CANADIAN
ETF Watch
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NON-TRANSPARENT ACTIVELY MANAGED ETFs

- How the Pros use ETFs to Raise the Bar on Portfolio Management
- Senior Loans: The Other High-Yield Debt
- A Better Way to Invest in Government Bonds

EXCHANGE TRADED FORUM 2013

ETF Conference line-up for 2013!

TORONTO ~ VANCOUVER ~ MONTREAL

ETRs

ETFs

Indexing

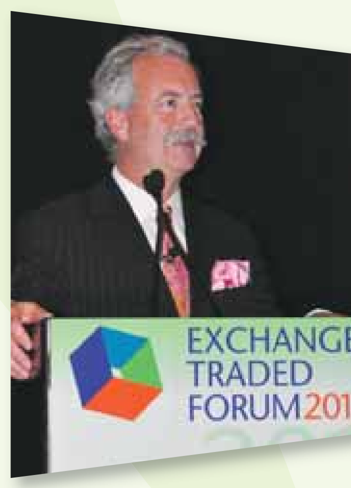
Toronto
Thursday, May 2 &
Friday, May 3
Hyatt Regency

Vancouver
Wednesday, June 19
Fairmont Waterfront

Montreal
Coming in October
Hotel Omni

Pat Bolland
Moderator

ETF 2012
Toronto, Calgary,
Vancouver & Montreal



I wanted to share with you the Ten Commandments of ETF investing:

This article was written in 2010 and still applies today. Here is the link to the complete article: **etfdb.com/financial-advisor-center/ten-commandments-of-etf-investing/**

Enjoy!

10 Honor Thy Expense Ratio

9 Consider The Total Cost of ETF Investing

8 Thou Shall Not Use Market Orders Recklessly

7 Thou Shall Not Covet Your Neighbor's Weighting Methodology

6 Thou Shall Not Bear False Witness Against ETFs

5 Thou Shall Not Make Wrongfull Use of the Name "ETF"

4 Thou Shall Not Use "Liquidity Screens"

3 Not All ETFs Are Created Equal

2 Thou Shall Buy Commodity ETFs (but only if you truly understand them)

1 Thou Shall Take Advantage of Free ETF Resources

Just a reminder to mark your calendars for our **Toronto Exchange Traded Forum, May 2 & 3** at the **Hyatt Regency**.

Complete conference details can be found at **exchangetradedforum.com**

J Street

Judy Street, Vice President
Radius Financial Education

CANADIAN ETF Watch
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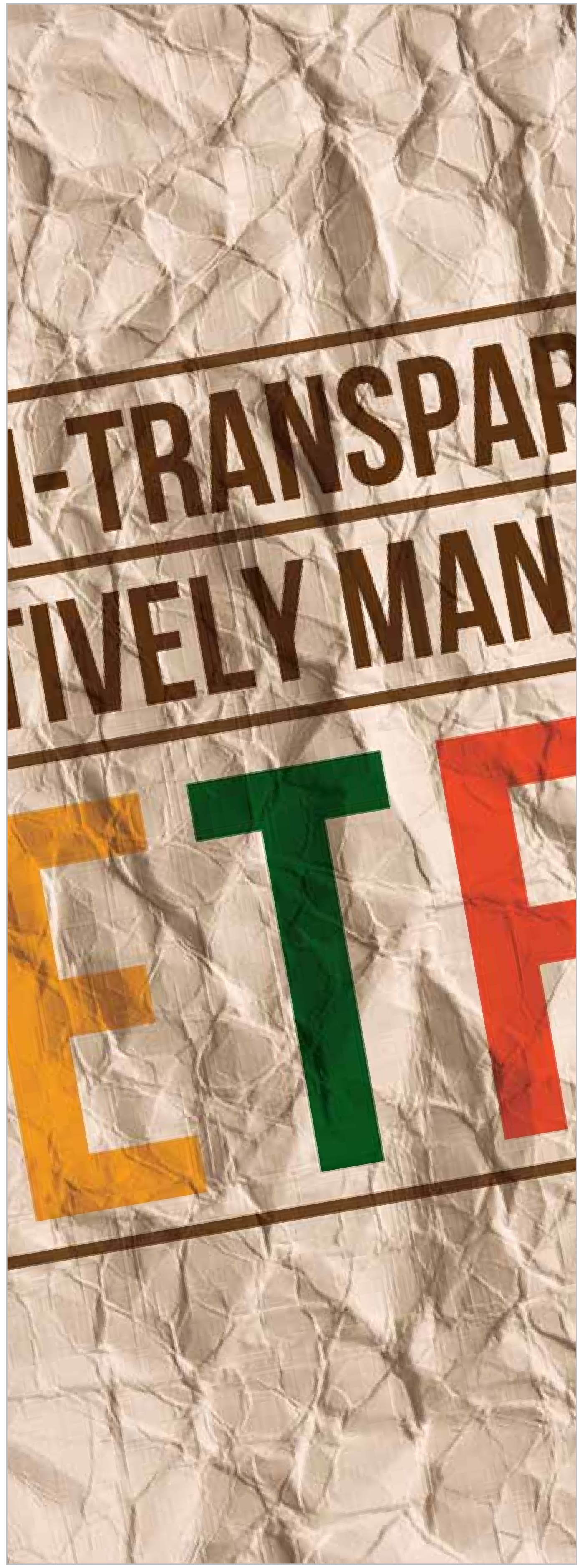

CONTENTS

Types of ETFs

*There are a variety of **Exchange Traded Funds (ETFs)** that provide investors an opportunity to develop a diversified investment portfolio. ETF sponsors are constantly adding to the types of ETFs available, providing investors with more choice. Many ETFs track the performance of an underlying index or benchmark. The underlying index or benchmark may be broad, or sector-specific, or be linked to commodities or currencies. ETFs have evolved, however, to include those that do not passively track an underlying index or benchmark.*

ETFs can be grouped into different categories, which may include:

Index ETFs

ETFs that use an index tracking approach generally follow a pre-selected index, called a benchmark, and the return on the ETF will closely correlate with that of the underlying index. Index ETFs follow a variety of indices, including the broad market (both Canadian and international), sectors such as infrastructure or health care, and commodities (including natural gas, oil and gold), as well as indices that offer exposure to dividends or fixed income. The weightings used in the underlying index could be based on market capitalization of the constituents or on fundamental factors such as financial criteria. Index ETFs may also follow indices that adhere to a certain investment style, such as value or growth.

Inverse and Leveraged ETFs

Inverse ETFs are designed to seek daily investment results that correspond to the inverse daily performance of their underlying index or benchmark. To meet their investment objectives, inverse ETFs use a variety of derivatives such as futures contracts and index swaps to reproduce a daily result that is the opposite of the underlying index or benchmark; so, when the index or benchmark goes down in value on a given day, the inverse ETF will correspondingly go up in value for that given day. Conversely, when the index or benchmark goes up in value, the inverse ETF will correspondingly go down in value. Investing in these ETFs is similar to holding short positions, or using a combination of advanced investment strategies to profit from declining prices.

Leveraged ETFs are designed to seek daily investment results to provide a multiple of the daily performance return of an underlying index or benchmark (for example, 200% the return). They are not intended to provide that same multiple of the return over the mid or long term. Investors should be aware that, while leveraged ETFs typically achieve their stated objective of a multiple of the daily performance of an underlying index on a daily basis, their returns can vary considerably from that stated objective if held for a period longer than one day. Note that some leveraged ETFs are also inverse, in that they track the opposite of the return of an underlying benchmark.

To meet their investment objectives, leveraged ETFs use a variety of derivatives such as futures contracts and index swaps to provide a multiple of the market exposure of the stocks in the fund. Leveraging increases the risk of the investment in such an ETF, in that losses will be magnified by that same multiple.

Inverse and leveraged ETFs are generally intended for use in daily or short-term trading strategies, and are not intended for investors who are looking to hold positions in a security beyond the short-term. Over time, a leveraged fund can drift from its benchmark due to the effects of compounding, especially during periods of market volatility. Therefore, the return on these ETFs for periods longer than a single day will not correlate with the return of the underlying benchmark. Accordingly, significantly more risk is involved in these types of ETFs than in index ETFs.

It is important that investors clearly understand the nature and risks of any ETF prior to investing.

Commodity ETFs

Commodity ETFs provide exposure to commodities such as energy (e.g., natural gas or oil), precious metals (e.g., gold, silver or platinum), or livestock and grains, either by (i) holding the physical commodity directly, (ii) tracking the performance of the spot market price through physical forward contracts, or (iii) investing in or tracking the performance of commodity futures contracts. ETFs that hold the physical commodity provide exposure to the spot price of the commodity without the trouble of storing the commodity. ETFs that hold futures provide exposure to futures without the trouble of rolling them over. Most commodity indices are futures price indices, reflecting a change in the price of commodity futures, not in the commodity price.

Currency ETFs

Currency ETFs provide exposure to currencies and can also hold either the actual currency or futures contracts. Some are designed to be long or short on one currency against others; some are designed to hold a mix of long and short futures positions among several currencies.

Actively Managed ETFs

Index ETFs are generally designed around a passive strategy and therefore typically have lower management fees. Some ETF providers offer actively managed ETFs that operate more closely to the concept of a mutual fund. These ETFs have an active manager making investment decisions, often with the objective of outperforming rather than tracking a particular benchmark index, but usually with lower management fees than a traditional mutual fund.

Exchange Traded Notes (ETNs)

Exchange traded notes are debt obligations of the issuer and trade like ETFs. They do not guarantee any return of principal at maturity and do not pay any interest during their term. While they exhibit no tracking error in that their return at maturity is linked to the return of the underlying index (minus expenses), they do exhibit credit risk linked to the issuer. ETNs offer long and short or inverse exposure to commodities and currencies as well as leveraged exposure.

Source: tmxmoney.com

Non-Transparent Actively Managed ETFs

A Revolution in the Making.

Jeffrey Shaul
President and CEO

ROBSON CAPITAL INC.

In 2012 ETFs in Canada grew at a pace over three times faster than that of conventional mutual funds. With their attractive features including intraday liquidity, independent price discovery, lower fees and ease of administration, ETFs are here to stay – and mutual funds have taken notice.

Most existing ETFs are passive investment vehicles, in that they hold a mix of securities designed to replicate the returns or otherwise match the characteristics of a particular published securities index. But now the actively managed mutual funds are getting into the act. Some of the largest mutual fund companies in the United States have applied to the Securities and Exchange Commission (SEC) for exemptive relief to enable their actively managed funds to be offered in an ETF format. And the SEC is slowly but surely relaxing restrictions, to enable actively managed funds to be created and launched. Many industry watchers expect actively managed ETFs to grow faster in coming years than their passive counterparts, including McKinsey & Co. which recently predicted that assets in actively managed ETFs will explode to $500 billion by 2020, up from $10 billion today. Others are of the view that this estimate is too low.

We've now seen more actively managed ETFs created, notably PIMCO's actively managed bond ETF launched in March 2012 which has now reached $4 billion in assets under administration. However, most of the actively managed ETFs recently launched are in the fixed income category. What's holding back mutual funds from launching actively managed *equity* ETFs? The main reason is daily portfolio disclosure. In the United States, regulations require all ETFs to disclose their portfolio holdings daily.

Applications have been made to the SEC to relax this requirement. But in Canada the situation is different, and actively managed ETFs are not required by law or regulation to publish or otherwise disclose their holdings daily.

Unlike mutual funds, most transactions in ETF shares are conducted in the secondary market (i.e. on the exchange) and do not involve the movement of assets in or out of the fund. The secondary market price of ETF shares is determined by supply and demand and is affected by the current value of the portfolio of investments held by an ETF. The creation and redemption of ETF shares are typically done between market makers and the ETF, with the ETF exchanging ETF shares for a block of the ETF's underlying holdings having a value equal to the ETF shares. In order to provide efficient intraday trading in ETF shares, market makers must be able to engage in hedging and arbitrage activities to manage risk, and daily knowledge of the detailed portfolio composition is needed to carry out these activities. Typically, market makers will hedge the sale or purchase of ETF shares to or from investors by taking an opposite position in the securities contained in the ETF's portfolio. Or they might make trading profits by arbitraging differences between an ETF's share price on the exchange and the current value of the ETF's holdings. If the composition of the actively managed funds were not known to the market makers, trading of such funds intraday could be extremely difficult since accurate pricing vehicles (such as arbitrage and hedging) would not be present.

However, daily portfolio disclosure would expose the actively managed mutual fund to the risks of free riding and front running: free riding by duplicating the fund portfolio manager's added value and intellectual property without compensation, and front running by identifying stock positions under accumulation by the fund portfolio manager and buying ahead of the full accumulation. These problems are particularly acute in the case of equity funds, because free riding and front running with other asset classes such as fixed income are more difficult and/or less profitable activities to carry out than with equity funds.

In the US, mutual funds await a decision of the SEC to relax the daily transparency requirement. But in Canada the problem is a practical one: how to enable market makers to efficiently make markets in actively managed ETFs by carrying out hedging and arbitrage activities without daily knowledge of detailed portfolio composition.

Robson has developed a pragmatic solution to the practical problem. Its proprietary system (patent pending), provides a mechanism for market makers to engage in hedging and arbitrage activities and thereby effectively price the shares of an actively managed ETF without knowing the actual underlying holdings of the actively managed fund. Mutual funds and other active managers will not have to make any greater or more frequent portfolio disclosure than they do currently. The system will deter free riding and front running by maintaining the confidentiality of underlying portfolios, thus preserving the benefits of the proprietary management strategies and the advantages to investors of the ETF format. Mutual funds have shown interest in the system, and Robson is working with industry participants to further develop a workable platform based on its system.

If and when mutual funds (and other actively managed investment funds) can create ETF versions of their actively managed equity funds, the investment floodgates will open. ETFs will then be clearly viewed as a fund distribution format, and a delivery mechanism superior to the conventional mutual fund format, rather than a separate asset class. Actively managed equity ETFs will transform the way mutual funds are sold – and the revolution might happen first in Canada.

Jeffrey C. Shaul, President and CEO, Robson Capital Inc.
jshaul@robsoncapital.com

How the Pros use ETFs to Raise the Bar on Portfolio Management

With over 4700 exchange traded products (ETPs) available in the market today and the growth in assets under management from $146 billion ($USD) to $1.839 trillion ($USD) in the last ten years[1], increasing numbers of investors are looking for ways to put the many benefits of ETFs to work in their portfolios.

Robyn Graham
Vice President/ Associate Portfolio Manager

Not many years ago, investing meant taking out an annual term deposit or GIC each year with your local bank or trust company. In the 1990's mutual funds exploded in popularity by giving smaller investors the opportunity to diversify into stocks, bonds and foreign investments by pooling their investments with other like investors.

The recent popularity of exchange traded funds has led many to draw comparisons between ETFs and mutual funds. There are many similarities: both vehicles provide access to capital markets by pooling and unitizing a basket of securities. Both offer diversification benefits and liquidity and share similar legal and custody structures for the investor's protection.

The ETF vehicle has taken the evolution of investing to the next level, however, by securitizing these diversified baskets of securities and listing them on stock exchanges throughout the world. What this means for investors is that diversified asset exposure can now be bought and sold at very reasonable cost any time markets are open. Investors and advisors are availing themselves of this opportunity, building simple portfolios of ETFs inside their RRSPs and out, with better diversification than most investors could previously afford to obtain.

HAHN INVESTMENT STEWARDS

For most people, however, the challenges of choosing suitable investments and monitoring those investments remains daunting regardless of whether they are using ETFs, mutual funds, or individual securities. In a global investment environment where markets are increasingly driven by global macro-economic factors, the value of expertise in professional investment management is more important than ever before. ETFs have caused a quantum shift in professional portfolio management techniques and it is in this arena where the most value and benefit have been delivered to the investor. Where previously the lion's share of professional analysis would have gone into selecting one security over another, now emphasis is increasingly being placed on global macro-economic analysis and the resulting asset allocation decisions that are the key drivers of portfolio risk and return.

ETFs have provided intra-day liquidity and affordable access to asset classes that were previously prohibitively difficult and expensive to access, such as commodities, precious metals and emerging market fixed income. Further, the proliferation of ETFs now makes it possible for money managers to not only access cheap beta, but to overlay thematic weightings in the portfolio using specialized ETFs such as those focused on income generation. As a result, it is now possible with as little as $100,000 to build a better portfolio at less cost than was possible 15 years ago with individual securities[2]. Most importantly, the liquidity of the ETF vehicle enables professional managers to employ a tactical component in their asset mix decisions at far less cost than with a portfolio of individual securities. In today's volatile, globally inter-connected investment markets, the need for diversification has never been more acute. The potential to manage risk and generate alpha through tactically managed ETF portfolios has never been greater.

Robyn Graham, Vice President/Associate Portfolio Manager
HAHN Investment Stewards ***rgraham@hahninvest.com***

[1] BlackRock ETP Landscape Report, October 31 2012.

[2] Wilfred J. Hahn, co-CIO, HAHN Investment Stewards & Company Inc.

Are ETFs Cheaper?

Scot Blythe / April 02, 2013 – As ETF assets grow, there is pressure to reinvent the wheel. It's natural because many investors don't want just beta. They may want dividends; they may want low volatility; they may want enhanced indexing. There is, for example, now a covered-call ETF on BRIC countries.

But these add-ons come at a cost. And that cost means that ETFs are not necessarily cheaper than mutual funds – at least in the U.S. That's what Vanguard Group strategist Joel Dickson told Barron's magazine recently.

His argument rests on two factors. First, passive ETFs should be compared with index mutual funds and active ETFs should be compared with active mutual funds. Second, analysts should follow the money. It's not enough to compare the MER of the average ETF with that of the average mutual fund. Instead, the comparisons should be dollar-weighted.

It turns out that American investors are price-conscious. In the passive arena, they pay 15 basis points for index mutual funds and 30 basis points for ETFs. One reason is that some ETFs are using costlier enhanced indexes. For example, WisdomTree's Japan Hedged Equity ETF (recently spotlighted on Benzinga.com, an ETF trading site) focuses on companies whose earnings are derived from exports rather than the moribund domestic economy.

Also, while 97% of U.S. ETFs track indexes – some of consequence, some of no consequence, Dickson notes – actively managed ETFs are slightly more expensive, on a dollar-weighted basis, than actively managed mutual funds.

Of course, the U.S. marketplace is not directly comparable to Canada's. Canadian mutual funds have embedded advisor compensation. U.S. funds normally do not. Instead, it's pay-to-trade with a broker – and some brokerage firms are offering free ETF trading – or else clients sign up with a Registered Investment Advisor, who also has a fiduciary obligation, on a fee-for-service basis.

That split between trade facilitation and advice is not as distinct in Canada. In the interim, however, it gives fee-based advisors a leg up on advisors who rely on embedded sales commissions.

Two Vanguard International Funds and ETFs to Transition to FTSE Indices

Emily Perryman / March 28, 2013 – The Vanguard European Stock Index Fund and Vanguard Pacific Stock Index Fund have begun tracking FTSE indexes.

The two funds previously tracked MSCI indexes.

In connection with the index change, the names of the funds' ETF share classes will change. Vanguard MSCI Europe ETF will become Vanguard FTSE Europe ETF. Vanguard MSCI Pacific ETF will become Vanguard FTSE Pacific ETF. The ETFs' ticker symbols (VGK and VPL, respectively) will remain the same.

Vanguard recently disclosed expense ratio reductions for various share classes of the two funds, including the ETF share classes. In particular, VGK and VPL reported 2012 expense ratios of 0.12 per cent, a decline of two basis points from 2011. The current expense ratios of the funds will not be immediately affected by the transition, although Vanguard expects that the licensing agreements with FTSE will enable the firm to deliver lower costs over time.

Vanguard announced in October 2012 that 22 funds would be adopting new indexes.

Senior Loans: The Other High-Yield Debt

Investors are reminded daily of the fragile economic recovery, uncertain outlook for long-term growth and prospect of rising interest rates and inflation. During these heightened periods of volatility, they traditionally migrate to low-yielding investments as a means of protecting capital. With current yields at historical lows, this flight to safety represents an opportunity cost of lost income.

Michael Cooke
Head of Distribution
PowerShares
Canada

Senior loans, an alternative high-yield asset class, offers investors another option to diversify their income strategy. These loans are appealing because they can offer yield advantages over investment grade securities, are secured by collateral and rank high in a company's capital structure in the event of a bankruptcy.

What are senior loans?

Senior loans (also called leveraged loans, syndicated loans, bank loans or floating rate loans) are a privately arranged corporate debt instrument that provides capital to a company, usually below investment grade. They are structured, arranged and administered by a commercial or investment bank. The loans are secured by collateral (such as property, inventory, equipment and intangibles) and are typically issued in conjunction with leveraged buyouts, mergers or acquisitions.

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A key feature which makes senior loans particularly attractive is their relative lower volatility to other high-yield or fixed-rate instruments1. Unlike traditional bonds, interest rates reset or "float" every 30 to 90 days to reflect changes in a base interest rate, such as LIBOR (London Interbank Offered Rate), the primary global benchmark for short-term rates representing the best rate banks are willing to pay one another. This means that changes in prevailing interest rates tend to have less impact on the price of a senior loan than on a comparable fixed-rate security.

Senior loans offer priority of repayment and protection. In the event of a bankruptcy, they have the highest claim on a company's assets since payment of interest and repayment of principal on its loan is usually contractually senior to any other form of debt or equity within a company's capital structure.

Institutional, high-net-worth and retail investors can get direct exposure to the senior loan asset class in a variety of formats including separate accounts, commingled institutional vehicles, leveraged investment vehicles and various retail offerings.

Strong performance in rising rate markets

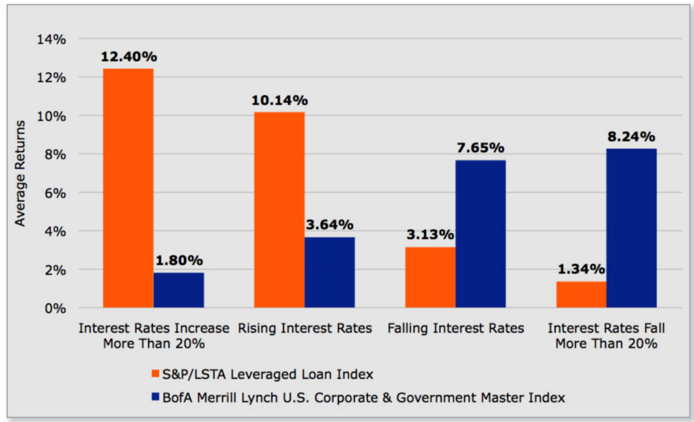
Based on the back-tested analysis summarized in the table, senior loans, as represented by the S&P/LSTA (Loan Syndications and Trading Association) Leveraged Loan Index* have fared extremely well in rising interest rate environments when compared to conventional bonds paying fixed coupons, as represented by BofA Merrill Lynch U.S. Corporate and Government Master Index.

When rates increased, the average total return, including both price return and coupon for the S&P/LSTA Leveraged Loan Index was 10.14%. This increased to 12.40% when compared to a period in which interest rates increased dramatically by more than 20%.

Conversely, during a period of falling interest rates [2], the floating rate index returned 3.13% while a traditional fixed-income index, as measured by The BofA Merrill Lynch U.S. Corporate & Government Master Index, increased by 7.65%. These figures illustrate a more significant contrast when comparing periods where interest rates fell by more than 20%. The floating rate index returned 1.34% while the fixed-income index returned 8.24%.

Impact of rising/falling[2] rates on floating vs. fixed-income securities

Change in interest rates is based on the 5-year U.S. Treasury yields for the period December 31, 1998 – February 28, 2013



Source: Bloomberg L.P., February 28, 2013

*BKL tracks the S&P/LSTA U.S. Leveraged Loan 100 Index (CAD Hedged). The index consists of 100 loan facilities drawn from a larger benchmark - the S&P/LSTA (Loan Syndications and Trading Association) Leveraged Loan Index

What does this mean for the investor? Based on back-tested data illustrated in the chart above, floating rate coupons paid by senior loans can provide a cushion in a rising rate environment, and have historically led to significant positive performance.

How do senior loans fit into your portfolios?

Senior loans represent a unique asset category with the potential to provide investors with current income as well as significant investment grade, fixed-income portfolio diversification (see correlation chart below).

5-year correlation matrix

	DEX Universe Bond Index	DEX Universe Corporate Bond Index	DEX Universe Government Bond Index	DEX Short Term Bond Index	DEX Long Term Index	DEX Real Return Bond Index
S&P/LSTA U.S. Leveraged Loan 100 Index (CAD Hedged)	-0.14	0.33	-0.28	-0.35	-0.03	0.29

Source: StyleADVISOR, as at December 31, 2012. Note: CAD Hedged version of S&P/LSTA U.S. Leveraged Loan 100 Index was created August 11, 2011. The correlations shown in the above chart are based on the five-year period ending December 31, 2012. Previous to August 11, 2011, reconstructed hypothetical index performance data has been used in the correlation calculations.

The combination of floating rate income, collateral security and seniority in a borrower's capital structure means that senior loans can act as a hedge against rising interest rates while at the same time offer the security of collateral. They fit into most investors' fixed-income portfolios as a complement or substitute to (high-yield) corporate bonds.

Continued on page 12

Continued from : Senior Loans: The Other High-Yield Debt page 11

Many investors think of senior loans being as risky as high-yield bonds. However, senior loans are less risky than traditional high-yield bonds in two ways:

1. Less credit risk. As senior loans are generally secured by collateral and rank higher on the credit hierarchy, they face much less credit risk than unsecured bonds from the same issuers. Historically, they have faced lower default rates and greater success in recovering assets in a liquidation scenario [3].

2. Significantly less interest rate risk. As the loans have floating interest rates that reset every 30 to 90 days, their sensitivity to interest rates is substantially eliminated. The duration (a measure of interest rate risk) of senior loans is measured in days, as compared to years for traditional bond portfolios.

An alternative way to diversify an income strategy

Senior loans are appealing because they offer the potential for yield in a world nearly devoid of it. With lower exposure to credit risk and the potential to keep pace with rising interest rates, senior loans represent potential value and opportunity for investors considering alternative income strategies.

As the economic recovery continues and interest rates remain near record lows, they may have nowhere to go but up. In an environment of rising rates and inflation, owning senior loans may help protect investors' purchasing power since they typically pay more income as rates rise.

The popularity of the asset class, continues to grow. Exchange Traded Funds holding U.S. senior loans grew by over U.S. $1 billion from December 31, 2012 to February 28, 2013.4 An easy to execute, liquid and cost-effective way to access the asset class is through BKL PowerShares Senior Loan (CAD Hedged) Index ETF. It offers investors:

- access to an asset class, that has delivered higher yield than other debt instruments of equal or higher credit quality (on a back-tested basis);
- access to the low duration of senior loans, which may help to reduce a portfolio's overall interest-rate sensitivity; and
- added security against borrower default.

At today's prices, with senior loans trading at a discount to par, they are one of the only fixed-income asset classes providing a high level of current income and yield for your portfolios.

Michael Cooke, Head of Distribution
PowerShares Canada
michael.cooke@invesco.com

Invesco

BKL - ETF CHARACTERISTICS (at February 28, 2013)

Ticker	BKL
Listing date	April 16,2012
Distribution frequency	Monthly
Management fee	0.90%
Weighted average YTM	5.63%
Weighted average price	$98.64
Days to reset	31

[1] Source: Invesco analysis using Bloomberg LP. The historical volatility, as measured by standard deviation, for the period Jan 1, 2002 to Feb 28, 2013 was 7.67% for the S&P/LSTA Leveraged Loan Index, and 10.57% for the BofA Merrill Lynch US High Yield Master II Index.

[2] The analysis takes the monthly average 1 year return of the indices based on whether interest rates, as measured by the yield on the 5 Year US Treasury Securities, have increased or decreased.

[3] Source: S&P Dow Jones Index. The recovery rate for the 1987 – Jun 30, 2012 was 77.9% on Bank Loans and 28.5% for Subordinated Bonds

[4] Source: Bloomberg LP.

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Exchange Traded Products ETPs

TMX

ETP Style	Management Style	Sectors	Fixed Income	Currencies	Commodities	International
Broad-based	Passive	Agriculture	Corporate Bonds	Australian Dollar	Copper	Global Funds
Narrow-based	Active	Base Metals and Materials	Convertible Bonds	Euro	Crude Oil	Japan
Equal-weight	Leveraged	Energy	Government Bonds	Pound	Gold	Latin America
Balanced	Inverse	Financial	Long-term	U.S. Dollar	Grains	United States
Buy Write	Bullish	Healthcare	Short-term	Yen	Natural Gas	BRIC (Brazil, Russia, India & China)
Preferred Share	Bearish	Infrastructure	Money Market		Silver	EAFE (Europe, Australia, Asia and the Far East)
Dividend Income		Information Technology	Laddered	**Derivatives**		
Small-cap		Mining	High Yield	Options		
Large-cap		Oil Sands	Target Maturity	Leveraged		
Growth		Real Estate	Floating Rate Bonds	Swaps		
Value		Socially Responsible				
Spreads		Utilities				
Volatility		Water				
Managed Futures						

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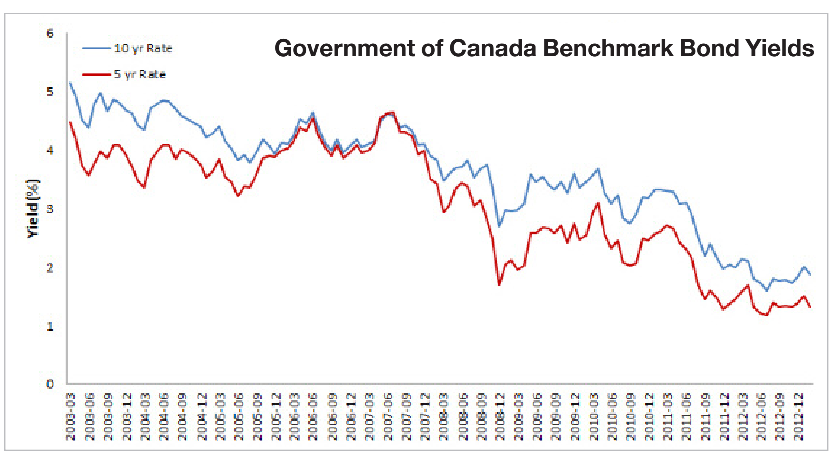
A Better Way to Invest in Government Bonds

Yields on investment grade federal government bonds in Canada, the United States and globally have declined to the point where, in some cases, real yields are actually negative.

Barry Gordon
President & Chief Executive Officer
First Asset

They are extremely low and given that yields to maturity are approaching zero in some cases, it seems increasingly difficult for anyone to make the case that buying government bonds is a good idea; other than perhaps as a temporary safe haven from equity market volatility.



Source: Bank of Canada

However, for investors that require the surety of income derived from owning bonds, talk of record low yields and how investors might be better off switching to equities to earn dividends instead will not help, nor will it satisfy their needs. They want to own bonds, but the problem is finding the right ones to own.

The good news for these investors is that there are still pockets of relatively good value in government bond markets around the globe. One such opportunity currently exists with Canadian provincial bonds. Bonds that are issued by the Provinces of Canada – predominantly Ontario, Quebec and British Columbia – or by provincial utilities that have the backing of unconditional guarantees of payment from the province – are trading at wide spreads relative to their historic norm. Currently, the average spread to similar term bonds issued by the Government of Canada stands at about 0.90% (90 bps). Historically, the average spread is about half of that, implying that a reversion to the mean would result in price appreciation of the provincial bonds. Combined with the naturally higher coupons that provincial bonds typically offer, the results are compelling: higher yields and the opportunity for capital appreciation from compression of spreads back towards their historical averages.

Like many parts of the fixed income market in Canada, trading in provincial bonds is less accessible to the average investor than buying federal government debt. The market is less liquid overall, and without access to trading professionals, it may be difficult to receive adequate price discovery in the purchase of provincial bonds. First Asset's DEX Provincial Bond Index ETF (listing – PXF on the TSX), with a management fee of 0.25% (25 bps) offers a very cost effective way to buy a position in certain provincial government bonds. PXF aims to replicate, as its name implies, the DEX Universe Provincial Bond Index (the Index), which is a subset of the DEX Universe Bond Index. It is a broad representation of the spectrum of provincial bonds issued and doesn't focus on a particular province, region, or term to maturity. PXF is the first ETF to offer investors access to this Index.

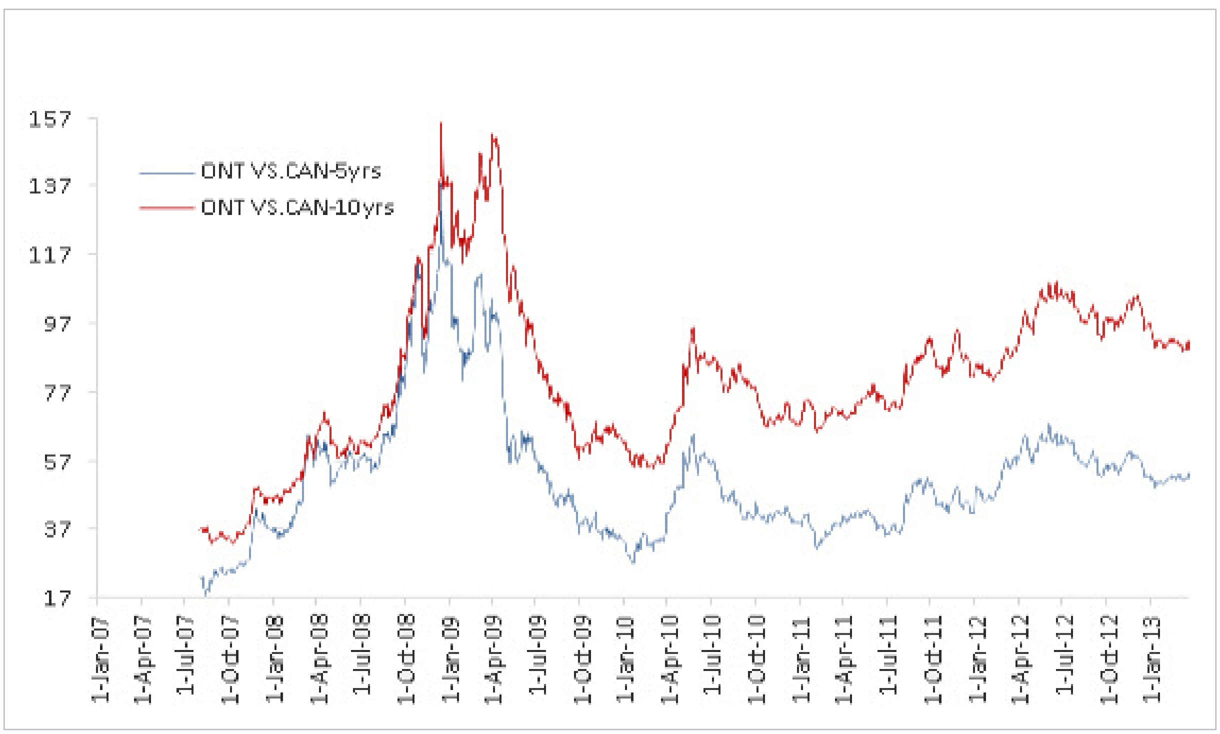
PXF Highlights

- Reflects the performance of semi-annual pay fixed-rate provincial bonds denominated in Canadian Dollars
- Constituent Securities of the Index have an effective term to maturity of at least one year, a credit rating of BBB or higher and a minimum size requirement of $50 million per issue
- Each Constituent Security in the Index is weighted by its relative market capitalization and rebalanced on a daily basis to include new issues, and remove issues when their effective term to maturity declines to one calendar year
- Current Yield of 4.30% and Yield to Maturity of 2.75%
- Management fee of 25 Bps

Provincial government bonds offer good value relative to their federal counterparts – higher yields and the opportunity for capital appreciation. First Asset DEX Provincial Bond Index ETF (PXF) is an ideal solution for investors seeking stable, reliable yield distribution.

Barry Gordon, President and Chief Executive Officer, First Asset
bgordon@firstasset.com

Historical Spreads Between Provincial and Federal Government Yields



Source: Scotibank

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2013 CALENDAR OF EVENTS

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Exchange Traded Forum

Thursday, May 2 & Friday, May 3 ~ Toronto
Wednesday, June 19 ~ Vancouver / October ~ Montreal

EXCHANGE TRADED FORUM 2013

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ETRs, ETFs, Indexing
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Niagara Institutional Dialogue

Monday, June 10 to Wednesday, June 12 ~ Niagara-on-the-Lake

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Monday, Sept. 9 to Wednesday, Sept. 11 ~ Niagara Falls

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