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Curb Your Enthusiasm

By: Joe Hornyak, Executive Editor

Those campaigning for an enhanced Canada Pension Plan or extolling the virtues of the proposed Ontario pension plan recently received what has to be sobering news. Two reports identify the reality of the impact of aging on Canada’s retirement system.

The Office of the Superintendent of Financial Institutions’ ‘12th Actuarial Report on the Old Age Security (OAS) Program’ projects that the number of beneficiaries of the OAS basic pension may increase by 60 per cent in the next two decades, growing from 5.3 million in 2013 to 8.4 million by 2030. This is due to the retirement of the baby boomers and the aging of the Canadian population over that period. The ratio of the number of people aged 20 to 64 to those aged 65 and over is expected to fall from about 4.1 to one in 2013 to 2.2 in 2050. As well, OAS expenditures are projected to increase from $33 billion in 2013 to $144 billion by 2050.

Somewhat Mitigated

The report admits that these numbers are somewhat mitigated by the legislated gradual increase in the age of eligibility from 65 to 67 over the period 2023 to 2029.

The second report comes from the Fraser Institute. It examined the true cost of running the Canada Pension Plan and suggested it has more than tripled since 2006, from $600 million to $2 billion in 2013, and significantly higher than the $490 million the Canada Pension Plan Investment Board reported. The difference, says the study, is the CPPIB’s operating expenses do not include the cost of transaction and external management fees.

And this is important, says the author of ‘Accounting for the True Cost of the Canada Pension Plan,’ Philip Cross, a former chief economic analyst for Statistics Canada, because every dollar spent on operating expenses is one less dollar available for Canadian pensions.

Now, in this corner, we think that may be stretching the point a bit.

However, it does provide a clue into what it would cost Ontario to provide its own pension plan. The initial infrastructure investment would be huge and, in the early years of the plan, the volume of contributions limited. This is not like the CPP which already existed and had a considerable volume of money to invest when the CPPIB was reformed in the late 1990s. Ontario would be starting from scratch and doing so at a time when governments need to reduce their debt, not increase it.

While the OSFI report talks about OAS, surely there will be a comparable number of retirees seeking CPP benefits over the next three decades at the same time as the number of people contributing is declining. So to improve CPP benefits by any amount would require a corresponding increase in contributions.

Solutions Needed

Both give evidence of what is in store and, yes, solutions are needed. What is on the table now would help those working now who will be retiring in 30 years. It does nothing for those retiring over the next decade who put little aside for retirement and face the prospect of living another 15 years.

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OPTrust

Reg Swamy is senior vice-president, actuarial services, plan policy, and human resources, at OPTrust. He has over 25 years of experience in pension administration, wealth management, human resources, and strategic leadership, most recently with TD Wealth Management.

Federated

David Gregoire is vice-president at Federated Investors. Most recently, he was managing director, head of distribution, at Legg Mason Canada. He has also been a senior portfolio manager at RBC.

Spruceview

Richard J. Terres is a partner responsible for building, overseeing, and maintaining client relationships for Spruceview Capital Partners. He has over 20 years of experience working with institutional investors including endowments, foundations, family offices, and corporate and public pension plans. Most recently, he served in various capacities at BNY Mellon Investment Management, including as head of the U.S. corporate funds and endowment and foundation sales groups and as president of its Canadian asset management business.

Medavie

Greg Bambury is vice-president, human resources, for Medavie. He brings over 25 years of experience as a leader in human resources, driving major strategic initiatives within numerous large and complex organizations throughout Canada, including Towers Watson and Irving Oil.

FSCO

Stephanie Kalinowski is a member of FSCO’s pension legal advisory committee. She has been a pension and benefits lawyer at Hicks Morley Hamilton Stewart Storie LLP since 2001.

Westcourt

Ron Lloyd (M.I.R, CIM) is executive vice-president at Westcourt Capital Corporation. He has over 30 years’ experience at the senior executive level including more than 10 years as president at Hewitt Associates (now AON Hewitt), as well as Gluskin Sheff. He was most recently with Romspen Investment Corporation. Dario Di Napoli (CAIA) is director, asset management and client services. Most recently, he was manager, business development, institutional investments, at Invesco, a firm he joined in 2005.

Cambridge

Jason R. Stefanelli is director, pensions and global business development, at Cambridge Associates, an independent global investment advisor to institutional investors and private clients. His mandate is to bring the firm’s resources and investment solutions to Canadian institutional investors, particularly pension plans. He joins the firm from Common Sense Investment Management, LLC where he was a partner.

Medisys

Karen Kesteris is director of product development at Medisys. Most recently, she was director of marketing and product development at Green Shield Canada. Prior to that, she was a director of benefits outsourcing at Morneau Shepell.

Teachers’

Jeff Davis is general counsel, corporate secretary and senior vice-president, corporate affairs, for the Ontario Teachers’ Pension Plan (Teachers’). He joined Teachers’ in 2004 and was promoted to vice-president and associate general counsel in 2010. In his new role, he is responsible for the legal team, as well as compliance, corporate communications, government and public affairs, and plan policy.

BNY Mellon

David McKee is relationship manager at BNY Mellon Asset Management Canada. His responsibilities include the servicing of existing Canadian institutional clients and consultant relationships as well as assisting with business development activities. Most recently, he was a vice-president in the global risk solutions group for BNY Mellon Asset Servicing.
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Sponsors Get Resource Centre
Great-West Life has introduced an interactive, responsive sponsor resource centre that simplifies how plan compliance is monitored and provides enhanced reporting that illustrates member behaviours to create a meaningful way for sponsors to understand member investment decisions. The sponsor resource centre and “its tools were developed based on research and in-depth discussions with key sponsors and other industry stakeholders,” says Jeff Aarssen, senior vice-president, group retirement services, wealth management. Features include a messages section that keeps sponsors up-to-date and displays time-sensitive announcements such as legislative updates, important deadlines, recent fund changes, and sponsor-controlled interactive widgets that display detailed member data in charts and graphs.

OAS Beneficiaries May More Than Double
The number of beneficiaries of the OAS basic pension is expected to increase by 60 per cent in the next two decades, growing from 5.3 million in 2013 to 8.4 million by 2030, mainly due to the retirement of the baby boom generation over that period, says the Office of the Superintendent of Financial Institutions. Its ‘12th Actuarial Report on the Old Age Security (OAS) Program’ shows that demographic changes, notably the aging of the Canadian population, will have a major impact on the ratio of the number of people aged 20 to 64 to those aged 65 and over. This ratio is expected to fall from about 4.1 in 2013 to 2.2 in 2050. As well, OAS basic pension annual expenditures are projected to increase from $33 billion in 2013 to $74 billion in 2030 and $144 billion by 2050.

Pension Funds Looking To ETFs
Canadian pension funds are following the institutional uptake of ETFs around the world, says a study from Greenwich Associates. ‘Canadian Institutions Look to ETFs for Both Strategic and Tactical Applications,’ a report sponsored by BlackRock Inc., shows that institutional funds and asset managers are viewing ETFs not simply as useful tools for making tactical adjustments to portfolios, but as efficient methods for implementing new investment strategies. They especially seem to be gaining traction in fixed income, a result that could reflect investors’ search for better and more efficient approaches to the asset class in a shifting interest rate environment. It found 20 per cent of Canadian institutions currently have bond ETFs and started using these funds less than two years ago.

Canadian Equity Sandbox
The abolition of the foreign property rule by the federal government in 2005 has reduced the dependence on alpha generation from Canadian-only equity portfolios and opened the doors to greater investment opportunities in international, global, and emerging market investments, says William C. McDonnell, vice-president at Leon Frazer & Associates. He told the International Foundation of Employee Benefit Plan’s ‘47th Annual Employee Benefits Conference’ what to expect when distinguishing various Canadian equity management styles. However, managers that focus on Canadian equities who are strategic in using sector weights can continue to beat the S&P/TSX index and support growth in Canadian industry.

IIAC Wants Retirement Savings Boosted
The Investment Industry Association of Canada (IIAC) wants the federal government to bolster private retirement savings by boosting the annual contribution limits for both registered retirement savings plans (RRSP) and tax-free savings accounts (TFSA). It also wants increased flexibility in RRSP contributions. It notes that the federal government has previously committed to doubling the annual contribution limit for TFSAs once the budget is balanced and it says this should happen in the next budget. It also calls for modest increases in RRSP contribution limits.

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Karen Matsuyoshi has over 25 years of experience in the pension investment industry. Over the span of her career, she has gained multiple perspectives and wide-ranging expertise as a manager research consultant, plan sponsor, and trustee. In her current role, she provides leadership and expertise on plan investment strategies and manager oversight of TD’s defined benefit and defined contribution plans globally. Prior to joining TD Bank Group in 2012, she held various management positions at major consulting firms, an investment management firm, and a large public sector pension plan. Karen was appointed as a trustee on the Boilermakers’ National Benefit Funds (Canada) in 2008 and continues to serve on the board and investment committee. She has also served on the Ontario regional council and the program committee of the Canadian Pension & Benefits Institute (CPBI). Karen is a CFA charterholder and has also completed the Foundations of Trust Management Standards (FTMS) and Advanced Trust Management Standards (ATMS) Certificate Programs offered by the International Foundation of Employee Benefit Plans (IF). She is an avid reader and enjoys spending time with her family. Karen has been a member of the Benefits and Pensions Monitor editorial advisory board since February 2006.
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DC Retirement Confidence Remains Low

Retirement confidence remains alarmingly low among defined contribution plan participants in the U.S., UK, and Ireland, says research from State Street Global Advisors (SSgA). Under one-third of DC participants in the three countries feel confident they will have enough saved through an employer-sponsored retirement plan to afford the lifestyle they want in retirement. The ‘DC Transatlantic Survey’ shows only 31 per cent of U.S. participants are confident in their retirement preparedness with 26 per cent of UK participants and 17 per cent of Irish participants saying they are confident. Nigel Aston, managing director and head of UK DC at SSgA, says the survey “highlights yet again that DC members principally view themselves as savers, not investors. Understanding this mindset is critical for providing the right kind of support to encourage increased contributions in workplace DC plans.”

Interest In Retirement Saving Renewed

The economic uptick in the U.S. over the past year has led to renewed interest in retirement savings, says Deloitte’s ‘13th Annual Defined Contribution Benchmarking Survey.’ It found that average account balances have reached an all-time high of more than $95,000, up from $85,600 in 2012 and an increased number of employees are participating in defined contribution plans, jumping six percentage points to 77 per cent in 2013 from 71 per cent in 2012. The survey also found that companies are showing renewed confidence in the economy and taking steps to make DC plans more accessible and attractive to employees. For example, immediate eligibility for matching contributions increased to 62 per cent in 2013, up six percentage points from 2012.

Nine Options Upper Limit

Most 401(k) plans should have no more than nine investment options, with a family of target-date funds serving as a single choice, says a BMO Retirement Services white paper. ‘BMO Defined Contribution IQ: Investments,’ the third in a nine-part series, examines how plan sponsors can, by constructing a simpler-yet-smarter menu of investment choices, empower their employees to get more from their 401(k) plan. It also highlights the important role that target-date funds can play. These funds provide plan participants with easy-to-access and easy-to-implement solutions that may help them reach their complex financial goals.

Employer Wants Smoking Ban

A county in Arizona wants smoking employees to pay for their habit. Pima County would ban smoking for new employees and put a medical insurance surcharge of up to 50 per cent on current employees who use tobacco. Under the initiative, applicants for county jobs would have to sign an affidavit saying that they have been tobacco- and nicotine-free for one year and pass a test to prove it. A failed test could be taken again. Current employees also would be tested to confirm that they are tobacco- and nicotine-free. Employees who fail or do not take the test would have to pay a 30 per cent premium surcharge after July 1, 2015. It would be increased by 10 per cent annually until it reaches 50 per cent.

States Limit Social Media Access

U.S. state legislatures are enacting laws limiting employers’ ability to access the social media accounts of their employees, says Bridget O’Connell, of McDermott Will & Emery, a U.S. law firm. Four more states – Louisiana, Oklahoma, Tennessee, and Wisconsin – have enacted social media legislation this year, bringing the total number of states with such legislation to 16. Generally, the legislation bars employees from requiring or requesting that an employee or applicant provide log-in credentials for their personal social media account. Some states also prohibit an employer from requiring an employee to add another employee or supervisor to a social media account.

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Ted Patterson

Director, Centre for Employee Benefits, Humber Institute of Technology & Advanced Learning

Ted Patterson has been on the Benefits and Pensions Monitor Editorial Advisory board since 2003. He is director of the Centre for Employee Benefits at the Humber Institute of Technology & Advanced Learning; a position he has held for more than 23 years. He currently manages and runs a variety of programs dealing with employee benefits, pensions, First Nations pension plan governance, trustee development, and CAP plans. Ted began his career in human resources with CIBC. Since then he has held progressively responsible human resources positions with a trust company and two major multi-national organizations where he had senior responsibility for a broad range of HR functions from recruiting to labour relations to pensions, benefits, and compensation. He is a Fellow of the Institute of Canadian Bankers, has his Certified Human Resources Professional (CHRP) designation, is a member of the Association of Canadian Pension Management (ACPIM), and was on the Ontario Regional Council of the Canadian Pensions and Benefits Institute (CPBI) for a number of years. He is married with two grown children. He enjoys sailing, golf, and woodworking and he and his wife, a former flight attendant, travel extensively and spend a lot of time in Barbados.
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Do We Understand Each Other?

By: Dr. Bruce Kennedy

My intent in this article is to use this framework to examine our lack of consistent definitions of key terms within the pension industry. You will see through the following graphs how different definitions, (particularly how different authorities use the terms DB and DC) could lead to significant misunderstandings.

CRA Definitions

Let’s start with the Income Tax Act, and the definitions used by the Canadian Revenue Agency (CRA). The CRA definitions from its Registered Pension Plans Glossary are:

- **Defined Contribution:** See money purchase.
- **Money Purchase:** A money purchase, also known as a defined contribution plan or provision, is one where each member has one or more accounts to which contributions and earnings are credited. The amount of the member’s benefit is not determined until the time the benefit is provided. See subsection 147.1(1) of the Income Tax Act for the definition.
- **Defined Benefit:** A defined benefit provision or plan refers to the type of provision or plan under which benefits for each member are determined in any way other than that described in the definition of a money purchase provision or plan. For example, a defined benefit may be expressed as a flat amount per year of service or as a percentage of the average of the

[Figure 1: The Risk Bearing Space]

[Figure 2: CRA’s Definitions Of DB And DC]
member’s last five years of pensionable earnings times the number of years of pensionable service. See subsection 147.1(1) of the Income Tax Act for the definition.

Figure 2 depicts CRA’s definitions for DB and DC using the ‘Risk Bearing Space.’

Now consider Statistics Canada’s definitions for DB and DC:

- **Defined Benefit Plan**: A registered pension plan (RPP) that defines the benefits by a formula stipulated in the plan text. The employer contributions are not predetermined, but are a function of the cost of providing the promised pension, taking into consideration employee contributions, if any. DB plans can be subdivided into unit benefit and flat benefit plans.

- **Defined Contribution Plan**: An RPP that specifies the employee’s (if the plan is contributory) and the employer’s contributions. Members’ benefits are provided from accumulated contributions, plus the return on the investment of these monies.

Note that under these definitions that DC plans don’t have to be based on individual accounts and the distinguishing characteristics of a DB plan are a benefit formula and the employer contributions as a function of the cost of the plan. Figure 3 depicts these Statistics Canada definitions on the ‘Risk Bearing Space.’

Finally, there are the definitions used by the Office of the Superintendent of Financial Institutions (OSFI):

- **Defined Benefit Plan**: A pension plan that defines the pension benefit to be provided based on years of plan membership, average earnings, etc., in accordance with the terms of the plan. Employees may or may not be required or able to contribute to the plan.

- **Defined Contribution Plan**: A pension plan that defines the amount of employer and employee contributions (if any) to the pension fund, determined on an individual account basis. This type of plan is also known as a money purchase plan. The benefit the member will receive on retirement is determined at the date of retirement and is based on accumulated contributions, investment income, and annuity rates.

Figure 4 depicts these OSFI definitions on the ‘Risk Bearing Space.’

Worth noting is that DC is restricted to individual account-based plans (as per CRA). DB plans must be based on a formula, but the employer doesn’t need to bear any risk. A target benefit plan, a multi-employer pension plan (MEPP), or a union-sponsored formula-based pension plan qualify as DB under these definitions.

**Authoritative Definitions**

So how could this diversity of authoritative definitions for key terms confuse our discussions of Canadian pension policy? Consider, for example, Figure 5. It depicts a widely circulated graph showing Canadian trends in DB and DC pension coverage in the private sector and in the public sector. You may have seen it before. It was published by OSFI using Statistics Canada data.

My interpretation of this graph, based primarily on the Statistics Canada definitions and my experience in the public sector, would be as follows: Employers in both sectors have been responding to ongoing financial pressures by shifting more risk onto plan members. In the private sector, this is being achieved by providing fewer employees with pension coverage and by shifting plan designs from conventional DB to individual account-type DC plans. Those changes are between Statistics Canada categories, so they show up in Figure 5. In the public sector, where there has also been a great deal of risk shifting and plan design change in recent decades, the shifts have primarily been from conventional DB plans toward jointly sponsored pension plans (JSPPs) and other risk-shared arrangements. Those designs are classified as DB by Statistics Canada, so those ongoing changes do not get reflected in Figure 5.

I believe that most Canadians, based on a narrower understanding of the term DB, would interpret Figure 5 to mean that
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there have been significant pension plan design changes in the private sector, but plan designs have remained static in the public sector. Different people can quite understandably reach very different interpretations of what our official pension data tabulations are showing.

**Broad Interpretation**

We should also be aware that different understandings of key terms can more generally lead to misunderstandings in our conversations and written discourse. In general, I think it is safest to assume that people with a public sector background have a broad interpretation of the term DB, perhaps most similar to Statistics Canada’s definition. The general public and people with a private sector pension background tend to have a narrower interpretation of the term DB, closer to that of the conventional DB arrangement depicted in the upper left corner of Figure 1.

Given our healthy multiplicity of authorities and thought leaders in the Canadian pension industry, I find it quite unlikely, and perhaps even undesirable, that we would ever have a single definitive glossary for key pension terms and concepts. Consequently, my only call to action is that when reading or listening, we should be mindful that what we are hearing may not be quite what the speaker is trying to say and, similarly, when writing or speaking we should be alive to the communications challenges posed by our lack of consistent definitions for key pension terms.

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**Dr. Bruce Kennedy** is executive director of British Columbia’s Public Service Pension Plan, Teachers’ Pension Plan, and College Pension Plan.

bruce.kennedy@pensionsbc.ca

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Cooperating in building the future
The path ahead was obscured by a sea of black hair. We had entered Macau’s busiest tourist gift strip, an open stretch of shops mainly catering to throngs of Chinese visitors. My companion, a Hong Kong businessman, led me through the crowd. With the scent of beef jerky hanging in the humid air, he explained how his food services business was growing rapidly from the tourists coming daily from mainland China to Macau. This was what I had travelled over 10,000 kilometres to see: the tangible impact of Chinese growth. Like other western investors, the promise of emerging markets had lured me in.

Emerging markets have been on most investors’ radars for some time now. With the rising levels of direct investment into these economies, heightened coverage in the media, and a growing number of related investment products available, they now command more investor attention than ever before. It is currently a very different environment than back in 1988 when less than one per cent of world market capitalizations related to emerging market stocks. Emerging market investments now constitute approximately 11 per cent of world market capitalizations. Investors appear increasingly comfortable investing beyond their domestic borders. This is particularly true in recent years as ultra-low interest rates and anemic growth in the advanced economies have encouraged investors to seek yield outside of their home markets.

Following The Herd

But following the herd blindly to the emerging world has its perils. While there are many reasons to invest in emerging markets, there are as many reasons to exercise caution, especially at this time. Quantitative easing and ultra-low rates have produced a bewitching siren song to investors, luring their capital to higher yielding assets like those in emerging market economies. But the environment created by central banks is unlikely to last forever. While investors in emerging markets can still earn excess returns over the long-term, they need to exercise caution and adopt a rational strategy if they wish to avoid the fateful snare of the siren song.

At its core, the enthusiasm that surrounds emerging market economies is one of potential. Gone are the days when India and China were primarily known as inexpensive outsourcers of call centres or toy factories. Today, India and China are viewed as critical end markets, populated by billions of consumers with growing purchasing power. They are among several dozen economies in which growth is being fuelled by wider access to credit, growing middle class consumption, and rapid adoption of technology. These economies are experiencing structural growth levels that are highly attractive to foreign capital. It is the kind of organic growth that attracts interest from investment professionals to places like Macau.
Yet growth opportunities have not been the sole driver of foreign inflows to emerging markets in recent years. Much of the demand for emerging market assets can also be explained by the current monetary environment which has its roots in the 2007/2008 bursting of the U.S. subprime mortgage market and the ensuing global financial crisis. At that time, weak economic growth and high levels of unemployment led central banks to drop interest rates to ultra-low levels. The Federal Reserve was fearful of repeating the policy mistakes made during the Great Depression and opted to enact unconventional monetary policy in addition to lowering rates. They authorized the ongoing purchase of billions of dollars in asset-backed securities, hoping that these actions would lower longer-term interest rates and provide economic stimulus. This intervention had many of the desired effects on the U.S. economy, but it also created a number of unintended consequences.

One such consequence is a searching yield for investors. By creating an environment of cheap capital where the returns on domestic bonds are low, the Fed has encouraged investors to take on greater risk. Evidence of this behaviour has been observed in the prices of several asset classes, including junk bonds, emerging market financial assets, and the debt of certain sovereign creditors. It is this quest for yield, for example, that allowed Mexico to issue 100-year bonds at a meagre 5.75 per cent interest rate. Clearly, the impetus for higher return has not always resulted in prudent risk-reward decisions.

If the Fed’s intervention has led to the current surge in demand for emerging market assets, what happens when the Fed reverses its policy? Historically, sharp retrenchments in capital outflows have had negative consequences on emerging markets as they pummel asset prices and impact a country’s macro economy. When this happens to countries with precarious balance of payment positions, it often destabilizes the financial system and sometimes triggers currency crises. If, and when, the Fed normalizes its policies, a significant impact to emerging markets is probable.

And conditions do appear ripe for the Fed to begin making changes. Leading economic indicators, such as a high capacity utilization rate, continue to signal that the U.S. economy is recovering, while the unemployment rate has fallen to 6.2 per cent. This suggests that interest rate normalization is probable within the near-term. Moreover, the Fed has already started to taper its monthly asset purchases, dropping the asset buying from $85 billion to $25 billion. When these purchases end, the next big step is to raise interest rates which, if economic statistics continue to be positive, could happen within the next year. And once this occurs, many of the conditions that led to the recent demand for emerging market financial assets will likely reverse.

The Sirens’ Song

In Greek mythology, the Sirens were beautiful, but dangerous, female sea creatures who lured with their enchanting voices nearby sailors causing them to shipwreck. According to Homer, Odysseus was curious to hear the Sirens’ song so he instructed his crew to fill their ears with beeswax, tie him to the mast, and sail through their waters. As the ship passed the beautiful Sirens, Odysseus heard their song and begged his shipmates to untie him. But his crew, operating on Odysseus’ orders, bound him tighter; only releasing him when the ship was far out of earshot.

One day, yield-seeking investors might wish they had been bound to such a mast.

Yield continues to be a siren song for investors. With interest rates still low and an eerie complacency in markets, there is limited impetus for caution. Yet, these conditions may soon change as markets start to price in the impact of monetary normalization. Investors with emerging market exposure should be cognizant of the potential impact should the U.S. economy continue to strengthen. This means investors should pay close attention to the specific characteristics of the economies in which they invest their capital (for example, balance of payments, yield curves, and overall economic positions). Even for bottom-up stock pickers, it is useful to understand what, if any, impacts capital outflows and swings in currency can have on company holdings.

Ultimately, emerging markets can offer attractive investment opportunities from a risk-adjusted return perspective. But general exposure to these areas does not necessarily guarantee excess returns or prudent risk-taking. Emerging market investment requires a solid bottom-up and top down analysis in order to arrive at a rational investment thesis. Often, this means spending some time in the region to understand its nuances. Moreover, these investments come with higher levels of volatility that an investor must be prepared to stomach.

It is folly to fall for a siren song. Wise investors should not fall for the one that is playing – and would do well to brace themselves for the impact of its potential end.

Kara Lilly (CFA) is the investment strategist at Mawer Investment Management Ltd.

killy@mawer.com
China has experienced a remarkable transformation and is on pace to be the world’s largest economy in the next decade. Given this growing importance in the global economy, China is becoming a necessary component of any global equity allocation. While the benefits of an allocation to China are evident, the methods for investing in Chinese equities deserve further exploration.

WHAT DOES THE INVESTMENT LANDSCAPE LOOK LIKE FOR CHINESE EQUITIES?
The two main categories of Chinese equities are A-shares and Hong Kong listed shares, which account for 60% and 35% of total Chinese equities, respectively.1 Today, most international investors gain exposure to China through Hong Kong listed shares as they have historically been easier to access. However, A-shares have become increasingly important for global investors who want to benefit from the strength of China’s domestic economy while accessing a broader opportunity set for enhanced return and more effective diversification. (see figure 1).

WHY SHOULD CHINA A-SHARES BE CONSIDERED FOR GLOBAL EQUITY PORTFOLIOS?
The addition of A-shares to a global portfolio can provide attractive risk-return benefits. Due to factors such as foreign ownership and foreign exchange controls, China A-shares have had relatively low correlation with other major markets. Because of this low correlation, the addition of A-shares to a portfolio can increase the return and/or lower the volatility of the portfolio. Additionally, the A-share market is relatively inefficient compared to other global markets, which can provide opportunities for active investors.

As government reforms make the Chinese equity markets more accessible to foreign investors, A-shares are expected to become part of recognized benchmark indices. A recent report by MSCI suggests that if all investment barriers were removed, A-shares could represent up to 14% of the MSCI Emerging Markets Index and 2% of the MSCI All Country World Index.2 This could result in investors looking at A-shares in concert with key markets such as Japan, Germany and the U.S.

CAN FOREIGN INVESTORS BUY A-SHARES?
To invest in A-shares, foreign investors must either obtain a Qualified Foreign Institutional Investor (QFII) license or invest through a QFII license-holder. In April 2014, the Shanghai-Hong Kong Stock Connect pilot program was announced. When finalized it would give foreign investors access to domestic Chinese equities without quota. The program is designed to give investors access to a subset of Chinese domestic securities and will have liquidity provisions attached to it.

As with most emerging markets, government involvement, corporate governance and accounting standards are generally considered to be evolving and lag the standards found in developed markets. The China Securities Regulatory Commission continues to take steps to improve corporate governance and the structure of the capital markets. Over time, this should benefit all investors.

For more information, contact Jay Wiltshire at jay.wiltshire@greystone.ca.

This article is for informational purposes only, is not meant as specific investment advice and is not a recommendation to buy or sell any particular security. Commentary reflects the opinions of Greystone Managed Investments Inc. at the date of this article and was developed from sources that Greystone believes to be reliable.


BAILLIE GIFFORD OVERSEAS LIMITED William Pacula, Partner, Marketing Director - Clients Department; 780 Third Avenue, 47th Floor, New York, NY 10017 PH: 212-319-4633 Fax: 212-319-4639 eMail: linda.turnbull@bailieigfford.com Web: www.bailieigfford.com Managed Since: 1990s Minimum Investment - Pooled: $25M Minimum Investment - Separate: $33M


BMO GLOBAL ASSET MANAGEMENT Marija Finney, Senior Vice-president, Head of Institutional Sales & Service; 100 King St. W., Toronto, ON M5X 1A1 PH: 416-359-5003 Fax: 416-359-5040 eMail: marija.finney@bmo.com Web: www.bmoglobalassetmanagement.com Managed Since: 1991 Minimum Investment - Pooled: $1M Minimum Investment - Separate: $50M
BNP PARIBAS INVESTMENT PARTNERS CANADA, LTD. Michael Johnston, Head of North American Sales; 155 Wellington St. W., Ste. 310, RBC Centre, Box 149, Toronto, ON M5V 3H1 PH: 212-681-3039 Fax: 416-365-3987 eMail: james johnston@bnpparibas.com Web: www.bnpparibas-ip.ca Managed Since: 1990 Minimum Investment - Pooled: $10M Minimum Investment - Separate: $50M


CI INSTITUTIONAL ASSET MANAGEMENT Dustin Hunt, Head of Institutional; 2 Queen St. E., 19th Floor, Toronto, ON M5C 3G7 PH: 416-681-6679 Fax: 416-681-8849 eMail: dunt@ci.com Web: www.ciinstitutional.com Managed Since: 1991 Minimum Investment - Pooled: $1M Minimum Investment - Separate: $50M

CIBC ASSET MANAGEMENT Sean Wagner, Assistant Vice-president; 161 Bay St., Ste. 2320, Toronto, ON M5J 2B8 PH: 416-980-7833 Fax: 416-364-4472 eMail: sean.wagner@cibc.ca Web: www.cibc.com Managed Since: 1992 Minimum Investment - Pooled: $10M Minimum Investment - Separate: $10M


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GREYSTONE MANAGED INVESTMENTS INC. Louis Martel, Managing Director & Chief Client Strategist; 300-1230 Blackfoot Dr., Regina, SK S4S 7G4 PH: 306-779-6400 Fax: 306-584-0552 eMail: louis.martel@greystone.ca Web: www.greystone.ca Managed Since: 1992 Minimum Investment - Pooled: $5M Minimum Investment - Separate: $50M
JARISLOWSKY FRASER LIMITED  Peter Godec, Partner; 20 Queen St. W., Ste. 3100, Toronto, ON M5H 3R3 219: 363-7417 Fax: 363-8079 eMail: pgoede@lif.ca Web: www.lif.ca Managed For: 19-20 years in a specific fund; 35+ years with stocks in individual portfolios Minimum Investment - Pooled: $1M Minimum Investment - Separate: $10M

LASALLE INVESTMENT MANAGEMENT  Rachel Woof, Vice-president; 200 E. Randolph Dr., Chicago, IL 60601 PH: 312-228-2115 eMail: Rachel.Woof@lasalle.com Web: LaSalle Managed Since: 1980

LINCLUDEN INVESTMENT MANAGEMENT  Wayne Wilson, Vice-president; 1275 N. Service Rd. W., Ste. 607, Oakville, ON L6M 3G4 PH: 905-825-3543 eMail: wayne.wilson@lincluden.net Web: www.lincluden.net Managed Since: 2000 Minimum Investment - Pooled: $150,000 Minimum Investment - Separate: $2M


MARATHON-LONDON  Wilson Phillips, Client Director; Orson House, 5 St. Martin’s Lane, London, UK WC2H 9EA PH: 914-244-9644 Fax: 914-244-9647 eMail: wphillips@marathonco.uk Web: www.marathon-london.com Managed Since: EAFE - 1987 Minimum Investment - Pooled: $25M


MFS INVESTMENT MANAGEMENT CANADA LIMITED  Christine Girvan, Managing Director, Sales, Canada; 77 King St. W., 35th Floor, Toronto, ON M5K 1B7 PH: 416-361-7273 Fax: 416-862-0167 eMail: cgirvan@mfsmb.com Web: www.mfs.com Managed Since: EAFE - 1996 Emerging Markets - 1995 Minimum Investment - Pooled: $3M

NORTHERN TRUST ASSET MANAGEMENT  David Lester, Vice-president; 1910-145 King St. W., Toronto, ON M5H 1B8 PH: 416-775-2215 Fax: 416-366-2033 eMail: david.lester@ntr.com Web: www.northerntrust.com

NS PARTNERS LTD.  Brent Wilkins, Head of Institutional Sales (Canada); 181 University Ave., Ste. 300, Toronto, ON M5H 3M7 PH: 416-364-5396 Fax: 416-363-2089 eMail: bwilkins@ccgroup.com Web: www.ccgroup.com Managed For: 26 years Minimum Investment - Pooled: $5M Minimum Investment - Separate: $10M

PHILLIPS, HAGER & NORTH INVESTMENT MANAGEMENT*  John Skeans, Head of Consultant Relations (Canada); 20th Floor; 200 Burrard St., Vancouver, BC V6C 3N5 PH: 604-408-6238 Fax: 604-685-5712 eMail: jskeans@phn.com Web: www.phn.com Managed Since: 1993 Minimum Investment - Pooled: $5M Minimum Investment - Separate: $25M


PYRAMIS GLOBAL ADVISORS (CANADA) ULC* Michael Barnett, Executive Vice-president, Institutional Distribution; 483 Bay St., Toronto, ON M5G 2N7 Ph: 416-217-7773 eMail: michael.barnett.pyr@pyramis.com Web: www.pyramis.ca Managed For: More than 20 years Minimum Investment - Pooled: $7.5M Minimum Investment - Separate: $50M

RUSSELL INVESTMENTS CANADA LTD. Dexton Blackstock, Director, Head of Institutional Business Development; 100 King St. W., Ste. 5900, Toronto, ON MSZ 1E4 Ph: 416-640-6202 Fax: 416-362-4494 eMail: dblackstock@russell.com Web: www.russell.com/ca Managed For: 15 years Minimum Investment - Pooled: $10M


SEI Michael Chwalka, Head of Institutional Sales; 70 York St., Ste. 1600, Toronto, ON M5J 1S9 Ph: 416-847-6370 Fax: 416-777-9099 eMail: mcwalka@seic.com Web: www.seic.com Managed Since: 1997

SPRUCEGROVE INVESTMENT MANAGEMENT LTD. Tasleem Jamal, Vice-president, Marketing & Client Service; 1300, Ste. 1300, Toronto, ON M5H 3G6 Ph: 416-363-5854 Fax: 416-363-6803 eMail: tjamal@sprucegrove.ca Managed For: 29 years Minimum Investment - Pooled: $20M Minimum Investment - Separate: $100M


STATE STREET GLOBAL ADVISORS, INC. Jay Waters, Vice-president, Institutional Sales; 121 King St. W., Ste. 810, Toronto, ON M5H 3T9 Ph: 416-367-2049 eMail: jay.waters@standardlife.ca Web: www.sli.ca Managed Since: 1992 Minimum Investment - Pooled: Minimum annual fee of $5,000 Minimum Investment - Separate: $50M


STANDARD LIFE INVESTMENTS INC. Jay Waters, Vice-president, Institutional Sales; 121 King St. W., Ste. 810, Toronto, ON M5H 3T9 Ph: 416-367-2049 eMail: jay.waters@standardlife.ca Web: www.sli.ca Managed Since: 1992 Minimum Investment - Pooled: Minimum annual fee of $5,000 Minimum Investment - Separate: $50M

T. ROWE PRICE Bruce E. Winch, Head of Sales, Canada; 161 Bay St., Ste. 2700, Toronto, ON M5J 2S1 Ph: 416-572-2582 Fax: 416-572-4085 eMail: bruce_winch@troweprice.com Web: www.troweprice.com Managed Since: 1984 Minimum Investment - Separate: US$50M

TD ASSET MANAGEMENT INC.* Mark Cestnik, Managing Director; 161 Bay St., 34th Floor, CT Tower, Toronto, ON M5J 2T2 Ph: 416-983-7088 eMail: mark.cestnik@tdam.com Web: www.tdam.com Managed Since: 1992 Minimum Investment - Pooled: $17M Minimum Investment - Separate: $200M

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.coyle@ubs.com Web: www.ubs.com Managed Since: 1981 Minimum Investment - Pooled: $15M Minimum Investment - Separate: $50M

UNIGESTION ASSET MANAGEMENT (CANADA) INC. Heather Cooke, Director, TD Canada Trust Tower - 161 Bay St., 27th Floor, Toronto, ON M5J 2S1 Ph: 647-350-2020 eMail: clients@unigestion.com Web: www.unigestion.com Managed Since: 2010 Minimum Investment - Separate: Varies by mandate

VAN BERKOM AND ASSOCIATES INC. Simon Lussier, Partner, Vice-president; 1130 Sherbrooke St. W., Ste. 1005, Montreal, QC H3A 2M8 Ph: 514-985-5759 Fax: 514-985-2430 eMail: slussier@vbassociates.com Web: www.vbassociates.com Managed Since: 2012 Minimum Investment - Separate: $5M


Information for this directory was provided by the participants. Benefits and Pensions Monitor takes no responsibility for the information provided.
The 2014 CPBI Ontario Regional Conference brings together industry leaders who will examine and analyze today’s issues surrounding employee benefits, pensions and institutional investment. This conference is designed for all industry professionals – consultants, service providers and plan sponsors. By attending this conference you will get answers to some of today’s most pressing and complex issues. Choose your participation from a selection of workshops and plenaries designed especially for those working in the benefits, pensions, investment and human resource fields. Achieve the best education to make you more effective in your job!

To be held at the newly renovated Crowne Plaza Hotel in Kitchener!
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* As of June 30, 2014
1 - Part of RBC Global Asset Management Inc.
2 - A Fidelity Investments Company
3 - A wholly-owned subsidiary of The Toronto-Dominion Bank

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## APPOINTMENT NOTICE

David M. Star, President and CEO of Pier 21 Asset Management Inc. is pleased to announce the following appointments.

**Brent J. Muir**, B. Eng., LL.B.,
Senior Vice President, Pier 21 Asset Management Inc.

Before joining Pier 21, Brent spent 25 years in private practice as a business and regulatory lawyer, most recently as a partner with Miller Thomson LLP. He has represented financial, corporate and institutional clients in the area of OTC derivatives and possesses recognized experience in the field of real estate valuation. His experience includes acting as an adviser to the treasury arm of one of Canada’s leading financial institutions. As well, he both counseled and sat as a director of several established charitable organizations and foundations. To support the growth of Pier 21’s investment offerings, Brent will oversee our compliance and operations functions, as well as explore new market opportunities for Pier 21.

Pier 21 Asset Management Inc. was founded in 2005 and has three billion dollars under management. Based in Montreal, the firm offers international and global investment strategies to institutional investors in Canada through exclusive relationships with select foreign-based investment managers. Parade Street Investments is a proprietary investment offering of Pier 21.

**Pierre Collins**, CPA, CA, CFA
Senior Vice President & General Manager, Parade Street Investments

Before joining Pier 21, Pierre spent over 12 years as a Senior Consultant with Pavilion Advisory Group, one of Canada’s leading investment consultants. He has worked with some of Canada’s largest pension plans and other financial institutions, providing general investment advisory services with an emphasis on manager structure and search. Previously, he held several management positions including Treasurer at Worksafe New Brunswick, Parade Street Investments, Pier 21’s new investment offering, will be home to select and exclusive global sub-advisors. It will be developed under Pierre’s guidance, as he will select and oversee new sub-advisory partnerships, and introduce these offerings to Canadian institutional investors.
The Case for Alpha

By: Charles Brandes & Tim Newburn

The future of millions of Canadian workers hinges on the continued success of the country’s pension plans.

However, these plans face a number of challenges that may impede efforts to honour their obligations.

There are ways to break down these monumental challenges. The first is to deliver on current payouts which fixed-income, low tracking error, and/or low volatility strategies may support. The second is to deliver on long-term obligations and this should largely come from generating alpha through exposure to equities – the only true creators of new wealth. Both strategies can co-exist and, in fact, complement each other: Pension managers can achieve both short- and long-term goals by using the right tool for each job. Importantly, having the vision to implement changes needed now can help ensure a plan’s sustainability.

To honour long-term obligations, pension plans need not venture far afield in search of returns. Equity investing remains a potentially powerful source of wealth generation, for a simple reason: many companies globally continue to create value by doing what they do best, producing goods and services in favourable economic times and bad.

Historical data support the case for equities. Over the last 30 years through June 30, 2014, global equities, as measured by the MSCI World Index, outperformed U.S. bonds and gold and significantly outpaced inflation, as shown in Figure 1.

Differentiating Risk And Volatility

Despite the historical advantage of equities, there’s a growing trend among public and private pension plan administrators to place more emphasis on controlling volatility as a risk-management tool than on generating alpha.

At the heart of this problematic trend is the tendency to confuse volatility with risk. Volatility is the day-to-day ups and downs in the market often reflected in short-term, unrealized losses. Real risk is failing to reach long-term objectives, such as not having enough money to pay promised benefits.

For pension plan administrators, meeting current funding requirements and a host of other challenges have spawned a pervasive pursuit to try to control any downside by adopting low-volatility investment and alternative strategies. While it’s understandable that many sponsors find it difficult to tolerate volatility, many investment managers now focus almost exclusively on controlling the downside. While this approach may help reduce the variability of a plan’s assets, allocating exclusively to low-volatility alternatives and passive strategies is certainly not a panacea to keep plans afloat and on target to meet long-term funding obligations.

Moreover, strategies designed to control the downside are not without risk. These risks include:

- **Complexity** – While diversification may assume the guise of control, it ultimately makes asset allocation more complex, hurting long-term obligations. In a study entitled ‘Back to the Future,’ Robert M. Maynard, CIO of the Public Employee Retirement System of Idaho and an advisory board member of the Brandes Institute, found that diversification strategies did not perform better than a simpler asset allocation approach with appropriate rebalancing. In fact, their innate complexity “can lead to complications that threaten any long-term plan when temporary, and inevitable, underperformance periods arise.”

- **Herding** – As more and more managers adopt the same passive strategies, ‘herding,’ or highly correlated activity, can create serious problems down the road. In a speech delivered this past April, Andrew Haldane, who is now chief economist and executive director, monetary analysis and statistics at the Bank of England, argued that herding “amplifies procyclical swings in the financial system and wider economy.” The more people latch onto passive strategies, the greater the likelihood of market bubbles, systemic risk, and large market swings.

- **Lack of capital allocation** – Lastly, this focus on controlling the downside deprives investment managers of the very service they’re paid to provide: allocating capital efficiently. If everyone pursues beta (market returns) at the expense of alpha (market-beating returns), capital will not be put to work in a way that boosts the global economy.

The approaches cited above may come at a price. Consider that by investing exclusively in bonds, alternatives, or passive equity products, investors are abdicating their ability to reward undervalued companies and doing a great disservice to those businesses,
the plan sponsors’ constituents, and the broader economy in the process.

Additionally, an approach focusing only on the short term may work if the end goal is near-term payment certainty, but may fall short on delivering long-term returns. Even reasonable return targets demand an alpha-generating component. Regardless of inherent concerns, any or a combination of low volatility strategies would have difficulty delivering on long-term funding obligations. Certainly, exclusively allocating to these strategies is not a panacea to keep plans afloat amid solvency issues and on target to meet long-term obligations. Moreover, it is important to note that the risk of running out of assets at an individual and plan level is a growing concern that has yet to hit its stride in terms of the massive baby boom generation moving into and through retirement and a disproportionate share of active plan contributors, as well as changing accounting and funding regulations.

**Longevity Challenges**

Against the backdrop of longevity challenges (for example, the Ontario Teachers’ Pension Plan has members scheduled to collect benefits for 50 years or more), underfunding challenges (in Newfoundland, 8,581 retired teachers collect pensions with only 6,231 working and contributing to the fund), and inflation challenges (the cost of living in Canada rose by 2.4 per cent in the year ending June 2014), managers are compelled to seek some alpha and manage the risk associated with that venture.

Bill Raver, a member of the Brandes Institute advisory board who serves as advisor or fiduciary for a number of investment funds, says it is surprisingly difficult to predict a pension plan’s true funding requirements to settle future liabilities. Among the reasons are:

- arbitrary assumptions for employee wage growth and mortality
- changing government regulations regarding plan design, PBGC insurance, and tax policy
- successive waves of accounting rule changes affecting expense recognition and resulting employer contributions
- the periodic impact of union negotiations
- the increasingly popular practice of

early pension settlements (insurance buyouts, lump sum payment offers).

Raver adds, “At a former firm, where my group oversaw 19 separate defined benefit plans (each covering different worker populations, business lines, and geographies), the pace of change in the underlying plan liabilities posed significant challenges for the actuaries. Long-term liabilities of this nature are not truly fixed, hence the pressing need for superior investment results to help compensate for the economic uncertainty.”

Strategies designed solely to control the downside ultimately limit any upside potential. Most importantly, they upend the very principles that define what investment management is all about. Instead of avoiding risk entirely, we should be figuring out ways to benefit from it. This mandate has never been more critical than now with an unprecedented number of Canadian workers on the precipice of retirement and living longer than ever.

**Strong Methods**

There are strong methods to manage risk associated with equities including diversification through global stock selection based on fundamental analysis and curtailing long-term risk by investing in undervalued securities. At the end of the day, investment professionals are paid to work with and manage risk. That responsibility entails securing positive long-term results as much as weathering short-term volatility.

In summary, the continued success of Canadian pension plans requires administrators of these plans to have the vision and impetus to do what’s right for their constituents today. While we understand the potential difficulty of re-establishing larger equity allocations, doing so can prove vital to the future success of plans.

As plan administrators endeavour to ensure sustainability and restore the promise of retirement security to their members, perhaps it is time to rejuvenate the discussion around the merits of alpha generation. By all means, pursue low volatility strategies for short-term requirements, but also embrace risk and active equity management to deliver on long-term obligations for tomorrow’s retirees.

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**Figure 1**

Global Equities Have Appreciated The Most Versus Bonds & Gold Over The Long Term

<table>
<thead>
<tr>
<th>MSCI World Index</th>
<th>Barclays U.S. Aggregate Bond Index</th>
<th>S&amp;P GSCI Gold Index</th>
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Growth Of $100,000 Over 30 Years

Sources: Brandes and FactSet; from 6/30/1984 to 6/30/2014.

This hypothetical example is used for illustrative purposes only. One cannot invest directly in an index.

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Charles Brandes is the founder and chairman of Brandes Investment Partners, L.P.

Timothy J. Newburn (CIM) is director, institutional group, with Brandes Investment Partners, focused on Canada.

tim.newburn@brandes.com

September 2014 | Benefits and Pensions Monitor | 27
Getting Social With Your DC Plan

By: Jeff Pekar

As defined contribution pension plans continue to become more prevalent, employers struggle to engage employees in planning for retirement. By their nature, DC plans shift the risk and responsibility to plan members, but it only works if employees accept this responsibility.

Fortunately, a variety of approaches and tools – including social media – provide new opportunities for improved communication, education, and engagement. But one thing is clear: we cannot continue to do what we’ve been doing and expect different results. Isn’t that the definition of insanity?

Helpful Solutions

Employers are offering helpful solutions – or so they think. According to a recent Towers Watson study, three-quarters (74 per cent) of employers feel they provide adequate retirement and investment planning resources. Despite the wide availability of tools, less than a quarter (23 per cent) of employers believe that most employees make good use of retirement and investment planning resources. A similar number (22 per cent) think their employees have a realistic expectation of what their DC pension plan can provide.

So the question is: Can social media actually help improve DC member engagement? Figure 1 outlines the path we need DC plan members to take, from A to B.

In this context, social media is emerging as an employee engagement tool. Many of the items needed to create a ‘willingness to execute’ can be far more easily provided using social media, such as peer support, social effects, and incentives.

World Of Communication

For years, many studies have demonstrated the correlation between effectively communicating to employees about their total rewards and an increase in productivity and engagement. But what qualifies as effective communication? It’s no longer good enough (and maybe it never was) to simply issue a booklet or an email and expect employees to be engaged with their pension plan.

How we communicate is changing. Communication cannot solely be one way; it must be multi-directional. It must be social. This means people interacting with each other in a meaningful way: sharing experiences, providing feedback, and learning from others. We need to recognize the power, prevalence, and growth of today’s generation of social media as part of the communication mix. HR professionals can learn from its marketing department colleagues. They know that understanding the audience is critical before issuing any message.

We also need to recognize that today’s population is mobile. They have smart phones. They like online gaming. They are socially networked. This is a global phenomenon. All of this

Social Media By The Numbers

- 55 per cent of Canadians own a smart phone (Catalyst & Group M)
- Three-quarters of all internet users are on at least one social network (WordPress Hosting SEO)
- The fastest growing cohort on Twitter is 55 to 64 year olds (up 72 per cent since 2012); 45 to 54 year olds are the fastest growing on Facebook and Google+ (Fast Company)
- 89 per cent of 18 to 29 year olds are active on social networks (WordPress Hosting SEO)
- 56 per cent of Millennials won’t accept jobs from organizations who prohibit social media (AllTwitter)
- Employees who use social networking sites are nine per cent more productive than those who don’t (Fahmy)
is true, yet our employee communication strategies rarely reflect this reality.

The most effective organizations understand how social media tools (like video and instant messaging) help shape corporate culture and build community. Nevertheless, only about half (56 per cent) of the employers surveyed report using social media to communicate with employees on HR related topics.

Social media can take many forms. At its core, it allows for the exchange of thoughts and information, be it through websites and/or mobile apps. Figure 2 shows the prevalence of various social media and their relative effectiveness.

Getting Excited

Can you imagine employees connecting on social media and getting excited about their DC plan? Why not? Employees are already using social media to learn about retirement planning. Surprised? Try typing ‘retirement planning’ into the YouTube search engine. You’ll get more than 100,000 videos related to the topic. In addition to watching the videos, millions of viewers are reading comments and leaving their own thoughts. Try that search in Facebook, and you’ll discover page after page after page of people and organizations available to provide advice.

External social media is not usually controlled and rarely has company-specific information. Some would argue that companies should stop worrying about controlling the message anyhow. Right or wrong, the fact that employees are talking about their DC plans is a good thing. They learn more and become more engaged.

Many organizations are already taking advantage of external social media services. For example, many companies have employee-only groups on Facebook, LinkedIn, and/or Twitter. These channels can be used to provide employee-centric information on a variety of topics.

It doesn’t have to be a top-down discussion, either. The beauty of social media is that, if done effectively, people will interact and provide their own comments, questions, insights, and observations. Doing so not only grows the knowledge base, it also keeps management aware of trending topics while identifying where additional information resources are required. In fact, more and more organizations and employees are sharing company educational videos posted on YouTube – especially if they are fun and informative – with their own social networks, including to non-employees. You can’t get that kind of interaction, insight, and engagement with a dusty plan booklet!

Measuring Results

It’s difficult to measure how effective social media is when it comes to DC plan engagement. The important thing is to measure outcomes not outputs. Outputs are results like HITS (How Idiots Track Success), which only show how many people visited a site, but not its lasting effect. Outcomes, on the other hand, link back to the plan’s objectives: Are more employees actively investing their accounts? Are they taking advantage of the company match? Are they using the tools available to determine how much they’ll need in retirement?

Technology has advanced and has become more affordable over the years, making company social networks more commonplace. For example, many intranet platforms now allow employees to rate and comment on articles they read. This is relevant because people tend to care about what others are doing and thinking. A recommendation to use a tool or see a video from a colleague is much more compel-
Social media for DC communication is about more than providing online tools; it’s about building communities, sharing information, and creating interaction. It’s about finding information through people, finding people through groups, and building communities. Consider the case of a simple online discussion forum where an employee poses a question about their DC investment options. Before someone in HR can even respond, a colleague across the country comments. Pretty soon, more people join in to share their thoughts and point the original poster to the right resources. Meanwhile, calls to the HR call centre are reduced, employees are more informed, and people feel more connected to each other.

Gamification Wins
Gamification – online competitions, usually with a social nature to it – can have its place at promoting DC programs. For example, myFiTage (Figure 3) by Towers Watson is a way to estimate how long your future financial resources are expected to last … unless you take certain actions. The social aspect comes in when employees discuss their results and strategies online (or even in person!) and learn from the insights of others in their network. Because it can be integrated or linked with other services, gamers can have instant access to educational videos and articles. And if members want to change their DC investment mix based on information they’ve just learned, it’s only a click away.

The point is to make learning fun, social, and engaging. Employees need a reason to do something different. They need an emotional connection. That’s why any social network or gamification app needs to be accessible and that means being available on smart phones and home computers, anytime, anywhere.

Getting Started
STEP 1 – Have a strategy: Set goals for what you’re trying to accomplish and how you’ll measure success.
STEP 2 – Do your homework: Take the time to know your employees and know them as well as marketers know their customers. (In a recent study, only 20 per cent of employers say they’ve collected feedback in the past five years from employees about their plans and what it would take to engage them in planning for retirement.)
STEP 3 – Don’t be afraid to use new approaches: Initially, the loss of control may feel uncomfortable, but we know the current approach isn’t working. Trying something different – something fun – is worth it.

Making The Most Of All This
Setting up a social network to promote DC education is no longer expensive or time-consuming. In fact, your intranet likely supports some form of social media, be it the ability to post videos, have online discussions, or rate articles. The important thing is to set the site’s objectives up front. What are the actions you want your plan members to take? Once you have that answer, you can determine which features are ‘nice to have’ versus ‘need to have.’ Metrics need to be established and monitored and adjustments to the plan may need to be made as time goes on.

To be successful though, such a social network needs to be promoted effectively. There is no use in having a robust platform if no one is using it or aware of it. A strong communication plan needs to be developed, not only to launch the social network, but also to encourage people to use it throughout the year. For example, a contest can be used to help launch the initiative and summaries of the trending topics can be shown throughout the year on the appropriate intranet page.

We know many employees won’t be financially secure upon retirement. But trying to engage employees with plan booklets simply isn’t going to cut it anymore in an era where we are so reliant on social media. There is a way to bring enjoyment and fun into the big picture – even when dealing with DC plans.

Plan sponsors have a responsibility to ensure members have access to the tools and information they need to make their pension-related decisions. Companies want to make the most of their pension spend and ensure employees appreciate its value. Can social media actually help improve DC member engagement? The answer is a resounding ‘yes!’
Handling your pension and benefits plan is an art.

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Mary Jane Is Coming To Work Soon … Are You Ready?

By: David A. Whitten

When it comes to marijuana use in the workplace, the times are definitely changing.

In April of this year, Health Canada quietly eased restrictions on acquiring medical marijuana by requiring only a doctor’s prescription to legally purchase the drug. Previously, Canadians who needed marijuana for medicinal purposes had to go through the lengthy process of applying for a licence to obtain medical marijuana.

This regulatory change means that employers need to prepare for the inevitable day when an employee announces they are under doctor’s orders to light up during the work day.

How big a workplace issue is medical marijuana? Today in Canada there are approximately 40,000 medical pot users. According to Health Canada, that number could reach 450,000 by 2024. This 10-fold increase will be fuelled by the rapid proliferation of licensed marijuana growers and rising awareness among Canadians that all that is needed to acquire the drug is a doctor’s prescription.

The fact that about 500 pot producers have already applied to become licensed medical marijuana growers strongly suggests that Health Canada’s projections are correct. The implications seem inescapable: the use of medical marijuana in the workplace will spike in the next decade and the days of ‘zero tolerance’ are over.

Legal Right

Make no mistake, Health Canada’s regulatory change has effectively given people the legal right to get high at work provided their doctor authorizes the drug’s use.

In accordance with Ontario’s Human Rights Code, employers must accommodate medical marijuana to the point of undue hardship, just as they would any other prescribed pain medication, up to and including providing frequent breaks and dedi-
cated pot smoking areas.

Failure to allow the use of doctor-prescribed marijuana in a workplace or terminating a medical pot user without sufficient accommodation can result in financial penalties, re-instatement, and payment of back wages.

Employers need to understand what’s coming and get ahead of the issue by establishing polices to strictly govern the use of pot in the workplace. Failure to do so could lead to significant safety, productivity, and reputational challenges, not to mention negative and highly vocal reactions.

One can easily imagine, for example, the potential reputational damage associated with customers or investors witnessing one or more employees smoking pot in a designated area. Clearly, this is an issue that needs to be carefully managed.

There are also significant internal concerns. Pot use remains a controversial and divisive societal issue. Employers need to tread carefully to avoid internal discord and negative stereotyping.

Internal education about the legitimate medicinal uses of marijuana and why the drug is an effective treatment for relief of chronic pain and anxiety-related disorders is an effective first step. It is particularly important to aggressively debunk myths about marijuana use and protect employees from being stigmatized by their colleagues.

Above all, it is important to communicate that use of medical marijuana under the supervision of a physician must be accepted and accommodated.

A company, for example, that stone-walls on accommodation or in any way implies that an employee’s use of the drug is just an excuse to get high can quickly find itself on the wrong end of a costly human rights complaint.

Dos And Don’ts

From a legal perspective, there are dos and don’ts that employers should be aware of. When an employee advises they have a doctor’s prescription for medical marijuana, the employer does not have the right to ask why. Employers only have a right to verify that the employee has a prescription and what, if any, restrictions they have in the workplace as a result.

The exception is when there is a safety concern. Under Ontario’s Occupational Health & Safety Act, employers are required to ensure a safe work environment. If, for example, the marijuana user is a lift-truck driver or heavy equipment operator, the employer can legally ask if the employee has a medical disability that could pose a danger to themselves or others.

Generally, the best approach is to not ask for medical details. Acquiring an individual’s medical information brings with it the legal responsibility of keeping the individual’s medical information confidential.

Determining Impacts

A better approach to determining impacts on safety and productivity is to insist on physical and cognitive evaluations. Testing by a qualified physician can provide hard evidence of safety hazards and the degree to which job performance is impaired. Independent medical evaluations can also offer valuable insight into how best to accommodate the employee’s use of the drug.

Should the decision be made to terminate, such testing will also help prove that the employer has gone to considerable lengths to provide reasonable accommodation.

Understanding how human rights tribunals view accommodation to the point of undue hardship is a useful guide to how far employers are expected to go to facilitate the use of doctor-sanctioned marijuana.

In cases where safety is compromised, the employer must be seen to have done everything possible to find the marijuana user another position. If no position exists, then a tribunal would likely conclude that the employer had met their obligation. However, the burden of proof is on the employer and evidence of a thorough search for a different job must be presented.

Accommodation in office environments is more problematic. Human rights tribunals have concluded that it is reasonable for employers, particularly large ones with deep resources, to incur costs and productivity losses when accommodating illness or disability.

A tribunal judging whether there was undue hardship in these circumstances would typically want an independent medical evaluation that proves significant impairment of cognitive facilities resulting in diminished performance.

It would also likely demand strong evidence of accommodation by the employer – such as providing extended sick leave, allowing the employee to work from home, or altering the job description to make it easier to meet acceptable performance standards.

One of the most vexing aspects of this emerging workplace issue is designated marijuana smoking areas. No employer wants a visible display of employees smoking pot. Action is clearly needed by Health Canada to broaden how the drug can be ingested.

Current legislation only permits licensed producers to sell dried marijuana. They cannot sell marijuana derivatives such as oils or foods. This needs to be addressed so that medically authorized pot users have alternatives to smoking the drug such as marijuana-infused beverages, candies, baked goods, or pills.

Methods Of Ingestion

Alternative methods of ingestion would allow employers to ban smoking the drug and eliminate designated smoking areas. This would go a long way to avoiding any reputational damage.

The bottom line is that marijuana use in the workplace will grow dramatically in frequency and employers need to adapt.
Fraud is an intentional deception deliberately practiced in order to secure unfair or unlawful gain. As a legal construct, fraud is both a civil wrong and a criminal wrong. Defrauding people or organizations of money is the usual purpose of fraud.

Fraud really does matter. Canadian businesses lose billions of dollars annually to healthcare fraud and abuse. Fraud and abuse results in not only higher insurance premiums and reduced benefits, but can ultimately impact the health of plan members and their dependents. Most medical and dental providers are honest and work hard to improve their patients’ health. However, a few are only looking for financial gains and any opportunity to increase revenue.

Billing Fraud

There is extensive ‘user’ fraud associated with:

- Forging receipts which can sometimes be accessed from a provider office or created electronically. With today’s technology it is fairly simple to produce a ‘fraudulent document.’
- Changing the dollar value on existing receipts is another danger.
- Submitting duplicate claims that often get reprocessed through the system can also be carried out.
- Allowing ineligible individuals (family/friends) to use their drug card as the user is not policed at the pharmacy level is another method.

Plan sponsors need to preserve their benefit plans from ‘providers’ who:

- Provide and bill for services that are not medically necessary
- Receive ‘kickbacks’ from the manufacturer
- Consistently invoice ‘inappropriately’ for the services provided to patients
- Submit codes for more enhanced services than those actually provided to the patient

Suspicious Trends

Insurers incur the costs of professional training for staff, updating their system to identify suspicious trends, and subscribing to associations that keep them abreast of industry tracking on fraud. Additional expenses are often incurred related to maintaining claim turnaround times while assessing the claims for potential fraudulent activity. Time requirements are also increased by the need to check provider watch lists and review claims for potential ‘altering’ of the receipts as well as identifying claimants’ changing claims patterns; an increase in a particular area of claims or in claims originating from a specific provider or clinic. This requires additional time commitments and investigation by the adjudicator. All these processes need to be factored in to the cost of doing business.

Employers/benefit providers must take on the role of educator when it comes to employees and their benefits.
Plan design can help an employer and their employees to better manage their benefits. The employee has more control over the types of treatment they can access and the providers they can use. By utilizing some of the following measures, they often realize plan savings and increased plan viability:

- Combined maximums for such things as paramedical providers
- Setting per person or per family limits
- Implementing health spending accounts

These place the responsibility for benefit spending in the hands of the employee who will be informed of their remaining balance after each claim is paid. This also allows more flexibility in the ways an employee wishes to use their benefit dollars.

False Referrals

In today’s environment, most people trust their practitioner to give them good advice and most do. There are, however, some who, in collusion with other providers of medical equipment, services, or devices, are prescribing unnecessary equipment/supplies.

In many cases, employees are oblivious to the impact of these costs to their employer’s bottom line. It is important that clients clearly explain to their employees how increased benefit costs impact the company’s costs and profitability. This, in turn, can result in reduced benefits and/or increased payroll deductions. The employee needs to feel some ownership for their benefit package and the costs that are incurred.

Pre-Signed Claim Forms

Your employees/members should never pre-sign claim forms for a provider to hold for future appointments. When a claim form is signed, it should be completely filled out with the date of service, a description of the services provided, and the cost for each service. The insured should feel comfortable asking for clarification of any information it contains. After the appointment, if they are still unclear and have questions that the medical/dental provider cannot answer, your insurance provider might also be a resource for this information.

Your member/employees should review their healthcare insurance claims history from time to time. Most providers offer an online service where members can view their individual and dependent’s claim activity as well as monitor direct deposits and payments to service providers. Members should be reminded to keep personal information confidential and never share drug card, IDs, or certificate numbers.

Valuable Or Free Rewards

Getting something for free is a great motivator for where you do your shopping. A free pair of shoes with your orthotics or some free massage therapy sessions would be attractive to many individuals.

Your members should be aware of these get rich quick schemes and valuable or free reward offers. If there is pressure to make a big purchase decision immediately, it is likely too good to be true. The service being provided must be medically necessary and not purchased solely for the free item or reward associated with it. Because the claimant is somewhat removed from the employer/plan sponsor on these transactions, they do not take on the responsibility for any wrongdoing.

To be clear when a plan is abused, the ultimate costs to the employer go up and, in turn, the member will see increased monthly premiums and payroll deductions and/or a reduction in actual benefit coverage. It is in the employer’s best interest to clearly explain this to employees.

Non-insured Services

Be aware that beauty treatments, running shoes, and non-prescription sunglasses are not covered by health insurance plans and substitution of these products or services for receipts for services that are covered by your plan is fraudulent activity. The beauty industry is very competitive. Service providers will offer to ‘massage’ receipts in order to cover pricey treatments otherwise not insurable. In these situations it is almost impossible for insurers to detect fraudulent activity. For all intents and purposes, the receipts appear legitimate. In these situations, the insurers rely on the tips received through associations such as the Canadian Health Care Anti-fraud Association or the Insurance Bureau of Canada. For consumers, the responsibility is to be aware that what is being billed to the insurance provider has been received.

Part of the solution is to foster employee engagement and understanding of their plan. Providing education and information relative to the coverage and the implications of claim misuse can lead to a feeling of ownership versus entitlement for the benefits and how they are used. The penalties associated with fraudulent claim activity should be clearly defined and supported by the plan sponsor/employer. Don’t ignore tips provided by employees/members and don’t hesitate to make an example of the employee whose fraudulent claims are detected and confirmed.

Cutbacks Or Reductions

It’s challenging to engage employees in these tough economic times. However, the reality is most employees would prefer to pay higher premiums to maintain their benefits versus facing cutbacks or reductions. Involve your employees in the management of the health plan dollars. One example would be the implementation of healthcare spending accounts. These provide the employees with a specified amount which they can use for medical expenses as allowed under the CRA. It can be a plan that supplements an existing defined benefit plan or a standalone healthcare spending account in a specified amount.

Your insurance provider should be able to supply you with some educational material to share with your employees. You may want to encourage the option of an ‘employee committee’ to participate in a project to review the design and costs associated with their plan. Such a committee helps to create overall awareness and buy in regarding the importance of maintaining a viable benefits plan.

Kimberley Keeler is manager of the claims department at Manion Wilkins & Associates Ltd.

Susan Brown is vice-president, claims and member services, at Manion Wilkins & Associates Ltd.
Let’s Talk About Suicide

By: Caroline Tapp-McDougall

It’s not an easy conversation to have, especially after the recent news around high-profile comedian Robin Williams’ decision to end his life. Yet, talk about it we must.

In Canada, suicide prevention is a serious public health issue, with reported incidents and attempts increasing and statistics showing that suicide is one of the top 10 causes of death. Over 4,000 Canadians die from suicide every year.

This means each day, 11 people in our country commit suicide and another 210 others will make an attempt. Naturally, loved ones and colleagues are profoundly affected with 100 plus people (seven to 10 people surrounding each victim) becoming newly bereaved as a result of a suicide every day.

No Employer Is Immune

With the majority of an employee’s life being spent at work, it’s not unreasonable that the workplace might be the location for upset and trauma as a result of a colleague’s or family member’s decision to commit suicide.

Employers, seeing a rise in employees taking their own lives at work, are becoming increasingly concerned as to how to handle a potential suicide or intervention with a troubled employee. People choosing the workplace as the site for suicide may or may not be significant. However, according to one insurer, taking one’s life at work could be a last act of sending a clear message to their employer about frustration, overwork, or termination or it could be they simply do not want to be found at home by a family member.

The good news is that only a limited number of suicides happen without a person giving clear warnings, so it’s a common belief that the majority of suicides can be prevented. Suicide may seem like the only way to deal with difficult situations or feelings at the time. According to experts, many who threaten are still ambivalent and not completely sure that they want to die. Rather, they feel shame and often feel that they are isolated and cut off from getting crisis intervention and longer-term support. Suggestions of self-harm should be taken very seriously. If you learn and share the warning signs, you and your team will be more effective at identifying those at risk.

For instance, watch if a co-worker or loved one has a significant change in mood, becomes unreasonably angry or unusually withdrawn, or demonstrates problems with their work performance. Engaging in behaviours that are risky or harmful may also be an indicator of the fact that an individual needs treatment, care, and support. In addition, pay attention if you notice that a colleague has lost interest in work, activities, hobbies, or social interactions; is letting their physical appearance deteriorate; or starts giving away prized possessions and saying goodbye.

Workplace Or Home Interventions

Experts suggest that if you are the first responder to not leave the person alone if you believe there is the potential for self-harm or suicide. If the person is weepy, crying, or withdrawn, you should try to get a direct ‘yes or no’ response to a question like ‘you look very sad and seem overwhelmed. I need to ask, are you thinking of suicide?’

Hopefully, this will give you an idea of what to do next and your openness will give the person who is contemplating suicide the permission to share their thoughts. This way you are validating their pain and personal grief, but it also allows you to introduce the topic of getting help from a crisis line as quickly as possible.

After a suicide, containing the crisis with accurate and appropriate messaging that respects the privacy of the deceased and witnesses as well as setting a compassionate tone will be essential. Help close team members by dispelling rumours and answering questions. Allowing the venting of anger, guilt, or other emotions may be necessary.

For an employee who might have attempted suicide, assist with finding longer-term support systems and connections within a cultural or faith community. This can help employees manage stress and face their challenges in a well-supported, productive way.
The changing role of the HR function, its mandate, and value proposition will be among the sessions at the Conference Board of Canada’s ‘HR Summit 2014: The Next Generation of HR.’ The summit focuses on the unprecedented change and innovation that HR leaders are facing. It takes place October 1 and 2 in Vancouver, BC, and October 6 and 7 in Toronto, ON. For information, visit http://www.conferenceboard.ca

David Willows, of Green Shield Canada, and Francois-Joseph Poirier, of Mercer, will discuss ‘Oh What a Life on Drugs’ at the ‘CPBI Ontario Regional Conference.’ The session will provide an overview of drug consumption and adherence data. Other sessions will discuss the risks associated with low member engagement in defined contribution plans and explore recent developments regarding the accommodation and management of an aging workforce. It takes place October 1 to 3 in Kitchener, ON. For information, visit www.cpbi-icra.ca

Current trends in the world of work and how human resource managers can be prepared for these will be discussed at the human resource trade show ‘HRM Expo.’ It boasts more than 220 official agenda items over the course of three exhibition days. It also features a return of the corporate health series with sessions and exhibits dedicated to corporate health and well-being. It takes place October 14 to 16 in Cologne, Germany. For information, visit www.zukunft-personal.de/content/index_engl.html

The theme of Alternative IQ’s ‘7th Annual Canadian Hedge Fund Awards and Conference’ is ‘Dispelling the Myths.’ Barry Allen, founding partner of Marret Asset Management, will deliver the keynote address, ‘Better than Benchmarking.’ It takes place October 21 in Toronto, ON. For information, visit alternativeiq.com

The Conference Board of Canada’s ‘Health Summit 2014: Aging, Chronic Disease and Wellness’ will focus on two interrelated issues that represent the most complex challenges to system sustainability that will affect the health of all Canadians, now and in the future – the system is misaligned with an aging population and the current delivery model is ill-equipped to address chronic care and prevention. It takes place October 23 and 24 in Toronto, ON. For information, visit www.conferenceboard.ca/conf/healthsummit/default.aspx

The International Foundation of Employee Benefit Plans’ ‘Certificate in Canadian Benefit Plans’ will feature sessions comparing Canadian and U.S. benefits, group health and dental, and Canadian drug benefit design. It takes place October 27 to 29 in Vancouver, BC. For information, visit ifebp.informz.net

Michael Jantzi, CEO of Sustainalytics, and Don Ezra, co-chair, global consulting, for Russell Investments, will be among the speakers at the ‘World PensionSummit.’ Theme of this year’s event is ‘Financing Pensions.’ It takes place November 5 and 6 in The Hague, the Netherlands. For information, visit www.worldpensionsummit.com BPM
Emotions Matter

By: Jim Helik

A few months ago, Facebook received some major publicity over a ‘mood-swaying’ experiment it performed on hundreds of thousands of unsuspecting users. The company altered news feeds that users received and then tested the changes in users’ moods. They found that user moods did change, depending on whether postings were positive or negative. It’s an interesting experiment, but of more interest to us is the closely related question of whether moods can change and affect actions, in particular, investment actions.

On the face of it, this should be a straightforward question as we have all personal experiences about how being in a lousy frame of mind impacts our personal experiences about how being in a lousy frame of mind impacts our performance in the workplace (if you doubt this is true, just ask your co-workers if your moods affect your actions). However, the investment world is, according to theory, supposed to be dominated by mostly rational economic participants. Therefore, we need a more rigorous study to examine what our gut tells us must be true: that emotions matter.

Traumatic Experience

And now we have one: an unpublished paper from Young-Il Kim and Jungmin Lee, both of Sogang University in South Korea. In ‘The Long-Run Impact of Traumatic Experience on Risk Aversion,’ they note that economists have long known that risk preferences differ among individuals. So far, other experiments have isolated such characteristics as gender, age, education, income, and parental background; all of which impact investment risk preferences to some degree.

Recent studies have looked at the effects of traumatic experiences on risk attitudes in the short run. Experiments performed immediately after 9/11 showed an increase in risk aversion among those studied. Other experiments have found that individuals who have experienced large recent financial losses have a diminished risk profile.

The authors, however, test another factor which has never before been studied: whether early childhood experience changes risk preferences in the long run. Kim and Lee study those who spent their childhood in the middle of the Korean War and look at their behaviour more than five decades later.

The Korean War, and the impact it may or may not have had, provides some unique attributes for study. The timing of the war (between 1950 and 1953) and the timing of the survey (just before the market crash) expose a large range of birth cohorts who experienced (or did not experience) the war at different ages and with varying intensity. The difference in war intensity allows the study to exclude any cohort effects. The authors conclude, “As such, the Korean War is a natural experiment without severe selection bias in which a representative sample of Koreans participated (as either a treatment or a control group).”

Investment risk was determined using a standard questionnaire that included questions of hypothetical lottery winnings, including different payoffs with different probabilities, as well as specific risk questions such as ‘adventure and taking risks are important to me.’ Basic personality questions were also asked of participants.

The authors found that there was significant later investment risk aversion of those who were in their early childhood (aged four to eight) during the war. The war’s impact was only found in this cohort, not those who were older or younger. The study controlled for the demographic differences noted above (gender, education, etc.), as well as those who are currently at, or approaching retirement, whose risk profile may be assumed to be influenced by their current situation.

Experiencing Wars

The study was further validated by using the same survey across 51 countries that also experienced wars. Those people experiencing wars during the identical age range as that in the Korean analysis had similarly lower risk profiles as adults. Interestingly, there was no significant relationship between childhood war experience and happiness, trust, and willingness to enter into personal relationships as adults.

This is the first study that looks at one factor, during childhood, that can influence risk attitudes of adults. I expect that this will prove to be fertile ground for further work in the coming years.

Jim Helik is a contributing author to the ‘Managing High Net Worth’ course and the ‘Commodities As Investments’ course published by CSI Global Education. He is also one of the first holders in Canada of the Human Resource Management Professional designation from the Society for Human Resource Management.
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