

YOUR GUIDE TO

ETF Investing

Fall 2023

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*Maximizing opportunities
in an upside-down world*

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Guest Editorial

Regulatory initiatives will have major impacts on the financial services industries in 2024.



Pat Dunwoody

The upcoming change to the timing of ETF trade settlement from two-days to one-day and the new rule of reporting the total cost of buying, holding and selling an investment fund will have major impacts on all aspects of the financial services industries. **CETFA** is working with all industry associations and Committees on the solutions required to ensure that the ETF industry continues to operate efficiently.

These two new regulatory initiatives have required collaboration across the industry. It is encouraging to see the cooperation that is occurring and leads me to believe that both of these initiatives will be implemented effectively. In addition to these initiatives, we continue to work with distributors, regulators and supporting organizations to ensure that the continued growth of the industry appear to be effortless.

The story of ETF growth in Canada is rich and thriving. New ETF solutions across asset classes continue to emerge and their creation will be informed by advisor and investor demand. Against all previous experience, they will provide new financial tools to help you build your practice and meet the unique investment needs of your clients.

Pat Dunwoody

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



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CETFA's mandate is to support the growth, sustainability and integrity of Canada's ETF industry.

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Discount Bonds: Maximizing opportunities in an upside-down world

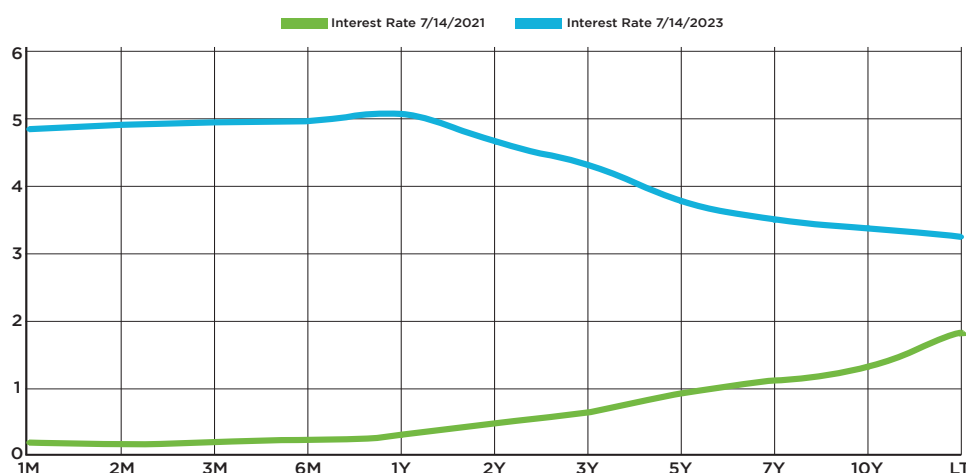


Peter Tomiuk

Vice President, ETF Distribution
Dynamic Funds

When it comes to fixed-income investing, we've been living in an upside-down world since Canada's yield curve inverted in July 2022, spurred on by the Bank of Canada's aggressive rate-hiking cycle. As of early September 2023, 2-year yields were roughly 100 basis points above their 10-year counterparts.¹ While an inverted yield curve is often a sign of a coming recession, the inversion actually presents us with a rare investment opportunity for discount bonds going forward.

A Tale of Two Yield Curves: 2021 vs. 2023



The chart above shows the Canada Corporate AA yield curve at the end of July 2023, compared to the end of 2021 before the yield curve inverted

In a normal yield-curve environment, low-duration, fixed-income exposure is primarily used for risk-mitigation purposes, with limited income and capital gains opportunities. However, in this current upside-down world, low-duration bonds in the belly of the curve (i.e.,

the 3.5- to 7-year range) still provide risk mitigation, plus the potential for substantial income.

And once we return to a normal yield-curve environment – which has always inevitably happened – a number of opportunities for capital gains should

emerge – especially in discount bonds.

However, to fully capitalize on this opportunity, we need an investment that checks off several boxes.

- First, active management that focuses on high-quality corporates makes a lot of sense in this current economic environment.
- Second, keeping costs low is crucial, as excessive fees can eat into potential alpha generation.
- Third, we need a fund that provides a substantial yield to generate income during any interim volatility.
- And lastly, the structural advantages offered by discounts bonds would be highly beneficial (see THE CASE FOR DISCOUNT BONDS on page 6).

Introducing Dynamic Active Discount Bond ETF (DXDB)

An actively managed, diversified corporate bond ETF, DXDB provides the

Dynamic Funds®
Invest with advice.

¹ <http://www.worldgovernmentbonds.com/country/canada/#:~:text=10%20Years%20vs%202%20Years,according%20to%20Standard%2026%20Poor's%20agency.>

Continued on page 6

Discount bonds: Maximizing opportunities in an upside-down world

Continued from page 5

potential for more tax-efficient income by investing in bonds which are trading below the average price of its benchmark. As a core component of a bond portfolio, the ETF invests primarily in Canadian, investment-grade, discount bonds with a term to maturity of between three and seven years, taking advantage of opportunities in the belly (short- to mid-term range) of the curve.

Meet the Manager

Portfolio Manager **Marc-André Gaudreau** joined Dynamic in 2012 as head of the Specialized Credit Team, which is responsible for managing over \$6 billion in credit-related asset classes. Marc-André has nearly two decades of investment management experience across the credit spectrum, including investment-grade corporate bonds, preferred shares, high-yield bonds and loans, along with floating-rate and credit absolute-return strategies, for both retail and institutional clients.

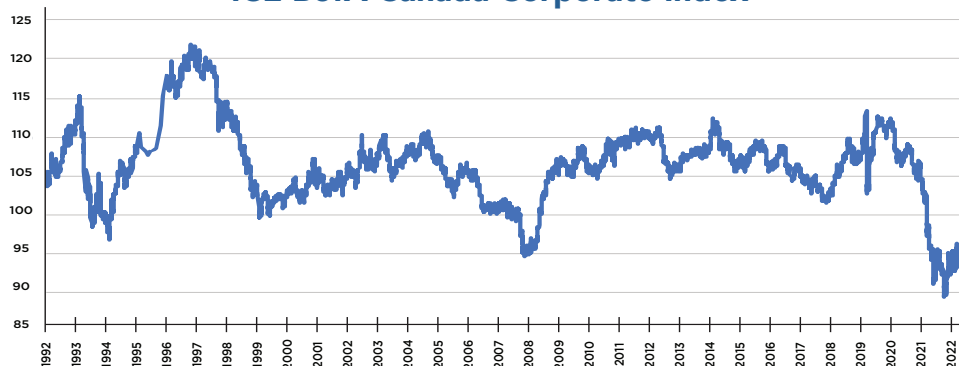
The upside-down world we find ourselves in presents

a unique opportunity in the fixed-income space. DXDB is an A-rated investment-grade bond ETF that combines risk mitigation, potential capital gains and substantial income with a fixed monthly distribution with a yield of 4.5%* and a weighted average price of \$89.12 as of August 31, 2023. With a management fee of only 35 bps, DXDB offers a cost-effective solution compared to other active management options.

For more information, or to view our entire roster of Dynamic Active ETFs, visit dynamic.ca/ETF

* The yield is calculated based on a fixed, but not guaranteed, monthly distribution of 7.5 cents/unit and a net asset value per unit (NAVPU) of \$20 as of inception date. Monthly distribution yields may fluctuate as the month-end NAVPU changes. An ETF's distribution yield should not be confused with its performance or rate of return.

Discount bonds: A generational opportunity ICE BofA Canada Corporate Index



Low coupons, an abrupt change in rates and wider corporate spreads have created an opportunity not seen in the last 30 years. Source: Bloomberg, as of 07/31/2023.

THE CASE FOR DISCOUNT BONDS

A Tax-Aware Alternative

Stated simply, a discount bond is one that's trading in the secondary market at a price below its par value. Discount bonds will have lower coupons than their respective yield-to-maturities, thereby creating a capital gain component in their total return as the bond is pulled to its par value at maturity.

As a result, the portion of the total return taxed as interest income would be lower than an equivalent bond issued at par or trading at a premium, creating tax efficiency, as capital gains are taxed at a lower rate than interest income.

Upside Price Potential and Capital Protection

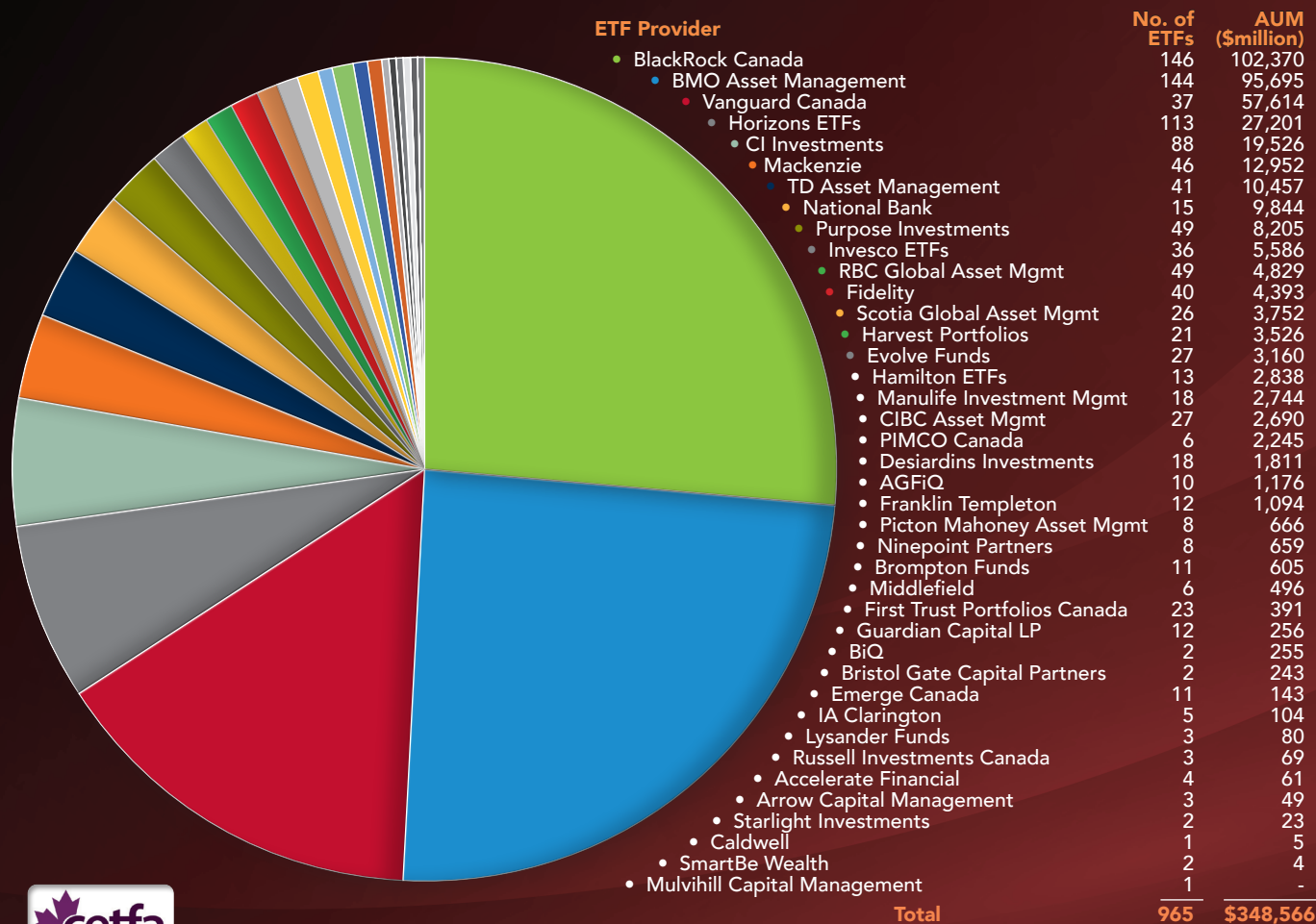
Because they trade below par value, discount bonds have the potential to rally more than premium-priced bonds in environments where rates decline due to their positive convexity. A bond's convexity measures the sensitivity of a bond's duration to changes in yield. Positive convexity can be thought of as working in the investor's favour, since the price becomes less sensitive when yields rise (i.e., prices fall) than when yields decline (i.e., prices rise).

And because they're less expensive than premium-priced bonds, discount bonds can also improve capital protection in an adverse price scenario.

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ETFs in Canada

ETF Assets Under Management by ETF Provider



Source: CETFA Monthly Report, as at July 31, 2023

Top Performing ETFs Canadian Equity

ETF Name	1 Year Return
CI MSCI Canada Ql Idx Class ETF (FQC)	18.24%
CI MStar Nat Bank Qbc Idx ETF (QXM)	15.54%
First Trust Canadian Capital Strength ETF (FST)	15.26%
Guardian Canadian Sector Controlled Equ ETF (GCSC)	14.05%
iShares Jantzi Social Index ETF (XEN)	13.66%

Source: Fundata as at August 31, 2023

Top Performing ETFs U.S. Equity

ETF Name	1 Year Return
Invesco ESG NASDAQ 100 Index ETF (QQCE)	34.86%
Invesco NASDAQ 100 Index ETF - CAD Units (QQC)	31.12%
Horizons NASDAQ-100 Index ETF (HXQ)	30.63%
BMO Nasdaq 100 Equity Index ETF (ZINQ)	30.45%
Invesco ESG NASDAQ 100 Index ETF (QQCE.F)	29.28%

Source: Fundata as at August 31, 2023

Top Performing ETFs Canadian Short Term Fixed Income

ETF Name	1 Year Return
Horizons Active U-Sh T Invest Grade Bond ETF (HFR)	5.97%
Dynamic Active Inv Gra Floa Rate ETF (DXV)	5.84%
CIBC Active Inv Grade Floating Rate Bon ETF (CAFR)	5.30%
iShares Floating Rate Index ETF (XFR)	4.98%
Invesco 1-3 Yr Lad Floating Rate Note Ix ETF (PFL)	4.77%

Source: Fundata as at August 31, 2023

Top Performing ETFs Global Corporate Fixed Income

ETF Name	1 Year Return
Horizons Active U-Sh T US Inv Gra Bon ETF C\$ (HUF)	8.48%
RBC Short Term U.S. Corporate Bond ETF (RUSB)	6.4%
TD Select US Short Term Corp Bond Lad ETF (TUSB)	6.26%
iShares 1-5 Year U.S. IG Corp Bd Idx ETF (XSHU)	5.65%
Horizons Active U-Sh T US Inv Gra Bon ETF (HUF.U)	5.44%

Source: Fundata as at August 31, 2023

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Short and sweet

Ultra short bonds are tailor-made
for today's markets

Franklin Bissett Ultra Short Duration Bond Fund and ETF (FHIS)

Our ultra short strategy features:

- Low fee:¹ 10 basis points
- Stable monthly income
- Average duration: 0.46 years²
- Average credit quality: A
- Managers: Franklin Bissett fixed income team
- Over 40 years managing fixed income for Canadian investors

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1. Morningstar Canada Fund Canadian Short Term Fixed Income category average is 19 basis points, as of August 31, 2023.

2. As of July 31, 2023.

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Building a robust fixed income portfolio using Bond ETFs

Bond ETFs, or exchange-traded funds, offer investors a convenient way to gain exposure to a diversified portfolio of bonds without purchasing individual securities. These ETFs, which track baskets of different types of fixed income, are managed using similar mechanics:

1. Duration:

Duration measures the sensitivity of a bond's price to changes in interest rates. A bond ETF with a longer average duration is more sensitive to interest rate changes.

2. Yield to Maturity (YTM):

YTM gives an idea of the total return investors can expect if they hold a bond until it matures. For a bond ETF, it is the average YTM of all the bonds in the portfolio.

3. Credit Quality:

Bonds are rated based on the creditworthiness of the issuer. The credit quality gives an idea of the risk of default. A bond ETF with higher-rated bonds is typically less risky but may also offer lower yields.

It's important to remember that bond ETFs do not mature in the traditional sense. While holding an individual bond to maturity guarantees the return of principal (assuming no default), a bond ETF continuously reinvests in bonds, often aiming to maintain a target maturity range. As a result, bond ETF returns can vary based on both interest rate movements and the ETF's ongoing bond selections.

Another key differentiator is the payout structure. Individual bonds typically distribute interest payments semi-annually. In contrast, bond ETFs often distribute payments on a monthly basis. This difference can be advantageous for investors who prefer a more frequent income stream.

Putting the mechanics into practice

Mixing and matching bond ETFs to fine-tune the duration, YTM, and credit quality helps investors strike the balance that best aligns with their risk tolerance, financial objectives, and

investment horizon.

For instance, a highly risk-averse investor with a short-term financial goal, such as accumulating funds for a down payment on a home in a year or two, might lean towards an ultra-short duration bond ETF with less sensitivity to interest rate movements.

Consider a core-satellite strategy

An effective way to diversify fixed income portfolios is the "core-satellite" approach. This strategy entails having the majority of the investment (the "core") dedicated to securing broad, stable returns, while the remainder (the "satellite") seeks higher, potentially more volatile returns to enhance overall performance.

Here are some hypothetical examples of **Franklin Templeton** bond ETF allocations:

1. Conservative Investor:

70% in **Franklin Bissett Core Plus Bond Fund - ETF Series (FLCP)** as the core for its balanced profile and 30% in **Franklin Bissett Ultra Short**

Bond Fund - ETF Series (FHIS) as a satellite for liquidity and shorter-term opportunities.

2. Income Seeker:

50% in **Franklin Bissett Corporate Bond Fund - ETF Series (FLCI)** for its corporate bond yields and 50% in **Franklin Bissett Short Duration Bond Fund - ETF Series (FLSD)** to exploit the higher YTM from global sustainable bonds.

3. Diversified Builder:

60% in **Franklin Bissett Core Plus Bond Fund - ETF Series (FLCP)** for core stability, 20% in **Franklin Bissett Short Duration Bond Fund - ETF Series (FLSD)** for short-term yield, and 20% in **Franklin Brandywine Global Sustainable Income Optimiser Fund - ETF Series (FBGO)** for global diversification and sustainable investment.

Every investor has unique financial goals, risk thresholds, and time horizons. Working with a financial advisor to evaluate objectives and comfort levels, investors can structure bond ETFs to help manage volatility and offer a steadying presence in a well managed, properly diversified portfolio.

Important Information. ETF units may be bought or sold throughout the day at their market price on the exchange on which they are listed. However, there can be no guarantee that an active trading market for ETF units will develop or be maintained, or that their listing will continue or remain unchanged. While the units of ETFs are tradable on secondary markets, they may not readily trade in all market conditions and may trade at significant discounts in periods of market stress. • **Foreign Investment Risk.** The value of foreign securities may be influenced by the policies of foreign governments and by political, economic, or social instability. There may be less information about foreign companies than North American firms and there may be lower standards of government supervision and regulation in foreign financial markets. The legal systems of some foreign countries may not adequately protect Unitholders' rights. Some or all of these factors could make a foreign investment more or less volatile than a North American investment. If a Franklin ETF or the underlying fund in which a Franklin ETF invests holds these securities, the Franklin ETF may have difficulty enforcing legal rights in jurisdictions outside Canada.



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Money market and short-term fixed income



Matt Montemurro
CFA, MBA

Director & Portfolio
Manager,

BMO

Exchange Traded Funds

We have seen a “great migration to cash” as investors are literally being paid, handsomely, to park cash on the sidelines. One of the biggest trends in the market, thus far in 2023, has been the flurry of inflows (\$AUM) into money market and short-term fixed income. Thus far YTD, we have seen \$7.5bln flow into money market and ultra short-term fixed income ETFs, accounting for over 46% of all flows into fixed income ETFs in 2023 (Source: NBCFM ETF).

Money Market and Ultra Short-Term Fixed Income: after years of being a forgotten segment of the market, how and why are they leading asset gatherer?

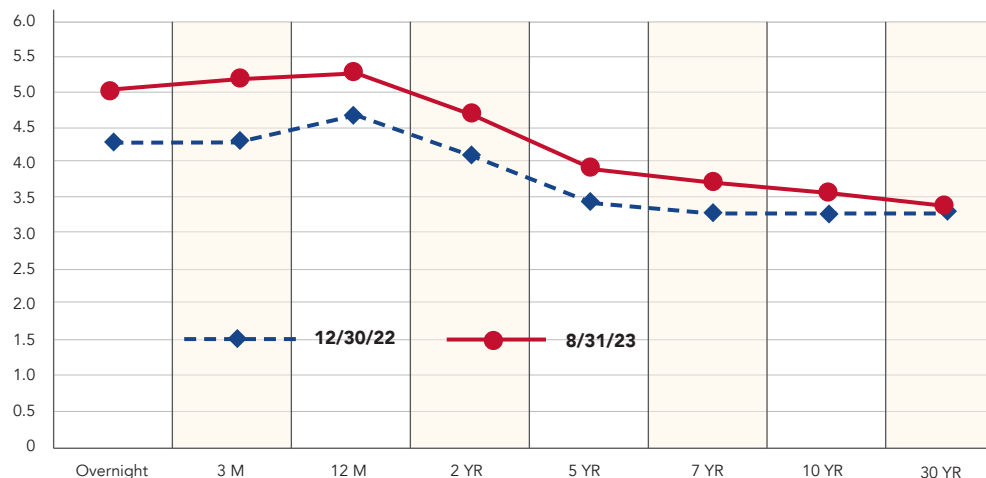
With the accelerated path of rising rates, we have seen in the short end of the yield curve (the overnight rate), the yield curve inverted.

An inversion of the yield curve is caused when shorter term rates rise faster than longer term rates. Generally, this is something that occurs

but reverses quite quickly. Not this time. We are currently in a period of a prolonged yield curve inversion, which could be a leading indicator of economic weakness to come. This inversion is exactly what these money market and ultra short-term fixed income investors are looking to cash in on - Lock in higher shorter-term rates and take advantage of the inverted yield curve.

For too long, investors were forced to move outside of investment grade bonds and further out the yield curve to achieve their yield and return expectations. The market has shifted that paradigm on its head and allowed investors to truly get paid to wait on the sidelines in cash.

Current Canadian yield curve



Source: Bloomberg, June 30, 2023

Continued on page 12

Money market and short-term fixed income

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The short end appears to be the sweet spot for many investors, in terms of risk and reward

Risk: by targeting the short end of the curve, investors will be minimizing their interest rate sensitivity (Duration exposure) and will generally be buying bonds that will be maturing in less than 1 year to maturity. Buying investment grade bonds, issued by high quality issuers this close to maturity, provides investors with downside protection as all these bonds will mature at par.¹

Reward: Achieve a higher yield to maturity than further out the curve. Allowing investors to earn higher yields for lower interest rate sensitivity risk. The current market isn't paying investors to lend money for longer periods. The front end provides an extremely attractive proposition for investors.

Today's market is uniquely positioned and

many market participants expect volatility on the horizon as higher interest rates make their way through the economy, potentially causing growth to slowdown. Money market and short-term fixed income are well positioned for this environment as investors can weather the potential volatility in the market, while still meeting their income and return needs.

ETFs make it easy and efficient for investors to take advantage of this opportunity by offering a wide variety of ETFs that provide exposure to the short end of the curve. Pure money market (safest, least volatile option), corporate (yield enhancement by investing in bonds issued by corporations), and options available outside of Canada to take advantage of similar market dynamics like the U.S.

Investors who are interested in getting paid to wait can capture over a 5% yield (as of June 30, 2023) by using **BMO Money Market Fund ETF Series (ZMMK)**, the new **BMO USD Cash Management ETF (ZUCM)**, **BMO Ultra Short-Term Bond ETF (ZST/ZST.L)**, and **BMO Ultra Short-Term US Bond ETF (ZUS.U/ZUS.V)**.

BMO ETFs fixed income summary

Name	Ticker	Coupon	YTM	TTM	Duration
BMO Ultra Short-term Bond ETF	ZST	2.70	5.70	0.50	0.48
BMO Ultra Short-term US Bond ETF (US Dollar Units)	ZUS.U	1.73	5.95	0.50	0.47
BMO Money Market Fund ETF Series	ZMMK	--	5.23	0.13	0.13

Source: BMO Global Asset Management, Aug. 30, 2023

¹ Assuming the issuer does not default on the debt. The likelihood of an investment grade issuer defaulting is low.

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Award-winning ETFs for 2022

The FundGrade A+® Award is given annually to investment funds and their managers who have shown consistent, outstanding, risk-adjusted performance through the year. As such, the FundGrade A+ Award provides investors, advisors, and fund managers with a single, reliable, easy-to-understand fund-performance rating based on up to 10 years of history.



The following are award-winning ETFs by category for 2022

Alternative Equity Focused

- Horizons Global Uranium Index ETF (HURA)

Alternative Multi-Strategy

- NBI Liquid Alternatives ETF (NALT)

Canadian Dividend & Income Equity

- Dynamic Active Canadian Dividend ETF (DXC)
- Horizons Active Canadian Dividend ETF (HAL)
- Vanguard FTSE Canadian High Dividend Yield Index ETF (VDY)

Canadian Equity

- iShares MSCI Min Vol Canada Index ETF (XMV)
- iShares S&P/TSX 60 Index ETF (XIU)
- BMO Low Volatility Canadian Equity ETF (ZLB)
- Horizons S&P/TSX 60 Index ETF (HXT)
- Invesco FTSE RAFI Canadian Index ETF (PXC)
- Manulife Multifactor Canadian Large Cap Index ETF (MCLC)
- Vanguard FTSE Canada Index ETF (VCE)

Canadian Equity Balanced

- iShares Canadian Financial Monthly Income ETF (FIE)

Canadian Fixed Income Balanced

- iShares Diversified Monthly Income ETF (XTR)

Canadian Fixed Income

- BMO Discount Bond Index ETF (ZDB)
- BMO Mid Provincial Bond Index ETF (ZMP)
- Evolve Active Core Fixed Income Fund Unhedged ETF (FIXD)
- Franklin Bissett Core Plus Bond Active ETF (FLCP)
- Mackenzie Core Plus Canadian Fixed Income ETF (MKB)

Canadian Neutral Balanced

- Fidelity Canadian Monthly High Income ETF (FCMI)

Canadian Corporate Fixed Income

- iShares Canadian HYBRID Corporate Bond Index ETF (XHB)
- CI Canadian Convertible Bond ETF (CXF)

Canadian Long Term Fixed Income

- BMO Long Corporate Bond Index ETF (ZLC)

Canadian Short Term Fixed Income

- iShares Core Canadian Short Term Corporate Bond Index (XSH)
- BMO Short Corporate Bond Index ETF (ZCS)
- Horizons Active Ultra-Short Term Investment Grade Bond ETF (HFR)
- Invesco 1-5 Year Laddered Investment Grade Corp Bond Index ETF (PSB)
- RBC Target 2023 Corporate Bond Index ETF (RQK)
- TD Select Short Term Corporate Bond Ladder ETF (TCSB)
- Vanguard Canadian Short-Term Corporate Bond Index (VSC)

Canadian Small/Mid Cap Equity

- Manulife Multifactor Canadian SMID Cap Index ETF (MCSM)

European Equity

- iShares MSCI Europe IMI Index ETF (XEU)
- BMO Europe High Dividend Covered Call Hedged to CAD ETF (ZWE)
- BMO MSCI Europe High Quality Hedged to CAD Index ETF (ZEQ)

Financial Services Equity

- BMO Equal Weight Banks Index ETF (ZEB)
- Horizons Equal Weight Canada Banks Index ETF (HEWB)
- RBC Canadian Bank Yield Index ETF (RBNK)

Global Equity

- iShares MSCI World Index ETF (XWD)
- iShares Core Equity ETF Portfolio (XEQT)
- BMO MSCI All Country World High Quality Index ETF (ZGQ)
- Horizons Active Global Dividend ETF (HAZ)

- Invesco Global Shareholder Yield ETF (PSY)
- TD Q Global Dividend ETF (TQGD)
- Vanguard All-Equity ETF Portfolio (VEQT)

Global Equity Balanced

- iShares Core Growth ETF Portfolio (XGRO)
- BMO Growth ETF (ZGRO)
- Vanguard Growth ETF Portfolio (VGRO)

Global Fixed Income Balanced

- BMO Conservative ETF (ZCON)

Global Fixed Income

- Mackenzie US TIPS Index ETF (CAD-Hedged) (QTIP)
- NBI Unconstrained Fixed Income ETF (NUBF)
- Purpose Global Bond Fund - ETF Units (BND)

Global Infrastructure Equity

- iShares Global Infrastructure Index ETF (CIF)
- BMO Global Infrastructure Index ETF (ZGI)

Global Neutral Balanced

- Fidelity Global Monthly High Income ETF (FCGI)
- Vanguard Balanced ETF Portfolio (VBAL)

Greater China Equity

- Mackenzie China A-Shares CSI 300 Index ETF (QCH)

High Yield Fixed Income

- iShares Convertible Bond Index ETF (CVD)
- Dynamic Active Crossover Bond ETF (DXO)

International Equity

- iShares MSCI EAFE Index ETF (CAD-Hedged) (XIN)
- BMO MSCI EAFE Hedged to CAD Index ETF (ZDM)
- CI Morningstar International Momentum Index ETF (ZXM)
- CI WisdomTree International Quality Dividend Growth Variably Hedged Index ETF (DQI)
- Mackenzie International Equity Index ETF (CAD-Hedged) (QDXH)
- RBC Quant EAFE Equity Leaders (CAD Hedged) ETF (RIEH)
- TD International Equity CAD Hedged Index ETF (THE)
- Vanguard FTSE Developed All Cap ex U.S. Index ETF (CAD-hedged) (VEF)
- Vanguard FTSE Dev All Cap ex North America Index ETF (CAD-hedged) (VI)

Preferred Share Fixed Income

- CI Preferred Share ETF (FPR)
- Dynamic Active Preferred Shares ETF (DXP)
- TD Active Preferred Share ETF (TPRF)

Real Estate Equity

- CI Canadian REIT ETF (RIT)
- Horizons Equal Weight Canada REIT Index ETF (HCRE)

U.S. Equity

- iShares NASDAQ-100 Index ETF (CAD-Hedged) (XQQ)
- BMO Low Volatility US Equity ETF (ZLU)
- BMO MSCI USA High Quality Index ETF (ZUQ)
- BMO Nasdaq 100 Equity Hedged to CAD Index ETF (ZQQ)
- CI WisdomTree U.S. Quality Dividend Growth Index ETF (DGR.B)
- Fidelity U.S. High Quality Currency Neutral Index ETF (FCQH)
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- RBC Quant U.S. Dividend Leaders ETF (RUD)
- Vanguard S&P 500 Index ETF (VFV)
- Vanguard U.S. Dividend Appreciation Index ETF (VGG)

U.S. Small/Mid Cap Equity

- Shares S&P U.S. Small-Cap Index ETF (XSMC)

FundGrade A+® Award ETF contenders for 2023



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Exchange-traded funds (ETFs) were originally created as passive investments. They offered investors a simple, low-cost way of index investing. In fact, the first viable ETF was introduced in Canada in 1990, and it tracked what was then known as the TSE 35 Index. As the number of ETFs in the Canadian market expanded, so did the availability of rules-based and actively-managed ETFs, departing from a strictly index-tracking approach. Some of these funds have

delivered consistently good risk-adjusted returns over the past year, and have become contenders for the 2023 Fundata FundGrade A+® Awards.

As the name implies, rules-based ETFs use prescribed rules to make investment decisions. A simple example would be an equal-weighted ETF such as **iShares Equal Weight Banc & LifeCo ETF (TSX: CEW)**, which allocates an equal percentage of the fund to the 10 largest Canadian banks and life insurance companies and is rebalanced quarterly.

On the other hand, active ETFs give portfolio managers slightly more flexibility. They still have investment objectives and strategies that they must adhere to, but the investment decisions do not necessarily follow a set of rules. Ultimately the portfolio managers are responsible for making investment decisions.

Now, two thirds of the way through 2023, let's look at a couple of rules-based and active ETFs that are vying for their first ever Fundata FundGrade A+ Award.

TD Q U.S. Small-Mid-Cap Equity ETF (TSX: TQSM) is a rules-based ETF that debuted in November 2019 and has become a top performer in the US Small/Mid Cap Equity category. The portfolio managers at TD Asset Management use a quantitative approach to security selection aimed at exploiting market inefficiencies based on pricing and valuation. The portfolio is diversified across all sectors and currently includes over 183 individual securities.

TQSM has a management expense ratio (MER) of 0.45%, which includes a management fee of 0.4%. Add to this a trading expense ratio (TER) of just 0.01%, for a total cost of just 0.46%. But despite the fund's solid performance and relatively low fund expenses, trading has historically been thin for this ETF. Based on the most recent ETF Facts, average daily volume was just 1,980 units, and the bid/ask spread was 0.29% for the 12 months ending Aug. 31, 2023. Recently, however, trading metrics have improved significantly, with an average daily volume of over 15,000 units year to date. Investors are taking notice.

In its short history, TQSM has produced superior returns with lower volatility compared with the market and its peers. Year to date the fund is up 11%, outpacing the category average of 6.7%. Over the past three years the performance has been equally impressive. While its 3-year average annual compounded return of 15% ranks fourth out of 39 funds in the category, it also boasts the lowest standard deviation over this period at 12.6%. This outstanding risk-adjusted performance is the reason why TQSM is in line for its first FundGrade A+ Award in 2023.

Dynamic Active Investment Grade Floating Rate ETF (TSX: DXV) is also looking for its first FundGrade A+ Award in 2023. Debuting in March 2018 and listed in the Canadian Short Term Fixed Income category, the fund is managed by 1832 Asset Management. It is actively managed and invests primarily

in Canadian investment grade credit and uses interest rate derivatives. The fund's objective is to provide floating rate income while preserving capital and limiting interest rate risk.

DXV has a forward yield of 5.6% and a trailing 12-month yield of 6.1%. The fund is concentrated, holding only 40 securities. The duration is just 0.34 years, meaning interest rate risk is low. The MER, including a management fee of 0.3%, is 0.33%, while the trading expense ratio (TER) is 0.01%. Trade data based on the most recent ETF Facts shows an average daily volume of over 35,000 units and an average bid/ask spread of 0.16%.

Over the past few years, the relative performance of DXV has improved significantly. Five years ago, it ranked 62 out of 73 funds. Three years ago, it moved up to 13 out of 80. And over the past 12 months, while many funds earned less than 1% and some actually lost money, DXV was the second best performing fund with a return of 5.8%.

True to its objective, the fund has also been able to limit volatility. Over the past three years it had a standard deviation of just 1.2%, half the category average. Suffice it to say this fund has successfully navigated the rising interest rate environment and has thrived when many passive fixed income funds have stumbled.

Winners of the FundGrade A+ Awards for 2023 will be announced in January 2024.



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