



July 12, 2010

Over the last few months, the Canadian Investment Funds Standards Committee (CIFSC) has reviewed the category schema and will be making the following changes:

1. The **International Equity** fund category definition will be changed and will require funds to invest at least 90% of their equity assets in countries other than Canada and the United States down from the current requirement of 95%.
2. The CIFSC will be introducing a Canadian Synthetic Money Market category. The category definition will be as follows:

#### **Synthetic Canadian Money Market**

The Synthetic Canadian Money Market Fund category includes funds that seek to obtain money-market-like returns by investing in a basket of equity securities or in one or more equity funds and then entering into forward, swap or similar derivatives contracts with a counter party or counterparties in order to replicate the returns of:

- A) A specific Canadian Money Market fund ("a reference fund") that satisfies the money market fund definition as set out in National Instrument 81-102 or,
- B) A portfolio of Canadian dollar denominated money market securities ("a reference portfolio") that would satisfy the money market fund definition as set out in National Instrument 81-102 if that portfolio were offered for sale publicly.

Canadian Synthetic Money Market funds may also invest directly in Canadian dollar denominated money market securities or in the underlying Canadian Money Market fund, at any time, in cases where the fund manager considers it would be beneficial to securityholders to do so.

Note: The CIFSC has made the decision to categorize synthetic funds in the same category as the underlying funds that they track except in the case of Money Market funds where this new fund category was created to explicitly delineate between 'money market' funds that meet the strict Money Market fund definition as set out in National Instrument 81-102 and those that do not.

3. Sub-division of the Miscellaneous category. There has been no change to the Miscellaneous category as a whole however, the CIFSC has decided to create sub-categories to help investors and advisors identify the broad strategies used by funds categorized in this space.

Funds included in each sub-category can still be very different from each other but they will be similar in their broad investment strategies. Homogeneity will still be a factor however, and so data providers who are members of the CIFSC have agreed not to quartile or apply similar comparisons (star ratings etc.) to the funds in these sub-categories. The new sub-categories will be as follows:

**a. Miscellaneous – Income & Real Property**

These are funds that focus on fixed income type securities and do not qualify for any of the existing fixed income fund categories. Similarly, funds in this sub-category may use real property as a substitute for traditional income securities.

**b. Miscellaneous – Leveraged**

Funds in this sub-category are available for sale to retail investors and routinely employ leverage to give investors more than 100% exposure to various assets.

**c. Miscellaneous – Commodity**

Funds in this sub-category invest directly in physical commodities (e.g. owning gold bullion versus owning a gold mining stock).

**d. Miscellaneous – Geographic Equity**

Funds in this sub-category invest in equity securities focused on a specific geographic area or areas and do not qualify for any of the existing geographic equity categories.

**e. Miscellaneous – Sector Equity**

Funds in this sub-category invest in equity securities focused on a specific sector or sectors and do not qualify for any of the existing sector equity categories.

**f. Miscellaneous – Other**

Funds in this sub-category have a unique strategy that does not belong to any other category or any other Miscellaneous sub-category.

**g. Miscellaneous – Undisclosed Holdings**

Funds in this sub-category do not report their holdings to any of the data providers that sit on the CIFSC. The CIFSC requires fund companies to submit full holdings data for their funds at least quarterly, lagged by no more than one quarter in order to be classified. If holdings are not provided according to this standard, then the respective fund or funds will be moved into this category until such time as the minimum holding requirement is met.

Data providers will implement the new schema at the earliest, with the release of July month-end data, which will be in early August.

For questions or comments please contact:

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