NASDAQ GLOBAL RISK MANAGED INCOME INDEX

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WHAT IS IT?

The NASDAQ Global Risk Managed Income Index is a rules-based, quantitatively enabled index that is designed to provide risk managed, globally diversified exposure to income generating asset classes and produce a high yield for the risk taken. The Index consists of liquid, income-bearing TSX-listed ETFs.

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WHY CHOOSE IT?

Strong Yield ✓
- All components are income-producing ETFs.

Reduced Risk ✓
- Components are selected and weighted based on proprietary metrics, including yield-to-risk and momentum.

Diversified Exposure ✓
- Exposure includes a wide array of geographies within equities and fixed income.

Designed for Canadian Investors ✓
- Currently incorporates 22 ETFs listed on the TSX.

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Q1 2017 UPDATE

THE STATE OF INCOME RISK FACTORS

- Many high income asset classes are sensitive to interest rates, credit spreads, and energy prices.

- 10-year U.S. Treasury rates were relatively stable during the quarter, fluctuating within an approximately 30 bps band around 2.45%.

- Canadian 10-year interest moved similarly around 1.71%.

- Investment grade credit spreads were relatively stable while high yield spreads first contracted by 70 bps before expanding back up near the beginning levels in March.

- This movement in high yield was possibly driven by the energy market as oil prices improve slightly in the beginning of the quarter before declining sharply in March (12.6% maximum drawdown in Q1).

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BATTLING MUTED GROWTH

- With low growth forecasts over the next decade in both equities and core fixed income, investors may need to broaden their horizon for growth opportunities.

- Assets such as REITs, high yield, bank loans, and emerging market debt generally have higher growth forecasts than core U.S. equities and global bonds.
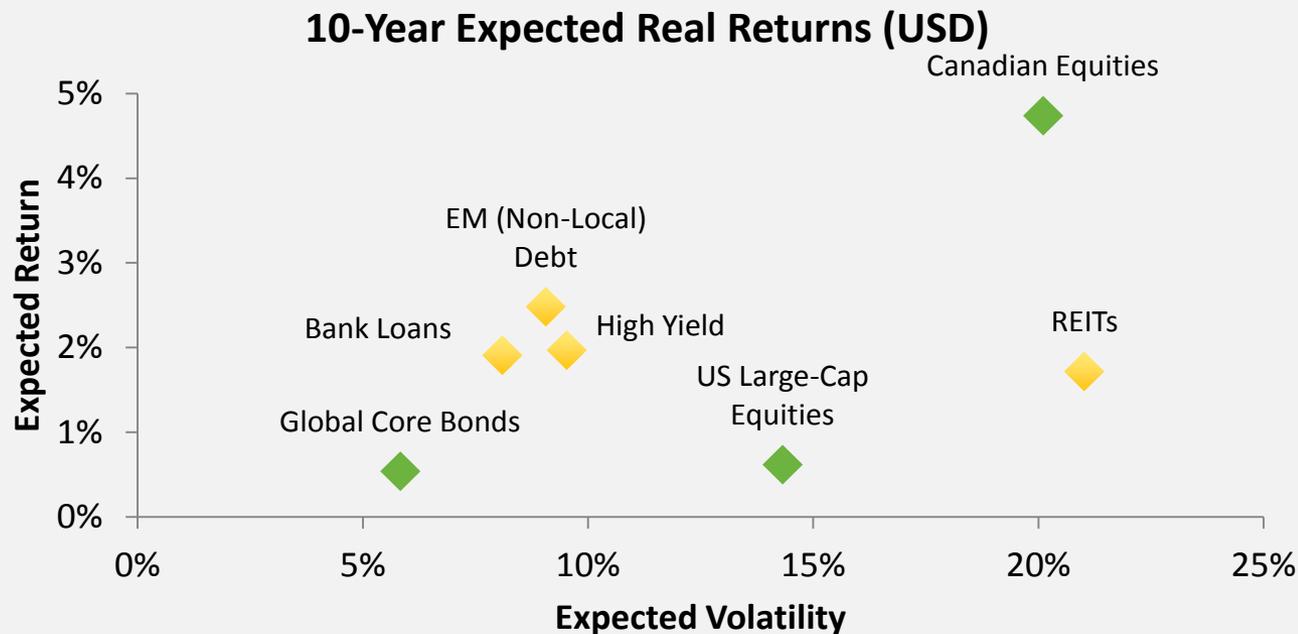
10-Year Expected Real Returns (USD)

Source: Research Affiliates website: Asset Allocation - Expected Returns as of 31 March 2017

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USING INCOME FOR GROWTH

- Total return can be broken into two general components: income and capital appreciation.

- With high valuations, capital appreciation may not be reliable; income may provide a significant boost to total return.

Sources of Expected Return (USD)
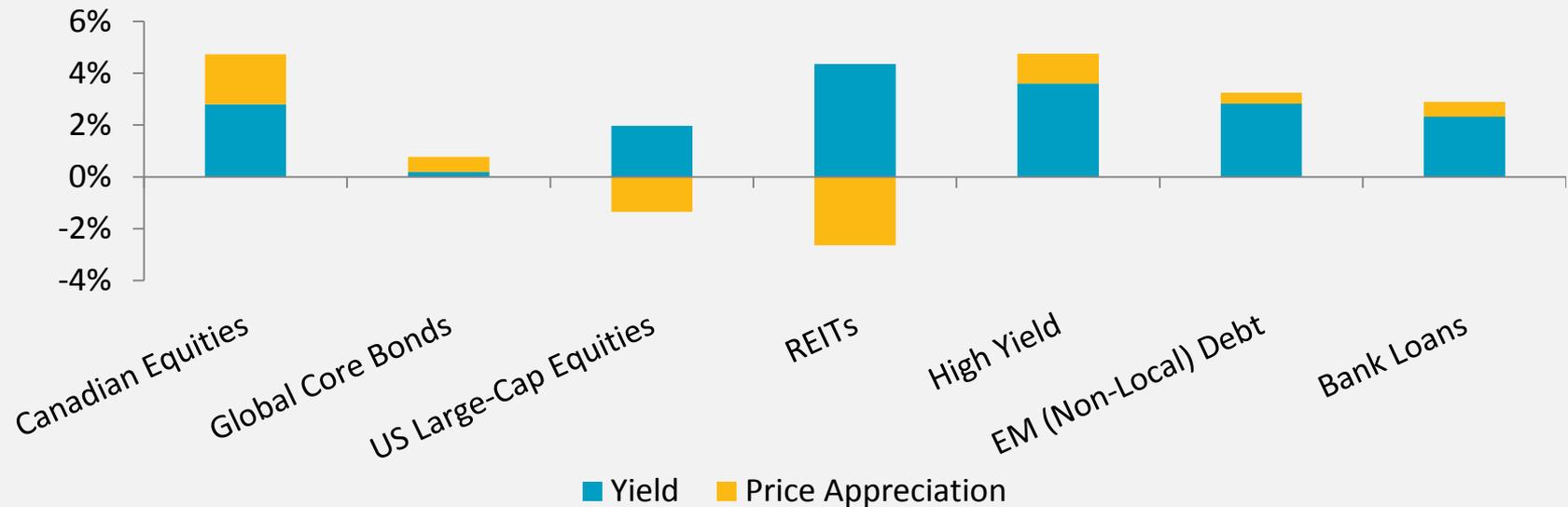
Source: Research Affiliates website: Asset Allocation - Expected Returns as of 31 March 2017

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TO HEDGE OR NOT TO HEDGE CURRENCY

- Research Affiliates forecasts that the Canadian Dollar will strengthen 1.6% annually over the next ten years vs. the U.S. Dollar. Hedging against this expectation may be prudent for income focused investments when hedged investments are readily available.

	Expected Return (CAD) - Unhedged	Expected Return (USD) - Hedged
Canadian Equities	3.2%	4.7%
Global Core Bonds	-1.0%	0.5%
U.S. Large-Cap Equities	-0.9%	0.6%
REITs	0.2%	1.7%
High Yield	0.4%	2.0%
EM Debt (Non-Local)	0.9%	2.5%
Bank Loans	0.3%	1.9%

Source: Research Affiliates website: Asset Allocation - Expected Returns as of 31 March 2017
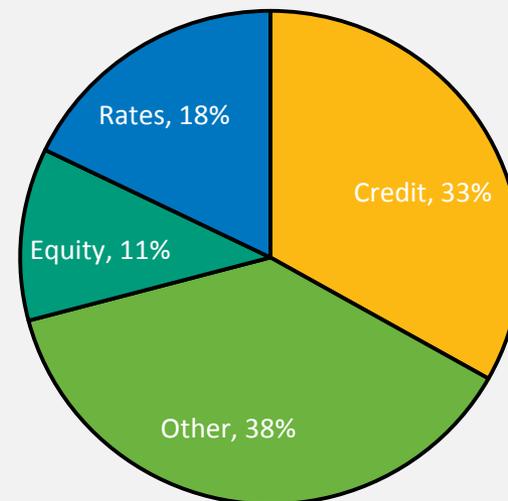
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RISK DECOMPOSITION – A STRATEGIC VIEW

- Regardless of where growth is *expected*, where it will ultimately come from can differ significantly from expectations.

- A diversified exposure to different risk factors improves the probability of generating income regardless of the economic regime.

50/50 High Yield/Canadian Universe Bonds
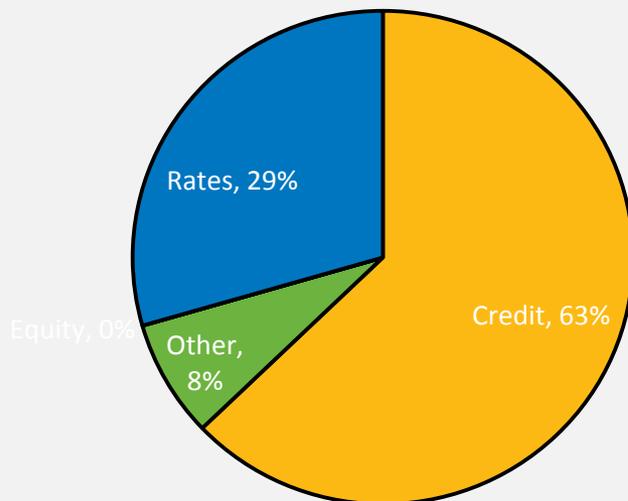
Rates, 29%

Equity, 0%

Other, 8%

Credit, 63%

Strategic Portfolio (31/3/2017)

Rates, 18%

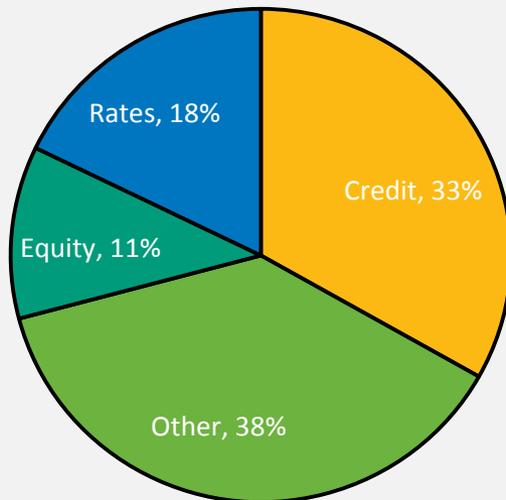Equity, 11%

Credit, 33%

Other, 38%

Data source: Yahoo! Finance and the Federal Reserve Bank of St. Louis, Bank of Canada. Analysis by Newfound Research. Past performance does not guarantee future results. Analysis covers the period from March 2014 to March 2017, the period over which data for all asset classes is available.

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RISK DECOMPOSITION – A TACTICAL VIEW

- Tactical tilts allow the strategy to capture income opportunities in favorable areas of the market.

- The current portfolio indicates a shift from interest rates toward credit exposures as interest rates are poised to rise.

Strategic Portfolio (31/3/2017)

Rates, 18%
Credit, 33%
Equity, 11%
Other, 38%

Tactical Portfolio (31/3/2017)
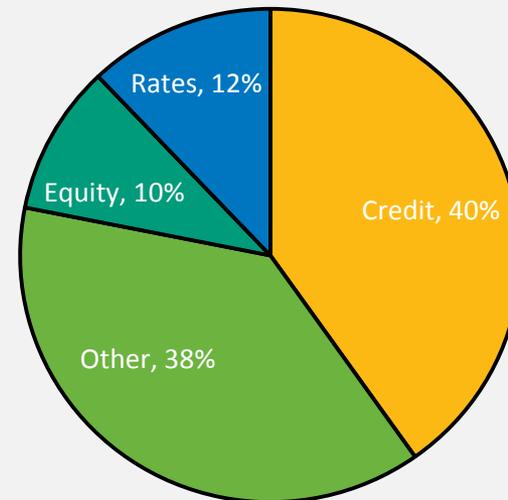
Rates, 12%
Credit, 40%
Equity, 10%
Other, 38%

Data source: Yahoo! Finance and the Federal Reserve Bank of St. Louis, Bank of Canada. Analysis by Newfound Research. Past performance does not guarantee future results. Analysis covers the period from March 2014 to March 2017, the period over which data for all asset classes is available.

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STRATEGIC IS NOT STATIC

- Prior to the application of the momentum filter, the strategy allocates using Sharpe parity, in which allocations are proportional to the Sharpe Ratio of each asset class.

- Sharpe parity retains many of the attractive risk management qualities of risk parity, but without totally ignoring the return side of the equation.
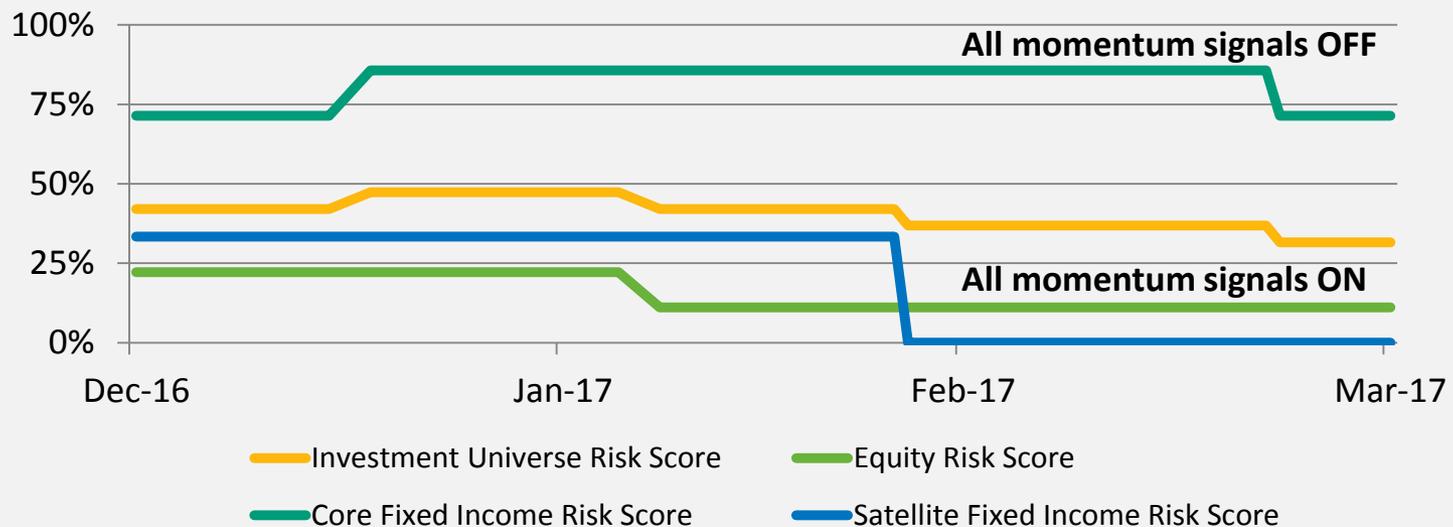
31 March 2016

31 March 2017

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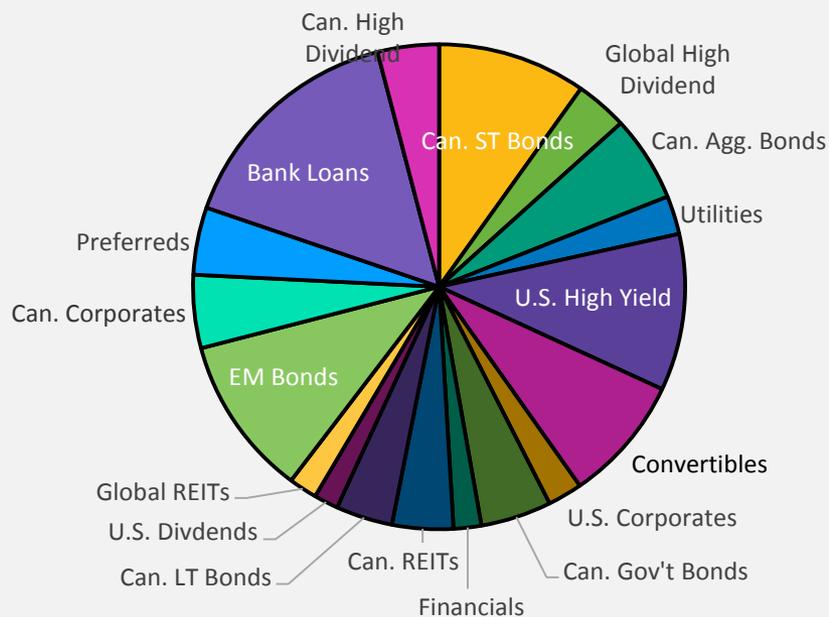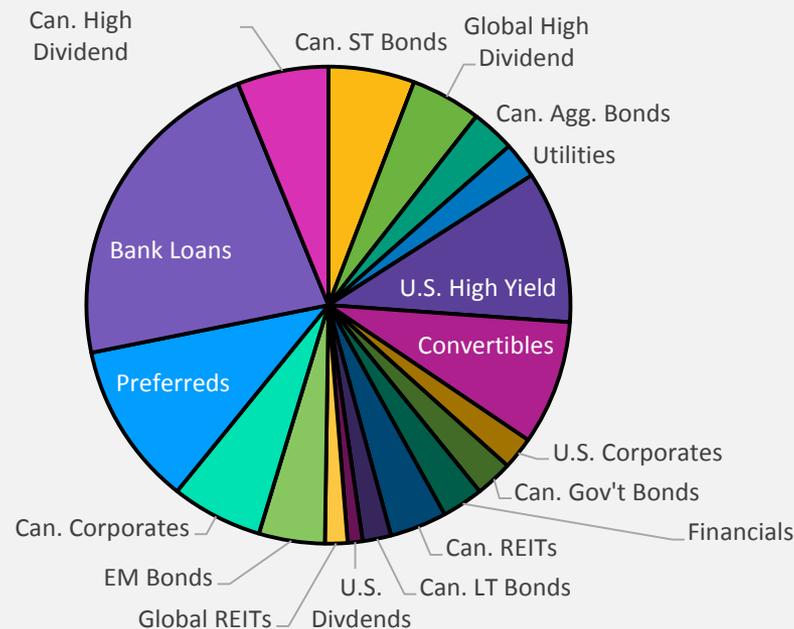
MOMENTUM IN THE INVESTMENT UNIVERSE

- The momentum in the investment universe improved throughout most of the quarter.

- The quarter ended with significant positive momentum in satellite fixed income.

Q1 2017 Investment Universe Risk Score

Source: Newfound Research. The risk score is calculated as the average number of negative momentum signals on the assets in each listed category. A risk score of 100% corresponds to all negative momentum signals within a given category.   It is calculated using all ETFs in the strategy's investment universe. The momentum signals are generated by Newfound's core momentum model.

THE EFFECT ON THE PORTFOLIO

- The minor changes in both the momentum signals and Sharpe ratios did not lead to any rebalances as the strategy aims to limit whipsaw that is commonly associated with momentum based investment processes.

Q1 2017 Portfolio Allocations

- Core Fixed Income
- Satellite Fixed Income
- Equity
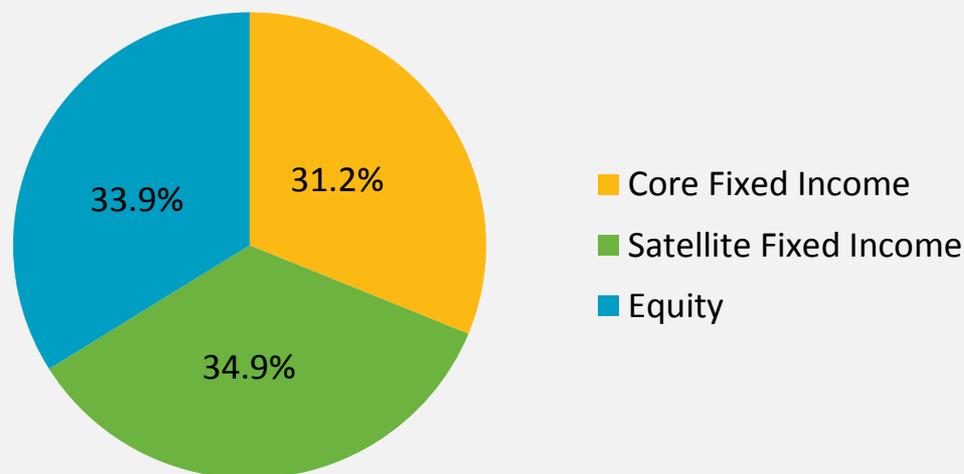
Source: Newfound Research. Equity consists of Canadian dividend equities (VDY and XEI), global dividend equities (CYH), U.S. dividend equities (VGG) financials (XFN), utilities (ZUT), REITs (ZRE), global REITs (CGR), and preferreds (CPD). Core fixed income consists of Canadian short-term bonds (VSB), Canadian long-term (XLB), Canadian corporate bonds (XCB), Canadian universe bonds (VAB), Canadian government bonds (XGB), mid-term U.S. corporate bonds (ZIC), and U.S. high yield (ZHY), 1-5 year laddered government bonds (CLF). Satellite Fixed Income consists of convertible bonds (CVD), bank loans (FSL), and EM bonds (ZEF).

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CURRENT PORTFOLIO POSITIONING

- The portfolio is diversified across 19 income generating asset classes.

- Fixed income currently makes up 62% of the portfolio.

- The duration of the fixed income sleeve is 3.3 years compared to 7.5 years for core Canadian bonds (ticker: VAB). Individual asset class durations range from less than 1 to 15 years.

- 41% of the fixed income portfolio is rated investment grade (BBB or higher).

Source: Newfound Research. Data as of 31 December 2016.

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CURRENT PORTFOLIO POSITIONING

- We currently estimate that the investment universe would need to decrease by approximately 9% across the board to bring a defensive position into the portfolio

- However, since the index is constructed based on a fully quantitative, rule-driven process, how long the current portfolio positioning will persist will ultimately be dictated by the market environment that emerges over time

Source: Newfound Research. Data as of 31 December 2016.

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ASSET CLASS ESTIMATED YIELD VS. VOLATILITY AS OF 31 MAR 2017
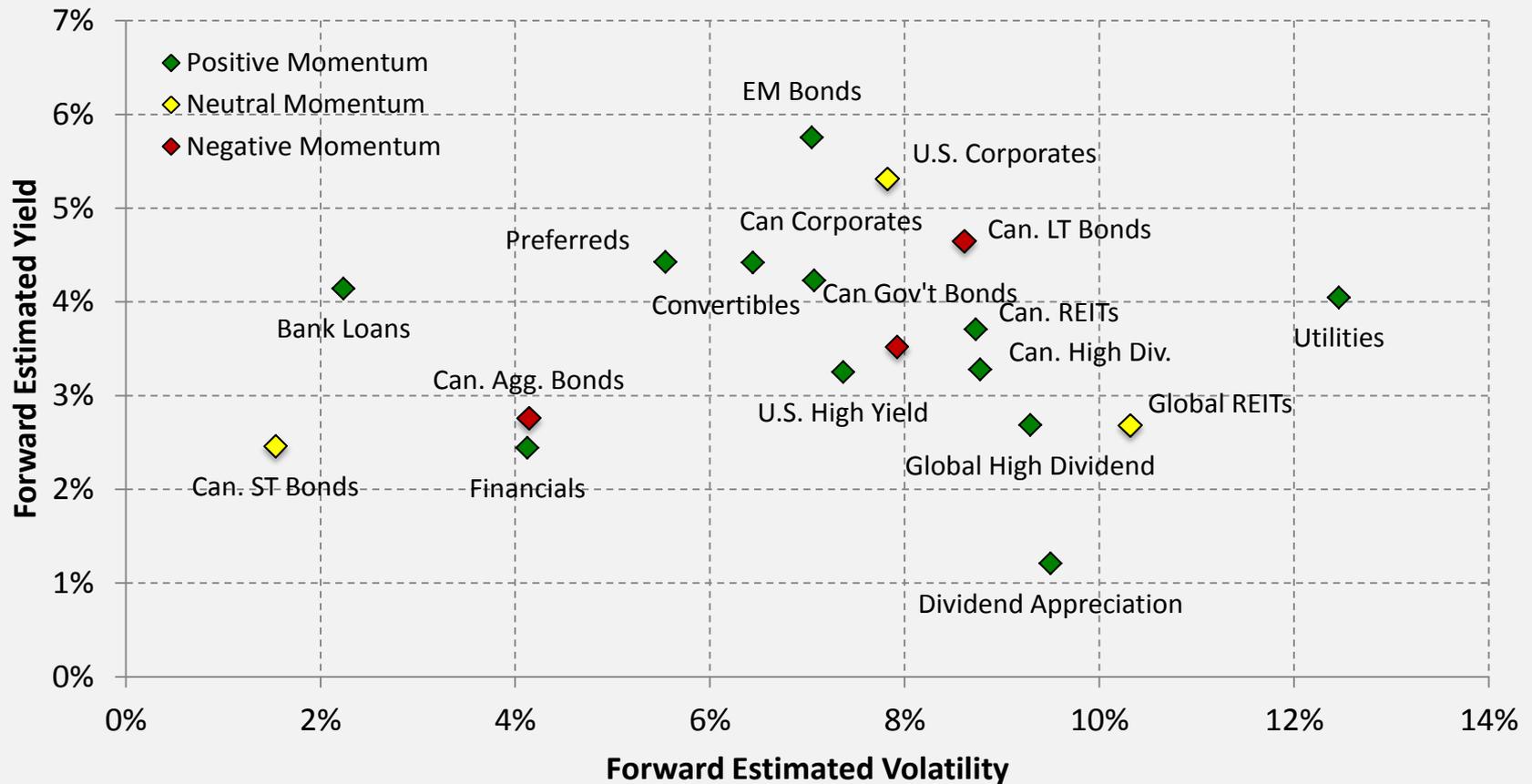
Source: Yahoo! Finance, Calculations by Newfound Research
Data as of 31 March 2017

INDEX INFORMATION

Price Return Index
- – Ticker: NQGRMIC
- – Name: Nasdaq Global Risk Managed Income CAD Index
- – Link: https://indexes.nasdaqomx.com/Index/Overview/NQGRMIC

Total Return Index
- – Ticker: NQGRMICT
- – Name: Nasdaq Global Risk Managed Income CAD TR Index
- – Link: https://indexes.nasdaqomx.com/Index/Overview/NQGRMICT

Sources: Nasdaq Global Indexes Research. FactSet. Bloomberg.

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DISCLAIMER

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