Federation of Mutual Fund Dealers
Fédération des courtiers en fonds mutuels

June 9th 2017

Alberta Securities Commission
Autorite des marches financiers
British Columbia Securities Commission
The Manitoba Securities Commission
Financial and Consumer Services Commission of New Brunswick
Nova Scotia Securities Commission
Ontario Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Registrar of Securities, Prince Edward Island
Superintendent of Securities, Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Registrar of Securities, Nunavut

The Secretary
Ontario Securities Commission
comments@osc.gov.on.ca

Me Anne-Marie Beaudoin, Corporate Secretary
Autorite des marches financiers
Consultation-en-cours@lautorite.qc.ca

Dear Sirs and Mesdames:

Re: CSA Consultation Paper 81-408 – *Consultation on the Option of discontinuing Embedded Commissions*

The Federation of Mutual Fund Dealers (the "Federation") has been, since 1996, Canada's only dedicated voice of mutual fund dealers. We currently represent dealer firms with over $124 billion of assets under administration and 18 thousand licensed advisors that provide financial services to over 3.8 million Canadians and their families and as such we have a keen interest in all that impacts the dealer community, its advisors and their clients.

A. INVESTOR PERSPECTIVE:

The CSA has identified three key investor protection issues related to embedded commissions:

1. Embedded commissions raise conflicts of interest that misalign the interests of investment fund managers, dealers and representatives with those of investors.

2. Embedded commissions limit investor awareness, understanding and control of dealer compensation costs.
3. Embedded commissions paid generally do not align with the services provided to investors.

The Federation conducted an independent qualitative research study to explore investor perceptions of the issues identified by CSA.

- The Federation commissioned an independent, qualitative research study with a sample of mass market Canadian investors aged 25+ who are in an advised relationship with portfolios of $100,000 or less, comprised mostly of mutual funds.
- The purpose of our study was to understand the potential impact on mass market investors currently in advised relationships of the proposed CSA ban on embedded commissions.
- The study included online interviews with 30 participants and in-person interviews with 8 participants. The findings of the study are summarized in the Report attached separately as Appendix A. (Note that Appendix A refers to "Complete transcripts of online and in-person research sessions". We have not included those here, however, they are available upon request.)
- Qualitative research does not replace quantitative research; rather it provides a different perspective. This approach was chosen for its ability to dynamically probe investors' processes for considering options and making decisions. In exchange for a smaller sample size, this approach allows for actual conversations with investors (even online) about what they believe, how they interpret the questions, and why they answered the way they did. Other studies have demonstrated that the concepts of embedded fees are not well understood by investors, so we chose this approach to probe the beliefs and perceptions that inform a response. This approach also allowed us to test investor understanding and perspective.
- Based on the sample size, this approach replaces "conclusions" with "insights and findings". These insights and findings are directional and instructive as to the psychology behind investor behavior. They shed light on these issues in unique and compelling ways.
- Due to the transformative impact of the insights gathered from speaking directly to investors, we recommend the CSA conduct additional qualitative research to test its assumptions about investor behaviour.
- The qualitative insights and findings could also support a quantitative study, where the questions could be informed by this qualitative research to ensure alignment with investor perspectives.
- The findings are expressed in verbatims and narratives that provide insight into how an investor interprets, thinks about, and makes decisions about investing and related fees.
- We have highlighted a few key verbatims in this letter. The Report includes more verbatims from the participants.
- Where appropriate, we've included findings from other recent quantitative studies that are consistent with the insights gleaned from our qualitative study.

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Key takeaways from the Federation's investor research study:

- In the CRM2 era, a ban, in and of itself, does nothing to increase the surprisingly low investor awareness of their fees (70% of the participants in our research study said they believe they don't pay their advisor).
- This is consistent with the BCSC Study (Part 2)[1], where 3-in-10 B.C. investors indicated they were not sure how their advisor is paid, highest among those with under $50k invested.
- Investors value payment convenience (77% of participants want the option to continue to pay indirectly).
- Investors are reluctant to change either their investing model (i.e. move to unadvised channel) or their payment approach.
- With a direct pay approach, investors may forego paying for advice and choose investing alternatives that may not support good long-term investing behaviour.
- This is also reflected in the AGF Study[2], where 24% of investors would be less likely to use an advisor if the ability to pay fees indirectly through products was discontinued and they were charged directly for advice and service. This potential "advice gap" was consistent for those with under $50,000 in assets to those with over $500,000 in assets.
- The change also needs to stand up to a cost-benefit analysis – it is not clear that the benefits of a proposed ban outweigh the costs.
- Our overall conclusion: we don't expect the outcome of banning embedded commissions to materially address the three concerns highlighted in the CSA's consultation paper.

1. CONFLICTS OF INTEREST

In our opinion, there are weak indicators of investor concern about conflicts of interest.

- Among the research participants, some investors were concerned about a conflict of interest; some felt it was a reasonable way for an advisor to be paid; while some were comfortable with indirect fees, but wanted more transparency.
  - Quote from a research participant: *"I feel ok about it. They have to get paid in some way."*
- There was no strong conclusion that this is a problem overall.
- Also, many investors favoured the convenience of indirect payment.
- While it is possible that embedded commissions may mask an advisor's bias toward recommending higher-commission funds, there has been massive standardization of embedded commissions across industry in recent years – so advisors are no longer financially motivated to recommend one fund over another in a particular category.
- Furthermore, CRM2 and POS are in place to make direct and indirect fees more transparent, although more time is necessary before investors properly digest the fee information. Our recommendation is to encourage advisors to use these regulations to demonstrate that compensation isn't a driving factor.

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2. REDUCED INVESTOR AWARENESS, UNDERSTANDING AND CONTROL

In our opinion, investors still have a low awareness of fees.

- Among the research participants, many investors continue to have a low awareness of fees related to their investments and they are not familiar with how or if advisors are paid. (70% believe they don't pay their advisor.)
- When the direct pay option was explained to them, some participants did not want to pay fees directly – they saw it as another bill they'd have to pay.
    - Quote from a research participant: *"I don't need another bill to pay directly. If anything, I'd probably drop my financial planner and then end up stopping planning my financial future if I had to pay directly."*
- CRM2 makes all dealer fees clear, including embedded commissions. But, as CRM2 is recent, ongoing compliance with CRM2 should help with future fee awareness among investors.
- Note that even with direct fees, if investors choose to pay through automatic redemptions (41% favoured this approach) or pre-authorized debit, there is unlikely to be an increase in their understanding and awareness of their fees (out of sight, out of mind). In some respects, the fee amount will just be on a different line in their Fee Report.
- Accordingly, it is unclear that banning embedded commissions will materially improve awareness and understanding of investment fees.

In our opinion, while investors desire control over their fee payment method, they are reluctant to change their investing approach.

- Investors prefer choice in how they pay for their investments. (67% of the research participants felt choice is 'Very important' to 'Important').
- Having the choice between indirect and direct payment options increased the feeling of control.
- When presented with the choice between indirect and direct payment options, most investors preferred to continue to have the indirect option. (77% want the option to continue to pay indirectly.)
    - Quote from a research participant: *"I think it should be up to the investor to decide whether or not they pay indirectly or directly."*
- A ban on embedded commissions removes choice from the client and our research shows that choice is important to clients.
- A ban also removes the opportunity for the advisor to discuss with the client the various fee structures and how choosing could impact the client. This is a learning opportunity which we view in a positive light.
- Many investors are comfortable in their advised approach to investing; some would stick with their advisor, even at a higher cost.

In our opinion, investors would be unlikely to negotiate fees with their advisors.

- Among the research participants, there was a lack of awareness that fees for financial services could be negotiated.

- While a majority of the participants said they would be open to negotiating, when probed further they admitted they had concerns: many felt that negotiations would be awkward or inappropriate, or that negotiations would not lead to a successful outcome (lower fees). It is unclear however, whether investors with less than $100,000 would negotiate.
  - Quote from a research participant: *"I wouldn't know if it's even allowed to negotiate."*
  - Quote from a research participant: *"I wouldn't feel comfortable negotiating with my advisor. Very awkward."*

3. LACK OF ALIGNMENT BETWEEN FEES PAID AND SERVICES PROVIDED

In our opinion, investors are drawn to approaches less likely to support good long-term investing behaviour if they don't have an advised relationship.

There is the potential for an advice gap for mass market investors

- Advice gap = "the group of investors who cannot obtain the amount of advice they desire at the price they are willing to pay".
- Research participants generally did not want to change their current advised relationships.
  - Quote from a research participant: *"I value the relationship that I have with the advisors. I would hate to have to leave and would try to work with them. I wouldn't ask my doctor for free advice so I'm willing to pay for an advisor's knowledge too."*
- In the research exercise, when investors were dislodged from their current advisor, they did not know where to find alternatives and were inclined to consult non-expert resources (i.e. internet, friends, family) for suggestions.
- They wouldn't necessarily look for the things that promote good long-term investing behaviour.
- Investors are inclined to seek another advisor offering better returns at lower fees (which they would be unlikely to find.)
- They would consider alternative investing approaches that additional probing revealed they barely understand.
  - Quote from a research participant: *"I would love to do my own online investments, but I'm overall not knowledgeable enough about stocks, or have the time to learn."*
- Participants generally said that financial literacy education and promotion of good investment behaviour are not things they'd pay for when left to find alternative investing solutions.
- Given the opportunity to build their own customized bundle of services, many participants did not choose the things that behavioural research shows are key to achieving long-term investing success.

Investment options they would consider: Robo-advice

- While 59% of research participants said they might explore robo-advice, when probed it became clear they had an almost complete lack of awareness of what it is and how it works, as well as some mistrust.
- They acknowledge they will get less service from a robo-advice platform, including with respect to healthy long-term investing behaviours.
  - Quote from a research participant: *"I don't want to trust my money and future to a computer program. Too many chances for errors."*
- This is consistent with a recent HSBC Global Study[4] that found: 1) only 7% of Canadians said they're likely to trust a robo-advisor's recommendations; and 2) only 18% of Canadians surveyed feel that robo-advisors are able to offer more accurate advice than their human counterparts.

Investment options they would consider: DIY

- While 55% of our research participants might consider a Do-It-Yourself (DIY) approach, they show considerable fear and lack of confidence in their ability.
- They also acknowledge they will have to make investment decisions on their own.
  - Quote from a research participant: *"DIY would make me nervous because I don't think I'd be committed enough. It takes a lot of work and discipline to keep up with the markets."*

Investment options they would consider: The bank

- While half of the research participants were open to working with a bank-owned dealer, others had mixed views about them.
  - Quote from a research participant: *"I'd consider it, but I think banks make enough money."*

It is not clear that banning embedded commissions will better align fees to services.

- Without knowing how dealer firms would realign their fee and service schedules, it's hard to say whether a ban would more effectively align fees and services.
- Furthermore, it's not clear that a different fee model will better align to service, as investors don't have a good sense of what various services cost or what they should pay for.

INVESTOR PERSPECTIVE SUMMARY

In our view, the outcome of banning embedded commissions will not materially address the three concerns highlighted in the CSA's consultation paper.

- Investors continue to have a low awareness of fees. We question how banning embedded commissions will materially improve investor fee knowledge, unless they are invoiced in a manner similar to a utility bill. This, however, is not a payment model that many investors will accept, and forcing them to pay these invoices like a utility bill may drive some of them to stop investing.

- Instead, if advisors continue to openly discuss fees with their clients and make good use of CRM2 and POS3 information in their client conversations, we feel this will be more effective for improving investor awareness and understanding of fees.
- Many investors are satisfied with embedded commissions and would like to have the choice of paying directly or indirectly for their investments. They did not express concerns about this as a conflict of interest. They did welcome the conversation about choice, however 77% of participants said they would choose to continue paying indirectly if given the choice.
- We support maintaining embedded commissions as a payment option for investors.
- With a direct pay approach, investors may forego paying for advice and choose options that will not support good long-term investing behaviour. They don't know where to look for options, and some do not feel comfortable with some of the most oft-cited options, including robo-advice, do-it-yourself investing, and bank-owned dealers.
- Investors with smaller accounts may have difficulty finding advisors willing to service them.
- Therefore, banning embedded commissions may impact investors' ability to achieve their financial goals.
- We also question whether a proposed ban would stand up to a detailed cost-benefit analysis of implementation.

B. ADVISOR PERSPECTIVE

The commentary that follows is not the result of The Federation's qualitative investor research. Instead, it reflects The Federation's opinion about the potential impact on advisors of banning embedded commissions.

- Absent the ability to use DSC funds, the possibility exists that a group of advisors who currently service the mass market would no longer be able to and/or willing to service those investors.
- This also has the potential to negatively affect the dealer community and its advisors who may be using DSCs to finance the cost of offering advisory services to mass market clients.

C. INTERNATIONAL PERSPECTIVE

The Investment Funds Institute of Canada (IFIC) recently released a report that says "regulators in Canada and around the world have increased their focus in recent years on regulatory reforms to improve investor protection. These deliberations have led to a growing interest in how to address potential conflicts of interest in the sale of retail investment products." While approaches range, "in the most extreme cases" four countries (out of the 16 surveyed) banned embedded commissions.

"Securities regulators and governments in other countries, including Sweden, Hong Kong, Germany, New Zealand, and Singapore, have examined this option and explicitly ruled out a total ban on embedded commissions."

"The majority of markets have made enhanced disclosure a key element of newly developed financial principles and policies. Enhanced disclosure initiatives have been implemented in every country reviewed except the U.S. The majority of disclosure has come in the form of detailed information on fees and commissions to improve transparency."

"The greatest risks of implementing sweeping reforms are the potential for triggering unintended consequences, such as higher investor costs, decreased product choice, or reduced access to advice."

SUMMARY

The UK's Financial Conduct Authority (the UK experience is repeatedly being referred to by Canadian regulators) has found that while the quality of financial advice improved after embedded commissions were banned, access to advice has become limited primarily to the more affluent.

According to the Mutual Fund Dealer Association's research report *A Detailed Look into Members Advisors and Clients*, The "mass market" – households with less than $100k in financial wealth comprises 80% of the market. If we repeat the UK experience, we could therefore disenfranchise 80% of the investing public.

Therefore, we would strongly encourage the CSA to:

- assess the impact, over time, of the fund facts documents required by the CRM2 and POS reforms prior to making any changes proposed in the Paper

- reconsider a cap on trailing commissions which have been harmonizing organically up until now, 94% at this time. We believe that harmonized trails would have the effect of voiding any related (perceived or real) conflict.

- Consider seriously the results of our research that overwhelmingly demonstrates that clients value choice.

We appreciate the opportunity to provide this submission and look forward to further discussions on these very important topics.

Regards,

Federation of Mutual Fund Dealers

Sandra L. Kegie
Executive Director

Sources:
[1] BCSC Study (Part 2): May 2017, 500 BC investors
http://www.bcsc.bc.ca/uploadedFiles/About_Us/Publications/Wave_2_Survey_Report.pdf
[2] AGF Study: April – May 2017, Conducted by the Gandalf Group, 1299 individual Canadian investors
http://www.gandalfgroup.ca/downloads/2017/Investors%20Survey%20Report%20May%202017%20Release.pdf
[3] BCSC Study (Part One): November - December 2016, 800 BC investors
https://www.investright.org/wp-content/uploads/2017/01/Investor-Readiness-for-Better-Investing-Panel-Study-1.pdf
[4] HSBC Global Study: *To Trust in Technology March-April 2017*, 12,000 individuals from 11 countries (1,001 Canadians) http://www.hsbc.com/news-and-insight/media-resources/media-releases/2017/rise-of-the-technophobe-education-key-to-tech-adoption-says-hsbc
[5]IFIC Global Regulatory Developments and Impacts April 2017 https://www.ific.ca/wp-content/uploads/2017/06/Global-Regulatory-Developments-and-Impacts-April-2017.pdf/17239/

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Impact of proposed embedded commissions ban

Research study for FMFD
May 10 and 17, 2017

Research Objectives

To understand the impact on investors of the proposed CSA ban on embedded commissions

Research Methodology

- Online interviews with 30 participants
- In-person interviews with 8 participants
- Investors aged 25+ with mutual funds
- Portfolios of $100,000 or less
- Unlike a purely quantitative study, this approach:
    - Animates a decision-making process
    - Enables facilitators to pursue the participant's thought process as it unfolds
    - Permits probing to ensure understanding by the participants
    - Highly personal in nature (as opposed to demographic)
    - Generates revealing verbatims

Key Investor Research Findings

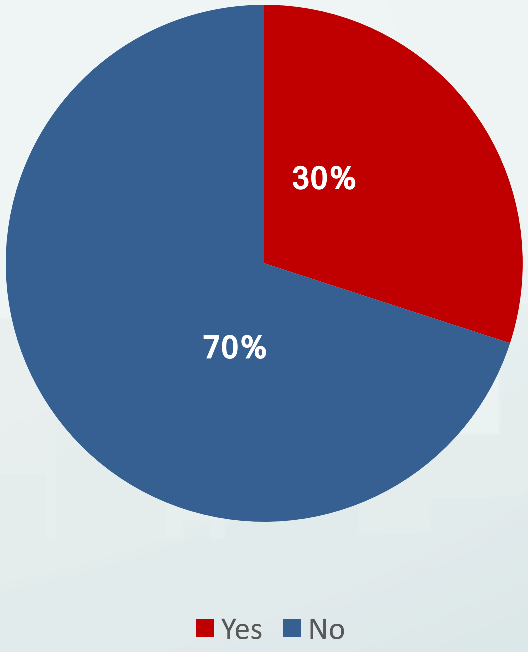
1. Low fee awareness
2. Weak indicators of concern about conflict of interest
3. Desire for control over payment method
4. Unlikely to negotiate
5. Reluctant to change investing approach
6. Lack of awareness about investing alternatives
7. Absent an advised relationship, investors drawn to approaches less likely to support good long-term investing behaviour

1 Low fee awareness

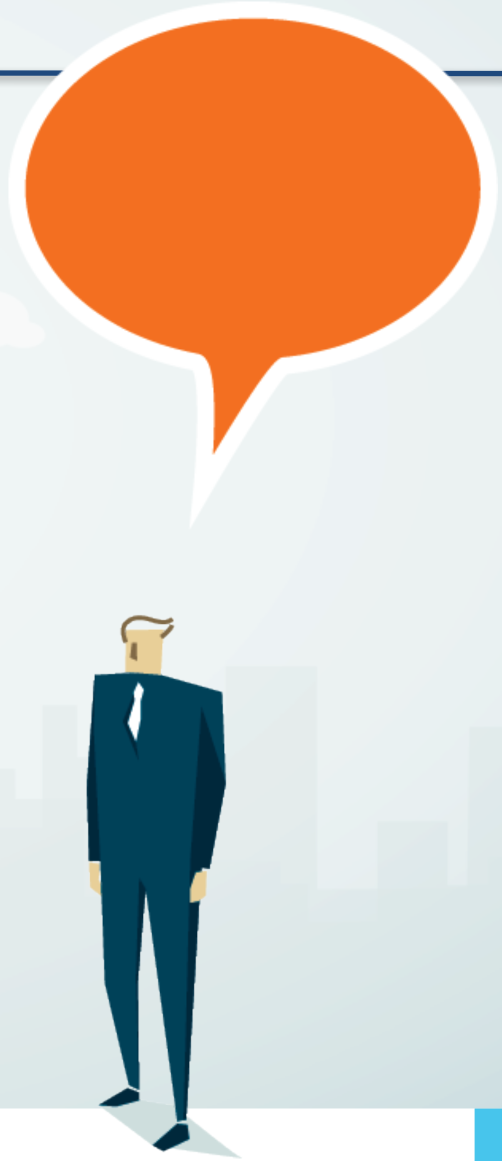
Findings

- Investors continue to have a low awareness of fees related to their investments.
- They are not familiar with how or if advisors are paid.
- 70% believe they don't pay their advisor.

Q: Do you currently pay your advisor for any of the services you receive?

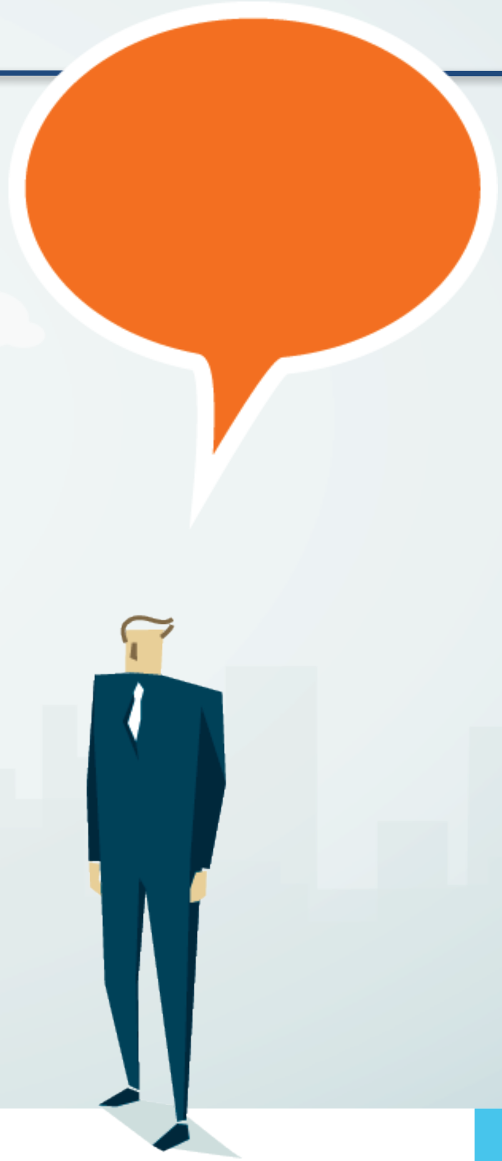


1 70% are unaware that they pay their advisor



- “No, I don’t. I’m in a situation where he’s a friend of a friend type ‘deal’.”
- “I’ve been grandfathered in so there are no charges for their business.”
- “I don't pay him, but I guess he does get paid somehow. That's a really good question I never asked.”
- “I pay no fees to meet with my bankers in regards to my investments. I do believe I pay a processing fee if I make changes.”

1 70% are unaware that they pay their advisor

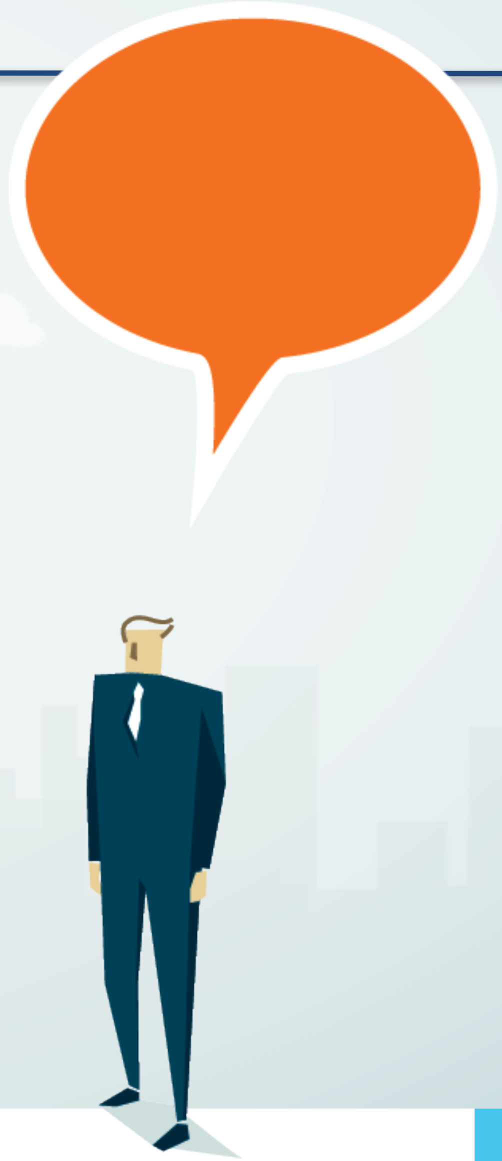


- “As far as I’m aware we’re not charged for the time our advisor spends with us.”
- “My bank reviews or modifies my investments at no charge. I suppose somehow or another this fee is incorporated into my everyday banking fee.”
- “I have a few different investments with different people and companies. I really don't know how it works or how these people get paid.”

1

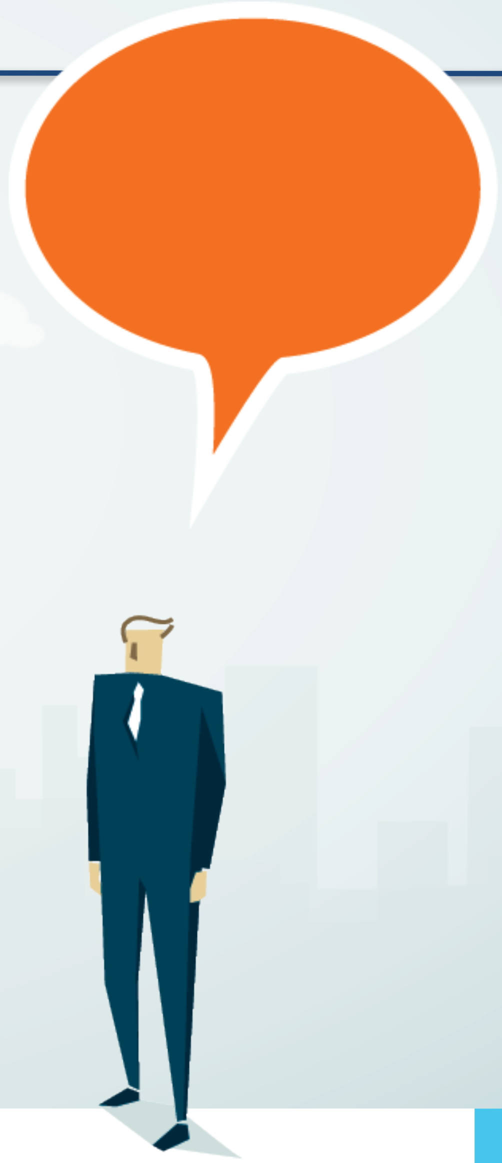
30% are aware that they pay their advisor, but may not be sure how or how much

- “Indirectly. He receives a percentage for looking after my portfolio.”
- “I believe there’s a fee when there’s enough cash in the account to make a Mutual Fund purchase.”
- “Makes sense. They’ve got to get paid somehow.”
- “Yes, I do pay my Financial Planner a fee. My understanding is they take a percentage on the value.”



1 30% are aware that they pay their advisor, but may not be sure how or how much

- “I pay him fees included in my investments so if I'm losing money he isn't getting paid. I believe he has a base salary but doesn't get any commissions.”
- “Our advisor receives his commission from us on a yearly basis based on the amount of holdings we have with him.”
- “I'm not sure of how much but I know I pay for these services through my investment plan at my bank.”



2 Weak indicators of concern about conflict of interest

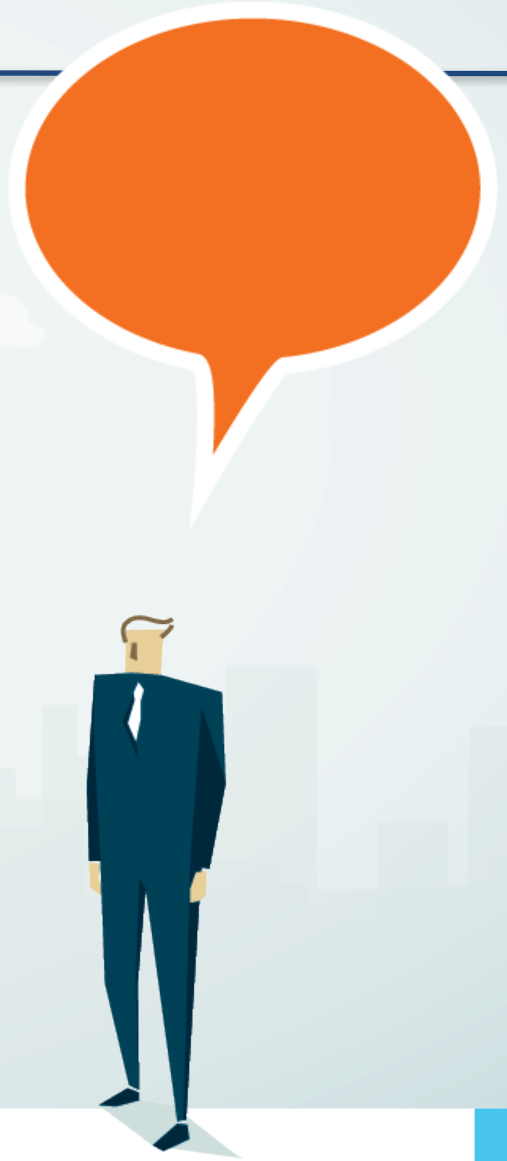
Findings

- Even after an explanation of trailing commissions, only a small group of investors perceived that there was a conflict of interest.
- Some investors felt trailing commissions actually aligned interests.
- The convenience of trailing commissions outweighed any perceived conflict of interest.

Q: How do you feel about the fact that your advisor and his/her firm are paid by the mutual fund companies whose funds you buy?

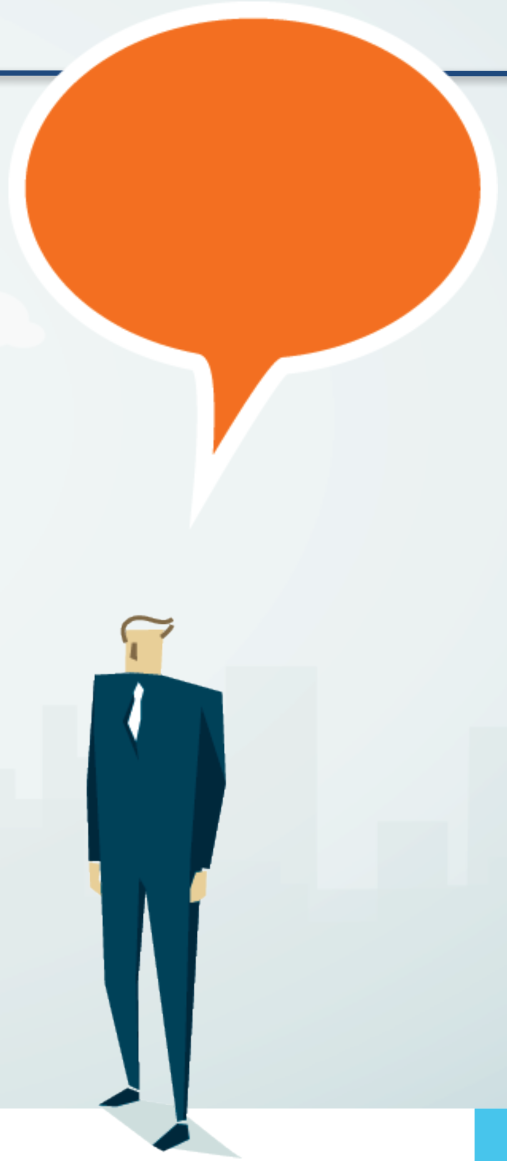
2 A small group of investors perceived a conflict of interest

- "Is my financial advisor just buying the ones that pay her the most commission? I have no idea."
- "I'm familiar with management fees. But didn't know that the mutual fund was paying the advisor – that's a shock, I don't like it."
- "It makes me question what my advisor's real goals are in the transaction and whether they are truly committed to me as a client."



2 Some investors were comfortable with indirect fees, even felt that trailing commissions aligned interests

- “I feel ok about it. They have to get paid in some way.”
- “I am more than ok with that. How else are they going to make their money? The fund management company and my advisor both benefit when my account balance goes up.”



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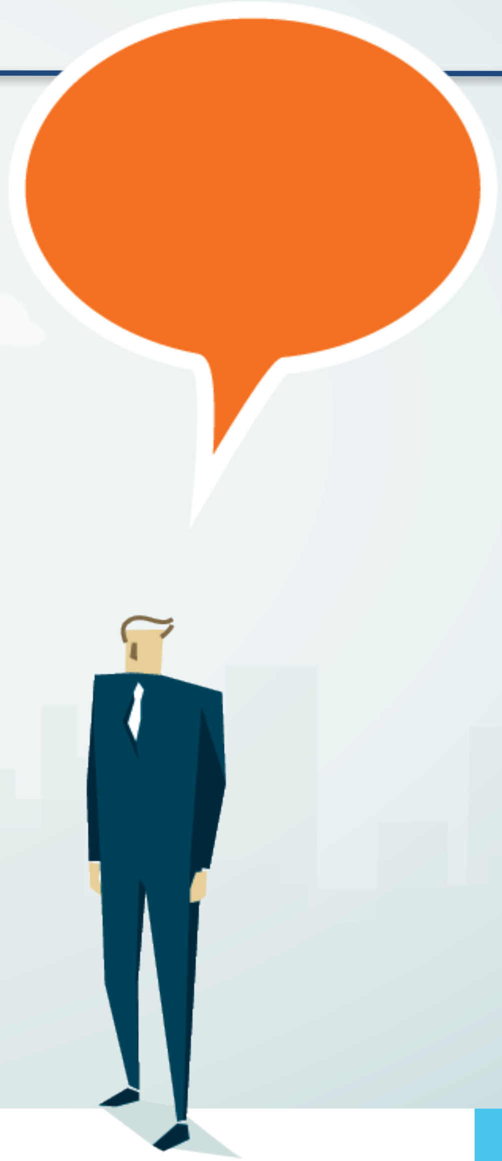
Some investors were comfortable with indirect fees, but wanted more transparency

- "I suppose that's fine but I do think it should be laid out differently so that all the investors (including myself) could understand how it's done."
- "It's important to know what my advisor is paid for each fund, so you can see if they're pushing you to buy funds that pay them more."

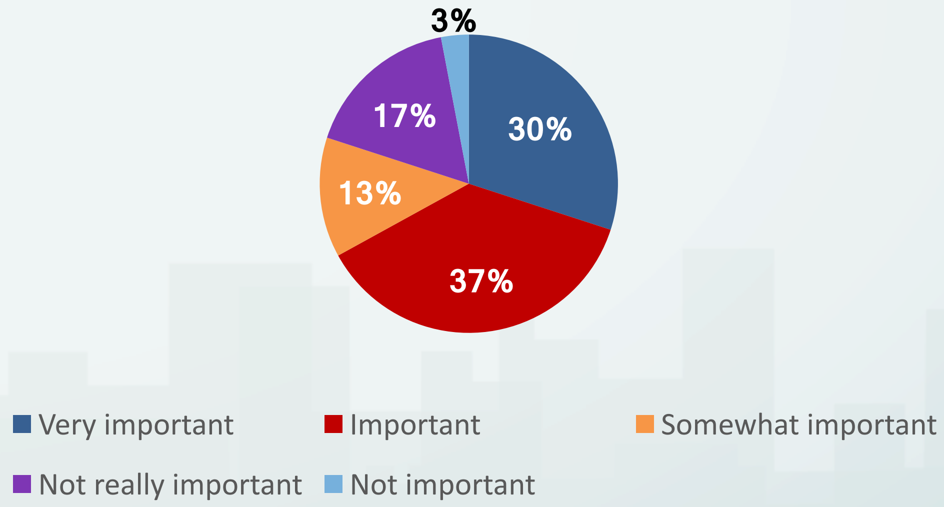


3 Desire for control over payment method

Findings

- Investors preferred to have choice in how they pay for their investments. 67% felt choice is 'Very important' to 'Important'
- Having the choice between indirect and direct payment options increased the feeling of control.
- When presented with the choice between indirect and direct payment options, 77% want the option to continue to pay indirectly.

Q: How important is it for you to have the choice to pay your advisor directly or indirectly?

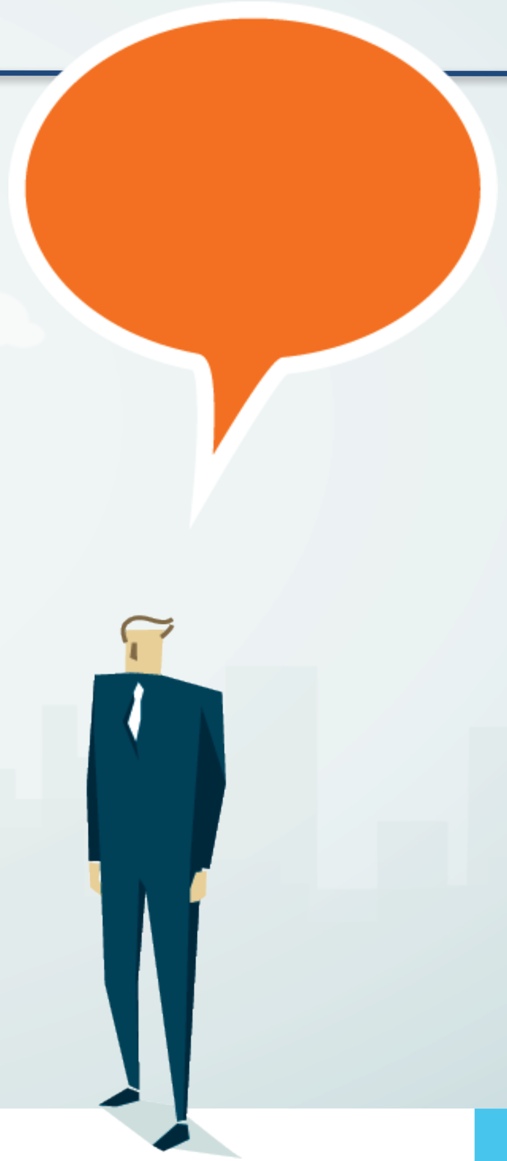


3 67% of investors felt choice is 'Very important' to 'Important'

- "Choice is important for deciding because it is my money and I should feel like a part of the decision-making process."

- "I would prefer to have a choice as it feels more empowering."

- "Paying my advisor indirectly allows me to continue to build wealth and not worry about a surprise bill at the end of the year."



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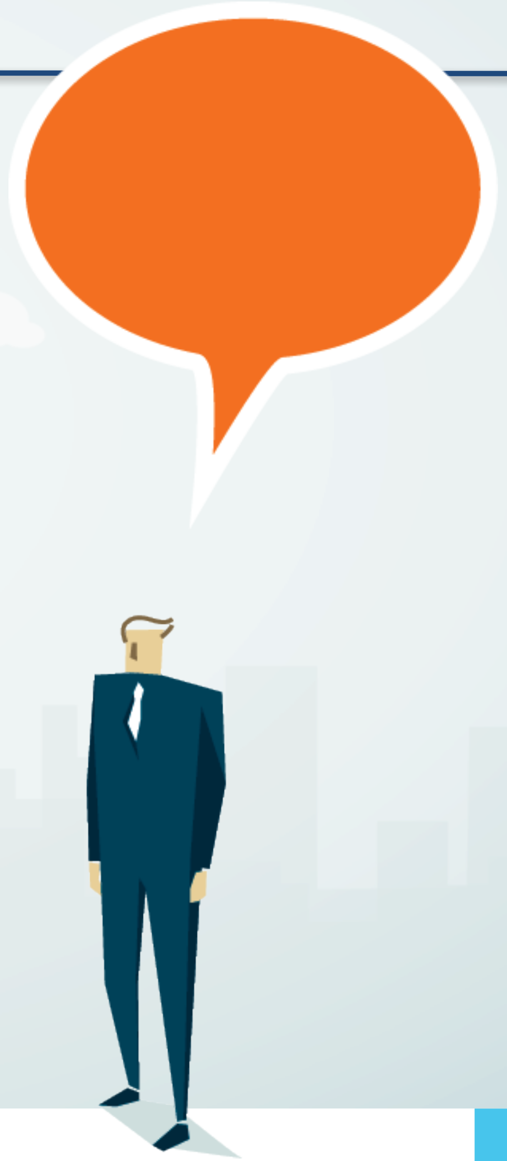
33% of investors felt choice is 'Somewhat important' to 'Not important at all'

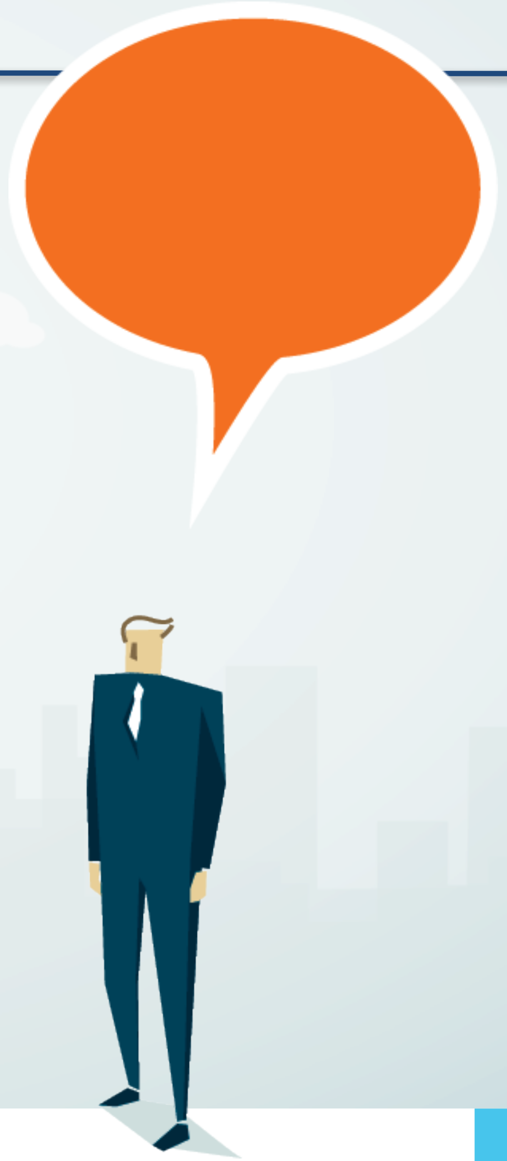
- "I like to have choices but if the fee would be the same I guess it wouldn't really matter to me how it was paid."
- "Indirectly or directly ... I still pay for the advice."
- "I've never considered it to be an option. I just know who I choose to invest with is looking after my money and doing a good job."



CRM2 NAVIGATOR

BLUE ID

3 Investors preferred to have the choice of both options



- "I'd prefer to continue to have both options. I think a freer market would still permit greater consumer choice."
- "I think it should be up to the investor to decide whether or not they pay indirectly or directly."

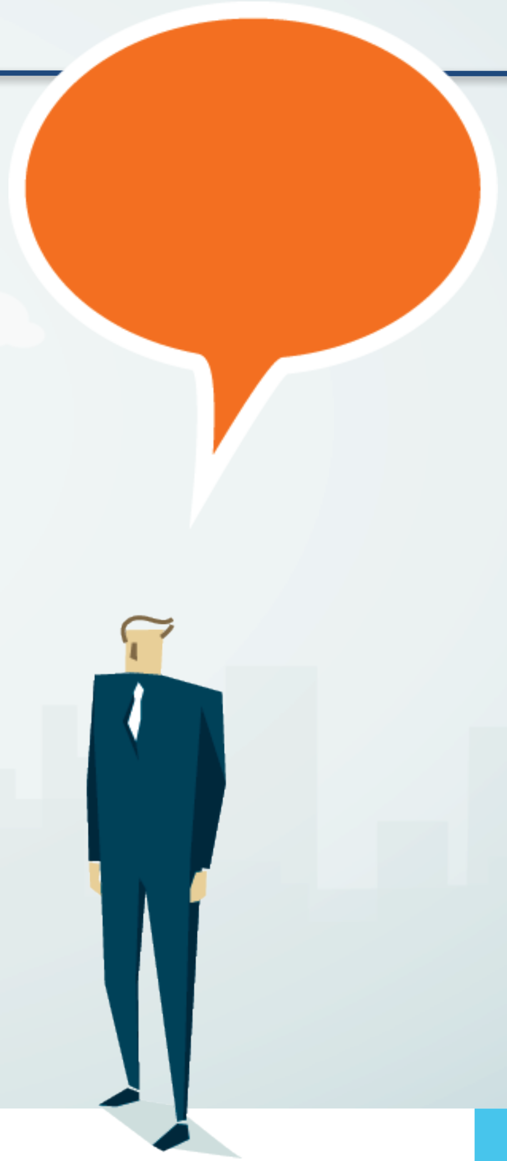
3 Investors preferred to have the choice of both options

- “I think the option of the two methods should be given to each customer. I think these companies would lose a lot of clients if it was forced on them.”

- “While I think paying directly may be a good fit for some individuals, I think there should be a choice provided because not everyone can afford to directly pay their advisor. I think you will see a decrease in people investing.”

3 Having choice increased the feeling of control

- “I feel I would have more "control" over the situation if I paid the fees directly.”
- “I want to know how much I'm paying and when. Paying directly makes me feel like I have some control.”
- “I would definitely take a hard look at any option that didn't increase my out-of-pocket expenses.”



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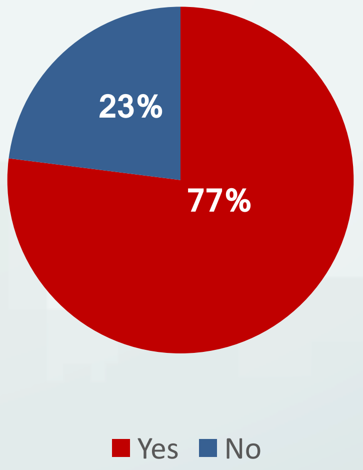
77% want the option to continue to pay indirectly

- “I'm used to the current model and am comfortable with it, so I'd rather not change. It would be another bill I'd have to figure out how to pay.”
- “Paying directly would make me more cautious because I would always think of win or lose.”
- “I prefer the current model in terms of paying for my advisor's services. Simply, it’s hard to miss money I never had.”

Q: Would you prefer to continue to have the option to pay indirectly?



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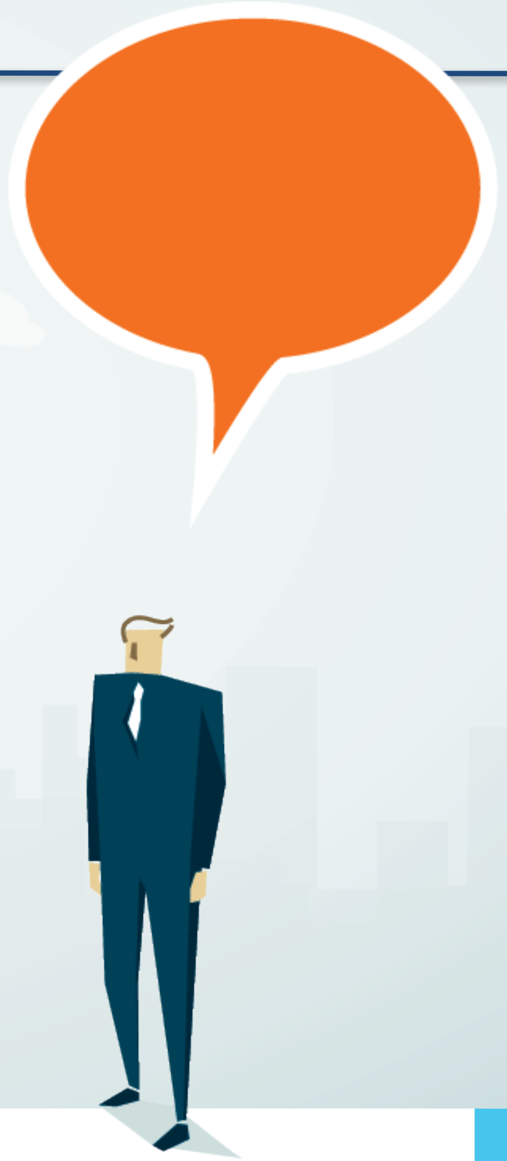
Some investors are not comfortable paying directly

- “I don't need another bill to pay directly. If anything, I'd probably drop my financial planner and then end up stopping planning my financial future if I had to pay directly.”
- “I don't like it. I like the invisible fees. It’s less I have to worry about.”
- “I don't think I like it. If a person is paid upfront for services, where is the incentive to provide a proper service going forward?”



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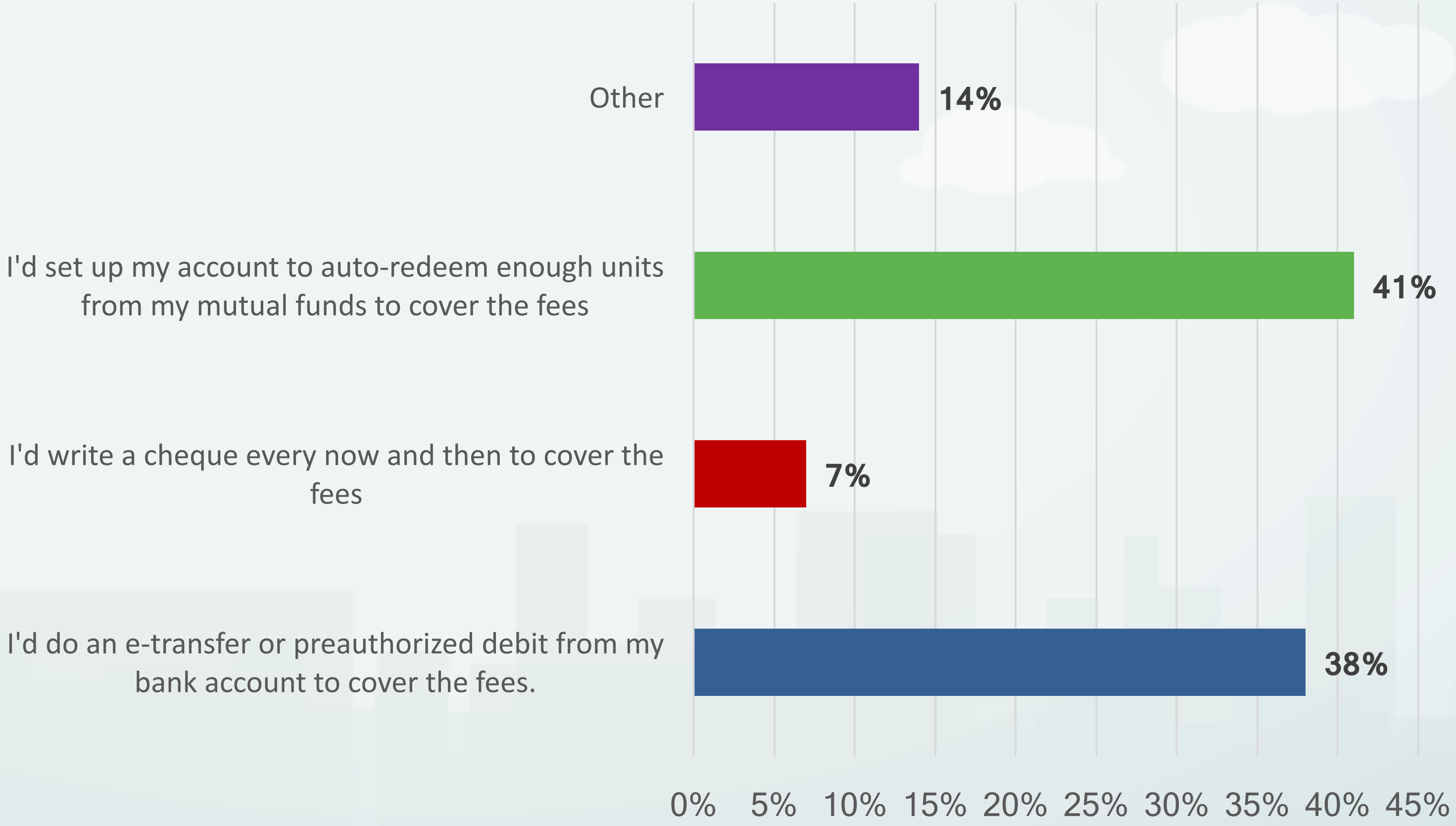
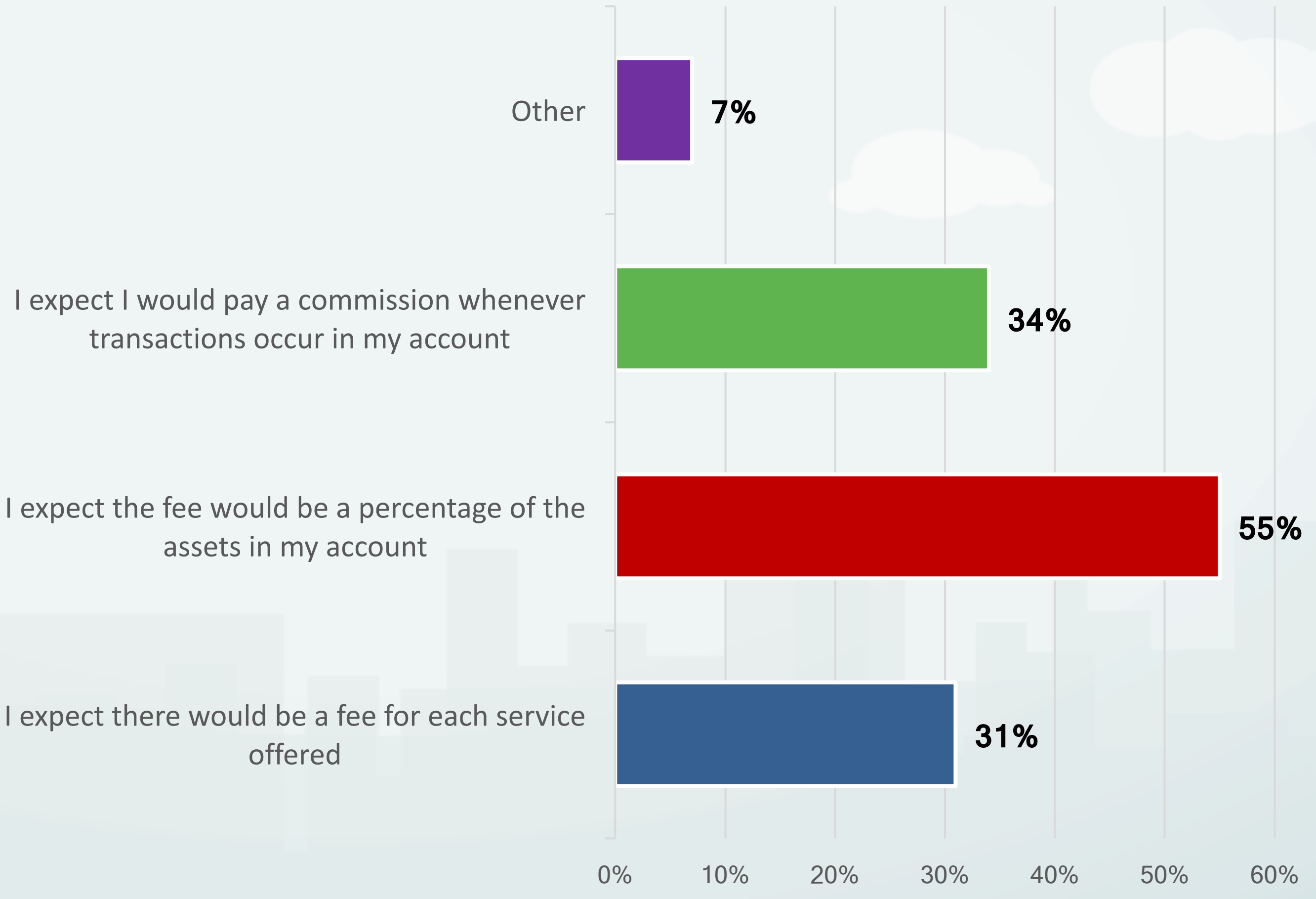
With a direct pay option, they'd prefer to auto-redeem units or do an e-transfer

Q: How would you prefer to pay your advisor?



3 With a direct pay option, 55% expect the fee to be a % of their assets

Q: On what basis would you expect the fees in your bundle to be calculated?



4 Unlikely to negotiate

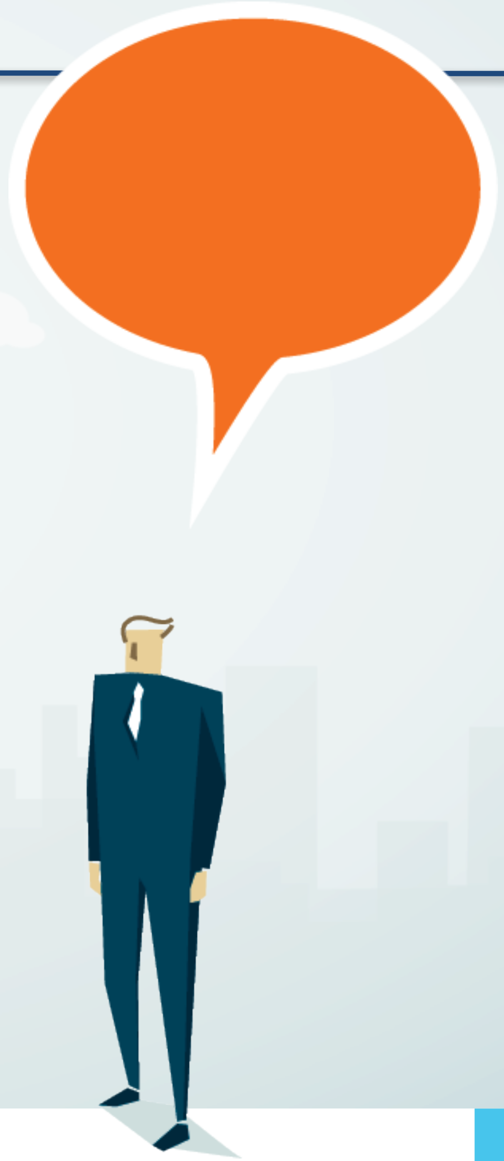
Findings

- Investors were unsure if such fees could be negotiated.
- Investors felt negotiations would not lead to a successful outcome (lower fees).
- Investors felt that negotiations would be awkward or inappropriate.

Q: Would you consider negotiating with your advisor?

4 Investors were unsure if such fees could be negotiated

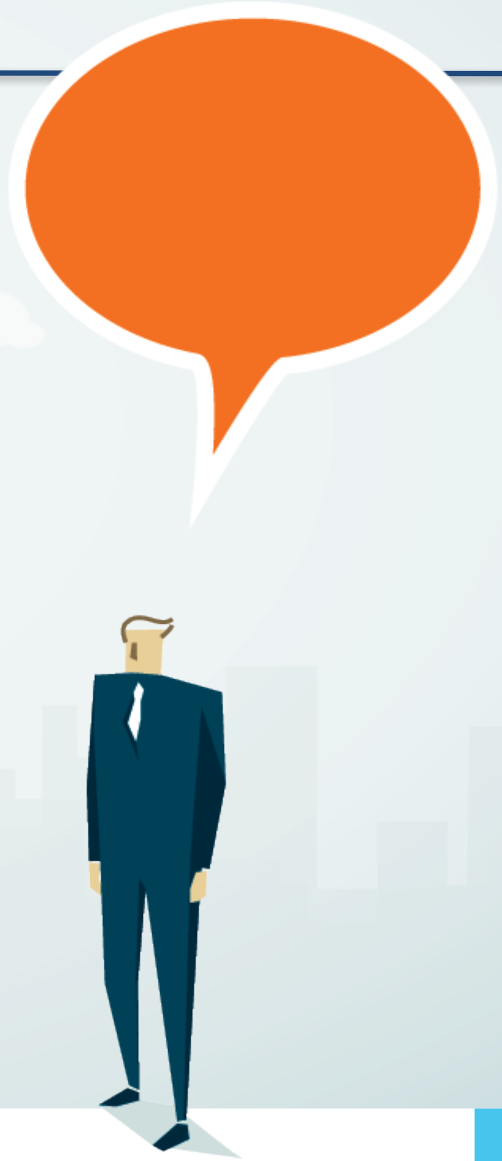
- ”No, because I'm sure they have set limits or rules.”
- “I wouldn't know if it's even allowed to negotiate.”



4 Investors felt negotiations would not lead to a successful outcome (lower fees)

- “I wouldn't see the point in arguing over what's already been labelled as a 'set rate'.”
- “I would try but I generally don’t think of advisors as a business that bartering works.”
- “I'd try, but like everything with a bank, 15% in my favour, and 85% in theirs.”

4 Investors felt that negotiations would be awkward or inappropriate



- “I wouldn’t feel comfortable negotiating with my advisor. Very awkward.”

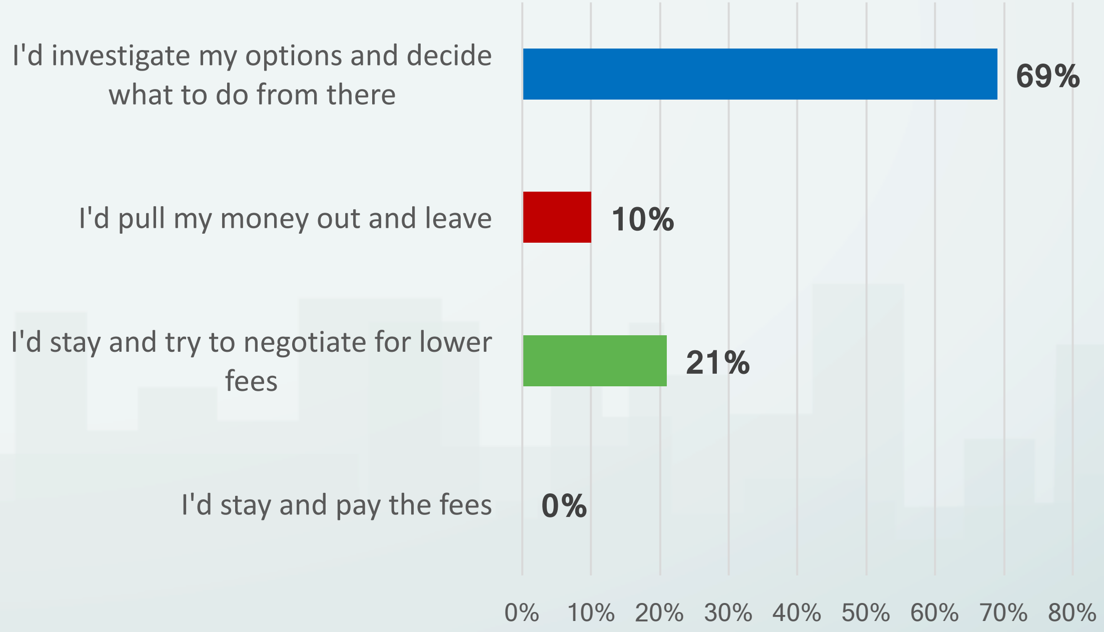
- “No, I don't usually feel comfortable negotiating for services in a professional atmosphere.”

5 Reluctant to change investing approach

Findings

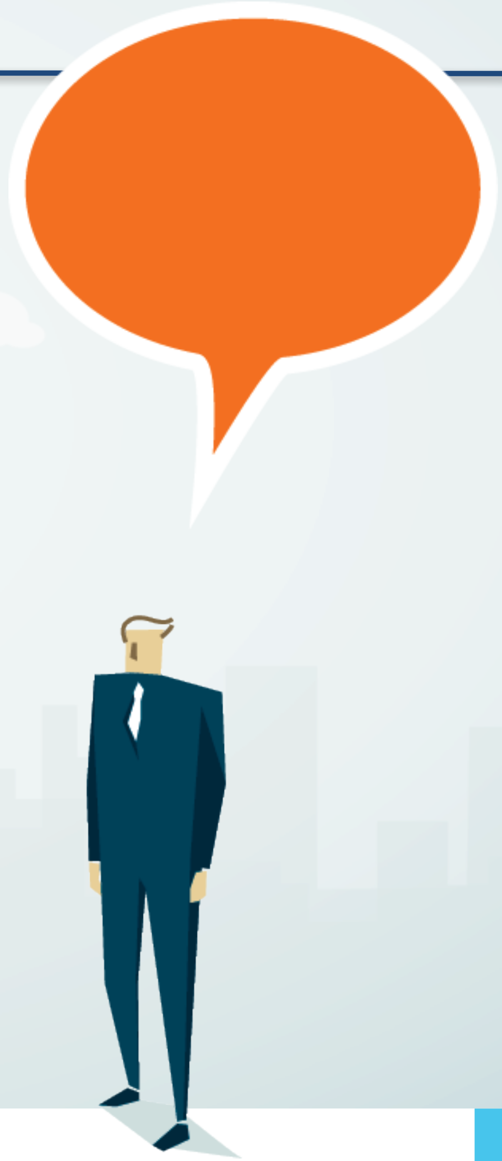
- Many investors are comfortable in their advised approach to investing.
- Some investors would stick with their advisor, even at a higher cost.
- Some investors would consider alternatives.

Q: Which would you most likely do if your advisor couldn't provide the services you wanted and needed at a reasonable cost?

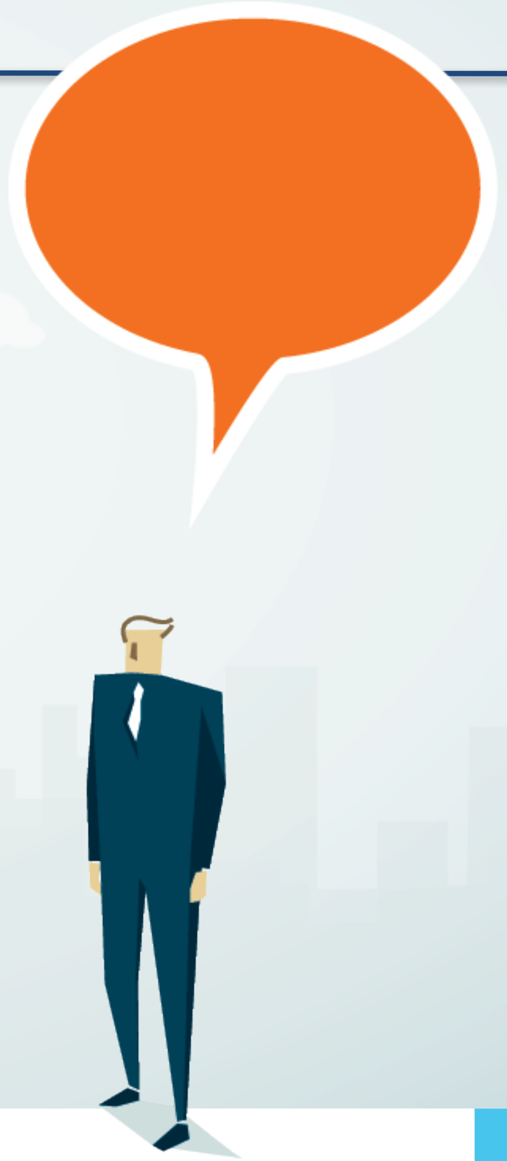


5 Many investors are comfortable in their advised approach

- “I like the connection and familiarity, like having the same doctor for a long time.”
- “I value the relationship that I have with the Advisors. I would hate to have to leave and would try to work with them. I wouldn't ask my Doctor for free advice so I’m willing to pay for an Advisor's knowledge too.”
- “I don’t want to move.”



5 Some investors would stick with their advisor, even at a higher cost

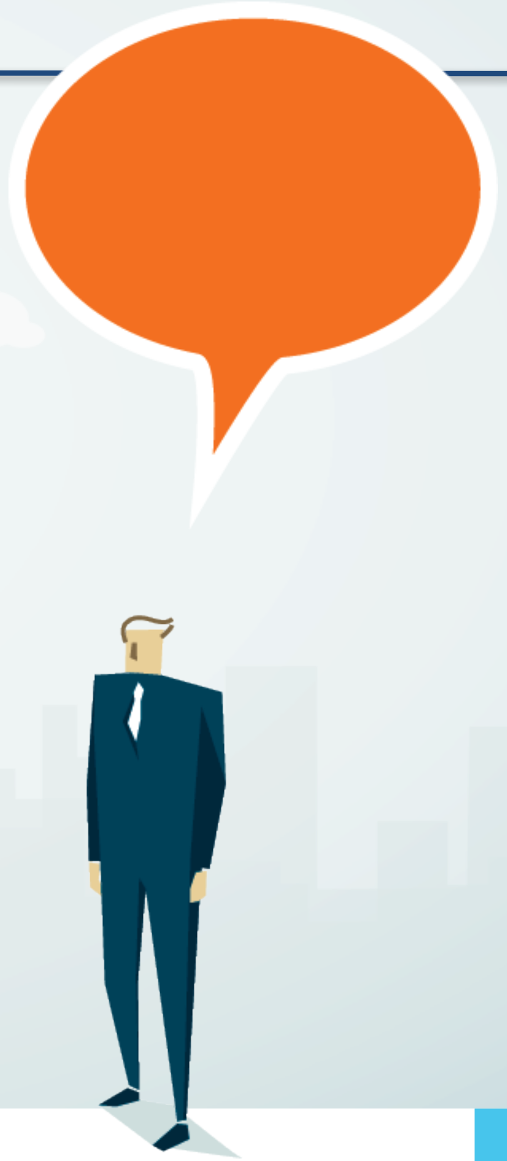


- “If I couldn't find a better price then I’d stay and suck it up.”
- “If some things aren’t available, that’s okay – like other things in life, you don’t always get what you want.”
- “I'd shop around for someone else. Then I'd weigh the cost of changing advisors.”

5

Some investors would consider alternatives

- “I’d consider leaving, but it would depend on how much paperwork and runaround there is.”
- “If my advisor isn’t willing to work with me in regards to the fee structure I’d consider pulling my money and looking elsewhere.”



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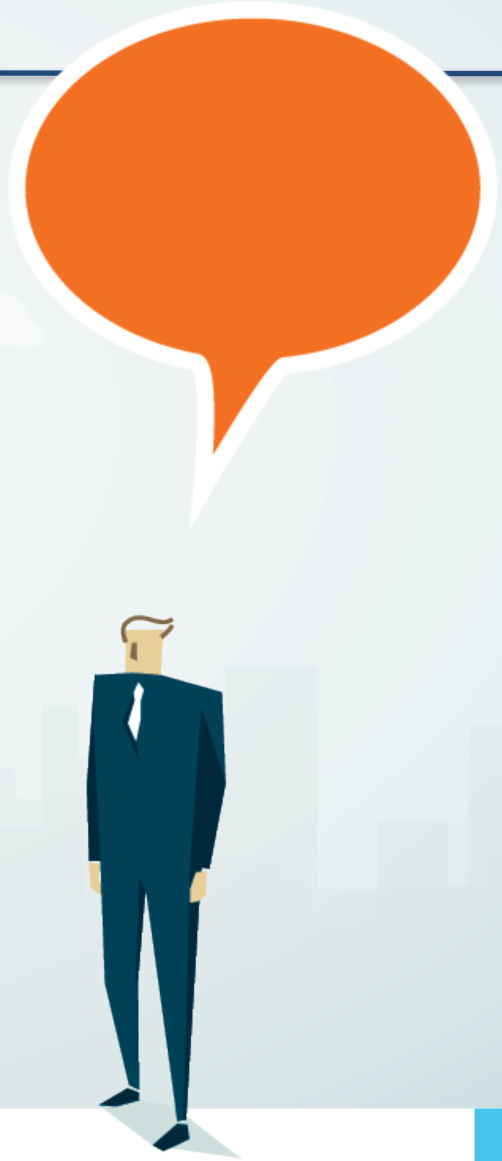
5 Some investors would consider alternatives

- “I’d hate to lose my relationship with my advisor but business is business. If I can't afford it, I’d have to shop around or maybe choose to self-direct my investments.”
- “Cost is not the only factor. A large part of it is feeling valued as a customer. If I’m not worth your time, you’re not worth my money. I’ll pay for a service if I believe it's being earned.”



6 Lack of awareness about investing alternatives

Findings

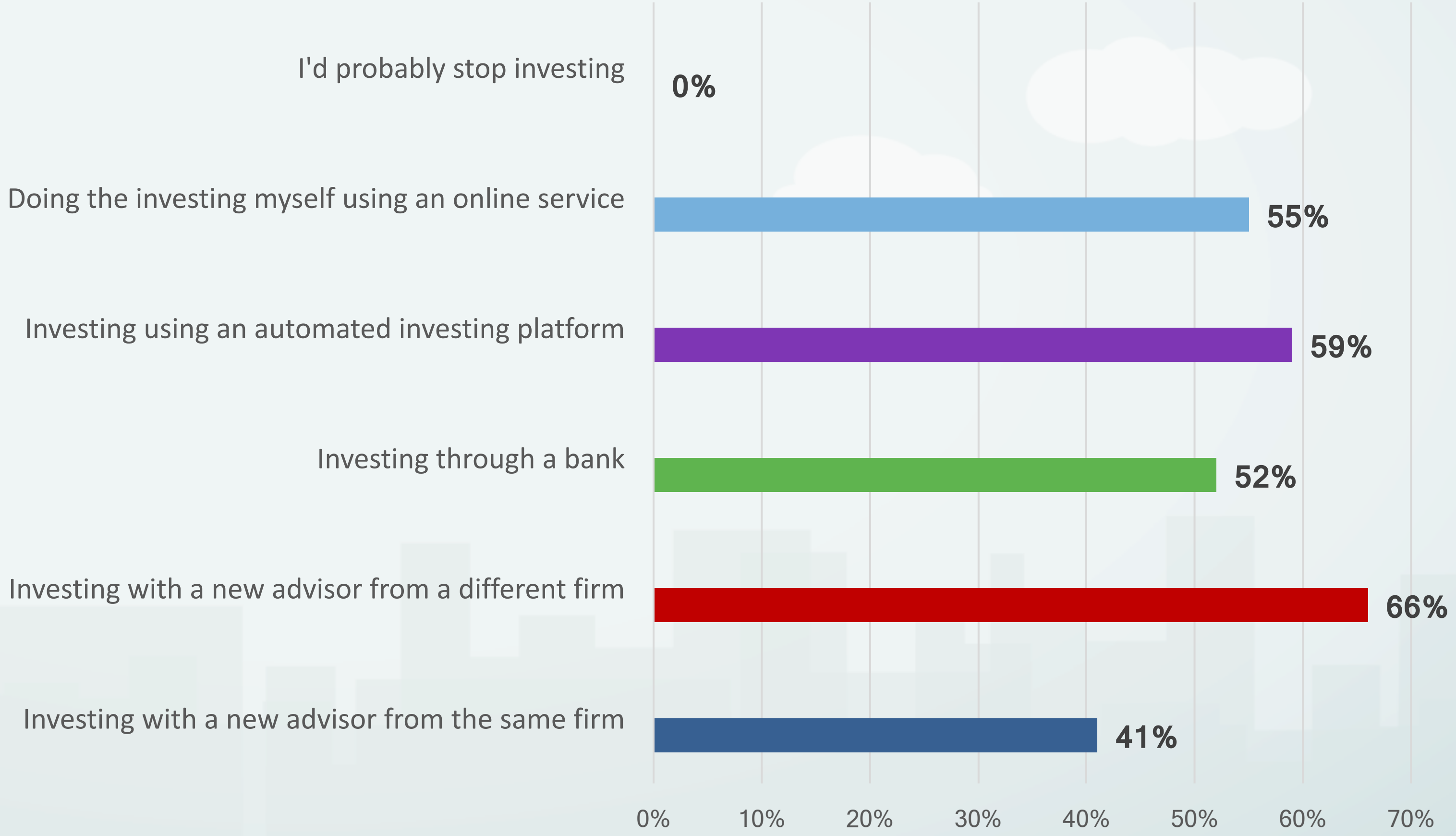
- Investors have limited awareness of investing alternatives.
  - Lack of awareness and lack of trust around robo-advice
  - Mixed views about bank-owned dealers
  - Fear of DIY approach

- Investors are not aware of reliable sources to compare investing alternatives.

6 Investor reactions to alternative approaches to investing

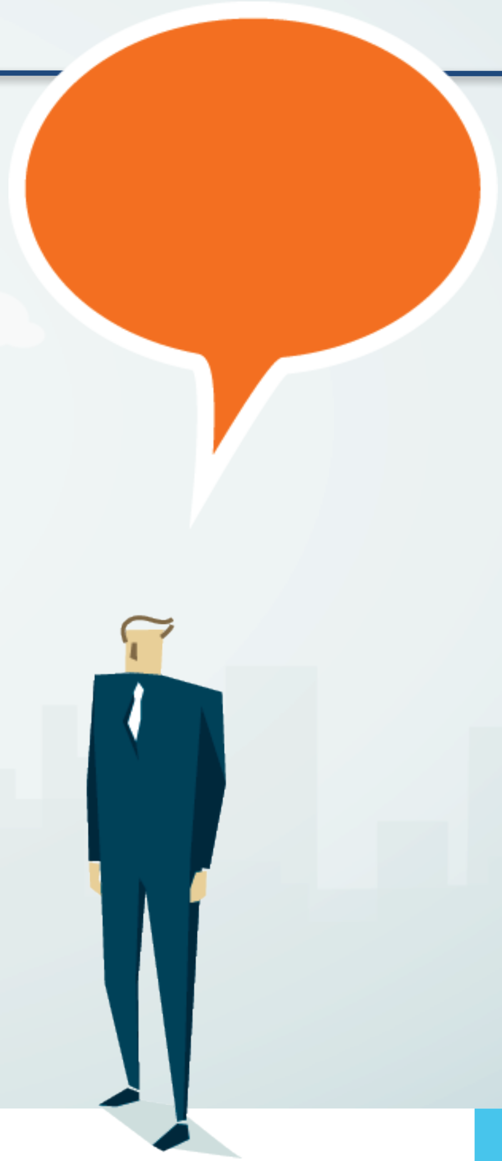
Q: Which of these options would you most likely do if your advisor couldn't provide the services you wanted and needed at a reasonable cost?

Please check all the alternative ways to invest that you would consider.



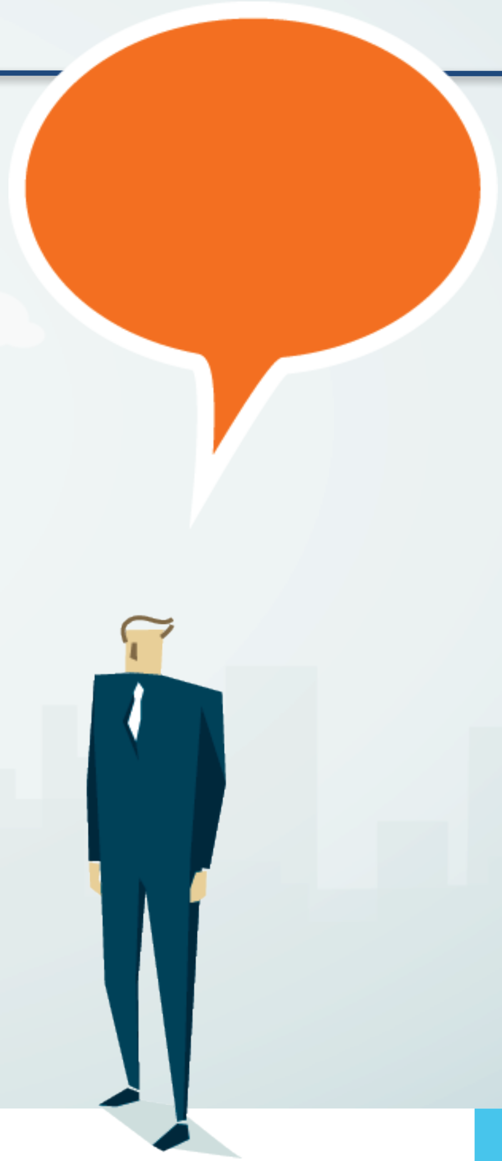
6 59% willing to consider robo-advice, but an almost complete lack of awareness

- "I am not aware and it seems risky."
- "I am not that familiar with online investing platforms, but would not feel comfortable investing that way."
- "I am not familiar with these platforms, and no, I prefer to talk face to face."



6 Lack of trust around robo-advice

- “I don't want to trust my money and future to a computer program. Too many chances for errors.”
- “I would not feel comfortable. How accurate is it? Who do I blame if something goes wrong?”
- “No, I need to put my trust in someone not an algorithm.”
- “Yes [I’d invest with a robo-advisor], if there was proof that they worked.”



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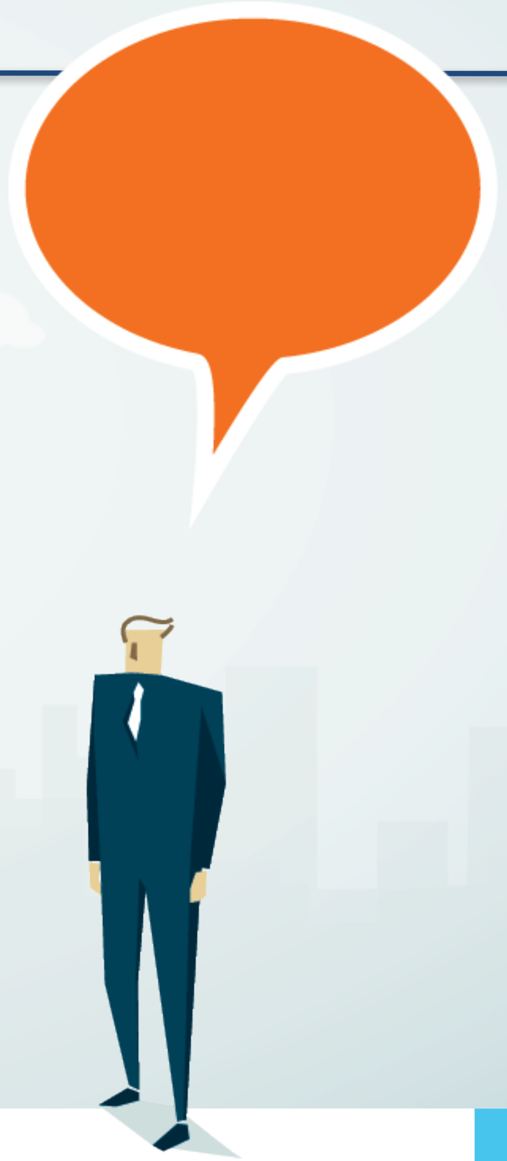
52% willing to consider an advisor with a bank-owned dealer, but mixed views about them

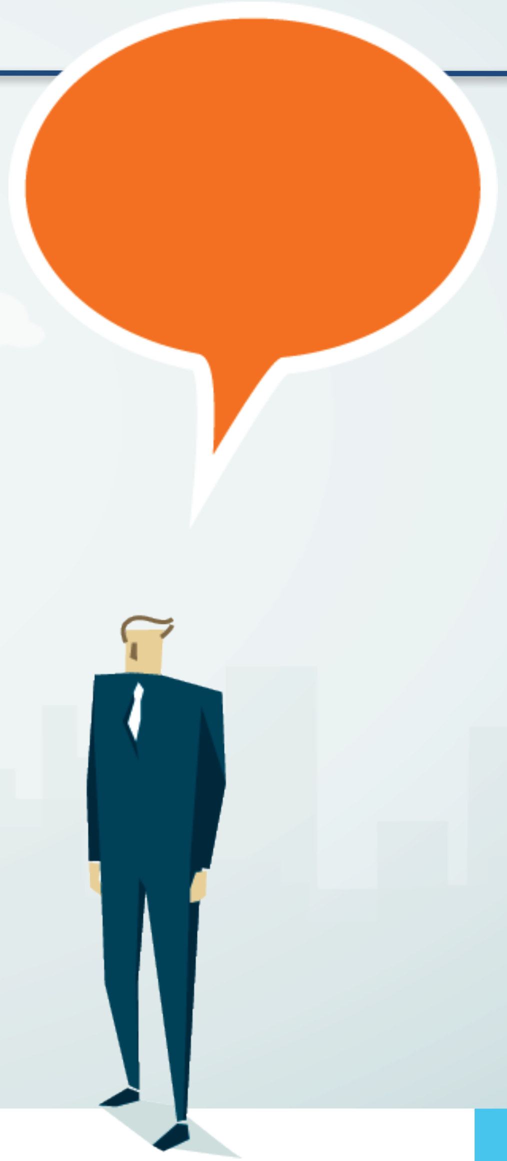
- “We have a good relationship with our bank, so that would be an option.”
- “I don't think you get as much juice out of a bank. The juice is not worth the squeeze.”
- “I trust my banker to lead me in the right direction. They do offer full explanations.”
- “I’d consider it, but I think banks make enough money.”



6

55% would consider Do-It-Yourself (DIY), but investor sentiments show considerable fear

- “This would take a lot of work and knowledge. I’m a long way from that.”
- “Probably not - I know a few people who have done this and lost money.”
- “No, I don't have enough knowledge or skillset to do that.”



6

55% would consider Do-It-Yourself (DIY), but investor sentiments show considerable fear

- “I know how to research a vacation, but I don't know how to research this stuff.”

- “DIY would make me nervous because I don't think I'd be committed enough. It takes a lot of work and discipline to keep up with the markets.”

7

Absent an advised relationship, investors drawn to approaches less likely to support good long-term investing behaviour

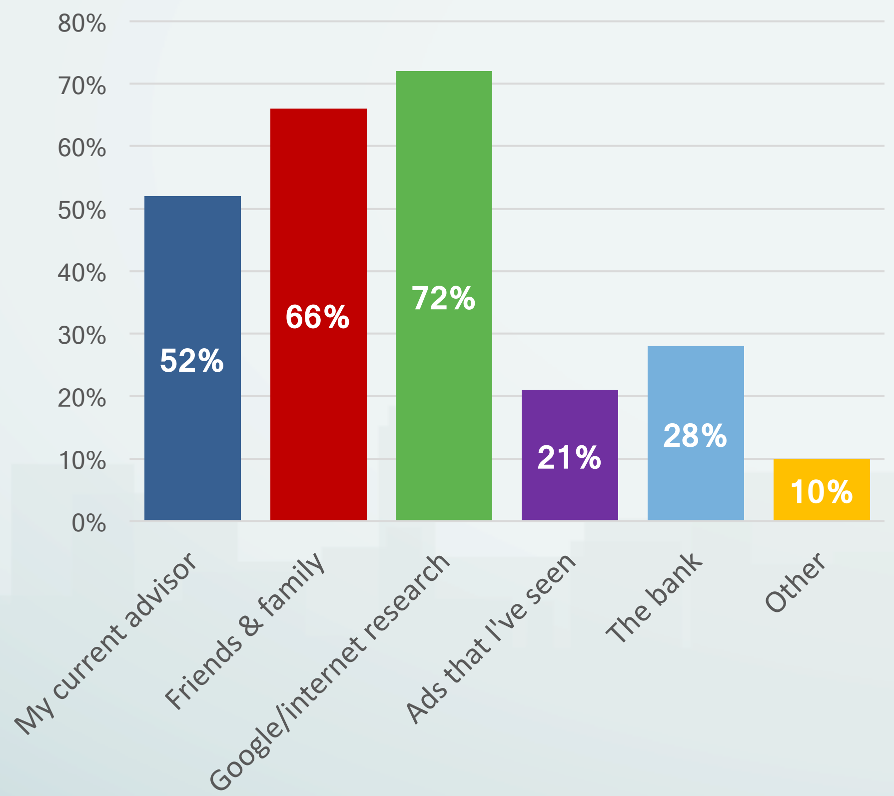
Findings

If an advised relationship was unavailable:

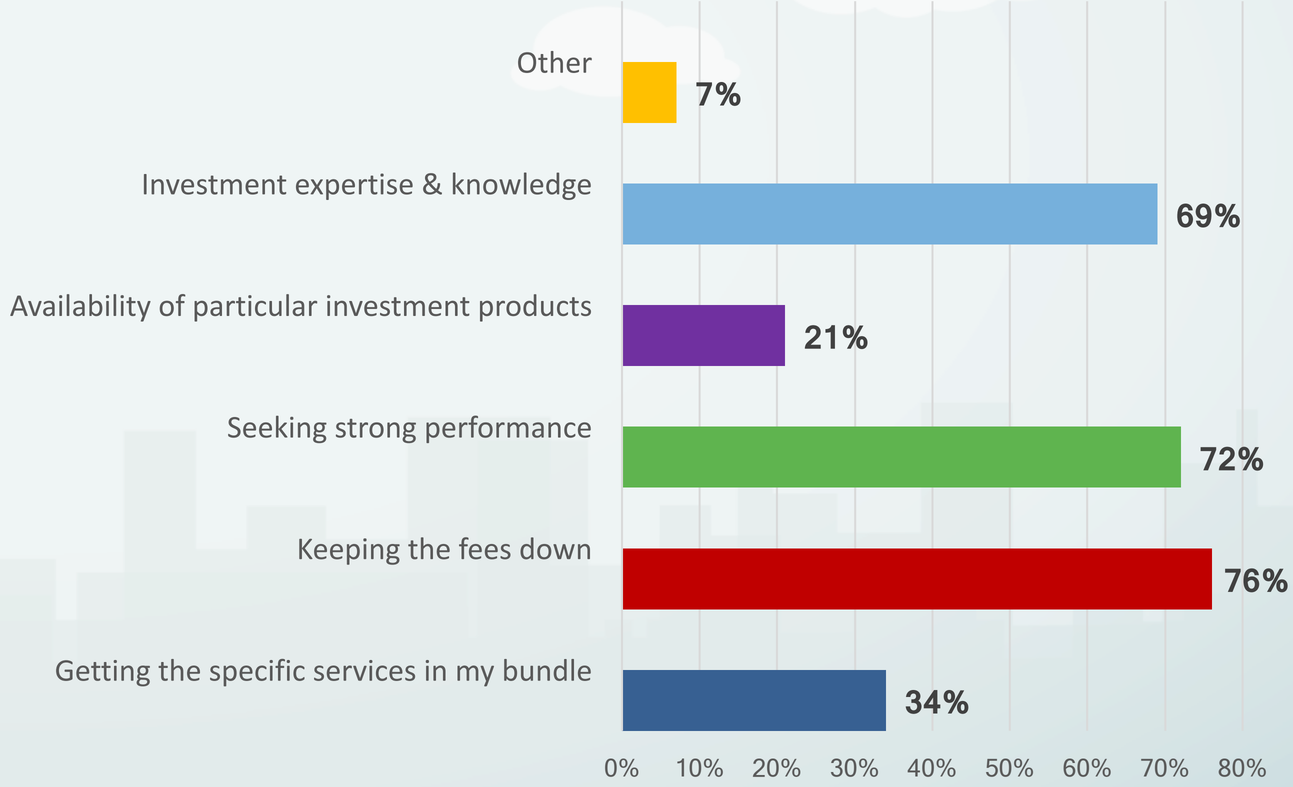
- Investors inclined to consult non-expert resources (i.e. internet, friends, family) for suggestions.
- Inclined to find another advisor offering better returns at lower fees (which is unlikely).
- Failing that, inclined to turn to robos and DIY approaches that they barely understand.
- Understood that doing so would result in lower levels of service, especially in regards to financial literacy education and promotion of good investment behaviour, which they didn’t consider “fee-worthy”.

7 Growing the advice gap for mass market investors

Q: Which sources would you trust to provide suggestions on alternative ways to invest?



Q: What objectives would guide your search?



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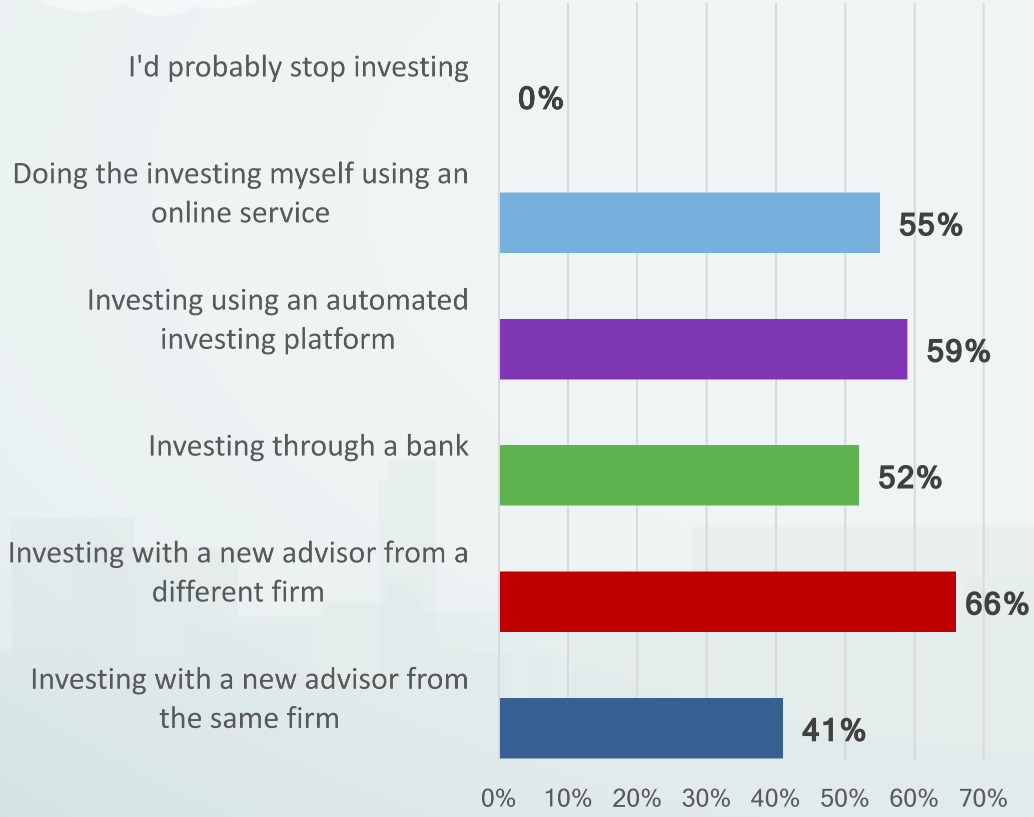
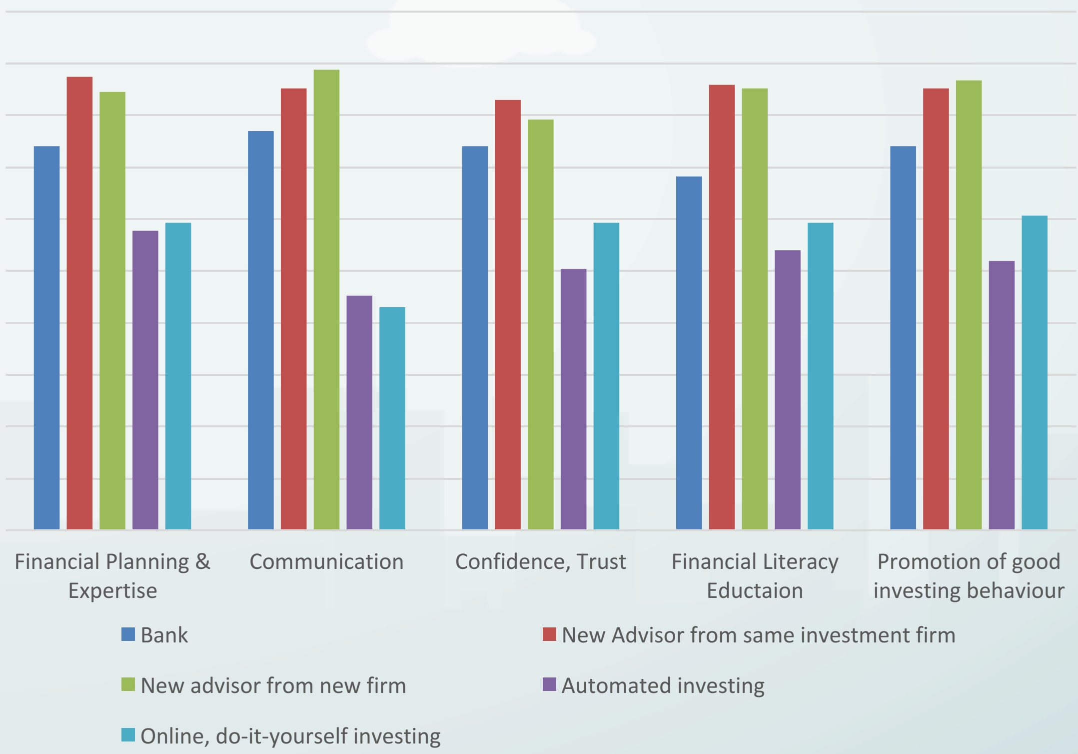
Growing the advice gap for mass market investors

Q: Which investment alternatives would you consider?



Q: What services do you think you would get from the following investment approaches?



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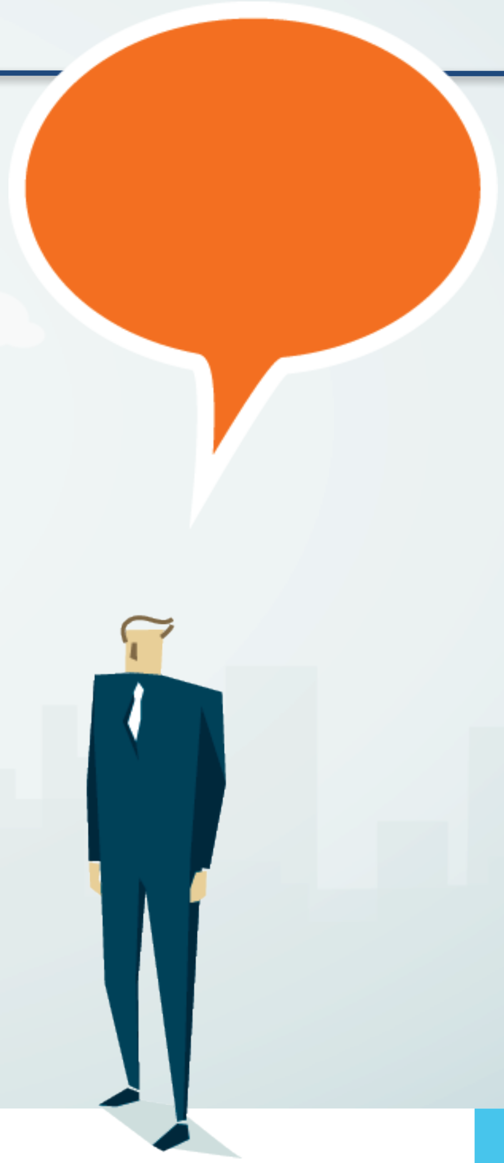
7 Many investors uncertain about their investment options

- "I have no idea on what other option other than picking what agent I liked and just signing an agreement."
- "I don't know any other options for investing."
- "I have no clue."

Q: After gathering all the information, what ways to invest would you consider? Please name all the possible approaches you would consider.

7 Investors inclined to consult non-expert resources



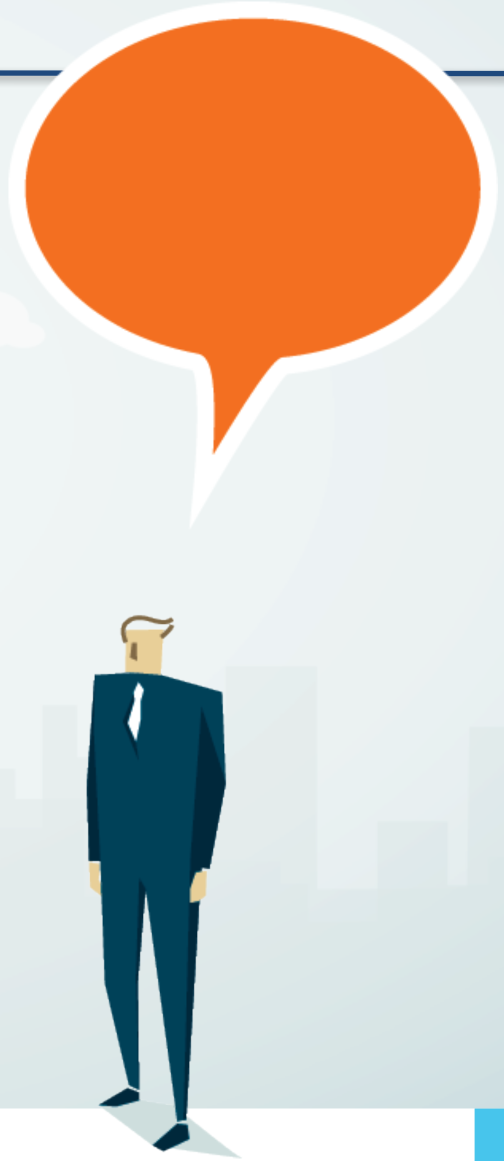
- “If I received advice from friends or family including internet searches, I would take this to my advisors and act on their advice.”

- “I would find an investment advisor who was referred to me through a trusted source.”

7 Inclined to seek another advisor offering better returns at lower fees

- “I will consider to pay for the best price and the best yield for my portfolio.”

- “I'd look for the better investment with the lowest fees.”

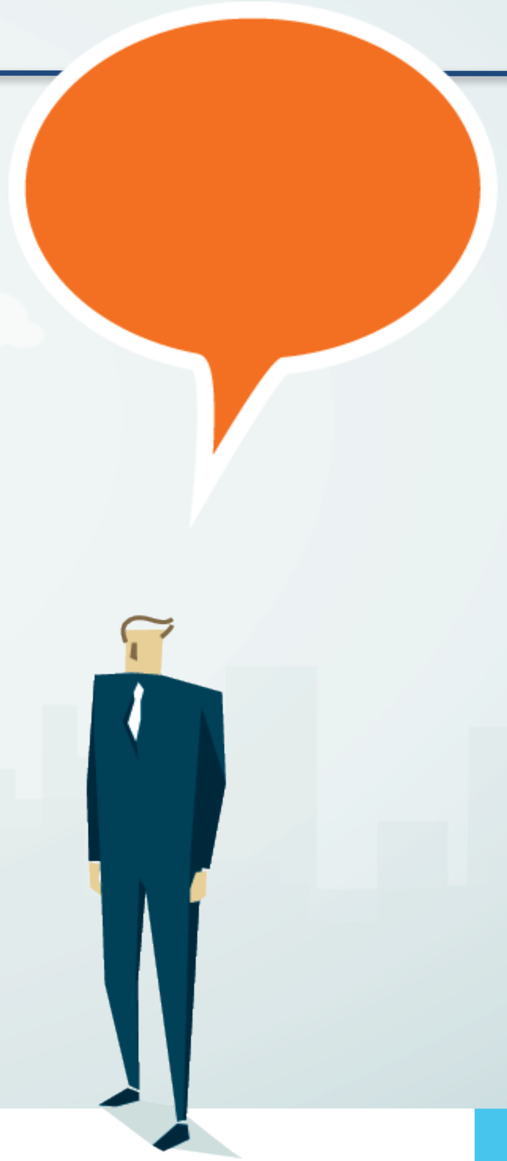


7

Would consider approaches they barely understand

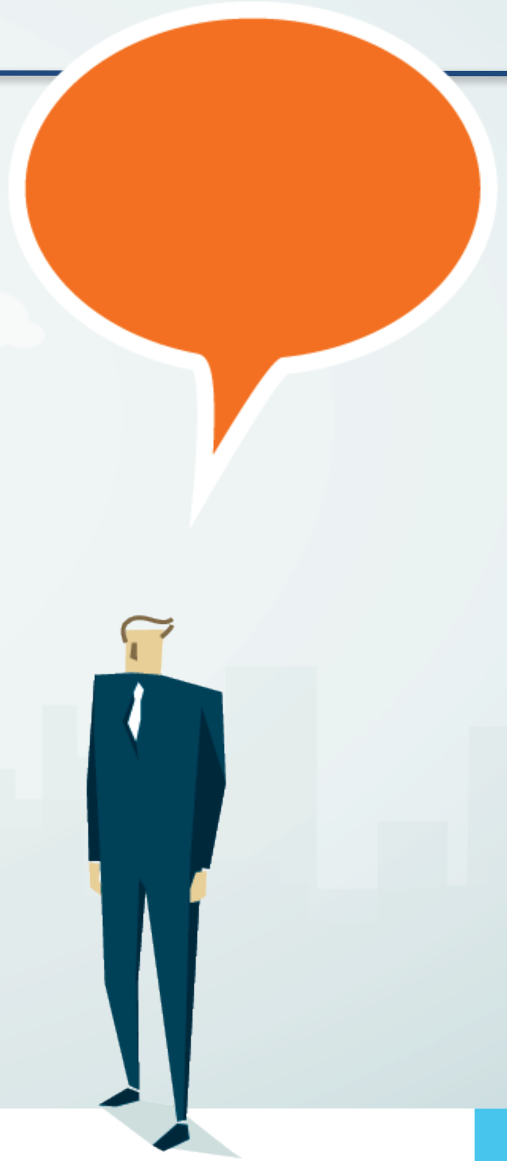
- “Investing in private equity locally. I would be very cautious of this because it would be tough not to get involved and 'meddle' with the operation I was invested in.”

- “I guess that would be day trading, or playing the stock market by myself because I do not have the required knowledge or expertise.”



7 Some options do not support good long-term investing behaviour

- “Using a financial advisor. Self directed through online sources. Putting everything into government bonds or T-bills. Not investing at all and just putting it in a savings account.”



THANK YOU

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Appendix

- Complete transcripts of online and in-person research sessions to be provided in PDF format