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- Now more than 1,000 Canadian-listed ETFs
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2021 Mackenzie Investments ETF Report

A look at how ETFs fared last year and where they'll go from here

MACKENZIE
Investments

Another big year for ETFs

It's been a year for the ages, with the COVID-19 pandemic upending almost every aspect of everyone's life. Investors, in particular, were taken for a ride in 2020, with a number of global markets, including Canada's S&P/TSX Composite Index, falling by 35% between February 21 and March 23, only to rise by more than 55% throughout the rest of the year. If you would have asked anyone at the start of the pandemic whether markets would be in the black by December 31, not many would have believed you, yet many indexes finished in positive territory.

"The volatility we saw this year awakened more investors to the benefits of ETFs."

— Prerna Chandak

It was an especially good year for exchange-traded fund (ETF) investors who, for a long time, have been hearing from the media that these products would not hold up during an extreme market event. Not only did ETFs survive, but a record-breaking $41 billion dollars poured into the industry, shattering last year's record in just seven months. As big of a number as that may be, Michael Cooke, senior vice-president and head of ETFs at Mackenzie Investments, wasn't surprised to see inflows rise last year. "If you look at the history of the ETF industry, periods of increased market volatility have accelerated demand because more people see their relevance," he says. "The precision, the liquidity, the cost effectiveness – all of that comes into focus."

More than 115 new ETFs also came to market in Canada in 2020, bringing the total number of available funds to 1,010. There are now 39 firms offering ETFs, including banks, mutual fund companies and more, though Cooke points out that 10 issuers account for 93% of assets under management, which topped $257 billion in 2020, up from $192 billion in 2019.

Prerna Chandak, vice-president of ETFs at Mackenzie, was encouraged to see institutional investors, do-it-yourselfers and retail clients with advisors purchase ETFs this year, adding that fund inflows did not come at the expense of mutual fund net sales. Rather, people were moving out of individual stock and bond holdings and into ETFs. "The volatility we saw this year awakened more investors to the benefits of ETFs," she says.

ETFs held up in 2020 because they derive their value from the underlying assets they hold. If the underlying assets trade as they should – on exchanges and with reasonable liquidity – then there's no reason why ETF trading should be any less efficient, says Cooke. Some asset classes did experience liquidity disruptions, such as US Treasuries and investment grade bonds, but the ease of trading and low transaction costs still generated significant trading volume. "Many ETFs provided price discovery, bringing more visibility to bond price movements and providing investors with another path to enter or exit bond positions," notes Cooke.

Top trends

Falling fees

Over the last 12 months, a number of trends impacted the ETF marketplace. One of the more important ones is the continued focus on fees. Canadians are becoming increasingly fee conscious, and that's a big reason why ETF inflows are outpacing mutual fund flows. For many, though, it's not just about buying the cheapest fund. "More investors are asking themselves: What

CANADIAN ETF STATS (FY 2020)

$257 billion
Assets under management in all Canadian-listed ETFs. (Natonal Bank)

$54.4 billion
Assets under management in Canadian-focused ETFs. (National Bank)

$56.4 billion
Assets under management in US-focused ETFs YTD. (National Bank)

$41 billion
Inflows in Canadian-listed ETFs in 2020. (National Bank)

1,010
ETFs on the Canadian market at the end of 2020. (National Bank)

39
Companies selling ETFs in Canada. (CETFA)

0.35%
Average asset-weighted MER for all Canadian-listed ETFs as of August 2020. (ISS)

12%
ETF assets as a percentage of total assets in Canadian funds. (National Bank)

is this exposure adding to my portfolio and what am I willing to pay for it?" says Chandak.

Investors are, in many cases, comfortable with paying a higher price for differentiated offerings, such as smart beta or actively managed ETFs, which tend to focus on specific strategies or areas of the market, such as income, value or low-volatility investing. While fees on these funds are still below the average mutual fund fee of around 2%, they're not as low as traditional index-replicating funds, which require little management expertise. "If people feel like they're getting value," adds Cooke, "then we do see that they're willing to pay a higher fee."

Products for personalization

Between the many Canadian-listed ETFs and foreign-listed ones, investors have a lot to choose from, including many new and innovative products that have come to market over the last several years. There are funds that focus on specific sectors or themes – cryptocurrency for example – actively managed funds where a professional chooses securities, and smart beta ETFs that employ specific strategies.

Part of the reason why there's so much more choice is that the one-size-fits-all approach doesn't always work. People are nuanced, they have individual needs, they have challenges and goals that are different from their peers. For some, buying a basic balanced fund may not be appropriate – you might need a little more exposure to income-producing products, or perhaps you understand bitcoin and want to put some money into this asset class, while others wouldn't.

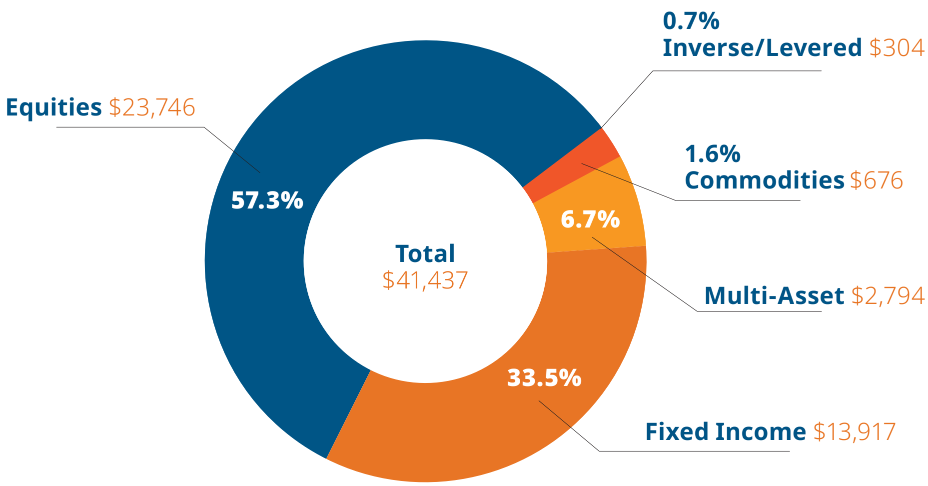
ETFs – with their transparency, liquidity and tradability – have made it much easier to create personalized portfolios. You can quickly adjust how much risk you're taking on or make asset mix changes, as your personal situation evolves. "We now know more about what drives returns and risk in portfolios, and we can better add or subtract from a portfolio to achieve better outcomes," says Cooke.

Michael Cooke
Senior Vice-President and head of ETFs

Prerna Chandak
Vice-President ETFs

ETF inflows by category in 2020 ($M)

Source: National Bank (FY 2020)



$13.9 billion
Inflows into fixed-income Canadian-listed ETFs YTD. (National Bank)

$10 billion
Inflows into Canadian-listed international ETFs. (National Bank)

GLOBAL ETF STATS (FY 2020, UNLESS OTHERWISE NOTED)

15.4%
Increase in ETF inflows between January and November. (ETFGI)

$659.3 billion
ETF inflows in the first 11 months of the year, a record. (ETFGI)

$7 trillion
Global ETF assets under management as of September 2020 (ETFGI)

8,000+
ETFs available to trade on the global market. (ETFGI)

$5.4 trillion
Assets under management in US-listed ETFs. (ETF.com)

1,364
Number of ETFs listed on US markets. (ETF.com)

Equity ETF Flows by Sector in 2020

Source: National Bank (FY 2020)

Sector	AUM ($M)	Mkt Shr	Flow ($M)	Flow/AUM
Financials	$6,934	35%	$710	11%
Real Estate	$2,960	15%	$133	4%
Materials	$2,609	13%	$894	61%
Health Care	$1,970	10%	$396	27%
Technology	$1,691	9%	$574	75%
Utilities	$1,636	8%	$310	23%
Energy	$1,403	7%	$680	69%
Other	$482	2%	$98	28%
Total	$19,684	100%	**$3,796**	23%

Digital adoption

Digital investing is also driving ETF adoption. According to Statista, Canadian robo-advisors – online-only financial platforms that invest on your behalf – had around $11.4 billion in assets in 2020, and that's expected to rise to $24 billion by 2024. ETFs make it effortless for these companies to create diversified portfolios across the risk tolerance spectrum.

With younger investors demanding digital financial experiences, financial companies will start offering online investing options, and many will make use of ETFs in that process. "These tools will play an increasingly meaningful role in Canada, especially over the next decade as more wealth gets transferred to the next generation," says Chandak. "That will be a natural driver of more flows into the ETF space."

More growth ahead

While ETFs have been around for 30 years, in some ways, it's still early days for this market in Canada. US adoption is far more widespread, with AUM surpassing $5 trillion for the first time in 2020. Canada is about five years behind the US in terms of market penetration, says Cooke, but "we are closing that gap."

One of the reasons why we're catching up is that there are now many more Canadian-listed, internationally focused funds. Even for an asset class as familiar as US equities, large, liquid and cost-effective US-listed ETFs are not always the best choice for Canadian investors, in part because they must be bought in US dollars, which then subjects the investor to currency fluctuations. The benefits of Canadian-listed ETFs are even more pronounced in fixed income and international equity markets. "If you have a choice between Canadian and US-listed ETFs, you're better served by choosing the Canadian one," explains Cooke. "That's accelerating usage of Canadian-listed ETFs."

The industry will also start to see more investors partnering with specific companies that have the full suite of products on offer, says Chandak, which is good for investors. Working with one or two operations means there's more on-the-ground support for those who need it, she notes.

The industry must do more to educate Canadian investors about ETFs, says Chandak, but she and Cooke are confident that nearly all investors will soon have some exposure to these securities. "We're going to see a lot more usage by everyone here," she predicts. "Awareness will increase, volatility will show more people how the market can be resilient and we'll continue to see innovation in products. ETFs have a great future." ■