



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

February 7, 2025

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8

Via email: comments@osc.gov.on.ca

Re: Consultation - Opportunity to Improve Retail Investor Access to Long-Term Assets through Investment Fund Product Structures.

The Pension Investment Association of Canada (PIAC) has been the voice of Canadian pension funds since 1977 in matters related to pension investment and governance. PIAC's members manage over \$3.08 trillion of assets on behalf of millions of Canadians. Our mission is to promote sound investment practices and good governance for the benefit of plan sponsors and beneficiaries.

We appreciate the opportunity to respond to the Ontario Securities Commission's (OSC) consultation, *Opportunity to Improve Retail Investor Access to Long-Term Assets through Investment Fund Product Structures*.

The democratization of private assets represents a significant and worthwhile shift in Ontario's investment landscape. PIAC supports the OSC's efforts to provide retail investors with access to private markets through a potential Ontario Long-term Fund (OLTF). While private markets have traditionally been the domain of sophisticated institutional investors, opening them up to retail participants could foster greater diversification and access to higher-return asset classes like private equity, private credit, infrastructure and real estate. However, this shift comes with complex challenges and necessitates a robust framework to manage risks, including investor education, and ensure fair participation for all stakeholders.

The OSC's proposal, though currently limited to Ontario, is likely to be adopted in other provinces. Setting an important precedent, the OLTFs must balance retail access with institutional investment needs to effectively attract capital. Given investor interest in private markets and subject to suitable investor protections, developing and establishing these investment vehicles within the Canadian context enhances market competitiveness,

particularly in comparison to jurisdictions, like the US, which already have similar structures in place.

Key Considerations

Cornerstone Investor Participation: Protections and Input

Participation in the OLTF should remain elective for Ontario's cornerstone investors. If retail-focused vehicles are introduced, institutions would need to assess the impact of retail investors' rights on the overall fund structure, particularly governance, liquidity, and valuation protocols. Institutional investors normally receive enhanced governance and lower fees, depending on the size of their investment. Therefore, large institutional investors would generally expect to retain an ability to negotiate financial incentives, like reduced fees, as compensation for the possible negative impact of frequent inflows and outflows from retail investors. While it may not be the intention, we do not think it is appropriate to force institutional investment from cornerstone investors.

Governance and Cornerstone Investor Liability

We have concerns about increasing the obligations or liabilities of cornerstone investors in these structures. For example, the proposal that cornerstone investors facilitate valuations or play an elevated role in governance could expose them to fiduciary, financial and reputational risks. Clear boundaries and indemnification provisions should be in place to protect cornerstone investors while ensuring fair outcomes for all participants.

Redemption Thresholds

The proposed requirement to wind up a fund if redemption requests exceed 10% for two consecutive years is seen as overly restrictive and inconsistent with longer term investment horizons associated with private market investment. As such, institutional investors would generally prefer higher thresholds, aligned with international precedents, to prevent unnecessary fund closures.

Liquidity Needs

Retail investors must consider the long-term nature of private market investing. A primary challenge of OLTFs, as proposed, will be the differing liquidity needs of cornerstone and retail investors. To increase their participation in the fund, retail investors may require a reasonable level of liquidity. Meeting retail investor liquidity requirement(s) could reduce fund performance and increase private market fragility (fund outflows, for example) in the event of a market downturn as investors rush to exit. This, in turn, could make these vehicles less appealing to institutions without suitable redemption limitations. To mitigate

this, fair terms and safeguards – standardized contribution and redemption rights proportional to ownership – are essential.

Conclusion

While expanding access to private assets is a valuable goal, the OLTF's success depends on a balanced and transparent framework. Institutional investors will individually weigh the risks and benefits of participating in these vehicles, considering governance, liquidity, and liability concerns. Ensuring investor protections while maintaining the attractiveness of private markets for institutions is key to fostering long-term growth and stability.

PIAC appreciates the opportunity to share our thoughts. We would be happy to provide any clarification on our comments, if necessary, and would welcome further opportunities to provide feedback on OLTFs.

Yours sincerely,

Don Andrews

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