June 12, 2023 | Volume 29 | Issue 6

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	14.09	22.72
Yield (%)	3.58	2.08
YTD Performance (%)	2.41	12.22
Top Performers	**ETF**	**Mutual Fund**
1-Month	CI Global Alpha Innovation ETF USD Hdg	TD Science & Technology D
YTD	Bitcoin ETF USD	FGP Small Cap Canadian Equity D
3-Year	iShares S&P/TSX Capped Energy ETF	Ninepoint Energy Series F

Market data as of June 12th, 2023; top performers as of month-end.

Horizons Seasonal Rotation ETF (HAC)

By Chris White, CFA

What is the Seasonal Rotation ETF (HAC)?

Let's face it, the stock market is cyclical, and while most investors have heard the expression "Time in the market is better than timing the market", we have all been tempted to take advantage of shorter-term opportunities in the market. While market timing may not always work, there are clear data points that suggest certain periods of the year display an outperformance/underperformance relative to other months of the year.

The Horizons Seasonal Rotation Exchange-Traded Funds (ETF) (HAC) is a fund whose goal is to deliver absolute returns in any market condition using its proprietary seasonal rotation investment strategy. The fund has a core position that invests in the broad North American markets at favourable times of the year (based on historical data) and money market funds at seasonally unfavourable times of the year. When opportunities arise in various sectors of the market due to historically favourable instances, the fund rotates part of its core portfolio into those areas. The fund generally has a low correlation with the broader markets, as it rotates in and out of money market securities at different times of the year. Largely, it is an interesting ETF for those looking to capitalize on the seasonal cyclicality of the markets.

The Fund's Strategy

As data comprehension advances and our ability to process and analyze the markets improve, there is a growing body of evidence that points toward a seasonal rotation strategy having the ability to outperform buy-and-hold investing. A few of the more notable seasonal trends include: "Sell in May and go away" or "The Halloween effect". For those unversed, the "Sell in May" effect is a result of a historically weak stock market performance for the month of May, typically lasting from May until October. The "Halloween effect" suggests that from November to April, the markets perform better than the rest of the year.

An illustration of the fund's strategy is outlined in Figure 1. Between October to May, the fund holds its core position in the broader markets (S&P 500 and the TSX), whereas in the historically unfavourable season of May to September, it holds a core position of money market funds, and throughout the entire year it may shift some of its core position into various sectors that have seasonally strong returns.

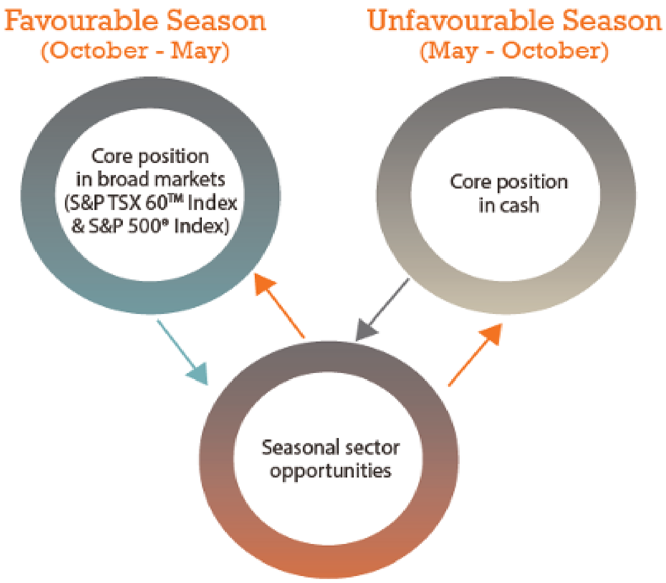

Figure 1, Source: Horizons HAC ETF Product Sheet

As an example of how the fund tactically enters and exits specific sectors throughout the year as opportunities arise, in late April of 2023, HAC exited its Materials sector position as January to early May is typically a period of strong returns for Materials. In late April 2023, it also exited its Industrials and Utilities sectors, as they showed strong performance up until late April to early May. The fund also reduced its broader U.S. stock market exposure, as May historically exhibits a period of weakness. The fund was allocated to Consumer Staples as this sector has shown a strong seasonal performance from mid-April until late October.

To exemplify the seasonal trends that HAC is attempting to take advantage of, we have calculated the historical average performance for each month of the year for the S&P 500 from 1927 until the end of April 2023 in Figure 2. It can be seen that the average returns from October through April are quite strong and that May, on average, is an underperforming month. September also tends to be an underperforming month, and the fund attempts to capitalize on this trend by holding a core cash position throughout this period.

Details of the Fund

The ETF has been around since 2009 and has demonstrated its resilience throughout many different types of markets. It has Assets Under Management (AUM) of $183.4 million, a small distribution yield of ~0.4%, which is paid out annually, but it also has a high management fee since it is a more active fund. HAC invests mostly in ETFs to gain exposure to the broad markets or specific sectors of the market, but it also can use short selling strategies, or pairs trading strategies, which cause the fund's Management Expense Ratio (MER) to be higher than average. The fund also incorporates a performance fee equal to 20% of the amount of which the performance of the fund exceeds the High-Water Mark and if the annualized return of the fund is greater than 5%.

Performance of the ETF

Since the fund's inception, it has outperformed the Canadian market, the S&P/TSX, although it has underperformed the U.S. market, and the S&P 500. Although, it has also exhibited much lower volatility than both the TSX and the S&P 500, and we feel that this is a feature that helps to offset some of its underperformance. It is also interesting to note that prior to 2020, HAC traded in tandem with the S&P 500 and

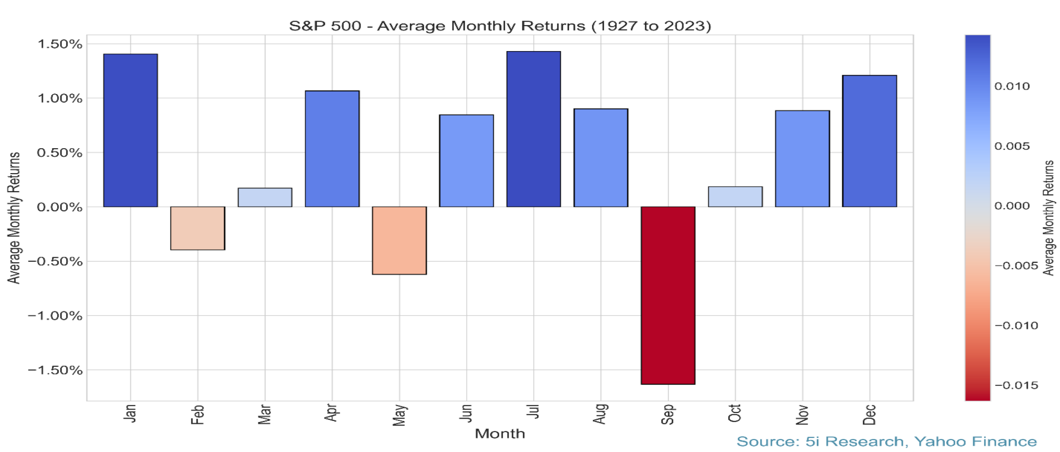

Figure 2

Fund Details	Value
Net Assets Under Management	$183.4M
Management Fee	1.24%
Distribution Yield	0.37%
Distribution Frequency	Annual
Performance	
3-Month	-2.9%
6-Month	4.1%
YTD	3.8%
1-Year	2.6%

Figure 3, Source: Horizons ETF website

demonstrated periods of outperformance while also exhibiting lower volatility.

Summary of the Fund and Suitability

The HAC ETF attempts to capitalize on the cyclical nature of the stock market and some of the recurring behavioural patterns of investors. Many have tried to explain the reasons why certain periods of the year are stronger than others, and we believe there is some validity to this, but staying invested and a "buy-and-hold" strategy has typically outperformed market timers. This ETF is suitable for investors looking to achieve a reasonable annual return with lower levels of volatility than the broad markets and those investors who would like to take advantage of short-term opportunities in the market.

The historical data speaks for itself, showing a trend of outperformance between the months of October to May and underperformance between May to October. The fund does carry a high MER and has a performance fee, but we feel that this is mostly justified given its strong track record of performance and the level of activity required in the fund. We feel that this is an interesting ETF for an investor looking to profit from the cyclical behavioural patterns of a broad base of investors.

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ETFs for Canadian Investors to Park U.S. Cash

By Chris White, CFA

The Importance of USD Exposure in a Canadian Investor's Portfolio

The U.S. is the world's largest economy, and the U.S. dollar (USD) plays a critical role in international trade and settlement. The USD is considered the world's reserve currency and is held by central banks across the globe and is used to settle important transactions such as oil trades. Canadian investors often hold both Canadian dollars (CAD) and USD as a method of diversification and for leisure purposes such as travel and the purchasing of goods and services.

Many Canadian investors have exposure to the USD through either direct ownership of USD in an investment account or by way of holding USD-denominated stocks. Exposure to the USD for Canadian investors can play an important role in the diversification of one's portfolio. Investors can reduce risk and even enhance portfolio returns by holding USD. The currency fluctuation of the USD against the CAD can act in an investor's best interests to enhance their purchasing power, as well as hedging against potential economic downturns in the Canadian economy. Traditionally, the U.S. dollar has been viewed as a risk-off, safe-haven instrument in events of economic uncertainty. The U.S. economy is one of the strongest globally and, relative to Canada, is much more diversified.

In the graph below, we have demonstrated the relative historical strength of the USD against the CAD since the early 1970s, as well as the annual percentage gains/(losses). In the top panel, we demonstrate the USD/CAD currency pair since 1971. We can see that in the early 1970s, for every one USD, it cost roughly one CAD (parity 1:1). However, as the years progressed, the trading pair shifted higher and hit as high as $1.60 in 2002 (it would cost $1.6 CAD to purchase $1 USD). The pair hit parity once again between 2008 to 2012. However, it has since regained its strength. What these graphs below demonstrate to us is that there have been very few instances

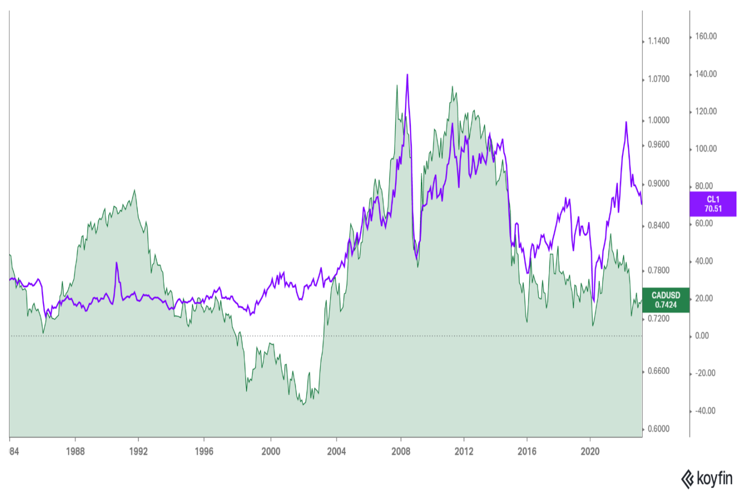
where the USD has shown weakness against the CAD, and historically, a Canadian investor would have benefited and increased their purchasing power by owning USD.

History of USD Relative Strength to the CAD

There are many factors that contribute to why the USD has historically been stronger than the CAD, including the overall relative strength of the U.S. economy, its relatively attractive interest rates, and a more broadly diverse economy.

Compared to the U.S., the Canadian economy is currently heavily reliant on the oil and gas industry, as well as the housing market. The sensitivity of the housing market to interest rates has kept Canadian interest rates lower than the U.S., resulting in a strengthening of the USD compared to the CAD. The value of the CAD is highly correlated to the price of commodities, particularly oil, due to Canada's reliance on oil and gas. As a result, the price of oil can determine the overall health of the Canadian economy and, therefore, the CAD.

Over the past couple of decades, we have seen the Canadian dollar move in a highly correlated fashion to the price of oil. In the chart below, we demonstrate the correlation between the price of oil (purple line) against the Canadian dollar relative to the USD (green area). This currency pair of CAD/USD is the inverse of the pair we demonstrated in Figure 1, which in this instance, determines when the Canadian dollar is strong relative to the USD (the higher, the better for the CAD). We can see that when the price of oil rises, the CAD/USD currency pair also rises. This signals that not only does holding the USD offer diversification effects from the CAD, but it can also offer diversification from broader implications of fluctuations in the price of commodities and oil.



USD Cash ETFs That are Canadian Listed

We have identified three high-interest savings ETFs and one USD/CAD currency pair ETF that we feel have good levels of liquidity, yield, and diversification in their purpose. In the sections that follow, we will be discussing the following four ETFs:

- Horizons USD Cash Maximizer ETF (HSUV.U)
- Purpose U.S. Cash Fund ETF (PSU.U)
- U.S. High-Interest Savings Account Fund (HISU.U)
- Horizons U.S. Dollar Currency ETF (DLR)

In Figure 3, we have provided fund information for each ETF, outlining the Assets Under Management (AUM), yield, Management Expense Ratio (MER), currency denomination, and holdings with the large Canadian banks.

ETF	AUM	Gross Yield	MER	Currency	CIBC	National Bank	Scotiabank	BMO
HSUV.U	$0.8B	5.45%	0.19%	USD	39.3%	60.7%	-	-
PSU.U	$0.6B	5.43%	0.17%	USD	33.3%	33.3%	33.3%	-
HISU.U	$0.5B	5.42%	0.15%	USD	Not Specified			
DLR	$0.1B	-	0.73%	CAD				

Figure 3, Source: purposeinvest.com, horizonsetfs.com, evolveetfs.com

Horizons USD Cash Maximizer ETF (HSUV.U)

The Horizons USD Cash Maximizer ETF (HSUV.U) differs from other high-interest savings ETFs, as it does not issue distributions to investors but rather offers capital appreciation through its share price. The ETF invests in high-interest U.S. dollar deposit accounts with Canadian banks and reinvests the net interest income back into its Net Asset Value (NAV). This method seeks to generate modest capital appreciation for investors, as opposed to taxable distributions. This can be advantageous for investors as it does not make taxable distributions, which can enhance the after-tax performance relative to other yield-generating products. It has a strong AUM of $0.8 billion, a high gross yield of 5.45%, but also one of the higher MERs at 0.19%. It is priced in USD.

Purpose U.S. Cash Fund ETF (PSU.U)

The Purpose U.S. Cash Fund ETF (PSU.U) seeks to maximize U.S. dollar monthly income for unitholders while protecting capital, and it invests in high-interest deposit accounts denominated in USD. Its deposits are invested in cash accounts with Schedule 1 Canadian banks. It pays a monthly distribution to unitholders. it has a strong AUM of $0.6 billion, a good yield of 5.43%, and a slightly lower MER than the HSUV.U ETF at 0.17%. It is priced in USD.

U.S. High-Interest Savings Account Fund (HISU.U)

The U.S. High-Interest Savings Account Fund (HISU.U) closely resembles the PSU.U ETF in that it caters to investors seeking monthly distributions, good liquidity, and exposure to U.S. high-interest deposit accounts. The fund aims to preserve capital and deposits its funds with one or more Canadian chartered banks, credit unions, or trust companies. It has a reasonable AUM of $0.5 billion, a good yield of 5.42%, an MER of 0.15%, and is priced in USD.

Horizons U.S. Dollar Currency ETF (DLR)

The Horizons U.S. Dollar Currency ETF (DLR) differs from the above three high-interest savings ETFs in that it is designed to reflect the currency pair of USD/CAD. The ETF invests in U.S. cash and cash equivalents denominated in U.S. dollars to provide unitholders with exposure to currency fluctuations between the USD and CAD. The DLR ETF is denominated in CAD and will fluctuate in tandem with the USD/CAD exchange rate (akin to the chart from Figure 1). This ETF carries the advantage of providing Canadian investors with a low-cost ETF that does not incur currency exchange fees to gain exposure to price movements of the USD. When the U.S. dollar appreciates relative to the Canadian dollar, the value of DLR is expected to increase proportionately. The ETF has a somewhat small AUM of $0.1 billion, does not pay a yield, and has an MER of 0.73%. It is denominated in CAD.

Key Takeaways

The value of the USD is an important consideration for Canadian investors when making stock purchases or considering their purchasing power relative to U.S. citizens. Canadian investors holding USD or gaining exposure to USD via any of the ETFs listed are a great method of increasing exposure to the world's strongest economy, and in the instance of the high-interest savings ETFs, attaining an attractive yield. For Canadian investors that already have USD in their investment accounts, the USD-denominated high-interest savings ETFs can be a great option for earning yield while maintaining exposure to fluctuations in the USD/CAD pair, and for investors with Canadian dollars looking to gain just exposure to fluctuations in the USD/CAD pair, the DLR ETF offers a low-cost method of achieving this. For investors seeking ETFs to park their U.S. dollars, we feel these ETFs offer a great starting point.

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Back to the Basics with ETFs: Understanding Key Metrics for Investing

By Chris White, CFA

Reviewing the Key Metrics of an ETF

Most investors have at least heard of an Exchange Traded Fund (ETF), but not every investor knows of the key metrics or facts to look for when deciding on investing in an ETF. With ETFs, often times there will be many varying ETFs that attempt to track a similar theme or goal (ie. cybersecurity, AI, dividend-paying names, stocks with low volatility, etc), but identifying the most optimal ETF for a specific category can be hard. With a vast array of options available, it is crucial to understand the key metrics and features that can help in making informed investment decisions. In this article, we will explore eight essential metrics and items to consider when evaluating ETFs.

AUM (Assets Under Management)

Assets under Management (AUM) refers to the total market value of the assets held by an ETF. A higher AUM generally indicates greater investor interest and liquidity, which can contribute to tighter bid-ask spreads and lower trading costs. A tighter bid-ask spread can help an investor achieve the best price when purchasing and implies high liquidity levels, which allows investors to easily get in and out of an ETF. We tend to defer to an ETFs AUM to determine its level of liquidity, investor interest, and overall level of staying power. If an ETF has a very high AUM, it is likely that it has been in existence for a while and that its goal has been achieved to some degree. Broadly speaking, a high AUM is one of the first items that we look for in assessing an ETF.

MER (Management Expense Ratio)

The MER is the annual fee charged by the ETF provider for managing the fund. The annual expenses of the fund are expressed as a percentage of the ETFs total assets and covers various expenses. The MER is the most comprehensive fee charged by an ETF, and it is the combination of the management fee and operating expenses. The management fee is the cost of a fund manager directing the allocation of capital, whereas the operating expenses are day-to-day costs of running the fund (administrative fees, marketing, compliance, etc.). For example, a management fee might be 0.5%, while the operating expenses might be 0.1%, leading to a combined MER of 0.6% - this represents the total cost of owning the ETF. Depending on the type of ETF and whether it is a more passively or actively managed fund, the MER can have a wide range. If it is a more niche fund that requires more frequent buying and selling, we would expect the MER to be higher than an ETF that simply tracks a common benchmark, such as the S&P 500. In general, a higher MER does not always cause us to be deterred from buying, as the return potential from a more niche ETF can offset a high MER. Although, when comparing two or more ETFs that have mostly identical holdings and return objectives, we tend to look for the ETF with the highest AUM and the lowest MER.

Distribution Yield

ETFs do not pay dividends, but rather they re-distribute the dividends and interest payments that they receive from underlying holdings back to the ETF unitholders as distributions. The annual distribution payments as a percentage of the ETFs Net Asset Value (NAV) is known as the distribution yield. This is the yield that an investor can expect to receive by owning an ETF. A higher distribution yield might be attractive to income-seeking investors, but broadly speaking, a high distribution yield can sometimes sacrifice features such as a higher return potential from the underlying holdings, as these companies utilize cash to pay investors in the way of dividends rather than reinvesting for growth. Looking at an ETF's distribution yield is an important step in the decision making process, but a lot depends on the unique investment goals of an individual and whether that investor is looking to prioritize income, growth, or a mix of both. When comparing ETFs that aim to offer exposure to the same theme and have similar holdings, we tend to prefer the ETF that has the highest AUM, the lowest MER, and the highest distribution yield.

NAV (Net Asset Value)

The NAV of an ETF represents the per-share value of the fund's

assets after deducting its liabilities. It is calculated by dividing the total value of the ETFs assets (AUM) by the number of units outstanding. Investors should monitor the NAV to ensure that it closely tracks the underlying index or strategy. The market price of the ETF may at times differ from its NAV, which means that the ETF is trading at either a premium or a discount to its NAV. When a fund is trading below its NAV, it means that the market price is not fully reflecting the total value of the assets in the fund, and when it is at a premium above NAV, it means that investors are willing to pay more per unit than the total value of assets in the fund.
While we feel that the NAV of an ETF is important, we tend to ensure that the market price is within a close proximity with its NAV, but largely, a minor variation between NAV and market price does not have a large deterrence on our decision to purchase an ETF.

Benchmark Index

The benchmark index is the reference point for evaluation an ETFs performance. It represents a specific market segment or asset class and serves as the basis for constructing the ETFs portfolio. Understanding the benchmark index is crucial as it determines the ETFs exposure, risk profile, and potential returns. We prefer to review an ETFs benchmark index to ensure that it aligns with an investors' investment goals and assess the historical performance of the index over a long timeframe.

Number of Holdings

This is simply the number of holdings that an ETF has. The higher the number of holdings, the more diverse the portfolio, whereas fewer holdings may indicate a more concentrated portfolio. We believe that the number of holdings is unique to each investment goal, and in general, a portfolio seeking higher risk may warrant a higher number of holdings, whereas one with fewer risks can afford a lower number of underlying companies.

Sector and Geography Breakdown

Not every ETF provides an overview of its breakdown by sector and geography, but these metrics will provide an investor with how concentrated a portfolio might be geographically or across different market segments. This metric is particularly important for those looking for domestic or international exposure, or for a diversified portfolio across market segments.

Key Documents

For more information on an ETF, investors can review the ETFs key documents. These documents typically include the following:

· Prospectus: This document outlines the ETFs investment objectives, strategies, risks, and fees.
· Fund Fact Sheet: This document offers a concise overview of the ETFs key details, particularly the metrics that we have outlined above.
· Annual Report: Provides detailed information about the fund's performance, holdings, investment strategy, expenses, and other relevant information for the past year.

Investors can best use these documents to gain a strong understanding of the overall objectives, the liquidity, expense profile, and top holdings of a fund.

Concluding Thoughts

When it comes to selecting and investing in the right ETF, it's important for investors to get back to the basics and consider key metrics and features. By assessing factors such as AUM, MER, distribution yield, NAV, benchmark index, number of holdings, sector/geography exposures, and key documents, investors can make informed investment decisions. Understanding these metrics provides a solid foundation for evaluating an ETFs performance, risk profile, and alignment with investment goals.