Balanced Fund Landscape for Canadian Fund Investors
2024

Morningstar Research Inc.
April 2, 2024

Michael Dobson
Manager Research Analyst
michael.dobson@morningstar.com

Danielle LeClair, MFin
Director of Manager Research, Canada
danielle.leclair@morningstar.com

Objective

Target-allocation funds, or balanced funds, present a one-stop option for Canadian retail investors looking for diversified portfolios. These balanced funds make up a significant portion of retail assets in Canada. This report identifies and investigates trends in product development, fund flows, fees, and performance of this market.

Key Takeaways

- As of the end of December 2023, retail assets in balanced funds totaled over CAD 735 billion. This represents a growth of roughly CAD 135 billion over the last five years, nearly all attributable to capital appreciation; balanced funds experienced less than CAD 1 billion of net inflows over that same period.

- By multiple measures, Canadians continue to show preference for more globally oriented options. Global balanced funds (those holding less than 70% of assets in Canada-domiciled securities) grew, taking in more than CAD 44 billion in net inflows. Canadian balanced funds (those holding more than 70% of assets in Canada-domiciled securities) shrank, seeing more than CAD 45 billion in net outflows. This widened the market share gap between the two categories.

- We estimate that 577 balanced funds opened and 488 closed from 2014 through December 2023. Fund firms offered more global strategies and fewer Canadian strategies. There are 30% more global balanced strategies today and 31% fewer Canadian balanced strategies.

- Balanced exchange-traded funds remain a popular choice. The number of balanced ETFs more than doubled from 39 to 66, and their assets quintupled from CAD 3 billion to CAD 15 billion in the five years ended December 2023.

- Bank-owned asset managers of Royal Bank, Toronto-Dominion, Bank of Montreal, Scotiabank, CIBC, and National Bank manage most of the balanced assets; total market share, as defined by total assets, for these firms increased by 1.5 percentage points in the five years ended December 2023.

- There are few sustainable balanced funds, but they still represent a big part—23%—of the sustainable funds market. There were 17 new sustainable balanced funds last year.

- Outflows from more expensive share classes continue at an accelerated pace since the start of 2022. Commission-based advice share classes experienced CAD 74 billion in outflows by December 2023. Fee-based advice share classes saw CAD 6 billion of inflows in the same period. This trend coincides with the implementation of the Client-Focused Reforms that increases fee transparency.

► Average balanced fund fees have declined over the last 10 years, though the pace has slowed more recently. Mutual fund fees dropped 20 basis points to 1.31%. ETF fees plunged 47 basis points.

► Commission-based fees between Canadian balanced and global balanced funds are roughly the same. However, fee-based share classes for global balanced funds command higher fees than Canadian balanced funds.

► On an asset-weighted basis for firms with assets over CAD 1 billion, Vanguard remains the cheapest balanced fund asset manager at 26 basis points (0.26%). iShares and Dimensional were second and third at 33 and 49 basis points, respectively.

► Every Morningstar Canada allocation index bounced back in 2023 with four of the six indexes posting double-digit gains. Since 2009, none of these indexes posted back-to-back annual losses, reinforcing the benefits of patience.

► In 2023, the three global allocation indexes beat the three Canadian allocation benchmarks for the first time in three years.

Introduction
Balanced funds are the second largest category in Canada in terms of total assets. There were more than 1,000 unique balanced funds in Canada with about CAD 735 billion in assets as of December 2023. They provide straightforward, diversified portfolios for many investors.

New funds and market appreciation have bolstered balanced fund assets over the last 10 years as inflows remained muted.

Little has changed since our inaugural March 2023 report. Canadian investors continue to want low-priced, global funds, and fund companies have responded. The balanced ETF space, for example, grew assets more than fivefold in the last five years and saw inflows every month going back to January 2019.

The Client-Focused Reforms, or CFRs, have influenced distribution channels. The CFRs were a series of regulatory reforms designed to raise the minimum standards of conduct for advice givers in Canada and to root out or disclose conflicts of interest. Among other stipulations, they required advisors to have documented know-your-client and know-your-product processes, and to show clearly why a recommendation is suitable considering both abovementioned processes.

We wrote in June 2023 that the impact of the CFRs was minimal but encouraging, owing to the short time span since full implementation took effect in December 2021. Since the start of the new regulatory regime, fee-based share classes grew assets slightly while commission-based share class assets fell substantially. This is as expected, as fee-based share classes allow investors to negotiate advisor compensation separately while commission-based share classes can have more complex and expensive arrangements.

Different factors have driven fee reductions in different distribution channels over the last 10 years. Vanguard's 2018 launch of balanced ETFs in Canada pressured rival ETFs to cut their fees. Without a similar "Vanguard Effect" mutual fund fees experienced a more gradual decline. The growth in size and number of ETFs and fee-based share classes drove asset-weighted fees down at most asset managers.

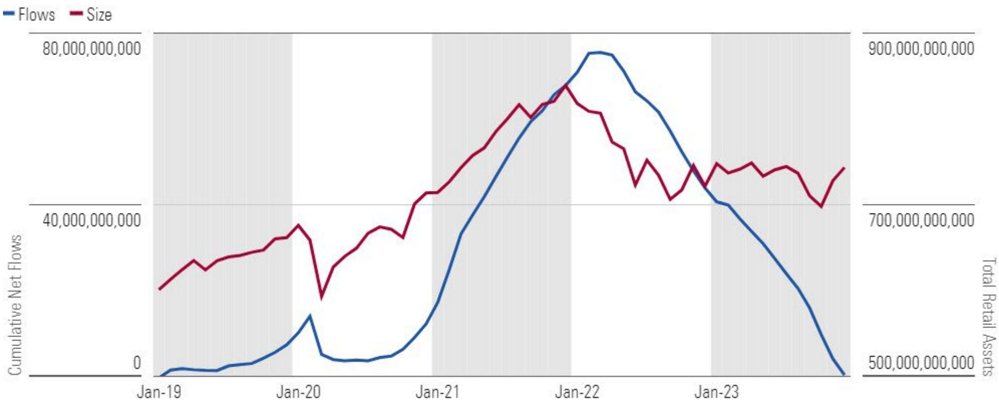
While interest rates continued to be volatile in 2023, strong stock performance helped the 60/40 portfolio bounce back after an abysmal 2022. This was especially true in global balanced funds, which outperformed Canadian balanced funds.

Product

Growth of Balanced Funds Over Time

Canadian retail investors showed great interest in balanced funds during the pandemic but have shied away from them since March 2022. The following exhibit shows balanced funds' total retail assets and cumulative flows over the last five years. The size of balanced funds in Canada peaked at the end of December 2021 at CAD 839 billion, driven by CAD 60 billion in net inflows in two years. However, inflows peaked in March 2022 and have gone down ever since. Balanced funds experienced net outflows of CAD 75 billion from March 2022 to December 2023, more than all the net inflows from January 2019 through February 2022.

Exhibit 1 Total Retail Assets and Cumulative Flows Into Balanced Funds, 2019-23



Source: Morningstar Direct.

Largest Balanced Fund Managers

Below are the 15 Canadian firms managing the most retail balanced assets. The asset-management arms of the big six banks, who have strong distribution networks through in-house advisors, dominate. They manage more balanced assets than the rest of their competitors combined. Little changed among the biggest managers from 2022 to 2023, with only two small shifts in rankings. Fidelity and TD Asset Management and CIBC and CI Investments each swapped spots.

Exhibit 2 Largest Asset Managers by Balanced Retail Assets

Assets in CAD Millions. Scotiabank consists of both 1832 Asset Management and Dynamic Funds.

Branding Name	Total Retail Assets 2023	Total Retail Assets 2022	Rank 2023	Rank 2022
RBC	147,189	143,145	1	1
Fidelity International	81,304	74,702	2	3
TD	79,881	81,029	3	2
Scotiabank	59,610	60,315	4	4
Investors Group	51,539	45,543	5	5
BMO	42,837	41,209	6	6
Desjardins	32,885	33,274	7	7
CIBC	31,697	29,937	8	9
CI Investments	31,373	33,118	9	8
Mackenzie	22,820	22,803	10	10
National Bank (Canada)	21,441	20,536	11	11
Manulife	17,067	16,551	12	12
ATB Financial	11,629	11,519	13	13
EdgePoint	11,510	10,015	14	14
Vanguard	8,172	6,873	15	15

Source: Morningstar Direct.

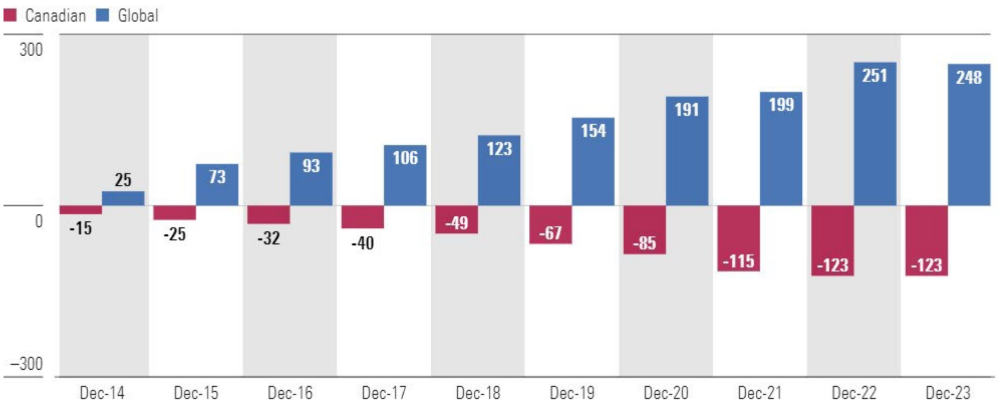
Larger moves came outside of the top 15. Dimensional Fund Advisors and iShares (BlackRock) rose three spots and two spots, respectively, in 2023. Both also offer some of the cheapest balanced strategies; iShares dominates balanced ETFs and Dimensional offers competitively priced mutual funds.

Fund Launches

Firms launched 578 balanced funds while merging or liquidating 488 since the start of 2014. The number of global balanced funds (or those with more than 70% of assets outside of Canada) grew by 242 while

Canadian balanced offerings (or those with more than 70% of assets in Canada) shrank by 143. The number of Canadian balanced funds today have dropped 40% from five years ago.

Exhibit 3 Net Change in Number of Balanced Strategies, 2014-23

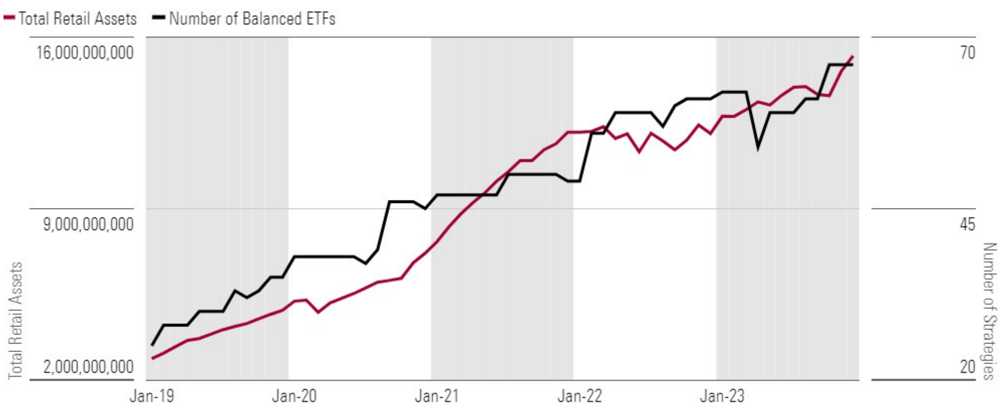


Source: Morningstar Direct.

Fee-based advice share classes accounted for 45% of all share class launches in the last 10 years and only 39% of all closures. Commission-based share classes represented 44% of all share class launches and 53% of all closures.

Though smaller in size and number, balanced ETFs offer investors cheaper and more flexible alternatives to mutual funds. Some of the biggest balanced ETF strategies own a static mix of index ETFs and charge just 20 basis points (0.20%). Exhibit 4 shows the significant growth in both assets and number of balanced ETF strategies in Canada. It is still small compared with balanced mutual funds, but its growth over the last five years warrants close attention. From 2019 through 2023, assets grew to CAD 15.0 billion from CAD 2.9 billion, and the number of balanced ETFs grew from 25 to 66.

Exhibit 4 Balanced ETF Market Size by Assets and Number of Strategies, 2019-23



Source: Morningstar Direct.

Sustainable Balanced Funds

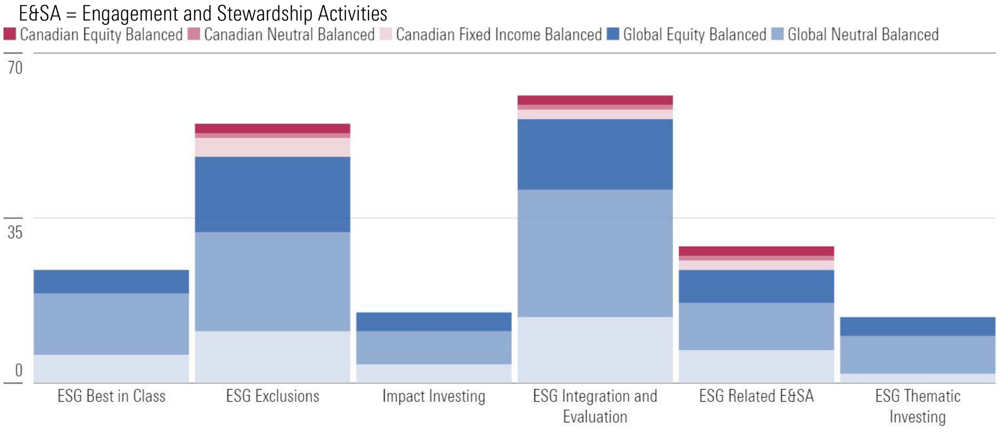
As noted in the Canada Sustainable Funds Landscape 2023 Year in Review report, sustainable funds continue to be a priority for investors. Sustainable fund assets hit all-time highs in 2023 with 78 new sustainable funds and CAD 45 billion in total assets under management. There were 17 new sustainable balanced funds, which now represent 23% of sustainable funds available to Canadians.

Part of the continued success of sustainable funds in Canada may be attributed to the February 2023 launch of the Canadian Investment Funds Standard Committee's, or (CIFSC) inaugural Responsible Investment Identification Framework. This disclosure-based framework aims to increase transparency and provide clarity around six non-mutually exclusive responsible investment approaches. The approaches include:

- ESG Best in Class
- ESG Exclusions
- Impact Investing
- ESG Integration and Evaluation
- ESG Related Engagement and Stewardship Activities
- ESG Thematic Investing

The 76 balanced funds identified by this framework have earned a total of 198 responsible investment flags. Global balanced funds represent approximately 90% of sustainable balanced funds. ESG Integration and Evaluation, where funds consider environmental, social, and governance criteria as an essential component of their security selection evaluation methods, and ESG Exclusions, where specific sectors, industries, materials, or companies are excluded based on ESG criteria, are the most common approaches. Impact Investing, which requires funds to a have stated impact measurement and management policy, is the least common approach due to its more stringent requirements. These trends are consistent with broader sustainable fund trends.

Exhibit 5 Number of Balanced Funds With Responsible Investing Tags, December 2023
E&SA = Engagement and Stewardship Activities



Source: Morningstar Direct.

Sustainable balanced funds also have provided investors with less exposure to ESG risks than their conventional balanced fund peers, as measured by Morningstar's Sustainability Rating. This rating is an asset-weighted average of Morningstar Sustainalytics', a division that provides sustainability research, company and sovereign ESG Risk Ratings for a strategy's holdings over the trailing 12 months. Overall, 41% of sustainable balanced funds and 2% of conventional balanced funds earn high sustainability ratings.

Exhibit 6 Breakdown of Globe Ratings for Balanced Funds, Sustainable vs. Conventional
As of December 2023

		Sustainable Funds	
Sustainability Rating	**Conventional Funds %**	**#**	**%**
🌐🌐🌐🌐🌐	2%	28	41%
🌐🌐🌐🌐	21%	37	54%
🌐🌐🌐	59%	2	3%
🌐🌐	17%	0	0%
🌐	2%	1	1%

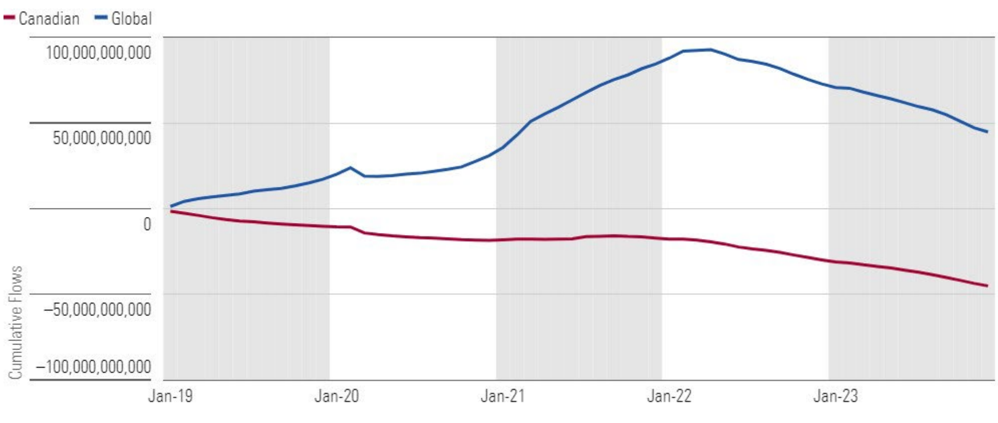
Source: Morningstar Direct.

Flows

Investors Moved Away From Canadian and Into Global Balanced Funds

Canadian investors preferred global portfolios over domestic ones, part of a longer-term trend toward greater geographic diversification. Global balanced funds saw more than CAD 44 billion of net inflows while Canadian balanced funds saw more than CAD 45 billion of net outflows.

Exhibit 7 Cumulative Flows, Canadian Balanced vs. Global Balanced Funds



Source: Morningstar Direct.

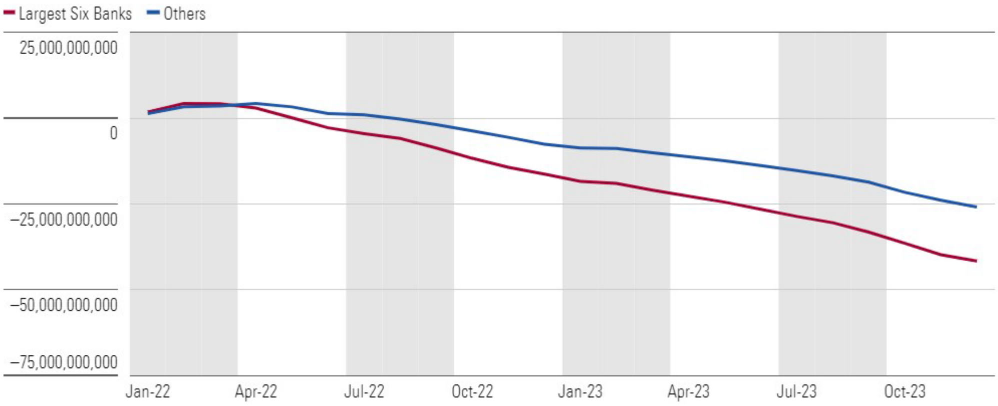
Global balanced funds command nearly three fourths of the balance fund segment's market share. They gained nearly 11 percentage points of market share and now have 72% of retail assets, up from 61% five years ago. Canadian balanced funds lost 12 percentage points of market share in that time, dropping from 35% of retail assets to 23%. Target-date funds and tactical balanced funds gained less than one percentage point of market share.

Bank-Owned Asset Managers Vs. Competitors

The asset-management arms of the largest six banks—Royal Bank of Canada, Toronto-Dominion, Bank of Montreal, Scotiabank, CIBC, and National Bank—collectively manage more assets than every other firm combined. This is likely due to the banks also owning many of the largest financial advisor networks in Canada, which opens potential conflicts of interest. Bank advisors, for example, often recommend funds from the asset-management arms of their banks, which serves the financial institution's interests, but not always those of the client.

The oligopolistic environment led Canadian regulators to implement the Client-Focused Reforms, or CFRs. The reforms seek to improve investors' experience through, among other things, pricing transparency and know-your-product rules. From January 2022 to December 2023, the asset-management firms of the Big Six experienced CAD 41 billion in net outflows, far more than the CAD 26 billion net outflows for independents. This difference contributed to independents gaining 1.4 percentage points of market share over the period.

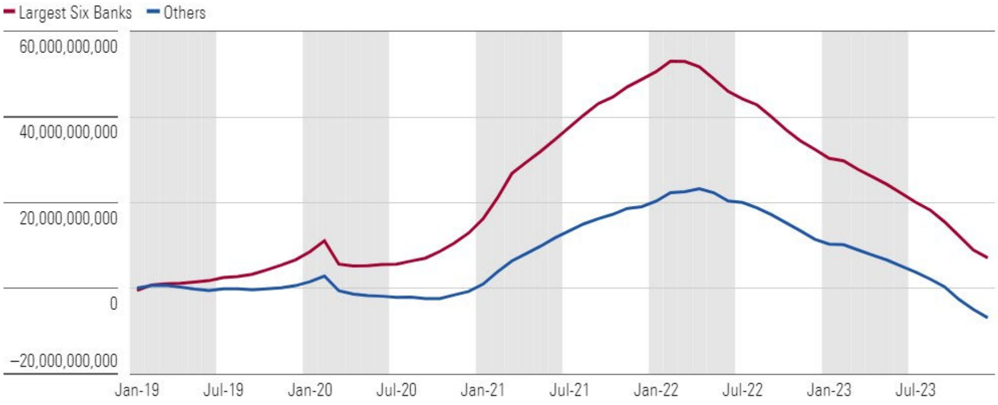
Exhibit 8 Cumulative Flows, Six Largest Bank-Owned Asset Managers vs. Others, 2022-23



Source: Morningstar Direct.

The following chart shows a full five-year picture that includes the period from January 2019 to December 2021 when the six largest Canadian banks' asset-management arms enjoyed CAD 42 billion in net inflows, more than double independents' CAD 18 billion.

Exhibit 9 Cumulative Flows, Six Largest Bank-Owned Asset Managers vs. Others, 2019-23

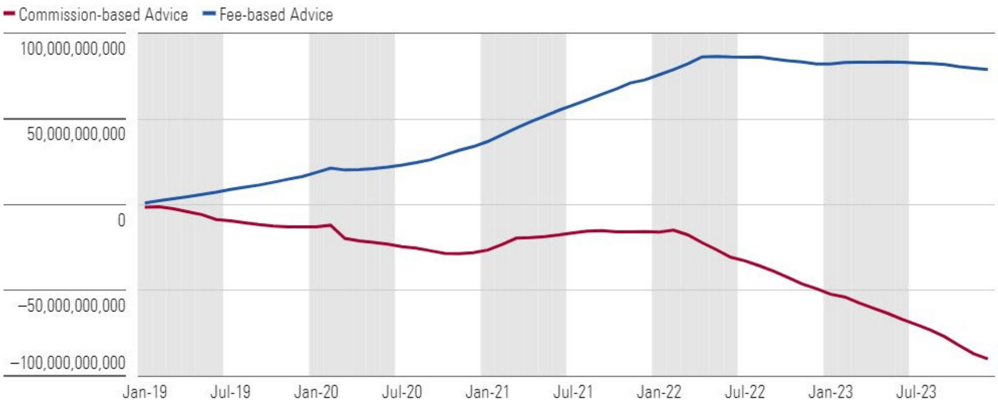


Source: Morningstar Direct.

Large Distribution-Channel Shift

The largest change in the last five years in balanced funds are the types of share classes investors buy. Besides choosing cheaper balanced ETFs, investors are opting for lower-fee share classes of traditional mutual funds. The following graph shows that outflows in commission-based share classes (where the cost of advice and distribution cost are bundled into one fee) more than exceed the inflows of fee-based share classes (where the cost of advice is separately negotiated or charged, which gives investors greater transparency).

Exhibit 10 Cumulative Flows, Commission-Based Share Classes vs. Fee-Based Share Classes, 2019-23



Source: Morningstar Direct.

Nearly all the outflows of the last two years came from commission-based share classes, which lost CAD 74 billion from December 2021 to December 2023. Fee-based advice share classes and ETFs experienced inflows over that same period of CAD 6 billion and CAD 3 billion, respectively. This is evidence that the CFRs are achieving their desired effects: When Canadians get more information about the fees they are paying, they choose cheaper and simpler options.

There is still a long way to go until commission-based share classes give up their lead, though. Commission-based share classes still comprise 69% of retail assets in balanced funds. Of the 100 largest balanced fund share classes in Canada, 71 are commission-based. This is mostly due to the influence of the bank-owned asset managers. Not only are they large, but their composition of assets also looks different than independents. Nearly four fifths of the Big Six’s retail balanced fund assets reside in commission-based share classes against three fifths for independents.

Exhibit 11 Breakdown of Retail Assets, Six Largest Bank-Owned Asset Managers vs. Others, December 2023

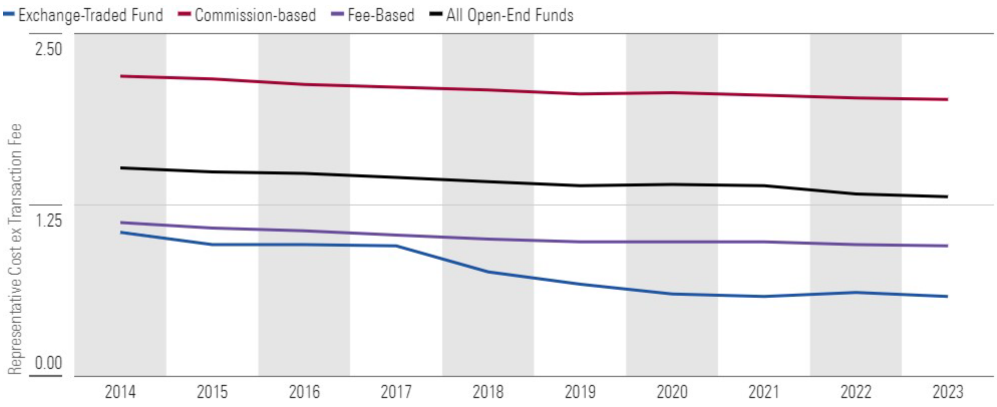
	Commission-Based Advice	Fee-Based Advice
Largest Six Banks	77.26%	21.67%
Others	58.68%	33.32%

Source: Morningstar Direct.

Fees

Fees for balanced funds in Canada have been declining steadily over the last 10 years. In 2014, investors paid an average of 1.52% for mutual funds and 1.05% for ETFs. Today they pay 1.31% and 0.58%, respectively.

Exhibit 12 Average Fee by Distribution Channel, 2014-23

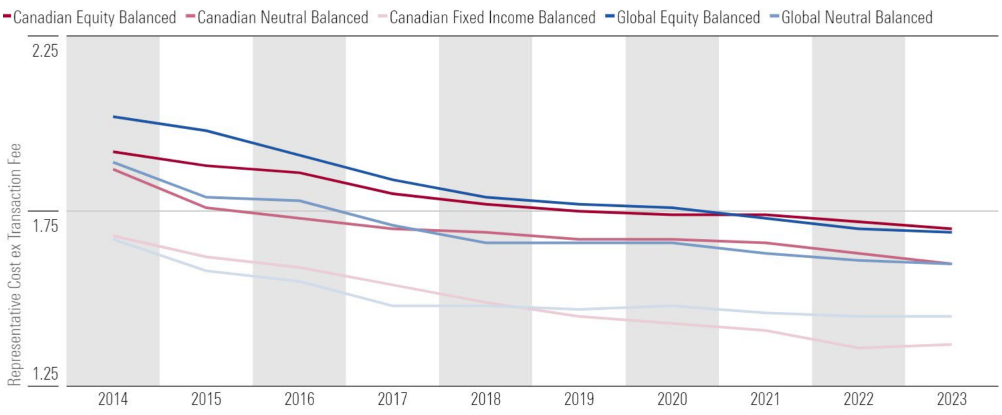


Source: Morningstar Direct.

The most significant fee decrease for ETFs occurred between 2017 and 2018. This coincides with the entrance of Vanguard, the investment giant known for its low fee strategies. Its impact on competitor’s fees has been called the “Vanguard Effect.” Vanguard Growth ETF (VGRO), Vanguard Balanced ETF (VBAL), and Vanguard Conservative ETF (VCNS) offered one-stop portfolios of passive stock and bond ETFs at less than a fourth of the average fund's price at the time of their launch.

Canadian equity balanced funds saw the smallest decline since 2014, just 12%. Canadian fixed-income balanced funds saw the steepest fee decrease since 2014 at 18%. There was little difference between the fees of Canadian Equity Balanced and Global Equity Balanced, and between Canadian Neutral Balanced and Global Neutral Balanced funds, but there was a larger disparity between Global Fixed Income Balanced and Canadian Fixed Income Balanced.

Exhibit 13 Average Fee by Morningstar Category, 2014-23



Source: Morningstar Direct.

A distribution channel breakdown shows a somewhat different picture. Investors with fee-based portfolios pay slightly more for their global equity balanced and global neutral balanced portfolios. Fee-based global neutral portfolios are 6 basis points more expensive than their Canadian-oriented counterparts, whereas commission-based global neutral portfolios are only 1 basis point more expensive. Canadian fixed-income balanced funds are still cheaper than global fixed-income balanced funds in both channels.

Exhibit 14 Average Fee by Distribution Channel and Morningstar Category, December 2023

	Fee-based	Commission-based
Canadian Equity Balanced	1.02	2.17
Global Equity Balanced	1.05	2.19
Canadian Neutral Balanced	0.93	2.06
Global Neutral Balanced	0.99	2.07
Canadian Fixed Income Balanced	0.84	1.75
Global Fixed Income Balanced	0.88	1.86

Source: Morningstar Direct.

Fee decreases have been common. Over the last five years, the top 20 largest asset managers have seen an average decrease in their asset-weighted average fees of 14 basis points. Investor's Group and IA Clarington have seen the largest decrease with declines of 82 and 25 basis points, respectively. Scotiabank, which includes 1832 Asset Management and Dynamic Funds, was the only firm in the top 20 to see asset-weighted average fees go up with an increase of 6 basis points. In general, decreases came from a combination of declining fees across both distribution channels as well as declining commission-based assets and increasing fee-based assets. AGF, ATB Financial, CI Investments, EdgePoint, Investors Group, and Mackenzie all saw declining fees as well as declining commission-based assets. Bank-owned asset managers continue to grow in commission-based balanced funds. Only TD Asset Management saw a decline in assets in this distribution channel among this group.

Exhibit 15 Fees of the Largest Balanced Asset Managers
Fees calculated using asset-weighted methodology. Scotiabank data includes 1832 Asset Management and Dynamic Funds.

Firm Name	2019 Fee	2023 Fee	Change in Fees	Change in Rank
RBC	1.71	1.59	–0.12	–2
Fidelity International	1.79	1.71	–0.08	–3
TD	1.84	1.65	–0.18	2
Scotiabank	1.92	1.98	0.06	–5
Investors Group	2.05	1.23	–0.82	27
BMO	1.77	1.71	–0.06	–5
Desjardins	1.92	1.80	–0.13	1
CIBC	1.91	1.75	–0.16	1
CI Investments	2.07	2.01	–0.06	1
Mackenzie	1.84	1.72	–0.12	–2
National Bank (Canada)	1.89	1.75	–0.14	–2
Manulife	1.80	1.68	–0.11	–1
ATB Financial	1.24	1.11	–0.13	1
EdgePoint	1.54	1.37	–0.17	1
Vanguard	0.26	0.27	0.00	0
Dimensional	0.65	0.49	–0.16	0
IA Clarington	2.05	1.80	–0.25	6
NEI Investments	1.95	1.91	–0.04	–2
AGF	1.74	1.56	–0.17	1
Mawer	0.96	0.96	0.00	–2

Source: Morningstar Direct.

There has been little movement among the top 10 cheapest asset managers since 2019. Purpose Investments rose from 12 to 8, replacing Les Fonds D'Investissement FMOQ.

The most expensive asset managers have remained the most expensive over the last five years. Investor's Group saw the largest fee reduction and improved its rank substantially rising from 38 to 11. National Bank replaced them as one of the 10 most expensive asset managers and dropped two ranks from the 29th to 31st position.

Exhibit 16 Top 10 Cheapest and Most Expensive Asset Managers, December 2023

Fees calculated using asset-weighted methodology. Scotiabank data includes 1832 Asset Management and Dynamic Funds.

Firm Name	Average Fee	Fee Rank
Vanguard	0.26	1
iShares	0.33	2
Dimensional	0.49	3
MD group	0.76	4
Tangerine	0.88	5
Mawer	0.96	6
Gestion FERIQUE	0.97	7
Purpose Investments	0.98	8
ATB Financial	1.11	9
Steadyhand	1.19	10
National Bank (Canada)	1.75	31
Desjardins	1.79	32
IA Clarington	1.80	33
Sun Life	1.82	34
Value Partners Investment	1.86	35
NEI Investments	1.91	36
Scotiabank	1.98	37
Invesco	1.99	38
CI Investments	2.01	39
Canada Life	2.01	40

Source: Morningstar Direct.

Performance

Morningstar Allocation Indexes Performance Since 2009

Allocation funds and indexes bounced back following a difficult year. The last time allocation portfolios faltered, which was in 2008, four of the six Morningstar Allocation indexes posted double-digit calendar-year returns led by strong stock performance. This happened again in 2023: four of the six indexes rose by double digits over the year due mostly to equity gains.

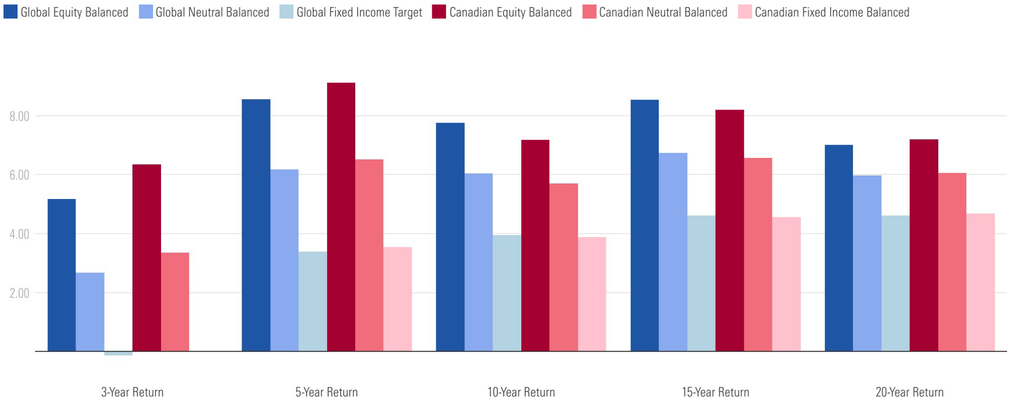
Exhibit 17 Calendar-Year Returns by Morningstar Allocation Category Indexes, 2009-23
All numbers are net return, CAD

Year	Global Equity Balanced	Global Neutral Balanced	Global Fixed Income Balanced	Canadian Equity Balanced	Canadian Neutral Balanced	Canadian Fixed Income Balanced
2009	16.39	12.18	7.59	23.51	16.02	8.40
2010	9.90	8.73	6.96	13.30	10.45	7.68
2011	–2.76	0.86	4.66	–3.99	0.33	5.05
2012	9.86	7.75	5.70	7.47	6.28	4.88
2013	18.60	11.55	5.09	12.88	8.95	3.90
2014	11.09	10.43	9.35	10.70	9.96	9.08
2015	7.68	6.08	4.18	–0.84	1.83	3.24
2016	7.40	5.94	3.96	13.22	8.40	4.34
2017	10.82	7.82	4.70	8.46	6.61	4.50
2018	–1.73	–0.41	0.55	–4.05	–1.85	0.18
2019	17.06	13.65	9.78	18.30	14.21	9.89
2020	10.66	9.64	8.02	8.67	8.72	8.33
2021	13.35	8.27	2.69	16.47	9.76	2.61
2022	–10.01	–10.37	–10.65	–8.23	–9.08	–10.12
2023	14.05	11.57	8.56	12.54	10.64	8.38

Source: Morningstar Direct.

The evidence for balanced funds and the one-stop diversification they provide remains compelling over periods longer than a year. Exhibit 18 better highlights the annualized returns of long-term holders and compares the same six Morningstar Allocation Category indexes over multiple time frames. Generally, the more equity-oriented the benchmark, the better it did, albeit with more risk.

Exhibit 18 Annualized Returns by Morningstar Allocation Category Index Through December 2023



Source: Morningstar Direct.

Investors over the last 20 years saw notable growth in all six categories. Exhibit 19 shows what an initial $10,000 would have grown to in all six Morningstar Categories.

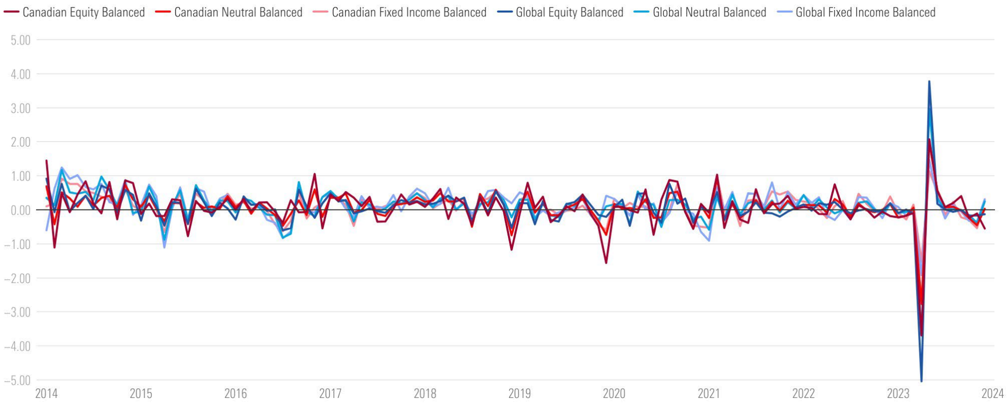
Exhibit 19 Growth of $10,000, 2004-23

Source: Morningstar Direct.

Gross Excess Return

Exhibit 20 looks at the median excess gross returns of balanced funds in Canada on a five-year rolling basis going back to the start of 2009. However, gross outperformance doesn't include fees; active funds need to outperform by more than the expense ratios they charge to benefit investors. With the median fee north of 1.52%, a middle-of-the-road fund would not overcome the added costs.

Exhibit 20 Five-Year Rolling Gross Excess Return, 2009-23



Source: Morningstar Direct.

Final Thoughts

The data's narrative hasn't changed since last year's report: Investors continue to prefer cheaper options and more global balanced strategies. Fee-based advice share classes took in the most flows while commission-based share classes saw more outflows. Firms are adjusting to this trend, launching more global balanced funds and fee-based advice share classes while closing Canadian balanced funds and commission-based share classes.

2023 was the second year since the full implementation of the CFRs, which promote more transparency for investors on fees and options. We expect the true impact will be seen in flows and fees, which has been the case so far. Since the start of 2022, outflows at commission-based share classes accelerated. This narrowed their market leadership slightly.

The asset-management arms of the six largest Canadian banks still have the most assets, though, and Canadian investors still have most of their money in commission-based share classes. Balanced fund investors should always be reviewing their options. A cheaper version of the same fund might be available.

What We Are Monitoring

The rise of alternative asset classes like private equity, infrastructure, real estate, and cryptocurrency could become more prevalent in retail mutual funds. Regulation limits funds to, at most, 10% of their overall portfolios in alternatives. Asset managers' innovations in this area bear watching. CI Financial, TD, RBC, BMO, and many more have already announced partnerships or acquisitions to explore alternatives. Others, like Manulife, has had in-house offerings for years. As firms introduce strategies that incorporate some of these nascent asset classes, it will be important to discern which ones will prove to be enduring and affordable approaches.

Methodology

Fund Openings and Closings

The count for fund openings and closings was determined by using the oldest share class of each unique fundID.

Size and Flows

We defined size and flows in this report to mean retail assets and retail flows. We used the estimated monthly flows on a share-class level while removing virtual share classes, mutual fund share classes that charge less than 30 basis points (0.3%) in fees, and funds with less than three holdings. This was to focus exclusively on share classes accessible to retail investors and to avoid counting both the size and flows from funds that own another balanced fund, otherwise known as double-counting.

Fees

Morningstar's Representative Cost ex-Transaction Fees data point was used for all references to fees. This data point is an indication of the known recurring costs for the share class, excluding transaction fees. This data point includes the fund's stated Management Expense Ratio.

Mutual funds with a Representative Cost ex-Transaction Fees below 30 basis points (0.30%) were excluded from the study. ETFs were exempt from this exclusion criteria. A firm’s average fee is calculated on an asset-weighted basis.

Performance

We took the gross returns of the oldest share class of funds with more than two holdings.

Peer Group Categories

Morningstar Canada leverages the category definitions used by the Canadian Investment Fund Standards Committee (CIFSC), of which Morningstar is a voting member. Balanced category limitations are applied on geographic exposure (domestic versus nondomestic) and asset allocation (percentage of equity). Guidelines are as follows:

Exhibit 21 CIFSC Balanced Category Guidelines

Morningstar Fund Category	Exposure to Canadian Securities	Equity Weight
Canadian Equity Balanced	70% or more	60 to 90%
Canadian Neutral Balanced	70% or more	40 to 60%
Canadian Fixed Income Balanced	70% or more	5 to 40%
Global Equity Balanced	70% or less	60 to 90%
Global Neutral Balanced	70% or less	40 to 60%
Global Fixed Income Balanced	70% or less	5 to 40%

Source: www.cifsc.org.

About Morningstar Manager Research

Disclaimer

All care has been taken in preparing this report. However, please note we base our financial product research on current information provided to us by third parties (including financial product issuers) which we cannot necessarily verify. While we use all reasonable efforts to obtain information from reliable sources, we do not guarantee the data or content contained herein to be accurate, complete or timely. To the extent that our research is based on information received from other parties, no liability is accepted by Morningstar, its affiliates nor their content providers for errors contained in the report or omissions from the report. Morningstar determines its ratings on information disclosed to it by financial product issuers and on past performance of products. Past performance is no guarantee of future performance.

About Morningstar Research Inc. and Morningstar, Inc.

Morningstar Research Inc. is a Canadian subsidiary of Chicago-based Morningstar, Inc., a leading provider of independent investment research in North America, Europe, Australia, and Asia. The company offers an extensive line of products and services for individual investors, financial advisors, asset managers, retirement plan providers and sponsors, and institutional investors in the private capital markets. Morningstar provides data and research insights on a wide range of investment offerings, including managed investment products, publicly listed companies, private capital markets, and real-time global market data. Morningstar also offers investment management services through its investment advisory subsidiaries, with more than US$179 billion in assets under advisement and management as of March 31, 2020. The company has operations in 27 countries. For more information, visit www.morningstar.com/company. Follow Morningstar on Twitter @MorningstarCDN.

More Information

If you wish to obtain further information regarding this report, licensing and our services, please contact:

MORNINGSTAR®

Morningstar Canada
1 Toronto Street, Suite 500
Toronto, Ontario M5C 2W4
Canada
+ 1 877 489 7074
www.morningstar.ca