



Gordon Pape is the author of more than 40 books on investing and money management. His newest book is *The Ultimate TFSA Guide*, published by Penguin Group Canada.

His website is located at [www.buildingwealth.ca](http://www.buildingwealth.ca)

## When you can't beat them: Invesco Trimark offers advisors an ETF option

**Here's a classic example of the old adage: "If you can't beat 'em, join 'em". Invesco Trimark has launched a new product line that offers exchange-traded funds (ETFs) in a mutual funds wrapper.**

In sports terms, it's almost the equivalent of Les Canadiens joining forces with the Maple Leafs in an effort to ice a stronger team (although the way both were going at the time of writing it probably wouldn't make much difference).

ETFs only represent a small slice of the fund market in this country but their popularity is growing rapidly and major new players are raising the stakes. **Bank of Montreal** recently added nine ETFs to its line-up bringing the total to 13. In doing so, BMO served notice it intends to seriously challenge iShares' domination of the Canadian ETF market. **Claymore Investments** and **Horizons BetaPro** are also contending for a bigger piece of the action.

The problem with ETFs from an advisor perspective is that unless you have a securities brokerage license you can't sell them. So when clients ask about them, many advisors have to direct them elsewhere or try to persuade them to choose a mutual fund instead. Of course, there are many index-based mutual funds but for whatever reason ETFs have become a hot ticket. Advisors who can't provide them are at a disadvantage.

The new *Invesco PowerShares* line is designed to change all that. It is based on ETFs created by parent company Invesco Ltd., an international money management firm based in Atlanta with total assets under management of US\$414.2 billion. It has more than 100 funds in its PowerShares line, making it one of the largest ETF providers in the U.S.

This is not the first time in Canada that ETFs have been offered through mutual funds: the *Croft PIE Portfolio Index funds* invest primarily in ETFs. (Disclosure: I am chairman of the funds' Independent Review Committee.)

However, the Invesco Trimark product differs in two important ways. The first is scale. The Croft funds are growing quickly but they are still quite small on an industry scale, with about \$33 million in assets under management. Invesco Trimark is a giant with almost \$29 billion in assets under management as of the end of October. That gives it a lot more clout when it comes to getting the message out to the advisor community.

The second big difference is structure. Most of the pools in the PIE funds invest in a portfolio of ETFs. The Invesco funds each invest in a single PowerShares ETF. Structurally, that makes them similar to mutual funds that are repackaged for distribution by a third party, such as an insurance company.

There are eight PowerShares funds in the line-up. Six of them invest in ETFs that are publicly traded in New York: the Global Agriculture Class, Global Gold and Precious Metals Class, Global Water Class, Global Clean Energy Class, FTSE RAFI Emerging Markets Fundamental Class, and Golden Dragon China Class. All of these Invesco funds will be currency hedged to protect investors from the negative impact of a further rise in the loonie.

The remaining two have been created for the Canadian market and do not trade anywhere as PowerShares ETFs, although Claymore Investments offers near-equivalents. They are the FTSE RSFI Canadian Fundamental Index Class and the Canadian Dividend Index Class.

The PowerShares funds provide advisors with a new type of investment option for clients. Here are some important points you need to know before recommending them.

*No DSC option.* The A units are available only on a front-end load basis. The company says this is "to keep pricing as competitive as possible". F units are also offered for fee-based accounts.

*Big MER differences.* The A units will have an MER that in many cases exceeds that of existing index mutual funds from other companies. For example, the A units of the PowerShares FTSE RAFI Emerging Markets Fundamental Class have a projected MER of 2.11%. By comparison, the CIBC Emerging Markets Index Fund has an MER of 1.37%. The publicly-traded PowerShares Emerging Markets ETF has an MER of 0.85%. Invesco points out that a significant portion of the A units' MER consists of trailer fees and currency hedging costs but clients who are cost-sensitive may not be impressed by that argument.

The F units look much better by comparison so these PowerShares funds may appeal more to clients with fee-based accounts. The F units of the Emerging Markets Class have a projected MER of 1.01%. The lowest MER is 0.63% for the PowerShares Canadian Dividend Index Class.

*Minimum investment.* The minimum initial investment is \$2,000, with a \$50 minimum for subsequent purchases.

*History.* None of the underlying PowerShares ETFs has a long track record. The Golden Dragon China ETF has been around the longest, since December 2004. The Agriculture ETF debuted in January 2007, the Global Water and Global Clean Energy ETFs were listed for trading in June 2007, and the Emerging Markets ETF was started in September of that year. The Gold and Precious Metals ETF was launched in September 2008.

*Volatility.* The sector funds are likely to display above-average volatility so may not be suitable to all clients. The chart of the China ETF resembles a silhouette of the Rocky Mountains however the fund shows an average annual compound rate of return of 11.03% since inception (to Sept. 30). The least volatile fund in the Invesco line-up will probably be the Canadian Dividend Index Class. It tracks the Indxis Select Canadian Dividend Index which is composed of companies that have maintained or increased their dividend payouts for at least five consecutive years. The company told me that it plans to expand the PowerShares funds early in 2010 to provide a much broader range of options, including more core funds. "It will be a more robust product launch," said Invesco Trimark CEO **Peter Intraligi**.

*Tax considerations.* The Invesco funds have been set up in a corporate class structure. This means investors can switch assets among the various PowerShares funds plus 30 other mutual funds offered by the company without triggering capital gains. Mr. Intraligi also points out that the underlying ETFs that are listed on U.S. exchanges are less likely to make taxable capital gains distributions. In fact, no Invesco PowerShares equity ETF has even made a distribution.

The bottom line is that Invesco Trimark has made an innovative move by bringing a range of ETF investing options to advisors who had been unable to participate in this sector. Now we'll wait to see the results. If the PowerShares funds are a hit, watch for other major mutual fund companies to scramble to get on the bandwagon. This could be the start of something big.