



December, 2012

Re: Category Alignments

The following is a summary of the CIFSC's recent discussions around category adjustments. The committee has voted and reached a decision on all topics, officially announced at the end of December, followed by a 30 day comment period that will end on January 30th and at least a 45 day implementation period.

1. Covered call funds/ETFs

A decision has been reached to move covered call funds and ETFs from the Alternative Strategies category to the appropriate equity categories. Most covered call mutual funds have been classified in the regular equity categories, therefore the committee felt that ETFs should be as well. Because this was not deemed a fundamental change to category structure, affected funds and ETFs will be moved in conjunction with the September quarterly movers and notifications will be sent to the affected fund companies.

2. Commodity funds/ETFs

The CIFSC reviewed the commodities categories in order to better categorize commodities funds.

During preliminary discussions committee members raised the following points:

- This would leave the funds currently in the Precious Metals Equity category unchanged
- Currently in the Misc – Commodity category there are 10 non-precious metals funds and 19 physical (bullion) precious metals funds. (see appendix A)
- Separating Precious Metal and Ex-Precious Metals would still leave both categories unranked and add little value for comparison purposes

Options considered:

- 1) Remove miscellaneous tag and break the commodities into 2 categories: 1) Commodities Precious Metals 2) Commodities ex Precious Metals.
- 2) Remove miscellaneous tag and leave the funds in the Commodities category

Decision:

The committee voted unanimously to remove the miscellaneous tag, but leave commodities funds in the un-ranked Commodities category.

3. Miscellaneous – Leveraged

The CIFSC examined inverse and leveraged funds to determine if there was a better option for their categorization.

During preliminary discussions committee members raised the following points for consideration:

- Labeling categories as ‘Trading’ is outside the realm of the CIFSC
- Investors looking for inverse and leverage exposure likely know the exact purpose of the ETFs and the risks involved
- The underlying exposure is to the equity category and should be classified as such. In other words an S&P/TSX inverse ETF should be classified with Canadian equity
- Inverse and leverage ETFs are fundamentally different in strategy and expected returns, and it does not make sense to compare them with regular long-only funds

Options considered:

- 1) Change the name of the Misc – Leveraged category to something like **‘Passive Inverse & Leveraged’** and have it include any index tracking leverage or inverse funds and ETFs. This would include all the funds currently in the Misc - Leveraged category and approximately 10 funds would move from Alternative Strategies to this category. (Appendix B)
- 2) Move any inverse or leveraged to the appropriate equity category based on underlying asset exposure.

Decision:

The committee voted unanimously to change the name of the Miscellaneous – Leveraged category to Passive Inverse/Leveraged, and move the 10 funds from the Alternative strategies category (Appendix B). The category will remain un-ranked.

4. **Preferred shares**

It was suggested that preferred shares be classified as fixed income. There are approximately 11 preferred share funds (mostly in the Can Div & Inc category) that would move to fixed income categories. During preliminary discussions the committee unanimously agreed that preferred shares should be treated as fixed income. The idea of creating a Preferred Shares category was also raised.

Options considered:

- 1) Create a new 'Preferred Shares' category for funds that hold mostly preferred shares and classify preferred shares as fixed income when held in other funds
- 2) Do not create a new category but classify preferred shares as fixed income and move preferred share funds into the appropriate fixed income category

Decision:

The committee voted unanimously in favour of option 1; to create a new category that would include funds holding mostly preferred shares and to treat preferred shares as fixed income. The parameters and thresholds for the category will be determined shortly.

5. **Floating rate notes**

It was suggested that floating rate notes be moved from Miscellaneous – Income & Real Property to the appropriate fixed income category (High Yield Fixed Income). There are approximately 8 funds that would move.

Options for discussion:

- 1) Move floating rate funds as suggested
- 2) Leave them as they are in the Misc – Income & Real Property category

Decision:

The committee voted unanimously to move floating rate notes to the appropriate fixed income category.

Appendix A – Commodity and Precious Metals Funds

Commodities Precious Metals	Commodities ex Precious Metals
BlackRock Silver Bullion Trust (CAD-Hedged) SVR.UN	BMO Agriculture Commodities Index ETF
BlackRock Silver Bullion Trust (Non-Hedged) SVR.C	BMO Base Metals Commodities Index ETF
BMG BullionFund	BMO Energy Commodities Index ETF
BMG Gold Advantage Return Bullion Fund	First Asset Diversified Commodities Fund Class A
BMG Gold BullionFund Class A	Horizons Crude Oil Yield ETF - HOY
BMO Precious Metals Commodities Index ETF	Horizons Natural Gas Yield ETF - HNY
CI Signature Gold Corporate Class A	Horizons Winter NYMEX Natural Gas ETF
Dynamic Strategic Gold Class Series A	Horizons Winter-Term NYMEX Crude Oil ETF
Horizons COMEX Copper ETF	iShares Broad Commodity Index Fd (CAD-Hgd) - CBR.A
Horizons COMEX Gold ETF	iShares Natural Gas Commodity Index Fund - GAS
Horizons COMEX Silver ETF	
Horizons Gold Yield ETF	
Horizons Silver Yield ETF - HZY	
iShares Gold Bullion Fund (CAD-Hedged) - CGL	
Mac Universal Gold Bullion Class Series A	
Sprott Gold Bullion Class A	
Sprott Gold Bullion Fund Series A	
Sprott Silver Bullion Class A	
Sprott Silver Bullion Fund Series A	

Appendix B – Funds that would move from Alternative Strategies to new Leverage/Inverse category

Candidates for the Leverage/Inverse category	
Fund Name	Current category
HAP S&P/TSX 60 130/30 ETF	Alternative Strategies
HBP NYMEX Crude Oil Inverse ETF	Alternative Strategies
HBP NYMEX LongCrudeOilShNaturalGasSprETF	Alternative Strategies
HBP NYMEX LongNaturalGasShCrudeOilSprETF	Alternative Strategies
HBP NYMEX Natural Gas Inverse ETF	Alternative Strategies
HBP S&P 500 Inverse ETF	Alternative Strategies
HBP S&P/TSX 60 Inverse ETF	Alternative Strategies
HBP S&P/TSX Cap Financials Inverse ETF	Alternative Strategies
HBP S&P/TSX Capped Energy Inverse ETF	Alternative Strategies
HBP S&P/TSX Global Gold Inverse ETF	Alternative Strategies