CANADIAN ETF Watch

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Seeking Yield South of the Border

The Canadian dollar has fallen significantly against the U.S., and some economists are predicting further losses ahead for the loonie.

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ETFGI'S RESEARCH FINDS ETFS LISTED IN CANADA SAW NET OUTFLOWS OF 85 MILLION US DOLLARS IN OCTOBER 2014

London – November 10, 2014 – ETFGI's research finds ETFs listed in Canada saw net outflows of US$85 Mn in October 2014, while year-to-date in the first 10 months of 2014 they gathered net inflows of US$6.0 Bn. At the end of October 2014 the Canadian ETF/ETP industry had 335 ETFs/ETPs, with 462 listings, assets of US$65 Bn, from 9 providers listed on 1 exchange, according to preliminary data from ETFGI's end October 2014 Global ETF and ETP industry insights report.

Year-to-date net new asset (NNA) flows reached record levels for the ETF/ETP industries in Japan with US$15.7 Bn, Europe with US$56.2 Bn, and globally with US$233.4 Bn. Assets invested in the US-listed ETF/ETP industry hit a new record high of US$ 1.92 Tn.

"October was a challenging month with increasing macroeconomic concerns over deflation fears in Europe, the ECB's stimulus program, Germany cutting GDP forecasts due to "geopolitical crisis", dismal employment figures in France, 25 of around 130 European banks having reported to have failed the ECB's "stress test", and questions over the U.K.'s continued membership in the European Common Market. At the end of the month markets reacted positively to the Bank of Japan's announcement of new annual purchasing targets of ¥80 Tn in bonds and ¥3 Tn in ETFs. The S&P 500 reached a new record, 2,018, which is up 1.2% for the month and 9.2% for the year. Developed markets ended the month down 2% while emerging markets gained 2%." according to Deborah Fuhr, Managing Partner at ETFGI.

In October 2014 ETFs/ETPs saw net outflows of US$85 Mn. Equity ETFs/ETPs experienced the largest net outflows with US$537 Mn, while fixed income ETFs/ETPs gathered the largest net inflows with US$319 Mn, followed by commodity ETFs/ETPs which gathered net inflows of US$13 Mn.

BMO AM gathered the largest net ETF/ETP inflows in October with US$759 Mn, followed by Mirae Horizons with US$163 Mn and Vanguard with US$156 Mn net inflows. Year-to-date BMO AM gathered the largest net ETF/ETP inflows with US$3.9 Bn, followed by Vanguard with US$1.1 Bn and First Asset with US$487 Mn net inflows.

Source: ETFGI.com

And south of the border:

Washington, DC, November 26, 2014 – The combined assets of the nation's exchange-traded funds (ETFs) were $1.889 trillion in October, according to ICI. The Institute's monthly statistical collection also includes the value of shares issued and redeemed by exchange-traded funds. Assets of all exchange-traded funds rose in October by $58.16 billion, or 3.2 percent, to $1.889 trillion. Over the past 12 months, ETF assets increased $274.61 billion, or 17 percent. Assets in domestic equity ETFs increased $195.26 billion since October 2013, and global equity ETF assets rose $32.35 billion during this period. At the end of October 2014, assets of bond funds were $294.24 billion and hybrid funds were $2.84 billion. During October, the value of all ETF shares issued exceeded that of shares redeemed by $27.59 billion. In October 2013, the value of all ETF shares issued exceeded that of shares redeemed by $25.24 billion.

Terry Krowtowski, Vice President
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The Canadian dollar has fallen significantly against the U.S., and some economists are predicting further losses ahead for the loonie.

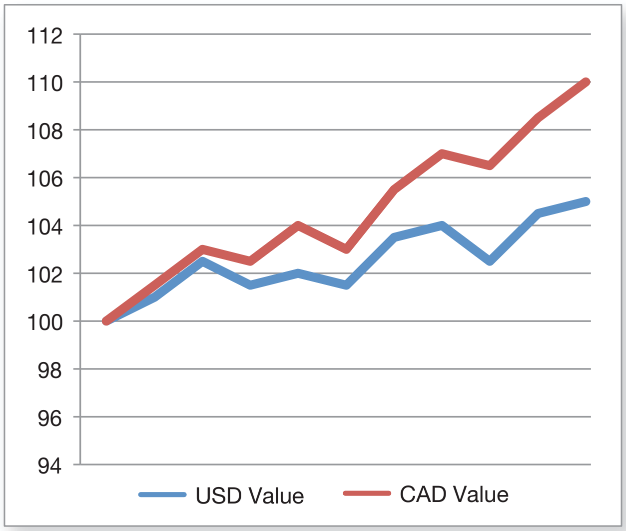
Michael Cooke
Head of Distribution, PowerShares Canada

While the days of dollar-to-dollar parity may be long gone, many Canadians still face U.S. dollar liabilities, either current or future. These can range from business owners with American clients or suppliers to those planning a snowbird lifestyle in retirement.

Despite near-zero yields on U.S.-dollar cash holdings, it's understandable that these investors may want to increase their exposure to the greenback. Tapping into a U.S.-denominated income stream may deliver a growing payout as the U.S. dollar climbs.

Typically, investing in U.S. securities carries the additional cost of foreign exchange (FX) fees, but there are ways for cost-sensitive investors to limit this additional cost.

There are two strategies that an investor may want to consider: investing in U.S. securities through a Canadian-dollar-denominated vehicle or, if they are already holding U.S. cash, through a U.S.-dollar-denominated vehicle. A Canadian-denominated investment in U.S. securities would provide exposure to changes in the relative value of the U.S. dollar, which would be visible in the value of the security.



Illustrative purposes only. The above investment in a U.S. security, assumes 5% gain in the security value and 5% gain in the exchange rate (USD versus CAD). The red line indicates return on CAD-denominated investment. The blue line indicates return on USD-denominated investment, prior to conversion to CAD.

The same investment made through a U.S.-denominated investment would also capture the benefit of the rising U.S. dollar, but the gains would not appear in the value of the investment itself. Instead, these gains could be realized when the investor sold the position and converted the proceeds into Canadian dollars.

In either case, not only might the investor expect income and capital appreciation on the security, but these returns would be enhanced by a rising U.S. dollar.

With cash earning minimal return, investors may be seeking a relatively low-risk, short-term investment for cash parked in their U.S. dollar accounts. There may be better investment options than Treasuries, without reaching too far out on the risk spectrum.

Rate Risk

Since the U.S. Federal Reserve announced the tapering of its quantitative easing (QE) program, market observers have been warning of the risk of rising interest rates, which would presumably follow the complete withdrawal of QE.

The direction of interest rate moves can be unpredictable, making investing in the bond market at the wrong time a serious concern for fixed-income investors. Mistiming a bond investment could have a significant impact on portfolio performance, since subsequent interest rate changes impact bond prices. Interest rates and bond prices are inversely related, so when interest rates rise, bond prices fall, and vice versa.

Fortunately, there are several methods of offsetting the risks of rising interest rates.

- A bond ladder is a diversified portfolio split into staggered maturity buckets. As shorter-dated bonds mature, or are sold at a pre-determined time prior to maturity, proceeds are reinvested in the longest maturity bucket. By regularly reinvesting maturity/sale proceeds, laddering can reduce reinvestment risk and the need to predict future interest rate moves
- Short-duration bonds provide the best protection against rising interest rates, but as duration falls, the yield will also fall and may fail to keep pace with inflation
- Corporate bonds, which tend to provide a higher yield than Treasuries, can help to boost the yield of a short-term bond portfolio

Drawing on these three factors, PowerShares Canada has created an exchange-traded fund that provides exposure to a short-duration corporate bond ladder.

Listed on the S&P/TSX Composite Index, PowerShares LadderRite U.S. 0-5 Year Corporate Bond Index ETF is available in both Canadian dollar purchase option (USB) and a U.S. dollar purchase option†† (USB.U).

USB provides exposure to exchange-rate fluctuations, with the ability to lock in a USD FX rate to fund future USD expenses. At 1.37%*, investors may earn a meaningful yield, while taking minimal duration risk. Purchasing USB in a Canadian dollar account also avoids the FX fees typically associated with buying U.S. securities.

Purchased in U.S. dollar accounts, **USB.U** allows investors to avoid FX fees. Units are purchased and sold, and pay distributions in USD. For investors seeking enhanced returns, both USB and USB.U† offer a competitive yield to maturity. At 1.37%*, the yield to maturity is a full percentage point higher than the Federal Funds Rate, with only marginally higher credit and interest-rate risk.

	USB	USB.U
Exposure to USD	100%	100%
Currency hedged	No	No
Currency of NAVPS	CAD	USD
Currency of purchases/ redemptions/distributions	CAD	USD
NAVPS affected by USD/CAD FX-rate moves	Yes	No

PowerShares LadderRite U.S. 0-5 Year Corporate Bond Index ETF (USB/USB.U) seeks to replicate, before fees and expenses, the performance of the NASDAQ LadderRite 0-5 Year USD Corporate Bond Index. The index is designed to give investors exposure to a laddered basket of U.S. dollar-denominated investment-grade corporate bonds.

* Source: PowerShares Canada. Quoted Index yields should not be construed as an amount as an amount an investor would receive from the ETF and are subject to change.

† Gross yield to maturity, as at November 4, 2014.

†† U.S.-dollar-denominated units do not provide a currency hedge between the Canadian dollar and the U.S. dollar.

In accordance with the Canadian Securities Administrators' National Instrument 81-102, we will not publish returns for these ETFs until they are one year old.

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 an 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.

Michael Cooke, Head of Distribution,
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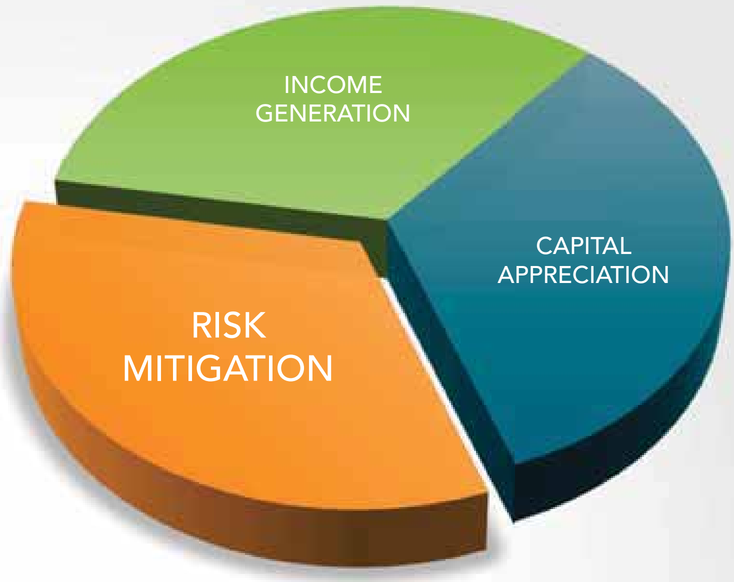

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First Asset offers smart, low cost investment solutions that address the real-world needs of Canadian investors, including risk mitigation. Our ETFs built from MSCI indexes aim to deliver superior risk-adjusted returns by capturing broad equity exposure with low risk attributes.

ETF INFORMATION

Ticker	Fund Name
RWC	First Asset MSCI Canada Low Risk Weighted ETF
RWU	First Asset MSCI USA Low Risk Weighted ETF (CAD Hedged)
RWE	First Asset MSCI Europe Low Risk Weighted ETF (CAD Hedged)
RWW	First Asset MSCI World Low Risk Weighted ETF (CAD Hedged)

LOW RISK INDEX METRICS*

Up Capture	Down Capture	Sortino Ratio
79.99%	58.64%	0.75
71.59%	53.56%	0.54
71.21%	46.27%	0.66
58.78%	28.99%	0.71

as at Aug 31, 2014

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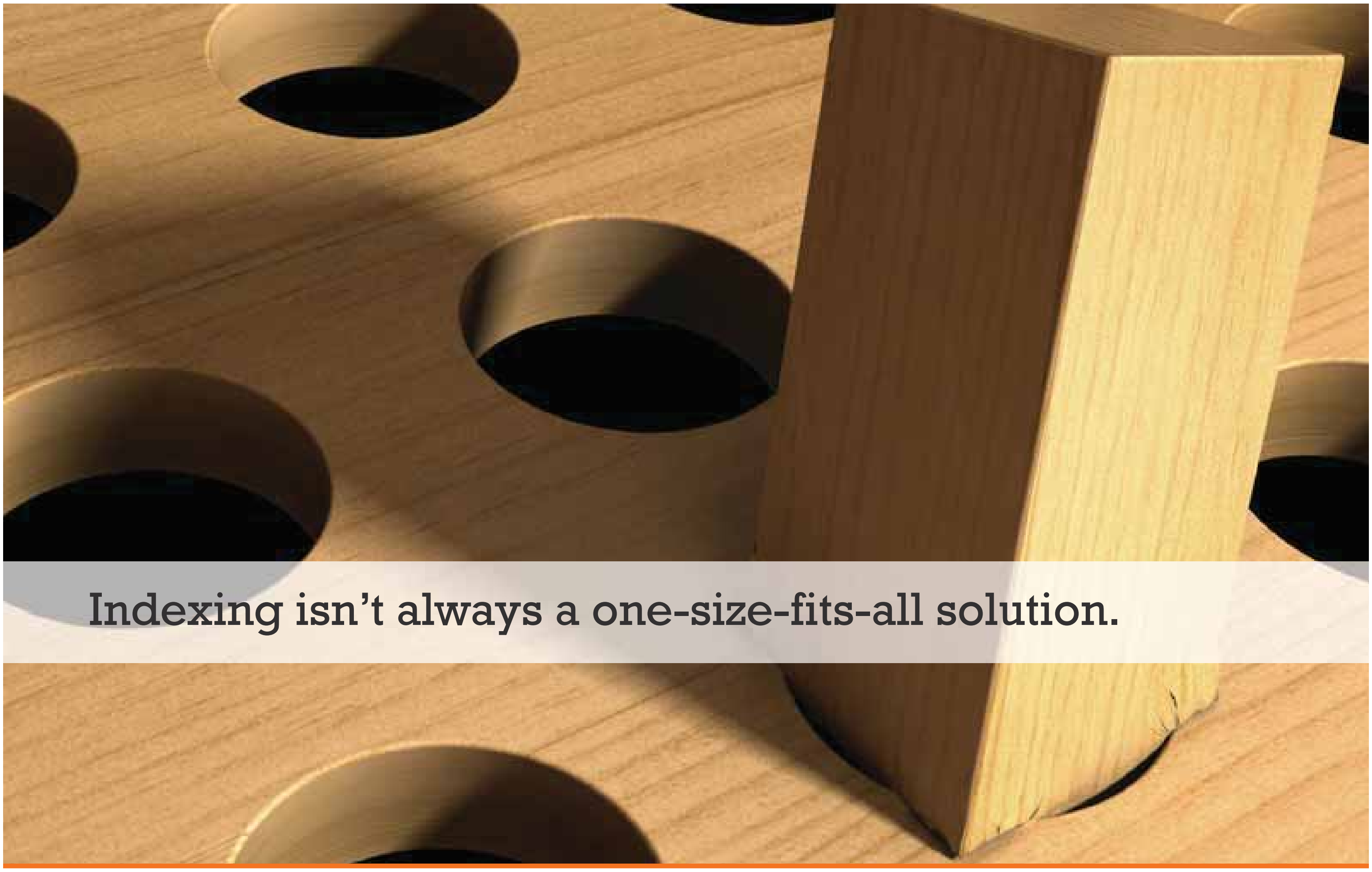
* Risk metrics represent those of the ETF's underlying MSCI Indexes since their inception. MSCI index performance data results prior to Dec 26, 2013, and Jan 20, 2014, are hypothetical, but are calculated using the same methodology that has been in use by the index provider since the Index was first published. Information regarding the MSCI index and applicable index methodology, is available at http://MSCI.com/products/indices. As a result of the risks and limitations inherent in hypothetical performance data, hypothetical results may differ from actual Index performance. This communication is intended for informational purposes only and is not, and should not be construed as, investment and/or tax advice to any individual. Particular investments and/or trading strategies should be evaluated relative to each individual's circumstances. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. There is no assurance that an exchange traded fund will achieve its investment objectives. Commissions, trailing commissions, management fees and expenses all may be associated with investments in exchange traded funds. Please read the prospectus before investing. Exchange traded funds are not guaranteed, their values change frequently and past performance may not be repeated. MSCI is a trademark of MSCI Inc. The MSCI indexes have been licensed for use for certain purposes by First Asset. The funds or securities referred to herein are not sponsored, endorsed, or promoted by MSCI, and MSCI bears no liability with respect to any such funds or securities or any index on which such funds or securities are based. The prospectus of the funds contains a more detailed description of the limited relationship MSCI has with First Asset and any related funds. The exchange traded funds are managed by First Asset Investment Management Inc.



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The Risk Myth

If you ask pretty much anyone with some knowledge of investing about the relationship between risk and return, they will say that in order to achieve higher returns, you need to take more risk. It's as close to axiomatic as anything in the industry.

Barry Gordon
CEO & President, First Asset Exchange Traded Funds

But is it actually correct? The answer is both yes and no. In the most simple sense - yes. In order to earn returns above what people think of as the "risk-free rate" - think 3 month t-bills - an investor has to take incremental risk. However, the notion has become orthodoxy across the investing spectrum and is generally applied within specific asset classes, as well as when comparing to a relatively risk free return. People generally believe that, for instance, an investor must withstand greater volatility of returns in equity investments in order to achieve higher returns; that the riskier the stock, the higher the reward. This is demonstrably false. Over the past several years, there has been a great deal of research done on the topic (building on other research spanning many decades), with results supporting the assertion that lower risk stocks outperform over long periods of time.

In academic terms, the concept that lower volatility stocks can outperform over the long term runs contrary to basic modern portfolio theory and its assertion that an asset's expected return is directly proportionate to its beta (systemic risk). There is debate about whether observations to the contrary result from, among other things, an "imperfect" comparison to capitalization weighted broad index portfolios, which are flawed proxies for the theoretical optimal "market" portfolio (which is, ironically, unobservable).

FirstAsset™
Exchange Traded Funds

Nevertheless, the data speaks for itself. Black, Jensen and Scholes, in a 1972 paper, outlined that the excess return of low beta stocks was positive, whereas it was negative for high beta stocks. Similarly, in 2011, Baker, Bradley and Wurgler showed that, irrespective of whether you chose to characterize risk as volatility of returns or beta, low risk stocks consistently outperformed during their measurement period of 1968 to 2008. There are many more studies, looking at both US and global equities, and the conclusions are all similar. The "why" is not necessarily settled, but the existence of the outperformance of lower volatility stocks is clear.

That being said, and as mentioned from the outset, people struggle with the concept. How can a stock that is less risky outperform? One method of measuring overall risk – the ratio of upside market capture to downside market capture, helps to clarify it, and is intuitive. Starting with monthly returns of an investment and the relevant benchmark, you isolate the months in which the benchmark was up (return greater than 0%) and the months in which the benchmark was down (returns less than 0%). If the cumulative return of the investment over these positive months works out to more than the benchmark, the investment is said to have a higher upside capture ratio. Similarly, if the investment performed worse than the benchmark in negative months, it would be said to have higher downside capture. Most importantly, if an investment has a very low downside capture ratio, it means that it didn't lose much when the benchmark declined. You can have an upside capture of less than 1:1, and still outperform the benchmark, because you lose less in down markets.

A perfect illustration of this is found in MSCI's World Risk Weighted Top 200 Index (CAD Hedged), which is replicated by First Asset's ETF with the ticker RWW. The long term (since December, 1998 through to September 30, 2014) return of this risk weighted index is 7.93% compared to the broader benchmark MSCI World Index return of 4.37%. The outperformance is evident. How did the risk weighted index accomplish this? It had significantly less volatility, with a standard deviation of returns of only 8.91 compared to the benchmark's 15.8; but the real eye opener is the superior upside-downside capture profile.

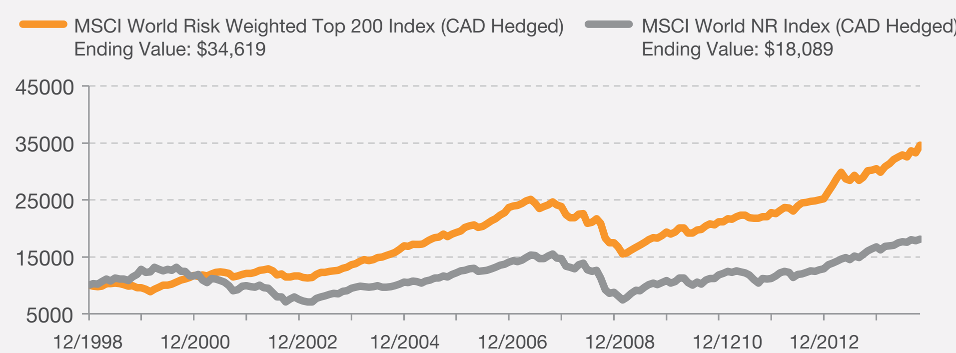
The risk weighted index only suffered 29.26 % of the down market returns of the benchmark. Similarly, and consistent with the lower risk, it only captured 58.72% of the benchmark return in up months. But that ratio is essentially 2:1. It gains twice as much as it loses, while the benchmark only gains (or loses) (fill in data). That leads to dramatic long-term outperformance by losing less. The strategy is far less risky than the benchmark, and that leads to long-term outperformance.

ETFs like First Asset MSCI World Low Risk Weighted ETF are what First Asset refers to as smart solutions. They serve a real world investment needs – mitigating risk in investor portfolios while striving for long-term outperformance – and are rooted in solid fundamentals, in this case, the fact that low risk can mean higher return.

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

First Asset MSCI World Low Risk Weighted ETF (TSX:RWW) CAD Hedged

Historical Index Performance - Growth of $10,000



	Index Performance (%)				Index Risk Metrics				
	1Y	3Y	5Y	10Y	Up Capture	Down Capture	Std Dev	Sharpe Ratio	Sortino Ratio
MSCI World Risk Weighted Top 200 Index (CAD Hedged)	19.48	16.96	13.06	7.54	55.79	19.88	8.82	0.61	0.84
MSCI World Risk Index (CAD Hedged)	17.49	19.30	12.43	6.10	100.00	100.00	12.06	0.16	0.21

Source: Morningstar Direct. As at Oct 31, 2014

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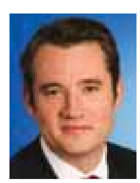

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Investing in the future

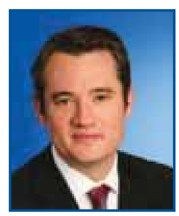
How megatrends are reshaping the future of the investment management industry

Thanks to three decades of strong market growth, a focus on the wealthy baby boom generation and an exponential increase in global capital flows, the investment management industry has grown considerably over the past 30 years. The next 15 years, however promise a very different outlook.

As the baby boom generation approaches retirement, it is drawing down on its savings. Slowing growth rates throughout the world's major economies are widening both generational and economic gaps. Combine this with investors' lingering lack of trust in the wake of the global financial crisis, and it becomes clear that the investment management industry is facing significant challenges.

Of course, opportunities abound as well. The thing is, they will likely only be available to investment management firms that keep customers at the heart of their business and intelligently leverage emerging technologies to deliver on radically shifting client demands.

▶ Megatrends – the drivers of change



By
Peter Hayes
National Director
Alternative Investments Practice, KPMG

Investment managers interested in succeeding in this new business environment should recognize that a series of deep-rooted forces, or megatrends, are driving fundamental change within the industry. These include:

01 Demographics
Aging populations, combined with low birth rates, low savings rates and high levels of fiscal debt are creating a growing retirement burden which is shifting increasingly to the individual. At the same time, people are working longer, women control a higher percentage of household wealth and the middle class is growing quickly, particularly in developing regions, heightening the demand for more flexible saving solutions.

02 Technology
As technology continues its rapid pace of change, and constant connectivity becomes the norm, investors will expect a different level of access to their investment managers. Data growth over the next 15 years will also be exponential. Investment managers who can successfully harness this data will gain valuable insights into clients' needs and be able to differentiate themselves from the competition through personalized products and services.

03 Environment
By 2030, many investors will have grown to value ethical and social responsibility in the companies they do business with – including those in the investment management industry. Not only will investment managers be expected to abide by responsible operating practices, they will also need to be well-versed in socially responsible investment strategies. Depleting natural resources, particularly water, and the need to find alternatives will create many new investment opportunities.

04 Social values, behaviour and ethics
Investors today already place great value on trustworthiness and transparency; that trend will only accelerate going forward. Word of mouth and viral messaging will become more powerful than traditional advertising as social media evolves. While this will provide investment managers with an opportunity to better connect and interact with their client base, it will also force the industry to rethink its communication strategies.

Understanding the clients of the future

Demographic transformation, combined with technological advances and social shifts, will significantly change the profile, needs and requirements of tomorrow's investors. Looking forward, clients are likely to be considerably more diverse in terms of who they are, where they're located and what they want, need and expect from the industry. They will want:

- Access to better advice and financial education
- Tailored solutions
- Interactive service models
- 24/7 connectivity
- Timely information through a variety of media

To target and serve this diverse client base, investment managers will need to invest in client profiling, data analytics and operational flexibility.

Implications for investment management

The confluence of these megatrends promises to profoundly affect the investment management industry. Significantly, the industry will have a larger role to play in society. To get there, however, they will need to drastically change their value proposition. This will have implications on all areas where investment managers operate, including:

1

The value chain

In coming years, power will continue to shift towards those who control the client relationship, giving investment managers the opportunity to play a broader role in the industry's value chain. However, as investor engagement improves, clients are likely to place equally as high value on the level of advice and education they receive, the ease of the up-front asset allocation process and their access to aggregated financial positions as they do on underlying investment performance.

Questions to ask about the value chain

- What role do you want to play in the future value chain?
- How can you gain a better understanding of your clients, especially if yovu are already removed from them due to the use of intermediaries?
- How can you deliver more user-friendly access?
- Are there opportunities to offer more customized asset allocation options up-front?
- How can you aggregate or package your products to make them more appealing to the evolving client base?

2

Clients

As the investor base becomes more diverse, investment managers will increasingly need to adopt tailored client engagement strategies. This will likely include the provision of higher levels of financial education and advice, as well as a new set of products designed to capture customers earlier and keep them longer.

Questions to ask about clients

- How will the needs, requirements and behaviours of your future clients change?
- Are you equipped to respond to these evolving expectations?
- Where will your clients be located?
- Do you have a strategy for capturing clients earlier and keeping them longer?
- Can you deliver more education and support to a younger and potentially less financially literate market?
- What strategies will you need to engage with millennials, digital natives and Google kids, as opposed to baby boomers?

3

Products and brands

While core investment products are likely to remain key as the industry strives for greater client-centricity, more focus will likely be placed on outcome-oriented propositions, pensions innovation, the development of broader retail product sets and more product flexibility. Core aspects of the investment process will likely also be called into question and pricing practices will come under more intense spotlight. To succeed, investment managers will need to bring current investment niches into the mainstream and improve their brand management strategies.

Questions to ask about products and brands

- How will your value proposition and service model need to change to meet evolving client needs?
- How can you structure your products to deliver more outcome-oriented solutions?
- Are you positioned to deliver on focused investor expectations, such as socially responsible investing and alternative investment strategies?
- How can you broaden your proposition to be more relevant from 'cradle to grave'?

4

Market

As new investors emerge in the south and the east, so will new opportunities for the investment management industry. But not every new market will suit the culture and risk profiles of every established investment manager. As emerging and developed markets converge, investment managers will need to refine their market entry approaches and take a more multi-level approach to their market strategies. Firms will also need a more effective organizational structure if they hope to balance geographic expansion, risk management and inter-organizational connectivity.

Questions to ask about markets

- Does the local regulator environment actively encourage or hamper new market entry?
- What are the key regulatory differences from your existing market footprint?
- How will the legal entity be taxed locally and upon repatriation of profits to the head office country?
- What are the licensing arrangements?
- Are new licenses available or would an existing license need to be acquired?
- How stable is the local financial market?

5

Technology

As the pace of change accelerates, so does the need for flexibility and agility in the core operating model. By 2030, investment management firms will need a core platform and simple user interface capable of efficiently delivering on their service promise. Client profiling and effective data analytics will act as differentiators. Value-added outsourcing will also offer numerous advantages, but only if it is executed effectively.

Questions to ask about technology

- How are you capturing and leveraging internal and external data to better engage with clients and remain relevant?
- How can you embed greater efficiency and effectiveness into your operating model?
- What types of platforms do you need to support a more diverse client base?
- Do you have executive support to implement the radical technological solutions demanded by the investor of the future?
- Does your model have the agility to enable you to respond to opportunities and threats?
- How can you gain competitive differentiation by using data analytics to improve client profiling and operational flexibility?

6

Governance

Managing an organizational matrix on three continents is difficult. Managing one on five continents, across a variety of time zones, is even more so. As investment managers pursue further geographic expansion, organizational structures and governance will become more complex and reliance on third-party relationships will likely rise. All this will take place under intensifying regulatory scrutiny, requiring more robust risk management frameworks.

Questions to ask about governance

- How do you anticipate the regulatory environment to change and how well will you be prepared?
- How can you embed a more robust risk focus within the organization without stifling innovation?
- Do you have third-party relationships in place to deliver aggregated financial services across providers?
- Have you identified players or competitors in your network with whom you can create value in mutually beneficial ways?

7

People

Just as investors will become more diverse by 2030, so will the talent pool. As employers, investment managers will have to meet evolving employee expectations and work patterns, while determining how to attract and retain different skillsets.

Questions to ask about people

- What people skills and capabilities will you require in the future?
- What are your strategies for engaging with a more diverse talent pool?
- How do you plan to increase the equality balance within your workforce?
- Do you have a sufficiently compelling value proposition to attract and retain qualified employees?
- Do your HR practices accurately reflect both your talent requirements of the future and changing employee expectations?

▶Is more radical disruption in store?

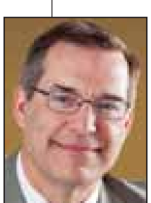
No one can predict the future or forecast where government regulation will go. Yet these megatrends point to the potential for the industry to see more radical disruption. With retirement systems under considerable strain, existing savings and investment models will need to change. Disruption could consequently result as new entrants move into the higher-margin segment or more innovative products challenge the existing proposition.

Yet, despite the challenges presented, these megatrends also bring unprecedented opportunities. By taking the time to understand their implications and to transform in response, the investment management industry has the potential to add considerable value to the marketplace of tomorrow.

For more information on how these evolving trends may affect your business – and how you can reap the benefits – download KPMG's report, *Investing in the future: How megatrends are reshaping the future of the investment management industry* at **www.kpmg.ca/investmentinsights**.

Go Hard on Soft and Soft on Hard Currencies

Behavioural Imperatives. What trends are likely to be driven by the hard-wired behavioural biases of market participants and policymakers?



Wilfred Hahn
Chairman & co-CIO, Hahn Investment Stewards

Yes, we know. The splendiferously eclectic actions of central bankers around the world have been driving up financial assets of late. Investors have been repeatedly admonished to not underestimate their power. The reckless and desperate QE expansions of the Bank of Japan; the belligerent policy threats of the ECB; and the "money finance" gambit of the U.S. Fed are unprecedented policies that uniquely define the current era.

Actually, that is not true. … at least not entirely.

This is not the first time that central banks as a group have inflated their balance sheets. In fact, seen over the timeline since the invention of central banking (starting with the Swedish Riksbank in 1668) the recent monetary salaciousness of CBs has actually been muted. Not only that, much greater balance sheet expansions took place relatively recently. According to a study published in May this year by Niall Ferguson Andreas Schaab, and Moritz Schularick, the balance sheets of the 12 largest central banks in the world reached an average equivalent of approximately 40% of GDP in 1947.

In comparison, today, central bank balance sheets relative to GDP are only 30% or so (here only counting the same 12 CBs, though folding four into the ECB as of 1999). So what's all the handwringing about, if the world has survived such extreme periods before? Doesn't the future look as bright as it did in post-war 1947?

A little bit of history here will be helpful to set up our conclusions. The researchers of the mentioned report point out that two types of conditions led to such extremes in central bank balance sheets – war and financial crisis. Both led to a high level of active monetary policy but for different reasons. In the 1940s, CBs were mainly buying government bonds to help finance war expenditures. Today, CBs are mainly trying to boost consumption and final demand.

There are many parallels between these bouts of "financial" and "armed" combat. Surprise strikes… overwhelming force… psychological intimidation... ground and aerial manoeuvres, all can play decisive roles. Back in 1941, Japan's naval aircraft – the superior Mitsubishi A6M Zero – delivered a surprise strike at Pearl Harbor… wave upon waves of attacks. Today, Japan is bombing with "zeros" of a different type – infinite financial zeroes. But, the strategy is the same – achieving first-mover advantage. Just as did the Mitsubishi A6M fighter planes, these recent strategies have long-range affect.

Enough of our imaginative parallels. The fact is that there are striking differences today from the late 1940s. We can only mention a few: Entirely different demographics; much lower global population growth; a more extreme state of wealth distribution; pre-globalization vs. today's post-globalism; post-war reconstruction and the Marshall Plan to what... austerity? A thorough comparison crystalizes our conclusions.

Consider these key facts: No matter the rhetoric, the reality is that there is a "beggar thy neighbor" war underway. Today, this is being manifested in terms of currency and monetary expansion and it is continuing. Secondly, it is highly unlikely that central banks will ever volitionally shrink their balance sheets by "selling" securities back to open markets. For this group, this was not likely in the past, nor likely in the future.

Thirdly, and this the "coup de' gras": A comparison of the attendant conditions of the two periods supports the conclusion that this time, central banks will not be able to reduce their balance sheets by letting GDP growth outrun their liabilities… not with negative real interest rates.

That only leaves three alternatives: 1. Continued monetary and currency wars; and 2: A hyper-inflation; or 3: A final exhaustion in the form of a deflationary bust.

We can argue about the probabilities of each. This debate doesn't need to be settled just yet. For now, what this means for investors today is that central bank largesse and policy interventions have a long ways to go.

Here at HAHN we try to identify sets of expected market behaviors that we call Behavioural Imperatives. In other words, what trends are likely to be driven by the hard-wired behavioural biases of market participants and policymakers? Just as corporate executives are incented to keep retiring equities (after all, the cost of debt is far below their return on capital) central bankers will, at all costs, engineer policies that seek self-perpetuation of financial systems.

Net, net, behavioural biases and the current economic structures argue this strategy: Stay long in the equities of countries that are winning the currency wars. Buy fixed-income securities in countries that are experiencing appreciating currencies. Hedge the currency in the former; leave exposed the latter. It is still a good strategy is to buy DXJ (WisdomTree Japan Hedged Equity ETF). A good offset to this is to buy of AGG (iShares Aggregate Bond Fund). We think strategies of this type have a long ways to run. But beware of long-range salvos. These will be sure cause periodic explosions of volatility, requiring good cover. After all, as in the 1940s, we are experiencing a world war.

This article was originally published on **ETF.com**.

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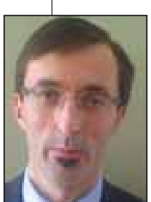
2015 – The Rise of ETF Strategists and ROBO Advisors in Canada …

And other key factors that should help propel the penetration rate of ETFs further.



Yves Rebetez
Managing Director, Editor, ETFinsight

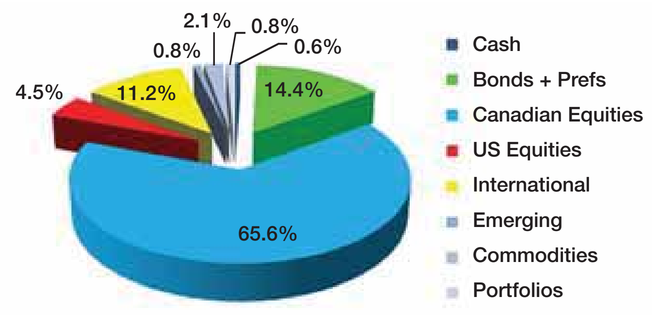
Next year will see Exchange Traded Funds reach a significant milestone.

Come March 2015, the first ETF in the world – the iShares S&P/TSX 60 Index ETF – will mark the 25th anniversary of a financial product innovation, the ETF structure, which from these origins, has revolutionized the realm of investment solutions delivery in countless ways. Its potential to cause significant disruption in its native marketplace - Canada - over the next few years should not be underestimated, even if the pace of its adoption lags what has happened to the South of us in the United States since the financial crisis.

To be sure, growth numbers in Assets under Management terms for the Canadian ETF industry over any time frame - anywhere between 20-25% for any trailing period over the long term (5 or 10 years), give or take - look good. Many an industry would have nothing but drooling envy for such growth, particularly with solid underpinnings for more of the same far out into the future.

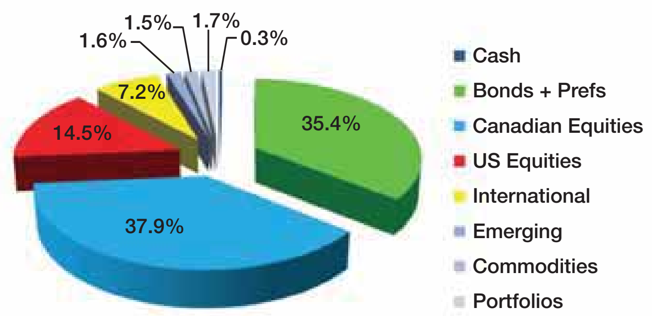
ETF insight

CDN ETFs – Overall industry Assets under Management
(as at the end of October 2008, broken down by asset class) - With a Global Financial crisis in full swing as backdrop at the time…



overall allocation Oct 2008 (Total AUM: $16.3 Bn)

CDN ETFs – Overall industry Assets under Management
(as at the end of October 2014) – By now 6 years of Global stimulus later, with well over 300 ETFs to choose from, and providers'ranks bolstered by the addition of 7 ETF providers since the crisis:



overall allocation Oct 2014 (Total AUM: $73.1 Bn)

From a disruption perspective, however, we arguably haven't seen anything yet. This is because we tend to lag trends in the US, and there, ETF adoption is vastly higher than the sub 10% of overall Mutual Fund Assets the ETF industry claims here. Chalk that up to the overall size of the market there, a more cost conscious US consumer relative to a more apathetic Canadian one, and the rise of intermediaries in the US rendering the ETF proposition significantly easier to implement and leverage across the board.

In Canada, meanwhile, to this point, consumers seem stuck in between an overpriced and sometime superfluous full service distribution scheme as far as financial products, and a "do it yourself" alternative many investors likely feel ill equipped handle, respectively have little desire to assume, even if the economics of it pin it as a no brainer over a lifetime of investing.

So what is it going to take?

In order of significance, the following should play a significant role in 2015 and beyond:

- **ETF Portfolio Strategists -** Buying one or two ETFs online is easy enough. More complex is the task of managing entire portfolios with ETFs. On that front, in the US, a new breed of Portfolio Managers has emerged in recent years - ETF Portfolio Strategists – which comprise one if not the fastest growing segment of the money management business there. Canada has – whether it realizes it or not to-date – a burgeoning home grown ETF Strategists segment. Look for that group to become more vocal and a factor in our market place.
- **ROBO Advisors –** The arrival on the scene of ROBO advisors is another element that should serve to galvanize investors into taking action when it comes to implementing ETF solutions in more meaningful ways in 2015. This won't happen overnight, but the offering gap between full-fledged ETF Strategist Managed Portfolios and basic DIY online brokerage accounts is wide, and with an adequate human interface, the opportunity is for this technology platform driven channel to become a fast growing niche.
- **More challenging Markets -** A bull market covers a multitude of sins... And can be used to help overcome concerns regarding fees. As this bull market enters its 6 year anniversary in 2015, it is clear that its resilience has been formidable, but also that while there may still not be much if any alternative to investing in stocks, significant obstacles could finally converge to put an end to the smooth ride and easy gains of recent years. When that finally happens, costs, and alongside it risk management will come to occupy a more prominent place in investors'minds.
- **Home Bias drag –** While it was fine to favour the home team when the CAD was on its way to nearly doubling from its early new millennium lows as Canada's stock market concurrently surged due to an insatiable commodities appetite on the part of Emerging Markets, this story has long since turned into a drag. The sooner Canadians recognize this, the better, all the more since with ETFs, access to the benefit of foreign diversification on the equity side don't have to mean taking a bet on currency alongside it if not deemed desirable.
- **Readily available ETF solutions –** It may be baffling to some that we should enter 2015 with 5X or so as many Exchange Traded Funds as where in existence when 2009 rolled around. Are that many ETFs necessary? No, BUT – the extent of the access provided is both broader at times, while more specific at others, with, often more specialization included. Back in 2009, for instance, the US Total Market Index wasn't available through a Canadian-listed ETF. Smart Beta back in 2009? Relative to what is now on the shelf, there wasn't much then. Actively Managed ETFs? While the "signals" emanating from the regulatory side in the US seem somewhat confusing – no to some, maybe to others with a slightly modified framework – the reality is that in Canada, we are getting more and more solutions, both active, and blending active with the discipline of factors. Specific to Factor-based methodologies, investors and advisors will likely become more fluent in the discussion of which factor are more suited to a specific market context, respectively an investor's particular objectives, or investment creeds.
- **Distribution and Disclosure –** As the regulatory framework here evolves to finally provide investors with a greater understanding of the value propositions available to them, it should undeniably translate into an appreciation that a great foundational, or "core" component of investment portfolios should include some ETFs, if not often be comprised primarily of ETFs.

2014 has seen the costs of some of these "Core" building blocks of portfolios decline to levels rendering them even more compelling. It is now up to investors, their advisors, respectively other intermediaries they might opt to interact with to take advantage of the broader ETF value proposition. If this doesn't happen, Canadians over time will be less well-off than they think for it.

Yves Rebetez Managing Director, Editor, ETFinsight
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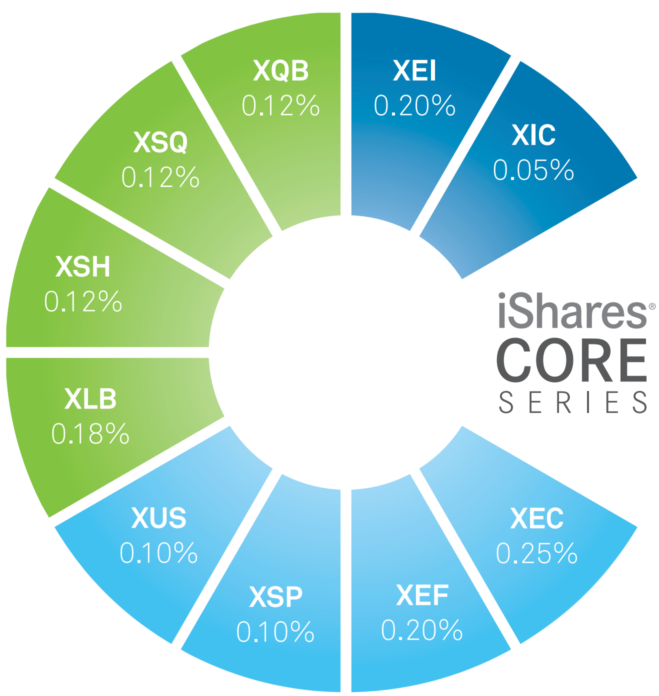

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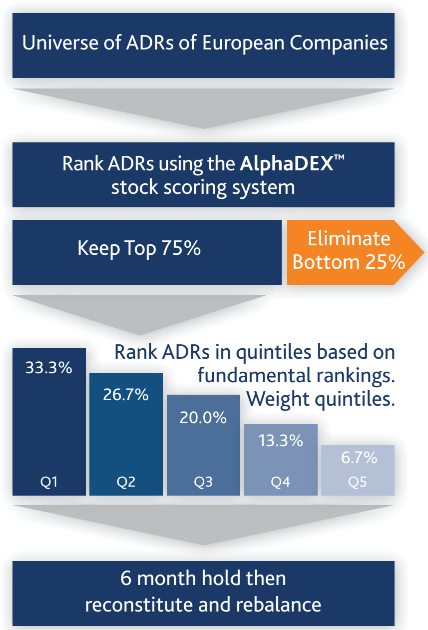

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