Managed Money Report

PRIVATE CLIENT SOLUTIONS

2018 Year-End Edition

Mutual Funds & ETFs

Inside this Report

Liquid Alternatives – A new Era in Mutual Fund and ETFs

A significant change is coming to the managed money space this January with the official launch of alternative mutual funds, also known as liquid alternatives or "liquid alts". The Canadian Securities Administrators (CSA) has been consulting on potential changes to the mutual fund investment vehicle for years, and the culmination of this work will come into effect January 3, 2019. These regulatory changes will provide investors with a much broader investment toolset compared to what traditional long-only mutual funds have been able to achieve up until now. The impact for investors will be access to institutional-grade diversification strategies that were previously only available to accredited investors. In this edition of the *Managed Money Report*, we walk through the context around why liquid alts are coming to the market, what they are, what types of strategies investors should expect to see, considerations before investing, how they fit in a portfolio and some ideas for putting it all together.

Some context

In September 2016, the CSA published a request for feedback on their modernization of investment fund product regulation, specifically to deal with alternative funds. Up until this point, alternative products were typically only available to institutional and accredited investors. The CSA felt that greater access to alternative products would benefit Canadian investors given that many alternative strategies have typically had lower correlation to traditional long-only investments. In order to make these products available to mainstream investors, a key aspect of alternative products needed to change, and that was providing greater transparency and more flexibility at the fund level. Offering memorandum products are only required to publish financial statements semi-annually, and they are only required to produce this information to current unit holders. While some go above and beyond this, traditionally it has been difficult to run an apples-to-apples comparison across products with many managers specifically preferring their privacy. One of the key changes required for the liquid alts category of mutual funds was enhanced transparency. Alternative funds will now have to provide standardized disclosure that highlights how the alternative fund differs from conventional mutual funds as well as how much leverage can be used. In addition, the top 25 fund holdings will need to be disclosed publically on a quarterly basis with financial statements publicly filed.

What is a Liquid Alternative?

Liquid alts are similar to mutual funds or ETFs in that they represent an open-ended pool of investor capital and have the same transparency and regulatory reporting requirements. The main difference is that liquid alts provide more investment flexibility and incorporate investment strategies traditionally used only by hedge funds because they were prohibited under the old mutual fund framework (NI 81-102). The new liquid alt category provides an enhanced tool set for portfolio managers, the highlights of which include leverage up to 3x net asset value (NAV), shorting up to 50% of NAV, borrowing up to 50% of NAV, and enhanced concentration limits, to name a few. The table below summarizes the key fundamental differences between a traditional fund and the new liquid alternative. It's important to note that while the regulations may allow for a specific limit, it does not mean a fund will necessarily incorporate these limits into its prospectus and investment process. Almost all funds set their own investment parameters in-line with the strategy they are running. The easy example is shorting. The new guidelines allow for up to 50% of the fund's NAV to be sold short without cash collateralization (which was the key consideration last time around). However, a long-only manager may decide to utilize only the new leverage capabilities without employing any shorting strategy.

Item	Traditional Mutual Funds	New Liquid Alts
Leverage	None	3x NAV
Concentration Limit	10% of NAV in a single issuer	20% of NAV in a single issuer (does not apply to short sale of government securities)
Physical Commodities	Indirect exposure through specified derivatives, up to 10% of NAV	Direct exposure to physical commodities, i.e. silver, platinum, palladium, and gold, up to 10% of NAV
Illiquid Assets	10% of NAV at time of purchase, hard cap at 15%	Non-redeemable funds only – up to 20% of NAV at time of purchase with hard cap at 25%
Fund-of-Fund Investing	Currently restricted to only investing in funds with simplified prospectus. Conventional funds will now be able to invest up to 10% of NAV in liquid alternatives	Up to 100% of NAV into any National Instrument 81-102 regardless of prospectus filed
Cash Borrowing	Up to 5% of NAV temporarily	Up to 50% of NAV for investment purposes
Short Selling	Up to 20% of NAV, with 100% cash collateralization	Up to 50% of NAV
Performance fees	Not typical	Permitted

Structure of Liquid Alts

Given the more flexible framework for these new products, we believe there will be two primary categories that liquid alts will fall into. The first will be those that focus primarily on risk mitigation, where the fund's objective will be to provide a lower correlation to traditional asset classes such as stocks and bonds, hedge against downside movement, and in turn dampen the volatility experienced by unit holders. When done correctly, this should result in better risk-adjusted returns that should outperform on the downside and perhaps lag in strong bull markets.

The second type of structure would be return-enhancing strategies that may experience similar or greater volatility than traditional asset classes. While there is no prescribed formula for what these strategies might look like, we think they will generally be associated with funds that have a market exposure greater than 100%, which will be achieved through the use of leverage. It's likely there will be both broad market-based strategies that employ leverage as well as niche sector level exposures. While this group of strategies will typically be associated with higher risk, within the category there will also be much riskier strategies than others, which may be magnified by the varying degrees of leverage employed.

Types of Strategies to Expect

Some of the common types of liquid alt strategies that investors can expect to see under the new framework will be relative value strategies, such as equity market neutral funds or various arbitrage funds such as convertible arbitrage or merger arbitrage. These strategies invest long and short in an effort to generate positive returns regardless of the market environment. For context, a short position in a security is one that benefits when the price of the security depreciates. Some of the market neutral funds may seek exemptive relief from Canadian regulators in order to increase their ability to have greater short exposure than what is being allowed under the new rules (maximum 50% of NAV). Alternative fixed-income strategies such as long/short credit funds will also be launched, serving to generate income, create diversification in a fixed-income portfolio, and protect against rising interest rates. Investors can also expect to see a wide range of mandates in the equity-focused long/short category, with each strategy having varying degrees of market exposure. Some funds may employ a short bias (where short exposure is greater than long exposure), others a more tactical or active approach to adjusting exposure levels, and others may have 100% market exposure such as a 130/30 strategy (long 130%, short 30%, net 100%). Others may even have few to no short positions at all but leverage their long-only exposure to maximize the investment opportunity set. Therefore, within this category these funds can be expected to participate in equity market upside with lower downside risk in relation to their degree of market exposure. Finally, investors should expect to see multi-strategy funds launched under the new framework as well, where the manager employs a variety of non-correlated alternative strategies and aims to reduce single strategy risk within one fund.

The new liquid alt framework will continue to prohibit products that are invested in a high percentage of illiquid assets, real property, or non-guaranteed mortgages. These types of investments, which can include (but are not limited to) private debt funds, private equity funds, private REITs, and mortgage investment entities, have an illiquidity premium that is not typically suitable for a product that offers daily liquidity. Therefore, these types of investment products will continue to be offered under an offering memorandum/prospectus-exempt framework where investors benefit from, and are protected by, longer-term holding requirements.

Putting it all together

As the tools available for portfolio construction continue to grow, liquid alts have the potential to diversify and complement your existing portfolio. How liquid alts are included into a portfolio will be a function of the types of strategies that are launched, their objectives, the investment goals of the investor, and overall outlook for traditional long-only fixed income and equity products. These key determinants will also play a role in whether new strategies become equity or fixed income substitutes or complements, or part of an overall allocation to alternative investments. And as with any new investment category, education and awareness will be crucial to using these products effectively. It will also be critical to understand what an alternative mutual fund's prospectus allows the portfolio manager to do and what systems are in place to monitor the portfolio to ensure compliance within these guidelines.

For those looking to pair liquid alts with their core solutions we would encourage you to seek out mandates that attempt to lower overall volatility, have appropriate limits within their prospectus, and select fund managers that have a history of running such mandates. For those looking to enhance portfolio returns, it will be imperative to understand the additional risks associated with the prospect of achieving a higher return.

When liquid alts are incorporated into a well-diversified portfolio, they have the potential to produce superior risk-adjusted returns for investors. Alternative investments have been core holdings in many institutional and pension portfolios for years. With the launch of liquid alts, many of these strategies should become available to mainstream investors who could ultimately benefit from their diversification advantages.

Spencer Barnes, MSc, CIM
Mutual Fund/ETF Specalist

Emma Querengesser
Hedge Fund Specialist

Industry Happenings

- USMC Agreement impact on investment community Financial services firms, investors, and products, should be treated in a way that is equivalent in "like circumstances" in each country.
- TFSA limit for 2019 released 2019 contribution limit set at $6,000 versus $5,500 last year.
- Invesco to acquire OppenheimerFunds Transaction expected to bring Invesco's AUM to more than US$1.2 trillion.
- TD Asset Management completes Greystone acquisition Deal adds more than $35 billion in AUM to TD Asset Management.
- CSA to study trading fees and rebates Research team to review impact of trading fees and rebates on dealers' order routing behaviour.
- Investor behavior and CRM2 fee disclosure Enhanced fee disclosure not appearing to impact investment behavior of retail investors.
- Quebec won't join national regulator Proposed unified Capital Markets Regulatory Authority (CMRA) not sparking interest of Quebec regulators.
- Scotiabank sees liquid alts market continuing to surge Market could reach at least $20 billion in 5 years.

New & Notable Product Launches

Mutual Funds

- Mackenzie launches Global Environmental Equity Fund Partners with Greenchip Financial to provide a solution with a sustainability focus.
- CIBC Asset Management launches Multi-Asset Absolute Return Strategy Aimed at providing an alternative investment fund that aims to generate positive returns, regardless of market conditions, while managing volatility.
- IA Financial launches Thematic Innovation Fund Will invest in companies benefitting from technological advances.
- National Bank Investments makes fund changes Amended sub-advisory relationships on some funds as well as reduced management fees.
- Franklin Templeton adds active currency management, reduces fees for fund The Franklin
- Mackenzie gets first to Market with a Liquid Alternative under the proposed National Instruments 81-102 structure. Mackenzie will try to deliver an absolute return fund in their newly approved conventional mutual fund structure.
- Fidelity Launches Fidelity Founders Class Founders Class is a core equity strategy focused on investing primarily in founder-led companies anywhere in the world and across the market cap spectrum.

ETFs - Canada

- Fidelity (FCCD, FCRR, FCRH, FCUD, FCUH, FCID) Launches six ETFs aimed to provide monthly income while avoiding "unintended risks".
- Horizon's Launchs Industry first zero MER (top level) asset allocation ETFs, HCON and HBAL
- TD Asset Management (TPRF, TCSB, TUSB) Launched 3 funds based on preferred shares as well as a Canadian and a US short-term corporate bond ladder.
- Vanguard FTSE Developed ex North America High Dividend Yield Index ETF (VIDY) Seeks to track a basket of high dividend-paying companies across a diversified mix of developed international markets outside of North America.
- iA Clarington Investments (ICPB, IGLB, IEMB) Launched three of its active fixed-income funds in ETF wrappers.

ETFs - US

- WisdomTree 90/60 U.S. Balanced Fund (NTSX) Targets 90% fund allocation to large-cap equities and 10% in short-term fixed-income securities that will collateralize a targeted 60% notional exposure to U.S. Treasury futures.
- iShares Global Green Bond ETF (BGRN) Invests in bonds linked to projects combatting climate change or supporting sustainable environment
- Goldman Sachs Access Inflation Protected USD Bond ETF (GTIP) Invests in fixed-rate, sovereign $US bonds linked to inflation indices.
- Franklin Templeton (FLSA, FLZA, FLLA) Three new passive ETFs with focus on Saudi Arabia, South Africa and Latin America based on FTSE benchmarks.
- J.P. Morgan Municipal ETF (JMUB) Launched with the goal of providing regula dividends by investing primarily in municipal obligations.
- Vanguard (ESGV, VSGX) Creates its first ESG (environment, social and governance)-based ETFs.
- WisdomTree (EMMF, DWMF) Launches EM and international actively-managed multifactor ETFs.

Raymond James MF Focus List Update

The Raymond James Mutual Funds Focus List is a compilation of what we consider best-in-class mutual funds among the competition. A fund must adhere to rigid criteria and exceed our due diligence process in order to be added to the Focus List. Please refer to the Fund Selection Process document (Appendix C) for more information on how funds are chosen for the Focus List.

Key Points

- The Focus List is currently comprised of 34 funds. We are pleased to inform you that the funds have outperformed their respective categories on average by 236 basis points since being added to the Focus List.
- Dynamic Power American Growth remains the best performing fund this year up 29.85%. The fund has outpaced the broad S&P 500 by almost 25% on the A class. The bulk of the outperformance continues to be driven from security selection, a stat we like to see from a bottom-up manager like Noah Blackstein.
- The worst performing fund continues to be the RBC Global Precious Metals (-20.76%). Precious metals have been under pressure this year with the S&P/TSX Global Gold index down (-15.22%).
- The following Focus List funds are members of the Freedom Enhanced Income Portfolios: BMO Global Dividend Class, Beutel Goodman Canadian Dividend, IA Clarington Canadian Small Cap, Manulife Strategic Income and Lysander-Canso Corporate Value Bond.

Recent Changes

- The following funds were removed from the focus list following an in-depth review of their qualitative investment characteristics, as well as a quantitative evaluation of long-term performance, style analysis and risk-reward characteristics.
    - Trimark US Small Companies
    - Invesco International Growth
    - NBI Westwood Emerging Markets

Raymond James ETF Focus List Update

The Raymond James ETF Focus List is a compilation of what we consider best-in-class ETFs among the competition. All active ETFs must adhere to rigid criteria and exceed our due diligence process in order to be added to the Focus List. Beta and Strategic Beta ETFs must be leaders in their respective market segments. Please refer to the Fund Selection Process document (Appendix C) for more information on how ETFs are chosen for the Focus List.

Key Points

- The Focus List is currently comprised of 34 ETFs, including a mix of passive Beta, Factor based, and Active management.
- The following focus list ETFs are members of the Freedom Enhanced Income Portfolios:
    - ZAG – BMO Aggregate Bond Index
    - FIG – First Asset Investment Grade Bond Index.
- The following focus list ETFs are members of the Freedom Five portfolios.
    - MKB – Mackenzie Core Plus Canadian Bond Fund
    - XXM.B – First Asset US Morningstar Value Index
    - RCD – RBC Quant Canadian Dividend Leaders

Recent Changes

- There have been no recent changes to the ETF focus list.

Appendix A: Raymond James Ltd. Mutual Fund Focus List

The Raymond James Ltd. Mutual Fund Focus List is a collection of best-in-class mutual funds among their respective category peers. A fund must adhere to specific criteria and undergo thorough due diligence in order to be added to the Focus List. Please refer to Appendix B for more information on how funds are selected for the Focus List.

Fixed Income

TYPE	FUND	MANAGER	STYLE/STRATEGY	FUND CODE (Front End/F Class)	RISK RATING
Canadian Fixed Income	Fidelity Canadian Bond	Catriona Martin, Sri Tella	Credit, Sector	FID233/FID633	Low
	PH&N Total Return Bond	Stephen Burke, Kristian Sawkins	Credit, Sector, Duration	RBF6340/RBF5340	Low
	TD Canadian Bond	R. Pemberton, O. Bylaard, C. Case, M. Pauls	Credit, Sector, Duration	TDB306/TDB406	Low
	Leith Wheeler Corporate Adv. Bond	Jim Gilliand, Ben Homsy, Dhruv Mallick	Credit, Sector, Duration	LWF032	Medium
Global Fixed Income	BMO Global Strategic Bond	Curtis Mewbourne (PIMCO)	Credit, Sector, Duration, Currency	GGF99736/GGF95736	Medium
	Manulife Strategic Income	Dan Janis, Tom Goggins, Kisoo Park	Credit, Sector, Duration, Currency	MMF559/MMF659	Low
	PIMCO Monthly Income	Alfred Murata, Dan Ivascyn	Credit, Sector, Duration	PMO005/PMO205	Low
	Templeton Global Bond	Michael Hasenstab	Credit, Sector, Duration, Currency	TML704/TML257	Medium
High Yield	Lysander Corporate Value Bond	John Carswell (Canso Investment Counsel Ltd)	Credit	LYZ801A, LYZ801F	Low
	TD High Yield Bond	Gregory Kocik, Shawna Millman	Credit	TDB822/TDB446	Medium

Balanced

TYPE	FUND	MANAGER	STYLE/STRATEGY	FUND CODE (Front End/F Class)	RISK RATING
Canadian Balanced	Dynamic Dividend Income	Oscar Belaiche, Michael McHugh	Value	DYN206/DYN254	Medium
Global Balanced	CI Signature Income & Growth	Eric Bushell	Blend, Macro	CIG6116/CIG6416	Medium
Emerging Markets Balanced	Capital Group Emerging Markets Total Opportunities	Laurentius Harrer, Luis Oliveira, Shaw Wagener	Multi-manager	CIF842/CIF822	Medium

Domestic Equity

TYPE	FUND	MANAGER	STYLE/STRATEGY	FUND CODE (Front End/F Class)	RISK RATING
Canadian Equity – Dividend	Beutel Goodman Cdn Dividend	Mark Thomson, Stephen Arpin, (Beutel, Goodman & Co.)	Value	BTG303/BTG103	Medium
	Manulife Dividend Income	Alan Wicks, Duncan Anderson, Jonathan Popper, Conrad Dabiet, Prakash Chaudhari	Value	MMF4529/MMF4629	Medium
Canadian Equity – Pure	Fidelity True North	Max Lemieux	Growth-at-a-Reasonable Price	FID225/FID625	Medium
	Sionna Canadian Equity	Kim Shannon (Sionna Investment Managers)	Relative Value	BIP181/BIP581	Medium
Canadian Equity – Focused	CI Synergy Canadian	David Picton (Picton Mahoney Asset Management)	Growth	CIG6103/CIG6403	Medium
Cdn Equity - Small and Mid Cap	IA Clarington Canadian Small Cap	Ian Cooke, Joe Jugovic (QV Investors)	Value	CCM520/CCM1450	Medium

Foreign Equity

TYPE	FUND	MANAGER	STYLE/STRATEGY	FUND CODE (Front End/F Class)	RISK RATING
US Equity - Large Cap	Epoch US Large-cap Value	David Pearl, William M. Priest, (Epoch Investment Partners)	Value	TDB826/TDB448	Medium
US Equity - All Cap	Dynamic Power American Growth	Noah Blackstein	Aggressive Growth	DYN004/DYN253	High
US Equity - Small and Mid-Cap	Mackenzie US Mid Cap Growth Class	Philip Taller	Growth	MFC1564/MFC1802	Medium
Global Equity	BMO Global Dividend Class	Sri Iyer, Sam Baldwin, Fiona Wilson	Dividend-Oriented	GGF87211/GGF88211	Medium
	Capital Group Global Equity	Carl M. Kawaja, Dina N. Perry, Galen Hoskin	Multi-Manager	CIF843/CIF823	Medium
	EdgePoint Global Portfolio	Tye Bousada, Geoff MacDonald	Blend	EDG100/EDG500	Medium
	Franklin Mutual Global Discovery*	Peter Langerman, Philippe Brugere-Trelat	Deep Value	TML180/TML225	Medium
	Mackenzie Ivy Foreign Equity	Paul Musson, Matt Moody	Value	MFC081/MFC077	Medium
International Equity	CI Black Creek International Equity	Bill Kanko, Richard Jenkins	Value	CIG11118/CIG11018	Medium
Asia	BMO Asian Growth & Income	Robert Horrocks, Kenneth Lowe, Taizo Ishida (Matthews International Capital Management)	Blend	GGF620/GGF734	Medium
	Dynamic Asia Pacific Equity	Dana Love, Benjamin Zhan	Blend	DYN079/DYN251	High
Europe	Invesco European Growth	Invesco Growth Investment Team	Growth	AIM643/AIM647	Medium
Emerging Markets	RBC Emerging Markets Equity	Phil Langham	Growth (thematic)	RBF798/RBF699	High

*Under review

Sector/Theme-Based

TYPE	FUND	MANAGER	STYLE/STRATEGY	FUND CODE (Front End/F Class)	RISK RATING
Precious Metals	RBC Global Precious Metals	Chris Beer, Brahm Spilfogel	Blend	RBF774/RBF614	High
Multi-Strategy	Sun Life Multi-Strategy Target Return Fund	Peter Fitzgerald, Daniel James, Ian Pizer and Brendan Walsh.	Absolute Return	SUN1110/SUN1410	High

Appendix B: ETF Focus List

The Raymond James Ltd. ETF Focus List is a collection of best in class exchange traded funds. An ETF must adhere to specific criteria and undergo thorough due diligence in order to be added to the Focus List.

Canadian Fixed Income

TYPE	ETF	INDEX/MANAGER	STRATEGY	TICKER	RISK RATING
Broad Fixed Income	BMO Aggregate Bond	FTSE TMX Canada Universe Bond Index	Beta	ZAG-T	Low
	Vanguard Canadian Short-Term Bond	Barclays Global Aggregate Canadian Gov/Credit 1–5 year Float Adjusted Bond Index	Beta	VSB-T	Low
	Mackenzie Core Plus Canadian Fixed Income	Mackenzie Investments (Steve Locke, Movin Mokbel, Felix Wong, Dan Cooper)	Active	MKB-T	Low
Corporate Bond Fixed Income	BMO Short-Term Corporate Bond	FTSE TMX Canada Short Term Corporate Bond Index	Beta	ZCS-T	Low
	BMO Mid-Term Corporate Bond	FTSE TMX Canada Mid Term Corporate Bond Index	Beta	ZCM-T	Low
	Invesco 1-5 Yr Lad Invmt Gr Corp Bd ETF	FTSE TMX Canada Investment Grade 1-5 Year Laddered Corporate Bond Index	Beta	PSB-T	Low

Global Fixed Income

TYPE	ETF	INDEX/MANAGER	STRATEGY	TICKER		RISK RATING
				UNHEDGED	HEDGED	
US Fixed Income	Vanguard US Aggregated Bond (CAD-HEDGED)	Bloomberg Barclays U.S. Aggregate Float Adjusted Bond Index C$ Hedged	Beta	N/A	VBU-T	Low
	PIMCO Monthly Income	Bloomberg Barclays U.S. Aggregate Index - CAD Hedged (Alfred T. Murata, Daniel J. Ivascyn)	Active	N/A	PMIF-T	Low
International Fixed Income	Vanguard Global ex-US Aggregate Bond (CAD-HEDGED)	Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index C$ Hedged	Beta	N/A	VBG-T	Low
US Corporate Bond Fixed Income	BMO Short-Term US IG Corporate Bond	Barclays U.S. Investment Grade 1-5 Year Corporate Bond	Beta	N/A	ZSU-T	Low
	BMO Mid-Term US IG Corporate Bond	Barclay's U.S. Investment Grade 5-10 Year Corporate Bond Index	Beta	ZIC-T	ZMU-T	Medium
	First Asset Investment Grade Bond	Marret Asset Management (CI Investments)	Active	N/A	FIG-T	Low
High Yield	Horizons Active High Yield Bond	Fiera Capital	Active	N/A	HYI-T	Medium
	First Trust Senior Loans (CAD-HEDGED)	Bill Housey (First Trust)	Active	N/A	FSL-T	Medium

Domestic Equity

TYPE	ETF	INDEX/MANAGER	STRATEGY	TICKER	RISK RATING
Canadian Equity	BMO S&P/TSX Capped Composite	S&P/TSX Capped Composite Index	Beta	ZCN-T	Medium
	Vanguard FTSE Canada All Cap	FTSE Canada All Cap Index	Beta	VCN-T	Medium
	PowerShares FTSE RAFI Canadian Fundamental	FTSE RAFI Canadian Fundamental Index	Factor	PXC-T	Medium
Canadian Equity- Dividend	RBC Quant Canadian Dividend Leaders	Bill Tilford (RBC Global Asset Management)	Factor	RCD-T	Medium

Foreign Equity

TYPE	ETF	INDEX/MANAGER	STRATEGY	TICKER		RISK RATING
				UNHEDGED	HEDGED	
US Equity	Vanguard S&P 500	S&P 500	Beta	VFV-T	VSP-T	Medium
US Equity- Dividend	RBC Quant US Dividend Leaders	Bill Tilford (RBC Global Asset Management)	Factor	RUD-T	RUDH-T	Medium
US Equity- Small Cap	iShares US Small CAP (CAD-HEDGED)	Russell 2000 TR C$ Hedged	Beta	N/A	XSU-T	Medium
	First Asset Morningstar US Value	Morningstar US Target Value Index	Factor	XXM.B-T	XXM-T	High
	First Asset Morningstar US Momentum	Morningstar US Target Momentum Index	Factor	YXM.B-T	YXM-T	Medium
Global Equity	Horizons Active Global Dividend	Sri Iyer, Fiona Wilson (Guardian Capital)	Active	HAZ-T	N/A	Medium
	iShares Core MSCI ACWI ex-Canada	MSCI ACWI ex Canada IMI Index	Beta	XAW-T	N/A	Medium
International Equity	iShares Core MSCI EAFE	MSCI EAFE IMI Index	Beta	XEF-T	XFH-T	Medium
	RBC Quant EAFE Dividend Leaders	Bill Tilford (RBC Global Asset Management)	Factor	RID-T	RIDH-T	Medium

Preferred Shares

TYPE	ETF	INDEX/MANAGER	STRATEGY	STRUCTURE	TICKER	RISK RATING
Preferred Shares	Horizons Active Preferred Shares	Fiera Capital	Active	ETF	HPR-T	Medium
	Horizons Active Floating Rate Preferred Shares	Fiera Capital	Active	ETF	HFP-T	Medium

Total Return Swap ETFs (Tax Efficient)

TYPE	ETF	INDEX/MANAGER	STRATEGY	STRUCTURE	TICKER	RISK RATING
Canadian Fixed Income	Horizons Canadian Select Universe Bond	Solactive Canadian Select Universe Bond Index (Total Return)	Beta	ETF (Swap)	HBB-T	Medium
Canadian Equity	Horizons S&P/TSX 60	S&P/TSX 60 Total Return Index	Beta	ETF (Swap)	HXT-T	Medium
US Equity	Horizons S&P 500	S&P 500 Total Return Index	Beta	ETF (Swap)	HXS-T	Medium
	Horizons S&P 500 (CAD-HEDGED)	S&P 500 Total Return Index C$ Hedged	Beta	ETF (Swap)	HSH-T	Medium
International Equity	Horizons Euro STOXX 50	Euro STOXX 50 Total Return Index	Beta	ETF (Swap)	HXX-T	Medium

* For investors who do not need distributions (dividends/interest income) as a source of annual income, total return swap ETFs offer more tax-effective exposure to certain markets. Total return swap ETFs enter swaps with counterparties to replicate the total return performance of an index with the expectation to not pay any distributions. As a result, investors get the full pre-tax value of distributions “reinvested” into the NAV of the ETF. In non-registered accounts, price returns are treated as a capital gain/loss upon sale of unit. It is worth noting that because there are no underlying holdings other than the swap agreements, these ETFs do introduce counterparty risk.

Beta – Passive low cost solution offering index returns net of fees.

Equal Weight – Replicates an index where all securities are equally weighted

Factor – “Smart-Beta” rules based methodology to enhance or provide tilts to sectors, geographies, etc. Mid cost solution.

Active – Active manager oversight of fund decisions, typically higher cost solutions.

Appendix C: Fund Selection Process

Mutual Funds

Core Beliefs and Philosophy

- ***Objective and unbiased research*** - We have the freedom to select funds from the entire universe of Canadian mutual funds without restriction or bias towards a particular fund family. In addition, we do not receive special compensation from fund companies to promote their funds. These combined factors allow us to conduct fund research in an objective and unbiased fashion.
- ***Investment Horizon*** - Much like the tale of the tortoise that beat the hare, we select funds that are most likely to generate strong long term results versus its peers and respective benchmark.
- ***Art and Science*** - Investing is both an art and a science. Likewise, our fund selection process incorporates both qualitative and quantitative elements.
- ***Sustainable Competitive Advantage*** - We favour funds that possess a distinct competitive advantage over other similarly managed products. We define a competitive advantage as an attribute of the fund's investment process that cannot be easily duplicated or imitated elsewhere and, in turn, enables the fund to outperform over the long term. There are a number of ways a fund can enjoy a competitive advantage. For example, the portfolio manager may retain an informational advantage through experience or by possessing a specialized skillset. Perhaps the fund benefits from extensive research capabilities such as a large team of experienced research analysts. Being the beneficiary of a sophisticated and well-equipped trading desk is another way a fund can have an edge over the competition.

Fund Selection Process

- **Step 1: Quantitative Screening**

The first step of the fund selection process is to identify funds that are worth further consideration. But with over 6000 offerings to choose from, distilling the unwieldy Canadian mutual fund universe can be a daunting task. This is where our quantitative screening tools come into play. In essence, they help pinpoint well managed funds.

Mutual funds that screen well are those that have outperformed with relatively low volatility. In others words, we're looking for funds that exhibit strong risk-adjusted returns. The table below illustrates several metrics that we screen for. It is important to note that we analyze these risk-adjusted metrics on a rolling basis over multiple periods in order to mitigate end-date bias, which is an error that occurs when analyzing performance over a single time period.

Performance Risk Metrics

Alpha	Alpha is the value added by the manager as distinct from the market. We use the overall level of Alpha over time as an indicator of manager skill.
Rolling Alpha > 0	Indicates consistency of risk-adjusted outperformance over time in percentage terms. Must be well above 50%.
Up and Down Capture %	We look for funds that capture more market upside than market downside.
Omega	This is the ratio of "up" periods to "down" periods. We prefer funds with Omega at least 20% greater than the benchmark's.
Downside Volatility	When performance is negative, how negative does it get? We prefer funds with lower downside risk.
Maximum Drawdown	The peak to trough percentage decline of a fund's performance over a specified period of time. This metric helps determine a fund's risk profile and the magnitude of future drawdowns.
Sharpe Ratio	This ratio measures excess return per unit of standard deviation. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance has been.
Treynor Ratio	Similar to Sharpe ratio, Treynor measures excess performance as a unit of risk. Unlike Sharpe, Treynor uses market risk (i.e. beta) instead of security risk (i.e. standard deviation) as the base unit of risk.
Information Ratio	This ratio measures a fund's ability to generate excess returns relative to the standard deviation of its benchmark. A high ratio is achieved by producing strong returns and low volatility relative to the benchmark.

It is often the case that funds worth further consideration are those that don't pop up on our radar through the initial screening process (e.g. limited track record). As such, we rely on our experience and network of industry contacts to uncover these hidden gems.

Before we conduct any further analysis, we need to ensure that the fund's manufacturer or sub-advisor poses no reputation risk, is financially sound, follows strict internal risk controls, and is not embroiled in disciplinary matters with securities regulators.

Funds worth further consideration must also meet the following criteria:

- The portfolio manager or investment team has several years of lead portfolio management experience.
- Available for sale to new and existing unitholders.
- Competitively priced fees.

- **Step 2: Assessing Performance Drivers**

Once a fund has been identified for further consideration and meets the above eligibility criteria, we analyze the fund's performance drivers. While portfolio managers would love to have you believe that their fund's five star rating or first quartile rankings are the manifestation of their investment acumen, there are many other factors outside the control of the portfolio manager that shape a fund's track record.

Investment style is a key consideration as it strongly influences a fund's returns. Investment style is defined as the overall strategy or theory that a money manager abides by when selecting securities. The two main investment styles are value and growth, both of which rotate in and out of favour for extended periods of time, consequently obscuring the validity of a fund's track record. For example, by simply focusing on price and earnings momentum, even the most inept growth manager was able to greatly outperform the majority of value managers during the late 1990s. However, when the tech bubble imploded and growth fell off the rails, the reverse became true; a number of mediocre value funds were able to outperform growth funds by simply sticking to their investment strategy.

In order to control for style differentiation, we compare a fund's performance to a customized peer group comprised of funds with similar investment styles. This way, we ensure that we're making apples to apples comparisons when assessing fund performance.

Other factors that impact relative returns include sector and country weightings, currency exposure, and market capitalization. With respect to balanced funds, the largest determinant of a fund's success is its asset mix. In fact, academic studies have shown that approximately 90% of the variability in performance can be attributed to asset allocation. The implications of this on balanced funds are huge. That's because balanced funds abide by different asset mix policies but their returns are often compared to one another on an indiscriminate basis. As a result, a slight difference in its asset mix policy will determine whether a fund is a first quartile hero or fourth quartile laggard. As such, we don't put too much stock in relative performance metrics when assessing the performance of balanced funds.

Given that returns are heavily influenced by the aforementioned factors, we utilize holdings-based and style-based attribution techniques to determine how much value (i.e. alpha) the portfolio manager brings to the table. This also provides us with a better understanding of the strategy's risks, the consistency of management's investment approach, and whether outperformance is sustainable.

- **Step 3: Qualitative Assessment**

After assessing the fund's returns and performance drivers, we require the portfolio manager to complete a detailed investment strategy questionnaire. Key aspects of the questionnaire include a synopsis of the manager's investment philosophy and process, a description of the fund's risk controls, and other material facts concerning the fund. Below is a sample set of questions from the questionnaire:

- Describe how the investment team is structured in terms of research and management responsibilities?
- List all departures and additions to the investment team over the past 12 months.
- How is the portfolio manager's compensation aligned with unitholders of the fund?
- Has there been any material change to the fund's investment strategy over the past 12 months?
- What is your buy and sell discipline?
- How does the fund behave throughout a full market cycle?
- What distinguishes the fund from its closest competitor?
- What areas within the investment process require improvement?

It is mandatory that we interview the portfolio manager or investment team via conference call or face-to-face. The portfolio manager interview is an invaluable step of the fund selection process. That's because it provides us with insights that cannot be gleaned from analyzing the fund's performance or portfolio holdings.

The portfolio manager interview is structured much like a behavioural job interview, based on the belief that behavioural patterns that are identified during the meeting provide a good indication of conduct that happens behind the scenes.

In our experience, we have found that successful portfolio managers are those who are honest, passionate about investing, resolute, business-savvy, self-effacing, and competitive. They are calculated risk takers, knowing when to take chances to capture investment opportunities. They draw upon multiple educational disciplines that allow them to process information in a unique fashion. Lastly, they are independent thinkers, inclined to forge their own path rather than succumb to herd mentality.

- **Step 4: Investment Thesis and Portfolio Strategy**

After thoroughly analyzing all aspects of the fund, we formulate an investment thesis that answers the following question: What is the fund's sustainable competitive advantage? As discussed earlier, a competitive advantage is an attribute of the fund's investment process that cannot be easily duplicated or imitated elsewhere and, in turn, enables the fund to outperform over the long term. In order for a fund to be selected to the Focus List, we must be able to identify and clearly articulate a fund's competitive advantage.

We also consider macro-economic factors, valuations, and the relative attractiveness of an asset class when selecting funds. In addition, we consider how well a fund fits into a diversified portfolio.

- **Step 5: Monitoring and Ongoing Due Diligence**

All funds on the Focus List are monitored on a continuous basis. Performance is reviewed monthly. We will contact portfolio managers of funds whose returns vary dramatically from their benchmark or category average, asking the manager to explain the fund's performance variance in detail. While we would not remove a fund based on short-term underperformance, it's imperative that we understand why a fund's returns are lagging. We are equally concerned with funds that exhibit exceptionally strong performance as this may be an indication that the portfolio manager is assuming too much risk to generate excess returns.

A fund can be removed from the Focus List at any time. We would consider removing a fund for any of the following reasons:

1. If the fund experiences an adverse material change (e.g. manager departure, change in strategy, etc.).
2. If we determine that a comparable fund possesses better investment potential.
3. If our investment thesis no longer holds true (e.g. overestimate a manager's competitive advantage).

ETFs

Passive ETFs- For passive ETFs that track an index, we rely primarily on quantitative metrics that measure how well an ETF replicates its benchmark. While cost (lower is better) is a large driver and an important part of the selection process, there are a number of other metrics that we consider. Tracking Error measures how closely an ETF tracks its benchmark, e.g. a tracking error of 0% means that it perfectly tracks the index. As the number gets higher, the more the ETF differs from the index. Some ETFs may be slightly cheaper, but have issues tracking the benchmark for whatever reason and we seek to deliver returns as close to the index as possible when investing in this type of ETF. Security lending rebates are another area we look at. Security lending is fairly simple and can help generate extra returns for investors. In essence, the manufacturer holds thousands of shares of stocks which back the ETF. If there is a short-seller who wants to borrow any of those stocks, they can post collateral and pay the ETF a fee for doing so. The ETF manufacturer can then pass these fees onto the investor of the ETF to enhance the returns. However, some companies will pay all of these fees out, while some will keep a portion for the house. Repaying a larger portion of the security lending fee helps offset some of the cost. As a result, the lowest cost ETF may not always be on the Focus List if another ETF in the passive universe is delivering closer index returns for any of the reasons mentioned above.

Factor and Active ETFs- For factor and active ETFs, the exact same selection process is employed as mutual funds (outlined above).

Appendix D: Flows, Assets, and Performance

Money is flowing into….

ETF Inflows (YTD)

ETF	Estimated Net Inflows (C$)
PIMCO Monthly Income Fund (Canada)	$1,986,005,481
BMO Europe High Dividend Cov Call ETF	$1,115,776,397
BMO S&P/TSX Capped Composite ETF	$1,047,245,413

Mutual Fund Inflows (YTD)

Mutual Fund	Estimated Net Inflows (C$)
Edgepoint Global Growth & Income Port	$3,435,967,688
PIMCO Monthly Income Fund (Canada)	$1,986,005,481
Edgepoint Global Portfolio	$1,877,504,969

Fund Category Inflows (YTD)

Category	Estimated Net Inflows (C$)
Canada Fund Global Equity	$11,030,778,426
Canada Fund Global Fixed Income	$9,059,935,683
Canada Fund US Equity	$6,904,711,850

Largest ETFs by Assets

ETF	Total Net Assets C$
iShares S&P/TSX 60 ETF	$9,609,774,369
BMO S&P 500 ETF (USD)	$5,656,782,899
iShares Core S&P 500 ETF (CAD-Hedged)	$4,519,187,728

Money is flowing out of…

ETF Outflows (YTD)

ETF	Estimated Net Outflows (C$)
iShares S&P/TSX 60 ETF	-$959,755,383
iShares 1-5 Year Laddr Corp Bd ETF	-$460,937,671
BMO Canadian Dividend ETF	-$384,996,421

Mutual Fund Outflows (YTD)

Mutual Fund	Estimated Net Outflows (C$)
Fidelity Monthly Income Fund	-$3,213,132,582
Fidelity Canadian Bond Fund	-$2,009,350,495
Investors Dividend Fund	-$1,771,344,768

Fund Category Outflows (YTD)

Category	Estimated Net Outflows (C$)
Canada Fund Canadian Neutral Balanced	-$9,264,931,569
Canada Fund Canadian Equity Balanced	-$3,810,173,635
Canada Fund Tactical Balanced	-$3,026,014,358

Largest Mutual Funds by Assets

Mutual Fund	Total Net Assets C$
RBC Bond Fund	$19,725,309,815
RBC Canadian Dividend Fund	$18,166,978,403
TD Canadian Bond Fund	$15,539,715,918

Top Performers

Top Three Best Performing ETFs (YTD)

ETF	Ticker	Total Return
Horizons Natural Gas ETF	HUN	46.2
Horizons Natural Gas Yield ETF Comm	HNY	42.6
Evolve Cyber Security ETF UnHdg	CYBR.B	26.4

Top Three Best Performing Mutual Funds (YTD)

Mutual Fund	Total Return
NBI US High Conviction Eq Priv Port N	44.7
NBI US High Conviction Eq Priv Port NR	42.9
Resolute Performance	33.0

Top Three Best Performing Categories (YTD)

Category	Total Return
US Equity	7.1
Real Estate Equity	4.7
Floating Rate Loans	3.2

As of November 30, 2018
Source: Morningstar, Raymond James Ltd.
(Leveraged & Inverse ETFs excluded)

Bottom Performers

Bottom Three Worst Performing ETFs (YTD)

ETF	Ticker	Total Return
Canadian Crude Oil ETF	CCX	-50.4
BMO Junior Gold ETF	ZJG	-30.7
BMO Equal Weight Glbl BM Hdgd to CAD ETF	ZMT	-27.3

Bottom Three Worst Performing Mutual Funds (YTD)

Mutual Fund	Total Return
AlphaNorth Resource Series A	-54.9
AlphaNorth Growth Series A	-48.9
Brompton Resource Series B	-41.6

Bottom Three Worst Performing Categories (YTD)

Category	Total Return
Canada Fund Precious Metals Equity	-19.9
Canada Fund Natural Resources Equity	-17.8
Canada Fund Energy Equity	-15.8

Disclaimer

Complete disclosures for companies covered by Raymond James can be viewed at: www.raymondjames.ca/researchdisclosures

Raymond James Ltd. (RJL) prepared this newsletter. Information is from sources believed to be reliable but accuracy cannot be guaranteed. It is for informational purposes only. It is not meant to provide legal or tax advice; as each situation is different, individuals should seek advice based on their circumstances. This document is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. The securities discussed in this document may not be eligible for sale in some jurisdictions. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. RJL, its officers, directors, agents, employees and families may from time to time hold long or short positions in the securities mentioned herein and may engage in transactions contrary to the conclusions in this newsletter. RJL may perform investment banking or other services for, or solicit investment banking business from, any company mentioned in this newsletter. Securities offered through Raymond James Ltd., Member-Canadian Investor Protection Fund. Financial planning and insurance offered through Raymond James Financial Planning Ltd., not a Member-Canadian Investor Protection Fund.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual funds. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.