CANADIAN

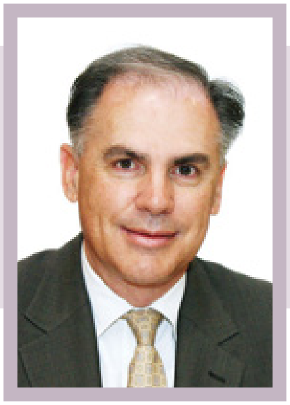
ETF Watch

SUMMER 2021

CanadianETFWatch.com

Megatrends:

Investing in the Future, Today



If the unique and challenging year that was 2020 has taught us anything, it has highlighted that sound financial advice and product solutions are the bedrock of the economic and social prosperity of society. While the COVID-19 pandemic continues to impact all aspects of life in Canada, there is light at the end of the tunnel as you can now begin to turn your attention to your clients and providing them the advice and product solutions to help achieve their financial goals.

The theme of the Summer 2021 edition of *Canadian ETF Watch* is Megatrends which touches on some of the unique challenges faced with a recovering economy, ways to diversify your portfolios as well as an article from BMO Global Asset Management which outlines some interesting ways that you can invest in the future, today. As the recovery and growth of the industry continues, alternative investment vehicles will become an important component of investor portfolios and there are articles within this edition that outline ways you can use ETFs, liquid alternative products and ESG to help build strong and healthy portfolios for your clients.

In the Spring edition of *Canadian ETF Watch*, we mentioned that CETFA will be launching an ETF Screener that allows advisors and investors to compare all Canadian ETFs to more easily select the most appropriate products. We are now happy to announce that this screener is live on the CEFTA website and encourage you to check it out. The hope is that this screener tool, along with the CETFA ETF guide and other educational documents on the CETFA website, will allow you to more easily incorporate ETFs into your portfolios.

On behalf of Radius Financial Education and the Canadian ETF Association, we wish you a wonderful and safe summer.

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.

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Introducing BMO Clean Energy Index ETF (ZCLN)

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BMO Global Asset Management is a brand name that comprises BMO Asset Management Inc., BMO Investments Inc., BMO Asset Management Corp., BMO Asset Management Limited and BMO's specialized investment management firms.

CANADIAN ETF Watch
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Canadian ETF Watch is published quarterly by
Radius Financial Education & **Canadian ETF Association (CETFA).**
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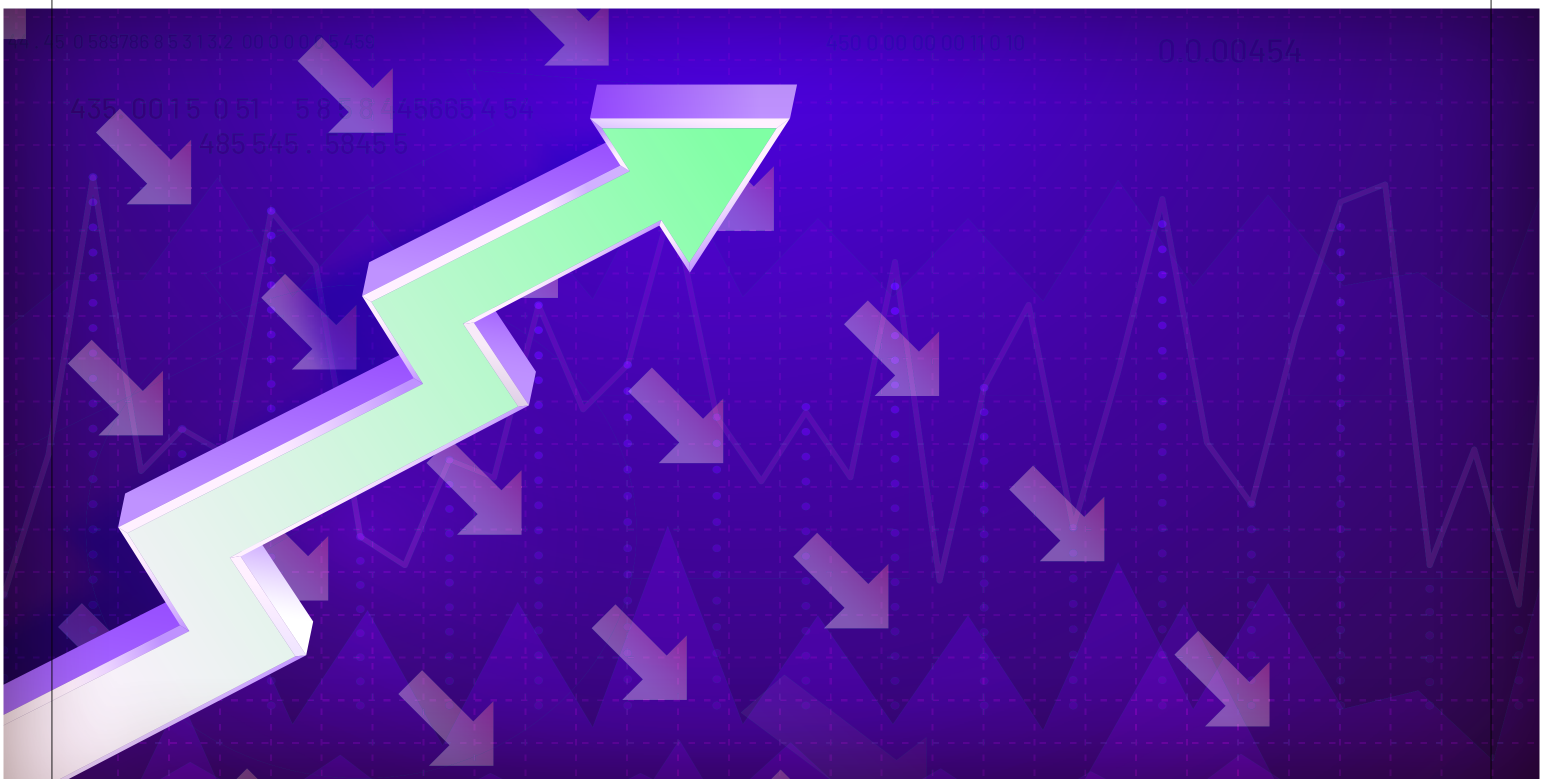
Role reversal: best ETF performers in 2021. Worst performers in 2020 take the lead in 2021



Less than five months in, and 2021 has already been an exciting year for Canadian ETFs.

Brian Bridger, CFA
Senior Vice President, Analytics & Data
Fundata Canada Inc.

Less than five months in, and 2021 has already been an exciting year for Canadian ETFs. In February, **Purpose Bitcoin ETF (TSX: BTCC)**, became Canada's first Bitcoin exchange-traded fund. Since then, a handful of companies have launched similar ETFs tracking Bitcoin and other crypto currencies, such as Ethereum. There are now two dozen crypto currency ETFs, giving retail investors easier access to this new asset class. In total, 93 new ETFs have already been launched in 2021. Aside from the crypto funds, other popular themes include ESG funds, as well as funds focusing on niche sectors such as genomics and space innovation.

Some of the best-performing categories as defined by the Canadian Investment Funds Standards Committee (CIFSC) so far in 2021 were some of the worst performers in 2020. Energy Equity ETFs lost an average of 32% in 2020, the steepest losses of any category. However, they are the top-performing funds through the first four months of 2021, up over 25%. The next best-performing category year to date (YTD) is Financial Services Equity, gaining an average of 22%. Last year, this category was close to the bottom of the pack, losing 4%. Table 1 shows the top five categories YTD, as of April 30.

FUNDATA
FINANCIAL DATA THAT MATTER

Table 1: Best-performing ranked CIFSC categories, as of April 20, 2021				
Category	**YTD Return**	**YTD Rank**	**2020 Return**	**YTD Return**
Energy Equity	25.26%	1	-32.04%	50
Financial Services Equity	21.75%	2	-3.63%	46
U.S. Small/Mid Cap Equity	16.91%	3	5.23%	26
Canadian Divident & Income Equity	13.96%	4	-2.34%	45
Canadian Equity Balanced	12.42%	5	4.78%	29

Similarly, four of the bottom five categories YTD were top-10 performing categories in 2020. Canadian Long Term Fixed Income, the worst so far, is down over 11%. In 2020 these funds gained almost 12%. Next is Precious Metals Equity. These funds are down over 10% this year after gaining over 23% last year. Table 2 lists the bottom five categories YTD, as of April 30.

Table 2: Worst-performing ranked CIFSC categories, as of April 30, 2021				
Category	**YTD Return**	**YTD Rank**	**2020 Return**	**YTD Return**
Canadian Long Term Fixed Income	-11.56%	50	11.85%	9
Precious Metals Equity	-10.38%	49	23.25%	4
Canadian Inflation Protected Fixed Income	-9.28%	48	12.76%	8
Canadian Fixed Income	-4.39%	46	8.70%	16
Greater China Equity	-4.35	45	27.37%	2

With the ever-increasing number of ETFs in the Canadian market, the Fundata FundGrade ratings are a quick way to narrow down your search when looking for potential investments. The Fundata FundGrade A+® Awards are handed out in January and are based on monthly FundGrade ratings over the past calendar year. Monthly FundGrade ratings consider up to 10 years of risk-adjusted performance. ETFs and retail mutual funds are graded in the same peer group within their respective CIFSC categories. (Visit www.fundata.com for the full methodology.) Now let's look at two A+ Award winners from 2020 as well as an ETF vying for its first A+ Award in 2021.

BMO MSCI All Country World High Quality Index ETF (TSX: ZGQ). This fund was launched in 2014 and replicates the MSCI All Country World High Quality Index. This is a rules-based index that screens global equity markets for companies with high return on equity, stable earning growth, and low leverage. Top holdings include Microsoft, Apple, and Taiwan Semiconductor Manufacturing Co.

ZGQ has been a first-quartile performer in the Global Equity category in five of the six calendar years since its inception. The 5-year average annual compounded rate of return of 17.1% has exceeded the benchmark by 4 percentage points. And its 3-year standard deviation (SD) of 12.4% is below the category average of 14%. These superior risk-adjusted returns have earned ZGQ the FundGrade A+ Award in three of the past four years, including it's most recent in 2020.

ZGQ has an MER of 0.51%, a yield of 1%, and a risk rating of Medium.

Horizons Pipelines & Energy Services Index ETF (TSX: HOG). This ETF tracks the Solactive Pipelines & Energy Services Index, which is designed to provide exposure to Canadian midstream oil and gas companies. The portfolio is very concentrated, consisting of only 12 holdings, including industry giants Enbridge and TC Energy.

HOG debuted in 2014 and is a top performer in the Energy Equity category. In fact, over the past five years, it is the only fund in the category with a positive return, gaining 6% while the average Energy Equity fund has lost over 5%. Add to this a below-average standard deviation, and it is no wonder this fund has earned FundGrade A+ Awards for the past four years.

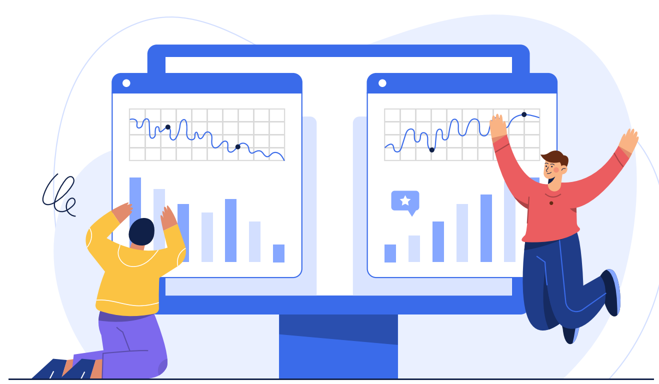
HOG has a trailing 12-month yield north of 4%, an MER of 0.64%, and a risk rating of Medium to High.

Evolve Innovation Index Fund – Hedged ETF (TSX: EDGE) debuted in 2018, making 2021 the first year it is eligible for an A+ Award. It has been a top-quartile fund over the past two calendar years, outperforming the Global Equity benchmark by 40% in 2020. Over the past year, EDGE has the second-highest return in the category, gaining 74%. However, these outsized returns come with additional risk. The 2-year standard deviation is over 20%, well above the category average of 15%.

EDGE tracks the Solactive Global Innovation Index by investing in companies around the world that are involved in "disruptive innovation themes." This includes industries such as cyber security, esports, and fintech, to name a few. EDGE also invests in other Evolve ETFs to gain exposure to additional companies and sectors. Underlying funds include CYBR, HERO, CARS, and DATA.

EDGE has an MER of 0.5% and a risk rating of Medium to High. There is also an unhedged U.S. dollar version available (TSX: EDGE.U).

Brian Bridger, CFA, FRM, is Senior Vice President, Analytics & Data, at Fundata Canada Inc. and is a member of the Canadian Investment Funds Standards Committee.



In A Recovering Economy, Mid & Small Caps Are All That

Last summer, we witnessed a sharp "V Shape" recovery, largely driven by large cap new economy companies which were huge beneficiaries of stay-at-home mandates.

Danielle Neziol
Senior Product Manager, BMO ETFs

However, when the vaccine news hit the market on November 9th, we saw the beginning of a market rotation as cyclical sectors (Financials, Materials, Industrials, Energy) began outperforming these large cap, high-growth names. Within this rotation, small and mid cap U.S. equities also began to outperform. Since November 9th, the S&P 600 Small Cap Index and the S&P 400 Mid Cap Index both outperformed the S&P 500 Index by 22.2% and 13.8% respectively[1]. As this market rotation continues to play out, investors who have core positions in large cap stocks may benefit from allocating some of their equities to the mid and small cap space. Small and mid caps can compliment large cap exposures in three ways: increase sector diversification, provide exposure to the "reopening trade", and benefit from the recovery phase of the market cycle.

The S&P 500 Index has become more concentrated, with the top 10 holdings accounting for 27% of the Index whereas the S&P MidCap 400 Index and the S&P SmallCap 600 Index only have around 6% of holdings in the top 10.[2] The S&P 500 is also concentrated among growth sectors with a combined 40% in Information Tech and Health Care and other growth names such as Amazon and Tesla in its top ten holdings.[3] Growth stocks are more sensitive to a steepening yield curve. We are seeing this now as expectations of higher rates down the road have been putting downward pressure on these stocks so far this year. On the other hand, sectors such as Energy, Materials, Industrials and Financials are less impacted by rising rates and these sectors have had a strong rebound since November 9th on the optimism surrounding vaccine roll outs and the outlook of a recovering economy. These sectors are well represented in the mid and small cap space and so adding small and mid cap equities can diversify among securities and among sectors.

Small and mid caps are also a play on a recovering U.S. economy versus large caps which are more multi-national. The U.S. is positioned well to come out of the pandemic quicker and stronger than other countries thanks to supportive monetary and fiscal policies and a successful vaccine roll out. Stimulus cheques will have a greater and more direct impact on small and mid cap companies, as will a reopening of the economy on the back of vaccinations. For investors with large core exposures in large caps such as the S&P 500 or the NASDAQ, adding small and mid cap companies can benefit the growth profile of their equities by diversifying among return streams and growth themes.

During the recovery phase of the economic cycle, small and mid caps historically outperform, as do the sectors in which these cap levels are overweight. This environment generally benefits these cap levels for several reasons: mid caps and small caps have a higher risk profile than large caps which allows them to benefit in risk-on environments and their sector makeups are overweight cyclical stocks, sectors which also tend to outperform coming off market lows.

ETFs are a great way to add these exposures to a portfolio in a simple and efficient trade. For example, The **BMO S&P US Small Cap Index ETF (ZSML)** and the **BMO S&P US Mid Cap Index ETF (ZMID)** hold a portfolio of small and mid cap equities. It should be noted that index construction matters in the mid and small cap space. The S&P 600 SmallCap 600 Index and the S&P 400 MidCap Index have stricter inclusion criteria than other small cap indexes where the S&P 400's and 600's profitability criterion creates a quality bias.

A disciplined and diversified index approach can be a good way to gain exposure to these cap levels. When we look at the most recent SPIVA reports, the S&P 600 SmallCap Index outperformed small cap active funds 76% of the time, and the S&P 400 MidCap Index outperformed mid cap active funds 73% of the time looking at 10 year returns.[4] Investors who are overweight large cap holdings can benefit from tactically adding small and mid cap exposures to their large cap holdings. These cap levels can diversify a portfolio while allowing for tactical exposure to the reopening trade and the recovery phase of the economic cycle. Using ETFs, investors can access these exposures efficiently, and cost effectively.

[1] Source: Bloomberg, May 4, 2021. Returns in USD.

[2] Source: BMO ETFs, May 4, 2021.

[3] Bloomberg, April 30, 2021.

[4] S&P Global Indices SPIVA Report, December 31, 2020.

2021/22 CALENDAR OF EVENTS

Brought to you by radius Financial Education

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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

ExchangeTradedForum.com

WESTERN

Exchange Traded Forum (ETF Eastern Virtual) 12th Annual

Wednesday, November 10, 2021 ~ Eastern 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. 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

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.

RETIREMENT CANADA DIALOGUE 2021

RetirementInstituite.ca

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

Interested in sponsoring or attending an event: info@radiusfinancialeducation.com or call us at T: 416.306.0151

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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
RadiusEurope.com
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.

CIFPs

20th Annual National Conference - 2022

Sheraton Fallsview, Niagara Falls, Ontario

Sunday, May 15th - Wednesday, May 18th

As a bonus, if you register before November 19th, 2021, you will receive a complimentary registration to attend the 2021 CIFPs Virtual Conference happening on November 22nd and 23rd, 2021!

The Financial Planning Conference featuring:

Educational Streams Focusing On:
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***Plus* an Advanced Financial Planning Stream** *featuring four higher level lectures with original supplemental study materials offering the potential for additional CE credits.*

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The CIFPs Annual National Conference

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1 - CIFP/CIFPs creates and/or sponsors its educational offerings in consideration of the continuing education guidelines set by FP Canada™ Standards Council. It is the responsibility of the CFP professional to assess the appropriateness of this education content for purposes of claiming CE credits. To obtain the full allotment of CE credits, additional coursework outside of attending the conference sessions may be required. Claims for CE credits are subject to review and approval by FP Canada™ Standards Council.

Megatrends: Investing in the Future, Today

One of the most popular trends that is gaining momentum in 2021 is investing in emerging themes and innovations; megatrends that are expected to completely change our behaviours, our needs, and how we interact with the world.

Danielle Neziol
Senior Product Manager, BMO ETFs

The companies most exposed to these megatrends will be the largest beneficiaries of the exponential growth markets attached to these themes. When investing in megatrends we approach equity markets from a different angle. Instead of viewing the market by traditional methods such as sector, region, or style, megatrend investing takes a top down view of which companies are exposed to a future trend, and by how much. The traditional "siloed" approach to equity markets uses historical data, fundamental stats and financial records, but ignores forward-looking growth factors such as cross-sector innovation themes and the convergence of research and technologies across industries. The data considered to capture these megatrends is a combination of forward looking financial and non-financial data.

BMO | Exchange Traded Funds

The consensus is gathering around four key themes: genomic innovation, fintech, next generation internet, and autonomous technology. These megatrends are future drivers of market growth fuelled by the increasing adoption of these technologies and their integration into our everyday life. These are trends so large in scale that they are predicted to impact businesses, companies and industries across the globe in the future. This is not the first time in history that emerging innovations have impacted our way of life; electricity, internal combustion engines, computers and the internet are all examples of matured megatrends.

The pandemic put many innovative companies in the spotlight. For example, vaccines were developed faster than ever before, thanks to mRNA technology, a genomic innovation. The need for remote connectivity was enormous, and next generation internet technologies were there to support working from home and virtual social needs. Autonomous technology and robotic development made social distancing easier on crowded assembly lines and helped with contactless deliveries, especially in quarantined environments. And in the fintech space, digital wallets and mobile payments were extremely effective when many vendors stopped accepting cash, and people were forced to fulfill many of their banking needs online while isolating at home. The growth of innovative stocks was explosive through 2020, as these companies' businesses models and revenue streams were impacted by the pandemic.

Investment professionals are becoming increasingly aware of the power of adding megatrends to portfolios because of the exponential growth profiles of companies associated with these innovative themes. The tricky part in investing in innovative companies is identifying who the company leaders will be as the megatrend evolves. For example, investors who were looking to capitalize on the emerging theme of smart phones back in the early 2000s, had they only invested in Blackberry (the leader at the time) they would have missed out on the big winners in smart phone technology such as Apple, and the less obvious beneficiaries such as Facebook and Amazon. Therefore, a diversified index approach within an ETF makes a lot of sense with megatrend investing because it provides maximum exposure to the trend while minimizing stock specific risk. The BMO MSCI Innovation ETF (ZINN) is an example of an innovation ETF which provides exposure to all four leading innovation trends in a diversified and rules-based approach. ETFs have enabled these megatrends to be investible and accessible, in addition to other benefits such as easy to access, liquidity and cost-efficiency. Using an innovation ETF, investors can access the future of innovation, today.

RETIREMENT CANADA DIALOGUE 2022

TORONTO
April 19th, 2022
Marriott Downtown

PRESENTED BY

RETIREMENT INSTITUTE

Life at its fullest

Join the Retirement Institute for 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 Institute

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- Enhancing the advising profession through the latest retirement research
- Serving Canadian advisors and the public since 2013

Attendee Benefits

- In-depth expert conversations and solutions
- Best (in class) overview of retirement solutions
- Canadian and international perspectives
- Registered Retirement Consultants and Registered Financial and Retirement Advisors can achieve their required 10 CE credits by attending
- Claim up to 7 FP Canada™ CE credits, 7 Insurance credits and 6.5 MFDA credits.

CE credits are subject to review by each regulator body.

- Breakfast and Lunch included

Who should attend?

Advisers and Planners

- Retirement Planners
- Financial Planners
- Mutual Fund Advisers
- Life Style Planners
- RRC/CR License Holders
- RFRA License Holders

Special Pricing (until December 1st, 2021)

- **$149.00 Early Bird Pricing for active RRC/RFRA/CR Licensees**
- **$199.00 Early Bird Pricing for active CIFPs members**
- **$249.00 Early Bird Pricing for other Industry Participants**
- $399.00 Regular Pricing

Register early and get a complimentary registration for the 2021 Virtual Event on November 16th!

Contact us at 1-844-524-3774 for early bird specials

http://www.RetirementInstitute.ca/Conference

The Growing Awareness in Liquid Alternatives

While discussions surrounding liquid alternatives are increasing both in frequency and intensity, the liquid alternative market in Canada is still in its very preliminary stages.

Randall Alberts, SVP, *CI AM, Head of Distribution, Eastern Canada*

Remember, it has been just over two years since January 2019, when Canadian regulators adopted policy to level the playing field with the U.S., U.K., and Australia — markets where investors have been benefiting from liquid alternatives for years.

Investors also face the unique challenges presented by record low interest rates, a near decade-long bull market, volatility fuelled by COVID-19 and the resulting economic fallout. This uncertainty comes at a time where correlation between traditional asset classes and geographies are near all-time highs. Investors are seeing the benefits of this asset class in the current market environment, and paired with the Canadian Securities Administrators decision on January 28 making it easier for MFDA advisors to access liquid alternatives on behalf of investors, the stage is now set for its next act of expansion in Canada.

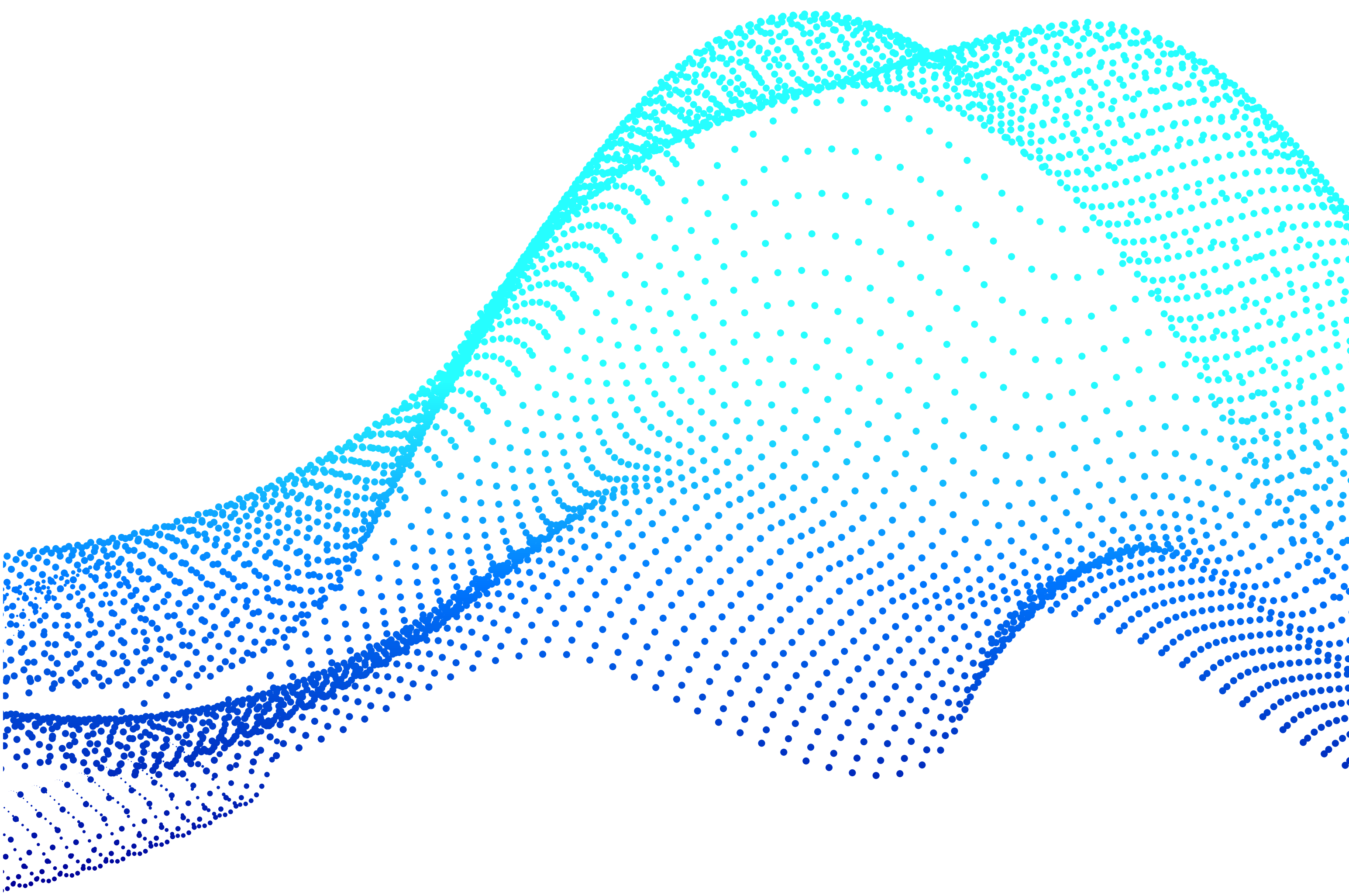
CI GLOBAL ASSET MANAGEMENT

Over the past three years, the liquid alternatives market in Canada has captured nearly $12 billion in assets under management[1]. The global alternatives market is expected to hit US$14 trillion by 2023 and the Canadian market shows forecasts between $20 billion and $100 billion by 2025[2]. The recent policy changes granting MFDA advisors' easier access certainly facilitates this adoption and conversion within the $1.8[3] trillion Canadian mutual fund market.

CI Global Asset Management, as innovators in the liquid alternatives space and largest provider of liquid alternatives in Canada, has seen firsthand the need for education and helping financial advisors broaden their understanding of this burgeoning asset class. Alternatives can be used to enhance returns, reduce risk, provide liability matching or generate income, and it is vital for advisors and investors to fully understand how they differ from traditional mutual fund investments as they pursue these investment outcomes.

The investor profile, time horizon and liquidity needs are important factors in determining allocations to alternatives in a portfolio. Given that liquid alternatives can employ cash borrowing, leverage, short selling, and derivative use, it is imperative to understand these more complex investment strategies and the risks associated with them.

The educational investment is a small price to pay for the many advantages liquid alternatives bring to investors. The benefits of hedge funds have long been sought but not readily available to average investors. With a prospectus-qualified fund or ETF, a liquid alternative is an easy addition to a modern portfolio; they offer similar investment flexibility as hedge funds with low initial investment minimums and a range of investment mandates and outcomes. So, what should investors look for when evaluating liquid alternative asset managers?



[1] Source: Canadian Association of Alternative Strategies & Assets as of January 31, 2021

[2] Source: Alternative Investment Management Association, January 23, 2020

[3] Source: Investment Executive as of Dec 31, 2020

New Exclusive Online ETF Screener from CETFA will Empower Advisors and Firms

A custom-built, all-in-one ETF screener is being added to the Canadian Exchange Traded Funds Association (CETFA) website on July 2nd and will provide advisors and firms with fast and easy access to essential product information.

Pat Dunwoody
Executive Director, Canadian ETF Association (CEFTA)

Developed for the CETFA by Morningstar, the new ETF screener (on cetfa.ca) enables advisers to find and compare Canadian ETF investments across a variety of key metrics, including style, leverage, risk and ESG. It empowers users to knowledgably select a product suited to the unique goals of their clients. (Investors can also use the screener; however, CETFA is prioritizing its outreach efforts to financial planners, investment advisors and firms given their vital role in delivering product education, recommendations and advice.)

Importantly, the screener will support investment firms and advisors in fulfilling the pending know your product obligations (KYP): they take effect on December 31 as part of the Client Focused Reforms (CFR) and were a decisive consideration in its development. When CETFA sought to identify the "mission critical capabilities" the screener should have, it deliberately focused on the requirements that regulators were planning to mandate for planners/advisors so that the screener could fulfil these obligations. (To be CFR compliant, planners and advisers must ensure that any products researched via the ETF screener also meet the product shelf/approval requirements of their respective firms.)

cetfa
Canadian ETF Association

For data neutrality and quality, ease-of-use, efficiency and convenience, CETFA believes there's no other tool that comes close—and it's accessible without a login or password. CETFA membership is not required to use it, and the association hopes that all Canadian planners/advisors who are keen to provide best value for their clients will check out its features and benefits soon.

Unique Benefits Designed to Support Planners/Advisors

What is it that makes this screener uniquely useful to financial planners/advisors? "It includes portfolio level ESG/Sustainability ratings and it offers key quantitative Morningstar methodologies, such as Star Rating and Style Box elements that provide easy-to-understand analysis of key elements of each ETF," says Morningstar Research Inc. Head of Product and Client Solutions, Canada Alan Moorhouse. "The screener provides an independent, third-party evaluation (from Morningstar) across products and firms to help financial advisers choose the most appropriate products for their specific client needs," he adds.

Envisioned some time ago and approved by the CETFA board last November, the ETF screener is a spring 2021 initiative that was brought to life by Morningstar in just over two months after it was chosen for the assignment. It includes the entire universe of Canadian ETFs and its functionality will be reviewed and updated annually to ensure it remains current and useful.

Powerful ESG Selection Abilities Respond to Burgeoning Demand

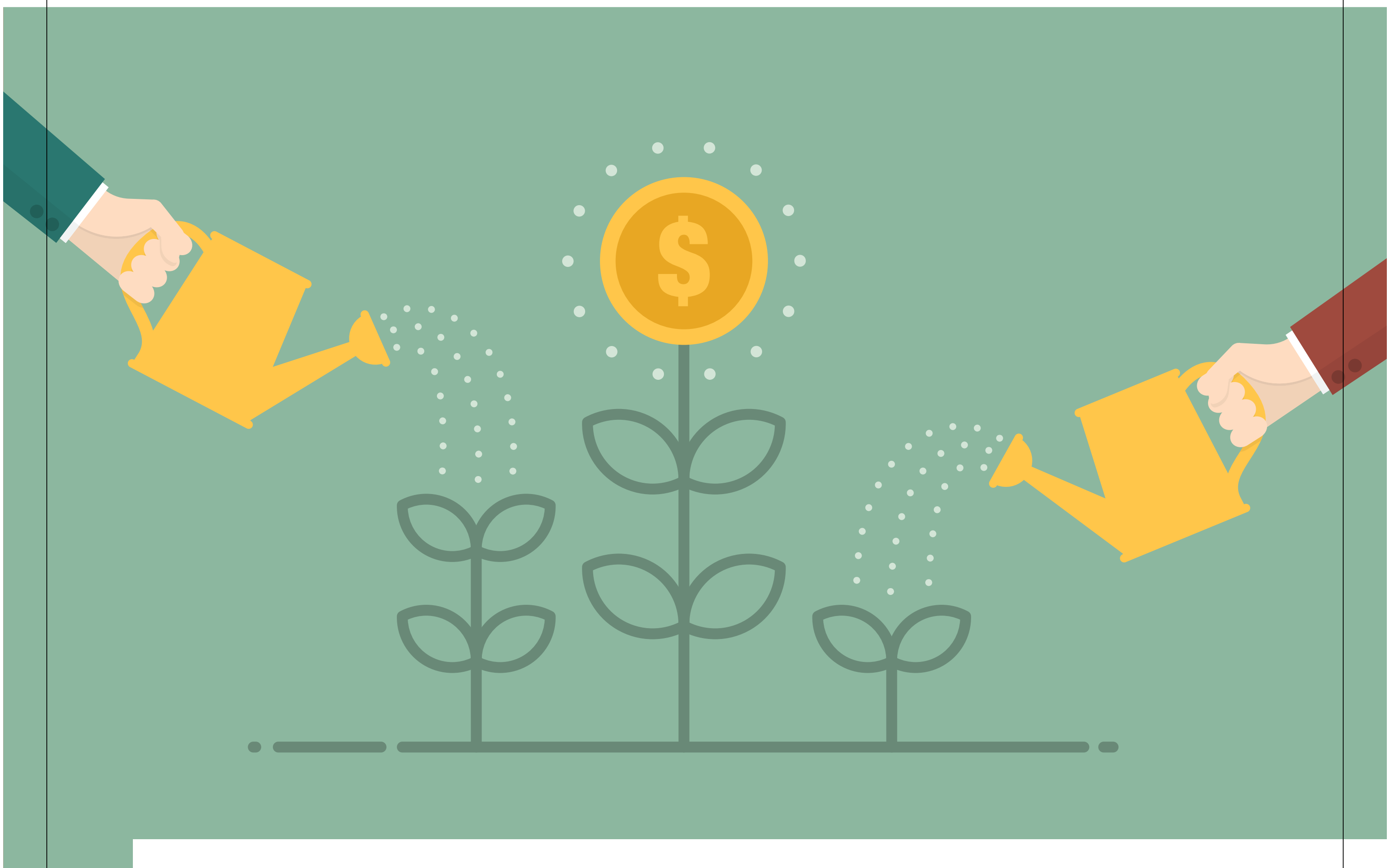
ESG ETF investing has experienced skyrocketing interest in recent years and resonates particularly strongly with women and younger investors, ETFGI Founder, Owner and Managing Partner Deborah Fuhr told CETFA members during a presentation in May.

Given that dramatic and ongoing growth, CETFA ensured that its new resource would support advisors in efficiently compiling a shortlist of ESG ETFs before completing their detailed analyses.

"The screener allows financial advisers to search and compare different ETF products across multiple key specific ESG-focused areas, such as ESG and carbon risk," says Moorhouse. "It also allows searching across numerous restrictions that may be important to their clients."

The new online tool is a vehicle for achieving the CETFA's goal of supporting and educating financial planners/advisors about the benefits of ETFs and to encourage product knowledge, trial and adoption. It is accessible directly from the homepage of the CETFA website; the site also includes a variety of other resources and information that investing and financial professionals will find helpful.

The Future of CETFA and the ETF industry



"The future ain't what it used to be." *Yogi Berra*

Michael Cooke
Senior Vice-President,
Head of ETFs
Mackenzie Investments

On the heels of a record-breaking year in 2020 for Canadian-listed ETF flows, 2021 is shaping up to be another strong year. At the end of May 2020, industry assets were almost $280 billion with $25 billion of net flows year-to-date.

But, the growth in demand for ETFs that we are seeing is not coming at the expense of mutual funds. That is evident in the fact that both the Canadian ETF and mutual fund industries were each experiencing record growth through the first five months of 2021. Instead, investors are substituting ETFs for other types of investment vehicles such as individual stocks and bonds or derivatives such as futures and options. As the Canadian ETF market continues to mature, more choice and more established offerings are also extending the range of uses for ETFs.

MACKENZIE
Investments

Current flow trends tell us much about what the future holds for the global and Canadian ETF industries. Let's take a closer look at some of the catalysts.

Asset Allocation: With the world's first ETF having only launched in 1990, the industry is still experiencing a significant growth phase. Notably, the versatility of ETFs provides investors with great precision as they seek to achieve specific investment outcomes such as income generation, volatility management or diversification. Further, the age of the Internet, big data and machine learning have taught us much more about the decomposition of investment returns. The breadth of ETF products now offered in Canada allows investors to tailor their portfolios accordingly across traditional index, strategic beta and active strategies.

Innovation: Canada has always been a global ETF leader with many firsts in the global ETF industry including the first ETF (1990), the first fixed income ETF (2000), the first currency hedged ETF (2001), the first cannabis ETF (2017) and, most recently, the first cryptocurrency ETF (2021). Our leadership in the global ETF industry has made Canada the envy of many other markets and we can expect that innovation to continue. Exposure to inaccessible asset classes (China A Shares, EM Local Currency Debt) and investment strategies (alternative strategies, covered call) are other examples of the financial innovation being delivered to the Canadian ETF market. In recent years we have also seen Canadian ETFs provide incremental innovation, whereby the value of an existing technology is made better to users within an existing market. Such enhancements to product design are increasingly prevalent in the Canadian ETF market and will support the continued adoption of ETFs within this market.

Sustainable Investing: More investors are seeking to combine traditional investment approaches with environmental, social and governance insights. In 2021, flows into sustainable ETFs are set to more than double from 2020 flows of $1.8 billion. This trend can be expected to continue amidst an accelerating amount of social awareness globally. The Canadian ETF market has already emerged as a global leader in this category which will provide another engine of growth for the industry looking ahead.

Inflation: The coordinated response of government and central banks to the pandemic-induced economic downturn in 2020 has given rise to the possibility of above-trend inflation in the years ahead. Investors have realized the utility of ETFs for inflation protection and have increased their allocations to ETF exposures in broad commodities, gold, floating rate securities and TIPS. The vast array of choices in the Canadian ETF market ensures that investors will be able to adjust their portfolios effectively and efficiently in response to rising inflation or other market dynamics in the future.

Resilience: 2020 was a difficult year on many levels. The early reaction to the global pandemic put great strain on the economy and on capital markets. But the associated market declines and liquidity disruptions only served to reinforce the resilience and versatility of ETFs. In the worst depths of the 2020 pandemic crisis, ETFs reflected the underlying market distress but provided investors with price discovery and liquidity when needed. With another stress test passed for the global ETF market, it will provide institutional and retail investors with the confidence to use ETFs for a widening array of investment applications amidst good and bad market conditions.

Like rings on a tree trunk, the ETF ecosystem continues to grow every year with more and more institutional and retail investors accessing the benefits of ETFs. ETF providers will need to ensure that they provide proper education to the growing spectrum of ETF users which now include financial advisors, institutional investors and DIY investors. This accelerating ETF usage across different investor segments is further validated by the growth of the global ETF industry with assets approaching USD$ 9 trillion as of April 2021. As the Canadian ETF market continues to mature, the product choices available to investors increases. Plus, existing ETFs become more seasoned with established track records, competitive fees, and sufficient liquidity to enhance their attractiveness to different investor segments. Whether for long-term strategic allocations or to express more tactical views on investment themes, the applications for ETF usage are growing every day. This virtuous cycle of demand suggests the future is very bright for the Canadian ETF industry.

All figures sourced from Bloomberg, National Bank Financial, ETF Global Insights (ETFGI)

Exchange Traded Funds Taxation: Déjà vu all over again

The Income Tax Act (Canada) defines many types of investment entities or structures for tax purposes, including mutual fund trusts (MFTs), mutual fund corporations (MFCs), and segregated funds.

Curtis Davis
MBA, MES
FCSI, RRC, CFP
Senior Consultant, Tax, Retirement & Estate Planning Services, Wealth, Manulife

A noticeable omission, however, is an exchange traded fund (ETF). This doesn't mean that an ETF is a tax-free entity. In fact, the term ETF describes an investment with specific features and its use is more commercial or colloquial in nature.

So how does ETF taxation work? It depends on how the fund is structured for tax purposes. Is it set up as an MFT or MFC? Most ETFs in Canada are MFTs, and Manulife's ETF line-up is no exception. As such, the taxation of ETFs closely mirrors that of traditional MFTs. Going forward, this article focuses on ETFs set up as MFTs and held in non-registered accounts.

ETF income and distributions

Like an MFT, income generated on the underlying assets of an ETF retains its character when distributed to unitholders and is taxed accordingly. In other words, interest and foreign income is fully taxable income, Canadian dividends are grossed up and receive their corresponding dividend tax credits, and half of realized capital gains are taxable. Should the ETF sustain capital losses at the fund level, these losses are used to offset realized capital gains at the fund level or are carried forward by the fund if the losses exceed realized gains in the year. Non-capital losses realized by the ETF can be used to offset any type of income at the fund level with any excess being carried forward. Finally, any foreign taxes paid by the fund can be flowed out to and used by investors as credits to reduce Canadian income tax owing on that same foreign income.

ETF tax efficiency

An ETF offers potential tax efficiency over a traditional MFT in one or both of these ways:

• Less Portfolio Turnover — Investment mandates for ETFs tend to be more passive than MFTs. While this includes traditional passive strategies like indexing, it can also include active investment strategies such as factor-based investing. With less trading activity at the fund level, there may be fewer realized capital gains to distribute to unitholders of ETFs when compared to active MFTs.

• Investor Redemptions — All investor redemptions for MFTs are transacted directly with the fund itself. To provide the redeeming unitholder with cash, an MFT may have to sell underlying assets and realize capital gains. If these capital gains aren't completely offset by the capital gains refund mechanism, the excess will generally be distributed to remaining unitholders. Generally, ETF investors sell their units over the stock exchange and realize any gain or loss without triggering transactions at the fund level. Therefore, the taxable distributions received by one investor generally aren't impacted by the transactions of other investors in the same ETF.

Cash vs reinvested distributions

Income earned by underlying investments (i.e., interest, foreign income, Canadian dividends, etc.) in an ETF are distributed2 as cash to investors. Since cash distributions flow out to the investor, they don't impact the investor's adjusted cost base (ACB). On the other hand, capital gains realized at the fund level are immediately and automatically reinvested back into the ETF, increasing the investor's ACB.

Such reinvested distributions purchase new units of the ETF, and these units are immediately consolidated with the investor's other units so that the number of units held by the investor and the net asset value (NAV) per unit is the same as before the capital gains distribution. This chart illustrates these mechanical differences:

As you can see from the chart, with either method, the investor's FMV and ACB is $1,100. The difference lies in how the ETF and MFT got there. After the capital gains distribution, the NAV of the ETF is reduced to $10 and the $100 capital gains distribution is used to buy 10 more units like with the MFT. However, the number of ETF units outstanding is immediately consolidated so that the number of units held by the investor and the NAV per unit is the same as before the capital gains distribution (i.e., back to 100 units outstanding with a NAV = $11/unit). That's why ETF capital gains distributions are sometimes called phantom distributions — it appears that nothing has changed. The exception being the ACB, which has increased.

The MFT also issues new units with the reinvested distribution, which increases the number of units held by the investor proportionally to the ratio of the distribution to the current unit price (1/10 in the example above). However, with the MFT there's no consolidation of units, so the investor ends up with more units at a lower NAV.

Finally, return of capital (ROC) distributions, if any, reduce an investor's ACB in both MFTs and ETFs. With either investment, if the ACB is reduced to zero, ROC distributions are treated as capital gains for tax purposes.

Selling units and an investor's ACB

When an investor sells units in either an MFT or an ETF, the ACB is needed to determine the capital gain or loss on the sale. The items that impact an investor's ACB in an MFT and ETF are:

- **purchases and redemptions** — Purchases increase the ACB and redemptions reduce the ACB. An investor's ACB is based on the average cost of units held.
- **reinvested distributions** — Increase the ACB to avoid double taxation of the reinvested income upon sale.
- **distributions of ROC** — Reduce the ACB. If the ACB is reduced to zero, future ROC distributions are taxable as capital gains.

While the factors impacting an investor's ACB are the same for MFTs and ETFs, disposition of each holding is executed differently. When an investor disposes of units from an MFT, the units are redeemed by the fund in exchange for cash to the investor. When an investor disposes of ETF units, they're generally sold on the exchange like an individual stock. The tax result for the investor is the same, a capital gain or loss that's calculated by comparing the proceeds of disposition (net of redemption costs) with the ACB.

Summary

While ETFs may look and feel different than MFTs, from a tax perspective they're the same, albeit with differences in operational mechanics that can provide the potential for lower taxable distributions than traditional MFTs. This is good news for investors that are new to ETFs. They'll likely have a trading experience like stocks with tax reporting like MFTs. This familiarity should bring them peace of mind and comfort with adding ETFs to their own portfolios while offering the potential for greater tax efficiency.

Home, Sweet Home? Why Canadian Investors Should Consider Diversifying Exposure to International Equities.

It's not difficult to understand why some investors lean towards domestic equities. They carry certain key advantages: there is no exchange rate risk, home-grown companies offer the comfort of familiarity, or they can be easily researched, and they're governed by local securities regulations.

Paul Bowes
Canada Country Head,
FTSE Russell

On the other hand, our data shows that home country bias represents significant opportunity cost for investors and therefore warrants closer examination.

Research from global index provider FTSE Russell suggests that Canadian investors demonstrate a strong domestic bias in equity investing—and they can potentially improve their diversification by increasing their exposure to international equities.[1]

What does the data tell us?

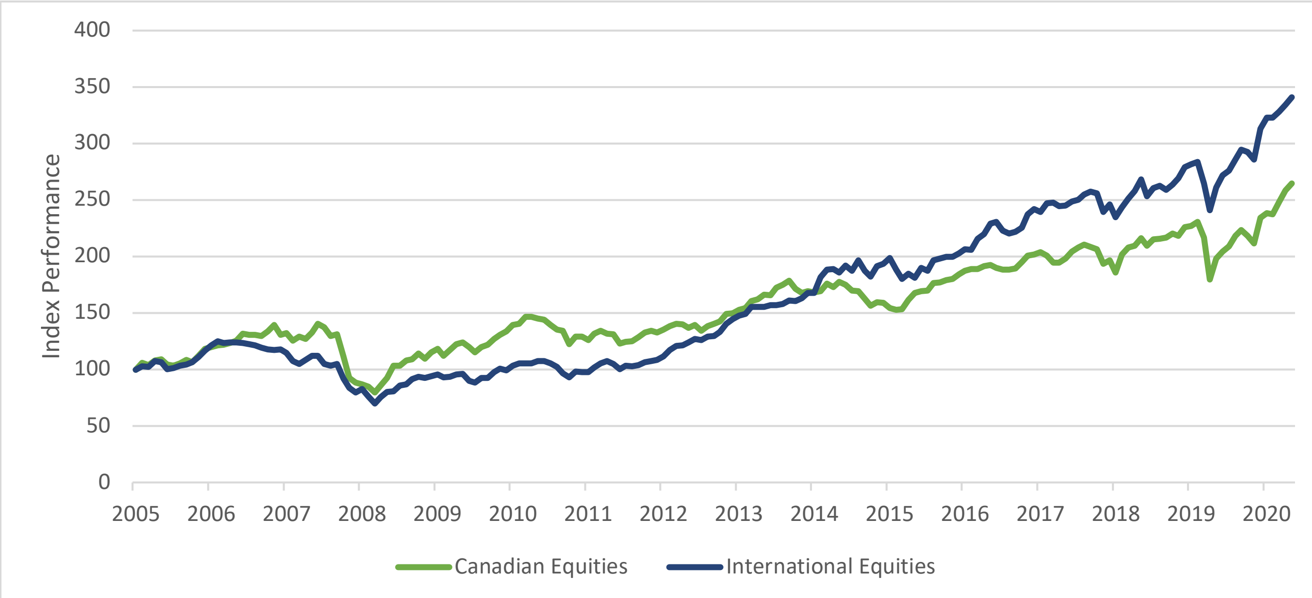
First, let's look at the performance and characteristics of Canadian and international equities from the standpoint of a Canadian investor.

Based on a 2019 study of pension fund providers, Canadian investors show a significant home bias, with an average of 21% of equity exposure invested in domestic equities, compared to Canada's weight of 3% in the FTSE All-World Index.[2] Yet across a roughly 15-year period ending on April 30, 2021, international equities outperformed Canadian equities by more than 175 basis points on an annualized basis.

FTSE Russell

In the chart below, the FTSE Canada All Cap Domestic TR CAD is a proxy for “Canadian equities” while the FTSE Global All Cap ex Canada China A Inclusion NR CAD represents “International equities.”

Chart 1: Index performance, Base Value = 1000 on 12/31/2005



Moreover, international equities provide diversification benefits through higher weights in global growth driver industries such as Technology and Health Care, and lower weights in the Financials, Basic Materials and Energy industries that tend to dominate the Canadian market.

Canadian equities have also been more volatile across this same period, resulting in a lower return/volatility ratio. Despite its higher volatility, Canadian equities can play an important diversifying role in a Canadian investor’s equity portfolio due to their relatively low correlation (0.71) with international equities.

Chart 2: Performance statistics, January 2006-April 2021

	Annualized Return	Annualized Volatility	Return/Vol Ratio
Canadian equities	6.56%	13.68%	0.48%
International equities	8.33%	11.87%	0.70%

Source: FTSE Russell and Morningstar Direct, data as of April 30, 2021. Past performance is not a guarantee of future results. Returns shown prior to an index’s live date reflects hypothetical historical performance (the FTSE Canada All Cap Domestic Index live date is February 6, 2017, and the FTSE Global All Cap ex Canada China A Inclusion Index live date is June 30, 2015).

Advantages of a more diversified approach

What about the potential risk and return benefits of adding more international equities to a Canadian equity portfolio?

In a hypothetical scenario, we combined the Canadian and International portfolios at varying proportions and rebalanced them monthly. Starting at a very high home-bias of 50% allocation to Canadian equities, we saw a return of 7.6% with a volatility of 11.8%. As the allocation to Canadian equities drops, the return rises and the volatility drops, reflecting the higher return of international equities and the diversification effect.

However, when the allocation to Canadian equities drops below approximately 25%, the volatility begins to rise again, as the return continues to increase. This simple analysis implies that Canadian investors with too much of a home bias (more than 25% allocation in this particular example) are sacrificing return without any benefit of reduced volatility. While increasing the international allocation above this point increases volatility, it also increases return. If Canadian investors’ objectives are to obtain higher return rather than lower volatility, then increased international equity exposure may be beneficial.

The Canadian equity market is less diversified as compared to other global equity markets, which can handicap investors with a Canadian equity bias from the start. The research suggests that pursuing a mix of Canadian and non-Canadian equities over time within a more diversified global portfolio can deliver advantages to the end investor.

[1] https://content.ftserussell.com/sites/default/files/too_much_of_a_good_thing_final_0.pdf

[2] https://www.ftserussell.com/research/appraising-home-bias-exposure-using-ftse-global-equity-index-series

A Commonsense Approach to ESG Contributes to Investment Excellence

2020 was a historic and eventful year. The COVID-19 pandemic reminded us of human fragility and resilience, prompting the acceleration of innovation and digitalization. The year also saw a burning focus on systemic inequalities and the pressing issue of our changing climate. As the first Prime Minister of independent India Jawaharlal Nehru said, "Crises and deadlocks when they occur have at least this advantage, they force us to think." This backdrop put a renewed spotlight on the role of capital markets and Environmental, Social, and Governance (ESG) investing.

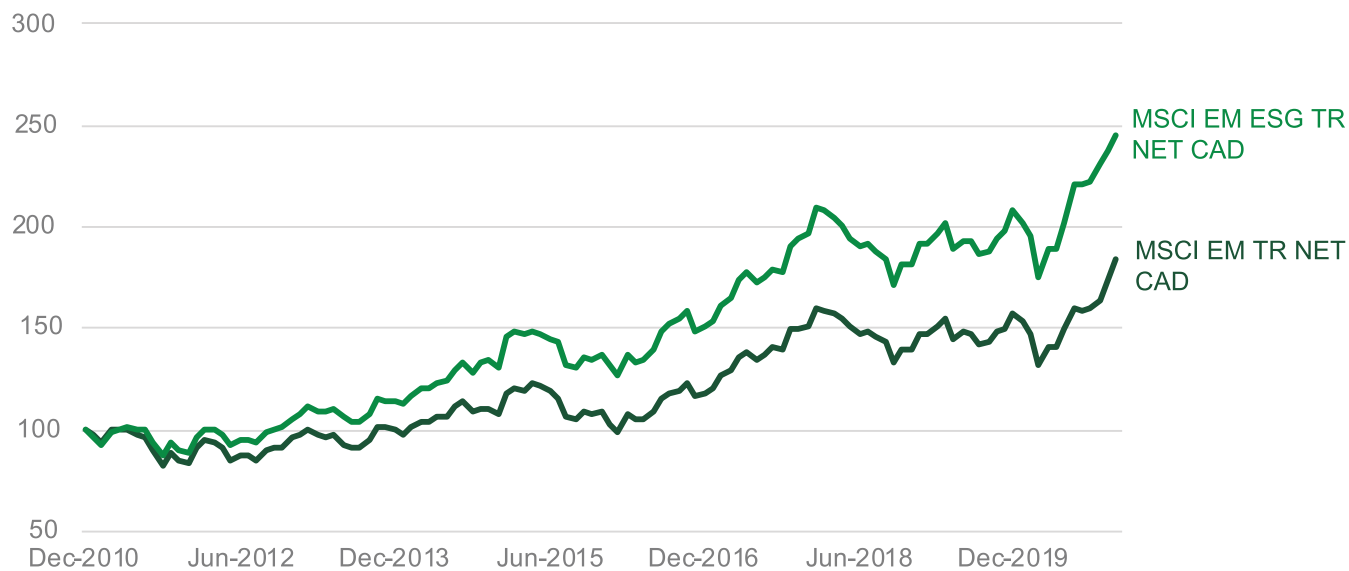
Priti Shokeen
Head of ESG Research and Engagement, TDAM

For over a decade, Sustainable Investing (often used interchangeably with Responsible Investing and ESG investing) has been ridden with complexity, jargon and a state of analysis paralysis. The last few years, this picture has changed from inaction to action, and investors doubled down on sustainable investing in 2020, with the dialogue in the corporate world moving from "do no harm" to "invest with purpose."

The primary reason for this shift has been investor demand. This has emanated from both a focus on individuals looking to align their investments with their personal values, but also perhaps a cognizance of the relative outperformance of ESG-oriented equity funds over traditional equity funds, such that there has been little perceived "cost" for that alignment.

TD Asset Management

Exhibit 1: **Long Term Performance of Emerging Market ESG Index**



Source: Bloomberg Finance LP, MSCI, as of December 31, 2020

With a world-wide interest in green recovery and climate change commitments under the Paris Agreement, we expect ESG to be a continued focus for companies, regulators and investors. In 2021, at TD Asset Management Inc. (TDAM), our focus remains on investment excellence and sustainable investing. Our philosophy has been to invest in sustainable long-term investments; accordingly, we have been attentive to ESG aspects of portfolio

companies and assets both from a risk and opportunity perspective for a number of years. This journey was more formalized as far back as 2008 when TDAM signed onto to the UN Principles for Responsible Investing (UNPRI).

Most recently, we have received an A+ rating in the last UNPRI reporting cycle.

From a portfolio management standpoint, ESG considerations are deemed a practical and common-sense approach in all asset classes. As outlined in TDAM's Sustainable Investing Approach, our investment teams across asset classes integrate ESG considerations into their investment process to understand both the risks embedded but also the opportunities that are presented in a particular company's or asset's approach to ESG. We have grown and will continue to grow our commitment to Sustainable Investing in order to continue leading in this fast- evolving space.

For 2021, we believe that greater attention to the following areas in ESG will add significant value in seeking long- term sustainable-growing assets:

1. **Stronger focus on board diversity in the 2021 proxy voting season Consistency of ESG**
2. **Consistency of ESG engagement across all our asset classes**
3. **Material ESG issues will continue to inform portfolio risks and opportunities**
4. **Accelerated focus on climate transition across asset classes**

Sustainable

1 Stronger Focus on ESG in 2021 Proxy Voting Season

We take our share ownership with a great deal of responsibility as fiduciaries for our clients. For the 2021 proxy season, we have implemented tools and guidelines that will systematically advance our approach to assessing ESG matters.

The new standard guidelines will generally recommend voting in favor of the following ESG proposals: proposals that seek standardized reporting on ESG issues, proposals that request information regarding an issuer's adoption of and adherence to relevant norms and standards, and shareholder resolutions advocating enhanced disclosure and transparency.

Our ESG Research and Engagement team along with our investment research teams will provide reviews of key proposals to help support Portfolio Management voting decisions and ensure we continue to uphold the best interest of our clients.

In 2021, TDAM will also further advance gender diversity: TDAM will vote against all incumbent members of the nominating committee if less than 30% of the board is represented by women. If there are no incumbent nominating committee members up for election or if the board does not maintain a nominating committee, TDAM will vote against all incumbent members of the board.

2 Consistency of ESG Engagement Across Asset Classes

We regularly engage with companies we invest in to highlight areas of concern and/or areas of potential improvements. To drive better management of ESG risks in our portfolio companies, in 2020, we engaged with 191 companies across portfolios on such topics as board composition (i.e. tenure, renewal, expertise, diversity) aligning management compensation with shareholder returns; safety and environmental impact; climate change risk and energy transition strategy; cyber security; and, efforts to establish sustainable practices through positive impacts on local communities and other stakeholders.

In 2021, our approach will be defined by consistency of engagement across all our asset classes. In our 2021 ESG Focus List, we aim to engage on systemic and material ESG issues with our largest combined holdings across public and private markets. We will seek information from our portfolio companies on how their boards address material and systemic ESG risks and look to know more about ESG expertise on boards. We believe that the right governance structures, along with a focus on holistic value creation, keep companies profitable and resilient in the face of increasing systemic risks.

In addition to direct engagement, TDAM is also part of the Climate Action 100+, Canadian Coalition for Good Governance, Carbon Disclosure Project, the Responsible Investment Association of Canada and the UNPRI working groups, where collaborative engagement provides opportunities for influencing corporate behaviour towards adoption of best practices on ESG.

3 Material ESG Issues Will Continue to Inform Portfolio Risks and Opportunities

Our focus on long-term investment relies on sound evaluation of how a business serves current and future needs, but also how well companies are managing ESG risks directly relevant or material to their long- term financial well-being. With growing consensus around sustainability reporting standards, such as the Sustainability Accounting Standards Board, financial materiality of ESG issues is gaining some consistency in the market.

In general, we are highly supportive of these standards, and believe in companies with high-quality management that are aware of key ESG risks and opportunities, communicate these transparently to their shareholders and maintain good relationships with their stakeholders.

Our integrated ESG view is embedded into all our portfolios across asset classes.

In 2021, we'll evolve our approach to ESG materiality and portfolio analysis through continued advancement of our proprietary ESG exposure scores. As well, our ESG dashboard will integrate multiple independent third-party ESG information sources with our proprietary work for greater consistency.

4 Accelerated Focus On Climate Transition Across Asset Classes

Climate action in 2021 will be accelerated by regulatory development across various jurisdictions and by the expectations for increased government spending around green stimulus packages set to allocate significant resources for transitioning to low-carbon economies. The European Union's Green Deal is leading the charge with €100 billion, and the U.S. is following suit. The anticipated stimulus in the U.S. far exceeds the initial expectations of early 2020 due to Joe Biden's presidential victory, with local and state funding levels also favouring climate-friendly recovery.

Another strong tailwind is regulatory developments such as the EU Taxonomy for sustainable activities and the EU Sustainable Finance Disclosure Regulation (SFDR). These are influencing other regions to put in place requirements that are similar but tailored to financial institutions, such as the Monetary

Authority of Singapore's Guidelines on Environmental Risk Management for Banks. Now that we have governments committed to the Paris Agreement moving ahead with plans to decarbonize their economies, including a major manufacturing economy such as China pledging to Net Zero Emissions by 2060, many different sectors will see a secular divide between solutions-oriented companies versus the status quo.

In 2021, at TDAM, we aim to push our approach further by looking at macro sectoral effects of climate change and identifying investment risks and opportunities across different actively managed asset classes. We will continue our efforts with CDP and Climate Action 100+. We will also be participating in the United Nations Environmental Programme Finance Initiative 2021

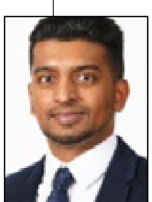
Pilot 2 project to identify best-in-class approaches to climate risk. Other promising initiatives are on the horizon as well, and TDAM will continue to engage to move the needle on assessing both climate risks and opportunities.

Of course, investment excellence is by its nature work in progress. As data and markets reach new levels of maturity in ESG and sustainable finance, we will continue to advance our commitment to investment excellence by refining our approach on sustainable investing further, including allocating resources to deeply integrate ESG across all asset classes at TDAM, and by acting as responsible stewards of capital through engagement with companies for better sustainable outcomes.

ESG

An Evolved Approach to Core Investing

The Greek philosopher, Heraclitus, was quoted as saying, "change is the only constant in life". Henri Bergson took it a step further when he said, "to exist is to change, to change is to mature, to mature is to go on creating oneself endlessly." These two observations regarding change and the ability to adapt to it, are easily seen in the investing arena. The investment industry is continuously evolving in response to changing macro conditions, new products and regulatory environments. One of the biggest benefactors of change has been the world of indexing and exchange traded funds (ETFs).



Nirujan Kanagasingam
VP, ETF Strategy

A Little History

In 1889 Charles Dow and his partner, Edward Jones, set up a tiny Wall Street bureau that published a daily newsletter after the stock market closed. The newsletter tracked the daily performance of a handful of stocks, using a methodology that weighted the stocks according to their price. The companies with the highest stock prices received the highest weightings. The newsletter eventually became known as The Wall Street Journal and in 1896, the index became the Dow Jones Industrial Average.

At the time, The Dow Jones was a simple way to track the performance of a basket of stocks and like most things it has evolved enormously over the last 125 years. We have seen the world of indexing continue to evolve, moving from price weighted Indices to market-capitalization weighted, with the introduction of the S&P 500 Index in 1957, which gained immense popularity.

CI GLOBAL ASSET MANAGEMENT

Where We Are Now

The ETF industry, both in Canada and the United States, has long been dominated by products based on market-cap weighted indices. While these strategies are extremely popular and serve a purpose as core **building blocks** in an investor's portfolio, they also have several drawbacks. For one, market-cap indices assume the market is efficient and stocks are priced correctly. They are also:

- prone to pricing bubbles;
- have no rebalancing discipline; and are
- susceptible to concentration risk (think Nortel, RIM, or Valeant more recently in the S&P/TSX Composite Index)

CI WisdomTree Quality Dividend Growth Suite

To overcome these drawbacks, factor indices and factor investing was developed and have quickly gained prominence among investors. Factor indices are designed to track the performance of stocks with specific characteristics or "factors" such as dividends, quality or growth.

The **CI WisdomTree Quality Dividend Growth ETF** suite tracks a family of WisdomTree indices that are designed to overcome some of the issues of market-capitalization indices by taking a multi-factor approach. The indices invest and weight the companies based on the fundamental characteristics of each company, such as dividends, quality and growth. This evolved approach to core investing has proven to be an improvement over traditional index tracking and offers investors another portfolio-building tool. CI Global Asset Management offers the following three strategies that focus on WisdomTree's Quality Dividend Growth Indices:

- **CI WisdomTree Canada Quality Dividend Growth Index ETF (DGRC)**
- **CI WisdomTree U.S. Quality Dividend Growth Index ETF (DGR, DGR.B)**
- **CI WisdomTree International Quality Dividend Growth Index ETF (IQD, IQD.B)**

A Deeper Dive

The merits of dividend investing and the power of dividends to compound investor returns over time is well understood as illustrated by the surplus of dividend strategies in the market. However, traditional dividend strategies tend to use backward-looking screens and miss out on companies with the fastest rate of dividend growth. The **CI WisdomTree Quality Dividend Growth ETF** suite is designed to take a forward-looking approach when it comes to investing in dividend paying companies.

CI WisdomTree Quality Dividend Growth ETFs are constructed through a combined focus on **quality, dividends and growth**. The methodology focuses on **return on equity (ROE)** and **return on assets (ROA)**—two prominent measures of quality —as well as **forward looking earnings expectations** to identify **dividend paying companies** with **high-quality balance sheets and strong potential for dividend growth**. By combining quality with high profitability, these dividend paying companies have the potential to grow their dividends faster than companies that rely on backward looking screens for dividend growth. For investors that seek to tap into these characteristics, the CI WisdomTree Quality Dividend Growth suite can serve as a core position in globally diversified portfolios.

So why does it matter to take a forward approach?

Not Your Traditional Dividend Strategy – Apple Inc.

While a big focus of the strategy is to invest in dividend paying companies and weight by its Dividend Stream, the CI WisdomTree Quality Dividend Growth ETFs is not your traditional dividend strategy. The ETFs do not attempt to invest in the highest-yielding companies or the companies that have the longest track-record of paying dividends. Instead, the ETFs invest in **high quality companies** that have the **opportunity for future dividend growth** while seeking to **maximize total return**. The best way to illustrate is by looking at **Apple Inc**.

Apple is currently the **largest dividend payer** in the U.S. based on total dollar of dividends paid, but the company only initiated dividends in 2012. Traditional Aristocrats Dividend strategies using backward-looking screens **would be prohibited from including Apple**, while Apple Inc. makes up one of the largest weights in the CI U.S. WisdomTree Quality Dividend Growth Index ETF (DGR/DGR.B).

A Strong Response to Change

The CI WisdomTree Quality Dividend Growth suite's combined focus on quality, dividends and growth has resulted in the funds and their underlying indices exhibiting strong historical absolute and risk-adjusted returns with higher quality metrics.

The world of indexing and index-based ETFs have adapted strongly to change since the launch of the first ETF over 30 years ago. Investors now have a plethora of options outside of traditional index funds to help them achieve their investment outcomes.

Published June 8, 2021