Trade Talk

Special Edition
2017 Sibos Conference

OCTOBER 2017 SPECIAL EDITION

SHANE KUROS IS VICE PRESIDENT, HEAD OF RELATIONSHIP DEVELOPMENT, CANADA AT CIBC MELLON AND BNY MELLON. SHANE IS RESPONSIBLE FOR ALL ASPECTS OF CIBC MELLON'S OUTREACH TO PROSPECTIVE CANADIAN INSTITUTIONAL CLIENTS AND GLOBAL FINANCIAL INSTITUTIONS WHOSE CLIENTS INVEST IN CANADA. SHANE HAS MORE THAN 25 YEARS OF SALES, MARKETING AND PRODUCT DEVELOPMENT EXPERIENCE IN FINANCIAL SERVICES.

Invested in Canada: Connecting with Clients at Sibos in Toronto

As Canada's leader in asset servicing, and the only major custodian exclusively focused on Canada, we are looking forward to connecting with global investment servicing and sub-custody clients and prospects to raise Canada's profile and help institutional investors better understand the Canadian opportunity. On October 16-19, 2017, thousands of financial sector leaders from around the globe will descend on Toronto, Canada for the annual SWIFT International Banking Operations Seminar (Sibos) to discuss the most prominent topics facing the industry.

Headquartered in Toronto, CIBC Mellon is particularly excited as this year's conference is taking place in its hometown. Sibos will be an opportunity for CIBC Mellon's clients and prospective institutional investors into Canada to collaborate and gain a further on-the-ground understanding of the Canadian market. Under the theme of "Building for the Future," the 2017 conference program will once again be structured on four streams: banking, compliance, securities and technology. CIBC Mellon will be jointly hosting booth I03 with our Canadian parent company CIBC. Clients can also look for our U.S.-based parent company, BNY Mellon, at booth I12.

Market participants continue to take confidence from Canada's stable financial sector and the country remains an investment destination of choice for many global financial institutions. Canada maintains one of the few remaining triple-A ratings for sovereign debt, and continues to attract global investors with its robust market infrastructure, efficient settlement mechanisms and effective regulatory environment.

CIBC Mellon recognizes the importance of our business to the smooth operation of Canada's capital markets, and as such we are committed to doing business at the

What's Inside?

Connecting with Clients at Sibos in Toronto
By Shane Kuros, Vice President, Head of Relationship Development, Canada, CIBC Mellon and BNY Mellon
1

Canadian Insights on the Common Reporting Standard
By Simon Lee, Assistant Vice President, Tax
3

Exploring the Canadian Alternatives Market
By Tim Rourke, Vice President, Segment Lead, Pensions and Asset Owners
4

Economic Insights: Shiny Baubles
By Avery Shenfeld, Managing Director and Chief Economist, CIBC Capital Markets
6

CIBC MELLON

INVESTED IN CANADA: CONNECTING WITH CLIENTS AT SIBOS IN TORONTO

For more on Sibos, or for CIBC Mellon's latest resources for global and Canadian institutional investors active in Canada, contact your Relationship Executive, Relationship Manager, or call us at +1 416-643-5000.

highest standards, for example our continuing alignment to the ISO 22301:2012 Societal Security and Business Continuity Management Systems Standard and to the ISO 26000 principles for organizational social responsibility.

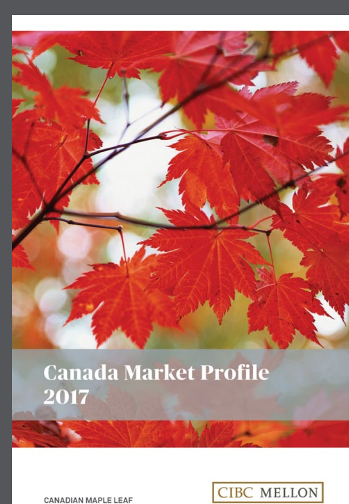
Global investors into Canada and Canadian financial institutions alike can look to CIBC Mellon to provide outstanding service, dependable execution and knowledgeable insights to help them navigate the complexities of the Canadian marketplace. Clients can tap into our expertise as an effective local sub-custodian, receive notifications on key changes and local regulations in Canada, and clarification on documentation requirements. Through our weekly Straight Talk regulatory and industry newsletter, our feature articles, and direct connections with clients, our clients can continue to turn to us to help support their activities here in Canada.

CIBC Mellon looks forward to continuing our close client dialogue with leading financial services players from around the globe, as well as showcasing the strength of our products, capabilities and local Canadian market knowledge at Sibos 2017.

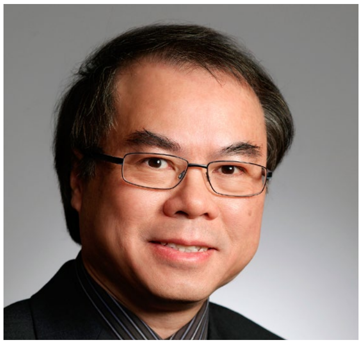
CIBC MELLON'S CANADA MARKET PROFILE

This booklet covers topics such as the securities marketplace, corporate actions and taxation.

Request a copy of the Canada Market Profile from your Relationship Manager or contact Shane Kuros at +1 416-643-6365.



BY SIMON LEE
ASSISTANT VICE PRESIDENT, TAX



SIMON LEE IS ASSISTANT VICE PRESIDENT, TAX AT CIBC MELLON. SIMON IS RESPONSIBLE FOR CIBC MELLON'S TAX ADVISORY, INCLUDING PLANNING AND ANALYSIS, AND SHARING INSIGHTS AND CONSIDERATIONS TO THE ORGANIZATION ON TAX LEGISLATION. HE HAS 20 YEARS OF EXPERIENCE IN THE TAXATION OF FINANCIAL SERVICES.

Canadian Insights on the Common Reporting Standard

With the implementation of the Organisation for Economic Co-operation and Development (OECD) Common Reporting Standard (CRS) by Canada's Department of Finance, there are several considerations and key deadlines that may be relevant to your financial institution. Please note that the following does not constitute tax, legal, or compliance advice, and clients are encouraged to consult with their legal, compliance and tax advisors for specific guidance.

The CRS is intended to be a global standard for the exchange of financial account information, including the disclosure of income earned by non-resident individuals and organizations. The purpose of the CRS is to address tax evasion, improve international tax compliance, encourage international tax cooperation, and help governments protect the integrity of their tax systems.

The Government of Canada began to implement the CRS on July 1, 2017 with the first inter-jurisdictional exchange of information with other tax jurisdictions planned to take place in 2018. According to Canada's Department of Finance, as of July 1, 2017, Canadian financial institutions are required to have new account opening procedures in place to identify accounts held by non-residents and to identify any reportable accounts to the Canada Revenue Agency (CRA) on an annual basis. CIBC Mellon has prepared for the implementation of the provisions of CRS that are applicable to it, in accordance with the CRA's CRS guidance.

For background information on the CRS, view our white paper, "Canadian Insights on the Upcoming Common Reporting Standard." Consult with your tax advisor for further information pertaining to your situation. If you have any questions as they relate to the services CIBC Mellon provides to your organization, please contact your Relationship Manager.

"As of July 1, 2017, Canadian financial institutions are required to have new account opening procedures in place to identify accounts held by non-residents and to identify any reportable accounts to the Canada Revenue Agency (CRA) on an annual basis."

BACK TO COVER

BY TIM ROURKE
VICE PRESIDENT, SEGMENT LEAD, PENSIONS AND ASSET OWNERS

TIM ROURKE IS VICE PRESIDENT, SEGMENT LEAD, PENSIONS AND ASSET OWNERS AT CIBC MELLON. TIM WORKS TO ALIGN CIBC MELLON'S STRATEGY AND PRODUCT DEVELOPMENT INITIATIVES TO THE CURRENT AND FUTURE NEEDS OF ASSET OWNERS ACTIVE IN CANADA. HE HAS MORE THAN 30 YEARS OF ASSET SERVICING EXPERIENCE.

Exploring the Canadian Alternatives Market

Canada is known for its prudential regulatory environment, robust and mature financial markets, a stable political environment, and the collaborative leadership of large plans, which are among the world's most successful and sophisticated. Canada is home to a number of leading alternative managers and investors, who are increasingly turning to alternatives, such as real estate, private equity, and infrastructure, as a means to improve performance and diversify their portfolios.

Many institutional investors invested in alternatives contend with the need to preserve capital and generate returns amid times of sustained historically low interest rates and continued market volatility, and these factors drive plan sponsors' further expansion across the full spectrum of alternative asset classes.

Canada's largest plans are global leaders in alternative investments, building capabilities in-house and deploying their capital to realize stable, long-term investment opportunities. There are ongoing movements into real estate, infrastructure, private debt and other classes that require a new set of reporting and oversight capabilities.

The BNY Mellon Canadian Master Trust Universe, a BNY Mellon Global Risk Solutions fund-level tracking service, is one such source of peer comparisons of performance by plan type and size. It comprises 90 Canadian corporate, public and university pension plans, with a market value of more than CAD 234.1 billion (USD 187.3 billion) and an average plan size of CAD 2.6 billion (USD 2 billion). The detailed sub-asset class information helps in identifying macro allocation trends.

According to BNY Mellon Global Risk Solutions, for the one-year time period ending June 30, 2017, the median return for real estate in the BNY Mellon Asset Allocation Canadian Trust Universe was 8.1%. In terms of allocations, as of June 30, 2017 the asset weighted asset allocation was 3.6% for hedge funds, 7.0% for real estate, 4.3% for other real assets, and 1.9% for private equity. For plans above CAD 1 billion (USD 800 million), BNY Mellon Global Risk Solutions reports infrastructure has seen an increase to 3.9% in June 2017 from 3.1% that time last year, and over the same time period for plans of that size, real estate increased to 7.2% from 6.2%, according to the BNY Mellon Asset Allocation Canadian Trust Universes.

BNY Mellon's white paper, "Split Decisions: Institutional Investment in Alternative Assets," which was conducted in collaboration with the research service FT Remark, suggested that further growth in alternative allocations will be supported by the continued development of new products in the alternatives space. Accordingly, fund managers are catering for increasing amounts of capital that is intended toward alternative assets. This report notes that alternatives are now part of the mainstream set of investment options for institutional investors — it is no longer the small niche that it once was.

BACK TO COVER

As a result of ongoing movements into real estate, infrastructure, private debt and other asset classes, investors are seeking a new set of reporting and oversight capabilities. There is a lot of expertise in the Canadian alternative investment market, and opportunities will continue to be brought forward, but it's important to have the necessary experience to navigate, monitor and oversee opportunities within your risk appetite. Accordingly, data and the ability for providers to give owners and managers access to the information they need is gaining strategic importance in Canada.

Using data analytics, either with current in-house infrastructure programs or an outsourced solution, can drive operational efficiencies, support governance and effective evidence-based decision making, and increase automation. According to the global report, "Preqin Investor Outlook: Alternative Assets H1 2017," there is strong institutional investor appetite for real and alternative assets, and there is a focus from institutional investors on fund managers providing transparency and detailed performance data.

From a global perspective, Prequin's Investor Outlook reports that the proportion of institutional investors allocating to the real estate asset class is the majority of respondents at 61%, followed by private equity at 57% and then hedge funds at 51%.

Prequin confirms that institutional investors continue to see strong returns from their real estate portfolios, and remain committed to this asset class with a 93% majority of investors polled stating that real estate met or exceeded their expectations last year. Smaller pension plans are showing increased interest in alternative investments, looking to realize returns experienced by the larger Canadian plans. Therefore, it is expected investors will continue to look to real estate as a key allocation of their portfolio for diversification and stable returns.

The ability of an investor to allocate capital through separate accounts and co-investments can be closely linked to its size, with larger institutions having more resources and the experience. In the Bain & Company report, "Global Private Equity Report 2017," it is suggested that many of the larger deals that closed last year consisted of co-investments by big pension funds in Canada. The report noted that sponsorship and solo direct investing requires heft and the ability to support their own programs.

In its report, Bain & Company cited the Canada Pension Plan Investment Board (CPPIB) as an example of the trajectory of influential investors. According to the report, CPPIB started its direct investing program in the mid-2000s and by 2016, it transitioned to more direct investments, ramping up its direct private equity program to a net asset value of CAD 16.6 billion (USD 13.2 billion). An outcome of the trend for negotiating co-investment rights, as noted in BNY Mellon's "Split Decisions" white paper, is that it can assist in lowering overall fee levels for investors.

There is a positive outlook that drivers such as greater investor demand for yield will likely continue to propel the Canadian institutional alternatives market forward. For investment servicing providers such as CIBC Mellon, the move by investors to alternative investments such as real estate creates new opportunities for securities processors and safe keepers to move to being data managers, and provide client service and innovative solutions to support alternative investment vehicles across a range of fund types and future data needs.

Canada's largest plans are global leaders in alternative investments, building capabilities in-house and deploying their capital to realize stable long-term investment opportunities. There are ongoing movements into real estate, infrastructure, private debt and other classes that require a new set of reporting and oversight capabilities.

This article originally appeared in the September 5, 2017 edition of Real Estate Investment Times.

BY AVERY SHENFELD
MANAGING DIRECTOR AND CHIEF ECONOMIST, CIBC CAPITAL MARKETS

AVERY SHENFELD IS MANAGING DIRECTOR AND CHIEF ECONOMIST AT CIBC CAPITAL MARKETS. HE HAS BEEN WITH CIBC SINCE 1993 AND IS WIDELY RECOGNIZED AS ONE OF CANADA'S LEADING ECONOMISTS FOR HIS PERCEPTIVE ANALYSIS AND INSIGHT ON ECONOMIC DEVELOPMENTS AND THEIR IMPLICATIONS FOR FINANCIAL MARKETS.

Economic Insights: Shiny Baubles

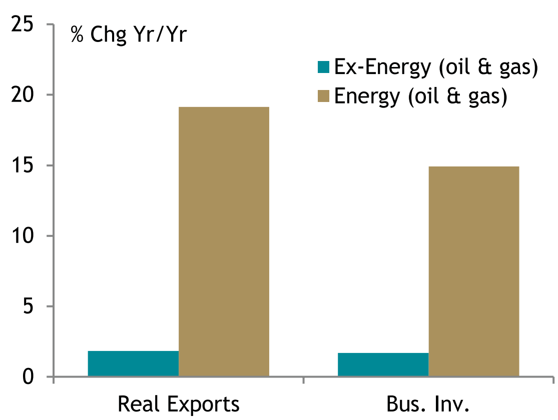
It's easy for markets to get transfixed by the latest shiny bauble in the data store window. In late 2016, the Bank of Canada put a lot of emphasis on what proved to be temporary weakness in total hours worked, and led investors to conclude that a steeply falling jobless rate wouldn't mean rate hikes in 2017. Of late, the brilliance of first-half GDP growth not only brought on a well-justified tightening, but it's blinded investors to factors that are likely to materially delay a further round of rate hikes.

Deputy Governor Tim Lane's latest speech gave a taste of what we're likely to hear from Governor Poloz on September 27th, as well as in October's policy report. But it had to serve two masters: justifying the recent rate hike, while laying the groundwork for an upcoming pause.

Just as last year the Bank emphasized the flaws in an improving economic landscape as reason to stay dovish, it's now somewhat overstating the breadth and durability of Canada's recent momentum. Deputy Governor Lane pointed to "widespread strength in business investment and exports". But the data say otherwise (Chart 1), with lackluster gains outside the rebound seen in the energy sector, one that could peter out unless crude prices press higher. On exports, the last two months have shown a material retreat.

CHART 1

No Widespread Strength in Exports and Cap-ex



Source: Statistics Canada, CIBC

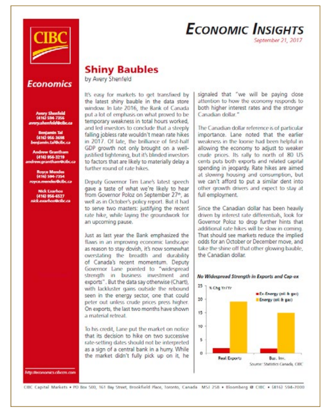
To his credit, Lane put the market on notice that its decision to hike on two successive rate-setting dates should not be interpreted as a sign of a central bank in a hurry. While the market didn't fully pick up on it, he signaled that "we will be paying close attention to how the economy responds to both higher interest rates and the stronger Canadian dollar."

BACK TO COVER

The Canadian dollar reference is of particular importance. Lane noted that the earlier weakness in the loonie had been helpful in allowing the economy to adjust to weaker crude prices. Its rally to north of 80 US cents puts both exports and related capital spending in jeopardy. Rate hikes are aimed at slowing housing and consumption, but we can't afford to put a similar dent into other growth drivers and expect to stay at full employment.

Since the Canadian dollar has been heavily driven by interest rate differentials, look for Governor Poloz to drop further hints that additional rate hikes will be slow in coming. That should see markets reduce the implied odds for an October or December move, and take the shine off that other glowing bauble, the Canadian dollar.

This article originally appeared in Economic Insights, published by CIBC Capital Markets on September 21, 2017.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- Shane Kuros, Vice President, Head of Relationship Development, Canada, CIBC Mellon

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