SERVING INVESTORS

REPORT TO MEMBERS | SEPTEMBER 2015

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

CONTENTS

The Investment Funds Institute of Canada is the voice of Canada's investment funds industry. IFIC brings together 150 organizations, including fund managers and distributors, to foster a strong, stable investment sector where investors can realize their financial goals. The organization is proud to have served Canada's mutual funds industry and its investors for more than 50 years.

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

THE MUTUAL FUNDS INDUSTRY

Canadians are Building Financial Security with

HELPING CANADIANS SAVE FOR THEIR FUTURE WELL-BEING

85%

To meet their financial goals, Canadians have greater confidence in mutual funds (85%) than in other financial products such as stocks (65%), GICs (64%) and bonds (55%). *(Pollara, 2014)*

35%

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

2.7X

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

STRENGTHENING CAPITAL MARKETS AND THE ECONOMY

17 B

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

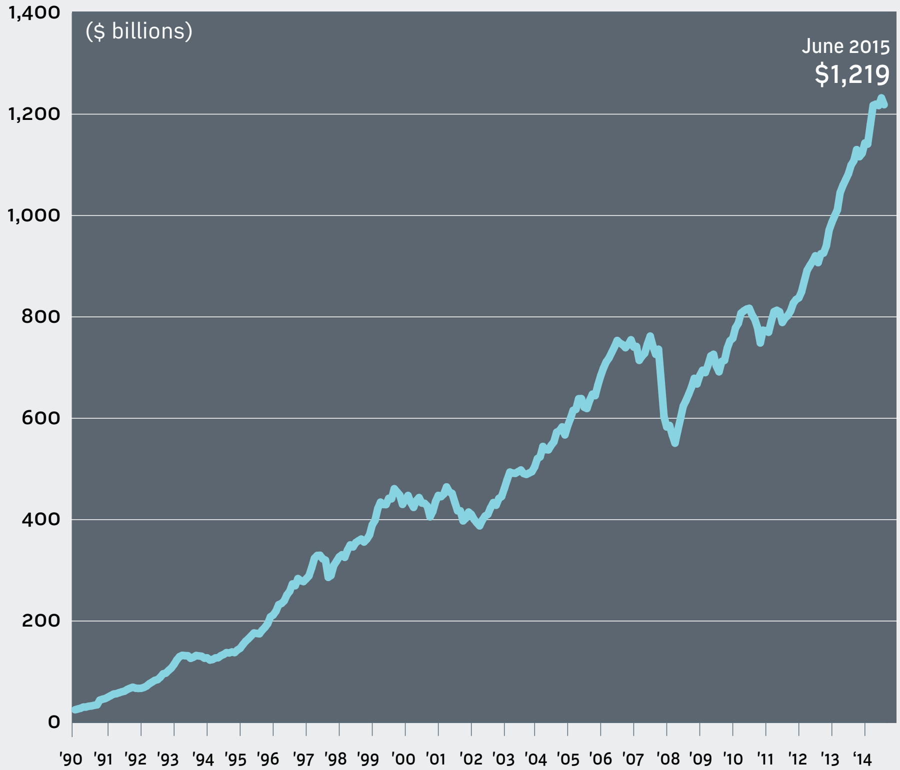
4 B

Our economic activity in 2012 contributed $4 billion to federal government balances and $3 billion to provincial governments. *(Conference Board of Canada, 2013)*

IN CANADA

$1,219,000,000,000 in Mutual Funds as of June 30, 2015.

Industry Assets Under Management



Note: Data is as of December of each year, except as noted.

DISTRIBUTION STATS AND FACTS

85% Approximately 85% of all fund assets in Canada have bundled fees. *(Investor Economics, 2014)*

2.02% The average cost of ownership through advice channels is 2.02% in Canada (excluding the impact of taxes) and 2.00% in the U.S. *(Investor Economics, 2014)*

91% 91% of net flows in 2014 are estimated to have been generated by no-load or front-load funds with waived fees. *(Investor Economics, 2014)*

77% No-load funds and front-end load options with waived fees accounted for 77% of industry assets at the end of 2014 – a share that has been growing steadily. *(Investor Economics, 2014)*

JOINT MESSAGE FROM BOARD CHAIR AND PRESIDENT/CEO

The past year saw investment funds continue to make strong gains as the favoured choice for Canadians in their quest to build a secure financial future.

In 2014, for the first time, Canadians placed significantly more money in investment funds (35 per cent of household financial wealth in mutual funds, ETFs and segregated funds) than in deposits (32 per cent), reflecting the steady growth in confidence that investment funds have experienced over the past two decades. Further evidence of this confidence is found in Pollara's annual survey of Canadian investors.

There are two main reasons for this success.

The first relates to the soundness of the mutual funds product. Mutual funds offer investors – large and small – easy, convenient access to a wide variety of options designed and managed by highly trained professional managers, while protecting investor interests.

The second is the industry's commitment to serve investors well. Over the last year, IFIC and our members renewed our efforts to focus on clients' needs and goals. We reviewed CSA discussion papers to better understand our regulators' perspectives on achieving a more investor-centred approach. We met with regulators across the country to discuss where improvements could be made to deliver a better investor experience and the role that the industry could play in furthering this objective.

Delivering a better investor experience starts with providing a good product and well-informed, accessible and affordable advice, but also includes strengthening investors' knowledge and building their financial confidence to enhance their ability to set realistic goals and make good decisions. With this in mind, our deliberations and discussions with regulators led to the development of a list of specific initiatives, which we have been working to advance.

IMPROVING INVESTOR UNDERSTANDING

A major focus for the industry over the past year was to improve investor understanding of fees, portfolio performance and more. This was done by approaching CRM2 not simply as a disclosure exercise, but as an opportunity to advance investors' understanding and help them get the most out of their advisor relationship.

Chief among IFIC's efforts was the development of two model reports that were released in the spring to help members achieve some consistency in their client reports under CRM2. The clarity of language and design reflected in IFIC's model reports will help investors understand the services they receive, what they pay for them, and whether they are on track to meet their financial goals.

STRENGTHENING PROFESSIONALISM IN THE ADVICE INDUSTRY

Before they can begin to deal with investors, advisors must be licensed and must operate under a robust compliance and enforcement regime overseen by the MFDA, IIROC, and the AMF in Quebec. Through their dealers, advisors are provided with ongoing training. We support the formalization of continuing education programs to create more consistency of training across all channels. Similarly, we support the regulation of those who use the title "financial planner" and who operate outside the MFDA, IIROC and AMF regulatory structures. We look forward to participating constructively in the consultations on these issues.

VULNERABLE INVESTORS

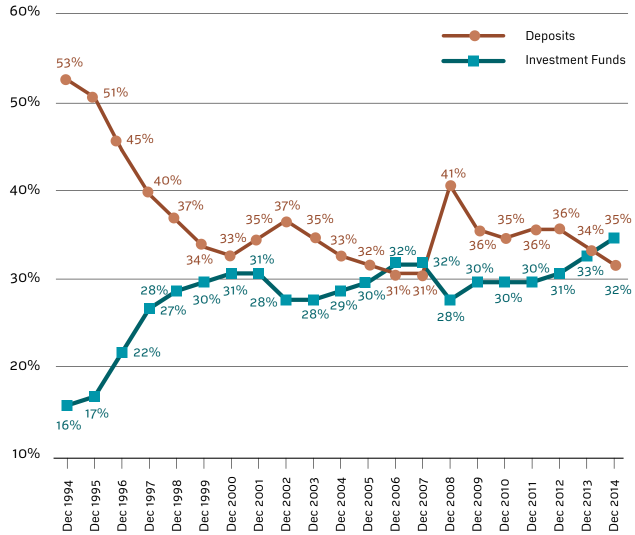
IFIC is spearheading a major project to address the needs of vulnerable investors through a task force that includes representatives from industry, regulators and investor advocates, recognizing that the issues facing advisors, vulnerable clients and their families are difficult and multifaceted. The task force's first project is to develop practical tools to assist dealers and advisors as they prepare to face increasing numbers of clients experiencing age- and illness-related cognitive decline. Over time, these issues will only become more complex and diverse – and less solvable through regulation alone. IFIC intends to promote this multi-stakeholder approach as a model for tackling complex issues in the future.

FOSTERING FINANCIAL LITERACY

IFIC continues to champion a wide variety of national and local initiatives that help to build financial literacy, including the Jr. Economic Club's Boot Camp, Prosper Canada's financial coaching pilot project, and the annual IFIC Investor Education Award. These are described more fully later in this report. CFIQ – the voice of IFIC in Quebec – is participating on an advisory committee set up by the AMF to establish a financial literacy strategy for Quebec.

Through our core value of encouraging savings, and by serving customers well for over eight decades, our industry can take pride in the very positive impact it has had on helping Canadians, including those of more modest means, become more disciplined savers so that they can achieve their life goals.

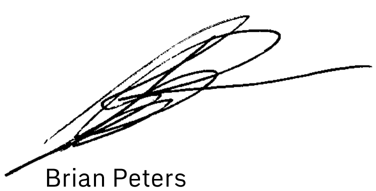
Share of Financial Wealth Held in Investment Funds and Deposits



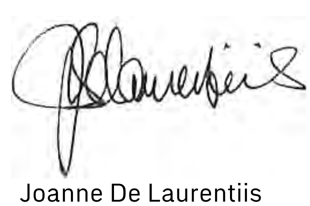
Source: Investor Economics

This report provides more detail on IFIC's work and accomplishments over the past year, including our progress in addressing the board's strategic priorities for 2015. All of our success in advancing these priorities is due to the outstanding direction of our board; the enthusiasm of the many volunteers from our member companies who participate actively on dozens of IFIC committees providing thoughtful input into our submissions and representations before regulators and policymakers; and the hard work and commitment of our dedicated staff who serve the committees, monitor regulatory and policy developments, write submissions, organize events and conduct outreach with all of our stakeholders. Thank you; it is a great pleasure working with all of you.

Sincerely yours,



Brian Peters
Chair, Board of Directors



Joanne De Laurentiis
President and CEO

STRATEGIC PRIORITIES, SUBMISSIONS, OUTREACH

STRATEGIC PRIORITIES

In January, IFIC's board identified three strategic priorities to guide our activities throughout the year:

1. Enhancing communications so that our views on policy issues, research findings and the impact of legislative and regulatory changes are better understood by regulators, investors, the media and other stakeholders, and building our reputation as a responsible and responsive sector.
2. Conducting and identifying credible research by independent third parties to provide meaningful input into policy discussions.
3. Collaborating with policymakers and regulators to raise awareness about the significant ways in which industry and investor interests are aligned, and to advance measures that ensure a strong, stable investment sector where investors can realize their financial goals.

These are the objectives against which we measure our progress and assess our effectiveness. The remainder of this annual report outlines the progress that we have made toward achieving these objectives. Many of our initiatives are longer term in nature and will continue to evolve in future years.

SUBMISSIONS

Since our last annual report, IFIC has made the following submissions to various government bodies to convey the impact of existing or proposed policies and regulations on the industry and investors. (Asterisks identify submissions made jointly with other organizations.)

- Proposed Amendments to MFDA Rules 2.8.3 (Rates of Return) 5.3 (Client Reporting) and 5.4 (Trade Confirmations)
- Amendments to the Loss Restriction Event Rules in Bill C-43
- IIROC Conforming Rule Proposals – NI 31-103
- Proficiency Assurance Model (IIROC)
- Cooperative Capital Markets Regulatory System – Draft Legislation
- OECD CIVs and Follow-up Work on Action 6 (Prevent treaty abuse)
- OECD Treaty Relief and Compliance Enhancement Implementation*
- Impact of Bill C-377 on mutual funds and their investors
- Toward a National Strategy for Financial Literacy, Phase 3 Young Canadians and Adults
- 2015 Ontario Pre-Budget Consultation
- 2015 Federal Pre-Budget Consultation
- 2015 Pre-budget presentation to Standing Committee on Finance (Canada)
- Ontario Retirement Pension Plan – Key Design Questions
- Alternative Minimum Tax and Unit Trusts
- Ontario Retirement Pension Plan
- Systemic Risk of Asset Management Products and Activities – Financial Stability Oversight Council (U.S.)
- Improving the U.S. Tax Code – Territorial Taxation and the Passive Foreign Investment Corporation Rules – U.S. Senate Finance Committee
- Pooled Registered Pension Plans
- 2015-2016 OSC Statement of Priorities
- Review of the Mandates of the Financial Services Commission of Ontario, Financial Services Tribunal and the Deposit Insurance Corporation of Ontario
- Financial Services Commission of Ontario Statement of Priorities
- Second Proposed Framework for Designating G-SIFIs*, Financial Stability Board and IOSCO
- Application of Minimum Alternate Tax* – India Department of Revenue

OUTREACH

Over the past year, IFIC has met with the following government bodies and organizations to build relationships, and to advocate and collaborate on issues of mutual interest:

Regulators and Policymakers:
Securities commissions in British Columbia, Alberta, Ontario, Quebec and New Brunswick; CSA Investment Funds Committee, Chambre de la sécurité financière, Investment Industry Regulatory Organization of Canada, Mutual Fund Dealers Association of Canada, Investor Education Fund, Department of Finance, Department of National Revenue, Department of Labour, Canada Revenue Agency, Financial Consumer Agency of Canada, Financial Institutions Commission, Canadian Securities Transition Office, Canadian Embassy in Washington, House of Commons Finance Committee, Office of the Leader of the Official Opposition (Ottawa), Ontario Ministry of Labour, Ontario Ministry of Finance, Office of the Premier of Ontario, Ombudsman for Banking Services and Investments, Ontario MPPs, Deputy Leader – Ontario PC Party, Finance Critic – Ontario PC Party, Finance Critic – Ontario NDP, Revenu Québec, Quebec's Second Opposition Group Critic for Finance.

Other Associations and Think-Tanks:
Canadian Life and Health Insurance Association, Canadian Bankers Association, Investment Industry Association of Canada, Credit Union Central of Canada, Portfolio Management Association of Canada, Advocis, Insurance Brokers Association, Financial Planning Standards Council, C.D. Howe Institute, Fraser Institute, Montreal Economic Institute, Canadian Foundation for Economic Education, FAIR Canada, Consumers Council of Canada, CPA Canada, Couchiching Institute on Public Affairs, Toronto Financial Services Alliance, Finance Montreal, Independent Financial Brokers of Canada, Northwind Institute, Ontario Financial Services Forum, Strategic Insight, University of Calgary, Ontario Chamber of Commerce, Prosper Canada, OSC Investor Advisory Panel, Financial Services Council.

International:
International Investment Funds Association, Investment Company Institute (U.S.), Investment Management Association (U.K.), CFA Institute, Institute of Public Affairs (Australia), International Tax Counsel, United States Senate Finance Committee, 2015 Wealth Forum (India).

SPOTLIGHT ON:
THE INVESTOR EXPERIENCE

Over the past year, the funds industry has expanded efforts to identify and proceed with changes to enhance the experience of investors.

We have spent time actively considering improvements to industry rules and practices that might strengthen our ability to provide investors with consistent, clear and helpful information that would lead to more meaningful conversations with their advisors. Our ultimate goal is to continuously improve investors' understanding, build their financial confidence, and enhance their decision-making.

We have focused our attention on a number of specific initiatives, many of which have been raised in government discussion papers. Three of these initiatives are CRM2, the suitability process and vulnerable investors.

CRM2

The mutual funds industry is firmly committed to implementing CRM2 effectively and on time. The industry recognized early on that CRM2 wasn't a competitive issue but a 'neighbourhood issue' that needed to be addressed cooperatively for the benefit of the investor. We created several committees, generating the largest number of industry volunteers dedicated to a single project in the history of IFIC. Two work streams were developed – one focused on internal technical and operational matters; the other focused on the more public customer-facing aspects.

These efforts are producing results in three areas that go beyond what the industry and our regulators had envisioned:

- Industry consensus among our members has been achieved on several operational issues. The resulting consistency in approach will lend itself to improved investor understanding.
- The industry has worked together through IFIC to produce several tools and documents (some of which are featured on this page) that will significantly enhance public/investor understanding.
- CRM2 will raise investor awareness of advisor and dealer services, as advisors work to ensure that they are delivering and communicating effectively on their value proposition to their clients.

SUITABILITY PROCESS

At the core of the advisor-investor relationship is the need to ensure that the investments the advisor recommends are suitable for the investor. This starts with good product knowledge on the part of the advisor. Equally essential is the need for the advisor to know the client's needs, financial circumstances and risk tolerance. The Know Your Client process is based on formal documents but also relies on discussions between the advisor and investor.

While existing rules governing suitability are quite robust, the industry is open to measures that would help dealers strengthen their suitability processes along the lines recently proposed by the MFDA. The proposal will help advisors more effectively probe investors to better understand and articulate their objectives, financial circumstances, and the level of risk they may be comfortable taking when making investments.

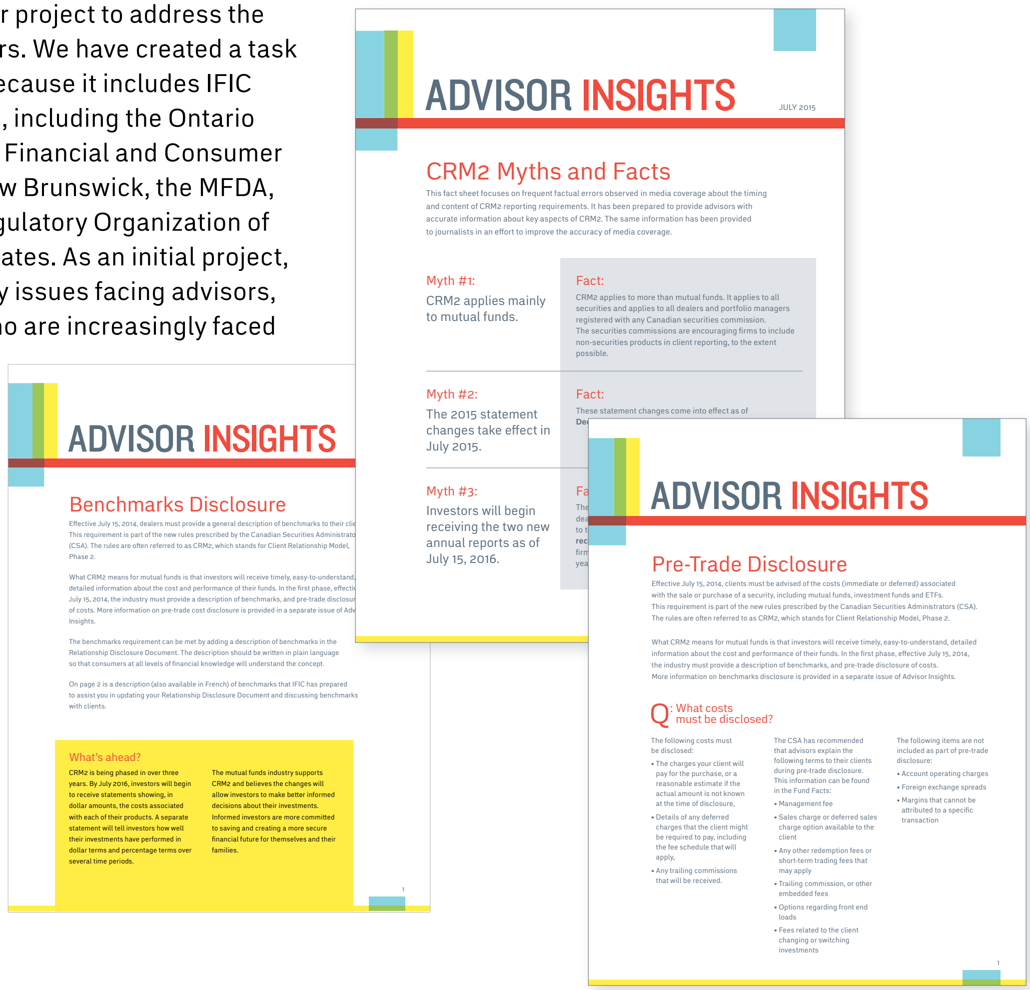
VULNERABLE INVESTORS

IFIC is spearheading a major project to address the needs of vulnerable investors. We have created a task force – the first of its kind because it includes IFIC dealer members; regulators, including the Ontario Securities Commission, the Financial and Consumer Services Commission of New Brunswick, the MFDA, the Investment Industry Regulatory Organization of Canada; and investor advocates. As an initial project, we are scoping out the many issues facing advisors, clients and their families who are increasingly faced with age- and illness-related cognitive decline and the implications for financial decision-making. The task force is developing practical tools to help dealers and advisors create a consistent body of smart practices.

This will enable advisors to better prepare clients for the possible loss of cognitive skills in the future and assist in identifying and working with individuals who have already begun to exhibit cognitive decline.

Aging populations are not simply a Canadian phenomenon. As part of this project, we are also working with the North American Securities Administrators Association to contribute to an international body of best practices.

Seniors are not the only financially vulnerable population. Low-income Canadians, young Canadians, members of aboriginal communities and new Canadians all face issues that require attention. IFIC and several of its members are providing funds and volunteers for a Prosper Canada pilot project that will help social assistance recipients gain the knowledge and behaviours that will help them plan for and achieve financial goals.



SPOTLIGHT ON: STRENGTHENING PROFESSIONALISM IN THE ADVICE INDUSTRY

ABOUT IFSE
IFSE Institute is IFIC's education arm. IFSE offers a wide range of high-quality distance learning courses in mutual funds, the exempt market, insurance and continuing education.

IFSE is the Canadian leader in its field. Its educational offerings help to strengthen the level of professionalism within the investment funds industry.

IFSE Prepares to Launch New ETF Course
In 2015, IFSE developed a new Exchange-Traded Fund (ETF) course and began working with the MFDA to ensure the course will meet pending MFDA guidelines.

IFSE Adapts to Meet Ongoing Needs
Continuing Education courses currently offered or in development by IFSE include:

- Segregated Funds – *Being Updated*
- Tax Efficient Investing – *New*
- Exchange-Traded Funds – *In Development*
- Client Relationship Model – *In Development*

Canada's 140,000 registered financial advisors must meet specific licensing requirements. They are subject to active regulatory oversight and they must meet prescribed standards for providing investment advice and dealing with clients. The dealer firms that support financial advisors must have internal controls, risk management and compliance systems.

But robust as it is, the regulatory regime that governs mutual funds advisors could be enhanced.

A majority of IFIC's dealer members are already providing ongoing education and training to advisors on a voluntary basis. In Quebec, the Chambre de la sécurité financière oversees a mandatory continuing education program.

Formalizing existing programs in other parts of the country, with specific modules that would serve to refresh areas of knowledge and expertise while delivering information on emerging issues, would be well-received by the industry. It would also help to bolster the overall level of professionalism within the industry.

ONTARIO GOVERNMENT EXPERT PANEL ON FINANCIAL ADVISORS AND PLANNERS

In his 2014 fall economic statement, Ontario's finance minister, the Honourable Charles Sousa, stated that the next step in the province's review of financial planners and advisors would be to appoint an expert panel to lead the next phase of the review and make recommendations to the government.

The panel was appointed in April 2015, at which time Minister Sousa indicated that the panel would submit an interim report to the government in fall 2015 and a final report early in 2016.

In its past submissions, IFIC has emphasized the robust framework of licensing and oversight of advisors currently in place to protect investors, while acknowledging the existence of some gaps that could be addressed. IFIC will continue to press for careful analysis of those gaps and the application of targeted solutions, rather than additional layers of regulation and cost for those advisors who are already well-regulated.

SPOTLIGHT ON:
THE VALUE OF ADVICE

Over the past year, IFIC authored or commissioned several reports (contained in *The Year in Review* on pages 12-13) illustrating how good financial advice can boost saving rates, leading to better retirement readiness and bolstered economic output. We continue to share the findings of these reports and to reinforce their key messages through a variety of vehicles, including member communiques, briefs to regulators and policymakers, and traditional and new media channels.

Our most recent research reaffirms that the foundational principles of mutual funds – shared costs, risks and rewards – are enhanced through the provision of financial advice.

Independent research and academic studies confirm that higher levels of wealth are achieved by those who consult advisors on a continual basis. These investors also exhibit healthier savings habits and are more confident in their ability to be financially ready for retirement.

Mutual funds products enable Canadians, including first-time savers and those with modest incomes, to invest and to access advice. Advisors help foster the discipline required to create and maintain a savings plan. Studies show that individuals who regularly work with a financial advisor make higher use of registered savings plans, with mutual funds accounting for 47 per cent of all wealth held in RRSPs.

SPOTLIGHT ON:
HELPING CANADIANS SAVE WHILE STRENGTHENING THE ECONOMY

Over the past year, three economic reports were published that underscore the important role that our industry plays in the Canadian economy.

These include two studies quantifying the economic footprints of the mutual funds industry in Ontario and Quebec, and a report analyzing the impact of financial advice on retirement income and the economy.

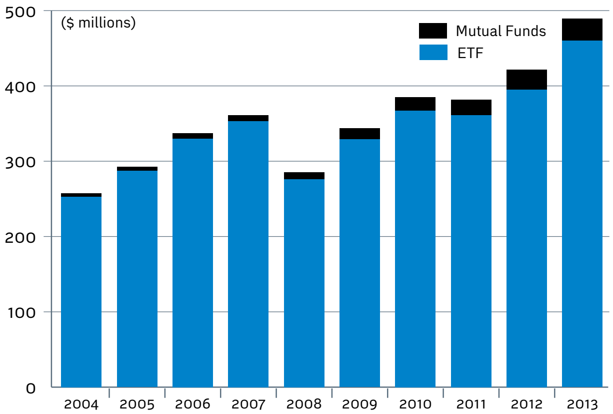
The reports highlight the many positive impacts of the funds industry on the economy, such as job creation and raising capital to finance business growth and innovation, in addition to building a savings culture by helping Canadians stay on track to achieve their financial goals. These findings convey the importance of ensuring that public policies actively facilitate and promote a strong and stable investment sector that can continue to serve as an important vehicle for individual savings.

Highlights from each of the reports appear to the right.

ASSESSING THE ECONOMIC FOOTPRINT OF ONTARIO'S FUNDS INDUSTRY

Conference Board of Canada, November 2014

Mutual Fund and ETF Assets Held in Ontario



Source: Investor Economics and The Conference Board of Canada

Ontario's funds industry plays a valuable and significant role in the Ontario economy:

- The value of mutual funds and ETF assets held in Ontario grew by 90 per cent over the decade ending in 2013, to $489 billion.
- As of 2013, the industry had an economic footprint of $11.4 billion in real GDP and accounted for 1.8 per cent of total real GDP in the province.
- The funds industry directly employed more than 44,000 people in 2012, and more than 119,000 jobs were sustained by the industry.
- Total tax revenue collected from the industry's economic activity in Ontario was $2.8 billion.

QUEBEC'S MUTUAL FUND INDUSTRY: ASSESSING THE ECONOMIC FOOTPRINT

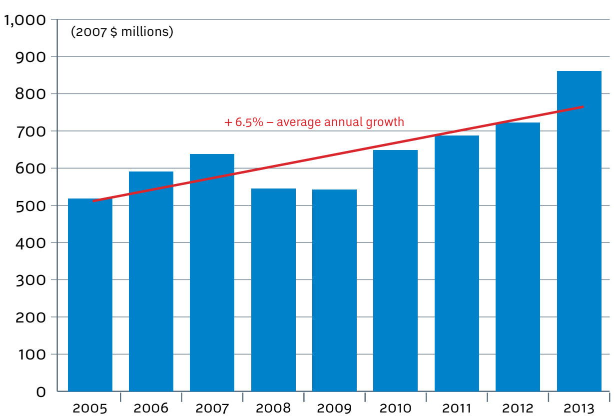
Institut du Québec, June 2015

This report demonstrates the importance and vitality of the Quebec mutual funds industry to Quebec's economy:

- Quebecers' investments in mutual funds and ETFs have soared, from $80 billion in 2004 to $180 billion in 2013, achieving annual average growth of nine per cent over nine years.
- Economic activity associated with the funds industry in Quebec has grown much more rapidly (average annual rate of 6.5 per cent since 2005) than the province's overall economy (GDP grew by 1.4 per cent annually during the same period).
- The Conference Board of Canada believes that the Quebec funds sector will continue to grow at a rate higher than the overall Quebec economy.
- More than 18,000 jobs in Quebec were supported by the funds sector in 2013.
- The funds industry generated $435 million in tax revenue for the Quebec government and had a total economic footprint of $1.8 billion in the province in 2013.

The $180 billion in assets managed by the funds industry is particularly impressive when compared to the $200 billion in assets managed by the Caisse de dépôt et placement du Québec (December 31, 2013).

Contribution of the Quebec Funds Industry to Real GDP in Quebec



Source: The Conference Board of Canada, Statistics Canada, Investor Economics

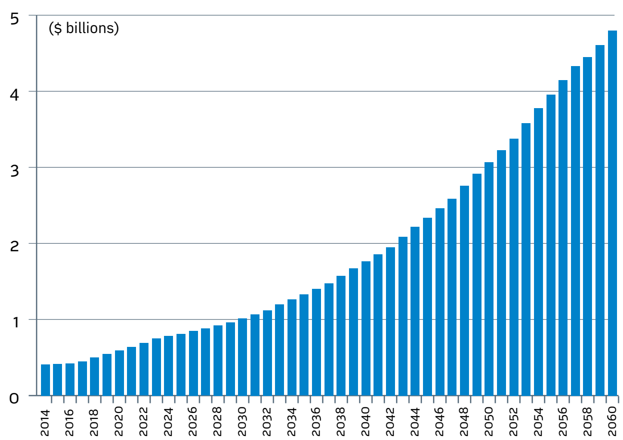
These figures clearly demonstrate Quebecers are placing their trust in the industry. It also reveals a strong commitment on the part of Quebecers to prepare adequately for retirement.

FINANCING THE FUTURE: BOOSTING RETIREMENT READINESS AND THE ECONOMY THROUGH FINANCIAL ADVICE

Conference Board of Canada, September 2014

This study found that the savings that would be generated by just a 10 per cent increase in the number of advised households over the long-term (Y2060) would increase real GDP by $2.3 billion annually.

Annual Increase in Savings



Source: The Conference Board of Canada

This marks the first time that independent researchers have modeled the larger economic impact of higher saving rates based on the quantifiable asset-building benefits of using a financial advisor.

These findings offer useful insights for public policymakers as they look for ways to create long-term individual financial wealth and economic growth. They underscore the importance of pursuing public policies that actively support and promote access to advice for the average Canadian household.

THE YEAR IN REVIEW

September 2014

18 30

- Accounting for the True Cost of the CPP (Fraser Institute)
- Paying for Advice: Why Options are Important (IFIC)
- Boosting Retirement Readiness and the Economy Through Financial Advice (Conference Board)
- CFIQ Annual General Meeting
- IFIC Annual Meeting
- Proposed Amendments to MFDA Rules
- Fund Volatility Risk Classification Guidelines – 2014 Update

October

1 19-22

- Toronto ranked second best financial centre in North America and sixth in the world (The Banker – affiliated with The Financial Times)
- Canadian Investors' Perceptions of Mutual Funds and the Mutual Fund Industry (Pollara)
- IFIC 2014 Leadership Conference: Global Insights – Canadian Viewpoints
- International Investment Funds Association: Annual Conference
- IFIC testifies: House of Commons pre-budget hearings
- Amendments to loss restriction event rules
- CFIQ participates in developing Quebec financial literacy strategy
- Dealer templates to provide book cost adjustment info to fund managers
- Online magazine: *Informed Investor*

November

13 20

- Assessing the Economic Footprint of Ontario's Funds Industry (Conference Board of Canada)
- IFIC Operations Day: MFDA enforcement, cybersecurity, CRM2 , FATCA and more
- CFIQ seminar: FATCA, CRM2 and PFIC
- IIROC Conforming Rule Proposals NI 31-103
- IIROC Consultation: Proficiency Assurance
- IFIC testifies: House of Commons hearings on Loss Restriction Rules
- Sun Life Financial wins IFIC Investor Education Award

December

- OECD Treaty Relief and Compliance Enhancement*
- Impact of Bill C-377 on mutual funds and their investors
- Phase 3 of National Strategy for Financial Literacy
- Ontario pre-budget consultation
- Capital Markets Stability Act and Provincial Capital Markets Act
- Application of OECD treaty benefits to investment funds
- CFIQ LinkedIn page
- Best Practices Guide on 1st 60-day Processing

January 2015

- Financial Regulation and Efficiency (CD Howe Institute)
- Building on Canada's Strong Retirement Readiness (McKinsey and Company)
- Federal pre-budget consultation
- Proposed Ontario Retirement Pension Plan
- IFIC testifies: House of Commons Finance Committee: pre-budget consultation
- IFSE Institute prepares Canadian Investment Funds Operations Course, launches Exchange-Traded Funds Course
- Factual analysis of the costs of pension plans and mutual funds

Research and Analysis | IFIC Submissions and Appearances | * Joint Submissions
Events | IFIC Tools and Initiatives

February

March

12 – IFIC Workshop: "FATCA Reporting and Beyond: The Funds Perspective"

- Alternative minimum tax and unit trusts
- Ontario Retirement Pension Plan
- Systemic risk of asset management products and activities

- IFRS Toolkit Update

April

21 – CFIQ Compliance Conference

- Passive Foreign Investment Corporation legislation
- Pooled Registered Pension Plans

- CRM2 Dealer Checklist to prepare 2015 statement changes
- CRM2 model reports on charges and compensation, and investment performance, a guide to the reports and a tool aligning report lines with FundSERV Standards Files
- Cybersecurity Update
- IFIC president speaks to Registrant Regulation Conduct and Compliance Summit in Toronto

May

- The Value of Financial Advice (Annals of Economics and Finance)
- 2015 Update - Monitoring Trends in Mutual Fund Cost of Ownership and Expense Ratios - A Canada - U.S. Perspective (Investor Economics)
- Quebec's Mutual Fund Industry Assessing the Economic Footprint (Institut du Québec)

- IFIC members reach consensus on money weighted rate of return formula for CRM2 reporting

June

- Financial Life Stages of Older Canadians (Brondesbury Group)
- Canadian Open-End Mutual Funds: An Assessment of Potential Vulnerabilities (Bank of Canada)
- Mutual Fund Fee Research (Brondesbury Group)

- OSC Statement of Priorities
- Mandate Review: FSCO, FST, DICO
- Statement of Priorities – Financial Services Commission of Ontario
- Determining global systemically important financial institutions*
- India's minimum alternate tax*

22 – IFIC Tax Symposium

- IFIC launches LinkedIn forum for investment funds professionals
- Prosper Canada launches financial coaching pilot, with major support from the investment funds industry
- New communications tools on research and statistics

July

9 – IFIC Annual Golf Classic

21 – Compulsory Government Pensions vs. Private Savings: The Effect of Previous Expansion to the Canada Pension Plan (Fraser Institute)

- Fund Volatility Risk Classification Guidelines – 2015 Update
- IFIC encourages members to participate in OSC Investor Advisory Panel survey on investor risk tolerance assessment practices
- Media Backgrounder: CRM2 myths and facts
- IFIC president speaks to Wealth Forum Annual Conference, India
- Advisor Insights: CRM2 Myths and Facts

SPOTLIGHT ON:
REDUCING INVESTORS' TAX BURDEN

Taxation and tax reporting requirements of mutual funds raise costs for investors. This, in turn, hinders the ability of Canadians to save for their own futures and to invest in the economy.

With this in mind, IFIC works with its members to actively study and make recommendations and representations on a range of tax matters. Through the work of several IFIC committees, we have secured favourable outcomes in several areas over the past year. Major highlights include:

FEDERAL TAX ACTIVITIES

Restricted Loss Event Rules: The federal government adopted legislation to provide relief for NI 81-102 funds and pooled funds from the Restricted Loss Event Rules. If applied to funds, these rules would have impacted investors, as any capital losses held within a fund that could not be offset against current capital gains at the time of the loss restriction event would be lost to the fund in future years. This would have put more taxable income in the hands of investors, lowering their effective return on investment.

Foreign Account Tax Compliance Act (FATCA) Implementation: Last year, IFIC succeeded in having registered products (including approximately 60 per cent of mutual fund accounts) exempted from FATCA documentation and reporting requirements. In addition, we secured other significant provisions, such as exemptions for firms with local client bases, a simplified documentation process for snowbirds and students who spend time in the U.S., and the division of reporting responsibilities between fund managers and dealers.

IFIC continues to promote FATCA implementation approaches that minimize disruption for investors and lower implementation costs. For example, the Canada Revenue Agency (CRA) agreed that dealers holding nominee accounts could report the annual account information in aggregate for the first three years, and consideration is being given to making this arrangement permanent – as is the case for client-name accounts. As well, firms were given additional time to amend their FATCA reporting files to remove non-reportable accounts before the files are sent to the U.S. Internal Revenue Service.

IFIC has provided input to the CRA regarding implementation dates for the OECD Common Reporting Standard and revisions to the CRA Guidance Notes for FATCA implementation.

CRA/Financial Services Liaison Committee: At the suggestion of IFIC, a joint CRA-industry committee was created with representatives from financial services associations. The joint committee is co-chaired by the CRA and IFIC. It provides a forum for the industry and government to work together to improve the administration of Canada's tax system.

The joint committee has discussed a number of issues. For example, it is seeking solutions for TFSA registration mismatches in order to reduce the number of rejected account registrations while maintaining an effective account validation process. In addition, it is identifying approaches to address the 2009 TFSA tax reporting issues tabled by the industry.

Specified Foreign Source Income Reporting (T1135): In 2014, IFIC obtained permanent administrative relief for pooled fund reporting on specified foreign source income. The reporting requirements would have made it necessary for pooled funds to store daily balances on all their foreign security holdings.

Foreign Source Income Reporting (T3): After granting temporary relief in 2014, the CRA agreed to permanently remove a provision in the T3 guide. Under the provision, funds that derive income from foreign sources would have had to produce individual, instead of consolidated, T3 and RL16 slips. This would have resulted in funds producing an estimated 20 tax slips for every one that they produce under the new regime.

QUEBEC TAX ACTIVITIES

Quarterly Meetings: Revenu Québec is holding quarterly meetings with representatives from IFIC and IIAC to address issues under consideration so that unintended consequences for the government, industry and investors can be identified and addressed prior to implementation.

Foreign Source Income Reporting (Relevé 16): Revenu Québec agreed to provide temporary administrative relief for Relevé 16 foreign source income reporting, similar to the federal T3 issue noted above. Revenu Québec is considering IFIC's request to abolish this requirement now that the CRA has done so.

Delayed Implementation of Cost-Base Reporting Requirement: Revenu Québec agreed to IFIC's request to delay the requirement to provide cost-base information on the RL18/Trading Summary until CRM2 is implemented.

ONTARIO TAX ACTIVITIES

Administrative Relief for the Ontario Surtax: IFIC worked with Ontario Ministry of Finance officials to resolve an unintended consequence of changes to Ontario's Taxation Act that would have impacted members carrying on business as a mutual fund trust resident in Ontario. The ministry granted our request, providing a comfort letter for the 2014 tax year, and in June 2015, the government passed legislation making the 2014 relief permanent.

SPOTLIGHT ON:
FINANCIAL WELL-BEING

Financial literacy is the first step towards a lifetime of financial well-being.

Over the past year, the investment funds industry has continued to play a leadership role in improving Canadians' financial knowledge and their ability to adopt positive financial behaviours.

EMPHASIS ON INVESTOR UNDERSTANDING

Informed investors make better decisions, are more disciplined about staying the course during uncertain economic times, and have better-quality conversations with their advisors. Members of our industry work hard to instill life-long savings habits through the regular knowledge transfer that is the hallmark of the advisor-investor relationship.

PUTTING IDEAS INTO ACTION

IFIC supports its members' financial literacy efforts by creating accessible plain-language materials to help the industry adapt its procedures, train advisors and employees, and educate clients. Over the past year, we have committed additional resources to turning research findings supporting the value of mutual funds and the value of advice into concise language that members can readily integrate into their own communications tools. We have significantly advanced understanding within the industry, media and the public about CRM2, using plain language and clear graphics to make the information easy to understand and incorporate into investor communications. The Conseil des fonds d'investissement du Québec (CFIQ) is participating in the development of a financial literacy strategy in Quebec through a committee established by the Autorité des marchés financiers.

FINANCIAL LITERACY IN THE COMMUNITY

Many IFIC member firms are actively engaged in innovative partnerships to raise financial literacy across the country. As the voice of the industry, IFIC is proud to support several initiatives, including:

Bay Street Boot Camp
– Jr. Economic Club of Canada

This five-day summer program attracts students from across Ontario to the heart of the financial district to gain financial knowledge and learn about personal money management, with a special focus on entrepreneurship and business plan writing. Students compete to win prizes and scholarships when they pitch their business plans at the end of the week to a "Mega Mind Panel" of CEOs and government officials. The boot camp experience and the scholarships that are awarded have a lasting positive impact on these bright young women and men.

JR. ECONOMIC CLUB OF CANADA

"MPower" Money Coaching Program
– Prosper Canada

This innovative pilot project was designed to help low-income participants access quality financial advice. The initiative was developed by national charity Prosper Canada and is being delivered in partnership with the City of Toronto's Employment and Social Services division. Most of the funding for the pilot project has been donated by several of our members and by IFIC. The launch event featured remarks by Jane Rooney, Canada's first financial literacy leader.

The objective of the pilot is to help participating low-income individuals identify, plan for and achieve personal financial goals. Participants are supported by volunteer professional financial planners trained to provide financial coaching to people with low-incomes.

Prosper Canada
CENTRE FOR FINANCIAL LITERACY

IFIC Investor Education Award
– IFIC in partnership with Morningstar Canada

This award is presented annually to an investment funds manager, dealer or integrated firm that has produced an exceptional educational initiative for investors. IFIC established the Investor Education Award in 2006.

Past winners of the IFIC Investor Education Award:

2014	Money up	Sun Life Financial
2013	Money and youth	Investors Group
2012	Brandes scholarship program	Bridgehouse Asset Managers
2011	My retirement café	Sun Life Financial
2010	Your retirement briefcase	National Bank
2009	Snapshots	Dynamic Funds – Invest with advice.
2008	Don't retire from investing. Invest for retirement.™	Russell Investments
2007	Socially responsible investing	Mackenzie Investments

SPOTLIGHT ON:
RETIREMENT SAVINGS

Helping Canadians build wealth to sustain them in retirement is a core activity of the investment funds industry and one that delivers significant public policy benefits. Research demonstrates that individuals who invest in mutual funds are not only better prepared for retirement, they also report higher levels of confidence about their retirement readiness. IFIC highlights the industry's contributions on this front to policymakers. We promote a public policy and regulatory environment that respects the industry's value as a vehicle through which individuals can achieve financial security in retirement, while maintaining flexibility and access to financial advice.

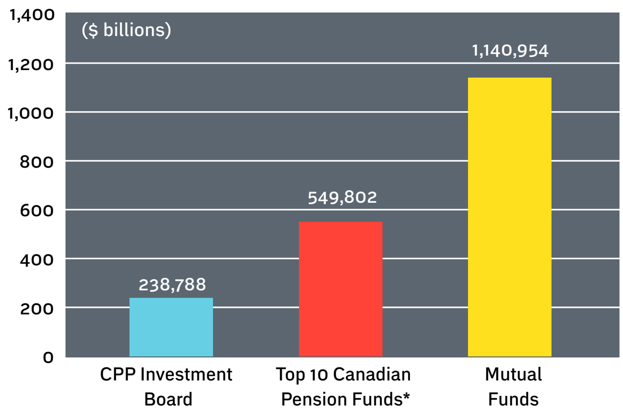
CHANGING DEMOGRAPHICS

Rapid increases in longevity mean that a higher percentage of Canadians will rely on individual savings and public pensions. In a report released earlier this year[1], McKinsey & Co. found that a strong majority (83 per cent) of Canadian households are on track to maintain their standard of living in retirement. McKinsey & Co. concluded that the 17 per cent not on track – primarily middle-class Canadians – will face challenges due to a lack of long-term savings preparedness, not a lack of income or resources. The report also noted that Canadians' savings in mutual funds of $1.2 trillion are 2.5 times the assets being managed within the Canada and Quebec pension plans.

STRENGTHENING CANADA'S RETIREMENT FRAMEWORK

Canada's robust savings framework provides individuals with a variety of options to meet their needs and is serving the vast majority of Canadians well. The most effective way to support those who are not on track for retirement is through targeted improvements that strengthen the existing system, including appropriate incentives that encourage individuals to increase their personal savings, while leaving an otherwise effective system intact.

A Cornerstone of Canadians' Retirement Savings
Assets Under Management reported as of December 31, 2014



*Source: Benefits Canada Top 100 Pension Funds

Governments across the country are pursuing initiatives that are largely in line with this approach. For example, the Pooled Retirement Pension Plan (PRPP) initiative continues to advance through the passage of enabling legislation in several provinces.

Canada's retirement framework can be further improved through specific changes, such as:

1. Enhancing the design of the PRPP program to allow for built-in access to financial advice.
2. Making improvements to group RRSPs, such as:
   - Removing the payroll tax on employer contributions, to match this feature of PRPPs;
   - Allowing employers to automatically enroll employees in Group RRSPs; and
   - Locking in employer contributions to ensure the money is used for retirement, as intended.
3. Proceeding with a modest expansion of the CPP – a proposal that our industry has long endorsed.

[1] Building on Canada's Strong Retirement Readiness, McKinsey and Company, February 2015

SPOTLIGHT ON:
GLOBAL THEMES IMPACTING THE SECTOR

There is a growing movement for financial regulators around the world to comply with globally created standards.

The International Organization of Securities Commissions (IOSCO) is promoting adherence to consistent standards of regulation, oversight and enforcement for the securities sector. Other international bodies, such as the Financial Stability Board (FSB) and the Organisation for Economic Cooperation and Development (OECD), are working across jurisdictions to share experiences and seek solutions to common challenges.

While there are merits to following international regulatory principles, the same cannot be said about importing specific regulatory approaches from other jurisdictions. To be effective and relevant to local circumstances, it is also important to ensure that regulations in each jurisdiction reflect local history, legal structures and the needs of stakeholders.

IFIC monitors global trends through a Canadian lens. As a member of – and secretariat to – The International Investment Funds Association, IFIC plays a leadership role on the international stage, promoting the protection of investors in investment funds, raising understanding about our business around the world and encouraging adherence to high ethical standards by all industry participants.

Key international trends that garnered attention over the past year include:

- **Strengthening Investor Protection:** The impetus for this movement stems from concerns arising from the 2008 financial crisis and apprehension about the adequacy of retirement savings levels.
- **Systemic Risk:** The 2008 financial crisis caused international supervisory bodies to consider ways to manage factors that contribute to global systemic risk. IFIC and its international counterparts have consistently argued that regulators must examine the activities in which each entity engages for indicators of systemic risk, and that they not apply inappropriate measurements (for example, designating very large funds as systemically risky due only to their size). Canada's Department of Finance reflected this recommended approach, proposing an activities-based measure in its draft legislation for the Capital Markets Regulatory Authority. Similarly, IOSCO announced a shift in its focus to an examination of activities, and the FSB is now conducting a deeper examination of the role that activities-based policy measures play or could play in mitigating potential risks relating to asset management entities.
- **Exploring Unintended Consequences:** IFIC encourages regulators to carefully consider the unintended consequences that could result from proposed regulatory changes. For example, a few foreign regulators have banned bundled fees. While early evidence suggests that banning bundled compensation structures may have led to lower product costs in those jurisdictions, it has also caused advisory fees to rise and reduced access to advice for lower-income and lower-wealth individuals.
- **Extraterritorial Initiatives:** Increasingly, IFIC is engaging in issues arising from efforts by foreign governments to extend their reach. For example, IFIC is advocating with officials in Washington to mitigate the negative impact of the Passive Foreign Investment Company rules, which create substantial compliance costs for the industry.

SPOTLIGHT ON:
EXPANDING OUR REACH

IFIC is a dynamic meeting place where industry leaders and policymakers connect. Our focus on research-based evidence, rigorous policy analysis and investor-friendly communications, has enabled us to expand our reach significantly over the past year. We have accomplished this through a number of different channels.

COMMITTEE PARTICIPATION CONTINUES TO CLIMB

Member participation on IFIC and CFIQ committees is growing at an impressive rate. More than 760 employees from member companies have participated in our 65 committees and task forces this past year, contributing to the development of meaningful policy positions and communications activities. This represents a 30 per cent jump over two years in the number of people who are volunteering their time to contribute to our work. It also reflects the increased regulatory and policy activities of our regulators.

WIDE COLLABORATION TO BENEFIT INVESTORS

Several initiatives discussed earlier in this report reflect our emphasis on collaborative partnerships aimed at addressing the needs of investors. Active collaborations include:

- Two multi-stakeholder tax-related committees – one with the CRA and the other with Revenu Québec.
- The Task Force on Vulnerable Investors with members from the industry, along with securities regulators, SROs and investor advocates, considering issues affecting clients with cognitive impairment and diminished capacity.
- IFIC brought together dealer members with representatives from the office of the Ombudsman for Banking Services and Investments (OBSI) and the MFDA to develop a workshop that would help industry members better understand OBSI's application of the "fairness standard" that underpins its decision-making in the context of MFDA rules. Learnings from the pilot are being analysed with a view to refining the content of the workshop.
- IFIC has collaborated with the MFDA to ensure IFIC's model CRM2 reports and other materials meet regulatory requirements so that dealers can use them with confidence.
- We have shared our CRM2 resources with members of the industry across Canada, including non-members of IFIC, to help ensure all investors receive consistent, clear information.
- IFIC has circulated its CRM2 resources through The International Investment Funds Association to demonstrate best practices in providing transparency to industry members in other countries.

REACHING STAKEHOLDERS THROUGH SOCIAL AND OTHER MEDIA

IFIC has made considerable progress in expanding its social media reach in 2015. Our followership on Twitter and LinkedIn has grown significantly. We have more than 1,250 followers on Twitter and more than 1,040 followers on our LinkedIn company page. This marks exponential growth since last year. We are engaging with many influential followers, including regulators, fund managers, dealers, media and international organizations.

In June 2015, IFIC launched *IFIC Investment Funds Professionals*, a LinkedIn discussion forum on public policy issues impacting the industry. Participation is limited to employees of IFIC member companies. Since its inception, the group has grown rapidly with senior representation from across the industry, including experts from legal, tax, risk management, product development, public affairs, compliance, distribution and more.

CFIQ launched a LinkedIn account, which attracted a following of more than 110 people in its first few months, and a Twitter account with more than 200 followers.

Subscriptions to *IFIC Weekly Update* – our e-newsletter – have grown significantly, primarily as a result of a promotion that was placed on the intranet platforms of several member companies.

IFIC is reaching out to members of the trade and business media to share industry perspectives and encourage coverage about issues of public interest, such as CRM2. We are working in partnership with The Globe and Mail and Investment Executive on supplements about the investment funds industry and CRM2.

IFIC'S INTERNATIONAL VOICE

IFIC's voice is increasingly heard on the international stage.

IFIC is an active member of – and serves as secretariat to – The International Investment Funds Association. We provide input into inter-association submissions to global bodies and we participate in industry conferences to gain insights and share perspectives on issues of common interest.

In July 2015, IFIC president and CEO Joanne De Laurentiis delivered remarks at the Wealth Forum Annual Conference held in Mumbai, India. Her remarks underlined four key factors that have contributed to the funds industry's success in serving Canadian investors, namely: Canada's strong regulatory framework, our robust distribution network, the role of public policy (including tax policy) in encouraging savings, and genuine industry collaboration.

IFIC BOARD OF DIRECTORS

Brian Peters (Chair), President & CEO
MD Financial Management

John Adams (1st Vice Chair), CEO
PFSL Investments Canada

Sian Burgess (2nd Vice Chair), Senior Vce-President
Fund Oversight
Fidelity Investments Canada ULC

George Aguiar, President & CEO
GP Wealth Management Corporation

Stéphane Blanchette, Vice-President
Finance & Operations
Investia Financial Services

Jordy Chilcott, Managing Director & Head
Scotiabank Global Asset Management-
Retail & Wealth Mexico, and President & CEO
Dynamic Funds Ltd.

Doug Coulter, President
RBC Global Asset Management

Joanne De Laurentiis, President & CEO
The Investment Funds Institute of Canada

Jonathan Durocher, Senior Vice-President
National Bank Financial, and President & CEO
National Bank Investments

Chris Enright, President and Managing Director
Aligned Capital Partners Inc.

Gordon Forrester[1], Executive Vice-President
Marketing & Product, Head of Retail
AGF Investments Inc.

Steve Geist[2], Senior Executive Vice-President
and Group Head
CIBC Wealth Management

Brian Gooding, Executive Vice-President,
Head of Distribution
Mackenzie Investments

Stuart Graham, President
Pimco Canada

Rick Headrick, President
Sun Life Global Investments

Ross Kappele, Executive Vice-President &
Head of Retail Distribution
BMO Asset Management Canada

John Kearns, CEO
NEI Investments Inc.

Paul Lorentz, Executive Vice-President and
General Manager, Retail Markets
Manulife Financial

Carol Lynde, President & COO
Bridgehouse Asset Managers

Paul Orlander[3], President
TD Mutual Funds

Claude Paquin, President, Investors Group
Financial Services – Quebec
Investors Group Inc.

Don Reed, President & CEO
Franklin Templeton Investments Corp.

David Scandiffio, President & CEO
CIBC Asset Management

Robert Smuk, President & CEO
FundSERV Inc.

Michael Stanley, President & CEO
Quadrus Investment Services Ltd.

Mark Tiffin, President and Director
Capital International Asset Management

Tim Wiggan, CEO
TD Asset Management

[1] Resigned July 2015
[2] Resigned April 2015
[3] Resigned March 2015

CFIQ BOARD OF GOVERNORS

Claude Paquin (President of CFIQ), President
Financial Services - Quebec
Investors Group Financial Services

Joanne De Laurentiis (Vice-President of CFIQ),
President & CEO
The Investment Funds Institute of Canada

Stéphane Blanchette (2nd Vice-President of CFIQ),
Vice-President, Finance & Operations
Investia Financial Services

Michel Boutin, President
Mérici Services Financiers Inc.

Jean Carrier (Treasurer of CFIQ), Vice-President
Compliance
PEAK Financial Group

François Brais, Partner
Fasken Martineau

Yanic Chagnon, Vice-President
Investment Products
Manulife

Ann David, Chief Compliance Officer
Royal Mutual Funds Inc.

Guy Duhaime, President
Groupe Financier Multi Courtage

Christian Faribault[1], Partner
Borden Ladner Gervais

Léon Garneau-Jackson, Vice-President
Eastern Canada
BMO Global Asset Management

Éric Landry, Director
Specialized Investment Product Development
Desjardins Investment Inc.

Éric Lapierre[2], Lawyer
Borden Ladner Gervais

Annamaria Testani, Vice-President
National Sales
National Bank Investments

[1] Joined February 2015
[2] Resigned December 2014

SENIOR MANAGEMENT TEAM

Joanne De Laurentiis
President & CEO

Jon Cockerline, PhD
Director, Research

Jan Dymond
Vice-President, Public Affairs

Ralf Hensel, LLB
*General Counsel, Corporate Secretary &
Vice-President, Policy*

John Parker
Vice-President, Finance & CFO

Be Informed Get Connected Shape the Future

AS A MEMBER OF IFIC, YOU ARE ENTITLED TO THE FOLLOWING BENEFITS:

The opportunity to contribute to public policy discussions: Experts from member companies contribute to industry responses on important public policy issues. By participating on one of our committees, you can advocate for measures designed to ensure a strong, stable investment sector where investors can realize their financial goals.

Tools to help you succeed: Our member-only weekly e-newsletter summarizes the latest in policy and regulatory developments, and invites member participation and comments on issues of the day. We provide information bulletins that include key messages on emerging issues and practical tools to help you address policy changes. Employees of IFIC member firms are eligible to join the discussion page *IFIC Investment Funds Professionals* on LinkedIn, to exchange information on various topics, while staying up-to-date on the latest industry perspectives and research on public policy issues.

Seminars and networking opportunities: Each year, IFIC hosts topical workshops and seminars, along with four signature annual events: our Leadership Conference – Canada's pre-eminent event for the mutual funds industry, our Golf Classic, our Tax Symposium for IFIC members, and Operations Day, which provides practical insights to add value to your business while driving results. We hold member-only seminars on topics such as FATCA, IFRS, Fund Risk Methodology, CASL and CRM2. In addition, CFIQ runs an annual Compliance Conference – Quebec's premier industry event on regulatory issues.

Special pricing on our Job Board: IFIC's job board is a popular source for positions in the financial services sector.

Access to the latest industry statistics: IFIC provides its members with monthly updates on the latest industry statistics, including assets under management and net flows.

Access to IFIC's annual compensation survey: The Mutual Funds Industry Compensation Survey, conducted in partnership with Hay Group Limited, has collected salary and incentive information for more than 20 years, for 90 industry-benchmarked positions at all levels.

Exclusive discounts: IFIC members and affiliates are eligible for discounts from companies such as IFSE, Ipsos Reid, Fundata, TRSB and TransPerfect.

Use of IFIC's logo trademark: IFIC has designed wordmarks that incorporate the phrase: "A Member of The Investment Funds Institute of Canada" or "An Affiliate of The Investment Funds Institute of Canada." Firms can use the appropriate wordmark on their materials to promote their relationship with IFIC, demonstrating their commitment to an industry that serves investors.

Known for our **leadership**.

Trusted for our **expertise**.

A meeting place where industry and policymakers **connect**.

Dedicated to a strong, stable investment sector where investors **can realize** their financial goals.