Q1 2019 CETFA Commentary

Canadian-listed ETFs kicked off 2019 on a positive note, growing 10.3% over the first quarter and closing out March at a high-water mark of $172.9 billion. While moderate sales activity contributed to the surge in assets, the majority of Q1 2019 growth was driven by rallying capital markets. Most notably, Canadian equities, as expressed by the S&P/TSX Composite Index, expanded by 12.3% over the first three months of the year. As a result of strong equity markets, assets increased by $16.1 billion over the period, with three quarters of that growth attributed to market returns.

At $4.1 billion, net creations generated throughout the first quarter of 2019 marked the lowest total in five years, amounting to less than half the total generated in 2018, when ETFs tallied $8.2 billion in Q1 net creations. Following up on its campaign as the best-selling ETF sponsor for 2018, BMO Asset Management continued its reign atop the rankings over Q1 2019, completing the quarter with net creations of $1.3 billion, or 32.3%, of total ETF sales for the three-month period. Vanguard Canada came in second in the sales rankings, bringing in Q1 2019 net creations equalling $1.2 billion, while Franklin LibertyShares made their debut within the top three best-sellers, recording net creations of $798 million.

After accounting for just 27.2% of total ETF net creations over the course of 2018, fixed income mandates finished the first quarter of 2019 accounting for a 58.5% share, or $2.4 billion; this marked the first quarter in which fixed income ETFs finished as the best asset class since Q3 2016. Investment-grade bond ETFs outsold the asset class as a whole, generating $2.5 billion in Q1 2019 net inflows, while high yield bond ETFs finished the quarter in net redemptions totalling $60 million.

Conversely, the equity asset class finished Q1 2019 accounting for just 29.0%, or $1.2 billion, of ETF sales, representing a dramatic decrease from the 67.6% share of net creations during 2018. As occurred over the previous 12 months, U.S. mandates finished the first quarter of 2019 as the best-selling sub-asset class within equity, posting net creations of $1.3 billion for the period. Emerging markets and global mandates rounded out the top three best-selling sub-asset classes, respectively, generating Q1 2019 net creations of $333 million and $144 million, while Canadian mandates ended the quarter in net redemptions equalling $653 million.

The first three months of 2019 witnessed rampant action concerning product development, as 49 ETFs launched on Canadian exchanges—the greatest number of quarterly launches on record. Strategic-beta ETFs accounted for 23 of the 49 ETF launches, while an additional 18 ETFs employing actively-managed strategies came to market, leaving just eight launches attributed to pure passive ETFs. On the advent of the launch of liquid alternative funds to market for the Canadian retail consumer, 2019 welcomed the first two liquid alt ETFs: the Desjardins Alt Long/Short Equity Market Neutral ETF and the NBI Liquid Alternatives ETF.

The Canadian ETF landscape witnessed four new sponsors join the fray during the first three months of 2019, pushing the total number of Canadian ETF sponsors to 36 at quarter-end. CIBC Asset

Management and National Bank launched ETF suites in January and February, respectively, heralding the presence of the Big Six banks in the Canadian ETF landscape. SmartBe Wealth also entered the segment in January via the launch of a multi-factor ETF tracking an Alpha Architect index, while Middlefield Group converted two closed-end funds into actively-managed ETFs in March.

As far as distribution, Canadian- and U.S.-listed ETF assets held by Canadian investors totalled $188.8 billion at the end of 2018. During the final quarter of the year, the ailing capital markets prompted retail ETF ownership to fall by 5.3% to end the year with assets of $126.2 billion. The full-service brokerage (FSB) channel continued to dominate retail ETF distribution at year-end, accounting for 58.8% of total retail assets, at $74.2 billion. Meanwhile, the online/discount brokerage (ODB) channel remained the second largest channel for ETFs, accounting for 32.3%, or $40.8 billion, of retail assets.

This analysis was developed by Strategic Insight.