

February 13<sup>th</sup>, 2018

**Re: Category Changes – March 31<sup>st</sup> 2018**

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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.

On January 3<sup>rd</sup> the CIFSC issued a category change proposal ([available here](#)) for a 30 day comment period. Comments have been reviewed and the committee has voted to proceed with the changes as follows. The changes will be effective with the release of March month-end data.

## **New Categories**

### **1. New Category: Canadian Corporate Fixed Income**

The CIFSC will be introducing a new category called Canadian Corporate Fixed Income, 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. New Category: Global Corporate Fixed Income**

The CIFSC will be introducing a new category call Global Corporate Fixed Income, 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. New Category: Emerging Markets Fixed Income**

The CIFSC will be introducing a new category called Emerging Markets Fixed Income, 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 emerging markets. Funds with a consistently narrow focus on a single country, group of countries or single region within emerging markets will be excluded from the category.*

## **Changes to existing categories**

In conjunction with the changes above, the committee is changing the threshold for high yield securities from 25% to 40%. The new definitions for the fixed income categories will be as follows:

## **4. Revised Definition: High Yield Fixed Income**

*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.*

**5. Revised Definition: Canadian Fixed Income**

*Funds in the Canadian Fixed Income category 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. 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 to Canadian Dollars*

**6. Revised Definition: Global Fixed Income**

*Funds in the Global Fixed Income category 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.*

**7. Revised Definition: Canadian Short Term Fixed Income**

*Funds in the Canadian Short Term Fixed Income category must invest at least 90% of their fixed income holdings in fixed-income securities denominated in Canadian dollars with an average duration of less than 3.5 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. 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 to Canadian Dollars.*

**8. Revised Definition: Canadian Long Term Fixed Income**

*Funds in the Canadian Long Term Fixed Income category must invest at least 90% of their fixed income holdings in fixed-income securities denominated in Canadian dollars with an average duration greater 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. 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 to Canadian Dollars.*

**9. Revised Definition: Canadian Inflation Protected Fixed Income**

*Funds in the Canadian Inflation Protected Fixed Income category must invest at least 90% of their fixed income holdings in inflation protected fixed-income securities denominated in Canadian dollars. 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. 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 to Canadian Dollars.*

Reid Baker  
Chair, Canadian Investment Funds Standards Committee  
Fundata Canada Inc.  
416-445-5534 x 240  
reid.baker@fundata.com