CIFSC CANADIAN INVESTMENT FUNDS STANDARDS COMMITTEE

Multi-Sector Fixed Income Category Proposal | Comments Received

The Canadian Investment Fund Standards Committee (CIFSC) would like to thank industry stakeholders for their valued input to the proposed Multi-Sector Bond Category. Commenters included:

Investment Funds Institute of Canada (IFIC)
Capital Group
Fidelity
Mackenzie Investments

We respectfully respond to comments in the sections below. Note that in all instances below, "we" refers to the voting members of the Canadian Investment Funds Standards Committee.

Comment/Suggestion	Response/Notes
All commenters suggested delineation between domestic funds and those with global exposure, pointing to a measure of geographic exposure. Commentors believe domestic fixed income funds have a distinctly different risk/return profile in this space than globally exposed counterparts. Suggestion to have a 90% exposure to domestic debt to exclude from proposed category (up to 30% foreign, if hedged to CAD).	Based on an independent analysis of correlations between proposed movers, risk/return characteristics, and overall high-yield content, it was found that funds with primarily Canadian fixed income content had higher 10-year correlations amongst themselves, when compared with other donor categories. The Committee **agrees** that fixed income funds with primarily Canadian content should be excluded from the proposed Multi-sector FI category. We will update the definition to reflect this, noting that geographic exposure to domestic debt should be less than 90% to qualify (up to 30% foreign, if hedged to CAD).
Commentors suggest a tighter prescribed range of high yield exposure, namely 25-65%, may aide in reducing divergence of risk/return profiles within the proposed category.	Given the tactical nature of the category, we expect that the risk/return profiles will diverge regardless, like the Tactical Balanced category. The key point being that true tactical funds have ability to adjust exposure to high yield per investment objective. Moreover, in a member analysis of the divergence of fund returns across categories (measured as the standard deviation of 3Y standard deviation of returns), it was found that the proposed movers to the Multi-sector Fixed Income category (inclusive of initially proposed Canadian content funds) is well in line with other longstanding categories, and in fact well below some notable well-established categories like Global Equity. Additionally, this analysis found that the proposed category also reduces dispersion in the High

	Yield Fixed income category. The committee also notes that the upper limit of 65% in single sector applies to all super sectors, and not just high yield.
Suggestion to update definition such that if a particular issue is High Yield, that weighting should be 'removed' from the traditional super-sector and counted separately. Worded differently but with a similar outcome is a suggestion of only including investment grade Government, Provincial, Municipal, and Corporate bonds, while counting all HY instruments as a separate super sector.	The data providers' respective databases currently are not structured in this manner given that high yield refers to a credit quality as opposed to an issuer type. Calculating high yield exposure in the suggested manner would require a significant restructure of each provider database, which is improbable for the purposes of creating this fund category. The committee does not believe that counting high yield differently than proposed materially affects the outcomes.
Increase minimum number of sectors to qualify for this proposed category.	The committee points out that this suggestion, in tandem with the suggested minimum threshold for 25% in each sector (as opposed to 10%) would reduce the number of qualifiers in the proposed category. We re-iterate that the initial qualifier is a stated multi-sector fixed income investment mandate in prospectus.
Request to clarify whether inclusion of fund into this category requires all 3 tests (multi-sector mandate, 3-sector minimum over time, and 10-65% exposure to HY debt).	The committee clarifies firstly that the 10-65% range does not only apply to HY debt, but all mentioned fixed income super sectors, inclusive of HY debt. The committee also confirms that all three tests are required to be passed to qualify for the proposed category.

The CIFSC thanks all commenters and will discuss feedback prior to a formal member vote.

Thank You,

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