

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

Managed Portfolios utilize 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 consideration. As of April 30th, 2017 the following are Managed Portfolio equity ETF positions:

	Conservative	Balanced	Growth
iShares S&P/TSX Global Gold	2.5%	3.3%	4.6%
SPDR S&P 500	4.4%	3.2%	9.4%
iShares Core EAFE		4.9%	9.1%
Purpose Intl Dividend		3.6%	5.8%
iShares TSX 60			5.9%

iShares S&P/TSX Global Gold ETF (XGD)

XGD holds gold mining companies tilted very much to the big caps. The top holdings include Barrick (15%), Newmont (14%), Franco-Nevada (10%), Goldcorp (9%) and Agnico Eagle (8%). Geographically, the holdings are 70% in Canada and 20% in the US, with remaining spread around globally. With approximately \$800m in AUM it is a large Canadian sector ETF and the expense ratio is 0.61% (higher than most ETFs but in line with sector focused ETFs).

We hold XGD in each portfolio for macro reasons. Gold and gold companies provide a natural hedge should the US dollar reverse course. While we are still positive on the US dollar, its valuation has become elevated and XGD hedges some of our currency exposure. Geopolitically, XGD also provides some protection. We have no insight as to which issue may flare up, but with gold in the \$1200s we found it to be a reasonable entry point to add some insurance.

SPDR S&P 500 (SPY)

We have a market to marginal overweight in US equities across our portfolios, which has been reduced given the advance of the market and valuations. The SPY is the core US exposure for each portfolio and this is one of the most efficient markets in the world. Well diversified across all 11 sectors, very liquid and low cost at 0.09%. This complements sources of US equity exposure in the portfolios which tend to be more dividend focused.

iShares Core EAFE (IEFA)

We are overweight International equities in the portfolios, with IEFA providing a core positions (except Conservative given its low equity allocation). This ETF is well diversified at the sector level. Geographically, 24% Japan, 16% UK, 9% in each Germany, France and Switzerland. In aggregate, IEFA has a significance European exposure which we like given valuations. These are largely efficient markets, perfect for ETF investment strategy. \$24 billion in assets and a 0.08% expense ratio are solid characteristics.

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, so cost is key
- **Creator** – understanding who the creator of the ETF, liquidity and overall size.

About Connected Wealth Profiles

- 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

Purpose International Dividend (PID)

We are overweight International equities in the portfolios, with PID providing a dividend focused tilt (except Conservative given its low equity allocation). This ETF is well diversified at the sector level and is focused on dividend paying companies with greater stability and fundamentals. Geographically, it complements IEFA with broader diversification including a 11% Australian and Asia ex Japan 11%. In aggregate, PID adds to the portfolio's European exposure and Japan. The ETF has a 3.2% dividend yield, \$105m in assets and a 0.55% expense ratio.

iShares TSX 60 (XIU)

We hold XIU in the Growth portfolio to round out its Canadian equity exposure. The portfolio is more tilted towards active managers in Canada as this is a less efficient market. XIU is included to bring down the overall expense ratio as this ETF costs 0.18%.

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