CANADIAN

ETF Watch

SPRING 2022

CanadianETFWatch.com

Made by Canadians, for Canadians

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- ZGRN: Capital Alignment to Fight Climate Change
- Low Volatility Investing
- Alpha Generating Opportunities using Single Country ETFs
- Global Survey Results
- ETF Strategies for a Rising Rate Environment
- Innovation is a Hedge Against Inflation
- More than Just Technology

As spring begins to bloom in Canada, interest rates begin to rise and the economy starts to exit its pandemic induced slumber, we are hopeful that 2022 will be a year of recovery and growth.

In contrast to the Canadian economy, one of the areas of financial services that has seen large growth over the past year is the Canadian Exchange-Traded Fund industry ("ETF") which now has 42 ETF Issuers – with assets rising to $343.1 billion at the end of February, which is a year over year change of +27.4%. ETFs now represent over 16% of investment funds assets in Canada and we believe this growth is only going to continue. Spurred on because of the introduction of CFRs and the growing interest in fee-based accounts, many MFDA firms are also now offering ETFs to their clients.

One of the themes of the spring 2022 edition of *Canadian ETF Watch* is Canadian ETFs and how Canada plays a large role in the global ETF market. An article from the Toronto Stock Exchange ("TSX") highlights this and explains how the TSX is helping to support Canadian ETFs around the world. Another theme is inflation and as Canada continues to battle rising inflation, Emerge Canada has provided an article on how to use innovation as a hedge to inflation. Also included in this edition are wonderful articles from BMO Global Asset Management, Franklin Templeton Investments, Price Waterhouse Coopers, and Fundata.

We sincerely appreciate your continued readership of *Canadian ETF Watch* and we hope that 2022 provides you with continued prosperity and success.

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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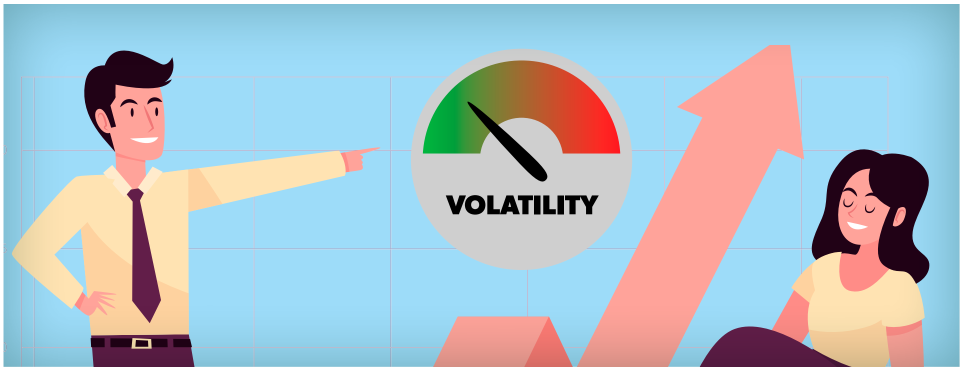

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Made by Canadians, for Canadians

When it comes to Exchange Traded Funds, Toronto Stock Exchange is a world leader. ETFs listed on Toronto Stock Exchange (TSX) represent nearly 10% of the 10,000 ETFs listed around the world, with 99% of all ETF trades in Canada are on TSX listed ETFs.

Compiling, analyzing and disseminating real-time ETF data are core deliverables for TMX Group. We are innovating and building tools to engage institutional investors, advisors and do-it-yourself investors alike.

Despite the international following of Canadian-listed ETFs, we know Canadian investors are unique. And, with TSX being the birthplace of the world's first ETF, the world's first fixed income ETFs, and the world's first cryptocurrency ETFs. TSX is best-positioned to provide investors with ETF tools built by Canadians, for Canadians.

TMX Toronto Stock Exchange

TSX ETF Investor Centre

The TSX ETF Investor Centre, launched in May 2021, is the premier hub for Canadian ETFs. The site contains ETF education tools, ETF Insights authored by the nearly 40 Canadian ETF providers listed on TSX, and an ETF screener with the ability to compare and contrast multiple ETFs. (Figure 1)

TSX is a strong proponent of financial literacy. The TSX ETF Investor Centre provides easy access to ETF educational materials for all Canadians ranging from institutional level investors to those who are new to ETFs and want to learn more about how to invest in them. All of the articles and videos in the TSX ETF 101 section were produced by our in-house experts and include insights into how ETFs trade differently from stocks, trading ETFs and ETF options, and much more.

Our TSX ETF Insights section includes articles and content from approximately 40 Canadian ETF providers. In this section, Canadian investors will hear directly from the ETF providers, benefiting from their investment insights and perspective, including market analysis, investment opportunities and education.

One of the most important features within the TSX ETF Investor Centre is the ETF screener and ETF comparison tool. The investor centre has the benefit of being built within the TMX Money website. TMX Money, one of the top 3 financial services websites in Canada and the TSX ETF Investor Centre leverages that same data using over 125 filters so that retail investors can use it to construct their Canadian ETF research. The screener is further enhanced by its ability to compare and contrast up to three ETFs in side-by-side comparisons. (Figure 2)

Figure 1

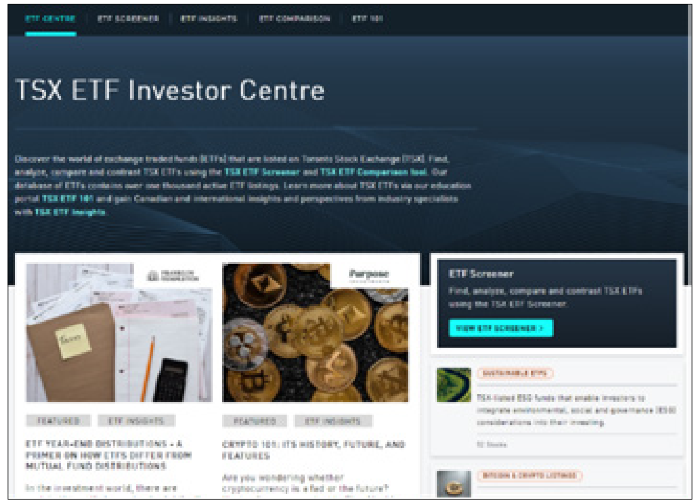
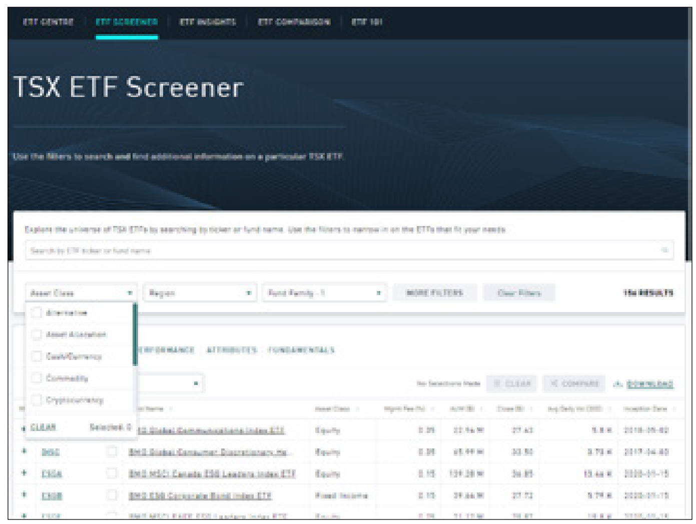
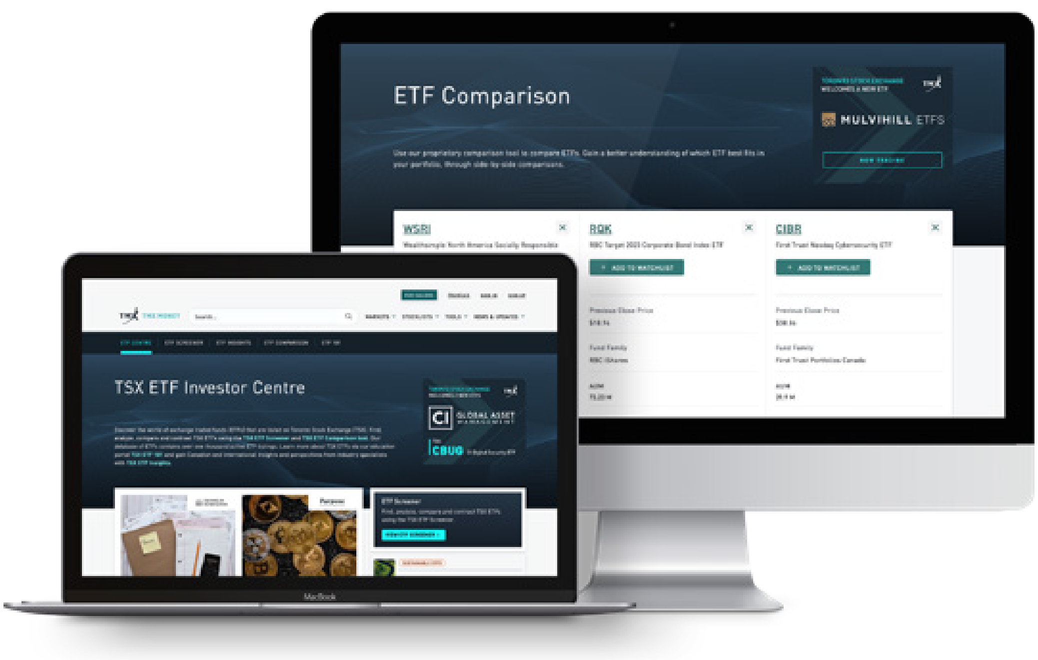


Figure 2





TMX LOGICLY

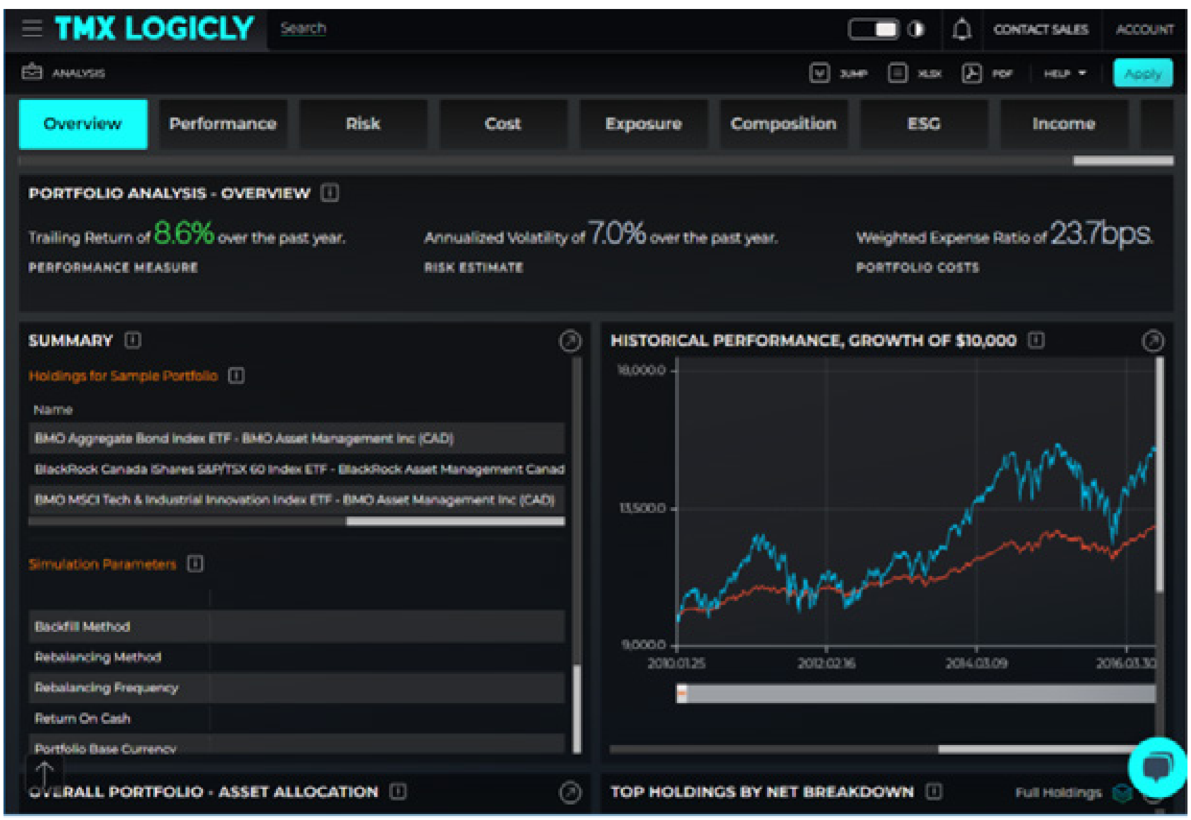
TMX Group also recently launched TMX LOGICLY*, an innovative multi-asset research and AI-powered portfolio analysis tool. TMX LOGICLY is a Canadian investment data innovation tool that combines global ETF, Canadian mutual fund, segregated fund and stock level data for not only Canadian products but also global products.

TMX LOGICLY is designed with the growth of advisors' businesses in mind by:

- Focusing on the generation of competitive intelligence to surface market trend insights and investment themes;
- Delivering tools to advisors that leverage AI technology to help advisors construct and manage client portfolios;
- Providing advisors access to professional grade analytics to showcase the work they are doing to manage client portfolios; and
- Generating industry leading output for advisors as they manage through the new Client Focused Reforms (CFR) compliance requirements.

TSX has invested heavily into supporting the growth and innovation of the Canadian ETF market with the construction of both the TSX ETF Investor Centre and TMX LOGICLY.

Our approach will continue to focus on delivering ETF data solutions and to partner with the Canadian ETF providers as they service every participant in our market from the institutions, to the retail advisors and right through to the do-it-yourself investors.



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ZGRN: Capital Alignment to Fight Climate Change

Alignment is a noun which implies something is in proper working condition, that there is a synergy between entities.

Mark Webster,
Director, Institutional & Advisory Western Canada

Companies and sports teams want their people to be aligned to achieve objectives and factories want their machines to be properly aligned to ensure high production standards and to minimize waste. Alignment ensures energy is expended in an efficient manner to optimize performance.

Climate change is no longer a divisive subject; so many people have been affected by severe weather conditions across the globe. Efforts to combat climate change through environmental alignment have been signed into an international treaty, formalized in the Paris Agreement in 2015. The treaty is legally binding on the 196 signatories, aligning their policies to minimize global warming to less than 2°C, ideally limited to 1.5°C.

BMO Global Asset Management

The initiative has spurred governments and industries to combine their efforts to push economies through a transitionary phase, away from traditional carbon and fossil fuels towards alternative and renewable energy sources. There will be winners and losers in a transitional economy, with some traditional or conventional energy sources becoming stranded assets, a concept which adequately describes the shift from brown towards green revenues.

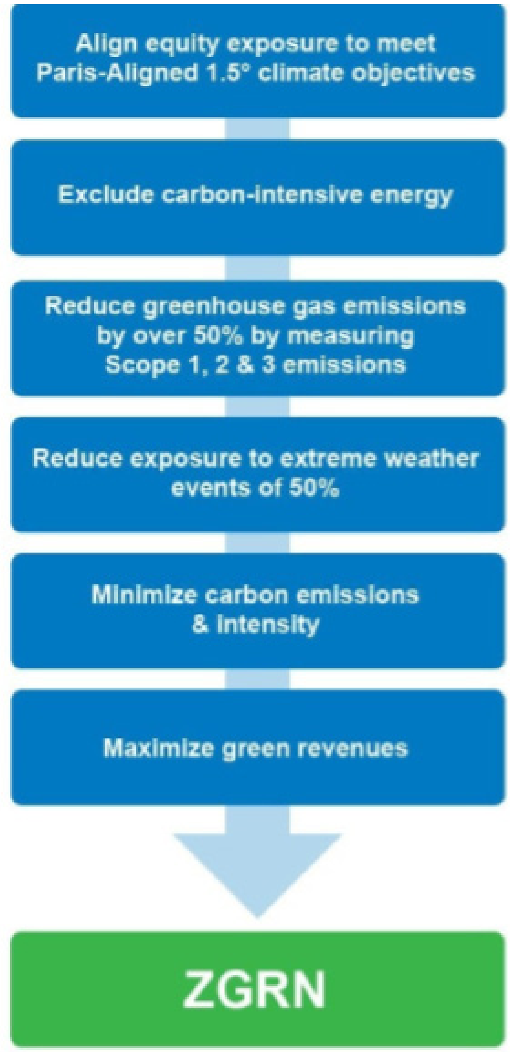
Supporting this initiative, the Financial Stability Board formed The Task Force Climate-related Financial Disclosures (TCFD), which established guidelines for companies to report their exposures so investors could evaluate environmental risks to align their Capital accordingly.

MSCI has been an industry leader in constructing Responsible Investing and ESG indices, measuring and evaluating reams of data to create benchmarks which allocate towards companies whose business models and practices align with objective standards. Their ACWI Paris-Aligned Climate Equity index incorporates TCFD reporting and seeks to meet or to exceed the objectives defined in the Paris Agreement.

The graphic to the right outlines some of the steps followed in the MSCI ACWI Paris-Aligned Climate Equity index methodology.

Unlike broader RI or ESG mandates, this is a climate change index which measures scope 1, 2, & 3 emissions and their physical weather impacts and weights towards Green revenues. The index minimizes Tracking Error by maintaining +/-5% weights to the sector and countries of the parent index (NB – carbon-intensive energy sector is excluded). Being an ACWI – All Country World index, it covers 23 Developed and 25 Emerging Markets, making it suitable as a Core Global Equity holding or as a complementary exposure.

In comparison to other climate approaches, the MSCI ACWI Paris-Aligned Climate Equity index provides the most comprehensive exposure to meet climate objectives.



Key Features

		Low Carbon Transition Score[1]				Climate VaR[1]	
Objectives	**MSCI Indexes**	**Fossil Fuels**	**CO_2 Emissions**	**Green Opportunities**	**Company Targets**	**Physical Risk**	**1.5 Alignment***
Reduce Emissions	• Low carbon • Ex fossil fuel	✓	✓				
Transition to a Low Carbon Economy	• Climate Change Equity + Fixed Income	✓	✓	✓	✓		
ZGRN*	• Climate Paris Aligned Equity + Fixed Income	✓	✓	✓	✓	✓	✓
Climate Thematic	• Global environment			✓			

Source: MSCI Inc. [1] MSCI Climate Indexes - MSCI. *Based on MSCI 1.5-degree climate scenario stress test.

The table below shows how a climate specific methodology enhances outcomes for Institutions who want to make a climate impact, minimizing emissions and their intensity in a company's revenues, raising the transition and the Physical Climate Value at Risk measures:

	MSCI ACWI	MSCI ACWI ESG Leaders	MSCI ACWI Paris Aligned
Tracking Error	0	1.4	1
ESG Score	6.4	7.4	6.6
Environmental Pillar Score	6	6.6	6.6
Carbon Emissions (t CO2e/$M Invested)	80	44	11
Carbon Intensity	198	121	37
Weighted Average Carbon Intensity	152	90	44
Low Carbon Transition Score	6.2	6.2	6.8
Physical Risk Climate VaR	-5.1	-4.7	-2.9

Source: MSCI ESG Research, December 31, 2021; BMO Exchange Traded Funds listed ZGRN on the TSX January 27, 2022.
*Risk is defined as the uncertainty of return and the potential for capital loss in your investments.

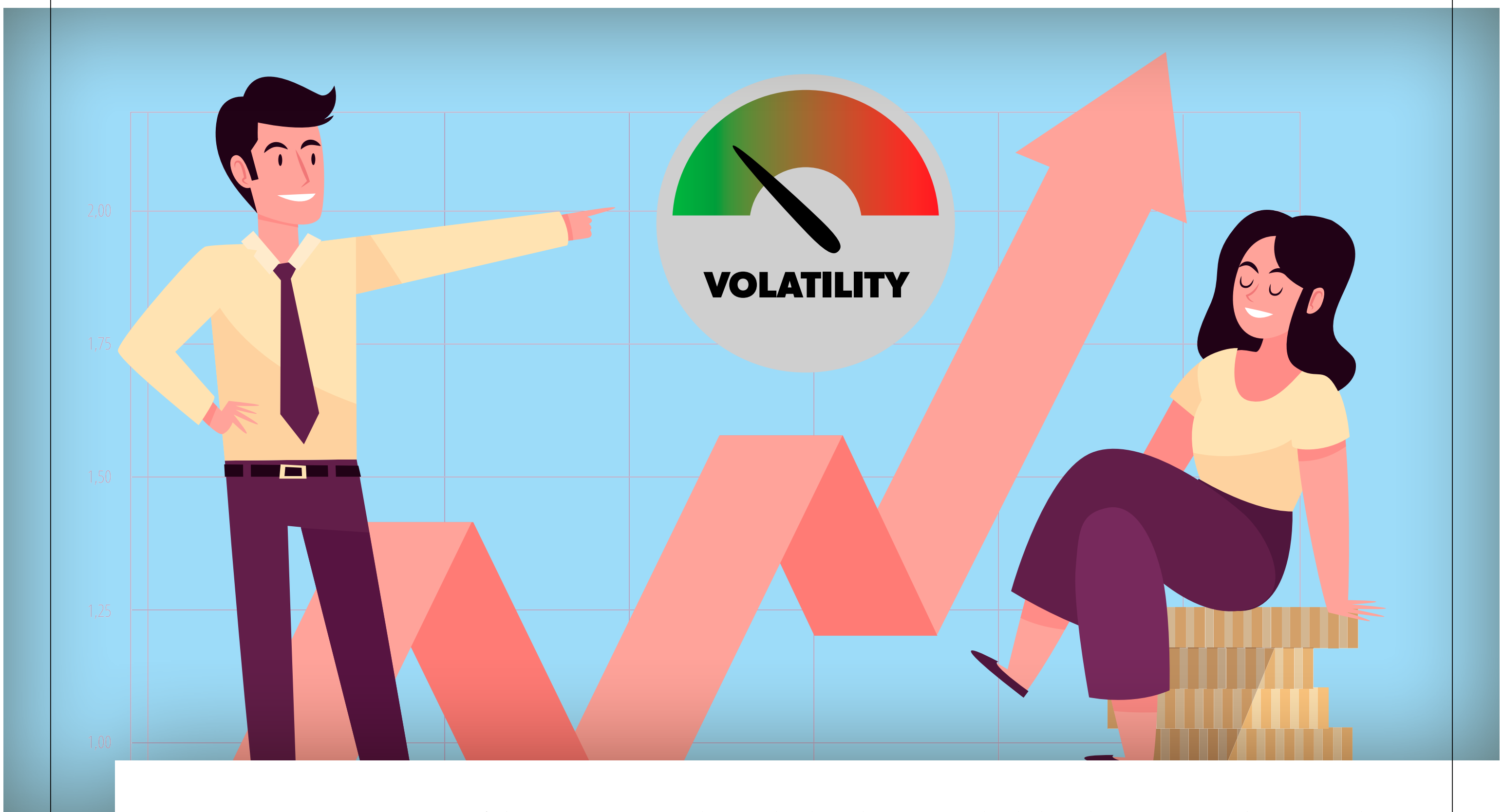
Risk tolerance measures the degree of uncertainty that an investor can handle regarding fluctuations in the value of their portfolio. The amount of risk associated with any particular investment depends largely on your own personal circumstances including your time horizon, liquidity needs, portfolio size, income, investment knowledge and attitude toward price fluctuations. Investors should consult their financial advisor before making a decision as to whether this Fund is a suitable investment for them.

Commissions, management fees and expenses all may be associated with investments in exchange traded funds. Please read the ETF Facts or prospectus before investing. Exchange traded funds are not guaranteed, their values change frequently and past performance may not be repeated. For a summary of the risks of an investment in the BMO ETFs, please see the specific risks set out in the prospectus. BMO ETFs trade like stocks, fluctuate in market value and may trade at a discount to their net asset value, which may increase the risk of loss. Distributions are not guaranteed and are subject to change and/or elimination.

BMO ETFs are managed by BMO Asset Management Inc., which is an investment fund manager and a portfolio manager, and a separate legal entity from Bank of Montreal.

The BMO ETFs or securities referred to herein are not sponsored, endorsed or promoted by MSCI Inc. ("MSCI"), and MSCI bears no liability with respect to any such BMO ETFs or securities or any index on which such BMO ETFs or securities are based. The prospectus of the BMO ETFs contains a more detailed description of the limited relationship MSCI has with BMO Asset Management Inc. and any related BMO ETFs.

Low Volatility Investing



We are seeing a meaningful increase in market volatility this year which has been caused by several factors: rising interest rates, rising inflation, the economy reacting to a new COVID variant and to geopolitical risk brewing in Eastern Europe. Each investor's tolerance to market volatility is unique to them, but many seek out solutions and strategies to manage overall portfolio risk and to keep peace of mind throughout turbulent markets.

Danielle Neziol,
Vice President,
BMO ETFs

How Can ETFs Help Mitigate Portfolio Volatility?

Using an ETF over a single stock is one way to manage overall portfolio volatility. An ETF holds a basket of stocks, so it's broadly diversified which typically provides less volatile returns relative to a single stock. To illustrate this point, see the table below which shows the January 2022 returns for the six largest companies in Canada vs a broad market Canadian ETF. Many stocks saw drastic moves, some to the upside and some to the downside, while the broad market ETF was relatively flat (less volatile) during the same time.

BMO | Exchange Traded Funds

Stock/ETF	One Month Return January 2022
Royal Bank	8.9%
Toronto Dominion Bank	5.5%
Bank of Nova Scotia	2.3%
Shopify	-29.3%
Enbridge	8.8%
Brookfield Asset Management	-8.4%
BMO S&P/TSX Capped Composite Index ETF (ZCN)*	**-0.4%**

*Tracks the S&P/TSX Composite Index which holds the 240 largest publicly listed companies in Canada. Source: Bloomberg, February 7, 2022. ZCN's annualized returns: 1 year 25.0%, 3 year 14.1%, 5 year 9.8%, 10 year 8.6%. Source: BMO ETFs as of January 31, 2022. Past performance does not indicate future results.

Are There Specific ETF Strategies That Are Less Volatile Than Others?

There are also specific ETF strategies that offer a basket of low volatility stocks to investors who prefer to invest in less volatile stocks than the broad market. These are called Low Volatility ETFs. Like the name suggests, these ETFs apply a set of rules to a portfolio of stocks to achieve a certain outcome: a lower volatility profile than the broad market. Low Volatility strategies have become popular choices for investors who are looking for ways to invest in equity markets while managing portfolio risk.

In Canada, our broad market is about 15% in Energy and 11% in Materials which makes it more volatile and more cyclical than many investors' risk appetites can handle.[1] By applying a low volatility screen to the broad Canadian market, an investor would end up with an ETF with a lower beta (lower risk) than the broad market and overweighted to more defensive sectors such as Utilities and Consumer stocks.

What to Look for When Choosing A Low Volatility Strategy

ETFs are a great tool to add a low volatility strategy to a portfolio easily and cost effectively. There are several low volatility options for investors, so below are some considerations to make when sorting out which strategy might best suit them.[2]

- ***How is the ETF screening for low volatility stocks?*** Risk metrics such as **beta** and **standard deviation** are two common stock characteristics that can be analyzed to determine how risky a stock is.

- ***What is beta?*** Beta is a risk metric that measures a stock's sensitivity to fluctuations in the broad market. The broad market has a beta of 1.0 therefore a stock with a beta less than 1.0 indicates it is less risky relative to the broad market. Over the long-term, low beta stocks may benefit from smaller declines during market corrections and still increase during advancing markets. Low beta stocks tend to be more mature and provide higher dividend yield than the broad market.

- ***What is standard deviation?*** The lower the standard deviation of a stock or ETF, the less volatile it is. The standard deviation of a stock is calculated not only by looking at how extreme its downturns have been, but also considers the up swings as well. The risk rating of an ETF can give you an idea how volatile it has been over the long-term.

- ***How long has the stock been analyzed?*** A five-year risk metric provides more insight than a one-year number. Typically, data points which capture longer periods of time create a better understanding of the stock's true long-term volatility and create a more sustainable low volatility strategy.

For example, the **BMO Low Volatility Canadian Equity ETF (ticker: ZLB)** uses beta as its primary screen and considers five years of market data to ensure companies have been exhibiting low volatility characteristics for longer periods of time. At over $2.8 billion in assets, ZLB is the largest low volatility ETF in Canada and with a 10-year track record it is one of the most established as well.[3] By constructing ETFs with lower beta securities, ZLB is designed to provide growth while reducing exposure to market risk.

[1] Bloomberg, February 5, 2022.
[2] Most ETF providers include the below information on their websites so investors can learn more about the ETF and its strategy before investing.
[3] BMO ETFs, February 5, 2022.

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.

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ETF & Investment Forum London 2nd Annual

Fall 2023 ~ 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 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

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

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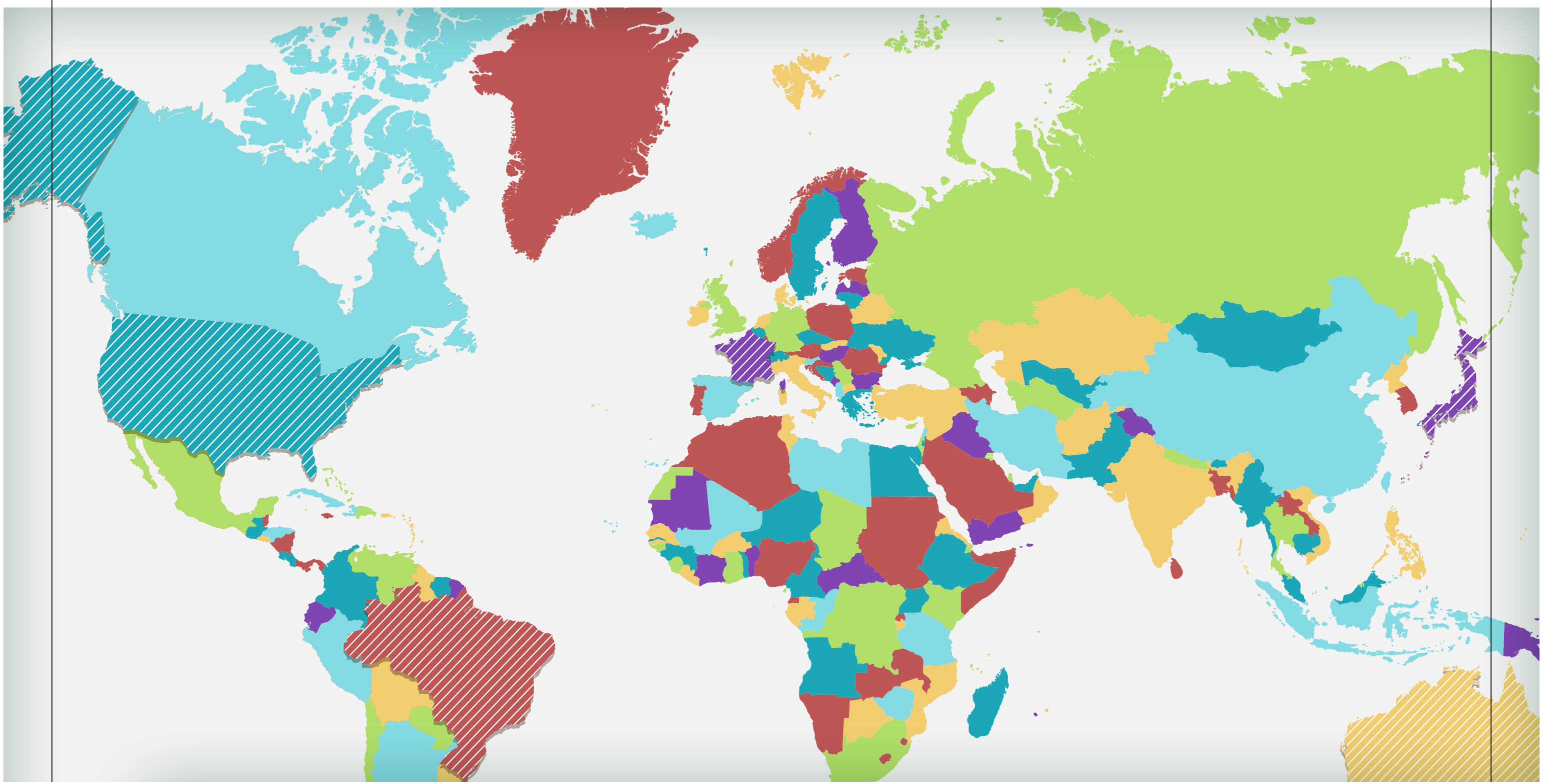
Radius Europe Financial Education (Radius Europe) has been producing high level conferences within the financial services sector for over 20 years. As a leading producer of conferences within the financial sector, Radius Europe events focus on education and networking through an exchange of independent 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.

Alpha Generating Opportunities using Single Country ETFs



In portfolio construction, it is critical to consider the correlation between different asset classes. By combining uncorrelated assets, the movements of one asset can be offset by the movements of another, thereby reducing volatility in a portfolio.

Bobby Eng,
Senior Vice President, Head of Platform and Institutional ETF Distribution, Franklin Templeton

Usually, the three main asset classes in a portfolio are cash, fixed income, and equities. But in many modern portfolios, other asset classes such as real estate, commodities, private equity, and alternatives can be found. Fixed income and equities have also been broken down further given the wide range of factors resulting in substantial dispersion of returns.

Another option to enhance portfolio diversification is searching for opportunities outside of developed markets. It's a common misconception that adding developing and emerging markets to a portfolio increases risk. Economies outside of Canada and the U.S. are not perfectly correlated, and this can reduce volatility over the long-term and provide alpha generating potential.

Analyzing the returns of emerging markets in 2021, there was dispersion of over 55% between different countries (see Exhibit 1). The best performing emerging market was Saudi Arabia, while the worst was China. China struggled with significant government policy changes, while Saudi Arabia saw unprecedented gains due to the strong oil market, a wave of new IPOs, higher dividends, and the positive financial results of many of its companies.

Emerging Market Performance – Exhibit 1

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Brazil 55.25%	China 96.81%	India 78.16%	South Africa -38.70%	Brazil 131.20%	South Africa 34.84%	Mexico -13.36%	Mexico 32.95%	Saudi Arabia 30.77%	India 29.81%	Russia 6.83%	Brazil 67.89%	China 43.50%	Saudi Arabia 16.64%	Russia 53.44%	Taiwan 31.41%	Saudi Arabia 36.06%
Latin America 50.93%	Brazil 47.59%	Brazil 76.80%	Mexico -40.80%	Russia 116.27%	Mexico 33.52%	South Africa -14.73%	China 22.32%	Taiwan 10.30%	Taiwan 10.22%	India -4.24%	Russia 61.83%	India 41.06%	Brazil -0.29%	Taiwan 32.39%	China 31.38%	Taiwan 30.57%
Mexico 44.64%	India 46.45%	China 66.44%	Taiwan -44.71%	Latin America 104.69%	Taiwan 24.23%	China -17.70%	South Africa 19.88%	China 3.64%	China 8.34%	China -6.07%	South Africa 21.94%	South Africa 34.14%	Russia -3.82%	Brazil 28.09%	India 16.86%	India 29.25%
India 35.38%	Mexico 45.18%	Latin America 50.61%	Latin America -50.87%	India 95.83%	Russia 21.58%	Emerging -18.96%	Taiwan 17.97%	Russia -0.32%	South Africa 6.32%	Taiwan -11.20%	Taiwan 18.85%	Taiwan 27.32%	Latin America -6.20%	China 23.45%	Emerging 15.49%	Russia 25.37%
Emerging 35.10%	Latin America 44.41%	Emerging 39.73%	China -52.12%	Emerging 82.57%	India 21.14%	Latin America -18.98%	Emerging 17.94%	Emerging -3.50%	Saudi Arabia -6.42%	Mexico -13.21%	Emerging 13.53%	Brazil 23.33%	Taiwan -7.85%	Emerging 20.56%	Saudi Arabia 4.75%	Mexico 20.71%
South Africa 29.48%	Emerging 33.13%	South Africa 17.76%	Emerging -52.89%	Taiwan 80.57%	Emerging 19.82%	Taiwan -19.72%	Russia 13.67%	India -4.78%	Mexico -9.75%	Emerging -15.22%	Saudi Arabia 10.52%	Latin America 22.99%	India -8.71%	Latin America 20.19%	Mexico -3.36%	South Africa 9.92%
China 15.10%	South Africa 22.13%	Mexico 10.92%	Brazil -54.93%	China 72.92%	Latin America 15.89%	Brazil -20.93%	Latin America 8.77%	South Africa -4.85%	Latin America -12.62%	South Africa -25.40%	China 2.39%	Mexico 14.09%	Emerging -13.04%	Mexico 12.34%	South Africa -3.92%	Emerging 0.08%
Taiwan 7.30%	Taiwan 20.81%	Taiwan 10.01%	India -62.93%	Mexico 61.22%	Brazil 8.04%	Russia -22.61%	Saudi Arabia 4.68%	Latin America -14.11%	Brazil -14.34%	Latin America -31.37%	India 0.94%	Russia 5.38%	Mexico -13.45%	South Africa 10.93%	Russia -7.79%	Latin America -8.58%
			Russia -74.05%	South Africa 58.83%	China 7.92%	India -36.03%	Brazil 1.22%	Brazil -15.89%	Russia -46.52%	Brazil -41.38%	Mexico -9.35%	Saudi Arabia 4.77%	China -18.05%	Saudi Arabia 9.40%	Latin America -14.35%	Brazil -16.84%
													South Africa -23.40%	India 6.38%	Brazil -19.14%	China -20.93%

Source: FTSE Russell as of December 31, 2021. **Performance data shown reflects the combination of hypothetical back-tested pre-inception performance and actual after-inception performance. Pre-inception index performance prior to September 29, 2017, derived and calculated by FTSE Russell.** FTSE Russell indexes are unmanaged, and one cannot invest directly in an index. Returns data reflects average annual total returns and assumes reinvestment of interest or dividends. The actual performance of any exchange traded product may vary significantly from the data presented due to assumptions regarding fees, transaction costs, liquidity, or other market factors. Past performance is no guarantee of future results.

In 2020, the South Korean market not only outperformed the Asian region, but also most developed nations around the world. Higher inflation and supply chain issues then caused South Korea to lag in 2021 (see Exhibit 2). It's clear that country returns can be volatile, but this provides significant opportunity for alpha generation.

Developed Markets Performance – Exhibit 2

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
South Korea 58.36%	Hong Kong 40.29%	Hong Kong 52.53%	Japan -28.59%	Australia 76.54%	South Korea 28.34%	UK -2.99%	Germany 31.53%	Germany 31.96%	Developed 5.09%	Japan 11.15%	Canada 24.86%	South Korea 46.25%	Developed -8.63%	Switzerland 33.46%	South Korea 43.17%	Canada 29.70%
Canada 29.83%	Germany 38.34%	Germany 36.17%	Switzerland -29.72%	South Korea 70.33%	Hong Kong 18.85%	Developed -5.53%	Hong Kong 28.96%	France 29.34%	Hong Kong 3.28%	Italy 3.44%	Australia 12.65%	Hong Kong 36.72%	Switzerland -9.09%	Canada 29.49%	Developed 16.70%	Developed 21.38%
Japan 24.97%	France 36.89%	South Korea 33.89%	Developed -40.26%	Hong Kong 63.15%	Canada 18.71%	Switzerland -6.18%	France 23.67%	Switzerland 28.04%	Canada 2.80%	Switzerland 2.04%	Developed 8.19%	Italy 31.58%	Hong Kong -10.18%	Italy 28.87%	Japan 14.61%	Switzerland 21.00%
Australia 17.73%	Italy 36.06%	Canada 31.36%	France -43.26%	Canada 55.81%	Australia 15.45%	Australia -10.81%	Switzerland 22.50%	Japan 27.32%	Switzerland 0.51%	France 1.49%	South Korea 7.01%	France 30.24%	France -11.59%	Developed 27.99%	Switzerland 14.54%	France 20.02%
Switzerland 14.54%	Australia 32.51%	Australia 30.16%	Germany -44.98%	UK 43.73%	Japan 15.40%	South Korea -11.24%	Australia 21.58%	Developed 26.77%	Japan -3.29%	Developed -0.26%	France 5.72%	Germany 29.66%	Australia -12.21%	France 27.07%	Germany 12.78%	UK 17.29%
Hong Kong 11.89%	UK 30.93%	France 15.31%	Canada -45.25%	Switzerland 31.82%	Switzerland 15.06%	Canada -12.07%	South Korea 20.51%	Italy 25.04%	Australia -3.29%	Germany -1.20%	Hong Kong 3.71%	Japan 25.28%	Japan -12.99%	Australia 23.52%	Australia 11.05%	Italy 15.69%
France 11.02%	Switzerland 29.50%	Developed 10.04%	Italy -48.04%	France 31.76%	Developed 12.28%	Japan -13.54%	Developed 17.04%	UK 21.10%	UK -5.33%	Hong Kong -3.64%	Germany 3.47%	Switzerland 24.99%	UK -14.55%	UK 22.84%	Hong Kong 7.06%	Australia 10.13%
Germany 10.44%	Developed 21.24%	UK 8.96%	UK -48.19%	Developed 31.35%	Germany 10.11%	France -15.15%	UK 15.65%	Hong Kong 9.43%	France -8.94%	South Korea -5.91%	Japan 2.85%	Developed 23.85%	Canada -15.34%	Germany 22.35%	Canada 6.55%	Germany 5.74%
Developed 10.22%	Canada 20.13%	Italy 7.77%	Hong Kong -49.79%	Germany 28.86%	UK 8.77%	Hong Kong -17.36%	Italy 13.96%	Canada 6.16%	Italy -9.42%	UK -6.27%	UK -0.31%	UK 22.36%	Italy -16.57%	Japan 19.45%	France 4.51%	Japan 1.53%
UK 8.25%	South Korea 15.92%	Switzerland 6.67%	Australia -50.82%	Italy 27.53%	France -2.40%	Germany -18.07%	Canada 10.12%	Australia 4.53%	Germany -9.62%	Australia -9.52%	Switzerland -2.72%	Australia 20.91%	South Korea -20.02%	Hong Kong 11.68%	Italy 3.71%	Hong Kong -3.46%
Italy 2.20%	Japan 5.62%	Japan 4.77%	South Korea -54.06%	Japan 5.81%	Italy -14.08%	Italy -23.29%	Japan 8.08%	South Korea 3.94%	South Korea -10.40%	Canada -23.51%	Italy -9.69%	Canada 16.83%	Germany -21.45%	South Korea 8.40%	UK -8.91%	South Korea -6.00%

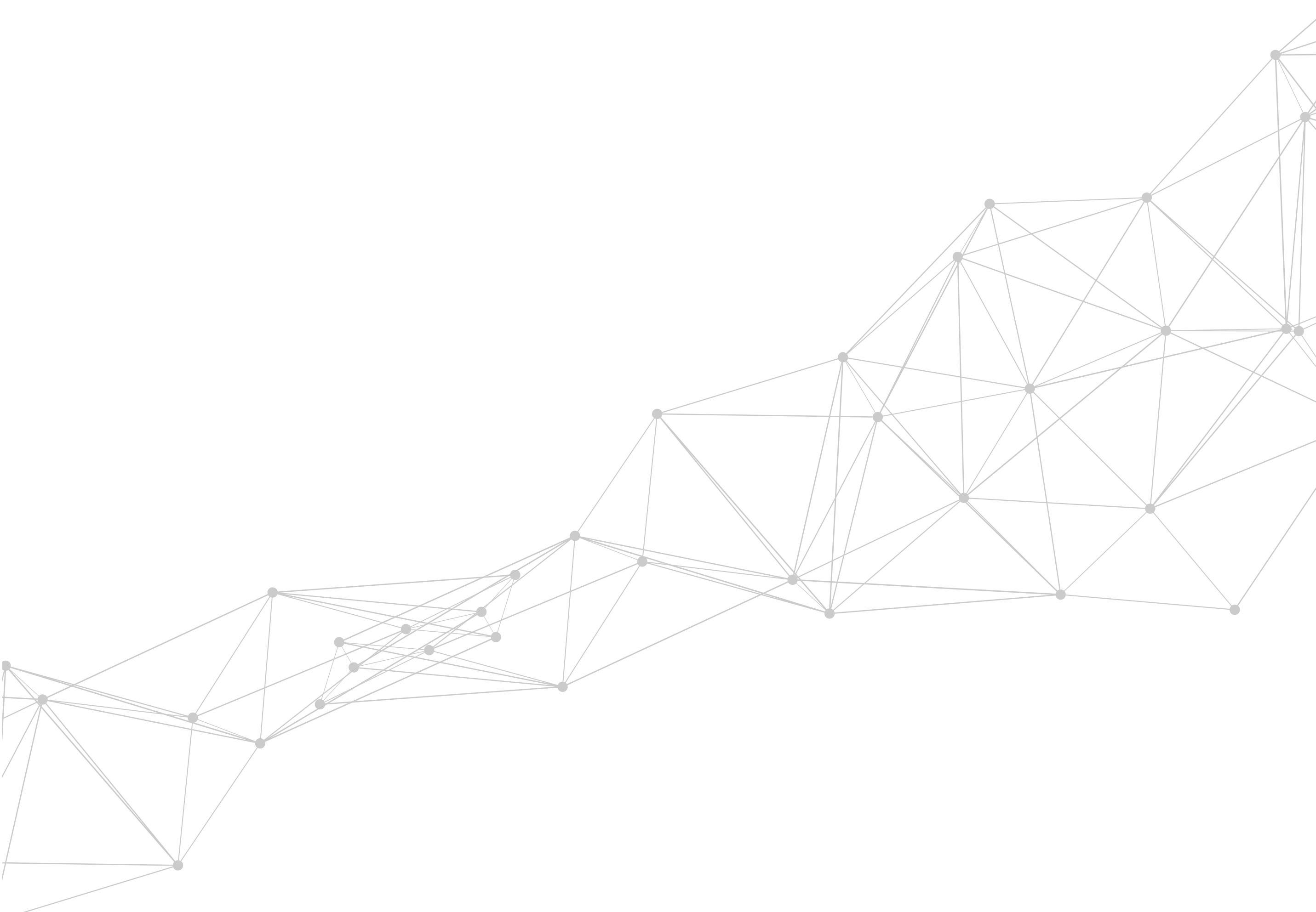
Source: FTSE Russell as of December 31, 2021. **Performance data shown reflects the combination of hypothetical back-tested pre-inception performance and actual after-inception performance. Pre-inception index performance prior to September 29, 2017, derived and calculated by FTSE Russell**. FTSE Russell indexes are unmanaged, and one cannot invest directly in an index. Returns data reflects average annual total returns and assumes reinvestment of interest or dividends. The actual performance of any exchange traded product may vary significantly from the data presented due to assumptions regarding fees, transaction costs, liquidity, or other market factors. Past performance is no guarantee of future results.

There are various factors that influence the returns of a particular economy. These include inflation, exchange rates, interest rates, economic growth, trade balance, public debt, the labor market, corporate profits, political stability, government policy, etc. Given the wide range of variables that can affect the dispersion of returns for different countries, investors looking to boost international exposure may consider targeting single countries.

This can be achieved through using single country ETFs that provide targeted exposure to specific nations. Investors can use these ETF to amplify international exposure for either tactical or strategic positions in a portfolio.

Franklin Templeton's suite of passive equity single country and regional ETFs track the market capitalization weighted indexes developed by FTSE Russell. These are the lowest cost single country ETFs on the market and can help investors build precise international portfolios, tactically execute global investment themes, and amplify existing broad market strategic positioning. They also provide passive beta exposure and can be traded intraday either long or short in an extremely cost-effective manner.

In 2022, there are many factors for investors to consider, as our Head of Global Index Portfolio Management, Dina Ting, wrote in her recent paper. Geopolitical, economic, and social issues should be taken into consideration, as well as the complexities of the pandemic. Markets are constantly shifting, so disaggregating international exposure can help to manage risk and return, while adding the ability to pinpoint specific exposures. High return dispersion among countries and the varying factors driving country performance make a strong case for using single country allocations, and ETFs are a cost-effective tool for investors to gain precise exposure based on their convictions.



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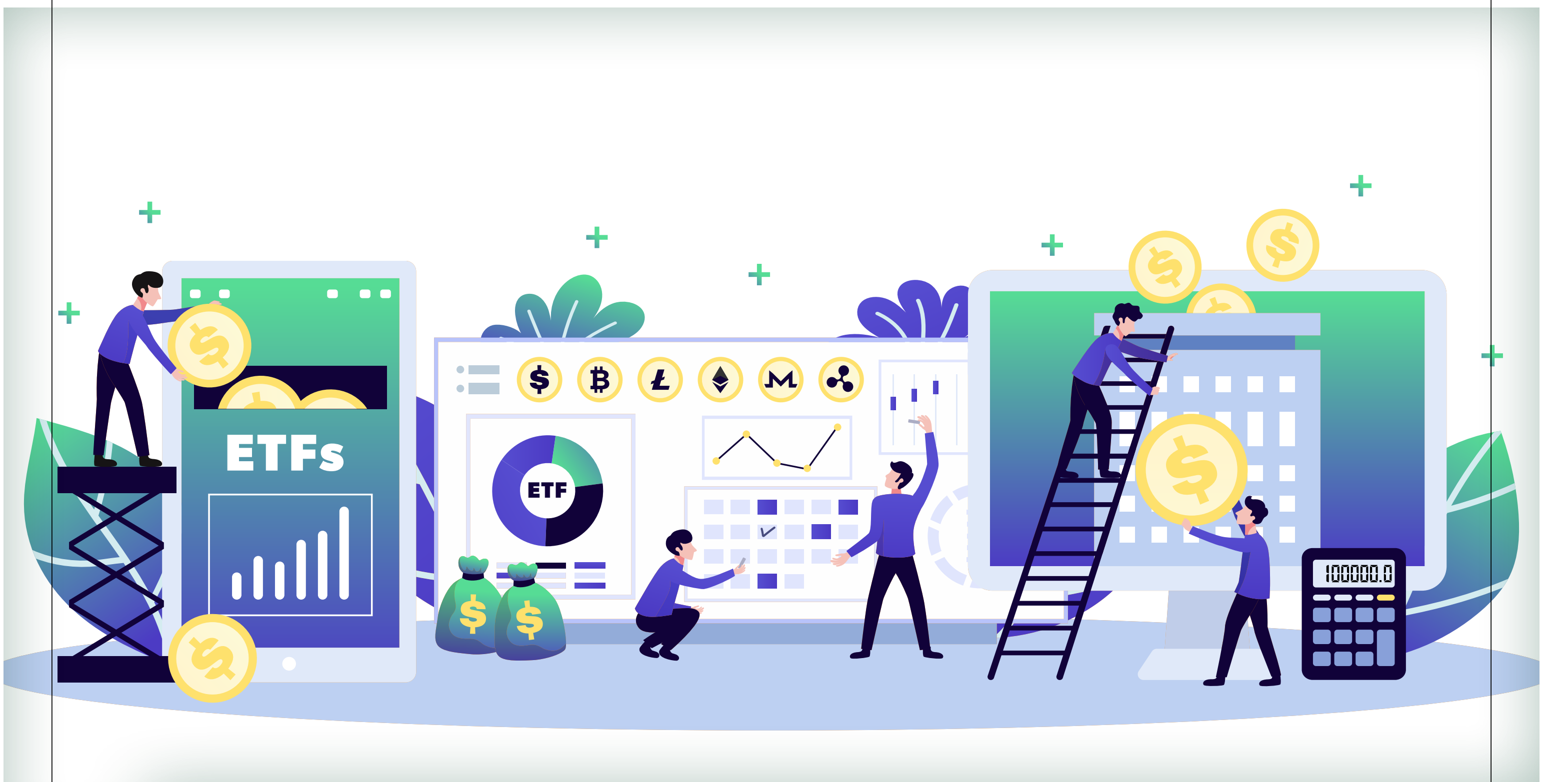

It's hard to overstate the widespread popularity of exchange-traded funds (ETFs) in today's investment landscape. Since their very first introduction (in Canada, back in 1990!), ETFs have evolved from a niche investment option to become one of the most popular, disruptive and widely discussed product innovations in the asset and wealth management industry.

Chris Pitts,
Partner, FCPA, FCA, Asset and Wealth Management Advisory Lead, PwC

The global ETF market has built up phenomenal momentum particularly over the past five years, and is expected to more than double over the next five years, reaching US$20 trillion by 2026 and representing a 17% compound annual growth rate, as described in PwC's new report *'ETF 2026: The next big leap'*, which was published in January this year. The report is based on PwC's recently completed 8th annual global ETF survey amongst leading executives in the global asset management industry.

This continued growth trajectory opens up immense opportunities for existing ETF managers and new entrants alike, with the continued influx of new products and participants changing the competitive dynamics within the ETF market. Investors certainly stand to benefit, particularly from those managers who innovate, differentiate and deliver standout returns, while retaining the transparency, fee structures and other core attractions of ETFs.

pwc

The report explores the latest trends in global and regional ETF markets, looking at critical product development and distribution trends, including active strategies, crypto ETFs and environmental, social and governance (ESG) focused products, and expansion of online distribution platforms.

Product innovation is at an all time high

The ETF market is diversifying as the development and adoption of non-traditional products such as thematic and crypto ETFs gather pace. Indeed Canada blazed a global trail in 2021 by launching the first physical Bitcoin and Ethereum ETFs, reflecting significant efforts of both managers and the regulators to work through some of the more challenging operational aspects of these products, including valuation and custody of the digital assets.

The influx of new products worldwide is providing a breathtaking expansion of innovation, from factor investing to the many varieties of thematic ETFs, as well as ESG, crypto and liquid alternative strategies, and the development of asset allocation products. Further, the move away from daily disclosure requirements in certain jurisdictions is also attracting more active managers into the ETF market, another area of growth in Canada.

Digital engagement and online platforms take-off

A combination of the pandemic and a new generation of investors coming into the ETF market has triggered the lift-off for robo-advice and digital engagement. Online platforms stand out as the primary source of expected ETF demand over the next two to three years for the participants in our survey. Not surprisingly perhaps, digital accessibility is a big benefit for investors that has accelerated over the past two years.

ESG one of the biggest opportunities but not without its challenges

ESG considerations are moving up the strategic agenda at pace, with managers facing a whole new set of investors, regulatory and wider societal demands. Europe is out in front in terms of growth plans with other regions looking to catch up as investor expectations on ESG increase. In fact, over 80% of European survey participants expect more than half of their product launches in the coming year to be ESG-focused. Canada leads the following pack, with 43% of survey participants expecting more than half of their product launches to be ESG-focused over the coming year.

While regulation is a catalyst for the development of specific ESG-focused products, the need to meet the plethora of ESG designations and disclosure requirements in different markets brings new and constantly evolving reporting challenges. With the recent notice from the Canadian regulators focused on disclosure obligations to provide clear, transparent information for investor consumption, that journey for investors, advisors and asset managers is only just beginning. Consistency of terminology, availability and extent of education, and greater quality of data on the investment universe all have significant roles to play in this journey to maturity for ESG investment products.

The way forward:

The ETF market is not only growing, but also evolving faster than ever. Innovation is driving change, for investors, for regulators and for the asset and wealth management industry. Without doubt, these are exciting times!

To read the full results, please visit the PwC website: https://www.pwc.com/etfs2026


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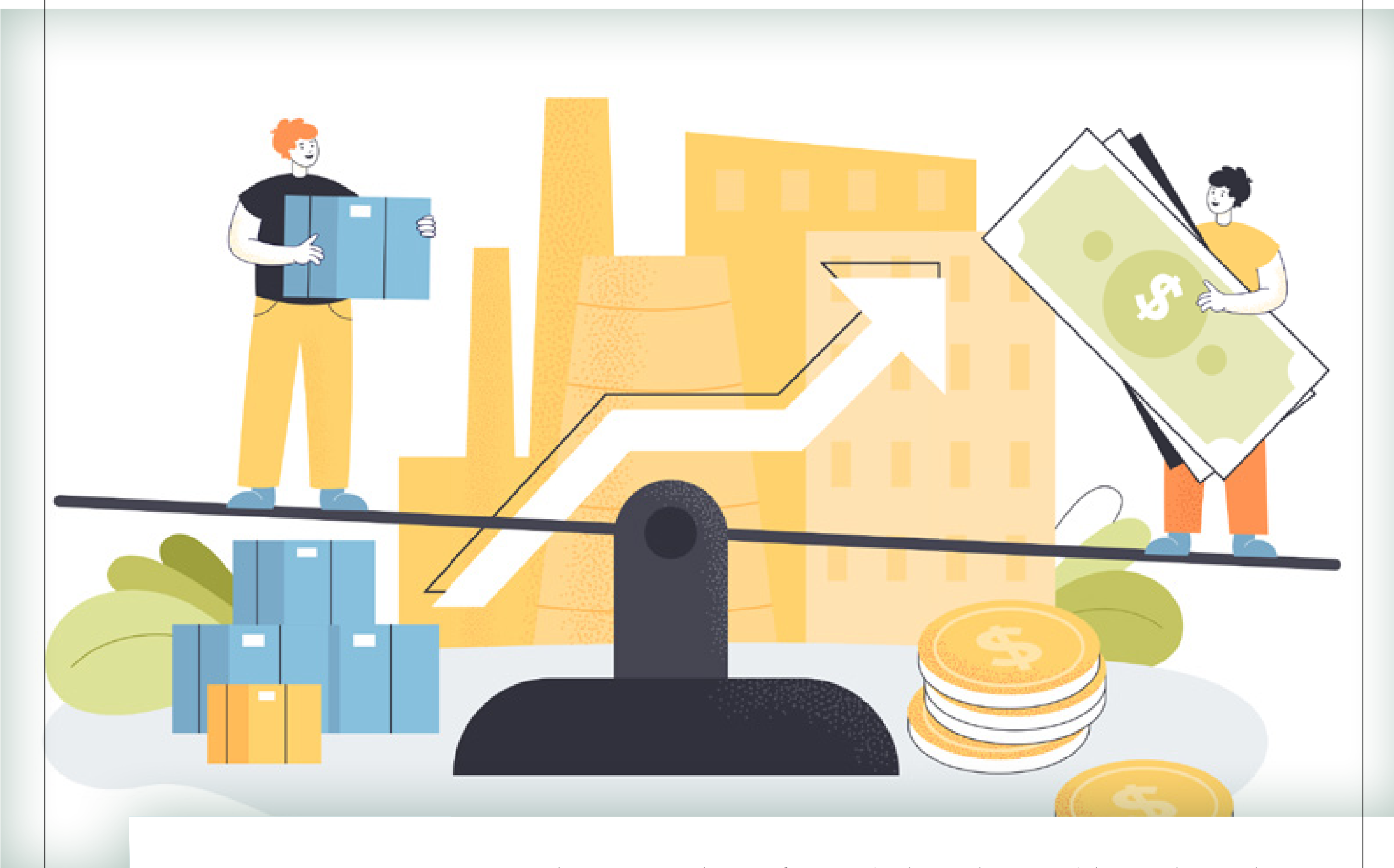
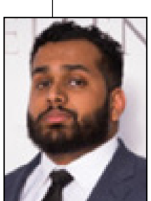
ETF Strategies for a Rising Rate Environment





Nash Swamy, CFA
Analyst
Fundata Canada Inc.

Last year was a phenomenal one for capital markets. With stock markets reaching new highs and the increased probability of the pandemic's transformation into an endemic, the future looks bright.

The Covid omicron variant stoked some investors' fears, and the emergence of new variants will likely lead to a spike in bearish headlines every now and then. Recently, however, the market has been shaking off the bad news about the virus, leading to decline in the number of market reversals attributed to virus pessimism. Going forward, we should again start to analyze fundamental economic theory, supply and demand ideology, and major financial concepts to structure our portfolio, as we once did in a pre-Covid world.

The beginning of the year is always an exciting time as investment strategists, economists, and widely-followed institutions place their bets and predictions for the year. Some of the best ideas and top investment themes for 2022 have already been featured by major media outlets. One of the top investment themes to emerge for this year is the challenge of investing in a rising rate environment. Exchange-traded funds (ETFs) may provide investors with a low-cost way to gain exposure to the fixed-income space in this challenging rate environment.

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As inflation rates rise to record highs around the world, central banks are increasingly signalling more hawkish policy decisions to come, in an effort to put inflation in check. Market consensus appears to be coalescing around the probability of three rate hikes this year, by both the U.S. Federal Reserve and the Bank of Canada. In anticipation, traders have sold off government bonds, steadily raising yields. This upward momentum in yields can have drastic consequences on portfolios. Chart 1 illustrates how Treasury-bill rates in Canada evolved in 2021.

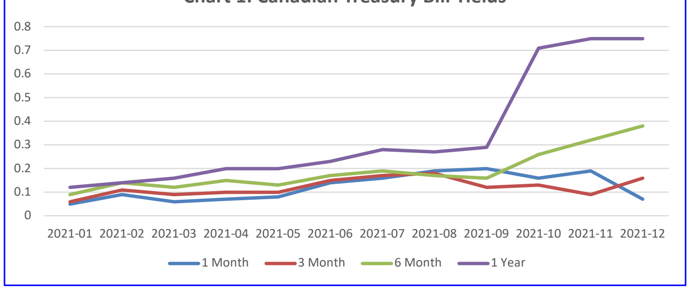

Chart 1: Canadian Treasury Bill Yields

Typically, bonds tend to lag in a rising-rate environment, as prices move inversely to yields. One way investors have successfully navigated this dilemma is by using floating-rate structures. Taken individually, this is a complex asset class and is a challenge for individual retail investors to research, trade, and manage. Fortunately, there is a wide array of Canadian floating-rate ETFs available to choose from. Table 1 list some floating-rate ETFs that may be poised to outperform as rates creep upwards.

Table 1: Selected Floating Rate ETFs

Fund Name	Asset Class High	Asset Class Medium	Asset Class Low
iShares Floating Rate Index ETF (TSX: XFR)	Fixed Income	Broad Market	Short Duration
Invesco 1-3 Year Laddered Floating Rate Note Index ETF (TSX: PFL)	Fixed Income	Broad Market	Short Duration
CIBC Active Investment Grade Floating Rate Bond ETF (TSX: CAFR)	Fixed Income	Broad Market	Investment Grade
Dynamic Active Investment Grade Floating Rate ETF (TSX: DXV)	Fixed Income	Corporate	Investment Grade
BMO Floating Rate High Yield ETF (TSX: ZFH)	Fixed Income	Corporate	High Yield
Mackenzie Floating Rate Income ETF (TSX: MFT)	Fixed income	Senior Loan	High Yield
IA Clarington Floating Rate Income Fund ETF (TSX: IFRF)	Fixed Income	Senior Loan	High Yield

There are some key distinctions to be made for this list. When interest rates are rising, it is best to shorten portfolio duration. Both XFR (duration of 0.17 years as of Jan. 10, 2022) and PFL (duration of 0.08 as of Nov. 30, 2021) are lower-risk funds, with 3-year avearge annual standard deviation at 0.3166 as of Nov. 30, 2021, well below the median 1.8017 for the category.

CAFR and DXV invest primarily in investment-grade securities. Both ETFs seek to mitigate the effects of interest rate fluctuations through the use of interest-rate derivatives. These are very stable, low risk funds whose mandate is not primarily chasing return from rising rates, but instead looking to mitigate the downside associated with any change in the prevailing rate structure, whether up or down.

Investment-grade bonds are generally more susceptible to interest rate risk, while high-yield instruments are more exposed to credit risk. A hike in interest rates is generally a signal that central banks are confident of economic prosperity, and hence credit spreads tend to tighten initially. This is beneficial for high-yield bonds.

High-yield bonds are actually more similar to equity than their investment-grade counterparts. Senior loans are usually linked to a reference rate that resets when rates change. Senior loans also take precedence over high-yield and equity in payback priority in the case of default. High yield products are relatively the riskiest, but also have potential for outperformance. In Table 1, ZFH, MFT, and IFRF are all rated low to medium risk.

In prior periods of rising rates, low unemployment rates, higher-than-average inflation, and powerful stock market rallies, high-yield credit has usually outperformed high-grade corporates and government Treasuries. High yield credit could therefore help add some alpha while mitigating interest rate risk arising from the floating rate component in a portfolio.

Looking to equities

Fixed-income ETFs like these are one way to help mitigate risk and improve returns in a rising interest rate environment. But there are also equity-based solutions available. For example, Fidelity Canada offers its Fidelity U.S. Dividend Rising Rates ETF (TSX: FCRR). Launched in 2018, it has a mandate to invest primarily in dividend-paying shares of U.S. companies that have a positive correlation of returns to rising 10-year U.S. Treasury yields. With an MER of 0.39%, medium risk, and a medium-to-long time horizon, FCRR aims for outperformance during a period of rising interest rates.

Investing in banks and financial services firms that are poised to earn higher interest income from higher interest rates may be another way to mitigate rate risk. The Hamilton Enhanced Canadian Bank ETF (TSX: HCAL), for example, is an alternative fund, offering 1.25 times leveraged exposure to Canadian banks.

Precious metals also tend to do well in high inflation environments, and are used tactically as a hedge against it. But as central banks work to tamp down inflation and the hedge is wound down, there may be some weakness in this asset class.

Currency play

Lastly, all hail the mighty dollar. History has shown us that in times of rising rates, the U.S. dollar gains momentum due to increased capital inflows. An easy way to exploit this opportunity is through ETFs. If you are investing in a Canadian dollar denominated ETF that invests primarily in U.S. dollar-denominated securities, look for an unhedged version of the fund, as it could possibly gain some alpha due to the appreciation of the underlying U.S. dollar holdings. Or you might look for a U.S. dollar-denominated version of the strategy. Canadian ETF providers offer a wide range of unhedged, hedged, and U.S. dollar-denominated strategies to better suit investor needs in a changing environment.

Innovation is a Hedge Against Inflation

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

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

If we need to deliver medicines and vaccines to parts of the world where roads are not developed, then drones can make a meaningful contribution to saving lives. These drones are powered by lightweight batteries with endurance. In places such as South Africa and India, this is happening right now.

So, how can fast-moving innovations, which will improve our quality of life, help fight inflation?

The sub-advisor for Emerge Canada, ARK Invest, conducts long-term research and develops market size estimates and forecasts which extend out past 5 years. Just some snippets from ARK Invest's Big Ideas 2022 report:

- Delivery Drones--are expected to contribute $230 Billion in delivery revenue by 2030[1]
- Multi-cancer Screening--Liquid biopsies should scale exponentially over the next five years[2]
- Digital Worlds--Digital Wallets could command nearly $50 trillion in equity market capitalization by 2030[3]
- Electric Vehicles--Global EV Sales could scale to 40 million units in 2026
- "By automating the tasks of knowledge workers, AI should boost productivity and lower unit labor costs significantly." AI training costs are expected to drop 60% by 2030.[4]
- "Digital entertainment, advertising and e-commerce is expected to grow at an 18% compound annual growth rate over the next five years."[5]

Innovation is deflationary, not inflationary.

Within each of these areas, demand will cause new innovations to experience price declines. For example, the cost of artificial intelligence training has dropped dramatically. The cost of robots and cobots has decreased enabling more businesses to automate and help contend with labor shortages. Labor shortages are causing wages to rise, while automation will hopefully solve some service issues and ease the burden. Tesla has put a major strategic focus on the development of the Tesla Bot "Optimus" to help curb labor shortages for redundant and menial tasks.[6] The cost of batteries has continued to decline and will enable an explosion of electric vehicles and drone usage. With more electric vehicles being to meet demand, the cost will ultimately decline as they are less expensive to maintain and they are not fossil fuel dependent.

And lastly when the cost of sequencing a genome goes below $1000 then insurance providers and health care institutions can recommend, for prevention, the use of sequencing. Enabling the early detection of abnormalities through sequencing may dramatically decrease healthcare spending. Gene-editing technology has the ability to cure thousands of monogenic diseases, which can extend quality of life and reduce treatment costs.[7]

Due to the fears of inflation for investors and consumers there is a sense of urgency to lower costs. For a company to lower costs, they have to find ways to solve pain points economically. They could have struggles with supply chain issues, packaging, and e-commerce challenges. Finding innovative ways to transport materials, package goods, and for faster delivery means margin improvements without prices going higher. If these companies invest in innovative ways to keep their costs down and meet demand, then they contain inflation and help consumers maintain their purchasing power.

Most importantly, the growth rates expected in the above-mentioned areas of innovation exceed on average over 30% compound average increases in enterprise value based on ARK's research over the next ten years. This wildly surpasses any forecasts for inflation.

- Equity market returns in the 5 major innovation platforms expected over the next ten years expect a CAGR and Equity market capitalizations of:[8]
  - Artificial Intelligence 26% $ 108 Trillion
  - Battery Technology 35% $ 32 Trillion
  - Blockchain 43% $ 49 Trillion
  - Robotics 51% $ 10 Trillion
  - Gene Sequencing 40% $ 3.6 Trillion

Important to note, the investor experience in innovation may be volatile at times. As new technologies develop and demand increases, they are subject to evaluation and market pricing by analysts and the street, which may be unaware of the true value developing. Investors in innovation should have a long-term time horizon and be prepared for volatility to benefit from the long-term potential.

[1] ARK Investment Management LLC. (2022). "Big Ideas 2022." 92. Retrieved from www.ark-invest.com.

[2] ARK Investment Management LLC. (2022). "Big Ideas 2022." 12. Retrieved from www.ark-invest.com

[3] ARK Investment Management LLC. (2022). "Big Ideas 2022." 93. Retrieved from www.ark-invest.com

[4] Zatara. "Artificial Intelligence-Enabling Humans to Become Superhuman." Medium, Coinmonks, 13 Mar. 2022, https://medium.com/coinmonks/artificial-intelligence-enabling-humans-to-become-superhuman-bd82c574d6d4.

[5] ARK Investment Management LLC. (2022). "Big Ideas 2022." 23. Retrieved from www.ark-invest.com

[6] https://fortune.com/2022/01/27/elon-musk-tesla-optimus-robot-labor-shortage/

[7] ARK Investment Management LLC. (2022). "Big Ideas 2022." 77. Retrieved from www.ark-invest.com

[8] ARK Investment Management LLC. (2022). "Big Ideas 2022." 6. Retrieved from www.ark-invest.com

For more information on Emerge Canada Inc's offerings please visit www.emergecm.ca or contact support@emergecm.ca.

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More Than Just Technology

When you think of the Nasdaq-100 and the Invesco NASDAQ 100 Index ETF, the first thing that comes to mind is probably technology. It's not surprising, as some of the world's most recognizable tech companies including Apple, Microsoft and Nvidia (along with many others) make up nearly half of the index's holdings.

But when you look beyond those bellwether names, you quickly come to realize that there's more sector diversification than you may have first imagined – a fact that becomes clear when you look at the breakdown of the Nasdaq-100 components by sector. Allocations as of December 31, 2021 were:

Information Technology	50.97%
Communication Services	18.38%
Consumer Discretionary	16.13%
Health Care	5.66%
Consumer Staples	5.14%
Industrials & Utilities	3.65%

Invesco

Why is this kind of diversification so important? Because whether it's in your own personal portfolio or one of the nation's largest ETFs, diversification helps mitigate risk. And as the chart below clearly demonstrates, no one single sector (not even information technology) consistently outperformed year after year.

Take Utilities as a perfect case in point. While Utilities outperformed all other sectors in 2011, it subsequently went on to be a laggard in 2012 and 2013, only to rise to the top again in 2014 and then proceeded to bounce around in the middle of the pack.

A decade of U.S. equity sector returns (2011 through 2020)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Best	Utilities 19.2	Financials 26.9	Consumer Services 42.2	Utilities 28.1	Consumers Services 6.6	Energy 26.3	Technology 37.3	Health Care 6.2	Technology 47.5	Technology 47.3
	Health Care 11.7	Consumer Services 24.2	Health Care 42.0	Health Care 25.8	Health Care 6.6	Telecommunications 24.0	Basic Materials 25.1	Utilities 4.4	Industrials 32.8	Consumer Goods 33.2
	Consumer Goods 8.8	Health Care 19.3	Industrials 40.6	Technology 20.0	Consumer Goods 6.1	Basic Materials 20.3	Industrials 24.5	Consumer Services 2.1	Financials 32.6	Consumer Services 29.8
	Consumer Services 7.1	Telecommunications 18.8	Financials 34.2	Financials 14.6	Technology 4.1	Industrials 19.5	Health Care 22.8	Technology -0.6	Consumer Goods 28.7	Basic Materials 18.3
	Energy 4.1	Industrials 17.9	Consumer Goods 30.6	Consumer Services 14.5	Telecommunications 3.5	Financials 17.3	Consumer Services 20.4	Telecommunications -6.7	Telecommunications 27.9	Industrials 17.9
	Telecommunications 4.0	Consumer Goods 12.8	Technology 27.0	Consumer Goods 12.1	Financials 0.1	Utilities 17.1	Financials 20.0	Financials -9.0	Consumer Services 26.9	Health Care 16.0
	Technology 0.2	Technology 12.1	Energy 26.1	Industrials 7.3	Industrials -1.7	Technology 14.2	Consumer Goods 17.0	Industrials -11.3	Utilities 24.9	Financials -0.5
	Industrials -0.8	Basic Materials 10.5	Basic Materials 20.4	Basic Materials 3.4	Utilities -4.6	Consumer Services 6.0	Utilities 12.4	Consumer Goods -13.4	Health Care 21.3	Utilities -0.6
	Financials -12.8	Energy 4.7	Utilities 15.2	Telecommunications 2.4	Basic Materials -12.4	Consumer Goods 5.3	Telecommunications -0.3	Basic Materials -16.2	Basic Materials 19.8	Telecommunications -5.9
Worst	Basic Materials -14.7	Utilities 1.8	Telecommunications 14.1	Energy -9.3	Energy -22.0	Health Care -2.4	Energy -1.6	Energy -18.9	Energy 10.4	Energy -33.2

Source: Morningstar Direct. Past performance does not guarantee future returns. Return percentages represent total annual returns (reinvestment of all distributions) and do not include fees and expenses.

When most investors focus on diversification, however, they typically focus on asset classes – wanting to allocate their portfolio broadly across large, mid and small cap stocks, foreign and emerging markets, corporate and government bonds, and cash. It's an important diversification strategy, but it may overlook sector diversification.

Modern portfolio theory holds that a portfolio full of assets that are closely correlated will perform worse over time; whereas a portfolio full of assets that are less correlated to each other will perform better over time. Of course if there's a major market downturn, generally all assets are going to lose value (such as during last year's COVID correction in March, when most stocks fell – with a few notable exceptions, such as Amazon and Walmart).

Why do sectors rotate in and out of favour?

While no two market cycles are identical, as the economy moves through different phases – from recovery to expansion to slowdown to recession – different sectors tend to outperform. During the economic growth stages (recovery and expansion), Information Technology, Consumer Discretionary, Industrials and Financials often take center stage. Then, as growth slows and stalls out (slowdown and recession), Consumer Staples, Healthcare and Utilities tend to shine.

Additionally, certain demographic and long-term secular trends can cause particular sectors to move in or out of favour —for example, emerging challenges such as climate change bringing about a broad migration towards green energy.

One stop; multiple sectors

Not only is it important to diversify your investments across asset classes, but also within each asset class. Thanks to strong representation of secondary sectors such as Communication Services, Consumer Discretionary and Healthcare, the Invesco NASDAQ 100 Index ETF can offer some diversification in one fund. It's not a guarantee for profit, and it doesn't eliminate the risk of loss, but diversification is a potential way to help drive your portfolio's performance.

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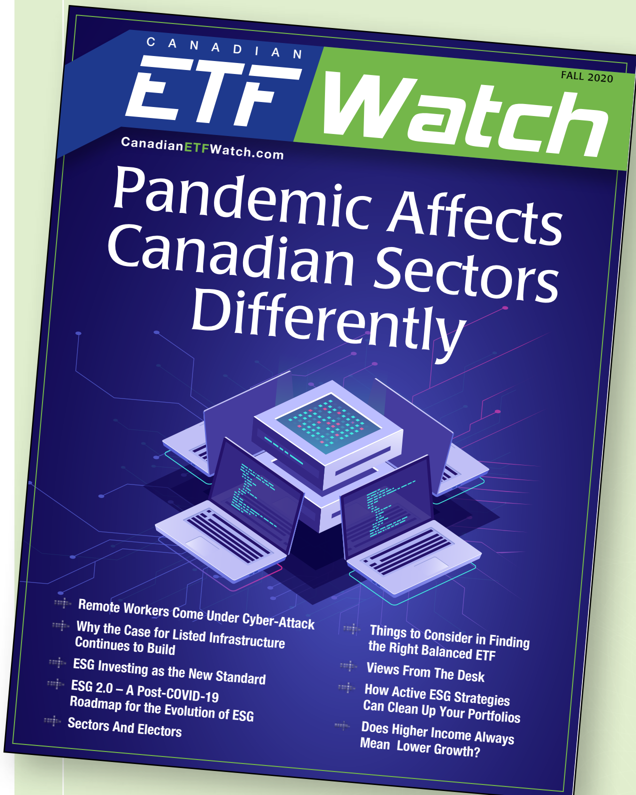

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Canadian ETF Watch is produced by

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Financial Education

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