CIFSC CANADIAN INVESTMENT FUNDS STANDARDS COMMITTEE

January 2025

RE: Category Proposals: Responses to Public Comments & Final Category Definitions

---

The Canadian Investment Fund Standards Committee (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 November 1st, 2024, the committee submitted a proposal to create the following new categories: 1) Equity Other, 2) Health Care Equity, 3) three target date categories – 2040, 2045, 2045+, 4) Canadian Core Plus Fixed Income and 5) Global Core Plus Fixed Income. In addition, the committee proposed changes to 1) High Yield Fixed Income, 2) Multi Sector Fixed Income, 3) Canadian Short Term Fixed Income, 4) Canadian Long Term Fixed Income, 5)Canadian Corporate Fixed Income, 6) Canadian Inflation-Protected Fixed Income, 7) Global Fixed Income and 8) Global Corporate Fixed Income. [see proposal here].

A 60-day public comment period closed December 31, 2024. Appendix A is a summary of the comments received as well as the committee's responses.

The CIFSC would like to thank industry stakeholders for their valued input to the proposed changes to Asset Class Definitions, Equity Other & Fixed Income Other category proposals, Target Date category proposal and Fixed Income category changes.

Final category definitions and updated flow chart follow these responses in Appendix A and Appendix B.

APPENDIX A

	Feedback	CIFSC Response
Health Care Equity Sector	Commenters were generally in favour of the proposal for the Health Care Equity category.	The CIFSC thanks commenters for their support.
2035, 2040, 2045+ Target Date	Commenters were generally in favour of the proposal for the new Target Date Categories.	The CIFSC thanks commenters for their support.
Equity Other and Fixed Income Other	Commenters identified a lack of clarity around the definition of Equity Other and Fixed Income Other and suggested CIFSC should define what type of fund would be needed for inclusion in the category.	The CIFSC notes that the category definition reflects the precedent set by the Alternative Other category. The purpose of the category is to classify funds that fit an asset class without further distinguishing characteristics that match identified peer groups.
	Commenters noted that a lack of suitable candidates for the Fixed Income Other category at the time of its launch suggest the launch should be reconsidered.	The CIFSC agrees with this observation and will not be moving forward with the launch of the Fixed Income Other category at this time
High Yield Fixed Income	Some commenters were in favour of the proposal as it creates a more defined high yield threshold across categories	The CIFSC thanks commenters for their support.
	Commenters were concerned about the clarity of the definition. The reference to non-investment grade ratings being ambiguous.	The CIFSC agrees with this comment and will be revising the definition to clarify that the category's threshold will consider all non-investment grade debt securities including high yield,

		unrated, emerging market debt, and bank loans.
	Some commenters were concerned about the ability to hold leveraged loans in and above 60% high yield and recommended considering anything non-investment grade a high yield as part of the threshold.	The CIFSC agrees that anything non-investment grade should be considered as part of the high yield threshold and will be revising the wording in the definition. The committee notes that there is a category for Floating Rate Loans that captures those funds with notable exposure to the asset class.
	Commenters believe a more suitable threshold would be 50%	The CIFSC acknowledges this concern. However, the committee considers not only how current funds will be classified but also the importance of developing an appropriate peer group for investors. The 60% threshold results in funds predominantly invested in high yield securities and creates a more focused category. Please note, based on other feedback, the high yield definition will be revised to include all non-investment grade debt rather than just high yield.
Multi-Sector Fixed Income	Some commenters were supportive of the proposal by creating a clear threshold for high yield securities	The CIFSC thanks commenters for their support.
	Some commenters expressed concerns around funds being included in the category that do not maintain a multi-mandate. Furthermore, commenters felt a multi-tiered definition added confusion to the schema due to a lack of clearly defined sectors.	The CIFSC agrees with these comments and has revised the definition to place clear, holdings-based requirements which eliminates overlap with the Core Plus categories and the necessity for a tiered definition.

		Instead, the category requirement will be strictly based on a fund's exposure to non-investment grade debt. This allows for a cohesive peer group with similar risk profiles.
	Commenters expressed concern regarding the lack of explicit rationale for the broad sector requirements and suggested emerging market debt should be considered alongside high yield for the purposes of identifying higher-risk fixed income.	The CIFSC agrees that emerging market debt often has a risk level similar to high yield. The committee will clarify in the definitions that the threshold applies to non-investment grade debt which may include emerging market debt. References to sectors have been clarified as typical characteristics of these funds but are no longer a specific requirement.
	Some commenters did not agree with having a minimum requirement for high yield as an inclusion criterion for this category	The CIFSC acknowledges that multi-sector fixed income funds may not have exposure to high yield. The committee will expand the threshold definition to include other types of non-investment grade debt to better reflect the investments and risk profiles of these funds. As previously noted, the high yield definition will be revised to include all non-investment grade debt rather than just high yield. The committee will also revise the permitted range for inclusion in the Multi-Sector Fixed Income category from 10-60% to 25%-60% to limit threshold mismatches between the Core Plus and High Yield Fixed Income categories.

	Commenters were concerned about the wide range of funds included in the category and that it would end up as a "catch-all" with a greater dispersion of funds	The CIFSC acknowledges this point and believes the revised definition which only includes funds with non-investment grade debt between 25-60% corrects this issue.
Global Core Plus Fixed Income	Commenters were supportive of the Global Core Plus Fixed Income category as proposed and stated that it provided clear differentiation between funds that invest primarily in investment grade fixed income and those that incorporate high yield. This group appreciated the clearly defined range for high yield securities.	The CIFSC thanks commenters for their support. Please note that in response to comments received in other sections, the committee will be revising the stated definition to include all non-investment grade debt rather than just high yield. The threshold will also be revised from 10-30% to 5-25% to better reflect the intent of the category and align with global best practices.
Canadian Core Plus Fixed Income	Most commenters supported the category as defined in the proposal as it clearly separates a client's expected investment grade portfolio and a combination of investment grade with diversified high yield and/or foreign fixed income.	The CIFSC thanks commenters for their support.
	Many commenters were concerned about the small number of funds currently available that meet the proposed definition. One commenter suggested increasing the high yield threshold from the proposed 10-30% to 10-40% to allow for more funds to meet the criteria.	The CIFSC acknowledges this concern, however, the committee thinks that the current proposed range of 20% is appropriately broad while maintaining comparability among peers. The committee also notes that the advent of this category is expected to result in an increased number of funds meeting the criteria.

		As part of the final definition, the CIFSC will be revising the threshold to include funds with 5-25% non-investment grade securities.
	Commenters were concerned about the treatment of emerging market debt and suggested it should be included in the calculation of high yield.	The CIFSC acknowledges this concern and will revise the definition to clarify that the threshold considers all non-investment grade debt including emerging market bonds.
	Commenters were concerned about the mixing of average credit ratings in this category.	The CIFSC agrees and to mitigate this concern, will be removing proposed changes to the thresholds of the Canadian Corporate Fixed Income and Global Corporate Fixed Income categories. These categories will continue to allow up to 40% exposure to non-investment grade securities thereby making predominantly credit-focused funds ineligible for the core plus categories.
Reduction of maximum High Yield exposure across multiple fixed income categories	Commenters were generally in favour of the reduction in high yield across Canadian Fixed Income, Canadian Short Term Fixed Income, Canadian Long Term Fixed Income, Canadian Corporate Fixed Income, Canadian Inflation-Protected Fixed Income, Global Fixed Income and Global Corporate Fixed Income. Responses acknowledged that the adjustment creates a purer category that aligns with investor expectations.	The CIFSC thanks commenters for their support. Upon further review, and to align with adjustments made based on comments above, maximum exposure to non-investment grade debt will be reduced to 5% across Canadian Short Term Fixed Income, Canadian Long Term Fixed Income, Canadian Inflation-Protected Fixed Income, Global Fixed Income and Canadian Fixed Income. The thresholds for Canadian Corporate Fixed Income and Global Corporate Fixed Income will remain at 40%.

		This is to address concerns regarding the smaller number of funds meeting the criteria for the new core plus categories as well as concerns regarding predominantly credit-focused funds falling into those categories.
Other Comments	Commenters expressed concerns around lack of consideration for emerging market debt as a higher risk exposure	The CIFSC has addressed these concerns in the above comments by revising the language to refer to non-investment grade debt which includes high yield, unrated, emerging market debt and bank loans.
	Commenters expressed concerns around whether the corporate bond categories are now redundant given the new Core Plus categories.	The CIFSC believes the above revisions clarify that corporate bond funds should be considered distinct and separate from core plus bond funds. The broader allowance for non-investment grade exposure in funds focused on corporate bonds helps further define this distinction.
	Commenters expressed concerns around the potential for funds to "jump around" categories by segmenting categories into three thresholds for high yield.	The CIFSC looks to create categories based on long term trends and can leverage categorization schemas from other markets to determine best practices. The committee believes that the above revisions, along with the new categories, effectively segment bonds funds by risk tolerance. The committee does not anticipate significant volatility among categories as they align with widely recognized global standards for bond classification.

	Commenters expressed concern around the downstream impact on dealers and the potential for disruption without incremental benefits to the clients.	The CIFSC believes that the proposed changes will significantly benefit investors, and that the new schema will better equip advisors to identify risk-appropriate bond strategies for their clients. The committee understand that while these changes will require effort and adjustment from all industry participants, market research suggests that they will align Canadian categories with global best practices, leading to improved accuracy in classification and better risk assessment for investors.
	Commenters from asset managers requested advance notice on potential movers prior to new category launches.	The CIFSC acknowledges the necessity for advance notice given the scope of the proposal. Therefore, the committee will extend the standard 30-day notice period outlined in our policies and procedures to 60 days. The committee will notify asset managers and publish the list of funds proposed for reclassification 60 days prior to the implementation of the proposal.

APPRENDIX B

In addition to the category changes below, the CIFSC is adding the following definition to its asset class definitions and classification methodology:

Non-investment grade fixed income

Non-investment grade fixed income refers primarily to bonds and other fixed income securities rated below investment grade (BB+ or equivalent rating or lower). Below investment grade, or high yield, fixed income is typically associated with a higher risk of default and generally offers higher yields as compensation for this increased risk. This category also includes unrated securities, which may vary in credit quality and, in some cases, be considered relatively low risk. Non-investment grade fixed income includes corporate, sovereign, and municipal bonds, leveraged loans, emerging market debt, private debt, securitized debt, and distressed debt.

Concentrated Portfolios (as presented in the November 2024 proposal)

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 or Alternative Other, depending on the structure of the fund and risk factors associated with the underlying assets.

CIFSC CANADIAN INVESTMENT FUNDS STANDARDS COMMITTEE

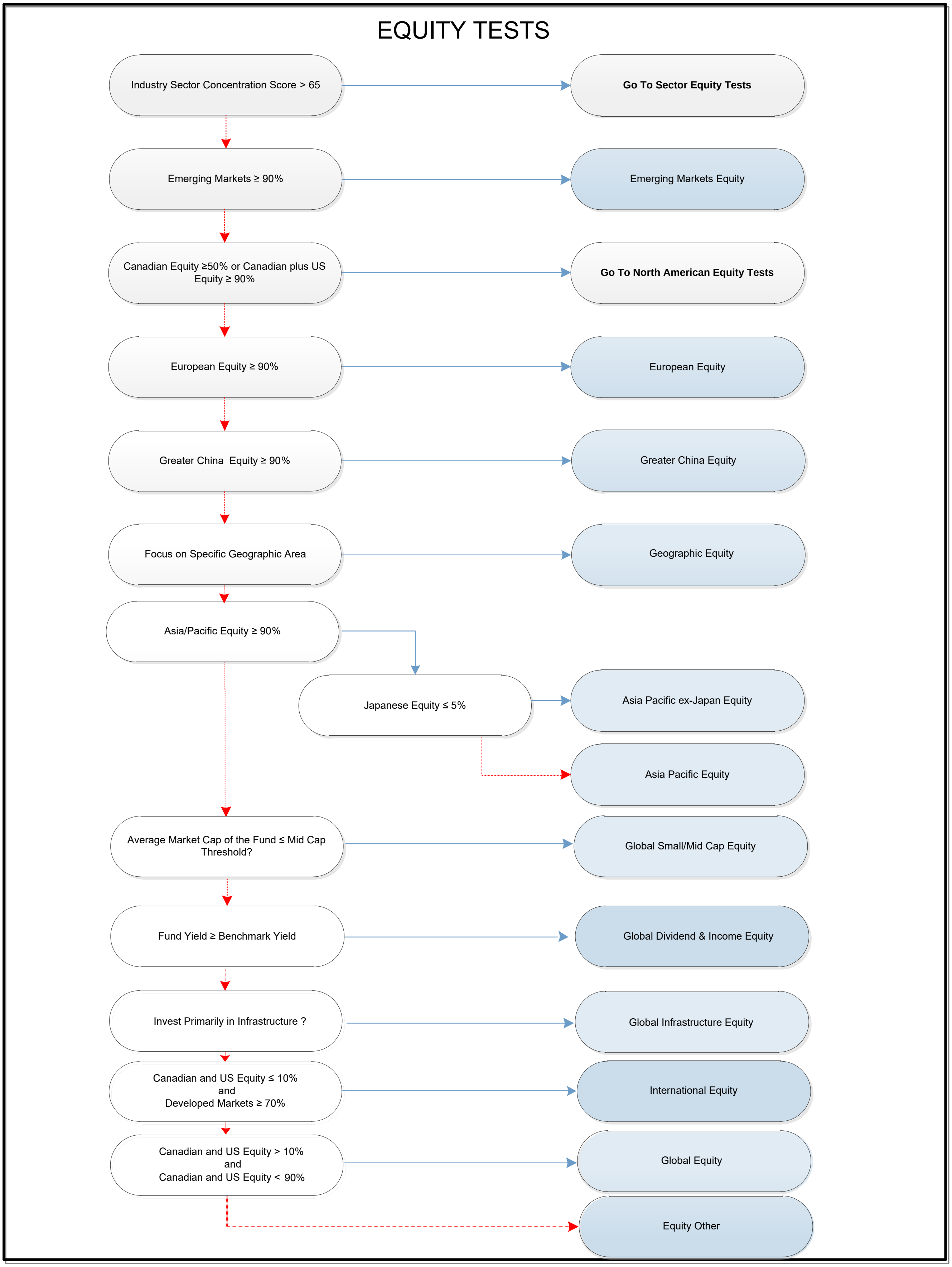
Category	Final Definition
Equity Other **(NEW)**	Funds in the Equity Other category have a unique strategy that does not fit into any other equity category.
Fixed Income Other **(DECLINED)**	The committee will not be proceeding with the creation of this category at this time.
Health Care Equity **(NEW)**	Funds in the Health Care Equity Category must invest at least 90% of their equity holdings in the Health Care Sector.
2035+ Target Date Portfolio	**This category will be retired**
2040 Target Date Portfolio **(NEW)**	These are target-date funds that mature in 2040 or earlier and after 2035.
2045 Target Date Portfolio **(NEW)**	These are target-date funds that mature in 2045 or earlier and after 2040.
2045+ Target Date Portfolio **(NEW)**	These are target-date funds that mature after 2045.
High Yield Fixed Income	Funds in the High Yield Fixed Income category invest primarily in fixed-income securities with a non-investment-grade credit rating. At least 60% of the portfolio's holdings are invested in non-investment grade securities including but not limited to high yield bonds, emerging market debt, bank loans, and unrated securities.
Multi-Sector Fixed Income	Funds in the Multi-Sector Fixed Income category can hold between 25%-60% of the portfolio in non-investment grade securities. Typically, these funds 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.). Geographic exposure can span both developed and emerging markets.

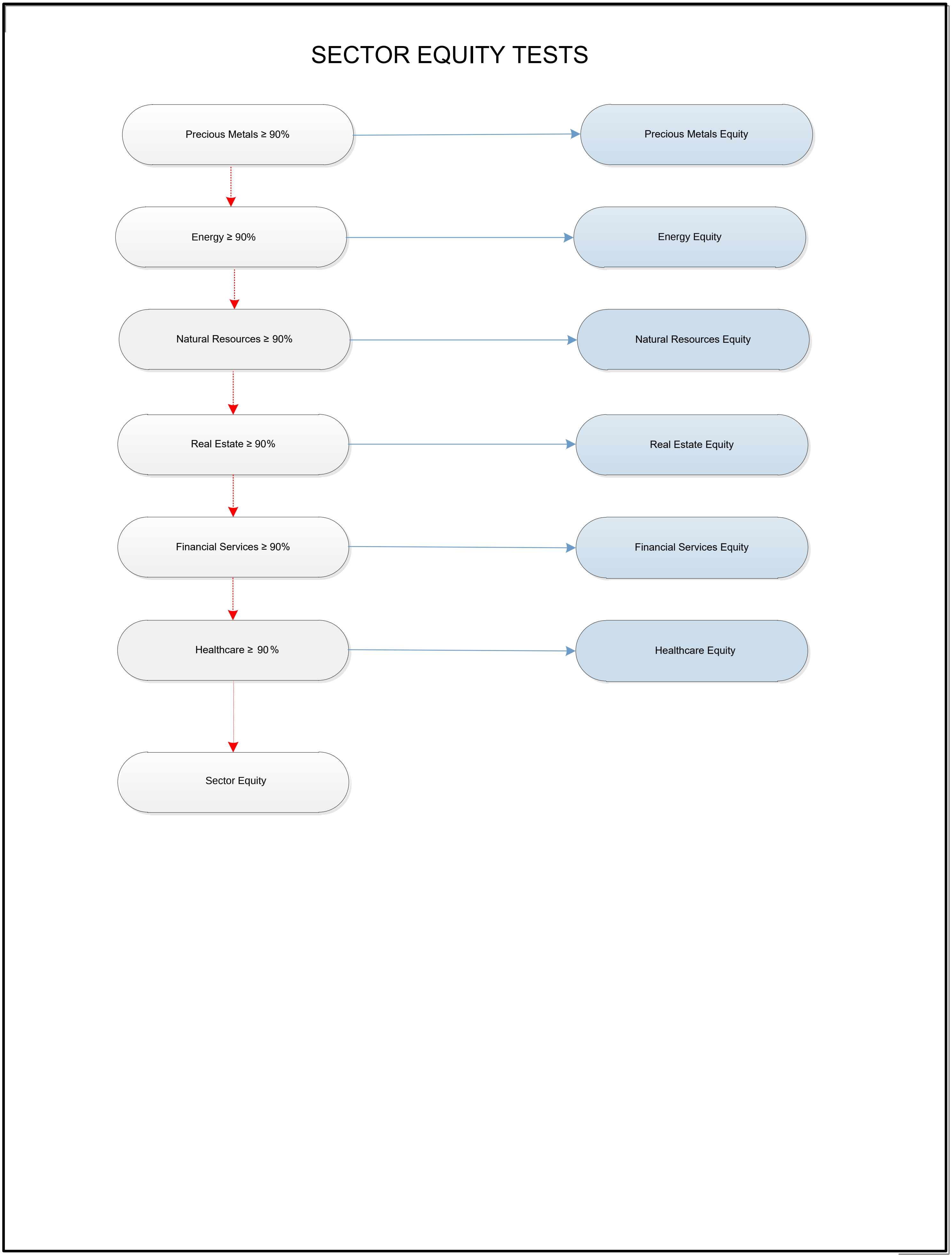
Canadian Short Term Fixed Income	Funds in the Canadian Short Term Fixed Income category must invest at least 90% of their fixed income holdings in fixed-income securities denominated in Canadian dollars with an average duration of less than 3.5 years. In addition, these funds must invest primarily in investment-grade fixed-income securities (BBB- or equivalent rating or higher) and not more than 5% of the portfolio's holdings are invested in non-investment grade 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 (BBB- or equivalent rating or higher) and not more than 5% of the portfolio's holdings are invested in non-investment grade 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 (BBB- or equivalent rating or higher) and not more than 40% of the portfolio's holdings are invested in non-investment grade securities such as but not limited to high yield bonds, emerging market debt and bank loans. 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 (BBB- or equivalent rating or higher) and not more than 5% of the portfolio's holdings are invested in non-investment grade 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 (BBB- or equivalent rating or higher) and not more than 5% of the portfolio's holdings are invested in non-investment grade 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 5% 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 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.

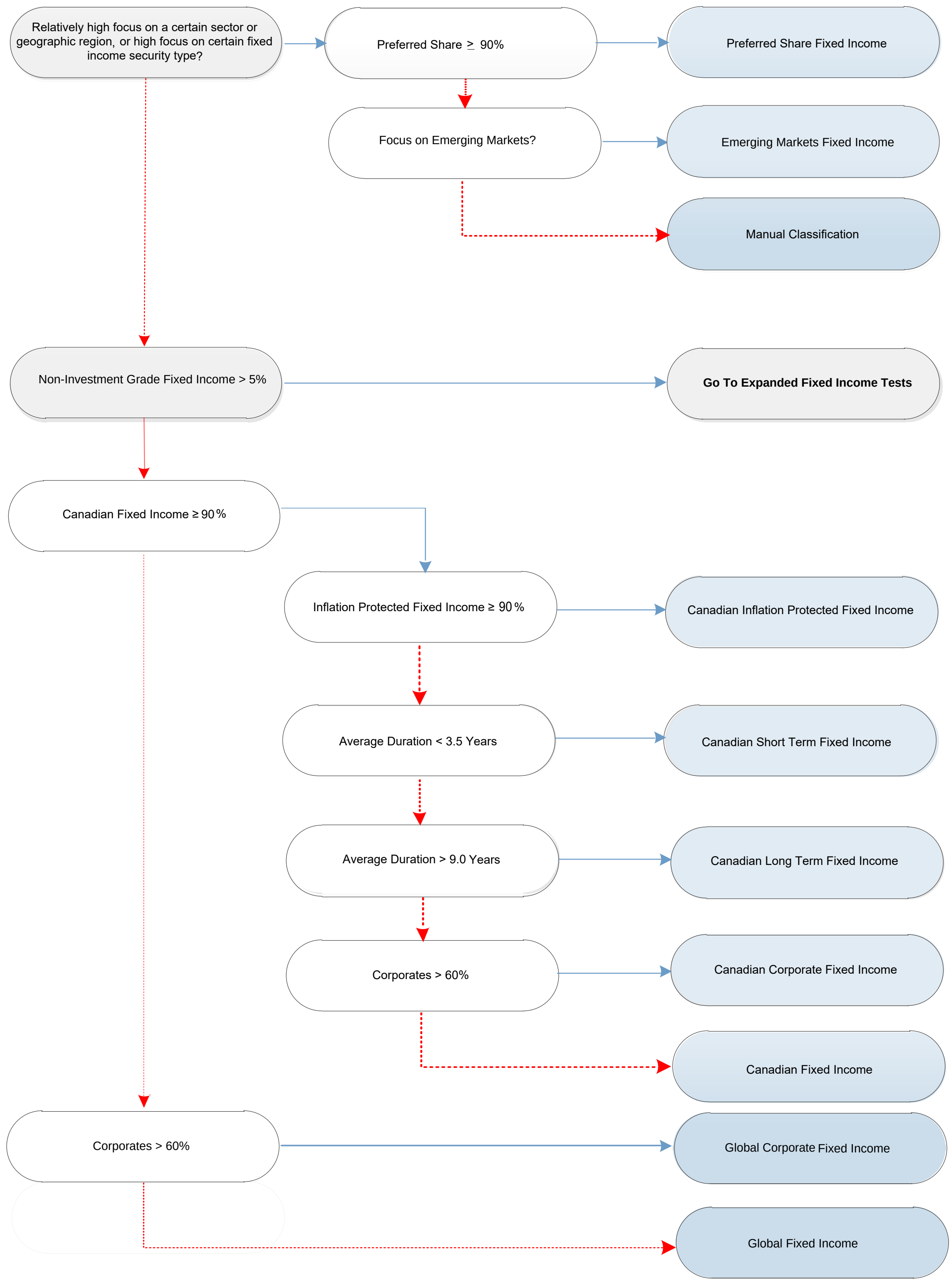
Canadian Core Plus Fixed Income **(NEW)**	Funds in the Canadian Core Plus Fixed Income category must invest at least 90% of their fixed income holdings in Canadian dollars. These funds must invest primarily in investment-grade fixed-income securities (BBB- and above) and may hold between 5%-25% of the portfolio in non-investment grade 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 Core Plus Fixed Income **(NEW)**	Funds in the Global Core Plus Fixed Income category funds must invest primarily in investment-grade fixed-income securities (BBB- and above) and may hold between 5-25% of the portfolio in non-investment grade securities.

APPENDIX C


EQUITY TESTS
Industry Sector Concentration Score > 65
Go To Sector Equity Tests
Emerging Markets ≥ 90%
Emerging Markets Equity
Canadian Equity ≥50% or Canadian plus US Equity ≥ 90%
Go To North American Equity Tests
European Equity ≥ 90%
European Equity
Greater China Equity ≥ 90%
Greater China Equity
Focus on Specific Geographic Area
Geographic Equity
Asia/Pacific Equity ≥ 90%
Japanese Equity ≤ 5%
Asia Pacific ex-Japan Equity
Asia Pacific Equity
Average Market Cap of the Fund ≤ Mid Cap Threshold?
Global Small/Mid Cap Equity
Fund Yield ≥ Benchmark Yield
Global Dividend & Income Equity
Invest Primarily in Infrastructure ?
Global Infrastructure Equity
Canadian and US Equity ≤ 10% and Developed Markets ≥ 70%
International Equity
Canadian and US Equity > 10% and Canadian and US Equity < 90%
Global Equity
Equity Other

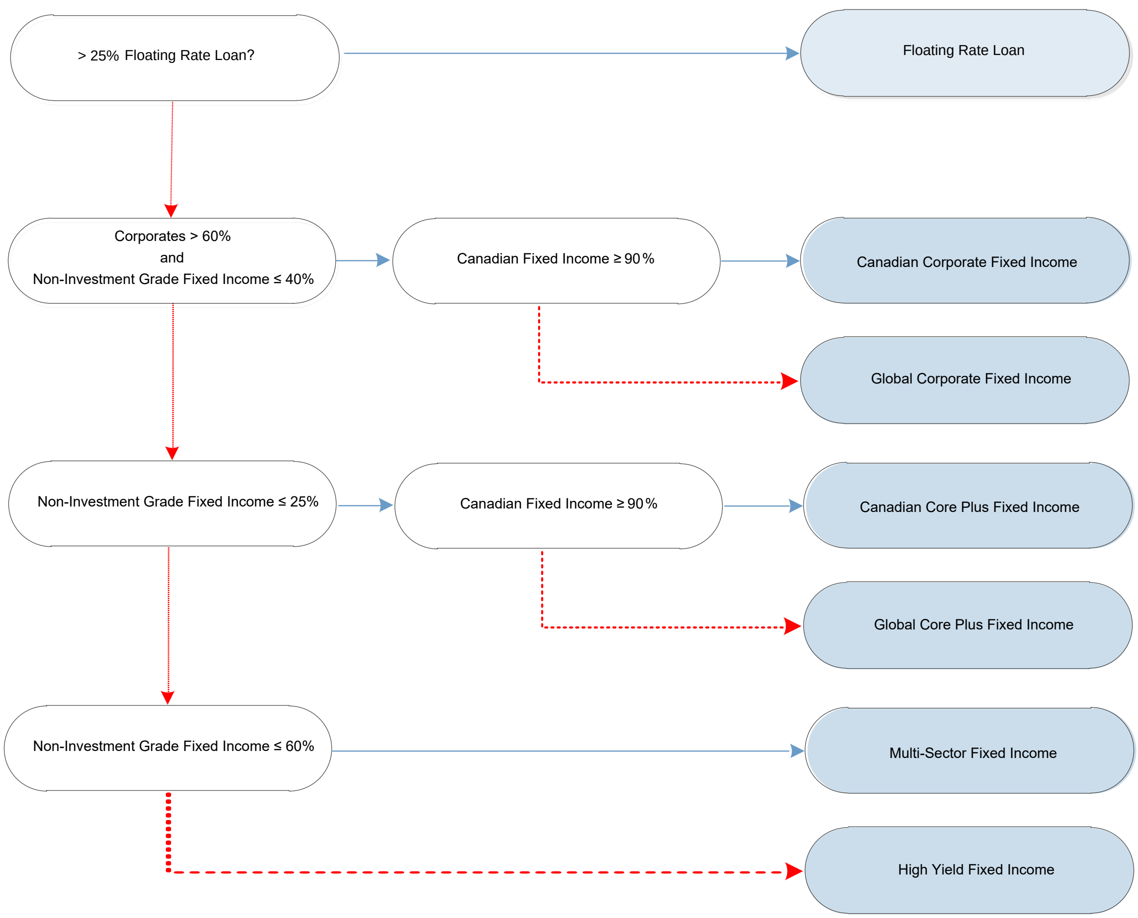

SECTOR EQUITY TESTS
Precious Metals ≥ 90%
Precious Metals Equity
Energy ≥ 90%
Energy Equity
Natural Resources ≥ 90%
Natural Resources Equity
Real Estate ≥ 90%
Real Estate Equity
Financial Services ≥ 90%
Financial Services Equity
Healthcare ≥ 90 %
Healthcare Equity
Sector Equity

FIXED INCOME TESTS



CIFSC CANADIAN INVESTMENT FUNDS STANDARDS COMMITTEE

EXPANDED FIXED INCOME TESTS



These category changes will be implemented **April 1, 2025**.

Thank you,

Danielle LeClair, Chair of the Canadian Investment Funds Standards Committee
Morningstar Research Inc.
Email: Danielle.leclair@morningstar.com

John Krisko, Vice-Chair of the Canadian Investment Funds Standards Committee
Fundata Canada Inc.
Email: john.krisko@fundata.com