Kenmar Associates

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The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8
Fax: 416-593-2318
E-mail: comments@osc.gov.on.ca

OSC Consultation Paper 81-737 – Opportunity to Improve Retail Investor Access to Long-Term Assets through Investment Fund Product Structures
https://www.osc.ca/en/securities-law/instruments-rules-policies/8/81-737/osc-consultation-paper-81-737-opportunity-improve-retail-investor-access-long-term-assets-through

Kenmar Associates are pleased to provide comments on the OSC's investing opportunity for retail investors involving illiquid assets. We have expended nearly 400 person-hours in supporting this very important consultation.

"Long-term assets provide a unique opportunity for investors to diversify their portfolios and potentially achieve higher returns over an extended period. Through this consultation, we hope to identify how to broaden investor access to these benefits while also mitigating the risks inherent in illiquid assets," - Raymond Chan, SVP, investment management, the OSC.
https://www.advisor.ca/investments/products/osc-looks-to-play-the-long-game/

Retail Investor
CIRO Dealer
OLTF
Cornerstone Investor
CIV
Long-Term Asset

This consultation comes at a time when retail investors are reconsidering actively-managed mutual funds in favour of low cost ETF's. An illiquid fund category would be a positive for the Canadian mutual fund industry .The consultation is aligned with Ontario govt. policy to finance energy, housing, municipal services and infrastructure projects. This is entirely consistent with the Commission's mandate to foster capital formation, a mandate that can create a conflict with its overarching investor protection mandate.

The investment industry has been promoting long-term funds for some time now, but we haven't heard much from Ontario retail investors calling for a need for a risky, illiquid long-term fund.

Much of the potential benefit of investing in long term assets is ascribed to an idea dubbed the *illiquidity premium*. A research Paper, ***The Ins and Outs of investing in illiquid Assets***
https://caia.org/sites/default/files/AIAR_Q2_2016_05_InsandOuts.pdf
concluded: "***We have evaluated the common view that investors should be able to harvest a liquidity premium from illiquid investments. Unfortunately it is hard to find evidence of such a premium, which makes the decision to invest in illiquid assets one of the tougher challenges for investors "*** and "***Even if liquidity premiums exist, it is questionable whether these premiums can be exploited in practice and whether they are large enough to compensate for the extra risks involved. These risks include the risk of deviating too much from the optimal strategic portfolio as a result of the inability to rebalance and the probability of not being able to cover running expenses caused by too great an allocation to less liquid assets***".

We quote from an article ***In search of a rich illiquidity premia harvest in private equity*** by Barclays Private Bank **"The big dispersion in PE fund performance reminds us that the illiquidity premium is a theoretical concept, not a guaranteed payoff".**
https://privatebank.barclays.com/insights/2022/june/mid-year-outlook-2022/in-search-of-a-rich-illiquidity-premia-harvest-in-private-equity/

When the consultation talks about diversification, we must note that, for example, adding private debt often means lending to smaller, riskier borrowers. It does not necessarily mean broadening exposure to different sectors of the economy.

How should a commenter react to these conclusions?

Introduction and Background

Most modest income retail investors invest for a life event, such as retirement, or the education of their children. How such a complex fund like OLTF would fit into a retirement portfolio is not easy to envision. See APPENDIX I **Relevant Investor Statistics** highlighting the economic stress ordinary Canadian retail investors (the target OLTF investors) are facing.

Actively-managed ETF's have given retail investors access to professionally managed portfolios at lower costs and added numerous novel ETFs to better manage portfolio diversification, volatility and risk. At the same time, CIRO is working to provide OEO's the ability to provide non-tailored advice to retail investors. Access to tools, calculators, research reports, information, educational materials and alerts will permit retail investors to improve portfolio diversification and achieve better after- fee premium returns. And OBSI is working hard to provide access to fair compensation to investors that have been harmed by unsuitable illiquid securities .This is the kind of access that retail investors need and demonstrably want. Conversely, we see limited small retail investors' appetite or need to access expensive, risky, illiquid long-term funds like OLTF.

It is gas lighting that retail investors are unable to benefit from long-term investments. Insurance products, such as annuities and other products are cheaper because insurance companies do take advantage of long term investments. However, the insurance companies are sophisticated investors and risk their own money.

Canadians already have plenty of indirect access to illiquid securities via CPP, Company pension plans, public companies that own illiquid investments and directly via mutual funds with up to 10% in illiquid holdings, REIT's, ALT Funds, lightly traded small caps and of course , Private Credit funds are available to OM exempt retail investors. Target Date Funds are also an option that allows retail investors to effect long-term investing.

Infrastructure investments can increase returns and reduce risk but there is no need to create an OLTF to provide retail investor access to such investments. A number of such funds and ETF's exist as public entities with full disclosures, transparency, daily trade pricing and liquidity. They can easily be introduced into a portfolio subject to periodic portfolio rebalancing as required. See Brookfield https://www.brookfield.com/infrastructure-outlook-opportunities?creative=710450534541&keyword=infrastructure%20institutional%20investing&matchtype=b&network=g&device=t (Investing in infrastructure demands a high initial outlay of funds. Depending on the project there may be a considerable period of time before any income is received. Any delay may present a cash flow problem to the project/ investor)

Since January 2022 investors can invest in Interval funds. The only Interval fund currently available in Canada is the Mackenzie North Leaf Private Credit Fund.
- Series A. It has a MER of 2.75% and TER of 0.03% ,a 2.4% annualized compound return since inception, is rated medium risk and pays a 1% trailing sales commission to the Dealer. It can only be purchased via the sales charge option which can be negotiated.(Source : Fund Facts https://www.mackenzieinvestments.com/content/dam/mackenzie/en/mutual-funds/fund-facts-mackenzie-northleaf-private-credit-interval-fund-sries-a-en.pdf) Interval funds might be acceptable investment vehicles for investing in illiquid assets, but given withdrawal limitations, they should also be considered illiquid themselves.

More recently, Canadians have been able to diversify via the cannabis market, cryptocurrency funds and new AI industry funds .And of course there are also long-term opportunities in fine art , rare coins and stamps and antique cars. Some of the best investments could in fact be their home - and there is no capital gains tax on the sale of a principal residence. **How much more diversification does the average Canadian retail mutual fund investor need?**

And there is the Accredited Investor channel. By not adjusting for inflation, the Accredited Investor dollar limits for an extended period, the OSC has greatly opened up the exempt market channel to thousands of potential Ontario retail investors who might want to access illiquid assets in the Exempt market.

It is important to recognize that the OLTF mutual fund will be charged a fee each year of the long term investment (even when withdrawals are suspended or redemptions are frozen). Over say 10 years this will decompound fund assets by nearly a quarter assuming a 2.5% MER.

For retail investors that haven't set aside enough liquid assets to deal with a financial emergency, significant investments in illiquid asset classes could be a financial nightmare. Conversely, High-net-worth investors who have higher loss capacity may have a lot of underutilized capital that could potentially benefit from being put into more illiquid, riskier, longer term investments.

Any potential OLTF excess returns (*illiquidity premium*) could be eaten up by fees and expenses as occurs with regular actively-managed mutual funds as well as the adverse impact of limited liquidity and costly redemption charges.

Several articles have suggested that there is an average illiquidity premium of 2% to 4% for buyout funds and 3% to 5% for riskier early-stage VC funds. In an article published on CAIA Association's blog, author Steve Nesbitt of Cliffwater claims a 4.8% premium for private equity over public markets between 2000 and 2023. Assuming the maximum 5% "illiquidity premium" and a hefty 5% portfolio weight for OLTF, retail investors could, in theory, obtain a minor portfolio boost IF the PE fund was successful, before OLTF MER/fees and other charges. Not exactly a big win considering the risks, complexity, liquidity constraints and lack of transparency.

Private equity (PE) has several benefits in reinvigorating business but it would be negligent not to mention raw capitalism as a potential negative for employees , suppliers, customers and the Ontario economy There may be good returns for PE investors even if the Company goes bankrupt .Read *Plunder: Private Equity's Plan to Pillage America*. 2023 by Brendon Ballou. Some PE business practices may be uncomfortable for some Ontario investors and influence their desire not to invest. The practices include the persistent "tools of the trade" of typical private equity operation: strategic bankruptcies, leasebacks, dividend recapitalizations, tax avoidance, roll-ups, and murky corporate structures. **This is why we recommend that the fund ESG policy must be defined in the prospectus**.

Dividends have played a significant role in the returns retail investors have received during the last several decades. Going back to 1960, 85% of the cumulative total return of the S&P 500 Index can be attributed to reinvested dividends and the power of compounding. **Unsophisticated Ontario retail investors in OLTF could incur a significant long-term opportunity loss unless exceeded by outsized net returns related to holding illiquid assets in an OLTF for an extended period**. See **The Power of dividends: Past, Present and Future** https://www.hartfordfunds.com/dam/en/docs/pub/whitepapers/WP106.pdf It should be noted that in the event of an unsuitable recommendation complaint, OBSI could factor in such an alternate investment using its loss calculation methodology for illiquid securities.

Although it does not support the OSC's fostering capital formation mandate, we think access to low-cost ETFs based on the robust ***low -volatility premium*** would provide solid returns for small investors without locking in cash in an illiquid asset fund for an extended period of time. See **The Low-Volatility Factor and Occam's Razor** https://blogs.cfainstitute.org/investor/2024/02/16/the-low-volatility-factor-and-occams-razor/

From the language in the consultation it is apparent that the Govt. of Ontario /OSC have already determined that such funds will be available in Ontario. It is some operational details that need to be addressed in this consultation. Kenmar argue that these funds may not be in the Public interest but nevertheless suggest patches to the proposal that could minimize retail investor harm if the proposal is implemented.

If OLTF is approved for sale, unsophisticated Ontario retail investors would be getting access to a category that mostly served the biggest and the brightest. Sometimes an *opportunity* is cynically described as the *democratization of finance*.

Response to Questions

"….And perhaps the most basic lesson is to avoid investing in anything an investor doesn't understand. "I know that sounds really simple, but ABCP was so complex," …" Caroline Cakebread, the author **of Back From the Brink: Lessons From the Canadian Asset-backed Commercial Paper Crisis** https://search.app/kHcRXxxpnTeLWs336. **The OSC should bear this lesson in mind as it develops its approach to Ontario retail investor access to complex, risky, illiquid and hard to value funds.**

Q1 *Do you agree that retail investors could benefit from increased access to Long-Term Assets? Please explain.*

Retail investors could gain limited exposure to new ventures in infrastructure and natural resource projects. **However**, w**e do not see a material benefit for the average modest income Ontario retail investor from increased access to an OLTF via a risky mutual fund.** In fact, we see some downsides as we explain in this letter. A retail investor considering alternatives must be financially savvy and have the ability to dig into offering statements, look at fee structures, terms, related party transactions and liquidity issues.

Q2 *Could investment fund product structures facilitate increased retail investor allocation to Long-Term Assets, while mitigating some of the risks of holding these illiquid assets? Please explain.*

Investment funds provide a structure tailored for the retail investor, including KYC/KYP and suitability determination but this type of intermediation permits otherwise inaccessible risky products to be sold to unsophisticated retail investors. If a fiduciary duty was applied we might be convinced this "opportunity" was truly in the best interests of small retail investors. Even then, we seriously question whether a mutual fund salesperson has the education, experience and toolkit to provide recommendations concerning such a risky, complex, illiquid product within a portfolio.

A fund, as proposed, could seduce some Ontario investors to place a portion of their life savings in the fund. The investment Fund structure can spread investments across various long-term assets, reducing concentration risk. If sales commissions and/or trailers are attractive, uptake could be meaningful at least until the results of such investing come out.

Q3 *What else could be done to increase retail investor interest in specific types of Long-Term Assets?*

Consider offering tax benefits for long-term investments in specific asset classes. Ensure plain language disclosure of valuation methodologies and performance metrics. We do not believe there is a strong argument for the creation of such a retail fund so we would not encourage any further OSC fostering of risky, long term , illiquid investing for unsophisticated, modest income Ontario investors.

The OSC must confirm that OLTF's are eligible for inclusion in registered plans like RRSP's, RRIF's, TFSA's and RESP's. If they are not, there would be a material reduction in the addressable market.

The new fund category must comply with NI81-105 sales practices or a more demanding variant. As we expect the MER of OLTF to be higher than traditional mutual funds, Dealers could have a bias towards their sale.

Q4 *Would the investment fund structure be less attractive or not viable if the Proposal were to place some restrictions on minimum investments in Long-Term Assets located in Ontario? Please explain*.

Less viable because great opportunities exist across Canada. Focusing on Ontario-based assets may increase exposure to local economic factors. **We recommend limiting investments to Canada.**

Q5 *Should the Proposal exclude certain types of Long-Term Assets (e.g., sensitive infrastructure projects in specific countries or Long-Term Assets that non-investment fund issuers would be prohibited from owning)? Please explain*

The consultation paper states that investments will not be limited to Ontario. If outside Canada, the fund would be subject to geo-political risk, currency risk and unfavourable tax treatment.

To align with growing ESG concerns, assets with material environmental, social or governance risks should be excluded as should assets with

extreme valuation challenges where accurate and fair NAV calculation cannot be determined.

The OSC should be alert to the possible use of such funds to implement money laundering or the support of hostile regimes or terror entities.

Q6 - *Please explain your views on each of the following overview 7 elements:*

OLTFs could be either fixed-term or evergreen funds depending on the nature of the assets. Infrastructure projects and other development projects with an expected completion date would be fixed- term. If fixed-term, Retail investors should be made aware of the expected hold period and how they can exit at the end of the period.

An evergreen fund has permanent capital to invest and no deadline to return those funds to investors. This leads to fewer constraints on the timing of making and disposing of investments. Investors buy into the fund at current NAV. Liquidity is one of the principal challenges of evergreen funds. Other challenges include the fact that the underlying assets are often illiquid and that the assets can be difficult to accurately value for purposes of determining NAV. In addition, the assets often will not generate income that can be used to provide funding for redemptions. A forced sale of assets to generate proceeds to fund liquidity will often run counter to the fund's investment thesis, which is focused on long-term enhancement of value. Such a risk is not defined by standard deviation risk disclosure.

OLTFs should be subject to their own unique regulatory requirements because they are truly a different type of mutual fund. The structure provides a foundation to adapt regulations that could be applied should the retail illiquid fund market develop.

Limiting distribution to Ontario investors would have several negative implications:
1. Reduced investor base, potentially limiting fund size and diversification
2. Potential competitive disadvantage compared to national or international funds
3. Make the fund subject to local risks

However, if distributed outside Ontario, the OLTF fund may not be an eligible investment for retail investors in other provinces.

There must be sufficient transparency re the CIV structure.

Like Section 2.2 of NI81-102, the consultation paper restricts ownership of the investment from having control over the investee company. **This may hinder the free flow of information to permit valuation or assess development status.**

A fund-of-fund structure could result in higher fees, increased complexity and possibly a reduction of returns, albeit with less volatility. Another issue with fund - of-fund structures occurs when one or more of the underlying funds/CIVs may individually charge a performance fee. You not only have layers of fees – and potentially poor transparency of all in costs – but performance fees on individual funds can be triggered even if the overall OLTF performs poorly (or loses money) in a year.

Q7 *Are there other overview elements the Proposal should consider? Please explain*

Objective evidence: Fund management should be able to demonstrate to regulators, the external auditor and independent valuation assessor that robust valuation and liquidity management processes are in place and they function effectively.

Compliance/ Enforcement: If the OLTF is approved for sale to Main Street, the OSC should be resourced to provide enhanced oversight of this new fund Category. The areas we are concerned about include, but are not limited to: prospectus quality , new Fund Facts/ MRFP , fund governance ,marketing and promotion, sales practices and incentives, fee disclosure, risk disclosure and rating, valuation integrity, liquidity management , fiduciary obligations, conflicts-of-interest disclosure, clearly defined or identified fraudulent acts or practices by private fund advisers , transparency , ESG disclosure and AI washing.

Liquidity management framework: Develop specific guidelines for managing liquidity risks associated with long-term assets, including stress testing requirements. Stress testing should be conducted independent of the portfolio management function.

Conflict-of- interest policies: Develop tailored guidelines to address potential conflicts of interest in valuing and managing illiquid long-term assets.

Performance reporting standards: Establish standardized methods for reporting performance of long-term assets to ensure consistency and transparency.

Contingency Plan: There should be contingency plan disclosed in the fund prospectus with relevant agreements with third parties in place.

Nomenclature: Fund names should not be misleading.

ESG integration: Include guidelines for integrating environmental, social, and governance factors into the investment process for long-term assets.

Access to a Ombudservice: In accordance with the requirements of section 13.16 of NI31-103, all registered dealers must take reasonable steps to ensure that OBSI will be the independent dispute resolution service that is made available to a client that has an eligible complaint. This is inadequate .We strongly recommend that any Dealer selling OLTF's must be a OBSI Participating Firm. **It would not be appropriate to proceed with this scheme until OBSI has been granted a binding decision mandate in Ontario**. **We highly recommend that the OBSI loss calculation process for resolving disputes involving illiquid securities/ holdings be formally endorsed by the OSC without undue delay.**

Q8 *Do you agree that these are threshold issues? Are there any other threshold issues? Please explain*.

The 6 threshold issues appear to cover the spectrum. We assume marketing, advertising, free lunch seminars and the like fall under Distribution. However, see APPENDIX I **Enhanced support systems needed.**

Investor eligibility could be an issue.

Q9 *Please explain your views on each of the following redemption features:*

The minimum proposed redemption cap of 10% per annum for liquidity management appears reasonable.

We support the OSC's proposal to require redemption frequencies to range between monthly and annually. However, we believe the OSC should provide further Guidance on appropriate liquidity buffers that OLTFs must maintain to ensure that they can meet redemption requests without materially impairing fund assets.

We're not convinced that having to give up to 30 days advance notice for redemptions, waiting up to 9 days for receipt of redemption proceeds and incurring a discount-charge for redemptions will prove popular with the average Ontario retail investor. This is not to say the OSC is being unreasonable, rather it reflects the difficulty in trying to fit a square peg into a round hole.

Q10 What are the minimum redemption restrictions OLTFs would need to effectively manage their liquidity?

We recommend that IOSCO principles be considered when implementing a redemption suspension regime .**Principles on Suspensions of Redemptions in Collective Investment Schemes:**
IOSCO https://www.iosco.org/library/pubdocs/pdf/IOSCOPD367.pdf.

Q11 *Could there be investor demand for fixed-term OLTFs that do not offer any or very restrictive redemption rights to their securityholders? Please explain.*

Since we do not believe there is a material small retail fund investor need or demand for OLTF, we would have to say more redemption restrictions will most likely impair retail investor demand.

HNW individuals might be willing to accept illiquidity for superior return potential.

Q12 *Are there other redemption issues the Proposal should consider? Please explain.*

Hardship Withdrawals There could be a case made for hardship withdrawals in the event of unemployment, illness, caring for a family member, compassionate grounds, permanent incapacity or a threat to loss of primary residence. The prospectus could state that under certain exceptional conditions of hardship, consideration will be given to allowing limited redemptions. Reference ASIC https://asic.gov.au/for-consumers/investing-and-financial-advice/frozen-funds-and-hardship-withdrawals/

Gating provisions to manage large redemption requests should be considered as should redemption fees that decrease over time to encourage long-term holding by retail investors.

Q13 *Should OLTFs only be required to calculate NAV as often as the frequency of distributions and redemptions in addition to financial reporting periods? Please explain.*

More frequent valuations would keep investors up to date, support monthly client account statements provided by registered Dealers and would allow fund managers to better manage risks and help ensure compliance with securities regulations. The valuation should be fair, reasonable and not misleading.

Q14 *Please explain if any of the following mitigate the difficulties of calculating fair and reasonable NAVs for Long-Term Assets:*

In our opinion, the 4 components could assist in obtaining fair valuations. The IFM will need to establish robust valuation policies, procedures and controls to ensure accurate and fair valuation of the investments while adhering to OSC guidelines. Will the restriction on control impede an IFM's ability to oversee private assets?

The valuation methodology must be consistent from one reporting period to another. **We definitely agree that valuations should also be independently assessed at least annually.** The independent valuator should be a recognized expert in the field of valuation of illiquid long term assets. **The independent valuators determination should be publicly disclosed and reconciled in audited financial reporting.**

Q15 *Are there other valuation issues the Proposal should consider? Please explain.*

Implement periodic stress testing of valuation models to confirm efficacy under varying market and economic conditions. Disclose valuation models for each asset class along with key assumptions used in developing the models.

Clear guidance on valuation processes for the different categories of long-term assets.

Q16 *Please provide your views on whether, given its unique purpose and structure, an OLTF should only have a majority-independent board of directors and no* *independent review committee or alternatively, whether it should have an independent review committee with enhanced supervisory powers additional to reviewing conflict of interests. Also, could an OLTF also be organized as another type of entity, such as a trust with a majority-independent board of trustees?*

Risk and liquidity management demands robust fund governance. Fund Governance should ensure risks are managed as a whole e.g. the interplay between liquidity and valuation and conflicts-of-interest.

The IRC approach to mutual fund governance has recently been given the nod from the CSA with some minor suggestions for improvement. Yet, TD Asset Management recently settled a class action for $70,000,000 for sending fund cash to discount brokers for services the brokers could not and did not provide.TD did not admit to wrongdoing. Why then should retail investors depend on an IRC to protect a OLTF?

Conflicts-of-interest are a serious issue that must be effectively managed to protect the integrity and reputation of OLTF's. **We believe a conventional Board of Directors with a majority of independent Directors is required to govern this complex structure comprised of risky, illiquid assets. The audit or governance committee could function as an IRC.**

The independent directors on the BoD would provide enhanced oversight over the fund manager's activities, including conflicts-of-interest, valuations, temporary withdrawal restrictions and redemption freezes.

Q17 *Are there other monitoring, review and governance requirements the Proposal should consider? Please explain.*

The defined approach appears to be adequate monitoring and governance. We assume the Annual report financial statements of the fund will be subject to independent audit. Conflicts-of-interest are certainly an area needing close attention.

The management of the fund should have a fiduciary obligation to the OLTF.

Like the OSC, we think that the presence of Cornerstone Investors, seasoned IFMs and independent valuations could help mitigate the difficulties OLTFs would face in calculating NAV and bolster confidence in the valuation of their portfolio assets. But we have a few questions. **Is 10% ownership too low a level of Cornerstone ownership? What are the key characteristics of an acceptable Cornerstone investor? Are Cornerstone investors required to be domiciled in Canada? Will the big pension funds horde the best investments and leave the OLTF with second tier Cornerstones and opportunities? Will Cornerstone Investors, such as pension plans, which have stakeholders, structures and governing documentation that differ from those of the OLTF and the CIV face challenges participating in OLTF? Under what conditions can a Cornerstone investor reduce holdings or exit the OLTF?**

A conflict-of-interest may arise if proxy voting decisions are not made in the long-term economic interests of the shareholders of the corporation holding the proxy vote (the OLTF) but instead made in the interest of the Manager's interests. **Safeguards should be put in place to address proxy voting conflicts.**

The Proposal would include a requirement that the OLTF be wound up if annual redemption requests exceed the 5% of its NAV for 8 consecutive redemption periods- this could have a major adverse impact on say, an infrastructure focussed fund if the project(s) remained incomplete. **How will an OLTF be able to wind up, as proposed? How long would the OLTF have to wind up the fund and what impact would the windup have on investor life savings?**

OLTF Funds must communicate directly to unitholders about material trades and events within the portfolio with escape-hatch measures to sell at prices as if such a trade had not occurred.

A OLTF Fund should identify a fund target date and require all fund holdings be suitable for liquidation by that target date.

Prohibit conflicts regardless of Chinese walls. **Ensure a fund may not incorporate assets that the financial group otherwise benefits from financially**.

A mandatory risk management committee is appropriate for OLTFs.

Q18 *Should the Proposal require a new form of Fund Facts for OLTFs? Please explain.*

A clear legal definition of *illiquidity* is required so that fund reporting is consistent among all OLTF funds.

A new format for Fund Facts is required. Fund Facts was designed for Grade 6 literacy based on empirical research on basic mutual funds. The unique risks associated with OLTF should be articulated. The warning that investors may not be able to withdraw the desired amount at a defined date or at all if withdrawal is frozen should appear in the Risk section of Fund Facts. The requirement to wind up the fund under certain conditions should be considered a material risk of investing in the fund and therefore should be included in new Fund Facts risk disclosure. **More generally, any issue that could impair performance of the fund should be disclosed in bold print in the Risk section of Fund Facts.** Performance reporting will be based on valuation assessments and should be benchmarked so investors can evaluate fund performance. Liquidity restrictions and redemption policies should be highlighted. All fees should be transparently presented. Strong impactful, prominent risk warnings should be present in the prospectus, Fund Facts and in marketing materials. The warnings should include investment performance risk and portfolio balancing risk, not just illiquidity risk. The exact language of the warning should be prescribed by the OSC to ensure consistent disclosure.

Given all the components of a OLTF that retail investors must be made aware of, we fully expect that the prospectus will not be a short document and do not believe Fund Facts can be contained to 4 pages.

A copy of a *new* Fund Facts should be delivered to clients before purchase. **The OLTF Fund Facts should not solely use a standard deviation mutual fund risk rating scale-the top risks should be enumerated**. A fund's risk rating in Fund Facts document indicates how volatile the fund has been based on standard deviation. We argue that an OLTF risk rating should be more fulsome given the issues with valuation accuracy and frequency and the unique risks associated with OLTF. Maximum drawdown may be a better way to measure risk of illiquid assets. The distribution of returns would have to be Gaussian to justify use of the standard deviation as a metric. The "new "Fund Facts (and MRFP) should include some metrics such as Beta and R-squared that could assist investor investment decision making. The section on *Why invest in this fund* needs to be more forthright and plain language. Words like *Seeks to capture alternative sources of alpha* should be replaced with plain language *Accepts higher risk in return for potentially higher returns*. **Fund Facts should be investor tested before finalization.**

Fund Facts OLTF should contain a cooling off right of 3 business days.

Q19 Should *the Proposal require a new form of MRFP for OLTFs? Please explain*

A new MRFP format is being proposed by the CSA even as the existing format is being slimmed down for regular mutual funds. The proposed changes to the MRFP includes a new requirement to include disclosure regarding the liquidity profile of the investment portfolio of the investment fund. **The "new" MRFP will need to include sections detailing how liquidity was handled, redemption statistics, contingency plans when faced with a market shock and similar issues unique to an OLTF.** A liquidity table of holdings should be included.

A benchmark comparison should be provided so investors can determine value for money.

The new MRFP should provide detailed explanations of valuation methodologies and updates on major investments or projects.

The new MRFP should be investor tested before finalization.

The MFRP report should be physically or electronically *delivered* directly to OLTF investors if requested.

Q20 *Are there other disclosure requirements the Proposal should consider? Please explain.*

OLTF disclosure rules should require Managers and Board members to state their "skin in the game" .An alignment of interests could enhance investor trust while a lack of insider investment could provide a signal to investors to be cautious.

Fund managers wishing to sell assets more quickly than usual to meet significant redemption demand, at a price below the full open market value of the asset, should disclose this intention in the OLTF prospectus.

Regular updates on the progress of long-term projects should be described and issues identified.

There needs to be clear disclosure to Ontario retail investors regarding the implications of holding illiquid investments. We fully expect the OSC to run a province wide high impact investor education program dealing with investing in illiquid or quasi liquid investment funds if the OLTF proposal is carried forward. One example of OSC education material would be the SEC's no-nonsense **Investor Bulletin: Interval Funds** https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/investor-bulletin-interval-funds

Q21 *Please explain your views on each of the following investment restrictions:*

OLTF's should not be permitted to implement short selling, securities lending and should be tightly constrained on their use of leverage and derivatives. The fund is risky enough without adding more issues. **In particular, leveraging illiquid assets should be prohibited.**

A OLTF's minimum level of illiquid investments should be high enough that its nomenclature is not misleading to Ontarians - 50% illiquid is pushing the boundary.

Q22 *Are there other investment restrictions the Proposal should consider? Please* explain

A requirement for an investor to specifically acknowledge that investing in OLTFs is generally not appropriate for investors with short term investment horizons, or that need the ability to liquidate their investment on demand, would need to be tested. We recommend instead that the advisor specifically acknowledge confirmation that the recommendation is suitable.

Other investment restrictions to consider include (a) Limits on investments in emerging markets; (b) Minimum credit quality for debt investments and (c) Restrictions on related party transactions.

We recommend full disclosure of liquidity management tools/processes employed, liquidity risk contingency plans and plain language disclosure of the trigger to be used to suspend redemptions.

Performance fees (if applicable) and expenses incurred as a result of owning units of a OLTF should be clearly presented. **Additionally, any performance-based fees should be aligned with investor interests, ensuring that compensation is only tied to long-term performance rather than short-term gains**.

Private debt funds could disclose what percentage of its portfolio is "non-performing".

Given the wide range of holdings proposed to be permitted, **we believe it would be necessary for the fund to declare its ESG stance in the prospectus so investors are not surprised by the type of investment PRACTICES OR INVESTMENTS held by the fund.**

We do not see how a limit on how much an investor can buy of an OLTF could be enforced unless the Dealer knew the other investments held by the investor. A tiered approach, subject to suitability and depending on the specifics may be the way to go.

Q23 *Please explain your views on each of the following distribution matters:*

Given the complexity of the multiple investment alternatives, we recommend that OLTF's be distributed by professional, experienced, well trained financial advisors capable of portfolio level suitability analysis.

Dealers that offer the OLTF would need to be equipped to effectively assess client risk capacity and provide software tools and algorithms for advisors that allow them to structure portfolios that account for a risky, illiquid security in the portfolio. (i.e. structure a portfolio that meets the desired risk-return ratio per the KYC). An immediate result could be that the risk level of the liquid portion of the portfolio might need to be changed depending on OLTF allocation.

If a concentration limit, say 10%, were defined, it could in itself be deemed a suitability determination because the rule in fact permits it. We recommend that the category rule rely solely on CIRO suitability determination criteria. Note too that it could happen that if the liquid portion of the portfolio significantly declined, the investor's portfolio would be more heavily weighted to OLTF- HIGH risk. The investor would need to purchase less risky liquid securities and/or promptly redeem some units of OLTF to meet the applicable KYC portfolio risk profile.

If risk capacity is deemed inadequate, the Dealer should not recommend purchase. The limits of investor exposure to long-term assets should be based on enhanced KYC, CFR suitability determination and advisor judgement in the best interests of clients.

A professional advisor should advise potential OLTF investors to consider their age, cash flow needs, health, fund risks, the adverse impact on portfolio rebalancing, the role of the fund in the portfolio, fund fees ,valuation challenges , possible withdrawal suspensions, potential conflicts-of-interest and their ability to live with illiquidity, possibly for an extended period of time. If the answers match KYC, and the investor agrees, a buy recommendation could take place. **An investor should be required to receive investment advice from a fiduciary in order to invest in an OLTF. We would be uncomfortable supporting mutual fund licensed salespersons given a mandate to advise on this risky, complex illiquid fund in a portfolio.**

Online discount brokers are designed so that trades can be executed swiftly and accurately at low cost. An OLTF with its high risks, redemption constraints and long term nature is not a good fit with the OEO online channel. Accredited retail investors looking for risky, illiquid long term investments can use the exempt market to execute investments. If sold by a discount broker, the OLTF would be available online across Canada even in provinces where it has not been approved for sale. We expect OEO's would need to install controls to ensure the fund is not sold to non- Ontario domiciled investors (i.e. in provinces where OLTF is not permitted).**Kenmar do not believe that allowing Order Execution Only brokerages to offer OLTF's to retail clients is appropriate.** We do not believe a questionnaire is sufficiently robust for a DIY investor to conclude that investing in OLTF on a discount broker platform is suitable. The OLTF holds illiquid securities, is itself illiquid, holds risky assets, imposes a hold period, contains terms and conditions and may not be sold to non- Ontario residents. If sold, a special series would be required.

To be fair, there are now a large number of risky, complex funds, ETFs and other products available to Main Street traders using discount brokers- but they do not involve illiquid investments, selling constraints and hold periods.

Q24 *Are there other distribution matters, specifically other investor protection mechanisms, the Proposal should consider? Please explain*.

OLTF should be recommended to retail investors on a fiduciary duty basis (by BOTH the fund managers and registered Representatives in the CIRO distribution network). Such a duty would alleviate the huge asymmetry of knowledge and information between buyer and seller.

It is very important for an OLTF to understand its target investor base and redemption patterns in designing liquidity controls. This ties into marketing approach and distribution channel. This in turn also suggests that financial advisors must go beyond traditional KYC in making suitability determinations.

We assume that fees will be charged to the funds based on a management fee as a % of assets. This is a major reason to ensure the valuation process is robust**. If a OLTF is permitted to have as little as 50% invested in long term assets, how will the management fee be justified?** It should be noted that the lower the percentage invested in long term assets, the less the benefit of the so-called *illiquidity premium* will accrue to the fund. At the 50% floor level, *the illiquidity premium* would be halved. With a modest allocation of an OLTF fund in the portfolio, the potential impact on portfolio return will be negligible- is all this effort for the potential upside (and possible downside) of the illiquidity premium worth all the OSC work?

Distributors of OLTF funds should provide appropriate bilingual plain language retail investor education materials on their website such that investors thoroughly understand what they have been sold. Materials should be available in hard copy upon request.

The OSC should consider preparing a standard dedicated template for registered Dealers to use in OLTF suitability determinations.

Dealers should be held accountable for the actions and negligence of the representatives they put forward to service OLTF retail clients. As a result, we do not believe representatives selling OLTF should be required to carry E&O insurance.

The OLTF must accommodate redemption or sale without penalty for those investors moving to a Canadian jurisdiction where OLTF securities are not considered suitable or legal.

Mutual fund sales distribution is typically achieved via trailing commissions but trailers do not make sense for an illiquid, long term investment. What advice service would clients be paying for? Why should an investor in an OLTF have to pay an ongoing trailing commission due to the long term nature of commitment to the fund? There is not much ongoing OLFT specific advice required once the long term commitment to OLTF investment has been made.

There should be documented educational assessment criteria to ensure retail investors meet a minimum threshold of understanding of OLTF prior to making purchase decisions.

All Risk profiling tools for OLTF should be authorized and provided by the registered Dealer. The assessment of risk capacity should be separately documented. (A 2015 OSC IAP commissioned report on industry risk profiling practices found major deficiencies within the Canadian investment industry). **This issue requires OSC attention.**

Enhanced KYC and suitability: A separate and specifically tailored KYC suitability form should be used for OLTF. The terms *investment experience, risk tolerance, risk capacity* and *time horizon* should be defined in plain language so that investors can accurately communicate their financial and personal situation and financial objectives. The objectives of the account should be clearly stated, including ESG, in as much detail as possible. An attempt must be made to understand client income stability, debt obligations, monthly income needs and special tax situations. The KYC form should include POA, beneficiary and TCP information. The KYC should be updated at least annually. The form must be signed and dated by both parties and a copy provided to the client.

Based on our experiences with retail investors, they are more likely than not to underestimate the cost and difficulty associated with redeeming units or rebalancing their portfolio especially under volatile market conditions. The negative effect can be dramatic. **The suitability determination must go beyond traditional risk profiling.** Advisors should keep extensive notes justifying a buy recommendation for an OLTF including relevant analytics. What additional compliance responsibilities will the Proposal create for Dealers who want to offer OLTFs to their clients?

How will robust KYP be effected? Is there sufficient information about an OLTF for a Dealer and/or advisor to meet KYP obligations? Mostly, in the exempt market what you have is sales materials-both internal to the Dealer and external.

Given the high economic impact this proposal will have on Ontario retail investors, we highly recommend that every aspect of the Proposal be exposed to behavioral finance analysis. This would include education, marketing materials, Fund Facts, plain language, suitability questionnaires, disclosure and decision making biases like frequent trading and selling winners/ retaining losers. See *The Application of Behavioural Insights to Retail Investor Protection* https://www.iosco.org/library/pubdocs/pdf/IOSCOPD626.pdf

Fees and redemption suspension: There is a legitimate question as to whether investors should be paying the same level of fees they were when the OLTF fund had a periodic redemption program. While it is true that the small print allowed the fund manager to suspend redemptions, most investors would be paying fees on something very different (and inferior) to what they thought (and were told) they were initially investing in. This is just one more aspect of investing in an OLTF that retail investors should be made aware of. **It would be fairer if fees were reduced when a suspension is applied by the manager.**

General Observations and Comments

Fund structure and character

The OSC should delineate what types of fees, charges and expenses can be extracted from the OLTF .The costs should be delineated in the prospectus. The multiple levels of fees are a major factor in determining the performance of the fund.

OLTFs will need to implement risk management or conduct due diligence to ensure investments are in accordance with the fund’s stated investment strategy, objectives, restrictions and guidelines to avoid exposing investors to significant concentration, liquidity or credit risks.

We suggest the OSC stay alert to the use of Artificial Intelligence use in OLTF PM decision making.

Valuation

The valuation determines the management fee, distributions and performance reporting of the fund, so accuracy is important. Aside from the challenges of honest efforts to properly mark long term portfolios, the lack of transparency comes with significant corruption risk. Asset values, fund performance and therefore management fees can be inflated using shading. A shade can be thought of the padding between an inflated proclaimed value and its internally perceived true economic value. When units are difficult to redeem, portfolio managers can unscrupulously inflate portfolio valuation to collect higher fees. They can manipulate asset values for unit redemption or when trading the underlying portfolio assets in conflicted negotiations.

The quality of valuation will depend on the degree of financial information available to the manager/ independent assessor - perhaps some recognized valuation best practice standards should be adopted as Guidance. **Without access to current concrete information and data, valuations will always be best efforts guesstimates**.

Liquidity and Redemption Terms

A key concern with long-term assets is their inherent illiquidity. While the proposed framework allows for periodic redemptions, OLTFs must manage liquidity risks effectively to prevent adverse outcomes for investors. Illiquid assets pose a particular risk during times of market volatility when redemption demands can outstrip a fund’s ability to sell assets at a reasonable price- OLTF assets may be sold only at a heavy loss. In troubled times there is often a "sudden and strong preference for holding *liquid assets* (the so-called "flight to liquidity”).

New rules in the UK for long term funds introduce a requirement for authorized fund managers to temporarily suspend dealing in units of such funds where the standing independent valuer ("SIV") has expressed material uncertainty about the value of immovable that account for at least 20% of the scheme property. We see such a provision as a net positive for fund investors in most circumstances.

When meeting redemptions, it is particularly important that the liquidity profile of the fund remains unchanged.

Distribution

Private, illiquid asset funds can possibly play a role in a diversified portfolio for the right investor, depending on a range of factors. Advisors must consider client time horizon, cash flow needs, size of the emergency fund, risk profile, correlated risks, impact on portfolio rebalancing, the attractiveness of the fund, the specific risks of the asset class, investment

fund fees, advisor fees and the client's willingness and ability to live with illiquidity, possibly for an extended period of time. And then size their portfolio allocation appropriately to match client KYC objectives.

We recommend that the minimum initial investment amount be sufficiently high ($5 K) so as to deter unsophisticated, modest income retail investors from investing their savings into a risky, illiquid fund.

An OLTF will be permitted to include hedge funds-understanding risk is the essence of informed decision making. Action items for professional advisors include: clearly defining the role of hedge funds within the portfolio; seeking out the highest quality managers; maintaining diversification; and adopting a strategic mindset to navigate inherent challenges.

The comprehensive due diligence required for private equity investments demands time and knowledge that Ontario retail investors often lack, further complicating their ability to make sound decisions .

We recommend that the OSC provide Guidance on assessing client risk profiling.

In making a recommendation to a client, a Registered Representative must comply with the KYP provisions of CFR. Given the nature of OLTFs, this could prove challenging given the reduced financial and other disclosures of illiquid investments including basic valuation figures.

Will the prospectus and other disclosure documents have to be made available in both official languages?

Will retail investors in OLTF have to hold Canadian resident tax status?

Summary and Conclusion

> **"You should also be leery of products investing in illiquid asset classes that are easily tradable. If you want the manager to deliver good results, the structure should be truly illiquid"-** Tom Bradley, Chair and co-founder of Steadyhand Investment Management. **Why illiquid versions of illiquid assets can pose problems for investors** Why liquid versions of illiquid assets can pose problems for investors - Steadyhand Investment Funds

We believe we have successfully made an argument that modest-income, unsophisticated investors and retirees should not gravitate to illiquid investing like OLTF. " Unlocking savings" to buy OLTF funds could be life-altering for this class of fund investor. Given all the available options available to them, such investors still have plenty of less risky ways to invest in long-term assets without tying up their money for years.

The Commission should ask "Is this initiative in the Public interest?" Will retirement income security for Ontarians be enhanced? Who gains the most from the initiative? Who stands to lose the most if the category flops? **Kenmar strongly recommend benchmarking how this fund category has played out in the US and elsewhere and reassess after meaningful results are in.**

Kenmar appreciate the significant efforts by the OSC to provide sufficient background and information to permit an informed commentary on the proposed OTLF fund access opportunity .Based on the information provided plus our added research and discussions with Ontario retail investors, we conclude people are already overwhelmed by the huge number of diversification choices.

While we do not disagree with the OSC with most of the proposed investor protection constraints placed on the OLTF , we wonder if the costs to implement them may be sufficiently high to negate the potential benefit that might accrue from holding a risky, illiquid security for the long term (to obtain the so-called " illiquidity premium"). MER's in excess of 2.5% could be difficult to justify especially given the social / financial risks involved with a portion of savings locked in for 8-10 years. Furthermore, if only a small amount of cash is invested in a risky OLTF, the net impact on overall portfolio returns could be negligible (or negative) assuming that minimum initial OLTF dollar investments would even allow small dollar initial investment amounts like an ordinary mutual fund.

Without knowing the OSC decisions on the responses to the 24 questions, it is not possible to support adoption of a new Fund category. But from the information, history and academic research we do know, there is good reason and just cause to be cautious.

Kenmar cannot provide unqualified support for the creation of this new category of fund or a new framework for retail investors for the reasons stated below:

- Small Retail investors already have sufficient options to effectively diversify modest portfolios without the need for a complex OLTF fund loaded with illiquid holdings
- There is no compelling evidence of significant small retail investor demand or need for such a risky product
- The so-called *illiquidity premium* is a theory .See **Should investors discount the possibility of an illiquidity premium – potentially significantly**? Fiduciary Wealth Partners https://search.app/uFU3ZQ7owVZxUdMb8 (see also **REFERENCES**).The controversial *illiquidity premium* is a shaky foundation

upon which to build a portfolio for the average Ontario retail investor. Even if a premium exists , high OLTF MER's in excess of 2.50% p.a. could erase much or all the potential benefits

- A 50% threshold is too low to qualify as a true long-term fund worthy of a separate Category
- High income taxes payable upon recognition of capital gains (if applicable) could be a huge negative unless OLTF held in a registered plan
- Cash invested in OLTF's could siphon off money that would otherwise be invested in public markets with better disclosure and valuation

- Redemption suspensions can occur; the investor would be unable to address an emergency need for cash; hence the need for a more robust KYC
- Locked in investors could miss out on an opportunity to invest during a market downturn
- OLTFs that hold a high percentage of portfolio assets in illiquid securities may be more volatile than regular mutual funds; OLTF advisors must be credentialed professionals that can appropriately size portfolio allocation.

- Investments in long- term projects are subject to execution risk, capital deficiencies, changes in market conditions and technological change which could lead to large losses. Such risks must be disclosed in Fund Facts as applicable.
- OLTF's could add unnecessary risk to Main Street retirement portfolios including all of the atypical risks identified in the consultation paper
- Seniors and retirees could be negatively impacted as they were with DSC mutual funds ; Fiduciary advice essential

- The OLTF could contribute to deworsification of portfolios due to difficulty in rebalancing portfolios in a timely manner. Because illiquid assets cannot be easily rebalanced, it is difficult to maintain a target risk-return profile. This means that the risk-return profile will drift for extended periods of time, to some extent beyond the investor's control. If illiquid assets outperform liquid assets, they become a greater proportion of the portfolio, which might increase overall portfolio risk beyond target levels.

- The requirement to wind up the fund under certain conditions constitutes a material risk of investing in the fund
- If investor personal circumstances change due to unforeseen events it may be difficult to reflect the changes in the portfolio if there are large holdings committed to illiquid assets
- When a liquidity mismatch occurs, the OLTF may suspend redemptions which could rattle unsophisticated investors, leading to a further increase in demand for redemptions. The end result could be unpleasant for the fund and its investors. Bold plain language warning is required in all documents and marketing materials
- A restriction on withdrawals restricts small investors from selling a underperforming fund and impairs year-end tax loss planning

- In the event of an OLTF redemption suspension, small retail investors may be forced to explore alternate sources of cash, which may come with additional costs and/or risks. Hardship provisions should be considered.
- During the long hold period, OLTF shareholders will (a) incur the opportunity cost associated with missing out on the compounding of dividends and (b) incur the direct cost of ongoing OLTF fund management fees and expenses
- The investor can only redeem at certain times and it's going to be for a certain percentage of her/his investment, not the whole thing. And they will not know what the price is when they have to make the election to redeem. In other words, the investing experience is not ideal
- A OLTF builds in a constraint on the timely settling of estates. This fact merits prominent pre-sale disclosure.

For the vast majority of small retail investors, particularly those in retirement, illiquid investments are, in our opinion, unsuitable. These investors often rely on the ability to liquidate their investments over time to augment their income or to cover unexpected expenses. In addition, the typical small retail investor cannot understand the information or does not have the wherewithal to accurately evaluate their investment on an ongoing basis.

Ontarians face a shaky economy, rising food prices, increased housing prices and increased taxes. A 2023 Leger poll found that nearly half of Canadians (47%) are currently living paycheque to paycheque and 61% think the country is experiencing an economic recession https://leger360.com/legers-north-american-tracker-august-31-2023/. Government changes in the U.S. and Canada have raised uncertainty on tax rates, exchange rates, securities regulation, free trade and environmental policy. Do Ontarians really need access to OLTF at this time? Please peruse the **Relevant Investor Statistics** APPENDIX II of this Comment Letter for target market context.

The bottom line is that this proposal exposes unsophisticated Main Street investors to unnecessary risky, illiquid long-term assets that could impair retirement income security for Ontarians. In the infamous Bridging Finance's case, a court-appointed receiver has estimated that investors will lose $1.3billion, close to two-thirds of the money they put in. **Can Main Street Ontarians absorb more such losses?**

For these reasons, on balance, we do not believe the introduction of OLTF's will enhance the investor experience or be in the Public interest. The core question is: Is access to long-term assets really worth the market/ illiquidity risks, long hold period, inconvenience, withdrawal charges and fees for Main Street investors with modest portfolios? If despite these arguments, the OSC proceeds with this initiative, we have suggested numerous safeguards that could help reduce investor harm.

Given the large backlog of proposed investor protection reforms, we recommend that the Commission instead divert precious resources to those well identified priorities. Kenmar are of the firm conviction that this reallocation of resources will have a material positive impact on the retail investor experience participating in the Ontario marketplace and increase trust in investing in Ontario. We are very concerned that bank-owned dealers may be limiting Retail investor access to certain low-cost ETFs and taking action to focus on proprietary products which is much more harmful than any postulated access benefits that might be derived from complex illiquid fund ownership.

Consideration should be given to the most recent IOSCO recommendations regarding illiquid funds in defining the rules of engagement.

We recommend that the work on this project be deferred until more pressing retail investor protections are implemented.

The OSC may wish to consider amending current exemptions (e.g. Interval funds) that could further meaningfully increase retail investor access but avoid going overboard on access. The OSC may wish to understand why competitors have not jumped at the chance to offer long-term Interval funds to their clients in the last two years (Since January 2022 the only Interval fund currently available in Canada has been the Mackenzie North Leaf Private Credit Fund), The UK approved its equivalent long-term asset fund (LTAF) framework in 2021 and the first LTAF aimed at the retail wealth management market is soon to be launched. The OSC should closely monitor the U.K. developments during 2025.

We look forward to reviewing the Cost- Benefit analysis .The analysis should define what category of retail investor OLTFs are aiming at. If unsophisticated low to middle income investors, we expect some of our comments will be integrated into the analysis. The OSC IAP comments will certainly be of interest.

Kenmar hope that the OSC will find this input useful as it considers next steps for this initiative.

Please feel to contact us if there are any questions regarding this submission.

K. Kivenko, President
Kenmar Associates

APPENDIX I: Enhanced support systems needed

Complaint handling: **The OSC/ CSA should modernize NI31-03 complaint handling rules before proceeding with this initiative.**

Seniors: Our concern is that seniors and retirees may be seduced by fancy brochures and targeting marketing. This is why we recommend OSC Guidance on suitability and enhanced KYC to capture living expenses, medical costs, caregiver costs and other costs associated with aging. **Risk tolerance and capacity should be assessed in a standardized manner, preferably by OSC issuing a best practice standard.** The assessment should be retained on advisor file notes. Only salespersons that have been trained in dealing with seniors and managing de-accumulating accounts should be promoting OLTF's to the elderly or retirees.

No one can forget the pain suffered by seniors exposed to the infamous DSC mutual fund and its impact on retirement savings. The DSC sold fund provided a disincentive to redeem and use the cash for a better alternative - in terms of investor behaviour, it acted as a reduction of liquidity .In many cases this barrier to redemption proved harmful to investors. The Commission ultimately banned DSC after pressure from other CSA regulators, advice professionals and investor advocates. The OLTF is a form of DSC on steroids. **The lessons learned should be remembered.** Consider checking the average hold period for ALT funds as an indicator.

Sequence of returns risk, the potential adverse impact of a significant market loss during the early years of retirement, can be life altering if it occurs at the time when retirees need to draw an income from their investments.

If the OLTF investment fails, a senior or retiree might not have enough time to recover the loss. For those near retirement, retired or reliant on their savings to provide an ongoing income, seeking excess returns through OLTF would likely be unsuitable. KYC will need to be enhanced.

Total Cost Reporting: Any needed adjustments to the TCR report format to address OLTF's should be made in parallel with the approval for sale of this new category of fund to the public.

APPENDIX II Relevant Investor Statistics

CIRO's Inaugural Investor Survey Highlights Canadian Investors' Financial Concerns and Sources of Advice | CIRO

Only 21% of Canadians reported feeling very confident about meeting their financial objectives.

https://www.ciro.ca/news-room/publications/ciros-inaugural-investor-survey-highlights-canadian-investors-financial-concerns-and-sources-advice

According to a 2020 OSC Notice, the majority of accounts in the MFDA channel were less than $100,000.

https://www.osc.ca/sites/default/files/pdfs/irps/rule_20200220_81-502-rfc-deferred-sales-charge-option-mutual-funds.pdf

https://search.app/GU1SW1n38BZ9htYz8

According to a December **2022 FAIR Canada investor survey,** the median household income was $ 96K and the median amount invested was $125K. https://faircanada.ca/wp-content/uploads/2023/01/2023_01_11_FAIR-Investor-Survey-Report_ENG_ver.0.pdf How much additional diversification do average retail investors with modest portfolios really need?

Income gap reaches record level: StatCan
The wealth gap widened in the second quarter, as the richest households captured most of the gains in financial assets, and savings for middle-class households declined, according to new data from Statistics Canada.
https://www.investmentexecutive.com/news/research-and-markets/income-gap-reaches-record-level-statcan/

Canadians lack financial literacy, confidence in managing money: survey | IE
Most Canadians feel they lack financial education and confidence in managing money, based on survey results by Edward Jones.
https://www.investmentexecutive.com/news/research-and-markets/canadians-lack-financial-literacy-confidence-in-managing-money-survey/

Three Decades of IPO Markets in Canada: Evolution, Risk and Return: Cirano
"More than 70% report negative abnormal returns."
https://cirano.qc.ca/files/publications/2018s-04.pdf

2024 Canadian Retirement Survey: HOOPP
"..almost a third of pre-retirement adults say they expect to continue working in retirement in order to support themselves…"
https://hoopp.com/news-and-insights/research-and-analysis/2024-canadian-retirement-survey

2024 Investor Index reveals Canada's shifting investment landscape - CSA
Sixty-one per cent of investors said they currently work with a financial advisor, down eight per cent from 2020. The largest drop was for investors under the age of 45 and those with portfolios less than $100,000.
https://www.securities-administrators.ca/news/2024-investor-index-reveals-canadas-shifting-investment-landscape/

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"Returns may not fully compensate investors for the risks embedded in liquid assets, such as tail risk.
https://mybrand.schroders.com/m/6a0aa9312c03aec2/original/03-09-15-The-Illiquidity-conundrum.pdf

Questioning the illiquidity Premium - Fiduciary Wealth Partners
" These studies, and more articles that we have included below under Related Reading, suggest that a private investment illiquidity premium does not necessarily exist."
https://fwpwealth.com/questioning-the-illiquidity-premium/

Canada's KingSett freezes payments on US$3.5 billion property fund: BNN Bloomberg Nov. 2024
Real estate manager KingSett Capital Inc. suspended payments to investors in a large Canadian property fund. The Toronto-based firm said holders of the KingSett Canadian Real Estate Income Fund won't get any income distributions for the next year, nor will they be able to redeem their units. The private fund has a gross asset value of C$4.9 billion ($3.5 billion), which includes major office properties across Canada. The fund will restart distributions in December 2025, he pledged.
https://search.app/U3HnRyxQc147XBBP9.

Private Equity 2024
https://www.google.com/url?sa=t&source=web&rct=j&opi=89978449&url=https://www.dechert.com/knowledge/publication/iclg-private-equity.html&ved=2ahUKEwiVv_ae8ISJAxXqMlkFHQGoAswQFnoECBQQAQ&usg=AOvVaw0myyFVVqTuT22mE2gDiqOs

OSC releases 2024 Investment Fund Survey Data Dashboard | OSC
https://www.osc.ca/en/news-events/news/osc-releases-2024-investment-fund-survey-data-dashboard

Private markets could benefit from stronger governance and disclosures, study finds - The Globe and Mail
A plurality of LPs said there is asymmetry of information and there's fear of missing out. It all adds up to the GP having almost all of the control, the negotiating power. If that's true, if that's something the current LPs are struggling for – these are institutional investors that are often investing millions of dollars – how is a retail investor going to fare? So, there's the first concern: How could they possibly be effective and deal with challenges that even institutional investors such as pension funds are struggling with?

Another one is adverse selection. If you are the really big Canadian pension funds, you're going to get the most highly sought-after funds, and it's going to be hard to get into them. What's left for a retail investor? If they're just getting the dredges, that is a really big concern as well.
https://www.theglobeandmail.com/investing/globe-advisor/alternative-investments/article-private-markets-could-benefit-from-stronger-governance-and-disclosures/

Expanding Private Markets Undercuts Public Markets, Investor Protections, and Capital Formation. : Better markets
https://bettermarkets.org/wp-content/uploads/2023/04/Better_Markets_Private_Markets_Investor_Protection_Fact_Sheet_4-14-23.pdf

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Buy and Hold Is Dead: How to Make Money and Control Risk in Any Market: Kee, Thomas H.: 9780470458419: Books - Amazon.ca
https://www.amazon.ca/Buy-Hold-Dead-Control-Market/dp/0470458410

Regulatory and Investor Protection Issues Arising from the Participation by Retail Investors in (Funds-of) Hedge Funds

https://www.iosco.org/library/pubdocs/pdf/ioscopd142.pdf

High-risk exempt market securities unsuitable for older investor with limited assets |Ombudsman for Banking Services and Investments
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How Bridging Finance fooled Bay Street – and hundreds of millions of dollars disappeared: The Globe and Mail:
As it stands, investors are expected to lose between $800-million and $1-billion, according to people familiar with the sale process.https://www.theglobeandmail.com/business/article-how-bridging-finance-fooled-bay-street-and-hundreds-of-millions-of/

Lessons for investors from Walton Capital's woes | Morningstar Canada
https://www.morningstar.ca/ca/news/185708/lessons-for-investors-from-walton-capitals-woes.aspx

Canada's private debt funds face a reckoning after retail investors jolted by redemption freeze: G&M March 2022
https://www.theglobeandmail.com/business/article-canadas-private-debt-funds-face-a-reckoning-after-retail-investors/

The Failure of Labour Sponsored Funds | Fraser Institute
There could be some lessons learned from failed Labour sponsored funds whenever a regulator/ govt. attempts to stimulate investment via Main Street investors.
https://www.fraserinstitute.org/article/failure-labour-sponsored-funds

In case there is any doubt about hedge funds read *Endgame for Norshield investors, but mystery remains* | Advisor.ca
https://www.advisor.ca/investments/products/endgame-for-norshield-investors-but-mystery-remains/

The suspensions of redemptions during the COVID-19 crisis – a case for pre-emptive liquidity measures?
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Private Equity Stakeholder Project releases update to Private Equity Employer Tracker
While focusing on growing cash flows at the companies they buy, private equity firms often take a low road approach and seek to reduce wages, benefits, and staffing at companies they acquire – with devastating consequences to millions of workers, their families and entire communities. A PESP **review found** that private equity firms played a role in eleven of the 17 (65%) largest US corporate bankruptcies during the first six months of 2024 (bankruptcies with liabilities of $1 billion or greater at the time of filing), resulting in at least 19,700 layoffs across the country. https://pestakeholder.org/news/private-equity-stakeholder-project-releases-update-to-private-equity-employer-tracker/

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The author believes that his study "has implications" for how investors in general (and fund managers in particular) go about assessing the risks associated with purchases of illiquid assets. He warns that if they evaluate illiquid assets based on their average risk (average "beta" in the CAPM analysis), failing to note that they can become considerably riskier during volatile times, then investment strategies could appear better than they actually are.

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Based on the risk-adjusted performance of all three categories of private real estate funds, investors are paying billions in economically unwarranted fees.
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Interval Funds: Are They Worth What You Give Up? | Morningstar
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Comparing Capital Allocation Efficiency in Public and Private Equity Markets by Ali Sanati, Ioannis Spyridopoulos: SSRN

Abstract Investors increasingly allocate capital outside of public equity markets through private equity investments. We evaluate capital allocation efficiency in the two markets and find that public markets allocate financial capital substantially more efficiently. This efficiency gap is concentrated in late-stage private deals, which generate significantly less revenue growth and fewer patents than comparable deals in public or early-stage private markets. We attribute the higher efficiency in public markets to superior information efficiency and governance mechanisms. Our study highlights the essential role of public markets in improving capital allocation and the implications of private markets' expansion into late-stage financing. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4403578

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