

## Canadian ETF Industry report: December 2017

2017 was a historical year for the exchange-traded fund industry. Canadian ETFs generated record yearly net inflows and assets under management reached a new record high at the end of the year. Eleven ETF providers joined the industry in 2017, with the number of Canadian ETFs now exceeding 600.

Most of the new competitors are mutual fund providers, looking for their share of the booming market. The number of new entrants is expected to accelerate in 2018. An asset manager has already filed to issue its first suite of ETFs. Bristol Gate Capital Partners Inc., a privately-owned investment manager, has filed a preliminary prospectus for two dividend growth ETFs. Other asset managers are likely to join the game by issuing ETF series of their popular funds as did PIMCO Canada, Equium Capital Management Inc. and Arrow Capital Management Inc. in the last quarter of 2017.

Unfortunately, not all new players were able to establish themselves. For instance, Excel Funds, known for its emerging markets funds, entered the industry in May 2017 with two global multi-asset ETFs but they did not appeal to investors. In September, Sun Life Global Investments announced that it will acquire Excel Funds and the acquisition will be finalized in January. Another acquisition is in the pipeline: Evolve Funds announced that it will take over Sphere Investment Management's ETFs, effective on or about January 12, 2018.

### DECEMBER ETF LAUNCHES AND TERMINATIONS:

During the month of December, FT Portfolios Canada Co. introduced hedged units of certain U.S. sector ETFs, charging 70 basis points each. First Asset launched US\$ units of its First Asset Investment Grade Bond ETF and announced that it will terminate the First Asset Can-Energy Covered Call.

### LAUNCHES

TICKER	NAME	ASSET CLASS	MGT. FEE	EXCHANGE
FHC.F	First Trust AlphaDEX™ U.S. Consumer Staples Sector Index ETF (Hedged Units)	Equity	0.70%	TSX
FHH.F	First Trust AlphaDEX™ U.S. Health Care Sector Index ETF (Hedged Units)	Equity	0.70%	TSX
FHG.F	First Trust AlphaDEX™ U.S. Industrials Sector Index ETF (Hedged Units)	Equity	0.70%	TSX
FHQ.F	First Trust AlphaDEX™ U.S. Technology Sector Index ETF (Hedged Units)	Equity	0.70%	TSX
FIG.U	First Asset Investment Grade Bond ETF (U.S. Dollars)	Fixed Income	0.65%	TSX

### TERMINATIONS

TICKER	NAME	ASSET CLASS	DATE	MGT. FEE
OXF	First Asset Can-Energy Covered Call ETF	Equity	2018-02-15	0.65%

The ETF product shelf grew significantly in 2017 - 169 new listings and 12 terminations. Thematic ETFs were among the new products offered. The Canadian ETF space now covers sectors and themes such as gender diversity, cyber security and the marijuana sector. With the success of some of these ETFs, issuers are racing to offer the next untapped thematic ETF like the cryptocurrency or blockchain market.

With the number of Canadian ETFs beyond the 600 mark, the industry gets increasingly crowded. Market participants are expected to restructure their product line-ups by terminating their unprofitable funds. In September, BlackRock discontinued its lowest AUM ETFs, excluding less than 1 year old ETFs. Other sponsors will follow the market leader's steps by terminating loss-making funds.

*Kimberly Yip Woon Sun*