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SECTION IFIC

Special

Investment Funds

Eighty years of helping Canadians save

More than ever, mutual funds deliver investment solutions

Despite the many changes in the world since mutual funds were introduced 80 years ago, these stalwart investment vehicles remain among the most popular means for Canadians to achieve their financial dreams.

Introduced in Canada in 1932, mutual funds revolutionized personal investing by offering individuals with limited savings an effective way to increase their wealth by investing in the capital markets.

Now comprising 25 per cent of our total financial assets and about half of our registered savings plans, mutual funds are a staple of today's household balance sheet for good reasons, say experts.

For instance, Joanne De Laurentiis, president and CEO of The Investment Funds Institute of Canada, says the unique ways that funds are structured meet the needs of a wide range of individuals by providing options that would otherwise be difficult to replicate in most portfolios.

Blake Goldring, chairman and CEO of AGF Management Ltd. calls mutual funds the most democratic way for Canadians to achieve their financial goals.

"It just isn't possible for most Canadians to live on income from treasury bills or GICs – you have to be invested in the market," he explains. "Mutual funds are a superior, cost-effective way to achieve that aim. They enable investors to diversify assets based on their level of risk tolerance."

The growth of the mutual funds industry brought global diversification within reach for many investors for the first time, while making professional money management and financial advice available to everyone in the country, says Paul Lorentz, an executive vice president at Manulife Financial.

"Mutual fund fees are often compared to those of other investment products, but it isn't an appropriate comparison," he comments. "Most mutual funds are bundled with advice. If you look at the benefits that mutual funds have provided by making independent financial planning available to consumers, in my mind, you cannot even put a price tag on that value."

According to a recent study, financial advice instills a strong and lasting savings behaviour that enables Canadians to save more. PHOTO: ISTOCKPHOTO.COM

Many studies, including one released this year by the Centre for Interuniversity Research and Analysis on Organizations (CIRANO) in Montreal, have found that financial advice is a fundamental contributor to long-term financial well-being.

"Once you've made the decision to purchase mutual funds through an advisor, that advisor is incented to continue to encourage you to keep saving and investing," says Ms. De Laurentiis. "According to the CIRANO study, financial advice instills a strong and lasting savings behaviour. It is that discipline that allows individuals with financial advisors to save more."

The CIRANO study also found that individuals with financial advisors have a higher level of financial literacy and take greater advantage of tax-sheltered programs such as RRSPs, RESPs and TFSAs. It and other independent studies additionally show that individuals with financial advisors do significantly better in overall wealth creation, notes Mr. Goldring. "Studies have also found that people without an advisor often spend more time talking about an upcoming vacation than they do about their financial future, which is worrisome."

Couple that finding with rising levels of personal debt – and the reality that government programs alone will not meet the retirement needs of Canadians – and it is clear that "paying for advice pays dividends," he says.

Staying relevant for eight decades demands a high level of innovation. The investment fund industry has delivered.

As government policy has changed, the mutual funds industry has evolved to deliver the benefits of those changes to Canadians, says Charles Sims, president and CEO of Mackenzie Investments. "When the Registered Retirement Savings Plan was introduced by the federal government in 1957, the structure of mutual funds allowed investment advice to be provided with the savings vehicle, which made RRSPs accessible for everyone," he notes.

Today, mutual funds are also a key investment vehicle for Registered Education Savings Plans, the Tax-Free Savings Account and Registered Disability Savings Plans.

Both in and outside of registered plans, the coupling of advice with investment products has enhanced the ability of Canadians to save for retirement, says Mr. Sims. "Asset allocation products, which provide a portfolio allocated into different asset classes and regions, based on the risk profile of the investors, simplified the process for both financial advisors and investors alike."

As the Canadian population has aged, the funds industry has responded to the intensified focus on retirement, says Mr. Goldring. "Investors are increasingly concerned about whether their needs are going to be met by government pension plans, and the investment industry has played a leadership role in ensuring that investment products and options are available for long-term planning."

For more than eight decades, "mutual funds have successfully adapted to policy, market and investor shifts, to continue to meet the changing needs of Canadians," adds Mr. Sims.

ABOUT

The Investment Funds Institute of Canada (IFIC)

The Investment Funds Institute of Canada is the voice of Canada's investment funds industry. IFIC brings together 150 organizations, including fund managers and distributors, to foster a strong, stable investment sector where investors can realize their financial goals. The organization is proud to have served Canadian financial consumers for 50 years.

RETROSPECTIVE

Alan Chippindale can be considered the father of the investment funds business in Canada. Born in England in 1901, his introduction to Canadian business began in 1932 when the Calvin Bullock organization in New York sent him to Canada to start and manage the Canadian Investment Fund, the first mutual fund in the country.

"Statistics were sketchy, but it was estimated that unemployment was about 40 per cent," he wrote in an Investment Funds Institute of Canada retrospective 30 years ago. "Unless you have been through it, you will never know what a desperate situation that was. The Dow Jones Industrials had dropped 90 per cent."

For their first few decades, mutual fund growth was slow but steady, reaching $1-billion in 1963. Real growth started in the 1990s, as interest rates eased and investors looked for better returns.

Today, more than 4.3 million Canadian families own mutual fund investments.

RETIREMENT PLANNING

Early planning, advice offer solutions to the retirement puzzle

Not so long ago, retirement was a brief period at the end of life. It usually began with a cake and a gold watch on your 65th birthday, and lasted a decade or so.

But longer life expectancies have changed all that. Today, retirement is the culmination of a process that starts years earlier, when we begin preparing for a stage of life that may last three decades or more after the last employment paycheque.

Add low interest rates, low-growth, high-volatility equity markets and the need to minimize taxes in retirement, and it's clear that Canadians planning for their golden years have their hands full. But they don't have to do it alone.

"A good starting point for any advisor is to help the person who's looking at retirement understand the differences he or she will experience when they reach retirement," says Jason Round, head of financial planning support at RBC Financial Planning. "Your expenses will change, because you're doing different things with your time. The nature of the income you receive will change – rather than a regular paycheque, you'll likely have a variety of income sources."

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ADVICE

Importance of financial advisors on the rise

Robert Frances has no trouble remembering what it was like to be a financial advisor 20 or 30 years ago.

"An advisor was essentially a salesperson," says the president and CEO of PEAK Financial Group, "someone who specialized in something, whether it be securities, mutual funds or insurance."

Not anymore. The financial services industry has become increasingly complex, and today the single-product advisor is largely a thing of the past.

"Advisors have become experts in a broad range of products, and ultimately that's been a good thing for clients, because it has allowed advisors to integrate the various parts of a client's financial life," says Mr. Frances, a past chair of The Investment Funds Institute of Canada.

A good financial advisor establishes a relationship with clients, becoming a confidante in all major financial decisions.

"In addition to asking about financial goals, an advisor today needs to know when clients plan on using their money, how solid they are financially and what an individual's capacity is for risk tolerance," notes Mr. Frances. "They'll ask you how likely it is that you could lose your job or face some other financial calamity. 'Tell me about your parents,' they'll say. 'Are you going to have to support them or are you counting on some form of inheritance?' These are the types of things you didn't have to know 20 or 30 years ago."

Today's advisor is "much more focused on the person and the relationship ... an advisor is not just going to look at your insurance needs or your retirement needs or your savings, but at all of them. He or she is going to try and integrate your mortgage into the plan, as well as help you save for your children's education..."

Greg Pollock
is president and CEO of Advocis, The Financial Advisors Association of Canada

A good financial advisor establishes a relationship with clients, becoming a confidante in all major financial decisions. PHOTO: ISTOCKPHOTO.COM

Greg Pollock, president and CEO of Advocis, The Financial Advisors Association of Canada, says another trend has been that advisors no longer spend their entire career working for one company.

"Today we see more and more independent advisors selling a range of ever-more complex products from different companies," says Mr. Pollock. "That creates more opportunity for consumers, because there is a lot more competition between the various providers than ever before."

In the past, most business between client and advisor was transactional, he adds.

"It was more of a product business than a people business," he explains. "Today it's much more focused on the person and the relationship. It's more holistic, if you will, in that an advisor is not just going to look at your insurance needs or your retirement needs or your savings, but at all of them. He or she is going to try and integrate your mortgage into the plan, as well as help you save for your children's education, and they are going to do so using a wide range of tools."

This new approach requires advisors to be educated in all aspects of financial planning, and to be good educators in return, capable of explaining the virtues, pitfalls and implications of various strategies to clients.

Some things never change though, and one is the persistent belief by many Canadians that you need a certain level of assets to engage an advisor.

It's not the case, says Mr. Pollock. In fact, research indicates that it is having an advisor and saving regularly that makes the difference. "There are 90,000 advisors in Canada, many in banks and credit unions, and studies show that those who receive advice have about three times the assets of the non-advised."

VALUE

The mutual fund value proposition

Mutual funds offer Canadians a superior means of accumulating wealth through a broad range of personalized investment solutions that are based on sound investing principles and are offered in a regulated environment.

There are nine qualities that together demonstrate the mutual fund value proposition.

1. Professional portfolio management.
2. Managing risk through diversification.
3. Opportunities for foreign and domestic investment.
4. Oversight.
5. Low entry amount.
6. Solutions that meet a wide range of needs.
7. Easy to buy and sell.
8. Streamlined/convenient administration.
9. Many mutual funds (more than 85%) are sold through advisors; the cost of professional advice is included in their fee structure, making advice available to all Canadians.

TRANSPARENCY

A balanced business environment that serves investors

By Glen Gowland,
Managing Director & Head, Scotia Private Client Group & Global Institutional Business, and Chair of The Investment Funds Institute of Canada

Consumers deserve to have clear and meaningful information on all of their financial products so they can make informed decisions that are best suited to their circumstances.

Mutual funds offer a high degree of disclosure, including how much consumers are paying in total for their products, and how much they are earning. This will be even more accessible to investors through Fund Facts—the three- to four-page document that will detail key data about funds.

Regulators of other financial products should be focused on setting the same high standard to inform and protect consumers.

Focusing on investor needs has been a key principle of the mutual funds industry since it began. In November 1932, in the shadow of the Great Depression, a young man named Alan Chippindale was sent to Montreal to start the first open-end mutual fund in Canada. He later recalled that the city was cold, but the economy was even more frigid. Unemployment was about 40 per cent, and the Dow Jones had dropped 90 per cent.

According to Mr. Chippindale's later reflections: "We realized we had to concentrate on maintaining the highest possible standard of ethics and business conduct. We had to earn and merit the confidence and respect of dealers and investors."

This principle is central to the work of The Investment Funds Institute of Canada. One of its first accomplishments when it was formed 50 years ago was to publish a Code of Ethics and Regulation for members. Through the years, the organization has issued many guidelines, in addition to the Code of Ethics, to set high standards of conduct for members.

"Mutual funds offer a high degree of disclosure, including how much consumers are paying in total for their products, and how much they are earning. This will be even more accessible to investors through Fund Facts– the three- to four-page document that will detail key data about funds."

Today, setting standards and guidelines has been more formalized through the Canadian Securities Administrators, provincial securities commissions, the Investment Industry Regulatory Organization of Canada, the Mutual Fund Dealers Association of Canada, and, in Quebec, by the Autorité des marchés financiers. The Investment Funds Institute of Canada continues to strive to ensure a strong, competitive and healthy marketplace delivering high levels of service and value to investors.

Research shows that our efforts are working. For the seventh year in a row, a Pollara survey has found that mutual funds top the list of financial products when it comes to investor confidence, with an 80 per cent confidence level compared to 68 per cent for GICs. The survey also found that 85 per cent of investors purchase mutual funds through a financial advisor, and 81 per cent say financial advisors are their preferred source of information on mutual fund products.

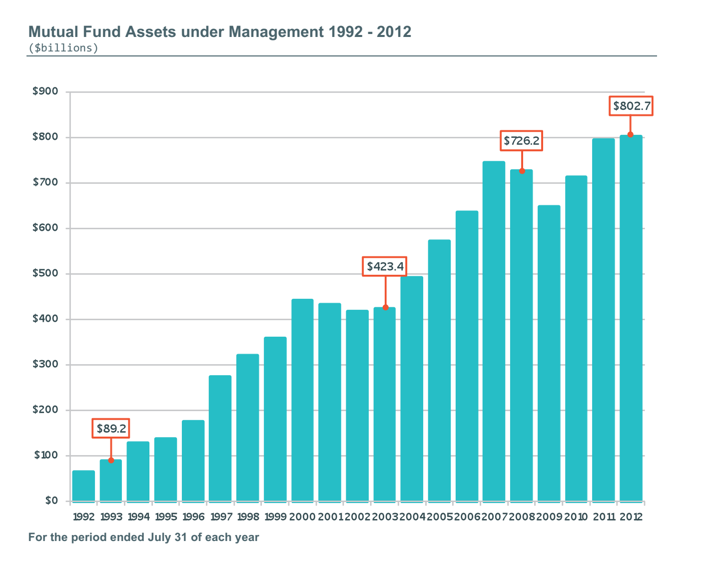
Many investors start out with small amounts of money and little investment knowledge. Forty-one per cent start with less than $10,000 and 22 per cent with less than $5,000. For these investors, access to advice is vital.

Households receiving financial advice are better savers and end up with more financial assets than households that don't receive advice and don't believe they have the ability to make independent prudent financial decisions. As product choices increase, consumers need to improve their financial knowledge, which is why The Investment Funds Institute of Canada supports financial literacy initiatives.

Mutual funds account for 25.5 per cent of the almost $3-billion in financial assets owned by Canadians. The rest is in deposit instruments, fixed income and equities, and segregated funds. It is important for consumers to receive clear, meaningful information about the risk, cost and value of every financial product they own – not just the 25 per cent that is invested in mutual funds.

We encourage investment fund regulators to take a leadership role with other regulators to create consistent disclosure across financial products. With this accomplished, investors would be able to assess the relative suitability of the various financial services and products available to them.

The Investment Funds Institute of Canada looks forward to working with financial services regulators and other financial services providers with the goal of achieving these objectives.



Growth of mutual funds in Canada

During the 1990s, mutual funds became the fastest-growing segment of the Canadian financial services sector, with assets under management increasing from $25-billion in December 1990 to $448-billion by December 2001, and reaching $770-billion at the end of 2011.

As of July 2012, industry assets under management totaled almost $803-billion and were managed in about 2,800 different mutual funds held in more than 55 million unitholder accounts.

Source: The Investment Funds Institute of Canada

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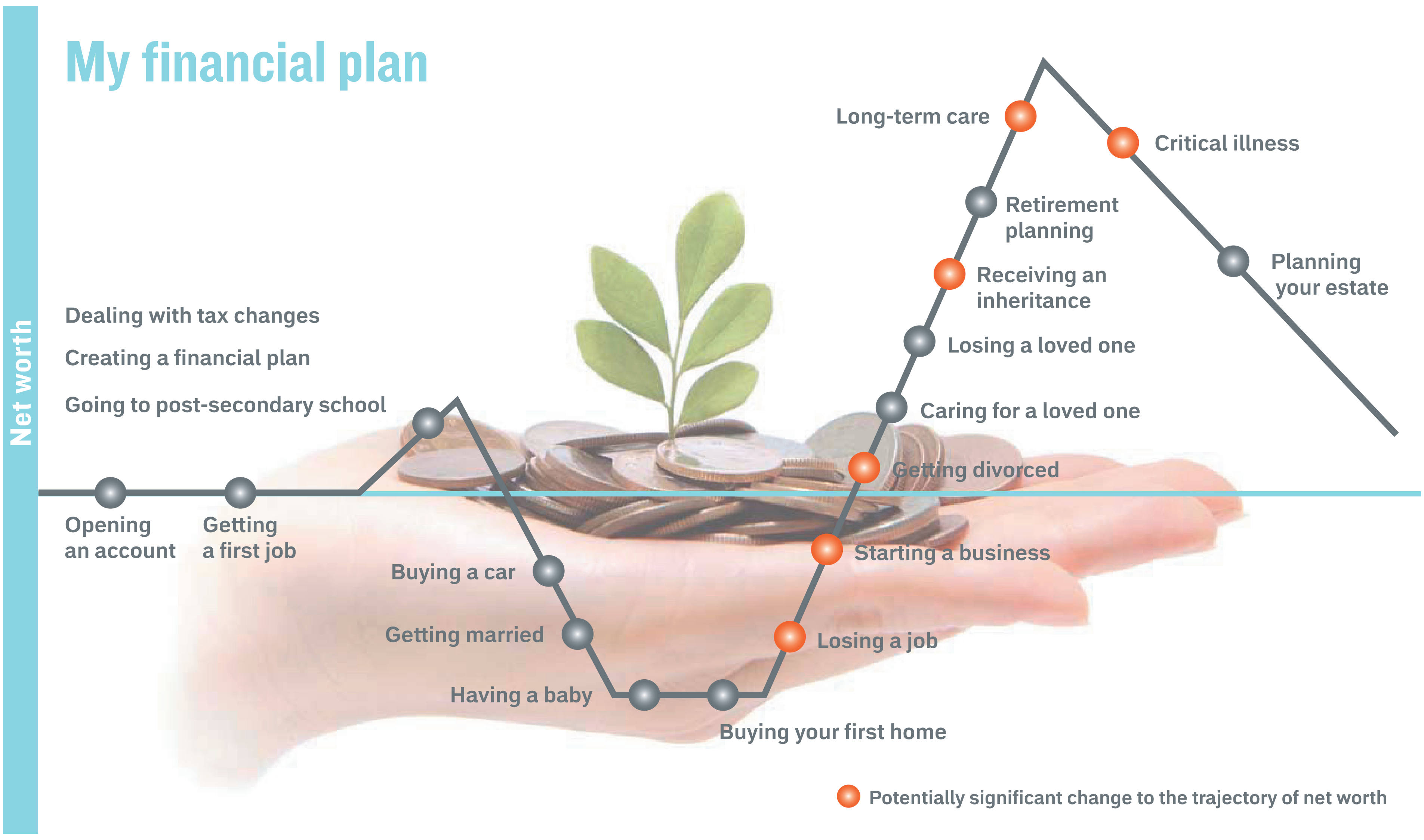

YOUR FUND, YOUR WAY

Careful investors benefit from new mutual fund products that preserve capital, promote growth

Still smarting from the downturn in equity markets that took place in 2008 and 2009, and increasingly wary in today's climate of slow economic growth, Canadian investors have become decidedly risk-averse, says Goshka Folda, senior managing director of Investor Economics. The phenomenon is particularly evident among Canada's baby boomers, who are suddenly fearful of the loss of their life-earned nest eggs.

The investment industry has been responding to these tentative investors by developing new channels for communicating with digital-savvy consumers, says Ms. Folda, and introducing uniquely designed mutual fund products that focus on income delivery and managing downside risk.

"In addition to ramping up their social media and digital presence, companies are increasingly focusing on fund 'wrap' solutions, a basket of mutual funds that are rebalanced automatically, based on the objectives and time frames of individual investors," she explains.

Gordon Forrester, executive vice president of product and marketing and head of retail for AGF Investments, agrees that aging Canadians are demanding more predictability around income. The response, he says, is the introduction of more mutual fund products with a "tactical" aspect to them.

"These are more of a go-anywhere equity-bond mix, with more nimbleness," he explains. "You're seeing more corporate class structures on the income side, because they are more efficient from a capital gains perspective."

New product development is also providing alternatives to long-duration fixed-income funds. "You're also starting to see more floating-rate funds that provide protection against inflation," adds Mr. Forrester.

Regardless of the economic climate, mutual funds continue to provide the kind of growth and security that Canadians are going to need now and in the future, says Harvey Sliwowicz, vice president of relationship management at CIBC Mellon.

"Not only do mutual funds enable investors to diversify among a wide variety of investment choices, but Canadian mutual funds are subject to solid oversight by banks, custodians and regulators," he notes. "The whole structure around mutual funds provides investors with the assurance that their portfolios are held in safekeeping by a regulated trustee."

Taking advantage of the benefits that mutual funds offer has never been easier, he comments, with automatic contribution plans and the ready availability of qualified investment advisors.

"A regular payment plan not only makes it easier for Canadians to save over the long term, it also enables dollar-cost averaging," says Mr. Sliwowicz. "Investing a set amount weekly or monthly into a mutual fund means you buy a larger number of units when the market is down, and fewer when the market goes up and prices rise. As a result, you pay lower prices on average for each unit."

He points out that Canadian investment firms have been particularly adept at protecting wealth and developing the kinds of vehicles that investors need to carry them into the future.

"Economies of scale and competition between providers have driven participants to respond ever more quickly to the varying needs of Canadian investors," Mr. Sliwowicz says. "We are seeing better and clearer reporting and a plethora of new strategies, tools and vehicles – everything from alternative investment portfolios to low-cost indexed ETFs."

In the aftermath of the 2008 financial crisis, Canada has served as an example to the world, he adds. "We have very robust regulatory and reporting requirements, stable market infrastructure and strong governance among the industry players – including some of the strongest banks in the world."

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> **Harvey Sliwowicz**
> *is vice president of relationship management at CIBC Mellon*

ONLINE?

For more information, visit www.ific.ca

Taking advantage of the benefits of mutual funds has never been easier.
PHOTO: ISTOCKPHOTO.COM

LEARNING

Improving financial literacy – it's never too early or too late to start

While policy-makers disagree on many issues, they share one growing concern: Canadians aren't saving enough for retirement and are carrying too much personal debt.

So far, a tsunami of personal finance books and websites hasn't been enough to shift that trend, says Gary Rabbior, president of the Canadian Foundation for Economic Education (CFEE). "There is a need for new methods and resources. We now know, for example, that individuals don't want to be overwhelmed with information, and that quality is better than quantity."

Online, there is recognition that financial literacy tools must be interactive and engaging. "We can't just take words off paper and put them on the screen," he stresses.

Financial literacy experts have also determined that it is critical to start early, notes Mr. Rabbior. "We know that we can make the biggest difference when we provide education in the key formative years, with age 7 through 15. When we do that, we can help develop appropriate behaviours, rather than trying to undo unhelpful behaviour later, which is much harder."

In light of this new understanding, many organizations are formulating new financial literacy initiatives, he says. "We are very optimistic that these programs will make a difference in helping people behave in ways that will give them better control of their money."

The CFEE is partnering with the provinces of Manitoba and Saskatchewan, for example, in The Building Futures Project, which integrates financial education into the core education curriculum and has been generously funded by Investors Group.

The foundation is also working on efforts to help parents get more involved in their children's financial education. It will launch a new program during Financial Literacy Month to provide resources to help spark those essential conversations.

In Ontario, The Investment Funds Institute of Canada is sponsoring the Junior Economic Club, which brings high school students for a day to Bay Street, where they learn about savings and investing. "There are educational speakers, and students can also go through some simulated games and exercises," says Joanne De Laurentiis, president and CEO of the Investment Funds Institute of Canada.

The aim of the event is to give students a greater sense of the importance of learning how to save, she says, and an understanding of how they can make money work for them.

The mutual fund industry is also helping Canadians manage the challenge of retirement savings through other initiatives that advance financial literacy.

In 2011, for example, the Ontario government added financial literacy to its school curriculum. To help educators teach students about compound interest, debt, the value of investing young and money management skills, the CFEE, sponsored by DundeeWealth, conducted 14 workshops for over 1,000 teachers.

Terri Williams, vice president marketing at Dynamic Funds and DundeeWealth, says the eventual target is 22 workshops for 1,500 teachers.

While some of the educational focus is on students, fund companies are also training advisors to guide their clients through major life events. In 2009, Dynamic Funds launched Snapshots, a major financial literacy program for financial advisors and their clients.

"Eighty per cent of the time people are seeking financial advice because of a major life event," says Ms. Williams. Dynamic has identified 14 such events, including marriage, divorce and the death of a loved one.

A number of provinces are adding financial literacy to their education curriculum through partnerships with the Canadian Foundation for Economic Education and the investment industry. PHOTO: ISTOCKPHOTO.COM

"We know that we can make the biggest difference when we provide education in the key formative years, with age 7 through 15."

Gary Rabbior
is president of the Canadian Foundation for Economic Education

In response, the organization introduced a large educational component to its website, offering free courses for advisors throughout Canada. The courses cover taxation, insurance, investments and money management, and provide critically important checklists to help people through significant life changes.

Advisors are taking advantage of the opportunity. The program offers 30 credits on differing life events, and Ms. Williams says that the education program (including the Snapshots courses) gave out 150,000 credits last year alone.

DundeeWealth took a different approach, she says, conducting a five-city workshop tour called Coping with Care. The well-received tour, Ms. Williams says, focused on dealing with ailing parents. "People need to understand the advice their advisor is giving them. A key is to take the jargon out and use plain language, taking it back to teachable moments."

These initiatives have the potential to help Canadians achieve their financial goals throughout life, says Ms. De Laurentiis. "Individuals who understand the impact of learning to save early in life, and of having a financial plan, are able to achieve a much more comfortable retirement. They can provide their children with a better education, own a home, afford a vacation. Their quality of life is increased."

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FROM PAGE IFIC 1

Retirement puzzle: Planning is key to confidence and comfort

The retirement planning process can help pre-retirees develop an informed vision for the next phase of their lives, he says. "People often have a vision of retirement as a time you'll stop working, but it is important to have a sense of your new 'career.' How will you define yourself in retirement? How will you spend your time?"

Only when those key questions are answered should the conversation turn to the numbers required to achieve those goals, he says.

Retirement planning also helps prevent two of the most common retirement pitfalls: spending too much, or too little, in the first few years. "A lot of people are overly conservative, and therefore don't enjoy life, because they're too worried about running out of money at some point down the road," says Mr. Round. "Others spend too much early on in retirement, and put themselves in a difficult situation later on."

Dave Ablett, a director of tax and estate planning at Investors Group, says that a lot of companies, including his, have developed financial planning software "to analyze the client's ability to achieve the stated retirement goals, based on an inventory of the retirement income sources and the anticipated retirement expenses."

"People often have a vision of retirement as a time you'll stop working, but it is important to have a sense of your new 'career.' How will you define yourself in retirement? How will you spend your time?"

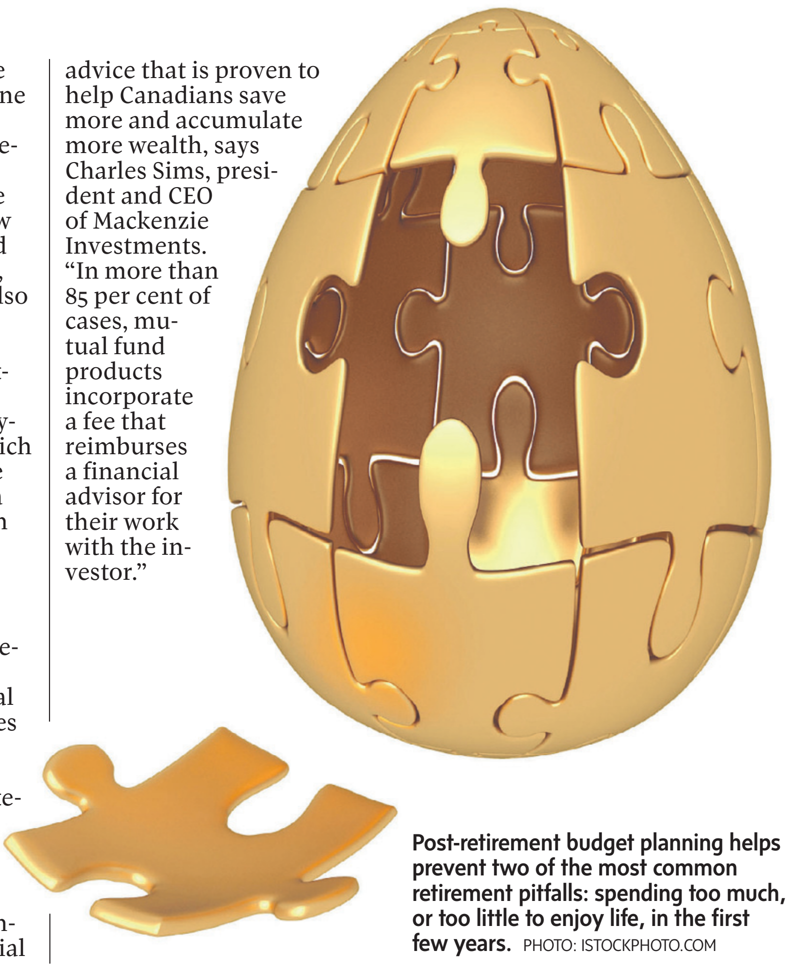
Jason Round
is head of financial planning support, RBC Financial Planning

That information allows individuals to see how long their retirement expenses can be sustained. "You might determine that there is a need to postpone retirement, or to reduce the level of expenses during retirement to make sure that you don't outlive your money," he explains, adding that with low yields on bonds and GICs, and subdued equity performance, income sustainability must also be a key consideration.

Segregated funds, which Investors Group offers in partnership with Great West Life, provide certain minimum payout guarantees over time, which may be particularly attractive to retirees without access to a guaranteed pension plan with which to meet their basic expenses.

Other mutual fund innovations can also be important tools in the transition to retirement, says Mr. Ablett. These include systematic withdrawal programs, which allow retirees to make redemptions that include return of capital to minimize taxes, and corporate-class funds, which allow investors to switch between asset classes without triggering capital gains.

Mutual funds are also an important conduit to the financial advice that is proven to help Canadians save more and accumulate more wealth, says Charles Sims, president and CEO of Mackenzie Investments. "In more than 85 per cent of cases, mutual fund products incorporate a fee that reimburses a financial advisor for their work with the investor."



Post-retirement budget planning helps prevent two of the most common retirement pitfalls: spending too much, or too little to enjoy life, in the first few years. PHOTO: ISTOCKPHOTO.COM

OUTLOOK

Investing in Canada's economic promise

In investment terms, resource-rich Canada has become the new "promised land," and Canadian mutual fund companies are playing a key role in helping investors benefit.

Despite the global slowdown, Canada continues to be a top performer among the G8 countries, and is in the enviable position of having the raw materials the world needs coupled with one of the globe's soundest banking systems.

It's important for equity-shy Canadians to recognize Canada's prosperity relative to other countries and remember that a well-diversified portfolio will generate superior returns over time, says Nevin Markwart, president and CEO of Canoe Financial.

"The average person needs to know that if we make it to a retirement age of 65, our life expectancy extends to 90 years of age," Mr. Markwart says. "That's 25 years of life that your savings and investments will have to carry you through."

Mutual fund companies such as Canoe Financial take that investment challenge very seriously, he says, and try to aid investor confidence by shining the light on the exciting opportunities in Canada.

Mr. Markwart says he does a lot of teaching when he talks to potential mutual fund investors. "Investing is difficult for most of us," he says, "and if we can develop a simple story around it that creates confidence, that's the most important thing a Canadian investment firm can do."

To illustrate Canada's economic potential, Mr. Markwart points to the millions of people in the world in countries like China, India and Brazil who want to live the way we do. This eagerness is creating a huge demand for Canadian resources and Canadian-made products.

"For example, a vast migration of 40,000 people from farms into the cities is now taking place in China every day, and, according to the United Nations, will continue for at least another decade," Mr. Markwart notes. "China will need to build places for people to live, factories for them to work in, roads and bridges to get them there, and provide bicycles, scooters and cars."

He says Chinese public policy is focused on minimizing social unrest associated with this unprecedented level of urban migration.

"Canada wins in that environment. As Canadian investors, we should expect superior returns if we invest in Canadian goods and resources within a well-diversified portfolio."