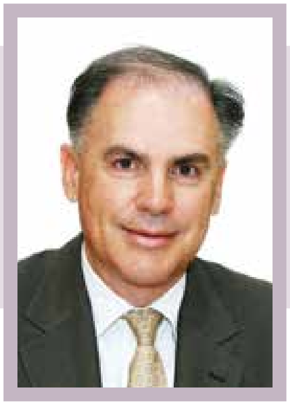
CANADIAN
ETF Watch
FALL 2021
CanadianETFWatch.com

Understanding the Rise of ESG



As the calendar flips to fall, we look to the remaining months of 2021 with both apprehension and hope. While the COVID-19 pandemic is still affecting many aspects of our lives, we look towards the economic rebound from the pandemic and the continued growth of the Canadian economy in 2022 and beyond.

One area of the financial services industry that continues to grow at a fervent pace is the Canadian (and global) ETF markets. As of the end of July 2021, the assets under management in Canada sat at $314.3 Billion — which is a 36.3% year over year growth and 22.7% over the past 10 years. There is no one reason for this growth but one does stand out — investors are learning more and more about ETFs and how to use them to build balanced portfolios for their clients.

A major theme of the Fall 2021 edition of Canadian ETF Watch is ESG with articles on the topic from ESG leaders such as BMO Global Asset Management, CI Global Asset Management and Franklin Templeton Investments. ESG is a rising behemoth within the financial services industry and information on how to use it to you and your client's benefit is crucial. Cryptocurrency is another growing area of financial services and an article from Fundata on cryptocurrency ETFs will help you bridge the knowledge gap and position cryptocurrency as a legitimate investment vehicle for you and your clients.

On behalf of Radius Financial Education and the Canadian ETF Association, we wish you all the best over the fall months and thank you for subscribing to Canadian ETF Watch.

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.

CanadianETFWatch.com

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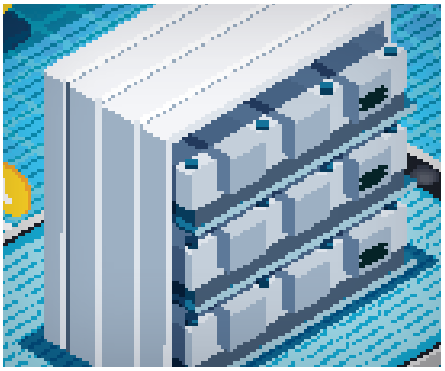

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Understanding the Rise of ESG

This segment of the investment industry has experienced rapid growth in recent years, leading to some misconceptions on what ESG really means for investors.

Ahmed Farooq
Senior Vice President,
Head of Retail ETF Distribution,
Franklin Templeton

The growth of ESG has been one of the major investment stories of recent years as environmental, social and governance factors have become a dominant force in the industry.

That's especially the case for ETFs, where there are now 84 ESG-focused ETFs in Canada. Of that number, 34 launched this year alone, and 19 of the 41 ETF issuers in this country now have an ESG strategy.[1]

ETF ESG assets have grown by 125.8% on a year-to-date basis, with $3.2 billion in net flows so far this year, representing 10% of the overall ETF flows for 2021.[1]

Impressive numbers for sure, but there are still naysayers out there that say this shift in the industry is merely a fad.

The Global Sustainable Investment Alliance's recently published Global Sustainable Investment Review 2020 revealed that sustainable investments amounted to US$35.3 trillion at the end of last year, or more than a third of all assets in five of the world's largest markets: the United States, Canada, Japan, Australasia and Europe.

Such scale should dispel any idea that ESG and sustainable investing is simply flavour of the month—fads don't generally account for trillions in assets.

Speaking on the topic recently, Franklin Templeton Canada President and CEO Duane Green said: "We believe that all investing will eventually be ESG investing—that one day it will no longer be considered a separate discipline."

Of all the misconceptions about ESG, however, the most prevalent regards its negative effect on returns. I have found this opinion to be more commonplace among advisors, but I'm quick to counter the idea that performance suffers when adding ESG principles to a mandate. The track records of some of our new specialist investment managers attest to that, with ClearBridge Investments, Martin Currie and Brandywine Global operating successful ESG-focused strategies for years now in the United States.

These retail strategies are also now available for investors in Canada as ETFs.

- Franklin ClearBridge Sustainable International Growth Active ETF (FSCI)
- Franklin ClearBridge Sustainable Global Infrastructure Income Active ETF (FCII)
- Franklin Martin Currie Sustainable Emerging Markets Active ETF (FSEM)
- Franklin Martin Currie Sustainable Global Equity Active ETF (FGSG)
- Franklin Brandywine Global Sustainable Income Optimiser Active ETF (FBGO)

These solutions have a core belief that sustainability and positive returns are not mutually exclusive, or as Duane Green explained: "Many companies exhibiting strong ESG principles also tend to be better operated. That in itself often correlates to good returns. You don't have to sacrifice performance now to find firms that are really focused on being sustainable."

FSCI, FCII, FSEM, FGSG and FBGO are a welcome boost to Franklin Templeton's LibertyShares ETF suite, bringing the international expertise of ClearBridge Investments, Martin Currie and Brandywine Global to retail investors in Canada.

ClearBridge Investments has more than 30 years of active management experience in ESG investing. A signatory to the UN's Principles for Responsible Investment since 2008, ClearBridge first introduced ESG-integrated portfolios in 1987 and ESG factors are now fully integrated into all its investment strategies.

Martin Currie is another leading voice for ESG, which can be seen through the work of the Martin Currie Stewardship Institute. This group provides insights and best practices on stewardship and ESG issues, focusing on topics such as human rights and modern slavery, climate change, decarbonization, UN Sustainable Developments Goals and diversity.

Brandywine Global is another signatory to the UN-supported Principles for Responsible Investment, and the firm uses an ESG-integration framework that spans multiple assets classes. Incorporating ESG factors into the investment decision-making process furthers the firm's active ownership efforts and are critical components of the investment teams' integrated analysis and monitoring.

Of course, at its core, the growth of ESG is reflective of client demand. That's the case today and will be even more of a factor going forward as issues like fiduciary duty, workers' rights and perhaps most of all, climate change, become crucial considerations for investors.

The term ESG is also very broad and covers a range of solutions, from ESG-Integration to ESG-Tilted, Values-Driven, Thematic and Impact.

Investors Are Driven by Different Motivations and Preferences

ESG-Integration may be best suited to an investor who wants to take a comprehensive look at the issues that can affect long-term returns, whereas ESG-Tilted would be for investors who want to meet their financial goals responsibly. A Values-Driven approach would be for someone who is seeking a return, but not at the expense of their values; Thematic targets investments that are working to address environmental and societal challenges; while Impact is for someone who wants their investment to make a measurable positive difference to society.

Just as the three letters "ETF" dominated the investment industry in the post-2008 period, "ESG" looks likely to have similar prominence in the years ahead. In my opinion, it's an entirely positive development, so I'm happy to see this trend gathering pace. I hope ETFs continue to provide innovative solutions to the myriad of problems our world is facing, while at the same time fulfilling their primary objective of generating returns for investors.

1. Source: Scotiabank ETF Services estimates, Bloomberg L.P. As at August 17, 2021

Commissions, management fees, brokerage fees and expenses may be associated with investments in ETFs. Please read the prospectus and ETF facts before investing. ETFs trade like stocks, fluctuate in market value and may trade at prices above or below the ETF's net asset value. Brokerage commissions and ETF expenses will reduce returns. Performance of an ETF may vary significantly from the performance of an index, as a result of transaction costs, expenses, and other factors. Indicated rates of return are historical annual compounded total returns for the period indicated, including changes in unit value and reinvestment distributions, and do not take into account any charges or income taxes payable by any security holder that would have reduced returns. ETFs are not guaranteed, their values change frequently, and past performance may not be repeated.

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Investing in the Future of Genomic Innovations, Today

We have been talking a lot this year about thematic investing, due to the changes in the economy brought on by the pandemic. With thematics, we look at the market differently, seeking to identify the most impactful emerging megatrends that will transform our behaviours and spending in the future.

Danielle Neziol
Senior Product Manager, BMO ETFs

Throughout 2021, a theme we've seen rise to the forefront of investor strategies is genomic innovations. Genomic technologies have been critical in combatting the pandemic, and we have already begun to witness market cap growth among the leading companies involved in genomics. This will continue to unfold as these technologies and innovations mature and advance in the years to come.

Vaccines have been the largest driver of the global recovery from the pandemic, and mRNA technology used in these vaccines is a direct beneficiary of genomic sequencing. Scientists were able to sequence the SARS-CoV-2 (COVID-19) genome so quickly that information was available in January 2020, well before the pandemic had even shut down North America.[1] This provided the exact code needed to develop an mRNA vaccine quickly and cost efficiently, enabling the global deployment of vaccines just one year after the pandemic broke out. COVID-19 vaccines put a giant spotlight on mRNA technology which until this year had little funding and hardly any awareness. The leading companies exposed to this technology benefit enormously from the global demand

BMO Exchange Traded Funds

for vaccines. For example, today Moderna is a household name, and the company shot up 284% year-to-date (YTD).[2] The German biotech company BioNTech, who splits its vaccine profits with Pfizer, returned 298% YTD.[3] Both Moderna and BioNTech are benefitting from continued vaccine demand and the future need for boosters. Comparatively Pfizer, who is a much larger pharmaceutical company, is up 31% YTD, as vaccines are a smaller part of the company's overall revenues.[4] Today we see mRNA technology as synonymous with COVID-19 inoculations, but this is just the beginning. Going forward it will be used to prevent other illnesses, for example, BioNTech is currently developing an mRNA vaccine for malaria.

There have also been other drivers this year for genomic innovation companies. Many of these companies are exposed to gene editing and CRISPR cas9 technologies and were beneficiaries of recent advancements in this space. For example, Intellia Therapeutics made a breakthrough this spring during a successful trial where gene-editing technology had its first delivery as medicine into a human body.[5] This was a crucial step towards developing future cures for genetic diseases.

For investors looking to add exposure to genomic innovations to a portfolio, a thematic ETF which strictly focuses on genomic innovation companies, such as the BMO MSCI Genomic Innovation Index ETF (ZGEN) is an efficient way to access a portfolio of global genomics stocks. These companies are dedicated to developing the genomic technologies for therapies and cures, all which we will utilize and rely on in the future to treat illnesses and diseases. ZGEN holds a portfolio of over 200 companies which are the global leaders in genomic innovations. Using an index-based approach with a focused yet diversified ETF will maximize exposure to the trend of genomic innovations and minimize single stock risk, which we believe is a powerful way to add thematic investments to a growth portfolio. Trying to pick just one or two genomics stocks would be difficult. But with a genomics ETF, investors can capitalize on the growing theme of genomic innovations across the many companies who will benefit as the megatrend develops. As a reminder, investing in genomic innovations is thematic investing, not sector investing, and it is important for investors to understand the difference. For example, a health care sector ETF includes many other sub industries such as health care services, supplies, equipment and technology. So genomic innovators, many of which are classified within the biotech industry, are not given as heavy a weight in a broader sector portfolio.

As genomic innovations continue to develop and evolve, the companies investing in future advancements in the genomics space will be the largest beneficiaries of this megatrend. They will be the owners of the patents for the therapies, treatments and cures that we will rely on in the future. This, we believe, will have a powerful impact on market share creation and will lead to exponential growth profiles for these innovative companies in the years to come.

Sources: [1]American Society for Microbiology, asm.org. October 28, 2020. [2]Bloomberg, September 3, 2021. Returns in USD. [3]Bloomberg, September 3, 2021. Returns in USD. [4]Bloomberg, September 3, 2021. Returns in USD. [5]https://www.nasdaq.com/articles/looking-to-play-intellias-ground-breaking-gene-therapy-2021-07-06

Four charts that show the power of investing in innovation

2021 will certainly be a year of absorbing interest for future historians.

On top of all the ink we expect to be spilled on political turmoil, digital transformation, climate change, the pandemic response, and a half-dozen other touchpoints that have defined the last couple years, there may be one aspect about the present that we're failing to see. Namely, that this global moment could prove to be a seedbed for innovation in 2021 and beyond.

The early signs of this silver lining are already evident. Advances in telehealth that might normally have taken years are occurring within the space of months to maintain care in the midst of COVID-19. Telepresence robots like the kind created by Akara Robotics are moving to the forefront of the field. Meanwhile, the Moderna vaccine for the coronavirus was the fastest ever developed. Liquor distilleries have pivoted to create needed sanitizers. 3D printers have been used to craft ventilators. And countless start-ups are sprouting around ideas like using artificial intelligence to model disease spread or to power chatbots that can diagnose symptoms.

A 2020 McKinsey study1 found that roughly three out of four executives agreed that the changes wrought by the coronavirus pose an opportunity for growth, in sectors from retail to pharmaceuticals. Reflecting confidence in how the U.S. economy will harness the creative energy of this moment to effect real change, major tech companies have been seeing striking gains in revenue and stock market performance throughout even the most difficult weeks of the pandemic.

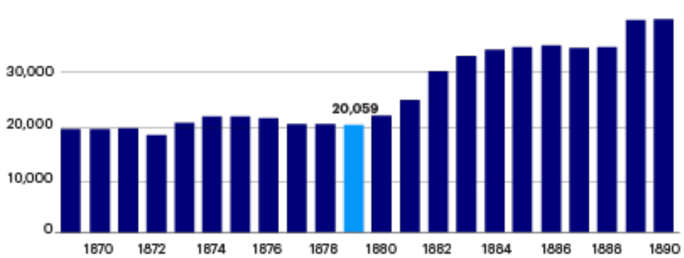
Invesco

The economic historian Alexander Field called the 1930s, a time of terrifying flux that saw both the Great Depression and the lead up to World War II, the most “technologically progressive decade of the 20th century.” Radar, nylon, and high-speed photography were all invented in that ten-year span, in part as a response to the massive social, economic, and military challenges of the day.

Historical patent activity data also attests to the fact that entrepreneurship and business ingenuity often flourish at times when society is pushed back onto its heels. The Long Depression of the 1870s and 1880s, a time of debt, deflation, and financial panic, coincided as the chart below shows with a rise in patent applications, ultimately yielding hugely consequential new developments in railroads and inventions like the phonograph and machine gun.

U.S. patent applications from 1870 to 1890

New technologies powered a surge in inventions even during the Long Depression

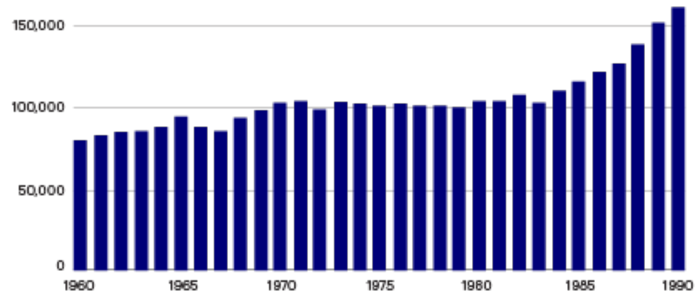


Source: United States Patent and Trademark Office, November 2020

Similarly, in the 1970s, an oil crisis helped spark a period of stagnation as the weakness of industrial sectors were exposed. Unemployment was high and inflation soared. And yet, as the patent graph below demonstrates, it was also a time of great creative ferment, with many inventions in particular tied to microchips that powered everything from new kitchen appliances to spacecraft.

U.S. patent applications from 1960-1990

During a period of stagflation, innovations were enabled by developments like the microchip.



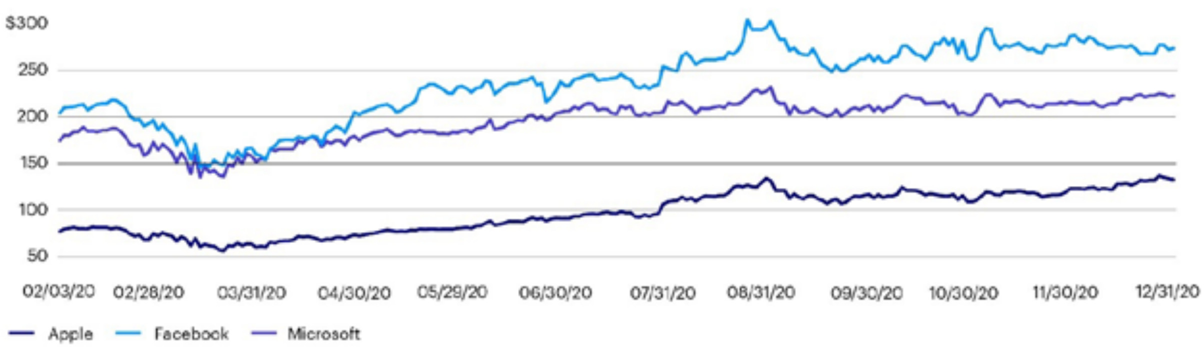
Source: United States Patent and Trademark Office, November 2020

More ballast for this optimism in the power of innovation to overcome obstacles can be found in how well the biggest and most influential tech companies have weathered the pandemic. Companies like Microsoft, Facebook, Amazon, and Apple have been perfecting programs and devices that aid communication, information-sharing, and business transactions between physically distant parties, from videoconferencing to cloud storage. Thanks to those transformative advances and positioning, large, vital sections of the economy and healthcare sector have been able to continue operating even with thousands of employees quarantined at home.

As the chart below makes clear, three of the top tech companies—all represented in the Invesco Nasdaq 100 Index ETF – CAD Hedged—have grown in valuation throughout the height of the pandemic. This past summer saw reports that Apple had become the first U.S. company to reach a market value of $2 trillion (USD), while Microsoft’s commercial cloud business surpassed $50 billion (USD) in revenue.

2020 closing share prices for FB, MSFT, and AAPL

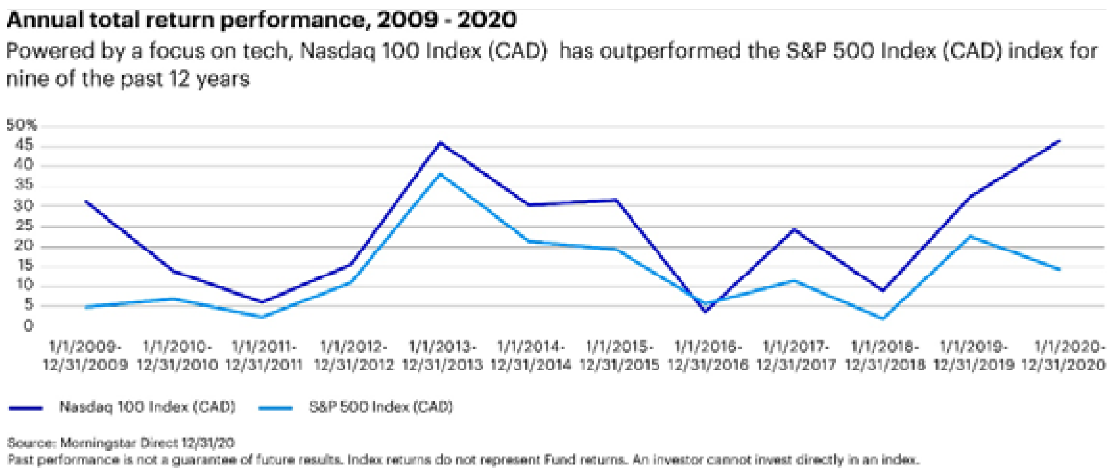
In spite of Covid-19 arriving on U.S. shores in early 2020, top tech companies saw strong gains in revenue and stock performance through the first six months of the pandemic.



Source: Morningstar Direct 12/31/20. USD.
Holdings are subject to change and are not buy/sell recommendations.

By studying the annual total returns of the Nasdaq-100 index against the S&P 500's, it's clear that the Nasdaq's focus on technology has helped propel it to see gains even through rocky periods like the pandemic. The Nasdaq-100 TR index has maintained cumulative total returns that are roughly 1.7 times that of the S&P 500 TR index.

The news headlines these days bring very real fears and uncertainties that can't be downplayed. But forward thinkers, as they have in the past, are already meeting the moment, leveraging new ideas and advances to solve our way out of the crisis. Amidst the setbacks the world is facing, it's one sign of hope that investors can hang their hat on.



To learn how you can be an agent of innovation and access the companies helping build for the future, explore Invesco's innovation suite of products.

1. Source: McKinsey & Company "Innovation in a crisis: Why it is more critical than ever" June 17, 2020

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THINK CANADIAN

THINK CANADIAN ETFs

By Emerge Canada,
Your Innovation Partner Canada

Great news! The Canadian ETF landscape is growing robustly! So are US-listed ETFs in Canada. The percentage of U.S. listed ETFs is higher in online/Discount Brokerage (27% of assets) than in Full-Service accounts (25% of assets)(1).

This is not surprising. Individual investors without advice are purchasing managers' ETFs in US currency, which are U.S. listed and they don't even know they are doing this. Therefore, they are acquiring foreign property, foregoing any possible tax advantages associated with Canadian listed ETFs, facing additional tax reporting and participating in ETFs which are not regulated or supervised by Canadian securities authorities.

Click here for the Emerge U.S. listed ETF tax fact sheet produced in association with the Knowledge Bureau for all the reasons why this should not be done.

Somehow in Canada, with good intentions, we have opened Pandora's box by allowing Canadian advisors to purchase U.S. domiciled ETFs for their clients because they are a U.S. listed security just like a stock of any U.S. company. Surely this seemed harmless at first. ETFs in Canada did not take off like a rocket in the beginning. However, now the situation is dramatically different. Technology and remote selling, ala post-pandemic, have accelerated the growth of ETF solutions.

So why are Canadian advisors buying U.S. listed ETFs for their clients?

Perhaps it is an educational issue and possibly they believe they will somehow perform better than similar strategies listed and manufactured in Canada. It's hard to say, but my bet would be it is an educational issue. With the 6-month growth rate on Full-Service ETFs being 11% versus 28% for online/discount brokerage, I recommend advisors learning more about this important topic. Investors need professional advice, but unfortunately, ETFs can be purchased without it. In fact, there are no restrictions at discount brokerage firms/ online tools as clients acquire U.S. listed ETF strategies and then also incur foreign exchange fees. According to the Investor Economics Q2 report, U.S. listed ETFs are growing fastest in the discount brokerage channel via direct purchases by Canadian investors.(2)

Who in Canada is buying U.S. listed ETFs? US-listed ETFs are being sold to purchased by:

1. Canadian advisors
2. Canadian IFMs (Fund Manufacturers) in both mutual funds and ETFs
3. Canadian Institutional investors
4. Direct purchases by Canadian investors in self-directed brokerage accounts.

Why is it harmful for 15% of the ETFs purchased in Canada to be U.S. listed ETFs? This is harmful because U.S. listed ETFs are not designed for Canadian residents and they cannot be regulated or supervised. Direct investors are mostly unaware of the implications. U.S. listed ETF purchases in Canada will silently rapidly impact the Canadian ETF landscape with the explosion of U.S. ETF growth. The already existing practices of the embedded inclusion of U.S. listed ETFs in marketing by Canadian firms, Canadian business news, and the entitlement of Canadian advisors to include these vehicles in their recommendations to Canadians sets the stage for the landslide.

1. Investor Economics June 2021 Report, Sec.15
2. Investor Economics June 2021 Report,Sec. 1 & 2

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Thursday, October 28, 2021 ~ Eastern Time

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WAIS 2021 CANADA

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Exchange Traded Forum (ETF Western Virtual) 11th Annual

Monday, November 1, 2021 ~ Pacific Time

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.

EXCHANGE TRADED FORUM2021

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WESTERN

Exchange Traded Forum (ETF Eastern Virtual) 12th Annual

Wednesday, November 10, 2021 ~ Eastern Time

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EXCHANGE TRADED FORUM2021

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EASTERN

Retirement Canada Dialogue (Virtual) 3rd Annual

Tuesday, November 16, 2021 ~ 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.

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LONDON

ETF & Investment Forum Frankfurt 2nd Annual

Fall 2022 ~ Frankfurt, Germany

A unique, 1-day European gathering of industry experts and financial professionals with comprehensive exposure to the latest products and trends in the fast growing ETF and Investment industry. (Präsentiert in deutscher Sprache)

ETF & INVESTMENT FORUM 2022
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FRANKFURT

Institutional Dialogue 2nd Annual

Fall 2022 ~ Edinburgh, United Kingdom

A 1 ½ day event packed with family conversations and solutions for a unique class of wealth professionals and entrepreneurs. Networking and learning among peers and industry experts with comprehensive exposure to all important aspects for family stewards.

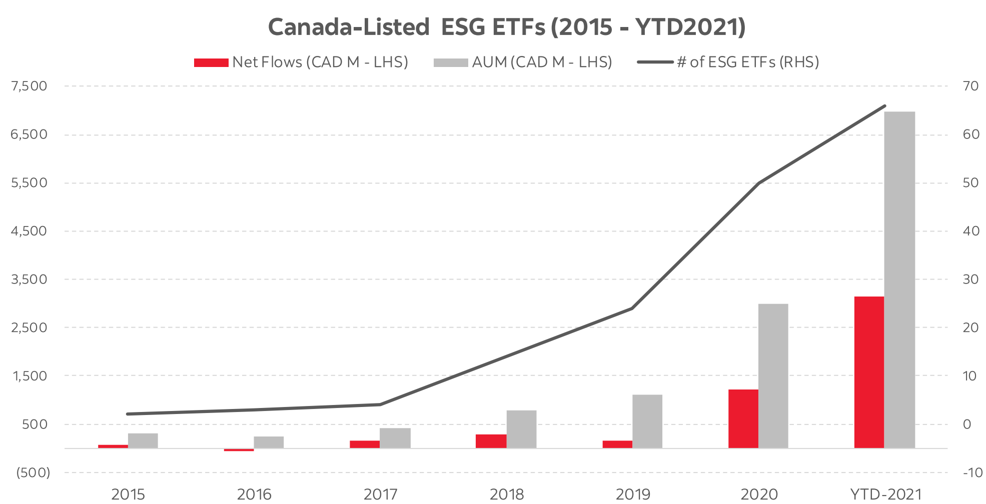
INSTITUTIONAL DIALOGUE
RadiusEurope.com

Radius Europe Financial Education (Radius Europe) has been producing high level conferences within the financial services sector for over 20 years. As a leading producer of conferences within the financial sector, Radius Europe events focus on education and networking through an exchange of independent ideas and information, allowing our delegates to be leaders in their chosen fields. Our top-down approach to the agenda enables us to deliver relevant, thought-provoking, cutting edge, and sometimes controversial insight in a stimulating manner. We understand the importance of learning from the best. Each conference offers a well balanced speaker composition consisting of insight from authors, educators, economists, regulatory bodies and industry leaders from around the globe.

ESG ETFs are Changing Investing

To date, 2021 has seen continued growth in ESG (Environmental, Social, Governance) ETFs in terms of both assets under management (AUM) and new product offerings.

Investors, both retail and institutional, are using ESG ETFs as core components in their portfolios. This was evidenced earlier this year when we saw significant inflows into BMO MSCI USA ESG Leaders Index ETF (ESGY/ESGY.F), making this the largest ESG ETF in Canada with AUM of $1.69 billion.1 BMO ETFs has become a Canadian market leader in ESG ETFs, with over 30% of the market share and more than 10 ESG ETF solutions available.[1]

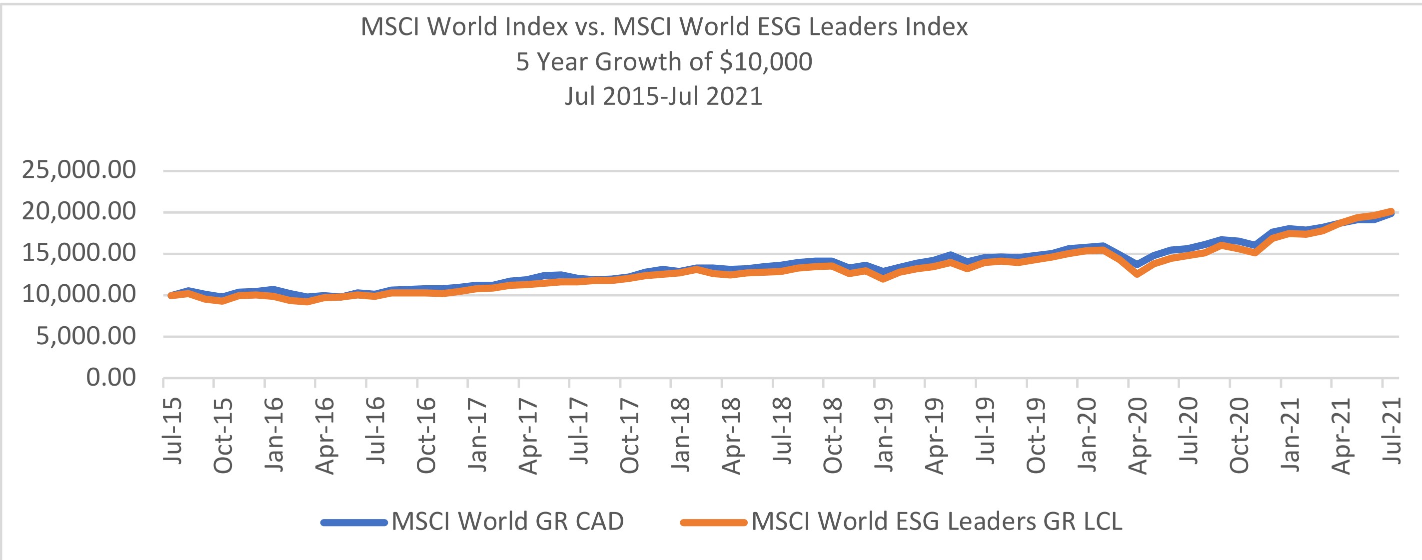


Source: Scotiabank GBM Estimates, Bloomberg L.P., as at July 9, 2021

Erin Allen
Senior Product Manager,
BMO Global Asset Management

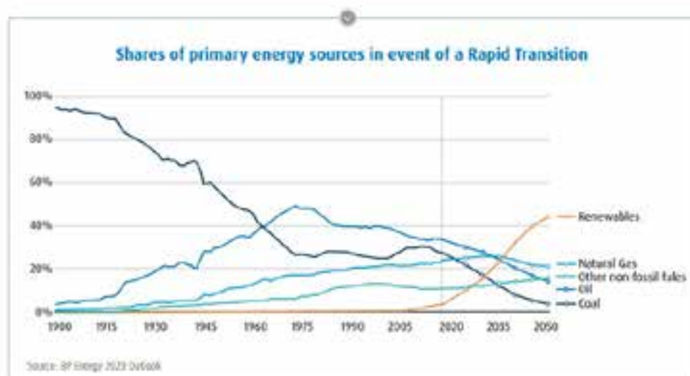
The growing interest in ESG stems from a wide range of drivers including millennials entering the financial markets, improving ESG data availability, as well as investing preferences as environmental and social issues continue to dominate headlines. Investors have also become more aware of the impact ESG risks can have on a company's value and its reputation. Avoiding companies exposed to these risks adds a forward-looking element to the risk management process. As we come out of the pandemic and look to rebuild our economies on stronger foundations the importance of tackling issues like climate change and social inequality are of growing importance to investors.

Passive ESG ETFs are one way to make ESG a core part of your portfolio. BMO's line up of ESG ETFs track MSCI ESG Leaders indexes across geographies targeting exposure to higher ESG-rated companies in each sector while maintaining sector diversification and market coverage. This allows investors to have a similar look and feel to the traditional broad index approach with a refined exposure to those companies that are better positioned to avoid ESG risks. Historical returns have been in line with the broad market index, proving you don't have to give up returns to invest sustainably (chart below).



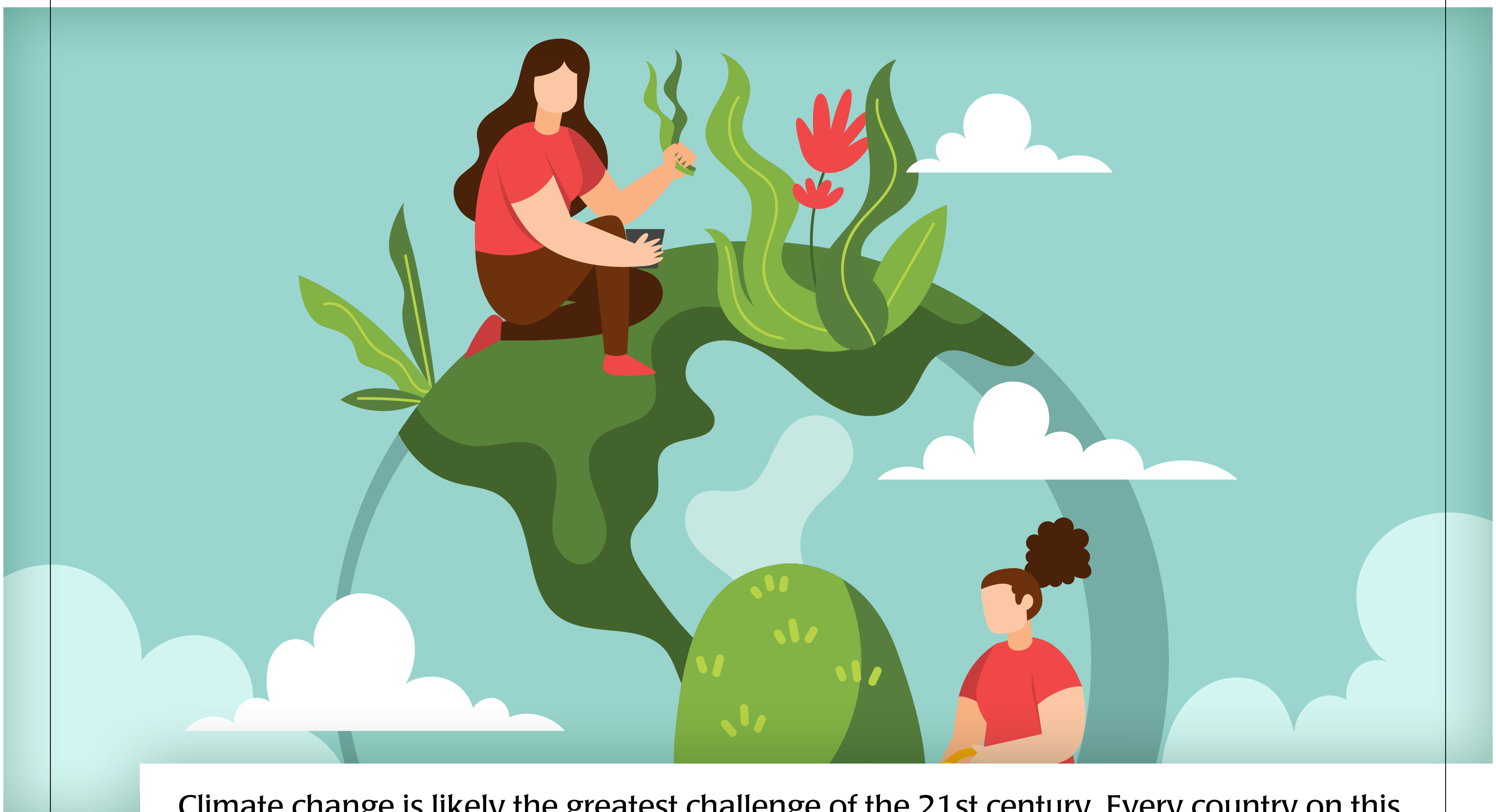
Typically, investors think of ESG issues relating more to equities, however, ESG metrics are an effective way to uncover risk factors in the fixed income market as well. Companies with lower ESG scores tend to have a higher chance of a rating downgrade than firms with better ESG scores, according to Bloomberg Barclays data. The connection between ESG issues and credit quality is now acknowledged by the major credit rating agencies, with Moody's and S&P Global both expanding their ESG capabilities to better integrate ESG factors in their credit rating methodologies. BMO ETFs has launched three fixed income ESG ETFs focused on credit exposures, BMO ESG Corporate Bond Index ETF (ESGB), BMO ESG US Corporate Bond Hedged to CAD Index ETF (ESGF), and BMO ESG High Yield US Corporate Bond Index ETF (ESGH/ESGH.F).

Clean energy is still a trending ESG theme this year after stellar performance for these companies in 2020. This grabbed the attention of many investors and ETF issuers alike: there have been many new product offerings listed in Canada in the first half of 2021, including BMO's Clean Energy Index ETF (ZCLN), providing exposure to a diverse range of clean energy producers and clean tech equipment companies. Clean energy companies have since cooled-off but investors in the space see this as a long-term growth trend. Innovations in the renewable energy space present an excellent growth opportunity for investors who are looking to benefit from the global transition. Oil giant, BP plc's latest Energy Outlook explains that while global energy demand continues to grow, the structure of this demand is likely to change with the role of fossil fuels declining and renewables playing a key role in meeting future global demand.



With ESG investing targeting both a financial return, as well as environmental, social, and governance improvement it is no wonder there is growing momentum behind this approach. The pandemic is expected to accelerate this growth rate as it has exposed a variety of societal inequalities. The Biden administrations' heavy focus on climate will be another strong tailwind for the growth of this investment approach going forward. Factoring in ESG risks is another risk management tool for portfolio managers to add to their tool kit, but it is also about uncovering opportunities. As companies transition their businesses to compete with climate change at the forefront, there an opportunity to invest in the companies that are leading this green revolution.

Climate Change: A critical global challenge provides significant investment opportunity.



Climate change is likely the greatest challenge of the 21st century. Every country on this planet is affected and its impact will only become more apparent. There is increasing recognition from governments, corporations, and global agencies that a coordinated effort is required to combat climate change and turn this challenge into an opportunity.

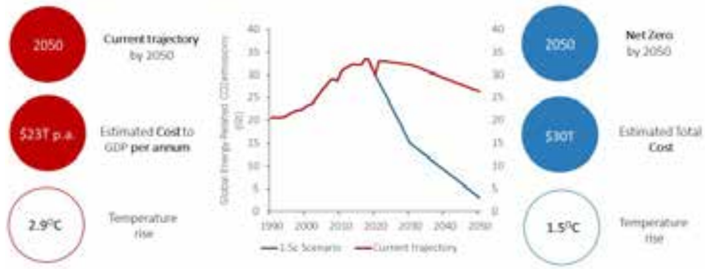
Nirujan Kanagasingam
VP, ETF Strategy
CI Global Asset Management

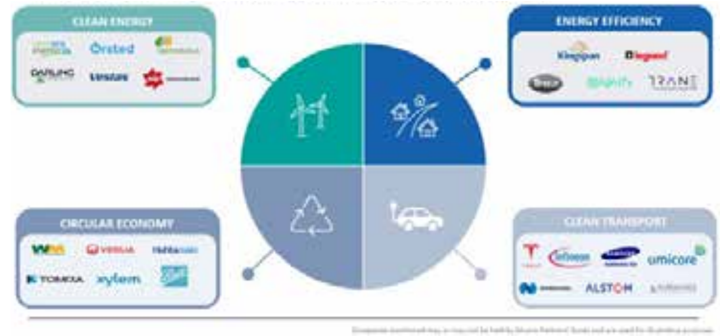
While global concern about climate change has been growing for many years, the belief is we've now reached a tipping point where the de-carbonization of the planet is inevitable. Virtually every European country has effectively committed to eliminating net carbon emissions by 2050 while China has also revealed a 2060 target. In addition, the Biden administration appears determined to reinvigorate the climate agenda in the U.S., recently announcing it will target a 50% reduction in net greenhouse gas pollution by 2030 and zero emissions by no later than 2050. Given these catalysts, climate investing presents a significant opportunity, arguably the biggest and most compelling since the internet!

The case for climate investing

To achieve net zero carbon targets by 2050 will require a transformative shift towards renewable energy, sustainable processes and the improved management of waste and resources. The adoption of new technologies to meet these goals will result in trillions of dollars in capital flows into companies positioned to solve the climate dilemma. This presents a remarkable opportunity in the space.

CI GLOBAL ASSET MANAGEMENT





To put things in perspective, Melbourne-based global growth equity manager Munro Partners estimates it will cost approximately US$30 trillion to achieve global net zero carbon targets. While that's a significant investment, it pales in comparison to the cost of not doing enough. This is estimated to cost roughly US$23 trillion of GDP per annum from having to clean up environmental disasters, adapt infrastructure and support populations that lack essential resources.

Introducing the CI Global Climate Leaders Fund

To capitalize on this investment opportunity, CI Global Asset Management (CI GAM) partnered with Munro Partners to launch the CI Global Climate Leaders Fund (CLML, CLML.U). The fund provides exposure to concentrated, growth-oriented global equities focusing on de-carbonization and climate change.

"As a global growth investor, it is Munro's role to identify structural changes and find companies we think will benefit in the months and years ahead," says Nick Griffin, founding partner and chief investment officer at Munro Partners. "Climate investing is at the very start of its structural tailwind, with many new technologies and solutions still early in the adoption phase and therefore having the potential for significant growth. Identifying and investing in impactful companies that are considered de-carbonization enablers whilst having the potential for meaningful long-term share price appreciation do not need to be mutually exclusive." he adds.

As stock pickers, the team is drilling down on investing in some of the key climate change sub-trends such as:

- Clean energy: Companies at the forefront of renewable energy generation covering wind, solar and renewable diesel.
- Energy efficiency: Companies at the forefront of insulation products, electrical switches, lighting, and metering technology.
- Clean transportation: Companies benefiting from the growth of electric vehicles, battery technology and alternative transportation.
- Circular economy: Companies most likely to benefit from efforts to improve, recycling, alternative packaging materials and management of wastewater.

"As usual, there will likely only be a small handful of innovators worldwide and a long tail of imitators and followers. It is our job at Munro to identify those companies that are best positioned to succeed," Nick Griffin explains.

The biggest investment opportunity since the internet

As citizens, we are experiencing first-hand the impact of climate change from rising temperatures and sea levels to melting glaciers. Climate change poses an existential risk to humanity. Investors, governments, and corporations are taking notice and the commitment to a net zero carbon world presents a significant investment opportunity - arguably the biggest and most compelling since the internet.

Published June 8, 2021

Getting Real with Inflation

Higher inflation is not only impacting Canadian's wallets and investment portfolios, but there is fear it is here to stay. If higher inflation does linger longer than we expect, there are steps you can take to protect your portfolio against its negative effects.

Tom Grant
Vice President,
ETF Capital Markets,
TD Asset Management

It's hard to avoid the word 'inflation' when reading through today's headlines. It's also front and centre when we're shopping for groceries or passing by a gas station. Every day it feels like life is getting more expensive and our money isn't going as far as it used to. That, in a nutshell is the effect of inflation at work - it erodes our purchasing power and can often eat away at the value of some of our assets.

There are many ways to track inflation, but most economists will look at the Consumer Pricing Index (CPI) as a gauge. CPI is a measure of the rate of change in the price of a basket of goods and services over a period of time. It can be simply described as the change in of the cost of living.

Generally, central banks are comfortable with CPI readings of around 2% per year. However, September's Statistics Canada measure the annual change in CPI at an elevated 4.1% In the U.S, the September reading was even higher with the Bureau of Labor Statistics showing a rate of 5.3%. Neither nation has experienced this level of inflation for quite some time.

TD Asset Management

Transitory

The recent increase in prices is often explained as "demand driven and supply constrained", which simply means there are more buyers for fewer goods. It is largely thought that the money people saved during the COVID-19 Pandemic is being spent on the few goods that were produced during that same period.

The current period of higher inflation is also largely described as being "transitory" or temporary in nature, because the availability of goods is improving, and savings are being spent. However, if it isn't in fact transitory, and inflation stays elevated, there are steps you can take to protect yourself against the negative affects within your investment portfolio.

A "real" hedge

Real assets are often described as hedges against inflation. This means, that if inflation increases, the value of these assets should also increase. Real assets are physical in nature and their value comes from their substance and individual properties (like real estate).

One of the most significant features of real assets is their ability to pass through variable prices to the customer. What this means is that if their costs go up, they can charge more for their product or service. It is this element which makes owning real assets potentially beneficial in periods of inflation.

Real solutions from TDAM

TD Asset Management Inc. (TDAM) offers many different strategies to investors that can help protect their assets against inflation, and there are two within our Exchange Traded Funds (ETF) suite that are worth highlighting: The TD Active Global Real Estate Equity ETF and TD Active Global Infrastructure Equity ETF.

TD Active Global Real Estate Equity ETF (TGRE)

TGRE is designed to provide regular income and achieve long-term capital appreciation by investing in, or gaining exposure to, the equity or equity-type securities of real estate investment trusts (REITs) and companies that invest or operate primarily in the real estate sector located anywhere in the world.

How does TGRE mitigate the effects of inflation?

1. Through rental agreements - Generally, these agreements include language that allow rental rates to increase in a manner tied to inflation.

2. New leases at higher prices - Often when leases end or are terminated, new leases can be reset at higher prices which can account for the inflationary pressures within the economy.

3. Increased replacement costs - When building input costs (steel, lumber, etc.) increase, the value of those buildings already in existence will increase to reflect the cost of reproducing them.

TD Active Global Infrastructure Equity ETF (TINF)

TINF is designed to earn income and achieve long-term capital appreciation by investing primarily in common equities, equity-linked notes, convertible securities, preferred shares or other equity-type securities of companies that own or operate infrastructure assets located anywhere in the world.

How does TINF mitigate the effects of inflation?

1. Pass through variable costs to customers - Most infrastructure assets have means by which to pass-through variable costs to their customers which benefits their shareholders. Whether it's embedded in a contract, a concession agreement or a regulation, many infrastructure assets have a pricing formula with an explicit link to inflation. As an example, a 15-year power supply agreement by a wind farm would have embedded escalators linked to inflation. Not only does this help protect against the adverse effects of inflation but it also helps improve the predictability of future cash flows.

2. Price control - Many infrastructure assets are also in strategically strong positions to control pricing when their costs rise. This allows them to dictate pricing if the inflationary environment warrants it. Much the same as real estate, when the input costs of building a bridge or dam increases, the value of those already built will appreciate.

One other key benefit of both the TINF and TGRE is that they are actively managed. This attribute gives the portfolio manager the added flexibility to adjust the portfolio to those holdings which have greater pricing power in inflationary environments.

Whether inflation is transient or longer term in nature, we believe both TINF and TGRE are well positioned and a worthwhile consideration for any portfolio. For more in-depth information on these strategies, please check out our papers Beyond Stocks and Bonds and Getting it right with REITs.

Chugging Along

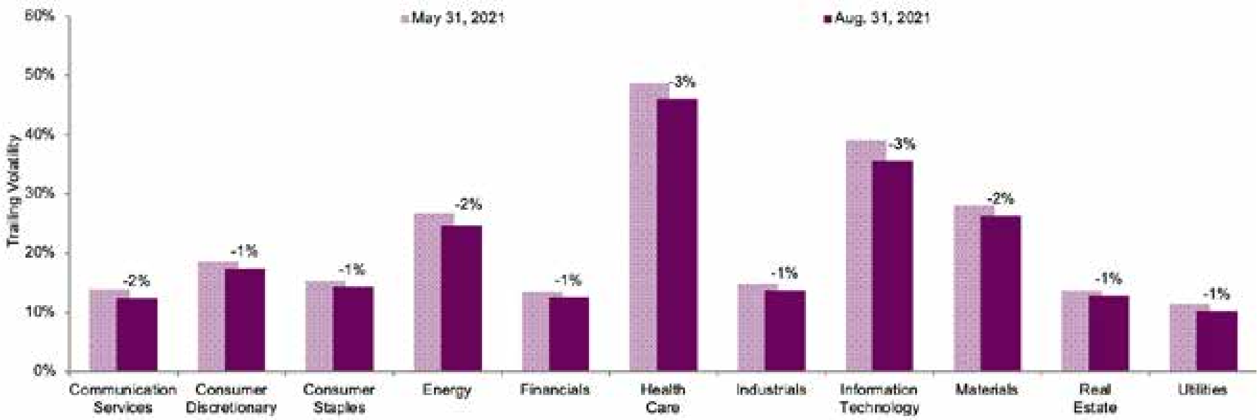
Fei Mei Chan
Director, Index Investment Strategy S&P Dow Jones Indices

In the last three months, the Canadian equity market climbed another three percentage points, bringing the S&P/TSX Composite Index up to an impressive 21% YTD through Sept. 17, 2021CKCK. In a strong bull market environment, low volatility indices are expected to lag—and they typically have. But overall, the S&P/TSX Composite Low Volatility Index has held its own, gaining 19% YTD, just a 2% shortfall.

S&P Dow Jones Indices
A Division of S&P Global

It's perhaps also no surprise that one-year volatility levels continue to decline (across all GICS® sectors). Health Care remains the most volatile sector, with Information Technology close behind.

Exhibit 1: One-Year Volatility Declined for All Sectors of the S&P/TSX Composite Index

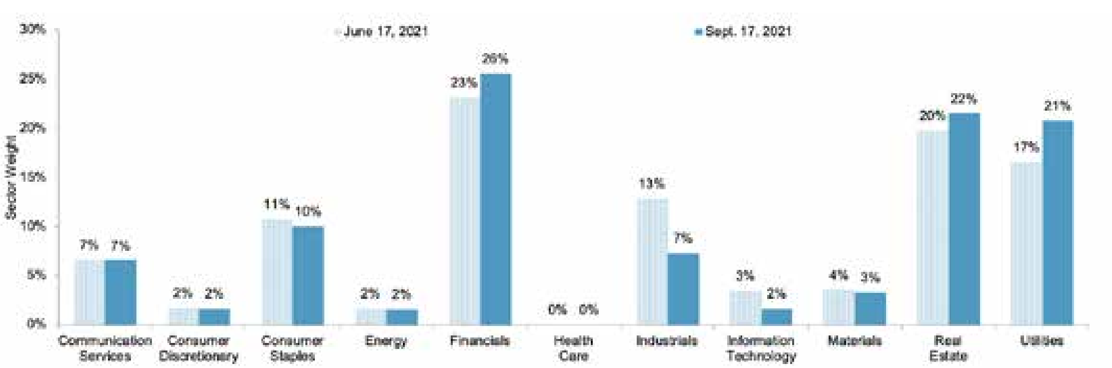


Source: S&P Dow Jones Indices LLC. Data from May 31, 2020, through Aug. 31, 2021. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

The S&P/TSX Composite Low Volatility Index seeks out the lowest volatility at the stock level, but we often look to sector volatility for insights into the dynamics that drive allocations within the index.

The latest rebalance for the S&P/TSX Composite Low Volatility Index was effective following the close of trading on Sept. 17, 2021. Changes in the index were minimal, but that's not surprising given what we've seen in the sector volatility changes. Financials, Real Estate, and Utilities continue to add weight in the index and are the three largest sectors. Most of the increase came at the expense of Industrials, whose weight declined to 7% from 13%. Health Care, which represents 1% of the S&P/TSX Composite, has no weight in the low volatility index.

Exhibit 2: Sector Weight Changes at Most Recent Rebalance



Source: S&P Dow Jones Indices LLC. Data as of Sept. 17, 2021. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Manufacturing the Case for Infrastructure Stocks

If there is such a thing as a super indicator for timing equity market performance, Purchasing Manager Indexes (PMIs) that track manufacturing activity might be it.

Mark Stacey, MBA CFA®
Senior Vice President,
Co-CIO AGFiQ Quantitative Investing, Head of Portfolio Management,
AGF Investments Inc.

Bill DeRoche, MBA CFA®
Chief Investment Officer and Head of AGFiQ Alternative Strategies,
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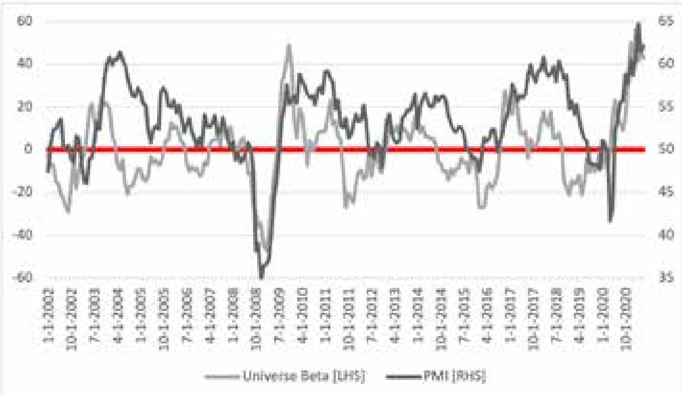
Grant Wang, M.A. (Econ.), Ph.D., CFA
Senior Vice President,
Co-CIO AGFiQ Quantitative Investing, Head of Research,
AGF Investments Inc.

Not only are PMIs reliable gauges of the expansion and contraction of an economy, they are often invaluable predictors of the potential direction that financial markets take in the future. And while this goes for almost any asset class, sector, theme or factor you can think of analyzing, it may be especially true for listed infrastructure, the category of equities that is most closely tied to the structures and systems that form the connective tissue of the world's economic framework.

In fact, based on AGFiQ research on PMIs going back to 2001, now may end up being as good an entry point as any into a portfolio of infrastructure stocks (or "infra" stock as they often called). That's not a guarantee, of course, but in the context of the past four manufacturing cycles, here's why it's a fair assertion.First off, listed infrastructure has tended to follow the path of other low-beta asset classes and sectors of the market over the period we analyzed, more than likely because it exhibits similar characteristics to other low-risk investments that move more in lock-step with the broad market including stable cash flows that result in steady dividends over time. It's not surprising then that "infra" stock performance – at least in the aggregate – has been somewhat congruent with how low-beta stocks have performed on average in relation to PMIs.

Historical Correlation between PMIs and High-Beta Stocks



Source: AGFiQ with data from FactSet and Bloomberg as of June 15, 2021. Universe Beta (grey line) refers to the nine-month rolling return spread between the top and bottom quintile of stocks within the S&P 500 Index sorted from high to low beta.Purchasing Manager Index (PMI) (black line) refers to the seasonally-adjusted Institute of Supply Management (ISM) Manufacturing PMI.

Second, whether it's infrastructure or low-beta stocks more broadly, our analysis shows a pattern of returns that are associated with four different phases in manufacturing "scores". Namely, we found that some listed infrastructure outperformed broader equity benchmarks such as the S&P 500 Index and S&P/TSX Composite Index when PMIs were nearing a bottom, as well as when PMIs first began to fall after an elevated period following a peak. Conversely, listed infrastructure underperformed when PMIs were moving from a bottom to a peak, but typically held their own at the peak and for as long as PMIs maintained that elevated level. This suggests that as the economic expansion moves beyond the early stages, some investors may begin to appreciate the benefits of infrastructure stocks in their portfolio.

Listed Infrastructure Performance in relation to PMIs (Previous PMI Cycles)

	Months Prior to the PMI Bottom			Bottom to Peak PMI	Elevated PMI	Months After Elevated PMI		
	12M	6M	3M			3M	6M	12M
Infrastrucutre Equities (DJBGIT Index)	-14.5	-12.6	-7.8	17.1	11.1	1.9	6.0	6.7
Global Equities (MXWD Index)	-18.3	-11.1	-9.4	23.1	11.6	-4.7	-3.1	-0.8
Canadian Equities (SPTSX index)	-22.8	-14.3	-13.3	27.4	13.1	-5.9	-1.8	0.0
U.S. Equities (SPX index)	-13.3	-7.4	-7.9	20.9	15.1	-4.2	-3.3	1.8

Source: AGFiQ with data from FactSet and Bloomberg as of June 15, 2021. Equity indexes used for the purposes of this table include Dow Jones Brookfield Global Infrastructure Index (DJBGI), MSCI All-Country World Index (MXWD), S&P/TSX Composite Index (SPTSX), S&P 500 Index (SPX). Purchasing Manager Index (PMI) refers to the seasonally-adjusted Institute of Supply Management (ISM) Manufacturing PMI. Dates for PMI bottoms include April 30, 2003, December 31, 2008, June 30. 2012 and January 31, 2016. Dates for PMI peaks include January 31, 2004, October 31, 2009, December 31, 2013 and February 28, 2017. Dates for End of Elevated PMIs include May 31, 2004, February 28, 2011, November 30, 2014.*

But perhaps what's most important of all, this same pattern seems to be unfolding in the current environment much as it did in the previous four PMI cycles. Sure, there are some differences. For instance, infrastructure stocks outperformed as one might expect in the 12-month period before the latest bottom in PMIs at the end of April last year. But they underperformed against the grain in both the six-month and three-month period preceding the bottom. That may have more to do with the extraordinary circumstance of the pandemic than anything else, yet returns have been much more in line with history since then, having mostly underperformed off the bottom of the PMI scale and through to the top, which was likely reached earlier this year in March. Moreover, now that the elevated period of PMIs following a new peak seems to have started anew, the underperformance has narrowed –as if on cue – and in some cases returns have even moved ahead of those for broader indexes.

Listed Infrastructure Performance in relation to PMIs (Current Cycle)

	Months Prior to the PMI Bottom			Bottom to Peak PMI	Elevated PMI
	12M	6M	3M		
Infrastrucutre Equities (DJBGIT Index)	-16.0	-12.2	-7.9	11.4	9.3
Global Equities (MXWD Index)	-12.4	-8.5	-6.8	37.6	6.9
Canadian Equities (SPTSX index)	-18.9	-15.3	-14.2	40.2	11.3
U.S. Equities (SPX Index)	-9.7	-4.1	-1.1	36.4	6.9

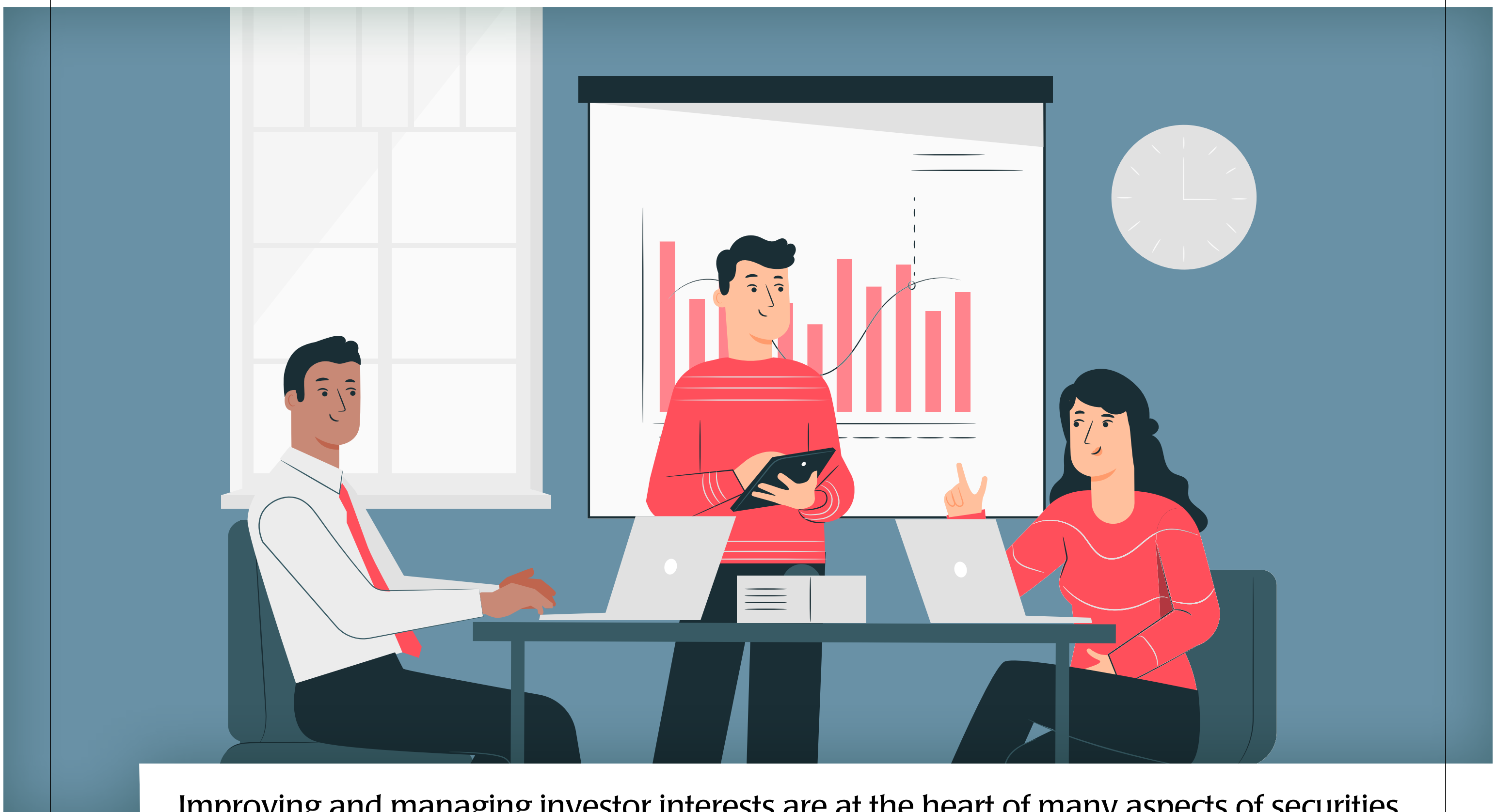
Source: AGFiQ with data from FactSet and Bloomberg as of June 15, 2021. Equity indexes used for the purposes of this table include Dow Jones Brookfield Global Infrastructure Index (DJBGI), MSCI` All-Country World Index (MXWD), S&P/TSX Composite Index (SPTSX), S&P 500 Index (SPX). Purchasing Manager Index (PMI) refers to the seasonally-adjusted Institute of Supply Management (ISM) Manufacturing PMI. Date for PMI bottom is April 30, 2020. Date for PMI peak is March 31, 2021. Elevated PMI is from PMI peak through to May 31, 2021.*

Presumably, that bodes well for infra stocks going forward; the one question being how long it will take for PMIs to start falling again so that listed infrastructure is back in its historical sweet spot again. At least in the past, it has taken 12 to 24 months for the elevated period of PMIs to run its course, but given how compressed this latest cycle has been to date, it may not take nearly as long for PMIs to begin their descent this time around.

Either way, investors shouldn't be too fussed about getting the timing just right. While tactical adjustments including entry points are increasingly important given the speed at which equity markets trade these days, these short-term moves should not overshadow the long-term growth prospects of infra stocks or their potential to generate attractive dividend yields regularly over time.

*An investment cannot be made in an index

Client Focused Reforms Showcasing an Advisor's Professional Judgement



Improving and managing investor interests are at the heart of many aspects of securities regulation here in Canada. The Client Focused Reforms currently being phased in by the Canadian Securities Administrators' (CSA) through amendments to National Instrument 31-103 and the corresponding Companion Policy are yet another example of how the CSA is putting the interests of Canadian investors first.

Keith Wu
Head of Exchange Traded Funds, Customer Success Toronto Stock Exchange

Initial amendments to implement Phase One of the Client Focused Reforms were due by June 30, 2021 and advisors should have already addressed any material conflicts of interest requirements in their books of business. Phase Two requirements, which are more onerous than Phase One requirements, are coming into force on December 31, 2021 and are likely to significantly change the interaction of clients with their advisors, advisors with their dealers, and dealers with the investment product manufacturers. These Phase Two requirements include:

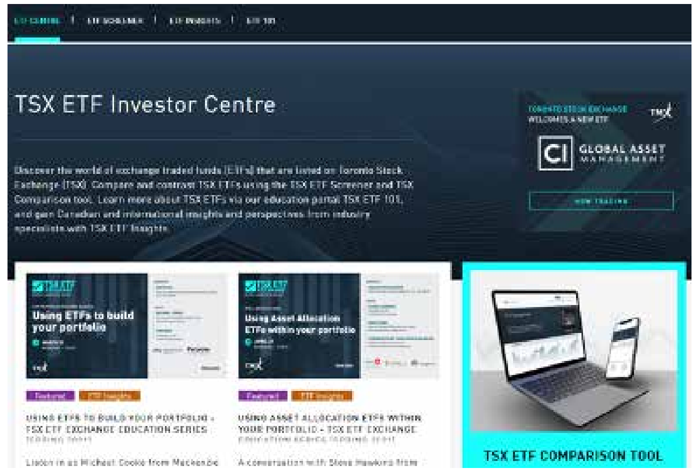
- Know your product (KYP)
- Know your client (KYC)
- Suitability determination
- Relationships disclosure information (RDI)
- Communications
- Compliance training

TMX Toronto Stock Exchange

The two Client Focused Reforms requirements that will likely have the most impact on an advisor's time and business are both KYP and KYC. KYP requires that advisors must take reasonable steps to understand any of the securities that they are managing on behalf of their clients. While this appears to be an obvious requirement, the key here in satisfying the requirement is not only being able to demonstrate that they do understand but also that they can defend those investment decisions against competing products. KYC has been a regular part of an advisor's day for a long time, however the key to the new regulations is linking KYC to KYP to ensure alignment. Therefore demonstrating to both their clients and to the regulators, professional judgement.

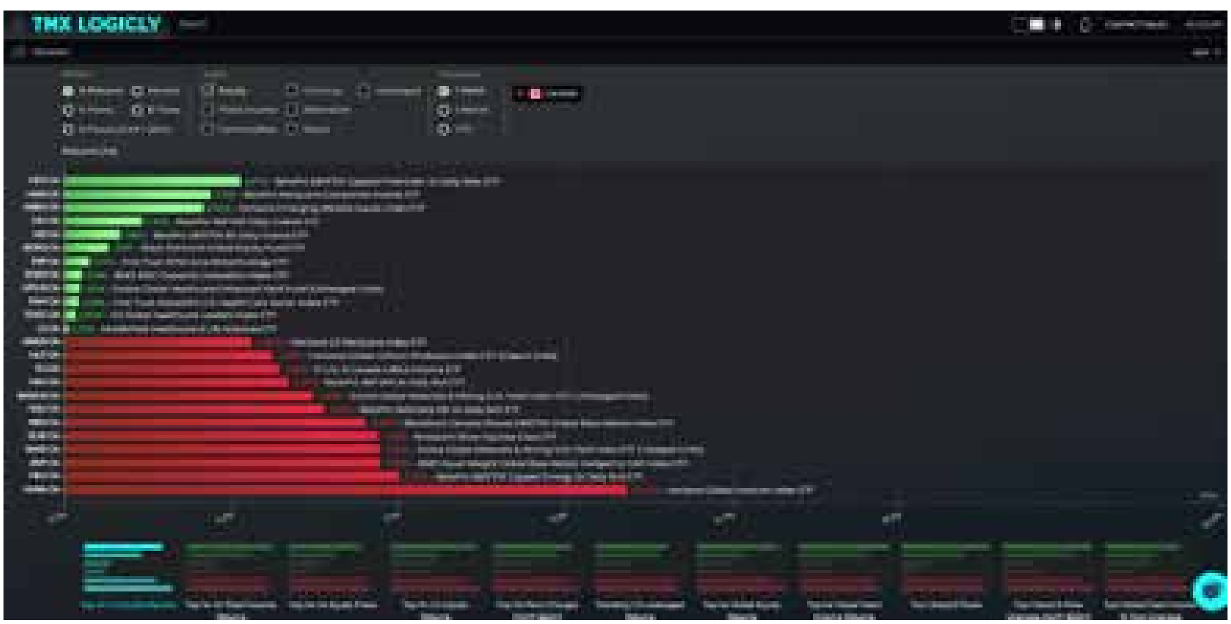
In order for an advisor or a dealer to satisfy KYC and KYP requirements of the Client Focused Reforms, is it reasonable to expect that advisors be fully fluent on the key details of nearly 1,000 Canadian ETFs as an example? Not likely when you consider that they may also employ mutual funds, stocks, bonds and other financial instruments in their clients' portfolios. Therefore, they will need to leverage tools to help them to show their work to satisfy these regulatory requirements.

At TMX Group, we offer a number of solutions for advisors and dealers to help manage the Client Focused Reforms requirements. First is the TSX ETF Investor Centre. This free to use public web based tool provides ETF industry insights, education, and most importantly an ETF screener with over 125 screener filters that can display up to three ETFs in a side-by-side comparison. Using this simple tool can help advisors show their work to their clients and help address the Client Focused Reforms' regulatory requirements for ETF allocations in the portfolios that they manage.



The second solution is TMX Logicly. This subscription based web tool provides access to a robust Canadian ETF database and analytics tool. TMX Logicly is an API driven solution that surfaces both growing and shrinking market trends, offers over 250 screener filters and provides professional level correlation, portfolio, trading, and client behavior analysis. TMX Logicly allows advisors and dealers to dive deeper into the client portfolios that they manage and help satisfy Client Focused Reforms' regulatory requirements.

While the Client Focused Reforms that the CSA are implementing can potentially introduce a significant level of additional effort for advisors and dealers in order to show the work that they do,there is actually a clear benefit to both sides of the client and advisor relationship. Clients are provided some level of comfort knowing that their advisors have exhaustively reviewed their portfolio and have ensured that their KYC is aligned with their KYP. The benefit to advisors is that the Client Focused Reforms requirements are less about "Showing their work", but more about "Showcasing their work".



Quantitative Investing Gets Sentimental

How AI and natural language processing help quants factor sentiment into investment decisions.

Grant Wang, M.A. (Econ.), Ph.D., CFA
Senior Vice President, Co-CIO AGFiQ Quantitative Investing, Head of Research, AGF Investments Inc.

It wouldn't be wrong to characterize quantitative investing as matter of fact. How else do you describe a discipline that formulates buy and sell decisions by processing raw data with mathematical models designed to leave very little room for interpretation? But it also wouldn't be right to say it's a method entirely without emotion – at least, not when it comes to what others think and feel about the global economy and financial markets these days. In fact, "quants" have taken sentiment analysis to a whole new level in recent years and now, more than ever, they are able to apply these findings in real time thanks to the ubiquity of social media and ongoing advances in artificial intelligence (AI) and natural language processing (NLP) technology.

Perhaps the most obvious example of this evolution is the work being done by asset managers to decipher the emotional core of quarterly earnings calls. In AGFiQ's case, transcripts of these calls are analyzed through a proprietary model that utilizes NLP to derive a sentiment score based on an aggregate of positive versus negative words used during the call. Then, once a score is established, it is determined what type of correlation the score might have to a company's subsequent stock returns. For instance, during the height of the pandemic last spring, we noted companies – in sectors excluding healthcare – that commented on COVID-19 (a clear negative) in earnings presentations suffered more severe losses in the immediate aftermath of trading than did companies which did not mention the virus at all.

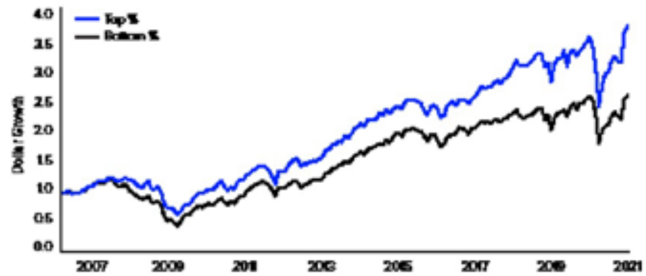
AGF™

This advanced brand of sentiment tracking is only the tip of the iceberg. Beyond earnings calls, a trove of data is also being mined from various social media platforms – all of which provide up-to-the-minute conjecture on topics and themes that can often hold great sway with investors. And while this is true no matter what the investment focus, it seems especially relevant with regard to the investment community's growing commitment towards building a more sustainable world and the environmental, social and governance (ESG) issues that are crucial to making that world a reality.

Indeed, it's to this end that we recently began integrating third-party research from Refinitiv and MarketPsych into the decision-making process of our ESG and infrastructure ETF strategies. In partnership, the two global data providers recently launched a new analytics tool that monitors public perception of countries and companies as stewards of sustainability and publishes sentiment scores in real time "on more than 200 ESG themes and controversies." The scoring – as described in a recent white paper by Refinitiv –derives from a curated data feed of live and archival content that is pulled from traditional news gatherers like Reuters and credible sources on social media, but shuns what is deemed "low-value" or "non-objective" forms of content such as corporate press releases and promotional articles. Furthermore, by using machine learning techniques, the tool classifies all of the included media sources and authors according to their own unique ESG perspective and outlook, and it can remove them from the feed entirely if they exhibit characteristics of "ideologues, promoters, robots or spammers."

All in, Refinitiv and MarketPsych say their new tool filters two million articles and social posts in multiple languages every day and covers more than 30,000 companies and 252 countries and regions around the world. But even more important than the sophistication and breadth of the analysis is the evidence that some of the sentiment scores resulting from it have been strongly correlated to market returns in back-tested studies. Namely, Refinitiv notes in its whitepaper[1] that S&P 500 companies with consistently higher workplace sentiment scores outperformed those with consistently lower workplace sentiment scores, on average, since 2006, while companies with some of the highest management sentiment scores outperformed those with some of the lowest over the same period.

Positive Management Sentiment, Positive Market Performance

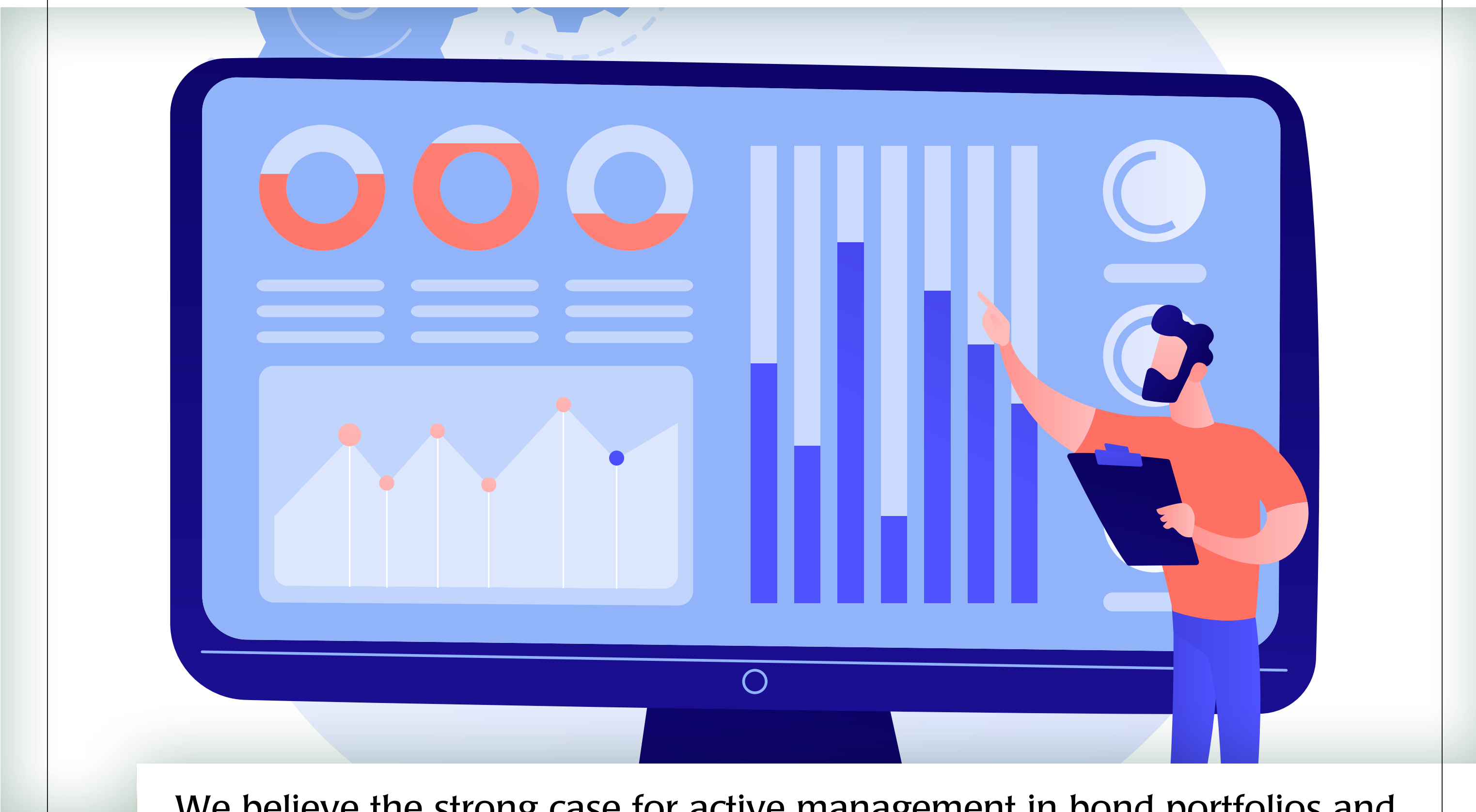


Source: Refinitiv MarketPsych ESG Analytics: Quantifying Sustainability in Global News and Social Media, February, 2021. S&P 500 constituent stocks were ranked by their past-month ManagementSentiment and binned into deciles. The forward performance of each decile was plotted over the next month. This procedure was repeated monthly.

Granted, correlation is not causation. And whether it's this particular sentiment analysis or one of the many others offering their own special take these days, it's important not rely on them exclusively or, worse, treat them as a panacea that determines buy and sell decisions all on their own. They are not an end in themselves. But when the tone of an earnings transcript or the emotion of a tweet is considered in the right context, there's a good chance that it can help improve outcomes for investors who are paying attention.

[1] Refinitiv MarketPsych ESG Analytics: Quantifying Sustainability in Global News and Social Media, February, 2021

A guide to actively managed bond ETFs



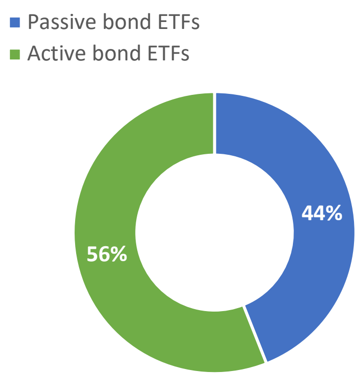
We believe the strong case for active management in bond portfolios and further innovation will continue to drive this trend for years to come.

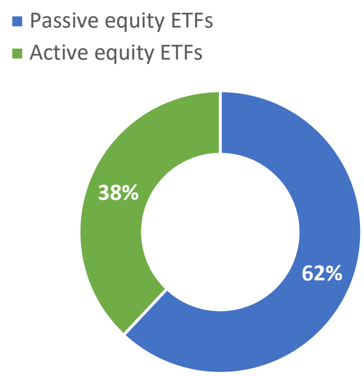
A history of innovation and growth

Canadian equity exchange-traded funds (ETFs) had a significant head start with the first listing in 1990 – the first bond ETF didn't appear until nearly a decade later in 2000. As ETF growth and innovation sped up, the first actively managed bond ETF was listed in 2008, and the first actively managed equity ETF didn't hit the market until 2013.[1]

Since then, ETFs have continued to grow in popularity. Assets in Canadian-listed ETFs were over $300 billion in September 2021, and bond ETFs accounted for roughly 30% of total assets.[2] But our focus here is on actively managed ETFs, specifically active bond ETFs. And on a relative basis, active bond ETFs actually make up a larger percentage of total bond ETFs than active equity ETFs.

Manulife Investment Management





Source: Manulife Investment Management, Morningstar, as of May 31, 2021.

We believe the overall growth of ETFs indicates that investors have warmed up to benefits of ETFs, including lower costs, liquidity and tax efficiency – and seem to be getting more comfortable with investing in bonds through ETFs as well. And within bond ETFs, specialized strategies and active management are proving popular as investors find it difficult to generate income and worry about the impact of rising interest rates.

Since active bond ETF portfolio managers don't track a market index, they can incorporate credit research into security selection decisions – as well as adjust sector exposure – as a way to generate higher income and/or total return.

Active versus passive in bond ETFs

We think the changing composition of bond markets in the past decade is an important dynamic for actively managed bond ETFs, especially core strategies. Passive, index-linked core approaches have become much more concentrated in government debt and are more vulnerable to higher rates due to their longer duration.

Due to the U.S. Federal Reserve and quantitative easing, the size of the U.S. Treasury market has ballooned. For example, at the end of February 2021, Treasuries accounted for about 39% of the Bloomberg Barclays U.S. Aggregate Bond Index.[3] A similar story is playing out in Canada as the Bank of Canada now owns roughly 40% of Government of Canada Bonds, which make up 35% of the FTSE Canada Universe Bond Index.[4]

Also, interest rates are still incredibly low on a historical basis. This means investors in search of more yield may benefit from active bond ETFs that leverage deep networks and expertise in credit research, security selection and portfolio construction. For that reason, we believe an active approach makes sense versus a passive strategy that owns 'everything' in the broad market index.

Analysts utilize research to measure performance potential of individual bond issuers within each sector. Critical factors include:

- Business risk
- Financial risk
- Liquidity risk

An investment thesis supporting the buy, hold or sell recommendation of each issuer is developed.

A bright future for active bond ETFs?

There has been significant innovation in bond ETFs in recent years to meet investor demand for specialized strategies due to low interest rates and the potential risk of passive core approaches. More well-known bond managers are introducing active ETFs, while investors and financial professionals have grown more comfortable with bond ETFs. We think the next round of bond ETF growth will be driven by managers with proven track records, solid security and sector research and close attention to risk management.

To learn more about Manulife ETFs visit manulifeim.ca/etfs

SOURCES

[1] Manulife Investment Management, Bloomberg. [2] CETFA, NBF, as of May 31, 2021. [3] Bloomberg, as of 2/28/21. [4] Morningstar, as of May 31, 2021.

IMPORTANT DISCLOSURES

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Entering the world of cryptocurrency ETFs

As cryptocurrencies flash in and out of the business news, fuelled by interest from heavy-hitters like Tesla CEO Elon Musk, a growing number of smaller retail investors have been looking for ways to get exposure to this new, and somewhat mysterious, financial instrument.

Nash Swamy
Investment Data Analyst, Fundata Canada

Short of making the rather considerable – and risky – financial commitment to pure cryptocurrency, investors have had little choice. But now, investors have the ability to obtain Bitcoin and Ether exposure through an exchange-traded fund (ETF) vehicle.

The chief attraction for investors when selecting ETFs seems to start at cost or management fees. But when I spoke recently with Elliot Johnson, Chief Investment Officer and Chief Operating Officer at Evolve ETFs, he said investors should not solely focus on cost when selecting cryptocurrency ETFs for their portfolios. “When you are investing in Bitcoin, you are essentially investing in an 80% volatility asset class,” he said. He believes that at that level of volatility, a fund needs to minimize tracking error to maintain a balanced fee range. “This type of investment requires 100% deployment in the asset without affecting exposure as other unitholders buy or sell units of the fund,” he added.

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Johnson says that the Evolve Ether ETF (TSX: ETHR) and the Evolve Bitcoin ETF (TSX: EBIT) achieve 100% deployment, through CF Benchmarks, with the underlying price being traded OTC with futures based on spot rates. With this strategy, says Johnson, "you are essentially getting exposure to the underlying cryptocurrency at the best possible price…Basis risk is reduced for the market makers and hence we receive a better price in the end, which helps keep spreads thin."

ETFs generally follow a standard T+1 (transaction plus one day) settlement process. With this kind of speed, as an investor, you can rest assured that the price of the underlying security is close to the spot price of the asset you might see on cryptocurrency exchanges worldwide. It is important to note the benefits of trading over the counter (OTC), as you may have heard of the outages at exchanges or websites being overloaded with investors being unable to log into their accounts.

When buying directly with an online wallet, you are exposed to vulnerabilities a broker may have. When you deal over-the-counter with futures, you are not exposed to the excess liquidity risk that is characteristic of buying directly through a cryptocurrency exchange. Also, you lower your cybersecurity risk.

Gemini Trust Company LLC has been appointed custodian for nearly all active cryptocurrency ETFs in Canada. Gemini has received the highest level of security ratings in the space and is completely offline. Being specialists in the field, their internal controls are much better equipped to deal with potential breaches than a single investor. In the extreme case of a breach, Gemini also possesses insurance coverage. If you prefer to invest directly through an exchange, due diligence is needed on in-house internal controls and insurance coverage if offered by the broker for these specific tail risks.

Mr. Johnson also believes cyber risk is an important topic. He said, "You as an investor need to ask yourself where the operational risk is. Our team at Evolve uses a cold wallet that needs multiparty participation from Cidel, Gemini, and Evolve and is never connected to the Internet."

Investment implications

The discussion around cryptocurrency seems to change very swiftly from bearish to bullish in a matter of days. Social media has had dramatic effects on the asset class, as have botched approvals by the U.S. Securities Exchange Commission for an exchange-traded product. As an investor, it's important to be mindful of the increased risk of holding an asset that trades around the clock 365 days a year.

While the standard 60/40 bond-equity portfolio has slowly included liquid alternatives and other asset classes, it may be time to seek exposure to cryptocurrencies as an asset class. With the low correlation to equities and fixed income, investors stand to benefit from the increased diversification cryptocurrency may provide. The outlook for cryptocurrency remains positive, with institutional interest continuing to rise.

The accompanying table demonstrates that proper execution is key when investing in the cryptocurrency space, which is still in its infancy. The commoditization of the sector should occur with increased adaptation, which should even out the delta in the long-term. For the time being, lowest cost may not equal highest performance net of fees when compared with peers. Consider, too, a currency-hedged version, because with the added protection of a hedge, you lower your currency risk for a small, yet worthwhile, cost.

Building on trail-blazing Canadian ETF innovation, the world's first cryptocurrency ETF was launched in Canada in early 2021. There are now seven different Canadian fund sponsors offering exposure to either Bitcoin or Ether in a regulated and easily accessible ETF vehicle.

Mr. Johnson says that this year has marked several milestones for both Bitcoin and Ether adoption. He said, "The biggest players in the industry are intrigued and well versed in the space. Bitcoin is being looked at as digital gold and Ether has entered the realms of venture capital." With micro strategy rollouts at PayPal and Tesla, Mr. Johnson believes this participation rate should increase as more high profile firms and investors enter the space. Investors wishing to enter this market should always discuss their options with their financial advisors before making any decision.

Survey of Canadian cryptocurrency ETFs*

ETF Name and symbol	3-month return (%)	Management fee (%)
Evolve Ether ETF (ETHR)	40.473	0.75
3iQ CoinShares Ether ETF (ETHQ)	36.636	1
Horizons BetaPro Bitcoin ETF (HBIT)	36.505	1
Evolve Bitcoin ETF - CAD Units (EBIT)	35.506	0.75
Purpose Ether ETF - CAD ETF NC Hedged (ETHH.B)	35.23	1
CI Galaxy Ethereum ETF C$ Unhedged Series (ETHX.B)	35.048	0.4
3iQ CoinShares Bitcoin ETF(BTCQ)	34.309	1
Ninepoint Bitcoin ETF (BITC)	34.304	0.7
Evolve Ether ETF US$ (ETHR.U)	34.298	0.75
Purpose Bitcoin ETF -CAD ETF Non-Curr Hdg (BTCC.B)	33.646	1
CI Galaxy Bitcoin ETF - ETF C$ Unhedged (BTCX.B)	33.473	0.4
3iQ CoinShares Ether ETF (ETHQ.U)	30.718	1
Horizons BetaPro Bitcoin ETF US$ (HBIT.U)	30.592	1
Evolve Bitcoin ETF - USD Units (EBIT.U)	29.55	0.75
Purpose Ether ETF - USD ETF NC Hedged (ETHH.U)	29.333	1
CI Galaxy Ethereum ETF US$ (ETHX.U)	29.199	0.4
Purpose Ether ETF (ETHH)	28.813	1
3iQ CoinShares Bitcoin ETF US$ (BTCQ.U)	28.489	1
Ninepoint Bitcoin ETF US$ (BITC.U)	28.486	0.7
Purpose Bitcoin ETF -USD ETF Non-Curr Hdg (BTCC.U)	27.85	1
CI Galaxy Bitcoin ETF - ETF US$ Series (BTCX.U)	27.692	0.4
Purpose Bitcoin ETF - ETF Units (BTCC)	27.086	1

* Source: Fundata Canada. As at August 31, 2021.

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