CANADIAN

ETF Watch

CanadianETFWatch.com

SPRING 2023

Covered Calls

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As spring begins to bloom and the promise of warmer days lies ahead, we find ourselves in an interesting period of transition. The Canadian economy is showing signs of resilience, with inflation beginning to ease, and we continue to navigate the new normal in this post-pandemic world. As we adapt to this ever-evolving landscape, advisors play a crucial role in providing expertise, guidance, and reassurance to clients seeking stability and growth in their investments.

In this Spring 2023 edition of *Canadian ETF Watch*, we explore various themes and strategies to help you and your clients navigate the changing economic environment. As we continue to embrace the hybrid lifestyle and the role of technology in our lives, it is vital that you, as an advisor, utilize these tools to enhance your relationships and better serve your clients.

We are thrilled to present a collection of insightful articles from industry experts in this edition. Winnie Jiang, Vice President and Portfolio Manager at BMO ETFs, shares her perspective on the outlook and opportunities in Fixed Income. Veronika Popova, Director of ETF Strategy for CI Investments, outlines the benefits of Smart Beta ETFs, highlighting the potential for improved risk-adjusted returns and Ahmed Farooq, Senior Vice President and Head of Retail ETF Distribution at Franklin Templeton Canada discusses market worries and turbulence in the Fixed Income space.

As the new normal takes shape, we at *Canadian ETF Watch* are confident in the resilience and adaptability of the financial services industry. We are grateful for your dedication, knowledge, and the care you show your clients, ensuring that their investment journey is a successful one.

Thank you for your continued support, and we hope you enjoy this Spring 2023 edition of *Canadian ETF Watch*.

Sincerely,

Keith Costello
Global CEO,
Canadian Institute of Financial Planning
www.CIFP.ca

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

About *Canadian ETF Watch*

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

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CanadianETFWatch.com

Contributing Writers
Daniel Stanley, Christine Timms, Keith Wu, Prerna Mathews, Naseem Husain, Jaron Liu, Ahmed Farooq, **Jonathan Needham**

Contact Information
Radius Financial Education
Waterpark Place, 20 Bay Street, Suite 1100, Toronto, Ontario M5J 2N8
tel: 416.306.0151

Media, Advertising & Editorial
info@radiusfinancialeducation.com

Subscriptions
info@canadianetfwatch.com

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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.

BMO | Exchange Traded Funds

Covered Calls

What is the Covered Call Strategy?

The covered call strategy is an investment strategy that involves the purchase of an underlying asset, such as a stock, and the sale of a call option on that same asset.

Omanand Karmalkar,
Vice President,
Portfolio Manager
BMO ETFs

By selling the call option, the investor agrees to sell the underlying asset at the strike price of the option if it is exercised. One option is equivalent to one-hundred shares of the underlying stock.

The covered call strategy is often used by investors who are looking to generate additional income from their investments. By selling the call option, the investor can collect a premium for agreeing to sell the underlying asset at the strike price. This can be particularly attractive for investors who are long-term holders of a stock but are looking to generate additional income on their investment.

The Basics of the Covered Call Strategy

The covered call strategy is a relatively simple concept to understand but can be difficult to execute correctly. The key is to understand the options market and the underlying stock before entering a covered call position.

When entering a covered call position, the investor must first purchase the underlying stock. This will be the basis for the covered call strategy and will be the asset that is eventually sold if the call option is exercised.

Once the underlying stock is purchased, the investor must then sell a call option on that same stock. The strike price of the option is the price at which the investor agrees to sell the stock if the option is exercised. The investor will then collect a premium for agreeing to sell the stock at the strike price. This premium collected can vary depending on many factors such as volatility, time to option expiry & strike price.

The investor will then hold the position until either the option expires or is exercised. If the option expires, the investor will keep the premium collected and can simply implement the strategy again with another call option. If the option is exercised, the investor will sell the underlying stock at the predetermined strike price and keep the premium.

Advantages of the Covered Call Strategy

The covered call strategy offers several advantages to investors. The most significant advantage is the potential to generate additional income from an existing position. By selling a call option, the investor can collect a premium for agreeing to sell the underlying asset at the strike price. This can be a great way to generate additional income from a stock position without having to sell the underlying asset. The premium earned from selling the option is taxed as capital gains, more tax efficient than other types of income.

Another advantage of the covered call strategy is that it can help to reduce the risk of an investment. By selling the call option, the investor is agreeing to sell the underlying asset at the strike price. The added income received mitigates the risk of the underlying asset falling in value and helps to protect the investor's capital.

Risks of the Covered Call Strategy

Despite the potential advantages of a covered call strategy, there are also risks involved. The most significant risk is the potential for the underlying asset to increase in value. If the underlying asset increases in value, the investor may miss out on potential gains if gains on the stock exceed the strike price. Note that covered call ETF providers seek to address this risk in several ways, by only implement covered calls on a portion of the equities held, as well as tactically selling option strikes further away from the current stock price. Therefore, choosing a portfolio manager with experience and a disciplined process can help you balance the need to income and participation in upside of the underlying stock portfolio.

Lastly, it should be noted that the covered call strategy requires a thorough understanding of the stock market and options trading, and it also takes a lot of time to manage, therefore a covered call ETF is such an efficient investment vehicle.

Covered Call Strategy Example

Let's look at an example of a covered call strategy: Suppose an investor purchases 100 shares of BMO stock at $100 per share. The investor then sells a call option on the same stock with a strike price of $105. The investor collects a premium of $2 per option for agreeing to sell the stock at $105 if the option is exercised.

If the stock price remains at or below $105, the option will expire, and the investor will keep the $200 premium ($2 Premium X 1 Call Option X 100 Multiplier). If the stock price rises above $105, the option will be exercised, and the investor will sell the stock at the predetermined strike price of $105 and keep the $200 premium.

Conclusion

The covered call strategy is an innovative strategy that has attracted much investor interest. By selling a call option, investors can generate additional tax efficient income from their existing stock positions while also reducing their risk. However, the covered call strategy is not without risks, and it is important for investors to understand the potential implications before implementing this strategy. With the right guidance and understanding, investors can use the covered call strategy to their advantage.

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.

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.

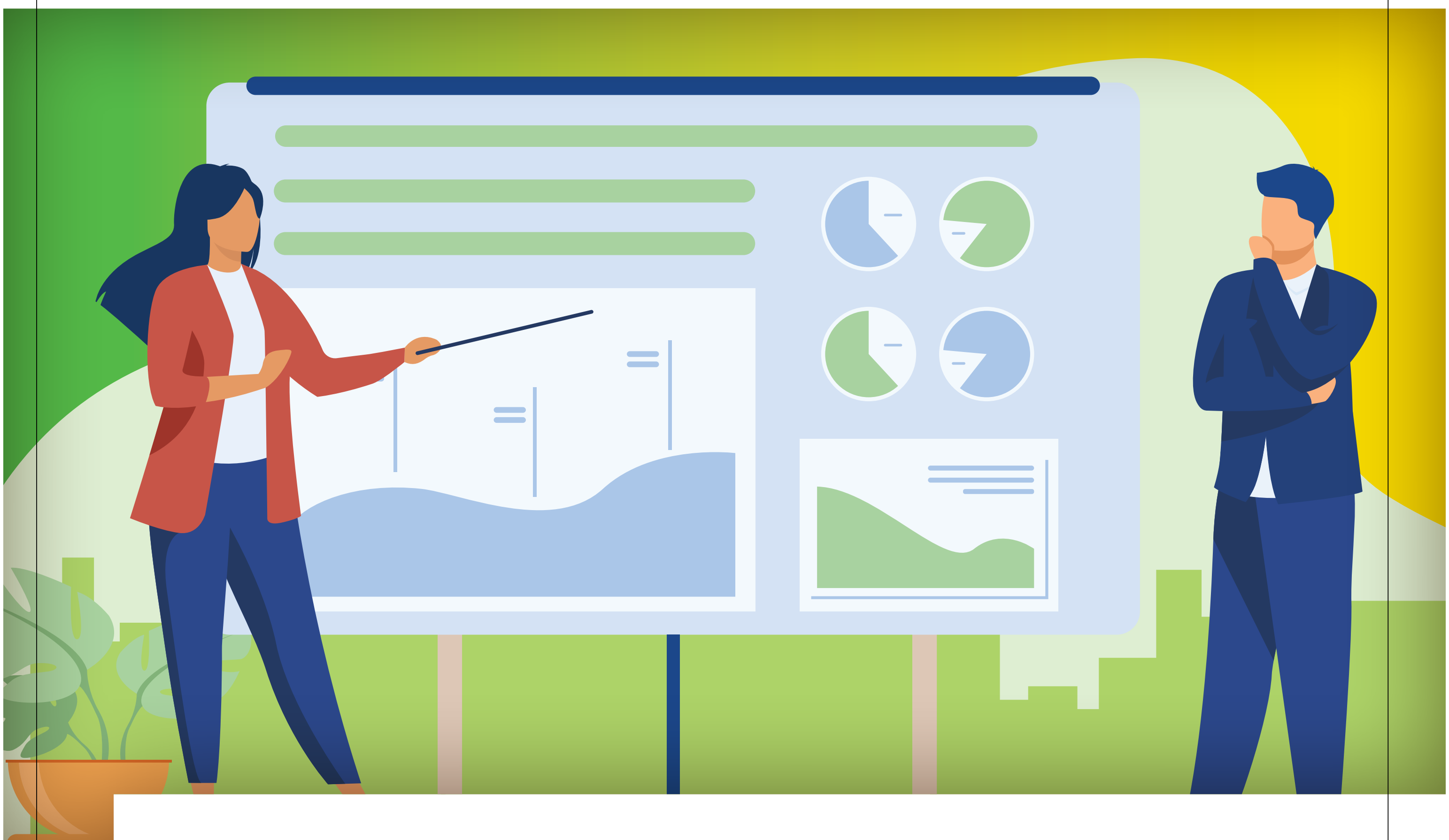
* Rendement annualisé des distributions au 30 novembre 2022 : la plus récente distribution régulière ou prévue (à l'exception des distributions de fin d'année supplémentaires), annualisée en fonction de la fréquence, divisée par la valeur liquidative courante. Source : BMO Gestion mondiale d'actifs.

** 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.

BMO | Fonds négociables en bours

The Great Wealth Transfer: Women are Taking Center Stage



In celebration of International Women's Day, we wanted to offer a look ahead to what the future of finance can be with women at the forefront. The day marks a call to action for accelerating women's equality and empowerment in investing.

The opportunities for women have been relatively few and far between. In the 18th century, women could not even own property, let alone invest. Fast forward to today, women are starting their investment firms and obtaining C-Suite positions. As more women come into wealth and gain power, it will no longer be business as usual.

EMERGE™ CANADA INC.

This unpredicted shift will largely be due to the Great Wealth Transfer. An increasingly popular new phrase signifying a profound change in the wealth management landscape towards women in the next decade. According to a 2020 McKinsey research: Women are poised to inherit a large share of the $30 trillion, especially among baby boomers. The transfer will make women the most influential client segment in wealth management.

As the shift takes hold, widows and daughters will inherit and become responsible for large amounts of wealth, and the industry must catch up with the other half of the population. To do this, women must start taking control of their finances and invest, invest, invest! The success in the next decade of the wealth and investment management industry relies on their ability to bridge the gap between current practices dominated by men and the goal-and community-oriented practices women seek.

Here's what you need to know about the great wealth transfer, its importance, and how women can take the reins to leverage their financial power.

Women Are Building Wealth Too

Despite the gender pay gap - 82 cents for every dollar men earn. Women are attaining roles that put them in a position to control much more than their household budget. Women are becoming leaders at increasing rates allowing them to take complete ownership of their finances. Women started 49 percent of new businesses in the US in 2021, up from 28 percent in 2019. Similarly, women in corporate America are steadily climbing the ladder: 44% of companies in 2019 had three or more women in their C-suite, an increase from 29 percent in 2015. Whether they inherit or generate their wealth, financial services firms need to understand how to serve and appeal to women. It will no longer be a 'nice to have' but rather a prerequisite for success.

Women seek financial advisors willing to build authentic, trustworthy relationships. They want someone willing to listen, answer their questions, and educate and inform them without being condescending. While performance matters to women, they also want their advisors to provide a holistic approach by considering a woman's family and caregiving needs. Most women also prefer to work with women advisors, but finding one isn't easy. Women only account for an estimated 15-20 percent of financial advisors in the U.S. and slightly higher in Canada at 23 percent.

The reality is money talks - as women's net worth increases, it will be impossible to ignore their needs.

Women Invest Differently

For a good reason, women tend to have a more complicated relationship with money than men, which trickles into their approach to investing. On average, women live longer and need money for longer, and are more likely to make less money throughout their careers.

On average, women's risk tolerance tends to be lower than men's, and they tend to build the framework for their decision-making on family and relationships. As you can see, women face more consequences for bad investment decisions. Only 9 percent of women reported having a high or very high-risk tolerance, compared to 42 percent that stated they have a low-risk tolerance. This is not to say that women don't make sound investment decisions. On the contrary, women tend to be more patient and less likely to make impulsive investment decisions.

As women take charge of their wealth creation, wealth management must approach their needs as investors differently. This is why we at Emerge created EMPWR. This program highlights high-caliber women investment managers and provides them with the agency to construct investments based on their values. All five of the EMPWR ETFs are fully developed and run by women and have a stringent sustainability overlay to ensure high ethics with our investment practices.

Biggest Opportunity for Financially Successful Women

Although women are more educated and successful than ever, they tend to take a passive approach to their finances. The gender investment gap results from society's cultural failure rather than a systemic issue. Women's understanding of their cultural position in society has shaped their understanding and perspective on money. Women are more focused on saving and investing money back into their families. The most significant opportunity for financially successful women is education. Women coming into wealth have the opportunity to get off the sidelines and start actively making financial decisions that will build long-term wealth.

Emerging Opportunities for Women in Wealth Management

It is more important than ever for wealth management firms to focus on gender diversity as well as contribute and consider women's unique financial needs and goals. With more women gaining access to great wealth, it's vital for firms to not only ensure profitability but to understand and reflect their needs on a more holistic level. This means firms need to hire and obtain more women financial advisors proactively.

At Emerge, we take it upon ourselves to provide a space where women investment managers can not only showcase their investing talents but also with opportunities to grow. We want to ensure that we offer a diverse roster of women portfolio managers based on values that reflect the needs of women.

Fixed Income: The Outlook & Opportunities

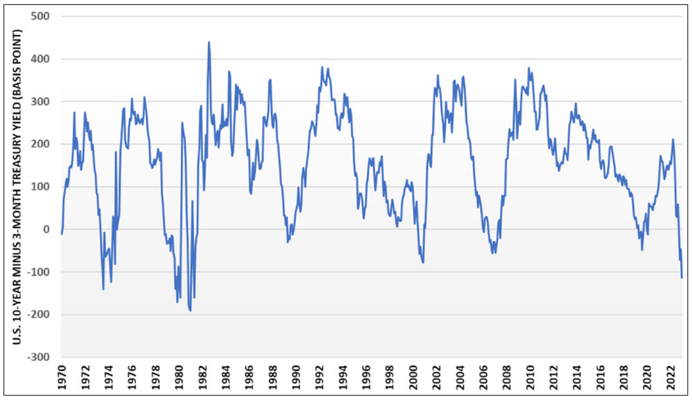
Winnie Jiang,
Vice President,
Portfolio Manager
BMO ETFs

Current Environment: Little about the current economic cycle has conformed to historical norms. With divergence in employment data and leading economic indicators, recent data released sent mixed signals that left investors perplexed about the near-term economic outlook.

On one hand, the job market remains overwhelmingly strong, with ISM (Institute for Supply Management) Services bouncing back from extreme lows in December and retail sales also rebounding. The re-opening of the Chinese economy will likely provide a breather on global supply chain issues while boosting demand. Consumer credit remains well retained as default rates stay low with no warning signs of near-term upticks.

On the other hand, yield curve inversions, a precedent of most recessions, continue to worsen. 3-month U.S. Treasury yields are pushed above 10-year yields by the widest margin since the early 1980s. ISM Manufacturing PMI (purchasing managers' index) and housing data also point to a gloomy outlook. Corporate sentiment and capital expenditure showed little signs of recovery, and housing permits have rolled back to pre-pandemic levels after surging strongly during Covid.

U.S. Treasury Yield Curve:
The Most Inverted Since the Early 1980's



Source: Bloomberg, January 31st, 2023

The Outlook

While robust job markets and consumer data keep inflation well above the Fed's long-term target, recent CPI (Consumer Price Index) announcements indicate things are steadily, albeit slowly, moving towards the right direction. The inversion of the yield curve caps the magnitude of further rate increases that could be absorbed by the economy before it slips into a recession. Central bankers are well aware of the long and variable lag between interest rate hikes and their impact on the real economy. It is fair to expect the Fed (Federal Reserve) and BoC (Bank of Canada) to take a pause on hiking interest rates in 2023, while they patiently monitor macro trends as disinflationary forces, such as loosening supply chain shocks and lower home prices work their way through the economy.

The Opportunity

As markets and economies continue to recalibrate, investors are wondering how to position defensively. With higher yields and persistently wider credit spreads going into 2023, short term investment grade bonds may let investors benefit from those higher yields of the short end of the curve, while better managing duration and credit risks. BMO Short-Term US IG Corporate Bond Hedged to CAD Index ETF (ticker: ZSU) and BMO Short Corporate Bond Index ETF (ticker ZCS) are two examples providing this exposure. BMO High Quality Corporate Bond Index ETF (ticker: ZQB), composed of A+ rated corporate bonds, is another solution for investors who may want better quality exposure. BMO Ultra Short-Term Bond ETF (ticker: ZST), and BMO Ultra Short-Term US Bond ETF (ticker: ZUS.U) can complement an investors' fixed income portfolio, providing liquidity and yields above 4%. These ETFs can be used as an alternative to savings-account ETFs as investors can take advantage of wide credit spreads while staying nimble in this fast-moving market environment.

2023 CALENDAR OF EVENTS

Brought to you by radius Financial Education

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Retirement Canada Dialogue 5th Annual

October 2nd ~ Toronto, ON

The Retirement Canada Dialogue is a full-day event packed with the latest trends and solutions for retirement planning professionals, turning a challenging retirement environment into an advantage for advisors. Networking and learning amongst peers and industry experts with comprehensive exposure to all important aspects for the practice of retirement planning.

RETIREMENT CANADA DIALOGUE 2023

RetirementInstituite.ca

Exchange Traded Forum (Vancouver) 13th Annual

September/October 2023 ~ Vancouver, BC

Canada's largest and longest standing event dedicated to Exchange Traded Products. Hear from leading financial industry professionals and industry experts who will provide valuable insights into the issues and trends that matter most to Canada's financial professionals. Join us for presentations, advisor/client-focused sessions, roundtable discussions, networking events and knowledge sharing critical issues facing the financial industry.

EXCHANGE TRADED FORUM 2023

ExchangeTradedForum.com

VANCOUVER

WAIS Canada 22nd Annual

September/October 2023 ~ Toronto, ON

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

The Canadian ESG Conference Toronto 2022 provides attendees with the opportunity for quality networking with a highly defined audience of credentialed advisors, investment professionals, sustainability professionals and corporate responsibility, green economy practitioners and sponsors within the financial services industry.

ESG CONFERENCE 2023

canadianesgconference.com

TORONTO

Interested in sponsoring or attending an event: info@radiusfinancialeducation.com or call us at T: 416.306.0151

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ETF & Investment Forum London 2nd Annual

Spring 2024 ~ London, United Kingdom

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.

ETF & INVESTMENT FORUM 2024
RadiusEurope.com
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)

ETF & INVESTMENT FORUM 2024
RadiusEurope.com
FRANKFURT

Institutional Dialogue 2nd Annual

Spring 2024 ~ Edinburgh, United Kingdom

A 1 ½ day event packed with family conversations and solutions for a unique class of wealth professionals and entrepreneurs. Networking and learning among peers and industry experts with comprehensive exposure to all important aspects for family stewards.

INSTITUTIONAL DIALOGUE
RadiusEurope.com

Radius Europe Financial Education (Radius Europe) has been producing high level conferences within the financial services sector for over 20 years. As a leading producer of conferences within the financial sector, Radius Europe events focus on education and networking through an exchange of independent ideas and information, allowing our delegates to be leaders in their chosen fields. Our top-down approach to the agenda enables us to deliver relevant, thought-provoking, cutting edge, and sometimes controversial insight in a stimulating manner. We understand the importance of learning from the best. Each conference offers a well balanced speaker composition consisting of insight from authors, educators, economists, regulatory bodies and industry leaders from around the globe.

Market Worries and Turbulence in Fixed Income

It has been an interesting ride coming into 2023, in what we believed would be a nice turnaround year. January brought a great sense of optimism with solid greens across the board.

Ahmed Farooq,
Senior Vice President, Head of Retail ETF Distribution, Franklin Templeton Canada

February, and now even March, are showing us that volatility and uncertainty still linger and the recovery period we are all hoping for keeps getting pushed back. So what are advisors doing?

Most of my conversations have revolved around managing expectations in fixed income. Everyone is waiting for a great turnaround after seeing the destruction in bonds in 2022. There is a great sense that when US interest rates eventually pause and start to fall again, we should see a very strong bounce back in longer-duration strategies.

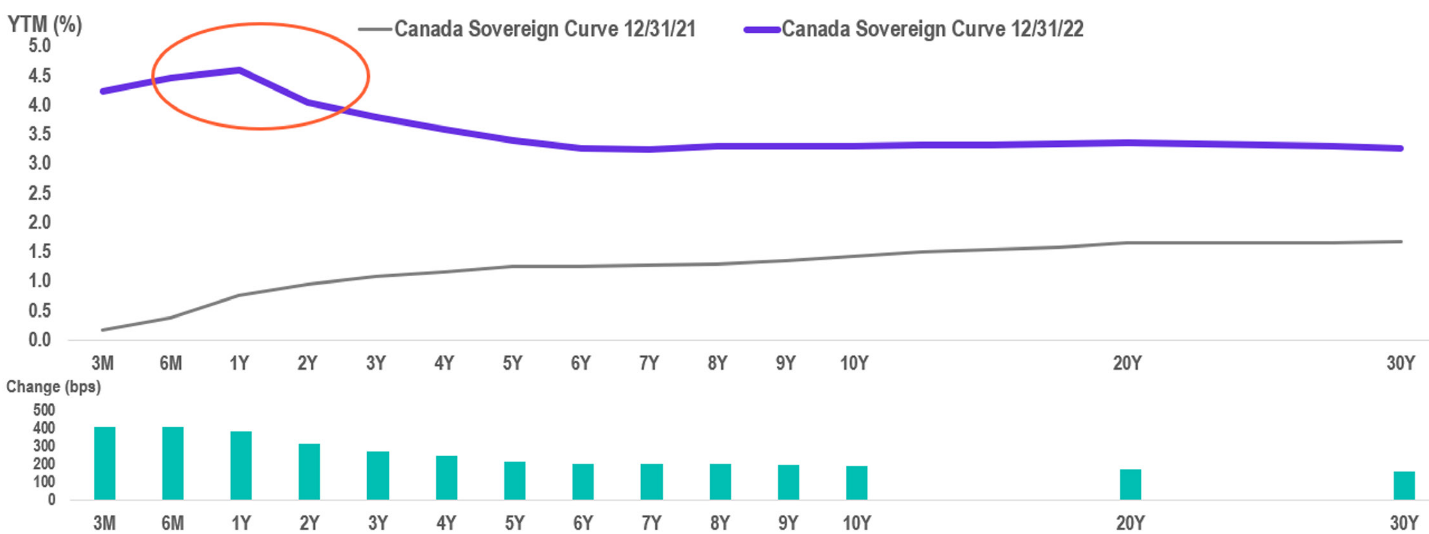
FRANKLIN TEMPLETON

This invariably leads my conversation to timing. With volatility persistent and constant, there are still a lot of unknowns around planning for the next market recovery. One thing we can all agree on is bringing down inflation. Canada has already seen inflation drop from the last January CPI print; but until US inflation calms—and with the recent SVB Financial collapse, proof that no adverse contagion effect is affecting the US banking system— we will have to be patient.

In the short term, we believe by moving your fixed income allocation into the ultra-short duration bracket, the opportunity cost for going long in this market environment will bring some volatility. Further, ultra-short duration provided higher YTMs (yield to maturity) than longer-duration products when the yield curve was inverted at the end of 2022 as shown below:

Inverted Yield Curve – No Need to Overreach for Yield

Government of Canada Yield Curve (%) As of December 31, 2022

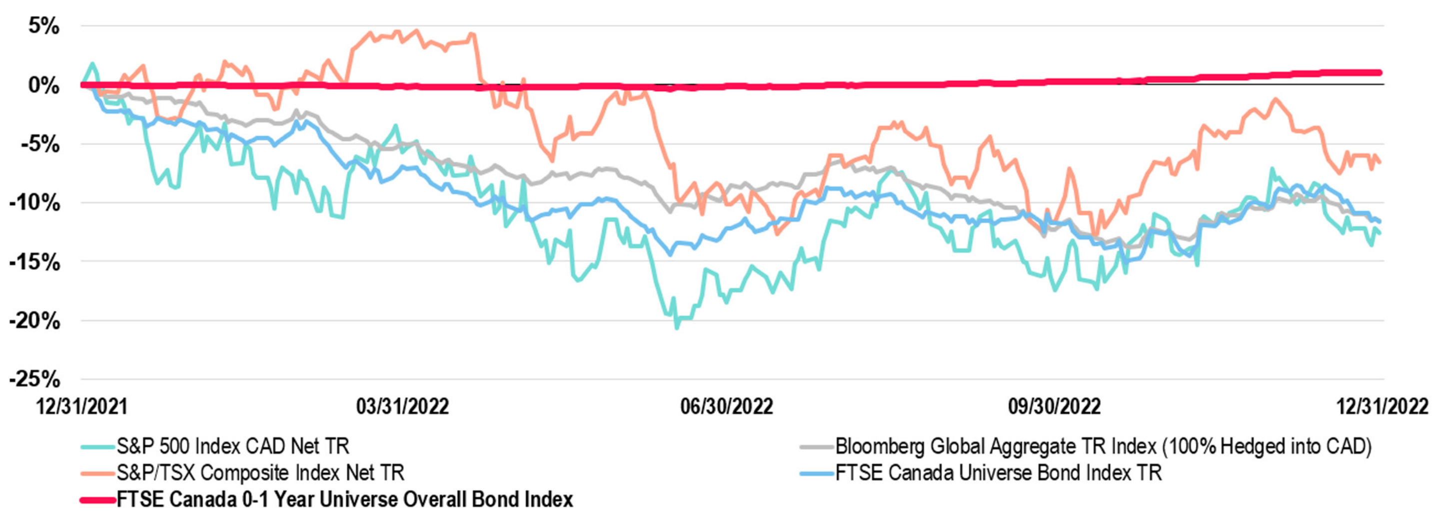


Source: Bloomberg L.P., as of December 31, 2022. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses, or sales charges. The performance of the indices does not include the deduction of expenses and does not represent the performance of any Franklin Templeton fund. Returns assume reinvestment of dividends. It is not possible to invest directly in an index.

Ultra short strategies have been less volatile than equities or longer maturity bonds as can be seen in the chart below tracking the volatility in 2022. The red solid line is the 0-1 year bond universe, which finished slightly positive in 2022 while other longer-duration indices exhibited losses.

Current Market Environment – Nowhere to Hide - Major markets were down in 2022

YTD Returns (%) As of December 31, 2022



Source: Bloomberg L.P., as of December 31, 2022. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges. The performance of the indices does not include the deduction of expenses and does not represent the performance of any Franklin Templeton fund. Returns assume reinvestment of dividends. It is not possible to invest directly in an index.

One of the reasons we at Franklin Templeton created the [Franklin Bissett Ultra Short Bond Active ETF (FHIS)] was to help advisors in this market environment. FHIS is an active ultra-short bond mandate that gives investors access to cash and cash equivalents, T-bills, Banker's Acceptance Notes, commercial paper, and high quality investment-grade bonds that are at a discount and maturing. There may also be a capital appreciation component to FHIS if bonds are held to maturity and come back to par value. This ETF exhibits both income and appreciation potential. Maturities in the FHIS portfolio run between 0-2 years, while duration is less than six months as of December 31, 2022. FHIS is priced at 15 basis points and managed by the team at Franklin Bissett.

To learn more about Franklin Bissett Ultra Short Bond Active ETF, please visit our [Franklin Templeton website].

The Benefits of Smart Beta ETFs

Traditional Index ETFs are often heralded as the best way to invest in the stock market. But what if there was a better way? Factor ETFs have the potential to outperform traditional market-cap weighted indices through bull and bear markets alike, and we will outline some of today's best strategies.

Veronika Popova,
Director,
ETF Strategy,
CI Investments

The idea behind factor investing is to focus on specific drivers of return, beyond the average returns provided by the sector or asset class. Factor ETFs take an Index and apply additional filters to only include companies that meet certain criteria, depending on what factor is being considered.

Although many factor or multifactor strategies exist, a few have been proven to work especially well during inflationary or stagflationary periods and warrant the most consideration given the projected macro environment.

Value Factor ETFs

In recent years, it has been a point of debate that the S&P 500's returns are too dependent on the results of just a handful of companies (primarily in tech-related sectors), and that investors may be taking on more exposure to these companies than they would have in previous decades.

As of February 7th, 2023, the information technology sector makes up +27% of the S&P Index (even after significant price compression in 2022), and this could make some investors nervous about overexposure.

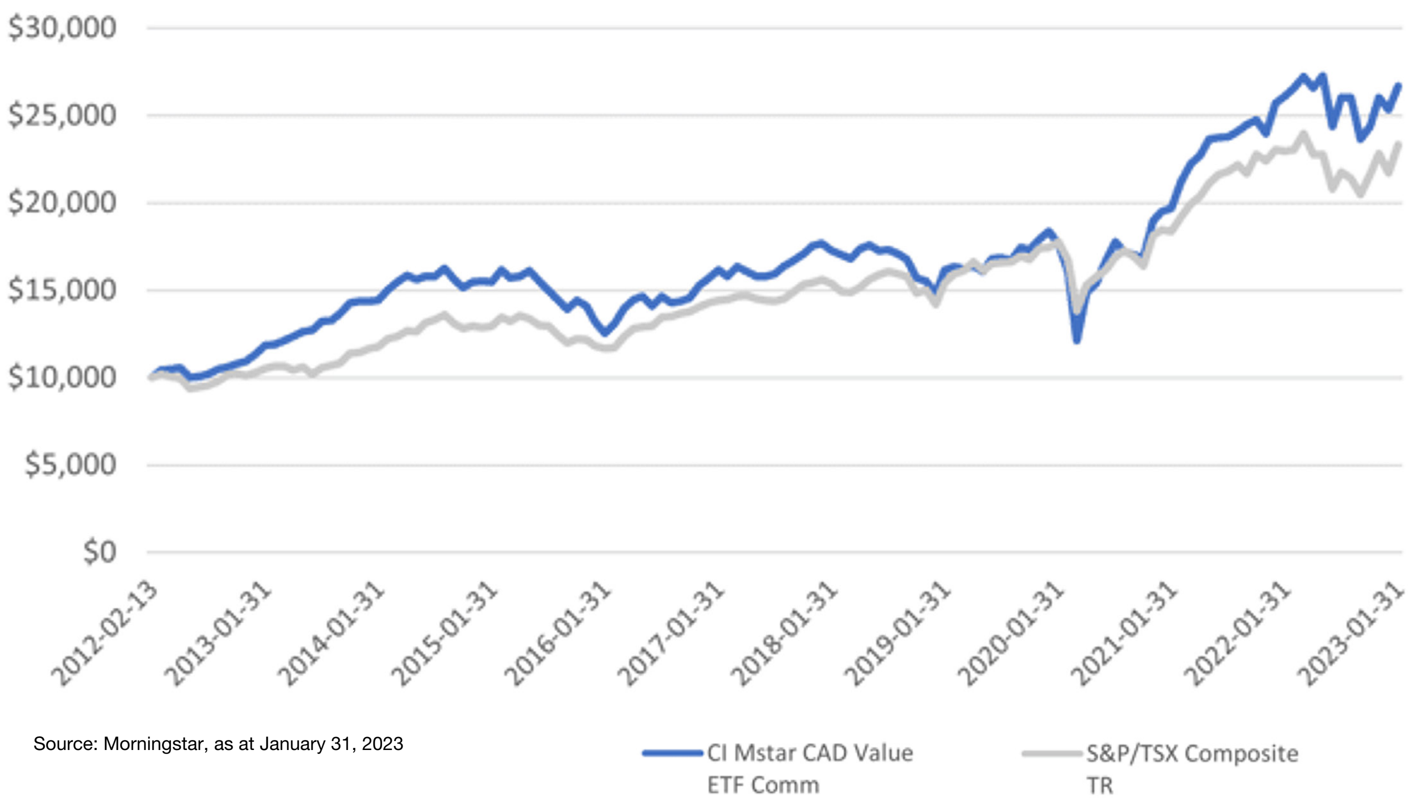
A value factor ETF provides exposure to the factor by investing in companies that exhibit certain value characteristics such as:

- Low price-to-book ratio
- Low price-to-earnings ratio
- Low price-to-sales ratio

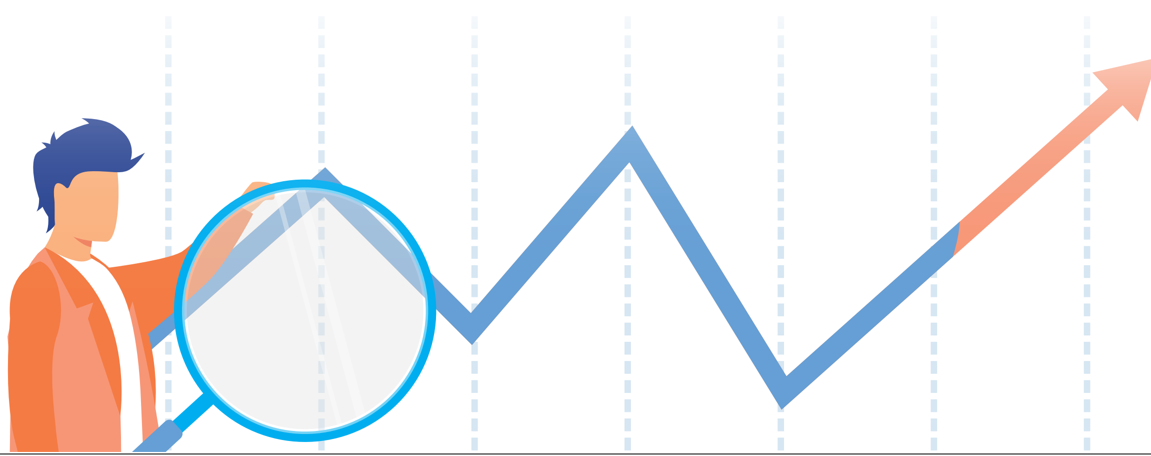
As an example, the CI Morningstar Canada Value Index ETF (FXM) provides exposure to the companies that meet certain valuation criterias and would exclude companies with lofty valuations that would be most at risk if market and economic conditions change.

The last 10-20 years' worth of data shows long term outperformance of value strategies over the main index, in both the U.S and Canada, but primarily in Canadian markets over the last decade

Value Performance vs. TSX



Source: Morningstar, as at January 31, 2023



Dividend Growth Factor ETFs

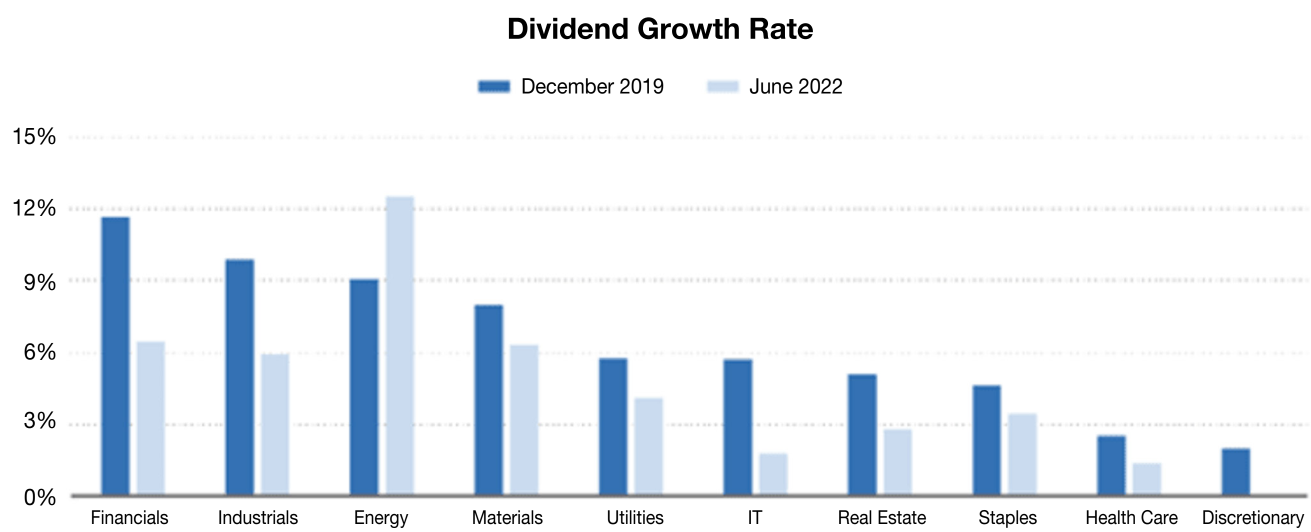
Another popular style factor is a dividend growth strategy, which focuses on companies that are not only paying but also growing their dividends, based on historical evidence that this is related to better overall returns. There are several advantages to this particular strategy:

1. Helps investors keep up with inflation. Since the 1930s, dividends have provided roughly 40% of the total market returns, and close to 54% of the market returns during decades of high inflation such as in the '40s, '70s and '80s.

2. Allows investors to earn yield in environments where capital gain returns are low or negative and can make the difference between a negative year and positive year in their portfolios.

3. Provides diversification to sectors beyond Real Estate, Utilities, and Financials, which historically have made up a large portion of dividend-oriented funds.

As an example, prior to 2008, firms in the banking sector accounted for about 30% of the S&P's yield. However, an increase in oil prices and a significantly leaner sector has allowed Energy companies to boost their dividends considerably over the last 3 years, while the other sectors have lowered the pace of increase.



Source: Bloomberg Financial L.P. and FactSet, as of 6/30/22. Note: Communication Services is excluded in the chart above (no dividend growth in this time frame).

The success of this factor mainly depends on the strategy's ability to forecast which companies are likely to keep increasing their dividend yield. Once this is determined, the holdings are weighted based on their respective contribution to the overall yield of the portfolio.

Canadian investors looking to take advantage of a dividend growth strategy that offers a healthy allocation to the energy sector with an added quality factor tilt (after healthy allocation to the energy sector), can do so through an ETF such as the CI WisdomTree US Quality Dividend Growth Index ETF (DGR.B), which outperformed the S&P 500 by roughly 18% in 2022, and is off to a strong start in 2023.

While past performance may not be indicative of future returns, 2022 made for a good case study of which strategies and styles of investing are better positioned to withstand market stress and volatility. Investors wishing to gain exposure to a broad range of dividend growth factor ETFs, can visit our factor ETF lineup.

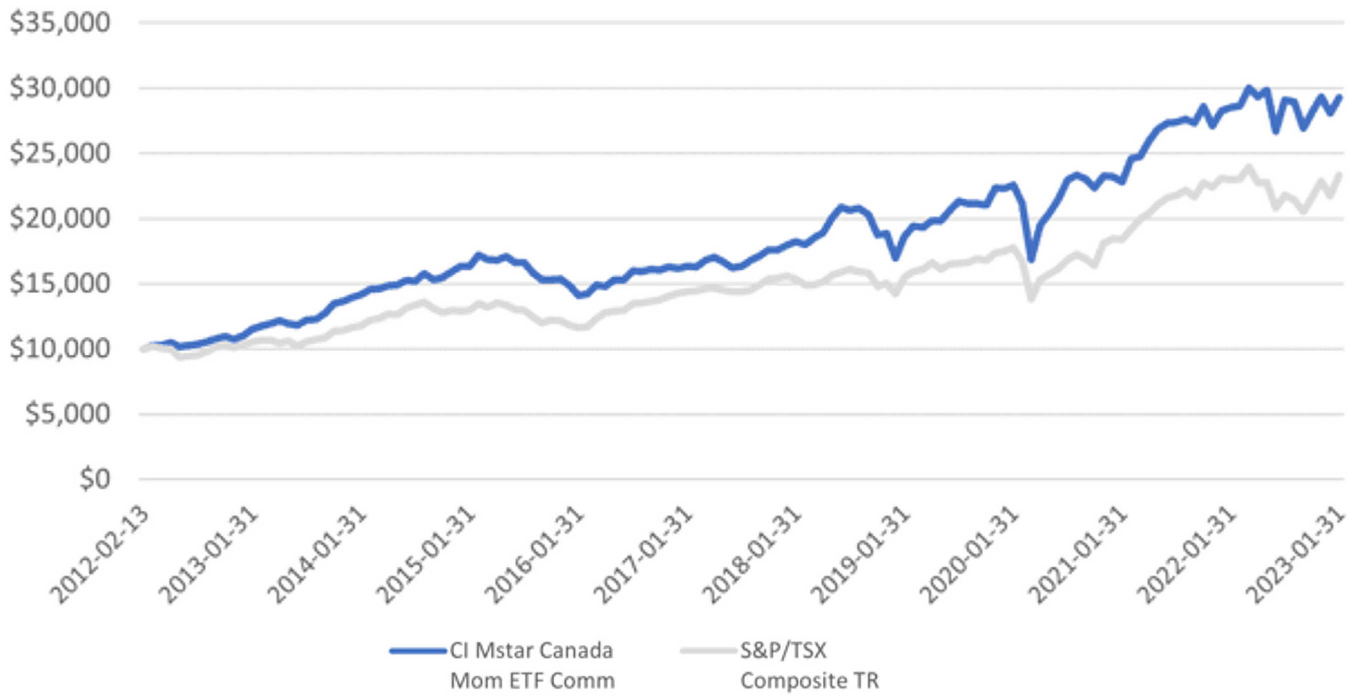
Momentum Factor ETFs

The momentum factor focuses on increasing exposure to stocks or industries that have been outperforming and decreasing exposure to underperforming sectors. These strategies follow trends seen in the market, without necessarily trying to forecast where the inflows will be. They take the markets as is rather than as they should be and take the view that "if you can't beat them, join them".

As it turns out, momentum strategies have been a main driver of returns over the past 20 years, both in North America and abroad.

Closer to home, the CI Canada Momentum Index ETF has had similar success, with outperformance in both good and bad years for the underlying index, as shown on the following page:

Momentum Performance vs. TSX



Source: Morningstar, as at January 31, 2023

Are Factor Strategies Right for You?

Factor strategies are compatible with investors who want a more targeted exposure to a particular index and are looking to take advantage of a certain trend, be it dividend growth, quality, momentum, or a value-based approach. Given that factors are often in favour at different times and parts of the market cycle, it makes sense to incorporate multiple factors or a multi-factor strategy into your portfolio.

They provide a more managed approach to a passive index fund and aim to increase the returns that can be generated from the index. Beyond their proven ability to beat index returns long-term, factor strategies often do so with reduced volatility, and low fees, making it an excellent choice for DIY investors.

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CIFSC Launches Multi-Sector Fixed Income Category

The Canadian Investment Funds Standards Committee (CIFSC) is launching a new fixed-income category. Multi-Sector Fixed Income, as the category will be called, intends to "capture fixed income funds that strategically and tactically invest across various fixed income sectors."

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

To achieve this, the category will include funds with a multi-sector mandate, with holdings spanning at least three fixed-income sectors over time. Concentration limits in any one sector range from a minimum of 10% to a maximum of 65%. Although not exhaustive, CIFSC identifies the following sectors: government, municipal/provincial; corporate (including preferred shares); securitized (including asset-backed securities, collateralized loans, mortgage-backed securities, etc.); and high yield debt, with geographic exposure spanning both developed and emerging markets.

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Consisting of about 60 funds at launch, the Multi-Sector Fixed Income category will serve to identify and segment a unique type of fixed-income risk/return and investment profile that was previously unrecognized. The majority – about 65% – are migrating from the Global Fixed Income category, with another 30% coming from the High Yield Fixed Income, and the remainder from Global Corporate Fixed Income. Of the 60 funds in the category, 12 are exchange-traded funds (ETFs).

The benefits of the new category for advisors and investors are twofold. First, when structuring a portfolio by CIFSC category, it allows for a more granular composition of the bond portion. Second, it provides less sophisticated investors with an important distinction between these funds and their more general Global Fixed Income and more risky High Yield Fixed Income counterparts.

Funds in the new category generally occupy a space between Global Fixed Income and High Yield Fixed Income, with more flexible mandates. While the category is not entirely homogenous, the funds are well diversified, able to shift allocations, and tactically adjust their portfolio to take advantage of market conditions.

Avoiding unnecessary risk

Two excellent representative options in the new category, which both earned a Fundata FundGrade A+ Award in 2022, are **Fidelity Multi-Sector Bond Fund** and **PIMCO Monthly Income Fund (Canada)**, which is also offered as an ETF. Both funds were transferred from the Global Fixed Income category. These are two examples of standout multi-sector bond funds that that have been able to deliver superior risk-adjusted performance due to their ability to shift allocations according to changes in the investment landscape.

Both funds have significantly outperformed the Global Fixed Income category over all time frames, with comparable volatility, in 3-, 5-, and 10-year annualized returns and standard deviations (see accompanying table).

Annualize returns and standard deviation of funds vs their category average

Name	3 Yr Rtn	3 Yr StdDev	5 Yr Rtn	5 Yr StdDev	10 Yr Rtn	10 Yr StdDev
Fidelity Multi-Sector Bond Fund	**-0.58%**	**6.17%**	**2.31%**	**5.82%**		
PIMCO Monthly Income Fund (Canada)	**-0.90%**	**7.02%**	**1.08%**	**5.59%**	**3.08%**	**4.51%**
Global Fixed Income Average	*-2.97%*	*6.70%*	*-0.65%*	*5.95%*	*0.93%*	*6.70%*

Source: Fundata Canada. As of February 28, 2023

As stated on its website, PIMCO Monthly Income Fund (Canada) follows a classic multi-sector approach, while relying on PIMCO's well-known bond expertise to "seek out the best income-generating ideas in any given market climate, targeting multiple sources of income from a global opportunity set."

Similarly, according to the fund's online features sheet, Fidelity Multi-Sector Bond Fund "seeks to offer investors attractive total return and income with the flexibility to navigate changing fixed-income markets. With an ever-changing global economic landscape, investors need a flexible fixed-income solution that targets multiple sources of returns."

These funds highlight the definitiion of Multi-Sector Fixed Income strategies – responding to changing market conditions and taking advantage of the best opportunities available. Even with a common approach, the specific sectors that a fund targets and how their allocations shift over time depends on the manager's analysis and focus. This leaves room for tailoring a Multi-Sector Fixed Income allocation to investor's specific needs, depending on goals, risk tolerance, and time horizon.

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