

WisdomTree Canada 2018 ETF Industry Outlook: Expect More Growth, Innovation

- *Canadian ETF industry assets are expected to accelerate with increased investor education and regulation*
- *Trends include investment opportunities in variably hedged international equities as well as smart beta fixed income ETFs*
- *WisdomTree anticipates investors will increasingly look to ETFs for income and risk mitigation*

TORONTO, December 19, 2017 —WisdomTree Asset Management Canada, Inc. (“WisdomTree Canada”) today released its inaugural [2018 ETF Industry & Market Outlook](#), which examines the challenges and opportunities for exchange-traded funds (ETFs) in Canada and identifies key trends the firm sees playing out in the year ahead.

Overall, WisdomTree foresees continued rapid growth in the industry, as 2017 is set to close with more than C\$26 billion in inflows,¹ a year-over-year increase of approximately 30%. Flows into equity ETFs were strong at C\$15 billion,² with just over half of the flows in this asset class moving into international equity products, while fixed income ETFs continued to see sizable inflows of more than C\$10 billion.³

"Over the last year we saw sharp increases both in terms of ETF assets under management and number of providers entering the market as the rate of adoption among Canadian investors continued to strengthen and reach new highs," said Jeff Weniger, WisdomTree Asset Allocation Strategist.

The Outlook identifies the following key trends that dominated the Canadian ETF industry in 2017:

- **Canadians’ Interest in ETFs Continued to Grow:** The industry continued to develop in Canada as investors further shifted their assets into low-cost ETFs from actively managed mutual funds. ETF usage and adoption has not yet hit its full potential in Canada, with the industry expected to grow exponentially over the next decade.
- **From Smart Beta to Modern Alpha:** 2017 marked a greater adoption of “smart beta” ETFs, with many new entrants taking this approach with their offerings and investors increasingly seeing this as a more optimal approach to ETF investing.
- **Currency Impact on Returns:** For Canadians, a generalized strengthening of foreign currencies has greatly influenced returns, particularly with variably hedged classes of foreign equity ETFs which have performed favourably in such environments as they have the potential to reduce volatility while offering tactical currency metrics to the low-conviction investor.

“Fixed income ETFs were a fast-growing asset class in 2017 with Canadian investors flocking toward investment grade corporate bonds in particular,” said Kevin Flanagan, WisdomTree Senior Fixed Income Strategist. “We anticipate strong flows into fixed income products into 2018 as investors look to mitigate interest rate risk.”

Looking ahead, WisdomTree believes the following trends will shape 2018:

- **Accelerated Adoption and Growth:** As ETF usage becomes more mainstream, WisdomTree predicts annual AUM growth rates will increase significantly. If, for instance, the industry

¹ Source: TD Canada as of November 30, 2017.

² Ibid.

³ Ibid.



experiences 20% annual rises in AUM and underlying assets appreciate 4% per year, the Canadian ETF industry would be about one-third the total size of the mutual fund industry by 2024 (assuming mutual funds do not experience net outflows).

- **Fixed Income, Interest Rates and the Search for “Smarter” Solutions:** With developed market interest rates expected to remain at low levels, investors are likely to shift allocations toward fixed income ETFs that are weighted more towards credit and have less concentration to interest-sensitive sectors such as government bonds. Further, investors are likely to consider shorter-duration instruments if they wish to mitigate interest rate risk.
- **Thematic Innovation:** WisdomTree anticipates 2018 will be a year of heightened innovation for ETF providers, as increased demand for solutions that provide low-cost alpha will continue. This trend is expected to occur across the globe, but notably in Canada, given this market is still a few years behind others (namely the U.S.) in terms of adoption. The emergence of thematic ETFs tied to millennial demand, artificial intelligence, robotics and political and social trends will continue.
- **CRM3:** As investors demand more fee transparency, the industry is expected to begin seeing heightened discussions around CRM3, a proposal to extend fee disclosure. As a result, advisors and investors are likely to look to ETFs given their cost benefits.

Weniger added, "ETFs are more accessible and more mainstream than ever before, and they continue to grow as an investment of choice for many Canadians. We predict that 2018 will be another banner year for ETFs in Canada as advisors and investors continue to appreciate the important and constructive role ETFs can play in portfolio construction and the advantage they have over mutual fund offerings."

To view the outlook, please visit [WisdomTree Canada 2018 ETF Industry & Market Outlook](#).

About WisdomTree

WisdomTree Investments, Inc., through its subsidiaries in the U.S., Europe, Japan and Canada (collectively, "WisdomTree"), is an exchange-traded fund ("ETF") and exchange-traded product ("ETP") sponsor and asset manager headquartered in New York. WisdomTree offers products covering equities, fixed income, currencies, commodities and alternative strategies. WisdomTree currently has approximately US\$48.3 billion in assets under management globally.

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