

Response to CSA Request for Comment: Modernization of the Continuous Disclosure Regime for Investment Funds

Submissions of Purpose Investments Inc.

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Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission of New Brunswick
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
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Executive Summary

Purpose Investments (Purpose) welcomes the opportunity to provide this submission to the Canadian Securities Administrators (CSA). Purpose is an industry leader in asset management with more than \$22 billion in assets under management. As an independent, technology-driven, registered investment fund manager and portfolio manager, we have a unique view of the investment fund industry and an unrelenting focus on client-centric innovation.

We have provided responses to key questions for which Purpose has unique insight. Our responses strive to strike a balance between modernization, transparency and accessibility for the benefit of investors.

We have focused on the following key areas:

- MER Without Waivers or Absorptions: We recommend disclosing both MER, and MER without waivers and absorptions, within the same section of the Fund Report for ease and accessibility.
- Detailed ESG-Disclosure: We recommend using a flexible approach, such as providing guidance and examples, to assist IFMs with ESG disclosure, rather than enacting prescriptive requirements.
- Class/Series of Performance Information: We recommend reporting performance information based on the lowest management fee for series that are available for investors. Alternatively, disclosure based on the highest non-trailer paying fee would also provide an accurate representation.
- Designated Website Disclosure: Where practical, key information in the Fund Report should align with information on the designated fund website for transparency and accessibility.
- Additional Suggestions: Given environmental considerations, we suggest that the CSA require IFMs to use sustainable methods to obtain information such as instructions from security holders.

We thank the CSA for its commitment to engaging with stakeholders and welcome the opportunity to discuss our submission with you.

Sincerely,

Som Seif
Chief Executive Officer
Purpose Investments

Consultation Responses of Purpose Investments

1. Management Expense Ratio (MER) without Waivers or Absorption

CSA Proposal: The proposed changes require the presentation of MER in the Costs section of the Fund Report. No space has been included within the Costs section to disclose MER without waivers or absorptions, where expenses have been waived or absorbed. Instead, instructions have been provided to disclose MER without waivers or absorptions in the Other Material Information section, along with a cross-reference, in the Costs section, to that information. This approach to presenting MER without waivers or absorptions is being proposed because we are of the view that it assists in making the Fund Report easier to read and understand.

CSA Questions: Please comment on whether the proposed disclosure is effective in achieving this aim. If not, please propose an alternative approach (e.g. presenting MER without waivers or absorptions as a new column within the table in the Costs section) and explain why it would represent an improvement.

Purpose Response: We recommend disclosing both MER, and MER without waivers and absorptions, within the same section of the Fund Report. This format allows investors to more easily view the effect of waivers and absorptions. In our view, maintaining the information in the same section makes the Fund Report clearer and more user-friendly.

2. IFM Summary and ESG-Specific Disclosure

CSA Proposal: The proposed Fund Report includes a requirement that an investment fund provide a summary of the investment fund managers' (IFM) assessment of the investment funds' success in achieving its investment objectives and using its investment strategies to achieve those investment objectives. Detailed instructions are also provided regarding how the disclosure should be completed in the case of an investment fund that has ESG-related aspects to its investment objectives or investment strategies.

CSA Questions: Please comment on whether these detailed instructions would make it challenging to provide concise disclosure in the Investment Objectives and Investment Strategies section of the Fund Report. If a challenge is identified, please provide details and suggest an alternative approach.

Purpose Response: With respect to the IFM providing a summary of the fund's success in achieving investment objectives and using its strategies to achieve investment objectives, we note that performance results and outcomes are dependent on the market and other factors that may be beyond the IFM's control.

In our view, investors would be better served by receiving clear and prominent disclosure of investment objectives and investment strategy in fund documents and related websites. This improves investor understanding of how the fund operates along with its goals. The IFM must also ensure that the investment objectives and investment strategy are followed.

Regarding ESG disclosure, we agree that it is useful to receive guidance on disclosure. However, the use of detailed instructions may result in overly prescriptive requirements which can make disclosure challenging. For instance, the use of detailed instructions assigns a 'one size fits all' approach which may not readily apply to funds with unique attributes. We recommend using a flexible approach, such as providing guidance and examples, to assist IFMs with ESG disclosure, rather than enacting detailed or prescriptive requirements.

We also would encourage the CSA to ensure flexibility with respect to reporting requirements for funds that

use limited ESG strategies and whose investment objectives do not reference ESG factors. While we support disclosure, prescriptive ESG reporting for these funds would be disproportionate to the fund's limited consideration of ESG factors. We caution against creating rigid ESG reporting requirements that fail to recognize that, for certain funds, the limited integration of ESG investment factors is non-material.

3. Class/Series of Performance Information

CSA Proposal: The proposed Fund Report includes a requirement that performance information be disclosed in respect of the class or series of the investment fund with the highest management fee, and any other class or series for which performance would vary based on a characteristic besides management fees.

CSA Questions: Should the proposed requirements for which classes or series of performance information be provided, be modified to also require the disclosure of performance information for the class or series with the lowest management fee that is available for purchase by a retail investor? We are particularly interested in feedback on this issue given the increasing popularity of no-load classes or series and fee-based accounts.

Purpose Response: We note that disclosing performance information based on the highest management fee is likely to misrepresent the economics of an investment fund's expenses borne by investors. Many Purpose funds, for example, offer fee-based account series ("F Series") and exchange-traded series ("ETF Series"), both of which have lower management expense ratios, as well as series with a front-end sales charge and a trailing commission ("A Series"). The trailing commission is generally between 0.25%-1.00% of the A Series AUM and is payable directly to the broker-dealer. The A Series of the Purpose funds tend to have relatively low assets under management, often 5-10% of the total fund AUM. Reporting the highest MER based on the Series A could prove misleading to investors, when the majority of a fund's AUM is not subject to the cost of the trailing commission.

We recommend reporting performance information based on the lowest management fee. This offers the most accurate reflection of the economics of management fees, trailing commissions, and/or fund operating expenses. Alternatively, disclosure based on the highest non-trailer paying fee would also provide a more accurate representation.

In addition, we would encourage more fulsome disclosure by advisors regarding their use of trailer-paying funds for greater transparency to investors.

4. Designated Website Disclosure

CSA Proposal: Under subsection 16.1.2(1) of NI 81-106, an investment fund must designate one qualifying website on which the fund intends to post disclosure as required by securities legislation.

CSA Questions: Please comment on whether investment funds should be required to present performance information on their designated website for any class or series that does not have its performance information included in a Fund Report, together with a cross-reference to such information in the Fund Report. If yes, provide detailed comments on the challenges that an IFM would face in meeting this requirement.

Purpose Response: Where practical, key information in the Fund Report should align with information on the designated fund website for transparency and accessibility. For instance, seniors may prefer to receive information through the Fund Report, through which they should have access to key disclosures.

5. Additional Suggestions

CSA Question: Are there any other areas of the continuous disclosure regime for investment funds that should be modernized, and which have not been addressed as part of this project? Please provide detailed rationale for each suggestion.

Purpose Response: We note that Part 5 of National Instrument 81-106 includes a requirement to solicit instructions from security holders with respect to receiving the financial statements and the Fund Report.

Given environmental, cost and operational considerations, we suggest that the CSA require IFMs to use sustainable methods. For instance, the above-noted requirement should be satisfied via digital format and can be made available through the designated fund website or other electronic means.

We do not recommend removing the print option entirely, due to accessibility considerations for investors who elect to receive materials in print. However, digital formats should be the default method for delivery.