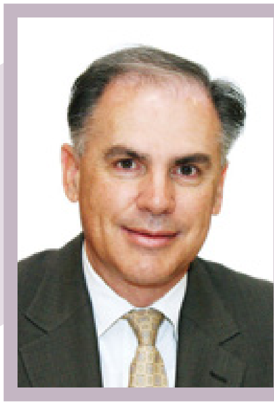
CANADIAN
ETF Watch
SUMMER 2022
CanadianETFWatch.com

Alternatives: Risk Premia in Inflationary Times



As the summer heat begins and the markets continue trending towards bear territory, many investors who have never been through a true bear market are beginning to look towards their advisors for expertise, assistance, and emotional support.

While the general consensus is that we are in for a bumpy ride, rest assured that we will get through this period – perhaps a bit battered and bruised — and with your expertise and guidance your clients will make it through and continue to work towards their goals.

One of the themes of the Summer 2022 edition of *Canadian ETF Watch* is inflation and what advisors can do to try and hedge against it. There is an article from Daniel Stanley, Director of Institutional & Advisory from BMO ETFs which explains the importance of looking outside of traditional assets to help achieve a diversified and risk mitigated portfolio during these inflationary times. There are also articles from Naseem Husain, Vice President of ETFs from Mackenzie Investments on what advisors can do when markets are down and Jaron Liu, Director of ETF Strategy from CI Global Asset Management on finding quality in U.S. equities.

While we should expect some challenging times for at least the rest of 2022, those in financial services are a special group of people and with your knowledge, experience and the care you show for your clients, we at *Canadian ETF Watch* are confident that we will all make it through.

As members of the industry and as investors – we thank you.

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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Active ETFs from Franklin Templeton

Throughout changing market cycles, investors strive to elevate their portfolios. At Franklin Templeton, we offer active equity, fixed income and multi-asset solutions in an easy-to-use ETF vehicle. These active ETFs allow you to access the expertise of our active managers across the globe, which can help you to navigate difficult market conditions and achieve better outcomes for your portfolio.

Learn about all our active ETFs at www.franklintempleton.ca/active-etfs

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Inflation-Resistant Additions to the Traditional Portfolio (ZGI, TOWR, GRNI)

At a time when inflation and market volatility are a common denominator, investors are looking for exposure to alternative investments that can boost portfolio returns, while diversifying away from traditional holdings.

BMO offers access to specialized global opportunities in infrastructure, real estate and renewables, including:

- BMO Global Infrastructure Index ETF (Ticker: ZGI)
- BMO Brookfield Global Renewables Infrastructure Fund ETF Series (Ticker: GRNI)
- BMO Brookfield Global Real Estate Tech Fund ETF Series (Ticker: TOWR)

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Exchange Traded Funds

Learn more about BMO's alternative ETF solutions at bmoetfs.ca.

[1] Global Infrastructure Hub, Global Infrastructure Outlook.

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CANADIAN ETF Watch
CanadianETFWatch.com

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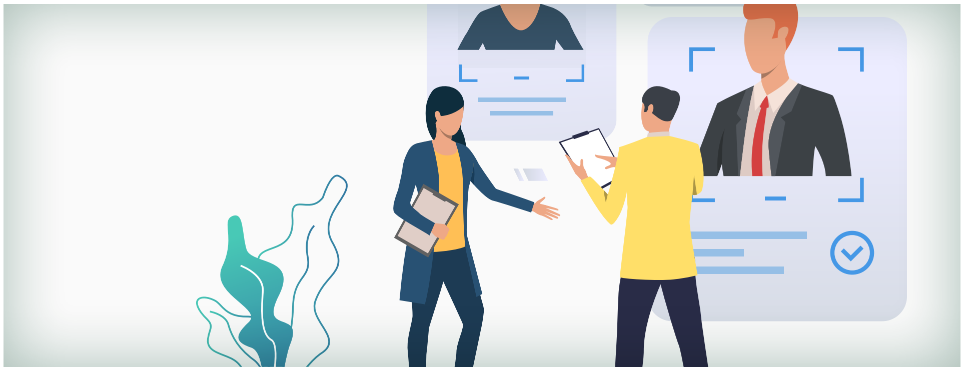

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Alternatives: Risk Premia in Inflationary Times

As investors grapple with changing economic and geopolitical factors, Daniel Stanley, Director, Institutional & Advisory, BMO ETFs, shares his views on the need to look outside of traditional assets to satisfy your clients' needs for a diversified, risk mitigated portfolio.

Daniel Stanley,
Director, Institutional & Advisory, BMO ETFs

For years, investors, from retirees to the largest pension funds, have successfully deployed the tried-and-true equity and fixed income asset allocation model to maximize long-term returns and minimize volatility. We're in a different market environment today, experiencing conditions not seen for more than a generation. While some risk factors have been normalized over several years, such as persistently low interest rates and lower forecasted equity returns, higher inflation is a new variable that will test the mettle of many investment managers and advisors.

For example, on March 10th, U.S. consumer inflation jumped to 7.9% year-to-date — the sharpest spike since 1982,[1] and potentially a harbinger of higher prices to come. Similar, if less dramatic, were the price increases also being reported in Canada. Now is the moment to question the conventional wisdom of traditional portfolio construction, and to look for alternative solutions that will add inflation protection. Done correctly, this should help optimize risk-return trade-offs and provide the necessary tools to manage inflation.

The Case for Including Alternatives

Many of Canada's leading public sector defined pension plans have already bought into the idea that alternatives will play a major role in future allocations. In fact, according to the Bank of Canada, "64% of (pension) plans in our sample shifted away from the traditional 60/40 mix" in favour of "portfolios with more alternative assets, such as private equity, real estate and infrastructure."[2] The BoC analysts underline this point with the observation that, "For one-third of these plans, the portfolio overhaul is substantial — representing more than 30% percent of all assets." Conclusion: Yes, alternative investments can provide additional risk premia, diversification (low correlation to public markets), and in most cases, a critical inflation hedge.

A second, but no less important question is, how can advisors access alternative investments given that many are expensive and difficult to trade? Not all investors can match the scale and depth of expertise of large pension funds. Those pensions have the first pick of investment opportunities, and are also direct investors in real assets, meaning they don't face the capacity constraints, placement delays and illiquidity risks associated with Pooled exposures. Most investors lack those advantages, but the appeal of alternative investments is the same for them. So, how can non-pension fund investors gain access to alternatives? The most efficient route, we believe, is through Exchange Traded Funds (ETFs).

ETFs: A Compelling Solution for Alternatives

When allocating to alternative assets, many will choose a third-party manager. However, ETFs provide access to the same risk premia and diversification benefits without any of the negatives associated with an external fund manager. For example, ETFs are:

- Less expensive than most third-party managers
- Scalable and liquid, allowing new units to be added or redeemed per changes in demand (third-party solutions are, by contrast, often closed to new subscriptions)
- Transparent and traded on a public exchange, with a verifiable data set to model risk assumptions
- Always fully invested, there's never a gap between when an investment is committed and placed

The range of ETFs is also growing, providing investors with many different options to access alternative investments without the high cost, liquidity and capacity risks associated with direct investing. Indeed, there are ETF proxies for each of the main categories of alternative investing: real assets, private equity, commodities/ precious metals, and private debt.

To level the playing field, particularly at a time when markets are faced with rising inflation and interest rates, ETFs provide the ability to dip your toes into the alts market in a simple and efficient manner, providing a modern twist to the traditional portfolio.

To learn more about alternatives as a means to optimizing your portfolios, reach out to your BMO ETF specialist.

1 Lucia Mutikani, "Households squeezed as U.S. consumer prices accelerate; more pain coming," Reuters, March 10, 2022.

2 Sébastien Betermier, Nicholas Byrne, Jean-Sébastien Fontaine, Hayden Ford, Jason Ho, Chelsea Mitchell, "Reaching for yield or resiliency? Explaining the shift in Canadian pension plan portfolios," Bank of Canada, August 2021.

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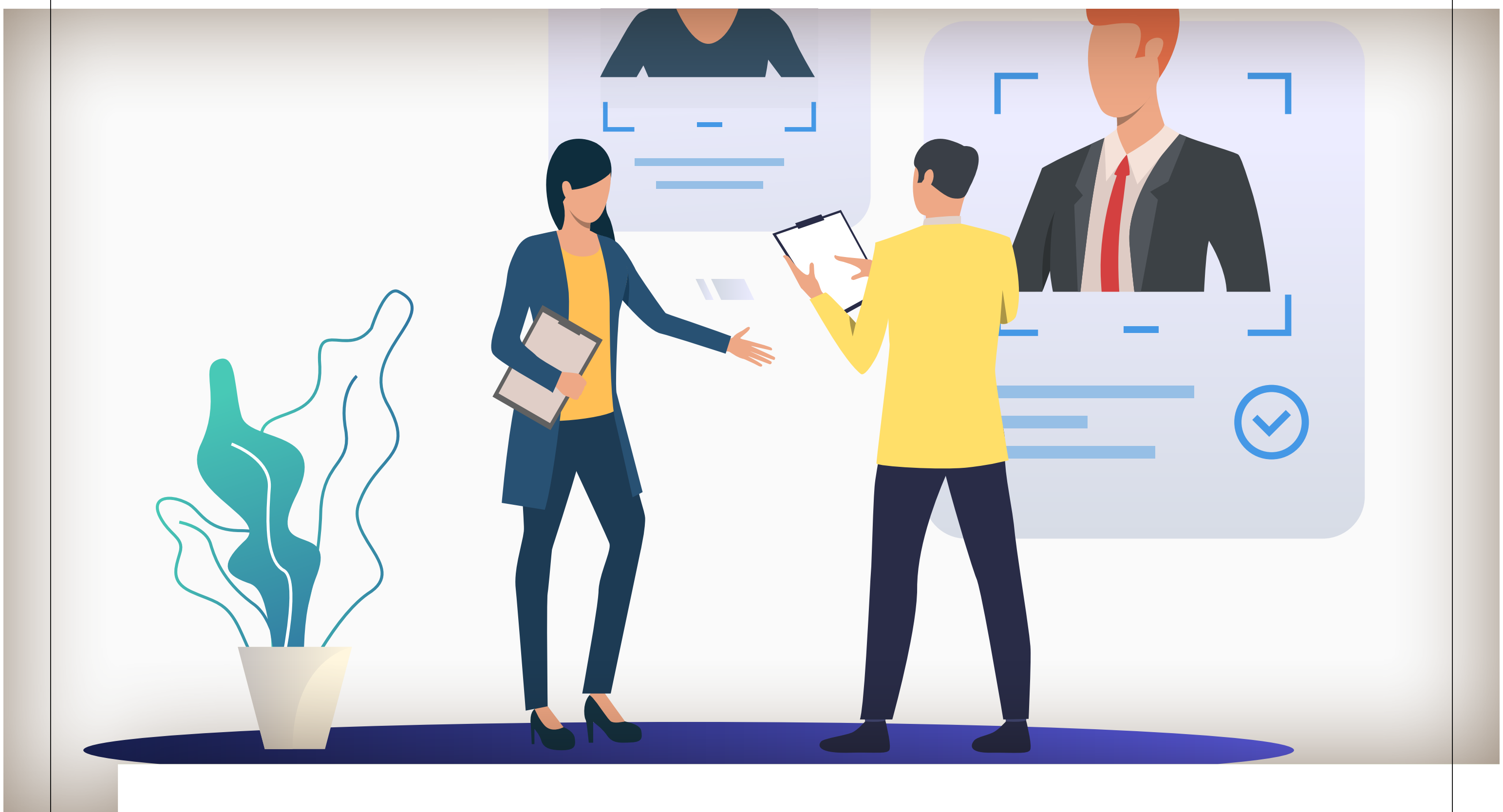
When Should an Advisor Add a Team Member?



Would you like to grow your clientele and add to or improve the services you offer? Are you struggling to keep up with increased competition and compliance requirements? Adding a team member will likely help you solve these issues and more.

Christine Timms,
Author:
Handbooks for the Professional Financial Advisor

The following is an excerpt from Team Building for Financial Advisors, one of three Handbooks for Financial Advisors written by retired Financial Advisor Christine Timms.

"The size of an advisor's team depends on the size of the practice, the practice's service model, the approach to investing and financial planning as well as how much the advisor wants to grow. Larger practices and more services usually require bigger teams."

Advisors have often asked me for a “rule of thumb” regarding the appropriate number of assistant/associates based on the size of the practice. As a result, I feel compelled to answer the question and will do so later in this book. However, I think the more relevant question for a practicing advisor is “When should an advisor add a team member?”. My team expanded one member at a time as the need for help grew. I did not add a member based on a “rule of thumb”. My practice’s need for additional help was driven by many factors relating to my evolving service model, approach to investing, desire to grow, etc.

Questions to Ask Yourself and Existing Team

I recommend that the advisor work with their existing team members to answer the questions below as they relate to their practice. Each “yes” answer could indicate that it is time to add to their team:

1) Are you or your clients unhappy with the timeliness or quality of your practice’s responses to their needs and requests?

2) Do you find yourself or senior team members performing necessary tasks that feel like a poor use of time, or that someone else could do better?

3) Are you and your team so busy responding to the day to day needs and deadlines of individual clients that you are unable to do or think of much else?

4) Are you feeling overtired and/or in danger of burning out?

5) Do you and/or your team need more time to think of ideas to better serve existing clients?

6) Do you and/or your team need more time to actually implement the great client service ideas that you and your team have thought of?

7) Do you and/or your team need more time to think of marketing and prospecting ideas to find new clients?

8) Do you and/or your team need more time to actually implement the great marketing or prospecting ideas that you and your team have thought of?

9) Would you like more personal time but don’t want your practice to suffer or stop growing?

If an advisor and their team answers “no” to all of the above questions, I expect the current size team is likely appropriate for the practice at that time. If you are answering “yes” to a number of the above questions, you are probably experiencing a lot of frustration. Adding another team member would likely reduce the frustration and boost your team’s productivity. If you believe the need for additional help is temporary or seasonal or caused by short term projects, (e.g. new documentation requirements), you could consider outsourcing a project or hiring a full or part time contract worker like a university co-op student. I often hired university co-op students on four or eight-month contracts. They were relatively inexpensive, usually interested in learning and there was no long-term obligation. They were able to perform some of the simpler, repetitive, time-consuming tasks saving time for the rest of the team.

“These questions should be revisited whenever you are feeling frustrated or overwhelmed and during your annual practice planning process.”

Christine has created templates to help advisors identify and organize activities to delegate to team members, estimate costs of adding team members and keep track of ongoing team compensation costs.

Available through https://christinetimms.com/team-building :
Team Member Roles & Duties (updated 2022)
Team Payroll Sensitivity Analysis
Advisor Actual Team Compensation Costs
Related short videos: https://christinetimms.com/template-tutorials

Christine Timms is the author of three Handbooks for the Professional Financial Advisor including “Team Building for Financial Advisors” (available in paperback and ebook). www.christinetimms.com provides descriptions and testimonials, as well as written, audio versions of the introductions of each book and videos of tutorials for templates.

So Long, “Lower for Longer”

For well over a decade, market sentiment has been that we are in an environment where we need to navigate around the reality that interest and inflation rates are going to be “lower for longer”. Investment firms, insurance companies, banks and others braced for this reality, wondering if the next year would in fact be different.

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

TMX Toronto Stock Exchange

In fixed income terms, in a low rate environment, longer duration fixed income typically outperforms short duration fixed income.The opposite is also true, where in a rising rate environment, short duration fixed income will typically outperform longer duration fixed income. Short duration fixed income investments in a portfolio will have lower interest rate risks, but the trade-off is that there will likely be a corresponding lower yield than you may have been used to with your long duration fixed income investments.

In March, April and June 2022, the Bank of Canada raised interest rates twice for a current total of 150 bps1 to help combat the rising inflation, with the strong possibility of more interest rate increases in the second half of 2022 to come. As the market rotates to a "rising rate environment", leaving "lower for longer" as a distant memory, long duration fixed income will make way for short duration fixed income.

While it is important for investors and advisors to keep an eye on what the Bank of Canada is doing with interest rates as they look to mitigate the risk of recession, it is also important to understand what to expect from your investments as you and your advisor consider a move to shorter duration fixed income products. One way to access short duration fixed income is through exchange traded funds (ETFs). There are almost 100 different short duration fixed income ETFs, offered by 18 of Canada's leading ETF providers, listed on the Toronto Stock Exchange.

TSX-listed Short Duration Bond ETFs

ETF Provider	Symbol	Fund Name
BMO ETFs	ZCDB	BMO Corporate Discount Bond ETF
	ZFH	BMO Floating Rate High Yield ETF
	ZGSB	BMO Global Strategic Bond Fund
	ZPAY	BMO Premium Yield ETF
	ZPAY.F	BMO Premium Yield ETF
	ZPAY.U	BMO Premium Yield ETF
	ZCS	BMO Short Corporate Bond Index ETF
	ZCS.L	BMO Short Corporate Bond Index ETF
	ZFS	BMO Short Federal Bond Index ETF
	ZFS.L	BMO Short Federal Bond Index ETF
	ZPS	BMO Short Provincial Bond Index ETF
	ZPS.L	BMO Short Provincial Bond Index ETF
	ZSB	BMO Short-Term Bond Index ETF
	ZSDB	BMO Short-Term Discount Bond ETF
	ZSU	BMO Short-Term US IG Corporate Bond Hedged to CAD Index ETF
	ZTIP	BMO Short-Term US TIPS Index ETF
	ZTIP.F	BMO Short-Term US TIPS Index ETF
	ZTIP.U	BMO Short-Term US TIPS Index ETF
	ZST	BMO Ultra Short-Term Bond ETF
	ZST.L	BMO Ultra Short-Term Bond ETF
	ZUS.U	BMO Ultra Short-Term US Bond ETF
	ZUS.V	BMO Ultra Short-Term US Bond ETF
CI Investments	BXF	CI 1-5 Year Laddered Government Strip Bond Index ETF
	FSB	CI Enhanced Short Duration Bond Fund*

1 Source: Bank of Canada, June 2022

2 Source: https://money.tmx.com/en/etf-screener as of May 2022

ETF Provider	Symbol	Fund Name
	FSB.U	CI Enhanced Short Duration Bond Fund*
	CSAV	CI High Interest Savings ETF
	CRED	CI Lawrence Park Alternative Investment Grade Credit Fund
	CRED.U	CI Lawrence Park Alternative Investment Grade Credit Fund
	FGB	CI Short Term Government Bond Index Class ETF
	CAGS	CI Yield Enhanced Canada Short-Term Aggregate Bond Index ETF
CIBC Asset Management	CAFR	CIBC Active Investment Grade Floating Rate Bond ETF
	CCBI	CIBC Canadian Bond Index ETF
Desjardins	DCC	Desjardins 1-5 year Laddered Canadian Corporate Bond Index ETF
	DCG	Desjardins 1-5 year Laddered Canadian Government Bond Index ETF
	DCS	Desjardins Canadian Short Term Bond Index ETF
Dynamic	DXV	Dynamic Active Investment Grade Floating Rate ETF
Fidelity Investments	FCSB	Fidelity Canadian Short Term Corporate Bond ETF
Horizons ETFs	HMP	Horizons Active Cdn Municipal Bond ETF
	HAF	Horizons Active Global Fixed Income ETF
	HUF	Horizons Active Ultra-Short Term US Investment Grade Bond ETF
	HUF.U	Horizons Active Ultra-Short Term US Investment Grade Bond ETF
IA Clarington	ICPB	IA Clarington Core Plus Bond Fund
	IFRF	IA Clarington Floating Rate Income Fund
Invesco	PFL	Invesco 1-3 Year Laddered Floating Rate Note Index ETF
	PSB	Invesco 1-5 Year Laddered Investment Grade Corporate Bond Index ETF
	USB	Invesco LadderRite U.S. 0-5 Year Corporate Bond Index ETF
	USB.U	Invesco LadderRite U.S. 0-5 Year Corporate Bond Index ETF
RBC iShares	XSTP	iShares 0-5 Year TIPS Bond Index ETF
	XSTP.U	iShares 0-5 Year TIPS Bond Index ETF
	XSTH	iShares 0-5 Year TIPS Bond Index ETF (CAD-Hedged)
	CBO	iShares 1-5 Year Laddered Corporate Bond Index ETF
	CLF	iShares 1-5 Year Laddered Government Bond Index ETF
	XSHU	iShares 1-5 Year U.S. IG Corporate Bond Index ETF
	XSHU.U	iShares 1-5 Year U.S. IG Corporate Bond Index ETF
	XIGS	iShares 1-5 Year U.S. IG Corporate Bond Index ETF (CAD-Hedged)
	CVD	iShares Convertible Bond Index ETF
	XSB	iShares Core Canadian Short Term Bond Index ETF

ETF Provider	Symbol	Fund Name
	XSH	iShares Core Canadian Short Term Corporate Bond Index ETF
	XSTB	iShares ESG Canadian Short Term Bond Index ETF
	XPF	iShares S&P/TSX North American Preferred Stock Index ETF (CAD-Hedged)
	CSD	iShares Short Duration High Income ETF (CAD-Hedged)
	XSQ	iShares Short Term High Quality Canadian Bond Index ETF
Mackenzie Investments	MCSB	Mackenzie Canadian Short Term Fixed Income ETF
	QSB	Mackenzie Canadian Short-Term Bond Index ETF
	MGB	Mackenzie Core Plus Global Fixed Income ETF
	MFT	Mackenzie Floating Rate Income ETF
	MUB	Mackenzie Unconstrained Bond ETF
Manulife Investments	TERM	Manulife Smart Short-Term Bond ETF
National Bank Investments	NPRF	NBI Active Canadian Preferred Shares ETF
	NSSB	NBI Sustainable Canadian Short Term Bond ETF
PIMCO	PCON	PIMCO Managed Conservative Bond Pool
Purpose Investments	FLOT	Purpose Floating Rate Income Fund - ETF
	BND	Purpose Global Bond Fund
	FLX.B	Purpose Global Flexible Credit Fund
	FLX.U	Purpose Global Flexible Credit Fund
	PSA	Purpose High Interest Savings ETF
RBC Global Asset Management	RLB	RBC 1-5 Year Laddered Canadian Bond ETF
	RBO	RBC 1-5 Year Laddered Corporate Bond ETF
	RPSB	RBC PH&N Short Term Canadian Bond ETF
	RUSB	RBC Short Term U.S. Corporate Bond ETF
	RUSB.U	RBC Short Term U.S. Corporate Bond ETF
	RQJ	RBC Target 2022 Corporate Bond Index ETF
	RQK	RBC Target 2023 Corporate Bond Index ETF
Russell Investments	RIFI	Russell Investments Fixed Income Pool
TD Asset Management	TPRF	TD Active Preferred Share ETF
	TCSB	TD Select Short Term Corporate Bond Ladder ETF
	TUSB	TD Select U.S. Short Term Corporate Bond Ladder ETF
	TUSB.U	TD Select U.S. Short Term Corporate Bond Ladder ETF
Vanguard	VSB	Vanguard Canadian Short-Term Bond Index ETF
	VSC	Vanguard Canadian Short-Term Corporate Bond Index ETF

2022 CALENDAR OF EVENTS

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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.

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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

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Monday, September 26, 2022 ~ Vancouver, BC

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LONDON

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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.

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. 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.

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

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.

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.

MACKENZIE
Investments

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.

Commissions, management fees, brokerage fees and expenses all may be associated with Exchange Traded Funds. Please read the prospectus before investing. Exchange Traded Funds are not guaranteed, their values change frequently and past performance may not be repeated. The content of this article (including facts, views, opinions, recommendations, descriptions of or references to, products or securities) is not to be used or construed as investment advice, as an offer to sell or the solicitation of an offer to buy, or an endorsement, recommendation or sponsorship of any entity or security cited. Although we endeavour to ensure its accuracy and completeness, we assume no responsibility for any reliance upon it.

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When markets are down, should you be turning to cash?

In early 2022, we were reminded of what volatility can truly mean in terms of performance. Many single stocks (particularly in the growth space) experienced painful downward swings from their highs in 2021, and the Nasdaq confirmed it had entered a bear market. While it can always be tempting for individual investors to jump ship and turn to cash for the short term, it can pay to think more like an institutional investor.

Naseem Husain,
Vice President, ETFs,
Mackenzie Investments

During times when stocks expected to generate excess returns are not working out (or take longer to deliver than usual), it's natural that cash can feel like a safe option. However, cash can quickly lose value, especially during periods of high inflation.

Let's take a look at how institutional investors often turn to ETF liquidity sleeves instead of cash, to keep their investments working for them, and then we'll examine ways that individual investors can mimic this strategy.

MACKENZIE Investments

How liquidity sleeves work

For many institutional investors, the best stock picks that they incorporate into their funds can take some time to play out. If an investor then decides to pull their money out of the fund, the fund manager would have to decide which of their very carefully selected stocks they would have to sell. As you can imagine, this can be a difficult decision.

To avoid having to do that, many institutional investors hold a liquid ETF sleeve within the fund, which can be sold very easily and with little impact on the fund's strategy, minimizing any effect on departing and remaining holders of the fund.

For institutional investors, this ETF sleeve keeps cash invested in the market, which can swing quickly to the upside as well during market volatility. This allows the fund to benefit fully from those moves, in comparison with a cash position, which would lose out on gains from market upswings.

How individual investors can mimic this liquid ETF sleeve strategy

During times of high volatility, investors may be tempted to sell all or some of the stocks in their portfolio (especially those that have dropped considerably in value), to prevent even greater losses. However, this is a typical emotional investing decision that we're always warning against, because overweighting cash is unlikely to help you reach your investing goals. Always keep your investing goals and investing time horizon in mind when making changes to your portfolio.

The problem with selling in a declining market is that you can miss the bottom of the market and it can then take off again without you. Buying back in after a large, missed upswing, can have a drastic negative impact on your portfolio's value.

So, instead of turning your stocks or other assets into cash, replacing them with a liquid index ETF can allow you to divest of unfavourable stocks in the current market conditions, without leaving the market (and therefore missing out on market upturns).

How to use ETFs as liquidity sleeves

Let's look at some examples of how to use ETFs to stay invested, rather than turning to cash. Let's say you held a bunch of US growth stocks that performed brilliantly in the past but were now plummeting. By moving that money into an ETF that holds a much broader range of US companies (such as the Mackenzie US Large Cap Equity Index ETF) you'll immediately have considerably greater diversification.

This means that you will be well positioned to benefit when stocks rise. When this happens, that is your signal to start considering selling some of your position in the ETF to buy back the growth stocks that you valued before. This way you avoid the guaranteed loss that inflation brings to cash and you'll benefit if there is a market upturn.

You could also consider an ETF like the Mackenzie Global Sustainable Dividend Index ETF, which would provide extra diversification by holding dividend-paying companies, many of which are located outside of the US.

In inflationary environments, an ETF like the Mackenzie Canadian Equity Index ETF could take advantage of the strong performance of both financials and commodities.

Another advantage of using these ETFs as liquidity sleeves is that they have low management fees (starting as low as 0.04%), so it won't cost you much to stay invested.

Find out more about using ETF liquidity sleeves

To find out more about how ETF liquidity sleeves could benefit your portfolios, advisors, reach out to your Mackenzie sales team and investors, talk to your financial advisor.

Finding Quality in U.S. Equities

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

2022 has so far turned out to be a challenging year for global markets as heightened volatility has led many investors to reduce risk in their portfolios. However, overall, equities remain attractive and it's worth reminding investors the best strategy is to stay invested over the long-term. Rather than shying away from equities during down markets, investors should instead look towards shifting equity exposure to higher quality companies which can offer better downside protection and upside potential.

CI GLOBAL ASSET MANAGEMENT

Here are three key reasons why investors should consider a quality approach to their U.S. equity allocation:

1. Weighting matters

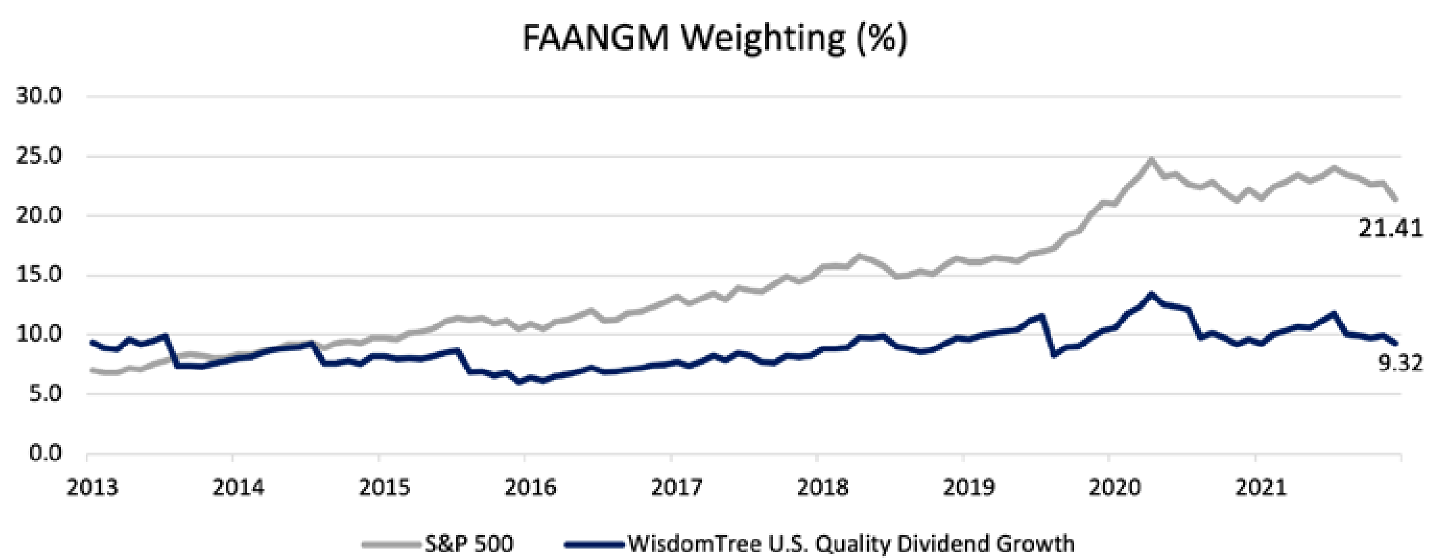
During the first half of 2022, we've seen the S&P 500 Index fall by over 18% from all-time highs, largely due to the drawdown in major tech stocks. Among the S&P 500's holdings, the FAANGM stocks (Facebook, Apple, Amazon, Netflix, Google, and Microsoft), have steadily increased to account for 21% of the index. This highlights one of the major flaws of market cap-weighted indexes - overconcentration. What's more, this flaw is often magnified during periods of elevated market volatility. In contrast, the CI WisdomTree U.S. Quality Dividend Growth Index ETF (DGR.B/DGR/DQD) was designed to target quality companies with a dividend-weighted approach, that can help overcome the issues associated with traditional market cap-weighted indexes such as overconcentration and market bubbles. Among the FAANGM stocks, DGR.B has only held Apple and Microsoft, which have an aggregate weight of about 9% and have shown to be more resilient in the recent market selloff, as the following table and graph illustrate:

	Ticker	Return (1/4/2022 - 5/19/2022)
Apple Inc	AAPL	-24.33
Microsoft Corp	MSFT	-24.04
Amazon.com Inc	AMZN	-37.02
Alphabet Inc Class A	GOOGL	-23.87
Meta Platforms Inc Class A	FB	-43.50
Netflix Inc	NFLX	-69.29
S&P 500	-	-18.20

2. Solid fundamentals make a difference

U.S. equities continue to face major headwinds including rising rates, slowing growth, and higher inflationary pressures. It is often during these periods where companies with elevated valuations are the first to feel the impact. However, quality companies are generally more equipped to withstand down periods due to their higher profit margins, lower leverage, and ability to grow earnings, resulting in better valuations. As the table below shows, DGR.B has exhibited better overall fundamentals relative to the S&P 500 Index.

	DGR.B	S&P 500
P/E	19.61	20.76
Forward P/E	17.13	17.48
ROE	29.24	20.12
ROA	8.46	4.19
Dividend Yield	2.27	1.87



3. Quality outperforms over the long run

Research has shown quality stocks have historically delivered outperformance relative to broad markets, and are rewarded for profitability and stability of earnings over the long run. Based on back tested performance, DGR.B's index has outperformed the S&P 500 Index by over 130bps since December 2003. In fact, as of April 2022, DGR.B's index has beaten the S&P 500 Index by 679bps year-to-date, demonstrating the resilience of quality companies during market downturns, as these charts highlight:

Index	1 Mo	3 Mo	6 Mo	YTD	1 Yr	3 Yr	5 Yr	Common Start
CI WisdomTree U.S. Quality Dividend Growth Index	-0.91	-2.51	2.93	-5.10	11.46	12.13	12.17	11.07
S&P 500 Index	-6.60	-7.71	-6.84	-11.89	4.11	11.92	12.14	9.75

Source: Morningstar Direct, as of April 30, 2022. Performance in CAD. Based on the back tested performance of the index, WisdomTree U.S. Quality Dividend Growth Index.

Why choose the CI WisdomTree U.S. Quality Dividend Growth Index ETF?

Investors looking to enhance the quality in their U.S. equity allocation can do so by investing in the CI WisdomTree U.S. Quality Dividend Growth Index ETF (DGR/DGR.B/DQD). The fund's dividend-weighted approach helps overcome the inherent problems often associated with traditional market cap-weighted funds such as overconcentration, pricing bubbles and lack of rebalancing discipline. Meanwhile, the ETF's multifactor strategy targets dividend paying companies with quality and growth characteristics, and can serve as an excellent complement to traditional high-yielding dividend strategies. This table shows the fees and performance of the three fund versions over the previous five years:

Fund	Ticker	Mgmt Fee	1 Mo	3 Mo	6 Mo	YTD	1 Yr	3 Yr	5 Yr
CI WisdomTree U.S. Quality Dividend Growth Index ETF (Unhedged)	DGR.B	0.35%	-0.96	-2.64	2.72	-5.24	10.74	11.62	11.60
CI WisdomTree U.S. Quality Dividend Growth Index ETF (CAD hedged)	DGR	0.35%	-3.67	-3.86	-1.36	-6.89	5.44	12.07	11.83
CI WisdomTree U.S. Quality Dividend Growth Variably Hedged Index ETF	DQD	0.43%	-2.30	-3.24	-0.20	-5.88	6.28	10.34	10.80

Source: Morningstar Direct, as of April 30, 2022. Performance in CAD.

For more information on the CI WisdomTree U.S. Quality Dividend Growth Index ETF please visit ci.com/ETFs

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Stability amid the volatility through infrastructure

Volatility has been the major investment theme of 2022 with some wild swings in both equity and fixed income markets.

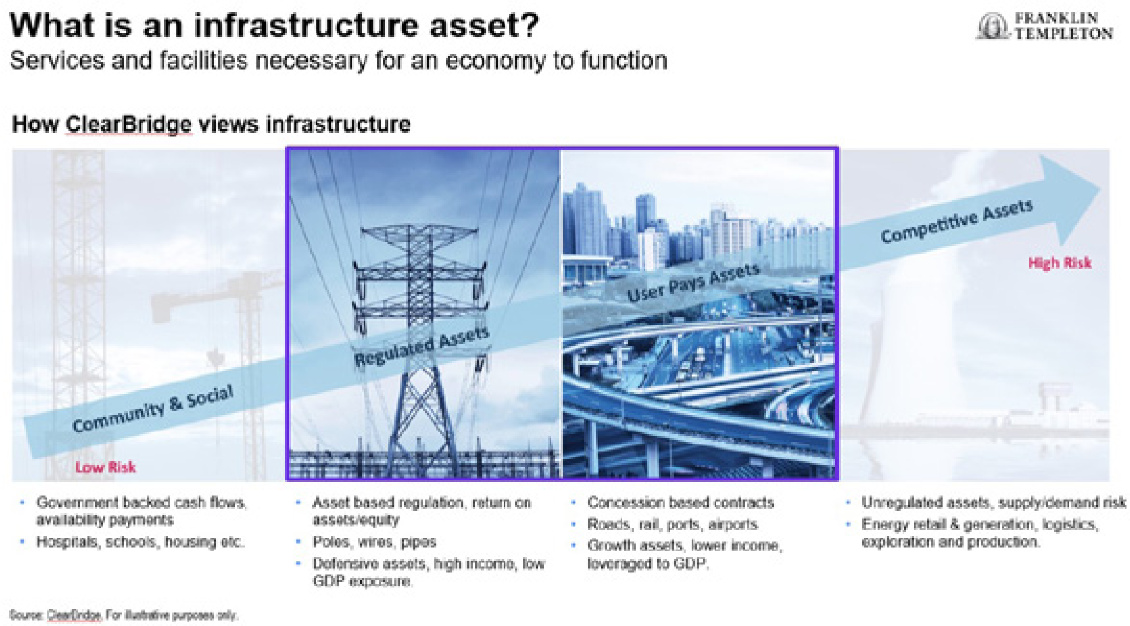
Ahmed Farooq,
Senior Vice President, Head of Retail ETF Distribution, Franklin Templeton Canada

Bonds have been particularly hard hit, and central banks have committed to raising interest rates amid inflation levels not seen since the early 1980s. Then there's the war in Ukraine to consider, which has destabilized the global economy, meaning many investors are concerned about the future and the risk profile of their portfolios.

Infrastructure assets, once the preserve of institutional investors, can now be a useful tool for retail investors too, helping to limit risk and provide a stable income stream. Launched in Canada last year, Franklin ClearBridge Sustainable Global Infrastructure Income Active ETF (FCII), harnesses the expertise of ClearBridge Investments, one of Franklin Templeton's specialist investment managers. An ESG specialist, ClearBridge manages infrastructure income funds in the U.S., U.K., Australia, Europe and Canada, with a global AUM of US$4 billion, as of March 31, 2022.

FRANKLIN TEMPLETON

Infrastructure as an asset class can be loosely defined as the services and facilities necessary for an economy to function. With FCII, the portfolio is made up of regulated assets (e.g. electricity infrastructure and sewage pipes) which are characterized by stable cashflows, high income and low GDP exposure, and **users-pay assets** (e.g. airports, ports, railroads and toll roads) which generally provide lower income but are leveraged to GDP. The active management that underpins this strategy means the portfolio can therefore be rebalanced to favour one segment over the other, whether its user-pay assets during an expansionary period, or regulated assets during a downturn.



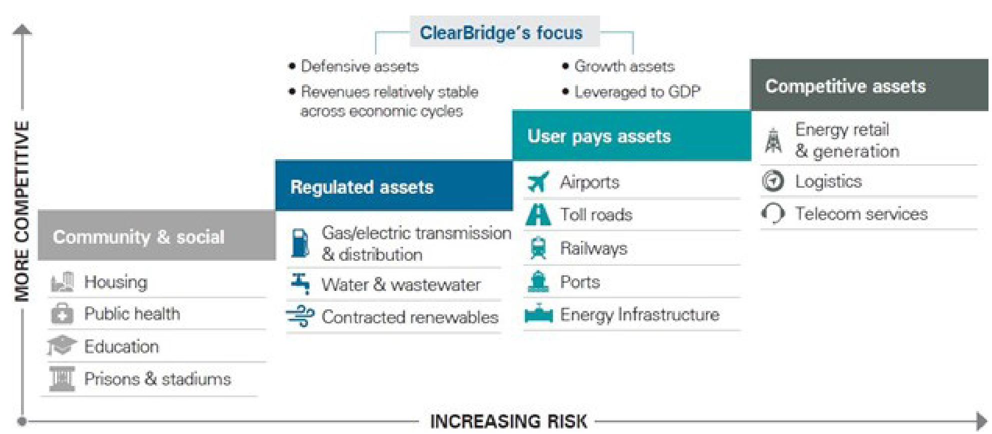
Shane Hurst, portfolio manager for the strategy and based in Sydney Australia, strongly believes the current environment favours infrastructure assets.

"We are in an environment of substantial volatility," he said. "We have COVID-19, high inflation and slowing growth, central banks tightening monetary policy, fiscal policy is no longer being rolled out, the war in Ukraine, and we are also moving towards decarbonization. In this environment, some assets will be losers and some will be winners—infrastructure and utilities will be clear winners."

Protection on the downside is a key consideration for many investors that are concerned where a more hawkish Fed and Bank of Canada will lead us. Whether a recession and a large correction in markets is in the cards is splitting consensus, but either way, the importance of effective risk management is crucial. In this respect, infrastructure assets can make a real difference for investors.

"Infrastructure is perfectly placed as these assets provide essential services that are crucial for the functioning of economies," said Hurst. "These assets provide stable cash flows, returns and dividends for investors, which certainly benefits them in an inflationary environment. They also provide diversification and enhance the risk-return profile of a portfolio," said Hurst.

ClearBridge Investments acquired Australian firm RARE Infrastructure in 2019, bringing years of experience and expertise in this asset class. Following Franklin Templeton's acquisition of Legg Mason in 2020, ClearBridge came under the FT umbrella, and is now one of its specialist investment managers. A specialization in infrastructure is one of the key strengths of ClearBridge, and this asset class has huge growth potential over the long term in both developed and emerging markets. In fact, global infrastructure assets are forecasted to grow from US$49 trillion in 2014 to US$110 trillion by 2030.[3] Such spending will create a host of opportunities for investors, which is why Shane Hurst is confident for the future.



What will drive infrastructure spending?

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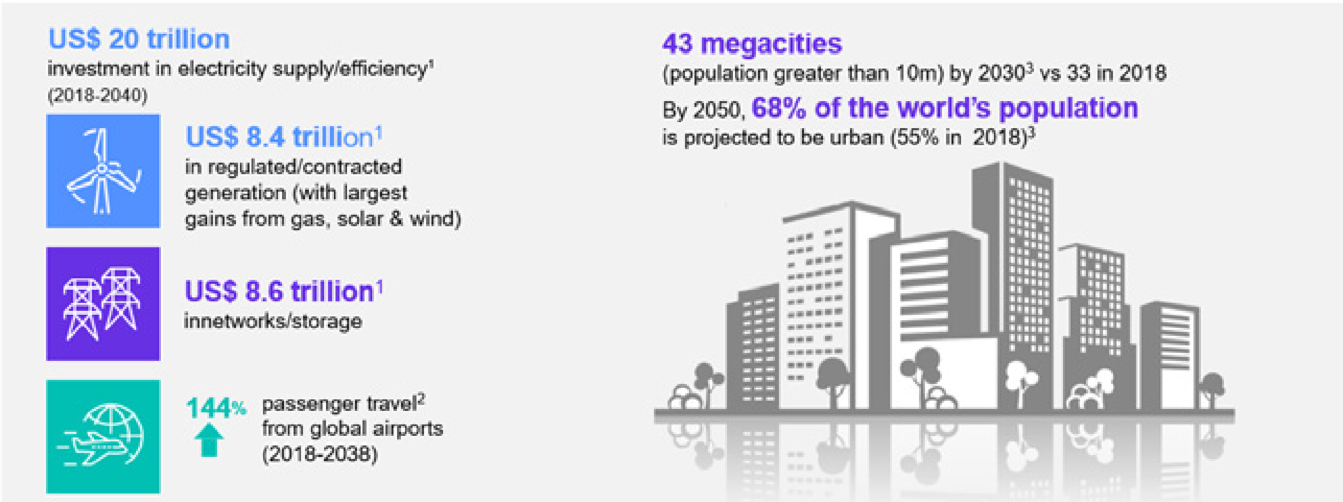

Source: ClearBridge.
[1]International Energy Agency, (2018), World Energy Outlook, iea.org/weo2018/electricity.
[2]Measured in Revenue Passenger Kilometres (RPKs), Boeing (2019), Commercial Market Outlook. United Nations Department of Economic and Social Affairs, Population Division, World Urbanization Prospects 2018 – Percentage urban and urban agglomerations by size class.

“There are significant tailwinds for infrastructure, including the demand for mobile data, the recovery from COVID-19, the mispricing of listed assets relative to unlisted assets, and the multi-decade tailwind of decarbonization. It means that right now is an exceptionally good time to invest in infrastructure assets,” said Hurst.

1. David Hale Global Economics (2014) and RARE Infrastructure.

Portfolio Protection – Don't Overlook Low Volatility Investing

How can equity ETFs help provide portfolio protection?

Jonathan Needham,
MBA, CIM,
Vice President & Director
Lead of ETF Distribution
for TDAM

With a meaningful surge in market uncertainty and as result of increased volatility in the equity markets, particularly to the downside this year, some investors may be questioning whether their perception of risk is aligned with their actual tolerance for risk, what they could do to help reduce their risk exposure and most importantly, is it too late.

No investor wants to lose money. So, what strategies can we put in place to help protect our capital? One option of course is to go to cash. A bad option in my opinion. If you go to cash, you cement those losses while leaving yourself out of an eventual recovery. A second and much better option in my opinion is to play some defense within your equity allocation, to allocate a portion to low volatility equity ETFs that are designed to help reduce volatility while staying invested.

TD Asset Management

What is low volatility investing?

Low volatility investing seeks to capitalize on a fundamental underpricing of risk in equity markets. It involves choosing and including a diversified selection of stocks based on the risk level that the stock contributes to the portfolio as a whole; based on the empirical evidence that the least volatile group of stocks would produce equal to or better returns than the broad market over longer periods, the majority of the time . In other words, riskier stocks (think growth stocks) tend not to deliver higher returns than less risky stocks (utilities, consumer staples for instance) over many years. This is commonly referred to as the 'low volatility anomaly' as it runs counterintuitive to the traditional thinking about risk and return, and is what low volatility investing is all about.

Why invest in TD Low Volatility ETFs and why now?

So, why take on additional risk if it is seldom rewarded? The alternative, higher volatility equities, have not generated higher returns than less volatile equities over the long run. The reality is that risk has not been rewarded over full market cycles and we are seeing that in full and plain sight right now. In fact, in falling markets like we are seeing today, less volatile equities tend to outperform their more volatile counterparts. Plus, is it ever really a bad time to reduce portfolio risk?

I guess this is my way of saying, low volatility investing can help lead to better sleep and less 'investment statement shock', while helping you stay the course by staying invested.

TD Asset Management Inc. (TDAM) has been managing quantitative equity strategies, and this includes low volatility, since 1996. So, we are not talking backtests here, this is real world experience with real dollars for over two and a half decades by a team of 20+ seasoned investment professionals. TDAM manages over $16 billion in low volatility strategies for our various institutional and retail clients with a proven track record of success (see chart below).

The Highlights: TD Low Volatility ETFs

	1 Year Percentile Rank	3 Months	6 Months	1 Year	3 Years	5 Years	Since Inception	Inception Date
TD Q Canadian Low Volatility ETF (TCLV)	14.00	-3.40%	-2.63%	1.76%	1.29%	N/A	1.09%	5/7/2019
100% MSCI Canada ND - L$		-5.42%	-8.11%	-6.17%	4.09%	N/A	3.04%	
Added Value		**2.02%**	**5.48%**	**7.93%**	**-2.80%**	**N/A**	**-1.95%**	
TD Q U.S. Low Volatility ETF (TULV)	1.00	3.84%	5.42%	17.58%	N/A	N/A	12.31%	5/26/2020
100% MSCI US ND - C$		-6.44%	-12.03%	1.89%	N/A	N/A	13.08%	
Added Value		**10.28%**	**17.45%**	**15.69%**	**N/A**	**N/A**	**-0.77%**	
TD Q International Low Volatility ETF (TILV)	6.00	2.95%	8.93%	14.28%	N/A	N/A	19.12%	5/26/2020
100% MSCI EAFE Cap Wgtd ND - C$		-1.25%	1.55%	7.51%	N/A	N/A	19.50%	
Added Value		4.20%	7.38%	6.77%	N/A	N/A	-0.38%	

Source: TDAM, Morningstar®. As of May 31, 2022. Returns for periods greater than one year are annualized. Index returns are shown for comparative purposes only. Indexes are unmanaged and their returns include reinvestment of dividends, if applicable, but do not include any sales charges or fees as such costs would lower performance. It is not possible to invest directly in an index. Percentile rankings are intended to measure how well a fund has performed compared to other funds in its peer group. Percentile rankings are compiled by ranking all of the funds in a category by return over a given time period. 1 is the highest percentile while 100 is the lowest percentile. Percentile rankings can change over time.

What can investors expect from TD Low Volatility ETFs?

Investors can expect equity market returns with less risk. Historically, these strategies have produced better risk-adjusted returns—over a full cycle of course, as there will be periods of underperformance and outperformance.

Low volatility investing dampens both the highs and the lows of returns, so expect less dispersion of returns, which means less severe ups and downs relative to the broad market. Less fluctuation in value and with less risky sector exposure. Within portfolios, this tends to mean overweight positions in utilities, communication services, consumer staples, health care, utilities and underweight positions in technology, consumer discretionary and energy.

How can and why do investors use these ETFs?

Investors can use TD Low Volatility ETFs to dampen overall portfolio volatility across geographical locations. TCLV for Canadian equity exposure, TULV for U.S. equity exposure and TILV for international equity exposure.

Final thoughts

Let's be clear, low volatility ETFs don't reduce investment risk altogether or prevent losses during a market downturn, but they do help protect against drawdowns, especially dramatic ones like we are seeing in some areas of the market today. Volatility can erode returns. Remember, for those of us with some math skills, a loss of 50% means that one needs a 100% return to make up your original value. Less downside helps one recoup losses more quickly. So, don't overlook low volatility investing, especially when it can help you rest easy at night.

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