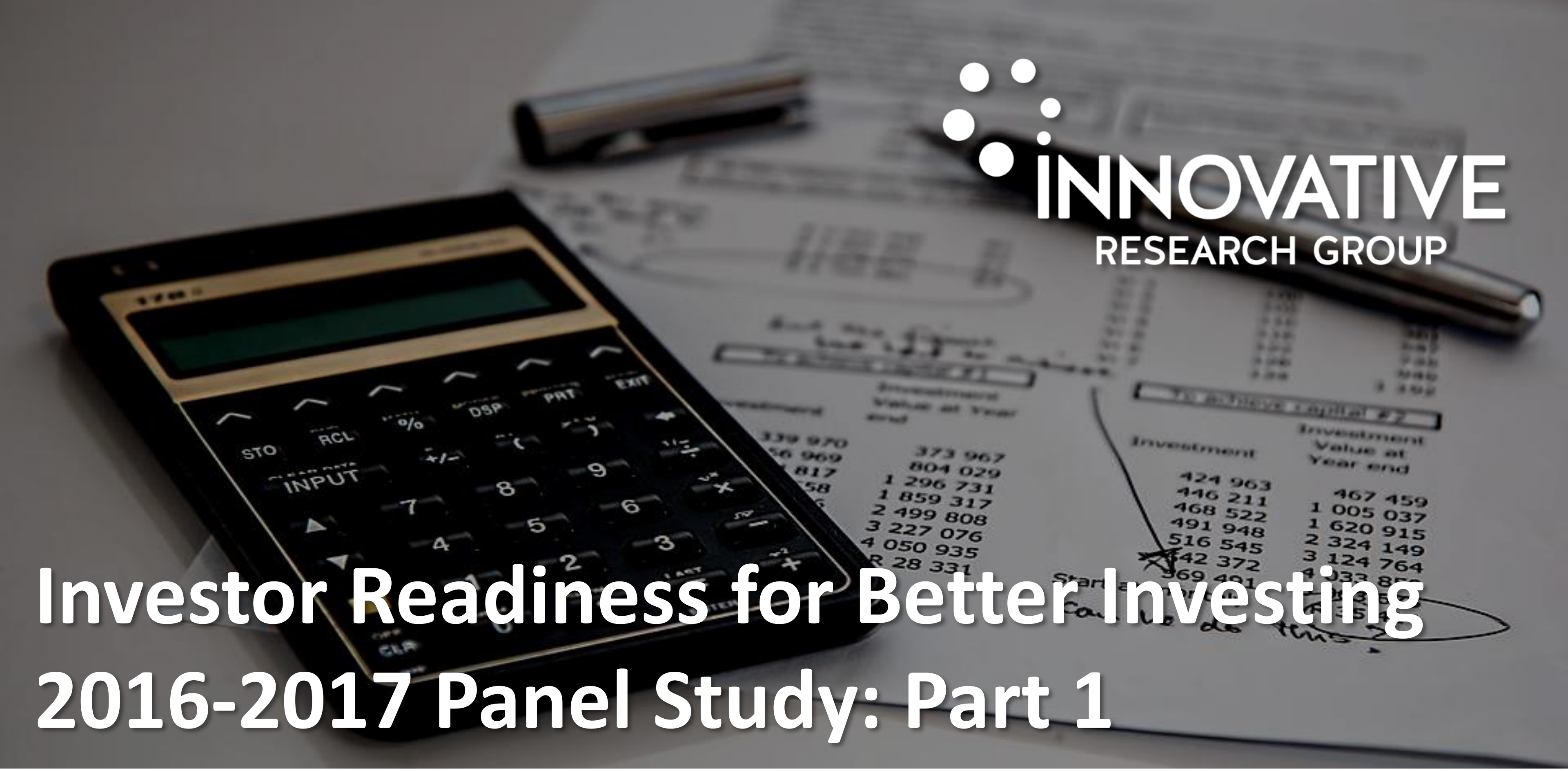


Investor Readiness for Better Investing 2016-2017 Panel Study: Part 1

INNOVATIVE RESEARCH GROUP

Prepared for:

British Columbia Securities Commission
701 West Georgia Street
Vancouver, BC
V7Y 1L2

BC SECURITIES COMMISSION | investRIGHT

January 23, 2017

:: Survey Report ::

Research Objectives & Methodology

Research Objectives

- In July 2016 the final phase of CRM2 – a new set of rules covering disclosures by investment advisors to their clients – came into effect. These rules require annual fee and performance reports for clients detailing what the client is paying the advisor directly, what compensation their advisor receives from 3rd parties for the securities the client holds, and the performance of each security in their portfolio.
- The British Columbia Securities Commission (BCSC) has commissioned Innovative Research Group (INNOVATIVE) to conduct a longitudinal study of BC investors who hold securities and invest through an advisor, to understand and explain the impacts of the CRM2 annual reports on key knowledge, attitudes, and behaviour measures of investors.
- This research will happen in 3 parts. Most investors are expected to receive their first CRM2 annual reports in January or February 2017. This report covers the results from the first part of the research: a survey of 800 BC investors who work with a registered advisor, which was conducted in November and December 2016.
    - Follow-up parts will occur immediately after investors receive their reports, and again approximately two months later.
- The goal of the research is to explain any changes in knowledge, attitudes, and behaviour that occur after investors receive their annual fee and performance disclosures for the first time.
    - The key benefit of a longitudinal study is that as many of the same participants as possible are re-interviewed in each part.
    - This way, the research can clearly identify real changes in individual participants' answers over time and seek to explain not just how much, but *why*, people's knowledge, attitudes, and behaviours changed.
- The surveys also include a large number of demographic, attitudinal, personality, and knowledge segmentation questions that will help to provide concrete explanations for any changes that are observed.

Methodology

- These are the findings of an Innovative Research Group (INNOVATIVE) survey conducted from November 22nd, 2016 to December 10th, 2016.
- Respondents to this online survey have come from INNOVATIVE's Canada 20/20 panel with additional respondents from Survey Sampling International (SSI), a leading provider of online samples.
- INNOVATIVE provides each panellist with a unique URL via an email invitation so that only invited panel members are able to complete the survey and panel members can only complete a particular survey once.
- Only respondents who hold securities and invest through an advisor were eligible for the study. The sample is weighted according to Statistics Canada census data by age, gender, and region, of the entire population who responded to the survey invitation, before non-investors were screened out.
- In total 2,021 British Columbians responded to the survey invitation, 840 were eligible investors with advisors, 804 completed the entire survey, and the final sample is weighted to N=800.
- This is a representative sample. However, since the online survey was not a random probability based sample, a margin of error can not be calculated. The Marketing Research and Intelligence Association prohibits statements about margins of sampling error or population estimates with regard to most online panels.

Note: *Graphs may not always total 100% due to rounding values rather than any error in data. Sums are added before rounding numbers.*

Key Findings

Three Key Takeaways

Many British Columbian investors do not know how or how much they pay their advisor:

- 3-in-10 investors (28%) are not sure how their investment advisor is paid while 1-in-3 (36%) are not familiar with the types of fees on their investment accounts.
- While most investors (83%) say they know how much more or less their portfolio is worth this year than last year, only a slim majority (51%) know the total amount of direct fees they paid in the past 12 months and a ***minority*** know how much their advisor has received in indirect fees from 3rd parties as a result of the products they own.
- These results suggest that there is a significant gap in knowledge of fees that is likely to be filled when investors receive their first CRM2 annual fee report.

Investors with smaller portfolios (under $50,000) are less informed, less satisfied, and less likely to communicate with their advisors:

- Investors with small portfolios are much more likely to not know how their advisor is paid (50% vs 28% overall). They are also:
  - Less familiar with the types of investment fees (35% familiar vs 57% overall)
  - Less likely to be aware of how much in direct fees they paid (net agreement -3% vs +27% overall), and how much indirect compensation their advisor received as a result of their account (net agreement -21% vs +0% overall)
- These investors are also less likely to be satisfied with their advisor relationship (62% satisfied vs 79% overall) and the least likely to have communicated with their advisor within the last year.

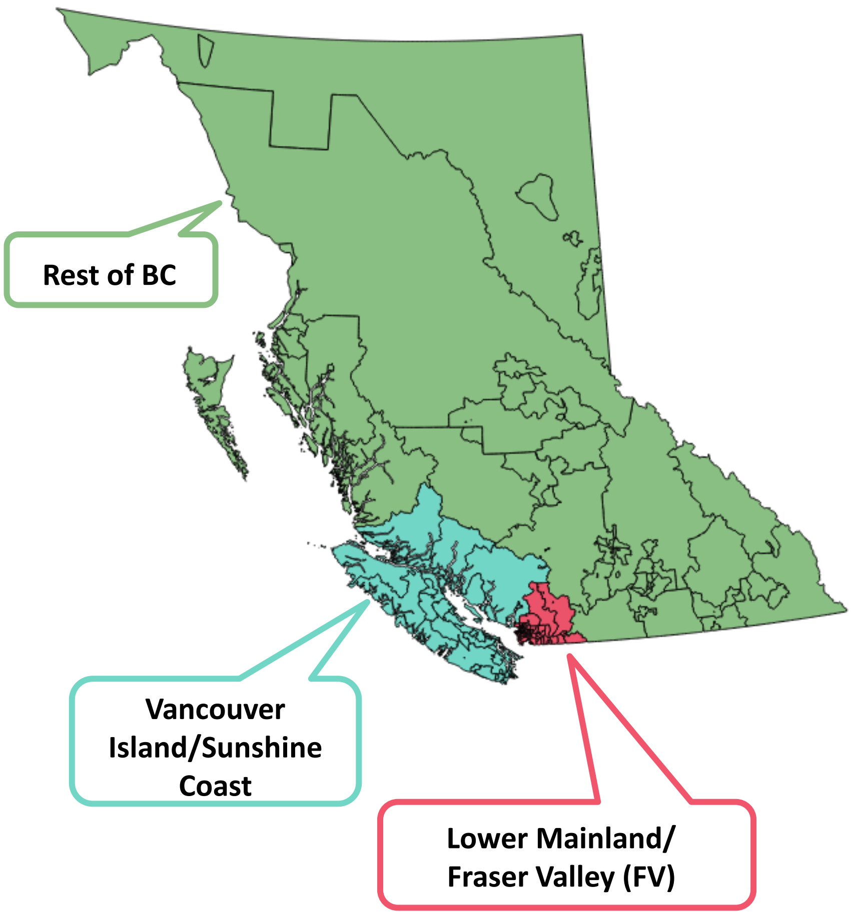
Younger investors (under 35 years of age) are a conflicted group:

- On the one hand, those under 35 appear more aware and more involved. Younger investors report they are more aware of their investment fees (for example, net agreement on awareness of direct fees is +59% for males and +46% for females under 35 vs +27% overall) and they are also more likely to have had a discussion about fees with their advisor in the last year (69% of men under 35 and 61% of women under 35, compared to 50% overall).
- On the other hand, younger investors are the most likely to believe that a 1% increase in fees would not have much impact on their returns (net agreement +10% for males and +5% for females vs -15% overall). Moreover, when asked about their responsibilities, those under 35 (men in particular) are the least likely age group to see each item as wholly or partially their responsibility.

Demographics

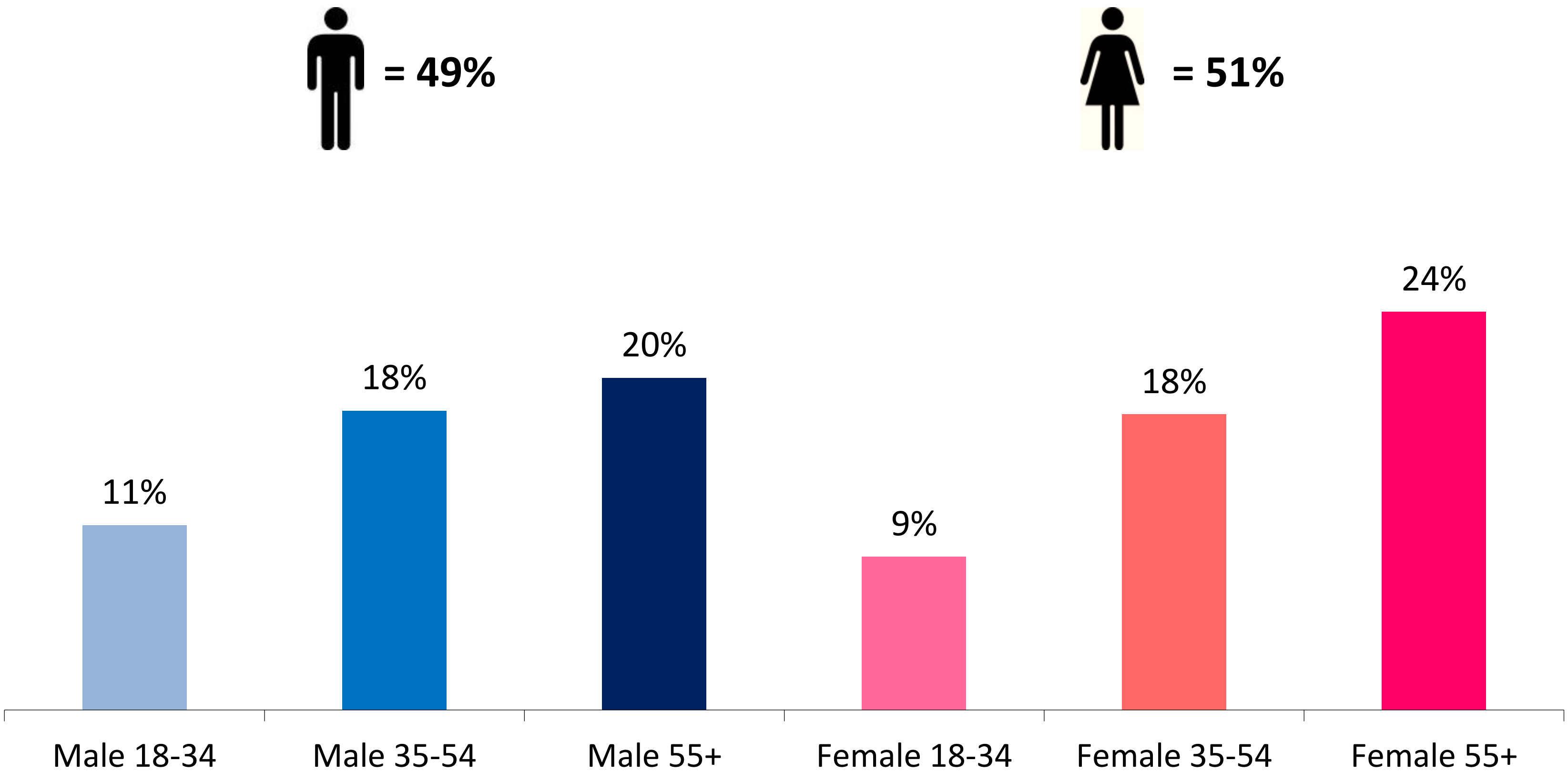
Region: Where did respondents come from?

The respondents for this survey come from the following regions in BC:



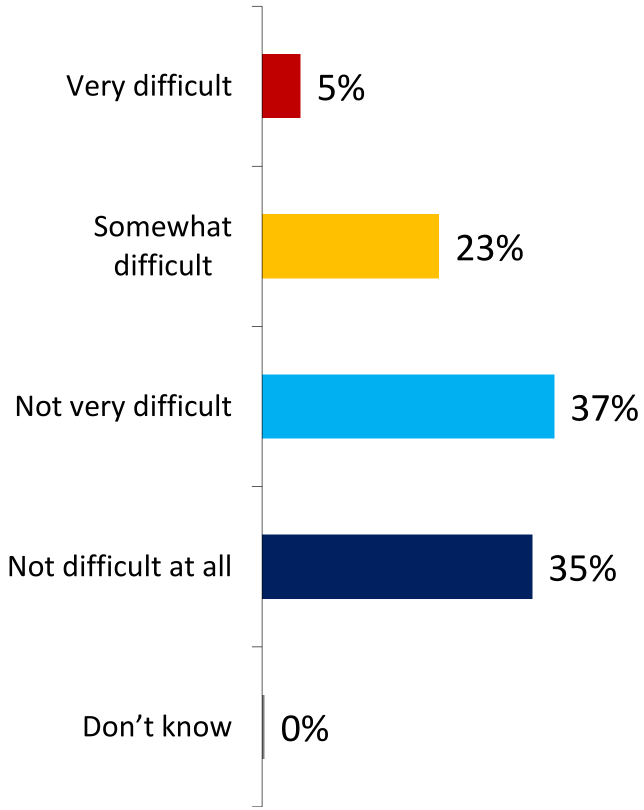
BC Regions	Unweighted	Weighted
Lower Mainland/Fraser Valley (FV)	485	489
Vancouver Island/Sunshine Coast	185	176
Rest of BC	134	135
Total	***n=804***	***n=800***

Demographics: Age and gender

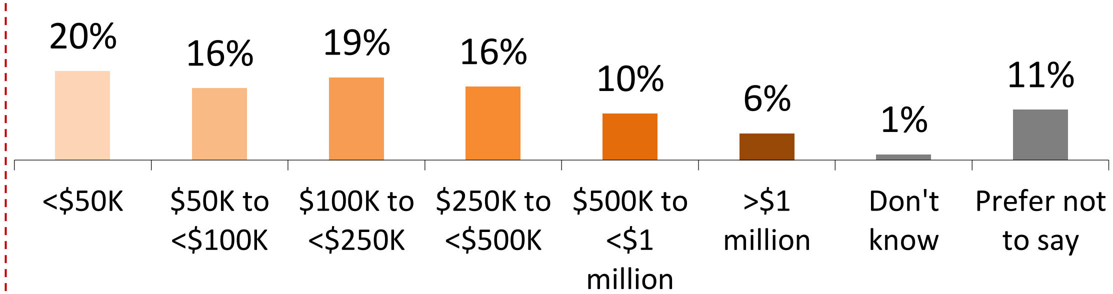


Demographics: Respondent profile

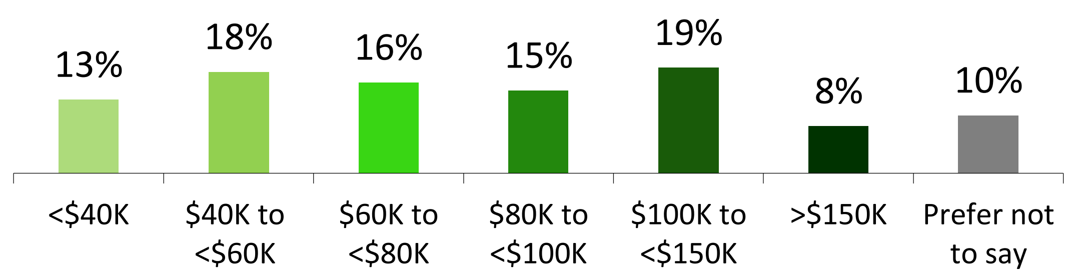
Difficulty Making Ends Meet



Investment Portfolio



Household Income



Note: Refused not shown

Investment Advisors

Investment Advisor Screening

In order to include only investors who hold securities and work with a registered advisor in the sample, respondents were screened according to the following criteria:

Q1: Do you own any investment products, such as stocks, bonds, ETFs, or mutual funds, either inside or outside of an RRSP, RESP, RRIF, or TFSA?

- Yes → Q2
- No/Don't know → Not qualified

Q2: Which of the following investment products do you hold?

- Any securities, or unsure what specific products held → Q3
- None, or only Canada Savings Bonds and/or Segregated funds → Not qualified

Q3: Do you have an investment advisor for your primary investment account? By an investment advisor, we mean someone who is able to give you specific recommendations about investments in securities. Some examples include a portfolio manager, an investment broker, or a mutual funds salesperson at a bank.

- Yes → Qualified
- No/Don't know → Not qualified

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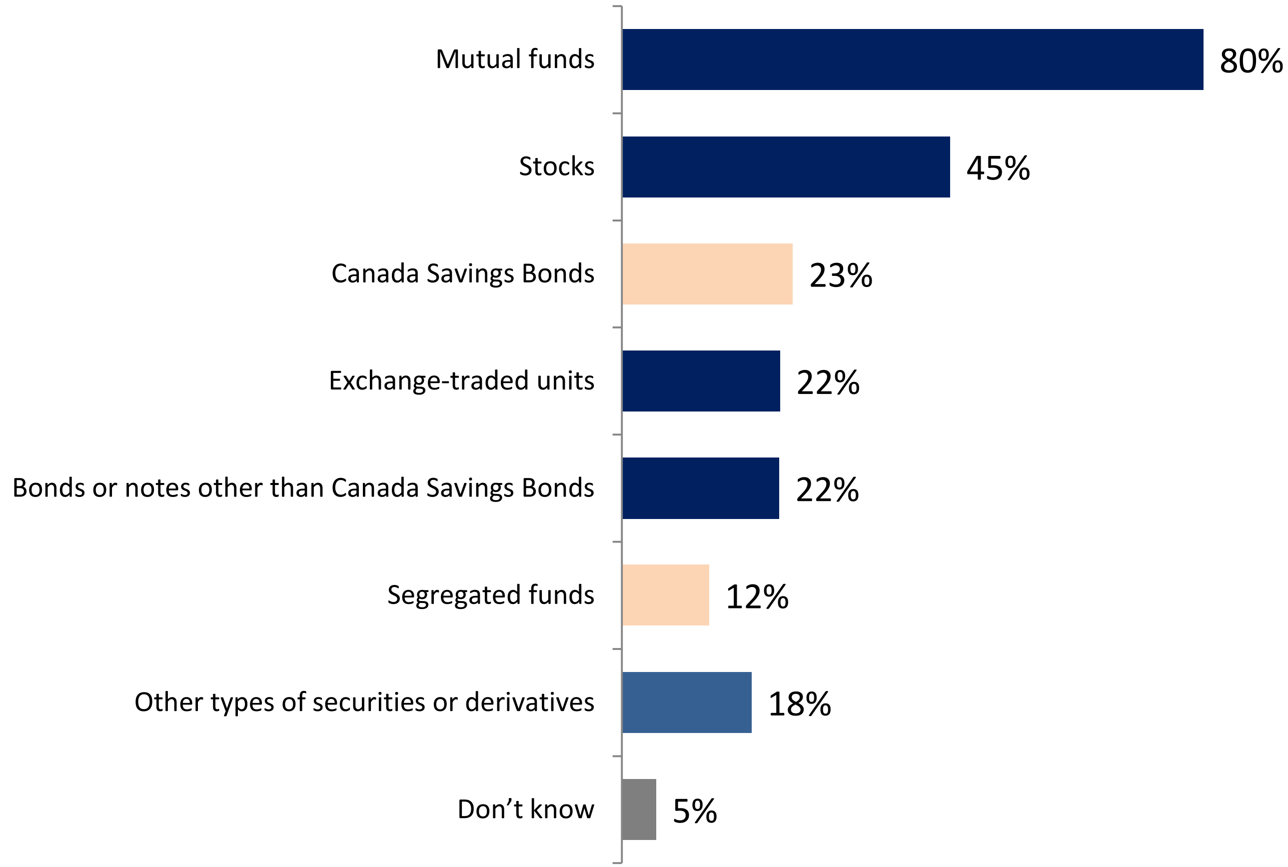
Products Held: Among investors who qualified, 80% hold mutual funds as at least one part of their portfolio

Q Which of the following investment products do you hold? (Check all that apply)
[asked of all respondents; n=800; multiple mention]



Note: Respondents who selected ***only*** Canada Savings Bonds and/or Segregated Funds, but no other types of investments, were not eligible for the survey. The full response code for Exchange-traded units read: "Exchange-traded units, including exchange-traded funds (ETFs) and real estate investment trusts (REITs)". The full response code for Segregated funds read "Segregated funds (funds sold by an insurance company that offer protection against investment losses)".

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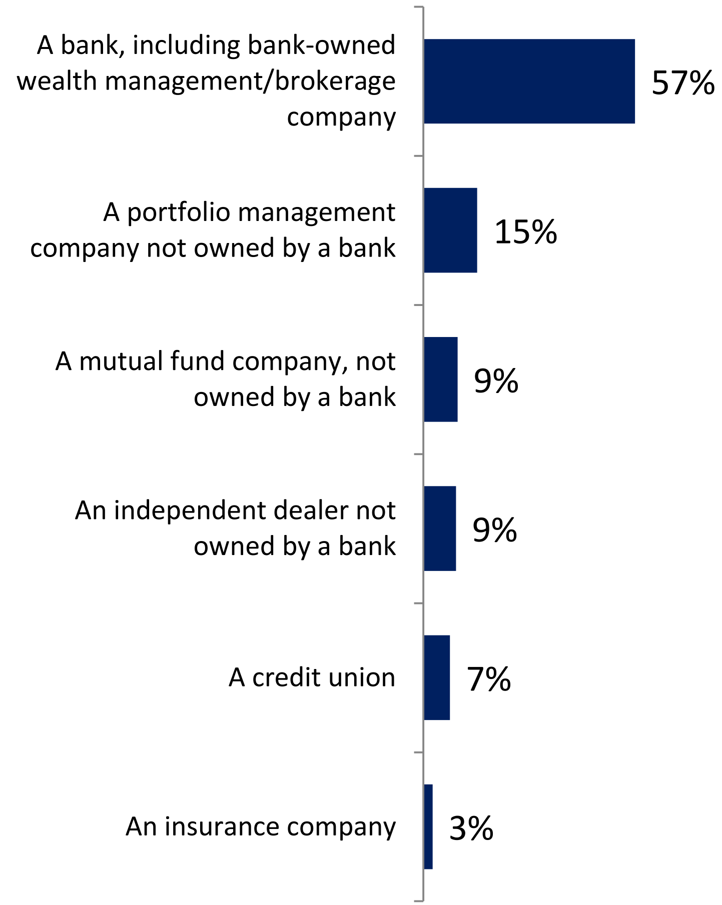
Firm Types: Most investors work through a bank or bank owned firm; 1-in-3 say their advisor has discretion

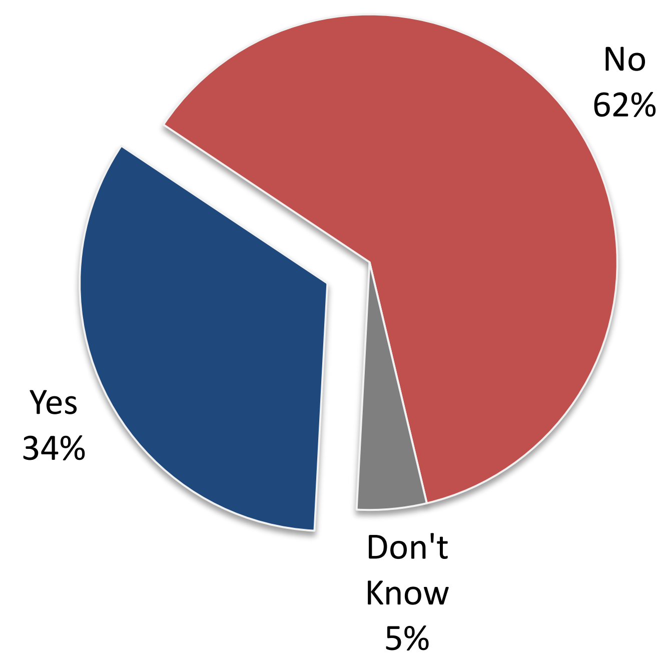
Q What type of firm holds your primary investment account?

[asked of all respondents; n=800; multiple mention]



Q Can your investment advisor make all investment decisions on your behalf without getting your prior approval for each transaction?

[asked of all respondents; n=800; multiple mention]



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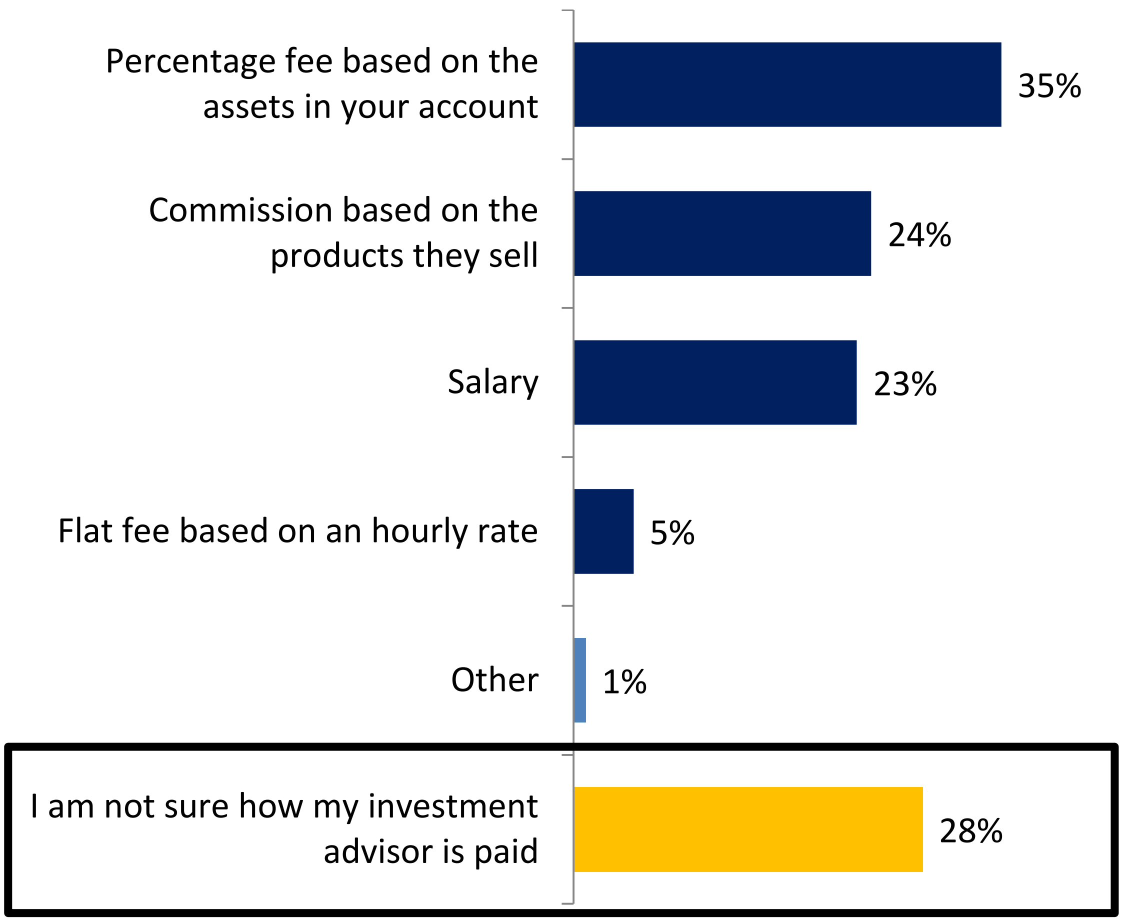
Advisor Compensation: 3-in-10 not sure how their advisor is paid; highest among those with under $50k invested

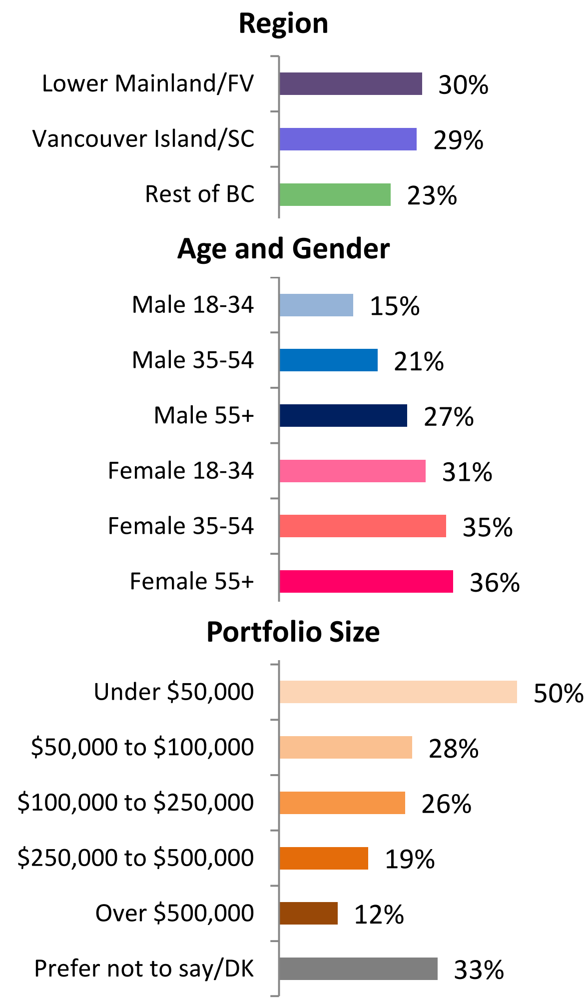
Q

Is your investment advisor being paid by any of the following methods? (Check all that apply)

[asked of all respondents; n=800; multiple mention]



Percentage who said
"I am not sure"



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Fee Familiarity

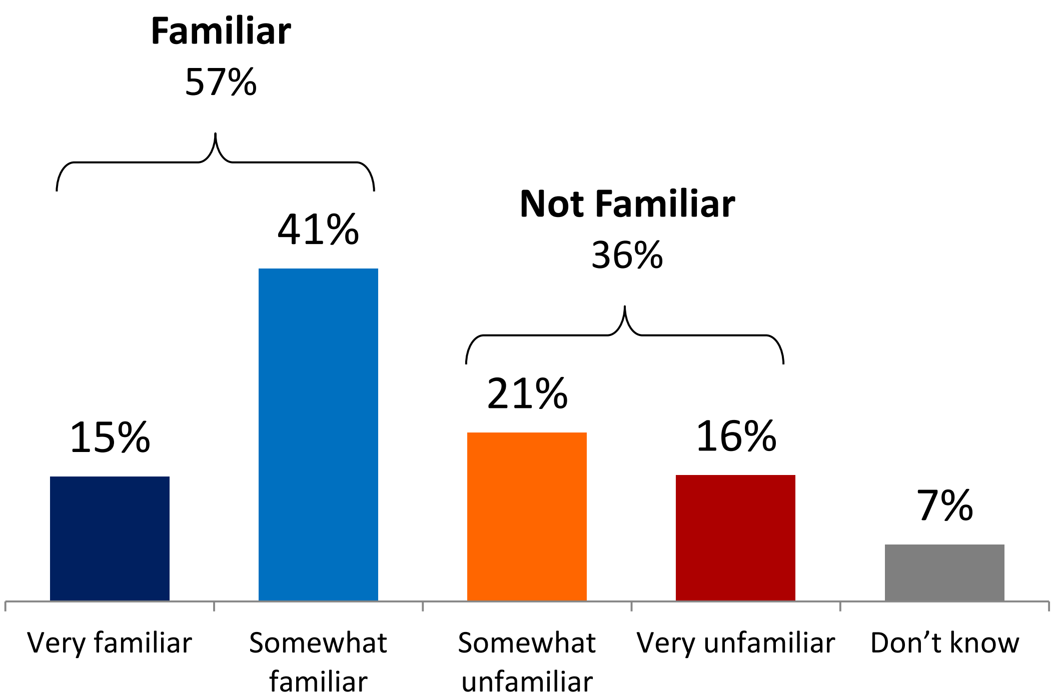
Fee Familiarity: Younger respondents and those with larger portfolios say they are more familiar with the types of fees

Q

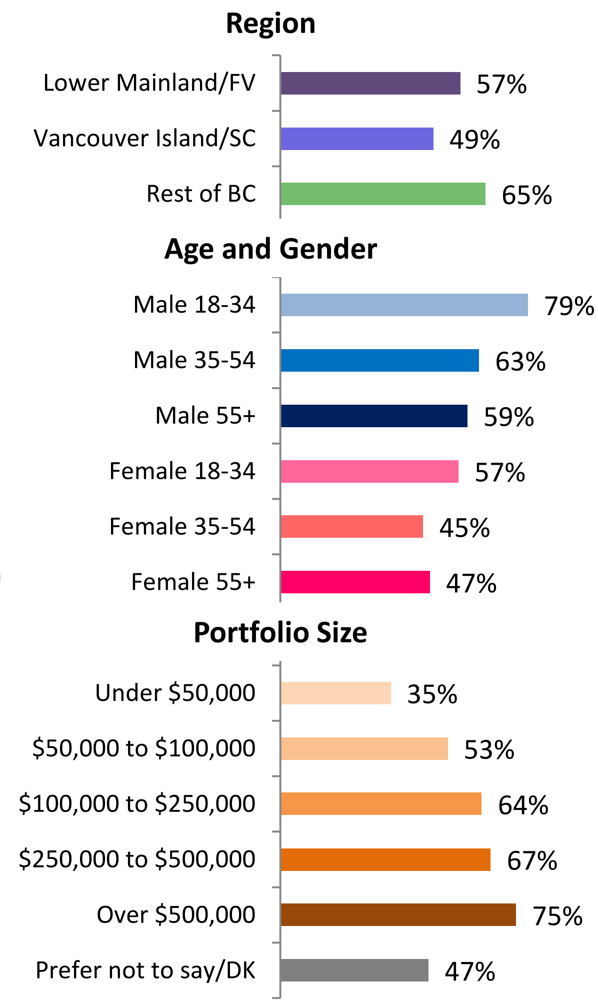
Generally speaking, there are two broad categories of fees on investment accounts—those you pay your [firm] directly to operate and administer your investment account and fees or commissions that your [firm] receives from other companies for the investments you hold.

How familiar are you with the two types of fees you pay on your primary investment account?

[asked of all respondents; n=800]



Percentage who said "Familiar"



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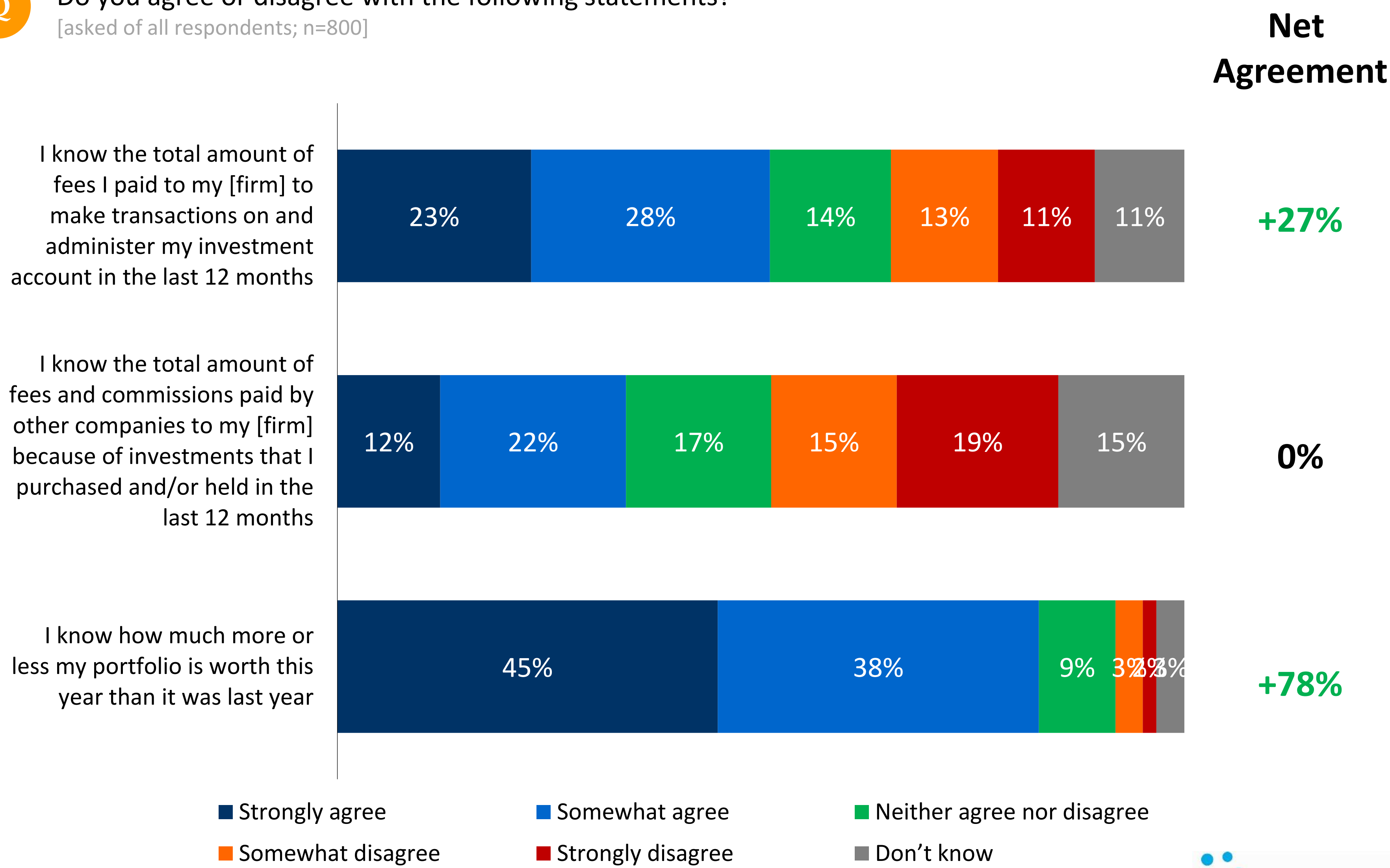
Fee Familiarity: 51% say they know the amount of direct fees they pay; only 34% say the same about indirect compensation

Q Do you agree or disagree with the following statements?
[asked of all respondents; n=800]



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Fee Familiarity: Those over 55 and those with under $50,000 invested are least likely to be aware of indirect compensation

NET AGREEMENT	REGION			AGE & GENDER					
	Lower Mainland /Fraser Valley	Van. Island/ Sunshine Coast	Rest of BC	Male 18-34	Male 35-54	Male 55+	Female 18-34	Female 35-54	Female 55+
Know fees paid to make transactions/administer acct.	+24%	+28%	+38%	+59%	+21%	+34%	+46%	+9%	+17%
Know fees paid by other companies because of my acct.	+2%	-12%	+8%	+45%	+10%	-13%	+21%	-8%	-19%
Know how much more/less portfolio worth	+75%	+85%	+79%	+66%	+77%	+89%	+73%	+67%	+86%

NET AGREEMENT	PORTFOLIO SIZE					
	Under $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	Over $500,000	Prefer not to say/DK
Know fees paid to make transactions/administer acct.	-3%	+25%	+40%	+28%	+44%	+34%
Know fees paid by other companies because of my acct.	-21%	+3%	+16%	-3%	+2%	+7%
Know how much more/less portfolio worth	+66%	+77%	+90%	+85%	+84%	+65%

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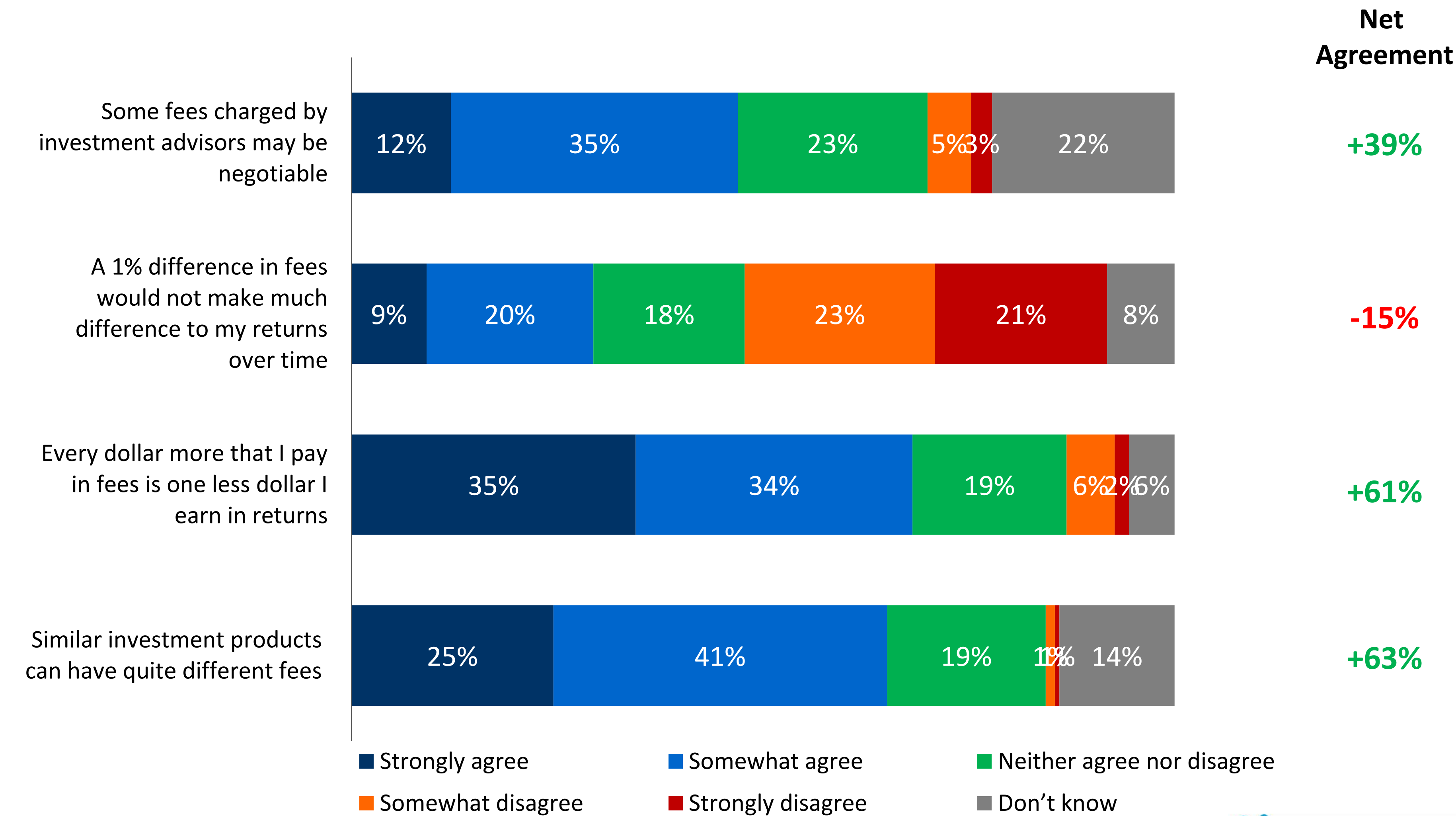
Fee Familiarity: Only 44% disagree that 1% in fees would not make much difference to their returns over time

Q Do you agree or disagree with the following statements?
[asked of all respondents; n=800]



Fee Familiarity: Those with less than $50,000 invested are the least likely to agree that some fees can be negotiable

NET AGREEMENT	REGION: Lower Mainland /Fraser Valley	REGION: Van. Island/ Sunshine Coast	REGION: Rest of BC	AGE & GENDER: Male 18-34	AGE & GENDER: Male 35-54	AGE & GENDER: Male 55+	AGE & GENDER: Female 18-34	AGE & GENDER: Female 35-54	AGE & GENDER: Female 55+
Some fees may be negotiable	+39%	+35%	+45%	+59%	+48%	+44%	+36%	+28%	+29%
1% in fees would not make much difference to returns	-21%	-5%	-5%	+10%	-11%	-38%	+5%	-15%	-17%
Every dollar in fees is one less dollar in returns	+61%	+64%	+54%	+67%	+59%	+62%	+63%	+57%	+59%
Similar investment products can have quite different fees	+67%	+58%	+59%	+64%	+75%	+66%	+69%	+52%	+59%

PORTFOLIO SIZE

NET AGREEMENT	Under $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	Over $500,000	Prefer not to say/DK
Some fees may be negotiable	+26%	+40%	+43%	+42%	+54%	+29%
A 1% in fees would not make much difference to returns	-13%	+1%	-14%	-27%	-21%	-12%
Every dollar in fees is one less dollar in returns	+55%	+53%	+69%	+73%	+58%	+54%
Similar investment products can have quite different fees	+43%	+66%	+69%	+73%	+70%	+62%

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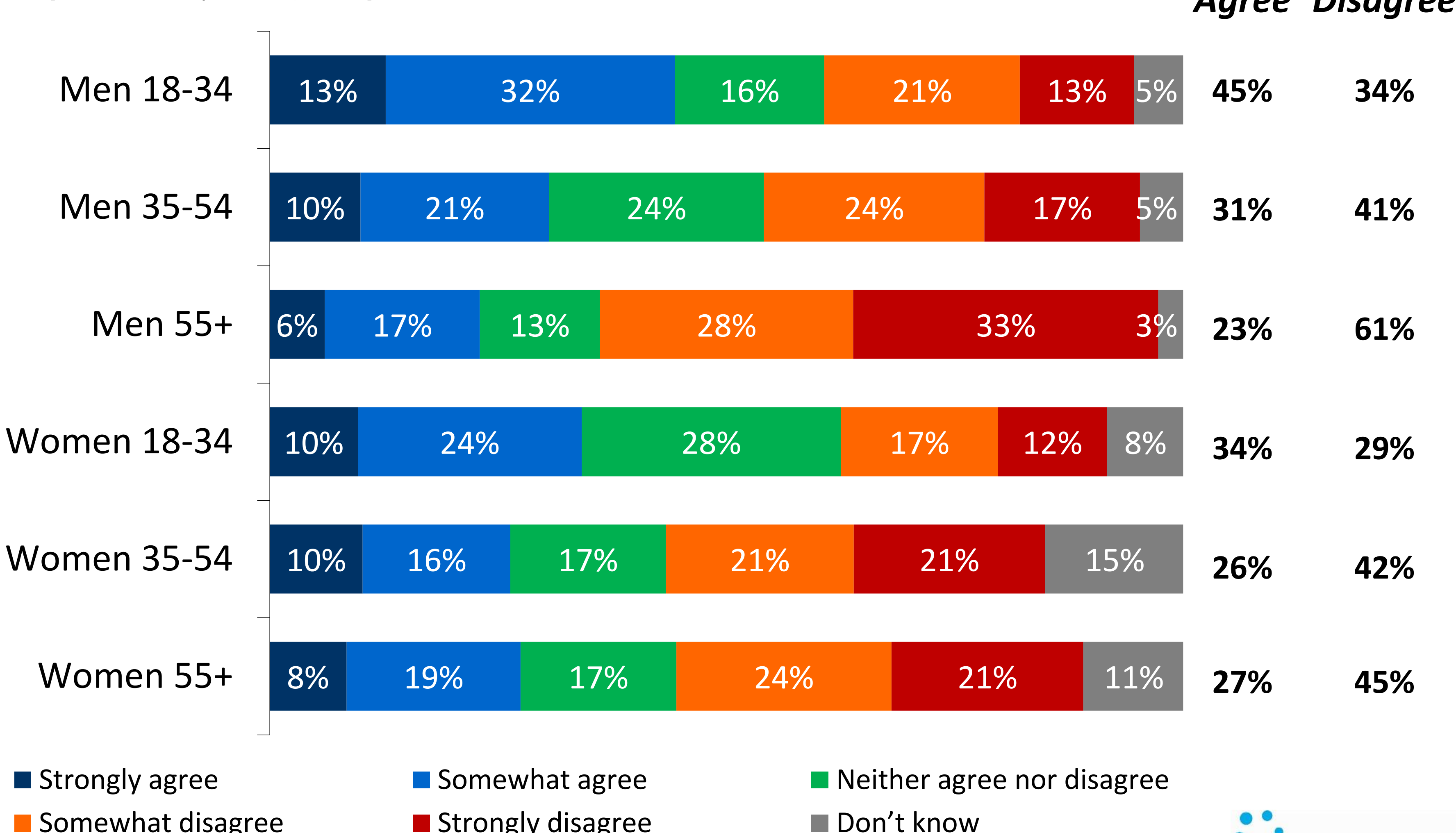
Fee Familiarity: Majorities of both men and women under 35 think 1% does not make much difference or are unsure

Q

Do you agree or disagree with the following statements?

A 1% difference in fees would not make much difference to my returns over time

[asked of all respondents; n=800]



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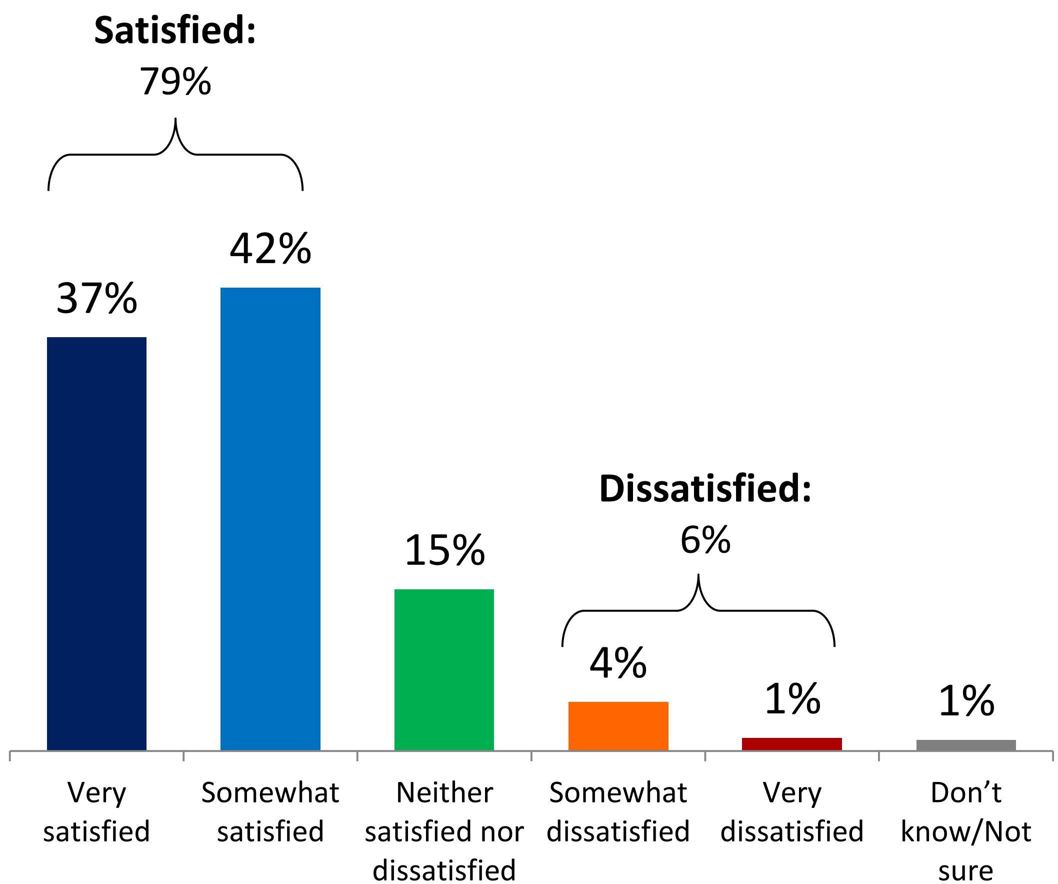
Client-Advisor Relationship

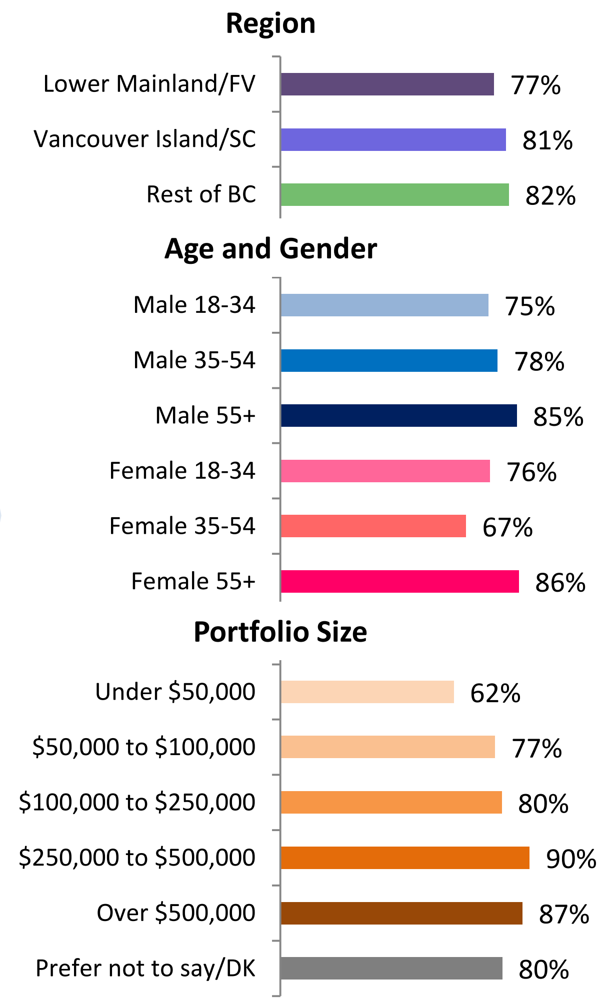
Relationship Satisfaction: The vast majority (79%) are satisfied with their advisor relationship

Q

Thinking about your primary investment account, how satisfied are you with the relationship you have with your investment advisor?
[asked of all respondents; n=800]



Percentage who said "Satisfied"



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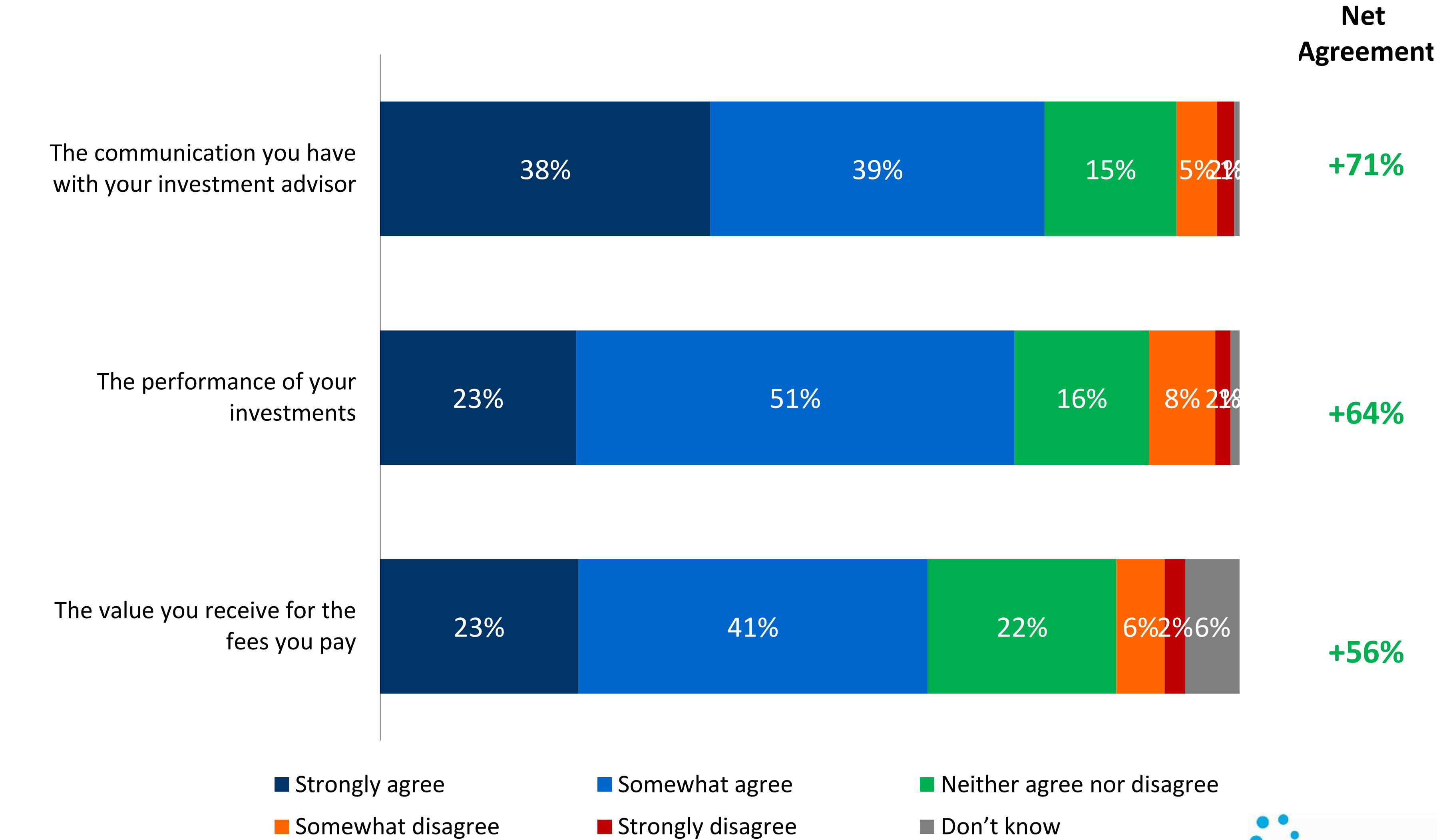
Advisor Satisfaction: High satisfaction on all fronts, though lower for 'value for fees' than in other areas

Q Thinking about your primary investment account, how satisfied are you with…
[asked of all respondents; n=800]



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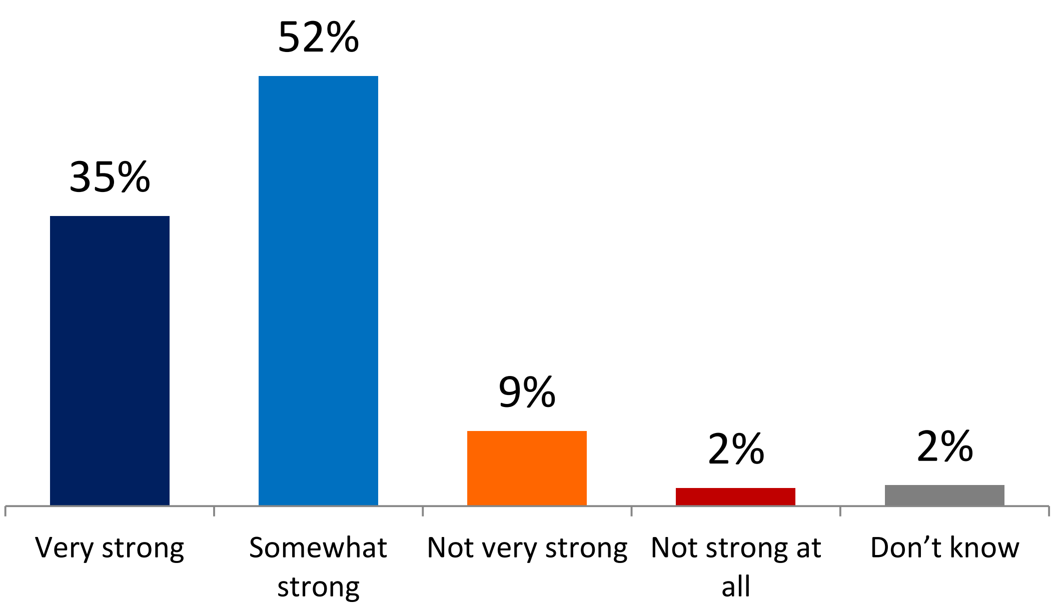
Advisor Satisfaction: Those in Rural BC and with larger portfolios are most likely to be satisfied with their advisors

	REGION			AGE & GENDER					
NET AGREEMENT	Lower Mainland /Fraser Valley	Van. Island/ Sunshine Coast	Rest of BC	Male 18-34	Male 35-54	Male 55+	Female 18-34	Female 35-54	Female 55+
The communication you have with your investment advisor	+68%	+71%	+78%	+63%	+63%	+79%	+62%	+62%	+82%
Performance of your investments	+63%	+61%	+75%	+63%	+71%	+68%	+62%	+50%	+69%
Value you receive for fees you pay	+54%	+58%	+60%	+65%	+54%	+62%	+59%	+42%	+56%

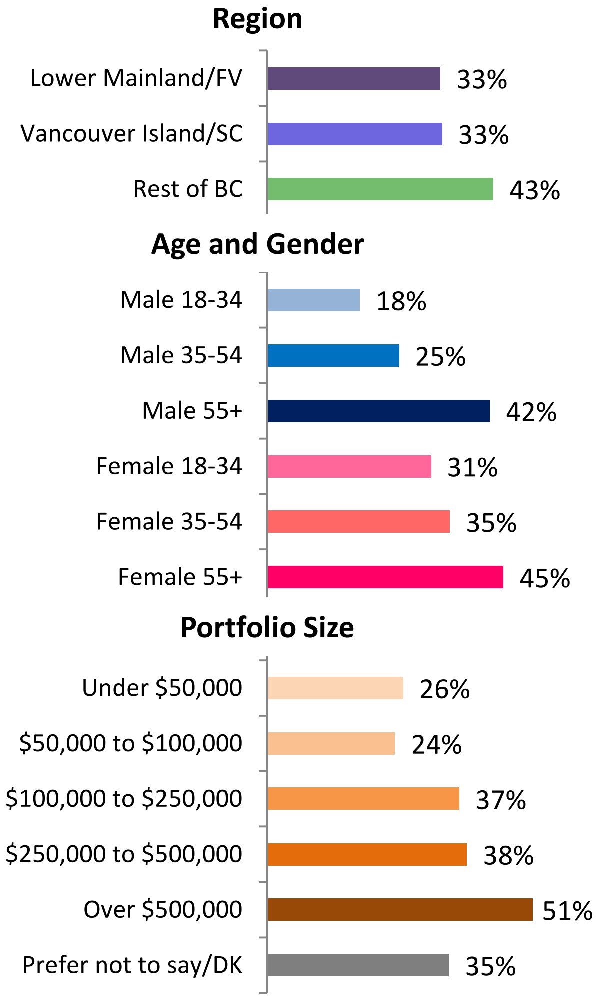
	PORTFOLIO SIZE					
NET AGREEMENT	Under $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	Over $500,000	Prefer not to say/DK
The communication you have with your investment advisor	+47%	+68%	+80%	+80%	+83%	+69%
Performance of your investments	+49%	+64%	+65%	+74%	+79%	+56%
Value you receive for fees you pay	+36%	+53%	+66%	+68%	+67%	+44%

Level of Trust: Nearly all investors (86%) have at least somewhat strong trust in their advisor

Q In general, how would you describe the level of trust you have in your investment advisor?
[asked of all respondents; n=800]



Percentage who said "Very Strong"



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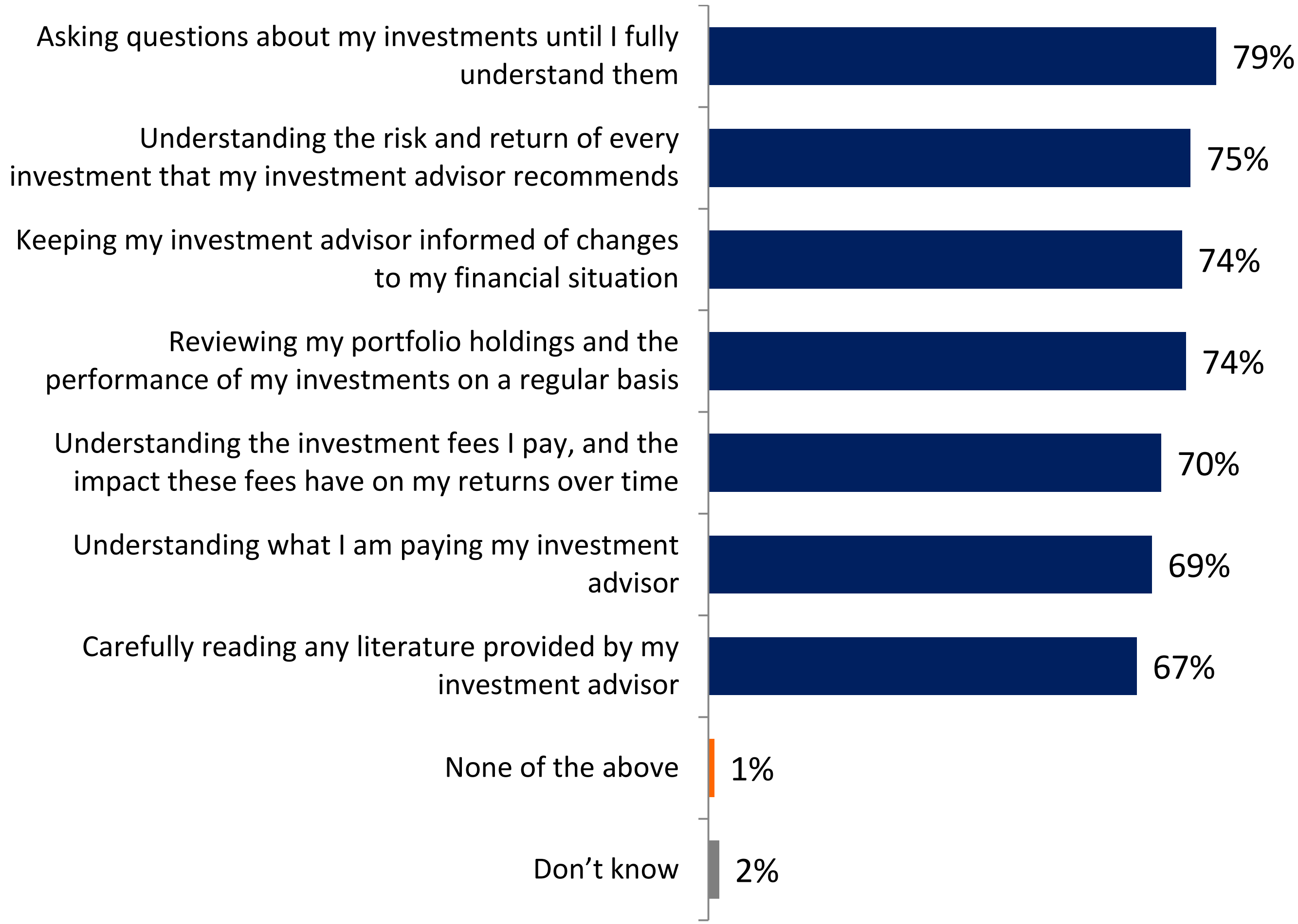
Client Responsibilities: 1-in-3 (34%) see every item listed as a their responsibility as a client

Q As a client, which of the following things do you believe are either wholly or partially your responsibility when working with an investment advisor? (Check all that apply)
[asked of all respondents; n=800; multiple mention]



Those who select all of the above (34%) are included in the total for each individual category

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Client Responsibilities: Men under 35 are least likely to see each item as wholly or partially their responsibility

% Who selected (multiple mention)	REGION: Lower Mainland /Fraser Valley	REGION: Van. Island/ Sunshine Coast	REGION: Rest of BC	AGE & GENDER: Male 18-34	AGE & GENDER: Male 35-54	AGE & GENDER: Male 55+	AGE & GENDER: Female 18-34	AGE & GENDER: Female 35-54	AGE & GENDER: Female 55+
Asking questions about my investments until I fully understand them	79%	79%	78%	61%	71%	89%	66%	84%	87%
Understanding the risk and return of every investment that my investment advisor recommends	75%	74%	76%	54%	71%	87%	64%	77%	81%
Keeping my investment advisor informed of changes to my financial situation	74%	74%	73%	52%	66%	83%	69%	74%	83%
Reviewing my portfolio holdings and the performance of my investments on a regular basis	75%	73%	74%	52%	62%	87%	61%	76%	88%
Understanding the investment fees I pay, and the impact these fees have on my returns over time	70%	69%	74%	43%	63%	82%	69%	74%	78%
Understanding what I am paying my investment advisor	69%	69%	69%	47%	60%	81%	65%	70%	78%
Carefully reading any literature provided by my investment advisor	68%	64%	65%	48%	60%	72%	62%	71%	74%
(All of the above) *Also included in total for each individual response*	*(34%)*	*(31%)*	*(34%)*	*(15%)*	*(24%)*	*(43%)*	*(23%)*	*(39%)*	*(41%)*

Client Responsibilities: Those with more invested take more ownership on understanding fees and reviewing performance

% Who selected (multiple mention)	PORTFOLIO SIZE: Under $50,000	$50,000 to $100,000	$100,000 to $250,000	$250,000 to $500,000	Over $500,000	Prefer not to say/DK
Asking questions about my investments until I fully understand them	80%	78%	74%	81%	82%	80%
Understanding the risk and return of every investment that my investment advisor recommends	72%	69%	74%	75%	82%	79%
Keeping my investment advisor informed of changes to my financial situation	71%	68%	71%	81%	79%	74%
Reviewing my portfolio holdings and the performance of my investments on a regular basis	72%	74%	67%	77%	80%	80%
Understanding the investment fees I pay, and the impact these fees have on my returns over time	64%	62%	70%	78%	79%	71%
Understanding what I am paying my investment advisor	66%	63%	63%	75%	75%	75%
Carefully reading any literature provided by my investment advisor	71%	56%	62%	67%	74%	71%
(All of the above) *Also included in total for each individual response*	*(36%)*	*(28%)*	*(29%)*	*(32%)*	*(39%)*	*(39%)*

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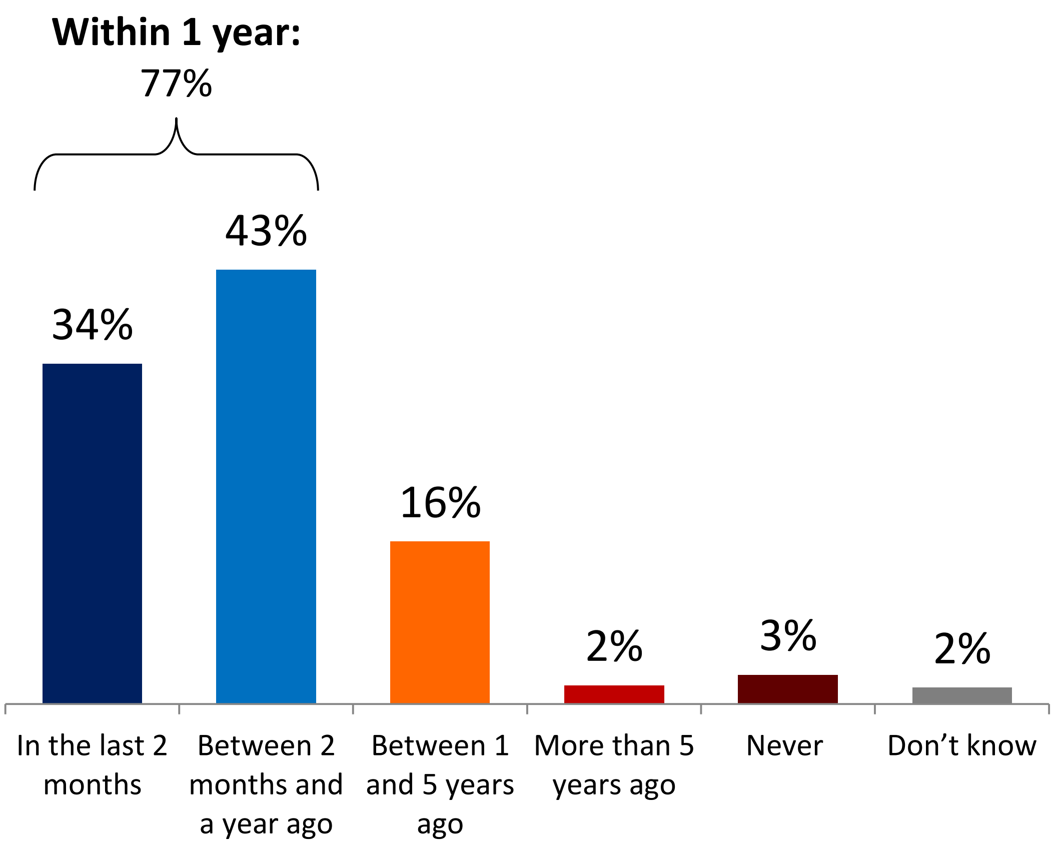
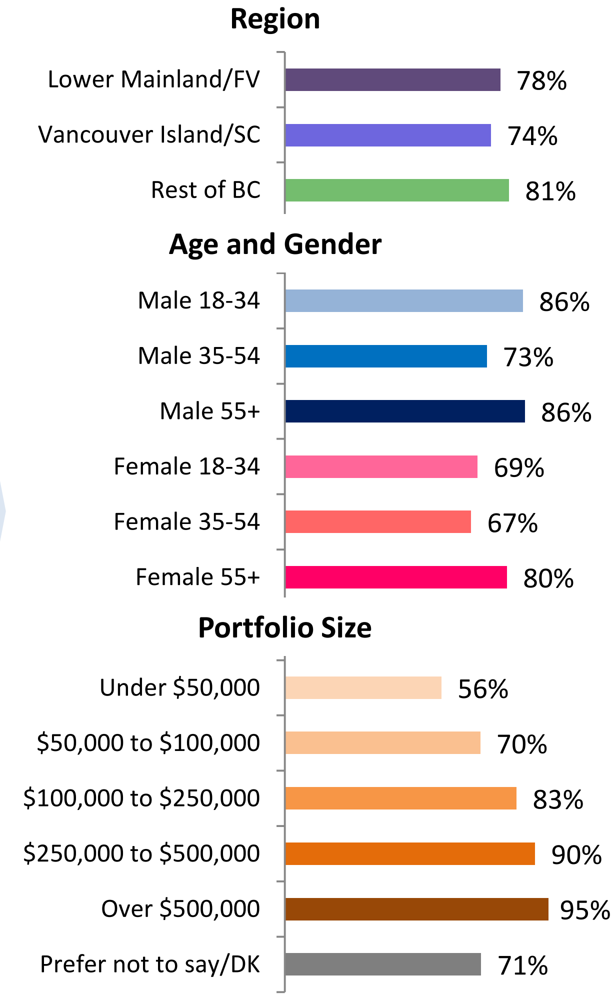
Action:
Client-Advisor Communication

Last Trade Discussion: Most (77%) investors have discussed buying or selling at some point in the last year

Q When was the last time that you and your investment advisor discussed buying or selling an investment?
[asked of all respondents; n=800]





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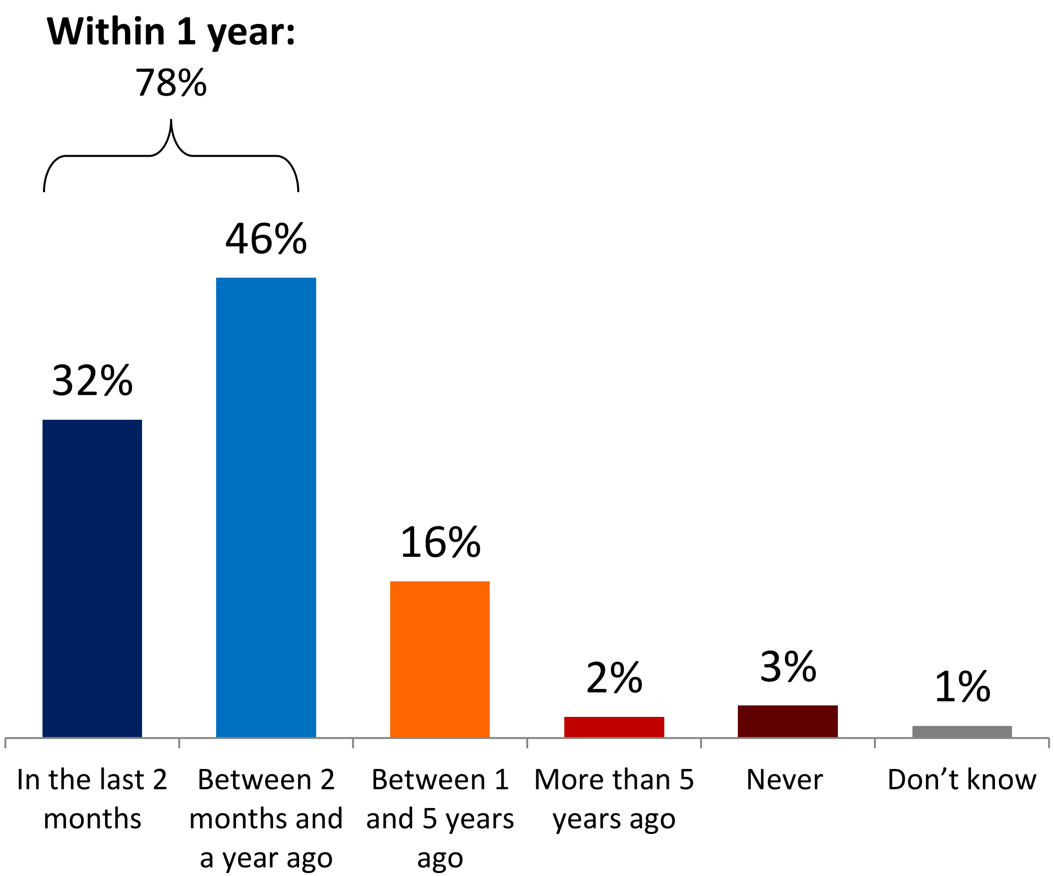
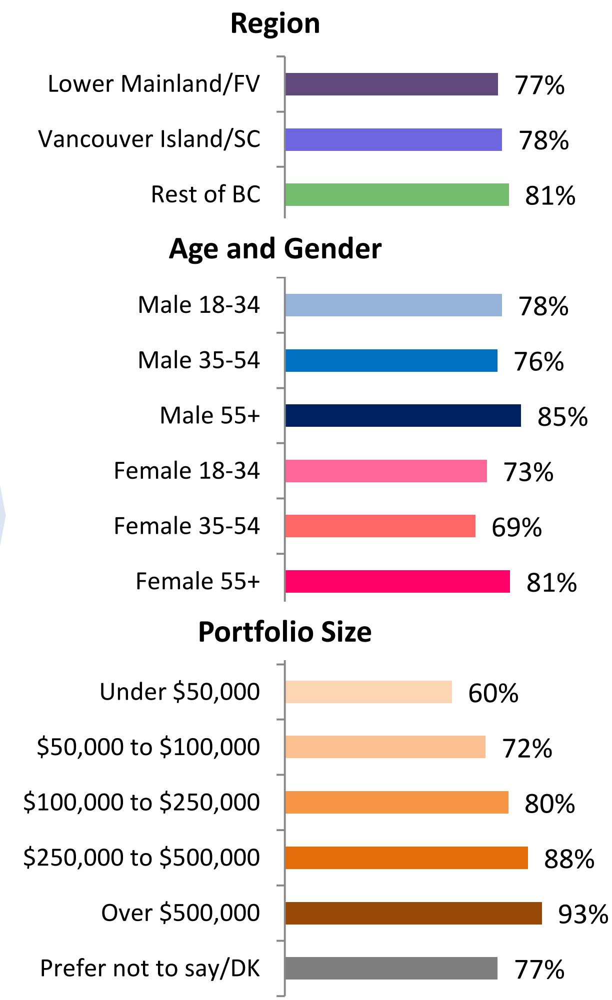
Last Performance Discussion: Most have also discussed performance with their advisor within the year

Q When was the last time that you and your investment advisor discussed the performance of your investments?
[asked of all respondents; n=800]



Percentage who discussed within the last year



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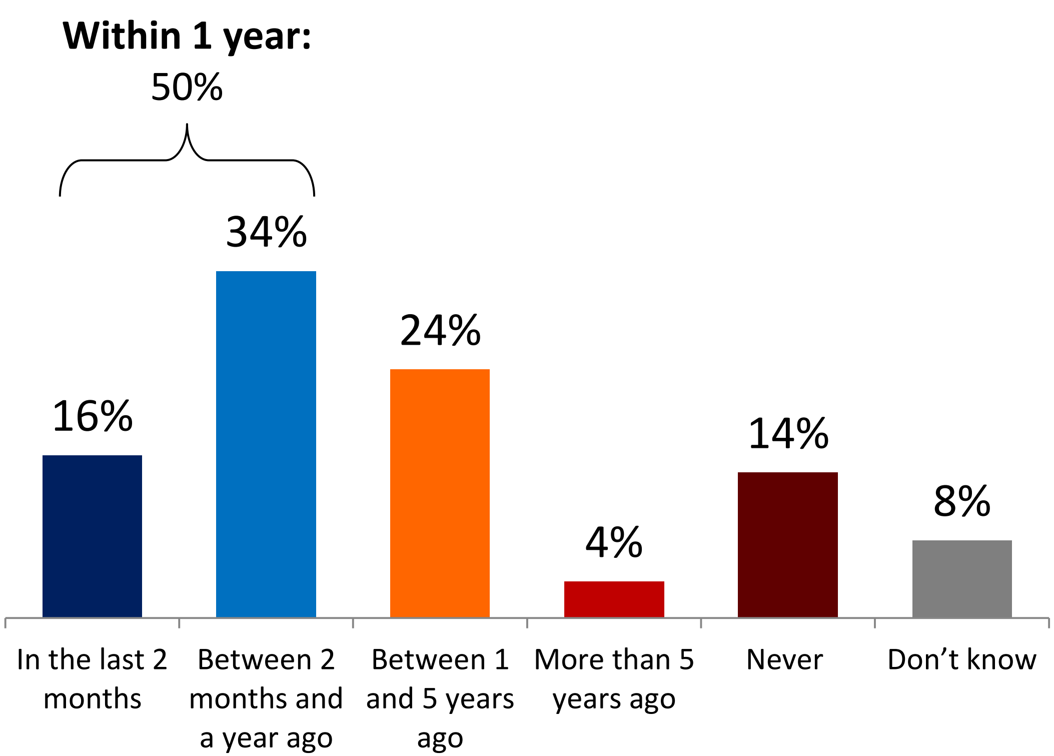
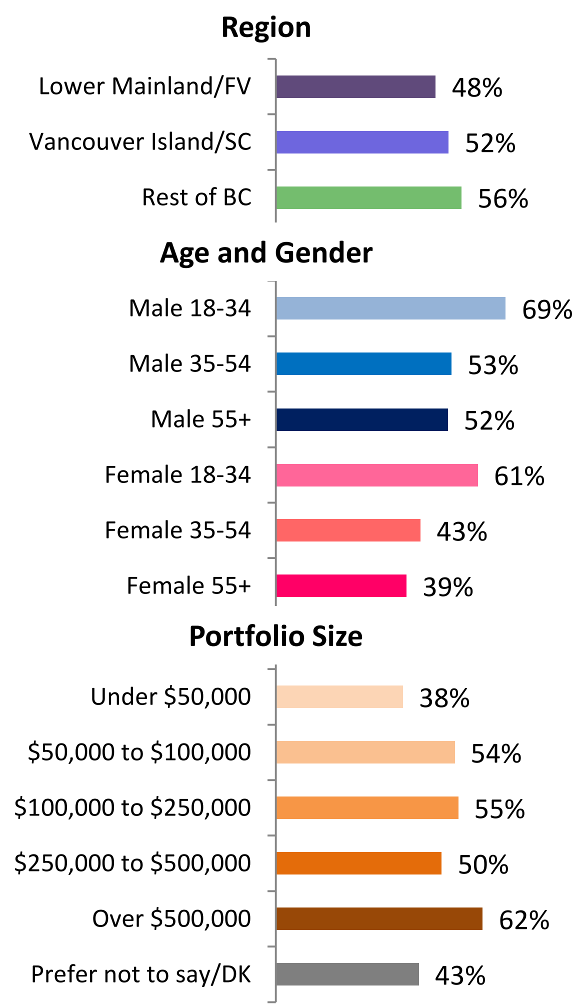
Last Fee Discussion: Those with under $50,000 invested and women 55+ are least likely to have discussed fees recently

Q When was the last time that you and your investment advisor discussed the fees associated with your investments and their impact on your investment returns?
[asked of all respondents; n=800]





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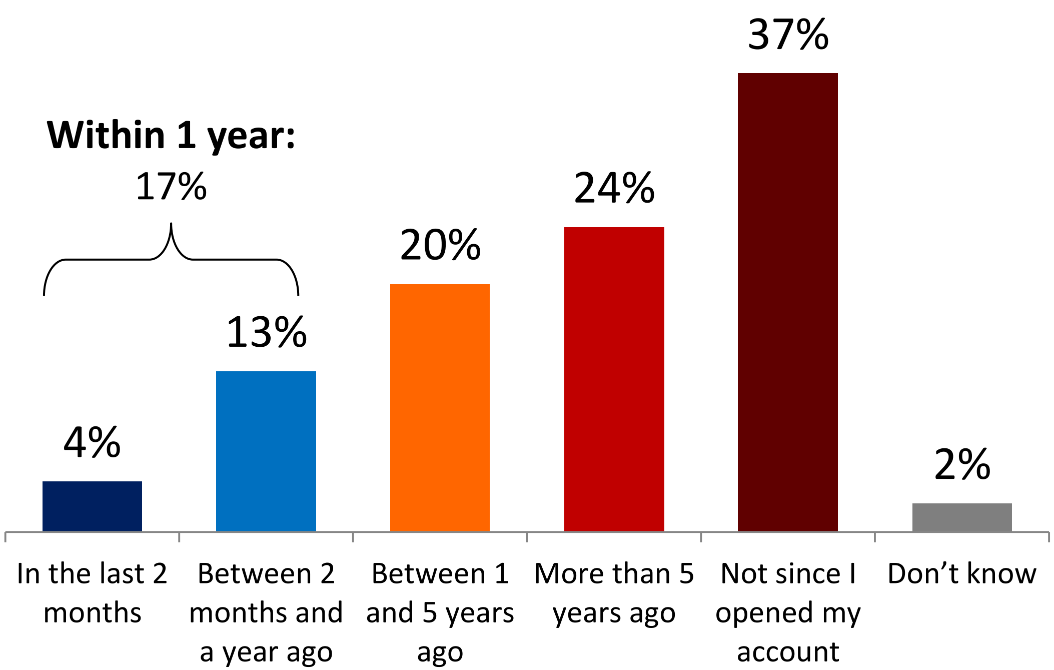
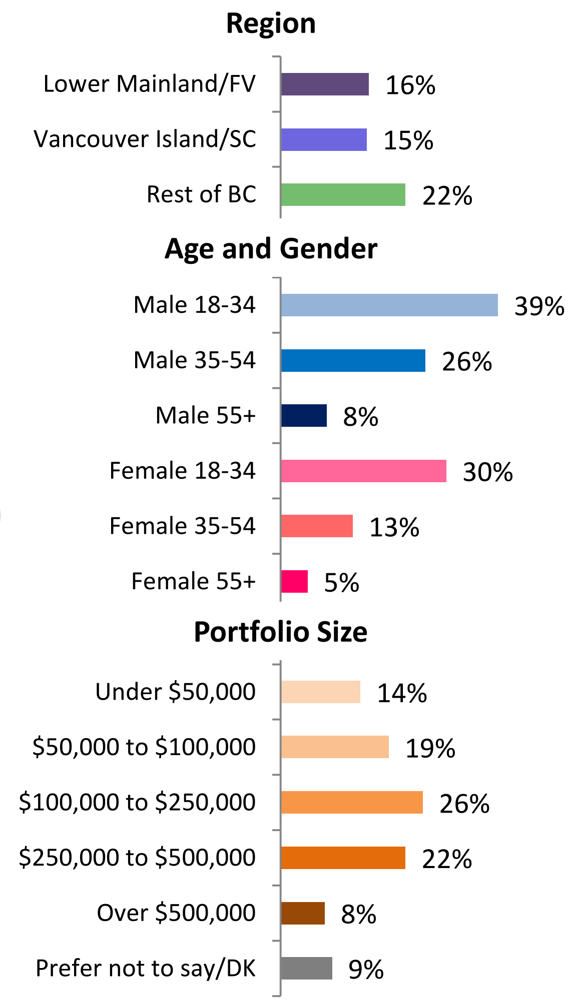
Action: Major Changes

Changed Advisors: Those under 35 the most likely to have made a change in the past year

Q When was the last time that you changed your investment advisor or the firm you invest with?
[asked of all respondents; n=800]



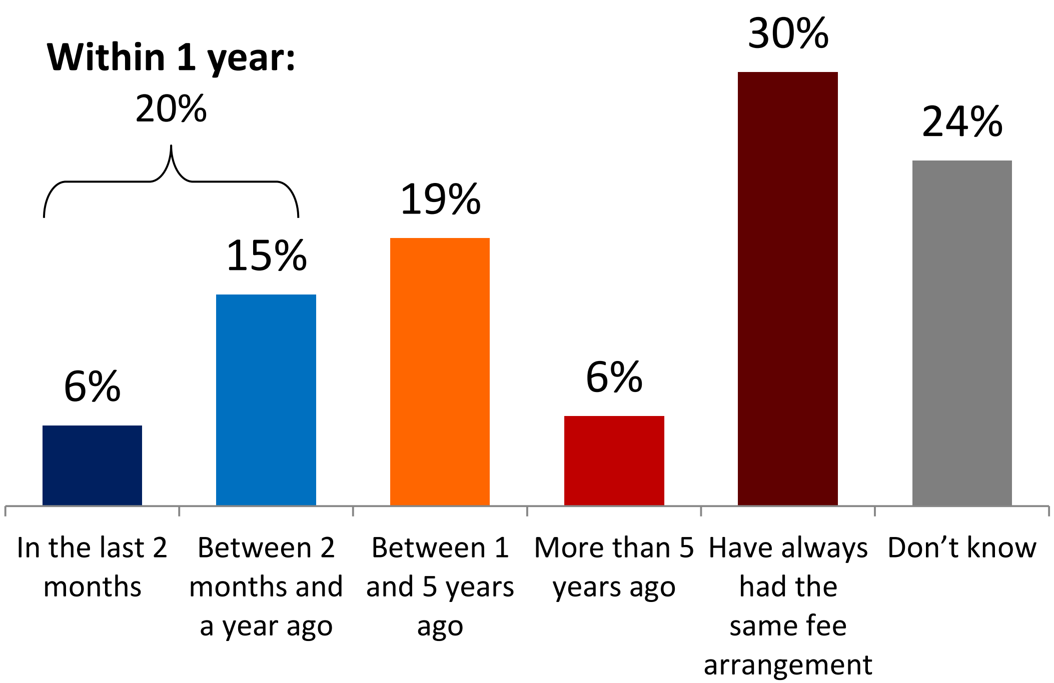
Percentage who changed within the last year

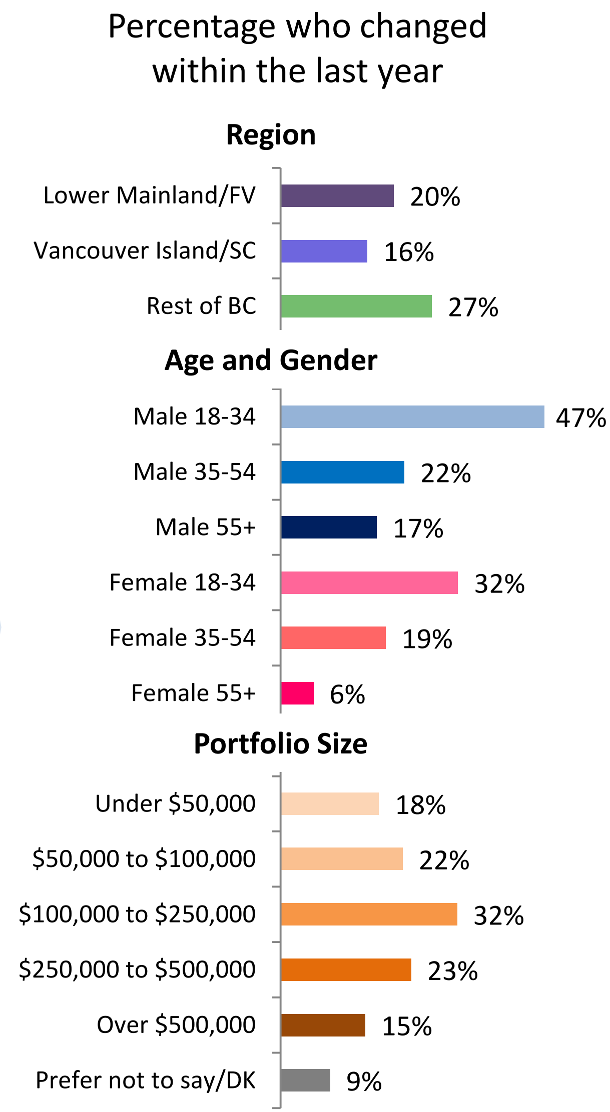


Changed Fees: Nearly half (47%) of men under 35 say they've changed their fee arrangement within the last year

Q When was the last time that you made a change to the fees you pay for your investments?

[asked of all respondents; n=800]





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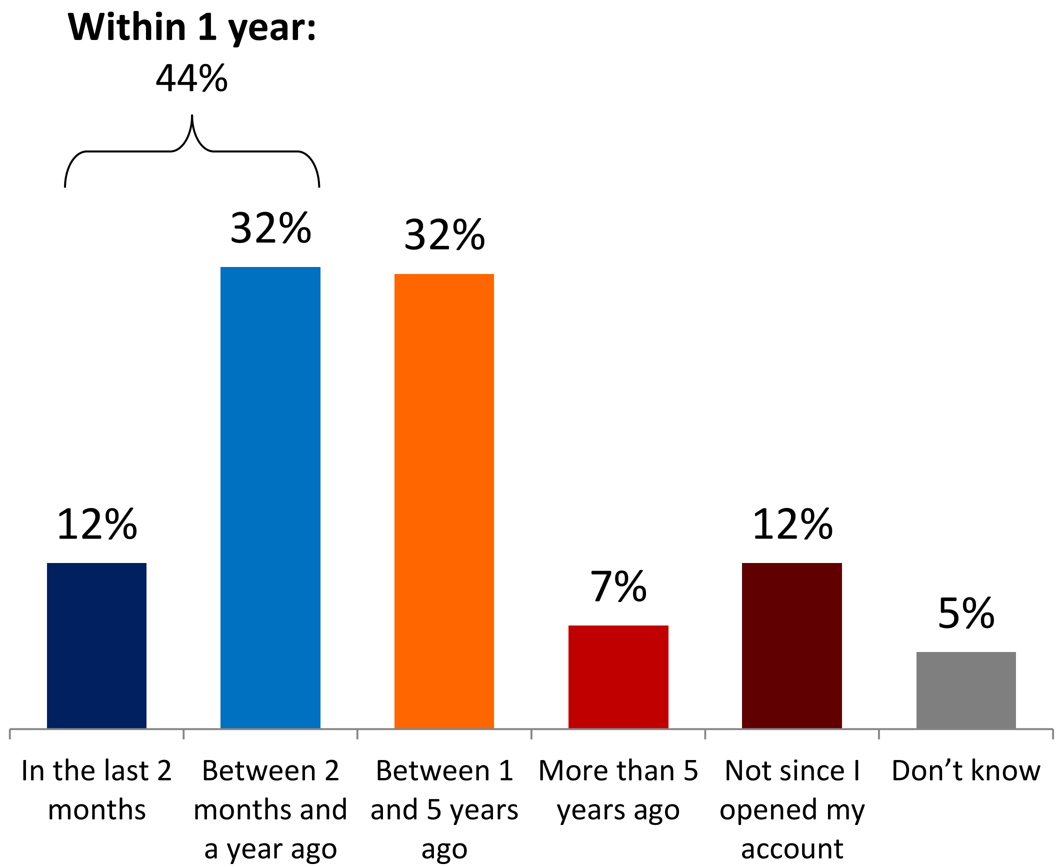
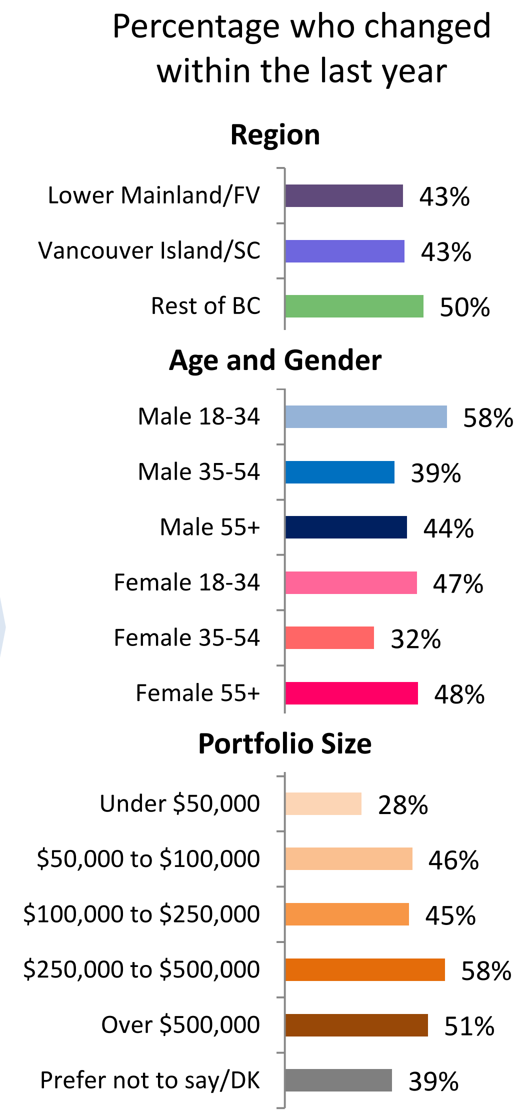
Changed Products: 44% say they have changed the mix of products they hold in the last year

Q When was the last time you made a change to the mix of investment products that you hold?
[asked of all respondents; n=800]





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