

# Fixed Income ETF Investments

## Due Diligence Report

Managed Portfolios employ a blended active and passive investment strategy, typically using passive ETFs in more efficient markets where we question whether active managers can add value. The ETFs also help lower the underlying investment costs of the portfolio, which is a significant factor. As of September 30, 2020, the following table outlines the various active and passive holdings which make up the fixed income portion of the portfolios. The remainder of this report will delve deeper in each of the ETFs held within the portfolios.:

### Managed Portfolio Fixed Income Holdings

Holdings as of September 30, 2020	Fees	Duration	Conservative	Balanced	Monthly Income	Growth
BMO Aggregate Bond Index ETF (ZAG)	0.08%	8.39	13%	5%	5%	-
Dynamic Advantage Bnd Cl Sr F	0.74%	8.44	8%	-	-	-
Dynamic Prefrd Yield Class Sr F	0.77%	2.78	2%	3%	3%	-
iShares Core Cdn Shrt Trm Bd ETF (XSB)	0.10%	2.79	12%	10%	9%	8%
Lysander-Canso Corp, Value Bd F	0.93%	6.4	9%	6%	6%	-
Manulife Strategic Income F	0.92%	3.52	10%	5%	5%	-
Percentage of Fixed Income allocation in passive funds			54%	28%	27%	8%

## Why Fixed Income ETFs?

**Lower costs.** In a low yield environment, single basis points matter. Over the past couple of years, management costs for some of the largest fixed income ETFs have more than halved, making ETFs an even more inexpensive option for cost-conscious portfolio managers. Coupled with the growing inefficiencies in the bond market, using ETFs allows us to make tactical shifts seamlessly.

**Liquidity.** Often fixed income ETFs can trade more efficiently than the underlying bonds they represent. Efficient access is a primary benefit of fixed income ETFs. Utilizing index sampling, fixed income ETF portfolio managers select a subset of more liquid securities that offer exposure in line with their underlying index.

**Selection.** ETF providers have been active in building very comprehensive suites of fixed income ETFs, allowing allocators of capital to dial into the exact exposures that they deem appropriate.

## BMO Global Asset Management

BMO is currently ranked second in terms of ETF market share in Canada. Total ETF assets under management are \$66.8 billion. In terms of Fixed Income specific ETFs, BMO has taken the top spot in the country with over 30% of the market, besting iShares by 3%. The broad product shelf includes 37 Fixed Income ETFs, consisting of mostly passive options as well as some active funds.

### BMO Aggregate Bond Index (ZAG)

This position is our core bond allocation across all portfolios. It is a low-cost option designed to replicate, to the largest extent possible, the performance of the FTSE TMX Canada Universe Bond Index. It is both the largest fixed income ETF in Canada and the most liquid. With fund assets around \$5.05 billion\*, the fund has had decent inflows this year, following the reduction of its management fee to just 0.08%. It also has less than half the tracking error compared to similar products such as XBB, and nearly double the 30-day average trading volume. Simply put, this fund is our favored choice for broad based fixed income exposure.

**Nobody controls the risk in an Index (ETF), it is our job to know the risks**

### ETF Selection Process

- **Macro View** - This drives our asset allocation, geographic allocation and desired tilts within the portfolio
- **Market Efficiency** – In each market or asset class we determine which are more or less efficient based on participants, composition and structure. In more efficient markets we tend to use more ETFs
- **Goodness of Fit** – Does a given ETF in a market give the portfolio the desired exposure based on our macro view?
- **Bottom Up Security Analysis** – Enables us to see sector and geographic bets embedded in the ETF. How this interacts with the rest of the portfolio is a key determinant
- **Cost** – We use ETFs to lower our overall cost structure
- **Creator** – It is important to know who the creator of the ETF is. Liquidity and overall size are also considerations

### About Managed Portfolios

- Incorporates both our long-term asset allocation framework and timelier macro outlook.
- Continuous tactical advice / updates based Connected Wealth macro research
- Oversight and selection of best in class actively managed mutual funds
- Transparency into underlying holdings & positions
- Combines multiple active managers and passive ETFs for a blended fee conscious solution

**First Due Diligence**  
July 31, 2018  
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The fund is made up of 27% corporate debt with the remainder in government bonds. It has a weighted average duration of 8.39 and is made up indirectly of Canadian investment-grade bonds consisting of Corporate, Federal and Provincial. The indirect ownership is due to the fact it is structured as a fund of funds. Costs are kept low as the management fees of the underlying ETFs are reduced by those accrued in the underlying funds.

Years to Maturity*	
1 – 5 Years	47.71%
5 – 10 Years	23.60%
10 – 30 Years	34.69%

Credit Quality Allocation*	
AAA	37.49%
AA	36.33%
A	14.18%
BBB	12.00%

Fixed Income Type*	
Government	72.89%
Corporate	27.11%

\*Data as of October 7, 2020

## iShares

With over 900 ETFs (globally) and more than \$2 trillion in assets under management iShares has decades of experience globally and was the developer of the first ETFs within Canada. The company continues to build out their suite of quality funds. iShares hold claims to the largest ETF in Canada (XIU) and is the market share leader with total AUM of \$74.3 billion. The company holds 38% of the equity ETF market in Canada and remains the passive leader with a controlling 43% market share.

### iShares Core Canadian Short Bond (XSB)

Across all portfolios, we remain below benchmark duration. XSB is used primarily as a duration modification tool. It's held in all the portfolios: Conservative, Balanced, Monthly Income and Growth Managed Portfolios. The fund tracks the FTSE TMX Short Term Bond Index, providing a short duration core bond allocation. The fund pays a monthly distribution, which currently yields 2.21. Due to its duration of just 2.88 years, the fund has very low interest rate risk.

XSB is the third largest fixed income ETF in Canada and recently lowered its fees to just 0.10%, making it amongst the lowest cost Fixed income ETFs. It has assets of over \$2.59 billion and has one of the longest track records available since it was established on November 20<sup>th</sup>, 2000. It provides 100% Canadian exposure to investment grade bonds while mitigating interest rate risk and providing a stable income stream. Nearly two thirds of the fund are comprised of government bonds, the remaining third is in corporate investment grade debt.

Years to Maturity*	
0 – 1 Year	0.02%
1 – 2 Years	25.87%
2 – 3 Years	29.41%
3 – 5 Years	44.36%

Credit Quality Allocation*	
AAA	48.51%
AA	26.28%
A	13.45%
BBB	11.77%

Fixed Income Type*	
Government	67.74%
Corporate	32.26%

\*Data as of October 7, 2020

The research above is prepared by Richardson Wealth Limited and is current as at the date on page 1. Please note that past performance is not necessarily an indicator of future performance. The indicated rates of return are gross of fees and/or commissions. Individual results of client portfolios may differ from that of the representative portfolio as fees may differ, and performance of specific accounts is based on specific account investiture. The noted representative portfolio may not be appropriate for all investors.

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