



Investment Counsel Association of Canada

Personal Checklist

Eligible Firms

The most important questions to answer are:

Is the firm registered with the provincial securities commission?

What is their registration category?

What is the minimum account size the firm requires?

Are their clients' assets held with a third party custodian (e.g. a Canadian bank)?

Often, firms that offer both segregated accounts and pooled funds, require different minimum investments for each. Above, we suggest that segregated accounts are custom portfolios developed to meet your particular circumstances and wishes. While pooled funds will contain many of the same securities as the firm includes in its segregated accounts, your specific needs may have to be met through a combination of investments in more than one pooled fund; for example, 40% Canadian Equity, 20% Foreign Equity and 40% Canadian Bond. If you plan your search with these points in mind, it will be easier to select appropriate firms to interview knowing that, in some cases, your investment will be in a pooled fund.

The Individual/Firm

Each firm has its own unique profile of history and ownership. This will help you understand the experience level, motivation and culture of an organization.

Fundamental questions should include:

1. How long has the firm been in business?
2. What are the total assets under management?
3. Are there separate and distinct operating divisions?
4. Who owns the firm and what is the distribution of ownership?
5. How many clients does the firm have?
6. How many employees are there and what has been the retention rate of key personnel?

Investment Philosophy and Style

There are many different approaches to investment philosophy and style that provide a clear distinction among firms. Some are specialists, some adopt a certain style such as value, growth or momentum, and others offer a combination of styles.

Some of the key questions to ask would include:

1. How does the firm define its style? Has it always been this way?
2. If the firm is a specialty manager, to whom would they compare themselves?
3. Does the firm's style suit your investment objectives?
4. Does the firm hold investments for short or long periods of time? Will there be much turnover?
5. Does the firm's actual securities trading match their style for both equities and fixed income?
6. Does the firm have policy constraints including rules on maximum weightings, credit quality, maximum industry exposure, etc.?

Performance

Performance is often the result of the disciplined application of a counsellor's investment philosophy or style. Investors should recognize that no single style and no single investment counsellor remains in first place continuously.

To fully understand the historic results, the following should be asked:

1. Are the performance results compliant with the standards set out by the Association of Investment Management and Research (AIMR) Performance Presentation Standards? (See glossary for a more thorough definition) Have they been audited and to what level of compliance?
2. Do the historic results reflect those of the team present today?
3. What benchmarks are used when measuring the firm's performance results? For example, does the firm compare its results to an index or on a relative basis to others with a similar style?
4. Is the performance "composite" presented (the group of accounts with similar objectives) an appropriate reference given your investment objectives?
5. Are results available on both a simple annual and a compound annual basis?

People

It is important to properly assess the experience level and depth of the organization that you may hire.

Answers to the following questions are important:

1. What is the background and experience level of people on the investment and analytical teams? How many analysts and support people are there?
2. Do the investment professionals carry the CFA designation (Chartered Financial Analyst) or have other relevant designations and experience?
3. What is the role of the primary contact person? Does s/he manage portfolios as well as provide client service? Who will be available to answer your questions?
4. What is the number of clients per portfolio manager?

Products and Services

Most firms will manage assets to meet your investment objectives either in individually managed portfolios (segregated accounts) or pooled funds (see glossary for a detailed definition).

In assessing what is suitable to your needs the answers to the following will be helpful:

1. Is the same investment management fee charged to pooled funds and segregated accounts?
2. Will it be necessary for you to sell current investments and provide cash to the firm for investment?
3. What are the tax implications for an investor in the pooled funds? (Both realized and unrealized capital gains)
4. Will the firm develop with you an Investment Policy Statement that reflects your objectives including return expectations, risk tolerance and constraints including tax implications, time horizon and special circumstances? Will this be a document that can be signed off by both client and the firm?

Reporting and Communication

The level of communication, written, telephone and face to face meetings, is important to understand.

1. What do the portfolio statements look like and is a detailed, written report provided to the client? Is a sample statement available? Is there flexibility in the type of reporting available? What is the frequency of the above?
2. How often are representatives the firm available to meet and how does the firm define its service standards?

Fees

An Investment Counsel firm charges a management fee generally based upon the amount of assets being managed.

You should have a clear understanding on the following:

1. On what basis are the investment management fees calculated? How frequently are they charged and what choices does the client have in paying them?
2. Is there a minimum fee?
3. Does the firm charge differently for bonds than they do for stocks?
4. What is the average brokerage commission charged on trades and what types of brokerage firms does the firm use for executing trades (i.e. full service firms or discount brokerage firms)? Does the investment counsel firm have any relationship with the brokers it trades with other than as a client?
5. How does the firm handle multiple accounts and related family accounts for fee purposes?
6. What financial institution does the firm recommend as a custodian and what is its fee for safe custody?
7. Are the fees tax deductible?

Client References

You may decide that a client testimonial will provide you with comfort in making your decision. Most firms will be able to provide you with some names of clients who have agreed to provide some first-hand knowledge of their relationship and experiences.

A Final Word

All these questions should provide you with a score sheet to be used when interviewing investment counsel firms. Your analysis will provide you with a better understanding of the differences between firms and enable you to choose firms appropriate to you. The more thorough your homework the greater the chances are that your relationship will be a long and beneficial one.