



CETFA ETF Risk Rating Methodology

The CETFA determined a need to create a consistent uniform risk rating system that can be applied to all Canadian ETFs until the CSA releases a set of mandated rules for the entire retail investment fund industry. Standard deviation was chosen as the risk measure as it is the most widely accepted, and easily understood volatility risk measure. However the CETFA fully acknowledges that it is not a comprehensive risk measure and that investors should take the time to investigate the risks of owning any particular ETF and how it compares to its peers.

The following thresholds are used to convert the standard deviation number into a risk rating from one of five levels ranging from Low to High:

Risk Rating	Threshold
Low	< 6%
Low to Medium	6%-11%
Medium	11%-16%
Medium to High	16%-20%
High	> 20%

The following algorithm is used to determine the risk rating for an ETF:

1. The average of the 3 and 5 year rolling annualized standard deviation of the ETF. Proxy data can also be used to extend the history used for these calculations.

If the 5 year standard deviation is not available then;

2. The 3 year annualized standard deviation of the ETF.

If the 3 year standard deviation is not available then;

3. The average of the 3 and 5 year rolling annualized standard deviation of the proxy index. The use of the proxy index must be approved by Fundata and will generally be the underlying index for an ETF with a passive index tracking strategy or a suitable index based on the investment mandate of the ETF.

If the proxy data is not available then;

4. The average of the 3 and 5 year rolling annualized standard deviation of the ETF's CIFSC category.



5. If the ETF is in a broad CIFSC category such that the risk profiles of the peer group do not necessarily align, the risk rating is determined by considering the risk ratings of similar ETFs or benchmarks. Examples of such categories would be Alternative Strategies, Sector Equity, Passive Inversed / Leveraged, Commodity, Miscellaneous Income & Real Property, Miscellaneous – Other, Geographic Equity.
6. The final standard deviation number is then used to determine the risk rating based on the thresholds in the above chart.

For questions please contact:

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