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FIDELITY STEPS UP CANADIAN PRESENCE

Mark Noble / September 24, 2009

Fund giant Fidelity Investments Canada has announced a number of changes to its Canadian business that will impact advisor business. Among these is its entrance into the back-office business of Canadian broker/dealer firms.

Fidelity Clearing Canada ULC, a new business dedicated to providing clearing, custody and back-office support services to Canadian-based brokerage firms and the Canadian brokerage arms of U.S.-based firms. The business is part of Fidelity's U.S.-based clearing organization, National Financial, which services more than 300 broker/dealers in the U.S. with assets in excess of \$520 billion.

Fidelity's entrance into this space is of note because it's bringing a large international player into an area that tends to be dominated by smaller domestic firms. It also signals the recognition that the Investment Industry Regulatory Organization of Canada (IIROC) dealers is becoming much more influential in the Canadian wealth management arena.

The new entity will offer brokerage firms back-office support such as trade execution, clearing and custody. In addition, the company will offer a platform of investment products, including mutual funds and individual securities.

"Based on a growing demand among our U.S. broker/dealer clients for a clearing provider to support their Canadian brokerage units, as well as an expanding opportunity to service Canadian broker/dealers, we saw a need to extend our services to this market," says Richard N. Hart III, senior vice-president of new businesses and initiatives for Boston-based National Financial. "There are 200 IIROC-based regulated firms in Canada — so we think there is a big opportunity for us in the Canadian marketplace. We really look at it as bringing the power of Fidelity to this marketplace."

Hart explained the Canadian subsidiary will use the Fidelity brand rather than the National brand, due to the greater brand recognition association of the former amongst Canadians.

The firm has tapped Richard Ness to serve as acting CEO of Fidelity Clearing Canada. Ness has 25 years of experience in global financial services, including building and growing core brokerage operations for Canadian and U.S. financial institutions. Prior to this new role, Ness worked with Tactico, an international business consultancy with offices in Montreal, Toronto and Los Angeles and before that, he served as president and CEO of Penson Financial Services Canada.

According to Ness, the Canadian market is in need of a back-office provider that brings in latest technological capabilities and competitive pricing on security trades. It also offers access to all of

Canada's five different trading systems, such as the TSX and Alpha. Brokers will have the ability to find the most efficient market to trade certain securities.

The system also include proprietary research tools from Fidelity various research and analyst teams.

"Fidelity in my mind has the best risk analysis unit I've ever seen. That's something we've leveraged right out of the gate. Being the new guys to the market we're also on the newest platforms. A lot of firms in Canada are served by technology that was written in 1960s," Ness says. "Fidelity provides [data service] to 85,000 reps in the United States, which is bigger than the entire Canadian market. The data service that is provided to those reps, I can leverage that here in Canada."

Ness says offering this kind of scale to the Canadian market will be instrumental to a potentially growing number of independent broker firms popping up in the Canadian marketplace.

"Canada has a large independent retail wealth sector. I do believe the independents will actually grow in the next few years," Ness says. "In the Mutual Fund Dealer Association (MFDA) world, the entire cost of the clearing business actually rests on the shoulders of mutual fund dealers. What an MFDA advisor puts in their pocket ends up being less when they move to IIROC, and that's been an inhibitor for the last 20 years."

Ness adds, "There is a move out of the MFDA channel, because the clients are demanding more products, better service in one place.

A key differentiator will be for those brokers to offer efficient trades at a competitive price.

"All of this is eventually about lowering the cost of trades. You can't have high- frequency trading when people continue to charging \$20 a trade in Canada," he says. We need to be pretty clear, Fidelity is not planning to compete against independent [broker/advisors]. This is a different distribution channel from our mutual fund business. Fidelity Investments Canada manages money and we are building businesses that help the intermediaries that recommend those funds have an easier life."

Fidelity changes management on popular mandates

On the mutual fund side, Fidelity did make some significant changes to some of its Canadian mutual funds.

Maxime Lemieux, who was named Mutual Fund Manager of the Year for 2007 by Dow Jones MarketWatch for his management of the Fidelity Canada Fund available to U.S. investors, will be taking over the reins on the popular Fidelity True North Fund, from Stephen Binder. Binder, who was not one of the managers named moving to Canada when Fidelity moved its Canadian equity team to Canada earlier this year, has made the personal decision to stay in Boston.

With Binder's decision to remain in Boston, Don Newman, Daniel Dupont and Darren Lekkerkerker will assume full management of the equity sub-portfolios of four asset-allocation funds currently co-managed with Binder. All are long-standing members of Team Canada, working closely with Binder for a number of years on these portfolios. The changes in management will be effective November 1, 2009.

Daniel Dupont will become lead equity portfolio manager of the Fidelity Monthly Income Fund and the Fidelity Monthly High Income Fund. He is currently co-portfolio manager on both Funds.

Darren Lekkerkerker, currently co-portfolio manager on the equity portion of Fidelity Canadian Balanced Fund, will become lead equity portfolio manager of the fund.

Don Newman, currently co-portfolio manager of the Fidelity Dividend Fund, will become lead equity portfolio manager on that Fund.

A report on the changes by TD Investment Management Services, says investors should not expect much difference occurring in the management style of the True North Fund that Binder is leaving.

“The Fidelity True North Fund has been on our Analysts’ Choice Funds for the past 10 years and it remains a recommendation for a core Canadian equity fund,” the reports says. “The successful transition from Alan Radlo to Stephen Binder and now to Maxime Lemieux is demonstrative in the quality of Fidelity’s succession planning. Lemieux was a prodigy of the highly regarded Radlo for nearly 10 years and has developed an investment style and investment results very similar to that of Radlo.”

Fidelity International Limited has announced that, after 27 years with Fidelity, portfolio manager K.C. Lee has decided to retire at the end of this year. Lee currently manages the Fidelity AsiaStar(TM) Fund for Canadian investors.

Fidelity has not named a successor but says it will do so shortly. In the meantime, Lee will continue to manage Fidelity AsiaStar Fund through the remainder of 2009 and will work closely with the new manager to affect an orderly transition of the portfolio.

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