# Q & A Document
# Pension Plan for Employees of St. Thomas University
# December 6, 2013

## Frequent Trading

### 1. What is frequent trading?

Frequent trading occurs when investments are sold and re-purchased within a 30 day period for any one fund.

This practice is restricted by the investment industry. Frequent trading has a negative impact on investment performance because it increases the overall fund operating costs, thus reducing the returns to all until holders. It may force investment managers to maintain higher cash reserves that otherwise would be invested. In addition, to satisfy the requests of frequent traders, investment managers may have to sell investments at inopportune times. Money market funds and daily interest accounts (DIAs) are excluded from this policy since they are designed as short-term investment options. Guaranteed interest accounts (GIAs) are also excluded.

To protect the interests of all unit holders, Great-West Life has measures in place to monitor, and restrict frequent trading activities.

Example of frequent trading:

Assets are sold from Fund A and used to purchase assets in Fund B. Within 30 days, plan member attempts to sell assets from Fund B to re-purchase assets in Fund A.

Example of acceptable trading:

Assets are sold from Fund A and used to purchase assets in Fund B. Within 30 days, plan member sells assets from Fund B to purchase assets in Fund C.

### 2. What are the consequences of frequent trading, and what happens if I continue to frequent trade?

The first stage is to warn the member and ask them to stop their frequent trading activity. The second stage is to warn the member again and advise that if they continue, Great-West Life will decline the member's next trade and that they can resubmit it after the funds have been invested for 30 days. If the member attempts to trade again before the 30 days is up, Great-West Life would decline the trade and send the member a 3rd letter advising of this.

If the trading pattern continues, Great-West Life reserves the right to impose a frequent trading fee (currently up to 2 percent of the amount transferred) at their discretion. However, imposing a fee is extremely rare, and the correct steps would be taken to advise the member in writing prior to this happening. The member would have likely been engaged with Great-West Life already if it came to the point of imposing a fee.

Furthermore, multiple frequent trades or a pattern of frequent trading may result in the restriction of trades.

<u>Pooled Real Estate Fund Investing</u>

**1. How is the Real Estate Fund different from other funds in the St. Thomas University Plan, and what should I know about this Fund before investing?**

St. Thomas University uses a pooled Real Estate fund as an investment option for the members of its Registered Pension Plan. Real Estate as an investment class should be considered as a **specialty asset class**, due to the nature of the supporting assets. It is a complimentary asset class to equities as it has a lower risk factor than equities. While it has a steady stream of rental income it also has characteristics of equities, due to market appraisals.

The primary differentiating characteristic of this asset class compared to stocks and bonds is **liquidity risk**.

Office towers, apartment buildings and industrial properties that are held by a pooled Real Estate fund are not liquid assets. While Real Estate can be sold, it can take considerable time to move multi-million dollar properties.

During the downturn of 2008, in particular December of that year, appraisals of properties in the fund pushed the fund's unit values down by approximately 10%. This lead to a rash of redemptions requests, which the fund could not accommodate. Correspondingly, the fund went into a temporary close to redemptions and did not fully come out of the close until October 2010. During this time members could not access these assets, while the manager looked to liquidate certain properties without adversely impacting members.

While Great-West Life acknowledges that Real Estate investing has a place in a well-diversified portfolio, as it does in many of Canada's largest retirement funds, **it should only represent anywhere from 5-15% of the overall value of a portfolio, depending on the investor's risk tolerance. It should never represent the full holdings of one's retirement portfolio.**

## Warning Systems

**1. Integra/BMO GRS had a built-in warning system that notified me when I was attempting to make an investment choice that was inconsistent with my investment profile. Does Great-West Life have a similar system?**

Integra/BMO used a technical or electronic 'warning system' to address inconsistent investment choices (in light of the investor's investment profile) made by members.

This type of electronic "warning system" is not available with Great-West Life. Great-West Life places more focus on educating members to make informed investment decisions. Member education focuses on the types of investment funds that are available under the St. Thomas Plan and the creation of your unique investment profile.

Investment profiles often change over time. An educational approach facilitates members making informed adjustments so that their funds remain aligned with their profiles.

Warning systems can be helpful; however, their effectiveness is limited when members do not have the knowledge to know why they are receiving the warning and/or don't know how to respond to the warning.