



Changing Investing for the Better with ETF Pioneer - Gerry Rocchi

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Keith: Welcome to the Empowered Investor. My name is Keith Matthews and I'm joined today by my co-host Ruben Antoine. Welcome, Ruben.

Ruben: Thank you, Keith. I'm really excited right now for this show.

Keith: Yeah. Today's show is a special one. We're going to have our very first guest. So up to now, we've been walking through the story of the Empowered Investor. And in today's episode, we have a wonderful guest by the name of Gerry Rocchi. Welcome, Gerry. Ruben, tell us a little bit about Gerry's background and then we'll get ready to start the show.

Ruben: Yes, Gerry is a financial expert and ETF pioneer. So right now he's a retired senior executive and corporate director with experience in investment management, environmental finance, financial regulation, and corporate governance. As Keith mentioned, in the last few shows we spoke a lot about ETFs (Exchange-Traded Funds), which are investment vehicles accessible to all investors because anyone can buy an ETF directly from the stock market. These investment vehicles give investors access to a diversified pool of investments that is really cheap and very effective. We are big fans of ETFs. What is amazing about our guest, Gerry Rocchi, is that he was the CEO (Chief Executive Officer) of Barclays Global Investors Canada from 1997 to 2005. Barclays Global Investors Canada became BlackRock after BlackRock acquired the company. They also acquired the whole ETF suite that is well-known, the iShares suite, which now has an alliance with RBC. Gerry Rocchi was instrumental in the ETF industry progression because he developed, with his team, the whole iShares ETF product line back then. He also launched, with his team, the world's first bond ETF. So we are very excited to have him on the show right now. One



thing I have to mention as well is that Gerry was the director and chair of IIROC (Investment Industry Regulatory Organization of Canada), overseeing close to 30,000 investment advisors across Canada. Like I said, he's a pioneer, and we are really privileged to have him as a guest on our podcast today.

Keith: Yeah, the only thing I would add to that is when Gerry Rocchi was in charge of the leadership at BGI, BGI was the organization that pretty much launched exchange-traded funds through the iShares family around the world. We all use exchange-traded funds or many investors are adopting and embracing them, but they had to start somewhere. Somebody had to innovate. Organizations had to create.

Ruben: And take some risks as well.

Keith: Take huge risks. So Gerry was a true pioneer in this front, and we're really excited to have him on today's show. Welcome, Gerry, to the Empowered Investor Podcast.

Gerry: I'm delighted to be here, Keith and Ruben.

Keith: Gerry, you and I have known each other for close to 20 years now, going back to those early ETF launch days. The majority of today's show is going to be discussing that really fascinating and innovative period where you were such a leader at BGI. But before BGI, what were you doing? Where were you working? What were your responsibilities? And how did that journey lead to BGI?

Gerry: Thanks, Keith. I was working for Imperial Oil right before I joined BGI. I'd worked for Imperial Oil in Canada and Exxon in the U.S. for 16 years in a wide variety of financial roles. If someone were to ask me what I was doing, it changed every year or two. In my general management rotation, I kept changing jobs frequently. Right before I joined, I was the assistant controller for financial reporting. I spent most of my time in the capital markets, treasury, and corporate finance areas, including managing the pension fund for Imperial Oil from 1992 to 1994.

Keith: Investment jargon. That's on the buy side, being the investment management side of the industry.

Gerry: Yes. Absolutely. It's the side where you get to say no and aren't seeking yes.



Keith: And then you made the switch. What made you consider going over to BGI, which was Barclays Global Investors? Because they're now on the sell side, they're manufacturing investment solutions.

Gerry: Yes. I'd gotten to know the BGI people, Barclays Global Investors as you pointed out, now BlackRock Global Investors. When I managed the Imperial Oil Pension Fund, they were one of the investment managers we used, and I'd grown to admire, respect, and like them. They actively sought out candid feedback; they weren't defensive about anything. They shared a lot of knowledge, and in my time at the pension fund, I realized I really loved investing. My view is to be good at investing, you must love the investment process and everything that goes with it. If you love the investment process as I did, you should consider investments as a career if you can. As I said, I loved investing. I loved solving pension fund problems. I had general financial experience from Imperial and Exxon. I literally did almost every job that could report to a CFO, but I wanted to lead more. I wanted to have that revenue responsibility of seeking out someone's yes, to hire us, to create more, to do all of that in an area where I felt I had strong aptitude and skills.

Keith: Your move from Imperial Oil to BGI was a big one because back then in the late '90s, BGI was a pretty major player in the Canadian institutional marketplace. Were they not?

Gerry: The Canadian institutional marketplace was small then, and it wasn't that large. It was actually subscale, especially given that it did a lot of indexing. So one of our issues was we needed to rapidly move it to scale. When I joined, I was the 17th employee. We had a few billion dollars in assets under management, but for the type of investing it did, it needed to grow rapidly.

Keith: So take us back to the late '90s here. BGI was an institutional money manager, and they were considering getting into the ETF space. What was the vision and what were the leaders at BGI thinking when they said let's go after the ETF world?

Gerry: That's a great question. It's really funny. I joined BGI in '97. Actually, in '96, I started the process. I knew I wanted to leave Imperial and go to a money manager, preferably BGI. I told them that in '96. They had told me that they were thinking of getting into ETFs, which I thought was great. We'll talk about this later. That's actually when I'd been thinking about a bond ETF offering. But at the time, back in the late '90s, BGI had no mutual fund offering, and mutual



fund growth in the U.S. was really strong, in part from U.S. defined contribution growth, which is a much bigger part of the market than defined contribution is in Canada. It would have been expensive for BGI to catch up in mutual funds or to buy a mutual fund company. It was like the train had left the station, and they had these great aspirations. ETFs, however, were an underdeveloped area that we felt could be a better type of mutual fund and allow BGI to make up for lost time. So that was actually the initial concept. The short-term objectives for BGI in terms of ETFs were to establish ourselves as market leaders and change the ETF game. The few ETFs outstanding at the time, there really weren't that many, provided little information to investors or assistance to advisors. It was just there, and you actually came to buy them or you didn't. We wanted to make it easier to use ETFs in a smart way. We provided lots of data, including historical data and extra tools for advisors to help them advise their clients on how to use them. So our near-term goal was to establish that franchise as a smarter way of doing ETFs. We wanted to meet some sales and revenue targets. Actually, wanted is the wrong word. We needed to meet certain sales and revenue targets. Otherwise, this great gamble—there was a small group of us globally—we'd be out of a job if this didn't work. So we needed to meet certain revenue and profit goals.

Keith: For the benefit of the listeners, we all just assume that ETFs have been around forever, but they haven't. Prior to your leadership at BGI, what investors had access to were these units called participation units. There were a couple on the TSX, Gerry, and you remember those very well—the TIPs and the HIPs. And then there was the SPDR in the United States and the mid-cap. Maybe the WEBs, I believe that was the series of ETFs. But they were all run by the stock exchanges. How did that all work? They were run by exchanges and then custodians at the same time.

Gerry: They were. TIPs and HIPs were run by the Toronto Stock Exchange. Later in their existence, before we folded them into iShares—and that's another story—the Toronto Stock Exchange outsourced the management, which really wasn't its forte. It was really an index mandate, and they had hired State Street to do that. In the U.S., State Street managed the SPDRs (SPY), and I think that was similar to TIPs. The fees were low, and they didn't do a lot in terms of providing information. The WEBs were country ETF funds on different countries overseas, and they were run by Morgan Stanley, the broker. Then there were certain difficulties with their growth because they were also part of the MSCI family. So I've mentioned some of our near-term goals. One of the



other near-term goals was we launched equity ETFs on index families from S&P, Dow Jones, Russell, and also MSCI by taking over the WEBs portfolios. We signed some time-limited exclusive deals with these index providers where they couldn't license their indices to other firms for several years. We wanted to make each index provider successful. We wanted to make the most of our exclusive period, but we wanted each one of them not just to experience success, but to feel like if they had another index to license, their best place to go was BGI. We would wind up paying them the most because we would expand the assets more quickly than other competitors could. So not only were we trying to establish a franchise with investors, we were trying to establish a franchise with index providers. It was really a neat three or four-way dimensional problem here. And again, as you pointed out, we had very few ETFs at the time. The ETF idea, everyone thinks now it was a slam dunk. It was destined to succeed. There was no such confidence at the time. It was a real gamble.

Ruben: This is amazing, Gerry. You just talked about equity ETFs, but you mentioned earlier also about the bond ETF. You led the group that created the very first bond ETF in Canada, but in the world actually. Is this because you saw an opportunity? And what obstacles did you face, if any?

Gerry: We faced many obstacles, and it's a great story. For me, even when I had left the pension fund area of Imperial, I kept thinking about investing personally. I owned TIPs and HIPs, the first two Canadian ETFs. Back in '92-'93, there was a recession, and there were a lot of corporate bonds that had previously been rated investment grade that then failed. So actually, back in the early '90s, I'd always thought for a retail investor, even for an institutional investor, getting diversified access to corporate credit would be really great. So I'd actually been thinking about a corporate bond ETF for some time. When I started interviewing with BGI in '96—BGI took a long time to interview people for jobs. It took almost a year of interviews before they hired me—I would frequently mention this idea for bond ETFs. I'm not sure anyone knew what I was talking about, but I mentioned it in every interview. So I had this idea that we really wanted to create bond ETFs. Once we launched XIU, we took over the TIPs and HIPs and folded them in. That was challenged by State Street. We actually had a proxy battle, the world's first and only ever ETF proxy battle. We won it, and promptly after that, equities fell out of bed in Canada because Nortel, which had been 40% of the index, collapsed. Indexing was a bad word. It was hard to sell equity ETFs. We were working on sector ETFs, but we had



this window of opportunity on bonds. We went for it. BGI headquarters wasn't that keen on bonds at the time, so we needed to do it by moving budget monies around because it really wasn't approved by them that we would do it. But we were determined. This is a great thing for investors. We wanted to do it, and we did it. And we just passed the 20th anniversary. So we wanted to launch a bond index ETF. As your listeners, I'm sure, are aware, bond indices are groups of all the bonds outstanding in a country, maybe corporate versus government, and it's a convenient way of managing a fund. We tried to get a license from a bond index provider, and the only one game in town at the time was Scotia. They wanted to launch their own ETF. They wouldn't give us a license. We didn't want to launch with a non-brand name index because there was really only one that was recognized in Canada. So our response was this really quirky thing. We launched two ETFs, one based on a five-year Government of Canada bond and the other on a ten-year Government of Canada bond, both based on single bonds. We'd roll those bonds as new five- and ten-year bonds came available, but we wanted to establish the concept. What it allowed us to do was capture the entire bond indexing space. Bond index mutual funds stopped growing as soon as we launched these. We grew rapidly, and then Scotia relented. That index is now owned by FTSE TMX, I believe, but at the time it was Scotia. They eventually gave us a bond index license, so we converted those really simple single bond ETFs into bond index ETFs. At the same time, our American cousins, iShares in the U.S., launched bond ETFs, including corporate bond ETFs, which we followed in Canada soon after, and the revolution was on.

Keith: Yeah, that's a great story, Gerry. The fixed income ETFs and what you're alluding to was you had to do steps to get into it. You couldn't just get into the bond universe or the entire diversified bond exposure. You guys were really innovative in terms of identifying when you say a five-year and a ten-year, you had rolling bonds in there that just gave you exposure to five-year and ten-year. Because you got into that, you were able to then expand and go into the entire universe of fixed income opportunities.

Gerry: Yes. We would roll those bonds, we would call them the on-the-run bonds. When a new five-year bond would get issued, we'd sell the old one and buy the new one. So it was always the most current five- and ten-year. These really simple funds became dominant in their space. We're regularly first and second quartile performers because active management wasn't doing that well. As a result, it forced the market, the index provider market, to come to us



and give us the license. I think it's still a really interesting product development story. We hit this roadblock of not being able to get a product license. We went around it with our own product strategy.

Keith: You can't pick up a newspaper on the weekend without seeing some article about a bond ETF, whether it's the Globe or the Financial Post or anywhere in the United States. They're such major components of portfolios. That whole era that you were talking about, Gerry, the late '90s and the early 2000s, was fascinating because I recall prior to them just not having access to exchange-traded funds. You and BGI revolutionized that entire initial first step. It was an amazing time. What were the biggest challenges in that first five years? What did you and your organization and your team face?

Gerry: First, we were really a small team. It was a breathless time. We were running flat out. We were still trying to run our institutional business, which had suffered in Canada because of the decline in popularity of indexing and trying to build our quantitative active business, which largely followed the index with a few tweaks. So we had great challenges on the institutional side while trying to build up this new retail franchise where a lot of people either didn't understand ETFs—and trust me, the bond ETFs were really hard to explain to people. At the same time, retail distribution in Canada was still highly in the realm of brokers that received fat trailer fees from the mutual funds or back-end load fees, and they weren't accustomed to facilitating investments by their clients in things that did not compensate the dealer. ETFs really only thrived in retail in a fee-based environment between the advisor and the investor or the do-it-yourself investor. So we needed to get the institutions interested. We needed to get the trading desk accustomed to holding these things in inventory and being able to hedge them so they could be available for people, which was really hard for the bond ETFs because frequently the equity trading desk that traded the ETF and the bond trading desk that traded the bonds were on separate floors. Just getting them together was hard. And then the whole thing about how to convince retail investors what these things were, how to use them, try to break down barriers one at a time to get past the paywall that many investors faced in their relationships with their advisors. And doing all that with really a small team. I said it was a breathless time. It really was. We ran flat out. And one thing is we all felt so committed and we felt so gratified that we were doing something we knew was good for us to make money on. We knew it was changing investing for the better.



Ruben: Look at bonds right now. There's over a trillion dollars U.S. in bond ETFs. That is saving bond investors collectively billions of dollars in fees, and it's changed how we live. Corporate credit gets traded as well. It's just a massive revolutionary impact. So we took a lot of pride in doing things that we knew were helping future investors. And it's always great to do well by doing good. We really felt that we were on a mission to do good things here. And thankfully, it was successful, and we made money from it too.

Ruben: Oh, absolutely. It was a big success for investors, retail investors. And like you just said, right now, bond ETFs are really popular. But back then, did you ever think they would be so popular? Because if I'm not mistaken, inflows right now in bond ETFs have surpassed equity inflows last year in 2019. So obviously, it's really popular right now. Did you guys think that the success would be as big as what we are seeing right now?

Gerry: Ruben, I mentioned I didn't get a lot of support from head office on the bond ETFs. I shuffled budget money around to be able to fund the initiative, which would have gone really badly for me had they not worked. So I think when you push all your chips in the middle of the table, you probably have some unreasonable dreams. So I always actually dreamed big that it would become important and as important as equities. So part of me actually was hoping that this would happen.

Ruben: Did you think that you could have lost your job if this didn't work out the way you guys were envisioning?

Gerry: Oh, absolutely.

Ruben: Fewer than a dozen of us worldwide were informed. We would make a lot of money if this did well, but we would not be employed if it didn't.

Keith: So, Gerry, a couple last questions in that era, then we'll move forward to what's happened in the last 10-15 years. Back then when you were bringing the new suite of exchange-traded funds into the Canadian marketplace, occasionally BGI would do some roadshows and talk about merging units from either the TIPs and the HIPs into the XIU. How did that go? How many people showed up to those events back then?

Gerry: Boy, those roadshows were fantastic. I saw some of the promotional material from those roadshows. There should be an ETF museum sometime



where we display all this stuff. Trying to remember, Keith, even if I was at the Montreal meeting or not, but I think the crowds were generally between 30 and 60 people, a mix of do-it-yourself investors, brokers, advisors. Often if it was a large advisory unit within a large national brokerage firm, it might be their product person for the office. Sometimes it would be one of the advisors themselves, and we'd get some institutional investors too. So it was a pretty eclectic group, which of course made the communication even more challenging because you're speaking to people with different levels of understanding.

Keith: Yeah, you're right. The different levels of understanding were critical because back then, I recall you could go to an ETF presentation and there'd be hedge fund managers in the room. There'd be institutional managers in the room who were using exchange-traded funds to equitize and to do various institutional strategies. There would be a few retail advisors and then maybe a do-it-yourself investor. That's a really broad mix of individuals who come to learn about an investment solution.

Gerry: And the do-it-yourself investor that actually showed up to this was actually pretty knowledgeable.

Keith: I remember showing up at the one in Montreal with my colleagues, my former colleagues from PWL. We were just amazed because for us, this was like, "Oh my God, this is going to change the world." We were so excited. We were using the old units and participation units. And when BGI came out with their series of strategies, we were like, "Oh, this is incredible." We were excited. We would go to the conference and we would find very few people there. I just recall going, "But doesn't everybody know this is huge?"

Gerry: At the time, there were so few people like you across the country. We knew every one of them. Keith, we knew you at PWL, and there were probably fewer than a dozen people across the country that were champions at your level. We knew every one of them.

Keith: So when you think back in the last 20 years, what do you think was the tipping point, Gerry, in terms of the tipping point for investor acceptance or the quicker speed of adoption?

Gerry: I think that the tipping points may have varied by type of instrument and by country. I think in the U.S., adoption was a little more quick. I think they



had made more of a transition to fee-based advice. I think they had—as we've talked about, Keith—more of a role there for registered investment advisors. The Canadian analog is not that widespread. So you had these people with fiduciary responsibilities managing portfolios for investors in the U.S. I think the infrastructure in the U.S. was more suited to retail take-up. And eventually, you get things like the really massive advisory firms in the U.S. like Merrill Lynch and Morgan Stanley. Every once in a while, we'd learn, "Oh, they've decided as a head office they're going to promote this nationally." It's a better business method. We'd almost ring a bell when we'd hear that, right? Because we knew it would lead to a lot more growth. So that happened more in the U.S. than in Canada. As I mentioned, in Canada, indexing was a bad word for a few years in the early 2000s. But eventually, all of that turned around as active management struggled throughout the 2000s. Every time someone was disappointed with active management, they might switch to an ETF. They rarely switched out. So people may jettison their active manager, go to ETFs, and they might then drip back into some active management, perhaps at the periphery, but there was a high retention. Gradually, that just built up until assets got to more of a critical mass and they gathered their own momentum. And then I think in 2008 was a huge turning point. In the global financial crisis, ETFs proved their worth. Both indexing and ETFs did because a lot of people had said, "Oh, ETFs will fail when there's chaotic trading conditions." Actually, we see some of those predictions even now, but there were a lot of predictions like that then, and they didn't fail. They traded well. In fact, when the underlyings had trouble trading, the better price discovery was to trade the ETF. What I mean by that is, suppose in an index there are 100 stocks. On a chaotic trading day, 10 of them might not open, but the ETF would trade, and it would effectively apply prices for the 10 that didn't open because of order imbalances or something. So it actually became a better vehicle in chaotic markets than the underlying securities. ETFs proved their worth in 2008, and I think that really turned the corner. Going forward, as they proved to be mainstream, it attracted all these new competitors that started adding wonderful new creative solutions, and that drew in more investors. It fed on itself at that point.

Keith: Yeah, you're raising a really good point. Following this story for many years, there's always been skeptics. They always launch their theories as to why it's not going to work. For example, people would say exchange—and Ruben and I have covered this in previous shows—exchange-traded funds that track an index will not do well in a bear market and active management will



shine in a bear market. That hasn't proven to be the case in the last two or three significant recessions. You're raising this issue with regard to there were always individuals saying they're not going to trade well in chaos, and therefore you shouldn't trust them. What you're talking about is they actually did trade. They traded remarkably well.

Gerry: They did. That's especially true for bonds. You could double it for bonds. The ETFs traded better than the underlying. Back when we started, people also criticized the fact that you could trade them. People said, "People will go crazy and day trade them and lose all their money." You could day trade them. If you were that type, you could have been day trading securities too. The fact is ETFs remained a superior buy-and-hold vehicle, which is 95% of the usage of them. I think ETFs as a concept challenged people, so people wanted to attack the concept in many ways. Some of their arguments were weak. You mentioned indexing and active management. The last few cycles, active management did not shine when it was supposed to have. But when you think about it, the index is what everyone owns, and the only way to beat the index is if someone's trailing it. Maybe back in the '60s or '70s, there was a class of people who were dumb enough to always trail it. But every time you move another slice of dumb investors, maybe who switched to indexing, there's less and less available alpha or value-add available for the active managers to exploit and take advantage of.

Ruben: I just want to go back to something you mentioned, Gerry, about the ETF adoption which was a bit faster in the U.S. maybe because of their registered investment advisor setup which is more advanced compared to Canada. We all know that the ETF adoption is a bit slower in Canada relatively speaking to other regions of the world. Do you think that's the main reason, or are there other reasons that make it a bit slower, the adoption of ETFs for Canadian investors?

Gerry: Yeah, Ruben, it's a great question. I think it is broader than that. I mentioned in the U.S. when we hear that one of the big, what they call the wire house firms, the big national firms would say, "Okay, we're endorsing ETFs as a business method for our advisors to use." We knew those were big deals. I think actually outside of the RIAs, I think your brokers and advisors in the U.S. switched earlier to a fee-based concept. That may have been influenced by the presence of RIAs, but it's actually separate from it. So most of the growth, I think, in the U.S. has happened at the brokerage firms themselves. I think we saw initially really slow take-up in Europe because European retail distribution



looked like Canada. They were closed platforms. They were not open-source platforms. So you could only buy the house's product, and there were high commission fees, trailing commissions, and back-end loads. Gradually, all of those went away in other countries, less so in Canada. That's why Canada has the highest mutual fund fees in the world because it's laden with high distribution costs. It's been disappointingly slow progress in Canada on the regulatory front to make it easier for people to get access to ETFs. You have a whole category of advisors for mutual fund dealers that can't trade ETFs. That's the MFDA channel. Even within the investment dealer channel or IIROC, and I was actually the first non-industry chair of IIROC, even there I couldn't change this. Dependence in Canada on high trailing fees from mutual fund companies and even back-end loads has created so much inertia, and unfortunately, they haven't needed to change because no one else has changed in Canada. So I think that has slowed down progress here.

Ruben: So we can definitely make a relation between the way the advisors are set up and the way they are compensated and the ETF progress in the past. But in general, in the world, we all know that the ETF industry has been growing on average at 30% a year. So it is progressing. In past shows, Keith and I often refer to the ETF explosion as a revolution. Does the term revolution resonate with you? Do you think we can define it as a revolution in the investment industry?

Gerry: No, Ruben, I think you can, and it's not because of the asset levels. I think it's because of how it's changed how people invest.

Ruben: Oh yeah, definitely.

Gerry: In bond ETFs, it actually changes how corporate credit trades. But you think about how it's allowed investors to invest. It's given investors back control of what they're allocated to. It allows them to access diversified pools even in relatively niche areas. Suppose you think, "I'm just so enamored of technology or biotech." You can buy a diversified ETF in that and have a tilt towards that in your portfolio that might be otherwise more well-rounded. So it's given investors so much control to access diversified pools at low cost, easy convenience. When we say trade any time of day, for most people, that doesn't mean, "Oh, we're going to buy at 9:36 and sell at 10:42." It allows you to rebalance. Suppose you decide, "I got to switch from European to U.S. exposure." With mutual funds, you're getting end-of-day pricing in Europe and end-of-day pricing in the U.S., and those are five or six hours apart. These days,



intraday volatility can be high. The market could have gone up or down. You could trade the other way. At 10:30 in the morning, you can sell your European ETF and buy your U.S. ETF and match the pricing environment for the two. So it's removed all of these frictions to investing, and because of that, I think it's revolutionary. Those revolutions, in turn, have led to the asset growth.

Ruben: The asset growth just reflects what the features of ETFs have provided.

Gerry: Exactly.

Ruben: Very interesting. So far in your background, there's something we haven't mentioned. You founded in the past a fund, the Greening Canada Fund, which is a carbon offset credit fund for Canadian companies who wanted to reduce their environmental impact. There is a new trend now in ETFs, which is Environmental, Social, and Governance (ESG) ETFs. They have experienced their biggest inflows in 2020 so far. I would like to ask you, what do you think of ESG ETFs and where do you think this is going? Do you think they will keep progressing at the same pace in the future?

Gerry: I think they will, but I think the ETFs will change. I started the Greening Canada Fund in 2009, ran it till 2014. It was a way of accessing voluntary carbon offset credits to deliver to Canadian companies that wanted to become carbon neutral. Our two biggest clients were Bank of Montreal and TD Bank. We were really early, too early. You may know by now that I like being early on innovations as opposed to late, and I've been too early a few times. We could talk about that, but I'd rather be early than late, and once in a while, you've got the right timing. I think the ESG ETFs right now and the goals of kind of standardizing things, they tilt towards companies with good ESG ratings or rankings, which are partly quantitative and partly qualitative. Ruben, I think five years from now, my prediction and my hope is that we'll look back and say, "2020, we used some pretty naive ESG factors. We were just getting started." Just because someone has lower carbon intensity or may have some of the other factors that they use, including some governance factors, which are incredibly important, but even some of the other environmental factors that they use, they're really at a high level, probably not context-laden or context-adjusted. I think we'll actually evolve those factors, and maybe the funds will use the same infrastructure and architecture, but the ratings will be very different. The ratings will be more sophisticated. I think we need that. What we're getting right now is just first-level screening, which is useful and better than nothing but not good enough in my view. I launched the Greening Canada



Fund because I believe that financial instruments could lead us to make better environmental decisions. I still believe that passionately. So I'm delighted to see the growth in ESG ETFs, but we need to see them become a lot better to achieve this goal of having financial instruments improve our environmental performance. They need to be better.

Keith: That's a great question, Ruben. And thank you for that response, Gerry, on ESGs. What else comes to mind for you, Gerry? How are things going to evolve in the next five or ten years for the Canadian investor with regards to exchange-traded funds?

Gerry: I think we'll probably see more innovation. I must tell you that it's even hard for me to keep up with all the different funds that are coming out now. I used to know everyone in the ETF business. I know a fraction of them now because it's attracted so many people, so many firms. I couldn't be prouder of the fact that there's a spirit of innovation in Canada to develop interesting ETFs to solve investor solutions, and I think we'll see more of that. We might see some consolidation because there are a lot of players right now. So I think you're going to see better choice for Canadians. As size gets better and trading gets better, Canadians will feel more confident owning a Canadian ETF than a U.S.-traded ETF, where even now the Canadian ETF stats are skewed by the fact that many Canadians own ETFs that are traded in New York. So I think if we just look at Canadian-listed ETFs, that understates Canadian ownership. We will likely attack different problems. One of the reasons in the '90s why I thought about bond ETFs was not just as a part of a portfolio, but I designed some fixed income ETFs that would have been more useful in what we might call decumulation scenarios. I wanted to do something about decumulation strategies back in the late '90s, also way too early. I think we'll probably see some good decumulation solutions emerging through ETFs. I hope we do.

Keith: Gerry, just for our listeners, what do you mean by decumulation?

Gerry: By decumulation, I mean what happens in a person's retirement. Pre-retirement, we're in the business of accumulating assets so that we have sufficient financial assets to live and achieve other goals, including bequests after we stop earning from our human capital—in other words, ourselves, our own labor. We depend only on our financial capital. We start living on that. That's what we call decumulation because it's the opposite of accumulation. The name of the game is to fund your goals in terms of living expenses, bequests, charitable giving, gifts to children, all while maintaining a sufficient



amount of assets that you don't find yourself in a position of needing to cut back or all of a sudden the fear of outliving your money. So decumulation is a significantly different way of looking at how you manage your money and some of your choices.

Keith: Absolutely. I think if we were to talk to the vast majority of investors and our clients, most of them, their number one concern is to make sure that from a financial perspective, they have enough resources where they can lead a really nice lifestyle and make sure it's sustainable. That all fits into decumulation strategies that we're going to see more and more discussion around.

Gerry: That's right. The ideal combined path of strategies, at your date of retirement, your asset mix doesn't change that day, but the things you start investing in and your asset mix will start evolving from that day forward to better match the fact that you're no longer accumulating, you're decumulating.

Ruben: Yes. We spoke a lot about the past, Gerry, your background, and we sincerely thank you for sharing your story and inspiring journey. But if we come back to the present, Gerry, what projects are you most involved in right now?

Gerry: One of the things I got involved with was launching one of the world's first carbon offset credit funds, which was a lot of fun. I think we achieved a lot.

Ruben: When was that, Gerry?

Gerry: It was 2009 to 2014. It was this fund that delivered carbon offset credits to clients to allow them to become carbon neutral. We wound up retiring, I think, 1.2 million tons of carbon at really low cost. More importantly, all the carbon credits we sourced were Canadian, and most of them were from the public sector or nonprofit sector. So we were reinvesting back into those sectors. For example, the school board changed their boilers and got more energy efficient. We'd turn those into carbon credits for the energy efficiency and give them money. So it meant recycling money back into people that really needed it, like school boards. So we really felt good about achieving things on several fronts there. But like I said, it was really early. Another thing I did, I served on a number of boards. I was the first non-industry chair of the board of IIROC, the Investment Industry Regulatory Organization of Canada, which is the



self-regulator for investment dealers and equity marketplaces. I've been on boards and investment committees and an advisor in Canada, the U.S., and the UK, which I think has really added to my experience and breadth. I'm on several boards and investment committees now. The most notable board I'm on right now is Healthcare of Ontario Pension Plan. It's one of Canada's largest pension plans and over the last ten years has had one of the highest rates of return in the world from a really unique strategy.

Ruben: So you're definitely keeping yourself busy. You're not 100% in retirement, keeping yourself sharp, definitely.

Gerry: But here's the tough thing. I try to aim for being half to two-thirds busy, and that's really hard because you always undershoot or overshoot, and you can't really control when opportunities come up. The great thing about being retired is you can say no if you don't like the opportunity, but it's really hard to manage the time budget sometimes. I'm sure some of your other clients face the same issue. So I'm either too busy or not busy enough. I'm always trying to aim for the middle.

Ruben: But let me ask you that if you could be involved in one last major innovation like the ETF you experienced in the past, what would you wish it to be?

Gerry: It would need to be environmental or decumulation. Those are my two remaining passions.

Ruben: Amazing. The whole environmental issue right now, it's very current. So definitely I could see that. I hope you will find an innovation or an opportunity so that you can be involved in it, definitely.

Keith: This has been fantastic, Gerry. We're going to slowly wrap up here. Thank you so much for being on today's show. You are our very first guest, and it's so fitting because we're right in the middle of this sort of discussion of indexing and ETFs. To have someone with your background on this show now is fantastic. So thank you.

Gerry: It's been fun for me, and I'm hoping I haven't ruined the guest experience.

Ruben: No, you are really a great guest, and it was a pleasure, Gerry, to interview you.



Keith: Thank you. And when you think back now, Gerry, and you think about defining success, whether it be in work, life, or in general, how would you define success?

Gerry: Thank you for asking. You told me you were going to ask this question. I'm glad you did because it made me think about it. That's important. I feel privileged to have worked with great people, to have found solutions that help people, and as near as I can figure, to have been a good colleague. I could not ask for more for work. I found meaning, and I enjoyed it. I think the same goes for life. Find meaning, find good people to be with, and live up to a standard of being a good person to others.

Keith: Wow. That's pretty comprehensive. I like that. Thank you again, Gerry. This has been a wonderful show. To our listeners, be well, stay safe, and we'll see you in the next episode.

Ruben: Thank you, Gerry. It was a pleasure.

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