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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

Thank you for the chance to provide the retail investor input to this important consultation. I have just a few comments and questions.

Comments

Seems very risky for small retail investor, maybe OK for the wealthy.

I question both the existence and magnitude of the purported illiquidity premium typically associated with these types of investments, particularly after accounting for their high fees and structural complexities.

50% invested in long term assets is not really invested in the asset - should be at least 75%.

During periods of financial stress, illiquid assets tend to become even more difficult to sell at fair value, often exacerbating losses when liquidity is most needed. Unlike institutional investors, retail investors do not have access to secondary markets to exit positions efficiently, further compounding the risks.

Do not believe annual independent valuator review is adequate.

Fees should be capped for the lock up period

There need to be tools available to keep a portfolio containing OLTF balanced.

If the goal is to provide retail investors with broader diversification, regulators should recognize that public markets already offer ample opportunities to achieve this objective without exposing investors to illiquid, opaque, and high-fee structures. Publicly traded alternative asset managers, infrastructure funds, and liquid alternative ETFs provide diversified exposure to many of the same underlying strategies while maintaining transparency, liquidity, and lower fees.

The CARP and Kenmar Comment letters raise some additional critical issues.

Questions

How long is the typical lock up period?

How significant is the illiquidity premium? Have any funds demonstrated it?

What happens if the Cornerstone Investor decides to exit?

Would DIYs be prohibited from buying the fund?

What are the expected fees connected to the OLTF?

Will hardship redemption case exceptions be available?

How will the sales rep be compensated? Ongoing fees for the entire lock up period?

How would a mutual fund salesman determine how much of OLTF to buy to achieve the necessary diversification?

Conclusion

The reality is that the demand for this is being driven by the supply side, not clients, and given the costs, relatively weak compliance standards, and lack of need for this *opportunity* I cannot support the Proposal as put forward.

Before moving forward with policies that expand retail access to private funds, the OSC must critically examine whether the purported illiquidity premium is real, sustainable, and, most importantly, net of fees. Given the questionable net benefits and heightened risks, any such proposal should be approached with extreme caution, ensuring that investor protection remains the paramount concern. If such investments are to be permitted, the OSC must impose rigorous fee disclosures, strong KYC/KYP, robust suitability determinations and enhanced investor protections to prevent small retail investors from bearing undue risks without commensurate rewards.

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