

Canadian Active ETFs



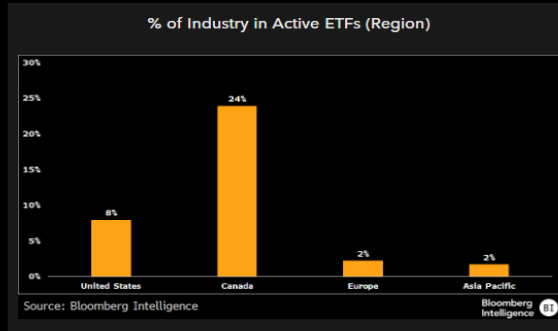
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Canadian ETF Market Could Be an Active Manager's Paradise

Active management may have a bright future in the Canadian ETF market, which already has a larger share of its assets in active strategies than other regions. This could accelerate the move to ETFs from mutual funds, which is already underway, with more active managers mulling the launch of strategies. (10/30/24)

1. More Receptive to Active Management

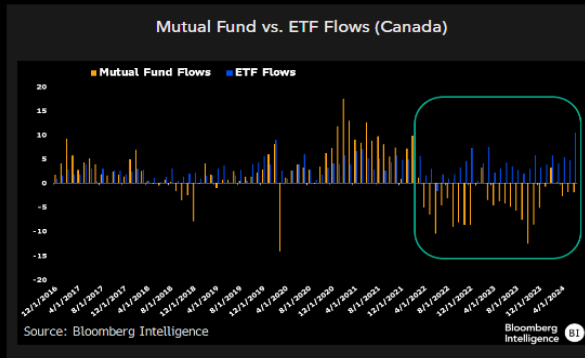
The Canadian ETF market is by far the most receptive to active management, with almost a fourth of assets in actively managed ETFs. That's 3x the share of any other major market region, with the US No. 2 in active ETFs, accounting for 8% of such assets. (10/30/24)



2. Shift of Mutual Funds to ETFs Could Accelerate

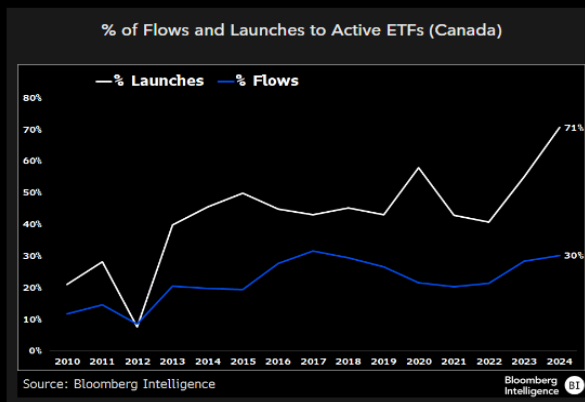
Mutual fund assets in Canada total just over C\$2 trillion and ETF assets C\$500 billion, meaning nearly 18% of the Canadian fund industry is in ETFs, a robust share. This may augur well for ETFs, given mutual funds have had significant outflows, while ETFs are growing.

Given this market is more accommodating to active, it might portend a more aggressive shift of assets to ETFs from mutual funds. The Canadian market has very low passive adoption, with 88% of total fund assets in actively managed strategies. (10/30/24)



3. Active ETF Flows, Launches Add Market Share

Launches and adoption of actively managed ETFs in Canada are both accelerating. In 2024, 71% of new ETFs are actively managed, the biggest proportion ever. Of total industry flows, already at a record this year, 30% have gone to active ETFs. Active ETFs account for 24% of the region's ETF assets and 48% of the total product set. (10/30/24)

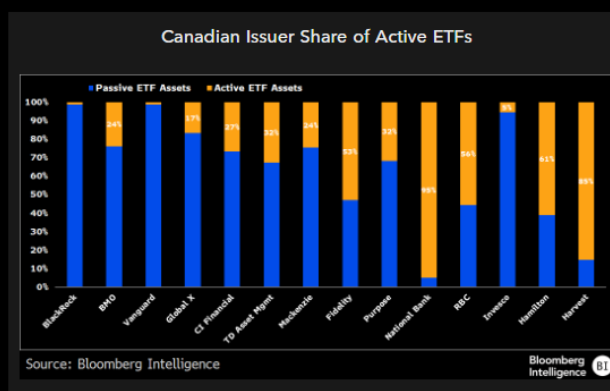


4. Issuers' Reliance on Active Management Varies

Canada's biggest ETF issuers have a larger portion of their assets in passive ETFs, while farther down the table there's greater dependency on active ETFs.

Bank of Montreal has the highest share of active ETF assets in the region at 30%. Issuers can charge higher fees for active ETFs. The average ETF fee in Canada is 39 bps -- 37 bps for a passive product and 53 bps for an active one.

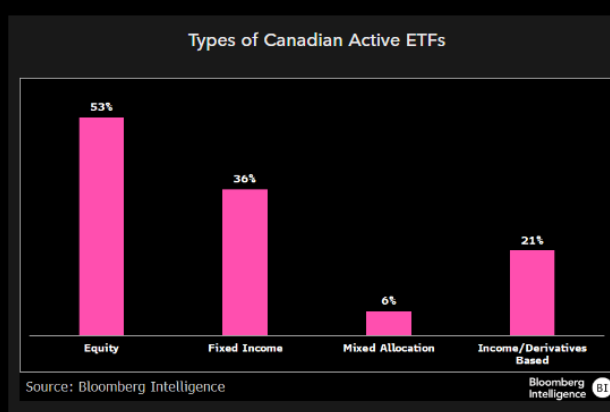
The openness toward active has drawn almost every major Canadian asset manager to run an ETF business. We expect larger issuers to ramp up their active lineups. (10/30/24)



5. 'Active' Can Mean Several Things in ETFs

Actively managed doesn't necessarily mean traditional stock-picking activity. Many ETFs may be active yet apply more of a systematic approach, such as income generation. The breakdown of active ETFs in Canada shows that 53% of assets are in equities and 36% in bonds -- mostly short-duration, cash-type ETFs. Those that use derivatives, mainly as a way to generate income, are also classified as active, accounting for 20% of active assets.

The Canadian market is very income-oriented, so these types of ETFs have had robust uptake there. (10/30/24)



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