



THE VALUE OF ADVICE

Mutual Funds Value Proposition

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Invest with advice.

MUTUAL FUNDS VALUE PROPOSITION

A mutual fund is an investment vehicle made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are widely available through banks, financial planning firms, brokerage firms, credit unions, trust companies and other investment firms.



PROTECTING INVESTORS' INTERESTS

- Stewardship
- Highly regulated
- Financial literacy

EASY, CONVENTIONAL ACCESS TO A WIDE RANGE OF PRODUCTS

- Multitude of asset classes (fund categories)
- People with low assets can invest
- Strong advisor complement and alternative distribution channels

NEEDS-BASED SOLUTIONS

- Product evolution to adapt to changing tax regime
- Adaptations to meet emerging investor needs

EXPERTISE OF ACCREDITED, EXPERIENCED INVESTMENT PROFESSIONALS

- Highly trained
- Partnerships with academia
- Evidence-based research

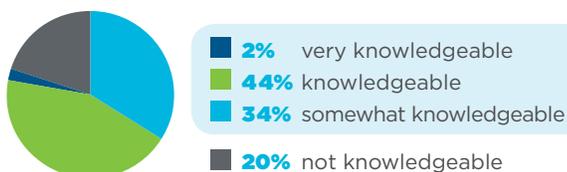
MUTUAL FUND PRODUCTS

Mutual fund products provide innovative solutions built on easy and convenient access to a wide variety of products designed by highly trained investment professionals, while protecting investor interests.

PROTECTING INVESTORS' INTERESTS

- The mutual fund industry has continually evolved to protect investors' interests. Examples include short-term trading fees, proxy voting and fair-value pricing.
- Mutual funds are highly regulated and more transparent than many other managed investment products:
 - Mutual fund companies are regulated by provincial securities commissions.
 - Mutual fund dealers are regulated by self-regulatory bodies, such as the MFDA, AMF and IIROC.
- Fund managers promote financial literacy through numerous investor and advisor education seminars.
- The mutual fund industry has been a strong promoter of government-sponsored savings initiatives, i.e. RRSPs, RESPs, RDSPs, TFSAs, which has led to increased participation and savings rates.
- Investors feel they are knowledgeable about investing in mutual funds; this has been a consistent perception since 2009¹.

80% of investors describe themselves as:



EASY, CONVENIENT ACCESS TO A WIDE RANGE OF PRODUCTS

Simplicity and Convenience

- A mutual fund account can be started for as little as \$25/month.
- Liquidity, diversification and lower minimums relative to many other managed investment products.
- Save investors the time and energy required to build their own portfolios.

Depth of Diversification

- A single investment in a mutual fund can instantly gain access to capital markets in over 40 countries.
- There are 45 Canadian Investment Funds Standards Committee (CIFSC) categories covering the entire globe and spectrum of asset classes, many of which wouldn't normally be available to the average investor.

Breadth of Choices

- Numerous ways to purchase mutual funds, i.e. full-service financial advisor, direct or through a discount brokerage.
- Various series of funds are available to suit different needs, i.e. fee-based, institutional, tax-efficient cash-flow series.
- Different load structures: low-load, front-end and back-end, which were created in 1987 – an innovation that allowed investors to put their entire investment to work.

- In June 2010, 34.4% (4.6 million) Canadian households held mutual funds.
- Recent research confirms that 85% of Canadian mutual fund investors say funds will help them meet their financial goals. Fewer express confidence in stocks (65%), GICs (64%), and bonds (55%)¹.
- Since 1981, our industry has grown from \$25 billion to more than one trillion dollars and is a cornerstone of Canadians' retirement savings. (IFIC and Investor Economics)
- The mutual funds industry directly employed more than 63,000 workers in 2012, and it directly contributed \$5.8 billion to Canada's economy².
- The mutual funds industry's economic footprint is most visible in finance, insurance, and real estate, but we also create notable economic impacts in a wide range of sectors, such as in the professional, scientific and technical services².
- In 2012, the industry supported a total of 192,600 jobs while creating \$12.6 billion in primary household income and \$2.3 billion in corporate profits².

NEEDS-BASED SOLUTIONS

- **Corporate Class** mutual funds allow investors to switch between funds in the corporation without any capital gains or losses being realized.
- There are **tax-efficient** series for investors who wish to receive a regular monthly cash flow from a fund.
- **Socially responsible** mutual fund solutions are there for Canadians who place strong personal significance on the value of ethical investing.
- Many mutual funds make use of sophisticated or advanced strategies (e.g., derivatives, currency hedging, short-selling) to enhance returns or reduce risk.
- **Insurance** products are available that offer growth potential through mutual funds along with traditional guarantees of segregated funds (LIB).
- Mutual funds encompass a variety of investment strategies and offer investors both active and passive approaches to investing (e.g. index funds, funds that invest in ETFs).

EXPERTISE OF ACCREDITED INVESTMENT PROFESSIONALS

- The financial services industry has a reputation for hiring some of the most talented and respected investment professionals in Canada.
- Mutual fund managers provide insight through numerous research papers and frequently meet with government officials to provide their perspectives on the economy.
- At any given time, over two dozen IFIC committees meet to proactively advance industry and investor issues.
- The financial services industry has historically formed strong partnerships with academia.
- The mutual fund industry sponsors numerous surveys to gain insights into the financial issues facing Canadians.
- Tremendous work is done by the industry on investor psychology.
- Media interviews enable sharing of expertise.

THE VALUE OF ADVICE

Mutual funds are available through a variety of channels, with advisors being the most popular way for Canadians to purchase mutual funds. Advisors provide convenient access, counsel and guidance to help investors grow their financial assets.

PROTECTING INVESTORS' INTERESTS

Advisors help clients avoid common behavioural investment mistakes.

- Many non-advised investors exhibit non-rational and biased investing behaviours⁸.
- 70% of investors believe they remain in financial markets despite volatility because of their financial advisor⁶.

Advisors improve financial literacy.

- Investors who work with an advisor are 33% more likely to feel empowered and educated⁷.
- Investors are comfortable they had the right information to make an informed decision about their most recent purchase¹:

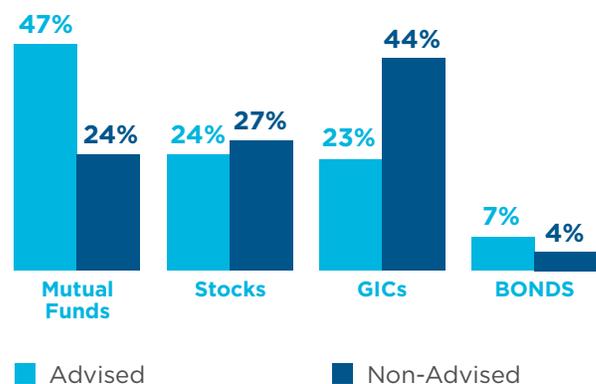
95% of investors feel at least somewhat comfortable with the information to make an informed decision.

Financial advisors are trusted by Canadians.

- 98% of mutual fund investors indicate they can trust their advisor to give them sound advice, an improvement of 5% over the last 2 years¹.
- 92% of mutual fund investors agree that they get a better return on their investments than they would without an advisor. This is an improvement of 8% since 2012¹.
- Mutual fund investors prefer to receive information about mutual funds from their advisors. Preferred information sources include: word of mouth from advisor (84%), eNewsletters from advisors (61%) and advisor websites (48%). The only other top source is the news media (56%)¹.
- 60% of Canadians with financial advisors say they are very comfortable raising concerns and questions with their financial advisor³.

EASY, CONVENIENT ACCESS TO A WIDE RANGE OF PRODUCTS

- Most Canadians find that they lack the financial knowledge, or the time required, to research all the options and make important financial decisions at critical points in their lifetimes⁹. Advisors have typically amassed a wealth of knowledge on the myriad solutions available and can therefore better assess the most effective investment solution for the client.
- Each individual has specific financial needs and goals – and often people are ill-equipped to judge whether they are realistic and how they can be achieved. Advisors can help them establish a realistic, long-term financial plan by moving them beyond short-sighted investing and finding investment solution(s) that can help them reach their goals.
- Product sophistication is rising rapidly, with new types of products being developed all the time, particularly in the alternatives space. This is widening the knowledge gap.
- On average, advised investors have more growth-oriented investments than those without advisors. In 2011, investable assets were⁵:



- Mutual funds, and specifically mutual funds bought through advisors, continue to grow. As of 2012³:
 - 62% of Canadian investors hold mutual funds, compared to 53% in 2009.
 - GICs are second at 45%, followed by stocks at 33%.
 - 49% of Canadians say they have a financial advisor, up from 46% in 2009 and 42% in 2006.
- 87% of Canadian mutual fund investors purchased their funds from an advisor¹.
- Canadian households who receive advice from a financial advisor have up to 2.7 times the median financial assets of similar households without a financial advisor, after all costs have been taken into account³.
- The majority of advised investors believe their advisor has positively impacted the value of their investments; 61% believe their advisor has assisted in increasing their net worth⁵.

NEEDS-BASED SOLUTIONS

Advisors help clients through the process of setting investment strategies, reviewing and evaluating financial plans.

- Canadians need assistance in preparing for retirement:
 - In 2014, one in three Canadian adults were not preparing financially for retirement either on their own or through an employer pension plan¹¹.
 - Three in 10 Canadian adults were “not very confident” or “not at all confident” that their income in retirement would allow them to maintain their desired standard of living¹¹.
 - The presence of a financial advisor increases the confidence of having enough money to retire comfortably³.
- Financial plans are particularly useful during market downturns.
- Advisors help to ensure clients are invested correctly based on their risk tolerance. In 2014¹:

74% of investors said they had a risk tolerance conversation with their advisor in the past year. 97% of investors were satisfied with their advisor’s original risk assessment.

For the majority of investors, managing their own investments isn’t effective.

- Only 6% of Canadian investors meet the criteria required to be successful as their own financial advisor⁴.
- Very few mutual fund investors make decisions on their own: 90% of mutual fund investors say that their advisor discussed the suitability of their mutual funds to their investment goals¹.

EXPERTISE OF ACCREDITED INVESTMENT PROFESSIONALS

- Advisors are required by law to complete and maintain updated “**Know Your Client**” documentation and ensure that investments match client profile.
- Licensed advisors must complete education programs after they are registered to help them keep on top of new financial products, rules and regulations, and industry trends.
- Every three years, IIROC advisors must complete a **Continuing Education** program that requires 12 hours of compliance and 30 hours of professional development courses.
- The firms through which advisors work are required to pay into investor protection funds to cover client losses due to insolvency.
- Advisors are much less likely to be a source of fraud. As use of advice goes up, the likelihood of fraud goes down¹⁰.
- Empirical research demonstrates investment returns, net of fees, on advised accounts that are as much as **3% higher** than on non-advised accounts¹².

Benefits of investing with advice

- Advised households save at **twice the rate** of Passive Non-Advised households⁴.
- Investing with advice yields **higher returns** than investing without advice because advisors provide asset mixes that are right for the long-term needs of their clients and encourage their participation in registered plans⁵.

SOURCES

¹ Canadian Investors' Perception of Mutual Funds and the Mutual Fund Industry, Pollara, 2014

² Conference Board of Canada, 2013

³ CSA Investor Index, Innovative Research Group, 2012

⁴ Models on the Value of Advice of a Financial Advisor, Professor Claude Montmarquette and Nathalie Viennot-Briot, Centre for Interuniversity Research and Analysis on Organizations, 2012

⁵ Value of Financial Advice, Ipsos Reid, 2011

⁶ Strengthening Investor Protection in Ontario – Speaking with Ontarians, Ascentum for Investor Education Fund and the Ontario Securities Commission Investor Advisory Panel, 2013

⁷ New Insights into a financially healthy retirement, Russell Investments/Harris Decima, January 2010

⁸ Connaissance financière et rationalité des investisseurs: une étude Canadienne, Cécile Carpentier et Jean-Marc Suret, CIRANO et École de comptabilité, Université Laval, 2011

⁹ IFIC Value of Advice Report, 2010

¹⁰ CSA Investor Index Survey, 2009

¹¹ Canadian Financial Capability Survey, Statistics Canada, 2014

¹² Aon Hewitt and Financial Engines, Help in Defined Contribution Plans: 2006 through 2010, September 2011

Contact your financial advisor to learn how mutual funds can fit in your investment portfolio.

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