

November 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 enough funds to allow for meaningful comparisons and rankings within the category.

As the result of an ongoing review, the committee is publishing, for a 60-day comment period, a variety of proposals for category changes. The proposals include:

- × New Category Proposal for Equity Other and Fixed Income Other
- × Addition of a section addressing concentrated portfolios to the “Notes on Classification Methodology”
- × New Category Proposal for Healthcare Equity
- × New Target Date Portfolio categories
- × New Canadian and Global Core Plus Fixed Income categories
- × High yield threshold and other changes to multiple fixed income categories

After the 60-day comment period the committee will review the comments and determine, by private vote, whether to proceed with the changes. To submit comments please use the ‘Contact’ link on the home page or [click here](#).

Deadline to submit comments is December 31st, 2024.

1) Equity Other and Fixed Income Other

The CIFSC has observed an increased number of funds in traditional equity and fixed income asset classes that demonstrate different characteristics from those in existing categories. The committee believes these funds should be viewed separately given their different risk-return profiles. In the absence of a consistent definition for these funds, the committee proposes the below two new categories. These categories will not be rated or ranked.

***Equity Other:** Funds in the Equity Other category have a unique strategy that does not fit into any other equity category.*

***Fixed Income Other:** Funds in the Equity Other category have a unique strategy that does not fit into any other equity category.*

An update to the CIFSC flow chart is included in **APPENDIX A**, outlining how the committee will test for qualification into the categories.

2) Notes on Classification Methodology: Concentrated Portfolios

Single-security mutual funds and ETFs provide non-diversified exposure to an asset with significantly different risk profiles compared to traditional investment strategies. This skews their comparability against peers within otherwise appropriate categories. The committee proposes the addition of the section below to the “Notes on Classification Methodology” in the *Retail Investment Fund Category Definitions* to address this concern.

Concentrated Portfolios

Investment funds that are highly concentrated in a limited number of securities may be subject to risk factors that, in the opinion of the CIFSC, expose the fund’s investors to risks that are materially or significantly different than those of traditional investment strategies. Assigning these funds to traditional categories may result in non-homogenous peer groups and lead to inaccurate fund comparisons.

Under these circumstances, the Committee may classify these funds as Equity Other, Fixed Income Other, or Alternative Other, depending on the structure of the fund and risk factors associated with the underlying assets.

3) Healthcare Equity Funds

The CIFSC has received a proposal to reestablish the Healthcare Equity sector category, a category that previously existed over a decade ago. The proposal referenced the following rationale:

- × Significant Market Representation - The Healthcare sector represented 12.4% of the S&P500 as of June 30, 2024, and is the third largest sector in terms of market cap.
- × Distinctive Investment Characteristics - Unique growth drivers, regulatory dynamics and risk factors distinct from other categories.
- × Growing Global Demand - Aging global population and increasing demand for healthcare products and services are likely to promote growth for these companies.

- × Innovation and Resilience - The sector continues to spur innovation in areas such as biotechnology and medical devices and have proven to provide investors with good downside protection in economic downturns.
- × Investor Interest - According to Morningstar Direct, there are at least 26 funds with a focus on healthcare.
- × Diversification Benefits - The sector's unique market dynamics offer low correlations to other sectors.
- × Policy and Societal Returns - Healthcare is heavily influenced by government policies, making it distinct in terms of regulatory impact. In addition, it plays a critical role in societal well-being, which can drive investors to focus on sustainability and ethical considerations

The CIFSC would like to propose the following definition:

***Healthcare Equity:** Funds in the Healthcare Equity Category must invest at least 90% of their equity holdings in the Healthcare Sector.*

An update to the CIFSC flow chart is included in **APPENDIX A**, outlining how the committee will test for qualification into the categories.

4) Target Date Funds

The CIFSC established relevant groupings for Target Date portfolios in 2016. Since that time, asset managers have expanded their lineups with further dated funds. To stay current, the committee is proposing the addition of longer-dated categories.

The CIFSC would like to propose the following definitions:

***2040 Target Date Portfolio:** These are target-date funds that mature in 2040 or earlier and after 2035.*

***2045 Target Date Portfolio:** These are target-date funds that mature in 2045 or earlier and after 2040.*

***2045+ Target Date Portfolio:** These are target-date funds that mature after 2045.*

5) Fixed Income: Various Category Changes

As a result of public comment, the CIFSC has been reviewing the definition of the Multi-Sector Fixed Income Category. After declining two previous proposals, we are proposing a wider review of Fixed Income categories with a focus on the high yield thresholds of each category. Proposed changes include the following:

- × **High Yield Fixed Income:** Increasing threshold to a minimum of 60% high yield securities. The average credit quality threshold which states “average credit quality is below investment grade (Lower than BBB or equivalent)” is removed. Below average credit quality is not consistent with a high yield fixed income threshold of 60%.

***High Yield Fixed Income Category Definition:** Funds in the High Yield Fixed Income category must invest primarily in fixed-income securities with a non-investment-grade credit rating, such that in excess of 60% of the portfolio’s holdings are invested in high yield fixed income securities.*

- × **Multi-Sector Fixed Income:** Increasing threshold to a minimum of 10% and maximum 60% in high yield securities. Mandate check would apply only for those funds with high yield exposure between 10-30%. High yield fixed income is no longer considered a distinct sector for the purposes of this definition’s multi-sector test. The Canadian geographic restriction is removed. Funds with at least 90% Canadian fixed income and no multi-sector mandate will now be classified as Canadian Core Plus Fixed Income with up to 30% high yield exposure and Multi-Sector Fixed Income beyond 30%.

***Multi-Sector Fixed Income Category Definition:** Funds in the Multi-Sector Fixed Income category have, or are permitted to have, an average credit quality below investment grade (Lower than BBB or equivalent) and can hold between 10%-60% of the portfolio in high yield fixed income securities. For funds with between 10%-30% of the portfolio, 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) and securitized (including asset-backed securities, collateralized loans, mortgage-backed securities, etc.) must be disclosed. For these funds, 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. Geographic exposure can span both developed and emerging markets. 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%.*

- × All other Global and Canadian Fixed Income Categories: Decreasing threshold to a maximum of 10% high yield securities.

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 10% 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 Category Definition: 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 10% 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 10% 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 10% 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 10% 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 10% 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 10% 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.

The resulting category change would create a gap for those funds that have between 10-30% high yield securities with less than two sectors represented. As such, the committee is also proposing to create two new categories:

- × **Canadian Core Plus Fixed Income:** Those funds currently categorized as Canadian Fixed Income or Canadian Corporate Fixed Income with high yield exposure between 10-30%.

Canadian Core Plus Fixed Income Category Definition: Funds in the Canadian Core Plus Fixed Income category must invest at least 90% of their fixed income holdings in Canadian dollars. These funds must invest primarily in investment-grade fixed-income securities (BBB and above) but may hold between 10%-30% of the portfolio in high yield fixed

income securities (Lower than BBB). These funds should not qualify for inclusion in the Multi-Sector Fixed Income category.

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 Core Plus Fixed Income:** Those funds currently categorized in Global Fixed Income or Global Corporate Fixed Income with high yield exposure between 10-30%.

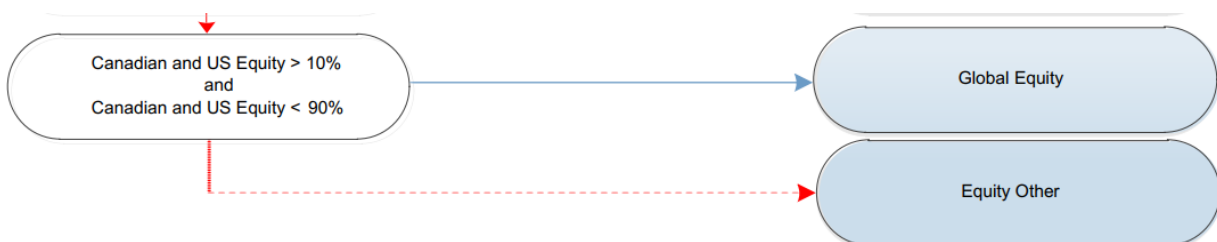
Global Core Plus Fixed Income Category Definition: Funds in the Global Core Plus Fixed Income category funds must invest primarily in investment-grade fixed-income securities (BBB and above) but may hold between 10%-30% of the portfolio in high yield fixed income securities (Lower than BBB). These funds should not qualify for inclusion in the Multi-Sector Fixed Income category.

An update to the CIFSC flow chart is included in **APPENDIX A**, outlining how the committee will test for qualification into the categories.

APPENDIX A

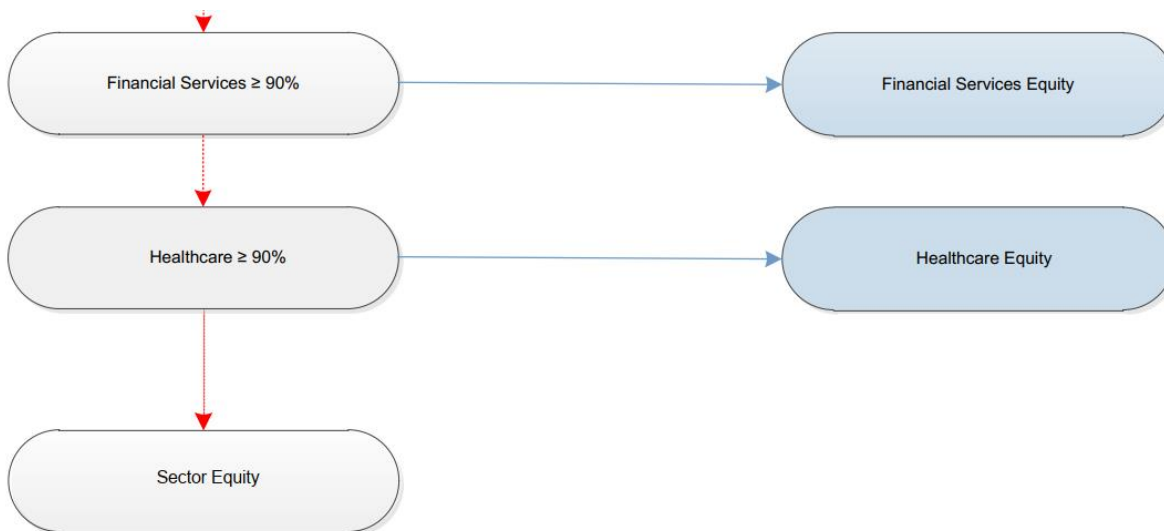
EQUITY TESTS

Equity Other



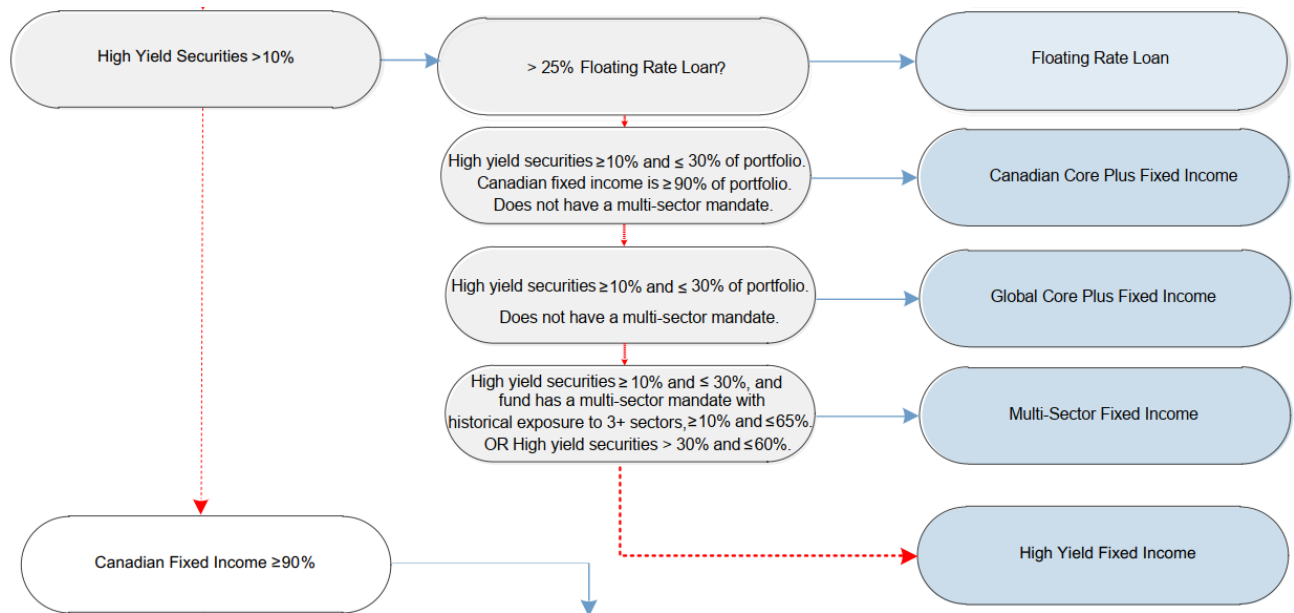
SECTOR EQUITY TESTS

Healthcare Equity



FIXED INCOME TESTS

Canadian Core Plus Fixed Income, Global Core Plus Fixed Income, Multi-Sector Fixed Income, and High Yield Fixed Income



Fixed Income Other

