Group RRSP Assessment Report

Weigh House Investor Services has completed a review of the current Torstar Corp. Group Registered Retirement Savings Plan for CEP, Local 87-M. We have completed the review based upon information provided to us as well as information available via the internet, from the plan provider, Great West Life Insurance Company and its subsidiary companies.

Our opinions are based upon our experience in assessing capital accumulation plans, financial planning and investment strategies. We provide a seven point review the following areas:

1. Overview of the plan and provider
2. Investment choices offered
3. Fees charged to the employees
4. Default options selected by the provider
5. Investment tools and advice provided to employees
6. Performance of the investment options available and reporting of the performance
7. Overview of the complete offering package for employees

Review Scope: The scope of the review is limited and does not cover a number of areas that you may wish to review at a later date, at your option. The review does not include an in depth performance analysis of the investment options. The stated returns and strategies are assumed to be as presented by the investment managers and GWL. The portfolio monitoring reports available to the company from GWL have not been reviewed. Governance, internal controls and audit processes have not been reviewed as a component of this report. The comparison of this plan with other plans was not part of the scope of the report. The competitiveness of the contribution levels by employee and employer are not considered in the report.

1. **Overview of the plan and provider:**

   The investment industry is dominated by life insurance companies and banks due to a combination of financial capacity and a strong regulatory regime in Canada. Most firms deal with large well known firms such as London Life/GWL , Standard Life and Sunlife Insurance for their benefit plans. Insurance companies became the providers of choice when regulations required retirement accounts to be transferred to annuities at a certain age and only insurance companies could offer annuities. While regulations have changed, insurance firms still remain the major providers of capital accumulation plans for Canadian employers and employees.

   Great West Life Insurance Company is a part of a wide financial net work controlled by Power Corp, a large Canadian blue chip corporation. GWL utilizes the expertise of subsidiaries London

Life and its investment arm London Capital in delivering its investment mandate. Great West Life manages $26 Billion in assets, including 17,000 group plans and services 1.2 million plan members.

The size and scope of its operations makes GWL one of the largest insurance firms in Canada. It is rated by the credit rating agencies as AA from Standard & Poors and AA+ from Fitch. These ratings reflect a low risk of insolvency. As well, GWL is a member of Assuris, an industry not-for-profit company that provides compensation in the event a member firm became insolvent. *Overall GWL would appear to be a financially strong and experienced selection to manage the capitalization plans of your members.*

2- Investment Choices:

The plan members have a restricted number of choices from which to construct a retirement portfolio. The choices vary by plan and plan size and as such not all group plans at GWL have comparable investment options.

The current plan has three types of investments which might appeal to to different investors. They offer : a) Lifecycle Funds,

b) Actively managed mutual funds (segregated funds), and

c) compound savings accounts.

a**) Lifecycle funds** are dynamically rebalanced portfolios of funds with a goal of "maturing" at a preset year. The funds would contain equities (stocks) and fixed income (bonds) in a variety of funds wrapped into a single fund name. The fund name tells you when the fund "matures"; for example the Cadence 2025 Lifecycle fund would anticipate funds being withdrawn from the plan between 2023 and 2027. As the fund approaches 2025 the asset allocation would shift a little each year from predominantly high risk stocks to lower risk bonds. This lowers the risk profile of the fund to reduce the chances of large losses immediately prior to the proposed maturity date. The 2025 fund holds 20 separate mutual funds covering fixed income and equities with a wide variety of equity styles and broad geographic diversification. The extremely large number of funds will typically hinder the ability of a fund to outperform the chosen benchmarks, as they typically over diversify and thus reflect the benchmark (less management fees). The fund displays the return data excluding the investment management fee, which makes it appear as if it has exceeded its given benchmark over the 4 year period being graphed.

Pro: Life cycle funds would appeal to members who wish to make a single selection and remain confident that risk is being managed by the fund in a consistent fashion designed to protect the capital the member accumulates in the final few years prior to retirement. This style of fund is appropriate for members who have little interest in being involved in managing their retirement investments.

Con: The drawback would be the fact the chosen level of risk may not be appropriate for the member. Some members may be better served moving large portions of their retirement funds out of equity funds completely in the years prior to retirement. The rebalanced Cadence fund for 2010 maturity carries 35% equity.

2. **Mutual Funds**: Mutual funds issued by an insurance company are known as segregated funds, but for all intent should be viewed as typical mutual funds within the plans. The plans have two styles of mutual funds: a) multi-asset funds and b) single asset funds.

    a) **Multi-asset funds** are similar in concept to the lifecycle funds, but without the dynamic rebalancing of the stocks and bonds to reduce risk. These funds have no target date, but rather retain the original mix of assets each year. The "Balanced Continuum Fund" has a mix of 60% equity and 40% fixed income and rebalances to the same mix on a regular basis. Again, the fund is a wrap of a large number of underlying funds with very broad diversification.

    b) **Single Asset Funds** are available for the Canadian equity, US equity, International equities and a Canadian bond fund and money market fund. The Canadian equities asset class offers two options with differing investment strategies. The Leith Wheeler fund is focused on large and mid capitalization Canadian stocks with a value focus. The value focus is a strategy of buying stocks when prices as lower than normal. The Greystone Canadian equity fund focuses on a growth strategy within the large capitalization stocks in the TSX. This strategy focuses on growth potential rather than current stock prices. Both these funds offer 100% exposure to Canadian equity markets at all times. In contrast, the Canadian Fixed Income asset class and the US Equity asset class have a single offering. The Global asset class has two options and covers non-Canadan equities. The single International offering includes equities outside North America.

3. **Compound savings** accounts are basically a daily interest savings account with interest rates that rise with the amount of time you commit to keeping the funds in the account. If you remove the funds prior to the commitment date you pay a penalty. These are considered "cash equivalent" securities, similar to the Money Market Fund available.

Summary of Choices: The plan offers a wide array of funds and a wide range of strategies within the selections offered. All offerings are "actively" managed funds which attempt, in theory, to exceed the performance of the benchmark indexes. Actively managed funds are more expensive than "passive" strategy funds which do not attempt to beat an index.

The lifecycle funds have a good selection of target dates for employees to choose from. The Lifecycle fund options are offered prominently and are typically the most expensive funds to purchase. Having said that; they are a good choice for many members who do not care to manage their investments in a personal or customized approach.

Similarly the multi-asset funds offer a range of asset mixes from 100% equity to 80% fixed income. Employees who wish to choose a balanced investment strategy can do so. Within the chosen asset mix (i.e. a 80% equity and 20% fixed income choice), member choices are limited to only one Continuum fund. The Canadian Balanced option has only 2 fund choices, neither with a neutral strategy on value or growth stock selection.

The single asset class funds are offering very limited selection. The members typically need to choose between two funds with two differing investment styles or they have only a single fund offering.

Overall we find the fund selections to be large in number but constraining to an employee who wishes to manage the investments in a personalized fashion. There are too few choices of individual asset class funds. As a minimum we would like to see three "active managed" fund options for each equity asset class and at least one "passive" managed option. For example the Canadian, International and U.S. equities should provide a "value " strategy, "growth" strategy, and a "neutral" strategy. As well each should provide at least one passive "index" option. Index funds tend to provide excellent diversification at very low fees. Currently the plan does not offer low fee options and that is a glaring deficiency. The investment management firms are typically well known and respected with strong investment teams. *The construction of the multi-asset and lifestyle funds utilizes a very large number of underlying funds with a wide variety of styles. This approach typically will result in a "shadow index" strategy as the strong performing funds and strategies are counter balanced by poorer performing funds and strategies. The net result is often higher fees with little chance of beating the benchmark index over time and after netting out the higher fund fees. This concern would be somewhat offset by having a passive fund option at lower cost.*

Ref: http://www.cpbi-icra.ca/rtecontent/document/2C-SHARMA.PDF.pdf

3. **Fees** :

   The fees charged for the funds offered in the plan are reflective of a discount from the "retail" price of similar funds. The fees for most of the offerings are in the range of 1.2%-1.4%. The average retail mutual fund sold in Canada has an MER of close to 2.2%. Based strictly upon these norms, the funds offered do have a discount from the retail street management expense ratio (MER) for actively managed funds. The discount is reflective of the purchasing power of the group as well as the desire of GWL to actively market further investment products such as annuities.

   A concrete example of the discount is the comparison of a retail London Life 2015 Profile fund MER of 2.86%, with the Cadence 2015 fund MER of 1.339%.

   In making a more complete fee comparison, we would compare the fees on the funds in the plan with the average retail mutual fund sold in Canada, as well as the average Index fund and

ETF index funds. The plan fees average approximately 1.33%. Retail mutual funds have a average MER of close to 2.2%. However, the average index fund sold in Canada has an MER of closer to 1-1.25%, and the average for ETF Index funds is 0.3-0.5%. Based upon this more complete comparison the fund offerings appear to be more expensive than other options that could be offered.

Documents provided from the CTVGlobeMedia retirement plan show investment funds available for fees of 0.35% when Index funds were included in the plan. Actively managed funds from McLean Budden and Beutel Goodman are offered at 0.5% in the Globemedia document. We also reviewed a Sunlife DC plan and found a wide selection of index funds at fees of 0.5-0.85% as well as actively managed funds at 0.9%-1.35%.

The additional fees charged to the accounts were in the range of 0.04% and covered administration costs such as audit and trade expenses. While not an excessive amount, it is noted that the charges have more than doubled in the Cadence funds from 2007 (0.15%) to 2009 (0.38%). Similarly the Continuum funds have seen significant per centage increases. The third party funds do not show the same rising expense trend which suggests GWL in-house expenses have risen for some reason.

Overall, the fees charged are low relative to a retail option, but are not necessarily low relative to other group plans nor other plans with Index offerings. We are not able to determine if this difference is related to economy of scale or costs specific to the Torstar plan requirements. The plan fund options have a focus on more expensive strategies such as asset allocation and target fund strategies. The administration fees are rising on GWL family of funds and that should be questioned.

4. Default Options:

The plan has two default options built into the investment process.

a) Compound Interest Account: Investments are automatically reinvested into the same term as a maturing account unless the member notifies the plan. This would result in an employee who has a 5 year account maturing, locking into another 5 year account regardless of any plans to retire in less than 5 years. The default prevents investments from being “un-invested” should employees forget to act on a renewal. It is common for employees to have funds un-invested for years if defaults are not in place. *An ideal alternative would be to allow the member to pre-select the default option from three choices: 1- renew to same term, 2- renew to shortest term, or 3- renew to highest rate available.*

b) Investment Direction: If a member does not provide direction for new deposits they will be directed to the Cadence Lifecycle Fund. The choice is one which exposes members to

potentially high risk investments and can result in a loss of a portion of the funds invested. This is an arbitrary selection into a choice that is higher cost and not likely to be suitable to all members. *A more appropriate default might be to the money market fund where losses will not occur.*

c) Financial Planning: *Much of the process for financial planning through iAquaint uses default options which are not necessarily suitable or appropriate*. This will be discussed in the next section in more detail.

5. Investment tools and advice provided to employees:

The written material provided to employees in the Torstar guide is quite well organized and provides information in a rational manner. While it is a fairly lengthy document, it covers the plan basics thoroughly. The material also provides links to phone and on-line resources.

The information included on-line for reviewing the fund details provides a reasonable oversight of the funds objective. The information provided on the funds risk and performance are of poor quality and likely to mislead a member.
Risk: the depiction of risk is based on a “volatility meter” which does not provide an accurate risk reference, and seems to be designed to present less risk than exists in the fund. As an example the “Advanced Continuum” fund is a fund with an 80% equity weighting. This is a high risk equity growth fund. The volatility meter shows the fund as being between medium and low risk.Even the fund descriptor on the web site shows the fund as “medium-higher risk”. A similar review of other funds shows the same trend, with the Mclean Budden US equity fund shown as medium risk regardless of the inherent equity exposure. The fund lost 22% in 2008.

The online tools are not robust. In particular the financial planning advice is a concern. The material has generic motherhood statements that encourage employees to seek an idyllic (and thus expensive) retirement. The default process leads to results that suggest employees need excessive amounts of investments to retire. Using the “planning tool” we selected the middle level of retirement lifestyle from 5 selections; “above average” showed a requirement for annual income of $92,000.00 per year. The Statistics Canada data suggested an income for a senior couple 65 years of age was $45,700 in 2003 (last report available). At 2.5% inflation that would suggest an average of $57,000 today, a far cry from $92,000.00. Splitting that requirement so that I only looked at providing $40,000 in annual income, the planning calculation required I save $742,000 before retiring. Further along tips to reduce expenses were suggestions such as “quit smoking” or bag your lunches two days a week. While we do not question the calculations, we would suggest the defaults are designed to generate high levels of savings.
The iAquaint option leads the member to a remote site to provide “unbiased” assistance with planning. The site has a very long and convoluted approach to developing a financial plan. While it is very thorough, the process is quite onerous and it is unlikely that many, if any, members

would complete the process. As an example the suggestion in the process is that members take a week to gather the correct documents prior to starting the planning process. The site provides a large number of worksheets, many of which seem unnecessary or provide duplicate information. We would suggest you poll your membership to see if the site has had active use. Sites such as this are used by plan providers to show they are adhering to the capital accumulation plan guidelines for educating employees. It can only educate if it is actually used. The site did have a good "education calculator", as well as a number of mortgage, buy vs rent, and other conventional financial calculators members might benefit from.

Overall the material on using the plan and describing the plan seems strong. The presentation of fund material and planning support seem misleading and of less quality or usefulness. Employees would benefit from having access to a face to face meeting with a qualified independent planner and access to an independent retirement planning seminar.

6. Performance of the Funds

The fund performance is readily available to employees from an easy to access online site. The performance report provides historic gross investment returns for periods of 1,3,5, and 10 years where available. The fund review does not provide any comparative benchmark performance in the one page report.
The most noticeable gap is that the asset allocation funds (Cadence and Continuum) do not have ten year performance histories and the Cadence funds do not have five year performance results. It was also noted that where funds had an "underlying fund", the underlying fund performance was used in the calculations prior to the current funds inception. Underlying funds may have had different expenses deducted that may alter the actual performance from what the current fund might provide.
As we discussed previously, the nature of the multi-asset funds causes them to behave similar to their benchmark indexes. The fund reviews consistently show the funds exceeding their benchmarks, however an analysis of the net returns (quoted gross returns less MER) shows that in a sample of 16 funds, fully 15 of the funds did not match the benchmark net of fees on a compounded 5 year basis. In short the managers were not able to justify their fee through higher performance of an equal or greater value than the fees charged. In 2010 the money market funds earned a gross return of $0.66 and charged fees of 0.48%, reducing the actual return to members to 0.18%, considerably less than the fee earned by the manager.
In summary, the funds have had mediocre performances and have generally not been able to add value equal to the fees charged. *The reporting is misleading and would lead plan members to believe the opposite. Returns should be compared to the benchmarks on a net of fee basis for accurate assessment of the value added by the fund managers.*

8. Overview of the complete offering package for employees:

In reviewing the plan the overall assessment is that the plan is well administrated and is managed by a large, competent, and financially sound firm. The process to assist members in obtaining access to their accounts, general information, and to determine fees is acceptable. The guides provided are complete and generally well written.
The advice component related to financial planning and assisting members in making investment decisions is neither user friendly not would we consider the advice to be unbiased. The additional third party support (iAquaint) is a long and tedious process that is neither user friendly not likely to be utilized by members.
The fund offerings are poor, with little choice available to a member who wished to construct a low cost diversified portfolio. GWL uses a wide variety of in-house funds in the asset allocation accounts with no evidence the selection was based upon enhancing the performance of the funds. A common concern with allocation accounts is that they become a useful tool for fund companies to drive investments into the proprietary funds to the detriment of cost and performance. Low cost index funds are missing from the offering and would assist in reducing fees for members. The fund performance is misrepresented in the fund reviews due to the quoting of returns before management fees are deducted. The reviews lead members to believe the funds are outperforming the indexes when members are not receiving the gross returns.
With respect to fees, we did not complete a comprehensive review and would suggest one should be completed. Anecdotal evidence suggests the fees are average for group plans but are not at the low end.

Additional Comment: A question was raised concerning the removal of the funds on retirement with respect to the DPSP. The DPSP documentation supports the ability of the employee to transfer the funds to an RRSP or annuity on a tax free basis. Any lumpsum taken as cash will be subject to income tax in the year received.
As a rule, DPSP's are registered under the income tax act and not as pension plans. Since 1990 employees are not permitted to make contributions and employers have greater flexibility in determining whether to make a deposit or not. In effect the employer can make discretionary contributions if so outlined in the trust agreement.

Deferred Profit Sharing Plans (DPSPs):

See also the Canada Revenue Agency (CRA) information circular IC77-1R5 Deferred Profit Sharing Plans.