and other products. Petrochemical firms plan to spend about US$125 billion on new projects in the coming decade, more than a 12-fold increase over the previous 10 years. We see investment opportunities in the companies that will serve this build-out, as well as in providing equipment to the booming domestic energy sector.

Transportation firms have also been among the first to feel the tremors. Mexico has benefited enormously from rising Chinese production costs which have helped lure back to the maquiladoras (free-trade zones along the U.S. border) manufacturing that had been lost to China in the early 2000s. With wages now roughly on par with China, Mexico offers the additional benefit of being right across the border from U.S. end markets, creating business opportunities for well-positioned transport firms.

Eventually, sectors of the economy that have little to do with energy or manufacturing stand to benefit as well. After declining since the late 1970s, and tumbling over the last decade, manufacturing employment in the U.S. has begun to grow again in recent years. It is debatable how powerful this rebound will become or whether the U.S. will ever fully recapture the millions of manufacturing jobs it lost. The spread of factory automation means that far fewer workers are needed in new plants and some of the jobs that leave China will wind up in Mexico or in other low-cost developing markets.

Turnaround Will Bring Broader Benefits

Nevertheless, any turnaround in manufacturing employment will bring broader benefits to the economy, which should, in turn, help retailers, housing-related industries, and other businesses. A long-term and patient approach will be necessary to identify many of these opportunities. These are developments that will take many years to play out, but early signs are very encouraging.

Bruce Winch is head of sales at T. Rowe Price Canada
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Ken Jesudian, CEO of Burgundy Asset Management Ltd., is pleased to announce the following appointment:

Jennifer Dunsdon, CFA, to Chief Operating Officer

With more than a decade of experience at Burgundy, Jennifer takes on responsibility for the Administration, Systems and IT departments to further strengthen the firm for the future.

Jennifer joined Burgundy in October 2001 to focus on client servicing and relationship management. In late 2005 she took on a relationship management role in the firm’s U.S. business, ultimately assuming responsibility for the team, and has been instrumental in increasing Burgundy’s presence among U.S. foundations and endowments. Jennifer was appointed a Vice President of the firm in June 2006.

Before joining Burgundy, Jennifer spent seven years with the Royal Bank of Canada. She earned her BBA (Honours) from Wilfrid Laurier University.

Burgundy is an independent discretionary global investment manager for institutions and private clients. The company’s focus is high-quality companies that are undervalued and meet strict criteria through a fundamental research process.

Jennifer Dunsdon, CFA

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The ‘20th Annual Quebec CPBI Regional Conference’ will look at current and future trends in pensions and benefits in the context of what has happened over the past 20 years. Sessions will include a look at the changing roles of the employer, insurer, and consultant over the past 20 years. It takes place September 7 to 10 in Gatineau-Ottawa, QC. For information, visit www.cpbi-icra.ca

‘Leveraging the Momentum; Time for Solutions’ is the theme of the ‘2014 ACPM National Conference.’ The program will focus on a range of topics, issues, and solutions in a series of plenary sessions and workshops. It takes place September 9 to 11 in La Malbaie, QC. For information, visit www.acpm.com

Robert Gignac, author of ‘Rich is a State of Mind’ is the keynote speaker at Radius Financial Education’s ‘WAISC Niagara.’ He will examine the investor side of personal finance. It takes place September 15 to 17 in Niagara Falls, ON. For information, visit waisc.com

The Canadian Business for Social Responsibility (CBSR) will explore changing investor expectations at its third annual ‘ES&G Forum.’ Recent research, case studies, and investment practices that are relevant to the inter-linked topics of ESG, corporate social responsibility (CSR), and sustainability will be showcased. It takes place September 23 in Calgary, AB. For information, visit http://bit.ly/esgforum-2014
Working With Parkinson’s Disease

By: Caroline Tapp-McDougall

Most of us have heard of Michael J. Fox, the award-winning Canadian actor who, it could be said, has become almost as famous for raising research funding and awareness for Parkinson’s disease as his accomplishments as a performer.

Fox was diagnosed with Parkinson’s in 1992 when he was in his early 30s. In his first book, ‘Lucky Man,’ he shared his personal story of seven years of drinking and denial that culminated in his landmark decision to set up the Michael J. Fox Foundation. Its goal is to eliminate Parkinson’s in our lifetime.

Understanding Parkinson’s

Let’s step back for a moment and understand a little more about Parkinson’s and the symptoms that might affect an individual.

Parkinson’s is a neurodegenerative disease for which there is currently no cure. In a healthy body, movement is normally controlled by a chemical called dopamine that carries signals between the nerves in the brain. When cells that normally produce this dopamine die, the symptoms of Parkinson’s appear.

While Parkinson’s disease is the most common parkinsonism, there are several other similar conditions often referred to as Parkinson-plus disorders, such as multiple system atrophy (MSA), progressive supranuclear palsy (PSP) corticobasal degeneration (CBD), and dementia with Lewy bodies (DLB). Dystonia is not related but it can be a symptom.

The most common symptoms are tremor, slowness and stiffness, impaired balance and rigidity of muscles. Other symptoms include fatigue, soft speech, difficulties with handwriting, stooped posture, constipation, sleep disturbances, and sexual problems. Parkinson’s can progress at a different rate in different people. As symptoms change medications are adjusted. With progression, non-motor symptoms such as depression, difficulty swallowing, and cognitive changes can take their toll on an individual, his or her workplace, and their family.

Although the average age to develop Parkinson’s disease is around 60, young onset, which is what Fox has, begins before age 40. It affects five to 10 per cent of diagnoses. Many of the challenges faced are universal regardless of age, but there are some specific issues that are more likely to affect younger people. Young onset Parkinson’s is less likely to lead to dementia and balance problems and younger people are usually more sensitive to the benefits of medications. They also tend to experience dose-related fluctuations at an earlier stage of the disease, including ‘wearing off’ and the on-off effect, which is when symptoms get worse and return before the next dose of medication is due.

People with Parkinson’s often live with the condition for years and can expect medications to keep them functioning well for a long time. There is usually a need for a wide range of therapies which can be a challenge to arrange during working hours, hence the need for some degree of flexibility or accommodation for Parkinson’s.

The Parkinson Society of Canada’s website suggests that 25 to 35 per cent of people diagnosed with Parkinson’s are still in the workforce. Early retirement is often not necessary as many folks will continue to be able to work full- or part-time for years. Experts suggest, however, that understanding the realities of Parkinson’s and making others aware of their needs is often a key element of workplace success. And, as with many conditions, minimizing stress is key which means looking carefully at the job and its roles and responsibilities. Simple tips for the workplace include setting aside time to do larger projects and breaking down tasks into smaller pieces to avoid becoming over tired or overwhelmed.

Early Parkinson’s onset, early diagnosis, and high scores in vitality were all associated with prolonged employment. However, declining cognitive ability was set as an important reason for stopping work. The most challenging symptoms at work proved to be slowness, fatigue, and tremor which were accommodated best by changes in work schedule and type of work.

Family Disease

Parkinson’s has been called a family disease, one that takes a team of involved and supportive people to help an individual thrive. It’s a demanding job that requires stamina, compromise, strength, and encouragement. Being a caregiver means trying to stay positive and look for ways to help a patient cope with the daily challenges that they may experience despite the fact that their life has changed forever.

Because of the progressive nature of Parkinson’s, the needs of your employees with the illness will change and those who are care partners might have trouble coping with their day-to-day responsibilities. Being prepared, ready to accommodate, and supportive in the workplace will make a difference.

Caroline Tapp-McDougall is the publisher of Solutions: Canada’s Family Guide to Home Health Care and Wellness and the author of The Complete Canadian Eldercare Guide.
ESOPs Fables

By: Jim Helik

The proponents of Employee Share Ownership Programs (ESOPs) find endless advantages to having such a program. I quote from the flyleaf of a long-ago Canadian book on the subject, “Whether you want to attract and retain skilled workers, create a succession plan for a family business, combat the ‘brain drain,’ recognize the contributions your employees have made to your company’s success, or need a way to turn your company around through improvements in productivity and morale, an ESOP could be the win-win solution for your company.”

Company Benefit
Whew, that is a lot for any company benefit to answer to. And there are certainly instances, such as the transfer of a small, hard-to-value and hard-to-sell firm to its employees, where ESOPs are an effective solution to a difficult problem. But there is a startling lack of rigorous information on whether these plans have the desired effect of motivating employees and benefiting the employer as well. In the June 2014 issue of the ‘Journal of Finance,’ ‘Broad-Based Employee Stock Ownership Motives and Outcomes,’ by E. Han Kim, at the University of Michigan, and Paige Ouimet, of the University of North Carolina, notes that the literature on these plans, while often showing a positive relationship between stock prices and the announcement of an ESOP, does not dig deeper to show how such plans affect employees or how they could affect productivity. In fact, given the potential free-rider problem (when there are many employees, individual workers may feel that they have little impact on the company’s stock price and hence do not make any extra effort), it is far from clear that an ESOP should have any motivational benefit at all.

The authors note that all of these issues are inter-related and complex. They look at the effects of different ESOPs on various sized firms. They found that with small ESOPs (those controlling five per cent or less of a firm’s outstanding shares) in smaller firms (those in the lowest quartile in terms of the total number of employees among publicly traded firms), such plans were associated with improved productivity. Wages were found to increase by 20 per cent and firm improvement (increase in market value as represented by Tobin’s Q) was up by 21 per cent after the adoption of an ESOP. Such firms also showed increases in both employment and the number of establishments.

This finding is entirely consistent with idea that if the number of employees in a firm is of small enough size to mitigate the free riding effect, small ESOPs improve incentives and workers share in the productivity gains.

This ‘increased pie’ from increased productivity should be shared between shareholders and employees. The authors found that, not surprisingly, wage gains were greater and company/shareholder gains were smaller in firms where employee bargaining power was greater.

By comparison, when top quartile firms adopted larger ESOPs (that control more than five per cent of the firm’s outstanding shares at any point in time), there were no significant effects found on employee wages, the firm’s value, or on employment. “For firms with numerous employees, cash wage gains are mostly insignificant, consistent with ineffective incentives due to free-rider problems,” the authors write. Only in cases where the market value of these larger ESOPs was added to employee wages was a substantial increase in total employee compensation noted, which was associated with increases in productivity (though again, these increases were smaller than those found at smaller firms with smaller ESOPs).

Conserves Cash
Kim and Ouimet point out two other cases, unrelated to employee benefits, when ESOPs may make sense. For cash-constrained firms, issuing equity through ESOPs conserves cash. ESOPs may also be used to form worker-management alliances to stop takeover bids as workers vote their shares against any such bid. So there is overall merit to ESOPs. However, when looking at ESOPs as an employee benefit or incentive, such plans are not just a cut-and-paste solution for all companies to use at all times.
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