VOL 5 ISSUE 3 MAY 2014

CANADIAN

ETF Watch

canadianetfwatch.com

Smart Beta ETFs and the Institutional Investor

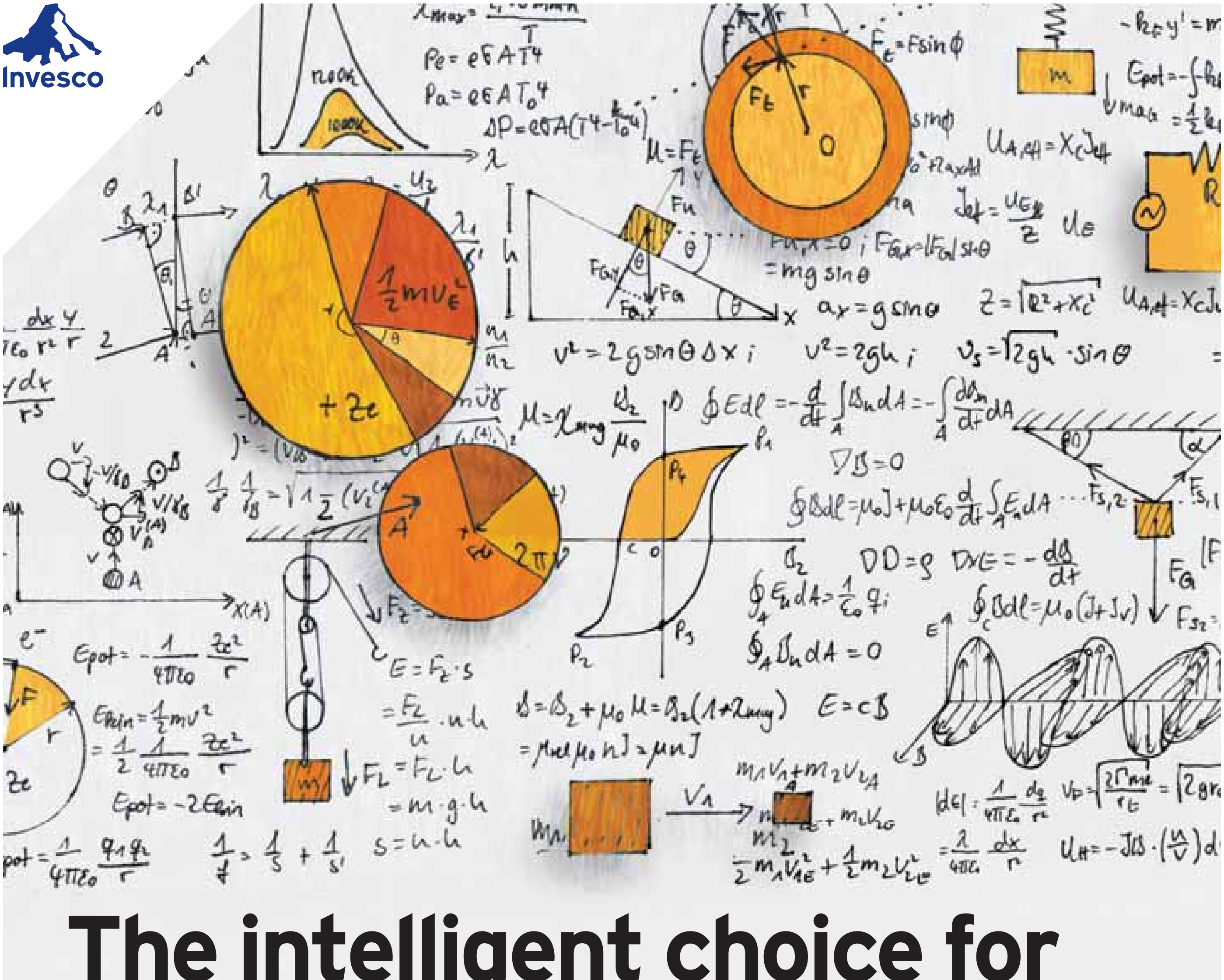
SPECIAL CONFERENCE EDITION

EXCHANGE TRADED FORUM 2014

exchangetradedforum.com

VANCOUVER

TUESDAY, JUNE 17



SPECIAL CONFERENCE EDITION
EXCHANGE TRADED FORUM 2014
exchangetradedforum.com

VANCOUVER
TUESDAY, JUNE 17

ETP FLOWS EXCEED $30bn IN RECORD APRIL AS ECONOMIC OUTLOOK STABILIZES AFTER A VOLATILE FIRST QUARTER

Global ETP inflows surged to a six-month high of $33.5bn in April and were broad- based, led by emerging markets, US large cap equity and renewed strength for non-US developed markets.

April marked a return to fundamentals-based investing with the global economy on more solid footing, headline risks muted, US earnings season off to a good start and the emerging markets driven equity volatility of Q1 out of the picture.

Emerging markets ETPs led both equity and fixed income flows during the month:

- Broad EM equity gathered $5.9bn – the first positive month since October – though the late-March surge that continued into April slowed to close the month
- Broad frontier markets equity brought in $0.2bn to double the year-to-date total as market returns accelerated in April following a strong Q1 and 2013
- EM debt ETPs contributed $1.3bn – the best month since October 2012 – and investors continue to favor hard currency over local currency funds

Non-US developed equity ETPs, which remain an attractive option for investors seeking relative value as the US bull market continues, generated flows of $9.9bn in April to regain momentum after a flat March.

April ETP flows reflected the market trend toward value over growth as US value equity funds gathered $3.1bn while redemptions for US growth totaled ($1.2bn).

US sector ETP flows were $4.4bn – focused in energy,utilities and industrials – and reached $14.5bn year-to-date to keep pace with last year's $35.7bn record.

Sources: BlackRock April 2014 ETF Landscape

Terry Krowtowski, Vice President
Radius Financial Education

CANADIAN ETF Watch
canadianetfwatch.com
MAY 2014 | VOL. 05 NO. 03

Editor
Sovaida Pandor

Contributing Writers
Howard Atkinson, Keno Chan, Karl Cheong, Michael Cooke,
Trevor Cummings, Barry Gordon, Drew Millard, Carmela Pallotto

Sales Director
Terry Krowtowski

Art Director
Vic Finucci

Online Developer
Ferenc Schneman

Contact Information
Canadian ETF Watch
20 Toronto St., Suite 820, Toronto, Ontario M5C 2B8
tel: 416.306.0151 ext. 2236

Media, Advertising & Editorial
info@radiusfinancialeducation.com

Subscriptions
info@canadianetfwatch.com

Canadian ETF Watch is published 6 times per year by **Radius Financial Education.** We welcome articles, suggestions and comments from our readers. All submissions become the property of Canadian ETF Watch, which reserves the right to exercise editorial control in accordance with its policies and educational goals.

If you would like to cancel your subscription at any time, please contact **info@radiusfinancialeducation.com**

Disclaimer

Canadian ETF Watch presents news, information and data on both Canadian and Global exchange traded funds activity. The information presented is not to be taken as an endorsement, investment advice or a promotion for the organizations and individuals whose material and information appears in this publication or on the Canadian ETF Watch website.

The material presented, separate from paid advertisements, is for the sole purpose of providing industry-specific information. As with all areas of financial investing, Canadian ETF Watch recommends strongly that readers should exercise due diligence by consulting with their investment advisor or other trusted financial professional before taking any action based upon the information presented within these pages.

Radius Financial Education
radiusfinancialeducation.com

CONTENTS

CONTENTS

Smart Beta ETFs and the Institutional Investor

While "smart beta" has become a buzzword in the investment community, the concept is far from new. Since the 1970s, investment managers have used alternative weighting and factor-driven strategies, albeit not labeled as smart beta.

Michael Cooke
Head of Distribution
PowerShares
Canada

Recent asset flows and surveys also indicate that institutional investors are increasingly turning to exchange traded funds (ETFs) as an efficient way to gain exposure to smart-beta strategies. As the term enters the main stream, plan sponsors can benefit from learning more about how smart-beta strategies expand portfolio construction opportunities, especially in an environment of plan de-risking.

The Third Pillar of Investment Portfolios

For decades, investors debated the relative merits of active management versus passive investment. Advocates of active management believed financial markets were inefficient. Those who believed in the efficiency of markets chose to invest in market-capitalization-weighted index strategies.

Those in the inefficient market camp relied on active asset managers who sought superior returns through deep fundamental analysis of individual companies.

Over the last 25 years, the field of active management has been narrowed by an accelerating trend among global asset managers towards closet indexing focused on relative risk management. This growing unwillingness to deviate substantially from accepted benchmarks can be seen in the decline of active share scores and lower tracking error among investment managers versus benchmarks.

As many actively managed portfolios converged on the index, their returns tended to fall short of their benchmark, due to the drag imposed by their management fees.

While truly active managers with a long-term track record of outperformance can still be found, they are an increasingly rare breed in the asset management industry.

It was the recognition of this trend that led many institutional investors to embrace passive strategies that delivered lower cost market exposure. The merits of passive investment were further validated by finance theories such as the Capital Asset Pricing Model (CAPM), which argued that the capitalization-weighted market portfolio offered the best possible trade-off between risk and return. These theories assumed that investors are always rational and objective and that share prices continuously reflect all relevant available information and trade at their fair value.

The most efficient way to access the market portfolio was through beta. Beta reflects the risk/return attributes of the total capital invested in a market by participants. Beta can only be fully accomplished through a market-capitalization process. Thus, for investors that believed in the efficiency of markets, the market-capitalization-weighted index offered the most utility.

Empirical analysis refutes finance theory on the efficiency of markets. By relying on a single metric, market-capitalization-weighted indices overweight overvalued securities and underweight undervalued securities. Risk premiums vary over time and depend greatly on starting valuations. Building a portfolio to hold more of an asset when it is expensive and less when it is cheap will create a return drag of up to 2% in developed markets and more in less efficient ones (See table below).

Smart beta, or non-market-capitalization-weighted, indices give investors a third choice, retaining the benefits of traditional indices: broad market exposure, diversification, liquidity, transparency and low-cost access. By giving investors access to specific investment factors that affect risk and return, such as fundamentals or low volatility, smart-beta indices also provide investors the opportunity to better manage risk or potentially outperform the capitalization-weighted index.

Smart-beta strategies are generally diverse, simple, transparent, low cost and systematic in nature. They look beyond the traditional cap-weighting methodology to construct indexes that focus on a wider array of factors. The most popular strategies include:

- **Low volatility (e.g., S&P 500 Low Volatility Index)**
- **Fundamentals weighted (e.g., FTSE RAFI US 1000)**
- **Dividends**
- **Equal weight**
- **High beta**

The shift toward smart-beta strategies is gaining momentum with some of the world's largest pension plans.

On April 4, 2014, Japan's $1.3 trillion Government Pension Investment Fund (GPIF) announced it would re-allocate a portion of its $214 billion Japanese equity portfolio to a fundamentals-weighted strategy designed by Research Affiliates. At the same time, the plan will reduce its exposure to passive strategies that track the TOPIX index, as well as its traditional active management. The decision was based on the fund's goal "to effectively capture mid- to long-term excess returns through [an] indexing strategy."

The fundamentals-weighted strategy is a great example of smart beta, preserving many of the desirable characteristics of traditional indexing, but weighting stocks by business metrics such as book value, cash flow, dividends and sales rather than market capitalization. This methodology effectively severs the link between the price and weighting of stocks in a portfolio, focusing instead on the economic size of its constituent companies.

ETF Adoption by Institutional Investors

Recent data suggests that institutions are using exchange traded funds (ETFs) at an increasing rate, due to the vehicle's flexibility, transparency and ease of implementation. The first generation of ETFs was based on traditional indices largely due to the ease of implementation as opposed to the investment merit of these strategies. Early adopters of ETFs used them primarily for short-term applications, such as tactical adjustments, manager transitions, cash equitization and portfolio rebalancing.

The usage of ETFs by institutional investors has been a growing trend especially among larger plans, according to a Cogent Research survey of U.S. institutional investors, commissioned by Invesco PowerShares Capital Management[1]. ETFs are now used by 21% of larger funds (those with more than $1 billion in assets), up from 15% in 2011. Market-capitalization-weighted ETFs remain the most widely used by institutional investors, but a shift towards smart beta is underway.

Whereas the Japanese GPIF example provides an endorsement of smart beta as an investment opportunity for plan sponsors, recent asset flows and survey data suggest the ETF is a preferred vehicle for gaining smart beta exposure. According to Cogent, ETFs are now being employed for more long-term, strategic investments, with 44% of institutional funds holding ETFs for more than two years. This trend has been accelerated by the introduction of smart-beta ETFs designed for outperformance and/or risk reduction. And, like traditional capitalization-weighted indexes, these strategies are generally transparent, passive and rules-based, making them well-suited to the ETF structure and delivering many of the same benefits as traditional ETFs.

Traditional Beta vs. Smart Beta

	Return (%)	Std Dev (%)	Beta	Alpha	Sharpe Ratio
December 1990-March 2014					
S&P 500	10.10	14.65	1.0000	0.00	0.4795
S&P 500 Low Volatility Index	11.03	11.13	0.5696	5.13	0.7148
January 1981-March 2014					
S&P 500	11.17	15.49	1.0000	0.00	0.4213
FTSE RAFI US 1000	13.51	15.22	0.9732	2.48	0.5648

Continued on page 6

Continued from : Smart Beta ETFs and the Institutional Investor page 5

Nearly a quarter of institutional decision-makers (24%) are using smart-beta ETFs, according to Cogent, and that number is expected to rise.

Use of ETFs is expected to increase as more institutional professionals become familiar with these vehicles and the role these funds can play in re-balancing their portfolios and managing risk. While 48% project they'll make heavier use of market-capitalization weighted ETFs, smart-beta ETF usage is expected to grow even faster, with 53% planning to increase their usage.

Many institutional investors said they believe smart-beta ETFs help manage volatility, increase diversification and provide access to enhanced risk-adjusted returns.

Managing volatility appears to be the prime concern among investors currently not accessing smart beta, with 67% saying they expect to include a low volatility strategy over the next three years. High dividend funds and fundamental indexing ranked second and third, at 46% and 34% respectively.

Globally, smart-beta ETFs have garnered tremendous asset flows capturing over $65 billion in net inflows in 2013. In the U.S., smart-beta ETFs accounted for 29% of U.S. ETF equity inflows last year, despite representing only 19% of the assets.

Re-Thinking Plan De-Risking

Strong equity returns and higher interest rates have dramatically improved the funding ratios of Canadian pension plans since the financial crisis. This has accelerated the de-risking of pension plans seeking to remove the major sources of volatility in funded status, while still achieving short-term return objectives. As a complement to liability-matched bond portfolios, plan sponsors may benefit from closer analysis of smart-beta equity strategies that offer a wide array of absolute and relative risk reduction solutions. Smart-beta ETFs offer the further advantages of cost-effectiveness, transparency and liquidity to fund benefits as they come due.

The emerging smart beta category gives institutional decision makers a powerful middle ground in portfolio construction opportunities. The portfolio construction discussion is now about active and passive. As a supplement to other investment strategies, smart-beta ETFs are an effective tool for plan sponsors seeking better risk-adjusted returns and lower costs amid volatile market conditions.

For more information on PowerShares Canada's products, please visit **www.powershares.ca**

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

[1] The Evolution of Smart Beta ETFs, Cogent Research, January

Commissions, management fees and expenses may all be associated with investments in exchange-traded funds (ETFs). ETFs are not guaranteed, their values change frequently and past performance may not be repeated. Please read the prospectus before investing. Copies are available from Invesco Canada Ltd. at **www.powershares.ca**.

There are risks involved with investing in ETFs. Please read the prospectus for a complete description of risks relevant to the ETF. Ordinary brokerage commissions apply to purchases and sales of ETF units.

Most PowerShares ETFs seek to replicate, before fees and expenses, the performance of the applicable Index, and are not actively managed. This means that the Sub-advisor will not attempt to take defensive positions in declining markets and the ETF will continue to provide exposure to each of the securities in the Index regardless of whether the financial condition of one or more issuers of securities in the Index deteriorates. In contrast, if a PowerShares ETF is actively managed, then the Sub-advisor has discretion to adjust that PowerShares ETF's holdings in accordance with the ETF's investment objectives and strategies.
ETFs are not diversified investments.

Toronto Stock Exchange:
Home to Canada's Exchange Traded Products

More than 300 ETPs

Canada Equity
Growth
Dividend
Value
S&P/TSX 60
S&P/TSX Composite
Low Volatility
High Beta
S&P/TSX Small Cap
Covered Calls
S&P/TSX Venture Select
MSCI Canada
FTSE RAFI Canada
Morningstar Canada
Dow Jones Canada

International Equity
Emerging Markets
Europe
Global Funds
Japan
Latin America
United States
BRIC (Brazil, Russia, India & China)
EAFE (Europe, Australia, Asia, and the Far East)

Currencies
Euro
Pound
U.S. Dollar
Yen

Commodities
Agriculture
Base Metals
Precious Metals
Energy
Broad

Volatility & Alternative Strategies
VIX Short-Term Futures
VIX Mid-Term Futures
Managed Futures
Hedge Fund

Multi-Asset
Active Diversified Income
Core Portfolio Funds
Completion Portfolio Builders
Monthly Income Funds

Fixed Income
Corporate
Convertible
Government
Real Return
High Yield
Target Maturity
Laddered
Barbells
Senior Loan

Sector Equity
Agriculture
Consumer Staples
Energy
Financial
Healthcare
Infrastructure
Information Technology
Materials
Metals & Mining
Real Estate
Socially Responsible
Utilities
Water

Exchange Traded Products ETPs | TMX | Toronto Stock Exchange

tmx.com/etp

amelia.nedovich@tsx.com | 416 947-4499
jeff.foster@tmx.com | 416 947-4229

A Smarter Way to Invest in the World

Access global markets with low-risk weighted ETFs

For many years, exchange traded funds (ETFs) have been a transparent, low-cost way for Canadian investors to participate in any number of broad markets or specialized sectors. To meet changing investor needs, ETFs have evolved from their original purpose of replicating the performance of a specific index to the next generation of "smart beta" ETFs that seek to deliver superior risk-adjusted returns.

Barry Gordon
CEO & President,
First Asset Exchange Traded Funds

Smart beta indexing, also known as factor-based investing, is a strategy that considers the many drivers that can influence a stock's risk-return profile, including market capitalization, earnings momentum, historical volatility, price-to-earnings ratios, etc. Depending on the particular ETF's objective, the driver(s) will help determine how to weight the stock holdings in the portfolio to enhance performance and lower risk. In the historical volatility example, if a certain stock has had relatively low volatility in the past, it will have a higher weighting in the ETF relative to higher volatility stocks.

The Low-Risk Approach to Going Global

Most people already know they should invest beyond Canada to benefit from geographic diversification. Canada has outstanding companies, but these companies are largely concentrated in three sectors – financial services, energy and materials.

So why do many Canadians choose to invest only in Canada? Likely it's because they are more comfortable investing in familiar names, and less comfortable trying to sort through the massive universe of stocks available outside of Canada. Traditional ETFs that track the performance of a global or international market take the challenge out of selecting stocks, but do not provide investors with the opportunity to outperform that market or benefit from stronger risk management.

This is where smart beta ETFs hold a distinct advantage. ETFs that offer broad market exposure to the geographic regions they represent, while also being weighted on the basis of low volatility (for example), have the potential to provide stronger returns with a lower risk profile than ETFs that are weighted based on size alone.

First Asset, a leading manager of ETFs that aim to deliver superior risk-adjusted returns, recently introduced two low-risk weighted ETFs based on global and international MSCI risk-weighted indices.

For a convenient, low-risk approach to investing in foreign markets, First Asset now offers:

- First Asset MSCI Europe Low Risk Weighted ETF (TSX:RWE), which offers broad exposure to the lower volatility stocks of developed large- and mid-capitalization companies in Europe and the potential for enhanced risk-adjusted returns.
- First Asset MSCI World Low Risk Weighted ETF (TSX:RWW), which provides broad exposure to the lower volatility stocks of developed large- and mid-capitalization companies from around the world and the potential for enhanced risk-adjusted returns.

Whereas the "market indexes" – MSCI Europe Index and MSCI World Index, respectively – are weighted according to market capitalization, First Asset's low-risk ETFs re-weight each security of the parent index, so larger weightings are given to lower-risk stocks. This approach may include high-volatility stocks found within the index, but these holdings will have lower weightings. This way, the performance of the majority of stocks in that market are captured, but the result is lower realized volatility than the parent index.

Both of the First Asset low-risk weighted ETFs are available either hedged or unhedged to the Canadian dollar, depending on whether an investor wants to avoid the impact of multiple currency movements on the ETF's return (hedged version) or prefers the potential benefits of foreign currency diversification (unhedged version). Either way, First Asset's smart beta strategies focus on minimizing volatility and reducing portfolio risk, while providing access to the potential for enhanced risk-adjusted returns.

For more information about how to access international markets and achieve better risk-adjusted returns than the broader market with low-risk weighted ETFs, please contact **First Asset Exchange Traded Funds** at **1.877.642.1289** or visit us at **www.firstasset.com.**

Barry H. Gordon, CEO & President, First Asset Exchange Traded Funds

Harnessing the Power of Dividends

Income, Growth & Diversification

Trevor Cummings
Head of Business Development, Exchange Traded Funds, RBC Global Asset Management

The last few years have seen a number of factors driving the popularity of dividend-paying equities. As more and more income-seeking baby boomers retire, demographics increasingly support a need for dividend-paying investments. Record low interest rates and an abundance of defensively positioned portfolios have also supported dividend investing since the financial crisis of 2008/2009.

However, over the years, dividend payers have offered a lot more than an income boost or a "safe" way to buy stocks. They have provided the majority of long-term market returns and contributed to lower portfolio risk. They have also provided tax-efficient growing income and the opportunity to build an effectively diversified portfolio. Here we look at the power of a dividend-focused investment strategy, including:

- The performance of dividend equities relative to the overall market.
- The effectiveness of dividends as an income strategy.
- How to combine attractive dividend yields with the potential for dividend growth.

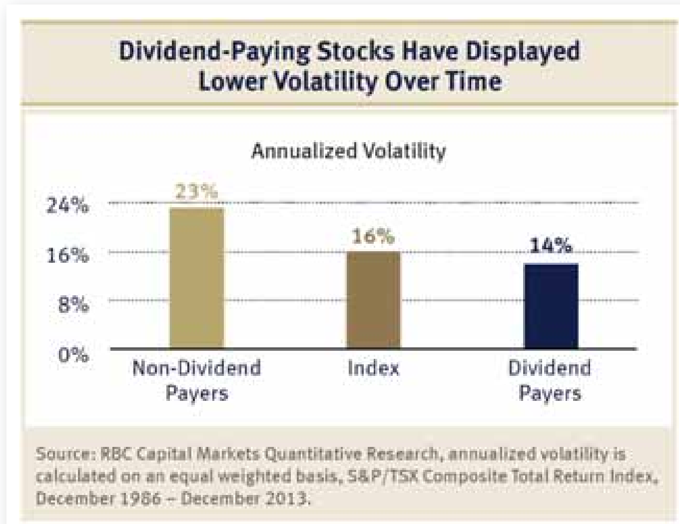
RBC Global Asset Management

Dividends and the Market

A key role in portfolios: Dividend-paying companies represent a significant portion of the global equity market. For example, over 80% of S&P 500 Index companies and close to 80% of S&P/TSX Composite Index companies pay a dividend. Among these are a broad range of well-established, stable and soundly managed businesses from which to build a diversified portfolio. Dividend payments can provide a steady cash flow stream that can be reinvested, reallocated or used for income. When markets decline, they can help offset losses. And when markets rise, they can help boost portfolio returns.

An important component of long-term returns: In Canada, dividend payments comprised over 30% of total equity market returns between 1986 and 2013. As shown in the chart above, investors who reinvested dividends over this period saw total returns that were nearly twice the size of the market's price returns.

Market leadership and attractive risk-adjusted returns: Conventional thinking states that taking on higher risk is the only way to potentially achieve higher returns. However, as the charts below illustrate, companies that pay dividends have not only historically outperformed the index by a wide margin, but have done so with significantly lower volatility.



A Powerful Income Strategy

Income growth that's well ahead of inflation: Along with superior risk-adjusted returns, dividends themselves have provided investors with excellent inflation protection. Over the past 25 years, the S&P/TSX Composite Index dividend yield has grown at just over 5% annually, whereas inflation has driven price increases of just over 2% annually (see table below). Compounded over that time period, inflation caused prices to increase by 70%, while dividend income grew by 244%. The bottom line: investors who continuously withdrew their dividends throughout the past 25 years were rewarded with a remarkable increase in their income relative to inflation.

	Base March 31, 1989	March 31, 2014	Annualized Growth Rate
S&P/TSX Composite Index Dividend	**$100**	**$344**	**5.1%**
Canadian Consumer Price Index	**$100**	**$170**	**2.1%**

Source: RBC GAM, Bank of Canada. Index dividend was calculated using the following method: Index dividend = Index Total Return – Index Price Return.

Superior tax efficiency: It's no secret that eligible dividends are one of the lowest taxed sources of investment income in Canada. From the lowest to the highest tax bracket, eligible dividends are taxed significantly less than interest and regular income.

Continued on page 12

Continued from : Harnessing the Power of Dividends page 11

Assuming the top combined federal and Ontario tax rates, a 4% bond yield is roughly equivalent to a 3% dividend yield on an after-tax basis. Today, however, Canadian investment grade bond yields are in the 3% range, while a dividend-focused strategy can comfortably achieve a quality yield in the 4% range. As such, a dividend strategy today can provide a more attractive income stream for investors on a pre-tax basis, and by an even greater margin on an after-tax basis (see table below).

2014 Combined Top Federal & Provincial Marginal Tax Rates			Earn More and Keep More With Dividends Today's Typical After-Tax Yields	
Province	**Interest Income**	**Eligible Dividend Income**	**3% Bond Interest**	**4% Eligible Dividend Income**
Alberta	39.00%	17.72%	1.83%	3.29%
British Columbia	43.70%	23.91%	1.69%	3.04%
Manitoba	46.40%	26.74%	1.61%	2.93%
New Brunswick	43.30%	20.96%	1.70%	3.16%
Newfoundland & Labrador	42.30%	20.96%	1.73%	3.16%
Northwest Territories	43.05%	22.33%	1.71%	3.11%
Nova Scotia	50.00%	34.85%	1.50%	2.61%
Nunavut	40.50%	25.73%	1.79%	2.97%
Ontario	46.41%	28.19%	1.61%	2.87%
Prince Edward Island	47.37%	27.33%	1.58%	2.91%
Quebec	48.22%	24.11%	1.55%	3.04%
Saskatchewan	44.00%	23.36%	1.68%	3.07%
Yukon Territories	42.40%	14.28%	1.73%	3.43%

Source: taxtips.ca

Chasing Yield and looking to the past

Historically, the focus of dividend ETF investing has been dominated by two strategies. The first dividend ETF strategy is to invest in companies with high dividend yields in the hopes of providing outsized income and the long-term benefits of dividend-payer outperformance. However, many investors have learned that high yields are often red flags for value traps, low-to-no earnings growth or, even worse, future dividend cuts.

The second dividend ETF strategy is to focus solely on historical dividend growers with the assumption that the trends of dividend growth and capital gains will continue. One significant downside to this strategy can be a sacrifice of the attractive dividend of a yield-oriented strategy. A focus on historical long-term dividend growers might also ignore companies that have a smaller capitalization; are newer, yet still fundamentally attractive; are currently transforming their strategy into a dividend-paying model; or are turning the corner on their ability to pay and grow their dividend. Further, research by RBC Global Asset Management's Quantitative Investment Management team has shown that historical dividend growth alone has not been a reliable indicator that a business is healthy or will continue to grow its dividend.

With these two dividend ETF strategies, investors are forced to make a mutually exclusive decision to either chase high yields or purchase dividend growth stocks. But, ultimately, neither strategy provides the full breadth of benefits from dividend investing.

Follow the Leaders

Payment decisions for company dividends are generally made by the board of directors on a quarterly basis. When a board declares a dividend, it has to review whether or not the company can safely pay and/or grow the dividend. Key fundamental factors that the board reviews include whether paying a dividend will allow the company to maintain balance sheet strength and flexibility; future expectations for free cash flow; required capital for future investments and expenditures; and expected profitability of those investments, continuing operations and new lines of business.

As an equity investor, why not also review these forward-looking factors? After all, a company's future health and profitability are more likely to drive stable and growing dividends than a historical dividend-paying track record.

RBC Quant Dividend Leaders ETFs: The best of Both Worlds

In order to build a portfolio that provides attractive income, RBC Quant Dividend Leaders ETFs ("RBC ETFs") first filter their investment universe for attractive dividend yields. Second, they filter for many of the same forward-looking factors used by company boards to help ensure a portfolio of companies that can provide stable dividends and potential dividend growth. To prevent some of the risks of relying entirely on company financial statements, the RBC ETFs may also use market sentiment factors like short interest to gauge whether other market participants deem the companies healthy. Finally, unlike many other dividend strategies, the investment universe considered includes small-, mid- and large-cap names, leaving no "income opportunity stone unturned" to provide broad diversification by both sector and cap size.

Today's investors want it all – an attractive monthly income stream that has the ability to grow over time, and long-term capital growth from a diversified portfolio of sound, stable dividend-paying companies. RBC ETFs offer a strategic, well-thought-out solution that uses forward-looking variables to provide these characteristics. Instead of forcing investors to choose one objective or the other, RBC ETFs offer the best of both worlds: the growth potential of a dividend growers portfolio, combined with the attractive income of a high-dividend portfolio. And they do so by answering the key questions that dividend investors are always asking:

Is the dividend safe and is it likely to grow? Where are the best dividend-paying opportunities?

RBC Quant Dividend Leaders ETFs is designed to solve for these questions and take the weight off of the shoulders of investors looking for attractive income, growth potential and diversification from their dividend portfolios.

Trevor Cummings, Head of Business Development, Exchange Traded Funds, RBC Global Asset Management ***etfs.investments@rbc.com***


Stand Out

Revisiting Commodities

Now might finally be a good time to revisit investing in commodities. After three years of negative returns, a strengthening global economy provides many reasons to consider increasing investments in this asset class, since many of its components seem poised for growth.

Howard Atkinson
President, Horizons ETFs Management (Canada) Inc.

HORIZONS
EXCHANGE
TRADED FUNDS

In March, the Federal Reserve announced a third $10 billion reduction to quantitative easing, decreasing monthly bond purchases to $55 billion.[1] Because commodity prices have historically risen in the presence of inflation, commodity prices may continue to rise as Fed tapering continues.

In fact, since the onset of 2014, various commodity categories have experienced noteworthy upticks in pricing. The Reuters/Jefferies CRB Index – an equal weighted index that follows energy, grain, softs, industrials and metals – is up approximately nine per cent to 301.30 year-to-date.[2] It is up 14 per cent since the three-year bottom it hit in June 2012 of 268.31.[3]

Commodities Seemed to Have Bottomed

John Murphy, Chief Technical Market Analyst with StockCharts.com and one of the most widely followed futures market experts, pointed out in a note on February 22, 2014, that commodities, as represented by the Reuters/Jefferies CRB Index, "bounced off" chart support at mid-2012 lows.

Murphy writes: "…Year-to-date gains have also been seen in other energy markets, precious metals, grains, livestock, cotton, orange juice, and tropicals (cocoa and sugar). While some of them may also be weather-related, there's also the possibility that the commodity upturn may be an overdue reaction to a stronger global economy."

A second driver of a commodities comeback could be the ability of the asset class to be used as an inflationary hedge. In March, the Federal Reserve announced a third $10 billion reduction to quantitative easing, decreasing monthly bond purchases to $55 billion.[4] Because commodities prices have historcially risen in the presence of inflation, one may consider using the asset class as an inflationary hedge.

Commodity Rallies Follow Stock Rallies

In his February note, Murphy also wrote that commodities, as an asset class, trail stock markets. Looking at the chart below, it appears that the CRB Index bottomed-out following the S&P 500®'slowdown in 2011 and then slowly trailed the market, as it rallied upward since then. In the chart, it also appears that commodities are starting to show strength relative to the S&P 500®, possibly suggesting that they may be a more attractive avenue for returns.

Broad Exposure Is Best

Historically, a commodities pullback has tended to only last approximately a year (Direxon/Bloomberg chart); however, the current pullback has lasted three years. This is the first time in 20 years that the Dow Jones UBS Commodity Index has failed to recover during a three-year period, as well as having displayed negative returns on a year-over-year basis.

The amount the Index has dipped over three years may be seen as a green light to value investors that it's a good time to buy, with the Index offering an extreme discount to its highs.

Source: StockCharts.com as at February 21, 2014

Source: StockCharts.com as at February 21, 2014

Continued on page 16

Continued from : Revisiting Commodities page 15

Source: Direxion/Bloomberg, as at December 31, 2013

During the financial crisis of 2008/2009 gold became a rising star since it was viewed as a way to guard against inflation. The market appeared to be extremely bullish on the metal compared to other commodities such as agriculture and energy. The cumulative annual average of gold spot prices rose to $1,411.28 in 2013 from $871.96 in 2008, according to Kitco.com. However, towards the end of 2013, the trend began to unravel, with the cumulative average of the year-to-date spot price falling to $1,292.77.

Historically, gold has rarely been the best beneficiary of returns. The rotation of returns within the asset class frequently changes, which makes it important for investors to seek an approach with broad exposure – featuring different underlying commodity markets to potentially maximize the return benefit from the asset class as a whole. ETF

An ETF That Gives You Broad Exposure

The Horizons Auspice Broad Commodity Index ETF (HBR) is an easy way to get broad commodity exposure in one ETF. HBR tracks 12 commodity futures contracts and will allocate to these contracts using a tactical approach. It will take a long futures position in a commodity when it is trending up; or it will take a flat (zero weight) position in a commodity when it is trending down.

Unlike investing directly in commodity futures, HBR employs a smart-roll strategy that seeks to minimize the negative impact of contango – a situation where the futures price is below the current spot price; it also seeks to maximize the positive impact of backwardation – trading a futures contract at a higher price as it gets closer to expiry.

Why i\Invest In HBR?

- Portfolio diversification using an asset class with historically low correlation to stocks and bonds
- Exposure to a broad and diversified basket of commodities
- Efficient hedge against inflation
- Low-cost access to the commodity and risk management expertise of Auspice Capital for all investors, regardless of portfolio size or experience

Exchange Traded Futures Contracts

Markets Traded	Sectors
Corn	Agriculture
Cotton	
Soybeans	
Sugar	
Wheat	
Crude Oil	Energy
Heating Oil	
Natural Gas	
Gasoline	
Gold	Metals
Copper	
Silver	

2005	2006	2007	2008	2009	2010	2011	2012	2013
Nat. Gas 82.55%	Corn 80.88%	Wheat 76.65%	Sugar 9.15%	Copper 137.34%	Cotton 91.55%	Heating Oil 15.38%	Wheat 19.19%	Nat. Gas 26.23%
Sugar 62.39%	Wheat 47.68%	Soybeans 75.42%	Gold 5.77%	Sugar 128.20%	Silver 83.21%	Gold 10.06%	Soybeans 18.38%	Cotton 12.64%
Copper 40.59%	Silverproach 46.40%	Heating Oil 65.49%	Corn -10.65%	Gasoline 103.58%	Corn 51.75%	Gasoline 9.50%	Nat. Gas 12.11%	Crude Oil 7.19%
Heating Oil 40.52%	Copper 40.60%	Crude Oil 57.22%	Soybeans -18.91%	Crude Oil 77.94%	Wheat 46.68%	Crude Oil 8.15%	Silver 8.98%	Heating Oil 1.05%
Crude Oil 40.48%	Gold 23.15%	Gasoline 54.53%	Silver -23.01%	Cotton 54.22%	Soybeans 34.05%	Corn 2.78%	Corn 8.00%	Gasoline -0.93%
Silver 29.20%	Soybeans 13.54%	Gold 30.98%	Nat. Gas -24.87%	Heating Oil 50.73%	Copper 32.89%	Silver -9.94%	Gold 7.14%	Copper -7.01%
Cotton 21.04%	Cotton 3.69%	Cotton 21.04%	Cotton -27.92%	Silver 48.16%	Gold 29.52%	Soybeans -14.01%	Copper 6.30%	Soybeans -7.49%
Gold 17.92	Crude Oil 0.02%	Nat. Gas 18.80%	Wheat -30.99%	Gold 24.36%	Heating Oil 20.05%	Wheat -17.82%	Gasoline 4.68%	Sugar -15.89%
Wheat 10.33%	Heating Oil -7.53%	Corn 16.72%	Heating Oil -46.84%	Soybeans 6.94%	Gasoline 19.52%	Copper -22.73%	Heating Oil 3.75%	Wheat -22.20%
Soybeans 9.90%	Gasoline -7.93%	Silver 14.65%	Crude Oil -53.53%	Corn 1.84%	Sugar 19.18%	Sugar -27.46%	Crude Oil -7.09%	Gold -28.04%
Corn 5.37%	Sugar -10.96%	Copper 5.92%	Copper -53.63%	Nat. Gas -0.89%	Crude Oil 15.15%	Nat. Gas -32.15%	Sugar -16.27%	Silver -35.84%
Gasoline -7.88%	Nat. Gas -43.88	Sugar -7.91%	Gasoline -59.28%	Wheat -11.34%	Nat. Gas -20.94%	Cotton -36.61%	Cotton -18.15%	Corn -39.56%

Source: Bloomberg, as at December 31, 2013

ETF Details

Name: Horizons Auspice Broad Commodity Index ETF
Ticker: HBR; HBR.A (Advisor Class)
Management Fee: 0.80%
Underlying Index: Auspice Broad Commodity Excess Return Index
Investment Manager: Horizons ETFs Management (Canada) Inc.
Sub-Advisor: Auspice Capital Advisors Ltd.
Investment Strategy: Enhanced tactical long commodity
Currency: Canadian dollar (foreign currency exposure is hedged

Howard Atkinson, President, Horizons ETFs Management (Canada) Inc. ***hatkinson@horizonsetfs.com***

[1] Sharf, S (2014, March 14) “Fed Cuts Monthly Asset Purchases To $55 Billion Maintaining Taper Pace, Market Awaits Yellen Remarks” Forbes.com Retrieved from Forbes.com on April 4, 2014.
[2] Bloomberg.com, as at April 4, 2014
[3] Bloomberg.com, as at April 4, 2014
[4] Sharf, S (2014, March 14) “Fed Cuts Monthly Asset Purchases To $55 Billion Maintaining Taper Pace, Market Awaits Yellen Remarks” Forbes.com Retrieved from Forbes.com on April 4, 2014.

Exploring the Benefits of a Rules-Based Methodology

The term "smart beta" has recently become a favourite buzz word among ETF pundits.

Karl Cheong, CFA
Senior Vice President, Head of Product and Capital Markets, First Trust Portfolios Canada

First Trust
Portfolios Canada®

Embedded in this term is a tacit recognition that more recent approaches to portfolio construction, beyond market cap weighted benchmarks, may provide better, more intuitive ways to invest. One of the difficulties with a term like "smart beta," however, is that the category has been broadly defined by some to include any index that does not follow a market cap-weighting methodology. This is problematic because it implies similarity among a variety of approaches that may be markedly different.

Nevertheless, rather than debate the merits of "smart beta" as a category, the purpose of this article is to help investors understand what makes the AlphaDEX™ methodology (upon which 43 North American listed ETFs are based) distinct from market cap weighted benchmarks, as well as other approaches that have been deemed "smart beta."

To that end, the following takes a closer look at the AlphaDEX™ methodology, highlighting the underlying logic upon which this model is based.

Overview of the AlphaDEX™ Methodology

In order to stay true to the mandate of each category to which the AlphaDEX™ methodology is applied, and to avoid style-drift, the universe from which potential holdings are selected is established from a broad universe of stocks and ADRs. For example, the First Trust European Dividend AlphaDEX Index ETF (EUR) selects approximately 44 ADRs from a universe of European ADRs.The candidates are scored based on a value model and a growth model (which are described in more detail below), in order to select portfolio holdings. "Value" and "growth" are scored separately based on the premise that there are different attributes that have tended to drive performance for value stocks versus growth stocks.

Portfolio weightings are also determined by these scores so that stocks with more desirable attributes as determined by the scoring methodology may have a greater impact on performance than stocks with less desirable attributes. This model is reapplied semi-annually, at which time portfolio holdings are rebalanced.

The AlphaDEX™ "Value" Model

The AlphaDEX™ "value"model scores stocks on three separate factors: price-to-book ratio, price-to-cash flow ratio, and return on assets. The first two factors seek to identify whether a stock is cheap or expensive, relative to certain underlying fundamental measures (book value and cash flow), while the third factor provides an indication of balance sheet quality. Essentially, this model seeks to capitalize on the so-called "value" anomaly that has been well established by several academic studies, wherein a pattern of excess returns is associated with cheaper stocks versus more expensive stocks.

In seeking to understand the existence of a factor that predicts the relative outperformance of cheap stocks in the context of the efficient market hypothesis[1], many have concluded that these stocks must be riskier than more expensive stocks. After all, they reason, there is no free lunch. However, a number of compelling alternative explanations for the value anomaly argue that excess returns associated with cheap stocks are primarily rooted in a pattern of behavioral mistakes made by investors.

For example, because investors are emotional beings, rational analysis is often supplemented with investor optimism and/or pessimism. On the one hand, expensive stocks tend to have high, optimistic expectations about future earnings growth, often extrapolated from previous periods of strength. However, investors may overlook potential challenges to future growth, which may arise from changes in the competitive environment, shifts in consumer preferences, or a variety of other unforeseen circumstances. As a result, when an expensive stock announces earnings results that fall short of analysts' expectations, it may be punished more severely than a cheap stock that misses earnings estimates.

On the other hand, cheap stocks tend to have low, pessimistic expectations about future growth, which may be inferred from past weakness. In such instances, investors may overlook potential improvements, which may result from possible changes in leadership, restructuring, innovation, or even the inherent cyclicality of certain businesses. Hence, when a cheap stock announces earnings that exceed expectations, it may be rewarded more than an expensive stock.

The influence that these misjudgments may have on investor behavior helps to explain the persistence of the value anomaly, in our opinion.

The AlphaDEX™ "Growth" Model

The AlphaDEX™ growth model scores stocks based on five separate factors: three-month price appreciation, six-month price appreciation, twelve-month price appreciation, one-year sales growth, and price-to-sales ratio. The first three factors measure momentum over various time periods. The fourth factor provides a measure of fundamental growth. The fifth factor provides a measure of value. This model seeks to systematically profit from the so-called "momentum" anomaly, which is the tendency for stocks that have performed best in the recent past to continue outperforming over the next three to twelve months.

Rules-based ETFs Versus Actively Managed Mutual Funds

Similar to the goal of many actively managed mutual funds, the goal of some rules-based stock selection methodologies, such as the AlphaDEX™ methodology, is to identify those stocks within a broad universe of securities which exhibit the fundamental characteristics that enable them to provide the greatest potential for capital appreciation. Because the ETF structure provides additional features such as exchange traded liquidity, generally lower costs and transparency, we believe ETFs may be a better alternative to actively managed mutual funds when seeking alpha.

The Growth of AlphaDEX™ ETFs

Since the launch of the original 16 AlphaDEX™ ETFs in the spring of 2007, this family of funds has expanded to include 4 ETFs available in Canada (and a total of 46 ETFs in the U.S., Canada and Europe). The success and acceptance of the AlphaDEX™ methodology has been one of the key reasons why First Trust is one of the fastest growing ETF sponsors globally.

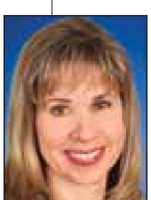
We believe this growth provides evidence that ETF strategists and portfolio managers have begun to look beyond the first generation of market cap-weighted ETFs. While various ETF sponsors have their own take on what constitutes a "better" way to construct an nvestment portfolio, the AlphaDEX™ methodology relies upon the insights of academic finance in seeking to provide a set of ETFs, with which investors may implement a variety of investment strategies, ranging from sector rotation models to traditional strategic asset allocation portfolios.

Karl Cheong, CFA, Senior Vice President, Head of Product and Capital Markets, First Trust Portfolios Canada
karlcheong@firsttrust.ca

[1] In its most basic form, the efficient market hypothesis is a theory which states that the price of a stock accurately reflects all known information about the stock. This article is for informational purposes only and is not and should not be taken or construed as investment advice to any person. Specific investments and/or investment strategies should be evaluated in the context of an investor's entire circumstances. Investors should consult their own advisors as to the merits of a particular Mutual Fund or ETF. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund/ETF investments. Please read the prospectus before investing. Mutual funds/ETFs are not guaranteed, their values change frequently and past performance may not be repeated.

FATCA and Considerations for Canadian Exchange-Traded Funds

The U.S. "Foreign Account Tax Compliance Act" (FATCA) is a U.S. law designed to combat tax evasion by U.S. citizens and U.S. residents through the use of offshore accounts and investments. This law focuses on reporting by financial institutions (FIs) in Canada and other countries to the Internal Revenue Service (IRS) about financial accounts and substantial financial interests held by U.S. taxpayers. The 30% FATCA withholding tax on certain U.S. source income is used as a penalty to compel FIs to provide information about U.S. account holders and U.S. owners.



Carmela Pallotto
Financial Services Tax Practice

Keno Chan
Partner,
US Corporate Tax Practice

KPMG
cutting through complexity

On February 5, 2014, Canada announced that it had signed an intergovernmental agreement (IGA) with the U.S. Finance has since released updated draft legislation to implement the IGA under Canadian law. The draft legislation provides further guidance for FATCA implementation including reporting deadlines and penalties for non-compliance. Since FATCA will now be implemented under Canadian domestic law, Canadian FIs will need to comply with FATCA when the provisions take effect on July 1, 2014, even if they do not receive any income from sources within the U.S.

Broadly speaking, most Canadian funds, including exchange-traded funds (ETFs) and Canadian fund managers will be treated as Reporting Canadian FIs and will be required to comply with FATCA regardless of their investments or investor base.[1] This article will briefly highlight the potential impact of certain FATCA compliance requirements that would likely be applicable to Canadian ETFs.

Certain FATCA Compliance Requirements

Registration and Reporting

Canadian ETFs and their managers that have a reporting obligation (i.e. Reporting Canadian FIs) will need to register with the IRS in order to obtain a Global Intermediary Identification Number (GIIN) that will be used for FATCA compliance. Canadian FIs that register by May 5, 2014, will be listed on the first IRS FFI list that will be published on June 2, 2014. Otherwise, Canadian FIs must register before December 22, 2014 in order to be on the IRS FFI list to be published in January 2015 and avoid the 30% FATCA withholding tax imposed on certain U.S. source withholdable payments (e.g. interest, dividends) to Canadian FIs beginning January 1, 2015.

There is the ability to designate and register an entity as a Sponsoring Entity that will perform the due diligence, withholding and reporting obligations for one or more Sponsored FIs. For example, a fund manager may be registered as the Sponsoring Entity for the ETFs that it manages.

Under the IGA, there is no requirement for a reporting Canadian FI to enter into an FI agreement with the IRS to comply with FATCA. FATCA reporting by Canadian ETFs and their managers will be provided to the Canada Revenue Agency (CRA) which will, in turn, provide the information to the IRS. Canadian ETFs and their managers will need to file their FATCA reports with the CRA by May 1 of each year. The first FATCA report will be due May 1, 2015 (under the draft Canadian implementation legislation).

The IGA does not require a Canadian FI to appoint a responsible officer to certify the accuracy of its FATCA report. However a responsible officer will need to be named for purposes of registering the Canadian ETF with the IRS.

Reporting Canadian FI FATCA Obligations

Under the IGA, a Canadian ETF must perform certain due diligence procedures with respect to preexisting and new Financial Accounts[2] in order to identify accounts held by certain U.S. persons[3] (U.S. Reportable Accounts[4]) and accounts held by Nonparticipating FIs (i.e. FIs that are not on the IRS FFI list). Certain information related to these reportable accounts must then be provided annually to the CRA in order to satisfy a Canadian ETF's annual FATCA reporting obligations. Reporting Canadian ETFs that comply with their FATCA obligations will not be subject to FATCA withholding.

Annex I to the IGA lists procedures for identifying U.S. Reportable Accounts and accounts held by Nonparticipating FIs. In general, if an investment dealer, FI or other intermediary (such as a depository institution), holds legal title to ETF units on behalf of its clients and the unit is registered in nominee-name on the books of the ETF, the ETF would only have to perform due diligence on the dealer or other FI. If, however, a purchase results in a unit being first registered in client-name on the books of an ETF, then the ETF would be considered to maintain a Financial Account held by the unit holder and may therefore, be required to perform due diligence procedures on such unit holders to determine whether they are U.S. persons. If the unit is also held in an account maintained by a dealer or other FI, it may be possible, in certain instances, to rely on the due diligence performed by the dealer or other FI. Given that in most cases, ETF units will be registered only in nominee-name on the books of the ETF, many Canadian ETFs may have minimal FATCA due diligence obligations.

Canadian ETFs that are Reporting Canadian FIs will have a requirement to provide certain information about U.S. persons owning Financial Accounts in the ETF on the ETF's annual FATCA report to the CRA. Since, in many cases, ETFs would only have units registered in nominee-name, the reporting burden on such ETFs may not be significant.

What Should Canadian ETFs Be Doing?

With the upcoming July 1, 2014 effective date for certain FATCA provisions, Canadian ETFs and their managers should now consider their potential FATCA compliance obligations, including:

1. Confirming their FATCA entity classification under the IGA;
2. Registering Reporting Canadian FIs with the IRS by December 22, 2014 (if they have not already done so);
3. Determining whether due diligence and reporting procedures apply. In addition, Canadian ETFs should agree on the allocation of FATCA responsibilities between the funds and the manager.

Carmela Pallotto, Financial Services Tax Practice, KPMG

Keno Chan, Partner, US Corporate Tax Practice, KPMG
kenochan@kpmg.ca

[1] On February 20, 2014, the U.S. Treasury and IRS issued regulations that treat certain investment advisors and investment managers that do not maintain financial accounts as certified deemed-compliant foreign financial institutions (FFIs). In general, certified deemed-compliant FFI status means that these entities do not need to register and do not need to comply with the FATCA reporting requirements. Under the Canadian IGA, a non-reporting Canadian FI only includes a deemed-compliant FFI included in U.S. regulations in effect as of the signing of the IGA (i.e. February 5, 2014). Since the regulations adding investment advisors and investment managers as a new category of deemed-compliant FFI were issued after February 5, 2014, Canadian investment advisors and managers cannot take advantage of this deemed-compliant status.

[2] A Financial Account means an account maintained by an FI, including non-regularly traded equity or debt interests in certain FIs.

[3] In general, a U.S. person is an individual who is a U.S. citizen or a U.S. resident; a corporation or partnership organized in the U.S.; a trust subject to U.S. law that is controlled by U.S. citizens or U.S. residents; or a testamentary trust of a decedent that was a U.S. citizen or a U.S. resident at the time of death.

[4] A U.S. Reportable Account is a Financial Account held by: (1) one or more Specified U.S. Persons (generally, U.S. persons other than specifically excluded persons listed in the IGA such as, for example, corporations whose shares are regularly traded on an established securities market); or (2) a Passive Non-Financial Foreign Entity (NFFE) that has as Controlling Persons one or more U.S. citizens or U.S. residents. A Passive NFFE generally includes a non-regularly traded entity that earns significant (>50%) passive income (e.g. interest or dividends) or has significant (>50%) assets that generate passive income. A Controlling Person is generally a natural person who exercises "control", as defined in the IGA, over an entity. Annex II of the IGA provides a list of products that are not reportable accounts even though they may be held by Specified U.S. Persons or Passive NFFEs that have U.S. Controlling Persons.

Surveying the International ETF Landscape

As the ETF industry continues to grow by leaps and bounds, the variety of product available to investors grows as well, with options available for Canada and U.S. investing increasingly matched by choices available to invest abroad.

Drew Millard
ETF Analyst

Using ETFs, it is becoming increasingly easy to add international exposure to diversify your portfolio, while looking at different "flavours" from an exposure (broad vs. factors), and respectively risk (currency exposure, and again factors) standpoint. Furthermore, pricing is coming down and is becoming very competitive between providers, both with the new international products being introduced and the fee reductions on existing international products undergone from some of the major ETF providers.

The three main areas of international focus are the European, Asian, and Emerging Markets categories. What are the options allowing for access to the diversification attributes provided by these markets?

While the crisis situation triggered by Russia's involvement in the Ukraine and its de facto annexation of Crimea continues to represent potentially considerable risk, the Eurozone's sluggish recovery, and the threat of deflation it faces open the door for it to pursue unconventional means to attempt to jolt the area out of its conundrum. With that, Eurozone equities could get a meaningful boost from a declining Euro, possibly making it more compelling than it otherwise would already be to look at Europe. The potential for European equities and related ETFs to register gains rests, in part on the potential to see the Euro being devalued.

ETF insight

	iShares XEU		BMO ZEQ		First Trust EUR		First Asset RWE	
AUM in MM	$8.32		$47.17		$11.75		$8.42	
MER	0.28%		0.45%		0.60%		0.80%	
1-Month	-		2.07%		-		2.47%	
3-Month	-		-		-		-	
6-Month	-		-		-		-	
YTD	-		-		-		-	
1-Year	-		-		-		-	
Holdings:	United Kingdom	28.16%	United Kingdom	41.40%	United Kingdom	29.31%	United Kingdom	34.12%
	France	13.58%	Switzerland	23.40%	Netherlands	15.59%	Switzerland	18.57%
	Switzerland	13.41%	France	9.00%	Spain	10.56%	France	13.92%
	Germany	12.58%	Denmark	5.60%	France	9.23%	Netherlands	7.64%
	Netherlands	6.60%	Sweden	5.20%	Switzerland	7.98%	Germany	5.40%
	Spain	5.01%	Germany	5.00%	Italy	4.61%	Denmark	3.80%
	Sweden	4.84%	Netherlands	4.10%	Norway	4.08%	Norway	2.68%
	Italy	3.83%	Others	6.20%	Ireland	3.98%	Belgium	2.62%
	Denmark	2.20%			Luxembourg	3.59%	Italy	2.61%
	Belgium	1.85%			Germany	3.54%	Ireland	2.45%
					Jersey	3.30%	Sweden	2.39%
					Russia	1.98%	Luxembourg	1.58%

Source: ETFinsight DB as at April 30th, 2014

Furthermore, Capital Economics has data showing the beginnings of a recovery in the Central Europe region, and Merrill Lynch's fund manager survey indicates optimism for Eurozone returns over the next 12 months, all of which hints we may now just be coming out of a low point in European equities. Consider some of the options available in light of these sentiments. iShares recently launched the **iShares MSCI Europe IMI Index ETF (XEU)**, replicating the MSCI Europe index and providing exposure to a wide range of countries. For a possibly more sector-concentrated ETF, the **BMO MSCI Europe High Quality (CAD Hedged) ETF (ZEQ)**, screens for holdings based on high return-on-equity, stable year-over-year earnings growth and low financial leverage. For the income-focused, the **First Trust AlphaDEX European Dividend ETF (EUR)**, also CAD hedged, replicates the AlphaDEX European Dividend Index, which is broadly diversified across sectors and countries within Europe. Finally, the ETF most directly focused on mitigating risk is the **First Asset MSCI Europe Low Risk Weighted ETF (RWE)**, available in hedged and un-hedged forms (and additionally in corresponding "Advisors' Series"). The lowest risk stocks in the MSCI Europe Index are weighted the most heavily in this ETF, which also tends to have a smaller stock size bias. Which of these you select, and whether you opt for CAD Hedged or Un-hedged, are options that will result in different outcomes, and reflect different investor needs and viewpoints going in.

Asia is another interesting area to explore right now, with China having to deal with stabilizing a decelerating economy less buoyed by exports, and Japan running higher import levels without a commensurate increase in exports despite a significant decline in the value of the Yen. Perhaps similar to Europe, good value should surface out of exposure to the region, although possibly not as soon, since Europe could be the near term beneficiary of stimulus activity, all the while Asia's ability to stimulate has likely decreased. What are some of the better Asian focused ETFs then? Vanguard just announced the launch of a **FTSE Developed Asia Pacific Index ETF**, introducing an investment vehicle to gain access to the broad Asia Pacific market at low cost. Country-wise, iShares has a **Japan Fundamental Index ETF (CJP)**, CAD hedged, with about $65MM of AUM. In addition, **iShares (XCH) and BMO (ZCH)** both have China Equity ETFs, with iShares also providing a **China All-Cap Fund (CHI)** tracking a broader AlphaShares China Index (CHI holds positions in 250 companies, vs. 55 for ZCH and 26 for XCH). **iShares (XID)** and **BMO (ZID)** also have India Equity ETFs, if you would like to consider more Asian focused ETFs than just those in the Far East. Collectively, these ETFs have over $175MM of AUM, showing a modicum of interest on the part of Canadian investors in exploring the Asian regions as investment opportunity. A significant uptake opportunity is likely present here, in light of favourable longer term investment and economic trends.

A third area to consider is Emerging Markets. This had become a more popular investment area earlier, with interest receding more recently, due to growth and performance challenges. That said, there is no shortage of investment vehicles available in this space. The standard broad Emerging Markets ETFs exist, from iShares, BMO ETFs and Vanguard. Note, however, that Vanguard's **FTSE Emerging Markets Index ETF (VEE)** tracks the FTSE Emerging Index, which treats South Korea as a Developed Market and thus does not include it, subsequently reducing the Technology sector exposure in VEE. Both iShares' **MSCI Emerging Markets Index ETF(XEM)** and **BMO's MSCI Emerging Markets Index ETF(ZEM)** track the MSCI Emerging Markets Index which does consider South Korea an Emerging Market, providing for higher Technology sector exposure than VEE. Another popular Emerging Markets ETF is the **iShares BRIC Index Fund (CBQ)**, which has over $131MM in AUM and tracks the performance of companies from former Emerging market economies leaders Brazil, Russia, India, and China – with Goldman Sachs long ago coining the BRIC acronym when pointing out the increased importance of these economies in the new millennium – for the moment though, markets have moved beyond the challenged BRIC countries, with Frontier markets outperforming them meaningfully in 2013 for instance.

Continued on page 24

Continued from : Surveying the International ETF Landscape page 23

	iShares CJP	iShares XCH	BMO ZCH	iShares CHI	iShares XID	BMO ZID	Horizons HPU	Horizons HPD
AUM in MM	$59.28	$24.99	$16.21	$10.34	$34.48	$11.23	$4.25	$5.72
MER	0.71%	0.86%	0.75%	0.70%	0.99%	0.75%	1.15%	1.15%
1-Month	-3.11%	-2.94%	-2.95%	-3.74%	-1.08%	-0.85%	-4.79%	3.68%
3-Month	-4.22%	-0.60%	-1.35%	-3.24%	14.15%	14.78%	-5.67%	1.95%
6-Month	-2.47%	-1.85%	3.61%	-2.52%	16.41%	16.59%	-	-
YTD	-10.69%	-5.95%	-2.70%	-7.50%	12.39%	12.31%	-	-
1-Year	1.77%	3.41%	32.76%	10.98%	10.19%	16.43%	-	-
Holdings:	Cons. Disc. 8.83%	Cons. Disc. 0.00%	Cons. Disc. 11.00%	Cons. Disc. 7.82%	Cons. Disc. 3.40%	Cons. Disc. 5.00%		
	Cons. Staples 22.84%	Cons. Staples 1.76%	Cons. Staples 0.00%	Cons. Staples 6.10%	Cons. Staples 8.83%	Cons. Staples 0.00%		
	Energy 2.25%	Energy 12.70%	Energy 23.30%	Energy 12.39%	Energy 7.72%	Energy 15.80%		
	Financials 16.27%	Financials 55.21%	Financials 6.70%	Financials 32.21%	Financials 27.44%	Financials 37.80%		
	Health Care 4.73%	Health Care 0.00%	Health Care 3.60%	Health Care 0.00%	Health Care 5.50%	Health Care 4.20%		
	Industrials 22.59%	Industrials 2.06%	Industrials 3.00%	Industrials 7.56%	Industrials 3.36%	Industrials 10.90%		
	Materials 7.47%	Materials 4.10%	Materials 2.10%	Materials 3.61%	Materials 4.77%	Materials 4.80%		
	Technology 5.21%	Technology 8.16%	Technology 29.30%	Technology 17.30%	Technology 14.47%	Technology 19.80%		
	Telecom 4.66%	Telecom 15.92%	Telecom 18.70%	Telecom 6.74%	Telecom 0.00%	Telecom 0.00%		
	Utilities 3.89%	Utilities 0.00%	Utilities 2.30%	Utilities 9.55%	Utilities 3.58%	Utilities 1.70%		
	Other 1.25%	Other 0.00%	Other 0.00%	Other 0.00%	Other 0.00%	Other 0.00%		

Source: ETFinsight DB as at April 30th, 2014

	iShares CBQ	iShares XMM	First Trust FDE	Horizons HAJ	Horizons HJU	Horizons HJD
AUM in MM	$132.20	$35.06	$6.50	$4.92	$3.55	$1.33
MER	0.66%	0.41%	0.70%	0.90%	1.49%	1.42%
1-Month	1.47%	1.22%	-1.61%	2.04%	1.33%	-2.14%
3-Month	8.53%	7.07%	1.97%	8.76%	15.60%	-16.74%
6-Month	-4.69%	2.88%	-3.69%	7.79%	-6.02%	-1.90%
YTD	-2.44%	3.20%	-5.91%	4.96%	-3.86%	-1.72%
1-Year	-1.37%	3.57%	-	6.85%	-10.57%	-7.39%
Holdings:	Brazil 42.74%	China 18.51%	China 26.61%	Mexico 17.66%		
	China 40.26%	Taiwan 16.12%	Brazil 18.93%	Brazil 17.19%		
	India 12.45%	South Korea 12.46%	India 11.60%	China 15.30%		
	Russian Federation 1.95%	South Africa 9.55%	Taiwan 8.68%	Chile 14.35%		
	Hong Kong 1.39%	Malaysia 8.62%	Chile 6.86%	Taiwan 11.77%		
	United States 0.25%	Brazil 6.36%	Mexico 6.59%	South Korea 6.36%		
		Chile 4.98%	Colombia 5.62%	India 5.69%		
		Indonesia 4.72%	Peru 3.65%	South Africa 3.23%		
		Colombia 3.30%	Russia 3.62%	United States 2.78%		
		Thailand 3.02%	South Africa 2.69%	Philippines 2.04%		

Source: ETFinsight DB as at April 30th, 2014

Another interesting option in Emerging Markets is the **iShares MSCI Emerging Markets Minimum Volatility Index ETF (XMM)**, which weights securities based on their low volatility relative to other securities in the MSCI Emerging Markets Index, with the lowest volatility stocks getting the highest weights. Two dividend oriented products exist for Emerging Markets in the form of the **First Trust AlphaDEX Emerging Market Dividend ETF (FDE)**, CAD hedged, and the **Horizons Active Emerging Markets Dividend ETF (HAJ).**

Of note are four Horizons products, the **BetaPro MSCI Japan Bull+ (HPU) and Bear+ (HPD)** Funds, and the **BetaPro MSCI Emerging Markets Bull+ (HJU) and Bear+(HJD)** Funds. These ETFs return two times the daily performance of the MSCI Japan and MSCI Emerging Markets Indices, respectively, straightforward in the case of HPU and HJU, but two times the inverse in the case of HPD and HJD. These products are more indicated for investors inclined to take a more active management role possibly involving daily trading activities, and are less advisable for more buy and hold and longer term-oriented investors simply looking to add foreign exposure to their portfolio.

I began this article by segmenting the international investment options in to the aforementioned three main areas, to give some structure to the world out there available for investment exploration. There are other options available to capture bigger parts of the world in one trade: ETFs tracking MSCI EAFE indices, broad Developed Market indices (both with and without Canada), and All World indices. There is no question that global economies are becoming increasingly interconnected so it is increasingly important to understand how developments outside of North America will affect the performance of Canadian portfolios diversified internationally, and which of the specific choices available you deem more applicable to either or both of your investment needs, and outlook.

Drew Millard, ETF Analyst, ETF Insight ***dmillard@dal.ca***

EXCHANGE TRADED FORUM 2014

ETRs

ETFs

INDEXING

MONTREAL

Monday, October 6

Hotel Omni Mount Royal

Pat Bolland, Moderator
ETF 2014 - Toronto, Vancouver & Montreal

KEYNOTE SPEAKER

Deborah Fuhr
Managing Partner
ETFGI

KEYNOTE SPEAKER

Reginald M. Browne
Senior Managing Director, Global Co-Head, ETF Group, Cantor Fitzgerald & Co.

SPEAKER

Michael Cooke
Head of Distribution, PowerShares Canada

CE CREDITS: IIROC and CFP credits will be available to participants.

A PRESENTATION OF

Radius Financial Education
radiusfinancialeducation.com

SPONSORED BY

PowerShares

FirstAsset Exchange Traded Funds

RBC Global Asset Management

Vanguard

MSCI

TMX Toronto Stock Exchange | TSX Venture Exchange

To register, visit or call exchangetradedforum.com / T 416.306.0151 x 2234 or 2238

EXCHANGE TRADED FORUM 2014

Toronto

exchangetradedforum.com

ETF Toronto Review
Monday, March 31, Hyatt Regency

*The Exchange Traded Forum, Toronto, was created by **Radius Financial Education (Radius)** and brought together leading professionals from every segment of this dynamic group of investment providers including investors, advisors, managers, research professionals, regulatory experts and noted financial educators, to review the past, assess the present and discuss strategic options for achieving continued future success.*

Both 2012 and 2013 were times of exponential growth and change in Exchange Traded Products. Building a top down agenda allowed us to focus on educating our attendees on the role Canada has played in this growth, the current trends around the world and the economic environment, rising interest rates, regulatory changes, building better portfolios, Exchange Traded Receipts and issues financial advisors are facing today. Our distinguished list of speakers, each an authority in their field, did just that!

Radius' goal is to host a truly educational forum and we would like to thank our speakers and sponsors for their invaluable contribution. We would also like to thank all those who completed an evaluation form as these comments are essential and will be the foundation for our **2015 ETF Forums**.


Deborah Fuhr, ETFGI


Michael Cooke, PowerShares Canada


Rohit Mehta, First Asset ETFs


Trevor Cummings
RBC Global Asset Management


Amelia Nedovich, Toronto Stock Exchange


Reginald M. Browne
Cantor Fitzgerald & Co.


Jaime Purvis, Horizons ETFs


George Hartman
ELITE Advisors Canada Inc.