

SUMMER 2025



THE SCHOONER: SUMMER EDITION

The Official Newsletter of the Dalhousie Investment Society (DALIS)

A Letter From Comm Summer

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Dear Readers,

As you may have noticed, this edition of The Schooner looks a little different than usual. "Comm Summer" is known to be one of the most iconic semesters for students at Dalhousie. This year's round of second-year students wanted to remain committed to learning about finance, in between trips to the St. Mary's docks and Split Crow... so the summer edition of DALIS was created.

For this edition of The Schooner, we wanted to spotlight the voices of Dalhousie's second-year commerce students. Each article reflects a topic the writer found interesting and chose to explore in a professional and analytical way. It's a chance for each writer to sharpen their writing and research skills while contributing to the broader DALIS community.

A thank you goes out to not only those who wrote, but to those who attended, contributed, and helped keep the DALIS boat afloat. An opportunity like this couldn't have happened without you. And a special thank you to Rick for his continuous support throughout the semester, and of course, for this edition's rant. This summer, we kept the momentum going through bi-weekly meetings and hands-on sessions in the Bloomberg lab, all part of preparation for the return of the full Investment Society this fall.

We hope you enjoy this special edition.

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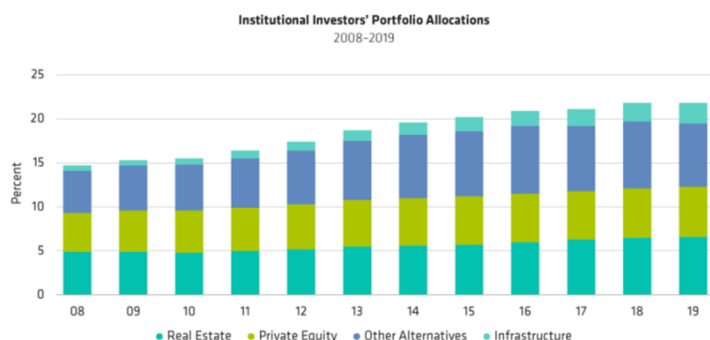
Rick's Rant: Muddle

Are Alternatives Still Alternative?

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Alternative Investments (Alts), including Private Equity, Private Credit, Real Estate, and Infrastructure, once the domain of elite institutions and ultra-high-net-worth investors, have gone mainstream. What began as a niche play to diversify portfolios and seek alpha (returns earned above market) is now a standard practice among modern investors. So, the trillion-dollar question is: If everyone is in on alternatives, can they still be considered "alternative", and what does that imply for their returns?

Alternative investments didn't begin with billion-dollar private equity firms. In the early days, Alts were known as contrarian bets on assets like golf courses, farmland, precious metals, and art. These were assets that didn't trade on stock markets and were only held by wealthy individuals or small private groups. Over time, and largely in the last 10 years, big institutions caught on. Pension funds, asset managers, and endowments started pouring serious money into Private Equity, Real Estate, and Infrastructure. Today, some of these portfolios have 25-60% allocated to Alts. As more money flows in, the edge of these investments begins to fade. What used to be a bold, off-the-beaten-path strategy is now the norm.



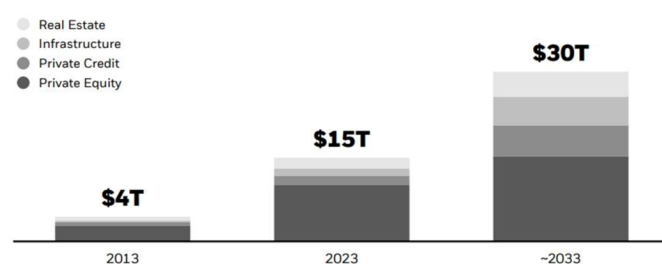
Source: Alliance Bernstein institutional allocations, 2008-2019

Lower Returns, Same High Fees.

In the 80's through to 2008, Alts and more specifically Private Equity, used to target 20-25% IRR, a metric used to measure the annualized return over the life of an investment, accounting for timing of cash flows (how much one profits and how fast it occurs). Now, with capital flooding into Alts and competition for deals increasing, investors can expect a target of 10-15% IRR.

One of the original selling points of Alts was that they didn't

move in sync with public markets. That too is now changing. Private Equity valuations now track public market comparable markets, Real Estate is highly sensitive to interest rates, and Infrastructure assets (ie. data centers) and renewable energy are sensitive to broader tech trends and market volatility. In market downturns, correlations spike. That's not to say that Alts aren't still a strong investment, but they may no longer deliver the alpha, diversification, and protection against market volatility they once promised.



Source: Partners Group

So... What is still "Alternative"?

With the growth of Private Equity, Credit, Real Estate and Infrastructure, where are investors looking for true diversification and differentiated returns? Secondaries involve buying existing stakes in Private Equity, Private Credit and Venture Capital Funds, offering liquidity in an illiquid market. Carbon Credits are tradable permits that allow companies to emit a certain amount of CO₂, with climate regulation tightening and demand rising. Litigation Finance involves funding lawsuits in exchange for a share of the settlement or judgment, with returns uncorrelated to markets. Art & Collectibles remain niche and uncorrelated to traditional markets.

But as these current alternative categories once again become increasingly institutionalized, we find ourselves back near square one. To uncover the next wave of differentiated returns, we must look beyond what's currently investable. Not just unconventional but unpriced, unexplored and unowned. Possibilities include desalination infrastructure/industry, investing in clean water production technology (converting salt water to fresh water) as water insecurity intensifies. Human Capital Investing involves the financialization of people, investing in talent via Personal Equity Markets that trade future income streams. Crypto Infrastructure includes backend systems (blockchains, oracles, storage layers) that power digital assets, already investable but not yet fully priced or institutionalized.

The definition of Alternative is constantly evolving.

What feels niche today could be the norm tomorrow. The real edge lies in staying curious and looking forward.

As more money flows into Alternative Investments as we know it, they may no longer be truly Alternative and offer the incentives they once did. Alternatives are forever changing. For students and future finance professionals, the challenge is to think outside the box about what real diversification and opportunity look like, especially when everyone is chasing the same ideas.

Arctic Advantage: Turning the Northwest Passage into an Asset

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The Arctic is warming nearly four times faster than the global average. As climate change accelerates, the Northwest Passage, a sea route through the Arctic Ocean connecting the Atlantic to the Pacific through the Canadian Arctic Archipelago, is becoming more navigable for longer periods each year. With this new route forming, many global powers are increasingly eyeing the Arctic as a new viable trade corridor. Due to Canada's unique geographical advantage, the country now has an opportunity to invest in its infrastructure, military presence, and capitalize on a growing trade route in the Northwest Passage. If they fail to do so, they risk falling behind their global competitors.

The Northwest Passage could shorten the Asia-Europe shipping route by over 10,000 kilometers compared to traditional paths, leading to significantly faster delivery, lower fuel costs, and far fewer emissions. As a result of the melting ice, the Northwest Passage has a longer ice-free summer, making the route an option for commercial use. Global interest is rising. Shipping giants like COSCO have conducted dozens of transits through Arctic waters, and Maersk, a Danish shipping and logistics company, completed a successful trial voyage through the Northern Sea Route in 2018, furthering the plausibility of these routes becoming commercially viable.

Despite its proximity to this promising industry, Canada lacks the infrastructure needed to support Arctic shipping. Compared to Russia, which operates over 40 icebreakers and maintains year-round port access, Canada has no deep-water ports in the Arctic capable of servicing large vessels.

Countries like China are building fleets of Arctic-class vessels and strengthening their presence in northern waters. Other threats, like the United States, are pushing back on Canada's claim to the passage, and are instead treating it as if it were international waters. Compared to others, Canada has been slow to commit financial and strategic resources to the Northwest Passage for meaningful infrastructure and military presence.

Deep-sea ports in Qikiqtarjuaq, Nunavut, and Churchill, Manitoba, are the ones through which Canada can currently access the Northwest Passage. These ports could be playing a pivotal role for Canada in becoming a strategic point for search and rescue, customs, and refueling. Strategic investment in these locations could form the backbone of a national Arctic logistics network, enhancing trade, asserting sovereignty, and opening the door to private capital partnerships.

Canada's legal claim to the Northwest Passage hinges not only on geographic proximity, but also on the demonstration of active and sustained control; something that must be established through military presence and infrastructure. Military investment would provide a dual purpose in protecting national territory and ensuring the safety and reliability of trade within the passage. Investments in building permanent northern bases, deploying nuclear submarines, and expanding drone and satellite surveillance would provide a strong and consistent presence in monitoring the Arctic waters. These assets would also support commercial navigation by offering search and rescue coverage and deterring foreign incursions from China and Russia.

However, there is a window of opportunity with the ongoing process of NORAD modernization. This development offers Canada a chance to co-invest in cost-effective defense systems that provide upgrades in Arctic radar, satellite tracking, shipping navigation, and emergency response. Increased investments in military presence would help Canada strengthen its legal claim to the Northwest Passage and give Canada a foothold in long-term trade competitiveness.

The opening of the Northwest Passage provides more than a strategic advantage for Canada; it also offers a huge financial opportunity. With the right infrastructure, Canada could implement various ways to generate new streams of revenue. For example, companies like Globe Tracker are developing cold-chain shipping sensors to ensure cargo does not exceed temperature limits, and Far North Fiber is

a submarine fiber optic cable company aiming to lay subsea cables from Japan to Europe via the Canadian Arctic. Canada can help fund this infrastructure by leveraging institutional capital from major pension funds like Canada Pension Plan Investment Board (CPPIB) and Caisse de dépôt et placement du Québec (CDPQ), which have the scale and long-term investment horizon suited to Arctic development projects. With targeted investment and policy support, Canada can transform its geographic advantage into an economic one.

As the ice melts, the Northwest Passage is rapidly opening, and Canada must act swiftly to secure its stake in a quickly emerging trade corridor. If Canada continues to delay its decisions, it risks conceding control, economic opportunity, and strategic influence to its competitors. Developing infrastructure and establishing a military presence are essential tools in protecting sovereignty and attracting investors. It is critical that Canada act with bold and decisive action to secure its stake in the Arctic's economic future before the window of opportunity closes.

Are Tariffs Affecting Inflation?

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The latest inflation reports from June delivered few surprises; the Consumer Price Index headline (CPI) increased 2.7%, continuing the upward trend from previous months. Yet beneath the surface, the data is beginning to answer the question that the markets have been asking for months: what effect will Trump's tariffs have on the U.S. economy and financial markets? With no clear inflection point in the macroeconomic data or historical precedent for this scale of policy shift, we are forced to look deeper into the numbers to gain insight into the underlying cause of inflation.

While CPI does not directly measure tariffs, their influence trickles down into multiple tangible data channels. Tariffs are initially paid by importers but are often passed along the supply chain, meaning they show up in downstream indicators like the CPI and Producer Price Index (PPI), and are supported by other broader aggregates such as GDP and trade balances. This article examines how, what I refer to as the "tariff effect" is beginning to emerge, and what data to monitor in the second half of 2025 to confirm that tariffs are driving inflation.

There is material evidence of the tariff effect taking place in the June inflation report. CPI, monthly, advanced 0.3%, which is the largest gain since January 2025. What's more, telling of a tariff impact is the composition of this increase. Prices fell in categories generally unaffected by tariffs, such as fares, internet services, and public transportation, whereas the things that saw the most pronounced increases are the most tariff sensitive goods: from May to June, furniture prices rose 1%, toy prices climbed 2%, and coffee rose more than 2%. This divergence is a signal that the tariff pass-through is now emerging in consumer prices concentrated in categories where imports are heavily relied upon.

Input costs are also beginning to materialize in the goods producing sector through PPI data. Producer and trade price data reinforce this proposition. PPI for final demand was flat in June, following a 0.3% increase in May; however, this includes services. Alone, final demand for goods rose 0.3%, the sharpest gain since February.

Over the past 12 months, headline PPI is up 2.3%, while core PPI, excluding food and energy, rose 2.5%, indicating that more stable, everyday business costs are rising even faster than the headline number suggests.

It should be noted that these price increases are occurring at a time when the underlying momentum in the economy is weaker: final domestic demand growth is estimated to have slowed to 0.6%, business investment has stalled, and consumer spending growth decelerated to 1.5%, from an average of 3.1% in 2024. This means that rising prices are likely a reflection of supply-side cost pressures rather than strong demand.

Because tariff effects are lagging in nature, their appearance in inflation data is rarely immediate. Firms often hesitate to raise prices in highly competitive sectors due to pricing sensitivity. This, combined with the buffer that the inventory stockpiling created earlier in the year, has delayed the immediate consumer impact. Now that those buffers are running thin, and input costs are flowing through supply chains, price adjustments are becoming more visible in the data.

The question remains whether June's uptick is a blip in the data or the beginning of a structural trend. Evidence increasingly points to the latter. With full tariff implementation taking effect in Q2, core goods inflation shows signs of structural acceleration. In places where stockpiling is impossible, like fresh produce, we saw early

tangible increases in prices, while categories with much longer shelf-lives such as furniture and appliances are slowly catching up. Automobile prices have so far remained deflationary, but that reflects temporary factors, such as dealer incentives and global competition, more than any insulation from the cost pressure posed by tariffs. If parts costs do rise, the effects will ultimately filter into repair bills, and over time, into insurance premiums. This staggered impact suggests that the second half of 2025 and the beginning of 2026 could bring a more discernible picture of the tariff effects on core goods prices as supply chains fully adjust to higher input costs.

If tariffs are materially driving inflation, we should see inflation data play out in a defined sequence through the second half of 2025. Between July and September, CPI should continue to show price inflation in furniture, household appliances, and toys. These categories are and will continue to serve as leading indicators now that the inventory cushions have diminished. Simultaneously, watch for a sustained increase in core goods inflation in both CPI and PPI final demand goods, particularly excluding food and energy.

From October through December, the focus should shift to the auto sector and adjacent services. If new and used car prices begin rising despite continued lackluster consumer demand, and CPI subcomponents such as auto repairs and insurance premiums climb, that would indicate that upstream cost pressure is filtering through to consumers.

The path of inflation into year-end will offer a clear test as to whether tariffs are affecting inflation: if core goods continue to outpace services, and pricing pressure broadens into all sectors of America's economy, it will confirm that tariffs are structurally reshaping the inflation landscape, and that the June report was not simply a blip in the data.

Canadian Open Banking and Its Impact on the Financial Industry

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Open banking has been implemented in over 60 countries and the Canadian Government's Advisory Committee recently shared their vision of open banking in Canada. Initial legislation about open banking was passed in 2024,

and the full framework is expected to roll out in 2026.

Open banking has been implemented in over 60 countries and the Canadian Government's Advisory Committee recently shared their vision of open banking in Canada. Initial legislation about open banking was passed in 2024, and the full framework is expected to roll out in 2026.

This poses the question: what is open banking and what will its impact be? Open banking differs from traditional banking by allowing authorized parties to access customer information in order to provide differentiated services. Unlike the traditional banking system, where information is stored in a single institution, open banking allows customers to receive services from multiple companies and banks without the need to provide additional information individually. Open banking would introduce more competition in financial services by reducing the costs of acquiring information. Furthermore, institutions will no longer need to vet the same information multiple times, leading to a smoother experience.

The Canadian open banking vision envisions customers being able to control their finances from a convenient single platform, thus easing customer migration between institutions.

Canada has high competition amongst its five major banks; thus, each bank needs to specialize in one aspect of banking to differentiate. Examples of this are Scotiabank's Scene+ point benefits or RBC credit card cashbacks. The progress of technology has accelerated innovation in the fintech industry, changing the financial market. The age of technology has digitized banking, and the financial market has become more important than ever.

For open banking to be implemented in Canada, the current infrastructure needs to be updated. This requires modernization of payment methods as we know them today. For example, instead of e-transfers, where money is sent to accounts through a third party, open banking will eventually lead to account-to-account transfers. With the implementation of account-to-account transfers, payments will be instantaneous. This would create opportunities for more transfers in Canada and has the potential to boost the activity of the financial market.

The implications of free-flowing information would mean financial institutions can give more accurate financial advice. In theory, this could create a more competitive environment for Canadian banks, allowing them to diversify

services to keep up with the larger fintech market.

Innovating this infrastructure would create opportunities for more streamlined autopayment processes that would allow for more secure and larger transfer sizes. Open banking enables more consumer-driven banking and promotes greater competition within the financial industry. Despite the numerous opportunities that open banking brings to the financial market, it could result in customers losing control over their data, which could pose a risk of data misuse in the future. Since people have a distrust of the open banking system, financial institutions must provide better data security and services to gain customer trust.

The flexibility of services that open banking promises also demands flexible forward-looking legislation. Ottawa has planned to introduce legislation in 2026 to implement open banking by ensuring the foundations of data and consumer protection in the current system. A singular customer database would mean a bigger target for cyber-attacks, making cyber security and consumer data protection vital.

Open banking brings many changes to the financial market and, in some ways, increases our dependence on technology. The benefits that open banking provides vastly outweigh the consequences.

The introduction of new banking services rising from a competitive environment will make financial services more accessible, and lower costs will benefit the Canadian financial market. Open banking, through its new era of quick payments and accessibility, will change the landscape of modern finance as we know it.

Banks vs. Buy-Side: The Analyst Retention Battle

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In a surprising move this summer, JPMorgan Chase issued an internal firm memo stating that incoming analysts will be terminated if they accept future-dated job offers before or within the first 18 months of employment. Additionally, in efforts to retain talent, the bank has shortened its analyst program to 2.5 years from 3 and has promised accelerated promotions to help keep junior analysts. Following this message, other firms in the industry have made similar moves. In July, Citibank introduced a new policy requiring first-year analysts to disclose any job offers elsewhere,

particularly from private equity. The policy aims to eliminate the increasingly common practice of analysts lining up exit opportunities before they've even fully settled into their roles. Goldman Sachs hopped on the bandwagon as well. The firm now requires quarterly certification from junior bankers, confirming they haven't secured roles elsewhere. Rather than just tightening restrictions, Goldman also introduced an internal mobility program. This new track allows selected analysts to move into Goldman's asset and alternative investments group after two years. This program offers analysts buy-side exposure without ever leaving the firm.

These new moves from major banks signal a broader shift. Across the industry, the major investment banks are trying to reduce the losses of junior talent by restructuring career paths, increasing internal opportunities, and pressuring analysts to delay or reconsider exit plans. However, these efforts raise a deeper question: Is the problem the banks? Or the analysts?

The Private Equity Obsession

For years, the model of doing 2 years in investment banking, then making a quick exit to private equity or a hedge fund, has dominated finance recruiting culture. It is seen as the gold standard for ambitious students and young professionals. However, this mindset is shaped by representativeness bias. This is when people develop a mental shortcut where they assume that the most stereotypical "successful" path must be the best one. In this case, private equity is seen as the most successful path for young finance professionals through its prestigious, selective, and high-paying nature. As a result, many young analysts may try to pursue this goal because it is hard to achieve, not because it is necessarily the right path for them. This narrative has become increasingly prominent across social media, further making it seem like the move to private equity is what top performers are supposed to do.

The reality, however, is that not everyone thrives in this environment, and not every PE job leads to long-term fulfillment or success. The fixation with exit opportunities often distracts from more important questions analysts should be asking themselves, such as: What do I actually enjoy? Where do I learn and grow the most? And, what does long-term success look like for me?

What Does This Mean for the Banks?

While these new policies aim to protect against the loss of junior talent, the public rollout of these messages hasn't come without consequence. These banks have exposed

themselves to media risk. New analysts will now have to take these messages into consideration when making career decisions. The reaction of social media platforms like LinkedIn and TikTok has ranged from support to skepticism. Many people in the finance community have questioned why these policies are even necessary in the first place. After all, if analysts were truly satisfied and engaged, would firms need to take these measures to have analysts' loyalty? Releasing memos that threaten termination or mandate disclosures may unintentionally signal that the job experience itself may not be sustainable in the long run.

This brings us to a well-known reality, the demanding nature of the analyst role itself. Long hours, unpredictable workloads, and limited work-life balance are standard in the industry. While many accept this as the cost of entry into high finance, it's worth asking whether these conditions are what may drive early exits. Instead of viewing private equity offers as the problem, perhaps the industry should reflect more deeply on the environment it creates for junior talent.

Many young analysts across social media have spoken out about how the lack of work-life balance makes the job feel unsustainable. They mention entering the industry wanting to challenge themselves, only to find that after two years, they can't maintain the lifestyle any longer. This debate could shine a light on the way analyst roles are structured, rather than introducing mandatory disclosures or restrictions. If instead, banks focused on improving hours and creating an environment that fosters better work-life balance, they may see higher retention levels. Goldman's internal mobility program, which allows analysts to transition into buy-side roles within the firm, may be a promising model. It offers analysts the opportunity to gain the experience they seek without leaving the organization. Perhaps the intense two-year analyst program is necessary to build the skills needed to thrive in high finance, and if this is the case, providing internal exit paths may be the most sustainable way forward.

What Does This Mean for Students?

These new efforts from investment banks may have sparked debate, but they've also started a valuable conversation around success in finance. It is not a one-size-fits-all formula; private equity can be a great opportunity, but so can staying at a bank, joining a startup, or moving into venture capital. What matters most is alignment between your strengths, interests, and long-term goals, not just chasing the most prestigious title.

As firms rethink their programs and analysts reconsider their paths, students should too. The best next step isn't always the most impressive on paper; it's the one that makes the most sense for you. In an industry that often rewards conformity, the most powerful thing you can do is define success on your own terms.

The Success of Nevada's Pension Plan

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Under David Swensen's leadership, Yale's endowment grew from \$1.3 billion in 1985 to over \$40 billion by 2021, the year of his passing. The fund achieved an average annual return of 13.7%, net of fees, leading many pensions and endowment funds to try to replicate that success. Traditionally, institutional funds followed a conventional 60/40 portfolio: 60% in domestic equities and 40% in high-quality bonds. Swensen's "Yale Model" emphasized diversification, especially into private markets. This approach came with higher risk but also higher returns, a trade-off that proved worthwhile for Yale.

Today, many funds are still trying to emulate this strategy. For example, the Ontario Teachers' Pension Plan (OTPP) holds 23% of its assets in private equity, is heavily diversified, and has a trailing 10-year annualized return of about 7.4%. Similarly, the New York State and Local Retirement System (NYSLRS) has 14.9% of its holdings in private equity and a 10-year annualized return of 7.74%. However, one major issue with these large actively managed funds is the cost. In 2024, NYSLRS reported \$1.174 billion in management and administrative expenses, with investment gains of \$28.363 billion. OTPP saw even greater management and administrative expenses at \$2.079 billion, against \$22.769 billion in net investment income. OTPP paid \$15.874 million to its top executives, including nearly \$5.8 million to its CEO alone.

While these are top-performing funds, others like the Nova Scotia Teachers' Pension Plan have lagged. The fund delivered 6.19% annual returns over 10 years, but a mere 4.19% over the past three. With \$6.30 billion in assets, it incurred \$21.5 million in administrative expenses, which is significantly less than OTPP, but still notable given the fund's size. This brings me to the main point: Nova Scotia's fund is more modestly funded than OTPP, and its returns reflect that. You typically get what you pay for.

But then there's the Nevada Public Employees' Retirement System (NVPERS), which has recently gained attention for its strong performance. Its performance and more are shown in the image below.

Nevada PERS
June 30, 2024
Performance Gross of Fees

Asset Class	Sub-Asset Class	Market Value (Millions)	Target Allocation	Actual Allocation	FYTD Return	One Year	3 Years	5 Years	10 Years	Since Inception
U.S. Stocks	S&P 500 Index	\$ 22,532	34.0%	35.1%	24.7%	24.7%	10.1%	15.1%	12.9%	10.9%
	Total U.S. Stocks	\$ 22,532	34.0%	35.1%	24.7%	24.7%	10.1%	15.1%	12.9%	11.7%
International Stocks	MSCI World x US Index	\$ 8,916	14.0%	13.9%	11.5%	11.5%	3.2%	6.9%	4.8%	6.0%
	Total Intl. Stocks	\$ 8,916	14.0%	13.9%	11.5%	11.5%	3.2%	6.9%	4.8%	5.7%
	Market Return				11.2%	11.2%	2.8%	6.6%	4.4%	5.2%
U.S. Bonds	US Bond Index	\$ 17,797	28.0%	27.8%	1.6%	1.6%	-1.2%	1.3%	1.9%	4.1%
	Total U.S. Bonds	\$ 17,797	28.0%	27.8%	1.6%	1.6%	-1.2%	1.3%	1.9%	6.4%
	Market Return				1.6%	1.6%	-1.4%	1.1%	1.8%	6.4%
Private Markets	Private Real Estate	\$ 2,788	6.0%	4.4%	-6.0%	-6.0%	1.3%	3.6%	6.6%	7.1%
	Private Equity*	\$ 4,912	6.0%	7.7%	5.2%	5.2%	7.9%	17.3%	16.3%	13.4%
	Total Private Markets*	\$ 7,699	12.0%	12.0%	0.8%	0.8%	5.4%	11.7%	12.1%	10.4%
	Market Return				13.9%	13.9%	8.8%	12.0%	11.7%	8.8%
Short-term Investments	Total Short-term Investments**	\$ 7,182	12.0%	11.2%	5.1%	5.1%				5.1%
	Market Return				5.0%	5.0%				5.0%
	Total PERS' Fund*	\$ 64,128	100.0%	100.0%	12.0%	12.0%	5.1%	9.7%	8.4%	9.4%
	Market Return				14.0%	14.0%	5.5%	9.4%	8.2%	9.2%

Source: Partners Group

As of June 2024, NVPERS reported a 10-year annualized return of about 8.4%. It is a passive fund with \$64.6 billion in assets, about a quarter the size of NYSLRS, and with far fewer holdings. It allocates roughly one-third to an S&P 500 index, about 27.8% to high-quality domestic bonds (likely a mix of government and corporate), and the rest across a developed international equity index, private markets, and short-term investments. Despite its simplicity, NVPERS consistently outperforms its benchmark and most of its peers, often ranking in the top quartile since its inception and even in the top third percentile among large pension funds. In 2024, it incurred just \$16 million in administrative expenses. By comparison, the Nova Scotia plan, with only 10% of NVPERS's assets, spent \$21 million.

Swensen's model appears difficult, if not impossible, to replicate successfully. In many cases, funds spend heavily only to underperform. On the other hand, the Wisconsin Retirement System's Variable Fund, another fully passive investment fund, earned a 10-year average annual return of 11.1% and a 5-year return of 14.44%. In 2023, it had administrative costs of just \$29 million while managing over \$172 billion in assets, about two-thirds the size of OTPP or NYSLRS. Despite the evident success of passive strategies, most pension funds still pursue active management in hope of matching Swensen's results.

This isn't to dismiss the achievements of certain actively managed funds, such as the Canadian Pension Plan. However, data shows passive funds often outperform their active counterparts, primarily because they require less maintenance and generate far fewer expenses. The recent success of NVPERS is unlikely to shift broader pension management strategies any time soon. In *Thinking, Fast and Slow*, Daniel Kahneman references a study showing that 80% of people believe they are above-average drivers,

a phenomenon he calls the "better-than-average effect". This refers to the irrational belief in which people tend to think they are superior to the average in certain traits and abilities. He argues that investing often presents an illusion of competence rather than actual skill. I tend to agree, at least when large sums of money are involved such as the examples above. As long as human nature remains unchanged, many investment professionals will continue to overestimate their ability and justify high compensation. Meanwhile, passively managed funds like NVPERS and the Wisconsin Retirement System continue to outperform quietly, efficiently, and at far less cost.

The Fight for Financial Connectivity in a Fragmenting World

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In a time when countries are tightening their borders, Mexico is quietly launching a program aimed at building a financial bridge. The newly expanded Tarjeta Financiera del Bienestar (Welfare Financial Card), backed by President Claudia Sheinbaum's administration, enables Mexican people in the U.S. to send money back home at low cost, with minimal friction, and most importantly, without triggering the incoming 1% remittance tax proposed by the U.S. Senate.

To put it briefly, the Tarjeta del Bienestar allows Mexicans living abroad to open accounts that can receive money electronically in Mexico. They can then load funds into these accounts via cash deposits at select U.S. retail locations or online transfers, and recipients in Mexico can withdraw from Banco del Bienestar branches or ATMs. The fees are remarkably low: just \$2.99 per transfer, a fraction of what traditional money transmitters charge. More significantly, because these are electronic transfers rather than physical cash remittances, they are exempt from the 1% tax U.S. lawmakers aim to impose in 2026.

The timing is no accident. The United States is the world's largest source of remittances, and Mexico is the world's second-largest recipient, pulling in over \$60 billion USD annually, equivalent to about 4% of Mexico's GDP. For millions of Mexican households, these funds are a lifeline. The U.S. Senate's proposal, originally floated at rates as high as 5% taxes on cross-border money flows, was a form of economic gatekeeping. And Mexico's response was to

make it digital, fast, and nearly costless.

This is happening as the tide turns globally toward economic nationalism. The U.S. is reshoring supply chains.

Europe is tightening banking flows to non-EU nations. "Capital controls are the new border walls," stated José Antonio Meade, a former Mexican finance minister. "But the irony is that while politics favors fragmentation, finance continues to demand interconnectedness." What Mexico is doing with Finabien is, in many ways, a reassertion of that interconnectedness, but on its own terms. By offering this, it reframes remittances not as vulnerable flows subject to foreign policy whims, but as a sovereign instrument of development.

There are risks. One of the major ones includes a lack of independent oversight of Finabien. Additionally, there is the possibility of potential misuse, fraud, or politicization. And there's always the threat that U.S. regulators could clamp down harder if state-sponsored remittance tools are seen as tax dodges. But the potential upside is hard to ignore: a stable, state-run remittance system that empowers people, strengthens financial resilience, and reduces dependency on private actors or foreign policy goodwill.

What Mexico is doing may be small in scale for now, but it shows something bigger. In a decade where global financial systems are fragmenting, with BRICS exploring new payment systems, countries seeking alternatives to SWIFT, and digital public infrastructure gaining traction, this card presents an important shift. Instead of waiting for the global financial order to accommodate emerging markets, Mexico has started to build its own tools to interact with it. It isn't a rejection of globalization but rather a reimagination of it, on more equitable and autonomous terms. The Tarjeta del Bienestar is a tool, yes, but even more, it's a message: that connectivity doesn't have to come at the cost of sovereignty, and that in a world of rising walls, some nations are still building bridges.

The World of Zombie Companies and How Creative Accounting Keeps them Alive

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Accounting and Finance 101 states that a company that is unable to cover its expenses with its revenue sources is bound for failure; however, the existence of zombie companies begs to differ. A zombie company is a company that continues to operate despite being in a state of financial distress, leaving it unable to generate enough revenue to cover all debts and expenses, meaning it cannot grow the business. They survive without thriving, zombified and dead in terms of economic productivity. Zombie companies are a by-product of 'creative', usually unethical, accounting practices. Maintaining a company's existence under such parameters is no easy feat and requires accounting that borders on what is legal.

The ground zero for these fascinating anomalies is seen in Japan's Lost Decade (1990-2000), following the burst of the Japanese asset bubble in the early 1990s. This led to stagnant growth in Japan's economy, persistent deflation, and government-driven economic resuscitation. Despite this, the Bank of Japan continued to lend out money to insolvent firms, attempting to avoid writing off bad loans, which coined the term evergreening debt. Following the 2008 housing crisis and the COVID-19 pandemic, loose lending rules, easy credit, and low interest rates allowed failing companies to remain aloft in this zombie-like state.

Zombie companies are not just a relic of Japan's past—they persist today, especially in low-interest environments. Following the 2008 financial crisis and the COVID-19 pandemic, loose lending standards and cheap credit enabled many failing firms to stay afloat. For example, Bed Bath & Beyond, once a dominant retail chain, became a textbook zombie company. Despite mounting losses, shrinking market share, and multiple turnaround attempts, it avoided collapse for years through debt refinancing and asset sales, before finally filing for bankruptcy in 2023. Its decline was masked for years by temporary accounting lifelines and investor optimism, despite deteriorating fundamentals.

One commonly used method is delaying asset impairments, when a company postpones writing down obsolete or underperforming assets. This inflates the asset value on the balance sheet, making the company appear more financially stable, with higher solvency and equity than it has. This action is intended to delay trigger events, such as market downturns or the loss of a major client. Another tactic used by zombie company accountants is giving overly optimistic valuations, leading to delayed impairment testing (assessing an asset's carrying value against its actual recoverable amount; if so, the asset is impaired and must

be written down). Another frequent tactic is capitalizing operating expenses, allowing the expenses to be spread out over several years, ultimately inflating reported profits. Off-balance-sheet financing occurs when a company keeps debt or liabilities off the company's books. This is done by utilizing leasing structures or special purpose entities (SPE). An SPE is a legally separate company created by the parent company for a specific, narrow purpose, isolating financial risk or managing specific assets or liabilities.

Through accounting tactics such as those listed above, a zombie company can exist, and, although their name is cool, they are detrimental to an efficient economy. They tie up labor, capital, and resources that could otherwise be used for economic growth and innovative developments. It results in a less competitive economic environment, with firms less focused on competitive advantage to sustain profits and revenues. Zombie companies are more common in low-rate environments and in developing economies with less rigorous audit protocols. If a company in such an environment looks creditworthy, it is more likely to receive financial support without question, causing a misallocation of capital.

Zombie companies also increase financial system fragility. When interest rates rise or credit conditions tighten, these firms are often seen to collapse first and quickly. They are built on precarious accounting and financial facades, and when put to the test, they often crumble.

During Japan's asset bubble burst, the government condoned the actions of companies that fit the description of what we know as zombie companies. It was viewed that, during such precarious economic conditions, these companies might help avoid mass unemployment, and their bankruptcy could lead to further economic turmoil.

After the bubble burst, banks were loaded with risky loans, and if zombie firms went bankrupt, the banks would have faced even higher risk. Banks would've needed to write off massive losses, so to avoid potential collapse, they continued to issue and roll over loans to zombies. The Japanese government attempted to mitigate the rapid deflation across the country and sustain demand by cutting wages and spending.

Although this is an example of the Japanese government utilizing a counterproductive economic tactic, it did not prove effective enough to solve the economic crisis, which led to the Lost Decade.

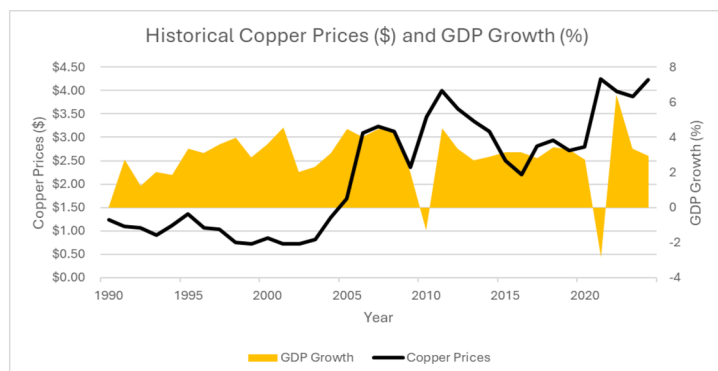
This led to a Japanese banking reform and corporate restructuring. The creation and existence of zombie companies is a fascinating phenomenon within economies around the globe. After knowing some of the 'creative' accounting and financing practices used, we can better understand how they manage to exist. They produce economic inefficiencies and market instability, producing only short-term aids while creating far worse long-term prospects. The phenomenon of zombie companies remains one of the most curious and costly inefficiencies in modern economies. Understanding the tactics that keep these companies alive helps us recognize the broader risks they pose—not only to investors, but to entire financial systems.

Dr. Copper's Diagnosis Today

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Smartphones, computers, lights, cars, renewable energy and, of course, the all-new AI all share a common ingredient: Copper. Or more specifically, Dr. Copper. The nickname comes from copper's reputation of being one of the most reliable indicators of the global economy. Why? Copper is a crucial component in virtually everything that needs electricity, from consumer electronics to energy systems, thereby linking its demand with overall economic health. With the economy navigating uncertain waters, Dr. Copper may just be our best gauge of the current economic climate.

Copper's role as an economic barometer stems from its extensive use across industrial and consumer sectors. Periods of economic expansion involve mass construction, manufacturing, energy projects, and consumer spending, driving up copper demand and in turn, pushing prices higher. Conversely, when the economy slows, or as currently feared, enters a recession, the demand for copper drops, and so does its price. In short, rising copper prices are often a sign that the global economy is thriving and falling copper prices can be a warning sign that rocky waters may lie ahead. But have tariffs changed that?



China's Dominance and Demand

China holds a dominant position in the global copper market, accounting for almost 60% of global demand in 2024. However, the country has faced sluggish economic growth due to tariff threats impacting its ability to export manufactured goods, tightening domestic policies, and ongoing challenges in the real-estate sector, leading to a decline in Chinese copper demand. China has been a key target of tariffs imposed by the Trump administration in recent months, contributing to the volatility in copper prices. The Chinese government is actively pursuing economic stimulus measures through infrastructure investments, but the industrial demand for copper has yet to fully recover, contributing to the copper market uncertainty.

Your Copper Just Got Pricier

President Trump's newly imposed 50% tariffs on semi-finished copper products triggered a significant increase in U.S. copper prices in recent months, followed by the largest intraday price drop in US copper futures history, plunging nearly 20% July 30th, 2025. This extreme volatility in copper prices vividly illustrates just how sensitive copper is to both macroeconomic and policy shifts, reinforcing its reputation as "Dr. Copper."

In the lead-up to the announcement, U.S. copper futures had surged to a record high, with COMEX Copper trading at a significant premium of 28% over global benchmarks like the London Metal Exchange. This spike was driven by panic buying and speculative bets, with the market pricing in the full impact of across-the-board 50% copper tariffs. Manufacturers who require copper rushed to stockpile refined metal ahead of the anticipated tariff imposition, while traders jumped on the arbitrage opportunity, aiming to capitalize on the price gap. However, when it was revealed that refined copper was to be exempt from the tariffs, traders unwound their positions, leading to a dramatic sell-off and sharp decline in prices.

The dramatic reversal in copper underscores how rapidly market sentiment can shift based on new information, specifically regarding the metal. The swift price drop served as a real-time indicator of changing economic outlooks, highlighting how quickly the outlook can evolve in response to policy announcements and shifting expectations. In essence, copper's market fluctuations continue to provide insight into the broader economic pulse, showing just how sensitive the global economy is to changes.

Dr. Copper's Prognosis:

So, what is Dr. Copper telling us? The message is mixed, but meaningful. Recent volatility isn't just noise; it reflects deeper economic misalignment. Global supply chains are strained, demand remains rocky, and growing protectionist measures are growing uncertainty.

While near-term challenges and global economic uncertainties have weighed on prices, copper's long-term fundamentals remain compelling. From solar panels and energy to data centers, smart grids and even consumer electronics, copper is indispensable, and there is no viable substitute for its unmatched conductivity and durability. There may be rocky waters ahead, but copper's role as the backbone of the global economy remains strong.

So, for now, Dr. Copper isn't ringing alarm bells, but the prognosis calls for caution.

Modern Competitive Advantages: It's Time to be Different

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For a long time, there have been pots of gold hidden behind companies that haven't been discovered yet, and those pots of gold are true, durable competitive advantages. It has always been the dream for many to uncover these hidden gems. However, with technology, the internet, and information's instantaneous travel, is it feasible to continue down this road? It may be possible, but is it worth it? Or is it finally time to walk a different path, with a different stride?

The Incredible Usefulness of Competitive Advantages

Despite the difficulty in finding them before anyone else in today's day and age, it is important to note that disregarding sustainable competitive advantages is not the

theme of this message. Identifying them, even in well-established companies, and then going further by asking why and how, are two very simple steps to building an understanding of a business and its industry that few might realize at first glance.

For example, Apple has long since moved out of the line of fire in terms of overspending on R&D, choosing to focus on brand strength and switching costs, while Meta and Nvidia continue to fight for a true advantage in AI and the future it promises. The challenge with this approach is that once achieving technological advancement, one can never let their foot off the gas. This much becomes clear in the tech industry, even from just a few lines of an income statement as long as you ask why and how.

This ties back to the overall idea, as to be different we still must build an understanding. However, once we have it, the question becomes how should one differ from the norm and walk the unfamiliar road?

The Butterfly Effect (No not that one!)

Ever heard the saying "Don't waste your time chasing butterflies, mend your garden and the butterflies will come"? What if we could interpret that through the lens of investing? Instead of chasing returns or tirelessly searching for gold, we could focus on building and managing our portfolios as we would a garden.

In this day of modern technology, where everyone chases those butterflies, perhaps we ought to stop walking the paths of the solution that, like emotions, are often fleeting, and instead choose to build. Better yet, why don't we build an adaptable garden?

While most businesses are likely made up of simple, complicated, and complex thoughts and actions, we can start to be different by acknowledging the complexity of the financial markets and of people. Complexity is ever-changing, unpredictable, irreproducible and often is only understood in hindsight.

Perhaps that is why identifying the signs of a competitive advantage before anyone else is more like chasing butterflies than cultivating a flourishing garden.

Building An Adaptable Garden

This is where things become complex, and it is also where one must acknowledge that there are no frameworks, axioms, or laws to become different. This is encouraging despite being daunting, as if there truly were a set of steps

to achieve differentiation, that wouldn't be different. There are, however, a few ideas that may prove to be useful in building one's garden.

To think complexly, to be different, and to build an adaptable garden is a journey that one will be on as long as they choose to be. It may seem vague, ambiguous; that much is complexity. Building this garden is a journey that I am beginning, one that will serve as the catalyst to whatever success or utility is found along with it.

Expect this journey to be difficult. Expect it to be uncomfortable for it is foreign, uncertain, for it is different. This was not meant to be a method to refine the way in which we search for gold now that technology has made that both easier and much, much harder. This is, hopefully, a thought-provoking message for anyone who dares to be different, anyone needing the push to build their garden, and anyone who is ready to walk a different path, with a different stride.



Rick's Rant **Muddle**

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Crap! I had a great rant written for the Schooner, and when I went to save it, I got a "You already have a file with that name" error. Yup, me and my small brain wrote a rant with the same name within six months of another. Shows my level of creativity and unique thoughts! Admittedly, the rants were quite different, although on the same topic (Questions). However, I realize it would be quite lame if I basically replicated something from less than a year ago. (Being the cheeky geek that I am, I always try to wait 4 years until the current class can roll off as alumni.)

So here I am on a pivot. A new idea that gets created on the spot. The question as I write these exact words is will it be any good, or will it be total crap! Yup, I am completely making this up as I go along, trying to make the deadline for submitting this. Of course, I have the added pressure of having seen a few of the excellent other articles that are lining up to be in this issue of the Schooner. My only saving grace is that my rant generally goes last and so everyone else is busy contacting the previous authors on LinkedIn and thus my rant gets ignored.

Life is so much like that. We constantly have to pivot if we want to move ahead. If you want to get to a different destination you need to do different things, utilize new ideas, take new risks, and then wait and see if it all pays off. Sometimes it is nothing more than a big muddle through.

In academia, and in B-School in particular, we like to think that we create grand plans and strategies that will always lead us to the glorious futures that we have in our heads. The reality of course is much different. The only companies that religiously follow a strategic plan are those companies that are brand new and have not yet done anything. Well, there is another class of companies that follow a grand plan religiously, but they tend to not last long and thus are forgotten, if they ever got to be known in the first place. As heavyweight boxer Mike Tyson claimed, "everyone has a plan in place until they get punched in the face."

Going off your original path is not always fun. Doubts start to creep in. You are disappointed in yourself for not

thinking things through better to completion (which is a silly thought process as the great things in life almost always seem to come through serendipity and complete ignorance). Some days it is trivial to be creative. Today is not one of those days (for me at least). Changing your mind and being forced to be creative on the spot can be hard work.

Perhaps this is the time that I should yield to temptation and "AI it in" (is that a term yet on the equivalent of "mail it in"?). Admittedly I did take a break for a fresh coffee and a chance to read a new article on how AI does not eat your brain; it just makes it seem that way. Yup, not going to let AI write the rest of this. And of course, this article will easily pass a Turing Test as it just might be so crappily written that you instantly conclude a flawed human (i.e. me) did it.

A large part of getting stuck is that we get so fixated on our original idea that we only let it go with extreme reluctance. Perhaps that is the space that I am at this point. What I really need is to get to a DALIS meeting.

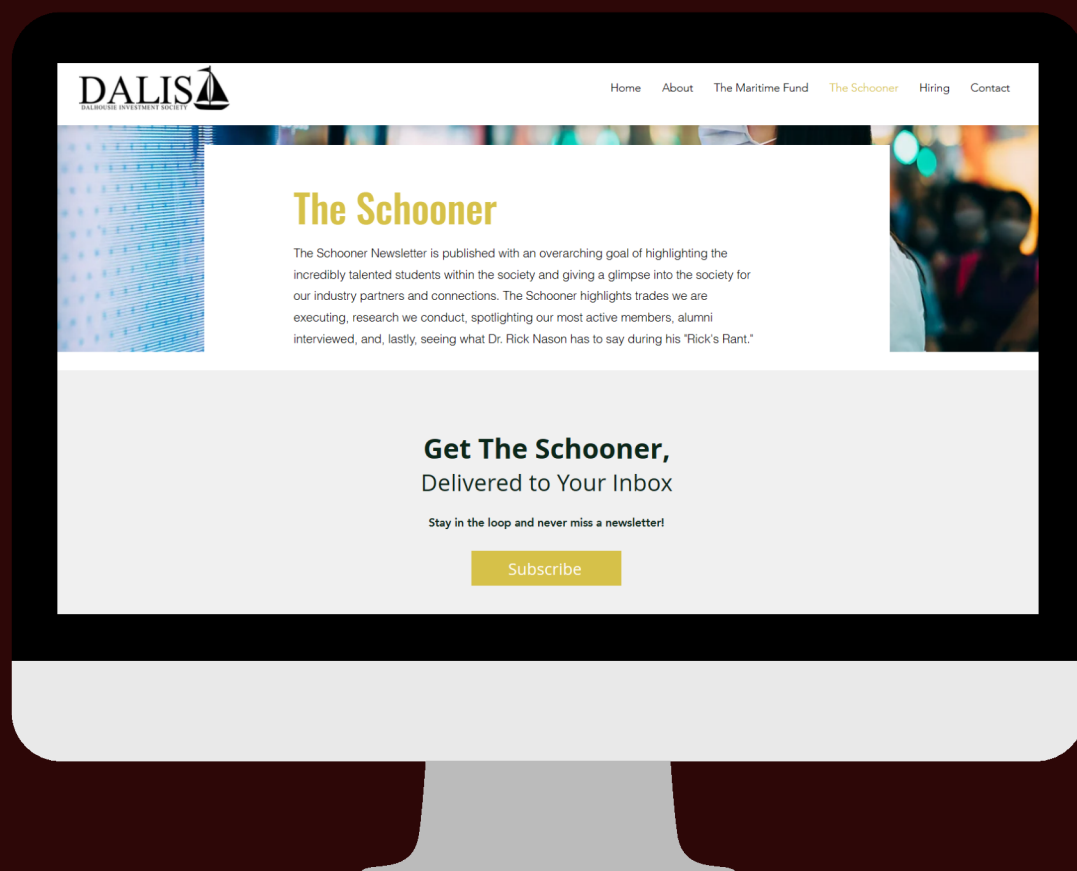
The true pleasure of DALIS for me personally is to see and hear about the fresh ideas of the students. This summer it has been especially cool. Having the second-year students take the lead has produced a unique level of energy and ideas. Ever notice that the best breakthrough ideas always seem to come from those with less than massive experience? The coolest ideas come from those with just enough experience to be dangerous. While the data tell us that older people are better entrepreneurs, it is undoubtedly the young who are the best catalysts. There is a unique magic and power in not being concerned with your baggage (or lack of baggage) of knowledge and just going ahead. It is muddling at its best, without knowing that you are muddling. It is also the best part for me of being associated with DALIS.

The DALIS students worked hard through the summer semester. Lots of great presentations, lots of great learning, and lots of energy generated. Huge kudos to Neve and Lucas for bootstrapping DALIS to life for the summer while most of the students are on their co-ops. It was anything but a muddle. That is the power and value of students.

Meanwhile, I need to muddle my way to another cup of coffee.

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