



2019

Investment Funds Report



IFIC

THE INVESTMENT
FUNDS INSTITUTE
OF CANADA

L'INSTITUT DES FONDS
D'INVESTISSEMENT
DU CANADA



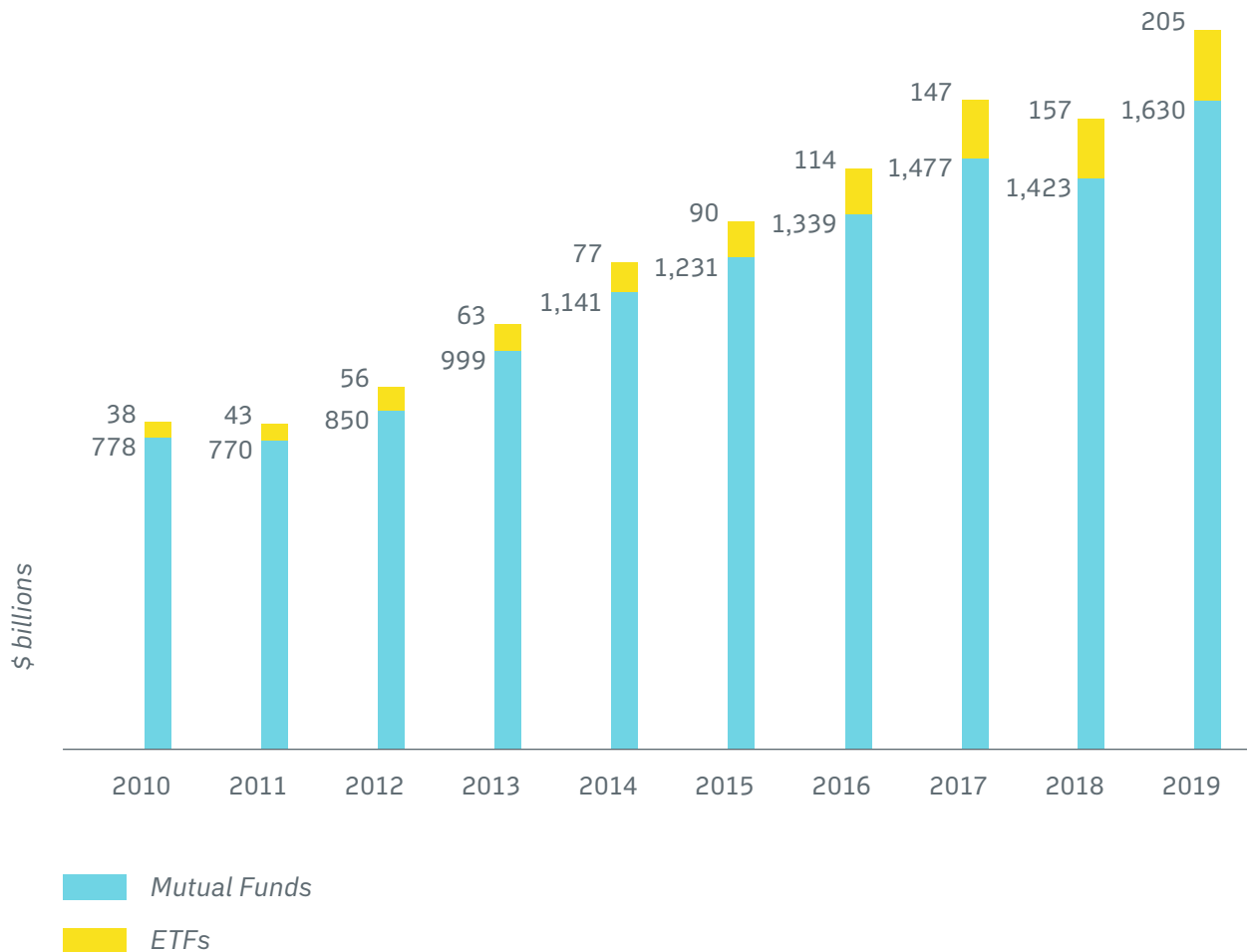
The IFIC 2019 Investment Funds Report

The Investment Funds Report captures information about Canada's investment funds landscape in 2019. This report provides statistics and analysis of mutual fund and exchange traded fund (ETF) sales and assets under management.

About IFIC

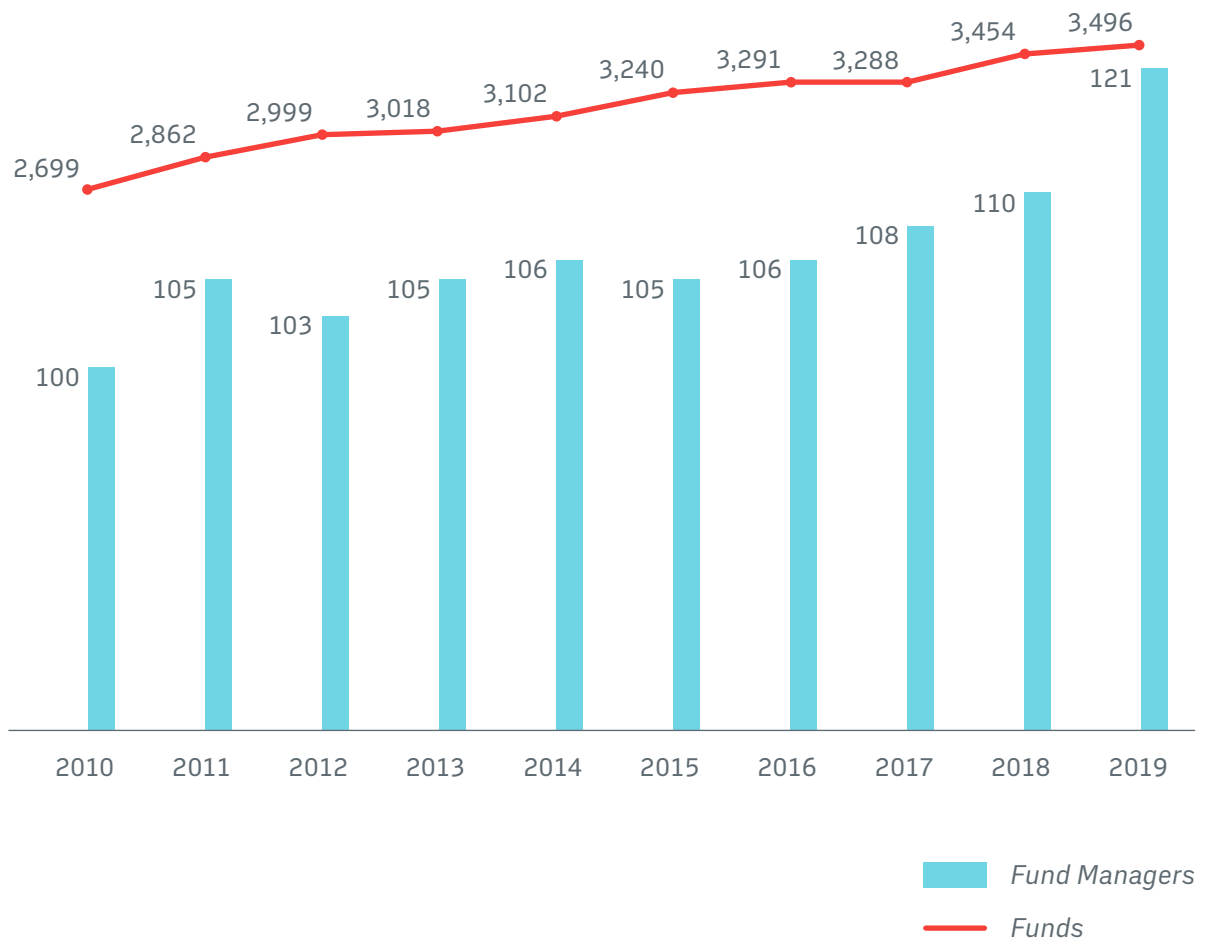
The Investment Funds Institute of Canada is the voice of Canada's investment funds industry. IFIC brings together 150 organizations, including fund managers, distributors and industry service organizations, to foster a strong, stable investment sector where investors can realize their financial goals. 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 2019, Canadian mutual fund assets totalled \$1.6 trillion and ETF assets totalled \$205 billion. Due to positive sales and positive market effect, both mutual fund and ETF assets increased in 2019 – mutual funds by 15% and ETFs by 31%. Since the end of 2010, mutual fund assets have more than doubled, adding \$852 billion and ETF assets grew by more than five times, adding \$167 billion.

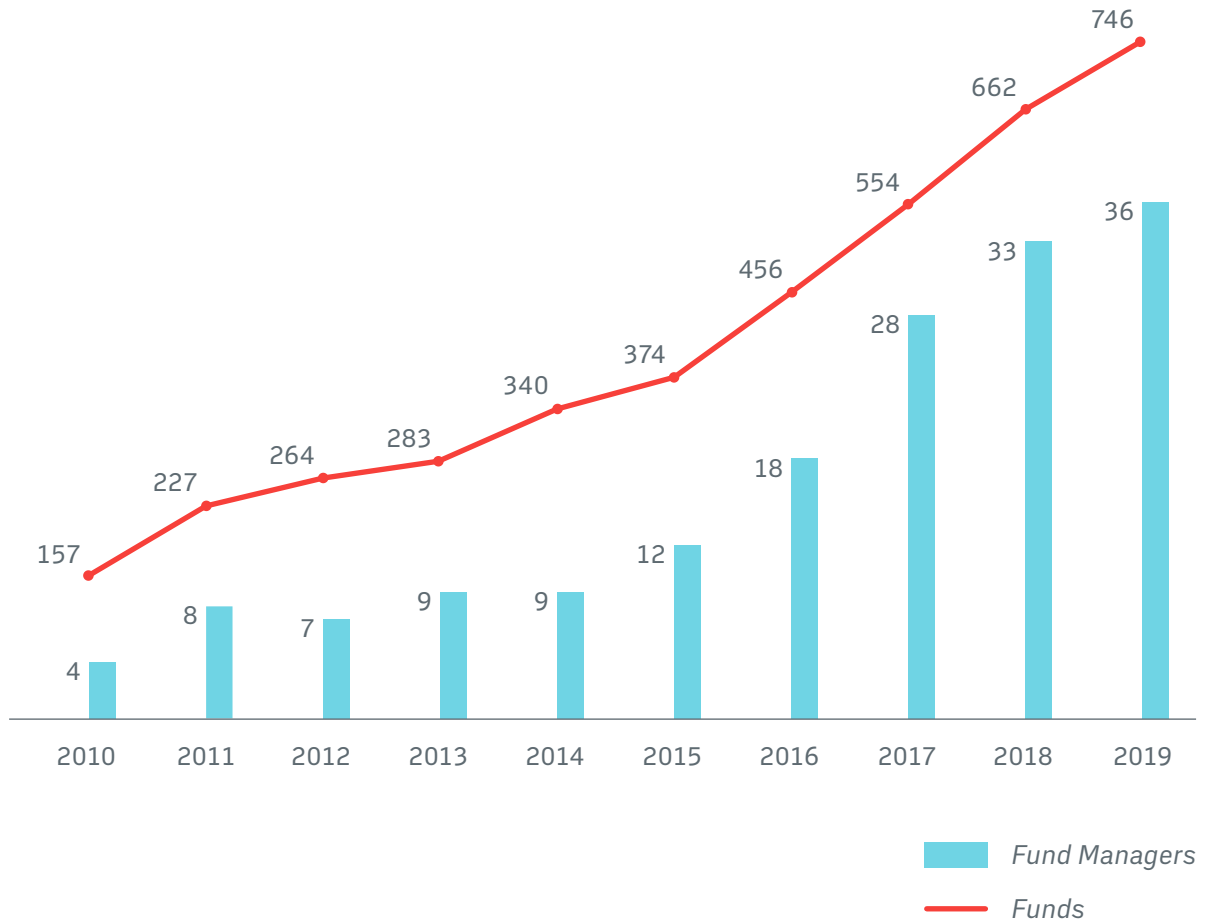
Mutual Fund Managers and Number of Funds



There were 121 investment fund companies offering mutual funds at the end of 2019. Throughout the year, there was a net increase of eleven firms offering mutual funds, representing the largest increase over the last ten years. Much of this growth can be attributed to new entrants offering liquid alternative funds in response to regulatory changes in January 2019 permitting fund manufacturers to offer prospectus qualified alternative funds (“liquid alts”).

Throughout 2019, on a net basis, 42 funds were added, bringing the total number of funds on offer to 3,496.

ETF Managers and Number of Funds

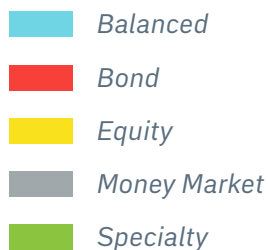
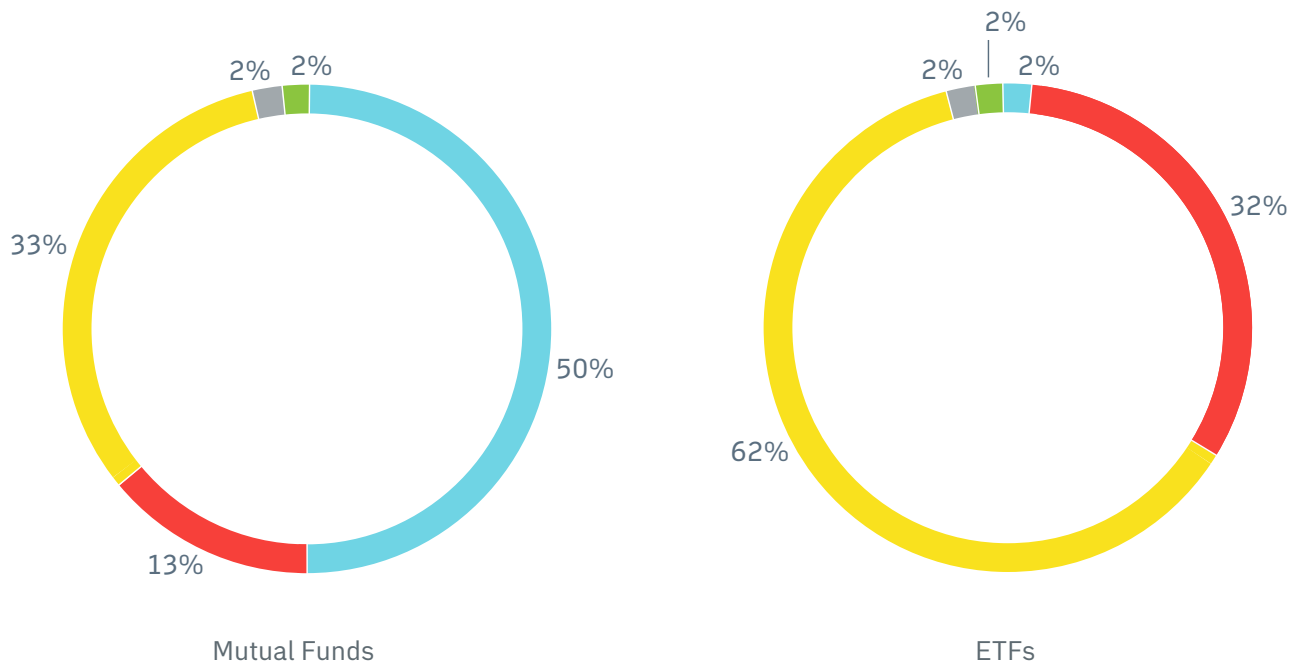


At the end of 2019, there were 36 investment fund companies offering ETFs. This number has doubled over the past three years. The majority of these companies offer both ETFs and mutual funds. Of the 20 largest mutual fund companies, 14 now also offer ETFs.

Throughout 2019, on a net basis, 84 ETFs were added, bringing the total number of ETF funds on offer to 746. Nearly half of existing ETFs were launched during the past four years.

Mutual Fund and ETF Net Assets by Broad Asset Class

As of December 31, 2019

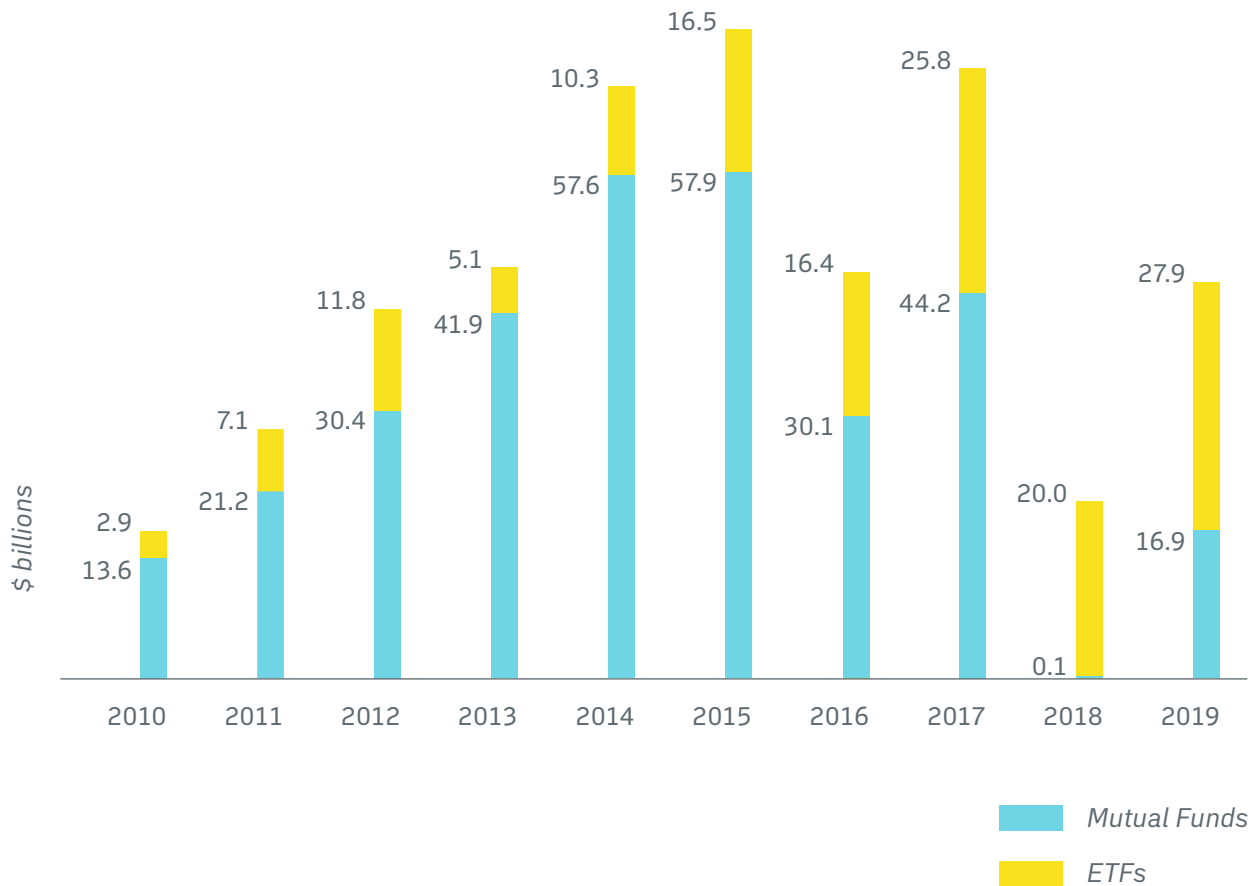


The majority of Canadian mutual fund assets at year-end 2019 were in the balanced fund category comprising 50% of total fund assets. The balanced category includes funds that invest in a mix of stocks and bonds as well as funds that invest in a mix of separate stand-alone funds. Equity funds were the second largest category, with 33% of assets.

For ETFs, equity funds accounted for 62% of total funds at year-end and bond funds accounted for 32%. 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.

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 and 2019.

Net Sales of Mutual Funds and ETFs

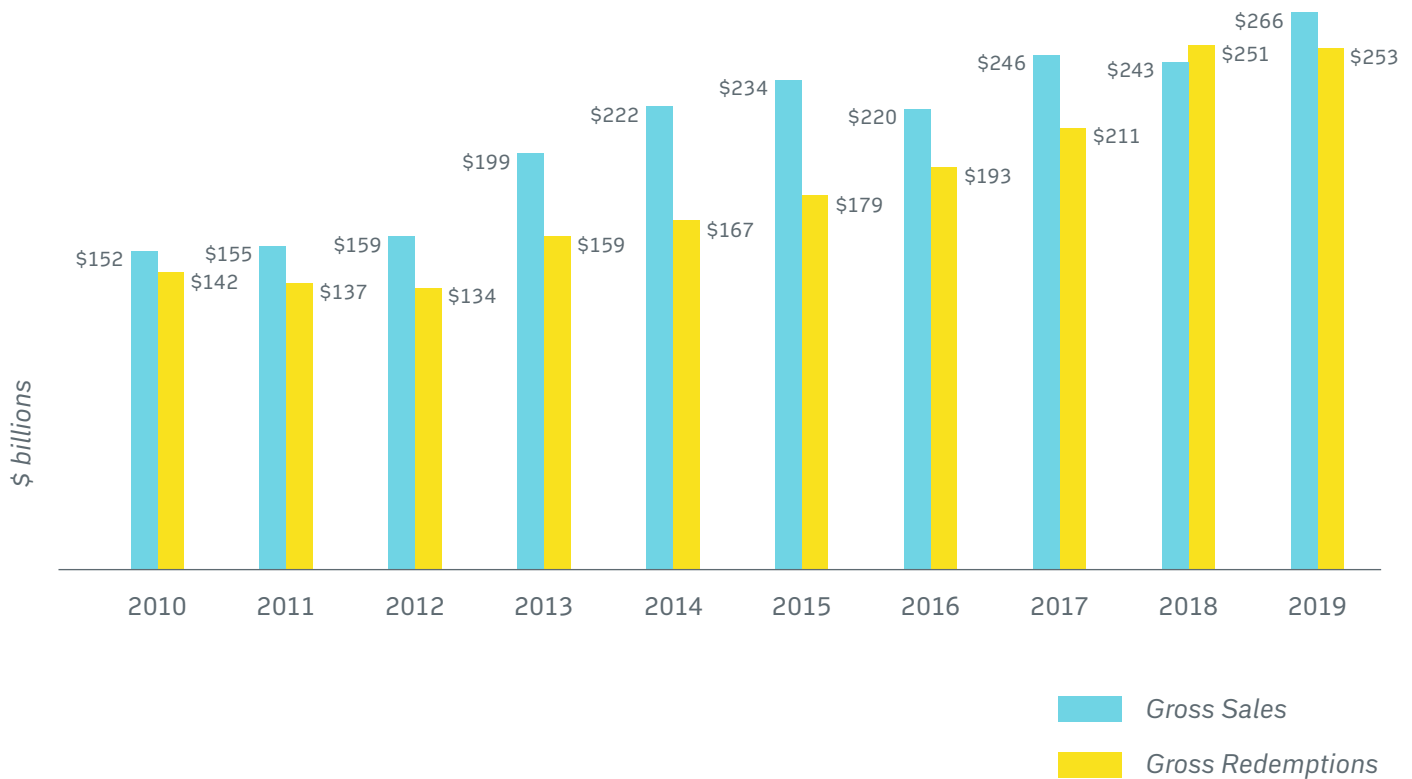


Mutual fund net sales totalled \$16.9 billion in 2019 and ETF net sales totalled \$27.9 billion.

While mutual fund net sales rebounded from 2018, they remained notably lower from the historic highs of 2014 and 2015. ETF net sales set a record high in 2019.

2019 was the fourth year on record that ETF net sales exceeded those of mutual funds – the other years were 2008, 2009 and 2018.

Mutual Fund Gross Sales and Gross Redemptions



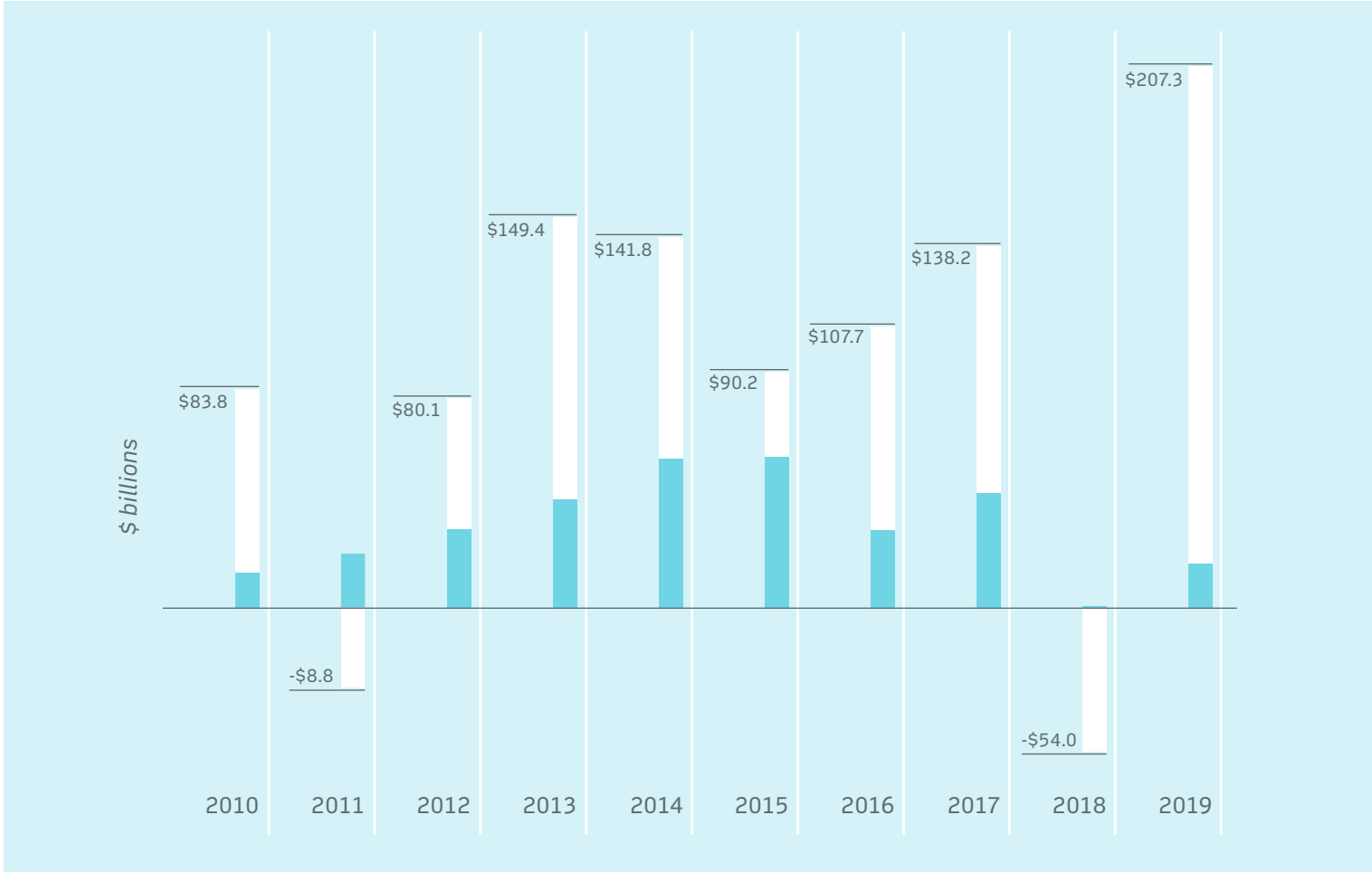
Gross sales comprise all new fund sales, including new money entering the mutual fund industry as well as money going from one fund company to another. Similarly, gross redemptions reflect money leaving the industry altogether as well as money leaving one company prior to a new purchase at another company.

Along with gross redemptions and market effect, gross sales determine the size and direction of industry asset growth.

Over the past decade, gross sales have generally trended upward. In 2019, mutual funds generated \$266 billion in gross sales, the highest ever recorded. As a percentage of assets, gross sales were 16% in 2019 compared to an average of 18% over the past ten years.

Note: The data shown for gross sales and gross redemptions represent industry activity directly reported by fund companies (approximately 94% of the industry) and as such, the sum total of gross sales and gross redemptions does not equal total net sales (which is comprised of direct reporting activity and estimated activity).

Mutual Fund Annual Net Asset Growth: Net Sales vs Market Effect



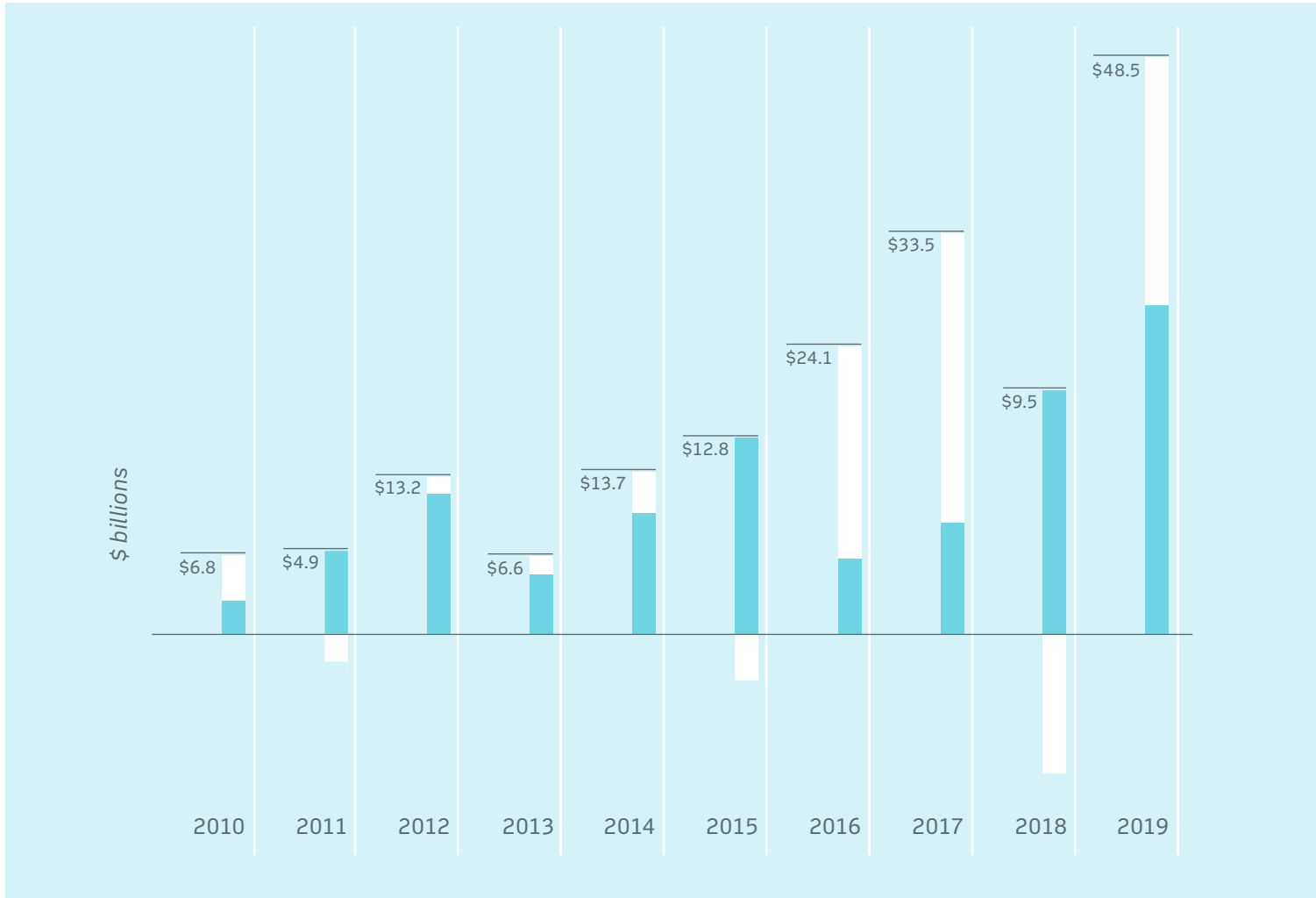
- Net Sales
- Market Effect
- Annual Change in Net Assets

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. The latter 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. While 2018 saw a negative market effect of \$54.1 billion (representing the largest negative impact of market effect since 2008) this was followed by the largest market effect ever, in dollar terms, of \$190 billion in 2019.

As the size of the mutual fund asset base increases, so does the potential impact of market effect.

ETF Annual Net Asset Growth: Net Sales vs Market Effect

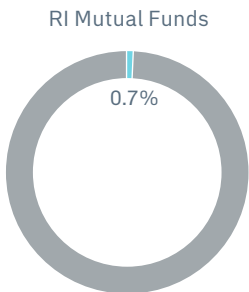
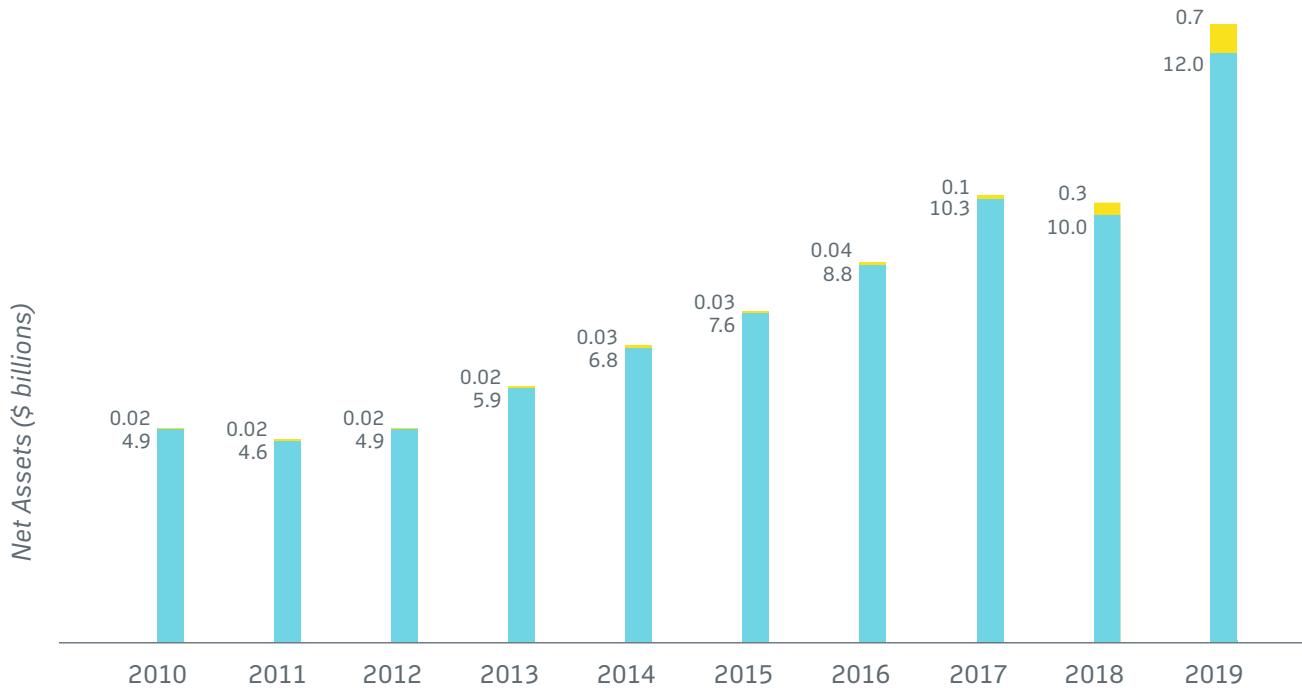


In 2019, ETF assets grew \$48.5 billion, driven both by positive sales and by strong market effect.

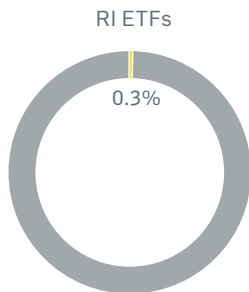
Compared to mutual funds, ETF asset growth is more dependent on sales than market effect because of the smaller relative asset base.

- Net Sales
- Market Effect
- Annual Change in Net Assets

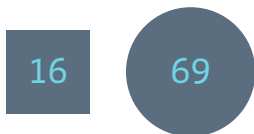
Responsible Investment (RI) Funds



Share of Total Mutual Fund Assets



Share of Total ETF Assets



16 Firms Offering 69 Responsible Investment Mutual Funds



10 Firms Offering 23 Responsible Investment ETFs

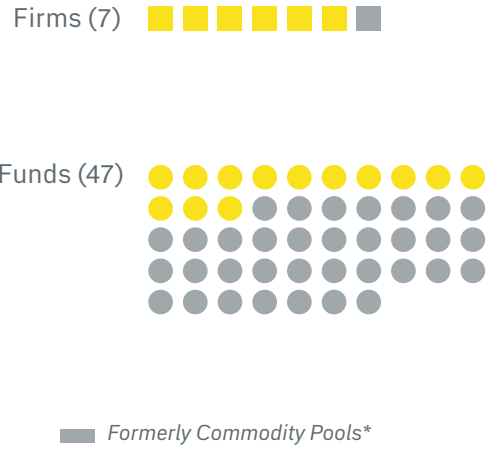
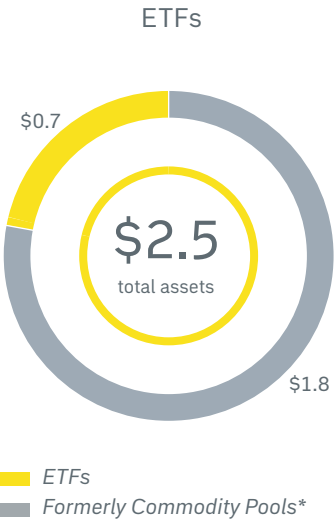
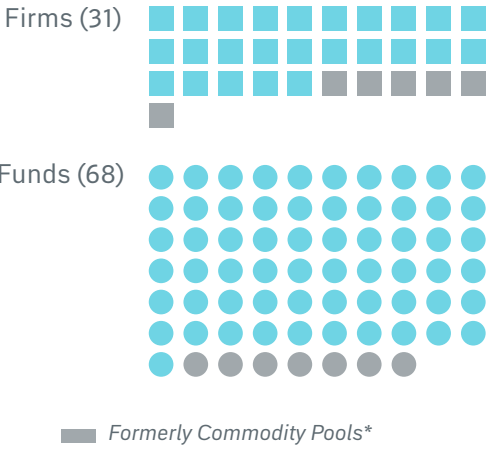
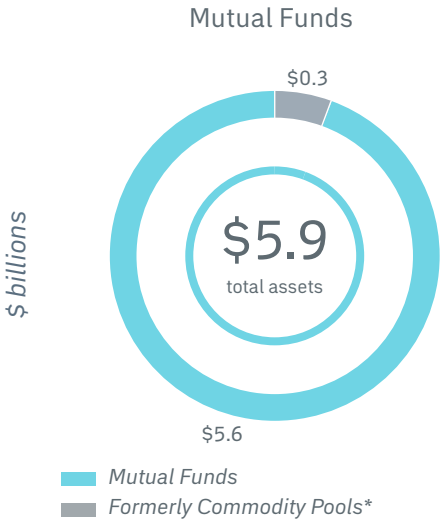
There are \$2.1 trillion in assets under management in Canada that fall within a broad definition of responsible investment¹. The vast majority of these assets are owned and managed by large institutional investors. Mutual fund and ETF investors hold a relatively small amount of this total.

At the end of 2019, there was a total \$12 billion in responsible investment mutual funds and \$654 million in responsible investment ETFs. This represents 0.7% of total mutual fund assets and 0.3% of ETF assets, respectively. Despite the small relative amount of mutual fund and ETF assets, there are 16 firms offering 69 responsible investment mutual funds and 10 firms offering 23 responsible investment ETFs.

For IFIC to consider a fund a responsible investment fund, the fund prospectus must mention an explicit responsible investing or ESG mandate in its investment objective.

¹ RIA 2018 Trends Report.

Alternative Investment Funds

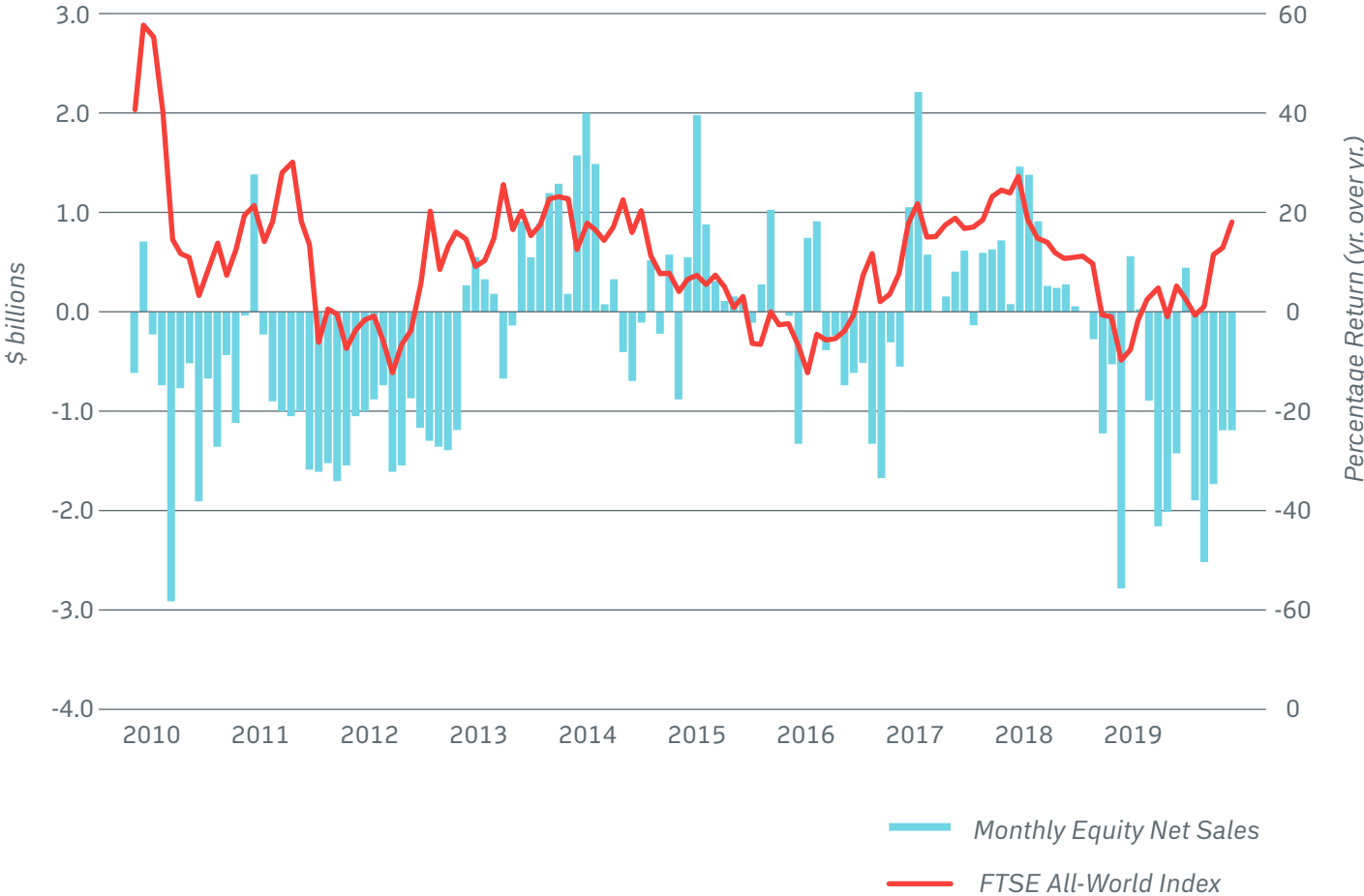


Beginning in January 2019, in response to regulatory changes, it became permissible for fund managers to sell prospectus-offered investment funds known as alternative mutual funds. Now available to retail investors, alternative funds are able to borrow cash, engage in short selling, and invest in physical commodities in a manner that was not permitted for conventional “long only” mutual funds.

In 2019, alternative mutual fund assets totalled \$5.9 billion and alternative ETF assets totalled \$2.5 billion.

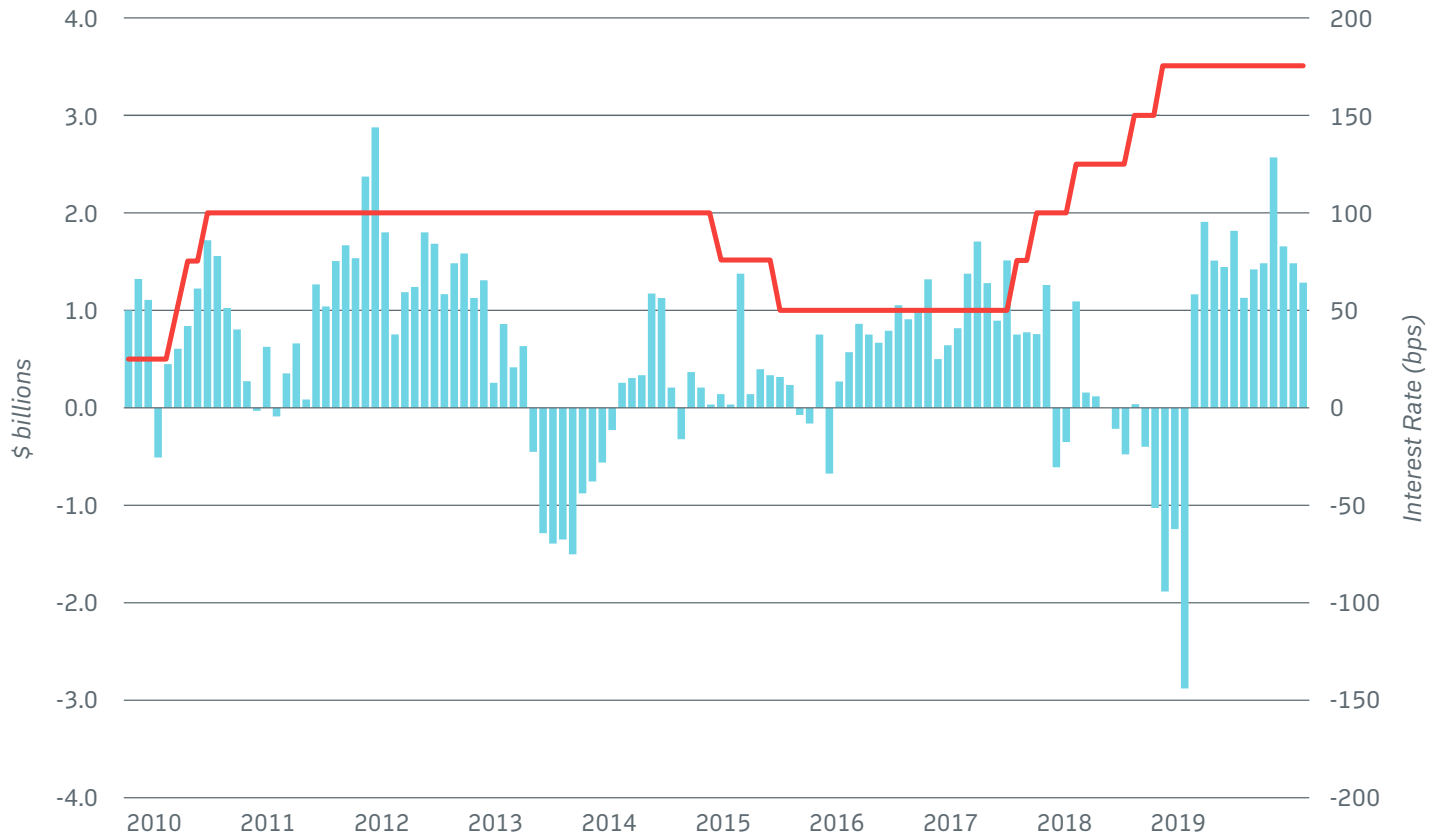
*Existing funds (commodity pools) were reclassified as alternative mutual funds in 2019. Commodity pools were specialized mutual funds permitted to invest in derivatives and physical commodities under former NI 81-104 in a manner not permitted for other Canadian retail investment funds. These funds automatically became alternative funds with changes in January 2019.

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. For example, the FTSE All-World Index rose throughout 2016 followed by positive equity sales of \$7 billion in 2017. Following the fall of the FTSE All-World Index in 2018, negative equity fund sales in Canada followed in 2019, with a total of \$13.8 billion in net redemptions.

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



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

Over the past decade, historically low interest rates have benefited sales of bond funds as investors searched for yield in the fixed income portion of their investments.

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

In 2018, rising interest rates negatively impacted bond fund sales. That year, bond funds saw \$6.8 billion in net redemptions as the Bank of Canada raised its key interest rate three times over the course of the year to 175bps. However, positive bond fund sales returned in 2019 as rates stabilized without any indications of near term rate increases by the central bank.

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 and Investor Economics for mutual funds

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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