WINTER 2021

CANADIAN ETF Watch

CanadianETFWatch.com

2020 THE YEAR THAT WAS...

TMX THE FUTURE IS YOURS TO SEE.

2020 was a year many people will want to forget. The COVID-19 pandemic introduced many challenges to your day-to-day work, your personal life as well as your work-life balance. This was further complicated given that for most of us, work and life was in the same setting.

With this said, you have done an incredible job of meeting the needs of your clients, keeping them informed and continuing your own personal professional development – and all of this while ensuring that everyone you work with are safe and healthy. We commend your efforts.

2020 was not all bad and there were some positives. In fact, for the ETF industry, it was a banner year – growing at an almost 25% year-over-year rate and we believe it is set up for another great year in 2021.

This edition of **ETF Watch** provides you with an overview of the challenging year that was and what you can do moving forward in your practice for 2021. Articles from leading industry voices touching on subjects such as active management, emerging markets and sustainable investing/ESG will provide you with important information on the direction of the ETF industry for the coming year and beyond.

We thank you for your continued empathy and dedication to your clients and your optimism – we will get through this. We sincerely hope that **ETF Watch** can help with the decisions that you and your clients are making now and in the future.

Sincerely,

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

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

About *Canadian ETF Watch*

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

CANADIAN ETF Watch
CanadianETFWatch.com

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DIVERSIFICATION

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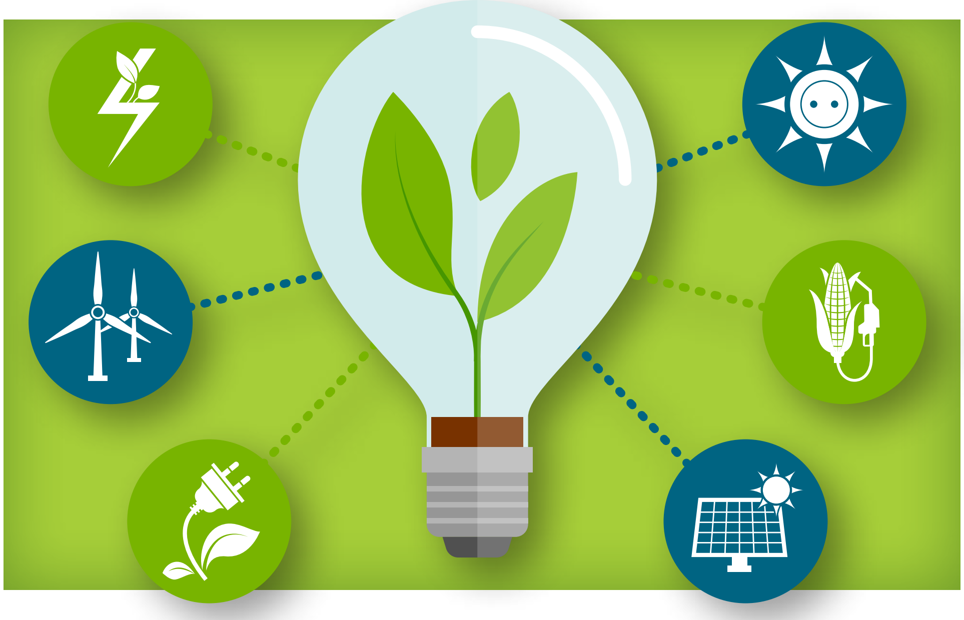
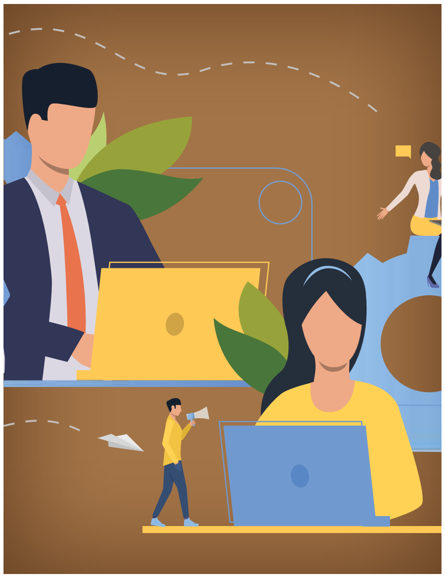
TACTICAL FLEXIBILITY

HARB

ACCESS POSITIVE ABSOLUTE RISK-ADJUSTED RETURN POTENTIAL

HORIZONS ETFs by Mirae Asset





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2020 THE YEAR THAT WAS...

30TH ANNIVERSARY OF THE WORLD'S FIRST ETF LISTING ON THE TORONTO STOCK EXCHANGE

20TH ANNIVERSARY OF THE WORLD'S FIRST FIXED INCOME ETF

The easiest way to reflect on 2020 is to acknowledge that it is over. So much grief, fear and heartache transpired over the course of last year that we naturally just want to move on and not look back.

Graham MacKenzie
Head of Exchange Traded Products, Toronto Stock Exchange

While that is a fair perspective to take for how much of 2020 played out, on the other hand it's worth acknowledging some of the major developments in the bustling Canadian and global ETF industry.

In the lead up to 2020, there was much discussion within the industry on how to recognize not one but two significant milestones happening that year. In early March, the ETF industry gathered to celebrate the 30th anniversary of the world's first ETF listing on Toronto Stock Exchange (TSX). It was a joyous event that marked the financial innovation that came out of Canada. Eight months later, amidst lockdowns, we celebrated with a lot less fanfare the 20th anniversary of the world's first fixed income ETF also listed on TSX. Interestingly enough, celebrating the two milestones in the same year led to some debate over which product launch had a more significant impact on investing and the capital markets.

When taking a look back at the year, the Canadian ETF industry started off at a feverish pace much like how it finished 2019 by setting records. From a record 22 new ETFs listed on TSX in January to a record initial listing size of over $1 billion with the Horizons S&P/TSX Capped Composite Index ETF (TSX: HXCN) in February, 2020 was off to a blistering start until the severity of what was happening in the world around us fully settled in.

TMX | Toronto Stock Exchange

While markets gyrated and volatility picked up in late February, it really wasn't until early March that we grasped the imminent danger we were in for. Markets moved in a sequence of free falls followed by rapid surges. For years, ETF naysayers have pushed a fallacy that the ETF structure couldn't withstand the onslaught of volatile markets. This rhetoric obviously ignored that ETFs had survived previous market challenges, like the Asian currency crisis in 1997 and the financial crisis of 2008-2009.

The spring of March 2020 could not have been a better test for the ETF structure and markets. To say ETFs didn't pass the test would be inaccurate. While corporate and high yield bond markets grinded to a halt, ETFs around the world that were tracking these markets continued to trade and gave investors access to them. Early in the mornings when equity futures markets were frozen in limit down halts, ETFs tracking the same indices as the futures continued to trade and became the proxies for global markets. ETFs were not just trading like they should be, but in several cases ETFs became the Market.

The ideology that ETFs are a fad or a house of cards waiting to fall were all rightfully proven wrong. If anything, ETFs' resilience to difficult markets exposed potential shortcomings for end of day net asset value (NAV) pricing and trading of mutual funds. While ETFs were able to reflect and trade at market prices, many mutual funds with exposure to corporates and other high yield bonds were forced to rely on stale prices causing a mis-match between their NAV and market prices. This type of price disconnect made long-term holders of these funds susceptible to wealth destruction when other investors exited the funds at values set by stale prices.

As the year progressed and we settled into the virtual world, market volatility abated and ETF business trekked ahead. While there were a few initial delays in new product launches, the quick pace that kicked off the year had returned. By the end of the third quarter, it was clear that 2020 was yet again going to be a record year for ETFs in Canada. Net new flows into ETFs surpassed 2019's full year by the end of August. At the end September, with a full quarter to go, TSX had listed more new ETFs in a single year than ever before.

ETF assets under management (AUM) in Canada reached approximately $250B according to National Bank Financial ETF research and strategy team *(https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=78e06b0e-9a44-4dcf-aa82-df1f942e8de2&mime=pdf&co=nbf&id=graham.mackenzie@tmx.com&source=mail)* at the end of November. That is 25% more than it was just one year earlier when the dollars under management surpassed $200B in late 2019. The surge in the price of gold did have commodity AUM grow significantly but nearly 60 cents of every new dollar in Canadian ETFs continues to go into equity products.

The focus on sustainable and ESG related products also continues to grow with now 14 fund providers in Canada offering ETFs that lend themselves to the conscious investor.

While much of what is written related to 2020 is deservingly somber, there were some bright spots along the way. ETF investors can bask in knowing that the vehicle they've chosen to ride the wave should survive and has proven once again it can withstand tremulous markets. It's far too early to predict what kind of year 2021 will end up being for ETFs but if history continues to repeat itself, then expect to see plenty of new records and a few new innovative products.

Graham MacKenzie, Head of Exchange Traded Products,
Toronto Stock Exchange ***graham.mackenzie@tmx.com***

IT'S FAR TOO EARLY TO PREDICT WHAT KIND OF YEAR 2021 WILL END UP BEING FOR ETFS BUT IF HISTORY CONTINUES TO REPEAT ITSELF, THEN EXPECT TO SEE PLENTY OF NEW RECORDS AND A FEW NEW INNOVATIVE PRODUCTS.

2021 CALENDAR OF EVENTS

Brought to you by radius Financial Education

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WAIS Canada 20th Annual

Monday, Sept. 27 & Tuesday, Sept. 28 ~ 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 2021 CANADA

waisc.com

Institutional Dialogue 11th Annual

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

Institutional Dialogue is Canada's premier institutional event with an academic angle and a focus on education & open dialogue. The Dialogue is an invitation-only symposium creating a forum for open dialogue and debate issues facing Canada's foremost institutional investors. The distinguished speaking faculty assembled each year includes academics, authors, policymakers, journalists, consultants and select practitioners. A selected group of senior representatives from Canadian pensions and family offices will participate in three days of informative discussions, education and networking. This confidential closed-door event is reserved for select industry participants.

Institutional Dialogue

InstitutionalDialogue.com

Exchange Traded Forum (ETF Vancouver) 11th Annual

Monday, November 1 ~ 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 ~ 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 ~ 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

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TORONTO

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ETF & Investment Forum London 2nd Annual

Fall 2021 ~ 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 2021
RadiusEurope.com
LONDON

ETF & Investment Forum Frankfurt 2nd Annual

Fall 2021 ~ 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 2021
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FRANKFURT

Institutional Dialogue 2nd Annual

Fall 2021 ~ 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.

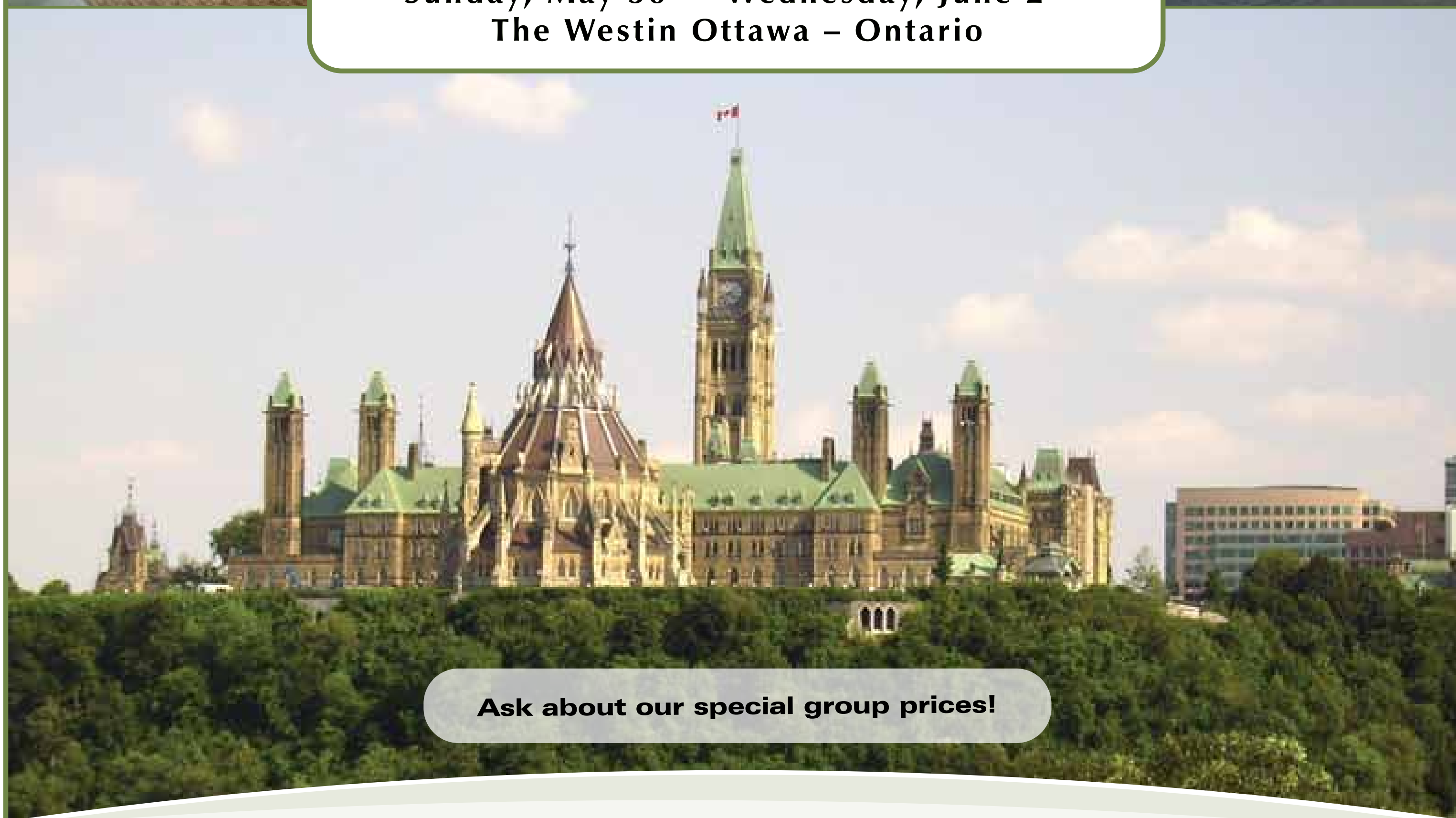
INSTITUTIONAL DIALOGUE
RadiusEurope.com

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

19th Annual National Conference - 2021

Sunday, May 30th - Wednesday, June 2nd
The Westin Ottawa – Ontario



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The Rise of Sustainable Investment in Canada

With an increasing number of investors in Canada looking for more sustainable investment opportunities, the future of ESG appears bright, and index providers are rising to the challenge by providing investors with education, tools and insight.

Paul Bowes
Canada Country Head, FTSE Russell

FTSE Russell

FTSE Russell's engagement in Environmental, Social and Governance (ESG) indexes spans almost two decades, since we first launched FTSE4Good in 2001, but in recent years we have measured a significant uptick in investors' interest in sustainable strategies.

We've seen growing appetite for ESG among investors globally – our 2020 FTSE Russell Smart Sustainability Survey found more than 7 in 10 asset owners worldwide are evaluating and implementing sustainable investment considerations into their investment strategies.

Our survey also noted distinct regional differences: Europe remains ahead of North America in sustainable investment evaluation or adoption at 85% compared to 63%. However, North America is catching up at an impressive rate – evaluation and implementation of sustainable investment approaches increased over 20% in the past year alone.

The data is just as compelling when we look closer to home. According to a recent survey from the Responsible Investment Association, Canadian ESG assets grew to $3.2 trillion as of the end of 2019, compared to $2.1 trillion at the end of 2017; that's a 48% increase in assets under management in just two years. Clearly, ESG isn't a trend – it's an evolution in the way we invest.

Index Providers Expanding Tools for Investors

So, what does this mean for Canadian investors? All of these changes raise interesting questions about how to navigate the rapidly evolving world of sustainable investing. Sustainable investing strategies have grown more sophisticated, and we're seeing a range of approaches currently that include starting with the simplest:

Negative Screening

The investor (or the index provider compiling an ESG benchmark) identifies specific companies from the investment universe to exclude based on undesirable criteria. For example, companies involved in the production of weapons or tobacco products, fossil fuel industries or those involved in serious controversies or misconduct, may be screened out of the portfolio or index.

Positive Screening

In the opposite approach, companies are selected for inclusion in the portfolio or index, based on the positive selection of certain characteristics, or the achievement of a minimum ESG score in a ratings system.

Integration

An integrated approach considers ESG information alongside traditional investment data to help identify potential risks or a competitive advantage (such as exposure to the green economy). ESG information can be used in this way to build "Smart Sustainability" indexes, for example by "tilting" constituents' index weightings up or down based on certain sustainability parameters alongside more traditional smart-beta/risk-premia factors.

Engagement

Investor engagement focuses on identifying portfolio companies that are exposed to particular risks but whose management is doing little to manage or mitigate them. By engaging with the company's management and through exercising voting rights, investors target improvements in the company's business strategies, approach to risk and inter-related ESG performance.

Thematic Investment

Investors looking for exposure to ESG opportunities or for "positive impact" may allocate capital to thematic portfolios. Investors may focus on well-established environmental themes (such as energy efficiency, renewable energy and water), or they may use other frameworks, such as the United Nations' Sustainable Development Goals.

Index providers enable the implementation of these approaches by providing analytics and proprietary data models to evaluate companies for different ESG factors. These models arm investors with insights to effectively identify companies in line with their unique investment theses and values.

Of course, investors have different goals, from greater Board diversity to specific geographic focus. Today's indexes and data models accommodate the entire spectrum of investor motivations. As depicted below, whether an investor is seeking to manage climate risk in a portfolio or seeking to invest for impact, all investors have the ability to integrate ESG factors thoughtfully. And of course, index companies also provide custom benchmarks so investors can properly evaluate and manage the success of their investment approaches.

As investors increasingly understand the financial materiality of environmental, social and governance factors, all signs point to continued growth of sustainable investing and incorporation of ESG factors into investment processes. These investors will continue to rely on index providers for critical data, analytics and other tools in order to implement effectively.

Paul Bowes, Canada Country Head, FTSE Russell
paul.bowes@ftserussell.com

RETIREMENT CANADA DIALOGUE 2021

TORONTO
November 16th, 2021
Marriott Downtown

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Navigating to Future Ways of Work

Countries and organizations worldwide are facing a new reality in the wake of the COVID-19 pandemic. The restrictions prescribed to contain the pandemic have led many organizations to consider an array of future work strategies, not only to protect the wellbeing and safety of employees, clients, vendors and other stakeholders, but also in recognition of new opportunities for mangers, services providers, investors and employees.

Ron Landry
Head of Product and Canadian ETF Services
CIBC Mellon

As authorities reevaluate their guidelines, organizations and their employees must navigate challenges, shifting consumer demands, regulatory changes, technology disruption, a uncertain market and business environment. Even as vaccinations begin in various jurisdictions, caseloads remain high in many areas; many organizations are planning to remain fully remote into the spring. For others, the move to remote working and the associated benefits realized are leading to considerations about maintaining a portion or majority of employees in a remote environment even in a post-pandemic environment.

CIBC MELLON

At CIBC Mellon, across our global enterprise operations and in conversations with many clients, it is clear that digital and data-centric business models are here to stay. From contactless ordering and delivery models to subscription business models, the post-pandemic environment will see digital acceleration as a key priority. Businesses have had to innovate themselves to provide continuous availability, workforce mobility, and flexible access to computing and storage for both planned and unplanned events. Indeed, many clients' success in moving their clients and unitholders from physical mail to electronic processes for the receipt of services outsourced to CIBC Mellon has accelerated rapidly. With digital business models stems the need to collect and analyze data to inform major business decisions. Organizations may find themselves in the market for accurate and rapid forecasting tools as they plan for all possible business scenarios. The desire to strengthen an organization's core competencies while reducing cost has seen a re-emergence of outsourcing processes to providers with suitable scale, focus and resiliency.

Data as the Lifeblood of the Investment Process

For ETF sponsors and advisors, data has always been a crucial element of operations. The shift to digital ways of work may present further opportunities to capture inflows and reach new audiences, as well as to compete for flows as investors reconsider their strategies and investment frameworks.

As evidenced throughout the pandemic, the need for timely data has never been more crucial for organizations as they prepare to respond to business challenges and embrace investment opportunities. Across our global enterprise, we have seen clients accelerate their data, analytics and technology approaches, including revisiting decisions about their technology needs for functions performed in-house as well as the array of activities outsourced to service providers. The pandemic has created new challenges, but it has also accelerated the urgency as institutional investors advance their technology and digitization strategies.

Supporting Client Success

Likewise, industry stakeholders around the world – asset owners, managers, industry associations, market utilities, market authorities and various service providers have come together to focus on the many paper processes and wet signatures associated with such processes as pensioner payments, tax reclaims and other market documentation. While the industry as a whole still has many paper-driven processes, the pandemic experience has certainly created strong impetus to continue to move these to electronic formats. These factors will continue to put pressure on the industry in the months and years ahead.

Flexible Work Arrangements Likely Here to Stay

According to CIBC Mellon's experience, with 98% of employees working remotely, our teams have been able to maintain their productivity levels and meet or, in some areas, exceed their daily deliverable benchmarks. A wide array of operational metrics have trended favorably following the intense volumes of March 2020.

The benefits to employees have been noted in the remote environment as well. Employees have cited the ability to work from home as leading to lower stress levels and more time to engage with their family, developing a stronger work/life balance. Teams whose tasks are done later in the day are finding that previous challenges, such as transit and commuting schedules, are more manageable in a work from home environment. Employee engagement scores have risen sharply amid the shift to remote work: rising to levels in excess of prior year and significantly above industry benchmarks. In a September 2020 survey, CIBC Mellon's teams reported 95% overall sustainable employee engagement (9% above the industry coronavirus period benchmark), with 97% of employees agreeing their team/department is able to meet work challenges effectively (10% above industry norm) and 94% preferring to continue to work remotely in the pandemic environment (21% above industry norms).

Even amid such positive early results, questions of course remain. How will organizations reassess real estate, technology and compliance requirements in a sustained remote world? Perhaps even more importantly, how will organizations maintain their cultures, sustain collaboration, and continue to recruit and retain talent with a distributed workforce? Various organizations will likely have different answers, but most will be well served to ask these and other important questions as they consider the long term future of work.

Changes Underway, Changes Ahead

The implications of the pandemic to market, regulatory and investment landscape cannot be understated. Consider, that the regulatory, market and market participant implications of the 2008 financial crisis unfolded for more than a decade. Rapid change continues as companies, organizations, advisors and other market stakeholders reposition, but it is likely that the long term change will continue to be felt for years to come. 2020 was a year like few others, and 2021 and beyond will no doubt present many ongoing challenges and opportunities.

Ron Landry, Head of Product and Canadian ETF Services, CIBC Mellon ron.landry@cibcmellon.com

Emerging Markets from the Lens of a Canadian Investor

In the past, Canadian investors have overlooked emerging markets (EM) largely due to the similarities between emerging market economies and the Canadian market as both were overweight to energy, commodities and financials.

Danielle Neziol
Product Specialist, BMO ETFs

In terms of portfolio construction, Canadians were advised to avoid emerging markets because it would add risk and volatility while doing little for sector diversification. Canadian investors looked instead to U.S. equities for growth solutions, turning to companies in the S&P 500 or the NASDAQ, and most recently to mega-cap FAANGs and other new economy companies. As a Canadian, if you bought the S&P 500 Index 10 years ago, you earned a 16% annualized return. This is an 11% improvement on the Canadian market and a 4% improvement on the MSCI World Index during the same time, so the strategy worked well.[1] While U.S. equities remain an important component in a portfolio as we look forward, Canadian investors should consider expanding their investment universe to seek out future growth opportunities beyond the U.S. and should revisit emerging market equities as an important building block in a diversified global portfolio.

Emerging markets have evolved. They are no longer resource based. In the past, these economies were concentrated in energy and materials which made up one-third of the EM market.[2] Today, the MSCI Emerging Markets Index is 12% energy and materials while consumer discretionary and information technology have grown to a combined 40% weight (sectors which are still underweight in the S&P/TSX Composite Index).[3] Many of the companies in the index are some of the largest companies in the world. These "new economy" businesses include Taiwan Semiconductor who has a global monopoly in the semiconductor space, e-commerce giant Alibaba who has over 700 million users, and video game mega cap Tencent whose market cap is greater than Facebook's.

The regional composition of emerging markets has changed too. Once dominated by South Korea, the index is now over 40% Chinese equities, doubling in size over the last ten years, a reflection of China's ascent to the world's second largest economy. Taiwan and India have held their weights steady combining for around 20% of the index. Overall, the index has become more globally diversified with 26 countries from almost every continent. The GDPs of these countries are much greater than those of the developed world, another testament to the growth potential in these regions. Currently, much of the growth in EM is fuelled by China. China's returns this year have been much stronger than those in the U.S. The one-year return of the MSCI China Index is 35.4%, vs the S&P 500 return of 9.7%[4]. China has done a better job at containing and controlling the virus outbreak than the U.S. and its economy has recovered faster and stronger. The Chinese economy has become too big to ignore from an investment standpoint, demonstrated by the strength of its equity market during the global pandemic.

From the perspective of a Canadian investor, emerging markets today offer sector and regional diversification, much more so than they did a decade ago. As a proof point, the correlation between the two markets was 0.91 ten years ago while today it is 0.78.[5] And the growth potential that emerging markets offers gives Canadians another region to look to for growth solutions, beyond the U.S. An added benefit is that the growth is offered at attractive valuations. Valuations are historically lower in emerging market economies, especially versus more developed nations whose valuations are arguably stretched right now given the amount of economic uncertainty. The price-to-earnings ratio (P/E) of the S&P 500 Index is 28.4, while the P/E of the MSCI EM Index is 22.6.[6]

An ETF is a great tool to gain access to emerging markets. The MSCI Emerging Markets Index is over 700 securities trading on more than 20 different foreign exchanges, all in different currencies and in different time zones. The easy-to-use, low cost and liquidity benefits of an ETF allow investors to add this entire asset class to their portfolios, in a single trade on a Canadian exchange. There are over 20 different emerging market equity ETFs trading in Canada today, so Canadians have a lot of options. The most widely used benchmark for tracking EM equities is the MSCI Emerging Markets Index, which has over a trillion dollars in active managers benchmarking to it.7 The **BMO MSCI Emerging Markets Index ETF (ticker: ZEM)** tracks the MSCI EM index and is the largest emerging markets ETF in Canada with $2.3 billion in assets.8 Some EM ETFs use different index providers and different index construction: some are more tiled to small caps, others have different regional exposures (the inclusion of South Korea is debated, and while MSCI includes it as an emerging market economy, other index providers do not). There are even more EM ETFs which offer targeted exposures to a single country, for example China or India. The use of a broader EM exposure, using an ETF which captures all EM countries, provides an entire basket of economies which may have different market drivers.

Being aware of the global investment universe provides investors more options and more opportunities than concentrating on a specific region or market. As Canadian investors, looking to emerging market economies offers further growth opportunites in addition to North American equities, addresses home bias in portfolios and ultimately creates a more diversified portfolio. As emerging markets evolve, Canadian investors should take a renewed interest in this asset class to seek out long term growth opportunities, which are available to them right at home by using ETFs to gain access to these foreign markets in a highly liquid and low cost solution.

Danielle Neziol, Product Specialist, BMO ETFs

[1]Morning Star Direct. Based on the S&P 500 TR Index, the S&P/TSX Capped Composite TR Index and the MSCI World GR Index as of October 30, 2020. Returns in Canadian dollars.

[2]Bloomberg, October 30, 2020. Based on the MSCI Emerging Markets Index.

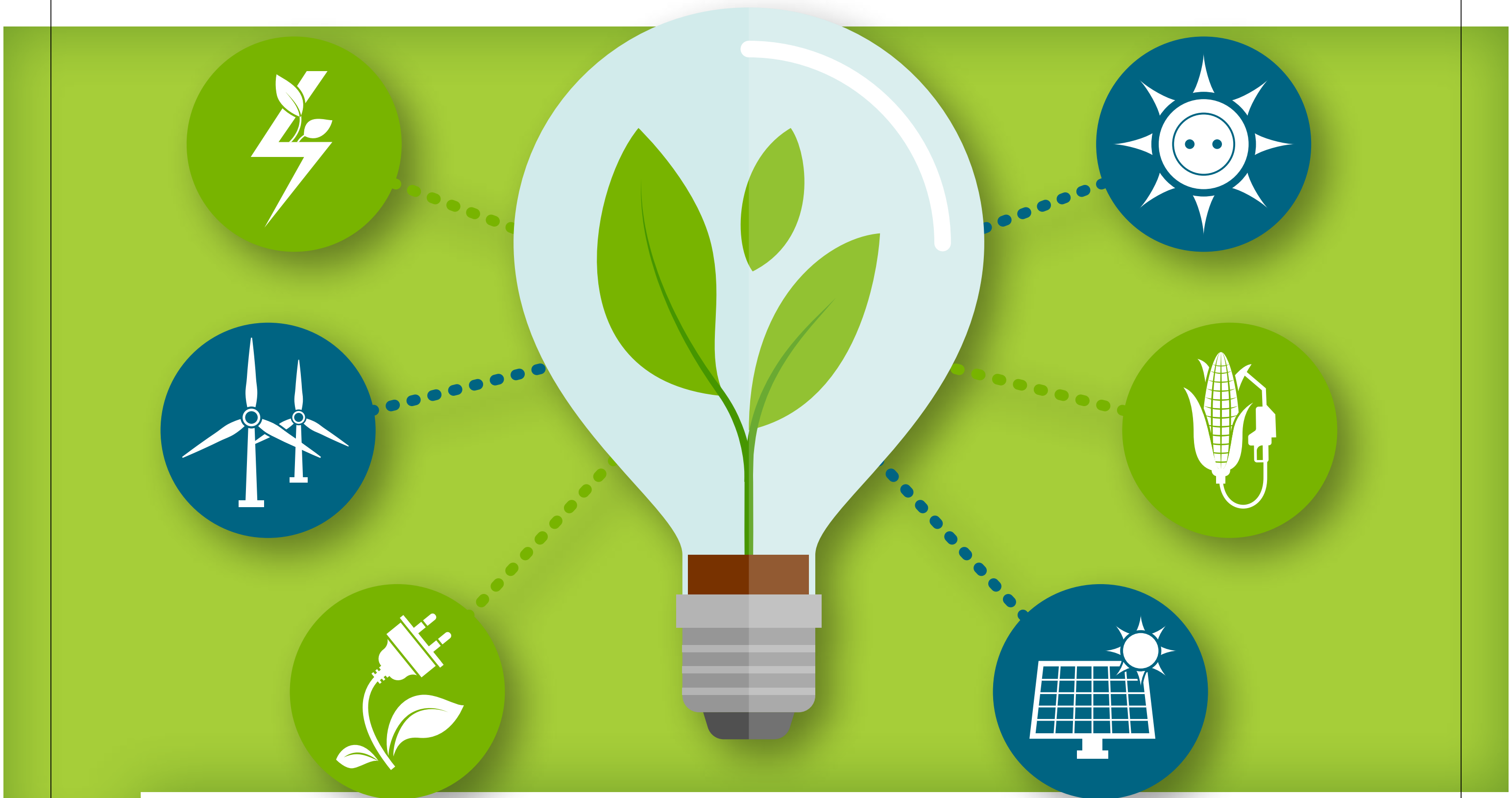
[3]BMO Global Asset Management, October 30, 2020.

[4]Morning Star Direct. Based on the S&P 500 TR Index and the MSCI China Index as of October 30, 2020. Returns in U.S. dollars.

[5]Five-year correlation between the MSCI Emerging Markets Index and the S&P/TSX Capped Composite Index, Morning Star Direct, October 30, 2020.

[6]Bloomberg, November 27, 2020. 7MSCI, October 30, 2020. 8BMO Global Asset Management, November 30, 2020.

Cannot see the Forest for the Trees: Integrating ESG into the Investment Process



Interest in Environment, Social & Governance (ESG), has increased noticeably in recent years. The COVID-19 pandemic has been a sobering experience, highlighting the degree to which natural events shape the economy and society, forcing companies to confront governance issues.

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Deloitte has forecast that money managed according to ESG principles may comprise half the asset base in the US industry by 2025 *(https://www2.deloitte.com/us/en/insights/industry/financial-services/esg-investing-performance.html)*, a remarkable figure considering the US asset management industry is the world's largest.

There is a concurrent demographic catalyst which Investment Counselling and Family Offices should consider. Studies show that ESG interest is prominent across all age groups, but rises significantly amongst younger generations:

- Baby boomers (1949-1967): 67%
- Generation X (1978-1982): 79%
- Millennials (1983-2000): 86%

PRI 2018 Reporting Framework responses; "Global perspectives on sustainable investing – Global Investment study" Schroders, 2017; Wealth X and NFP Wealth Transfer Report, 2016.

Investment Counsellors and Family Offices, and clearly any advisor, should be aware that ESG may be a major discussion point when assets are bequeathed.

BMO Exchange Traded Funds

Responsible investing has evolved significantly. It started with Quaker groups in the 1920s when investors wanted to ensure their capital was being directed towards businesses whose practices did not contradict basic Quaker principles. Similar considerations emerged during the Great Depression when investors demanded that capital be directed towards good corporate citizens. In the late 1960s and into the 1970s, ecological & environmental concerns brought renewed focus on how companies behaved.

These early responsible investment expressions were based on strong beliefs about what could be defined as an undesirable exposure. They were not wrong, but they posed significant concerns for Institutional and Discretionary managers because, as Fiduciaries, they are obliged to meet prescribed return objectives outlined in Investment Policy Statements. In January 2020 Harvard's Faculty of Arts & Sciences voted to demand Harvard Management Company, responsible for the Harvard Endowment, divest from carbon & fossil energy sources. As a Fiduciary, HMC could not comply because divestment and exclusion would constrain performance and returns *(https://www.harvardmagazine.com/2020/02/harvard-faculty-vote-governing-board-divestment).*

As McCarthy Tetrault has noted, incorporating qualitative ethical policies into the investment management process may pose unintended legal risks. Investment policy statements would have to be rewritten in order to state the qualitative objectives and to acknowledge their potential impact on returns (McCarthy Tetrault: Pension Fund Investment: Managing Environmental, Social & Governance (ESG) Integration, 1 May 2019).

ESG is much more than a preference to apply capital according to ethical guidelines; it is a sound investment concept rooted in risk management. In its essence, ESG seeks to allocate capital to well-managed businesses which have better future prospects than their competitors within a sector. The term stranded assets has been coined to describe businesses which face obsolescence as new, cleaner energy alternatives supplant traditional carbon or fossil sources. Stripped of its environmental cloak, a good asset manager should not invest in companies with uncertain future revenues.

Although more people acknowledge ESG's importance, the question remains – how to integrate ESG into the investment process? Becoming a UN PRI Signatory and buying data from a respected provider is very expensive and requires enormous resources. This may be suitable for large asset management firms which have the scale and the resources to devote, but it would be a risky endeavour for an Investment Counsellor or Family Office.

Instilling confidence on ESG is incredibly difficult because there are so many variables, invariably leading to different opinions. Simply put, ESG should strive to meet the United Nation's 17 Sustainable Development Goals, outlined in the coloured chart below:

Given the divisive discussions which ensue when discussing ESG, it may be better to consider a transparent, rules-based index methodology which can be used to build consensus. Several large Asset Owners have used the MSCI ESG Leaders Indices because they couple a robust measurement and monitoring analysis with the ability to construct Benchmark investable indices. Transparency provides a firm foundation to discuss the exposure with stakeholders. The index construction is designed to capture 50% of the market capitalization in all sectors, to minimize Tracking Error and thus fulfill Fiduciary return considerations, but selects only those constituents which exhibit exemplary ESG scores in their sub-industry.

Forests are eco-systems whose health is measured in aggregate, not by measuring each tree or stream. If we start with the simple concept that a glass must be half full before it can be considered half empty, a methodical transparent, rules-based exposure like the MSCI ESG Leaders can be tabled to seek consensus so Capital can be responsibly allocated. When the aggregate exposure is measurable and understandable, stakeholders can establish a co-operative framework to integrate ESG into the investment process.

Much like the famous Brinson, Beebower & Hood study showed in 1988, security selection or omission is not material to meeting long-term objectives. Portfolio construction, its rules and regional exposures, are the major consideration. Applying similar thinking to integrating ESG into the investment process may help Investment Counsellors and Family Offices to establish consensus with clients on a very difficult topic.

*2WG is not index based but selects Sustainable Dividend Growers from a universe using ESG screening in the investment selection.

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Canadian ETFs – 30 Years of Resilience

2020 marked the 30th year since the first exchange-traded fund (ETF) launched on the Toronto Stock Exchange (TSX). Since entering the Canadian market in March 1990, ETFs have grown into a significant sector of the asset management industry and an important component of the holdings of Canadian investors, institutional and retail alike.

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While markets experienced significant turbulence in the spring of 2020, the orderly, high volume trading of ETFs provided transparency, price discovery and much needed liquidity to Canadian markets. The ecosystem of dealers that act as market makers for ETFs functioned well. In general, dealers did not back away from their essential role in ETF markets, even through the extreme market stress of March 2020. Though there were short periods in which the prices of ETFs diverged from net asset value, this divergence was caused by the underlying market for constituent securities, and not dysfunction in the market for ETFs themselves. The resilience of ETFs during 2020 will likely contribute to increased investor confidence in ETFs and continued growth going forward.[1]

This article explores current trends in the ETF industry, including the emergence of ETF series offerings and ESG ETFs, and whether lower-cost alternatives present a viable option to address the rising costs of index licensing. Along the way, we highlight key considerations for investment managers.

Trend 1: ETF series – a more streamlined approach?

The primary difference between conventional mutual funds and ETFs is the way they are distributed to investors. Investors trade conventional mutual funds as a primary distribution with the issuer. In contrast, investors trade ETFs in the secondary market on an exchange. Designated brokers and other dealers make the market for ETFs by subscribing for ETF securities in bulk and then selling them to investors on an exchange.

Canadian asset managers are increasingly offering mutual funds that offer both conventional mutual fund series and ETF series within a single fund structure. As set out in the following table, different advantages are associated with adding an ETF series to a conventional mutual fund, as opposed to launching a stand-alone ETF.

Potential ETF series pit-fall – payment for subscriptions and redemptions in-kind

A key advantage historically enjoyed by stand-alone ETFs as opposed to ETF series was their ability to facilitate payment for subscriptions and redemptions in-kind. When a dealer subscribes for securities of an ETF, the ETF generally accepts securities that represent the portfolio assets of the ETF as payment for the securities instead of cash. Similarly, when a dealer redeems securities of the ETF, the ETF generally pays the dealer in securities held by the ETF. As a result, an ETF can avoid the transaction costs associated with purchasing portfolio assets each time it issues securities, and selling off portfolio assets in order to fund redemptions. Of course, lower costs contribute to higher return on investment. When deliberating whether to launch a stand-alone ETF or an ETF series, managers should consider whether it might be possible for an ETF series to facilitate in-kind subscriptions and redemptions. If not, managers should include this consideration in their cost-benefit analysis.

Regulatory reminder – specific exemptive relief is required before launching a new ETF series as part of an existing mutual fund structure

Exemptive relief is required should you wish to offer an ETF series under a simplified prospectus and annual information form instead of under a long-form prospectus. Even with such relief, managers should be mindful that a different summary document is required for each ETF series and each conventional mutual fund series of the fund. For each ETF series, the manager must file an ETF facts document, while for each conventional mutual fund series of the same fund the manager must file a fund facts document prepared using a different form.

Additional exemptive relief from certain of the provisions governing mutual funds, including ETFs, is also required.

Listing reminder – minimum net asset value requirements apply on a per series basis

Two Canadian stock exchanges facilitate the initial listings for ETFs and ETF series – TSX and NEO Exchange Inc. (NEO). Each exchange requires an ETF to have a minimum net asset value of $1 million.[2] For stand-alone ETFs with multiple series, and for ETF series of conventional mutual funds, this requirement applies on a per series basis. A fund offering both conventional mutual fund series and ETF series securities cannot leverage the assets under management for its conventional mutual fund series to meet the minimum listing threshold. In order to obtain listing approval, the manager of the fund must ensure that a designated broker initially subscribes for a minimum of $1 million worth of securities of each ETF series.

Advantages of ETF Series vs. Stand-alone ETF	Advantages of Stand-alone ETF vs. ETF Series
• The fund may benefit from a larger pool of assets, since the fund caters to investors in both the conventional mutual fund distribution channel, and the ETF distribution channel. This can result in a less duplicative fund line-up, since an ETF series eliminates the need to have two essentially identical funds, each catering to a different distribution channel.	• The ETF is insulated from negative effects of short-term trading and the trading costs associated with the issuance and redemption of securities. Unitholders buy and sell securities of the ETF on an exchange, instead of directly from the fund. In this way, ETFs externalize the cost of liquidity by passing the brokerage costs onto the dealers.
• The ETF distribution channel is easier, faster and/or cheaper to launch and maintain as an ETF series, since the ETF series is added to an existing mutual fund structure	• ETFs allow for intra-day liquidity, as investors can buy and sell the ETF securities at any time during the trading day.

Rationalizing your fund line-up – merger considerations when consolidating ETFs into ETF series

Managers that have parallel conventional mutual fund structures and stand-alone ETF structures may wish to simplify their line-up by merging the stand-alone ETFs into ETF series of the existing conventional mutual fund structure. Depending on the governing documents of the funds involved, and depending on whether the investment objectives, strategies and fee structures of the continuing mutual fund will depart from those of the terminating ETF, unitholder and/or regulatory approval may or may not be required. Managers must carefully consider whether such approvals are required at the outset of any fund rationalization project.

To minimize the impact on unitholders and dealers – and any disruption to trading – managers may be able to work with TSX, NEO and CDS Clearing and Depositary Services Inc., as applicable, to maintain the same stock symbols and CUSIP/ ISIN numbers following the restructuring. It is prudent to initiate these conversations early.

Trend 2: Responsible investment – ETFs that incorporate environmental, social and governance (ESG)

It would be hard to miss the increased focus on responsible investment products, including ETFs, that use environmental, social and governance (ESG) principals as part of their investment strategy. According to a 2020 report published by the CFA institute, 76% of institutional investors and 69% of retail investors are interested in ESG. Further 73% of institutional investors and 67% of retail investors are willing to give up some return in order to invest in accordance with their values.[3] In light of mounting evidence that incorporating ESG principals does not negatively impact returns, the trend toward ESG investing seems likely to continue.[4]

Approaches to ESG investing – integration and value driven investing

ETF managers are increasingly incorporating ESG factors into their mutual fund and ETF investment strategies, though different managers take different approaches. For example, a manager may integrate ESG factors in the same way it incorporates other, non-ESG factors when analysing risk and expected return during the portfolio selection process. Under this approach, often referred to as ESG integration, ESG considerations are secondary – relevant to the extent they affect risk-adjusted return and support financial performance goals.[5]

An ETF may also take a value driven or sustainable investment strategy approach to ESG. Under a values driven approach, ESG criteria are central to the investment objective of the ETF, alongside financial returns. ETFs that take a value driven approach may exclude or screen out "sin-stocks" that detract from ESG goals, such as businesses related to weapons manufacturing or distribution, tobacco, or poor labour relations. Alternatively, ETFs with a value driven approach may positively seek to include investments that promote certain ESG goals, such as businesses that contribute to the development of clean energy or sustainable agriculture, or that adhere to certain corporate governance principals. Finally, an ETF with a value driven approach may prioritize investing in businesses that have a measurable and reportable impact on ESG goals, often referred to as impact investing. These strategies are not mutually exclusive, since a single ETF could employ a combination of value driven techniques. Under value driven strategies, ESG factors are primary – parallel to financial performance goals.[6]

The challenge for responsible investment – standards are still in development

In order to implement an ESG integration or value driven investment strategies, managers primarily obtain ESG data from two sources – company self-reporting and ESG data providers, which gather data from a variety of sources, including self-reporting, to produce ESG metrics and scores.[7] There is a multitude of voluntary ESG reporting standards, targeting different end users, covering varying scopes, and employing inconsistent terminology and metrics. As result, ESG disclosure is inconsistent, hard to compare and may be incomplete.[8] Further, disclosure and marketing materials may sometimes involve greenwashing. Greenwashing occurs when there is a gap between what an issuer stipulates it is doing in respect of ESG criteria, and what the issuer is actually doing. As a result, it is incumbent on managers to perform enhanced due diligence to investigate ESG claims and credentials, instead of relying solely on self-reporting and metrics and scores from data providers.[9]

As industry standards and regulation emerge, ESG data will improve and empower ETF managers to bring even better ESG products to market. Regulators and organizations around the world are working to develop meaningful minimum standards, but it will likely take time for the standards converge on common ground across jurisdictions. In Ontario, the Ontario Capital Markets Modernization Taskforce released its initial consultation report on July 9, 2020, in which it proposes that the filing requirements of the Ontario Securities Commission (OSC) should mandate disclosure of material ESG information. Further, the consultation report recommends that such disclosure requirements should comply, where possible, with one of the existing global standards, namely the Sustainability Accounting Standards Board framework or the Taskforce on Climate-Related Financial Disclosures Recommendations.[10] Internationally, the CFA Institute is currently seeking public commentary on the development of a voluntary global ESG disclosure standard for investment products, which it expects to issue in May 2021.[11] The International Organization of Securities Commissions (IOSCO) is also considering how securities regulators might contribute to the ESG framework and, in particular, disclosure standards.[12] Managers should pay attention as the regulatory framework and industry standards evolve to catch-up with the proliferation of ESG securities.

Trend 3: Index-licensing vs self indexing – searching for a better deal

A few large players dominate the index-provider industry.[13] In 2019, the three largest index providers – S&P Dow Jones, MSCI and FTSE Russell – accounted for 70% of market share.[14] This has led to rising index-licensing costs for investment funds – despite intense fee-based competition and cost cutting across the industry.[15] As index-licensing costs represent a growing component of investment funds' cost structures, some managers are looking for a better deal.

Some ETF providers might consider self-indexing as an alternative to licensing an index from an external provider. In addition to potential licensing cost savings, self-indexing has the potential to provide a more tailored index, a more adaptable methodology and the ability to control the timing for rebalancing.[16] However, in practice, self-indexing is a challenging proposition that few managers have taken on so far.

Although licensing the use of established indexes may be expensive, the economics of self-indexing may be even more cost prohibitive, especially in the first few years. While traditional index providers can leverage economies of scale and have individuals with the requisite specialized knowledge already in-house, the start-up costs associated with developing an indexing methodology and hiring individuals with the required specialized expertise is substantial. [17] Self-indexing may also raise conflict of interest concerns, especially for benchmarking actively managed funds. Arguably, the performance of an active fund should be measured against an index created by a neutral third party.[18] Further, depending on the wording of an ETF's investment objectives, changing the index may require unitholder approval. Managers should review the ETF's governing documents carefully before proceeding with an index switch.

Due to the costs and challenges associated with establishing in-house indexing capabilities, few managers have started to experiment with self-indexing. However, some lower-cost index providers are gaining market share.[19] While the index provider industry currently resembles an oligopoly, continued pressure for investment funds to cut costs may present an opportunity for index providers that can gain a toe-hold in the industry by under-cutting the competition. Still, the high costs and specialized expertise associated with entering the indexing market, combined with the entrenchment and reputational advantages enjoyed by the big players, may mean investment funds and, indirectly, investors will have few options in the near-term.

The year ahead – Poised for growth in 2021

In this article, we weigh the advantages of ETF series offerings as compared to stand-alone ETFs, and highlight key regulatory and listing considerations for managers considering launching an ETF series. We also discuss the proliferation of ESG ETFs, and the challenges and opportunities presented by emerging industry standards and regulation for ESG disclosure. Finally, we examine whether lower-cost alternatives present a viable option for ETF managers to address the rising cost of index licensing. As the ETF industry is poised for continued growth in this new and hopefully less turbulent year, managers and other industry participants should keep an eye on these trends as they influence the ETF industry and the investment management business going forward.

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TD Asset Management

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A tale of two investors

Different paths to the same desired destination

There are endless situations in our lives where we need to decide "do I do it myself or hire a professional?" From home renovations and automobile maintenance to organizing a wedding, it is something that we often evaluate. Before a decision is made, there is usually a multitude of factors that are considered. Cost and convenience are usually two of the biggest deciding factors, however, there are a third and fourth "c" that are arguably the most important – comfort and competence. What you choose to undertake yourself and what you choose to hire a professional for mostly depends on your comfort and competence level with the task. These same dynamics are also at play when it comes to investing.

Do-it-yourself (DIY) investing or leaving it to the experts

When it comes to investing, comfort level and competence most often dictate whether someone will choose to manage their own investment portfolios or leave it to a financial professional.

When you take a DIY approach to investing, you are taking on all the work. You need to determine what type of assets to include (stocks, bonds, cash) and more importantly, what mix of these investments to have, which determines how much risk you take on. Moreover, once you determine the mix, you need to figure out specifically which stocks and bonds to buy. Or which mutual funds or ETFs to invest in.

For some, this is something that they are willing to take on and within their comfort and knowledge level. For many others however, this is a daunting task and they would rather invest in a professionally managed portfolio where the appropriate combination of investments is provided in a turn-key or "one-click" solution to match their risk tolerance and investment goals. There are also some investors that are on the cusp of both paths and approaches to investing.

To help paint a picture of what a typical hands-off or DIY investor may look like, we have created an example of two different investors - **Hands-off Helen** and **DIY Dave**. Their personalities can help provide examples of some of the characteristic differences between a hands-off and a DIY investor.

	Hands-off Helen The goal-oriented novice investor	**DIY Dave** The more experienced ETF Investor
Bio	A young professional who has been working for the last six years. Together with her husband, Helen rents a condo in the city and has started to build some savings with her stable income.	Dave is married with two kids under the age of 6. After working as an accountant for a big firm, he started building his own business and enjoys being able to provide for his family and is the primary financial decision-maker.
Views about investing	• Financial decisions are made collaboratively with her husband • Has a need to feel more on top of things and be in control • Has most of her money in a savings account and mutual funds held through a Group RSP with her employer • Doesn't have a lot of experience with investing, but thinks there is more she could be doing	• Believes slow and steady wins the race; the key is being invested over the long run, not looking for the next home run • Learned that investing doesn't need to be complicated or time-consuming • Believes maintaining a core portfolio of ETFs is the best way to invest • More focused on building wealth to achieve long-term goals, rather than spending in the short term
Barriers with investing	• Not sure where to start • Overwhelmed by choices and perceived effort required • Balancing short- and long-term goals • Doesn't fully understand the fees associated with her investments but believes they may be high	• Punitive trading costs for investing and rebalancing (cost aware) • Overly complex research tools; knows which ETFs he wants, and doesn't see the value in these services • Spending too much of his time researching investment options
Possible Investing method/solution	All-in-one managed ETF portfolio solution	DIY portfolio built and managed by himself. A portfolio of ETFs
Investment options	TD One-Click ETF Portfolios	A wide Range of TD ETFs

For Dave, TD Asset Management Inc. (TDAM) offers access to one of the broadest investment offerings in Canada, offering plenty of different ways to invest, including a wide variety of differentiated ETF solutions. Here, he can decide which ETFs he feels he wants to invest in and the right balance of each. For Helen, there are great new options for her to choose from - TD One-Click ETF Portfolios.

TD One-Click ETF Portfolios

TDAM recently launched a new set of all-in-one portfolio solutions for investors, which can be a great option for the hands-off investor type like Helen. TD One-Click ETF Portfolios are all-in-one optimized portfolio solutions that are designed to simplify investing by providing three diversified options (conservative, moderate and aggressive), backed by the benefits of strategic management from a tenured Asset Allocation Team, at an attractive management fee.

The portfolios invest in a strategic mix of broad market index ETFs (AKA “Passive ETFs”, these ETFs try to replicate the returns of a large index, such as the S&P/TSX Composite Index, which can be seen as the “Canadian Market”) to provide low cost diversification.

Combined with actively managed ETFs (active ETFs on the other hand, seek to outperform or beat a specified benchmark or index by allowing the professional managers to make investment decisions actively) in key areas where we expect an active approach to have the greatest impact.

TD One-Click ETF Portfolios are focused primarily on Canada, U.S., Europe and Japan (i.e. developed markets) and each include approximately 9-14 TD ETFs including mix of different active fixed income and equity TD ETFs.

The portfolios also utilize a robust multi-asset (multiple assets such as stocks, bonds, cash, or alternative investments like real estate and infrastructure) investment process that leverages the expertise and strong track record of TDAM’s Asset Allocation Team with collaboration from the underlying Portfolio Managers and TDAM’s research teams.

The teams work in parallel to combine thematic research and proprietary analytics, across multiple different industries to determine an optimal portfolio construction. This helps clients become well diversified across asset classes and exposures, and helps investors build wealth over the long term.

Benefits of the new TD One-Click ETF Portfolios

Convenience

TD One-Click ETF Portfolios are a simple and efficient way to build a diversified portfolio. Saving you time and money compared to building a portfolio on your own.

Choice

With 3 unique portfolios available, TD One-Click ETF Portfolios let investors choose a portfolio that matches their risk tolerance, time horizon and return objectives.

Professional Management

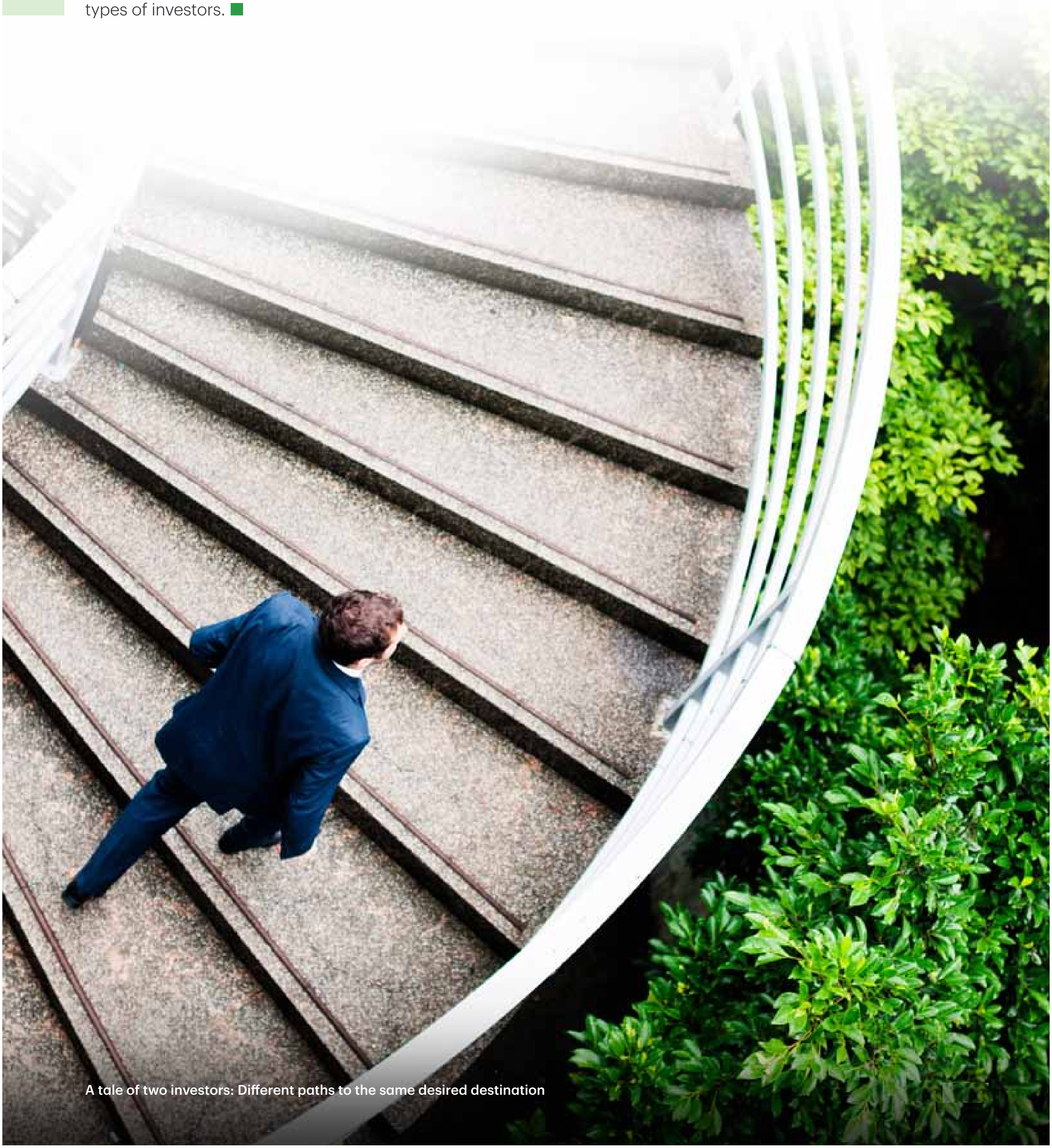
TDAM’s Asset Allocation Team will continuously monitor and rebalance TD One-Click ETF Portfolios to their strategic weights to help ensure client portfolios stay within their risk parameters.

Benefits

Determining your path

The decision to be a DIY investor or invest in a solution that's created around a specific risk profile isn't cut and dry. But in the end, it boils down to two key factors: comfort and competence.

Fortunately for investors, TDAM has solutions for both hands-off and DIY approaches. Whether through our new TD One-Click ETF Portfolios and/or our robust lineup of individual ETF solutions, we have options for all types of investors.



A tale of two investors: Different paths to the same desired destination

Invest

To see what ETF options are available to you, take a look at our **ETF Product Guide**, found at our website **TD.com/ETFs**.

New to Investing? Here are ways to invest in ETFs with TD

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Beyond Stocks and Bonds

The benefits of looking outside the box for investment portfolios

In the current low growth/interest rate environment, portfolios that broaden investments beyond standard exposures and asset classes may capitalize on better diversification and returns required for most investors to meet their long-term goals. As a result, TD Asset Management Inc. (TDAM) continues to stress the importance of thinking outside of the traditional fixed income and equity box to access a greater variety of exposures and factors in order to improve the risk and return profile of investment portfolios.

The emergence of Infrastructure

One way of accomplishing this is by adding listed Infrastructure to a portfolio. As an asset class, listed infrastructure can provide several strategic benefits to investors over a full market cycle including steady income generation, increased diversification and access to a growing market.

One of the challenges with the infrastructure asset class is the subjectivity around the definition of what qualifies as “infrastructure”. At TDAM, we define infrastructure as the essential assets a society requires for the economy to function properly.

These essential assets include traditional physical infrastructure such as roads, airports, water and electricity along with recent non-physical digital infrastructure such as payment infrastructure platforms. These assets provide the backbone of a healthy and modern society, and as such, share some common qualities and attributes. They tend to have long useful lives (e.g. toll roads), contracted cashflows and are operated by companies in quasi-monopolistic markets with high barriers to entry.

Historically, due to the cost and importance of infrastructure, governments have been the central investors in the industry. Consequently, they typically owned and operated much of the critical infrastructure, such as ports, water supply and airports. However, as the global population rose from 2.5 billion in 1950 to 7.7 billion in 2020*, maintaining existing infrastructure, in addition to building new infrastructure for the growing population, became an extremely costly endeavor. As a result, over the past few decades, governments have been gradually utilizing the private sector as a source of capital to finance these societal needs. Today, private ownership and operation of critical infrastructure such as electrical utilities, railroads and cellular towers is the norm.

What is Listed Infrastructure?

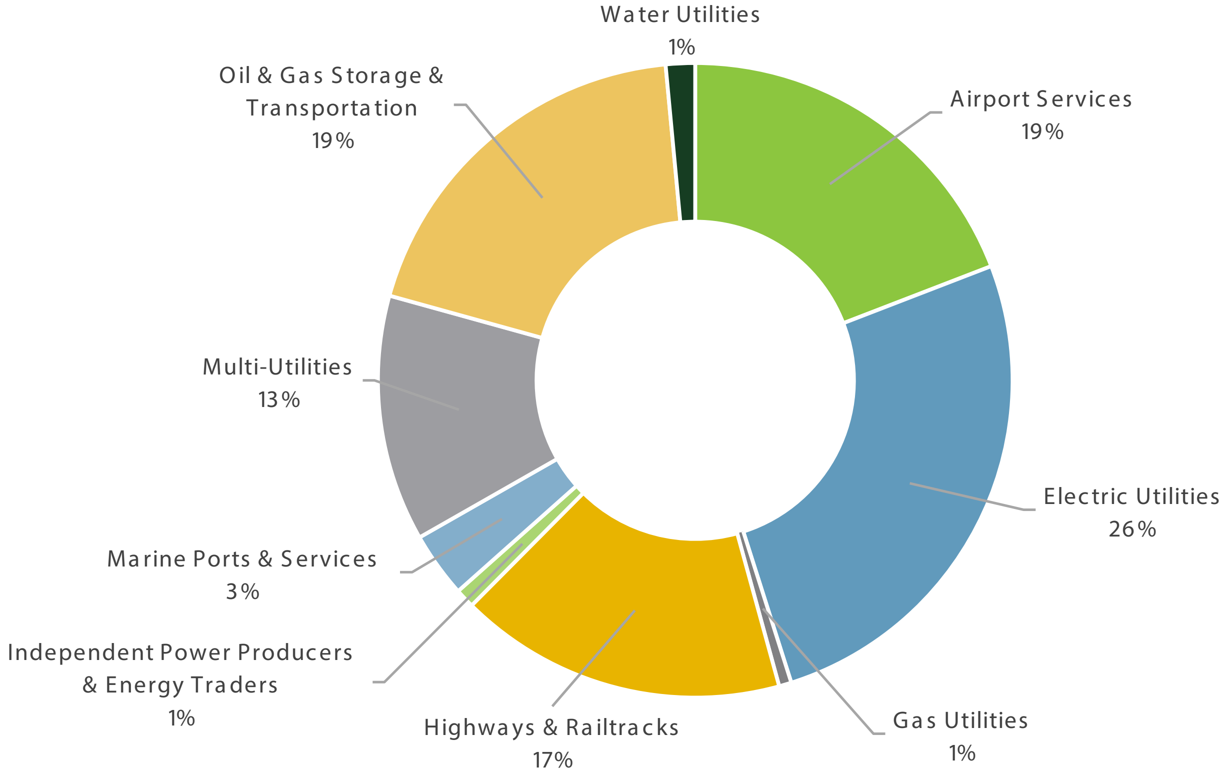
Listed infrastructure is the term used to describe publicly-traded companies that generate the majority of their cashflows from owning and/or operating infrastructure assets. An example of such a company would be NextEra Energy who is one of the largest providers of power and electricity in North America. The company owns and operates a variety of power assets such as natural gas power plants, wind farms and solar farms to provide energy to homes, businesses and communities across the U.S. and Canada.

Listed infrastructure is still a relatively new asset class. However, due to the rise in privatization of the industry, there has been a swift increase in both the number and size of publicly-traded infrastructure companies worldwide. Nowadays, publicly listed infrastructure companies can be found throughout the economy, providing investors with a wealth of opportunities to invest in the growing sector.

The different types of Infrastructure

Infrastructure is a broad term. As an asset class, infrastructure encompasses investments in the essential networks and services that are necessary for the proper functioning of global economies. As such, the industry does encompass a wide variety of subsectors and industries which possess some key defining characteristics such as high barriers to entry, inelastic demand, long life duration and inflation sensitivity. These subcategories are illustrated in figure 1 below.

Figure 1 - Sub-categories of the S&P Global Infrastructure Index



Source: FactSet. S&P Global Infra Sub-Categories. As of August 31, 2020.

At TDAM, we approach infrastructure a little differently. We have divided the industry into two subsectors - traditional infrastructure and new generation/digital economy infrastructure. Traditional infrastructure or "bricks and mortar" infrastructure typically captures physical assets. This includes the large physical networks necessary for the functioning of a modern industrial nation such as transportation infrastructure (i.e., airports, railroads, roads, and ports) and commodity infrastructure (water, oil, natural gas, and electricity).

New generation or "future" infrastructure are classified as assets that provide a societal foundation that are delivered online, not physically. Examples of this can include payment infrastructure platforms (i.e. Visa and Mastercard), stock exchanges (i.e. ICE) or specialized management software infrastructure (i.e. ADP).

Infrastruct

Investor benefits

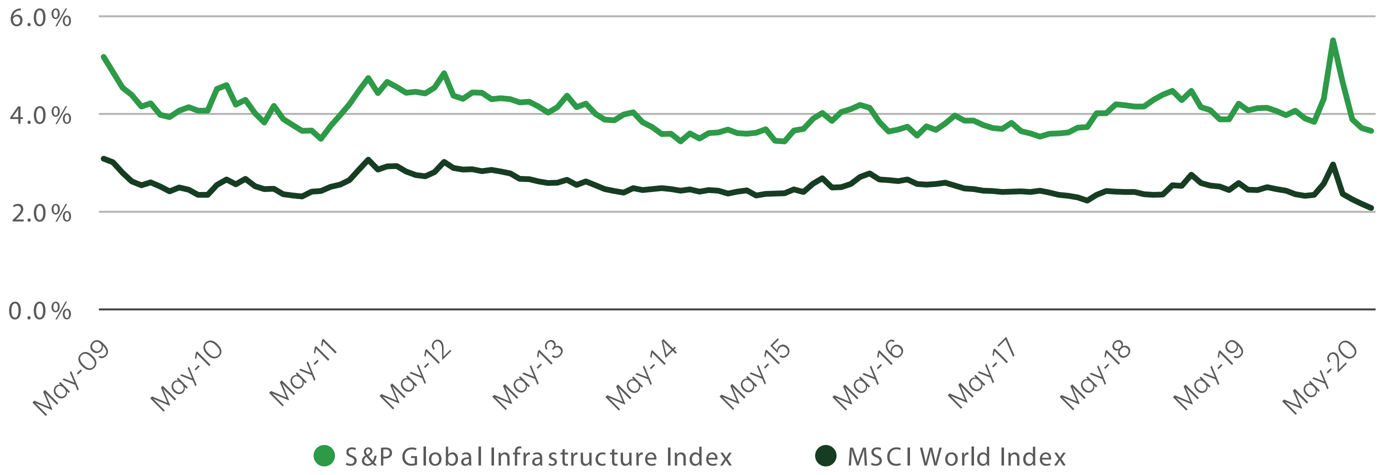
Over the last two decades, investor enthusiasm for listed infrastructure has grown. This is due to the compelling characteristics of the asset class and the strategic benefits it provides to a traditional portfolio over a full market cycle. These benefits include:

Stable and predictable cashflows - One of the key attributes shared between infrastructure categories is that their cashflows are typically supported by contractual arrangements, providing consistency and predictability across differing economic environments.

Let's take the example of a wind turbine which has an expected useful life of +25 years. During the lifetime of the asset, it will generate electricity which will be sold under long-term contracts called Power Purchase Agreements (PPAs). These PPAs set out the length of the contract, payment terms and the eventual termination date. Usually, the agreement will also have embedded price escalators which are linked to the annual rise of inflation. This allows for the turbine to generate secure inflation adjusted cashflows well into the life of the asset.

The ability to generate these stable and predictable long-term cashflows translates to steady and attractive dividend yields in excess of the broader equity market (figure 2). For investors with a preference for income and a more defensive investment during times of market volatility, listed infrastructure may be a welcomed addition to their portfolio.

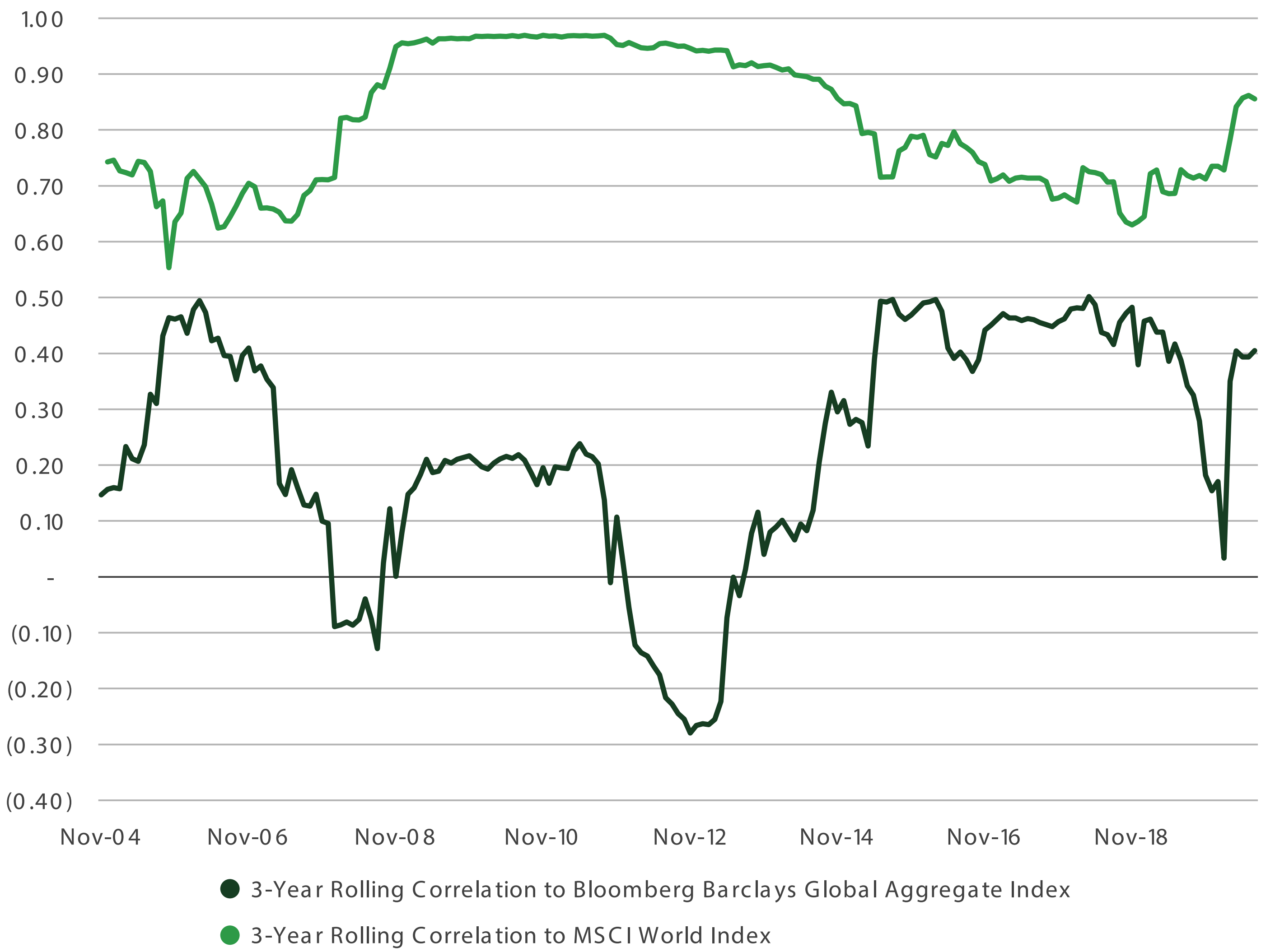
Figure 2 - Dividend Yield since May 2009



Source: Factset. As of July 31, 2020.

Diversification - As listed infrastructure securities trade on the public stock markets, they are not immune to systematic risk, or broader market events that cause stock prices to fluctuate. We can see this in figure 3 below where the correlation between the broader equity market and public infrastructure increased during the Great Financial Crisis ("GFC"). However, as infrastructure is a unique asset class with inherent structural differences, over the long term, the asset class exhibits a relatively low correlation with the broader equity and fixed income markets. We can see evidence of that from figure 3, as correlation begins to fall dramatically during the periods following the GFC.

Figure 3 – 5-Year Rolling Correlation of S&P Global Infrastructure Index to broader fixed income and equity



Source: Factset. As of July 31, 2020.

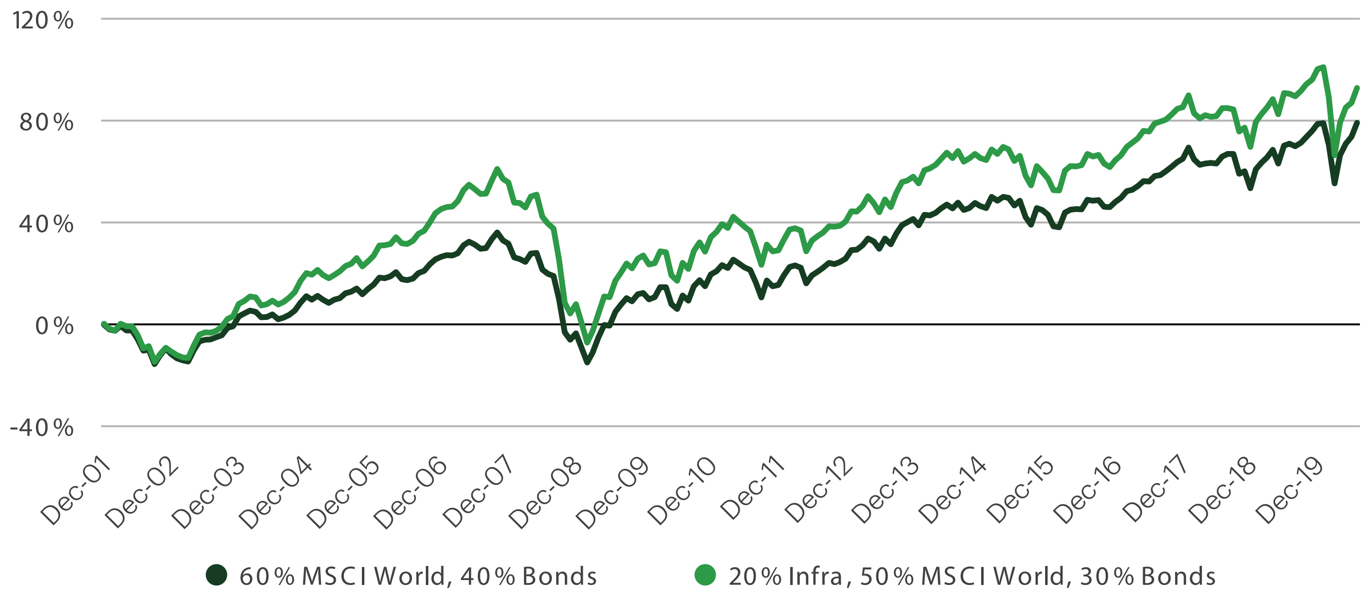
Infrastructure offers relatively low correlation to traditional equity and fixed income, given the contracted revenues. Additionally, listed infrastructure companies offer diversification through a large opportunity set of companies both geographically and by sector. Diversification is particularly important during economic shocks and changes in human behavior such as the COVID-19 pandemic.

Various sectors and geographies were impacted by the pandemic in many ways, with uncontracted transportation assets such as airports and toll roads for example taking larger write-downs, while demand for communications and internet infrastructure increased the value of those assets. The same can be said in terms of geographical diversification of infrastructure where some jurisdictions were impacted more than others. Therefore, having the increased diversification that listed infrastructure offers, across both geographies and sectors, can be a very powerful diversification tool for an investor's portfolio.

Enhanced portfolio returns - Global listed infrastructure assets tend to complement other common investment portfolio holdings. The relatively low correlation with other asset classes along with the attractive return profile driven by stable dividends means the inclusion of the asset class in a typical 60/40 portfolio can enhance risk adjusted returns and help drive the portfolio closer to the optimal asset mix.

In figure 4 below, we compare the cumulative returns of a 60/40 global equity/global bond portfolio, with a portfolio that includes a 20% allocation to global listed infrastructure, funded from both the global equity and global bond allocation. Since December 2001, the addition of a 20% allocation to infrastructure would have significantly improved the portfolio's return profile.

Figure 4 – Cumulative Returns Comparison



Source: Factset. As of July 31, 2020

Access to growing industries - Infrastructure is not just a defensive asset class. With global population forecast to hit 10.9 billion by 2100, the growth in long-term society trends such as urbanization, global trade and renewable energy will likely intensify.

As governments remain reluctant to participate in infrastructure, the reliance on private capital will increase. This suggests a very healthy supply of attractive projects for listed companies in various growing regions and sectors. This would allow investors to participate in growing markets and continue to drive demand for global listed infrastructure as an asset class.

Gaining access through ETFs

Not all infrastructure is created equal, and with several different investment options available, choosing the right infrastructure investment can be challenging. Detailed due diligence on individual companies can be onerous while performance across the industry can vary widely due to macroeconomic trends and industry regulations.

As a result, listed Infrastructure Exchange Traded Funds (ETFs) have become an increasingly popular method for investors to gain exposure to the industry while at the same time diversifying across geographies, sectors and removing single stock risk. Infrastructure ETFs have been available in Canada since 2008 and, consistent with traditional ETFs, provide a low-cost, liquid and transparent investment product to access the industry.

Passive vs. Active Infrastructure ETFs?

Infrastructure ETFs are a specialized niche that represents a popular market segment and an attractive market opportunity. However, most ETFs in the space offer an inefficient approach by using a passive indexed or a rules-based investment method. These passively managed products offer no active investment management and as such, generally attempt to mirror the returns of an underlying index or benchmark.

In recent years, the emergence of actively managed ETFs has presented a second option for investors in the space. These funds, in contrast to passively managed ETFs, have dedicated portfolio managers who strive for improved risk-adjusted returns by making independent investment decisions. These funds generally have a greater ability to identify and select high quality stocks and, in turn, a greater potential to outperform over the long term.

TD Active Global Infrastructure Equity ETF (TINF)

In order to strive for the best risk return profile that will be accretive to a client's portfolio, it is critical that thorough due diligence and portfolio management be completed by a team that has extensive experience in this space. This is where we believe that the TD Active Global Infrastructure Equity ETF (TINF) may be a great tool for investors.

TINF is an actively managed, globally diversified Infrastructure ETF solution that leverages TDAM's infrastructure investment expertise and focuses on providing total return with lower volatility. The strategy's dedicated portfolio managers employ a rigorous three-step investment process that utilizes quantitative screens, qualitative analysis and most uniquely, team-based decision making to select between 40-60 of the highest quality names across both traditional and new generation infrastructure. This flexibility helps the PMs to deliver on their core objective of providing a regular source of income through the investments in core infrastructure while also enabling them to participate in the future of where infrastructure investments are heading.

In contrast to other passively managed Infrastructure ETFs, our approach is designed to outperform our benchmark (S&P Global Infrastructure Index CAD) over the long term while helping to ensuring we focus on delivering a total return for clients, where they receive consistent income combined with capital appreciation potential.

Expertise

Bringing Infrastructure inside the box

In today's challenging investment environment, investors are continuously searching for investment options outside of the traditional equity and fixed income box. Listed infrastructure, due to its potential for high dividends, inflation protection and diversification, can be a beneficial addition to a portfolio for investors seeking to improve risk-adjusted returns. The TINF ETF can be an excellent way to tap into the space by providing exposure to the highest quality globally diversified infrastructure securities that generate stable and growing cashflows with the added liquidity of an ETF wrapper.

Globally Diversified

Connect with TD Asset Management

*Pew Research Center. World's population is projected to nearly stop growing by the end of the century. June 17 , 2019. https://www.pewresearch.org/fact-tank/2019/06/17/worlds-population-is-projected-to-nearly-stop-growing-by-the-end-of-the-century/

(0920)

The Challenge of Finding Outperforming Active Funds in Canada

The SPIVA® Canada Year-End 2019 Scorecard was released recently. Despite the strong performance of broad equities, 2019 proved to be yet another challenging year for active funds in Canada. Here are a few highlights from the report.

Berlinda Liu
Director, Global Research & Design

Strong Market Performance Did Not Translate to Active Fund Outperformance

The S&P/TSX Composite posted its highest annual return (22.9%) since 2009, ending a decade-long bull run that saw a total gain of 94.9%. Amid this historic bull market, however, 92% of Canadian Equity funds underperformed their benchmark in 2019 and 86% underperformed over the past decade.

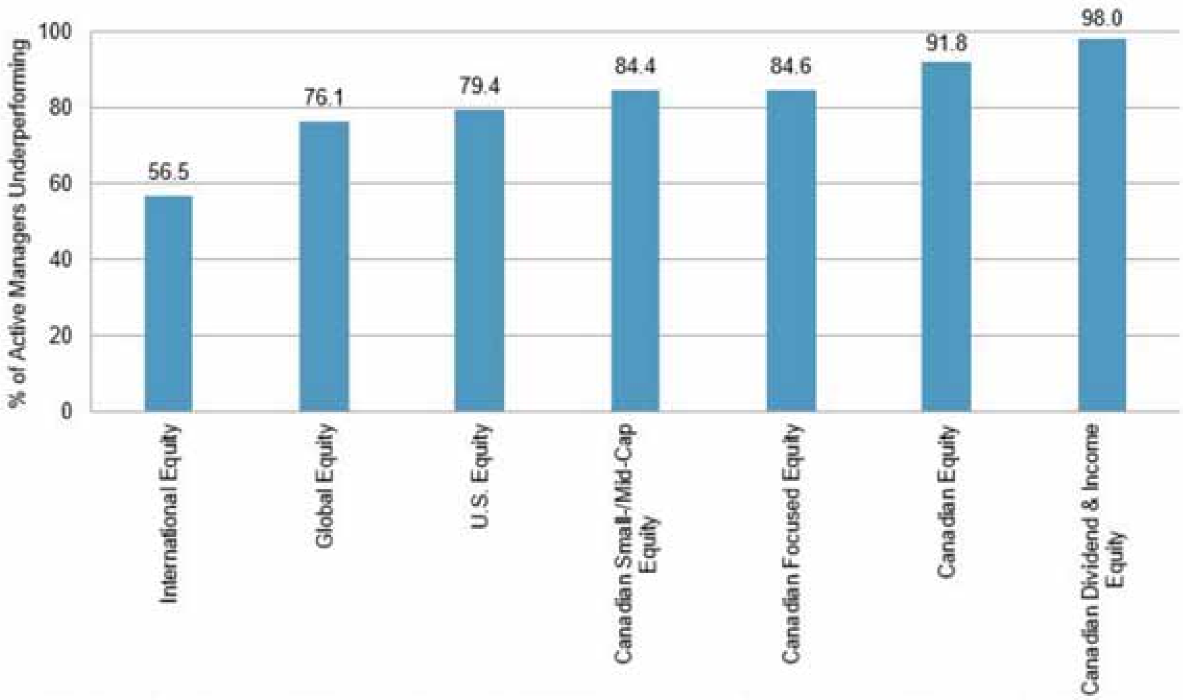
Similarly, smaller-cap names in the S&P/TSX Completion gained 26.1%, setting a high bar for active managers to surpass – 84% of Canadian Small-/Mid-Cap Equity funds underperformed the benchmark. However, over the long term, this was the best-performing category relative to the benchmark – 30% of managers outperformed in the past decade.

International Equity Funds Fared Better, but Not in the Long Term

Funds with a more international flavor did better in 2019 than their domestic counterparts. International Equity funds performed the best across all categories, with 57% underperforming the S&P EPAC LargeMidCap. Longer-term results continued to disappoint, however, as 85% of International Equity funds underperformed over the 10-year period.

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

Exhibit 1: Most Managers Underperformed in 2019

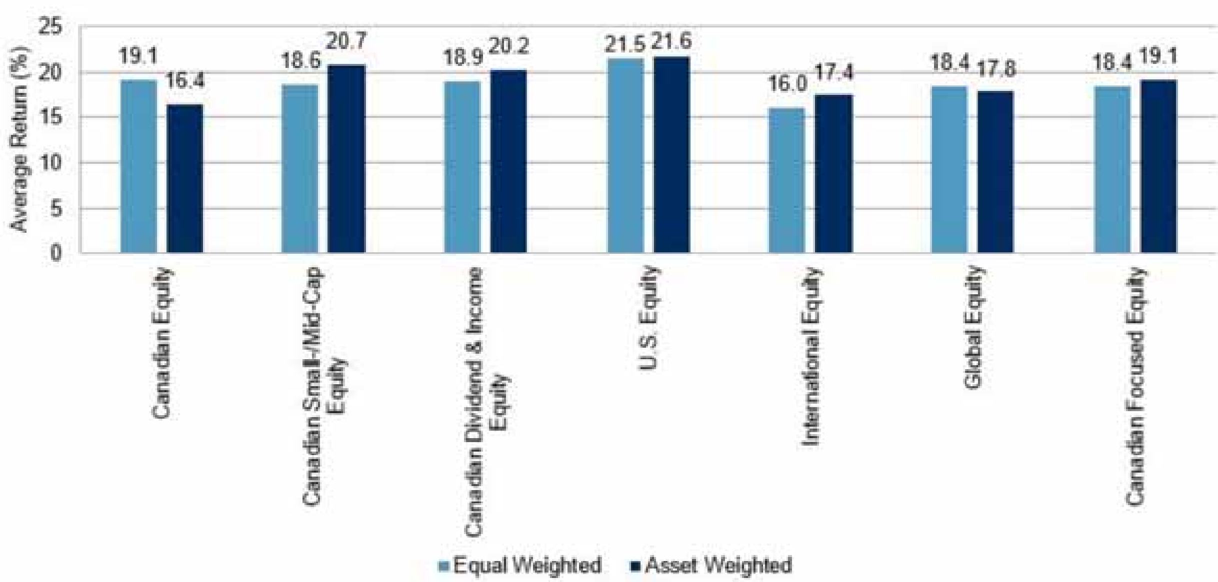


Source: S&P Dow Jones Indices L.L.C. Data as of December 21, 2019. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Larger Funds Outperformed Smaller Funds in Most Categories

Across the seven fund categories and four investment horizons studied, 23 of the 28 results showed higher asset-weighted returns than equal-weighted returns, indicating that larger funds outperformed smaller ones in general.

Exhibit 2: Average Fund Returns in 2019



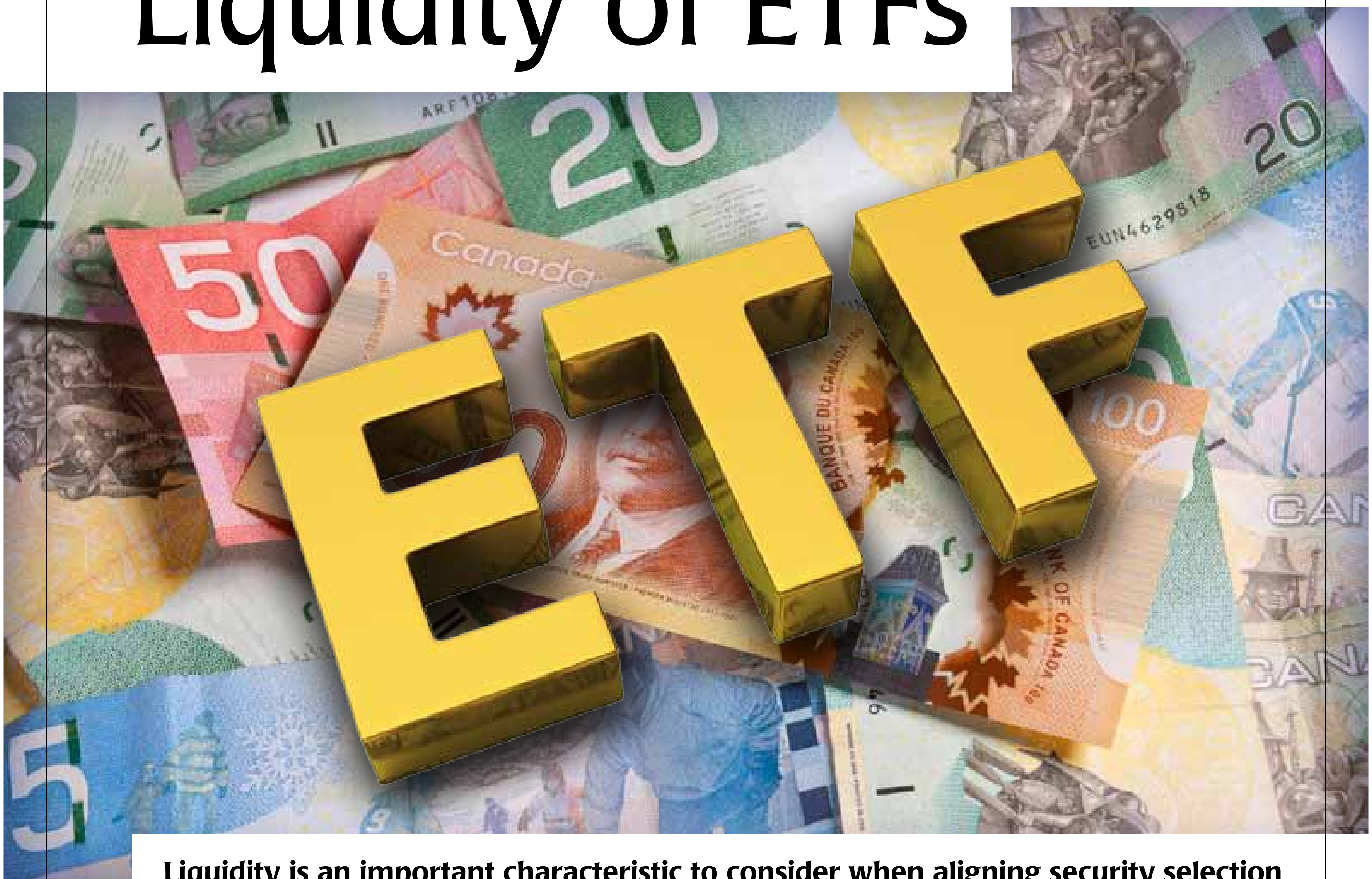
Source: S&P Dow Jones Indices L.L.C. Data as of December 21, 2019. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Conclusion

Some market participants may hope that they are able to find outperforming active managers. Our SPIVA scorecards continue to highlight the difficulties of beating the benchmarks, and Canadian active funds are no exception.

Berlinda Liu, Director, Global Research & Design, S&P Dow Jones Indices

Demystifying the Liquidity of ETFs



Liquidity is an important characteristic to consider when aligning security selection with investment objective. The need for capital protection and ability to convert an investment holding to cash is essential for shorter or unpredictable time horizons, but it is less important when investing for a retirement goal 30 years out.

Randall Alberts
Senior Vice President, Head of Distribution Eastern Canada, CI Global Asset Management

Investors may often evaluate a stock's liquidity by its trading volume. While this may be a starting point when looking at a common stock, it's less effective when evaluating exchange-traded funds (ETFs), as it fails to take into account the structure behind the ETF that ensures its liquidity. The result is often a misunderstanding of an ETF's liquidity and one of the most persistent myths in our industry.

For any security trading on the stock market, the price is simply the auction price agreed upon by the buyer and the seller. An investor looking to make a sizeable investment in a single thinly traded security would be justified in their concern of potentially moving the market, driving the price higher and resulting in a poor outcome. However, daily trading volume only provides a small indication of an ETF's liquidity. Unlike a single stock, the supply of an ETF is open-ended; new ETF shares can be created and existing shares can be redeemed on demand. This structure not only maintains the pricing integrity and ensures trading takes place around the net asset value (NAV), it also provides a structure for liquidity. Thus, the liquidity of an ETF is much more than its daily trading volume.

CI GLOBAL ASSET MANAGEMENT

The liquidity of an ETF is more accurately determined by evaluating the liquidity of its underlying holdings. Whereas daily ETF trading volumes reflect the trading activity of the security on the secondary market, the liquidity of the underlying securities may indicate how effective the ETF sponsor and market makers will be in the primary market when absorbing flows into an ETF. This can sometimes be referred to as implied liquidity.

Implied liquidity is an indication of the liquidity of an ETF as a function of its holdings, rather than trading volume. When an ETF is bought or sold, the buyer and seller are essentially trading a basket of the securities that make up a unit of that ETF product. As the basket must contain every security within the ETF, it can only be as liquid as its least liquid security. In other words, implied liquidity is an estimate of how much assets an ETF could absorb based on the liquidity of its underlying holdings, without having a bigger price impact on those securities.

The rise in popularity of ETFs is partly due to the added liquidity and transparency they offer over traditional mutual funds. Investors still gain the benefits of diversification while benefitting from the ability for intraday trading on the open market. The Canadian ETF industry now has over $230 billion in assets under management and approximately 1000 ETF products.[1] This proliferation of ETF sponsors and products will undoubtedly result in some ETFs having a lower daily trading volume. To help investors avoid missing out on opportunities that may best serve their investment goals, it is more important than ever to fully understand the liquidity function of the ETF creation and redemption process.

Greater awareness around the processes that provide liquidity, and how to best trade ETFs and effectively navigate spreads will only increase adoption and help to continue to demystify the investment solution. As investors' needs continue to become increasingly complex, education to simplify the products available and enhance the understanding of Canadian investors is to everyone's advantage.

	ETFs	Single Stock
Price	Based on the value of the underlying portfolio (NAV)	Based on supply/demand of the stock
Supply of shares	Open-ended	Closed-ended
Primary source of liquidity	Trading activity of the underlying securities	Trading activity of the stock
Best measure of liquidity	Implied liquidity or daily trading volume of the underlying securities	Daily traded volume of the stock

Randall Alberts, Senior Vice President, Head of Distribution Eastern Canada, CI Global Asset Management ***ralberts@ci.com***

[1]CI Global Asset Management as at November 30, 2020.