March 9, 2023 | Volume 29 | Issue 3

ETF UPDATE

Please perform your own due diligence before making investment decisions. The contents of this newsletter do not constitute a recommendation to buy or sell securities.

IN THIS ISSUE

Market Radar		
Markets	TSX Composite	S&P 500
P/E	13.55	19.82
Yield (%)	3.52	2.21
YTD Performance (%)	3.19	1.69
Top Performers	**ETF**	**Mutual Fund**
1-Month	Emerge ARK Global Disruptive Innovt ETF	CRIMSON Capital Growth LP
YTD	Purpose Bitcoin CAD ETF Non-Curr Hdg	FGP Small Cap Canadian Equity D
3-Year	Horizons Global Uranium ETF	Ninepoint Energy Series F

Market data as of March 9th, 2023; top performers as of month-end.

A New Face

By Barkha Rani, CFA

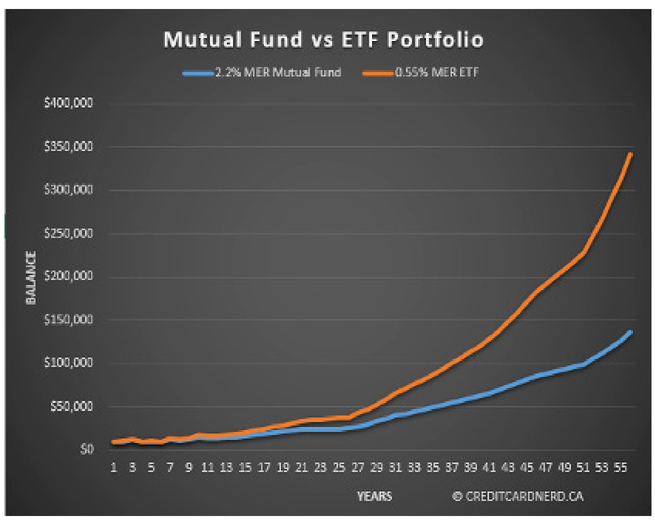
As you may have noticed, we have a new logo and refreshed look for the ETF Letter. Along with this change is a renewed focus specifically on Exchange Traded Funds (ETF's). While the tempo and content will largely remain the same, with the surging popularity in ETF's and the fact that there are more ETFs than there are stocks trading publicly, we think everyone will benefit from a more concise focus on the ETF space going forward.

There are numerous and interesting ETF's available to investors, some which we discuss in this issue, and we are excited by the opportunity to be able to cover even more of these opportunities in future issues. Gone are the days when an ETF was just a low-cost avenue to own an index. The space has evolved to offering unique income solutions, all-in-one portfolios, niche sectors or themes, active strategies, and even target date ETFs. We think there is plenty of ground to cover here for everyone and are excited to dig in even more, so let's get started!

While not a blanket statement, ETFs offer far more favourable benefits compared to mutual funds. Some of the benefits are itemized below:

Lower fees

Mutual funds (no-load) can be purchased without trading fees but carry redemption fees and load fees. In addition, the management expense ratio (MER) charged by mutual funds tends to be higher than the fees charged by ETFs. While the fee percentage difference might seem small, the differences add up over time with a compounding effect. For example, $10,000 invested in a sample broad market mutual fund and ETF with returns strategies, we see stark differences, as illustrated below:



Tax Efficiency/Control over capital gains

The sale of units of mutual funds may trigger capital gains for shareholders. The sale of securities to dissolve mutual fund units can also impact those unitholders that may have an unrealized loss on the mutual fund units.

The differences between mutual funds and ETFs are closing. While ETFs were originally known for their passive indexing strategies, they are now increasingly offering active management strategies. On the other hand, minimum investments for mutual funds are decreasing, making them more accessible to investors. Additionally, we are seeing more ETFs that are no longer concentrated in a particular sector or asset class. All-in-one ETFs are garnering more attention and offer diversification benefits across sectors, geographies, and asset classes.

Given these developments, it is not surprising that ETFs have become a popular investment vehicle for many investors. The lower expense ratio, greater flexibility in trading, and better tax efficiency are only some reasons why. Furthermore, the expanding range of ETF offerings and the race to low fees allows investors to build diversified portfolios at a fraction of the cost compared to mutual funds offering investors a chance to enhance their investment portfolios and returns.

Evolve Cyber Security Index Fund (CYBR)

by Chris White, CFA

What is Cybersecurity?

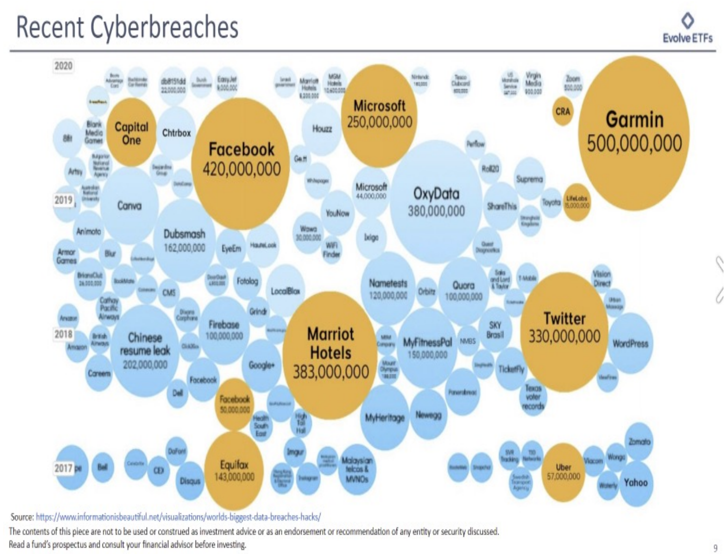
Cybersecurity is a line of defence against the rising incidents of cybercrimes. Criminals/hackers primarily hack to gain money. These hackers can steal money by obtaining bank account information or credit card information from individuals, then stealing a user's data and selling it to someone else online (personal login information, credit card numbers), or they can lock an individual out of their applications and ask for a ransom to give back access. Cybercriminals use malicious software, commonly known as malware, to gain access to a device. From there, hackers can steal personal and banking information and use any of the methods above to steal money.

This is where cybersecurity comes into play. Cybersecurity can be software or hardware that protects computer systems, networks, and programs from cybercrime. It is the implementation of technology and processes to prevent unwarranted access and to protect data.

The Rise of Cyber Threats and Increasing Need for Cybersecurity

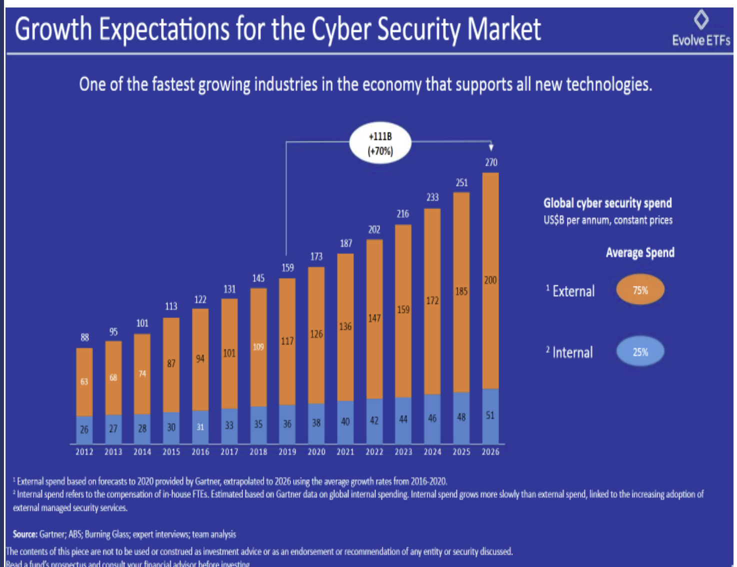
There is expected to be a rapid rise in spending on cybersecurity over the next five to ten years because of the economy's increasing reliance on technology and the resulting rise of cybercrimes. Spending on cybersecurity is being driven by protection for individuals, governments, and corporations.

Cyberattacks occur all the time, and a lot of these attacks are not known to the public. In December 2022, a live-streaming service, FuboTV, reported that it experienced a cyberattack while its customers were attempting to watch a World Cup match, and its services were compromised by hackers. FuboTV took action to restore its services and hired a cybersecurity company to assist with diagnosing the attack and response. It is believed that one of the main risks facing companies today is cybercrime. Below is a map of cyberattacks that occurred to major enterprises in 2020.



Source: CYBR Presentation

Cybersecurity has been touted as one of the fastest-growing industries in the economy that impacts all sectors—individuals, corporations, and governments. Between 2019 and 2026, it is anticipated that global spending on cybersecurity initiatives will increase by a total of 70%.



Source: CYBR Presentation

CYBR ETF Details

The Evolve Cyber Security Index Fund (CYBR) holds investments in companies that are located internationally and are involved in the cybersecurity industry through hardware and software development. The fund is comprised of companies mostly in the U.S. (67%), partially in Israel (14%), Japan (7%), China (5%), and the remainder across the rest of the world.

GEOGRAPHIC ALLOCATION	
UNITED STATES	67%
ISRAEL	14%
JAPAN	7%
CHINA	5%
BRITAIN	2%
AUSTRALIA	2%
DENMARK	1%
CANADA	1%

Source: Evolveetfs.com

The CYBR ETF has an inception date of September 2017, and currently, it has approximately $145.9 million in assets under management. The Management Expense Ratio (MER) is quite reasonable at 0.40%, and the fund also pays a distribution yield of 0.40%. The holdings of the fund are fairly concentrated, with only 39 holdings, but we feel that this is an appropriate number for the small but growing list of cybersecurity companies. It is a burgeoning field, and within it, there will undoubtedly emerge a few winners.

Fund Details	Value
Net Assets Under Management	$145.9M
Management Fee	0.40%
Inception Date	18-Sep-17
Distribution Yield	0.40%
Distribution Frequency	Monthly
Holdings	39

Source: Evolveetfs.com

CYBR Historical Performance

Since its inception, CYBR has outperformed the S&P/TSX index and has posted an annual return of 8.93% since inception. On a one-year basis, the fund has declined by close to 37%, showcasing the volatility of the industry against the broader markets, but over a longer period of time, its outperformance becomes clearer.

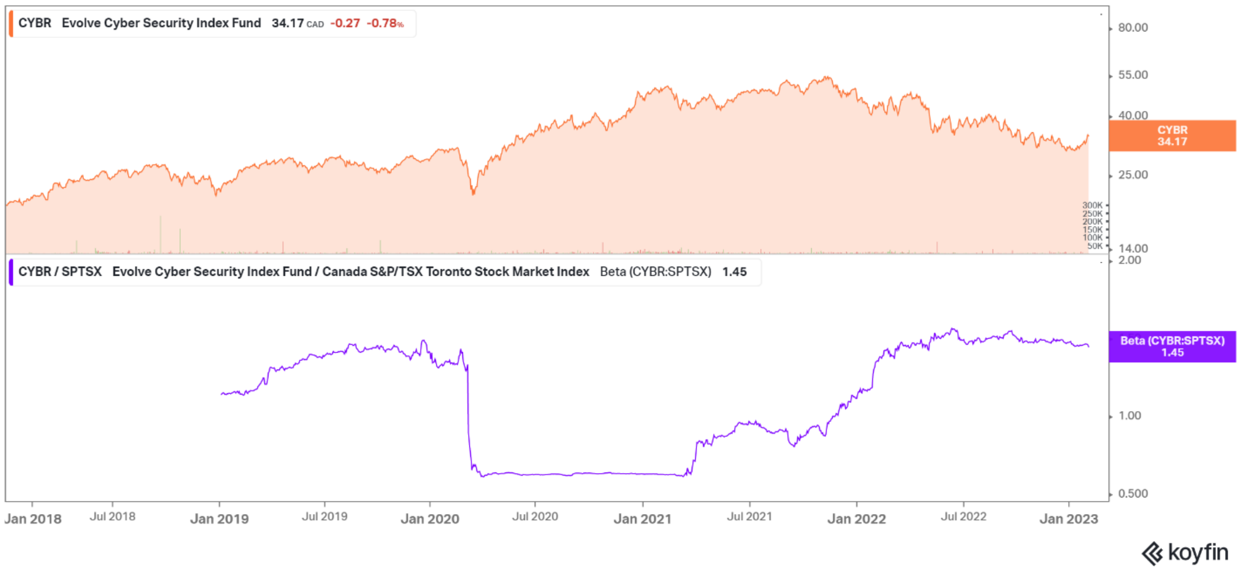
TOTAL RETURN PERFORMANCE[1] (%)

TSX TICKER	1 YEAR	2 YEAR	3 YEAR
CYBR	-36.63	-18.15	3.52

4 YEAR	5 YEAR	SINCE INCEPTION*
8.43	8.55	8.93

Source: Bloomberg, as at Dec 31, 2022. Performance since inception of CYBR on Sept 18, 2017

The fund currently has a beta of ~1.45 against the S&P/TSX index, and a large part of this high volatility against the broader markets stems from its larger decline in 2022. Its high beta compared to the markets can, in the best times, play to an investor's advantage, while in the hard times (such as 2022), it can work against investors. We feel that despite the fund's recent volatility and high beta levels, the long-term prospects



of the industry are clear and investing in a basket of securities in an emerging industry is a good way to gain exposure.

Who is this ETF suitable for?

While the cybersecurity industry has cemented its importance in the economy, most companies in the field are in their infancy, and there is no clear winner in the industry yet. These are companies that are likely to see growing demand and importance, but revenues can fluctuate, and profits may take a backseat due to a push for higher growth. Due to the industry's nature of high growth and recency, we feel that this ETF is suitable for those investors seeking growth and that have a long timeframe. The industry has a high probability of success over the long-term, but there is no guarantee that any or all of the companies in this ETF will succeed. If an investor feels passionate about the long-term prospects of cybersecurity, coupled with the emergence of new companies focused on this growing field, we feel that this ETF is a good choice.

Key Takeaways

No one can predict the future, but the growing need for and importance of cybersecurity as we embark on an increasingly digital age is evident. Cybersecurity is important for individuals, corporations, and governments, and spending in this area is projected to continue to grow. The larger a company or government is, the more important proper protection of their digital information becomes.

The CYBR ETF allows investors to gain exposure to a nascent and growing field that protects different layers of entities (the government down to the individual) and their digital information. The ETF has a concentrated number of holdings (39 stocks). However, it is also well-diversified geographically. CYBR has outperformed the broader TSX market since its inception in 2017 while also displaying a higher sensitivity to the macro environment. We feel that the CYBR ETF is relevant for those investors looking for potentially higher rates of growth as well as benefiting from the long-term trend in cybersecurity.

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ETFMU Model Portfolios Update

by Richard Morrison, CIM

Many Exchange-Traded Funds (ETFs) with excellent long-term records delivered losses in 2022, testing their investors' risk tolerance. So far this year, however, most ETFs are showing signs of life, with 34 of 36 funds in the three model portfolios generating positive returns as of mid-February 2023. Some funds that suffered setbacks in 2022 have since surged, including ETFs that focus on Technology, Global Discretionary Consumer Spending and Real Estate Investment Trusts (REITs).

The funds are, of course, riding the rebound in their constituent names. In Canada, for example, roughly a dozen large-cap companies that suffered major losses in 2022 have generated gains of more than 20% as of mid-February.

In the United States, giants such as Tesla, up 63% so far in 2023, Nvidia, up 45%, Advanced Micro Devices, up 20% and Apple, up 17%, have helped lift the tech-heavy Nasdaq index to a year-to-date gain of about 11.5%. Other giant U.S. listed corporations that have surged include Salesforce, up 23%, together with Taiwan Semiconductor and Walt Disney, both up more than 20% so far this year.

Although it's always a bad idea to focus on short-term performance, two of the three ETFMU Model Portfolios shown here have outperformed the Vanguard ETF benchmarks so far in 2023. The Conservative ETF Portfolio has generated a total return (gains plus dividends) of 3.91% as of mid-February compared to the benchmark's gain of 3.33%, and the Balanced ETF Portfolio produced a total return of 4.73% versus the benchmark's 4.14%. The Growth Portfolio has lagged the Vanguard benchmark in the first part of 2023, however, with a total return of 5.73% versus the benchmark's 11.74%.

Here is a brief description of some ETFs in the model portfolio that have excellent three-month and year-to-date returns.

iShares Core MSCI EAFE IMI Index ETF (XEF)

This iShares fund, launched in April 2013, has $5.962 billion invested in a huge basket of 2,600 stocks from the developed countries that make up the Morgan Stanley Capital International (MSCI) Europe, Australasia and the Far East (EAFE) index.

The fund appears in all three model portfolios, representing 6.67% of the Conservative, 9.94% of the Balanced and 7.47% of the Growth Portfolios. XEF has been a short-term standout, achieving total returns of 17.93% over three months and 6.97% so far in 2023.

The fund's top holdings include familiar names such as Nestle SA, Shell PLC, and Toyota Motor Co., together with an assortment of companies in the Financial, Industrial, Healthcare and Consumer Discretionary sectors. Almost 23% of the fund's huge portfolio is made up of Japanese names, with 15% from the U.K., 11% from France and smaller weightings in Switzerland, Australia, Germany, the Netherlands, Sweden, Hong Kong and Denmark. The companies trade at an average of 13.38 times earnings per share and 1.69 times book value per share. The fund's unit price climbed sharply between mid-September and mid-December 2022, slumped for a couple of weeks, and then began climbing again. An investor who put $10,000 into the fund at its inception in 2013 would have had about $22,000 at the fund's peak in the autumn of 2021 before settling back to about $17,000 last fall and finally returning to about $21,000 in mid-February.

The fund carries a 0.22% Management Expense Ratio (MER) while its semi-annual distribution has a 12-month trailing yield of 2.76%.

The Canadian dollar hedged version of the fund is available under the ticker XFH.

BMO Covered Call Canadian Banks ETF (ZWB)

This actively managed fund deserves special mention for its generous monthly distributions, which produce a dividend yield of 7.35%, the highest of any fund in the model portfolios. The fund appears only in the Conservative portfolio, where it represents 4.87% of the model, and has generated returns of 6.19% over three months and 8.11% so far in 2023.

After analyzing each bank's implied volatility—the market's prediction of how a security's price is likely to move—managers at BMO Global Asset Management write out-of-the-money covered call options on Canadian banks that are rolled forward on expiry, generating premium income that helps provide downside protection and reduce volatility. In most years, the fund has achieved high single-digit returns, with last year's downturn creating a loss of only 8.07%. The portfolio is adjusted every June and December.

Launched in 2011, the fund has 23.8% of its $2.944 billion in assets allocated to the BMO Equal Weight Banks Index and between 11% and 14% in each of the six major Canadian banks. The fund carries a MER of 0.71%.

BMO Equal Weight REITs Index ETF (ZRE)

Another fund that appears only in the Conservative portfolio, the actively managed ZRE, has $655 million allocated among 23 Canadian REITs, each given a fixed weight of about five per cent in the portfolio. The fund is diversified, with about 36% in Retail, 27% in Residential and 14.4% in Industrial REITs, and one or two holdings in each of the Office and Healthcare sectors.

As interest rates began climbing last year, REITs fell, taking the fund's unit price down by almost 20% in 2022. Since then, fears about further rate hikes appear to have subsided, and the fund's total return was more than 10% as of mid-February 2023.

The fund carries a MER of 0.61% against a monthly distribution that yields a high 4.56%, making it suited for income-seeking investors.

iShares Global Consumer Discretionary ETF (RXI)

This fund, launched in September 2006, has US$258.6 million invested in 141 companies whose revenue depends on consumers' tastes for non-essential products and services. The fund's top holdings include giant online retailers, makers of cars and clothes, together with home improvement and restaurant chains.

The share prices of many of the Consumer Discretionary names in the fund have jumped so far this year, making RXI the top performer among all the ETFs in the three model portfolios, with a total return of 13.13% as of mid-February 2023.

Last year was a particularly unpleasant one for RXI, with total returns of a painful -28.41%. The slump tarnished the fund's longer-term performance record, as its total returns fell to 2.61% over three years. Over longer periods, however, unitholders enjoyed returns of 22.26% over the past five years and a full 134.17% since the beginning of 2012. An investor who put US$10,000 into the fund at its inception in 2006 would have about $36,000 as of mid-February, while someone who put US$10,000 into the fund on January 1 of 2023 would already be substantially ahead, with US$11,406, a reflection of the recent resurgence in the Consumer Discretionary sector.

The fund carries a MER of 0.4% and pays a dividend that yields 0.88%.

iShares Nasdaq 100 Index ETF C$ Hedged (XQQ)

Launched in May 2011, this fund has $1.832 billion invested in the 100 largest companies that trade on the Nasdaq. Unitholders indirectly own stakes in tech giants such as Microsoft Corp., Apple Inc., Amazon.com Inc., Nvidia Corp., Tesla Inc., Alphabet Inc. (Google), Meta Platforms Inc. (Facebook) and 93 other big names, most in the Technology sector.

The Nasdaq 100 was up by more than 15% between January 1 and mid-February 2023, helping to give XQQ a total return of 10.36% so far this year and making considerable inroads against the drop of nearly 20% in 2022. Last year's setback dragged down the fund's excellent long-term returns to merely very good: 9.37% over three years, 10.81% over five years and 15.94% over ten years.

An investor who put $10,000 into the fund at its inception would have $52,533 as of mid-February, while someone who put $10,000 into the fund at the beginning of this year would have $11,363.

The fund has an MER of 0.39%, roughly the same as its distribution yield.

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ETFMU Model Portfolios (As of Feb 13, 2023)

Name	Ticker	Portfolio Weight (%)	3-Mo Return (%)	YTD Total Return (%)	Dividend Yield (%)
Conservative ETF Portfolio		**100.00**	**4.54**	**3.91**	**3.36**
iShares Interest Rate Hedged High Yield Bond ETF	HYGH-US	9.51	0.86	0.80	8.36
Vanguard US Dividend Appreciation Index ETF	VGG-T	12.08	2.95	1.35	1.72
iShares 1-5 Year Laddered Government Bond Idx ETF	CLF-T	9.02	1.94	1.38	2.16
BMO Equal Weight Utilities Index ETF	ZUT-T	6.11	-2.22	2.26	4.02
BMO Aggregate Bond Index ETF	ZAG-T	19.68	4.12	2.82	3.53
BMO S&P 500 Index ETF	ZSP-T	15.29	3.07	4.42	1.47
iShares Core MSCI EAFE IMI Index ETF	XEF-T	6.67	17.93	6.97	2.16
iShares S&P/TSX 60 Index ETF	XIU-T	6.75	7.25	7.40	0.00
iShares S&P/TSX Cdn Preferred Share Idx ETF-Com	CPD-T	4.73	4.01	7.65	5.37
BMO Covered Call Canadian Banks ETF	ZWB-T	4.87	6.19	8.11	7.35
BMO Equal Weight REITs Index ETF	ZRE-T	5.29	15.33	10.17	4.56
			Vanguard ETF Benchmark	**3.33**	
Name	**Ticker**	**Portfolio Weight (%)**	**3-Mo Return (%)**	**YTD Total Return (%)**	**Dividend Yield (%)**
Balanced ETF Portfolio		**100.00**	**5.91**	**4.73**	**2.24**
Vanguard US Dividend Appreciation Index ETF	VGG-T	6.05	2.95	1.35	1.72
iShares 1-5 Year Laddered Government Bond Idx ETF	CLF-T	4.51	1.94	1.38	2.16
iShares Core US Aggregate Bond ETF	AGG-US	7.56	4.01	1.76	2.75
BMO Aggregate Bond Index ETF	ZAG-T	16.44	4.12	2.82	3.53
CI Morningstar Can Momentum Idx ETF	WXM-T	11.88	3.25	3.75	2.52
BMO S&P 500 Index ETF	ZSP-T	12.22	3.07	4.42	1.47
Vanguard FTSE Emerging Markets All Cap Index ETF	VEE-T	4.47	18.01	6.34	5.65
iShares Core MSCI EAFE IMI Index ETF	XEF-T	9.94	17.93	6.97	2.16
iShares S&P/TSX 60 Index ETF	XIU-T	15.33	7.25	7.40	0.00
iShares S&P/TSX Cdn Preferred Share Idx ETF-Com	CPD-T	4.52	4.01	7.65	5.37
iShares Russell 2000 Growth ETF	IWO-US	5.34	2.25	8.32	0.87
iShares US Technology ETF	IYW-US	1.74	6.08	9.32	0.69
			Vanguard ETF Benchmark	**4.14**	
Name	**Ticker**	**Portfolio Weight (%)**	**3-Mo Return (%)**	**YTD Total Return (%)**	**Dividend Yield (%)**
Growth ETF Portfolio		**100.00**	**6.62**	**5.73**	**1.76**
iShares Global Healthcare Index ETF (CAD-Hedged)	XHC-T	5.84	0.54	-1.51	0.79
iShares Global Consumer Staples ETF	KXI-US	3.09	6.31	-0.07	1.98
iShares 1-5 Year Laddered Corporate Bond Index ETF	CBO-T	4.48	2.95	1.74	2.64
BMO Aggregate Bond Index ETF	ZAG-T	8.24	4.12	2.82	3.53
CI Morningstar Can Momentum Idx ETF	WXM-T	11.90	3.25	3.75	2.52
BMO S&P 500 Index ETF	ZSP-T	12.25	3.07	4.42	1.47
Vanguard FTSE Emerging Markets All Cap Index ETF	VEE-T	5.38	18.01	6.34	5.65
iShares Core MSCI EAFE IMI Index ETF	XEF-T	7.47	17.93	6.97	2.16
Vanguard Global Value Factor ETF	VVL-T	6.18	11.19	7.22	2.39
iShares S&P/TSX 60 Index ETF	XIU-T	11.57	7.25	7.40	0.00
iShares Russell 2000 Growth ETF	IWO-US	5.35	2.25	8.32	0.87
iShares NASDAQ 100 Index ETF (CAD-Hedged)	XQQ-T	12.71	5.93	10.36	0.41
iShares Global Consumer Discretionary ETF	RXI-US	5.53	13.91	13.13	0.88
			Vanguard ETF Benchmark	**11.74**	

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