CIFSC CANADIAN INVESTMENT FUNDS STANDARDS COMMITTEE

January 3rd, 2018

Re: Category Change Proposal; issue for comment

The CIFSC continuously monitors and analyses the categorization of funds, the current category definitions and structures, as well as any new and developing trends in the investment funds industry. The purpose of the review is to ensure the logical, consistent categorization of investment funds and to maximize the similarity of investment strategies and risk-return profiles within each category. Categories should have a sufficient number of funds to allow for meaningful comparisons and rankings within the category.

As a result of the most recent review the committee is publishing, for a 30 day comment period, the following proposals. After the 30 day comment period the committee will review the comments and determine, by private vote, whether or not to proceed with the changes. To submit comments please use the 'Contact' link on the home page or click here.

1. **Proposal: Create a Canadian Corporate Fixed Income category**

   The CIFSC has been analyzing the fixed income categories after receiving feedback from various industry participants. It was determined that a new segment of fixed income investing has emerged with unique risk-return characteristics. As a result, the committee is proposing the creation of a Canadian Corporate Fixed Income category with the following definition:

   Funds in the Canadian Corporate Fixed Income category must have a stated mandate to invest primarily in corporate bonds and must invest at least 90% of their fixed income holdings in Canadian dollars with an average duration greater than 3.5 years and less than 9.0 years. In addition, these funds must invest primarily in investment-grade fixed-income securities, such that the average credit quality of the portfolio as a whole is investment grade (BBB or equivalent rating or higher) and not more than 40% of the portfolio's holdings are invested in high yield fixed income securities. At least 60% of the portfolio's fixed income holdings are in corporate fixed income. For purposes of the category definition, up to 30% of a Fund's assets may be held in Foreign Fixed Income products which will be treated as Canadian content provided that the currency exposure on those holdings is hedged into Canadian Dollars.

2. **Proposal: Create a Global Corporate Fixed Income category**

   The CIFSC has been analyzing the fixed income categories after receiving feedback from various industry participants. It was determined that a new segment of fixed income investing has emerged with unique risk-return characteristics. As a result, the committee is proposing the creation of a Global Corporate Fixed Income category with the following definition:

   Funds in the Global Corporate Fixed Income category must have a stated mandate to invest primarily in corporate bonds and must invest less than 90% of their fixed income holdings in Canadian dollar issues. In addition, these funds must invest primarily in investment-grade fixed income securities (BBB or equivalent rating or higher) and not more than 40% of the portfolio's holdings are invested in non-investment grade securities. At least 60% of the portfolio's fixed income holdings are in corporate fixed income.

3. **Proposal: Create an Emerging Markets Fixed Income category**

   Further analysis of the High Yield Fixed Income category reveals a unique and sufficiently sized segment of emerging market funds. The committee is proposing a new Emerging Markets Fixed Income category with the following definition:

   Funds in the Emerging Markets Fixed Income category must invest at least 90% of their fixed income holdings in countries from emerging markets or currencies from countries in the emerging markets. Funds with a consistently narrow focus on a single country, group of countries or single region within the emerging markets will be excluded from the category.

4. **Proposal: Change the parameters of the High Yield Fixed Income category**

   In conjunction with the changes above, the committee is proposing changing the threshold for high yield securities from 25% to 40%. The new definition would be as follows:

   Funds in the High Yield Fixed Income category must invest primarily in fixed-income securities with a non-investment-grade credit rating, such that their average credit quality is below investment grade (Lower than BBB or equivalent) or in excess of 40% of the portfolio's holdings are invested in high yield fixed income securities.

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