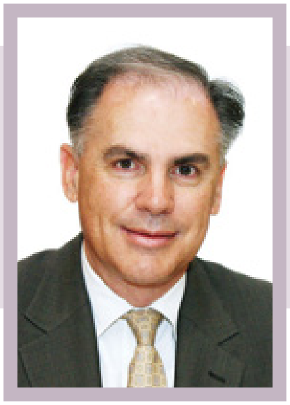
CANADIAN ETF Watch

SPRING 2021

CanadianETFWatch.com

ESG Integration and Clean Energy



Congratulations on making it through 2020. While the pandemic has not yet ended, what is becoming clear is that we will never go back to the way life was as there will be a new normal that we all must adjust to. While companies and organizations are determining what that will look like for their employees – you will have a hand in determining what the relationships with your clients will look like going forward. Will they remain more virtual – or will you go back to face-to-face office visits? Your clients will have many questions, and we are certain that you will have a range of answers to meet all of their needs.

What we have also seen is that clients took advantage of working from home to open up self-directed accounts. They may not want to manage their retirement savings, but they do want to have a more active role in their investments and this may be a perfect opportunity to introduce ETFs to your clients. 2020 was another amazing year for ETFs with inflows exceeding that of other types of products. The development of more thematic and active ETFs will also allow you to meet all of your clients' needs.

Later this quarter CETFA will launch an ETF screener on its website that will allow you to compare all Canadian ETFs so that you can more easily select the appropriate products for your clients. We hope that this, along with the CETFA ETF Guide and the ongoing education provided will allow you to add more ETF solutions into your clients' portfolio.

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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CONTENTS

ESG Integration and Clean Energy: A look at the two key themes playing out in the ESG ETF market

Despite the global pandemic and perhaps as a result of the market volatility it brought on, 2020 was a record year for ETF inflows both north and south of the border. It was also a banner year for ESG ETFs, which outsold any other sector or theme's inflows.

Erika Toth, CFA
Director
BMO ETFs

In fact, in Canada, ESG ETFs represented 91% of all inflows into the thematic ETFs. Though they represent only 1.5% of total Canadian ETF AUM, they punched above their weight accounting for 4.6% of total flow. South of the border, the same trend was evident. ESG ETFs accounted for $34 billion in inflows – four times their starting asset base. At the end of 2020, US-listed ESG ETFs accounted for some $189 billion in assets. (Source: National Bank Financial)

Institutional subscriptions drove creations; however, smaller retail creations are also growing at a steady pace.

Examining the flow of capital in ETFs, two key trends have become established when it comes to responsible investing:

1. **Demand for investment solutions that integrate all three aspects** – Environmental, Social, and Governance
2. **Demand for clean energy and lower carbon footprint solutions.** No longer just seeking to exclude the worst offenders. Not just avoiding the problem, but actively looking to invest and profit from solutions towards a greener planet.

The ESG integration approach has been sought out by large asset owners. MSCI is the largest provider of ESG research and indexes globally, and their MSCI ESG Aware and MSCI ESG Leaders indexes have attracted the bulk of the institutional dollars because they are transparent and rules-based, yet provide broad liquid exposure, low cost, low Tracking Error and robust monitoring.

One of the criticisms of ESG investing has been a lack of standardized data. However, great strides have been made over the last decade. ESG ratings have improved significantly and have become much more measurable.

MSCI has developed an intuitive scoring system similar to bond ratings. A composite score is calculated based on 37 key issues (see table, below), and a letter grade is assigned to the security (AAA and AA rated being leaders, single B, CCC being laggards).

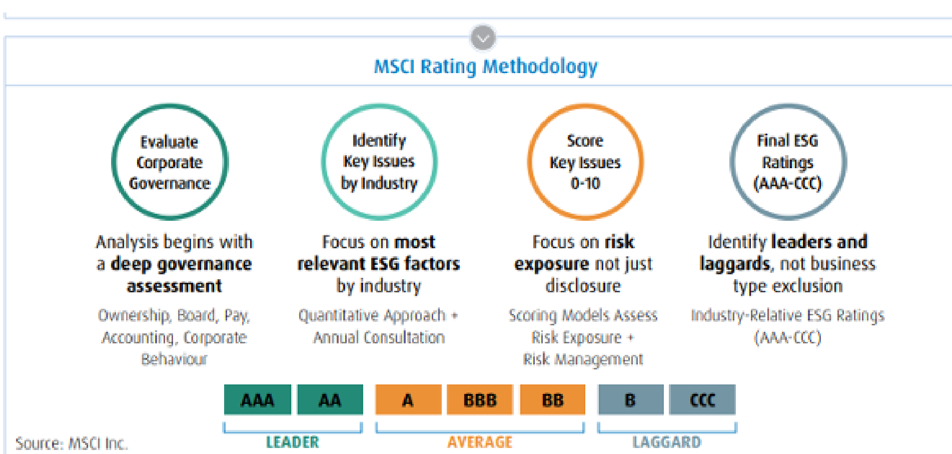
Figure 2 MSCI ESG Key Issue Hierarchy

3 Pillars	10 Themes	37 ESG Key Issues	
Environment	Climate Change	**Carbon Emissions*** Energy Efficiency Product Carbon Footprint	Financing Environmental Impact Climate Change Vulnerability
	Natural Resources	**Water Stress*** Biodiversity & Land Use	Raw Material Sourcing
	Pollution & Waste	**Toxic Emissions & Waste*** Packaging Material & Waste	Electronic Waste
	Environmental Opportunities	Opportunities in Clean Tech Opportunities in Green Building	Opp's in Renewable Energy
Social	Human Capital	**Labor Management*** **Health & Safety***	Human Capital Development Supply Chain Labor Standards
	Product Liability	Product Safety & Quality Chemical Safety Financial Product Safety	Privacy & Data Security Responsible Investment Health & Demographic Risk
	Stakeholder Opposition	Controversial Sourcing	
	Social Opportunities	Access to Communications Access to Finance	Access to Health Care Opp's in Nutrition & Health
Governance	Corporate Governance*	**Board**** **Pay****	**Ownership**** **Accounting****
	Corporate Behavior	**Business Ethics*** **Anti-Competitive Practices***	Corruption & Instability Financial System Instability

** indicates "universal" issues assessed for all companies in MSCI World*

*** Board, Pay, Ownership, and Accounting carry weight in the ESG Rating model for all companies. Currently, they contribute to the Corporate Governance score directly and 0-10 sub-scores are not available.*

(Source : MSCI)

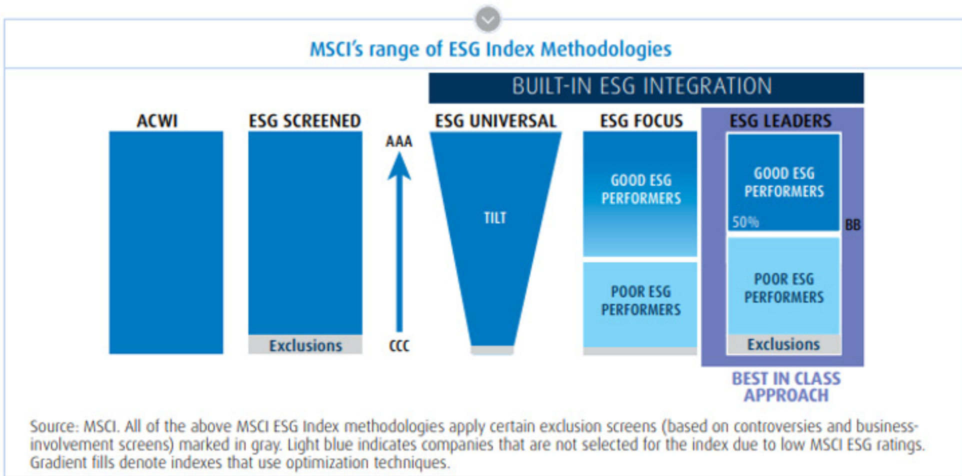


MSCI's ESG Scoring Framework

(Source : MSCI)

The **MSCI ESG Aware** indexes (which first appeared as US-listed ETFs in 2016) screen for positive ESG characteristics and seek risk & return characteristics similar to the respective parent index. They exclude companies involved in severe controversies (civilian firearms, controversial weapons, tobacco, certain levels of revenues derived from thermal coal or oil sands).

The **MSCI ESG Leaders** indexes are similar to the ESG Aware indexes, but select only the highest rated companies within each sector, while maintaining 50% of total market capitalization - ensuring similar risk/return characteristics to the broad index. These indexes exclude companies involved in those same controversial businesses mentioned above. The Leaders indexes tend to have a higher ESG rating versus the Aware indexes and a higher quality score overall, so they can be considered a refinement of the ESG Aware indexes.



(Source : MSCI)

It can be onerous and costly for any inestor, to add ESG due diligence to their analysis process for individual securities. These indexes are great tools to outsource this additional due diligence without sacrificing returns, and while helping to mitigate headline risk associated with individual securities that may arise from poor governance or oversight of social or environmental issues.

BMO offers a full suite of MSCI ESG Leaders index ETFs, core portfolio building blocks providing access to equities and fixed income across the globe.

The second trend is a shift towards clean energy and reducing reliance on fossil fuels. This also coincides with a change in administration in the US. A key aspect of President-Elect Biden's platform is to invest in clean technologies as a way to reboot the economy and to create jobs. The US-listed ICLN ETF took in $900 million dollars last year (the bulk of it in the last quarter), making it the largest clean energy ETF globally with assets under management of close to $5.5 billion USD (Source: National Bank Financial).

ICLN tracks the S&P Global Clean Energy Index, a market-cap-weighted index of 30 of the most liquid companies involved in businesses such as biofuels, ethanol, geothermal, hydroelectric, solar and wind industries (Source : ETF.com). This index is not new; the US-listed product has been trading since 2008.

Other products in the space are focused on low carbon targets, and sub-sectors found within the S&P Global Clean Energy Index (such as wind and solar).

BMO is proud to have launched BMO Clean Energy Index ETF, ZCLN, which tracks the same index (S&P Global Clean Energy). There are several advantages to buying the Canadian-listed version: no currency conversion, and no US Estate Tax exposure.

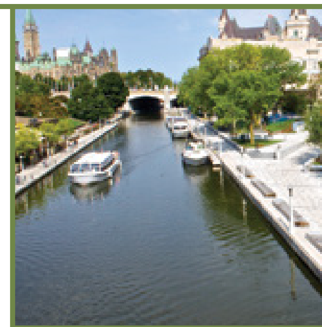
While the change of leadership stateside makes this a timely trade, the threat of climate change will unfortunately be with us for longer than any political party in power. Tools like these make it possible for investors to align their portfolios with their values in order to help affect change on a larger scale.

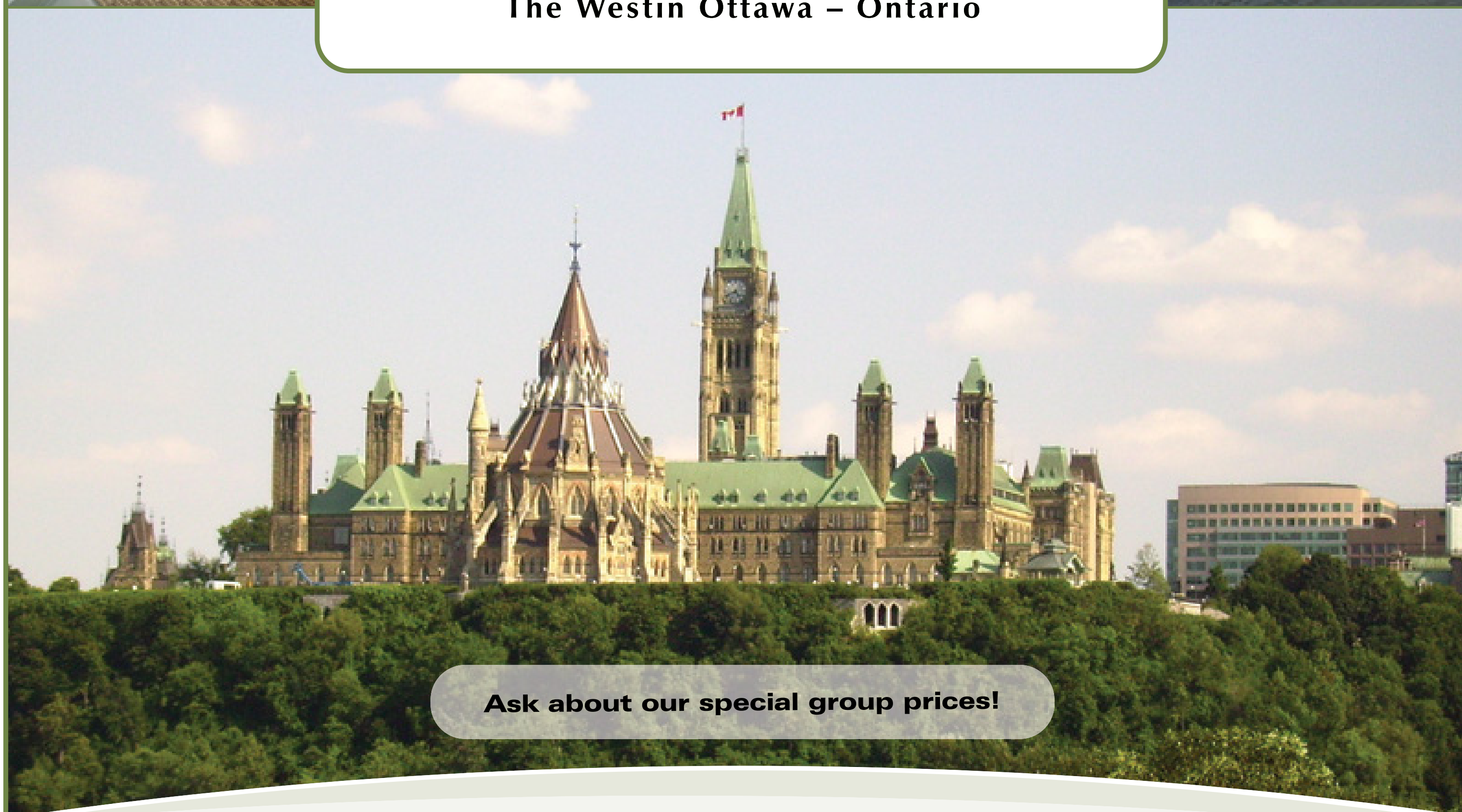
CIFPs

19th Annual National Conference - 2021

Sunday, November 21st - Wednesday, November 24th

The Westin Ottawa – Ontario





The Financial Planning Conference featuring:

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Comparing Defensive Factors During the Last 3 Bear Markets

In the factor world of investing, Low Volatility and Quality have been commonly referred to as defensive factors. The following is an examination of the performance of the S&P 500 Quality Index and the S&P 500 Low Volatility Index compared to the S&P 500 during the last 3 equity bear markets.

Andrew Neatt
Private Investment Advice,
TD Wealth

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

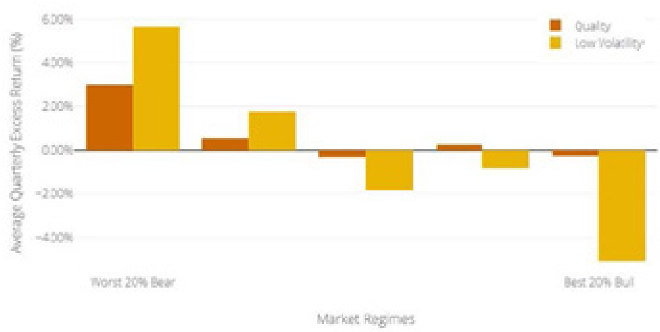
The graphs and data in this report are generated from the Optimal Asset Management's Factor Allocator Tool.

Before we examine this performance it is important to understand why Quality and Low Volatility have been considered defensive factors. There are multiple reasons why they have been considered defensive but here are three good reasons. First of all, they have historically exhibited less volatility as measured by standard deviation on a consistent basis. The graph below compares the annualized volatitity over the past 1, 3, 5, and 10 year periods ending July 31, 2020 of the S&P 500 Index, S&P 500 Quality Index, and S&P 500 Low Volatility Index.

Another reason is that over the long term, the maximum drawdown of each of these indices has not matched the extent of the maximum drawdown experienced by the S&P 500 as shown in the table below (period examined is from January 3, 1995 to July 31, 2020):

	Max drawdown
S&P 500 (benchmark)	50.95%
S&P 500 Quality Index	44.40%
S&P 500 Low Volatility Index	35.36%

A third reason, on average the S&P 500 Quality Index and the S&P 500 Low Volatility Index have outperformed the S&P 500 during the worst equity market regimes. To support this point, the following graph shows the average quarterly excess returns of the S&P 500 Quality Index and S&P 500 Low Volatility Index compared to the S&P 500 Index over a variety of market regimes ranging from the worst bear markets to the best bull markets during the period of January 3, 1995 to July 31, 2020.



At the time of writing we are currently at or near all-time highs for the S&P 500 only a few months after the most recent equity bear market low so it is timely to compare the performance of these defensive factors during this year's equity bear market to the previous two equity bear markets.

Each of the following three bear market comparisons examine the performance over an 18-month period that include similar time frames pre and post equity market low. For example, the 2002 analysis includes 88 days of recovery after the low of 2002, the 2009 analysis includes 116 days of recovery after the low of 2009, and the 2020 analysis includes 102 days of recovery after the most recent low.

First, the following is a look at the equity bear market of 2002:

Cumulative Summary

	Returns	Excess Returns	Volatility	Excess Volatility
Low Volatility Cropped from 2001-07-01 to 2002-12-31 [2001-07>>2002-12]	-14.61%	10.36%	17.71%	-6.98%
SP 500 Cropped from 2008-01-01 to 2009-06-30 [2008-01>>2009-06]	-24.97%	N/A	24.69%	0.00%
Quality Cropped from 2008-01-01-2009-06-30 [2008-01>>2009-06]	-20.01%	4.96%	23.13%	-1.56%

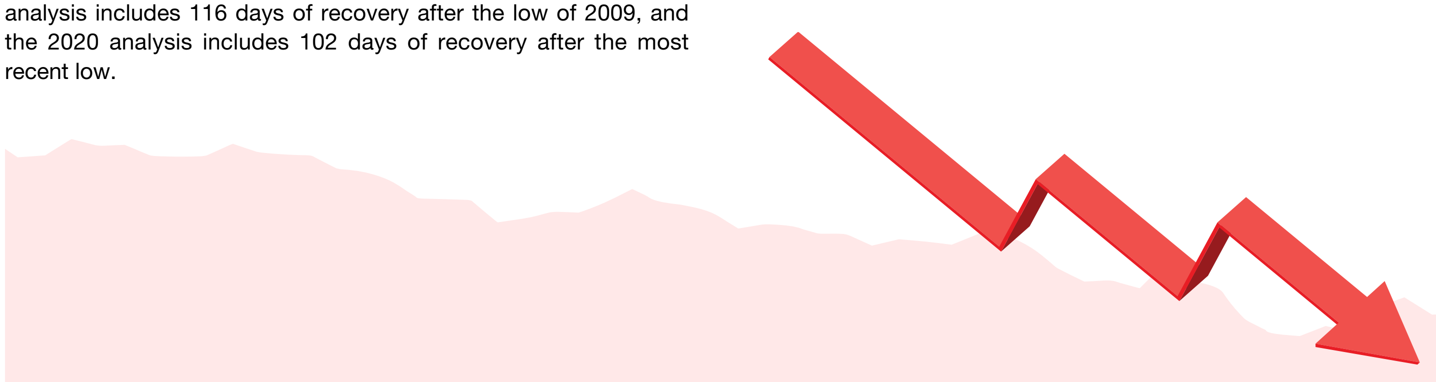
Finally, the most recent bear market:

Cumulative Summary

	Returns	Excess Returns	Volatility	Excess Volatility
Low Volatility Cropped from 2019-01-01 to 2020-06-30 [2019-01>>2020-06]	7.14%	-10.40%	17.02%	-3.37%
SP 500 Cropped from 2019-01-01 to 2020-06-30 [2019-01>>2020-06]	17.54%	-0.00%	20.40%	N/A
Quality Cropped from 2019-01-01-2020-06-30 [2019-01>>2020-06]	19.89%	2.34%	18.96%	-1.44%

After examination of these three tables, one can see the consistent reduced volatility associated with the S&P 500 Quality Index and the S&P 500 Low Volatility Index compared to its parent benchmark, the S&P 500 in the past 3 bear markets. When it comes to returns, the S&P 500 Low Volatility Index and the S&P 500 Quality Index both outperformed in 2002 and 2009. However, in 2020, while the S&P 500 Quality Index outperformed the S&P 500 again, the S&P 500 Low Volatility Index underperformed.

The posts on this blog are opinions, not advice. Please read our Disclaimers at: https://www.spglobal.com/spdji/en/disclaimers/.



2021/22 CALENDAR OF EVENTS

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Exchange Traded Forum (ETF Vancouver) 11th Annual

Monday, November 1, 2021 ~ Vancouver, British Columbia

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

ExchangeTradedForum.com

VANCOUVER

Retirement Canada Dialogue 3rd Annual

Tuesday, November 16, 2021 ~ Toronto, Ontario

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 2021

RetirementInstituite.ca

Exchange Traded Forum (ETF Toronto) 12th Annual

Wednesday, Nov. 17 & Thursday, Nov. 18, 2021 ~ Toronto, Ontario

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 FORUM2021

ExchangeTradedForum.com

TORONTO

WAIS Canada 21st Annual

Monday, June 6 ~ Tuesday, June 7, 2022 ~ Niagara Falls, Ontario

WAIS Canada is in its 20th 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 2022 CANADA

waisc.com

Institutional Dialogue 11th Annual

Monday, May 2 ~ Tuesday, May 3, 2022 ~ 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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ETF & Investment Forum London 2nd Annual

Fall 2022 ~ London, United Kingdom

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.

ETF & INVESTMENT FORUM 2022
RadiusEurope.com
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.

Sustainable Investing for Both Values and Value

Sustainability has never been more central to investing. For decades, "socially responsible" or "ethical" funds, which excluded businesses involved in activities like gambling and tobacco, occupied a small niche within the investment landscape.

Dan Lefkovitz
Strategist,
Morningstar Indexes

Such strategies were marketed to investors looking to "align their portfolios with their values."

Today, centering environmental, social, and governance criteria in the investment process is as much about value as values. ESG issues are increasingly considered material financial risks. Investors incorporate factors like climate vulnerability, corporate commitment to diversity, and business ethics because these factors impact the bottom line. Sustainalytics, a Morningstar Company and a leading global provider of ESG research and ratings, calls its flagship corporate assessment the "ESG Risk Rating," focusing on issues most likely to effect business results.

Meanwhile, sustainable investing has emerged from its niche and is growing across the globe. What was once primarily an institutional phenomenon has moved onto the retail level. And the shift from active to passive management has strengthened the marriage of ESG and ETF.

MORNINGSTAR®

According to Morningstar data:

- European sustainable fund and ETF assets grew 52% in 2020 to EUR 1.1 trillion, with 505 new funds launched in the year. ESG ETFs grew 156% to EUR 82.5 billion.

- US sustainable fund and ETF assets attracted $51 billion in assets in 2020 to surpass $250 billion. Of the 71 newly launched funds, 29 were ETFs.

- Canadian sustainable fund and ETF assets grew 67% to CAD 13 billion in 2020, with 41 new funds launched, half of them passive.

Like so many long-running trends, sustainable investing was accelerated by the events of 2020. The coronavirus pandemic and the societal inequities it laid bare, the global movement for racial justice, and the ongoing threat of climate change all reinforced the relationship between investing and environmental, social, and governance-related issues. “Stakeholder capitalism” became a mainstream concept. Regulators, especially in Europe, continued to provide important impetus, while efforts to improve and standardize ESG reporting and data, such as the Sustainability Accounting Standards Board, the Task Force on Climate-related Financial Disclosures, and the Global Reporting Initiative gained steam.

What About Performance?

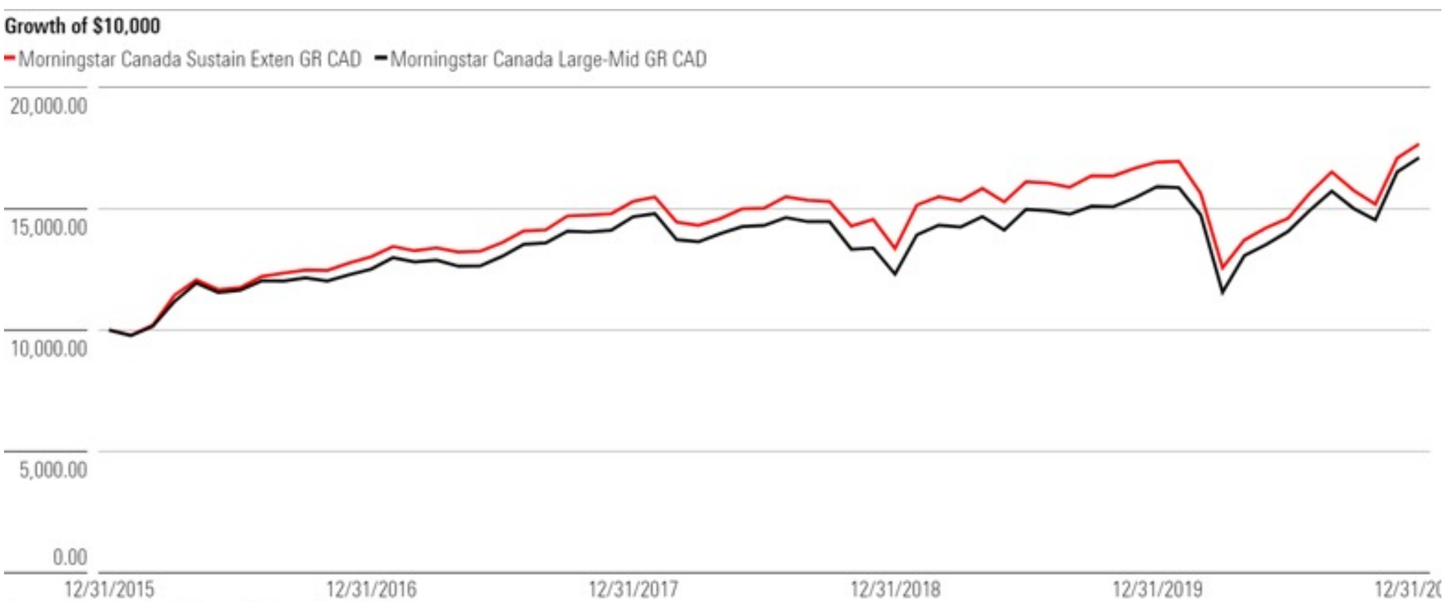
A perception still lingers that sustainable investing requires a return sacrifice. Many investors report that their financial advisors dismiss their interest in sustainability citing likely underperformance. To probe this issue, Morningstar conducts an annual analysis of its lineup of ESG-screened indexes, which leverage Sustainalytics’ ESG Risk Ratings. The latest study, comparing roughly 70 unique indexes to the broad market benchmarks from which they are derived, found:

- 75% outperformed their broad market equivalents in 2020

- 88% outperformed for the 5 years through the end of 2020

- 91% lost less than their broad market equivalents during down markets over the past 5 years, including the first quarter of 2018 and the bear market of February-March 2020

Among the Morningstar indexes studied were three tracked by TD ETFs: TD Morningstar ESG Canada Equity Index ETF, TD Morningstar ESG U.S. Equity Index ETF, and TD Morningstar ESG International Equity Index ETF. These indexes are methodologically aligned with Morningstar Sustainability Rating for funds (popularly known as the “globe rating”). After excluding businesses involved in tobacco, weapons, and companies embroiled in serious ESG-related controversies, the indexes select large- and mid-capitalization stocks with low levels of ESG risk as assessed by Sustainalytics, targeting 67% coverage of market value. In order to provide market-like exposure, sector and regional weights are kept within 2 percentage points of their equivalent market weight, and index constituents are weighted by market cap. Using historical Sustainalytics ratings, the indexes’ five-year returns were simulated. All three outperformed their non-ESG equivalents over the trailing 5-year period through the end of 2020, and with lower risk.



Source: Morningstar. Data as of December 31, 2020.

Another common assumption is that ESG screens have led to good performance in recent years because they skew toward the technology sector, which has led the market, and away from energy, the biggest laggard. Morningstar's study found that ESG outperformance is only partly about sector bias. Performance attribution reveals that ESG indexes achieved superior returns through both security selection and sector weights.

Taking the index that underlies the TD Morningstar ESG Canada Equity Index ETF as an example:

- 240 basis points of excess return for the 5 years through 2020 can be attributed to sector weights.
    - o The ESG index's avoidance of the healthcare sector was a big contributor, where constituents like Aurora Cannabis, Bausch Health Companies, and Cronos Group, dragged on the broad Canadian equity market's returns.
- 250 basis points of excess return for the 5 years through 2020 can be attributed to security selection.
    - o Above-market weight to stocks like Royal Bank of Canada, Canadian National Railway, and TC Energy contributed to the ESG index's 5-year outperformance.

The ESG – Quality Connection

The resilience showcased by Morningstar's ESG indexes in down markets is perhaps more encouraging than their relative returns. Morningstar and Sustainalytics have observed a strong relationship between ESG Risk and economic moat, a forward-looking measure of corporate quality. Companies with economic moats, or sustainable competitive advantages, tend to carry less ESG risk and experience lower volatility. Risk attributes tend to be more stable than returns, and lower-risk investments create a good investor experience.

The relationship between quality and ESG speaks to the materiality of ESG factors. Thoughtful environmental stewardship is not just good for the planet, it also allows a company control costs, avoid damaging incidents, and position itself for tomorrow's economy. Encouraging diversity, equity, and inclusion benefits society but also enhances decision making and helps attract and retain talent—critical in the knowledge economy. Good governance improves management.

As the new normal of the post-pandemic world takes shape, there's little doubt that ESG investing will only become more mainstream. Not only are sustainable assets likely to grow, but the materiality of ESG issues will become more accepted. Sustainable investments will increasingly be for investors focused on both values and value.

About Morningstar Indexes

Morningstar Indexes combine the science and art of indexing to give investors a clearer view into the world's financial markets. Our indexes are based on transparent, rules-based methodologies that are thoroughly back-tested and supported by original research. Covering all major asset classes, our indexes originate from the Morningstar Investment Research Ecosystem—our network of accomplished analysts and researchers working to interpret and improve the investment landscape. Clients such as exchange-traded fund providers and other asset management firms work with our team of experts to create distinct, investor-focused products based on our indexes. Morningstar Indexes also serve as a precise benchmarking resource.

To learn more about Morningstar Indexes, visit: https://indexes.morningstar.com/

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TORONTO
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- Mutual Fund Advisers
- Life Style Planners
- RRC/CR License Holders
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How to Build the (Nearly) Perfect Hedge

The story behind the AGF anti-beta strategy that has been helping protect investors from market meltdowns for a decade.

Bill DeRoche
MBA, CFA,
Chief Investment Officer and Head of AGFiQ Alternative Strategies, AGF Investments LLC

Some people thought we were crazy.

More than a decade ago, my team and I had an idea to develop a different kind of hedging strategy. Our goal was to find a way to take advantage of certain stock market characteristics that had been demonstrated time and again over the previous hundred years. The first was that low-volatility stocks often outperform high-volatility stocks – a fact that runs contrary to the axiom that higher risk generates higher reward. The second involved market downturns and upturns. Given how stock markets tend to rise over time, you might assume that periods of increasing returns would be more dramatic than periods of declining returns. But that's not really the case. In fact, as a growing body of academic literature pointed out in the aftermath of the Great Financial Crisis, market downturns tend to be more pronounced – bigger – than market upturns, which tend to play out in smaller increments. In short, the market might go up over time, but it usually does so slowly; when it goes down, it usually goes down fast. Or, to put it another way, the market takes the escalator up, but the elevator down.

How, we asked ourselves, could we develop an approach that might help investors take advantage of this anomaly and this asymmetry, while protecting their portfolios from the tail risk of a market meltdown? In its bare bones, our answer was this: an alternative strategy that would be long on low-volatility (low-beta) equities and short on high-volatility (high-beta) equities. Low-beta stocks, we reasoned, would be better insulated against downturns than the broader market but still generate returns, while short positions on high-volatility stocks would reap the benefits when the market fell.

Simple, right? And it worked. We rolled out our strategy in 2011, which seeks to track the Dow Jones U.S. Thematic Market Neutral Anti Beta Index. Since then, the strategy has consistently generated positive returns when the rest of the market was falling. Since then, the strategy has consistently generated positive returns when the rest of the market was falling. Among the most recent examples, during the February/March COVID-19 crash, the fund returned nearly 11% while the S&P 500 Index fell by more than 33%. That's precisely what a market hedge is supposed to do: protect and perform during so-called long tail events. Yet as simple as our idea was, and as successful as it's been over the past decade, the path to this nearly perfect hedge was far from easy – and we had our doubters.

When we began thinking about the low-volatility hedging strategy, we were interested in developing portfolio tools that would let investors capture pure factors – approaches that would isolate potentially return-generating stock attributes from other more general attributes. Value, momentum and company size (for example, small-cap versus large-cap) are commonly applied factors, and we developed strategies that focused on those as well. But we were particularly excited by the potential of the low-volatility factor. The challenge was that it was also the most complex to develop into an actual strategy.

It took us months, not just because of the technical difficulty, but also because our team went back-and-forth on a central question: beta exposure. With other factors, like value or market capitalization, the difference in beta exposure (that is, the difference between broad market volatility and portfolio volatility) is a relatively minor issue. But with our low-beta strategy, it would be meaningful, to the point where the overall portfolio could have a negative beta, meaning that it would be inversely correlated with the market. The concern – shared with us in no uncertain terms by many of the outside experts we consulted – was that the "insurance" we offered investors would be a huge drag on their portfolios when markets went up, which they do more often than not.

This was a matter of serious internal debate on our team. We could have adjusted for negative beta by fiddling with the strategy's long/short allocation and cash positions. Or we could have added a forecasting element to the strategy – trying to pick winners to boost returns when the market rose. Yet there were problems with both those "fixes." Forecasting would have made our strategy less faithful to the factor we were trying to isolate; achieving beta-neutrality would have undermined our ability to exploit the asymmetry between downturns and upturns. So, in the end, we decided to keep the strategy dollar-neutral – that is, allocate assets equally to long low-volatility positions and short high-volatility positions, even if that meant the resulting portfolio had a negative beta.

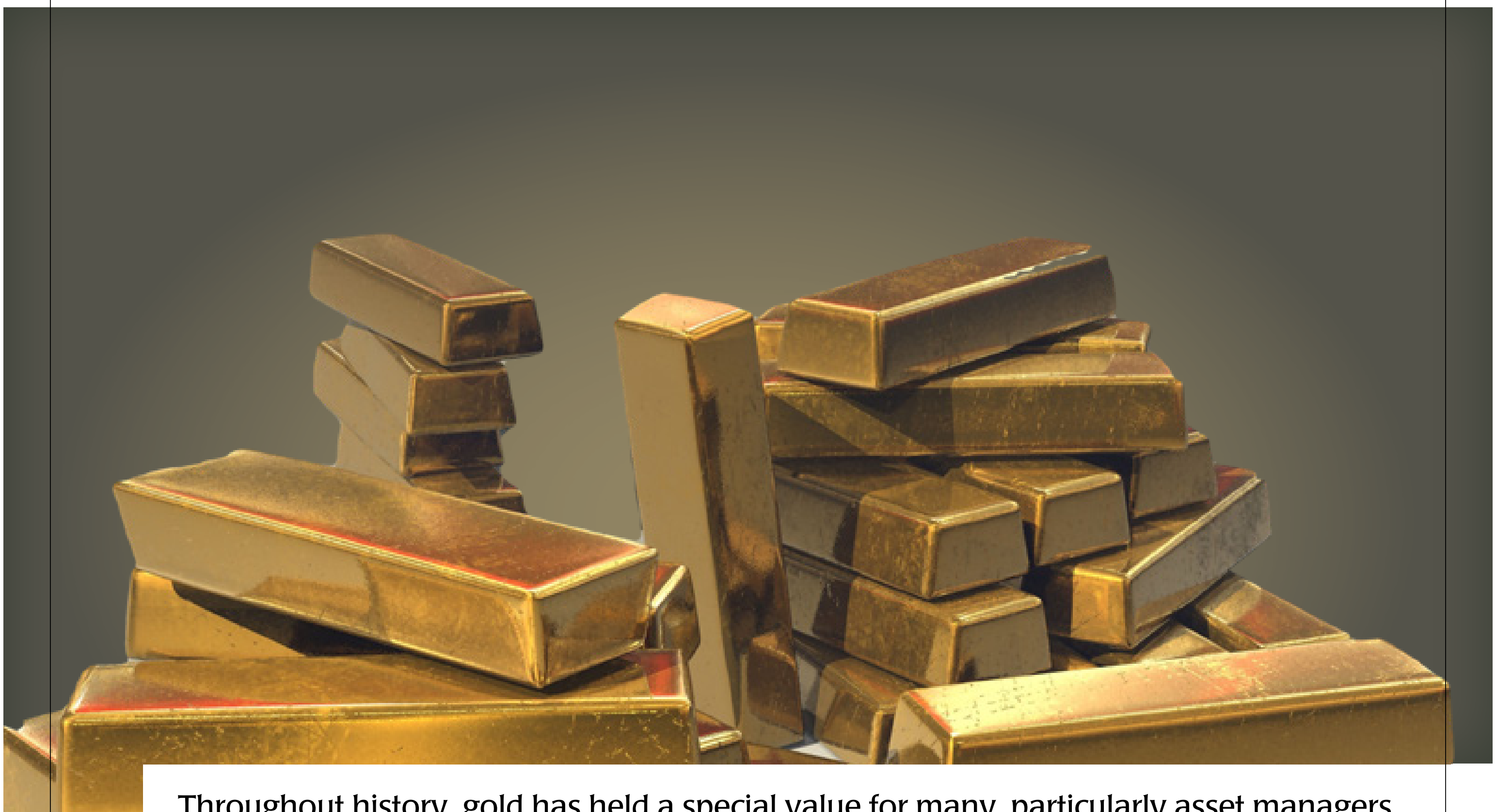
This was pretty radical, and for some years after rolling out our strategy, it looked like our timing could not have been worse. The ETF industry back then was not nearly as sophisticated as it is now, and in that respect we were probably too early. More importantly, in 2011 equities were only two years into what would become a decade-long rally. For a long time, we debated whether we had made the wrong decision in making the strategy dollar-neutral; the bull seemed to be outrunning our strategy. But we became more comfortable with it as we saw what it could do during downturns – for instance, when fears over trade wars and U.S. government shutdowns sparked market declines and the long/short low-volatility/high-volatility approach paid off. And then, this year, the pandemic hit, and our strategy not only protected against the huge downside, but also produced strong returns during the worst of the correction.

Since we launched the anti-beta strategy, the financial industry's understanding of low volatility and the downturn/upturn anomaly has deepened and grown more nuanced. But it remains a unique offering, and it has withstood the test of time. We have also found that our strategy can – and often does – deliver positive returns even when the broader market is gaining; because of its exposure to low-beta stocks, it is not simply an inverse hedge to the index. Not that the strategy doesn't have bad days: it suffered its worst one-day performance ever on Nov. 9, 2020, caught between a terrible trio of a strong market upswing, a rotation into high-volatility stocks and a wave of short-covering. Yet that's the reality of hedging: it can cut both ways.

A decade ago, we assumed our value strategy would prove to be our most successful, but today the anti-beta approach has more than proven its mettle while value strategies in general have floundered. And we see further applications going forward. For instance, with bond prices high and yields low, a long/short low-volatility portfolio could take on a bigger role for investors as a fixed-income adjunct while serving a similar equity hedge function. And the importance of insurance has not gone away. Even though stocks have rebounded from the dark days of late winter, their current high valuations only support the wisdom of protecting against another downturn over the long term. As 2020 has more than amply shown, nobody can really see the next meltdown coming, so it only makes sense to build some defences before it happens.

That's not such a crazy idea, is it?

The Gold Standard



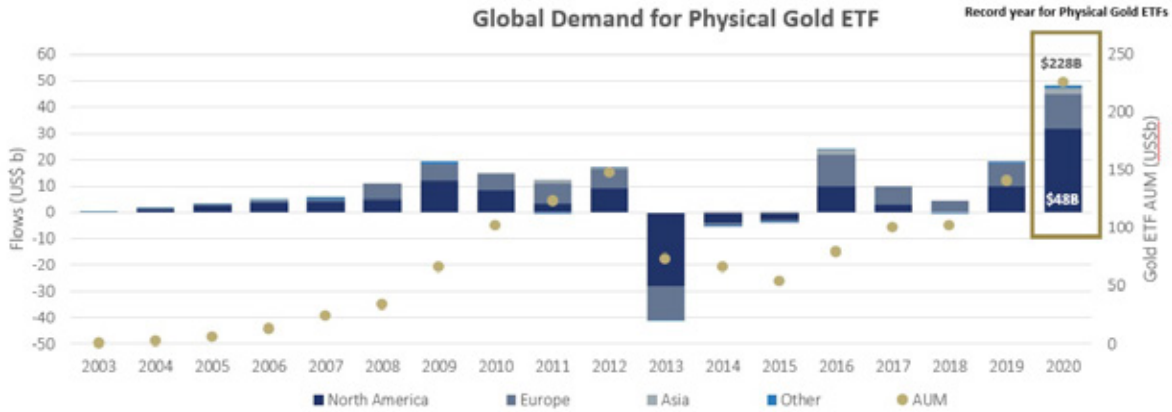
Throughout history, gold has held a special value for many, particularly asset managers. Physical gold has long served as a global store of value, and over time has taken on various forms ranging from gold coins to more modern vehicles, such as ETFs.

Nirujan Kanagasingam
Director,
ETF Strategy

The same macro trends emerging today, which have portfolio managers looking to digital assets or liquid alternatives to reduce risk, may also warrant a closer look at gold bullion.

Historically, gold bullion has been sought after as refuge in times of geopolitical and macroeconomic uncertainty. Gold's diversification benefits and its low correlation to other major asset classes renders it an effective and widely used tool in portfolio management. The inclusion of gold in a diversified portfolio has shown positive benefits in both potential return and risk profiles, which is likely why 2020 saw a record flow of assets to physical gold ETFs, with approximately US$48 billion in flows recorded over the calendar year.

CI GLOBAL ASSET MANAGEMENT

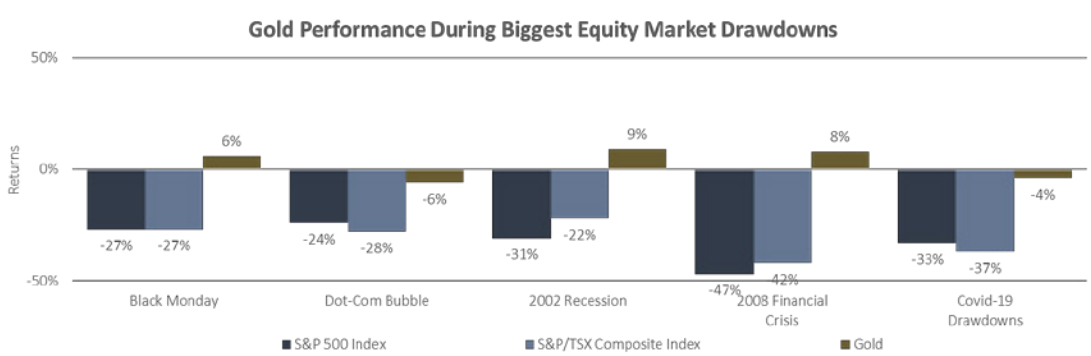


Data as at December 31, 2020. Sources: Bloomberg, Company Filings, ICE Benchmark Administration, World Gold Council.

To understand the rationale behind this, let's consider the some of the reasons investors have typically looked to physical gold as an investment:

- **Weakness of the U.S. dollar** – As an important reserve currency, any weakness in the U.S. dollar has traditionally led to a rise in the price of gold. Declines in currency can happen for any number of reasons, but budget and trade deficits, as well as large increases in money supply, are widely accepted drivers of a weak dollar.
- **Inflation hedge** – The physical nature of gold and its store of value has historically meant that gold protects purchasing power better than other assets.
- **Geopolitical uncertainty** – In times of rising political tension or when a flight-to-safety occurs, gold traditionally fares well. Gold prices often react favourably in periods where confidence in governments is low.
- **Deflation** – When business activity decreases, prices retreat, and society is overburdened with debt, deflation can occur and makes the relative purchasing power of gold more attractive.

While nobody knows exactly what the future may hold, these issues and the risks they present to portfolios are on the minds of many advisors and investors. With interest rates at record lows and many pondering the probability of negative real rates, it's worth remembering that gold tends to exhibit a low correlation to real interest rates. It may also be worth noting that in all major equity drawdowns experienced in the 2000s — from the "dotcom bubble" through to COVID-19 — gold has outperformed both the S&P 500 Index and the TSX Composite Index. More impressively still, over time gold has outperformed all fiat currencies.



Source: Morningstar Research Inc., data from January 1, 2001 to November 30, 2020. Asset classes represented by the following indices — Canadian Aggregate Bond: FTSE Canada Universe, US Aggregate Bonds: Bloomberg Barclays US Aggregate Bond Index, Global: MSCI AC World Index; U.S. Equities: S&P 500; Canadian Equities: S&P/TSX Composite Index, European Equities: MSCI Europe Index; International Equities: MSCI EAFE Index. Source: Morningstar Research Inc., as at November 30, 2020. 2008 Financial Crisis from Aug 11, 2008 to Mar 9, 2009, Covid-19 Drawdown from Feb 19, 2020 to Mar 23, 2020. Black Monday from Aug 25, 1987 to Dec 4, 1987. 2002 Recession from Mar 19, 2002 to Jul 23, 2002. Dot-Com Bubble from Sep 29, 2000 to Apr 4, 2001.

So, what should investors be considering when evaluating investment in physical gold?

Safe storage, cost and liquidity concerns have long been challenges in owning physical gold bullion. Indexes have been credited with the democratization of investments, and the benefits and innovation provided by the ETF wrapper with gold bullion ownership are no different. At CI Global Asset Management, we recently launched **CI Gold Bullion Fund (TSX: VALT & VALT.U)** specifically to address these concerns. Not only is the physical gold stored securely in London by J.P. Morgan bank, but the structure of the ETF market ensures liquidity at a low cost. The management expense of 0.155% makes it the most cost-effective gold bullion ETF currently available in Canada.

The investment landscape will continue to evolve and present both perils and opportunities. Investment products and investor needs of increasing complexity will continue to present challenges; some investors may benefit from revisiting investment concepts that have stood the test of time. Owning physical gold bullion as part of a diversified investment portfolio may help improve the risk and return profile of certain investors. It is wonderful to see ETFs continue to evolve and enable all Canadian investors to access these opportunities.

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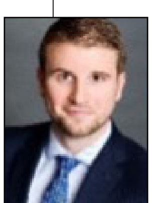
Don't fall prey to the dividend trap

Choosing the highest dividends today may come at a cost tomorrow



Robert Wernic
Director of ETFs, Manulife Investment Management

Given the current trend of low interest rates, there has been a global "search for yield" beyond bonds as people seek investments that provide an income. Dividend-paying companies are a primary destination and gaining in popularity.

As the spotlight grows on dividend-paying companies, it is important that investors not simply choose the highest dividend yields available but also make sure they are investing in a high-quality source for that dividend. As in all things, quality matters.

Finding high-quality dividends requires a lot of research, which can be costly and prohibitive. For investors to truly benefit, they need an efficient way to access dividend-paying companies. Let's first look at why dividends are often a suitable choice for investors focused on income-generation.

Dividends are historically an important source for income and total return

Dividends play an important role in the total return produced by equity securities. In fact, dividends have represented over 45% of the 9.8% annualized total return that the S&P 500 Index has generated from 1910 to 2019.1

Sources of annual return by decade

Dividend contributions to total return (which includes capital gains, interest, dividends and distributions as opposed to just capital gains) have also been greater when the market's total return was in single digits than in double digits. This heightened contribution during more muted market conditions helps provide income and security when it's most needed.

Investors have relied on dividends for decades – and dividend-paying companies in general have not disappointed by rewarding investors with stability, income and growth potential. But digging deeper into the category of dividend-paying companies, we will quickly uncover that not all of these securities are created alike.

Understanding the dividend trap – and how to avoid it

Investors beware: sometimes a company's high dividend yield is the result of a negative event or a sign of corporate instability. Exposure to these companies is not always obvious. For example, passive market-capitalization exchange-traded funds (ETFs) provide exposure to the entire cohort of dividend-payers regardless of quality, which exposes investors to those risks.

It is critical to look closer at the underlying fundamental factors causing a company's dividend yield to be high in the first place. By doing so, investors can potentially avoid the "dividend yield trap." That is, avoid investing in a potentially lower-quality company that garners attention with a high dividend yield.

Important questions investors should ask when researching dividend-paying companies include: Is the dividend artificially high because the stock price is under pressure due to legitimate concerns about the short- or long-term viability of the company? Is the dividend payout unsustainable? Is the company funding their high dividend through debt? Unfortunately, a passive market-cap ETF cannot ask those questions.

Chart about hidden reasons behind passive dividend ETFs. Unpredictable payouts, debt-funded payouts, high payout limits future growth and high dividend yield due to stock price drop.

These issues matter because a dividend that is too high can force a company to cut its dividend in the future if there is a drop in earnings, negative corporate news or a broader challenge such as the financial crisis of 2008-2009. These are common occurrences. Investors need to tighten the focus of their search and look beyond high dividends toward sustainable and growing dividends.

Finding the sweet spot

The best performance comes from dividend-paying companies with stable and growing dividends, not from the highest-dividend payers. It is not obvious at first sight, but it makes a big difference for investors over the long term.

Bar chart. Stocks listed on the New York Stock Exchange or broken down into quintiles. The first quintile pays no dividend, the fifth quintile pays the highest dividend. The third and fourth quintiles exhibit the best risk adjusted returns over last 20 years.

The highlighted range of dividend-paying companies not only outperformed the highest dividend-paying companies and lowest paying dividend companies but also the overall market. And it did so by exposing investors to the lower levels of risk, as measured by standard deviation. This area of the market provides stability and risk-adjusted returns over time.

How to efficiently access high-quality dividends

We prefer a strategy that systematically invests in dividend-paying companies and avoiding the dividend yield trap while maintaining a focus on growing and stable income.

The Manulife Beta Management team's unique investment process is highly disciplined and controlled to screen for growing and stable dividend-paying companies with five important characteristics:

- Liquidity
- Dividend sustainability
- Payout ratio
- Dividend growth
- Yield

A company only enters the quality dividend universe if it passes the Team's screen. The Team then applies a set of factors to produce a portfolio of dividend-paying companies that come from the sweet spot of consistent and growing dividends. This is how Manulife Investment Management helps investors avoid the dividend value trap.

In fact, systematically identifying and side-stepping dividend yield traps is at the core of the Team's approach. The result is an improved way to access the dividend universe through an efficient ETF designed for investors looking for a stable source of income.

Dividends are an established and important source of income for investors. This trend will likely strengthen as the Canadian population ages and more people rely on their investments to provide an income in retirement. These investors need to avoid the dividend trap. To do so they may want to consider an efficient, time-tested strategy to invest in companies with stable, growing dividends.

Important disclosures

1 Source: Robert Shiller database from Yale University

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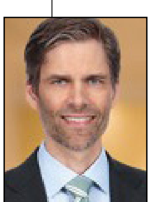
The Great Transition

The obligation to build a more sustainable economy has never been greater. Here's what it means for investors.



Martin Grosskopf
MBA, MES
Vice-President and Portfolio Manager, AGF Investments Inc.

"Finance is not going to solve climate change, but many of the investments and innovations that will are very capital-intensive. That's why it's so important for the financial system to steer capital to the most promising sustainable investments." - Tiff Macklem, Bank of Canada Governor, November 2020

The economic and social toll wrought by COVID-19 over the past year is without question. Government lockdowns to control its spread have caused one of the deepest and most abrupt global recessions in modern history. But the disease's long-term impact on society and financial markets may end up being even greater as it relates to its influence on how we deal with other systemic problems such as climate change. The pandemic has shone a brighter light on the magnitude and urgency of our environmental and social ills, and has reinforced the need for government, investors and corporate leaders to direct capital more effectively at enterprises that offer solutions to these complex issues.

Of course, in doing so, it has become that much harder to envision an investment landscape that does not end up being markedly different than it is today. Accelerating the transition of capital towards activities and business models that embrace sustainability and resilience will likely dictate market returns in the years ahead.

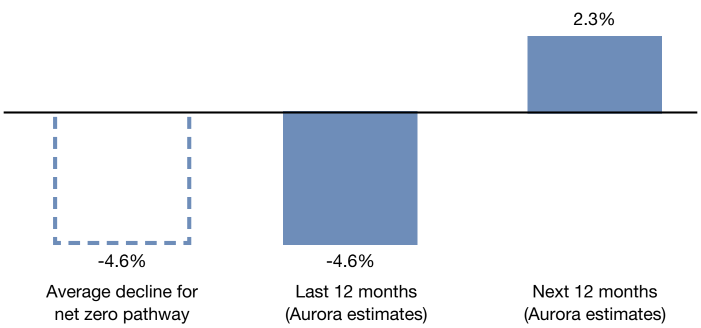
AGF

The best starting point for understanding all of this is the Paris Accord of 2015. It was there and then that governments from around the world agreed to limit global warming to at least two degrees Celsius – if not less – and set a goal of zero net emissions (i.e. absorbing the same amount of carbon as emitted) by 2050. At its core, the agreement is grounded in the science of climate change and is designed to avert many of the worst-case scenarios that would otherwise be associated with potential weather disasters in the future.

But the past year has demonstrated that in order to have any reasonable chance of meeting this 2050 objective, the scale of emissions reduction is almost unfathomable.

For example, the COVID-induced lockdowns have resulted in only a 4-5% reduction in global carbon emissions. This level of reduction would be an annual requirement moving forward in order to meet the 2050 zero net emissions long-term objective.

Figure 1 – Annual Change in Total Global Emissions



Source: UBS Research, as of September 2020

Although this seems improbable in practice, its daunting magnitude demonstrates the urgent need for increased regulatory action. Led by the European Union's Green Deal, for instance, governments around the world have begun targeting stimulus, first, at 'green' activities such as renewable energy, electric vehicles and building efficiency, but then also increasingly at so-called 'transition' activities. This latter target is much larger than the former and encompasses carbon-intensive industries which may or may not survive in a green economy. These include industries that are so integral to our day-to-day life they cannot simply be shut down and must instead be transitioned towards lower emissions, requiring a re-engineering of entire supply chains and production processes.

As investors, issuers and lenders begin to appreciate the scope of the change required, the opportunities have become just as important as the risks. As we have long proposed (and highlighted by the quote above by Bank of Canada Governor Macklem), capital incentivized by governments will begin to flow towards more sustainable activities and away from those with large environmental footprints. These flows will accelerate due to the fear of unmitigated climate change, but also in a relative race for technology leadership in the fields of renewables, batteries, electric vehicles, building efficiency, hydrogen and biomaterials.

These are areas of transition that one might expect an 'expert' in sustainable finance to highlight. After all, they are specifically environmental in nature and perhaps predictable. However, COVID-19 also lays bare other social arenas in full transition.

The shift in balance of power from shareholder to governments was underway prior to the pandemic, but US$12 trillion of global stimulus – according to the International Monetary Fund – has made obvious the inability of markets to direct capital in a fashion that would provide resiliency in the face of a major natural disaster or similar health crisis. Meanwhile, in a little over a decade since the Great Financial Crisis, increased government intervention in the form of helicopter money and the seeds of a universal basic income (theoretically temporary in nature, but more likely than not to be revisited in the next crisis) now seems to have been inevitable.

Certainly, little of the funding to date addresses the root causes of the pandemic – i.e. a virus that was passed from animal to human (like 60% of the more than 1,400 known infectious diseases can be according to May 22 article in Foreign Affairs magazine) – which in turn provides ample runway for investments that do – as well as those that help build resiliency to deal with the consequences. The interaction between food insecurity, environmental degradation and pandemic spread is a ground well trodden by scientists and addressed directly by the UN Sustainable Development Goals (SDGs) which are providing a longer-term road map for governments and investors. In fact, between 2014 and 2019, the population experiencing some form of food insecurity increased from 22.4% to 25.9% according to the World Health Organization. That's a surprising statistic given the SDGs were launched in 2015, but highlights how the pandemic exposed the fallacy that protectionism can truly isolate citizens from the responsibility of acting and investing with a global mindset.

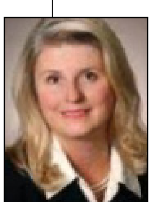
Transition in this context might also describe the pension system as it adjusts reluctantly to historically low interest rates and the implication of reduced returns. Systemically higher unemployment coupled with a higher savings rate and lower returns are pressures unlikely to be mitigated by the relentless increases in passive allocations in a period of zero discount rates.

Similarly, post-COVID views of retirement embedded in some interpretations of fiduciary responsibility will surely need to change. Retirees are among the most vulnerable to the globalization of health and environmental risks. A narrow definition of financial health that is based on certainty of income can not compensate for risk to assets (retirement properties, etc.) or health (air quality, pandemic etc).

Clearly then, our transition to a more sustainable economy is no simple task and, in all its forms, will require new thinking, fresh capital, more risk-taking and increased urgency if it's to be successful. Perhaps it took the tragedy of a global pandemic to teach us that and bring truth to the phrase "let no crisis go to waste."

Independent Review Committees – An Example of Successful Investment Fund Governance

Fourteen years after National Instrument 81-107 (NI 81-107) came into force, mutual fund governance is a success with Independent Review Committees (IRC) as its centrepiece. How did IRCs come to be such a success and why is it important to understand?



Michele McCarthy
LLM ICD.D,
President and CEO, Independent Review Inc.

Independent Review

Let's start with a brief history.

With the explosive growth of the investment fund industry and drawing on Glorianne Stromberg's report on regulation of mutual fund sales practices, the CSA sought to update the regulation of the industry. It was acknowledged that mutual fund governance should be enhanced by the creation of a body of independent oversight for the benefit of mutual fund holders whose funds were managed. As the O.S.C. Chair David A. Brown said at the time, *"improvements in fund governance and the management of mutual funds are desirable, not so much because there may be problems in the fund industry, but rather, so that investors' expectations of high standards of conduct from the stewards of their money is not misplaced*[i]*"*. In 1999, the CSA retained Stephen Erlichman to provide a summary of the governance in Canada and abroad and to make specific recommendations to improve fund governance[ii].

Building on that work, the CSA released a Concept Proposal in 2002 setting out their vision for a renewed framework for regulating mutual funds and their managers. That Concept Proposal set out a robust system of fund governance akin to a board-like body overseeing the fund manager's activities. Benefitting from considerable input from the industry, an amended Proposal was published in 2004 limiting the role of that body to the oversight of the potential conflicts of interest that exist for fund managers in the operation of their funds. IFIC, among other industry participants, provided excellent insights that helped to establish the IRC regulatory framework[iii] and to shape the final version of NI 81-107.

NI 81-107 created new concepts and requirements that fund managers, compliance professionals and IRC members took time to flesh out. New documents had to be fashioned, including Conflict of Interest Matter manuals (Conflicts Manual), Charters for the IRC, Standing Instructions (SIs) and Annual Reports on those SIs and on the work done annually by the IRC. Those documents became the underpinning for continuous disclosure to the investing public, thereby establishing a new standard and best practice.

Why does the IRC's work help advisors and their clients?

To create the documentary foundation for the IRC's work, a manager has to review its business and uncover any inherent conflicts of interest. Beginning with the fund's policies and procedures, a manager identifies potential conflicts within its business and inter-relationships among all its entities to develop its Conflicts Manual. Each Conflicts Manual reflects the maturity, complexity and size of the manager's business. Typical business conflicts include: related party issues such as inter-fund trades; fees and expenses charged to the funds; trade allocations; pricing and other errors; best execution; soft dollar arrangements; selection and monitoring of sub-advisers; and outsourcing to third-party services. At the first IRC meeting, the IRC comments on the draft Conflicts Manual, albeit with no veto power.

Once conflicts are identified, the manager and the IRC work together to create SIs to manage them. SIs set the framework and allow the manager to deal with the conflict without returning to the IRC for approval. As they contain more detailed instructions than are found in the Conflicts Manual, SIs describe the conditions imposed to manage the conflicts and the type of reports that the IRC will require. As the components of those reports are not defined in NI 81-107, the flexibility offered to the manager is one of the SIs' strengths.

All of these documents from the Conflicts Manual, the SIs and to the periodic reports are reviewed by the IRC on an annual basis as part of its self-assessment. That review is important to investors because the IRC must review and assess the adequacy and effectiveness of all the foregoing as well as the independence of its members and the manager's compliance with any conditions imposed by the IRC. Upon completion of that review, the IRC issues an annual report to the fund's security holders that is posted on SEDAR.

Best practice for drafting annual reports suggests that all SIs and all referrals to the IRC must be described in detail. Reports made independently by an IRC to the OSC are also important disclosure. The value of this annual work is significant. Advisors should pay close attention to the level and quality of disclosure in the annual reports as they say a lot about the IRC's work and about the extent to which the manager embraces NI 81-107.

Keeping up – Over the years, the CSA has issued a number of decisions on best execution, use of soft dollars, inter-fund trades and related party transactions. This short article cannot do justice to those lengthy decisions; however, their impact is key to the IRC's day-to-day business. When presented with a referral, the IRC needs to be aware of the applicable decisions and their bearing on the referral at issue. Happily, IRC members have demonstrated an interest in remaining current and in seeking continuing education on regulatory and legal matters to ensure their ability to manage conflicts of interest effectively.

What does the future hold for IRCs?

IRCs remain a fundamental part of the regulatory regime for investment funds and a window into their day-to-day operations. In fact, IRCs have become more essential for a few reasons. Managers have increasingly sought exemptive relief to tackle new and complex strategies within fund families (for both prospectus and non-prospectus funds). In response to this bourgeoning trend, securities commissions have issued exemptive relief orders requiring the establishment of an IRC to oversee otherwise prohibited transactions. In addition, the establishment of an IRC has become a useful vehicle highlighted in the OSC's current work on the reduction of regulatory burden[iv]. The success of IRCs over the last decade is recognition of their effective management of ever-present conflicts. Indeed, the coordinated work done by managers and their IRCs continues to strengthen best practise in fund governance.

[i] David A. Brown, "Towards Improved Fund Governance: The Way Forward" July 27, 2000, www.fasken.azureedge.net

[ii] David A. Brown, "Towards Improved Fund Governance: The Way Forward" introducing and attaching the report of Stephen Erlichman, "Making It Mutual: Aligning the Interests of Investors and Managers – Recommendations for a Mutual Fund Governance Regime for Canada", June 2000, www.fasken.azureedge.net

[iii] IFIC Canada, 2006 Annual Report, page 6-7, https://www.ific.ca/wp-content/themes/ific-new/util/downloads_new.php?id=4558&lang=en_CA

[iv] Reducing Regulatory Burden for Investment Fund Issuers – Phase 2, Stage 1 (gov.on.ca)

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"Allocating to innovation means taking a long view of how the world will improve and solve its problems. Innovation solves issues in healthcare, industrial development, e-commerce, and transportation to name a few. While disruptive innovation themes are fast-moving, sometimes the stocks themselves need time to overcome hurdles and adoption rates.

If we need to get medicines and vaccines to parts of the world where roads are not developed, then drones can make a meaningful contribution to the quality of life. These drones need lightweight powerful batteries with endurance. In South Africa, this is happening right now.

The miracle of innovation is the ability for the world to develop the solutions and then for companies to come forward. Who would have ever dreamed that 3D printing can make hearing devices, shoes, liver patches, jet engine parts, and now homes? The unthinkable multi-step production models are being condensed right before our eyes. This is resulting in reduced costs, faster development cycles, and the ability to produce in locations where previously this technology was unavailable.

The sub-advisor for Emerge Canada is ARK Invest, and their research extends out past 5 years and the trends they see occurring guides their research and security selection. Just some snippets from ARK Invest's Big Ideas 2021 report:

- Delivery Drones--will contribute $275 Billion in delivery revenue by 2030 (1)
- Multi-Cancer Screening--Liquid biopsies could prevent more cancer than any medical invention in history (2)
- Digital Worlds- Digital Wallets represent a $4.6 trillion opportunity in your pocket (3)
- Electric Vehicles--Global EV Sales could scale to 40 million by 2025 (4)

When investing in disruptive innovation, such as the Emerge ARK ETFs, it is imperative to focus on a minimum 5 year time horizon. The companies within the Emerge ARK ETFs have an objective of producing a compound annual growth rate of 15% over 5 years. To obtain the best outcome, ARK Invest, manages this portfolio actively, trading daily to optimize the opportunity amongst the portfolio holdings. Innovation requires active management. It's a fast-moving space and the ARK Invest team has a powerful team of research analysts able to see the trends and opportunities of investing in the future.

Your innovation partner in Canada, Emerge.

1. ARK Investment Management LLC. (2021). "Big Ideas 2021." 77. Retrieved from www.ark-invest.com.
2. ARK Investment Management LLC. (2021). "Big Ideas 2021." 99-101. Retrieved from www.ark-invest.com.
3. ARK Investment Management LLC. (2021). "Big Ideas 2021." 36. Retrieved from www.ark-invest.com.
4. ARK Investment Management LLC. (2021). "Big Ideas 2021." 57. Retrieved from www.ark-invest.com.

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Meet Your Clients' Investing Needs Post-COVID-19

Investors globally are adjusting to new realities spawned by COVID-19. Clients are affected like countless others.

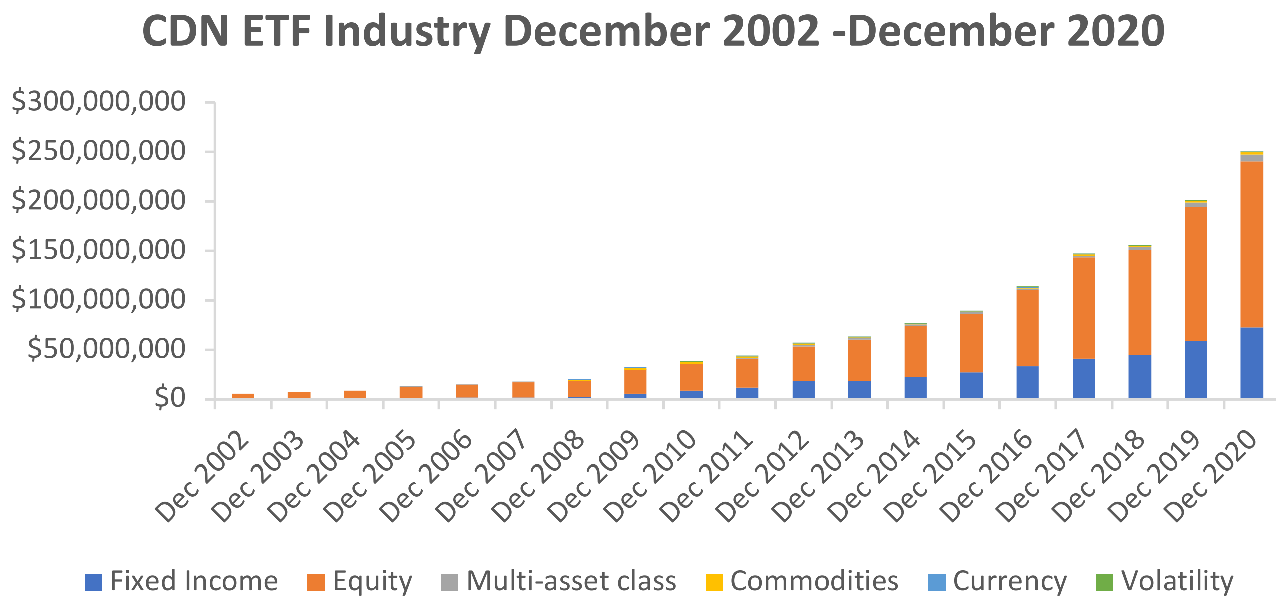
Pat Dunwoody
Executive Director, Canadian ETF Association (CEFTA)

The pandemic's impact on lives, health, confidence and financial well-being is unprecedented even compared to the Dot-Com/Internet Bubble of the late 1990s and early 2000s, 9-11, and the Great Recession of 2007-09.

COVID-19 will reframe risk tolerances. It will reshape what investors expect from their investments and what they're willing to pay for them.

The need for professional financial advice has never been greater, and investors hugging the sidelines will return. But many who saw markets plummet as the coronavirus spread may be receptive to new ideas for creating durable portfolios at a lower cost. This is especially true of those who are financially literate and price-sensitive. Fortunately, advisors with have cost-effective, tax-efficient alternatives to traditional products.

cetfa
Canadian ETF Association



Look Beyond Traditional Offerings

Not long ago, most Canadian investors had limited investing choices: GICs (subject to the interest rates of the day), Canadian Savings Bonds, or largely "vanilla" mutual funds available at a high cost.

As an article by Daren Fonda for Barron's in September 2019 ("Mutual Fund Fees in Canada Are Among the World's Highest") declared: "Canada does a lot of things really well. … But one thing you won't find in Canada is low fees for mutual funds. According to a report issued on Tuesday by Morningstar, Canada has some of the highest expense ratios for mutual funds among 26 countries surveyed."

Times have changed: the appetite for options has grown. Today, thousands of mutual funds (including series) offer various levels of diversification, tax advantages and liquidity. While some are available at relatively low management expense ratios (MERs), most are not.

However, exchange-traded funds (ETFs), a resilient, lower cost alternative introduced 30 years ago have thrived and weathered many economic upheavals since their debut. Canadian investors can now buy more than 740 in multiple asset classes.

Client Portfolios Gain From Complementary Investments

What's best for investors in a market recovering from a major shock? There's no one answer.

Client objectives, risk tolerance, time horizon, tax obligations and costs all matter when deciding what to recommend. Both mutual funds and ETFs bundle different financial products and provide easy market access and both should be considered; however, certain investors are more amenable to ETFs.

The Canadian Exchange Traded Fund Association (CETFA) undertook investor research with CREDO Consulting and found that ETF investors are more financially literate and confident than non-investors. Meanwhile, those who have not embraced ETFs say that the learning curve is a barrier: they lack product knowledge.

Address Your Clients' ETF Knowledge Gap

You can deliver the expertise your clients need to appreciate a valuable complementary investment opportunity. Even if you are confident in your ETF knowledge, the following will be helpful for explaining the ETF advantage to them.

Pricing Advantage

Over time, fees reduce fund returns. Because ETFs are not generally actively managed, their operating costs are smaller and typically have lower fees than comparable mutual funds. Mutual funds are priced only end of day. However, ETFs can be transacted at their current market price whenever exchanges are open throughout the day. The MER for an equity ETF is generally about 0.80%; fixed-income is slightly higher at 0.84%. MERs for equity mutual funds are about 2.25% and for fixed-income funds, 1.25%. *Note that the many of the mutual fund MERs include a trailer fee of up to 1%.

Passive & Active Options

Traditionally, ETFs have been passive investments pegged to a specific index, like the S&P/TSX 60, and typically capture a broad cross-section of securities. However, today, more than 40% of ETFs feature active management similar to mutual funds, providing investors with a more familiar option. A manager or a team of managers must oversee mutual fund portfolios.

Taxation Advantage

ETFs are typically more tax-efficient because there is no taxable activity within them. However, mutual fund investors transact directly with the fund, which must then buy or sell investments, creating potential tax consequences. Since passively managed ETFs tend to have lower turnover than actively managed mutual funds, they may generate lower taxable capital gains.

Product Availability

ETFs transact on a stock exchange through financial advisors with access to a brokerage, a full-service broker or via online investing platforms. Many mutual fund dealers now have access to ETFs for their clients through partnerships with an IIROC firm.

Dividend Reinvestment Plans

Dividend reinvestment plans that increase unit holdings are available at no cost to mutual fund investors. Their availability for ETFs depends on the fund sponsor and broker; and a charge could apply.

You and Your Clients Can Benefit From ETFs

When an advisor creates better portfolios for their clients, they reinforce loyalty that supports long-term relationships and potentially better financial results for both the advisor and investor.

ETFs are an excellent complement to clients' holdings because they provide a low cost way of building – or rebuilding – their assets. In a post-COVID-19 period, the opportunity to invest cost-effectively is critical. For investors, ETFs provide another opportunity to realize their financial goals. For an advisor, ETFs are a vehicle to strengthen bonds and reaffirm your expertise and professional commitment to your clients. Learn more about the ETF advantage, at cetfa.ca.

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