Mutual funds and ETFs offer a wealth of choice

A refresher on registered savings plans (RRSPs and more)

New to investing? Investment funds make it easy to get started

PLUS:
Expand your investment boundaries

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Canadian investors have access to financial markets that are among the most developed and best regulated in the world.

There are unparalleled investment options and access to a diverse range of products, services, investment strategies and distribution channels.

When it comes to saving and investing to achieve your financial goals, there is a wealth of choice – how you want to invest, what you want to invest in, when and where you want to invest, and how you wish to pay.

The investment funds industry is committed to being a leading resource for Canadians to make informed choices about their investments. The industry continues to be on the front line of financial literacy efforts, producing a host of materials, programs and online resources for Canadians of all ages, and actively partnering with educators, government and other groups.

We’ve created *Your Guide to Investment Funds* to help you navigate your financial journey.

If you’re new to investing, you’ll learn how to get started with good savings habits and good advice. You can also explore how mutual funds and exchange-traded funds are evolving and offering greater choice for investors. Learn how you can make a difference with responsible investing, including a new metric being used to measure the quality of these investments. Discover how human and computer minds are working together in quantitative investing, and how Canadian investment portfolios can reach out globally to expand your investment boundaries even further.

No matter what level of investing knowledge you may have or what life stage you are at, we hope you find *Your Guide to Investment Funds* helpful.

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IFIC is the voice of Canada’s investment fund industry and brings together 150 organizations, including fund managers, distributors and industry service organizations, to foster a strong, stable investment sector where investors can realize their financial goals.

IFIC.CA

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**INVESTMENT FUNDS IN CANADA QUICK FACTS**

**Strengthening Canada’s Economy**

$1.47 TRILLION

In November 2018, Canada had 111 fund companies offering more than 3,400 unique mutual fund products. Mutual fund assets amounted to $1.47 trillion.¹

$161 BILLION

In November 2018, Canada had 33 fund companies offering more than 650 unique ETF products. ETF assets amounted to $161 billion.²

**Building Personal Financial Wealth**

59%

59% of RRSP assets are in the form of investment fund units.³

38%

Investment funds account for 38% of Canadians’ personal financial wealth.⁴

**Providing Valuable Financial Advice**

95%

95% of mutual fund investors are satisfied with their advisors.⁵

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¹IFIC, 2018
²IFIC, 2018
³Strategic Insight, 2017
⁴Strategic Insight, 2017
⁵Pollara, 2018

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**YOUR GUIDE TO INVESTMENT FUNDS**

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Quantitative investing: Not all solutions are alike

Quantitative investing – also known as factor investing or smart beta – can be a highly effective tool for producing specific outcomes that enhance portfolio performance. The computer-based models doing the buying and selling have more than earned their place in modern portfolios.

But behind those algorithms, it takes human expertise. There are many kinds of styles, strategies and factors that go into a wide range of quantitative strategies, and the devil is in the details.

“Quantitative investment strategies can be very versatile and effective investing tools,” says Andrew Clee, vice-president of Exchange-Traded Funds (ETFs), Fidelity Investments Canada. The first thing to consider is the difference between single-factor and multi-factors strategies.

A single-factor strategy is designed to target only one outcome. “That could be dividends, it could be momentum, it could be value or quality, for example,” Clee explains. “Multi-factors take more than one of these approaches and ‘marry’ them. They might combine low volatility with dividends, for example, to try and take down the volatility of a single-factor dividend strategy,” he says. “Or you might combine value and growth, so that you end up with growth at a reasonable price.”

While most factors tend to perform according to economic cycles, individual factors are generally not closely correlated with one another – so combining two or more factors brings the benefits of diversification.

“The basic idea is to maintain an investment discipline,” says Robert Mark, investment strategist at Raymond James Ltd. Private Client Solutions. “Quant strategies are basically ‘rules-based’ investing and can range from very simple to very complicated. It’s important to know what you are investing in and more importantly, why you are investing in them.”

A research report on factor-based investing by Fidelity Investments recommends that “investors should use a due diligence process similar to what they might use for actively managed funds.” This diligence is important, says Clee, because while most quant strategies are nominally passive in their execution, they are designed upfront by active managers.

“The way that Fidelity builds a quant strategy may be entirely different than the way another asset manager builds one,” Clee says. In other words, the initial design can make major differences in performance.

Fidelity puts a large focus on the portfolio construction aspect in designing its factor funds. It tracks the performance of tailor-made indices constructed by Fidelity Management & Research Company (FMR Co., Inc.), and deploys rules-based methodologies designed to provide exposure to targeted factors that may outperform over the long term.

Clee says there’s a tension between the computer

CONTINUED ON PAGE 6
Quantitative investing: Not all solutions are alike

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model-based approach of quant investing and the tendency of human managers to want to intervene based on their own expertise and insights.

But Fidelity’s experts don’t worry a lot about the distinction between active and passive management. There’s a place for both, Clee says. Actively managed funds are designed for managers to review the concentration risks and sector bets they’ve taken and adjust them manually, while quants try to stick to the script.

In fact, investors should also reconsider the distinction between active and passive investment, he adds. “I think we should view it more as active and passive, active and factor, active and quantitative strategies, rather than pit them against each other. All are very useful tools in constructing a complete portfolio.”

Fidelity Canada’s six new ETFs include a range of dividend-focused Canadian, U.S. and international products. A seventh ‘single-ticket’ mutual fund is also available, designed to generate monthly income by tactically allocating among all the Fidelity Dividend Factor ETFs.

With these factor funds, “we’re targeting an outcome. We’re targeting dividends while remaining diversified. We don’t want to take the risks that other indexed products may take, say, at the level of individual company bets or sector bets. An active manager might decide to go significantly overweight in one sector, after doing the research,” Clee says. “With quantitative, it’s important to stick to the model to deliver the outcome we’ve targeted to its fullest extent.”

Clee notes that major institutional investors, such as pension funds, use all the tools at their disposal to complement active management. That gives you the best of both.”

“...They have active managers whose job it is to deliver returns through stock selection and their quantitative programs to deliver targeted outcomes, as well as their passive strategies to track broad indices,” he says. “We’d like to see that type of portfolio management from the institutional and pension side passed on to the retail sector. Because at the end of the day, you can’t put all your eggs in one basket.”

It’s true that in a rising or volatile market an active manager might outperform a quant strategy, because skilled managers can pick promising stocks and respond quickly to market dips, twists and turns.

“But I think you also have to complement active with a targeted outcome approach,” Clee says. Combining factors such as dividends, quality and low volatility can help insulate portfolios against difficult markets, he explains.

“If you use a combination, you can isolate different factors in building a quantitative strategy and complement this with active management. That gives you the best of both.”

What are the factors that are used in a quantitative strategy?

• Value
• Dividend Yield
• Momentum Quality
• Low Volatility
• Company Size

A multi-factor strategy will combine two or more of these factors and test them against several questions, to fine-tune exposure to risk:

• What is the strategic exposure of the investment?
• How does it figure into the overall portfolio’s construction?
• Where does the investment fit into the market/business cycle?

Commissions, trailing commissions, management fees, brokerage fees and expenses may be associated with investments in ETFs. Please read the ETF’s prospectus, which contains detailed investment information, before investing. ETFs are not guaranteed. Their values change frequently. Past performance may not be repeated.
A refresher on registered savings plans

A registered savings plan is a type of savings plan that is registered with the Canadian government and offers special tax advantages. Registered savings plans can be opened at various financial institutions including mutual fund dealers, investment dealers, banks, credit unions and insurance companies. A broad range of investment options is available including mutual funds, ETFs, stocks and bonds.

Registered savings plans give you a tax incentive to save money, which can help you reach your financial goals. The **Registered Retirement Savings Plan (RRSP)** and the **Tax-Free Savings Account (TFSA)** are two of the most common types of registered plans.

**Registered Retirement Savings Plan (RRSP)**

An **RRSP** is a savings plan that allows you to make tax deductible contributions to save towards your retirement. The income you earn in your RRSP is usually tax exempt, as long as it remains in the plan. Tax is generally payable when you take money out of your RRSP.

You can contribute the lower of 18% of your income from the previous year or the annual RRSP limit for the current year; which is $26,500 for 2019. If you are a member of a pension plan, contributions to your pension plan will reduce the amount you can contribute to your RRSP. Unused contribution room can be carried forward to use in the future. In some circumstances, it may be beneficial for your spouse or common-law partner to make contributions to your RRSP using their RRSP contribution room.

RRSPs offer unique programs, such as the Home Buyers’ Plan which allows first-time homebuyers to withdraw up to $25,000 from their RRSP to help build or buy a home, and the Lifelong Learning Plan which allows you to withdraw amounts from your RRSP to finance full-time training or education for you, your spouse or common law partner. For each program, funds must be returned to your RRSP over time to avoid tax consequences.

**Tax-Free Savings Account (TFSA)**

A **TFSA** is a savings account that can be used to save toward any goal. Contributions to a TFSA are not tax deductible but investments in your TFSA are allowed to grow tax-free. You do not pay tax when you take money out of your TFSA.

Starting in 2009, TFSA contribution room accumulates each year based upon the annual limits set by the government; the TFSA limit for 2019 is $6,000.

**Other Registered Plans**

- The **Registered Retirement Income Fund (RRIF)** gives you a steady stream of retirement income and is opened by transferring money from your RRSP.
- The **Registered Education Savings Plan (RESP)** helps you save for a child’s post-secondary education and allows the government to supplement your contributions through education savings grants or learning bonds.

Your investment advisor can work with you to decide what registered accounts and investment options might be suitable for you.

The Government of Canada also offers useful information about how RRSPs and TFSAs work, as well as their associated contribution limits and deadlines.
New to investing? Investment funds make it easy

Start by developing some smart money habits – budgeting, setting up a savings account with regular automatic contributions so you never ‘miss’ the money withdrawn, and sticking to a plan that reflects your own financial goals and needs today and throughout your lifetime.

Investment funds can be an effective way to help you save towards your financial future, and you don’t need a lot of money to begin.

What are investment funds?

An investment fund is a pool of money collected from many individual investors that is used to invest in stocks, bonds or other securities. Individual investors in the fund don’t make decisions about which securities the fund purchases or when to buy or sell the securities.

Each fund has a portfolio manager who selects securities for the fund based on the investment objectives of the fund and an investment fund manager who oversees the day-to-day operations of the fund.

Investment fund managers, portfolio managers and in some cases, investment advisors who provide advice to individual investors, are paid by the investment fund before the remaining investment income is distributed to investors.

The most common type of investment fund is a mutual fund. In Canada, there are approximately 3,400 mutual funds available for modest, moderate and affluent investors with a range of investment objectives.

Exchange-traded funds (ETFs) are a growing investment fund option in the marketplace, with approximately 650 ETFs currently available in Canada. ETFs combine diversification with the trading characteristics of a stock. They are often structured to mirror an index, commodity or currency.

Generally, both investment fund options can offer investors access to investment opportunities, diversification and professional investment management at a shared and, therefore, lower cost than they could access on their own.

How much money do you need to invest?

To get started, invest what you can afford and try to increase the size of your contributions regularly. As a guideline, you may want to invest the annual percent-
The “Know Your Client” rule

Securities rules and regulations require investment advisors to ensure each of their recommendations and trade in your account is appropriate for you, in relation to your specific personal circumstances. To meet this requirement, your investment advisor needs to understand your personal financial situation, investment objectives and your tolerance for investment risk. This is known as the “Know Your Client” (KYC) rule. The KYC rule requires your investment advisor to obtain the following information from you:

- **Age** – your date of birth
- **Income** – your annual income from all sources, including employment income and investment income
- **Net Worth** – an estimate of your total assets less your total liabilities
- **Risk Tolerance** – your willingness to accept investment risk and your ability to withstand financial losses
- **Investment Objectives** – why you are investing or what you intend to use your investments for
- **Investment Knowledge** – your level of knowledge about investing, investment products and their associated risks
- **Time Horizon** – how long you expect to keep the majority of your account invested

Your investment advisor will need to know whenever you have a change in your personal circumstances, such as a meaningful change in employment, income, assets, liabilities, marital status or family situation.

Ensuring that your KYC information accurately reflects your current personal situation will help your investment advisor provide you with suitable advice.

Getting help and making informed choices

Understanding your investments is key. Some investors choose to make decisions on their own, and others prefer to work with an investment advisor, who serves as a coach and guide. An investment advisor can help you assess your financial needs and goals. An investment advisor can also help you build a portfolio by recommending suitable investments for you. The more you understand about your investments, the better equipped you will be to have effective discussions with your investment advisor about what investments are right for you.

Investing is a lifelong process. There is plenty of time and help available to begin today and, over time, become a confident and informed investor.

To learn more, visit IFIC’s online Investor Centre at IFIC.ca.

The Mutual Fund Dealers Association of Canada (MFDA) has created a fact sheet that outlines all of the information your investment advisor needs from you to open your account. The fact sheet is available on the MFDA website at [www.mfda.ca/wp-content/uploads/ClientInfoSheet.pdf](http://www.mfda.ca/wp-content/uploads/ClientInfoSheet.pdf)
Invest in a level playing field

The Desjardins SocieTerra Positive Change Fund brings out the good in the money we invest.

By partnering with a bank that believes in equal access to financial services, we’re giving low-income individuals and entrepreneurs the stability and resources they need, while seeking to deliver potentially long-term investment returns you can feel good about.

letsthinkri.com

The Desjardins Funds are not guaranteed, their value fluctuates frequently and their past performance is not indicative of their future returns. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The Desjardins Funds are offered by registered dealers.
According to a recent SOM survey conducted on behalf of Desjardins, 72% of Canadians said they were somewhat or very interested in responsible investing (RI). However, only 8% of respondents said they knew exactly what RI is. Even though RI has been around for over 20 years and Canadian investments managed with RI strategies total $2 trillion, the general public isn’t familiar with it. RI is a form of investing that considers environmental, social and governance (ESG) issues while still focusing on financial returns for the investor. It uses the same evaluation criteria as traditional investing, but also incorporates ESG criteria for selecting and managing investments.

Responsible investments perform just as well as traditional investments – and sometimes they do even better. In a recent analysis of 2,200 studies published since 1970, factoring in ESG criteria was shown to have a neutral or positive impact on returns in 90% of cases. The RI sector is continuing to experience rapid growth and now represents 50.6% of Canada’s investment industry, up from 37.8% in 2016.

**A global movement**

In 2006, the United Nations launched the Principles for Responsible Investment (PRI) to encourage major investors to collaborate on RI practices. The PRI encourages investors to learn more about sustainable development goals and commit to incorporating them into their investment decisions. The aim of the PRI was to send a message to the market and influence companies to take ESG issues into consideration.

In September 2015, countries adopted the 17 Sustainable Development Goals (SDGs) in the UN 2030 Agenda for Sustainable Development. Some goals include gender equality, affordable and clean energy, and quality education. From these 17 goals, 169 targets and 232 indicators were established; they were revised in March 2017 to measure the impacts of RI.

**Real and inspiring impacts**

Of course it may be difficult to measure the impacts of RI. Even though there may be challenges, it’s important to assess the impacts of RI to show investors that company activities have positive social and environmental impacts.

For example, the Desjardins SocieTerra Positive Change Fund helps meet 13 of the UN’s SDGs and clearly demonstrates the strength and influence of RI. The fund’s portfolio includes a
Responsible investing: Everyone can make a difference

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company that provides distance education to more than 900,000 Brazilian students with a monthly household income of under US$1,000. It’s been proven that after completing their education, these students’ average income went up 81%. The Desjardins SocieTerra Positive Change Fund contributes to the goals of ensuring that everyone has access to quality education, and promoting decent work and economic growth.

The Desjardins SocieTerra Positive Change Fund also helps:
- Reduce CO2 emissions
- Save billions of litres of water
- Eliminate tonnes of waste

As an investor, it’s important to choose opportunities that suit your investment horizon and risk profile. With RI, you can also help build a sustainable world for future generations.

Here are the 13 Sustainable Development Goals targeted by the Desjardins SocieTerra Positive Change Fund

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Notes:
1 2018 survey of Canadians on responsible investing, presented to Desjardins Investments Inc. A Web survey conducted on behalf of Desjardins Wealth Management (September 2018). (Survey of 2,212 Canadians. The margin of error was ±2.6%, 19 times out of 20.).
3 Statistics from the 2018 Canadian Responsible Investment Trends Report, available at riacanada.ca.
Mutual funds and ETFs offer a wealth of choice

If you’re wondering what investment fund type to choose to achieve your financial goals – mutual funds or exchange-traded funds (ETFs) – the answer can be both.

Mutual funds and ETFs can co-exist in a well-diversified portfolio of investments, and having both products as investment options offers investors unparalleled choice.

The key is understanding the similarities and differences between ETFs and mutual funds and how these products can each play a role in helping you to achieve your financial objectives. You can work with your advisor to create a portfolio that best meets your needs.

In terms of product structure, there are more similarities than differences.

ETFs and mutual funds are both professionally managed, pooled investments with built-in diversification and liquidity. They are also regulated under the same rules. Both vehicles offer a full range of investment strategies, including pure passive, smart beta, active management, and highly differentiated active management strategies with minimum constraints.

They both offer access to a full range of asset classes, from money markets to equities and bonds, and across domestic and international markets.

The boundaries between ETFs and mutual funds are blurring somewhat; fund companies are combining ETFs in mutual fund structures, making them accessible to more investors.

Here’s where they differ. Mutual funds have been around longer, so some funds have a very long performance track record, compared with the majority of ETFs, which is a newer product type.

There are currently more mutual fund product choices. Today, there are more than 3,400 Canadian mutual funds available. There are currently approximately 650 ETFs listed in Canada, and more products are coming on stream at a rapidly increasing rate. In fact, the number of ETFs has more than doubled in the past five years alone. There is a greater variety of passive index strategies in ETFs and a greater variety of active investing strategies in mutual funds.

ETFs offer greater

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Mutual funds and ETFs offer a wealth of choice

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flexibility in trading. Because they trade on an exchange, they offer investors the same trading flexibility offered by stocks, including the ability to time trades, and to set limit orders and stop-loss orders.

For the most part, it is easier to make smaller purchases of mutual funds on a regular basis. Because of brokerage commissions, buying ETFs with smaller dollar amounts every couple of weeks or every month can be inefficient and costly. However, the good news is that there are a growing number of purchase options now offered for ETFs, from robo-advisors to online brokerages with pre-authorized contribution plans.

Mutual funds and ETFs both have ongoing costs in the form of management expense ratios, comprising management costs, operating costs, administrative costs and taxes; and trading expense ratios. When trading ETFs, you also have to be aware of the potential costs associated with the fund’s trading costs, which can fluctuate.

ETFs generally have lower management fees than mutual funds, largely because the majority of ETFs are passively managed and the majority of mutual funds are actively managed. While low-cost, passive funds still dominate the ETF landscape, there are a growing number of actively managed ETFs in Canada – again blurring the lines to some degree between the two fund types.

The management fees of the majority of mutual fund assets include fees that represent the cost of distribution and advice. This structure currently accounts for almost 85% of all fund assets in Canada. For ETFs, the cost of distribution and any advice received is generally paid as a separate fee.

Investment funds continue to play a valuable role in helping Canadians to build wealth and financial security. Having access to both ETFs and mutual funds provides a wider range of products and investment strategies to choose from than ever before.

Glossary

Benchmark: A standard against which to compare the performance of an investment, investment fund or portfolio to help evaluate how investments have performed.

Diversification: The process of investing in a variety of investments to help reduce the risks inherent in investing. Diversification should consider types of securities, companies, industries and geographic locations.

Dividends: A payment made by a company to its shareholders, usually from the company’s profits.

Emerging market: An economy (usually of a country) that is growing rapidly and becoming more advanced but does not have all of the characteristics of a developed market.

Exchange-traded fund (ETF): An ETF is an investment fund that trades like a common stock on an exchange. ETFs are often structured to mirror a stock index, a commodity or currency.

Investment dealer: A company that is registered to distribute a variety of investments, including stocks, bonds, investment funds and other securities to investors.

Investment fund: A pool of money collected from many individual investors that is used to invest in stocks, bonds or other securities. Investment funds offer investors access to investment opportunities, diversification and professional investment management at a shared cost.

Investment fund manager: A company that is registered to oversee the day to day operation of investment funds.

Market value: The price at which an investment can be sold in an open and unrestricted marketplace.

Mutual fund: The most common type of investment fund. The investments held in a mutual fund are based upon the objectives of the fund as described in the fund facts document, prospectus or other offering document. Mutual funds do not trade on an exchange.

Mutual fund dealer: A company that is registered to distribute investment funds to investors.

Net asset value (NAV): The NAV of an investment fund is the total value of the fund’s assets, less its liabilities, divided by the number of units outstanding. NAV is the standard method of pricing an investment fund.

Portfolio: A group of financial assets belonging to an investor. The investor could be a person, a company or an investment fund.

Portfolio manager: An individual who selects securities for a portfolio based upon the investment objectives of the portfolio. The portfolio manager decides when to buy and sell securities and in what quantities.
As an investor, it’s important to play an active and engaged role in your investment portfolio. One of the best ways to learn more about investing and your own investment portfolio, is to make sure you read and understand the statements and reports you receive from your investment advisor.

**Quarterly**, you should receive statements that have detailed information about:
- the investments you hold, and
- the transactions that took place in your account during that quarter.

**At least annually**, you should receive additional reports that tell you:
- how well your investments have performed, and
- how much your dealer or investment advisor was paid in relation to your investment account, either directly from you or indirectly from third parties.

These documents contain a wealth of information that can help deepen your knowledge, facilitate more effective conversations with your investment advisor and give you greater peace of mind throughout your financial journey.

The timing of when you receive this information can also be a catalyst to keep in touch with your investment advisor. At least once a year, you should meet to review your investments and your statements. You can ask your investment advisor about anything you don’t understand. Throughout the year, be sure to keep your investment advisor up-to-date on any changes that might affect your financial situation.

The Canadian investment funds industry is committed to providing detailed information to help investors better understand the costs and performance of their investments.

**Now it’s your turn.** By taking the time to read your statements and reports, you’ll gain a better understanding of your investments, which will help you work towards your financial goals and greater investment confidence.
MSCI ESG Quality Score a reliable new metric for RI investors

It’s no secret that environmental, social, and governance (ESG) factors are becoming top of mind for a growing number of investors, particularly Millennials. Bloomberg reports a 37% increase in the assets of ESG investment funds, to $445 billion in 2017, citing issues such as energy efficiency, water scarcity, safety, and diversity as key areas of interest for investors. But a key question for investors in this space is how to measure the ESG quality of a given investment fund. Until recently, that meant intensive, time consuming research into the individual holdings of a fund at any given time.

But now, the MSCI ESG Quality Score, a service provided by Fundata Canada, provides a reliable metric for investors.

The growing demand for ESG-screened investments has had a trickle-down effect as retail advisors, asset managers, and institutional players have all started dedicating more resources to the ESG space in order to meet client demand. Pension funds too are turning to ESG analysis for the long-term sustainability implications that come with strong management in the environmental, social, and governance areas. The effects are also noticeable among mutual funds, with a positive upward trend in the ESG Quality Score since April 2017.

The ESG Quality Score (0-10) is an aggregation of the ESG ratings in the underlying holdings of a fund. Larry Lawrence, Executive Director, ESG Products at MSCI says, “by providing the ESG scores and metrics for more than 30,000 mutual funds and ETFs, ESG Research offers the critical look-through tools to evaluate and analyze a fund’s underlying holdings and make more informed ESG investment decisions.”

Looking at these ESG scores allows investors and advisors to see what the fund managers are doing from an ESG perspective, regardless of whether or not the fund is managed with an ESG mandate. Using these scores can also shed some light on the ESG outlook for the fund universe as a whole.

The average ESG Quality Score has risen across equity funds in each of the past 15 months with an average monthly increase of 0.45%. The increase in average ESG Quality Score from August 2017 to August 2018
was 5.5%. The accompanying graph shows the monthly average ESG Quality Score across equity funds in Fundata's database.

This overall increase in the scores begs the question, is it the mutual fund managers shifting their focus and analysis to include ESG factors, or is it the publicly-traded companies themselves behaving more responsibly?

Without access to the scores of the individual equities, I looked at the holdings from some of the funds that have had the biggest increase in ESG Quality Score. I started by screening out only the funds with an ESG score of 5 or higher in order to focus on the funds that have an established ESG base to begin with.

The fund with the biggest increase was Scotia Private Canadian Mid Cap Pool, which saw its ESG Quality Score rise 26% over the past year, to 5.94. Table 1 is a look at how the top 10 holdings have changed for the fund from August 2017 to June 2018 (the most recent available holdings).

The biggest addition to the top 10 is Cott Corporation, which provides “water and coffee services.” The company states, “Our brands are committed to a sustainable future. We take advantage of environmentally friendly processes that support the health of the planet. We are also committed to giving back to the communities we serve. Our successful sustainability programs have saved money, reduced landfill waste, and overall fuel consumption.”

A second fund with a significant increase in ESG Quality Score is Ninepoint Focused U.S. Dividend Class. The score rose 24% over the past year, to 5.42, facilitated by the addition of Thermo Fisher Scientific Inc. That company's stated mission is “to enable our customers to make the world healthier, cleaner and safer.” Table 2 shows the fund’s holdings changes over the period.

These are simply two examples of funds that have allocated significant capital to quality companies and by no means provides insight on how managers are viewing ESG in general. But it does show two funds, and there are many other examples, that don’t have an ESG investing mandate that have significantly increased the ESG quality of their portfolio with some key additions.
Expand your investment boundaries

Explore the potential of a global multi-asset approach

Most investors are aware of the importance of a diversified portfolio. But what it means to diversify is much different today than in the past. At one time, owning a variety of mutual funds with Canadian equity and government bond exposure would have counted as a well-diversified portfolio. With financial markets becoming more interconnected and complex, diversification now means expanding your portfolio’s boundaries to include a wider range of regional and asset class opportunities.

Going global

Greater exposure to foreign equity and debt markets allows you to participate in a broader array of investment themes. For example, by 2025, two-thirds of the world’s economic growth is expected to come from a group of 600 cities, with over 400 of them in developing countries.¹ By 2050, 60% of middle-class consumption is projected to come from emerging countries.² The expanding consumer sectors that cater to the growing middle class in emerging countries such as India and China present a wide range of attractive equity and bond opportunities. In addition to enhanced diversification, a carefully selected basket of international securities has the potential to enhance a portfolio’s return profile.

More choice

Looking beyond traditional asset classes has a variety of potential benefits. For example, with conventional bonds, rising interest rates can cause significant price depreciation. One potential way of countering this limitation of traditional fixed income – and increasing your return potential – is to invest in funds that provide exposure to floating rate debt. This type of debt is issued by corporations – many of them household names – to help finance a wide variety of business activities, including expansions and acquisitions. Unlike the fixed return on conventional bonds, the return on floating rate debt fluctuates as central banks raise or lower interest rates. This means rising interest rates improve, rather than diminish, the performance of floating rate debt.

High-yield corporate bonds also offer a potentially attractive way of diversifying your fixed-income exposure. These bonds typically offer a higher interest payment than Canadian government bonds, and tend to perform well when the overall economy is stable or growing. Another benefit of high-yield bonds is that they tend to be less sensitive to rising interest rates than government bonds – an appealing feature in the current rising interest rate environment.

Get active

Global multi-asset investing has many potential benefits, but it is a highly complex undertaking that requires a wide range of specialties and skills. One of the most important is the ability to make informed decisions on which regions, asset classes and strategies to allocate investment dollars to, and when to make adjustments based on changing market conditions.

For this reason, many investors choose actively managed mutual funds for their global multi-asset needs. Rather than own the entire market for a region or asset class, active managers use research and a variety of analytical tools to identify select areas with the best potential for generating attractive returns while managing risk. This approach can be especially well-suited to an environment where rising market volatility makes careful investment selection especially critical.

iA Clarington Investments specializes in high-conviction active management and offers a variety of global multi-asset solutions for a wide range of investor needs.

¹Data source: McKinsey Global Institute.
²Data source: World Bank.

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