

CLIENT RESEARCH REPORT 2020



A CONTINUED LOOK
INTO MEMBERS,
ADVISORS AND CLIENTS



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PART I: BACKGROUND

While all securities regulators in Canada obtain data and information relating to the activities of the registrants they regulate, the MFDA has undertaken the unprecedented approach of also gathering detailed information relating to clients of MFDA Members. MFDA Members, more than any other securities registrant, provide services to the largest concentration of mass-market households in Canada (i.e. households with less than \$100,000 in financial wealth). Protecting vulnerable investors, including seniors and investors with limited financial resources, is a key priority of the MFDA. While access to financial advice is important to all Canadians, it is especially so for those with limited financial resources. This collection of data allows us to monitor access to financial advice and the availability of choice in advisory services. With the aging population and decline in the number of defined benefit plans in Canada, it is imperative that Canadians, particularly mass-market households, continue have access to financial advice and the ability to choose services that meet their needs. Maintaining knowledge and awareness of client circumstances, outcomes, and issues that impact Canadian investors through the use of this data is key to meeting our investor protection mandate.

Data Request

In 2016, the MFDA undertook a client research project requesting that Members provide detailed information on the investments held by their clients.

Given the benefits achieved from the first client research project, MFDA decided to undertake another client research project in 2018 and publish an updated Client Research Report to provide greater transparency and insight into Members, their advisors and their clients as well as identify changes from 2016. MFDA Members were required to provide anonymized information for each client account and each household.

The final aggregated database contains millions of individual pieces of information in respect of:

- 87 Members;
- 16.3 million client accounts;
- 9.1 million households;
- 39.8 million individual investment positions reported in client accounts; and
- Around 60,000 different investment products held by clients.

Key Highlights

2018 DATA

- Members serve approximately 9.1 million households and 81% of households have \$100,000 or less in financial wealth (i.e. mass-market households) with MFDA Members
- Mass-market households own only 4% of the \$4.4 trillion in total financial wealth in Canada
- 78% of clients are invested in a balanced or more conservative portfolio
- 86% of all client accounts are registered accounts
- MFDA advisors represent 85% of all securities licensed individuals in Canada who provide advice to retail investors

CHANGES SINCE 2016



8% INCREASE

in assets administered by MFDA Members



31% DECREASE

in deferred sales charge (DSC and LL) mutual funds held by clients



53% INCREASE

in mutual funds in fee-based accounts



17% DECREASE

in the number of advisors in the Financial Advisory channel

PART II: RESEARCH RESULTS

SECTION A: Client Demographics

Financial Wealth

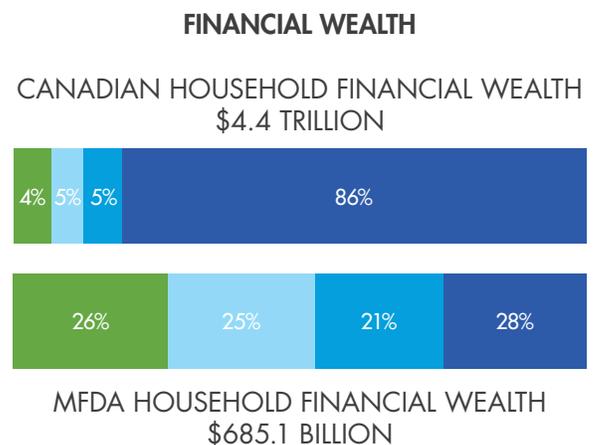
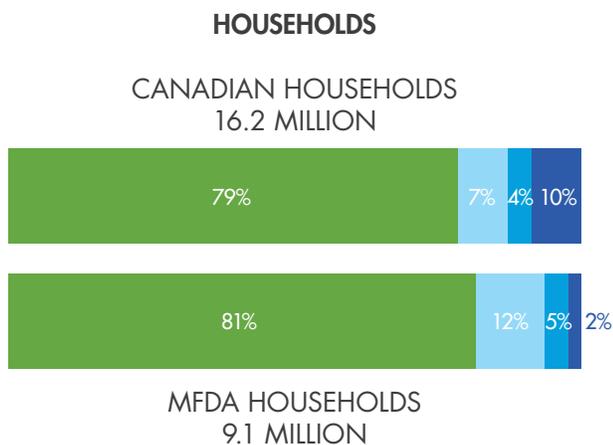
Households have been categorized into the following financial wealth segments:

HOUSEHOLD CATEGORY	FINANCIAL WEALTH
MASS-MARKET	<\$100K
MID-MARKET	\$100K-\$250K
	\$250K-\$500K
AFFLUENT	\$500K+

Financial wealth includes cash and investments. MFDA household financial wealth includes cash and investments held with or recorded on the books of MFDA Members.

(A.1) Comparing Canadian Households and the MFDA Client Household Base

■ <\$100K
 ■ \$100K-\$250K
 ■ \$250K-\$500K
 ■ \$500K+



Canadian Households¹

Most households in Canada (79%) are mass-market households who own \$100,000 or less in financial wealth. However, mass-market households only own 4% of the \$4.4 trillion in financial wealth in Canada. Conversely, affluent households represent only 10% of all households in Canada but own 86% of the \$4.4 trillion in financial wealth. Mid-market households represent 11% of all Canadian households and own 10% of total Canadian household financial wealth.

MFDA Member Households

MFDA Members provide advisory services to 9.1 million Canadian households (or 56% of Canadian households) and administer \$685.1 billion in financial assets.

Of the 9.1 million households serviced by MFDA members, 81% (or 7.4 million households) are mass-market households with less than \$100,000 in MFDA financial wealth. Average household wealth of all MFDA Member clients was approximately \$75,000.

While the number of households serviced by MFDA members in the various financial wealth segments appears to be consistent with the Canadian demographic, the amount of assets managed by MFDA Members for each financial wealth segment is significantly different from the Canadian household distribution of financial wealth.

All four financial wealth segments contribute almost equally to the \$685 billion in MFDA Member assets under administration (AUA). Affluent households were only 2% of all households serviced by MFDA Members but they contributed almost the same amount (28%) to MFDA Member total AUA as mass-market households (26%). Even though mass-market households only own 4% of total financial wealth in Canada and 26% of total MFDA AUA, in terms of number of households, they were the largest and most significant segment of the Canadian population (79%) and MFDA client base (81%).

The above data demonstrates that mutual fund dealers provide the most accessible advisory service to retail investors in Canada.

Other registrants in the securities industry, such as investment dealers and portfolio managers have minimum account thresholds that generally make them inaccessible to mass-market households and in some cases, mid-market households. The fact that MFDA Members generally do not have minimum account sizes, and the features of the mutual fund product itself, assist in providing mass-market clients access to financial advice and to diversified and professionally managed investments.

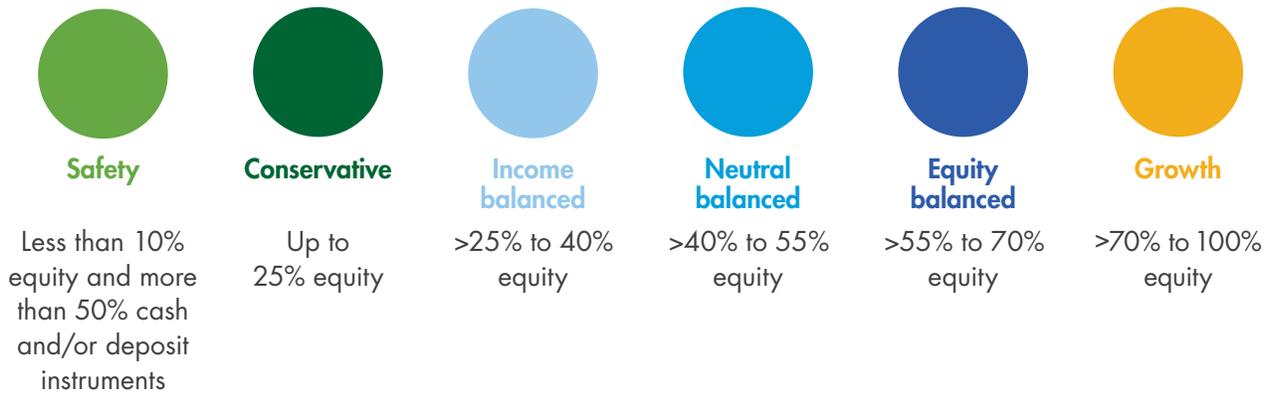
Change Since 2016

Since 2016, there has been a slight decrease in the percentage of mass-market households and increase in the percentage of affluent households in Canada. Similarly, the percentage of mass-market clients serviced by MFDA Members has slightly decreased and the percentage of midmarket clients slightly increased. Since clients tend to accumulate more financial wealth as they age, this slight shift in client financial wealth can be attributed to an aging population.

¹ Investor Economics, 2019 Household Balance Sheet Report—Canada.

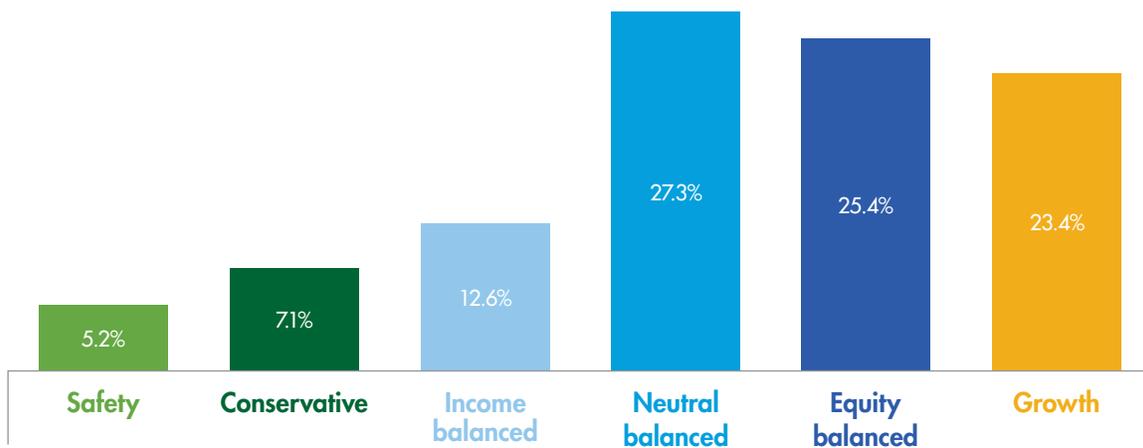
Client Investment Profiles

To account for differences in asset mix, we categorized client portfolios into the six investment profiles outlined below.



Distribution of Client Investment Profiles

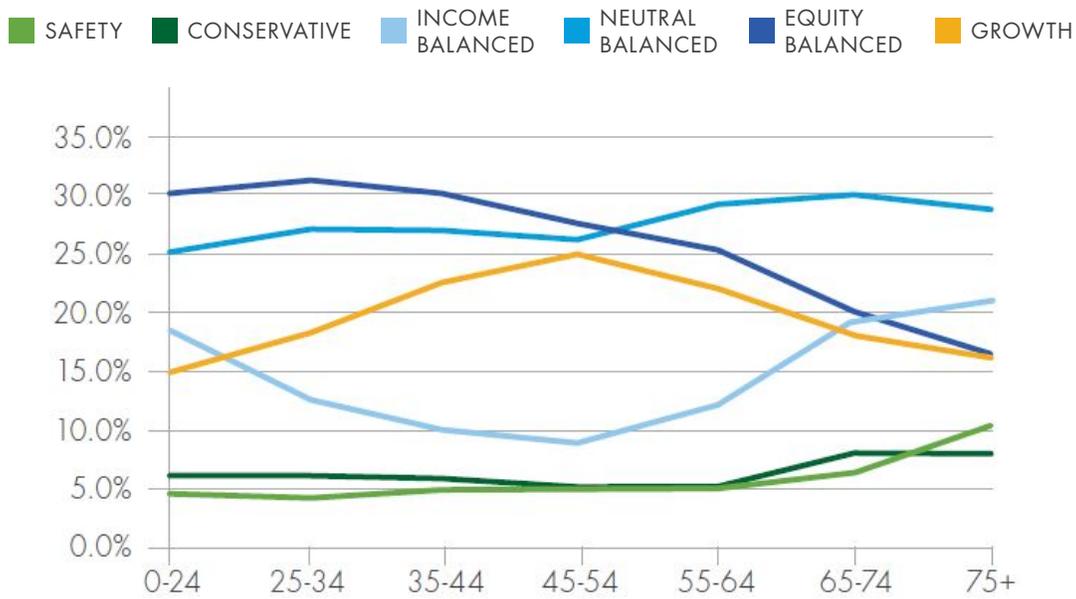
(A.2) Distribution of Households by Client Investment Profiles



The majority (65.3%) of households serviced by MFDA Members have a balanced mandate.

Given that almost two thirds of households have a balanced portfolio, we divided the balanced category further into three additional categories based on asset mix. We also analyzed the growth category to determine if it should be further segregated to identify profiles that had more of an aggressive growth mandate. Specifically we looked at portfolios that had 30% or more of assets in sector or specialty funds. The number of aggressive growth profiles was not significant (1.2% of all households) and therefore remain grouped within the growth category.

(A.3) Percentage of Households in Each Client Profile by Age

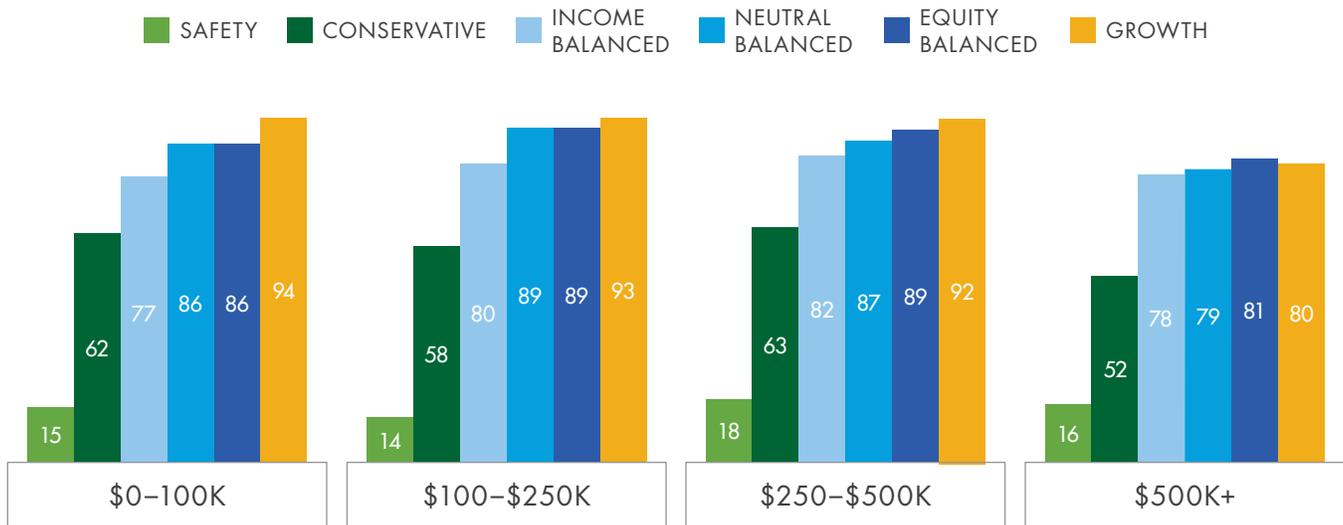


According to the data, clients reach the peak of equity exposure in the 45 - 54 year age range.

After age 55, clients shift from growth and equity balanced profiles to income balanced and, to a lesser extent, neutral balanced profiles. Clients under age 24 had more income balanced and less equity balanced and growth profiles. This may be because clients under 24, who are beginning to earn income and invest, may not have sufficient risk tolerance or risk capacity to withstand a market loss. The number of clients in safety and conservative profiles was relatively consistent across all age categories. Once clients reached age 65, there was an increase in the most conservative investment profiles (safety, conservative, income balanced). However, the majority of clients aged 65 and older still had balanced mandates, particularly neutral balanced portfolios. We note, however, that MFDA Members and their advisors may offer GICs and high interest savings accounts outside the firm and these assets would not be reflected in the above profiles.

Cost Data

(A.4) Average Costs per Client Profile based on MFDA Household Financial Wealth (in basis points)



The cost data reported above includes cost and compensation amounts paid to MFDA Members and does not include other costs of owning an investment fund such as fund management fees and operating costs.²

Account structures and fees can vary which is why we recommend clients work with their advisors to understand what they are paying for and their total cost of investing.

Average cost paid by all households was 83 basis points (bps) or 0.83% of assets.³ 72% of all households paid less than 100 bps while 39% of all households paid less than 72 bps. We note however that we calculated average cost percentages using the market value of assets in client accounts at December 31, 2018. Given the market downturn at the end of 2018, the reported percentages may therefore be somewhat inflated.

As indicated in the graph above, cost varied depending on asset allocation and account size. In balanced and growth portfolios, costs converge as portfolio value increases to the point where there is little difference in cost where portfolios exceed \$500,000. This cost convergence is because fee-based accounts become more prevalent as portfolio size increases. Fee based accounts are not as cost sensitive towards asset class allocation as accounts generating embedded compensation.

Fee-based Accounts

In fee-based accounts, fees are calculated as a percentage of the value of assets in an account. The fee rate generally declines as the size of the account increases.

The fee-based programs offered by Members vary. In some cases, Members establish a fee schedule that applies to all clients. In other cases, Members allow flexibility to advisors by establishing fees. Minimum account sizes also vary but are generally not offered to clients with accounts less than \$100,000 in assets. In fact, 90% of F-class funds were held by households with more than \$250,000 in financial wealth.

² With the exception of fee-based programs holding non-embedded funds. See page 10 for a further explanation of non-embedded fee-based programs.

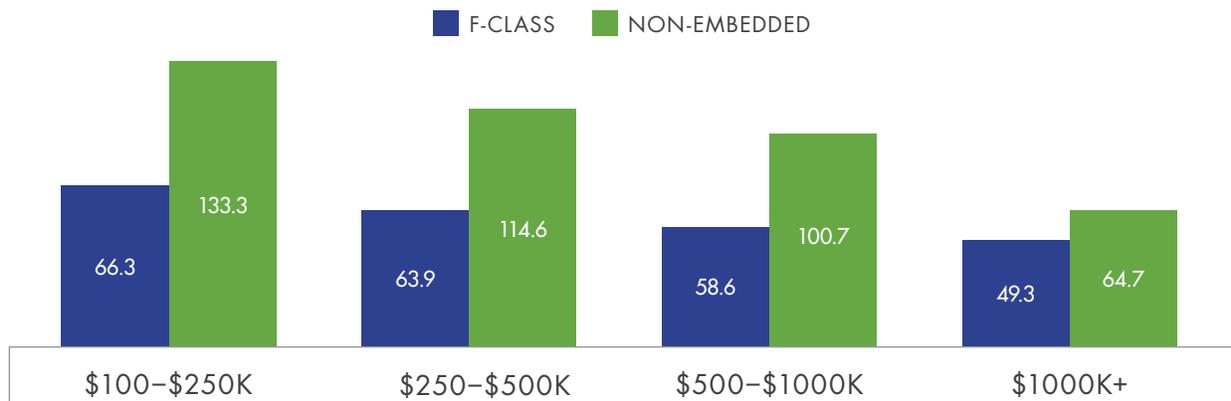
³ One basis point is equal to 1/100th of 1%, or 0.01%.

In fee-based programs using F-class funds, the fee charged to clients only covers compensation to the dealer and advisor for their advisory services. With F-class funds, the fund management fees paid to the fund manager are included (i.e. embedded) in the fund’s management expense ratio. There are other programs within the MFDA membership where clients are charged one combined fee that includes both advisory fees as well as fund management fees (i.e. non-embedded or “NE” funds). Fee-based programs with non-embedded funds are predominantly offered by Members who are either affiliated with a fund manufacturer or have an exclusive distribution arrangement with a fund manufacturer.

Fee-based programs have become more prevalent within the MFDA membership since 2016.

As can be seen in (C.2) *Distribution by Mutual Fund Load Structure*, F-class and non-embedded funds have increased by \$35 billion or 53% since 2016.

(A.5) Average Cost in Fee-based Accounts based on MFDA Household Financial Wealth



As mentioned previously, costs reported for fee-based programs holding F-class funds include advisory fees. However, costs reported for fee-based programs holding non-embedded funds include advisory and fund management fees.

While fees for both types of programs decrease as portfolio size increases, fees in non-embedded programs decrease at a greater pace. In non-embedded programs the manufacturer and dealer are typically affiliated which provides them with operating efficiencies and greater flexibility in establishing fee rates for both advisory and fund management revenues earned by the corporate group.

Fee-based Programs and Exchange Traded Funds (ETFs)

There has been much discussion in the industry about MFDA Members trading in ETFs. MFDA has seen an increase in the number of Members offering ETFs over the past couple of years. ETFs, however, have only been made available in fee-based programs. Mass-market clients (who represent 81% of the MFDA Member client base) generally do not have access to fee based accounts within the investment industry. Accordingly, we expect there will be an increase in Members offering ETFs to midmarket and affluent clients in the future but it is not clear whether this will be the case for mass-market clients.

SECTION B: Distribution Models

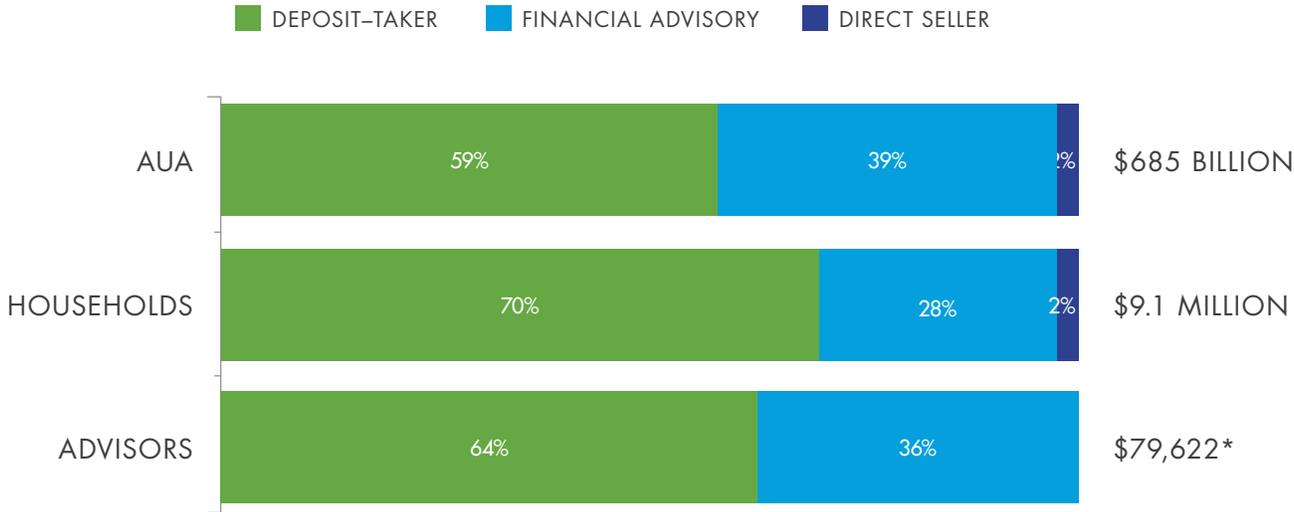
There are different distribution models that operate within the MFDA membership. They vary by size, nature of employment of their sales force, investment products recommended and affiliation with fund manufacturers or other financial services entities. For the purposes of this Report, we have grouped MFDA Members into the following three categories:

DEPOSIT TAKERS	FINANCIAL ADVISORY FIRMS	DIRECT SELLERS
<p>These firms are affiliated with Canadian banks or credit unions. Advisors are generally salaried employees of the affiliated financial institution. Mutual funds are distributed through retail banking or credit union locations. While some deposit-takers do have advisors who are assigned clients and develop a client base, in general, most advisors with deposit-taker firms are not assigned to service specific clients. Rather, the advisors provide service to any client of the bank or credit union as needed.</p>	<p>These firms almost exclusively employ advisors as agents and the advisors are responsible for developing their own book of business and financing their own business operations. These firms may be affiliated with an insurance carrier, fund manufacturer or completely independent of a product manufacturer. With one exception, all FA firms offer third party funds (or have "open" product shelves).</p>	<p>These firms are affiliated with fund companies and typically operate as call centres. Advisors are salaried employees of the affiliated fund company and only sell proprietary mutual funds. Advisors generally do not have their own books of business but instead service clients of the fund company.</p>

DISTRIBUTION MODEL	NUMBER OF FIRMS
DEPOSIT TAKER	13
FINANCIAL ADVISORY	66
DIRECT SELLER	8
TOTAL	87

MFDA Assets and Households

(B.1) MFDA Assets and Households by Distribution Model



* At January 2, 2019.

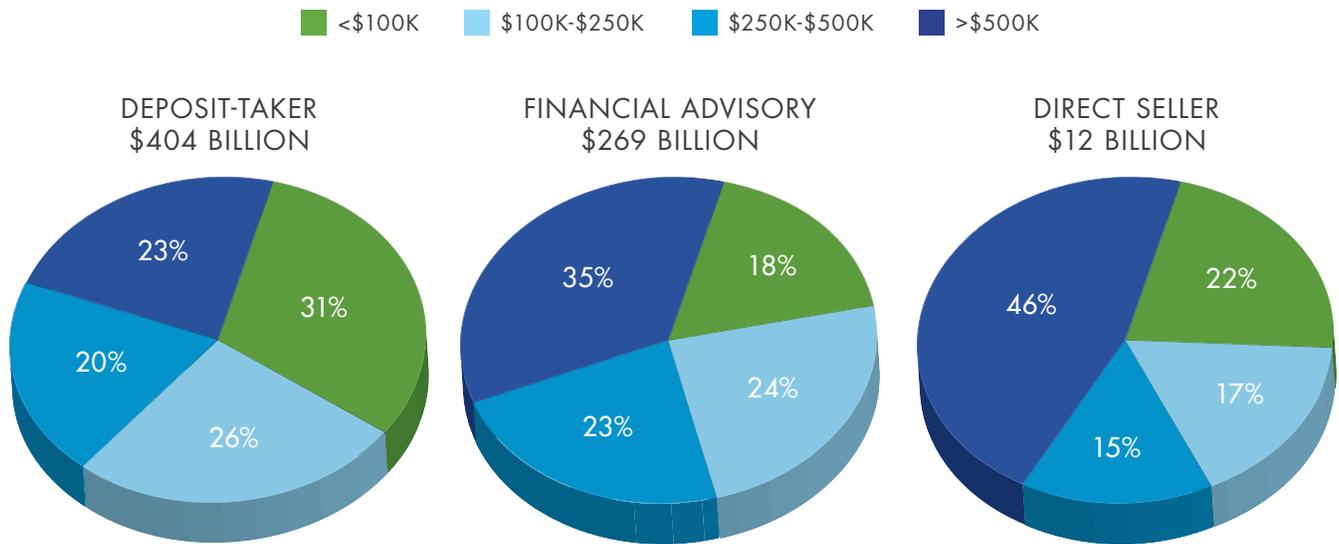
The share of AUA, households and advisors for each distribution channel within the MFDA has remained relatively consistent from 2016. Deposit-Takers had the majority of household relationships (70%), AUA (59%) and advisors (64%) within the MFDA membership. Financial Advisory firms serviced 28% of all households but managed 39% of total AUA and employed 36% of all advisors within the membership. Direct sellers represented a relatively small segment of the MFDA membership servicing only 2% of households and managing 2% of membership AUA. Direct sellers predominantly operate on-line or through call centers and employ less than 1% of all MFDA advisors.

When breaking down the data provincially, the market share between the three distribution channels generally follows the national pattern with the exception of Saskatchewan and Manitoba.

Saskatchewan and Manitoba are the only provinces where the Financial Advisory channel has a greater share of assets than the Deposit-Takers firms.

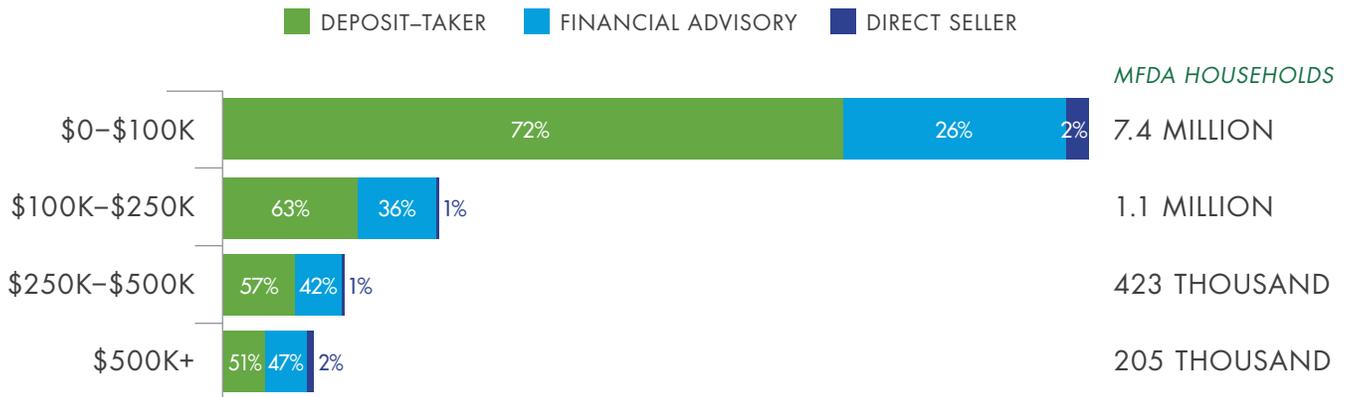
Financial Advisory firms manage 52% of household assets in Saskatchewan and 56% of household assets in Manitoba. Additional segmented data by province can be found in Appendix A.

(B.2) Asset Distribution by MFDA Household Financial Wealth Level



The graph above provides an overview and comparison of the client base within each distribution channel segmented by household wealth. In terms of AUA, affluent clients (>\$500k) represented the largest client segment within the Financial Advisory (35%) and Direct Seller (46%) channels. Conversely, mass-market clients (<\$100k) represented the largest client segment (31%) in the deposit taker channel. Deposit-Takers do not have the same percentage of mid-market and affluent clients because they may offer services to these clients through other affiliated registrants.

(B.3) Share of Total MFDA Member Households



The graph above provides a breakdown of the number of households serviced by MFDA Members based on household financial wealth and further segmented by distribution channel. Deposit-Takers serviced 72% of all mass-market households within the MFDA membership. Financial Advisory firms also play an important role in providing advisory services to the mass-market segment. While Financial Advisory firms provided services to 26% of all mass-market households, these households only contributed 18% to Financial Advisory firm AUA. Financial Advisory firms' market share increased in the mid-market and affluent client segments. Deposit-Takers still, however, had the majority of the client relationships in all client wealth segments. Since 2016, Deposit-Takers have slightly increased their share of mid-market clients stemming from growth experienced in their dedicated financial planning businesses.

Client Age

(B.4) Household Distribution by Age Group

HOUSEHOLD AGE	MFDA	CANADA*
0-24	2%	5%
25-44	31%	31%
45-54	22%	19%
55-64	23%	18%
65+	22%	27%

* Source: Strategic Insight (Canada).

The age segmentation of the MFDA Member client base is generally aligned with the age segmentation of the Canadian population.

According to the above data, 23% of MFDA Members' clients were between the ages of 55 and 64 and approaching retirement while 22% of MFDA Members' clients were 65 years of age or older and potentially in retirement. Further, 18% of clients were 65 years of age or older and had less than \$100,000 in financial wealth.

(B.5) Client Age By Distribution Channel

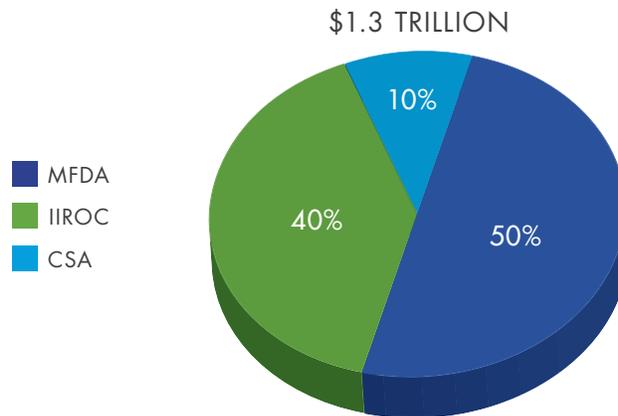
HOUSEHOLD AGE	DEPOSIT TAKER	FINANCIAL ADVISORY	DIRECT SELLER
0-24	2%	2%	2%
25-44	32%	28%	42%
45-54	22%	23%	21%
55-64	23%	24%	18%
65+	21%	23%	17%

The client base for Deposit-Taker and Financial Advisory firms were similar when it comes to client age. Direct Sellers, however, have a somewhat younger client base than both the Deposit-Taker and Financial Advisory firms. This difference is most likely because Direct Sellers have not been in business as long as the other distribution channels who have been able to establish an older and wealthier client base.

SECTION C: Investment Products

Investment Funds

(C.1) Mutual Fund Distribution by Regulatory Channel⁴



In 2018, Canadian investors held approximately \$1.3 trillion in mutual funds⁵. Clients of MFDA Members held the majority of mutual funds in Canada (50%). Approximately 40% of mutual funds were held by clients of IIROC Members and the remaining 10% were held by clients of either a portfolio manager or exempt market dealer who are directly regulated by the Canadian Securities Administrators (CSA).

Investment Funds AUA by Load Structure

Explanation of load structures:

Mutual fund assets were segmented into the following load structures:

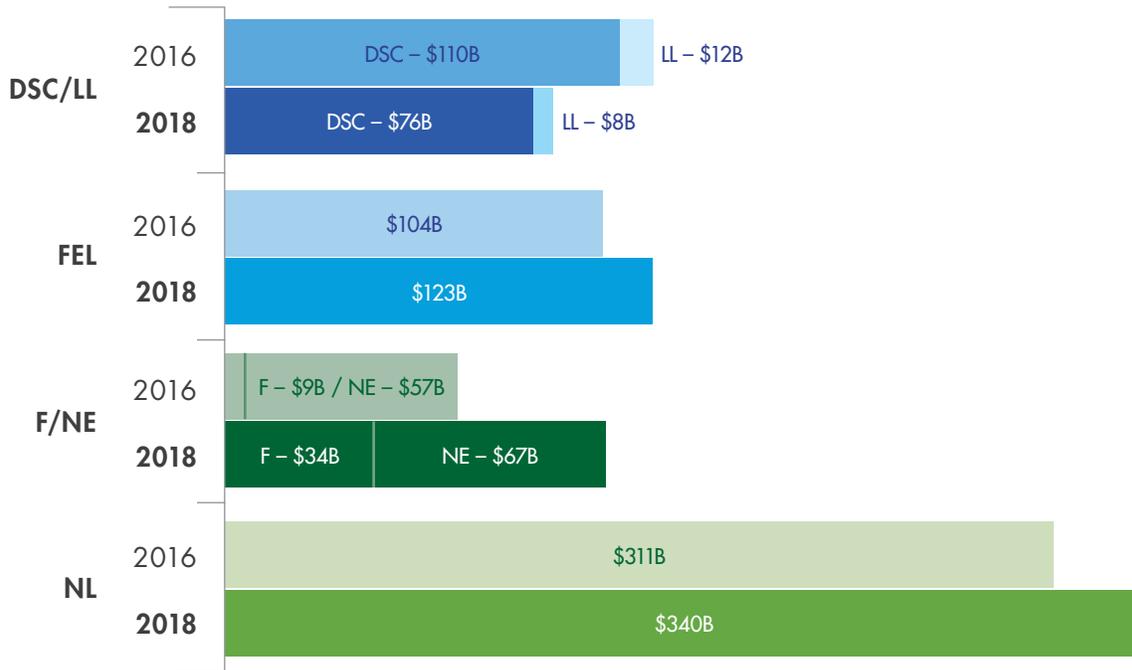
	DSC DEFERRED SALES CHARGE	FEL FRONT-END LOAD	LL LOW-LOAD	F/NE F-CLASS/ NON-EMBEDDED	NL NO-LOAD
POINT OF SALE COMMISSION	EMBEDDED	CLIENT PAID	EMBEDDED	NONE	NONE
TRAILER FEE	EMBEDDED (30–50bps)	EMBEDDED (60–100bps)	EMBEDDED (40–70bps)	NONE	EMBEDDED (50–100bps)
COMMENTS	Up-front commission paid by issuer 5–7 year redemption schedule	Commission paid by client at purchase (deducted from amount invested)	Lower up-front commission paid by issuer Shorter redemption schedule (e.g. 3 years)	No up-front commission No trailer fee F: advisory fees are non-embedded but fund management fees are embedded NE: fund management fees are also non-embedded	No up-front commission

⁴ Strategic Insight. Does not include exchange-traded funds.

⁵ Ibid.

Change in Distribution by Mutual Fund Load Structure

(C.2) Distribution by Mutual Fund Load Structure



Investment funds increased from \$603 billion to \$648 billion from 2016 to 2018.

The most significant change since 2016 was a decline in DSC funds held by clients.

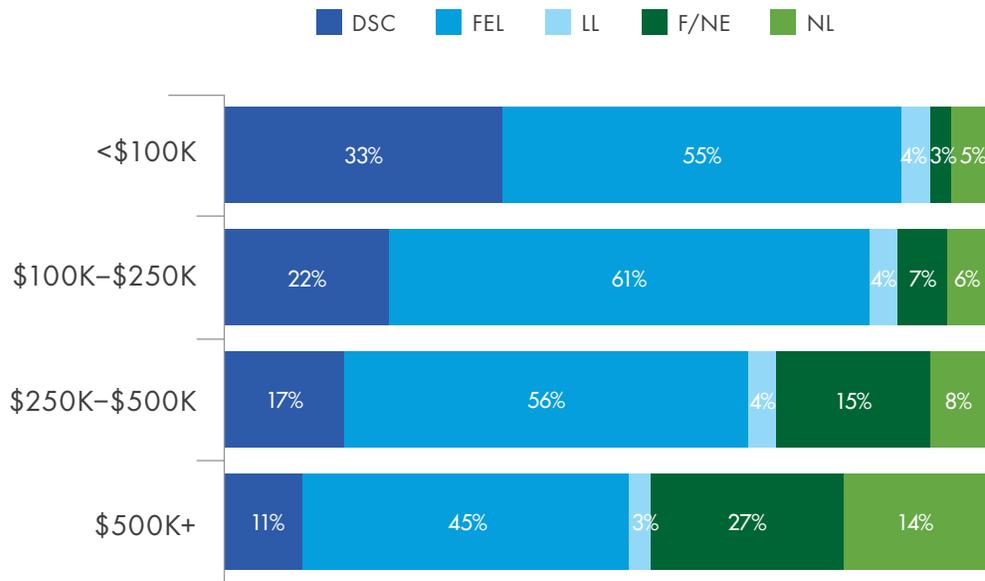
DSC funds decreased by \$34 billion or 31% given the general trend within the industry to limit or prohibit their sale.

No load funds are predominantly recommended by Deposit-Taker firms and continue to be the most common type of fund held by MFDA Members representing approximately 53% of all investment fund AUA. While non-embedded and F-class funds comprise only 16% of all investment fund AUA, they experienced the greatest growth since 2016 increasing by 53% or by \$35 billion. Front-end load funds also increased by 18% or \$19 billion and represent 19% of investment fund AUA. Based on observations from MFDA examinations, funds sold on a front-end basis are generally sold without an initial sales charge.

The above load analysis relates only to investment funds held by MFDA Member clients. Clients also held approximately \$1 billion in other investment products with an MFDA Member that were subject to a DSC fee structure (predominantly segregated funds but also principal protected notes). Most advisors that sell segregated funds do so outside the MFDA Member. Where investment products are sold outside the MFDA Member, they would not be reflected on the books and records of the Member or reflected in the above data.

Financial Advisory Firms

(C.3) Load Type Share of Assets by MFDA Household Financial Wealth Level – Financial Advisory Firms



Financial Advisory firms have the most diverse operations and mix of load structures. When looking at the Financial Advisory firm client base, the amount of DSC funds held in client households decreases as the level of financial wealth increases.

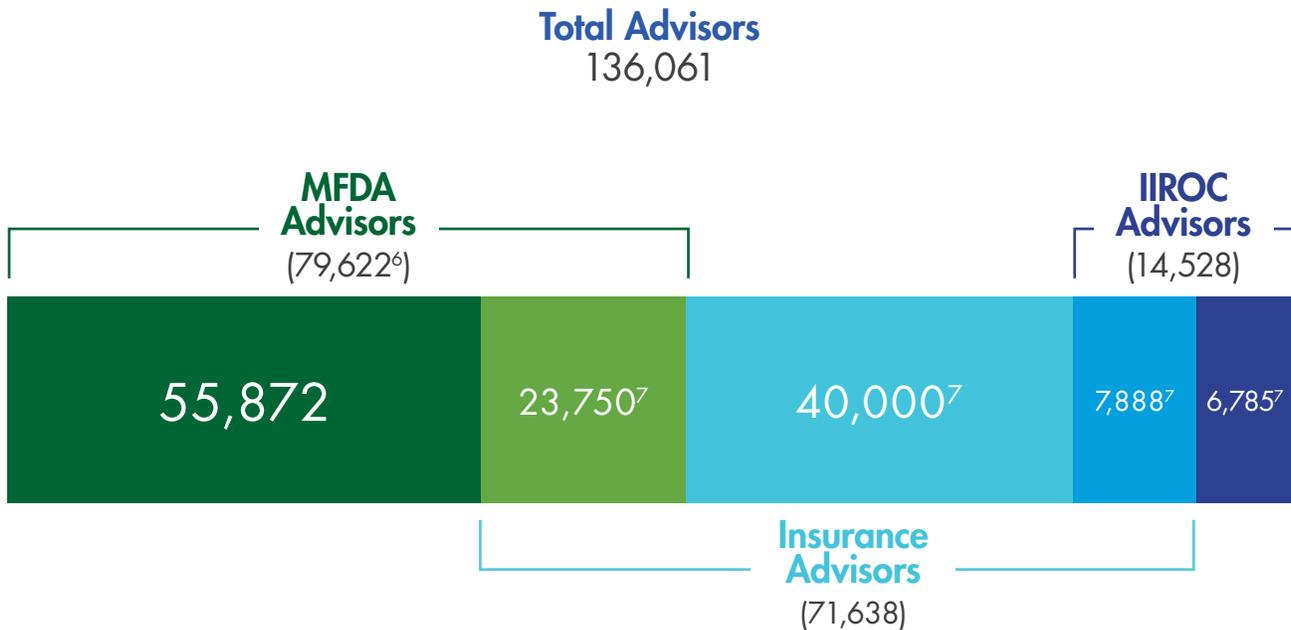
Overall, there has been a decrease in DSC funds held by clients in all financial wealth segments as the industry continues to shift away from them and towards funds without a load.

Mass-market clients continue to have the highest concentration of DSC funds (33%).

Front-end load funds were the most prevalent type of fund for clients regardless of household financial wealth asset levels within the Financial Advisory channel. This shift to front-end load funds is ongoing as our experience indicates that advisors switch 10% of DSC funds annually and the balance of DSC units upon expiration of the DSC redemption schedule to front-end load funds on a no load basis. There have also been shifts from DSC funds into F-class and non-embedded funds with the greatest change experienced by clients in the mid to mass-market segments.

Advisors

(C.4) MFDA Share of Advisors in the Canadian Financial Services Landscape



There are 79,622 MFDA advisors across the country to serve investors, which is the largest proportion of securities registered advisors that work with retail clients in Canada. Almost all MFDA advisors are dually employed or licensed with a bank, credit union, or insurance agency. As a result, MFDA advisors are not limited to providing securities related advice but are able to provide financial advice across multiple financial service sectors. In the Financial Advisory channel, insurance advice is an important aspect of the advisory services provided to clients. Advisors' insurance activity also provides another source of revenue which means that they are not solely reliant on mutual fund activity to finance their business.

⁶ As at January 2, 2019.

⁷ Investor Economics Household Balance Sheet Report—Canada, 2019. All numbers are approximate. IIROC advisors only include those in a direct advisory role with retail clients.

(C.5) Advisors by Book Size – Financial Advisory Firms

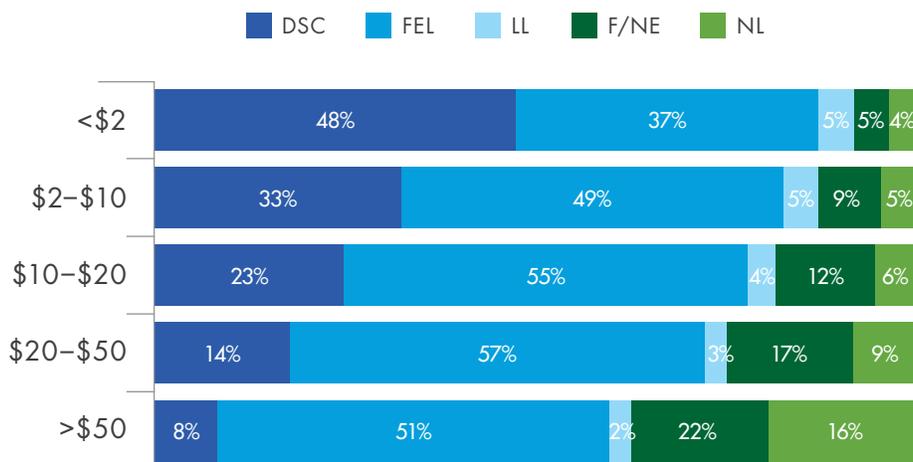
BOOK SIZE	2018 ASSETS (MILLIONS)	2018 HOUSEHOLDS*	2018 ADVISORS**	2016 ADVISORS**	CHANGE IN ADVISORS
<\$500K	\$1,388	60,630	8,816	11,959	-3,143
\$500K–\$2M	\$5,933	152,956	5,385	7,064	-1,679
\$2M–\$10M	\$35,450	570,385	7,123	8,238	-1,115
\$10M–\$20M	\$42,115	452,845	2,945	3,099	-154
\$20M–\$50M	\$90,070	755,917	2,888	2,706	182
\$50M+	\$93,975	593,078	1,131	903	228
TOTAL	\$268,930	2,585,811	28,288	33,969	-5,681

*excludes households with no advisor code.

**based on advisor codes submitted to MFDA.

The number of advisors licensed by Financial Advisory firms decreased by 5,681 or 17% from 2016 to 2019. The majority of these advisors had books of less than \$10 million. This decrease is largely a result of Members prohibiting the sale of DSC funds which small book advisors rely on to finance their operations. This illustrates the independent nature of the employment relationship of advisors in the Financial Advisory channel.

(C.6) Asset Load Type by Advisor Book Size – Financial Advisory Firms*

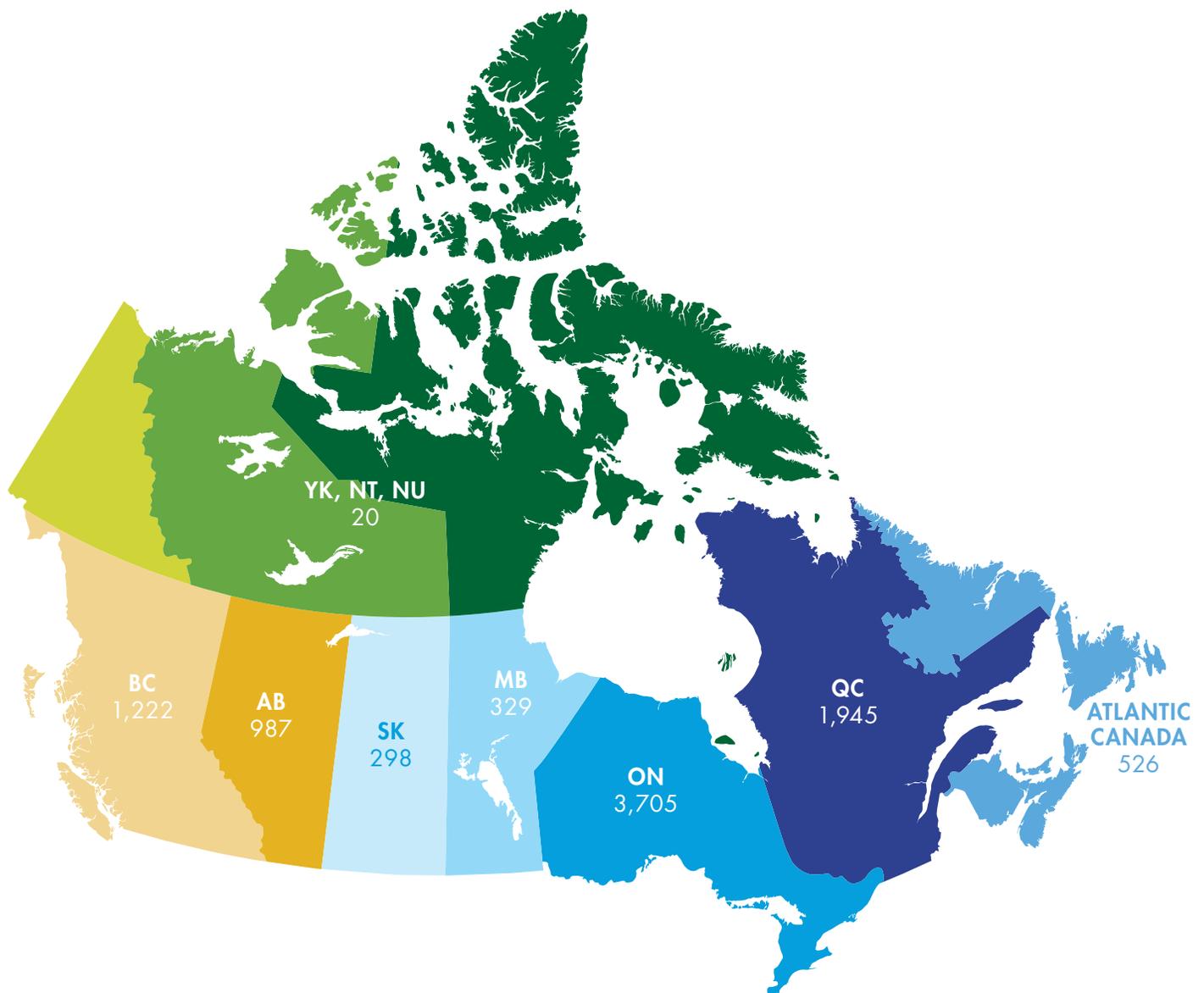


*includes only Financial Advisory firms with open product shelves.

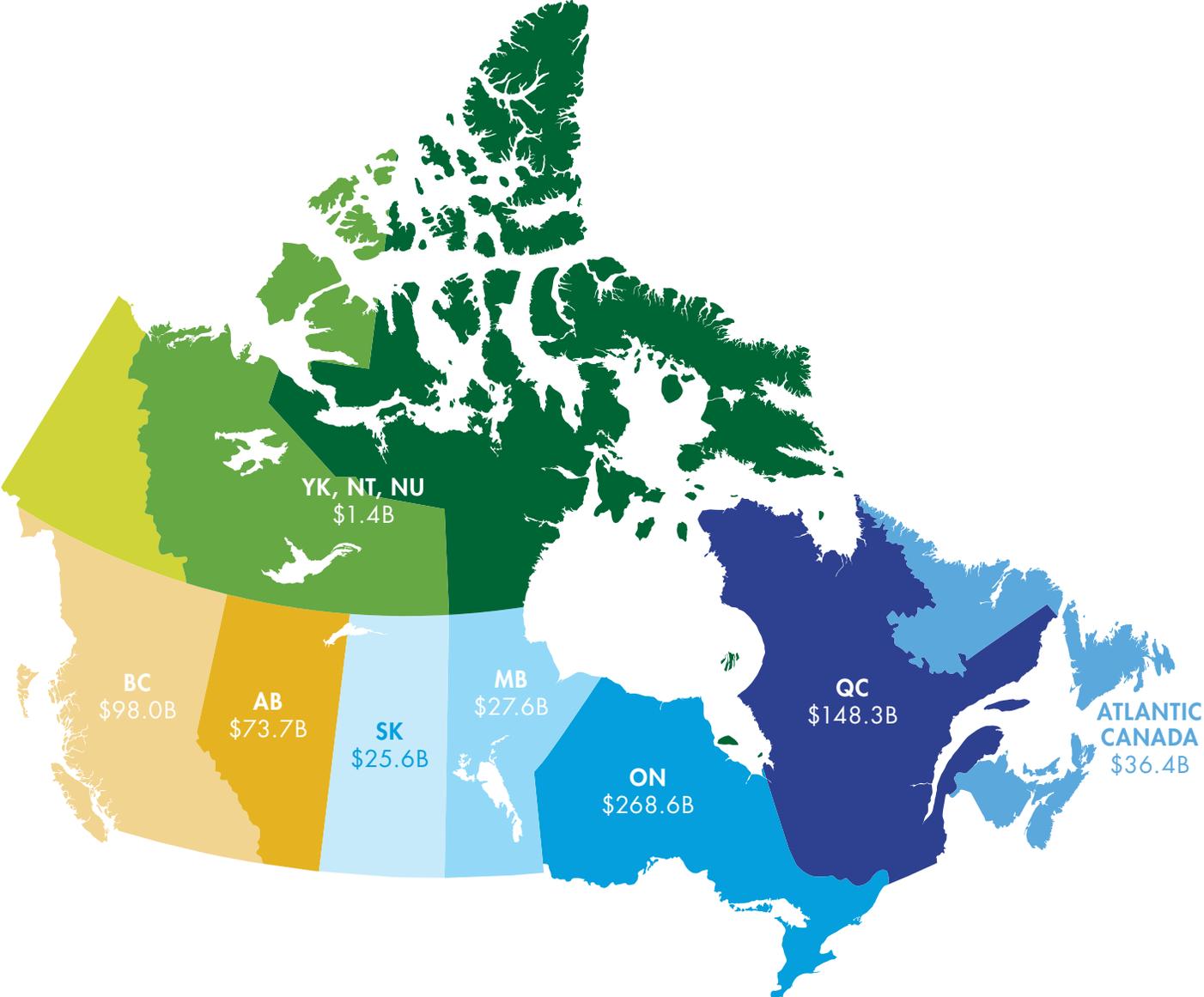
This chart illustrates how advisors manage the load structure within their books of business to finance their operations. While the amount of DSC funds has decreased significantly from 2016 to 2018, DSC funds still make up almost half of the assets of advisors with books of under \$2 million. As evidenced in the chart above, as advisors books of business grow, they finance their business through ongoing trailing and fee-based commissions rather than relying on upfront DSC commissions. As book size increases, advisors begin to move to fee-based or unbundled fee products, where they can demonstrate some pricing flexibility to their high-end clients.

APPENDIX A: PROVINCIAL DATA

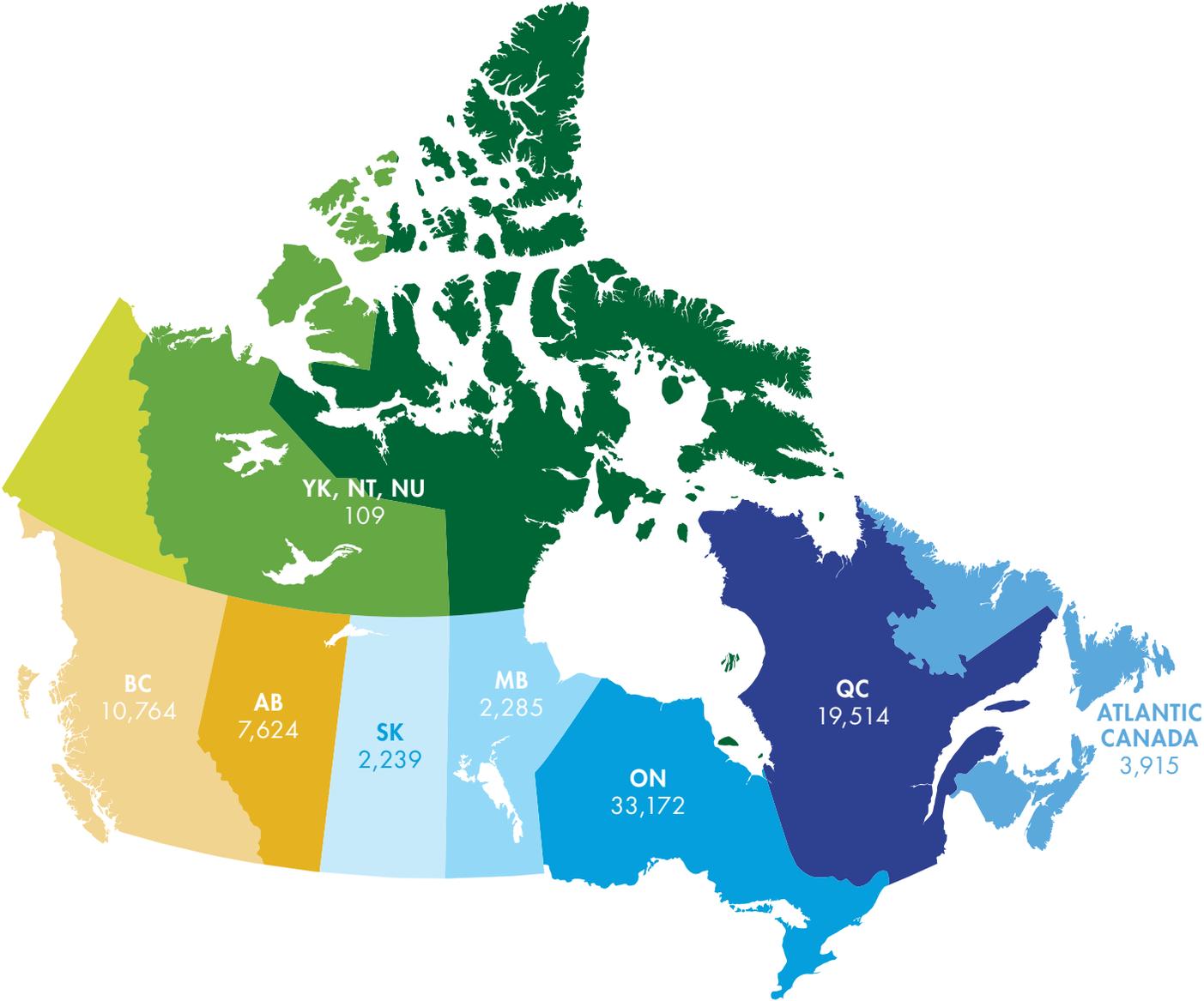
MFDA Households Across Canada
(‘000s)



MFDA Assets Across Canada



MFDA Advisors Across Canada





**Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels**

121 King Street West, Suite 1000, Toronto, Ontario M5H 3T9

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