Trade Talk

Fund Edition

NOVEMBER 2018 FUND EDITION

JEFFREY ALEXANDER IS HEAD OF RELATIONSHIP MANAGEMENT AT CIBC MELLON. JEFF IS RESPONSIBLE FOR LEADING THE COMPANY'S RELATIONSHIP MANAGEMENT TEAM. JEFF HAS HELD PROGRESSIVELY SENIOR ROLES FOR MORE THAN 18 YEARS AT CIBC MELLON.

Building on our Client Experience

As part of our commitment to delivering outstanding service to our clients, I am pleased to announce the recent appointment of Lloyd Sebastian, Vice President, Client Strategy and Experience, Relationship Management, CIBC Mellon. In his new position, Lloyd is responsible for leading the execution of key strategic projects for CIBC Mellon's client strategy, and overseeing efforts that further enhance the company's client experience as it continues to grow. Prior to re-joining the company, Lloyd previously held several senior-level positions in the asset servicing industry and he brings more than 30 years of financial services experience to this role. It is my pleasure to introduce Lloyd to our valued clients and to speak with him about the industry and his approach.

WHAT DOES THE CLIENT EXPERIENCE MEAN TO YOU?

Lloyd Sebastian: The client experience is not only about having a satisfied client. While consistent service delivery and meeting or exceeding service deliverables is a critical component, the real testament is about providing an elevated client service experience, in which we are not only viewed by clients as a service provider but also as a trusted business partner to discuss strategic aspirations as part of a growth path and to collaborate on clients' goals.

WHAT CAN CLIENTS EXPECT TO HAPPEN, NOW THAT YOU HAVE ASSUMED YOUR ROLE?

Lloyd Sebastian: I think we can continue to work constructively with our clients to share valuable insights in areas such as market and industry trends, and evolving product and technology innovation, through our active industry involvement and internal subject matter expertise. We also work to support clients by proactively soliciting client input to bring forward solutions rather than focusing all our attention on issue resolution. In my role I am particularly attuned to ways to enhance the client experience.

What's Inside?

CIBC MELLON

BUILDING ON OUR CLIENT EXPERIENCE

I'm taking an evolutionary and consultative approach to better understand our clients' short and long term priorities and strategic aspirations so we can tailor our initiatives even closer to our clients' needs. I am pleased to be representing the client voice in senior-level internal discussions that are both strategic and tactical regarding projects and initiatives, before they are introduced to clients.

WHAT ARE YOU MOST EXCITED ABOUT?
Lloyd Sebastian: I am looking forward to leveraging evolving industry best practices and global service expectations from my experience working with Canadian institutional investors and global financial institutions in both client coverage and agent bank vendor management relationships over the past 30 years. CIBC Mellon has grown tremendously, recently surpassing $2 trillion in assets under administration. This robust growth is a testament that we can offer clients an experienced service that is ready to take them on a journey to where their business aspirations lead them.

WHY IS A LOCAL PRESENCE SO IMPORTANT?
Lloyd Sebastian: At CIBC Mellon, we have on-the-ground expertise, coupled with in-depth knowledge of the Canadian market. In addition to providing outstanding service, dependable execution and knowledgeable insights to help clients navigate the complexities of the Canadian marketplace, we pride ourselves on having subject-matter-experts at all levels across the organization, and resources available through our Canadian parent company, CIBC. We actively participate with local associations and industry groups to represent the Canadian asset servicing industry, and more importantly, to champion our clients' interests.

HOW DO YOU COMPARE THE INDUSTRY TODAY TO 10 YEARS AGO?
Lloyd Sebastian: Our industry continues to be based on a solid foundation of the Canadian regulatory environment, prudent risk culture and asset protection. I believe that the key perennial themes for our clients are safeguarding data and assets, and looking to a service provider to offer top service with innovative technology, as well as new products and services that are in step with broader local and global market changes. CIBC Mellon continues to maintain client-centric discipline and this approach is embedded in all levels of our DNA, beyond our client service teams.

WHAT DO YOU THINK ARE IMPORTANT DRIVERS FOR OUR BUSINESS?
Lloyd Sebastian: Innovative up-to-date technology and products, a solid risk culture and good regulatory governance, along with a great client service model, are key foundations of our business. Having said that, continuous improvement of the client experience is still important. I think that maintaining a consultative approach to identifying key industry trends and being receptive to new ways of data delivery, as well as exploring new solutions for our clients, are important drivers for CIBC Mellon. Our people are central to CIBC Mellon; our ability to listen, champion client initiatives and understand client priorities in the framework of market and industry trends is critical.

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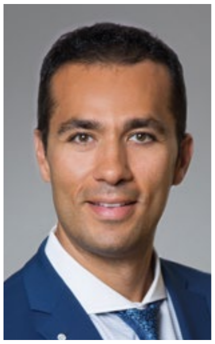
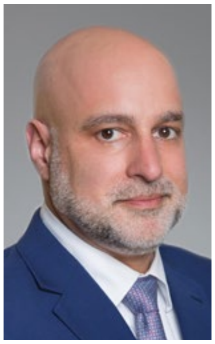
- Lloyd Sebastian, Vice President, Client Strategy and Experience, Relationship Management, CIBC Mellon

BY CHARBEL CHEAIB, EXECUTIVE DIRECTOR, BUSINESS DEVELOPMENT
AND RONALD C. LANDRY, VICE PRESIDENT, CANADIAN ETF SERVICES

CHARBEL CHEAIB IS EXECUTIVE DIRECTOR, BUSINESS DEVELOPMENT AT CIBC MELLON. CHARBEL IS RESPONSIBLE FOR CIBC MELLON'S ALTERNATIVE INVESTMENT CLIENT SEGMENT AS WELL AS ALIGNING THE ORGANIZATION'S SERVICE OFFERING WITH THE NEEDS OF INDUSTRY PARTICIPANTS AS THEY EVOLVE WITH CHANGES IN REGULATION, ACCOUNTING, AND MARKET CONDITIONS. CHARBEL HAS MORE THAN 16 YEARS OF EXPERIENCE IN THE FINANCIAL SERVICES INDUSTRY.

RONALD C. LANDRY IS VICE PRESIDENT, CANADIAN ETF SERVICES AT CIBC MELLON. HE HAS NINE YEARS OF EXPERIENCE IN ETF ASSET SERVICING AND MORE THAN 25 YEARS OF EXPERIENCE IN THE FINANCIAL SERVICES INDUSTRY. IN HIS ROLE, RONALD IS RESPONSIBLE FOR ALL ASPECTS OF ETF BUSINESS IN CANADA FOR CIBC MELLON. CIBC MELLON SERVICES 20 OF THE 33 ETF SPONSORS ACTIVE IN CANADA AS AT OCTOBER 31, 2018, SERVICING MORE THAN 380 CANADIAN EXCHANGE-TRADED FUNDS.

BACK TO COVER

Canadian Securities Administrators Publish Amendments to Finalize Alternative Mutual Funds Framework

On October 4, 2018, the Canadian Securities Administrators (CSA) published amendments that establish a comprehensive framework for alternative mutual funds – known as commodity pools – and streamline the regulation of non-redeemable investment funds by moving most of the regulatory framework contained in National Instrument (NI) 81-104 Commodity Pools into NI 81-102 Investment Funds. The amendments also update the investment restrictions for alternative mutual funds to allow greater flexibility with investment strategies, with a focus on strategies typically associated with "liquid alternatives." The amendments also include changes that will codify certain routine exemptive relief granted to mutual funds. Subject to ministerial approvals, the CSA expects amendments and related changes to come into effect on January 3, 2019.

A fund's portfolio assets are required to be held by a custodian, and under the revised NI 81-102 regulations, when launching alternative mutual funds, fund strategies that seek to utilize leverage or shorting may need to also have one or more prime broker relationships. Accordingly, the custodian and prime broker would need to work collaboratively to make sure that assets and data are transferred accurately and seamlessly. CIBC Mellon is working with a number of prime brokers to develop a sub-custody model designed to eliminate the need for a tri-party agreement, no longer requiring two custodial accounts. This model would eliminate the need for the client to direct assets to manage the collateral.

For more information on the CSA's amendments to finalize the Alternative Mutual Funds Framework, view the CSA's news release. For questions on alternative mutual funds, contact your Relationship Manager or Service Director.

Watch our video on liquid alternative services:

BY KELLY HASTINGS
CHIEF RISK OFFICER

KELLY HASTINGS IS CHIEF RISK OFFICER AT CIBC MELLON. KELLY IS RESPONSIBLE FOR OVERSEEING CIBC MELLON'S ENTERPRISE RISK MANAGEMENT FRAMEWORK, WHICH INCLUDES CREDIT RISK, MARKET RISK, OPERATIONAL RISK AND COMPLIANCE. KELLY HAS MORE THAN 30 YEARS OF INDUSTRY EXPERIENCE.

Contact your Relationship Manager or Service Director should you have any questions about CIBC Mellon's Client Governance Program.

BACK TO COVER

Good Governance: An Opportunity for Greater Oversight

Financial market participants face increasing pressure from regulators, boards, investors and other stakeholders to ensure the necessary oversight of their suppliers, particularly when those suppliers are considered outsourcers. Firms are ultimately responsible and accountable for all the functions that they outsource to a third-party.

In recent years, Canadian regulators have directed significant focus to the area of outsourcing with regulatory governance requirements, such as National Instrument (NI) 31-103 "Registration Requirements, Exemptions and Ongoing Registrant Obligations," and Canada's Office of the Superintendent of Financial Institutions Canada Guideline B-10 requirements, "Outsourcing of Business Activities, Functions and Processes."

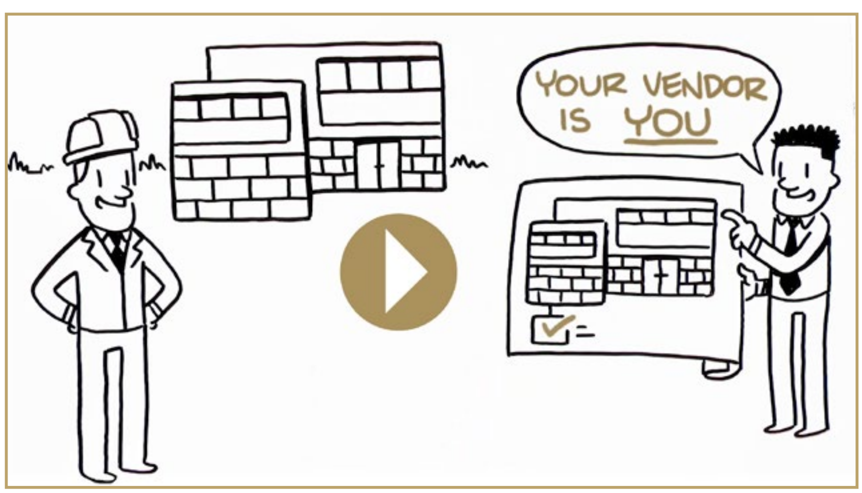
At CIBC Mellon, we understand that our fund clients face increasing pressure from stakeholders and regulators to demonstrate prudent governance and oversight across their operations, as governance includes oversight of outsourced services. Our company has developed the CIBC Mellon Client Governance Guide to assist you. The guide provides clients with a centralized and standardized summary of information which helps our clients monitor the services that they receive from us.

Overall, our Client Governance Program is designed to assist clients with documenting and meeting their regulatory governance obligations with respect to vendor oversight.

As you evaluate governance of vendors used to support your business, the following questions are worth considering.

1. What should you expect from your vendor in order to meet your governance reporting needs?
2. How can you assess your firm's ability and readiness to meet the regulatory requirements with respect to outsourcing?
3. How are you providing and demonstrating prudent oversight of your vendors?

Watch CIBC Mellon's governance and vendor oversight video:



BY RONALD C. LANDRY
VICE PRESIDENT, CANADIAN ETF SERVICES

Driving Investment Innovation with Platform-Traded Funds

In the Canadian investment landscape, asset owners and asset managers continue to seek new investment options to help diversify their portfolios, reduce risk, generate greater alpha and expand purchase options for investors. These pursuits have led to some creative and innovative developments, including exchange-traded funds (ETFs), and more recently, platform-traded funds (PTFs) – both are designed to generate efficiencies and reduce fees for investors. While still relatively new to the marketplace, PTFs continue to evolve as fund companies, along with their service providers, employ various operational tactics to improve efficiencies when bringing their products to market.

PTFs are classes or series of existing investment funds which comprise a mix of investment types such as stocks, bonds, commodities, and currencies, and are structured to allow for trading at net asset value (NAV) after the markets close each day. While a typical mutual fund is traded through Fundserv or other third-party trading vehicles, a PTF is traded through an exchange-like platform. PTFs also differ from ETFs, as ETFs are traded on an exchange throughout the trading day (for example, in a secondary market), which means they are subject to bid-ask spreads.

PTFs are administered in a way that satisfies demands from investors with fee-based accounts who are seeking low-cost, actively managed portfolios and the ability to trade at NAV. Trading at NAV means one price is applied to all transactions after the market closes, eliminating the impact of bid-ask spreads, and avoiding the additional administrative work associated with unique pricing for each transaction. Since all trades are made at the same price, dealers are able to trade in bulk by leveraging existing functionality within their equity order management systems, which allows them to place PTF purchase and redemption orders across multiple client accounts simultaneously. As a result of a more efficient trade settlement process, investors may pay a lower managed expense ratio compared to traditional mutual fund classes/series, and in some cases, ETFs. In addition, fees are not based on thresholds – with no minimum investment threshold, investors of all sizes realize the same reduced fees when investing in PTFs.

The flexibility within a mutual fund allows investors to incorporate strategies that focus on alpha, beta, fixed income, liabilities versus assets – whatever will help them achieve their investment goals. PTFs offer investors additional flexibility in how an investment fund is purchased and sold. PTFs are often actively managed, with a hands-on investment approach that aims for results that are better versus passively managed funds, which typically track to an index. Investors leverage the PTF structure not only for the low fees, but also because of the consistent pricing and transparency.

Benefits of PTFs

- Low-cost nature
- Ability to incorporate a variety of investment strategies
- Consistent pricing and transparency
- Opportunity to trade at net asset value
- Additional flexibility in how an investment fund is purchased and sold
- Ability for advisors to trade in bulk
- Consistent fee structure regardless of investment size

BACK TO COVER

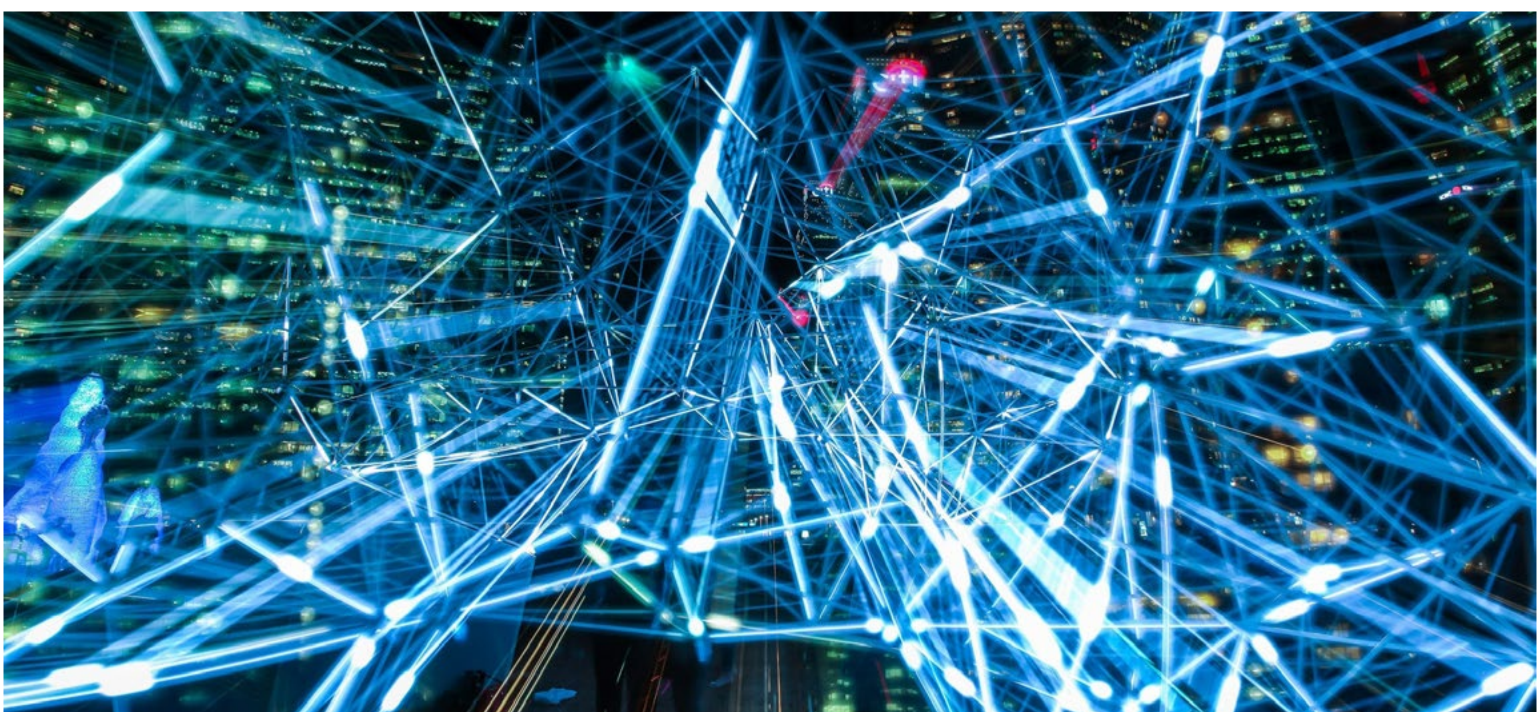
Investment fund companies that offer PTFs can find operational efficiency through their service providers. While investment advisors may interact only with the platform to buy or sell shares, the fund company's process is more complex. The mechanics of a PTF transaction involve a custodian that performs settlement and fund accounting functions, a securities platform that executes the trade, and a clearing agent, not unlike an ETF transaction. In Canada, NEO Connect and the TSX NAVex can accommodate PTF and PTF-like transactions. Typically, separate service providers are needed to perform trade settlement and clearing responsibilities, but PTFs could realize greater operational efficiency and cost savings if one provider performs both functions.

Asset servicing companies such as CIBC Mellon work with clients and industry partners like NEO and the TSX to develop new processes that generate shared efficiencies, the benefits of which can often be passed on to the end investor. CIBC Mellon recently developed the ability to act as both clearing agent and settlement agent for PTF transactions, which means aside from trade execution, which is performed by a securities exchange, PTF managers need only one business partner to settle subscriptions and redemptions of its funds. This process eliminates the need for a third-party clearing agent, and reduces the risk of communication errors between counterparties.

The growth of PTFs could potentially mirror the substantial rise of ETFs. The low-cost nature of PTFs, the ability to incorporate a variety of investment strategies, the opportunity to trade at net asset value, the ability for advisors to trade in bulk, and a consistent fee structure regardless of investment size can be attractive features to investors, which could prompt investment fund companies to start incorporating PTFs into their suite of products.

PTFs have carved a niche for investors to leverage, and are another example of the ongoing effort to bring new and effective investment options to the marketplace. CIBC Mellon plans to participate in the PTF evolution by fostering new and innovative ideas in support of investment fund companies, their advisors and their investors.

For more information on PTFs or CIBC Mellon's PTF services, please contact a member of CIBC Mellon's Business Development Team, or your CIBC Mellon Service Director or Relationship Manager at 416-643-5000.



BY ROYCE MENDES
DIRECTOR AND SENIOR ECONOMIST, CIBC CAPITAL MARKETS

ROYCE MENDES JOINED CIBC CAPITAL MARKETS IN 2015 AS A DIRECTOR AND SENIOR ECONOMIST AFTER HAVING SPENT SEVERAL YEARS AT THE BANK OF CANADA. HE IS CURRENTLY THE LEAD AUTHOR OF THE DEPARTMENT'S MONTHLY FX PUBLICATION AND WRITES OTHER THEMATIC RESEARCH PIECES ON VARIOUS TOPICS OF INTEREST TO FINANCIAL MARKETS. HE IS REGULARLY QUOTED IN THE MEDIA FOR HIS WORK AT CIBC.

This is an excerpt from the article, "And So It Begins: The Biting Effects of Rate Hikes in Canada" published in "Economic Insights" by CIBC Capital Markets on November 20, 2018. For more information, view the CIBC publication.

BACK TO COVER

CIBC Economic Insights - And So It Begins: The Biting Effects of Rate Hikes in Canada

It's an old saw that monetary policy works with long and variable lags. There's no reason to believe that isn't as true today as it was when penned almost six decades ago. However, policymakers haven't always heeded that advice, tending to underestimate those lagged effects, something we may be seeing again today. Despite the Bank of Canada hiking interest rates five times since the middle of last year and growth running just above potential, officials sound confident that the journey higher is only halfway complete.

No doubt central bankers would like to see rates rise to levels well above those that prevail today, given that they don't currently have the requisite ammunition to fend off a slowdown. But, in the end, it will be the economy which dictates how high rates can rise, not the inclinations of central bankers. There's already evidence that the effects of higher rates are showing up earlier and with more ferocity than in past cycles. With those effects only magnified as time passes, the Bank will ultimately fall short of reaching its goals for interest rates.

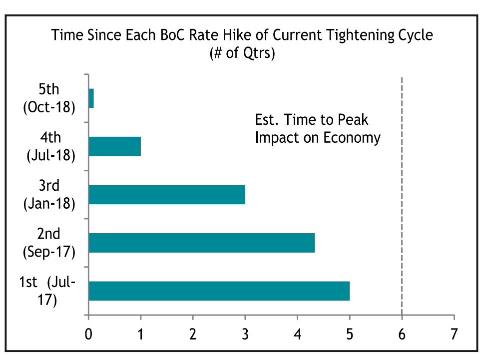
CRACKS IN THE FOUNDATION

A technical report on the macro model used at the Bank of Canada suggests that the peak impact from any monetary shock shows up roughly six quarters later. But, even though the first rate hike of this cycle, let alone the subsequent moves, was administered less than six quarters ago (Chart 1), there's already pain being felt.

Changes in monetary policy are generally understood to work their way through the housing market and big-ticket household purchases first. It's difficult to identify how much of the recent slowdown in housing activity has been due to tighter mortgage rules versus higher interest rates. But, based on prior estimates of the effects of the rule changes alone, the slowdown in lending has been more precipitous (Chart 2). It's hardly a stretch then to say that the housing market is already feeling some pressure from rate hikes, particularly since many mortgages are now rolling over at higher rates for the first time in a quarter-century. Given the lags in monetary policy, even as the effects of the mortgage rule changes wane on a year-over-year basis in the months to come, the impacts of rate hikes will actually become more apparent.

CHART 1

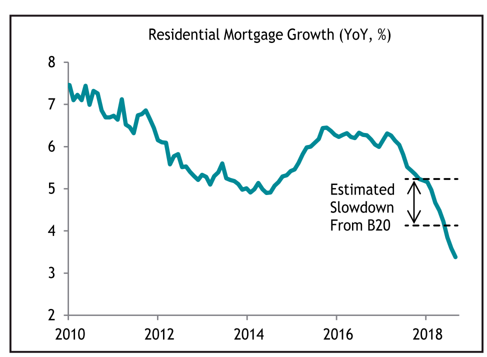
Even First Rate Hike Still Making its Way Through Canadian Economy



Source: Bank of Canada, CIBC

CHART 2

Mortgage Growth Slowing More Than Just Recent Rule Changes



Source: Haver Analytics, CIBC Equity Research, CIBC Economics

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