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FALL 2020

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Pandemic Affects Canadian Sectors Differently


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The last six months have been challenging for everyone, especially, for those of you who directly support clients. Your client engagement has been become very difficult with the changing financial situations of your clients, and the uncertainty as to when these challenging times will ever come to an end.

We hope that you, your families and your clients are healthy, and will be able to endure the “Year of COVID-19” and can come out on top.

The stress of COVID-19, global political uncertainty and climate change are enough stressors for anyone – we do not want to have to additionally endure financial insecurity.

Thank you for your work – and your empathy for your clients. We hope that the information and education that we are providing you in **ETF Watch** helps with the decisions that you and your clients must make now and into the future.

Sincerely,

Keith Costello
Global CEO,
Canadian Institute of Financial Planning
www.CIFP.ca

Pat Dunwoody
Executive Director,
Canadian ETF Association (CEFTA)
www.CETFA.ca

About *Canadian ETF Watch*

Through a dedicated website and quarterly issues, ***Canadian ETF Watch*** will speak to financial advisors, investors, managers and service providers to provide them with the latest information on ETFs in Canada. Canadian-based ETF markets continue to grow, which presents numerous marketing and promotional opportunities. Fund companies benefit from being featured in Canadian ETF Watch as their company name and solutions are distributed to our audience who are dedicated & targeted to ETFs.

Canadian ETF Watch
CanadianETFWatch.com

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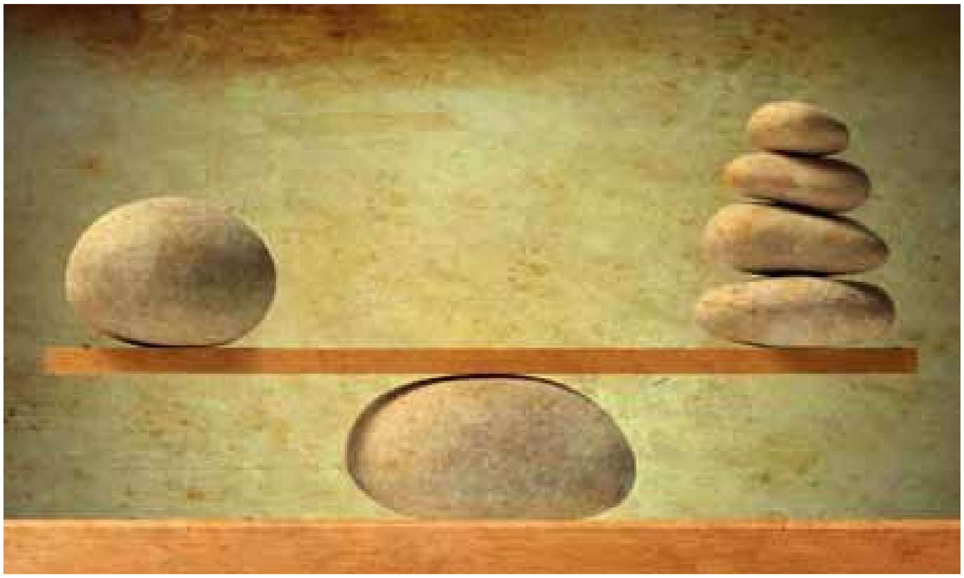
Pandemic Affects Canadian Sectors Differently



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Pandemic Affects Canadian Sectors Differently: Evidence from the Information Technology Sector

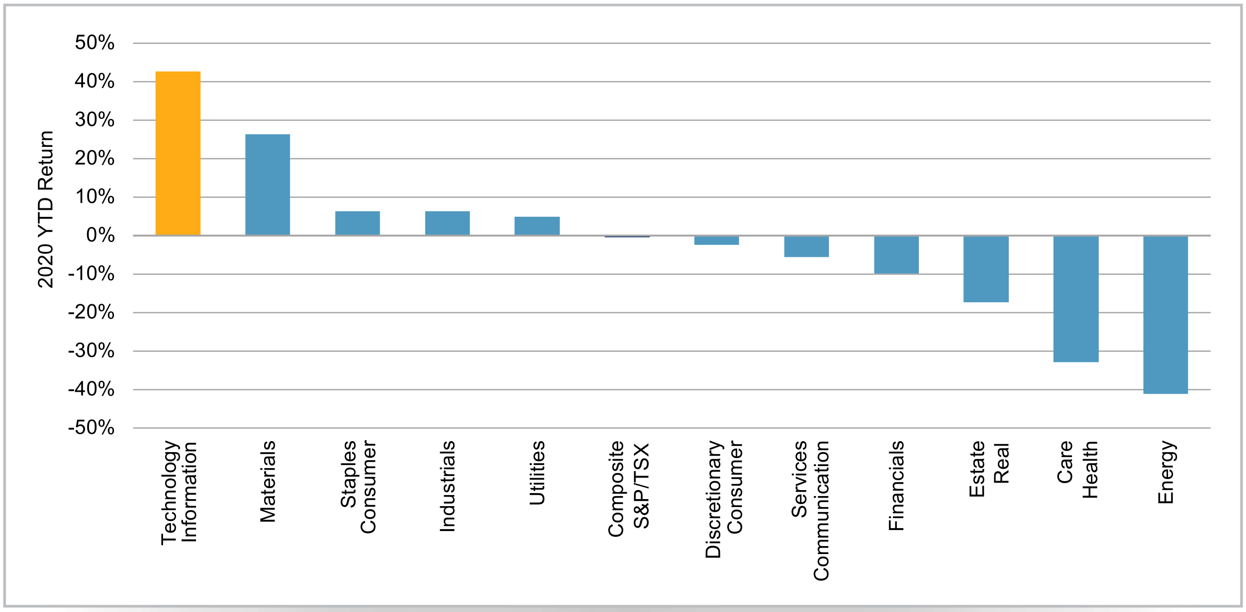
The S&P/TSX Capped Information Technology gained a whopping 62% in 2019, topping all other Canadian equity sectors and beating the broad market S&P/TSX Composite Index by about 40%.

Michael Orzano, *CFA*
Senior Director,
Global Equity Indices

Given the traditionally cyclical nature of the Information Technology sector and its outsized gains during the bull market, one might have expected the sector to lag during the COVID-19 downturn.

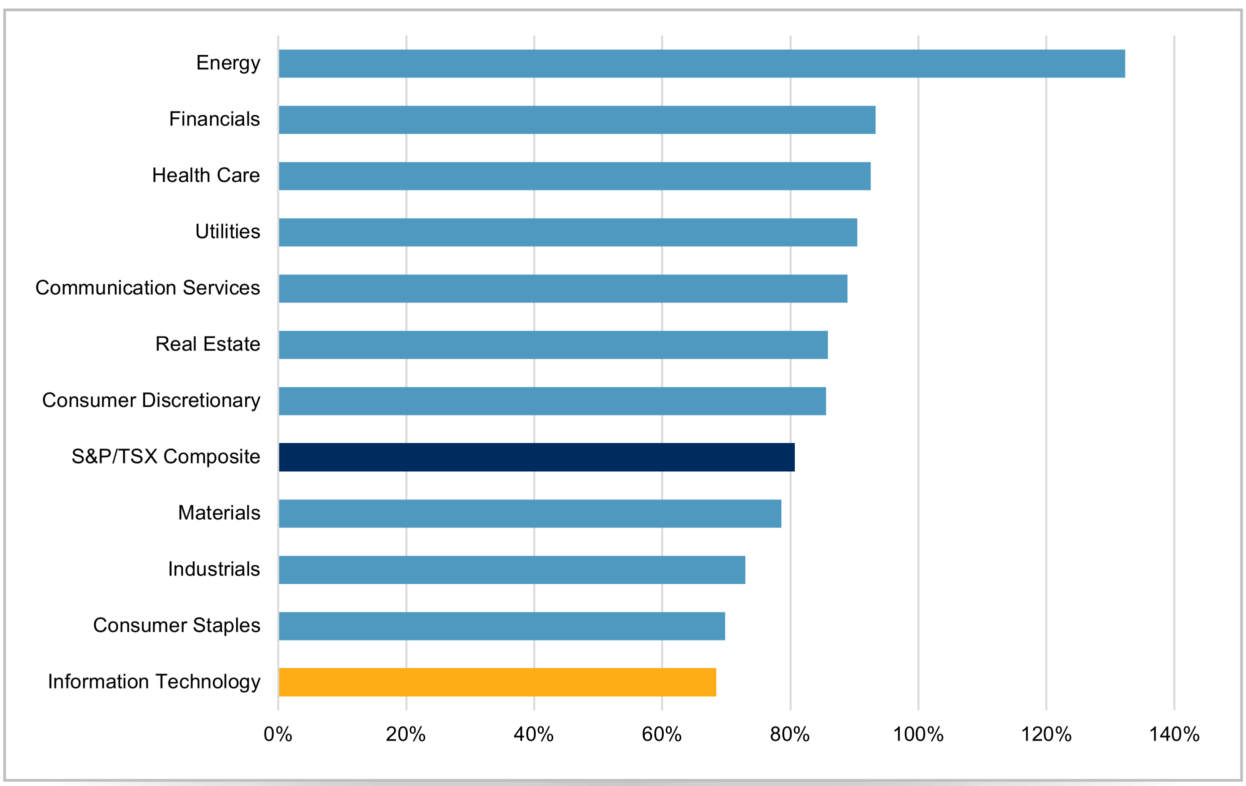
However, Information Technology experienced a smaller drawdown than the broad Canadian equity market during the pandemic-driven market decline and has led the equity market recovery, driving it to outperform all other sectors by a wide margin YTD. Rather surprisingly, it also experienced the lowest volatility during the crisis period out of the 11 S&P/TSX Capped Sector Indices.

Exhibit 1: Information Technology Outperformed All Canadian Equity Sectors



Source: S&P Dow Jones Indices LLC; TMX Group. Data as of Aug. 25, 2020. Sectors are calculated using the S&P/TSX Capped Composite Sector Indices, which employ a single-stock cap of 25% at each quarterly rebalancing. Index performance based on total return in CAD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Exhibit 2: Relatively Low Information Technology Sector Volatility



Annualized Standard Deviation (Feb. 21, 2020-March 23, 2020)

Source: S&P Dow Jones Indices LLC; TMX Group. Data from Feb. 21, 2020, to March 23, 2020. Sectors are calculated using the S&P/TSX Capped Composite Sector Indices, which employ a single-stock cap of 25% at each quarterly rebalancing. Index performance based on total return in CAD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

So, why has Information Technology been so resilient despite a steep economic downturn? For one, this pandemic-driven economic shutdown clearly affected industries differently compared with what has played out in past recessions. With consumers and businesses forced to remain home in isolation, many technology-related companies are experiencing increased demand for their services. We are seeing this play out in the U.S. and many other markets, as stock prices of companies in many technology-related areas including e-commerce, software, semiconductors, communications equipment, and others have fared well due to expectations that the world will rely heavily upon these products and services during the remainder of the pandemic and for the foreseeable future.

In addition, as most keen Canadian market observers are aware, Shopify, a leading provider of e-commerce software solutions to businesses, is the largest Canadian Information Technology company and has performed well in the recent environment. As Exhibit 3 illustrates, Shopify has been, by far, the largest single driver of S&P/TSX Capped Information Technology performance in 2020. However, other large constituents such as Constellation Software, Descartes Systems, and Kinaxis contributed to the sector outperformance as well. In addition, resilience among Information Technology names has been broad based, as the median YTD return of Information Technology stocks within the S&P/TSX Composite was approximately 17%, while the broad market remained marginally in negative territory.

Exhibit 3: S&P/TSX Capped Information Technology (2020 YTD Constituent Contribution to Total Return)

COMPANY	AVERAGE WEIGHT (%)	CONSTITUENT TOTAL RETURN (%)	CONTRIBUTION TO INDEX TOTAL RETURN (%)
Shopify, Inc. Class A	29.59	164.40	41.40
Constellation Software Inc.	23.24	19.39	4.02
CGI Inc. Class A	18.33	-16.65	-6.44
Open Text Corporation	12.94	2.88	-0.20
Descartes Systems Group Inc.	4.41	37.30	1.62
Kinaxis, Inc.	3.29	99.88	2.55
BlackBerry Limited	2.79	-24.55	-1.19
Enghouse Systems Limited	1.99	54.06	1.00
Other	3.42	-	-0.16
Total	100.00	-	42.59

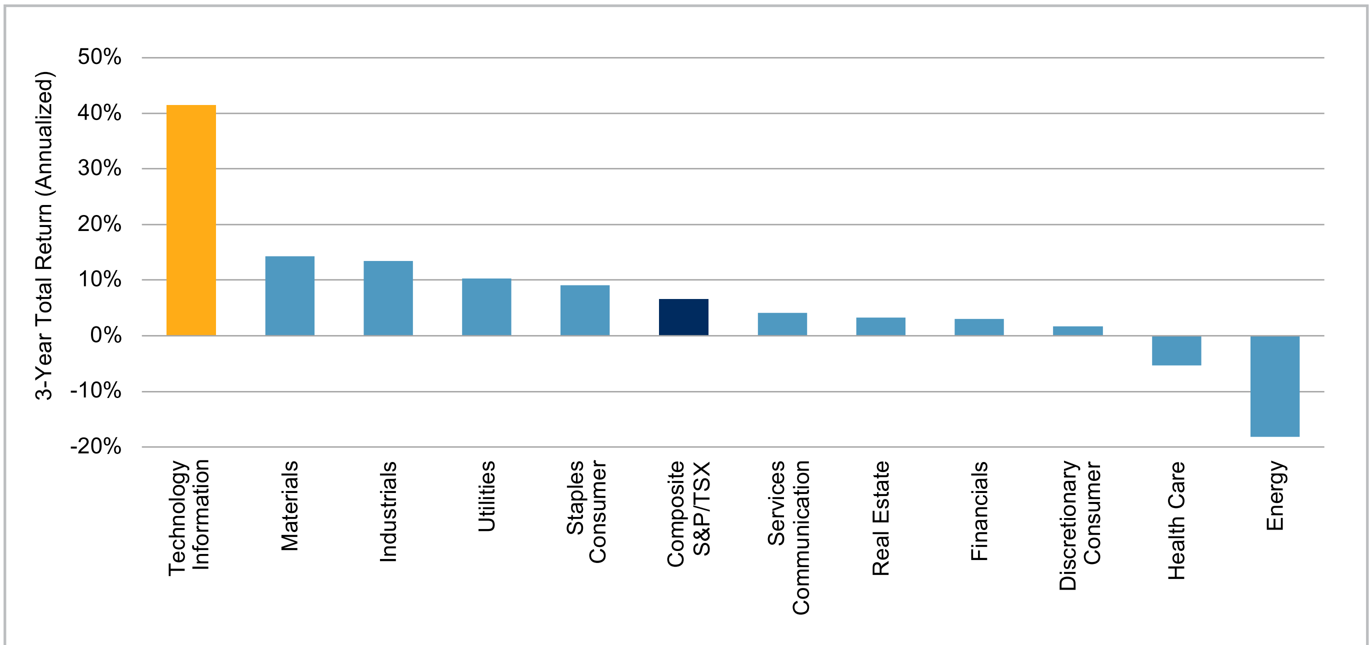
Source: S&P Dow Jones Indices LLC; TMX Group; FactSet. Contribution calculated using 2-factor Brinson Attribution from Jan 1, 2020, through Aug. 25, 2020. Table includes largest 50% of constituents by average weight. The bottom 50% are grouped in Other. Index performance based on total return in CAD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

It's important to recall that the recent relative outperformance of the Information Technology sector is an extension of a longer-term trend. In fact, over the past three years as of Aug. 25, 2020, the S&P/TSX Capped Information Technology gained more than 40% per annum, outperforming the S&P/TSX Composite by 35% per year and easily beating all other sectors.

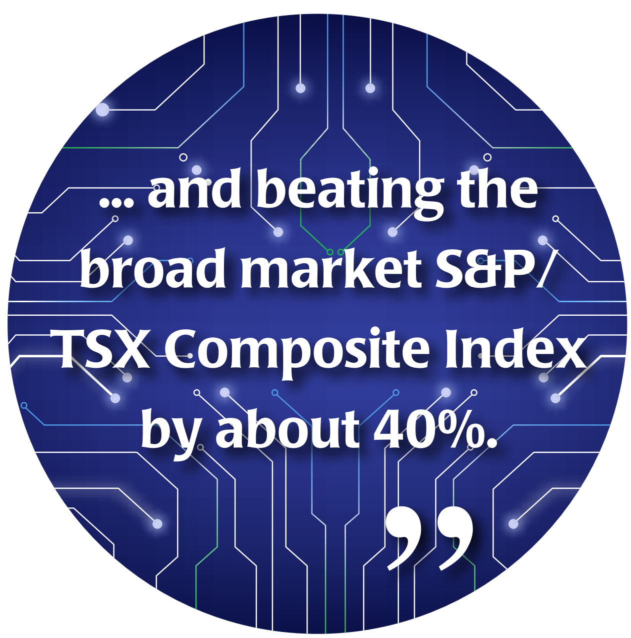
While the Canadian equity market fell sharply during the COVID-19 crisis and has not yet fully recovered its losses, there has been wide divergence across equity sectors. Given the sharp decline in oil prices, Energy companies have taken the steepest hit, while Health Care has also declined due to the sector's unusually large exposure to the cannabis industry. Unsurprisingly, defensive sectors such as Utilities and Consumer Staples fared relatively well, while Materials has also been supported by strong precious metals prices. However, Information Technology has thus far proven to be the major beneficiary of this unique downturn.

Michael Orzano, CFA, Senior Director, Global Equity Indices

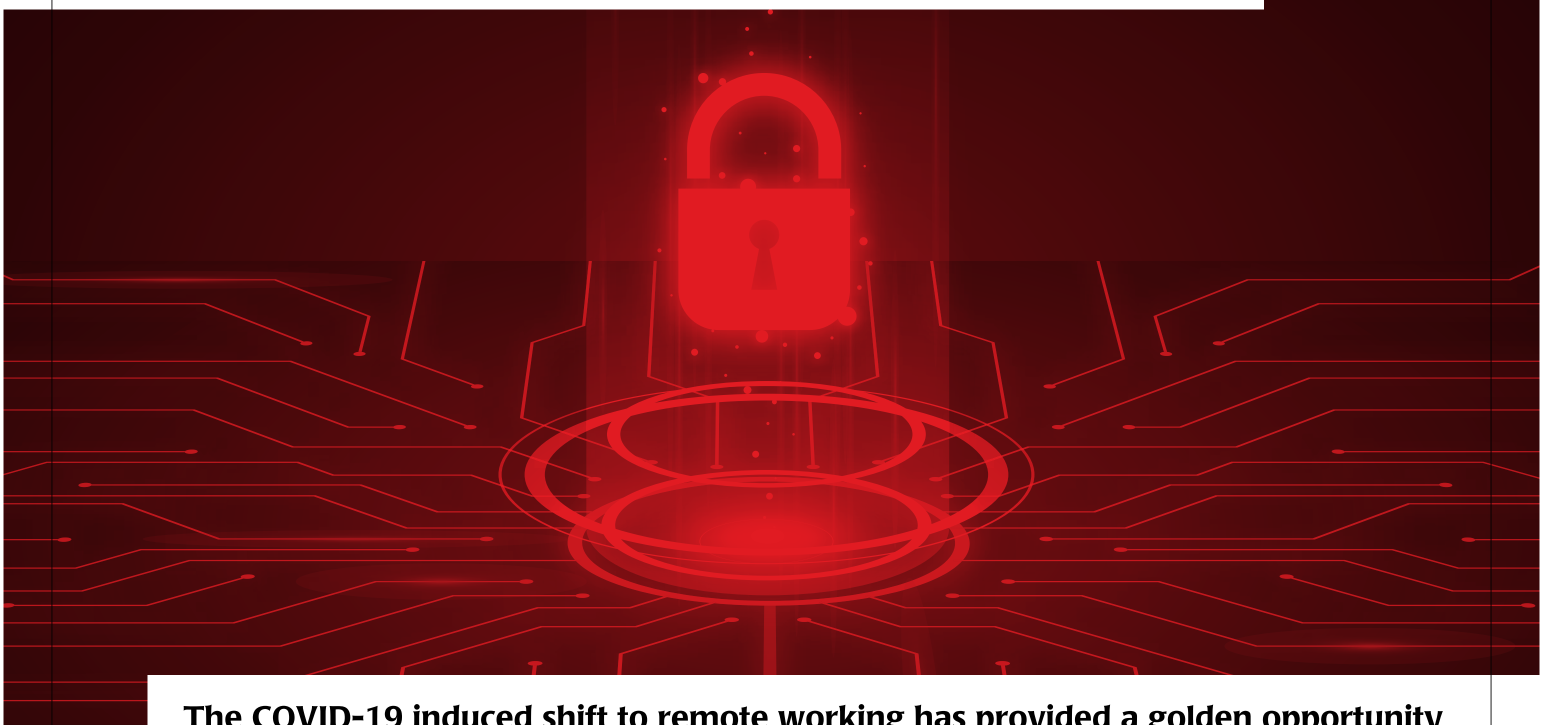
Exhibit 4: The Longer-Term Outperformance of Information Technology



Source: S&P Dow Jones Indices LLC; TMX Group. Data from Aug. 25, 2017, to Aug. 25, 2020. Sectors are calculated using the S&P/TSX Capped Composite Sector Indices, which employ a single-stock cap of 25% at each quarterly rebalancing. Index performance based on total return in CAD. Past performance is no guarantee of future results. Chart is for illustrative purposes.



Click And Despair: Remote Workers Come Under Cyber-Attack



The COVID-19 induced shift to remote working has provided a golden opportunity for cyber criminals to target one of businesses' biggest cyber vulnerabilities – the workforce.

Richard Hanlon
EMEA Chief Commercial Officer, Aon Cyber Solutions

Since the UK lockdown began in March, the proportion of attacks targeting home workers has increased from 12% of malicious email traffic to more than 60% six weeks later. Businesses no longer have the luxury of traditional defensive and office-based security models, and with such a drastic transformation in how workers operate remotely, the cyber risks have increased significantly. In order to manage this risk, it is imperative to first understand it.

Fertile Soil for Growing a New Scam

Since the onset of COVID-19 hackers have been working to use the situation to their benefit. In the same way that the offline world has seen telephone scams from people selling anything from fake virus tests, through to impersonating police officers and threatening fines for not following social distancing measures, the online world has been just as creative. Advance Persistent Threat (APT) groups and other cyber criminals have continuously targeted individuals, businesses and charities alike with COVID-19 related scams and phishing emails.

Typical examples include phishing emails tailored around news announcements from governmental or health organizations like the case study of the World Health Organization which attempt to lure users to a malicious website to provide confidential details. The UK's National Cyber Security Centre recently warned of email distributed malware which purports to be from Dr. Tedros Adhanom Ghebreyesus, Director General of the World Health Organization (WHO) but is, in reality, the Agent Tesla keylogger malware.

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The test and trace regime in place in many countries is also likely to see a wave of phishing attempts with hackers disguising their emails under the banner of the government's push to contact all those who have been in contact with someone infected with coronavirus. It's not just emails that are vulnerable either, criminals are also targeting voice calls (vishing) or SMS (smishing) to get hold of an individual's credentials or other sensitive information.

They leverage social media and public information to make their attack techniques as realistic as possible. Specifically, they can utilise the public information shared by companies about their remote working response to the pandemic and use this as ammunition in attempting to attack the workforce.

Held to Ransom

If a remote worker falls victim to a phishing email and clicks on a link, the consequences for the business can be significant, with malware – and in some cases a form of ransomware – downloaded into an organization's IT systems and possibly causing major IT downtime and business disruption loss of data or critical information. Ransomware cost businesses globally over GB£5 billion in ransom demands alone in 2019, and COVID-19 is likely to inflate that figure further in 2020. And it's easy to see how such an attack can unfold in the fictionalized scenario on the next page.

New Tech: New Problems

No business wants to fall victim to an attack like the one described above, but the problem for many organizations is that once COVID-19 hit, they were simply unprepared to move to a majority remote workforce operating model in such a short space of time. Many companies who have invested in securing their technologies appropriately turned to new services that could be vulnerable to hackers out of necessity. This trend has been picked up by the NCSC, who mention the use of communications platforms like where, "malicious cyber actors are hijacking online meetings that are not secured with passwords or that use unpatched software." Of course, it's important to balance cyber risk with keeping operations running – and employees in work – however appropriate safeguarding and due diligence for any major business tool is still required to protect the company.

Even where businesses are investing in a robust programme of cyber security and associated technologies, it is only ever as good as the people using the system. Research shows that two thirds of remote workers in the UK lack the basic cyber security training needed to spot a cyber-attack, meaning they are more likely to fall victim to an attack, particularly when they're not working from their usual office environment.

Undertake A CyQu Assessment

Despite the increased threats posed by the significant uptake of remote working there are a number of steps that businesses can take to help minimize the risk. Understanding where the weaknesses are is the right place to start. Aon's Cyber Quotient Evaluation (CyQu) is an online self- assessment which can provide insight of an organization's cyber maturity and the reported areas identified as posing the greatest risk.

To help organizations deal with the remote working threat, a ninth security domain specifically focused on this area has been added to CyQu in addition to other critical cyber security domains such as network security, data security, and business resilience. By undertaking an online self- assessment, businesses are provided with a report identifying key findings and prioritized quick wins to help improve security maturity, as well as calculating a benchmark against industry peers to help an organization to understand how it compares with others.

Changing Threats Demand A Changing Approach to Security

The cyber security threats continue to change as businesses adopt new ways of working and new technology. Whilst the pandemic may have accelerated the pace of change for digital transformation initiatives and remote working enablement, businesses should ensure they review the relative cyber risk to their operations and understand that systems which may have been secure before may now be vulnerable due to the change in operations.

Assessing where those risks are will help enable businesses to prepare and mitigate these emerging threats. Through understanding their cyber risk, organizations can work to prevent it and put in place additional protection such as the use of cyber insurance to help minimize the operational and financial consequences of an attack; critical at a time when a data breach or ransomware incident could significantly detract from an organizat ion's ability to come through the pandemic intact.

Find out more about how Aon's Cyber Quotient Evaluation (CyQu) online assessment tool can help your organization counter the additional threat from remote working.

www.aon.com/cyber-solutions/cyqu-cyber-quotient-evaluation/

Richard Hanlon, EMEA Chief Commercial Officer, Aon Cyber Solutions ***richard.hanlon@aon.ie***

The remote worker held to ransom

Friday
Initial compromise

17:28 | Ryan receives an email appearing to be from the corporate travel agency detailing urgent actions required to cancel upcoming trips due to the pandemic.

16:27 | Ryan is working remotely, as per his company's COVID-19 guidance.

17:39 | He clicks on the website link in the email to cancel upcoming travel for a conference which has been postponed. Not realizing the link is malicious, Ryan has just unknowingly allowed highly-skilled ransomware attackers to gain a foothold into the company network.

The entire weekend passes, the criminals begin their work and the attack has not been identified.

Monday
The attack remains undetected

09:33 | Ryan realizes that he cannot access some files on his laptop. He emails the IT team and carries on with his work thinking this could be a simple connection problem.

He does not suspect anything unusual as IT issues have been common following the shift to remote work. Over the weekend the ransomware has been spreading over the company network.

17:17 | Ryan finishes his work for the day and logs off. Meanwhile the attackers have built on the initial compromise to move across the company network and access an increasing amount of company data.

17:29 | IT personnel review Ryan's IT ticket; they have been very busy maintaining systems deployed to cope with large-scale remote work.

17:35 | The IT team sends Ryan instructions to re-configure his network connections and to call in the morning if the problem persists.

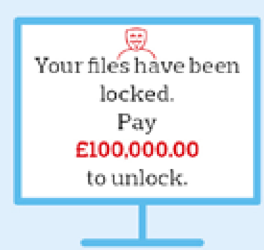
The IT team has recently dealt with several connectivity issues where people could not access file stored and this problem does not appear to be different. Without physical access to his laptop the team assumes the recent network updates will resolve the issue.

Tuesday
The attack is escalated and identified

07:22 | Attackers have now had time to lock accounts across the company network and extract critical data.

08:00 | The attackers have made their move, encrypted company files and posted a ransom demand ready for when employees log in.

08:30 | Ryan and his colleagues log in to the company network to find a message stating that their systems have been infected and owned by a notorious hacking group. To unlock files the attackers have demanded the company to make a payment of **£100,000** to the attackers in untraceable currency. The entire company is brought to a sudden halt, employees have no access to IT and are unable to operate remotely – this includes operations, suppliers and customer departments. IT (and Ryan) remain unaware of the attack's origin. IT personnel try to assess the extent of the attack.



09:00 | The company executives are briefed; the IT team are asked how best to respond and decide to engage investigators. The CEO requests hourly updates and sends an email briefing to the board.

09:12 | A highly-sensitive, confidential company document is posted online, accompanied by a message stating that more data will be leaked on the hour if the ransom is not paid. The attack is worse than anticipated, the document causes significant reputational harm to the company and the phones begin to ring with concerned customers and partners.

09:45 | Company executives join an emergency virtual meeting. They don't know whether to pay or what the wider implications are. The executives raise the issue as a critical priority - they have already faced continuity issues due to COVID-19. They release a public statement about the breach and the CEO is inundated with calls from the media who want to know the extent of the problem.

15:00 | The CFO has performed some initial analysis and believes the company will miss agreements with several suppliers costing them significantly. The sales team have received calls from key customers canceling orders due to the press reports – a sense of panic has spread across the organization.

Until the systems can be restored, the business experiences a significant loss of productivity and delay on orders for several large clients which could result in financial and legal penalties.

Next Monday
Remediation

12:04 | Specialists investigating the attack identify the malicious email and notify company executives. They noticed high levels of activity from Ryan's account over the weekend, outside working hours, and used this to narrow in on the malicious email. The ransomware used is linked to known, advanced attack groups.

13:00 | Using this information, the IT team can restore some basic services to their employees. Due to the encryption, key data is lost, and some systems remain closed – people are still unable to perform their jobs.

14:00 | The CIO briefs the executives with the root-cause of the problem and the recommended remediation. This includes a total re-build of the company network and protective IT upgrades which were not budgeted. The CEO agrees this as a priority despite the significant unbudgeted spend.

15:00 | The CFO briefs the CEO and exec on the financial impact of the attack – it is material and significant. The CEO prepares a briefing to the public and receives an urgent call from the board.

What was once secure, may not be today

To help protect against these threats, businesses must first understand their remote working risks.

Request an online cyber risk assessment.

[1] www.scmagazineuk.com/impact-first-100-days-covid-19-includes-volume-attacks-33/article/1682476
[2] www.practicebusiness.co.uk/half-of-businesses-arent-set-up-for-home-working/
[3] www.ncsc.gov.uk/news/covid-19-exploited-by-cyber-actors-advisory
[4] www.cisomag.com/66-of-remote-workers-in-the-u-k-lack-cybersecurity-training-research/
[5] www.infosecurity-magazine.com/news/ransomware-costs-may-have-hit-170/

Under Construction: Why the Case for Listed Infrastructure Continues to Build

Infrastructure stocks offer several potential benefits including growth, income and downside protection.

Mark Stacey
Co-CIO AGFiQ Quantitative Investing & Head of AGFiQ Portfolio Management, AGF Investments Inc.

Bill DeRoche
Chief Investment Officer, AGF Investments LLC, & Head of AGFiQ Alternative Strategies, AGF Investments Inc.

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Listed infrastructure is not an easy investment to categorize. To some, it's part of the alternative universe of asset classes and strategies that can help fortify traditional 60/40 portfolios; for others, it falls more squarely into the bucket marked "equities" and is a unique way to differentiate the vast pool of stocks traded daily around the world.

However you want to categorize it, it's not hard to agree on the valuable role listed infrastructure can play in asset allocation decisions. Whether the goal is to add growth, income or downside protection, it is increasingly evident that portfolios with liquid exposure to the structures, facilities and systems that help support and keep the global economy on track may end up better off than those that don't.

In fact, infrastructure stocks offer not only many of the same benefits that are often associated with private infrastructure funds, but also greater versatility to gain broad global exposure across multiple sectors and to move in and out of positions more easily. As such, they are routinely used as both a substitute for and a complement to less liquid approaches. For instance, while they often act as strategic long-term holdings, many institutions hold them as tactical placeholders for longer-term commitments they've made to private investments that have yet to issue capital calls (or required drawdowns) needed to fund new infrastructure deals.

Still, the advantages of listed infrastructure might not be fully appreciated by every investor. One of those advantages is the sheer magnitude of the opportunity. According to a 2016 study by the consulting firm McKinsey & Co., for example, US$3.3 trillion needs to be invested globally in infrastructure every year to 2030 – just to support current economic growth rates. It might seem that the infrastructure gap between what currently exists and what is required never seems to budge, given the inaction of politicians to spend what they promise. But the global rash of power outages, contaminated water supplies and bridge collapses that have happened in recent years confirms the desperate need to repair, replace and upgrade the infrastructure the world relies upon.

If anything, the COVID-19 pandemic only adds to this growing sense of urgency, as governments around the world reassess their investment requirements in social infrastructure such as hospitals and enact fiscal stimulus measures to kick-start economies that have been waylaid by the outbreak. U.S. President Donald Trump, for one, recently proposed a US$1-trillion infrastructure package focused on roads, bridges, tunnels, fifth generataion (5G) wireless infrastructure and rural broadband as part of the government's response to the coronavirus. He also signed an executive order that gives federal agencies emergency powers to fast-track public works and highway projects, as well as energy projects like pipelines and terminals.

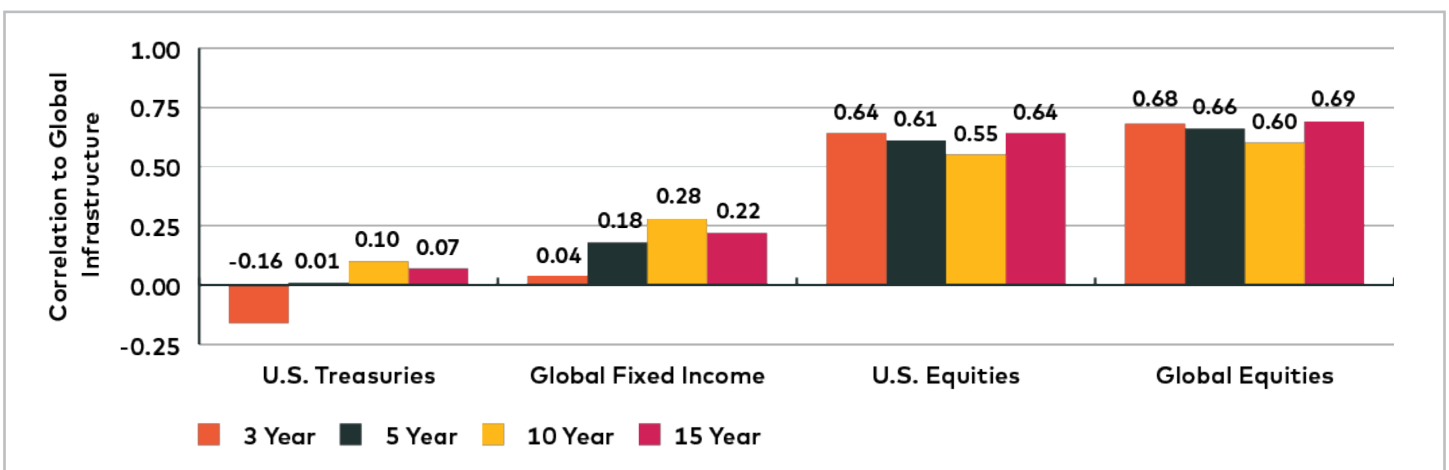
Of course, not all this pent-up infrastructure investment will flow to public markets; much will remain in government hands and/or be owned privately via public-private partnerships (PPPs). Yet opportunities to participate through listed stocks are far from negligible, and they should continue to grow as governments look to manage their debt loads and more money is put to work along the infrastructure supply chain. That would come to the benefit of various companies and industries, including power producers, electrical equipment manufacturers, toll roads and airports, as well as engineering and construction firms and steel, cement and stone makers.

Even if listed infrastructure's growth potential takes time to realize (or worse, falls short of the mark), it can still have an immediate and positive portfolio impact as a risk-mitigator and income-generating investment. Infrastructure stocks have a solid track record of returns, with low and even negative correlations to stocks and bonds, over the past 15 years. Our research also shows that listed infrastructure tends to offer a slightly smoother return profile than equity markets do. More specifically, the Dow Jones Brookfield Global Infrastructure Total Return Index experienced a standard deviation of 12.35% during the 10-year period ending March 31, 2019, compared with the S&P 500 Total Return Index's standard deviation of 13.86% over the same stretch.

Infrastructure stocks in several sectors, including transportation, energy and utilities, have also shown a tendency to outperform their broader universe counterparts, both over the long term and during the recent market selloff, our research shows. For example, during the period between February 24 and March 23, 2020, when the global benchmark MSCI ACWI Index fell 33%, exposure to transportation infrastructure stocks netted a loss of 21% versus the ACWI Transportation Index that fell 25%. Similarly, exposure to energy and utilities infrastructure lost 7% and almost 6% less, respectively, than the comparable ACWI sector indices.

Listed infrastructure's appeal as a reliable, high-yield dividend payer, meanwhile, is also well established. At the end of March, the index was yielding 4.73% versus comparable aggregates for global bonds and equities that were yielding 1.22% and 3.1%, respectively. While not always so wide, this favourable differential has been consistent over the years, in part because many infrastructure companies are monopolies offering predictable cash flows through regulated or concession-based revenues. The low interest rate environment of the past decade has also been a factor in the relative attractiveness of infrastructure yields, and that should continue given recent indications from the U.S. Federal Reserve that its overnight lending rate will remain near zero for at least the next few years, if not longer.

Listed Infrastructure: Correlations to Other Assets



Source: Morningstar Direct as of March 31, 2020 in U.S. dollars (US$). Global Infrastructure is represented by the Dow Jones Brookfield Global Infrastructure Total Return Index, US Treasuries are represented by the Bloomberg Barclays US Aggregate Bond Total Return Index, Global Fixed income is represented by the Bloomberg Barclays Global Aggregate Total Return Index, US Equities are represented by the S&P 500 Total Return Index and Global Equities are represented by the MSCI World Index. One cannot invest directly in an index.

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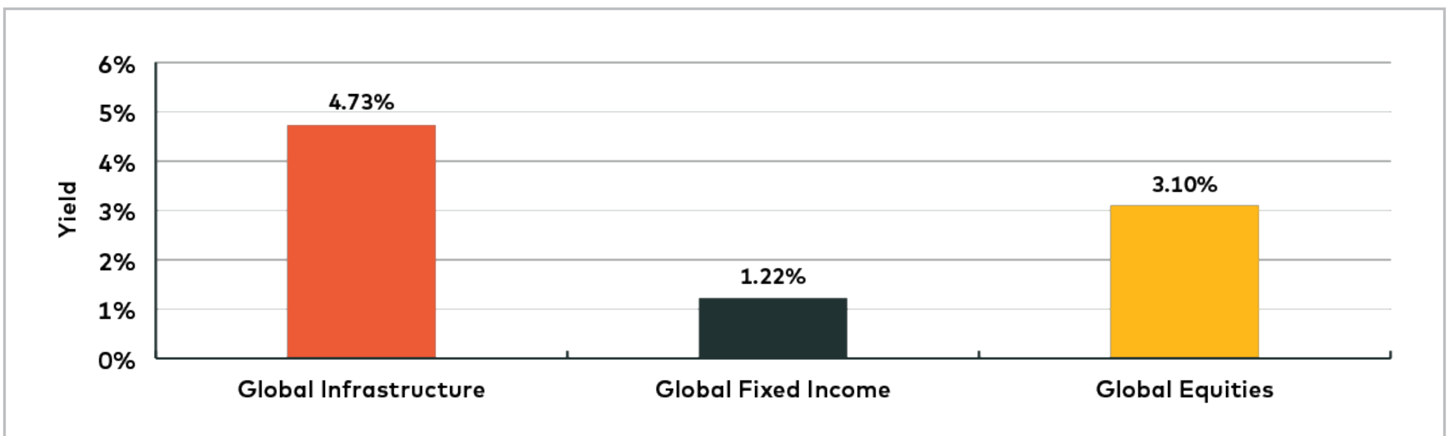
In short, listed infrastructure can be advantageous on several different fronts and stands to benefit those who own it through ebbs and flows in both equity and bond market cycles. Granted, that doesn't mean it's foolproof. The economic downturn that has resulted from the pandemic has been particularly hard on short-term cash flows for toll-based infrastructure, including highways and airports, while energy-related infrastructure has been additionally burdened by the recent rout in oil prices. But these types of risks are often temporary and will give way to newer opportunities, not negate them. Areas of promise moving forward include the cell tower and data centre industries, which both stand to benefit from the necessary expansion of our telecommunications infrastructure to support 5G network technology.

Call it what you will – an alternative or just an equity – but there's no denying the importance that listed infrastructure can have in a well-diversified portfolio.

Mark Stacey, Co-CIO AGFiQ Quantitative Investing & Head of AGFiQ Portfolio Management, AGF Investments Inc.

Bill DeRoche, Chief Investment Officer, AGF Investments LLC, & Head of AGFiQ Alternative Strategies, AGF Investments Inc.

Listed Infrastructure: Yield Versus Other Assets



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STEP UP YOUR CYBER SECURITY
Changing threats demand a changing approach to security
Top 3 cyber security considerations:
• Review the relative cyber risk to your operations
• Understand your systems' vulnerabilities
• Put in place additional protections to help minimize the operational and financial consequences of an attack
Book a complimentary call with one of our cyber experts
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It's a New World

ESG investing as the new standard

It's a new world.

It's hard to imagine a world without climate change, social injustices, and corporate ethics failures. These issues have become ingrained in our daily lives reaching the news headlines daily, it is no longer possible to ignore them in our investment decisions.

Political pressure, greater regulation, and advancements in technology are all helping to shift investors beliefs, and behaviours around ESG investing. This shift will take time, but it is beginning to gain momentum. Globally, sustainable assets have surpassed $30 trillion USD (Bloomberg, 2019). At the end of 2018 the Responsible Investment Association reported over $2 trillion in responsible investments. ESG mutual funds and exchange-traded funds (ETFs) attracted $46 billion of inflows in the first quarter of 2020. (CFA Institute, Jul 2020) ESG ETF assets under management in Canada have recently surpassed $2B, with more than 50 ETFs available. In Canada, YTD ESG ETF flows reached $1.2B, or 77% of this category's assets at the beginning of the year. (NBF, Jul 22 2020)

Institutions are evolving their policy benchmarks to include ESG. Many believe security selection and portfolio construction processes should evaluate ESG characteristics alongside other strategic, business and financially material company characteristics (e.g., valuations, growth and profitability). The Edelman 2019 Trust Barometer Special Report indicates that more than 87% of Canadian institutional investors have changed their voting and engagement policies to be more attentive to ESG risks.

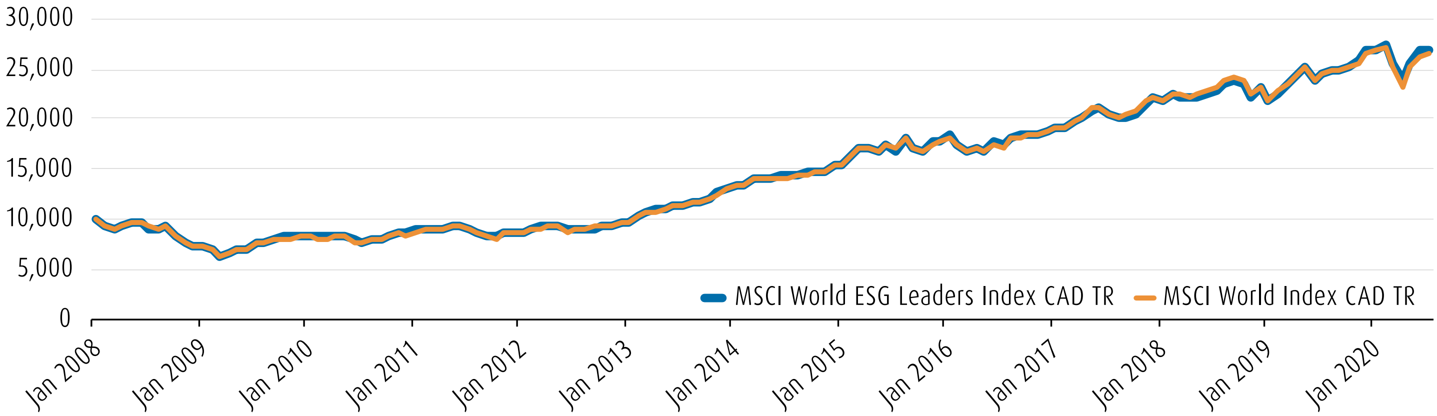
ESG investing has been around for decades but only now seems to be coming to light in mainstream investing. We can chalk this up to growing awareness of corporate ESG incidents, enhanced ESG data and analytics, an increase in investor interest and a greater range of products available. What's clear is that attitudes towards investing in our world have changed, and with good reason. With the global pandemic, and demonstrations over social injustices, investors are beginning to hold corporations responsible for their performance on environmental, social and governance benchmarks. This is not a passing trend and represents a new normal in terms of investment expectations and fiduciary duty.

In 2018 the United Nations Environmental Programme Finance Initiative (UNEP FI) specified that the modern interpretation of fiduciary duty includes "the consideration of ESG issues in investing decision-making." While Europe is ahead in shifting their fiduciary duty to include ESG integration as a regulatory requirement, North America shows signs it is next to follow suit. (UNPRI: Fiduciary Duty in the 21st Century)

> While ethical considerations still figure in, a growing number of investors see ESG issues affecting financial results. Climate change poses risks and opportunities; workforce relations affect a company's competitive positioning; and checks and balances on corporate management lead to better decision making.
>
> (CFA Institute, July 2020)

ESG considerations are additional factors used in determining business risk, and drivers of value which have proven their worth over the long term. Extensive track records on ESG indexes are available in addition to a wealth of research on the value that ESG ratings can have in helping to avoid major stock drawdowns. Exhibits 1, 2 & 3 show MSCI ESG Leaders Index, widely considered the global benchmark ESG index, relative to its parent and how it can deliver market rate returns over the long run.

Exhibit 1: Growth of $10,000 over 10 years
MSCI World Index (CAD) vs. MSCI World ESG Leaders Index (CAD)



Source: Morningstar, June 30, 2020.

Exhibit 2: Calendar Year Returns

	MSCI World ESG Leaders Index	MSCI World Index
2019	28.91	28.40
2018	-7.22	-8.20
2017	21.69	23.07
2016	7.93	8.15
2015	-0.55	-0.32
2014	5.42	5.50
2013	28.22	27.37
2012	15.18	16.54
2011	-4.90	-5.02
2010	11.22	12.34
2009	33.20	30.79
2008	-40.22	-40.33

Source: MSCI, June 30, 2020.
Past performance is no guarantee of future results

Exhibit 3: Annualized Returns

	MSCI World ESG Leaders Index	MSCI World Index
YTD	-4.39	-5.48
1 Year	5.34	3.4
3 Year	8.08	7.29
5 Year	7.88	7.5
10 Year	10.54	10.57
Since Inception (Sept 28 2007)	5.21	5.08

Source: MSCI, June 30, 2020.

Why not?

ESG factors can materially impact a corporation's performance, value, and reputation. If you can get market rate returns while lowering drawdown risk, then why not?

Exhibits 2-5 show compelling data using MSCI World ESG Leaders Index as the benchmark for ESG investing to show you can achieve market rate returns while lowering risk. With a beta of 0.99 and a tracking error of just 1.14 ESG Leaders makes a defensive core solution. Research by MSCI and Morningstar shows that companies with higher ESG Rating tend to be more profitable, and have stronger balance sheets. This makes them more defensive in times of market turmoil. For example, year-to-date the downside capture for MSCI World ESG Leaders Index was 93% versus MSCI World Index adding protection during the COVID inspired market downturn.

Exhibit 4: Risk Metrics

	MSCI World ESG Leaders Index	MSCI World Index
Beta	0.99	1
Tracking Error (%)	1.14	0
Turnover (%)	7.36	3.06
Standard Deviation (%, 10 Year)	13.53	13.85
Sharpe Ratio (10 Year)	0.76	0.74

Source: MSCI, June 30, 2020.

Exhibit 5: Fundamentals

	MSCI World ESG Leaders Index	MSCI World Index
Dividend Yield (%)	2.21	2.17
P/E Forward	20.25	20.18
P/BV	2.87	2.49

Source: MSCI, June 30, 2020.

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new

Alfred Lee
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Portfolio Manager &
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MSCI ESG Leaders Index Methodology

Each company in the parent (MSCI World Index) is assessed on a handful of ESG issues that are most relevant to its industry and their business, with governance risk assessed across the board. So while every company has an E, S, and G rating, the components that go into that rating differ between industries. This way a Financial company will not be rated on Water Scarcity Risk, while a soft drink company like Coca Cola, would be. Research has shown that companies that focus on material ESG issues produce better financial performance than those that look at all ESG issues.

Sector Representation	• 50% target sector representation per GICs sector and Sub-Region (to avoid regional and sector biases) relative to parent index
Minimum ESG Rating	• Minimum ESG rating BB
Minimum Controversy Score	• Excludes companies with on-going severe controversies
Weighting Scheme	• Market Cap Weighted • Rebalanced quarterly with ongoing event-related maintenance

Exclusions	• ≥ 50% of revenues:
	  • Alcohol
	  • Gambling
	  • Tobacco
	  • Civilian
	  • Firearms
	  • Conventional Weapons
	• Controversial Weapons (0%)
	• Nuclear power (≥ 6000 MW)

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Tuesday, October 13 ~ 9 a.m. Pacific Time

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EXCHANGE TRADED FORUM 2020

ExchangeTradedForum.com

WESTERN

WAIS Canada 19th Annual

Thursday, October 29 ~ 10 a.m. Eastern Time

WAIS Canada is in its 19th year and is Canada's largest gathering of alternative investments, investment professionals, investors, industry experts and service providers. Today's WAIS has gone much beyond its original alternative investment only focus attracting investment professionals from all facets of investments. WAIS Canada is a popular annual event that is not to be missed.

WAIS 2020 CANADA

waisc.com

Retirement Canada Dialogue 2nd Annual

Monday, December 7 ~ 10 a.m. Eastern Time

The Retirement Canada Dialogue is a full-day event packed with the latest trends and solutions for retirement planning professionals, turning a challenging retirement environment into an advantage for advisors. Networking and learning amongst peers and industry experts with comprehensive exposure to all important aspects for the practice of retirement planning.

RETIREMENT CANADA DIALOGUE 2020

RetirementInstituite.ca

Exchange Traded Forum (Eastern) 11th Annual

Thursday, December 10 & Friday, December 11 ~ 10 a.m. ET

Canada's largest and longest standing 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 participates in the numerous educational opportunities that fill the agenda.

EXCHANGE TRADED FORUM 2020

ExchangeTradedForum.com

EASTERN

Institutional Dialogue 11th Annual

Monday, Oct. 4 & Tuesday, Oct. 5, 2021 ~ Québec City, Québec

Institutional Dialogue is Canada's premier institutional event with an academic angle and a focus on education & open dialogue. The Dialogue 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.

Institutional Dialogue

InstitutionalDialogue.com

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Things to Consider in Finding the Right Balanced ETF

With more than 800 exchange traded-funds ("ETFs") listed in Canada, it has become increasingly difficult for investors to know which ETFs to buy and to build into their portfolio.

ETF providers have addressed this challenge by offering "Balanced", "All-in-One", or "one-ticket-solution" funds: ETFs that buy other ETFs as part of an asset allocation strategy. With one ETF purchase, Canadian ETF investors can get a full asset allocation geared towards their self-determined risk/return objectives.

These ETFs have become a popular, easy-to-use tool for investors seeking instant diversification at a comparably low effort and cost to traditional portfolio management methods. These ETFs seem to have become popular with retail investors as a great investment democratizer — with an ETF option that's potentially suitable for almost everyone. According to National Bank, the multi-asset ETF category ,which includes balanced funds, has gathered nearly $7 billion in assets under management as at June 30, 2020.

Determining the right balanced allocation for these ETFs can be a challenge. Historically, the default balanced allocation used by many products is a traditional 60/40 portfolio, comprised of 60% equities and 40% bonds. It might be time to re-think this allocation, particularly in light of historically low interest rates and strong equity returns over the last decade. The Horizons Conservative TRI ETF Portfolio ("HCON") and the Horizons Balanced TRI ETF Portfolio ("HBAL"), The Horizons Growth TRI ETF Portfolio (HGRO) have each adopted a higher equity weighting than traditionally proscribed in many, "conservative", "balanced" and "growth" strategies, which has resulted in attractive return profiles since their respective inceptions.

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Higher Equity Allocations

One of the key differentiators with our one-ticket-solution ETFs is that, upon launch, we made a strategic decision to increase the equity allocation of their strategies based on the long term Sharpe ratio (risk/return profile) of owning equities versus bonds over the last two decades. Since their inception on August 1, 2018, HBAL's higher 70/30 equity allocation vs. other balanced competitors that are using more traditional 60/40 strategies, has been a significant contributor to the resulting returns. Similarly, HCON, our conservative multi-asset ETF strategy, with a 50/50 allocation is contrasted against the more traditional 40/60 allocation used by most of its competitors which have the majority of their portfolios invested in fixed income.

It's important to underscore that the respective 70/30 and 50/50 allocations were not chosen to simply capture upsize movement in the equity market; rather, it's our firm's belief that a 60/40 split in a balanced portfolio or a conservative 40/60 allocation places too much emphasis on fixed income in a world where the nature of capital markets has changed dramatically, with interest rates on a multi-decade downward trajectory while investor longevity is increasing.

It should be noted that having a higher equity allocation increases the equity risk of the portfolio. We would expect that HBAL and HCON, during periods of significant equity market declines, would produce reduced returns compared to strategies that have higher fixed income allocations.

There are three reasons why we chose higher equity allocations in our balanced and conservative ETFs over the traditional allocations used broadly by competitors:

1. Reduced Longevity Risk

The trend of younger investors using balanced ETF portfolios has increased over the last few years, DIY-investors seeking a simple way to begin saving for retirement. These investors generally have a longer investment time horizon compared to older investors. In this scenario, equities have less longevity risk for a few reasons:

a. Increased life expectancies require greater portfolio growth
b. Historically stronger long-term performance
c. Potentially small yearly withdrawal limit risk

2. Declining Interest Rates and Low Yields

With interest rates at all-time lows and negative in many countries, fixed income isn't providing the same advantages for portfolios as it once did. On June 30, 2000, 10-year U.S. Government bonds were yielding 6.03% compared to 0.65% 20 years later. Source: Bloomberg, as at June 30, 2020.

3. Historically Strong Equity Performance

The last decade has been favourable for equities, with the S&P/TSX Capped Composite Index returning 6.40% annualized on a total return basis for the 10-year period ending July 31, 2020. Performance for U.S. equities has been particularly favourable over the last 10 years as well; with the S&P 500 delivering a 13.84% annualized total return and the NASDAQ-100 delivering a 20.71% annualized total return for the same period. (Source: Bloomberg)

NASDAQ Exposure

Another reason we see as to why HBAL and HCON have been category leaders in performance to date, has been their greater exposure to the NASDAQ-100 Index.

Since 2008, the NASDAQ-100 has outperformed the S&P 500 in 10 of the 12 measured years (Source: Bloomberg). The NASDAQ, which is more heavily weighted towards technology, consumer services and health care companies, has also recently seen strong performance with the increasing importance and relevance of these sectors, particularly during the disruptive market landscape due to the COVID-19 pandemic.

Since the inception of HBAL and HCON, we have also chosen to allocate less domestically to Canada. The average Canadian investor has a significant bias towards domestic stocks of approximately 60%, despite Canada only accounting for approximately 3% of the global stock market as represented by the MSCI World Index.

For the one-year period ending August 31, 2020, HBAL's overweight exposure to U.S. Equities —specifically, its relatively large NASDAQ position — was a significant driver of outperformance. The S&P/TSX Capped Composite delivered a total return of 6.40% for the one-year period ending August 31, 2020, and underperformed both the S&P 500 and NASDAQ-100, which returned 13.84% and 20.71% respectively on a total return basis for the same period. (Source: Bloomberg)

An additional reason in making the asset allocation decision to have greater foreign exposure than many competitor products, was tax based. The underlying ETFs held by HBAL, HCON and HGRO, are part of our Corporate Class Total Return Index suite of ETFs ‡("TRI ETFs") and are therefore not anticipated to pay distributions, and most do not receive actual distributions that would be subject to withholding taxes. Some home bias for Canadian investors makes sense when you factor in the tax-efficiency of Canadian eligible dividends, but this consideration is altered where foreign dividend taxation is no longer a concern. Using a global asset allocation with our unique TRI ETFs, HCON, HBAL and HGRO can take positions which counter the general Canadian bias without worrying about higher taxation on foreign dividends from U.S. and international stocks.

Potential Tax Considerations

HCON, HBAL and HGRO, have the added benefit of holding Horizons ETFs family of corporate class TRI ETFs, which are not anticipated to pay out taxable distributions. While these ETFs have paid out taxable distributions from their use of currency forwards and could potentially pay out capital gains distributions from rebalancing the portfolios, none of the distributions from the underlying index exposures are expected to flow through to end unitholders. More information about our suite of Total Return Index ETFs can be accessed here: https://www.horizonsetfs.com/library/Get-The-Index-Advantage

Performance

You can see that in either case, HBAL, HCON and HGRO generated an attractive return profile since inception which is highlighted below.

Name	Ticker	1m	3m	6m	YTD	1 yr	2 yr	Since Inception	MER**	Inception Date
Horizons Balanced TRI ETF Portfolio	HBAL	1.08%	7.57%	21.52%	7.40%	12.63%	9.22%	9.04%	0.16%	1/8/2018
Horizons Conservative TRI ETF Portfolio	HCON	0.95%	5.72%	17.36%	8.30%	12.17%	9.45%	9.20%	0.15%	1/8/2018
Horizons TRI Growth ETF Portfolio	HGRO	1.16%	10.35%	35.32%	6.86%	14.03%		13.92%	0.17%	13/09/2019

Source: Bloomberg, as at September 15, 2020 **As at the December 31, 2020.

The indicated rates of return are the historical annual compounded total returns, including changes in unit value and reinvestment of all 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. ETFs are not guaranteed, their values change frequently, and past performance may not be repeated.

Horizons ETFs pays all of the operating and administrative expenses incurred directly by HBAL, HCON and HGRO however, each ETF is subject to the fees of its underlying ETFs. Based on the historical management expense ratios of the portfolios of TRI ETFs held by each of these ETFs, the total management expense ratios of HBAL, HCON, and HGRO are expected to be 0.15%, 0.15% and 0.16%, respectively, and will not exceed 0.16%, 0.16% and 0.17%, respectively, as at any rebalance.

Based on historical trading expense ratios of the TRI ETFs held by HBAL, HCON and HGRO, the aggregate underlying trading expense ratios of the portfolios of TRI ETFs held by each of these ETFs, for the 2020 calendar year, are expected to be 0.13%, 0.13% and 0.14%, respectively, and are not expected to exceed 0.18%, 0.16% and 0.20%, respectively. As trading expense ratios include expenses outside of the control of Horizons ETFs, the trading expense ratios of the portfolios of TRI ETFs held by HBAL, HCON and HGRO are subject to change.

Conclusion

Investors have gravitated towards one-ticket-ETF solutions as a simple way to achieve a diversified asset allocation, and in some cases diversified geographic exposure. We believe that there are a lot of considerations even amongst this simple product class, including looking at whether the traditional 60/40 equity-fixed income allocation makes sense as a default balanced exposure.

For investors seeking long-term capital growth, the potential effectiveness of HBAL, HCON should be considered.

From HBAL's 70/30 allocation, to both HBAL and HCON's differentiated portfolio exposure to some of the world's largest equity markets, their performance to date has been largely the result of a strategy we feel is built for today's investment landscape.

Finally, with the potential tax-advantages from of our Corporate Class Total Return Index ETFs, the benefits of holding HBAL and HCON in taxable accounts could be even greater for investors.

Learn more about HBAL and HCON:

HBAL: www.horizonsetfs.com/hbal
HCON: www.horizonsetfs.com/hcon
HGRO: www.horizonsetfs.com/hgro

The Investment Objectives of the ETFs discussed are listed below:

HCON - HCON seeks moderate long-term capital growth using a conservative portfolio of exchange traded funds. HCON invests primarily in Horizons' Total Return Index ETFs. The portfolio targets a long-term asset allocation of approximately 50% equity securities and 50% fixed income securities at the time of any rebalance. The portfolio will be rebalanced semi-annually in order to seek a consistent level of conservative risk. HCON will use currency forwards to hedge its non-Canadian dollar currency exposure to the Canadian dollar at all times.

HCON is subject to the fees of its underlying ETFs. Horizons ETFs currently anticipates that the management expense ratio of HCON will be approximately 0.15%, and will not exceed 0.16%, while the aggregate trading expense ratio of the portfolio of Horizons TRI ETFs held by HCON will be approximately 0.13% and is not expected to exceed 0.16%. As trading expense ratios include expenses outside of the Manager's control, the trading expense ratio of HCON is subject to change at any time.

HBAL - HBAL seeks long-term capital growth using a balanced portfolio of exchange traded funds. HBAL primarily invests in Horizons' Total Return Index ETFs. The portfolio targets a long-term asset allocation of approximately 70% equity securities and 30% fixed income securities, and rebalances semi-annually to ensure the composition of HBAL reflects a consistent level of balanced risk. HBAL will use currency forwards to hedge its non-Canadian dollar currency exposure to the Canadian dollar at all times.

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HBAL is subject to the fees of its underlying ETFs. Horizons ETFs currently anticipates that the management expense ratio of HBAL will be approximately 0.15%, and will not exceed 0.16%, while the aggregate trading expense ratio of the portfolio of Horizons TRI ETFs held by HBAL will be approximately 0.13% and is not expected to exceed 0.18%. As trading expense ratios include expenses outside of the Manager's control, the trading expense ratio of HBAL is subject to change at any time.

HGRO - HGRO seeks long-term capital growth using a portfolio of primarily equity-focused total return index exchange traded funds. HGRO invests primarily in Horizons Total Return Index ETFs. The portfolio targets a long term asset allocation of at least 99% equity securities at the time of any rebalance, and the portfolio will be rebalanced semiannually in order to seek a consistent level of risk from developed countries around the world.

HGRO is subject to the fees of its underlying ETFs. Horizons ETFs currently anticipates that the management expense ratio of HGRO will be approximately 0.17%, and will not exceed 0.19%, while the aggregate trading expense ratio of the portfolio of Horizons TRI ETFs held by HGRO will be approximately 0.28%. As trading expense ratios include expenses outside of the Manager's control, the trading expense ratio of HGRO is subject to change at any time.

Commissions, management fees and expenses all may be associated with an investment in Horizons Balanced TRI ETF Portfolio or the Horizons Conservative TRI ETF Portfolio. (the "ETFs") managed by Horizons ETFs Management (Canada) Inc. The ETFs are not guaranteed, their values change frequently and past performance may not be repeated. The prospectus contains important detailed information about the ETFs. Please read the prospectus before investing.

‡Horizons Total Return Index ETFs ("Horizons TRI ETFs") are generally index-tracking ETFs that use an innovative investment structure known as a Total Return Swap to deliver index returns in a low-cost and tax-efficient manner. Unlike a physical replication ETF that typically purchases the securities found in the relevant index in the same proportions as the index, most Horizons TRI ETFs use a synthetic structure that never buys the securities of an index directly. Instead, the ETF receives the total return of the index through entering into a Total Return Swap agreement with one or more counterparties, typically large financial institutions, which will provide the ETF with the total return of the index in exchange for the interest earned on the cash held by the ETF. Any distributions which are paid by the index constituents are reflected automatically in the net asset value (NAV) of the ETF. As a result, the Horizons TRI ETF receives the total return of the index (before fees), which is reflected in the ETF's share price, and investors are not expected to receive any taxable distributions. Certain Horizons TRI ETFs (Horizons Nasdaq-100 ® Index ETF and Horizons US Large Cap Index ETF) use physical replication instead of a total return swap. The Horizons Cash Maximizer ETF and Horizons USD Cash Maximizer ETF use cash accounts and do not track an index but rather a compounding rate of interest paid on the cash deposits that can change over time. The information contained herein reflects general tax rules only and does not constitute, and should not be construed as, tax advice. Investors should consult with their tax advisors before making any investment decisions.

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ESG 2.0 – A Post-COVID-19 Roadmap for the Evolution of ESG

A "Gentler Form of Capitalism" and Its Failure to Prioritize.

Martin Grosskopf
Vice President & Portfolio Manager, AGF Investments Inc.

One of the key challenges for Environmental, Social and Governance (ESG) investing, at least in its still-early stage, is that it has always been a movement in search of a philosophy. True, it has a goal: since the "mainstreaming" of ESG began in the early 2000s, it has sought to bring important social and environmental issues into the "market mentality" around risk and return. Lately, the movement has claimed some significant victories, including the push for climate change disclosures (such as those recommended by the Task Force on Climate-related Financial Disclosures), the recent movement towards stakeholder capitalism, and the newfound market appetite for funding all things ESG-related.[i]

The general tone of ESG throughout its history has been to encourage a gentler form of capitalism, but its underlying philosophy has been completely in line with the main tenants of the prevalent market philosophy – that markets are the most efficient way to allocate capital, at least over time, and that they will do so in an ultimately rational fashion that will eventually see the goals of ESG realized. Perhaps part of this conformism is simply practical; after all, underfunded pensions have little fiduciary room to do much more than tinker with the system.

The current crisis, however, presents an opportunity for a much deeper assessment of the role of markets, governments and, for that matter, ESG. Following only 12 years on from the last big public-sector intervention – the Great Financial Crisis (GFC) – events occurring in only a few short weeks have laid bare the limits of efficient-market theory and the market's inability to perform its most basic function: deploying capital to its highest and best use. That is not only evident in the disconnect between equity market over-performance and dismal economic realities; it also lies in the failure of markets to prioritize issues such as healthcare capacity and environmental health over austerity. And this failure comes despite the mainstream emergence of ESG and its successes.

Clearly, some self-reflection is needed to recognize the limited capacities of ESG to effect meaningful change within the market dynamic, and also to address the balance between returns and social/environmental impact. Orthodoxies that evolved to reward shareholders (ESG-inclined or otherwise), including low tax rates, ever-increasing dividend payouts, low reinvestment and share buybacks, will need to be modified to reflect the reality of a government backstop and the social contract implicit in worker obligations.

If it functions only as an add-on to the prevalent market philosophy, ESG cannot inform on the balance between shareholder rewards and societal resilience. The COVID-19 pandemic, as the first truly global natural disaster of the modern era, has demonstrated that the current skew towards shareholders is exceedingly fragile, and changes are likely required that go far beyond the World Business Council's acknowledgement of a stakeholder model.

Public Intervention Precedence – "Whatever It Takes"

In response to the COVID-19 crisis, governments have proven that when sufficiently motivated, they are willing to deploy apparently unlimited resources to address issues of social risk. Ideas that were viewed as fringe only months ago are not only accepted now, but rolled out on a scale that was once-unimaginable even by their proponents. Modern Monetary Theory, for example, challenged the conventional logic around government deficits and austerity. Within two months, governments have deployed US$5 trillion (and counting) in various measures not to defeat the virus – of which clearly there could be variants or recurrences – but to buy time for an underfunded health system to respond effectively. In the most dramatic instance, governments are directing funds to largely replace income for at least some workers, in effect providing a basic income provision. If governments can demonstrably print and deploy money at will, then it suggests that "austerity" was something of a poor excuse for the significant social spending cuts we have seen over many years.

It also now seems untenable to argue that the extraordinary efforts governments have made to prevent COVID-related deaths should not also be taken to address other pressing social-environmental threats, such as hunger, air pollution, poor sanitation, and so on. For longer-tail issues such as climate change, it becomes less believable to claim that mitigation efforts cannot be funded or that the most impacted industries cannot be transitioned. In response to a natural disaster, and in a short period of time, society has shown the desire and means to radically alter patterns of work and leisure. Science has in effect taken prominence in informing societal actions, perhaps foreshadowing a wider recognition of its vital role in dealing with climate change as a large-scale systemic risk.

What are the implications for ESG? A pain point for "ESG 1.0" is its current philosophical interlinkage with traditional market orthodoxy. Post GFC, there was ample evidence of "models behaving badly," yet these models continued to inform asset allocation and investment decision-making in the following years.[ii] Consistent with its history, ESG has largely been applied as a modest adjustment to these models instead of a methodological alternative. For this reason, it has not really prevented or reduced systemic risk – as COVID-19 has made amply clear. Generally, ESG has been added to the lexicon of efficiency – supporting global supply chains, conventional asset allocation and low tracking error, and perhaps adding some alpha – but has not enhanced the systemic resilience in the meaning of scholar Nassim Taleb and increasingly hoped for in initiatives such as the Financial Stability Council.[iii]

That the early link between ESG and market philosophy was important is undeniable – if only because it legitimized mass adoption of ESG practices. However, if we learn anything from the last two crises, it should be that we are not likely to predict the next one, whether ESG is adopted more broadly or not, so this should not be the primary aim of "ESG 2.0" if we hope that it will contribute to societal and environmental resiliency. If they hold that hope in earnest, ESG practitioners will need to forcefully engage on the relative roles of shareholder, government and workers not just with each other, but also with the asset allocators and real decision-makers within their organizations. This will involve very tough discussions around margin-friendly "efficiencies," the realism of return expectations and growth rates, and recognition of the heavy capital intensity of an energy transition.

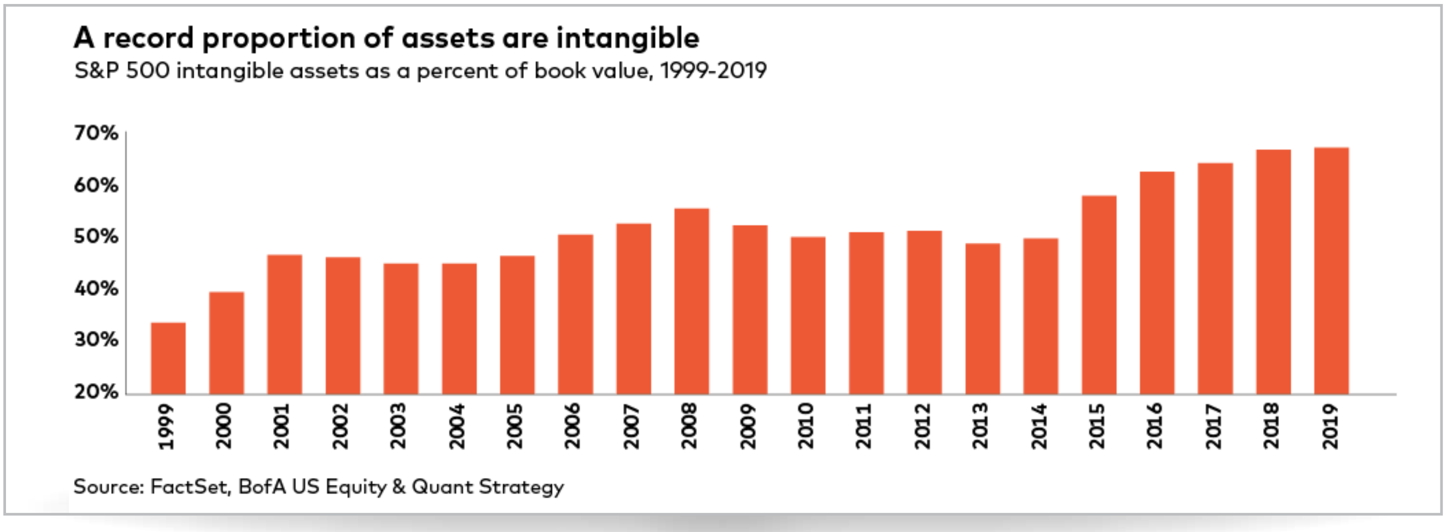
ESG 2.0 – Building on the Past, Improving for the Future

If these discussions do evolve, some of the current tenets of ESG practice will change:

Broad recognition of ESG as a useful and early "alternative" data set – The origins of ESG data collection in the 1990s lied in the recognition by some, generally outside the mainstream, that conventional financial data did not measure the full cost or benefit of a company's interaction with society and the environment. In fact, MSCI ESG research is based on the Intangible Value Assessment (IVA) developed by Innovest in the 1990s, which along with Jantzi Research (Sustainalytics) was an early harbinger of the increased measurement of intangibles generally within the market over the following 20 years (Figure 1). Broader usage of the data will ensure improved data and reporting, but will also enable broad recognition of the value of incorporating at least a portion of this alternative dataset into relative valuation and asset allocation decisions.

The linkage between 'asset-lite' business models and high ESG ratings will become obvious

A source of alpha for many ESG-oriented funds has been derived from the strong link between 'asset-lite' business models and high ESG ratings. Clearly firms that employ fewer people per dollar of revenue (lower human capital intensity) and who provide software or cloud services tend to have a lower direct operational footprint relative to those in manufacturing or retailing industries. The alpha associated with this linkage is likely to become obvious to market participants, making it less likely to be a source of alpha in the future.



The efficacy of "relative" scores will decline – So far, the relative performance of firms on ESG metrics has been meaningfully different. During the latest decline, companies with better ESG scores have outperformed. This reflects the reality that within any given sector, some companies are taking ESG risks and opportunities seriously and devising explicit strategies to improve or capitalize. Over time, however, the tendency in any industry is towards convergence on issues that are viewed as material.

For example, if board diversity really is a strategic advantage, all companies will tend to adopt diversity practices. So, imagine a future in which all boards are diverse – and then imagine trying to distinguish materiality among diversity strategies. Or consider climate change. The years of fighting a rearguard action for resources companies will likely morph into credible – and widely adopted – strategies for reducing their carbon footprint and assisting with the energy "transition" (lower emitting sources). Whether used for long-only strategies or those employing shorting, over time the efficacy of a simplistic interpretation of ESG data points is less and less likely to be meaningful.

ESG progress will be defined as co-operation, not competition – As the COVID-19 pandemic has demonstrated, systemic risks such as natural disasters cannot be addressed competitively at the company level. Inter-company rivalry does not help improve health outcomes or reduce the burden of employee furloughs on societal balance sheets. Universal owners (meaning large pension funds) do not want human capital to be a competitive factor, but they do want standards to rise across society. Similarly, with 80% of oil-related emissions derived from the use of their product (i.e. Scope 3 emissions), oil companies must cooperate with one another and with governments to meaningfully introduce alternatives and reduce dependence. This co-operative activity will overwhelm the relative ESG analysis of company operations, since the differences in operational emissions pale in comparison to credit risks associated with systemic demand declines.

Sustainability themes will continue to provide a strong lens – In today's crisis, government is prioritizing industries that it deems essential. Ironically, this trend is entirely congruent with the rise of "impact" investing. As today's focus on data quality, disclosure and corporate structure standardizes by market cap and sector, emphasis will shift to the purpose of the company itself. After all, manufacturing ventilators or discovering vaccines is not the same as making products that increase respiratory risk, such as tobacco or combustion pollution; from an impact perspective, that the cost of capital for one should be lower than the other is aligned with societal objectives towards resiliency and health and well-being. Applying a thematic lens can capture these long-term trends while steering through shorter-term cycles and can provide a more predictable basis for outperformance.

Just as every bear market and recession provides the inevitability of recovery, the current crisis may be an appropriate end to ESG 1.0 and a beginning for ESG 2.0. We are hopeful that ESG 2.0 can build on the successes of the last 20 years, while contributing meaningfully to a market philosophy that rewards shareholders but equally emphasizes the importance on government and workers. Our common future may depend on it.

Martin Grosskopf, Vice President & Portfolio Manager, AGF Investments Inc.

[i] https://www.wbcsd.org/Overview/News-Insights/Insights-from-the-President/The-triangle-that-will-fix-capitalism
[ii] https://www.amazon.ca/Models-Behaving-Badly-Confusing-Illusion-Reality-Disaster/dp/1439164991
[iii] https://www.fsb.org/

Sectors And Electors

Markets expect elevated volatility surrounding the U.S. Presidential election, now just six weeks away.

Craig Lazzara
Managing Director and Global Head of Index Investment Strategy, S&P Dow Jones Indices

The VIX futures curve currently peaks in November, but as long ago as April a close observer could detect expectations of electoral volatility. Increased volatility may create an unusual opportunity for sector allocators. To understand why, we need to remember that volatility is directly connected to dispersion, which measures the spread among the returns of an index's components. When volatility goes up, dispersion tends to rise as well, as the gap between winners and losers widens; we saw a spectacular example of this in the first quarter of 2020. The greater the spread, the greater the opportunity to add (or subtract) value.

Dispersion can be measured at various levels of granularity – for example among stocks or sectors in the S&P 500®, as illustrated in Exhibit 1. Obviously, the spread among the returns of 500 stocks will be greater than the spread among the returns of 11 sectors. (The larger spread is partially offset by the superior capacity of sector-based funds.)

The total dispersion of the S&P 500 (at the stock level) can be decomposed into the average dispersion within each sector and the dispersion across sectors. The nature of the relationship will be familiar to anyone who remembers high school geometry: the square of total dispersion is approximately equal to the sum of the squares of within-sector and cross-sector dispersion.

Over time, cross-sector dispersion has accounted for approximately 22% of the market's total dispersion. But the overall average masks substantial calendar variation. As Exhibit 2 shows, the importance of sector dispersion peaks in November and is relatively low in March.

S&P Dow Jones Indices
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Exhibit 1: Stock Dispersion Always Exceeds Sector Dispersion

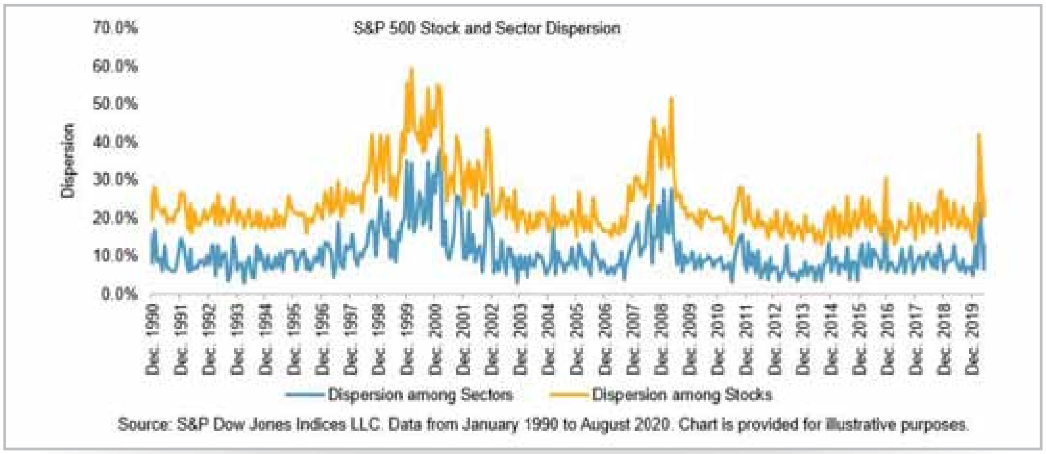


Exhibit 2: Cross-Sector Dispersion Peaks In November

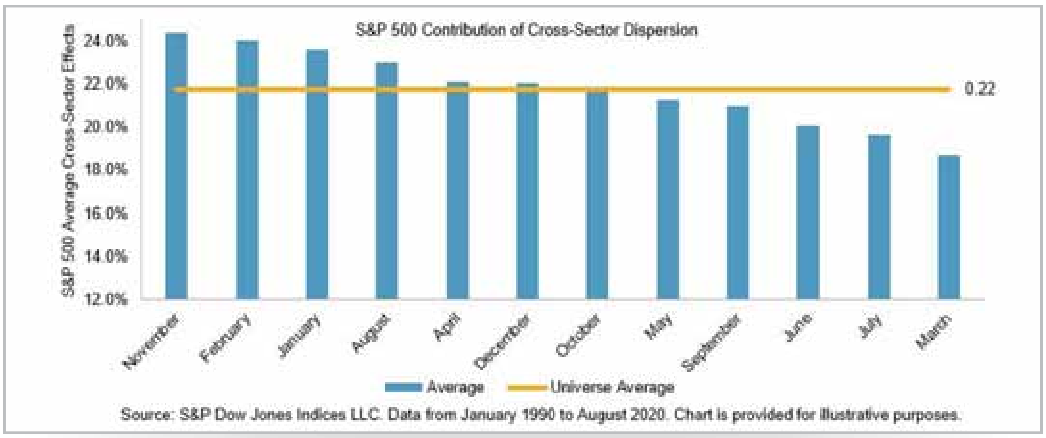
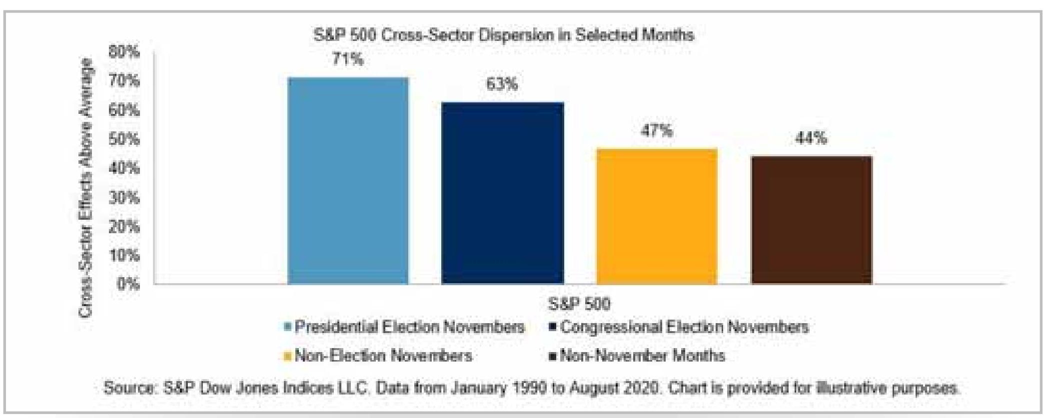


Exhibit 3: S&P 500 Cross-Sector Dispersion Rises In Presidential Novembers



And as it turns out, some Novembers are more significant than others. Specifically, in 71% of the Novembers when U.S. Presidential elections took place, the importance of cross-sector dispersion in the S&P 500 was greater than average, as shown in Exhibit 3. In off-year elections (with only Congressional and Senate seats at stake, but not the White House), sectoral importance also rises, although not to the level of Novembers with a Presidential contest.

Dispersion, it's important to remember, is a double-edged sword. Higher dispersion raises the stakes for active managers, in both directions: if dispersion is high, correct stock or sector picks will pay off more, and incorrect picks will underperform by more. History tells us that the contribution of sectors to total dispersion is likely to rise in the next six weeks, which means that the importance of skillful sector picks will increase. For investors with a genuine ability to rotate across sectors tactically, November could be a month of unusual opportunity.

Craig Lazzara, Managing Director and Global Head of Index Investment Strategy, S&P Dow Jones Indices

Views from the Desk

Understanding the price movements of fixed income ETFs, funds and bonds

Fixed income is in a very unique period, where extreme market conditions are causing constrained liquidity in bonds. As an Over the Counter (OTC) asset class, all market participants are finding it hard to sell bonds, particularly corporate bonds which have essentially gone "no bid". This is a reflection of the high volatility in the market place and limited buying of bonds. Further constraint is added by inventory limitations within the bond dealer market and lower risk capacity from various players that normally add liquidity by arbitraging away differences.

During times of extreme market stress, ETFs have provided an additional layer of liquidity while many of the underlying bonds have not traded. The trading of ETF units are using demand and supply in order to provide price discovery that determines the value to sell or buy a basket of bonds in these markets. In addition, the price of an ETF, could dislocate from its Net Asset Value (NAV), causing the ETF to trade at a premium or discount. This premium or discount reflects the cost of liquidity. This premium or discount can remain until markets settle and bonds go back to normal trading volumes.

Historically during crises such as the Great Recession of 2008, we saw the price of an ETF lead the NAV of an ETF, reflecting a more current state of the underlying assets. It is important to note that NAV calculations for bond funds and ETFs are generally valued using dealer quotes. Additionally, during times of market duress, bond dealing desks may be slow to mark down the price of their inventory, creating an additional lag between the true price and where assets are marked. Similar to 2007-2008, where we saw the market price of High Yield Bond ETFs traded in the U.S., provide a better price discovery mechanism than its NAV. It should be noted that if the underlying market has gone "no bid", then that is not where the true "clearing price" of its underlying asset should be valued as that is not where buyers and sellers are willing to exchange. The market price of an ETF, which trades at a discount, is where buyers are willing to step in to transact with sellers. In these market conditions, when many bonds are "no bid", the NAVs can be stale and do not reflect the current liquid value of the bonds. This means that currently, the NAV is no longer a reliable way to measure if an ETF is trading at a premium or a discount. While we would normally have a concern if an ETF is trading at a discount or a premium, during these conditions it should be seen as a benefit of the ETF given that a NAV will be slower to react and not reflect the updated bond price and liquidity as seen through the ETF.

Mark Raes
MD Head of Products, BMO Global Asset Management

In stressed markets bond ETFs are a reflection of:

- Wider bid/offer spreads of the underlying market: as both intraday and day to day volatility increase, bond dealers will widen out their spreads to reflect greater uncertainty. This wider bid offer spread is then reflected through wider bid/offer spreads of the ETF.
- Widening credit spreads of the underlying market: as credit spreads also widen due to greater uncertainty in the market, this will also be reflected through the ETF.
- Demand and supply of the ETF units: In instances where the underlying market does not trade, the ETF will dislocate from where the underlying assets are "marked" in the NAV to find a better indication of where buyers are willing to transact.

How this translates into ETF pricing:

First, here is a quick review of the two levels of liquidity for an ETF:

- Natural buyers and sellers matching on the exchange.
- An additional level of liquidity coming from the fact that ETF is exchangeable for the underlying bonds. This function is conducted by arbitragers often called market makers that buy the ETFs and exchange them for bonds that they then sell back into the market.

During times of market stress, the additional level of liquidity is constrained as the market maker may not be able to sell the bonds back into the market. As this risk becomes higher, they widen out their spreads to compensate for this risk. Given the additional layer of liquidity of ETF units, buyers and sellers of the ETF thus benefit from having the liquidity of the underlying bond dealing desks and their capacity for inventory AND the additional capacity of the inventory space of ETF market makers. This additional use of market maker inventory space is crucial when the primary level of market liquidity is full.

In addition, ETFs with higher trading volumes will have the most current price discovery. We can expect these liquid ETFs to trade further away from their NAVs, which are based on stale dealer quotes. As mentioned, during times of stressed markets, NAV does not accurately reflect current values of the bonds if you were to transact. Put another way, thinly traded ETFs may not fully reflect current market conditions, if their prices are stale or outdated and may not be as good of a price discovery mechanism as those ETFs that trade throughout the day.

Compared to mutual funds, ETFs are better reflecting current market conditions. Mutual funds are transacted at NAV, and as mentioned above, bond fund NAV is less reliable during stressed conditions. That means the mutual fund NAVs need to catch up and are not reflecting the current value (ETFs NAVs will recover as bonds trade). Additionally, since the mutual fund is transacted at NAV, assets are being sold at a value less than where its NAV is marked. This means that all unitholders of the mutual fund are effectively paying for those that are willing to accept more of a discount for liquidity, whereas in an ETF, unitholders are not paying for those seeking out liquidity.

Considerations in these markets:

Given the steep discount for liquidity in these extreme markets, we encourage those investors that do not need to trade to hold off. However, those that need liquidity, the ETF provides a better liquidity vehicle than the underlying bonds. One should expect wider execution due to limited underlying liquidity, both in terms of one way flow and limited market maker capacity. Those investors that need bond exposure should consider taking advantage of the steep discounts. As with equities, when buying or selling an ETF, best practices should always be considered such as using limit orders or avoid trading near market open or close, or right after a market re-opens due to a circuit breaker.

We encourage those who need to trade, to focus on the larger and more liquid ETFs in the marketplace, such as ZAG, BMO Aggregate Bond ETF. The size of the ETF offers an aspect of flexibility to work with market makers to find pockets of liquidity. BMO's portfolio managers are local and this provides an understanding of the aspects of the Canadian over-the-counter bond market and close connection to the local market makers. Having and accessible team is also important to help provide understanding and insights to market participants and thought leaders. Please reach out if you require further information on fixed income or any other ETF.

For more information or to contact a BMO ETF Specialist to learn more please go to www.bmoetfs.ca

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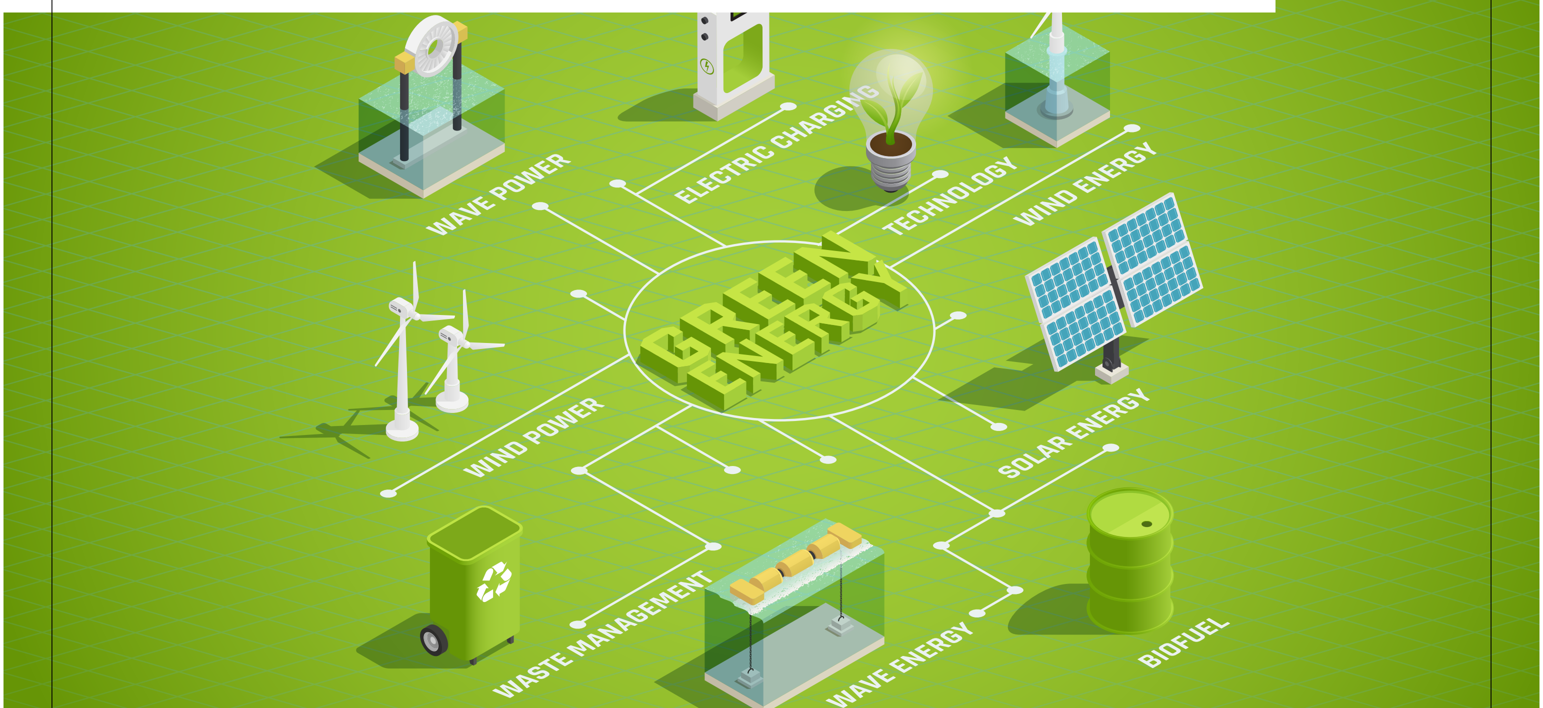
How Active ESG Strategies Can Clean Up Your Portfolios



ESG investing, SRI investing, sustainable investing, impact investing: these terms have been thrown around recently to describe different types of investing strategies with a green twist. But with Canadian sales of ESG ETFs more than four times higher this year compared with all of 2019, according to TD Securities Inc. What does it all mean, and how does it affect performance in your portfolio?

Let's start with the basics. The finance industry does a very good job at labelling things with acronyms that often leave the rest of us confused and too intimidated to ask questions that get to the bottom of what is happening behind the scenes. In our opinion, the best place to start is the beginning.

ESG Investing Basics

What does ESG or SRI even stand for? ESG is an acronym for "environmental, social and governance," while SRI stands for "socially responsible investing." Each dimension on the ESG front is typically evaluated independently and then aggregated to assign a company an overall score. Environmental criteria measure the impact that a company may have on the natural environment. Social criteria measure how well a company treats its staff and customers, how it deals with human rights and the impact it has on the community in which it operates. Lastly, governance criteria evaluate the leadership of a company, executive compensation, employee diversity and internal controls/shareholder rights. Some might argue that governance has been a staple of active investment since the dawn of time.

Today, ESG scores can be found for almost every large-cap company in the world. These ratings are now expanding into the small-cap and emerging market space. At Fidelity, we started assigning proprietary ESG scores to companies alongside our fundamental ratings for companies.

ESG Investment Strategies

Not all ESG investing is the same. There are different styles or categories. One of the earliest forms of SRI started with exclusionary investing, or negative screening. This means that a fund or ETF will exclude specific sectors, industries or companies based on ESG criteria or ethical considerations. Industries and sectors usually excluded in these types of funds include fossil fuels, tobacco, firearms or gambling.

One of the major concerns with negative screening, or exclusionary ESG investing, was the potential to sacrifice returns or performance. To address many of these concerns, a best-in-class ESG approach was introduced. This approach does not entail completely excluding entire sectors such as oil. After all, there is the belief we cannot just rid ourselves of fossil fuels overnight. Also, companies in the energy sector spend a tremendous amount of R&D on renewable energy: they see the need to be cleaner, and can be rewarded for this.

Under the best-in-class approach, investment managers do not sacrifice alpha potential from a sector allocation standpoint. They also significantly reduce their carbon footprint by investing in the highest-rated ESG companies across the spectrum.

Fidelity Sustainable World ETF would fall in this category. We screen the universe for the highest ESG-rated securities and then use a quantitative active approach to select companies within that group we believe will outperform the broad universe. The result is a "best of both worlds" scenario that aligns investors' personal values with their financial performance objectives.

Two other areas to consider are impact investing and thematic investing. Impact investing invests exclusively in companies or projects that have tangible environmental or social impacts. Thematic investing focuses on themes that fit into a specific area of the ESG factors. For example, Fidelity Women's Leadership Fund invests in companies that promote board and employee diversity.

Putting It All Together

So how does this all affect you and your personal circumstances? There is an old saying in the finance world that "The trend is your friend." This often refers to the direction of stock prices or market movement. However, it is also something to remember about ESG as a category. According to TD Securities Inc., in the first half of this year, sales in Canada of ESG-friendly ETFs have grown more than four-times when compared with 2019. We are still years behind the amount of money moving into this category in Europe, which was an early adopter. In our eyes, ESG is one of the next mega-trends in the investing world.

You may also have seen a number of headlines showing the significant outperformance of ESG-focused funds during the COVID-19 market volatility, which leads to the question, do ESG stocks outperform non-ESG-friendly stocks? Our research shows that ESG as a factor in itself is inconsistent in providing positive alpha throughout history. However, in recent months there has been evidence that ESG may be a factor that determines structural outperformance over time, similar to the value or growth styles. Given the inconsistency, blindly investing in passive ESG strategies may lead to inconsistent performance. At Fidelity, we believe that combining active management with ESG screening can potentially lead to the best of both worlds, allowing you to invest according to your personal values without compromising your financial goals.

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Does Higher Income Always Mean Lower Growth?

In the world of investing, nothing is static. Theories and strategies that brought us success in the past may not always provide prosperity in the future. This year, global investors faced volatility of epic proportions as markets plunged to depths unseen in many years, only to recover much of the losses. With central banks around the world providing enormous amounts of stimulus to help the economy, asset managers need to pivot and think about new ways to generate returns. This includes evaluating and rethinking the traditional relationship between growth and income.

Ben Gossack, CFA, MBA
Vice President & Director,
TD Asset Management

Jacky He, MBA
Vice President,
TD Asset Management

TD Asset Management

The Balance of Growth and Income

Investors that traditionally relied heavily on bonds for income returns are now facing increased challenges to generate enough income as yields continue to be suppressed and are expected to stay lower for even longer. Against this backdrop, negative yielding bonds now account for around 20% of total bonds outstanding, which means they are guaranteed to lose capital if held to maturity.

On the equity front, higher yielding stocks don't often offer growth, and high growth stocks don't often pay dividends. Therefore, investors could run the risk of eroding capital upside by chasing yields on low growth equities.

In the face of COVID uncertainties and geopolitical tensions, how does one balance growth and income? The answer could be found in an enhanced dividend strategy offered by TD Asset Management ("TDAM").

What Options are Available for this Conundrum?

Launched just over a year ago, TD Active Global Enhanced Dividend ETF (TGED) was designed to resolve the specific challenges of balancing growth and income in the search for yield. The strategy behind addressing this challenge is to generate highly attractive income through a differentiated option overlay strategy. TGED, unlike many competitor products, uses a completely active approach in both selecting stocks and writing options.

This approach not only allows TGED to enhance income on high quality underlying stocks, regardless of whether they pay dividends, but does so without sacrificing long-term capital growth. Having said that, the ETF does not simply replace growth with yield, but rather focuses on total return. What's more, investors may benefit from a tax perspective as the collected option premiums are generally characterized as capital gains rather than income.

The benefits and shortcomings of a systematic covered call strategy
A popular investment strategy to generate additional income in an equity portfolio has been a systematic covered call strategy. If history is a guide, a covered call strategy can typically outperform in a sideways or downward trending environments. The chart below helps illustrate this relative performance. It depicts the yearly performance of the S&P 500 Index versus the same Index overlaid by a systematic covered call strategy, with the assumption of writing 2% out-of-the-money covered calls and resetting these options every month.

The systematic covered call strategy enhances the income in a portfolio by capping growth up to a 2% monthly gain in exchange for current income (i.e. the option premiums). During periods of lower volatility, this systematic strategy generates solid risk-adjusted return as the additional income enhances the portfolio appreciation if monthly market returns remain below 2%. However, if the market trends higher, as we have seen over the past decade, the systematic covered call strategy will still enjoy growth but can significantly lag the performance of the overall market.

Based on this dynamic, investors should expect that a systematic covered call strategy can add value in a weak market, but will underperform in a strong market. However, for TGED, the active ETF has demonstrated that it can add value in both market downturns and market rallies using a proprietary active covered call writing strategy.

How TDAM Does it Differently

At its core, TGED leverages the TDAM time-tested philosophy and process when selecting underlying stocks. The ETF would only own high-quality businesses that have sustainable competitive advantages, solid balance sheets, compounding free cash flows and be set to better weather difficult times like the first quarter of, 2020, and thrive in the long run.

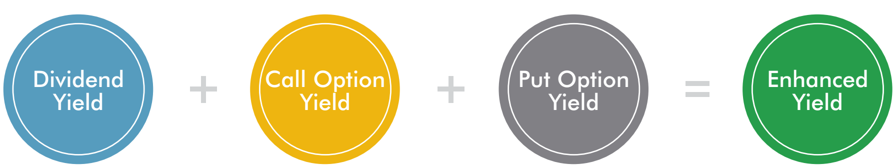
In addition, TGED outperformance was attributable to our active approach to writing options rather than a systematic approach. Unlike systematic option strategies, we are very selective on timing, underlying holdings, strike prices, expiry dates and contract sizes. Each of these factors are analyzed based on thorough fundamental research of a particular business at that moment in time. In scenarios like February 2020 when volatility spiked, we could terminate an option contract earlier than maturity and start a new one at a much more attractive yield. While it requires significantly more work than a systematic approach, we aim to generate high income for investors today while keeping their long-term capital growth in mind.

On balance, TGED is in a unique proposition to tilt the balance of income and growth in the investors' favour. The ETF only holds high-quality businesses and uses an active approach to enhance income without sacrificing total return. Looking ahead, when facing the uncertain impact of COVID-19 on the global economy and the ongoing geopolitical risk, TGED can stand to benefit from a volatile environment as, generally speaking, the higher the volatility, the higher the option premiums and by extension, the more opportunities for an active investor.

Following the success of TGED, we are excited to have recently launched the TD Active U.S. Enhanced Dividend ETF (TUED), that uses the same active strategy and focuses purely on U.S. equities.

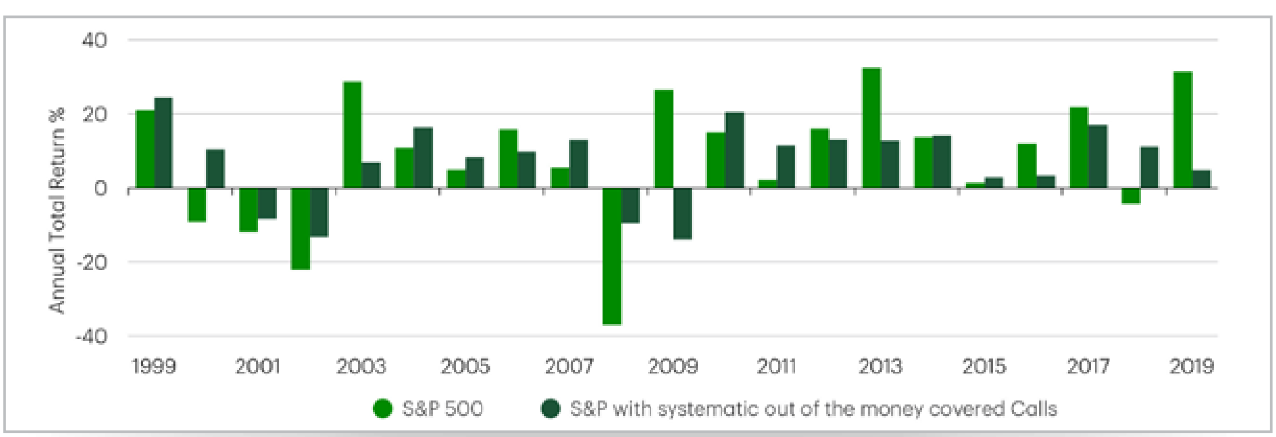
Ben Gossack, CFA, MBA, *Vice President & Director, TD Asset Management*

Jacky He, MBA, *Vice President, TD Asset Management*



TGED seeks to deliver 4%+ annual yield to investors while investing in global high-quality businesses that are tied to secular growth trends and can compound free cash flow over time.

S&P 500 Index Without vs. S&P 500 Index with systematic 2% out of the money covered calls



Source: TDAM. Factset. Data as of Dec 31, 2019. Note: The CBOE S&P 500 2% out of the money BuyWrite index is used as the proxy of a systematic covered call strategy.

ETFs and Incremental Innovation

The ETF industry is now a global phenomenon. A 10yr CAGR growth rate of ~20% has brought global ETF assets to a record level of more than $7 trillion USD through July 2020.

Michael Cooke
Senior Vice President, Head of Exchange Traded Funds, Mackenzie Investments

There are over 8000 products listed on 68 exchanges in 58 countries by 461 ETF providers. U.S, Europe and Canadian ETF assets all sit at record levels. From humble beginnings in 1990, the global ETF industry has paired utility with innovation. This innovation has taken different forms with a full spectrum of traditional index, strategic beta and active ETFs now available to investors across equities, fixed income, commodities and currencies as well as alternative investment strategies.

Incremental innovation is defined as utilizing existing technology and increasing value to customers within an existing market. One overlooked but important development in the ETF industry is that of incremental innovation. Some of the largest ETFs globally are also among the most mature with track records that date back to the early 1990s. The world's largest ETF, SPY, was listed in the U.S. in 1993 and is also widely held by Canadian institutional and retail investors. It was structured as a unit investment trust (UIT) under U.S. securities law which was a popular structure in the early days of the ETF industry but is somewhat restrictive for today's investors (at the time, some observers went as far as to say that ETFs using the UIT structure were misnamed and should be called exchange traded trusts). UITs have limits on securities lending and on the reinvestment of dividend distributions. Securities lending revenue allows ETFs to earn a small additional profit which can reduce overall costs. Dividend reinvestment allows an ETF to redeploy distributions paid by underlying holdings rather than have them sit in cash until scheduled to be distributed to unitholders (e.g. ExxonMobil pays a dividend on February 1st which is kept in cash until the scheduled ETF dividend distribution in April).

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The majority of ETFs today use the more conventional open-ended fund or mutual fund structure with units issued continuously and having the ability to reinvest dividends and generate income from securities lending. But, twenty years ago, this opened ended fund structure was considered "innovative" in the ETF industry. It was indeed incremental innovation.

Another example of incremental innovation has to do with index design. The world's largest ETF seeks to replicate the performance of the S&P 500, one of the most widely followed equity indices in the world. Like all indices, the S&P 500 is subject to periodic reconstitution which now garners much attention from market participants that may seek to buy (sell) expected additions (deletions) before they are announced by index providers. For ETFs replicating these indices, this trading transparency can be very costly and inefficient if the market knows in advance what changes are being made to the them. It means that someone can earn an arbitrage-type profit at the expense of unitholders by front-running index rebalances. The latest generation of index ETFs offer off-schedule rebalancing which is still transparent but avoids the congestion around popular index rebalance and reconstitution. This is another example of incremental innovation in the ETF industry.

There was a time when the Canadian ETF market lacked choice and innovation, compelling investors to go cross-border shopping to buy U.S.-listed ETFs. Accessing U.S.-listed ETFs is relatively easy, cost effective and offers good liquidity, but introduces meaningful tax and currency considerations for investors. Canadian financial professionals and investors strive to achieve the best investment outcomes from the standpoint of Canadian investors. In doing so, they are often better served by selecting Canadian-listed ETFs. Incremental innovation is once again evident in the way in which a growing number of Canadian-listed ETFs are designed. For example, even in non-currency hedged index ETFs, the timing of currency conversion matters. Many indices based on non-Canadian stock and bond markets strike an FX spot rate from USD to CAD at 11am EST (4pm London EST) for an index calculated outside Canada (e.g. S&P 500). Canadian-domiciled ETFs that track such indices strike FX spot rates from CAD to USD at the 4pm EST close of North American trading. This results in tracking error and is sub-optimal for Canadian investors. There are now index-based ETFs in Canada that address this need for Canadian investors by aligning FX conversion prices to North American trading hours.

Taxes are another important consideration for Canadian investors. U.S.-listed ETFs investing in international stocks as well as Canadian-listed ETFs holding U.S.-listed ETFs, investing directly in international stocks, or investing in U.S. fixed income ETFs can all be subject to withholding tax depending on the type of account holding the ETF. U.S. estate tax can arise on the death of a Canadian taxpayer who owns property that is connected to the U.S. (more than $60,000 USD) at the time of death. By investing in Canadian-domiciled ETFs, investors can gain exposure to US markets without holding shares of a US-domiciled ETF thus ensuring that US federal estate tax is not triggered on death.

Cost is also a form of differentiation. Many legacy ETFs are not among the cost leaders because ETF providers enjoyed some measure of pricing power. But the dynamic nature of the ETF industry has brought more competitive pricing and innovation from newer ETFs and providers.

There are now more than 800 Canadian-listed ETFs, providing investors in this country with more choice and the potential for better investment outcomes. The biggest and most liquid ETFs (whether Canadian or U.S-listed opportunities) may be popular and useful as proxies but they're not necessarily the best choices for investors. Incremental innovation has created a broader group of ETFs that are probably better for most investors based on cost, exposure and construction. This is especially true as it relates to achieve the best possible investment outcomes for Canadian advisors and investors.

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