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INVESTMENT FUNDS

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You've worked hard for your money and made short-term sacrifices to save and invest for your future. But perhaps you don't feel entirely confident that you have a clear picture of your investment performance and the fees you pay. Or maybe you've even put off getting started because it all just feels too complicated.

Help is on the way.

New standards will help investors better understand their investments and make informed choices

For Canadian investors, the stakes have never been higher. Fewer than ever will have employer-sponsored pensions to rely on in the 20 to 30 years they're likely to live after their last paycheque. With interest rates perilously low, equity market participation is essential – even as heightened volatility and economic uncertainty make it more uncomfortable.

Alongside these profound shifts, Canada's funds industry has grown exponentially, innovating to provide a wealth of valuable services and products. But as offerings have expanded, so has complexity, along with the challenges of communicating with investors with a broad spectrum of individualized needs.

Over the next year, the funds industry will hit the proverbial reset button, introducing changes designed to deliver greater clarity, ease of access and transparency in this new world.

These efforts are part of an industry-wide initiative known as Client Relationship Model - Stage 2 (CRM2). The industry has been hard at work setting the stage for a new disclosure framework, paving the way for a redesign of communications standards throughout the investment industry, from dealer firms and mutual fund companies to portfolio managers.

"It is all about enhancing the ability of Canadians to make good investment decisions," says securities lawyer Rebecca Cowdery, a partner at Borden Ladner Gervais LLP and former Ontario Securities Commission regulator. "The whole concept behind this is giving investors more information in a way that helps them understand what is happening in their investment accounts."

"Our ultimate goals are to improve understanding, build financial confidence and enhance decision-making – because we know that informed investors make better decisions..."

Joanne De Laurentiis
is president and CEO of the Investment Funds Institute of Canada

The aim is ambitious, and seen throughout the industry as crucial: to collectively advance understanding and help investors get the most out of their relationships with advisers.

Consistency across sectors and companies is a primary goal, says Ms. Cowdery. "Everyone will be giving performance information to their clients in the same way. It's building on information the industry has always provided investors, in a format that will make it easier for them to understand their results and compare performance of different investments. Additional information will also help them clearly understand the cost they pay for advisory and distribution services."

"The industry recognized early on that, for the benefit of investors, we needed to address these changes co-operatively," says Joanne De Laurentiis, president and CEO of the Investment Funds Institute of Canada (IFIC). In fact, IFIC's CRM2 initiatives leveraged the contributions of the greatest number of industry volunteers contributing to a single issue in the organization's 53-year history.

One outcome of this unprecedented collaboration is two model reports released in the spring of 2015. If all dealers follow this approach, the resulting consistency – along with clarity of language and design – will make it easier for all mutual fund investors to understand the breadth of distribution and advisory services they receive, what they pay and whether they are on track to meet their financial goals.

"Together, we're working to provide consistent, clear information that will help investors develop their savings habits, decide on savings objectives, choose products to meet those objectives, and have more meaningful conversations with their advisers," says Ms. De Laurentiis.

Informed conversations that strengthen investor-adviser relationships are well worth it, given that investors who work with advisers are proven to do measurably better than those who don't. More information is available at ific.ca.

A 2015 Pollara poll commissioned by IFIC found that 94 per cent of those surveyed agreed that they trust their advisers to give them sound advice, and nine out of 10 agreed that they obtain better returns than they would if investing on their own. But as CRM2 changes will highlight fees paid, it will become even more important for advisers to articulate their value as they help investors manage costs.

"The financial well-being of Canadians is a core value of our industry," says Ms. De Laurentiis. "Advisers work hard every day to instill effective savings and investment habits through one-on-one conversations with clients. We support these efforts by creating clear, plain-language materials."

IFIC has also created a cross-sector task force to develop a consistent body of smart practices that will help advisers better prepare clients for the possible loss of cognitive skills associated with an aging society.

"Our ultimate goals are to improve understanding, build financial confidence and enhance decision-making – because we know that informed investors make better decisions and are more disciplined about staying the course during uncertain economic times," stresses Ms. De Laurentiis.

ABOUT

The Investment Funds Institute of Canada (IFIC) 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 Canada's mutual funds industry and its investors for 50 years.

IFIC | THE INVESTMENT FUNDS INSTITUTE OF CANADA | L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

For more information, visit ific.ca.

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Online? Visit http://informedinvestor.ific.ca or globeandmail.com/adv/investmentfunds2016 for more information.

INVESTMENT FUNDS

87%

To meet their financial goals, Canadians have greater confidence in mutual funds (87%) than in other financial products such as stocks (62%), GICs (61%) and bonds (55%). *(Pollara, 2015)*

SURVEY

Funds industry leverages technology, collaboration to meet evolving needs of investors

Pollara's annual survey of Canadian mutual fund investors, commissioned by the Investment Funds Institute of Canada (IFIC), found that – for the 10th year in a row – mutual funds lead the way when it comes to investor confidence. Confidence in advisers also remains high, with 94 per cent responding that they trust their advisers to give them sound advice.

The industry is working hard to maintain that confidence even as demographic shifts transform investor needs and expectations, says John Adams, IFIC's chair. "From just six per cent of the workforce in 1999, millennials became the largest generation in the Canadian workforce in 2014 – just over 35 per cent, compared to Gen Xers at 32.5 per cent, and boomers, who have fallen below 31 per cent."

> "By collaborating as an industry, with regulators and with investors, mutual fund companies are continuously evolving to empower investors."
>
> **John Adams**
> is chair of the Investment Funds Institute of Canada

The first generation born into a digital world, millennials will profoundly impact the economy as well as the investment markets as they move into their prime spending and savings years, Mr. Adams points out. "Just as they are changing everything from the way we interact socially to the way we own cars, they will demand new approaches to financial advice."

At the same time, the transition of the baby boomer generation into the retirement phase continues to drive industry change, he says. "The need to provide an income stream for 20 to 30 years of retirement is already changing the types of products being created and triggering a growing focus on solutions to help today's retirees prepare financially for the health-care services they will require down the road."

With longer life expectancy and an aging population, rising rates of cognitive decline will also become a significant industry challenge, says Mr. Adams.

Changes in the ability to make financial decisions can be one of the first indicators of cognitive impairment, so financial advisers will be called on to help investors and their families plan for these potential challenges. "In turn, advisers are looking to the funds industry for training, smart practices and support, and – as an industry – we're working together to ensure we're ready to meet those needs," he says.

Advanced technologies are an important tool in adapting to these shifts, says Mr. Adams. Just as it has changed the way fund managers do research and analyze trends, "it enables us to provide more meaningful information and personalized service to our clients," he explains. "It can free financial advisers to focus more on coaching, helping their clients build knowledge and confidence, and also providing tailored advice."

For clients with basic needs who are just starting out as investors, technology-driven robo-advice services can potentially help advisers keep the benefits of financial advice affordable and convenient to access.

"By collaborating as an industry, with regulators and with investors, mutual fund companies are continuously evolving to empower investors," says Mr. Adams. "We're both responding to and creating transformational change."

What new information can investors expect to receive?

The industry is making several changes to provide investors with clear information. The changes will help you have better conversations with your financial adviser about your progress towards your financial goals. **Here's how.**

RECEIVE *FUND FACTS* BEFORE YOU BUY

Beginning May 30, 2016, your dealer is required to provide you with a document called "Fund Facts" before you purchase a mutual fund. Your mutual fund purchase cannot be completed until Fund Facts has been delivered to you.

Fund Facts is an important document with key facts about the mutual fund you are purchasing. Every mutual fund has its own Fund Facts, with information about the fund's holdings, its performance, and the risks and costs of buying and owning the fund. You should always review Fund Facts when you purchase a mutual fund so that you are familiar with the fund's key features.

Fund Facts could be delivered to you in person, through email or through other means. The way you receive it will depend on how you interact with your dealer and the delivery method that your dealer chooses.

NEW INFO ON ACCOUNT STATEMENTS

As of December 31, 2015, all securities firms are required to provide the following information in your account statement:

- The total amount you paid to purchase your investment, including any transaction charges related to your purchase.
- The price at which your investment can be sold for on the market at a point in time.
- The total value of all cash and investments in your account at the beginning and the end of the statement period.
- Whether your mutual fund is subject to a deferred sales charge – a fee that does not have to be paid until you sell your fund. After a certain number of years, these charges usually decline to zero.
- Whether your mutual fund is covered by an investor protection fund and the name of that fund.
- Information as to who is named as the owner of the investment and a description of how it is held. [Some investments are held in the client's name and some are held in the firm's name. It's up to you.]

Ask your financial adviser to explain any terms or content included in your statement that you don't fully understand. Better conversations with your adviser lead to more informed decisions that help you reach your financial goals.

TWO NEW REPORTS BEGINNING IN 2017

You will receive two new annual reports beginning next year.

- The first report will outline your investment's performance over the past year. This report will help you understand whether you are on track to meet your financial goals.
- The second report will tell you how much you have paid in dollars and cents to your investment firm for the services that you have received.

The investment funds industry is encouraging firms to adopt consistent, clear approaches that will help investors understand the new information.

Experts remind us to take ownership of our financial future. Read your statements! Meet with your financial adviser on a regular basis to ask questions about the products and services in your portfolio.

Myths and facts about the changes you will see

Myth #1: The changes apply mainly to mutual funds.	**Fact:** The changes apply to more than mutual funds. They apply to all securities and to all dealers and portfolio managers registered with any Canadian securities commission. The securities commissions are encouraging firms to include non-securities products in client reporting, to the extent possible.
Myth #2: Investors will begin receiving the two new annual reports as of July 15, 2016.	**Fact:** The rule comes into effect on July 15, 2016, at which point dealers have one year in which to begin sending these reports to their clients. In the majority of cases, you will begin receiving these reports early in 2017. This is because most firms are choosing to provide the information on a calendar year basis (January to December).
Myth #3: The report on charges and compensation will tell investors how much their adviser is being paid.	**Fact:** The report on charges and compensation provides details about the money received by the dealer firm over the previous year to provide services to the investor. A portion of this money is paid as compensation to the investor's financial adviser. The report does not provide a breakdown of how much is paid to the adviser and how much is kept by the dealer firm. Each firm determines this amount differently, based on its business model and split in responsibilities between the firm and the adviser.
Myth #4: The report on charges and compensation will tell investors the total cost of their investments.	**Fact:** The report will focus only on the amounts paid either directly or indirectly by an investor to the dealer firm. For mutual funds, it does not include the amount paid to the investment manager. For an understanding of the total cost of a mutual fund, investors can review the fund's management expense ratio (MER), which can be found in the Fund Facts document for individual mutual funds, as well as in the financial statements.

Visit http://informedinvestor.ific.ca or globeandmail.com/adv/investmentfunds2016

35%

Investment funds account for 35% of Canadians' financial wealth – up from 31% in 2012.
(Investor Economics, 2014)

INTERVIEW

Canadians can benefit from access to high-quality advice, well-regulated funds industry

Q&A with Jordy Chilcott, President & CEO, Dynamic Funds

It's often stated that getting financial advice pays. Do you agree?
Yes. Getting professional advice makes a big difference, especially in times when markets are volatile. Advisers help their clients to define – and stay with – long-term goals, rather than making short-sighted decisions based on emotional reactions. The fundamental philosophy of our business is reflected in our tagline, "Invest with advice," because we believe that for protecting and building wealth, clients are better off on any reasonable measure when working with an adviser.

What is the evidence for the value of advice?
There is a lot of research that corroborates that people are better off with advice. A study by the Center for Interuniversity Research and Analysis on Organizations (CIRANO), for example, found that advised households save at double the rates of non-advised households, at 8.6 per cent compared to 4.3 per cent. That's a substantial difference. The same study shows that a household that has worked with a financial adviser for 15 or more years has 2.73 times more assets compared to those without financial advice.

What about the argument that households that engage advisers may have been better off to start with?
That's a question we wanted to explore, so through the Investment Funds Institute of Canada's 2015 annual investor survey conducted by Pollara, we asked investors at what point they first started seeking advice. Thirty-nine per cent of survey respondents said they had less than $10,000 when they first started using an adviser.

So you recommend getting advice early on?
I believe that people should seek advice that is appropriate for their age and financial circumstances, which may initially be very simple. As their assets grow, they will move up on the advice continuum. But at every level, consumers should make sure they are getting the appropriate value rather than buying into the "cheaper is better" argument. They should focus on the outcome.

Robo-advice – where does it fit on the investment continuum?
If we believe in advice, we have to acknowledge Robo-advice as a form of it. It fits somewhere on the continuum between doing it yourself – which I don't recommend – and full-service advice. As an online service that provides automated, algorithm-based portfolio management advice, Robo-advice can be a valuable first step. It's relatively small today. While I believe Robo-advice will grow and evolve, I don't think it will replace interactions with human advisers for more complicated needs.

What is your view on active management versus passive strategy?
It doesn't have to be one or the other – a client can have both actively managed investments and passive investments in their portfolio. The conversation with a financial adviser about what kind of return is envisioned and what the client's risk tolerance is will determine what strategies are right for their unique needs.

What should consumers know about active management?
Real active management outperforms most of the time, but most does not mean all. The real question advisers can help to answer for consumers is whether managers are actually active rather than what the industry calls "closet indexers." Closet indexers charge an active fee, but their portfolios are very similar to the benchmark portfolio. There is a measure that a number of firms use – called Active Share – that evaluates the percentage of stock holdings in a manager's portfolio that differ from the benchmark index. In Canada, if more than 60 per cent of your return is made up of individual securities that aren't represented in the benchmark, you'd start to get in the range of what would qualify as legitimately active management.

Can you give an example of how companies are working to deliver value to customers?
As a manufacturer, Dynamic Funds has invested in implementing fixed administration fees across our lineup, a model that provides the end consumer with some cost certainty. By focusing our efforts on growing our fee-based series over recent years, we are recognized as a leader in product pricing. And when it comes to supporting the advice channel, we have an award-winning "Snapshots" program that offers tools for the myriad of life events clients may go through such as marriage, birth of a child, children's education, divorce and death of a spouse. We support advisers with their client interactions as they experience these real life events.

What can you say about the investment funds industry in Canada?
From what I have observed in the 30 years I've been in the business, the standards for advisers in Canada have improved – and will continue to improve – as a result of regulatory changes. Due to stringent requirements, we not only have access to high-quality advice – we also have a well-regulated industry both on the manufacturing and the distribution end of the business. That's something Canadians can be proud of.

INVESTMENT FUNDS

$17-B

The economic footprint of Canada's mutual funds industry in 2012 was $17-billion and supported 192,600 jobs.
(Conference Board of Canada, 2013)

PORTFOLIO PERFORMANCE

Balancing long-term goals and short-term factors

Keep calm, stick to your plan and work closely with your investment adviser.

That's the advice Duane Green, managing director of Canada for Franklin Templeton Investments, has for investors who are worried about the current volatility in global stock markets.

Franklin Templeton Investments manages more than $40-billion on behalf of Canadian individuals and institutions.

"We know that this is not an easy time for investors, particularly those who are nearing retirement or who have already retired," says Mr. Green. "During volatility, there's a natural tendency for investors to focus on risk avoidance, just as it may be easier for them to focus on maximizing returns in rising market conditions. But now is not the time to be making hasty decisions to get out of the market."

"Without a plan, investors tend to be more susceptible to making emotions-based decisions about their portfolios."

Duane Green
is managing director of Canada for Franklin Templeton Investments

While 2016 has had a rocky start amid ongoing concerns over a slowdown in China, weak commodity prices and a depreciating Canadian dollar, the situation has also created investment opportunities in Canada and globally.

"Diversification is key to dealing with periods of market volatility," says Mr. Green. "This includes having an appropriate asset allocation that is invested in line with a plan and as a result of the value received from seeking professional advice."

He notes that investors who have neither a plan nor an adviser may be at a disadvantage as they try to navigate through what seems to be increasing market turbulence. However, it's never too late to get help.

"We believe investors should work with an adviser – or find a suitable adviser if they don't have one – to develop a plan that keeps both risk exposure and return potential in mind, as well as income needs and capital growth, regardless of what the markets are doing. This requires honest and open conversations and is underscored by the value of advice," says Mr. Green.

Investors should keep their goals in mind even though they may seem threatened by current events.

"In down markets, investors may be more focused on making the journey as smooth as possible by limiting downside risk," he says. "Being completely risk-averse could put long-term goals out of reach, so a careful balance is needed – one which takes into account both short-term and long-term factors."

That's where having a plan comes in, adds Mr. Green. "Without a plan, investors tend to be more susceptible to making emotions-based – and potentially damaging – decisions about their portfolios. It's far less likely that this will happen if they have a plan and are committed to seeing it through with the support of a qualified adviser."

OUTLOOK

Focus on risk management and diversification

After a turbulent start to the year on North American stock markets, it is little wonder that investors are being advised to avoid excessive risk and focus instead on preserving their capital.

Bruce Cooper, chief investment officer, TD Asset Management, and senior vice-president, TD Bank Group, believes a diverse portfolio – that includes high quality assets, as well as domestic and global equities – can be a good strategy for 2016, which he expects to be another year of weak growth, low investment returns and heightened volatility in global financial markets.

He sees no quick end to some of the forces that have sent the price of oil crashing below $30 (U.S.) a barrel, putting severe pressure on the Canadian dollar and prompting the Bank of Canada to drop its GDP annual growth forecast to 1.4 per cent from 2 per cent in October 2015.

"This is a time to focus on risk management," he says. "It is not really about how can I make tons of money. It's about how can I protect myself to ensure that I preserve capital and defend myself so that when opportunities present themselves, I am in good shape to take advantage of those opportunities."

Investors can arm themselves by holding a good variety of high-quality assets, including domestic and global equities that have the ability to increase their earnings and dividends in a low-growth environment.

"This is a time to focus on risk management. It is not really about how can I make tons of money. It's about how can I protect myself..."

Bruce Cooper
is chief investment officer, TD Asset Management, and senior vice-president, TD Bank Group

Investors can arm themselves by holding a good variety of high-quality assets, according Bruce Cooper, chief investment officer, TD Asset Management. ISTOCKPHOTO.COM

A typical portfolio should also include some cash to keep some capital safe, as well as investment-grade corporate bonds to provide some income and diversification.

"We are cautious about both emerging markets and high yield, and prefer developed markets and investment-grade bonds," he says.

In an interview, Mr. Cooper said he is not pessimistic enough to anticipate a stock market crash. "As you know from our outlook, we characterize our views as cautious. We expect modest or muted or no returns, but not a crash."

But he says investors should remember that major economies are locked in a period of persistent low growth due to high debt levels and unfavourable demographics in Canada, United States, Europe and China, where working populations are either growing very slowly or even shrinking.

"That is something that is not going to change meaningfully overnight. It is yet another reason for investors to err on the side of caution."

But no matter what the investment climate looks like in the short term, Mr. Cooper believes people are always better off working with an adviser to figure out their long-term goals, develop a plan and then stick to that plan.

"For most people, assuming you plan to leave the money invested for a long enough time period, it would make sense to have some equities (albeit fewer equities today than you might have had a year or so ago)," he said.

He believes 50 per cent of equities should be located outside of Canada. That's because the Canadian market is resource-oriented and tends to lack companies in more stable sectors, such as pharmaceuticals, consumer staples and technology. "As Canadians, it is useful to have exposure to those kinds of businesses. To get that, you really need to go outside Canada," Mr. Cooper says.

On the equity side, U.S. exposure offers a window on the U.S. dollar, which tends to perform better when times are tough. It also provides currency diversification. "We saw how important that was last year when the Canadian dollar declined," Mr. Cooper says.

Given low commodity prices and weak growth in Canada, it is likely that the Canadian dollar will remain at current low levels for some time, according to TD Bank.

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2.7X

The longer people receive advice, the more their wealth grows – by as much as 2.7 times more than households that do not access advice.
(Center for Interuniversity Research and Analysis of Organizations, 2012)

STRATEGY

The six drivers of an effective adviser relationship

A number of studies have proven that investors who work with financial advisers do better than those who don't. The key to reaping those benefits is finding the right adviser, someone you can work effectively with over the long term.

"You are the CEO or the co-CEO of your family, and your financial adviser is your personal CFO," says Carol Lynde, president and chief operating officer of Bridgehouse Asset Managers and a director of the Investment Funds Institute of Canada. "They help you make the informed financial decisions that enable you to achieve what is really important to you and your family. The right adviser delivers tremendous value."

How do you know when the fit is right? To help, Bridgehouse has developed a series of tools called The Value Dialogue, including a video with financial advice expert John Bowen that outlines the six drivers of a successful financial advice relationship. "The whole point is to give investors confidence and control over their selection process, setting the tone and expectations for the relationship," says Ms. Lynde.

The six key adviser characteristics are:

CHARACTER: Do they demonstrate self-discipline and integrity?

CHEMISTRY: Do you feel a connection?

CARING: Do you feel they are empathetic and care about you and your goals?

COMPETENCY: Do they have the necessary skills and knowledge?

COST EFFECTIVE: Do they deliver good value?

CONSULTATIVE: Do they use a collaborative process that makes you feel as if you're working together rather than being told what to do?

The video also provides seven questions investors can ask to help determine the presence of these characteristics in initial interviews.

"John doesn't pull any punches, encouraging investors to ask hard questions about the adviser's background, capability, what services they offer – and what processes they use to deliver those services and create a great investor experience," says Ms. Lynde.

A relationship with a trusted adviser becomes even more valuable during times of high market volatility, she adds. "We've seen from the Dalbar Quantitative Analysis of Investor Behaviour that investors tend to buy high and sell low, because they get caught up in the kind of heightened negative news we're seeing now.

"Advisers are coaches who reinforce the fact that what's happening today in the market has very little to do with their clients' individualized plans."

An effective adviser relationship is about far more than money, she emphasizes. "It's about maximizing the probability of achieving dreams – putting your kids through university, buying a retirement home at some point, going on a trip every other year.

"Whatever your dreams, once you find the right adviser, he or she can help you achieve them."

To view the video, visit bridgehousecanada.com/the-value-dialogue-investor-home.

"[Advisers] help you make the informed financial decisions that enable you to achieve what is really important to you and your family. The right adviser delivers tremendous value."

Carol Lynde
is president and chief operating officer of Bridgehouse Asset Managers

Some of the services that dealer firms provide:

ADMINISTRATION	EXPERT ADVICE	INVESTOR PROTECTION
• Process transactions • Prepare quarterly statements and other reports • Review products	• Quantify your financial goals • Understand the amount of risk you are comfortable with • Identify suitable products • Review your investment performance and progress toward your goals	• Supervise your accounts • Ensure products are suitable for you based on the information you provide about yourself • Review your adviser's recommendations

IMPACT

BOOSTING THE ECONOMY THROUGH FINANCIAL ADVICE

People with financial advisers save more, which not only prepares them better for retirement, but fosters long-term economic growth, according to a 2014 Conference Board of Canada report.

Building on data that proves that households with a financial adviser are more disciplined and accumulate higher savings than those without, the study suggests that boosting the number of Canadians receiving advice can have a substantial long-term economic impact.

While domestic savings enable individuals to prepare for retirement, the report assumes that at least a portion would be invested in Canada. The resulting economic potential – including additional profits, wages and tax revenues – would contribute to higher investments and income.

The conclusion? A 10 per cent increase in the number of households using advisers could boost the size of the economy by more than $2-billion by 2060.

INVESTMENT FUNDS

$4-B

In 2012, the economic activity of the mutual funds industry contributed $4-billion to the federal government and $3-billion to provincial governments. *(Conference Board of Canada, 2013)*

FUND MANAGEMENT

Gaining access to expertise through the power of the collective

Selecting a fund manager is a decision that requires careful consideration, as well as "doing your homework," says Tim Wiggan, CEO, TD Asset Management. "Whether you are just starting your investment journey or are already further along, you need to take the time to understand whom you are doing business with, whom you are entrusting your money to," he explains.

Especially in times of high volatility, it pays to be thorough, says Mr. Wiggan, who adds that "reputation matters.

"Fortunately in Canada, we have a number of high-quality asset managers who have a good track record over long periods of time. In my opinion, you want to see how they have performed during difficult times."

Yet before selecting a fund manager, investors need to be clear on their goals, says Mr. Wiggan, and that's where advice plays an important role. "An adviser would sit down with clients and determine what they are trying to accomplish. Let's say one individual's goal is growing his or her portfolio over a long period of time. Another individual would like to generate income from a portfolio.

"Once those objectives are determined, you and your adviser would partner with an asset manager who manages your money against those goals," he adds. In the two examples, the adviser would look for stable income-generating funds on the one hand and growth funds on the other.

> "Fortunately in Canada, we have a number of high-quality asset managers who have a good track record over long periods of time. In my opinion, you want to see how they have performed during difficult times."
>
> **Tim Wiggan**
> is CEO, TD Asset Management

Mr. Wiggan explains that there is a wide range of mutual funds available in Canada, allowing investors to find a solution that fits their personal objective.

By combining assets from many individuals, mutual funds create efficiencies for investors, who share administrative costs and gain access to money management services.

"With mutual funds, the numbers are generally so high that a range of investors – from individuals to large pension funds – are served by the same team of the best and brightest," Mr. Wiggan explains. This affordable access to professional investment management – which would otherwise be quite difficult to attain with small amounts of capital – also allows for the delivery of additional services, such as quarterly statements and records for tax purposes.

Transaction costs like commissions and fees that apply to active funds are also divided between a large number of investors. "It's an efficient way for an individual to gain access to expertise through the power of the collective," Mr. Wiggan adds.

Since advisers as well as managers are actively involved in creating and realizing a plan, both their efforts are reflected in the fees investors pay. "In addition to the advice fee, you have an asset management fee, which gives you exposure to the experts who manage your money," he says.

Any company that offers funds to the public makes a range of information available online or in printed material. This can aid investors and advisers in the decision-making process – it can also help in choosing a fund manager, Mr. Wiggan states.

PLANNING

FINANCING THE FUTURE: RETIREMENT READINESS

One of the core activities of the investment funds industry is dedicated to helping Canadians build wealth to sustain them in retirement.

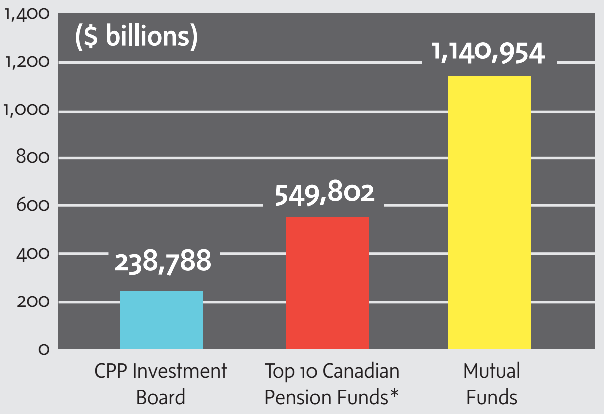
As Canadians live longer, a higher percentage of them will need to rely on individual savings and public pensions. Are they prepared? According to a McKinsey & Co. report, 83 per cent of Canadian households are on track to maintain their standard of living in retirement. The remaining 17 per cent, mostly middle-class Canadians, will face challenges that originate mainly from a lack of long-term savings preparedness, not a lack of income or resources.

The report also notes that Canadians' savings in mutual funds of $1.2-trillion are 2.5 times the assets being managed within the Canada and Quebec pension plans.

Mutual funds account for 47 per cent of all wealth held in RRSPs, and research demonstrates that individuals who invest in mutual funds are not only better prepared for retirement, they also report higher levels of confidence about their retirement readiness.

A CORNERSTONE OF CANADIANS' RETIREMENT SAVINGS

Asssets under management reported as of December 31, 2014



* Source: Benefits Canada Top 100 Pension Funds

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85%

85% of Canadians' mutual fund purchases include advisory services paid through the fund, rather than through a separate fee. *(Investor Economics, 2014)*

Mutual funds

With more than 2,800 different mutual funds available in Canada today, there is a solution designed to match every investor's need.

Mutual funds features

What sets mutual funds apart from other types of investments?

EASY ENTRY

- Ability to start investing with a small amount of money (a single investor can purchase units of a fund for as little as $50).
- Allows investors to set up regular contributions.
- Provides daily liquidity.

EFFICIENCY

- Allows individuals, including those with smaller amounts of savings, to combine their money into a single pool that can be efficiently invested.
- Provides instant diversification, based on the chosen mutual fund.
- Having multiple investors investing in a mutual fund enables those investors to collectively achieve the capital scale required to purchase a diversified portfolio of securities.

ACCESS

- Affordable access to professional investment management, which would otherwise be quite difficult (if not impossible) to create with a small amount of capital.
- Simple access to a wide array of investment vehicles, such as foreign and domestic stocks and bonds.
- Can be purchased directly, or under the guidance of an investment adviser. The financial advice channel is the predominant sales channel in Canada, with many independent and bank- and insurance-owned distribution networks servicing investors.

SAFEGUARDS

- Process is highly regulated to ensure that the money is invested in a prudent manner and provide various best practices and investor protection features.

Types of mutual funds

1 FIXED INCOME FUNDS

Generally made up of: government bonds, investment-grade corporate bonds and high-yield corporate bonds.

The risks and returns associated with fixed income funds vary depending on the average time to maturity (longer-term maturities will fluctuate more in price as current interest rates change) and credit rating (corporate bond funds generally pay higher returns and are riskier than those made up of government bonds) of the assets within the fund.

Interest and any capital gains earned on these investments are paid out to investors in cash or in the form of more fund units, or both.

2 MONEY MARKET FUNDS

Generally made up of: short-term fixed income securities such as government bonds, treasury bills, bankers' acceptances, commercial paper and certificates of deposit.

Money market funds are a low-risk place to park your money while you decide where to invest or until you need it for life expenses like the down payment on a home.

Unlike bank and credit union savings accounts, money market fund units are not guaranteed. Their lower risk stems from owning lower-volatility assets.

3 EQUITY FUNDS

Generally made up of: Stocks.

Equity funds aim to capture and distribute economic growth by owning shares of companies. Compared to money market and fixed income funds, there is a greater potential for higher returns along with a higher risk you might lose money, especially if you cash out during times of high volatility.

There are many types of equity funds along a risk-reward continuum, from higher-risk small-cap growth stocks to lower-risk large-cap dividend stocks.

4 INDEX FUNDS

Generally made up of: Assets meant to replicate the performance of a specific index.

Index funds use different strategies to replicate – as much as possible – the performance of a market index (a theoretical basket of holdings designed to represent the value of all the holdings in that market).

The risks and returns of the fund depend on the performance of the index, as well as the accuracy of replication. Index funds usually have lower costs because research and trading costs are minimized.

5 TARGET DATE FUNDS

Also called target-based or life-cycle funds, target date funds are designed to align with the investor's investment horizon, maturing on a target date such as the investor's retirement. The fund's asset allocation mix is adjusted over time, allowing a higher-risk growth strategy in the early years and reduced risk as the target date approaches.

6 SPECIALTY FUNDS

Generally made up of: Assets representing a specific sector, such as resources, real estate or socially responsible companies.

Many investors want to invest more heavily in particular sectors, and specialty funds are designed to fulfill that goal.

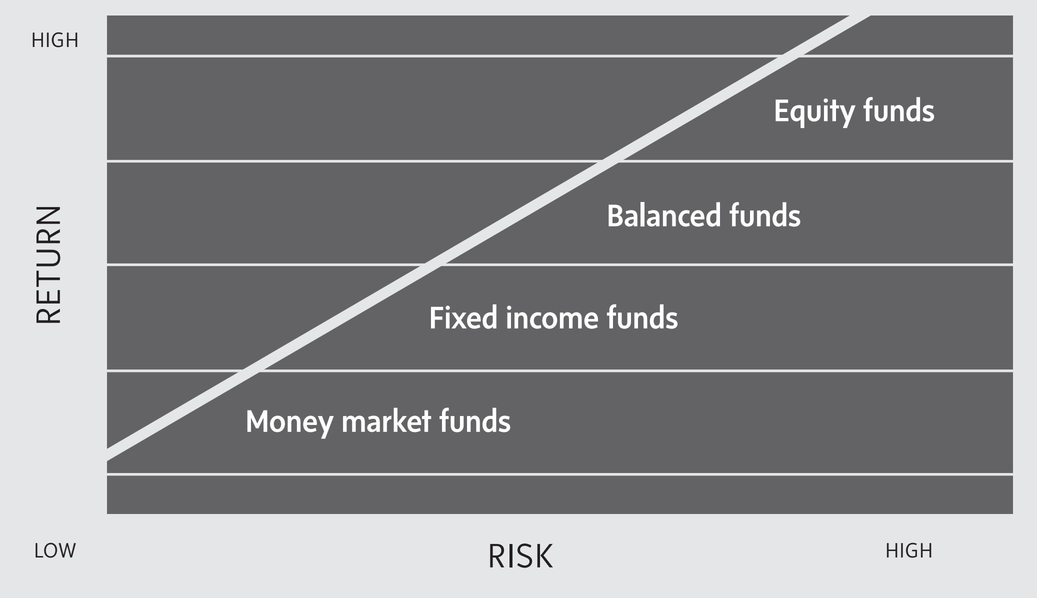
7 BALANCED FUNDS

Generally made up of: Stocks and bonds.

A one-stop, balanced solution for investors who want to keep it simple, most balanced funds use a set formula such as 60 per cent equity, 40 per cent fixed income.

RISK AND RETURN

CHOOSE A FUND WITH HIGHER RISK TO HAVE THE CHANCE TO EARN HIGHER RETURNS



SOLUTIONS

Breaking the cycle of investment regret

Driven more by emotion than sound advice and logical decision-making, many people make bad investment decisions, which not only cost them money, but often also lead to further bad decisions as they try to recover their losses.

David Andrews, a portfolio consultant at Franklin Templeton Investments, says the market meltdown triggered in 2008 by the global financial crisis left a legacy of pessimism that continues to rule the minds of many investors despite subsequent periods of both economic and market recovery.

"While some investors remain on the sidelines frozen by indecision, others seem to shift between asset classes with every mood-changing headline," he says. "Paradoxically, investors tend to view market volatility as an isolated phenomenon, not realizing that their own fears, multiplied by those of countless other investors, may help fuel the turbulence."

It takes discipline and the recognition by investors that they may need help to get an investing strategy back on track, adds Mr. Andrews. He suggests a four-point approach:

"Those who struggle to save money for investment purposes are more likely to adhere to a plan by creating a savings program that increases over time rather than one that immediately requires eight per cent of monthly income."

David Andrews
is a portfolio consultant at Franklin Templeton Investments

WORK WITH A QUALIFIED FINANCIAL ADVISER. They are trained to recognize biases – their own and their clients'. Their understanding of portfolio analysis and the markets is supported by sophisticated technology that helps overcome bias and other emotional shortcomings. A recent Franklin Templeton Investments survey of investors around the world reported that about two-thirds of respondents believe advice from a financial professional is important when making equity purchase and sell decisions.

KNOW YOURSELF. Investors need to know themselves; their understanding of the capital markets, panic points, risk tolerance levels and whether they are overly confident or cautious.

HAVE AN INVESTMENT PLAN. The decision-making process is heavily influenced by past experience, so the most critical first step is a carefully considered investment plan. Studies show that investors who follow a written plan are typically more successful and more satisfied with their investments.

David Andrews, a portfolio consultant at Franklin Templeton Investments, says investors have to recognize when they need help to get an investing strategy back on track. ISTOCKPHOTO.COM

TAKE TIME TO MAKE DECISIONS. Split-second investment decisions are almost always wrong. Although professional investors like portfolio managers must often move quickly on a trade or tactical strategy, each action is supported by endless hours of analysis and debate. Portfolio managers may track securities for years before all their criteria are met and the price is right.

"Consciously resolving to think differently about investment decisions can lead to creative solutions," says Mr. Andrews. "For example, behavioural finance experiments have determined that while cutting immediate consumption is painful, sacrificing future consumption is much less so.

"Those who struggle to save money for investment purposes are more likely to adhere to a plan by creating a savings program that increases over time – say from five per cent to 10 per cent of gross income over a five-year period – rather than one that immediately requires eight per cent of monthly income."

INVESTMENT FUNDS

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The average cost of ownership through advice channels is 2.02% in Canada (excluding the impact of taxes) and 2.00% in the U.S. *(Investor Economics, 2015)*

PORTFOLIO PERFORMANCE

Data suggests staying invested through downturns pays off

When markets get rocky, it's not uncommon for investors to be tempted to sell out and wait for the tide to turn.

But that can be a mistake, says Rick Headrick, president of Sun Life Global Investments, a Toronto-based mutual fund manager that is a member of the Sun Life Financial group.

When they sell out, investors eventually face the difficult question of when to buy back in again, Mr. Headrick explains. And those who miss the turn can lose out because market rallies often come in surges that are measured in days not weeks, meaning that being out of the market – even for a short period – can cause lasting damage to the value of a portfolio.

He advises staying invested no matter what happens on global stock markets. Like many of his colleagues in the investment sector, he is telling investors to anticipate another year of weak growth, low investment returns and heightened volatility in global financial markets. "I think it is going to continue to be a rocky year in the markets generally, with some brighter spots," he says.

When short-term outlooks are negative, some investors feel more comfortable moving to the sidelines. But data published by Sun Life supports Mr. Headrick's view that staying invested pays off.

The research shows that people who invested in January 1985 and held on until August 2015 – through the Black Monday market crash (September-December 1987), the tech meltdown (April 2000-October 2005) and the financial crisis (November 2007-March 2009) – made a robust nine per cent average annualized return on their investment. That takes into account three bear market declines of as much as 51.7 per cent.

Aside from staying invested when markets turn negative, Mr. Headrick believes it is important to work with an adviser to build a plan that takes into account your life, health and wealth needs, as opposed to just your investment needs. People who are aiming for long-term investment success should establish a financial plan early in life, he says, adding that he's already started this discussion with his daughter, who is in grade 10.

Mr. Headrick adds that investors can minimize portfolio volatility by sitting down with an adviser to build an asset mix that matches their risk tolerance and investment horizon and include uncorrelated asset classes, such as stocks and bonds, so that some go up while others are going down. "Stocks offer growth potential while bonds tend to protect against losses and dampen volatility," he notes.

The strong performance of the funds managed by Sun Life Global Investments, especially during periods of extreme volatility, speak to the effectiveness of a long-term view and the culture of risk management the organization has developed since its inception, says Mr. Headrick.

"I would say risk management is in our DNA," he adds. "We have a strong focus on capital protection while at the same time ensuring that our clients participate in the upside of the markets."

Sun Life Global Investments, with $12.3-billion in client assets under management and a portfolio of 64 mutual funds, takes a disciplined research-based approach with a view to long-term performance. In addition to investments managed by its in-house portfolio management team, Sun Life Advisory also offers a diverse line-up of mutual funds through sub-advisory relationships with firms such as MFS, BlackRock Asset Management Canada Ltd., Dynamic Funds, Sentry Investments, Schroders and others.

RISK MANAGEMENT

What is an investor's tolerance for risks? This question is an important part of the first conversation with an adviser – the answer will greatly influence the type of investments that fit the investor's needs. But what are some of the behavioural and economic factors behind Canadians' attitude towards risk-taking? A recent Investor Education Fund survey has some of the answers:

60% of Canadians invest based on careful analysis

23% of Canadians invest based on both analysis and gut feelings

17% of Canadians invest based on gut feelings

40% of Canadians regretted an investment based on emotion once or twice

12% of Canadians regretted an investment based on emotion once or twice every few years

4% of Canadians regretted an investment based on emotion many times

Investors can minimize portfolio volatility by sitting down with an adviser to build an asset mix that matches their risk tolerance and investment horizon, according to Rick Headrick, president of Sun Life Global Investments.
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For answers to these questions and more visit IFIC.CA | Investor Centre

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