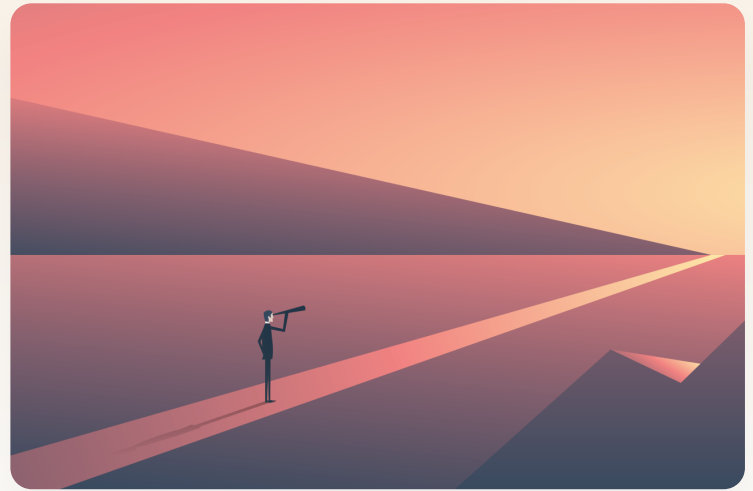


Insightful Opinions

What the Future of the Exempt Market Holds

Tommy Baltzis



The new world...

Last week an investor asked me what do I foresee in the future, and I answered him with a Robert Kennedy quote: “All of us might wish at times that we lived in a more tranquil world, but we don’t. And if our times are difficult and perplexing, so are they challenging and filled with opportunity.” The investor looked at me and was not very pleased with my answer. The world is in fact becoming more complex, more challenging, more competitive, and therefore bringing on more volatility to public markets and scaring investors with large upswings and downswings. So what does this all mean?

For investors in public markets that have the appetite for a rollercoaster ride, it brings on many opportunities to capitalize on volatility. But for others who look for capital preservation with steady returns and ‘without the heart palpitations,’ where can they turn to when the new norm of public markets is increased volatility, increased correlation between traditional asset classes, and fixed income returns barely covering inflation? The answer is obviously non-traditional asset classes, hence the Exempt Market.

The Exempt Market 2.0...

The Exempt Market has seen many new dealers emerge, many new issuers looking to raise funds, and many new investors exploring a world they did not know existed. So what now? Where is this market headed? I believe the following points can summarize the future of the Exempt Market:

- Liquidity of market & collaboration of participants
- Increased regulation
- Technology
- Broader range of exempt products

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- Allocation of portfolios to exempt products
- Consolidation

Liquidity of market & collaboration of participants Exempt products will always be considered high-risk due to the illiquidity of most products, but platforms looking to create a secondary market will consider the new TSX Private Markets as a much-awaited solution to this problem. Investors now have the option of getting in or out of an investment, even after the issuer has closed its capital raising stage. In addition to helping on the liquidity side of things, TSX Private Markets should be able to unite dealers to work together for the greater benefit of the market. I believe that in the near future dealers on TSX Private Markets will collaborate on due diligence related to issuers and work to centralize efforts in raising funds.

Increased regulation

With every day that goes by, you can count on regulators moving more and more into the Exempt Market space. Regulation will get more rigorous and compliance much more demanding. Regulators will be looking more closely into referral arrangements, especially from non-licensed contacts, and into

related parties between issuers and dealers. Costs related to compliance and regulation will take a toll on exempt market dealers but is a necessity to protect the public and to build confidence in issuers.

Technology

The Exempt Market is no stranger to technology and will be affected by it like any other market. Investors will be demanding more information on issuers and products, more online tools to check

their investments through tablets and smartphones, and even how these exempt products correlate to other traditional asset classes. In addition, I believe investors will demand to keep their information more confidential and 3rd party tools will be developed to facilitate and streamline the accreditation process without jeopardizing the integrity of the process.

Range of exempt products

The Exempt Market has traditionally been overrepresented by real estate and oil & gas products due to the fact that they originated in Western Canada, offered attractive distributions and in some cases, tax incentives.

As the years go by, and more people become aware of this market, there will be new issuers entering the market but from a myriad of other industries. Issuers with various and novel payout structures will likely enter the market with great ideas for potential future capital gains. Considering that most issuers are now available for registered plans and the tax benefits of holding income producing products in these types of plans can be significant, I

believe the Exempt Market will be anchored on fixed income products, but a portion will shift toward capital gains products to provide tax efficient options for non-registered investments.

Allocation of portfolios to exempt products

All portfolio managers are being challenged for returns these days due to bonds not offering higher yields. It does not take a 'rocket scientist' to realize that the Exempt Market is going to

gain popularity with portfolio managers. AGF in the October 2014 issue of Investment Executive stated that they would be looking at alternative investments in order to find opportunities to produce a higher yield for their portfolios. Investor portfolios will have a higher allocation to alternative investments and particularly, the Exempt Market.

Consolidation

The points elaborated above will inherently cause a consolidation in the market. A higher cost related to compliance and regulation, a bigger demand by investors and dealing representatives for more technology and more collaboration between dealers will force smaller dealers to reevaluate their operations and bigger dealers to look for economies of scale.

In conclusion, I am reminded of a quote attributed to Darwin: "It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change." This premise has repeatedly stood the test of time and the future of the Exempt Market will be no different...



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Tommy Baltzis serves as the President, CEO and portfolio manager of the Quebec based investment firm WhiteHaven that he co-founded. Mr. Baltzis has over 20 years experience in corporate finance and over the last decade has specialised in financial services in Canada. Mr. Baltzis also serves on various other board of corporations and notably as the Chairman of the Private Capital Markets Association of Canada and director to the Board of Governors of the Conseil des fonds d'investissement du Quebec.

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