



CANADIAN DEPOSITARY RECEIPTS™

Own the company, not the currency™



Canadians are missing out

Canada represents just over 3% of the world's capital markets.¹ This means that investors who limit their investments to domestic markets could be missing out on up to 97% of investment opportunities globally.

In order for Canadian investors to geographically diversify their investments they face both exchange rate risk and associated foreign exchange costs. Unsurprisingly, Canadians are overweight Canadian equities, with the average Canadian keeping approximately 60% of their investment holdings in Canadian companies.¹

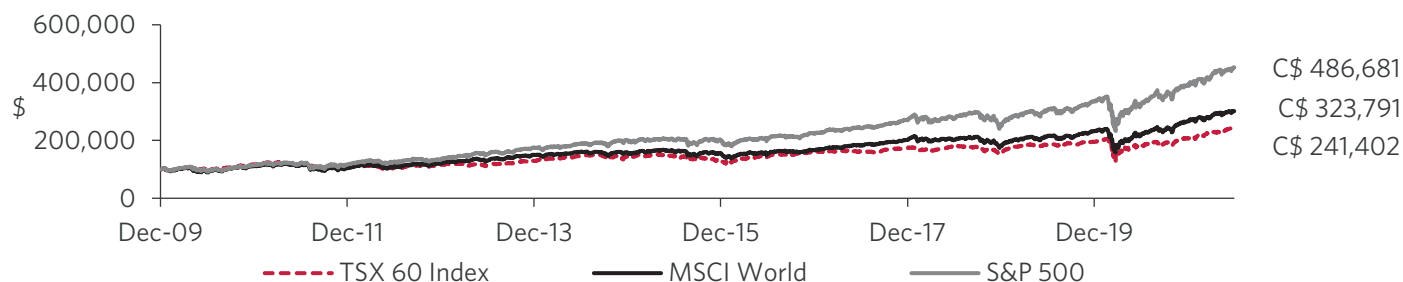
Share of global market¹



Average Canadian geographic allocation¹



As a result of our home country bias, Canadian portfolios may have been underperforming. The graph below compares the growth through June 30, 2021 of \$100,000 invested in global and Canadian equities on January 1, 2010.



Source: Bloomberg, as of June 30, 2021.²

Some of the key factors that contribute to our home country bias include:

- no efficient way to manage currency risk on individual shares
- foreign exchange conversion costs
- many popular U.S. shares trade at extremely high dollar values

A more Canadian approach

Depository Receipts (DRs) are securities that represent a specific number of shares of a foreign company's stock and trade on an exchange just as any domestic share would. First introduced to the American market in 1927 as American Depositary Receipts (ADRs), the global DR market is now close to US\$1 trillion in assets.³ In 2019, there was US\$3.3 trillion in value of ADRs trading globally.² To put that number into context, there was approximately \$3 trillion in value traded across all Canadian exchanges, across all products.⁴

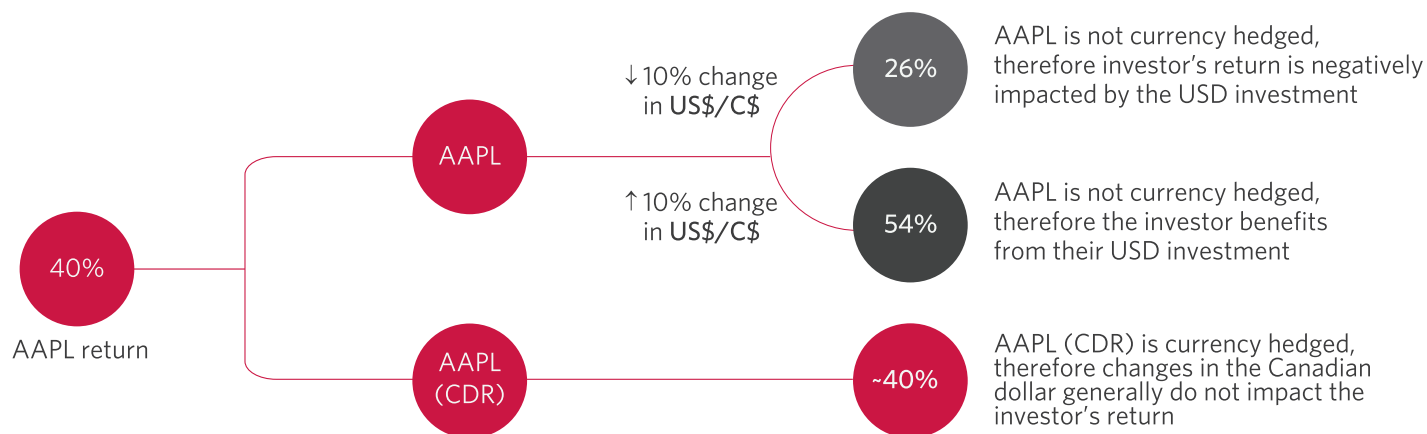
CDRs are the Canadian take on this 100-year old product, with one important distinction: the addition of a notional currency hedge.

CDRs make it easy for Canadian investors to gain exposure to the world's markets.



Comparing apples to apples⁵

The diagram below compares a Canadian investor's hypothetical Canadian dollar returns from purchasing Apple Inc. shares in U.S. dollars to Apple CDRs on a Canadian Exchange in Canadian dollars. With CDRs, changes in the exchange rate do not impact your Canadian dollar returns due to the notional currency hedge – this allows you to make a true apples-to-apples investment decision.



Key features of CDRs

Notional currency hedge

Each CDR is economically equivalent to owning a number of shares of a global company's stock. The specific number of shares that each CDR represents is called the "CDR Ratio." The CDR Ratio is automatically adjusted on a daily basis to account for the notional currency hedge. If the Canadian dollar increases in value compared to U.S. dollars (or other relevant foreign currency), the CDR Ratio for each CDR is adjusted to represent a larger number of underlying shares. Conversely, if the Canadian dollar decreases in value compared to U.S. dollars, the CDR Ratio for each CDR is adjusted to represent a smaller number of underlying shares.

Lower price per share

The initial price per CDR will be approximately \$20. In comparison, shares of many of the largest companies in the world trade at prices significantly higher. For example, as of June 30, 2021, AMZN was trading at US\$3,440.16 per share on the NASDAQ. This means CDRs make investing in these companies more accessible to the average retail investor.

Dividends

Dividends paid on the reference shares underlying CDRs will be passed through to CDR investors in Canadian dollars when received.

Voting rights

CDR investors will be entitled to vote the underlying securities shares through CIBC's online voting portal cdr.cibc.com. CIBC, as the Depositary, will then vote the underlying securities shares in accordance with the instructions provided on a commercially reasonable best-efforts basis. The number of shares each investor can vote will depend on how many CDRs they hold and how many shares each CDR reflects (CDR Ratio).

Liquidity

Many investors know that the liquidity of an individual stock is based solely on its average daily volume. But that's not the case with CDRs.

Similar to the trading mechanics of ETFs, the volume traded of the underlying security is a significant indicator of the CDR's liquidity. Generally speaking, the higher the trading volume of the underlying security, the higher the degree of liquidity of the corresponding CDR. Liquidity can be observed by comparing the difference between the buying and selling prices of the CDR in the market. This difference is referred to as the bid-ask spread. If the bid-ask spread of the CDR is smaller, generally this means that the underlying security also has a smaller bid-ask spread and is more liquid. It is possible for a CDR to have low daily trading volumes but still be liquid, with a tight bid-ask spread. CDRs will reference highly liquid global shares that trade on major exchanges around the world.

Best practices when buying or selling CDRs are similar to those for exchange-traded-funds – including that investors may wish to consider placing a limit order, which specifies the price at which you will buy or sell, in contrast to a market order, which will attempt to complete your trade as soon as possible at the current price.

Fees

CDRs do not have any ongoing management fees and allow investors to access institutional foreign exchange rates.

Tax

Every investor must consider their own tax advice and CIBC does not offer tax advice. It is the expectation that the Canadian tax consequences of owning CDRs will be the same as if the investor held the underlying security directly. Taxes may be withheld by the CDR company's local government. For example, for an underlying security issued out of the U.S., an investor may be subject to U.S. withholding taxes. For this purpose, an investor should provide their broker-dealer an applicable U.S. Internal Revenue Service Form W-8 (i.e. Form W-8BEN for Individuals, W-8BEN-E for Entities, etc.).

About CIBC Capital Markets

CIBC Capital Markets works with domestic and international organizations looking for a banking relationship that combines in-depth industry knowledge with comprehensive capital markets, corporate banking and investment banking capabilities to address their most pressing needs. We strive to forge strong and deep relationships with our clients to understand the demands of their business and bring distinctive and appropriate solutions to the table.

cdr.cibc.com

¹ Global index weight reflected by country's weight in the MSCI All Country World Index as of May 31, 2019. Investor holdings in domestic market sourced from the IMF, as of December 2014.

² Daily returns for the MSCI World and S&P500 indices were adjusted to account for a hypothetical currency hedge to Canadian dollars.

³ BNY Mellon. The 2019 Depositary Receipt Market Review.

⁴ IIROC Statistics and Information. iroc.ca/industry/marketmonitoringanalysis/Pages/StatisticsInformation.aspx

⁵ The returns in this diagram do not take into account any (i) related foreign exchange conversion costs, (ii) the hedging costs for the notional currency hedge, or (iii) any potential variances from the expected impact of the notional currency hedge. The gain in AAPL's trading price in USD is assumed for the sake of illustration. The approximate effective return of a Canadian investor holding AAPL stock in a USD account in such scenario is shown under two hypothetical exchange rate scenarios. For CDRs there is no material change to the Canadian dollar value of the CDRs in such scenarios.

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