

# Invesco Trimark's PowerShares Funds are ETF/mutual fund hybrids

by Jonathan Chevreau



Peter Intraligi

In a dramatic move that will reshape the Canadian investment landscape for both financial advisors and their clients, Invesco Trimark Ltd. today became the first domestic broker-sold mutual fund company to embrace exchange-traded funds (ETFs).

The eight new PowerShares Funds, launched today, are a hybrid of ETFs and mutual funds. Inside these prospectus mutual funds are versions of PowerShares ETFs trading on American stock exchanges, as well as two new funds focused on Canadian securities and dividend-paying stocks.

## Now MFDA-only channel can give clients ETFs

The new hybrids will appeal largely to the 50% of its advisors licensed only to sell mutual funds through the Mutual Fund Dealers Association (MFDA). Many of them have been deluged by clients requests to provide ETFs. A backgrounder explains any advisor already licensed to sell mutual funds can sell

PowerShares Funds. Like regular mutual funds, they are regulated by National Instrument 81-102.

## Securities-licensed brokers will welcome 1% trailers on fund/ETF hybrids

Invesco Trimark president and CEO Peter Intraligi [pictured] expects securities-licensed brokers who are already able to sell ETFs will also welcome the new products. That's because they stand to make more money than they will from traditional ETFs: advisors will receive a 1% annual trailer or service fee on PowerShares Funds. For consumers, that reverses some of the cost advantage of traditional ETFs but the move nevertheless puts pressure on rival broker-sold mutual fund companies to further lower Management Expense Ratios (MERs).

ETFs normally do not provide brokers with so-called "embedded compensation" beyond normal transaction commissions to buy or sell them. The prominent exception has been Toronto-based Claymore Investments, which pays a 0.75% trailer fee on its Advisor class versions of its ETFs. Self-directed investors would normally buy the Investor class Claymore ETFs that are generally cheaper by the same 0.75%.

Invesco Trimark's new PowerShares Funds will not be sold with low-load or Deferred Sales Charge options.

They will be available in F Class versions to customers of fee-based accounts but do-it-yourself users of discount brokerages will have to buy the higher-priced A-class versions with trailer fees included. Practically speaking, the latter group may be better off buying competitive trailer-fee-less ETFs from firms like Claymore, Barclays Global Investors Canada and The Vanguard Group [the latter on foreign exchanges only.]

Or indeed BMO ETFs – Canadian bank BMO Financial Group entered the ETF market earlier this year, despite the fact BMO already sells its own line of no-load mutual funds. BMO ETFs trade on the Toronto Stock Exchange and do not have embedded compensation.

## Both mutual fund firms and banks have now validated ETFs

Now that both a major bank and a major fund company have embraced ETFs, it's almost certain the floodgates will open, forcing their rivals to follow suit. However, few rival independent fund companies have a built-in ETF unit. PowerShares Capital Management was acquired by UK-based Invesco Ltd. in September 2006 and Invesco PowerShares is now the third largest ETF provider in the United States.

continued ➡

## Hybrids lack some features of pure ETFs; but have fund features ETFs lack

Intraligi describes the new funds as the best of both worlds, but they will not be suitable for intraday traders. Like other mutual funds, the net asset value will be fixed at the close of trading each day. Some features normally available to ETF investors will not be available in the hybrid funds, such as the ability to sell short, place limit or stop orders, or to use options. However, unlike most ETFs, the hybrids will permit use of DRIPs (Dividend Reinvestment Plans), PACs (Pre-Authorized Chequing accounts) and SWPs (Systematic Withdrawal Plans) and will permit small subsequent transactions.

## Six global specialty funds; two new Canadian equity funds

In the first phase of the product rollout, six global products provide exposure to sectors difficult to access via traditional mutual funds, and expensive if available at all: agriculture, gold and precious metals, water, clean energy, Emerging Markets and China. All six hedge U.S. dollar exposure back into the loonie. Even after built-in advisor compensation, these work out to

be between 40 and 100 basis points (0.4% to 1%) cheaper for investors than comparable retail mutual funds, says Invesco Trimark senior vice president John Ciampaglia.

The two new domestic funds are the PowerShares Canadian Dividend Index Class, which provides exposure to companies that have consistently maintained or grown their dividends for five years; and the PowerShares FTSE RAFI Canadian Fundamental Index Class. The latter tracks the same FTSE RAFI Canada index that a similar Claymore ETF does.

## Multiple tax efficiencies

In an interview, Intraligi emphasized the tax efficiency of the funds, which use “intelligent indexing” strategies rather than the purely passive approach for which the first generation of ETFs were famous. With intelligent indexing, the index provider seeks to outperform passive market benchmarks through intelligent security selection and weighting. Unlike regular ETFs, some of the new hybrids can be part of a capital-class structure that minimizes capital gains taxes when switching between funds in taxable portfolios.

The products are being rolled out with a major print media campaign and a PowerShares University to educate advisors. A second phase begins in January.

## P.S. Discussion of impact on investors, advisors and rest of industry

I've started a thread at Canadian Money Forum to discuss the implications of this announcement. Those in ETF industry downplay it, saying PowerShares Funds are still just mutual funds. Here's the discussion.

## P.P.S. Morningstar's Rudy Luukko on MER range: 1.65% to 1.9% for Series A Funds

As usual, Morningstar Canada's Rudy Luukko does a good job of assessing these products. In this piece from the web site today, he includes a useful chart showing that the all-in MERs for the Series A funds come in well below 2%, a threshold I've always viewed as one the industry should strive to stay below. Obviously, those MERs include the 1% annual trailer, which appears to be the minimum “price for advice” at the retail level these days. Series F MERs are lower by roughly the cost of the trailer fees.

---

Commissions, trailing commissions, management fees and expenses may all be associated with mutual fund investments. The indicated rates of return are the historical annual compounded total returns, including changes in share or unit values and reinvestment of all distributions, and do not take into account sales, redemption, distribution or optional charges, or income taxes payable by any securityholder, which would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Please read the simplified prospectus before investing. Copies are available from your advisor or from Invesco Trimark.

Material reprinted with express permission of: “The National Post Company”, a Canwest Partnership.

\* Invesco and all associated trademarks are trademarks of Invesco Holding Company Limited, used under licence. Trimark and all associated trademarks are trademarks of Invesco Trimark Ltd.

© Invesco Trimark Ltd., 2009

PAIPSFE(11/09)

---

5140 Yonge Street, Suite 900, Toronto, Ontario M2N 6X7

Telephone: 416.590.9855 or 1.800.874.6275

Facsimile: 416.590.9868 or 1.800.631.7008

[inquiries@invescotrimark.com](mailto:inquiries@invescotrimark.com)

[www.invescotrimark.com](http://www.invescotrimark.com)

