



WisdomTree Canada Provides 2019 ETF Industry & Market Outlook: Expect More Product Innovation, Shift from Mutual Funds

TORONTO, December 11, 2018 -- WisdomTree Asset Management Canada, Inc. (“WisdomTree Canada”) today released its second annual 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.

Highlights:

- Canadian ETF industry flows are expected to strengthen given a continued shift of assets into these products from traditional mutual funds
- 2019 investment trends include potential opportunities in emerging markets equities as well as increased innovation and demand for Modern Alpha™ ETFs
- The immense growth of the Canadian ETF industry, as well as the entry of new players, will continue to benefit the end investor

This past year, the Canadian ETF industry reached a new record high of \$162 billion in assets under management, as 2018 is set to close with more than \$15.9 billion in inflows, a year-over-year increase of approximately 10%¹. Overall, WisdomTree Canada foresees continued strong asset growth in 2019, expecting a further shift out of mutual funds into ETFs – a trend that will likely continue as the benefits of ETFs become more widely known among investors.

“This year we’ve seen the continued evolution of the ETF industry, and what stands out the most is the steady erosion of the oligopolistic power among the major providers in Canada,” said Jeff Weniger, WisdomTree Asset Allocation Strategist.

The outlook identifies the following key trends that dominated the Canadian ETF industry in 2018:

- **Increased options and entrants for Canadian investors:** 2018 continued to see a significant increase in the number of providers entering the ETF market in Canada, especially as the year saw the late entrant large Canadian banks launching products. There were 33 firms managing \$157 billion through October, up from 27 firms with \$147 billion at the end of last year. For perspective, only 18 firms were managing Canadian ETFs when WisdomTree Canada entered the market in 2016.²
- **From oligopolistic power to small players:** Newer entrants to the ETF market have rapidly cut into the market share of the major providers. While only 11% of industry market share was controlled outside of the three largest providers in 2014, the count doubled to about 22% by late 2018. This reflects increasing awareness of the different kinds of ETFs that are available in the market and wider brand recognition among the boutique providers.

Note: All figures in Canadian dollars unless otherwise noted.

¹ Source: Bloomberg, as of 11/30/18.

² Source: Canadian ETF Association (CETFA)

- **Rate hikes and high risk:** 2018 has seen three interest rate hikes from the Bank of Canada, which has slowed down investor willingness to engage with fixed income products. The bond market, therefore, has become unfavorable to traditional investors. With more investors looking for ways to mitigate risk, investment grade fixed income may stand to benefit more than high yield alternatives.

“The pace of fixed income ETF inflows slowed slightly in 2018, likely a result of this year’s multiple interest rate increases announced by the Bank of Canada,” said Kevin Flanagan, WisdomTree Senior Fixed Income Strategist. “In broader terms, developed market yields have been on an ascending trajectory, with Canada as no exception. It will be interesting to see where 2019 nets out as investors continue to search for solutions to mitigate potential rate risk.”

Looking ahead, WisdomTree Canada believes the following trends will shape 2019

- **Product innovation:** With more competition than ever in the Canadian ETF market, increased demand for solutions that provide low-cost alpha will fuel WisdomTree’s differentiated approach – Modern Alpha™ – which combines the outperformance potential of active management with the benefits of the ETF structure. Similarly, other firms competing in the market will continue to develop thematic ETFs to reflect investment trends, much as they did with the cannabis craze in 2018. If those actions are any indication, the exchange-traded structure will be the vehicle of choice for product innovation for the foreseeable future.
- **Fixed Income:** The expectation of potentially higher rates in 2019 will most likely keep bond investors defensive. As a result, rising rate solutions should be at the forefront of the portfolio decision-making process.
- **Emerging markets:** WisdomTree foresees 2019 to be the year that emerging market equities outperform Canadian stocks. WisdomTree’s Emerging Markets Dividend Index CAD, which is priced at a forward P/E ratio of 9.1 with a dividend yield just short of 5%, is just one of the many examples of the deep value now available in many foreign markets.

On the subject of ETF choices, Weniger added, “Most of today’s Canadian ETF providers had not even entered the market as recently as 2014, leaving investors with a profound lack of product options. The ETF industry’s immense growth, as well as the entry of new and independent players, has benefited investors considerably by creating a more diversified investing environment for both private and institutional investors.”

To view the outlook, please visit [WisdomTree Canada 2019 ETF Industry & Market Outlook](#).

About WisdomTree

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