CANADIAN
ETF Watch
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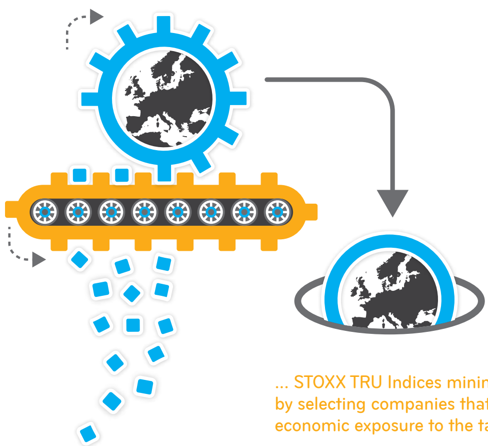
Readying Investment Portfolios for a 2°C World

UN-LIMIT THE TRUE POTENTIAL OF YOUR ASSET ALLOCATION

Traditional equity benchmarks do not factor in the interdependencies between economies, leading to overlaps in economic exposure among indices...

HIGH CORRELATION – LOW DIVERSIFICATION

Traditional equity indices bundle companies based on their domicile and primary listing, regardless of their revenue and risk exposure to different regions. This leads to **economic overlaps and highly correlated portfolios.**



... STOXX TRU Indices minimize these overlaps by selecting companies that have a dominant economic exposure to the targeted market...

OFFSETTING UNINTENDED EXPOSURE

Our unique methodology uses a sophisticated and innovative model which in a first step identifies a company's economic exposure to a country or region, and consequently **disentangles the economic overlaps.**

... which gives investors true exposure with less overlap.

TRUE DIVERSIFICATION

For a strategic asset allocation based on truly separated geographic buckets that provide significantly less correlated returns, real diversification and consequently more efficient portfolios, STOXX has created an **investment solution.**

The STOXX TRU index family provides smart-beta solutions that minimize regional exposure overlaps, giving investors true domestic or regional exposure.

To get more information please visit our website: **https://www.stoxx.com/tru**

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Contacts: Europe, HQ Zurich: +41 58 399 5300, The Americas, New York: +1 212 669 6426, Asia/Pacific, Tokyo: +81 3 4578 6688

ETFs/ETPs listed in Canada reached a new record of 90.61 billion US dollars

ETFs/ETPs listed in Canada reached a new record of US$90.61 billion at the end of February 2017 surpassing the prior record of US$88.84 billion set at the end of January 2017. ETFs/ETPs listed in Canada gathered a record level of US$2.09 billion of net new assets for February, marking the 5th consecutive month of net inflows, according to data from ETFGI's February 2017 global ETF and ETP industry insights report.

The Canadian ETF industry had 474 ETFs, with 642 listings, assets of US$91 Bn, from 19 providers listed on 2 exchanges at the end of February 2017.

ETFs/ETPs listed in the United States have gathered record inflows of 47 billion US dollars and assets reached a new high of 2.758 trillion US dollars at the end of February 2017

ETFs/ETPs listed in the United States gathered US$47.39 Bn of new assets in February 2017, marking the 12th consecutive month of net inflows, according to data from ETFGI's February 2017 global ETF and ETP industry insights report.

ETFs/ETPs listed in the United States reached a record high of US$2.758 trillion at the end of February 2017 surpassing the prior record of US$2.641 trillion set at the end of January 2017.
At the end of February 2017, the US ETF/ETP industry had 1,995 ETFs/ETPs, assets of US$2.758 trillion, from 109 providers listed on 3 exchanges.

"The US equity market performed strongly in February with the S&P 500 up 3.97% and the DJIA was up 5.17%. International equity markets continued to perform well in February with the S&P Developed Ex-U.S. BMI up 1.42% while the S&P Emerging BMI was up 3.46%." according to Deborah Fuhr, managing partner at ETFGI.

ETFs/ETPs listed globally have gathered record inflows of 68 billion US dollars and assets reached a new high of 3.844 trillion US dollars at the end of February 2017

ETFs/ETPs listed globally have gathered a record level of US$68.29 billion in net inflows in February 2017, marking the 37th consecutive month or over 3 years of net inflows and a record US$130.99 billion in year to date net inflows, according to preliminary data from ETFGI.

Assets invested in ETFs/ETPs listed globally reached a new record high of US$3.844 trillion at the end of February 2017 surpassing the prior record of US$3.689 trillion set at the end of January 2017.

At the end of February 2017, the global ETF/ETP industry had 6,699 ETFs/ETPs, with 12,646 listings, assets of US$3.844 trillion, from 298 providers listed on 65 exchanges in 53 countries.

"There are significant upcoming political and economic events that investors will be watching in Europe in the next two months: the first round of the French election, a Dutch general election, the beginning of the U.K.'s "Brexit" negotiations, and officials from the EU and the IMF are once again locked in negotiations over the Greek bailout", according to Deborah Fuhr, managing partner at ETFGI.

Source: ETFGI.com

Jeffrey Shaul
Radius Financial Education

radiusfinancialeducation.com

canadianetfwatch.com

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Contributing Writers

Christopher Doll, Bobby Eng, Willem John Keogh,
Matt Montemurro, Mark Noble, Patrick O'Connor,
Jan-Carl Plagge, Chris Romano, Jos Schmitt

Contact Information
Canadian ETF Watch
1235 Bay Street, Suite 700, Toronto, Ontario M5R 3K4
tel: 416.306.0151 fax: 888.905.3080

Media, Advertising & Editorial
info@radiusfinancialeducation.com

Subscriptions
info@canadianetfwatch.com

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Readying Investment Portfolios for a 2°C World

Climate change awareness has never been a more relevant issue for investors. According to EY[1], 97 of the world's 500 largest asset owners are taking tangible action to control their exposure to climate risks, and a further 157 are in initial steps to address climate-related factors.

Willem John Keogh
Senior Product Development Manager, STOXX Ltd.

STOXX

This comes as nations are taking action to combat climate change. The Paris Climate Conference of 2015 set out a plan to bring down global warming to 2°C above pre-industrial levels through an ambitious scale-down of carbon emissions. There is ever more risk associated with exposure to high-carbon assets with the introduction of laws that could hamper a company's operations.

The Task Force on Climate-related Financial Disclosures (TCFD), a Financial Stability Board workgroup, in December issued recommendations[2] for companies to report climate-related financial data in the areas of governance, strategy, risk management, and metrics and targets, as part of their regular public filings.

Managing Long-Term Climate Risks

To help investors get a more accurate perspective on the climate impacts of their portfolios, STOXX (**stoxx.com/pulse-details?articleId=314632193**) launched in 2016 the Low Carbon Indices, a comprehensive range of benchmarks tracking companies that appear best placed to conquer climate-change risks.

Within them, the STOXX® Global Climate Change Leaders (**stoxx.com/index-details?symbol=SXCCLUG&stoxxindex=sxcclug&searchTerm=global+climate+change**) Index was the first equity measure to incorporate CDP's[3] climate-change research scoring methodology that evaluates a company's climate-related governance, strategy, risk and opportunities, targets and accountability. In other words, forward-looking carbon emission indicators instead of past snapshots of carbon footprint. This assessment is crucial to gauge which companies are transitioning towards a new low-carbon economy, but also, importantly, puts the focus on companies' management of long-term climate risks in line with the TCFD recommendations.

From Disclosure To Performance Leadership

CDP, STOXX's partner in low-carbon products, ranks companies (**cdp.net/Documents/Guidance/2016/Scoring-Introduction-2016.pdf**) worldwide according to their efforts to combat climate change. Their scoring methodology assesses companies not only based on their past track record, but also on their future commitment and roadmap towards a more sustainable world. The data comprises variables from climate-related governance, strategies, and targets to the risks and opportunities they perceive.

There are four CDP bands that classify the progress towards environmental stewardship: (A) Leadership, (B) Management, (C) Awareness and (D) Disclosure.

The STOXX Global Climate Change Leaders index uses CDP's A list of businesses scoring highest for their carbon-reduction actions (currently 179 components).

Transition Pathway Towards Leadership

STOXX is now expanding its low-carbon capabilities with the introduction of the Climate Impact and Climate Awareness indices. The former broaden the universe of stocks to roughly 690 by incorporating companies from CDP's A to B bands. The STOXX Climate Awareness indices take a step further by including also companies from the C band (about 960 companies). To put that into perspective, the underlying universe (STOXX® Global 1800 Index) has 1,800 components.

A larger universe of stocks results in a more diversified portfolio with lower tracking error to broad-market benchmarks, in this case without losing the focus on climate risk. It also allows investors exposure to companies that may be set for a transition towards environmental leadership.

Both index groups exclude companies involved in the coal and controversial-weapons businesses and in activities singled out in the UN Global Compact (screened by Sustainalytics). A special version of the new indices additionally excludes tobacco companies.

The Climate Impact and Climate Awareness indices offer global, Europe, North America and Asia Pacific coverage. For more information on the index methodology, please visit (**stoxx.com/document/Others/marketing/Lowcarbon-Climate-Awareness-impact-Indices_finalslidedeck.pdf**)

Environmental Stewardship

The latest rollout in STOXX's low-carbon family enhances the potential for investors to measure their environmental challenges, and therefore be better equipped to mitigate risks in the future and take advantage of opportunities. This new benchmark solution makes climate-awareness principles more accessible and makes investors better equipped to bring their portfolios in line with a 2°C scenario.

[1] Asset Owners Disclosure Project (AODP) data in "Climate Change: The Investment Perspective," Ernst & Young, 2016

[2] "Recommendations of the Task Force on Climate-related Financial Disclosures," TCFD, December 2016.

[3] Formerly 'Carbon Disclosure Project.'

Willem John Keogh, Senior Product Development Manager, Stoxx Ltd.
willemjohn.keogh@stoxx.com

STOXX® Europe 600 – Liquid Access to Europe

The STOXX® Europe 600 Index will turn 20 in 2018, a life period that has coincided with further economic and political integration in Europe. While not always a straight line, the region's path to cohesiveness has progressed nonetheless, and Europe's market has become more attractive as a bloc for investors worldwide.

Jan-Carl Plagge
Head of Applied Research, STOXX Ltd.

*In a new paper entitled Gaining Access to the European Equity Market (***stoxx.com/expert-speak-details?articleId=592232776***), we look at what makes the STOXX Europe 600 a full yet tradable representation of the pan-European stock market.*

Efficiency and Representation

The STOXX Europe 600 is made up of equities in 17 European developed countries and accounts for almost 90% of the region's capitalization. The benchmark is an efficient tool to cover most of the market without compromising liquidity. Increasing market coverage through smaller stocks can decrease a portfolio's tradability. However, for the case of the STOXX Europe 600, the chosen number of constituents and the minimum trading volume requirements on constituent level provide liquidity levels far in access of total-market indices such as the STOXX® Europe TMI Index (95% of developed Europe's market cap). The chart on the following page (Figure 3 from the research paper) exemplifies the point.

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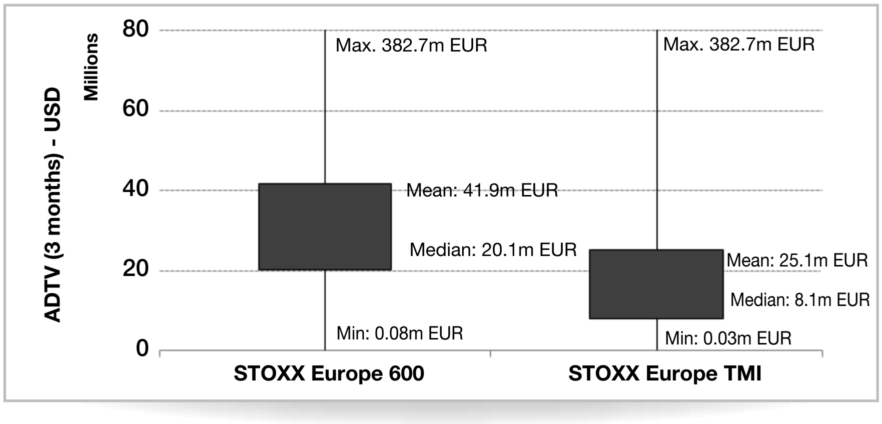
Figure 3: Comparison of the Characteristics (Minimum, Maximum, Medium and Mean) of the Liquidity Distribution of the STOXX Europe 600 and STOXX Europe TMI



Source: STOXX. Liquidity figures are calculated as 3m ADTV in EUR. Date: Jun. 30, 2016

This characteristic is of paramount importance to develop a derivatives market in the same way as seen in the blue-chip EURO STOXX® 50 Index, which boosts nearly 3 million futures and options contracts per day. Liquidity is crucial for investors seeking to hedge or replicate exposure to the whole European market.

Trying to hedge the composition of a pan-European portfolio through a variety of national indices would be a rather costly and tedious exercise given differences in terms and trading venues.

Size and Performance

A very important characteristic of the STOXX Europe 600 is its broad focus beyond large-cap companies.

Empirical analyses show that company size and performance are negatively related, i.e. small-cap stocks significantly outperformed large caps. Since 1999, the smallest 200 stocks in the STOXX Europe 600 generated an annualized performance of about 7.5%, outperforming mid-caps by about 1.5 percentage points and the 200 largest companies by 4 percentage points.

The addition of mid- and small-cap stocks increased the STOXX Europe 600's annualized performance by 0.6 percentage points, or 18%.

Figure 6 from the report shows the annualized performance and risk figures for the STOXX Europe 600's three size sub-indices:

Sector Allocation

Another strong point for the STOXX Europe 600 is its broad representation of Europe's industry structure.

An analysis of the development of the industry allocation over time reveals interesting shifts. While the weight of the financials industry decreased by 7.8 percentage points in the wake of the global and European debt crisis, the consumer goods and healthcare industries, on the other hand, gained the most with 6.7 and 4.5 percentage points since 2006, respectively.

Dividends

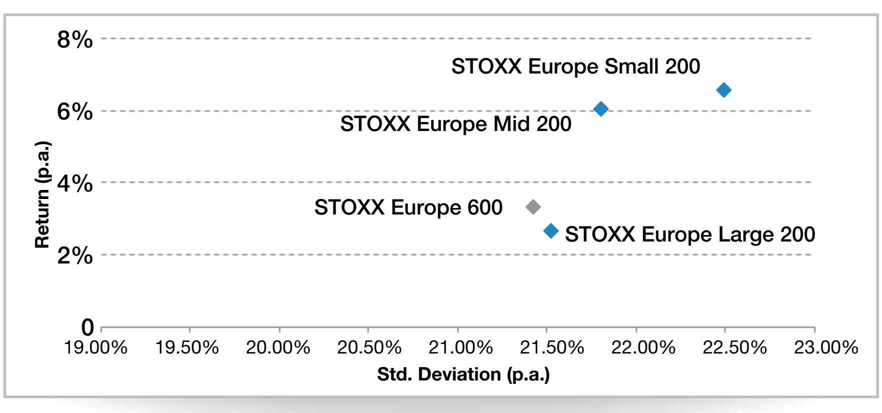
In today's environment of very low interest rates, the dividend offered by the STOXX Europe 600 is yet another advantage. At an average of 3.7% in 2016, Europe's dividend yield was one percentage point higher than the 2.7% for the MSCI World Index and 1.5 percentage points above that of the S&P 500 in the US.

STOXX Europe 600: the benchmark for developed Europe

In summary, the STOXX Europe 600 offers a broad and liquid access to Europe as well as a country and industry allocation that is highly representative of the underlying market. In addition, the benchmark comes with an investable sub-index series based on sector and size enabling investors to invest according to their individual views.

The STOXX Europe 600 strikes a true balance between representation and replicability, characteristics that are increasingly making it the benchmark of choice for financial products such as exchange-traded funds, index funds and structured products.

Figure 6: Annualized Performance and Risk Figures for the STOXX Europe Large 200, STOXX Europe Mid 200 and STOXX Europe Small 200 Indices



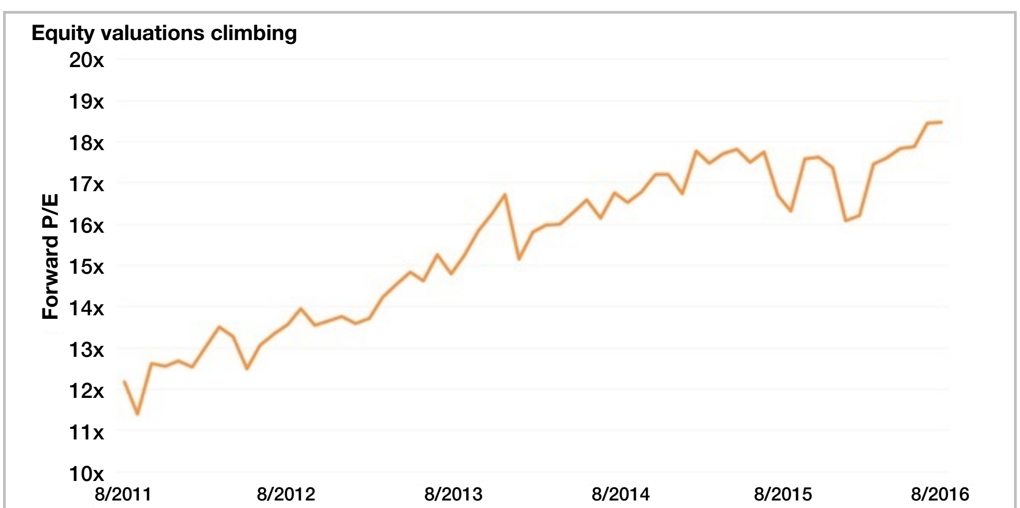
Source: STOXX data from Jan. 1999 to Feb. 2017 for EUR NR indices

Dr. Jan-Carl Plagge, Head of Applied Research, STOXX Ltd. ***jan-carl.plagge@stoxx.com***

Not All Dividend Strategies Are The Same

Record-low interest rates have pushed some income-oriented investors into risky asset classes as a means of increasing both yield and total return. This has helped equity-market valuations reach levels not seen since the recession of 2008. The chart below depicts the forward price-to-earnings (P/E) ratio for the S&P 500 Index over the trailing five years through Aug. 31, 2016.

Christopher Doll
Vice President, Product and Business Strategy, PowerShares Canada



Source: Bloomberg L.P., as at Aug. 31, 2016.
Investments cannot be made directly in an index.

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It is not only the broad market that has experienced high valuations but some dividend-stock strategies are also seeing high valuations. This is due to the inverse relationship between yields and security prices, as well as to the popularity of dividend strategies as a whole.

But not all dividend strategies are the same.

Low Yields Have Driven Demand For Dividend-Growth Stocks …

Many investors seeking yield have turned to dividend-growth strategies. These typically involve stocks issued by firms that have consistently grown their dividends over a pre-determined period, such as 20-plus years. While these strategies have generally done well for investors, the chart below underscores how stretched dividend-growth-stock valuations have become, as more funds are invested in a limited number of firms. After all, it's difficult to generate a more than 20-year track record of dividend increases overnight, which limits the pool of constituent companies.

Because high-yielding investments can be hard to come by in a low interest-rate environment, high-dividend-growth strategies look even more expensive, in our view.

Income-oriented stocks can provide investors with numerous advantages – including the potential for high recurring income, a possible inflation hedge and added portfolio diversification. And while diversification does not ensure a profit or protect against loss, dividend stocks can serve as a significant source of investment returns. In fact, over the past two decades, dividends have contributed more than 40% to S&P 500 Index investors' total returns.†

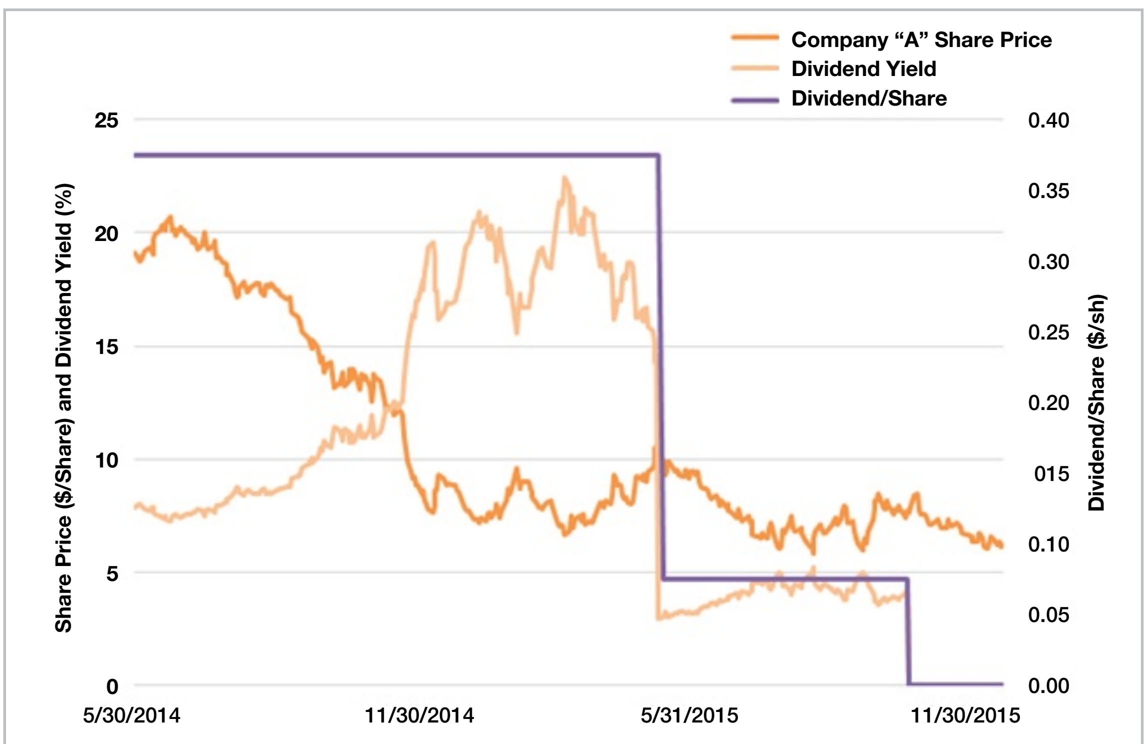
In today's low interest-rate environment, investors are seeking yield anywhere they can, and high-yielding dividend stocks may seem like an ideal solution. But these same investors may inadvertently be wandering into a "dividend trap."

Beware Dividend Traps

A dividend becomes a trap when investors are lured by high-dividend yields that are misleading or not sustainable. For example, a company's stock price may be in decline because of financial struggles, which may cause a company's management to rethink future dividend payments. Dividends are often paid out quarterly, however, and unsuspecting investors can be trapped by taking a position in the stock before the dividend has actually been cut.

The following chart illustrates one such scenario. Notice that Company A's dividend remains robust for more than a year after the company's stock price begins falling. During this time, investors lured by the promise of high yields may buy the company's stock, only to see the dividend slashed.

High Dividend And Falling Share Price



Source: Bloomberg L.P., as at Feb. 29, 2016. For illustrative purposes only. Past performance is no guarantee of future results.

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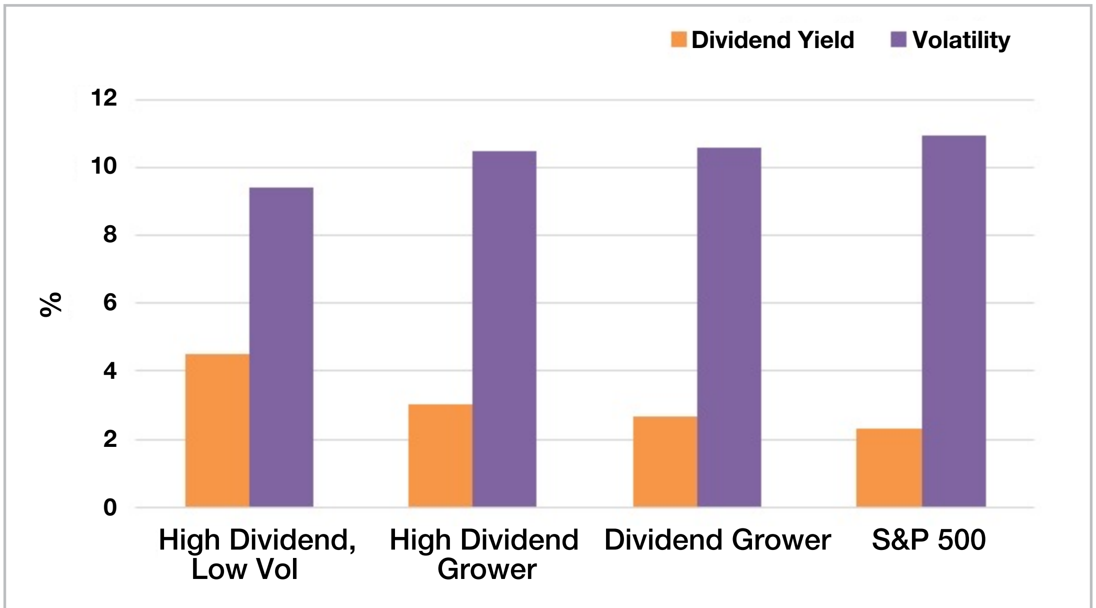
Avoiding Dividend Traps

In order to avoid dividend traps, investors may opt for dividend-grower stocks. These are dividend-paying stocks whose issuers have a history of increasing dividends on a regular basis. Even with rising dividends, however, dividend-grower yields aren't always especially attractive, in our view, – particularly in a low-yield environment.†

Fortunately, we believe there is a way to reduce the risk of dividend traps without sacrificing yield potential – with the addition of a low-volatility screen. By using a low-volatility screen, investors may be able to generate high current income while avoiding dividend traps that can sink an investor's portfolio. The chart below shows the 12-month dividend yield and three-year annualized volatility for a variety of dividend strategies. Over this three-year period, the high-dividend, low-volatility strategy generated high current income while reducing volatility relative to other dividend strategies and the S&P 500 Index.

Equity-Dividend Strategies Compared: Feb. 28, 2013–Feb. 29, 2016



Source: Bloomberg L.P., as at Feb. 29, 2016. Past performance is no guarantee of future results. A high-dividend, low-volatility strategy, a high-dividend grower strategy, a dividend grower strategy and the S&P 500 Index are represented by the S&P 500 Low Volatility High Dividend Index, S&P 500 High Yield Dividend Aristocrats Index, S&P 500 Dividend Aristocrats Index and S&P 500 Index, respectively. Volatility is represented by standard deviation of monthly total returns. Index performance does not reflect the performance of PowerShares S&P 500 High Dividend Low Volatility Index ETF.

The PowerShares S&P 500 High Dividend Low Volatility Index ETF (UHD) and PowerShares S&P Global ex. Canada High Dividend Low Volatility Index ETF (GHD) are multi-factor strategies whose underlying indices screen for high-yielding securities while also making use of a low-volatility screen. UHD and GHD provide access to the S&P 500 Index and the S&P Global 1200 Ex-Canada Index holdings that have potential to provide high-dividend yields with lower volatility. The result is a pair of ETFs with high-yield potential and reduced risk of high volatility and dividend traps.

Combining a high-dividend approach with the low-volatility factor may help avoid overvalued stocks, without sacrificing income potential. This strategy first targets stocks with high-dividend yields. Then, as stocks become more expensive and their dividend yields decrease, a rebalancing mechanism removes them, in favour of undervalued stocks with more attractive dividends. Additionally, the low-volatility screen allows the strategy to remove potential dividend traps – situations in which a high dividend can mask a declining stock price or faltering company.

Christopher Doll, Vice President, Product and Business Strategy, PowerShares Canada ***Chris.Doll@powershares.ca***

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† Source: Bloomberg, L.P., as at Feb. 29, 2016. Past performance is no guarantee of future results. There can be no guarantee or assurance that companies will declare dividends in the future or that if declared, they will remain at current levels or increase over time.

Don’t Fear Rising Rates

Throughout the developed world, investors are facing growing challenges in the fixed income environment. The yields on “safe-haven” investments, such as U.S. Treasuries and Government of Canada bonds, remain historically low, despite small increases in U.S. interest rates.

Christopher Doll
Vice President, Product and Business Strategy, PowerShares Canada

While the Fed is moving to get ahead of the potential for U.S. inflation, central bankers in the rest of the world are reluctant to raise rates for fear of snuffing out fragile economic growth.

Given these market dynamics, investors face a quandary. Those seeking an income stream often tend to seek lower volatility as well. For example, a retiree requires investments that can fund their lifestyle, but can ill-afford to take on additional portfolio risk.

Many investors have been tempted to reach for the higher yields of lower-rated bonds to satisfy their income needs.

Recent rate hikes from the Federal Reserve have done little to enhance fixed income yields, while talk of further increases have sparked a decline in the capital value of bonds.

“Don’t fight the Fed” remains a valid investment maxim and there is a solution to the threat posed by rising rates. One asset class is uniquely positioned to take advantage of such an environment, without resorting to low-rated bonds.

The Case For Senior Loans

Senior loans represent capital borrowed by businesses, usually from a bank. These loans may then be securitized and traded on the open market, accessible to investors in an ETF or fund structure. Senior loans generally pay a floating rate coupon, rather than the fixed rate that is typically associated with corporate bonds.

The income from senior loans is based on a spread over a reference rate, such as the London Interbank Overnight Rate (LIBOR). This spread is negotiated between the borrower and the lending institution. The spread is usually generous, as senior loans typically have a credit rating below investment grade.

These loans tend to offer higher yields than highly-rated corporate bonds, providing an attractive current yield opportunity for income investors.

Because the interest rate floats freely, senior loans are less sensitive to interest rate risk. While a fixed rate bond may decline in value when tighter monetary policy raises interest rates, a senior loan maintains its value as its yield increases with the higher rate.

Although it is difficult to forecast the timing of future interest rate hikes, historically low rates remain prevalent around the world, making increasing rates more likely than declining rates in the short to medium term.

Risk Mitigation

As their name suggests, senior loans are positioned at the top of a corporate capital structure – if the issuer fails, senior loan holders are generally the first to be paid, ahead of bondholders. Also, senior loans are generally secured by collateral, further mitigating default risk.

Senior loans can also help to diversify a fixed-income portfolio, as their returns have historically had low correlations to other asset classes.

Implementation

PowerShares Senior Loan Index ETF (BKL.F) is based on S&P/LSTA U.S. Leveraged Loan 100 Index (CAD Hedged), which affords access to a unique asset class that has historically offered price stability in rising-rate environments.

Protecting investments from interest-rate and inflation risk can add diversification and a degree of safety to a portfolio. With an ultra-short duration, BKL.F can help defend against rising rates and inflation while providing investors potential for attractive yields.

Christopher Doll, Vice President, Product and Business Strategy, PowerShares Canada ***Chris.Doll@powershares.ca***

Index Investing And The Factor Evolution

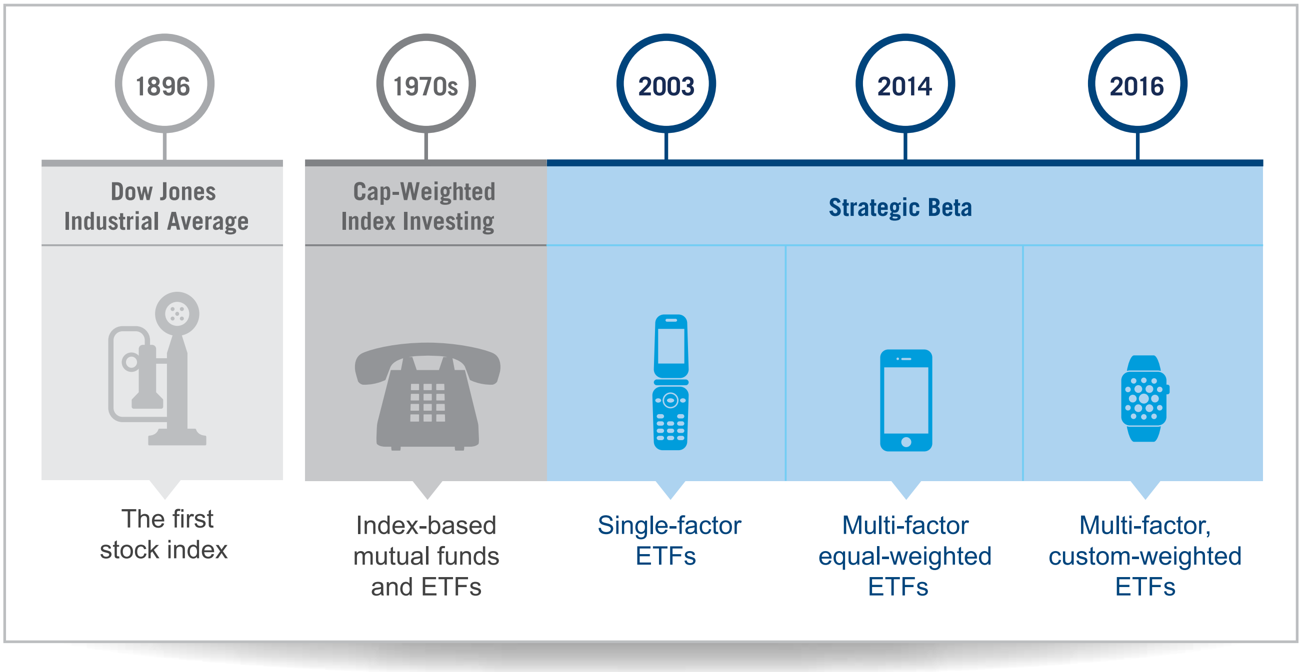
Every financial website displays key barometers to track global stock performance around the world at a glance – in the form of stock indexes. With the development of indexes came new ways to trade the market, including exchange-traded funds (ETFs). Patrick O'Connor, head of global ETFs at Franklin Templeton Investments, offers this brief history of index investing and the evolution of factor-based investing which has led to today's strategic beta ETF offerings.

Patrick O'Connor
Head of Global ETFs,
Franklin Templeton Investments

I like to think of the evolution of index investing in Darwinian terms, from the conception of the first stock index to today's exciting and innovative new products in this space. In 1896, Charles Dow, the editor of the Wall Street Journal and co-founder of Dow Jones & Company, developed the first stock index: the Dow Jones Industrial Average (DJIA). It was more or less a mechanism to track what Charles Dow thought about a basket of hand-picked stocks. Only one company from his original list of 12 remains a DJIA component today with the same name. (Hint: You may own one of its appliances.)

Nearly a century later in the early 1990s, the first exchange-traded funds (ETFs) were introduced in the United States, and today more than $2 trillion in assets are in these vehicles in the United States[1] and $120 billion in Canada[2].

FRANKLIN TEMPLETON INVESTMENTS



When I first started working in portfolio management in 1999, ETFs were not as ubiquitous as they are today, and it was still very expensive to assemble a basket of stocks as an individual investor. Canadian equities were fairly easy to access, but a basket of international equities or commodities was not. A market-cap weighting offered some benefits; it allowed us to invest in areas we couldn't get to, but also came with challenges and risks.

ETFs represented the next step in product packaging, but they still tracked a cap-weighted index. However, ETFs did make cap-weighted index investing much more popular, and indexes proliferated. In 2003, factor-based, or strategic beta, investing was first introduced in ETF form. The concept of strategic beta (which some call smart beta) wasn't actually new; it had been used in institutional portfolios for quite some time. But only in more recent times could retail investors more widely access these types of investing strategies.

The Factor Evolution

One can think of a factor as a DNA marker of stock behaviour; it is a primary characteristic of an investment that explains a stock's behaviour over long periods of time. Just as your DNA determines whether you'll have blue or brown eyes, factors explain how stocks have tended to move in response to market developments. Our understanding of factors dates back several decades, beginning with Benjamin Graham and David Dodd in the 1930s, who first identified how higher-quality companies tended to perform well, and how stocks with lower price/book and price/earnings ratios[3] tended to outperform growth-oriented stocks. Since then, many others have contributed to the understanding of factors.

We have found four factors used to understand stock performance to be the most relevant DNA markers: quality, value, momentum and volatility. Let's take a closer look at the factors and how we measure them.

- **(High) Quality:** As Graham and Dodd identified, quality is a key driver of stock performance. We think the best measure of company quality seeks to identify those with multiple characteristics, including profitability, strength of balance sheet and efficient use of assets.
- **(Attractive) Value:** By investing in attractively valued stocks, investors seek to benefit from potential upside from low-priced stocks. In measuring value, we think it's important to identify those with attractive forward and trailing valuation ratios (price/earnings, price/book, price/cash flow) and dividend yield.
- **(Strong) Momentum:** Many investors seek out stocks with strong momentum in order to avoid value traps, viewed as companies that are trading at low multiples but offer little in the way of future potential. We measure momentum by looking for companies that exhibit six- to 12-month relative price strength.
- **(Low) Volatility:** Some investors look to low-volatility stocks to defend against potential market downturns. Stocks that demonstrate lower-than-average variability of returns are often considered "low-volatility" stocks.

Stocks can be grouped based on the primary factors they share. Some factors have provided investors with positive returns above and beyond market indexes over the long term – called a "return premium" – while other factors have been more closely associated with stock risk.

[1] Source: Investment Company Institute, as of May 2016.

[2] The Canadian ETF Association, as of February 2017.

[3] The price-to-earnings ratio, or P/E ratio, is an equity valuation multiple defined as market price per share divided by annual earnings per share. For an index, the P/E ratio is the weighted average of the P/E ratios of all the stocks in the index. For an individual company, the price-to-book (P/B) ratio is the current share price divided by a company's book value (or net worth) per share. For an index, the P/B ratio is the weighted average of the price/book ratios of all the stocks in the index.

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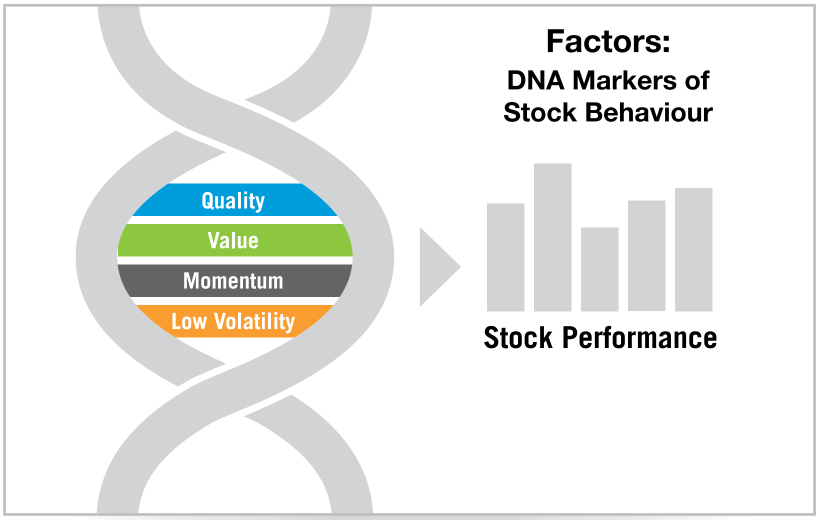

Factors

- **Primary characteristics that explain stock behavior over time**
- **Some factors have offered a "return premium"**
- **Stocks can be grouped based on shared factors**

Some investors may be inclined to choose one or two factors for investments, but this approach can also come with ups and downs.

Quality, value, momentum or low-volatility stocks by themselves have moved in and out of favour as the economic cycle has swayed back and forth. Momentum, for example, was the top-performing factor in 2007 when equity markets were strong, but it was the worst performer in 2008 when the global financial crisis hit[4]. These swings in performance can be unsettling to many investors, causing them to sell and potentially miss out on rebounding performance.

So let's consider the options for investing in strategic beta ETFs. You could invest in individual factors, an approach that would offer the opportunity to capture potential risk premiums. Some investors also use them to gain specific factor tilts within a portfolio. But, as mentioned, factors move in and out of favour, and it could be difficult to predict which will be in favour next. And, the ups and downs of individual factor performance could cause investors to sell and miss out on rebounding performance. Finally, buying and selling individual factor investments can increase costs.

Let's look at another possibility. An investor could invest in a multi-factor portfolio that's diversified equally across all factors, an approach with some potential advantages:

- It could be used as a core holding, with diversification across factors
- There's no need to attempt to time factors
- It can offer lower transaction costs

However, this approach doesn't consider the relative importance of each factor in driving long-term stock performance.

Now let's look at a third option. A multi-factor, strategically weighted portfolio offers several attributes:

- It considers the role of each factor in driving long-term investment returns
- It allows a manager to target portfolio exposures
- Strategic diversification may provide an attractive core holding

The first strategic beta ETFs tracked single-factor indexes. These portfolios were useful as far as they went, but they didn't offer the diversification that many investors are seeking today. Then about two years ago, the first equal-weighted multi-factor ETFs were introduced. These portfolios offered factor diversification, but didn't take into account the relative importance of individual factors. The newest breed of multi-factor strategic beta ETFs weight factors strategically in order to seek better investment outcomes than equal-weighted multi-factor ETFs. We think these ETFs represent an important step in the evolution of strategic beta investing.

At Franklin Templeton, we believe factor weightings should be rooted in economic rationale, best represented by quality and value. Exposure to momentum may help identify investment trends and avoid value traps, while exposure to volatility may help provide defense against market downturns.

While there is certainly more to explore, we think this is an interesting time in the ETF space and that strategic beta solutions will likely continue to grow and evolve.

Patrick O'Connor, Head of Global ETFs, Franklin Templeton Investments

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For more information on our new LibertyShares ETFs please visit ***www.LibertyShares.ca*** *and follow us on* ***Twitter @FTI_Canada*** *for timely insights on the markets.*

What Are the Risks?
All investments involve risks, including possible loss of principal. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments; investments in emerging markets involve heightened risks related to the same factors. To the extent the funds focus on particular countries, regions, industries, sectors or types of investment from time to time, they may be subject to greater risks of adverse developments in such areas of focus than funds that invests in a wider variety of countries, regions, industries, sectors or investments. Performance of the funds may vary significantly from the performance of an index, as a result of transactions costs, expenses and other factors. The funds' risk considerations are discussed in the prospectus. ETFs trade like stocks, fluctuate in market value and may trade at prices above or below the ETFs' net asset value. Brokerage commissions and ETF expenses will reduce returns.

[4] Quality is represented by the MSCI ACWI Quality Index; Value is represented by the MSCI ACWI Value Index; Momentum is represented by the MSCI ACWI Momentum Index; Minimum Volatility is represented by the MSCI ACWI Minimum Volatility Index. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges. Past performance is not an indicator or a guarantee of future performance. Index returns reflect reinvestment of dividends and are adjusted for withholding taxes. See www.franklintempletondatasources.com for additional data provider information.

Regulators Hold The Key To Unlocking Canadian Market Data

Canada's market data problem – the widespread lack of complete visibility into trading activity for TSX-listed securities – is mind-boggling.

Jos Schmitt
President & CEO, Aequitas NEO Exchange

If this problem is not known to you, rest assured you are not alone. For some reason, this issue is not top of mind for the industry or for regulators, while the consequences for retail investors, their investment advisors, providers of investment products and public companies are very real.

Market fragmentation in Canada continues be on the rise and TSX's market share of trading in its own listed securities continues to decline, due to much needed competition in trading from other Canadian marketplaces. Reliance on TSX market data only (which is the only thing most retail investors and investment advisors have access to today, without even knowing they don't see everything) to represent the current market for a TSX-listed security was practical when they were the only trading venue in town. Now there are 12 other trading venues in Canada that, on average, account for approximately 65 per cent of all ETF trading and 40 per cent of all trading in TSX-listed securities.

The consequences of this situation are upsetting for many reasons. First, it has lead to the least market structure savvy participants being exposed to the risk of uninformed investment decisions and lesser quality trading executions. Second, a disservice is being done to TSX-listed companies and investment products that cannot benefit from all the liquidity in their securities because it is simply not fully visible to the retail community.

Third, Canadian retail investors and investment advisors are exposed to a single point of failure if the data they receive from the TSX has a service outage. And finally, the Canadian securities regulators' intention of encouraging meaningful competition amongst Canadian marketplaces is not achieved when their trading activity is not fully visible.

Let's more closely examine the negative impacts of these worrisome consequences.

Potential Problems That Can Arise

The potential risks for uninformed decisions and missed opportunities start to become self-evident when we compare real-time Canadian consolidated data with TSX-only data. Accessing only partial data means that in some cases, the true liquidity or price of a security may not properly be represented. Various examples have previously been shared of how TSX only data can differ from what is really happening in the markets and lead investors to an erroneous understanding of volume traded, last sale price, bid and ask prices, etc.

Let's take one specific example to demonstrate. PSB, a relatively inactive ETF, posted a consolidated volume of 103,728 at one point during the trading day on January 23, 2017. At the exact same time, a TSX-only view of the market displayed PSB's volume as merely 7,318 – only 7 per cent of the actual volume traded.

An investor who considers several funds to invest in, who only sees a partial view of market activity, can come to an erroneous evaluation of what appears more, or less attractive than the other. Because they cannot appreciate the full volume that has traded, they may hold back on a transaction or make an alternate, yet equally uninformed, decision. The uninformed decision may lead to a less than optimal investment and the potential misallocation of capital.

If an investor only sees a partial view of market activity, this may lead them to consider a last sale price, best bid or ask price that is not the most recent price in reality. This may cause an investor to hold back on a transaction or even enter an inadequate limit order and have the market move away from them. It may also lead the investor to form an inaccurate view of how the market is trending.

This happens every day in all types of securities and at different points in time. There is no way for an investor to incorporate what they can't see into their investment decision. Think about that for a moment, and then consider the fact that most investors are under the false impression they are seeing the full picture and not missing any information at all!

A Single Point Of Failure

Since the TSX is the single source of market data for most retail investors and investment advisors in Canada, if the TSX were to have a service outage, these investors would not be able to see any market data at all. The vast majority of retail investors and investment advisors are in the dark and unable to make decisions, while trading continues on other market places amongst mainly professional investors who typically have a full consolidated view. This situation may seem improbable, but it does happen.

On September 19, 2016 the Australian Stock Exchange (ASX) experienced a technical failure that brought the Australian market to a halt. Investors seeing only ASX data were unable to trade because they saw no data. As a contrast to that event, on July 8, 2015 the New York Stock Exchange (NYSE) was down for almost four hours. With all US investors having access to consolidated market data, that event went completely unnoticed to the general investor as they could see what happened on other markets that continued to operate as usual.

Canada's situation is closer to the Australia than the US when it comes to data distribution, and we are constantly at risk of experiencing a similar event.

So Why Hasn't A Solution Been Reached?

There are two main reasons that explain this. First and foremost the fact that the vast majority of self-directed retail investors and investment advisors is not aware of the issue. No one is telling them and they are left in the dark. Secondly, the only issues raised with the securities regulators about Canadian market data has been related to its egregious costs and this has taken the attention away from the real issue.

Complaints about the cost of Canadian market data, brought forward by investment dealers, started to emerge in 2008 and 2009 when, subsequent to the 2001 regulatory decision to enable trading competition, meaningful marketplace competition finally started to emerge. In 2009, Canadian securities regulators acknowledged the cost concern and committed to undertake a review of market data fees.

Since that time, all the debate and analysis has been focused on the costs of accessing Canadian market data, taking the attention away from far more significant issues that result from the fact that self-directed retail investors and investment advisors do not have access to Canadian real time consolidated market data.

Tackling The Issue Once And For All

What Canada needs is a solution similar to what has been in place in the United States for a long time: mandated access to real-time top-of-book consolidated market data for retail investors and investment advisors.

The Canadian Securities Administrators have analyzed the Canadian market data issue from a cost perspective and implemented initial solutions to prevent these costs from becoming even more egregious than what they are today. While more needs to be done to bring the costs down, the CSA initiatives have neither analyzed nor addressed the fundamental issue: the vast majority of retail investors and investment advisors do not have access to a full set of market data information, and many of them are not even aware of the fact that they only have a partial view.

While the recent progress is encouraging, the fact still remains: we need a comprehensive solution that will address the issues faced by our market, our investors and our public companies. Canadian securities regulators must be encouraged to mandate access to at least real-time top-of-book consolidated market data for all investors, just like the Securities Exchange Commission did in the United States.

It is 2017, we are living in the Information Age but when it comes to seeing quotes for TSX-listed companies, we are still living in the Dark Ages.

Jos Schmitt, President & CEO, Aequitas NEO Exchange
jos@aequin.com

What You Don't Know About Fixed Income ETFs

Fixed Income ETFs are the newest target for institutional investors – and for good reason. In an otherwise opaque bond market, these ETFs provide two additional layers of liquidity, yielding some significant benefits for the end user.

Matt Montemurro
Vice President, Portfolio Manager, Global Structured Investments, BMO Asset Management Inc.

To truly understand the benefits of this asset class, Matt Montemurro, VP and Portfolio Manager, ETFs & Global Structured Investments at BMO Global Asset Management, delves deep into the subject to provide an inside look, and dispels some myths around how these structures really work.

Behind The Scenes Of Fixed Income ETFs

As fixed income ETFs become more popular, many institutional investors are still in the dark about the nitty gritty of how the asset class actually works – and what it offers. It's time that we shine a light on the entire process so investors grasp the *efficiency, diversification, transparency and greater liquidity* bond ETFs provide.

Common Misconception #1: An ETF's liquidity is represented in daily traded volume.

The Truth: *An ETF is as liquid as its underlying securities – regardless of ETF traded volume. It doesn't matter if it trades one share a day or 2 million. If an investor is putting $100 million into that ETF, absorption is based on the underlying assets. The true liquidity of an ETF is represented in the bid/ask spread, traded volume should be irrelevant in institutional decision making. That said, ETF trading volumes can make an ETF more liquid over time, as it attracts more investors and market makers.*

BMO Global Asset Management

Common Misconception #2: For every dollar traded in an ETF, the portfolio manager (PM) has to immediately buy or sell the underlying.

The Truth: *Subscription/redemption activity is only triggered when there is an imbalance in the market, or when it is necessary to keep the market price in line with the net asset value of the fund's holdings. For example, for every $100 traded in our high-yield ETF "ZHY", only $12.00 of that equated to subscription/redemption activity based on actual 2016 trading data thus far, meaning we only had to trade in the underlying bond market with 12% of those dollars1. The remainder of the volume was matched on the exchange between buyers and sellers.*

Common Misconception #3: When subscription/redemption activity is initiated, many believe we have to sell a proportional piece of every single bond in the portfolio, making ETFs "price-takers".

The Truth: *Because of the sampling process in portfolio construction, we have the flexibility to opportunistically pick and choose which bonds we buy and sell (based on liquidity, price, and best fit within the portfolio).*

Fixed income ETFs generally use the sampling process in portfolio construction, which aims to track only a sufficient number of bonds (typically the largest and most liquid) to represent an index by matching key characteristics, such as duration, yield, sector, etc. As the ETF grows, the sample increases its breadth of market coverage. For seasoned ETFs, if a client wanted to redeem $50 million, we would likely only have to sell 20-25 bonds to facilitate the transaction, enabling us to opportunistically choose which bonds to sell.

Offsetting Risk

At a minimum, fixed income ETFs will most certainly be as liquid as their underlying bonds. In fact, the biggest benefit to the purchase of fixed income ETFs is the additional layers of liquidity, represented in the market maker, or designated brokers, who are in the market through thick and thin, and are always there to take that position – even when there isn't "natural liquidity" available through buyers and sellers on an exchange. On top of this, the ETF providers, who in the subscription/redemption process, have the ability to create new units, offsetting risk from the market maker and providing liquidity to clients that wouldn't otherwise exist. This compares to traditional bonds, which simply have the one layer of liquidity – represented by the relationship between the client and the broker.

In a crisis situation, while the bid/ask spreads of an ETF will inevitably widen, it will still trade throughout the turbulent period because of this extra layer of activity in the market. For example, in 2008, U.S. high yield bonds had "no bid" status as dealers didn't want these underlying bonds on their books as a result of excess risk – but ETFs continued to trade (albeit at a significant discount), providing greater liquidity and acting as a price discovery vehicle.

The true risk – and ultimately the responsibility of the ETF provider – is to stress-test the product, and ensure that the underlying bonds can endure a market downturn.

"At BMO Global Asset Management, we put a lot of focus, time and energy on ensuring our products will be able to trade during good times and bad."

A Smart, Simple Way to Access Bonds

ETFs are a perfect complement for an uncertain environment as they allow investors to get in and out of positions efficiently, and in a liquid manner.

It's a tactical approach: if an investor has $50 million to move, they could buy 500 bonds, but likely would only buy 15 for efficiency's sake, which isn't really true diversification. Meanwhile, BMO Global Asset Management's ETFs can provide significant exposure and diversification benefits, and regular rebalancing – all with one simple purchase. As our ETFs continue to grow, we have seen institutional investors begin to seize the opportunity.

Institutional clients can feel comfortable executing purchases and sales of ETFs – regardless of volume. At BMO Global Asset Management, we plan through the trade and work with our clients and the market makers to ensure that the execution is as seamless as possible, to minimize the impact on markets. There shouldn't be any worry about placing large orders or taking money out when the time comes.

We've done transitions of $100 and $200 million in a week in the U.S. high-yield market. As long as the client works with us, we'll be able to get that size done.

For investors looking for flexible trading, improved price transparency, liquidity, tighter spreads and instant diversification in the bond market, fixed income ETFs are a practical and effective solution. They also offer constant duration, which means an investor needs to make only one trade to get a fixed income portfolio up and running.

To learn more about BMO Global Asset Management's Fixed Income ETF products, please visit here: **bmo.com/gam/ca/advisor/products/etfs#**

For investors looking to exchange individual bonds to a BMO ETF, please contact your ETF specialist, or ETF Portfolio Managers **matthew.montemurro@bmo.com** and **Alfred.lee@bmo.com** for more details.

Matt Montemurro, Vice President, Portfolio Manager, Global Structured Investments, BMO Asset Management Inc.

ETF Research: Quant Perspective

The world of research in the financial industry is undergoing a fundamental change. The promise of "big data" has helped foster a new era of innovation, as investors seek to harness this newfound potential to their advantage.

Chris Romano
Director of Research, ETF Global

Against this backdrop of innovation, Exchange-Traded Funds have been at the cutting-edge in developing new quantitative strategies that are revolutionizing the investment industry.

Through the marriage of transparent, inexpensive ETFs with rules-based indexes that employ alternative, non-market cap weighting schemes, investors now have the ability to achieve targeted exposures and superior risk-adjusted returns at a significantly lower cost. These so-called "smart-beta" ETFs are factor-based investment products, whose underlying constituents are weighted according to investment attributes considered important to risk and return, such as volatility or momentum. This smart-beta and alternative-indexing revolution that has taken root in the ETF landscape has quickly attracted a large following and steered billions of dollars away from higher-cost, underperforming active managers. Attesting to smart-beta's increasing appeal, BlackRock, in a recent August 2016 study, projected that smart-beta will grow from its current $300 billion in AUM to $1 trillion by 2020 and $2.4 trillion by 2025.

As quantitative practices become an increasingly integral part of the financial industry, it is now more important than ever to acquire an understanding of this discipline and be able to use it to your advantage. Let's start with the basics.

ETFGlobal®

Quantitative analysis aims to use mathematical models and calculation to predict or anticipate certain behavior in financial markets. The primary goal of Quantitative Research is to develop an objective, **unbiased** method that removes human emotion from the equation.

Biases often cloud our judgment and prevent us from making rational decisions. For example, "buy low, sell high" is a mantra that is firmly ingrained in the psyche of investors. While this sounds like a simple strategy to follow, psychological biases and instincts often prevent us from acting in our own best interests. Falling stocking prices often compel investors to sell out of fear of further investment loss. Conversely, rising stock prices often prompt investors to buy for fear of missing out on subsequent investment gains. Despite our intentions, this create a counterproductive pattern of "buying high and selling low."

Aside from emotions and psychological biases, we often fail to appreciate the true riskiness of our investments. Price momentum often captures far greater attention of investors that measures of investment and portfolio risk. Using a quantitative strategy to measure and monitor your portfolio's risk and return characteristics rather than relying on backward-looking processes can help you make more prudent investment decisions.

Despite their seemingly conflicting approaches, fundamental and quantitative analysis can be extremely complementary in practice. ETF Global's proprietary research models identify important connections between these two disciplines to help generate superior risk-adjusted returns. . Developed for more than a decade, the ETF Global dynamic, quantitative research models integrate Fundamental Analysis, Behavioral Finance, Global Sentiment, Qualitative Evaluation and Risk Management.

There are several reasons why ETPs lend themselves well to quantitative research. First, ETPs are built like Mutual Funds but trade like stocks. However, as opposed to mutual funds which trade only once a day at NAV and disclose their holdings monthly, ETPs offer intra-day liquidity and holding transparency.

Assets in ETPs have skyrocketed in the last couple of years and that trend is likely to accelerate in coming years. This is due to a plethora of factors, including liquidity, transparency, and tax-efficiency. As transparent products, ETPs allow investors to monitor and understand the exposures they are subjected to in their investment. Driven by the unique creation and redemption process, portfolio turnover is typically lower than a traditional mutual fund and tends to minimize the effect of capital gain distributions.

As the whole, active vs. passive debate continues to rage, one particular factor will dwarf all others in importance . That is of course, cost. With index funds beating a large portion of the active managers out there investors are increasingly gravitating towards lower-cost passive investment options.

Due to that fact that many ETPs are driven by rules-based, quantitative algorithms, our objective, quantitative research models serve as natural complement to this investment class. Our consistent, disciplined research models, utilized across our suite of applications, integrate four key areas central to our research process:

1. Fundamental Valuation: A proprietary, multifactor model screens through fundamental data within the U.S. listed ETF universe; Including P/E, P/CF and P/B ratios, dividend yields and historical risk/return relationships.

2. Behavioral Finance: An analysis of behavioral factors involving the use of technical research and investor sentiment readings developed and refined over many years. Primarily focused on momentum, money flows and moving averages.

3. Global Themes: In depth review of macroeconomic conditions across the world relying on information from third party sources such as various NGOs. Focused on economic indicators, business cycle and industry/sector trends both domestically and internationally.

4. Risk Management: The cornerstone of our philosophy. The primary focus is to protect against surprises. In addition to analyzing the sponsors of ETFs, we also look at the management and trading characteristics of every ETF.

ETF Global tilts these factors and puts a higher weighting on the technical and sentiment scores. While Fundamental valuation and Behavioral Finance are often viewed as divergent approaches, research suggests important connections. For instance, the success of value investing largely depends upon the time it takes for asset prices to revert to their mean with that time horizon measured in years. This creates inefficiencies in the market that can be exploited in the near-term. Behavioral Finance can provide important clues about the transitional dynamics between an asset's fundamental value and short-term price swings. Our research models enables investors to unlock the potential of these connections and generate superior risk-adjusted returns.

It is important to note that because of the complexity of some ETP product structures, only equity-based ETFs are ranked by our quant model. Levered products cannot be scored in this modeling because they are based on derivatives which would allow them to outscore their tracking index by however much they are levered. This would create a skew in any quantitative modeling which would not allow for the scoring mechanism to work effectively.

Investors use this model to gain understanding of a products' strengths and weaknesses in these categories and incorporate these insights into their investment strategies. The most common usages of this quant model among money managers falls into the four categories below.

1) When looking at the quant scoring on a broad spectrum, investors tend to take the highest rated products, let's say the top 20, and use those ETPs to then dig more deeply into and possibly use in their strategies. These products may have no correlation to each other at all or to the money manager's investment philosophy, so this tends to be used as a watch list to gain new ideas in the market place.

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2) Another way investors use this quantitative scoring is trend analysis. For instance, our quant scoring change daily and because of that we produce a list of quant movers which can be sorted over periods of time. This can be used to spot trends within certain sectors or product types and that may be looking like a better investment according to our forward-looking modeling.

3) The third way it is used is by deploying a top down approach. Let's say an investment manager is starting an emerging market portfolio and wants to get broad exposure to a certain market using an ETF. By using this quantitative scoring methodology, he can pick the highest rated emerging market ETP and use that product either as an investible vehicle immediately or as a baseline for future investments.

4) The beauty of ranking products this way is that it allows investors to pick out certain factors that align with their portfolio construction and investment philosophy to produce optimal results within their strategies. This includes those who like to use single factor approaches to some of their portfolios. Taking the same concepts already discussed, if momentum is overarching theme of one's portfolio, they may want to look at the top scoring products in that specific category. The same could go for many of the factors we score, whether it be short interest, implied vol. or value factors like P/E ratio, an investor can always get as granular as they would like to in their own research methods using this product.

With our model's it is easily sortable to pick out the highest scoring products in that factor where the investor can do more research on those products and also use them as a watch list for further investments within that space.

The fact that ETPs are this way, makes for these so-called passive vehicles to be graded actively and even used in an active form. It is important to note that as this investment world continues to become more data centric, the reliability of it is key.

ETPs were almost set up perfectly for a quantitative researcher's mindset. With this philosophy, investment managers can count on an unbiased look at the market and one that is strictly focused on scoring factors that all ETPs have. As machine learning and artificial intelligence continues to become a larger part of the financial industry quantitative methodologies of scoring products based on the data at hand will only continue to grow.

Chris Romano, Director of Research, ETF Global
cromano@etfg.com

Calgary Fund Manager Beating World's Largest Hedge Fund Titans

Calgary is well-known as a leader for oil and gas investing, but it's one of the city's independent asset managers that is starting to turn heads on both sides of the Canada/U.S. border.

Mark Noble
Senior Vice-President and Head of Sales Strategy, Horizons ETFs

The global hedge fund industry has received a bad rap in recent years due to its underperformance compared to a raging equity market. For example, the Credit Suisse Hedge Fund Index had a negative return of -0.57% in 2016, during a year of strong returns for most other major asset classes.

One exception is the Calgary-based Auspice Capital Advisors. This company is quickly building a reputation among hedge fund managers in North America, as its returns continue to outshine many of the largest hedge funds in the world. The firm was founded by Tim Pickering, a former Shell and TD Bank trader who takes a very innovative and relationship-oriented approach to being an asset manager. In 2015, he was named one of Alberta's 50 Most Influential People by *Alberta Venture* magazine.

Auspice Capital provides rules-based investment strategies, offering both actively managed hedge funds and index strategies, available in variety of structures, including ETFs. This category of hedge funds, often called "managed futures", is also commonly referred to as CTA (commodity trading advisors) strategies, due to the licensing requirements in the U.S. to trade derivatives and futures contracts. It is also one of the largest global hedge fund sub-set strategies. The approach used by CTAs can vary dramatically, but many use a quantitative rules-based trend-following strategy, where they can go both long and short on futures contracts of dozens of different types of investments and across all asset classes.

CTA strategies represent approximately $340 billion USD of global assets[1]. Within that category are some of the largest hedge funds in the world, including AQR, Winton (Altegris Evolution), Campbell and Bridgewater. For several years, Auspice's Managed Futures Index strategy (AMFERI:BLOOMBERG) has beat them all, with better risk-adjusted returns.

		Cumulative Returns (%)					Correlations with*					Volatility**
Index Name	Ticker	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since AMFERI Inception	Auspice AMFERI Index	BTOP 50 CTA Index	TSX 60	S&P 500	MSCI World	Return Volatility
Auspice Managed Futures ER Index	AMFERI Index	-1.53%	2.87%	0.62%	8.78%	1.28%	1.00	0.70	-0.20	-0.24	-0.22	9.7%
S&P DTI ER Index	SPDTT Index	1.79%	1.49%	-0.63%	-0.29%	0.72%						
Barclay BTOP50 CTA Index	BARCBTOP Index	-8.44%	1.92%	0.61%	1.97%	0.99%						8.4%
SG CTA Index (Newedge)	NEIXCTA Index	-7.83%	4.38%	1.54%	2.75%	1.03%						7.8%
AQR Manage Futures (AQMIX) (Jan 2010)	AQMIX US Equity	-9.61%	2.13%	3.17%			0.43	0.77	-0.09	-0.03	-0.02	9.0%
Acorn Diversified Program (Canadian OM)	ACNDAM CN Equity											
LoCorr Managed Futures Strategy Fund (Apr 2011)	LFMIX US Equity	1.16%	8.87%	2.88%			0.14	0.62	-0.05	0.00	0.02	8.6%
Altegris Evolution Managed Futures Fund (Nov 2011)	EVOIX US Equity	-6.89%	8.86%	4.37%			0.23	0.81	0.02	0.09	0.06	10.3%
Equinox Campbell Managed Futures Fund (Mar 2013)	EBSIX US Equity	-15.97%	0.02%				0.49	0.83	-0.09	0.04	-0.03	11.8%
361 Managed Futures Fund (Jan 2012)	AMFQX US Equity	0.28%	0.01%	3.29%		0.49%	0.02	0.08	-0.02	0.02	0.04	6.3%
Natixis Managed Futures Fund (Aug 2010)	AMFAX US Equity	-10.93%	5.31%	2.61%			0.36	0.74	0.10	0.12	0.16	10.9%
Abbey Capital Managed Futures Fund (Jul 2014)	ABYIX US Equity	-7.92%				0.58%	0.63	0.93	-0.13	-0.11	-0.19	6.6%
Credit Suisse Hedge Fund Index	HEDGNAV Index	3.41%	1.87%	4.01%	3.68%	1.09%						2.5%
Bridgewater All-Weather Fund	BPF0001 AU Equity	12.33%	5.25%	5.59%	7.66%	0.36%	-0.18	0.00	0.38	0.39	0.40	6.0%
Bridgewater Pure Alpha Fund	BPF0004 AU Equity	2.16%	3.38%	3.93%	9.04%	0.13%	0.20	0.23	0.10	0.02	0.03	8.2%

Source: Bloomberg, as at January 31, 2017.

The indicated Index and ETF rates of return are the historical annual compounded total returns including changes in per unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution, transaction or optional charges or income taxes payable by any security holder that would have reduced returns. The rates of return shown in the table are not intended to reflect future values of the Indices or of the ETFs or returns on investment in the indices or the ETFs. The indices are not directly investable and the cost of replicating them is not contemplated on the returns shown.

* The returns shown for the AMFERI Index include hypothetical back-tested data for the period from January 01, 2000 to November 30, 2010.

Absolute Returns

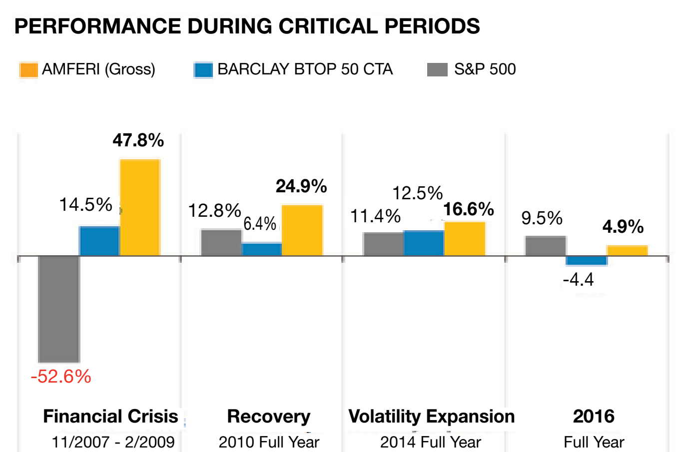
One of the key features of a good hedge fund is absolute returns. The genesis of the industry was to attain positive, or at least relative positive returns through an entire market cycle, and that's been the hallmark of Auspice's strategy. The Auspice Managed Futures Index strategy has delivered positive absolute returns over every multi-year period since its inception.

True Diversification

During this latest bull market in equities (which is already one of the longest in history), many investor portfolios have abandoned a key tenant of portfolio management – diversification. The growth of the CTA industry and its $340 billion USD in assets has been a result of the fact that managed futures, on average, tend to generate what are referred to as non-correlated returns. This means the returns of managed futures do not follow the returns of stocks and bonds or any other asset class. Instead, outperformance is generated at different periods in the market. Most notably, managed futures historically generate positive returns when stocks and bonds have been historically impaired, something that is referred to as "crisis alpha".

Last year was a difficult year for most CTA strategies, with the benchmark Barclay BTOP50 Index down 4.4%. Auspice, which utilizes a more dynamic and risk-focused approach than the vast majority of these strategies, delivered higher returns adding to its peer outperformance at critical times (e.g. 2008 crisis/2010/2014). This is a significant potential advantage, because the strategy is providing crucial risk/return benefits while minimizing the negative return drag on total portfolio performance.

As you can see in the chart below, the AMFERI strategy has historically delivered the crucial crisis alpha, but more importantly it has delivered positive returns in all key market environments since its inception.



Correlation vs. S&P 500

Financial Crisis	
Auspice AMFERI	-0.57
BTOP 50 CTA	-0.53

Recovery	
Auspice AMFERI	0.30
BTOP 50 CTA	0.50

Volatility Expansion	
Auspice AMFERI	-0.17
BTOP 50 CTA	0.42

CTA Divergence in 2016	
Auspice Diversified	-0.09
BTOP 50 CTA	-0.48

Source: Auspice Capital, as at December 31, 2016. The indicated rates of return are the historical annual compounded total returns including changes in per unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The rates of return shown in the table are not intended to reflect future values of the Indices or returns on investment in the Indices. The Indices are not directly investable.

* The returns shown for the AMFERI Index include hypothetical back-tested data for the period from January 01, 2000 to November 30, 2010.

[1] Source: BarclayHedge, December 4, 2016.

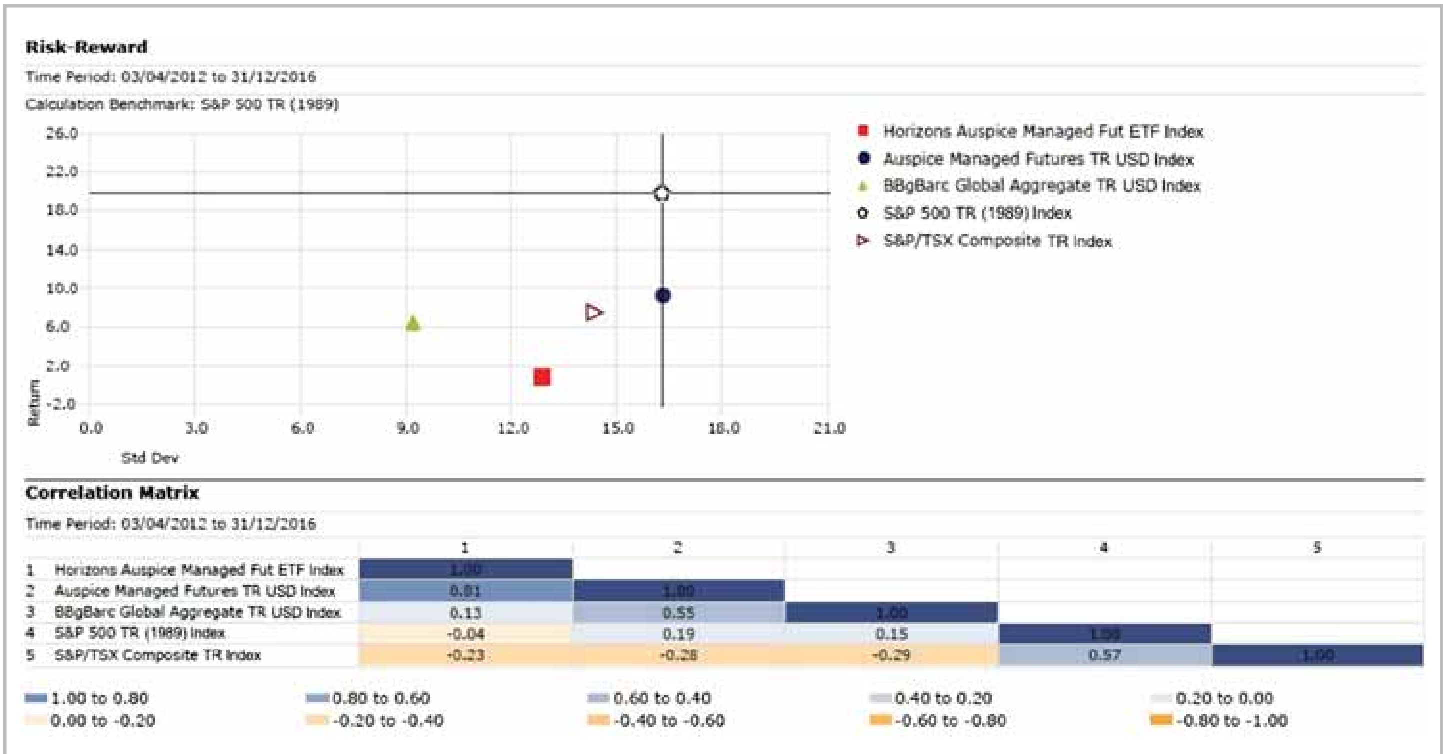
Continued on page 30

Easy to Access

Auspice Capital has also been a leader in embracing the rise of so called "liquid alternative' strategies. For example, the AMFERI index strategy can be accessed in Canada through the Horizons Auspice Managed Futures Index ETF (HMF).

This strategy has some key advantages. First, it's an open-ended ETF that trades on an exchange, so it's liquid and can be sold anytime during the business day. It's also open to investors of all account sizes and does not require investor accreditation to purchase.

The chart below shows the risk/return of both the ETF and the Index compare favorably to the absolute return profile of stocks and bonds, but do so with non-correlation (i.e. true diversification).



Horizons Auspice Managed Futures Index ETF Comparison Chart

Product	Ticker	1 Month	3 Month	6 Month	YTD	1 Year	3 Year	Since Inception
Horizons Auspice Managed Futures Index ETF	HMF	-1.68%	-5.33%	-5.59%	-7.25%	-8.09%	2.03%	-0.81%
Auspice Managed Futures Excess Return Index	AMFERI	-1.48%	-4.95%	-4.97%	-6.97%	-5.52%	2.65%	-0.03%
Barclay BTOP 50 Index	BARCBTOP	0.00%	-1.03%	-5.59%	-1.03%	-10.49%	1.99%	0.85%
S&P Diversified Trends Indicator Total Return Index	SPDTT	0.23%	-0.96%	2.77%	-1.86%	-0.98%	1.72%	-0.15%
S&P 500® Index (Total Return)	SPXT	3.97%	8.04%	10.01%	5.94%	24.98%	10.62%	13.35%
S&P/TSX 60™ Index (Total Return)	TX60AR	-0.07%	2.81%	8.09%	1.16%	23.74%	6.84%	8.18%

Performance greater than one year is annualized

Since Inception performance is from April 2, 2012.

Beta is to the Auspice Managed Futures Excess Return Index

Correlation uses daily returns of the comparable products relative to HMF since the inception of HMF.

Source: Bloomberg, between April 2, 2012 and February 28, 2017.

The indicated Index and ETF rates of return are the historical annual compounded total returns including changes in per unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution, transaction or optional charges or income taxes payable by any security holder that would have reduced returns. The rates of return shown in the table are not intended to reflect future values of the Indices or of the ETFs or returns on investment in the indices or the ETFs. The indices are not directly investable and the cost of replicating them is not contemplated on the returns shown.

Three Key Benefits of Auspice Capital's Strategy:

1) Absolute returns
2) True diversification: Non-correlation (not negative) to stocks, bonds and volatility
3) Crisis alpha during periods of heightened volatility

In recent years, Auspice has continued to partner with brand name retail distributors in the U.S. and Canada, as well as institutional investors (such as public pensions). Their innovative streak has not slowed down, recently launching an ETF providing investors with the only non-wholesale access to the Canadian crude oil marketplace. They partnered with the respected U.S. Commodity Funds group (owner of USO) to launch the ETF in the U.S. in 2017.

At Horizons ETFs, we anticipate that Auspice Capital will continue to attract inflows as the firm becomes more publicly known and for continuing to beat the CTA industry with a better risk/ return profile, including significantly lower downside. The strategy is providing an absolute return profile – generating positive returns during periods of rising volatility – true diversification, when you want it.

Mark Noble, Senior Vice-President and Head of Sales Strategy, Horizons ETFs ***mnoble@horizonsetfs.com***

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Mythbusters

Revealing the Truth About Women and Investing.

Bobby Eng
Vice President, State Street Global Advisors, Ltd. & Head, SPDR ETF Business Development for Canada

STATE STREET GLOBAL ADVISORS. SPDR

What's standing in the way of advisors seeking to connect with female investors? The culprit may be within the industry itself.

Misperceptions about how women approach investing make it difficult for advisors to engage them. Perpetuating these misperceptions is also hazardous to women's wealth. To better serve female investors, we must understand the real factors that underline investor behavior.

The significant and growing influence that women have over household investments is undermined by the fact that so many feel misunderstood by the investment industry. This disconnect is costing investors who could benefit from partnering with an advisor, and it's blocking advisors from successfully engaging female investors.

According to our study, "Assessing the Landscape: Female Investors and Financial Advisors," misperceptions are to blame. To make real progress, we must challenge outdated assumptions and break free of stereotypes. Our research uncovers seven myths about women and investing that must be shattered so that we can see the female investor for who she really is — a multidimensional individual striving to make fully informed decisions in order to meet her long-term financial goals.

Only

39% of female investors feel understood by the investment industry.

State Street Global Advisors' Women and Investing Omnibus Survey, April 2015.

MYTH 1

Investment Decisions are Mostly Made by Men

As women's responsibility for household income has increased, so has their authority over saving and investing. Women now control around $11 trillion in investable assets.[1] Over the next 40 years, it's estimated that nearly $30 trillion of intergenerational wealth will be transferred to female investors.[2] Despite their growing financial prowess, women are still overlooked at times by advisors who presume that they are not involved in investment decisions. It's time for the industry to catch up to female investors.

"I have an exceedingly bright, accomplished 71-year-old female client who worked very hard for her earnings. All of the male advisors she met with assumed her money came from a divorce or an inheritance. It was an immediate turn-off."
— Cheryl Costa, CFP, principal, Woodside Wealth Management

MYTH 2

Female Investors Lack Confidence

As they continue to expand their role as the family's chief investment officer, many women are becoming more experienced investors. The broad generalization of women lacking confidence as investors simply doesn't apply. Younger women, for example, tend to be more confident in their own investing skills. Age and experience with investing are just two factors that may impact an individual's confidence in their own investing skills.

"Past experience can either erode or build confidence. It's important for a financial advisor to learn about the client and those past experiences, which may help them better predict their confidence level and how they will approach making a decision."
— Marianne Legato, M.D., FACP, PC, founder and director, Foundation for Gender-Specific Medicine at Columbia University

Q: How confident are you in your investing skills?

Source: State Street Global Advisors' Survey, "Assessing the Landscape: Female Investors and Financial Advisors," 2015.

MYTH 3

Female Investors are Indecisive

When a female investor takes more time to make an investment decision, she is not necessarily being indecisive. Her comprehensive decision process typically involves looking at issues from multiple angles, considering various sources of information and carefully weighing the options. It is a holistic approach to a complex, multifaceted decision. This may seem indecisive, especially if compared with an overconfident investor who is more impulsive or trades more frequently, but it simply means that she is motivated to make well-informed decisions.

"Women tend to want a lot of information before they make a decision, more so than men. I think because they want lots of information they can appear indecisive. If women are having trouble making decisions, it's likely not the women but the advisors who are at fault."
— Karen C. Altfest, Ph.D. CFP, principal advisor, executive vice president of client relations, Altfest Personal Wealth Management

MYTH 4

Female Investors Prefer to Work With Female Advisors

Advisors should know that they don't need to be a woman to advise women — nine out of 10 female investors believe that gender doesn't matter in hiring an advisor.[3] However, female investors with a female advisor tend to be more confident in their own investing skills and have higher satisfaction rates, which may point to more patience and active listening on the part of female advisors. Whether male or female, advisors with higher gender intelligence have more successful relationships with all of their investors.

"The statement that women want women advisors is just not borne out by the data. First and foremost, they want trustworthy advisors." — Eleanor Blayney, CFP Board Consumer Advocate

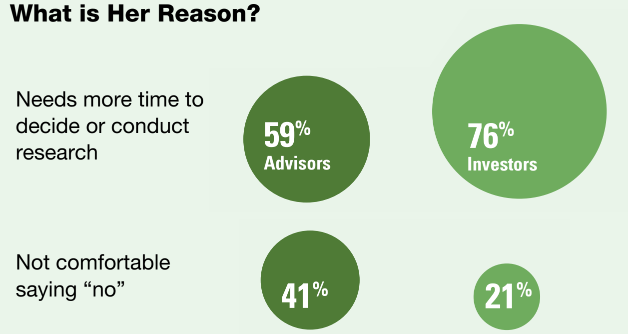
MYTH 5

"I Need More Time" Really Means "No"

When a female investor says "I need more time," this is exactly what she means — most of the time. Advisors, on the other hand, think this is often her way of saying "No." The female investor seeks sufficient information and time to process the decision, which allows her to own the decision and avoid regret. Over time, this helps her gain confidence. It also means that she will be less likely to blame her advisor if things don't turn out the way she intended.

"Give me time. But if you push me and ask me again, it will be no. So let me think about it. Respect my wishes." — Female investor

When More Time is Requested to Make a Decision, What is Her Reason?



Q: Advisors: Thinking about female investors, if they tell you they need more time to make a decision what percent of the time is it because she... Investors: When you tell someone that you need more time to make a decision, what percent of the time is it because she...

Source: State Street Global Advisors' Survey, "Assessing the Landscape: Female Investors and Financial Advisors," 2015.

Continued on page 34

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Help Informed Investors Structure the Decision Process to Avoid Regret

Do their homework, gather facts and opinions

MYTH 6

Emotion Should Remain Separate From Investing

No decision is ever detached from emotion. An investor's experiences, current situation and expectations for the future influence each investment decision. This is not a bad thing; there is a role for intuition and emotion in the decision-making process. Advisors can help investors balance emotion with more objective information. The emotional component also presents an opportunity for advisors to deepen their client relationships. The key is in connecting investments with what they represent for the investor – security and independence.

"Past research has already established that emotion is not something you can separate from cognition or thinking. It's an integral part of the process."

— Peter Sokol-Hessner, Ph.D., post-doctoral fellow, NYU

MYTH 7

Female Investors are a Lucrative Market Niche

Women are still underserved in terms of their needs for financial advice, but it's clear that this is not a niche segment. By definition, "niche" does not describe this majority investor population. More importantly, no two investors are alike. Our own research found significant differences among women's financial goals and attitudes toward investing, risk tolerance, financial literacy, confidence in investing skills and what they seek from a financial advisor.

"While it is possible to make generalizations about age groups and genders, the industry really needs to start taking a more individualized approach — particularly when it comes to women. This is 51% of the population. It's a very nuanced group."

— Kathleen Burns Kingsbury, wealth psychology expert, founder of KBK Wealth Connection

Draw their own conclusion

Feel in control

A MORE LEVEL PLAYING FIELD

Real progress in understanding and meeting the needs of female investors will start with defusing these myths at both the conscious and unconscious levels. For several of the myths we defined, such as a lack of confidence and indecisiveness, there is a danger that they can be self-perpetuating and even undermine investment performance.

Avoid regret

Increased confidence, more effective decision making, and advisor satisfaction

After peeling away these myths, we find an individual who seeks to make optimal investment decisions for the long-term financial well-being of herself and her family. We see the female investor as the "Informed Investor" because of the way in which she seeks information and processes investment decisions. Advisors who appreciate the role that gender intelligence plays in relating to the Informed Investor will be better able to partner with her and help guide her decision-making process.

Just as the old stereotypes don't apply, we must also be diligent in preventing new stereotypes from taking hold. Each investor is an individual, with unique experiences, needs and expectations.

Methodology

250 financial advisors and 1,000 individual female investors participated in State Street Global Advisors' Assessing the Landscape online survey. To further contextualize our learnings, we conducted an omnibus survey with 946 adults, and qualitative research with 19 subject matter experts and 6 female investors.

[1] Daisy Maxey, "Where are the Female Fund Managers?" The Wall Street Journal, July 6, 2015.
[2] Boston College's Center on Wealth Philanthropy, 2009.
[3] Street Street Global Advisors' Women and Investing Omnibus Survey, April 2015.

Bobby Eng, Vice President, State Street Global Advisors, Ltd. & Head, SPDR ETF Business Development for Canada

Though Mr. Eng is not the author of the above article, for more information, you can contact him at
Bobby_Eng@ssga.com **+1 647-775-6469**

2017 CALENDAR OF EVENTS

2017 CALENDAR OF EVENTS

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Exchange Traded Forum (ETF) 8th Annual

Thursday, May 4 & Friday, May 5 ~ Toronto

Canada's leading event dedicated to **Exchange Traded Products**. Hear from leading financial industry professionals and industry experts who will provide valuable insights into the issues and trends that matter most to Canada's financial professionals. Join us for presentations, advisor/client-focused sessions, roundtable discussions, networking events and knowledge sharing critical issues facing the financial industry. This is an opportunity for IIROC based financial advisors and also Portfolio Managers to gather together in a great location to network, learn from each other, and participate in the numerous educational opportunities that fill the agenda.

EXCHANGE TRADED FORUM

ExchangeTradedForum.com

TORONTO

Exchange Traded Forum (ETF West) 7th Annual

Monday, June 5 ~ Vancouver

Canada's leading event dedicated to **Exchange Traded Products**. Hear from leading financial industry professionals and industry experts who will provide valuable insights into the issues and trends that matter most to Canada's financial professionals. Join us for presentations, advisor/client-focused sessions, roundtable discussions, networking events and knowledge sharing critical issues facing the financial industry. This is an opportunity for IIROC based financial advisors and also Portfolio Managers to gather together in a great location to network, learn from each other, and participate in the numerous educational opportunities that fill the agenda.

EXCHANGE TRADED FORUM

ExchangeTradedForum.com

VANCOUVER

Niagara Institutional Dialogue (NID) 8th Annual

Mon., June 19 to Wed., June 21 ~ Niagara-on-the-Lake

Niagara Institutional Dialogue is Canada's premier institutional event with an academic angle and a focus on education & open dialogue. NID is an invitation-only symposium creating a forum for open dialogue and debate issues facing Canada's foremost institutional investors. The distinguished speaking faculty assembled each year includes academics, authors, policymakers, journalists, consultants and select practitioners. 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

InstitutionalDialogue.com

World Alternative Investment Summit (WAIS Canada)

Wed., Sept. 13 to Fri., Sept. 15 ~ Niagara Falls 16th Annual

WAIS Canada is in its 16th year and is Canada's largest gathering of **alternative and exempt market investment professionals** and service providers. Featuring panel discussions with top-level Canadian and international speakers, fund managers and leading service providers, WAIS Canada brings together over 300 delegates to explore every side of **alternative** investments. WAIS Canada is a popular annual event that is not to be missed.

WAIS CANADA

waisc.com

World Alternative Investment Summit (WAIS Bermuda)

Wed., Oct. 11 to Fri., Oct. 13 ~ Bermuda 2nd Annual

WAIS Bermuda is in its 2nd year and is a large gathering of alternative investment professionals and service providers. Featuring panel discussions with top-level international speakers, fund managers and leading service providers, WAIS Bermuda brings together over 300 delegates to explore every side of alternative investments. WAIS Bermuda is the event that is not to be missed.

WAIS BERMUDA

waisc.com

Montebello Institutional Dialogue 2nd Annual

Mon., Oct. 23 to Wed., Oct. 25 ~ Montebello, Quebec

The **Dialogue Institutionnel Montebello** is produced by Radius and modeled after the immensely successful Niagara Institutional Dialogue (NID) held annually at Queen's Landing, Niagara-on-the-Lake, Ontario, now in its seventh consecutive year. Fairmont Le Chateau Montebello in Montebello, Quebec, was historically founded as a private club in 1930, the resort is the world's largest log cabin, nestled in the heart of the scenic Montebello Village, and has hosted many political figures and royalty. This is an inspiring event at a unique venue, where plan sponsors can gather, discuss, debate and learn from industry experts, authors and their peers.

Montebello Institutional Dialogue

InstitutionalDialogue.com

For more information, please contact:

Radius Financial Education T 416.306.0151 info@radiusfinancialeducation.com