THE ANALYST

CFA Society Toronto

March 2014

WOMEN AND MONEY
International Women's Day, March 8 2014

CROWDFUNDING ... OR FLEECING?

BITCOIN
The cryptic currency

Setting a higher standard for the Toronto investment community

March 2014
Table of Contents

EDITORIAL 2

PRESIDENT'S LETTER 3

CEO'S MESSAGE 4

UP FRONT: TOP READS
MARCH READING LIST 6

SOCIAL MEDIA
TABOO OR TOOL? 8

INCOMING CEO
MEET SUE LEMON 9

RETIREMENT PERSPECTIVES
BOTH SIDES NOW 10

U.S. TAX POLICY
FATCA: UNCLE SAM WANTS YOUR DATA 14

SPECIAL ISSUE: WOMEN IN FINANCE
A WOMAN OF VALUE 18

ONE FROM THE HEART 19

LEADING BY EXAMPLE 20

FOCUS ON: FUTURE OF FINANCE
THE BIG SQUEEZE 22

CROWD FUNDING OR CROWD FLEECING? 24

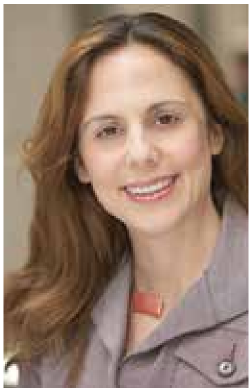
THE CRYPTIC CURRENCY 26

CFA SOCIETY TORONTO
CONGRATULATIONS NEW CHARTERHOLDERS 28

Mfin ETHICS CHALLENGE 29

UPCOMING EVENTS 30

NEW MEMBERS 31



SUSPENDERS, SMOKING, AND A LONG BULL RUN.

They're just a few things veteran investor Kim Shannon remembers about her earliest days working in the Canadian investment industry—that and the fact that there were few if any women in the office, and they never wore pants.

It's International Women's Day on March 8th, and in honour of that, we've put together a special report on Canadian women in business and finance. Shannon's portrait of what the typical investment office looked like in 1983 has changed markedly. We've ditched the cigarettes and suspenders, and women hold a far more prominent place than they did 30 years ago.

One such example is Gail Cook-Bennett, who has blazed a trail in Canadian boardrooms. In exclusive interviews with *The Analyst*, Cook-Bennett, along with Kim Shannon, share their views on how to engage more women in corporate Canada.

In addition to our special report on women in finance, we're also covering the Future of Finance, delving into some of the trends that might shape the future of money in Canada and around the world. Are Bitcoins here to stay. and can they move beyond their shady Silk Road roots? Is crowdfunding actually a good way for Canadian companies to raise money? And how can Canada's small brokerages position themselves for success in the future?

And speaking of the future, outgoing CEO, Peter Jarvis, shares his vision of the future. You can see what he's planning to do in retirement in "Both Sides Now."

As always, we hope you find this issue of *The Analyst* both helpful and interesting. We always welcome your feedback. Feel free to send us your suggestions, ideas, and story pitches to theanalyst@cfatoronto.ca.

PRESIDENT'S LETTER
JOSEPHINE MARKS, CFA, FCIA, FSA

AS WE LAUNCH INTO the first issue of *The Analyst* of 2014, the most important order of business is to welcome Sue Lemon to her new role as CEO of CFA Society Toronto. After a comprehensive recruitment process, with many highly qualified candidates considered, the search committee presented their selection for CEO to the Board of Directors, who unanimously agreed. Sue's experience and capabilities align very nicely with the key strategies that have been identified for CFA Society Toronto. She is a natural fit for the leadership role at CFA Society Toronto at this time, and we look forward to working with her.

While we remain committed to excellence in our programming, we are making particular efforts to develop a better understanding of our membership needs and to reach out to employers and other stakeholders to ensure that we meet their expectations as well. A key initiative for us will be partnering with CFA Institute in their Future of Finance messaging. This CFA Institute–led campaign aims to improve the reputation and value proposition of those employed in the financial industry.

This past January, CFA Society Toronto's 6th Annual Professional Development Day was the first of a series of Toronto Society–run events to celebrate Future of Finance. At this event, CFA Institute led a session to provide membership with tools and structure to motivate and empower a world of finance committed to fairness, improved understanding, and personal integrity. Future of Finance–themed events will continue locally with a focus on key stakeholders in an effort to showcase membership expertise in a way that will both help the investment industry and also exhibit our role in building an ethical financial community.

It is with great pride that we welcomed over 575 new charterholders in the Toronto area in 2013. These new graduates will be setting a high standard for all of us to follow as they embark on the next stage of their careers. Many of the new charterholders joined us at the Charter Recognition Event this past January where we celebrated this important milestone.

It is important to us that CFA Society Toronto continues to evolve to meet your needs as members. With that in mind, I urge you to participate in some of our upcoming events, comment and post discussions on our LinkedIn Members Only Group, and continue your commitment to professional development and education. As we spring forward into conference season, there are many exciting new and returning events to meet your needs. I also encourage you to consider nominating candidates when we make our call for nominations in the coming month.

Finally, I thank you for your trust in allowing me to serve my term as President. It's hard to believe that the term is halfway through.

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I AM HONOURED to have been selected to serve as Chief Executive Officer of CFA Society Toronto. It is my distinct pleasure to work closely with our groups of dedicated volunteers and to serve and respond to the needs of our fellow members. CFA Society Toronto was founded with a vision to support the needs of our local financial community, and I look forward to continuing that tradition with an added focus on globally expanding our commitment towards ethics and integrity.

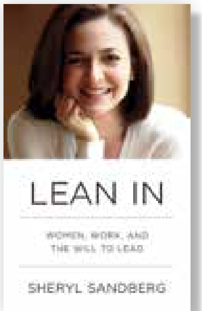
My fundamental goals as CEO are to maintain and improve upon the value of membership and to continue to build ties and relationships with key stakeholders. Over the next several months, I will collect insights on changing needs and pivotal issues emerging within the industry that collectively we must address. By working closely with the membership, our corporate partners, and CFA Institute, I look forward to contributing insights and ideas to our Board of Directors on key initiatives for our strategic plan.

My experiences as a member, past president, and mentor have given me a unique perspective in my new role. I have learned how important a role continued education plays, both vocationally and personally, and I will utilize this to build upon Society offerings to ensure that we continue to meet our mission with high-calibre programming and services.

I am thrilled to be a part of the strategic leadership team representing your needs and look forward to seeing you at our events and anytime around the office.

MARCH READING LIST

Recommendations from Brenda Bickram at **Books For Business**



Lean In: Women, Work, and the Will to Lead

Sheryl Sandberg, Nell Scovell

Knopf Doubleday Publishing, $28.95

In *Lean In*, Sheryl Sandberg examines why women's progress in achieving leadership roles has stalled, explains the root causes, and offers compelling, commonsense solutions that can empower women to achieve their full potential. Sandberg is the chief operating officer of Facebook and is ranked on Fortune's list of the 50 Most Powerful Women in Business and as one of Time's 100 Most Influential People in the World. In 2010, she gave an electrifying TED Talk in which she described how women unintentionally hold themselves back in their careers. Her talk, which became a phenomenon and has been viewed more than two million times, encouraged women to "sit at the table," seek challenges, take risks, and pursue their goals with gusto.

How Remarkable Women Lead: The Breakthrough Model for Work and Life

Joanna Barsh, Susie Cranston, and Geoffrey Lewis

Crown Publishing Group, $17.00

Based on five years of proprietary research, *How Remarkable Women Lead* speaks to you as no other book has, with its hopeful outlook and unique ideas about success. It's the new "right stuff" of leadership, raising provocative issues such as whether feminine leadership traits (both for women and for men) are better suited for our fast-changing, hypercompetitive, and increasingly complex world.

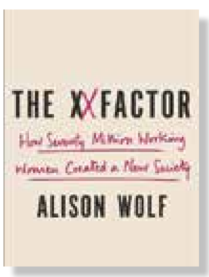
The authors, McKinsey & Company consultants Joanna Barsh and Susie Cranston, establish the links between joy, happiness, and distinctive performance with the groundbreaking model of "centered leadership."

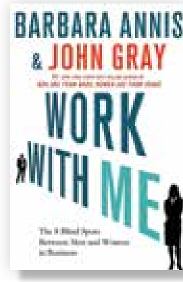
Stiletto Network: Inside the Women's Power Circles That Are Changing the Face of Business

Pamela Ryckman

Amacom, $26.95

More women are running major companies than ever before. While still far too few in number, these female heads of industry are the forerunners of a radical shift in power now underway. During the past few years, women's groups have been coalescing in every major American city. Formidable ladies across professions are convening at unprecedented rates, forming salons, dinner groups, and networking circles—and collaborating to achieve clout and success. A new girls' network is alive and set to hyperdrive. *Stiletto Network* is about those groups: the "Power Bitches," "Brazen Hussies," and "S.L.U.T.S.: Successful Ladies Under Tremendous Stress." It's about what happens when bright, extraordinary women—from captains of industry to aspiring entrepreneurs—come together to celebrate and unwind, debate and compare notes.





Work With Me: The 8 Blind Spots Between Men and Women in Business

Barbara Annis, John Gray

Palgrave Macmillan, $31.00

Work With Me is the timely collaboration of two of the world's foremost authorities on gender relations. Barbara Annis, world-renowned expert on gender issues in the workplace, and John Gray, author of the number one relationship book of all time, *Men Are from Mars, Women Are from Venus*, team up to resolve the most stressful and confusing challenges facing men and women at work. Annis and Gray reveal, for the first time, survey results of over 100,000 in-depth interviews of men and women executives in over 60 "Fortune 500" companies. Readers will discover the "eight gender blind spots"—the false assumptions and opinions men and women have of each other, and in many ways, believe of themselves..

The XX Factor: How the Rise of Working Women Has Created a Far Less Equal World

Alison Wolf

Allen Lane Canada, $34.00

For most of history, being female defined the limits of a woman's achievements. But now women can be successful careerists who are the equal of men. In Norway, women legally must constitute a third of all boards. In the U.S.A., women have gone from being three percent of practising lawyers in 1970 to 40 percent today, and over half of all current law students are female. More than seventy million educated women throughout the world work alongside men. Many delay marriage and children, and some forego them entirely. Yet professional women remain a minority.

These changes are revolutionary but not universal—the "sisterhood" of working women is deeply divided. Young, educated, full-time professional women, who have put children on hold, are making enormous strides in the workplace. But for a second group of women, this is unattainable. Instead, they work part-time, earn less, are concentrated in heavily feminized occupations such as cleaning, and gain income and self-worth from having children at a young age.

On the Edge: The Art of High-Impact Leadership

Alison Levine

Grand Central Publishing, $30.00

On the Edge is an engaging leadership manual that provides concrete insights garnered from various extreme environments, ranging from Mount Everest to the South Pole. By reflecting on the lessons learned from her various expeditions, author Alison Levine makes the case that the leadership principles that apply in extreme adventure sport also apply in today's extreme business environments. Both settings require you to be able to make crucial decisions on the spot when the conditions around you are far from perfect. Your survival—and the survival of your team—depend on it.

Brenda Bickram is the manager responsible for special orders and corporate sales at Books for Business online store.

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www.booksforbusiness.com

YOUR VIEWS

Results of the latest online polls posted at **www.cfatoronto.ca**. Have you voted yet?

Politics in QC and ON

WILL THE MUNICIPAL POLITICS SCANDALS IN BOTH QUEBEC AND NOW ONTARIO CAUSE FUTURE LARGE SCALE INVESTMENT BY PRIVATE AND PUBLIC ENTITIES TO SLOW OR GO ELSEWHERE?

	Response Percent
Yes, stability is key	25.00%
No, volatility is par for the course	39.29%
Yes, reputational risk is too large	21.43%
No, scandals have raised profiles	14.29%
TOTAL RESPONSES	**28**

The Wolf of Wall Street

WITH THE RELEASE OF "THE WOLF OF WALL STREET", WHAT IS/WAS YOUR FAVORITE "WALL STREET" MOVIE?

	Response Percent
Wall Street	34.78%
Wall Street-Money Never Sleeps	4.35%
Bonfire of the Vanities	1.09%
American Psycho	8.70%
Boiler Room	15.22%
Margin Call	22.83%
Too Big To Fail	4.35%
Inside Job	8.70%
TOTAL RESPONSES	**92**

TOP IDEAS

The most-downloaded papers from CFA Institute (download them at www.cfainstitute.org):

Fundamentals of Futures and Options
by Roger G. Clarke, Harindra de Silva, and Steven Thorley

Life Annuities: An Optimal Product for Retirement Income
by Moshe A. Milevsky

A Practical Guide to Risk Management
by Thomas S. Coleman

Manager Selection
by Scott D. Stewart

Expected Returns on Major Asset Classes
by Antti Ilmanen

Rethinking the Equity Risk Premium
by P. Brett Hammond, Jr., Martin L. Leibowitz, and Laurence B. Siegel

A New Look at Currency Investing
by Momtchil Pojarliev and Richard M. Levich

Corporate Governance and Value Creation
by Jean-Paul Page

Fund Management: An Emotional Finance Perspective
by David Tuckett and Richard J. Taffler

Research Foundation Year in Review 2012

SOCIAL MEDIA: TABOO OR TOOL?

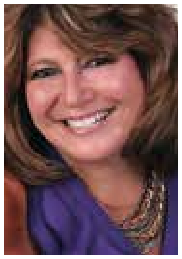
The role of Facebook, Twitter, and LinkedIn at work

Sara Pacella

Different businesses have different approaches to social media. Some embrace it, and some workplaces ban it altogether. In this Q&A, our panel of social media experts addresses social media both as taboo and as tool. Our expert panel members are:

Heather Angus-Lee, a marketing and content strategist at PROsocialmedia, expert in search engine optimization and social media optimization, and blogger extraordinaire

Boyd Neil, Senior Vice President at Hill & Knowlton Canada, an international communications consultancy



April J. Rudin
Founder and President of The Rudin Group and an acclaimed financial services marketing strategist and social/digital media expert

A firm's number one strength and weakness can be communication. Do you agree with this statement? How does social media play into this enhancing of strengths or weaknesses in communication?

HEATHER ANGUS-LEE: Even if you have expertise and real value to contribute, if you don't communicate it well, who knows that you have it!? Storytelling is key on social media ("Tell, don't sell"), as it is in any good communications. What's so cool about social media—some forms in particular—is its effectiveness in a wide range of types of communications.

Social media plays to the strengths of your existing business efforts. Conversely, social media can enhance a person's or an organization's weaknesses. If they don't have real value to add to the marketplace, you can be sure that social media will reveal it!

BOYD NEIL: Agreed. The definition of reputation is performance plus behaviour times communication. Performance and proper behaviour are core, but you need to communicate this well. It's not enough to be a good company if you don't tell people. Communication is critical, as many companies only pay lip service to it. To build your corporate reputation you need to invest in communication, and today in particular that means investing in having a social media presence. Twitter isn't just a place for teenagers anymore. Journalists are on Twitter looking for their next story every day.

APRIL RUDIN: I agree. To interact effectively you need to create a community and actively dialogue so that you can communicate bad news as well as good. This way you aren't talking only to your stakeholders when something is wrong. Consistent and constant interaction is why a newsletter or blog is a good forum. Take ownership in your communication and express disappointment. Advisors who show that they're "in it" with their clients have better relationships. People who interact with their clients only when they make the big scores are also the ones who hide under their desks when a loss happens because they don't know what to say.

Many companies block access to social media sites on the job. Does this impact employees' ability to connect with their clients or impact any other aspects of their jobs? Do you see this changing? What is your advice to companies that still block social media sites?

HAL: The blocking of social media sites on the job has a detrimental effect on how employees interact with their clients, press, partners, vendors, etc. Virtually anyone they need to work with in this day and age is into social media and expects your employees to be there too. Blocking smells like communist government policy. (I've been to Cuba, and boy are they hungry for a taste of Facebook!) Managing the "risk" of social media participation by your employees is, like many things in life, a matter of common sense, trust, and clear expectations.

As well, if you block social media sites at work, you are missing an opportunity for real strategic internal collaborations among your employees as part of your social media strategy. Having an employee policy on social media will go a long way towards avoiding the need to block sites and relieving any perceived risk of employees "wasting" time on the job and/or making inappropriate comments online.

BN: The only thing that blocked access means is that people are interacting with their social networks on their smartphones or iPads below their desks. It is a legacy trend that is ludicrous. Instead, put policies in place to guide usage of social platforms on work computers. By banning access, organizations are missing out on a massive opportunity to have employees be their brand ambassadors online.

AR: The reason that companies block access is because they can't monitor that many people and they haven't approached it in the right way. Blocking people is counterintuitive. If you allow them to connect via social media, and provide training and policies, then everyone is happy. Blocking these sites forces people to use their iPad and phone to communicate. Online is better than off-line because you can have a written record of communication with stakeholders via social media.

Sara Maginn-Pacella, is Manager, Marketing & Public Relations at CFA Society Toronto

MEET SUE LEMON

A chat with the incoming CEO

Ron Schwarz, CFA

CAREER

1986–1993	Nesbitt Thomson, Fixed Income
1993–2008	CIBC World Markets, Fixed Income Sales & Leadership
2009–2013	MSL Advisory, Founder & President

CFA SOCIETY

1989	CFA Charter
1992–1993	CFA Society Toronto, President
1989–1994	CFA Society Toronto, Board of Directors

New CFA Society Toronto CEO Sue Lemon has almost 28 years experience in capital and electronic markets, portfolio management, and capital markets leadership, including her own advisory firm. We sat down with her to get her view on the issues facing the industry today and why she believes the Society's education programs are the best deal in town.

Can you speak to the biggest evolutions in the financial industry since you were president of the Society back in 1992?

The industry has gone through several trials and tribulations, and hopefully we have learned from them. One of the more striking elements is today's speed of transaction and the efficiencies that have come along with it, which require fewer people in transactional roles. Interestingly, the regulatory environment and risk management practices now go hand-in-hand with new business opportunities, whereas in the past they might have followed or been an afterthought.

At this point, our industry is in good shape, along with most of corporate Canada. Hopefully, we have enough seasoned individuals with past cycle experience in leadership roles to steer us through the next event—because there ultimately will be one.

How can we as industry professionals and CFA charterholders address the concerns over the "ill-wills" of the industry, including a widening wealth gap?

Education and dialogue are keys. Practitioners will continue to have tough conversations with their clients and will need to be able to demonstrate the value added to the client's investment objectives and performance expectations.

Simplification, streamlining, and transparency of investment products will also help, as the public needs to better understand the tools that are readily available and their associated costs. CFA Institute's investor-first focus will also help in this process.

As a long-standing practitioner, where do you think the industry in general has made the most progress, and where do you think it still has work to do?

Over the years, the industry has drastically lowered transaction costs for both institutional and individual investors while enhancing product offerings. However, the offset has been rising costs and margin compression for institutions in the delivery of these enhanced products, due to regulatory and compliance requirements. Going forward, consolidation and a continued focus on generating efficiencies will remain a theme

We need to win back the respect of individual investors and have the tough conversations on planning for the future. This could include providing resources for aging parents, which is becoming a creeping financial threat to the boomer generation's nest eggs. Public and private workplace pension plans will no longer be sufficient. People will have to be prepared to save more and spend less sooner so that they can be ready for unforeseen expenses, given some of these variables.

Prior to joining the Society as our CEO, you were running your own advisory firm. Can you speak to the key success factors in starting an enterprise?

Transitioning from a large firm over a long career can sometimes be difficult. The key is to focus on your skill set and the business and social network you have built up over the years. I was extremely fortunate to have opportunities because of business relationships developed prior to starting my own business. For some, there are serious barriers to entry such as regulatory and reputational issues, particularly in the fund management sector, where it can take five to 10 years to really get the traction you want.

This issue of *The Analyst* has a focus on women and leadership, so it is fitting that our new CEO has been a successful leader for many years. Can you speak to the challenges that women still face in our industry and what it might take to alleviate these issues?

I would tell all our female (and male) members to embrace your ambition and competitiveness in setting your career goals. Acquire as many mentors as you can, not only within but also outside the industry as well. Be curious and invest in yourself! Take strategic communication courses whenever you can, read the global financial newspapers and topical books that will ultimately differentiate you from your peers. In the end, you have to have your own opinions in your area of expertise to be valued and get a shot at a leadership role.

Given this backdrop, can you speak to some of your priorities for our Society's younger members?

Having taught a master of finance course at Queen's, one of my priorities for our younger members is to make sure we offer some of the best programming available so they can develop deeper product knowledge in their chosen areas of expertise. This is a tough industry, and our members need to be focused on enhancing their marketing and communication skill sets in order to achieve personal development growth. I have already used the phrase "best deal in town" with respect to our programming events, but it is up to our members to take responsibility for their own development. We'll provide the tools (develop podcasts, for example, as it is hard to leave work for an afternoon). All they need is the ambition to succeed.

Ron Schwarz, CFA is a CFA Society Toronto board member and chair of the Member Communications Committee.

BOTH SIDES NOW

At 60 and 30, two industry pros share the view from either side of retirement

Peter Jarvis, CFA and Tim Usher-Jones, CFA

As a long-time investment practitioner with almost two decades of relevant pension expertise, I'm sometimes asked how I planned and saved for retirement. Many are surprised that I wasn't using traditional retirement vehicles, and many others I know who are retiring haven't either. But what are the views of a younger generation of professionals?

Recently I spoke with Tim Usher-Jones, CFA, who at 30 belongs to a younger generation of investment professionals. He is vice-chair of CFA Society Toronto's University Relations Committee and is also assistant vice-president and Canadian Zone Manager with Chubb Insurance. I asked Tim if he is preparing for retirement as most recommend, and he simply replied "not."

PETER'S SIX-POINT PLAN FOR RETIREMENT

Here are the six things Peter plans to do first, now that he's finished full-time work:

1. Drive Highway 1 from Vancouver to Los Angeles and then back to Toronto via Las Vegas.
2. Take an extended ski trip in Western Canada.
3. Sell our house and move to Huntsville and rent a condo in downtown Toronto.
4. Seek volunteer opportunities.
5. Go back to school, refresh my French, and go back to university to study media and telecommunications.
6. Learn how to use all my Apple gadgets.

Below, we both share what we've done in the past or are doing currently. As we're both "in the game" and often think about retirement planning, this disconnect seemed particularly interesting, especially as I'm 60 and about to retire, and Tim is where I was 30 years ago. However, we discovered our mindsets are similar.

This article isn't targeted at those who lack knowledge, sophistication, or ability. It's more of a discussion among practitioners. Retirement planning is a long-term exercise, and like all investing, the power of well thought-out plans, compounding, discipline, and a bit of luck, is the difference between success and something else.

The View From 60 – Peter Jarvis, CFA

My first retirement asset was full life, a form of life insurance more commonly known as whole life or permanent life. Family health history was an important factor in making this decision, and several heart-related issues later, I'm glad I did it. It's a terrible investment for the first 10 years, but it improves as the decades go by. My full life policy came with options to increase insurance coverage without a medical exam, policies that grew in coverage over time, and a few tax advantages no longer available. Worth about $500,000 in cash and automatic loan value, and with about $2,000,000 in coverage, this is a key foundational piece of my final estate and retirement planning.

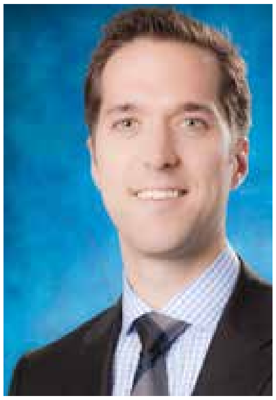
Next, I started buying full life insurance for my children as they were born as well as registered education savings plans (RESPs). How do these qualify as retirement assets? Retirement planning is not just about what you save, but also about what you don't have to spend in your latter years. Starting with the assumption that my children's policies would not be paid out during my lifetime (what a devastating blow that would be), the RESPs paid for university, and now I'm turning over the insurance policies to them without tax consequence. My oldest child's policy is worth about $30,000, which will give him a head start in life, especially with his university bills paid for. Note that my savings have not been touched. They won't be for my other children either, and they are all graduating from the bank of mom and dad. That is what I call retirement planning!

The third asset was a retirement home in the country that my wife and I convinced her parents to move into (which only works if you like your in-laws). They were asset rich and cash poor, so it worked for them too, as their house became their retirement fund. They've always paid taxes, upkeep, and utilities, and we paid the mortgage until the house was paid off seven years later (almost 20 years ago). It's a pretty big place. Her dad died years ago, and while we've thought of this place as home for a very long time, soon it really will be home and not just a weekend retreat. It's worth about $750,000, and Grandma doesn't have to go anywhere, she can just stay with us.

Other assets were stock investments in the companies I worked at and a city home (soon to be sold, and a core tax-exempt part of my retirement savings). This home was mortgaged several times for investment purposes but is now fully paid off. I folded a couple of pension plans into registered retirement savings plans (RRSPs) and/or locked-in retirement accounts (LIRAs), mainly invested in equity index product or exchange-traded funds (ETFs) because I like managing and being in control of my own money, and I hate management fees. I also put money into a rainy-day fund for contingencies, and starting in my 50s, I topped up all my unused RRSP contributions. Soon after the house is sold I will probably buy some fixed income assets again, although I like to buy assets that pay a good return for the risk taken, and I am not of the mind that this is the case at present.

I'll keep the final numbers to myself, but I'm comfortable for the rest of my expected life, and having managed money for aging relatives, I know that I don't need as much as many say. I hope to travel a bit while I still can and go back to school and be the old guy at the back of the class. Hopefully, I will use up my financial and other assets during my lifetime and find ways to be useful. Barring contingencies and bad luck (note to self: stay married to the partner you have been with for the past 34 years), retirement looks attractive. I challenge you to find an advisor who would suggest that you do what I have done. And as I enter retired life, I have the illusion of control that rightly or wrongly makes me feel like I am in charge.

The View from 30
– Tim Usher-Jones, CFA



Thanks Peter. As tax-planning season approaches, I recently opened my RRSP statement and was reminded my formal date of retirement—2048. I also came across an article in *Report on Business* focused on retirement. While its content is no doubt interesting and valuable to some, most people in their early working career would say "Who cares?" I am also in that boat, so of course my comments are written for those who are closer to birth than to their retirement age. And 2048 is not yet on my mind.

Most articles relevant to those under 40 focus broadly on debt repayment, portfolio allocation, tax planning, or buying a first home. The truth is, there's likely too much literature out there for one to read, much of it generic, and it can be difficult to find appropriate, catered advice for individual situations. Financial professionals, however, should have the background for taking ownership over their finances, and it's never too early to take charge of your financial future. Despite this, even some very talented practitioners don't spend sufficient time thinking about retirement and wealth creation in the early planning phases.

And the words "retirement planning" might not even be appropriate for me. One month ago, I attended CFA Society Toronto's Media Awards and spoke with Jonathan Chevreau, editor of *MoneySense* and long-time personal finance writer for the *Financial Post.* We spoke about retirement and his book, *Findependence Day*. His premise is to set a goal of financial independence, selecting a specific day when one has sufficient assets that he or she can choose to work—or not. I do believe that, if healthy, I will be working past my formal retirement age. But I wish to be doing so of my own accord.

My retirement plan is simply about asset growth while protecting the core portfolio. This begins with life insurance. Luckily, my father, who is a chartered accountant, also purchased a life insurance policy on my behalf early in life. I continue to fund this, both for tax planning and to protect my family if anything were to happen to me.

Second in the plan is real estate. I have bought and sold two homes within the last decade, and currently my wife and I rent. This asset class literally became a retirement vehicle, with the initial down payment coming from an RRSP account. My wife and I have spoken in depth about our financial goals for the future. Information sharing here seems key to a successful future. And while we disagree at times, given the emotional nature of owning a home, I am a firm believer that there will eventually be a measured correction in the real estate market. It is difficult to find a house today that we would be comfortable living in for the next 20 years, and the velocity of single family home price appreciation in Toronto astounds me. We have alternatively discussed investing in working farmland with retirement in mind, but inflation in Ontario farmland is even more extreme. Despite all this, logic may not prevail, and I have a feeling we will become homeowners again soon.

On the investment side, I believe those who are gainfully employed early in their career should take a more aggressive stance on investing. My investments start with a concentrated core equity portfolio, including ETFs, along with a great retirement plan and benefits provided by my employer. I overlay this with aggressive investment strategies outside of my core portfolio, while I have the capacity and am prepared to take losses (and learn how to hedge). Currently, I'm buying relatively inexpensive synthetic portfolio insurance through options and continue to look for other private investment opportunities. The only debt instrument I own is in the form of convertible shares issued to a private Canadian corporation, and I'm looking into higher yield and hedged bond funds. As with Peter, I can't imagine my portfolio mix fits squarely into any recommended portfolio strategies.

Given that the year 2048 sounds more like something from a sci-fi movie than an actual retirement date right now, the concept of financial independence is much easier to grasp than retirement. Investment strategies should still be about moderation, but should also be planned with financial independence in mind. Don't save or spend too much early on, exercise discipline and a certain sacrifice so that you plan appropriately for your future, and that financial independence day will soon be within your grasp.

To conclude, you should think for yourself and take control over your financial independence, which not only includes retirement but also life in general. Nobody will make this a priority unless you do it yourself. Spend time to create a sound and knowledgeable plan, start saving early (read: delay that Porsche purchase), pay down debt, and generally take more risk when you are younger and can bounce back. Build assets and, if appropriate, use debt as a way to build wealth wisely. Consult other professionals where appropriate.

Finally, build your retirement security based on disciplined and thoughtful wealth decisions throughout your life—and not your life based on retirement security.

Peter Jarvis, CFA is a long-time veteran of the Canadian investment industry and past president and CEO of CFA Society Toronto, recently retired.

Tim Usher-Jones, CFA is AVP & Canadian Zone Manager at Chubb Insurance Company of Canada and Vice-Chair of the Awards & University Relations Committee of CFA Society Toronto.

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FATCA: UNCLE SAM WANTS YOUR DATA

New U.S. rules create headaches for Canadians and financial institutions alike

Victoria Barclay, CFA

American authorities want Canadian financial institutions to give up more data—and more detailed data—to the Internal Revenue Service (IRS). The tax treaty currently in place between the two nations already requires some sharing of financial information on individuals and corporations. When the U.S. Foreign Account Tax Compliance Act (FATCA) comes into effect in July 2014, there will be a lot more—some would say too much—sharing. FATCA will affect all financial institutions: credit unions, insurance companies, investment and mutual fund dealers, and so on.

"The clear impetus was the UBS scandal involving thousands of offshore bank accounts held in Switzerland by Americans," said Allison Christians, professor of law at McGill University. FATCA is the third attempt at a stand-alone bill. And Christians points out that it has "stirred a sleeping giant: the U.S. practice of imposing taxation based on nationality status alone." Prior to FATCA, Christians noted, the U.S. was not overtly forcing foreign governments and entities to assist this taxation scheme.

"The U.S. is the only country in the world other than Eritrea that levies taxes based on citizenship rather than residency," said Marion Wrobel, vice-president of policy and operations at the Canadian Bankers Association (CBA). The CBA has been opposed to FATCA from the beginning, he said, as have financial institutions and their associations and governments around the world.

Under U.S. tax law, the scope of persons who must file U.S. returns is very broad. In addition to U.S. citizens, Canadians with "U.S. status," such as permanent resident ("green card") status, may be required to file U.S. tax returns. "Sometimes a client does not even realize he or she has a U.S. tax filing requirement," said Christine Perry, citing as an example a person born outside the U.S. whose mother is a U.S. citizen. Perry, a lawyer at Keel Cottrelle LLP, specializing in cross-border tax and estate planning solutions for high net worth individuals, gave a CFA Society Toronto seminar in October 2013 on issues facing U.S. clients.

Citizenship can be a complicated matter, said Perry, noting that a client may think he or she has renounced citizenship but may still be characterized by the IRS as a U.S. citizen. It is not enough to commit an expatriating act such as taking an oath of allegiance to a foreign country. An individual must also show that they performed the act knowingly and with the intention of relinquishing their U.S. citizenship. Generally, a person must now appear in person at a U.S. embassy or consulate in a foreign country and sign an oath of renunciation.

Currently, Canadian financial institutions provide information to Canadian regulators to check for such things as money-laundering activity, but they do not provide information directly to any U.S. agency, such as the IRS. The new law will mean that every individual with a financial account in Canada over a minimum threshold must be scrutinized for U.S. indicia. Under FATCA, Christians said, the U.S. indicia will include not only the client's address but also their phone number, post office box, power of attorney, standing order of money transfer, and the "big one"—U.S. birthplace.

The CBA supports the intergovernmental agreement (IGA) that the Canadian government is currently negotiating with the U.S. government as the best possible solution to FATCA, said Wrobel. Extrapolating from agreements that the U.S. has signed with other governments, the IGA would mean that Canadian financial institutions would report tax information on persons with U.S. tax status to the Canada Revenue Agency, which would then pass it on to the IRS, rather than require Canadian financial institutions to report the information directly to the IRS., Wrobel explained.

Highlighting a paradigm shift in the new tax law, Wrobel contrasted the current tax treaty, which is focused on income information, with FATCA, which is focused on both income and the assets generating that income. Such a tally requires monitoring account balances and transfers into and out of accounts. "This is about constant surveillance of financial activity by anyone who has U.S. indicia," said Christians.

Besides the expected increase in compliance costs and the risk of penalty from U.S. authorities, Christians said, there may also be increased litigation risk "with respect to customers who are mistakenly identified as having U.S. indicia, or whose accounts are closed, or who are asked for additional personal information that is not required by law."

The increased regulatory costs mean increased business costs for financial institutions. Affected clients must bear the direct costs of paying for specialized advice on tax compliance and penalties, should they fail to comply. The demand for more detailed financial records will increase data security risks (such as fraud or human error) when large blocks of information such as social security numbers, account numbers, amounts, and other personal information are shipped to other agencies.

"Under urging from FATCA's proponents, the information gathered from Canadian institutions could be designated as non-tax return information, which would allow it to be freely shared with other agencies, including the National Security Agency and border and immigration control, thus compounding the data security risk," Christians noted. To make matters worse, there is currently no remedy for error. Citing a lack of review mechanisms, she said, "I am not sure how a person manages a case of mis-characterization."

The IGA negotiated between the U.S. and a number of other countries commits both parties to respect taxpayer confidentiality and privacy.

Given the impending changes, what can individuals and individual firms do?

Wrobel refers concerned citizens and financial institutions to the CBA website for more information, and adds that persons who may have U.S. tax status "should talk to their tax advisor." Christians takes a larger view, suggesting that individuals should contact Canadian MPs and U.S. members of congress to share their stories and to raise questions about FATCA's underlying philosophy, such as "why the U.S. expects all of its citizens who live abroad to account for their assets and fulfill onerous filing requirements regardless of whether they ever have any tax liability to the U.S."

On the practical side, Perry said that Canadian financial institutions will be conducting a thorough due diligence on all individual accounts, emphasizing that accounts over $1 million require both paper and electronic searches, as well as queries with the relationship manager. Regarding her clients, Perry said, "I'm encouraging everyone to become compliant during the period of leniency."

Victoria Barclay, CFA is a Toronto-based risk manager and has been a CFA charterholder since 2006. She is a frequent contributor to *The Analyst*.

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A WOMAN OF VALUE

Veteran investor Kim Shannon, CFA, says women must push themselves forward

Pauline Lai, CFA

Twenty years ago, women were few and far between in the financial industry in Canada. That's according to Kim Shannon and Gail Cook-Bennett, both of whom are featured in this special series of articles to mark International Women's Day, which falls on March 8. From innovative new investment approaches to leading voices in Canada's boardrooms, women are making their mark and helping to shape the future of finance here and around the world.

With three decades of experience under her belt, Kim Shannon knows the ins and outs of the Canadian investment industry. She founded her own firm, Sionna Investment Managers, and has been a leading proponent of the discipline of relative value investing in Canada. In this interview, she shares her advice for young women charterholders as they build their own careers in finance—and she talks about why the OSC's proposed rules for including women on boards is a major step in the right direction for Canada.

How has business changed?

I started working in 1983, at the beginning of an extended bull market run. At that time, men in the industry wore suspenders, professional women never wore pants, and smoking at desks was acceptable. There were only a few professional women in the industry, very few professional minorities, very few computers, and long lunches were common. The industry was smaller, and it was possible to know personally most players in your specialty in Toronto and across the country. When launching a segregated mutual fund in 1990, I recall that the entire mutual fund industry was approximately $25 billion assets under management (AUM). Today, mutual funds are approximately $990 billion AUM.

How has the investment business changed for women, and what is your advice for young women starting out today?

When I started out in the industry, five percent of CFA charterholders were women. Currently, at the global CFA Institute, women charterholders account for about 18 percent of the membership. The percentage of women CFAs has increased over this period of time, although it certainly is still too low, given the clear capacity we can bring to the table.

I advise young CFAs to work hard, dive deep, and find a passion for the industry. Passion for the craft of investing is infectious and will inspire and motivate your colleagues and potential clients. Network through attending industry events, volunteer for industry associations (e.g., CFA Society Toronto, Portfolio Management Association of Canada, the Canadian Security Traders Association, etc.), get to know the players in the industry, and observe what you think it takes to be successful and emulate that if you can. Taking an official position and other senior volunteer roles in an industry association signals to the industry and your direct reports that you are capable of leadership.

You have said that it's difficult to remain logical, rational, and unemotional in making investment decisions. How do you tackle this through your investment approach?

Markets are "noisy," volatile, and irrational in the short run, but given time, patient investors find that, in the long run, the "noise" gets cancelled out and market behaviour approaches long-term averages. Keeping a focus on the long run and reversion to the mean impels investors to remain logical and rational and avoid the impulsive urge to act that is common in the short-term focused market that we find ourselves in today. The price that is paid for an investment has a significant impact on long-term returns.

The OSC published a consultation paper proposing a comply-or-explain disclosure requirement for listed issuers regarding women on boards and in senior management. What are your thoughts on this?

A course in Organizational Behavior that I took in MBA school taught me that the best way to change people's attitudes is to change their behaviour. Thus, regulating an exposure will normalize the activity for people over time. As people become more exposed to women as leaders and board members, it will become less noteworthy and extraordinary. As people get more exposed and comfortable with women as leaders, it will become more accepted.

I was very delighted to learn that a major investor, the Ontario Teachers' Pension Plan, indicated that they supported the OSC's proposed regulatory change regarding the number of women of boards. It makes sense not to limit the pool of possible candidates for board positions.

Pauline Lai, CFA, is Managing Director of Tactical Investment Management at Manulife Financial Corporation in Toronto and a member of the Member Communications Committee of CFA Society Toronto

ONE FROM THE HEART

Three women in financial services build businesses with women's perspectives in mind

Barbara Stewart, CFA

Some women believe that an important way to change the business world is to have quotas for women on boards of directors. Others disagree—vehemently at times. I've sat in rooms and watched the debate go back and forth, and all the while we are distracted from seeing the very real momentum that is building around gaining a better understanding of the world of women and investing.

Indeed, in the course of my own research into women and money, 25 percent of women I have interviewed told me they are investing a sizeable portion of their entire wealth in a business that is directly related to their personal cause.

Ultimately, women want to make a difference. They want to invest in things that are important to them. They are investing in causes, in concepts, and in companies whose values are aligned with theirs.

In this article, in honour of International Women's Day, I profile three Canadian women and CFA charterholders who have shaped their businesses with this in mind. Their stories help us to get a picture of women's evolving relationship with money and the role it plays in their lives.

Bonnie Foley-Wong, CFA has come up with the concept of "integrated investing" that incorporates emotion and intuition along with fundamental analysis into her investment research.

"Having worked for over 15 years in finance and investment banking, I wanted to apply my financial and investment skills to something more purposeful that resonated with my values. In 2013, I launched Pique Ventures, a fund investing in ventures that do business in a way that empowers people and has a positive impact while providing investors with a fair return.

"I am building a global alternative investment firm and espousing an integrated investing approach. This means integrating information from analysis, emotion, intuition, and body into our investment decisions. Better outcomes in both financial and social returns derive from the way in which investment decisions are made. I developed an investment methodology for evaluating ventures and investment opportunities for impact and economic potential because I firmly believe that an integrated investing approach is more viable and sustainable in the long term."

Barbara Gray, CFA has built an investment thesis around "heart and soul" investing—companies that earn profits but also do good things.

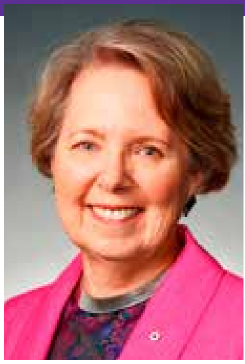
"I started Brady Capital Research in 2010 with the mission of creating an innovative qualitative-oriented investment research platform focused on companies with a greater purpose and the ultimate goals of building a community connecting investors with heart-and-soul companies and leading-edge business strategists, and of developing new ways for investors to look at and value companies. On November 15th last year, along with my U.S. partners, we launched the Customer Value Index 200 (CVI 200), a research analysis tool based on my social capital investment thesis, which provides investors with exposure to the top 10 percent of North American listed companies that score the highest in terms of competitive position, social attributes, and authentic core values.

Lally Rementilla, MBA is advising and investing in female entrepreneurs, with a focus on facilitating the capital raising process.

"I was privileged to have been raised by two successful entrepreneurs and investors—my mother and grandmother. Growing up, I saw them build, grow, and diversify their respective businesses, as well as make very astute investments. I witnessed the good, the bad, and the ugly through the lens of female entrepreneurs.

A few years ago, after a successful career in strategy and corporate finance in the technology sector, my entrepreneurship genes kicked in. I found myself wanting to dedicate a huge chunk of my time and energy towards investing in female-led companies and leveraging my business experience to help them raise capital and manage their financial performance.

Barbara Stewart, CFA is a partner and portfolio manager at Cumberland Private Wealth Management, where she works with high net worth investors, both individuals and families. Barbara is also a researcher and writer on issues around women and financial literacy, and will be publishing her fourth white paper, the next installment of her Rich Thinking series, on March 8, 2014.



LEADING BY EXAMPLE

An interview with Gail Cook-Bennett

Caroline Cakebread, PhD

When it comes to Canada's boardrooms, few have had as much experience as Gail Cook-Bennett, past Chair of the Board of Manulife Financial (2008–2013) and before that first Chair of the Canada Pension Plan Investment Board (1998–2008). With 35 years experience serving on boards, Cook-Bennett is also one of Canada's most influential women business leaders. In this interview, she shares her insights into the challenges that face women, corporate directors, and corporations operating in an increasingly globalized business space.

Why do you think it's good for business to have more women on boards? What is the best way, in your view, to ensure that the number of women on boards increases? Are there issues with a quota system, for example?

When searching for outstanding contributors to a board of directors, it only makes sense to start with the largest pool of relevant potential candidates, and that pool obviously includes women.

Although I do not support quotas, I fervently believe that we can do a far better job of identifying excellent women for corporate boards. Manulife and Emera are two success stories that I know well, both having increased the number of women directors significantly over the past few years, and both having had, or about to have, a woman as board chair.

At Manulife, while I was chair of the board, we named ten new directors over a period of fewer than five years. As it happened, five of those directors were women. Our objective was not simply to put more women on the board. We required specific skills and experience, and we were prepared to invest the time to think strategically about how and where to find the talent and, in partnership with a search consultant, to look continuously for it.

My experience has been that a true commitment to the search process leads to first-class results. Overall, the financial services sector appears to have performed relatively well in identifying qualified women.

Can you share your insights on mentorship? Is it important, and what is your advice to talented professionals, both men and women, who are seeking a mentor?

I began my career in an era when there was little informal mentorship of women and virtually no formal mentorship. A mentor who really knows a candidate and her potential can provide more relevant recommendations on her behalf to a broader network of people. That can be very helpful both to employees and to potential directors. A mentor to a potential director can also provide insights into how to be effective in the boardroom, not an inconsequential task for some very capable people. While a director can learn on the job, a little assistance can help speed up the learning process and facilitate helpful contributions more quickly.

In the high-performance culture at financial institutions, which areas should leadership development programs focus on in order to help executives develop into business leaders?

Corporations understand that success depends not only on attracting top-notch talent but also on retaining it. Top performers tend to respond well when new opportunities and challenges are offered regularly. Ideally, when employees walk in the door, they should start off in a development program that broadens their experience. The ultimate payoff comes in the form of leaders throughout the organization, right up to the CEO level, who have a broader understanding of the organization.

An area of development that I rank highly is strategic and effective communication. The ability to place issues in context and analyze them with clarity is an important advantage both in the boardroom and in management.

At Manulife, while I was chair of the board, we named ten new directors over a period of fewer than five years. As it happened, five of those directors were women.

What challenges does globalization pose for Canadian financial services companies?

Globalization brings with it increased interconnections among financial institutions, a fact that became so evident during the financial crisis of 2007–2008. As a result, policies affecting capital requirements along with the general regulatory environment have both been the subjects of intense international study, comments, and recommendations. The desire to have company financial statements that are readily comparable has led to debate over appropriate international standards, with the potential for these decisions to have profound effects on some financial institutions.

Globalization brings with it the necessity for increased international policy-making and the requirement for Canadian financial institutions to invest in the ability to be effective in that arena.

We hear a lot about income inequality. What are your thoughts on the growing chasm between rich and poor, and what do you think corporations can do to help bridge the gap?

Rapid increases in CEO compensation lie at the heart of the increased difference in pay between the highest- and lowest-paid employees in a corporation. CEO compensation in general has attracted legitimate criticism, and signing bonuses, pensions, and pre-arranged departure compensation (usually triggered when corporate performance is poor) have attracted particular criticism.

Many directors believe that even if you could wave the proverbial magic wand and reduce the compensation of all CEOs simultaneously, very talented people would still aspire to those positions. Since that wand does not exist and few directors are prepared to endorse unilateral relative reductions in compensation that have the potential for very negative implications for their organizations, where do we go from here?

What can be done about it?

While appropriate income distribution in the country is the responsibility of governments, compensation within the corporation (particularly CEO compensation) is the responsibility of the directors on behalf of shareholders. Institutional shareholders have fought some high-profile cases of egregious compensation decisions, and they continue to follow major decisions closely. Shareholder groups have also increased effective communication between directors and shareholders. At the same time, compensation matters are more knowledgeably debated within the boardrooms of well-governed corporations. Directors, institutional shareholders, and shareholder groups each have an important role in ensuring wise decisions going forward.

Is it possible to achieve work/life balance, particularly for women in the workplace?

Women executives with children will always face work/life balance issues, and many will have the flexibility to make different choices at various points in their careers. Women earning the minimum wage will find the concept of work/life balance somewhat remote.

Women in the corporate world do point to work/life balance as an impediment to their advancing to more senior executive roles. Some corporations have been more successful than others in providing flexibility as to how and where women work in order to retain talented people.

I have concluded that the definition of work/life balance is what works for individual women, and the corporation can, through flexible arrangements, tilt the balance towards work with less stress for some women.

Have things changed for women in the years you've been in business?

In 1976, I edited a book of academic essays entitled *Opportunity for Choice: A Goal for Women in Canada*. That title does not resonate as clearly in 2014 because the menu of opportunities for many women has increased significantly. Well-educated women who hold the CFA designation have opportunities and can make real choices, but they will always face trade-offs between family time and work outside the home. While there are many examples of women who excel both in their career and at home, they still live in a world of necessary trade-offs. The concept of "having it all" is a myth for both women and men.

Any career advice for CFA charterholders?

CFA charterholders have obviously done very well on the education front and face a labour market that recognizes the value of their education. One of the pieces of advice I tend to give to well-educated people with transferable skills is to explore alternatives within or outside a corporation so that they are always comfortable with what they are learning and contributing.

Caroline Cakebread is executive editor of *The Analyst*

THE BIG SQUEEZE

The future of Canada's small investment dealers

Ian C. W. Russell

The Canadian investment landscape is undergoing profound changes. Some of these shifts are happening in response to global investment and economic trends, while others have been bred by new technologies that are redefining how people think about money and investment. In this special series of articles, we look at the good, the bad, and the ugly of trends that are arguably set to shape the future of finance.

For the Canadian securities industry, the turning point came in the late spring of 2011. As weak market conditions persisted in the post-financial crisis years and investor confidence remained low, Canadian equity markets sold off in spring 2011 and traded steadily lower throughout the following year, triggered by a deepening negative outlook for the global economy, a sluggish, uncertain U.S. economic recovery, with fiscal remedies held hostage by a dysfunctional political system, Europe's sovereign debt crisis, and slowing growth in China. The commodities markets mirrored the tumble.

The resulting poor business conditions in the Canadian securities industry have continued and have even been made worse by rising industry-wide cost pressures, especially due to the impact of increased regulation brought on by the 2008 crisis. While deep stress has been felt across the industry by firms of all sizes, the effect on Canada's small investment dealer firms—those lacking the size or scale to withstand these conditions—has been profound, and it continues to hamper the industry and markets today.

Falling share prices, particularly for resource companies, have undermined floatation of new securities offerings in both public and private markets. Share weakness has been reinforced by a widening heavy oil price differential, with Canadian crude prices in relative decline. The collapse in financing activity has been especially pronounced for small- and mid-sized companies due to investor reluctance to purchase speculative shares. It has remained at depressed levels, with virtually no initial public offerings (IPOs) for small companies since 2012. Given that IPOs are the traditional mechanism to transition venture investments out of a company, these tough conditions have also reverberated through angel networks and venture capital.

Longer-term structural developments have also complicated the issuance of small- and mid-sized business shares, given the greater flexibility managed funds have enjoyed since the removal of the foreign property rule in 2005. Sharply reduced financings have bitten heavily into the earnings of the approximately 60 domestic institutional boutique firms. Meanwhile, institutional trading revenue has collapsed as direct market trading access squeezed commission revenue and high-frequency trading activity interfered with market making. Moreover, these institutional firms have been hit with a double whammy: a ramp-up and layering of fixed costs before the financial crisis and a fall-off in operating revenues.

Small firms feel the squeeze

Since 2012, the profit squeeze has intensified, with revenues down and costs up due to expanded trading and research infrastructure to support investment banking, and an expanding regulatory burden, notably technology and compliance related to trading and dealing in multiple equity markets. As a result, institutional firms' strategic need to expand scale through merger or acquisition, or the outright sale or windup of the firm, has taken on increasing urgency. The number of IIROC resignations has steadily increased, from six firms in 2010 to 13 in 2013.

Retail boutiques have not fared much better. Revenues recovered modestly in the past year or so in response to piqued investor interest in improving U.S. equity markets. However, low prevailing rates, perceived investment risk, and uncertainty about the outlook counsel caution.

Retail boutiques typically face proportionately higher fixed costs—reflecting the need to offer a full suite of wealth management services—coupled with the escalating compliance burden from the Client Relationship Model. As a group, retail firms have been losing money on an operating basis for nearly two years, with roughly half suffering net losses. Many recognize the need for scale and are seeking mergers and acquisitions, as well as adding new advisors to build business. But good advisors are increasingly expensive, given the demand from large bank-owned dealers.

Finally, the evisceration of net interest earnings, or the interest spread on idle client cash balances, has removed a key support to earnings. To alleviate the regulatory burden, some small firms look to jettison their IIROC registration for alternative options such as Exempt Dealer registration and Portfolio Manager registration, requiring modification in the business model. The larger wealth management firms fared comparatively better in this modestly improving market climate, reflecting greater reliance on fee-based advisory and discretionary accounts, a broad range of in-house products and financial planning services, and scale to carry the substantial increase in fixed costs.

Sharply reduced financings have bitten heavily into the earnings of the approximately 60 domestic institutional boutique firms.

What's at stake?

The retail boutique sector is important, not just for the role it plays in ensuring competition in the domestic wealth management business, but also for providing customized wealth services for clients with portfolios in the $100,000 range and for offerings of small- and mid-sized corporate shares. Rising fixed costs are pushing the minimum account threshold higher, forcing smaller clients to mutual fund advisors and distributors of commoditized products and services.

Both the retail and institutional boutiques are vital to the financing, trading, and distribution of the shares of small listed companies. The venture markets are now caught in a vicious cycle, with weak financing and trading activity driving down the profitability of dealer participants in the market, and weak earnings handicapping their performance. Increased mergers and shuttered operations feed back negatively on the financing and trading trends in the venture markets. If the malaise continues, there is increased risk of negative structural adjustments in the marketplace, such as the withdrawal of legal and accounting expertise and market participants, including IIROC-registered firms and other registrants.

Ultimately, more capital-raising in the listed venture markets depends on improved business conditions. But there are interim solutions that must be considered, notably regulatory remedies, including greater flexibility to arrange exempt market financings and "post-implementation" review of the cost and effectiveness of the recently imposed regulatory framework.

The future of Canada's small dealers is on the line, as is the future of small and medium enterprises and venture financings that depend on them to drive our economy forward. The challenge is growing; the time to act is now.

Ian C.W. Russell is President and CEO of the Investment Industry Association of Canada (IIAC) and Chair of the Standing Committee on Regulatory Affairs at the International Council of Securities Associations (ICSA)

CROWDFUNDING OR CROWD-FLEECING?

Experts debate the implications of technology, investing, and investor protection.

Rossa O'Reilly, CFA

The internet's ability to bring vast numbers of people rapidly into contact with each other is a marvel of our modern age, and its potential applications have yet to be fully exploited. One of the latest forms of social/economic interactions spawned by the internet is a controversial phenomenon called crowdfunding, whereby companies or not-for-profits raise money from large groups of people online. While it is often used for charitable donations, its application to equity investment is more controversial and is not yet permitted in Canada. The question facing regulators and other industry professionals is whether crowdfunding is an innovative start-up financing technique or an unconscionable retreat from a century of progressive investor protection.

CFA Society Toronto recently hosted a luncheon seminar at which expert speakers addressed a range of views on this topic. Speaking at the event were James Turner, vice-chair of the Ontario Securities Commission (OSC); Craig Asano, founder and executive director of the National Crowdfunding Association of Canada; Brian Koscak, partner at Cassels Brock and Blackwell LLP and chairman of the Exempt Market Dealers Association of Canada; Marian Passmore, associate director of the Canadian Foundation for the Advancement of Investor Rights; and Douglas Cumming, professor of finance and entrepreneurship and the Ontario Research Chair at the Schulich School of Business.

Crowdfunding of investments received a boost in April 2012 when U.S. president Barack Obama signed into law the Jumpstart Our Business Startups Act (JOBS Act), which gave the U.S. Securities and Exchange Commission (SEC) 270 days to set forth specific rules and guidelines for crowdfunding while also protecting investors. After some delay, the SEC has proposed rules that would require funding portals to register with the SEC as well as with an applicable self-regulatory organization. Investors with an annual income of less than US$100,000 would be subject to an investment limit of US$2,000 or five percent of their annual net income or net worth, whichever is greater. Investors with an annual income greater than US$100,000 would be subject to a limit of 10 percent of their annual income or net worth, whichever is greater. Investors would be prohibited from purchasing more than US$100,000 of securities through a crowdfunding offering in one year. Also, investors would not be able to resell securities purchased through crowdfunding for a one-year period. Under the proposed rules, issuers would be limited to raising US$1 million through crowdfunding in any one-year period.

U.S. companies taking advantage of crowdfunding would be required to file certain information with the SEC and also provide it to potential investors and crowdfunding portals. These disclosures would require information about:

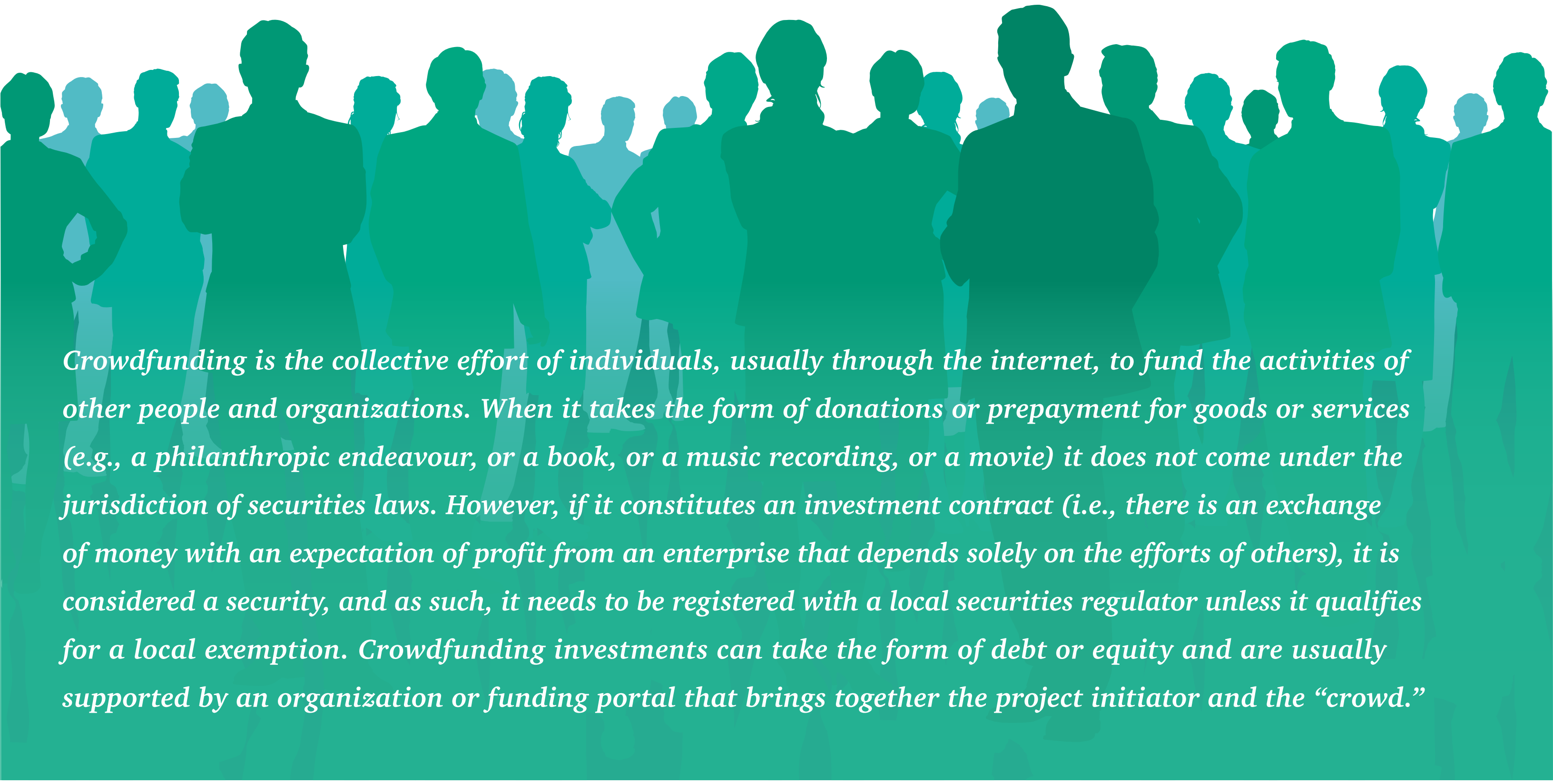
- officers, directors, and owners of 20 percent or more of the company;
- the company's business, and how the company is going to use the funds raised;
- the price of securities being offered;
- the target offering amount and the deadline to reach that amount, and whether the company will accept investments in excess of that amount;
- the company's financial condition; and
- the company's financial statements, which must be audited if the company is seeking to raise more than $500,000.

In its examination of crowdfunding, the OSC has stated that it has a responsibility to consider whether Ontario's regulatory framework supports efficient capital formation and contributes to its economic growth. At the same time, no doubt, the OSC is mindful of the actions of the SEC and other securities regulators. The commission has announced that in the first quarter of 2014, it intends to publish a proposed crowdfunding exemption together with a registration framework for online funding portals, among other new capital raising prospectus exemptions, for a 90-day public comment period.

The OSC previously published OSC Notice 45-712 Progress Report on Review of Prospectus Exemptions to Facilitate Capital Raising, which set out the next steps in its exempt market review and consideration of these possible new prospectus exemptions. The objective of this work is to facilitate capital raising for start-ups and small- and medium-sized enterprises and to modernize Ontario's exempt market regulatory regime.

The National Crowdfunding Association believes that the potential for raising equity for start-up enterprises through crowdfunding is potentially both very large and very important in providing capital for small businesses. It believes that equity crowdfunding would democratize access to investment opportunities previously available only to large sophisticated investors. While acknowledging the need to protect investors from fraud and incompetence, the association also emphasizes the benefits of funding a new wave of start-up businesses.

However, FAIR Canada uses the analogy of the Titanic heading into iceberg alley to describe the deregulation of securities laws to allow anyone to make investments via crowdfunding. It states that it abandons fundamental principles that have made Canadian capital markets among the most successful at raising capital, including full disclosure, due diligence, insider regulation, and the role of professional advisors. FAIR Canada believes that by participating in crowdfunding, investors would be gambling with high-risk speculative investments where returns are unlikely and the probability of total loss of capital is extremely high.



Crowdfunding is the collective effort of individuals, usually through the internet, to fund the activities of other people and organizations. When it takes the form of donations or prepayment for goods or services (e.g., a philanthropic endeavour, or a book, or a music recording, or a movie) it does not come under the jurisdiction of securities laws. However, if it constitutes an investment contract (i.e., there is an exchange of money with an expectation of profit from an enterprise that depends solely on the efforts of others), it is considered a security, and as such, it needs to be registered with a local securities regulator unless it qualifies for a local exemption. Crowdfunding investments can take the form of debt or equity and are usually supported by an organization or funding portal that brings together the project initiator and the "crowd."

Alarmingly, an OSC-commissioned survey has revealed that 45 percent of people interested in crowdfunding thought it was a medium-risk area, and 12 percent of people who described themselves as having low risk tolerance were strongly interested in crowdfunding. Proponents of crowdfunding believe the crowd will be able to detect fraud and weed out bad entrepreneurs, but FAIR Canada points out that experience and research clearly demonstrate that this is not the case and that investors fall victim to fraud at an alarming rate.

All the speakers at the luncheon seminar agreed with the observation of Brian Koscak, chairman of the Exempt Market Dealers Association, that the regulation and the performance of crowdfunding portals will be critical to the results of crowdfunding as a form of start-up financing. Crowdfunding combines the ease of new technology with the promise of lottery-sized winnings but with extremely limited financial disclosure and no protection or assurances as to the integrity of the system of raising and investing funds and reporting to investors, despite the integrity and good motives of those currently involved in the debate. Crowdfunding is an area where securities laws and technology find themselves moving in opposite directions.

Should securities laws be changed to accommodate the freedom desired by many internet users? Or is crowdfunding an example of technological determinism at work, as the social media that facilitate crowdfunding distract us from the historic goals of securities regulation and investor protection? Are we being confused into thinking that because new technologies enable money to be readily raised from the masses, it is somehow less important to protect the smallest and least sophisticated investors whose losses would be the most painful?

Some attendees at the Society's luncheon seminar cited the poor performance of labour-sponsored investment funds in Ontario (a venture financing vehicle carrying considerably less risk than crowdfunding) and asked why we have not learned from this experience.

Investment professionals might also ask if we would be considering crowdfunding as an exempt form of financing were it not for the communications-enhancing device of the internet. The advent of technologies like telegraph, telephone, radio, and television did not lead to any relaxation of securities laws. So we should ask ourselves if the growing importance of the internet is a valid reason for reducing the protection accorded the most vulnerable class of investors in this extremely high-risk area. Of all the questions about crowdfunding, this is arguably the most important in this debate. For many prudent investment professionals, the answer appears only too clear.

Rossa O'Reilly CFA, is a member of the editorial committee and a past chair of CFA Institute.

THE CRYPTIC CURRENCY

The curious rise of Bitcoin raises questions about the future of cash

Mark Causevic, CFA

The story of Bitcoin grows curiouser and curiouser, to borrow a phrase from Lewis Carroll's novel, *Alice's Adventures in Wonderland*. Bitcoin is a digital currency created in 2008–09 by a programmer, or a group of programmers, known only as Satoshi Nakamoto. It is an ingenious decentralized virtual currency and payment network.

Bitcoins are created by a computer algorithm, and payments are made via encrypted transactions over a worldwide network of computers that also keeps a public transaction ledger and log known as the "blockchain" so as to prevent double-spending of the same Bitcoin. It is important to note that the amount of created Bitcoin is capped at 21 million units, with about 12 million currently in circulation, The remainder is to be created through a mathematical code-breaking computer process referred to as "mining." It will be done at a steady rate (estimated to top out around 2040) to act as a mechanism for compensating those that maintain the payment network.

As with any new innovation, there has been much early experimentation and creativity in establishing the usefulness of this cryptocurrency, as well in highlighting its problems.

The September 2013 arrest in the U.S. of "Dread Pirate Roberts" (a pseudonym taken from The Princess Bride), the accused operator of the Silk Road website, used for purchasing illegal drugs and other criminality, highlights the attractiveness of using Bitcoin for criminal transactions, as there is relative anonymity with such transactions.

At the same time, it was reported that the Silk Road website had only accounted for about four percent of the Bitcoin trade, so the arrest did little to dampen the growth of Bitcoin as a legitimate payment currency. The number of establishments willing to accept Bitcoin payments appears to be growing rapidly, for legitimate commerce as well as for vendor promotional purposes, and the number of organizations and systems being created to facilitate Bitcoin transactions is also growing, including Bitcoin exchanges, ATMs, electronic wallet providers, and mobile apps. There are also Bitcoin investment vehicles being proposed, including a plan for a Bitcoin exchange-traded fund (ETF) put forth by the Winklevoss twins (known for their Facebook-related lawsuit chronicled in the movie *The Social Network*). BitPay, an electronic payment processing system for the Bitcoin, announced in December that it processed over US$100 million in Bitcoin transactions in 2013 and increased its merchant base to over 15,500 approved merchants in over 200 countries. Its volume of Bitcoin transactions had also tripled since October.

Bitcoin's multiple features and advantages attract a diverse set of legitimate users. Transactions are relatively cost-efficient, unlike online payment transaction processes involving third parties that directly (such as PayPal) or indirectly (such as credit cards) increase the ultimate cost to the consumer. Bitcoin also appeals to those with a growing distrust of central authorities that control and manipulate the supply and trade of currencies, as well as to those who are looking for alternative vehicles for storing their wealth. Bitcoin is also fully convertible to various traditional currencies and is not linked to any specific proprietary payment processing platform, allowing most investors to move in and out of Bitcoin positions relatively easily.

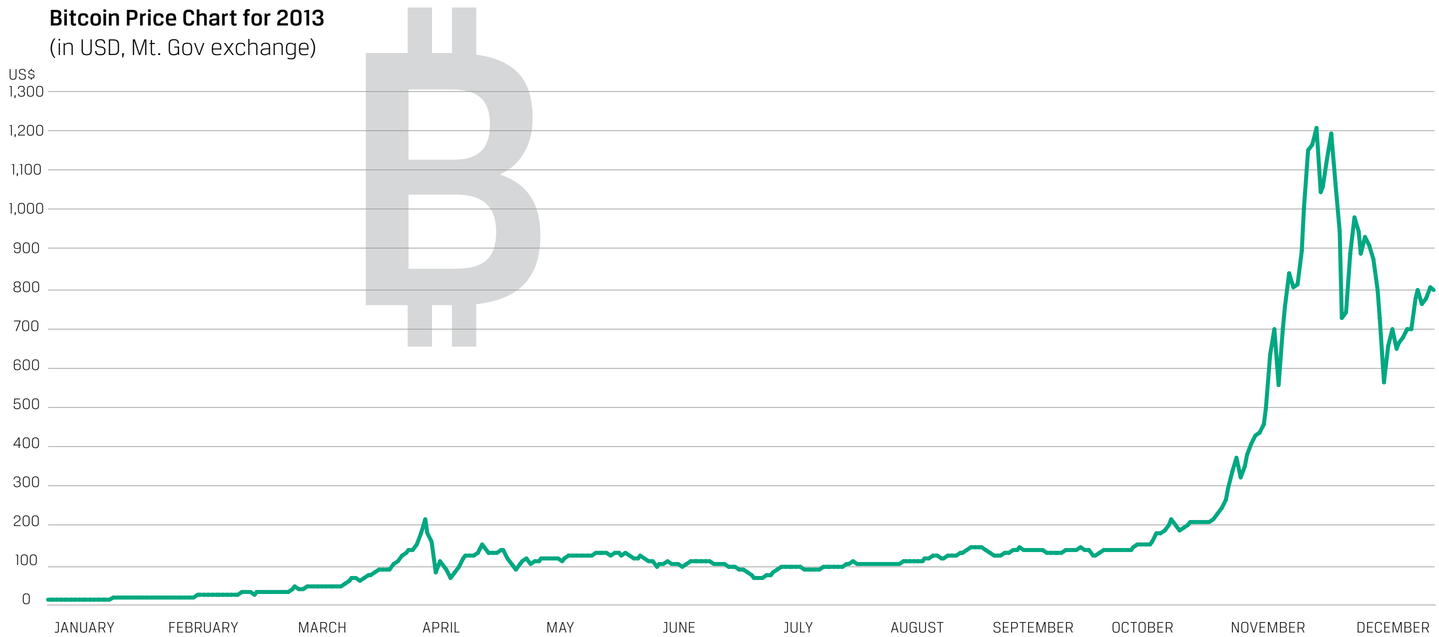
As well, there is the rapid upward price trend that has very handsomely rewarded many early investors in Bitcoin while also triggering many media comparisons to the Dutch "tulip mania" financial bubble of the 1630s. During 2013, the value of one Bitcoin rose from less than US$15 to over US$1,200, before dropping about 50 percent and then recovering slightly in volatile trading during December.

However, while Bitcoin is certainly riding the growing shift towards electronic commerce, anyone considering going down the Bitcoin rabbit hole should be fully cognizant of the dangers, including the real potential for theft by electronic wallet hackers and losses due to the failure of organizations facilitating Bitcoin transactions. Moreover, there are no special regulatory or consumer protection safety nets afforded Bitcoin users.

At the same time, the rapid rise of Bitcoin is attracting increasing attention from various governments and regulators. The U.S. Senate Committee on Homeland Security & Governmental Affairs held hearings on Bitcoin in November, with no strong view emerging on whether tighter regulation of the Bitcoin trade was necessary. Of course, Bitcoin exchanges in the U.S. are already expected to register with the Financial Crimes Enforcement Network (FinCEN) of the U.S. Department of the Treasury and must implement anti-money laundering and know your customer (KYC) policies. However, many jurisdictions do not have similar requirements—including Canada, because Bitcoin is not covered by the legislation administered by the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). This is leading to some concerns that more criminals globally will utilize the mobility of the internet and the relative anonymity of Bitcoin transactions for illegal activities and to launder money.

To date, governmental authorities have generally been content to leave the Bitcoin marketplace to develop and experiment on its own, knowing that any significant problems that develop in the near term with the fledgling digital currency would be little more than a tempest in a teapot for the financial system as a whole. As the U.S. Department of the Treasury pointed out during the U.S Senate Committee hearings, Bitcoin transactions amounted to only about US$8 billion in the first 10 months of 2013, while Bank of America processed wire transfers worth US$244 trillion, and PayPal conducted US$145 billion of transactions during 2012.

Bitcoin Price Chart for 2013
(in USD, Mt. Gov exchange)



Source: Bitcoincharts.com

However, with more time and growth in the Bitcoin marketplace, much more government involvement can be expected in addressing criminal and anti-money laundering concerns, clarifying applicable capital gains and sales taxes, reinforcing national currency restrictions, and to better protect investors from fraud and theft. The Chinese government has already banned its financial institutions from trading Bitcoin and has asked third-party payment services to stop handling Bitcoin transactions. Such moves have led to significant Bitcoin price declines, given that the Chinese yuan is the second-largest currency used in Bitcoin exchanges after the U.S. dollar.

In fact, until the issues and uncertainties around Bitcoin become better resolved, the growth of Bitcoin will continue to face significant headwinds. In December, Bloomberg reported that many U.S. banks are reluctant to service Bitcoin exchanges and payment processors, and Global News reported that most of the big six Canadian banks have frozen or shut down accounts owned by Canadian companies that trade and convert Bitcoin to other currencies.

The key questions for many are when and how the Bitcoin story will end—and will Bitcoin ever replace traditional currencies? Few think so, given Bitcoin's inherent supply restrictions, cybersecurity concerns, and significant price fluctuations that limit its credibility as a stable and suitable vehicle for storing wealth. Perhaps the best strategy for maximizing the benefits and limiting the risks is to use Bitcoin as a cost-effective transactional currency, limiting the holding of it to little more than the time it takes convert fiat currency to Bitcoin and transact it through the payment network.

However, Bitcoin has surprised many with its rapid growth and resiliency. Bitcoin continues to expand, and we still don't know how far and deep the rabbit hole will go. However, even if it amounts to just a virtual daydream in the annals of modern currency, its legacy may be much more enduring: challenging the status quo with alternative possibilities and realities, and sprouting further ideas for the development of effective and efficient currency and payment systems more suitable for the advancing global high-tech age. To borrow and expand on a line from *Alice's Adventures in Wonderland* once again, we can't go back to yesterday because we were different people then.

Mark Causevic, CFA, is a director within the Office of the Superintendent of Financial Institutions Canada.

Author's note:
There have been a number of important developments with bitcoin since this article was written. The goal of the article was not to foresee such developments but instead provide context for better understanding the future unfolding of the bitcoin phenomenon.

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The Mfin Ethics Challenge

Master of Finance students rolled up their sleeves and dug into a comprehensive case study at the inaugural Master of Finance Ethics Challenge and reception held in January. Teams from Queen's University, Rotman School of Management, and Schulich School of Business were given a month to analyze a given scenario, determine an appropriate course of action, and prepare a 10-minute presentation on it for a panel of esteemed investment industry practitioners. The goal of this competition, based on the real-life experience of "Mr. Church," is to arm financial students with the analytical and ethical ammunition required to face real-life conundrums throughout their careers.

After the students presented their cases, the real Mr. Church provided insight into what happened in the real-life scenario, what course of action was taken, and the ethical reasoning behind the decisions made. CFA Society Toronto and CFA Institute would like to congratulate students Tony Chan, Akshat Gupta, and Angel Liu from Rotman School of Management. The champions had a unique perspective that featured an in-depth investigation of ethical issues alongside commentary on ethical optics.

The integrity of the financial industry depends on leading by example. By supporting the importance of ethical decision making from the ground floor, financial professionals can improve the functioning of capital markets and build the perception of trustworthiness that practitioners enjoy within the investment community and in general. They can help build trust in the future of finance by working with the next generation of financial professionals.

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