Manulife Financial Corp. Adds Important Dimension to its Business

Description

On February 1, without a lot of fanfare, **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC) announced that it was partnering with Dimensional Fund Advisors Canada ULC to launch a series of four multifactor equity exchange-traded funds.

If you're a Manulife shareholder, this should be music to your ears; if you're not, this should make you reconsider why you're not, because this is big news for one of Canada's leading financial services organizations.

Expected to be ready in April, Manulife is the 20th ETF provider to enter the Canadian marketplace; in terms of assets under management (all investments, not just ETFs) it will be one of the biggest. Of course, if you already own MFC stock, you might be aware that it already provides 12 ETFs in the U.S. through its John Hancock business.

Those ETFs, like the ones it will launch in Canada, track the performance of indexes created by Dimensional Fund Advisors using a factor-based approach to investing. Certainly, if you are an investment advisor in this country, you're probably aware of DFA. For those who aren't aware of DFA, they've got an excellent reputation.

You might be wondering whether this kind of move by Manulife is a game-changer or not. After all, Canada has $115.7 billion in ETF assets under management, and Manulife is very late to the party; as of the end of January, there were eight ETF providers with assets of $1 billion or more, including **iShares** and **Bank of Montreal**, who, combined, have 76.8% market share.

That's going to be a big nut to crack.

Down in the U.S., John Hancock launched its first ETFs in October 2015. Today, it has US$699.6 million in assets under management, which puts it in the 36th position in terms of market share. That's not bad growth in just 16 months. With more than US$50 billion in mutual fund assets under management at John Hancock, there's a lot of business it could eventually move over.

It's fair to say the same thing could happen up here in Canada, where it has approximately $50 billion in mutual fund assets under management, making it one of Canada's largest fund companies by market share. In the U.S., its ETF AUM is 0.87% of its mutual fund AUM; if you use the same figure here in Canada, that translates to Canadian ETF AUM of around $435 million within the first 16 months — an excellent start that would put it in the top 10.

There are two things to keep in mind.

First, **AGF Management Limited** (TSX:AGF.B) recently launched seven ETFs with $2.5 million per fund in seed money. A group of five iShares ETFs launched in January with $4 million in seed money per fund, so I'd expect at least that much per ETF from Manulife, which puts its ETF AUM close to $20 million before even opening its doors.

Second, it's possible that Manulife could acquire an ETF provider that operates in both Canada and the U.S. By doing so, it speeds up its ETF evolution on both sides of the border. With ETF fees lower than mutual funds (especially in Canada) size is critical for success in the ETF industry. In addition, this would allow Manulife more time to move its clients over to ETFs from mutual funds, which would mean less of a decline in revenues.

Two ETFs that come to mind are First Trust and **WisdomTree Investments, Inc.**, which rank sixth and seventh, respectively, in the U.S. in terms of ETF AUM and ninth and 12th in Canada. First Trust is a private company, but WisdomTree has an enterprise value of US$1.1 billion, which is well within its means.

However, the best thing about Manulife's entry into the Canadian ETF market? It beat rival **Sun Life Financial Inc.** to the punch while adding an important dimension to its business.

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