

# NASDAQ IBIS CANADIAN PRESERVATION INDEX 2016 YEAR END REVIEW AND OUTLOOK FOR 2017

## How you can still make money in the bond market

### 2016: THE YEAR OF VOLATILITY /

Bond investors saw a bumpy year full of surprises in 2016. In contradiction to the prognosticated rate hikes for 2016, the Fed kept rates unchanged most of the year and only moderately raised rates 25 bps in December. The difference between expectation and reality added to overall volatility in the yield space as traders bounced around the pricing. Then in June, the United Kingdom surprised the world with Brexit, a vote to exit the European Union. The largest surprise of the year, however, came from the US presidential election. President Trump's aggressive fiscal spending plan and tax reform caused investors to worry about high inflation in the coming years. Within a week following the election, the bond market witnessed the 10-year treasury yield hiked by more than 40 bps, or over 23% in just five days, which is an unprecedented black swan event in the bond market's history. While the projected US rate hikes did not come to fruition, it turned out the will of the republic moved yields up regardless of actual fiscal policy.

### 2017: UNPREDICTABLE RISK AHEAD /

The rate hike in December 2016 and significantly higher inflation projections have already caused huge redemptions in the bond market. Even elite bond fund managers are unlikely to be optimistic about the market in 2017. At Nasdaq, however, we still see opportunities in the fixed income space. There are still sufficient amounts of undigested geopolitical risk and the market is lacking efficient tools to hedge out those risks. Examples include the upcoming elections in Europe,

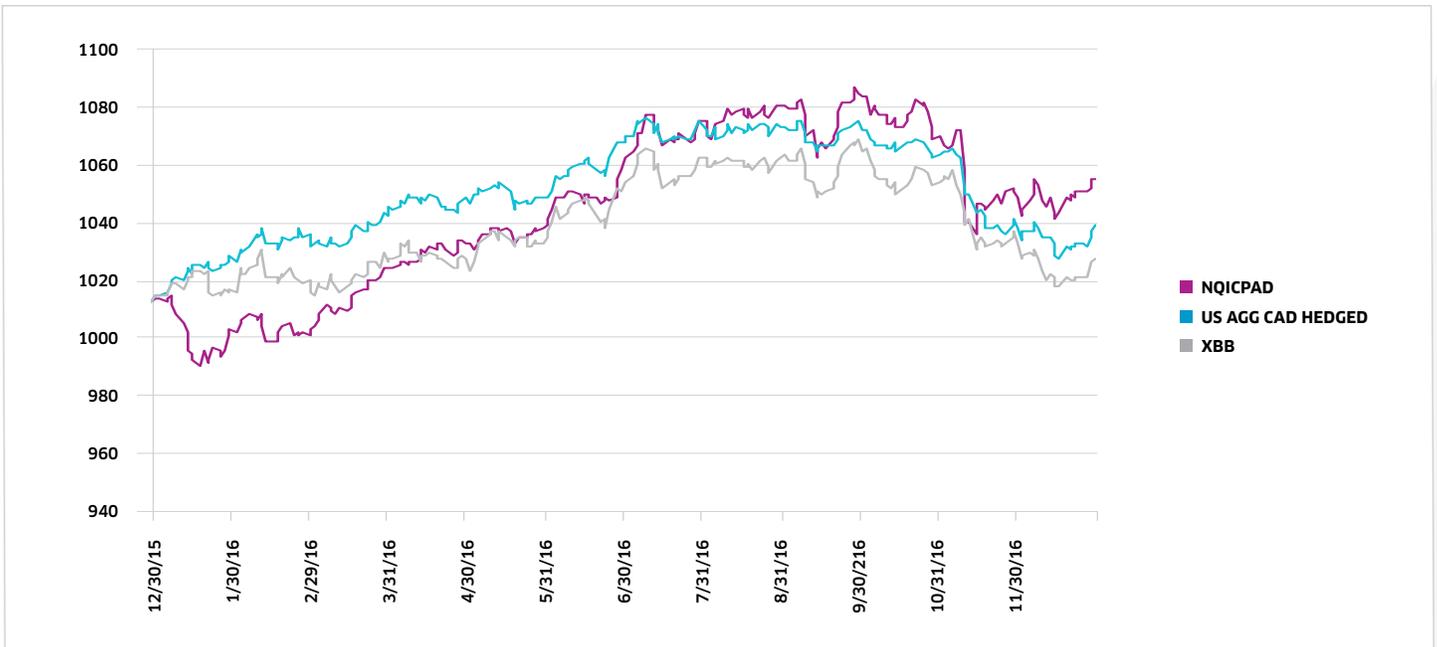
uncertainty regarding Trump's ability to deliver on his policies and emerging markets tumbling on the recent strength of the US Dollar. All of these risks, which may or may not be materialized, will challenge investors throughout 2017.

### A flexible investment vehicle for the current environment

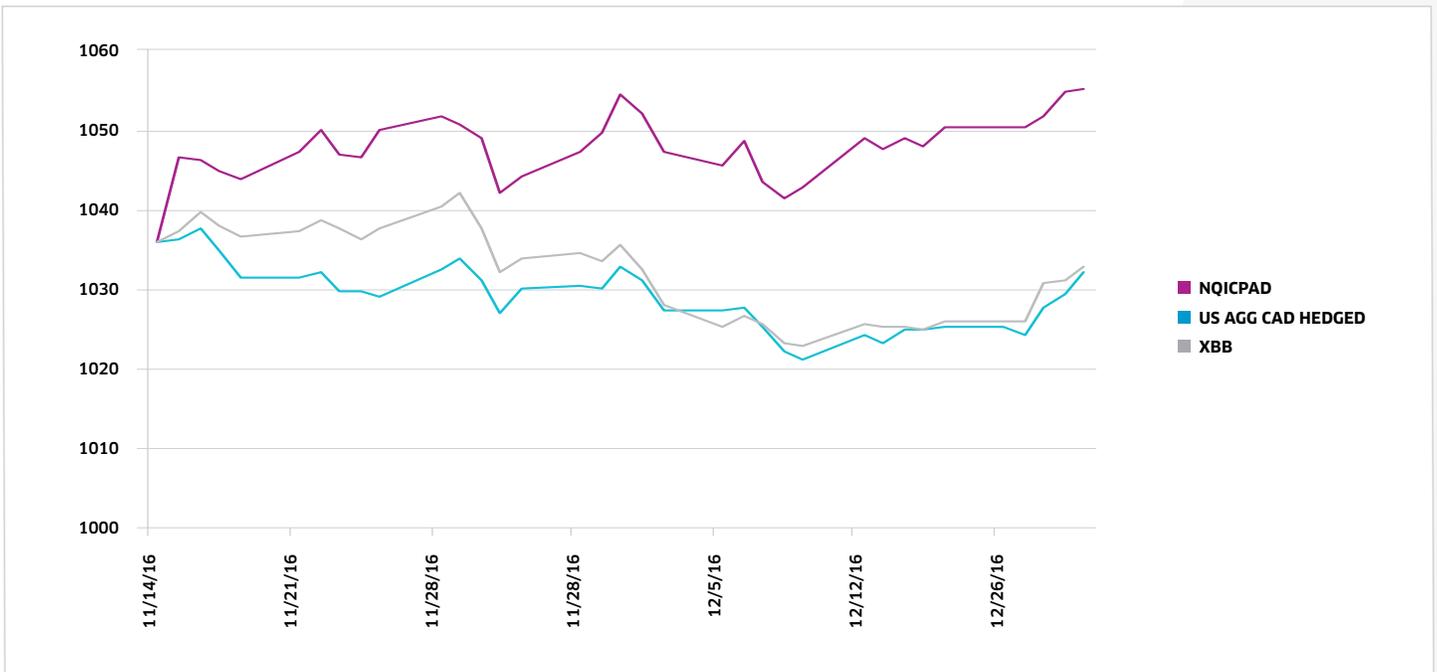
Whether you are a stable income seeker or use fixed income as part of a balanced portfolio, 2017 is a challenging time to decide on that fixed income strategy. Tracking a passive index such as the Barclays US Aggregate provides minimal benefits and moving into cash won't help to hedge out tail risks. Instead of the passive benchmark approach, a tactical approach can help solve investor needs. The Nasdaq IBIS Canadian Preservation Index (NQICPCAD) is an ideal index to serve that purpose.

The Nasdaq IBIS Canadian Preservation Index is an unconstrained tactical index that invests in the fixed income market via TSX-listed ETFs. It can dynamically rotate between the attractive fixed income segments based on IBIS's proprietary quantitative model. The automatic rebalance and sector selection approach provides an objective way to evaluate your portfolio and the market to minimize human error. The portfolio construction process also helps to optimize the performance by taking into consideration various issues in risk diversification, liquidity and trading costs. As we see in the following chart, the Nasdaq IBIS Canadian Preservation Index has proved its value with a significant win over AGG (CAD hedged) and XBB in 2016.

### NQICPCAD outperformed XBB and AGG in 2016



### NQICPCAD's performance after the bond market sell-off (Nov 14, 2016 - Dec 28, 2016)



The Index's current portfolio holds more credit-focused and less interest rate-sensitive ETF products that may help to explain the success after the most recent bond market sell off.

## NQICPCAD's Current Portfolio Composition

SYMBOL	COMPANY NAME	INDEX WEIGHT
ZEF	BMO Emerging Markets Bond Hedged to CAD Index ETF	19.91%
ZHY	BMO High Yield US Corporate Bond Hedged to CAD Index ETF	20.72%
ZBB	iShares Canadian Universe Bond Index ETF	19.91%
XHY	iShares US High Yield Bond Index ETF CAD-Hedged	20.70%
PGL	PowerShares Ultra Liquid Long Term Government Bond index ETF	18.76%

In fact, the Nasdaq IBIS Canadian Preservation Index's credit and duration profiles are consistently changing based on how its model evaluates risk and opportunities. This is a critical feature differentiating the Index from the traditional passive fixed income products. It has performed resiliently over the mid to long term and consistently beats the two major passive benchmarks AGG and XBB over one-, three- and five-year horizons. Its performance and tactical approach to fixed income investing makes it an ideal strategy for the uncertainty that lies ahead in 2017.

## Cumulative Total Return (CAD)

HORIZON	NQICP	AGG*	XBB
1Y	4.1%	2.4%	1.3%
3Y	16%	11%	13%
5Y	26%	15%	15%

\*CAD Hedged

## MORE INFORMATION /

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