

YOUR GUIDE TO

Fall 2020

ETF Investing

Building strategic
portfolios with
active and
passive
ETFs

*Why ETFs?
Why Now?*

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Invest with advice.

Building strategic portfolios with active and passive ETFs

For enhanced diversification and alpha generation, consider a complementary approach to building your equity portfolio.



Alan Green

Director, ETF Capital Markets
Dynamic Funds

While many investors continue to debate the merits of active versus passive ETFs, opting for an “either-or” approach to portfolio construction may ultimately prove misguided. The truth is that blending active and passive strategies in a complementary fashion can potentially generate alpha, enhance diversification and help minimize volatility.

We believe that both active and passive index ETFs provide significant value to investors – even more so when combined strategically. While passive index strategies can deliver market exposure cheaply and efficiently, the investment flexibility of active ETFs can potentially deliver outperformance and provide critical downside protection – especially in volatile markets like we’ve seen in 2020.

An Active Approach to Generating Alpha

Since the emergence of the COVID-19 pandemic, global markets in 2020 have experienced unprecedented volatility in virtually all sectors and regions. While many have hoped for a V-shaped economic recovery this year, it seems that market volatility is here to stay for quite some time. While wild price swings can be unnerving for some investors, active managers can take advantage of market dislocations, selling overvalued equities to take profit and/or acquiring undervalued companies with the potential for significant capital appreciation during a market recovery.

Because active managers don’t have to match an index’s holdings, they can position their portfolios more defensively during

market pullbacks, providing a level of downside protection that can’t be matched by passive ETFs.

It’s also important to note that active managers who are focused on clean balance sheets, free cash flow and minimal exposure to cyclical sectors (like consumer discretionary and financial services) tend to shine in volatile markets and over the long term.

Additionally, active ETFs featuring high active share (i.e., with little overlap in the benchmark’s holdings), provide a greater potential for alpha generation. After all, it’s hard to beat the index if you look exactly like it.

Active and Passive: A Strong Recipe for Enhanced Diversification

Passive index ETFs that track major indexes, like the

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S&P 500 Index or the MSCI EAFE Index, are usually based on a company's market-cap – the larger the company is, the greater its weight in the index. While index ETFs provide a level of diversification and often hold hundreds of companies, it's worth noting that the top holdings can often skew an index's performance. For example, at the time this article was written, the top 10 holdings in the S&P/TSX Composite Index accounted for 38% of the index, while the top three sectors (Financials, Materials and Energy) accounted for over half of the index's weight. Meanwhile, the top four holdings in the S&P 500 accounted for nearly 20% of

the index's performance.

For enhanced diversification, investors should consider complementing their passive ETF holdings with active ETFs featuring concentrated portfolios, high active share, and strong diversification across sectors, regions and market-cap.

The added diversification can help minimize risk – especially during periods of prolonged volatility. Active managers have the freedom to raise cash levels during these periods and avoid declining stocks or sectors. In fact, over the past 35 years, the percentage of active managers who historically outperform their benchmarks has spiked during market declines.¹

DXW: Dynamic Active International Dividend ETF

Looking at Dynamic's suite of actively managed ETFs, DXW provides heavy geographic diversification across 17 countries to complement the holdings in the MSCI EAFE Index, which skews toward Japan and the U.K., accounting for nearly 40% of index's holdings. Managed by an experienced portfolio management team with a focus on balancing risk and return potential, DXW is focused exclusively on dividend-paying companies and is not restricted to sector, country or market capitalization. The ETF's strong international focus also provides for investors who may be over-allocated to U.S. equities. While U.S. markets have certainly out-

performed over the last decade, Dynamic Portfolio Manager Kevin Kaminski has one surprising statistic for equity investors. "Every single year some three-quarters of the top-performing stocks are non-U.S. stocks," he says. "If you're not invested internationally, you're missing a world of opportunity."

If you're searching for an actively managed ETF to provide enhanced diversification and potential alpha generation for an international equity portfolio, DXW can serve as a fitting complement to a passive strategy tracking a broad index like the MSCI EAFE.

Visit dynamic.ca/activeetf to view DXW and our entire roster of **Dynamic Active ETFs**.

¹"Active Versus Passive Investment Management: Analysis Update," Arnerich Massena & Associates, Inc., August 2010

Dynamic Active ETFs

<p>DXV Dynamic Active Investment Grade Floating Rate ETF</p>  <p>Diversification</p> <p>Offers a floating rate of income while investing primarily in Canadian investment grade corporate bonds. Helps diversify a fixed income portfolio and mitigate interest rate risk.</p>	<p>DXB Dynamic Active Tactical Bond ETF</p>  <p>Duration flexibility</p> <p>Tactical fixed income core portfolio that has the ability to increase or decrease duration based on the current interest rate environment.</p>	<p>DXP Dynamic Active Preferred Shares ETF</p>  <p>Complement</p> <p>Preferred shares provide a tax-efficient source of income and can help diversify a fixed income portfolio.</p>	<p>DXN Dynamic Active Global Infrastructure ETF</p>  <p>Diversification</p> <p>Enhanced portfolio diversification through access to global, publicly traded infrastructure assets, in high demand by pension funds and institutions.</p>
<p>DXO Dynamic Active Crossover Bond ETF</p>  <p>Attractive risk/return</p> <p>Seeks superior risk-adjusted returns while taking advantage of market dynamics from upgrades to investment grade (rising stars) and downgrades to high yield (fallen angels).</p>	<p>DXC Dynamic Active Canadian Dividend ETF</p>  <p>Core holding</p> <p>A core large-cap equity holding, DXC is a concentrated core dividend ETF with above-average downside protection.</p>	<p>DXU Dynamic Active U.S. Dividend ETF</p>  <p>Outcome not income</p> <p>A conservative, concentrated, U.S. Portfolio of high-quality stocks with low correlation to the benchmark and a focus on dividend growers.</p>	<p>DXW Dynamic Active International Dividend ETF</p>  <p>Diversification</p> <p>Focuses on dividend-paying equity securities of businesses outside North America that are trading below their intrinsic value.</p>
<p>DXG Dynamic Active Global Dividend ETF</p>  <p>Outcome not income</p> <p>A conservative, concentrated, Global Portfolio of high-quality stocks with low correlation to the benchmark and a focus on dividend growers.</p>	<p>DXF Dynamic Active Global Financial Services ETF</p>  <p>Financials 2.0</p> <p>A global (ex-Canada) portfolio that invests in both the financial sector and financial technology (fintech) companies. In addition, DXF has the ability to increase cash if valuations are too high.</p>	<p>DXZ Dynamic Active U.S. Mid-Cap ETF</p>  <p>Complement</p> <p>U.S. Mid-cap exposure provides a nice complement to a core U.S. equity holding.</p>	



Activate your portfolio with Dynamic Active ETFs.

Fixed Income

- DXV** Dynamic Active Investment Grade Floating Rate ETF
- DXB** Dynamic Active Tactical Bond ETF
- DXO** Dynamic Active Crossover Bond ETF

Equity

- NEW DXW** Dynamic Active International Dividend ETF
- NEW DXN** Dynamic Active Global Infrastructure ETF
- DXP** Dynamic Active Preferred Shares ETF
- DXC** Dynamic Active Canadian Dividend ETF
- DXU** Dynamic Active U.S. Dividend ETF
- DXZ** Dynamic Active U.S. Mid-Cap ETF
- DXG** Dynamic Active Global Dividend ETF
- DXF** Dynamic Active Global Financial Services ETF

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