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The Evolving Fiduciary Obligations of Pension Plans: Appreciating the New Emphasis on Evaluating Risks to Sustainable Performance

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Evolution of Fiduciary Standards

- > Feudal system
- > Transplanting legal standards into and back out of corporate law/contract
- > Quantitative standards
- > Qualitative standards
- > Back to the Future
 - Duty of loyalty
 - Focus on risk mitigation/management



The Impact of Modern Portfolio Theory

- > Assumption
 - Rational economic actors maximize returns
 - They operate in efficient markets
- > Impact on Fiduciary Norms
 - Prudent investor standard
 - Reversal of non-delegation doctrine
- > Impact on Fiduciary Behaviour
 - Increased agency costs
 - Perverse effects of benchmarking performance
 - Portfolio-wide and collective action feedback loops



A Broader View of Risk Management

- > Universal ownership
- > Efficient markets?
- > Longer term sustainability – need for new benchmarks
- > Connectedness/feedback effects
 - What connects us are not just contracts
 - Nor do governments have sufficient information/power to intervene in the necessary ways



Refining Fiduciary Norms (aligning incentives to interests of beneficiaries)

- > Duty of loyalty (to beneficiaries vs. the “plan”)
- > Duty of impartiality
- > Duty of attentiveness (constraints on delegation)
- > Duty to monitor (do no harm), including risks posed by changed circumstances
- > Duty to engage/consult and of candor (investees, beneficiaries)
- > Duty to minimize costs (and align incentives)



Implications for Disclosure/Reporting

- > “Fit for Purpose” Boards
- > Incentives/Accountability in the supply chain
 - Addressing conflicts of interest
- > Refining performance measurement
 - Asking the right questions
 - Relevance vs. reliability
- > A broader view of materiality
 - TSC vs. Northway Industries
- > Reporting/assurance as a process (vs. outcome)



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QUESTIONS & ANSWERS

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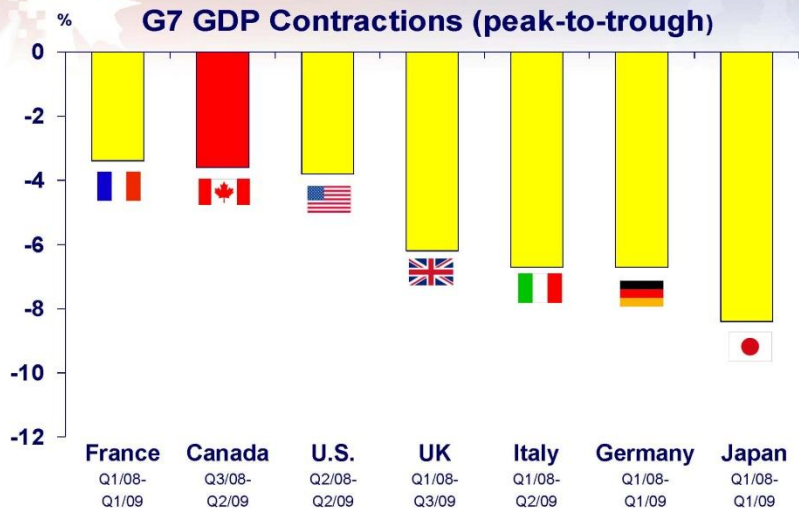
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Louis Lévesque
Deputy Minister of International Trade
Foreign Affairs and international Trade Canada
April 28, 2010



Canada's recession was among the mildest of the G7

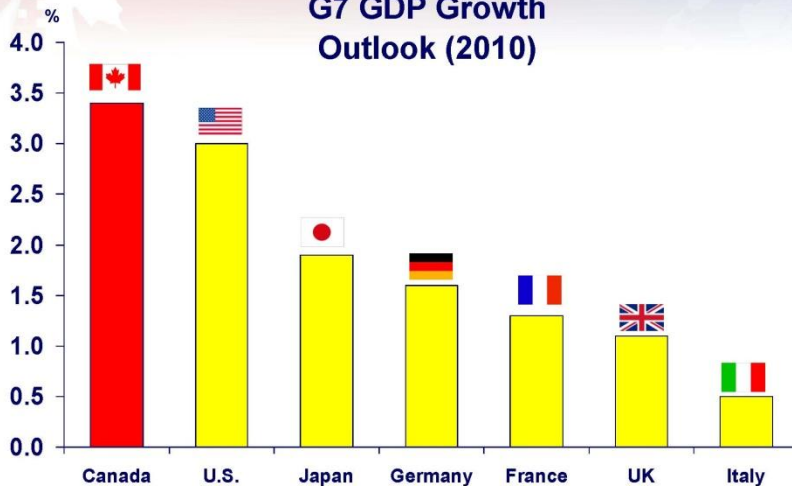


Source: Office of the Chief Economist, DFAIT
Data: National Statistical Agencies.



Our growth outlook is strongest in G7

G7 GDP Growth Outlook (2010)

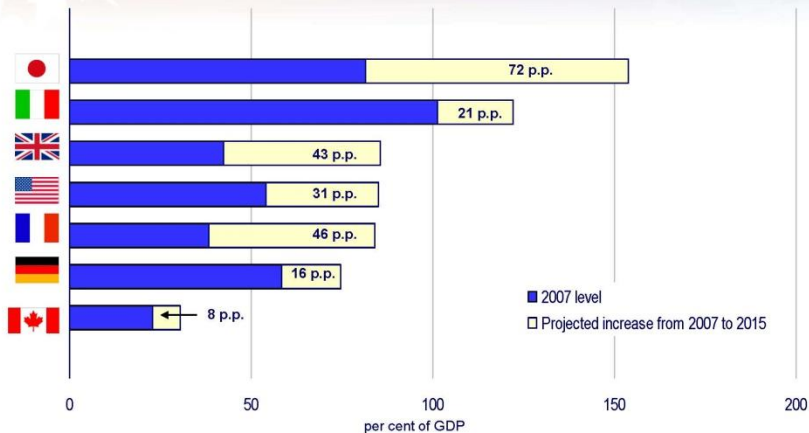


Source: Office of the Chief Economist, DFAIT
Data: IHS Global Insight, growth in US\$



We have the best fiscal position in the G7...

Total Government Net Debt, G7 Countries



Source: IMF, World Economic Outlook (October 2009).

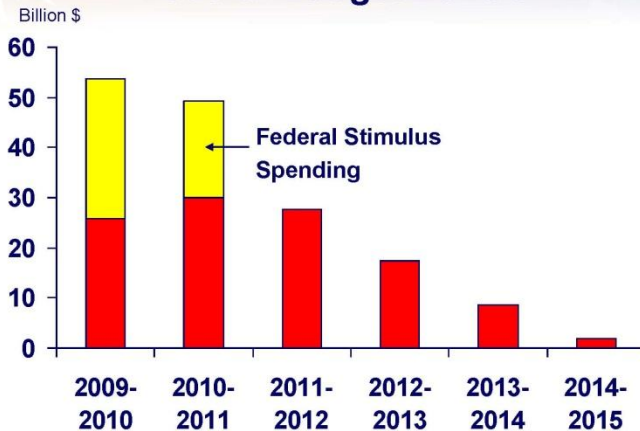


...having outlined our return to balanced budgets



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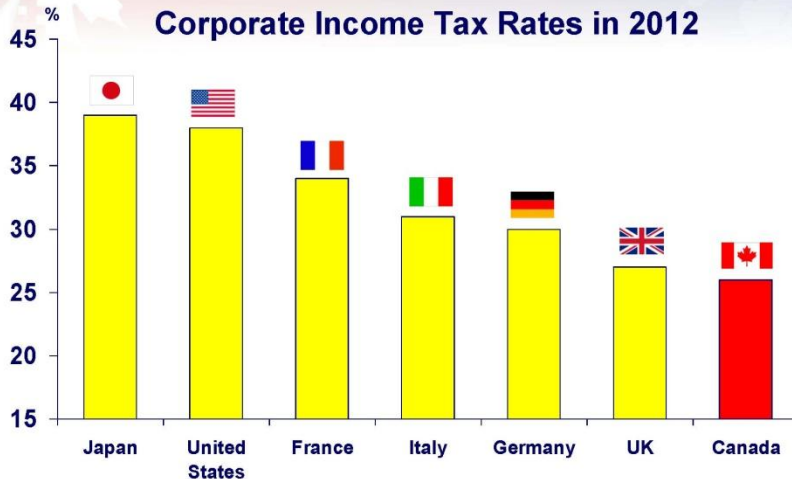
Federal Budget Deficit



Source: Office of the Chief Economist, DFAIT
Data: Department of Finance



And, we will have the lowest corporate tax rate in the G7



Note: Includes both national and sub-national rates
Source: OECD, Department of Finance



Canada is well positioned to take advantage of a global recovery



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- Soundest banking system in the world
- Lowest debt to GDP ratio among the G7.
- Most competitive business tax rate among G7.
- Highly educated workforce
- Best place in the world to conduct R&D





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Canada: Stability after the Storm,
and what it means for the U.S.A.

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wellington
FINANCIAL

April 28, 2010



Introduction to Wellington Financial

Highlights

- Wellington Financial manages a \$450 million investment program.
 - Based in Toronto. Opened an office in California in 2009.
 - Recognized in 2009 by PROFIT Magazine as the 17th Fastest-Growing Company in Canada.
 - Primary focus is on high growth tech companies.
 - 49 transactions since 2004.
- Highlights:
 - Backed by Canadian pension funds, life insurance cos. and institutional investors;
 - No leverage;
 - Profitable since inception -- 10 consecutive years;
 - Two of our last four financings have been for U.S.-based, V.C.-backed software and smart grid technology companies.
 - Our U.S. partners have included: Apollo, DFJ, Edison, First Capital, GrandBanks, Kodiak, Insight, Paladin, Panorama, Polaris, RRE, Sigma, VantagePoint, Vulcan....



Mezz, Sub & Venture Debt		
Canadian Corporate Borrowers		
(Jan 2007 -Dec 2009)	\$MM	%
BDC Subordinate Finance	302.6	19.7%
FTQ Mezz	289.6	18.9%
ROI Fund	278.0	18.1%
Wellington Financial	164.8	10.8%
BMO Capital	108.0	7.0%
Marret	75.0	4.9%
McKenna Gale	65.0	4.2%
Penfund	60.0	3.9%
MMV Financial	50.5	3.3%
Other (not disclosed)	48.1	3.1%
Vengrowth	31.3	2.0%
Integrated	21.5	1.4%
Venturelink	16.3	1.1%
Total	1532.5	100%

Full credit to lead investor where applicable
Source: Thomson database and disclosed Jan/07 - Dec/09



Climate

Good News

- Canada is open for business.
- Governments at all levels are trying to be supportive of the "Innovation Economy".
 - Some are having more success than others.
- 117 disclosed cross-border investments since January 2008.
- Foreign VC investments over the past few months include:
 - Auctus - Capital Reserve Canada (Edmonton)
 - Braemar Energy Ventures - General Fusion (Burnaby) - US\$22 million round
 - Lime Rock Partners - PanGeo Subsea (St. John's) - \$11 million
 - FTV - Varicent (Toronto) - \$35 million round
 - General Catalyst - QuickPlay Media (Toronto) - US\$12 million round
 - Granite Ventures - Indicee (Vancouver)
 - GrandBanks - I Love Rewards (Toronto) - \$8.7 million round
 - Intel Capital - TransGaming (Toronto)
 - Lothian and OrbiMed - Enobia Pharma (Montreal) - US\$50 million round
 - Morgenthaler and DCM - OneChip Photonics (Ottawa) - \$19.5 million round
 - Redpoint - Tantalus (Burnaby) - \$14 million round



Climate

"Bad" News / Opportunities for U.S.-based investors

- VC investments in Canadian firms hit a 14 year low last year.
- U.S. venture market saw US\$18 billion invested in 2009, while Canada saw just \$1 billion (5%), even though our economy is about 1/12 the USA's size.
- Up to half of current Canadian VC funds will not be able to raise their next fund.
- Ontario government has sunset the \$1 billion Retail Venture Capital Industry in Canada's most populous Province.
 - Over the past 12 months, Ontario raised less than \$85 million for its Retail Venture Capital industry.
 - Quebec, on the other hand, is encouraging Retail Venture Capital and raised ~\$200 million in Q1 2010, despite having less than half of Ontario's population
- Canada needs more capital sources.
 - The current environment presents a wonderful opportunity for U.S. VCs to partner with great Canadian private companies that have already had one or two rounds of external financing.
- Challenges exist primarily across early and mid stages.
- "Section 116" was fixed in 2010 Federal Budget.
 - But this move alone is no pollyanna.
- Fewer Canadian VCs down the road may mean fewer opportunities to partner on, or just a higher percentage of high quality deals.

More Good News

- Canadian firms are also putting capital to work in the U.S.
- ~30 southbound VC deals over a 12 month period:
 - Since August, Wellington Financial has invested in Ember (Boston), GlassHouse Technologies (Boston), SkyLink (backed by New York's Apollo Management), and WatchGuard (Seattle). Opened a California office in November.
 - BlackBerry Partners Fund (Toronto) invested in Nexage of Waltham, MA in June '09 and Brickstream of Atlanta in April '10, along with RBC Venture Partners.
 - Emerald Technology (Montreal) invested in SDC Materials of Temple, Arizona in June '09.
 - iNovia (Montreal) invested in Collective Media of New York in April '09, Barosense of California in November '09, Vizu of San Francisco in December 2009 and LegiTime of Westport CT also in December.
 - SummerHill Ventures (Toronto) invested in Sonian in Needham, MA in September 2009.
 - XPV Cleantech (Toronto) invested in Applied Process Technology of California in September 2009.
 - Yaletown Partners (Vancouver) invested in EnerG2 of Seattle in May 2009.



Climate

More Good News (cont'd)

- Active M&A market:
 - March '10: Federal Signal acquired Sirit for \$74 million
 - February '10: Calisolar acquired 6N Silicon
 - February '10: Exar Corp. acquired Neterion
 - January '10: Inverness Medical acquired Epocal for US\$225 million
 - October '09: Microsoft acquired Opalis for US\$60 million
 - September '09: CSA acquired DISTIL Interactive
 - September '09: Sabse acquired Mobivox
 - August '09: Intel acquired RapidMind
 - August '09: Broadview Networks acquired NewStep Networks
 - July '09: WatchGuard acquired BorderWare Technologies
 - June '09: Exar Corp. acquired Galazar Networks
 - June '09: Integrated acquired Tundra Semi for \$121 million
 - May '09: Vertex acquired ViroChem for US\$420 million



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Cross-border Backdrop

- Not one Canadian bank required a single dollar of government support beyond a program that saw the Canada Mortgage and Housing Corp. acquire \$50 billion of home mortgages.
- Economy already out of recession, according to the Bank of Canada.
 - Interest rates will rise later this year.
- Canadian stock market welcomes smaller technology stories:
 - A \$100 million market cap. company might have 3 or 4 equity research analysts.
 - A \$250 million mkt. cap. company could expect 6 analysts to cover it.
- Equity offering window opened a bit on our side of the border:
 - PE firm Onex sold >\$100 million of **Celestica** shares;
 - VC-backed **DragonWave** closed a \$105 million treasury and secondary offering (60/40), coincident with a NASDAQ listing. DragonWave went public in 2007 and the VCs are getting liquidity 100% above the original IPO price.
- \$12 billion goes into Science & Technology each year from governments alone.
- Canada's IT and Communications Tech sectors employ more than 500,000 people.
- Canadian Fund of Funds have lots of capital to invest in U.S. VC funds:
 - EDC (\$1.2 billion), Teralys (\$700 million), OVCF (\$205 million)....