FEATURE

Selling out

With the MD Financial sale, the CMA sold off arguably its most valuable offering to doctors to ensure the association's continued relevance—but the result may have been the opposite **BY TRISTAN BRONCA**

If you ask the leaders of the Canadian Medical Association why they decided to sell MD Financial Management, a wealth management firm for doctors founded over 50 years ago, their answer will go roughly as follows:

They will tell you that because banking has taken extraordinary leaps, technologically, MD would have required an unfeasible investment in order to stay competitive. They will tell you that their younger physician members have frequently asked for a broader suite of modern services. They will tell you that because Canada's big banks have invested billions in their tech offerings, security protocols and the like—$3.1 billion at Scotiabank alone just last year—and because MD under the CMA couldn't afford to invest more than a few million, that in the next five years, the operation would have been in serious jeopardy.

But this is only part of the reason.

They will also tell you that MD is a hugely valuable operation. Scotiabank acquired it for nearly $2.6 billion, plus an additional $115 million investment over 10 years, which as a percentage of its assets under management (or %AUM, which in this case totals about $49 billion and is the standard metric used to determine the approximate value of a company) is more than double the valuation for which similar-sized companies often sell.

Jarislowsky Fraser, a wealth management firm that Scotiabank acquired in February this year, was comparable in size, but its price tag was significantly less than half of MD's at $950 million.[1]

[1] Alex Besharat, the head of Canadian wealth management for Scotiabank, explained that Jarislowsky Fraser's %AUM was roughly 20% lower than MD's but also—and perhaps more importantly—the client makeup was different. MD is made up mostly of individual clients, while JF had more institutional clients. That means fewer clients in total, which means a lower valuation.

All this to say MD is far and away the most valuable subsidiary—monetarily, at least—the CMA has formed in its 150-year history. And it is especially valuable today. The CMA leaders knew this. "We

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received a lot of money," outgoing CMA president Dr. Laurent Marcoux told the *Medical Post*. "It will allow us to be more effective in our advocacy role."

Dr. Brian Brodie, the chair of the CMA board, told the *Medical Post* something similar—that the money will "ensure the association is secure in supporting members and better health for decades to come."

With a bit of context, these quotes are telling. The CMA leaders began to seriously discuss the sale of MD shortly after the association embarked on its new strategic plan—a plan that saw the association focus more of its advocacy on patient health. Doctors have criticized that plan, arguing it represents a shift away from advocacy for the profession. After all, a physician's priorities are not necessarily one and the same as their patients' (the CMA denies this saying that the two are not mutually exclusive). This has led to rumblings that the CMA is becoming less relevant to its members.

This might have been a problem for an organization that relies on membership dues for its continued existence but, with the sale of MD, the CMA is no longer such an organization. The CMA's operating budget for 2017 was $46 million which means that even if the association completely waived dues from all its members it could, theoretically, continue to operate for approximately another 56 years.

To the CMA's credit, dues for practising physicians are being dropped from $495 to $195 per year, and fees will be waived for students, residents and retired doctors, but the fact remains that if the leaders wanted to, they could simply sit on the money for more than half a century.

The CMA said it is currently exploring options to invest the $115 million it will receive from the affinity agreement, including the creation of new bursaries and scholarships. But as for the $2.585 billion, there are no specific plans for how to deliver something to doctors that is comparable in value to MD.

Long term, the idea is to invest in yet-to-be determined initiatives around a nebulous group of priorities laid out in the CMA's 2020 strategic vision—things such as "physician health." There will be a series of member-forums beginning in early 2019 where members will discuss where the CMA should "focus its efforts."

Recently, our editor-in-chief Colin Leslie proposed a couple of "moonshot" ideas for what the association might do with that tremendous sum of money, but those suggestions were met mostly with sarcastic fury.

"What if—moonshot!—the CMA returned the $2.6 billion it stole from the members in overpaid fees under the false premise that MD Financial was 'for physicians, by physicians,'" wrote Dr. Eric Labelle, a general surgeon in Timmins, Ont., in an online comment, referring to an unofficial tagline MD advisers had once used. "Then we could come up with our own crazy ideas about how to waste this money."

But as Dr. Brodie told the *Medical Post*, that was never an option. "MD was not created as a co-op or a publicly traded company," he said, referencing the rules for subsidiaries set out in the CMA's incorporation act in 1909. "The proceeds of the sale are to the CMA, and it'll be invested for the best interests of the members over time."

Whatever the CMA's bylaws, many members believe there's something perverse about this. One doctor said it was as if the manager of a parking garage, masquerading as the owner, made a secret deal to sell the building based on the worth of the cars inside.

THE KEY TO SUCCESS

To say that doctors are angry about the sale wouldn't quite capture the sentiment. Shortly after the announcement, the *Medical Post* conducted a survey of more than 400 Canadian physicians from across the country and 48% said they felt "betrayed." Much of this had to do with the fact that not a single member was tipped off to the possibility of the sale before it was finalized, which spokespeople for both the CMA and for Scotiabank said was a necessity. Trying to do the deal in public would have created significant volatility, destabilizing MD and its clients. Consulting members was a non-starter.

But the other component has to do with MD's brand—the idea that it was "for physicians, by physicians."[2] For example some doctors believed that MD was a not-for-profit because its owner, the CMA, was a not-for-profit. That was never true. MD was always a for-profit organization. But, according to some, there was a time when it was at least tru*er.*

[2] When asked about this so-called tagline, a spokesperson for MD said that neither the advisers nor the company itself has used that phrase in marketing materials or internal communications for at least the last five years.

MD was founded in 1957 to fill a pressing need in the market. Doctors were well-to-do, but many faced uncertain retirements because they lacked a structured investment and savings plan. MD was the only game in town whose sole focus was on doctors.

Alan Acton was an adviser on staff at MD for 11 years from 1996 until 2007 (full disclosure, he has also written for the *Medical Post*). He said during that time most clients felt comfortable with the ownership structure and the "for physicians, by physicians" mantra was reflected in their practices. "There was never any pressure to sell anything, including MD products, and all employees were on a salary," he wrote in an online opinion piece for the *Medical Post*. "It was only years later that MD actually started to track how much new money each adviser generated. There were expectations around these numbers, but if you actually showed up to work and did your job in a competent and serious manner, one could easily meet those expectations."

This attitude, Acton pointed out, seemed to be the single greatest factor in MD's historical success. He said that at the time he was working there, MD had only about six products and yet in just one month, in the summer of the late 1990s, his physician clients transferred $10 million in assets to MD—just his clients. And that's not the only thing

that was being transferred from the big banks. In his online article, "I just want my comfortable, secure MD Financial back" in which Dr. Michael Simon of New Brunswick articulates his worries about how MD might be transformed by the bank in the coming years, he pointed out that the advisers who treated him so well at MD came from the banks, drawn to the smaller firm by its sterling reputation.

Acton wrote his article in response to Brian Peters, MD's current CEO, who appeared on Bloomberg Business Network to discuss how well MD's culture aligned with Scotiabank's. Acton found those comments surprising. "In the late 1990s many physicians could not wait to get away from the banks," Acton wrote. And while he couldn't comment on the current environment at MD, he wrote that in his day at least, "aligning with a bank would have been contrary, not complementary to the goals and culture of the organization."

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THE STORY OF THE SALE

Over the course of our reporting, Peters was kind enough to grant the *Medical Post* several interviews to explain some of the finer points of the sale. Typically, he said, when a parent company such as the CMA sells a subsidiary, the board members are under no obligation to consult members of that subsidiary. "I could have just woken up and read in the paper, like everyone else, that we had been sold," Peters said. This case was different. This time, the CMA chose to involve Peters and he was, according to Dr. Brodie, "instrumental throughout the process."

Peters began his career at Dominion Securities before it was acquired by

RBC in 1988. He eventually rose to become the head of Canadian wealth management for RBC. In those years, they acquired several smaller companies. "So I've been acquired before by a bank, and have also been on the acquiring side with the bank."

Peters said that up until he became privy to some of the board's conversations about the sale in the latter part of 2016, selling MD wasn't on the remotest parts of his radar. Though he's been supportive of the CMA's decision, and offered feedback around the timing of the sale (Peters was likely the one who best understood the challenges MD faced in the current market), he said that up until then he took it as a given that MD was never for sale.

"At no point was I pushing for the sale of MD," Peters said. His involvement came after the CMA board stopped talking about *whether* the sale was going to happen and started talking about *when* it should happen.

When precisely that whether-to-when shift occurred, who initiated it, or how it happened, remains unclear. When asked whether there was ever any disagreement at the CMA board about whether to sell MD, Dr. Brodie said: "Let's be crystal clear: This was not an easy decision but everyone around the table agreed that it was the right step for both organizations going forward." He added that CMA leaders followed a "principled approach" which, as he later explained, means that the decisions throughout the process were made with five specific factors in mind: Enhanced client experience; superior and competitive market performance; demographic considerations for students and residents; respect for MD's human resource interests[3]; and protection of the brand.

[3] Which, roughly translated, may mean that the buyer wouldn't cut or replace the existing staff after the point at which it is no longer contractually obligated to keep them on.

Alex Besharat, the Canadian head of wealth management for Scotiabank and Peters' boss-to-be, was responsible for crafting and making the pitch to buy MD on behalf of Scotiabank. He said all of the big Canadian banks were interested in acquiring MD and while the other offers remain confidential, the CMA has repeatedly said the offer price was only one of a multitude of factors in the decision.

According to the FAQ about the sale posted on the CMA's website, Scotiabank was chosen because of its "superior financial services performance," its "client-centric philosophy," and "respect for its staff." The CMA leaders were also apparently swayed by the bank's track record around philanthropy and community involvement. But perhaps the most significant factor was how, as Dr. Brodie said, "Scotiabank distinguished itself in terms of its cultural fit and alignment with the CMA vision."

In an interview with the *Medical Post*, Besharat explained what, beyond the simple math of the massive transaction, he felt was responsible for Scotiabank winning the bid to acquire MD. What exactly was this "cultural fit" that seemed to sell the CMA? He said both MD and Scotia Wealth Management adopt a planning-first model of investing. They get to know their clients really well, develop a financial plan for them, and let that plan dictate where the investments go. "That's what really excited us," Besharat said. "It's really rare to make an acquisition, and your philosophies, the type of clients and the way you serve them map exactly."

MD members might be skeptical about this—that the way a multi-billion-dollar bank serves clients "map(s) exactly" with the way a relatively small wealth management firm (owned by a not-for-profit association) serves clients.

Fewer still believe that nothing will change once the people at that firm are answering to a different set of masters.

STATUS QUO AT MD—FOR NOW

Many physicians like Dr. Mike Simon have expressed feeling profound powerless about the sale. MD had been called the "crown jewel" of the CMA, and many doctors had invested their life savings there over decades, only to be alerted that all that money will be under new management.[4] Some have even floated the idea of a class action suit against the CMA.

[4] Technically, Peters will still be running MD at Scotiabank and told the *Medical Post* that he has no plans to leave, nor have his retirement plans changed. Though the governance structure at MD will change (MD will no longer have an external board, and the internal board will not have any physician members), all but one of the senior leaders will remain on at MD.

The question of accountability also lingers. While Peters said MD operated mostly independent of the CMA board—since he was only required to consult them when MD acquired a new company (which it rarely did) or incurred debt (which it never did)—the fact remains that it was the physicians of the CMA who oversaw the decision-making apparatus. Now, there are different people overseeing it.

When asked whether there are any safeguards to protect MD as it exists today, Peters has a few responses. He said Scotiabank wouldn't invest as much money as it has in a successful company only to change the things that had made it successful. He said that in addition to the existing conditions that Scotiabank must abide by as a buyer, all of which are laid out in the reams of binding legal documents,[5] the affinity agreement also serves as a built-in accountability mechanism. If that agreement falls apart—if, for example, the CMA finds that Scotiabank has somehow impeded MD's ability to deliver the same value to MD clients that it has historically—it could be hugely detrimental to the brand. And besides, Scotiabank respects MD's autonomy and expertise. All the parties involved seem to have an if-it-ain't-broke-don't-futz-with-it attitude, including Besharat.

[5] Among these legal conditions is a 10-year promise to maintain the existing products and offerings. Although, Besharat said that existing MD offers given through National Bank, one of MD's partners, will change if Scotiabank has an equivalent or superior product. There is also a one-year agreement to keep on all existing personnel. When questioned about the time period, Dr. Brodie said that it would have been impossible to ask for a 10-year commitment on staff. One year is par for the course.

"We don't deserve more than one chance," Besharat told the *Medical Post*. "I always tell my staff that. You have to earn the next client interaction." When asked about the clients who were angry about the move, he said he thinks they'll "be pleasantly surprised."

"This particular client set is made up of some of the smartest people in the country," he said, pointing out that all fees and services are very transparent in the industry. "They'll be able to observe whether we are true to our word of same or better."

The CMA has been similarly emphatic about its due diligence in ensuring the buyer would leave MD intact and allow it to operate with the same freedom it always has. But to continue to insist on these things—or more precisely *to have to* continue to insist on these things—already signals a critical failure. Some measure of trust has been irrevocably damaged, and if not damaged, lost. **MP**

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