

PowerShares launched as mutual funds

by Mark Noble

One of the world's largest exchange traded fund providers, PowerShares has launched in Canada – not as an ETF, but as a suite of corporate class mutual funds wrapped around an underlying ETF.

Advisors are clearly the target market for the new product launch by Invesco Trimark, which brings six underlying ETFs manufactured by its U.S.-based sister company to the Canadian market, in addition to two new index replication funds that track Canadian indices. PowerShares is the fourth largest ETF manufacturer in the world.

Aside from the caché of the PowerShares brand name, the launch is noteworthy, because through the mutual wrapper, advisors registered with the Mutual Fund Dealer Association (MFDA) will be able to provide ETF access to clients. Currently only advisors registered with the Investment Industry Regulatory Organization of Canada (IIROC) are able to sell and trade ETFs.

Other than the inability to directly buy the ETFs and conduct intra-day trading in them, MFDA advisors will be able to offer most of the benefits of ETF investing to clients, which include tax efficiency, lower cost and niche-market targeting.

The new products will also offer the richest trailer of any ETF product in the Canadian market – 100 basis points on the A-class version of the funds.

“We’ve created an innovative wrapper on U.S.-listed ETFs, but this is really not a new product. It’s a new vehicle that provides investors access to U.S.-listed ETFs in a way they didn’t have prior,” says Peter Intraligi, the president of Invesco Trimark. “PowerShares is the fourth largest ETF provider in the world and what we’ve been able to do, because they are our sister company, is package their ETFs in a way that provides broader access.”

Non-traditional methodologies

Invesco Trimark says all of the ETFs will use “intelligent” indexing, which is to say they do not exactly replicate the daily performance of major indices.

For example, the Canadian PowerShares FTSE RAFI Canadian Fundamental Index Class, will use Research Affiliates Fundamental Indexing methodology. A number of the other ETFs use sector targeted exposure to alternative asset classes such as agriculture, clean energy and clean water indexes, provided by alternative index providers such as Palisades, Indxis and WilderHill.

RAFI-based products are already offered in Canada by Claymore Investments and Pro-Financial.

“These are longstanding relationships that PowerShares has – these are not new index relationships. That’s another key point, even though the funds are brand new, the relationship with the underlying index providers goes back a number of years,” says John Ciampaglia, senior vice-president of product development for Invesco Trimark.

As corporate class funds, the Invesco offering allows investors to switch between the eight PowerShare funds and one of Invesco Trimark’s 30 other corporate mandates without triggering tax consequences. This feature has appeal for those who tactically or dynamically rebalance portfolios, since they could otherwise incur taxable gains and trading commissions.

“This is an innovative way to bring the product to market. If you buy an ETF on the Toronto Stock Exchange, they are all created and offered as mutual fund trusts. Our products are offered as mutual fund corporations, which are available across 38 different share classes,” Ciampaglia explains. “It also allows us to utilize all the capital loss carry forward benefits and provide a very high level of tax efficiency, eliminating or reducing the need to produce capital gains distributions [on transfers].”

Invesco Trimark is offering an F-class version of the funds for fee-only advisors. Ciampaglia says the prices of the F-class funds are comparable to the cost of purchasing an ETF on the exchange.

“We’re targeting an all-in cost on the Canadian RAFI fund at 68 basis points. We think that’s pretty competitive, particularly when you layer on some of the tax benefits,” he says. “All the funds that have an underlying U.S. index are U.S. dollar currency hedged.”

Advice and active management

The two thorniest issues with ETFs for many fee-based advisors is a lack of compensation and their preference for active management. Intraligi points out that Invesco, with the 1% trailer is committed to compensating advisors.

“Our philosophy is that investors are best-served by principled advisors. Across Canada, advisors provide advice to grow an investor’s portfolio. We believe the value for advice is 100 basis points,” he says. “Advisors shouldn’t discriminate products based on the advice they provide. They provide the

same value to their clients, regardless of whether their client is being put in a PowerShares fund or a retail mutual fund in their portfolio.”

He says that PowerShares funds are meant to be viewed as a complement rather than a replacement to active management.

In the new year, Invesco is planning to offer “PowerShares University” – an educational program that will show advisors how they can use the PowerShares tools in tandem with active mandates, such as those bearing the Trimark brand, to create more efficient portfolios.

“The product itself allows you to be an active manager for your client. Look at the institution world, they’ve done incredibly well,” says Intraligi. “They use alternative strategies, they use ETFs or passive investment vehicles, they use retail mutual funds, equities and fixed income to create that better risk adjusted return. All we’re trying to do is provide advisors all the tools they need to do their job better.”

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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

www.invescotrimark.com

