ETF Report Q4 2019 Commentary

It was a historic year for Canadian-listed ETFs, as assets crossed the $200 billion threshold in November 2019 and finished the year at a new high-water mark of $204.8 billion. While it took 26 years from the 1990 launch of the Toronto 35 Index Participation Units for Canadian-listed ETF assets under management (AUM) to reach the $100 billion mark in May 2016, it took just over three years for the product type to accumulate its next $100 billion. Over the same period, ETFs increased their share of total investment fund assets from 7.3% in May 2016 to 11.2% at the end of 2019.

Asset growth was propelled by record sales, as ETFs generated $30.0 billion in net creations throughout the 12-month period, which stands as the best-selling year in history, eclipsing the $25.8 billion tally set in 2017. The final three months of 2019 accounted for 46.3%, or $13.9 billion, of annual sales, representing the best-selling quarter on record. The fourth quarter of 2019 was a period of record sales volumes: the $4.0 billion in net creations recorded in October marked the best-selling month of all time, until it was broken by the $4.3 billion brought in throughout November, which was, in turn, shattered by a record-setting $5.6 billion in December; for perspective, just $5.1 billion of ETF net creations was generated throughout the entirety of 2013.

In contrast to the two years preceding 2019, equity mandates did not account for the majority of net creations, as the asset class generated 41.4% of ETF net creations, or $12.4 billion, throughout 2019. U.S. mandates led the way on the sales front in 2019 among equity sub-asset classes, as the group generated $5.4 billion in net creations over the 12-month period. Canadian equities and international equities rounded out the top three best-selling sub-asset classes, bringing in $2.9 billion and $1.8 billion, respectively, in annual net creations.

Throughout 2019, investors displayed a preference for fixed income funds over equity funds, which was predicated by a combination of an anticipated market correction and rising bond valuations. A total of $15.3 billion in net creations was brought in by fixed income mandates over the year, with investment-grade bond ETFs collectively generating $15.4 billion in net creations, while high-yield bond ETFs ending the year in net redemptions totalling $68 billion.

Competition among Canadian ETF issuers intensified throughout 2019, as 118 funds were introduced over the year, including 32 funds launched by the seven new sponsors to make their debut in Canada. Notably, CIBC Asset Management and National Bank each launched their first ETFs over the first quarter of the year, marking the final two of Canada's Big Six banks to enter the ETF space. Product development leaned heavily toward equity funds, as the asset class accounted for 77 of the year's 118 launches, whereas fixed income and balanced mandates welcomed in 25 funds and 12 funds, respectively, over the same period.

Notable launches in 2019 included two ETFs offering exposure to high-interest deposit accounts amid strong inflows toward deposits and money market mandates. The two new high-interest savings account ETFs (HISA ETFs) were launched by CI First Asset and Evolve Funds in June and November, respectively, which joined the existing Purpose High Interest Savings ETF as Canada's first three mandates of this kind. Thematic investing remained a trend for ETF development, as showcased by Evolve Funds' launch of the eGaming ETF in June, which was the first Canadian-listed ETF to provide exposure to the Esports industry. Meanwhile, Fidelity expanded their ESG shelf onto Canadian exchanges in June through the launch of the Fidelity Sustainable World ETF. Another major theatre of product innovation came from liquid alternatives, which is defined as open-end funds which provide exposure to investment strategies characteristic of traditional hedge funds. Desjardins Investments became the first sponsor to launch a liquid alternative ETF in Canada after the Desjardins Alt Long/Short Equity Market Neutral ETF opened for trading in January 2019, while National Bank, Accelerate Financial, Picton Mahoney Asset Management and AGFiQ also launched exchange-traded mandates over the course of 2019.

Canadian investors collectively held $222.5 billion in Canadian- and U.S.-listed ETF assets at the end of Q3 2019. While still possessing the majority of ETF assets, retail investors saw their share of ETF assets decline by 150 basis points (bps) from nine months prior and ended September 2019 accounting for 65.2% of ETF holdings.

Full-service brokerage (FSB) remained the most important distribution channel for ETF assets, accounting for 56.6% of retail assets at the end of Q3 2019. Within the FSB channel, fee-based accounts grew rapidly over the first three quarters of 2019 and grew its share of channel assets by $9.8 billion to account for 72.4% of ETF assets at the end of Q3 2019.

The online/discount brokerage (ODB) channel held the second-largest share of retail ETF ownership at the end of September 2019, accounting for 34.2% of assets. The conduit also outpaced the FSB channel in year-to-date asset growth, expanding by 21.0% over the first ninth months of 2019 to end September with $49.6 billion in assets. The robo-advice channel ended the quarter with the third-largest share of ETF assets, at $6.4 billion, which marked a 60.2% increase in assets since the end of 2018.

This analysis was developed by Investor Economics, a division of ISS Market Intelligence.