CANADIAN
ETF Watch
FALL 2022
CanadianETFWatch.com

Putting the Brakes on Volatility

With interest rates continuing to rise, inflation still roaring and the chance of a “soft landing” for the economy diminishing, we should expect these challenging times to continue well into 2023.

One of the major themes of this edition of *Canadian ETF Watch* is volatility and an article from Keith Wu, head of ETF Customer Success from the Toronto Stock Exchange explores what Canadians can do to try and limit volatility within their portfolios. There is also an article from Ahmed Farooq, Senior Vice President and Head of Retail ETF Distribution for Franklin Templeton Canada which explores the theme of volatility by providing some recommendations on how to cushion the bumpy ride.

The ETF industry continues to expand in Canada and while it is still only 17% of the mutual fund industry, that number has grown from 9.3% just five years ago. We believe that this growth will continue because many MFDA firms are now actively selling ETF products to their clients. While this is great news for the ETF Industry, we also believe that it will have a lasting positive impact on all sectors of financial services by offering more product choices for you and your client’s portfolios.

As the cooler weather approaches and we are reminded that the holidays are just a few short months away, we want to take this time to thank you for being a loyal *Canadian ETF Watch* subscriber. It is the support from you, the reader which allows us to continue to produce this publication on a quarterly basis.

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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Commissions, management fees, brokerage fees and expenses may be associated with investments in ETFs. Please read the prospectus and ETF facts before investing. ETFs are not guaranteed, their values change frequently, and past performance may not be repeated.

CANADIAN **ETF Watch**

CanadianETFWatch.com

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Putting the Brakes on Volatility

With the world's Central banks' focus on using interest rates to combat headline inflation, Canadians are evaluating the personal impact of rising interest, inflation rates and the effect that the volatility is having on their investment portfolios.

Keith Wu,
Head of ETF Customer Success, Toronto Stock Exchange

According to Statistics Canada, the Canadian consumer price index (CPI) steadily rose through June 2022 to a high of 8.1%, which is a 3.0% increase since January 2022[1]. However it should be noted that while there were significant month-to-month increases in March 2022 and May 2022, the July 2022 CPI decreased to 7.6%, down 0.5% from June 2022.

TMX Toronto Stock Exchange

Canadian Consumer Price Index

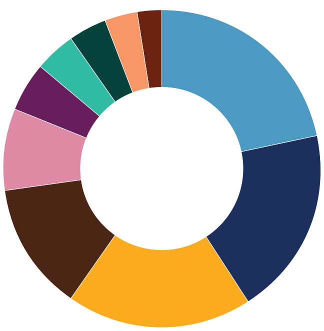
Month	Canadian Consumer Price Index (CPI)	Monthly Percentage Increase or Decrease
December 2021	4.8%	+0.1%
January 2022	5.1%	+0.3%
February 2022	5.7%	+0.6%
March 2022	6.7%	**+1.0%**
April 2022	6.8%	+0.1%
May 2022	7.7%	+0.9%
June 2022	8.1%	+0.4%
July 2022	7.6%	–0.5%

Source: Statistics Canada, July 2022
www.150.statcan.gc.ca/n1/daily-quotidien/220816/dq220816a-eng.htm

Canadians can certainly wait to see what Statistics Canada discloses as the fall & winter 2022 CPI values, however they only need to look at their monthly expenses to know that a dollar today has not necessarily been buying them what it used to buy them a year ago. As the Bank of Canada and other central banks are anticipated to continue to aggressively use interest rates to combat inflation, the downstream effect will be added volatility to the market.

Canadian companies are also faced with downward pressure on their performance and earnings. However not all companies are affected equally. For example, the constituent companies on the S&P/TSX Composite Low Volatility Index* are 50 of some of the least volatile stocks within the S&P/TSX Composite Index* (underlying universe index). The S&P/TSX Composite Low Volatility Index includes utilities, financials, real estate, communication services, consumer staples, energy, industrials and health care companies, companies that are typically less affected by volatility in the markets.

Sector Breakdown



SECTOR	INDEX WEIGHT
Real Estate	**21.8%**
Utilities	**19.4%**
Financials	**18.8%**
Energy	**13.1%**
Communication Services	**8.3%**
Health Care	**5.0%**
Industrials	**4.3%**
Consumer Staples	**4.0%**
Consumer Discretionary	**3.1%**
Materials	**2.5%**

Source: S&P Dow Jones Indices, August 31, 2022
www.spglobal.com/spdji/en/indices/strategy/sp-tsx-composite-low-volatility-high-dividend-index/#data

There are many courses of action that investors may take during periods of volatility, from liquidating portfolios to cash or shifting allocations to potentially diversifying in low volatility (or minimum volatility) ETF portfolios. These ETFs typically try to provide market-like returns by combining low volatility stocks, like the ones in the S&P/TSX Composite Low Volatility Index, to help reduce the volatility of portfolios. Ideally a less volatile portfolio, over a longer period of time, has the potential to outperform the market. TSX has 47 different low volatility ETFs listed on its exchange.

TSX Low Volatility ETFs[2]

Symbol	Fund Name	Top Sector
ZLB	BMO Low Volatility Canadian Equity ETF	Financial Services
ZLE	BMO Low Volatility Emerging Markets Equity ETF	Financial Services
ZLI	BMO Low Volatility International Equity ETF	Healthcare
ZLD	BMO Low Volatility International Equity Hedged to CAD ETF	Healthcare
ZLU	BMO Low Volatility US Equity ETF	Utilities
ZLU.U	BMO Low Volatility US Equity ETF	Utilities
ZLH	BMO Low Volatility US Equity Hedged to CAD ETF	Utilities
BLOV	Brompton North American Low Volatility Dividend ETF	Consumer Defensive
CDNA	CI Bio-Revolution ETF	Healthcare
DXET	Dynamic Active Energy Evolution ETF	Energy
BANK	Evolve Canadian Banks and Lifecos Enhanced Yield Index Fund	Financial Services
HERO	Evolve E-Gaming Index ETF	Communication Services
EBNK	Evolve European Banks Enhanced Yield ETF	Financial Services
EBNK.B	Evolve European Banks Enhanced Yield ETF	Financial Services
EBNK.U	Evolve European Banks Enhanced Yield ETF	Financial Services
LIFE	Evolve Global Healthcare Enhanced Yield Fund	Consumer Defensive
LIFE.B	Evolve Global Healthcare Enhanced Yield Fund	Consumer Defensive

Symbol	Fund Name	Top Sector
LIFE.U	Evolve Global Healthcare Enhanced Yield Fund	Consumer Defensive
CALL	Evolve US Banks Enhanced Yield Fund	Financial Services
CALL.B	Evolve US Banks Enhanced Yield Fund	Financial Services
CALL.U	Evolve US Banks Enhanced Yield Fund	Financial Services
FCCL	Fidelity Canadian Low Volatility Index ETF	Financial Services
FCIL	Fidelity International Low Volatility Index ETF	Healthcare
FCLH	Fidelity U.S. Low Volatility Currency Neutral Index ETF	Technology
FCUL	Fidelity U.S. Low Volatility Index ETF	Technology
FCUL.U	Fidelity U.S. Low Volatility Index ETF	Technology
PLV	Invesco Low Volatility Portfolio ETF	Financial Services
ULV.C	Invesco S&P 500 Low Volatility Index ETF	Utilities
ULV.F	Invesco S&P 500 Low Volatility Index ETF	Utilities
ULV.U	Invesco S&P 500 Low Volatility Index ETF	Utilities
ELV	Invesco S&P Emerging Markets Low Volatility Index ETF	Financial Services
ILV	Invesco S&P International Developed Low Volatility Index ETF	Financial Services
ILV.F	Invesco S&P International Developed Low Volatility Index ETF	Financial Services
TLV	Invesco S&P/TSX Composite Low Volatility Index ETF	Real Estate
XMV	iShares MSCI Min Vol Canada Index ETF	Financial Services
XMI	iShares MSCI Min Vol EAFE Index ETF	Healthcare
XML	iShares MSCI Min Vol EAFE Index ETF (CAD-Hedged)	Healthcare
XMM	iShares MSCI Min Vol Emerging Markets Index ETF	Financial Services
XMW	iShares MSCI Min Vol Global Index ETF	Healthcare
XMY	iShares MSCI Min Vol Global Index ETF (CAD-Hedged)	Healthcare
XMU	iShares MSCI Min Vol USA Index ETF	Technology
XMU.U	iShares MSCI Min Vol USA Index ETF	Technology
XMS	iShares MSCI Min Vol USA Index ETF (CAD-Hedged)	Technology
TCLV	TD Q Canadian Low Volatility ETF	Utilities
TILV	TD Q International Low Volatility ETF	Financial Services
TULV	TD Q U.S. Low Volatility ETF	Utilities
VVO	Vanguard Global Minimum Volatility ETF	Healthcare
TULV	TD Q U.S. Low Volatility ETF	Utilities
VVO	Vanguard Global Minimum Volatility ETF	Healthcare
XMS	iShares MSCI Min Vol USA Index ETF (CAD-Hedged)	Technology
TCLV	TD Q Canadian Low Volatility ETF	Utilities
TILV	TD Q International Low Volatility ETF	Financial Services
TULV	TD Q U.S. Low Volatility ETF	Utilities
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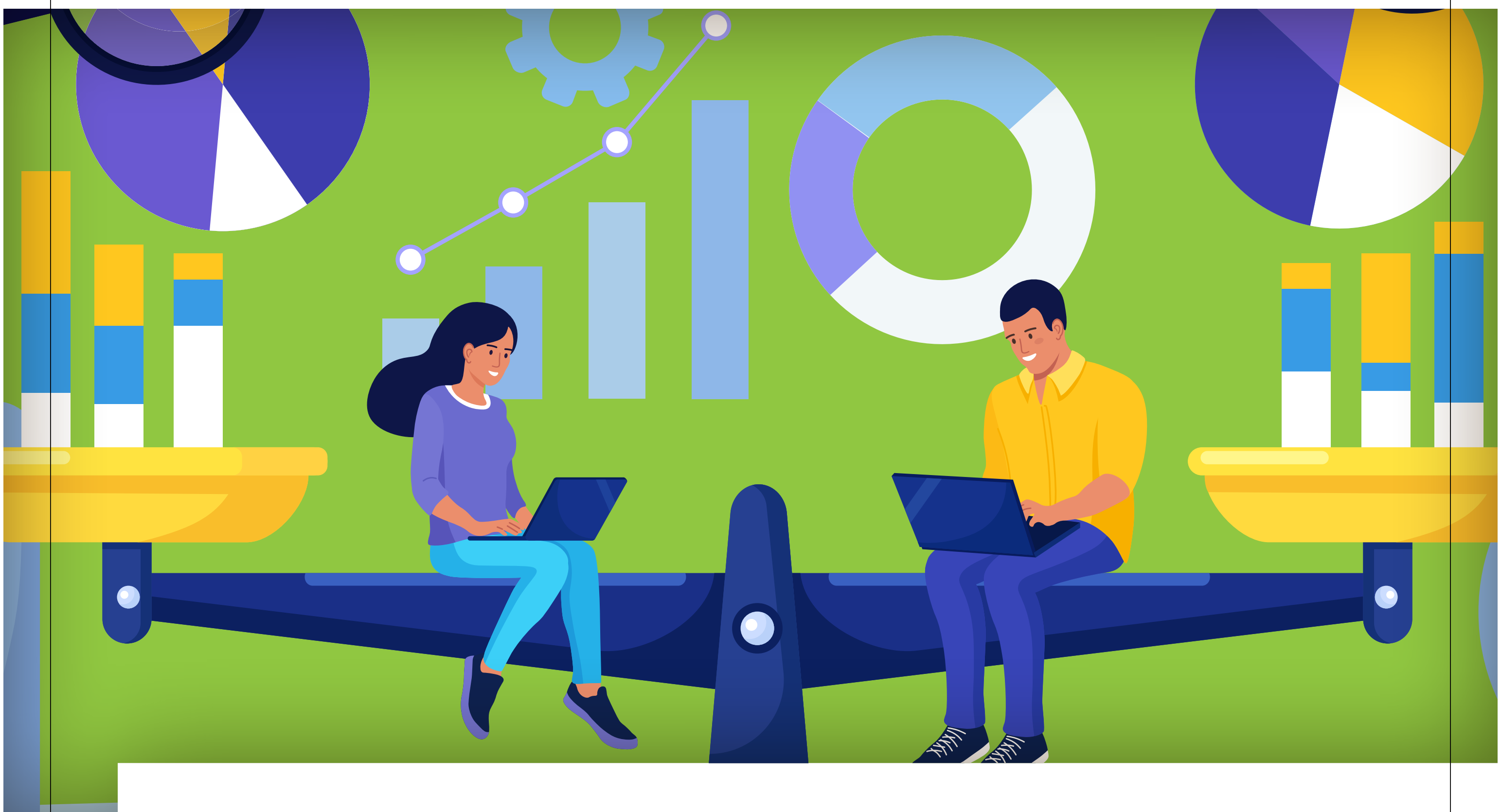
[1] Source: Statistics Canada, July 2022, www.150.statcan.gc.ca/n1/daily-quotidien/220816/dq220816a-eng.htm
[2] Source: TSX ETF Investor Centre - August 31, 2022, www.money.tmx.com/en/etf-centre/

What is an ETF Series? And How Does it Compare to Stand-alone ETFs?



Over the past few years, ETF series have seen considerable growth. Essentially, an ETF series is simply a version of an existing or new mutual fund trust, such as series A, series D, etc.

Prerna Mathews,
Vice President,
ETF Product
and Strategy,
Mackenzie Investments

So, for example, series A would be aimed at investors with a financial advisor, series D would be for individual investors who buy through a discount brokerage and series F would be for investors who work with advisors on a fee-based basis.

ETF series aren't new: the first one launched in Canada in 2013. Since then, many ETF providers have launched ETF series on existing or new mutual funds. ETF series typically charge the same fee as their series F mutual fund counterparts and provide identical exposure to other series that are part of the same mutual fund.

MACKENZIE Investments

It's important for advisors and investors to know the differences between stand-alone ETFs and ETF series because the product structure can have an impact on its performance. The challenge that investors unknowingly face is that sometimes there is no easy way to tell if an ETF is a stand-alone trust or a series as part of a mutual fund. It's important to know this because, while there are advantages to the ETF series structure, there are also drawbacks.

Benefits of ETF series versus stand-alone ETFs

- Benefits of scale due to assets of multiple series being managed in one fund:
    - A reduction in certain fixed costs of maintaining a separate mutual fund and separate ETF.
    - Potentially lower transaction costs when trading because the portfolio manager has a larger pool of assets to transact.
- If the primary series of the mutual fund was launched some time ago, investors can benefit from knowing the strategy's historical performance.
- Smaller asset managers may not be able to trade large blocks of securities and allocate them to all their funds and ETFs respectively. In such situations, smaller asset managers may benefit from having multiple series as part of one fund, to allow them to manage trades effectively.

Drawbacks of ETF series versus stand-alone ETFs

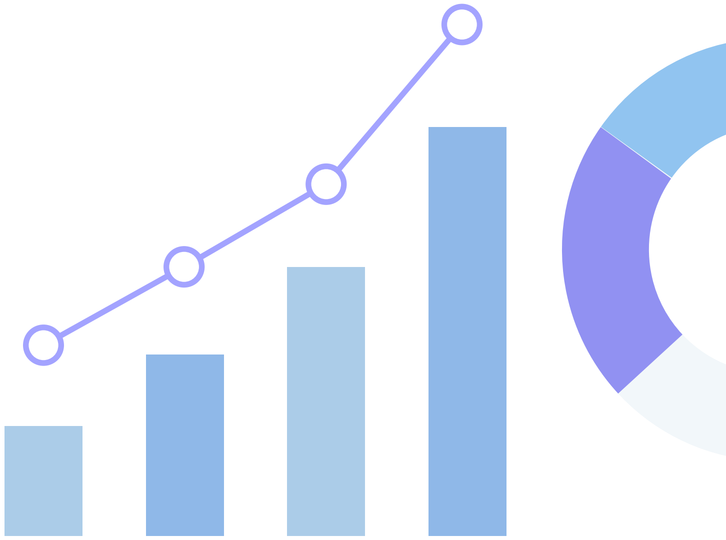
- Within an ETF series, the costs of buying the underlying securities are mutualized (that is, those costs are shared by all investors in the series). For example, if an investor buys $50,000 of an ETF series, the cost of buying the new securities is shared by all investors in the series. This mutualization exposes investors to the risk of large in and out movements, which can reduce the series' performance. This can also have an impact on capital gains and bring tax implications for all unitholders.
- Additional spread costs for ETF series: ETFs are subject to spread costs (B-A) that investors who buy or sell the ETF have to pay. ETF series are subject to the same observable spread costs plus spreads on the underlying securities that occur when product managers buy or sell securities for the fund trust. This leads to a reduced performance.
- The performance of an ETF series will differ from that of any mutual fund series because an investor's total return will be impacted by ETF transaction costs.
- Transaction fees vary between mutual funds and ETFs, which may lead to a variance in ETF series. ETFs may charge brokerage and commission fees, while mutual funds charge admin fees. ETF series have the same brokerage and commission fees but also may be impacted by the admin fees from the underlying mutual funds.
- Some ETF series may not provide daily transparency of their holdings, unlike stand-alone ETFs. This might have a significant impact in very volatile markets, where the ETF's market price could be considerably impacted by the fund's changing exposures and their values.

How to tell whether an ETF is a stand-alone or series

Check to see if the word "series" appears in the ETF name or on the ETF webpage. You can also check the ETF's prospectus, which can be found on the ETF provider's website, or on sedar.com.

When to choose stand-alone ETFs versus ETF series

Ultimately, this is a matter of personal preference. In some cases, the benefits of scale of series ETFs can outweigh the drawbacks of the product's structure, particularly for smaller asset managers. Advisors should talk to their Mackenzie sales team for more details. Investors should talk to their advisors.

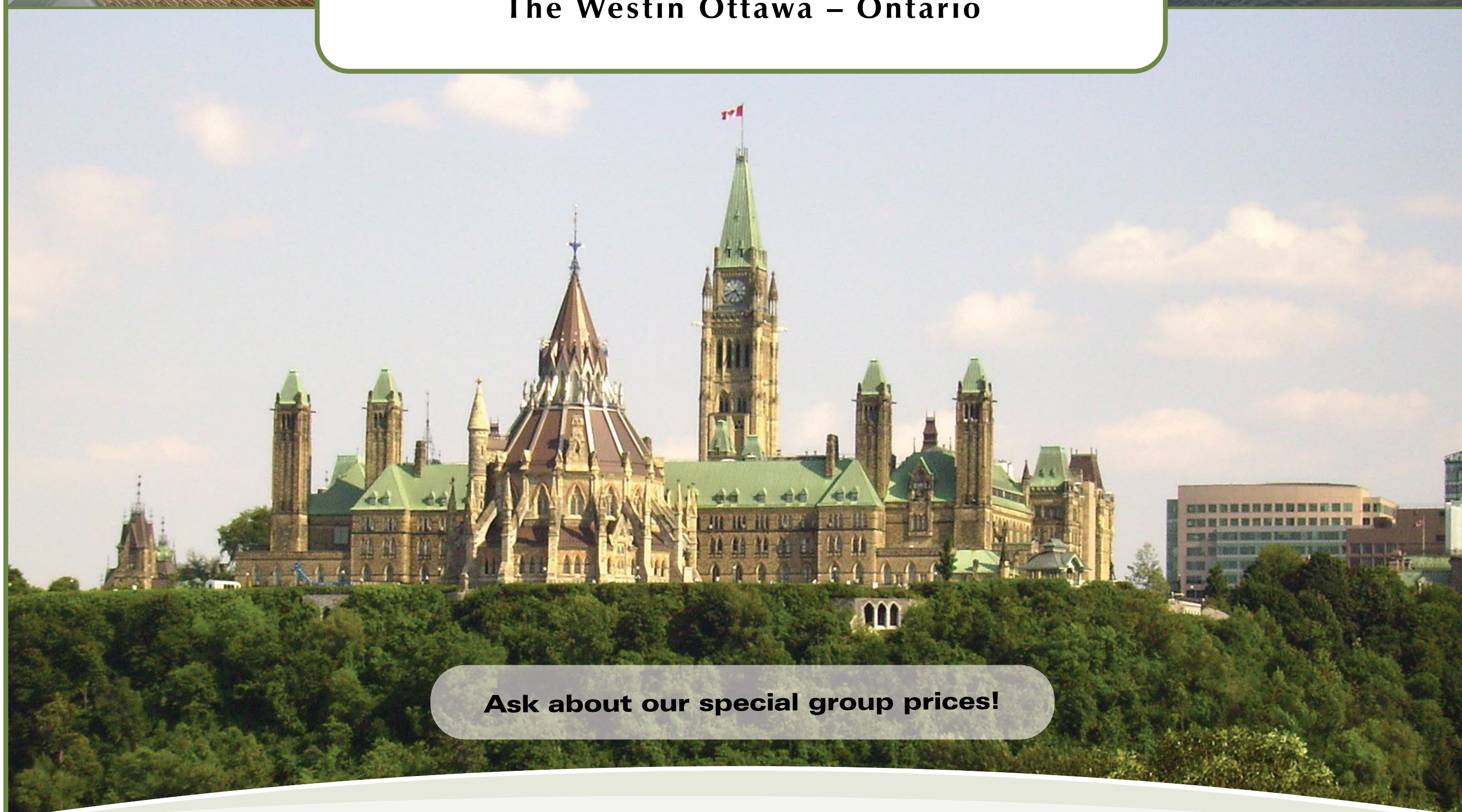


CIFPs

21st Annual National Conference - 2023

Sunday, June 11th - Wednesday, June 14th

The Westin Ottawa – Ontario



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- **Risk Management and Estate Planning**
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Understanding ETF Series Investments

Over the past few years, the concept of ETF series has continued to gain momentum. Essentially, an ETF series is simply an additional series of an existing or new mutual fund trust, similar to series A, series F and so on.

Prerna Mathews,
Vice President,
ETF Product
and Strategy,
Mackenzie Investments

The concept of ETF series is not new, as the Canadian market saw its first ETF series launch in 2013. Since then, many ETF providers have come to market with an ETF series of an existing or new mutual fund. ETF series typically charge the same fee as their series F mutual fund counterparts and provide exposure that is identical to other series of the same mutual fund.

MACKENZIE Investments

It's important for advisors and investors to understand the differences between stand-alone ETFs and ETF series, as well as the impact the product structure can have on the performance experience.

Sometimes there is no easy way to tell if an ETF is a stand-alone trust or a series of a mutual fund. There are some advantages to the ETF series structure, but also drawbacks that advisors and investors should be aware of.

ETF series versus stand-alone ETFs

Benefits

An ETF series can benefit from scale derived from the multiple series being managed in one fund. This can result in:

- A reduction in certain fixed costs, compared to maintaining a separate mutual fund and separate ETF.
- Potentially lower transaction costs within the portfolio, as the portfolio manager has a larger pool of assets to transact.

Also, if the primary series of the mutual fund has been in existence for a longer period, investors have the benefit of knowing the historical performance of the strategy.

Smaller asset managers may benefit from having multiple series as part of one fund, as it allows them to manage trades more effectively.

Drawbacks

An ETF series mutualizes the cost of transacting in the underlying fund. This mutualization exposes the end investor to the risk of large movements in and out of the fund, which will erode the remaining unitholders' performance. This can also have an impact on capital gains and tax factors for all unitholders.

TF series are also prone to additional spread costs – not only those which are observable by investors but also those on the underlying securities that occur when the portfolio manager trades securities for the fund trust. This can lead to performance drag, and the ETF series will not be identical to that of the mutual fund series.

Transaction fees are asymmetrical between mutual funds and ETFs, which may lead to the same asymmetry for ETF series. An investor in an ETF series will incur brokerage and commission fees, but may also be affected by the administration fees from the mutual fund.

Some ETF series may not be providing market makers with daily transparency into their holdings, unlike with stand-alone ETFs. This may have a more significant impact in very volatile markets, where the ETF's market price could be meaningfully displaced from the changing exposures and values of the exposures within the fund.

Considerations in choosing

Ultimately, this can be a matter of choice. In some cases, the benefits of scale may outweigh the drawbacks of such a product structure, particularly with smaller asset managers. To determine which structure is being employed, look for the word "Series" in the ETF name or on the ETF webpage. You can also check the prospectus of the ETF on its website, or on www.sedar.com

2022 CALENDAR OF EVENTS

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Retirement Canada Dialogue 4th Annual

Tuesday, August 30, 2022 ~ Toronto, ON
@ Marriott Downtown at CF Toronto Eaton Centre

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 2022

RetirementInstituite.ca

Exchange Traded Forum (Toronto) 13th Annual

Wednesday, August 31, 2022 – Thursday, September 1, 2022 ~ Toronto, ON @ Marriott Downtown at CF Toronto Eaton Centre

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 FORUM2022

ExchangeTradedForum.com

TORONTO

WAIS Canada 21st Annual

Thursday, September 15, 2022 - Friday, September 16, 2022 ~ Niagara Falls, ON @ Crowne Plaza - Fallsview

WAIS Canada is in its 21st 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

Exchange Traded Forum (Vancouver) 12th Annual

Monday, September 26, 2022 ~ Vancouver, BC
@ Sheraton Vancouver Wall Centre

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 FORUM2022

ExchangeTradedForum.com

VANCOUVER

ESG Conference (Toronto) 1st Annual

Friday, November 25, 2022 ~ Toronto, ON
@ Toronto Marriott Downtown

The Canadian ESG Conference Toronto 2022 provides attendees with the opportunity for quality networking with a highly defined audience of credentialed advisors, investment professionals, sustainability professionals and corporate responsibility, green economy practitioners and sponsors within the financial services industry.

ESG CONFERENCE 2022

canadianesgconference.com

TORONTO

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ETF & Investment Forum London 2nd Annual

Fall 2023 ~ London, United Kingdom

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ETF & INVESTMENT FORUM 2023
RadiusEurope.com
LONDON

ETF & Investment Forum Frankfurt 2nd Annual

Fall 2023 ~ 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 2023
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FRANKFURT

Institutional Dialogue 2nd Annual

Fall 2023 ~ Edinburgh, United Kingdom

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INSTITUTIONAL DIALOGUE
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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.

Targeting Defense, Growth, or Yields with Healthcare ETFs

The global healthcare sector experienced notable tailwinds during the COVID-19 pandemic as demand for vaccines sent the stocks of numerous pharmaceutical companies to all-time highs.

Jaron Liu, CFA
Director, ETF Strategy,
CI Global Asset
Management

In 2022 so far, the healthcare sector was a relative out-performer compared to the losses suffered by the broad market. The inflationary, rising-interest rate environment created less downside for healthcare stocks compared to hard-hit sectors like technology or consumer discretionary.

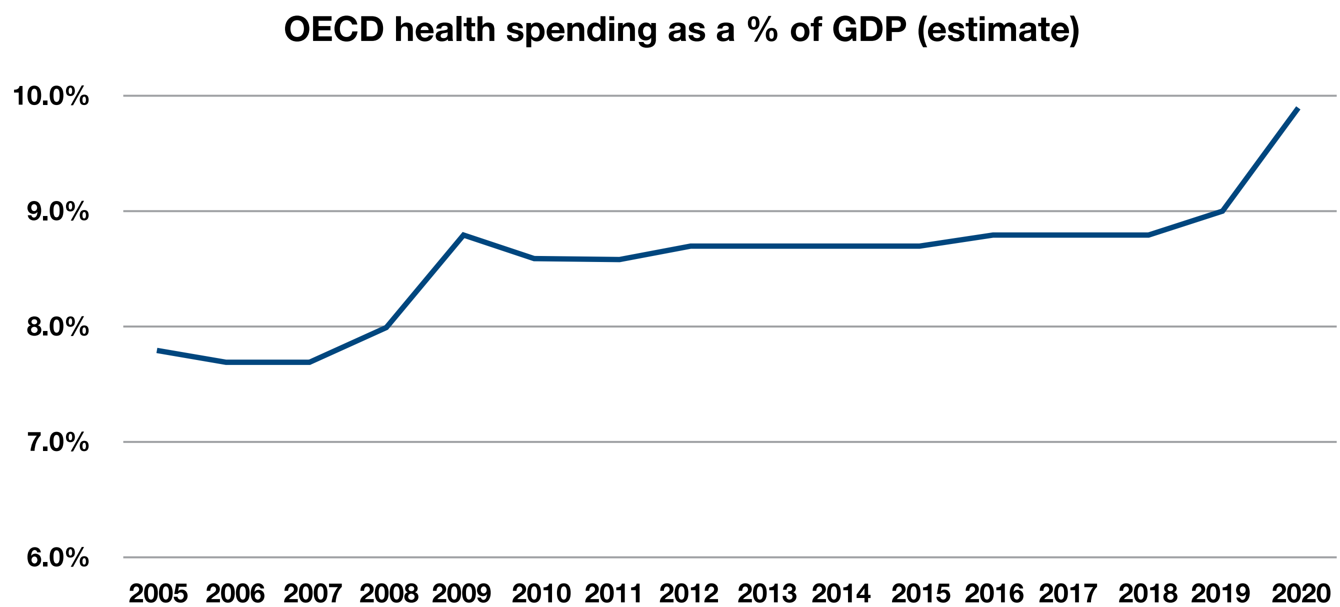
CI GLOBAL ASSET MANAGEMENT

The healthcare sector remains an enticing long-term investment for the following three reasons:

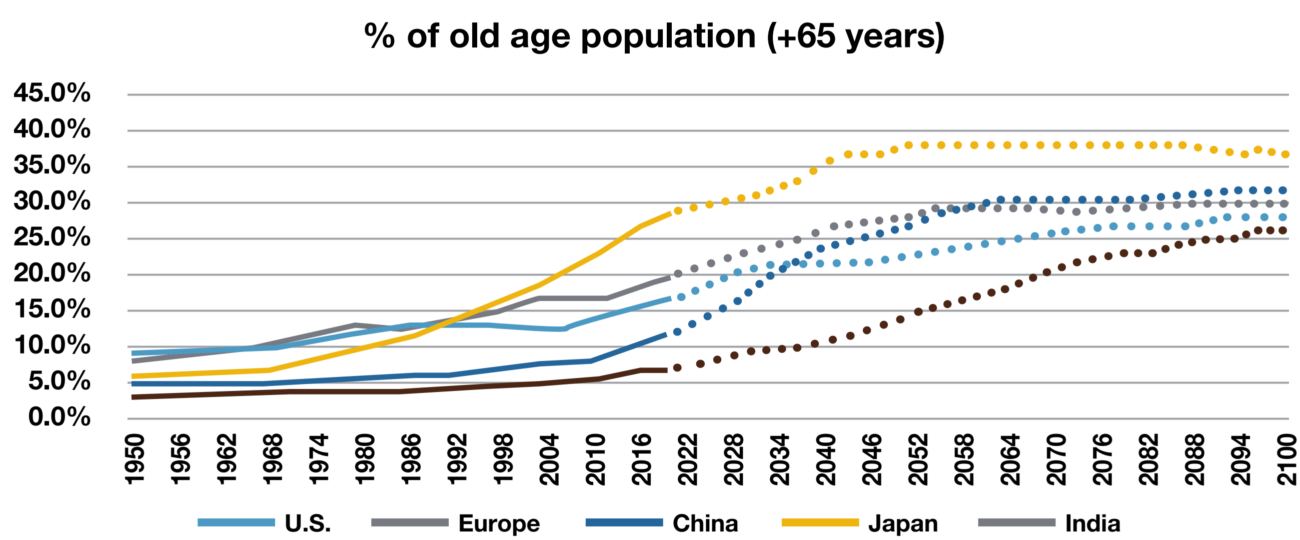
1. Long-term structural trends such as an aging population, increased healthcare spending, and technological advancements.
2. Lower volatility and resilience during bear markets due to evergreen demand for essential services and products.
3. Attractive valuations compared to the broad market and other sectors.

The changing future healthcare landscape

A potent combination of an aging global population, coupled with higher spending as a proportion of gross domestic product (GDP) is expected to drive future demand for the healthcare sector's products and services. As seen below, OCED health spending a percentage of GDP jumped strongly in 2020 on a sharp uptrend, while forecasts for old age population is expected to grow over the decades.



(LHS) Source: OECD Health Statistics 2021



(RHS) Source: United Nations – Population Division

Higher spending drives healthcare supply, while an increasingly aging population drives demand, the intersection of which is predicted to create strong growth in the sector over time. This may be further catalyzed by the speed of technological innovation in the healthcare sector, especially in biotechnology and geonomics.

Playing defense in bear markets

Healthcare sector stocks possess several general characteristics that make them uniquely suitable as defensive investments during turbulent market conditions:

- A lower-than-average beta, which is a measure of volatility and sensitivity relative to the overall market's movements.
- Relative inelastic demand for healthcare products and services due to their essential nature, making the sector less sensitive to economic cycles.
- Stronger balance sheets, and more consistent cashflows compared to more cyclical sectors like technology or consumer discretionary.

These characteristics have helped healthcare sector stocks withstand market downturns noticeably better on a historical basis, as seen below:

Sector	11/1/2007 - 2/28/2009	6/1/2015 - 2/29/2016	10/1/2018 - 12/31/2018	1/1/2020 - 3/31/2020
Health Care	**-24.95**	**-12.06**	**-9.23**	**-10.81**
Consumer Staples	-22.44	3.12	-6.40	-12.06
Utilities	-28.85	-2.41	0.91	-12.72
Communication Services	-30.26	-0.94	-6.39	-17.01
Energy	-30.33	-22.62	-20.68	-43.00
Information Technology	-42.77	-8.52	-17.75	-12.95
Consumer Discretionary	-43.94	-9.63	-14.66	-21.37
Materials	-43.09	-22.24	-13.03	-24.02
Industrials	-47.51	-9.65	-16.31	-25.22
Real Estate	-54.48	-6.42	-4.65	-22.50
Financials	-58.50	-17.80	-13.15	-30.16
MSCI World	-41.23	-11.39	-13.14	-20.10

Source: Morningstar Direct. Based on MSCI World Sector Indices. Performance in local currency. Periods where the MSCI World Index was down 10% or more.

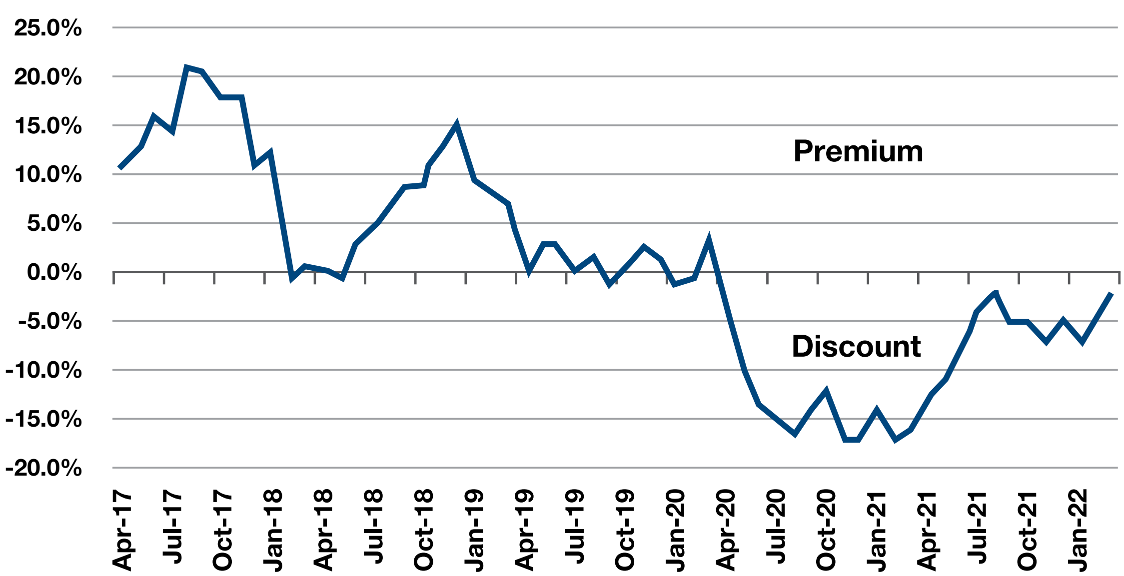
Case in point, the COVID-19 crash of March 2020 saw the MSCI World Index fall by 20.1%, with the energy and financial sectors drawing down by 43% and 30.2% respectively: In contrast, the healthcare sector fell the least out of all 11 sectors by just 10.8%.

Taking advantage of attractive valuations

Despite the poor performance of the markets over the first half of 2022, numerous sectors like technology and communication services still trade at relatively high valuations. As many know, reversion to the mean often occurs and winning sectors rarely outperform and dominate for long.

Comparatively, the healthcare sector currently trades at a fairly attractive valuation. Compared to the MSCI World Index, the MSCI World Health Care Index is currently trading at a substantial discount based on its 12-month forward P/E ratio.

MSCI World Health Care Index - Forward P/E Premium/Discount



Source: Morningstar Direct, as of March 31, 2022.

The relative under-valuation of the healthcare sector presents a rare opportunity for investors, especially those seeking to implement a sector rotation strategy.

Healthcare investing strategies suitable for all

Exposure to healthcare stocks can be obtained through stock-picking, but this approach can be time-consuming, costly in terms of trading commissions, and subject to idiosyncratic risk (the chance that your stock pick does poorly).

An easier way to diversify is via an ETF, and we have several available for healthcare investors seeking to implement a variety of different investment strategies:

Fund	Ticker	Mgmt. Fee
CI Health Care Giants Covered Call ETF	FHI, FHI.B, FHI.U	0.65%
CI Global Healthcare Leaders Index ETF	CHCL.B	0.35%
CI Bio-Revolution ETF	CDNA	0.40%

Each of the above-noted ETFs targets healthcare sector stocks, but with different strategies depending on the needs of the investor and their investment objectives:

- **Healthcare Covered Call ETFs**: Investors looking for high yields can use FHI as an alternative to traditional income-generating assets like dividend stocks or corporate bonds. CI's covered call ETFs write call-options on approximately 25% of the portfolio's holdings to ensure participation in upside return potential. The options premiums received can also offset losses somewhat during bear or sideways trading markets.

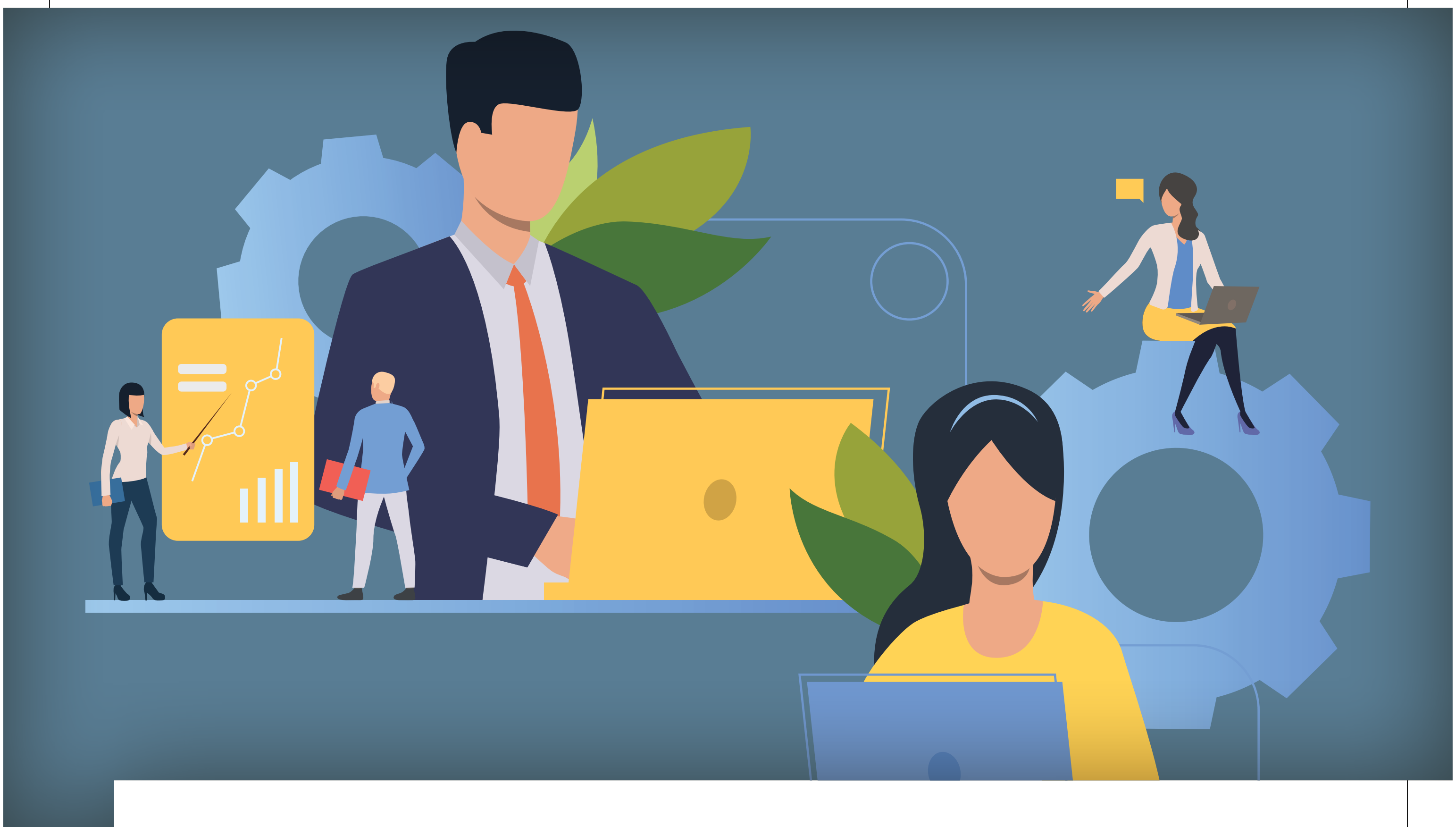
- Broad Healthcare Index ETFs: Passive, long-term investors seeking to implement a sector rotation strategy or healthcare sector tilt can use CHCL.B. CHCL.B offers one-ticker exposure to a global portfolio of liquid, large-cap healthcare stocks, saving investors the need to manually pick and rebalance holdings.

- Bio-Revolution ETFs: Healthcare investors willing to take on more risk for the possibility of higher growth can target the growing fields of biotechnology and genomics industry via CDNA. Compared to other thematic ETFs of its class, CDNA offers a very competitive management fee.

If you're a healthcare bull, CI GAM has you covered. Our suite of professionally managed ETFs offers a combination of low fees, diversified holdings, and unique strategies suitable for all investment objectives and risk tolerances.

For more information on the CI ETFs please visit ci.com/ETFs

Servicing Clients Effectively in a Digital World



In 2020, our world was forced to make drastic shifts and changes through the Covid-19 pandemic. Many industries were forced to accelerate and activate their digital transformation strategies and plans, or at the very least adopt one, very quickly.

Nadine Livingston
Co-Founder and
Chief Brand Alchemist,
Strategicly

strategicly

We are now at a time where many predict that our world will not recover until 2024, if we're fortunate.

So what does this mean? Consumers have no option but to adapt in order to live their lives as "normal" as possible, which means they are gravitating to brands that can accommodate their needs. The demand for an increase in digital experiences is not going away, nor is the daily advancement of emerging technologies.

One industry that is facing the impact the most is financial services.

From the activity we've seen over the past two years, it is clear if a business has not activated a strategy to integrate digital experiences for consumers, leverage innovation and adopted technology, they face attrition in client business resulting in lost revenue or worse, they are forced to close their doors.

This was the case with many U.S. financial institutions. With the emergence of Neo banks, the rapid increase in VCs investing in financial technology (FinTech) and the constant change in consumer behaviours demanding an increase in digital experiences. It is no surprise why so many heritage banks were forced to close. They did not account for having to change their business and operational models. They did not have a strategy or plan in place nor did they make the shift to a more client - centric focus.

In this article we will focus on the opportunities financial advisors have to service clients more effectively in our *brave new digital world*.

An integrated approach is no longer an option, it's imperative.

The Rise of the Robo Advisor

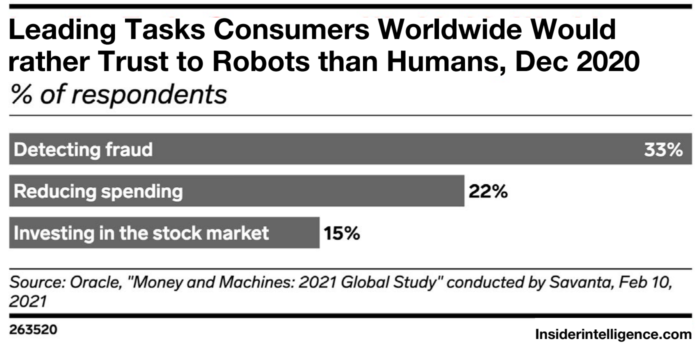
This statement might be true based on a brief look at this survey, (chart 3A) please note, however, it states "worldwide". If you look at chart 3B, in Canada, we can see from the data that people are more interested in searching for an advisor who is human. One could argue that unless someone is aware of the virtual and self- serve investing platforms, that they might prefer to have more control and opt to use the technology. But this is not the case. We're not there yet. Clients still don't completely trust technology for everything (yet), as many surveys have illustrated.

VC's will continue to invest in Fintech as they can help the financial services industry as a whole, create a richer experience and meet clients' evolving expectations. As these behaviours continue to evolve, the advisor needs to be ahead of the proverbial "game".

Contrary to popular belief, digital transformation and the virtual or Robo advisor will not be the death of the traditional financial advisor. Rather, technology is empowering the financial services, to be client-centric. The financial services industry should embrace and leverage all innovation and technological advancements.

There are many benefits to the advisor adopting an integrated approach to servicing clients effectively moving forward.

Consumers Worldwide would trust robots over Humans to Detect Financial Fraud, Reduce Spending, and Even Invest in the Stock Market.



Source: Chart 3A- Data Provided by Insider Intelligence

Compared breakdown by subregion

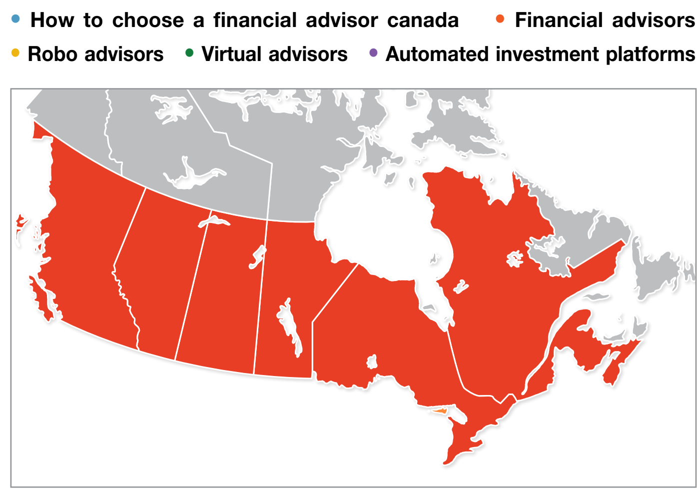


Chart 3B - Keyword Search on Google

Breakdown in Ontario

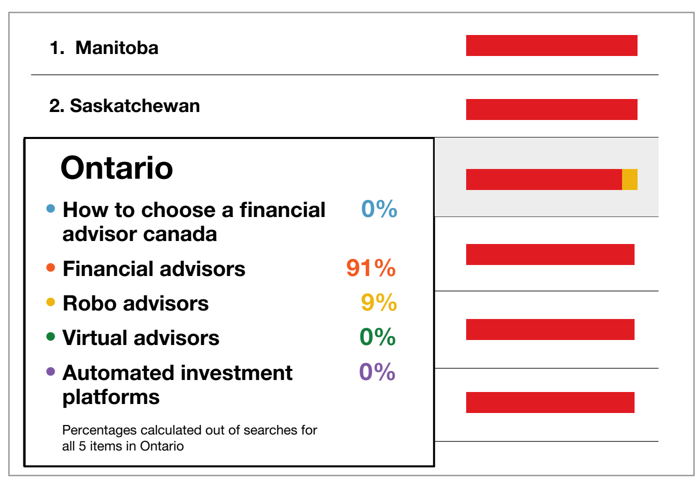


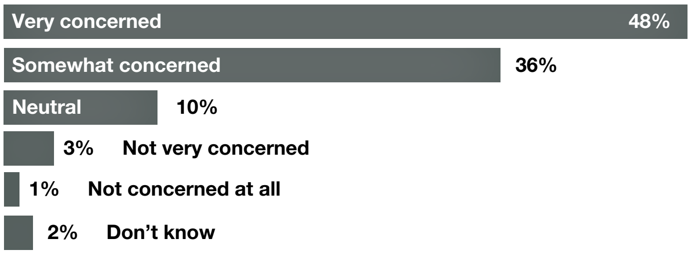
Chart 3C Breakdown in Ontario

The hard part is getting started and knowing what works best for both you, and your clients. Again, another opportunity presented.

Eighty-four percent of adults in Canada are concerned about their personal data being shared with third parties without their consent.

How Concerned Are Adults in Canada that Private Businesses with Access to Their Personal Data Willingly Share It with Third Parties Without Their Consent?

% of respondents, March 2021



Note: ages 18+

271342 Insiderintelligence.com

Source: Canadian Internet Registration Authority (CIRA). Canadians Deserve a Better Internet, May 26, 2021

Clients are still concerned about privacy and data breaches. This is another opportunity for advisors to address concerns, instead of making them read a 5 page mice-type document where they still don't fully get a comfort level about a completely digital experience, have the conversation with them.

The key to servicing clients effectively in todays overly competitive digital market is to provide choices by integrating digital and an in-person financial journey, allowing clients to transition seamlessly between mobile apps, automated advisors, information gathering, regulatory changes and more.

Relevant considerations

- Knowing your competitor's advantages and disadvantages will help you highlight the benefits of your integrated approach enabling you to provide better service to your Canadian client
- What are the benefits to self-serve investing compared with the conventional wealth management approach and the fully digital model?
- What does a mature hybrid model look like, and what are key offerings?
- Research the four key robo-advisor players in the U.S.; Vanguard, Schwab, TD Ameritrade, and BlackRock
- What do they do in terms of the onboarding process, portfolio management, human advice, and pricing?

With $68 trillion in assets set to transfer to younger generations over the next 30 years, wealth managers who target high-net-worth individuals (HNWIs) must adapt by using digital solutions to enhance their existing white-glove services—not replace them.

Know Your Current and Future Client

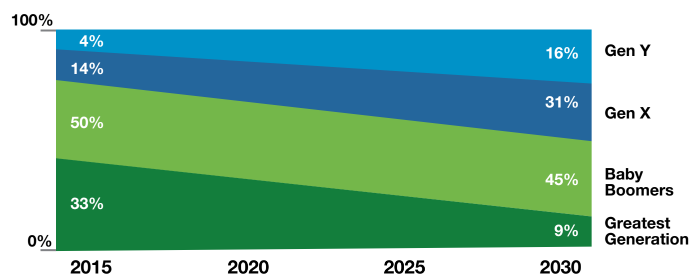
Have you created profiles of your clients? Have you segmented demographic information? How do they wish to be communicated with? Where do they spend their time? What are their interests? The world is changing and the amount of information available to the public is difficult to keep up with. Investing is no longer for older wealthy men.

Opportunities for younger generations who are tech-savvy, do their research, believe in social causes and want authentic experiences are gravitating to the virtual advisor.

Women of all ages regardless of marital status, are among the new generation of digital savvy investors, however, how they relate to investing differs from that of their traditional counterpart. The Boston Consulting Group cited 73% of women report being "unhappy" with the service levels they were receiving from the financial services industry. On the same subject, Investment News reported that 70% of women switch financial advisors within a year of their husband's death – in Canada the number is 80%.

In fact, women control about one-third of all financial assets in North America, which translates into an estimated $3.2 trillion in total assets and $1.1 trillion in financial wealth alone when applied to the Canadian environment, according to Investor Economics.

Generational Share of Net Household Wealth



Source: Fidelity Investments

The Canadian intergenerational paradigm

Generation*	Financial Mindset**	Investment Approach**
Silent Generation (born 1928-1945) Present age range: 74-91 Est. Population size 2,836,515	Likely more concerned with saving, funding the remainder of their lives and leaving a legacy.	• Tend to be more confident in their advisors and more relaxed than younger investors • May need advisors who can provide extra help with online tools
Baby Boomers (born 1946-1964) Present age range: 55-73 Est. Population size 8,322,515	Likely more concerned with preserving wealth, leavng a legacy, minimizing tax exposure.	• Tend to have higher financial literacy and more comfortable with an advisor-led model
Generation X (born 1965-1980) Present age range: 39-54 Est. Population size 7,656,555	Considered more technologically inclined, open to risk, and like to keep an eye on the growth of their investments. Saving for retirement.	• Tend to be financially literate, but may question traditional value propositions • May need advisor to help navigate maket dips and avoid kne-jerk reactions
Millennials (born 1981-1996) Present age range: 23-38 Est. Population size 7,357,255	More likely to invest according to their values. They are socially conscious and invest in causes that are both fruitful and support the "greater good". Saving for the future.	• May express less confidence in advisors • Data-driven in decision making • Tend to want advisors who are transparent and make them feel heard • More open to self-service options

Source: *Census Profile, 2016 Census. November 2017 Statistics Canada. ** From baby boomers to millennials, Which generation speaks to you? (Katie Dangerfield) July 2017 Global News "Five-Generation Study: Millennials Face Increased Retirement, Financial Challenges" October 2018. Society of Actuaries

Ensuring you have an integrated approach to servicing your clients is planning to succeed. Your clients are accessing information remotely everyday and will align better with an advisor who addresses their needs in realtime.

Embrace and Leverage Technology

There is no doubt that there are advantages to implementing anintegrated approach to servicing clients.Despite the sensationalism in the media about Augmented Reality (AR), Artificial Intelligence (AI), Machine Learning (ML), automated self-serve platforms, the virtual or Robo-advisors and the appealing cost savings, there are still great opportunities for the advisor to provide better service than a technology- alone approach to servicing clients.

Invest in an industry specific CRM tool that can help you manage your daily business, and help you stay up to date (in realtime) in such areas as regulatory changes, digital policy reform traction in Canada, and consumer protection.

Listening to Your Competition

While you might want to spend your time focussing on your own brand sentiment, learning to listen to competitors across all digital media platforms would gather more success for the advisor.

See what they are doing right and most importantly see where they are going wrong. If you share the same audience, make sure you're showing them that whatever they can't do, you can do better. There are simple, (free) tools available ie: google, to find this information. Of course there are more advanced tools that are used by digital marketing agencies, but if you don't have the budget set aside for on- going monthly management, the digital tools available, for free, could serve the purpose nicely.

Thought Leadership

Establishing yourself as a thought leader by posting relevant news, information and insights across all social media platforms your clients and potential clients gather information from, in addition to using the right keyword, SEO and SEM strategy will help you stand out.

Key Takeaways

Since the Covid-19 Pandemic in 2020, our world has been going through major shifts and changes across all industries.

As we see the growth of emerging technologies, advisors are presented with not only the challenges to their existing business and operation models, they are faced with the tough competition of self-serve platforms, AI, and Machine Learning Technology.

However, with every challenge comes opportunity. The opportunity to shift those models to become more client-centric. A focus on an integrated strategy to create better relationships and more enriching client experiences.

With the ease of gathering information by using digital tools, advisors have the opportunity to get to know their client's and competitors' online behaviours better. It goes without saying personal relationship building is paramount to differentiating.

Get to know your audience by creating profiles and asking the right questions. This will provide insights to help understand what media channels you should use, what information would be beneficial to them, and how your client wishes to be communicated with.

Focusing on your personal brand and providing insights about the financial services industry, and relevant information your clients are interested in will help differentiate you from your competitors. People invest their time and money with people they trust.

The white-gloved approach is evolving and the human experience will always be appealing to many investors. The important thing is to know what tools to leverage when, where they make sense (what is the purpose), and for which clients in order to service all of your clients "effectively" in a digital world.

Strategicly is a data insights-driven marketing consultancy helping financial services industry businesses with all aspects of their digital transformation strategies by providing the tools and resources needed for measurable growth.

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Getting Tactical with Sector ETFs

With the rising tide of easy money now in the past, many investors are looking for satellite exposures to re-position their portfolios for the late cycle—or even perhaps a recession. Erika Toth, Director, Institutional & Advisory, BMO ETFs, offers a closer look at which sectors are best suited to the current environment, and the benefits of accessing them in a single trade.

Erika Toth,
Director, Institutional & Advisory, Eastern Canada, BMO Global Asset Management

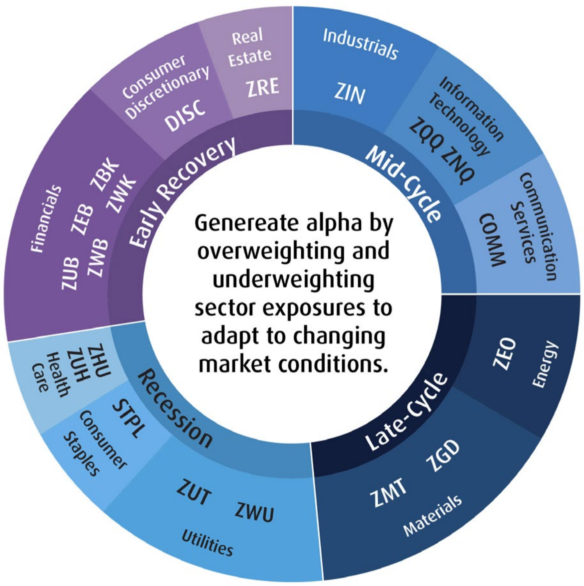
Heightened demand for sector ETFs

To say markets were volatile in the first half of 2022 would be an understatement. In addition, as of Friday June 30, U.S. stocks had their worst first-half year since 1970, as the S&P 500 sank by 21%.

High inflation—plus aggressive tightening by central banks—have caused pullbacks in asset values. We also saw oil prices surge due to Russia's invasion of Ukraine and renewed demand from economic re-openings—which in turn caused a ramp-up in production costs, other commodity prices and ongoing supply chain issues.

As a result, we've seen growing demand for sector ETFs, as advisors and portfolio managers seek ways to be more tactical and targeted in their allocations by, for example, adding commodity exposure to their holdings. Sector ETFs can also help investors get tactical in a hurry, allowing them to quickly over- or underweight sectors with a single trade as the market evolves. The chart below provides an excellent overview as to which sectors tend to generate alpha during each stage of the economic cycle, offering a good baseline from which to start their analysis.

How to use sector ETFs across market cycles



Early recovery-Growth begins to rebound from a recession; investment and consumption pick up. Monetary policy remains loose.

Sectors: Financials, Consumer Discretionary, Real Estate

Mid-cycle-Economic growth strengthens. Credit expansion and profit margins grow. Monetary policy begins to tighten

Sectors: Industrial, Information Technology, Telecommunication Services

Late-cycle-Economic growth peaks as monetary policy becomes tight and restrictive. Credit standards are tightened and corporate profits begin to decline.

Sectors: Energy, Materials

Recession-Economic growth contracts and unemployment rises sharply while corporate profits turn negative. Monetary policy loosens to provide relief.

Sectors: Utilities, Consumer Staples, Health

Source: BMO Global Asset Management.

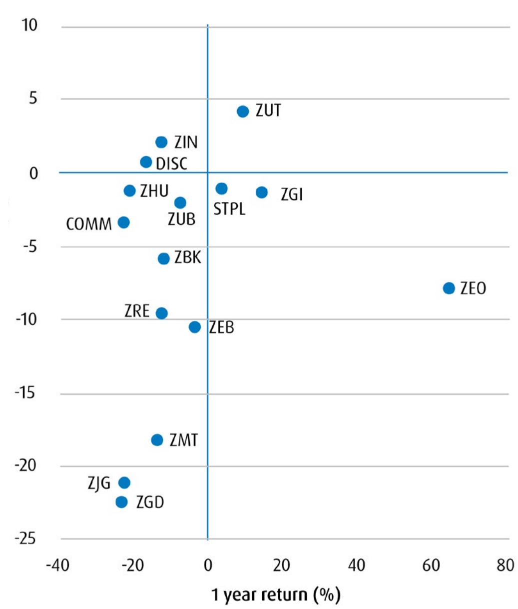
Tracking inflows to sector ETFs

Technology and growth-oriented stocks have led the pack for several years, but lately we've seen investors rotate away from this paradigm and move in a new direction. Over the first two quarters of the year, Energy and more defensive sectors—such as infrastructure, utilities and consumer staples—have outperformed the broader market on a relative basis.

Of those aforementioned sectors, Energy is the only one that's considered cyclical, meaning that it typically underperforms during a market slowdown.

This time appears to be different. The conflict in Ukraine and other supply-side shocks have driven oil prices higher in recent months. In fact, the chart below shows that our equal weight oil exposure, ZEO, was an outlier in performance for both 1-year and 3-months because demand continues to grow and supply remains stuck in neutral. Even oil-producing countries that are free from conflict are not speeding up production fast enough to match demand.[1] In the U.S., where gas prices are cresting $5 a gallon, the situation is so dire that U.S. President Joe Biden had to release a letter urging oil producers and refiners to increase higher production levels.[2]

Industry sectors



Source: Morningstar Direct, August 31, 2022.

Contrast energy with other sectors of the market. Areas like technology, U.S. banks and consumer discretionary have suffered the most from interest rate hike policies.

Capitalizing on opportunities outside of Canadian equities

In all of these scenarios, sector ETFs remain excellent tools to tilt your portfolio without making significant changes to the core, high conviction holdings. Rather than having to radically reform your asset allocation, ETFs allow for targeted, complementary investments that can be easily added or removed to suit changes in the economic cycle.

The ease of implementing precise exposures can be an enormous advantage to advisors who specialize in managing portfolios of Canadian stocks, especially given that relative performance between asset classes tends to differ wildly from year to year. Canadian equities have certainly been a bright spot in this year's volatile markets so far, but that's not necessarily predictive of how they will perform going forward. As shown in the chart below, Healthcare went from being the bottom of list in 2016 to the top-performer in 2018, and the only differences were the macroeconomic conditions at play, such as when the Federal Reserve began raising rates.

Sector returns by year (2011-2021)

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
U 19.91%	F 28.81%	CD 43.08%	RE 30.19%	CD 10.11%	E 27.36%	IT 38.83%	HC 6.47%	TS 50.29%	IT 43.89%	E 54.64%
CS 13.99%	CD 23.92%	HC 41.46%	U 28.98%	HC 6.89%	TS 23.48%	M 23.84%	U 4.11%	U 32.69%	E 33.30%	RE 46.19%
HC 12.73%	RE 19.74%	I 40.68%	HC 25.34%	CS 6.60%	F 22.80%	CD 22.98%	RE 3.39%	RE 32.13%	SP 23.61%	F 35.04%
RE 11.39%	TS 18.31%	F 35.63%	IT 20.12%	IT 5.92%	I 18.86%	F 22.18%	CD 0.83%	I 31.48%	TS 20.73%	IT 34.53%
TS 6.27%	HC 17.89%	SP 29.60%	CS 15.98%	RE 4.68%	M 16.69%	HC 22.08%	IT -0.29%	HC 29.37%	U 18.39%	SP 28.68%
CD 6.13%	I 15.35%	IT 28.43%	F 15.20%	TS 3.40%	U 16.28%	I 21.03%	SP -6.24%	CS 29.01%	RE 13.45%	M 27.28%
E 4.72%	M 14.97%	CS 26.14%	SP 11.39%	SP -0.73%	IT 13.85%	SP 19.42%	CS -8.38%	IT 27.94%	HC 11.06%	HC 26.13%
IT 2.41%	IT 14.82%	M 25.60%	I 9.83%	F -1.53%	SP 9.54%	CS 13.49%	TS -12.53%	SP 27.61%	F 10.75%	CD 24.43%
SP 0.00%	SP 13.41%	E 25.07%	CD 9.68%	I -2.53%	CD 6.03%	U 12.11%	F -13.03%	F 26.35%	CD 0.48%	TS 21.57%
I -0.59%	CS 10.76%	U 13.21%	M 6.91%	U -4.84%	CS 5.38%	RE 10.85%	I -13.29%	CD 24.58%	M -1.69%	I 21.12%
M -9.75%	E 4.61%	TS 11.47%	TS 2.99%	M -8.38%	RE 3.39%	E -1.01%	M -14.70%	E 20.82%	CS -2.17%	CS 18.63%
F -17.06%	U 1.29%	RE 1.60%	E -7.78%	E -21.12%	HC -2.69%	TS -1.25%	E -18.10%	M 11.81%	I -33.68%	U 17.67%

CD Consumer Discretionary
CS Consumer Staples
E Energy
F Financials
HC Health Care
I Industrials
IT Infromation Technology
M Materials
RE Real Estate
SP S&P 500
TS Telecommunication Services
U Utilities

Returns are total return figures and are based on historical performance of the sector indices. Sector indices uses were as follows: SPTRCOND Index (Consumer Discretionary), SPTRHLTH Index (Health Care), SPTRCONS Index (Consumer Staples), SPTRINFT Index (Information Technology), SPTRTELS Index (Telecommunications Services), SPTRFINL Index (Financials), SPTRINDU Index (Industrials), SPTRUTIL Index (Utilities), SPTRMATR Index (Materials), SPTRENRS Index (Energy), SPTRRLST Index (Real Estate), SPX Index (S&P 500).

Source: Bloomberg, March 2022.

The case for equal weighting

Instead of allocating by market cap, which can result in a size tilt in the portfolio, many of our sector ETFs use equal weighting across a basket of high-quality names. This provides ample diversification while also reducing concentration and tends to enhance performance over time. Meanwhile, regular rebalancing of the strategy ensures that holdings that are doing well can be sold high, and that the proceeds can be reinvested to keep the split even across the holdings.

For highly concentrated markets and sectors, such as Canada, for example, equal weighting is a powerful index construc¬tion methodology both to mitigate individual security concentration and to properly diversify sector exposures. This approach can also help increase dividend yield and total returns over time.

Being able to respond tactically during times when the market is in flux is critical to maximizing the value of your portfolio. That means being able to increase or decrease exposure to a variety of equities based on sector, region, etc., in order to respond to shifting market conditions.

BMO offers a robust tool kit of sector ETFs, ranging from Canadian to US to global, from defensive to cyclical, and from equal weighted to cap weighted—all of which can help advisors and portfolio managers to target precise segments and make tactical shifts to efficiently respond to changing market environments.

Please contact your BMO ETF Specialist to learn more about how our Sector ETF products can help you add alpha for your clients. Our Portfolio Managers are also available to help with trading insights. They can also be reached at 1-877-741-7263.

Name	Ticker	Inception Date	YTD	3 MO	6 MO	1 YR	3 YR	5 YR	Since Inception
Sectors									
BMO Equal Weight Oil & Gas ETF	ZEO	2009-10-20	40.0	-7.9	15.6	64.8	21.7	8.4	0.4
BMO Global Infrastructure ETF	ZGI	2010-01-19	7.2	-1.3	8.4	14.7	7.6	8.2	12.2
BMO Junior Gold ETF	ZJG	2010-01-19	7.6	6.6	8.2	10.4	14.2	6.0	-2.0
BMO Equal Weight Utilities ETF	ZUT	2010-01-19	9.1	4.2	10.8	9.6	17.3	12.8	9.5
BMO Global Consumer Staples H CAD ETF	STPL	2017-04-03	-1.9	-1.0	0.0	3.9	5.8	-	5.5
BMO Global Communications ETF	COMM	2018-05-02	-8.3	-6.3	-11.8	-1.5	11.4	-	10.8
BMO Equal Weight Banks ETF	ZEB	2009-10-20	-10.8	-10.5	-15.7	-3.2	11.5	8.8	10.4
BMO Equal Weight US Banks ETF	ZBK	2014-02-10	-13.1	-2.0	-15.0	-7.2	10.0	8.6	10.6
BMO Eq Weight US Banks Hedged to CAD ETF	ZUB	2010-05-19	-16.7	-5.8	-18.3	-11.5	8.3	5.5	7.6
BMO Equal Weight Industrials ETF	ZIN	2012-11-14	-7.2	2.1	-3.1	-12.1	8.5	7.6	10.3
BMO Equal Weight REITs ETF	ZRE	2010-05-19	-16.0	-9.6	-14.8	-12.1	2.1	7.6	8.8
BMO Equal Weight Glbl BM Hdgd to CAD ETF	ZMT	2009-10-20	-14.8	-18.3	-25.5	-13.4	8.5	-3.3	-3.1
BMO Global Consumer Discrt H CAD ETF	DISC	2017-04-03	-21.1	0.7	-10.6	-16.4	8.5	-	8.9
BMO Equal Weight US Health Care ETF	ZHU	2019-02-12	-18.3	-1.2	-8.3	-20.5	8.0	-	6.6
BMO Equal Weight Global Gold ETF	ZGD	2012-11-14	-24.9	-22.5	-30.4	-22.9	-6.0	0.5	-3.5
BMO Eq Wght US HlthCare Hdgd to CAD ETF	ZUH	2010-05-19	-21.9	-5.1	-12.1	-24.4	7.6	6.8	13.2

Source: Morningstar Direct, August 31, 2022.

Early recovery

ETF Name	Ticker	Geography	Portfolio Construction	Beta*	MER
BMO Equal Weight US Banks Hedged to CAD Index ETF	ZUB	U.S.	Equal Weighted	1.29	0.38%
BMO Equal Weight US Banks Index ETF	ZBK	U.S.	Equal Weighted	1.10	0.38%
BMO Equal Weight Banks Index ETF	ZEB	Canada	Equal Weighted	0.96	0.28%**
BMO Covered Call Canadian Banks Index ETF	ZWB	Canada	Equal Weighted with Options	0.93	0.72%
BMO Global Consumer Discretionary Hedged TO CAD Index ETF	DISC	Global	UCITS	1.00	0.40%
BMO Equal Weight REITs Index ETF	ZRE	Canada	Equal Weighted	1.06	0.61%
BMO Covered Call US Banks ETF	ZWK	U.S.	Equal Weighted with Options	1.07	0.71%

Mid-cycle

ETF Name	Ticker	Geography	Portfolio Construction	Beta*	MER
BMO Equal Weight Industrials Index ETF	ZIN	Canada	Equal Weighted	1.10	0.61%
BMO NASDAQ 100 Equity Hedged to CAD Index ETF	ZQQ	U.S.	Market Capitalization Weighted	0.95	0.39%
BMO NASDAQ 100 Equity Index ETF	ZNQ	U.S.	Market Capitalization Weighted	1.00	0.38%
BMO Equal Weight Oil & Gas Index ETF	ZEO	Canada	Equal Weighted	1.38	0.61%

Late-cycle

ETF Name	Ticker	Geography	Portfolio Construction	Beta*	MER
BMO Global Communications Index ETF	COMM	Global	UCITS	0.76	0.40%
BMO Equal Weight Global Gold Index ETF	ZGD	Global	Equal Weighted	0.92	0.61%
BMO Equal Weight Global Base Metals Hedged to CAD Index ETF	ZMT	Global	Equal Weighted	1.48	0.61%

Recession

ETF Name	Ticker	Geography	Portfolio Construction	Beta*	MER
BMO Covered Call Utilities ETF	ZWU	Canada	Equal Weighted with Options	0.92	0.71%
BMO Equal Weight Utilities Index ETF	ZUT	Canada	Equal Weighted	0.95	0.61%
BMO Global Consumer Staples Hedged TO CAD Index ETF	STPL	Global	UCITS	0.72	0.40%
BMO Equal Weight US Health Care Hedged to CAD Index ETF	ZUH	U.S.	Equal Weighted	0.97	0.39%
BMO Equal Weight US Health Care Index ETF	ZHU	U.S.	Equal Weighted	0.74	0.39%

MERs as of December 31, 2021.

BETA is a measure of the volatility - or systemic risk - of a security or portfolio compared to the market as a whole

* 3-year historical beta, as of August 31, 2022, Bloomberg.

**In 2021, the management fee of this ETF was reduced. The adjusted MER is 0.28% and represents an estimate of what the MER would have been had the change been in effect during the full financial

1 Maciej Kolaczkowski and Amy White, "Why do oil prices matter to the global economy? An expert explains," World Economic Forum, February 16, 2022.

2 Pippa Stevens, "Biden tells oil companies in letter 'well above normal' refinery profit margins are 'not acceptable'," CNBC, June 15, 2022.

The Ultra Cushion for a Bumpy Ride

This year has been quite the bumpy ride. Back in the new year, we thought we would finally see greener pastures as the COVID-19 pandemic seemed to decline, but we have witnessed quite the opposite.

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

Inflation increased at a blistering speed, prompting a hawkish response from central bankers, including the Bank of Canada. They raised interest rates multiple times over a short period, with more rate hikes expected. We saw prices increase in all major areas of the Consumer Price Index, especially for housing, food and at the gasoline pump. These inflationary shocks corresponded with an increase in volatility in the equity and fixed income markets, with both posting double-digit negative returns year to date. This volatility was also fed by the geopolitical shock of Russia's war in Ukraine.

We have started to see signs of recovery, but the market direction has been unpredictable with lots of whipsawing. Frankly, it has become increasingly difficult to hide in 2022.

But there is one place Canadian investors have been able to find some solace.

FRANKLIN TEMPLETON

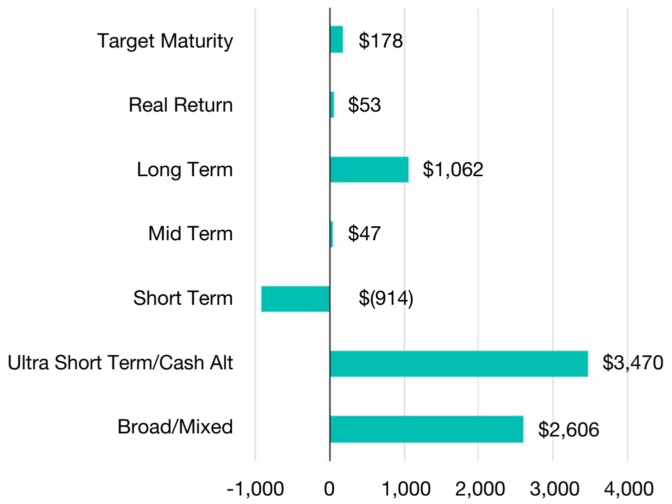
2022 flows: Ultra Short Term / Cash alternatives

A large percentage of investment flows in 2022 have fled into cash/cash equivalents, high-interest savings ETFs and ultra-short fixed income mandates. Cash tends to be king when diversification between equities and fixed income is nonexistent, especially when volatility in both asset classes had a strong positive correlation this year.

Based on National Bank's *ETF Research and Strategy* report for July, the year-to-date flows into cash, high-interest saving products, and ultra-short-term bond options reached $3.47 billion (see data below). That outpaced all fixed income categories this year. This category, from a total fixed income AUM standpoint, now accounts for 16% of the pie, and its piece is growing steadily.

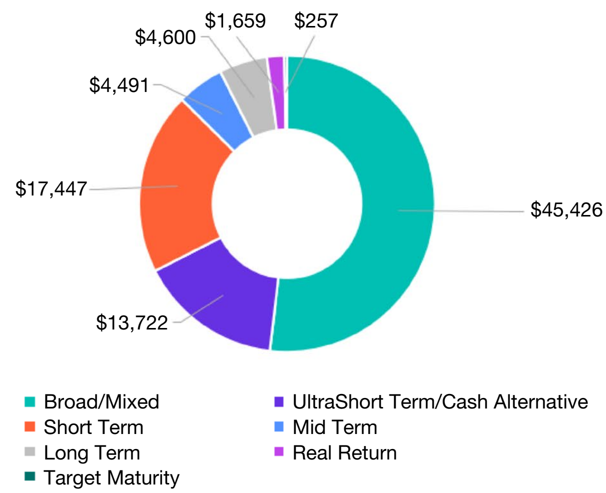
YTD Fixed Income ETF Flows by Maturity ($M)

As of July 31, 2022



Fixed Income ETF AUM by Maturity ($M)

As of July 31, 2022



Source: National Bank of Canada, Bloomberg L.P., as of July 31, 2022

This year's bumpy environment has made it tough for many advisors to decide what their next move should be. One of the main questions I hear from advisors is, "How can I enhance the cash position in my portfolio? I don't want to lock into a GIC, as rates may change; but I also want to remain nimble in case there is a market turnaround, so I can quickly deploy my cash back into the market."

Good question.

I took this feedback to my product team and talked with Franklin Bissett's fixed income portfolio managers about the scope, goals and what we needed to achieve in a new mandate for this environment. After some great discussions with the local sales team, product management colleagues and the portfolio managers, we designed a new ETF based on the feedback from advisors.

Ultra Short Duration approach

I am pleased to announce the launch of Franklin Bissett Ultra Short Bond Active ETF (TSX: FHIS). FHIS is an ultra-short bond mandate that gives investors access to cash and cash equivalents, T-bills, Bankers' Acceptance Notes, and quality investment-grade bonds. Maturities of these investments run between 0-2 years—ultra short.

FHIS is managed by the Franklin Bissett fixed income team, which is based out of Calgary and manages $11.1 billion in total assets, including $4.5 billion within fixed income solutions.[1] Franklin Bissett has been managing money for individual, institutional and high net worth investors for more than 40 years. FHIS will round out the four active Franklin Bissett fixed income mandates as part of our growing suite of ETFs.

Based on what I am seeing in the field, I continue to believe that FHIS's ultra-short strategy satisfies a demand from advisors and clients. This ETF is designed to provide a higher yield than high interest savings or cash-type products while maintaining stable income and liquidity, and unlike a GICs, there is no lock-in and yield is higher than a T-bill. This actively-managed solution is available for a low management fee of 15 basis points.

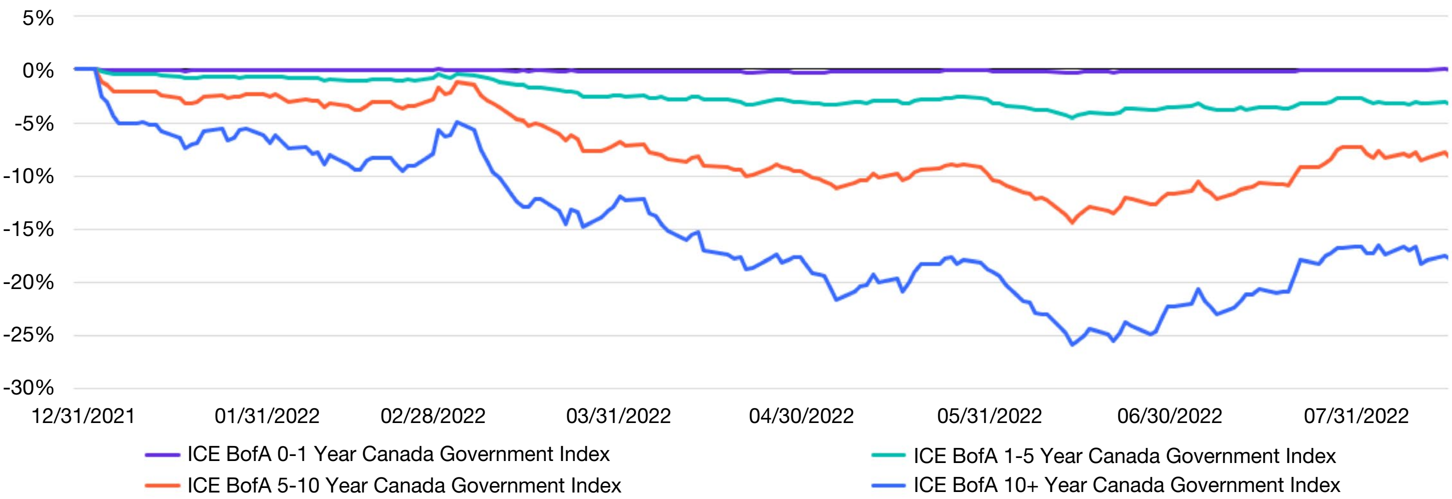
A key benefit of investing in an ultra-short duration strategy in this interest-rate landscape is that you don't have to overreach by going mid, or even longer along the yield curve for higher rates. In fact, short-term rates are currently higher than the long-term rate. This can be a positive as the investment team is looking to enhancing distribution yields by investing in shorter-term instruments versus taking on more duration risk.

In the chart below, you'll see that fixed income assets across the yield curve have felt the pain of volatility over the past year. Only one area has remained flat: the assets with a duration between 0-1 year. The current duration of FHIS is 0.55 years — right in the flat spot.

Shorter duration strategies have outperformed in this rising rate environment.

YTD Performance (%)

As of July 31, 2022



Source: Bloomberg L.P., as of July 31, 2022.

Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges. The performance of the indices does not include the deduction of expenses and does not represent the performance of any Franklin Templeton fund. Returns assume reinvestment of dividends. It is not possible to invest directly in an index.

Until investors see some direction in the market and inflationary pressures coming under control, an ultra-short duration strategy like Franklin Bissett Ultra Short Bond Active ETF (FHIS) will be a viable option to help position a portfolio against today's volatility.

Going ultra short could give investors a bit of a cushion during this bumpy ride.

[1] As of June 20, 2022

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Fighting Inflation with Equity Duration: Three Fundamentals to Look For

Each month, we get more news about how rising prices are eating into our wallets, whether it's June's 8.1% inflation rate in Canada or the 9.1% rate in the U.S. But inflation is also detrimental to investors, their portfolios, and their plans for retirement. So, what can they do to combat it?

Robert Wernic
Director of ETFs, Manulife Investment Management

The threat of rising inflation and resulting interest rate hikes has sent markets spiraling into bear market territory. Though we're of the view that core inflation should taper off for the remainder of the year, investors are likely facing a new inflation reality in the long run—one that's a few notches above the 2% or so we've seen over the last decades. If this is the case, investors should be asking how they can protect their portfolio. Our answer to this challenge starts with equity duration.

What is equity duration?

As bond investors should know, duration is a measure of the weighted average of each cash flow that's due to be received over the life of the bond. The lower the duration, the sooner the investor is theoretically repaid on an investment. It's also a measure of the sensitivity of the bond's price to changes in interest rates: the higher the duration, the more the bond price changes as rates change.

This same concept can be extended to equities. Equity duration can be thought of as a measure of how long an investor must receive dividends in order to be repaid the purchase price of the stock. Since cash flows are weighted by their present value, equity duration—like bond duration—can also be a measure of how sensitive the stock price is to changes in interest rates.[1] Equity duration is key to understanding how to invest for inflationary times.

Inflation fighters: three key fundamentals

Why is equity duration management important in the context of an inflationary environment? First, moving into stocks with lower durations could be part of a strategy to lower overall portfolio volatility, as research suggests that lower duration stocks tend to be less volatile than higher duration ones. Moreover, with inflation on the rise, interest rates are rising as well. In a persistently rising rate environment, low-duration stocks would, by definition, outperform high-duration stocks (all other things being equal).

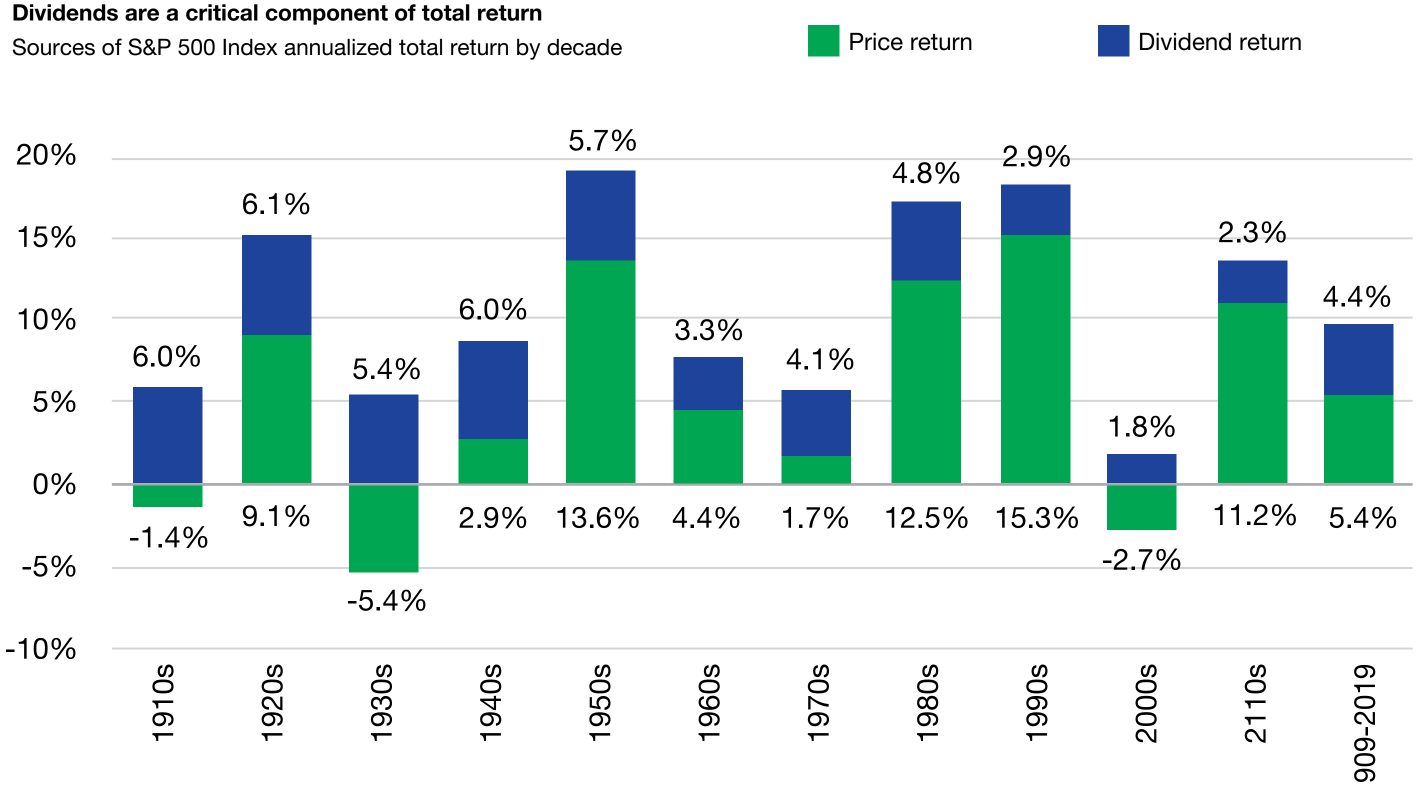
With the information that low duration can be key to fighting inflationary and rising rate environments, what characteristics should you look for if seeking low-duration equities? We believe that inflation-fighting equities come with three key characteristics.

High and growing dividends

One way to lower equity duration and, thereby, fight inflation is to target dividend payers. Part of the reason is the simple argument that a bird the hand is worth two in the bush. In a world where purchasing power is decreasing rapidly, having dividends in one's portfolio removes the uncertainty associated with waiting for dividends in the far-dated future. Dividends are also a major source of total returns—going back over a century, they've provided nearly half of the total return of the S&P 500 Index.

Dividends are a critical component of total return

Sources of S&P 500 Index annualized total return by decade

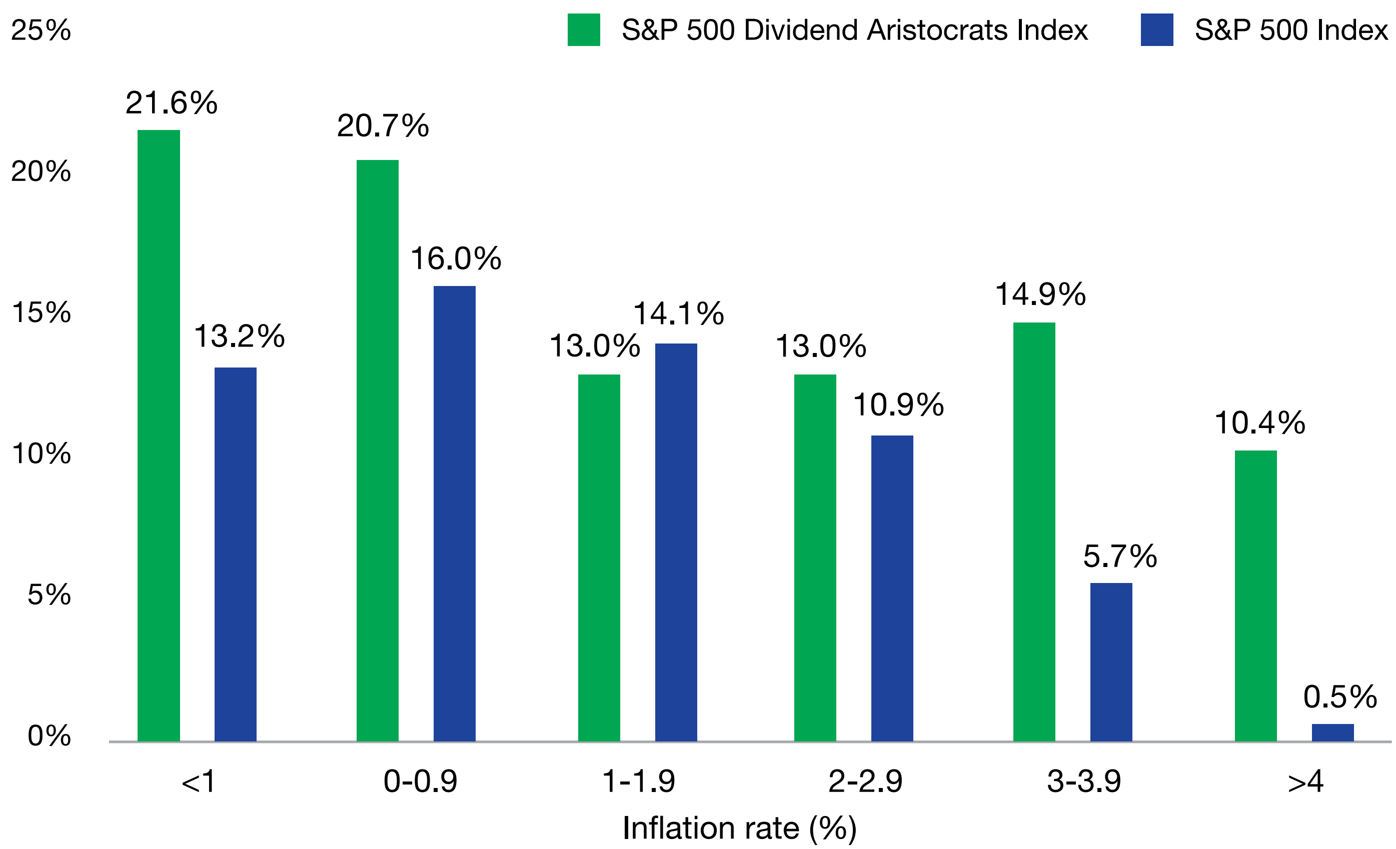


Source: Manulife Investment Management calculations using Robert Schiller Data Library from 1909 to 1989 and Bloomberg from 1989 to December 31, 2019. It is not possible to invest in the index. Past performance is not a guarantee of future returns.

But finding quality dividend-paying companies that can help lower your duration profile goes beyond just looking at a dividend yield figure. It's critical to dig deeper to find companies that are generating strong cash flow—as opposed to looking only at profits or at earnings before interest, taxes, depreciation, and amortization (EBITDA) measures—which can be manipulated. Only companies that are generating real-world cash flows can be counted on to distribute those flows in the form of dividends. Also bear in mind that there's a difference between high cash flows and dividends, and growing cash flows and dividends. Certainly it's nice to have a high dividend, but for long-term investors, we prefer an approach that focuses on companies that are growing their cash flows and dividends; the ability to consistently grow cash flows and distribute them in the form of dividends over long periods is a testament to these companies' ability to withstand rocky economic times and deliver value to investors. Indeed, it's no surprise that during inflationary periods, the S&P 500 Dividend Aristocrats Index has outperformed the broader S&P 500.

High quality dividend stocks have outperformed in inflationary times

1-year forward return during periods of inflation since 1990



Source: Manulife Investment Management calculations using Robert Schiller Data Library from 1909 to 1989 and Bloomberg from 1989 to December 31, 2019. It is not possible to invest in the index. Past performance is not a guarantee of future returns.

High return on equity

Second, return on equity (ROE) can be a great tool to qualify a low-duration company. ROE is an excellent gauge of the money-making power of a business. By comparing the three pillars of corporate management—profitability, asset management, and financial leverage (debt)—ROE tells an investor a lot about the effectiveness of a company's executive team and the overall strength of its business.

A high return on equity is a great indicator of a company that's efficiently using the capital of its shareholders, making it high quality and likely able to continue generating cash flows. This is important since it's a sign that the company is self-funding, meaning it's less likely to have to go to market to raise debt or equity—something that's particularly costly in an environment of rising rates and bear equity markets.

In short, a company that can efficiently turn its capital into revenues and profits is one that's likely to have a better profitability profile, higher cash flows, and overall lower duration.

Low price-earnings multiples

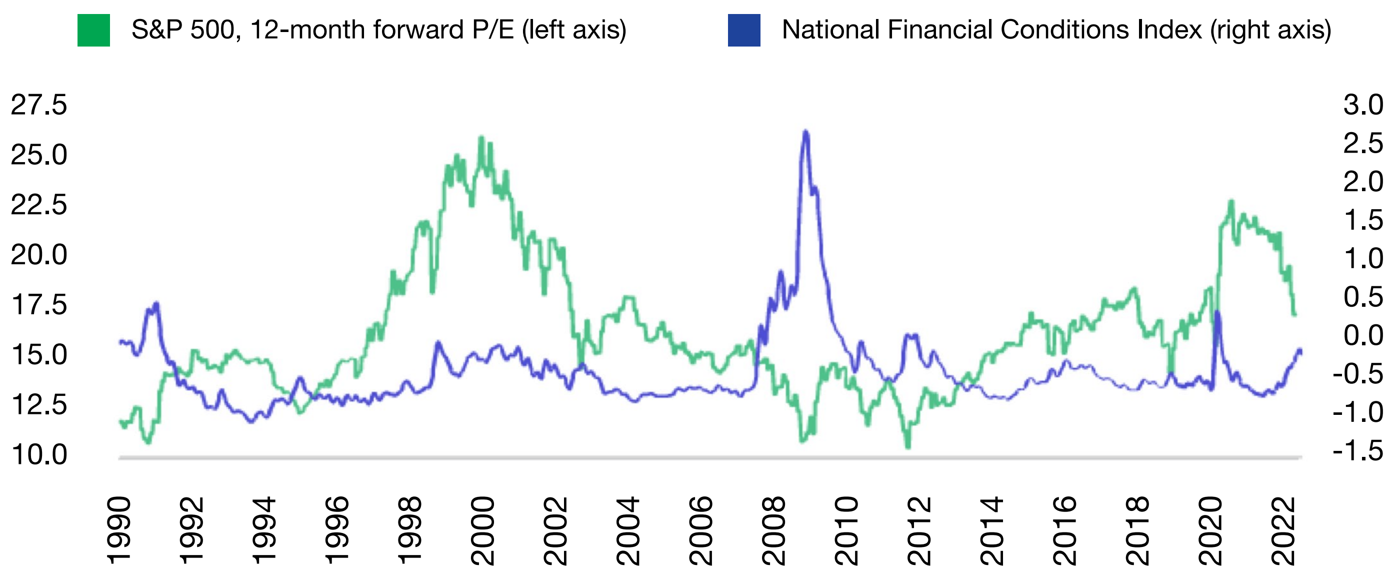
Finally, price-earnings (P/E) multiples are a key fundamental to watch in times like this. With both the Bank of Canada and the U.S. Federal Reserve (not to mention other central banks around the world) raising rates to combat inflation—in additional to other measures—financial conditions are tightening. This doesn't bode well for stocks with high P/E multiples.

Why so? From a logical perspective, stocks with high P/Es (that is, growth-oriented stocks) are generally less profitable and cash-flow positive than stocks with lower P/Es (value-oriented stocks). In other words, cash flows, and thus dividends, are more likely to flow to investors further into the future than for stocks with low P/Es, thereby increasing equity duration. Furthermore, growth names also rely more on debt financing, and with rates on the rise, it's going to become more expensive for these companies to borrow.

The relationship between P/E and rising rates can be seen historically as well. The last few decades suggest that when financial conditions tighten (for example, when interest rates are rising), P/E multiples contract—particularly when conditions tighten quickly, as we've seen in the last few months. The Chicago Fed's National Financial Conditions Index bounced off its June 2021 low, rising to –0.15 in July 2022, indicating that financial conditions have been tightening.[2] In that same timeframe, S&P 500 forward P/E multiples have contracted from 21.4 to 15.8. If history is any indication and if rates continue to rise as the market is expecting, equities with high P/E multiples could be in for a rough ride.

When financial conditions tighten, P/Es contract

S&P 500 forward P/E vs. financial conditions



Source: Macrobond, Federal Reserve Bank of Chicago, Manulife Investment Management, as of July 27, 2022. Positive values of the NFCI indicate tighter-than-average financial conditions; negative indicate looser-than-average financial conditions.

Three tools to help fight inflation

Fighting the devastating effects that inflation can have on portfolios is no easy task, and certainly there's no one solution. But by targeting companies that are paying and growing dividends, are using their capital efficiently, and have lower price-earnings multiples, we're confident that investors can build portfolios capable of withstanding rocky markets and inflationary times.

Important disclosure

[1] Although there's no generally accepted formula for equity duration as there is for bond duration, the concept for both is similar, with the caveat that dividend payments aren't nearly as certain as a bond's coupon payments are, hence the lack of consensus on how to calculate equity duration. [2] For the National Financial Conditions Index, values below 0 indicate looser-than-average financial conditions, while values above 0 indicate tighter-than-average, so a rising number indicates tightening financial conditions.