

RBC Fixed Income ETFs – How to earn 7% tax equivalent yield?




Hosted by Stenner Wealth Partners+ of CG Wealth Management



STENNER
Wealth Partners+

Exclusive Webinar – September 26th, 2023

A wide-angle photograph of the Toronto skyline at dusk. The CN Tower is the central focus, illuminated against a deep blue twilight sky. Other skyscrapers are visible, some with lights on, and the water of Lake Ontario is in the foreground.

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Biographies



Thane Stenner - Stenner Wealth Partners +

Thane Stenner, CIM[®], FCSI[®], Senior Portfolio Manager & Senior Wealth Advisor at Stenner Wealth Partners+ of CG Wealth Management. Thane was previously the Managing Director, International Client Advisor, Institutional Consulting Director, and Alternative Investments Director at Morgan Stanley Wealth Management. He is an award-winning host of the BNN Bloomberg Brand Studio Podcast: SmartWealth™ with Thane Stenner and an international best-selling author of the book titled “True Wealth: An Expert Guide for High-Net-Worth Individuals (and Their Advisors)”. Stenner Wealth Partners+ is an award-winning in person/virtual team of wealth specialists with a boutique approach and global perspective servicing Canadian and US investors/households with generally a minimum of 10M+ in investable assets or 25M+ net worth, whose clients’ range of net worths are between \$25M To \$2.5B+. His team strategically takes on 6-8 clients per year. They may be reached at their website at www.StennerWealthPartners.com, North America Toll-Free Phone at 1 833 STENNER (783 6637), or email SWP@cgf.com.



Jennifer Tai Smith, District Vice President, RBC Global Asset Management

Jennifer is an external wholesaler with over 20 years of experience in financial markets and has in-depth knowledge of equity markets. As District Vice-President, she is responsible for relationships with portfolio managers and investment advisors in Vancouver and Richmond, and business development of RBC, Phillips, Hager & North, BlueBay and RBC iShares ETFs solutions.

Jennifer began her investment career in Vancouver as an equity research analyst in special situations for a local investment dealer. Prior to joining RBC GAM in 2012, she spent 12 years in institutional sales working at global investment banks where she was responsible for relationships with global institutional equity investors including mutual funds, insurance companies, sovereign wealth funds and hedge funds. Jennifer holds an honours BA in International Relations and Economics from Trinity College, University of Toronto.



Scott Boniferro, Vice President, ETF Leader

Scott Boniferro is Vice President, ETF Leader, at BlackRock Canada, covering British Columbia. Scott is responsible for supporting the growth RBC iShares ETFs - bringing a deep understanding of ETF portfolio construction, management and implementation as well as liquidity analysis and trade execution.

Prior to joining BlackRock at the inauguration of the RBC iShares distribution alliance in 2019, Scott spent seven years at RBC and another top-five global ETF provider helping build the firm’s Canadian arms, most recently as Vice President, Global Investment Strategy. Prior to that, he worked closely with investment advisors and financial planners in sales support and practice management roles at one of Canada’s top wealth management firms.

Scott holds a BA in Economics from the University of Western Ontario, has attained the Certified Financial Planner[®] designation, and is a Fellow of the CSI[®].

RBC Global Asset Management

Opportunities in discount bonds

RBC Target Maturity Corporate Bond ETFs

Jennifer Smith, RBC GAM and Scott Boniferro, BlackRock Canada

September 26, 2023



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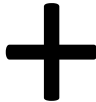




Better together

RBC Global Asset Management

A respected global firm with deep investment expertise and a client-first culture.



BlackRock Canada

A global investment manager that offers access to expert insights and a wide array of quality products.



iShares®

Our combined expertise, insights, and deep product and service offerings drive meaningful progress for our clients in today's world.



iShares®



One powerful ETF platform

The RBC iShares alliance helps our clients by offering an unparalleled breadth of solutions, a commitment to exceptional service, and top investment expertise located around the world.



Market Leadership

The leading ETF provider in Canada with over 210 ETFs and \$100+ billion in assets¹ entrusted to us by our clients.



Insights & support

A reliable partner and resource for actionable research-driven insights and education.



Broad ETF offering

ETFs for all portfolio needs, including investing for the long term, minimizing risk, integrating sustainability and more.

1. Source: BlackRock, RBC GAM. As of August 31, 2023. RBC iShares has the most number of ETFs, across each major asset classes, with most solutions available in each asset class.



Finding a way forward in fixed income

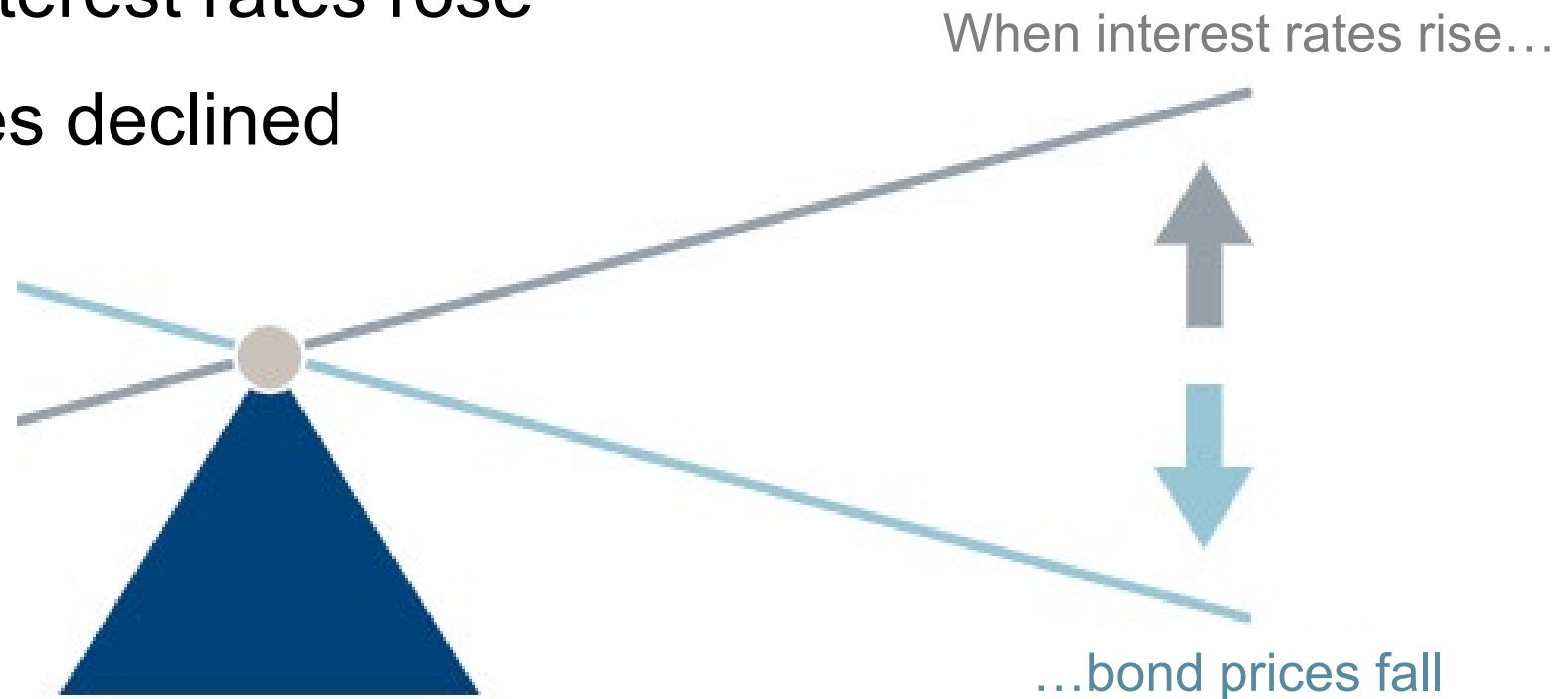
**A look in
the rearview
mirror**

**Why own
fixed income?**

**The potential of
today's fixed
income markets**

What happened in bond markets in 2022?

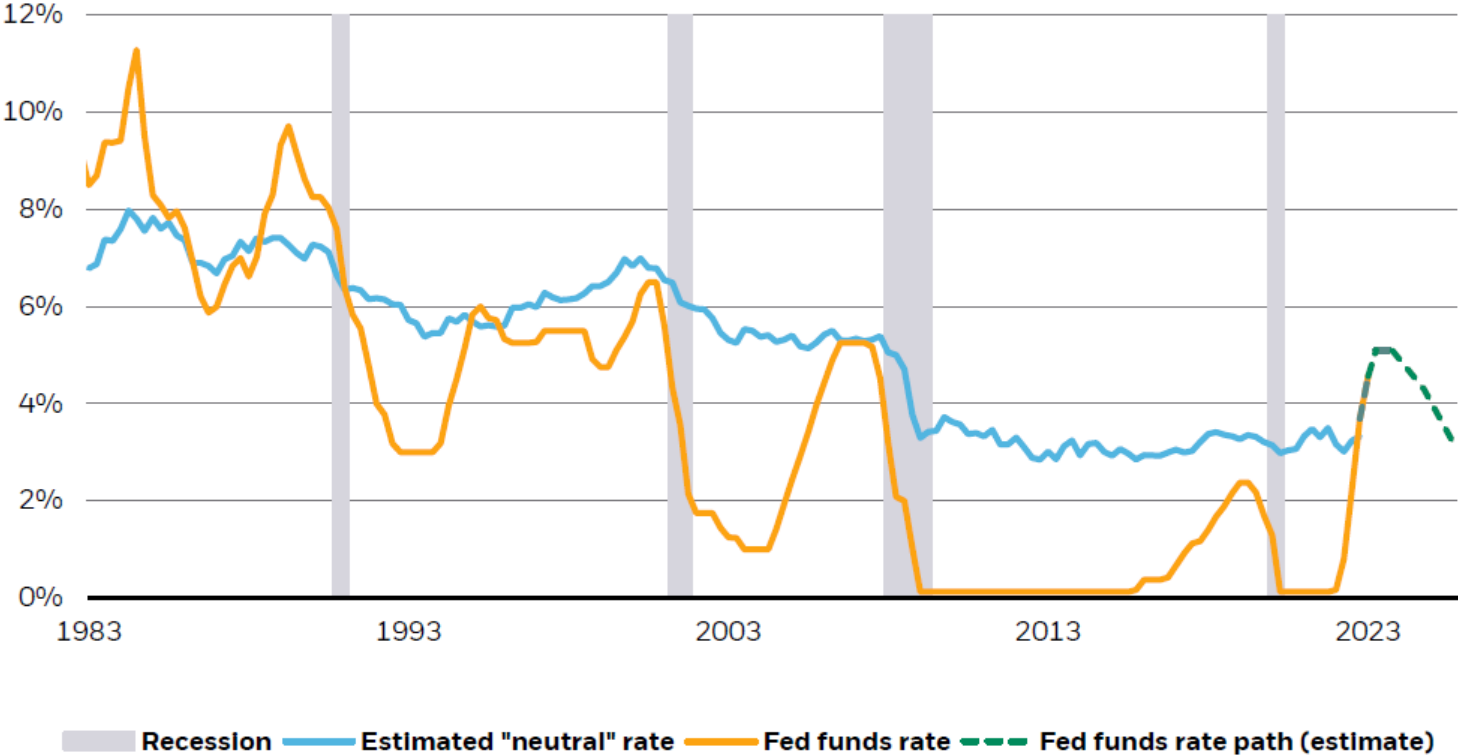
- Heightened inflation took hold
- In response, interest rates rose
- And bond prices declined



Central banks forced into an era of tight policy

Persistent supply constraints stoking inflationary pressures are compelling major central banks to hold policy tight, creating greater macro and market volatility. That backdrop offers investment opportunities different from the past.

U.S. Fed policy rate and projections vs. neutral rate estimate, 1983-2025



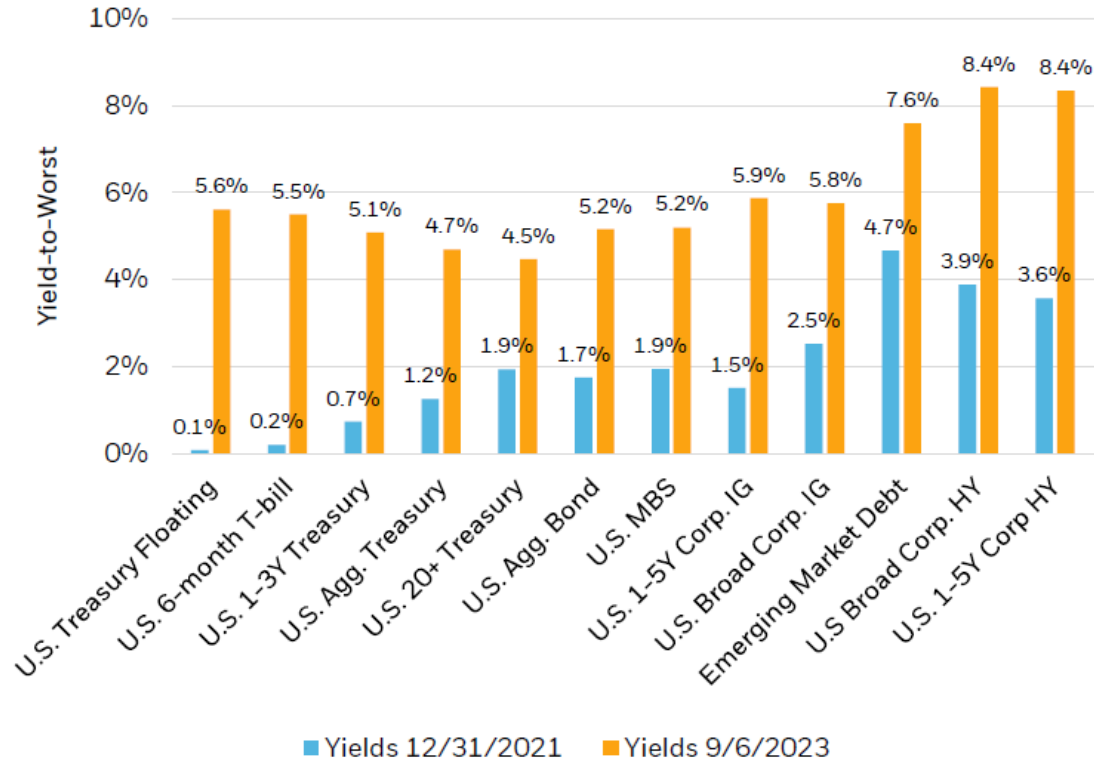
Forward looking estimates may not come to pass. Source: BlackRock Investment Institute, New York Fed, U.S. Bureau of Labour Statistics, with data from Haver Analytics, May 2023. Notes: The chart shows the fed funds rate, an estimate of the fed funds rate path and an estimate of the nominal "neutral" rate. The nominal neutral rate is a hypothetical estimate of the central bank interest rate that will neither stimulate or depress economic growth. The neutral rate estimate is from the Holston Laubach Williams (2017) estimate of (real) neutral rate plus an estimate of expected inflation from the model by D'Amico, Kim and Wei (2018).



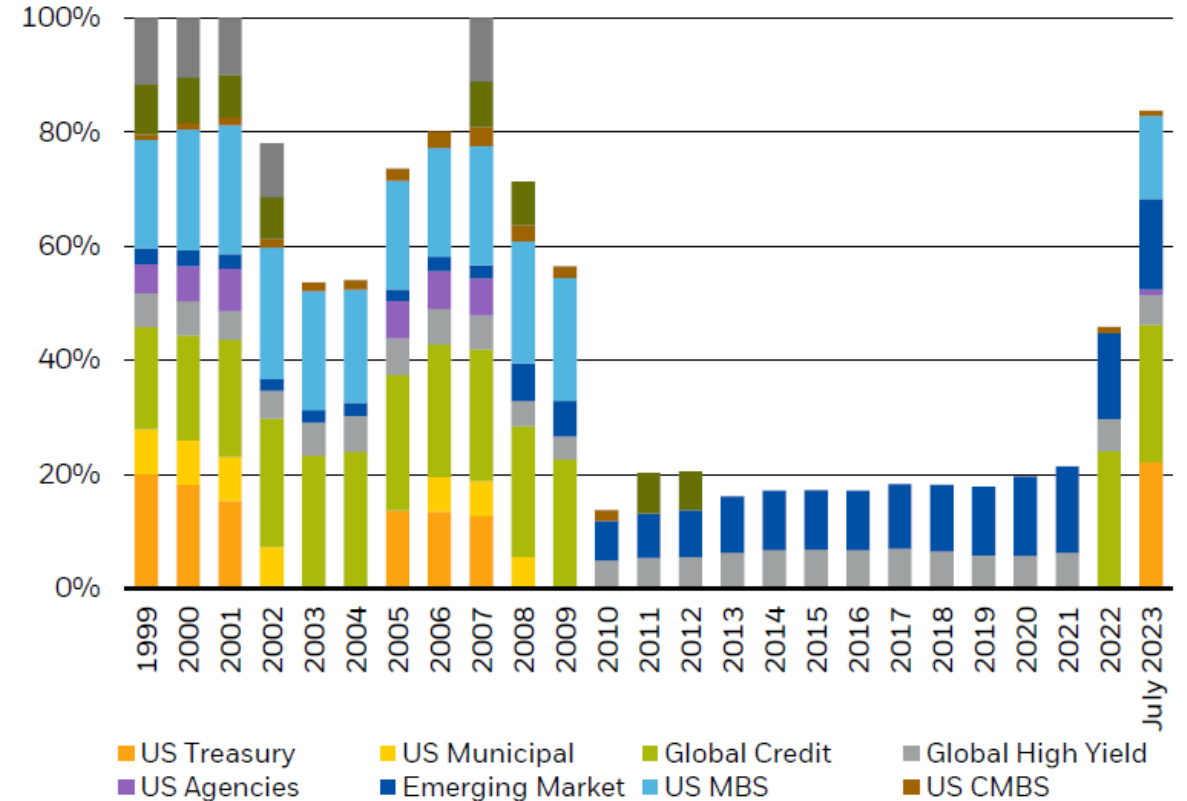
Potential opportunities in fixed income

The rapid shift in yields has created significant opportunities in high-quality, front-end fixed income exposures. With yields at levels not seen since the Global Financial Crisis, the belly of the curve in both nominal U.S. Treasuries and investment grade credit offer the potential for attractive total returns.

Fixed Income Yields: 2021 vs. 2023



Fixed Income Yielding over 4%

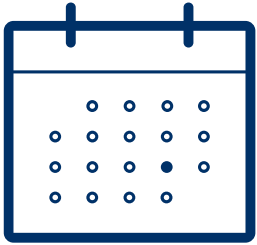


Source: BlackRock, Bloomberg, chart by iShares Investment Strategy. Yields shown are yield to worst. As of Sept 06, 2023. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. U.S. Treasury Floating represented by Bloomberg U.S. Treasury Floating Rate Index; U.S. 6-month T-bill represented by ICE BofA U.S. 6-Month Treasury Bill Index; U.S. 1-3Y Treasury represented by ICE U.S. Treasury 1-3 Year Index; U.S. Agg Treasury represented by ICE U.S. Treasury Core Bond Index; U.S. 20+Y Treasury represented by ICE U.S. Treasury 20+ Year Index; U.S. Agg. Bond represented by Bloomberg U.S. Aggregate Bond Index; U.S. MBS represented by Bloomberg U.S. MBS Index; U.S. 1-5Y Corp. IG represented by ICE BofA 1-5 Year U.S. Corporate Index; U.S. Broad Corp. IG represented by Markit iBoxx USD Liquid Investment Grade Index; Emerging Market Debt represented by J.P. Morgan EMBI Global Core Index; U.S. Broad Corp. HY represented by Markit iBoxx USD Liquid High Yield Index; U.S. 1-5Y Corp. HY represented by Markit iBoxx USD Liquid High Yield 0-5 Index.

Source: Bloomberg and Thomson Reuters, as of August 01, 2023. The bars show market capitalization weights of assets with an average annual yield over 4% in a select universe that represents about 70% of the Bloomberg Multiverse Bond Index. U.S. treasury represented by the Bloomberg U.S. Treasury index. Euro core is based on the Bloomberg French and German government debt indexes. U.S. agencies represented by Bloomberg U.S. Aggregate Agencies index. U.S. municipal represented by Bloomberg Municipal Bond index. Euro periphery is an average of the Bloomberg Government Debt indexes for Italy, Spain and Ireland. U.S. MBS represented by the Bloomberg U.S. Mortgage Backed Securities index. Global credit represented by the Bloomberg Global Aggregate Corporate index. U.S. CMBS represented by the Bloomberg Investment Grade CMBS index. Emerging market combines the Bloomberg EM hard and local currency debt indexes. Global high yield represented by the Bloomberg Global High Yield index. Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

Considerations for fixed income investors

Fixed income assets should suit your needs, goals and preferences:



Time horizon



Capital preservation



Liquidity



Diversification



Cash flow

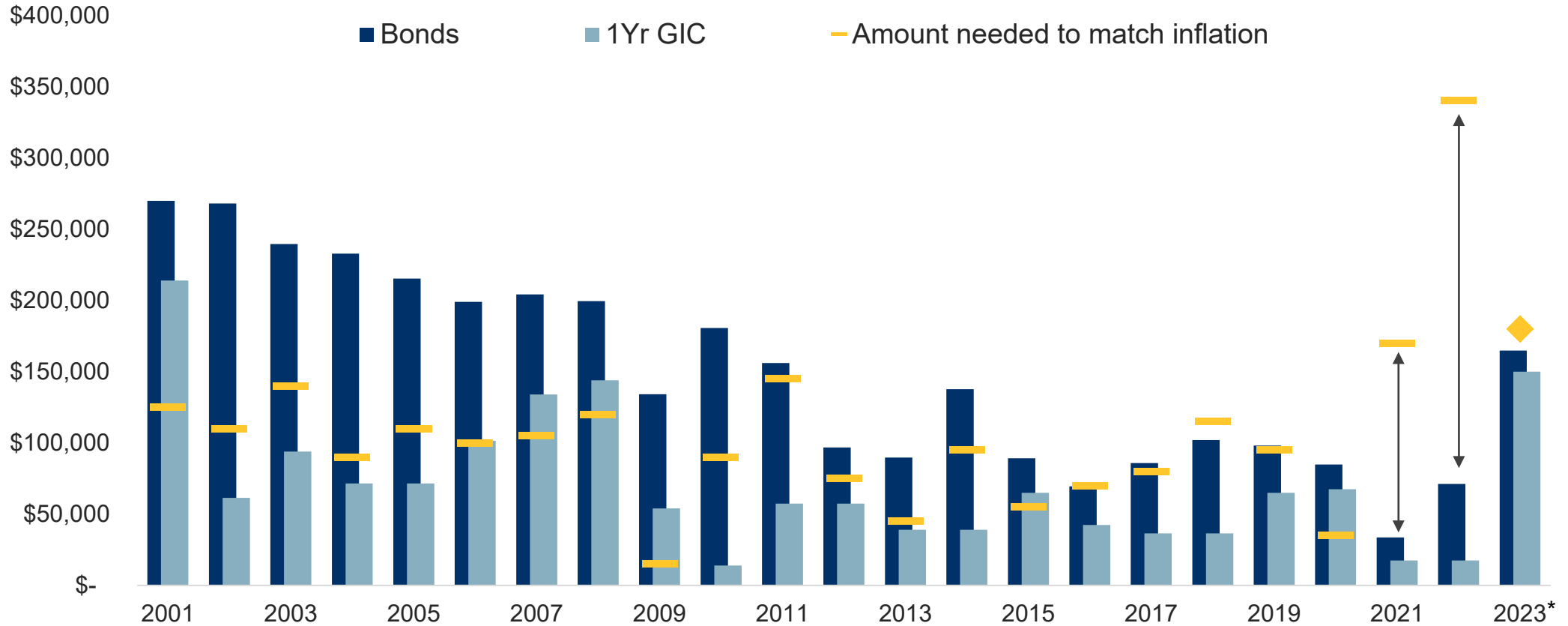


Growth

Considerations for investors that prefer the stability of cash

Cash savings have often failed to keep up with inflation

Income from \$5,000,000 investment at the beginning of the year



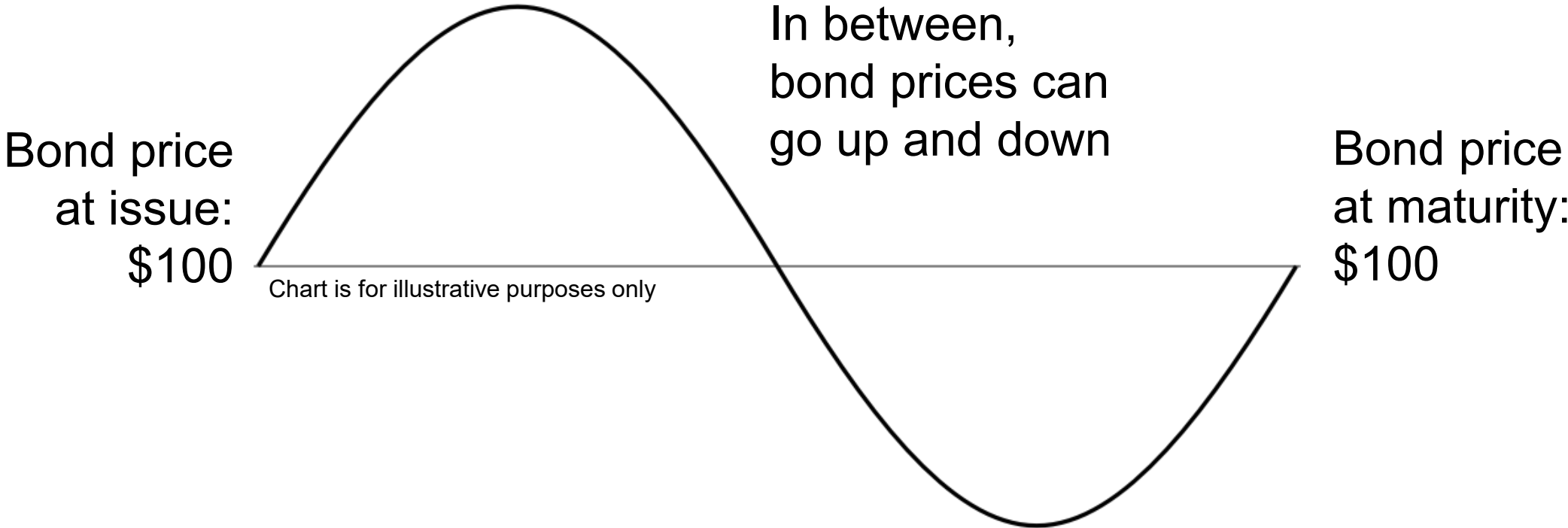
*Yellow diamond marker represent 2023 forecast for inflation based on Bank of Canada's January 2023 Monetary Policy Report.

Source: RBC GAM, Bloomberg, Morningstar, Bank of Canada. Bonds represented by Government of Canada 10-year bond. Income on bonds and 1-year GIC based on yield at the beginning of each year. Inflation calculated by the Bank of Canada Total CPI measure of inflation. An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.



A reminder about bonds and capital preservation

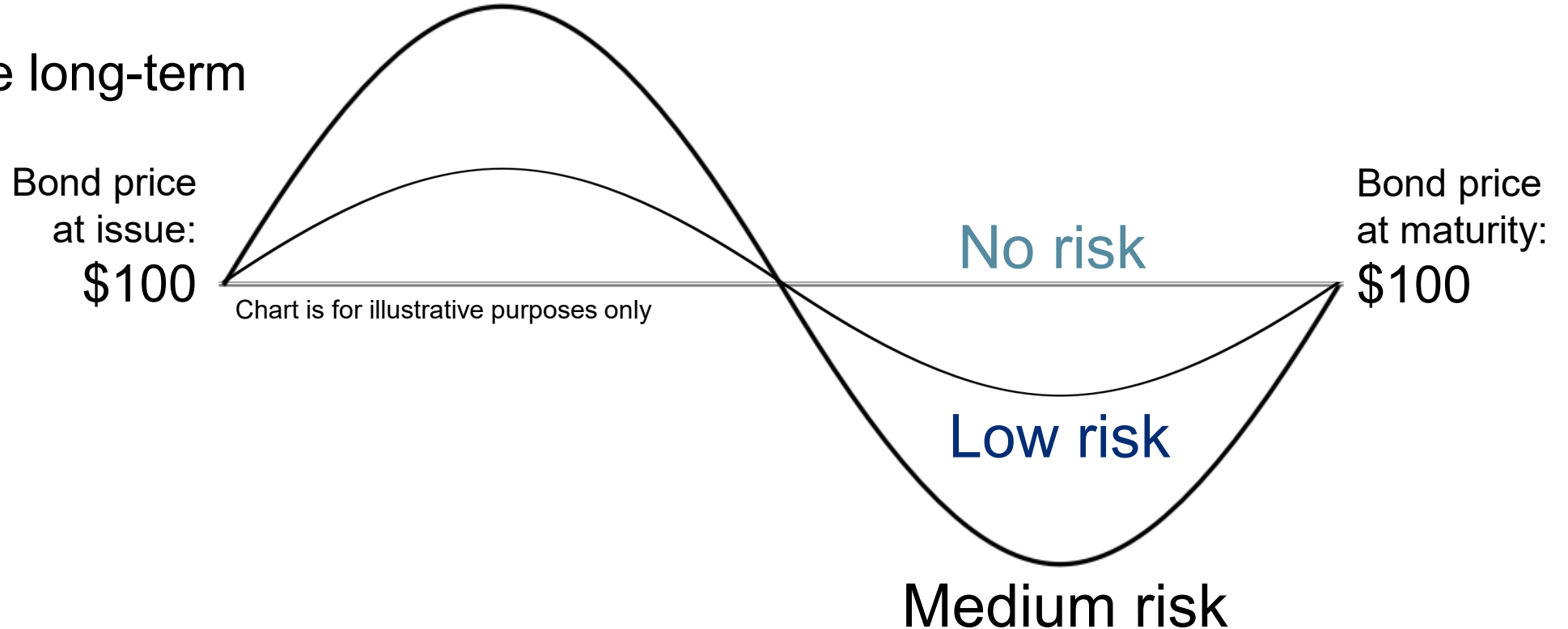
Investors receive par value at maturity



Capital preservation needs and considerations

Capital must be preserved:

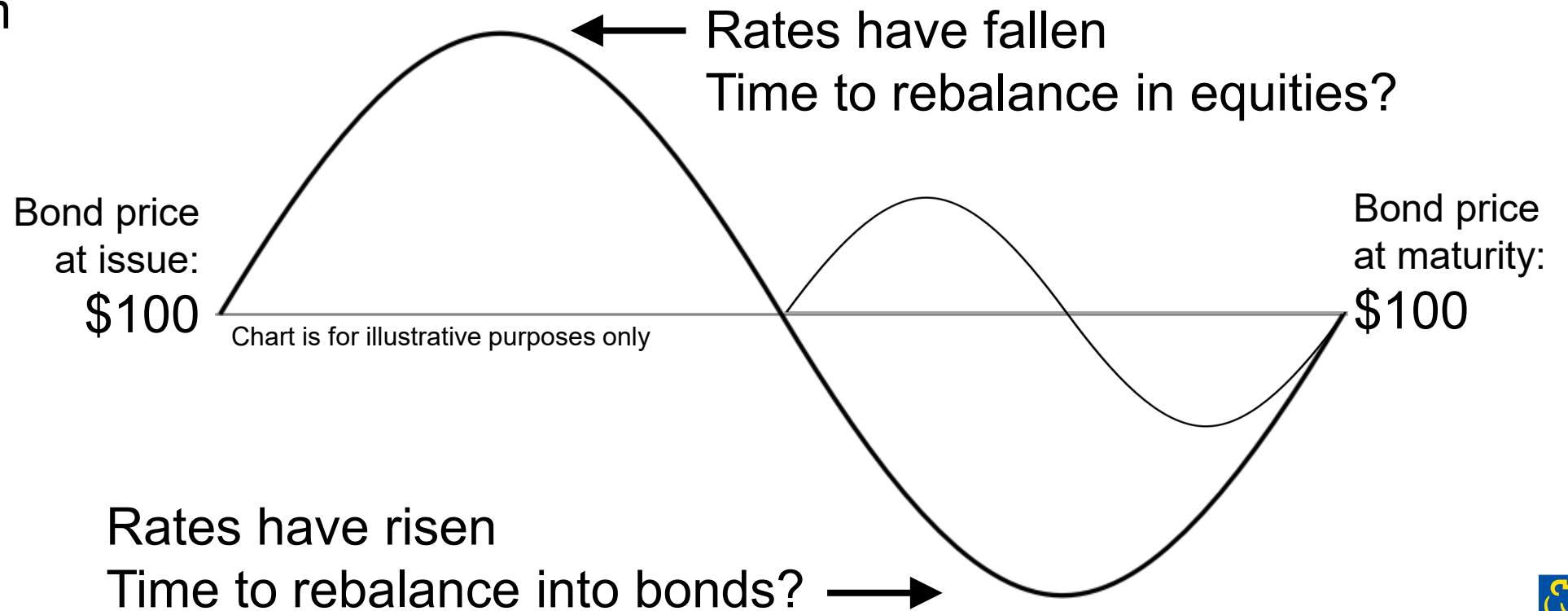
- Always
- In the short-term
- Over the long-term



Diversification benefits

Different solutions, different benefits

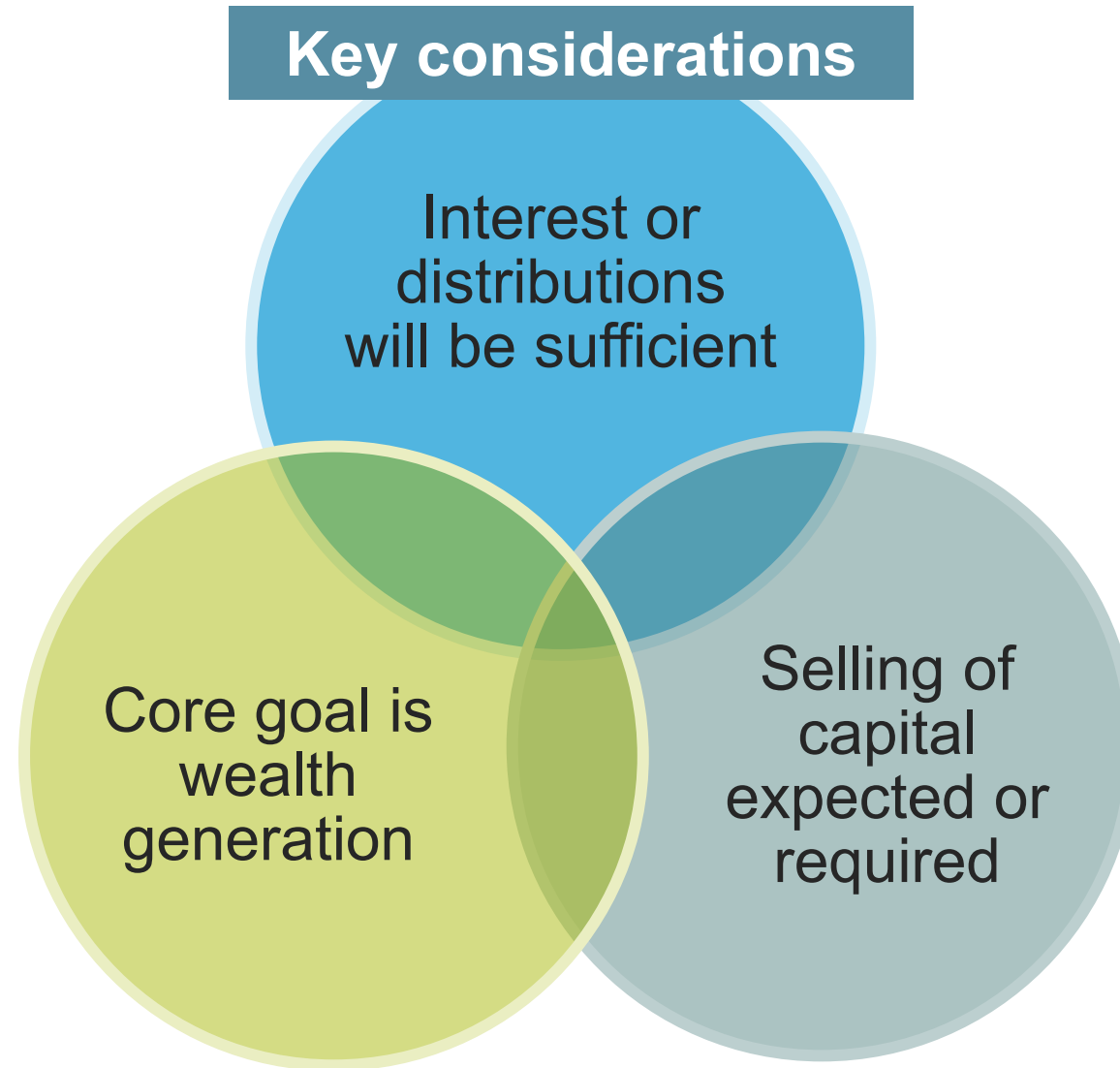
- Interest only
- Short-term
- Long-term



Cash flow needs and related considerations

Cash flow needs

- **None**
- **Low**
- **Medium**
- **High**

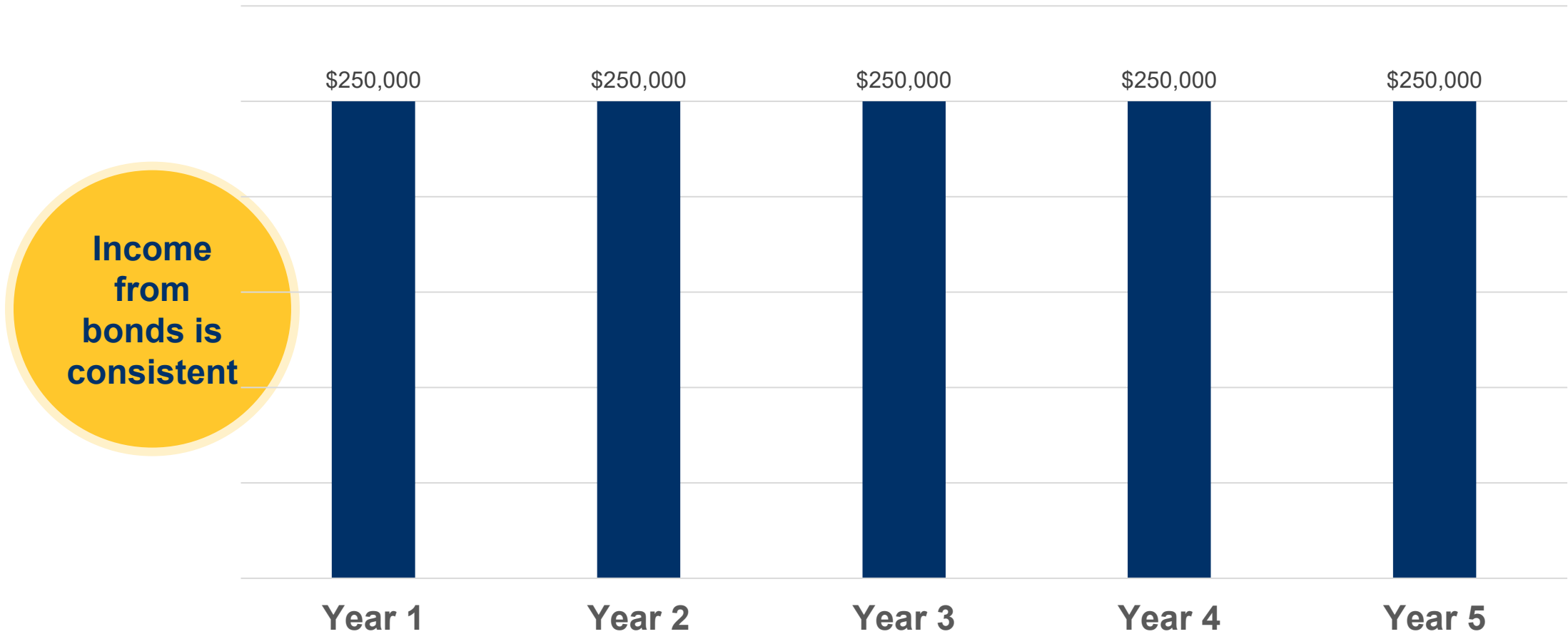


Growth considerations

Total return potential	Re-investment risk	Meeting goals
Interest + Capital growth + Tax-efficiency	Fixed maturities vs. Managed solutions	Goals vs. How long to 'lock-in' rates?

A reminder about bonds and cash flow

Annual income from \$5,000,000 invested in a 5% bond



The potential of today's bond markets



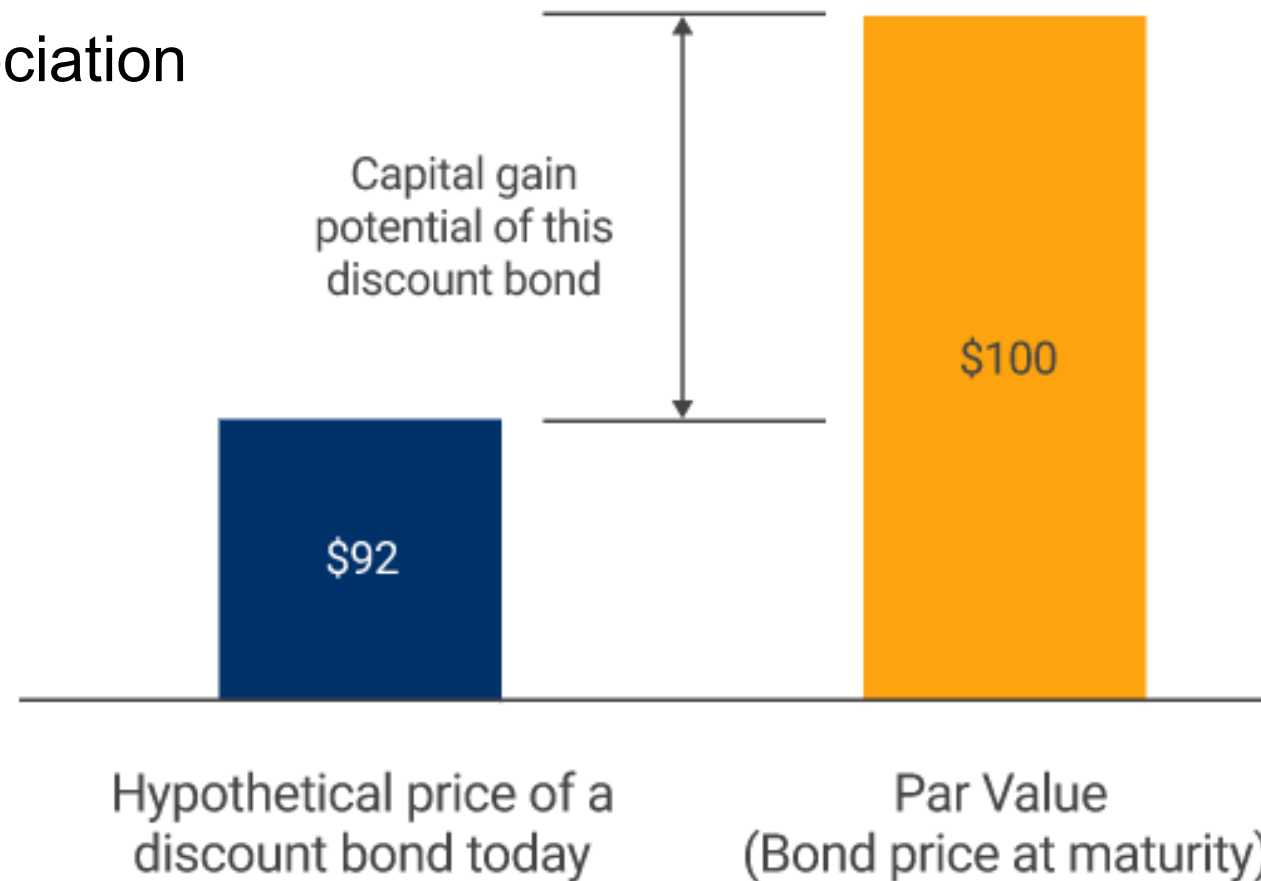
Looking forward

- Highest yields in 15 years across many markets
- Likelihood of significant rate increases is moderating
- Are rate cuts on the horizon?

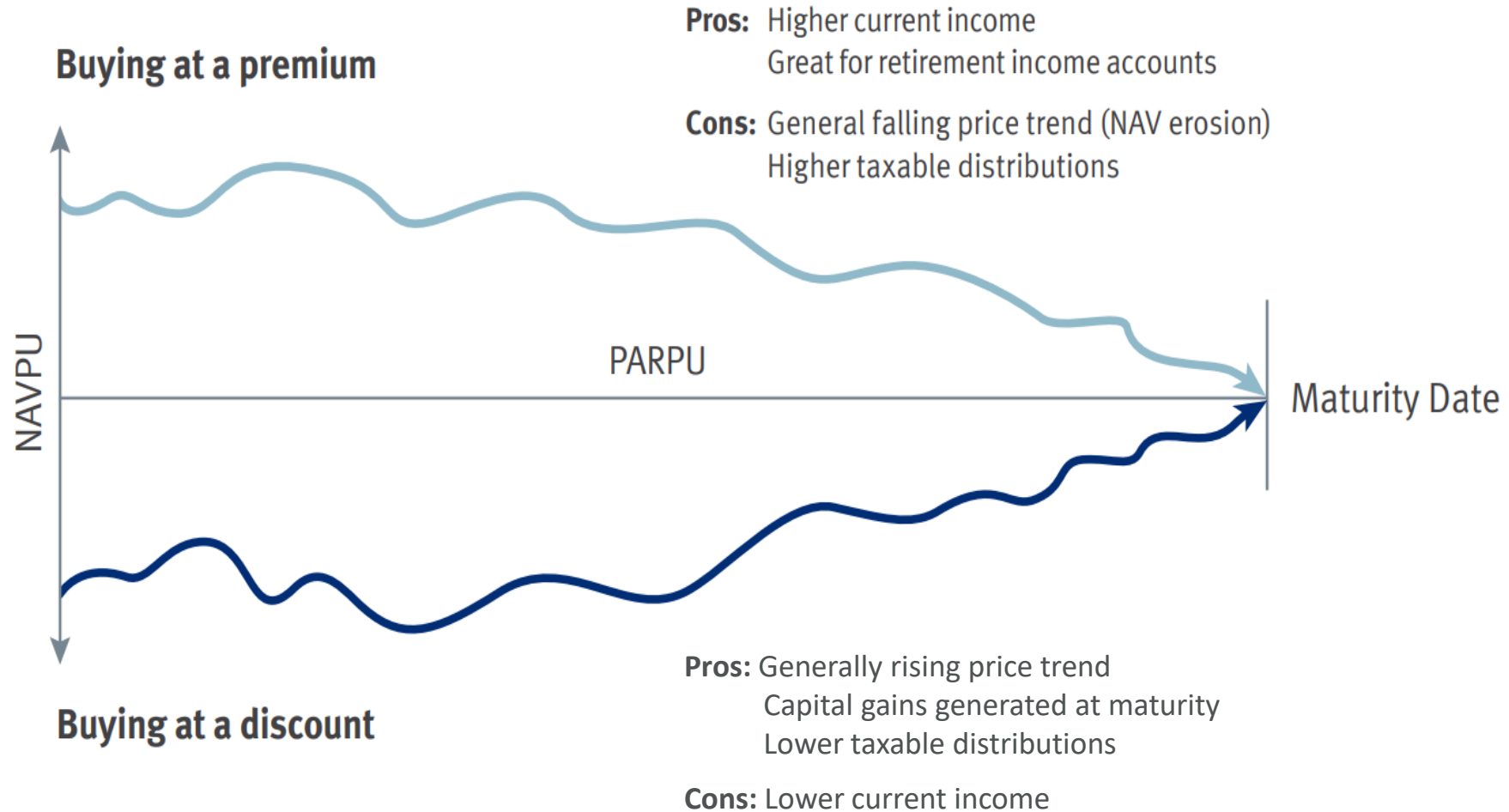
The potential of today's bond markets

Many bonds are trading at a discount

- Built-in price appreciation
- Lower price risk
- Tax-efficiency



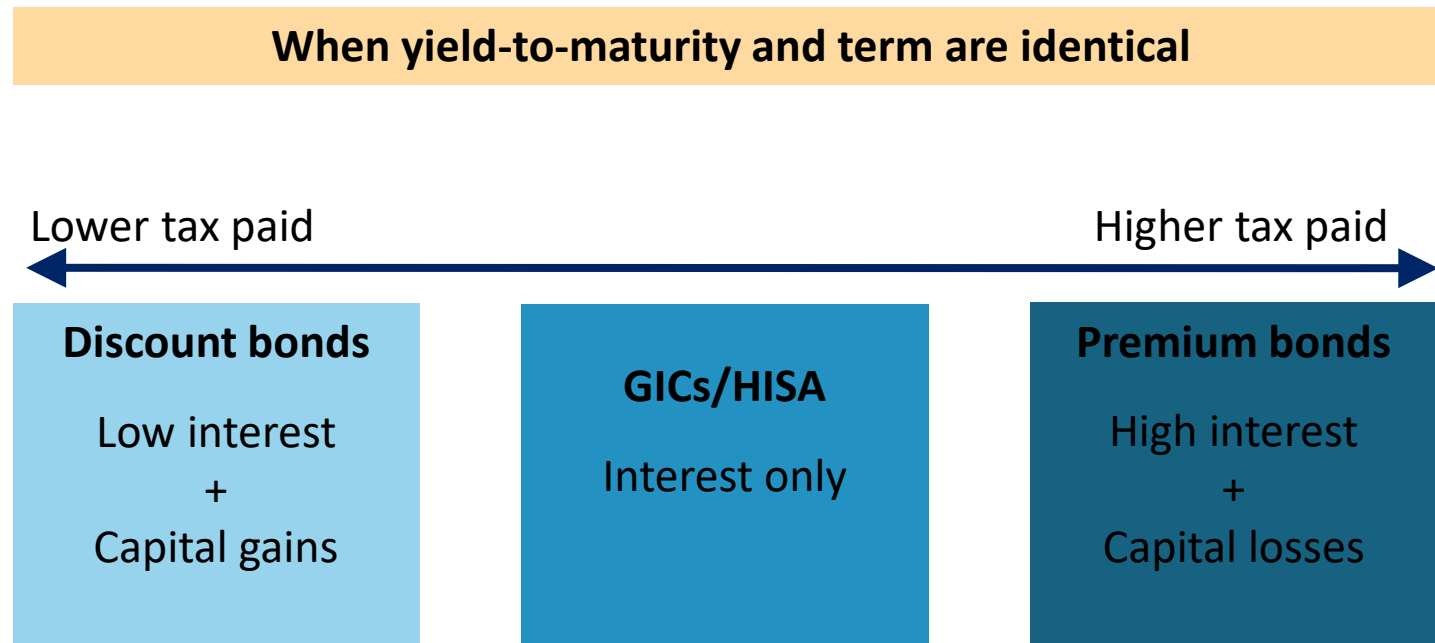
Buying at a premium vs. discount



For illustrative purposes only

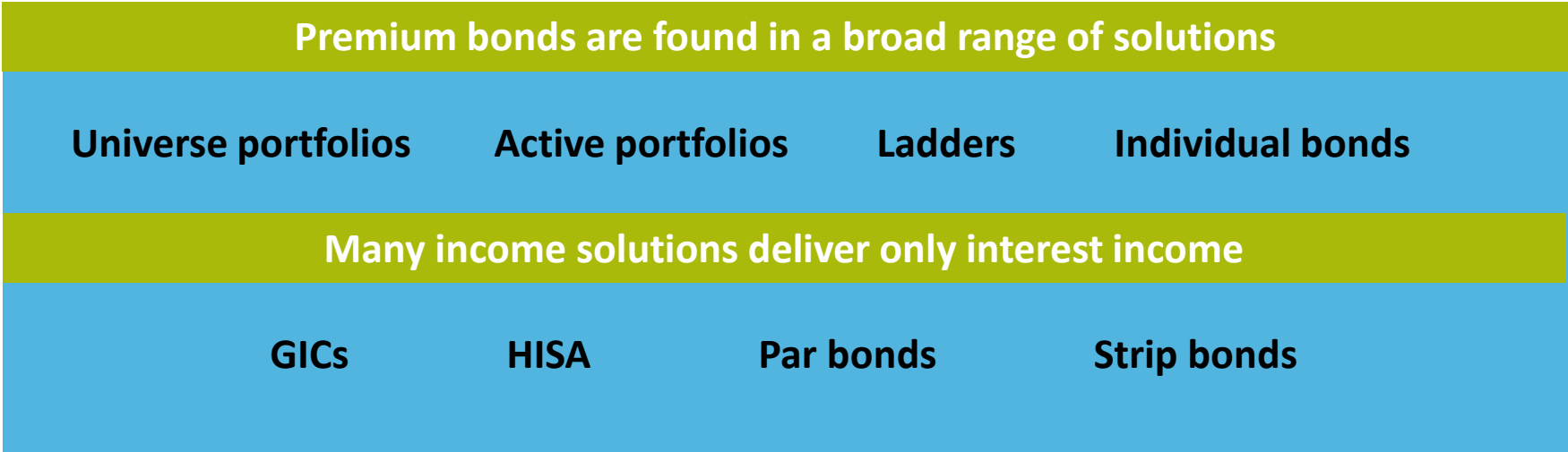
Why invest in discount bonds?

- Generates lower interest income and a capital gain at maturity
- Lower interest income = lower taxes
- Capital gain taxed at half the rate of interest and deferred until maturity



Why invest in discount bonds?

Investors need to keep an eye on tax-efficiency in any income solution



Discount bonds and taxes – It’s what you keep that matters

Example: 1-year bond, 3% yield-to-maturity (YTM), 50% tax rate

	Discount Bond		GIC/HISA	Premium Bond	
Price paid (par value \$100)	\$98.06		\$100	\$101.94	
Coupon rate	1.0%		3.0%	5.0%	
Pre-tax yield-to-maturity	3%		3%	3%	
	Interest Income	Capital Gain	Interest Income	Interest Income	Capital Loss
Total income/gain/loss	\$1.00	\$1.94	\$3.00	\$5.00	-\$1.94
Taxes (50% marginal rate)	<u>-\$0.50</u>	<u>-\$0.49¹</u>	<u>-\$1.50</u>	<u>-\$2.50</u>	<u>+\$0.49¹</u>
After-tax income	= \$0.50	= \$1.45	= \$1.50	= \$2.50	= -\$1.45
Total after-tax income	\$1.95		\$1.50	\$1.05	
After-tax yield-to-maturity	1.99%		1.50%	1.03%	

The above examples are for illustrative purposes only.

1. Capital gains are assumed to be taxed at half the 50% tax rate for a 25% effective tax rate. Capital losses are assumed to be used to offset other realized capital gains.

Discount bonds - Capital gain taxes are deferred until maturity

Example: 5-year bond, 3.0% yield-to-maturity, 53.5% tax rate (BC & Ontario)

	Discount Bond		GIC/HISA	Premium Bond	
Price paid (par value \$100)	\$90.84		\$100	\$109.16	
Coupon rate	1%		3%	5%	
Pre-tax yield to maturity	3%		3%	3%	
	Interest Income	Capital Gain	Interest Income	Interest Income	Capital Loss
Total income/gain/loss	\$5.00	\$9.16	\$15.00	\$25.00	-\$9.16
Taxes (53.5% Marginal Rate)	<u>-\$2.68</u>	<u>-\$2.45*</u>	<u>-\$8.03</u>	<u>-\$13.38</u>	<u>+2.45*</u>
After-tax income	=\$2.32	=\$6.71	=\$6.97	=\$11.62	=\$-6.71
Total after-tax income	\$9.03		\$6.97	\$4.91	
After-tax yield-to-maturity	1.92%		1.40%	0.94%	
After-tax income (\$5,000,000 investment)	\$451,500		\$348,500	\$245,500	

The above examples are for illustrative purposes only.

1. Capital gains are assumed to be taxed at half the 53.5% tax rate for a 26.75% effective tax rate. Capital losses are assumed to be used to offset other realized capital gains.

Discount bonds - Capital gain taxes are deferred until maturity

Example: 5-year bond, 3.0% Yield-to-maturity, 48% tax rate (Alberta)

	Discount Bond		GIC/HISA	Premium Bond	
Price paid (par value \$100)	\$90.84		\$100	\$109.16	
Coupon rate	1%		3%	5%	
Pre-tax yield to maturity	3%		3%	3%	
	Interest Income	Capital Gain	Interest Income	Interest Income	Capital Loss
Total income/gain/loss	\$5.00	\$9.16	\$15.00	\$25.00	-\$9.16
Taxes (48% Marginal Rate)	<u>-\$2.40</u>	<u>-\$2.20*</u>	<u>-\$7.20</u>	<u>-\$12</u>	<u>+2.20*</u>
After-tax income	=\$2.60	=\$6.96	=\$7.80	=\$13	=\$-6.96
Total after-tax income	\$9.56		\$7.80	\$6.04	
After-tax yield-to-maturity	2.03%		1.56%	1.14%	
After-tax income (\$5,000,000 investment)	\$478,000		\$390,000	\$302,000	

The above examples are for illustrative purposes only.

1. Capital gains are assumed to be taxed at half the 48% tax rate for a 24% effective tax rate. Capital losses are assumed to be used to offset other realized capital gains.

What is an ETF?

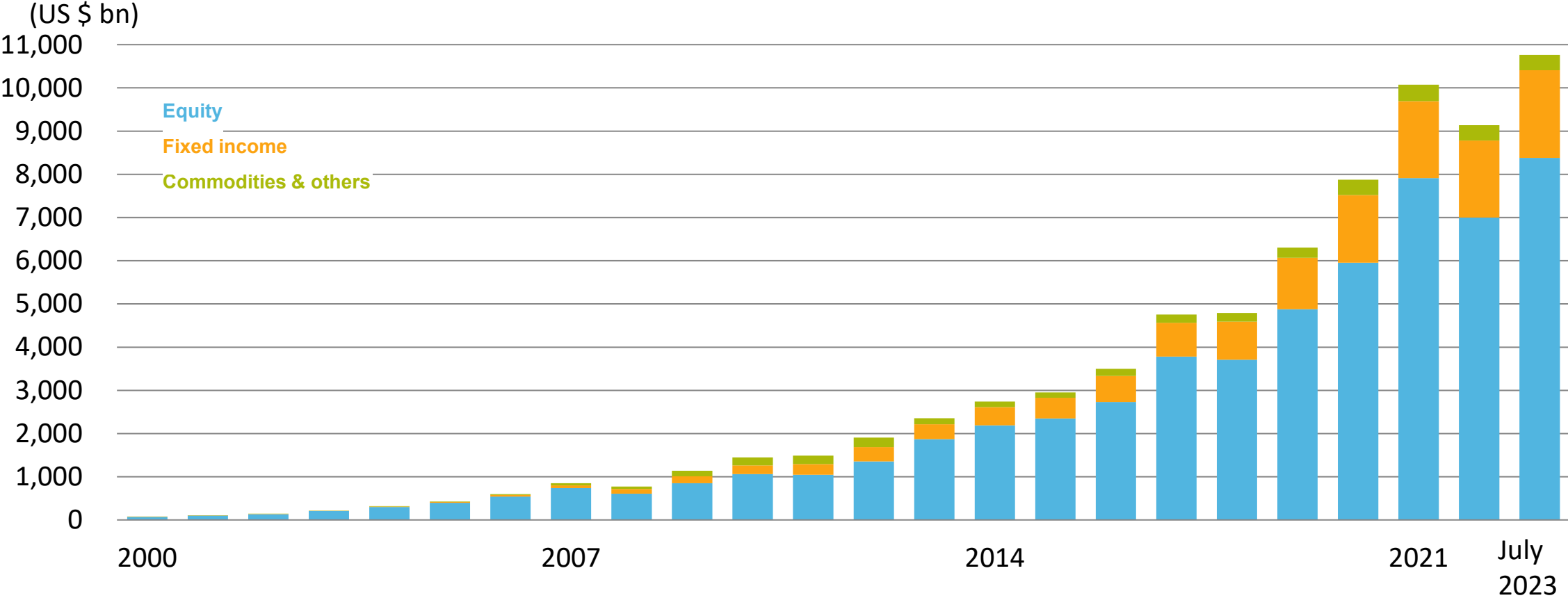
Two great investment ideas brought together

Like a stock	Like an index fund	What sets ETFs apart?
<ul style="list-style-type: none">• Trading flexibility intraday on the exchange• Long or short• Options are frequently available	<ul style="list-style-type: none">• Majority of ETFs are index-based, constructed to track a benchmark index• Low expense ratios• Low turnover	<ul style="list-style-type: none">• The creation / redemption process enables multiple layers of liquidity, a unique benefit of ETFs



ETF investing is growing in popularity

- Exchange-traded fund (ETF) assets continue to grow.
- At the end of July 2023, global ETF assets (from all providers) totals over \$10 trillion USD.
- Canadian ETFs assets stand at C\$389 billion.



Source: BlackRock, Markit as of 7/31/2023.

What are the benefits of an ETF?



Diversification: ETFs invest in a basket of securities, and can provide exposure to various asset classes, sectors and geographic regions.



Transparency: Investors can generally see the portfolio composition of an ETF at any time as current holdings are available daily.



Liquidity: ETFs are listed on the stock exchange and can be bought or sold throughout the trading day.

Why use RBC Target Maturity Corporate Bond ETFs?

- **Use RBC Target Maturity Corporate Bond ETFs to:**
 - **Build bond ladders** with ETFs rather than individual bonds
 - **Match cash flow** to your needs
 - **Reduce duration risk** with a diversified fixed income portfolio
- **Building bond portfolios with RBC Target Maturity Corporate Bond ETFs rather than individual bonds can provide:**
 - **Improved liquidity** vs. individual bonds: easier to purchase, easier to sell
 - Enhanced **diversification** through allocation to a portfolio of bonds maturing in the same year
 - Allows **greater control of duration** exposure
 - Ability to match your income needs to fixed income strategy
 - **Transparency** with credit quality and holdings information available



Manage your own corporate bond ladder

- **Six RBC Target Maturity Corporate Bond ETFs to choose from, ranging from 2024 to 2029 maturity**
- **Management fees* 0.20%**
- **Each ETF:**
 - Invests in individual bonds that have an effective maturity in the same calendar year
 - Tracks **FTSE Canada Maturity Corporate Bond Indices™**
 - Matures in September (on or about September 30) of its maturity year, with proceeds paid out like a bond
 - Distributes interest income earned (net of fund expenses) on a monthly basis
- **You can choose your allocation to each maturity depending on your needs**

*Management fee is included in the Management Expense Ratio (MER) which ranged from 0.28 % to 0.29 % as reported in the Fund's most recent Semi-Annual or Annual Management Report of Fund Performance, available at rbcgam.com.

RBC Target Maturity Corporate Bond ETF – Portfolio characteristics

Maturity Year	2024	2025	2026	2027	2028	2029
Tickers	RQL	RQN	RQO	RQP	RQQ	RQR
Management Fee	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%
# of Securities	46	43	38	27	22	21
Weighted average duration (years)	0.8	1.6	2.6	3.4	4.2	5.1
Weighted average current yield (%)	2.78	3.02	2.61	3.83	3.75	3.66
Weighted average YTM (%)	5.79	5.86	5.69	5.75	5.59	5.17
Weighted average Tax Equivalent Yield (%)	7.68	7.68	7.68	7.07	6.89	6.29

Data as of September 20, 2023. Portfolio characteristics are subject to change.

RBC Target 2026 Corporate Bond Index ETF - RQO

Holdings	Assets
TORONTO-DOMINION BANK 4.344% JAN 27, 2026	6.8%
ROYAL BANK OF CANADA 5.235% NOV 02, 2026	6.2%
BANK OF NOVA SCOTIA 1.850% NOV 02, 2026	5.8%
HSBC BANK CANADA 1.782% MAY 20, 2026	5.3%
CANADIAN IMPERIAL BANK OF COMMERCE 1.100% JAN 19, 2026	4.4%
NATIONAL BANK OF CANADA 2.237% NOV 04, 2026	4.2%
FEDERATION DES CAISSES DESJARDINS DU QUEBEC 1.093% JAN 21, 2026	4.2%
CANADIAN IMPERIAL BANK OF COMMERCE 1.700% JUL 15, 2026	3.9%
ROYAL BANK OF CANADA 1.589% MAY 04, 2026	3.4%
NATIONAL BANK OF CANADA 1.534% JUN 15, 2026	3.1%
Total % of top 10 holdings	47.3%
Total number of holdings	39

Fixed income characteristics

Credit rating

Credit rating	As of 8/31/2023
AA	11.02%
A	72.65%
BBB	16.32%

Sector

Sector	As of 8/31/2023
Financial	75.0%
Energy	10.6%
Real Estate	5.5%
Industrial	3.5%
Communication	3.4%
Infrastructure	2.0%

Source: RBC GAM. Holding as at September 20, 2023. Fixed income characteristics as of August 31, 2023.

Finding a way forward in fixed income

**Consider the
benefits of
diversification**

- Your best defense in an uncertain environment
- A mix of maturities and asset classes can reduce risk
- Re-investment risk can be reduced
- Remember what's under the hood

Disclosure

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Q&A



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