How ETF strategists are employing strategic beta in model portfolios

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One noticeable shift taking place within the model portfolios is the growth of strategic beta strategies.

Key takeaways

- ETF strategists are increasingly using strategic beta ETFs in their portfolio models.
- From long-term strategic allocations to tactical tilts, strategic beta ETFs are often used as a substitute for market-cap-weighted allocations and as a vehicle for emphasizing specific sectors at certain points in the economic cycle.
- Strategists using John Hancock Multifactor ETFs are drawn to their efficient structure and time-tested factor composition, which were pioneered by Dimensional Fund Advisors.

Executive summary

The proliferation of exchange-traded funds (ETFs) in recent years has offered financial professionals new tools for gaining more precise asset class exposure while also managing overall portfolio cost. Strategic, or smart, beta, with its potential to outperform market-cap-weighted indexes, has been a growing segment of the ETF market. While the pace of new product launches for the category has fluctuated, the category has exhibited remarkable growth, rising from 267 strategic beta ETF products in the first quarter of 2012 to 669 such products at the end of the first quarter of 2019.[1]

With the variety of choices expanding, many professionals are naturally looking to ETF strategists for guidance on ways to implement strategic beta into their client portfolios. This paper includes profiles of several such strategists that are employing strategic beta ETFs in different ways, along with our views on each approach.

3D ASSET MANAGEMENT, INC.

Using strategic beta to target factors that have historically outperformed

Strategist profile

- 3D and Lee Capital Management merged in 2020 to form 3D/L
- Headquartered in Hartford, Connecticut
- $828 million in combined assets under management as of 12/31/20
- Specializes in model portfolios targeted at both accumulation and income-distribution-oriented investors
- Models include John Hancock Multifactor Mid Cap ETF
- Platform availability: 3DMAP, Adhesion, Charles Schwab, Envestnet, FolioFx, Mid-Atlantic Trust Company, TD Ameritrade
- Company website: 3dadvisor.com

Investment approach

3D constructs multi-asset strategic core portfolios designed to produce a targeted rate of return over long-term market cycles. The firm's approach to portfolio construction is grounded in academics and analytics. 3D's proprietary strategies include models constructed with ETFs and Dimensional Fund Advisors mutual funds. The firm researches and invests in risk factors across global equity and fixed-income asset classes that have historically outperformed over the long run.

Why strategic beta?

3D believes there are equity risk premiums such as size and value that—if invested in over the long term—offer a higher expected return to compensate for higher risk. 3D also believes that since several of these risks can exhibit higher volatility than less risky areas of the market, diversification helps balance these ups and downs as many of these risks don't move in tandem with each other.

Investing in strategic beta requires a long-term perspective, especially during cycles of underperformance versus traditional market-cap-weighted indexes. 3D also believes in risk budgeting and understanding the sources of contribution to active risks.

Targeting factors with strategic beta

3D has a close working relationship with Dimensional Fund Advisors and understands what differentiates John Hancock Multifactor ETFs from Dimensional mutual funds. 3D manages the ETF models separately from the Dimensional models; the two don't intermix. However, for the Dimensional models, it can allocate to the John Hancock ETFs since they're subadvised by Dimensional. 3D may allocate to John Hancock Multifactor ETFs in its Dimensional model portfolios based on where it wants to target exposures not directly available with Dimensional mutual funds.

While the risk factors 3D targets are also present in many traditional, actively managed mutual funds, these tend to be more expensive, less efficient, and less consistent versus a portfolio comprising risk-based ETFs. 3D builds its risk-based portfolios to provide broad diversification across market regions, sectors, and factors to extract long-term risk premia while still being conscious of the price it's paying in the context of the current market environment. The result is a unique set of efficient, cost-effective portfolios that seeks to capture higher-than-expected returns, in the context of disciplined, long-term investment horizons.

John Hancock Investment Management's view

- Aside from seeking higher expected returns, multifactor ETFs can also be used to target specific risk factors and for diversification.
- Multifactor ETFs may be able to fill a niche in which an active strategy is unavailable or deemed too expensive.
- Combing several factors may improve diversification and help investors keep a long-term perspective when individual factors underperform during certain periods.

AGFiQ

Combining smart beta sector rotation with a strategic hedge

Strategist profile

- Traces its roots to 1957
- Headquartered in Toronto, Canada
- $5.6 billion in assets under management as of 12/31/20
- Specializes in factor-driven investment solutions
- Models include the John Hancock Multifactor sector ETFs
- Platform availability: TD Ameritrade
- Company website: agfiq.com

Investment approach

AGFiQ is the quantitative investment platform of AGF Investments, an independent and globally diverse asset management firm based in Toronto, Canada. The company has demonstrated expertise in rules-based and active, factor-driven traditional and alternative strategies. Factor-based investing is at the core of the firm's strategies, designed to provide better risk-adjusted returns by using a disciplined process and viewing risk through multiple lenses.

Why strategic beta?

AGFiQ employs both active and passive strategies, typically while tailoring custom investment solutions for their clients. Their investment philosophy aligns well with that of Dimensional Fund Advisors in that they believe that factors are the key drivers of higher expected risk-adjusted returns. AGFiQ employs the suite of sector-focused multifactor ETFs from John Hancock as the core component of their sector rotation strategy.

AGFiQ believes that an allocation to smart or strategic beta should begin with a rules-based framework that targets exposures that are different from traditional market-cap-weighted strategies. This rules-based framework coupled with the implementation of innovative strategic beta ETFs is key to the design of a quality investment portfolio. Furthermore, AGFiQ considers that the transparency and thoughtfulness associated with the index construction methodology at the heart of smart beta provide a strong rationale for employing these strategies in their client portfolios.

Enhanced sector rotation

AGFiQ's research has shown that many sector rotation strategies are dominated by momentum. While they believe that momentum has a place within a quantitative framework, they also feel that momentum-focused strategies too seldom understand their propensity to experience rapid decay. In AGFiQ's framework, momentum is blended with other factors—particularly valuation, capitalization, and volatility—as they find this multifactor approach can produce better outcomes for investors.

The second major feature of AGFiQ's strategy design is to combine a multifactor framework with a strategic hedge to help mitigate risk. The hedge is implemented with a long/short ETF through which they seek to capture the spread return between low and high beta stocks. This strategic hedge can also aid in mitigating portfolio losses, or moderate drawdowns, reducing subsequent recoveries required to break even. AGFiQ believes that strategic allocations to proven equity market hedges are an optimal approach to insulating portfolios from unexpected market events and may help to compound wealth.

John Hancock Investment Management's view

- Market-cap-weighted ETFs can skew an investor's risk exposures by virtue of their passive mandate to match the market; this can result in lower risk-adjusted returns.
- Multifactor strategies offer greater levels of diversification than single-factor exposures.
- Strategic hedges and other overlays that help mitigate risk can reduce the left tail—or maximum drawdowns—of the return distribution, at the cost of reducing the right tail of higher potential returns.

BEAUMONT CAPITAL MANAGEMENT

Using strategic beta sector ETFs in a rules-based sector allocation approach

Strategist profile

- Established in 2009, with the firm's roots dating back to 1981
- Headquartered in Needham, Massachusetts
- $2.62 billion in assets under management and assets under advisement in the ETF models as of 12/31/20
- Seeks to generate alpha through sector rotation and strategic beta
- Models include the John Hancock Multifactor sector ETFs
- Platform availability: Adhesion, Castleview Partners, Envestnet, LPL, Mid Atlantic, Sawtooth, Schwab, SmartX, Wells Fargo
- Company website: investbcm.com

Investment approach

Beaumont Capital Management (BCM) builds portfolios that opportunistically allocate to ETFs using a rules-based system. "Our approach seeks to smooth out the investment experience. If one or more sectors are struggling, why stay invested in them? We'd rather shift our clients' assets into sectors with positive trends—pursuing what the markets will give—and exit sectors with negative momentum, thereby helping diminish losses. It is a repeatable approach that removes emotion from the process," said David Haviland, managing partner and lead portfolio manager.

Why strategic beta?

BCM offers a suite of sector rotation strategies that uses a momentum-based approach with the objective of providing both growth and a degree of downside protection. The firm offers a version of its pure U.S. sector rotation strategy using strategic beta, investing in Dimensional Fund Advisors' (DFA) multifactor approach. BCM believes DFA's emphasis on equities with smaller capitalizations, lower relative prices, and higher profitability combined with its approach could lead to better outcomes for investors.

"U.S. large cap and one or two sectors have dominated headlines for over 10 years. Small caps, value investing, and equal-weight investing have all underperformed lately, but markets are cyclical, and our systems are designed to take advantage of opportunities as conditions evolve," says Mr. Haviland. "We firmly believe that combining strategic beta allocations— which offer the potential for outperformance in bull markets—with an investment process with built-in defensive mechanisms that can help avoid the majority of bear markets represents an attractive solution for many investors and advisors."

Tactical use of sector ETFs

BCM's sector rotation process is a tactical, rules-based investment process that seeks to limit volatility and drawdowns. The firm's process is primarily based on identifying the momentum trends within each sector of the market and allocating accordingly.

BCM seeks to add value over similar sector rotation strategies by implementing additional behavioral rules and market-driven inputs to enhance the investment process and to potentially help limit losses in down markets. One such example is BCM's antiwhipsaw portfolio rules, which help guard against selling low and buying high in the event of a shallow yet rapid market pullback followed by an immediate recovery.

Additionally, by equally weighting the sectors, the investment process seeks to underweight (relative to the index) sectors that have already run up and overweight sectors that are undervalued and are expected to continue to appreciate over time.

Finally, BCM's sector rotation strategy has a maximum allocation to any individual sector of 25% of the portfolio. Therefore, if fewer than four sectors are owned, the strategy will begin to allocate to short-term, high-quality bond ETFs and has the ability to go 100% to this defensive positioning in the rare event that the model suggests all sectors have negative momentum.

John Hancock Investment Management's view

- It's been well documented how damaging large losses can be to an investment plan, especially when bear markets and emotional decision-making intersect.
- An emphasis on loss aversion can help investors stay on track, particularly in volatile markets.
- Managing expenses with low-cost strategic beta ETFs can have a material effect on performance over time.

CHILTON CAPITAL MANAGEMENT

Using strategic beta ETFs to achieve low-cost exposure with a tactical tilt

Strategist profile

- Founded in 1996
- Headquartered in Houston, Texas
- $1.6 billion in assets under management as of 12/31/20
- Seeks to generate consistent returns through tactical global asset allocation
- Models include the John Hancock Multifactor U.S. and international core equity ETFs
- Platform availability: N/A
- Company website: chiltoncapital.com

Investment approach

Chilton Capital Management's core business is providing investment advisory and fiduciary services to private clients, family offices, endowments, foundations, retirement plans, and trusts. As an independent, employee-owned organization operating through a fee-only business model, high transparency and low expenses are important parts of the company's investment criteria. Chilton's main focus is on delivering value through a global asset allocation strategy across a range of asset classes and markets.

Why strategic beta?

Chilton's investment philosophy is grounded in the belief that inconsistent security selection and high trading costs could erode investors' returns over time. The firm aims to deliver a more consistent approach by using ETFs to capture exposure to various market segments and by seeking to keep expenses low, both through managing turnover and trading costs.

Implementing strategic beta ETFs offered another dimension to Chilton's cost-conscious approach by allowing the firm to tilt its portfolios toward those factors that have a demonstrated potential to outperform over time—specifically, value-oriented and smaller-cap exposures. "Our clients aren't looking to us to take big bets," said CEO Mike Rome. "We think we can deliver more consistent returns through getting the asset allocation mix right, by managing costs, and by biasing our portfolios in favor of demonstrated drivers of long-term returns. Strategic beta ETFs were a natural fit for those goals."

Managing costs with ETFs

Chilton's global asset allocation strategies aren't unlike certain university endowments in that they cast a large net across a range of asset classes. But one of the struggles Chilton faced early on was trying to keep expenses, turnover, and overall costs low enough to make such broad-based strategies cost-effective. Dimensional's strategy of Index Memory®—a technique that seeks to minimize turnover by foregoing trades that are unlikely to add value—was attractive to Chilton: It was a feature that brought a degree of judgment, with regard to both costs and to potential returns, to a purely passive allocation.

John Hancock Investment Management's view

- Many investors are blending active and passive strategies, in part as a way of lowering overall portfolio costs, and ETFs are one of the most common means of achieving exposure to those segments of the market earmarked for passive capital allocations.
- Strategic beta ETFs with a time-tested approach to multifactor investing may be an attractive choice among investors seeking to add incremental value to a portfolio over time.
- Using strategic beta ETFs that seek to minimize turnover and trading costs is an effective way to help enhance returns.
- Dimensional's approach to portfolio construction is geared around the idea of enhancements at the margins rather than wholesale deviations from a benchmark's composition.

GREEN HARVEST

Using strategic beta as a tool for tax alpha

Strategist profile

- Formed in 2017
- Headquartered in New York, New York
- $339 million in assets under management as of 12/31/20
- Models include John Hancock Multifactor Sector ETFs
- Platform availability: Fidelity, First Republic, Envestnet, Schwab, Stifel, TD Ameritrade, UBS
- Company website: greenharvestam.com

Investment approach

Green Harvest Asset Management was formed in 2017 by a team of ETF and asset management experts to serve high-net-worth investors seeking tax alpha and reduced risk. The firm regularly partners directly with wealth advisors to create and deliver strategies that are customized in accordance with clients' needs. The firm specializes in helping wealth managers transition client assets in a tax- and benchmark-sensitive manner.

In addition to tax alpha, Green Harvest specializes in adding hedge overlays to existing strategies through an ETF shorting approach. The hedging is pursued to reduce risk; hedged positions can also be an additional source of tax alpha.

Why strategic beta?

The majority of Green Harvest's assets are benchmarked to custom allocations tailored to investment advisors' specifications. More than 95% of assets are in passive rules-based ETFs. Green Harvest has used strategic beta ETFs in particular sectors and market segments as substitute positions for a number of its core strategies. The firm may also substitute a strategic beta ETF for a market cap ETF for tax loss harvesting considerations.

Adding tax alpha and sector rotation

Green Harvest continuously monitors all positions across strategies for opportunities to add tax alpha. When opportunities meet Green Harvest's internally calculated thresholds, ETF positions may be swapped—i.e., one or more ETFs may be sold to capture a realized loss and a new ETF position is simultaneously established.

In its U.S. equity strategy, Green Harvest rotates within sectors to harvest tax losses efficiently while maintaining broad investment exposure. For example, 11 sector ETFs may initially be purchased in accordance with a designated weighting of each sector in the index. Multiple ETF swap candidates may then be selected for each of the initial positions. When an ETF's price falls below a certain loss threshold, that ETF is sold and a similar one may immediately be purchased. Investors can choose to prioritize exposure to strategic beta or market-cap-weighted approaches in pursuit of tax alpha.

John Hancock Investment Management's view

- Strategic beta strategies can play a key role in sector rotation strategies.
- Dimensional's approach to indexing and multifactor investing can align well with tax-efficiency objectives.
- Using strategic beta ETFs that seek to minimize turnover and trading costs is an effective way to help enhance returns.

THE INSTITUTE FOR WEALTH MANAGEMENT, LLC

Using strategic beta as another tool for mitigating risk

Strategist profile

- Founded in 2003
- Headquartered in Denver, Colorado
- $774 million in assets under management as of 12/31/20
- Specializes in outcome-oriented investment strategies with an emphasis on risk mitigation
- Models include the John Hancock Multifactor sector ETFs
- Platform availability: N/A
- Company website: instituteforwealth.com

Investment approach

The Institute for Wealth Management, LLC was founded to help provide investors and professionals gain better access to risk-managed investment solutions through its suite of twenty-plus investment models. Today, the company tailors allocations among its models for each client portfolio, serving broad-based investment goals focused on portfolios, with downside protection or income within these increasingly choppy markets.

Why strategic beta?

For the Institute, using active and passive investment strategies isn't an either/or proposition. Many portfolios they design incorporate both, or may employ one over the other depending on prevailing market conditions. One of the biggest draws of strategic beta is the alternative it offers to capitalization-weighted investments—generally, one of the hallmark characteristics of many purely passive approaches. "We may be interested in broad exposure to a particular market or sector," says CEO Matt Medeiros, "but we don't necessarily want the inherent bias toward the largest securities that's embedded in most passive ETFs. Strategic beta approaches help us to be more targeted in how we're achieving our exposures."

Specific to the Institute's sector rotation growth strategy, the company found a factor-based, strategic beta approach particularly appealing. Their strategy makes monthly allocations to stock market sectors, overweighting and underweighting different sectors based on a variety of price-, valuation-, and momentum-based metrics. "John Hancock Multifactor ETFs come with a built-in bias toward those factors that are proven sources of excess returns over time, and that was a natural complement to the work we were already doing," said Head of Capital Markets Matt Medeiros, CEO.

A research-driven approach

Given the Institute's focus on risk mitigation, it's no surprise that research is the cornerstone of their investment process. The company seeks input from a wide variety of sources, from investment banks to central bankers to third-party capital market teams, all of which they combine with their own in-house fundamental analysis and the macro views of their own veteran economist—in many ways, the same kind of vetting and research John Hancock Investment Management performed before selecting Dimensional Fund Advisors to design the ETFs' underlying indexes.

John Hancock Investment Management's view

- Risk management is an often overlooked pillar of investing in general; in today's market environment, with few attractive valuations across a range of asset classes, managing downside risk may be even more important.
- Purely passive approaches can offer cheap and liquid exposure to many asset classes, but the inherent tilt toward the largest— and therefore most expensive—securities may not be the right approach for all investors; the Institute's management of capitalization risk aims to be more prudent.
- Many of the Institute's strategies make significant use of cash as a volatility dampener in turbulent or overbought markets, which is a strategy active managers have at their disposal and, we believe, an underappreciated component of portfolio construction.

INTEGRATED CAPITAL MANAGEMENT

Building lower-cost, tax-efficient strategies with strategic beta

Strategist profile

- Founded in 1996
- Headquartered in Jessup, Pennsylvania
- $1.3 billion in assets under advisement as of 12/31/20
- Seeks to provide cost-effective long-term investment solutions
- Models include the John Hancock Multifactor U.S. and international core equity ETFs
- Platform availability: Adhesion/Vestmark, Cambridge, Envestnet, Folio FN, Orion, Sawtooth, Securities America, SmartX
- Company website: icm-invest.com

Investment approach

The mission of Integrated Capital Management (iCM) is to provide professionals with a unique and differentiated set of strategies based on the firm's valuation-conscious, quantitative investment approach. iCM applies this philosophy across a wide range of strategies, including tactically allocated portfolios of mutual funds and/or ETFs, an income-focused closed-end fund solution, globally diversified socially responsible portfolios, and strategically allocated factor models.

Why strategic beta?

iCM maintains an ETF track record of its relative valuation strategies dating back to 2005, making it one of the first and longest-standing ETF model portfolio providers in the United States. Based on advisor demand, iCM investigated adding a suite of strategic beta models. The approach—followed by Dimensional Fund Advisors and based on the Nobel Prize-winning academic research of Drs. Eugene Fama and Kenneth French—is a good fit with iCM's quantitative approach.

From relative valuation to strategic beta

With almost 15 years of active experience trading and placing client assets in ETF portfolios, iCM has become adept at optimizing portfolio construction criteria such as product size, tracking ability, index construction methodology, and liquidity. While building a portfolio of ETFs might appear to be a simple endeavor, doing it well can be very complex.

iCM's original relative valuation model is a common factor valuation technique. Like Dimensional Find Advisors, iCM believes strongly in the value of empirical research and supports the effort to provide effective long-term investment solutions at a reasonable cost. The strategic beta approaches offered by iCM are a completely independent suite of models—a set of passive strategies built in accordance with and optimized with respect to the Dimensional portfolio construction philosophy, with its multifactor focus on size, value, and quality. iCM's strategic beta approaches don't include a sector rotation component.

With permanent smart beta strategies and/or active factor tilts, iCM seeks to build lower-cost, more tax-efficient investment strategies that may result in better outcomes for its clients.

John Hancock Investment Management's view

- Multifactor strategic beta ETFs may be an attractive choice among investors seeking to add incremental value to a portfolio over time.
- Dimensional's approach to index and portfolio construction is based on tilting toward key factors rather than wholesale deviations from a benchmark's composition.
- Using low-cost strategic beta ETFs can have a material effect on performance over time.

LEE CAPITAL MANAGEMENT

Strategic beta in a quantitative sector-rotation strategy

Strategist profile

- 3D and Lee Capital Management merged in 2020 to form 3D/L
- Headquartered in Wellesley, Massachusetts
- $828 million in combines assets under management as of 12/31/20
- Seeks to avoid significant market declines while capturing positive returns in typical market environments
- Models include the John Hancock Multifactor sector ETFs
- Platform availability: 3DMAP, LPL, TD Ameritrade, Envestnet, Sowell, InterActive Brokers
- Company website: leecapitalmgmt.com

Investment approach

Lee Capital Management (LCM) grew out of Thomas H. Lee's investment organization and is led by investment veterans with an average of over 30 years of industry experience. LCM manages tactical, quantitatively driven portfolios for institutional, individual, and subadvisory relationships. The firm employs an adaptive market approach that seeks to capture the expected long-term appreciation provided by equities, while also seeking to mitigate the full downside of the worst return periods.

Why strategic beta?

LCM believes strategic beta continues to evolve into an interesting hybrid of active and passive strategies, bringing the best of both worlds at a reasonable cost. All of LCM's strategies are actively managed, but some of them use ETFs, including passive and strategic beta ETFs. In particular, LCM uses the John Hancock Multifactor sector ETFs in the strategic beta version of Lee Adaptive Large Cap Sector Strategy.

LCM believes a key principle of investment management is to invest only where it has expertise and leave the rest to specialists. LCM has insight and experience with sector-rotation strategies but relies on the John Hancock Multifactor sector ETFs for exposure to stocks within a sector with higher expected returns based on size, value, and profitability. Dimensional Fund Advisors, the subadvisor and index provider for the John Hancock Multifactor sector ETFs, is a pioneer in factor-based investing with decades of experience in the field.

Quantitative approach to sector rotation

LCM's sector model is based on several quantitative factors, including sector momentum and valuation, as well as its market sentiment framework, which gauges overall market tenor. The biggest difference between LCM's approach and typical sector rotation models is that the firm isn't like best-idea investors who pick the best few sectors in good markets and bad. Rather, LCM evaluates each sector in absolute terms. If a sector is attractive, it's bought; if a sector is unattractive, it's not owned at all. When LCM's model is most optimistic, it holds all sectors, and when at its most pessimistic, it'll own none of them.

John Hancock Investment Management's view

- Some managers like strategic beta ETFs because they offer the outperformance potential of active strategies and the transparency and rules-based approach of passive vehicles at a relatively low cost.
- Multifactor ETFs can let investment managers outsource stock selection and weightings within sectors so they can focus on sector rotation and asset allocation.
- Multifactor ETFs may be attractive tools to implement a disciplined, consistent, and repeatable quantitative process.

John Hancock Multifactor ETFs

We offer a range of John Hancock Multifactor ETFs, with indexes designed by Dimensional Fund Advisors, a company regarded as one of the pioneers in strategic beta investing.

Combining multiple factors may better enable a portfolio to smooth out the variability of returns and improve the likelihood of outperformance across different types of markets.

ETFs	Tickers
Fixed income	
John Hancock Corporate Bond ETF	JHCB
U.S. Equity	
John Hancock Multifactor Large Cap ETF	JHML
John Hancock Multifactor Mid Cap ETF	JHMM
John Hancock Multifactor Small Cap ETF	JHSC
International equity	
John Hancock Multifactor Developed International ETF	JHMD
John Hancock Multifactor Emerging Markets ETF	JHEM
Sectors	
John Hancock Multifactor Consumer Discretionary ETF	JHMC
John Hancock Multifactor Consumer Staples ETF	JHMS
John Hancock Multifactor Energy ETF	JHME
John Hancock Multifactor Financials ETF	JHMF
John Hancock Multifactor Healthcare ETF	JHMH
John Hancock Multifactor Industrials ETF	JHMI
John Hancock Multifactor Materials ETF	JHMA
John Hancock Multifactor Media and Communications ETF	JHCS
John Hancock Multifactor Technology ETF	JHMT
John Hancock Multifactor Utilities ETF	JHMU

1 Morningstar, 2019.

Conclusions expressed in this article are based on the data collected in the John Hancock Investment Management study and may not be representative of all financial professionals.

This commentary is provided for informational purposes only and is not an endorsement of any security, mutual fund, sector, or index. The information is based on sources believed to be reliable, but it is neither all inclusive nor guaranteed by John Hancock Investment Management.

There is no guarantee that any of the strategies mentioned will be successful, or that the performance of the ETFs in the models will yield the same results if purchased individually. The objectives of the strategies and parameters set by the financial professional may differ from the actual ETFs.

AGFiQ Asset Management (AGFiQ) is a collaboration of investment professionals from FFCM, LLC, a U.S.-registered advisor, and of Highstreet Asset Management Inc., a Canadian-registered portfolio manager.

Information and opinions attributed to AGFiQ have been arrived at by the portfolio management team. AGFiQ accepts no liability for any loss arising from the use of this information, nor makes any representation as to its accuracy or completeness. AGFiQ is not providing personalized investment advice or recommending the purchase or sale of any particular security, and there can be no assurance that any strategy will be suitable or profitable for an investor's portfolio.

Strategic beta refers to indexes and the investment products that track them, the majority of which aim to enhance returns or minimize risk relative to a traditional market-capitalization-weighted benchmark. Alpha measures a manager's incremental return that cannot be attributed to market movements.

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Diversification does not guarantee a profit or eliminate the risk of a loss.

Index Memory is a registered trademark of Dimensional Fund Advisors LP.

Investing involves risks, including the potential loss of principal. There is no guarantee that a fund's investment strategy will be successful. Large company stocks could fall out of favor. The stock prices of midsize and small companies can change more frequently and dramatically than those of large companies, and value stocks may decline in price. Fixed-income investments are subject to interest-rate and credit risk; their value will normally decline as interest rates rise or if an issuer is unable or unwilling to make principal or interest payments. It's possible that an active trading market for fund shares will not develop, which may hurt your ability to buy or sell fund shares, particularly in times of market stress. Trading securities can actively increase transaction costs, therefore lowering performance and taxable distributions. Foreign investing, especially in emerging markets, has additional risks, such as currency and market volatility and political and social instability. Liquidity—the extent to which a security may be sold or a derivative position closed without negatively affecting its market value, if at all—may be impaired by reduced trading volume, heightened volatility, rising interest rates, and other market conditions. Master limited partnerships (MLPs) holding fixed-income securities such as bonds may be subject to interest-rate and credit risk, potentially causing the partial or complete loss of principal. MLPs are typically concentrated in specific industries and may lack the benefit of diversification. The use of hedging and derivatives could produce disproportionate gains or losses and may increase costs. Fund distributions generally depend on income from underlying investments and may vary or cease altogether in the future. Investments in higher-yielding, lower-rated securities include a higher risk of default. Shares may trade at a premium or discount to their NAV in the secondary market and a fund's holdings and returns may deviate from those of its index. Errors in the construction or calculation of a fund's index may occur from time to time. These variations may be greater when markets are volatile or subject to unusual conditions. Please see the fund's prospectus for additional risks.

John Hancock Multifactor ETF shares are bought and sold at market price (not NAV), and are not individually redeemed from the fund. Brokerage commissions will reduce returns.

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