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The Secretary
Ontario Securities Commission
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Re: Ontario Securities Commission Consultation Paper 81-737: Opportunity to Improve Retail Investor Access to Long-Term Assets through Investment Fund Product Structures

We would like to thank the Ontario Securities Commission (the "**OSC**") for publishing OSC Consultation Paper 81-737 – Opportunity to improve Retail Access to Long-Term Assets Through Investment Fund Product Structures ("**the Proposal**"), which sets out a proposal seeking to enhance the experience of individual investors and to foster conditions for capital formation and innovation in both public and private markets. We welcome the opportunity to engage with the OSC and industry participants on this very important initiative.

Northleaf Capital Partners ("**Northleaf**") is a global private assets investment firm focused on investing in private middle-market companies and assets. We have a long-term track record as an investor in private equity, private credit and infrastructure in developed markets worldwide. We are a global firm with strong Canadian roots, and we serve some of the world's leading institutional investors and family offices.

Northleaf's history goes back to 1969 and we have been active private market investors ever since. Northleaf now has more than US$28billion of private equity, private credit and infrastructure commitments under management, 260 employees across 10 global offices and over 275 global investors including some of the largest pension plans in North America and many family offices. Northleaf's global private markets portfolio includes more than 500 active investments in more than 40 countries. Northleaf is headquartered in Toronto, Ontario and is registered with the OSC as a portfolio manager, investment fund manager and exempt market dealer. Individual investors access our asset management capabilities through our institutional programs (directly) as well as retail-specific structures such as the Mackenzie Northleaf Offering Memorandum or Interval Funds.

Institutional investors have benefitted from having access to, and investing in, alternative assets for many years. Estimates state that institutions allocate anywhere from 10-53% of their portfolios to alternative assets and individuals allocate only 0-3%. We strongly support providing greater accessibility to private assets for advisors and individual investors to help them achieve their investment goals. Education of the benefits, suitability and terms is critical to broaden use of private assets and Northleaf is committed to playing a role in furthering knowledge in this regard.

Traditionally, institutions accessed private markets through closed-end or fixed-term structures. These funds typically have fixed terms of approximately 10 years, high minimum investment levels, no liquidity/redemption rights, and call capital on an as needed basis. Although there is a role for fixed-term or closed-end products with certain investor categories, we believe that open-ended/evergreen product structures offer the best way for the majority (by number) of retail investors to access the private markets given lower minimum investment levels, access to seeded asset portfolios (which eliminates the j-curve), no or low number of capital calls, structured liquidity options to redeem at certain intervals (subject to certain restrictions) and robust valuations. As such, we focus our comments on the Proposal below on open-end structures.

Please find below our thoughts on the questions that you provided. We do wish to highlight up front two areas of the Proposal that cause us significant concern in practice and that we believe will hinder the objective of improving retail access to Long-Term Assets:

1. The CIV requirement. We do not agree that the CIV requirement is the best way to ensure alignment between the retail investor and the portfolio manager, or to ensure fairness vis a vis institutional investors. This is especially the case with new CIVs where practical difficulties exist, such as having sufficient scale in the CIV to allow the OLTF to efficiently invest in the structure. Other issues such as matching of liquidity in the OLTF and the CIV (especially where the CIV is a fixed term fund), inability to directly invest and percentage ownership restrictions make the structure unworkable.

2. The Cornerstone Investor concept. Again, we see difficulty in obtaining Cornerstone Investors in a new CIV, without introducing provisions to entice such investors and these provisions would not be available to retail participants. Many institutional investors will prefer to make investments in Long-Term Assets through traditional structures and not be subject to the features of a CIV, including top ups to remain at the mandated 10% ownership level as the CIV grows.

We therefore urge the OSC to reconsider the approach of requiring CIVs and Cornerstone Investors and instead to permit the portfolio manager to set and disclose investment objectives, use its care, skill and experience in managing the assets as a fiduciary and ensure alignment of all interests through existing methods such as performance fees and general partner commitments (principal investments alongside third-party investors).

Thank you once again for the opportunity to engage in this timely and beneficial dialogue.

Sincerely,

Nadim Vasanji
Managing Director

Q1. Do you agree that retail investors could benefit from increased access to Long-Term Assets? Please explain.

Retail investors can benefit from increased access to Long-Term Assets. They provide the opportunity to diversify portfolios, reduce correlations to public markets, allow access to companies not available on stock exchanges, lower overall volatility, hedge against inflation and potentially earn excess returns over public equities.

Broadening the investable universe for retail investors can assist portfolio diversification. 90% of companies in the United States are private, including 97% in the $100 million - $500 million revenue range and 90% in the $500 million - $1 billion range (Northleaf Market Outlook - Capital IQ/NAIC).

The public markets are shrinking. In the US, over the last 17 years, there has been 50% less listed companies falling from over 5,000 to just 2,500 (Northleaf Market Outlook – Pitchbook, Capital IQ/NAIC). Many listed companies are going private again and private companies are staying private for longer since they can access private growth capital without being subjected to the quarter-to-quarter earnings demands of the stock market, and the higher costs of listing. In fact, global IPOs fell by 45% from 2021-2023 (Bain). By remaining private, companies can take long term views on what is best for the company. Retail investors should be able to participate in these market opportunities.

Traditional structures made it difficult for retail investors to participate. Institutional investors have the ability to invest in illiquid structures and not worry about accessing their capital for long periods of time. They earn a premium, known as the “illiquidity premium” in return for this patience. Retail investors do want to have access to more liquidity and therefore “semi-liquid” products that are easier to access and that provide some liquidity are appropriate in this channel.

Q2. 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. Most current structures make it difficult for advisors and investors to access Long-Term Assets. Many advisors and investors believe that the volume of documentation required to purchase products offered under Offering Memoranda (“**OM**”) is cumbersome and a disincentive to develop that part of their practice/portfolio. Creating a prospectus offered product should assist in reducing on-boarding frictions and making the experience better for investors.

In addition, OM products are only available to accredited investors, which reduces the number of retail investors who may be able to benefit from the investment merits of Long-Term Assets, where suitable.

We note that other jurisdictions have recognized the need for different product structures to broaden retail participation, such as Europe with the European Long-Term Investment Fund and the UK with the Long-Term Asset Fund. Many of the institutional providers of high-quality private asset capabilities are not set up to easily deal with retail investors, and so having retail structures that facilitate the use of existing institutional structures could be advantageous.

Terms in a retail product structure will mitigate some of the risk of holding illiquid assets as (i) investors will be able to access redemption rights (which necessarily will be subject to certain restrictions as needed by portfolio managers to manage illiquid assets), (ii) the prospectus will disclose the liquidity risks of the product and (iii) the majority of these products will be distributed through registrants with obligations of suitability or duties of a fiduciary.

Q3. What else could be done to increase retail investor interest in specific types of Long-Term Assets?

We believe that the most critical aspect of increasing retail investor interest is education on the benefits that Long-Term Assets can provide to a portfolio, as set out above, and how adding them can help advisors and individuals meet their financial goals. Northleaf is committed to continuing to provide this education to advisors and investors.

Advisors can also benefit from education on the differences in characteristics of asset classes, how to use them in a holistic view of portfolios and liquidity management.

We would also add that to increase interest and enhance access, retail investors should be permitted to hold OLTFs in registered plans such as registered retirement savings plans. Registered plans generally are invested for long-term horizons and are suitable for private assets that have longer term durations and have the potential to benefit investors holding for longer terms through the illiquidity premium.

Q4. 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 believe strongly that fund structures should not limit investments in terms of geographies. Mandated concentration in a geography could restrict investments and benefits of scale, hurt returns and impair the benefits of diversification to an investor's portfolio. In addition, we need to manage liquidity in a retail fund and placing restrictions on investments could impact ability to do so. Finally, mandated restrictions will make the structures less appealing to institutional/Cornerstone Investors. If the market exists for geographically (or other) specialized funds, investment managers would not be prohibited from creating these funds and distributing them with clear disclosure.

Q5. 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.

An OLTF will be required to clearly disclose the investment objective, strategy and risks, therefore there should be no restrictions on certain types of investments and the disclosure should allow advisors and investors to understand the focus of the fund's investments/objectives and the associated risks and make investment decisions on that basis.

Q6. 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.

We believe that the restriction to 10% of voting/equity in an investment, not exercising control, is fine for public investments where the investment manager is essentially a passive holder of company stock. However, this limitation should not apply to private assets, particularly if applied on a look through basis and especially where exercising control enhances the operational performance, therefore resulting in potential increased returns. This ability to influence the operations of a company is critical to private investments where the expertise of the manager is utilized to enhance returns to investors.

(ii) OLTFs being subject to their own unique regulatory requirements.

Yes. OLTFs could have their own requirements, or they could be provided exceptions from existing ones. There will be issues that impact private assets only that will need to be considered through appropriate disclosures. In addition, consideration will need to be given to timelines for delivery of financial statements. Underlying funds will have different reporting requirements than the OLTF and as a result, exemptive relief may need to be sought to extend the current requirements of 60 days for interim periods and 90 days for annual financial statements – we recommend that this be clarified in the regulations rather than OLTFs being required to seek relief each time.

(iii) OLTFs distributing units through a prospectus-qualified offering.

Yes. This will provide greater protections to retail investors as the offering will be brought under the regulations applicable to prospectus offerings and allow for wider distribution. If accompanied with greater ease of on-boarding for investors through regular prospectus documentation, this will also serve to increase retail adoption.

(iv) The impact of OLTFs being only distributed to Ontario investors.

Our preference is to have national distribution/regulation, but we support Ontario's initiative in proceeding now. Hopefully other jurisdictions will follow. Scale is of great benefit in private asset programs – given the cost of structuring funds and transactions. Getting investment programs to scale or investing alongside at scale programs is critical and having a larger potential investor base will help the OLTF get to scale.

In addition, we believe that OLTFs should be allowed to list on public exchanges to provide greater access and broaden the base of potential investors.

(v) OLTFs being either fixed-term or evergreen investment funds.

We have focused our comments on evergreen funds for retail investors.

(vi) The proposed CIV requirement.

We understand the OSC's intention is to have institutional investors investing alongside retail investors. This is a worthy objective. As mentioned above, however, we strongly believe that the CIV requirement is unworkable, especially with newly established CIVs, and that there are alternatives that can be put in place to ensure appropriate investor alignment. A newly established CIV will not have large scale and if the OLTF is limited to only investing 10% into it, the magnitude of initial investment will be quite small, making marketing and sales activities difficult until the CIV reaches appropriate scale. With existing CIVs, it will be difficult to layer a semi-liquid OLTF on top of a closed-end fund that does not provide matching liquidity. It is not insurmountable, however, does require a thoughtful approach to a liquidity sleeve at the OLTF level as there must be capital available for redemptions and future capital calls of the underlying closed end CIV.

In addition, we do not believe that an OLTF should be restricted to only investing into a CIV. The OLTF should be allowed to invest directly into Long-Term Assets and in this regard, if the OSC wishes the comfort of institutional investors, it may be a requirement that a Permitted Client be a co-investor.

The requirement that each CIV have a Cornerstone Investor, holding at least 10% of the CIV's equity and that is a permitted person under section 1.1 of National Instrument 31-103, may also be difficult to achieve in practice, especially with new CIVs. Getting an institutional investor to participate may require providing that investor with incentives that may not be applicable to retail investors. It is not clear whether the 10% requirement allows for one investor or a group of Cornerstone Investors, however having just one Cornerstone Investor at 10% would be difficult to attain, so we would ask that this be clarified in the Proposal. If the CIV grows in size, and the Cornerstone Investor is required to allocate more capital to remain at 10%, this adds further disincentive.

Cornerstone Investors may also have different tax attributes than other investors and may prefer investing in a structure that is not a taxable corporation.

To achieve the policy objective, we believe that investors should take comfort in the investment manager's fiduciary obligations, experience, track record and reputation. By having performance fees, the manager's interests will be aligned with that of the investor. The concept of the manager/general partner investing in the fund alongside other investors is well established in the private assets space and has long provided comfort on alignment of interests, therefore some requirement for the investment manager to also invest in the fund would add further alignment.

If the CIV concept is to be required, we do not believe further restrictions, such as the OLTF only holding 10% of a CIV, and not allowing ownership of greater than 10% of a private investment, particularly on a look through basis, need to be imposed. Limiting OLTF ownership of CIVs to only 10% will result in difficulty having enough underlying CIV opportunities to invest into. It should be noted that restricting OLTFs to only 10% of a CIV will also rule out the creation of "fund of one" products, which we have found to be helpful to meet the bespoke structuring requirements of offering superior retail access to private assets. Finally, in our experience our underlying funds have many institutional investors and that should provide comfort to retail investors, even if any one particular institution does not own more than 10%.

(vii) OLTFs within a fund-on-fund structure under an investment fund subject to the requirements of NI 81-102.

We agree this should be permitted. Understanding that this would require participation of CSA partners, ability to invest in OLTFs will provide greater flexibility for investors in mutual funds, alternative mutual funds and NRIFs to gain access to the benefits of Long -Term Assets.

Q7. Are there other overview elements the Proposal should consider? Please explain

The Proposal should acknowledge that there will be related party transactions. As an example, it is critical that the OLTF be permitted to invest in existing investment vehicles where the manager of the vehicle is the same as (or an affiliate of) the manager of the OLTF. This would support scalability and the building of and access to a seed asset portfolio.

In the case of the OLTF being subject to confidentiality requirements, especially with respect to material non-public information, the manager should be permitted to redact or not include such information in documents such as the MRFP. This would also apply to contractual requirements of confidentiality.

The Proposal does not address custody and we would suggest that custodial requirements for the OLTF would not be practical given standard institutional private market practice.

Q8. Do you agree that these are threshold issues? Are there any other threshold issues? Please explain.

(i) Fee Disclosure.

Transparency on fees will be important to advisors and individuals as they assess suitability.

(ii) Disclosure.

Please note that in certain circumstances the private asset manager may be precluded from divulging the name of investments, for example, if restricted contractually by a General Partner from disclosing. This will need to be addressed.

Q9. Please explain your views on each of the following redemption features:

(i) Frequency.

Agree that OLTFs should be able to consider redemption frequency between no more frequent than monthly and no less frequent than annually.

(ii) Discounts.

Agree that redemptions could be permitted at a discount to NAV, although in practice this does not happen in open-end funds unless it is during a “lock up” period or other such situation, and that investors can be charged actual costs to administer a redemption.

(iii) Caps.

Agree that a minimum 10% cap on annual redemptions is appropriate.

(iv) Notice.

A 30-day maximum notice period is onerous from an operational standpoint and 90 days would be preferable to allow for operational aspects and liquidity management.

(v) Payment.

It would be very difficult to pay redemptions out within 15 days of valuation date. Payments are typically based on NAV and therefore can only be processed once the NAV is finalized. Depending upon the asset class, timing may differ, so we would recommend that payout be within 10 days after the NAV is issued.

(vi) Suspensions.

Agree there should be ability to temporarily suspend redemptions when in the best interests of the fund. This ability to suspend redemption protects the value of the fund for both redeeming and continuing investors. With respect to the Proposal that an extension of the suspension beyond a "temporary period" require OSC approval, that is fine; however, forcing the winding up of the fund if annual redemption requests exceed the cap for two consecutive years seems detrimental to the management of the fund. The portfolio manager should be able to determine the best path forward in terms of managing the fund within their fiduciary duties and in the best interests of investors/the fund. Perhaps setting this out in the disclosure documents would be beneficial – and the portfolio manager could choose to put a specific term in or leave it open to discretion.

Q10. What are the minimum redemption restrictions OLTFs would need to effectively manage their liquidity?

10% annually, with flexibility to determine monthly/quarterly limits is fine, combined with ability to suspend temporarily in the best interests of the fund.

Q11. Could there be investor demand for fixed-term OLTFs that do not offer any or very restrictive redemption rights to their securityholders? Please explain.

We have focused our responses on open-end structures.

Q12. Are there other redemption issues the Proposal should consider? Please explain.

We need to ensure that the timelines proposed allow for sufficient time to be ready operationally to manage liquidity, calculate NAV and properly distribute redemption proceeds. We also need to ensure the ability to hold back final redemption proceeds of up to 5-10% pending year end audit.

Q13. 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, requiring more frequent NAV calculations would be difficult for illiquid assets and operationally onerous/expensive. Given the policy goal of having retail investors invest alongside institutions, harmonizing OLTF standards and institutional market standards would be favourable. Please note that at times certain financial reporting timelines may be difficult to meet – especially where we are awaiting information regarding portfolio valuations of investments held through a Limited Partnership structure. Please also see our response to Q6(c) in this regard.

Q14. Please explain if any of the following mitigate the difficulties of calculating fair and reasonable NAVs for Long-Term Assets:

(i) Experienced IFMs.

Yes, especially if the IFM has a track record of successfully managing illiquid assets and a history of providing accepted valuations.

(ii) Independent boards of directors (or an independent review committee with enhanced supervisory powers additional to reviewing conflict of interests).

An independent board would be costly and onerous to implement and we would prefer that the requirement be for an Independent Review Committee under National Instrument 81-107.

(iii) Cornerstone Investors.

Please see above comments on Cornerstone Investors. Also, please note that most institutional investors will not likely be directly involved with NAV issues as they tend to be passive investors.

(iv) Independent valuators.

We agree that some level of independent valuation for open end funds will help mitigate the difficulties. Rather than mandating a minimum level of independent valuation though, we recommend that it be left to the portfolio manager to implement a thorough and vigorous valuation process that includes approval by an internal valuation committee with sufficient knowledge and independence from the investment team and augmented with external independent valuations as needed. There will be variability as to what is an appropriate level of external independent valuation for different types of private asset classes, different investment strategies, and different risk levels, so we recommend against a one-size fits all approach. Conducting a full independent valuation would be time consuming and not cost/benefit effective, especially for private equity and infrastructure asset classes, although we would be supportive of an independent audit of the valuation process undertaken by the portfolio manager. It must also be kept in mind that, especially in private equity, it is difficult to get all valuations of portfolio companies in short time frames and certain assets may be too difficult or costly to engage a third party to value.

Q15. Are there other valuation issues the Proposal should consider? Please explain.

No additional comments.

Q16. 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?

We strongly recommend the flexibility of the OLTF being organized as a trust or partnership, as well as the proposed corporation – although we highlight that a corporation likely would not be the most tax efficient vehicle, thus reducing the attractiveness of an OLTF from an investment perspective.

We also believe that an independent board would be expensive, too broad in scope and onerous with not much additional governance provided. Instead, we recommend an Independent Review Committee under National Instrument 81-107.

Q17. Are there other monitoring, review and governance requirements the Proposal should consider? Please explain.

No additional comments.

Q18. Should the Proposal require a new form of Fund Facts for OLTFs? Please explain.

We agree with the principles set out in NI 81-101 that the Fund Facts document should be in plain language, be concise and highlight key information for investors. We do believe that some revisions to NI 81-101F3 will be needed to accommodate for differences between mutual funds and OLTFs and perhaps could provide an opportunity to educate investors about the private asset class that is the subject matter of the Fund Facts Sheet.

Q19. Should the Proposal require a new form of MRFP for OLTFs? Please explain.

The OLTF disclosure should conform with the work being completed under the Proposed Modernization of Investment Fund Continuous Disclosure Regime as part of reducing unnecessary regulatory burden. It is important to note here that in some instances the portfolio manager may be prohibited contractually from disclosing actual names of portfolio holdings/investments. Please also see our response to Q7 in this regard.

Q20. Are there other disclosure requirements the Proposal should consider? Please explain.

No additional comments.

Q21. Please explain your views on each of the following investment restrictions:

(i) Minimum level of Long-Term Assets.

Rather than mandate a minimum level of Long- Term Assets, we recommend it be left to the portfolio manager to determine and will be appropriately disclosed. There will be variability to what is appropriate for different types of private asset classes, different investment strategies, geographies and risk levels so we recommend against a one-size fits all approach.

(ii) Minimum level of liquid assets (maximum level of Long-Term Assets).

Rather than mandate a maximum level of Long-Term Assets, we recommend it be left to the portfolio manager to determine as part of liquidity management and will be appropriately disclosed. Similar to the response above, the investment objectives and strategy should be clearly disclosed, and the portfolio manager should have the discretion as to how best to achieve the objectives and strategy.

(iii) Concentration restrictions for evergreen OLTFs investing in pools of Long-Term Assets.

We believe that the concentration restrictions of not more than 10% of the NAV being invested in any one asset, particularly on a look through basis, is not appropriate when we are dealing with private assets, we would prefer that it be left to the manager's discretion – most funds will likely have diversification built in at any rate. We do have some concerns around an OLTF only being able to hold a maximum of 10% of a CIV's equity. This could require the OLTF to hold a number of CIVs and increase the complexity of the investment process, and we would prefer that there be no restriction.

(iv) Concentration restrictions for fixed-term OLTFs investing in infrastructure or other development projects.

We have focused our responses on open-end structures.

(v) Concentration restrictions if there is a CIV requirement.

Please see (iii) above.

(vi) Limitations on debt, leverage, the use of specified derivatives, securities lending transactions and purchase or repurchase transactions.

We would propose that the manager be permitted to determine the levels and use of debt and leverage in the fund for greater flexibility. Clear disclosure will allow advisors and investors to understand this fully. This would allow for greater ability to reduce cash drag in the fund and some funds may wish to curate an optimal risk/return profile using debt/leverage. Use of derivatives only for hedging is fine. In addition, we would recommend that the borrowing limits not apply during the ramp-up period to allow for portfolio managers to have greater flexibility in the early part of the OLTF deploying capital. Finally, please note that there may be instances where the lenders to a CIV may require the OLTF to be jointly and severally liable with respect to indebtedness with the CIV and in those instances the OLTF would need flexibility with respect to the use of debt and leverage.

Q22. Are there other investment restrictions the Proposal should consider? Please explain.

No additional comments.

Q23. 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?

If an investor is purchasing through a dealer overseen by CIRO, a portfolio manager registered with the Canadian securities regulators, an exempt market dealer or a mutual fund dealer that distributes alternative mutual funds, the determination of suitable percentage ownership of Long-Term Assets should be left for their determination in accordance with suitability requirements. In this regard, the OLTF should be incorporated into the mutual fund framework of risk determination. The test should be the assets held in the fund, not the fact that the fund is "liquid" or "illiquid". If an investor is purchasing through an order-execution-only channel, we would support a statement that "holding more than 10% of investments in Long Term Assets may be highly risky and not advised".

(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?

OLTFs should be available through order-execution-only channels with the investor being provided specific disclosure/requiring an acknowledgement that holding more than 10% of investments in Long Term Assets may be highly risky and not advised, that investing in OLTFs is generally not appropriate for investors with short term investment horizons or that need the ability to liquidate their investment on demand.

Q24. Are there other distribution matters, specifically other investor protection mechanisms, the Proposal should consider? Please explain.

Distribution should be allowed by purchasing through a dealer overseen by CIRO, a portfolio manager registered with the Canadian securities regulators, an exempt market dealer or a mutual fund dealer that distributes alternative mutual funds. Clarity will need to be provided on what designations/licensing may be required.