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ETF Watch

SPRING 2024

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The Impact of T+1 on the Canadian ETF Industry

- The Impact of T+1 on the Canadian ETF Industry
- India: The Heir Apparent of Emerging Markets
- Understanding Gold's Positive Diversification Properties
- FundGrade A+® 2023 RI Award winners excel in Canadian Responsible Investment
- The best of both worlds
  Getting all the benefits of a bond in an ETF

As the warmth of spring breathes new life into our beautiful country, we are excited to bring you the Spring 2024 edition of ***Canadian ETF Watch***. This season symbolizes renewal and growth, which reflect some dynamic developments in the financial services industry over the last few months. The opportunities and innovations in the world of exchange traded funds make this an especially promising time for investors and advisors.

In this Spring 2024 edition of ***Canadian ETF Watch***, we present a collection of insightful articles for a number of wonderful organizations and authors.

- **T+1 for ETFs in Canada**
  Pat Dunwoody from CETFA examines the implications of the transition to T+1 settlement for ETFs in the Canadian market.
- **India: The Heir Apparent of Emerging Markets**
  Bobby Eng, Senior VP, Head of Platform and Institutional ETF Distribution at Franklin Templeton, discusses the rising prominence of India as a leading emerging market.
- **Understanding Gold's Positive Diversification Properties**
  Mark Webster, Director, Institutional & Advisory ETF Distribution at BMO ETFs, provides an in-depth analysis of gold's role in portfolio diversification.
- **FundGrade A+® 2023 RI Award Winners Excel in Canadian Responsible Investment**
  John Krisko, Vice President, Investment Analytics at Fundata, highlights the achievements of the 2023 RI Award winners in Canadian responsible investment.
- **The Best of Both Worlds - Getting All the Benefits of a Bond in an ETF**
  Rohan Bhargava, CFA, Vice President, Retail Client Portfolio Management, and Sayada Nabi, Associate, Retail Client Portfolio Management at TD Asset Management Inc., explore the advantages of combining bond benefits with ETF flexibility.

As you delve into the Spring 2024 edition of ***Canadian ETF Watch***, we want to express our heartfelt appreciation to our dedicated readers. We hope the insights and strategies featured in this issue will equip you with the tools and knowledge needed to make confident investment choices and thrive in the ever-evolving financial landscape.

Wishing you a productive and insightful spring season!

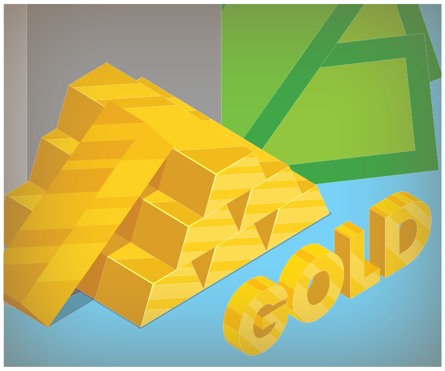
Sincerely,

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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CanadianETFWatch.com

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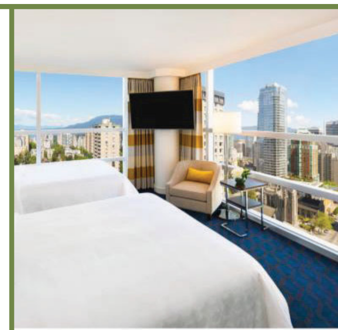

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Canadian ETF Association

It is with mixed emotions that I share the news of my departure from my role as Executive Director of the CETFA. Over the past 12 years, I've had the honor of contributing to CETFA's growth, witnessing it evolve into a formidable voice for the ETF industry, representing 95% of the market. However, the time has come for me to embark on a new chapter.

My decision to step away from CETFA was not taken lightly, but I am confident in the capable hands that will continue to guide its success. I extend my heartfelt thanks to each of you for your unwavering support and camaraderie throughout my tenure.

As I embark on this new journey, I am reminded of the importance of innovation, collaboration, and progress. Together, let us continue to strive for excellence and positive change in the financial landscape.

Sincerely,

Pat Dunwoody

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

The Impact of T+1 on the Canadian ETF Industry

A pivotal shift in the financial markets took place last year in the U.S. on February 15, 2023, marking a significant change that is set to influence the Canadian industry as well.

Pat Dunwoody,
Executive Director,
Canadian ETF Association (CEFTA)

cetfa
Canadian ETF Association

The catalyst for this change was the U.S. Securities and Exchange Commission (SEC) announcing a deadline to shorten the settlement cycle for securities transactions. Traditionally, securities have settled on a T+2 basis, meaning two business days after the trade date.

However, the SEC has mandated a move to a T+1 settlement cycle, effectively reducing this period to just one business day after the trade, with the deadline set for May 28, 2024.

In response to this change in the U.S., the Canadian Capital Markets Association (CCMA) announced plans for Canada's capital markets to synchronize with this shift, aiming to move to T+1 settlement by May 27, 2024. This alignment is critical for maintaining the seamless operation and integration of North American financial markets.

The move to a T+1 settlement cycle represents a substantial adjustment for the ETF industry in Canada, with wide-ranging implications for all participants, from issuers to end investors, both retail and institutional.

Here's an analysis of the downstream impacts this transition is expected to have across the ETF ecosystem, highlighting the operational, strategic, and compliance considerations that will come to the forefront as the industry navigates this significant change.

Understanding trade settlement

To put it simply, trade settlement is the process by which a buyer pays for securities, and the seller delivers them. Imagine, for example, you buy shares of a company on a Monday. With a T+2 settlement cycle, the actual exchange of money for shares would happen on Wednesday, two business days after.

Since 2017, North-American financial markets have operated on this T+2 mechanism. This meant that after a trade was executed, there would be a two-day window before the trade was officially settled. This delay was primarily due to the logistical requirements of verifying and processing transactions.

The move to a T+1 settlement cycle is aimed at reducing the risks associated with this waiting period. By shortening the time between trade execution and settlement, the financial markets can mitigate the exposure of trade counterparties to liquidity, market, and credit risk.

Additionally, a shorter settlement period means there will be fewer unsettled trades at any given time. This reduction in outstanding transactions can decrease the market's exposure to unsettled trades, making the system more stable and less prone to cascading failures in times of stress.

For sellers of securities, quicker access to the cash proceeds from sales is a significant benefit. This enhanced liquidity means that sellers can reinvest their proceeds more rapidly, improving cash flow management and the ability to respond to market opportunities or obligations.

T+1: Impacts on ETF issuers

"One main challenge for fund companies generally, and ETF issuers in particular, is the mismatch in settlement cycles of the underlying securities that make up the funds," says Keith Evans, Executive Director at the CCMA.

ETFs are made up of many different types of investments, like stocks and bonds. These investments themselves are bought and sold in their own markets, which might not all settle their trades in just one day like the ETF is supposed to in Canada starting May 27.

Consider the example of a Canadian ETF that holds an underlying U.S. ETF, which itself holds foreign equities. If some of those underlying stocks take two days to settle instead of one, while the ETF takes just one day to settle, the ETF issuer has to juggle these different timelines, making their job harder.

Issues could arise in particular for Canadian ETFs with substantial exposure to European Union and United Kingdom domiciled securities, which trade on a T+2 schedule and are not moving to T+1.

"The greater the percentage of an ETF's underlying securities that settle on a T+2 (or longer) basis (especially once non-USD/CAD currency pairings are taken into account), the more difficult and likely operational challenges will be," Evans explains.

Another challenge has to do with how new ETF units are created. Companies that issue ETFs work with special partners, known as authorized participants (APs), to manage the supply of ETF units based on demand. When an AP wants to create new ETF units, they agree to give the ETF issuer a basket of securities that the ETF wants to hold. In return, the AP gets ETF units.

However, if any of the securities meant to be in the basket are delayed – maybe because they take longer to settle – the AP has to wait longer to get their ETF units. This delay can cause problems not just for the AP, but also for investors buying and selling the ETF units in the market due to potential pricing distortions.

"There is a concern that a shorter settlement cycle may increase delays in ETF unit delivery, which may in turn increase the rate of downstream settlement failures as there will be less time to resolve routine issues, such as the late return of securities out on loan or corporate action complexities," Evans notes.

Currently, the U.S. securities industry has mechanisms in place to manage these delays by using collateral – essentially, a placeholder or guarantee until the real securities can be delivered. But in Canada, there's some uncertainty about how exactly to handle these situations.

"The members of the Canadian ETF Association (CETFA) and the CCMA have collaborated to propose a cash collateral process and associated market practices and requested regulatory guidance," Evans says.

This proposed process would mean that even if there's a delay in getting the securities for the ETF, the AP can still get the ETF units on time, using cash as a temporary stand-in.

This approach aims to keep things running smoothly for everyone involved, from the companies issuing ETFs to the individual investors, by reducing the risk of delays and confusion in settling trades.

T+1: Impacts on ETF investors

For everyday investors putting their money into Canadian ETFs, the shift to a T+1 settlement cycle will largely mean "business as usual." This change is more about behind-the-scenes financial operations, so the everyday experience of buying, holding, and selling ETFs won't feel much different for most people.

"The main benefits are that investors will receive their cash if they sell, or their securities if they buy, a day earlier, improving their liquidity and flexibility and potentially reducing the amount of time the market may move against them," Evans says."

Under T+1, when you buy or sell securities, including ETF units, the process will be quicker. The time from when you make a trade to when it's officially completed (settled) is getting shorter.

This reduces the window for anything to go wrong with the trade, such as a problem with the other party involved, which could potentially lead to a loss for the investor. So, this change is essentially about making ETF trading a bit safer and more efficient.

The transition from a T+2 to a T+1 settlement cycle has some specific impacts on the timing of when ETFs trade without their upcoming distribution, known as "ex-dividend," trading.

Typically, a security goes ex-dividend one business day before its record date under a T+2 cycle. The record date is when you must officially be listed as the shareholder to receive the dividend. With the shift to T+1, this timing changes. Now, the ex-dividend date will align with the record date itself.

Because of this adjustment in the settlement cycle, there's a particular consequence for the calendar: On Monday, May 27, 2024, no listed security will start trading ex-dividend.

This means that for any ETF distributions around this time, the shift to a T+1 settlement process temporarily alters the usual schedule of when securities begin trading without their dividend entitlement.

Essentially, this specific date is a direct result of re-aligning the trading calendar to accommodate the faster settlement period, ensuring a smooth transition and minimizing confusion during the switchover.

The final word on T+1 and ETFs

The shift to a T+1 settlement cycle marks a pivotal change for Canada's ETF industry, aiming to enhance market efficiency and reduce risk.

For ETF issuers, challenges such as managing mismatches in settlement cycles and handling in-kind ETF unit creations will require careful navigation. Canadian investors should be aware of these adjustments, including changes to ex-dividend dates and the processing of ETF distributions.

Behind the scenes, organizations like the CETFA and the CCMA are actively working to ensure a smooth transition, advocating for regulatory clarity, working with regulators and exchanges, and proposing proactive solutions like standardized cash collateral processes.

By staying informed about these developments, Canadian investors and industry professionals can be better prepared to adapt to this new trading landscape, ensuring they remain empowered in a more efficient and secure market.

India: The Heir Apparent of Emerging Markets

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

Pre-colonization, India was referred to as the 'Golden Bird' - a moniker attributed to its vast richness in culture, resources, and wealth.[1] As a result, it was one of the world's most significant trading hubs, and a key driver behind the global economy of the time. Today, we see that golden history echoing into the modern era, as India looks ready to reassert itself as a leading economic force.

A Changing of the Guard

China has long been the crown jewel of the emerging markets space, but their dominance is being tested like never before.

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The aftermath of the COVID pandemic highlighted deep structural cracks in the Chinese economy that continue to threaten its stability to this day. Suffering from anemic economic growth, an aging labour force, and rising political friction with the west, China has seen major foreign divestment in recent years. This has been echoed by a desire among international companies to diversify resources and supply chains to 'friendlier' regions. India stands on the other side of that equation.

Over the last decade, India has been working to attract foreign investment, particularly in the manufacturing sector. The government's 'Make in India' initiative has focused on modernizing infrastructure, removing red tape, creating corporate incentives, and providing skilled training for its young workforce. Backed by trillions in government spending, India aims to create a manufacturing sector that represents 25% its GDP by 2025.

While this goal may seem lofty, the nation has been able to make progress, in part due to its well-established foreign relations in diplomatic and corporate spheres around the world.

Relationships Matter

The country's strategic ties with key administrations in developed economies have been an important factor in raising India's global profile. Of those relationships, the most important is with the U.S. Recent meetings between Narendra Modi and Joe Biden saw both leaders striving to deepen ties between nations, calling on their governments to "continue the work of transforming the India-U.S. Strategic Partnership across all dimensions of our multifaceted global agenda." [2] Biden has lauded India's G20 Presidency, reiterating the need for partnership and alignment with India across key strategic initiatives such as space exploration, technology, and defence. There is a mutual desire to establish resilient global telecommunications and technology supply lines, particularly in the semi-conductor sector, where U.S. companies are now investing heavily to expand research and development in India.

At a corporate level, India already benefits from being a global leader in the services sector, which means it already has well-established relationships with many multinational companies currently looking for manufacturing alternatives to China. This is particularly true in the tech sector, where India is increasingly being recognized as a hub for innovation and disruption.

India emerges as mighty contender for China's factory floor crown

The value of India's electonics export in 2022 reached

$20B

Source: U.S. companies looking to move manufacturing from China turn to India. MarketWatch. Sept 20, 2023

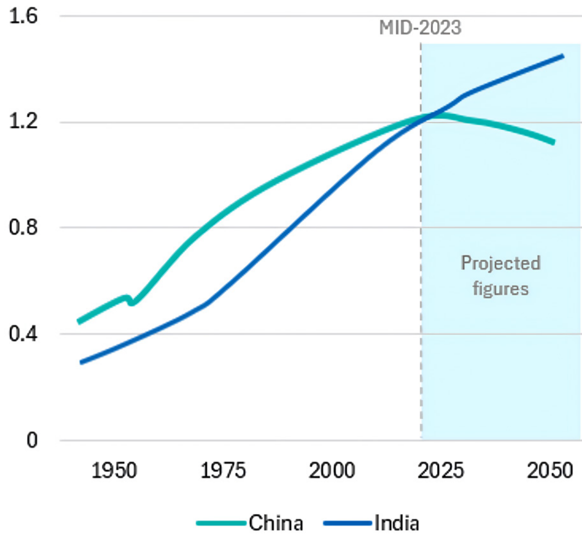
The west's collective softening on China has presented an economic power vacuum that India appears well positioned to fill. So far, corporations have responded favourably.

Major players are working to grow their footprint in India. This includes companies like Apple, Foxconn, Amazon, Samsung, Cisco, Tesla, Nokia, Boeing, Siemens and Toshiba. For these firms, India isn't just an opportunity for supply chain diversification. A large part of the appeal is due to the untapped potential of India's massive consumer base.

India's Growing Middle Class

India's population has overtaken China's

POPULATION IN BILLIONS



Source: UN World Population Prospects. U.S. companies looking to move manufacturing from China turn to India. MarketWatch. Sept 20, 2023

The middle-class is the fastest growing segment of India's population, with labour remaining relatively cheap. 3 Based on current projections, 60% of India's population will be middle class by 2050, which will constitute more than a billion people. For many businesses, India's burgeoning consumer is a key draw.

The rise of the middle class is expected to be one of the primary drivers of India's economic growth in the coming decades, which represents a substantial money-making opportunity for companies with a strong local presence. As these companies ramp up operations creating new jobs and sources of wealth, they'll help drive prosperity in the middle class.

In turn, that prosperity could spur local demand for many of the products being manufactured such as smart devices, computer chips, and more. It could also drive demand for other services such as finance, e-commerce, and travel, causing a ripple effect on India's economy which is already the fastest growing large economy in the world. In fact, India finished 2023 with an 8.4% surge in GDP over the final quarter of the year, beating most expectations.4

The Big Picture

India is a complex market with its own unique set of risks. It's prudent to acknowledge that there is still a lot that needs to happen for the full 'Make in India' plan to truly materialize. But there are promising signs taking shape, with outside governments and corporations making commitments centred on mutual interests and a shared vision of growth.

When you consider the larger macroeconomic and geopolitical picture, there's a compelling case for investors to think about, with India backed by favorable demographic trends, changing power dynamics, and secular tailwinds.

Franklin Templeton's suite of passive equity single country and regional ETFs track the market capitalization weighted indexes developed by FTSE Russell. These are among the most competitively priced single country ETFs on the market and can help investors build precise international portfolios, tactically execute global investment themes, and amplify existing broad market strategic positioning, including India.

For more of our latest thoughts on today's best opportunities and developing trends, check out Franklin Templeton's market views.

1. "India was a golden bird, and it will again be a golden bird very soon: Rajnath Singh." The Economic Times. Mar 14, 2024.

2. "Joint Statement from India and the United States." The White House. Sept 8, 2023.

3. "How the middle class will play the hero in India's rise as world power." The Economic Times. Jul 9, 2023.

4. "The world's fastest-growing big economy is living up to its billing." CNN Business. Mar 1, 2024.

2024 CALENDAR OF EVENTS

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Exchange Traded Forum (Toronto) 14th Annual

May 27th ~ Toronto, ON @ The Delta Hotel Toronto

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 FORUM 2024

ExchangeTradedForum.com

TORONTO

Exchange Traded Forum (Vancouver) 13th Annual

June 14th ~ Vancouver, BC @ Sheraton 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 FORUM 2024

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VANCOUVER

Retirement and Investment Conference 6th Annual

September 27th ~ Toronto, ON @ The Delta Hotel Toronto

The Retirement and Investment Conference 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 AND INVESTMENT CONFERENCE 2024

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WAIS Canada 23rd Annual

October 24th ~ Toronto, ON @ The Marriott Downtown

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WAIS 2024 CANADA

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ESG Conference (Toronto) 2nd Annual

Spring 2025 ~ Toronto, ON

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ETF & INVESTMENT FORUM 2025

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LONDON

ETF & Investment Forum Frankfurt 2nd Annual

Autumn 2025 ~ 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 2025

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FRANKFURT

Institutional Dialogue 2nd Annual

Autumn 2025 ~ 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.

Understanding Gold's Positive Diversification Properties

Gold is an asset class with an equal share of critics and supporters providing conflicting views on its long-term returns. Mark Webster, Director, Institutional & Advisory, BMO ETFs provides insight into how the precious metal can improve portfolio diversification.

Mark Webster,
Director, Institutional & Advisory ETF Distribution, BMO ETFs

Gold has been coveted for centuries. Mercantilism was the pervasive economic theory before capitalism, and it presumed there was a fixed amount of wealth in the world. In order to control wealth, European monarchs funded global exploration, sending ships to the far reaches of the world to find gold and silver before their competing sovereigns could.

Though capitalism proved that wealth can be created, gold has retained its worth as a store value, a valued asset, representing stability, wealth and authority. Today, gold generates passionate discussions amongst supporters and critics, each side waging different arguments to support their points of view.

Unlike other commodities, gold has very limited industrial uses. Its basic appeal to investors is its diversification properties, due to its low correlation to traditional asset classes. This should be the essence of every investor's analysis—understanding how much gold to include in a diversified portfolio to improve risk and return profiles.

As the table below shows, spot gold has a very low correlation to either equities or fixed income, so its performance will have a different profile to other investments.

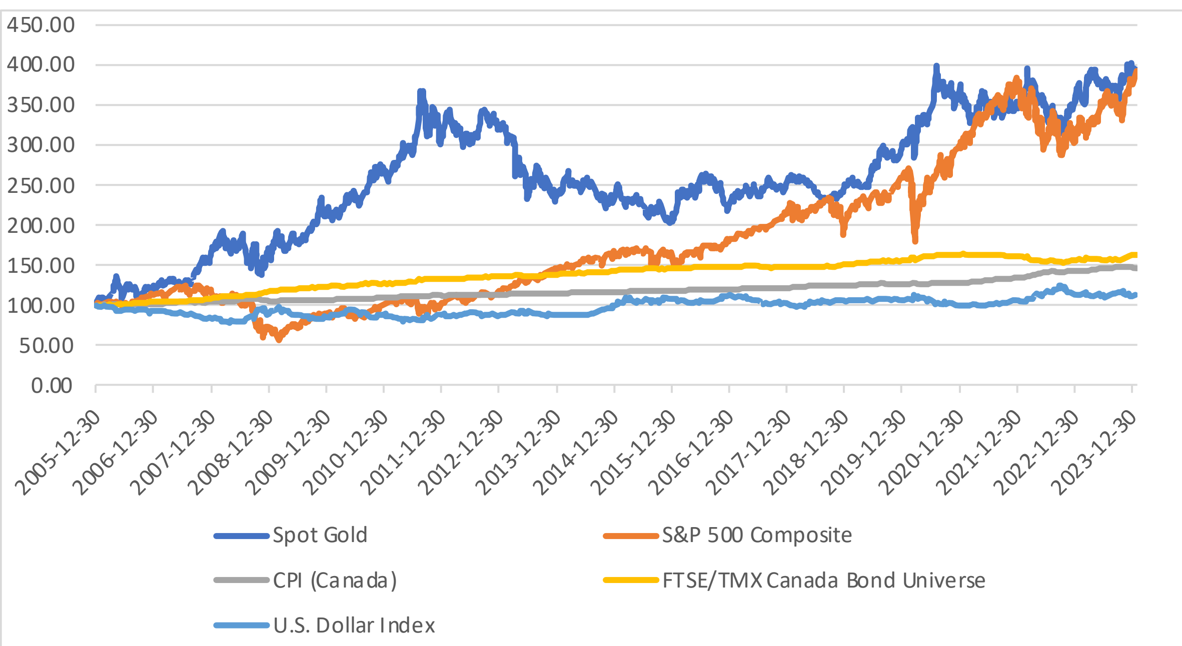
Low Correlation to Other Asset Classes

Security	S&P500	USBOND	GOLDS	BCOM	NPNCRE	SPTSX	MXEA	MXEF
S&P500	1.000	0.381	0.099	0.455	0.073	0.812	0.875	0.736
USBOND	0.381	1.000	0.539	0.287	-0.180	0.350	0.512	0.503
GOLDS	0.099	0.539	1.000	0.399	-0.047	0.249	0.202	0.340
BCOM	0.455	0.287	0.399	1.000	0.232	0.626	0.547	0.579
NPNCRE	0.073	-0.180	-0.047	0.232	1.000	0.108	0.033	0.007
SPTSX	0.812	0.350	0.249	0.626	0.108	1.000	0.802	0.759
MXEA	0.875	0.512	0.202	0.547	0.033	0.802	1.000	0.858
MXEF	0.736	0.503	0.340	0.579	0.007	0.759	0.858	1.000

Source: Bloomberg. Monthly correlation March 2004 – March 2024.

Critics of the precious metal often point to higher long-term returns in equities. In practice, annualized returns for gold have been higher over certain periods over the long run.

Gold, Historical Performance



Source: BMO Global Asset Management, February, 29 2024. Index returns do not reflect transactions costs or the deduction of other fees and expenses and it is not possible to invest directly in an Index. Past performance is not indicative of future results.

Implemented in a portfolio, gold should be evaluated on the basis of its ability to improve its risk and return efficiency.

Implemented in a portfolio, gold should be evaluated on the basis of its ability to improve its risk and return efficiency.

To demonstrate gold's diversification benefits, we took a portfolio that is invested in a conventional "60/40" model of equities (60%) and bonds (40%), and compared it to a similar one that owned a 5% allocation in gold. As shown in the table below, even a small exposure to gold improves returns and reduces risk across a number of periods. This illustrates gold's ability to potentially serve as a long-term strategic holding.

Annualized Returns	60/40 Portfolio	57.5/37.5/5 Portfolio	Difference
3-Year	4.83%	4.96%	0.13%
5-Year	6.42%	6.70%	0.28%
10-Year	5.66%	5.82%	0.17%
Standard Deviation[11]	**60/40 Portfolio**	**57.5/37.5/5 Portfolio**	**Difference**
3-Year	8.47%	8.16%	-0.31%
5-Year	11.00%	10.57%	-0.42%
10-Year	8.72%	8.41%	-0.31%
Sharpe Ratio[12]	**60/40 Portfolio**	**57.5/37.5/5 Portfolio**	**Difference**
3-Year	0.57	0.61	0.04
5-Year	0.58	0.63	0.05
10-Year	0.65	069	0.04

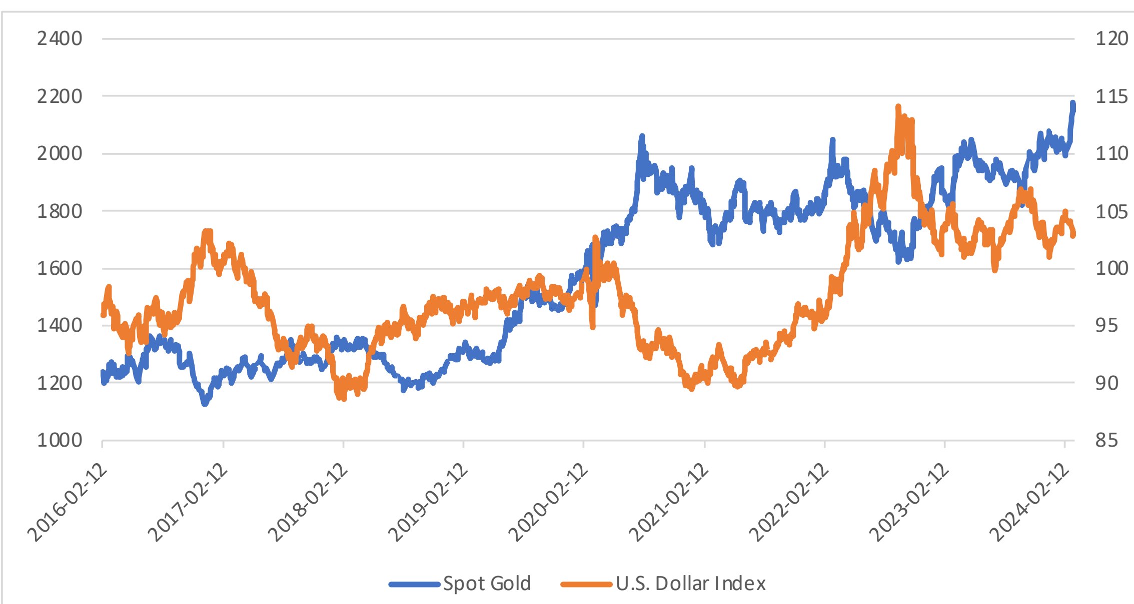
Source: BMO Global Asset Management. Historically a 5% allocation to gold has provided better risk adjusted returns than a traditional 60/40 portfolio. A 57.50% Equity, 37.50% Fixed Income 5% Gold portfolio has produced greater returns, lower levels of volatility and higher Sharpe ratios over 3, 5 and 10-year periods. Past performance is not indicative of future returns.[1]

Currency Hedge

Since the end of the Bretton Woods system in the early 1970s, U.S. dollars have not been convertible into gold. The full removal of the U.S. dollar's peg to gold meant that the currency would replace gold as the centerpiece to the global monetary system. Even with the dissolution of a gold-backed monetary system, the precious metal continued to retain its value. Central banks hold reserves in storage, particularly in times when fiat currencies have gone through inflationary periods. In the last several years, as inflation has run up in many regions, many prominent central banks have ramped up their purchases of gold.[2]

In addition to inflation, many countries have been looking to move away from the U.S. dollar. Talks of "de-dollarization" will likely take many years to transpire, but the BRICS nations (Brazil, Russia, India, China, South Africa, Egypt, et al.)—which are seeking to add additional nations in the near future, are in the early stages of attempting to create a new unified currency backed by gold. As a result, spot gold prices have tended to be inversely correlated to the U.S. dollar index, which further adds to its diversification benefits from a currency perspective.

Gold Spot Price vs. U.S. Dollar Index



Source: Bloomberg, as of Feb. 15, 2024.

Inflation/Deflation Hedge

In recent years, interest rates have been a focal point for investors given inflationary concerns. The 10-year breakeven point is widely regarded as the market's expectations for inflation or "implied inflation." Outside of the last several years, inflation has been relatively muted, which leaves us very little historical data for inflationary periods. However, we can utilize the daily moves in the 10-year break-even rate in order to provide insight in how various asset classes behave in various environments. At times of large moves in the daily move of the break-even rate or periods of high expected inflation, gold has performed well, given it is considered a real asset. On the opposite end, in times of extreme negative changes in the daily break-even, or periods of deflation, gold has also performed well.

This illustrates the benefits of holding gold in a portfolio and its diversification properties in various inflationary regimes.

Min	Max	Daily Move in 10-Year Breakeven	Count	S&P 500 Composite	S&P/TSX Composite	FTSE/TMX Canada Bond Universe	CRB Commodity Index	Spot Gold
-0.40%	-0.31%	From -0.40% to -0.31%"	2	-3.36%	-4.51%	0.25%	-1.15%	0.82%
-0.30%	-0.21%	From -0.30% to -0.21%"	2	-5.52%	-5.33%	0.26%	-0.21%	1.12%
-0.20%	-0.11%	From -0.20% to -0.11%"	23	-3.03%	-2.68%	0.17%	-0.70%	0.18%
-0.10%	-0.01%	From -0.10% to -0.01%"	1496	-0.37%	-0.32%	0.13%	-0.07%	-0.10%
0.00%	0.09%	From 0.00% to 0.09%"	2290	0.32%	0.26%	-0.07%	0.07%	0.10%
0.10%	0.19%	From 0.10% to 0.19%"	35	2.04%	1.64%	-0.20%	0.38%	0.68%
0.20%	0.29%	From 0.20% to 0.29%"	3	-2.45%	-2.11%	-2.75%	-0.14%	-0.19%

Source: BMO Exchange Traded Funds, February 29, 2024.

Access to Gold

BMO's **BMO Gold Bullion ETF (ticker: ZGLD)** is backed by 400 oz. bars of physical gold bullion. This ETF allows investors to easily access gold for both strategic as well as tactical portfolio asset allocations uses. **ZGLD**[3] is competitively priced at 20 basis points (0.20%) and also offered in U.S. dollar units (**ZGLD.U**) and a hedged to Canadian dollar version (**ZGLH**). The gold in this ETF is stored and secured in a local vault, which means investors can feel assured that it is allocated.

This low-cost and highly liquid exposure should help investors expand their portfolio diversification. In addition, it should be preferred to any U.S.-listing because ZGLD will be listed in Canada, and is thus exempt from U.S. Estate tax concerns.

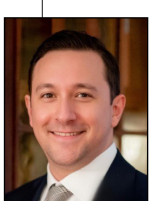
To learn more about ZGLD or receive other trading insights, reach out to your BMO ETF Specialist at their email address or via telephone at 1–877–741–7263.

[1] (60/40 portfolio – is composed of 60% S&P/TSX Composite Index and 40% FTSE/TMX Canada Bond Universe Index, 57.5/37.5/35 portfolio is composed of 57.50% S&P/TSX Composite Index, 37.50% FTSE/TMX Canada Bond Universe index and 5% Spot Gold Index), All components are in Canadian dollar terms. Time period used for calculations are daily from January 2, 2006–January 31,2024.

[2] *Gold Demand Trends Full Year, 2023. January, 31, 2024, World Gold Council*

[3] Changes in rates of exchange may also reduce the value of your investment.

FundGrade A+® 2023 RI Award winners excel in Canadian Responsible Investment



John Krisko, CCFA, BBA
Vice President, Investment Analytics,
Fundata Canada Inc.

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FINANCIAL DATA THAT MATTER

As the Canadian responsible investment (RI) landscape matures, investments in this segment continue to deliver higher returns with lower risk. So it is no surprise that their adoption is also increasing.

In their 2023 report, the Responsible Investment Association (RIA) found that reported RI assets under management were just under $3 trillion. What that proves is despite global geopolitical and economic challenges, ESG investing remains a priority. In fact, RI market share continues to increase and finished 2023 at 49%. That's right – nearly half of all Canadian professionally managed assets incorporate RI in their investment process.

Along with the growth in RI investments, the RIA further notes that investor confidence is also growing in the quality and standards of ESG reporting. This comes on the heels of an increase in the number of investment firms with comprehensive and formal disclosures for RI policies, ESG integration, shareholder engagement, and proxy voting guidelines – a figure that now stands at 52%.

The proof of the pudding

When it comes to investment performance, research continues to emerge that supports ESG-specific factors as driving an increase in returns across a variety of outcomes, including investing with a long-term focus and protecting capital in a crisis.

For example, researchers at the NYU Stern Center for Sustainable Business found in a meta-study that studies with Alpha or Sharpe Ratio as an outcome showed evidence of superior returns 59% of the time, with only 14% experiencing a negative outcome. The researchers also established that outperformance was more apparent the longer the duration of time studied.

In addition, the paper by Whelan et al. (2021) found a strong correlation between lower sustainability risk and better performance, especially when it comes to asymmetric events. This means that sustainable investments may provide downside protection during a social or economic crisis.

Investment performance speaks louder than words

Fundata's 2023 FundGrade RI A+ Award winners are prime examples of investment funds with these characteristics – delivering superior returns from responsible investments while minimizing downside risk and volatility.

As a category of the annual FundGrade A+ Awards, now in its eleventh year, the RI A+ Awards recognize outstanding risk-adjusted performance of funds with an RI mandate. The award is given to the top RI fund in each of three categories: Fixed Income; Balanced; and Equity.

The winners this year include **BMO Sustainable Global Multi-Sector Bond Fund** in the RI Fixed Income category. This is the second consecutive RI A+ Award for the fund, which invests across the investment-grade fixed-income spectrum using a variety of RI strategies such as ESG integration, positive screening, and exclusionary screening. The ETF series of **BMO Sustainable Global Multi-Sector Bond Fund (TSX: ZMSB)** boasts a 5-year averaage annual compounded rate of return of nearly 3%, among the top returns of all RI Fixed Income funds.

In the RI Balanced category, **iShares ESG Balanced ETF Portfolio (TSX: GBAL)** takes home its first win in 2023 with a portfolio that employs ESG Best In Class, Exclusions, and Integration strategies through its underlying funds. A 2023 return of over 15% produced a Sharpe Ratio of 1.07 and was among the 10% of balanced funds that had a positive return in 2022.

Finally, **NBI Sustainable Canadian Equity ETF (TSX: NSCE)** came out on top in the RI Equity category. This fund is a first-time winner that uses exclusionary screens and ESG integration to find companies with durable attributes. This fund has earned an average annual compounded rate of return of over 11% for the 3 years since inception. An important component to that return is the fund's Alpha generation, which is top-10 for the period and demonstrates the success of its RI selection process.

John Krisko, CFA, BBA, is Vice President, Investment Analytics at Fundata Canada Inc. and is Vice Chair of the Canadian Investment Funds Standards Committee (CIFSC).

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The best of both worlds

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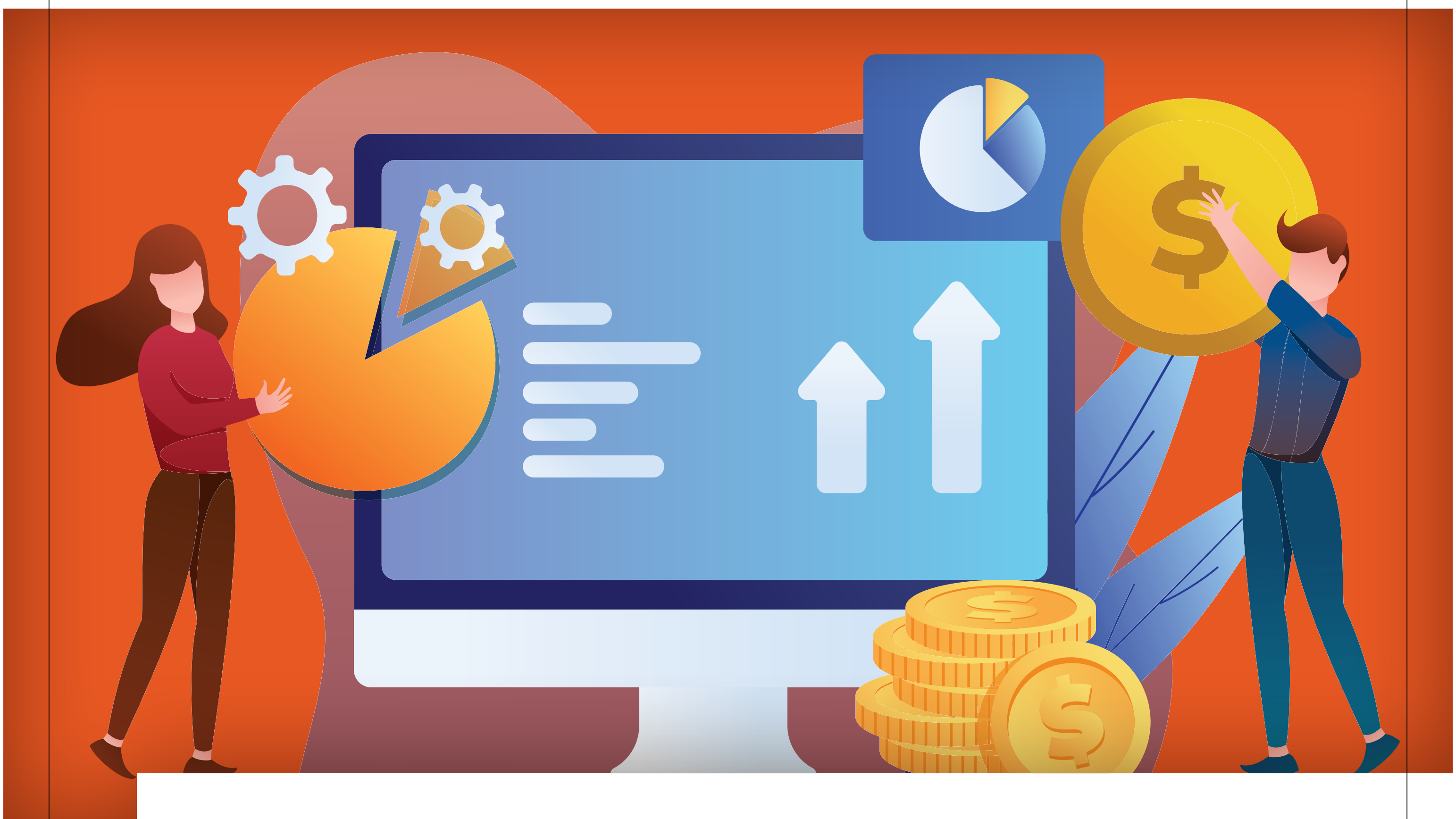

Rohan Bhargava, CCFA
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Sayada Nabi,
Associate, Retail Client Portfolio Management,
TD Asset Management Inc.

TD Asset Management

- Inflation appears to be generally moderating and the expectation for 2024 is that central banks will be moving rate hikes to rate cuts.
- Fixed income is currently providing investors with income not seen in more than a decade. This, along with the potential for capital appreciation if rates fall, can provide a very attractive total return opportunity.
- To take advantage of the opportunities present in todays fixed income market, TD Asset Management Inc. (TDAM) just launched the TD Target Maturity Bond ETFs - a new suite of one-ticket fixed income investment solutions designed to act like an individual bond while providing liquidity, diversification, and professional oversight benefits of TDAM's Fixed Income Investment Team.

If recent years have illustrated anything, it is that markets can be volatile and unpredictable. Now that inflation seems to be generally moderating, markets are looking to move from central bank rate hikes to rate cuts for 2024. The bond market began 2024 pricing in five or six rate cuts from the U.S. Federal Reserve ("the Fed"), with the expectation that inflation may come down to 2% by the summer. While we do believe that the interest rate hiking cycle has likely come to an end and that rate cuts may happen, we are likely to see a more conservative rate cutting scenario unfold.

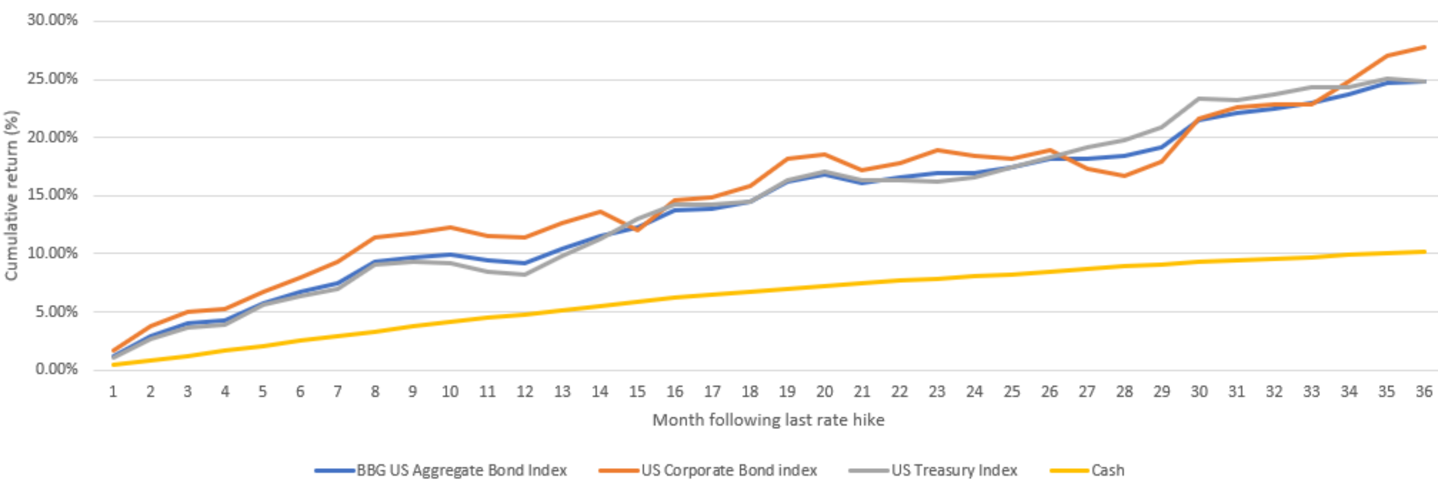
Central banks will have to consider near-term risks in 2024, including sticky inflation, tight labour markets in both Canada and the U.S. and potential disruption in shipping routes for goods. Likewise, geopolitical risks will likely remain strong in 2024. Conflicts that began in previous years are yet to be resolved and we see some potential political risk with nearly half of world's population (including the U.S., Mexico and India) heading into elections. Overall, we expect volatility to persist in bond markets but have a positive outlook for fixed income and continue to see opportunity in the coming year for bonds. As we transition to rate cuts, we expect the drop in yields to generate price gains and bolster bond returns.

Why fixed income and why now?

Despite the appeal of short-term bonds paying high yields, investors with a long-term time horizon should remain focused on building a diversified portfolio designed to generate competitive returns over time. With that, it may be time to take money that has accumulated on the sidelines in guaranteed investment certificates (GICs) and money market funds to assets with better long-term potential. The two key benefits that can materialize for fixed income investors in the near term include attractive returns and diversification.

Attractive returns - Fixed income is currently providing investors with income not seen in more than a decade. This, along with the potential for capital appreciation if rates fall, can provide a very attractive total return opportunity (illustrated in the chart below). This is because bond prices have an inverse relationship with interest rates. This means that, typically, when interest rates go up, bond prices go down and when interest rates go down, bond prices go up.

Cumulative Average Total Returns From Last U.S Federal Reserve Rate Hike



Source: Bloomberg Finance L.P, TD Asset Mangement Inc. Data as of end February 29, 2024

Diversification - Fixed income helps to diversify a portfolio and reduce portfolio volatility, preserve capital, and reduce risk. In the volatile times that we are in today, fixed income becomes a stabilizer for any investment portfolio.

New solutions designed to "target" the current investing environment

To take advantage of the opportunities present in today's fixed income market, TDAM offers a suite of target maturity bond exchange-traded funds (ETFs). Target maturity bond ETFs have been amongst the best-selling products across the industry. These ETFs have a compelling structure that combines the maturity profile of a bond with the diversification benefits of a managed product. Target maturity bond ETFs typically hold a portfolio of individual bonds that provide regular income and distribute a final payout on a pre-set termination date. Like traditional bonds, they offer an element of stability and predictability in cash flows with the added benefit of being able to buy or sell them at any time. In a nutshell, target maturity bond ETFs are a simple and low-cost way to add targeted fixed income exposure to any portfolio.

The TD Target Maturity Bond ETFs invest in a portfolio of investment-grade corporate bonds which are hand-picked by TDAM's Fixed Income Investment Team, offering increased diversification and the chance to generate higher yields when compared to other fixed income products. Each ETF matures in successive years from 2025 to 2027 and is offered in both Canadian and U.S. dollar versions. The suite includes the six following ETFs:

Currency	Ticker	ETF	Description	Anticipated Termination Date
CAD	TBCE	TD Target 2025 Investment Grade Bond ETF	Each of the TD Target Maturity Canadian Bond ETFs seek to provide regular income and preserve capital by investing primarily in a portfolio of **investment-grade Canadian corporate bonds denominated in Canadian dollars** each maturing in the Maturity Year of the respective ETF.	Nov 30, 2025
	TBCF	TD Target 2026 Investment Grade Bond ETF		Nov 30, 2026
	TBCG	TD Target 2027 Investment Grade Bond ETF		Nov 30, 2027
USD	TBUE.U	TD Target 2025 U.S. Investment Grade Bond ETF	Each of the TD Target Maturity U.S. Bond ETFs seek to provide regular income and preserve capital by investing primarily in a portfolio of **investment-grade U.S. corporate bonds denominated in U.S. dollars** each maturing in the Maturity Year of the respective ETF.	Nov 30, 2025
	TBUF.U	TD Target 2026 U.S. Investment Grade Bond ETF		Nov 30, 2026
	TBUG.U	TD Target 2027 U.S. Investment Grade Bond ETF		Nov 30, 2027

Key considerations and benefits of the TD Target Maturity Bond ETFs

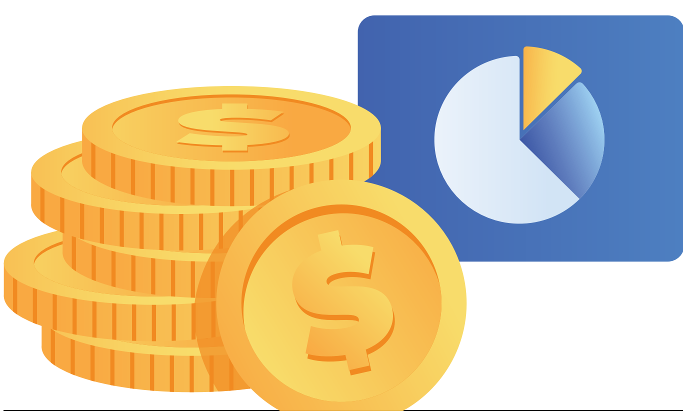
The TD Target Maturity Bond ETFs offer the best of both worlds where they not only provide the benefits of a traditional bond fund like diversification and regr income but also the benefits that come with an ETF like liquidity and transparency. In summary, the main benefits and considerations for investors include:

Ease of execution - It's easier to purchase a portfolio of bonds with a known maturity as opposed to building out a portfolio one bond at a time through a broker which often requires large sums of cash. TD Target Maturity Bond ETFs can be easily purchased on the Toronto Stock Exchange with no minimum purchase amounts at a low-cost giving you the desired bond exposure.

Improved liquidity - Unlike holding a basket of individual bonds that may be less liquid in the secondary market, an ETF structure allows investors to easily trade and adjust their bond exposure in response to changing market conditions or evolving investment objectives.

Enhanced flexibility relative to Guaranteed Investment Certificates (GICs) - The current environment has led many individuals to 'lock in' with fixed term GICs, which can't be cashed in before maturity. TD Target Maturity Bond ETFs are a more flexible investment alternative as they provide daily liquidity through the exchange. Buy or sell when you want. Plus, they can offer competitive yields to GICs or other money market instruments.

Potential for tax-efficiency - With many corporate bonds trading at a discount, a portion of the total return can be treated as capital gains as opposed to interest income which is taxed at higher rate.



Aligning investment time horizons - Another key advantage of the TD Target Maturity Bond ETFs is the ability to match the time horizon of the investor with the maturity date of the ETF, which allows investors to save for specific financial goals or needs. This precise time horizon matching enhances the predictability of cash flows and provides a clear path for meeting future financial needs.

Build better laddered portfolios – TD Target Maturity Bond ETFs are an efficient way to help build a laddered portfolio to manage interest rate and/or reinvestment risk. While a normal bond fund must buy and sell individual bonds to maintain an average maturity, a target maturity bond ETF has a fixed target date and when the fund closes, investors receive their principal just as they do with individual bonds at maturity.

What happens at maturity?

While traditional bond funds provide investors with comprehensive diversification, manager expertise, and regular income – they don't have a fixed maturity date, as the fund must buy and sell individual bonds to maintain an average maturity promised to investors. In a rising rate environment, it means the fund can suffer a loss if it must sell bonds when prices are down. Conversely, while falling rates can lift bond prices, they can be harmful if the fund must replace older bonds with new ones that pay less interest, reducing the fund's yield.

As the name suggests, target maturity bond ETFs purchase bonds that have a common maturity date. When the ETF's maturity date arrives, the fund closes, and investors receive their principal just as they do with individual bonds. The income received is relatively stable because the ETF typically doesn't need to replace holdings along the way.

Comparing different types of fixed income offerings

Quick Comparison	TD Target Maturity Bond ETFs	Individual Bonds	GICs	Traditional Bond Funds
Defined Maturity	✓	✓	✓	✗
Ability to Bulk Trade	✓	✗	✗	✓
Monthly Income	✓	✗	✗	✓
Ease of Execution	✓	✗	✓	✓
Diversification	✓	✗	✗	✓
Professional Management	✓	✗	✗	✓

For more information on the suite of TD Target Maturity Bond ETFs, please visit our website.