

## **A Post-Implementation Review of The Impacts of The CRM2 Annual Costs and Performance Reports on Investment Fund Fees<sup>1</sup>**

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<sup>1</sup> This report has benefited greatly from comments from internal and external peer reviewers. They include reviewers from The Investment Funds Institute of Canada (IFIC) and ISS MI Investor Economics. Any remaining errors of fact or interpretation are the sole responsibility of the authors.

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## **1. Introduction and a Summary of Research Findings**

### **1.1 Purpose and Background of Research**

Policy evaluation is crucial in the policy development cycle because it allows regulators to understand whether a newly introduced policy has been implemented as intended and is having the desired impacts and outcomes.

The purpose of this research is to examine the post implementation impacts of the final phase of the Client Relationship Model (CRM2) amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (herein after the CRM2 annual costs and performance reports) on industry behaviour.

The final amendments, which came into effect on July 15, 2016, were designed to ensure investors receive clear and complete disclosure of the performance of their investments and all fees associated with their accounts, including registrant compensation, on an annual basis.

With increased transparency of fees and performance in the CRM2 annual costs and performance reports, we expect that investors have paid closer attention to the total cost of investing and the services received over time. We hypothesize that this increase in cost and performance awareness has led to more competitive product pricing (e.g., investment fund managers may lower fees on existing mutual fund series/classes) with knock on effects for risk-adjusted performance.

To test our hypothesis, we undertook a study to examine whether greater transparency about investment cost and performance has led to changes in mutual fund and exchange-traded fund (ETF) fees<sup>2</sup>, product creation, and product distribution. In particular, we asked:

1. Have investment fund managers (IFMs) lowered fees, specifically the management expense ratio (MER) and management fee, and what is the extent of these changes?
2. Have product manufacturers and product distributors been shifting to products that are not captured by the new account costs and performance disclosures, and
3. What have been the changes in product creation and distribution trends?

An accompanying research report entitled *A Post-Implementation Review of the Impacts of the CRM2 Annual Costs and Performance Reports on Investment Fund Performance* provides insights into whether IFMs have improved the risk-adjusted performance of their products as a result of the CRM2 annual costs and performance reports. The performance research tests our hypothesis that greater transparency of fees and performance has led to an increased demand from both investors and their advisers for funds with better risk-adjusted performance.

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<sup>2</sup> Our study is focused on MER and management fees because the MER is an ongoing cost levied annually, and the components of the MER are relatively consistent across asset classes for the same (mutual fund) series type.

Research suggests that we should anticipate this outcome as a corollary of any reduction in fund fees.<sup>3</sup>

This fees report is focused on mutual funds and ETFs, but where appropriate other types of investment products, such as segregated funds, are also examined.<sup>4</sup>

Our fees analysis examines changes in MERs and management fees for the following mutual fund/ETF [fund characteristics](#):

- asset class
- fund product type (mutual funds only)
- fund investing strategy
- IFM firm type
- series/class type (mutual funds only).<sup>5</sup>

We focused our analysis on these fund characteristics as there is a large body of research conducted by academics, industry, and regulators showing that these characteristics are significant in influencing fund expenses.

The study period covers January 2013 to December 2020. This time period begins about 18 months before the first set of CRM2 amendments came into effect on July 15, 2014 (cost disclosures related to pre-trade disclosure of charges, and trade confirmation for debt securities). The 2013 start date gives us a baseline of the investment fund industry before the first set of CRM2 amendments were implemented. We hypothesize that the changes we are seeking to measure took place several years after the CRM2 annual costs and performance reports are fully implemented. In light of this, the study timeline extends to 2020 to account for this time lag, enabling us to more fully observe the extent of any changes. Our analysis groups the findings into three time periods: 2013 to 2020, which is the overall duration of our study period, the pre-implementation period of 2013 to 2016 and the post-implementation period of 2017 to 2020.

## **1.2 Summary of Research Findings**

### **1.2.1 Main Findings**

*The findings presented in this report are the views of CSA staff and are for informational purposes only. As such, statements made in the report do not represent the CSA's views of any official policy position.*

Our findings provide important directional trends, i.e., correlation rather than cause and effect outcomes. As such, we caution readers from drawing conclusions that

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<sup>3</sup> Russel Kinnel, "How expense ratios and star ratings predict success", Morningstar FundInvestor, August 2010, online: <https://www.morningstar.com/articles/347327/how-expense-ratios-and-star-ratings-predict-success>

<sup>4</sup> We analyze trends in segregated funds as part of our examination of whether product manufacturers and product distributors are shifting to products not subject to the CRM2 annual costs and performance reports requirements.

<sup>5</sup> Details of these fund characteristics, and the study's overall research design and fees methodology, can be found in [Appendix A](#) of the report.

the changes presented in this report were caused by the CRM2 annual costs and performance reports.

It is possible that other factors, which we could not practically account for in our analysis, also contributed to the changes we are highlighting.

These factors include: advertising by firms competing on fees; local and national news stories focused on fees, cost effective investments, and the best interest discussion in Canada; increasing investor interest in passive investment funds and online advisers; and improvements in market conditions.

Keeping these limitations in mind, our research found that after the introduction of the CRM2 requirements:

- MERs and management fees decreased, for both mutual funds and ETFs in our study sample<sup>6</sup>
- there is no evidence that IFMs and product distributors have been shifting to products not subject to the CRM2 requirements
- there were market shifting changes in product creation and distribution. Most notable were the growth of the ETF market and actively managed and strategic beta ETFs, growth in fee-based mutual fund series, and the emergence of online advisers.

These findings suggest that industry behaviour, overall, has been shifting in directions that are congruent with our hypothesis on the impact of the CRM2 regulations, and help provide evidence that disclosure-based regulations may be an effective tool in changing industry and investor behaviour.

We further discuss the three generalized findings for each of our research questions by the study's three time periods, in the latter half of this section of the report. Sections 4, 5, and 6 of the report break down our research findings in greater detail, specifically by investment fund type, fund characteristics, and time periods.

### **1.2.2 Summary of Research Findings by Research Questions**

This section of the report further discusses the three generalized findings for each of our research questions by the study's three time periods.

**Research question 1: Have investment fund managers (IFMs) lowered fees, specifically MERs and management fees, and what are the extent of these changes?**

*There were declines in the asset-weighted average MERs and management fees, for both mutual funds and ETFs, during our study period, and the extent of these changes varied by investment fund type and fund characteristics.*

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<sup>6</sup> Since our mutual fund and ETF study samples do not include the entire universe of funds, this finding is only relevant for our study samples and should not be extrapolated to the larger mutual fund and ETF universe.

## **Mutual Funds**

### *i) 2013-2020 Findings*

Overall, the asset-weighted average MER declined by 38 basis points (or 19%) over 2013-2020 for our study sample, and between 13 and 49 basis points, or between 6% and 30%, across the main fund characteristics examined.<sup>7</sup> The size of the asset-weighted average management fee declines was smaller, at 29 basis points for the overall study sample and ranged from 6 to 39 basis points across the main fund characteristics, or between 4% and 32%.

### *ii) Pre-implementation (2013-2016) and Post-implementation (2017-2020) Findings*

Changes in the asset-weighted average MERs and management fees were generally greater during the post-implementation period than the pre-implementation period. Declines in the asset-weighted average MERs and management fees across the fund characteristics examined ranged from 3 to 19 basis points, or 2% to 15%, for both time periods.

Both shifts in the distribution of assets towards mutual fund series with lower fees, and reductions in series' MERs and management fee rates, contributed to lowering the asset-weighted average MERs and management fees.<sup>8</sup>

However, shifts in the distribution of assets had a larger effect than reductions in MER/management fee rates in lowering the aggregate asset-weighted average MERs/management fees for both time periods.

## **ETFs**

### *i) 2013-2020 Findings*

ETFs, compared to mutual funds, had smaller declines in their asset-weighted average MERs and management fees during our study period. This finding was anticipated since the MERs and management fees for most ETFs started from a lower baseline level. This is primarily because the majority of ETF assets are invested in funds that employ a passively managed investing strategy.

By the end of our study period in 2020, the asset-weighted average MER for our study sample had declined by 8 basis points (or 21%) from 2013 levels, and between 6 and 11 basis points or between 12% and 34%, depending on the fund characteristic examined. The decrease in the overall asset-weighted average management fee was 7 basis points (22%) between 2013 and 2020. Across the

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<sup>7</sup> Analysis in the body of the report focuses on fund characteristics that account for the majority of mutual fund and ETF assets.

<sup>8</sup> Not all series saw a decline in their asset shares during our study period. In general, the decline in asset share was seen in series with a wide range of MER/management fee rates. On average, asset shares of series with lower MER/management fee rates, however, grew more than asset shares of series with higher MER/management fee rates, and this contributed to lowering the asset-weighted average fees.

main fund characteristics, the declines in asset-weighted averages ranged from 3 to 10 basis points, or 5% to 34%.

*ii) Pre-implementation (2013-2016) and Post-implementation (2017-2020) Findings*

Changes in the asset-weighted average MERs and management fees during both the pre- and post-implementation periods ranged from +1 to -8 basis points or +1% to -19% across the fund characteristics examined. There were no strong directional trends in the asset-weighted average MER/management fee declines by fund characteristics. Both changes in the distribution of assets and reductions in MERs and management fee rates had a broadly similar contribution to lowering the asset-weighted average fees, in both the pre- and post- implementation periods.<sup>9</sup>

**Research question 2: Have product manufacturers and product distributors been shifting to products that are not captured by the new account costs and performance disclosures?**

*Our analysis of Canadian household discretionary financial assets did not show a trend of discretionary financial assets moving towards products not captured by the CRM2 annual costs and performance report requirements.*

Between 2013 and 2020, the share of discretionary financial assets held in deposits remained stable at 27%. Meanwhile, the share of assets in non-investment fund securities increased slightly, from 25% to 26%, and the share of assets in investment funds increased from 28% to 32%. For investment funds, the 4 percentage point share increase was the result of growing market shares for mutual funds and ETFs.

**Research question 3: What have been the changes in product creation and distribution trends, generally?**

*Five notable changes in product creation and distribution occurred during our study period. Unless otherwise noted, the findings and figures discussed below are for the overall industry and are not only for our study sample.*

*i. Increasing Popularity of Fund-of-Funds Products*

The continued popularity of fund wrap programs contributed to a rise in the number of fund-of-funds products, for both mutual funds and ETFs; and, this was evident in the shift of assets away from stand-alone funds to fund-of-funds products. In 2013, 26% of mutual fund assets were in fund-of-funds products and by 2020 this figure had increased to 37%. One of the largest ETF manufacturers introduced

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<sup>9</sup> Ibid.

ETF-of-ETFs products in early 2018. By December 2020, ETF-of-ETFs products accounted for \$6 billion or 2% of the total industry ETF assets.

*ii. Growth of the ETF Market, and Actively Managed and Strategic/Smart Beta ETFs*

Growth of the ETF market was evident during our study period, and the growth rate for ETFs substantially surpassed the growth rate for mutual funds. Between 2013 and 2020, the annual growth in the number of ETFs was 17% while it was 2% for mutual funds.

Within ETF creation, one of the most significant changes that occurred during our study period was the rise of actively managed and strategic beta ETFs.<sup>10</sup> Near the start of our study period, actively managed and strategic beta ETFs accounted for 23% and 17% of the number of ETFs according to data from Investor Economics. By December 2020, their respective share rose to 43% and 21%. The rise in the number of strategic beta ETFs did not lead to a corresponding rise in ETF assets in that category of fund. In contrast, the share of ETF assets in actively managed ETFs increased from 9% at the start of our study period, to 24% by the end of our study period.

*iii. Continued Growth in Fee-Based Mutual Fund Series*

Within the mutual fund market, the shift from commission-based to fee-based series was pronounced during our study period. Between 2013 and 2020, the number of fee-based series increased by 186%, from 2,592 to 7,404. In comparison, the number of commission-based "A-series", which is the "core" mutual fund series, increased by 103% from 2,887, in 2013, to 5,880, in 2020.

Looking at our study sample, we found that 6% of mutual fund assets were in fee-based series at the start of our study period in 2013. This figure increased to 27% by the end of our study period in 2020. The growth and shift of assets into fee-based series corresponded with declining assets in commission-based A-series. In 2013, 75% of our study sample assets were in A-series and by 2020 this figure had declined to 58%.

*iv. Rise of Funds with an ESG Mandate*

A product creation trend that occurred towards the end of our study period was the rise of and demand for funds with an environmental, social, and governance (ESG) mandate. There were 49 mutual funds with an ESG mandate in 2013 and these

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<sup>10</sup> Strategic beta ETFs are funds that apply rules to a basket of securities (often represented by an index) to target companies that demonstrate specific "factors" such as value, momentum, or growth. Strategic beta ETFs are also known by other names such as smart beta or alternative beta. There is no universally accepted view as to whether strategic beta ETFs are passively managed investment funds or actively managed investment funds. For the purpose of our research, we have classified strategic beta ETFs as passively managed funds because they focus on a specific basket of securities often represented by indices.



funds had assets of \$5.1 billion. By 2020, the number of mutual funds with an ESG mandate almost doubled to 97 funds. The number of ETFs with an ESG mandate grew from 10 in 2018, to 50 by 2020. Despite the significant increase in the number of funds with an ESG mandate, their share of total industry assets is small. In 2020, funds with an ESG mandate accounted for around 1% of total industry assets within the mutual fund and ETF markets, respectively.

#### *v. Rise of Online Advisers*

A new direct to investor/consumer distribution channel emerged in 2014 with the launch of four online advice platforms - Wealthsimple, Wealth Bar, NestWealth, and Questwealth Portfolios. These platforms provide retail investors with access to discretionary asset management services with a substantially lower, if any, account size minimum requirement. These platforms invest client assets primarily in ETFs, and to a lesser extent in mutual funds, other redeemable investment funds, cash and cash equivalents.<sup>11</sup> By the end of 2020, 22 online advisers operated in Canada. These firms had an estimated \$10 billion in assets under management, which is equivalent to about 4% of the industry total assets for ETFs.

## **2 Organization of Research Findings**

Our research findings are organized along the following structure.

[Part 3](#) of the report provides a high-level overview of Canadian household discretionary financial wealth and how this wealth is allocated by investment products. This section of the report discusses whether product manufacturers and distributors are shifting to products not subject to the CRM2 requirements.

[Part 4](#) provides a high-level overview of the investment fund industry in Canada. This section of the report discusses in detail changes in product creation and distribution. Parts 3 and 4 of the report provide useful information to readers that puts the research findings into context and aids readers in their interpretation of the research results.

[Part 5](#) discusses the MER and management fee findings for mutual funds. The results are organized by the [fund characteristics](#) discussed in [Appendix A](#) of the report. A general overview is presented for each fund characteristic before we examine changes in MERs and management fees, before and after the full implementation of the CRM2 annual cost and performance reports.

[Part 6](#) discusses the ETF fee findings. The format of the ETF research results mirrors the format for the mutual fund fees findings.

[Part 7](#) summarizes our research findings by research question and CSA staff's view on whether disclosure-based regulations can shift industry behaviour in the desired policy direction.

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<sup>11</sup> Redeemable investment funds generally allow investors to purchase or redeem securities of mutual funds on demand for a price representing a proportionate interest of the fund's net assets. Mutual funds are the main type of redeemable investment fund.

[Appendix A](#) provides details of the study's research design and the formulas for calculating changes in MERs and management fees.

[Appendix B](#) explains and provides guidance on how to interpret the fees results for each of the effects we examined.

[Appendix C](#) provides supplemental data tables by report sections.

### **3 Overview of Canadian Household Discretionary Financial Assets**

*The purpose of this section of the report is to provide a high-level overview of Canadian household discretionary financial wealth and answer the question of whether product manufacturers and distributors are shifting to investment products not captured by the CRM2 annual costs and performance reports. Another intent of this overview is to provide useful information to readers that will assist them in contextualizing the research findings, interpreting, and understanding the research results.*

#### **a. Canadian Household Discretionary Financial Assets**

Canadian households held an estimated \$4.1 trillion in discretionary financial assets, in 2013.<sup>12</sup> Of this amount, approximately \$1.1 trillion were held in investment funds.<sup>13</sup> Another \$2.1 trillion were held in securities and deposits (\$1.0 billion in securities; \$1.1 trillion in deposits).

By the end of 2020, household discretionary financial assets increased to \$6.5 trillion and, of this amount, \$2.1 trillion were held in investment funds. Equities and deposits each amounted to \$1.7 trillion in discretionary financial assets.

Table 3.1 below compares the asset size and share of discretionary financial assets for each investment product type, at the start and end of our study period. The share of assets held in investment funds increased during our study period while the share of assets in securities and deposits remained broadly stable.

At a high-level, an investment fund is an investment product that pools money from various investors and invests that money collectively through a portfolio of financial instruments, such as stocks and/or bonds, and the portfolio of investments is professionally managed by a fund manager.

For the purposes of our research, we collectively refer to mutual funds and ETFs, which are focus of our analysis, and segregated funds as investment funds.<sup>14</sup> Segregated funds are an insurance product and were not covered by the CRM2

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<sup>12</sup> Investor Economics *Household Balanced Sheet Report*, 2021.

<sup>13</sup> Ibid. Discretionary financial assets exclude assets held in defined benefit pension plans.

<sup>14</sup> The (Ontario) *Securities Act*, R.S.O. 1990, c. S.5 defines an investment fund to mean "a mutual fund or a non-redeemable investment fund" and National Instrument 41-101 defines an ETF to be a mutual fund.

annual costs and performance report requirements. We have looked at trends in the segregated fund market because they are often sold by dually registered/licensed advisers who are permitted to sell mutual funds and insurance products such as segregated funds.<sup>15</sup> Their inclusion enables us to assess whether product manufacturers and distributors were engaging in regulatory arbitrage by shifting to products not captured by the CRM2 annual costs and performance requirements.

**Table 3.1 Estimated Canadian Discretionary Financial Assets, 2013 and 2020**

	Asset Size (\$B)		Share of discretionary financial assets	
	2013	2020	2013	2020
All discretionary financial assets	4,091	6,517	-	-
Investment funds	1,145	2,074	28%	32%
Securities	1,031	1,686	25%	26%
Deposits	1,102	1,742	27%	27%

*Source: Investor Economics Household Balance Sheet 2021. Excludes group segregated funds, closed end funds and alternatives*

#### b. Household Discretionary Financial Assets in Investment Funds

Table 3.2 below compares the amount of financial assets that were in investment funds, and each investment fund type's share of the total investment fund assets and all discretionary financial assets, for 2013 and 2020.<sup>16</sup> Just below one-third (1/3) of all discretionary financial assets were held in investment funds, in both 2013 and 2020.

The most common type of investment fund held was mutual funds, which accounted for 26% of all discretionary financial assets, in 2020. Less widely held investment funds were ETFs and segregated funds. At the end of 2020, 4% of discretionary financial assets were held in ETFs and another 2% were held in segregated funds.

During our study period, the share of assets in ETFs increased by 2 percentage points and the share of assets in mutual funds increased by 4 percentage points. Segregated funds share of total financial assets remained stable (see Table 3.2).

Focusing solely on investment funds, ETFs gained market share during our study period. In 2013, their share of investment funds was 6%. By 2020, ETF market share increased to 12%, thus making it the second most widely held type of

<sup>15</sup> These dually registered/licensed advisers are most prevalent in financial advisory firms overseen by the Mutual Fund Dealer Association (MFDA) until December 31, 2022, and the Canadian Investment Regulatory Organization (CIRO) afterwards. As at 2018, 43% of advisers overseen by the MFDA were dually registered/licensed to sell insurance products, such as segregated funds, and mutual funds, and these advisers administered 21% of all mutual fund assets. See MFDA 2020 Client Research Report.

<sup>16</sup> Analysis excludes U.S. domiciled ETFs. In December 2019, Canadian investors held \$38.8 billion in U.S. listed ETFs. Data source: Investor Economics *ETF and Index Report, Q4 2019*.

investment fund. The market share of mutual funds and segregated funds declined by 4 and 3 percentage points between 2013 and 2020. By the end of our study period, mutual funds accounted for 81% of investment fund assets and segregated funds accounted for another 6%.

**Table 3.2 Estimated Canadian Discretionary Financial Assets Held in Investment Funds**

	Assets (\$B)		Share of Investment Funds (%)		Share of discretionary financial assets (%)	
	2013	2020	2013	2020	2013	2020
All discretionary financial assets	\$4,091	\$6,517	-	-	-	-
Investment funds	\$1,145	\$2,074	-	-	28%	32%
<i>Canadian listed ETFs</i>	\$63	\$257	6%	12%	2%	4%
<i>Seg funds</i>	\$101	\$127	9%	6%	2%	2%
<i>Mutual funds excl. ETFs</i>	\$981	\$1,690	86%	81%	24%	26%

Source: Investor Economics Household Balance Sheet 2021. Excludes group segregated funds, closed end funds and alternatives

*The findings presented in this section of the report suggest that product manufacturers and distributors were not shifting to products not subject to the CRM2 requirements.*

#### **4 Overview of Investment Fund Industry in Canada**

This section of the report provides a high-level overview of the investment fund industry. The focus is on the number funds and assets by investment fund product types, specifically mutual funds, ETFs and (individual) segregated funds. The intent of this section of the report is to provide key background information that readers may need to understand and interpret the research findings. **This section is not intended to provide a detailed overview of the investment fund industry in Canada.** Readers interested in this topic can refer to the [CSA's Mutual Fund Fees Discussion Paper](#) published in December 2012.<sup>17</sup>

##### **a. Assets and Number of Investment Funds by Fund Type**

The graphs below show the number of funds and annual assets for each investment fund type.

During our study period, there was a steady rise in the number of ETFs and ETF assets (refer to Graphs 4.1 and 4.2). The average year-over-year increase in the number of ETFs was 17% during our study period. The average year-over-year increase was much lower for mutual funds and segregated funds, and the increases were 1% and 0.05%, respectively.

The number of segregated funds was not proportionate to its share of investment fund assets. Segregated funds accounted for 38% to 43% of investment funds

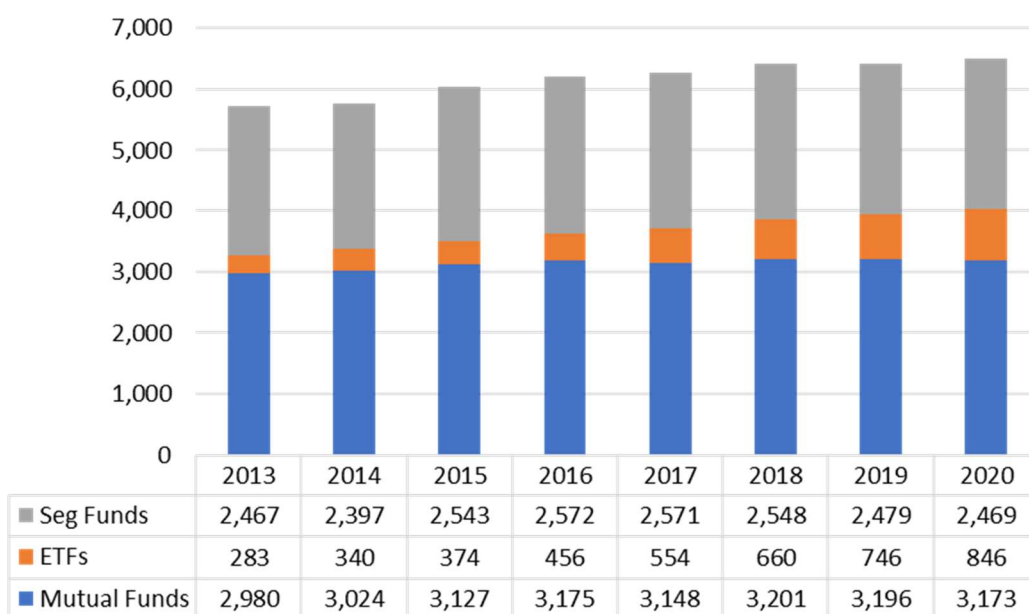
<sup>17</sup> The CSA's Mutual Fund Fees paper is available at: <https://www.securities-administrators.ca/news/canadian-securities-regulators-publish-discussion-paper-on-mutual-fund-fees/>

throughout our study period, but only 6% to 9% of investment fund assets. The average annual growth in the number of funds and assets was 0.05% and 3%, respectively.

The number of mutual funds steadily increased during our study period, but they accounted for a declining share of the number of funds and investment fund assets, due to the rising share of ETFs. The average annual growth in the number of mutual funds and their assets were 1% and 8%, respectively.

The orange bars in Graphs 4.1 and 4.2 visualize the growing number of ETFs and their increasing share of investment fund assets, during our study period.

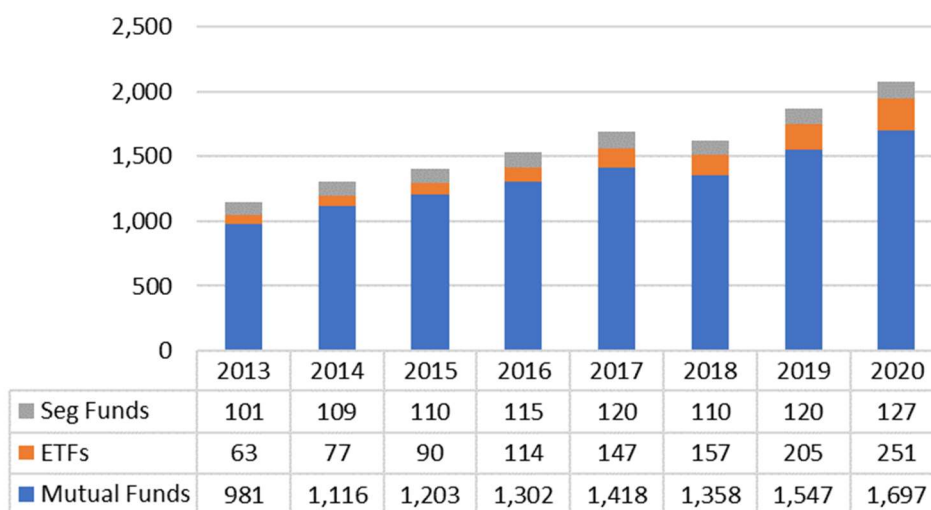
Graph 4.1: Number of Investment Funds by Fund Type, 2013-2020



Source: Investor Economics Insights Report, January 2021 and January 2019; ETF and Index Funds Report Q4 2020, Q4 2016, Q1 2016

\*only includes individual seg funds; Investor Economics Household Balance Sheet Report 2016, 2018, and 2021.

Graph 4.2: Investment Fund Assets (\$billion) by Fund Type, 2013-2020



Source: Investor Economics Insights Report, January 2021 and January 2019; ETF and Index Funds Report Q4 2020, Q4 2016, Q1 2016

\*Only includes individual seg funds; Investor Economics Household Balance Sheet Report 2016, 2018, and 2021.

#### b. Trends in Product Creation and Distribution

Trends in production creation and distribution were (and continues to be) driven by the need to differentiate product offerings and channels of access to investment funds.

The continued popularity of fund wrap programs has contributed to a rise in the number of fund-of-funds products, for both mutual funds and ETFs, and a corresponding rise in their fund assets (refer to Tables 4.1.1 and 4.1.2). The ratio of the number of stand-alone funds to fund-of-funds products remained constant throughout our study period. The share of assets, however, started to shift away from stand-alone funds to fund-of-fund products, as our study period progressed.<sup>18</sup>

The introduction of ETF-of-ETFs products, i.e., ETFs where the underlying portfolio of securities consists of other ETFs, by one of the larger ETF manufacturers occurred early in 2018.<sup>19</sup> By December 2020, ETF-of-ETF products, accounted for \$6 billion or 2% of the total industry ETF assets.<sup>20</sup>

<sup>18</sup> Our analysis of fund-of-funds products found that 75% of them invest in proprietary stand-alone funds, i.e., funds that are sponsored by the same IFM.

<sup>19</sup> This product type is equivalent to a mutual fund fund-of-funds products. Common marketing names for these products are 'ETF portfolios' and 'asset-allocation ETFs'.

<sup>20</sup> Investor Economics Insights Report February 2021.

**Table 4.1.1 Number of Mutual Funds by Product Type (Industry Total and for Long-Term Funds Only)**

Product Type	2013	2014	2015	2016	2017	2018	2019	2020
Stand-alone funds	1,814	1,829	1,843	1,930	1,599	2,468	2,469	2,459
Fund-of-funds	485	495	481	564	501	687	689	678
<b>Total</b>	<b>2,299</b>	<b>2,324</b>	<b>2,324</b>	<b>2,494</b>	<b>2,100</b>	<b>3,155</b>	<b>3,158</b>	<b>3,137</b>
<b>Share of Industry Total</b>								
Stand-alone funds	79%	79%	79%	77%	76%	78%	78%	78%
Fund-of-funds	21%	21%	21%	23%	24%	22%	22%	22%

Source: IFIC; fund count is for December of each year

**Table 4.1.2 Mutual Fund Assets (\$B) and Share of Mutual Fund Assets by Product Type (Industry Total and for Long-Term Funds Only)\***

Product Type	2013	2014	2015	2016	2017	2018	2019	2020
Stand-alone funds	735	811	839	894	966	908	1,040	1,130
Fund-of-funds	264	330	392	445	511	515	591	654
<b>Industry Total</b>	<b>999</b>	<b>1,141</b>	<b>1,231</b>	<b>1,339</b>	<b>1,477</b>	<b>1,423</b>	<b>1,630</b>	<b>1,784</b>
<b>Share of Industry Assets</b>								
Stand-alone funds	74%	71%	68%	67%	65%	64%	64%	63%
Fund-of-funds	26%	29%	32%	33%	35%	36%	36%	37%

Source: IFIC

Another significant trend in the ETF market during our study period was the rise of actively managed and strategic beta ETFs.<sup>21</sup> In March 2014, actively managed and strategic beta ETFs accounted for 23% and 17% of the number of ETFs based on analysis of data from Investor Economics.<sup>22</sup> By December 2020, their respective shares rose to 43% and 21%.<sup>23</sup> The rise in the number of strategic beta ETFs did not lead to a corresponding rise in ETF assets. In contrast, the share of ETF assets in actively managed ETFs increased from 9% at the start of our study period, to 24% by the end of our study period.<sup>24</sup>

A third emerging trend that occurred towards the end of our study period was the rise of and demand for funds with an environmental, social, and governance (ESG) mandate. The number of ESG funds and the assets in these funds steadily increased during our study period, with the greatest year-over-year growth occurring between 2019 and 2020 (refer to Tables 4.1.3 and 4.1.4). By the end of our study period, there were an estimated 97 mutual funds and 50 ETFs with an ESG mandate, and their net assets accounted for 1% of total industry assets within the mutual fund and ETF markets, respectively.<sup>25</sup>

<sup>21</sup> See footnote 10 for a definition of strategic beta ETFs.

<sup>22</sup> The earliest available data are as of March 2014. CSA analysis of data obtained from Investor Economics ETF and Index Reports, Q1 2016, Q4 2019, Q4 2020.

<sup>23</sup> Ibid.

<sup>24</sup> Ibid.

<sup>25</sup> Net assets of long-term funds only, as at December 2020. Net assets for mutual funds include some ETF assets held in fund-of-fund products.

**Table 4.1.3 Estimated Number of Funds, and Net Assets of Funds with an ESG Mandate**

Fund Type	2013	2014	2015	2016	2017	2018	2019	2020
<b>Number of Funds</b>								
Mutual Fund	49	46	46	52	61	67	73	97
ETFs	-	-	-	-	-	10	20	50
<b>Net Assets (\$B)</b>								
Mutual Fund	5.1	6.0	6.8	8.0	9.8	10.1	12.3	17.6
ETFs	-	-	-	-	-	0.1	0.3	2.8

Source: OSC analysis of IFIC data (sourced from fund prospectuses) . Analysis is limited to long-term mutual funds and ETFs. Fund count and fund assets are as at December of each year.

**Table 4.1.4 Estimated Year-over-Year Change in the Number of Funds, and Net Assets of Funds with an ESG Mandate**

Fund Type	13-'14	14-'15	'15-'16	'16-'17	'17-'18	'18-'19	'19-'20*
<b>Number of Funds</b>							
Mutual Fund	-6%	0%	13%	17%	10%	9%	33%
ETFs	-	-	-	-	-	100%	150%
<b>Net Assets (\$B)</b>							
Mutual Fund	17%	13%	18%	23%	3%	22%	43%
ETFs						162%	954%

Source: OSC analysis of IFIC data (sourced from fund prospectuses) . Analysis is limited to long-term mutual funds and ETFs.

A new direct to investor/consumer distribution channel emerged in 2014 with the launch of four online advice platforms - Wealthsimple, Wealth Bar<sup>26</sup>, NestWealth, and Questwealth Portfolios. As noted in CSA Staff Notice 31-342.<sup>27</sup>

Unlike “robo-advisors” in the USA, these online advice platforms *offer hybrid services that utilize an online platform for efficiency, while registered advising representatives (ARs) remain actively involved. These platforms use online questionnaires as the basis for the know-your-client (KYC) information gathering process, but ARs are responsible for determining that sufficient KYC information has been gathered to support investment suitability determinations. Clients’ managed accounts are invested in relatively simple products, including unleveraged exchange traded funds (ETFs), low cost mutual funds or other redeemable investment funds, cash and cash equivalents. Often, model portfolios are created using algorithmic*

<sup>26</sup> Wealth Bar was acquired by CI Investments in 2019 and was re-branded as CI Direct Investing in 2020.

<sup>27</sup> CSA Staff Notice 31-342 *Guidance for Portfolio Managers Regarding Online Advice*. Available at [https://www.osc.ca/sites/default/files/pdfs/irps/csa\\_20150924\\_31-342\\_portfolio-managers-online-advice.pdf](https://www.osc.ca/sites/default/files/pdfs/irps/csa_20150924_31-342_portfolio-managers-online-advice.pdf)



*software although, again, an AR has responsibility for the suitability of each client's investment."*

By the end of 2020, 22 online advisers<sup>28</sup> operated in Canada. These firms had an estimated \$10 billion in AUM.<sup>29</sup>

Another notable trend that emerged during our study period was the shift away from commission-based to fee-based products and/accounts. This was most pronounced in mutual funds, and the growth of fee-based "F-series".<sup>30</sup> In 2013, the number of funds with a F-series accounted for 23% of all mutual funds, and by 2020, this figure rose to 29% (refer to Graph 4.3). The number of F-series surpassed the number of A-series starting in 2017.<sup>31</sup> We hypothesize and have heard anecdotally that the proposed regulations related to embedded commissions in mutual funds and the Client Focused Reforms were important drivers behind this change, as IFMs started creating F-series, in response to a shift in adviser practice models.

The shift in assets can be seen in our study sample. In 2013, 5% of assets were in F-series and, by 2020, this figure had increased to 27%. For the same time periods, the share of total fund assets in A-series decreased from 82% to 58% (refer to Graph 4.4).

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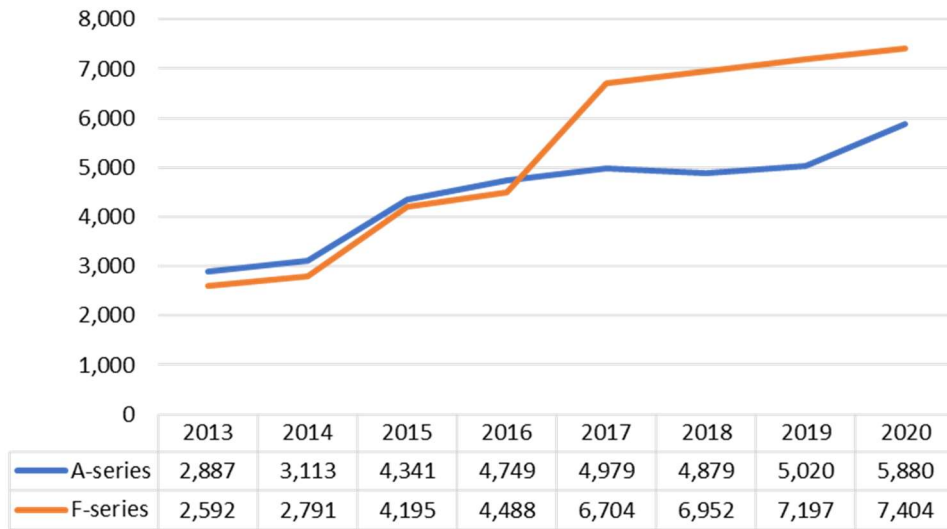
<sup>28</sup> This figure includes investment dealers or mutual fund dealers overseen by the Canadian Investment Regulatory Organization (formerly the MFDA and IIROC) in addition to portfolios managers directly overseen by provincial regulators.

<sup>29</sup> Internal OSC staff analysis.

<sup>30</sup> F-series were developed for fee-based accounts, and they do not include an embedded trailing commission.

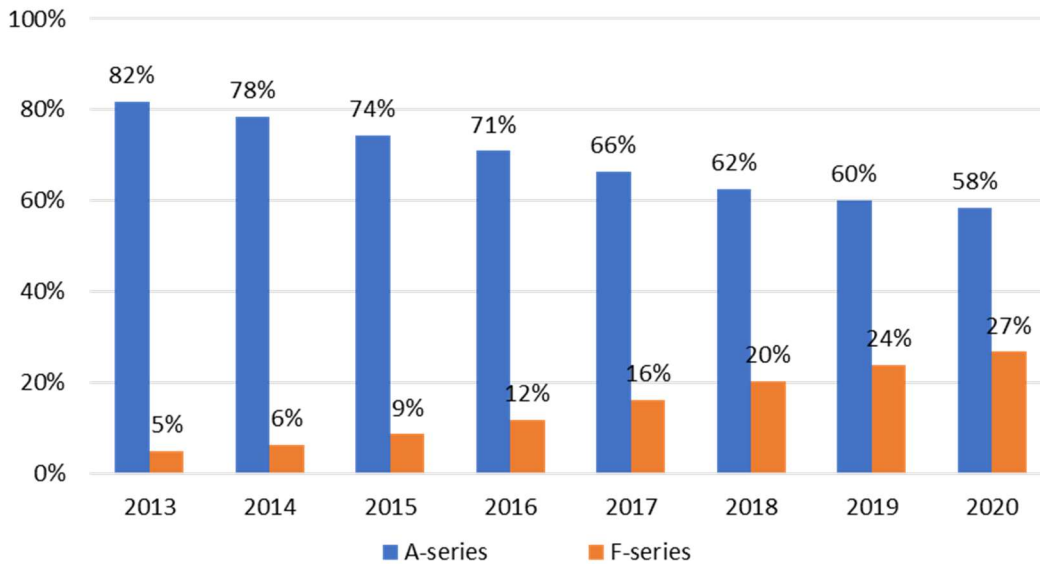
<sup>31</sup> A series are the original/core series that have traditionally populated the mutual fund market, and they include an embedded trailing commission.

Graph 4.3: Number of A-Series and F-Series in Total Mutual Fund Industry



Source: Investor Economics Insights Report, January 2014 to 2022

Graph 4.4: A-Series and F-Series Share of Total Fund Assets in Study Sample, 2013 to 2020



Source: CSA analysis of data obtained from IFMs and Investor Economics

## **5 Mutual Fund Fees Research Findings**

### **5.1 Overview of Mutual Fund Study Sample – Assets, Returns and Fees**

Our analysis of mutual fund MERs and management fees consisted of 2,990 unique mutual funds, at the fund level, and 13,617 series. The total AUM of these funds was \$781 billion in 2020, and these funds accounted for 44% of the total industry AUM of \$1.78 trillion.<sup>32</sup> Table 5.1.1 breaks down the number of funds and their assets, returns, and fees for each year of our study period.

Fund assets steadily increased during our study period, from \$545 billion in 2013 to \$781 billion in 2020. Our study sample accounted for about 50% of total industry assets, on average.<sup>33</sup>

There were no clear overall directional trends in mutual fund returns during our study period. The asset-weighted annualized gross returns were positive for all but one year – 2018 – and returns ranged from -3.84% to 13.28%. While not a focus of our study, the fees and returns findings indicate that investors holding mutual funds, on average, realized positive net returns in 7 of the 8 years of our study period.

The simple average and asset-weighted average MERs and management fees steadily decreased for each year of our study period.

From 2013 to 2019 the simple average MER was lower than the asset-weighted average MER, and this relationship only reversed in 2020. This finding indicates that for seven years of our study, assets were concentrated in series with higher MERs and the asset shift to series with comparatively lower MERs only became evident in the final year of our study period.

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<sup>32</sup> Data from the Investment Fund Institute of Canada (IFIC).

<sup>33</sup> One of the research design objectives of this study was to have a study sample that was as similar as possible to the study sample used in the accompanying research report on investment fund performance (see Appendix A for details). To achieve this outcome, one of the fund selection criteria included in our research design was the requirement that mutual funds and ETFs must have at least 36 months of performance data. This fund selection criteria meant that mutual fund series introduced after 2017 were excluded from our analysis, and this exclusion helps explain why our study sample's share of industry assets and number of ETFs declined as our study period progressed (refer to Table 5.1.1).

**Table 5.1.1 Mutual Fund Assets, Returns, and Fees, 2013-2020**

	2013	2014	2015	2016	2017	2018	2019	2020
<b>Net assets (\$B) of series in study</b>	545	622	632	671	708	699	747	781
<b>Industry assets (\$B)</b>	999	1,141	1,231	1,339	1,477	1,423	1,630	1,784
<b>Share of industry assets (series in study)</b>	55%	54%	51%	50%	48%	49%	46%	44%
<b>Number of funds in study (at the fund level)</b>	2,235	2,344	2,379	2,480	2,442	2,421	2,348	2,254
<b>Number of series in study</b>	7,497	8,382	9,120	10,175	10,549	11,067	10,539	10,011
<b>Number of series - industry total</b>	8,652	9,356	15,175	18,813	20,644	21,232	21,784	22,066
<b>Share of industry total - number of series in study</b>	87%	90%	60%	54%	51%	52%	48%	45%
<b>Asset-weighted annualized gross returns (%)</b>	13.05	8.21	3.08	7.26	7.22	-3.84	13.28	9.45
<b>Simple average MER</b>	1.96	1.93	1.88	1.82	1.77	1.71	1.69	1.69
<b>Asset-weighted average MER</b>	2.06	2.03	1.98	1.93	1.83	1.77	1.70	1.67
<b>Simple management fee</b>	1.49	1.47	1.44	1.40	1.36	1.33	1.32	1.31
<b>Asset-weighted average management fee</b>	1.65	1.64	1.61	1.56	1.48	1.43	1.38	1.36

CSA analysis of data obtained from investment fund managers and third-party data providers. Assets and expense data were obtained from Investor Economics. Gross monthly total returns data were obtained from Morningstar Direct. Assets are as at December. Funds in our study sample exclude institutional fund series.

## **5.2 Changes in the Overall Asset-Weighted Average MERs and Management Fees by Study Period**

This section of the report presents the research findings for all mutual funds, i.e., without grouping the mutual funds into different fund characteristics, for the pre- and post-implementation periods.

The asset-weighted average MER and management fee declined during both the pre- and post-implementation periods (refer to Tables 5.1.1 and 5.2.1). In 2013, the asset-weighted average MER was 206 basis points and by 2016 it had declined by 13 basis points (or 6%), to 193 basis points. In 2017, the asset-weighted

average MER was 183 basis points, and by 2020 it had declined to 167 basis points, which was a 16 basis point (or 9%) decline. This trend was seen in the aggregate and, on average, at the individual fund level.

The asset-weighted average management fee declines were smaller than the MER declines. The pre-implementation decline was 9 basis points (5%), and the post-implementation decline was 13 basis points (8%). This finding was expected since, in general, the management fee accounts for most of an MER.

The negative fund asset-weight effects, for both the asset-weighted average MER and management fee, were larger than the negative price effects during the pre-implementation period (refer to the *Fund Weight (FW) Effect* and *Price Effect* rows in Table 5.2.1). This finding tells us two things. First, both the fund asset-weight and price effects contributed to lowering the asset-weighted fees.<sup>34</sup> Second, the fund asset-weight effect, i.e., changes in the distribution of assets across the different the series in our sample, however had a greater impact than the price effect in driving down the asset-weighted fees during the pre-implementation period. The relative impact between the fund asset weight and price effects in decreasing the asset-weighted average fees was broadly similar during the post-implementation period.

**Table 5.2.1 Changes in AW Avg MERs/Mgmt Fees, All Mutual Funds, Pre- and Post-Implementation Periods**

	AW Avg MERs		AW Avg Mgmt Fees	
	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20
<b>AW Avg MER Chg/Mgmt Fee Chg</b>	<b>-0.13</b>	<b>-0.16</b>	<b>-0.09</b>	<b>-0.13</b>
<b>Fund Weight (FW) Effect</b>	<b>-0.09</b>	<b>-0.12</b>	<b>-0.07</b>	<b>-0.10</b>
of which...				
Sales Effect	-0.11	-0.12	-0.08	-0.10
Returns Effect	0.02	0.00	0.01	0.00
<b>Price Effect</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.01</b>	<b>-0.01</b>
<b>FW + Price Effects</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.01</b>
Share of series with fund weight declines	42%	61%	42%	61%
Share of series with price declines	58%	54%	17%	11%

Fund Weight and Price Effects, and shares of series with fund weight and price declines, are calculated using series where both expense and asset data are available over the specific implementation period. CSA analysis of data obtained from investment fund managers and third-party data providers. Assets and expense data were directly obtained from Investor Economics. Returns data were obtained from Morningstar Direct.

The interaction effect (refer to the *FW+Price Effects* row in Table 5.2.1 also contributed to decreasing the asset-weighted fees. The size of the interaction effect ranged from 1 to 2 basis points.

<sup>34</sup> Unless otherwise noted, all references to asset-weighted fees from this point forward refer to both the asset-weighted average MER and asset-weighted average management fee.

An explanation and interpretation of these effects are provided below, using a subset of the research findings.

We caution readers that the size of the asset-weighted average MER/management fee changes discussed in this section of the report are not equal to the sum of the different fee changes by fund characteristic discussed in the proceeding sections of the report. This is because the asset-weighted averages reported above are calculated using all series in our sample, whereas the averages by fund characteristic discussed below are based on only the subset of series captured by each fund characteristic.

### **Explanation and Interpretation of the Fund Asset Weight Effect**

As noted above, the asset-weighted average MER decreased by 13 and 16 basis points respectively during the pre- and post-implementation periods, and part of the decrease was driven by series with declines in their share of total assets covered by our sample. Specifically, 42% of series during the pre-implementation period and 61% of series during the post-implementation period experienced a decline in their assets and in turn their asset weights.<sup>35</sup> These declines would have lowered the aggregate asset-weighted average MERs by 9 and 12 basis points for the respective time periods if funds kept their fees constant over each period (refer to Table 5.2.1).

The findings pertaining to the share of series with declines in their assets and the size of the fund asset weight effect indicate that the relationship between these two variables is not linear; that is, a large numerical value for one variable does not correlate to a large numerical value for the other. Rather, the primary factor that dictates the size of the fund asset weight effect is the aggregate assets of the series with declines in their share of total assets covered by the sample, while the number of series is a secondary factor. A conclusion that can then be drawn from the MER findings is that larger funds contributed to the negative fund asset weight effect, particularly during the pre-implementation period.

Within the fund asset weight effect, we see that changes in assets arising from sales, in the aggregate, contributed to lowering the asset-weighted average MER and management fee, in both the pre- and post-implementation periods. A negative value for the sales effect does not indicate that in the aggregate there was negative sales for the series in our study sample. Rather, a negative value indicates that a sufficient number of series saw large enough declines in their asset shares due to sales, such that the asset share changes contributed to lowering the overall asset-weighted average MER/management fee.

Conversely, a positive return effect tells us that a sufficient number of series saw their asset shares increase because of asset growth arising from investment

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<sup>35</sup> The fund asset weight effect would be positive for funds that saw an increase in their fund assets, for these two time periods.

returns, such that the asset share changes contributed to increasing the aggregated asset-weighted average MER/management fee.

The purpose of the fund asset weight effect is to understand how changes in distribution of assets across series are contributing to changes in the asset-weighted average fee, while holding MERs/management fees constant. This metric is therefore not suitable for making inferences about whether assets were flowing into funds with lower or higher fees, overall. More appropriate metrics to use are the asset-weighted average MER and management fee findings, in Table 5.1.1, because these metrics consider changes in both a series' assets and MER/management fee rate. The conclusion that can be drawn from the findings in Table 5.1.1 is that assets generally flowed into funds with lower MER/management fee rates, and that MERs and management fees, on average, decreased.

### **Explanation and Interpretation of the Price Effect**

The negative price effects indicate the following necessary and sufficient changes took place for series that operated over the entire given time periods:

- i) a sufficient number of series lowered their MER or management fee rates
- ii) the size of the fee reductions for these series was sufficiently large, and
- iii) these series had sufficiently large assets

such that these three conditions contributed to lowering the aggregated asset-weighted average MER/management fee, for both the pre- and post-implementation periods by the amounts shown in Table 5.2.1.

The relationship between the share of series with declines in their fees and the price effect is not linear. A higher (lower) share of series with declines in their fees does not necessarily equate to a larger (smaller) price effect. The size of the price effect is determined by the interplay between the size of the fee reductions and whether these reductions occurred in series with relatively higher or lower fund asset weights.

Additionally, comparing the share of series with price declines and the corresponding price effect between fee types (and fund characteristics in preceding sections of the report) or time periods is not meaningful due to differences in the sample size and population of series.<sup>36</sup> The only meaningful comparison that can be made for the price effect, across fee type, fund characteristics, and time periods is the size of the price effect and its contribution to the directional change in the aggregated asset-weighted average MER/management fees for the particular fee type, characteristic or time period. The price effect can also be compared to the fund asset weight effect for the same comparative analysis.

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<sup>36</sup> The sample size and population of series varied by fee type, fund characteristics, and time periods; therefore, any comparisons made would not be meaningfully equivalent.

### **Explanation and Interpretation of the Interaction of the Fund Asset Weight and Price Effects (i.e., Interaction Effect)**

The interaction effect is more difficult to interpret than the individual price or fund asset weight effects because it is measuring the impacts of two variable changes at once rather than a single variable change, which is the procedure used to measure the fund asset weight and price effects.

The interaction effect can increase, decrease, or have no impact on the aggregated asset-weighted average MER/management fee. *The size and direction of the interaction effect varied depending on the fund characteristics looked at in our study.*

Two scenarios were responsible for the interaction effects observed in our study, as illustrated in Figure 1 in Appendix B of the report. The first scenario was due to the addition of new series or the deletion of existing series.<sup>37</sup> In general, the addition of new series occurred more often in our sample during the pre-implementation period than the post-implementation period. The second scenario was instances where series had simultaneous changes in their asset weights and MER or management fee rates.<sup>38</sup>

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<sup>37</sup> The interaction effect resulting from the addition or removal of a series will always be positive, all else equal, whereas changes in fees or asset shares for existing series can lead to either positive or negative interaction effects. See Appendix B for more details.

<sup>38</sup> Refer to Figure 1 in Appendix B for different ways changes in a series' asset share and fee affect the interaction effect and the aggregate asset-weighted fee.



### 5.3 Mutual Fund Fees by Broad Asset Class<sup>39</sup>

#### a. Overview of Fund Assets and Fees by Broad Asset Class

The distribution and number of mutual fund assets by broad asset class are shown below in Table 5.3.1. The dominant broad asset classes of funds throughout our study period were balanced funds, with 55% of mutual fund assets in our sample in 2020.<sup>40</sup> The other two dominant broad asset classes of funds were equity and fixed income funds. These funds accounted for 32% and 11% of total fund assets in our sample in 2020. Funds in the money market and other broad asset class categories accounted for the remaining 1% of assets in the final year of our study period. Balanced, equity, and fixed income funds' share of the total assets in our sample remained relatively constant throughout our study period.

**Table 5.3.1 Mutual Fund Assets (\$B) by Broad Asset Class**

Broad Asset Class	2013	2014	2015	2016	2017	2018	2019	2020	No. of Series in Sample
Balanced	278	335	350	375	392	386	420	431	4,655
Equity	200	220	214	224	237	234	238	252	6,890
Fixed Income	59	59	61	65	71	70	81	89	1,692
Money Market	6	5	5	4	4	4	5	5	110
Other	2	3	3	3	4	4	4	3	270
<b>Total</b>	<b>545</b>	<b>622</b>	<b>632</b>	<b>671</b>	<b>708</b>	<b>699</b>	<b>747</b>	<b>781</b>	<b>13,617</b>

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset data were directly obtained from Investor Economics. Broad asset class data developed by the CSA using CIFSC data provided by investment fund managers. The "Other" broad asset class category represents funds that investment in so called alternative/non-traditional assets such as real estate or derivatives products.

The asset-weighted fees for funds of all three dominant broad asset classes steadily declined during our study period (refer to Tables 5.3.2 and 5.3.3).<sup>41</sup> The size of the decline was greater for the asset-weighted average MER than the asset-weighted average management fee. The size of the fee declines varied by asset classes, and it ranged from 32 to 48 basis points (15% to 30%) over 2013-2020 for the

<sup>39</sup> Our broad asset class categorization was developed and based on the Canadian Investment Funds Standards Committee (CIFSC) retail investment fund category definitions. The "other" category captures funds that do not fall into the other four categories, specifically balanced, equity, fixed income, or money market. Funds in the "other" asset class category invest in so called alternative/non-traditional assets such as real estate or derivatives products. The CIFSC methodology document used to inform our development of the broad asset class categories can be found at <https://www.cifsc.org/wp-content/uploads/2019/05/CIFSC-2019-Category-Definitions.pdf>.

<sup>40</sup> Funds categorized by CIFSC as "balanced funds" must invest between 5% and 90% of their non-cash assets in equity securities and between 10% and 95% of their non-cash assets in fixed-income securities. We did not have detailed portfolio holdings for balanced funds to re-categorize them as predominantly equity or fixed income funds.

<sup>41</sup> The asset-weighted average MERs and management fees for money market and other funds can be found in Appendix C.

asset-weighted average MERs, and 24 to 38 basis points (14% to 32%) for the asset-weighted average management fees.

The asset-weighted average MERs and management fees for equity funds were, on average, slightly greater than the fees for balanced funds throughout our study period. Balanced and equity funds had asset-weighted average MERs that were above 200 basis points at the start of our study period, in 2013. The asset-weighted average MERs dropped below 180 basis points by the end of our study period, in 2020. Fixed income funds had the lowest asset-weighted average MERs and management fees of the three dominant asset classes. The cost difference between fixed income funds and equity/balanced funds was 64-78 basis points, for the asset-weighted average MER, and 49-63 basis points, for the asset-weighted average management fee, depending on the year of our study period.

**Table 5.3.2 Asset-Weighted Average MERs by Broad Asset Class, 2013 to 2020**

<b>Broad Asset Class</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Chg '13-'16</b>	<b>Chg '17-'20</b>
Balanced	2.10	2.07	2.03	1.98	1.90	1.85	1.79	1.78	-0.12	-0.12
Equity	2.22	2.17	2.12	2.05	1.94	1.87	1.77	1.74	-0.17	-0.19
Fixed Income	1.46	1.40	1.35	1.28	1.19	1.13	1.06	1.02	-0.18	-0.17

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were directly obtained from Investor Economics.

**Table 5.3.3 Asset-Weighted Average Management Fees by Broad Asset Class, 2013 to 2020**

<b>Broad Asset Class</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Chg '13-'16</b>	<b>Chg '17-'20</b>
Balanced	1.69	1.69	1.65	1.62	1.55	1.50	1.47	1.45	-0.08	-0.10
Equity	1.75	1.73	1.70	1.63	1.55	1.49	1.44	1.41	-0.12	-0.14
Fixed Income	1.20	1.16	1.11	1.04	0.97	0.91	0.85	0.82	-0.16	-0.15

CSA analysis of data obtained from investment fund managers and third party data providers. Asset and expense data were directly obtained from Investor Economics.

## **b. Pre and Post-Implementation Changes in Fees - Balanced, Equity, and Fixed Income Funds**

Declines in the asset-weighted average MERs and management fees were seen for funds of all three dominant broad asset classes, in both the pre- and post-implementation periods (refer to Tables 5.3.4 and 5.3.5). The asset-weighted average MER/management fee declines ranged from 8 to 18 basis points (or 5% to 13%) during the pre-implementation period, and 10 to 19 basis points during the post-implementation period (or 6% to 15%).

During both periods, changes in the distribution of assets across series played a larger role than reductions in MER/management fee rates in driving down the asset-weighted average MERs/management fees. Changes in the distribution of

assets across series arising from sales contributed to lowering the asset-weighted average MERs/management fees. Conversely, changes in the distribution of assets attributable to investment returns had little impact on the asset-weighted average MERs/management fees.

The interaction effect for balanced series was close to zero in both the pre-and post-implementation periods. For equity and fixed income series, the interaction effect was negative. This was mainly attributable to the addition and termination of series over the period.

**Table 5.3.4 Changes in the Asset-Weighted (AW) Average MERs by Select Broad Asset Classes**

	Balanced		Equity		Fixed Income	
	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20
<b>AW Avg MER Chg</b>	<b>-0.12</b>	<b>-0.12</b>	<b>-0.17</b>	<b>-0.19</b>	<b>-0.18</b>	<b>-0.17</b>
<b>Fund Weight (FW) Effect</b>	<b>-0.09</b>	<b>-0.11</b>	<b>-0.11</b>	<b>-0.14</b>	<b>-0.11</b>	<b>-0.08</b>
of which...						
<i>Sales Effect</i>	-0.09	-0.11	-0.11	-0.13	-0.11	-0.07
<i>Returns Effect</i>	0.00	-0.01	0.00	-0.01	0.00	-0.01
<b>Price Effect</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.03</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.04</b>
<b>FW + Price Effects</b>	<b>-0.01</b>	<b>0.00</b>	<b>-0.03</b>	<b>-0.02</b>	<b>-0.04</b>	<b>-0.06</b>
Share of series with fund weight declines	41%	59%	39%	61%	49%	64%
Share of series with price declines	53%	50%	63%	56%	55%	58%

Fund Weight and Price Effects, and shares of series with fund weight and price declines, are calculated using series where both expense and asset data are available over the specific implementation period. CSA analysis of data obtained from investment fund managers and third party data providers. Asset and expense data were obtained from Investor Economics. Returns data were obtained from Morningstar Direct.

**Table 5.3.5 Changes in the Asset-Weighted (AW) Average Management Fees by Select Broad Asset Classes**

	Balanced		Equity		Fixed Income	
	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20
<b>AW Avg Mgmt Fee Chg</b>	<b>-0.08</b>	<b>-0.10</b>	<b>-0.12</b>	<b>-0.14</b>	<b>-0.16</b>	<b>-0.15</b>
<b>Fund Weight (FW) Effect</b>	<b>-0.07</b>	<b>-0.10</b>	<b>-0.09</b>	<b>-0.12</b>	<b>-0.10</b>	<b>-0.06</b>
of which...						
<i>Sales Effect</i>	-0.07	-0.09	-0.08	-0.11	-0.10	-0.06
<i>Returns Effect</i>	0.01	0.00	0.00	-0.01	0.00	-0.01
<b>Price Effect</b>	<b>-0.01</b>	<b>0.00</b>	<b>-0.01</b>	<b>-0.01</b>	<b>-0.03</b>	<b>-0.03</b>
<b>FW + Price Effects</b>	<b>0.00</b>	<b>0.00</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.03</b>	<b>-0.05</b>
Share of series with fund weight declines	41%	59%	39%	61%	49%	64%
Share of series with price declines	18%	10%	17%	9%	21%	20%

Fund Weight and Price Effects, and shares of series with fund weight and price declines, are calculated using series where both expense and asset data are available over the specific implementation period. CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were directly obtained from Investor Economics. Returns data obtained from Morningstar Direct.

## 5.4 Mutual Fund Fees by Series Type<sup>42</sup>

### a. Overview of Fund Assets and Fees by Series Type

The distribution of mutual fund assets by series type is shown below in Table 5.4.1. Each fund has multiple series/classes and the dominant series/class types in our study sample were "Series A" and "Series F" (herein after A-series and F-series). A-series are the original/core series that have traditionally populated the mutual fund market, and they include an embedded trailing commission. F-series were developed for fee-based accounts, and they do not include an embedded trailing commission.<sup>43</sup> A-series and F-series accounted for 82% and 5%, respectively, of our study sample assets at the start of our study period. As our study period progressed, assets in F-series grew while assets in A-series declined. By the end of our study period, F-series accounted for 27% of assets and A-series accounted for 58% of assets in our study sample.

**Table 5.4.1 Mutual Funds Assets (\$B) by Series Type**

Series Type	2013	2014	2015	2016	2017	2018	2019	2020	No. of Series
<b>A</b>	446	488	470	476	470	437	449	455	3,477
<b>ADV</b>	28	30	30	29	28	26	26	22	603
<b>D</b>	10	11	11	12	13	13	15	16	536
<b>F</b>	26	40	54	78	114	142	179	208	4,695
<b>O</b>	24	41	55	64	71	71	68	69	2,638
<b>T</b>	11	12	12	12	11	11	10	9	1,668
<b>Total</b>	<b>545</b>	<b>622</b>	<b>632</b>	<b>671</b>	<b>708</b>	<b>699</b>	<b>747</b>	<b>781</b>	<b>13,617</b>

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were obtained from Investor Economics.

A-series had a higher asset-weighted average MER/management fee than F-series throughout our study period, and the average difference was 110 basis points for the MER and 93 basis points for the management fee (refer to Table 5.4.2).<sup>44</sup> This

<sup>42</sup> Mutual funds can sell series other than Series A and F. Advisor-series include series originally launched as no load products that have been modified to include trailer fee, and series manufactured by bank-affiliated IFMs and primarily sold through third-party advisers and full service brokerage rather than the bank's branch and discount networks. The A and Advisor series typically charge a full trailing commission. Series F are designed for fee-based accounts and they do not include an embedded trailing commission. Series D are designed for the discount brokerage channel and as at June 1, 2022, they can no longer include an embedded trailing commission. Series O are designed for high net worth accounts. In Series O, management fees are reduced compared to the original series of the fund and trailing commissions are negotiable between an investor and their adviser. Series T are designed for investors interested in a tax-efficient cash flow and charge an embedded trailing commission.

<sup>43</sup> In our analysis, series are classified by their main type and will include all sub-types. For example, F-series will include F-HNW and F-T series.

<sup>44</sup> The asset-weighted average fees for the other series types - advisor series, D-series, O-series and T-series can be found in Appendix C.

finding was expected as A-series include an embedded trailing commission while F-series do not.

The asset-weighted average MER and management fee incrementally declined for both series types during our study period. By the end of our study period the asset-weighted average MER for A-series remained above 200 basis points while it fell below 100 basis points for F-series.

**Table 5.4.2 Asset-Weighted Average MERs by Series Type, 2013-2020**

Series Type	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13-'16	Chg '17-'20
<b>A</b>	2.15	2.14	2.12	2.10	2.06	2.06	2.01	2.02	-0.05	-0.04
<b>F</b>	1.09	1.07	1.03	1.00	0.95	0.92	0.91	0.91	-0.10	-0.04

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were directly obtained from Investor Economics.

**Table 5.4.3 Asset-Weighted Average Management Fees by Series Type, 2013-2020**

Series Type	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13-'16	Chg '17-'20
<b>A</b>	1.72	1.73	1.72	1.71	1.68	1.67	1.65	1.66	-0.01	-0.03
<b>F</b>	0.82	0.82	0.79	0.77	0.73	0.72	0.72	0.72	-0.05	-0.01

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset data were obtained from Investor Economics.

## **b. Pre and Post-Implementation Changes in Fees – Series A and Series F Funds**

The asset-weighted average MER and management fee declined for both A-series and F-series during our study period. The declines ranged from 1 to 10 basis points (or 1% to 9%) for the pre-implementation period, and 1 to 4 basis points (or 2% to 4%) for the post-implementation period. The pre-implementation decline was somewhat greater for F-series than A-series, and this relationship was reversed for the post-implementation period (refer to Tables 5.4.4 and 5.4.5).

For A-series, both the price effect and the fund asset weight effect contributed to lowering the asset-weighted average MER/management fee for both the pre- and post-implementation periods. For F-series, declines in MER/management fee rates rather than shifts in assets towards series with lower fees had a slightly larger effect in lowering the asset-weighted average MER/management fee, particularly during post-implementation period.

The interaction effect was generally small for both series during both periods. The negative effect for F-series in the post-implementation period was primarily attributable to the addition and termination of series.

**Table 5.4.4 Changes in the Asset-Weighted (AW) Average MERs by Select Series Type**

	Series A		Series F	
	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20
<b>AW Avg MER Chg</b>	<b>-0.05</b>	<b>-0.04</b>	<b>-0.10</b>	<b>-0.04</b>
<b>Fund Weight (FW) Effect</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.04</b>	<b>0.01</b>
of which...				
<i>Sales Effect</i>	-0.04	-0.03	-0.06	0.01
<i>Returns Effect</i>	0.02	0.00	0.02	0.01
<b>Price Effect</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.05</b>	<b>-0.02</b>
<b>FW + Price Effects</b>	<b>-0.01</b>	<b>-0.01</b>	<b>0.00</b>	<b>-0.03</b>
Share of series with fund weight declines	54%	62%	54%	66%
Share of series with price declines	54%	52%	62%	59%

Fund Weight and Price Effects, and shares of series with fund weight and price declines, are calculated using series where both expense and asset data are available over the specific implementation period. CSA analysis of data obtained from investment fund managers and third party data providers. Asset and expense data were obtained from Investor Economics. Returns data obtained from Morningstar Direct.

**Table 5.4.5 Changes in the Asset-Weighted (AW) Average Management Fees by Select Series Type**

	Series A		Series F	
	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20
<b>AW Avg Mgmt Fee Chg</b>	<b>-0.01</b>	<b>-0.03</b>	<b>-0.05</b>	<b>-0.01</b>
<b>Fund Weight (FW) Effect</b>	<b>0.00</b>	<b>-0.02</b>	<b>-0.03</b>	<b>0.02</b>
of which...				
<i>Sales Effect</i>	-0.02	-0.02	-0.04	0.01
<i>Returns Effect</i>	0.01	0.00	0.01	0.01
<b>Price Effect</b>	<b>-0.01</b>	<b>-0.01</b>	<b>-0.03</b>	<b>-0.01</b>
<b>FW + Price Effects</b>	<b>0.00</b>	<b>0.00</b>	<b>0.01</b>	<b>-0.02</b>
Share of series with fund weight declines	54%	62%	54%	66%
Share of series with price declines	13%	13%	16%	14%

Fund Weight and Price Effects, and shares of series with fund weight and price declines, are calculated using series where both expense and asset data are available over the specific implementation period. CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were directly obtained from Investor Economics. Returns data obtained from Morningstar Direct.

## 5.5 Mutual Fund Fees by Product Type

### a. Overview of Fund Assets and Fees by Product Type

There are four mutual fund product types in our analysis – stand-alone funds and three types of fund-of-funds (FoF). The three types of FoF are: 3rd party FoF, proprietary & 3rd party FoF, and proprietary FoF.<sup>45</sup> Of the four product types, stand-alone funds and proprietary FoF accounted for 61% and 29% of total mutual fund assets, in 2020 (\$477B in stand-alone funds, \$229B in proprietary FoF – refer to Table 5.5.1 below).

During our study period, the share of assets in stand-alone funds declined while the share of assets in proprietary FoF increased. In 2013, stand-alone funds accounted for 73% of total fund assets in our study sample. By 2020, this figure fell to 61%. Conversely, proprietary FoF accounted for 19% and 29% of total fund assets in 2013 and 2020, respectively.

The share of assets in the other two product types remained relatively unchanged during our study period.

**Table 5.5.1 Mutual Fund Assets (\$B) by Product Type**

Product Type	2013	2014	2015	2016	2017	2018	2019	2020	No. of Series
3rd Party Fund-of-Funds	8	10	11	12	12	12	12	13	196
Proprietary & 3rd Party Fund-of-Funds	31	38	44	47	52	56	60	60	720
Proprietary Fund-of-Funds	106	131	147	165	177	182	207	229	2,538
Stand-Alone Mutual Funds	400	441	430	447	466	448	467	477	10,163
<b>Total</b>	<b>545</b>	<b>622</b>	<b>632</b>	<b>671</b>	<b>708</b>	<b>699</b>	<b>747</b>	<b>781</b>	<b>13,617</b>

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset data were obtained from Investor Economics and data on a fund's product type from investment fund managers.

The next two tables present the asset-weighted average MERs and management fees for the two dominant product types for each year of our study, and for the pre- and post-implementation periods. The asset-weighted average MERs/management fees for the other product types can be found in Appendix C.

<sup>45</sup> A stand-alone mutual fund invests directly in securities such as stocks and bonds. Proprietary fund-of-funds are a type of mutual fund that invests in funds sponsored by the same IFM. Third party fund-of-funds are a type of mutual fund whereby the holdings are mutual funds managed by a third-party investment fund manager.



**Table 5.5.2 Asset-Weighted Average MERs by Product Type**

Product Type	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13-'16	Chg '17-'20
Proprietary Fund-of-Funds	2.11	2.08	2.04	2.00	1.91	1.84	1.77	1.74	-0.12	-0.17
Stand-Alone Mutual Funds	2.03	2.00	1.94	1.88	1.78	1.71	1.62	1.60	-0.15	-0.18

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were obtained from Investor Economics.

**Table 5.5.3 Asset-Weighted Average Management Fees by Product Type**

Product Type	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13-'16	Chg '17-'20
Proprietary Fund-of-Funds	1.73	1.71	1.68	1.63	1.57	1.51	1.46	1.42	-0.10	-0.15
Stand-Alone Mutual Funds	1.61	1.60	1.56	1.50	1.43	1.37	1.32	1.30	-0.10	-0.13

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were obtained from Investor Economics.

The asset-weighted average MERs/management fees incrementally declined for both product types during our study period (refer to Tables 5.5.2 and 5.5.3). Proprietary FoF had higher asset-weighted average fees than stand-alone funds, and the difference was an average of 12 basis points for the MER and 13 basis points for the management fee. The asset-weighted average MERs for both product types were above 200 basis points at the start of our study and fell below 200 basis points by the end of our study period.

#### **b. Pre and Post-Implementation Changes in Fees, Stand-alone Funds and Proprietary Fund-of-Funds**

Similar sized declines were seen in the asset-weighted average MERs and management fees, for both product types, during the pre- and post-implementation periods (refer to Tables 5.5.4 and 5.5.5). The declines ranged from 10 to 15 basis points (or 6% to 7%) for the pre-implementation period, and 13 to 18 basis points (or 9% to 10%) for the post-implementation period.

The fund asset weight effect had a larger impact than the price effect in lowering the asset-weighted average MERs and management fees, for both time periods.

The negative interaction effects were primarily driven by the introduction and termination of series over implementation periods.

**Table 5.5.4 Changes in the Asset-Weighted (AW) Average MERs by Select Product Type**

	Proprietary Fund-of-Funds		Stand-Alone Mutual Funds	
	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20
<b>AW Avg MER Chg</b>	<b>-0.12</b>	<b>-0.17</b>	<b>-0.15</b>	<b>-0.18</b>
<b>Fund Weight (FW) Effect</b>	<b>-0.09</b>	<b>-0.12</b>	<b>-0.10</b>	<b>-0.14</b>
of which...				
<i>Sales Effect</i>	-0.10	-0.12	-0.12	-0.14
<i>Returns Effect</i>	0.01	0.00	0.02	0.00
<b>Price Effect</b>	<b>-0.01</b>	<b>0.00</b>	<b>-0.03</b>	<b>-0.02</b>
<b>FW + Price Effects</b>	<b>-0.02</b>	<b>-0.04</b>	<b>-0.02</b>	<b>-0.02</b>
Share of series with fund weight declines	47%	59%	40%	61%
Share of series with price declines	51%	50%	61%	56%

Fund Weight and Price Effects, and shares of series with fund weight and price declines, are calculated using series where both expense and asset data are available over the specific implementation period. CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were directly obtained from Investor Economics. Returns data obtained from Morningstar Direct.

**Table 5.5.5 Changes in the Asset-Weighted (AW) Average Management Fees by Select Product Type**

	Proprietary Fund-of-Funds		Stand-Alone Mutual Funds	
	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20
<b>AW Avg Mgmt Fee Chg</b>	<b>-0.10</b>	<b>-0.15</b>	<b>-0.10</b>	<b>-0.13</b>
<b>Fund Weight (FW) Effect</b>	<b>-0.08</b>	<b>-0.11</b>	<b>-0.08</b>	<b>-0.11</b>
of which...				
<i>Sales Effect</i>	-0.09	-0.11	-0.10	-0.11
<i>Returns Effect</i>	0.01	0.00	0.02	0.00
<b>Price Effect</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.01</b>	<b>-0.01</b>
<b>FW + Price Effects</b>	<b>0.00</b>	<b>-0.03</b>	<b>-0.01</b>	<b>-0.01</b>
Share of series with fund weight declines	47%	59%	40%	61%
Share of series with price declines	21%	9%	17%	11%

Fund Weight and Price Effects, and shares of series with fund weight and price declines, are calculated using series where both expense and asset data are available over the specific implementation period. CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were directly obtained from Investor Economics. Returns data obtained from Morningstar Direct.

## 5.6 Mutual Fund Fees by Investing Strategy

### a. Overview of Fund Assets and Fees by Investing Strategy

Actively managed funds dominated the mutual fund landscape and accounted for 99% of the assets in our study sample (refer to Table 5.6.1). The remaining 1% of assets were in passively managed funds. The lack of traction of passively managed mutual funds in Canada is in stark contrast to the trend seen in the ETF market, where passive funds account for most funds, and in peer jurisdictions, where passively managed funds have a greater share of the mutual fund market. For example, in the United States, 24% of mutual fund assets were in passively managed funds in 2020.<sup>46,47</sup>

**Table 5.6.1 Mutual Fund Assets (\$B) by Investing Strategy**

Investing Strategy	2013	2014	2015	2016	2017	2018	2019	2020	No. of Series
Actively Managed Funds	538	613	624	661	696	687	733	769	13,391
Passively Managed Funds	7	8	9	10	12	12	14	11	226
<b>Total</b>	<b>545</b>	<b>622</b>	<b>632</b>	<b>671</b>	<b>708</b>	<b>699</b>	<b>747</b>	<b>781</b>	<b>13,617</b>

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset data and data on a fund's investing strategy were obtained from Investor Economics.

The asset-weighted average MERs and management fees steadily and incrementally declined for both actively and passively managed funds throughout our study period (refer to Tables 5.6.2 and 5.6.3). The asset-weighted average MER was above 200 basis points for actively managed funds at the start of our study period, and by the end of our study period the MER had dropped to 169 basis points. In comparison, the asset-weighted average MER for passively managed funds was already below 100 basis points at the start of our study period.

In spite of the decline in the MERs for actively managed funds, their MERs continued to be around 100 basis points higher than the MERs for passively managed funds for most years of our study period.

The difference in the asset-weighted average management fees for actively and passively managed funds averaged 88 basis points over our study period. The difference was largest in 2014 at 97 basis points and smallest at the end of our study period at 84 basis points.

<sup>46</sup> Peer jurisdictions are those with a mature and sizeable investment fund market.

<sup>47</sup> PWL The Passive vs Active Fund Monitor Spring 2022. Available at <https://www.pwlcapi.com/wp-content/uploads/2022/04/PWL-WP-May-Kerzerho-Passive-Active-Fund-Monitor-2022-1.pdf>

**Table 5.6.2 Asset-Weighted Average MERs by Investing Strategy**

Investing Strategy	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13-'16	Chg '17-'20
Actively Managed Funds	2.07	2.05	2.00	1.95	1.85	1.79	1.71	1.69	-0.13	-0.16
Passively Managed Funds	0.91	0.89	0.87	0.86	0.85	0.84	0.82	0.67	-0.04	-0.18

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were obtained from Investor Economics. Active and passive categorization made at the fund level and applies to all series within a particular fund.

**Table 5.6.3 Asset-Weighted Average Management Fees by Investing Strategy**

Investing Strategy	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13-'16	Chg '17-'20
Actively Managed Funds	1.66	1.65	1.62	1.57	1.50	1.45	1.40	1.37	-0.09	-0.13
Passively Managed Funds	0.70	0.68	0.67	0.67	0.67	0.66	0.62	0.53	-0.04	-0.14

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were obtained from Investor Economics. Active and passive categorizations are made at the fund level and applies to all series within a particular fund.

## **b. Pre and Post-Implementation Changes in Fees, Actively Managed Funds**

In this section of the report, we only analyze changes to the MERs and management fees for actively managed funds. We have excluded passively managed funds from our analysis due to their small sample size.

Declines were seen in the asset-weighted average MER and management fee for actively managed funds in both the pre- and post-implementation periods (refer to Table 5.6.4). The fee declines ranged from 9 to 13 basis points (or 5% to 6%) for the pre-implementation period and 13 to 16 basis points (or 8% to 9%) for the post-implementation period.

The fund asset weight effect had a larger impact than the price effect in reducing the asset-weighted average MERs/management fees during the pre- and post-implementation periods.

Changes in series' assets arising from sales contributed to lowering the asset-weighted fees while investment returns moved fees slightly in the opposite direction.

The key drivers of the negative interaction effects were the addition and termination of series during the implementation periods.

**Table 5.6.4 Changes in the Asset-Weighted (AW) Average MERs and Management Fees for Actively Managed Funds**

	MER		Management Fee	
	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20
<b>AW Avg MER Chg/Mgmt Fee Chg</b>	<b>-0.13</b>	<b>-0.16</b>	<b>-0.09</b>	<b>-0.13</b>
<b>Fund Weight (FW) Effect</b>	<b>-0.09</b>	<b>-0.12</b>	<b>-0.07</b>	<b>-0.10</b>
of which...				
<i>Sales Effect</i>	-0.11	-0.14	-0.08	-0.12
<i>Returns Effect</i>	0.02	0.00	0.01	0.00
<b>Price Effect</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.01</b>	<b>-0.01</b>
<b>FW + Price Effects</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.01</b>
Share of series with fund weight declines	42%	61%	42%	61%
Share of series with price declines	59%	54%	17%	11%

Fund Weight and Price Effects, and shares of series with fund weight and price declines, are calculated using series where both expense and asset data are available over the specific implementation period. CSA analysis of data obtained from investment fund managers and third party data providers. Asset and expense data were obtained from Investor Economics. Returns data obtained from Morningstar Direct. Active categorization made at the fund level and applies to all series within a particular fund.

## 5.7 Mutual Fund Fees by IFM Firm Type

### a. Overview of Fund Assets and Fees by IFM Firm Type

Mutual funds sponsored by bank-affiliated IFMs<sup>48</sup> and independent IFMs dominated our study sample. Funds sponsored by these two groups of IFMs accounted for 93% to 96% of fund assets during our study period (see Table 5.7.1). Funds sponsored by insurer-affiliated IFMs and professional association IFMs accounted for the balance of fund assets.

**Table 5.7.1 Mutual Fund Assets (\$B) by IFM Firm Type**

IFM Firm Type	2013	2014	2015	2016	2017	2018	2019	2020	No. of Series
Association	6	7	7	7	8	7	7	4	53
Bank	236	278	286	304	332	334	366	386	3,556
Independent	285	316	316	331	332	321	329	339	8,717
Insurer	18	21	24	30	35	37	45	51	1,291
<b>Total</b>	<b>545</b>	<b>622</b>	<b>632</b>	<b>671</b>	<b>708</b>	<b>699</b>	<b>747</b>	<b>781</b>	<b>13,617</b>

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset data were obtained from Investor Economics. IFM firm type classification developed by CSA.

The asset-weighted average MER and management fee steadily declined for all IFM firm types throughout our study period (refer to Tables 5.7.2 and 5.7.3). As our

<sup>48</sup> Bank-affiliated IFMs encompasses banks and credit unions.

study period progressed, the differences in the asset-weighted average fees between funds sponsored by different IFM firm types narrowed. At the start of our study period, the difference in the asset-weighted average MER across IFM types was 41 basis points. By the end of our study period the difference had narrowed to 14 basis points. For the asset-weighted average management fee the difference was 20 basis points, at the start of our study period, and 4 basis points by the end of our study period.

Some differences in MERs and management fees between the IFM firm types can reflect differences in underlying characteristics of the funds that make up our sample, such as differences in fee structures, investment objectives, and risk preferences.<sup>49</sup> In addition, MER and management expenses can vary across the different fund companies within a particular IFM type. As a result, we caution readers from drawing conclusions about the relative level of fees between different types of IFM firms.

**Table 5.7.2 Asset-Weighted Average MERs by IFM Firm Type**

IFM Firm Type	2013	2014	2015	2016	2017	2018	2019	2020	Chg. '13-'16	Chg '17-'20
Bank	1.84	1.86	1.85	1.81	1.75	1.69	1.65	1.61	-0.03	-0.13
Independent	2.25	2.19	2.12	2.06	1.93	1.87	1.76	1.76	-0.19	-0.18
Insurer	2.19	2.10	2.00	1.87	1.80	1.76	1.68	1.64	-0.32	-0.17

Average for Association funds not shown because to a small number of series in sample for some years. CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were obtained from Investor Economics.

**Table 5.7.3 Asset-Weighted Average Management Fees by IFM Type**

IFM Firm Type	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13-'16	Chg '17-'20
Bank	1.54	1.57	1.56	1.51	1.46	1.41	1.38	1.35	-0.03	-0.12
Independent	1.74	1.70	1.66	1.60	1.52	1.46	1.41	1.39	-0.13	-0.13
Insurer	1.76	1.73	1.66	1.55	1.41	1.37	1.30	1.27	-0.21	-0.14

Average for Association funds not shown because to a small number of series in sample for some years. CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were obtained from Investor Economics.

## **b. Pre and Post-Implementation Changes in Fees, Bank-Affiliated and Independently Owned IFMs**

Our analysis of changes in fees during the pre- and post-implementation periods is confined to bank and independent mutual funds, given that more than 90% of fund assets are concentrated in funds sponsored by these two groups of IFMs.

<sup>49</sup> For example, F-series funds can have lower MERs than A-series funds because they do not include an embedded commission. However, this does not mean that investors pay less overall for F-series funds compared to an A-series as F-series funds are used by fee-based advisors who will charge an asset management fee on top of the fund cost.

The asset-weighted average MER/management fee declined for funds sponsored by bank-affiliated IFMs and those sponsored by independent IFMs, in both the pre- and post-implementation periods. The fee declines ranged from 3 to 19 basis points (or 2% to 8%) for the pre-implementation period and 13 to 18 basis points (or 8% to 9%) for the post-implementation period.

Both shifts in the distribution of assets towards lower cost series and reductions in MER/management fee rates contributed to lowering the asset-weighted average fees. Shifts in the distribution of assets, however, had a larger effect than reductions in MER/management fee rates in lowering the asset-weighted average MER/management fee, particularly for funds sponsored by independent IFMs (refer to Tables 5.7.4 and 5.7.5).

Similar to the findings for the other fund characteristics, the interaction effects were relatively small and largely attributable to the addition and termination of series.

**Table 5.7.4 Changes in the Asset-Weighted (AW) Average MERs by Select IFM Firm Type**

	Bank		Independent	
	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20
<b>AW Avg MER Chg</b>	<b>-0.03</b>	<b>-0.13</b>	<b>-0.19</b>	<b>-0.18</b>
<b>Fund Weight (FW) Effect</b>	<b>-0.01</b>	<b>-0.11</b>	<b>-0.14</b>	<b>-0.14</b>
of which...				
<i>Sales Effect</i>	-0.03	-0.11	-0.15	-0.13
<i>Returns Effect</i>	0.02	0.00	0.01	-0.01
<b>Price Effect</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.02</b>	<b>-0.01</b>
<b>FW + Price Effects</b>	<b>0.00</b>	<b>-0.01</b>	<b>-0.03</b>	<b>-0.03</b>
Share of series with fund weight declines	43%	54%	41%	62%
Share of series with price declines	59%	55%	58%	52%

Fund Weight and Price Effects, and shares of series with fund weight and price declines, are calculated using series where both expense and asset data are available over the specific implementation period. CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were obtained from Investor Economics. Returns data obtained from Morningstar Direct.

**Table 5.7.5 Changes in the Asset-Weighted (AW) Average Management Fees by Select IFM Firm Type**

	Bank		Independent	
	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20
<b>AW Avg Mgmt Fee Chg</b>	<b>-0.03</b>	<b>-0.12</b>	<b>-0.13</b>	<b>-0.13</b>
<b>Fund Weight (FW) Effect</b>	<b>-0.01</b>	<b>-0.10</b>	<b>-0.11</b>	<b>-0.11</b>
of which...				
<i>Sales Effect</i>	-0.03	-0.10	-0.11	-0.11
<i>Returns Effect</i>	0.02	0.00	0.01	0.00
<b>Price Effect</b>	<b>-0.02</b>	<b>0.00</b>	<b>-0.01</b>	<b>-0.01</b>
<b>FW + Price Effects</b>	<b>0.01</b>	<b>-0.01</b>	<b>-0.02</b>	<b>-0.01</b>
Share of series with fund weight declines	43%	54%	41%	62%
Share of series with price declines	28%	10%	15%	9%

Fund Weight and Price Effects, and shares of series with fund weight and price declines, are calculated using series where both expense and asset data are available over the specific implementation period. CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data from Investor Economics. Returns data obtained from Morningstar Direct.



## 6 ETF Fees Research Findings

### 6.1 Introduction

This section of the report examines how ETF fees changed during our study period. We examine ETF fees for the following three fund characteristics: broad asset class, investing strategy, and IFM firm type. A more detailed explanation of our methodology can be found in [Appendix A](#).

The business model and competitive landscape governing the creation, distribution, and management of ETFs in Canada is materially different from the business model and competitive landscape for mutual funds. These differences are reflected in the ongoing costs of owning these two types of investment funds.

The first key material difference is that Canadian-domiciled ETFs are open to competition from abroad, mainly from US-domiciled ETFs. This competitive pressure and the entry of low-cost ETF providers into Canada, starting around 2011, have contributed to keeping ETF costs down.

A second key difference is that the dominant ETF providers have adopted a business model where they do not pay for distribution, in the form of trailing commission to advisers.<sup>50</sup> The adoption of this pricing model can reduce management fees by upwards of 100 basis points, in comparison to the management fees for mutual funds.

The third key difference is the share of ETFs that employ a passively managed investing strategy. In 2020, 84% of ETF assets and 1% of mutual fund assets in our study were passively managed. Passively managed funds have lower costs than actively managed funds. Passively managed funds, by replicating a basket of holdings that underpin the specific benchmarks they are tracking, avoid the additional research and trading costs that arises for actively managed funds. Actively managed funds can have greater research and trading costs than passively managed funds because of the greater need to adjust portfolio holdings as part of efforts to outperform the funds' specific benchmarks.<sup>51</sup>

These three key differences help explain why ongoing costs for ETFs are lower than those for mutual funds. They also explain why the size of the MER and management fee rate declines for ETFs is smaller than those for mutual funds.

*These structural differences should be kept in mind when interpreting the findings in this section of the report. We also caution readers from comparing the mutual fund findings to the ETF findings by fund characteristics. While ETFs and mutual*

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<sup>50</sup> The three largest ETF providers in Canada do not pay for distribution. These three firms collectively manage 72% of ETF assets as at December 2020. Asset data from Investor Economics' *ETF and Index Funds Report, Fourth Quarter 2020*.

<sup>51</sup> In contrast, the investing objective of passively managed funds is to match the performance of the broad indices/benchmarks the funds are tracking.

*funds are both investment funds, there are enough structural differences between them that an equivalent comparison may not be meaningful.*

## **6.2 Overview of ETF Study Sample – Assets, Returns, and Fees**

Table 6.2.1, below, summarizes the annual assets of the 389 ETFs in our study sample, and their returns and fees, from 2013 to 2020.

At the start of our study period the 389 ETFs in our study had assets of \$54 billion. By the end of our study period, assets had increased by 150% to \$136 billion.<sup>52</sup> In contrast, for the same time period mutual fund assets in our sample increased by 43%. In spite of the increase in ETF assets, the investment fund industry in Canada is still dominated by mutual funds. In December 2020, mutual fund assets accounted for 82% of all investment fund assets (mutual funds, ETFs, segregated funds).<sup>53</sup>

There were no clear overall directional trends in ETF returns during our study period. The asset-weighted annualized gross returns were positive for all but two years – 2015 and 2018 – and returns ranged from -3.25% to 14.92%. While not a focus of our study, the fees and returns findings indicate that investors owning ETFs realized positive net returns, on average, in 6 of the 8 years of our study period.

The simple average and asset-weighted average MERs and management fees steadily decreased for each year of our study period. The simple average MERs and management fees were higher than the asset-weighted average MERs and management fees. This finding indicates that fund assets were concentrated in funds with lower MERs and management fees. In contrast, the simple average MERs and management fees for mutual funds were lower than the asset-weighted average MERs and management fees, indicating that mutual fund assets were concentrated in funds with higher fees.

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<sup>52</sup> As noted, one of the research design objectives of this study was to have a study sample that was as similar as possible to the study sample for the performance study (see Appendix A for details). To achieve this outcome, one of the fund selection criteria included in our research design was the requirement that mutual funds and ETFs must have at least 36 months of performance data. This fund selection criteria meant that ETFs introduced after 2017 were excluded from our analysis, and this exclusion helps explain why our study sample's share of industry assets and number of ETFs declined as our study period progressed (refer to Table 6.2.1).

<sup>53</sup> Individual segregated funds

**Table 6.2.1 ETF Assets, Returns, and Fees, 2013-2020**

	2013	2014	2015	2016	2017	2018	2019	2020
<b>Net assets (\$B) of funds in study</b>	54	64	72	92	112	118	141	136
<b>Industry assets (\$B)</b>	63	77	90	114	147	157	205	257
<b>Share of industry assets (funds in study)</b>	86%	83%	80%	80%	76%	75%	69%	53%
<b>Number of funds in study</b>	175	189	212	247	318	382	389	323
<b>Number of funds - industry total</b>	283	340	374	456	554	659	746	853
<b>Share of industry total - number of fund series in study</b>	62%	56%	57%	54%	57%	58%	52%	38%
<b>Asset-weighted annualized gross returns (%)</b>	8.65	8.94	-0.90	11.48	9.23	-3.25	14.92	9.80
<b>Simple average MER</b>	0.50	0.50	0.50	0.52	0.51	0.52	0.50	0.50
<b>Asset-weighted average MER</b>	0.37	0.36	0.35	0.34	0.33	0.33	0.31	0.29
<b>Simple management fee</b>	0.46	0.45	0.44	0.43	0.43	0.43	0.43	0.43
<b>Asset-weighted average management fee</b>	0.33	0.32	0.31	0.30	0.30	0.29	0.28	0.26

CSA analysis of data obtained from third party data providers. Assets, MER, and management fee obtained from Investor Economics. Gross monthly total returns data were obtained from Morningstar Direct. Industry total assets and number of funds obtained from IFIC.

### **6.3 Changes in The Overall Asset-Weighted Average MERs and Management Fees by Study Periods**

This section of the report presents the research findings for all ETFs, i.e., without grouping the ETFs into different fund characteristics, for the pre- and post-implementation periods.

The asset-weighted average MERs and management fees declined during both the pre- and post-implementation periods (refer to Table 6.3.1). In 2013, the asset-weighted average MER was 37 basis points, and by 2016 it had declined by 3 basis points (or 8%) to 34 basis points. In 2017, the asset-weighted average MER was 33 basis points, and by 2020 it had declined to 29 basis points, which was a 4 basis point (or 12%) decline.

The size of the asset-weighted average management fees declines was similar to the size of the MER declines. In 2013, the asset-weighted average management fee was 33 basis points. By 2016 the asset-weighted average management fee dropped to 30 basis points<sup>54</sup> and stayed at this level in 2017. A further 4 basis points decline (or 13%) was seen by 2020, and the asset-weighted average management fee was 26 basis points in that year.

Shifts in fund assets towards cheaper funds and reductions in the MER/management fee rates, in general, had similar impacts on decreasing the asset-weighted average MER and management fee, for both time periods, while the

<sup>54</sup> This was a decline of 6%.

interaction effect had a muted effect on the size of the overall MER/management fee decline (refer to Table 6.3.1). The interaction effect was close to zero in both study periods.

**Table 6.3.1 Changes in Asset Weighted Average MERs and Management Fees, All ETFs, Pre- and Post-Implementation Periods**

	MERs		Mgmt Fees	
	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20
<b>AW Avg MER/Mgmt Fee Chg</b>	<b>-0.03</b>	<b>-0.04</b>	<b>-0.03</b>	<b>-0.04</b>
<b>Fund Weight (FW) Effect</b>	<b>-0.01</b>	<b>-0.03</b>	<b>-0.01</b>	<b>-0.03</b>
of which...				
Sales Effect	0.00	-0.03	0.00	-0.02
Returns Effect	-0.01	0.00	-0.01	0.00
<b>Price Effect</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.02</b>	<b>-0.01</b>
<b>FW + Price Effects</b>	<b>-0.01</b>	<b>0.00</b>	<b>-0.01</b>	<b>0.00</b>
Share of series with fund weight declines	40%	58%	40%	58%
Share of series with price declines	36%	41%	18%	11%

Fund Weight and Price Effects, and shares of series with fund weight and price declines, are calculated using series where both expense and asset data are available over the specific implementation period. CSA analysis of data obtained from third party data providers. Assets, MER, and management fee data were obtained from Investor Economics. Gross monthly total returns data were obtained from Morningstar Direct. The individual fund weight, price, and interaction effects (i.e., fund weight and price effects) may not sum to the figure shown in the AW Avg MER/Mgmt Fee Change line due to rounding.

## 6.4 ETF Fees by Broad Asset Class

### a. Overview of Fund Assets and Fees by Broad Asset Class

The distribution of ETFs assets by broad asset class is shown below in Table 6.4.1. The dominant asset classes throughout our study period were equity ETFs, which accounted for 63% of ETF assets in 2020, and fixed income ETFs, which accounted for another 34% of ETF assets. The concentration of assets in equity and fixed income funds, and their share of the total assets, remained constant throughout our study period.

**Table 6.4.1 ETF Assets (\$B) by Broad Asset Class**

Broad Asset Class	2013	2014	2015	2016	2017	2018	2019	2020	No. of Funds
Balanced	1	1	1	1	1	1	2	1	9
Equity	33	39	43	56	68	70	83	86	250
Fixed Income	20	23	27	34	42	45	53	47	127
Money Market	0	0	0	0	1	2	3	2	2
Other	0	0	0	0	0	0	0	0	1
<b>Total</b>	<b>54</b>	<b>64</b>	<b>72</b>	<b>92</b>	<b>112</b>	<b>118</b>	<b>141</b>	<b>136</b>	<b>389</b>

CSA analysis of asset and fund classification data obtained from Investor Economics.

The asset-weighted average fees for equity and fixed income ETFs were similar and they steadily declined during our study period (refer to Tables 6.4.2 and 6.4.3). The size of the declines was similar for both the asset-weighted average MERs and management fees, and they ranged from 6 to 9 basis points over 2013-2020.

**Table 6.4.2 Asset Weighted Average MERs for Select Broad Asset Class, 2013 to 2020**

Broad Asset Class	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13- '16	Chg '17- '20
Equity	0.36	0.35	0.34	0.33	0.33	0.33	0.32	0.30	-0.03	-0.03
Fixed Income	0.36	0.37	0.34	0.33	0.32	0.31	0.29	0.28	-0.03	-0.04

CSA analysis of asset and fund classification data obtained from Investor Economics.

**Table 6.4.3 Asset Weighted Average Management Fees for Select Broad Asset Class, 2013 to 2020**

Broad Asset Class	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13- '16	Chg '17- '20
Equity	0.32	0.31	0.31	0.30	0.30	0.30	0.29	0.27	-0.03	-0.03
Fixed Income	0.33	0.31	0.30	0.29	0.30	0.28	0.26	0.25	-0.04	-0.05

CSA analysis of asset and fund classification data obtained from Investor Economics.

## **b. Pre and Post-Implementation Changes in Fees - Equity and Fixed Income ETFs**

The size of the declines in the asset-weighted average MERs and management fee was similar for equity and fixed income ETFs in both the pre- and post-implementation periods, and they ranged from 3 to 5 basis points, or 7% to 17% (refer to Tables 6.4.4 and 6.4.5).

In general, the price effect had a similar impact to the fund asset-weight effect in reducing the asset-weighted average fees.

The interaction effect had a limited impact on changes in the asset-weighted average fees during both the pre- and post-implementation periods.

**Table 6.4.4 Changes in the Asset Weighted (AW) Average MERs for Select Broad Asset Classes**

	Equity		Fixed Income	
	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20
<b>AW Avg MER Chg</b>	<b>-0.03</b>	<b>-0.03</b>	<b>-0.03</b>	<b>-0.04</b>
<b>Fund Weight (FW) Effect</b>	<b>0.00</b>	<b>-0.03</b>	<b>-0.02</b>	<b>-0.03</b>
of which...				
Sales Effect	0.01	-0.02	-0.01	-0.03
Returns Effect	-0.01	0.00	0.00	0.00
<b>Price Effect</b>	<b>-0.02</b>	<b>0.00</b>	<b>-0.01</b>	<b>-0.02</b>
<b>FW + Price Effects</b>	<b>-0.01</b>	<b>0.00</b>	<b>-0.01</b>	<b>0.01</b>
Share of series with fund weight declines	35%	56%	42%	60%
Share of series with price declines	38%	40%	36%	45%

Fund Weight and Price Effects, and shares of series with fund weight and price declines, are calculated using series where both expense and asset data are available over the specific implementation period. CSA analysis of data obtained from third party data providers. Asset, MER, and fund classification data obtained from Investor Economics. Returns data obtained from Morningstar. The individual effects may not add up to the figures shown in the AW Avg MER Chg line due to rounding.

**Table 6.4.5 Changes in the Asset Weighted (AW) Average Management Fees for Select Broad Asset Classes**

	Equity		Fixed Income	
	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20
<b>AW Avg Mgmt Fee Chg</b>	<b>-0.03</b>	<b>-0.03</b>	<b>-0.04</b>	<b>-0.05</b>
<b>Fund Weight (FW) Effect</b>	<b>0.00</b>	<b>-0.03</b>	<b>-0.02</b>	<b>-0.01</b>
of which...				
Sales Effect	0.01	-0.02	-0.02	-0.01
Returns Effect	-0.01	0.00	0.00	0.00
<b>Price Effect</b>	<b>-0.02</b>	<b>0.00</b>	<b>-0.02</b>	<b>-0.03</b>
<b>FW + Price Effects</b>	<b>0.00</b>	<b>0.00</b>	<b>-0.01</b>	<b>0.00</b>
Share of series with fund weight declines	35%	56%	42%	60%
Share of series with price declines	16%	7%	23%	19%

Fund Weight and Price Effects, and shares of series with fund weight and price declines, are calculated using series where both expense and asset data are available over the specific implementation period. CSA analysis of data obtained from third party data providers. Asset, management fee, and fund classification data obtained from Investor Economics. Returns data obtained from Morningstar. The individual effects may not add up to the figures shown in the AW Avg Mgmt Fee Chg line due to rounding.

## 6.5 ETFs Fees by Investing Strategy

### a. Overview of Fund Assets and Fees by Investing Strategy

Passively managed ETFs accounted for the largest share of assets (refer to Table 6.5.1). In 2020, 76% of ETF assets were in traditional passively managed funds<sup>55</sup> and another 9% were in passively managed ETFs that follow a strategic beta<sup>56</sup> strategy. Actively managed funds accounted for the remaining 16% of assets, and assets in these ETFs steadily increased during our study period.

**Table 6.5.1 ETF Assets (\$B) by Investing Strategy**

Investing Strategy	2013	2014	2015	2016	2017	2018	2019	2020	No. of Funds
Active	3	4	6	11	15	19	25	21	115
Passive	46	52	58	71	84	86	101	103	165
Passive - Strategic Beta	6	7	8	10	13	13	15	12	109
Total	54	64	72	92	112	118	141	136	389

CSA analysis of asset and fund classification data obtained from Investor Economics.

The asset-weighted average fees steadily decreased for passively managed and strategic beta ETFs during our study period (refer to Tables 6.5.2 and 6.5.3). Actively managed ETFs and strategic beta ETFs had similar asset-weighted average MERs throughout our study period, and they were 25-32 basis points higher than passively managed ETFs. The asset-weighted average management fee for strategic beta ETFs was higher than the fee for actively managed ETFs for most of our study period, and the difference averaged 2 basis points. The asset-weighted average management fees for passively managed funds were on average 24 basis points lower than the fees for actively managed or strategic beta funds. *The largest differences in the asset-weighted average fees for ETFs were seen for this fund characteristic.*

<sup>55</sup> Traditional passively managed ETFs are generally funds that track financial indices where the indices construction uses a market capitalization weighted methodology.

<sup>56</sup> See footnote 10 for a definition of strategic beta ETFs.

**Table 6.5.2 Asset Weighted Average MERs by Investing Strategy, 2013 to 2020**

Investing Strategy	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13-'16	Chg '17-'20
Active	0.61	0.59	0.56	0.53	0.56	0.55	0.51	0.54	-0.08	-0.02
Passive	0.32	0.31	0.30	0.28	0.26	0.25	0.23	0.21	-0.05	-0.04
Passive - Strategic Beta	0.60	0.58	0.56	0.54	0.53	0.52	0.51	0.49	-0.06	-0.04

CSA analysis of asset and fund classification data obtained from Investor Economics.

**Table 6.5.3 Asset Weighted Average Management Fees by Investing Strategy, 2013 to 2020**

Investing Strategy	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13-'16	Chg '17-'20
Active	0.50	0.49	0.47	0.44	0.47	0.47	0.44	0.48	-0.06	0.01
Passive	0.30	0.27	0.26	0.25	0.24	0.23	0.21	0.19	-0.05	-0.05
Passive - Strategic Beta	0.55	0.54	0.53	0.49	0.48	0.46	0.46	0.44	-0.06	-0.04

CSA analysis of asset and fund classification data obtained from Investor Economics.

### **b. Pre and Post-Implementation Changes in Fees, Passively Managed Funds, Actively Managed Funds, and Strategic Beta Funds**

The pre-implementation decreases in the asset-weighted average MERs and management fees, in general, were greater than the post-implementation decreases for all three investing strategies (refer to Tables 6.5.4 and 6.5.5). The size of the decreases ranged from 5 to 8 basis points (or 9% to 16%) for the pre-implementation period, and 1 to 5 basis points (or 2% to 19%) for the post-implementation period. In general, the fund asset weight effect had a larger impact than the price effect in decreasing the asset-weighted average MERs and management fees, especially for the pre-implementation period.

Even though there was a subset of funds with declines in their MERs, these declines were not sufficiently large enough to shift the aggregated asset-weighted average MERs lower. As a result, the price effects for ETFs by investing strategy were around zero.

In general, the addition and termination of series over the implementation periods, and simultaneous changes in the distribution of assets across funds and to funds' MER/management fee rates, drove the interaction effects across the different investing strategies.



**Table 6.5.4 Changes in the Asset Weighted (AW) Average MERs by Investing Strategy**

	Active		Passive		Passive - Strategic Beta	
	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20
<b>AW Avg MER Chg</b>	<b>-0.08</b>	<b>-0.02</b>	<b>-0.05</b>	<b>-0.04</b>	<b>-0.06</b>	<b>-0.04</b>
<b>Fund Weight (FW) Effect</b>	<b>-0.09</b>	<b>-0.01</b>	<b>-0.01</b>	<b>-0.03</b>	<b>-0.05</b>	<b>-0.01</b>
of which...						
Sales Effect	-0.09	-0.01	0.00	-0.03	-0.05	0.00
Returns Effect	0.00	0.00	-0.01	0.00	0.00	0.00
<b>Price Effect</b>	<b>0.00</b>	<b>-0.01</b>	<b>-0.02</b>	<b>-0.01</b>	<b>0.00</b>	<b>-0.01</b>
<b>FW + Price Effects</b>	<b>0.01</b>	<b>0.00</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.01</b>	<b>-0.02</b>
Share of series with fund weight declines	66%	62%	37%	56%	36%	52%
Share of series with price declines	38%	54%	42%	30%	20%	45%

Fund Weight and Price Effects, and shares of series with fund weight and price declines, are calculated using series where both expense and asset data are available over the specific implementation period. CSA analysis of data obtained from third party data providers. Asset, MER, and fund classification data obtained from Investor Economics. Returns data obtained from Morningstar. The individual effects may not add up to the figures shown in the AW Avg MER Chg line due to rounding.

**Table 6.5.5 Changes in the Asset Weighted (AW) Average Management Fees by Investing Strategy**

	Active		Passive		Passive - Strategic Beta	
	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20
<b>AW Avg Mgmt Fee Chg</b>	<b>-0.06</b>	<b>0.01</b>	<b>-0.05</b>	<b>-0.05</b>	<b>-0.06</b>	<b>-0.04</b>
<b>Fund Weight (FW) Effect</b>	<b>-0.08</b>	<b>0.01</b>	<b>-0.01</b>	<b>-0.02</b>	<b>-0.03</b>	<b>-0.01</b>
of which...						
Sales Effect	-0.07	0.01	0.00	-0.02	-0.03	-0.01
Returns Effect	0.00	0.00	-0.01	0.00	0.00	0.00
<b>Price Effect</b>	<b>0.00</b>	<b>0.00</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.01</b>	<b>-0.01</b>
<b>FW + Price Effects</b>	<b>0.01</b>	<b>0.00</b>	<b>-0.01</b>	<b>-0.01</b>	<b>-0.02</b>	<b>-0.02</b>
Share of series with fund weight declines	66%	62%	37%	56%	36%	52%
Share of series with price declines	4%	13%	26%	9%	8%	13%

Fund Weight and Price Effects, and shares of series with fund weight and price declines, are calculated using series where both expense and asset data are available over the specific implementation period. CSA analysis of data obtained from third party data providers. Asset, management fee, and fund classification data obtained from Investor Economics. Returns data obtained from Morningstar. The individual effects may not add up to the figures shown in the AW Avg Mgmt Fee Chg line due to rounding.

## 6.6 ETF Fees by IFM Firm Type

### a. Overview of Fund Assets and Fees by Firm Type

This section of the report examines ETF fees by IFM firm type. The three types of IFM firms were bank-affiliated IFMs, independent IFMs, and insurer-affiliated IFMs. Of the 389 funds in our study sample, 284 were sponsored by independent IFMs, 92 were sponsored by bank-affiliated IFMs, and 13 were sponsored by insurer-affiliated IFMs (refer to Table 6.6.1). The sample size of ETFs sponsored by insurer-affiliated IFMs was too small for the findings to be representative of the universe of funds sponsored by this group of IFMs. We therefore excluded these 13 funds from our detailed fees analysis.

ETFs sponsored by independent IFMs accounted for 74% of fund assets, in 2020, while those sponsored by bank-affiliated accounted for the remaining 26% of fund assets (refer to Table 6.6.1). In contrast, mutual fund assets were more evenly distributed between funds sponsored by bank-affiliated IFMs (49% of assets in 2020) and independent IFMs (43% of assets).

**Table 6.6.1 ETF Assets (\$B) by Select IFM Firm Type**

IFM Firm Type	2013	2014	2015	2016	2017	2018	2019	2020	No. of Funds Series
Bank	10	13	16	24	29	31	38	35	92
Independent	45	51	56	68	82	86	103	101	284
<b>Total</b>	<b>54</b>	<b>64</b>	<b>72</b>	<b>92</b>	<b>111</b>	<b>118</b>	<b>141</b>	<b>136</b>	<b>376</b>

CSA analysis of asset data obtained from Investor Economics. IFM firm type categories developed by CSA.

The asset-weighted average fees steadily decreased for funds sponsored by bank-affiliated IFMs and independent IFMs (hereinafter independent ETFs) during our study period (refer to Tables 6.6.2 and 6.6.3). As was the case for our mutual funds results, we caution readers from drawing conclusions about the relative level of fees between different types of IFM types, as these can reflect differences in underlying characteristics of the funds that make up our sample.<sup>57</sup>

**Table 6.6.2 Asset Weighted Average MERs by Select IFM Firm Type, 2013 to 2020**

IFM Firm Type	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13-'16	Chg '17-'20
Bank	0.43	0.41	0.38	0.36	0.35	0.35	0.33	0.33	-0.07	-0.02
Independent	0.35	0.35	0.34	0.33	0.32	0.31	0.30	0.27	-0.02	-0.05

CSA analysis of asset data obtained from Investor Economics. IFM firm type categories developed by CSA.

<sup>57</sup> Differences in underlying fund characteristics can include, for example, differences in fee structures, investment objectives, and risk preferences.

**Table 6.6.3 Asset Weighted Average Management Fees by Select Firm Type, 2013 to 2020**

IFM Firm Type	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13-'16	Chg '17-'20
Bank	0.38	0.35	0.33	0.32	0.31	0.33	0.30	0.30	-0.06	-0.01
Independent	0.32	0.31	0.30	0.29	0.29	0.28	0.27	0.25	-0.03	-0.05

CSA analysis of asset data obtained from Investor Economics. IFM firm type categories developed by CSA.

**c. Pre and Post-Implementation Changes in Fees, Independent and Bank-Affiliated IFMs**

The decreases in the asset-weighted average MERs and management fees for ETFs sponsored by bank affiliates were greater for the pre-implementation period than the post-implementation period (refer to Tables 6.6.4 and 6.6.5). This trend was generally reversed for independent ETFs. Declines in the asset-weighted average MERs ranged from 2 to 7 basis points (or 7% to 17%) and 1 to 5 basis points (or 3% to 17%) for the asset weighted average management fees.

Within each IFM grouping, the size of the fund asset weight and price effects were relatively similar for both time periods. As a result, these effects had a similar sized impact in lowering the asset-weighted average MERs or management fees.

The positive interaction effects for ETFs sponsored by bank affiliated IFMs were caused by the creation and termination of series. The interaction effects for independent ETFs were small in both periods.

**Table 6.6.4 Changes in the Asset Weighted (AW) Average MERs for Select IFM Firm Type**

	Bank		Independent	
	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20
<b>AW Avg MER Chg</b>	<b>-0.07</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.05</b>
<b>Fund Weight (FW) Effect</b>	<b>-0.04</b>	<b>-0.04</b>	<b>0.00</b>	<b>-0.03</b>
of which...				
Sales Effect	-0.03	-0.04	0.00	-0.02
Returns Effect	-0.01	0.00	-0.01	0.00
<b>Price Effect</b>	<b>-0.05</b>	<b>-0.01</b>	<b>-0.01</b>	<b>-0.01</b>
<b>FW + Price Effects</b>	<b>0.01</b>	<b>0.04</b>	<b>-0.01</b>	<b>-0.01</b>
Share of series with fund weight declines	50%	69%	40%	56%
Share of series with price declines	75%	46%	23%	40%

Fund Weight and Price Effects, and shares of series with fund weight and price declines, are calculated using series where both expense and asset data are available over the specific implementation period. CSA analysis of data obtained from third party data providers. Asset and MER data obtained from Investor Economics. Returns data obtained from Morningstar. IFM firm type categories developed by CSA. The individual effects may not add up to the figures shown in the AW Avg MER Chg line due to rounding.

**Table 6.6.5 Changes in the Asset Weighted (AW) Average Management Fees for Select IFM Firm Type**

	Bank		Independent	
	Chg '13-'16	Chg '17-'20	Chg '13-'16	Chg '17-'20
<b>AW Avg Mgmt Fee Chg</b>	<b>-0.06</b>	<b>-0.01</b>	<b>-0.03</b>	<b>-0.05</b>
<b>Fund Weight (FW) Effect</b>	<b>-0.03</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.03</b>
of which...				
Sales Effect	-0.03	-0.02	0.00	-0.02
Returns Effect	-0.01	0.00	-0.01	0.00
<b>Price Effect</b>	<b>-0.04</b>	<b>0.00</b>	<b>-0.02</b>	<b>-0.02</b>
<b>FW + Price Effects</b>	<b>0.01</b>	<b>0.02</b>	<b>-0.01</b>	<b>-0.01</b>
Share of series with fund weight declines	50%	69%	40%	56%
Share of series with price declines	16%	6%	18%	13%

Fund Weight and Price Effects, and shares of series with fund weight and price declines, are calculated using series where both expense and asset data are available over the specific implementation period. CSA analysis of data obtained from third-party data providers. Asset and management fee data obtained from Investor Economics. Returns data obtained from Morningstar. IFM firm type categories developed by CSA. The individual effects may not add up to the figures shown in the AW Avg MER Chg line due to rounding.

## 7 Conclusion

This section of the report answers the three research questions that guided our research and analysis, and our concluding observations of the research findings.

### **Research question 1: Have investment fund managers (IFMs) lowered fees, specifically the management expense ratio (MER) and management fee, and what are the extent of these changes?**

Investment fund managers have been lowering the MERs and management fees for both mutual funds and ETFs, and the extent of these changes varied by investment fund type and fund characteristics.

For mutual funds, the aggregate asset-weighted average MER declined by 38 basis points (or 19%) over our study period, and between 13 and 49 basis points or between 6% and 30%, across the fund characteristics examined. The size of the asset weighted average management fee declines was smaller, at 29 basis points for the overall study sample and ranging from 6 to 39 basis points across the main fund characteristics, or between 4% to 32%.

ETFs, compared to mutual funds, had smaller declines in their asset-weighted average MERs and management fees during our study period. This finding was anticipated since the MERs and management fees for ETFs were starting from a lower baseline level, primarily because the MERs/management fees of ETFs do not include embedded trailing commissions, and they generally employ a passively managed investing strategy. By the end of our study period in 2020, the asset-weighted average MER for our total sample decreased by 8 basis points (or 21%) from 2013 levels, and between 6 to 11 basis points, or 12% to 34%, depending on fund characteristic. The decrease in the asset-weighted average management fee for our total sample was 7 basis points (22%) between 2013 and 2020. Across the main fund characteristics, the declines in asset weighted average management fee ranged from 3 to 10 basis points, or 5% to 34%.

### **Research question 2: Have product manufacturers and product distributors been shifting to products that are not captured by the new account cost and performance disclosures?**

Our analysis of Canadian household discretionary financial assets did not show a trend of discretionary financial assets moving towards products not captured by the CRM2 annual costs and performance report requirements.

### **Research question 3: What have been the changes in product creation and distribution trends, generally?**

Five notable market shifting changes in product creation and distribution occurred during our study period. These were:

- i) the increasing popularity of fund-of-fund products, reflected in the growth of fund wrap programs
- ii) growth of the ETF market, and in the number of actively managed and strategic/smart beta ETFs
- iii) continued growth in fee-based mutual fund series, and a corresponding shift in assets from commission-based to fee-based fund series
- iv) the rise of funds with an ESG mandate, and
- v) the rise of online advisers

### **Concluding Observations**

While our findings provide important directional trends, i.e., correlation rather than cause and effect outcomes, we caution readers from drawing conclusions that the changes presented in this report were caused by the CRM2 annual costs and performance reports. It is possible that other factors, which we could not practically account for in our analysis, also contributed to the changes we have highlighted. These factors could include: advertising by firms competing on fees; local and national news stories focused on fees, cost effective investments, and the best interest discussion in Canada; increasing investor interest in passive investment funds and online advisers; and improvements in market conditions.

Keeping these limitations in mind, our findings for these three research questions appear to indicate that industry behaviour, overall, has been shifting in directions that are congruent with our hypothesis about the effect of the CRM2 regulations, and help provide evidence that disclosure-based regulations may be an effective tool in changing industry behaviour.

## **Appendix A – Research Design and Fees Methodology**

This section of the report provides an overview of the study’s research design and fees methodology.

### **1. Research Design**

#### **a. Fund Characteristics**

We analyze the following main fund characteristics (and their sub-fund characteristics) on mutual fund and ETF fees:

- 1) Broad asset class: The broad asset classes are balanced, equity, fixed income, money market and other.<sup>58</sup>
- 2) Product type (for mutual funds only): The product types for mutual funds are stand-alone funds and three categories of fund-of-funds (FoF), specifically, proprietary FoF, 3<sup>rd</sup> party FoF, and proprietary and 3<sup>rd</sup> party FoF. ETFs do not have the same product type categories that exist for mutual funds. As such, there is no product type analysis for ETFs.
- 3) Fund investing strategy: The investing strategy for mutual funds are actively managed funds and passively managed funds. The investing strategy for ETFs includes an additional category – strategic beta funds. Strategic beta ETFs are in their own category as they are neither purely actively nor passively managed funds.<sup>59</sup>
- 4) IFM firm type: IFM firm type describes the mutual fund or ETF manufacturers who create and promote mutual funds and ETFs. Our analysis categorizes these manufacturers, i.e., investment fund managers, into four groupings: bank-affiliated IFMs<sup>60</sup>, insurer-affiliated IFMs, independent IFMs, and professional association IFMs.
- 5) Series/class type (for mutual funds only): The mutual fund industry does not use a standardized approach in naming mutual fund series/classes. Mutual fund series included in our analysis are so called A, adviser, D, F, O, and T series of funds.<sup>61</sup> These series types are designed for retail investors.

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<sup>58</sup> Other is a category that encompasses funds that invest in alternative/non-traditional assets, such as real estate or derivatives instruments.

<sup>59</sup> See footnote 10 for a definition of strategic beta ETFs.

<sup>60</sup> Bank-affiliated IFMs include banks and credit unions.

<sup>61</sup> The mutual fund industry does not use a standardized approach in naming their fund series/class. We relied upon data provided by Investor Economics to standardize the fund series/class in our study sample. A-series are the original/core series that have traditionally populated the mutual fund market. Advisor series include series originally launched as no load products that have been modified to include trailer fee, and series manufactured by bank-affiliated IFMs and are primarily sold through third party advisers and full service brokerage rather than the bank’s branch, discount. F-series are designed for fee-based accounts and they do not include an embedded trailing commission. D-series are designed for the discount brokerage channel and as at June 1, 2022, they can no longer include an

## **b. Time Periods**

For each fund characteristic we analyze changes in MERs and management fees before and after the CRM2 annual costs and performance report requirements were fully implemented. The pre-implementation period is from 2013 to 2016 and the post-implementation period is from 2017 to 2020. For each fund characteristic we do not present the findings for every sub-fund characteristic through the pre- and post-implementation lens. The decision of what sub-fund characteristic findings to include or exclude was determined by that sub-fund characteristic's share of the total mutual fund/ETF assets. For example, in our mutual fund analysis of fees by broad asset class we excluded money market funds from our detailed analysis as they only accounted for 1% of mutual fund assets.

## **c. Subset of Funds Included**

Our MER and management fee analysis includes a subset of the entire universe of mutual funds and ETFs. Data availability limitations meant that only a subset of funds could be included in our analysis. Our analysis is underpinned by data obtained from multiple sources, including directly from investment fund managers and third-party data vendors. Third-party data vendors we relied on were Investor Economics, an ISS Market Intelligence company, and Morningstar.

Our analysis of mutual funds includes 2,991 funds and they accounted for 44% to 65% of mutual fund assets throughout our study period.<sup>62</sup> Three hundred eighty-nine (389) ETFs are included in our analysis and these funds accounted for 53% to 86% of all ETF assets throughout our study period.

The mutual fund analysis excludes fund series created for institutional investors. The ETF analysis includes institutional assets as we did not have information that would enable us to easily separate institutional assets from retail investor assets. Additionally, the ETFs only include Canadian listed ETFs.

## **d. Data Sources and Fund Coverage**

The data sets that underpin our analysis were obtained directly from investment fund managers and third-party data providers, specifically Investor Economics and Morningstar. Our data sets contained a total of 3,703 unique mutual funds for our study period. After filtering the funds by our selection criteria and eliminating funds

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embedded trailing commission that was typically between 25 and 50 basis points. O-series are designed for high net worth accounts. Management fees are reduced compared to the original series of the fund and trailing commissions are negotiable between an investor and their adviser. T-series are designed for investors interested in a tax-efficient cash flow. These funds charge an embedded trailing commission.

<sup>62</sup> Our sample population includes funds that were terminated or merged during our study period.



with obvious reporting errors<sup>63</sup> and missing data points our final sample size was 2,991 mutual funds and 389 ETFs. The 2,991 mutual funds were comprised of 14,159 unique fund series.

The following mutual fund data points, covering a time period of 2013 to 2019, were sourced directly from investment fund managers:

- Assets, sales, redemptions, switches
- Product type
- CIFSC classification

The following data points were sourced from Investor Economics:

- Asset data<sup>64</sup>
- MER
- Management fee
- Series type classification
- Investing strategy
- CIFSC classification (for ETFs only)

Monthly returns data were sourced from Morningstar Direct.

#### **e. Selection of Funds**

The following criteria were used to select ETFs and mutual funds for inclusion in our analysis.

- The funds are domiciled in Canada and sold to Canadian investors
- Mutual funds must be open-ended funds
- ETFs are Canadian listed ETFs
- Each fund must have gross monthly total return data for at least 36 consecutive months, between 2009 and 2020.<sup>65</sup> Terminated and merged funds are included in our sample population if they can satisfy the monthly performance data criteria. These criteria were included to minimize survivorship bias in our sample population.
- The funds must have MER<sup>66</sup> and management fee data from 2013 to 2020.

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<sup>63</sup> We cross checked the value of outlier observations against information contained in regulatory documents and filings to confirm that the outliers were not reporting errors.

<sup>64</sup> Asset data for ETFs and mutual funds. The ETF asset data covered a time period of 2013-2020, and the mutual fund asset data was for 2020 only.

<sup>65</sup> We imposed this condition as we wanted the sample of funds in the fees analysis to be as similar as possible to the sample of funds in the performance analysis.

<sup>66</sup> MER after waiving or absorption of some of the MER costs by investment fund managers.

## 2. Fees Methodology

Fees were analyzed using the asset weighted average of funds in our sample population, on an annual basis.

### Mutual funds

Our MER and management fee data were at the series/class level, for mutual funds. Mutual fund series included in our analysis were series A, D, F, O, T, and advisor series funds.

We calculated the asset-weighted series level MER and management fee for each fund in our study sample and then summed the results for all funds to obtain the aggregated asset weighted average MER/management fee for the entire study sample. The asset data used to calculate each fund's series level asset weight was obtained from Investor Economics and are at December.<sup>67</sup>

For each fund we calculated an overall asset weight and an asset weight for each fund characteristic examined in our research. Each mutual fund series had a total of 6 weights:

1. an overall asset weight
2. a series type weight
3. a broad asset class weight
4. a product type weight
5. an investing strategy weight and
6. an IFM firm type weight.

### ETFs

ETFs in general do not have different series types. As such, our MER and management fee data, and asset weighting calculations were at the fund level. Each ETF in our analysis had 4 unique fund weights, an overall asset weight and three fund characteristics weights, one for broad asset class, one for investing strategy and one for IFM firm type.

The next section provides a detailed description of the formulas used in our analysis to calculate changes in MERs and management fees, including the formulas for calculating the fund weight, sales, returns, price, and interaction effects.

#### **a. Formulas for Calculating Changes in MERs and Management Fees**

The formulas for calculating changes in the simple average and asset-weighted MER and management fee are the following:

- Change in the simple average between time periods

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<sup>67</sup> Data on assets and fees from Investor Economics are based on the funds' final, audited Management Report of Fund Performance (MRFP) documents.

$$\frac{1}{n} \sum_{i=1}^n m_t^i - \frac{1}{n} \sum_{i=1}^n m_{t-1}^i$$

where  $m$  is the given MER or management fee for fund  $i$  at time  $t$ , and  $n$  is the number of funds in the study

- Change in the asset-weighted average between time periods

$$\sum_{i=1}^n m_t^i \cdot w_t^i - \sum_{i=1}^n m_{t-1}^i \cdot w_{t-1}^i$$

where  $w$  is the weight of fund  $i$  at time  $t$  is given as the assets  $a$  at time  $t$  as a percentage of total assets

$$w_t^i = \frac{a_t^i}{\sum_{i=1}^n a_t^i}$$

The asset-weighted average changes are further deconstructed into three sub-components: changes in fund asset weighting, changes in fund pricing, i.e., MER or management fee rates, and changes arising from the interaction of fund weighting and fund pricing. The formulas for each component are below.

- Changes in the fund asset weighting

$$\sum_{i=1}^n m_{t-1}^i \cdot (w_t^i - w_{t-1}^i)$$

- Change in fund pricing, i.e., MER or management fee rate changes:

$$\sum_{i=1}^n (m_t^i - m_{t-1}^i) \cdot w_{t-1}^i$$

- Changes arising from the interaction of fund weighting and fund pricing:

$$\sum_{i=1}^n (m_t^i - m_{t-1}^i) \cdot (w_t^i - w_{t-1}^i)$$

We further deconstruct changes in the fund asset weighting component to calculate the effect of fund sales and fund returns<sup>68</sup> on the change in asset-weighted MERs and management fees using the following formulas:

- Fund sales effect:

$$\sum_{i=1}^n m_{t-1}^i \cdot \left( \frac{a_{t-1}^i (1 + r_t^i + s_t^i)}{\sum_{i=1}^n a_{t-1}^i (1 + r_t^i + s_t^i)} - \frac{a_{t-1}^i (1 + r_t^i)}{\sum_{i=1}^n a_{t-1}^i (1 + r_t^i)} \right)$$

where r denotes the rate of return of fund i at period t and s denotes the net sales rate of fund i at period t

- Fund returns effect:

$$\sum_{i=1}^n m_{t-1}^i \cdot \left( \frac{a_{t-1}^i (1 + r_t^i)}{\sum_{i=1}^n a_{t-1}^i (1 + r_t^i)} - \frac{a_{t-1}^i}{\sum_{i=1}^n a_{t-1}^i} \right)$$

## **Appendix B – Explanation and Interpretation of the Fund Asset Weight Effect, the Price Effect, and the Interaction Effect**

This appendix explains the three effects examined in our study and how to interpret them.

The following equation captures the relationship of the fund asset weight, price, and interaction effects in relation to changes in the aggregated asset weighted average MER/management fee, for all fund series.

Change in the aggregated asset weighted average MER/management fee<sup>69</sup> (for a given time period) = sum of *fund asset weight effect* + sum of *price effect* + sum of *interaction effect*

### i. Fund Asset Weight Effect

The fund asset weight effect measures how increases or decreases in each series' assets, *between two time periods*, contributed to changes in the aggregated asset-weighted average MER or management fee, while holding the series' MER or

<sup>68</sup> Return data use the annualized average monthly gross total returns for a given calendar year.

<sup>69</sup> References to the aggregated asset-weighted average MER/management fee are always in reference to the metric for all fund series, unless otherwise noted.

management fee constant.<sup>70</sup> An increase (decrease) in the fund asset weight effect reflects a shift in the distribution of assets in our sample towards series which had higher (lower) MERs or management fees at the start of the period looked at.<sup>71</sup> Increases (decreases) in a fund asset weight effect will lead to a corresponding increase (decrease) in its asset-weighted average MER/management fee.

Series with more assets will have a higher fund asset weight than series with fewer assets. As such, the aggregated asset-weighted average MERs or management fees will always be weighted towards the MERs or management fees of fund series with larger asset sizes. Each mutual fund series has 6 unique fund asset weights – an overall weight, and a weight for each fund characteristic that we analyzed.<sup>72</sup>

Within the fund asset weight effect, we break down how asset changes arising from sales and investment returns contribute to this effect. Increases (decreases) in a fund series' assets attributable to sales or returns, *between two time periods*, will lead to a corresponding increase (decrease) in the fund's asset weighted average MER/management fee.

## ii. The Price Effect

The price effect measures how changes in a fund series' MER or management fee contributed to changes in the aggregated asset-weighted average MER or management fee, for all fund series. The price effect calculation holds a fund series' asset weight constant, while accounting for changes in its MER or management fee, *between two time periods*.<sup>73</sup>

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<sup>70</sup> The fund asset weight effect calculation holds a series' MER or management fee constant to the start date of a given time period. For example, the fund asset weight analysis for the pre-implementation period, which is from 2013 to 2016, would hold the MER/management fee rates to the 2013 level.

<sup>71</sup> The fund asset weight effect includes the result of shifts in the distribution of assets across series from different fund categories and which may have different fees. For example, over a period of rising equity valuations, the share of total assets represented by equity series increases relative to other series, all else equal. In this example, the fund asset weight effect, and the aggregate asset-weighted average fee, would typically rise as fees in equity funds tend to be higher than those of other types of funds.

<sup>72</sup> The denominator used to calculate a fund series' overall fund asset weight was the assets of all series in our study sample where asset and expense data are available for both the start and end of the period (i.e. the series was not terminated or created within the period). The denominator for each fund characteristic changes according to the number of series with a given fund characteristic. For example, in 2020, the denominator used to calculate each series overall fund asset weight in the MER table was the sum of assets of 8,603 series, because this was the number of fund series in our study sample with asset and MER data available for 2017 and 2020. For equity mutual funds, in 2020, the denominator was the sum of assets of 4,353 series, as this was the number of equity mutual fund series in our study sample with asset and MER data available for 2017 and 2020.

<sup>73</sup> The price effect calculation holds a fund series' asset weight to its 2013 level, when we are examining the price effect for the pre-implementation period, and to its 2017 level when we are examining the price effect for the post-implementation period.

*The terms prices and fees are used interchangeably throughout our report. These terms should be interpreted to mean MERs/management fees and not the price for a unit of a mutual fund or ETF, unless otherwise noted.*

iii. Interaction effect

The interaction effect measures how simultaneous changes in a fund series' MER/management fee and fund asset weight, *between two time periods*, contributed to changes in the aggregated asset weighted average MER or management fee, for all fund series. In other words, the interaction effect is measuring the impacts of two variable changes at once rather than a single variable change, which is the procedure used to measure the fund asset weight and price effects.

Figure 1, below, illustrates how the directional change of each effect for a series contributes to the directional changes in the aggregated asset weighted average MERs or management fees, ***before the impacts of the other effects are netted out and assuming no changes to other series in the sample***. A total of thirteen possible scenarios are illustrated for the fund asset weight, price, and interaction effects<sup>74</sup>, and the three corresponding directional changes in the aggregated asset-weighted average MERs or management fees of these effects. The directional changes are an increase, decrease, or no change in the asset-weighted average MERs or management fees.

The four most common scenarios encountered in our study were:

- decreases in the asset-weighted average MERs/management fees, all else equal, that were attributable to i) declines in the share of total assets for a subset of series with higher fees than other series in our sample (scenario 1 in Figure 1) or ii) declines in the MER/management fee rates for a subset of series (scenario 6 in Figure 1).
- increases in the asset-weighted average MERs/management fees, all else equal, that were attributable to i) the addition of new series<sup>75</sup> (scenario 9 in Figure 1) or ii) simultaneous decreases in a series' assets and MER/management fee rates (scenario 10 in Figure 1).

The directional changes in the fund asset weight, price, and interaction effects, and their contribution to the directional changes in the aggregated asset weighted average MERs/management fees, illustrated in Figure 1, is for the specified effect.

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<sup>74</sup> These scenarios are exhaustive.

<sup>75</sup> The addition of new funds increases the asset weighted average MER/management fee because changes in the fund assets or MER/management fee calculations have a starting value of zero and end value greater than zero. As such, the change calculation will always yield a result that is greater than zero, i.e., positive.

*The direction of the overall asset-weighted average MERs/management fees, i.e., whether it increases or decreases, depends on how the size and direction of each effect collectively net out.*

For example, in Table 5.4.5, in section 5 of the report, the overall aggregated asset weighted average management fee for the "Series A" of mutual funds increased by 2 basis points during the pre-implementation period. The fund asset weight and price effects contributed to decreasing the overall aggregated asset weighted average management fee by 2 and 4 basis points, respectively, for a combined decrease of 6 basis points. The interaction effect, however, increased the overall aggregated asset weighted management fee by 8 basis points. These 8 basis points offset the 6 basis points decline attributable to the combined fund asset weight and price effects.

*It is this netted aggregated asset weighted average MER and management fee that is presented in the top row of the tables in sections 5 and 6 of the report<sup>76</sup>.*

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<sup>76</sup> The top row of the tables in sections 5 and 6 of the report is labelled as "AW Avg MER Chg/Mgmt Fee Chg".

**Figure 1: Impact of Directional Changes in a Series' Fund Asset Weight and/or MERs/Management Fees on the Aggregated Asset Weighted Average MERs/Management Fees\***

Effect	Direction of Fund Weight or Fee Change Between 2013-2016 or 2017-2020		Impact on the Aggregated Asset Weighted Average MERs/Management Fees for the Specified Effect**
<b>Main effect 1 - Fund Weight Effect</b> (measuring 1 effect on the asset weighted average MERs/management fees – <u>changes in fund weights</u> )***	Fund weight <b>decreases</b> & MER/management fee is <b>above</b> asset weighted average ( <i>scenario 1</i> )	↓	Leads to ... <b>Decreases</b> in asset-weighted average MERs/management fees ↓
	Fund weight <b>decreases</b> & MER/management fee is <b>below</b> asset weighted average ( <i>scenario 2</i> )	↓	Leads to ... <b>Increases</b> in asset weighted average MERs/management fees ↑
	Fund weight <b>increases</b> & MER/management fee is <b>below</b> asset weighted average ( <i>scenario 3</i> )	↑	Leads to ... <b>Decreases</b> in asset weighted average MERs/management fees ↓
	Fund weight <b>increases</b> & MER/management fee is <b>above</b> asset weighted average ( <i>scenario 4</i> )	↑	Leads to ... <b>Increases</b> in asset weighted average MERs/management fees ↑
	<b>No changes</b> in fund weight ( <i>scenario 5</i> )	→	Leads to ... <b>No impact</b> on asset weighted average MERs/management fees →
<b>Main effect 2 – Price Effect</b> (measuring 1 effect on the asset weighted average MERs/management fees – <u>changes in MER/management fee rates</u> )	MER/management fee <b>decreases</b> ( <i>scenario 6</i> )	↓	Leads to ... <b>Decreases</b> in asset weighted average MERs/management fees ↓
	MER/management fee <b>increases</b> ( <i>scenario 7</i> )	↑	Leads to ... <b>Increases</b> in asset weighted average MERs/management fees ↑
	<b>No changes</b> in MER/management fee ( <i>scenario 8</i> )	→	Leads to ... <b>No impact</b> on asset weighted average MERs/management fees →
<b>Interaction Effect – Fund Weight Effect &amp; Price Effect</b> (measuring 2 effects on the asset weighted average MERs/management fees – <u>changes in fund weights &amp; changes in MER/management fee weights</u> )***	Fund weight <b>increases</b> & MER/management fee <b>increases</b> ( <i>scenario 9</i> )	↑	Leads to ... <b>Increases</b> in asset weighted average MERs/management fees ↑
	Fund weight <b>decreases</b> & MER/management fee <b>decreases</b> ( <i>scenario 10</i> )	↓	Leads to ... <b>Increases</b> in asset weighted average MERs/management fees ↑
	Fund weight <b>increases</b> & MER/management fee <b>decreases</b> ( <i>scenario 11</i> )	↑	Leads to ... <b>Decreases</b> in asset weighted average MERs/management fees ↓
	Fund weight <b>decreases</b> & MER/management fee <b>increases</b> ( <i>scenario 12</i> )	↓	Leads to ... <b>Decreases</b> in asset weighted average MERs/management fees ↓
	<b>No changes</b> in fund weight & MER/management fee ( <i>scenario 13</i> )	→	Leads to ... <b>No impact</b> on asset weighted average MERs/management fees →



**Notes to table:**

\* Discussion of the impact assumes that the identified directional is the only change to any series in the sample (i.e. impact assumes 'all else equal').

\*\* The impact of each effect on the overall aggregated asset-weighted average MERs/management fees depends on how the size and direction of each effect collectively net out.

\*\*\* A change in the fund weight of a series has an offsetting impact on the fund weight of other series. E.g. If a series' fund weight falls then the fund weight of all other series must increase, all else equal. This is why a change in a series' fund weight can either increase or decrease the aggregate asset-weighted average MER /management fee depending on the size of the MER or management fee relative to other series in the sample. This is also why five scenarios are considered in Figure 1 for the fund weight effect.

In contrast, the direction of the interaction effect on the aggregate asset-weighted average does not depend on the size of fees relative to other series in the sample, even if a series' fund weight changes. This is because the change in fees, which is the first term in the interaction effect, is zero for all other series in the sample under the assumption 'all else equal'.

## Appendix C – Supplemental Data Tables by Report Sections

This section of the appendices provides supplemental data tables that show the asset weighted average fees and number of funds for all sub-categories of a fund characteristic.

### 5.3 Research Findings – Mutual Fund Fees by Broad Asset Class

**Appendix - Table 5.3.2 Asset Weighted Average MERs by Broad Asset Class, 2013 to 2020**

Broad Asset Class	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13-'16	Chg '17-'20
Balanced	2.10	2.07	2.03	1.98	1.90	1.85	1.79	1.78	-0.12	-0.12
Equity	2.22	2.17	2.12	2.05	1.94	1.87	1.77	1.74	-0.17	-0.19
Fixed Income	1.46	1.40	1.35	1.28	1.19	1.13	1.06	1.02	-0.18	-0.17
Money Market	0.42	0.42	0.44	0.44	0.44	0.42	0.42	0.37	0.02	-0.07
Other	2.64	2.36	2.18	2.10	1.92	1.66	1.58	1.69	-0.54	-0.22

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data from Investor Economics.

**Appendix - Table 5.3.3 Asset Weighted Average Management Fees by Broad Asset Class, 2013 to 2020**

Broad Asset Class	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13-'16	Chg '17-'20
Balanced	1.69	1.69	1.65	1.62	1.55	1.50	1.47	1.45	-0.08	-0.10
Equity	1.75	1.73	1.70	1.63	1.55	1.49	1.44	1.41	-0.12	-0.14
Fixed Income	1.20	1.16	1.11	1.04	0.97	0.91	0.85	0.82	-0.16	-0.15
Money Market	0.36	0.36	0.37	0.37	0.36	0.35	0.37	0.36	0.01	0.00
Other	1.83	1.75	1.64	1.52	1.39	1.24	1.17	1.15	-0.31	-0.23

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were obtained from Investor Economics.

**Number of Fund Series by IFM Firm Type and Broad Asset Class**

IFM Firm Type	Balanced	Equity	Fixed Income	Money Market	Other	Total
Association	17	27	8	1	0	53
Bank	1,255	1,682	543	21	55	3,556
Independent	2,839	4,681	921	77	199	8,717
Insurer	544	500	220	11	16	1,291
Total	4,655	6,890	1,692	110	270	13,617

## 5.4 Research Findings – Mutual Fund Fees by Series Type

Appendix - Table 5.4.2 Asset Weighted Average MERs by Series Type, 2013-2020

Series Type	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13-'16	Chg '17-'20
<b>A</b>	2.15	2.14	2.12	2.10	2.06	2.06	2.01	2.02	-0.05	-0.04
<b>ADV</b>	2.03	2.06	2.07	2.06	2.01	2.01	2.01	2.05	0.02	0.04
<b>D</b>	0.98	0.98	0.95	0.94	0.92	0.92	0.92	0.91	-0.04	-0.01
<b>F</b>	1.09	1.07	1.03	1.00	0.95	0.92	0.91	0.91	-0.10	-0.04
<b>O</b>	1.88	1.92	1.92	1.87	1.78	1.74	1.69	1.69	0.00	-0.09
<b>T</b>	2.25	2.23	2.22	2.20	2.18	2.18	2.16	2.17	-0.04	-0.01

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were obtained from Investor Economics.

Appendix - Table 5.4.3 Asset Weighted Average Management Fees by Series Type, 2013-2020

Series Type	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13-'16	Chg '17-'20
<b>A</b>	1.72	1.73	1.72	1.71	1.68	1.67	1.65	1.66	-0.01	-0.03
<b>ADV</b>	1.66	1.73	1.74	1.71	1.67	1.68	1.67	1.71	0.05	0.03
<b>D</b>	0.83	0.83	0.81	0.77	0.78	0.77	0.76	0.75	-0.06	-0.03
<b>F</b>	0.82	0.82	0.79	0.77	0.73	0.72	0.72	0.72	-0.05	-0.01
<b>O</b>	1.45	1.49	1.49	1.44	1.39	1.35	1.33	1.33	-0.01	-0.06
<b>T</b>	1.82	1.82	1.81	1.80	1.78	1.77	1.77	1.76	-0.03	-0.02

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were obtained from Investor Economics.

Number of Fund Series by IFM Firm Type and Investing Strategy

IFM Firm Type	A	ADV	D	F	O	T	Total
<b>Association</b>	42	0	1	1	0	9	53
<b>Bank</b>	869	602	343	1,102	314	326	3,556
<b>Independent</b>	2,250	1	191	3,045	2,100	1,130	8,717
<b>Insurer</b>	316	0	1	547	224	203	1,291
<b>Total</b>	3,477	603	536	4,695	2,638	1,668	13,617

## 5.5 Research Findings – Mutual Fund Fees by Product Type

**Appendix - Table 5.5.2 Asset Weighted Average MERs by Product Type**

Product Type	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13-'16	Chg '17-'20
3rd Party Fund-of-Funds	1.89	1.87	1.81	1.76	1.65	1.62	1.58	1.56	-0.13	-0.10
Proprietary & 3rd Party Fund-of-Funds	2.32	2.28	2.25	2.21	2.15	2.10	2.05	2.04	-0.11	-0.11
Proprietary Fund-of-Funds	2.11	2.08	2.04	2.00	1.91	1.84	1.77	1.74	-0.12	-0.17
Stand-Alone Mutual Funds	2.03	2.00	1.94	1.88	1.78	1.71	1.62	1.60	-0.15	-0.18

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were obtained from Investor Economics.

**Appendix - Table 5.5.3 Asset Weighted Average Management Fees by Product Type**

Product Type	2013	2014	2015	2016	2017	2018	2019	2020	Chg '13-'16	Chg '17-'20
3rd Party Fund-of-Funds	1.63	1.91	1.68	1.81	1.45	1.42	1.38	1.37	0.17	-0.08
Proprietary & 3rd Party Fund-of-Funds	1.89	1.86	1.84	1.79	1.73	1.67	1.64	1.63	-0.10	-0.10
Proprietary Fund-of-Funds	1.73	1.71	1.68	1.63	1.57	1.51	1.46	1.42	-0.10	-0.15
Stand-Alone Mutual Funds	1.61	1.60	1.56	1.50	1.43	1.37	1.32	1.30	-0.10	-0.13

CSA analysis of data obtained from investment fund managers and third-party data providers. Asset and expense data were obtained from Investor Economics.

**Number of Fund Series by IFM Firm Type and Product Type**

IFM Firm Type	Proprietary &				Total
	3rd Party Fund-of-Funds	3rd Party Fund-of-Funds	Proprietary Fund-of-Funds	Stand-Alone Mutual Funds	
Association	0	6	0	47	53
Bank	124	281	773	2,378	3,556
Independent	39	288	1,628	6,762	8,717
Insurer	33	145	137	976	1,291
Total	196	720	2,538	10,163	13,617

## 5.6 Research Findings - Mutual Fund Fees by Investing Strategy

Number of Fund Series by IFM Firm Type and Investing Strategy

IFM Firm Type	Actively Managed Funds	Passively Managed Funds	Total
Association	52	1	53
Bank	3,496	60	3,556
Independent	8,552	165	8,717
Insurer	1,291	0	1,291
Total	13,391	226	13,617

## 6.3 Research findings – ETF fees by broad asset class

Number of ETFs by IFM Firm Type and Broad Asset Class

IFM Firm Type	Balanced	Equity	Fixed	Money	Other	Total
			Income	Market		
Bank	1	48	43	0	0	92
Independent	8	192	81	2	1	284
Insurer	0	10	3	0	0	13
Total	9	250	127	2	1	389

## 6.4 Research Findings – ETFs fees by investing strategy

Number of Fund Series by IFM Firm Type and Investing Strategy

IFM Firm Type	Actively Managed	Passively	Passive -	Total
	Funds	Managed Funds	Strategic Beta	
Bank	27	47	18	92
Independent	85	118	81	284
Insurer	3	0	10	13
Total	115	165	109	389