

May 1st, 2024

RE: Category Revision 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, a proposal to revise the high yield threshold from 40% to 50% across all relevant fixed income categories. To align with this proposal, additional revisions are proposed for the Multi-Sector Fixed Income category. 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. Proposed revision to high yield threshold from 40% to 50% across all relevant categories

Proposed Category Definition Revisions:

This change will ensure that funds in the High Yield Fixed Income category invest the majority of their portfolios in high yield securities. In addition, it will allow more flexibility in investment strategy across the fixed incomes categories, including within Multi-Sector Fixed Income which is the impetus for this threshold change.

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 50% 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 into Canadian dollars.

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 50% 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 into Canadian dollars.

Canadian Corporate Fixed Income

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 50% 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.

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 50% 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 into Canadian dollars.

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 50% 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 into Canadian dollars.

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 50% of the portfolio's holdings are invested in non-investment grade securities.**

Global Corporate Fixed Income

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 50% 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.

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 50% of the portfolio's holdings are invested in high yield fixed income securities.**

2. Revised Definition: Multi-Sector Fixed Income

In conjunction with the changes above as well as comments received regarding a proposed revision to the category's definition presented November 2023, the committee has proposed changing the threshold for high yield securities from 40% to 50%. The revision also clarifies that short term exposure to high yield securities may exceed 50% but prolonged exposure above this level, as measured by a 36-month time-weighted average, will disqualify a fund from the category.

Multi-Sector Fixed Income

Funds in the Multi-Sector Fixed Income category have an investment mandate stating that they strategically or tactically diversify their assets across several fixed income sectors including, but not limited to, government, municipal/provincial, corporate (including preferred shares), securitized (including asset-backed securities, collateralized loans, mortgage-backed securities, etc.), and high yield debt. Geographic exposure can span both developed and emerging markets. Canadian Fixed Income should be less than 90% to qualify. Inclusion in this category may be based on i) a written fixed income allocation policy meeting the above definition (i.e., in a fund's prospectus or written investment policy) that is explicit in defining a multi-sector mandate; ii) a portfolio manager's or sub-adviser's stated or known approach to managing portfolios; or iii) the fund's historical fixed income allocation tendencies. Namely, funds in this category should have no more than 65% of their holdings in a single fixed income sector and should demonstrate that they span at least three fixed income sectors over time, defined as a weighted average exposure of at least 10%.

The CIFSC notes that funds in this category have, or are permitted to have, an average credit quality below investment grade (Lower than BBB or equivalent) and **can hold in excess of 50% of the portfolio in high yield fixed income securities. However, prolonged exposure on a time-weighted average basis over a 36-month period will qualify the fund for the High Yield Fixed Income category.**

APPENDIX A

The following is a preliminary list of funds that would potentially move as a result of the category changes proposed above if the CIFSC formally votes to implement the proposal. This is a preliminary list put together by the CIFSC and is subject to change if the category is implemented. Funds that will be affected by the change will be notified and given the opportunity to dispute if necessary.

Fund Name	Current Category	Proposed Category
Manulife Corporate Bond Fund	High Yield Fixed Income	Global Corporate Fixed Income
Manulife Corporate Fixed Income Private Trust	High Yield Fixed Income	Global Corporate Fixed Income
Pender Corporate Bond Fund	High Yield Fixed Income	Global Corporate Fixed Income
Dynamic Active Credit Strategies Private Pool	Multi-Sector Fixed Income	High Yield Fixed Income
Evolve Active Global Fixed Income Fund	Multi-Sector Fixed Income	High Yield Fixed Income
FDP Global Fixed Income Portfolio	Multi-Sector Fixed Income	High Yield Fixed Income
Fidelity Strategic Income Currency Neutral Fund	Multi-Sector Fixed Income	High Yield Fixed Income
Fidelity Strategic Income Fund	Multi-Sector Fixed Income	High Yield Fixed Income
Russell Investments Global Credit Pool	Multi-Sector Fixed Income	High Yield Fixed Income
CIBC Multi-Sector Fixed Income Private Pool	High Yield Fixed Income	Multi-Sector Fixed Income
Fidelity Tactical Credit Fund	High Yield Fixed Income	Multi-Sector Fixed Income

Danielle LeClair, MFin

Chair - Canadian Investment Funds Standards Committee

Director of Manager Research, Canada | Morningstar Research Inc.

danielle.leclair@morningstar.com