2018 Canadian Investor Survey

An Opinion Research Study on Advisor Compensation & Mutual Fund Purchase Options

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The following is a summary of findings from a recent survey of Canadian individual investors. This report covers detailed findings as they relate to:

1. Satisfaction with advice services
2. Satisfaction with investment services and fees
3. Perspectives with respect to fees and fee transparency
4. Perspectives on sales purchase options associated with mutual funds
5. Investors' experience with mutual fund purchase options: deferred sales charges (DSCs) and front-end sales charges (FESC).

The findings draw on an online survey conducted between October 31 and November 14, 2018, by the Gandalf Group Inc. on behalf of AGF Investments Inc.

- 1102 Canadian investors completed the survey i.e. Canadian adults who own mutual funds, exchange traded funds or stocks and are solely or partly responsible for their household's investment decisions. Those who work in the investment industry were screened out.
- Investors were screened in from a larger, representative sample of Canadian adults, proportionate to Canada's population's distribution by region, gender and age – investors comprise almost half (44%) of the Canadian adult population.
- The sample is comparable to a 2017 survey conducted (April 7 to May 5), screened in with similar criteria and tracking questions to compare results.
- Most work with a professional advisor while 1 in 5 is non-advised, meaning they receive no advice from an advisor and intend to purchase investments purchases on their own online platform.
- An oversample (n=41) of robo-advised investors was collected to provide a more representative snapshot of this emerging financial advice and services channel (for a total of n=144).

Key Findings

1. Most advised investors are very satisfied with their advisors. They are especially satisfied with the time and advice they receive.
2. While there is room for improvement when it comes to fees – most might not be very satisfied with the amount they pay in fees to advisors, a substantial proportion is (39%) and only 9% stating they are very dissatisfied -- advised investors have relatively less concern about the transparency of the fees they pay and the work advisors do to manage those costs (71% stated their advisors are transparent when it comes to potential conflicts of interest).
3. Deferred sales charges (DSCs) are commonly paid out of the value of an investment in a fund rather than as a separate charge billed in addition to the value invested. Most investors prefer this approach and they in turn prefer the DSC option presented in the survey over the FESC option. Those who recall investing in a DSC-associated mutual fund were more likely than others to prefer the DSC option.
4. A clear majority of all investors agreed advisors should have the option of offering funds with a DSC. An even larger majority agreed they are a good option for those who are just starting to invest.
5. Most investors believe DSCs are an acceptable way of compensating financial advisors for the services and sales they provide to investors – a minority, 20%, believe they are unacceptable. Those who recall purchasing a fund with a DSC were more likely than others to say they were acceptable.
6. Most who recall investing in these funds (69%) agreed investors are usually aware of the potential for these charges when they purchase while fewer disagreed (27%).
7. Views are mixed when it comes to the investor target of DSCs, demonstrating the need to ensure they are targeted to the right investor. Roughly half agreed these fees lead people to stay too long in a fund that may not be right for them. That is offset somewhat by the fact that most agreed these are suitable for those who want to invest long-term and the fact that most investors prioritize long-term investing.

Detailed Findings

Satisfaction with Advisors

Consistent with our 2017 research, the clear majority of advised investors are very satisfied with their advisors. Taking everything into account they tend to give very high satisfaction scores in relation to the advice they receive with very few saying they are dissatisfied.

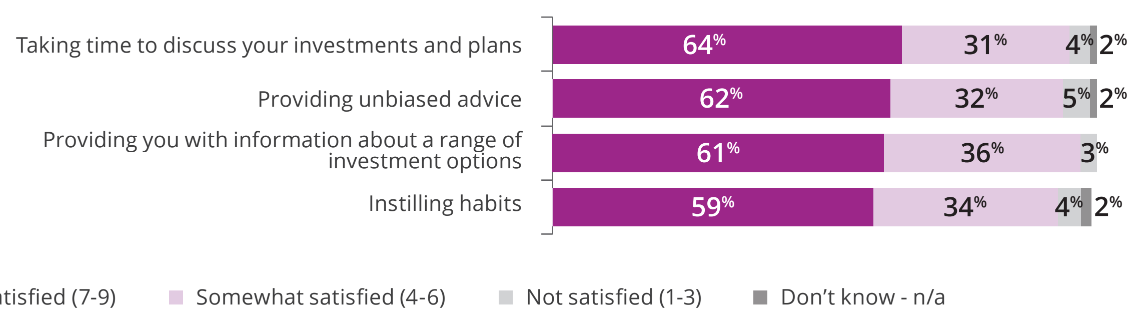
- 66% are very satisfied
- Only 3% are dissatisfied with their financial advisor
- Just over three in ten are moderately satisfied or somewhat satisfied

Advised investors are especially satisfied with the time advisors take to discuss their investments and objectives *(see chart 1)* as well as what they see as unbiased advice and a range of options.

- 59% are very satisfied with their advisors when it comes to how they help instill discipline to reach their financial goals
- 67% agreed their advisors played an important role in encouraging them to start investing *(see chart 3)*
- 61% are very satisfied with the range of investment options they receive

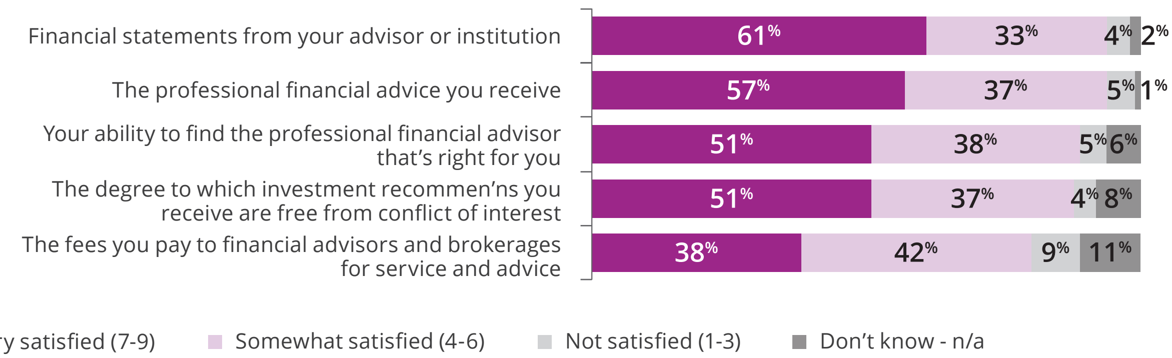
With respect to each facet of advisory services, only a small fraction of investors are very dissatisfied (9% or less – *see chart 1 & 2*). There is less satisfaction with respect to the amount they pay in fees to their advisors (9% very dissatisfied and about half of advised investors saying they are only somewhat satisfied – see chart 2). Yet, those who are very satisfied with the value they get for what they pay in fees (38%) far outnumber those who state they get too little value (9%).

Chart 1



"How satisfied are you with your financial advisor when it comes to offering or doing each of the following?"

Chart 2

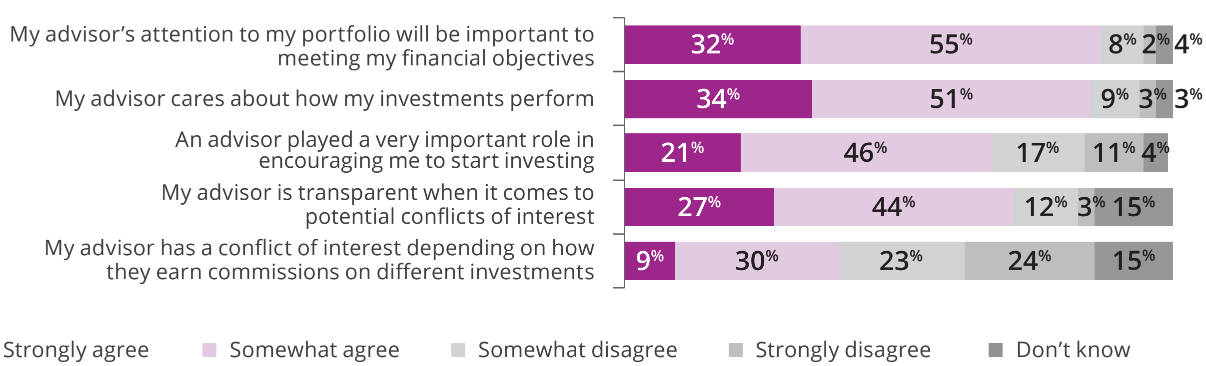


"Now please tell us how satisfied you are with each of the following aspects as they relate to your advisor?"

A noteworthy finding is that investors appear to rate their own advisors more positively than they rated advisors – or the advice industry – generally *(see chart 3)*.

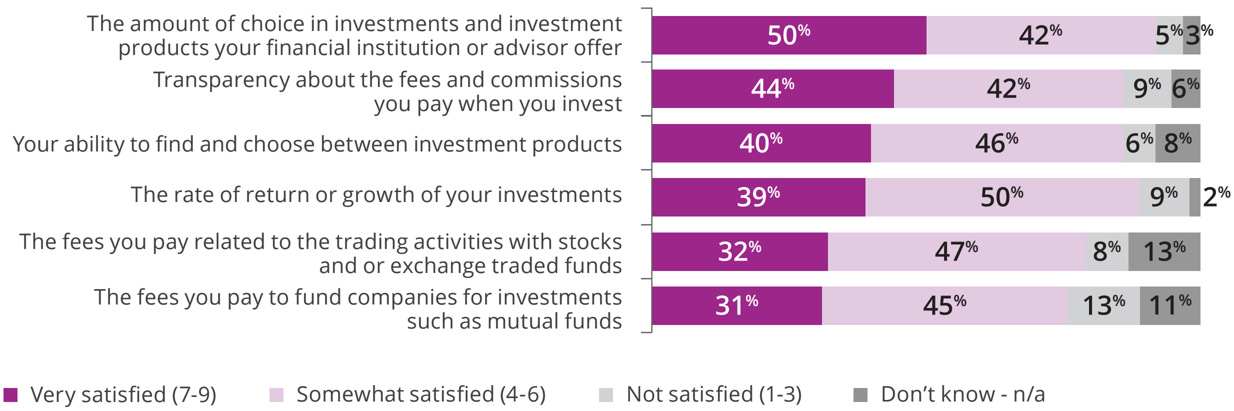
- In a comparable survey in 2017, 74% agreed advisors care about how their clients' portfolios perform. In this survey, 84% agreed their advisors care about how their portfolios perform.
- In 2017, only 54% agreed advisors are transparent about potential conflicts of interest. In this survey, 71% agreed their advisors were transparent about potential conflicts of interest while 15% disagreed that they were transparent.
- In 2017, 66% agreed advisors have a conflict of interest depending on how they earn commissions and fees; yet, in 2018 only 39% agreed their advisor had a conflict of interest depending how they earn commissions/fees.

Chart 3



"How much do you agree or disagree with each of the following statements about financial advisors?"

Chart 4

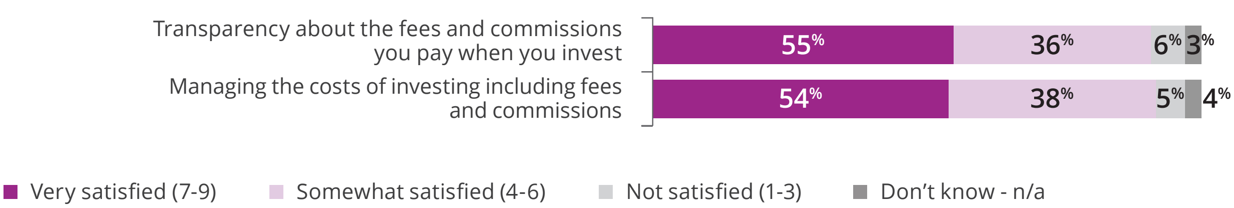


"How satisfied are you with each of the following aspects relating to your investments?"

Investors are not enthusiastic about having to pay fees in relation to trading or to fund companies – fewer are very satisfied about each (32% & 31% respectively and about 1 in 10 very dissatisfied - *see chart 4*) than are very satisfied with what they pay their advisors in fees (39% - *see chart 2*).

There is far more satisfaction when it comes to transparency about fees and commissions or the work advisors do to manage costs of investing that include fees and commissions: *(chart 5)* -- most are very satisfied with their advisors' performance in these respects, although there is some room for improvement, as more than a third are only somewhat satisfied.

Chart 5



"How satisfied are you with your financial advisor when it comes to offering or doing each of the following?"

Fee Structures

A key focus of the investor survey deals with how fees are calculated and paid. The survey addressed this partly through forced-choice questions to see if investors had clear preferences.

Advised investors are divided – and some do not have a clear preference – when it comes to paying advisors based on the amount of time spent and advice offered or paying them a percentage of their portfolio value. In a forced choice presented to advised investors:

- 35% said they would prefer a fee based on the amount of time/advice/transactions their advisors provide
- 40% said they would prefer fees charged annually based on a percentage of the value of investments they own
- 26% were unsure.

This forced choice along with some other research findings suggest a majority would be satisfied if most or all their advisors' compensation was based on the amount invested. Survey data from 2017, likewise, suggested few want to phase out such compensation completely. The 2017 edition of this survey asked investors to rate approaches to advisor compensation and found only 13% strongly disagreed with calculating their advisors' fees as a percentage of investments while far more strongly agreed (40%) with this approach.

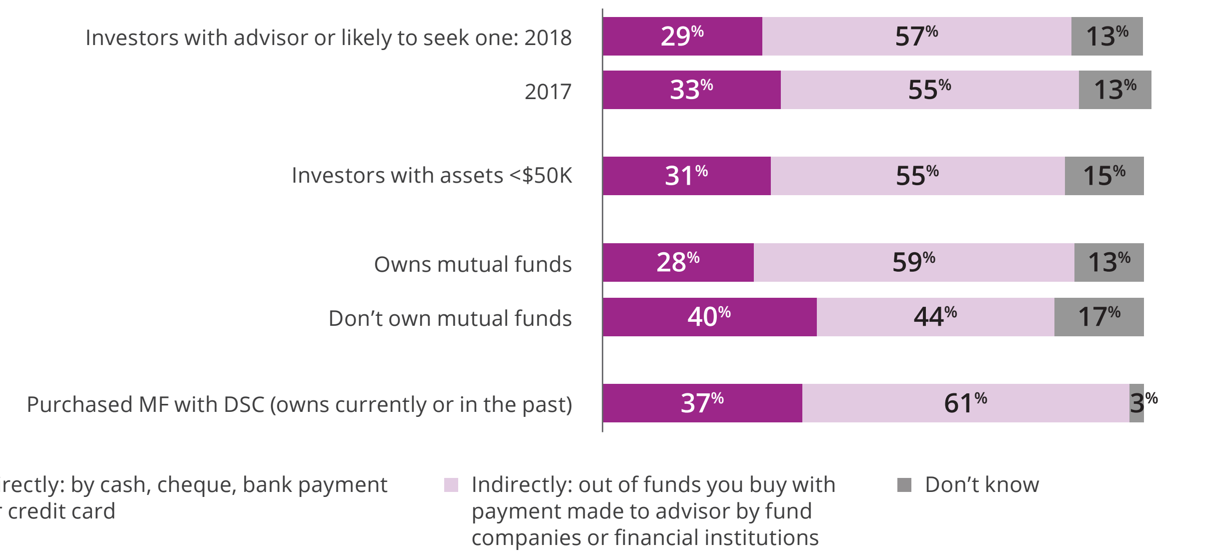
While there is a substantial minority market that will prefer to pay fees based on time and service, the openness of most to paying advisors based on AUM suggests there is an expectation that advisors should be invested in how clients' portfolios perform. And most believe they are. The majority of advised investors agreed their advisors care about how their portfolios perform *(see chart 3)*.

Investors have a clearer preference between paying an advisor indirectly (from their portfolio or out of the amount invested) rather than directly (e.g. pursuant to an invoice or paid by credit card or cheque – *see chart 6*). In this forced choice:

- 57% of advised investors said they prefer to pay indirectly, "out of funds you buy with payment made to your advisor by fund companies or financial institutions"
- 29% said they prefer to pay "directly, by cash, cheque, bank payment or credit card"
- 13% were unsure.

This finding suggests investors might be accepting of sales charges that cover advisors' services as a matter of their own convenience. It may also be that this type of commission or fee is associated with value or a positive outcome: i.e. both a service and a decision about which funds to buy, rather than simply financial advice that does not lead to a purchase or investment of any kind.

Chart 6



Q32: "And between the following two options how would you prefer to pay a financial advisor for advice and services they offer?"

Sales Charges (Mutual Fund Purchase Options)

Another key objective for this study involved assessing investors' perceptions of sales charges associated with mutual funds, both front-end (FESC) and deferred sales charges (DSC). This involved measuring the extent to which investors were aware of these and presenting them with a description so that all investors (and not just those who were familiar) could assess their acceptability as advisor compensation. The descriptions are available in the footnotes of this report.

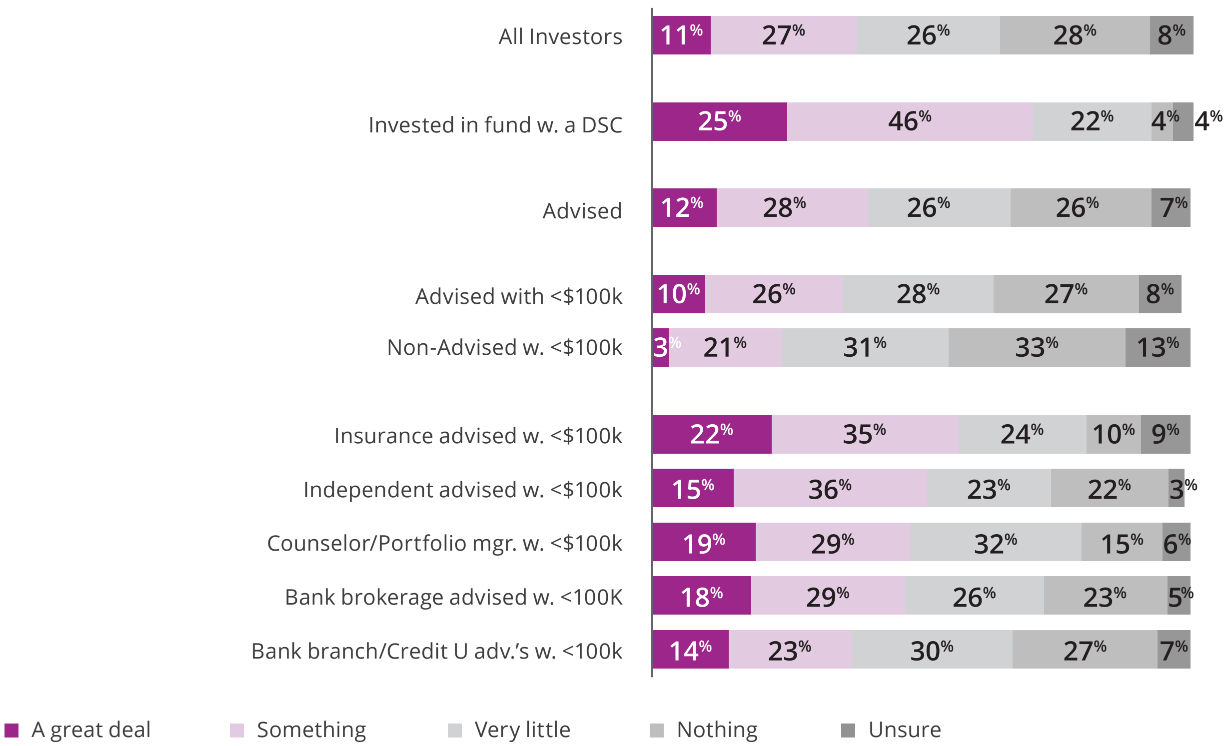
Deferred Sales Charges

Just over half of investors have heard little or nothing about DSCs[1] *(see chart 7)*. This is despite the fact that the vast majority surveyed own mutual funds (82% currently, including similar majorities of both younger and older investors as well as other investor types). This is likely due to the limited market of funds with a DSC: only a minority recalled having ever invested in a DSC fund and even more said they have never invested in one *(see chart 7B)*.

[1] Prior to answering this question, all investors were given a detailed description: "...with a deferred sales charge a mutual fund company would pay your advisor's firm a commission on your behalf, ranging from 3-5% when you purchase units in a fund. You do not pay a fee until you withdraw your money. The amount, if any, of this fee you pay to the mutual fund company depends on how long you stay invested in the fund, declining each year over a set period of time (between 3 & 7 years). If you stay invested for the full schedule there is no fee when you sell."

Advised investors are more likely to have heard of DSCs. This is the case among all investors and among small investors and those with less than $100k invested. Those who have a professional advisor in addition to or other than a representative/advisor at a financial institution are also more aware of DSCs.

Chart 7



Q34: "Prior to survey, how much had you heard about deferred sales charges or DSC's?"

Less than half have invested or recall investing in funds with a potential DSC, let alone one they actually paid *(see chart 8)*.

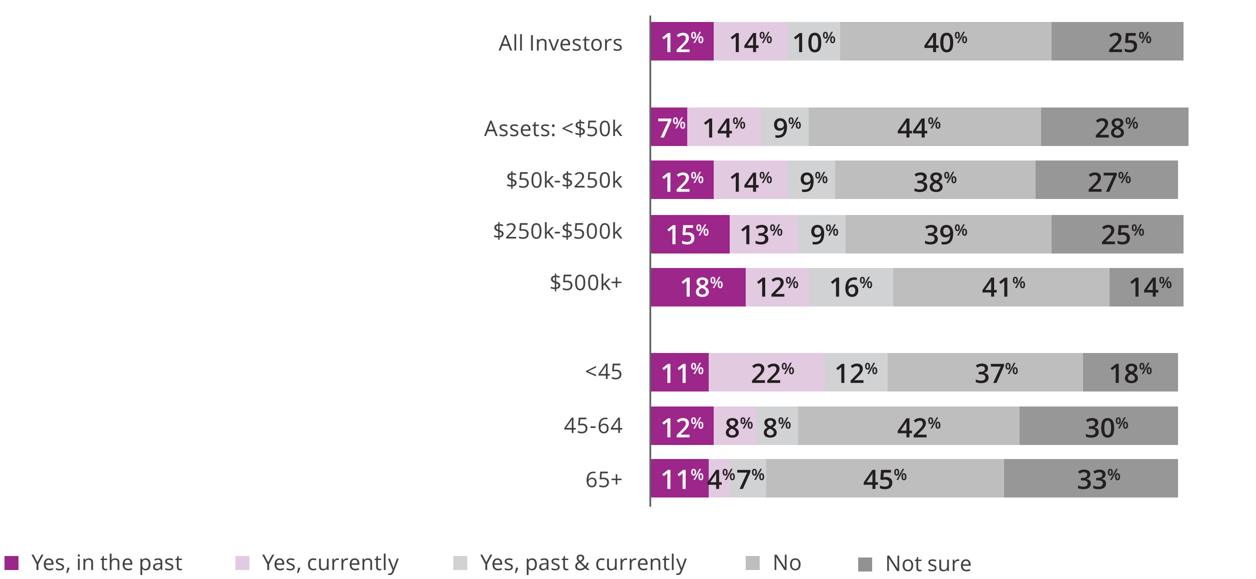
- 35% either currently or previously invested in funds with a DSC they would have had to pay had they sold within the scheduled time frame
- 24% currently owns such funds;
- 40% said they have not;
- and 25% were unsure or don't recall.

Those with more assets invested are more likely to have invested in a DSC fund before *(see chart 7B)*.

- Small investors are least likely to have invested in a DSC fund (both currently (7%) or ever (28%) – 44% said they have not.
- High net-worth investors are more likely to have experience with these (46%), although they are no more likely to own these currently. They are more likely to have past experience with a DSC fund.

Conversely, younger investors (i.e. those just starting out) are far more likely to have heard of DSC's and to have invested in them, as are robo-advised investors (who are more likely than others to say they are

Chart 7B



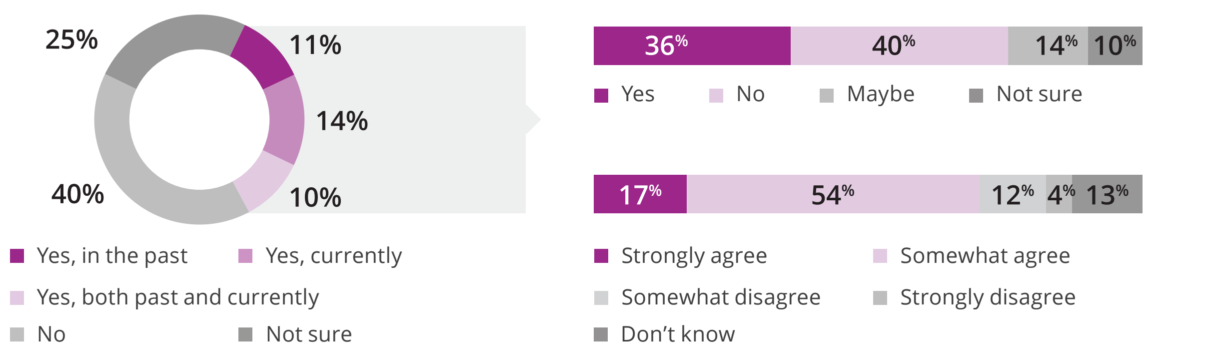
Q37: "Have you invested in a mutual fund included a potential deferred sales charge that you might have had to pay?"

knowledgeable about investing).

Of those who recall investing in a fund with the potential for a DSC, almost as many said they never paid the DSC as said they did *(see chart 8)*.

- Roughly even proportions saying they had and had not ultimately paid the deferred charge while 24% were unsure.
- This group tends to agree investors can easily switch between funds in the same company's suite of products, suggesting many are aware of ways to avoid paying the DSC *(see chart 8)*.

Chart 8



Q37: "Have you invested in a mutual fund that included a potential deferred sales charge that you might have had to pay?"

Total (n=1102)

Q39: "Have you ever paid a deferred sales charge for selling your units or shares in a mutual fund within the first seven years?"

Q40: "Would you agree or disagree with the following: You can easily switch between funds that have the Deferred Sales Charge purchase option within the same fund company's suite of products without paying the charge when doing so."

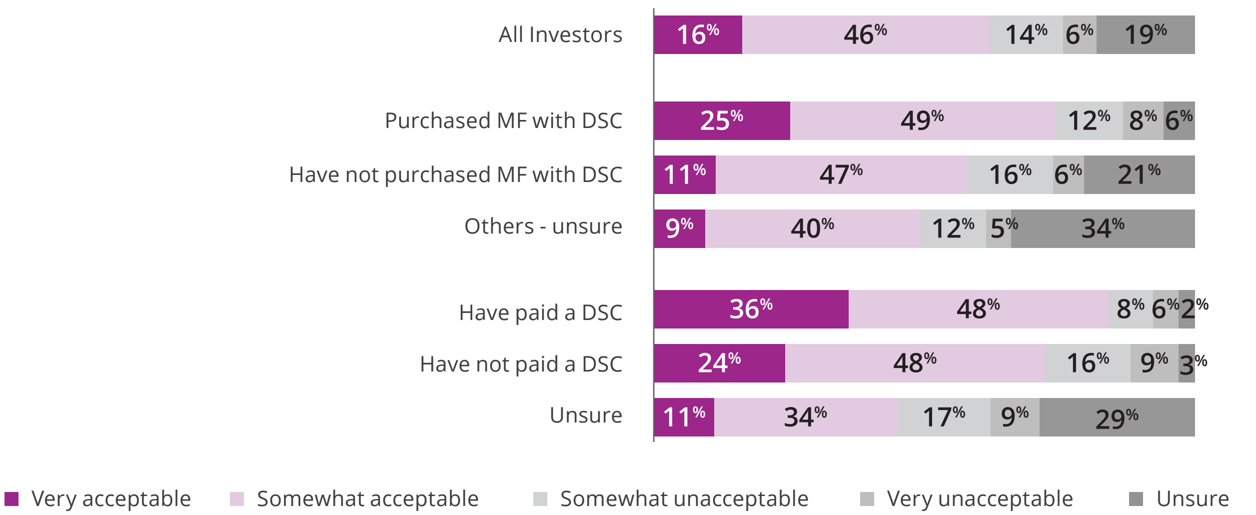
Invested in mutual funds with DSC (n=381)

Perceptions of DSCs

Most investors (62%) believe DSCs are an acceptable way of compensating financial advisors for the services and sales they provide to investors – 20% believe they are unacceptable *(see chart 9)*. This is based on both the description provided in the survey and based on what they know.

- Those who recall purchasing a fund with a DSC were more likely than others to say they were acceptable (74%).
- Those who recall actually paying a DSC were especially likely to say they were acceptable (84%) while 14% said they were unacceptable.

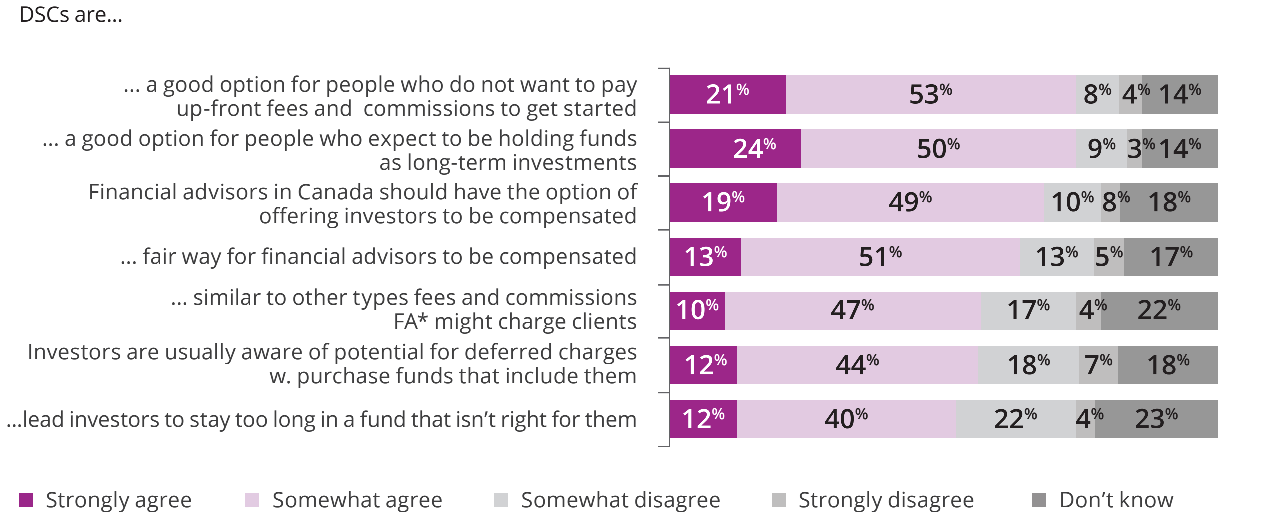
Chart 9



Q35: "Based on what you know, how acceptable do you think deferred sales charges are as a means of compensating financial advisors for the service and sales they provide to investors?"

A clear majority of all investors (including the non-advised) at least somewhat agreed advisors should have the option of offering funds with a DSC. An even larger majority agreed they are a good option for those who are just starting out in investing *(see chart 10)*.

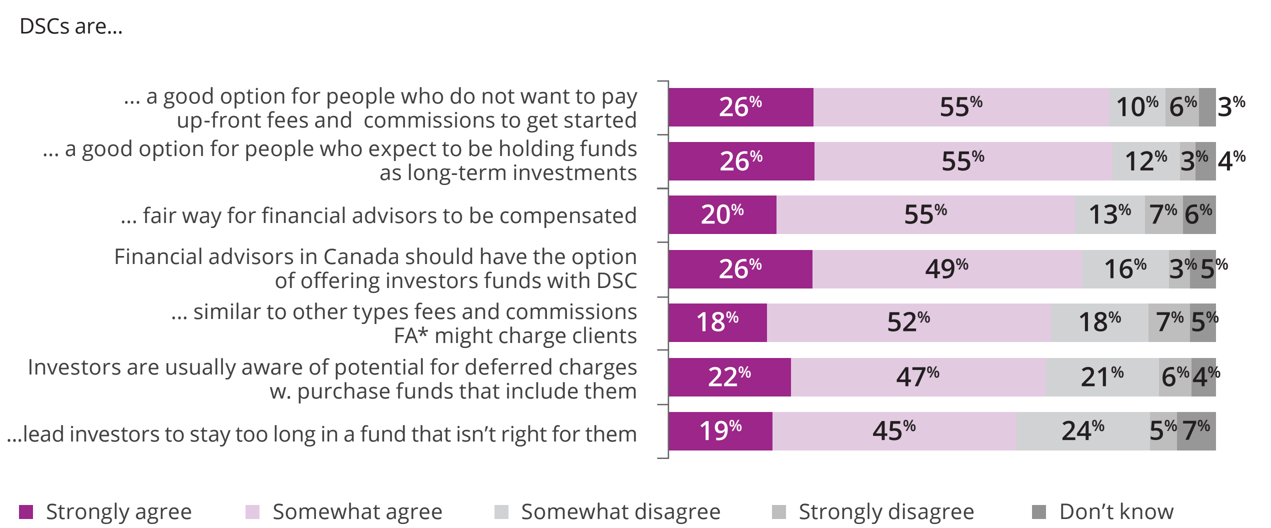
Chart 10 (All Investors)



Q36: "To what extent do you agree or disagree with the following statements about deferred sales charges?"

It was less obvious to investors that these were a fair (64%) or similar way (57%) to compensate advisors compared to other means. However, less than 1 in 5 disagreed they were fair (18%) and those who actually recall investing in a fund with a DSC were not significantly more likely to disagree (21%). Those with experience with DSC-related funds were in fact more likely to agree they were a fair way for advisors to be compensated (74%) *(see chart 11)*.

Chart 11 (Those w. experience with a DSC fund)



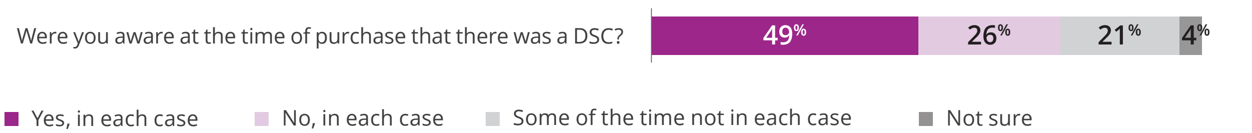
Q36: "To what extent do you agree or disagree with the following statements about deferred sales charges?"

Most who recall investing in these funds (69%) believe investors are usually aware of the potential for these charges while about 1 in 4 disagreed (27%).

In most cases or purchases, investors who recalled investing in DSC funds said they were aware at the time of purchase that there was the potential for such a charge *(see chart 12)*.

- Roughly half said they were always aware.
- 26% said they were not aware and somewhat fewer (21%) recall that they were aware in only some instances.

Chart 12

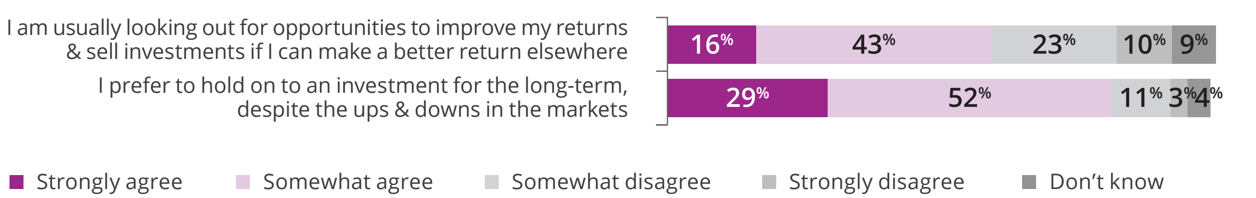


Q38: "When you purchased that/those mutual funds were you aware at the time of purchase that there was a deferred sales charge that you might have had to pay?"

Transparency appears to be less top of mind when thinking about DSCs than their impact on investor behaviour. Roughly half (52%) agreed these fees lead people to stay too long in a fund that may not be right for them. While not a clear majority, this is potentially the relative weakness of DSCs based on what people know or think about them. This concern can be offset somewhat if fund companies provide options to investors to move between funds without such charges and if they are targeted to people who are investing for the long-term. As discussed above, there is some evidence that this is happening.

- 71% of those who recall owning a fund with a DSC agreed with the statement "you can easily switch between funds in the same company's suite of products" *(see chart 8)*.
- Even more agreed these are suitable for those who want to invest long-term (74% including 81% of those who have invested in these). That market comprises most investors and most age groups (i.e. middle aged and younger) and the survey confirmed most investors tend to prioritize long-term investing *(see chart 13)*.

Chart 13

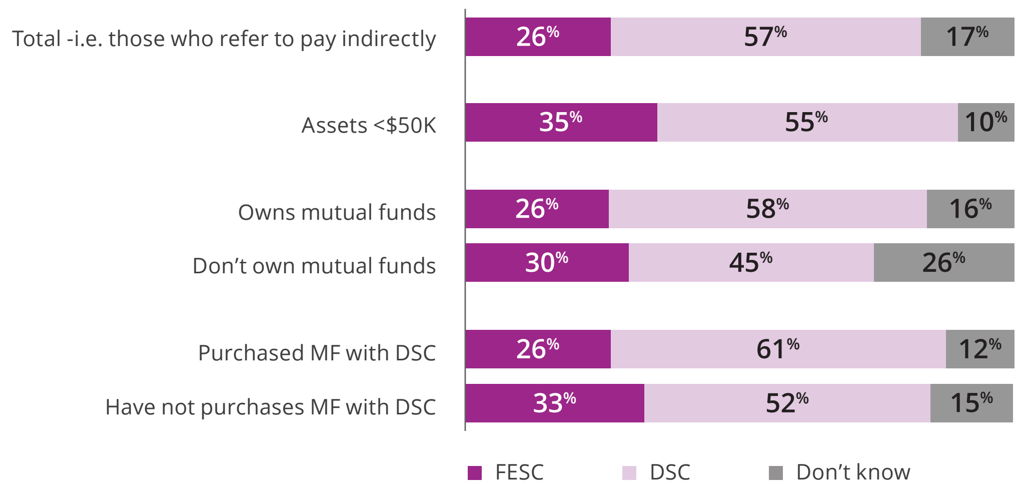


"The following are statements people might make about their approach to investing. Please tell us whether you strongly agree, somewhat agree, somewhat disagree or strongly disagree with each."

A preference for DSCs over FESCs

DSCs (as with front-end charges) are commonly paid out of the value of an investment in a fund rather than as a separate charge billed in addition to the value invested. Most investors preferred this approach *(see chart 6)* and those who did were then asked their preference in a forced choice between a DSC on a $10,000 investment and front-end charge (FESC) in an otherwise similar investment[2]. More investors said they preferred the DSC option they were presented than the FESC option (57% to 26% - *see chart 14*). Those who recall investing in a DSC-associated mutual fund were more likely than others to select the DSC option instead of the FESC.

Chart 14



Q33: "Assuming you had $10,000 to invest and the two mutual fund purchase options you had to consider came with the described sales charges both of which had a fee of 5%, which would you prefer?"

Prefer to pay indirectly (n=551)

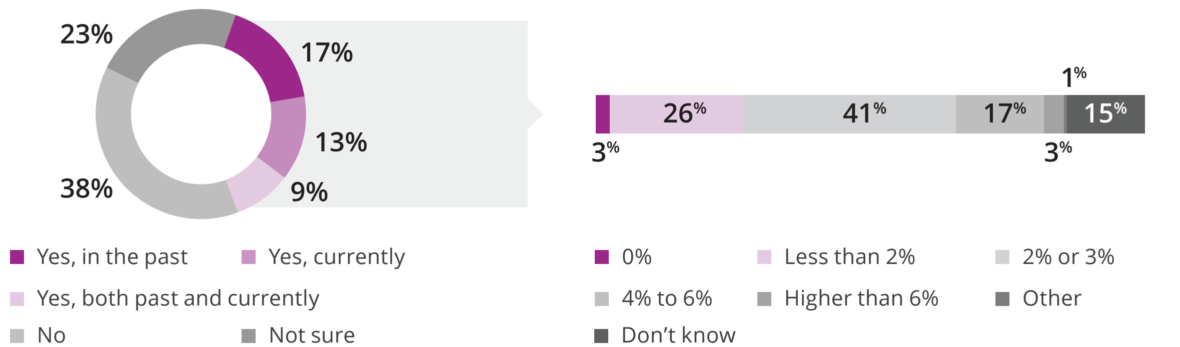
[2] Investors were reminded of the nature of charges involved in FESCs and DSCs and asked to choose between two randomized options: "You buy $10,000 worth of mutual fund units with: (A) "...a front-end sales charge & agree on a fee of 5%. Your advisor's firm receives $500 (the advisor receives a pre-determined proportion of that amount) & $9500 is invested into the fund." B) "...a deferred sales charge & your entire $10,000 is invested immediately. Your advisor's firm receives a fee from the mutual fund company of about $500, of which your advisor receives a pre-determined proportion."

FESCs

Roughly as many investors recalled investing in funds with a DSC (35% - *see chart 8*) as recalled investing in funds with a FESC (39% - *see chart 15*).[3] Among those who invested in a fund with FESC:

- Most recalled paying a FESC of 3% or less, with a small fraction (3%) able to negotiate that to zero
- The lion's share paid a FESC of 2% or 3%
- 20% recalled paying 4% or more.

Chart 15



Q44: "Have you invested in a mutual fund that included a front-end sales charge that you had to pay at time of purchase?"
All investors (n=1102)

Q45: "When you paid a front-end sales charge, how much was it as a% of your investment?"
Invested in mutual funds with FESC (n=429)

[3] Investors were provided with the following description: "...with a front-end sales charge you pay a commission to your advisor that is usually taken from your total purchase amount. This fee generally ranges from 0% to 6% of the amount invested. This fee is negotiated with your financial advisor & may be waived."

Conclusions

An examination of advisor compensation has to be considered within the context of how investors rate the advice and service they receive.

While some investors have opted not to work with an advisor, the large majority of investors – 8 in 10 - continue to, including most of those who are also using robo-advice services. Among that large majority, very few are dissatisfied with the time and advice they receive. They tend to be moderately satisfied with what they pay in fees but only about 1 in 10 are very dissatisfied with those fees; and fees are arguably not the component of the value proposition that investors most want from advisors. They expect advice and service as well as trust. While there is room for improvement, most are very satisfied with the transparency of their advisors when it comes to their compensation. They are even more satisfied when it comes to the time and unbiased advice they are receiving. The clear majority believe their advisors care about how their portfolios perform.

These points help explain why so many are comfortable with paying advisor compensation based on a proportionate share or percentage of what they invest; and why most are comfortable paying advisors indirectly from out the value of the investment they make, rather than directly with a separate charge. There is a good degree of comfort and trust associated with current compensation practices among investors when it comes to their advisor, rather than how they perceive the advice industry as a whole.

When it comes to deferred sales charges, these are not well known but that is really only a function of how limited the exposure to them is in the market place. Advised investors are more familiar with them and those who have invested in funds with a DSC know far more and are even more comfortable with them. There may be room for improvement around familiarity with how such charges work and the type of investors or investments these would best suit. However, investors tend to say in a clear majority that these are acceptable forms of advisor compensation.