

April 1st, 2025

RE: Category Change Review Announcement

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.

With over 1,000 strategies and over CAD 990 billion in assets, balanced funds represent a significant portion of Canadian investor assets. As part of CIFSC's ongoing monitoring of market trends, asset flows, new fund launches and recategorization requests, we believe growth in this asset class drives the need to review the current make up of balanced fund categories. More specifically, the committee notes:

- 1) As noted in a recent Morningstar study ([link here](#)), balanced funds have increasingly begun to incorporate alternatives in their asset mix. This makes CIFSC's methodology, which is holdings-based and considers only a fund's equity/fixed income mix, outdated. The committee aims to incorporate consideration for how this modernization of the balanced fund may impact a fund's risk profile to enhance our categories.
- 2) The current categorization system includes a cutoff between Neutral Balanced and Equity Balanced categories at 60% equity and 40% fixed income. The CIFSC notes the problematic nature of this threshold given it is the textbook asset mix for a balanced fund. Tactical or strategic allocations slightly below or above these thresholds bifurcates what would otherwise be considered a reasonable peer group of funds. The committee aims to determine a more appropriate threshold to aggregate a more representative peer group for investors.
- 3) The current bands for categories are significantly wider than those in other markets. For example, Morningstar's most recent US categories (October 2024 – [link here](#)) generally span between 15-30% equity. The committee aims to establish thresholds that create categories with less dispersion of results and more similar risk profiles.

The committee is cognizant of the various areas impacted by a change to these prominent categories and are committed to working with key industry stakeholders and participants to make these enhancements as smooth as possible.

The CIFSC welcomes feedback on potential changes to the balanced categories until July 31st, 2025. [Share your suggestions and comments through the contact form here.](#)

Sincerely,

Danielle LeClair, MFin

Chair - Canadian Investment Funds Standards Committee
Director of Manager Research, Canada | Morningstar Research Inc.
danielle.leclair@morningstar.com

John Krisko, CFA

Vice Chair - Canadian Investment Funds Standards Committee
Vice President, Investment Analytics | Fundata Canada
john.krisko@fundata.com