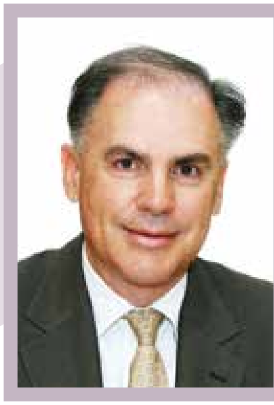
CANADIAN

ETF Watch

WINTER 2022

CanadianETFWatch.com

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



2021 was an eventful year filled with many ups and downs. What looked like an eventual winding down of pandemic restrictions in 2022 gave way to another flare up of the virus, with the Omicron variant running roughshod throughout the world and threatening the progress that has been made in the fight against COVID-19. A new year brings us hope and optimism that we will finally be able to put this pandemic behind us and continue on the path to economic recovery. While this remains the ultimate goal, in order to achieve it, we must all continue to do our parts and remain vigilant.

Warnings began in 2021 about an investment bubble, however, the stock markets continued to climb at a record pace with the TSX ending the year up 21.7%. While this is a wonderful sign for continued economic recovery out of the pandemic, caution should be taken going into 2022 as advisors will need to ensure they are comfortable with their clients' portfolios.

The Winter 2022 edition of Canadian ETF Watch features articles on ETF liquidity from Bobby Eng, Head of Platform and Institutional ETF Distribution from Franklin Templeton Investments and Jonathan D'Auvergne, Director of ETFs from Manulife Investment Management. It also features a fascinating article on digital assets and what Canadians need to know about this asset class from Paul Bowes, Canada Country Head from FTSE Russell. With the health of the economy front and center for 2022, this edition of ETF Watch features an article from Trevor Cummings, Vice President of ETF Distribution from TD Asset Management which aims to prepare advisors for multiple economic outcomes through the use of ETFs.

With the implementation of the CFR rules as of December 31st – advisors will have to be able to select the most appropriate ETF for their clients based on their KYC data and the ETF screener on the CETFA site which was launched in 2021 can assist advisors with that.

Radius Financial Education and CETFA are extremely proud to announce the release of an educational course on ETFs for 2022. This course discusses ETFs in a way that makes them easier to understand and also helps to bust some of the major misconceptions about this growing type of asset. As ETFs become an increasingly important part of advisor portfolios, Radius Financial Education and CETFA feel that providing accurate information to all advisors regardless of license and designation status will only help to strengthen this area of the financial services industry. Radius and CETFA will be sending out more information on this course in the coming months, so please do keep an eye out for it.

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.

Contributing Writers
Pat Dunwoody, Reid Baker, Kevin McCreadie, Paul Bowes, Bobby Eng, Jonathan d'Auvergne, Trevor Cummings, Erika Toth

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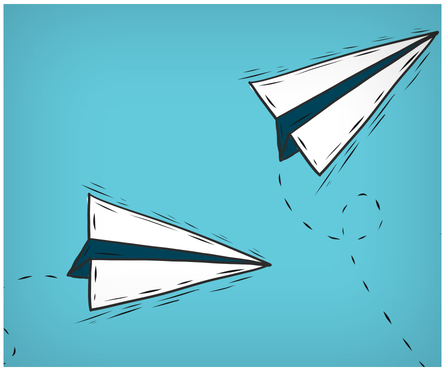
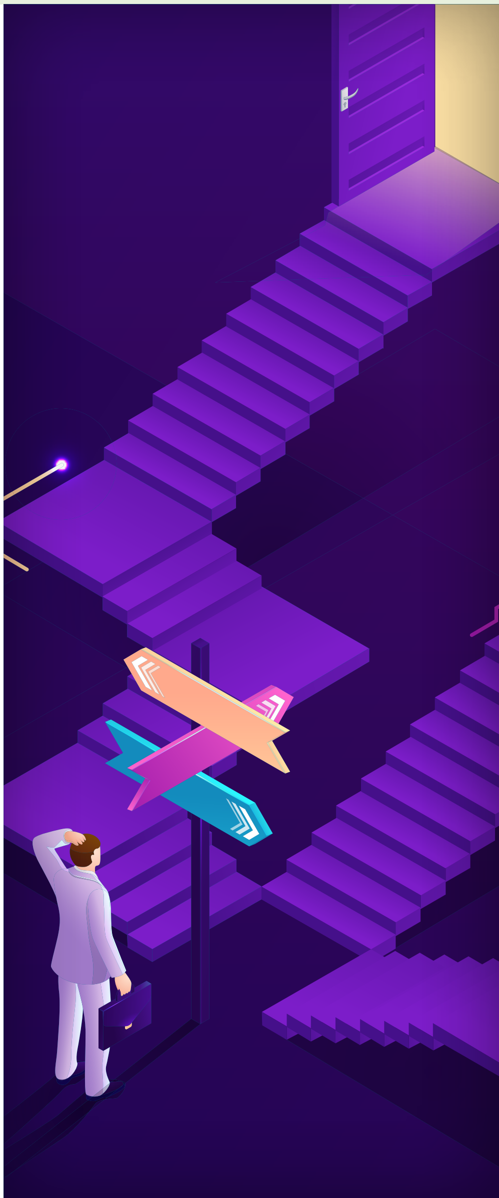


CONTENTS



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

A custom-built, all-in-one ETF screener was added to the Canadian Exchange Traded Funds Association (CETFA) website and it provides advisors and firms with fast and easy access to essential product information.

Pat Dunwoody
Executive Director, Canadian ETF Association (CEFTA)

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

cetfa
Canadian ETF Association

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

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

Unique Benefits Designed to Support Planners/Advisors

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

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

Powerful ESG Selection Abilities Respond to Burgeoning Demand

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

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

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

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

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Who defines investment fund categories?

A look at how the Canadian Investment Funds Standards Committee sets and maintains industry-wide standards

Reid Baker,
CERA, ASA,
Chair,
Canadian Investment Funds Standards Committee

The Canadian Investment Funds Standards Committee (CIFSC) recently approved the launch of two new categories – Alternative Private Debt and Alternative Private Equity, effective Nov. 30, 2021. As a member of CIFSC, I thought I'd take this opportunity to shed some light on the process behind the introduction of new categories and give an overview of the committee's operations.

Background

The CIFSC was formed in 1998 by the major data providers in Canada with the purpose of creating defined investment fund categories that could be used across the industry. Prior to that, data providers and fund companies individually created and tracked their own categories with no uniform cross-industry criteria.

Consisting of five voting and eight non-voting members, the CIFSC is an investment fund categorization committee, responsible for categorizing mutual funds, exchange-traded funds (ETFs), segregated funds, pooled funds, and hedge funds based on their holdings and their investment mandate as described in regulatory documents. The voting members are the major data providers in Canada, and the non-voting members are some of the major industry associations.

The committee meets once a month to categorize new funds and consider requests to have categories changed for certain funds. The committee also continually monitors at the categories as a whole to see if there are areas for new categories to be added or hived off, if any categories have become irrelevant, or if any category definitions need to be updated or changed in any way. Once a quarter, we also look at the entire fund universe to determine if any funds are offside according to their category parameters – a process we call the Quarterly Review.

New categories or category changes

The committee is always looking at the category definitions and overall category structure to see if there are any improvements to be made. This can be anything from a simple tweak in the wording to help clarify a definition, to the termination of a category that has become redundant or irrelevant, to the creation of a new category to segment a growing group of funds with a risk/return profile that is different from existing categories. We also take recommendations on category changes from external sources, and we welcome feedback at any time through the CIFSC website www.cifsc.org.

When the CIFSC proposes new categories or category changes, a significant amount of work has already been done. When creating new categories, the starting point is identifying a group of funds that doesn't fit well in their existing category. That involves analyzing current and historical data, trying to determine industry trends and whether that group of funds is likely to continue to grow. Then the committee needs to assess the impact the new category will have on existing categories, trying to minimize the effects when possible, and write a category definition that will fit in well with the existing categories.

New categories and changes need to be approved by majority vote before they are put out for a public comment period and are released only at the end of calendar quarters. After comments are received, the committee votes again on whether to implement the change. After final approval, the committee allows for a 60-day implementation period, so that key stakeholders have a chance to update systems and processes to accommodate the changes.

New fund classifications

Every month the committee's data-provider members aggregate a list of new funds that have come on to their respective databases since the previous meeting. To determine the most appropriate category, the committee will look at the initial holdings when they are available, refer to the fund's investment mandate stated in the prospectus or other regulatory documents, and consider the category that is requested by the fund company.

Category reclassification request

Throughout a given month, the committee takes requests from fund companies to have a fund change category. The requests generally come from the fund company if there has been a significant change to the fund's investment mandate or if they feel the fund no longer meets the definition of its current category based on the historical portfolio holdings.

The CIFSC always uses a 3-year weighted average for portfolio and threshold calculations where 50% is applied to the most recent 12 months, 30% to the next 12, and 20% to the next 12. However, when a fund has had a significant mandate change, the committee will usually make the change even if the fund's historical holdings are not yet in line with the category thresholds.

Quarterly fund review

As the name suggests, the Quarterly Review occurs four times per year. It starts as a completely quantitative review of the entire fund universe based on fund holdings at the end of each calendar quarter to identify funds that are offside their current category thresholds.

Funds generally are not considered for a move if they have just crossed a threshold for the first time and they are offside by only 1%-2%. This is to avoid having funds change categories multiple times in a year. But if a trend persists or if the fund is offside by a significant amount, the committee will make the change. Fund companies are notified of the change and are given a chance to contend the move.

Summary

With its mandate and intensive data-driven approach, the CIFSC gives investors and advisors a robust tool to easily compare funds with similar investment mandates and similar portfolios, to give them an idea about what the fund is holding, and to indicate the risk/return profile that can be expected from a fund based on its CIFSC category.

 Reid Baker, CERA, ASA, is Chair of the Canadian Investment Funds Standards Committee (www.cifsc.org) and Vice President, Analytics and Data, at Fundata Canada Inc. (www.fundata.com), a leading source for investment fund information.

Reid.baker@fundata.com

The Rise of Everything

It should be another solid year for the global economy and financial markets in 2022, but the ongoing rise in everything from groceries and wages to potentially higher interest rates and taxes may also be raising the spectre of higher volatility and could ultimately determine the trajectory of investment returns over the next 12 months.

Kevin McCreadie,
CFA®, MBA
Chief Executive Officer and Chief Investment Officer,
AGF

The COVID-19 pandemic remained a dominant force shaping financial markets in 2021, and Omicron, the latest "variant of concern," has surely rattled investors in recent days. Yet, barring another full-scale outbreak that shuts down huge swaths of the global economy again, it's safe to say the virus' toll on our physical, mental, financial and social well-being has receded significantly since the height of the crisis almost two years ago. And at least in the minds of investors, the pandemic should continue giving way to the economic side effects that have been spawned in its wake.

In no way is this shifting focus more evident than in our current fixation with inflation, which has climbed to heights not seen in decades and may now represent the biggest threat to investors' portfolios. While the economy is arguably stronger heading into 2022 than it has been in years, there is mounting concern about the trajectory of future growth, especially if inflationary pressures persist well into the new year.

In part, this is because higher prices for everyday essentials like groceries, gasoline and home heating could eventually cut into demand for discretionary goods and services, which helps drive higher earnings growth in most economies. But perhaps the bigger worry is the eventuality of higher interest rates should inflation continue to rise. In this case, it's less about distribution of demand than about a reduction of demand, because most everyone's cost base – from consumers and small businesses to the largest corporations – becomes more expensive and cuts into their purchasing or earnings power.

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It's to that end that so much attention is being paid to the U.S. Federal Reserve and other central banks these days. While several Emerging Market countries have already raised rates to combat higher inflation, most of their developed market counterparts have yet to pull the trigger. The Fed, for its part, now says U.S. inflation will linger longer than previously anticipated but still believes it will fall back closer to a rate of 2% over time. As such, it remains reticent about raising its overnight lending rate anytime soon, if at all, in 2022, despite market expectations that are predicting two rate hikes next year, likely starting in the late spring.

In contrast, the Bank of Canada (BoC) should meet expectations by raising its key rate sometime in the first quarter. However, while the potential timing of its first hike since 2018 jibes with markets, the BoC isn't signaling nearly as many rate hikes as some prognosticators suggest it should make in 2022.

Of course, who ends up being right will be the one of the big market-moving questions of the next few months. And to some extent, the answer lies in the ability of global supply chains to right themselves after months of disruptions tied to labour shortages, and pandemic-related manufacturing outages. But whether inflation subsides – and central banks aren't necessarily forced to raise rates – may have just as much to do with rising wages as it does with supply shortages. While the latter seems like an inevitable fix over the next few months, higher labour costs are not so easily remedied and can lead to inflation that is much more persistent.

Granted, inflation isn't always negative for markets. In fact, it may end up being a relatively positive economic condition if it moderates even slightly and leads to slow and measured rate increases that don't hinder growth over time. Yet investors can't rule out the potential dangers associated with stubbornly high prices, nor should they ignore the prospect of stagflation setting in – at least not entirely. While there's little reason to believe economic growth will collapse over the next 12 months, it's conceivable that it will likely slow from the torrid pace of expansion this past year. This may be true even if interest rates don't rise as expected, or if Omicron only ends up leading to minor restrictions on economic activity around the world.

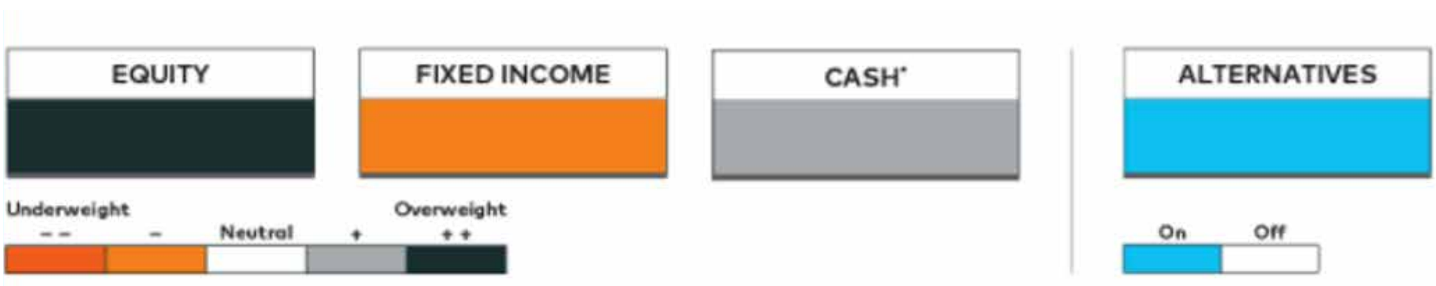
Beyond these two potential headwinds, global growth will likely continue to grow from here without the aid of more fiscal stimulus from governments. At the same time, many of the spending programs put in place over the past two years may result in higher taxes to pay for them. China, meanwhile, stands out as another potential drain on global growth, not only because the world's second largest economy continues to grapple with production concerns related to energy and material shortages, but also because of its zero-tolerance COVID-19 policy and the ongoing regulatory crackdown on key sectors of the country's economy.

In other words, caution is advised as investors head into 2022 – but not at the expense of optimism. While more subdued economic growth and higher market volatility may be defining characteristics of the year ahead, so too will the pockets of opportunities that arise in this type of an environment. Stock markets, for example, seem more likely than not to climb higher over the next 12 months, albeit hardly to the extent they did in 2021.

As such, we believe a bias of equities over fixed income within a 60/40 portfolio remains the most prudent allocation for now. In particular, we see some strong opportunities originating from countries like Japan and Europe, and view quality companies more generally as being better positioned to navigate the potential for higher interest rates and slower growth down the road.

That doesn't mean fixed income is an afterthought. To the contrary, while government bonds may struggle if rates rise, they can still provide important ballast during periods of volatility. Moreover, alternative sources of yield, including private credit, can help pick up the slack and may mitigate losses.

All in, then, investors have a lot to consider heading into the new year, including the possibility of higher inflation, higher interest rates, higher taxes and higher market volatility. Yet, as long as everything doesn't go too far up over the next 12 months, there's reason to believe investment returns may rise, too.



Source: AGF Asset Allocation Committee Fourth Quarter Update (as of October 1, 2021). Based on a 60/40 portfolio mix of equity and fixed income. For Illustrative purposes only.

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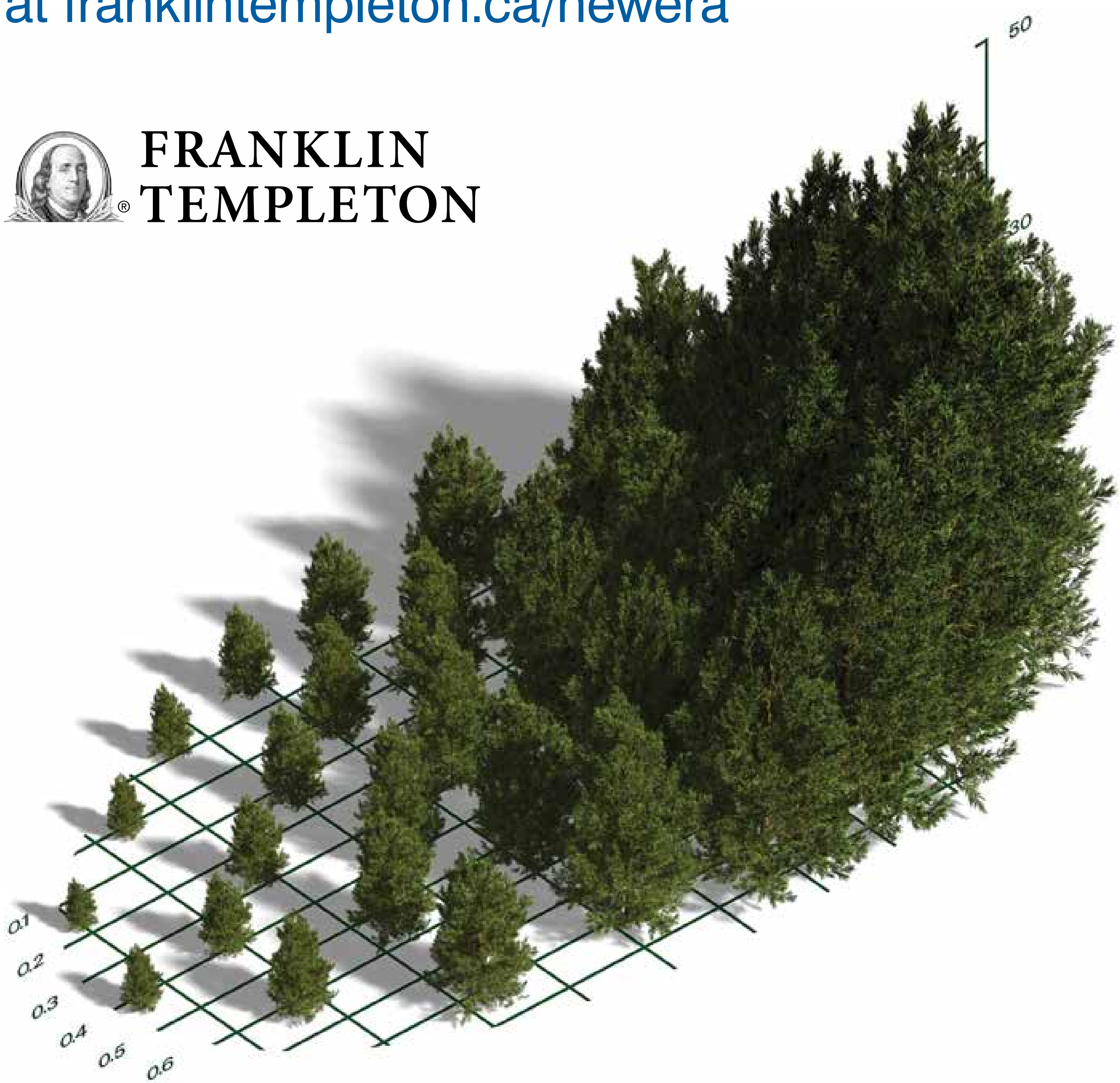

2022 CALENDAR OF EVENTS

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Tuesday, April 19, 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 (ETF Eastern) 13th Annual

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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

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WAIS Canada 21st Annual

Monday, June 6, 2022 – Tuesday, June 7, 2022 ~ Niagara Falls, ON,

@ Marriott on the Falls

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 (ETF Western) 12th Annual

Monday, June 13, 2022 ~ Vancouver, BC,

@ Sheraton Vancouver Wall Centre

Canada's largest and longest standing event dedicated to Exchange Traded Products. Hear from leading financial industry professionals and industry experts who will provide valuable insights into the issues and trends that matter most to Canada's financial professionals. Join us for presentations, advisor/client-focused sessions, roundtable discussions, networking events and knowledge sharing critical issues facing the financial industry.

EXCHANGE TRADED FORUM2022

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ETF & Investment Forum London 2nd Annual

Fall 2022 ~ London, United Kingdom

A unique, 1-day European gathering of industry experts and financial professionals with comprehensive exposure to the latest products and trends in the fast growing ETF and Investment industry.

ETF & INVESTMENT FORUM 2022

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LONDON

ETF & Investment Forum Frankfurt 2nd Annual

Fall 2022 ~ Frankfurt, Germany

A unique, 1-day European gathering of industry experts and financial professionals with comprehensive exposure to the latest products and trends in the fast growing ETF and Investment industry. (Präsentiert in deutscher Sprache)

ETF & INVESTMENT FORUM 2022

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FRANKFURT

Institutional Dialogue 2nd Annual

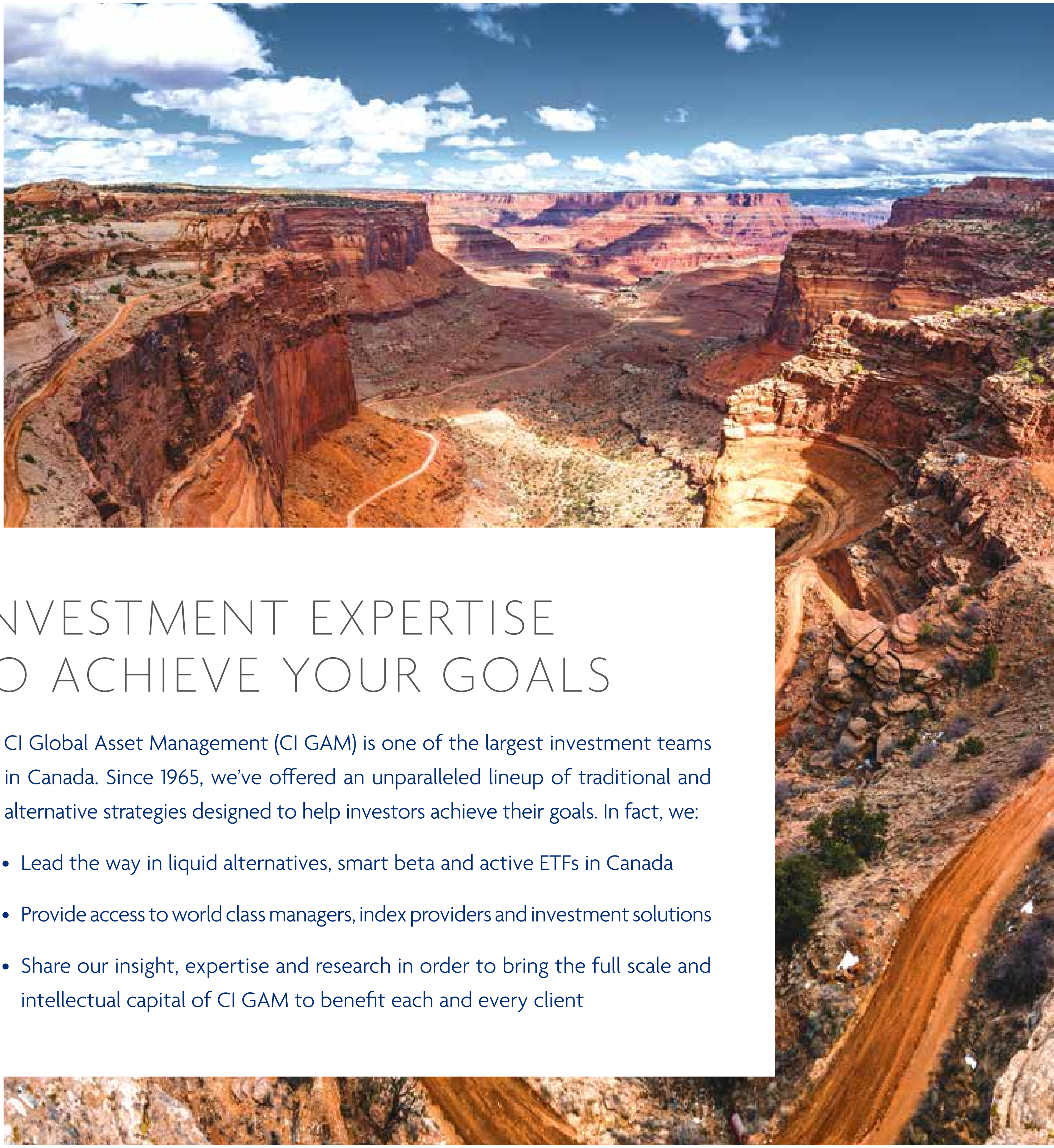
Fall 2022 ~ Edinburgh, United Kingdom

A 1 ½ day event packed with family conversations and solutions for a unique class of wealth professionals and entrepreneurs. Networking and learning among peers and industry experts with comprehensive exposure to all important aspects for family stewards.

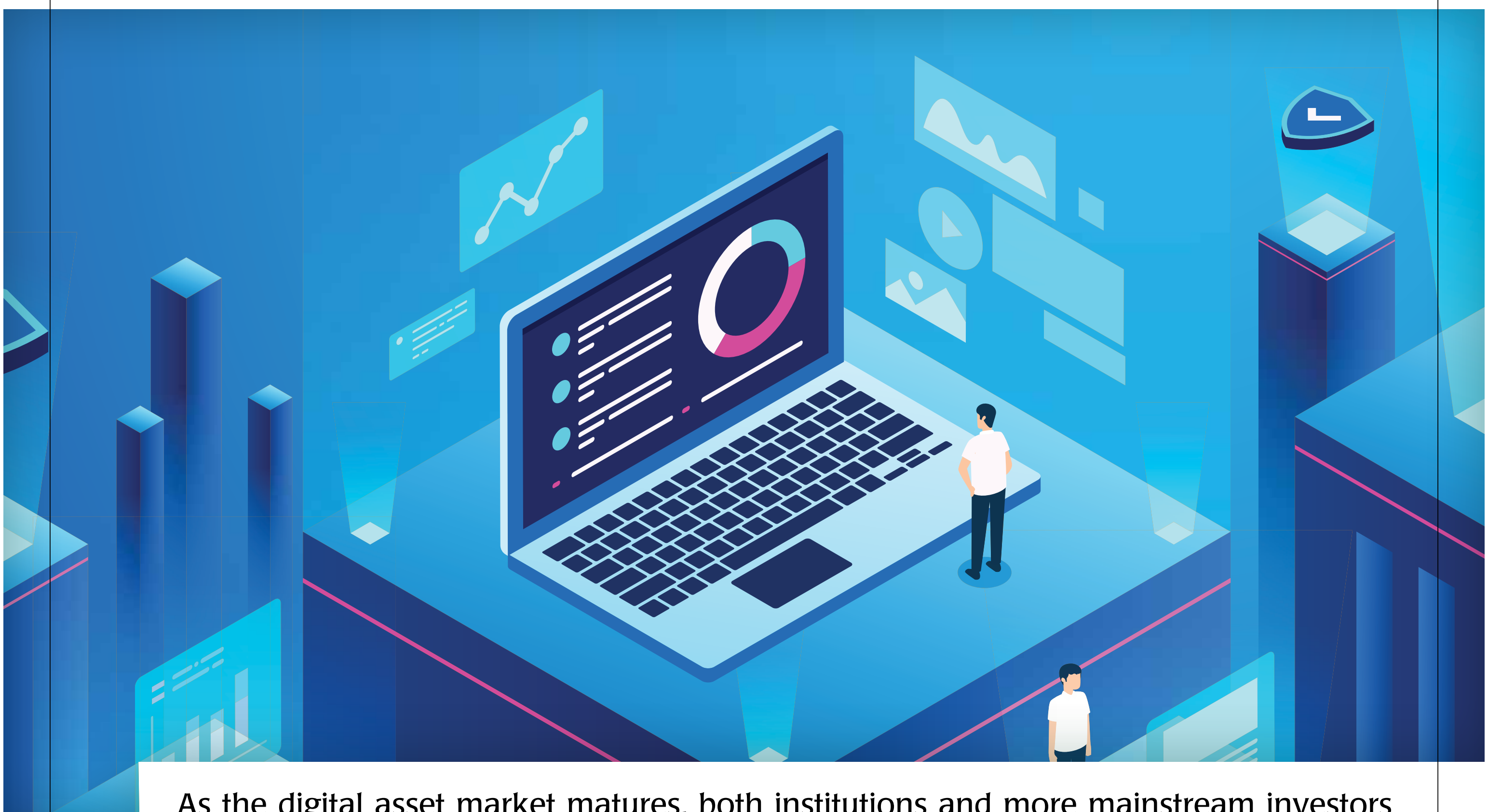
INSTITUTIONAL DIALOGUE

RadiusEurope.com

Radius Europe Financial Education (Radius Europe) has been producing high level conferences within the financial services sector for over 20 years. As a leading producer of conferences within the financial sector, Radius Europe events focus on education and networking through an exchange of independent ideas and information, allowing our delegates to be leaders in their chosen fields. Our top-down approach to the agenda enables us to deliver relevant, thought-provoking, cutting edge, and sometimes controversial insight in a stimulating manner. We understand the importance of learning from the best. Each conference offers a well balanced speaker composition consisting of insight from authors, educators, economists, regulatory bodies and industry leaders from around the globe.



What do Canadian investors need to know about digital assets?



As the digital asset market matures, both institutions and more mainstream investors are taking a serious look at how this asset class can fit into their portfolios.

Paul Bowes
Canada Country Head, FTSE Russell

FTSE Russell

Digital Assets in Canada

A recent survey from the Canadian ETF Association (CETFA) found that ETFs have strong momentum in Canada: 89% of brokers use ETFs to some extent while 56% have increased their usage in the past year and 76% say they will increase usage in the next 5 years. The same survey found that ETFs emerged as the preferred product for digital assets.

Interestingly, Canada has been something of a pioneer in this space. In February 2021, the first Canadian Bitcoin ETF began trading on the Toronto Stock Exchange—a milestone moment for crypto investments—after the Ontario Securities Commission (OSC) gave the green light. This was the first investment vehicle of its kind in North America. In contrast, the first Bitcoin ETF began trading in the U.S. in October.

Even with the excitement around this growing asset class, some investors remain hesitant to dive in. However, with the implementation of rigorous vetting of crypto exchanges, the digital asset market has come a long way in recent years.

Common Crypto Investment Myths

Like many nascent and fast-growing industries, misinformation or lack of understanding has given rise to misconceptions, but barriers to crypto investing can be overcome with proper digital asset exchange vetting.

Privacy and anonymity are key features of the blockchain technology that underpins digital assets, leading people to worry that cryptocurrency is ideal for criminal activity. Many cryptocurrency transactions aren't nefarious and with proper digital asset exchange vetting, it's possible to keep the bad actors out.

When vetting an exchange, investors should ensure the exchanges conduct due diligence on their participants and have adequate "Know Your Customer" (KYC) and Anti-Money Laundering (AML) policies in place to protect exchanges from illegal transactions and help flag suspicious activity.

Moreover, many investors view the digital asset market as relatively opaque, where crypto prices are subject to manipulation, shaping the perception that digital assets aren't a legitimate asset and can't be trusted.

Untrustworthy data has been a key challenge in the growing digital asset market. Many free price aggregators are focused on quantity over quality, and their pricing data can at times include manipulated data. But while unreliable data has been a growing pain for the digital asset market, investors can avoid it by thoroughly vetting exchanges' data quality and practices.

Price volatility has also been behind the misconception that digital assets aren't trustworthy, but in reality small cap volatility has been comparable to the largest cryptocurrencies, such as Bitcoin and Ethereum. Digital assets' reputation for high volatility isn't entirely unearned, but they can still be a powerful diversification tool in the context of a broader portfolio.

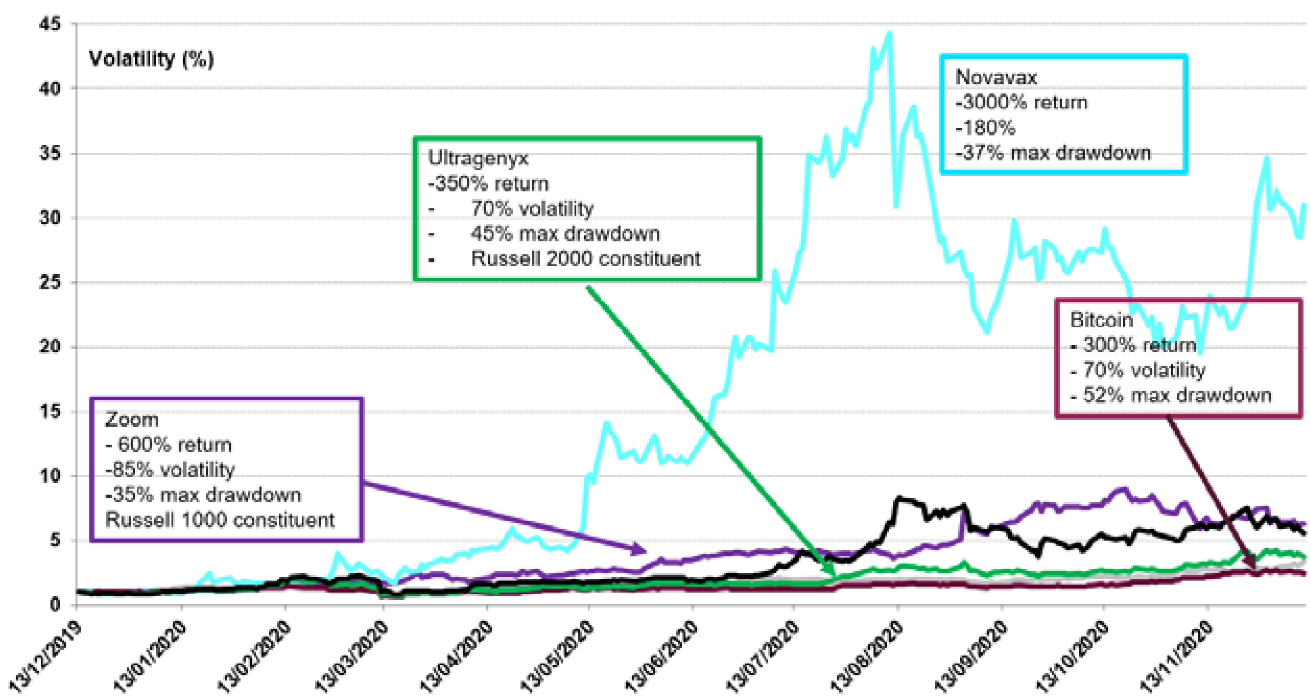
Measuring the Digital Asset Market

As institutional investors move into this asset class, they need reliable data that is properly vetted and a transparent pricing methodology, as well as clean data feeds, custody agents and fund administration.

FTSE Russell has been active in the digital asset space for several years, partnering with Digital Asset Research (DAR) to first bring a consistent and well-vetted FTSE Reference Price and indicative index series to market. We then launched our FTSE Digital Asset Index Series—single asset indexes covering the largest cryptocurrencies i.e. Bitcoin, Ethereum and Cardano. These robust, institutional-grade indexes are designed to provide market participants a mechanism to evaluate digital asset investments and prices.

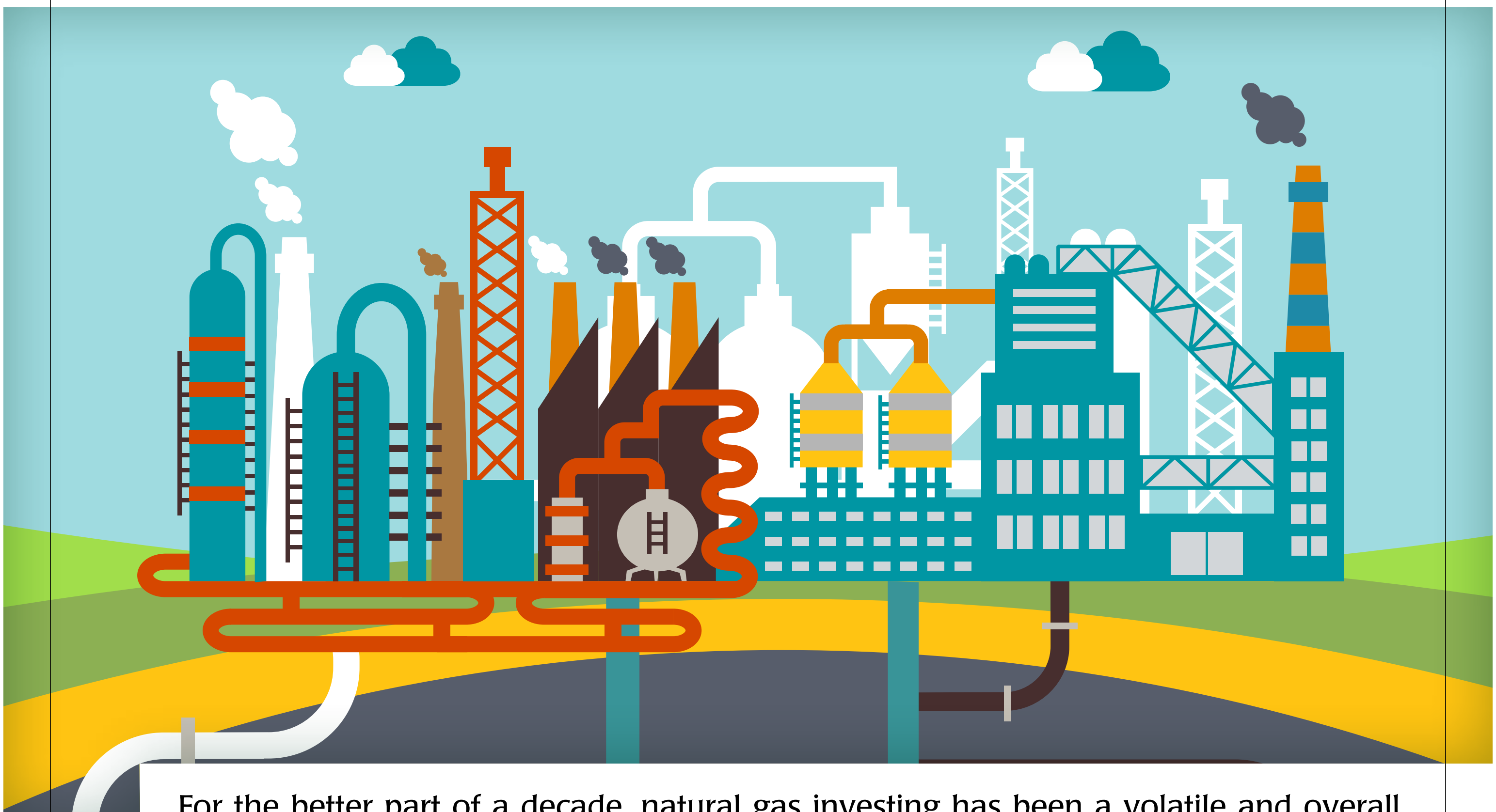
Investors need the right tools and methodologies to facilitate clear performance measures in these assets, bridging the gap between "crypto-native" providers and the traditional investment community. Index providers can meet investor demand for benchmarks that accurately and methodically capture the performance of digital assets, allowing for the more seamless integration into traditional portfolio analysis and processes.

Chart: Some constituents of both the Russell 1000 and Russell 2000 exhibited substantially higher volatility for the time period than Bitcoin.



Source: FTSE Russell, December 31, 2021. Past performance is no guarantee of future results. Please see end for important legal disclosures

Are Higher Natural Gas Prices Here to Stay?



For the better part of a decade, natural gas investing has been a volatile and overall disappointing asset class to be invested in. Previous spikes in natural gas have historically been followed by long and protracted drawdowns. That might be changing: are current natural gas prices potentially staying or hitting new highs in the future?

Natural Gas: Why is It Hitting Fresh Highs?

Natural gas prices have recently spiked in response to increasing global demand and tightening supply chains. Initially seen as a transitory fuel source on the way to greener, alternative energy, natural gas has become a crucial alternative to coal in the last two decades as a key source of heating and electricity. With increasing economic activity as COVID-19 restrictions are loosened, the demand for natural gas has placed a strain on the supply chain; a supply chain already under heavy pressure from investors and environmental groups to eliminate further expansion in favour of ESG initiatives.

Following the 2008 global financial crisis, an abundance of cheap, natural gas became available as shale extraction techniques advanced, opening up new resources in the U.S. allowing them to become one of the leading global producers and exporters of the commodity. With many major economies committing to a net zero carbon emission future, natural gas helped forge a path there.

HORIZONS ETFs

After peaking at nearly USD$13 MMBtu pre- 08' crash, consumers enjoyed a cheap and abundant resource. But now demand is beginning to outstrip supply and the world could be facing yet another energy crisis. Europe and Asia are among those that are already feeling the strain heavily; demand has also increased in natural gas usage in the United States. With very little supply cushion of their own, Americans are already facing potential price increases and likely have limited ability to export natural gas to other markets.

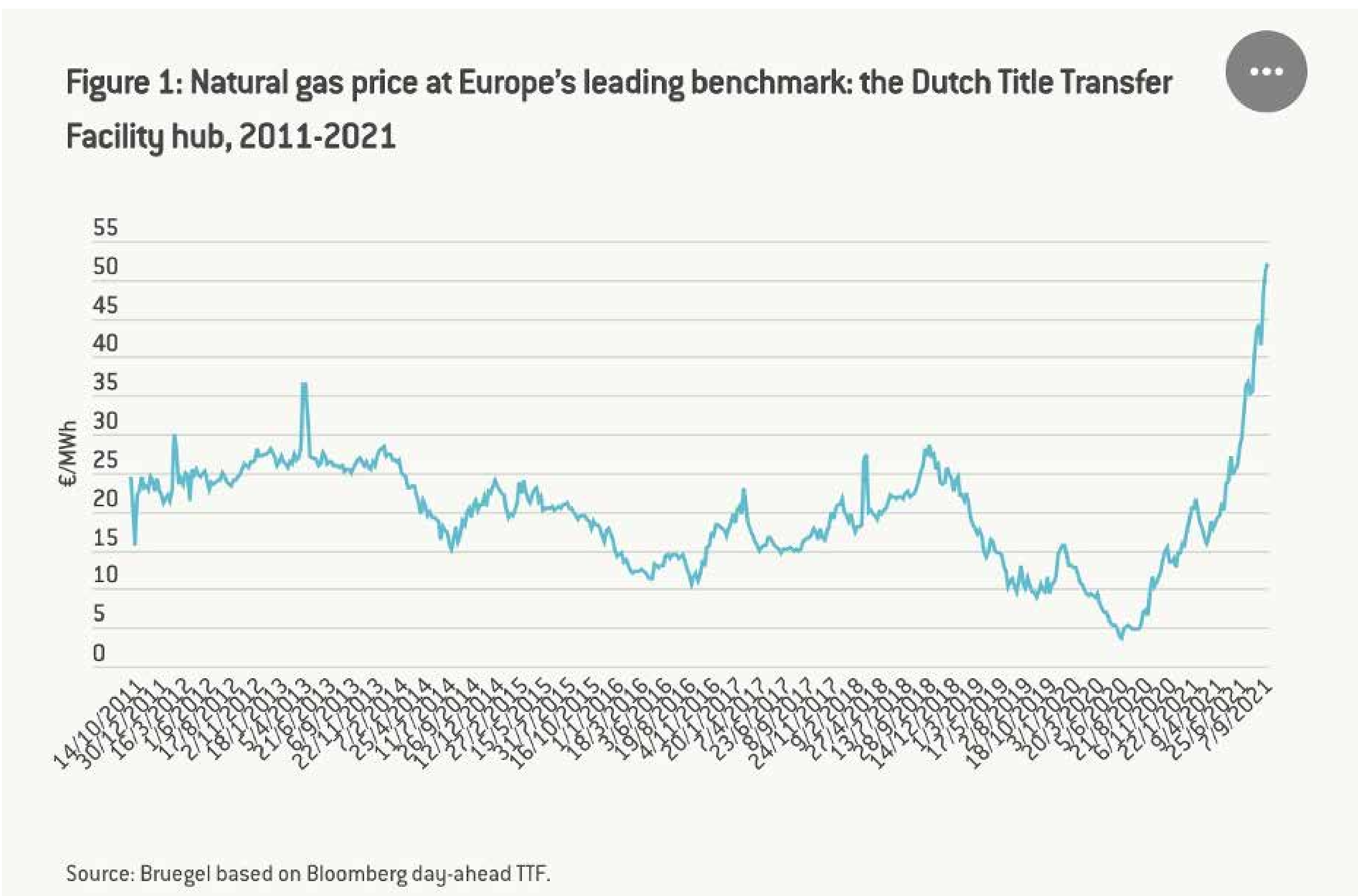
With the growing sentiment around greener initiatives, and investors and climate activists placing further pressure, there is no more capital to allow for a supply increase. Even so, the International Energy Agency (IEA) has advised that investments in new upstream fields needs to stop now to reach net zero by 2050. So what's the alternative?

Note: Prices in $ per million British thermal untis
Source: Refinitiv Eikon

North America will face steep price increases to their energy costs but should still be able to meet demand. The price elasticity of the past, where prices could swing downward after hitting new highs might be a feature of the past. It's quite possible that natural gas prices could remain elevated well above its current US$5 per MMBtu for the foreseeable future.

The International Energy Agency forecasts demand for the commodity will increase 7% by 2024 from 2019's pre-COVID levels. In plain, the recent move in gas prices may have been catalyzed by supply shortage, but structurally higher prices are likely here to stay. To head towards a greener future, using natural gas is essential.

Prices could potentially go even higher though if supply issues in Europe and other international markets cannot be addressed. For example, failures in the U.K power market and the continent's largest chemicals producer cutting output are a few early examples of how this supply shortage could have long-lasting inflationary impact on prices. Higher demand for residential heating due to a cold winter and widespread remote working pushed up overall European gas demand by 7.6% in the first quarter of 2021 according to Bruegel in a September 13, 2021 article.



https://www.bruegel.org/2021/09/is-europes-gas-and-electricity-price-surge-a-one-off

Investing in Natural Gas ETFs:

Investing in natural gas is a little more complex than other asset classes since it generally requires investing in futures contracts or an ETF that invests in futures contracts.

While there are numerous compelling reasons to invest in natural gas exchange traded funds (ETFs), for buy and hold investors, returns can be diminished in a market environment known as contango.

Contango exists when the price of future delivery is higher than the spot price. For an investor using futures there is no way to eliminate the impact of contago on returns. Most ETFs buy the shortest-term futures contract (typically the near month or one month futures contract) because that is usually the contract most closely correlated to the spot price of natural gas however, using ETFs that track a deferred or long dated futures contract can help reduce this structural decay as well as lower the cost of monthly contract rolls.

Most ETFs that track commodities need to roll over their contracts on a regular basis. If you're an investor in oil for example, while the spot price of crude oil may increase, it will generally have to increase by more than the premium paid on the next month's futures contract (the rollover contract) in order for the ETF to increase in value at the time the contracts roll over.

It is almost impossible for an individual investor in the futures market to eliminate the effects of contango – there is no free lunch in commodity investing. Contango takes into account several factors including, where applicable, storage costs for the physical commodity. Mispricing between the spot price of a physically held asset and a futures contract is generally eliminated by market arbitrage.

ETFs that track the price of natural gas futures are designed to be a convenient and cost-effective means to access the futures market for investors, limiting risk to the amount invested and not subjecting investors to margin calls.

The Horizons Natural Gas ETF uses a unique futures-roll structure that seeks to reduce the premiums investors would pay in taking a long position in natural gas.

HUN seeks investment results, before fees, expenses, distributions, brokerage commissions and other transaction costs, that endeavour to correspond to the performance of the Solactive Natural Gas Winter MD Rolling Futures Index ER. Instead of rolling its future's exposure monthly, this strategy rolls the contract exposure of the ETF once a year to the winter natural gas contract, which at the time of this writing was January 2022.

Typically, the ETF rolls its exposure to the next year's winter contract, so to use the example of November 2021, the ETF will roll into the January 2023 winter contract. By reducing the frequency through which HUN rolls its exposure to natural gas contracts it reduces the total annual cost of paying premiums to roll its exposure. This can result in significant long-term performance advantages as highlighted below.

HUN has generated a better long-term return than the monthly natural gas futures contract tracking ETFs, such as the USO Natural Gas ETF (UNG), the largest natural gas fund by AUM.

Ticker	Name	1m	3m	6m	ytd	1yr	3yr	5yr	10yr	Since Inception	Inception Date	Currency
HUN CN Equity	Horizons Natural Gas ETF	24.08%	48.27%	84.61%	86.74%	55.59%	29.83%	12.45%	-2.30%	-8.85%	24-Jun-09	CAD
UNG US Equity	United States Natural Gas Fund LP	32.82%	59.13%	111.15%	120.67%	78.77%	-6.55%	-9.43%	-17.79%	-26.14%	18-Apr-07	USD

Source: Bloomberg, as at September 31, 2021.

The indicated rates of return are the historical annual compounded total returns including changes in per unit value and reinvestment of all distributions, and do not take into account sales, redemption, distribution, or optional charges or income taxes payable by any securityholder that would have reduced returns. The rates of return shown in the table are not intended to reflect future values of the ETF or future returns on investment in the ETF.

For investors looking to take a longer time horizon, HUN might be a superior way to take a buy and hold approach to owning natural gas, particularly for those investors who believe that higher prices are finally here to stay.

HUN:

HUN seeks investment results, before fees, expenses, distributions, brokerage commissions and other transaction costs, that endeavour to correspond to the performance of the Solactive Natural Gas Winter MD Rolling Futures Index ER. Horizons HUN is denominated in Canadian dollars. Any U.S. dollar gains or losses as a result of the ETF's investment will be hedged back to the Canadian dollar to the best of the ETF's ability.

Management Fee: 0.75% (Plus applicable sales tax)

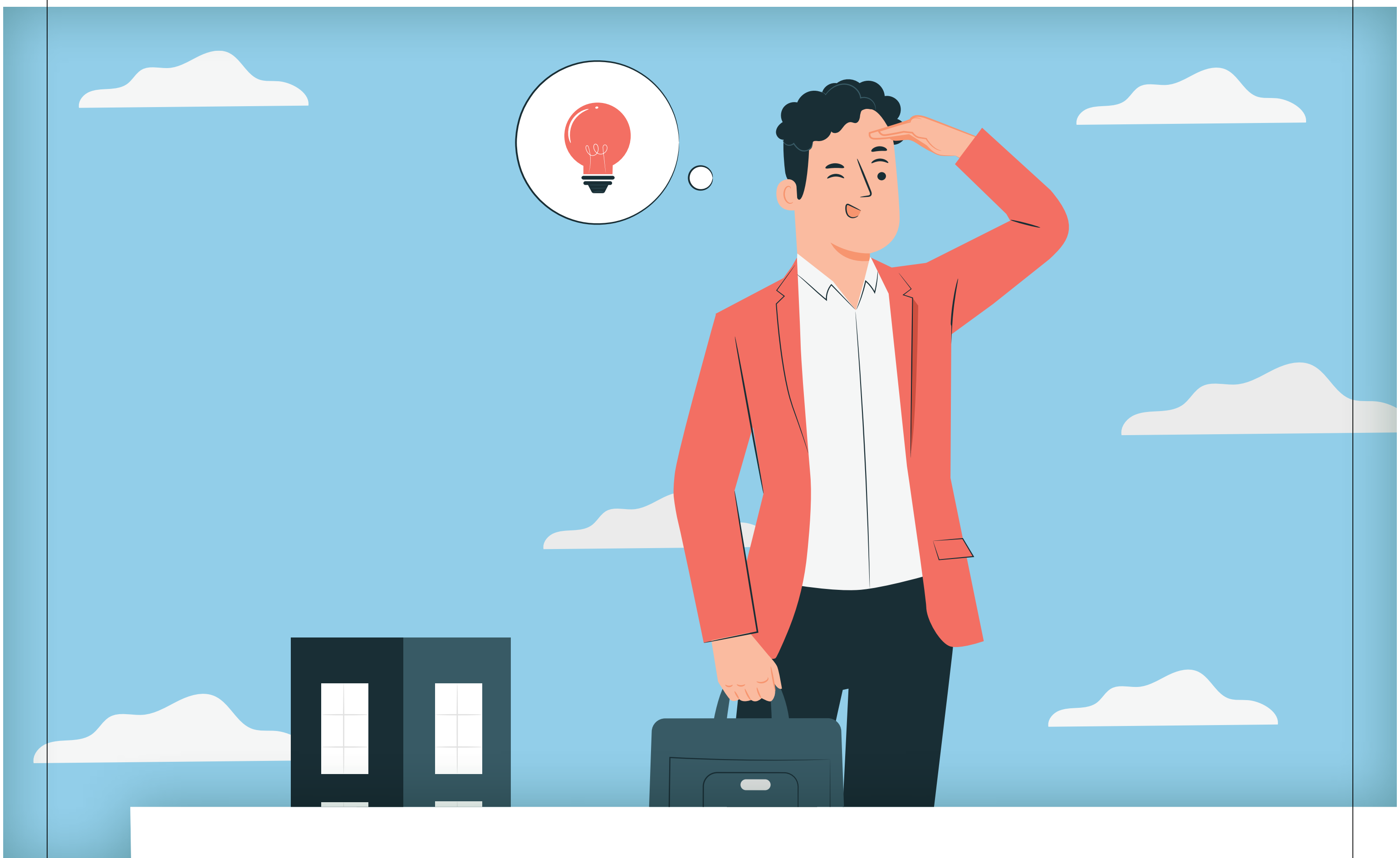
United States Natural Gas Fund, LP (UNG)

The investment objective of UNG is for the changes in percentage terms of the units' net asset value to reflect the changes in percentage terms of the price of natural gas delivered at Henry Hub, Louisiana, as measured by the changes in the price of the futures contract on natural gas traded on the New York Mercantile Exchange that is the near-month contract to expire, except when the near-month contract is within two weeks of expiration, in which case it will be measured by the futures contract that is the next month contract to expire, less UNG's expenses.

Management Fee: 0.60% (Plus applicable sales tax)

Source: www.unitedstatesnaturalgasfund.com

The True Liquidity of ETFs: Implied Liquidity



Bobby Eng, Head of Platform and Institutional ETF Distribution at Franklin Templeton, explains the difference between trading volume and liquidity in ETFs and the misconceptions that exist among some investors on this topic.

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

One of the most common misconceptions about ETFs is mistaking trading volume for liquidity. ETF trading volume is NOT equal to ETF liquidity. This is a crucial concept to understand when analyzing ETFs and perhaps one of the most critical considerations when assessing an ETF investment. Compared to some of the longer standing ETFs in the market, many ETFs are not as actively traded and have lower assets under management (AUM). This may cause investors to look elsewhere, as they believe the liquidity in the ETF is not sufficient to trade, but this could not be further from the truth.

ETFs are at least as liquid as their underlying basket of securities. There is a more comprehensive way to measure how liquid an ETF is than simply looking at the average daily volume of the ETF itself, and that's implied liquidity.

With ETFs, implied liquidity is a forward-looking, whereas trading volume is backwards looking. Implied liquidity provides an indication of how much of an ETF can be traded in the future, while trading volume only looks at how much was traded in the past. It evaluates the liquidity of the underlying holdings of the ETF and how many ETF shares can be traded without a bigger cost impact. What determines the liquidity of an ETF are the liquidity of underlying securities; derivatives based on the ETF; and different trading vehicles, such as similar ETFs, swaps, futures, options, and structured products.

As an example, let's look at Franklin FTSE United Kingdom ETF (FLGB) to see how large a trade size can be executed without impacting the fund. The 90-day average aggregate volume is roughly 210k shares; however, the implied liquidity is just over 48 million shares or $1.17B dollars as shown in Table 1 and 2. We can see that on October 26, 2021, a block trade of 10,949,261 shares traded at $25.82. That is more than 55 times the average daily volume (ADV) as shown in Table 3. The client who initiated this trade was able to work with an ETF liquidity provider who had the ability to access other sources of liquidity to facilitate the block trade. Investors may sometimes rule out an ETF because it doesn't meet certain average daily volume (ADV) levels, but this could eliminate hundreds of ETFs from consideration that could have potentially been effective and impactful investment vehicles. ETFs with lower ADV can execute in large size with minimal market impact by working with a liquidity provider. This is the power of implied liquidity!

Table 1. FLGB Trading Data

Trading Data	
Bid Ask Spread	0.050
90D Avg Agg Vol	210.8k
Implied Liquidity	48.2M

Source: Bloomberg, as of November 29, 2021

Table 2. FLGB Implied Liquidity Statistics

Implied Liquidity	
Implied Liquidity (shares)	48.215M
Implied Liquidity (USD)	1.172B

Source: Bloomberg, as of November 29, 2021

Table 3: FLGB Trade Summary Matrix

Price Buckets	Trades	Volume	UD	UP	Others
25.85	12	5,090	3,140	1,600	350
25.8499	1	140	140	-	-
25.84	9	1,908	-	200	1,708
25.83	10	2,700	-	700	2,000
25.825	2	200	-	-	200
25.82	14	10,949,261	10,948,190	300	771
25.81	4	747	-	447	300
25.8	19	24,894	23,014	300	1,580
25.7999	2	1,609	1,609	-	-
25.799	1	1,110	-	1,110	-
25.7945	1	471	471	-	-
25.78	1	116	116	-	-
25.775	1	355	355	-	-
25.7746	1	352	352	-	-
25.77	1	100	-	100	-
25.7695	1	176	176	-	-
25.76	4	446	-	-	446
25.7563	1	388	388	-	-
25.755	2	601	601	-	-
25.75	2	1,963	1,963	-	-
25.7499	1	1,561	1,561	-	-
25.74	2	1,600	1,600	-	-
25.736	1	200	200	-	-
25.732	2	400	400	-	-
25.731	1	254	-	-	254
25.72	3	615	115	500	-
25.71	1	107	107	-	-
Totals	100	10,997,364	10,984,498	5,257	7,609

Source: Bloomberg, as of October 26, 2021

Another example of a sizable block trade is on Aug 25, 2015. An institutional investor switched out of a higher cost competing ETF into the Franklin FTSE Japan ETF (FLJP). The 90 average daily volume of FLJP is roughly 180k shares however the implied liquidity is almost 39M shares. FLJP can trade over 216 times more than the historical average daily volume without impacting the market due to the liquid underlying securities, access to the liquidity providers and the creation and redemption mechanism of ETFs. On Aug 25th, 2021, over 1.6m shares were traded at net asset value with minimal to no impact on price. The investor was able to maintain exposure to the Japanese equity market while substantially decrease their cost of ownership. The trade was efficient and seamless without impacting the market.

Table 4: FLJP Trading Data

Trading Data	
Bid Ask Spread	0.050
90D Avg Agg Vol	178.8K
Implied Liquidity	38.8M

(All Bloomberg illustrations are as of Nov 29, 2021)

It is critical to understand that the liquidity of an ETF is a function of a much greater group of variables than just the historical trading volume; instead, core liquidity is based on the underlying basket which the ETF represents. This is especially important for relatively newly issued ETFs that may appear to have low liquidity as measured by trading volume or even by the exchange bids and offers, but they can have massive liquidity supported through the ETF creation and redemption process and access to liquidity providers. It is highly recommended to look beyond average daily volume as a measure of liquidity and recognize the true gauge of liquidity, that's implied liquidity!

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Understanding Bond ETF Liquidity

Fixed income exchange-traded funds are growing fast, but some common myths and misunderstandings about bond ETF liquidity continue to persist. We take a closer look at why it's so important to consider more than just an ETF's trading volume or assets when evaluating the liquidity of individual ETFs.

Jonathan d'Auvergne
Director of ETFs, Manulife Investment Management

Over 20 years of bond ETF history

The first Canadian fixed income ETFs didn't appear until 2000, a decade after the first equity ETF launched in 1990. The majority of ETF assets today are in stock-focused funds, but bond ETFs are coming on strong as investors look for strategies to boost yield in a low interest-rate environment.

Although fixed income ETFs are newer, they have already successfully weathered several big storms, including the global financial crisis, the 2013 taper tantrum, and the COVID-19 panic.[1] But despite that track record, some myths about bond ETF liquidity still persist. Part of it may be that the stock and bond markets trade and settle differently. In an effort to help ETF investors know what they own, we wanted to shed some light on how bond ETF liquidity works in practice.

Manulife Investment Management

Bond ETF liquidity: look beyond trading volume

Investors are right to focus on liquidity, whether it's an ETF, an individual security, or virtually any asset. Liquidity—the ability to buy or sell a security quickly and easily—is an important factor to understand and to monitor with any investment.

When judging the liquidity of individual stocks or securities, most investors start by looking at trading volume. Large blue chip companies, for example, are some of the most liquid securities in the world, with millions of shares transacting daily; small companies, with far less trading volume, are less so.

An ETF's liquidity is primarily driven by the liquidity of the assets it holds.

When it comes to ETFs, investors can easily check on an individual ETF's average daily trading volume, typically measured in shares traded. In the ETF industry, this is known as the secondary market for ETFs, and it's how most individual investors buy and sell ETFs.

That said, it can't be stressed enough: Investors need to look at more than an ETF's trading volume to accurately assess its true liquidity. That's because an ETF's liquidity is primarily driven by the liquidity of the assets it holds. This is true whether the ETF holds stocks or bonds.

Bond ETF creation and redemption

With ETFs, it's important to remember that brokers known as authorized participants (APs) can create or redeem ETF shares, based on changes in demand for the ETF. This is known as the primary market for ETFs.

When the securities the ETF invests in are liquid, it's easier for APs to create and redeem ETF shares. In other words, the liquidity of an ETF's underlying holdings drives the ability of APs to create and redeem shares, and provide liquidity to potential ETF shareholders, regardless of the ETF's daily trading volume.

For example, bond ETFs with relatively little trading volume can still trade at tight spreads if they invest in liquid markets such as U.S. Treasury bonds, investment-grade corporate debt, and mortgage-backed securities.

Taking all the data into account may help investors get a better handle on a bond ETF's liquidity.

How to do your homework on bond ETF liquidity

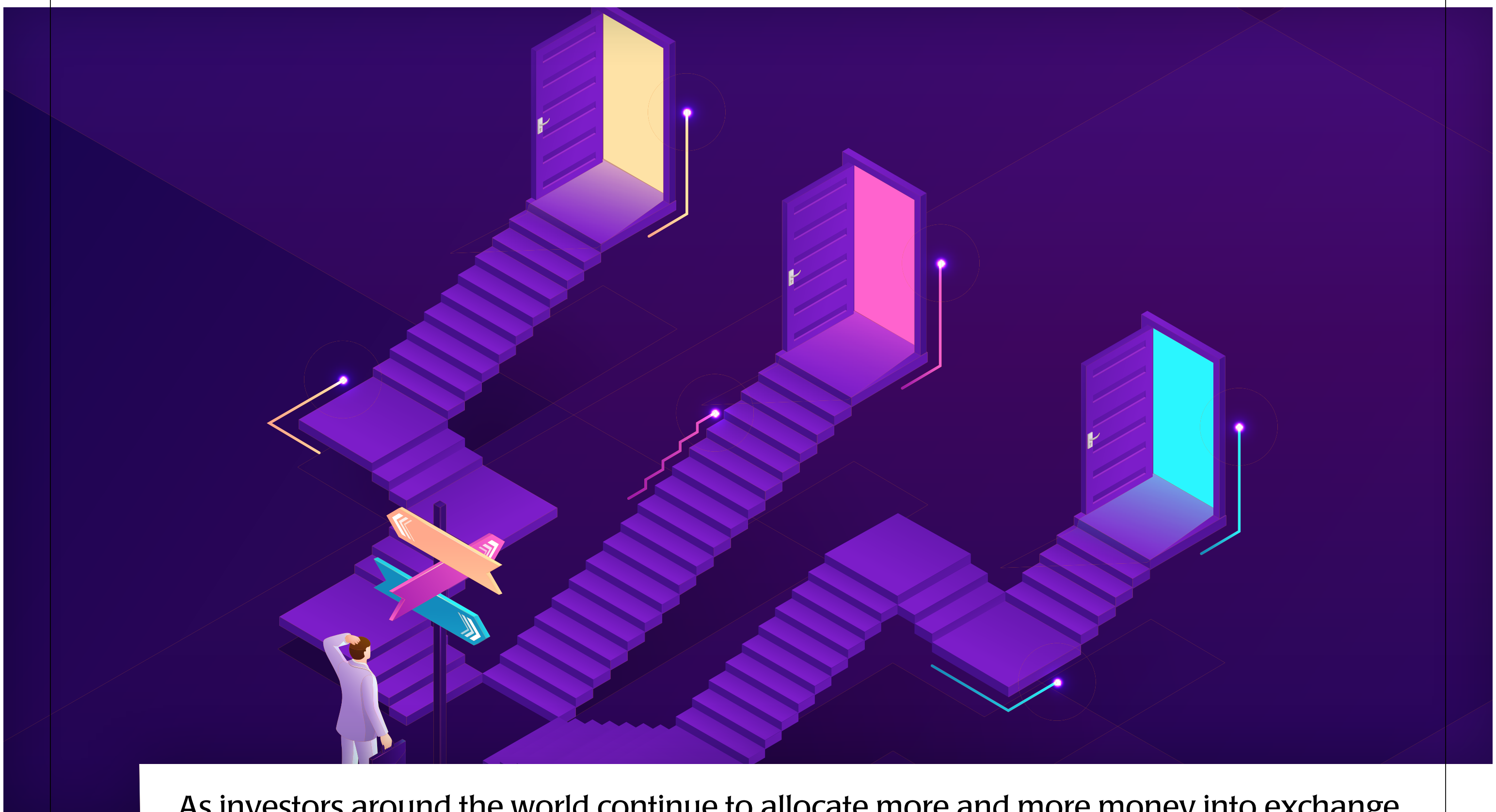
Investors can check an ETF's trading volume, as well as bid/ask spreads, and premiums and discounts to net asset value (NAV).[2] Taking all the data into account may help investors get a better handle on a bond ETF's liquidity when it comes to actually buying and selling ETFs. It's also a good idea to see if the ETF issuer has a capital markets team that can help facilitate large trades if necessary.

As bond ETFs continue to grow nearly two decades after their introduction, it's more important than ever for investors to understand bond ETF liquidity.

1 "Bond ETFs show maturity during Covid market mayhem," FTSE Russell, October 2020.

2 There can be no assurance that active trading markets for the shares will develop or be maintained by market makers or authorized participants, and there are no obligations of market makers to make a market in the fund's shares or to submit purchase or redemption orders for creation units. Although market makers will generally take advantage of differences between the NAV and the trading price of fund shares through arbitrage opportunities, there is no guarantee that they will do so. Decisions by market makers or authorized participants to reduce their role with respect to market making or creation/redemption activities in times of market stress could inhibit the effectiveness of the arbitrage process in maintaining the relationship between the underlying value of the fund's portfolio securities and the fund's market price. This reduced effectiveness could result in shares trading at a discount to NAV and also in greater-than-normal intraday bid/ask spreads for shares.

Being prepared for multiple economic outcomes



As investors around the world continue to allocate more and more money into exchange traded funds (ETFs), we've seen the continuation of a long-term trend: the further afield investors allocate capital, the more likely they are to consider an ETF solution for their portfolio. While we Canadians are investing over $1 billion a week into ETFs of all asset classes[1], ETF adoption is even higher in international and the global equity categories.

Trevor Cummings
Vice President,
ETF Distribution
TD Asset Management

Recent data from the Canadian ETF Association and Environics shows that Canadian investment professionals are increasingly likely to use ETFs for several asset classes, namely fixed income and international/global equities. This makes sense - bonds are challenging given low rates and a lack of bond inventory to invest in, and overseas markets are difficult to research and trade with.

At the same time that ETF adoption continues to climb higher, uncertainty has returned to the market. Risks seem to be bubbling to the surface - is inflation permanent or transitory? Will government stimulus withdrawal be orderly and gradual, or chaotic? Are rising bond yields going to wreak havoc on equity returns as they have before? What does one do with their existing portfolio, and with uninvested capital, today? Don't overlook factor diversification.

TD Asset Management

In order to prepare portfolios for multiple outcomes, consider a few ideas:

- Diversifying into global equities,
- Gain exposure to factors that might not already be present in your portfolio, such as growth and quality,
- Determine whether an active solution for global equities might make sense, given the rapidly changing market conditions of late.

A global solution for multiple outcomes

The TD Active Global Equity Growth ETF (TGGR) is a global ETF that not only helps diversify geographically and sector-wise, it's also actively managed and has some of the strongest returns in the category since the launch in 2020[2]. TGGR is sub-advised by Epoch Investment Partners, Inc. (Epoch), an affiliate to TD Asset Management Inc. (TDAM). Based in New York, they have a specific investment philosophy that aims to deliver strong growth and quality factors to portfolios.

Epoch champions the concept that companies who can generate a higher Return on Invested Capital (ROIC) compared to their Weighted Average Cost of Capital (WACC) will flourish, provided they allocate free cash flow to five specific goals:

Acquisitions - Active management is important here, in order to ensure that companies being acquired are accretive to the business model. When done well, acquisitions can be a wonderful use of free cash flow (FCF).

Internal Investments - Many high growth companies do not pay dividends simply because the return potential and the compounding opportunity of re-investing into the business is that much greater. While virtually all investors appreciate a dividend from time to time, many of the fastest growing companies pay little to no dividends, since that payment would cost them opportunities to reinvest and grow even faster.

Cash Dividends - If businesses have created dominant positions in their industries, sometimes those businesses will elect to 'share the wealth' via dividend payments. This is always a balancing act however, as a dividend that's too generous might suggest a company has little else to do with their free cash flow.

Share Repurchases - Repurchases, or buy-backs, improve shareholder yield because on a go-forward basis there will be fewer shares to divide earnings into, or future FCF. Again, active management allows investors to consider the merits of a share buy-back, to ensure that the company is buying shares at prices lower than their intrinsic value and hasn't 'run out of ideas' for its FCF.

Debt Reduction - Rather straight forward, paying down debts can be a healthy way to 'prepare for a rainy day' and ensure operational flexibility into the future.

How are the securities selected?

Securities are selected for TGGR via several steps: First, quantitative screens narrow the field, eliminating businesses with low sales growth or declining FCF, for instance. Secondly, this short list is fundamentally evaluated for quality: management structure, financial statements, a macro assessment of the industry the company is part of, and the like. Finally, the portfolio is constructed and balanced to manage overall portfolio risk.

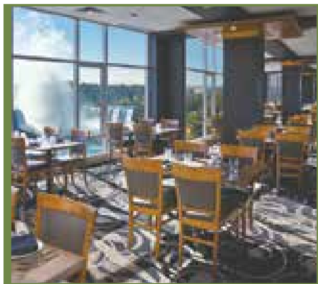
The end result is an ETF with 60-80 holdings of high-conviction, quality businesses from around the world, both developed and emerging markets. The portfolio ends up being diversified, professionally managed, and is offered at a low cost, a 0.65% management fee can offer cost savings versus other investment alternatives in the Global Equity category. Finally, I'd be remiss if I didn't also mention that the performance has exceeded the benchmark meaningfully since inception in June 2020, sitting at 6.15% outperformance as of September 30, 2021[3].

While we don't know what the future holds, know that an actively managed ETF like TGGR can help position portfolios for multiple outcomes.

[1] Source CETFA: the figure is represented by year-to-date (YTD) flows into ETFs divided by the number of weeks. YTD flows of $39B as of September 30, 2021.

[2] TD Active Global Equity Growth ETF Performance: 3 months: 2.4%, 6 months: 10.9%, YTD: 16.1%, 1 year: 27.2%, Since inception: 26.0% Inception date: May 26, 2020.

[3] Since inception alpha (value add) to September 30, 2021 is 615bps vs the benchmark index (ACWI).



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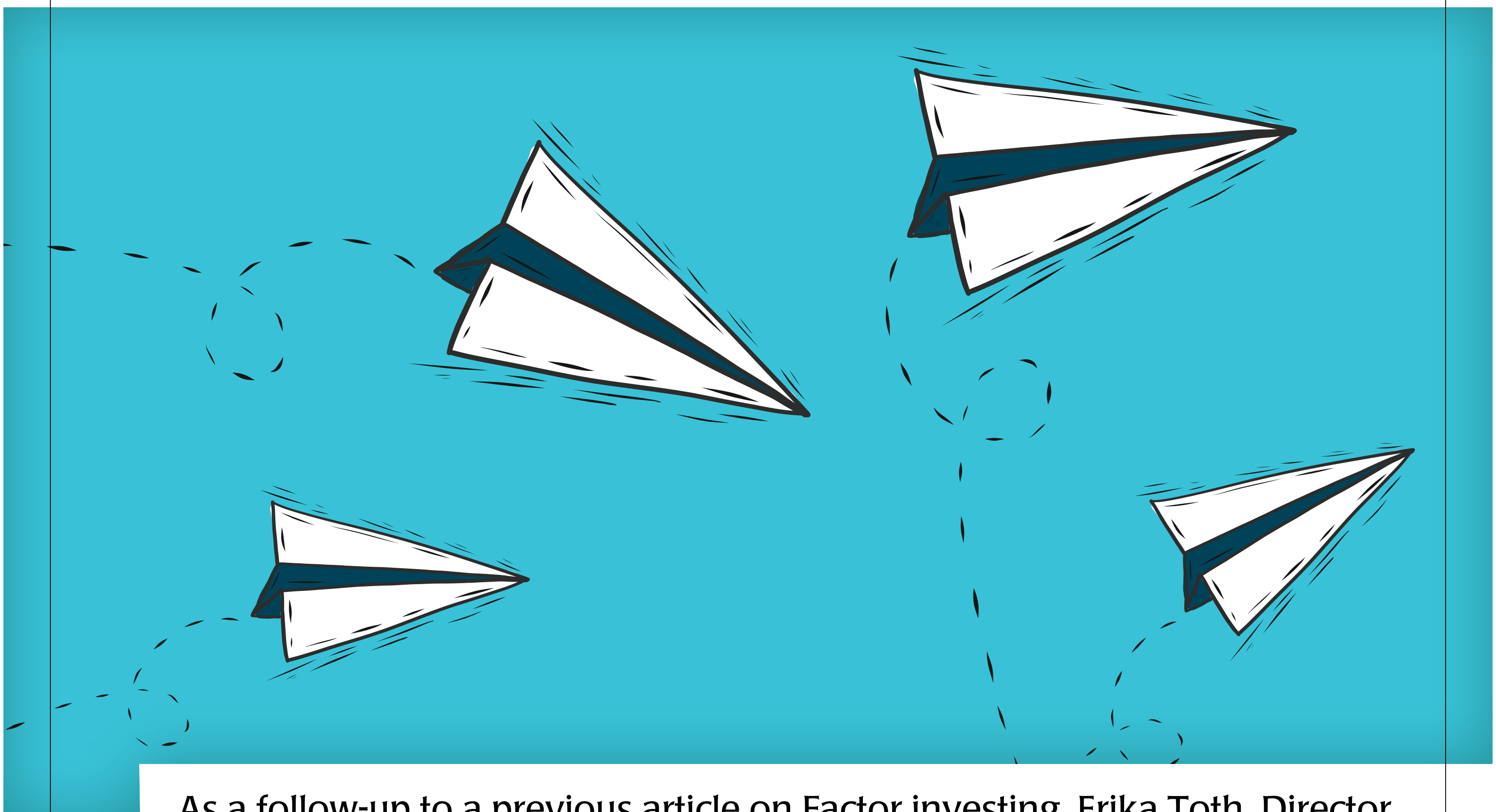
7 Strategies to Easily Integrate Factor ETFs



As a follow-up to a previous article on Factor investing, Erika Toth, Director, Institutional & Advisory, BMO ETFs, highlights several implementations that investors can use to tap into the benefits of Factor-based ETFs.

Erika Toth, CFA
Director
BMO ETFs

What the research says

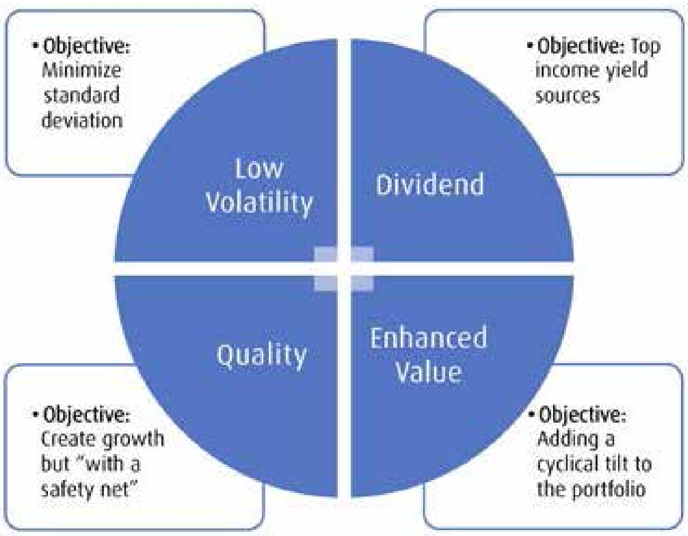
Much research has been published on this topic since Nobel laureates Eugene Fama and Kenneth French famously identified the three factors that explained the sources of investment returns (1992). The initial ground-breaking insights were that relative size and value were crucial to performance. A recent paper published in the CFA Institute's Financial Analysts' Journal, "Risk Management and Optimal Combination of Equity Market Factors," examined 54 years of data and found that weighting factors inversely to their (60-day) standard deviations could substantially improve portfolio results (versus portfolios of equally weighted or overlapping factors).[1]

Factors were once limited to managers who had the resources to conduct sophisticated screening to identify and to monitor desirable Factor advantages. ETFs have made factors accessible to all investors, providing targeted exposure which is low cost, transparent, liquid and scalable. Factor ETFs can be very good compliments to core equity strategies.

The following provides insight into several ways investors are using factor ETFs to build more robust portfolios:

1) Based on an investment objective

Part of the beauty of using ETFs to obtain factor exposures is that the screening rules are transparent, consistent and easy to understand. This allows investors to position portfolios according to specific investment criteria. For example:



It should be stated that, looking back at 20+ years of data from MSCI, the two factors that tended to experience higher levels of risk were Enhanced Value and Dividend, in that order. In order to avoid some of the pitfalls of each factor, we feel strongly that these two methodologies must be engineered to omit companies that are cheap for a reason.

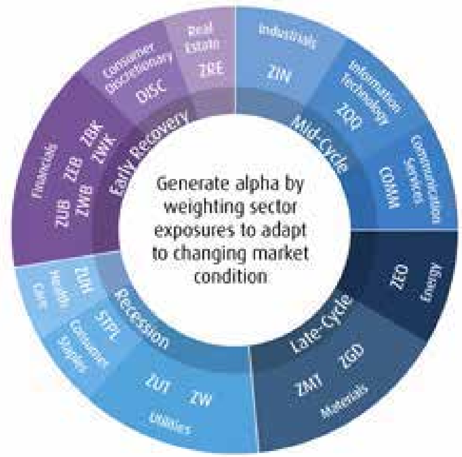
This is, for example, why our proprietary Dividend methodology does not simply screen for dividend yields. Dividend sustainability is assessed using 5 years of operating cash flows, weeding out companies using acquisitions, investment income or debt to maintain otherwise unsustainable dividend policies. In addition, we eliminate companies whose debt is below investment grade, and companies with price momentum in the bottom 10%.

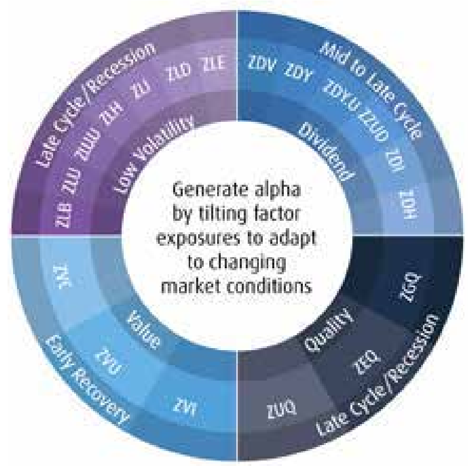
Our Enhanced Value indexes, built by MSCI, use multiple valuation metrics to help avoid catching the proverbial falling knife. These indexes screen for low P/E and low P/B, which are traditional "value" metrics, but also low enterprise value (EV)/ Operating Cash Flow, which disqualifies companies that are highly leveraged.

2) As a strategic market cycle overlay

Factor performance can vary on different macro drivers, and rotating through them across the cycle can help manage risk and add alpha to a portfolio. For example, Low Volatility and Quality strategies are most likely to outperform at the end of a market cycle, when asset prices are declining, whereas the Value factor is pro-cyclical, demonstrating stronger returns in a rapidly rising market. Over the past year, Quality was the best performing overall, while Value and Small Cap shone later on as the vaccines began to roll out and the economic recovery took hold.

Cycle	Recession	Early Recovery	Slowdown	Late Recovery	End of Cycle
Style	Defensive, Income	Value	Growth	Momentum	Defensive, low vol/ quality
Size	Large	Small	Mid	Large	Large
Sectors	Defensive Utilities, Health Care Consumer Staples	All Cyclicals ➡ Early Cyclicals Cons. Discretionary, Technology	Early Cyclicals ➡ Mid Cyclicals Technology, Health Care, Financials	Late Cyclicals Industrials, Resourses, Technology	Defensive Utilities, Health Care Consumer Staples
Rates	Falling	Falling	Rising ➡ Falling	Rising	Falling





3) Pairing with an index

Not all factor exposures need to stand alone; you can always split the ticket with the broad index to tilt the portfolio toward a specific objective. In the example below, we show how an investor can use Quality and Low Volatility strategies in conjunction with broad market indexes, to tilt the portfolio toward a defensive growth posture.

Core & Satellite Blended Portfolios

Late Cycle Defensive Factor Rotation

4) Pairing with active strategies

Similar to the above scenario, you may already have a sizeable allocation to an active manager that is working well. However, if the PM's mandate is broader than any one factor, layering ETFs over the core portfolio can add a specific tilt that either reflects a long-term belief in that factor, or a need to be more tactical across the cycle. In such cases, ETFs offer costefficiencies and a chance to diversify manager exposure.

5) Replacement for active strategies

Conversely, an active manager may be underperforming and require replacing within the portfolio. Perhaps the PM has failed to add value, or their management fees are too high – in either case, ETFs offer a low-cost alternative to providing targeted factor exposure.

6) As a multi-factor portfolio

Rather than investing in one particular style, investors can choose to combine multiple factors into a single portfolio. This can be done either as an equally weighted set of factors, or via a barbell approach where Value and Quality sit on opposing ends of the risk-return spectrum. Based on 22 years of data from MSCI, the former approach was the second-best performing strategy behind a pure play on Enhanced Value.[2]

The second method (the barbell) provides exposure to the "physical economy" through Value. However, it's important to note that Value had been in the doldrums for several years before its resurgence last November, when the reopening trade was kicked off by Pfizer's vaccine success. Having that exposure on one end of the barbell strategy gives investors upside participation should the economic boom continue from here. As a counterweight, the portfolio would hold a Quality exposure to non-cyclical, well-capitalized companies, if the fourth coronavirus wave roils markets.

MSCI Factor Index Performance Heat Map

	Gross Performance as of 10/13/2021 in USD								
Index Name	1D	1W	1M	3M	YTD	1Y	3Y	5Y	10Y
MSCI ACWI Index	**0.5%**	**1.0%**	**-2.7%**	**-0.8%**	**12.7%**	**24.0%**	**15.7%**	**14.5%**	**12.0%**
MSCI ACWI Minimum Volatility Index	0.6%	0.7%	-3.0%	-0.7%	8.0%	11.9%	9.9%	9.7%	10.4%
MSCI ACWI High Dividend Yield Index	0.1%	0.3%	-2.9%	-2.9%	8.3%	19.9%	10.2%	9.9%	9.0%
MSCI ACWI Quality Index	0.6%	1.0%	-4.5%	-2.2%	13.1%	21.1%	21.3%	18.3%	14.8%
MSCI ACWI Momentum Index	0.5%	1.2%	-3.1%	0.7%	5.4%	10.5%	17.9%	18.3%	15.0%
MSCI ACWI Enhanced Value Index	0.1%	0.3%	-3.3%	-2.7%	11.5%	31.8%	8.1%	9.5%	8.7%
MSCI ACWI Equal Weighted Index	0.7%	1.4%	-3.1%	-0.9%	9.3%	23.7%	12.7%	10.6%	8.8%
MSCI ACWI Growth Target Index	0.5%	0.7%	-2.8%	-1.2%	11.3%	21.2%	15.5%	15.5%	13.0%

7) Consider the source of family wealth

Investment investors dealing with a high-net-worth clientele are accustomed to ensuring that their clients' portfolios are diversified beyond their initial source of wealth. For example, if a family's wealth was earned and is concentrated in the financial sector, the practitioner should seek to diversify the portfolio by adding complementary exposures. Because the Quality factor uses low leverage as a key screening metric, it tends to provide very minimal exposure to the financial sector – making it an excellent complement for this particular family.

Conversely, for a family whose source of wealth is the technology sector, Quality factor ETFs could result in too much exposure to the sector overall. (Quality tends to have higher IT exposure because of the high return on equity and low leverage metrics). In this case, Low Volatility may be more complementary as it tends to be heavier in utilities and consumer staples – two sectors with the lowest correlation to technology.

When analyzing Factor ETFs for portfolio inclusion, inherent sector biases should be examined.

To help you with your due diligence on this, the following links provide a visual overview of how the factor exposures compare to the respective broad market indexes in each geographic region:

Canadian Equity ETF Breakdown

U.S. Equity ETF Breakdown

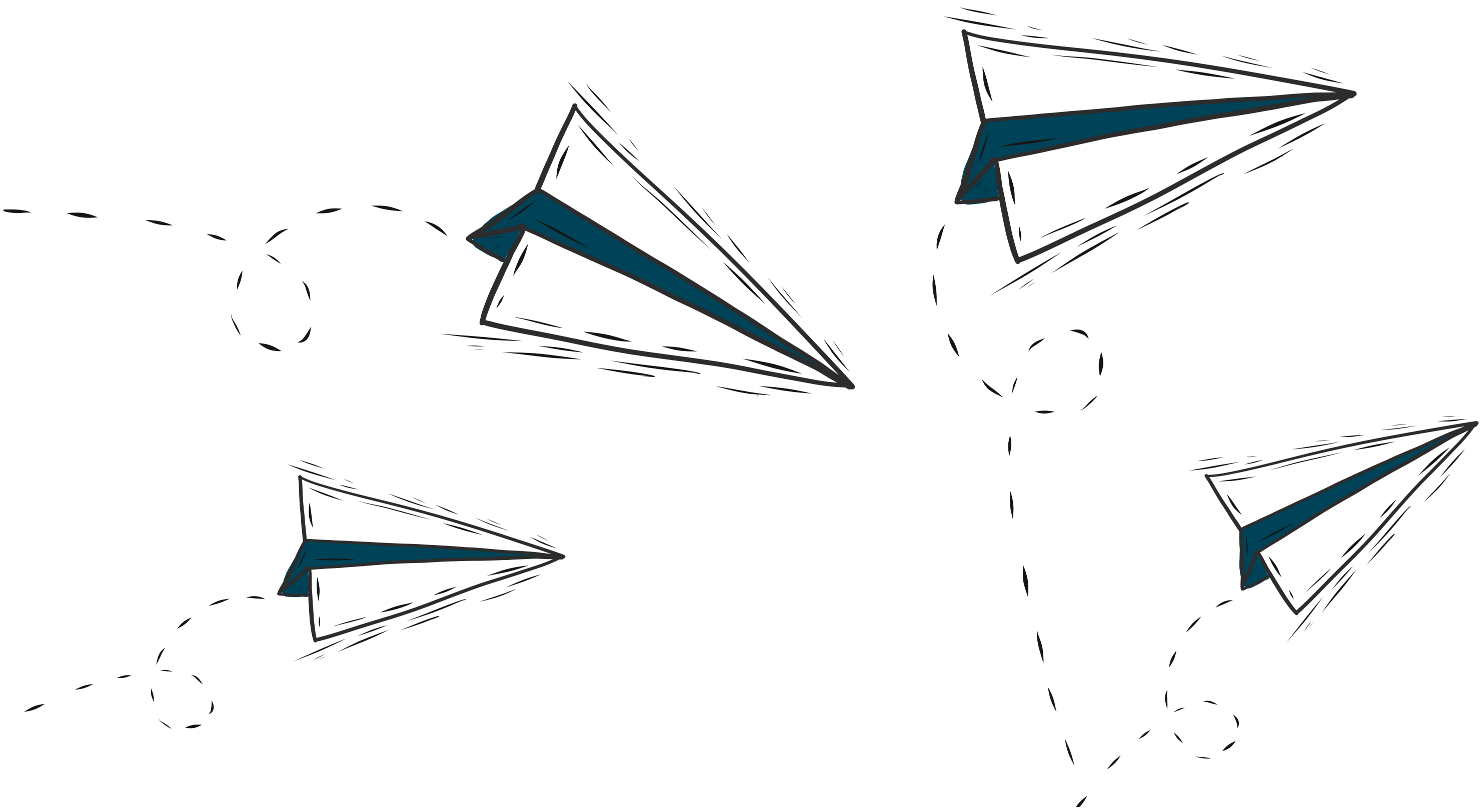
Global Equity ETF Breakdown

Deciding on Factor Suitability

Ultimately, the overwhelming consensus of academic research and empirical data is that factors – balanced by risk management, of course – are crucial to optimizing performance across the market cycle. Regardless of which of the above implementation strategies most closely reflects your portfolio management needs and processes, one thing is for certain: ETFs have democratized access to factors, bringing practitioners easy, cost-efficient tools to use in their client portfolios.

Factor	Description	Methodology
Low Volatility	BMO Proprietary methodology: • Uses Beta as its risk measure. Competing methodologies use either Standard Deviation or Minimum Variance, both of which measure idiosyncratic risks. Beta provides a more stable measurement over time and also measures market sensitivity, which is better for modelling macro risks; • Sector and Security concentration limits are used to ensure the portfolio is diversified and does not assume any unintended, and potentially unrewarded risks.	BMO Low Volatility Strategy >
Dividend	BMO proprietary methodology: • Identify Sustainable Dividend Growers, companies which demonstrate an ability to raise their dividend and maintain it from Core Operational Earnings. This eliminates companies which use debt, investment income or acquisitions to pay dividends; • Sector and Security concentration limits are used to ensure the portfolio is diversified and does not assume any unintended, and potentially unrewarded risks.	BMO Dividend ETF Whitepaper >
Quality	MSCI Factor methodology: • Identifies companies displaying High Return on Equity, Stable Earnings Growth and Low Debt-to-Equity (Leverage); • Compared to the parent Index, the Quality Factor Index reduces volatility while generating attractive returns.	BMO Quality ETFs Whitepaper >
Enhanced Value	MSCI Factor methodology: • Identifies companies with Low Price to Forward Earnings, Low Price-to-Book and Low Enterprise Value-to-Cash Flow from Operations. Forward Earnings are used to reveal companies which may be mispriced. Low enterprise Value-to-Cash Flow from Operations is used to minimize Value traps which may occur in highly leveraged companies; • Exposure is Sector-neutral and captures 30% of the Market Capitalization of the Parent Index (50% in Canada).	BMO Value ETFs Whitepaper >
Size	S&P Dow Jones for Small & Mid Capitalization Indices / SolActive for Equal Weight Sector Indices: • S&P Dow Jones uses an Earnings screen to ensure all constituents in the Small & Mid Cap Indices have positive earnings over the previous four Quarter. This acts as a Quality screen, indicating management has exercised a positive influence on investor Capital; • SolActive is used for Equal Weight Sector exposures. Equal Weight is a worthy approach because it forces diversification across the portfolio, minimizing significant security and portfolio concentration risks which occur in market capitalization or market capped sector Indices	S&P 400, S&P 500, S&P 600 Methodology >

To learn more about our Factors ETFs, or other ideas to optimize your portfolios, reach out to your BMO ETF Specialist.



1 Simon Constable, “Risk Management and Optimal Combination of Equity Market Factors,” CFA Institute, June 17, 2020.

2 MSCI Inc. historical frequency of outperformance of MSCI World Factor Indexes; gross returns in USD from December 1999 to December 2020.

Disclosure:

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