YOUR GUIDE TO

ETF Investing

Winter 2024

IN THIS ISSUE

New age strategies for the old school portfolio

Bonds are back in vogue

Today's fixed income opportunities

ETF Portfolios

FundGrade A+® Award ETF Winners for 2023

PLUS:

A Directory of ETF Providers and Related Professionals

TD Asset Management

TD ETFs

Not All ETFs Are Created Equal

Choose from a variety of index, active and special focus exchange-traded funds (ETFs), specifically designed to help meet your investment goals.

See how our ETFs are built differently at

td.com/etfs

Commissions, management fees and expenses all may be associated with investments in exchange-traded funds (ETFs). Please read the prospectus before investing. ETFs are not guaranteed, their values change frequently and past performance may not be repeated. ETF units are bought and sold at market price on a stock exchange and brokerage commissions will reduce returns. TD ETFs are managed by TD Asset Management Inc., a wholly-owned subsidiary of The Toronto-Dominion Bank.

Guest Editorial

ETFs in Canada continue to thrive

Pat Dunwoody

Canadian ETFs accumulated inflows of over $38 Billion, making 2023 one of the best years for the ETF industry in Canada. For the last ten years, the industry has averaged 20% year over year growth. In comparison, the mutual fund industry had outflows of $52 Billion as of Nov. 30th which has led to ETFs gaining market share now totalling almost 16% of mutual fund assets.

	2013	2023	Change
# of regular class ETFs	299	1,339	+448%
AUM	$64B	$383B	+598%
# of Issuers	9	40	+444%
Market share vs MF	6%	16%	+267%

For the second year in a row Fixed Income ETFs, including money market ETFs, outsold Equity ETFs.

The pace of product innovation also continued with over 140 ETFs launched in 2023. The most popular ETF mandates were covered call ETFs and Active Equity products. The pace of new launches of ETFs with ESG mandates however, slowed considerably in 2023.

The **Canadian ETF Association** believes that with Total Cost Reporting rules coming (in 2026) and other rules being adopted in the move to more transparency in the cost of buying and holding investment funds, ETFs will remain a good option for advisors and their clients. Because of these rules, and the shift to fee-based accounts, we believe that the growth of the industry is going to continue throughout 2024 and beyond.

Pat Dunwoody

Executive Director,
Canadian ETF Association (CETFA)

www.CETFA.ca

TABLE OF CONTENTS

Award-winning ETFs

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 select award-winning ETFs by CIFSC category for 2023.

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)
- Desjardins RI Canada Multifactor – Net-Zero Emissions Pathway ETF (DRFC)
- Fidelity Canadian Value ETF (FCCV)
- Horizons S&P/TSX 60 Index ETF (HXT)
- Invesco FTSE RAFI Canadian Index ETF (PXC)
- Manulife Multifactor Canadian Large Cap Index ETF (MCLC)
- NBI Sustainable Canadian Equity ETF (NSCE)
- Vanguard FTSE Canada Index ETF (VCE)

Canadian Fixed Income

- BMO Discount Bond Index ETF (ZDB)
- BMO Mid Provincial Bond Index ETF (ZMP)
- CI Yield Enhanced Canada Aggregate Bond Index ETF (CAGG)
- Dynamic Active Tactical Bond ETF (DXB)
- Evolve Active Core Fixed Income Fund Unhedged ETF (FIXD)
- Mackenzie Core Plus Canadian Fixed Income ETF (MKB)
- Manulife Smart Core Bond ETF (BSKT)

Global Equity

- iShares MSCI World Index ETF (XWD)
- BMO MSCI All Country World High Quality Index ETF (ZGQ)
- BMO MSCI Global ESG Leaders Index ETF (ESGG)
- Horizons Active Global Dividend ETF (HAZ)
- Mackenzie Global Sustainable Dividend Index ETF (MDVD)
- TD Active Global Enhanced Dividend ETF (TGED)
- TD Active Global Equity Growth ETF (TGGR)
- TD Growth ETF Portfolio (TGRO)
- TD Q Global Dividend ETF (TQGD)

U.S. Equity

- BMO MSCI USA High Quality Index ETF (ZUQ)
- BMO S&P 500 Index ETF (ZSP)
- CI WisdomTree U.S. Quality Dividend Growth Index ETF (DGR.B)
- Fidelity U.S. High Quality Index ETF (FCUQ)
- Fidelity U.S. Low Volatility ETF (FCUL)
- Fidelity U.S. Value Currency Neutral ETF (FCVH)
- Fidelity U.S. Value ETF (FCUV)
- Horizons NASDAQ-100 Index ETF (HXQ)
- Invesco NASDAQ 100 Index ETF - CAD Hedged (QQC.F)
- RBC Quant U.S. Dividend Leaders ETF (RUD)
- Vanguard S&P 500 Index ETF (VFV)
- Vanguard U.S. Dividend Appreciation Index ETF (VGG)

The full list can be found at www.fundata.com

YOUR GUIDE TO ETF INVESTING IS PUBLISHED BY BRIGHTS ROBERTS INC.

Brights Roberts Inc.

Ian Roberts
ian@brightsroberts.com

Brights Roberts Inc.
305 - 500 Duplex Avenue
Toronto, Ontario M4R 1V6

www.brightsroberts.com

For advertising/editorial inquiries call 416-485-0103

Your Guide to **ETF Investing**©

New age strategies for the old school portfolio

Many traditional asset allocation strategies hold a mix of stocks and bonds to help investors reach their financial goals. However, some investment industry professionals caution these approaches may not be enough for some investors amid changing economic and market conditions. In this article we discuss why asset allocation can be vital to building an investment portfolio that can help investors reach their financial goals and take a deeper dive into what various asset classes and investments can bring to a portfolio.

Jonathan Needham

Vice President and Director, ETF Distribution

TD Asset Management Inc. (TDAM)

Higher inflation requires higher returns

Investors are often told about the importance of creating an investment plan that they can stick to through the thick and thin of their investing journey. And a key piece of any plan is an investor's asset allocation — or the mix of investments they hold within their portfolio. Now, traditional asset allocations like the 60/40 portfolio (60% stocks and 40% bonds) have historically delivered attractive risk-adjusted returns for many investors. But these days, finding the right asset mix might not be as straightforward. Inflation has been running hot and interest rates are at multi-decade highs. As a result, it may be more difficult for investors to earn the returns they need to reach their financial goals. Simply put — higher inflation requires higher returns.

Old school portfolios

Consider that the historical success of the 60/40 portfolio and other traditional asset allocation strategies consisting of stocks and bonds alone were driven by a couple key factors:

- Higher returns than expected from both stocks and bonds due in large part to falling interest rates over time and stable growth in the economy with relatively low volatility over the long term
- The relatively low correlation between the performance of stocks and bonds, which led to high risk-adjusted returns

Although we feel stocks and bonds are still the bedrock of a diversified asset allocation strategy, we also believe market fundamentals have changed to some degree. For example, economic growth has been much more volatile in recent years and inflation has trended much higher than long-term historical averages. If these trends persist, we may experience several different market environments and more variability in the returns of stocks and bonds. This may also necessitate more active and tactical management of a portfolio to help drive risk-adjusted returns. Therefore, investors may want to consider additional diversification through new investment options within their asset allocation to help drive returns higher during unpredictable times.

Options for the "new" traditional portfolio

So, what are some examples of investments that can help bring additional diversification to an asset allocation strategy? There are several different types of alternative investments to consider, including:

Foreign currencies - Various currencies have higher or lower correlations to different parts of the business cycle which can help diversify a portfolio. For example, the Canadian dollar tends to be highly correlated to the business cycle because of the Canadian economy's reliance on the commodities industry.

Options - Options are the right, but not the obligation to buy or sell an asset (typically a stock or ETF) at a particular price and time in the future. Their value is determined on an uncertain future, so investors effectively turn price volatility into an investible asset class.

Hybrids - These products are a blend of equity and fixed income that tend to offer a stable income yield and downside protection, but with some potential for upside risk. Two examples are convertible securities such as preferred shares and Special Purpose Acquisition Companies (SPACs).

Commodities - These are the raw materials used in the production of all sorts of products. Investors essentially speculate on the direction of a commodity's price through investment vehicles such as futures contracts or investment funds.

Real estate and infrastructure - Commercial and industrial properties and infrastructure are fixed assets that offer a key service and may be present in desirable locations. Real estate tends to offer relatively stable income through rental agreements and may also offer exposure

Continued on page 6

New age strategies for the old school portfolio

Continued from page 5

to economic trends such as urbanization or infrastructure upgrades. Infrastructure (e.g., roads, airports, utilities) can provide several strategic benefits to investors over a full market cycle including steady income generation, increased diversification and access to a growing market.

TDAM delivers on the options

TDAM has a broad and extensive lineup of ETFs, to help you construct a well-diversified portfolio in today's changing market and economic environment. For those that want to take a hands-off approach, consider asset allocation ETFs. A single ticket solution that can get you diversified exposure to stocks and bonds. For instance, **TD ETF Portfolios** are all-in-one solutions designed for investors who are looking for a low-cost and efficient way to invest and lack the time or expertise to pick individual securities. You can choose from three different options with differing allocations to equities and fixed income depending on your risk profile and investment horizon. For instance, a 30% equity and 70% fixed income allocation is considered more conservative, suitable for a short to mid-term horizon, while a 90% equity and 10% fixed income mix is more aggressive and suitable for a mid to long-term horizon. For those wanting to do it themselves, consider a "core and explore" strategy.

"Core and explore" is a method of portfolio construction where an investor buckets their investments into two groups, the core which typically consists of passive investments and explore which tends to consist of more active strategies. This gives an investor more control of how they invest and can increase the risk/return profile of a portfolio. Percentage allocations to each group will depend on the investor's tolerance for risk, investment horizon and market outlook. The core allocation is meant to provide stability and long-term growth, while the explore allocation aims to generate higher returns and enhance overall portfolio performance.

Core

TDAM offers a plethora of low cost, passively managed ETFs for portfolios with exposure to Canadian, U.S. or international markets. For the equity component, investors could utilize ETFs that track some of the major stock markets in the world, with exposure to some of the biggest companies and blue-chip names most people are familiar with. These types of ETFs will help provide the potential for growth as well as stability obtained through broad diversification. For the fixed income allocation, an investor can choose between investment grade government and corporate bond exposure that helps provide diversification and income to portfolios. Some core options on the equity side from TDAM include **TD U.S. Equity Index ETF** (TPU), **TD Canadian Equity Index ETF** (TTP) and **TD International Equity Index ETF** (TPE). For fixed income, investors can choose the **TD Canadian Aggregate Bond Index ETF** (TDB) which provides broad exposure to high quality investment grade government and corporate debt.

Explore

Once the core is established, the more tactical investment options can be added. The main objective for the explore allocation is to generate returns above a benchmark and could reflect the investor's short-term expectations or views in certain sectors or geographies, like real estate, infrastructure, commodities and even fixed income. The explore portion of the portfolio typically contains investments that have lower correlations to traditional asset classes and sometimes higher volatility. Some explore options from TDAM include **TD Active Global Infrastructure Equity ETF** (TINF), **TD Global Carbon Credit Index ETF** (TCBN), **TD Active Preferred Share ETF** (TPRF), **TD Q U.S. Small-Mid Cap Equity ETF** (TQSM) and **TD Select Short Term Corporate Bond Ladder ETF** (TCSB).

The evolution of the traditional portfolio

The world has changed and so has the return outlook for major asset classes and the relationship between them. New techniques and asset classes have enabled an evolution in portfolio construction with new and innovative solutions that are better aligned with client goals and provide higher returns, with improved risk profiles. To see what ETF options are available to you, download our ETF Product Guide, available on our website **TD.com/etfs**.

The information contained herein has been provided by TD Asset Management Inc. and is for information purposes only. The information has been drawn from sources believed to be reliable. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance.

The **TD U.S. Equity Index ETF** is not sponsored, promoted, sold or supported in any other manner by Solactive AG nor does Solactive AG offer any express or implicit guarantee or assurance either with regard to the results of using the Solactive AG Indices and/or any trade mark(s) associated with the Solactive AG Indices or the prices of the Solactive AG Indices at any time or in any other respect. The Solactive AG Indices are calculated and published by Solactive AG. Solactive AG uses its best efforts to ensure that the Solactive AG Indices are calculated correctly. Irrespective of its obligations towards TDAM, Solactive AG has no obligation to point out errors in the Solactive AG indices to third parties including but not limited to investors and/or financial intermediaries of the TD Index ETFs. Neither publication of the Solactive AG Indices by Solactive AG nor the licensing of the Solactive AG Indices or any trade mark(s) associated with the Solactive AG Indices for the purpose of use in connection with the TD Index ETFs constitutes a recommendation by Solactive AG to invest capital in said TD Index ETFs nor does it in any way represent an assurance or opinion of Solactive AG with regard to any investment in the TD Index ETFs.

The **TD Canadian Equity Index ETF** is not sponsored, promoted, sold or supported in any other manner by Solactive AG nor does Solactive AG offer any express or implicit guarantee or assurance either with regard to the results of using the Index and/or Index trade mark or the Index Price at any time or in any other respect. The Solactive Canada Broad Market Index (CA NTR) is calculated and published by Solactive AG. Solactive AG uses its best efforts to ensure that the Index is calculated correctly. Irrespective of its obligations towards the Issuer, Solactive AG has no obligation to point out errors in the Index to third parties including but not limited to investors and/or financial intermediaries of the TD Canadian Equity Index ETF. Neither publication of the Index by Solactive AG nor the licensing of the Index or Index trade mark for the purpose of use in connection with the TD Canadian Equity Index ETF constitutes a recommendation by Solactive AG to invest capital in said TD Canadian Equity Index ETF nor does it in any way represent an assurance or opinion of Solactive AG with regard to any investment in this TD Canadian Equity Index ETF.

The **TD International Equity Index ETF** is not sponsored, promoted, sold or supported in any other manner by Solactive AG nor does Solactive AG offer any express or implicit guarantee or assurance either with regard to the results of using the Index and/or Index trade mark or the Index Price at any time or in any other respect. The Solactive GBS Developed Markets ex North America Large & Mid Cap CAD Index (CA NTR) is calculated and published by Solactive AG. Solactive AG uses its best efforts to ensure that the Index is calculated correctly. Irrespective of its obligations towards the Issuer, Solactive AG has no obligation to point out errors in the Index to third parties including but not limited to investors and/or financial intermediaries of the TD International Equity Index ETF. Neither publication of the Index by Solactive AG nor the licensing of the Index or Index trade mark for the purpose of use in connection with the TD International Equity Index ETF constitutes a recommendation by Solactive AG to invest capital in said TD International Equity Index ETF nor does it in any way represent an assurance or opinion of Solactive AG with regard to any investment in this TD International Equity Index ETF.

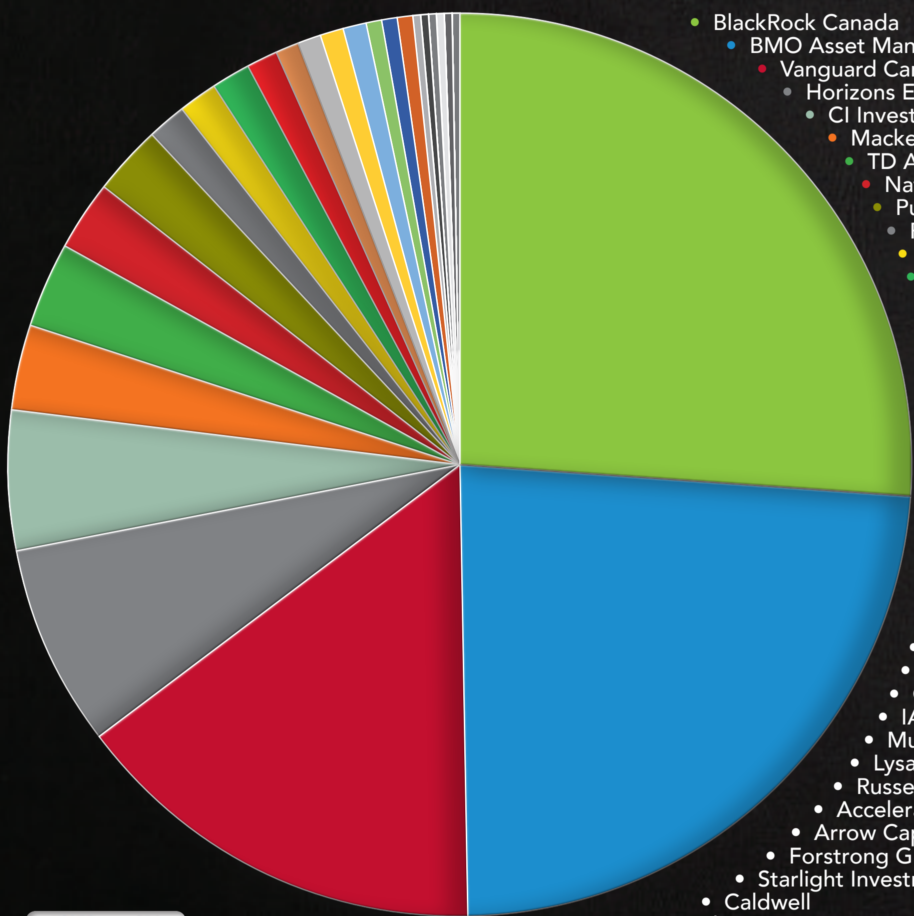
The **TD Canadian Aggregate Bond Index ETF** is not sponsored, promoted, sold or supported in any other manner by Solactive AG nor does Solactive AG offer any express or implicit guarantee or assurance either with regard to the results of using the Index and/or Index trade mark or the Index Price at any time or in any other respect. The Solactive Broad Canadian Bond Universe TR Index is calculated and published by Solactive AG. Solactive AG uses its best efforts to ensure that the Index is calculated correctly. Irrespective of its obligations towards the Issuer, Solactive AG has no obligation to point out errors in the Index to third parties including but not limited to investors and/or financial intermediaries of the TD Canadian Aggregate Bond Index ETF. Neither publication of the Index by Solactive AG nor the licensing of the Index or Index trade mark for the purpose of use in connection with the TD Canadian Aggregate Bond Index ETF constitutes a recommendation by Solactive AG to invest capital in said TD Canadian Aggregate Bond Index ETF nor does it in any way represent an assurance or opinion of Solactive AG with regard to any investment in this TD Canadian Aggregate Bond Index ETF.

The **TD Global Carbon Credit Index ETF** ("TD ETF") is not sponsored, promoted, sold or supported in any other manner by Solactive AG nor does Solactive AG offer any express or implicit guarantee or assurance either with regard to the results of using the Solactive Global Carbon Credit Index (CA NTR) ("Index") and/or any trade mark(s) associated with the Index or the price of the Index at any time or in any other respect. The Index is calculated and published by Solactive AG. Solactive AG uses its best efforts to ensure that the Index is calculated correctly. Irrespective of its obligations towards TDAM, Solactive AG has no obligation to point out errors in the Index to third parties including but not limited to investors and/or financial intermediaries of the TD ETF. Neither publication of the Index by Solactive AG nor the licensing of the Index or any trademark(s) associated with the Index for the purpose of use in connection with the TD ETF constitutes a recommendation by Solactive AG to invest capital in said TD ETF nor does it in any way represent an assurance or opinion of Solactive AG with regard to any investment in this TD ETF.

Certain statements in this document may contain forward-looking statements ("FLS") that are predictive in nature and may include words such as "expects", "anticipates", "intends", "believes", "estimates" and similar forward-looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest and foreign exchange rates, equity and capital markets, the general business environment, assuming no changes to tax or other laws or government regulation or catastrophic events. Expectations and projections about future events are inherently subject to risks and uncertainties, which may be unforeseeable. Such expectations and projections may be incorrect in the future. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied in any FLS. A number of important factors including those factors set out above can contribute to these digressions. You should avoid placing any reliance on FLS.

ETFs in Canada

ETF Assets Under Management by ETF Provider



ETF Provider	No. of ETFs	AUM ($million)
BlackRock Canada	143	109,468
BMO Asset Management	147	97,526
Vanguard Canada	37	61,630
Horizons ETFs	119	30,475
CI Investments	88	21,097
Mackenzie	50	12,914
TD Asset Management	41	11,931
National Bank	15	11,066
Purpose Investments	52	9,659
RBC Global Asset Management	41	6,107
Invesco ETFs	36	5,861
Fidelity	40	5,582
Scotia Global Asset Management	30	4,171
Harvest Portfolios	21	3,759
Hamilton ETFs	16	3,687
Evolve Funds	28	3,361
Manulife Investment Mgmt	18	2,881
CIBC Asset Management	27	2,809
PIMCO Canada	6	2,362
Desjardins Investments	18	1,880
Franklin LibertyShares	10	1,232
AGF Investments	12	1,059
Brompton Funds	11	696
Picton Mahoney Asset Mgmt	8	690
Ninepoint Partners	8	595
3iQ	2	518
Middlefield	6	463
First Trust Portfolios Canada	23	406
Bristol Gate Capital Partners	2	253
Guardian Capital LP	8	168
IA Clarington	8	128
Mulvihill Capital Management	2	82
Lysander Funds	3	82
Russell Investments Canada	3	75
Accelerate Financial	4	68
Arrow Capital Management	3	53
Forstrong Global Asset Management	4	40
Starlight Investments	2	22
Caldwell	1	4
Tralucent Asset Management	1	2
Total	**1094**	**$414,863**

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

Top Performing ETFs
Canadian Equity

ETF Name	1 Year Return
Horizons Inovestor Canadian Equity Indx ETF (INOC)	21.32%
iShares Canadian Growth Index ETF (XCG)	17.43%
Guardian Canadian Sector Controlled Equ ETF (GCSC)	17.18%
Desjardins RICdaM-fact-Net-ZeroEmissPthwETF(DRFC)	16.39%
Mackenzie Max Diversification Canada Idx ETF (MKC)	15.73%

Source: Fundata as at Dec. 31, 2023

Top Performing ETFs
U.S. Equity

ETF Name	1 Year Return
Horizons NASDAQ-100 Index ETF U$ (HXQ.U)	54.48%
BMO Nasdaq 100 Equity Index ETF (USD Units)(ZNQ.U)	54.34%
Invesco ESG NASDAQ 100 Index ETF (QQCE.F)	53.34%
Invesco NASDAQ 100 Index ETF C$ Hedged (QQC.F)	52.66%
BMO Nasdaq 100 Equity Hedged to CAD Indx ETF (ZQQ)	52.37%

Source: Fundata as at Dec. 31, 2023

Top Performing ETFs
Canadian Short Term Fixed Income

ETF Name	1 Year Return
BMO Short Corporate Bond Index ETF Accum (ZCS.L)	7.57%
iShares Short Term Strategic Fixed Incom ETF (XSI)	7.53%
Horizons Active U-Sh T Invest Grade Bond ETF (HFR)	7.41%
TD Select Short Term Corp Bond Ladder ETF (TCSB)	7.01%
Fidelity Canadian Short Term Corp Bond ETF (FCSB)	6.85%

Source: Fundata as at Dec. 31, 2023

Top Performing ETFs
Global Corporate Fixed Income

ETF Name	1 Year Return
iShares U.S. IG Corporate Bond Idx ETF U$ (XCBU.U)	9.12%
BMO Mid-Term US IG Corp Bond Ix ETF U$(ZIC.U)	8.75%
iShares U.S. IG Corporate Bond Idx ETF C$Hgd (XIG)	7.99%
TD Select US Short Term Corp Bond Lad ETF (TUSB.U)	7.74%
BMO Mid-Term U.S. IG Corp Bond Hedged to CAD (ZMU)	7.68%

Source: Fundata as at Dec. 31, 2023

Presented for information purposes only. Not intended as personalized investment advice. Securities mentioned are not guaranteed and carry risk of loss.

Bonds are back en vogue
Today's fixed income opportunities

Fixed income, especially in the current environment, offers a rare opportunity. In today's markets, where high interest rates and global economic changes are constant, the stable and reliable returns of fixed income provide an attractive option for investors who want to find a middle ground between risk and reward.

The sharp increase in interest rates shows that, after years of extremely low yields, bonds offer a strong and distinctive opportunity to benefit from both income and capital growth—a reliable and proven diversifier for any active portfolio.

While fixed income investors have faced many difficulties in the past few years, the situation has also created exciting opportunities for them today. First, investors can now lock in bond yields that are higher than they have been in the last ten years. Additionally, many segments of the fixed-income market are now valued favourably.

Why active management now

Actively managed bond ETFs, which are often less prominent than their passive counterparts, offer the distinct advantage of strategic financial expertise. They are especially well suited for the current market conditions as they combine professional guidance and market responsiveness. These solutions go beyond the usual limits of passive funds. Experienced portfolio managers can handle today's complex bond market with discernment. This active involvement gives investors the ability to act on opportunities in real time by changing their portfolios to benefit from market trends and reduce risks.

An active fixed income approach can benefit from various factors that affect bond prices and market movements, such as economic and market cycles, central bank policies, and rules that apply to institutional investors. For example, an active strategy can swiftly change interest rate exposure and sector allocation through the cycle, allowing investors to hold cheaper securities and reduce exposure to costly ones while keeping a stable bond beta.

Actively putting your money to work

Active fixed income ETFs offer three dynamic features that present several potential benefits in today's financial landscape.

Flexible in the market: Active ETFs use the same primary market mechanism as passive ETFs and trade on the same stock exchanges in the secondary market. They give investors the ability to buy and sell at any time during the day with real-time price information. This enhances liquidity and lets investors track the values of their portfolios more accurately, a real advantage in times of market volatility.

Risk management skills: Investors can benefit from the ability to evaluate and adapt to market risks, which can reduce the impact of possible downturns and increase the stability of their portfolio. An actively managed fixed income ETF can shift towards more reliable issuers and avoid those that might face downgrades. This can help maintain capital and returns in time of economic or market turmoil.

Possibility of higher returns: An active management approach lets portfolio managers find and take advantage of opportunities that passive strategies may miss. By looking for the best fixed-income securities and changing allocations based on market conditions, actively managed bond ETFs can produce higher returns over time compared to their passive counterparts.

To conclude, the prospects for fixed income investors seem very attractive. With the flexibility and adaptability of actively managed ETFs, today's fixed income market offers investors opportunities to capitalize not seen in many years.

Bond ETFs climb as rates fall

Brian Bridger
CFA, FRM

Since their arrival over two decades ago, bond ETFs have become a popular way for individual investors to gain exposure to the fixed-income market. Before that, investors could buy individual bond issues; however, this was not always feasible because of the high minimum investments, low liquidity, and lack of diversification. Fixed-income mutual funds were another option that alleviated some of these issues, but at that time, these were primarily active funds that came with sales charges as well as management expense ratios (MERs) in the 1% to 2% range. Fixed-income ETFs solved these problems by packaging bonds into low-MER funds that could be bought and sold just like stocks.

As rates increased dramatically over the past two years, fixed-income products performed very poorly. This is because bond prices move inversely with the direction of interest rates. For fixed-income products, the most common metric used to measure sensitivity to changes in rates is called "duration."

There are a few different ways to interpret duration, but the important thing to know is that the higher the duration, the more the price of a bond will fluctuate with changes in rates. In general, long-term bonds have a higher duration than short-term bonds. So, in a rising rate environment, long-term bond funds are expected to underperform short-term bond funds. As the accompanying table shows, this is exactly what has happened to Canadian bond funds across the duration spectrum.

Over the past few months, inflation has cooled, and signs have emerged that the economy is slowing down. Many investors and market participants believe that interest rates have peaked. In fact, yields at the long end of the curve have already come down off their highs and many expect that the Bank of Canada will begin cutting the overnight rate as early as March 2024. Declining rates would be welcome news for fixed-income investors after the losses they have endured. Depending on an investor's risk tolerance, here as three ETFs that stand to benefit from such a scenario.

iShares Core Canadian Short Term Corporate Bond Index (TSX: XSH) debuted in 2011 and is in the Canadian Short Term Fixed Income category. XSH seeks to replicate the performance of the FTSE Canada Universe + Maple Short Term Corporate Bond Index, which consists of investment-grade corporate bonds with maturities of between 1 and 5 years. It includes bonds issued by Canadian issuers as well as Maple Bonds, which are bonds issued in the Canadian market by foreign issuers. The duration is 2.6 years, and the trailing 12-month (TTM) yield is 3.2%. After losing 4.5% in 2022, XSH finished 2023 up 6.6%, gaining over 4% in the final two months of the year. The fund has an MER of 0.1% and is rated Low-risk.

BMO Aggregate Bond Index ETF (TSX: ZAG) is in the Canadian Fixed Income fund category, and was launched in 2010. It is designed to replicate the performance of the FTSE Canada Universe Bond Index. The index is a broad measure of the Canadian investment grade fixed-income market consisting of federal, provincial, and corporate bonds. The duration is just over 7 years, and the TTM yield is 3.5%. ZAG lost 11.8% in 2022 and was on track for another poor performance in 2023, down 1.1% through Oct 31. But a strong November and December propelled this fund to a gain of 6.7% for the year. The fund is rated Low-risk and has an MER of just 0.09%.

Vanguard Canadian Long-Term Bond Index ETF (TSX: VLB) debuted in 2017 and is in the Canadian Long Term Fixed Income category. This ETF seeks to track the Bloomberg Barclays Global Aggregate Canadian 10+ Year Float Adjusted Bond Index, a market-capitalization-weighted index of investment-grade government and corporate fixed-income securities issued in Canada with maturities of at least 10 years. The duration of VLB is close to 15 years, and it has yielded 3.7% on a TTM basis. 2022 was particularly painful for this fund, which fell 21.8%. It looked like more losses were in store for 2023 until it shot up 15% in the final two months, finishing the year with a gain of 9.2%. VLB has an MER of 0.17% and a risk rating of Low to Medium.

CIFSC Category	Duration (years)	Average 2022 Calendar Return	Average 2-Year Compound Return (as of Nov. 30)
Canadian Short Term Fixed Income	< 3.5	-3.75%	-0.16%
Canadian Fixed Income	> 3.5 and < 9	-9.64%	-4.23%
Canadian Long Term Fixed Income	> 9	-16.62%	-9.58%

Source: Fundata 2024

A+™ FUNDGRADE AWARDS

FUNDATA
FINANCIAL DATA THAT MATTERS

Brian Bridger, CFA, FRM, is Senior Vice President, Analytics & Data, at Fundata Canada Inc. and is a member of the Canadian Investment Funds Standards Committee (CIFSC). This article is not intended as personalized investment advice. Securities mentioned are not guaranteed, involve risk of loss, and are subject to commissions.

www.fundata.com

DIRECTORY

ETF Providers and Related Professionals

ETF Providers

BMO Asset Management Inc.

100 King Street West, 43rd floor
Toronto, ON
M5X 1A1
Contact: Kevin Prins,
Managing Director, Head of Distribution for ETFs and Managed Accounts
Email: kevin.prins@bmo.com

BMO Exchange Traded Funds (ETFs) Established in June 2009, BMO Financial Group's ETF business is a leading ETF provider in Canada. Since its inception, BMO ETFs has grown to over 100 funds, and includes several industry firsts. The ETFs provide Canadian investors with broader choices and greater access to an innovative portfolio of investment products. BMO ETFs have over $94.5 billion in assets under management, as of August 31, 2023.

Website: bmo.com/etfs

BMO ETFs are managed and administered by BMO Asset Management Inc., an investment fund manager and portfolio manager and separate legal entity from the Bank of Montreal. Commissions, management fees and expenses all may be associated with investments in exchange traded funds. Please read the prospectus before investing. Exchange traded funds are not guaranteed, their values change frequently and past performance may not be repeated.

Dynamic Funds

Dynamic Funds
40 Temperance Street, 16th Floor
Toronto, ON M5H 0B4

Dynamic Funds, a division of 1832 Asset Management L.P., is one of Canada's most recognized asset management firms. We offer a comprehensive range of actively managed wealth solutions, including mutual funds, ETFs, hedge funds, alternative strategies, and managed asset programs.

Website: dynamic.ca

Fidelity Investments Canada ULC

483 Bay Street, Suite 300
Toronto, ON M5G 2N7

For over 30 years now, Fidelity Investments Canada (FIC) has been providing Canadian investors with a full range of innovative, performance driven investment products.

Learn more at **fidelity.ca**

Franklin Templeton Canada

200 King St. West, Suite 1400
Toronto, ON
M5H 3T4
1-800-387-0830

Franklin Resources, Inc. [NYSE:BEN] is a global investment management organization with subsidiaries operating as Franklin Templeton and serving clients in over 155 countries. In Canada, the company's subsidiary is Franklin Templeton Investments Corp., which operates as Franklin Templeton Canada. Franklin Templeton's mission is to help clients achieve better outcomes through investment management expertise, wealth management and technology solutions. Through its specialist investment managers, the company offers boutique specialization on a global scale, bringing extensive capabilities in equity, fixed income, multi-asset solutions and alternatives.

Website: www.franklintempleton.ca

IA Clarington Investments Inc.

522 University Avenue, Suite 700
Toronto, ON
M5G 1Y7
Head Office: (toll free)1-888-860-9888
(local) 416-860-9880

Fax: 416-860-9884

Email: funds@iaclarington.com

One of Canada's leading investment management companies, iA Clarington brings clarity, integrity and commitment to a complicated global investment landscape. We offer a wide range of investments to individual investors through their advisors, including **Active ETF Series**.

Website: www.iaclarington.com

Invesco

120 Bloor Street East, Suite 700
Toronto, Ontario
M4W 1B7
Phone: 1-800-874-6275
Email: inquiries@invesco.ca

Invesco is a global independent investment management firm dedicated to delivering an investment experience that helps people get more out of life. Our distinctive investment teams deliver a comprehensive range of active, passive and alternative investment capabilities.

Website: www.invesco.ca

Mackenzie Investments

180 Queen Street West
Toronto, ON M5V 3K1
Email:
ETFInquiries@mackenzieinvestments.com

Mackenzie Investments' ETFs are part of our commitment to bring the best offerings to advisors and help them meet investor needs.

mackenzieinvestments.com/ETFs

Manulife Investment Management

Manulife Mutual funds
500 King St North, Del Stn 500 G-B
Waterloo,
ON N2J 4C6
Phone: 1-888-588-7999
Email:
manulifemutualfunds@manulife.com

Manulife Investment Management is the global wealth and asset manage-ment segment of Manulife Financial Corpora-tion. We draw on more than a century of financial stewardship and the full resources of our parent company to serve individuals, institutions, and retirement plan members worldwide. Headquartered in Toronto, our leading capabilities in public and private markets are strengthened by an investment footprint that spans 18 geographies. We complement these capabilities by providing access to a network of unaffiliated asset managers from around the world. We're committed to investing responsibly across our businesses. We develop innovative global frameworks for sustainable investing, collaboratively engage with companies in our securities portfolios, and maintain a high standard of stewardship where we own and operate assets, and we believe in supporting financial well-being through our workplace retirement plans. Today, plan sponsors around the world rely on our retirement plan administration and investment expertise to help their employees plan for, save for, and live a better retirement.

Website: manulifeim.ca/etfs

National Bank Investments

1155, Metcalfe street, 5th Floor
Montreal, QC H3B 4S9

National Bank Investments Inc. (NBI) is an investment fund management firm committed to manufacturing and distributing mutual funds, exchange-traded funds, investment solutions and services designed to help Canadian investors pursue their financial goals. National Bank Investments Inc. is a wholly owned subsidiary of National Bank of Canada.

As a key partner in the investment industry, our strength lies in designing investment solutions that provide strong risk-adjusted returns, for all investor profiles. Guided by an open architecture structure, NBI strives to select the best investment talent and sub-advises to other firms the portfolio management of the funds built for our product shelf.

Website: nbinvestments.ca/etf

TD Asset Management Inc.

161 Bay Street
Toronto, ON
M5J 2T2

TD Asset Management Inc. (TDAM) is a leading asset manager in Canada with an expanding global presence. We offer an extensive suite of innovative solutions designed to provide better risk-adjusted returns and have a long track record of helping investors reach their investment goals. We have been in business for more than three decades, and over that time the investment landscape, investor needs, and our range of offerings have all evolved. What has remained consistent is our focus on quality, our risk management discipline, and our commitment to our clients. TDAM manages assets on behalf of about 3 million retail investors and offers a broadly diversified suite of investment solutions including mutual funds, exchange-traded funds, and professionally managed portfolios. Collectively, TDAM manages C$408 billion in assets as of Sept. 30, 2023.

Contact: Jonathan Needham,
Vice President and Director Lead of ETF Distribution
Email: jonathan.needham@td.com

Website: td.com/etfs

Data Provider

Fundata Canada Inc.

38 Lesmill Road
Toronto, ON
M3B 2T5
Phone: 416-445-5534
Email: sales@fundata.com
Contact: Jocelyn Courcelles

Expertise, industry intelligence and the most comprehensive investment fund database enable Fundata to offer valuable data driven analytical solutions customized for specific needs of clients.

Website: www.fundata.com

Resources

Canadian ETF Association

Phone: 647-256-6637
Contact: Pat Dunwoody,
Executive Director
Email: patdunwoody@cetfa.ca

Website: www.cetfa.ca