CARP

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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

CARP are pleased to comment on the OSC's investing opportunity to improve Retail Investor Access to Long-Term Assets from the senior perspective.

The consultation proposes the creation of a new investment fund category, the Ontario Long-Term Asset Fund (OLTF), which would allow unaccredited Ontarians to invest in assets they do not traditionally have exposure to. These assets include private equity, venture capital, private debt, and infrastructure/ natural resource projects. We understand Long-term assets are illiquid assets that are risky, cannot be readily sold, are difficult to value, and lock in investors for periods of up to 10 years without the disclosures required of regulated publicly traded companies.

As we enter 2025, market Risks are elevated, food inflation persists, tax increases loom, GIC rates have declined and political uncertainty prevails. The timing of such a fund appears out of sync with the needs of Main Street.

Seniors and retirees are indirectly exposed to illiquid securities via the Canada Pension Plan and can invest in exempt securities via a fair number of exemptions to securities laws enabled by the OSC, subject to prescribed conditions. There are also many alternative less complex/expensive ways to diversify and protect portfolios.
CARP does not sense a pressing need for such a risky fund.

We see this consultation as a well-intentioned attempt to transform what would be a risky exempt investment into a respectable mutual fund for mass market non-accredited retail investors. As with all mutual funds, there is evidence that in the long run, the majority of mutual funds underperform their benchmark after fees. With illiquid assets, the performance results, after fees, remain to be seen.

Retirees are in the de-accumulating phase of their investment lives and prioritize reliable income for living expenses over hoped for premium returns.

The investment time horizon for seniors is unpredictable and may be lower than the lockup period required by OLTF funds. The bitter lessons learned from DSC sold mutual funds should not be forgotten.

Seniors living on fixed income may require ready access to cash in the event there is a need for increased expenses for medical care or retirement residence.

Seniors could be exposed to capital gains tax at period end that could adversely impact OAS payments and other govt. income based social benefit programs in addition to a capital gains tax bill.

The inclusion of OLTF in a portfolio can make rebalancing difficult if the non OLTF portion of the portfolio declines.

Seniors and retirees do not have the luxury of time to recover if a risky OLTF fails to deliver a positive return.

In the event of a freeze on withdrawals, seniors may be placed in a challenging situation. In addition to financial stress, a freeze can impact mental and physical health.

While locked in, the elderly would miss out on regular interest and dividend compounding on the cash bound to OLTFs.

If a retiree or any investor relocates out of Ontario, she/he may need to exit the OLTF to meet the suitability requirements of other provinces.

The OLTF can be a real issue in the settlement of wills due to redemption restrictions.

There appears to be legitimate questions raised concerning the existence of the "illiquidity premium "or if it can be successfully exploited.

Private Equity may not be in the best interests of the Ontario economy, Ontario communities or workers. Before including private equity in the OLTF allowable category, the Ontario government and the OSC should read this book review and the book written by Jeffrey C. Hooke, professor at the Johns Hopkins Carey Business School. OLTF should not invest with entities that are unethical, charge exorbitant fees, stretch accounting rules and can drive companies into bankruptcy to secure a profitable return for their investors and themselves. OLTF should help build up the Ontario economy, not achieve gains at any price. *'The Myth of Private Equity' by Jeffrey C Hooke deftly exposes the shortcomings of the private equity world* - Spear's https://spearswms.com/wealth/the-myth-of-private-equity-jeffrey-c-hooke/

If OLTF is implemented:

- The OSC should confirm via an advance CRA ruling that OLTF can be included in a registered account like a RRIF or RRSP
- In order to merit the name OLTF, the percentage of illiquid securities should not be less than 70%
- Fund governance should require a Board of Directors, the majority of which are independent
- The OLTF should be recommended only by advisors holding a professional designation such as Certified Financial Planner or Certified Financial Analyst
- The amount and method of advisor compensation should be congruent with the characteristics of this new category of mutual fund
- Risk profiling practices should be standardized and updated to reflect the use of illiquid securities
- We recommend that a more demanding KYC/ KYP be required, risk capacity computed is especially important
- Hardship provisions should be included
- Prefer larger withdrawal capacity with less complex constraints
- The reports of the independent valuator should be made available upon request
- To the extent practicable, valuations should be effected to support monthly Dealer account statements
- A more comprehensive Fund Facts would be required and it must be delivered pre-sale. Risk disclosure should include illiquidity risk and go beyond use of the standard deviation since valuation and performance disclosure is limited
- The Management Report of Fund Performance should be tailored to increase visibility of operations, liquidity controls and liquidity level of holdings. It should provide a benchmark on performance where practicable
- OBSI should be enabled to provide binding decisions on disputes.
- A cooling off period should be provided

The OSC might want to assess if minor changes to alternative mutual fund rules or tweaks to the existing prospectus exempt market could achieve appropriately increased retail investor access to risky long-term assets, negating the need for an entirely new mutual fund category.

OLTF may foster capital formation but we're not so confident if it will enhance the retail investor experience, particularly for seniors and retirees.

We would expect the OSC to educate retail investors on the pros and cons of illiquid long-term funds so they can make informed choices.

The approval of the OLTF should be contingent on (a) CRA confirmation of eligibility in registered accounts (b) unambiguous evidence of its value to small retail investors (c) application of lessons learned from comparable jurisdictions and (d) an OSC commitment to impactful investor education on OLTF.

We agree with the OSC that it would not be appropriate that OLTF should be available on OEO platforms given its unique nature.

We recommend that the Commission consult with its Senior Expert Advisory Committee and IAP before proceeding with the OLTF.

Total Cost Reporting should ensure it captures all OLTF related fees, commissions, performance payouts etc.

We would prefer the Commission focus its limited resources on higher priority retail investor protection issues such as advisor proficiency, improved disclosure practices, modernized complaint handling, fraud prevention, senior investor protection, restricted product shelves, more impactful enforcement on Firms and their management and support for CIRO's proposal to permit OEOs to provide investor access to non-tailored advice.

This letter can be posted on the OSC website.

Yours truly,

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The Canadian Association of Retired Persons (CARP) is a national, non-partisan, non-profit organization that advocates for financial security, improved health care and freedom from Ageism for Canadians as we age. With over 240,000 members and 25 chapters across Canada, CARP advocates on behalf of older Canadians with all levels of government and collaborates with other organizations on health, ageism, housing, ageism and financial issues.
www.CARP.ca

REFERENCE Documents

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