CANADIAN
ETF Watch
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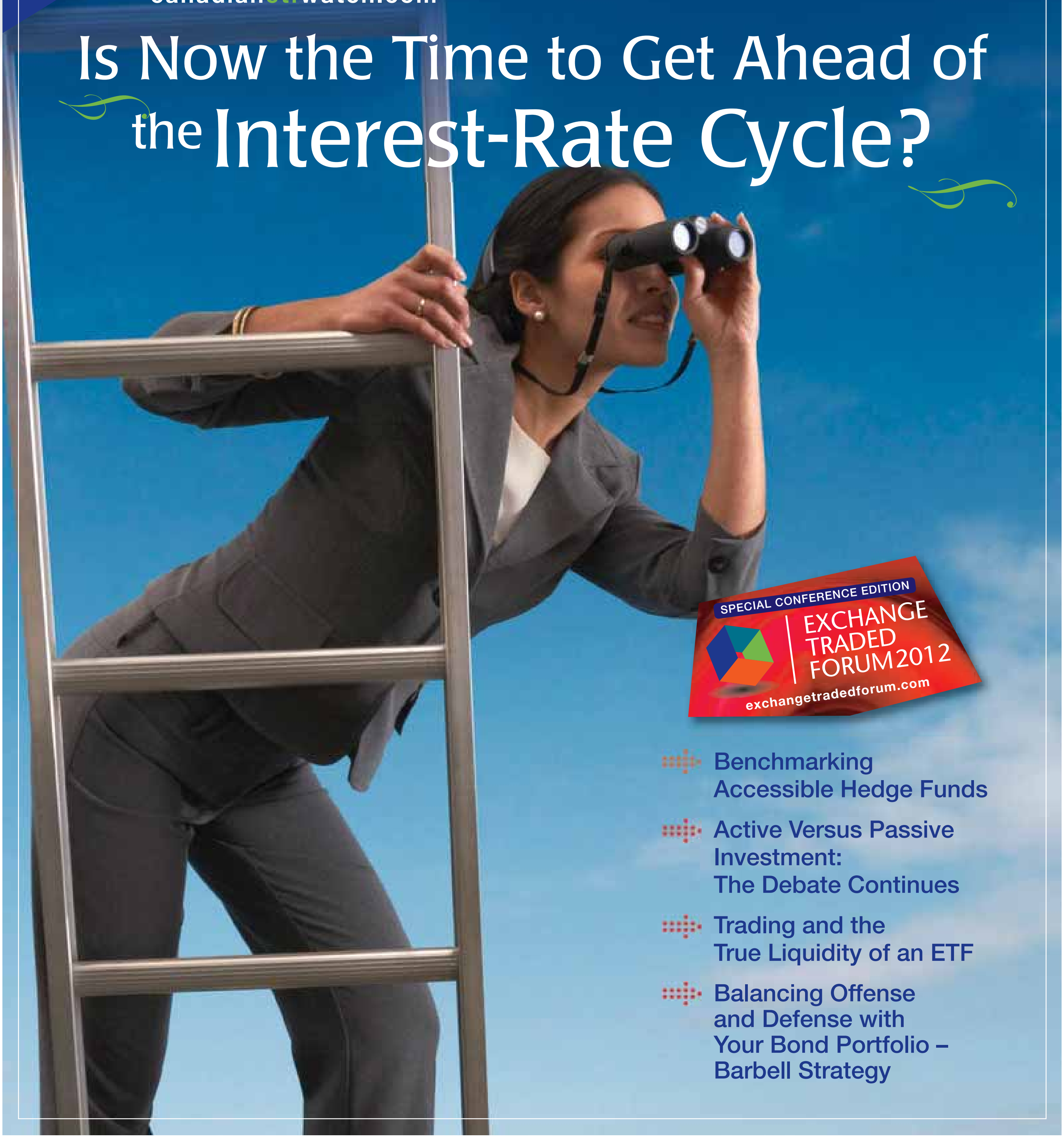
Is Now the Time to Get Ahead of the Interest-Rate Cycle?



- Benchmarking Accessible Hedge Funds
- Active Versus Passive Investment: The Debate Continues
- Trading and the True Liquidity of an ETF
- Balancing Offense and Defense with Your Bond Portfolio – Barbell Strategy

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On behalf of **Radius Financial Education** I would like to welcome you to our 2nd annual western Canada Exchange Traded Forum, **ETF 2012**, a platform for ETPs, including ETFs, ETNs and Indexing. The purpose of this event is to provide a comprehensive forum of leading industry professionals to share, educate and help you better understand ETPs.

The first quarter of 2012 marked the best ever start for the Exchange Traded Products (ETP) industry, according to BlackRock's latest ETP Landscape Report, as investors continued to return to the market and selected ETPs to invest in a range of asset classes.

The global ETP industry gathered net new assets of $67.3bn during Q1 2012, representing an increase of 50% on Q4 2011 when net new assets stood at $44.8bn, and an increase of 57% on the $42.8bn of inflows recorded in Q1 2011.

Investor interest in fixed income ETPs also hit new highs during the quarter. Fixed income products attracted inflows of $19.5bn, eclipsing the previous quarterly record of $14.7bn set in Q4 2011, and accounted for 29% of all inflows into ETPs globally. Within the asset class, investors showed a clear preference for investment grade and high yield corporate bonds, with these two categories accounting for 85%, or $16.5bn of total fixed income inflows.

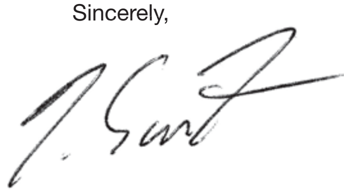
The rapid growth of Exchange Traded Funds (ETFs) in recent years is creating an education gap that could leave investors exposed to risk from a lack of understanding of some of the products more complicated variations. In the 20 odd years they've been around, ETFs have grown from a relative small and simple financial product into a trillion-dollar global business using leverage, covered calls, derivatives and much more.

In October of last year, a U.S. Senate sub-committee hearing with panellists representing ETF providers, regulators, exchanges and investors discussed the role ETFs are playing in today's financial markets. "One key area of agreement among panellists was the education gap and the need to improve understanding of complex products such as leveraged and inverse ETFs," says Patricia Lovett-Reid, senior vice president of TD Waterhouse. "As exotic ETFs get launched and use derivatives and swaps to create exposure, there is an education gap."

"When used properly, ETFs can help investors gain fast, cost-effective and tax-efficient access to innovative investment and hedging strategies," Lovett-Reid says. "Remember the 'homework before you play,' rule - do your ETF homework before you go out and play with them." We are happy to be able to provide a forum to make "doing your homework" easier and more efficient.

In closing, it's an honour to be here among such an esteemed group of individuals and I look forward to meeting all of you. I wish you continued success and hope you enjoy **Exchange Traded Forum 2012**.

Sincerely,



Tony Sanfelice, President
Radius Financial Education

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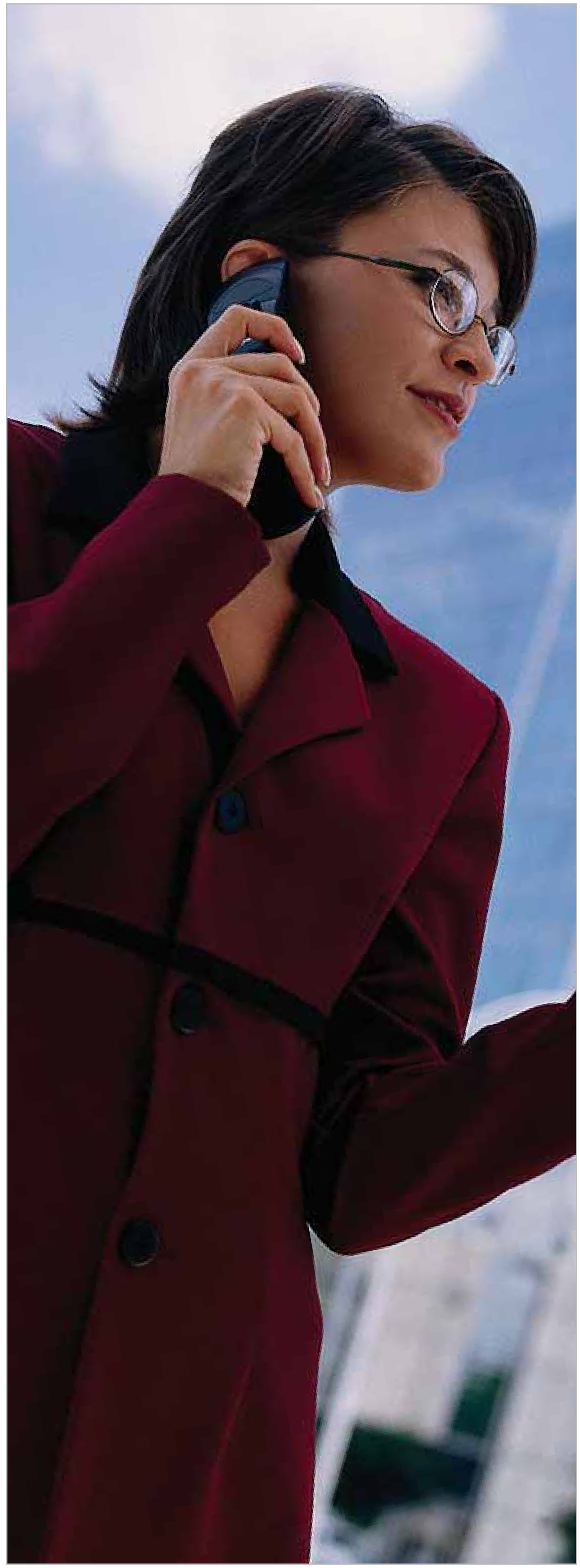

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Types of ETFs

*There are a variety of **Exchange Traded Funds (ETFs)** that provide investors an opportunity to develop a diversified investment portfolio. ETF sponsors are constantly adding to the types of ETFs available, providing investors with more choice. Many ETFs track the performance of an underlying index or benchmark. The underlying index or benchmark may be broad, or sector-specific, or be linked to commodities or currencies. ETFs have evolved, however, to include those that do not passively track an underlying index or benchmark.*

ETFs can be grouped into different categories, which may include:

Index ETFs

ETFs that use an index tracking approach generally follow a pre-selected index, called a benchmark, and the return on the ETF will closely correlate with that of the underlying index. Index ETFs follow a variety of indices, including the broad market (both Canadian and international), sectors such as infrastructure or health care, and commodities (including natural gas, oil and gold), as well as indices that offer exposure to dividends or fixed income. The weightings used in the underlying index could be based on market capitalization of the constituents or on fundamental factors such as financial criteria. Index ETFs may also follow indices that adhere to a certain investment style, such as value or growth.

Inverse and Leveraged ETFs

Inverse ETFs are designed to seek daily investment results that correspond to the inverse daily performance of their underlying index or benchmark. To meet their investment objectives, inverse ETFs use a variety of derivatives such as futures contracts and index swaps to reproduce a daily result that is the opposite of the underlying index or benchmark; so, when the index or benchmark goes down in value on a given day, the inverse ETF will correspondingly go up in value for that given day. Conversely, when the index or benchmark goes up in value, the inverse ETF will correspondingly go down in value. Investing in these ETFs is similar to holding short positions, or using a combination of advanced investment strategies to profit from declining prices.

Leveraged ETFs are designed to seek daily investment results to provide a multiple of the daily performance return of an underlying index or benchmark (for example, 200% the return). They are not intended to provide that same multiple of the return over the mid or long term. Investors should be aware that, while leveraged ETFs typically achieve their stated objective of a multiple of the daily performance of an underlying index on a daily basis, their returns can vary considerably from that stated objective if held for a period longer than one day. Note that some leveraged ETFs are also inverse, in that they track the opposite of the return of an underlying benchmark.

To meet their investment objectives, leveraged ETFs use a variety of derivatives such as futures contracts and index swaps to provide a multiple of the market exposure of the stocks in the fund. Leveraging increases the risk of the investment in such an ETF, in that losses will be magnified by that same multiple.

Inverse and leveraged ETFs are generally intended for use in daily or short-term trading strategies, and are not intended for investors who are looking to hold positions in a security beyond the short-term. Over time, a leveraged fund can drift from its benchmark due to the effects of compounding, especially during periods of market volatility. Therefore, the return on these ETFs for periods longer than a single day will not correlate with the return of the underlying benchmark. Accordingly, significantly more risk is involved in these types of ETFs than in index ETFs.

It is important that investors clearly understand the nature and risks of any ETF prior to investing.

Commodity ETFs

Commodity ETFs provide exposure to commodities such as energy (e.g., natural gas or oil), precious metals (e.g., gold, silver or platinum), or livestock and grains, either by (i) holding the physical commodity directly, (ii) tracking the performance of the spot market price through physical forward contracts, or (iii) investing in or tracking the performance of commodity futures contracts. ETFs that hold the physical commodity provide exposure to the spot price of the commodity without the trouble of storing the commodity. ETFs that hold futures provide exposure to futures without the trouble of rolling them over. Most commodity indices are futures price indices, reflecting a change in the price of commodity futures, not in the commodity price.

Currency ETFs

Currency ETFs provide exposure to currencies and can also hold either the actual currency or futures contracts. Some are designed to be long or short on one currency against others; some are designed to hold a mix of long and short futures positions among several currencies.

Actively Managed ETFs

Index ETFs are generally designed around a passive strategy and therefore typically have lower management fees. Some ETF providers offer actively managed ETFs that operate more closely to the concept of a mutual fund. These ETFs have an active manager making investment decisions, often with the objective of outperforming rather than tracking a particular benchmark index, but usually with lower management fees than a traditional mutual fund.

Exchange Traded Notes (ETNs)

Exchange traded notes are debt obligations of the issuer and trade like ETFs. They do not guarantee any return of principal at maturity and do not pay any interest during their term. While they exhibit no tracking error in that their return at maturity is linked to the return of the underlying index (minus expenses), they do exhibit credit risk linked to the issuer. ETNs offer long and short or inverse exposure to commodities and currencies as well as leveraged exposure.

Source: tmxmoney.com

Is Now the Time to Get Ahead of the Interest-Rate Cycle?

Since the 2008-2009 financial crisis, benchmark interest rates have remained at record-low levels.

Michael Cooke
Head of Distribution
PowerShares
Canada
Invesco

While nobody can predict when interest rates will rise, many investors forecast that they will indeed rise due to inflationary pressures and the normalization of monetary policy. With investors voraciously feeding on fixed-income assets – partly due to risk aversion, partly due to aging demographics – duration risk is a ticking time bomb in many portfolios. Even if rates remain flat for a while, many investors believe now is the time to get ahead of the interest rate cycle.

While the lower duration of higher-yielding assets might help mitigate interest rate risk, investors seeking competitive yield, less default risk and protection from interest rate cycles might consider senior loans.

Record-low interest rates have two effects on government debt instruments: 1) Current income is suppressed (because yields are low); and 2) Interest rate risk rises (because interest rates have compressed the downward price cushion). While the simple answer might be to avoid the asset class altogether, given investor risk aversion and aging demographics, many investors require an allocation to bonds.

Investors have traditionally mitigated duration risk by shifting a portion of fixed-income allocations into higher-yielding assets, such as high-yield bonds. Relative to Treasuries[1] of the same maturity, high-yield bonds have a lower duration because of the higher coupons received by the investor. Lower duration results in less sensitivity to interest-rate changes, making high-yield bonds a more appealing asset within a rising-rate environment. Of course, the tradeoff of lowering duration risk using high-yield bonds is that high-yield bonds come with a higher default risk. Consequently, a judicious approach is warranted.

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Despite their relative appeal, high-yield bonds are not a duration panacea – rising interest rates do have a negative effect on the price of high-yield bonds. Additionally, there is a second factor that distinguishes high-yield bonds from Treasuries: credit spreads.

As unsecured subordinated corporate debt, high-yield bonds are exposed to changes in corporate credit quality. This second factor helps drive performance during rising-rate environments, since these environments typically occur when business fundamentals are improving. In effect, high-yield bonds are a play on credit spreads and interest rates, where the investor hopes that improving credit fundamentals outweigh the effects of rising rates in an inflationary growth environment.

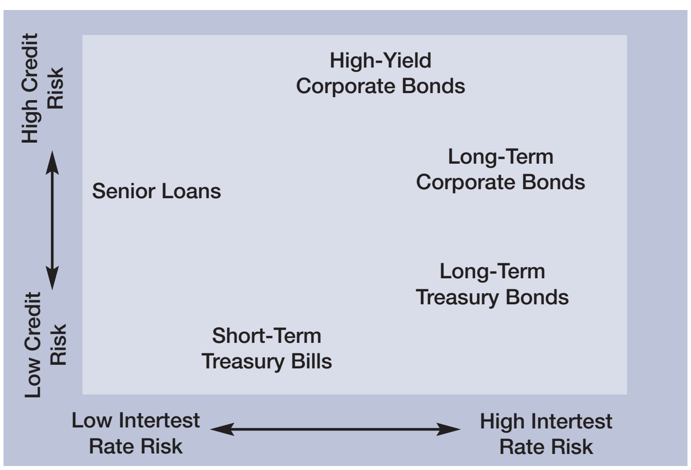
While high-yield bonds may perform well in a rising rate environment coupled with economic expansion, transitioning from the comparatively comfortable world of Treasuries and investment-grade credit to sub-BBB unsecured high-yield debt may not appeal to all investors. After all, in many investors' minds, the risk/return profile of high-yield debt is mere steps away from that of some defensive equities.

There is another, less risky alternative: Senior Loans.

Senior loans (aka leveraged loans or bank loans) are usually loans provided by banks to mature companies in established industries. While the issuers aren't necessarily investment grade, the loans are secured against general or specific company assets. Furthermore, senior loans rank senior to other liabilities in the capital structure and have the first claim on assets in the event of corporate delinquency. Thus, while the default rate on senior secured loans (3.5%) is relatively close to the default rate on speculative-grade bonds (4.8%), the recovery rates are materially better (66% vs. 31%)[2].

To illustrate the differences, the chart below plots the theoretical relationship between interest rate risk and credit risk for a variety of assets:

Bond Risk Matrix



Source: Standard & Poor's, for illustrative purposes only.

The most distinguishing feature of senior loans is that they pay LIBOR plus a spread that resets every 30 to 90 days, making them a floating-rate instrument with a very low duration. In other words, when interest rates rise, senior loans pay more, almost eliminating duration risk from the equation. Senior loans have historically performed better than the broad bond index in rising rate environments. Looking specifically at the last two rising interest rate cycles, the chart below shows how senior loans outperformed traditional bonds:

Senior loans typically yield less than high-yield bonds, but part of this difference is explained by the extra compensation high-yield bonds must pay to account for interest-rate risk and additional credit risk.

Since a senior loan virtually eliminates interest-rate risk, its price is dependent on the present value of the credit spread over LIBOR. In this sense, senior loans are a pure credit play irrespective of the interest rate environment. In contrast, high-yield bonds are a bet on credit and interest rates.

Since high yield bonds compensate for credit and interest-rate risk, one cannot simply compare the yield on a high yield bond with that of a senior loan with the same term to maturity. One way to roughly adjust for the extra duration compensation embedded within high-yield bonds is to reduce the yield on U.S. high-yield bonds by the yield on a U.S. Treasury bond of similar maturity. (Given that a U.S. Treasury bond is a pure duration instrument because of its risk-free, highly liquid status).

The result is a duration-adjusted yield that only compensates for the credit component of the high-yield bond. Using duration-adjusted yields to evaluate the compensation paid by senior loans helps provide an "apples to apples" comparison. Adjusted for duration, senior loans provide a similar yield to high-yield bonds with less default risk, as illustrated below:

ML High Yield 100 Index Yield to Maturity	7.08%
Less 5-year U.S. Treasury	0.81%
Equals Duration-adjusted Yield	6.27%
Comparable Senior Loans Current Yield	6.10%

Source: Bloomberg, April 30 2012

And that's not to disparage high-yield bonds. Like senior loans, high yield has its place within a strategic portfolio allocation. In fact, a case can be made for allocating the fixed-income portion of a portfolio across pure duration (Treasuries), high duration (investment grade corporates), moderate duration (high-yield bonds) and low duration (senior loans) assets because they have different risk/return characteristics and have historically performed differently within market environments. In today's interest rate environment, however, many investors are shifting high-duration holdings into equal proportions of high-yield bonds and senior loans.

Shifting assets away from government bonds into senior loans can provide investors with access to credit spreads while significantly reducing interest rate sensitivity, relative to higher duration assets, and default risk, relative to high-yield bonds. Until recently, the senior loans market has been inaccessible to many retail investors. With the introduction of PowerShares Senior Loan (CAD Hedged) Index ETF (BKL) – the first senior loan ETF in Canada – retail and institutional investors alike have simple, liquid access to this asset class.

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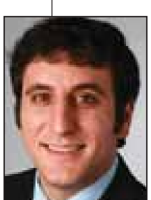
[1]For the purpose of this article, U.S. Treasury Bonds were used as the basis of evaluation because the senior loan and high-yield bond markets are dominated by U.S. issuers. A Canadian investor needs to consider currency risk when holding foreign securities and may be well served to incorporate currency hedging.

[2]Sources: LCD (for default rates), January 1999-April 2012; Moody's (for recovery rates), calendar years 1982-2011.

Benchmarking Accessible Hedge Funds

Benchmarking and passive investment in hedge funds through the Morningstar® Hedge Fund Index family.



Benjamin N. Alpert
CFA, CAIA
Research Analyst
Morningstar, Inc.

Hedge funds have demonstrated their potential to diversify portfolios and mitigate downside risk. These investment products achieve these results because of relatively unrestricted investment mandates. While traditional investments are typically purchases of equities or bonds, hedge funds generally invest both long and short in a wide variety of markets, including equity, fixed-income, currencies, and commodities.

Most hedge funds earn returns through trading strategies using liquid instruments, but others invest in securities whose returns are tied to liquidity premiums more commonly associated with private equity. Many have restrictive terms or minimum investment requirements that limit all but the largest investors without liquidity concerns.

Morningstar has developed the Morningstar® Broad Hedge Fund Index℠ as a benchmark of hedge funds with more permissive terms that are accessible to high-net-worth individuals as well as small and moderate-size institutions. Additional research into the factors that influence the returns of this index has been used to create a replication index, the Morningstar® Nexus Hedge Fund Replication Index.℠ The replication index is composed of a basket of securities, which in aggregate performs in line with the hedge fund index. This index is a proxy for the daily returns of the accessible hedge funds that compose the Broad Hedge Fund Index.

Hedge Fund Benchmarks

Having a reliable benchmarking system is one of the biggest challenges that investors face when selecting and evaluating hedge fund managers. Investors are interested in analyzing how hedge funds' strategies correlate with both broad market strategies for portfolio construction, optimization, and asset-allocation purposes.

Hedge fund indexes come in two basic varieties:

- Broad hedge fund indexes are considered non-investable and are calculated based upon hundreds or thousands of fund returns.
- Investable hedge fund indexes are based upon relatively small samples of funds.

Broad hedge fund strategies typically include funds that may be closed to investors or have limited availability. Broad indexes are derived from the constituents in a hedge fund database, which rarely include the returns of the largest or most prominent funds. These indexes generally apply currency unhedging or conversion to present results in a single currency. Some broad indexes have no asset minimum or operating history requirements, allowing small and untested funds to drive index performance. Most of these indexes include funds that are closed to new investors along with funds that are still available. An example of this is the HFRI Fund Weighted Composite Index, which includes open and closed funds, as well as funds denominated in multiple currencies.

Investable hedge fund indexes are generally limited to funds that remain open to new investments. They are also restricted to funds on one investment platform. Investable indexes are thus more subject to risks from individual funds. For example, the Credit Suisse/Tremont Hedge Fund Index lost approximately 40% in December 2008, primarily due to Madoff exposure through a single feeder fund.

Morningstar® Broad Hedge Fund Index℠

The Morningstar Broad Hedge Fund Index has been created as a benchmark for investors who have constrained budgets and high liquidity requirements for their hedge fund investments. Research, including Morningstar and Barron's 2010 annual Alternative Investment Survey, indicates that lack of liquidity is the number one reason that both advisors and institutions hesitate to invest in alternative investments. Additionally, many advisors and institutions indicated that the length of lockups and size of investment minimums prevent their firms from allocating to hedge funds. This index is considered appropriate for investors with limited budgets for direct hedge fund investments and the need for regular rebalancing. The index rules have been created to reflect the needs of these investors.

Having a reliable benchmarking system is one of the biggest challenges that investors face when selecting and evaluating hedge fund managers.

- The starting point for our Broad Hedge Fund Index is the Morningstar hedge fund database, which contains approximately 4,500 direct hedge funds (as opposed to funds of hedge funds).
- Operational and liquidity filters are applied to identify those funds that are most available to investors.

Figure 1. Index Comparisons
December 1, 2003–March 31, 2012

	Annual Return %	Annual Standard Deviation %	Sharpe Ratio	Skewness %	Kurtosis %	Maximum Drawdown %
Morningstar Nexus Hedge Fund Replication Index	**11.79**	**16.40**	**0.65**	**-0.32**	**0.47**	**-34.18**
Morningstar Broad Hedge Fund Index	**6.14**	**5.68**	**0.74**	**-1.04**	**2.21**	**-17.06**
Barclays Capital U.S. Aggregate Bond Index	5.38	3.44	0.95	-0.11	1.54	-3.83
S&P 500 Index	5.61	15.44	0.31	-0.78	1.94	-50.95
MSCI World Index	3.61	16.83	0.18	-0.88	2.22	-55.37
S&P GSCI	2.42	25.50	0.15	-0.69	1.53	-67.64

- The index requires a minimum performance history of one year and at least $100 million within the strategy to ensure that the constituent funds are not in incubation and have sustainable businesses.
- To ensure that underlying funds would be eligible for an institutional rebalancing program, funds must offer redemptions and subscriptions no less than quarterly, with a limited lockup and advance notice period.
- Funds also must specify investment minimums of no more than $500,000 so that smaller institutions and high-net-worth individuals could use these funds as a direct investment program.
- Lastly, funds must be open to new investments and denominated in U.S. dollars.

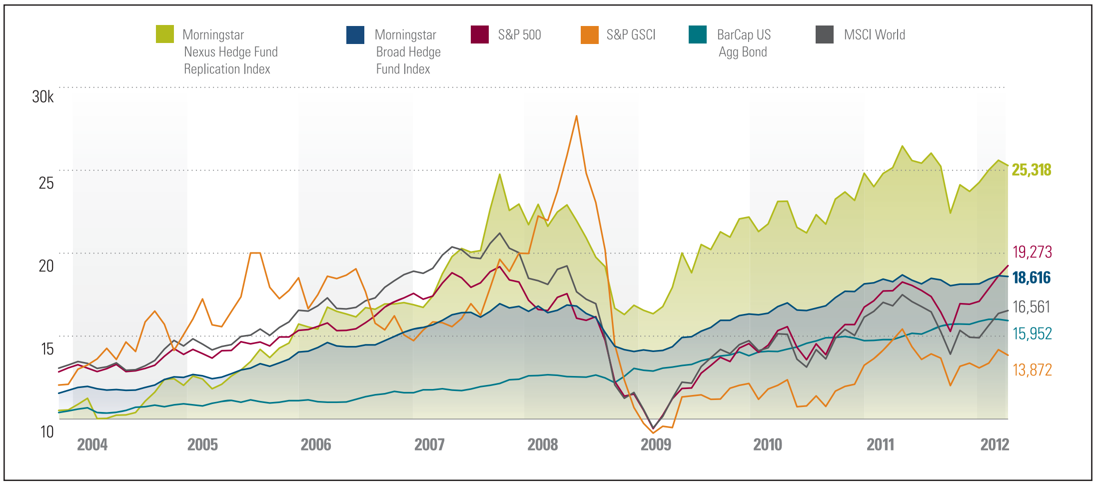
The U.S. dollar-denomination requirement is applied to remove the effects of currency hedging or translation from the index returns. The choice by a manager to hedge currency risk is often a discretionary, active decision, and by excluding funds with return streams in other currencies, the index is able to isolate these decisions to a single reference currency. This rule ensures that any currency hedging and returns are part of the investment process rather than a function of index calculation.

Since December 2003, the Morningstar Broad Hedge Fund Index has demonstrated higher returns than the traditional asset class benchmarks. In addition to the higher returns, only bonds have demonstrated a lower standard deviation than the Morningstar Broad Hedge Fund Index. The distribution of returns for the Broad Hedge Fund Index aren't quite as positive as a stand-alone feature, with the largest negative skewness and peaked returns (larger kurtosis). Overall, the index has demonstrated better risk-adjusted results over the measurement period than traditional asset-class indexes.

Continued on page 11

Benchmarking Accessible Hedge Funds

Figure 2. Growth of a $10,000 Investment, November 20, 2003–March 31, 2012



From 2003 through March 31, 2012, a $10,000 investment in the Morningstar® Broad Hedge Fund Index℠ would have grown to $18,616. (As shown in Figure 2.)

Passively Investing in Hedge Funds

There are two primary approaches to passively investing in hedge funds. The first way to gain passive exposure is through investments linked to investable hedge fund indexes, which offer returns of the specific underlying hedge funds composing the index. Investable hedge fund indexes and the products linked to these indexes are subject to selection biases that result in returns that are quite sensitive to the individual index constituents. These returns are more akin to a fund of hedge funds rather than the full hedge fund marketplace. The second approach is known as hedge fund replication. Replication products seek to identify systematic factors driving hedge fund returns. Replication products are typically based on broad, non-investable indexes. These products generally use long and short positions in exchange-traded funds, futures, and other derivative instruments to gain exposure to the individual market risks that drive hedge fund returns.

Research suggests that the aggregate returns of many hedge fund strategies are largely driven by common factors that can be replicated through investments in index investment products, such as ETFs and futures contracts. The Morningstar Broad Hedge Fund Index is the basis for the Morningstar® Nexus Hedge Fund Replication Index.℠ This index is a daily-return index currently composed of approximately 20 liquid financial instruments, including equity index futures, sovereign debt futures, currency contracts, and commodity futures. The commodity futures include positions in precious metals, energy, agricultural commodities, and industrial metals.

There are two primary methods to determine factors and weights when replicating a hedge fund index. Some regression-based models use fixed, rolling time periods and inherently make assumptions about the distributions of returns of all factors. Filtering techniques employ advanced statistics that incorporate data for the longest common periods and that make fewer assumptions related to the distribution of returns and attempts to reflect all available data. Filtering makes few assumptions related to the distribution of returns and attempts to reflect all available data. Morningstar's research has determined that replication models based upon filtering most accurately reflect the realities of the dynamic investment market. The Morningstar Nexus Hedge Fund Replication Index is a filter-based replication index. It adjusts the Morningstar Broad Hedge Fund Index upwards to reflect returns gross of expected management costs within funds. This is appropriate, as the underlying returns of the Broad Hedge Fund Index are reported to the Morningstar hedge fund database net of all management and performance fees. After adjusting the returns, the filter-based model provides the constituent positions and weights for the index each month. The history of the Nexus Hedge Fund Replication Index has been calculated since December 2003. Figure 3 outlines its performance compared with the Morningstar Broad Hedge Fund Index from December 2003 through March 2012.

The Morningstar Nexus Hedge Fund Replication Index exhibits a tracking error of 5.41% annualized and a moderately positive information ratio relative to the Morningstar Broad Hedge Fund Index. The annualized returns are higher than the Broad Hedge Fund Index. The standard deviation of the Morningstar Nexus Hedge Fund Replication Index over the period measured was higher than that of the Broad Hedge Fund Index, but the risk-adjusted returns, as represented by the Sharpe ratio, were better. Furthermore, the Nexus Hedge Fund Replication Index has exhibited lower tail risk than the Broad Hedge Fund index, as represented by the improvement in maximum drawdown, skewness, and excess kurtosis.

Conclusion

The Morningstar Broad Hedge Fund Index offers a unique benchmark for many hedge funds available to U.S. dollar-investors. The underlying funds offer frequent liquidity and minimal lockups, characteristics that are in increasing demand by investors. The index construction rules are aimed to capture the returns available to the majority of hedge fund investors who desire regular access to rebalance their holdings.

The Morningstar Nexus Hedge Fund Replication Index provides investors with a proxy for the accessible and liquid universe of hedge funds on a daily basis. The securities that are used are highly liquid and quite available for investors to create a replication portfolio. This index offers a transparent and liquid exposure to the systematic risk factors as a broad universe of investable hedge funds.

Benjamin N. Alpert, CFA, CAIA, Research Analyst, Fund Research, Morningstar, Inc.

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Active Versus Passive Investment: The Debate Continues

S&P Indices outperformed funds in the asset- and equal-weighted categories in all sectors across the globe in 2011, according to the recently published S&P Indices versus active funds (SPIVA®) Scorecard. There is, of course, nothing novel about the index versus active debate; it has been a contentious issue for decades and there are strong opinions on both sides. The SPIVA Scorecard continues to be the de facto scorekeeper of this debate.

Abigail Etches
Director, Business Development

The SPIVA Canada Scorecard reports on the performance of actively managed Canadian mutual funds. Beyond the scorecard's widely cited headline numbers, there is a rich data set that addresses issued related to measurement techniques, universe composition and fund survivorship that is far less frequently discussed, but often far more fascinating.

Elements of the SPIVA Scorecard are unique. It offers survivorship bias correction, which is useful because many funds might be liquidated or merged during a period of study. For an investor making a decision at the beginning of the period, these funds are part of the opportunity set. Unlike other commonly available comparison reports, SPIVA removes this survivorship bias. The SPIVA Canada Scorecard also provides an apples-to-apples comparison by measuring a fund's returns against the returns of a benchmark that reflects the fund's investment category. Lastly, the SPIVA Canada Scorecard also provides analysis on asset-weighted returns. Average returns for a fund group are often calculated using only equal weighting, which results in the returns of a Canadian dollar (CAD) 10 billion fund affecting the average in the same manner as the returns of a CAD 10 million fund. The SPIVA scorecard shows both equal- and asset-weighted averages. Equal-weighted returns are a measure of average fund performance. Asset-weighted returns are a measure of the performance of the average invested dollar.

S&P INDICES

Exhibit 1: Fund Categories and Their Benchmarks	
Fund Category	**Comparison Benchmark**
Canadian Equity	S&P/TSX Composite S&P/TSX Capped Composite[1]
Canadian Small/MidCap Equity	S&P/TSX Completion
Canadian Dividend and Income Equity	S&P/TSX Canadian Dividend Aristocrats
U.S. Equity	S&P 500®
International Equity	S&P EPAC LargeMidCap
Global Equity	S&P Developed LargeMidCap
Canadian Focused Equity	50% S&P/TSX Composite plus 25% S&P 500 and 25% S&P EPAC LargeMidCap

There are no consistent or useful trends to be founds in annual active versus index figures. The only consistent data point that we have observed over a five-year horizon is that a majority of active equity managers in most categories lag comparable benchmark indices.

The SPIVA Canada Scorecard shows analyses of active fund performance relative to a relevant benchmark for that fund's investment criteria, not just compared to a broad market indicator (see Exhibit 1).

In the Canadian equity fund category[2], for the past five years only 2.7% of actively managed funds have outperformed the S&P/TSX Composite. There was a similar result for the past three years, with only 8.5% of active funds exceeding the index return. For the five-year period, the average returns of active Canadian equity funds in this category, on both an equal- and asset-weighted basis, were inferior to those of the S&P/TSX Composite. Also, for the three- and one-year horizon, average Canadian equity returns in this category lagged the S&P/TSX Composite on an equal- and asset-weighted basis.

In the market segment that covers Canadian small/mid-cap equity funds, in the past 12 months 31.1% of actively managed equity funds outperformed the S&P/TSX Completion[3]. In addition, the S&P/TSX Completion outperformed active small/mid-cap equity fund returns on an equal- and asset-weighted basis in one-, three- and five-year time periods.

In the Canadian dividend and income equity funds category the mandate of the funds' constituents is to invest primarily in income-generating securities. S&P's comparable index is the S&P/TSX Canadian Dividend Aristocrats, which includes constituents that have followed a managed-dividends policy of consistently increasing dividends every year for at least five years. No active funds in this category produced higher returns than the S&P/TSX Canadian Dividend Aristocrats in the past three years. In the past five years, only 9.7% of active funds outperformed the S&P/TSX Canadian Dividend Aristocrats. In the past year only 10% of active funds were able to outperform the S&P/TSX Canadian Dividend Aristocrats. Asset- and equal-weighted returns were higher for the S&P/TSX Canadian Dividend Aristocrats than those of the active funds in this category for all periods examined.

The U.S. equity funds category offers Canadian investors exposure to the U.S. equity market with Canadian dollar returns. In addition to equity risk, these funds carry currency risk. Just 11% of funds in this category outperformed the S&P 500 (in Canadian dollar terms) in the past five years, while only 20.2% and 8% beat the index in the three- and one-year period, respectively. The S&P 500 outperformed active funds in the equal- and asset-weighted categories in all time periods examined.

International equity funds invest most of their assets in developed countries other than Canada and the U.S. In addition to equity risk, these funds carry currency risk. Of the active funds in this category, 4.55% outperformed the S&P EPAC LargeMidCap[4] (in Canadian dollars) in the past 12 months. However, only 11.5% and 6.1% of these funds, beat the index in the past three- and five-year periods, respectively. Returns for the S&P EPAC LargeMidCap surpassed equal- and asset-weighted active fund returns over all time periods examined.

Global equity funds can invest in securities domiciled anywhere across the globe. In addition to equity risk, these funds carry currency risk. In the past five- and three-year periods, only 12.2% and 11.5% of active funds, respectively, outstripped the performance of the benchmark S&P Developed LargeMidCap[5]. In the past 12 months, only 6.6% of active funds in this category were able to beat the S&P Developed LargeMidCap. Equal- and asset-weighted average returns for the S&P Developed LargeMidCap surpassed those of the active funds over all time periods examined.

The final category that the SPIVA Scorecard analyzes is Canadidan focused equity funds. These funds have a large Canadian equity allocation but also include investments in equities outside of Canada. The comparable benchmark, a blended index of 50% S&P/TSX Composite plus 25% S&P 500 and 25% S&P EPAC LargeMidCap, outperformed only 9.8% of active funds in this category in the past 12 months. In the past three and five years 19.4% and 16.5% of active funds, respectively, outperformed the blended index. The blended index had higher equal- and asset-weighted returns than those of active funds in all periods examined.

For a comprehensive take on the performance of indices versus active funds, get the SPIVA Canada Scorecard and other SPIVA reports at **http://www.spindices.com/spivaresearch.**

Note: The SPIVA Canada Scorecard does not make investment recommendations or offer comments on the suitability of either index or active investing. It simply provides quarterly numbers according to the SPIVA methodology and a brief analysis of the numbers. Further, S&P Indices advises reading the methodology at the end of the report in order to understand how the numbers are derived. For more informatiion, please visit our website, www.spindices.com/SPIVA

Abigail Etches, Director, Business Development, S&P Indices

[1] The main reports show a comparison with the S&P/TSX Capped Composite, since mutual funds are restricted from holding more than 10% of their portfolio in a single stock. A capped index better represents an active manager's opportunity set in periods where the history includes a concentration problem. In practical terms, both benchmarks would be equivalent where the history under consideration does not have a greater than 10% single-stock concentration in the S&P/TSX Composite.

[2] This report uses the Canadian Investment Funds Standard Committee's (CIFSC) fund categories. Additional information regarding this organization and their categories can be found at www.cifsc.com.

[3] The S&P/TSX Completion comprises constituents of the S&P/TSX Composite that are not in the S&P/TSX 60.

[4] Previously named the S&P/Citigroup EPAC PMI Index. Previously PMI represented 80% of the cumulative available market cap; it now represents 85%. See the glossary for additional details.

[5] Previously named the S&P/Citigroup World PMI Index. Previously PMI represented 80% of the cumulative available market cap; it now represents 85%. See the glossary for additional details.

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At KPMG, we understand the asset management industry.

Our integrated teams of Audit, Tax, and Advisory professionals help to provide our clients with an in-depth understanding of the markets in which they operate. Through our varied perspectives, we help our clients navigate the potential challenges and take advantage of new opportunities throughout the fund lifecycle—from value creation to realization.

We provide leading professional services within the domestic and offshore alternative investments space, including hedge funds, venture capital funds, private equity funds, commodity pools, and infrastructure funds, and to the advisers who sponsor these investment vehicles.

kpmg.ca

New ETF Listings YTD

December 8, 2011	iShares DEX Floating Rate Note Index Fund To Trade On Toronto Stock Exchange
December 2, 2011	Vanguard Canadian Short-Term Bond Index ETF To Trade on Toronto Stock Exchange
December 2, 2011	Vanguard MSCI Emerging Markets Index ETF To Trade on Toronto Stock Exchange
December 2, 2011	Vanguard Canadian Aggregate Bond Index ETF To Trade on Toronto Stock Exchange
December 2, 2011	Vanguard MSCI U.S. Broad Market Index ETF (CAD-hedged) To Trade on Toronto Stock Exchange
January 23, 2012	PowerShares S&P 500 Low Volatility (CAD Hedged) Index ETF To Trade On Toronto Stock Exchange
January 24, 2012	PowerShares FTSE RAFI US Fundamental (CAD Hedged) Index ETF To Trade On Toronto Stock Exchange
January 24, 2012	PowerShares FTSE RAFI Canadian Fundamental Index ETF To Trade On Toronto Stock Exchange
February 2, 2012	XTF Morningstar Canada Dividend Target 30 Index ETF To Trade On Toronto Stock Exchange
February 2, 2012	XTF Morningstar US Dividend Target 50 Index ETF To Trade On Toronto Stock Exchange
February 2, 2012	XTF Morningstar National Bank Quebec Index ETF To Trade On Toronto Stock Exchange
February 9, 2012	Claymore Managed Futures ETF To Trade On Toronto Stock Exchange
February 13, 2012	Horizons U.S. Floating Rate Bond ETF To Trade On Toronto Stock Exchange
February 13, 2012	Horizons High Yield Bond ETF To Trade On Toronto Stock Exchange
February 13, 2012	XTF Morningstar Canada Value Index ETF To Trade On Toronto Stock Exchange
February 13, 2012	XTF Morningstar Canada Momentum Index ETF To Trade On Toronto Stock Exchange
February 28, 2012	Horizons Silver Yield ETF To Trade On Toronto Stock Exchange
February 28, 2012	Horizons Natural Gas Yield ETF To Trade On Toronto Stock Exchange
February 28, 2012	Horizons Crude Oil Yield ETF To Trade On Toronto Stock Exchange
March 30, 2012	Horizons Auspice Managed Futures Index ETF To Trade On Toronto Stock Exchange
April 2, 2012	Horizons BetaPro S&P 500 VIX Short-Term Futures™ Inverse ETF To Trade On Toronto Stock Exchange
April 11, 2012	iPath Pure Beta Crude Oil CAD Hedged ETN To Trade On Toronto Stock Exchange
April 11, 2012	iPath S&P 500 Dynamic VIX CAD Hedged ETN To Trade On Toronto Stock Exchange
April 11, 2012	iPath S&P 500 VIX Short-Term Futures CAD Hedged ETN To Trade On Toronto Stock Exchange
April 12, 2012	PowerShares Senior Loan (CAD Hedged) Index ETF To Trade On Toronto Stock Exchange
April 20, 2012	Powershares S&P/TSX Composite Low Volatility Index ETF To Trade On Toronto Stock Exchange
April 20, 2012	Powershares S&P/TSX Composite High Beta Index ETF To Trade On Toronto Stock Exchange
April 20, 2012	Powershares S&P 500 High Beta (CAD Hedged) Index ETF To Trade On Toronto Stock Exchange
April 25, 2012	Horizons Morningstar Hedge Fund Index ETF To Trade On Toronto Stock Exchange
May 28, 2012	Horizons Universa Canadian Black Swan to Trade On Toronto Stock Exchange
May 28, 2012	Horizons Universa US Black Swan to Trade On Toronto Stock Exchange

ETFs In Canada

1990
World's first ETF, TIP 35, launches

September 1999
iShares launches in Canada with XIU

October 2000
State Street Global Advisors launches ETF (closes November 2002)

January 2001
TD launches ETFs (closes March 2006)

March 2006
Claymore launches ETFs

January 2007
Horizons launches BetaPro Funds

June 2009
BMO launches ETFs

May 2011
Canadian ETF Association launched

May 2011
Invesco Trimark launches mutual-fund wrapping ETFs

May 2011
XTF launches ETFs

September 2011
RBC launches ETFs

November 2011
Vanguard enters Canada

March 2012
BlackRock acquires Claymore

Trading and the True Liquidity of an ETF

The ETF market in Canada has grown rapidly in the last few years. We have seen an increasing number of products in the marketplace. Most of this product growth has been in targeted exposures rather than broad beta ETFs, leading to a greater number of ETFs that have lower daily volumes.

Mark Raes
Portfolio Manager

As the following chart shows, the number of ETFs in Canada has risen from under 50 to close to 250 in only five years. On an asset basis, the number of smaller ETFs has grown even more dramatically – ETFs with under $100 million in assets have increased from 27 to 173 over the same period. Looking at ETFs with even smaller assets, we see the number of ETFs with $30 million or less has risen from 15 to 134.

We can draw similar conclusions by examining ETF trading volumes over recent years. Comparing the last trading day of 2009 to that of 2011, the number of ETFs that traded less than 10,000 shares rose from 106 to 191. These smaller, less frequently traded ETFs are certainly more common in Canada now than they were a few short years ago.

Given these emerging characteristics, investors more familiar with traditional stock trading are raising concerns about the 'investability' of smaller ETFs.

BMO Financial Group
Exchange Traded Funds

To address these concerns, it's important to note that the traded volume of an ETF has little effect on its liquidity. While the liquidity of an individual security is directly related to the traded volume of that security, the same correlation does not apply to ETFs. While ETFs are listed on an exchange, and are accessed in the same manner as stocks, ETFs do not trade like stocks. ETFs are 'open ended' and have access to the liquidity of their underlying portfolio holdings.

Traditional stock screening doesn't apply

The liquidity of an ETF is best measured by the underlying securities which it holds. If the individual securities that compose the ETF have high volumes, and are therefore very liquid, then the ETF that holds them will have the same degree of liquidity. Similarly, if the underlying securities of the ETF have low volumes, or are illiquid, the ETF will have a low degree of liquidity as well. BMO ETFs have been constructed to have liquid portfolios by establishing traded volume requirements for each security held within the portfolios.

Liquidity is best measured by the underlying portfolio

An ETF's underlying liquidity can be seen by observing the difference between the buying price and the selling price, or the "bid-ask spread." A tighter bid-ask spread on an ETF generally indicates that the underlying securities also have tight bid-ask spread and are therefore more liquid. In this way, even an ETF with low traded volume is liquid if its bid-ask spread is tight. Again, if the securities that make up the ETF are liquid, so too is the ETF.

How does ETF liquidity work?

There are three main parties involved with creating ETF liquidity;

Party	Role
ETF Provider	The firm that manufactures the ETF
Designated Broker	The market participants contracted to maintain bids and offers on the ETF, and can request new units of the ETF from the provider
Underwriters	Additional market participants that can request new units of the ETF from the provider

***A Popular Misconception:* If the size of the ETF is too small, or the volume of the ETF is too low relative to a trade size, then trade will move the ETF's market price.**

***Remember:* ETFs have access to the liquidity of their underlying portfolios.**

There are also three main levels of liquidity;

First level of liquidity – the Exchange

The interaction between buyers and sellers creates the first level of liquidity for an ETF. This natural liquidity is established when buyers and sellers match up on the exchange. Popular and established ETFs with high transaction volumes can develop even greater liquidity than their underlying holdings. Therefore, the liquidity of an ETF can exceed that of its underlying portfolio as it matures.

Second level of liquidity – designated broker activity

Designated brokers are responsible for posting bid and ask offers on the exchange. This enhances liquidity and allows a buyer or seller to transact with minimal trading costs. For BMO ETFs, the designated broker continuously posts units on both the bid and ask side, at a price which reflects the spread of the underlying securities.

The chart at the top of the next page illustrates a large trade placed on BMO Aggregate Bond Index ETF (ZAG). Despite the large trade size, which at over $80 million increased the fund's size by 50%, there was no impact on the trade's execution price.

Third level of liquidity – unit creations based on underlying securities

Because ETFs are open-end structures, the underwriter, a market participant who interacts with the ETF provider, can correct supply imbalances by creating or redeeming units. This is essential as the underwriter can offset an increase in demand by creating more units. On the other hand, when the demand for the units decreases, the underwriter redeems units to tighten supply.

Continued on page 19

TMX – an ETP leader since DAY 1

TMX | Toronto Stock Exchange

Exchange Traded Products ETPs | TMX

ETP Style
- Broad-based
- Narrow-based
- Equal-weight
- Balanced
- Buy Write
- Preferred Share
- Dividend Income
- Small-cap
- Large-cap
- Growth
- Value
- Spreads
- Volatility
- Managed Futures

Management Style
- Passive
- Active
- Leveraged
- Inverse
- Bullish
- Bearish

Sectors
- Agriculture
- Base Metals and Materials
- Energy
- Financial
- Healthcare
- Infrastructure
- Information Technology
- Mining
- Oil Sands
- Real Estate
- Socially Responsible
- Utilities
- Water

Fixed Income
- Corporate Bonds
- Convertible Bonds
- Government Bonds
- Long-term
- Short-term
- Money Market
- Laddered
- High Yield
- Target Maturity
- Floating Rate Bonds

Currencies
- Australian Dollar
- Euro
- Pound
- U.S. Dollar
- Yen

Derivatives
- Options
- Leveraged
- Swaps

Commodities
- Copper
- Crude Oil
- Gold
- Grains
- Natural Gas
- Silver

International
- Global Funds
- Japan
- Latin America
- United States
- BRIC (Brazil, Russia, India & China)
- EAFE (Europe, Australia, Asia and the Far East)

For more information, contact

www.tmx.com/etf

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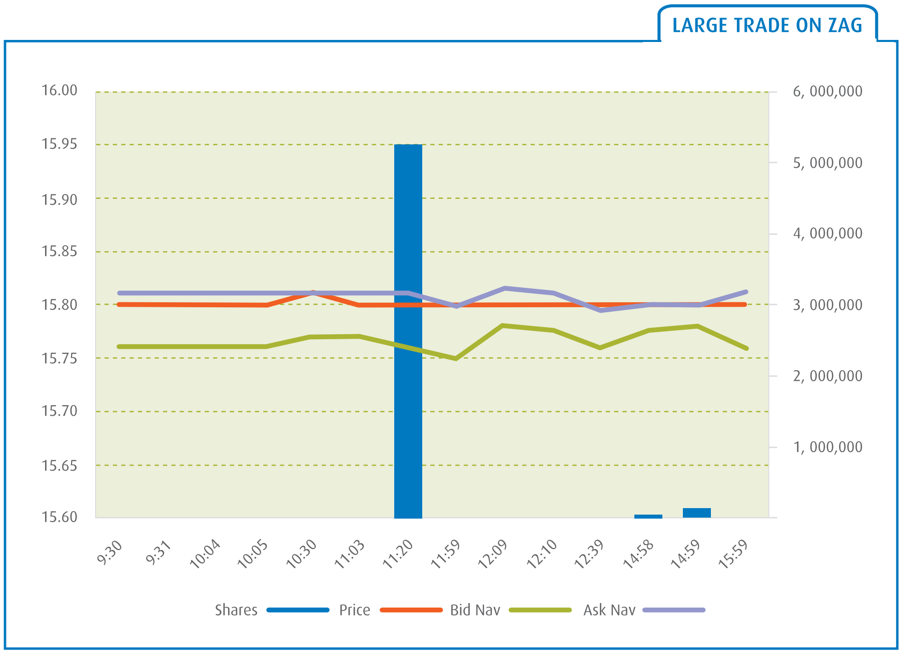
Continued from : Trading and the True Liquidity of an ETF page 17



When a large buy order occurs, the underwriter will buy the basket of securities and initiate a creation order with the ETF provider. The cost would be the fair value of the units based on the prices of the underlying securities, the underwriter's costs of building the basket, and the investor's single trade commission rate with their broker. The underwriter's costs are based on how much each security trade impacts its traded volume. With very liquid underlying securities, this cost is minimal. The cost increases as the liquidity of the underlying securities decreases. Typically, for a large capitalization Canadian equity, these costs would be less than one cent. For harder to access underlying portfolios, this cost can typically range up to 3 to 4 cents.

By comparison, if the investor instead purchased each underlying security within the ETF, they would be faced with the trading costs incurred with each transaction.

The graphs below show the total volume traded in BMO S&P/TSX Equal Weight Banks Index ETF (ZEB) and its underlying holdings (the six major banks) over a one week period in 2010. The volume in ZEB averaged around 20,000 shares per day. In contrast, the major banks regularly traded millions of shares individually a day, which is where ZEB's true liquidity resides. Despite the low volume on ZEB, the bid-ask spread remained very tight, near one cent for the week, which mirrored the underlying banks.

As we have seen, the true liquidity of an ETF is best measured by the liquidity of its underlying securities and allows for significant trade orders without having an impact on the price of the ETF itself.

Trading Notes

Avoid trading on the open & close of the market

As the market price of an ETF is a reflection of the underlying portfolio's value, avoid trading in the first 15 minutes of the day. This allows enough time for the underlying portfolio to start trading. Similarly, avoid trading into the close, as underlying portfolio movement can be volatile at the end of the day.

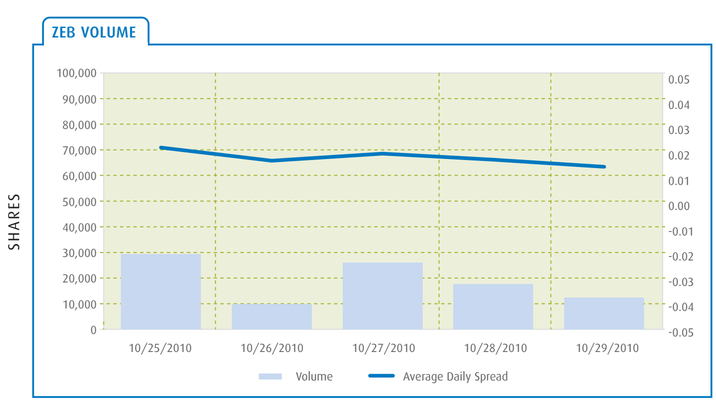
Always use Limit Orders

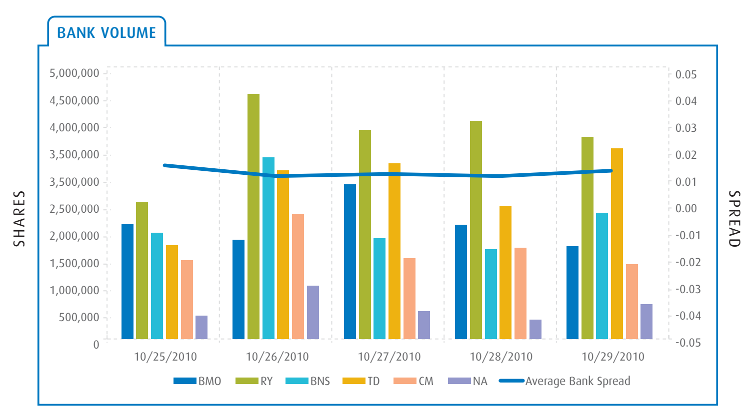
As with trading equity securities, many order types are available for use. The entry or exit trading price will impact the trade's overall profitability. As the underlying market levels continue to move while a trade is being placed, a limit order can ensure a desired price on the trade. It's important to note that if the market moves away from a limit, an investor may consider revisiting an aggressive limit price or set a slightly wider initial price.

Trade when the underlying market is open

The underwriter will be able to keep a tighter spread when the underlying portfolio is trading, as the ETF's price can be precisely calculated. When the underlying market is closed, the underwriter will have to model the price, and will therefore set a slightly wider spread to reflect their increased risk on the trade. Where possible, for international ETFs, trade when the underlying market is open.

Mark Raes, Portfolio Manager, BMO Financial Group





2012/13 CALENDAR OF EVENTS

Brought to you by radius Financial Education

(division of CHW Inc.)

Niagara Institutional Dialogue

Monday, June 11 to Wednesday, June 13
Niagara-on-the-Lake ~ Queen's Landing

Niagara Institutional Dialogue is an exchange of ideas, knowledge and practices for Canadian Institutional Investors. A selected group of senior representatives from Canadian pensions and family offices, will participate in three days of informative discussions, education and networking.
This confidential closed-door event is reserved for select industry participants.

Niagara Institutional Dialogue
An Exchange of New Ideas Knowledge Practices For Institutional Investors

institutionaldialogue.com

Exchange Traded Forum ~ Western Canada

Monday, June 18 ~ Calgary ~ Hotel Arts
Wednesday, June 20 ~ Vancouver ~ Pan Pacific Vancouver

ETPs, ETFs, ETNs, Indexing
In its second year in western Canada, the **Exchange Traded Forum** conference will address the latest trends and developments in this rapidly changing and growing sector. The **Exchange Traded Forum** is the largest ETF event in Canada.

EXCHANGE TRADED FORUM 2012

exchangetradedforum.com

World Alternative Investment Summit Canada ~ Niagara Falls

Tuesday, September 18 to Thursday, September 20
Fallsview Casino Resort

WAISC is Canada's largest annual gathering of **alternative** and **exempt market investment** professionals and service providers. Featuring panel discussions with top-level international speakers, fund managers and leading service providers, WAISC brings together over 400 delegates to explore every side of **alternative** investments.

WAISC 2012

11th World Alternative Investment Summit Canada

waisc.com

Exchange Traded Forum ~ Montreal

Thursday, October 4
Hotel Omni Mont-Royal

ETPs, ETFs, ETNs, Indexing
In its second year in Montreal, the **Exchange Traded Forum** conference will address the latest trends and developments in this rapidly changing and growing sector. The **Exchange Traded Forum** is the largest ETF event in Canada.

EXCHANGE TRADED FORUM 2012

exchangetradedforum.com

radiusfinancialeducation.com

2012/13 CALENDAR OF EVENTS

Retirement Coaching Conference (RCC) ~ Toronto

Monday, October 22 to Tuesday, October 23
Le Méridien King Edward

2011 marked the year that the first Baby Boomers turned 65 and every single day more than 10,000 boomers will retire. This demographic will redefine retirement and clients will need “coaching” in many crucial decisions. This is a huge opportunity for the advisor who gets it right. RCC will focus on all aspects of “retirement planning”, enabling a successful experience for clients.

RCC
Retirement Coaching Conference
FOR INVESTMENT ADVISORS

Niagara Institutional Dialogue Interim Meeting

Coming in 2013

We’ve had an overwhelming request from our **NID** members to host another iterim meeting. Stay tuned for our second annual gathering, coming in 2013.

Niagara Institutional Dialogue
An Exchange of New Ideas Knowledge Practices For Institutional Investors

institutionaldialogue.com

Exchange Traded Forum ~ Toronto

We will be hosting our 4th Annual Exchange Traded Forum in 2013. Please stay tuned for details.

EXCHANGE TRADED FORUM 2013

exchangetradedforum.com

World Alternative Investment Summit Canada ~ Calgary

We will be hosting our 2nd Annual World Alternative Investment Summit Canada ~ Calgary, in 2013. Please stay tuned for details.

WAISCWEST 2013
World Alternative Investment Summit Canada

waisc.com

Radius Financial Education

Radius Financial Education (Radius), a division of **CHW Inc.,** has been producing high level conferences within the financial services sector in Canada for over 10 years.

As Canada’s leading producer of conferences within the financial sector, **Radius** events focus completely on education and networking through an exchange of unbiased ideas and information, allowing our delegates to be leaders in their chosen fields.

Our top-down approach to the agenda enables us to deliver timely, thought-provoking, cutting edge, and sometimes controversial insight in a stimulating manner. We understand the importance of learning from the best. Each conference offers a well balanced speaker composition consisting of insight from authors, educators, economists, regulatory bodies and industry leaders from around the globe.

For more information, please contact:
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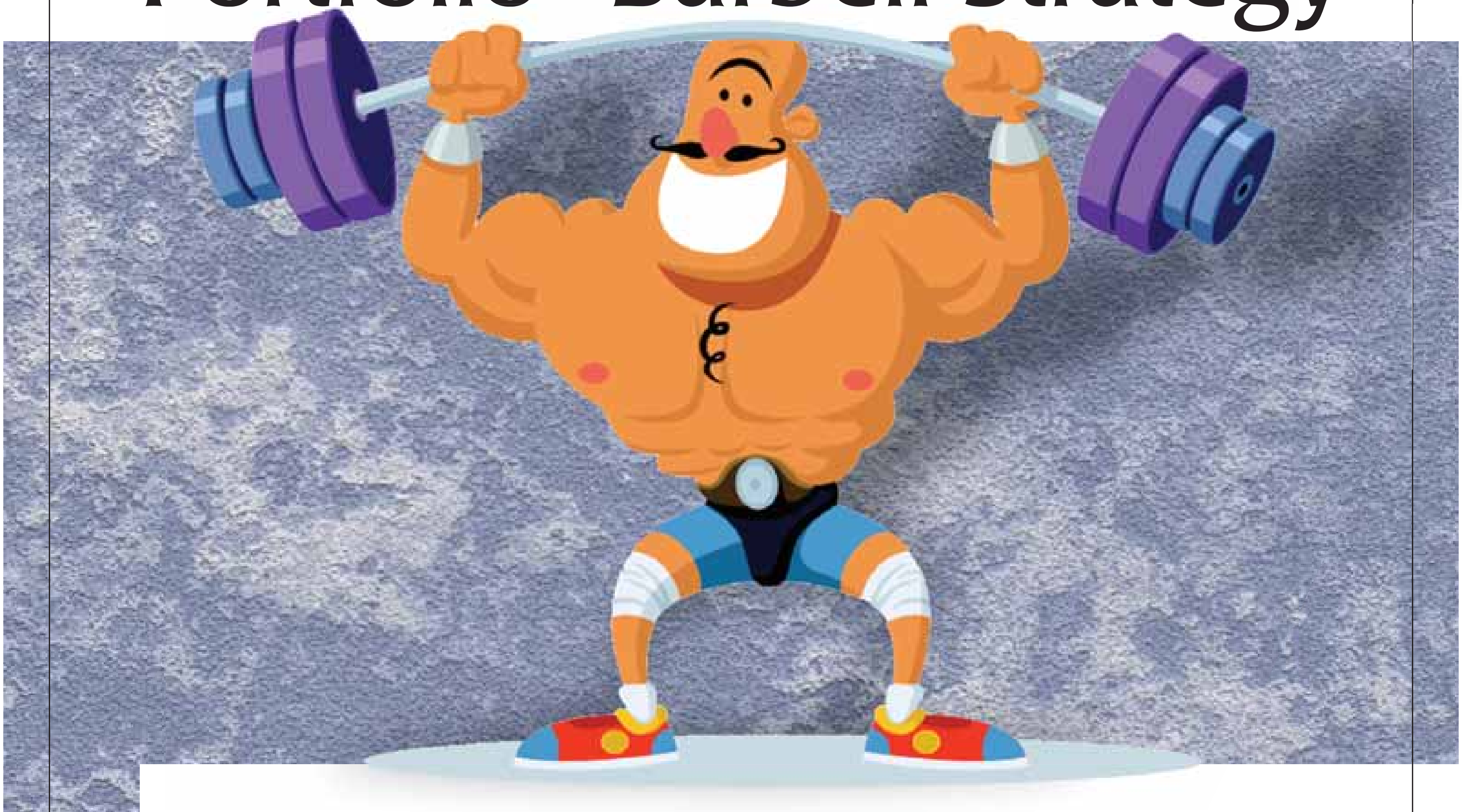
Balancing Offense and Defense with Your Bond Portfolio–Barbell Strategy



Investing in Canadian and U.S. investment grade bonds (both government and corporate) over the past thirty years has essentially been, with some periods of interruption, a unidirectional trade, with yields steadily marching from the high teens (low twenties in some cases) to the low single digits.

Barry Gordon
President & Chief Executive Officer

Looking in the rearview mirror, that inexorable decline has made investing in bonds and bond indexes a relatively straightforward proposition – and has made two yield curve investment strategies very popular – long duration bullet strategies and ladder strategies

However, as students of bond investing will tell you, there are three essential yield curve strategies: (1) bullet; (2) ladder; (3) barbell. We haven't seen a lot written about barbell bond investing over the past thirty years. Why is that, and furthermore, what is a barbell investment strategy?

A barbell bond investment strategy is implemented as it is named – with 50% weighting at the short end of the yield curve and a 50% weighting at the long end, with nothing in the middle.

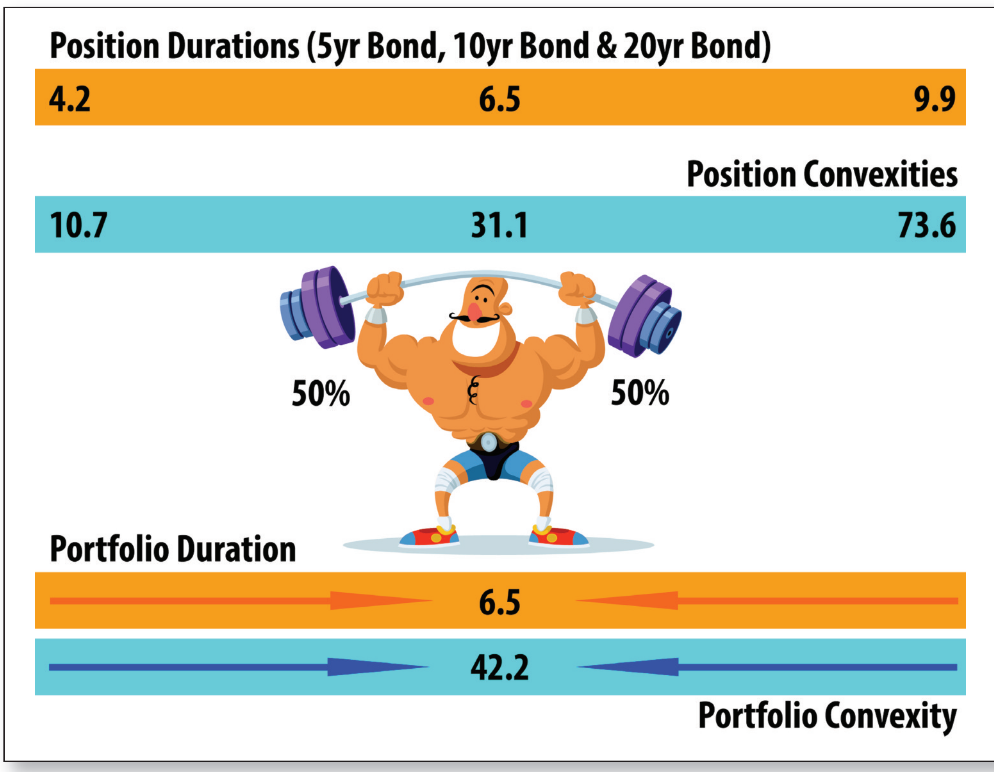
FIRSTASSET
Exchange Traded Funds

In effect, it barbells your bond holdings, balancing "defensive" holdings in the short "bucket" with "offensive" holdings in the long "bucket". The 50% in the very short duration instruments – floaters and fixed rate bonds with near maturities, provide very little duration (interest rate) risk, and provide a hefty amount of capital to benefit from rising short term interest rates. That very defensive positioning preserves capital and allows an investor to benefit from rising short term yields. The 50% invested in the longer duration instruments provides higher income investors need in a low rate environment, as well as exposure to the longer end of the yield curve in the event that long term rates actually decline.

Why invest with a barbell as opposed to a bullet strategy, or a laddered strategy? It's that combination of a balanced defense-offense that makes it attractive, particularly through a period where interest rates rise as opposed to decline, but you aren't certain when the rising action will actually occur! Simply stated, the barbell portfolio will, if you assume it has similar duration to the bullet or the ladder, provide comparable levels of current income, but will have greater convexity, and thus will outperform those strategies in a rising rate environment. I am oversimplifying somewhat, because the amount that rates rise, and the shape of the yield curve affect the outcome. Convexity is used to measure the expected change in the price of a bond that is not explained by duration. Barbell portfolios, due to their greater convexity, are particularly well suited to environments where short term rates experience a material increase quickly, and where the yield curve flattens as opposed to steepens.

Thinking about your bond investments on a risk-adjusted basis, a barbell bond strategy provides either a good supplement to your existing laddered, bullet or broad indexed strategy, or if you are just now thinking of investing in the bond market, a good way to enter the market with new money. We all know that a winning team strategy in sports incorporates strong offense and defense. Your bond portfolio strategy should be no different. Interest rates have a mathematical floor, and there isn't much room before they get there. It doesn't make good sense to invest as if the floor doesn't exist. Conversely, predictions about the timing of rate increases have been wrong for the last several years, but that shouldn't mean that you ignore the prospect until it actually happens. Barbelling provides a balanced approach that tend to outperform in periods of rising rates. It's a smart risk adjusted way to invest in investment grade bonds.

Barry Gordon, President and Chief Executive Officer, First Asset.



ETF News

First Asset Unveils New Brand Strategy, Renames Funds

First Asset Capital Corp. has consolidated the branding of its three product lines – exchange traded funds, mutual funds and closed-end funds – under the existing First Asset umbrella, which previously only to its closed-end fund division, the Toronto-based wealth management company said Tuesday.

First Asset's mutual fund division, Criterion Mutual Funds, will now be called First Asset Mutual Funds and its ETF division, XTF Capital, will now be called First Asset Exchange Traded Funds.

The name changes reflect a growth story that has seen First Asset and its divisions grow over 400% in three years – from $600 million in assets in 2009 to $2.6 billion in 2012.

"Consolidating the three investment product lines under the First Asset brand makes it simpler for investment advisors and their clients and more accurately expresses the depth of investment offerings of the company," said Barry Gordon, president and CEO of First Asset, in a release. "The resources of the entire organization are brought to bear with each investment product in order to achieve a common goal – better risk-adjusted returns for investors."

A new website (www.firstasset.com) has been launched to provide better access to timely information in one central location.

New fund names

In connection with the names changes, certain funds have been renamed effective June 4. The name changes do not affect the tickers for those funds that are listed. In either case, unitholders are not required to take any action in relation to the name changes.

Investors Driving Change in Global Fund Industry, says Vanguard's McNabb

Vanguard Chairman and CEO Bill McNabb has outlined four broad trends that will shape the future of the global fund industry in a speech to financial advisors at the Morningstar Canada Investment Conference.

McNabb (pictured) believes that changes in regulatory schemes, advisory fee structures, and advice models, along with the growing demand for low-cost exchange-traded funds, are the "four forces" that will transform the investment industry in the years to come.

These changes are being driven by investor demand. "Individual investors are smart and getting smarter," says McNabb. "And that's a good thing. Increasingly, they are bringing a healthy consumer mentality to their investment portfolios. They want to know what they are buying and how much they are paying for it. And they want to know that they can trust their investment advisors."

Investor trust has deteriorated noticeably since the global financial crisis. "We cannot underestimate the importance of trust in the relationship between investors and their investment advisors," says McNabb.

He feels that in many respects, trust is an intangible concept, but there are some very tangible and tactical things that investment professionals can do to continue to build and maintain client trust over the long term. They are embodied by three core concepts:

Plain talk: Provide greater transparency on fees, and clear and candid explanations about a fund's objectives, holdings, and risks.

Simplicity: In an increasingly complex and crowded investment marketplace, investors are searching for products and strategies that they can understand – and that are built to last.

Lower costs: The math is simple: The less investors pay for an investment, the more they keep. And cost savings compound over the long term. Low-cost investment products such as exchange-traded funds (ETFs) can be a wise choice.

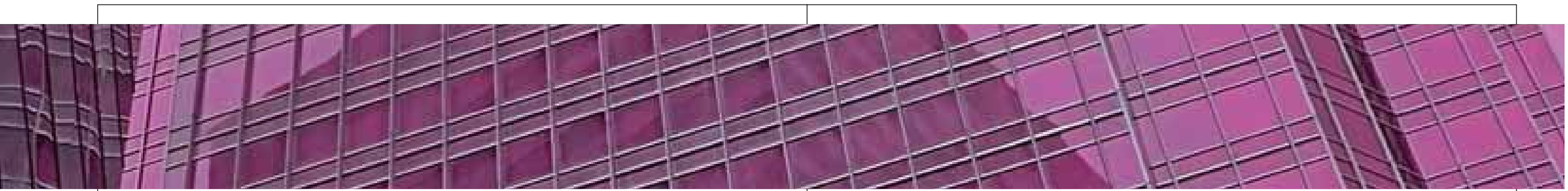
McNabb also discussed the concept of "advisor's alpha." Traditionally, the value proposition for many advisors has been based on their investment acumen and prospects for delivering higher returns than those of the markets. But, McNabb believes that, no matter how skilled the advisor, the path to better investment results may not lie with the ability to pick investments or strategies. Instead, advisors should consider a new value proposition based on alternative skills and expertise. That is, they have a greater probability of adding value, or alpha, through relationship-oriented services, such as providing cogent wealth management and financial planning strategies, discipline, and guidance, than by attempting to outperform the market.

New Canadian ETFs Hedge Against 'Black Swan' Events

The exchange traded fund industry is rapidly expanding across the globe. For instance, in the growing Canadian ETF market, fund provider Horizons ETFs, parterning with AlphaPro, has launched the first ever "Black Swan" ETF that pair a tail risk hedge with equities, essentially limiting an investor's downside risk.

According to a press release, the Horizons Universa Canadian Black Swan ETF (HUT) and the Horizons Universa U.S. Black Swan ETF (HUS.U) will provide exposure to the S&P/TSX 60 and the S&P 500 Index through an actively managed basket of put and call options that will help mitigate potential market declines over a rolling one-month period, which will reduce overall volatility of the investment baskets. Both ETFs have an expense ratio of 0.95%.

The Black Swan: The Impact of the Highly Improbable is the best-selling book written by Nassim Nicholas Taleb, who is an advisor for Universa Investments.



Basically, the ETFs promise to prevent any wayward, so-called Black Swan events that could suddenly shift the direction of the markets. Black Swan events are described as any sudden and unpredictable events that have widespread systemic impact, such as the 2008 financial crisis.

Horizons quantifies Black Swan events as any market declines of 20% or more. For the S&P/TSX 60, there have been 12 instances where monthly losses over the last 20 years were more than 20%. For the S&P 500, there have been 25 instances of losses over 20% in the past 50 years.

“The Black Swan ETFs are simply index ETFs with a hedging component that should provide protection from the kinds of significant declines that keep investors up at night,” Howard Atkinson, President & CEO of Horizons ETFs, said in the press release. “The Black Swan ETF portfolios are designed to provide investors with exposure to the upside potential returns of the underlying stock index while also providing protection from their most serious and sudden declines, so you can invest with crash protection built in.”

“If a Black Swan event were to occur, investors in the Black Swan ETFs have the opportunity to achieve superior compounded growth over the long term, compared to a passive investment in the underlying stock index, by reducing the draw downs of the investment,” Atkinson added.

Encourage Clients to Stick With Stocks, BMO Panel says

Although market volatility is likely to continue in the months ahead, financial advisors should encourage clients to remain invested in stock markets, and particularly in defensive sectors and U.S. blue chip stocks, executives at BMO Financial Group (TSX:BMO) said on Tuesday.

At a panel discussion in Toronto, Rajiv Silgardo, co-CEO of BMO Global Asset Management, warned that extreme market swings show no signs of abating.

"I believe this turmoil is here with us for the foreseeable future," Silgardo said, noting that politicians in Europe are struggling to agree on a resolution to the ongoing sovereign debt problems.

The resulting market volatility has fuelled a "rush to safety" that has seen retail investors flock to fixed income investments in unprecedented numbers, the panelists noted. Stéphane Rochon, vice president and managing director of BMO Nesbitt Burns, said he believes the surge in demand for government bonds, in particular, has entered bubble territory.

"Bonds are extremely expensive," Rochon said. "It feels to me that we are entering the final phase of a great bond bubble."

Although clients may be tempted to continue buying bonds in the current environment, advisors should ensure clients don't shun equities, the panelists said. In fact, Rochon recommends an overweight in equities in the current environment.

Specifically, the executives at BMO favour such defensive sectors as telecommunications, utilities and consumer staples.

"We're reluctant to go significantly pro-cyclical," said Paul Taylor, chief investment office at BMO Harris Private Banking and BMO Global Asset Management. He added that the investment team at BMO is being highly selective in its foray back into equity markets.

Due to the inherently cyclical nature of the Canadian stock market, Rochon urges investors to look to the U.S. market for equity exposure.

"The U.S. market is a much more defensive and balanced market than the Canadian market," he said. "Canadian investors need to increase their exposure to the U.S. market. It simply has a depth of investment opportunities which are not present in the Canadian market."

In particular, Rachon likes large blue chip stocks such as PepsiCo Inc. (NYSE:PEP), Apple Inc. (NASDAQ:AAPL) and Microsoft Inc. (NASDAQ:MSFT).

Adding to the appeal of the U.S. market are signs of improvement in the economy. Rochon said he's encouraged by recent economic indicators south of the border, including an upward trend in the Institute for Supply Management's New Orders Index.

"Economic momentum is still trending in the right direction in the U.S.," he said.

Rochon also sees positive signs in the U.S. housing market. He pointed to data showing that in 70% of the most important U.S. markets, house prices are either flat or rising.

"We think this could be one of the most important themes over the next few years," he said, noting that a strong housing market tends to have positive implications for the entire economy. "As home wealth goes up," he explained, "consumers increase their propensity to spend."

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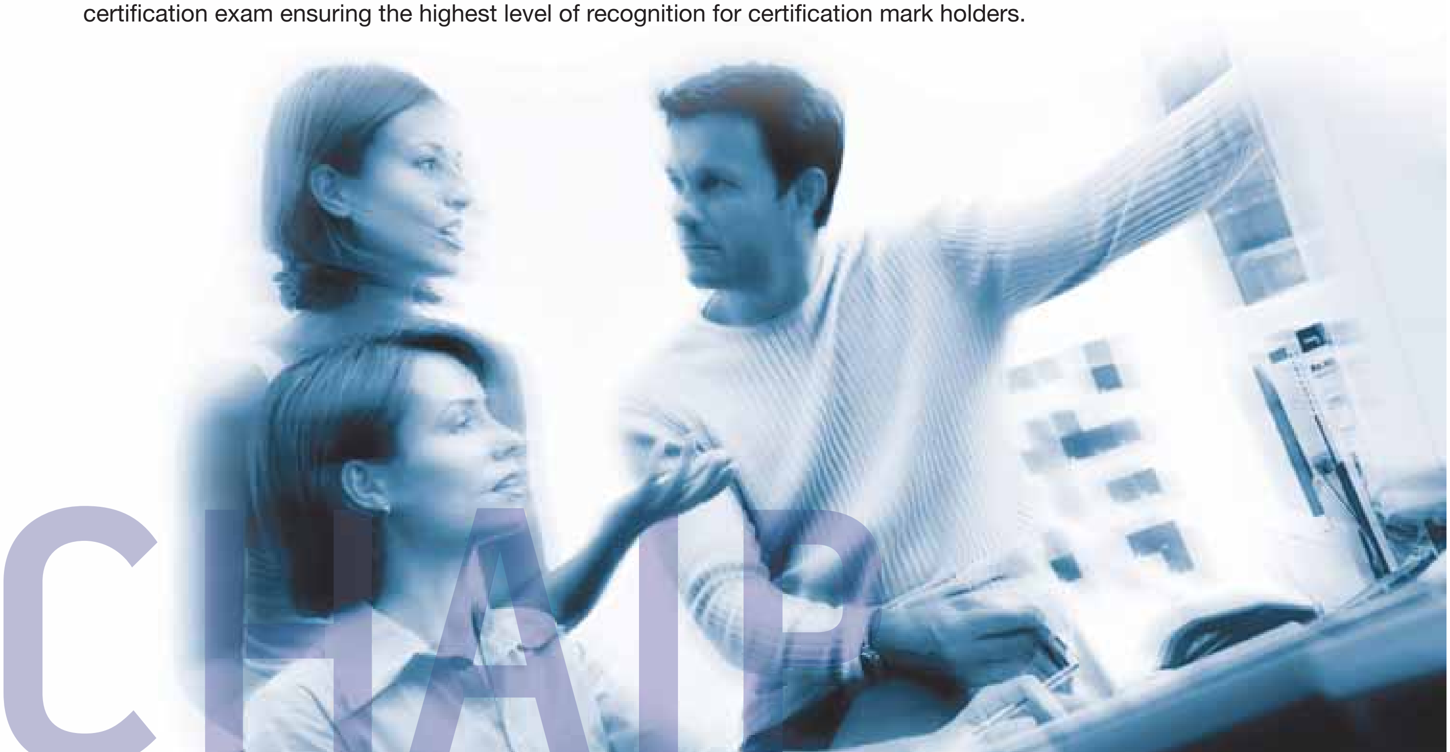

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