CANADIAN ETF Watch

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canadianetfwatch.com

Enhanced Yield Opportunities Using ETFs

- Intelligent Indexing
- The Impact of Currency Returns
- Low-Volatility Strategies - The Surprising Truth
- ETFs For The Fiscal Cliff Aftermath

EXCHANGE TRADED FORUM 2013

ETF Conference line-up for 2013!

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Friday, May 3
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Vancouver
Wednesday, June 19
Fairmont Waterfront

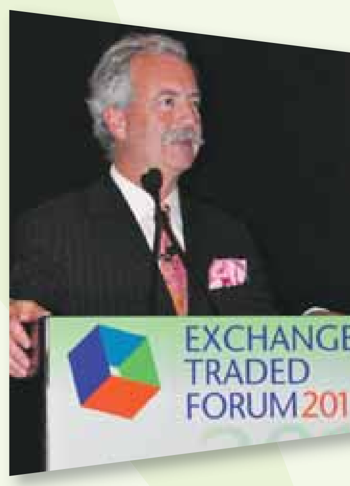
Montreal
Coming in October
Hotel Omni

ETRs

ETFs

ETNs

Indexing



Pat Bolland
Moderator

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The latest report from ETFI indicates that Global assets invested in Exchange Traded Funds (ETFs) and Exchange Traded Products (ETPs) hit an all-time high of nearly $2 trillion ($1.95 trillion) at the end of 2012. ETF and ETP assets have increased by 27.6% from $1.53 trillion to $1.95 trillion during 2012, according to figures from ETFGI's monthly Global ETF and ETP industry insights.

The 10 year compounded annual growth rate (CAGR) of global ETF and ETP assets at the end of 2012 was 29.6%. There are currently 4,731 ETFs and ETPs with 9,710 listings, assets of $1.95 trillion, from 208 providers on 56 exchanges.

iShares is the largest ETF/ETP provider in terms of assets with $760 billion, reflecting 39.0% market share; SPDR ETFs is second with $337 billion and 17.3% market share, followed by Vanguard with $246 billion and 12.6% market share. These top three ETF/ETP providers, out of 208, account for $1.34 billion or 68.9% of global ETF/ETP assets, while the remaining 205 providers each have less than 4% market share.

The top 3 providers of ETFs/ETPs accounted for $179.5 billion, or 67.6%, of all net new assets gathered in 2012. iShares gathered the largest net new ETF and ETP inflows in 2012 with $87 billion, followed by Vanguard with $54.2 billion and SPDR ETFs with $38.3 billion net inflows. All three gathered significantly more net new assets in 2012 than in 2011.

At $265.3 billion, 2012 net inflows into ETFs and ETPs listed globally represented an increase of 55.9% on the $170.1 billion net inflows gathered during 2011 but fell $7 billion short of breaking the record level of net new assets set in 2008. Equity ETFs and ETPs gathered the largest net inflows, accounting for $167.3 billion, followed by fixed income ETFs and ETPs with $62.9 billion and commodity ETFs and ETPs capturing $23.1 billion. Overall, $37.8 billion of net new money went into ETFs and ETPs in the month of December.

"The uncertain and challenging market conditions investors have faced during 2012 and over the past few years, combined with the difficulty in finding active managers that consistently deliver alpha, have caused more institutional investors, financial advisors and retail investors to embrace the use of ETFs and ETPs for strategic and tactical asset allocations. ETFs provide greater transparency in relation to costs, portfolio holdings, price, liquidity, product structure, risk and return compared to many other investment products and mutual funds" according to Deborah Fuhr, Managing Partner at ETFGI.

Equity focused ETFs and ETPs have gathered $167.3 billion, an increase of 84.5%, or $76.6 billion, on 2011 net new assets. Products providing exposure to US/North American equities have been the most popular receiving $78.3 billion, followed by emerging market equities with $54.3 billion.

Fixed Income ETFs and ETPs have proven to be popular tools this year with $62.9 billion in net new assets, an increase of $17.5 billion, or 38.5%, on 2011 levels. Corporate bond products have gathered the largest net inflows with $24.7 billion, followed by high yield with $14.7 billion.

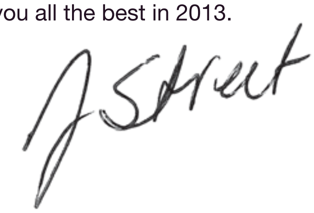
Commodity flows at $23.1 billion are 52.4% higher than 2011 net inflows of $15.1 billion. Precious metals have been the most popular gathering $20.3 billion, while agriculture experienced the largest net outflows with $1.5 billion.

Indices and their methodology are a key factor in selecting and using ETFs and ETPs and there are over 100 firms providing indices. The top 3 index providers account for 37.4% (1,770) of all products with assets of $1.1 trillion, or 54.8%, of all assets.

S&P Dow Jones is the leading index provider for ETFs and ETPs in terms of both number of products and the amount of assets tracking its benchmarks, with 1,103 products holding a combined total of $481.9 billion in assets and collectively capturing $59.9 billion, or 22.6%, of 2012 net new assets. MSCI ranks second with 572 ETFs and ETPs tracking its indices, holding $405.4 billion in assets and gathering $56.9 billion of net new assets. Barclays Capital ranks third with $180.7 billion or 9.3% of the assets in 185 products, reflecting the growth in the use of ETFs and ETPs for fixed income exposure.

Happy New Year and wishing you all the best in 2013.

Sincerely,



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No end in sight to market volatility?

PowerShares Canada is the first Canadian ETF provider to offer investors a suite of low-volatility index ETFs for Canadian and U.S. equities: PowerShares S&P/TSX Composite Low Volatility Index ETF (TLV) and PowerShares S&P 500 Low Volatility (CAD Hedged) Index ETF (ULV). These ETFs are designed to reduce the risk of wild market swings while maintaining equity exposure.

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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

Enhanced Yield Opportunities Using ETFs

"More money has been lost reaching for yield than at the point of a gun."

- Raymond DeVoe, Jr., financial author.

Michael Cooke
Head of Distribution
PowerShares
Canada

The widely advertised zero interest-rate world has created significant headwinds for investors trying to achieve their income objectives. This had led many to chase yield, typically in one of three ways:
1. Reach further out on the duration curve (buy longer dated bonds);
2. Go down the credit quality spectrum; or
3. Use leverage, which amplifies both gains and losses.

Income is supposed to be about safety and the return of an investor's money as much as the return on their money. In a world where so-called "risk-free" government bonds generate negative yields after inflation, investors are forced to contemplate yield alternatives. How can they do so without taking undue risks to achieve their income objectives?

As mentioned, one way to chase yield is to go down the credit quality spectrum into the universe of sub-investment grade or high yield bonds. High yield bonds are considered to have greater risk of defaulting on interest or principal payments relative to investment grade bonds and are thus rated below investment grade. Issuers of high yield bonds must pay higher interest rates to attract investors to buy their bonds. Typically, the risk of default rises as the economy softens – considering the current economic environment, that risk may be too great for many investors.

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Diversification

Still, the enhanced income potential of high yield bonds has made them quite popular with investors in this extended period of ultra-low interest rates.

High yield can help to diversify a fixed income portfolio due to its low historical correlation with other asset classes, including equities, government and investment grade corporate bonds.

However, as commonly seen in financial markets, you can sometimes have too much of a good thing. In the case of high yield bonds, yields are now at record lows and prices are at record highs[1], making this a potentially inopportune time to be allocating money to high yield bonds.

What is an income-seeking investor to do in such an environment?

A good first step would be to consider the cost of investment due to the impact of fees and expenses on net returns to investors. The low cost nature and diversification benefits, relative to investing in individual securities of index-tracking exchange traded funds (ETFs) have made them a very popular alternative for income investors, especially in a low rate environment.

Indexing is a great idea, if you do it right. Traditional high yield bond indices are capitalization weighted and effectively allot higher index weights to borrowers with the greatest amount of outstanding debt. These indices may overweight issuers with large amounts of outstanding debt and may also underweight issuers with strong fundamentals, but little debt.

Given the higher risk associated with high yield bonds, a more prudent approach to indexing would be to weight bonds in the index based on something other than amount of debt outstanding. Research Affiliates® has designed an approach known as the Fundamental Index® methodology that looks at four simple accounting factors (book value of assets, cash flow, dividends and sales) to select and weight index constituents. These factors break the link between price (or debt outstanding) and portfolio weight. Using broad fundamental factors that represent a company's underlying economics also serve as reliable measures of an issuer's ability to service that debt. When applied to the bond market, this methodology also limits the Fundamental Index method's investable universe to BB+ to B- high yield bonds.

Because of the tendency to overweight issuers with large amounts of debt outstanding in traditional high yield bond indexing and the higher default risk associated with C-rated bonds, cap-weighted indices that include C-rated bonds have historically generated negative price returns, despite offering higher yields[2]. The net result to the investor is a lower total return. This leads us back to the importance of the return of an investor's money, not just the return on their money.

PowerShares Fundamental High Yield Corporate Bond (CAD Hedged) Index ETF

Ticker: PFH
Distribution frequency: Monthly
Management fee: 65 bps
Yield-to-maturity3: 5.18%

Another option for investors seeking income alternatives is found in another high yield asset class: senior loans. Senior loans are privately arranged debt instruments that provide capital to a company (usually with a below-investment-grade credit rating) and are issued by a bank or financial institution and syndicated out to other investors. S&P Dow Jones Indices created the S&P/LSTA Leveraged Loan Index, an investable basket of the 100 largest loan facilities in the U.S. The constituents of this index are the underlying investment in BKLN (PowerShares Senior Loan Portfolio), into which BKL (PowerShares Senior Loan (CAD Hedged) Index ETF) invests.

There are three key benefits to senior loans.

The first is that the interest rate on the debt is a variable, or a floating rate. Unlike a traditional bond, the coupon paid on a senior loan will rise or fall in tandem with its base rate, which is often the yield on a benchmark government bond. Typically, rising interest rates erode the capital value of a bond, but the floating rate feature on a senior loan reduces the sensitivity of the loan's price to changes in interest rates.

As the name suggests, a senior loan is senior in a company's capital structure. Repayment is given top priority in the event of insolvency, giving senior loan holders an advantage over bondholders and shareholders. Senior loans are typically secured by liquid assets of a company, providing security to the investor.

Finally, senior loans tend to have a low historical correlation to other types of fixed-income investments and may help to mitigate volatility in a rising rate environment.

PowerShares Senior Loan (CAD Hedged) Index ETF

Ticker: BKL
Distribution frequency: Monthly
Management fee: 90 bps
Yield-to-maturity[3]: 5.74%

Taken together, the Fundamental Index methodology and investing in senior loans can help income-hungry investors avoid taking on the three risks mentioned above: duration risk; default risk; and leverage risk.

The Fundamental Index methodology reduces default risk by limiting the selection criteria to BB+ to B- rated bonds. Senior loans allow the investor to dramatically reduce duration risk because the coupon rises with benchmark rates.

Invesco offers TSX-listed ETFs that employ these two strategies: PowerShares Fundamental High Yield Corporate Bond (CAD Hedged) Index ETF (PFH) and PowerShares Senior Loan (CAD Hedged) Index ETF (BKL). An investor can use these ETFs independently or together to build a high-yield income portfolio with reduced interest rate sensitivity.

Because the yields on either strategy are higher than traditional fixed income investments, the investor should also be less tempted to employ leverage, although it remains an option.

Remember, the fixed income portion of a portfolio is supposed to be about safety, reducing undue risk should be a paramount concern.

1 Source: Morgan Stanley Research, "Leveraged Finance Insights", September 25, 2012.
2 Source: Research Affiliates based on data from Bloomberg.
3 Source: Bloomberg LP and underlying index providers as at September 30, 2012. These are the weighted average yields of the indices described below and are not indicative of the yield an investor could expect to earn on an ETF that seeks to replicate the performance of one of these indices. Yields will vary over time.

Continued on page 8

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ETF	Underlying index
PFH	RAFI® High Yield Bond Index
BKL	S&P/LSTA U.S. Leveraged Loan 100 Index

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There are risks involved with investing in ETFs. Please read the prospectus for a complete description of risks relevant to the ETF. Ordinary brokerage commissions apply to purchases and sales of ETF units.

Most PowerShares ETFs seek to replicate, before fees and expenses, the performance of the applicable Index, and are not actively managed. This means that the Sub-advisor will not attempt to take defensive positions in declining markets but rather continue to hold each of the securities in the Index regardless of whether the financial condition of one or more issuers of securities in the Index deteriorates. In contrast, if a PowerShares ETF is actively managed, then the Sub-advisor has discretion to adjust that PowerShares ETF's holdings in accordance with the ETF's investment objectives and strategies.

Investors should be aware of the risks associated with data sources and quantitative processes used in our investment management process. Errors may exist in data acquired from third party vendors, the construction of model portfolios, and in coding related to the index and portfolio construction process. While Research Affiliates takes steps to identify data and process errors so as to minimize the potential impact of such errors on index and portfolio performance, we cannot guarantee that such errors will not occur.

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Head of Distribution, PowerShares Canada
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Intelligent Indexing

Intelligent indexing sounds unnecessarily complicated - after all, isn't the point of indexing to simplify the investment process? We dig deeper and answer the question:

"Is there a better way to build an index?"

Traditional indexing is a matter of determining a market you want exposure to and investing in a capitalization weighted index without additional consideration. Fair enough, however bitter experience has taught us all that simply investing in a traditional index has its potential downside (Nortel circa the year 2000 comes to mind). Refinements such as capped indexes have emerged to help reduce some risks but, we believe that a better risk adjusted way to construct an index for Canadian investors includes adding a series of screens to help identify companies that offer value not embedded in capitalization weighted strategies.

Barry Gordon
President & Chief Executive Officer
First Asset

An Intelligent Index for Value Investors

Benjamin Graham and David Dodd pioneered value investing at Columbia Business School which screened for undervalued stocks based on fundamentals. Yet not all values approaches are equal. The Morningstar® Canada Value Index (the "Index") is a rules based approach to investing in equity securities of the largest and most liquid Canadian issuers based on proprietary research generated by Morningstar, and is designed to provide diversified exposure to Canadian issuers which are considered to be "good value" based on characteristics like low price to earnings and low price to cash flow ratios. To qualify for inclusion in the Index, the constituent securities must, among other things, meet the following criteria: Trade on the TSX, be classified as a Canadian issuer, and demonstrate average monthly volume (12 month) in the top third of stocks in the investible universe.

FirstAsset Exchange Traded Funds

If the issuer company meets the above criteria, it is further ranked according to the following five Fundamental Factors:

Fundamental Factors (Strategy Weighting)
Price to Earnings Ratio (Trailing) (20%): Calculated by taking the current stock price and dividing it by the trailing earnings per share for the past 12 months. Low values are best.

Price to Latest Cash Flow (20%)
Price to Cash Flow based on trailing Cash Flow is the ratio of a company's price to its trailing 4 quarters of cash flow from operations.

Current Price/Book Ratio (20%)
Price to Book is the ratio of a company's latest price per share to the per share value of its common share equity.

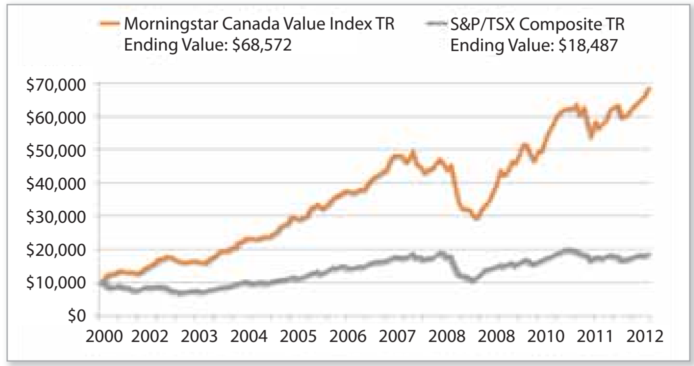
Price to Latest 4 Quarter Sales (20%)
Price to latest 4 quarters of sales. Low values are best.

EPS Estimate Revision (20%)
3-month EPS estimate revision measures the percentage change over the past 3 months in the median broker earnings estimate for a company's current fiscal year.

The top 30 stocks in the ranking are selected and equally weighted in the Index. This Index is reconstituted and rebalanced quarterly.

Given the rigorous methodology Morningstar uses to 'scrub' the universe for companies to include in its indexes, high quality data is an obvious prerequisite. Morningstar utilizes data provided by its subsidiary Computerized Portfolio Management Services or "CPMS". CPMS is a highly respected Canadian based company that has established itself as a preeminent supplier of accurate data to top institutions and money managers.

The results speak for themselves.



Value Investing today

For investors who appreciate the value investing methodology but lack the time or resources to implement it themselves, exchange traded funds (ETFs) might offer a solution. The First Asset Morningstar Canada Value Index ETF (FXM-TSX) replicates the Morningstar Canada Value Index. We believe that Morningstar's methodology for constructing the Index will successfully identify companies that have the right attributes to earn the attention of the market and consequently see their stock prices increase.

We are delighted to be associated with Morningstar as we believe that its methodology for creating indexes move beyond the traditional and provide a low-cost, intelligent way to generate superior risk adjusted returns.

Barry Gordon, President and Chief Executive Officer, First Asset
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IE CONTINUING EDUCATION

The Impact of Currency Returns

Understanding the Impact of Currency

Alfred Lee
Vice President, BMO ETFs, Portfolio Manager & Investment Strategist, BMO Global Asset Management

Currency returns are an important factor impacting any investor purchasing a non-Canadian asset. Since the underlying investments of these assets are bought in a foreign currency, the appreciation or depreciation of the foreign currency against the Canadian dollar can either add or detract from the total return.

A fund can be fully exposed to currency returns, or it can be currency hedged. The objective of currency hedging is to remove the effects of foreign exchange movements, giving Canadian investors a return that approximates the return of the local market.

BMO Financial Group
Exchange Traded Funds

To reduce the effects of foreign exchange risk, many exchange traded funds (ETFs) that provide exposure to international markets are currency hedged. This is done by taking an offsetting short position in the foreign currency to match the total notional of the underlying portfolio, typically through the use of a forward contract. If the underlying currency of the foreign investment loses value relative to the Canadian dollar, these losses would be offset by the gain in the currency forward contract. Conversely, if the underlying foreign currency appreciates against the Canadian dollar, these gains would be offset by the losses in the currency forward.

While a currency hedge can be implemented in several different ways, a static hedging program and a dynamic hedging program are the two main processes used. A static hedging program is a passive approach that seeks to reduce both upside and downside currency risk. A dynamic hedging program on the other hand is an active approach that seeks to use currency as an additional source of returns. A static approach provides investors with better transparency as it is always fully hedged rather than being at the discretion of the portfolio manager. For this reason, ETFs use a passive approach to hedging currency risk.

The Impacts of Currency Should Not be Overlooked

Currency exposure tends to be an afterthought with most investors purchasing a foreign investment. Some will argue that the impact of currency tends to net out at zero over the long-term. In theory, it is believed that there is purchasing power parity (PPP) between two currencies, to which they will revert to over time. This would suggest the practice of currency hedging to be irrelevant over the long term. In practice however, there are a few flaws to this argument. Currencies can trade beyond their PPP for extended periods of time, and not all investors are looking to hold an investment over the long-term. Over the short-term, the impact of currency can actually be quite substantial. Even for longer-term investors, currency can attribute a significant amount of additional volatility. The table below shows the annual returns and standard deviations between the Canadian dollar and several major currencies over the last decade. As illustrated, currencies can be a source of both returns and volatility to a portfolio.

The Return of the Canadian dollar vs. Major Currencies

	USD	EUR	GBP	JPY	CHF	AUD
2002	1.32%	-14.14%	-8.44%	-8.51%	-15.69%	-8.14%
2003	21.15%	1.04%	9.22%	9.48%	8.67%	-9.42%
2004	8.00%	0.34%	0.58%	3.28%	-0.80%	4.05%
2005	3.43%	18.23%	15.12%	18.68%	19.27%	10.09%
2006	-0.31%	-10.51%	-12.33%	0.78%	-7.41%	-7.37%
2007	16.78%	5.62%	15.23%	9.58%	8.48%	5.21%
2008	-18.12%	-14.51%	11.34%	-33.55%	-22.80%	1.97%
2009	15.90%	13.00%	4.54%	18.76%	12.17%	-9.36%
2010	5.41%	12.89%	9.28%	-7.96%	-4.75%	-7.44%
2011	-2.31%	0.85%	-1.89%	-7.35%	-1.90%	-2.05%
Avg. Return	5.13%	1.28%	4.27%	0.32%	-0.48%	-2.25%
Avg. Standard Deviation	11.35%	11.57%	9.58%	15.66%	12.96%	7.11%

Source: BMO Asset Management Inc., Bloomberg

Looking at the impact of currency on equity market returns, the chart below shows the comparison between local returns of the S&P 500 Composite and returns in Canadian dollars. The local returns are a close approximation to a currency hedged ETF tracking the S&P 500 Composite. Whereas, returns in Canadian dollars are a proxy to the returns of a non-currency hedged ETF also tracking the S&P 500 Composite. As shown, the returns and volatility can be significantly different due to currency.

Currency Risk: To Hedge or Not Hedge

Given that the returns from currencies can either add or detract from the total returns of a foreign investment, an investor can either elect to hedge or not hedge currency risk. The decision can be based on a number of different factors that are specific to the investor.

A Closer Look at the Impact of Currency on Index Returns

	S&P 500 Composite Total Return (Currency Hedged)	S&P 500 Composite Total Return (Not Currency Hedged)
2002	-22.10%	-23.14%
2003	28.68%	6.19%
2004	10.88%	2.75%
2005	4.91%	1.43%
2006	15.79%	16.16%
2007	5.49%	-9.65%
2008	-37.00%	-23.09%
2009	26.46%	9.28%
2010	15.06%	9.03%
2011	2.11%	4.50%
Average	5.03%	-0.65%
SD	20.50%	13.56%

Source: BMO Asset Management Inc., Bloomberg (* SD is standard deviation)

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1 Investor outlook on the currency

As an example, an investor believes the U.S. dollar may appreciate against the Canadian dollar. If this individual is looking to invest in U.S. equities, an unhedged U.S. equity ETF may be more suitable. If the investor's assumption is correct, he will receive both the returns on the underlying securities and the gains on the currency. On the other hand, if an investor believes the foreign currency will depreciate against the Canadian dollar, a hedged U.S. equity ETF may be the better solution. Given his assumption is correct, the investor will get the returns from the underlying securities, however, the loss of the U.S. dollar relative to the Canadian dollar will be mitigated. As noted, currency can add additional uncertainty to the total return of a foreign investment. As such, a currency hedged ETF may be a better solution for those investors that do not have an outlook on the currency. By hedging foreign exchange risk, an investor is left with more of a pure exposure to the underlying securities

2 Time horizon of the investor

Over shorter periods, it is more likely that currencies can deviate from their equilibrium values as measured by purchasing power parity. Given the higher unpredictability over shorter time horizons, hedging currency risk may be a consideration for investors.

3 Correlation of the underlying securities with foreign currency

Some currencies, such as the U.S. dollar, tend to be negatively correlated with equity markets. Consequently, the currency can provide an additional source of diversification for investors, potentially reducing the volatility of an investor's portfolio. On the other hand, an investor may wish to currency hedge their euro exposure given the currency has tended to move in the same direction as equity markets. For those currencies that tend to be positively correlated to equities, the currency can add additional volatility to the portfolio.

4 Cost of the underlying hedge

Currencies forwards that are very liquid, such as the U.S. dollar, are more inexpensive to hedge. On the other hand, for underlying currencies that are less liquid, such as those for emerging markets, hedging foreign exchange exposure becomes more costly and less efficient. Thus, the higher cost potentially detracts from performance over time.

In recent years, ETFs have made accessing U.S and international markets easier for investors. However, the decision on whether to hedge currency risk tends to be overlooked by many investors. As currency could potentially significantly benefit or disadvantage the total performance of a foreign investment, it should not be taken lightly. The number of hedged and unhedged ETFs that provide non-Canadian exposure allow investors more opportunities to meet their investment objectives.

Alfred Lee, Vice President, BMO ETFs, Portfolio Manager & Investment Strategist, BMO Global Asset Management ***alfred.lee@bmo.com***

	Currency Hedged	Not Currency Hedged
Outlook that foreign currency will gain relative to Canadian dollar		✓
Outlook that foreign currency will depreciate relative to Canadian dollar	✓	
No outlook on foreign currency relative to Canadian dollar	✓	✓
Shorter Investment Horizon	May eliminate additional noise from currency returns	
Underlying currency is positively correlated to underlying asset	May reduce volatility of total return on investment	
Underlying currency is negatively correlated to underlying asset		May reduce volatility of total return on investment
Cost of currency hedge	Higher costs could be a drag on total return over the long run	✓

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The table represents average management expense ratios for all Canadian-domiciled mutual funds and exchange traded funds as reported by Morningstar and calculated by Vanguard as of June 30, 2012. The Vanguard ETFs are managed by Vanguard Investments Canada Inc. Commissions, management fees, and expenses all may be associated with the Vanguard ETFs. This offering is only made by prospectus. The prospectus contains important detailed information about the securities being offered. Copies are available from Vanguard Investments Canada Inc. at www.vanguardcanada.ca. Please read the prospectus before investing. ETFs are not guaranteed, their values change frequently, and past performance may not be repeated.
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Low-Volatility Strategies - The Surprising Truth

Growing demand for investment products designed to minimize volatility seems to continue with each passing year. This trend began in earnest with the dot-com crash and accelerated with the financial crisis of 2008.

Michael Cooke
Head of Distribution
PowerShares Canada

As the oldest baby boomers were heading into retirement, the sudden drop in the value of their retirement funds left many rattled.

The Low-Volatility Anomaly

The concept of low-volatility investing is not new to investors, but it has become more relevant in the last five years. The financial crisis of 2008 and lingering economic uncertainty have made investors more averse to volatility and risk.

Volatile financial markets combined with record low interest rates have made investment and retirement planning a much more daunting process for Canadians.

Many investors have chosen to reduce the risk in their portfolios, but conventional wisdom tells us that lower-risk portfolios should lead to lower returns. Fortunately, there is an investment strategy that offers the potential for higher returns and reduced risk, the low-volatility portfolio.

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Leading the Intelligent ETF Revolution™

Reconstructed performance data (see table below) shows low-volatility investing can reduce volatility by 25% to 35% over the long term, versus capitalization-weighted indices such as the S&P/TSX Composite Index or the S&P 500 Index.

Research has shown that over the period December 31, 1985 to January 31, 2006 investing in a selection of the least volatile stocks would have outperformed a broad cap-weighted index during down-markets and underperformed during broad up-markets. However, over the long term, the benefits of down-market protection would have made up for the strategy's bull market underperformance, leading to significantly higher risk-adjusted returns than the benchmark[1].

In 2011, the Financial Analysts Journal[2] reported that the "long-term outperformance of low-risk portfolios is perhaps the greatest anomaly in finance. Large in magnitude, it challenges the basic notion of a risk-return trade-off."

Whether an investor is seeking risk reduction or not, a portfolio of low volatility equities offers a potentially better way to invest over the long term.

Can the low volatility anomaly persist?

Can the anomaly continue to reward investors with high risk-adjusted returns than the benchmark? In our opinion, the answer lies in an analysis of what has created the anomaly in the first place – investor and institutional biases.

Behavioral biases have historically led to investor demand for higher-volatility stocks – demand that is not warranted by fundamental valuations.

Such behaviour is based on the inability of many investors' to evaluate small differences in probabilities – especially when large outcomes are possible. This can create an apparent preference for riskier assets. As the security's price is driven higher, future underperformance becomes more likely.

Another key contributor to the low-volatility anomaly is the requirement imposed on many institutional investors to track index benchmarks. This may limit their opportunity to arbitrage between overpriced stocks and undervalued stocks.

Because many of these massive investment pools are required to track a benchmark index, they can generate the inefficiencies that contribute to the low-volatility anomaly.

Until these biases are broken, a low-volatility strategy may continue to outperform over the long term.

1 Blitz, David and Pim van Vliet, "The Volatility Effect: Lower Risk without Lower Return," Erasmus Research Institute of Management, July 2007. For this research, Blitz and van Vliet considered the FTSE World Developed Index as the market portfolio.

2 January/ February issue, volume 67, no.1.

PowerShares Canada Low-Volatility ETFs

Based on investor demand, PowerShares Canada offers two low-volatility ETFs: PowerShares S&P 500 Low Volatility (CAD Hedged) Index ETF (ULV) and (TLV).

TLV seeks to replicate, before fees and expenses, the performance of the S&P/TSX Composite Low Volatility Index, which is designed to measure the performance of the 50 stocks from the S&P/TSX Composite Index with the lowest realized volatility over the past 252 trading days, as of the most recent quarterly rebalancing.

ULV seeks to replicate, before fees and expenses, the performance of the S&P 500® Low Volatility Index (CAD Hedged). The ETF is designed to track the currency-hedged version of the award-winning* strategy to provide exposure to the 100 stocks from the S&P 500® Index with the lowest realized volatility over the past 252 trading days, as of the most recent quarterly rebalancing.

*In December 2012, the S&P 500® Low Volatility Index was recognized as having the most significant impact on the indexing industry over the previous 12 months and was named the William F. Sharpe Indexing Product of the Year.

	Annualized Return*	Standard Deviation*
S&P/TSX Composite Index	6.82%	15.54%
S&P/TSX Composite Low Volatility Index	11.16%	9.88%
S&P 500 ® Index	2.47%	15.94%
S&P 500 ® Low Volatility Index	11.67%	11.57%

Source: StyleADVISOR, for the period September 1, 1999 to December 31, 2012, in CAD

* The S&P 500® Low Volatility Index was created January 22, 2012 and the S&P/TSX Composite Low Volatility Index was created April 10, 2012. Index data shown before these creation dates have been reconstructed and are calculated on a basis consistent with their current basis of calculation. The reconstructed performance is hypothetical and for illustrative purposes only. You cannot invest directly in an index. Index performance does not reflect fees and expenses that would be applicable to a fund. The hypothetical performance data for the Indices should not be taken as indicating that if the Indices had, in fact, existed during the shown time periods before their creation that these Indices would have achieved the hypothetical results shown as actual results might have differed.

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There are risks involved with investing in ETFs. Please read the prospectus for a complete description of risks relevant to the ETF. Ordinary brokerage commissions apply to purchases and sales of ETF units.

Most PowerShares ETFs seek to replicate, before fees and expenses, the performance of the applicable Index and are not actively managed. This means that the Sub-advisor will not attempt to take defensive positions in declining markets and the ETF will continue to provide exposure to each of the securities in the Index regardless of whether the financial condition of one or more issuers of securities in the Index deteriorates. In contrast, if a PowerShares ETF is actively managed, then the Sub-advisor has discretion to adjust that PowerShares ETF's holdings in accordance with the ETF's investment objectives and strategies.
ETFs are not diversified investments.

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ETFs For The Fiscal Cliff Aftermath

The U.S. economy is widely considered to have dodged one major bullet earlier in January, when all houses of the U.S. federal government agreed to a deal that averted steep tax increases for the majority of U.S. citizens and spending cuts that would have resulted from the expiry of Bush-era tax reforms.

Howard Atkinson
Chief Executive Officer
Horizons Exchange Traded Funds Inc.

This market relief felt in the wake of the Fiscal Cliff deal may only be short lived. The market has dodged one giant bullet only to now face a number of smaller bullets which could cause a different set of problems than the Fiscal Cliff.

The biggest of these could come during an eventual standoff over raising the debt ceiling. The U.S. has thus far suspended debt ceiling negotiations until at least the 2nd quarter of 2013, but the issue is far from resolved. As in the past, a deal could be worked out at the last minute, but there could be renewed concerns about inflation in the weeks leading up to government negotiations which could result in substantial market turmoil.

The takeaway for ETF investors is to monitor their portfolio risk. Some commentators may be calling for a so called "risk-on" trade – but investors do not have to substantially increase their risk profile to participate in the market.

Horizons ETFs offers investors tools that can allow them to sleep at night while debt-related concerns work their way through the global financial system.

HORIZONS
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TRADED FUNDS

Black Swan ETFs

Investors could consider implementing a hedging strategy to protect the equity portion of their portfolio. The Horizons Universa Canadian Black Swan ETF (HUT) and the Horizons Universa US Black Swan ETF (HUS.U) (together "The Black Swan ETFs") are two ETFs that allow investors to maintain exposure to large cap Canadian and U.S. equities, the S&P/TSX 60™ Index and S&P 500® respectively, and seek to provide protection from significant market declines over rolling one-month periods and reduce the overall volatility of returns.

Sub-advised by Universa Investments LP, the Black Swan ETFs use the proprietary Black Swan Protection Protocol (BSPP) which was designed and developed by Universa utilizing the research and theories of Nassim Nicholas Taleb, renowned financial commentator and author of the "The Black Swan". The BSPP strategy uses an actively managed basket of put and call options that aim to protect the equity index exposure from Black Swan events. The BSPP should generate positive returns in the event of sudden and significant market declines. Gains generated from the BSPP are generally re-invested into the equity portion of the portfolio when it is historically less expensive, giving investors a potential "buy-low" advantage and the future compound growth that comes with it.

If the market were to decline by more than 10% during a monthly period the options strategy used by HUT and HUS would be expected to start paying off,, mitigating some or all of the losses that could result from a stock market pullback. These ETFs allow the investor to stay invested in equities, but can provide protection from sudden and significant market declines that could result from various policy outcomes.

In many ways, the Black Swan ETFs are like segregated funds – the principal invested is by no means guaranteed like it is with a seg fund – but the Black Swan ETFs do offer some stop gap protection against declines while giving investors exposure to the upside potential of the market. The respective Black Swan ETF will generally go up if U.S. or Canadian stocks go up, but will also provide some downside protection against monthly index declines greater than 10%. Unlike a seg-fund, the management fee on a Black Swan ETF is only 0.95% compared to a generally much higher management fees for seg funds, and investors can tactically use these ETFs, selling them with no penalties if they gain confidence in the direction of the stock market.

ETFs for Inflation

If policymakers opt to increase the deficit or to extend tax cuts, it could result in longer term inflationary pressures.

Gold prices have historically tended to rally in line with increases to the US debt ceiling;

Source: Bloomberg. Past performance is not an indication of future performance.

As the quote from Korea Investments (the US$43b sovereign wealth fund) in the chart above states, **"Increasing the debt limit means you print more dollars", weakening the greenback and boosting gold."** This would suggest a currency hedged Gold exposure would produce a superior outcome for most gold investors, and as we can see above, this has in fact been the case over the period of real acceleration of the debt ceiling from 2008 to today.

Gold bullion ETFs have delivered better returns than gold stocks, and currency hedged gold ETFs, like the Horizons COMEX Gold ETF ("HUG"), have benefitted from both an increase in gold bullion prices and the subsequent decline in the U.S .dollar.

If inflation starts to have a tangible effect on the bond market, and rates starts to rise, it can then have a negative impact on the value of current bond holdings. Typically if rates go up, bond prices go down, all else being equal. With rates already at historical lows, the downside risk to bond prices from rate increases is substantially higher than in the past.

Horizons ETFs offers a pair of floating rate bond ETFs, the Horizons Active Floating Rate Bond ETF (HFR) and the Horizons Active US Floating Rate Bond (USD) ETF (HUF.U) which can be used to mitigate the negative impact of interest rate rises on a bond portfolio.
For example, the effect of the strategy of the Canadian dollar-denominated Horizon Floating Rate Bond ETF (HFR) is a yield expected to be the equivalent of the current Canadian Dealer Offered Rate (CDOR) plus the market's priced in spread of corporate bonds over government bonds. If CDOR increases, HFR's portfolio yield would also be expected to increase.

Investors are getting access to a portfolio of quality corporate bonds while receiving a yield that keeps pace with prevailing interest rates and should therefore offer some protection from any rise in interest rates that could take place.

Volatility ETFs

Market uncertainty tends to be accompanied by rises in stock market volatility. Horizons ETFs offers three Volatility ETFs, which offer different exposures to the S&P 500 VIX Short-Term Futures Index™.

In Canada, Investing in an S&P 500 VIX Short-Term Futures Index™ ETF is probably the most direct way to invest in volatility outside of buying a VIX futures contract.

Investors need to be aware that investing in volatility is counterintuitive to investing in stocks or bonds. While high degrees of volatility have been exhibited over short periods during the last decade, volatility has a historical pattern of reverting to the mean.

Source: Standard & Poor's, CBOE and Bloomberg® between December 30, 2005 and December 31, 2012. The price return is provided for S&P 500® Index and the excess return is used when referring to the VIX Index.

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Generally, many investments are held with a long-term time horizon since prices historically increase over long periods of time. Historically, sharp spikes in volatility occur only during short periods of time.

Taking a bullish position on volatility, such as investing in the Horizons BetaPro S&P 500 VIX Short-Term Futures Index™ ETF (“HUV”) or the Horizons BetaPro S&P 500 VIX Short-Term Futures™ Bull Plus ETF (“HVU”), is considered by some investors to be the equivalent of buying portfolio insurance since volatility tends to spike during periods of stock market impairment. Investors could choose to hold HUV or HVU for short periods of time leading up to debt ceiling negotiations to potentially profit from the higher likelihood of volatility.

Investors can take a bearish position on volatility through the Horizons BetaPro S&P 500 VIX Short-Term Futures™ Inverse ETF, which seeks to deliver the inverse daily return of S&P 500 VIX Short-Term Futures Index™, would be expected to deliver positive returns as volatility trends lower during periods of positive stock market returns.

In either case, the decision of U.S. policy makers will likely have a direct impact on volatility, and investors could potentially use any of these three ETFs to tactically protect or generate a profit in their portfolio from volatility movements.

Stay the Course in Uncertain Markets

The biggest problem with these major policy challenges are the uncertainty they bring to the market. Horizons ETFs offers investors the tools to tactically adjust their portfolios to respond to market conditions. All of these ETFs can complement an existing portfolio strategy – you don’t have to alter your core investment strategy, but you could choose to utilize one or more of these ETFs for any desired period to help mitigate the risk to your portfolio from potentially negative market developments.

Investment Objectives

HUG: The Horizons COMEX® Gold ETF (the "COMEX Gold ETF") seeks investment results, before fees, expenses, distributions, brokerage commissions and other transaction costs, that endeavour to correspond to the performance of the COMEX® gold futures contract for a subsequent delivery month. Any U.S. dollar gains or losses as a result of the COMEX Gold ETF's investment will be hedged back to the Canadian dollar to the best of the ETF's ability.

HFR: The investment objective of the Horizons Active Floating Rate Bond ETF (the “Floating Rate Bond ETF”)”) is to generate income that is consistent with prevailing short-term corporate bond yields while stabilizing the market value of the Floating Rate Bond ETF from the effects of interest rate fluctuations. The Floating Rate Bond ETF invests in a portfolio of Canadian debt securities and hedges the portfolio’s interest rate risk to generally maintain a portfolio duration of less than two years.

HUV: The Horizons BetaPro S&P 500 VIX Short-Term Futures Index™ ETF (the “Volatility ETF”) is designed to provide investment results, before fees, expenses, distributions, brokerage commissions and other transaction costs, that endeavour to correspond to the performance of the S&P 500 VIX Short-Term Futures Index™. Any U.S. dollar gains or losses as a result of the Volatility ETF’s investment will be hedged back to the Canadian dollar to the best of its ability.

HVU: The Horizons BetaPro S&P 500 VIX Short-Term Futures™ Bull Plus ETF is designed to provide daily investment results, before fees, expenses, distributions, brokerage commissions and other transaction costs, that endeavour to correspond to twice the daily performance of the S&P 500 VIX Short-Term Futures Index™. Any U.S. dollar gains or losses as a result of the Horizons BetaPro S&P 500 VIX Short-Term Futures™ Bull Plus ETF investment will be hedged back to the Canadian dollar to the best of its ability.

The views and opinions expressed herein are of a general nature and the suggestions are not and should not be considered as advice to purchase or to sell mentioned securities. Before making any investment decision, please consult your investment advisor or advisors.

Commissions, trailing commissions, management fees and expenses all may be associated with an investment in exchange traded products managed by AlphaPro Management Inc. and Horizons ETFs Management (Canada) Inc. (the “Horizons Exchange Traded Products”). The Horizons Exchange Traded Products are not guaranteed, their values change frequently and past performance may not be repeated. The indicated rates of return for the Horizons Exchange Traded Products in the performance table are the historical annual compounded total returns including changes in per unit value and reinvestment of all dividends and distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. The Prospectus contains important information about the Horizons Exchange Traded Products. Please read the prospectus before investing.

The Horizons Exchange Traded Products include the Horizons Bull Plus and Bear Plus ETFs (“Plus ETFs”), the Horizons Index ETFs (“Index ETFs”), Inverse ETFs (“Inverse ETFs”), VIX ETFs (defined below) and active ETFs. The Plus ETFs, and certain other Horizons Exchange Traded Products, use leveraged investment techniques that magnify gains and losses and result in greater volatility in value. These Horizons Exchange Traded Products are subject to leverage risk and may be subject to aggressive investment risk and price volatility risk, which, where applicable, are described in their respective prospectuses. Each Plus ETF seeks a return, before fees and expenses, that is either 200% or -200% of the performance of a specified underlying index, commodity or benchmark (the “Target”) for a single day. Each Index ETF or Inverse ETF seeks a return that is 100% or – 100%, respectively, of the performance of a specified Target for a single day. Due to compounding of daily returns, a Plus ETFs’ or Inverse ETFs’ returns over periods other than one day will likely differ in amount, and possibly the expected direction, from the performance of their respective Target(s) for the same period. The Horizons Exchange Traded Products whose Target is the S&P 500 VIX Short-Term Futures Index™ (the “VIX ETFs”), one of which is a Plus ETF, one of which is an Index ETF and one of which is an Inverse ETF, as described in their prospectus, are speculative investment tools that are not conventional investments. The VIX ETFs’ Target is highly volatile. As a result, the VIX ETFs are not generally viewed as stand-alone long-term investments. Historically, the VIX ETFs’ Target has tended to revert to a historical mean. As a result, the performance of the VIX ETFs’ Target is expected to be negative over the longer term and neither the VIX ETFs nor their Target are expected to have positive long-term performance. Investors should monitor their holdings, as frequently as daily, to ensure that they remain consistent with their investment strategies.

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Howard J. Atkinson, Chief Executive Officer, Horizons Exchange Traded Funds Inc. ***hatkinson@horizonsetfs.com***

ETF	1 Mo	3 Mo	6 Mo	YTD
Horizons BetaPro COMEX® Gold ETF	-2.62%	6.87%	3.07%	8.87%
Horizons Active Floating Rate Bond ETF	0.13%	1.21%	1.75%	4.28%
Horizons BetaPro S&P 500 VIX Short-Term Futures Index™ ETF	7.03 %	-9.50 %	-46.10 %	-77.02 %
Horizons BetaPro S&P 500 VIX Short-Term Futures™ Bull Plus ETF	4.71 %	-30.57 %	-78.04 %	-97.04 %

All performance as of December 31, 2012

WAISC 2013

12th Annual World Alternative Investment Summit Canada

Monday, September 9 to Wednesday, September 11

Fallsview Casino Resort ~ Niagara Falls

WAISC WEST 2013

Monday, June 17

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Pat Boland

Pat Bolland, Moderator
WAISC & WAISC West

Now in its 12th year, the **World Alternative Investment Summit Canada – WAISC 2013**, scheduled for **September 9-11** in Niagara Falls, will bring together 400+ investment managers; institutional, retail and accredited investors; and various professional services firms. As the largest Canadian conference serving the alternative investment and exempt market sector, delegates will hear from renowned national and international speakers who will address key industry issues, learn about new strategies from existing fund managers and network with key decision-makers and major players.

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World Alternative Investment Summit Canada

Monday, June 17 ~ Calgary
Monday, Sept. 9 to Wednesday, Sept. 11 ~ Niagara Falls

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