

2020



Investment Funds Report



THE INVESTMENT
FUNDS INSTITUTE
OF CANADA

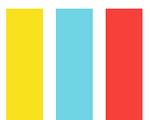
L'INSTITUT DES FONDS
D'INVESTISSEMENT
DU CANADA



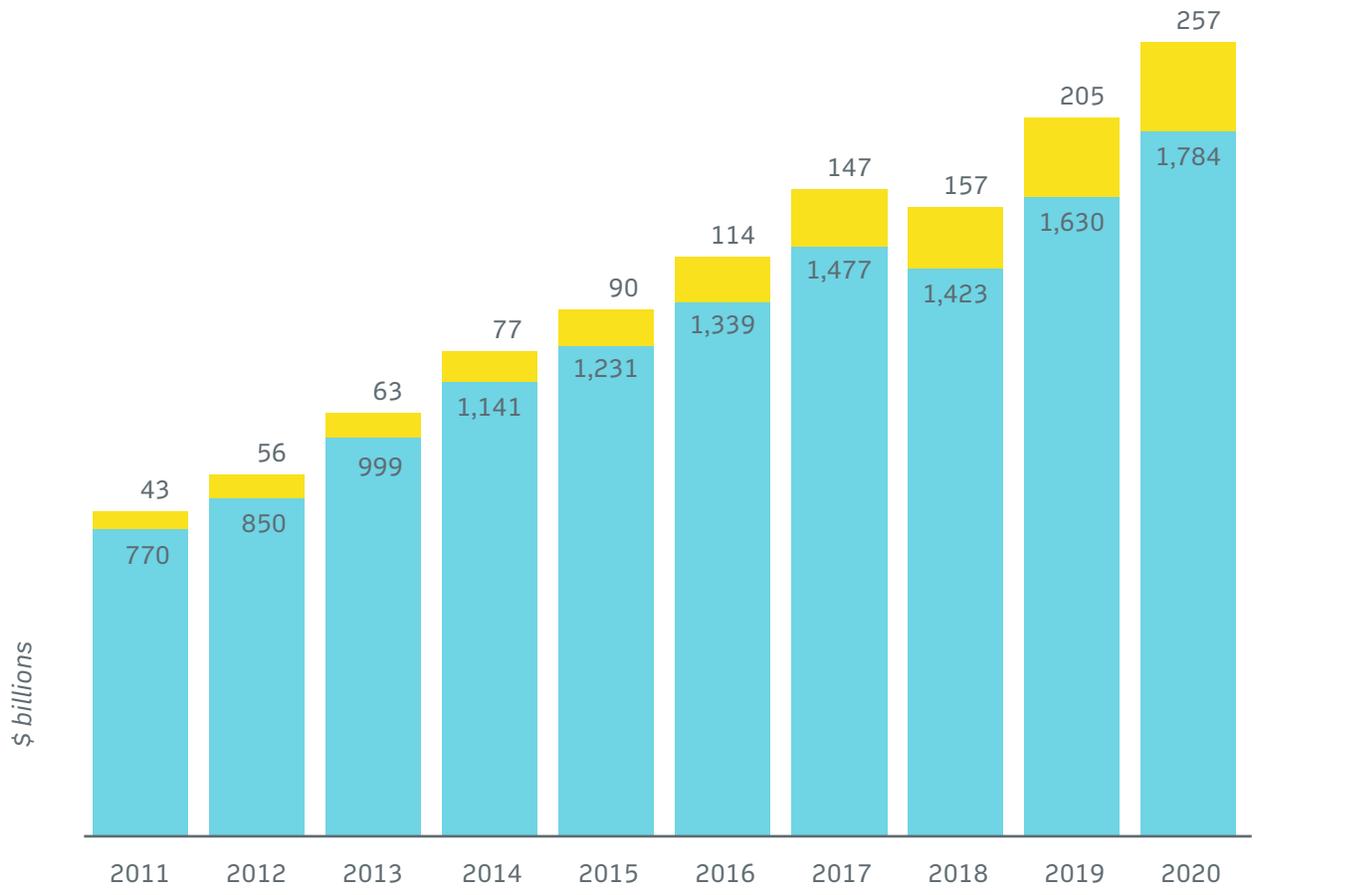
The Investment Funds Report captures information about Canada's investment funds landscape in 2020. This report provides statistics and analysis of mutual fund and exchange traded fund (ETF) sales and assets under management.

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 2020, Canadian investment fund assets totalled \$2.04 trillion. Mutual funds accounted for \$1.78 trillion of the total, and ETFs accounted for \$257 billion.

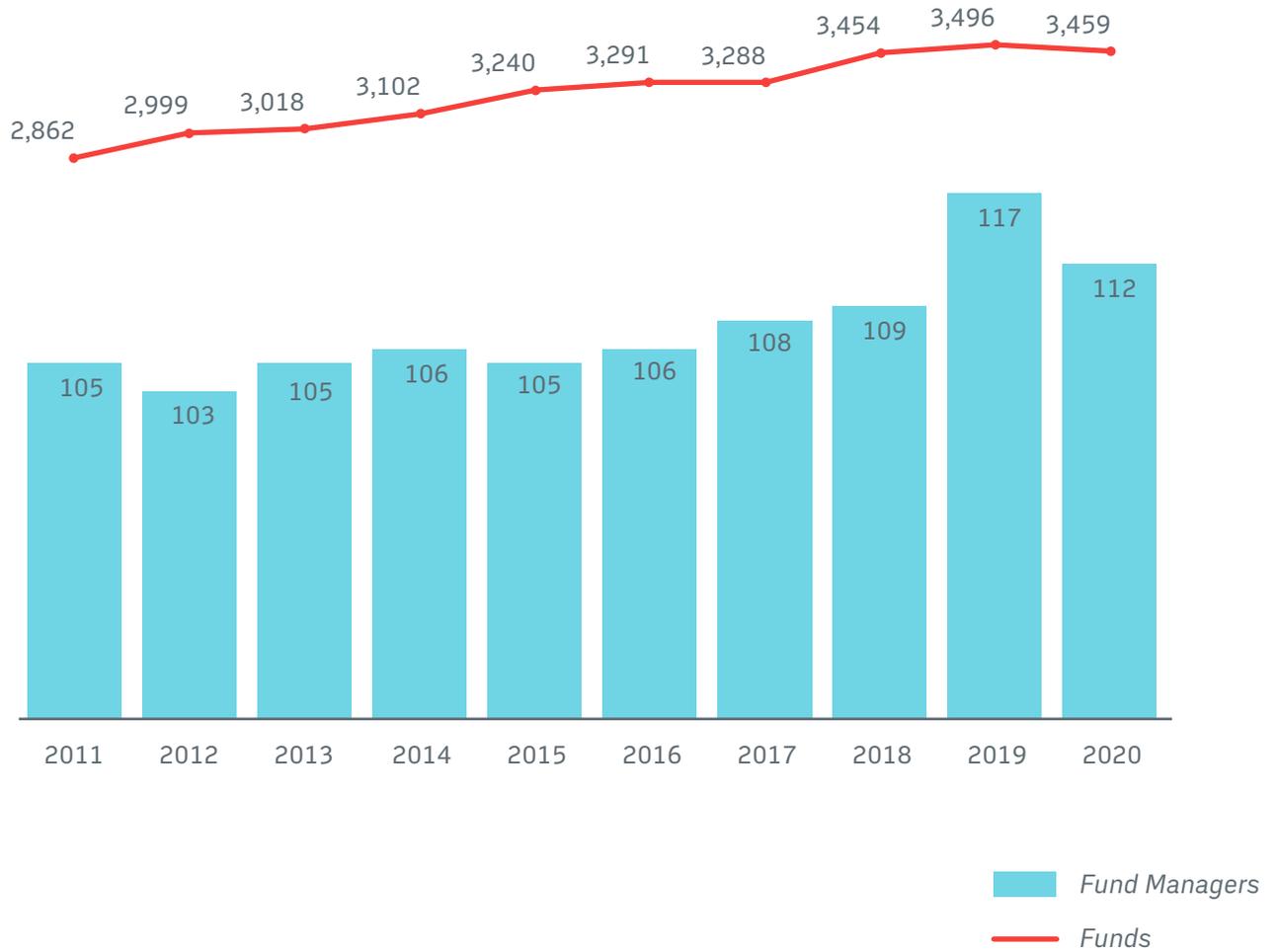
Due to positive sales and positive market effect, mutual fund and ETF assets increased by a combined 11% throughout 2020. Over the last ten years, assets have grown by two-and-a-half times, adding \$1.23 trillion.

Despite the overall positive growth, the year was marked by dramatic declines and gains in assets related to the COVID-19 market crash and the economic turmoil caused by the global pandemic. This is explored in more detail in pages 11 through 14.

It is important to note, as explained in the notes at the back of this report, that combined mutual fund and ETF data has not been adjusted to remove mutual fund assets investing in ETFs.



Mutual Fund Managers and Number of Funds

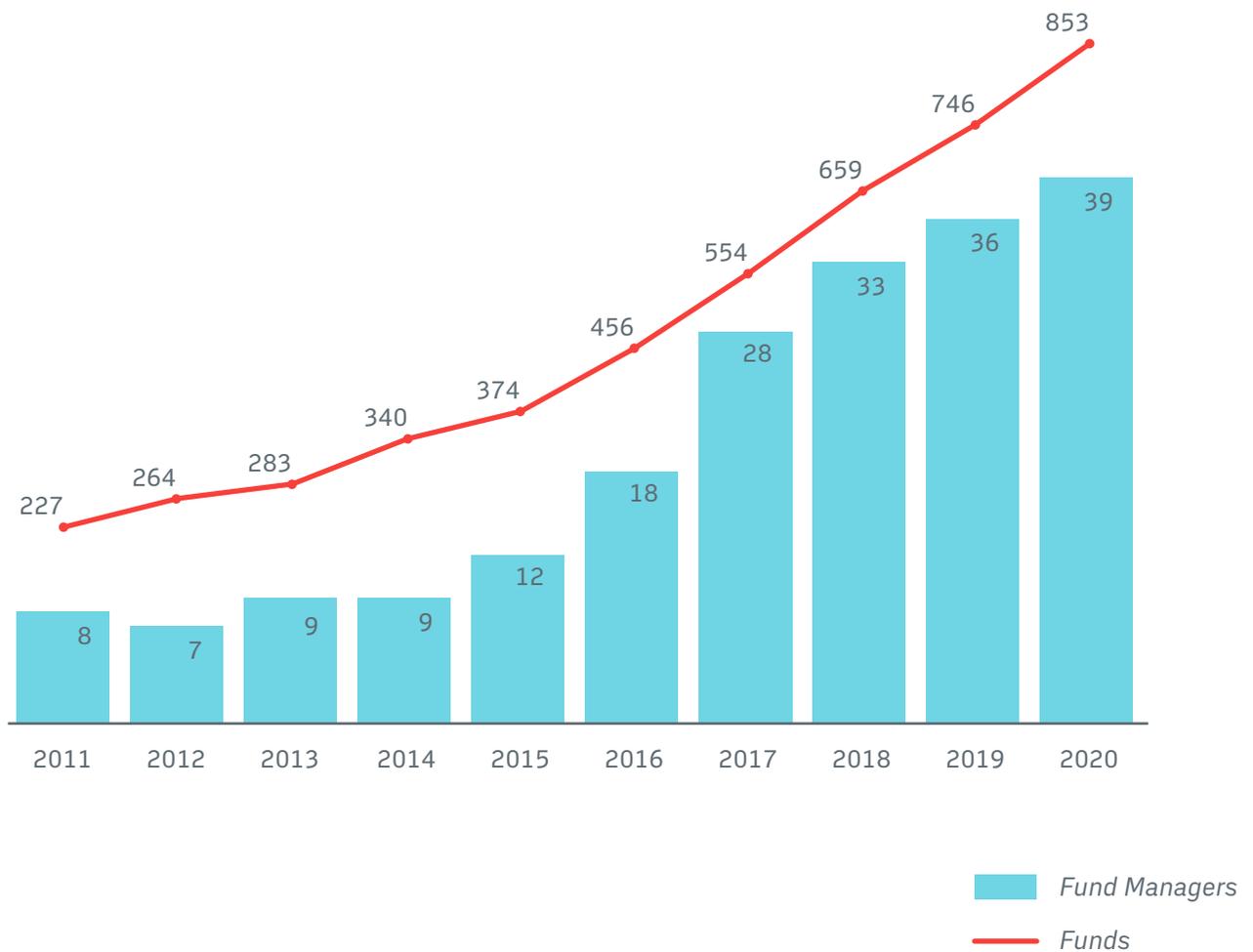


There were 112 companies offering mutual funds at the end of 2020. There was a net decrease of five firms in 2020, largely the result of consolidation, and an indication of strong competition within a mature industry.

Also largely due to consolidation, throughout 2020, on a net basis, the number of available mutual funds decreased by 37, bringing the total number of funds on offer to 3,459.

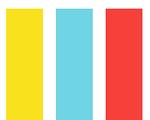


ETF Managers and Number of Funds



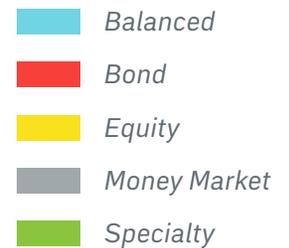
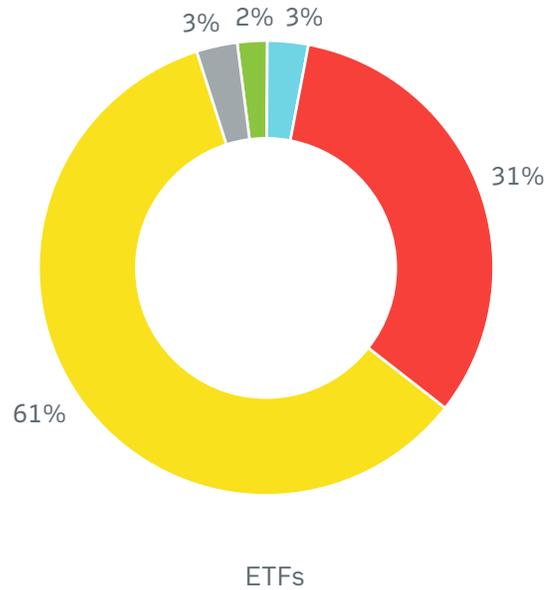
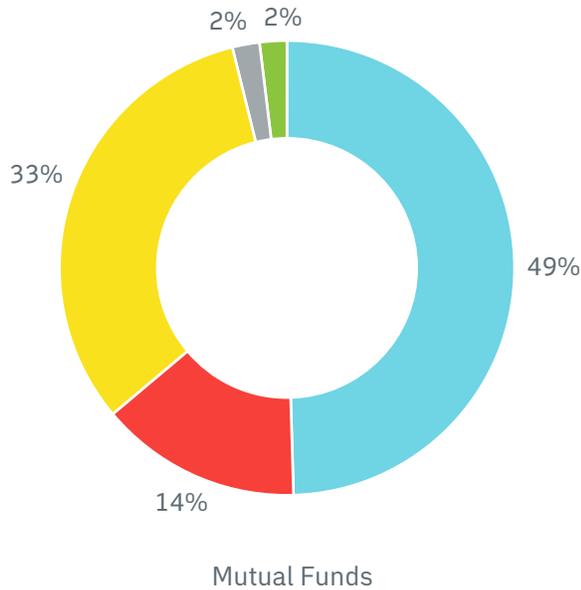
At the end of 2020, there were 39 investment fund companies offering ETFs, more than three times the number of companies offering ETFs five years ago. The majority of these companies offer both ETFs and mutual funds. This growth is emblematic of an industry that is in a strong growth phase.

Throughout 2020, on a net basis, 107 ETFs were added, bringing the total number of ETF funds on offer to 853. As with last year, the majority of new launches were active ETFs.



Mutual Fund and ETF Assets by Broad Asset Class

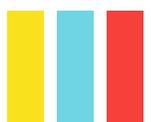
December 2020



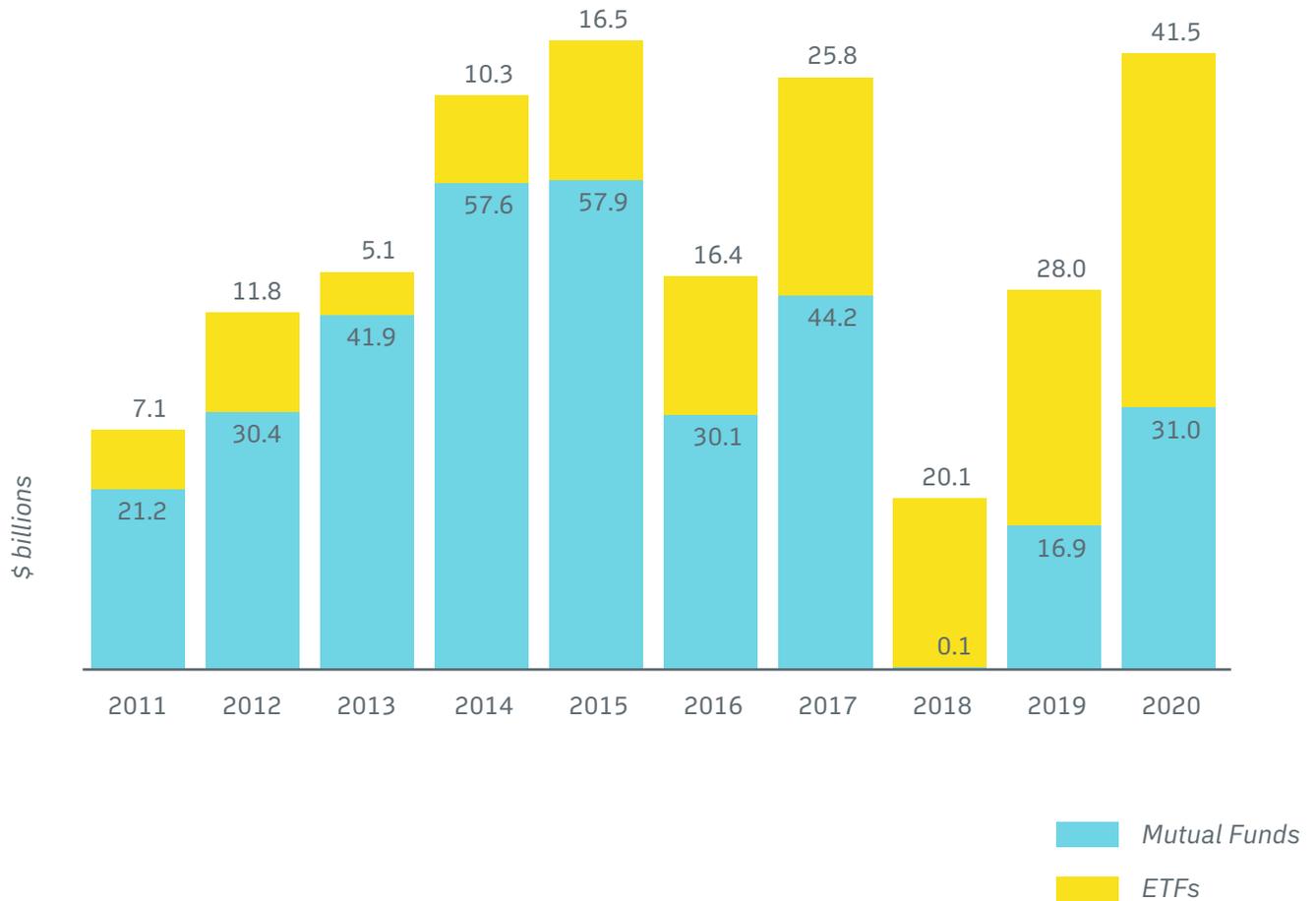
The majority of Canadian mutual fund assets at year-end 2020 were in the balanced fund category comprising 49% of total fund assets. The balanced category includes funds that invest in a mix of stocks and bonds as well as funds that invest in a mix of separate stand-alone funds. Equity funds were the second largest category, with 33% of assets.

For ETFs, equity funds accounted for 61% of total funds at year-end and bond funds accounted for 31%.

While the balanced fund category currently represents a small portion of overall ETF assets, a number of established ETF providers now offer fund of fund ETFs.



Net Sales of Mutual Funds and ETFs



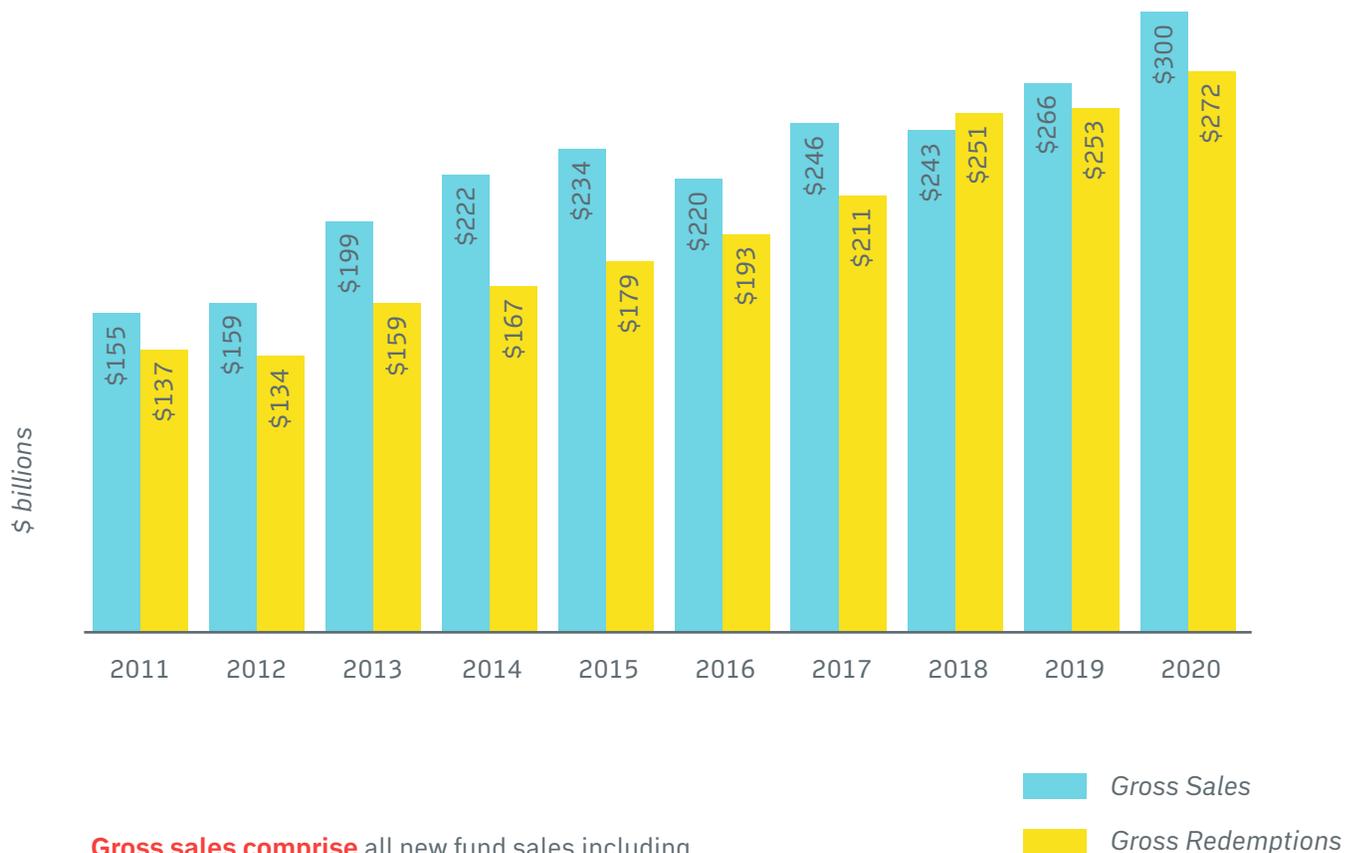
Investment fund sales totalled \$72.5 billion in 2020. Mutual funds accounted for \$31 billion of the total and ETFs, \$41.5 billion.

Despite the global pandemic and the related market crash in the first quarter of the year, 2020 recorded the highest mutual fund sales over the last three years and ETFs recorded the highest sales on record.

Compared to 2019, mutual fund sales increased by 83% in 2020, whereas ETFs increased by 48%.



Mutual Fund Gross Sales and Gross Redemptions



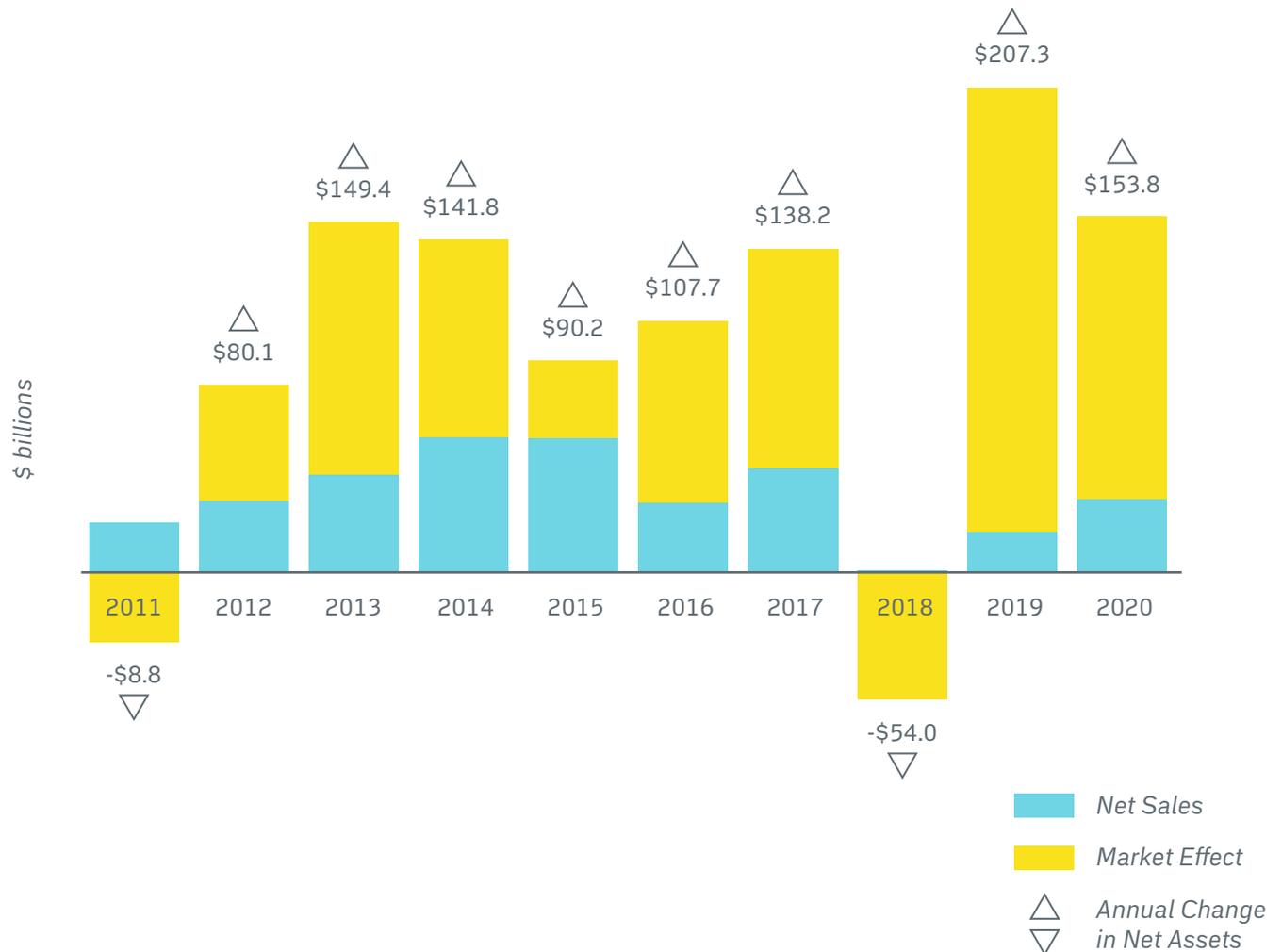
Gross sales comprise all new fund sales including new money entering the mutual fund industry as well as money leaving one fund company prior to a new purchase at another company. Similarly, redemptions reflect money leaving the industry altogether as well as sales preceding new purchases at a different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

Along with 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 2020, mutual funds generated the largest ever gross sales, at \$300 billion. As a percentage of assets, gross sales were 17% in 2020 compared to an average of 18% over the past ten years.

The data shown for gross sales and gross redemptions represents 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).

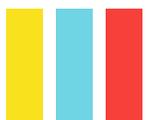
Mutual Fund Annual Asset Growth: Net Sales vs Market Effect



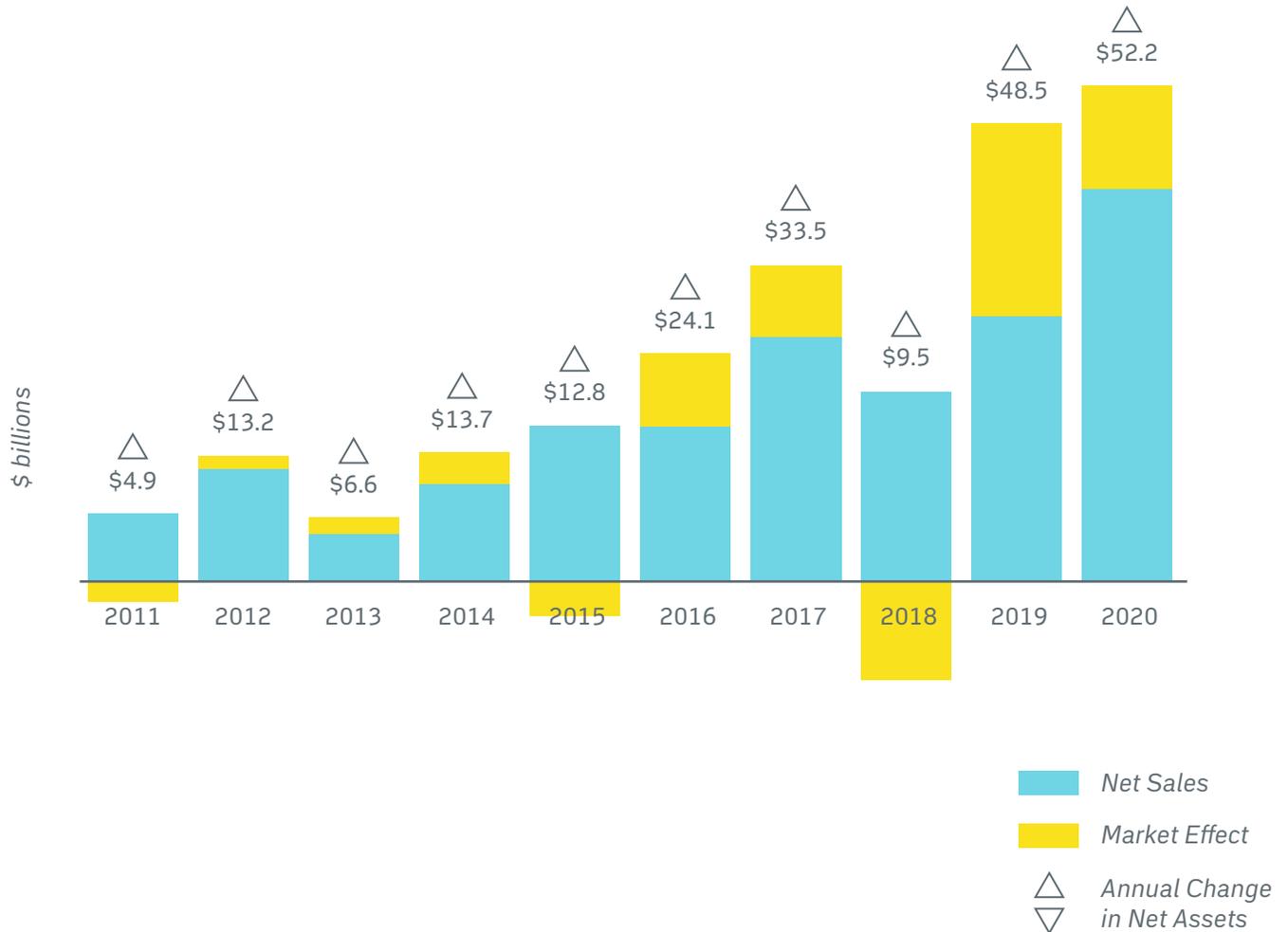
Asset growth in investment funds is affected by two main factors, overall sales and the rise and fall of the underlying value of the stocks, bonds and other securities held by the funds. The latter is known as the market effect.

Assets have grown over the last ten years due to both consistently positive net sales and an overall positive market effect. Despite the economic turmoil caused by the global pandemic and the related market crash, the market effect for mutual funds was significant in 2020, adding \$122 billion in assets.

As asset sizes increase, so does the potential impact of market effect.



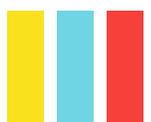
ETF Annual Asset Growth: Net Sales vs Market Effect



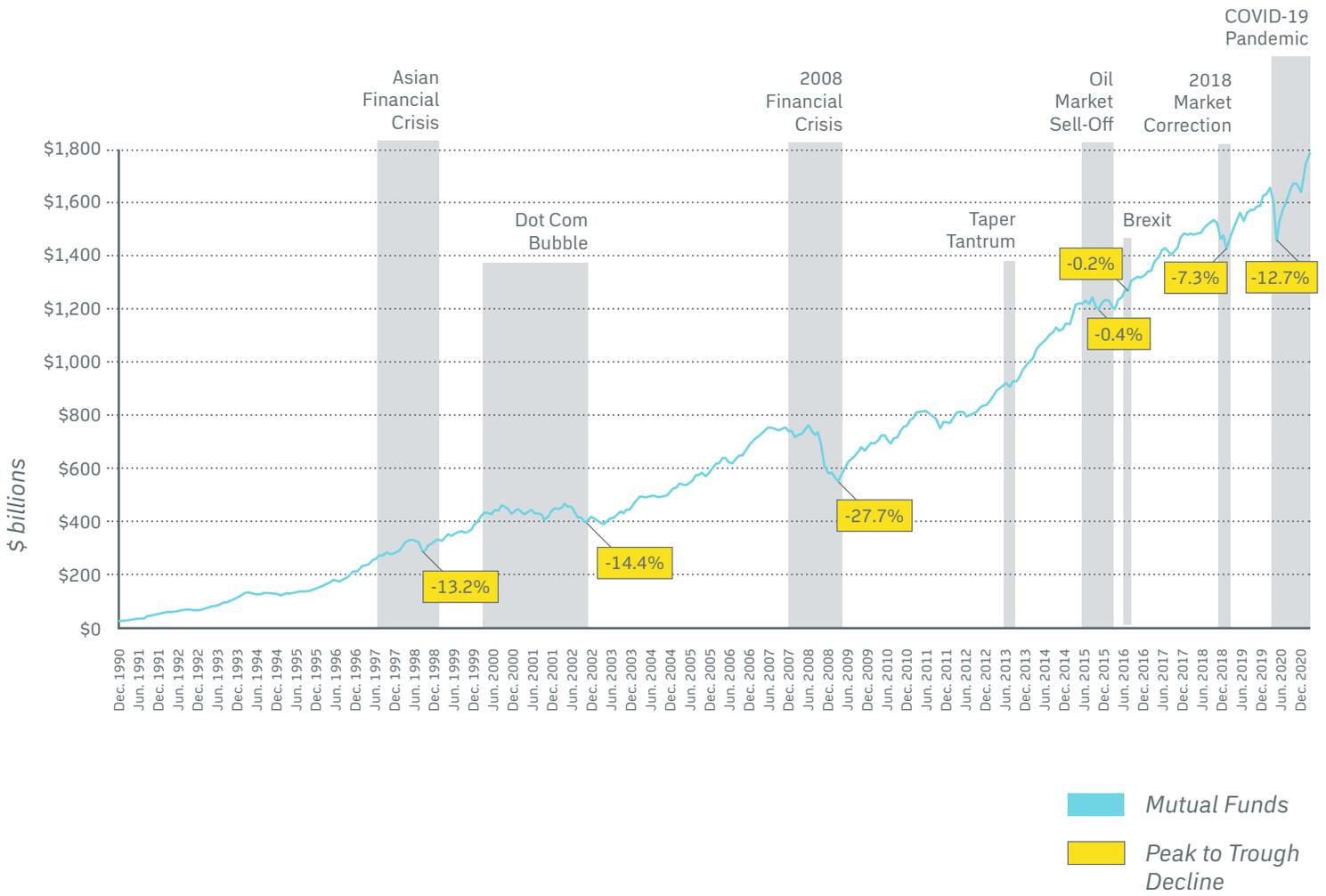
In 2020, ETF assets grew by \$52 billion, predominately due to positive net sales.

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

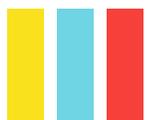
Also, as seen on page six, ETFs have significantly higher allocation to equity funds compared to mutual funds. This led to a stronger relative positive market effect for ETFs in 2020, given the stronger performance of equity funds compared to the fixed income and balanced categories.



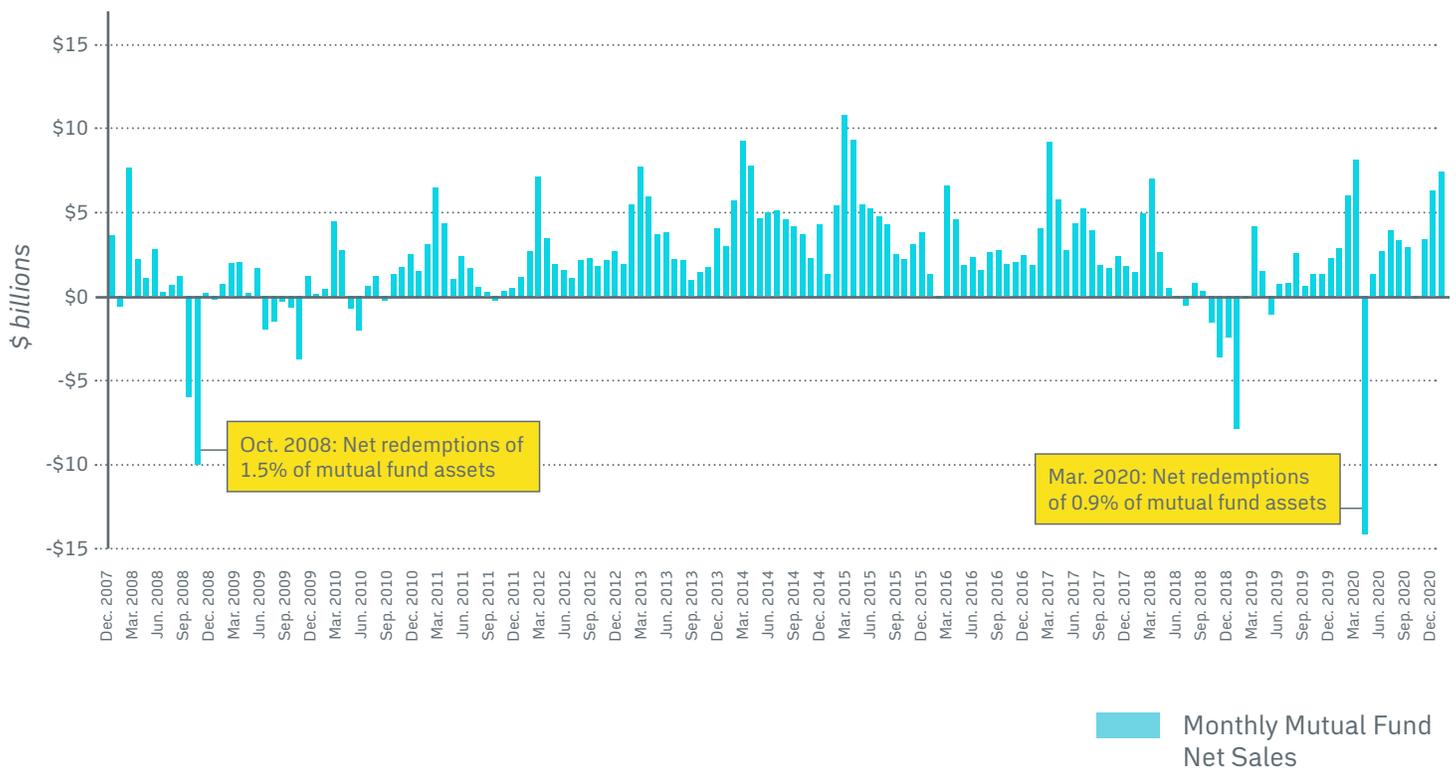
Mutual Fund Asset Growth in Difficult Times



Despite a dramatic fall of assets of \$211 billion in February and March, due to the COVID-19 market crash, assets had fully rebounded by August and, by the end of 2020, added \$338 billion. While assets fell steeply and dramatically in the market crash, falling by 12.7%, this does not compare to the 27.7% drop in assets experienced in the 2008 Financial Crisis.

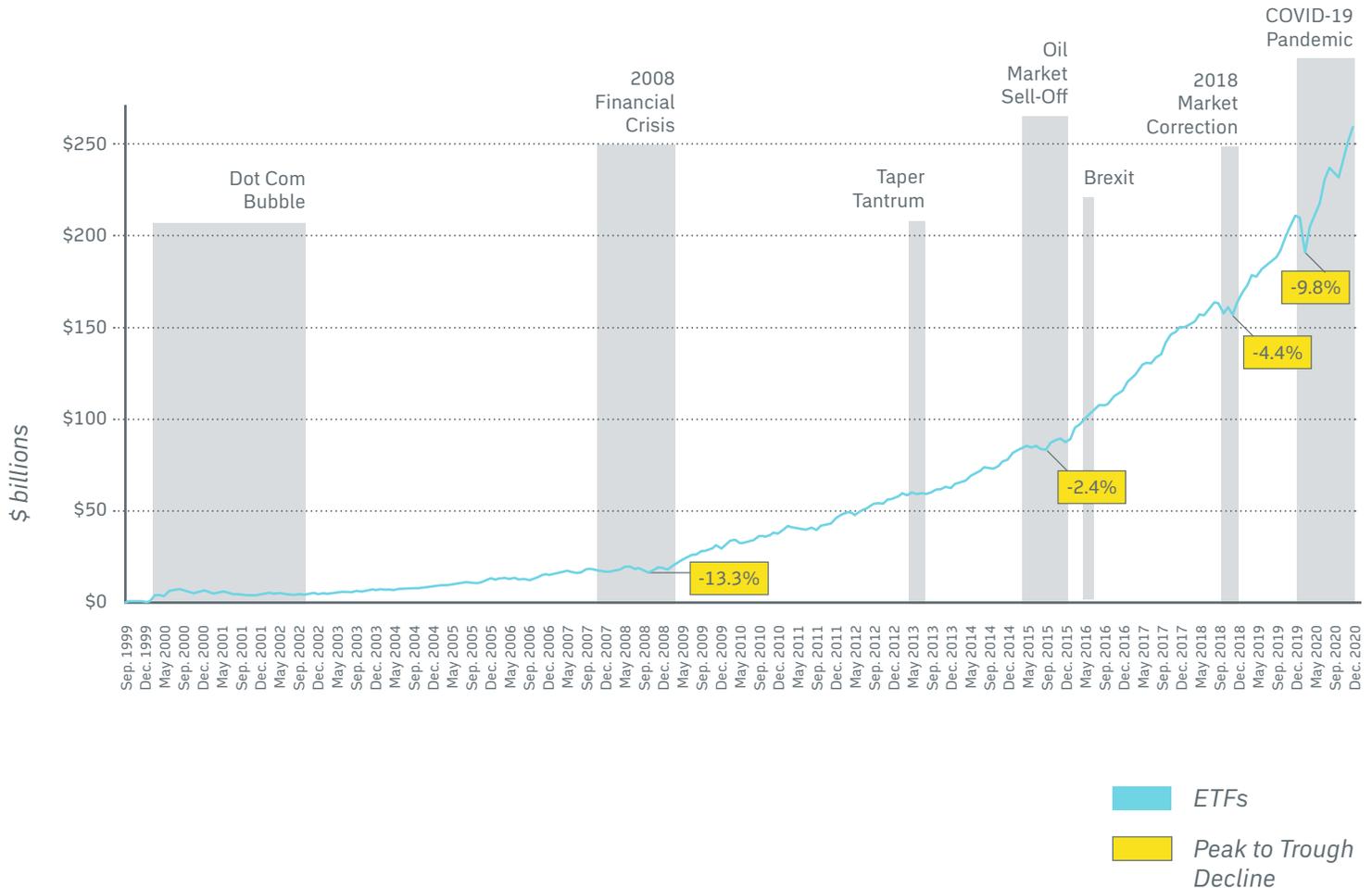


Mutual Fund Net Sales Through Difficult Times

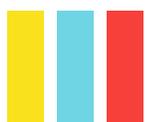


While there have been suggestions that market volatility could lead to panic selling by mutual fund investors, evidence shows that this is not the case. For example, in the 2008 financial crisis, the S&P/TSX Composite Index declined by 42.4% , but Canadian mutual fund sales, even in the worst month, saw redemptions of only 1.5% of assets. In the COVID-19 market crash, between February 20 and March 23, the S&P/TSX Composite Index fell by 37%. Despite this market plunge, net sales were positive in February, bringing in \$8.2 billion. March saw \$14.1 billion in net redemptions, but this amounted to only 0.9% of mutual fund assets. In April, positive sales returned with \$1.25 billion in net sales.

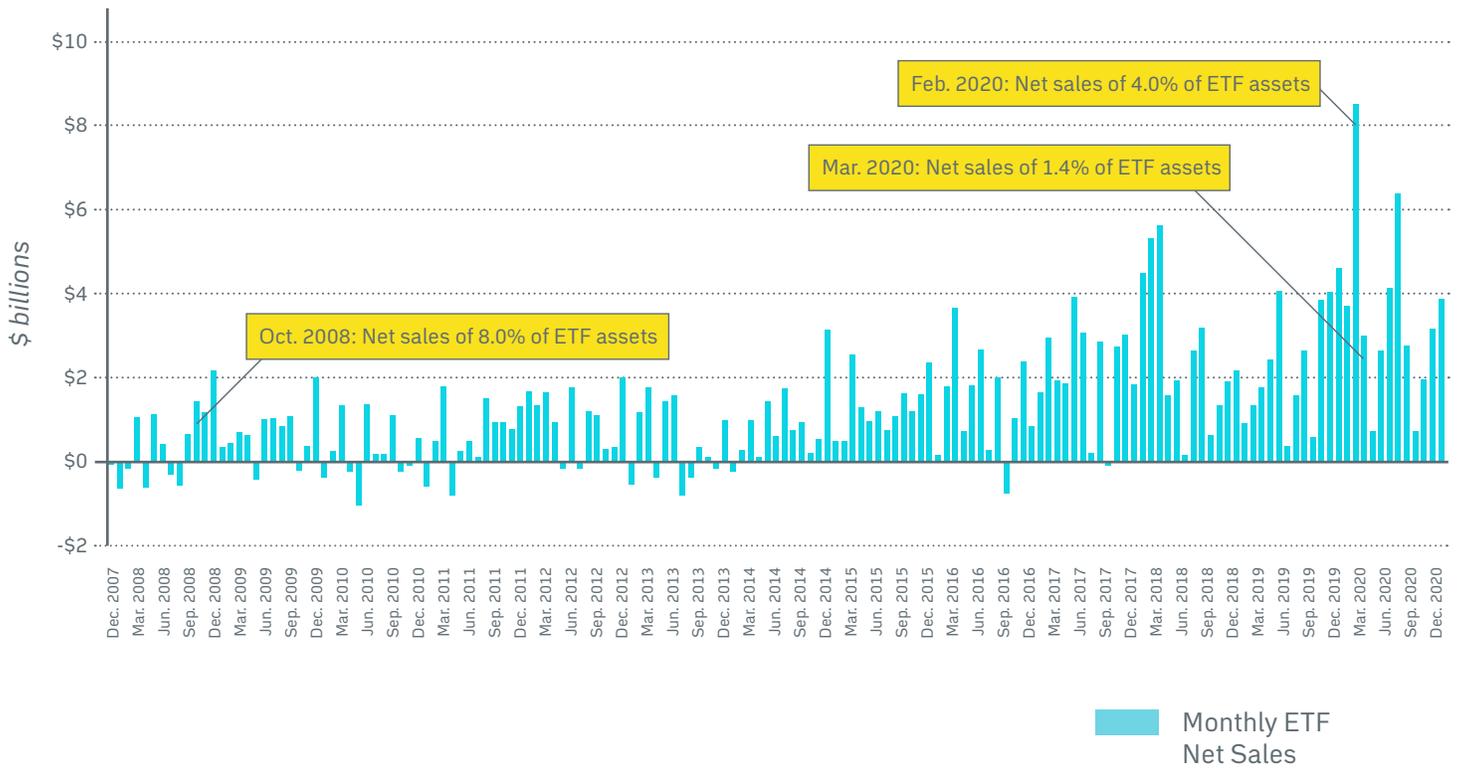
ETF Asset Growth in Difficult Times



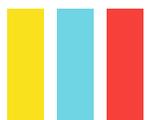
Compared with mutual funds, ETFs have been less impacted by market crashes and the COVID-19 market crash is no exception. This can be partly explained by ETFs being in a growth phase and having overall stronger positive sales relative to assets. Also, while mutual fund investors are almost exclusively retail investors, ETF investors also include large institutional investors from pension plans to hedge funds that are more likely to participate in opportunistic buying during volatile and falling markets. Nonetheless, ETFs still fell 9.8% in February and March 2020, combined, the second largest decline in Canadian ETF history.



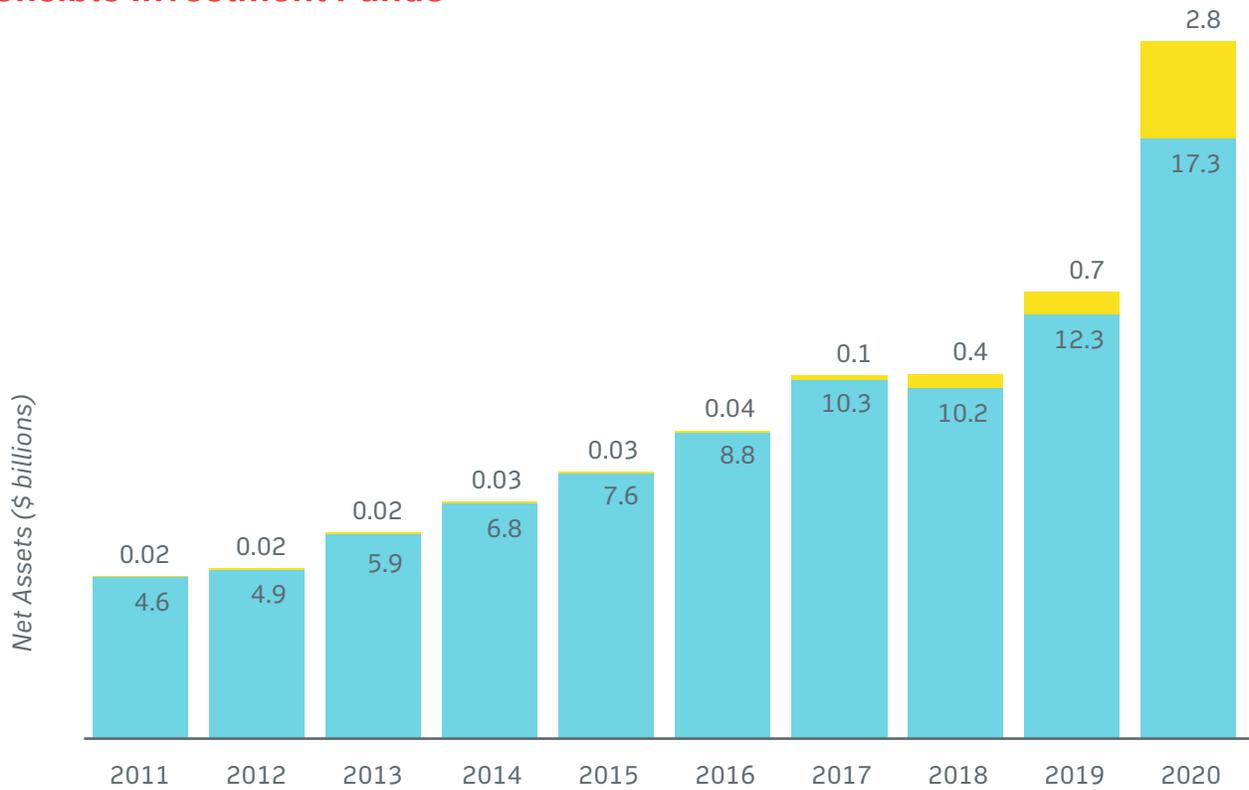
ETF Net Sales in Difficult Times



In March 2020, Canadian ETFs had net inflows of \$3 billion despite the COVID-19 market crash. As noted in the previous page, the resiliency of ETFs can be explained in part because of this segment of the industry being in a growth phase and the different investor base compared to mutual funds. In the worst of the 2008 financial crisis, in October of that year, ETF sales were also positive.



Responsible Investment Funds



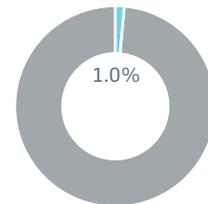
At the end of 2020, there was a total of \$17.3 billion in responsible investment (RI) mutual funds and \$2.8 billion in responsible investment ETFs. This represents 1% of total mutual fund assets and 1.1% of total ETF assets, respectively. Despite the small relative amount of mutual fund and ETF assets, there were 26 firms offering a total of 94 responsible investment mutual funds and 13 firms offering 50 responsible investment ETFs.

It is notable that the number of firms offering responsible investment mutual funds grew by 10 from 2019 to 2020 and the number of firms offering responsible investment ETFs grew by three.

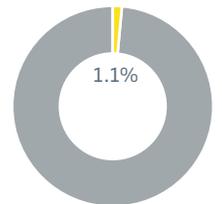
Responsible investment fund assets grew by 55% in 2020, compared to 11% growth for the fund industry overall.

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 or describe a recognized approach to RI in its investment strategy.

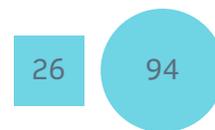
Mutual Funds
ETFs



RI
Non RI
Share of Total Mutual Fund Assets



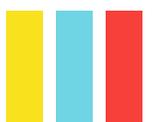
RI
Non RI
Share of Total ETF Assets



26 Firms Offering 94 Responsible Investment Mutual Funds

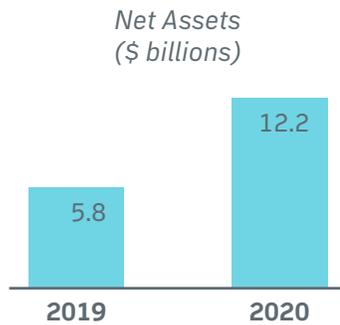


13 Firms Offering 50 Responsible Investment ETFs

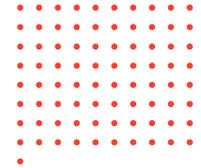


Alternative Investment Funds

Alternative Mutual Funds

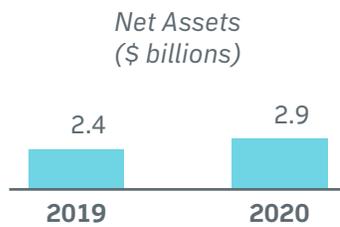


2019
30 Fund Managers
62 Funds



2020
35 Fund Managers
81 Funds

Alternative ETFs



2019
7 Fund Managers
48 Funds

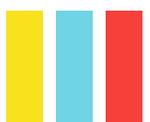


2020
10 Fund Managers
57 Funds

2020 was the second year since fund managers were permitted to sell prospectus-qualified 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.

At the end of 2020, alternative mutual fund assets totalled \$12.2 billion, more than double the total in 2019. Alternative ETF assets totalled \$2.9 billion, up 21% from 2019.*

*A portion of mutual fund assets in alternative funds are held in fund-of-fund structures and do not represent direct retail purchases.



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 Investor Economics, Morningstar Canada Inc. and TSX and NEO Exchange.

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