



Canadian
Asset Management
Entrepreneurship
Alliance

Policy Solutions for Fostering Canadian Entrepreneurship in Asset Management

Canada is globally recognized for its exceptional financial talent. From the highest number of CFA charterholders per capita to banks deftly steering through the 2008 great financial crisis to the globally-recognized Maple Model pension system, there is every reason that our country's expertise would also extend to being a global destination for next-generation champion asset management firms.

While some bold and capable entrepreneurs have built successful asset management businesses locally, there has been a decline in Canadian launches at scale. This is not unique to asset management, as other sectors are noting similar declines in entrepreneurship. In a 2023 report, the Business Development Bank of Canada (BDC) examined numbers from Statistics Canada noting that the country has 100,000 fewer entrepreneurs than it did 20 years ago, despite growing the population by more than 10 million over the same period.

While there are some great local success stories in asset management, the bigger picture is that many assets continue to flow to larger US and globally-domiciled asset managers. In fact, PwC estimates that by 2027, half of asset management AUM will be managed by just ten firms globally. None of these ten firms are based in Canada. While concerning for our domestic economy, this sheer concentration of asset ownership also presents concerns of portfolio company control in the hands of a powerful few.

Emerging asset managers are typically defined as having less than \$1B in assets under management and/or fewer than 3 or 5 years of performance track record. While there may be an aura of cachet surrounding the asset management industry, these firms are small businesses. Canadian asset management entrepreneurs often launch with only a few employees and less than \$10M, an amount much smaller than their average US or global peers. As they scale, managers may grow to 30 or significantly more employees, contributing to the job market and Canadian economy.

Asset management entrepreneurship is increasingly challenging, with increasing costs of talent, operations, compliance and trading, especially as cyber-security, AI and other technological tools become table-stakes in the global race to deliver differentiated, risk-adjusted

returns. Canada's multi-provincial regulatory system, two official languages and heightened registration and compliance measures versus global peers create additional burdens unique to our jurisdiction. Access to distribution is also challenging, with a tightly-controlled wealth channel and our state-of-the-art pension systems hiring strong investment talent internally to manage funds directly. Additionally, Canadian emerging managers have relative constraints in tax, registration and more which could be improved to better facilitate launches in Canada instead of through offshore jurisdictions abroad.

There are many policy benefits of further Canadian asset management entrepreneurship: economic development and capital formation, job creation (extending also to ancillary service provider firms), increased competition, innovation and leading industry infrastructure.

Beyond policy benefits, there is an investment benefit too. Multiple academic and industry studies note the out-performance of emerging asset managers versus their larger, more established peers. This has been one of the key drivers of dozens of emerging manager investment programs in the US. Compared to the US, though, Canada features only a single prominent emerging asset manager investment program with Quebec fostering a mandate to invest in managers close to home. In Quebec, this has created 96 direct jobs (+13% growth in full-time employees) and 127% AUM growth for managers in the program, which has \$584M invested across 15 managers currently (plus two who have already graduated from the program, having reached "established" size, due in part to QEMP's investment), with more investment pending.

To spur more Canadian entrepreneurship in asset management, there are a number of policy solutions from a sector-focused economic development strategy to targeted tax incentives to investment capital to regulation that could be enacted by a variety of stakeholders - Federal, provincial and municipal governments, regulators, pensions and more. Especially in the face of tariffs, it is critical that our local asset management industry is united and aligned for success and growth in an increasingly competitive global market where talent and dollars continue to leave our borders.

The policies outlined below would create positive incentives to put more dollars and leading talent to work within our borders while fostering economic development and job growth here in Canada. Through the Canadian Asset Management Entrepreneurship Alliance (CAMEA), we hope that these suggested policy solutions will spark conversation and action across stakeholders and investors to ensure the growth and continued vibrant vitality of the Canadian asset management industry for years to come.

Policy Solutions to Foster Canadian Entrepreneurship in Asset Management

| <u>Category</u> | <u>Solution</u> | <u>Details</u> | <u>Cost</u> | <u>Policymaker(s) / Key Supporter(s)</u> | <u>Examples in practice</u> |
|------------------------------------|--|--|-------------|---|--|
| Sector Development Strategy | Economic Development Agency (EDA) | Create sector-focused economic development agency to promote Canadian asset managers + asset management capabilities globally, and position Canada as a destination of choice for growing global investment management companies and funds | \$\$\$ | Federal, provincial or municipal governments + Existing generalist EDAs | ADGM , BDA Bermuda , DIFC , Finance Montréal , Ireland for Finance , Luxembourg for Finance , Swiss Financial Centre + finance.swiss , Singapore Financial Centre (MAS) , and others |
| | Benchmarking + Measurement | Benchmarking of key growth metrics – business formation/growth, employment, economic contribution Regular updates to stakeholders | \$ | EDA, Alliance | Oliver Wyman for Finance Montréal, Ireland for Finance Annual Reports, and other annual/periodic reporting |
| Research | Benefits of Investing with Asset Management Entrepreneurs | Update and build awareness of research on the benefits (rather than compromises) of investing with emerging asset managers | \$ | N/A | Aggarwal and Jorion's "Performance of Emerging Hedge Fund Managers" (2008) and related academic |

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| | | | | | research, other allocator + industry research |
| Direct Strategy Investment | Emerging Manager Investment Programs(s) | Pooled capital program with joint investor governance to be invested via managed account with select emerging managers at either seed or growth stages, recycled as managers/investment strategies reach scale | > \$400M AUM per program | Asset owners, endowments, foundations, pensions, government, and other investors | Quebec Emerging Manager Program, US state plan programs, etc. |
| Subsidies (Direct) | Educational funding | Funding to educate secondary and post-secondary students about investment management careers; grants for professional designations | | EDA, government, industry stakeholders | BDC Capital's Educational programs, Ivey Women in Asset Management, other university-anchored experiential learning programs |
| | Asset Management Accelerator / Shared Services Hub | <u>Shared resourcing:</u> 1. Technology/Data Access – Shared/discounted access to financial and non-financial data sources and vendors, including alternative data sources 2. Marketing Excellence Hub – Shared advisory/fractional resourcing for marketing, fundraising intelligence, | Varies | EDA, government, industry stakeholders, vendors | Startup / entrepreneurship accelerators in other sectors |

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| | | <p>database population/maintenance, institutional-grade marketing resources, competitive analysis/intelligence, and positioning. And hosting emerging manager promotional series through events and other media.</p> <p>3. Operational Excellence Hub – Shared advisory/fractional resourcing for legal/compliance, operations, technology, cybersecurity, back-office processes. Possible functional and CCO-sharing arrangements.</p> <p>4. Risk and Due Diligence Excellence Hub – Shared operational due diligence advisory pre-review, RFP and due diligence support, fractional and shared CRO arrangements.</p> | | | |
| <p>Tax Incentives (Indirect Subsidies)</p> | <p>Business Establishment & Entrepreneurship Tax Credits</p> | <p>Targeted tax credits for establishing new asset management businesses, making initial hires, and similar milestones</p> | <p>Pending research</p> | <p>Federal + Provincial governments</p> | <p>Other sectors' entrepreneurship + growth tax credits, Quebec/Finance Montreal IFC Incentive Program, other similar 'financial center' tax incentives</p> |

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| | Capital Investment Tax Credits | Targeted tax credits for businesses in sector making significant capital investments such as development of new technology through accelerated depreciation allowances and similar | Pending research | Federal + Provincial governments | Other sectors' capital investment tax credits |
| | Eliminate GST/HST on investment management fees as tax on savings | Investigate elimination of GST/HST payable on investment management fees as tax on savings. Limitation to certain qualifying criteria for asset managers could be researched. | Pending research | Federal Government - Department of Finance Tax Policy group | Other countries' lack of VAT on these services |
| | Hiring + Development Tax Credits | Targeted tax credits for hiring staff + talent development / education costs | Pending research | Federal + Provincial Governments | Quebec/Finance Montreal IFC Incentive Program , other similar 'financial center' tax incentives, BDC Capital's Educational programs |
| | Relocation Tax Credits | Targeted tax credits for opening Canadian office(s), (re-)locating staff and operations in Canada | Pending research | Federal + Provincial Governments | See 'financial center' tax incentives |
| | Canadian Services Tax Credit(s) | Tax credits for in-scope emerging asset managers and funds choosing to engage Canadian vendors for key services (legal, audit, custody, fund administration, technology, etc.) | \$ | Federal + Provincial Governments | Other sectors' domestic service incentives |

| | IP-Related Tax Credits | Tax credits for development/deployment of intellectual property as a function of their investment strategy or other functions | \$ | Federal + Provincial Governments | SR&ED Program |
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| Legislative | Fund Structure(s) | 'CCAV' - Canadian Collective Asset-Management Vehicle – Create new corporate structure in model of Irish ICAV and SG VCC, Cayman SPC for competition with offshore jurisdictions – for new funds in/from Canada and for reshoring capital from foreign (particularly popular tax-neutral) jurisdictions. Key considerations would be tax-neutrality for a wide array of domestic and foreign investors, perhaps tied to HST exemption for management fees/services as noted above, with specific qualifying criteria possible. | Pending research | Government of Canada | Ireland (ICAV), Singapore (VCC), Cayman (SPC), and others |
| Regulatory | Regulatory alignment, globally | Permit pass-through expenses (partial or full) for institutional funds to ensure Canadian managers can compete on fee structures. | \$ | CSA | |

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| | Regulatory Harmonization (Canada) | Interprovincial harmonization as regulatory priority - vision, transparency, and accountability. Aligning key regulations making multilateral instruments national, analyzing and aligning (or eliminating) local rules, using model rules where needed. Using existing legislation and mandates, policy structures, and tools. | No direct cost (inside regulatory mandate) | CSA | CSA's prior harmonization initiatives, other multi/inter-jurisdictional regulatory harmonization initiatives (i.e. ESMA) |
| | Registration efficiencies | Expanded proficiency requirements for registration (ie. CFA Alternatives certificate, CAIA), confidential pre-registration, improved registration timelines/service standards | \$ | CSA | |
| | Codified Exemptive Relief | Codified exemptive relief for NI 81-102 for key exemptive relief items (Source: BLG LLP) to minimize costs and complexity of launch (including short selling and cash borrowing, custodial relief, purchase/redemption frequency relief, interval Fund exemption, past performance relief, prospectus consolidation relief, VaR leverage relief) | \$ | CSA | CSA member jurisdictions' prior efforts and commitments to codify exemptive relief where possible, aligned regulatory burden reduction initiatives |

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| | Product access | Increase independent product access at dealer firms in Canada and | \$ | CSA/CIRO | |
| | Risk Ratings | Better alignment of internal dealer risk ratings to historical performance based on funds within indices | \$ | CSA/CIRO | AIMA/CAIA Risk Rating Guidelines |