



**2008 Revisions to  
Retail Investment Fund  
Category Definitions**

**Discussion Paper  
April 25, 2008**

## **INTRODUCTION**

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In June of 2007, the Canadian Investment Funds Standards Committee (CIFSC), with substantial input from industry experts, spent considerable time and effort improving the category schema that had been in place for a number of years. The changes made in 2007 were large, but essential to the enhancement of the fund categorization process in the Canadian investment fund universe.

In 2008, the setting is much different. Due to the numerous changes made in 2007, it has been determined that the category schema, while never perfect, requires only slight amendments to reflect various trends that have developed in the investment fund landscape in Canada.

The following pages detail the revisions to the Retail Investment Fund Category Definitions for 2008.

## **TIMELINES**

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Comments regarding the 2008 category revisions will be accepted by the committee until May 15, 2008. The CIFSC will also be holding an open forum to answer any questions regarding the 2008 revisions on Thursday, May 8, 2008 from 2 pm to 4 pm at the following location:

FundSERV Inc.  
The Exchange Tower  
130 King Street West, Suite 1700  
Toronto, Ontario

Following the May 15<sup>th</sup> deadline, the committee will finalize the category revisions and release them to the public on May 22<sup>nd</sup>, with an effective date of July 1<sup>st</sup>, 2008. The revised category schema will first be applied in the release of July month-end data, based on data as of June 30<sup>th</sup>, 2008, with fund companies being advised of their funds' preliminary category assignments in late July.

Please note that dates may be subject to change.

## **SUMMARY OF REVISIONS**

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### **PART A – INTRODUCTION OF NEW CATEGORIES**

- Greater China Equity

### **PART B – CHANGES TO CLASSIFICATION METHODOLOGY**

- Mortgages and MBSs
- GICS Sector Changes

### **PART C – THRESHOLD CHANGES**

- Market Capitalization
- Geographic Requirement for Canadian Dividend & Income Equity

## **PART A – INTRODUCTION OF NEW CATEGORIES**

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### 1. Greater China Equity

Due to the growing number of investment funds that are focusing directly on the burgeoning market of Greater China, and the belief that this trend will continue for the foreseeable future, the Committee is introducing the Greater China Equity category. The definition for this category will be as follows:

***“Greater China Equity***

*Funds in the Greater China Equity category must invest at least 90% of their equity holdings in securities domiciled in China, Hong Kong or Taiwan.”*

## **PART B – CHANGES TO CLASSIFICATION METHODOLOGY**

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### 1. Mortgages, MBSs, and ABSs

Under various circumstances, the Committee classifies Mortgages, MBSs and ABSs as either “fixed income” or “other” depending upon the underlying characteristics of the specific security. To clarify how the Committee classifies these security types, the following language will be added to the Classification Methodology section of the category document:

*“The Committee will default to treating mortgages, mortgage-backed securities, and asset-backed securities as “fixed income”, however under certain circumstances, will classify these types of securities as “other” depending on the risk factors associated with the underlying assets. Some examples of these types of securities that may be classified as “other” include:*

- *Highly concentrated mortgage-backed securities*
- *Mortgages, mortgage-backed securities, or asset-backed securities whose underlying asset(s) is (are) highly illiquid*
- *Un-insured mortgages*
- *Mortgages with high loan-to-value ratios, or low debt-service coverage ratios*
- *Securities subject to other factors that, in the opinion of the CIFSC, expose the fund’s investors to risk factors that are materially or significantly different than those of traditional investment grade fixed income portfolios*

*Because the detailed information of the underlying characteristics of mortgages, mortgage-backed securities and asset-backed securities may not be readily available, the Committee will rely upon fund managers to provide this type of information.”*

## 2. GICS Sector Changes

Effective August 29, 2008, S&P and MSCI Barra have introduced changes to their GICS structure. As a result, the Committee will implement the following changes to the sub-industries that qualify for the sector-based categories:

Sector Category	Sub-Industry	Description
Real Estate Equity	40403010 Diversified Real Estate Activities	Sub-Industry name change
	40403020 Real Estate Operating Companies	New Sub-Industry
	40403030 Real Estate Development	New Sub-Industry
	40403040 Real Estate Services	New Sub-Industry
Science & Technology Equity	45203010 Electronic Equipment & Instruments	Sub-Industry name change
	45203015 Electronic Components	New Sub-Industry

The changes to the GICS structure do not require the Committee to update any of the definitions for the sector-based fund categories.

## PART C – THRESHOLD CHANGES

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### 1. Market Capitalization

The approximated market cap thresholds for 2008 are as follows (all figures in Canadian Dollars):

S&P/TSX Completion Index	\$3.8 billion
70/30 Blend (TSX Completion and Russell Mid Cap)	\$4.8 billion
Russell Mid Cap Index	\$7.0 billion
MSCI Global Mid Cap Index	\$6.0 billion

### 2. Geographic Requirement for Canadian Dividend & Income Equity

After a review of the Canadian Focused Equity and Canadian Dividend & Income Equity categories, we have determined that a fund's weighted average dividend yield tends to have more of an impact on potential risk/return characteristics than does the relative geographic weighting. Therefore, we have decided to lower the Canadian content requirement of the Canadian Dividend & Income Equity category to 70% to allow dividend- and income-oriented funds currently listed in the Canadian Focused Equity

category to be grouped with their peers in the Canadian Dividend & Income Equity category.

The amended definition will be as follows:

***“Canadian Dividend & Income Equity***

*Funds in the Canadian Dividend & Income Equity category must have a stated mandate to invest primarily in income-generating securities and must invest at least 70% of their equity holdings in securities domiciled in Canada. In addition, these funds must invest at least 50% of their non-cash assets in income-generating securities such that the 3-year weighted average yield on the equity component of the fund’s portfolio is at least 1.5 times the average yield of the Canadian Equity Fund benchmark, defined as the S&P/TSX Equity Index. The fund’s average capitalization must exceed the Canadian and Canadian Focused small/mid cap threshold.”*