BY EMAIL: comments@osc.gov.on.ca

February 7, 2025

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

Re: OSC Consultation Paper 81-737 – Opportunity to Improve Retail Investor Access to Long-Term Assets through Investment Fund Product Structures

Dear Sirs/Mesdames,

We are writing to provide our comments to the Ontario Securities Commission (the "**OSC**") with respect to OSC Consultation Paper 81-737 – *Opportunity to Improve Retail Access to Long-Term Assets through Investment Fund Product Structures* (the "**Paper**").

Fidelity Investments Canada ULC ("**Fidelity**", "**we**", "**us**", "**our**") is the second largest mutual fund company in Canada. As at January 31, 2025, Fidelity managed over $292 billion (CAD) in retail mutual funds, exchange traded funds and institutional assets. For 79 years, including 38 years in Canada, Fidelity has put investors first by working hard to help them achieve their financial goals.

Fidelity shares the goals of the OSC's statutory mandate as set out in the Paper to provide protection to investors from unfair, improper, or fraudulent practices; to foster fair, efficient and competitive capital markets and confidence in the capital markets; to foster capital formation; and to contribute to the stability of the financial system and the reduction of systemic risk. We believe the Paper is an important step in fulfilling the OSC's statutory mandate and the final recommendations of the Ontario Capital Markets Modernization Taskforce (the "**Taskforce**").

The Taskforce recommended that the OSC consider proposals that are aimed at enhancing choice and allowing retail investors to access long-term illiquid assets, including venture capital, private equity, private debt, mortgages, real estate, infrastructure and natural resource projects ("**LTAs**") more easily. We believe that a regulatory framework for LTA funds ("**LTAFs**") should be carefully designed in a balanced and principled manner that focuses on removing barriers to entry, promoting healthy competition and allowing market participants to easily develop, manage, operate and distribute LTAFs to retail investors without compromising investor protection.

We provide our views on the Paper below and have included our specific answers to the questions posed in Appendix A.

Executive Summary

We applaud the leadership of the OSC and the government to expand choice and access for retail investors. Fidelity is supportive of the Paper's goal to facilitate retail investments in LTAFs. We believe retail investors should benefit from the return and diversification potential of investments in private markets that Canadian institutional investors have long enjoyed for themselves and their members. To properly enhance the financial security of Ontarians and foster growth and innovation in Ontario, the regulatory framework for LTAFs must allow retail investors to access LTAFs through not just a stand-alone structure, but also through a conventional fund-of-funds structure. Building on this leadership, we would encourage the OSC and the government to consider leading a national conversation with securities regulators and ministry of finances from across the country to join your efforts. Participation from other jurisdictions could benefit Ontario's capital markets even more.

We believe that the regulatory framework for LTAFs should leverage as much of the existing framework in place that applies to conventional mutual funds, non-redeemable investment funds and alternative mutual funds and tailor where necessary to account for the material differences between LTAFs and these vehicles, as the National Instruments do today. For example, both alternative mutual funds and LTAFs can invest in various assets and/or use strategies that conventional mutual funds generally cannot and should, despite their material differences, be treated similarly.

We believe that treating LTAFs and alternative mutual funds similarly would have many benefits. Most notably, a similar regulatory regime could reduce unnecessary complication, regulatory burden and distribution impediments that could be expected of a brand-new regulatory regime for LTAFs. Two crucial factors that helped alternative mutual funds succeed was bringing them into the governance regime in National Instrument 81-102 *Investment Funds* ("**NI 81-102**") and allowing conventional mutual funds to invest in them. As is the case with the growing alternative industry, doing so for LTAFs too will help them achieve size and scale faster. It also has the added benefit of providing retail investors access to LTAs as part of a professionally managed diversified portfolio led by experts making the investment decisions. For example, retail investors may not be materially impacted by the liquidity risk of an LTA if held as part of a fund-of-funds structure, as such asset is held along with a portfolio of primarily liquid securities, and such top fund is redeemable on demand. This added benefit can also offset the risk associated with information asymmetry, as the professional money manager is conducting due diligence and assessing information pertinent to making an investment decision on behalf of investors. It is therefore important that public investment funds be allowed to invest in LTAFs.

Finally, balanced funds have traditionally allocated their assets to domestic and global equity and fixed income securities based on a neutral mix. Although balanced funds have been successful at delivering investment results, they are not without vulnerabilities. The degree of diversification is only as good as the available asset classes to invest in. As 2022 showed with rising interest rates and inflation, sometimes traditional methods of diversification are insufficient and even conservatively balanced investors can experience material declines. Professional money managers and investors have been increasingly asking for alternative assets, like LTAFs, to help unlock higher returns and achieve greater diversification over the long-term. We believe that a well-constructed, broadly diversified portfolio should include reasonable allocations to LTAs that exceed the liquidity and fund-of-fund restrictions under NI 81-102. Should these restrictions be loosened for LTAFs, portfolio managers will have more incentive to use LTAFs in their asset allocation framework.

General Comments

The Regulatory Framework for LTAFs

We believe that the regulatory framework for LTAFs should be carefully designed in a balanced and principled manner that is focused on:

- removing barriers to entry.
- facilitating healthy competition.
- allowing market participants to develop and access these products quickly.

- providing retail investors with appropriate protections to offset the liquidity risk associated with investing and holding an LTAF over the long-term.
- improving transparency for LTAFs.

The Canadian Securities Administrators (“**CSA**”) spent several years developing the alternative mutual funds regime and we urge the OSC to consider it when developing the LTAF regime. Through exemptive relief, we believe that there are only some areas in each of the applicable National Instruments that would need to change to qualify, manage and distribute LTAFs as well as to enable mutual funds to invest in them and at higher levels than the current restrictions afford. However, we question whether there are easier ways to bring these products to market in a manner that would give retail investors an even greater opportunity to gain access to LTAs as part of a professionally managed fund or on a standalone basis.

With respect to an LTAF’s valuation, an investment fund manager (“**IFM**”) must currently provide an estimate on fair market value (“**FMV**”) for illiquid and hard to value assets that are held by a mutual fund. There is no difference in the fair value policies and procedures between an LTAF and a mutual fund. The use of independent valuators or pricing services providers that specialize in valuing illiquid or private assets is already widely used in the industry. Some IFM's, including Fidelity, have in-house valuation experts to fair value certain types of LTAs which may render the need for an independent valuator redundant and expensive. The rigors of the annual fund audit require that both the IFM and auditor are satisfied with the valuation methodology used by the IFM, which should bolster confidence in the valuation process. Therefore, consistent with the UK’s LTAF regime, the OSC could consider a requirement to appoint an external valuator in circumstances where the IFM cannot demonstrate that it has the competence and experience to value the types of assets in which the LTAF invests.

In terms of the offering and continuous disclosure framework for LTAFs, the OSC’s framework proposal could introduce new forms of Fund Facts and Management’s Report of Fund Performance (“**MRFP**”). In our view, the current form requirements for Fund Facts and MRFPs can be leveraged for LTAFs and tailored where necessary to highlight the key features of an LTAF, as was modified when the alternative mutual funds regime came into force. Accordingly, we believe the new forms proposed in the Paper are unnecessary.

In addition, we oppose the requirement for a new independent board of directors with additional conflict oversight powers or the adoption of a new independent review committee (“**IRC**”) with enhanced supervisory powers. We believe these requirements will result in unnecessary burden. As an IFM, Fidelity’s board of directors is well equipped, knowledgeable and skilled to oversee management’s affairs in relation to LTAFs, as the board is now overseeing Fidelity’s alternative strategies and investments, including cryptocurrency and real estate. Similarly, Fidelity funds’ IRC has a broad range of expertise, including investment fund management, securities trading, financial, governance and accounting skills to adequately oversee the conflicts in relation to LTAFs, as they do now with Fidelity’s alternative mutual funds. We note that a requirement for an LTAF to have a new separate board or directors or IRC may result in these bodies not having a holistic picture of the IFMs offerings. Accordingly, we believe that the current fund governance framework for an IFM and its funds is adequate and would work well for LTAFs.

We note that in 2024, as part of the CSA’s findings from its continuous disclosure review and guidance for IRCs, the CSA did not expand National Instrument 81-107 *Independent Review Committee for Investment Funds* (“**NI 81-107**”) to areas beyond conflicts of interest. We do not believe the creation of new investment vehicles that hold LTAs require a new governance regime or require material changes to the current fund governance regime to cover LTAFs.

Structural Considerations for LTAFs

LTAs have been offered by fund managers and pension plans for many years, and by extension Ontarians and Canadians have already been exposed to LTAs and their associated benefits and risks. Currently, the estimated assets under management ("**AUM**") for Canada based managers that manage private equity, infrastructure, real estate, private debt and natural resources has soared to $347B[1]. The average allocation to private assets has also grown, in some cases at or higher than 10% of the assets of a Canadian or North American limited partnership[2]. Based on public information, larger federal and provincial plans in Canada tend to have a higher proportion of their assets invested in private assets and alternative strategies, such as infrastructure, real estate, private debt and equity, as well as having the bulk of their portfolios invested in global assets.

The Paper proposes that an LTAF in Ontario be prospectus qualified, managed by an IFM and is expected to be structured as a corporation with a new independent board of directors that also oversees the LTAF's conflicts. We believe that a requirement for an LTAF to be structured as a corporation with a new independent board of directors is restrictive. There are a variety of investment vehicles used to offer LTAs, including limited partnerships, trusts and corporations. There is no one-size-fits-all structure. The choice to proceed with a particular structure should be made by the manager, not the regulator, and is dependent on several factors, including the nature of the assets, operational and other management considerations. Also, depending on the nature of the LTA, structuring the LTAF in corporate form may result in tax inefficiencies that make such structure not economically feasible.

The structural considerations should involve the review of whether there are other ways LTAs can be offered to retail investors that may be easier to bring to market and that would not require the qualification of a new prospectus qualified investment fund. Many fund managers have already developed the infrastructure and capabilities to offer alternative assets to retail investors. Why, for example, could a manager not issue a class of securities of an existing structure that is professionally and expertly managed for retail investors? We acknowledge the protection afforded through a prospectus offering, but for this protection, a prospectus qualified LTAF could be viewed as a redundant vehicle in a structure. LTA products already exist and we recommend that the OSC create balanced and principled rules that accommodate the existing infrastructure, new entrants and potentially other economically viable structures in the future.

Collective Investment Vehicles and Cornerstone Investors

The Paper proposes that LTAFs in Ontario invest in LTAs through one or more collective investment vehicles ("**CIVs**") and with a cornerstone investor. The OSC believes that these requirements would help facilitate external evidence that the process of valuing a particular LTA is fair and reasonable as well as to enable retail investors to invest alongside experienced institutional investors. We believe that the proposals to mandate a CIV and cornerstone investor are complicated, restrictive, unnecessary and will create barriers to entry.

IFMs, including Fidelity, have the capabilities and expertise to structure and manage LTAFs on behalf of retail investors without the need of a cornerstone investor. Fidelity manages all sorts of asset classes, including many alternative assets and LTAs, and has the capabilities and expertise to offer LTAFs in a way that achieves the OSC's goals. In addition to Fidelity's own capabilities, we draw on the investment expertise and resources of the broader Fidelity International Limited and Fidelity Investments organizations. Where we determine that we do not have an expertise to manage a particular asset, we will retain that expertise on our own. With the vast

[1] Prequin, as at March 31, 2024.
[2] *Ibid*, as at September 30, 2024.

resources Fidelity can draw from, we are able to deliver alternative and innovative products on a standalone basis or as part of a professional managed solution.

Fidelity International Limited recently launched its first LTAF in the UK, Fidelity Diversified Private Assets LTAF. Fidelity International Limited was among the first asset managers in the UK to offer a portfolio of diversified private assets in a singly fund vehicle to investors. Fidelity International Limited's LTAF showcases Fidelity's private assets capabilities and our commitment to building cross-disciplinary client-centered solutions. While we appreciate the OSC's views around the confidence that a cornerstone investor may provide in valuing LTAFs, Fidelity has long standing valuation and fair value policies and procedures that can be used to calculate the LTAF's net asset value ("**NAV**") and can appoint external valuators, where appropriate, to value certain LTAs that Fidelity may not have the competence or experience to value.

The Balanced Fund of the Future

LTAs are primarily suitable for retail investors investing over the long-term and who can take on the liquidity risk associated with holding such assets as part of a broadly diversified portfolio. An illiquidity premium typically compensates investors for the risk of not being able to dispose of these assets quickly and easily. Diversification is a key benefit that may help offset liquidity risk as LTAs typically exhibit lower correlation with public investments, thereby potentially reducing portfolio risk. The decision to invest in an LTAF, like any other investment, requires careful consideration of market access, information, the investor's financial goals and investment horizon. Like any other higher risk less-liquid investment, LTAs should in all cases form part of a broadly diversified portfolio.

In the chart shown below, private assets tend to exhibit lower correlations with public assets (bottom left), which can lead to greater diversification benefits. Public assets generally have higher correlations among each other than if there were private assets introduced (bottom right). Empirically, private assets exhibit lower correlations with traditional assets like public equity and fixed income securities. Therefore, if LTAFs are held over the long-term as intended and part of a broadly diversified portfolio, the overall liquidity risk for the retail investor should be relatively small.

Historical Correlations (Private vs Public Assets)

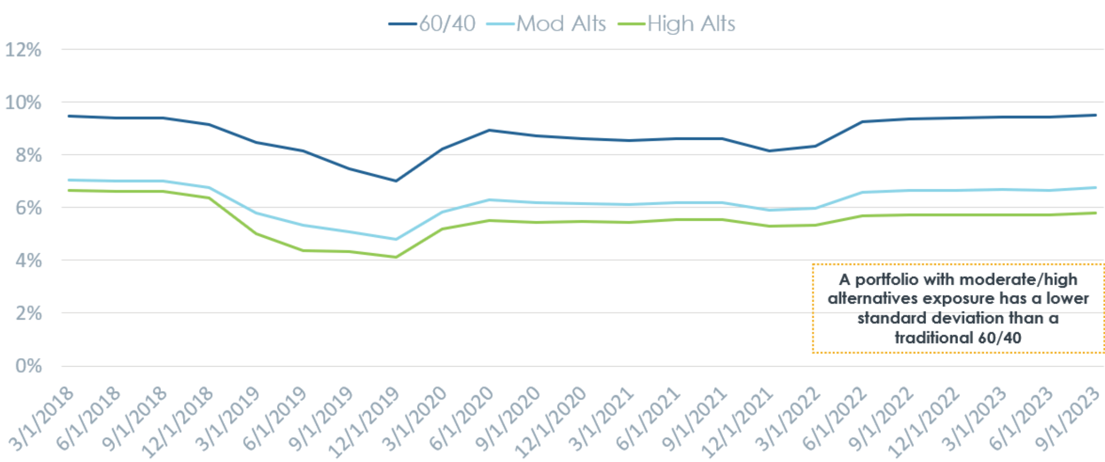
	Private Asset Class Indices						Public Asset Class Indices					
	Private Capital	Infrastructure	Natural Resources	Private Equity	Real Estate	Private Debt	S&P 500 Total Return	MSCI World Total Return	S&P/TSX Capped Composite	FTSE Can Univ Bond	Bbg Us Agg Bond	Bbg Global Agg Bond
Private Capital	1.00											
Infrastructure	0.57	1.00										
Natural Resources	0.48	0.61	1.00									
Private Equity	0.99	0.45	0.36	1.00								
Real Estate	0.65	0.62	0.41	0.57	1.00							
Private Debt	0.87	0.62	0.52	0.81	0.55	1.00						
S&P 500 Total Return	0.70	0.30	0.20	0.70	0.25	0.75	1.00					
MSCI World Total Return	0.72	0.32	0.21	0.72	0.26	0.78	0.98	1.00				
S&P/TSX Capped Composite	0.72	0.50	0.45	0.68	0.30	0.82	0.88	0.89	1.00			
FTSE Can Univ Bond	0.04	-0.19	-0.41	0.11	-0.17	0.14	0.38	0.40	0.28	1.00		
Bbg Us Agg Bond	0.03	-0.25	-0.49	0.10	-0.17	0.04	0.31	0.35	0.21	0.86	1.00	
Bbg Global Agg Bond	0.23	-0.06	-0.34	0.28	-0.01	0.23	0.42	0.49	0.33	0.71	0.87	1.00

Source: Fidelity Investments Canada ULC and Preqin. Based on quarterly returns from June 2014 to June 2024. Traditional index returns use corresponding local currency based on the underlying. Private asset class returns are in USD. "Private Capital" is a representative cap-weighted index based on AUM in the noted underlying asset classes.

As shown another way, the charts below compare the 10-year rolling returns and standard deviation for a traditional 60/40 portfolio (equity and fixed income securities), a portfolio with moderate exposure to private assets and a portfolio with high exposure to private assets. Empirical data also shows that a portfolio with material allocations to private assets has a lower standard deviation than a traditional portfolio comprised of equity and fixed income securities alone and can offer higher return potential. Combining less correlated assets should result in a lower standard deviation. Accordingly, a retail investor's broadly diversified portfolio with reasonable allocations to private assets will benefit from greater diversification, higher return potential and lower risk.

10 Year Rolling Standard Deviation

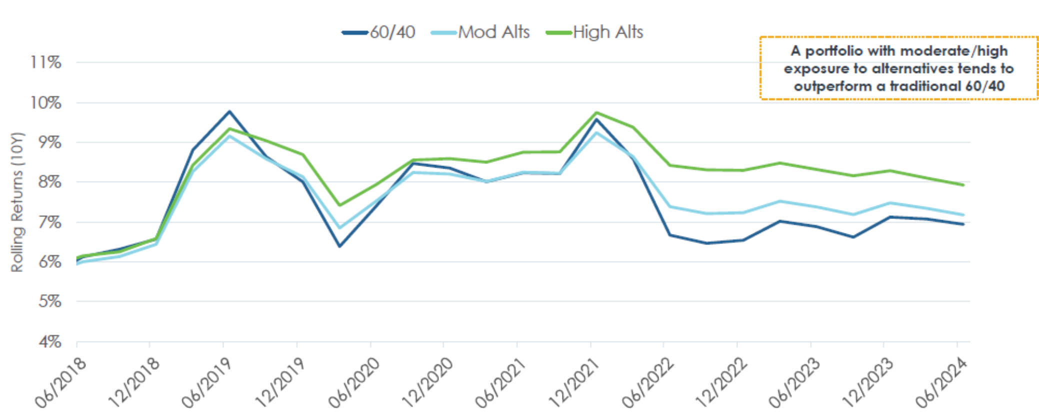
60/40 vs Mod Alts vs High Alts



High Alts: 25% Equity/25% Fixed Income/50% Private Assets
Mod Alts: 35% Equity/35% Fixed Income/30% Private Assets

10 Year Rolling Returns

60/40 vs Mod Alts vs High Alts



High Alts: 25% Equity/25% Fixed Income/50% Private Assets
Mod Alts: 35% Equity/35% Fixed Income/30% Private Assets
As of June 30, 2024

Finally, the chart below shows return scenarios that would need to occur to push the allocation to private assets beyond 30% of the assets of the portfolio. For example, for a portfolio comprised of 80% public securities and 20% private assets, the likelihood of the private assets' allocation exceeding 30% of the assets of the entire portfolio would be extremely low. For this to happen, there would need to be statistically significant moves in both the public and private allocations. We looked at quarterly returns from December 2007 to September 2023 and did not observe one instance where such a scenario occurred. Therefore, it is unlikely that a portfolio with a reasonable allocation to private assets would experience a liquidity event that would impact a retail investor's ability to redeem in volatile markets.

Rebalancing Private Asset Allocation

In a theoretical portfolio comprising 80% public securities and 20% private assets, the following table illustrates circumstances necessitating a rebalance, specifically focusing on scenarios where the private asset allocation would need to **increase to 30% or higher**. Notably, cells highlighted in red signify instances where the private asset allocation would reach/exceed the specified threshold.

Based on the empirical quarterly returns (Dec 2007 – Sept 2023) of the specified private assets and public indexes, no situation has arisen necessitating an increase in the private asset allocation to 30% or more.

Return variations where a private allocation would exceed 30%

Private Returns \ Public Returns	-80%	-75%	-70%	-65%	-60%	-55%	-50%	-45%	-40%	-35%	-30%	-25%	-20%	-15%	-10%	-5%	0%
-65%	30%																
-60%	33%																
-55%	36%	31%															
-50%	38%	33%															
-45%	41%	35%	31%														
-40%	43%	38%	33%														
-35%	45%	39%	35%	32%													
-30%	47%	41%	37%	33%	30%												
-25%	48%	43%	38%	35%	32%												
-20%	50%	44%	40%	36%	33%	31%											
-15%	52%	46%	41%	38%	35%	32%											
-10%	53%	47%	43%	39%	36%	33%	31%										
-5%	54%	49%	44%	40%	37%	35%	32%	30%									
0%	56%	50%	45%	42%	38%	36%	33%	31%									
5%	57%	51%	47%	43%	40%	37%	34%	32%	30%								
10%	58%	52%	48%	44%	41%	38%	35%	33%	31%								
15%	59%	53%	49%	45%	42%	39%	37%	34%	32%	31%							
20%	60%	55%	50%	46%	43%	40%	38%	35%	33%	32%							
25%	61%	56%	51%	47%	44%	41%	38%	36%	34%	32%	31%						
30%	62%	57%	52%	48%	45%	42%	39%	37%	35%	33%	32%	30%					
35%	63%	57%	53%	49%	46%	43%	40%	38%	36%	34%	33%	31%					
40%	64%	58%	54%	50%	47%	44%	41%	39%	37%	35%	33%	32%	30%				
45%	64%	59%	55%	51%	48%	45%	42%	40%	38%	36%	34%	33%	31%				
50%	65%	60%	56%	52%	48%	45%	43%	41%	38%	37%	35%	33%	32%	31%			
55%	66%	61%	56%	53%	49%	46%	44%	41%	39%	37%	36%	34%	33%	31%	30%		
60%	67%	62%	57%	53%	50%	47%	44%	42%	40%	38%	36%	35%	33%	32%	31%		
65%	67%	62%	58%	54%	51%	48%	45%	43%	41%	39%	37%	35%	34%	33%	31%	30%	
70%	68%	63%	59%	55%	52%	49%	46%	44%	41%	40%	38%	36%	35%	33%	32%	31%	
75%	69%	64%	59%	56%	52%	49%	47%	44%	42%	40%	38%	37%	35%	34%	33%	32%	30%
80%	69%	64%	60%	56%	53%	50%	47%	45%	43%	41%	39%	38%	36%	35%	33%	32%	31%

Source: Fidelity Investments Canada ULC & Preqin. Based on quarterly returns of the dates noted above.

Based on the foregoing, we believe that a broadly diversified portfolio or fund should have reasonable allocations to LTAs and alternative assets based on the diversification benefits, higher return potential and lower risk profile as compared to a diversified portfolio comprised primarily of equity and fixed income securities.

Global and International Developments

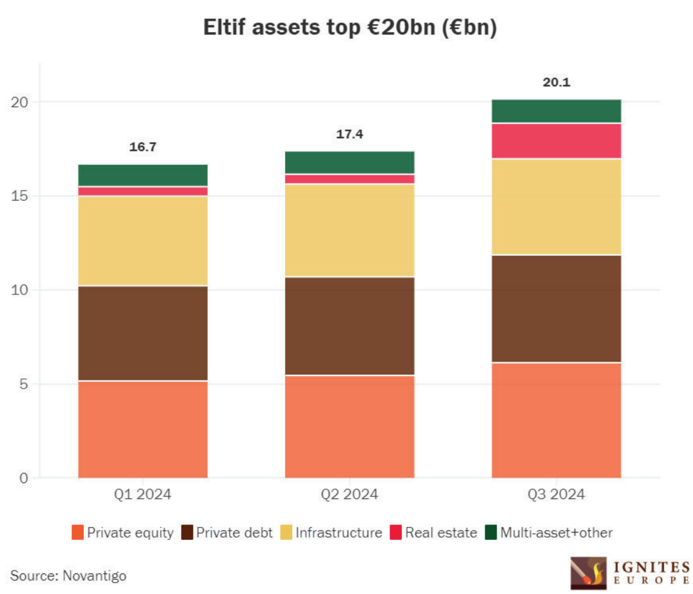
LTAFs in the U.S., UK and European Union have experienced tremendous growth in recent years. More recently, rules in the UK and European Union have been updated to allow retail investors access to LTAFs. In developing the Paper, the OSC considered the LTAF rules in the U.S., UK and European Union. Except for U.S. business development corporations which have been around since the 1980s and are similar in concept to LTAFs, the LTAF is relatively new in the UK and European Union. As a result, we believe the OSC is in a unique position to consider these regimes and select what it thinks are the best and most practical features from each regime to consider as part of developing a principled framework for LTAFs in Ontario. For example, the OSC could consider the following investor protection features:

- limiting the percentage of a retail investor's portfolio that may be invested in LTAFs.
- providing a new risk warning (similar to what alternative mutual funds provide)

- requiring dealers to complete an additional suitability test.
- requiring unadvised investors to acknowledge the risk warning and confirm their exposure to LTAs is less than a certain percentage of their investible assets.
- aligning new and existing rules on investment fund fundamental matters - e.g., material fund changes, securityholder meetings, suspension of redemptions and fees.
- requiring clear prospectus disclosure on features, investment objectives and strategies, subscription and redemption terms, fees, liquidity management tools and risks.
- appointing an external valuator, unless the IFM can demonstrate that it has the competence and experience to value the particular LTA (following fair value accounting principles).
- affording the IFM's board to determine the appropriate frequency of redemptions that matches the nature of the underlying asset.
- requiring a small percentage of the LTAF be invested in liquid securities to manage redemptions.

Therefore, we recommend that the OSC leverage, where appropriate, the best and most practical approaches from each jurisdiction considered in the Paper. While the jury is still out on whether the LTAF regimes in the UK and European Union have been successful, the OSC has the benefit of avoiding any pitfalls that may have resulted from the updated LTAF legislation in the UK and European Union. We believe a balanced and principled framework that works for all participants will lead to the greatest success of the growth of LTAFs in Ontario.

In terms of European long-term investment funds ("**ELTIFs**"), Ignites Europe recently reported that ELTIF AUM rose by 16% in the third quarter of 2024 to reach €20.1B[3], as shown in the chart below. This growth was driven by new launches and products converting to the updated ELTIF 2.0 rules introduced in January 2024[4]. The 16% increase was boosted by the conversion of the Greenman Open Fund, making it the largest real estate ELTIF[5]. This fund's conversion led to a more than three-fold increase in real estate ELTIF assets during the third quarter[6].



[3] Ignites Europe, Eltif market surpasses €29Bn in assets, [Ignites Europe - Eltif market surpasses €20bn in assets].
[4] *Ibid.*
[5] *Ibid*.
[6] *Ibid.*

The ELTIF 2.0 rules relaxed the restrictive diversification and investment limit requirements as well as the rules preventing retail investor access that were created by the first version of the ELTIF regime in 2015. Because the first regime created barriers to entry, changes were required to make ELTIFs easier to structure, manage and allow retail investors to access. For example, because of the material upgrades to the ELTIF 2.0 rules, ELTIFs:

- can now invest in a broader range of assets.
- must hold a minimum of 55% of NAV in eligible assets, down from 70%.
- can now borrow up to 50% of NAV, and up to 100% of NAV if marketed only to institutional investors.
- have a simplified subscription process.
- no longer need to have local facilities where its securities are marketed.
- no longer are required to have a minimum investment amount of €$10,000.

While it has only been a year since the ELTIF 2.0 rules became effective, the recent Ignites Europe article showed that the growth of ELTIF assets in 2024 was attributable to the changes to the ELTIF 2.0 rules.

Accordingly, we believe that a successful regulatory framework for LTAFs must not be so onerous as to create barriers to entry or discourage participation from market participants and retail investors. Such a framework should balance the ease of structuring, managing and distributing LTAFs to retail investors with appropriate investor protections in place.

Value of Financial Advice and our Commitment to Investment Literacy

Investor protection should be at the forefront of the regulatory regime for LTAFs. For example, in a world of rising unadvised do-it-yourself investors and social media 'finfluencers', there is a possibility that this subset of investors may be exposed to exaggerated claims of the upside potential of LTAFs, without balancing the necessary information about the downside. Fortunately, according to the 2024 CSA Investor Index, 61% of investors have an advisor[7]. Advised investors have the benefit of OSC and CSA regulations that regulate financial advice and the sale of investment products to protect investors. Conceivably, the same regulation, enhanced where appropriate, would apply to LTAFs.

There is a comprehensive body of research around the value of financial advice. As is the case with other mutual fund and ETF products, the role of a professional financial advisor and advice can play a significant role in protecting investors. Not only would financial advisors educate their clients about the risks and benefits associated with LTAFs and are incented to do so by regulation and smart business practice, but they would also play an on-going role in coaching their clients to ensure that LTAFs contribute to, and not detract from, their clients reaching their financial goals.

We believe there is a significant role for investment education on LTAFs. We applaud the work of the OSC in better understanding the risks to investor protection through growing amounts of behavioural scientific research and introducing new educational initiatives each year, especially around financial literacy months in November. We believe there is an opportunity for collaboration with the investment industry to jointly raise awareness about LTAFs and the risks and benefits associated with them. Fidelity is committed to doing our part and investing in resources to provide education to our clients and investors on LTAFs should this new product category come to

[7] 2024 CSA Investor Index, https://www.securities-administrators.ca/wp-content/uploads/2024/07/CSA-2024-Investor-Index-Full-Report.pdf

fruition in a manner that allows LTAFs to be distributed on stand-alone basis and accessible through a professionally managed mutual fund.

Fidelity has a wide-ranging investment education platform, including MoneyGains, a series of free investment educational videos aimed at equipping the next generation of retail investors with information to develop healthy financial habits. Fidelity's MoneyGains, along with our social media and advertising capabilities, could be mobilized to support investment literacy initiatives the OSC may consider in relation to LTAFs, because we fundamentally believe that a properly informed investor will lead to the best outcomes for themselves and our financial system more generally.

* * * * *

Thank you for allowing us the opportunity to provide our views on this very important initiative. We also thank you for considering our comments. We are always available to discuss our comments.

Yours very truly,

Rob Strickland
President

c.c.: W. Sian Burgess, *Senior Vice President, Fund Oversight*
Robyn Mendelson, *Vice President, Legal and Procurement*
Andrew Clee, *Vice President, Product*
Robert Sklar, *Director, Legal Services*

Appendix A

OSC Question	FIC Comments
1. Do you agree that retail investors could benefit from increased access to Long-Term Assets? Please explain.	Yes, we believe retails investors will benefit from increased access to LTAFs for the following reasons: • **Enhanced portfolio diversification:** LTAs often exhibit low correlation to traditional public market investments. Adding private market strategies in a broadly diversified portfolio can help achieve greater levels of diversification and reduce risk, particularly during volatile markets. • **Potential for higher returns:** Over longer time horizons, LTAs can provide the opportunity for higher returns compared to conventional investments. • **Access to previously inaccessible opportunities:** Increased access would allow retail investors to participate in capital-intensive projects, including renewable energy, infrastructure, natural resources and urban development projects that historically have been limited to institutional investors. These projects may offer the potential for steady income and long-term value creation. • **Professional management and oversight:** By investing through professionally managed mutual fund, retail investors can benefit from the expertise of professional money managers that employ rigorous due diligence and robust risk management strategies. This will help address the complexities and risks associated with investing in LTAFs. • **Alignment with long-term financial goals:** LTAs can promote disciplined investing, making them ideal for longer-term goals like retirement savings and building generational wealth.

OSC Question	FIC Comments
2. 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.	Yes, both investment fund structures and fund-of-fund investments can play an important role in enabling retail investors to allocate a portion of their investible assets to LTAFs, while mitigating some of the risks of holding illiquid assets. • **Professional management for risk mitigation:** Investment funds managed by experienced IFMs and portfolio managers can navigate the complexities of managing illiquid assets and implementing strategies to mitigate risk. • **Liquidity management:** Investment funds can employ mechanisms like redemption schedules, lock-in periods and liquidity buffers to manage the inherent liquidity risk associated with LTAs. These mechanisms will allow an LTAF to maintain its investment strategy without forcing premature asset sales, while also providing retail investors with periodic access to their capital. • **Regulatory oversight:** Investment funds are subject to an existing regulatory framework that helps to enforce transparency, disclosure and investor protection measures. For example, LTAFs would be subject to the Client Focused Reforms, providing an additional layer of due diligence to help determine the appropriateness of certain LTAFs for retail investors. • **Diversification:** A diversified portfolio of LTAs can reduce concentration risk for individual retail investors, while still providing exposure to a broader portfolio of LTAs.
3. What else could be done to increase retail investor interest in specific types of Long-Term Assets?	The following measures can be taken to increase retail investors' interest in LTAs: • **Investor Education:** Providing comprehensive education on the unique characteristics, benefits and risks associated with LTAs can empower retail investors to make more informed decisions.

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	For example, IFMs can host webinars and seminars that can lead to better engagement and help retail investors build a better understanding of LTA. These strategies can evolve into targeted marketing campaigns appealing to certain investor demographics for which LTAs may be more suitable for. • **Transparent reporting:** Enhancing transparency regarding the valuation methodologies, performance, fund expenses, and underlying holdings of LTAFs can also help build trust and boost confidence amongst retail investors. **Accessible investment minimums:** Lowering minimum investment thresholds can make LTAFs more accessible to a broader retail audience. • **Tax incentives:** Implementing tax benefits for investments in LTAs can serve as an additional incentive for retail investors.
4. 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.	We would like to examine the market opportunities in Ontario to determine whether restrictions on minimum investments in LTAs located in Ontario are necessary. Restricting investments to Ontario-based assets only may impact an LTAF's ability to diversify across various markets and asset classes. As highlighted in our response to question 1 above, diversification is a key benefit of including private assets in a broadly diversified portfolio. If LTAFs are required to maintain a material allocation towards Ontario-based assets, we would need to determine if appropriate diversification can still be achieved amongst Ontario assets only. Generally, geographical restrictions may reduce the pool of available high-quality LTAs, potentially impacting fund performance and could diminish the attractiveness of the LTAF. Restricting investments based on geography could also result in overexposure to certain province-specific industries, leaving funds vulnerable to sector-specific downturns. For

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	example, a manufacturing slowdown or policy changes affecting natural resources could disproportionately impact fund performance.
5. 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 OSC could exclude certain types of LTAs that do not align with a retail investor's risk tolerance, liquidity needs and financial objectives of retail investors. Below are some considerations. • **Risk considerations:** Excluding sensitive infrastructure assets in regions with high political or economic instability can protect investors from undue risks. Retail investors, with limited resources and expertise, may find it difficult to evaluate these risks, which could lead to significant losses. • **Ethical and legal compliance:** Investing in sectors or regions subject to sanctions or ethical issues can lead to, among other risks, reputational risks, thereby reducing their appeal to retail investors. • **Transparency:** Prioritizing investments in assets with clear, transparent governance structures can enhance investor confidence and protection. • **Transparent valuations:** LTAs that are too complicated to value could be avoided to help bolster confidence in accurate and fair asset valuations.
6. Please explain your views on each of the following overview elements: (i) OLTFs having the same restrictions on control that apply to investment funds under section 2.2 of NI 81-102.	 (i) Control restrictions can minimize risks associated with over-concentration in a single entity, maintaining a diversified portfolio for retail investors. While it is important to leverage as much of the existing framework for public investment

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	funds, LTAFs should have more flexibility when it comes to the control restrictions. We question whether the existing requirement under subsection 2.2(2) of NI 81-102 applies? Having 90 days to correct a control violation incurred through passive means may not be enough time to resolve in the best interests of the LTAF, given the illiquid nature of the asset and the notion that the LTAF may be forced to sell the asset at distressed prices.
(ii) OLTFs being subject to their own unique regulatory requirements.	(ii) LTAFs require regulatory oversight due to their unique characteristics. The existing regulatory framework should be leveraged and tailored where necessary to address the unique characteristics of LTAFs.
(iii) OLTFs distributing units through a prospectus-qualified offering.	(iii) Distributing LTAFs through a prospectus-qualified can offer enhanced investor protection and market integrity. However, the current prospectus requirements will need to be amended to address the unique characteristics of LTAFs, as was done when the alternative mutual funds rules came into force. Retail investors will benefit from the guidance of an experienced IFM and portfolio managers who are obligated to act in the best interests of such funds. A prospectus can also result in easier comparisons with other prospectus investment products.
(iv) The impact of OLTFs being only distributed to Ontario investors.	(iv) Limiting distribution can reduce the potential investor pool, limiting the amount of capital available for the LTAF to invest in Ontario's future economic projects. Also, limiting distribution has the potential to increase investor level concentration risk in the LTAF. A single investor can have a more material impact on the LTAF's redemption feature. Finally, many infrastructure projects require substantial funding that a single region may not fully support.

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	Broadening the investor base could enhance the capacity of such projects.
(v) OLTFs being either fixed-term or evergreen investment funds.	(v) While there could be demand for fixed-term LTAFs from a specific channel of investors willing to accept illiquidity against investing in specific long-term projects such as infrastructure, we believe retail investors would benefit more from an evergreen fund structure where they have periodic access to capital. Administration of a fixed-term, capital call type vehicle, would also be difficult as many dealers in Canada are not equipped to manage/oversee this type of process. If LTAFs are launched in both formats, the key differences, associated risks and benefits with both versions should be clearly communicated to retail investors.
(vi) The proposed CIV requirement.	(vi) We do not believe the proposed CIV requirement is necessary.
(vii) OLTFs within a fund-on-fund structure under an investment fund subject to the requirements of NI 81-102.	(vii) We believe allowing mutual funds and alternative mutual funds to invest in LTAFs within a fund-of-funds is critical to the success of any LTAF regulatory framework. • **Accessibility for retail investors:** A fund-of-funds structure aligns with current formats that retail investors have a greater understanding for. • **Lower investment barriers:** By pooling resources, a fund-of-funds structure allows investors to gain exposure to long-term, illiquid assets without requiring substantial initial capital commitments or taking on material risks. • **Enhanced diversification:** A fund-of-funds can invest in multiple LTAFs or asset classes, providing broader

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	diversification across sectors, geographies and asset types. It also reduces reliance on any single fund or asset, helping to stabilize returns and minimize portfolio volatility. • **Professional oversight:** Investors benefit from professional money management at both the top and bottom fund levels, thereby addressing robust due diligence and oversight. Each underlying fund can focus on specific asset classes or strategies, leveraging specialized expertise while maintaining an overarching strategy. Fund managers can adjust allocations to underlying funds based on market conditions or investment opportunities. • **Alignment with NI 81-102:** Operating within the NI 81-102 framework ensures compliance with well-established rules, enhancing investor confidence. Retail investors gain the benefit of protections and reporting requirements that are familiar and trusted in the Canadian regulatory environment. • **Liquidity management:** The top-level fund can use a portion of its portfolio for more liquid investments to meet redemption demands while preserving exposure to LTAFs. It may be prudent to cap a mutual fund's investment in an LTAF at a certain limit given the potential mismatch in redemption terms. This limit should also apply in aggregate for investments in LTAFs, not individually.

OSC Question	FIC Comments
7. Are there other overview elements the Proposal should consider? Please explain.	We believe the OSC could consider: • **Standard performance reporting:** A proposal could consider establishing standard performance reporting for LTAFs. This will enable retail investors to easily compare between different funds. • **Liquidity management:** The proposal should develop guidelines for managing liquidity risk associated with LTAFs, consistent with international liquidity management standards. The OSC could include stress testing valuation methodologies employed by IFMs and portfolio managers. • **Periodic review:** As the market evolves, any LTAF framework should advocate for recurring reviews to consider potential changes to LTAF regulations.
8. Do you agree that these are threshold issues? Are there any other threshold issues? Please explain.	Yes, we believe these are key threshold issues for LTAFs. Factors such as liquidity constraints, valuation and an enhanced regulatory framework are critical for developing a viable LTAF regulatory framework. The following additional threshold issues could be considered: • **Fee structure and operational expense transparency:** Investment funds holding LTAs may incur higher expenses than a traditional fund due to their complex portfolio management and unique operational requirements. These costs can impact net returns, which makes it important to ensure that the fee structure is transparent and justified for the value provided. Retail investors may not always have a clear understanding of the associated layered costs, especially if a fund is structured through a CIV. These funds should aim to provide detailed but easy to understand fee disclosures and associated operational costs. While investment funds can charge a performance fee based on achieving their investment objectives in line with retail investors expectations, we believe these funds should be capped to prevent

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	excessive charges from disproportionately benefitting an IFM at the expense of a retail investor. • **Legal and tax implications:** Investment funds investing in LTAs outside Canada may be subject to different legal and tax requirements. Understanding these implications and being transparent about them are important measures that can be adopted by the IFM to encourage retail investors. This could also prevent future unforeseen liabilities. • **Reporting standards:** Establishing consistent and clear reporting standards will go a long way in boosting retail investors' confidence in LTAFs.
9. Please explain your views on each of the following redemption features: (i) Frequency. (ii) Discounts.	(i) LTAs are less liquid and an IFM should be afforded the discretion to gate redemptions and determine the frequency of redemptions based on the nature of the underlying asset. The frequency of redemptions should balance the need for investor access to capital with the practicalities of liquidating LTAs without incurring significant losses. An appropriate frequency for redemptions will also enable IFMs sufficient time to plan and execute asset sales or provide other liquidity measures, aiming to ensure orderly transactions do not disrupt the fund's overall investment strategy. (ii) Implementing discounts on redemptions for early withdrawals can deter short-term trading behaviors, aligning investor actions with an LTAF's long-term objectives. Redemption discounts can compensate the LTAF for the costs associated with providing liquidity, which can help protect remaining investors from the actions of redeeming investors.

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	We think consideration should be given to provisions for early redemption fees to be applied if an investor wants to redeem before a certain time period. Early redemption fees should be reasonable and in line with what one might expect in an open-ended private market offering for accredited investors.
(iii) Caps.	(iii) Setting caps on the percentage of the LTAF's NAV that can be redeemed may prevent large outflows that could force the LTAF to liquidate its assets at a loss or inopportune time. A cap should be indicative of the liquidity that an IFM believes it can produce under normal market circumstances. Redemption caps should be aligned with redemption frequencies. The following questions on caps should be addressed: • Would a cap be on an absolute basis or a net basis? • Would a cap of 10% per annum still apply to an LTAF that may have monthly redemptions? • Would this create a conflict whereby investors may be incentivized to redeem early in the period? • Would subsequent inflows create room within the LTAF's cap again? • Would there need to be a first in first out approach to manage redemption requests? Caps can be complex to administer and can create conflicts.
(iv) Notice.	(iv) Advance notice periods can enable IFMs and portfolio managers to align redemption requests with the LTAF's cash flow and investment strategies, maintaining portfolio stability. Reasonable notice periods for redemptions will ultimately depend on the nature of the LTA.

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(v) Payment.	(v) Establishing a clear timeline for redemption payments can provide investors with certainty while allowing the LTAF adequate time to generate the necessary liquidity. Structured payment timelines also help to manage that the LTAF's operations are not disrupted by liquidity demands.
(vi) Suspensions	(vi) Including provisions to temporarily suspend redemptions during periods of extreme market volatility can protect the LTAF and its investors from forced asset sales at distressed prices. We believe clear guidelines on the conditions under which redemptions can be suspended temporarily, along with prompt communication to investors, are necessary. We recommend that the OSC consider a longer suspension period under certain circumstances that align with the nature of the underlying LTA.
10. What are the minimum redemption restrictions OLTFs would need to effectively manage their liquidity?	We believe redemption restrictions will depend on the nature of the LTA. Please see our responses to question 9 above.
11. Could there be investor demand for fixed-term OLTFs that do not offer any or very restrictive redemption rights to their securityholders? Please explain.	Please see our response to question 6 above.
12. Are there other redemption issues the Proposal should consider? Please explain.	Please see our general comments in our cover letter.
13. 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.	Yes, this makes sense.

OSC Question	FIC Comments
14. Please explain if any of the following mitigate the difficulties of calculating fair and reasonable NAVs for Long-Term Assets: (i) Experienced IFMs. (ii) Independent boards of directors (or an independent review committee with enhanced supervisory powers additional to reviewing conflict of interests). (iii) Cornerstone investors. (iv) Independent valuators.	Please see our general comments under the headings, "*The Regulatory Framework for LTAFs*" and "*Collective Investment Vehicles and Cornerstone Investors*", in our cover letter.
15. Are there other valuation issues the Proposal should consider? Please explain.	We encourage the OSC to consider employing a more forward-looking perspective on asset valuation. For example, ex interest rate cuts and cap rates could be factored into the LTAF's NAV to make it more current rather than backward looking.
16. 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?	Please see our general comments under the headings, "*The Regulatory Framework for LTAFs*" and "*Structural Considerations for LTAFs*", in our cover letter.
17. Are there other monitoring, review and governance requirements the Proposal should consider? Please explain.	Please see our general comments in our cover letter.
18. Should the Proposal require a new form of Fund Facts for OLTFs? Please explain.	No, the current form requirements for Fund Facts can be leveraged for LTAFs and tailored where necessary to highlight the key features of an LTAF.

OSC Question	FIC Comments
19. Should the Proposal require a new form of MRFP for OLTFs? Please explain.	No, the current form requirements for MRFPs can be leveraged for LTAFs and tailored where necessary to highlight the key features of an LTAF.
20. Are there other disclosure requirements the Proposal should consider? Please explain.	Please see our general comments under the heading, "*Global and International Developments*", in our cover letter.
21. Please explain your views on each of the following investment restrictions: (i) Minimum level of Long-Term Assets.	 (i) The minimum level of 50%-70% exposure to LTAs advocated in the Paper seems reasonable, as adding short-term assets could allow investors to game the fund. However, there should be a provision for LTAFs to temporarily go below the minimum level, especially in periods of higher redemption activity and heightened market volatility. It will be beneficial for LTAFs to have such flexibility to meet unexpected and large redemption requests without penalizing remaining investors.
(ii) Minimum level of liquid assets (maximum level of Long-Term Assets).	(ii) LTAFs could be mandated to have a minimum of 10%-20% allocation to liquid assets on a periodic basis. This will assist the LTAF in meeting regular redemption requests. LTAFs should have the freedom to invest in various liquid securities (e.g., corporate bonds, treasuries, stocks, money market instruments).
(iii) Concentration restrictions for evergreen OLTFs investing in pools of Long-Term Assets.	(iii) An evergreen LTAF should have a diversified pool of LTAs to appeal to retail investors. A highly concentrated LTAF can deter cautious retail investors who may be looking to add private assets for diversification benefits. An evergreen LTAF may also help distribute risk and potential benefits across different assets.
(iv) Concentration restrictions for fixed-term OLTFs investing in infrastructure or other development projects.	(iv) Fixed-term LTAFs can have a higher threshold when it comes to concentration limits in individual assets as these LTAFs

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	will, in our view, mainly be used by institutional investors, accredited investors and high-net-worth individuals who have longer-term investment horizons. These investors are usually comfortable with concentration risk as a trade-off for value creation.
(v) Concentration restrictions if there is a CIV requirement.	(v) If a CIV is involved in creating an LTAF, then it may be prudent to limit exposure to a CIV to an acceptable exposure. This should help further diversification at a top fund level, while individual CIVs continue to adhere to single asset/sector concentration limits. This extra layer of diversification could prove to appeal retail investors. The IFM would need to enough information on the CIV's underlying investments to monitor compliance for the LTAF.
(vi) Limitations on debt, leverage, the use of specified derivatives, securities lending transactions and purchase or repurchase transactions.	(vi) Establishing limits on debt and leverage ratios employed by an LTAF can be important to manage financial risk, to ensure that debt levels remain within sustainable bounds. Limitations on the leverage ratio would also depend on the type of investments targeted by the LTAF. Some LTAFs can be allowed to have a higher threshold to meet their stated investment objectives while others could have a lower threshold towards employing leverage. Employing leverage conservatively could potentially enhance long-term performance. However, it is important to understand the associated risks and costs associated with employing such strategy. It may be desirable for an LTAF to use futures to equitize cash for waiting periods before investment into a CIV, depending on the subscription period. This may be in the best interests of the LTAF, but such futures use would not be used for hedging purposes, so we question whether this restriction needs to be as strong.

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22. Are there other investment restrictions the Proposal should consider? Please explain.	Please see our general comments in our cover letter.
23. Please explain your views on each of the following distribution matters: (i) Should there be limits on the amount that an investor can invest? If so, what should the limits be? (ii) Should a purchaser be required to receive investment advice from an adviser in order to invest in an OLTF? Should OLTF units be available through order-execution-only channels?	Please see our general comments in our cover letter.
24. Are there other distribution matters, specifically other investor protection mechanisms, the Proposal should consider? Please explain.	From an operational standpoint, an LTAF needs to fit within a dealer's existing operational workflows. Otherwise, broad distribution of the LTAF may be limited, as dealers will need to enhance their systems to adopt the LTAF. This stems from point-of-sale documents (subscriptions/redemptions), transfer agency and Fundserv activities, etc. We have seen interval funds launched with good strategies and intentions but have seen limited adoption because, we hear, dealers have not made the necessary system enhancements required to automate purchases and redemptions versus the current opportunity size. For these reasons, adopting processes similar to existing public investment funds or exempt market offerings will limit the impact on dealer operations to support such product. In addition, the OSC could consider other measures that focus on enhancing investor protection, including enhancing suitability assessments for distributors, requiring them to demonstrate thorough knowledge of LTAFs and their appropriateness for individual investors. Also, the implementation of ongoing training and accreditation programs to keep financial advisors up to date on the unique characteristics and evolving regulatory landscape of LTAFs.