



2020:

A Record-Breaking

YEAR

For Canadian ETFs

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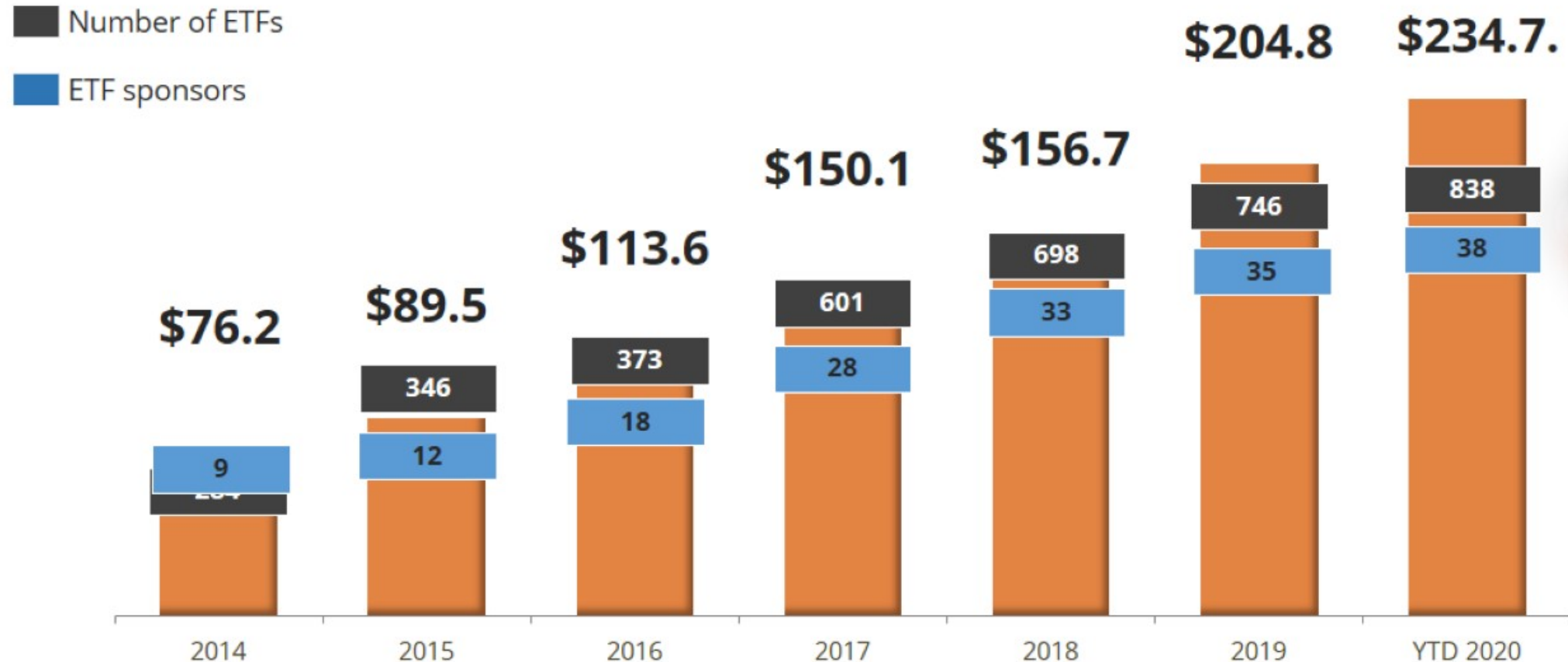


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Agenda

1. ETF Inflows On Pace for Best Year Ever
2. What Are ETF Investors Buying?
3. Challenges of 60/40
4. Where's the Yield?

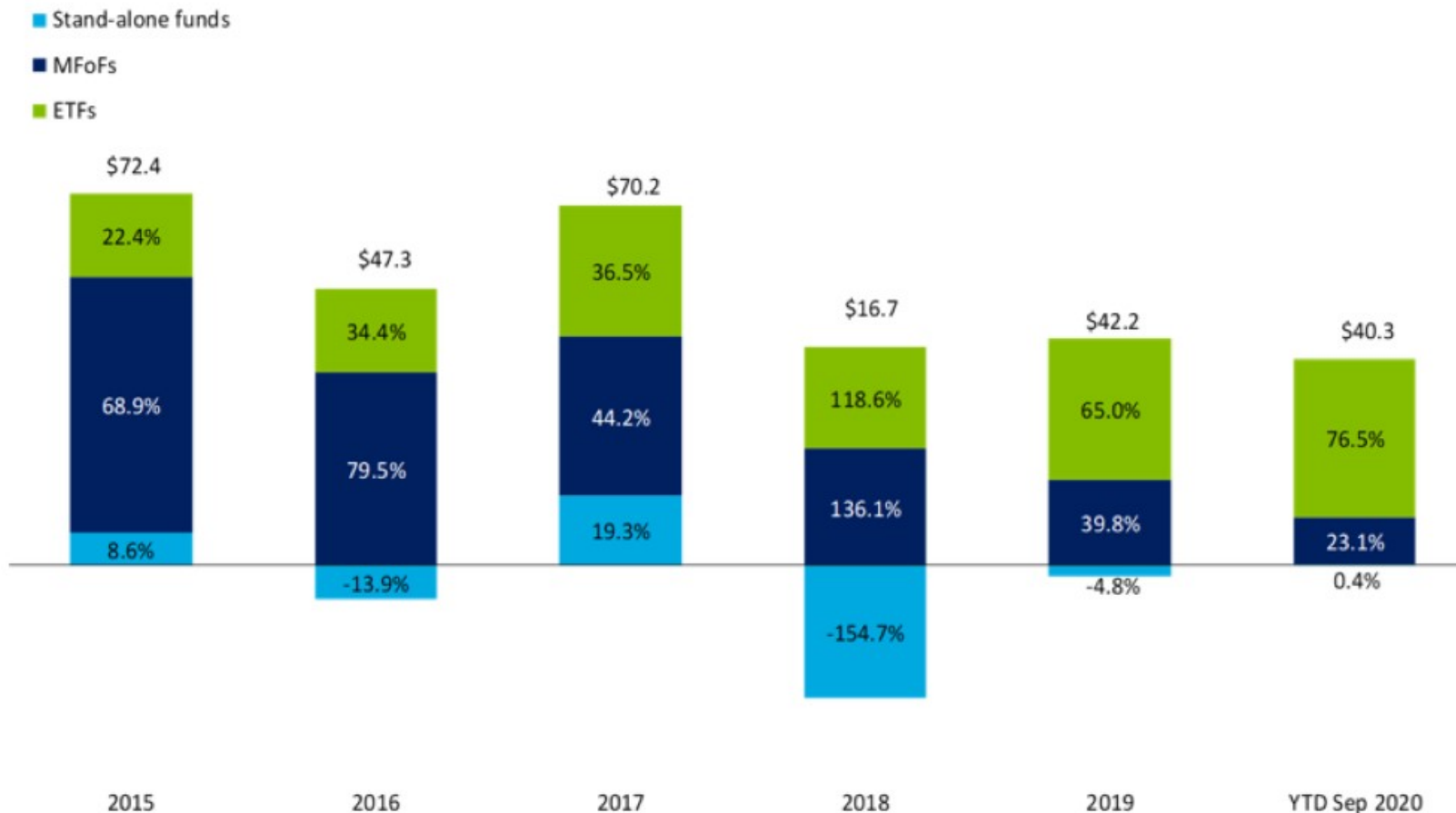
Canadian ETF Asset Growth (\$billions)



Source: CETFA, as at August 31, 2020.

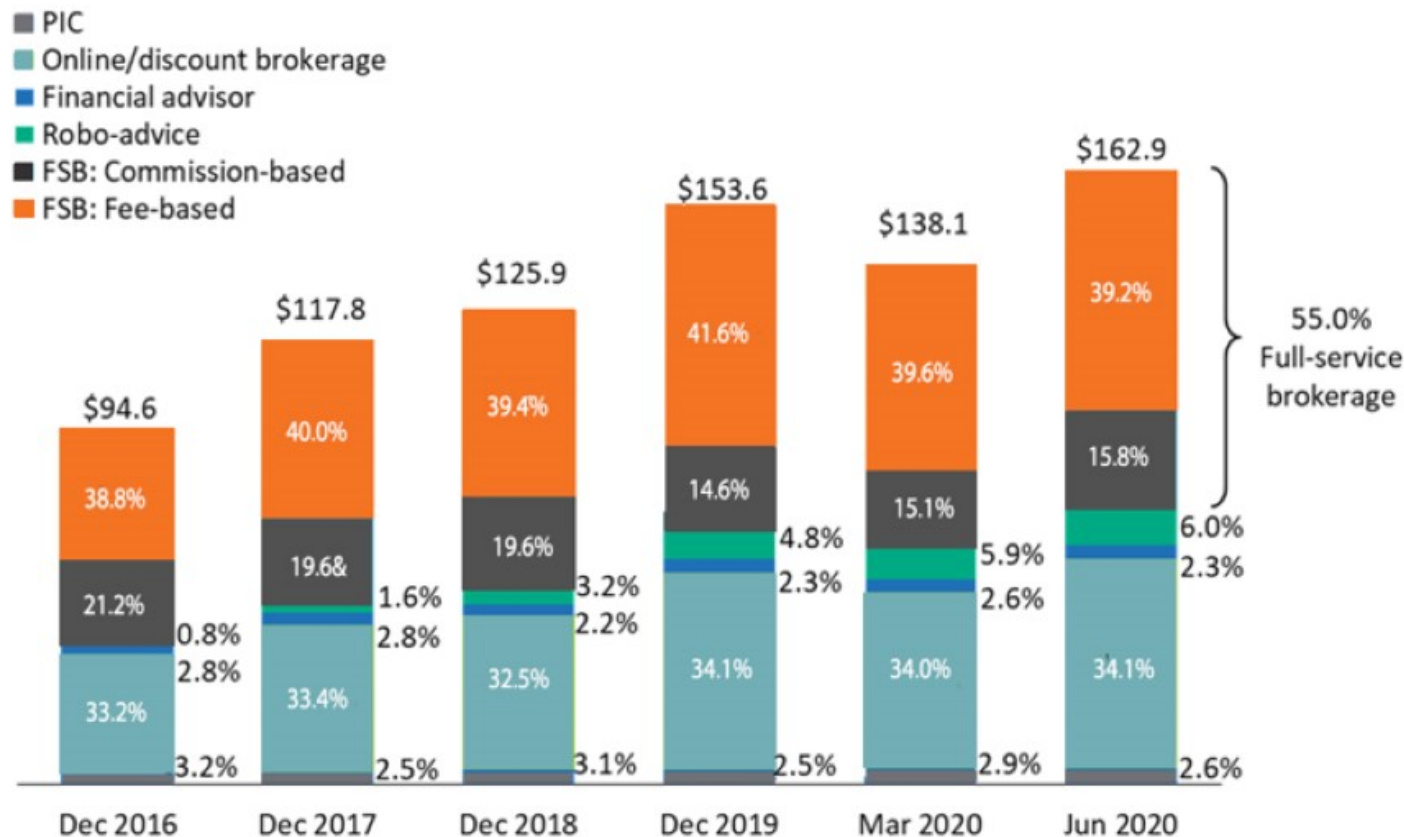
ETFs Vs. Mutual Funds: Sales Growth

- In 2018, ETF sales surpassed total mutual fund sales for the first time in a decade. This has continued through 2020
- By the end of August 2020, ETF sales had surpassed CDN\$30 billion – more than its record annual total in 2019



Source: Investor Economics as at September 30, 2020.

Advisors Dominate ETF Ownership



| Growth rates | 3 mos. | 6 mos. |
|---------------------------|--------|--------|
| Full-service brokerage | 18.8% | 3.7% |
| Fee-based | 17.0% | -0.1% |
| Commission-based | 23.7% | 14.4% |
| Online/discount brokerage | 18.4% | 6.0% |
| Robo-advice | 21.2% | 33.3% |
| PIC | 3.1% | 8.2% |
| Financial advisor | 2.7% | 5.5% |

Source: Investor Economics as at September 30, 2020.

Advisors Dominate ETF Ownership

| Growth Rates | 3 Months (%) | 6 Months (%) |
|---------------------------|--------------|--------------|
| Full-service brokerage | 18.8 | 3.7 |
| Fee-based | 17.0 | -0.1 |
| Commission-based | 23.7 | 14.4 |
| Online/discount brokerage | 18.4 | 6.0 |
| Robo-advice | 21.2 | 33.3 |
| PIC | 3.1 | 8.2 |
| Financial advisor | 2.7 | 5.5 |

Source: Investor Economics as at September 30, 2020.

Canadian ETF Asset Growth AUM and Flows (YTD)

- Majority of inflows have been directed towards equity in 2020, after years of fixed income dominating inflows

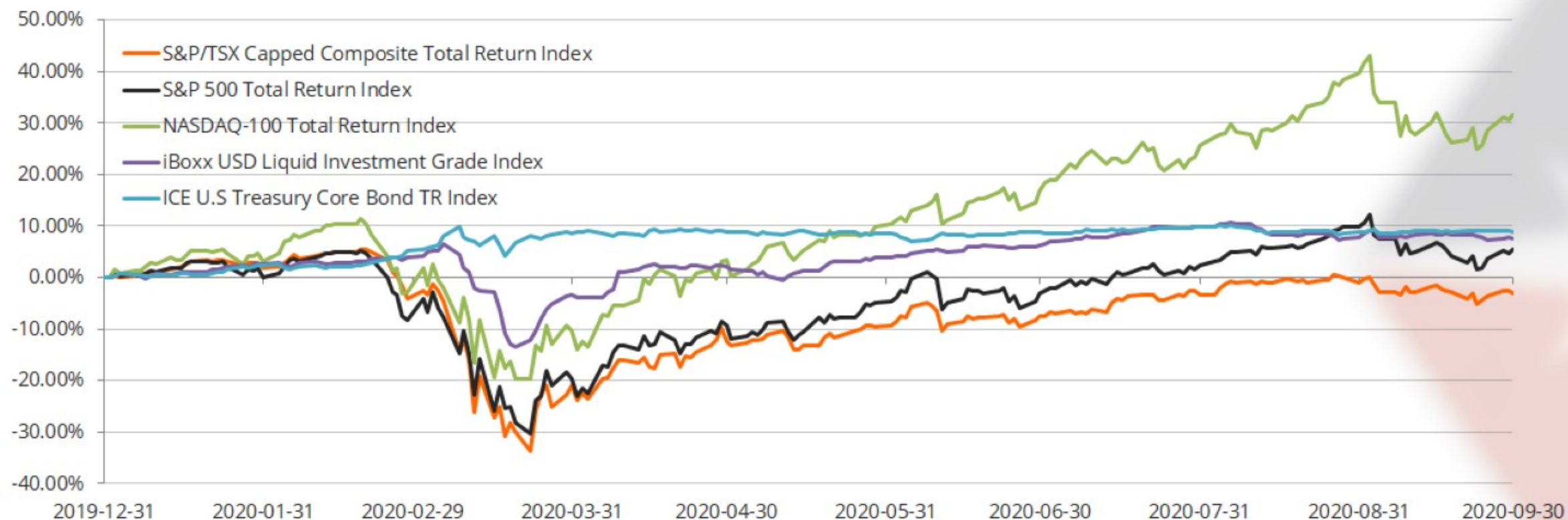
| ASSET CLASS | AUM (\$M) | MARKET SHARE | YTD FLOWS (\$M) | % of AUM |
|-------------------|------------------|--------------|-----------------|--------------|
| Equity | \$141,133 | 60% | \$18,474 | 15.0% |
| Fixed Income | \$82,913 | 35% | \$11,085 | 16% |
| Commodities | \$1,980 | 1% | \$772 | 82% |
| Multi-Asset | \$7,659 | 3% | \$1,936 | 33% |
| Inverse/Leveraged | \$1,045 | 0% | \$133 | 10% |
| Total | \$234,729 | 100% | \$32,400 | 15.8% |

60/40 IN 2020?



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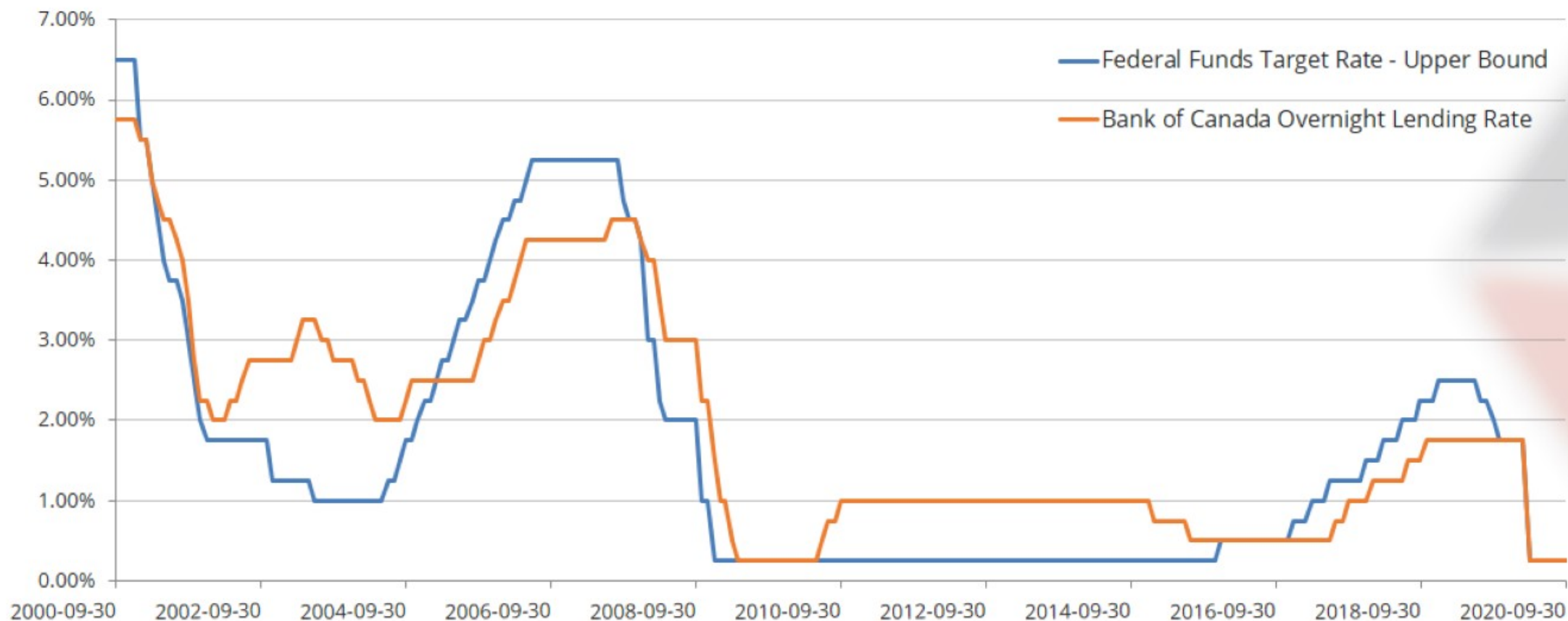
Historic Sell-Off (and Rally!)



Source: Bloomberg, as at September 30, 2020

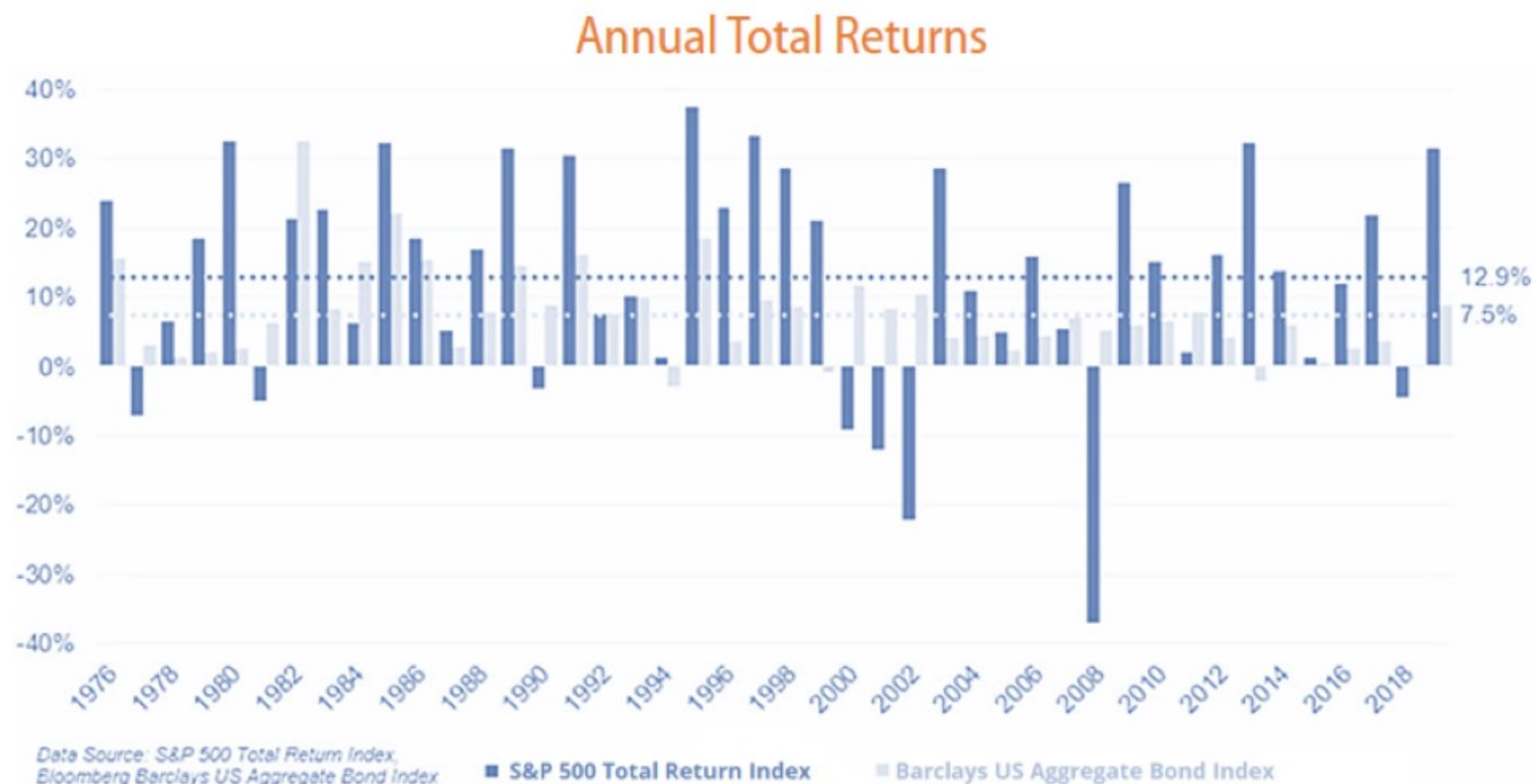
The indicated rates of return are the historical annual compounded total returns including changes in index unit value and reinvestment of all distributions and does not take into account sales, transaction, brokerage, redemption, distribution or optional charges or income taxes payable by any investor or investment fund in replicating the indices, that would have reduced returns. The indices are not directly investible. Index returns are not guaranteed, their values change frequently and past performance may not be repeated.

Interest Rates Near Zero



Source: Bloomberg, as at September 30, 2020.

The Historical Returns Of S&P 500 and U.S. Bonds



Source: The Irrelevant Investor, June 25, 2020. Example assumes annual rebalances.

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Potential Reasons to Consider Greater Equity Allocation

Longevity Risk:

- Longer lifespans mean portfolios may have longer time horizons over which they will be relied upon
- Lower yields may require a greater drawdown on capital
- Equities offer higher risk, but also the potential for greater capital appreciation
- Longer lifespans may require greater equity allocation

Declining Interest Rates and Low Yields:

- With interest rates at all-time lows and negative in many countries, fixed income isn't providing the same advantages for portfolios as it once did
- Potentially limited upside price potential on bonds if interest rates do rise



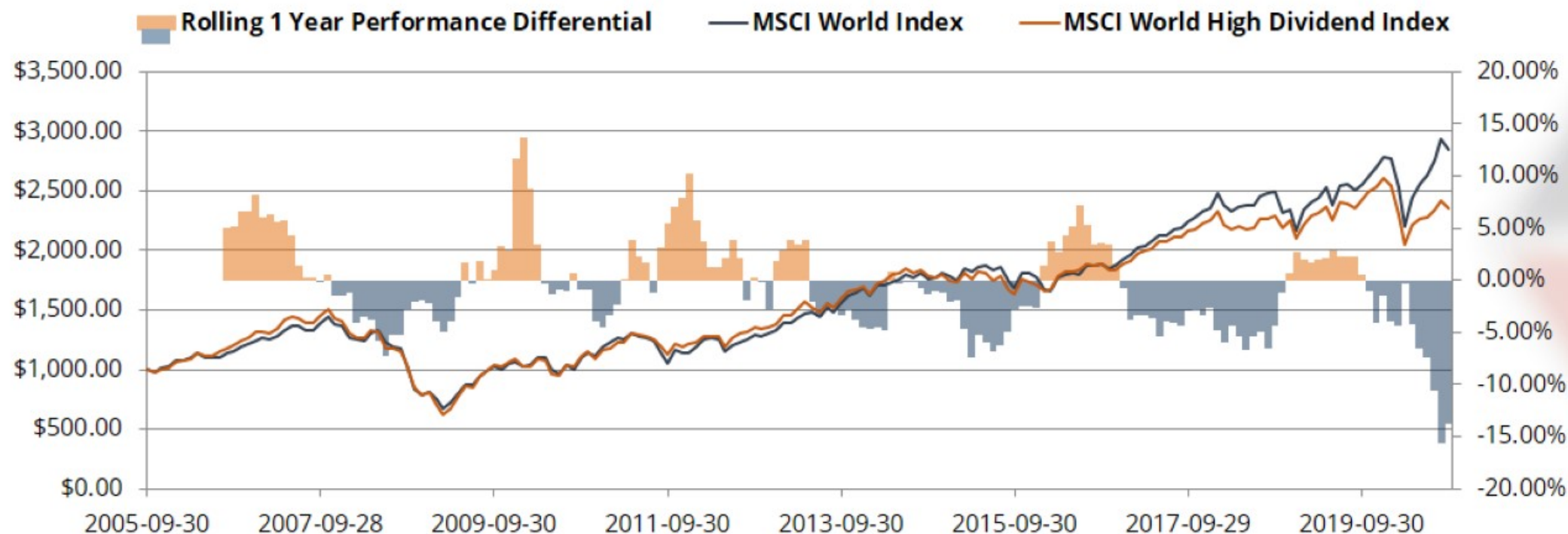
WHERE IS THE YIELD?



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Dividends vs. Broad Equities

MSCI World High Dividend Index vs. MSCI World Index

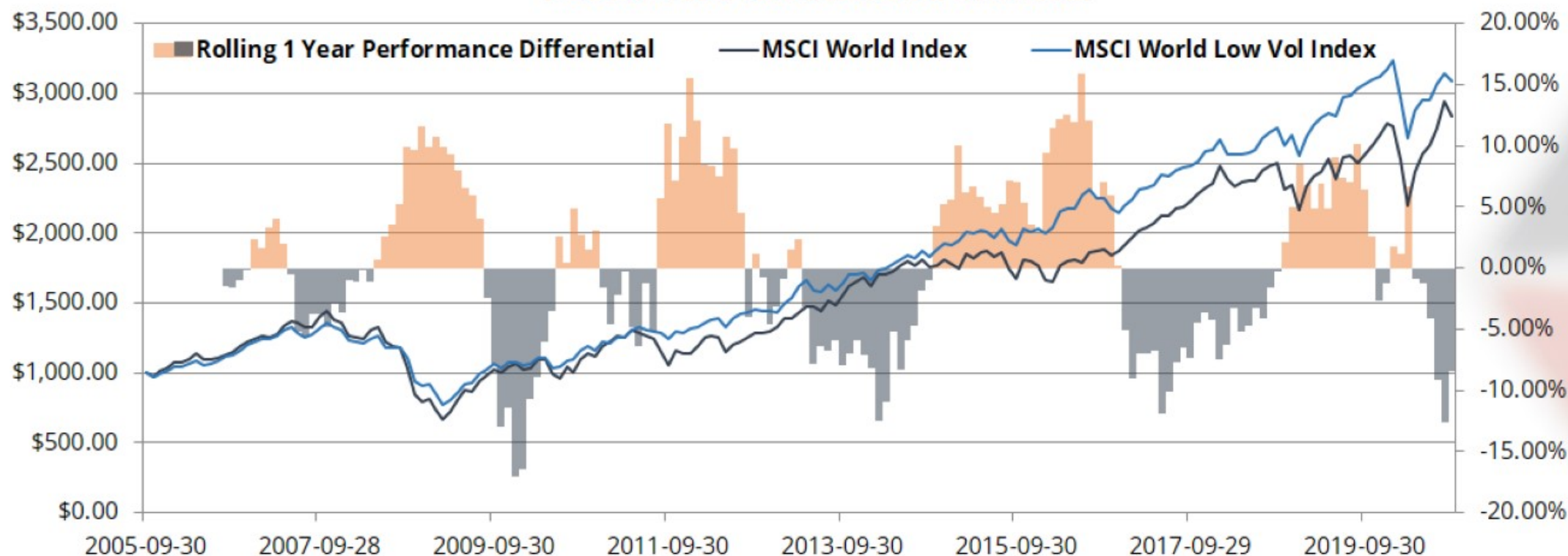


Source: Bloomberg, as at September 30, 2020

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Low-Vol vs. Broad Equities

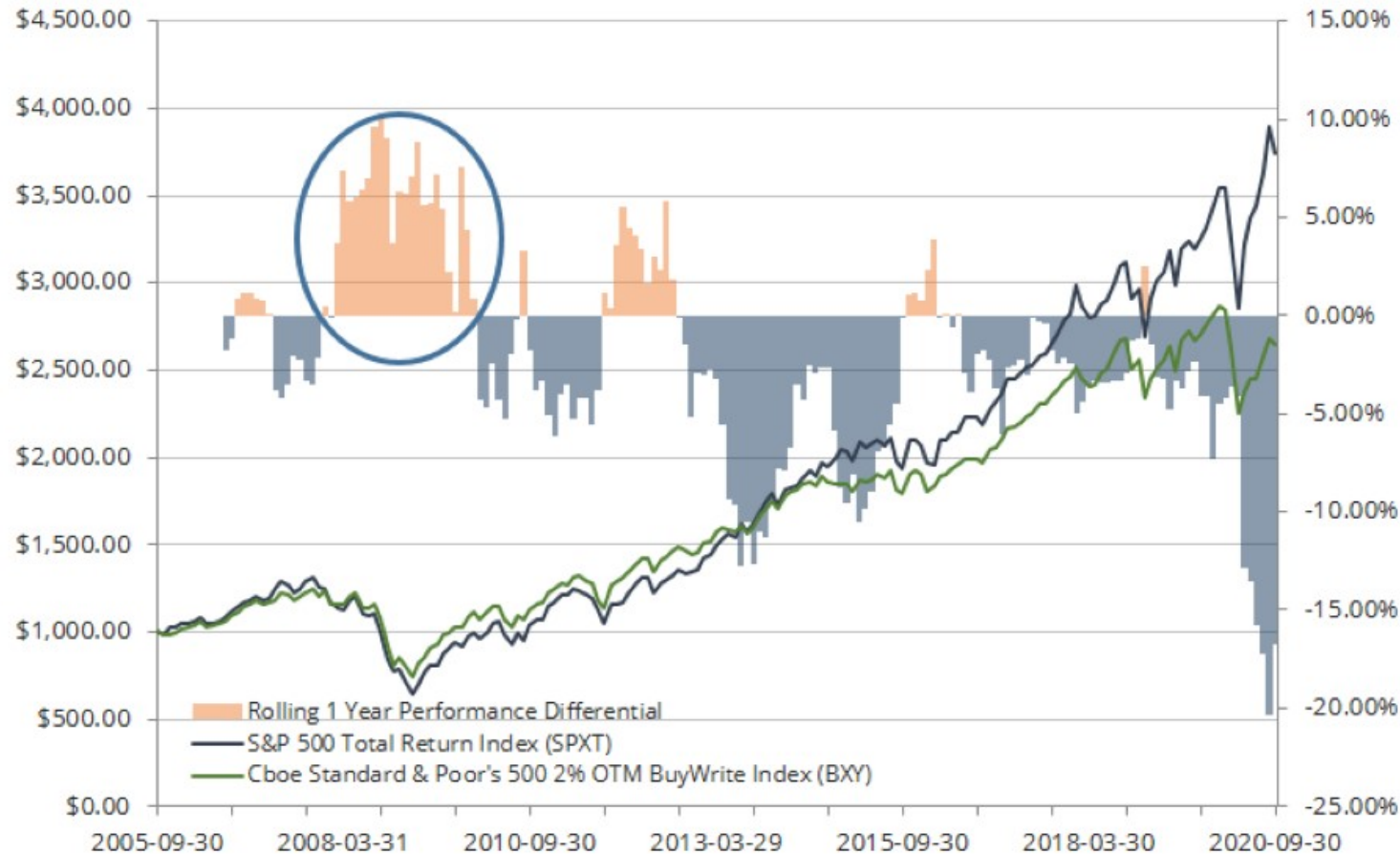
MSCI World Low-Vol Index vs. MSCI World Index



Source: Bloomberg, as at September 30, 2020

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Out-of-the-Money Covered Calls vs. Stocks Only



When Can Covered Calls Work?

- Negative real yields and declining nominal rates generally make yield attractive
- Lower Beta and 0.79* for BXY
- Reduced Volatility (11.3%* for BXY vs. 13.4%* for S&P 500 (SPXT))

Source: Bloomberg, as September 30, 2020 .

*Based on the previous 10 years of monthly returns for BXY and SPXT.

Where's The Yield?: Canadian Preferred Shares

| | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 | Q1 2022 | Q2 2022 | Total (\$MM) |
|--------------------------------|--------------|----------------|----------------|----------------|----------------|--------------|----------------|-----------------|
| Financial Rate Reset | - | \$409 | \$2,875 | \$2,080 | \$1,000 | \$1,575 | - | \$7,939 |
| Financial Fixed Rate Perpetual | \$300 | \$450 | - | - | - | - | - | \$750 |
| Non-Financial Rate Reset | - | \$285 | \$750 | - | \$300 | \$750 | \$1,000 | \$3,085 |
| Total (\$MM) | \$300 | \$1,144 | \$3,625 | \$2,080 | \$1,300 | 2,325 | \$1,000 | \$11,774 |
| % Universe Market Value | 0.5% | 1.8% | 5.5% | 3.2% | 2.0% | 3.6% | 1.5% | 18.0% |

- New fixed income notes offered by RBC and National Bank, called Limited Recourse Capital Notes (LRCNs) are being issued instead of preferred shares
- This provides price stability in preferred shares

Where's The Yield?: Canadian Preferred Shares

- Preferred Share ETFs typically yield in excess of 5% currently, as at August 31, 2020
- Dividends are taxed as Canadian Eligible Dividends

| Issuance Date | Issuer | Ratings (M/S/D/F) | Amount Issued (\$MM) | Call Structure | Pricing Issue Yield/Reset Spread (bps) | Number of buyers | Equivalent Preferred Shares Reset Level |
|---------------|--------|-------------------|----------------------|---------------------------------|--|------------------|---|
| 07/21/2020 | RY | Baa3/BBB/nr/AL | \$1,750 | 60NC5 Next Call-> 10/24/2025 | 4.50%/+413.7 | 106 | 332 bps |
| 09/01/2020 | NA | Ba1/BB+/nr/BBB | \$500 | 60NC5 Next Call-> 10/15/2025 | 4.30%/+394.3 | 41 | 317 bps |
| 09/09/2020 | CM | Baa3/BB+/nr/BBBH | \$750 | 60NC5 Next Call-> 09/28/2025 | 4.375%/+399.8 | 59 | 321 bps |
| 09/09/2020 | BMO | Baa3/BBB-/nr/BBBH | \$1,250 | 60NC5 Next Call-> 10/26/2025 | 4.30%/+393.8 | 72 | 316 bps |
| 10/22/2020 | RY | Baa3/BBB/nr/AL | \$1,250 | 60NC5 Next Call-> 01/24/2026 | 4.00%/+361.7 | 60 | 289 bps |
| 10/23/2020 | CWB | nr/nr/BBH/nr | \$175 | 60NC5 Next Call-> 04/30/2026 | 6.00%/+562.1 | 60 | 454 bps |
| | | Total | \$5,675 | | | | |

Source: Fiera Capital and Bloomberg, as at October 30, 2020.

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