ETF UPDATE

NEWS BRIEFS

New Horizons ETFs offer levered REIT exposure

Horizons ETFs has introduced two new options for investing in real estate. The Horizons BetaPro Equal Weight Canadian REIT 2x Daily Bull ETF (HREU) aims to deliver investment results corresponding to two times the daily performance of an equal-weighted index of REITs in Canada. Meanwhile, the Horizons BetaPro Equal Weight Canadian REIT -2x Daily Bear ETF (HRED) aims to deliver performance equal to two times the inverse of the same equal-weighted benchmark of Canadian REITs. Both ETFs have a management fee of 1.15%.

CI Global Asset Management rolls out alpha and beta ETFs

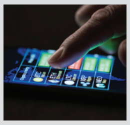
CI Global Asset Management has expanded its offering of CI Beta ETFs with the launch of the CI US Treasury Inflation-Linked Bond Index ETF. Trading on the NEO Exchange under the ticker symbol CTIP, it seeks to track a Canadian-hedged index of US Treasury Inflation-Protected Securities (TIPS). The firm has also launched the active CI Emerging Markets Alpha ETF, with two series (CIEM and CIEM.U) trading on the TSX. It seeks to invest in quality companies with long-term growth potential located in or serving customers in emerging markets.

CIBC rounds out its suite of index ETFs with two new funds

Building upon its launch of four core index ETFs earlier this year, CIBC Asset Management has unveiled the CIBC Global Bond ex-Canada Index ETF (CAD-Hedged) and the CIBC Emerging Markets Equity Index ETF, which are trading on the TSX as CGBI and CEMI, respectively. CGBI aims to track the performance of the Morningstar Global ex-Canada Core Bond Hedged CAD Index, which focuses on investment-grade debt securities with maturities greater than one year. CEMI tracks the Morningstar Emerging Markets Target Market Exposure Index, which offers exposure to the top 85% of the equity float-adjusted market capitalization in emerging markets.

Mackenzie adds to sustainable investment offerings

Mackenzie Investments has introduced the Mackenzie Global Sustainable Bond ETF (MGSB) on the NEO Exchange. Aiming to deliver a steady income flow along with the potential for moderate capital growth, MGSB invests primarily in fixed income securities, focusing on sustainable and responsible global issuers. The fund is managed by the Mackenzie fixed income team, which relies on a proprietary ESG integration process that analyzes more than 2,900 ESG performance data points.



Evolve launches the first multi-cryptocurrency ETF in Canada

Evolve ETFs has launched Canada's first multi-cryptocurrency ETF on the TSX with the goal of providing a less volatile way to invest in the cryptocurrency market. Available in both CAD- and USD-unhedged units (trading as ETC and ETC.U, respectively), the Evolve Cryptocurrencies ETF invests in both Bitcoin and Ether, using an ETF structure to provide exposure to the currencies' daily price movements. According to Evolve ETFs president and CEO Raj Lala, combining the two cryptocurrencies into one ETF allows Evolve "to dampen some of that volatility and hopefully capitalize on the cryptocurrency that's significantly outperforming the other."

Canadian banks on the move

Having weathered the worst of COVID-19's market impact, the Big Six have ample runway for growth, according to one ETF provider

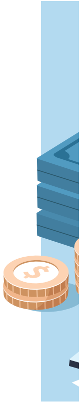
Like most sectors of the economy, banks have faced a significant test over the past 18 months – and it's one they've passed with flying colours.

"When the pandemic started, banks and financials around the world fell about 50% in two months," says Rob Wessel, managing partner at Hamilton ETFs. "Canadian banks declined less, as investors assumed correctly that they would not cut their dividends. That gave investors more confidence the group would bounce back faster, which they've done this year."

As the pandemic progressed, Canadian banks set aside more than $10 billion worth of reserves or allowances as a firewall against potential credit losses, Wessel says, and this buildup peaked a few quarters ago. Loan losses did rise, but not as much as anticipated, in part because the Canadian government's fiscal transfers to citizens in need acted as a form of indirect credit support.

Since then, banks have been able to start releasing these huge reserves, which has pushed earnings and capital to all-time highs. According to Hamilton ETFs, Canadian banks made more than $15 billion last quarter, an increase of more than 20% compared to before the pandemic.

"Right now, the sector is still relatively inexpensive," Wessel says. "At just over 10



times forward earnings, they trade below historical averages."

That's been good news for the Hamilton Enhanced Canadian Bank ETF (HCAL). Although it has modest 25% leverage, because it is more diversified, HCAL's volatility profile is not much different from an individual Canadian bank. This small leverage supports a higher dividend yield.

> "There's still room in this recovery for banks to make above-average returns"

"Investors in HCAL benefit from the sustainability of Canadian bank dividends and higher yield return potential than both covered calls and equal weight," Wessel says. "We've been able to offer a yield north of 5%. Looking at HCAL's returns since inception last October, it's fair to say that the benefits of this structure have been validated."

Looking ahead to the next few quarters, Wessel expects at least another $4 billion to $6 billion of reserve releases, as well as strong earnings growth supported by pandemic recovery, including lower loan losses. Though the Liberals' election promise to tax big banks poses some risk, he also anticipates a significant capital windfall that banks could use for share buybacks or acquisitions, noting that "there's still room in this recovery for banks to make above-average returns."

Karl Cheong
Head of ETFs, Canada
FIRST TRUST PORTFOLIOS CANADA

Years in the industry
12

Fast fact
Originally launched in the US in 2011, First Trust's SKYY is currently the largest, most liquid cloud computing ETF available on American exchanges

Q&A

Opportunity in the SKYY

Your firm launched the First Trust Cloud Computing ETF (SKYY) on the TSX earlier this year. What makes it a compelling option to get exposure to the sector?
SKYY provides exposure to US-listed cloud service providers that's weighted based on their involvement in cloud services – IaaS, PaaS and SaaS – leading to more pure-play exposure as compared to market cap weighting. The ISE CTA Cloud Computing Index, which SKYY tracks, has outperformed the S&P 500 Index by 36% over the past three years ending August 31, 2021, and 178% since inception. And despite the increased ubiquity of cloud computing companies, most of SKYY's holdings are not represented in broad equity benchmarks, including 72% that are not in the S&P 500.

What tailwinds are supporting the cloud computing space?
In the near term, pandemic-related trends are proving durable. Offices are transitioning to permanent hybrid workforces. Beyond that, remote schooling, virtual medicine and streaming content remain vital and are all based on cloud capabilities. Companies without adequate cloud capability were left with serious operational disadvantages over the past 18 months, and we think businesses will continue to invest in cloud capabilities to mitigate ongoing and future disruptions.

Longer-term, global digitalization and connectivity trends are accelerating. Over the next five years, the number of connected devices is expected to grow from 25 billion to 35 billion; by 2035, the world is expected to have 2 billion more internet users. Seagate estimates that data worldwide will grow nearly 30% annually over the next five years, and 50% of the world's data will be stored in the cloud by 2025, up from 25% in 2015.

How might portfolio exposure to cloud computing companies benefit Canadian investors?
Governments and central banks around the world have pulled forward future economic growth via all levels of quantitative easing, which implies lower expected equity market returns going forward. This begs the question: How can Canadians achieve their portfolio growth objectives in order to retire comfortably? We think cloud computing ETFs like ours can satisfy demand for a diversified portfolio of high-growth companies with the potential for better sales, operating margins and growth than the overall economy.

What's growth like in the industry?
Over the past five years, the cloud market has grown at a rate of 36.3%. It's an approximately US$330 billion market this year, with the potential to reach US$400 billion – and by some projections, US$800 billion – by 2025. According to a 2020 survey from IDG, 32% of IT budgets will be dedicated to cloud computing by 2021; 60% of organizations will be using an external cloud provider, up from 30% in 2018; and 92% of organizations have IT environments – infrastructure, applications and data analytics – that rely on cloud computing technology.