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‘JustBuyCAGE’: Why Canadian investors are flocking to this ETF

ANDREW GALBRAITH
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It’s not often that a new exchange-traded fund sparks an internet following. But in less than two months since its launch in March by CIBC Asset Management, the Avantis CIBC All-Equity Asset Allocation ETF CAGE-T has spawned a 9,000-member subreddit, JustBuyCAGE – a meme-filled “community for Canadian investors who believe in the power of factor investing.”

The enthusiasm isn’t just online. For the past two weeks, CAGE has been among the top 10 ETFs in Canada in terms of investor inflows, according to TD Securities, pulling in $99-million – equivalent to more than 84 per cent of its assets under management – in the week ending May 1, and another $69-million last week.

“The pent-up demand for something like this in Canada was huge,” said Ben Felix, chief investment officer at PWL Capital. Mr. Felix, who hosts a finance podcast called The Rational Reminder, said the podcast’s online community was abuzz with discussions about CAGE in the weeks leading up to its launch.

CAGE is an asset allocation ETF, much like the more established iShares Core Equity ETF XEQT-T and Vanguard All-Equity ETF Portfolio VEQT-T, which Mr. Felix said makes it compelling to Canadian investors familiar with the concept. These ETFs are designed to provide exposure to a global basket of equities in a single fund.

Where CAGE differs, Mr. Felix said, is in applying “factor tilts” – reweighting based on what he said were “academically supported improvements to the concept of index investing.”

Those improvements stem from the Fama-French Five Factor Model, an asset pricing model described by American economists Eugene Fama and Kenneth French, which sought to improve on previous models that assume it is not possible to reliably beat the market without taking on excess risk.

The economists found that including a company’s size, relative value, profitability and investment alongside systematic market risk, known as beta, helped to explain returns of diversified portfolios more accurately than just using beta alone. More traditional index investing strategies focus on capturing a diversified slice of the market to profit from beta while reducing costs.

Using more factors “increases the reliability of the long-term outcome because you’re not reliant on a single risk premium,” Mr. Felix said. For example, while the S&P 500 index fell between 2000 and 2010, “tilts towards small cap and value performed exceptionally well,” during that time, Mr. Felix said.

CAGE is one of a number of factor-investing ETFs provided by CIBC in partnership with Avantis, a U.S. asset manager that has introduced similar funds in the United States. The ETF’s focus on value and profitability factors, tilting toward companies trading at low prices relative to their book value and those with strong profits. CIBC bills CAGE as an “all-in-one” solution, in contrast with other funds that focus on specific markets or company sizes.

The CAGE strategy is not entirely new to Canadian investors. Asset manager Dimensional Fund Advisors launched its Global Equity Portfolio F-series mutual fund DFA607.CF in September, 2011, but it is only available through financial advisers. It has also been possible to buy U.S.-listed Avantis ETFs, but a Canadian-listed product is simpler and in some cases more tax-efficient for Canadian investors, Mr. Felix said.

Jordan Laforest-Claveau, an investor outside of Montreal, was convinced enough by the factor investment thesis to sell his holdings of XEQT in his registered account and move his long-term investments into CAGE.

“You get the same simplicity you would get from XEQT or VEQT, but also a potential better return,” he said.

“It’s a more risky approach, but if … you’re convinced by the research and you really understand what it is, I think it’s a really amazing product.”

Mr. Felix cautioned that investors shouldn’t expect a factor tilt strategy to outperform consistently. One of the implications of factor tilts, he said, is that investments will perform differently from the broader market – sometimes better, sometimes worse.

“What people are worried about when they tilt toward factors is … underperforming the market, which can happen for long periods of time,” he said.

“The right factor tilt for any investor is going to be very subjective.”

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