

2022

Investment Funds Report



THE INVESTMENT
FUNDS INSTITUTE
OF CANADA

L'INSTITUT DES FONDS
D'INVESTISSEMENT
DU CANADA

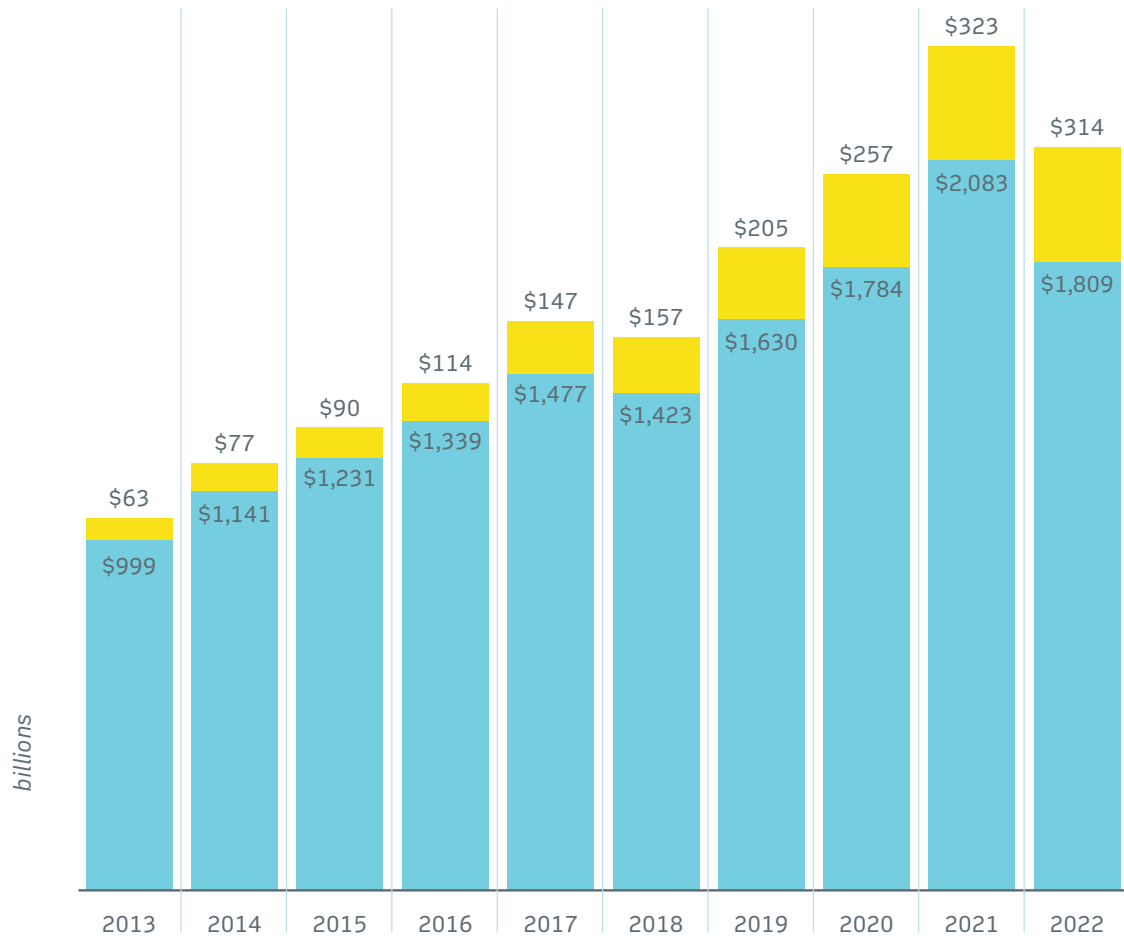


The Investment Funds Report captures information about Canada's investment funds landscape in 2022. This report provides statistics and analysis of mutual fund and exchange traded fund (ETF) sales and assets under management.

About IFIC

The Investment Funds Institute of Canada is the voice of Canada's investment funds industry. IFIC brings together approximately 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 2022, Canadian mutual fund assets totalled \$1,809 billion and ETF assets totalled \$314 billion.

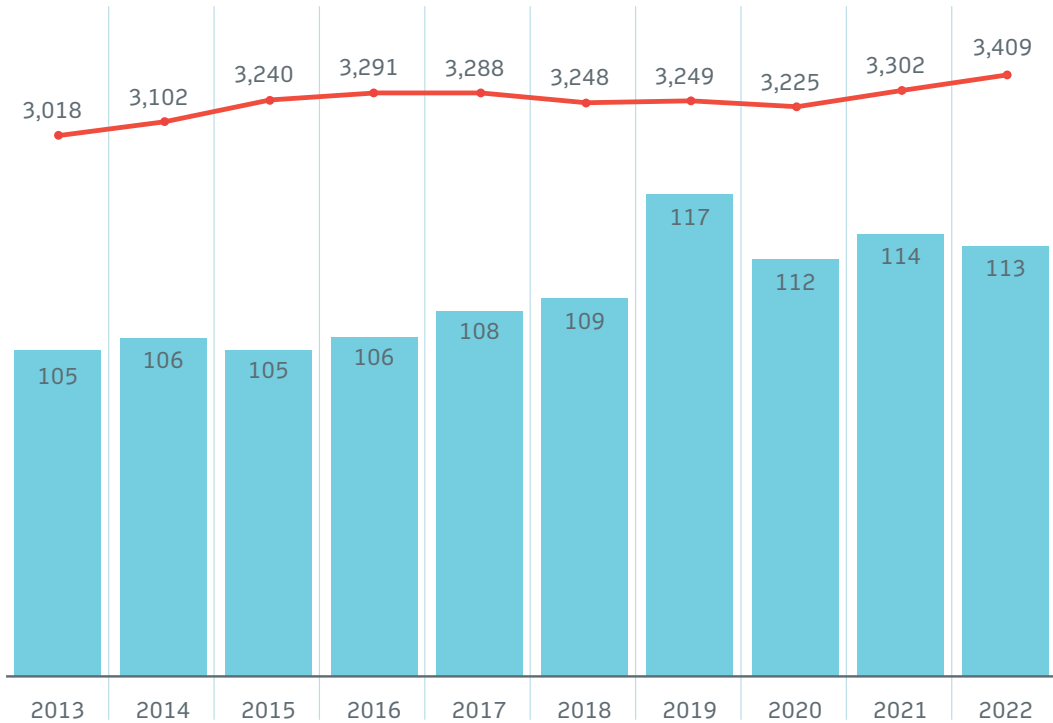
■ Mutual Funds
■ ETFs

Due to net redemptions and negative market effect, mutual fund assets decreased by 13.1%. For ETFs, despite positive net sales, negative market effect resulted in a 3.0% decrease in assets.

Over the last ten years, mutual fund assets more than doubled, adding \$959 billion and ETF assets grew by more than 5.5 times, adding \$257 billion.

2021 and 2022 ETF asset data is adjusted to remove double counting arising from Canadian-listed ETFs that invest in units of other Canadian-listed ETFs. Without removing double-counting, ETF assets by the end of December 2022 would have been higher by \$26.4 billion.

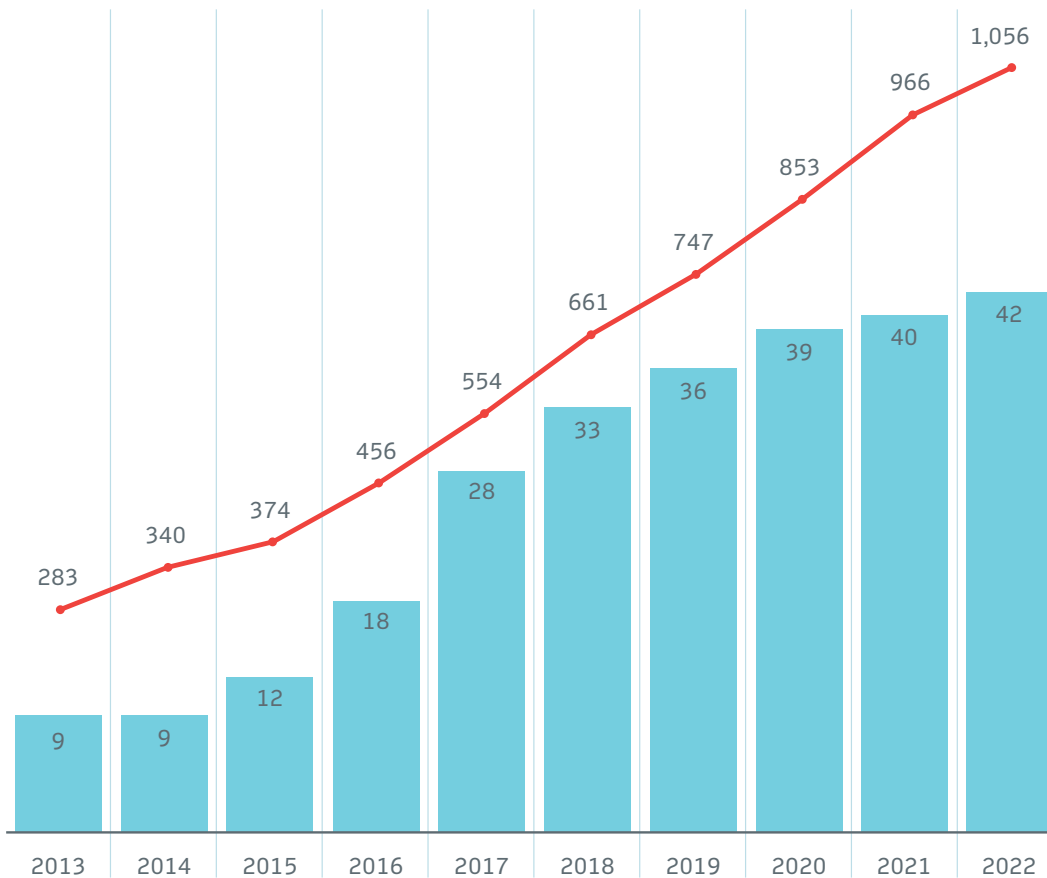
Mutual Fund Managers and Number of Funds



There were 113 companies offering mutual funds at the end of 2022. There was a net decrease of one firm in 2022. The number of available mutual funds increased by 107 on a net basis in 2022, bringing the total number of funds on offer to 3,409. Approximately one-third of the new fund launches throughout the year included products with responsible investing investment objectives and strategies. This theme is presented in greater detail on page 15 of the report. Approximately two-thirds of the new launches provided global geographic exposure, through either equity, balanced or fixed income funds.



■ Fund Managers
— Funds

ETF Managers and Number of Funds



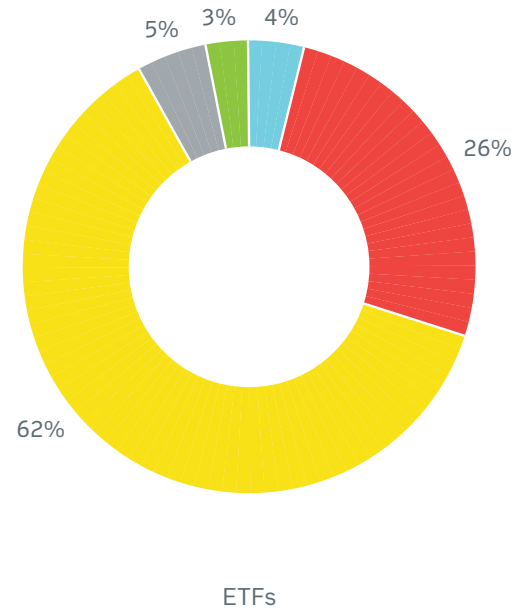
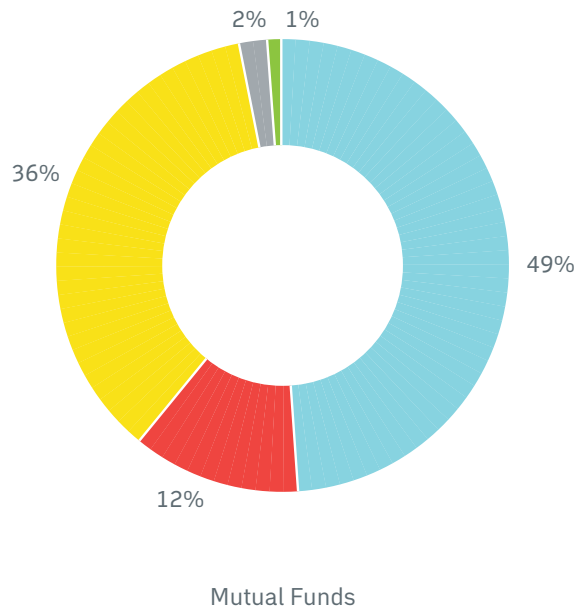
At the end of 2022, there were 42 investment fund companies offering ETFs. The majority of these companies offer both ETFs and mutual funds. Throughout 2022, on a net basis, 90 ETFs were added, bringing the total number of ETF funds on offer to 1,056.

Just under half of all new launches included funds with responsible investing investment objectives and strategies. In 2022, the first target date ETFs were launched.

 Fund Managers
 Funds

Mutual Fund and ETF Assets by Broad Asset Category

December 2022



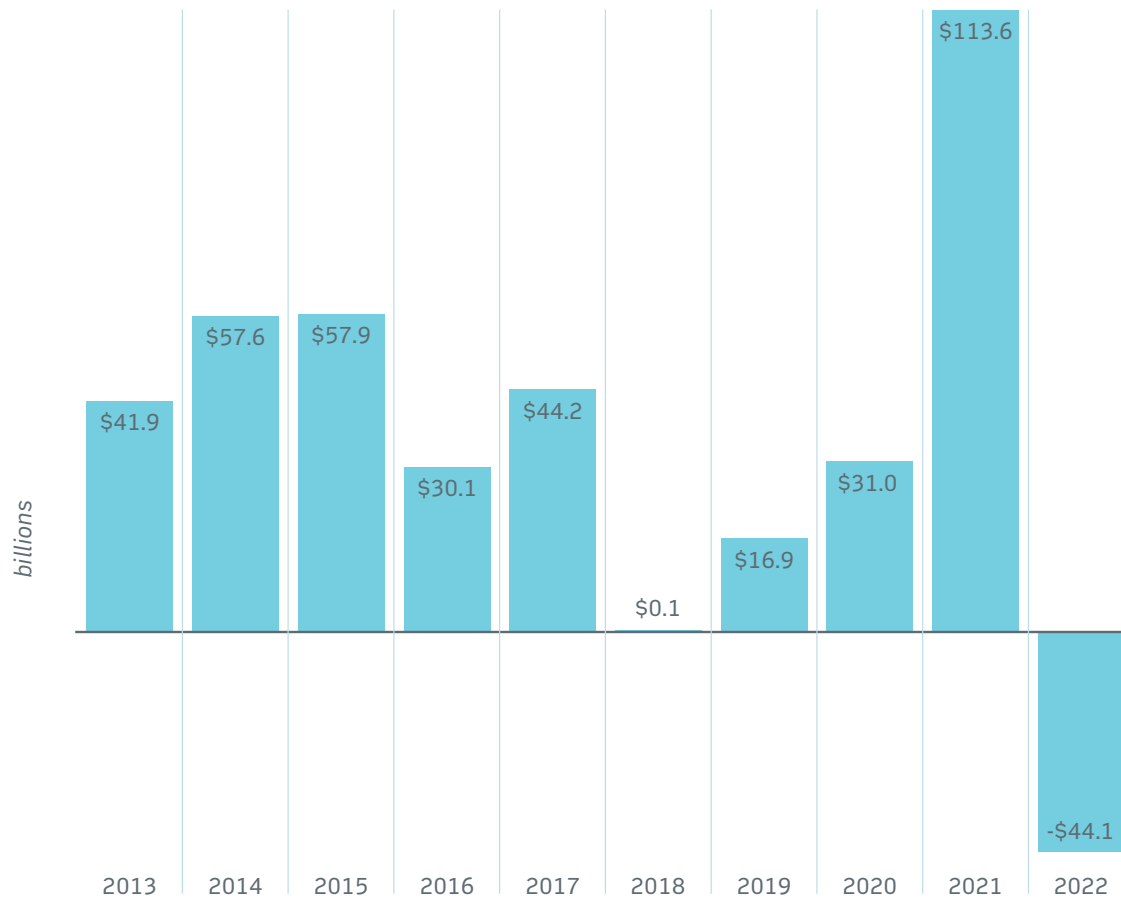
The largest portion of Canadian mutual fund assets at year-end 2022 was in the balanced fund category, comprising 49% of total fund assets. The balanced category includes funds that invest in a mix of stocks and bonds as well as funds that invest in a mix of separate stand-alone funds. Equity funds were the second largest category, with 36% of assets.

For ETFs, equity funds accounted for 62% of total fund assets at year-end and bond funds accounted for 26%.

Money market funds are a very small part of the Canadian fund industry. It is notable that most ETF money market funds invest primarily in high-interest deposit accounts, a theme that is shown in greater detail on page 14.

- *Balanced*
- *Bond*
- *Equity*
- *Money Market*
- *Specialty*

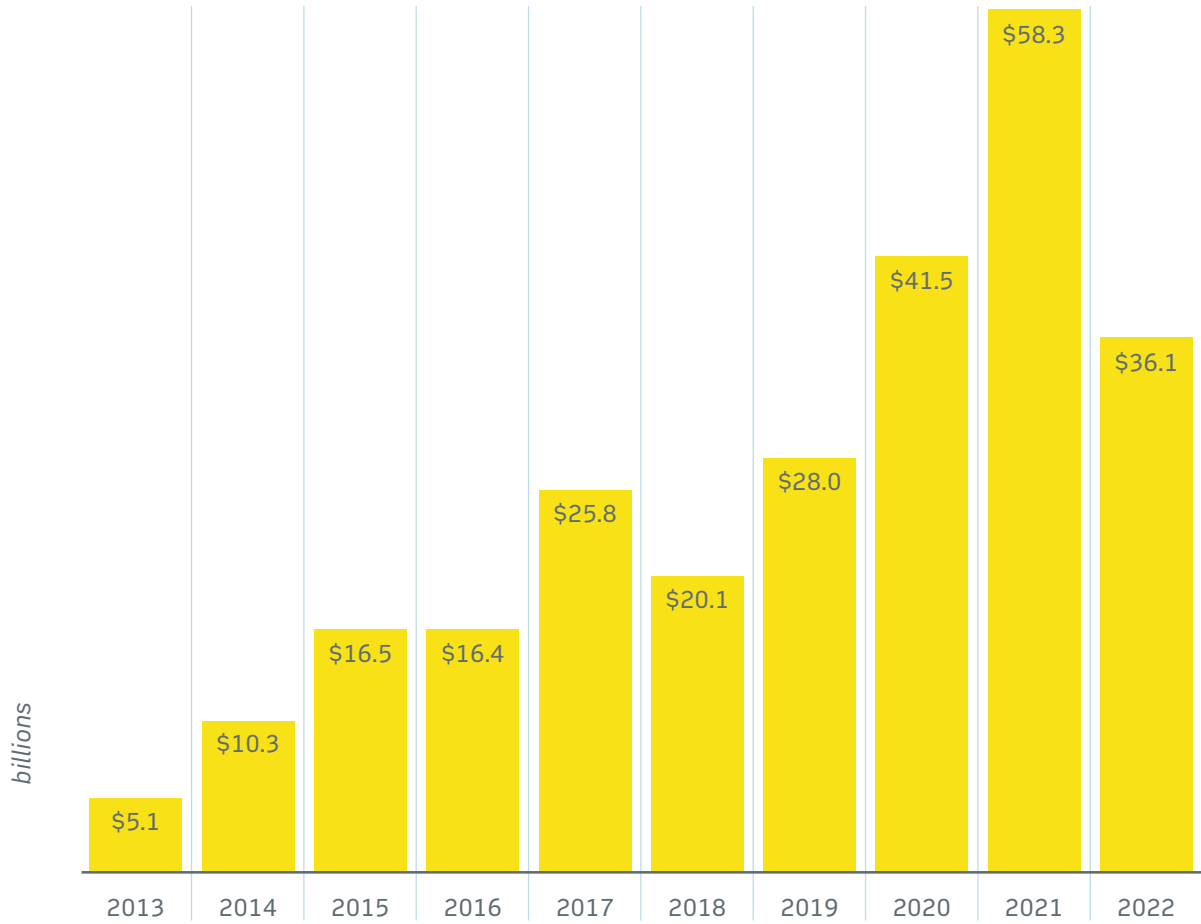
Mutual Fund Net Sales



Mutual fund net redemptions totalled \$44.1 billion in 2022, representing the largest annual net redemptions on record in dollar terms. While large in dollar terms, this amounted to 2.1% of beginning-year assets. 2022 was one of only two years on record over the last three decades when annual net sales were negative.

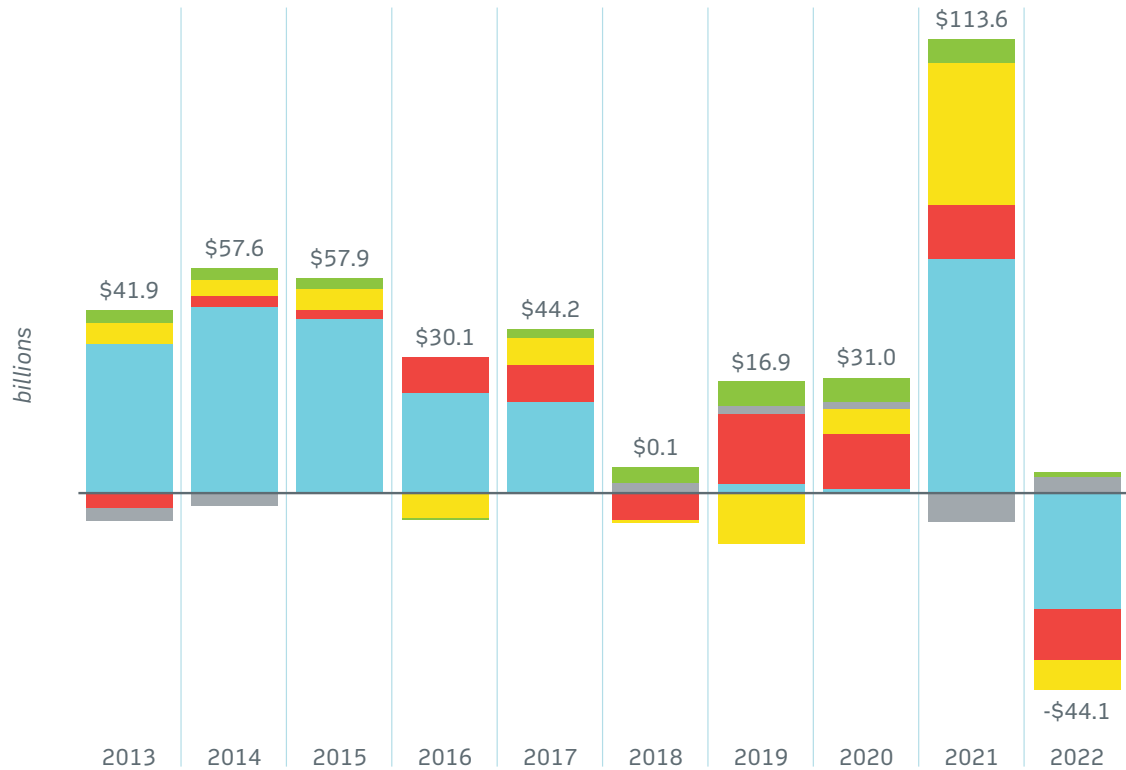
There are always multiple factors responsible for changes in investor behaviour. However, there is no doubt that 2022 sales were impacted by rising inflation and interest rates, market volatility and declining valuations in equity and bond markets, slowing economic growth, and continuing uncertainty and economic disruption related to global conflict and COVID-19.

While sales were positive in the first three months of the year, they turned to net redemptions in April and remained negative each month for the rest of the year.



ETF net sales totalled \$36.1 billion in 2022. As with mutual funds, 2022 followed a record-setting 2021 in terms of sales levels. Compared to 2021, ETF net sales decreased by 38.1% as ETF investors were impacted by the same forces as those of mutual fund investors noted on the previous page.

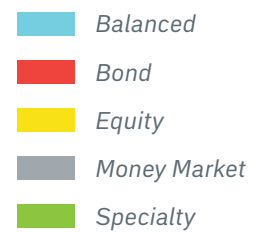
Mutual Fund Net Sales by Asset Category



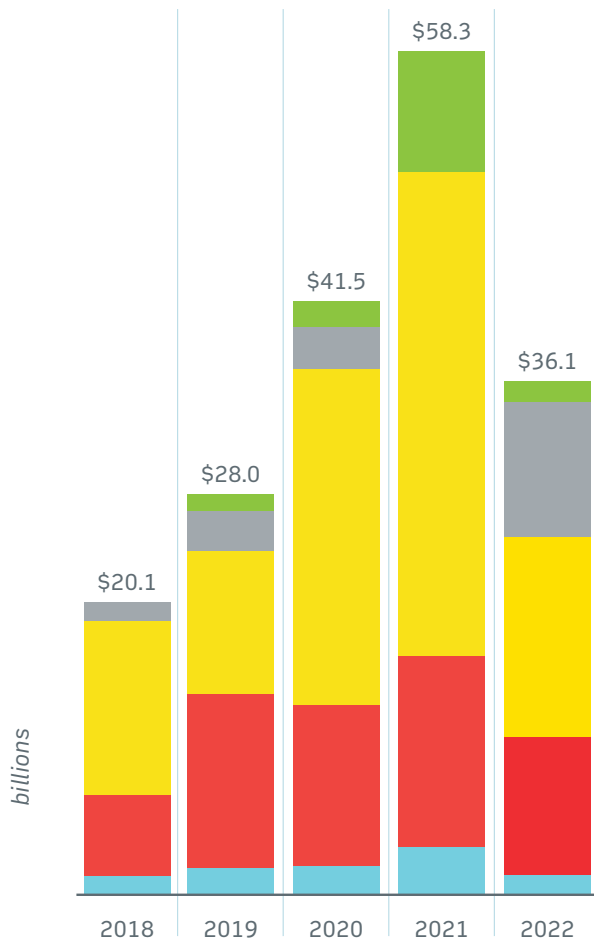
In 2022, balanced funds experienced \$30.0 billion in net redemptions, equity funds recorded \$8.5 billion in net redemptions, and bond funds saw \$13.8 billion in net redemptions. Money market funds tend to see redemptions when market performance is strong and inflows in periods of high volatility and falling markets, as was the case in 2022. In 2022, money market funds saw net sales of \$7.0 billion.

The other area with positive sales in 2022 was in specialty funds¹, a category that includes alternative funds. Many alternative funds provide exposure to alternative asset classes and employ alternative strategies such as short selling and leverage with the aim of delivering returns less correlated with equity and bond markets compared to conventional funds. Specialty funds saw net sales of \$1.2 billion in 2022.

¹ Specialty funds include alternative funds, commodity funds, real property funds and other miscellaneous funds.

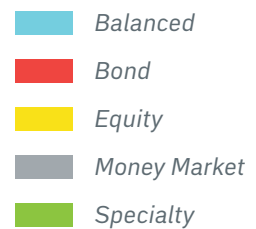


ETF Net Sales by Asset Category

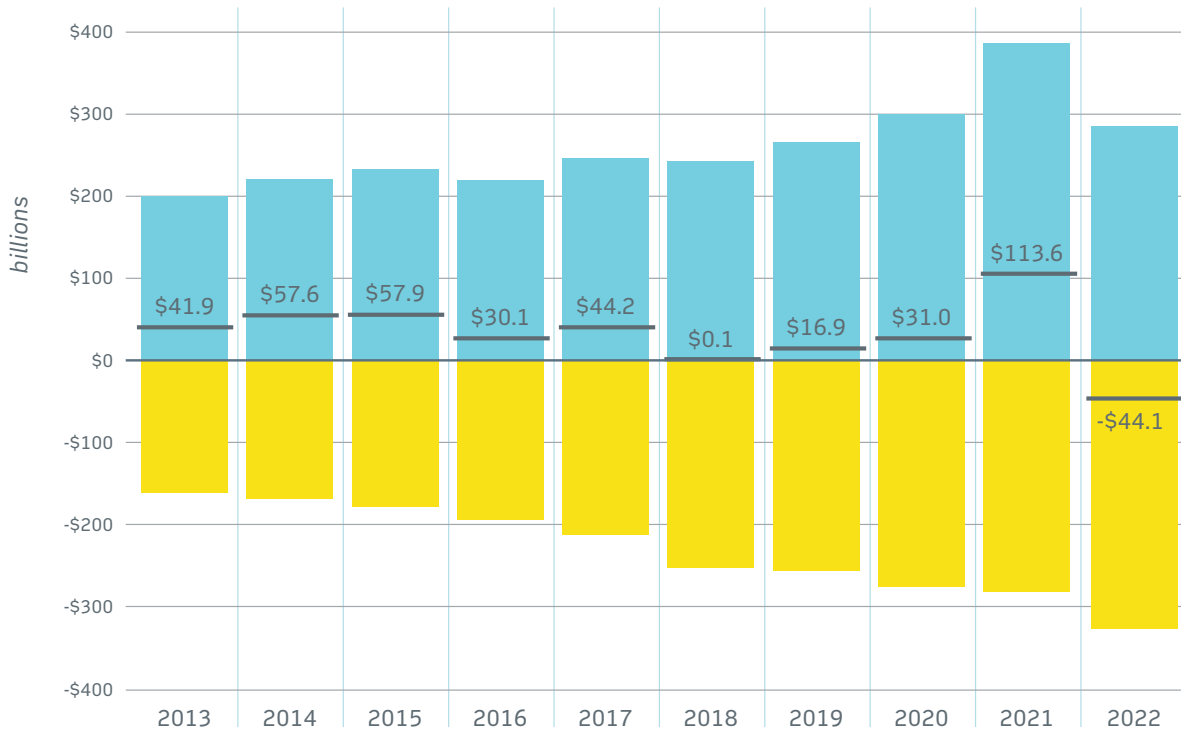


In 2022, ETF equity funds brought in \$14.0 billion in net sales, representing 38.7% of total net sales, bond funds recorded in \$9.3 billion, or 25.8% of total net sales, specialty funds attracted \$1.4 billion, or 3.8% of total net sales and balanced funds posted in \$1.6 billion, or 4.5% of total net sales. As with mutual funds, money market funds saw strong inflows compared to previous years as investors sought relative safety. The majority of inflows in ETF money market funds went into high interest saving funds, a theme explored in greater detail on page 14 of the report. In 2022, money market funds saw net sales of \$9.8 billion, representing 27.1% of total 2022 net sales.

IFIC's ETF database showing net sales by asset class is limited to data going back to 2018.



Mutual Fund Sales



Gross sales comprise all new fund sales including new money entering the mutual fund industry as well as money moving from one fund company to another.

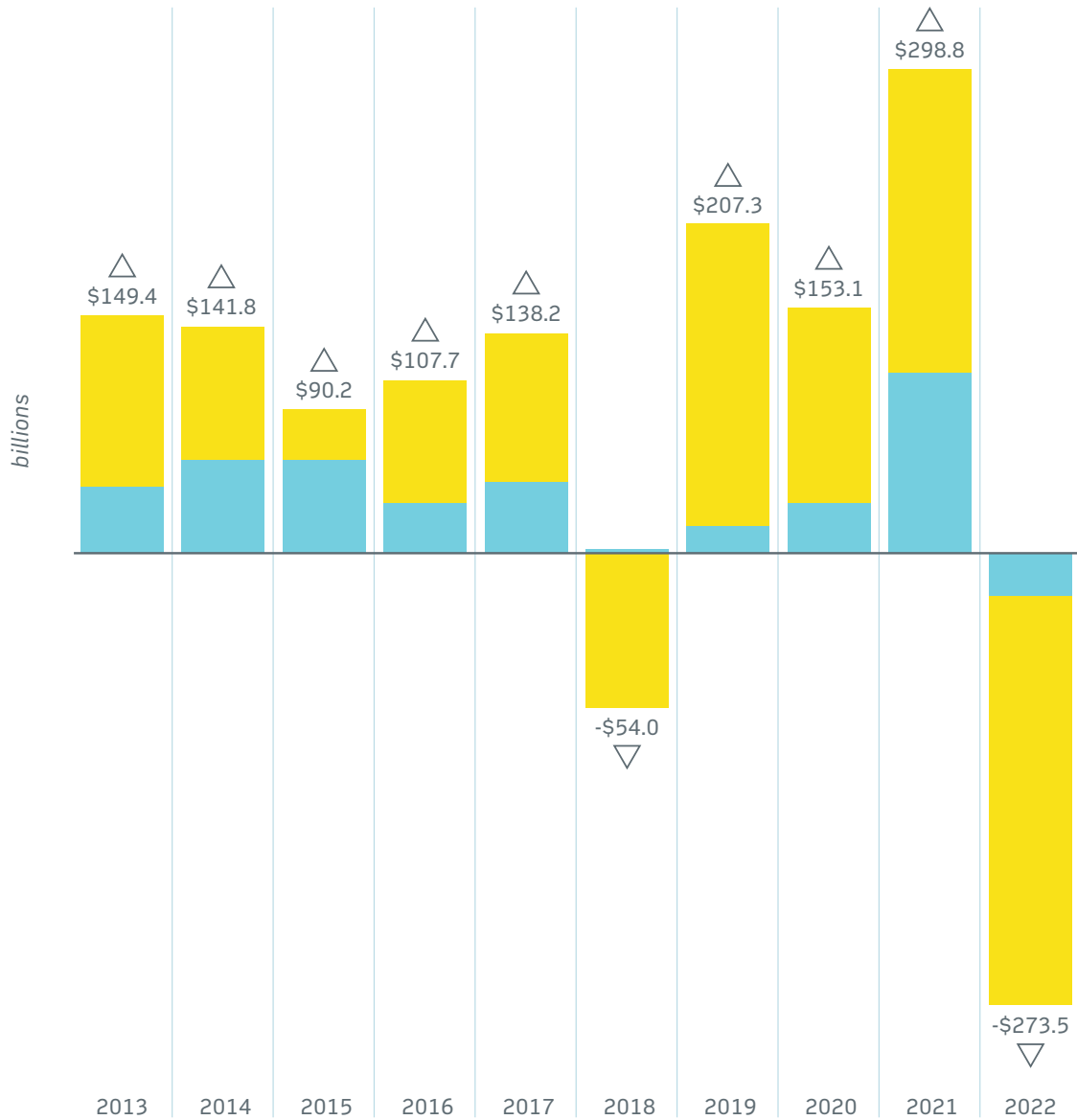
Similarly, gross redemptions reflect money leaving the industry altogether as well as money moving from one fund company to another.

Along with gross redemptions and market effect, gross sales determine the size and direction of industry asset growth.

In 2022, despite overall negative net sales, mutual funds did generate \$286.2 billion in gross sales. While this is far below the record-setting year of 2021, it is roughly in line with the historical trend of ever-increasing gross sales. Gross redemptions totalled \$328.0 billion.

- Gross Sales
- Gross Redemptions
- Net Sales

Mutual Fund Annual Asset Growth: Net Sales vs Market Effect

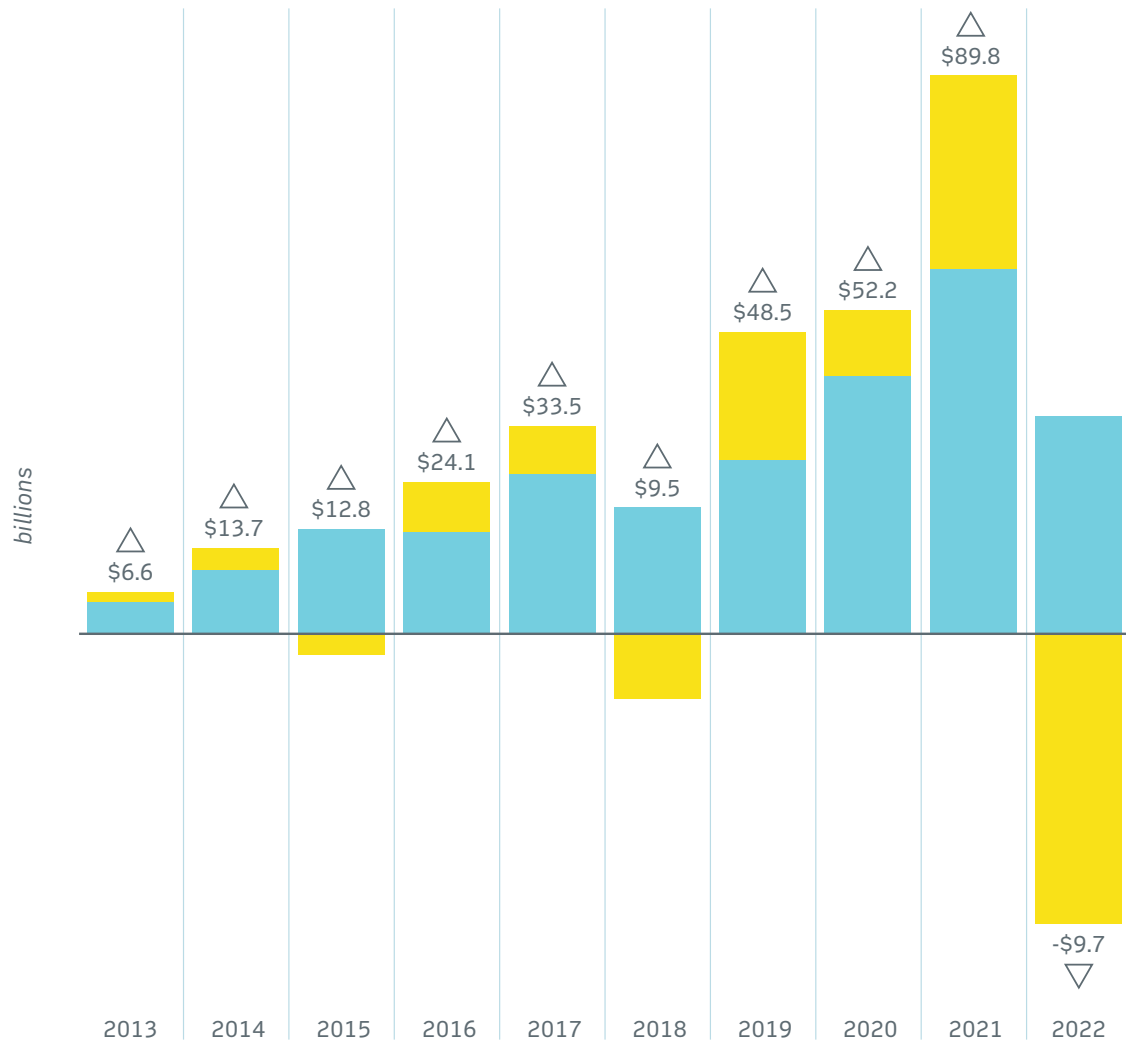


Asset growth in investment funds is affected by two factors, overall sales and the rise and fall of the underlying value of the stocks, bonds and other securities held by the funds. The latter is known as the market effect.

In 2022, assets declined by \$273.5 billion, due to both negative net sales and negative market effect.

- Net Sales
- Market Effect
- △ Annual Change in Net Assets
- ▽ Annual Change in Net Assets

ETF Annual Asset Growth: Net Sales vs Market Effect



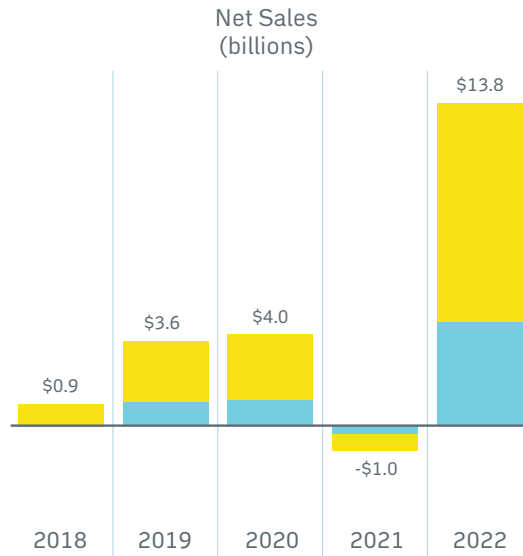
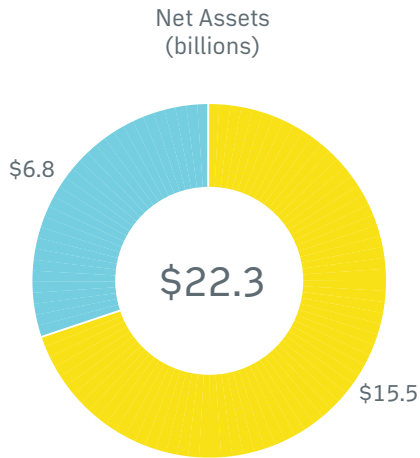
In 2022, ETF assets declined by \$9.7 billion. While sales were positive, assets declined due to the strong influence of a negative market effect. Compared to mutual funds, changes in ETF assets are typically more dependent on sales than market effect because of the smaller relative asset base. However, 2022 was the first year on record where the change in assets was driven primarily by market effect.

The annual change in assets for 2022 used adjusted 2021 year-end figures (with double-counting removed) in order to reflect the accurate impact of market effect.

- Net Sales
- Market Effect
- △ Annual Change in Net Assets
- ▽ Annual Change in Net Assets

High Interest Savings Funds

December 2022



Manufacturers

5

5

Funds

7

9

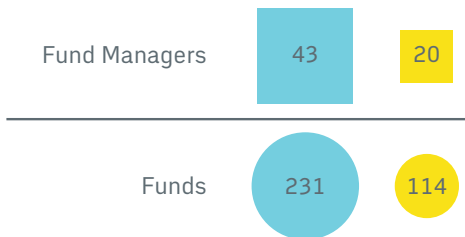
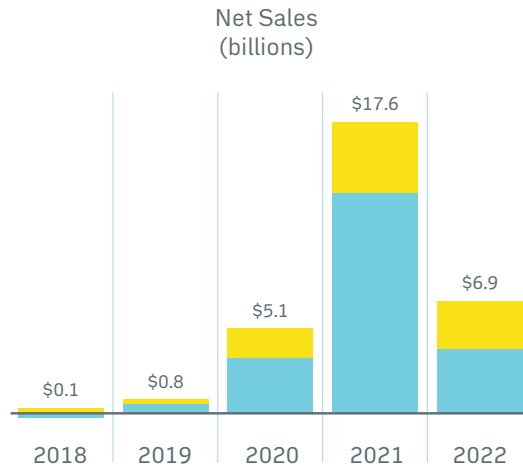
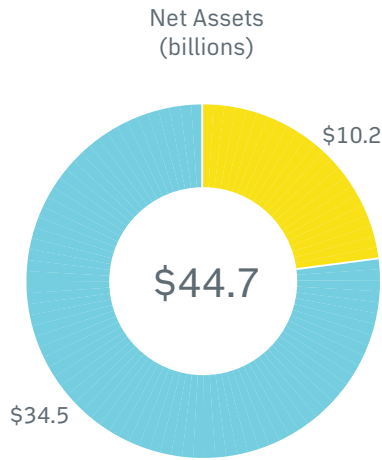
At the end of 2022, there was a total of \$6.8 billion in high interest savings mutual funds and \$15.5 billion in high interest savings ETFs. The underlying investments of these funds are high interest deposit accounts at major Canadian financial institutions. As the Bank of Canada has raised rates throughout 2022, the yields of these funds have similarly risen. In 2022, sales into high interest saving funds accounted for 64.4% of all money market mutual fund sales and 94.6% of all money market ETF sales. More than half the assets in both high interest mutual funds and high interest ETFs has been amassed in the last year alone.

■ Mutual Funds
■ ETFs

Combined mutual fund and ETF asset and sales totals do not remove potential cross-product double-counting.

Responsible Investment Funds

December 2022



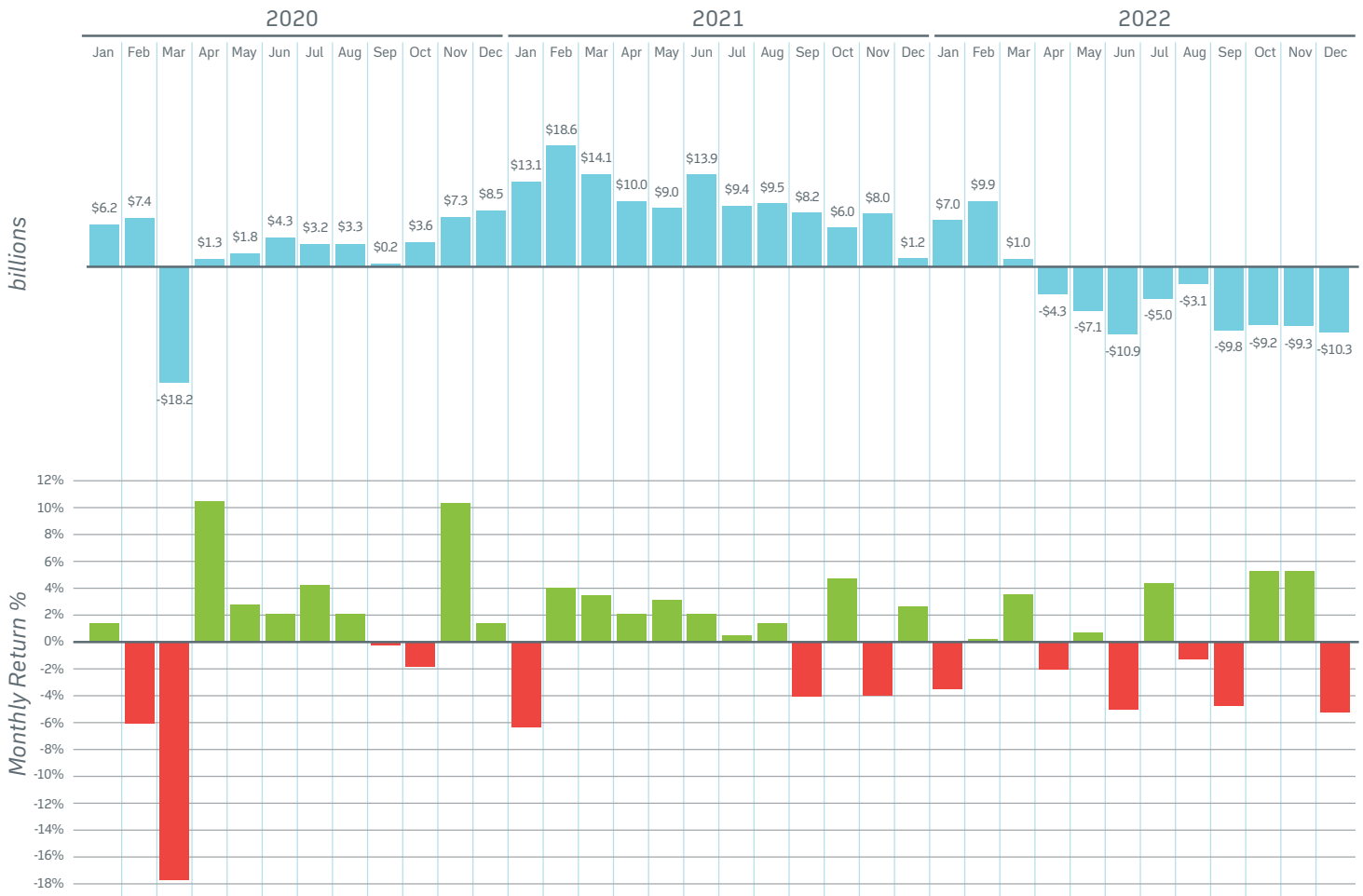
At the end of 2022, there was a total of \$34.5 billion in responsible investment (RI) mutual fund assets and \$10.2 billion in RI ETF assets. This represents 1.9% of total mutual fund assets and 3.2% of total ETF assets, respectively. Despite the small relative amount of mutual fund and ETF assets, there has been a notable increase in RI net sales over last three years. In 2022, RI mutual funds were one of the few areas of growth in the mutual fund industry. Overall, mutual fund net sales totalled \$3.9 billion and ETF net sales totalled \$2.9 billion.

■ Mutual Funds
■ ETFs

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. In future years, IFIC will use the RI Framework developed by the Canadian Investment Funds Standards Committee to identify RI funds.

Combined mutual fund and ETF asset and sales totals do not remove potential cross-product double-counting.

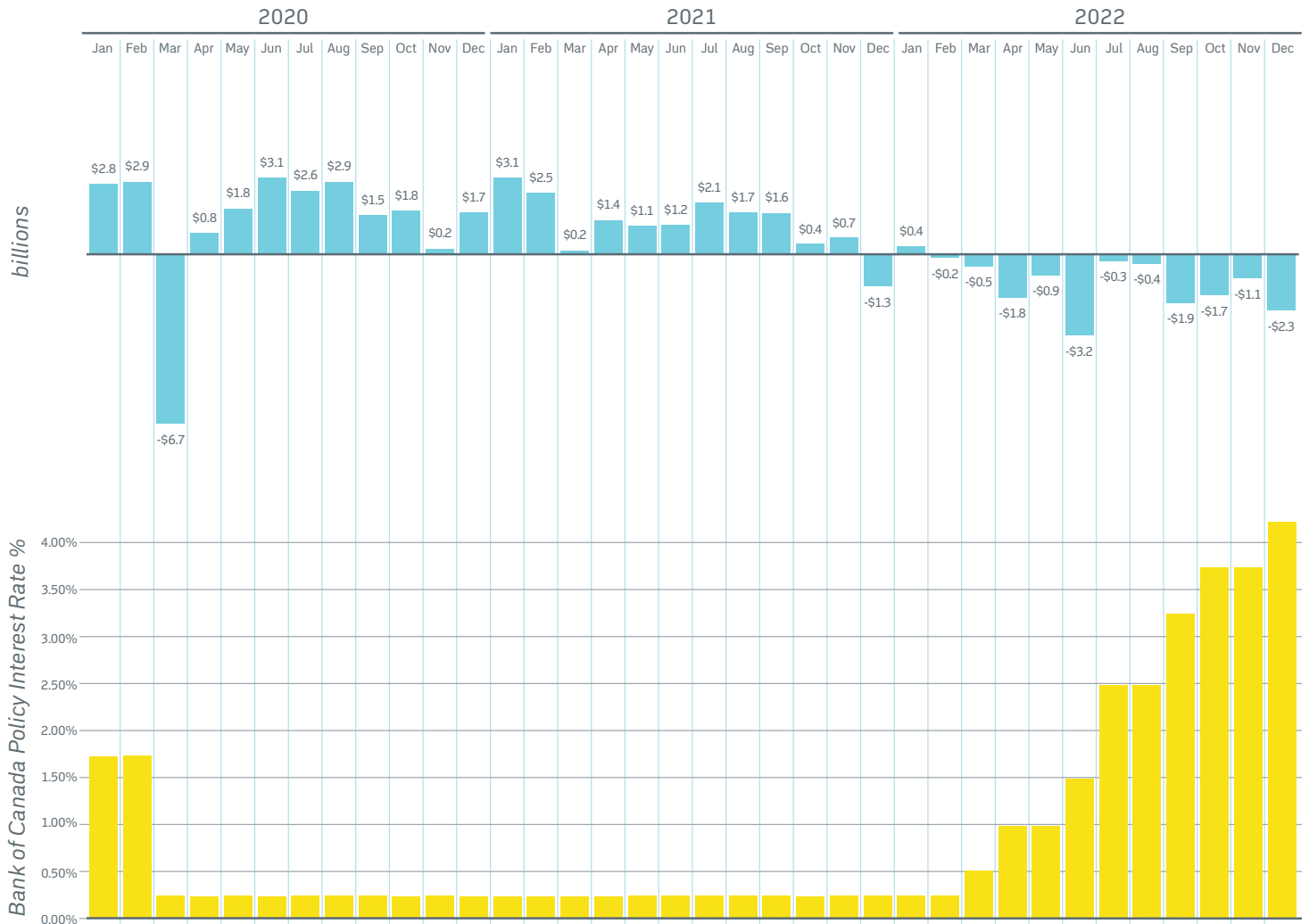
Monthly Net Sales into Long-term Mutual Funds vs. S&P TSX Composite Monthly Returns (%)



Source: IFIC and TSX.

Sales of long-term funds are related to the rise and fall of stock prices. For example, the S&P TSX Composite Index fell by 8.7% in 2022 and rose by 21.7% in 2021. Reflecting this trend over the same time period, long-term mutual fund sales experienced net outflows of \$51.1 billion in 2022 and net inflows of \$121.0 billion in 2021. Throughout 2022, there were 6 months where the net return of the S&P/TSX Composite was negative.

Monthly Net Sales into Bond Mutual Funds vs. Bank of Canada Policy Interest Rate



Source: IFIC and Bank of Canada.

Low interest rates generally benefit sales of bond funds as investors search for yield. As the Bank of Canada began dramatically raising interest rates in 2022 in an attempt to control inflation, bond prices fell resulting in net redemptions of bond funds. It is interesting to observe that net redemptions began in February, one month ahead of the first policy rate increase, likely the result of the market anticipating the hike. In 2022, bond mutual funds saw \$13.8 billion in net redemptions as the Bank of Canada raised its key interest rate 7 times over the course of the year from 0.25% to 4.25%.

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.

ETF data: Data for ETFs that invest in other ETFs has been adjusted to remove double-counting starting with December 2021 data. 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.

Disclaimer: IFIC makes every effort to verify the accuracy and completeness of the information; however, IFIC does not guarantee, warrant, represent or undertake that the information provided is correct or accurate.

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