



# BEYOND TRADITIONAL INDEXING: INNOVATION AND TRENDS IN THE GLOBAL ETF MARKET

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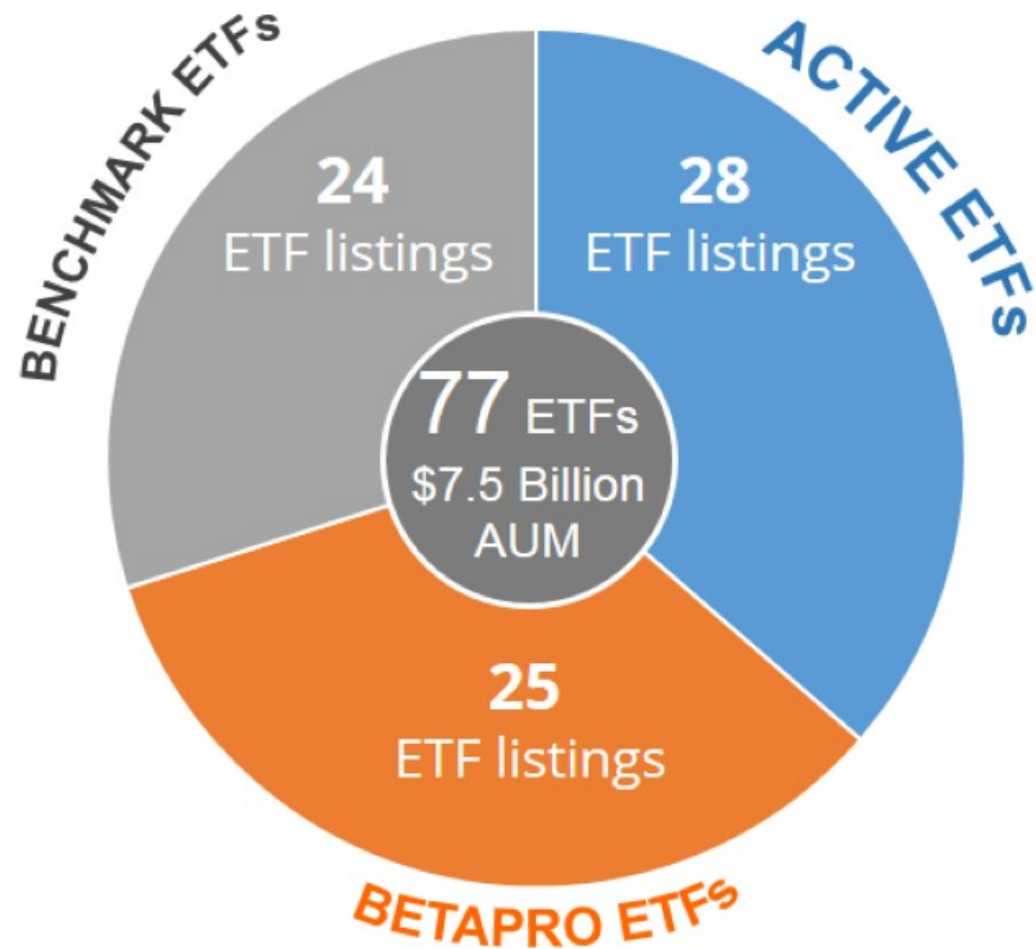


# TODAY'S AGENDA

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- Who We Are
- History of ETFs
- Global ETF Growth
- Smart Beta
- Development of Tax-Efficient ETFs
- Leveraged ETFs

# HORIZONS ETFS – INNOVATION IS OUR CAPITAL



As at July 31, 2017.



# CANADIAN ETFS: A \$130 BILLION MARKET

ETF Provider	2017 Inflows(M)	Current AUM(M)	Dec. 2016 AUM(M)
BlackRock Canada	\$1,727	\$55,284	\$53,362
BMO Asset Management	\$9,570	\$41,470	\$34,055
Vanguard Canada	\$2,875	\$12,097	\$9,664
Horizons ETFs	\$1,450	\$7,404	\$6,397
Invesco PowerShares	\$504	\$3,397	\$3,118
First Asset	\$1,019	\$3,242	\$2,512
RBC Global Asset Management	\$1,257	\$3,253	\$2,243
Purpose Investments	\$616	\$1,615	\$1,264
Mackenzie	\$697	\$742	\$113
First Trust Portfolios Canada	\$134	\$476	\$391
Harvest Portfolios	\$138	\$355	\$188
Manulife Investments	\$230	\$203	-
AGF QuantShares	\$253	\$250	-
WisdomTree	\$19	\$121	\$92
TD Asset Management	\$65	\$98	\$62
Questrade Wealth Management	\$48	\$90	\$48
Desjardins Investments	\$90	\$89	-
Lysander	\$38	\$70	\$45
Sphere Investments	\$45	\$67	\$30
Hamilton Capital	\$56	\$65	\$19
Auspice Capital	\$10	\$26	\$29
Franklin LibertyShares	\$26	\$25	-
Redwood Asset Management	\$27	\$25	-
Excel Funds	\$4	\$4	-
	<b>\$20,898</b>	<b>\$130,468</b>	<b>\$113,632</b>

Source: CETFA, as at July 31, 2017.



# A BRIEF HISTORY OF ETFs

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# A BRIEF HISTORY OF ETFs

- 1990: TSX launches TIPS 35
- 1993: AMEX launches SPDR
- 2000: First Smart Beta ETFs
- 2001: First bond ETF
- 2008: First leveraged commodity ETFs
- 2009: First actively managed ETF
- 2010: First volatility ETF
- 2011: First currency ETF
- 2012: First hedge fund ETF
- 2017: First marijuana ETF



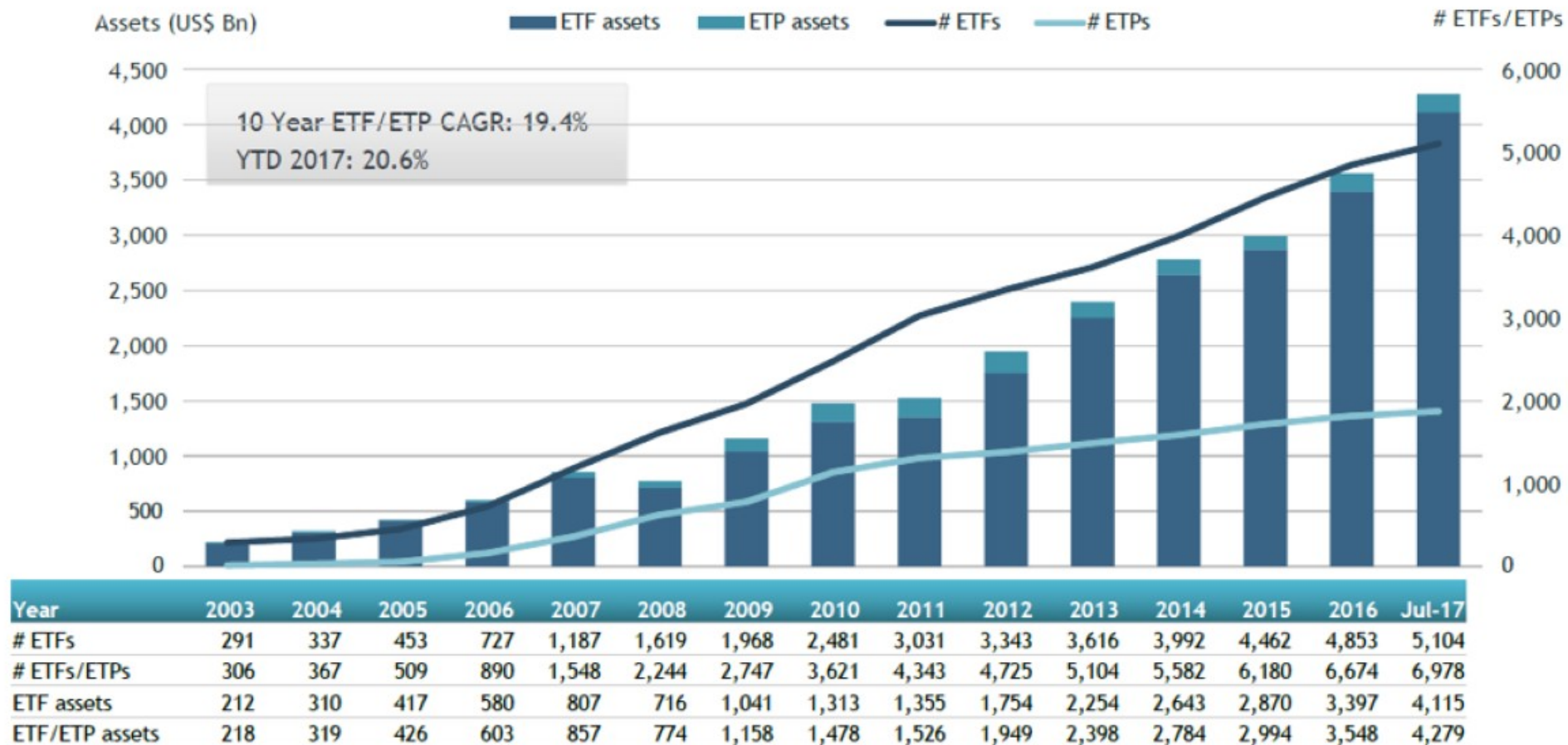
# GLOBAL ETF GROWTH

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# GLOBAL ETF GROWTH



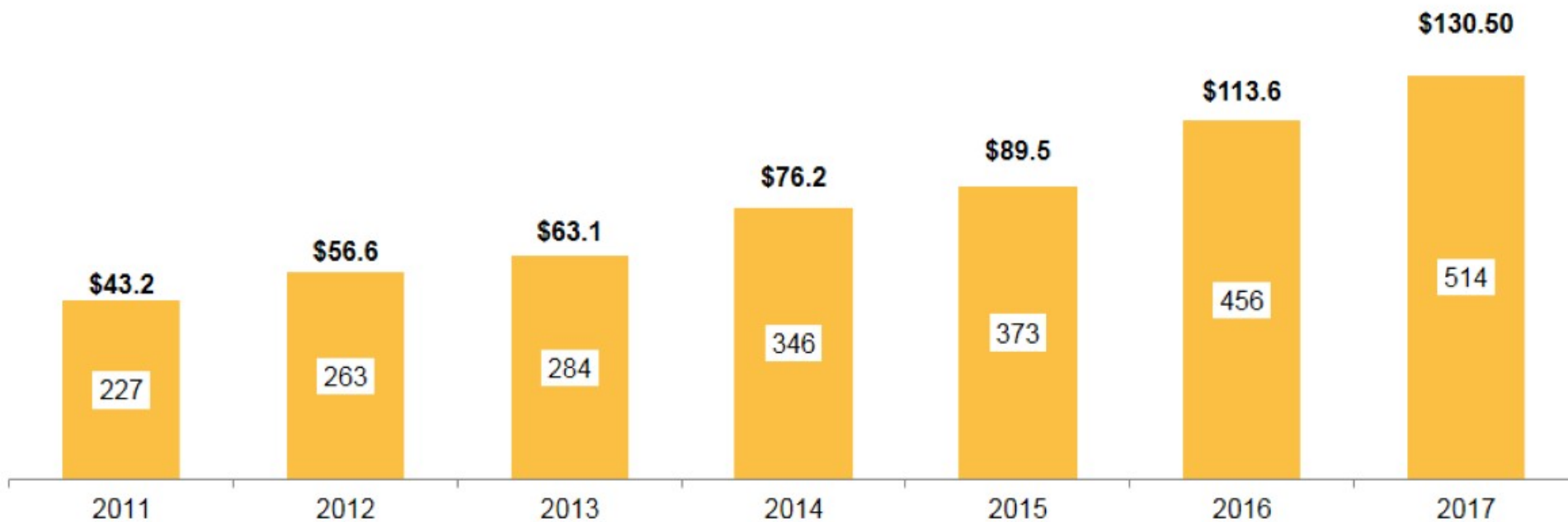
Source: ETFGI, as at July 31, 2017.





# CANADA ETF GROWTH (CAD)

- ETF Net Assets in Billions of Dollars
- Number of ETFs in Canada

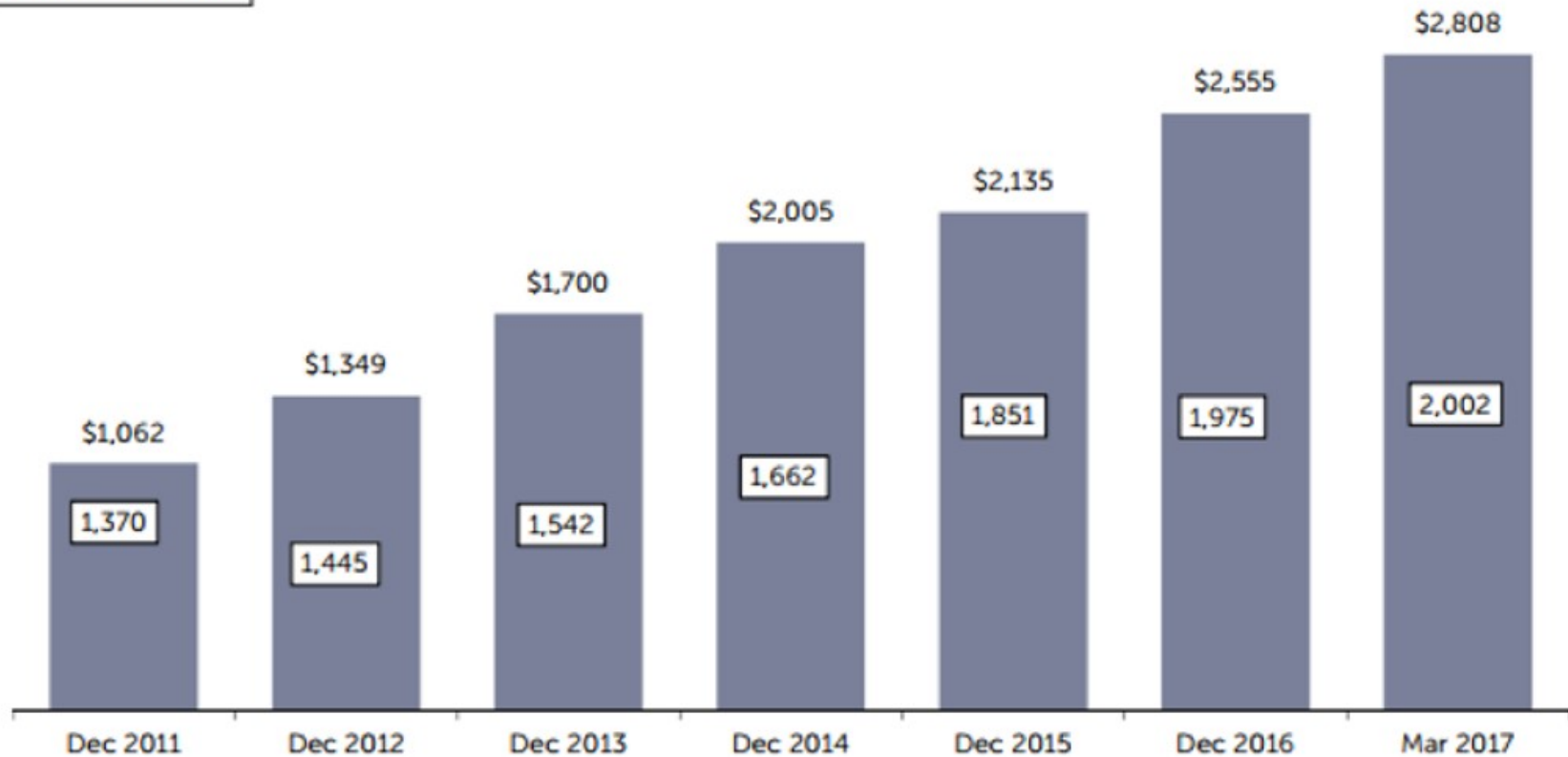


Source: Bloomberg, as at July 31, 2017.



# U.S. ETF ASSET GROWTH\*

Number of funds

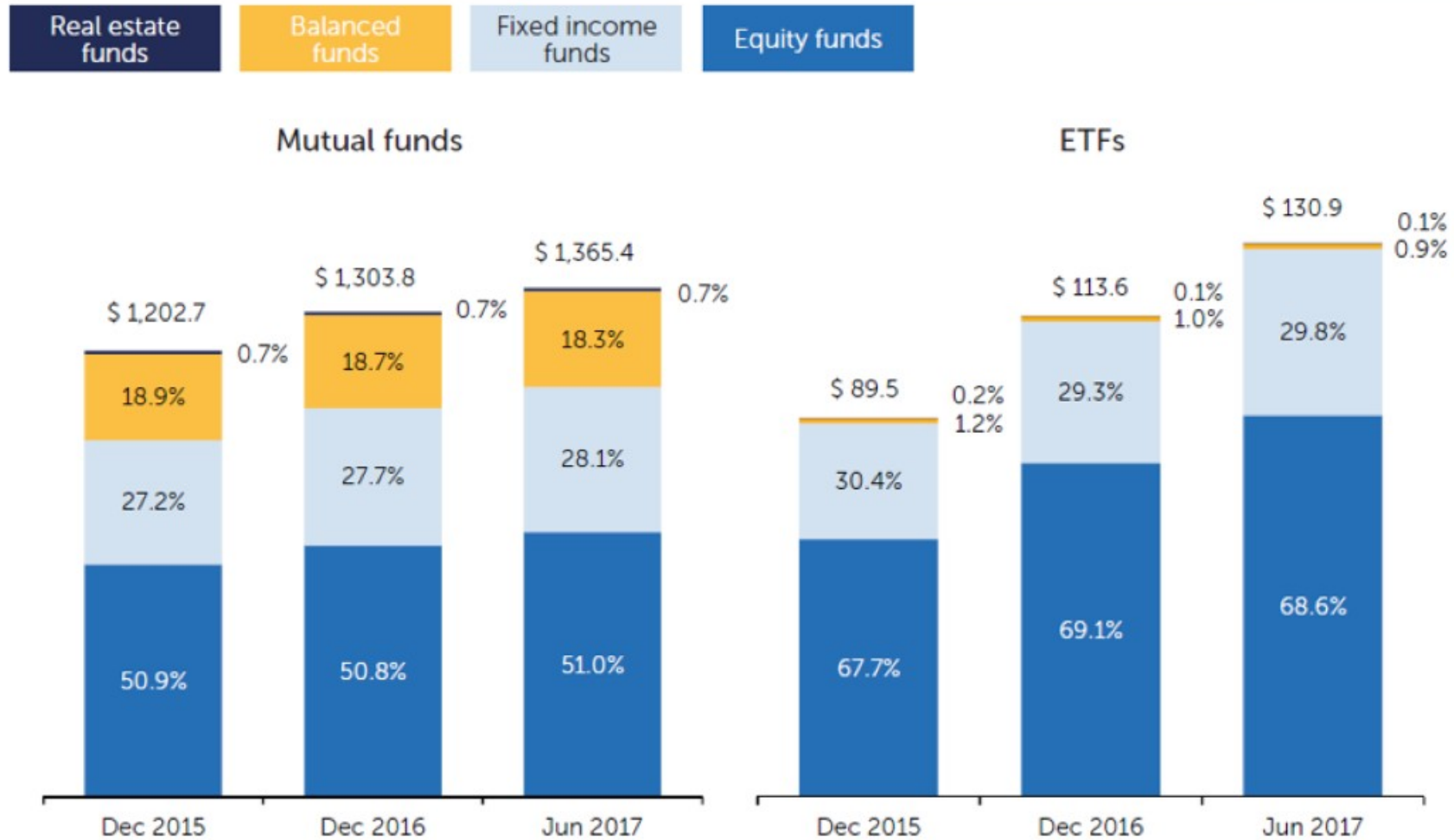


\*In billions of dollars.

Source: Investor Economics, ETF and Index Funds Report-Canada, Q1, 2017.



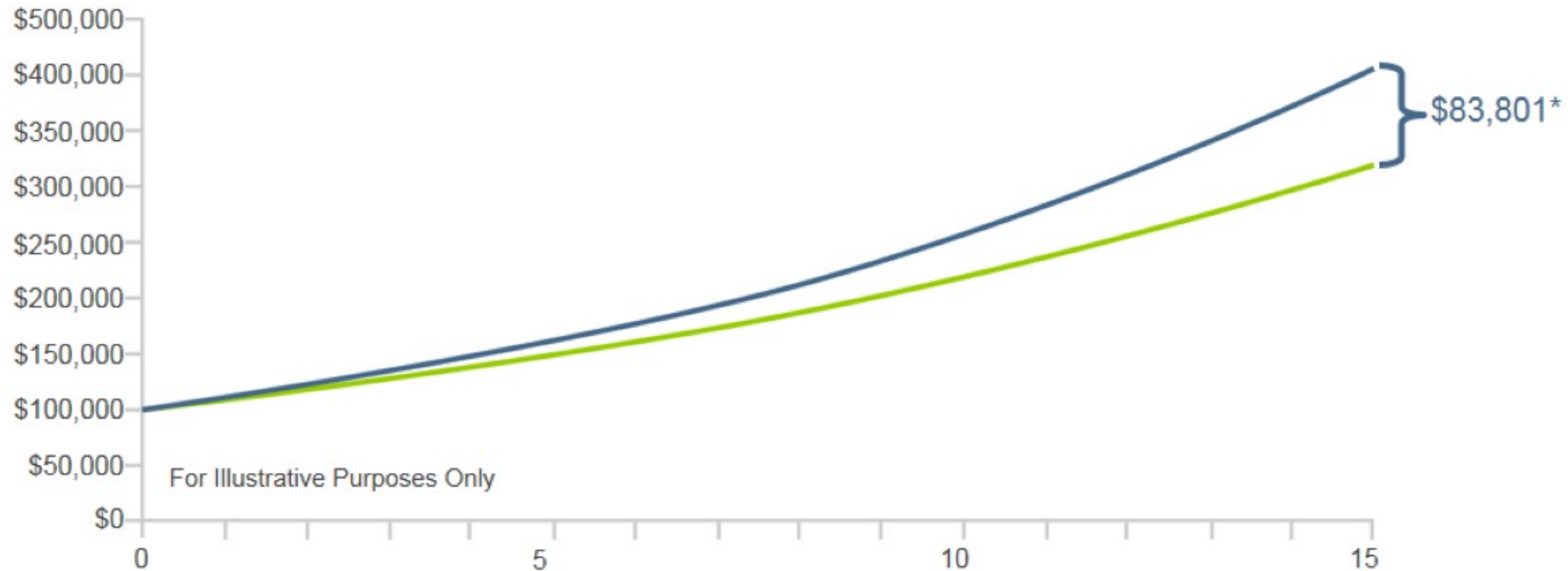
# CANADIAN MUTAL FUNDS VS ETFS\*



Source: Investor Economics, as at Q2 2017.  
 \*In billions of dollars.



# LOW MANAGEMENT FEES QUANTIFIED



**ETF**  
Terminal value \$403,845  
Annual return before management fees 10%  
Annual management fee 0.70%  
Management fees paid \$44,723

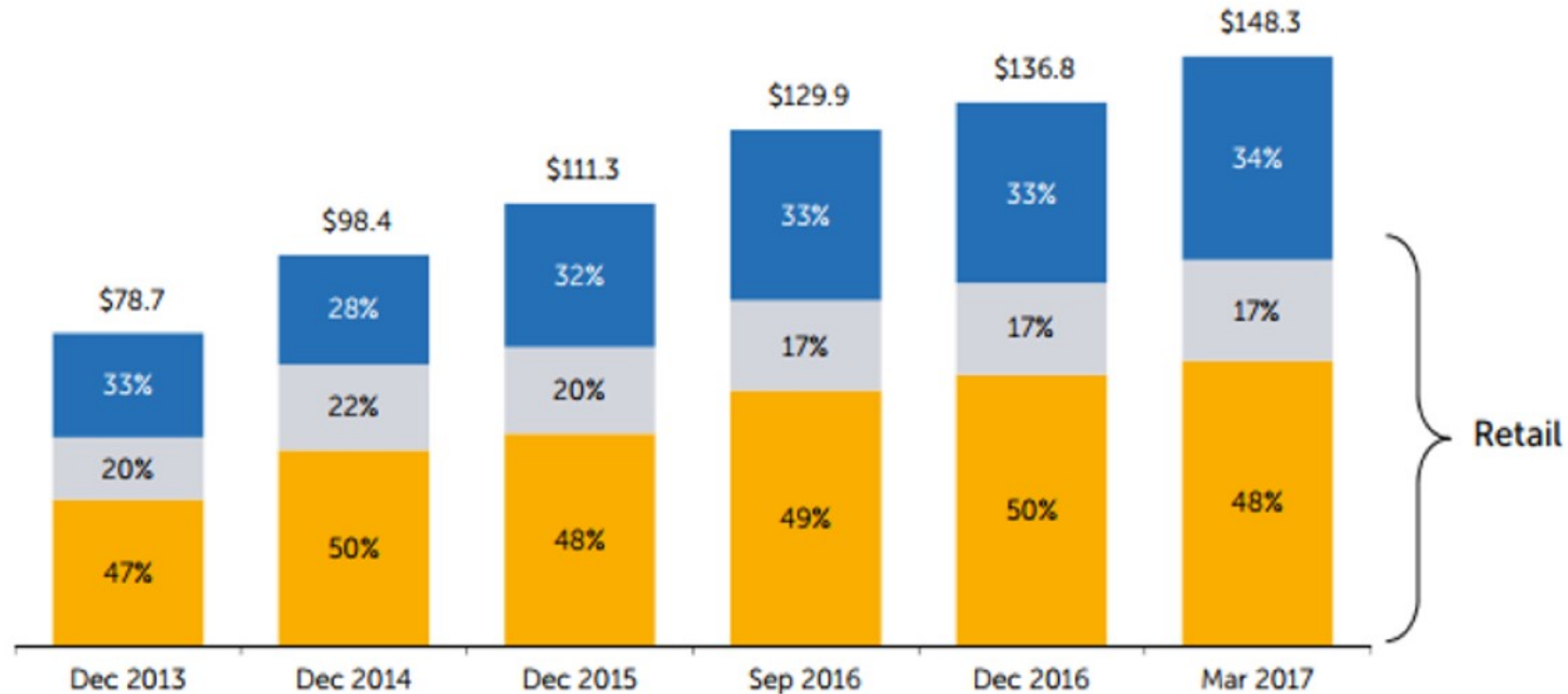
**Mutual Fund**  
Terminal value \$320,044  
Annual return before management fees 10%  
Annual management fee 2.25%  
Management fees paid \$128,524

\*Assumes investment held for 15 years with no performance fees or distributions.



# CANADIAN ETF OWNERSHIP

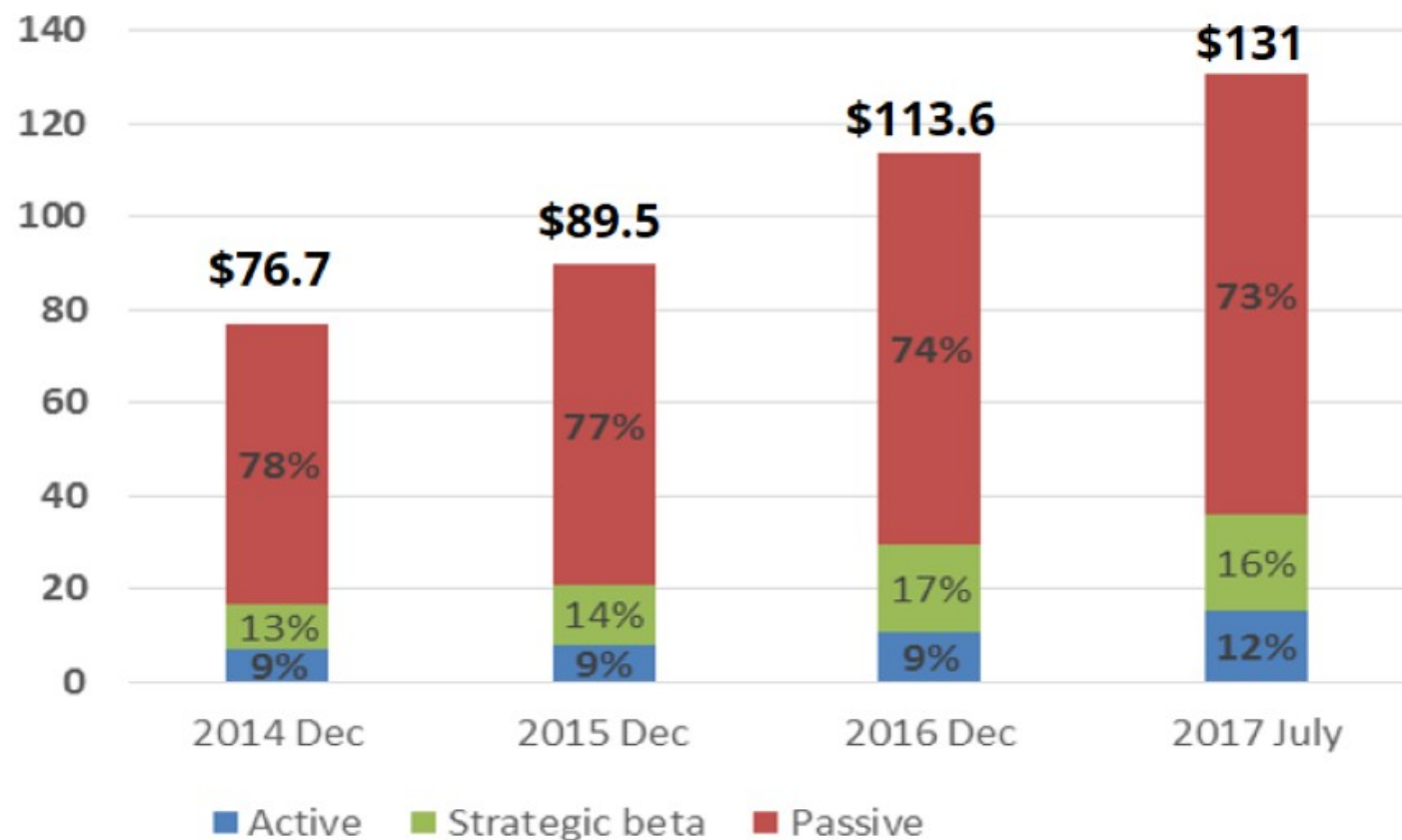
Canadian-listed institutional    U.S.-listed retail    Canadian-listed retail



Source: Investor Economics, as at Q1 2017.



# CANADIAN ETF ASSET GROWTH (\$BN)



Source: NBCFM ETF Research, Bloomberg, as at July 31, 2017.



# ACTIVE MANAGEMENT

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# BENEFITS OF ACTIVELY MANAGED ETFS

- Provides an edge in illiquid markets (i.e. fixed income, preferred shares)
- Lower cost than mutual funds

Type Of Fund	Average Management Fee
Average Canadian ETF Fee	0.34%
Average Actively Managed Canadian Equity ETF	0.59%
Average Active F-Class Mutual Fund	1.00%



# GROWTH OF ACTIVELY MANAGED ETFS IN CANADA (CAD)\*

Number of actively-managed ETFs



\*In millions of dollars.  
Source: Investor Economics, as at Q2 2017.



# TAX-EFFICIENT BENCHMARK EXPOSURE

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**HORIZONS**  
ETFs

# BENEFITS OF THE TOTAL RETURN INDEX (TRI) ETF STRUCTURE

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- 1. Tax efficiency:** No constituent distribution income is received by the ETF — however, investors get the full pre-tax value of distributions ‘reinvested’ when paid and reflected in the NAV per unit of the ETF
- 2. Improved tracking error:** The counterparty is obligated to deliver the total return of the index. Management and deployment of distributions, a key factor in tracking error, is eliminated. Tracking error is limited to the fees (including HST) of the ETF
- 3. Lower fees:** TRI ETFs reduce the trading costs associated with physically holding the stocks/bonds of the index

# HORIZONS S&P/TSX 60™ INDEX ETF - CANADA'S LOWEST-COST ETF

- Ticker: HXT, HXT.U<sup>1</sup>
- Index: S&P/TSX 60™ Index (Total Return)
- Management Fee: 0.03%<sup>2,3</sup>
- ETF Investment Structure: Total Return Swap
- Swap Fee: None
- Distribution Frequency: Annual, if any. No dividend distributions are expected
- Eligibility: All registered and non-registered investment accounts
- Bloomberg Index Ticker: SPTSX60

<sup>1</sup>Trades in U.S. dollars.

<sup>2</sup>Annual management fee of 0.07% rebated by 4bps (0.04%) to an effective management fee of 3bps, or 0.03%, until at least September 30, 2017.

<sup>3</sup>Plus applicable sales taxes.



# HXT VS. XIU VS. EWC

	HXT	XIU	EWC
Management fee	0.03% <sup>1,2</sup>	0.15% <sup>1</sup>	0.48% <sup>1</sup>
Benchmark	S&P/TSX 60™ Index (Total Return)	S&P/TSX 60™ Index (Price Return)	MSCI Canada Index (Price Return)
Investment strategy	Total Return Swap (TRS)	Physically holds constituent securities	Physically holds constituent securities
Distributions	Annual, if any (none expected)	Quarterly	Semi-Annually
IPU status	IPU	IPU	IPU

Source: Horizons ETFs and iShares.

<sup>1</sup>Plus applicable sales taxes.

<sup>2</sup>Annual management fee of 0.07% rebated by 4bps (0.04%) to an effective management fee of 3bps, or 0.03%, until at least October 1, 2017.

The investment objectives for XIU and EWC are listed on slide 25.

# EXAMPLE: CANADIAN EQUITY TAX

## Tax Implications for Canadian Equity ETFs - ILLUSTRATIVE EXAMPLE ONLY

	Physical Replication ETF	HXT
Principal Investment	\$100,000	\$100,000
Market Return (0%)	0%	0%
Net Dividends of Constituents	\$2,000	\$2,000
Pre-Tax Total Portfolio Value	\$102,000	\$102,000
Taxes on Dividends (29.54%)	\$590.80	\$0
Total Tax Payable	\$590.80	\$0
Total After-Tax Portfolio Return	\$101,409.20	\$102,000
Difference in Return:	-\$590.80	
<b>Return Lost to Tax on Distributions</b>	<b>-0.59%</b>	<b>0%</b>

The above illustrative example highlights the expected after-tax performance benefits of holding a TRI structure ETF which invests in Canadian-eligible dividend-paying stocks versus another Canadian domiciled physically replicated Canadian equity ETF in a non-registered account, assuming both ETFs earned/reflected a net 2% dividend and track the exact same universe of stocks. This example does not take into account any fees or expenses of the ETFs, or any commissions fees or expenses that would be associated with the purchase or sale of the ETF units. The example also does not contemplate any sale of the ETF units or any tax liability that would result. Both ETFs are held by an Ontario resident investor in the fourth-highest tax bracket, who would have had a marginal tax rate of 46.41%, and a effective tax rate of 29.54% on eligible Canadian dividends in 2016.

# HOW HORIZONS LEVERAGED ETFs WORK

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Provide double (2x) or double inverse (-2x) exposure to the daily performance of the underlying benchmark

Key attributes of leveraged ETFs:

- Higher risk – but potentially higher rewards
- Risk limited to capital invested
  - **Never lose more than principal invested versus shorting**
- RRSP, TFSA and RESP eligible
- No margin call risk – if you don't use a margin account

# GLOBAL LEVERAGED AND INVERSE ETF GROWTH

Exposure	# ETFs/ ETPs	Listings	Assets # (US\$ Mn) listings Jul-17	% market share	ADV (US\$ Mn) Jul-17	NNA (US\$ Mn) Jul-17 YTD	NNA (US\$ Mn) Jul-17 YTD	NNA (US\$ Mn) 2016	NNA (US\$ Mn) 2016
<b>Leveraged</b>	<b>413</b>	<b>624</b>	<b>41,394</b>	<b>55.7%</b>	<b>4,393</b>	<b>(350)</b>	<b>(1,093)</b>	<b>(899)</b>	<b>(1,747)</b>
Equity	230	297	31,393	42.2%	2,779	119	(4,023)	(3,282)	(7,835)
Fixed income	18	28	645	0.9%	17	(30)	86	4	156
Commodities	99	216	7,994	10.7%	965	(652)	1,968	247	9,997
Alternative	6	9	631	0.8%	611	192	805	2,113	(4,190)
Currency	55	69	369	0.5%	14	1	(5)	12	65
Mixed	5	5	361	0.5%	7	20	75	7	61
<b>Inverse</b>	<b>228</b>	<b>365</b>	<b>16,310</b>	<b>21.9%</b>	<b>1,514</b>	<b>(541)</b>	<b>870</b>	<b>3,775</b>	<b>2,385</b>
Equity	115	147	10,335	13.9%	252	12	965	4,393	4,173
Fixed income	42	59	2,100	3.7%	53	(213)	269	311	342
Commodities	59	147	514	0.7%	12	14	(137)	(10)	1
Alternative	8	8	2,682	3.6%	1,196	(347)	(220)	(916)	(2,136)
Currency	3	3	54	0.1%	1	(6)	3	(2)	(7)
Mixed	1	1	5	0.0%	0	-	(10)	-	12
<b>Leveraged Inverse</b>	<b>191</b>	<b>296</b>	<b>16,671</b>	<b>21.4%</b>	<b>1,572</b>	<b>137</b>	<b>2,566</b>	<b>6,626</b>	<b>7,699</b>
Equity	112	167	9,901	13.3%	925	170	2,433	4,431	6,460
Fixed income	18	36	5,041	6.8%	92	(246)	669	489	501
Commodities	53	85	1,235	1.7%	544	216	(317)	1,m	847
Alternative	1	1	9	0.0%	1	-	9	-	-
Currency	4	4	407	0.5%	9	(4)	(170)	(71)	(176)
Mixed	3	3	79	0.1%	1	-	(58)	-	67
<b>Total</b>	<b>832</b>	<b>1,285</b>	<b>74,375</b>	<b>100.0%</b>	<b>7,479</b>	<b>(754)</b>	<b>2,343</b>	<b>9,502</b>	<b>8,337</b>

Source: ETFGI, as at July 31, 2017.





# SUMMARY

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- ETFs Have Experienced Tremendous Growth
- Actively Managed ETFs Offer Distinct Advantages
- Consider Leveraged ETFs if You're a Sophisticated Investor

# GENERAL INVESTMENT OBJECTIVES

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**Horizons S&P/TSX 60™ Index ETF (HXT):** Seeks to replicate, to the extent possible, the performance of the S&P/TSX 60™ Index (Total Return), net of expenses. The S&P/TSX 60™ Index (Total Return) is designed to measure the performance of the large-cap market segment of the Canadian equity market.

**iShares S&P/TSX 60 Index ETF (XIU):** Seeks long-term capital growth by replicating the performance of the S&P/TSX 60 Index, net of expenses.

**iShares MSCI Canada ETF (EWC):** Seeks to track the investment results of an index composed of Canadian equities.

# CONTACT US!

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## WE'RE SOCIAL



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EXCHANGE TRADED FUNDS

ALPHA \* BENCHMARK \* BETAPRO

**MIRAE ASSET**

**THANK YOU**