CANADIAN
ETF Watch
WINTER 2023
CanadianETFWatch.com

What You Need to Know About Tax-Loss Harvesting

- What You Need to Know About Tax-Loss Harvesting
- Capturing Volatility to Be a Return Source
- Is 2023 the Year for International Equities?
- Gold is the New Gold
- Investing in Japan
- Climate, Macro Drivers Create Tailwinds

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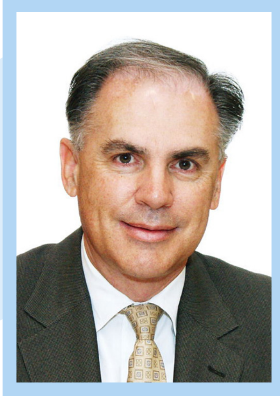

As the calendar flips to January and the winter blues begin to set in across Canada, we look back upon the performance of the Canadian ETF industry in 2022 with encouragement and hope to where it is going in 2023. In 2022, the Canadian ETF Industry experienced inflows of what could end up being over $30 Billion – and while the AUM was down slightly year-over-year, these flows remained stronger than projected. Looking ahead to 2023, *Canadian ETF Watch* and the Canadian ETF Association both believe that this strong growth will continue.

As the economy is still in a state of flux, geopolitical surprises and economic shocks continue to pose major challenges to Canadians. The Winter 2023 edition of *Canadian ETF Watch* features many articles that try to help advisors and investors take advantage of this volatility. An article from Laura Tase, Director of Institutional & Advisory for BMO ETFs provides strategies on how to capitalize on market volatility using covered call options. Bobby Eng, Head of Platform and Institutional ETF Distribution for Franklin Templeton Canada outlines the current geopolitical and economic situation in Canada and John Krisko, Manager of Analytics and Data from Fundata Canada Inc. analyzes the recent volatility in the cryptocurrency markets and explains why he believes there is no replacement for physical gold.

We thank you for continuing to be a loyal subscriber of *Canadian ETF Watch* and hope that you enjoy the Winter 2023 edition.

Sincerely,

Keith Costello
Global CEO,
Canadian Institute of Financial Planning
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Pat Dunwoody
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About *Canadian ETF Watch*

Through a dedicated website and quarterly issues, ***Canadian ETF Watch*** will speak to financial advisors, investors, managers and service providers to provide them with the latest information on ETFs in Canada. Canadian-based ETF markets continue to grow, which presents numerous marketing and promotional opportunities. Fund companies benefit from being featured in Canadian ETF Watch as their company name and solutions are distributed to our audience who are dedicated & targeted to ETFs.

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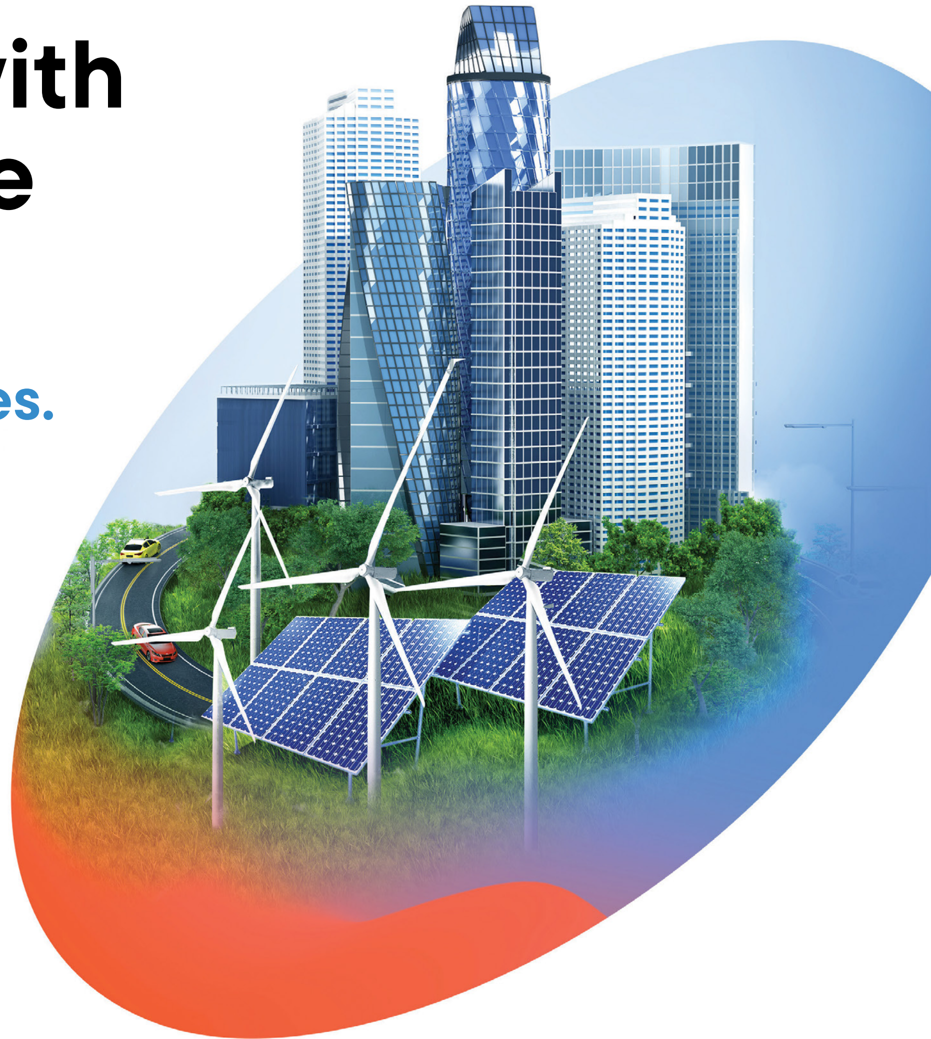
Protect & participate with infrastructure

The investing outlook is complicated. Inflation. Interest rates. Global slowdown.



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Learn more at www.franklintempleton.ca/infrastructure

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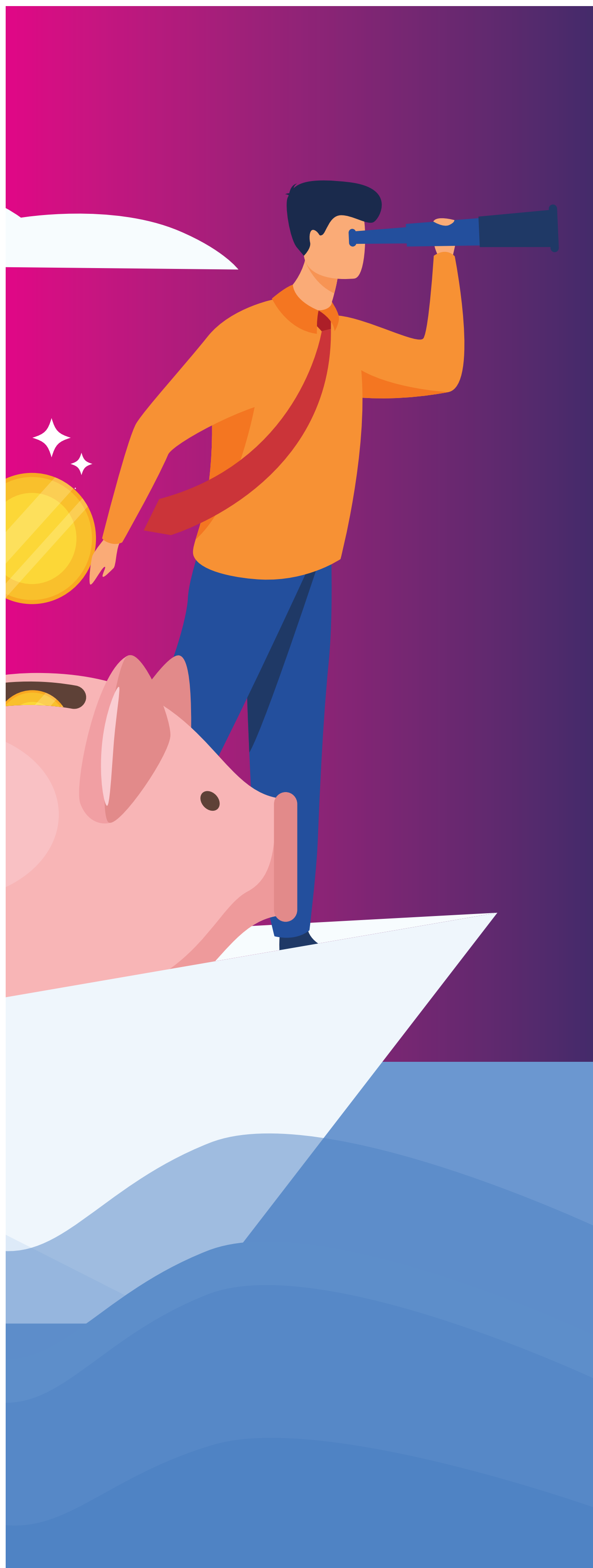

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Get Paid to Wait
6 BMO ETFs to Fight Inflation

As rising inflation continues to spark concern among investors, our ETF strategies offer the ideal solution with strong, stable cash flow and lower volatility. Explore our top exposures as of November 30, 2022.

Yield	ETF	Highlights
8.12%*	**ZWU** BMO Covered Call Utilities ETF	• Utilities and Energy pipeline equities have been in recent demand. • Volatile geo-political environment lends well to the generation high income from option premiums.
6.84%*	**ZWB** BMO Covered Call Canadian Banks ETF	• Banks have sold off presenting an attractive valuation opportunity. • Fundamentals continue to be strong with Forward P/E below 10x, and underlying dividend yield in excess of 4%.
6.64%*	**ZPAY** BMO Premium Yield ETF	• Yield harvesting balanced strategy on high-quality U.S. equities, with equity allocation increasing during a market selloff. Well positioned for a recovery. • The option overlay (put and call selling) generates tax-efficient income.**
6.64%*	**ZWC** BMO Canadian High Dividend Covered Call ETF	• Canadian dividend equities continue to benefit from factor shift from Growth to Value, with Energy, Materials and Utilities benefiting. • Solid historical dividend growth, and additional income through covered calls.
5.83%†	**ZBI** BMO Canadian Bank Income Index ETF	• Exposure to a diversified portfolio of Canadian bank financing instruments. • Gain access to non-traditional securities including bank issue bonds, preferred shares, and limited recourse capital notes (LRCNs). • An efficient solution to complement fixed income holdings, increase yield while investing in lower duration securities that are currently rated investment-grade.
5.81%*	**ZWH** BMO US High Dividend Covered Call ETF	• Dividend-oriented equities continue to be well-capitalized and strongly positioned to deliver results amid high inflation. • The U.S. economy is likely to lead the developed world during a period of economic slowdown backed by high-quality U.S. companies. • Also offered in Mutual fund format.

* Annualized Distribution Yield as of November 30, 2022: The most recent regular distribution, or expected distribution, (excluding additional year end distributions) annualized for frequency, divided by current NAV. Source: BMO Global Asset Management.

** As compared to an investment that generates an equivalent amount of interest income.

† Weighted Average Yield to maturity as of November 30, 2022. Weighted Average Yield to Maturity: The market value-weighted average yield to maturity includes coupon payments and any capital gain or loss that the investor will realize by holding the bonds to maturity.

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Commissions, management fees and expenses (if applicable) all may be associated with investments in exchange traded funds. Please read the ETF Facts or prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Exchange traded funds are not guaranteed, their values change frequently and past performance may not be repeated.

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Where ETF professionals discuss the market in their own words.

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What You Need to Know About Tax-Loss Harvesting

There's no sugar-coating it: both equity and fixed income markets have had a volatile year, which may have resulted in capital losses and discomfort for some investors.

It's human nature to panic in these types of situations, but it's useful to remember that market downturns may sometime lead to opportunities. This includes using tax-loss harvesting strategies in a portfolio to potentially help minimize taxes at year end.

TD Asset Management

Tax-loss harvesting or tax-loss selling is the act of selling a security at a loss (capital loss) and using the loss to offset gains (capital gains) incurred from selling other securities in a non-registered account. Investors can use current capital losses to offset capital gains in the current tax year. They can also carry back capital losses three preceding years or carry them forward indefinitely. By applying realized losses from the sale to the current or prior year's capital gains in a non-registered account, investors can reduce their tax bill – which can mean more money in their pockets. And as they say, a dollar saved is a dollar earned.

There are a couple of things investors need to keep in mind when considering using a tax-loss harvesting strategy:

Superficial Loss Rule

According to the superficial loss rule of the Canada Revenue Agency (CRA), investors claiming a capital loss on the sale of an investment cannot buy the same or identical investment within 30-calendar days of the sale. For example, if investors dispose of capital property for a loss and repurchase the same property within a 30-day period after its sale, the superficial loss rule will come into effect. This means a capital loss cannot be deducted from the capital gains for the year. The superficial loss 30-day rule is specifically designed to prevent investors from playing the system to lower their income tax payments.

Eligibility

Tax loss harvesting only applies to investments sold in non-registered accounts. Capital gains in registered accounts, such as an Registered Retirement Savings Plan (RRSP) or Tax-Free Savings Account (TFSA), are exempt from taxes. Using capital losses within registered accounts to offset gains in other accounts is not allowed.

For additional information about tax-loss harvesting or for specific financial or tax needs, please consult a qualified tax advisor.

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Capturing Volatility to Be a Return Source

Market volatility has been stubbornly persistent—but does that present opportunity?? Laura Tase, Director, Institutional & Advisory, BMO ETFs, outlines how investors can capitalize on volatility—and enhance their income—with covered call option strategies.

Laura Tase,
Director,
Institutional & Advisory
BMO ETFs

The importance of understanding volatility

Volatility is crucial to understanding options markets—and to identifying advantageous option-based strategies. Behavioural science expresses itself quite clearly in an examination of *historical volatility* versus *implied volatility*. Historical volatility—or realized volatility—involves the analysis of real, hard data to determine the degree of price fluctuation of underlying securities over a particular period of time; in short, it is volatility that has already occurred.

BMO Global Asset Management

Implied volatility, on the other hand, is a projection—a calculation of how volatile markets will be going forward based on the price of an option and imbalances in supply and demand. It is volatility that hasn't happened yet—and, as with all estimates, it is subject to the emotions of the people doing the estimating.

These behavioural factors may offer an explanation for a key concept for options traders: the historical imbalance between realized volatility and implied volatility. This imbalance makes it very attractive to sell options based on implied volatility.

Exhibit 1: Realized Volatility vs. Implied Volatility

VOLATILITY MEASURES				
US Equity	**VIX**	**1m ±**	**200D Ave**	**Realized (1Yr)**
Cboe Volatility Index® (VIX®)	**20.07**	-4.04	25.64	24.33
Cboe Short-Term Volatility (VIX9D)	**17.58**	-2.09	25.56	24.33
Cboe 3-month Volatility (VIX3M)	**23.35**	-2.68	27.69	24.33
Cboe 1-Year Volatility (VIX1Y)	**27.13**	-2.06	29.89	24.33
Cboe DJIA Volatility (VXD)	**17.72**	-3.84	22.26	19.98
Global Equity				
VSTOXX® (V2X)	**19.06**	-2.11	26.75	23.57
S&P/ASX 200 VIX (A-VIX)	**12.24**	-3.30	16.12	16.48
S&P/BMV IPC VIX (SPBMVVIX)	**24.96**	-0.59	20.69	16.88
HSI Volatility (VHSI)	**27.34**	-10.63	30.50	32.35
Cboe EM ETF (VXEEM)	**20.77**	-6.88	26.54	23.78

Source: S&P Dow Jones Indices, as of September 21, 2022

As illustrated in the chart above, historically realized volatility (rightmost column) tends to exceed implied volatility (VIX). In general, when the market goes down, volatility tends to go up. This results in higher premiums and greater yield for the investor. Ratcheting up investment in option overlay strategies in higher-volatility environments therefore would be advantageous.

In general, when the market goes down, volatility tends to go up. This results in higher premiums and greater yield for the investor.

Benefits of covered call overlays

Covered call option strategies—also known as buy-write strategies—are designed to provide an investor with a tax-efficient1 dual source of cash flow: an option premium plus the dividend yield. The strategy is implemented by writing (selling) a call option contract, while owning the underlying stock. In addition to offering enhanced income, it is also considered a defensive strategy, as equity downside returns are mitigated by the option premiums.

With BMO's suite of covered call strategies, we write further out of the money (OTM) when markets decline in order to protect the capital in case markets rebound. But we can also earn a higher premium at the same time, particularly as rising market volatility increases the value of the options contract.

Exhibit #2: Option Yield Scenario Table

Option Overlay Approach

Option Yield Scenario Table 1

	Implied Volatility			
	10.0%	**15%**	**20.0%**	**25%**
***OTM* 2.0%**	2.1%	4.9%	8.0%	11.3%
3.0%	1.1%	3.4%	6.2%	9.3%
4.0%	0.6%	2.3%	4.7%	7.5%
5.0%	0.2%	1.5%	3.5%	6.1%
6.0%	0.1%	0.9%	2.6%	4.8%
7.0%	0.0%	0.6%	1.9%	3.8%

Overlay Strategy Targets 23/4 in Option Premium:

- Approximately 50% of the portfolio is covered, consistently against the underlying portfolio.
- Strategy uses OTM options> 2% OTM, and dynamically adjusts moneyness to generate the target income.
- Prevailing market conditions, including implied volatility, will determine the ideal level of yield to target.
- Options premiums are taxed on the capital account.

Source: BMO AM, Black-Scholes option pricing model assuming 50% portfolio coverage.

As shown above, yield increases as we write further OTM based on implied volatility. The takeaway is clear: using a covered call overlay enhances income and lowers dependence on capital gains for a positive total return.

To consider it another way—portfolios with long-only positions offer two sources of returns:

1. **Dividends**: Stable, positive returns
2. **Capital Gains**: Unpredictable and with variable outcomes

Strategies with covered call overlays, on the other hand, offer those two sources plus an additional one:

1. Dividends
2. Capital Gains
3. *Option premium – Positive but varies with volatility (when the market goes down, volatility rises, and the premium goes up)*

A regular long-only portfolio has full market exposure, and the portfolio value will move fully with the stock price. When a portfolio writes options, its exposure to the market changes—often to the investor's advantage.

Looking under the hood—three variables in BMO's option writing strategies

There are three variables in BMO's option-writing strategies:

1. How much of the portfolio to write on:

   Generally, OTM call options are sold on approximately 50% of the portfolio, depending on market conditions. This provides the investor with enhanced yield while still allowing for participation in rising markets. Conversely, 100% option overlays have upside risk, as they are forced to buy positions back if the call is assigned.

2. Where to write:

   We always write out of the money to protect capital and avoid the upside risk mentioned above. However, where we write differs according to market conditions. We sell further OTM when volatility rises, and closer to the money when volatility drops.

3. Contract term:

   The options curve is steepest over the first 60 days, so we typically write one- or two-month contracts to take advantage of the near months when the market is most volatile. Writing shorter-term options also provides greater flexibility—contracts expire worthless in the least amount of time, which allows us to write new contracts and adjust the option's strike price more frequently to capture greater upside.

Using a covered call overlay enhances income and lowers dependence on capital gains for a positive total return.

BMO's covered call and premium yield strategies

With uncertainty continuing to be a significant story in markets, BMO's suite of covered call and premium yield products is situated to monetize volatility while generating significant income.

BMO Covered Call Canadian Banks ETF (Ticker: ZWB)

Banks have sold off as of late, presenting an attractive valuation opportunity. Their fundamentals continue to be strong, with forward price-to-earnings below 10x, and underlying dividend yield in excess of 4%.2

BMO Canadian High Dividend Covered Call ETF (Ticker: ZWC)

Canadian dividend equities continue to benefit from a factor shift from Growth to Value, with Energy, Materials and Utilities benefiting in particular. Features exposure to companies with solid historical dividend growth, as well as additional income through covered calls.

BMO Covered Call Utilities ETF (Ticker: ZWU)

Utilities and Energy pipeline equities have been in recent demand. The current volatile geo-political environment lends itself well to the generation of high income from option premiums.

BMO Premium Yield ETF (Ticker: ZPAY)

ZPAY uses option strategies (put-write and covered calls) combined with some long stock exposure to provide enhanced income with less volatility, more diversification, higher yield and partial market exposure. It is also available in U.S dollar units (ZPAY.U) and hedged to Canadian dollar units (ZPAY.F).

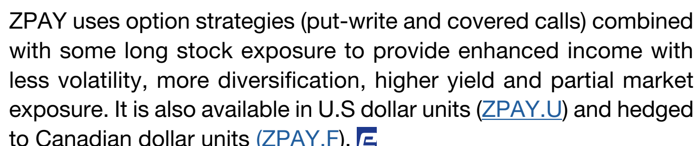

Exhibit #3: Product and performance details for BMO's complete covered call and premium yield suite (as of September 30, 2022)

ETF / Mutual Funds	% Covered	% Out-of-the-Money	1st Month	2nd Month	3rd Month	Annualized Opt. Yield*	Dividend Yield	Indicative Yield
ZWB	44.17%	4.26%	67.66%	32.34%	0.00%	3.14%	4.48%	7.62%
ZWU	45.76%	6.08%	54.48%	45.52%	0.00%	3.44%	4.61%	8.05%
ZWA	54.77%	7.90%	90.21%	9.79%	0.00%	4.52%	2.04%	6.57%
ZWH/ZWS	49.52%	7.78%	81.26%	18.74%	0.00%	3.95%	2.83%	6.78%
ZWE/ZWP	52.91%	7.18%	100.00%	0.00%	0.00%	3.78%	4.09%	7.87%
ZWC	43.05%	6.63%	72.23%	27.77%	0.00%	3.47%	4.26%	7.72%
ZWK	47.50%	9.11%	71.03%	28.97%	0.00%	5.01%	3.24%	8.25%
ZWG	49.60%	6.13%	56.68%	43.32%	0.00%	5.13%	3.36%	8.49%
ZWT	44.33%	13.08%	79.13%	20.87%	0.00%	4.63%	1.02%	5.65%
ZPW/ZPH	55.39%	8.65%	100.00%	0.00%	0.00%	10.58%	0.00%	10.58%

	Portfolio Weight*	% Covered	% Out-of-the-Money	1st Month	2nd Month	3rd Month	Annualized Opt. Yield	T-Bill/Dividend Yield	Indicative Yield
ZPAY Puts	23%	51.66%	7.56%	100.00%	0.00%	0.00%	2.58%	0.00%	2.58%
ZPAY Calls	77%	27.36%	6.76%	94.68%	5.32%	0.00%	4.03%	1.22%	5.25%

Data as of September 30, 2022 Source: BMO Asset Management Inc * 3month trailing average

For additional insights, see BMO's monthly Covered Calls, Derivatives, and Volatility Landscape report.

Please contact your BMO ETF Specialist for more information. Our Portfolio Managers are also available to help with trading insights. They can also be reached at 1-877-741-7263.

[1] As compared to an investment that generates an equivalent amount of interest income.

[2] Annualized Distribution Yield: The most recent regular distribution, or expected distribution, (excluding additional year end distributions) annualized for frequency, divided by current NAV.

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Is 2023 the Year for International Equities?

Geopolitical shocks, energy prices and economic turmoil have challenged investors the world over. With high interest rates and inflation, the Canadian market is no exception to the instability.

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

Elevated household debt largely caused by the housing market is one of the largest risks to Canada's economy. Although Canadians amassed close to $4 trillion of net worth during the pandemic and ensuing real estate boom, over $900 billion was lost due to rising interest rates. It's expected that $15 billion of household spending will be cut in 2023. To put equity valuations in perspective, they are relatively low while remaining 20% to 25% higher at the end of 2022 than they were during both the 2008 Global Financial Crisis and the start of the Covid-19 pandemic.

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In the United States, while a recession has not hit yet, various factors suggest that a broad-based decline could occur in 2023. From the inverted yield curve, higher rates, tighter lending policies, job cuts, labour wage pressures, rising debt and longer-term inflation pressure, a recession and subsequent bull market are more than likely stateside. At a minimum, investors can expect more volatility in 2023.

With North American markets challenged, opportunities abroad may offer more optimism.

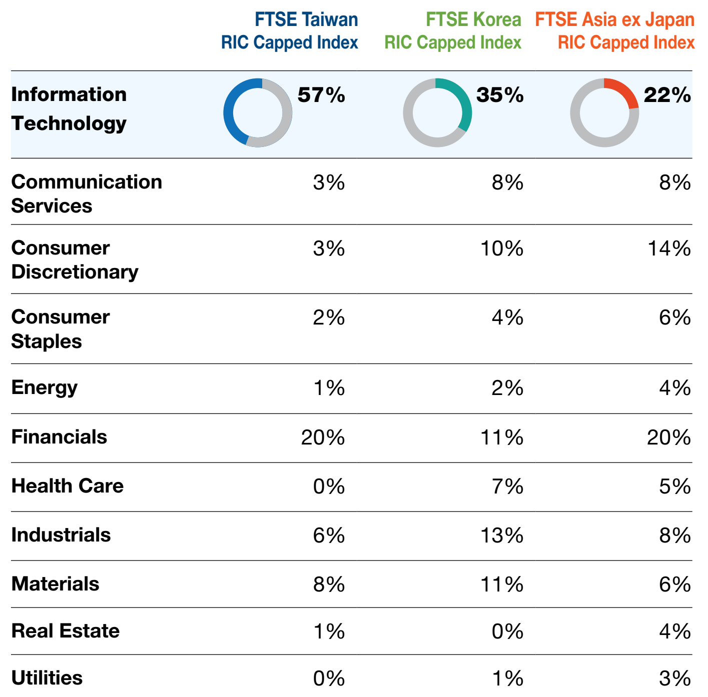
To be clear, Europe is also struggling with elevated inflation, which is above 10%. Soaring energy prices and the possibility of winter shortages have tamped down consumer and business confidence to a 10-year low. However, these downside risks already appear to be reflected in massively discounted EU valuations, which can create quite attractive entry points. Plus, there are several factors that may jumpstart Europe's outlook, including a de-escalation of the war in Ukraine, lower natural gas prices and the reopening of China's economy.

Growth prospects for Asia over the medium term appear to be at mid-single digit levels. While this is a far cry from the double-digit growth of more than a decade ago, loosening Covid-19 restrictions should be key to China's recovery and that of global supply chains. Industries supporting China's long-term development growth plan are still expected to dominate and be critical to global supply chains. Furthermore, the most recent AidData "Listening to Leaders (LTL)" Survey indicated that global leaders who worked with China were more optimistic about its progress in development and reforms.

Japan's prospects for improvement in 2023 look even more optimistic. With positive economic, monetary policy and inflation conditions and the lifting of travel restrictions, many companies are well positioned to grow profits in the coming year. After decades of deflation, Japan might be going into a period of positive inflation resulting from upward pressure in energy prices and the weakening of the Yen. Producers may pass these increases to end consumers, resulting in higher profitability. The Bank of Japan also forecasts Japan's real GDP will grow by 1.9% in 2023 and 1.5% in 2024, along with strong household earnings and a resilient labour force.

Globally, there are fewer than 20 semiconductor producers that can make chips at scale, with East Asia and China dominating the vast majority of related manufacturing and production assembly. Semiconductors are the world's most widely traded products after automotives and oil, and chip manufacturing poses immense barriers to entry with enormous capital requirements and technical complexities. The industry is controlled by a few major players in Taiwan, China and South Korea. Investors can access this robust industry through single countries with heavy tech sector weightings that tap into the world's top global chip producers (see Exhibit 1).

Exhibit 1 – Asia's Chip Production Dominance



	FTSE Taiwan RIC Capped Index	FTSE Korea RIC Capped Index	FTSE Asia ex Japan RIC Capped Index
Information Technology	57%	35%	22%
Communication Services	3%	8%	8%
Consumer Discretionary	3%	10%	14%
Consumer Staples	2%	4%	6%
Energy	1%	2%	4%
Financials	20%	11%	20%
Health Care	0%	7%	5%
Industrials	6%	13%	8%
Materials	8%	11%	6%
Real Estate	1%	0%	4%
Utilities	0%	1%	3%

Source: Bloomberg. Country and regional allocations may help investors gain access to the world's top global semiconductor (IT sector) holdings. The FTSE Global RIC Capped Indexes are market capitalization-weighted global equity indexes designed to help users meet Regulated Investment Company (RIC) concentration requirements. The indexes provide the market cap-weighted index building blocks for individual countries and regions. Indexes are unmanaged and one cannot invest in an indes. they do not include fees, expenses or sales changes.

Despite decelerating global demand and tighter monetary policy, India is still set to be the second fastest growing economy in the G20 by 2023. GDP growth is expected to slow down to 5.7% by 2024 as India's exports and domestic growth slow down, however, improved global conditions are expected to boost growth to almost 7% by 2025. Indian households are becoming the greatest spenders among G20 countries and are expected to continue to outpace average growth rates of real GDP and real GDP per capita from 2021-2030. This assumes structural reforms, infrastructure and human capital investments, and labour market improvements.

Compared to Canada and the U.S., international equities look attractive from a valuation standpoint and offer greater upside potential. As of Oct 31, 2022, the U.S. and Canada's cyclically adjusted P/E ratios (CAPE) were roughly 31 and 20, respectively. These are relatively rich when compared to other developed markets and, especially, emerging markets that are roughly 50% cheaper (see Exhibits 2 & 3).

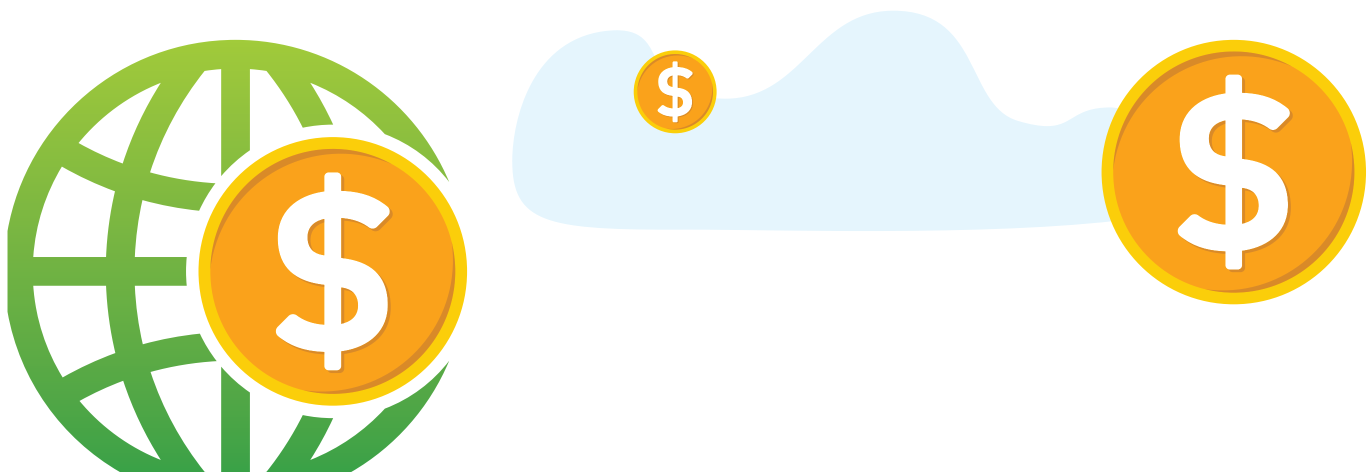


Exhibit 2 – International Equities' valuations are more attractive

Cyclically Adjusted Price-to-Earnings (CAPE) for Developed Markets

Developed Markets: CAPE

As of 10/31/2022

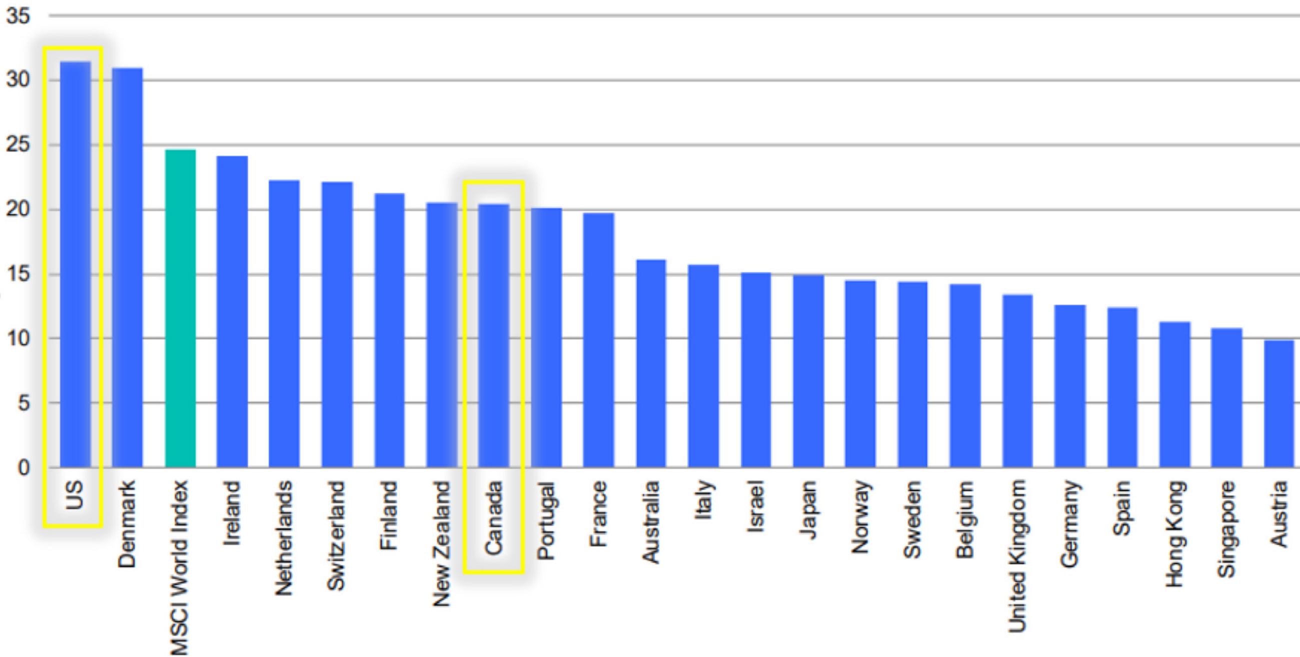


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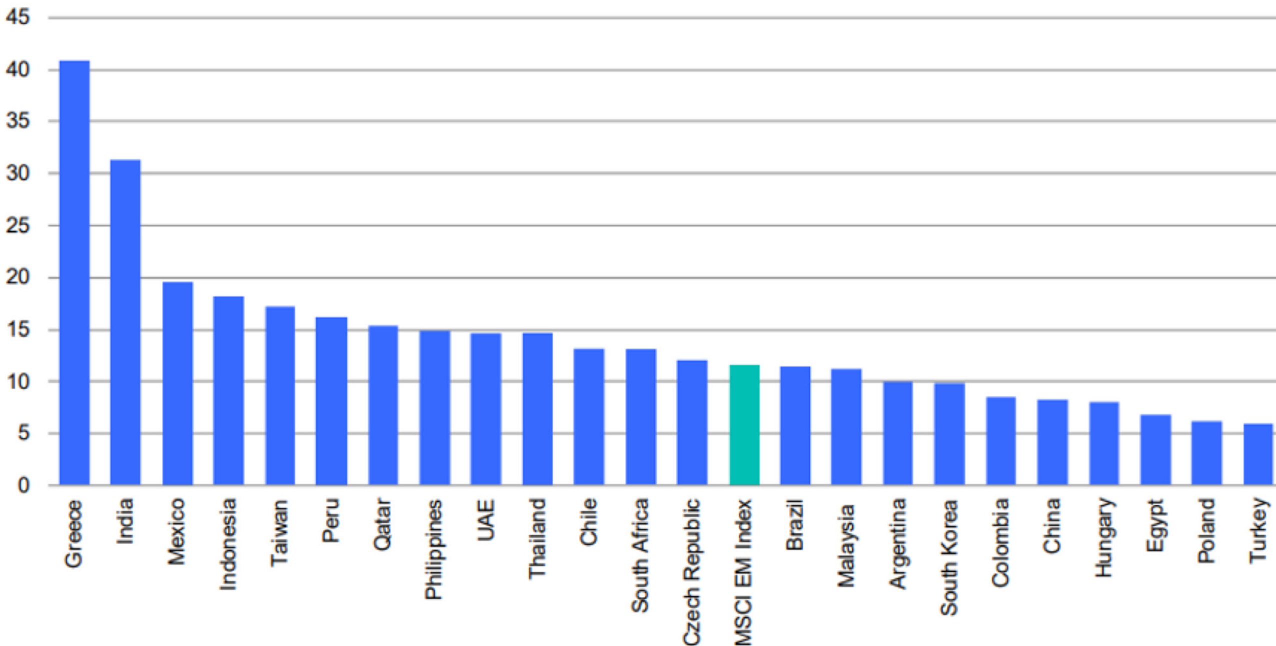
Exhibit 3 - International Equities Valuations are More Attractive – Emerging Markets

Cyclically Adjusted Price-to-Earnings (CAPE) for Emerging Markets

Emerging Markets: CAPE

As of 10/31/2022



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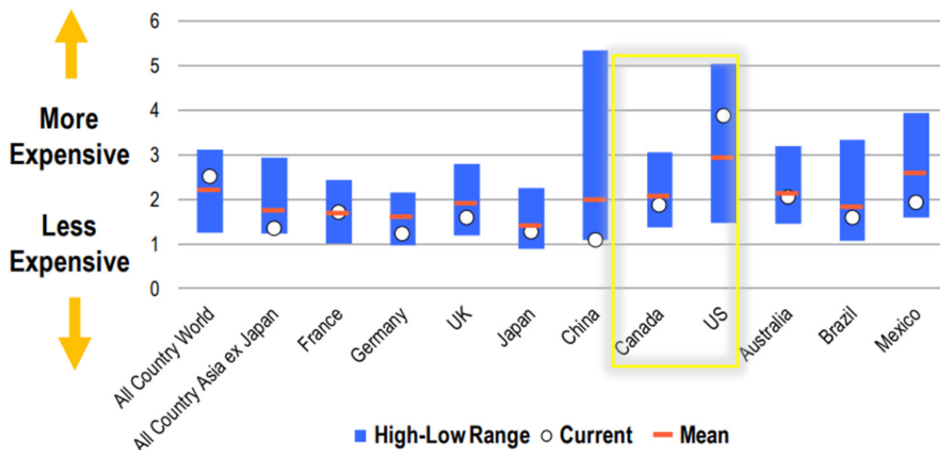
These valuations represent an opportunity to rebalance after a memorably volatile year and to position portfolios for greater upside potential as reversion to the mean will eventually take place (see Exhibit 4).

Exhibit 4 – Attractive Mean Reversion Opportunity

Price-to-Book Value (LTM) for Selected MSCI Indexes, Last 20 years

10/31/2002 to 10/31/2022



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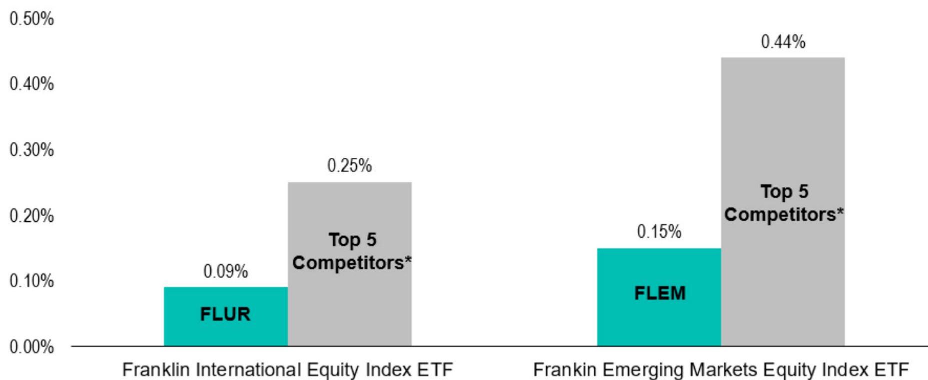
With international equities looking more attractive, Franklin Templeton recently launched its most cost-effective ETFs that provide exposure to passive International Markets and Emerging Markets (see Exhibit 5):

- Franklin International Equity Index ETF (FLUR) tracks the Solactive Global Benchmark Series (GBS) Developed Markets ex North America Large & Mid Cap CAD Index NR
- Franklin Emerging Markets Equity Index ETF (FLEM) tracks the Solactive GBS Emerging Markets Large & Mid Cap CAD Index NR

Exhibit 5 – Lowest Cost International ETFs

Lowest Cost International ETFs in the Market

As of November 30, 2022



*Average Management Fee of Top 5 Competitors by AUM in their respective space(International of Emerging Markets)

At a time when international markets look more attractive, these ETF solutions can enable investors to obtain efficient passive exposure to both developed and emerging markets at the most cost-effective manner at 9 basis points (bps) and 15 bps, respectively.

For investors seeking more targeted international exposure, our suite of passive equity single-country and regional ETFs can help build precise international portfolios to allow tactical execution of global investment convictions and amplify existing strategic positioning in broad markets.

With the right ETFs, investors can make 2023 the year for capturing opportunities in international equities (see Exhibit 6).

Exhibit 6 – Franklin Templeton Canada - Single Country and Regional ETFs

	Canada Listed ETFs	Management Fee
FLCD	Franklin FTSE Canada All Cap Index ETF	0.05%
FLAM	Franklin FTSE U.S. Index ETF	0.07%
FLJA	Franklin FTSE Japan Index ETF	0.09%
FLUR	Franklin International Equity Index ETF	0.09%
FLEM	Franklin Emerging Markets Equity Index ETF	0.15%

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RetirementInstituite.ca

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EXCHANGE TRADED FORUM 2023

ExchangeTradedForum.com

VANCOUVER

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WAIS Canada is in its 21st year and is Canada's largest gathering of alternative investments, investment professionals, investors, industry experts and service providers. Today's WAIS has gone much beyond its original alternative investment only focus attracting investment professionals from all facets of investments. WAIS Canada is a popular annual event that is not to be missed.

WAIS 2023 CANADA

waisc.com

Exchange Traded Forum (Toronto) 14th Annual

September/October 2023 ~ Toronto, ON

Canada's largest and longest standing event dedicated to Exchange Traded Products. Hear from leading financial industry professionals and industry experts who will provide valuable insights into the issues and trends that matter most to Canada's financial professionals. Join us for presentations, advisor/client-focused sessions, roundtable discussions, networking events and knowledge sharing critical issues facing the financial industry. This is an opportunity for IIROC based financial advisors and also Portfolio Managers to gather together in a great location to network, learn from each other, and participates in the numerous educational opportunities that fill the agenda.

EXCHANGE TRADED FORUM 2023

ExchangeTradedForum.com

TORONTO

ESG Conference (Toronto) 2nd Annual

November 2023 ~ Toronto, ON

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ESG CONFERENCE 2023

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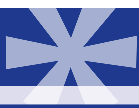

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Spring 2024 ~ London, United Kingdom

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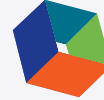

ETF & INVESTMENT FORUM 2024

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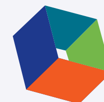
LONDON

ETF & Investment Forum Frankfurt 2nd Annual

Spring 2024 ~ Frankfurt, Germany

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



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FRANKFURT

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Être payé pour attendre
6 FNB BMO pour contrer l'inflation

La hausse de l'inflation continue de faire peur aux investisseurs, mais nos strategies de FNB offrent la solution idéale grâce à des flux de trésorerie solides et stables, et une volatilité inférieure. Découvrez nos meilleurs placements au 30 novembre 2022.

Rendement	FNB	Points clés
8,12 %*	**ZWU** FNB BMO vente d'options d'achat couvertes de services aux collectivités	• Les actions des services publics et du segment des pipelines d'énergie ont récemment fait l'objet d'une demande élevée. • La volatilité attribuable au contexte géopolitique favorise la production d'un revenu élevé grâce aux primes des options.
6,84 %*	**ZWB** FNB BMO vente d'options d'achat couvertes de banques canadiennes	• Les banques ont décroché, ce qui représente une occasion de valorisation attrayante. • Les données fondamentales restent solides : ratio C/B prévisionnel inférieur à 10 et rendement en dividendes sous-jacent supérieur à 4 %.
6,64 %*	**ZPAY** FNB BMO à rendement bonifié	• Stratégie équilibrée de récolte des rendements sur des actions américaines de grande qualité, la pondération des actions augmentant pendant une vente massive. Bien positionnée pour un rebond. • La superposition d'options (vente d'options de vente et d'options d'achat) génère un revenu fiscalement avantageux.**
6,64 %*	**ZWC** FNB BMO vente d'options d'achat couvertes de sociétés canadiennes à dividendes élevés	• Les actions à dividendes canadiennes continuent de profiter du passage du facteur de croissance au facteur de valeur, dont profitent l'énergie, les matières premières et les services publics. • Forte croissance historique des dividendes et revenu supplémentaire grâce aux options d'achat couvertes.
5,83 %†	**ZBI** FINB BMO revenu de banques canadiennes	• Exposition à un portefeuille diversifié d'instruments de financement bancaire canadiens. • Accès à des titres non traditionnels, y compris des obligations émises par des banques, des actions privilégiées et des billets avec remboursement de capital à recours limité (billets ARL). • Une solution efficace pour compléter les placements en titres à revenu fixe, accroître le rendement tout en investissant dans des titres de moindre duration qui sont actuellement cotés catégorie investissement.
5,81 %*	**ZWH** FNB BMO vente d'options d'achat couvertes de dividendes élevés de sociétés américaines	• Les actions axées sur les dividendes continuent d'être bien capitalisées et solidement positionnées pour produire des résultats dans un contexte d'inflation élevée. • L'économie américaine est susceptible de dominer le monde développé pendant une période de ralentissement économique soutenue par des entreprises américaines de grande qualité. • Aussi offert en format fonds commun de placement.

* Rendement annualisé des distributions au 30 novembre 2022 : la plus récente distribution régulière ou prévue (à l'exception des distributions de fin d'année supplémentaires), annualisée en fonction de la fréquence, divisée par la valeur liquidative courante. Source : BMO Gestion mondiale d'actifs.

** Par rapport à un placement qui génère un montant équivalent de revenus d'intérêts.

† Taux de rendement à l'échéance moyen pondéré, au 30 novembre 2022. Rendement à l'échéance moyen pondéré : Le taux de rendement à l'échéance moyen pondéré en fonction de la valeur marchande comprend les paiements de coupons et tout gain ou toute perte que l'investisseur réalisera s'il conserve les obligations jusqu'à l'échéance.

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Cette communication ne doit en aucune façon être interprété comme un conseil fiscal, car la situation de chaque client est unique. Veuillez consulter votre conseiller fiscal attitré.

Le versement des distributions n'est pas garanti et peut fluctuer. Le versement des distributions ne doit pas être confondu avec le rendement ou le taux de rendement d'un fonds négocié en bourse. Si les distributions versées par le fonds négocié en bourse sont supérieures à son rendement, votre placement initial perdra de la valeur. Les distributions versées du fait de gains en capital réalisés par un fonds négocié en bourse ainsi que le revenu et les dividendes accumulés par un tel fonds sont imposables dans l'année où ils sont versés. Le prix de base rajusté est réduit du montant de tout remboursement de capital. Si le prix de base rajusté est inférieur à zéro, il vous faudra payer l'impôt sur les gains en capital sur la portion du montant qui est inférieure à zéro. Veuillez consulterla politique de distribution des fonds négociés en bourse qui se trouve dans le prospectus.

Les placements dans des fonds négociés en bourse peuvent comporter des frais de courtage, des frais de gestion et d'autres frais (le cas échéant). Veuillez consulter l'aperçu du FNB ou le prospectus avant d'investir. Les taux de rendement indiqués sont les taux de rendement composés annuels historiques globaux; ils tiennent compte de l'évolution de la valeur des parts et du réinvestissement de tous les dividendes ou montants distribués, mais non des commissions qui se rattachent aux ventes, aux rachats ou aux distributions, ni des frais facultatifs ou de l'impôt payables par le porteur de parts, lesquels auraient réduit le rendement. Les fonds négociés en bourse ne sont pas garantis, leur valeur fluctue fréquemment et leur rendement passé n'est pas indicatif de leur rendement futur.

Pour connaître les risques liés à un placement dans les FNB BMO, veuillez consulter les risques spécifiques énoncés dans le prospectus. Les FNB BMO s'échangent comme des actions, peuvent se négocier à escompte à leur valeur liquidative et leur valeur marchande fluctue, ce qui peut augmenter le risque de perte. Les distributions ne sont pas garanties et sont susceptibles d'être changes ou éliminées.

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Gold is the New Gold

You may have heard over the past few years that "crypto is the new gold," but as the recent volatility in cryptocurrencies has proven, the truth is that there is no replacement for gold.

John Krisko,
Manager, Analytics and Data
Fundata Canada Inc.

There is a reason why central banks and investors alike consider gold an important asset to own. Gold is among a small number of assets that serve both as a store of value with a long history of use as a currency and as a commodity with a large consumer and industrial demand base.

FUNDATA
FINANCIAL DATA THAT MATTER

The golden rule

Gold is one of the most amazing metals on the periodic table. It never rusts or corrodes, and it is an excellent conductor of electricity and is easy to work with. These properties make it invaluable in many technological applications, such as smart phones, and – along with its value – are why it is also used so widely in jewellery.

While this may seem to hold little relevance to a modern investment portfolio, the demand these sources represents is actually a big reason for the yellow metal's ability to store value.

According to the World Gold Council, jewellery and technology accounted for nearly 64% of global demand in 2021. That puts a very significant floor under the price of gold and reveals that a large part of the value of gold is found in its own future demand for these uses, which are unrelated to currencies or financial markets.

Finding gold after the rush

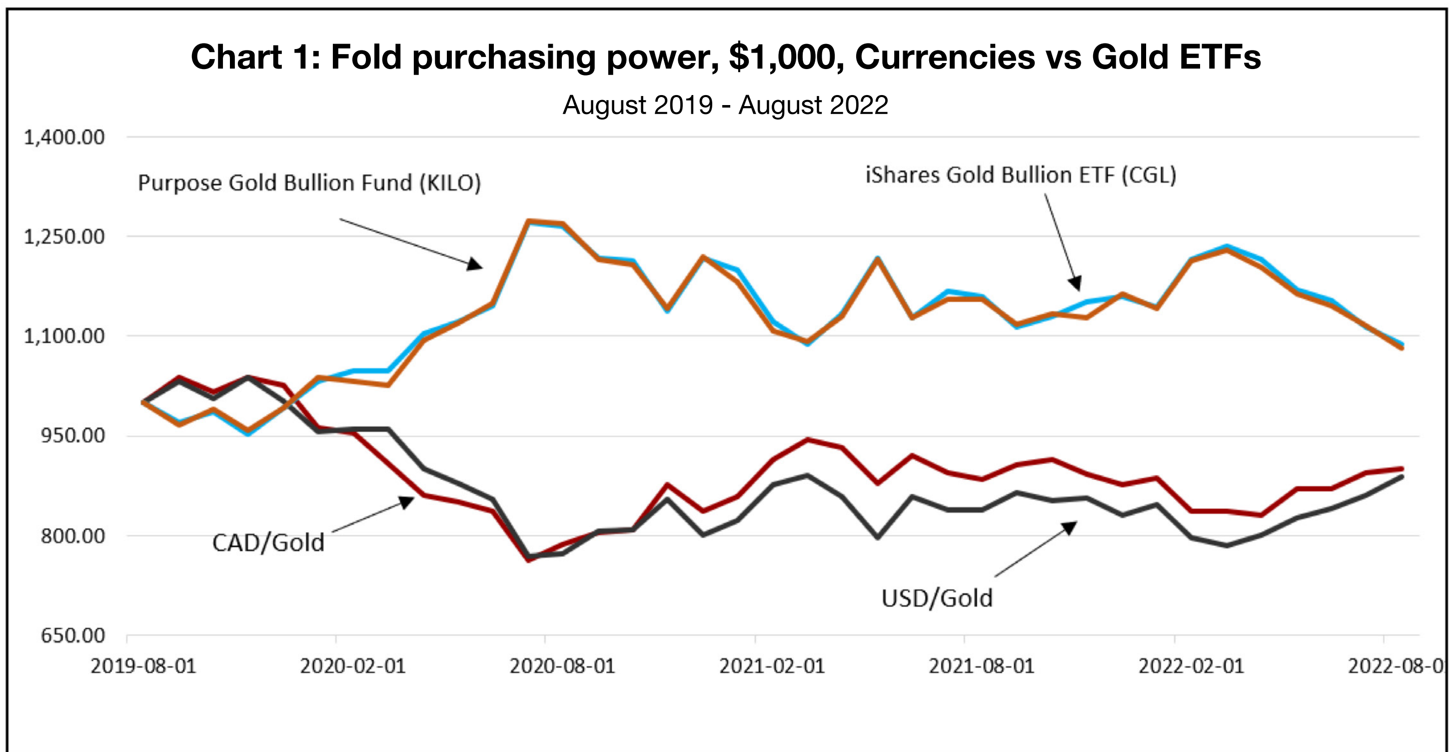
What is the best way to invest in physical gold? Besides heading to the Black Hills, looking for lost mines in British Columbia, or digging for buried treasure on Oak Island, buying gold bullion directly is the most obviously answer. But that presents challenges, ranging from sourcing to additional costs, like storage and insurance. These amounts can be significant and likely make this one of the most expensive options for smaller portfolios.

Gold derivatives, like futures or options, while much more cost effective, are complex trading instruments that many investors do not have access to.

That leaves exchange-traded funds (ETFs). For the average investor, they will be the most cost-effective option for investing in gold. In addition, they offer the advantages of being widely available and extremely liquid. While they may not represent direct ownership in the precious metal, some gold ETFs are fully backed by physical gold. That means for each unit of the ETF, the fund owns a certain amount of gold. The result is an ETF that closely tracks the price of gold less its management fee.

The benefits of gold ownership through ETFs is also recognized by institutional investors. As of June 30, 2022, 170 Canadian investment funds maintained an allocation to gold – ranging from very small to well over 30%. Of those, over 80% gain at least some of their gold exposure through ETFs.

Two popular Canadian gold-backed ETFs are the **iShares Gold Bullion ETF (TSX: CGL)**, launched in 2009 with a 0.55% **MER, and Purpose Gold Bullion Fund (TSX: KILO)**, which debuted in 2018 and has a 0.23% MER. As Chart 1 shows, both funds have maintained the value of invested dollars throughout the pandemic – a period that saw unprecedented monetary intervention by global governments. Conversely, the negative outcome of those policies is reflected in the decline of currencies like the Canadian and U.S. dollars against the value of gold.



Source: Fundata Canada Inc.

Over the past three years the Canadian dollar has lost 9.9% with respect to gold, while the U.S. dollar has lost 11.2%. In the same period, KILO and CGL have maintained the relative purchasing power of invested Canadian dollars.

Too much of a good thing

Historically a gold allocation of 5% has been typical of diversified portfolios, but a recent paper by the World Gold Council titled "The Relevance of Gold as a Strategic Asset 2022" looked at this question in more depth. They found an optimal allocation for the U.S. closer to 8%. We can use a similar value for Canada and look at the impact on two portfolios in Table 1.

Table 1: Impact of 10% allocation to a Gold ETF
August 2019 - August 2022

	Canadian Dividend Portfolio			Global Balanced Portfolio		
	Volatility	Return	Sharpe Ratio	Volatility	Return	Sharpe Ratio
No Gold ETF	4.31%	8.35%	1.79	4.13%	6.00%	1.3
10% Gold ETF	3.88%	7.95%	1.88	3.76%	5.82%	1.38
Change	-9.98%	-4.79%	5.03%	-8.96%	-3.00%	6.15%

Source: Fundata Canada Inc.

The portfolios are rebalanced quarterly and returns over a three-year time frame are presented. In the case of the Canadian Dividend Portfolio, volatility is reduced by 10% and returns by 5%, increasing the risk-adjusted return by 5%. Similarly for the Global Balanced Portfolio, volatility is reduced by 9% and returns by 3%, resulting in a risk-adjusted return increase of over 6%.

While looking at a relatively short time frame, this example demonstrates how an allocation to gold can create a significant reduction in volatility and improve risk-adjusted performance in a variety of portfolios. Speak to your advisor about the role gold-backed ETFs could play in your portfolio.

John Krisko, CFA, BBA, Manager, Analytics & Data at Fundata Canada Inc. and a member of the Canadian Investment Funds Standards Committee. john.krisko@fundata.com

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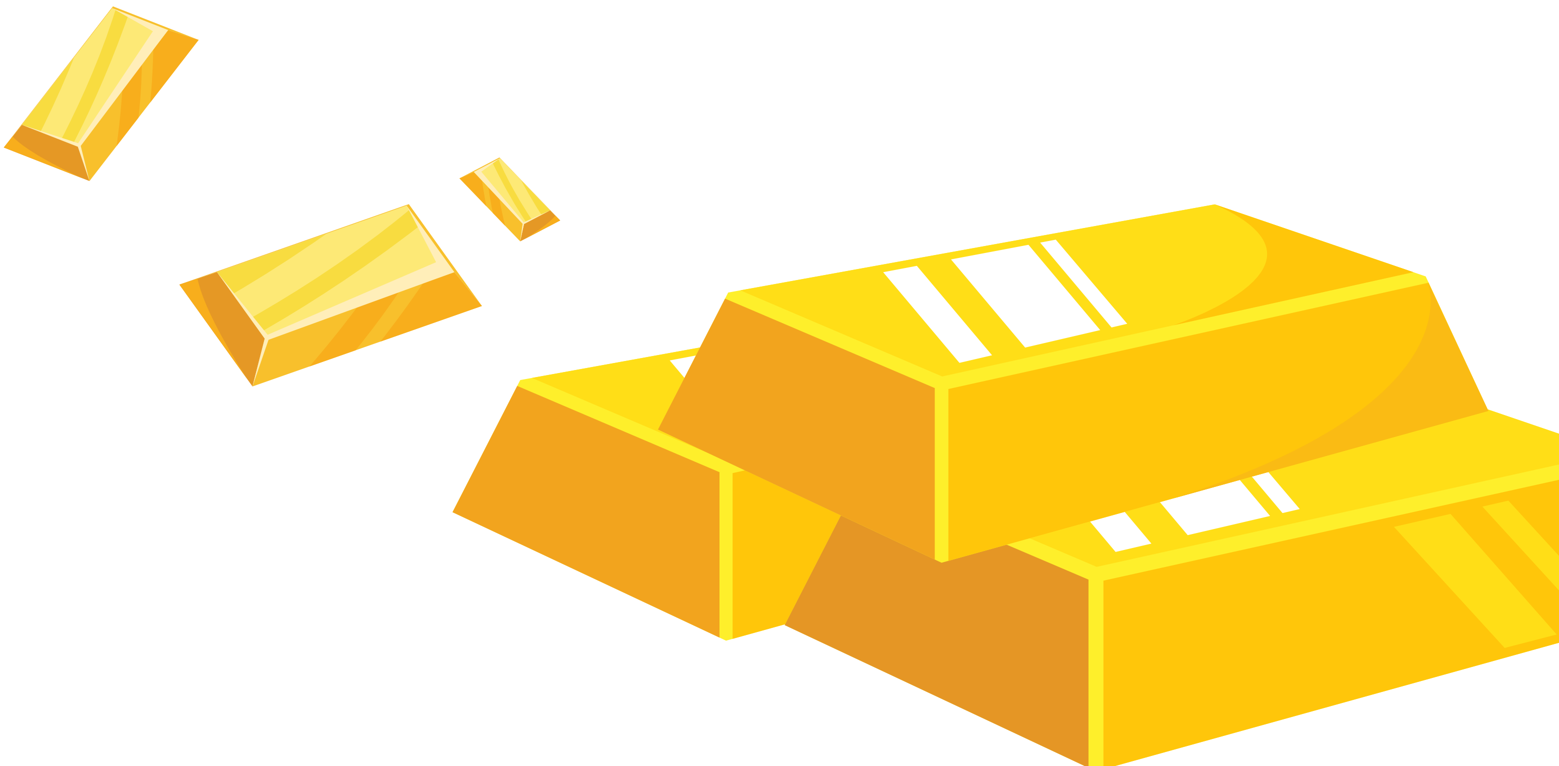


Investing in Japan

While the majority of the world's central banks continue on the path of aggressive monetary tightening, the Bank of Japan (BOJ) has maintained a different course.

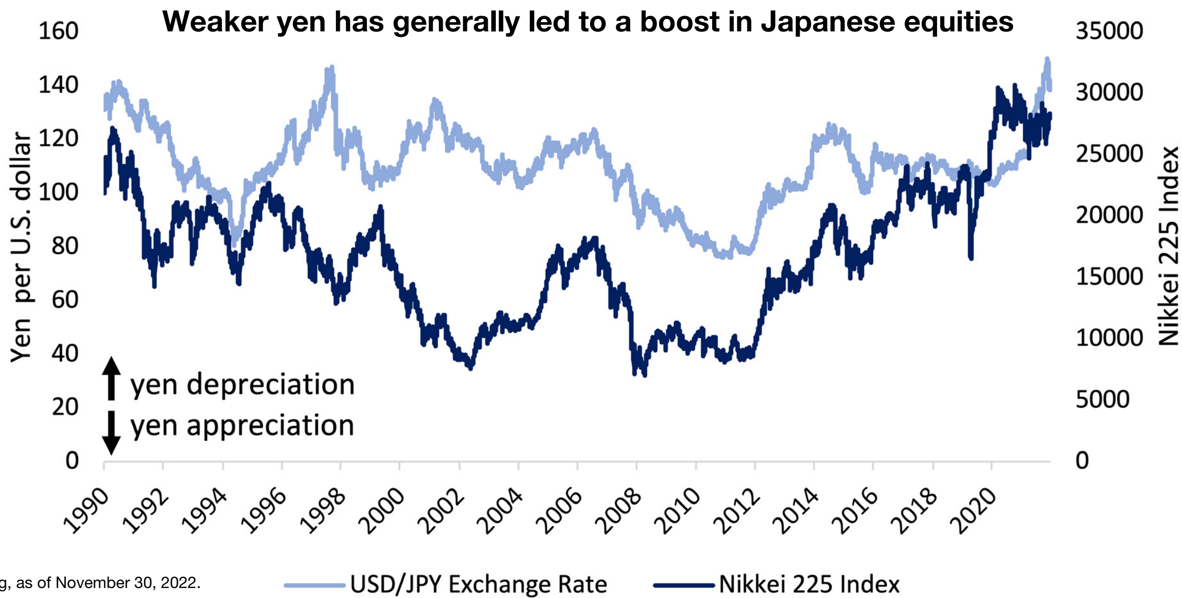
Jaron Liu, CFA
Director, ETF Strategy, CI Global Asset Management

The BOJ has remained committed to keeping ultra-low interest rates as it pursues its massive bond buying program after struggling with chronic deflation for many years. Given this backdrop, the yen has weakened considerably due to widening interest rate differentials which may serve as a tailwind for Japanese equities.

CI GLOBAL ASSET MANAGEMENT

Weakening yen a positive for Japanese stocks

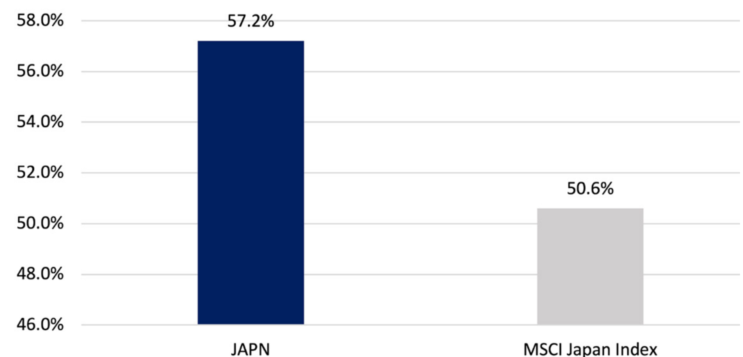
The last year has seen an accelerated depreciation of the yen, reaching a 32-year low against the USD. Historically, the yen has exhibited a negative correlation with Japanese equity prices due to the nature of Japan's export-oriented economy, as shown in the graph below. Furthermore, a currency hedged approach may also be suitable as hedging against the falling yen can neutralize the impact of currency risk and also enhance returns in a depreciating yen environment. Investors interested in adding Japanese equity exposure to their portfolios by accessing local market returns but without the currency fluctuation impact should consider the CAD-hedged version of the fund, CI WisdomTree Japan Equity Index ETF (CAD Hedged) (JAPN).



Source: Bloomberg, as of November 30, 2022.

Diversified revenue exposure

A weakening yen typically translates to stronger revenues for export-driven Japanese companies as profits earned abroad benefit from the currency conversion. That said, it may be worthwhile to focus on Japanese exporters who stand to benefit from a weaker yen. The CI WisdomTree Japan Equity Index ETF (JAPN) specifically targets dividend-paying companies that derive less than 80% of their revenue from sources in Japan, resulting in a greater tilt towards Japanese companies with international revenue exposure relative to the MSCI Japan Index. This is illustrated in the bar chart below. From a sector standpoint, the fund is currently and has historically been overweight export-heavy sectors such as Materials and Consumer Discretionary compared to the benchmark, as the table below highlights.

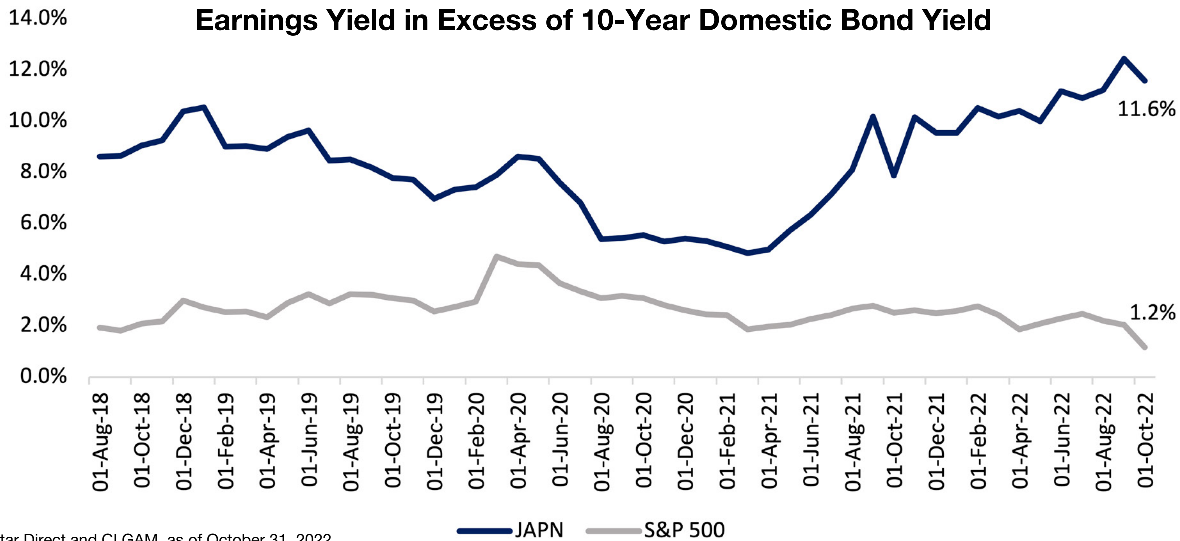


Sector Exposure (%)	Energy	Materials	Industrials	ner Discret	Consumer Staples	Healthcare	Financials	Information Technology	Communication Services	Utilities	Real Estate
CI WisdomTree Japan Equity Index ETF	1.9	10.7	25.7	17.4	6.9	8.4	14.3	11.4	3.2	0.0	0.0
MSCI Japan	0.9	4.5	22.5	18.4	6.6	10.1	10.6	13.8	8.4	1.0	3.4
+/- Over/Underweight	**1.0**	**6.2**	**3.3**	**-1.0**	**0.3**	**-1.6**	**3.6**	**-2.3**	**-5.1**	**-1.0**	**-3.4**
+/- Avg Historical Over/Underweight	**0.5**	**4.2**	**0.1**	**1.7**	**0.8**	**-0.5**	**3.6**	**-0.2**	**-5.4**	**-1.3**	**-3.7**

Source: Morningstar Direct, as of November 30, 2022.

Attractive earnings yield

During the last decade, U.S. equities were heavily favoured over bonds given historically low yields. However, the U.S. investment landscape has since changed dramatically as U.S. bond yields sharply increased throughout 2022. Japan's bond yields face a different situation and remain near zero largely due to the BOJ's dovish monetary policy. In other words, Japanese equities look relatively more attractive in the current environment as they offer a significant earnings yield advantage over government bonds. In fact, Japan currently offers an 11.6% equity risk premium compared to 1.2% for U.S. equities as shown below.



Source: Morningstar Direct and CI GAM, as of October 31, 2022.

As long as the BOJ stands by its dovish policy stance, this should continue to put downward pressure on the yen. Investors looking to benefit from the positive impact on Japanese exporters should consider the below CI ETFs which provide exposure to dividend-paying Japanese stocks with a greater tilt towards companies with a significant global revenue base. In addition, those who believe the yen will remain weak or would like to remove the foreign currency risk should consider the CAD hedged version of the fund.

Fund	Ticker	Return						Std Dev	Sharpe Ratio
		1 Mo	3 Mo	6 Mo	YTD	1 Yr	3 Yr	3 Yr	3 Yr
CI WisdomTree Japan Equity Index ETF (CAD Hedged)	**JAPN**	**5.71**	**4.08**	**6.64**	**9.98**	**15.86**	**9.77**	**16.84**	**0.59**
CI WisdomTree Japan Equity Index ETF (Unhedged)	**JAPN.B**	**11.44**	**6.16**	**4.08**	**-3.78**	**-1.55**	**1.79**	**14.67**	**0.14**
MSCI Japan Index	-	9.01	4.79	2.93	-10.78	-10.48	0.29	14.04	-0.03
MSCI EAFE Index	-	10.58	10.02	3.34	-8.26	-5.04	2.62	15.03	0.20

Source: Morningstar Direct, as of November 30, 2022. Performance in CAD.

Reasons to invest

- **Weakening yen has benefitted Japanese stocks** given the historical negative correlation
- **Greater focus on export-oriented dividend-paying Japanese companies**
- **Attractive equity risk premium** of Japanese equities relative to other global equities
- **Enhanced diversification benefits** by adding international exposure of Japanese stocks

For more information on the CI WisdomTree Japan Equity Index ETF please visit ci.com/ETFs

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Climate, Macro Drivers Create Tailwinds

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The pandemic continues to create ripple effects in the global economy. From no growth in 2020 to rapid growth in 2021 to slow growth in 2022, we look at 2023 with a base case of recessions in the United States, Europe, and the United Kingdom and growth in China should be below trend for at least a good portion of 2023. We expect bond yields should push higher heading into 2023 before abating along with inflation later in the year.

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For equities, contracting multiples driven by higher bond yields have characterized the first part of this bear market. The second phase of bear markets is generally an earnings recession, and we expect that to be a force, particularly in early 2023.

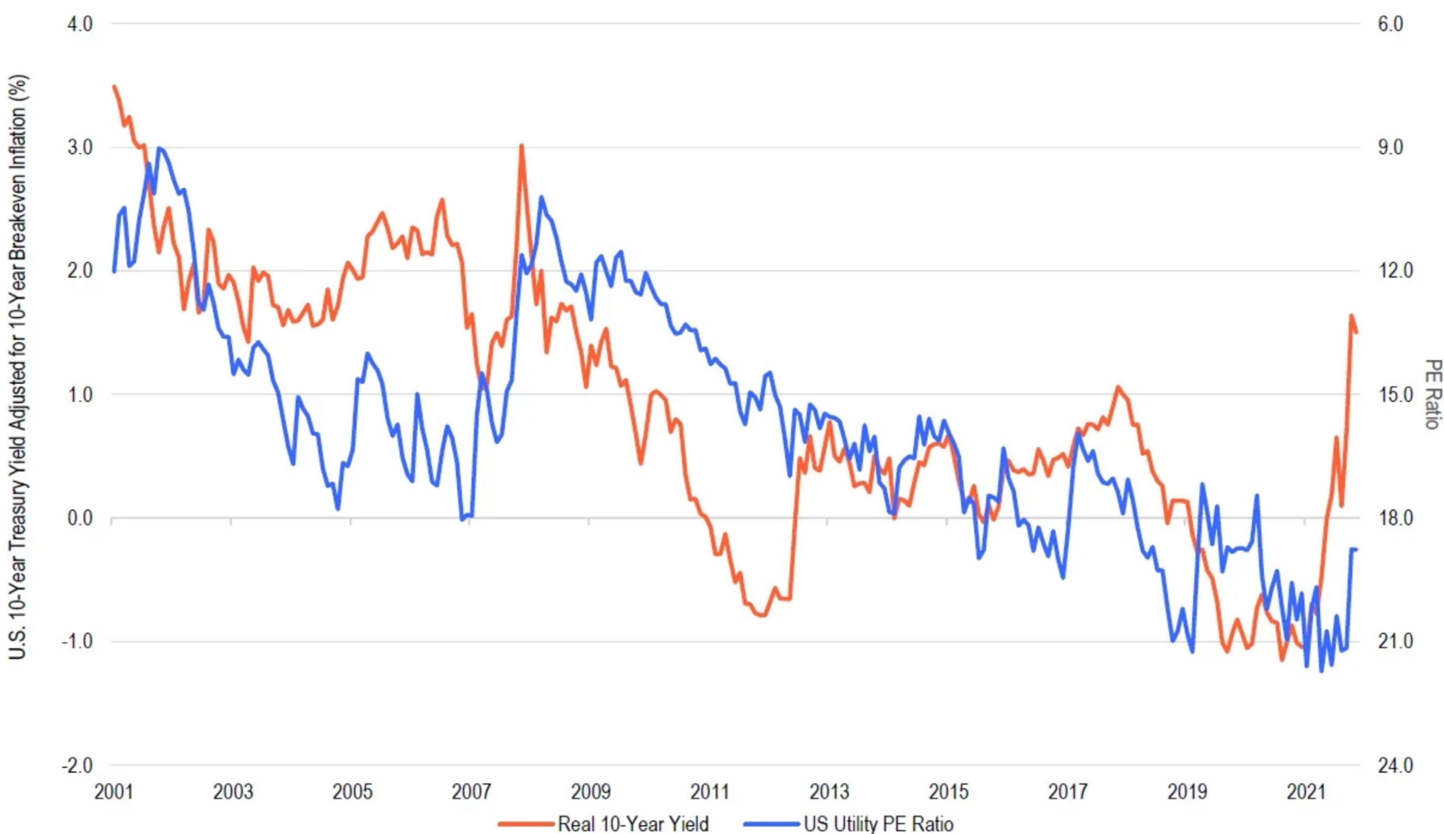
However, we believe the impact on infrastructure should be muted, particularly for regulated assets, where the companies generate their cash flows, earnings and dividends from their underlying asset bases. We expect those asset bases to increase over the next several years. As a result, infrastructure earnings look better protected to us when compared with global equities.

Most infrastructure companies have a link to inflation in their revenue or returns. Regulated assets, such as utilities, have their regulated allowed returns adjusted for changes in bond yields over time. As real yields rise, utilities look poised to perform well (Exhibit 1), and we have currently tilted our infrastructure portfolios to reflect this.

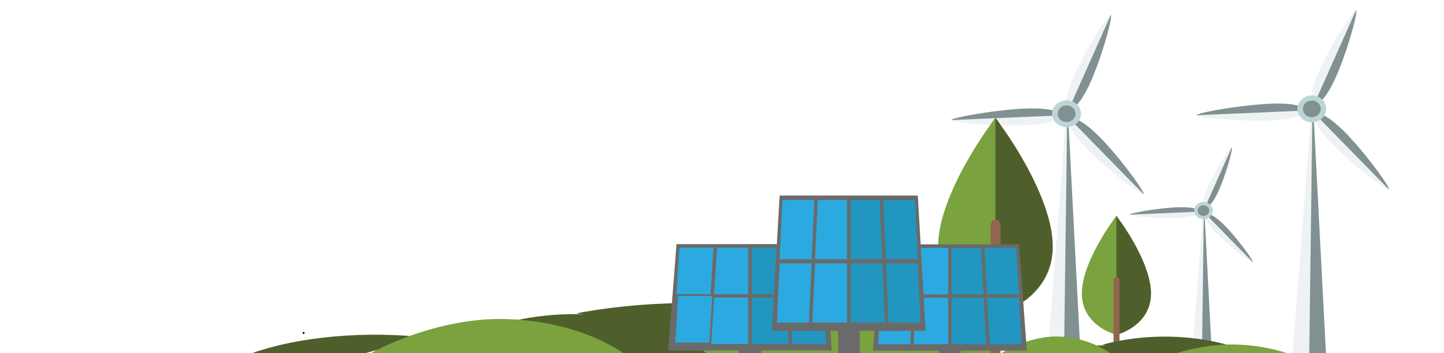
Utilities Poised to Perform Well

Exhibit 1: US 10-Year Real Yield Vs Utilities Price-to-Earnings (P/E) Ratio

As of October 31, 2022



Sources: ClearBridge Investments, Bloomberg Finance. **Past performance is not an indicator or a guarantee of future results.**



As a result, changes in inflation and bond yields don't generally impact the underlying valuations of infrastructure assets. However, we have seen equity market volatility associated with higher bond yields impact the prices of listed infrastructure securities, making them more compelling when compared with unlisted infrastructure valuations in the private markets.

On top of its relative appeal versus equities, we believe infrastructure should benefit from several macro drivers in 2023 and beyond. First, energy security is driving policy globally right now, and a significant amount of infrastructure will need to be built to attain energy security. High gas prices and supply constraints brought on by the Russia/Ukraine war highlighted the importance of energy security and energy investment. This is supportive of energy infrastructure, particularly in Europe, where additional capacity is needed to supplant Russian oil and gas supply, and in the United States, where new basins are starting up, in part to meet fresh demand from Europe.

In transport, changing trade routes and adjustments to supply chains to bring production closer to home, either through reshoring or near-shoring, are driving demand for new transport infrastructure. Airports are still struggling to return to pre-pandemic passenger levels, and which will likely be interrupted by a global recession in 2023. In addition, the industry is facing changes in long-term trends like business travel. Communications infrastructure continues to roll out 5G, develop 6G technology, and is working to reduce network latency, driving significant investments in wireless tower businesses, generally undertaken under long-term inflation-linked contracts. However, in the short term, higher interest costs are hitting the bottom line.

In terms of fiscal policy, the US Inflation Reduction Act (IRA), signed into law in August 2022, is one of the most significant pieces of climate legislation in US history. We believe it will be industry-transformative (Exhibit 2) for utilities and renewables in particular. The growing need for electrification—including more electric vehicles charging infrastructure and more residential and smaller commercial rooftop solar—will require new substations, new transformers and upgraded wires along distribution networks. We already see its impact in the 2023 capital expenditures plans of utilities, together with the forward order books of companies involved in the energy transition—such as renewable, storage and components suppliers—increasing their growth profiles.

IRA Score Card

Exhibit 2: Inflation Reduction Act's Key Impacts

- Tax credits to support wind, solar, storage, hydrogen and nuclear
- Tax credits to support electric vehicles
- Type, size and length of credits very important
  - Likely available until 2040s
  - Makes renewable more economic than fossil in most cases
  - Green hydrogen parity in some locations

- Requires 15% minimum corporate tax on book income
  - Will impact some larger utilities and pipelines
- Rules still being formulated (12–18 month process)

Source: ClearBridge Investments.

One major macro takeaway from the IRA: there is no reason to build anything other than renewables from now on. The main reason? Tax credits. Production tax credits for solar/wind are available until 2032 or until a 75% reduction in greenhouse gases is achieved (based off 2022 numbers). Either way, this is expected to be a tailwind for investment for well over a decade.

Secular growth drivers for infrastructure should be on full display in 2023. US President Joe Biden wants to reduce emissions by 50% in the United States by 2030, with roughly half of US power coming from solar plants by 2050. It will require nearly US$320 billion to be invested in electricity transmission infrastructure by 2030 to meet net zero by 2050. The dire need for infrastructure spending underpins growth for the next decade and beyond, and the first steps for meeting these long-term goals are being taken now.

WHAT ARE THE RISKS?

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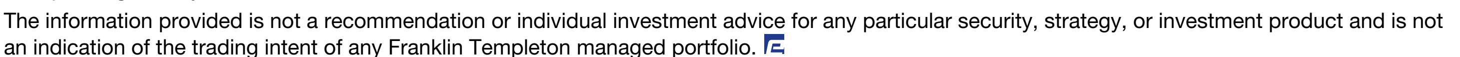

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