



2018

Investment Funds Report

IFIC

THE INVESTMENT
FUNDS INSTITUTE
OF CANADA

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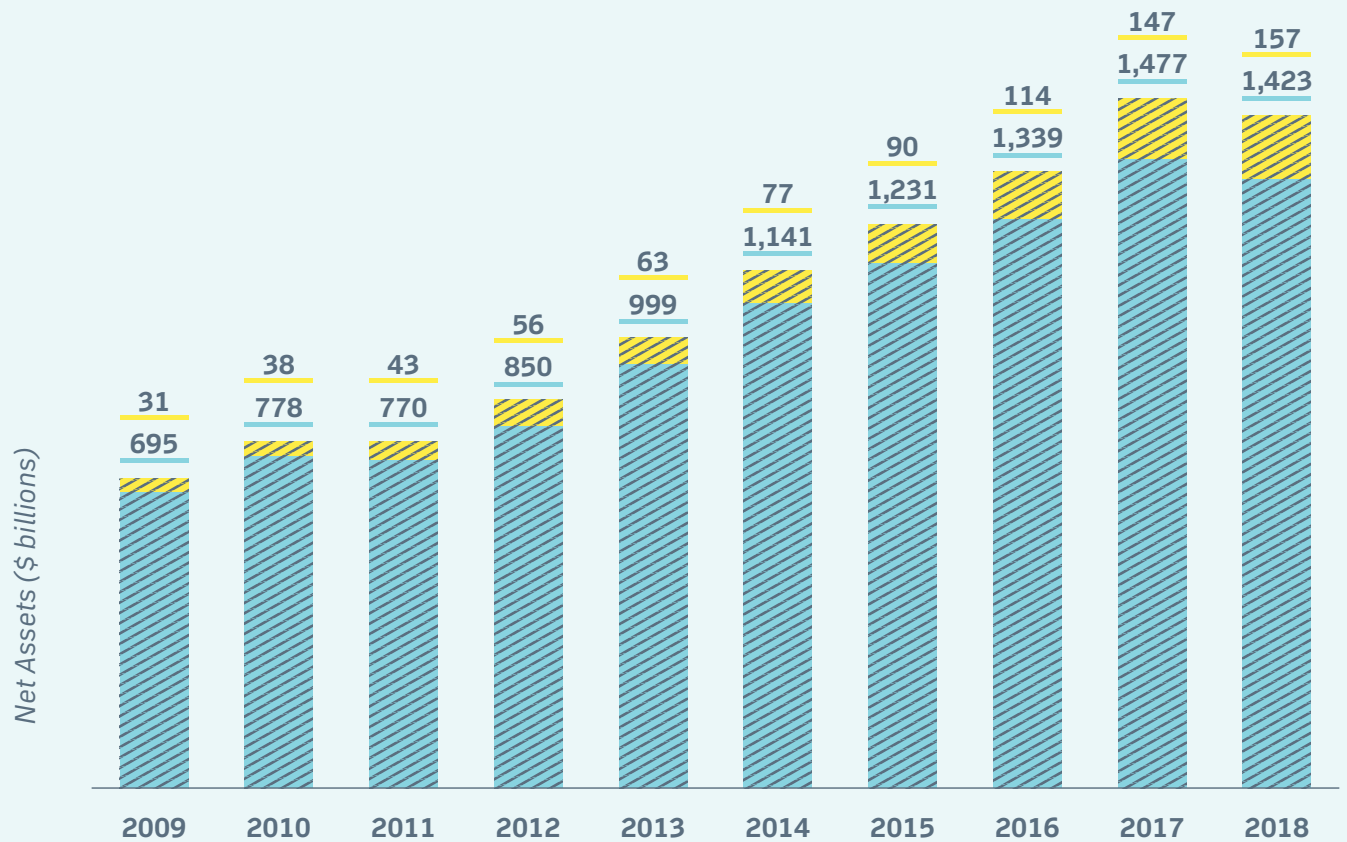
2018

The Investment Funds Report captures information about the performance of Canada's investment funds landscape in 2018. This report provides statistics and analysis of mutual fund and exchange traded fund (ETF) sales and assets under management.

About IFIC

The Investment Funds Institute of Canada is the voice of Canada's investment funds industry. IFIC brings together 150 organizations, including fund managers, distributors and industry service organizations, to foster a strong, stable investment sector where investors can realize their financial goals. By connecting Canada's savers to Canada's economy, our industry contributes significantly to Canadian economic growth and job creation.

Net Assets of Mutual Funds and ETFs



At the end of 2018, Canadian investment fund assets totalled \$1.58 trillion. Mutual funds accounted for \$1.42 trillion, or 90.1% of the total, and ETFs accounted for \$156.7 billion, or 9.9% of the total.

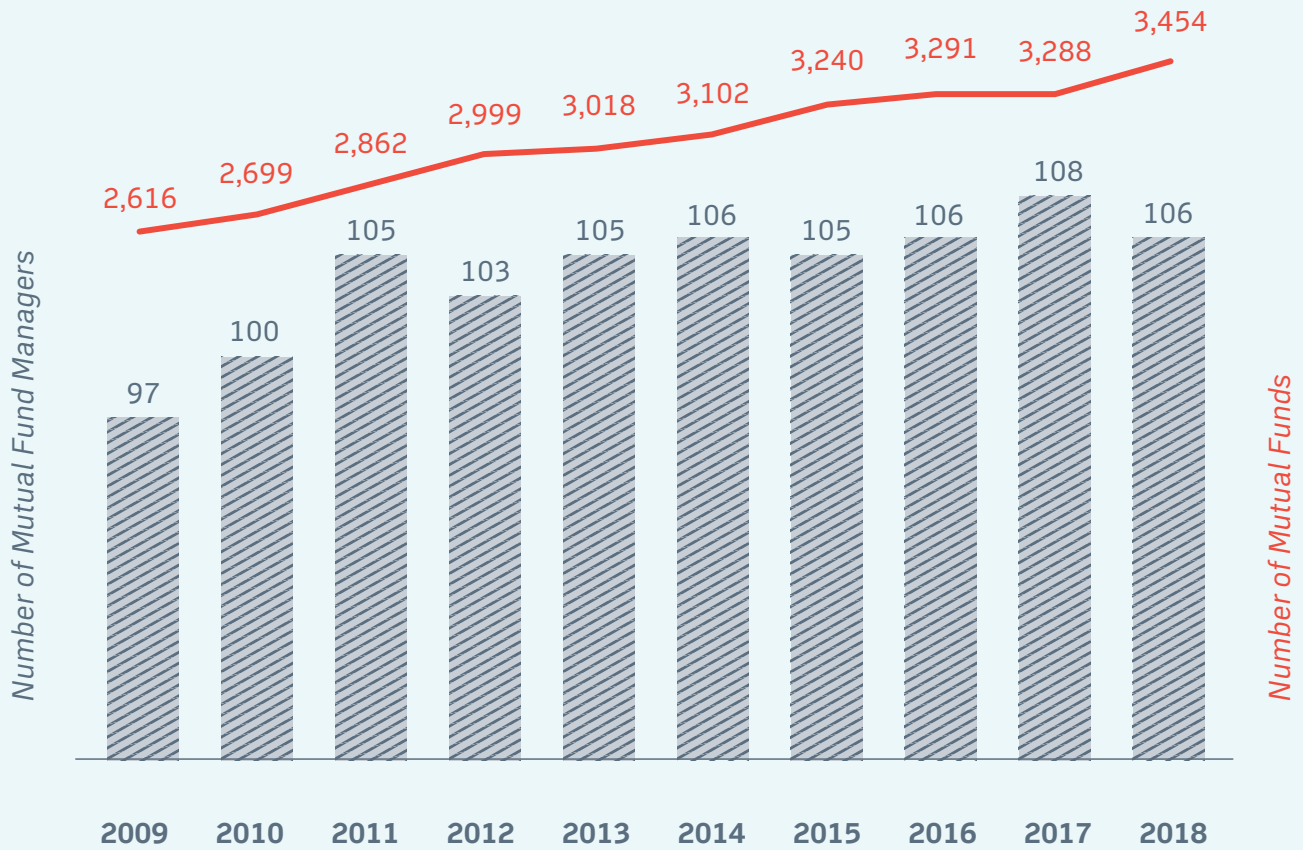
 Mutual Funds
 ETFs



While there was a decline in 2018, investment fund assets have more than doubled since 2008 and have added \$975 billion over the last ten years.

Despite positive fund sales, mutual fund assets declined \$54 billion, or 3.7%, in 2018 due to the negative overall performance of Canadian and global equity and bond markets.

ETF assets were also impacted by negative market effect, but strong sales resulted in assets increasing \$9.6 billion, or 6.5% in 2018.

Mutual Fund Managers and Number of Funds

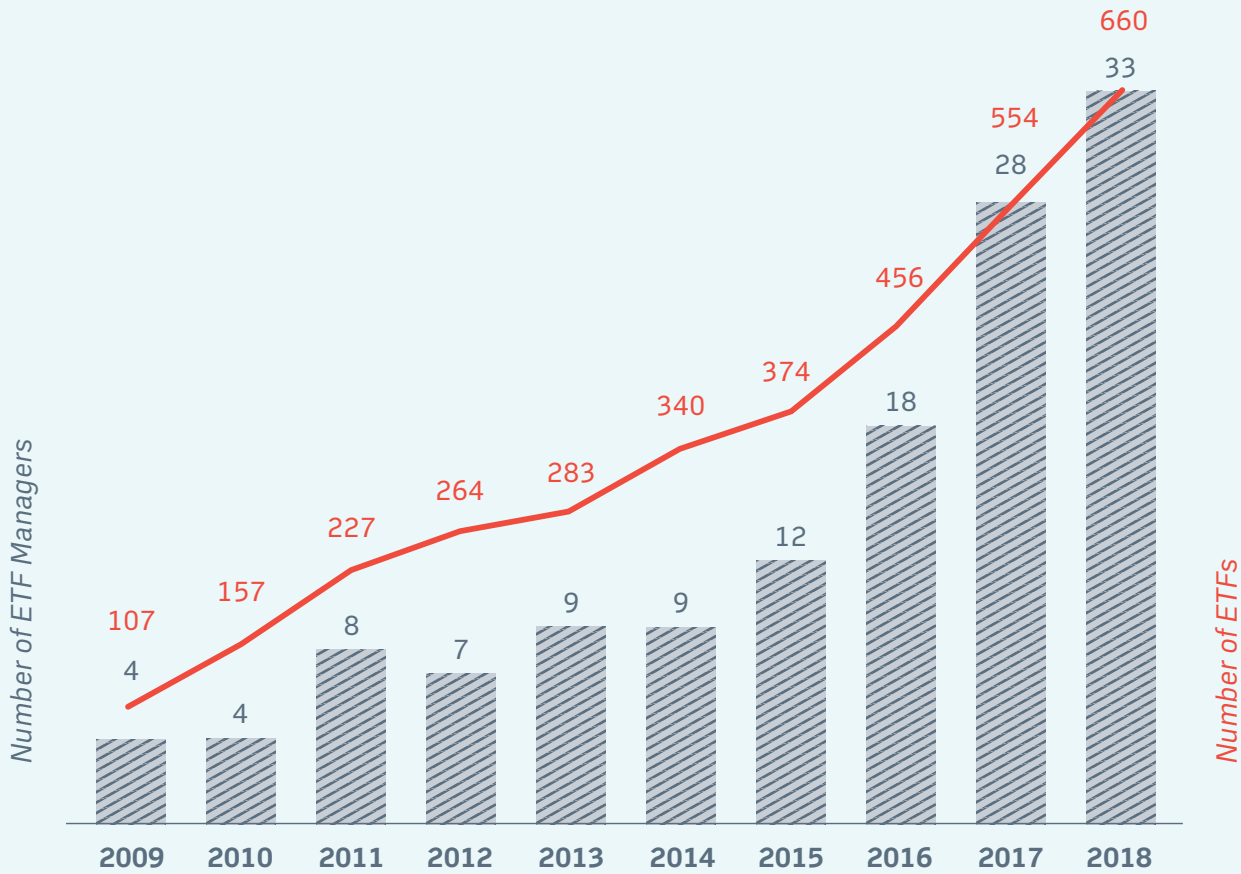


 Fund Managers
 Funds

There were 106 investment fund companies offering mutual funds at the end of 2018. Throughout the year, there was some consolidation, leading to an overall decline in numbers. At the same time, five firms entered the mutual fund market in 2018.

Throughout 2018, on a net basis, 166 funds were added, bringing the total number of funds on offer to 3,454.

ETF Managers and Number of Funds



At the end of 2018, there were 33 investment fund companies offering ETFs. This number has more than doubled over the past three years. The majority of these companies offer both ETFs and mutual funds. Of the 20 largest mutual fund companies, 13 now also offer ETFs.

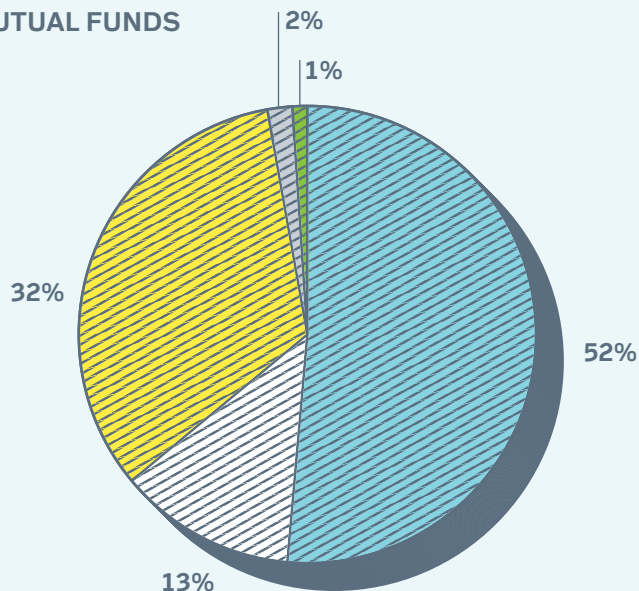
 Fund Managers
 Funds

Throughout 2018, on a net basis, 106 ETFs were added, bringing the total number of ETF funds on offer to 660. Approximately half of ETFs were launched during the past five years. Unlike in the United States and other international jurisdictions, more than half of these new funds employ active or strategic beta strategies rather than a passive strategy.

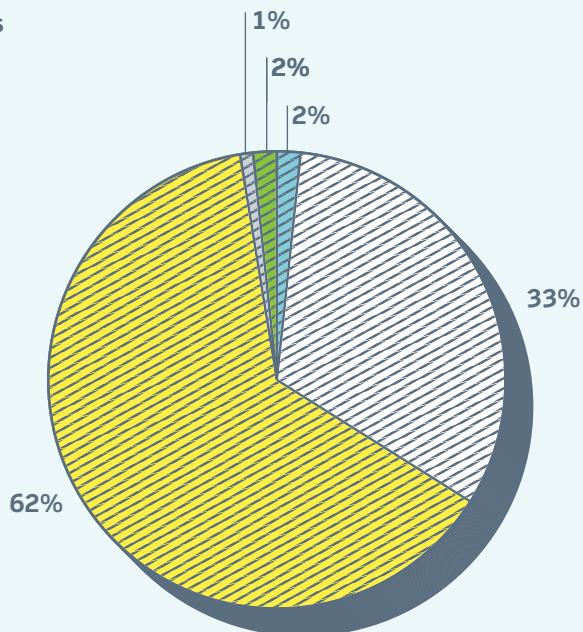
Mutual Fund and ETF Assets by Broad Asset Class






2018

MUTUAL FUNDS



ETFs



-  *Balanced*
-  *Bond*
-  *Equity*
-  *Money Market*
-  *Specialty*

The majority of Canadian mutual fund assets at year-end 2018 were in the balanced fund category comprising 52% of total fund assets. The balanced category includes funds that invest in a mix of stocks and bonds as well as funds that invest in a mix of separate stand-alone funds. Equity funds were the second largest category, with 32% of assets.

For ETFs, equity funds accounted for 62% of total funds at year-end and bond funds accounted for 33%. Traditionally dominated by equity funds, bond funds have been gaining significant market share of the overall ETF marketplace. Over the past decade, their share of total ETF assets has doubled. Their growth in assets has corresponded to a proliferation of fund offerings. Prior to 2009, there were fewer than ten bond ETFs, today they account for a quarter of the 660 ETFs.

While the balanced fund category currently represents a small portion of overall ETF assets, a number of established ETF providers began offering fund of fund ETFs in 2018.

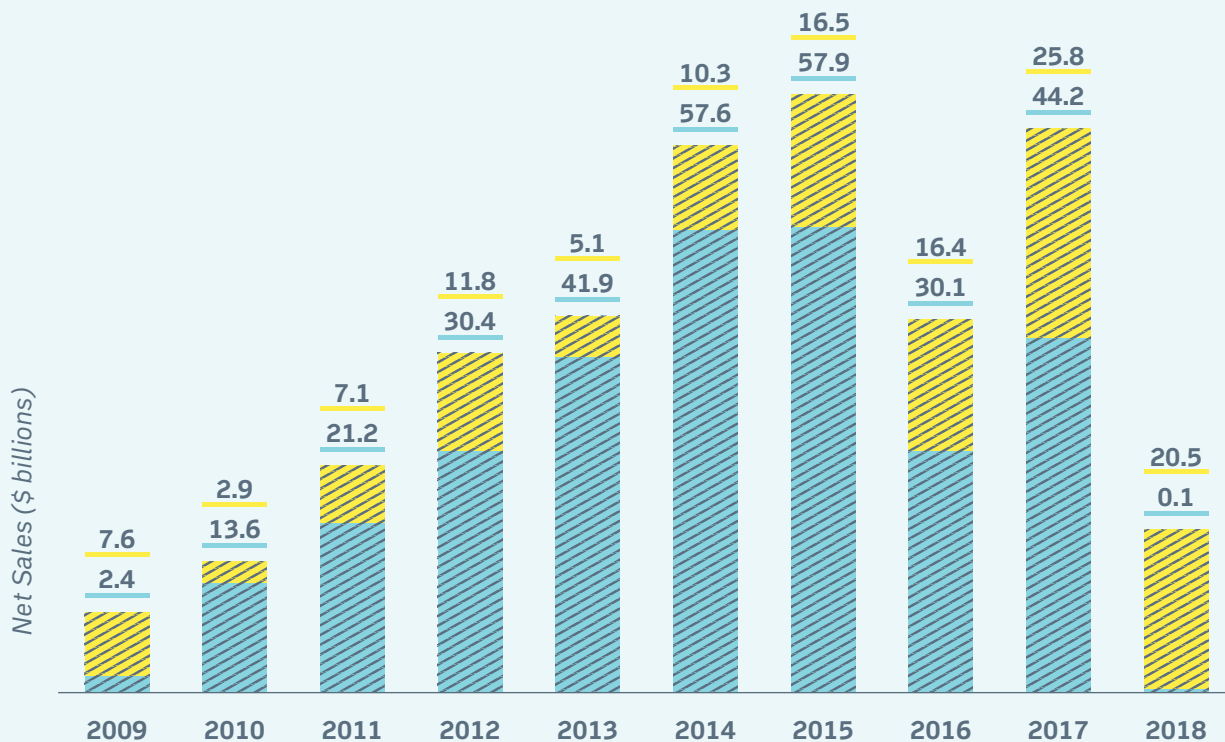
Net Sales of Mutual Funds and ETFs

Investment fund sales totalled \$20.6 billion in 2018. Mutual funds accounted for \$109 million or 0.5% of the total and ETFs, \$20.5 billion, or 99.5% of the total.

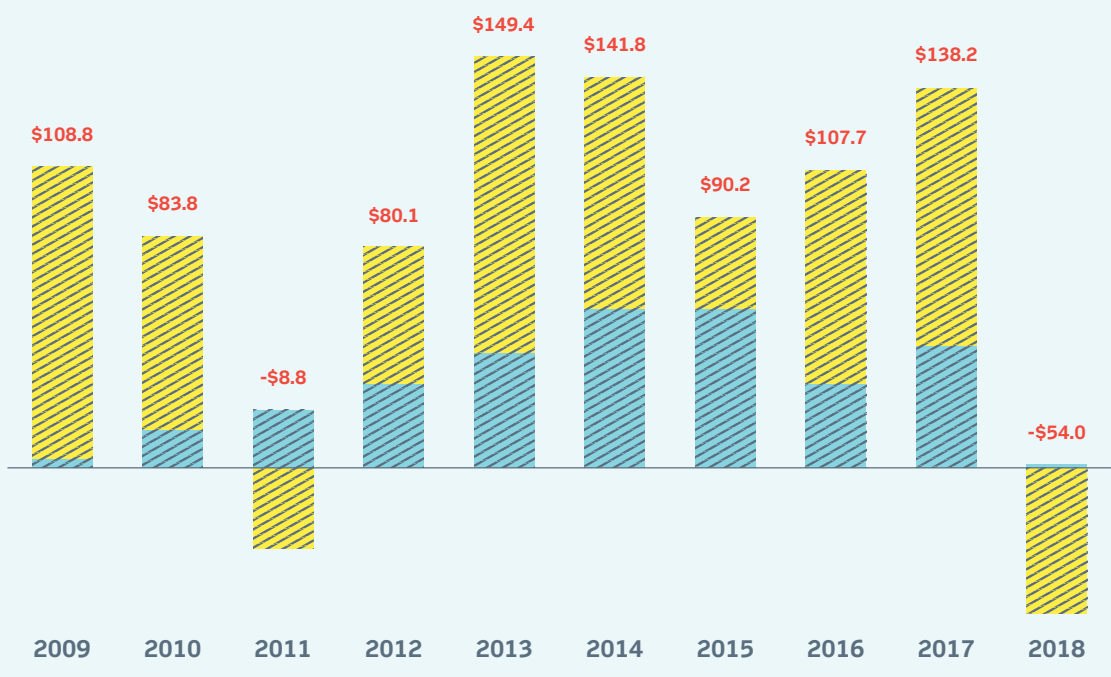
2018 recorded the lowest total investment fund sales since 2010 when investment fund sales were \$16.5 billion.




Compared to 2017, mutual fund sales declined by 99.8% whereas ETFs declined by 20.7%.

2018 was the third year on record where ETF net sales exceeded those of mutual funds – the other years were 2008 and 2009.



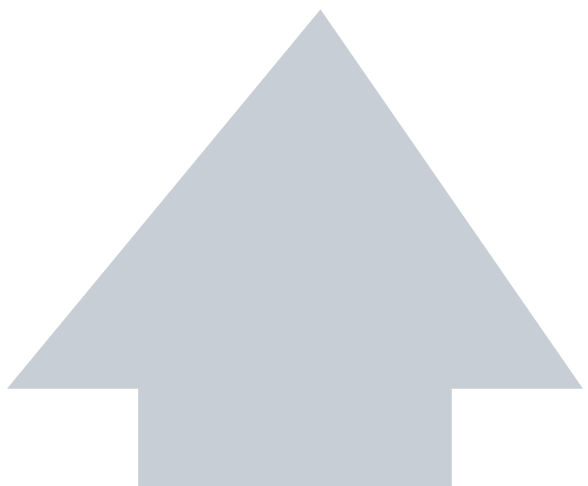
Mutual Fund Annual Asset Growth: Net Sales vs Market Effect



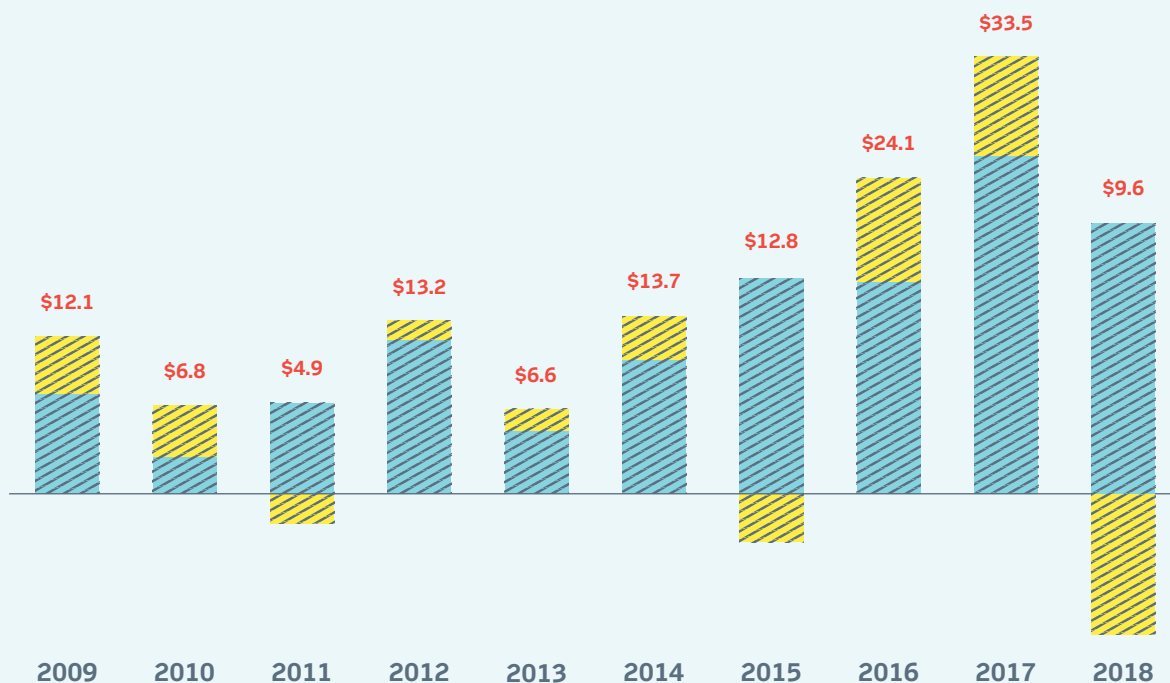
 Net Sales
 Market Effect
 Annual Change in Net Assets (\$ billions)

Asset growth in investment funds is affected by two main factors, overall sales and the rise and fall of the underlying value of the stocks, bonds and other securities held by the funds. This is known as the market effect.

Assets have grown over the last ten years due to both consistently positive net sales and an overall positive market effect. However, in 2018, there was a negative market effect of \$54.1 billion, representing the largest negative impact of market effect since 2008.



ETF Annual Asset Growth: Net Sales vs Market Effect



Despite negative market effect, ETF assets grew \$9.6 billion in 2018 as a result of strong positive sales.

Compared to mutual funds, ETF asset growth is more dependent on sales than market effect because of the smaller relative asset base.

 Net Sales

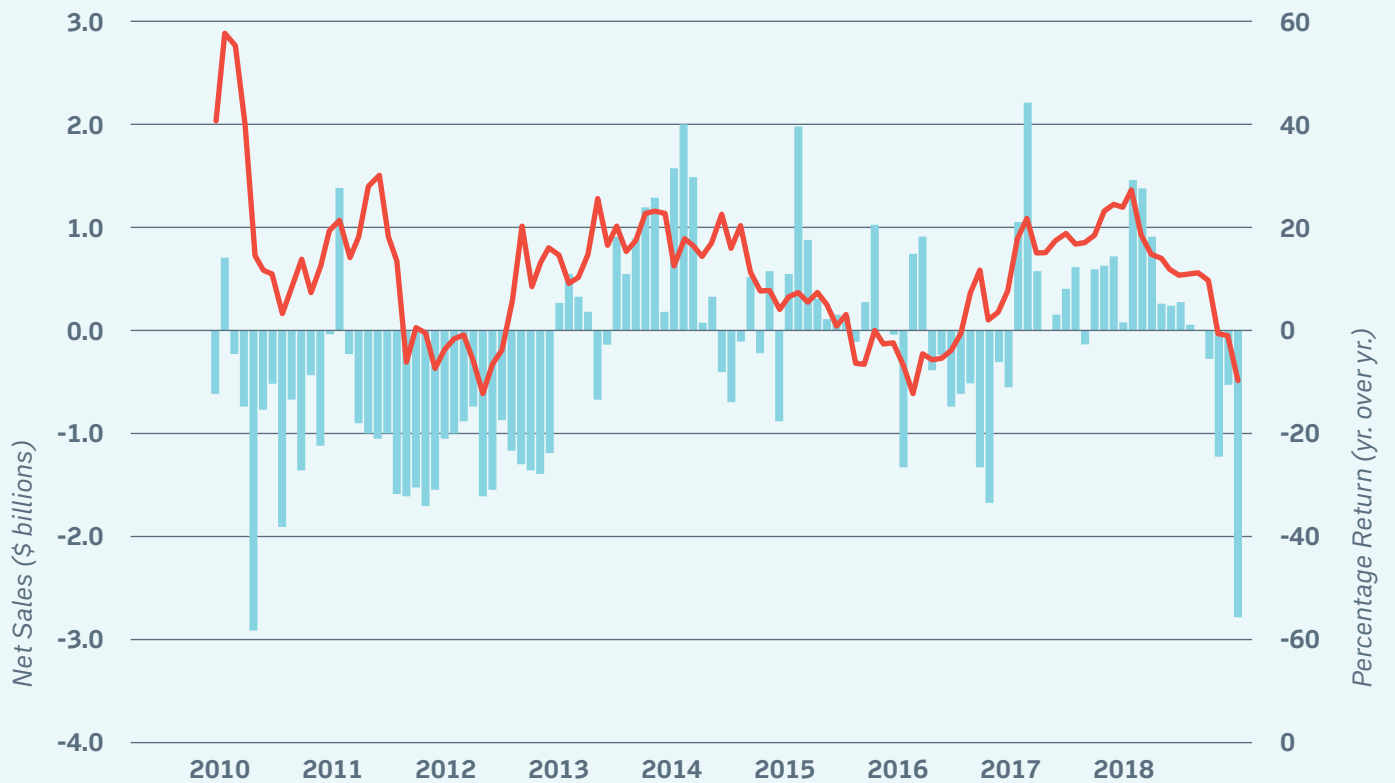
 Market Effect

 Annual Change in Net Assets (\$ billions)

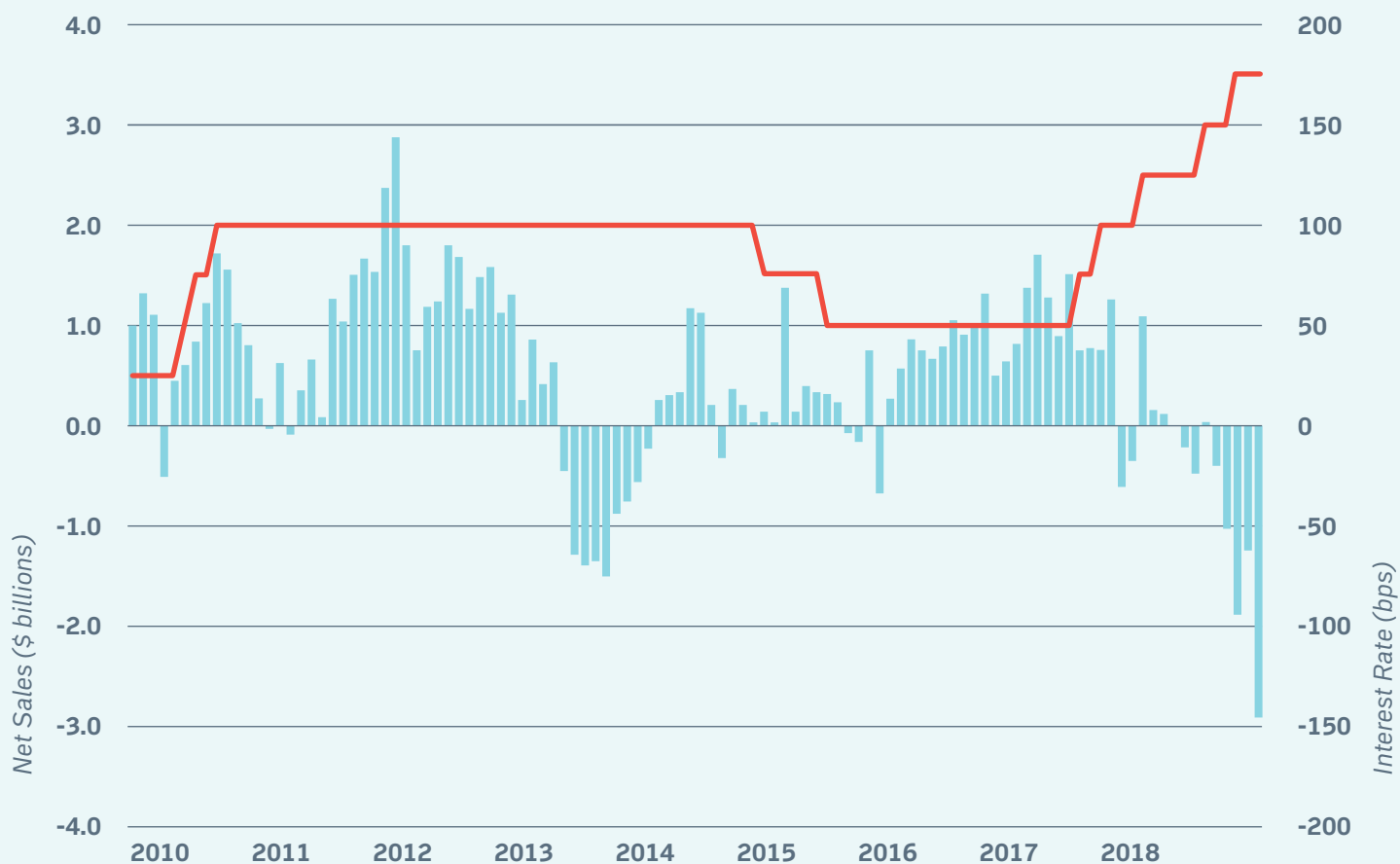
Net Sales of Equity Mutual Funds as a Function of Equity Returns

Sales of equity funds are related to the rise and fall of stock prices. The MSCI All Country World Index fell by 9.4% in 2018 and rose by 24.0% in 2017. Reflecting this trend over the same time period, equity mutual funds experienced net sales of -\$224 million in 2018 and much larger inflows of \$6.9 billion in 2017.

- Monthly Equity Net Sales
- MSCI All Country World Index (USD)



Net Sales of Bond Mutual Funds as a Function of Interest Rates



Over the past decade, historically low interest rates have benefited sales of bond funds as investors search for yield.

As the Bank of Canada’s key interest rate remained at or below 100bps, bond fund net sales were largely positive, with the exception of the 2013 “Taper Tantrum” period, which saw investors withdraw money from the bond market on fears that the U.S. Federal Reserve was winding down its bond buying program.

Raising interest rates have negatively impacted bond fund sales. In 2018, bond funds saw \$6.8 billion in net redemptions as the Bank of Canada raised its key interest rate 3 times over the course of the year to 175bps.

— Monthly Bond Net Sales
 — Key Interest Rate (Bank of Canada)

Reporting IFIC Members – Mutual Funds

AGF, ATB Financial, Bridgehouse Asset Managers, BlackRock, BMO, Caldwell Investment Management, Capital Group, CIBC, Counsel Portfolio Services, Desjardins, Educators Financial Group, Fidelity Investments, Foresters Financial, Franklin Templeton Investments, HSBC, IA Clarington, Investors Group, Mackenzie Investments, Manulife, MD Financial Management, National Bank, NATIXIS, NEI, NCM Asset Management, PIMCO, RBC Global Asset Management, Scotiabank, Sun Life Global Investments (Canada), Tangerine, TD, Vanguard

Reporting Non-Members – Mutual Funds

BMG, FÉRIQUE, Russell Investments, Stone Investment Group Limited, Tradex

Reporting IFIC Members – ETFs

BlackRock, BMO, Desjardins, Fidelity, Franklin Templeton, IA Clarington, Mackenzie Investments, Manulife, RBC, Scotia, Vanguard

Investment fund data: Combined mutual fund and ETF data has not been adjusted to remove double counting arising from mutual funds investing in ETFs.

Mutual fund data: Data for mutual funds that invest in other mutual funds has been adjusted to remove double counting. Figures also include mutual funds investing in ETFs. Balanced funds include funds that invest in a mix of stocks and bonds as well as funds that invest in a mix of separate mutual funds. Mutual fund data represents the sales activity of Canadian retail investors.

ETF data: Data for ETFs that invest in other ETFs has not been adjusted to remove double counting. ETF data represents the sales activity of Canadian retail investors as well as institutional investors.

Data Sources: IFIC direct survey data was complemented by Morningstar Canada Inc. for ETFs.

Disclaimer: IFIC makes every effort to verify the accuracy, currency and completeness of the information; however, IFIC does not guarantee, warrant, represent or undertake that the information provided is correct, accurate or current.



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