YOUR GUIDE TO

Investment Funds

Winter 2018

Understand your investments and secure your future.

Tips on saving for your retirement

Investing in innovation

Getting started with responsible investing

How much are you paying for financial advice?

Converting your RRSPs

Guest Editorial

It's Your Money. Find Out More!

Last year, investment firms started to provide clients with new reports on the fees they paid and the performance of their investments. Since then, several research studies have reported an improvement in investors' knowledge and comfort with making investment decisions.

These findings are encouraging. But the industry wants to do more to help Canadians like you become more comfortable making financial decisions.

The goal of ***Your Guide to Investment Funds*** is to help you down this path.

Whether you are just starting to save, or an experienced investor, this Guide will help you to understand investment funds a little better – what funds are, the fees you pay, the impact of fees on returns, the benefits of working with a financial advisor, and the services you can expect to receive when you purchase investment products.

Understanding how to save money, build your wealth and invest with confidence will help steer you toward financial security over time. If you are one of the many Canadians working toward this goal, this Guide was created for you.

Paul Bourque

Paul C. Bourque, Q.C., ICD.D is president and CEO of The Investment Funds Institute of Canada. He is the former executive director of the British Columbia Securities Commission and a member of the Law Societies of British Columbia and Upper Canada. Paul has held senior positions with several securities regulators and law enforcement agencies, including the Investment Industry Regulatory Organization of Canada, the Alberta Office of the Attorney General and Alberta Department of Justice, and the Ontario Securities Commission.

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The mutual funds industry in Canada

Strengthening Canada's Economy

$1.47 TRILLION

In 2017, Canada had 113 fund companies offering more than 3,300 unique mutual fund products. Mutual fund assets amounted to $1.47 trillion.[1]

$25 BILLION

The estimated economic footprint of Canada's investment advisory industry amounts to around $25 billion in total output, and $12 billion in total GDP.[2]

$8 BILLION

The industry provides $8 billion in labour income and 116,000 full-time equivalent jobs.[3]

Providing Investors with Financial Advice

94%

94% of mutual fund investors are satisfied with their advisors.[4]

90%

90% of mutual fund investors say their advisor is providing value, with seven in 10 saying it is good or excellent value for the money.[5]

79%

79% of advised investors agreed that advisors play a very important role in encouraging people to start investing.[6]

[1] IFIC, 2017
[2] PwC, 2017
[3] PwC, 2017
[4] Pollara, 2017
[5] Pollara, 2017
[6] Gandalf Group, 2017

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Brights Roberts Inc.

Ian Roberts
ian@brightsroberts.com

Andy Gawenda
andy@gawenda.com

Brights Roberts Inc.
2200 Yonge St., Suite 608
Toronto, Ontario M4S 2C6

For advertising/editorial inquiries call 416-485-0103

www.brightsroberts.com

How much are you paying for financial advice?

If you don't already know how much you pay for the financial advice you receive, now is the time to find out.

Canadian investment dealers send two personalized reports to each of their clients each year. One report provides information about how well your investments performed. The other tells you how much your dealer (the company where your advisor is registered) was paid for the services it provided on your account over the past year.

The services provided by your dealer could include:

- understanding and reviewing your financial situation,
- helping you define your goals,
- advising and coaching you on different types of investments,
- buying and selling units of a fund for you, and
- keeping detailed records of your account.

The amount of fees that you pay impacts how much you have to invest, so it is important to be aware of your costs.

The rates of return that are reported on mutual funds are calculated after the costs have been taken out, so they provide meaningful information about how well your investments performed after costs have been deducted.

Ask your advisor to tell you about the services that their firm provides and make sure you are getting the most out of the relationship.

I READ MINE • JE LIS MON RELEVÉ

IT'S YOUR MONEY. FIND OUT MORE. C'EST VOTRE ARGENT. INFORMEZ-VOUS.

Become an informed investor with these top resources

Understanding how to save money, build your wealth and invest with confidence can put you on the path toward financial security.

Here are some top online resources to help:

IFIC Investor Centre. The Investment Funds Institute of Canada recently launched an investor centre with a wide range of articles on saving and investing, including a life stages section with articles that are specifically geared to people at different points in life. *www.ific.ca*

Get Smarter About Money. From the Ontario Securities Commission, this site offers tools to help investors make better financial decisions. Topics range from the basics of bank accounts and budgeting to the ins and outs of retirement planning. *www.getsmarteraboutmoney.ca*

BCSC InvestRight. The B.C. Securities Commission's site covers fraud prevention, risk tolerance and investment planning. It has videos, quizzes and an investment fee calculator to help investors learn the basics and test their knowledge. *www.InvestRight.org*

Canadian Financial Literacy Database. The Financial Consumer Agency of Canada's database offers a one-stop shop for information on financial topics from organizations across the country. *www.canada.ca/en/financial-consumer-agency*

Autorité des marchés financiers. Quebec's regulator's website covers financial considerations for different life events and topics on insurance, investments and fraud prevention. *www.lautorite.qc.ca*

Innovation is accelerating.

The Industrial Revolution

1440
Printing Press

1698
Steam Engine

1847
Telephone

1878
Electric Lighting

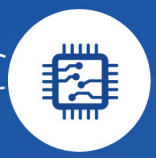
The Technological Revolution

1903
Airplane

1923
Television

The Information and Telecommunications Revolution

1964
Mobile Phone



1971
Microprocessor

1980
Internet

2003
First Human Genome Sequenced

The Age of Big Data and Artificial Intelligence

PRESENT

- **Artificial Intelligence**
- **Genomic Sequencing**
- **Internet of Things**
- **Big Data**
- **Energy Storage**
- **Blockchain**

Investing in innovation

with Mark Schmehl

Mark is a portfolio manager at **Fidelity Investments Canada**. He's kept busy managing Fidelity Special Situations Fund over the last ten years, as well as managing Fidelity Canadian Growth Company over the last six and a half years.

Now, in addition to continued stewardship of these funds, Mark has taken on Fidelity's newest fund, Global Innovators Class, a unique offering built for today's rapidly changing world that seeks to invest in companies that have the potential to be disruptive innovators anywhere in the world across the market cap spectrum.

How It All Started

Growing up in Waterloo, Ontario, Mark was no different from his friends in that he didn't really know what to do. But, in Grade 11, when he took a business class, everything changed. A whole semester of the class focused on the stock market, and Mark recalls, "For whatever reason, picking stocks just made my brain light up." One day he was sitting on his bed in his room, and he vividly remembers, "A bolt of lightning from somewhere that said, you must do this, it was just a really spooky moment, I've got to tell you."

Since that day, he has gone on to acquire a business degree from Laurier and an MBA from Columbia and then to join Fidelity as an analyst. After multiple roles covering a wide range of sectors where he constantly proved his unyielding work ethic, creativity and ability to perform, he was entrusted with the management responsibility of Fidelity Special Situations Fund, which was "the best day" of his life.

Positive Change Investing

When asked about what allows his funds to perform, Mark says things like "fresh" and "flexibility". Unlike some other portfolio managers who he believes may tend to stick with names "too long", he likes to own stocks "where something exciting is happening" and "not have too many weeds." Mark focuses on what he calls "positive change." If things are getting better, he wants to be involved.

To anticipate where such change will be happening, Mark constantly meets with companies of all sizes and types, talks to Fidelity analysts stationed around the world all the time, and subscribes to over 300 magazines covering nearly everything from technology to fashion, where new ideas and trends emerge. He embraces the attitude that, to succeed in this kind of investing, "You have to come in every day and realize everything you thought you knew is wrong, be willing to change, and be brave."

Innovation Powered by Active Management

Throughout the years, positive change investing has often led Mark to invest in, and work very closely with, many of North America's most exciting public and private companies in a variety of sectors of all sizes, including start-ups in his hometown of Waterloo.

Following a track record of investing in these companies, Fidelity recently launched a new fund, Global Innovators Class, allowing Mark to search for and work with companies around the world that are leading positive change globally. Artificial intelligence, blockchain and advances in genomics are some of the many themes on Mark's radar.

For more information, visit **www.fidelityinnovators.ca** and follow us on Twitter @FidelityCanada

FundGrade A+® Awards: Identifying funds with staying power

Reid Baker

The FundGrade A+ Awards were announced and presented on January 25 at Fundata's annual Evening of Excellence held at the Globe and Mail Center. The A+ Awards are designed to highlight the best of the best in the industry, and are a mark of rare and singular achievement.

The FundGrade A+ Award identifies funds with not only the best risk-adjusted returns but also those demonstrating the highest level of consistency through an entire calendar year. Very simply, the annual FundGrade A+ Award is given annually to funds that achieve consistently high monthly FundGrade™ scores. It is a mark of true distinction and readily identifiable by advisors and their clients as a symbol of excellence within the Canadian fund universe.

In determining the A+ winners, mutual funds and ETFs are graded together, while segregated funds are graded amongst themselves. Fundata also honours the top-performing funds in the Responsible Investing sector, according to Equity, Balanced, and Fixed Income categories.

The FundGrade A+ rating is calculated by using a fund's monthly FundGrade ratings throughout the calendar year. FundGrades are highly coveted due to the objective, quantitative nature of the grading system. Because FundGrade uses risk-adjusted performance measures – that is, the Sharpe, Information, and Sortino ratios – funds that achieve the monthly A grade for past performance are more likely to outperform their peers in the future. Fundata did some analysis on the performance of funds after they achieved the A grade, and the results are compelling.

Taking a snapshot of FundGrades as of November 30, 2014, we found that the returns of the A grade funds over the next 3 years (period ending November 30, 2017) was significantly higher than the first quartile funds over the same period. The following tables show how the FundGrades compare with the quartiles in terms of 3-year returns.

3 year returns

FundGrade Nov. '14	3-Year Return Since Nov. '14
A	7.4%
B	6.3%
C	6.0%
D	5.3%
E	4.7%

FundGrade Quartile Nov. '14	3-Year Return Since Nov. '14
1	6.4%
2	6.0%
3	5.8%
4	5.4%

Source: Fundata

The results show that risk-adjusted returns, while accounting for performance versus benchmarks, volatility, and tracking error, are much more effective in identifying funds with staying power.

Be sure to check the list of FundGrade A+ Award winners at: **www.fundgradeawards.com**

Reid Baker

Reid Baker is director, analytics and data, at Fundata Canada Inc.
This article is not intended as personalized investment advice. Securities mentioned are not guaranteed, involve risk of loss, and are subject to commissions.

www.fundata.com

Tips on saving for your retirement

Retirement may seem far away, but having a plan can help to ensure that you are financially secure when the time comes.

Here are some important points for you to consider:

- The first step is to think about **how much you will need once you retire**. The longer you live, the more money you will need. Research the options and costs of long-term care facilities long before you might ever need to consider moving to one. This will help you plan for possible costs down the road. Keep in mind that health costs could greatly increase during your later years.

- **Starting to save early** will allow you to reach your goals within a shorter time span.

- Be sure to **pay off any debts** as soon as possible so that you can focus on meeting your savings goals.

- **Review your investment portfolio regularly** – once per year or when your financial circumstances change. Talk to your financial advisor about your financial needs in retirement and the level of savings and types of investments that will help you get there, keeping in mind your comfort with risk and your ability to handle risk.

- **Set up a power of attorney for property** – someone you trust to handle your affairs in the event that you are unable to do so yourself. Once you have chosen your power of attorney, complete the appropriate documentation. Talk to your power of attorney about your wishes and let your advisor know who you have chosen. It is important to make sure that everyone is aware of your instructions.

- **Take advantage of registered savings plans**, such as Registered Retirement Savings Plans (RRSPs) or Tax-Free Savings Accounts (TFSAs). The tax advantages of these plans will help you reach your goals sooner.

When planning for your retirement, be sure to consult with your financial advisor. Your advisor can help you plan to achieve your goals so you have peace of mind and are well-prepared for your later years.

What are *registered savings plans* and how can they help you?

A registered savings plan is a type of bank or investment account that is registered with the Canadian government and offers special benefits such as tax sheltering. Registered plans can hold a range of investments such as mutual funds, ETFs, stocks and bonds.

Registered plans give you an extra incentive to save money, which helps you reach your long-term financial goals.

Here are the two most common types of registered plans:

Registered Retirement Savings Plan (RRSP)

An **RRSP** is a **personal savings plan** that allows you to save money (up to a certain amount annually) without paying income tax on the amount you put into it. As your investment grows, you do not pay income taxes on your gains until you withdraw your money.

RRSPs also offer unique features such as the Home Buyers' Plan (HBP), which enables first-time home buyers to withdraw funds from their RRSPs to buy a home. Spouses can contribute to each other's RRSPs to get the maximum tax benefit.

Tax-Free Savings Account (TFSA)

A **TFSA** helps you save money by allowing you to **earn tax-free investment income and capital gains** on money you have contributed. Each year, the government sets out an amount that you can deposit for that year. Unlike an RRSP, your deposits are made using after tax income, but you never pay tax on the money your investment makes.

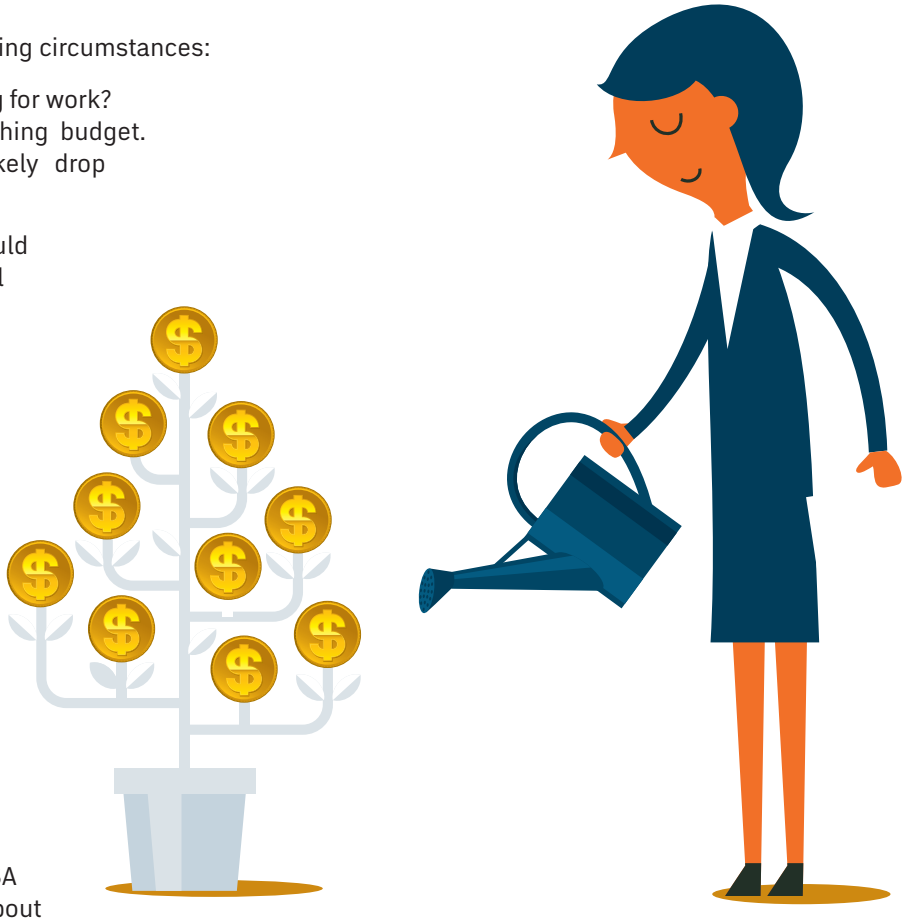
The Government of Canada has useful information about how RRSPs and TFSAs work and their associated contribution limits and deadlines.

If you are ready to open a registered account and start saving, visit your bank or contact your investment advisor.

Avoid common pitfalls in retirement

Your retirement years should be an opportunity to pursue new goals, reactivate life-long interests and spend time with loved ones. Here are some tips to help you manage your finances effectively in this stage of life.

1. Revise your budget to reflect your changing circumstances:
   - Did you need a certain type of clothing for work? If so, you can now reduce your clothing budget. Similarly, your transit costs will likely drop significantly.
   - Keep in mind that your living costs could increase in later years with medical expenses, a retirement home or facility, and caregiver costs, so it is important to plan for these possibilities.
   - As in all stages of life, separate "needs" from "wants". Once you have budgeted for your needs, find a good balance between spending on items that are not necessary and saving your money for the future.
2. Stick to your plan. Be careful about spending money on items that are not in your budget.
3. If you have money saved in more than one place (for example, an RRSP, TFSA and bank account), get some advice about where to withdraw money from first. Talk to your financial or tax advisor about when to apply for CPP, Old Age Security and your options for drawing on any company pension plans you're eligible for.



If someone approaches you about an investment, be sure to check with a trusted financial advisor first. Avoid signing anything before you read it. If it sounds too good to be true, it probably is.

Being aware of potential pitfalls will allow you to plan accordingly so that you can make the most out of your retirement.

Converting your RRSPs

In the year that you turn 71 years old, you will be required to convert your **Registered Retirement Savings Plan** (RRSP) into a **Registered Retirement Income Fund** (RRIF), withdraw the funds, or use them to purchase an annuity. You could choose to convert to an RRIF early if you need the income sooner.

Each of these options has different features and tax implications.

For example:

- You will be required to take out a minimum amount from your RRIF each year but there is usually no maximum on how much you withdraw. The minimum amount could increase as you get older. You will pay income tax on the money that you withdraw. Any money that is left in your RRIF when you die will be part of your estate.
- Some annuities pay you a set amount for the rest of your life, but be aware that you can't close the annuity or take out additional money for any reason. There are different types of annuities (such as term, life, variable) and they each have different features. If you already have a pension from your employer that gives you guaranteed permanent income, or if you are not in good health, then an annuity might not be right for you.
- If you withdraw all your savings at once from your RRSP or RRIF, it is likely that the full amount will be taxed as income in the withdrawal year and may be subject to withholding tax. Be sure to set a budget and reinvest any money that you won't need for a while.

Spending your savings in retirement

It can be a challenge to get into the mindset of spending your savings in retirement. One key is to pace your spending. Many people now enjoy a long retirement into their 80s or 90s so you want to make sure your money lasts as long as possible. There are items you will no longer need, such as clothing for work. However, your living costs could increase in later years with medical expenses, supportive living and caregiver costs. Find a balance between spending on items that are not necessary and saving your money for the future.

Converting your savings into income will likely have tax and other implications depending on the type of account you have for your savings. Be aware of the different features of your savings and investment accounts.

Consult with your **financial advisor** or trusted financial professional to make sure you understand the options, including their tax and estate implications, before you decide on a course of action.

Once you make your decision, meet periodically with your financial advisor to review your investment portfolio to ensure that you are on track.

Getting started with responsible investing

More and more investors are seeing the value in responsible investing

How we measure the value of a company has changed dramatically in the age of big data and the Internet. In the past, the focus on tangible assets (property, plant and equipment) and financial information (revenue, balance sheet, cash flow) provided investors with a logical way to make sound investment decisions about a company's viability.

Today, however, multiple factors contribute to the understanding of a company's value – key among them are so-called "intangible assets", such as patents, trademarks, copyrights, goodwill and brand recognition/equity. In fact, the influence of intangible assets on the stock price of S&P 500 companies has increased significantly – from 17% to 87% between 1975 and 2015[1].

Within the investment community, there is growing consensus that a better reflection of intangible factors in corporate reporting is required to improve the function of capital markets, and, in turn, allow for more informed investment decisions. Many investment managers are turning to **Environmental, Social and Governance (ESG)** analysis to help fill the information gap around a company's intangible assets. And with the advent of big data, that information, once elusive, is now at every manager's fingertips, and is growing daily. This ESG-focused analysis can help investment managers mitigate risk and add value over time, and is considered fundamental to defining *Responsible Investing (RI) today.*

What is responsible investing?

The ***Responsible Investment Association*** (RIA) of Canada defines RI as the integration of Environmental, Social, and Governance (ESG) criteria into investment selection and management.

ESG considers the following:

Environmental: Considers the potential challenges and impact on air, land, water and human health – i.e., climate change, air and water pollution, resource depletion and biodiversity loss

Social: Addresses rights, well-being and interests of people and communities – i.e., human rights, supply chains, worker safety, and indigenous rights

Governance: Encompasses issues relating to the governance of companies – i.e., corporate board independence and diversity, risk management and executive compensation

Though there are degrees to which RI can be applied, its underlying objective remains unchanged: incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

RI approaches

Just as traditional investing offers multiple investment approaches, so too does RI. The implementation of RI strategies within the portfolio management process can be done with a single approach, or in combined fashion. Below is a summary of available RI approaches:

Negative or Exclusionary Screening

Negative screening refers to the exclusion of sectors, companies, projects or countries based on ESG risk or performance. Under this approach, an investor might exclude specific sectors or companies involved in, for example, illegal military weapons, tobacco manufacturing or fossil fuel production, or perhaps avoid investing in countries with documented human rights abuses.

Positive or Best-in Class Screening

Positive screening or "best in class" investing refers to investment in sectors, companies or projects selected from a defined universe for positive ESG performance relative to industry peers.

Norms-based screening

Norms-based screening is the screening of investments based on compliance with international norms and standards, such as those issued by the Organization for Economic Cooperation and Development (OECD), the International Labour Organization (ILO) and the United Nations.

Corporate Engagement

Corporate engagement involves using the special rights that come with shareholder status to influence corporate behaviour through direct dialogue, filing shareholder proposals and proxy voting guided by ESG considerations.

Sustainability-themed Investing

Sustainability-themed investing seeks businesses that provide adaptive solutions to some of the most challenging issues of our time. They may be involved in industries such as energy efficiency, green infrastructure, renewable energy, water and waste

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Getting started with responsible investing

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management, and sustainable agriculture.

Impact Investing

Impact investments seek to generate a measurable, beneficial social and environmental impact along with a financial return. Impact investments are typically (but not always) made in private markets, and target a range of returns, from below- to above-market rates, depending on the circumstances. Impact investing also includes community investing, where capital is directed to traditionally underserved individuals or communities.

ESG integration

ESG integration refers to the systematic and explicit inclusion by investment managers of ESG factors into financial analysis. Investors that employ integration believe that ESG factors help to better understand a company's risk profile, performance outlook and value-creation potential.

Though each approach is uniquely different, their respective inclusion within the portfolio management process aids asset managers in identifying and eliminating non-financial risks from the portfolios they manage.

Why invest responsibly?

Potential for investment growth

At its core, investing is about growth and you want to invest where growth is happening. The Global Sustainable Investment Alliance, an international collaboration of membership-based sustainable investment organizations, states that, as of 2016, there are now $22.89 Trillion (USD) assets being professionally managed under RI strategies – an increase of 25% since 2014.[2]

You also want to invest where the growth is substantiated. Research from Hermes Investment Management, a global investment management firm, has found that companies that demonstrate good or improving corporate governance have tended to outperform companies with poor or worsening governance by 30 basis points per month on average since the beginning of 2009.[3]

Alignment with your values

Society has seen a rise of the "values based" consumer, whose expectations of companies are to operate responsibly and address social and environmental issues. This alignment of personal values also extends into the realm of investing, as 90% of Canadian investors want the investment products they use to be consistent with their overall values.[4] Investors have become increasingly cognizant of their ability to impact the companies they invest in through shareholder engagement and voting rights afforded to them as equity holders. Furthermore, investors are utilizing their position as equity holders to voice concerns about macroeconomic issues, such as climate change, that pose a business risk to the companies' future operations.

Getting started with RI

Responsible Investing is becoming a foundational element within the portfolio management process, and a means by which asset managers and investors are deriving material benefits within their investment portfolios. One of the best ways to get started with RI is to begin to educate yourself – get familiar with the terminology and understand today's most pressing ESG issues. If you're ready to invest in a responsible manner, you can leverage expertise in the realm of RI and partner with an investment advisor or organization that views RI as core to their value proposition.

NEI Investments is recognized as a pioneer and RI leader within the Canadian investment industry, with Responsible Investing having a foundational role in the majority of the firm's product offerings.[5]

[1] Source: Ocean Tomo, LLC

[2] Global Sustainable Investment Alliance. (2016). Trends Report 2016. Retrieved November 14, 2017, from Global Sustainable Investment Alliance: http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR_Review2016.F.pdf

[3] Hermes Investment Management. (2016). Perspectives. Retrieved November 14, 2017, from Hermes Investment Management: https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2016/09/ESG-investing.pdf

[4] NEI Investments/Environicis : Canadian Investor Opinion Survey (2014, April)

[5] The NEI Northwest Speciality Global High Yield Bond Fund, NEI's high yield bond offering, is still being evaluated by NEI's ESG Team as to how a responsible investment strategy can effectively be implemented.

Advisors create value; Investors value advice

Canadian mutual fund investors greatly value the advice that they receive from their financial advisors.

According to recent research, confidence in financial advisors is strong. Ninety-two per cent of mutual fund investors indicate they trust their advisor to provide them with sound advice and 88 per cent say that they get better returns as a result of the advice they receive. Seventy-eight per cent credit their advisor with helping them achieve better savings and investment habits, and 90 per cent say they get value for the money they pay to their advisor.*

This confidence is well-founded. A research institute in Quebec recently found that households that used a financial advisor accumulate considerably more wealth than those who do not, and that these benefits increase over time. After 15 years, households with an advisor accumulated almost four times more wealth than unadvised households.

A key way that advisors help is by acting as a financial "coach" to their clients. Behind every top-ranked athlete is a dedicated coach who understands the athlete's needs at every turn, analyzes the athlete's strengths, helps the person set goals, nurtures development, and encourages the athlete to stick with the training plan even when the going gets tough. A financial coach is no different.

Even athletes or investors with a natural gift can only make it so far on their own. Navigating the ins and outs of saving and investing can be daunting to even the most financially savvy individual. Your financial advisor can coach you to help you reach your financial goals. They help you stay on track by encouraging you to stick to your plan.

If you are about to start investing, make sure you feel comfortable with your advisor's approach to financial planning. Every coach has a different approach, so it's important to find someone who suits your needs. Ask questions about the advisor's background and qualifications, investing values, and approach.

Once you have an advisor, give them all the information they need to understand your financial picture and give you appropriate advice.

With the new year and RRSP season underway, it's time to set your sights on achieving your financial personal best.

*After four years, the invested assets of advised households were **1.7 times greater** than those that were unadvised.*

*After 15 years, households with an advisor accumulated **3.9 times more wealth** than unadvised households*

* **The Gamma Factor and the Value of Financial Advice.** *© 2016 Claude Montmarquette & Nathalie Viennot-Briot*