

Canadian Wealth Management Survey 2002

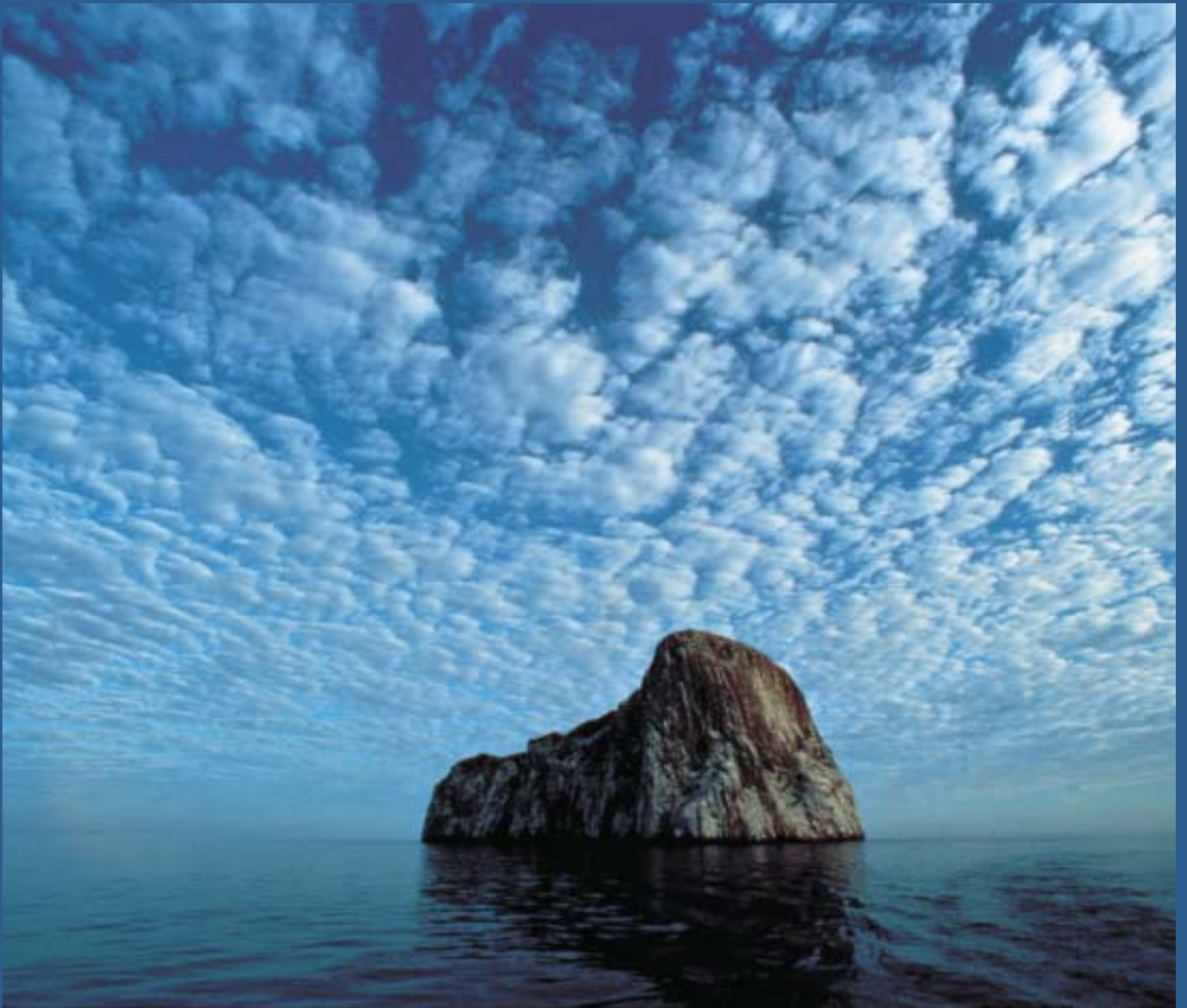


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Foreword

We are pleased to present the *Canadian Wealth Management Survey 2002*.

The last two years have been difficult for many of the survey participants as fees continue to come under pressure. There is continuing emphasis on industry consolidation with a focus towards achieving economies through operational efficiencies and revenue enhancements through asset growth. This has been met with mixed financial success, however, as operational costs have increased and client and staff retention issues have not yet been fully contained.

The importance of data aggregation and analysis to facilitate a better understanding of changing client needs is paramount from a sales, service, and pricing strategy to enhance profitability. It is interesting to note that the emphasis on an integrated wealth management platform is most prevalent in banks and other full-service organizations.

To provide further insights into the emerging wealth management trends in Canada, we have also included selective comparisons from our *North American Private Banking/Wealth Management Survey*, conducted in 2002, and the *European Private Banking/Wealth Management Survey*, conducted in 2001.

We would again like to extend our sincere appreciation to the twenty-five participating firms. As a condition of participation, all respondents were guaranteed confidentiality of the individual data and, as such, the survey does not disclose any individual company's data.

We hope that you find the information in this report useful, and we look forward to any comments or questions you may have.

Barry Myers
Canadian Leader, Financial Services Practice
PricewaterhouseCoopers LLP

NOTE: This survey was conducted in 2002, prior to IBM's acquisition of PwC Consulting. PricewaterhouseCoopers LLP and PwC Consulting participated equally in both conducting the survey and in analyzing its results. PwC Consulting is no longer part of the PricewaterhouseCoopers network of firms and is now a part of the IBM Global Services Business Unit. IBM (including Global Services) and PricewaterhouseCoopers are not the same organization, and neither governs or is affiliated with the other, or any affiliate, subsidiary or division of the other.

About the author

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This report was researched and written by Brian Metcalfe. Information presented herein, while obtained from sources believed to be reliable, is not guaranteed as to accuracy or completeness. This report is not intended to give legal, tax, accounting, or other professional advice. Readers should not act on the basis of any information contained in this report without considering and, if necessary, taking appropriate advice upon their own particular circumstances. If such advice or other expert assistance is required, the service of a competent professional person should be sought.

The Canadian survey

We are pleased to present the results of the 2002 Canadian Wealth Management Survey, the first Canadian survey of its type in the wealth management arena.

The twenty-five wealth management organizations that participated had in excess of \$1.4 trillion in assets under their control and, therefore, represented the lion's share of the Canadian wealth management industry. They employed over 36,000 people and had in excess of 14 million accounts.

The purpose of the survey is to raise awareness of key trends, challenges, and opportunities within the wealth management industry.

This survey also benchmarks against two other wealth management surveys: The North American Private Banking/Wealth Management Survey, (North American survey), which includes a few large Canadian participants, and the European Private Banking/Wealth Management Survey (European survey).

This survey provides valuable insights for industry leaders on the thinking and strategic direction of many of their peers throughout the Canadian marketplace.

In line with the recent North American survey, content has been structured to:

- provoke discussion on how to enhance and improve business performance and market position;
- highlight areas of opportunity within the industry on which to capitalize; and
- give insight into how the industry will evolve.

The survey findings will be useful to companies of all sizes and in all stages of wealth management initiatives.

The survey covered the following key topics:

- the Canadian marketplace;
- market trends within the wealth management industry;
- client relationship profiles and management philosophy;
- product breadth and fee structures;
- organizational effectiveness including roles, responsibilities, and compensation policies;
- information technology trends from strategy to disaster recovery;
- profitability and performance issues;
- risk management issues surrounding business strategy, outsourcing, and policies and procedures.

Wealth management is defined for the purposes of this survey to include advice-centric and client-centric financial services where the client relationship and value proposition resulting from the convergence of banking, brokerage, asset management and insurance are paramount.

Typically, the respondents were asked to focus on wealth management clients with investable assets in excess of \$100,000.

executive summary

Executive summary

Main Findings

1. Fundamental marketplace change

The Canadian wealth management marketplace is changing rapidly. Powerful forces are transforming the way business is being conducted.

These changes include:

- industry consolidation;
- a transition from transaction-based to fee-based pricing;
- integrated offerings;
- a switch from Do-It-Yourself (DIY) products to managed products;
- convergence of manufacturing and distribution within industry players;
- attractive emerging consumer demographics, specifically ageing baby boomers;
- challenges to the traditional brokerage business;
- managing technology;
- increased client sophistication;
- globalization and new market entrants;
- bank expansion into wealth management; and
- universal accounts and multi-channel access.

The most important drivers of change are the growth of consumer wealth, increased client sophistication and continued requirements from technologies. The key elements inhibiting change include regulation/domestic legislation, the availability of skilled staff, and legacy IT systems.

2. Focus on revenue growth and obtaining new clients

The most pressing issue identified by wealth management organizations was the need to generate revenue growth and acquire new clients.

Over 40% of participants placed asset management performance as key in driving revenue growth both today and in 2005.

This is a particular challenge in today's environment where a proliferation of products and poor market performance are pervasive.

Focusing on other aspects of the business model, such as marketing/branding, new distribution channels, improved sales effectiveness, new products and mergers and acquisitions, will be key to customer acquisition in the future.

3. A drive to increase profitability

Scale and volume are critical to achieving profitability, and the drive to obtain new clients fuels mergers and acquisitions and alliance activities.

The most pressing internal issue faced by the participants was identified as meeting profitability targets. Fourteen participants recorded this issue and none of these indicated that they had either fully or partially achieved their objectives.

The need to increase profitability, amongst other factors, will drive the industry away from transaction-based fees towards fee-based fees. However, to be successful, clients will need to perceive added value as this transition takes place. This will likely be quite transparent to customers as the derivation of fees becomes more aligned with their financial objectives.

As might be expected, research found that net profitability increases with the level of clients' assets held by the wealth management firm; however, due to the number of mass market consumers in Canada, organizations must be careful not to dismiss the lower end of the market. With the right use of technology and the appropriate service model, this can be an attractive and profitable segment.

Main Findings

4. A need for better measurement of profitability

The most common method of measuring profitability today is at the distribution channel level. In the future, there will be significant development of profitability of customer relationships. This will enable organizations to differentiate service, sales and pricing, based on customer value.

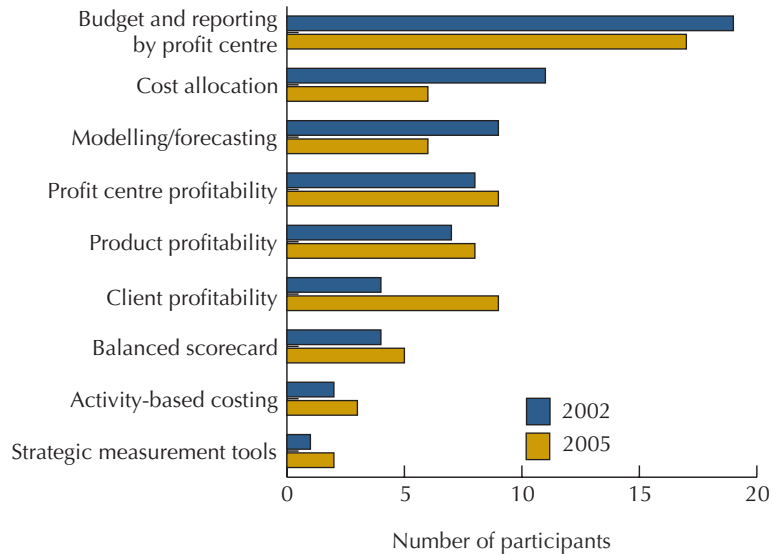
A review of the most important MIS tools placed client profitability in sixth position today and second position in 2005.

5. Fees—moving in new directions

Participants suggested that there was a growing trend toward wrap fees, tiered fees, and fees derived as a percentage of the assets under administration. The financial planning firms seemed to be attracted toward a per-plan fee but not toward hourly rates.

Only two of the twenty-five respondents offered performance-based fees. The majority of clients for all participants fall into the subgroup labelled “expect to pay competitive rates for a competitive service.”

Most important Management Information System (MIS) tools



6. A need to improve cost control

Participants were concerned that improved service quality and the inherent need to hire and retain high-performing staff would result in additional cost pressure.

Banks and investment counsellors particularly acknowledged this issue. The impact of product proliferation on middle and back-office infrastructures was also seen as an added cost pressure.

Furthermore, banks and other direct distributors also thought there was a cost pressure associated with the need to invest in step-change capacity ahead of volumes.

7. More sophisticated, wealthier clients

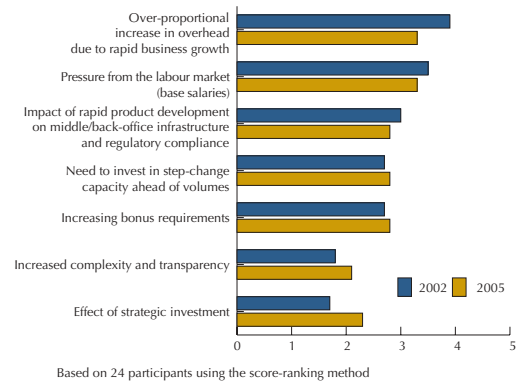
Clients are ageing, and becoming better educated. Their incomes are growing, their net worth is rising, and the depth of their relationships with their wealth management organization is increasing.

While investment counsellors have the most affluent client base, all organizations will be more vulnerable as a result of increased client sophistication and lower levels of loyalty.

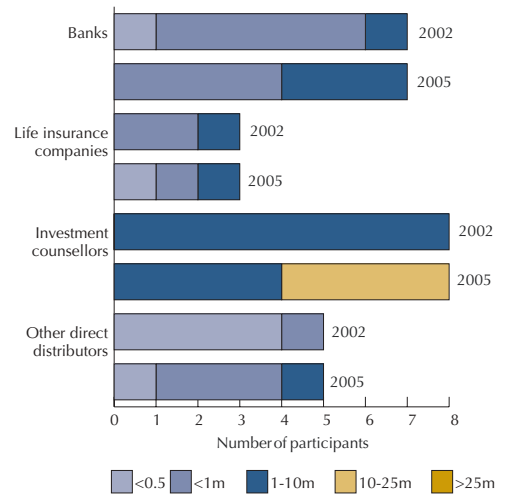
8. A need for better client segmentation

Most participants use current assets to segment their client base, yet this reveals little about clients' needs and preferences. Segmenting by profitability ranked tenth and, although it will improve, it indicates the general lack of segmentation strategies within the sector.

Areas of cost concern



Wealthier clients' net worth by group



Main Findings

9. Client relationship management (CRM) — a critical component in a successful future

Participants indicated that there was widespread adoption of CRM applications by relationship managers.

Organizations must question whether these innovators have led to significant improvements in productivity and whether they are being leveraged to allow relationship managers to increase revenue growth from existing clients and obtain new clients.

There was no acknowledgment in this research process to suggest that Canadian wealth management organizations have made any progress along the route to an across the board ‘trusted advisor’ relationship.

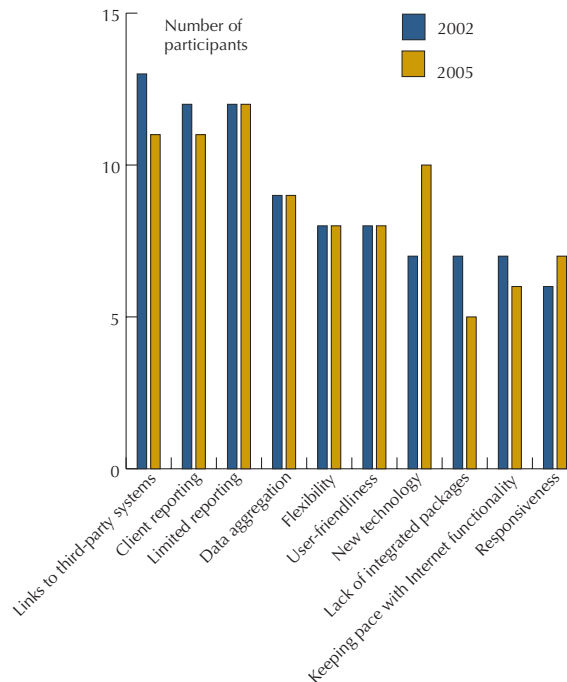
10. Information technology (IT) — continued expansion accompanied by controlled spending

Most participants will increase both their IT capital expenditures and operating costs in 2002. A number of IT financial planning tools are already widely used and spending is likely to increase in areas such as client profitability (at both the relationship manager and organizational level) and aggregated client information (both internal and external).

The most pressing technology issues identified were links to third-party systems, client reporting, limited funding and data aggregation.

Internet technology has been implemented to allow marketing applications and research dissemination, but will be more important in 2005 for client access for order entry and links to mobiles/PDAs, etc. and data aggregation. Participants looking forward three years have a limited interest in using non-financial service portals to distribute their services.

Most pressing technology issues



11. Data aggregation—will it be used to the client’s benefit?

The need to provide a more open architecture with a full assortment of third-party products, combined with an improved client focus means that data aggregation is critical to most participants.

The need for aggregation was emphasized by the banks and the other direct distributors. In just two years, many more participants will undertake aggregation of financial information through the Internet. Progress will be made first on internally aggregated client information and then at a slower pace with external information.

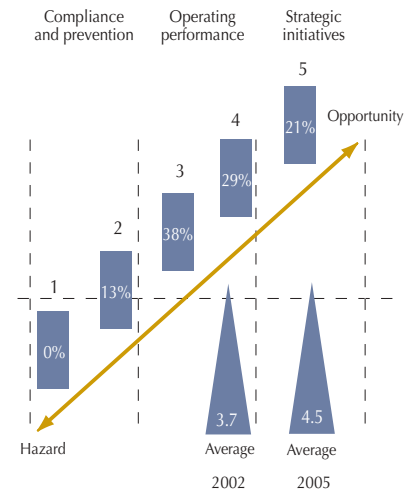
The real challenge will be to successfully harvest the aggregated data to provide sound and valued advice to the client.

12. Increasing recognition of the importance of risk management

The application of risk-management techniques is forecast to grow over the next three years with 54% of the group planning to use risk management in the context of strategic initiatives.

All but one of the survey’s respondents had policies in place to identify risk. The banks and other direct distributors recorded high scores for regulatory risks and the latter group was concerned about mis-selling risk.

Investment counsellors foresaw risk attached to processing errors, client relationships, and investment performance.



Highlights from the European survey

There have been five previous Private Banking/Wealth Management Surveys produced in Europe since 1993 and two in North America. The 2000/2001 European survey included 134 organizations in 14 European onshore and offshore centres, while the July 2002 North American survey was based on responses from 29 organizations.

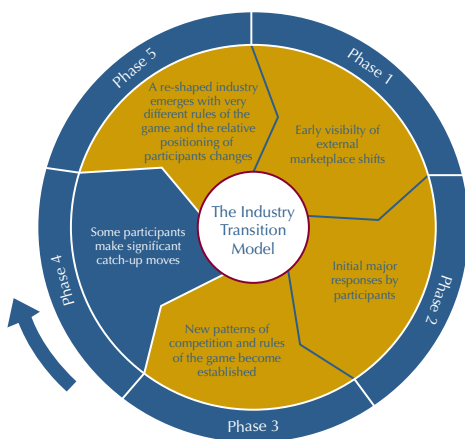
These surveys provide a backdrop to this inaugural survey of wealth management organizations in Canada. While limited references and comparisons have been made to both surveys in the body of this report, it was felt valuable to highlight their main findings in a two-page summary.

Key survey headlines

- The European survey found that the private banking and wealth management industry had progressed into phase 4 of the model by 1999 and, by 2000/2001, it had become firmly established in this phase.
- However, the European survey also found evidence that new business models were being examined and that a fundamental change was occurring in the way players compete and interact with clients. As a result, they concluded that the industry was entering phase 5 and commented that great opportunities awaited those organizations that

could identify the trends and capture a clear vision of their future success model.

- The market continues to grow, but tougher external conditions are emerging. Participants are seeking to achieve greater differentiation in order to maintain or enhance profitability.
- The survey found that distribution channels will be a more important and future focus for differentiation. They concluded that differentiation is now the key to growth.
- Clients are more demanding, and encompass an increasing diversity of needs. Better client relationship management is critical. They predicted that a strong brand image would become increasingly important.
- Standard products are still important, but the growth is in more sophisticated and value-added products and services, the demand for which varies by different client segments. They found that those serving the ultra and very high net worth client bands are moving towards bundling pricing and more integrated wealth management advisory services.
- There is an increased requirement for, and shortage of, highly skilled, high-cost talent.
- Pressures are evident on traditional organization structures and people to be more client responsive, cost-effective, and agile. The latest technologies and better knowledge management are key enablers.
- Upgraded and new business models are being developed to meet these industry challenges.
- It was felt that North American models may be influencing the evolution of the European market. The survey predicted that greater centralization appeared inevitable as organizations seek greater efficiencies and cost reductions across their businesses. They found that multi-channel management was a major focus of change and transformation.



Highlights from the North American survey

The North American survey concluded that the industry in 2002 looked very different from what chief executives had anticipated two years ago. They observed that with single-digit growth rates, falling profit margins, and a slowdown in the creation of new wealth, there was a stronger focus on profitability.

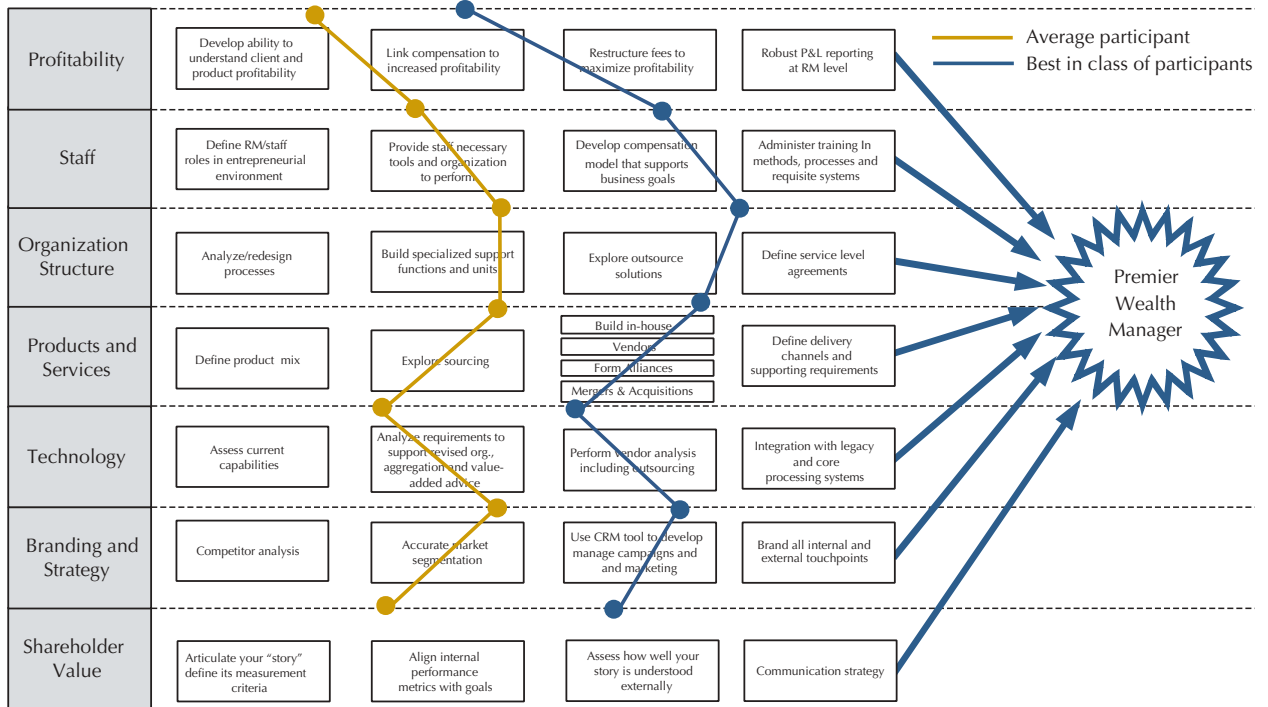
Key survey headlines

- The survey stated that there was a direct correlation between the product mix and profitability. Firms that depended on transaction-based income tended to be less profitable than firms that relied on advisory/management fees.
- Client profitability is expected to become an increasingly important internal metric, defining client segmentation and the service-delivery model.
- Competition for clients and quality staff continues to intensify. Intense competition in the industry, especially competition to acquire new clients and top-quality staff, is forcing wealth managers to clearly define their market positioning and source of differentiation.
- The survey found that senior executives no longer consider investment performance to be a critical differentiator. The survey suggested that this may be the result of increased product commoditization, which has led to investment performance becoming a requirement for wealth managers rather than the basis for long-term differentiated market positioning.
- In addition, it noted that the less-than-stellar returns of 2001 and 2002 are putting firms at risk that differentiate primarily on investment performance. This is an important finding, given the opinions expressed in the Canadian Survey regarding investment performance.
- The growth of private wealth and the increasing sophistication of high net-worth individuals require wealth managers to change the way they go to market and provide client service.
- The role of the relationship manager is increasingly demanding and is the key to meeting CEO expectations around increased revenue growth from existing clients, as well as acquiring new clients.
- The ability to implement a “Trusted Advisor” relationship model is key, but organizations continue to struggle to provide the right level of training and development, relevant tools and operating environment to transform the front office.
- Despite significant CRM investments and efforts to enhance and enable the front office, there is little evidence of significant productivity improvements being achieved.
- 75% of companies are executing or planning CRM initiatives, and 60% are redesigning one or more components of the front office function.
- Low adoption rates of new CRM technology in the front office is a significant hindering factor and will have to be addressed quickly if wealth managers want to realize returns on investments. More comprehensive training and clarity around goals and metrics are very important to realize these benefits in the near future.
- The survey predicted a significant increase in the reliance on introductions from other parts of financial services’ organizations. When this is the case, organizations have to be able to leverage relationships across organizational and product silos, and manage client information in an integrated way. There is a risk of competition within the organization over ownership of the customer, which will impact the ability to cross-sell effectively.

- Aggregation technology is an IT focus but industry is slow to adapt. Going forward, organizations have to leverage their internal investments in aggregation to turn aggregated information into knowledge that provides actionable recommendations for clients.
- Interest in outsourcing as a major enabler to achieve cost-efficiencies, scale, and competency augmentation remains limited. At the functional level, however, more than one-third of organizational redesign efforts involves partial or complete outsourcing of functional areas.
- Organizations are struggling to create a flexible operating model that puts into place an organization for future growth and maximizes operating efficiencies. Existing structures, especially legacy systems within the current IT environment, are seen as a key hindering factor for change in the industry.
- Mergers and acquisitions continue as organizations seek scale and scope, with more than half of the organizations participating in the survey currently planning or executing a merger or acquisition.

Key challenges—a future road map

The North American survey concluded that much work remains to be done. It found that top performers have focused on staffing and organizational change but much future effort surrounds profitability and the effective use of technology.



the Canadian marketplace

This section provides a useful foundation for the survey's findings. It documents the major changes occurring in the wealth management industry and identifies the issues that are demanding the close attention of senior management.

Major changes

Q. What are the three most important changes taking place in Canada's wealth management sector at present?

Participants were asked to identify the most important changes currently taking place in Canada's wealth management sector.

Several themes were identified:

Consolidation

Approximately one-third of participants cited ongoing consolidation as an important change. This term spanned a number of issues, including the consolidation of money management firms, a comment on the absence of any one strong independent wealth manager, and the consolidation of 5,000 mutual fund offerings because of a lack of shelf space.

Price change

A price transition from transaction-based to fee-based.

Integration

The challenge of offering an integrated whole. The banks, in particular, are attempting to address this issue.

DIY reversal

A trend from do-it-yourself products to managed products. Attraction of clients that are delegators rather than do-it yourselfers. Clients have changed their attitudes toward advice.

Convergence

The converging of manufacturing and distribution with, for example, some distributors becoming involved in making products.

Attractive demographics

The ageing of the baby boomers and the generational change in wealth makes this a compelling segment. There was wide acknowledgement of the attractions of the wealth management segment. One investment counsellor commented that investment managers were now trading down to the \$100,000 level.

Failure of brokers

A growing dissatisfaction with the pure brokerage sector and, therefore, a transition of clients to the more holistic wealth management firms.

Technology

The leveraging of technology to produce a better product and reaching down to include a broader definition of high net worth individuals. The challenge of serving the mass affluent.

Regulation

Regulatory change at the federal and provincial levels was often cited with several smaller firms commenting on the growing costs associated with increased regulatory demands.

Client changes

Recognition of increasing levels of client sophistication and empowerment. Better informed clients making more demands on the financial services providers. The upskilling of the client base. Clients are demanding more choice.

Globalization

Globalization has been accompanied by increased competition. Examples include the entry of U.S. firms such as Legg Mason and Putnam.

A universal account

A trend towards the development of universal accounts with multi-channel access, with a focus on a solutions-based approach.

Bank expansion

This describes the proliferation of banks in the wealth management sector. Some participants asked whether banks will be able to harness resources and at the same time keep their client focus.

External change

Q. To how much change, driven by external factors, do you expect to respond?

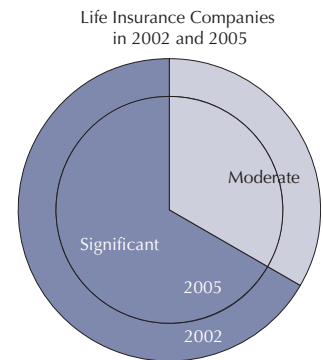
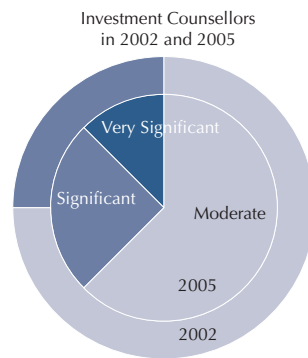
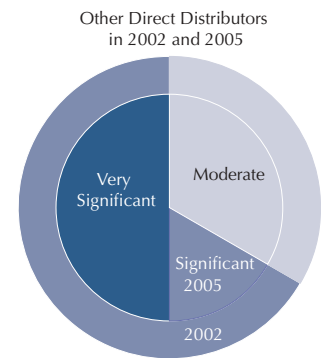
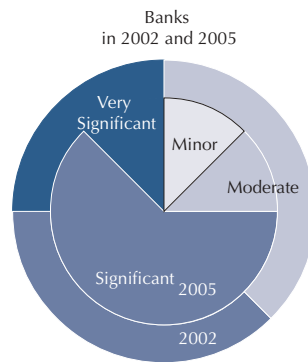
The participants anticipate acceleration in change over the next three years.

The greatest degree of change was forecast by the 'Other Direct Distributors' group, where 50% anticipates very significant change by

2005. The banks think there will be significant marketplace change at that time. The investment counsellor group also believes that change will escalate over the next three years.

Increasing external pressure will drive change.

The pace of change is escalating.



Achieving growth

Q. Main actions to achieve your growth targets for the market?

Strong performance in asset management is critical to growth for investment counsellors and life insurance companies.

Banks are interested in further M&A.

The need to improve sales effectiveness was important to the banks, direct distributors, and investment counsellors.

Over 40% of participants ranked asset management performance in first or second place as the most important action to achieve projected growth both today and three years from now.

Marketing/branding and developing new distribution approaches were seen as important growth mechanisms for a quarter of the group. This finding was not influenced by any particular subgroup.

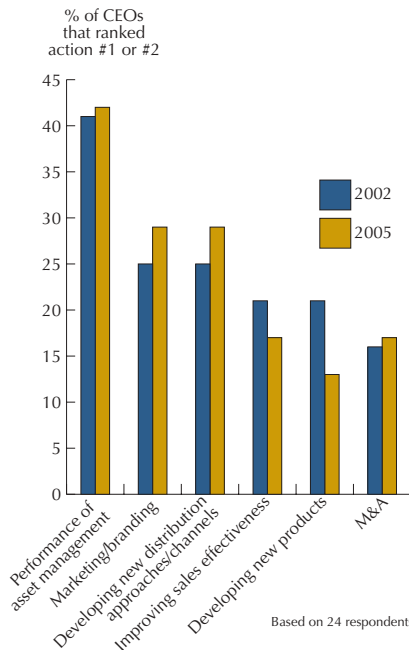
These factors were followed by improving sales effectiveness (the most important factor in the North American survey), new products, and mergers and acquisitions (M&A).

The banks ranked M&A activity, developing new distribution approaches, and improving sales effectiveness as important in 2002.

The investment counsellors and life companies were focused on performance of asset management.

Both the life companies and other direct distributors saw growth through new product development while the direct distributors recorded strong marketing/branding scores for 2005.

How to achieve projected growth



Most pressing issues

Q. Most pressing issues?

The need to improve revenue growth and acquire new clients.

The most pressing issues faced by wealth management executives today centre on the need to generate revenue growth and obtain new clients.

The competitive nature of the market is reflected in the need to retain existing customers, improve service quality, and focus on investment performance.

On a group basis, the banks are concerned with obtaining and retaining clients and service quality, the life insurance companies and other direct distributors on improving revenue growth and the investment counsellors on managing growth and investment performance.

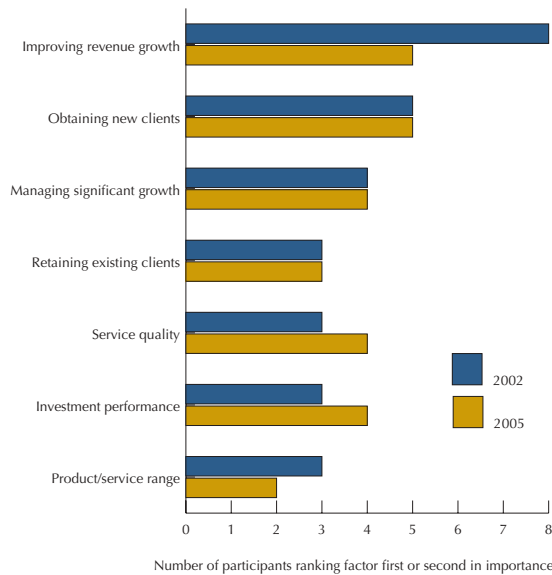
Competitive differentiators: The North American survey found that the key competitive differentiators were:

- *Top-notch client list*
- *Excellent customer base*
- *Quality of staff*
- *Strong brand image*
- *Best of breed products.*

It found that less emphasis was being placed on product differentiation and more on competitive positioning.

There is less need to develop proprietary products as long as clients have access to a comprehensive product offering provided either in-house or by third-party providers.

Pressing Issues



Action on key issues and trends

Q. What is the level of interest and action on key issues?

M&A and monitoring profitability receive most attention.

Participants were asked to indicate whether they were simply interested in a range of key issues or were seriously dealing with them in the form of planning action or actively executing those plans.

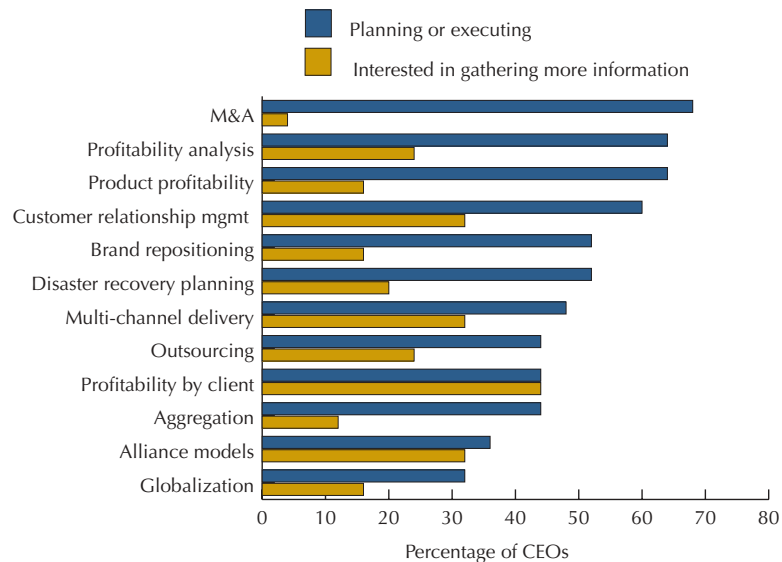
Almost 70% of the group was planning on executing action on M&A and around 66% was similarly engaged in profitability analysis.

The most critical areas for the banks were M&A, profitability analysis, multi-channel delivery and CRM.

Disaster recovery planning and CRM were most important for the investment counsellors, while the other direct distributors ranked profitability analysis, product profitability, and M&A as priorities.

Around 40% of the group records that they are planning on executing outsourcing and aggregation.

These results exceeded the levels recorded in the 2002 North American survey, with 24% planning on outsourcing and 35% planning on aggregation.



Most critical issues faced by heads of wealth management

Q. What are the most important issues that you currently spend time on?

Setting strategic goals, leadership and good communication.

The allocation of time across responsibilities reveals which issues are most pressing for the heads of wealth management.

Setting and resetting strategic goals and leadership and communication are the two most important management functions.

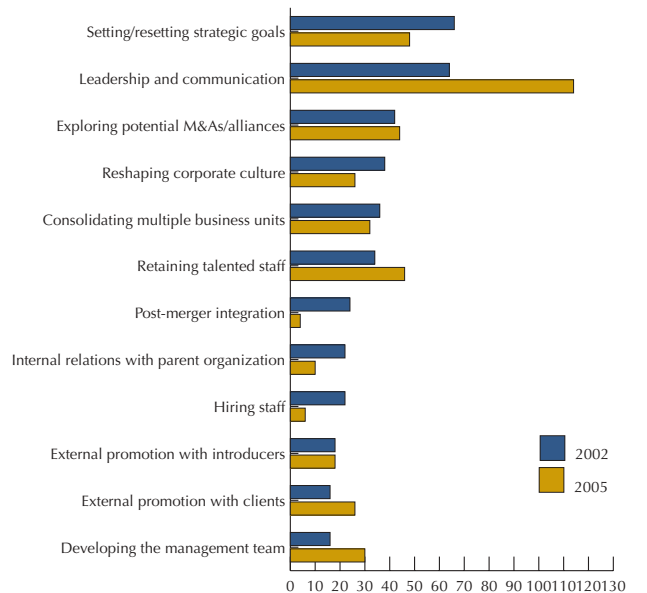
Furthermore, leadership and communication will increase in importance over the next three years.

The pursuit of mergers and acquisitions and alliances mentioned on the previous page are also deemed to be critical tasks.

Reshaping corporate culture, consolidating business units, and retaining staff all reinforce the important role of harnessing efficiencies within organizations.

Retaining talented staff is a critical issue for investment counsellors both now and in the future, while leadership and communication will continue to be very important to the other direct distributors.

M&A is predicted to be high on the agenda of banks in three years—three banks ranked it first in 2005.



Based on 23 participants
Scoring system of 10 for 1st, 6 for 2nd and 4 for 3rd

market trends and competition

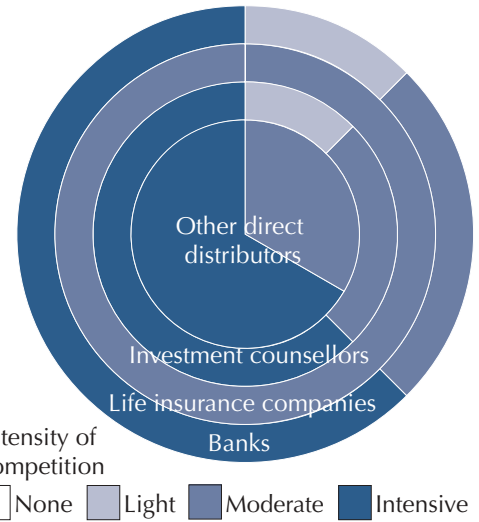
Respondents were asked to record their views on the level of intensity of competition in the wealth management industry today and in the future. Furthermore they were asked to record what drives competitive activity and how the drivers and hinderers of change will evolve over time. They also review and rank the most important internal positioning issues.

Intensity of competition

Q. What is the level of intensity of competition in your particular market?

The moderate wedge of the adjacent competition chart makes up about one-third for banks, investment counsellors, and other direct distributors, while two-thirds view competition as intensive.

The life insurance companies in contrast perceive competition to be moderate.



Q. What drives competitive activity?

Participants believe that competition is strongest in the areas of trying to acquire new clients.

This factor is followed by investment performance and competition for attracting good staff.

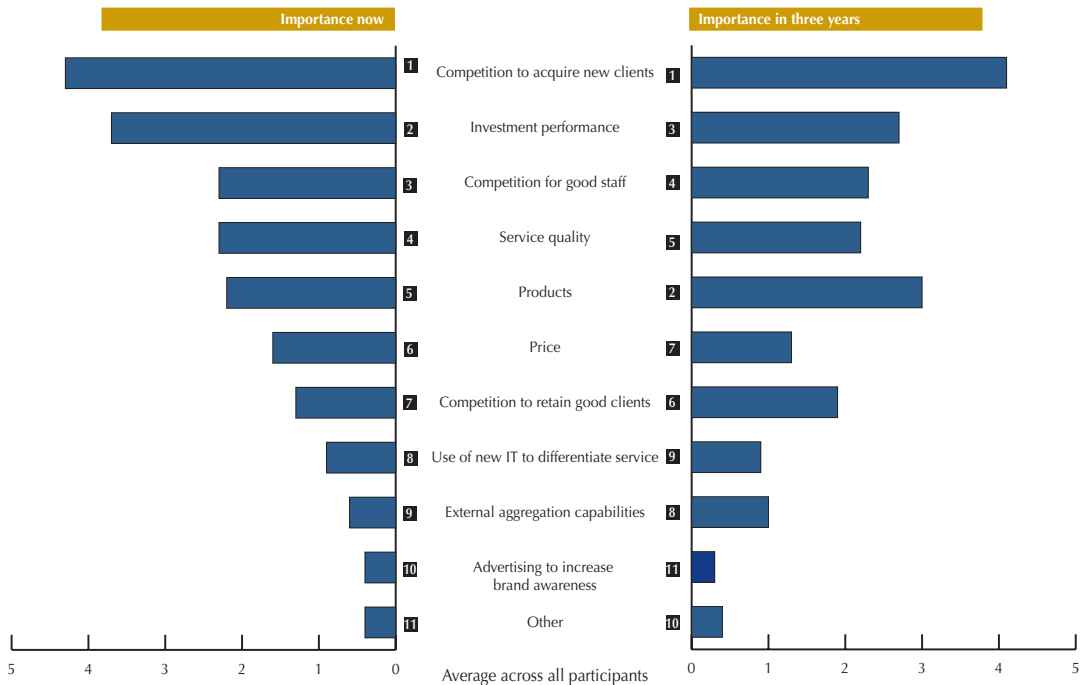
Scale and volume are critical to achieving profitability and the drive to acquire new clients encourages mergers and acquisitions and alliance activities.

Service quality and products ranked ahead of price today and in three years.

Competition intense for new clients.

Products are predicted to be the second most important driver of competition in three years' time.

Scale and volume critical.



Performance of relationship managers

Q. How do you measure the performance of your relationship managers?

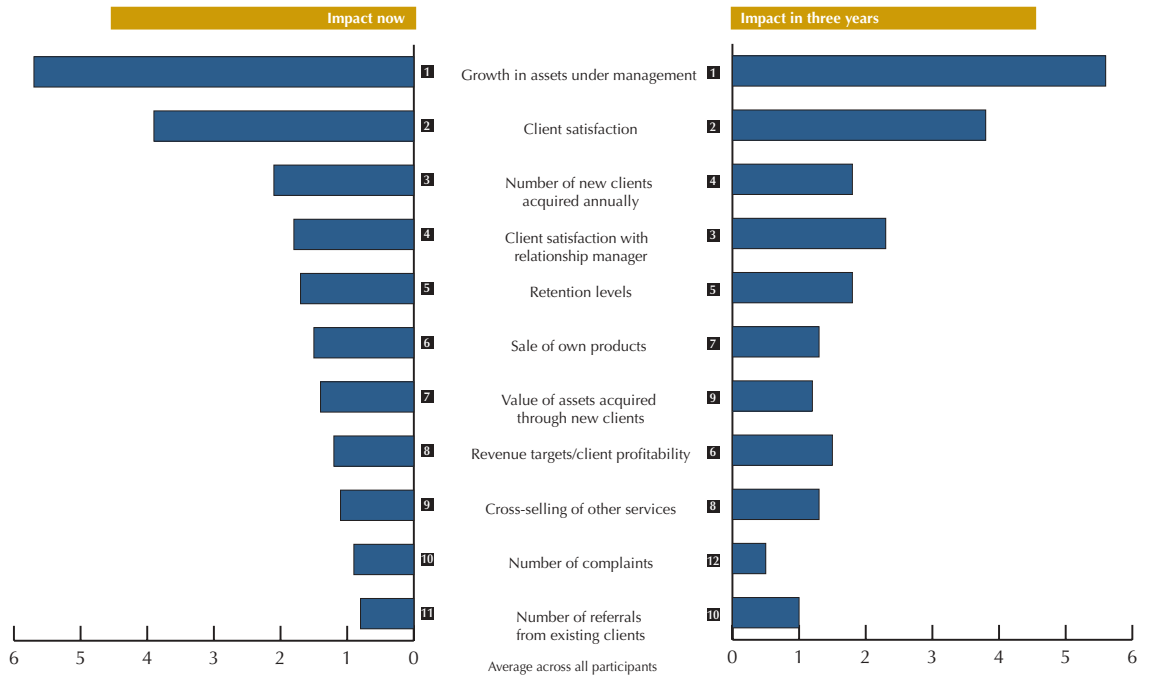
The most important measure of performance for relationship managers is the growth in assets under management.

Revenue targets/client profitability was ranked in second place by three banks.

This is followed by client satisfaction and the number of clients acquired annually.

Cross-selling, retention levels, and client satisfaction were important measures for the other direct distributors.

Assets under management is a key indicator.



External drivers of change

Q. What is the impact of the following external drivers of change on your organization?

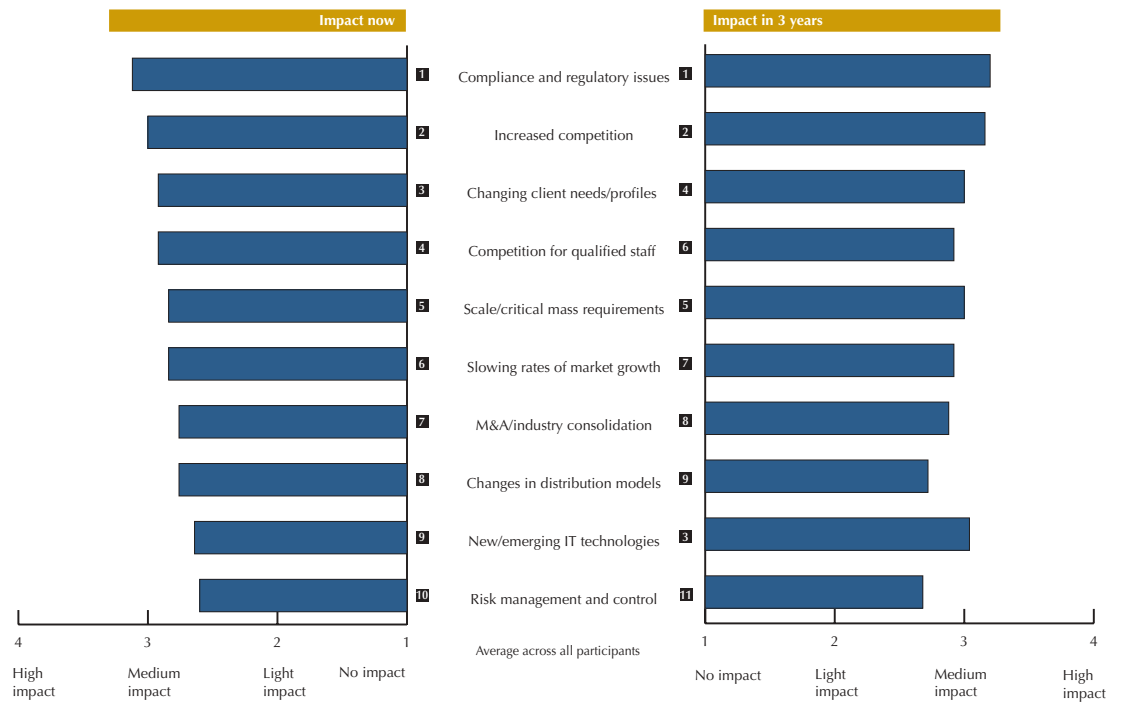
Compliance and regulatory issues are causing organizational change.

The most important external drivers of change were compliance and regulatory issues followed by increased competition and changing client needs.

In contrast to both the North American survey and the European survey, where competition for qualified staff was placed in first position, Canada ranks this factor fourth.

Competition for qualified staff and scale/critical mass requirements follow closely behind.

New/emerging IT technologies are anticipated to make a medium impact in three years' time.



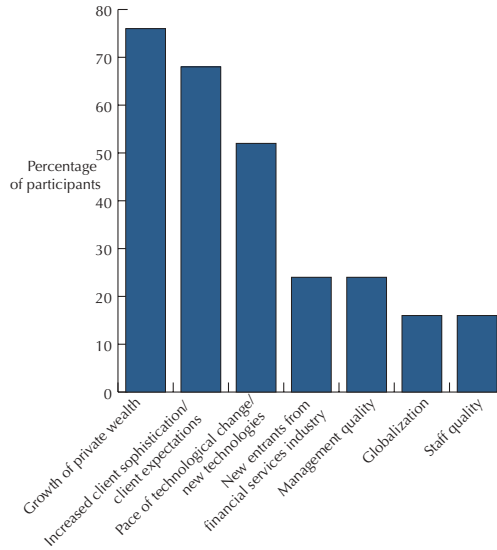
Enablers/hinderers of change

Q. Please rank the relative importance of the factors that most enable change in the industry. Rank the top 3, where 1 is the factor that most enables change.

Growth in private wealth and client sophistication is driving change.

In order to gauge the change agents that enable growth and success and, conversely, those that hindered growth, participants were asked to rank the top three in each category.

The two most positive forces for change have been the growth of private wealth and increased client sophistication. New entrants from within the industry are also seen as drivers of change.

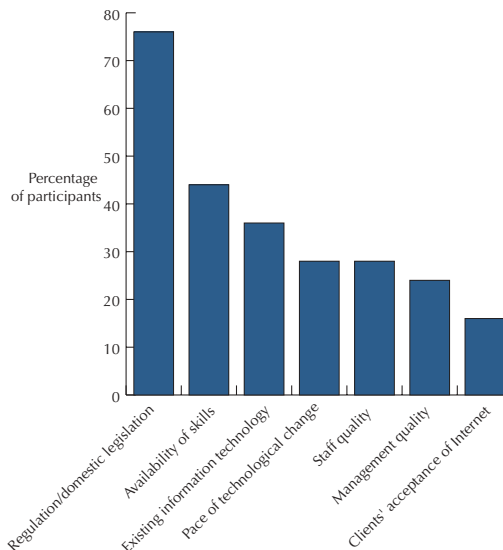


Q. Please rank the relative importance of the factors that most hinder change in the industry. Rank the top 3, where 1 is the factor that most hinders change.

Legislation and new regulations hinder industry change.

On the negative side, regulation and domestic legislation are viewed as strong hindrances of change. At a significantly lower level of impact is the availability of skills and technology associated with legacy systems.

Management and staff quality and a slow acceptance of the Internet by some clients were also identified as negative influences on change.



Internal positioning issues—present

Q. What are the most pressing internal positioning issues, and how much progress have you made over the last twelve months in addressing these issues?

The need to meet profitability targets is paramount.

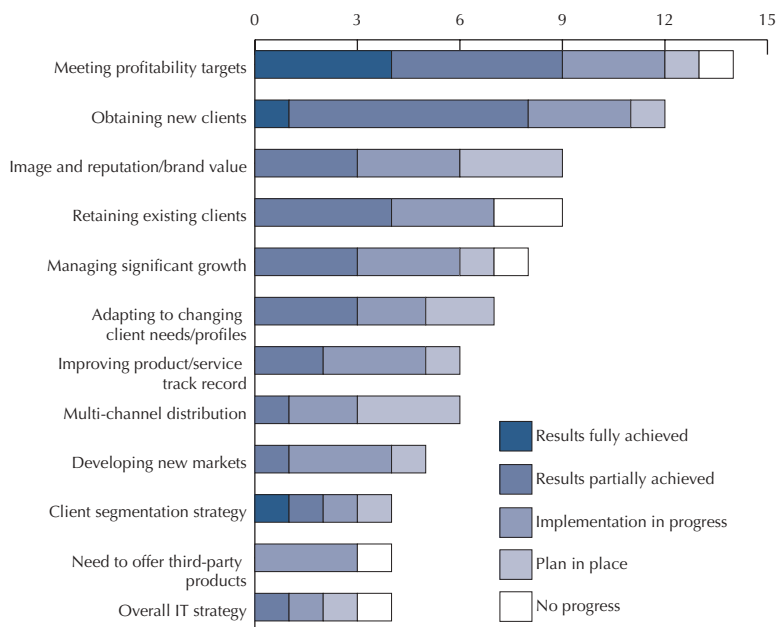
Fourteen participants recorded that their most pressing internal issue was meeting profitability targets.

Within that group, four said results had been fully achieved, while a further five said they had been partially achieved. Only one said no progress had been made.

Obtaining new clients also ranked as an important priority alongside image and reputation.

Although developing a clear segmentation strategy was important to almost 40% of participants in the North American survey, only four participants in Canada highlighted it as an issue.

This suggests that developing a sound segmentation strategy has not yet reached the same degree of importance in the Canadian market.



The life insurance companies scored well on meeting profitability targets but poorly on image and reputation and brand value.

The lowest score for a bank on meeting profitability targets was implementation in progress, which suggests that this issue is being addressed.

A few banks awarded themselves “no progress” on plans to retain existing clients, IT infrastructure, and third-party products.

The investment counsellors thought they were doing well on obtaining new clients but not as well on meeting profitability targets.

The other direct distributors were weak on image and reputation and retaining existing clients.

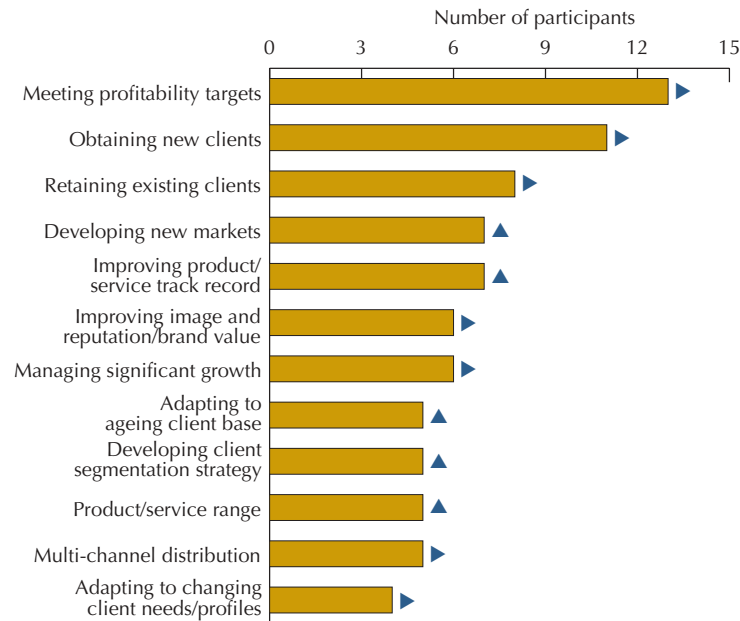
Internal positioning issues—future

Q. What are the most pressing internal positioning issues in three years' time?

Need to develop new markets and improve service is becoming more important.

While image and reputation are expected to be less important in the future (in contrast to the North American survey findings), there will be a greater need to develop new markets and improve product/service track records.

Multi-channel distribution and adapting to changing client needs/profiles are also expected to be less important in three years' time.



clients

This section focuses on the wealth management client base. It provides insights into client wealth measurement, the evolving client profile, client segmentation, and the reasons behind client selection and departure decisions.

Measuring clients' wealth

Q. How do you measure your clients' investable wealth?

Clients provide the information with little or no independent assessment.

In total, 80% of participants rely on clients to provide them with details of their wealth. Best estimates are used by 30% of participants.

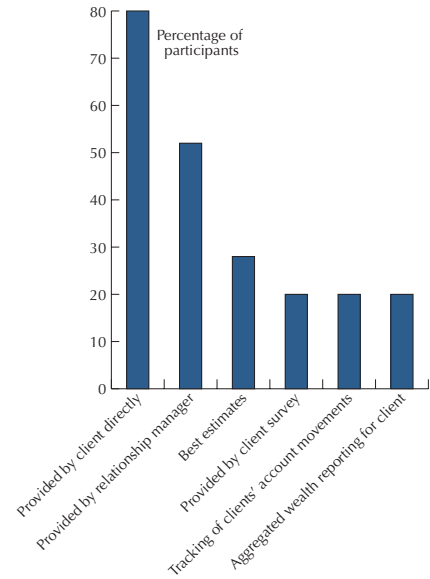
The life insurance companies and banks indicated that in all cases client wealth was based on information provided by the client directly.

Only five participants said that they had aggregated wealth reporting for clients. This group was composed of two other direct distributors, two banks and one investment counsellor.

Three banks said they tracked client account movements. This method was also used by one other direct distributor and one investment counsellor.

The North American survey found that 70% of wealth managers rely on clients to provide this valuable information.

It stressed the importance of collecting data from indirect sources rather than relying only on the client as the sole source of financial information.



Client selection and departure

Q. Why do clients select your organization?

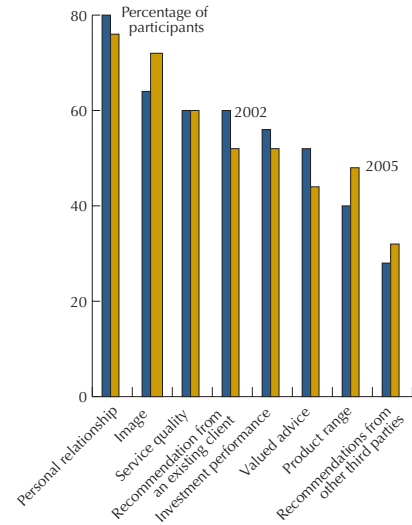
Personal relationships and image are critical selection criteria.

Personal relationship, image, and service quality are the top three reasons cited in the selection of a wealth management organization.

These responses varied by group. For example: banks chose service quality, image, size and product range; life insurance companies selected product range, relationships and investment performance; investment counsellors opted for relationships, image and performance; and finally, other direct distributors cited relationships, recommendations from existing clients and advice.

While image is expected to increase in importance by 2005, the order will remain the same.

Personal relationships are predicted to be just a little less important in three years' time.



Q. Why do clients leave your organization?

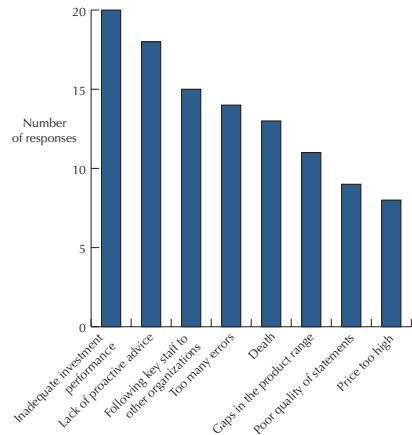
Poor performance and a lack of proactive advice.

Inadequate investment performance was seen as the primary reason for clients leaving an organization. This result was influenced by strong input from life insurance companies and investment counsellors.

Banks cited "lack of proactive advice" as their clients' primary trigger for departures. Furthermore, following key staff was important to both banks and other direct distributors.

This reinforces the need to offer 'best of breed' third-party products.

Fourteen participants mentioned "too many errors" as a cause of departures.



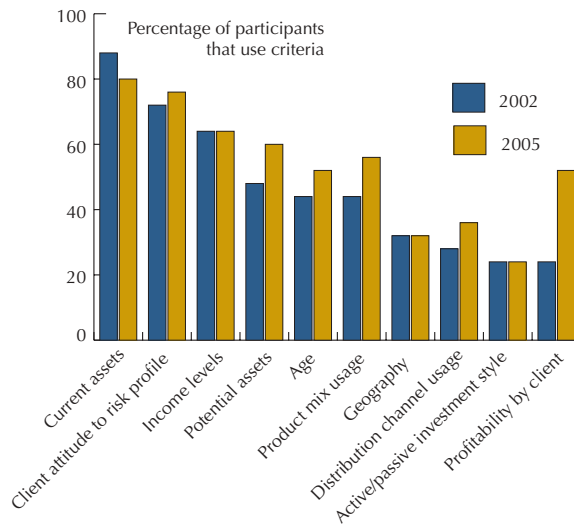
Segments

Q. Please indicate the segmentation criteria currently used and the criteria you would expect to use in three years' time.

Current assets, attitude to risk, and income levels are the top three segmentation criteria used.

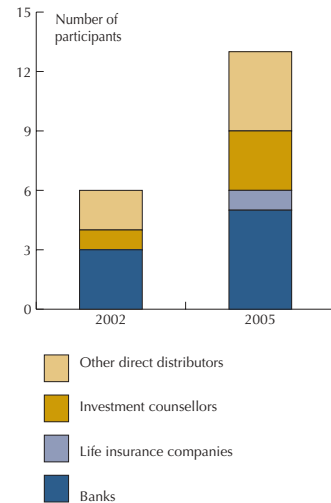
The fact that approximately 90% of participants use "size," which could be argued provides little insight into client needs or level of profitability, suggests that there is considerable scope for improvement in gaining a better understanding of clients and how they can be effectively segmented.

Current assets is the primary criterion.



Profitability by client will be more important in future.

Although profitability by client ranked in tenth place in 2002, it is expected to gain usage as an important segmentation criterion by 2005. By then, five banks and four other direct distributors plan to use it.



Client profile

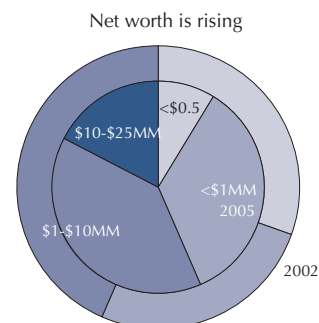
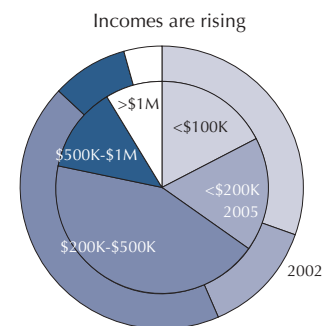
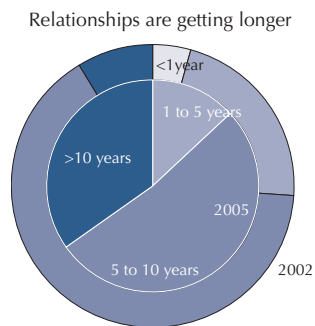
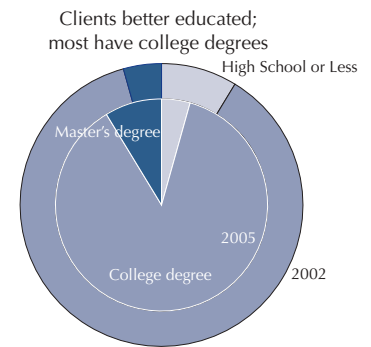
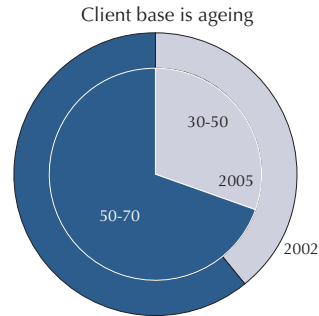
Q. Please define the demographics that describe your average client base today and in the next three years.

The most typical client profile portrays a 50–70 year old, with a university degree, a \$200k–\$500k salary and a net worth exceeding \$1 million, who has been with his/her wealth management firm for 5 to 10 years.

This is very similar to the profile described in the North American survey, although both salary levels and net worth are higher than in Canada.

A number of participants had difficulty articulating the characteristics of their individual client base. This suggests that a good understanding of client profiles that would be required for effective CRM and segmentation strategies is still missing.

The findings indicate that income levels, net worth, and age levels are all expected to increase over the next three years.



Clients' net worth and income

Client profiles by individual group.

As expected, the investment counsellors have the greatest number of clients in the high net-worth category.

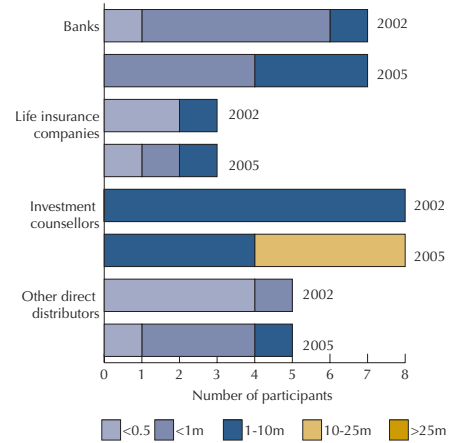
All the investment counsellors in 2002 said that their client net worth exceeded \$1 million, and that by 2005, half of the firms will be in the \$10–\$25 million net-worth category.

All the groups anticipated an increase in net worth over the next three years.

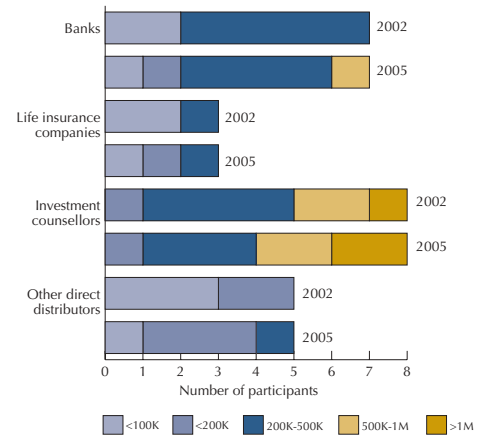
Again, the investment counsellors displayed the most affluent client base, with further upward improvement anticipated by 2005.

One bank portrayed its wealth management client profile to be in the \$500,000–\$1 million category by 2005, but most opted for the \$200,000–\$500,000 level.

Net worth by group



Annual income by group



Clients' departure

Q. Why might clients be encouraged to leave?

Take too much time or are discount hunters.

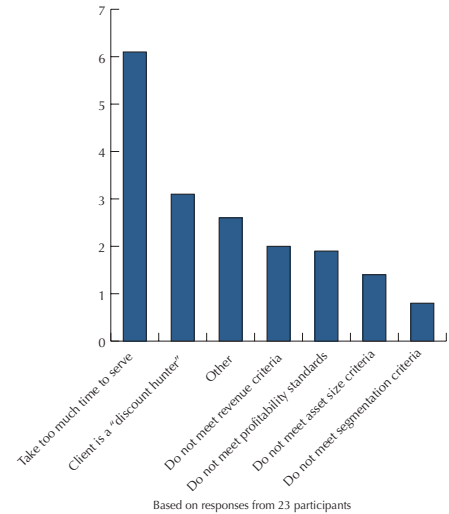
The most important reason given for asking clients to leave an organization centres on the client's "taking too much time to serve."

This figure was strongly influenced by the responses of banks, investment counsellors and other direct distributors.

The life insurance companies ranked "discount hunter" as most influential.

Further reasons include "unrealistic" investment goals and failing to meet revenue criteria.

Other reasons included "market timers" and inappropriate service for the client.



Q. Clients' willingness to pay?

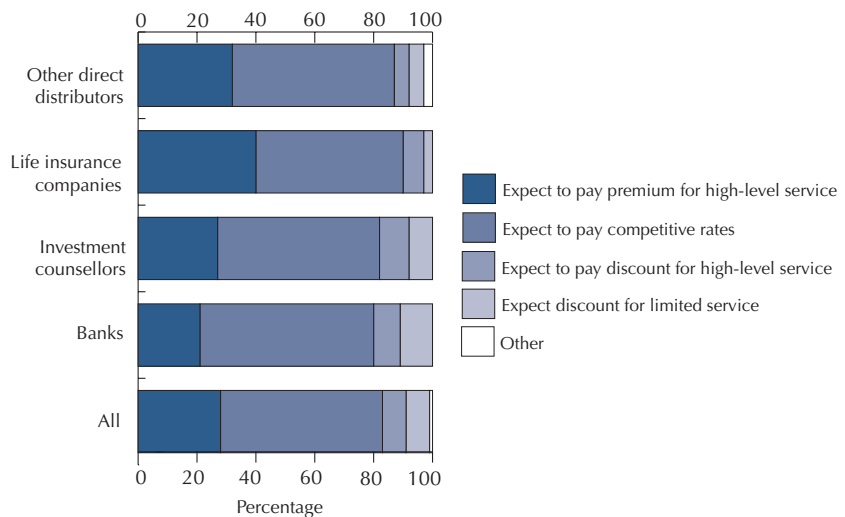
Most are willing to pay competitive rates for competitive services.

Overall, the largest category in terms of willingness to pay for services is the "pay competitive rates for competitive services."

This category accounts for 50% or more of each of the four subgroups' client base.

More than 20% of clients for all the groups fall into the "premium" category; for the life insurance companies this climbs to 40%.

The "discount for limited service" category is small for all groups; for the banks, it is 11%.



Averages are calculated in each segment, based on 24 participants.

products and fees

This section outlines third-party product offerings. It also examines fee structures and participants' willingness to discount. It reveals future fee trends.

Products and fees

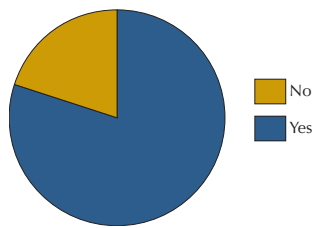
Q. Do you offer third-party or outsourced products?

Majority of wealth management firms offer third-party products.

Participants were asked about their product offerings and the extent to which they provided third-party products.

They were also questioned on their willingness to discount products and services to retain and attract new business, which in turn could have an adverse effect on profitability.

Four investment counsellors said they did not offer third-party products.



The types of third-party/outsourced products (which varied according to the background of the organization) included:

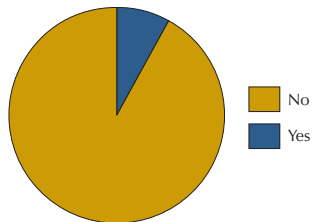
- mutual funds
- wrap accounts
- hedge funds
- pooled funds
- insurance
- securities
- U.S. equities
- bonds and GICs.

Q. Do you offer performance-based fees?

Performance-based fees are rare.

Only two of the twenty-five respondents to this question said that they offer performance-based fees.

The organizations where such a practice occurs included an investment counsellor and a bank.



Fees

Q. Trust services, fee commission schedule and discount pricing.

Trust services should be charged separately.

Discounts are available.

An overwhelming number of participants believe that trust services should be charged separately from investment management services.

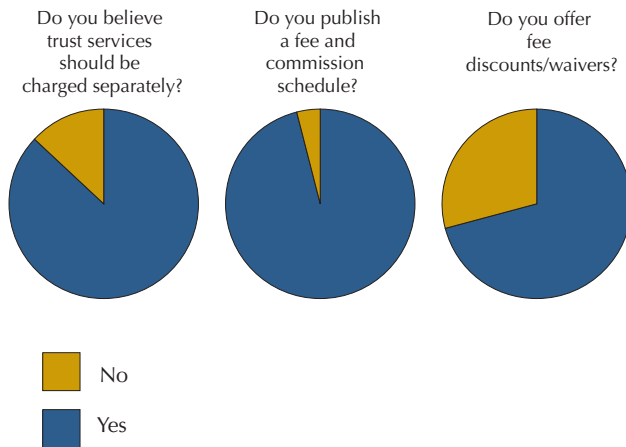
All but one participant said that they publish a full commission schedule. However, more than two-thirds suggested that they are willing to offer fee discounts or waivers.

Within the no-discount group are four investment counsellors and at least one representative from the other three groups.

In the North American survey, 93% said they offered discounts and the average fee discount was 15%.

That survey also found that 59% of participants waive or discount fees on 15% of their accounts.

In 2002, they concluded that wealth managers have increased the frequency with which they offer a discount, and they have also increased the size of the discount.



Fee trends

Q. Where is the fee trend moving?

Trend towards wrap fees, basis-point fees, and tiered fees.

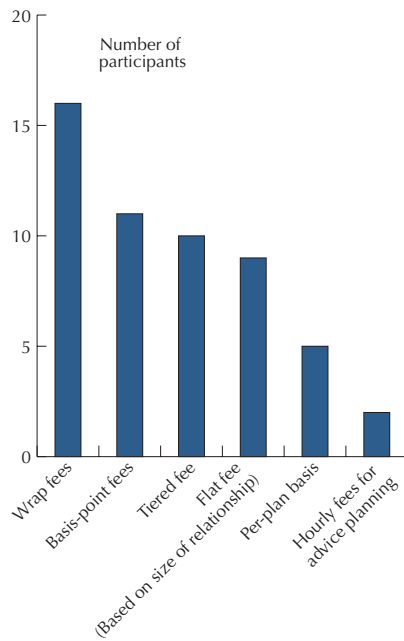
The fee trend appears to be moving strongly toward wrap fees, basis-point fees, and tiered fees.

The banks and other direct distributors strongly supported wrap fees, while the latter group also believed there was a move toward tiered accounts (based on the level of relationship, e.g. platinum, gold, etc.). The investment counsellors emphasized basis-point pricing.

However, as organizations focus more on value-added service, it would seem contradictory to add a higher quality service

and still maintain a basis-point fee structure. CRM technology will help organizations to better understand the time breadth of a client's relationship and, therefore, pave the way to "relationship pricing."

A per-plan fee is popular with the specialist financial planning firms, but charging an hourly rate for advice did not seem to be a direction in which the market is moving.



information technology

IT plays a pivotal role in both enabling revenue generation and achieving operational efficiencies. This section records how recently IT strategy has been reviewed by participants and examines the IT budgets for 2002. It highlights participants' future IT usage with particular emphasis on the Internet.

IT review

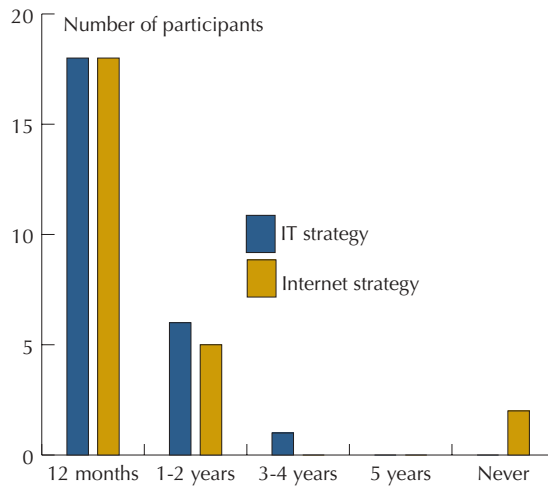
Q. When did you last undertake a full strategy review of IT and the Internet?

Most have reviewed their Internet strategy in the last twelve months.

Over 70% of the participants indicated that IT strategy and Internet strategy had been reviewed in the past twelve months. This suggests that both IT and the Internet continue to force careful scrutiny by wealth management firms.

The North American survey found that twenty participants are undertaking approximately thirty-eight Internet projects, and that sixteen participants were involved in twenty-four projects associated with CRM.

Both of these types of initiatives were seen as methods to enhance client focus capability.



The "Never" response in relation to Internet strategy was made by two investment counsellors.

IT budget for 2002

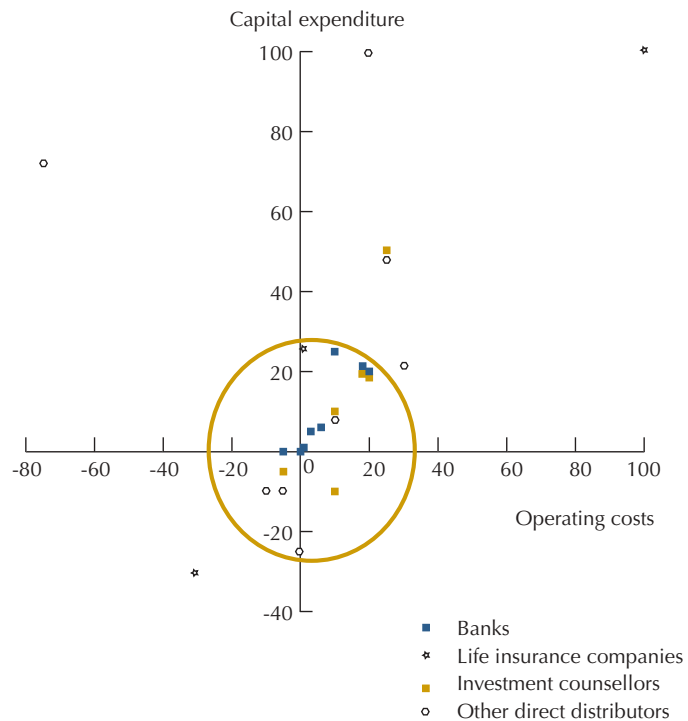
Q. By approximately what percentage do you expect your IT budget to change in 2002?

A number of firms have scaled back IT expenditure while a few "outliers" will double their spending in 2002.

Although several firms predicted significant increases in their capital expenditure in 2002 (to 100%), the majority were clustered in the 20% or less category.

A further six firms recorded a decrease in both capital expenditure and operating costs.

As the chart shows, while two other direct distributors forecast significant capital expenditure in 2002, three are spending less this year than last year. One life insurance company predicts a 100% increase, while all of the banks and investment counsellors fall into the +/- 25% circle.



Technology usage

Q. What technology tools are in place to support the relationship management process? How will this change over the next three years?

A much wider use of client profitability information is expected.

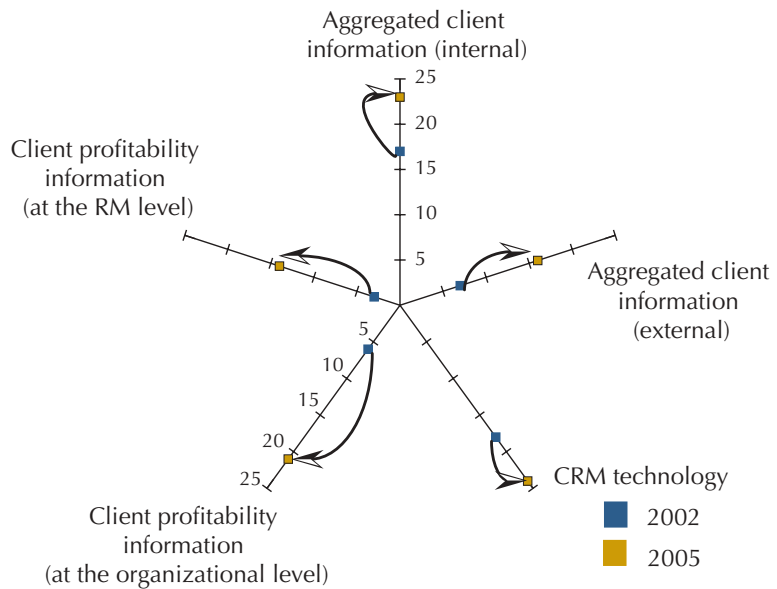
The most widely used technology tools are customer relationship management technology and aggregated client information (on an internal basis). Here, the technology has 100% usage at the banks, one life insurance company reported 40% usage by relationship managers (RM) and one other direct distributor recorded a score of just 20%.

The external aggregation of client information will be greatly enhanced over the next three years.

However, the tools expected to see the greatest improvement are in the area of client profitability.

It is forecast that tools to measure client profitability will improve dramatically at the organizational level and significantly at the relationship manager level.

For example, of the six banks that responded to this question, only one claims to measure client profitability at the organizational level, whereas by 2005, six banks will.



Financial planning tools

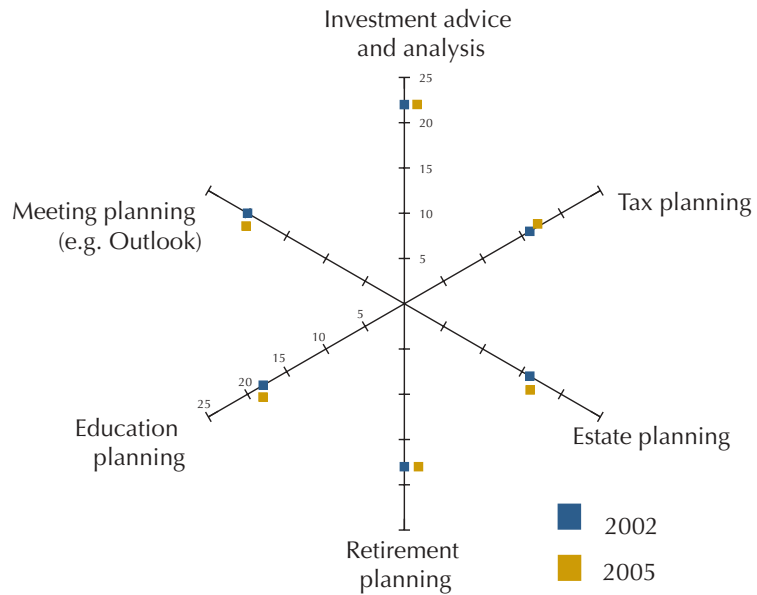
Q. What financial planning tools are in place to support the relationship management process? How will this change over the next three years?

Wealth management firms are already widely using six different types of financial planning tools. In order of level of usage they are: investment advice and analysis, meeting planning, education planning, retirement planning, estate planning, and tax planning.

To fulfill their mandate of providing value-added advice, all wealth management firms will be required to use these types of tools.

However, there was little improvement in the adoption of these tools over the next three years, suggesting a shortfall will occur in some firms.

Financial planning tools are widely used.



Technology issues

Q. What are the major technology issues that most impact your organization today and in three years' time?

Links to third-party systems and client reporting are key issues.

The top three issues that are of concern to respondents are links to third-party systems, client reporting, and limited funding. Limited funding is predicted to be the most important issue in three years' time.

However, needs vary by group. The banks ranked limited funding, data aggregation, straightthrough processing, and user-friendliness as most important.

The life insurance companies selected Internet functionality and limited funding, while the investment counsellors chose client reporting, responsiveness, and regulatory change.

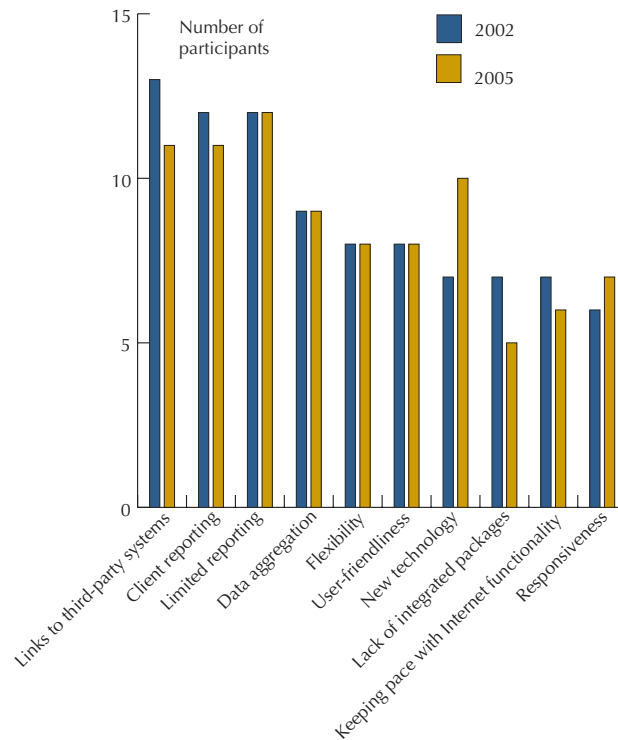
Finally, the other direct distributors responded that technology priorities centred on client

reporting, data aggregation, and limited funding were priorities.

In previous sections of this report, the need to provide third-party products through a more open architecture and to improve client focus have been highlighted.

These findings confirm that IT will be deployed to assist in these key areas. Allied to client reporting and in fourth position is data aggregation.

IT will be used here to allow relationship managers to offer value-added advice to clients.



Clients' use of the Internet

Channel enhancement

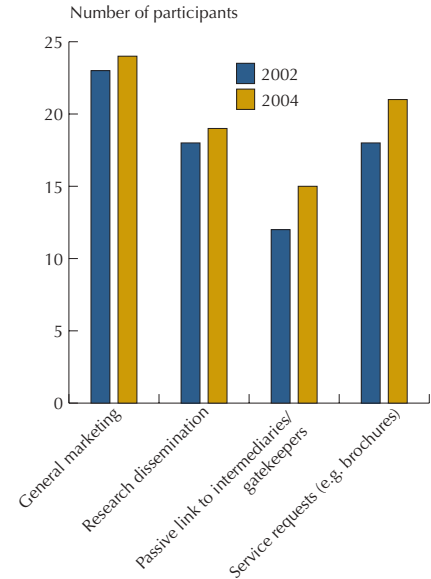
The Internet is used primarily for marketing support.

Many participants have invested heavily in Internet technology and use it widely to disseminate general marketing information on products offered.

A smaller number use it to distribute research material and about half of the group has passive links to other intermediaries.

A two-year time horizon shows modest increases in usage for links and service requests.

The passive link to intermediaries/gatekeepers was less important to banks and investment counsellors but very important to the other direct distributor group.



Channel integration

More usage for integration in two years' time.

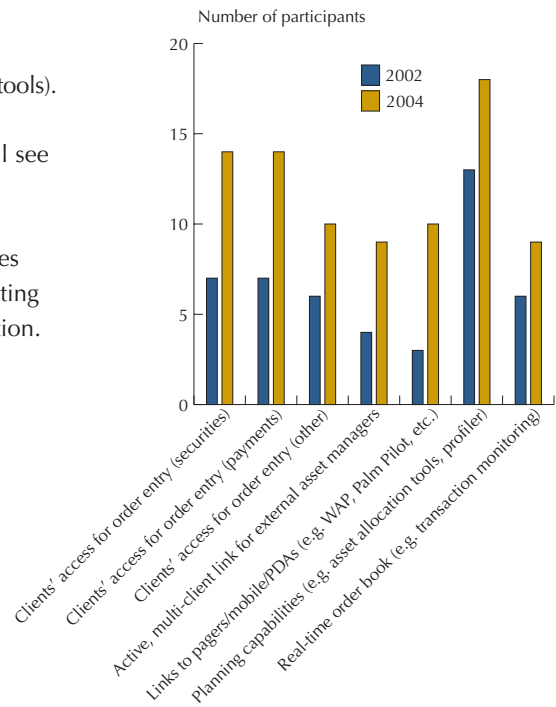
Clearly the Internet is used less widely for channel integration than for enhancement (as above).

The most widely used function here is for planning capability (such as asset allocation tools).

Order entry for securities and payments will see increased usage in two years' time.

Almost half of the sample expect cell phones and PDAs to be linked in two years, suggesting greater acceptance of wireless communication.

As expected, this increase for links to pagers/mobile/PDAs is fuelled by the banks and other direct distributors.



Clients' use of the Internet

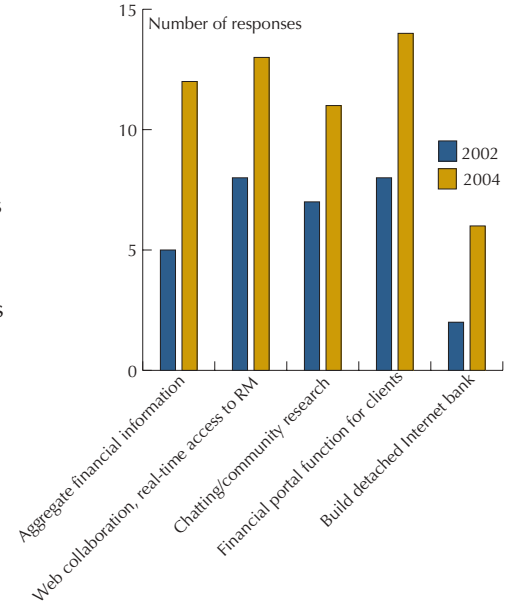
Transformation

Aggregation will be more widespread in two years.

The aggregation of financial information across organizations through the Internet will expand from five participants to twelve participants in just two years.

All of the other areas of the Internet related to transformation will also be impacted significantly.

The construction of a detached Internet bank (which is not applicable to the mainstream banks in this survey) has already been embraced by a couple of participants, but four more participants have plans to transform their organizations in this direction over the next two years.



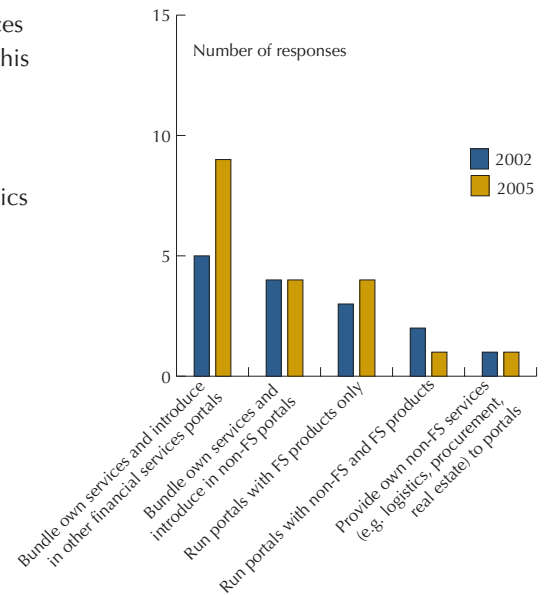
Convergence

Little interest in convergence with non-financial services portals.

Less interest was expressed in the convergence with nonfinancial services (FS) applications of the Internet.

However, five participants are currently interested in introducing their financial services through other financial services portals, and this will increase to nine participants by 2005.

Only one participant showed an interest in providing nonfinancial services such as logistics procurement to portals.



profitability and performance metrics

Controlling costs and measuring profitability are vital functions in today's wealth management market. This section reveals the most widely used MIS tools and examines the nature of different profitability bands. It also discusses business development goals, sales cycles, and compensation weightings.

Controlling costs

Q. In controlling your cost base, what are your main areas of concern?

An over-proportional rise in costs due to growth.

Pressure from personnel costs.

The most critical concern related to an expanded cost base centred on business growth and an over-proportional increase in overhead caused by that growth. That cost concern holds for the next three years.

The need to hire and retain good people were also concerns. Although a marginal scaling back was predicted by 2005, this was an area of cost pressure.

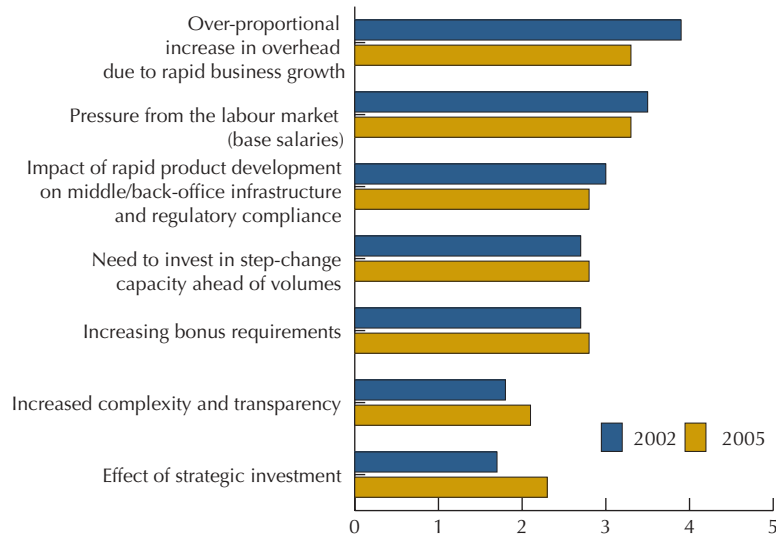
However, it was in this area that the banks and investment counsellors recorded their strongest areas of concern.

The banks and other direct distributors also thought there was a cost pressure associated with the “need to invest in step change ahead of capacity.”

In addition, the other direct distributors also highlighted the effect of strategic investment and an over-proportional increase in overhead caused by growth.

The impact of product proliferation on middle and back-office infrastructure—and in turn regulatory compliance—was also seen as an added cost pressure.

One investment counsellor mentioned that the need to accommodate the regulator with state-of-the-art compliance-monitoring technology had resulted in a huge increase in technology costs over the next twelve months.



Based on 24 participants, using the score-ranking method

Measuring profitability

Q. How do you measure profitability today? How would you like to measure it in the future?

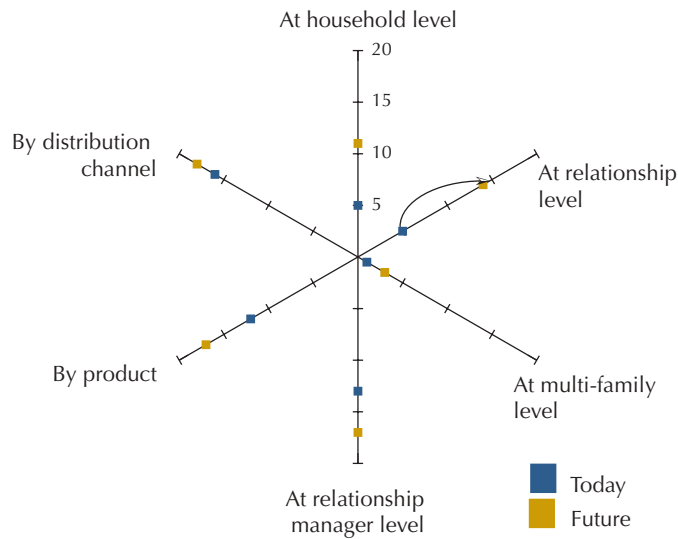
Big increase in measuring profitability at the relationship level.

The chart indicates that the most common way of measuring profitability today is by distribution channel, followed by at the relationship manager level and by product.

Major improvement is predicted in measuring profitability at the overall relationship level in the future.

The chart shows that the number of participants using this method in the future will grow from five to fourteen. The players adding this measure will include two banks, two life insurance companies, two investment counsellors, and three other direct distributors.

There is less interest in capturing profitability at either a household or multi-family level.



MIS tools

Q. What are your most important MIS decision tools now and what will they be in three years' time?

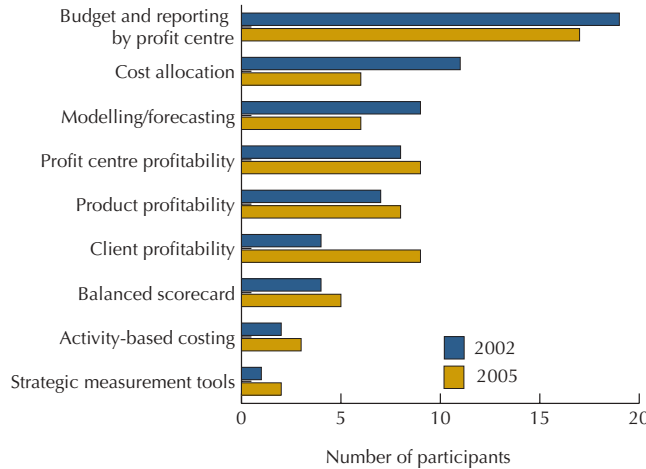
Profit centre reporting very important, but client profitability becoming more important.

The current focus of MIS tools is on providing budget and reporting by profit centre. This is followed by cost allocation and modelling/forecasting.

The MIS tool that is anticipated to increase most in usage over the next three years is client profitability. This factor was recognized by the

other direct distributors, banks, and investment counsellors but not by the life insurance companies.

If this tool is successfully deployed at the relationship manager level, it will significantly help relationship managers control the resources allocated to clients.



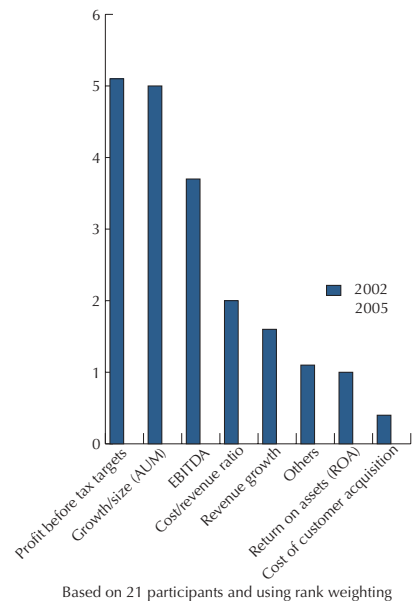
Q. What do you consider to be your principal financial measures and external indicators of performance?

Profit before taxes, growth and EBITDA.

The most important financial measure and indication of performance was considered to be profit before taxes followed by growth in assets under management, and EBITDA.

Revenue growth came in fifth place and this contrasts with its first place in the North American Survey.

Although customer growth has been mentioned as a key objective in other parts of this report, it is surprising that little importance was attached to the cost of customer acquisition.



Profitability bands

Q. How would you assess the relative net profitability generated by each client band currently, and how do you expect this to change in three years' time?

Profitability grows as clients' asset size increases.

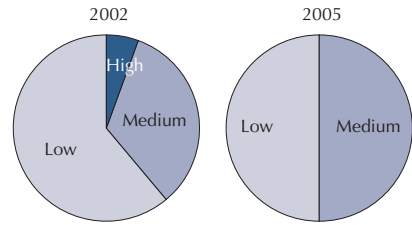
The adjacent charts indicate that the perceived net profitability increases with the level of clients' assets held by the wealth management firm.

Although some participants described a profitability inversion (where profits declined in the greater than \$1 million category), the overall results suggest that profits increase with clients' asset size.

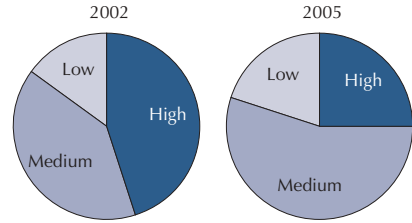
The \$100,000–\$500,000 band suggests that profitability will come under pressure in the next three years.

This finding reinforces the need to use new technology successfully in addressing this growing mid-market sector.

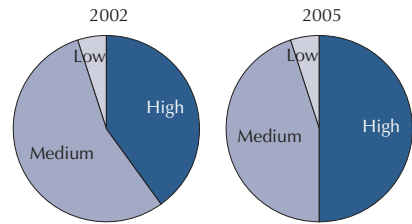
Mass market: less than \$100,000



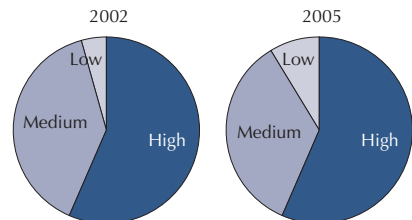
Mid-market: \$100,000 to \$500,000



Emerging affluent: \$0.5 million to \$1.0 million



Affluent: Greater than \$1 million



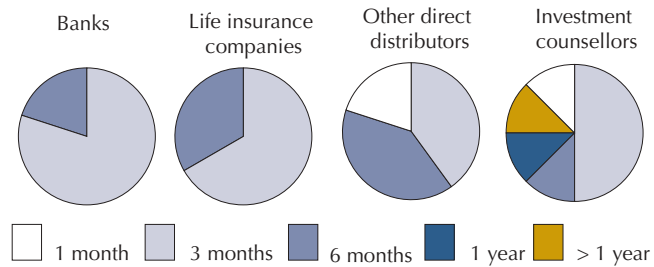
Sales cycle and staff turnover

Q. What is the average sales cycle time to acquire a new client?

While three months appears to be the most common sales cycle time for client acquisition, the time frames vary across the type of firm.

As expected, the longest sales cycle was envisioned by investment counsellors and the shortest by the banks and other direct distributors.

Sales cycle varies by group with investment counsellors taking the longest time.



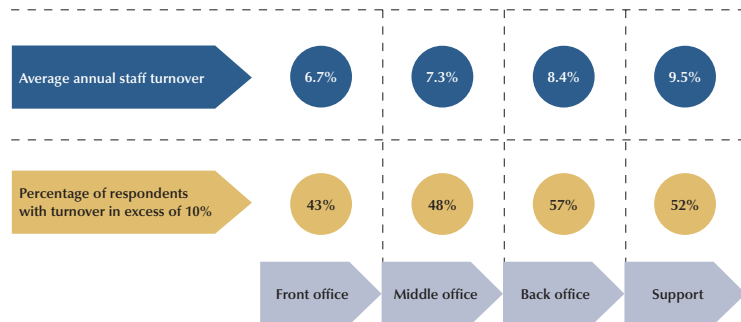
Q. What is your annual staff turnover (i.e. staff who leave) as a percentage of total staff across the following broad operational areas?

Staff turnover increases in wealth management firms as you move from front to back office. In the front office, it was calculated at around 6.7%, while at the support level it was 9.5%.

In the North American survey, staff turnover in the front office was 7.4%, rising to almost 14.0% in the back office.

The percentage of respondents with a turnover of 10% or higher was 43% in the front office and 57% in the back office.

Staff turnover in the front office is 6.7%.



Business development

Q. With regards to business development, do you have specific revenue goals for relationship managers?

The closer to the mass market, the more prevalent the revenue goals.

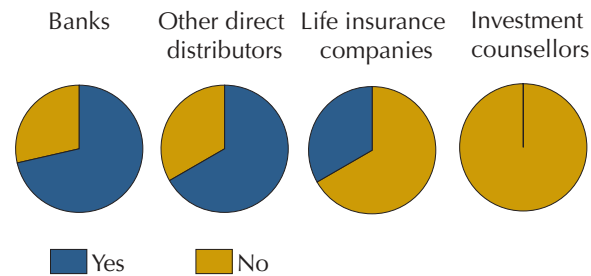
The two types of organizations that seem to be most focused on requiring revenue goals for relationship managers are banks and other direct distributors.

Two of the three life insurance companies said they did not have revenue goals while the investment counsellor group unanimously recorded no goals.

The North American Wealth Management Survey revealed that 74% of participants have

specific revenue goals for new business development and that these goals are tied to length of service and experience.

That survey noted that while AUM (assets under management), revenue targets, and new client assets are vital metrics, greater emphasis is now being placed on cross-selling success, client satisfaction and retention levels as key measures of relationship manager performance.

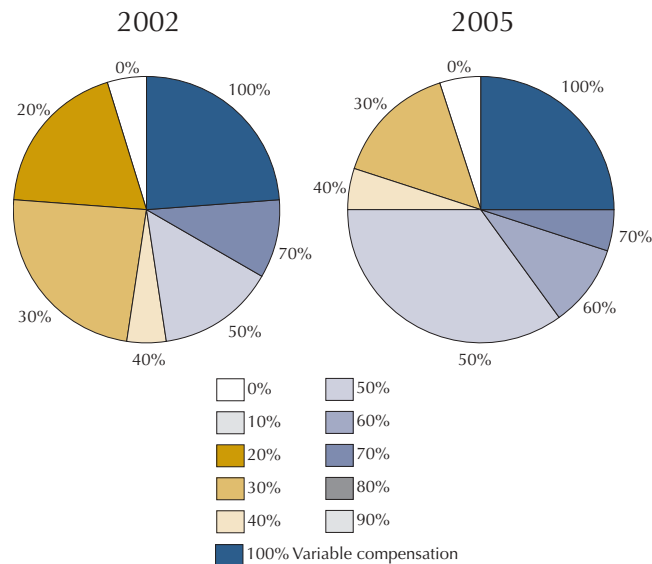


Q. Approximately what of your relationship manager's remuneration is represented by salary and bonus now and in three years' time?

About a quarter of the participants are 100% variable.

At present and in 2005, five participants have 100% variable compensation.

The trend over the next three years is towards greater emphasis on variable compensation. Only one participant had 100% fixed (i.e. salary) compensation.



risk management

Participants' approaches to risk management are revealed in this section. This review looks at their transition along the risk management continuum and describes their policies to identify, monitor, and report risk.

Risk management

Q. How would you currently describe your approach to risk management? Where would you place your organization on the risk continuum today and in three years?

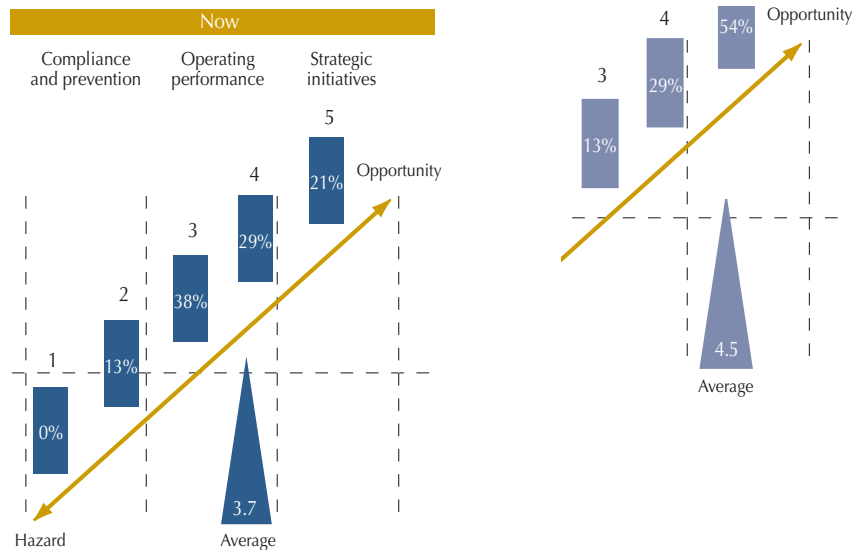
Participants will move significantly up the risk continuum in three years' time.

Risk management is the process by which an organization seeks to understand its risks, take informed decisions to help achieve its strategic objectives, reduce its likelihood of failure, and decrease the uncertainty of overall business performance.

The management of risk is not just about preventing financial loss. It is also about managing opportunity risk to achieve positive gains on behalf of clients, shareholders, and other stakeholders.*

Respondents were asked to describe their approach to risk management using the risk continuum diagram below. The majority (67%) have a risk management approach at either level 3 or level 4, where risk management is seen as

important to achieve operational performance and to manage the hazards within the business. Around 20% of participants record an interest in the strategic aspects of risk management.



A major transition is predicted in three years' time when more than half of the participants (54%) believe they will be at level 5 and using risk management from a strategic perspective.

The highest scores on the risk continuum in three years are recorded by the other direct distributors (4.8) and banks (4.4).

	2002	2005
Banks	3.9	4.4
Life insurance companies	3.0	4.0
Investment counsellors	3.2	3.8
Other direct distributors	3.8	4.8

* European Private Banking/Wealth Management Survey 2000/2001, p. 66.

Importance of risk management

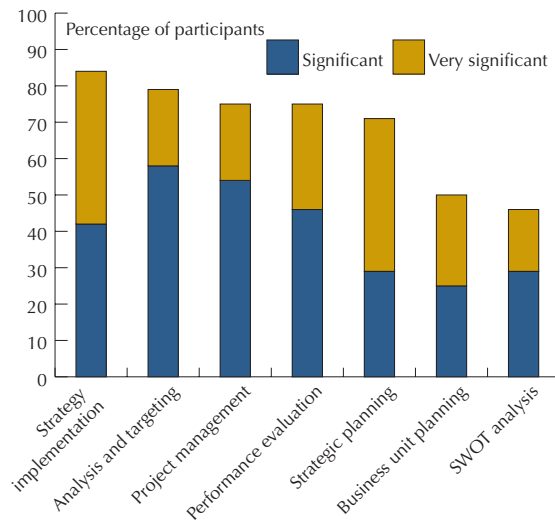
Q. What is the relative importance of risk management within the following management processes?

Risk management is important in consideration of strategy implementation, analysis and targeting.

Over 80% of the participants indicated that risk management played either a significant or very significant role in strategy implementation.

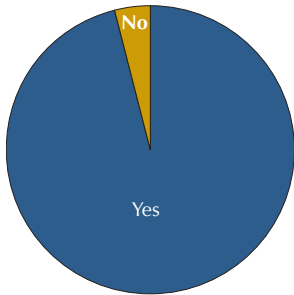
Furthermore, 70% or more participants recorded similar levels of importance for analysis and targeting, project management, performance evaluation, and strategic planning.

Less than half of the respondents thought risk management had a significant or very significant role to play in business unit planning and SWOT (strengths, weaknesses, opportunities, threats) analysis.



Identify, monitor, report risk

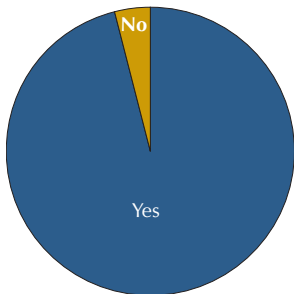
Q. Do you have policies in place to identify risk?



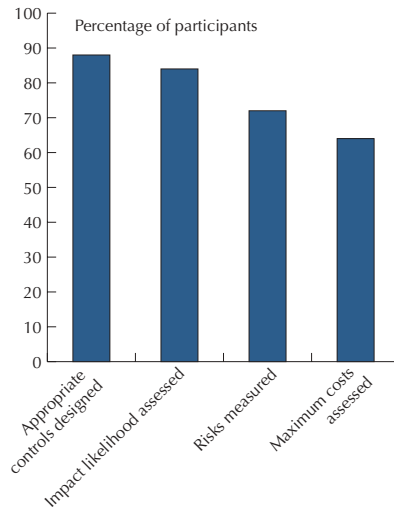
All but one of the survey's respondents had policies in place to identify risk. While close to 90% felt that they had appropriate controls in place designed to control risk, this total fell to 70% when it came to measuring risk.

The percentage dropped again when it came to calculating the maximum expected costs.

Q. Do you have procedures in place to monitor and report risk?



Since all risks, whether financial or operational, carry a financial cost, it is revealing that only 60% of participants claim to be able to measure the maximum cost effect.



Key risk areas

Q. What are the key areas of risk to be addressed within your risk management procedures and how will these change over the next three years?

Key areas vary by group.

Banks and other direct distributors are worried about regulatory risk.

Client relationship will be the most critical issue by 2005.

Topping the list of key areas to be addressed was regulatory risk, followed by processing errors and the client relationship.

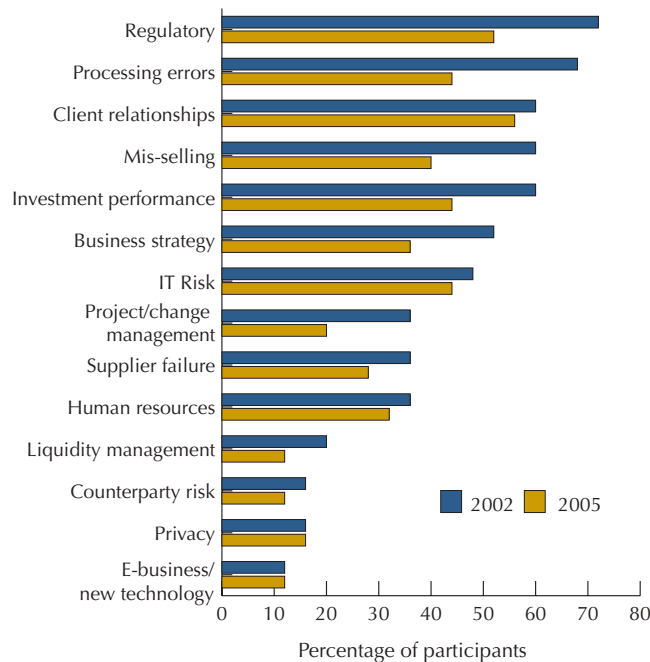
The banks and other direct distributors had high scores for regulatory risks. All six of the other direct distributors highlighted regulatory risk and mis-selling risks.

Most investment counsellors saw risk attached to processing errors and client relationships. The investment counsellors identified investment performance as a key risk, and the life insurance companies and banks also rated this area as a risk.

Regulatory and processing errors also featured as the top two concerns in the North American Survey.

Interestingly, the client relationship is predicted to be the key risk by 2005 as regulatory risk falls into second place.

E-business/new technology and privacy were classified as low risk areas. Reasons for this low score may be that they are deemed to be technology or legal responsibilities or that they were simply felt to be well-controlled at present.



Risk monitoring

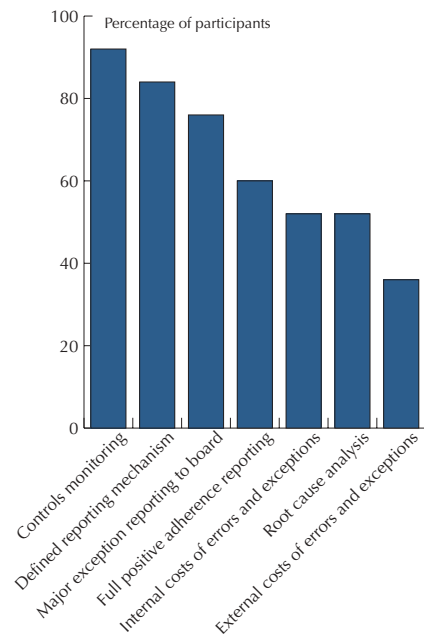
Q. Do you have procedures in place for risk monitoring and reporting? If yes, which of the following are included?

Most participants monitor risk.

Over 90% of the participants had risk monitoring in place, while more than 80% had a defined reporting mechanism and three-quarters had major exception reporting to board level.

Only two of the eight investment counsellor participants had root cause analysis in place and the life insurance companies were lacking in monitoring and reporting internal and external costs of errors and exceptions.

Approximately half of the group also has full positive adherence reporting, internal costs of errors, and exceptions and root cause analysis.



appendices

Methodology and profile data

The survey results in this report are based on detailed responses from twenty-five wealth management organizations.

Participants in the survey represented a wide variety of firms and industry segments within the financial services industry.

The survey was conducted through personal interviews with participants in May, June, and July 2002, in Toronto, Montreal, Vancouver, and Winnipeg.

Participants' statistics:

Size (Assets under control): In excess of \$1.4 trillion

Total combined staff: 36,000

Number of accounts: In excess of \$14 million

All data is stated in Canadian dollars.

* At the time interviews took place Altamira had not been acquired by National Bank.

Wealth management groups

Wealth management organizations polled.

Banks

Bank of Montreal Private Client Group
CIBC
HSBC Asset Management (Canada)
National Bank of Canada
RBC Financial Group
Scotiabank
TD Bank Financial Group
ING

Life insurance companies

Great West Life
Manulife Financial
Sun Life Financial Advisory Services Inc.

Investment counsellors

Beutel Goodman & Company
Burgundy Asset Management Ltd.
Guardian Capital Advisors Inc.
Jarislowsky Fraser
Phillips Hager & North
Sceptre Investment Counsel
YMG Capital Management Inc.
AGF Private Investment Management

Other direct distributors

Altamira Financial Services Ltd.*
Assante Corporation
Cartier Capital
Dundee Bancorp Inc.
Investors Group Inc.
Investment Planning Counsel of Canada

* At the time interviews took place Altamira had not been acquired by National Bank.

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Barry Myers is the Canadian Leader of PricewaterhouseCoopers' Financial Services Practice. Barry has broad knowledge of Canadian securities legislation relating to mutual funds, labour sponsored venture capital funds and U.S. SEC mutual fund accounting and regulatory requirements. Barry is very actively involved in the Investment Funds Institute of Canada and has also served as Chairman of the Canadian Institute of Chartered Accountants Task Force on Financial Reporting by Investment Funds.

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