THE INVESTMENT FUNDS INSTITUTE OF CANADA | L'INSTITUT DES FONDS D'INVESTISSEMENT DU CANADA

February 21, 2025

Delivered By Email: comments@osc.gov.on.ca

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

Dear Sirs and Mesdames:

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

IFIC is pleased to provide the Ontario Securities Commission (**OSC**) with our comments on OSC Consultation Paper 81-737 – Opportunity to Improve Retail Investor Access to Long-Term Assets through Investment Fund Product Structures (**Proposal**).

As the voice of Canada's investment funds industry, IFIC brings together approximately 150 organizations, including fund managers, distributors and industry service organizations, to foster a strong, stable investment sector where investors can realize their financial goals. IFIC operates on a governance framework that gathers members' input through working committees. The recommendations of these working committees are submitted to the IFIC Board or board-level committees for direction and approval. This process results in submissions that reflect the input and direction of a broad range of IFIC members.

SUMMARY

IFIC commends the OSC for its efforts to improve retail investors' access to long-term illiquid assets (**Long-Term Assets**) and supports the Proposal's objectives, including:

- the mitigation of some risks associated with investing in Long-Term Assets,
- enabling retail investors to benefit from the expertise of Investment Fund Managers (**IFMs**) and Portfolio Managers (**PMs**) and
- providing a potential source of additional investment capital for Long-Term Assets.

We also support the OSC's decision to base the Proposal on an investment fund structure. This approach may help retail investors understand the Proposal's structure more readily. This may enhance retail investor interest in the OSC's proposed Ontario Long-Term Fund (**OLTF**) structure, which would be a new class of investment fund designed to accommodate investments in Long-Term Assets.

Notwithstanding IFIC members' broad support of the Proposal, our members also identified regulatory, structural and market related concerns, some of which could negatively impact the success or viability of the proposed OLTF structure. We highlight and discuss the most material of these concerns below in the Key Issues section of our response.

In Appendix A we provide our responses to the questions posed in the Proposal.

KEY ISSUES

Based on our review of the Proposal's objectives, regulatory and structural requirements, threshold issues and market considerations, we have identified the following potential issues that could materially impact the success or viability of OLTF offerings. We raise these issues to support the OSC's development of the regulatory proposal in the next phase of this important initiative.

- ***Prescriptive Nature of the Proposed OLTF Structure***

  To mitigate some of the risks that retail investors will be exposed to if they invest in OLTF securities, the OSC has proposed a comparatively complex structure in which retail investors in the OLTF acquire exposure to Long-Term Assets indirectly, through a series of transactions, as follows:

  - Collective Investment Vehicles (**CIVs**) and their mandatory cornerstone investors (**Cornerstone[1] Investor(s)**) directly invest alongside each other in Long-Term Assets,
  - OLTFs, which cannot directly invest in Long-Term Assets, purchase up to 10% of a CIV's equity, acquiring indirect exposure to the CIV's portfolio of Long-Term Assets, and
  - Ontario-resident, retail investors purchase prospectus qualified OLTF securities, acquiring indirect exposure to Long-Term Assets held by the CIVs

  (collectively referred to as the **Structure**).

  The Proposal requires the OLTF to be a corporation based on the nature of the Long-Terms Assets held by an OLTF, and related tax considerations, but a corporation may not be the optimal structure for an OLTF. Therefore, other vehicles, including but not limited to, trusts and limited partnerships should be allowed as well, at the discretion of the IFM.

  While we commend the OSC for its desire to mitigate retail investor risk exposure, we find the Structure to be very prescriptive, particularly given that this initiative is in its infancy. In our view, this has led to the development of an investment fund structure that is unnecessarily complex and costly and that will be challenging to implement and operate. We therefore urge the OSC to consider how the Structure can be revised to provide greater flexibility in how OLTF offerings can be structured and operated, in recognition of the expertise that IFMs and PMs bring to their roles and the unique characteristics of each OLTF offering.

- ***Cornerstone Investor Requirement***

  One of the most significant examples of the Structure's prescriptive nature is the Cornerstone Investor requirement, which we note is not required by either the UK's or the EU's retail-oriented Long-Term Asset Fund structures. We strongly oppose this requirement because we have major doubts:

  - whether there will be sufficient demand, or even willingness, from institutional investors to assume Cornerstone Investor roles within OLTF offerings, given the constraints on Cornerstone Investors' ability to exit the CIV,
  - if the presumed benefits of Cornerstone Investors, which are not substantiated in the Proposal, will materialize and if they do, whether they will justify the incremental costs and complexities they may create, and
  - whether Cornerstone Investors' expertise will add to, or simply duplicate, the expertise and experience provided by the IFMs and PMs, which:
    - have the authority and responsibility to manage the OLTF and the selection of the assets held by the OLTF, respectively, and
    - owe a fiduciary obligation to the OLTF and its investors.

  We therefore recommend that the OSC eliminates the mandatory use of Cornerstone Investors but provides IFMs with the flexibility to include Cornerstone Investors in an OLTF if the IFM believes that

[1] Cornerstone Investors must meet the definition of a "permitted client" under NI-31-103 and must hold at least 10% of the CIV that it is investing alongside.

the Cornerstone Investor will be beneficial to the OLTF's security holders.

On a related note, if the OSC accepts this recommendation, we correspondingly recommend that it also eliminates the mandatory use of CIVs but provides IFMs with the flexibility to use one if they so choose.

- ***Potential Issues That Could Negatively Impact the Success of OLTFs***

  Based on the Proposal's objectives, regulatory requirements, threshold issues and market considerations, we believe the following issues could negatively impact the viability of the proposed OLTF structure:

  - *Market Limited to Residents of Ontario*:

    The nature of the assets that an OLTF would hold, as well as certain product features of the OLTF would not comply with the current requirements of NI 81-102. While the Proposal suggests creating a new investment fund category, the OLTF, it is not clear if the OSC intends to amend NI 81-102 or take another approach. If NI 81-102 is not amended or another national instrument is not created, OLTFs could only be sold to Ontario residents. We are concerned that restricting the potential market for OLTFs solely to Ontario may undermine their viability.

  - *Fund of Fund Purchase Eligibility:*

    IFIC members believe that, if permitted, funds-of-funds could be major buyers of OLTFs. Currently, NI 81-102 prohibits top funds in fund of fund structures from purchasing other investment funds that are not subject to NI 81-102 (**Prohibition**). If the OSC were to provide regulatory relief, this would be helpful, but only for distributions limited to Ontario, thereby leaving the limited market issue raised above unaddressed. This could be resolved by making OLTFs subject to NI 81-102, which would entail the CSA's engagement. Otherwise, the Prohibition could negatively impact the viability of OLTFs, particularly in the short term.

    The Proposal's requirement that OLTFs invest in Long-Term Assets indirectly by purchasing securities of CIVs could create a second hurdle for funds-of-funds investing in OLTFs. Specifically, in scenarios where a CIV is an investment fund itself. In that case the top fund, OLTF and CIV would represent three tiers of investment funds, which are not allowed under NI 81-102.

    Resolving these issues will require significant revisions of NI 81-102 or exemptive relief. Given the fundamental hurdles these issues create, we recommend that the OSC pursue this initiative on a multi-jurisdictional basis to advance it nationally. We note that certain Canadian securities regulatory authorities have granted exemptive relief to permit investment funds, subject to NI 81-102, to invest in prospectus exempt products that are analogous to the proposed OLTF.

  - *Registered Plan Eligibility*:

    The Structure's requirement that OLTFs be structured as corporations may create tax inefficiencies. In addition, it's unlikely that a corporation will meet the *Income Tax Act* (Canada) criteria to be considered a qualified investment for registered plans such as RRSPs, RESPs, or TFSAs. These tax considerations may limit investor interest and undermine the viability of OLTFs. We strongly recommend that the OSC consult with the Department of Finance to ensure that the securities and tax regulations work harmoniously to promote retail exposure to long-term assets. IFIC would be pleased to assist the OSC in facilitating this discussion.

    Given the materiality of these issues and their potential negative impact on the viability of OLTF offerings, we urge the OSC to consider revising the Structure to the extent required to proactively address these challenges.

  - *Retail Distribution:*

    Based on IFIC staff's discussions with members who distribute investment fund products (**Member-Distributors**) we determined that there is a range of opinions amongst Member-Distributors regarding their respective levels of comfort distributing OLTF offerings to retail investors, given the inherent risks that Long-Term Asset exposures pose to retail investors, notwithstanding the potential investment benefits. While our discussions were not exhaustive, opinions varied amongst the Member-Distributors. Member-Distributors identified suitability

issues and acknowledged that the potential liability of distributing OLTFs may dissuade them from making OLTFs available on their “retail shelves”. OLTF offerings will be assessed on a case-by-case basis.

IFIC recommends and would welcome the opportunity to collaborate with the CSA, CIRO, and industry stakeholders on the development of a voluntary education program for advisors and retail investors that would focus on educating these groups on the OLTF structure, including its benefits, risks and unique characteristics.

- *Complying with Financial Reporting Deadlines:*

  OLTFs will face significant challenges meeting their semi-annual, annual and other financial reporting obligations, which will require:

  - determining the fair value (**FV**) of an OLTF’s Long-Term Assets, an inherently complex, lengthy, and costly process that often takes more than 60 or 90 days to complete for semi-annual and annual financial statements, respectively, and
  - obtaining audited financial statements, which require FV information

  Given these challenges, preparing and filing an OLTF’s financial statements within 60 or 90 days of the financial period's end will be difficult. Therefore, the OSC should consider extending the financial reporting deadline for OLTFs to address these valuation and audit-related issues.

- ***Alternatives Considered***

  IFIC members have questioned whether creating a new OLTF category is the most efficient and effective way to achieve the objectives set out in the Proposal, particularly the objective of enhancing retail investor access to Long-Term Assets. We are concerned that the Structure’s success is dependent on amendments to NI 81-102 or exemptive relief and we recognize amendments would require Canadian Securities Administrators’ (**CSA**) cooperation. Given that these amendments could take several years to finalize, it would be helpful to understand whether the OSC has considered alternative approaches to addressing these issues and if so, what those alternatives were. For instance, has the OSC considered issuing exemptive relief to achieve the OSC’s objectives in the interim? We believe that leveraging that approach would facilitate other CSA members collaborating with the OSC on this initiative, which may potentially reduce the timeline to implementation.

*****

CONCLUSION

IFIC is pleased to have had this opportunity to provide our comments on the Proposal. Please feel free to contact me at amitchell@ific.ca. I would be pleased to provide further information or answer any questions you may have.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

By: Andy Mitchell
President & CEO

APPENDIX A

Responses to Questions Posed in Ontario Securities Commission Consultation Paper 81-737 - Opportunity to Improve Retail Investor Access to Long-Term Assets through Investment Fund Product Structures

The Proposal

A. Objectives

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

A1. IFIC members agree that retail investors may potentially benefit from increased access to Long-Term Assets, based on the following:

- Diversification: Long-Term Assets such as real estate or infrastructure can offer retail investors diversification beyond traditional investments. Diversified portfolios help to spread risk and reduce the impact of volatility from any one asset class, potentially leading to more stable returns over time.
- Potential for Higher Returns: Long-Term Assets often yield higher returns compared to short-term investments through illiquidity premiums and asset appreciation. OLTFs would provide retail investors with an opportunity to access these potential benefits that currently are limited primarily to accredited and institutional investors.
- Inflation Hedge: Certain Long-Term Assets have historically acted as hedges against inflation. Retail investors, who are generally more exposed to inflation risks through cash and short-term investments than more diversified institutional investors, could benefit from Long-Term Assets if they maintain or grow in value over time, even in inflationary environments.
- Compound Growth Potential: Long-Term Assets have the potential to provide compound growth over time. As such, OLTFs provide retail investors with the potential opportunity to benefit from long-term growth trends that may exist for certain Long-Term Assets in areas like technology, energy, or emerging markets.

Notwithstanding the potential benefits, Long-Term Assets also expose retail investors to material risks, including liquidity, concentration and tail event risks. Given these inherent risks, IFIC members stress the importance of ensuring retail investors and their investment advisors fully appreciate these risks and their potential impacts.

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.

A2. IFIC members believe that an investment fund-based structure for OLTFs may facilitate increased retail investor interest in OLTF products, while managing some of the risks that are inherent in Long-Term Assets. By pooling resources, diversifying investments and offering professional fund management, OLTFs that are based on an investment fund structure may provide suitable retail investors with a balanced approach to investing in Long-Term Assets, while mitigating some of the risks typically associated with this asset class. Nevertheless, an OLTF, regardless of its structure, will not eliminate the risks associated with investing in Long-Term Assets.

It is difficult, however, to determine the degree to which retail interest in OLTFs may be enhanced by using an investment fund structure as its foundation without having more detailed information relating to the OLTF's key provisions, including redemption rights, valuation, governance and oversight.

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

A3. The ability to create NI 81-102 fund-on-fund structures using OLTFs as an available investment for the top fund could provide retail clients with the necessary assurance that they can have access to Long-Term Assets, while ensuring that professional PMs are making the investment decisions of OLTFs.

Retail investors would also likely benefit from activities that raise awareness of the introduction of the OLTFs, including thought leadership and white papers that showcase the potential benefits and other investment attributes of OLTFs

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.

A4. The potential impact of requiring OLTFs to hold a minimum investment in Ontario-based Long-Term Assets is difficult to assess without a better understanding of the risk and return profile parameters that may apply to a minimum investment requirement. The degree to which this requirement may impact on an OLTF's performance or investors' interest in the offering will likely depend on a variety of factors unique to each offering. As such, we reiterate our recommendation that the OSC consider providing IFMs and PMs with flexibility to determine whether Ontario-based Long-Term Assets should be included within an OLTF offering's asset pool on a case-by-case basis.

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.

A5. Given the myriad considerations relevant to the assessment of a potential asset, the unique and often complex interactions of these considerations and the evolutionary nature of many of these factors, we do not support listing specific, prohibited investments. We suggest instead that the OSC take a principles-based approach, requiring issuers to demonstrably consider information relevant to an asset to determine whether the asset should be acquired initially, or retained, within an OLTF portfolio. To assist OLTFs perform a thorough assessment of relevant factors, we recommend that the OSC requires IFMs managing OLTFs to demonstrate that they have conducted a fulsome assessment of investment considerations, including but not limited to:

- type of asset
- location of asset
- asset's ownership details
- political or operational sensitivities related to the asset
- regulatory or legal restrictions
- liquidity of the asset
    - actual or potential cash flow of the asset
    - whether the asset is new or has a long history
    - ethical, environmental or social issues pertaining to the asset
    - actual or perceived conflict of interest arising from an investment in the asset.

B. Overview

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

A(i). IFIC members recognize the benefits of consistency between the restrictions within NI 81-102 (2.2) and parallel OLTF restrictions. This consistency would enhance regulatory clarity and certainty for fund managers and investors, as well as provide a degree of investor protection by preventing undue influence or concentration of power in the hands of an OLTF.

Given that the OLTF investment fund structure may differ from other established types of investment funds, we feel that a degree of flexibility may be beneficial, and in some cases necessary, for OLTFs to accommodate unique, Long-Term Asset driven investment strategies that may require different management structures or governance models than those designed for more current NI 81-102 investment funds. Rigid control restrictions could limit operational flexibility in certain cases.

To address this potential issue, we recommend that the OSC considers ways to incorporate a degree of flexibility into OLTF requirements that reflect the unique nature of OLTFs.

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

A(ii). While IFIC members believe that OLTFs have specific needs and characteristics, given the nature of Long-Term Assets, we do not support the creation of a bespoke set of regulations for OLTFs. As we indicated in our introduction and in our response to question 6(i) above, there are benefits to regulatory consistency between NI 81-102 and any future regulations governing OLTFs, including regulatory clarity and certainty for fund managers and investors. Toward that end, we encourage the OSC to use existing regulations where appropriate to maintain regulatory consistency, ensure regulatory clarity and mitigate the risk of creating unanticipated regulatory gaps.

(iii) OLTFs distributing securities through a prospectus-qualified offering

A(iii). Based on the Proposal's stated objectives, it's clear that one of the primary purposes of the Proposal is to broadly expand retail investor access to Long-Term Assets, beyond current offerings that are generally available only to accredited investors. As such, the distribution of OLTF securities through a prospectus-qualified offering is necessary.

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

A(iv). IFIC members oppose limiting OLTF distribution to Ontario residents. Doing so would hinder the development of the OLTF market, by limiting the capital pool, suppress the mobilization of long-term investment capital and potentially create additional compliance complexity. We urge the OSC to explore ways to expand this initiative to include as many other provinces and territories as possible to achieve the objectives described in the Proposal.

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

A(v). We support building flexibility to allow fixed-term and evergreen versions of OLTFs. We believe that offering both fixed-term and evergreen options would expand the potential market for OLTF's securities by offering retail investors an option to select the OLTF structure that best suits their investment objectives. For instance, fixed-term funds offer investors a predetermined lifespan, after which they would liquidate or wind down their investments. Fixed-term OLTFs may be more suitable for funds investing in assets with clear end dates, such as infrastructure projects and real estate developments, where there is an exit strategy within a specific timeframe and a clear timeline for return of capital. Conversely, evergreen funds would be perpetual without a predetermined termination date. While investors in the fund typically redeem their investments over time, the fund itself continues to operate indefinitely. As such, evergreen OLTFs are often more suitable for funds investing in long-term investments where the value is realized over an extended period, and where portfolio positions are easily replaceable by other assets when their terms come due or they are sold, such as certain real estate holdings and other long-duration assets.

(vi) The proposed CIV requirement

A(vi). We advise against implementing the proposed mandatory requirement to invest via collective investment vehicles (CIV) and encourage a more flexible approach to fund design. However, if the CIV requirement is retained, we recommend that the rule limiting OLTF ownership of a CIV be revised to allow IFMs the flexibility to set an OLTF's ownership limit that reflects the relevant facts, at least as this new investment fund product first enters the market. Once the market has adjusted to the introduction of OLTFs, the OSC could then consult with the industry and other stakeholders on what a suitable ownership limit should be. The OSC should also consider revisions to the restrictions around a three-tier fund of fund structure, ensuring that this requirement does not create a de facto prohibition for NI 81-102 investment funds to invest in OLTFs.

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

A(vii). IFIC members believe that the viability of the OLTF structure, particularly in the short term, will depend in large part on whether OLTFs can be held within fund-on-fund structures. Given that the Structure is based on OLTFs having investment exposure to illiquid, Long-Term Assets in a CIV, NI 81-102's current eligible investment rules would preclude OLTFs from being held by publicly issued investment funds. To resolve this issue and enable fund-on-fund structures to hold OLTFs, several provisions within NI 81-101, NI 81-102 and NI 81-106 will require revisions, including requirements pertaining to:

- Risk disclosure
- Liquidity of holdings
- Valuation frequency
- Diversification and concentration
- Financial and other reporting

These hurdles, and the fact that NI 81-101, 81-102 and NI 81-106 are national instruments, reinforce our earlier recommendation that the OSC explores ways to expand this initiative to include as many of the other provinces and territories as soon as possible to achieve the objectives described in the Proposal.

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

A7. Although we reference the issue of financial reporting in our response to Q.6(vii) above, we would like to expand on that point for the benefit of the OSC. The issue of financial reporting pertaining to Long-Term Assets, within the context of NI 81-106's financial reporting requirements, presents practical and logistical challenges to complying with these requirements. Typically, the audits for these types of investment vehicles go beyond 90 days after year-end, particularly for funds with a Dec 31 year end, mainly due to the length of time required for valuation of the Long-Term Assets; these valuations are required to be audited as part of the OLTF's year-end audit. There are two main concerns to address as it pertains to direct investing in OLTFs and through a fund of fund structure.

Direct Investment in OLTFs

- **Delayed Reporting**: If the audit of the OLTF extends beyond 90 days, investors in these funds will experience delays in receiving audited financial statements. This can impact their ability to make timely and informed decisions based on the most recent financial data.
- **Regulatory Compliance**: Delays in auditing can lead to non-compliance with regulatory reporting deadlines, potentially resulting in penalties or other regulatory actions.

Fund of Fund Structure

- **Cascading Delays**: In a fund of fund structure, the top fund would rely on the audited financial statements of the underlying OLTF. If the OLTF's audit is delayed, the top fund's audit will also be delayed. This creates a cascading effect, further postponing the availability of audited financial statements for investors.

C. Threshold Issues

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

A8. We agree that the issues identified in the Proposal are threshold issues, but suggest that the following additional issues might also be threshold issues:

- Liquidity Management: How OLTFs will ensure there is sufficient liquidity to meet redemptions while maintaining the long-term focus of the fund.
- Investor Suitability/Eligibility: Defining the types of investors for whom OLTFs may be a suitable investment, given OLTFs' long-term nature and potential liquidity constraints, may require supplemental retail investor suitability tests and/or clear regulatory guidance with respect to the obligations of dealers and advisers in connection with client investments in OLTFs.
- Fund Structure: Consideration of the potential for different fund structures (e.g., closed end vs. evergreen), which can impact how the fund operates and handles issues including liquidity, redemptions, and governance.
- Fees and Charges: Long-Term Asset funds might involve unique fee structures (e.g., performance fees, redemption fees, or management fees) that should be clearly set out to ensure transparency and fairness to investors.

i. Redemptions

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

A9. As an overarching observation, we believe that IFMs require maximum flexibility to set redemption features and investment restrictions that will meet varying investment mandates and fully reflect the features that would be accepted by the retail market. The following comments pertain only to OLTFs and are not intended to relate to other types of investment funds.

A(i). **Frequency** – In our view, given the long-term nature of assets held by OLTFs, IFMs should have flexibility to set appropriate redemption frequencies. For evergreen OLTF offerings, redemption frequencies could be limited to no less frequently than monthly and no more frequently than annually. In the case of fixed term OLTFs, however, IFMs should have the flexibility to set appropriate redemption terms, up to and including no redemption, except on the maturity of the OLTF.

A(ii). **Discounts** – We support discount redemption features based on our view that it is used primarily as a tool to manage liquidity risk, ensure fairness for remaining investors, and preserving the long-term objectives of the fund. By imposing a discount on redemptions, a fund can reduce the risk of forced asset sales, incentivize longer-term holding, protect the net asset value (**NAV**), and ensure that the OLTF can execute its strategy without disruption. This feature is particularly relevant to OLTFs given that they invest in illiquid, Long-Term Assets, where the potential for market disruptions or excessive redemptions could threaten an OLTF's stability and success.

A(iii). **Caps** – Redemption caps are a valuable tool for managing liquidity risk, maintaining a stable investor base, and protecting the interests of all investors. This is particularly so in the case of OLTFs, given their focus on illiquid, Long-Term Assets. Limited use of caps may help to ensure that the OLTF can meet redemption requests in an orderly manner without disrupting its investment strategy or forcing the sale of illiquid assets at unfavorable prices. Redemption caps also provide an effective way to manage investor expectations and deter short-term speculative behavior, aligning the interests of investors with the long-term goals of an OLTF.

A(iv). **Notice** – We support the use of notices because they facilitate liquidity management by preventing forced sales of illiquid assets, stabilize the investor base and ensure that an OLTF can continue to execute its long-term strategy without disruption. Notices also provide OLTFs with time to plan for redemptions, manage investor expectations, and ensure that redemptions are fair and orderly. Use of notices would enable OLTFs to protect against liquidity pressure, avoid market disruptions for the assets held by the OLTF, and align with investors' long-term objectives. Notice periods should be adjusted to the type of Long-Term Assets held by the OLTF, for instance liquidation of a real estate property differs from the liquidation of private debt.

A(v). **Payment** – We support the use of payment timelines as a liquidity management tool, based on the positive impact that timelines can have with respect to the preservation of an OLTF's investment strategy, ensuring fair treatment for all investors. By providing an OLTF with time to liquidate assets, manage redemption outflows, and stabilize the fund's portfolio, a payment timeline can facilitate the management of redemptions in a way that minimizes the impact on both the investors redeeming and those who remain in the OLTF. This feature would help to balance investors' liquidity needs with the OLTF's long-term goals, fostering a stable, fair, and efficient environment for all stakeholders.

A(vi). **Suspensions** – We support the infrequent use of redemption suspensions, which serve as a protective measure for both the OLTF and its investors. Suspensions are particularly helpful for OLTFs because they help to protect the OLTF from forced asset sales, market disruptions, and large-scale redemptions. Suspensions allow fund managers to maintain stability, protect the NAV, manage liquidity effectively and ensure fair treatment of all investors. While this feature may be seen as limiting liquidity in the short term, it can ultimately preserve the long-term value of the OLTF and safeguard the interests of both redeeming and non-redeeming investors.

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

A10. To effectively manage liquidity, OLTFs may require specific redemption restrictions that balance the need for investor redemption rights with the practical challenges of managing the liquidity of a fund's holdings of Long-Term Assets. Determining which redemption restrictions are appropriate for an OLTF will be influenced by the nature of the fund's underlying assets and other relevant considerations, Therefore, we recommend that IFMs be provided with flexibility to determine whether redemption restrictions are required and if so, whether any of the following redemption restrictions will be applied:

- **Reduced Redemption Frequency**
  - Monthly, Quarterly or Annual Redemptions, based on the type of Long-Term Assets held or the nature of the OLTF (e.g., fixed term vs evergreen).
  - Suspension of Redemptions, allowing the OLTF to temporarily suspend redemptions in certain circumstances (e.g., if illiquid assets cannot be sold within the redemption period) or during periods of severe market stress.
- **Notice Period for Redemption Requests**: Require investors to submit notices of redemption request in advance of their redemption request, ensuring the fund has enough time to liquidate assets or arrange for the liquidity necessary to meet redemptions. Notice periods are typically 15 to 30 days in length for the more "liquid" Long-Term Assets but can extend to longer periods (90 days) for other types of Long-Term Assets.
- **Extended Redemption Payment Timeline**: Extension of the time frame within which the OLTF must pay out redemption proceeds, particularly if liquidation of illiquid assets is required. This typically ranges from 30 to 90 days.

- **Partial Redemption Restrictions**:
  - **Limit on Redemption Amounts (also known as gating)**: Limits the amount of the fund that can be redeemed by investors or an individual investor in any given period (e.g., 5% to 10% of the fund's NAV per quarter).
  - **Pro Rata Redemptions**: If redemption requests exceed a certain threshold, the fund may allow only partial redemptions on a pro-rata basis (e.g., redeeming a proportion of each investor's request) to ensure fairness and prevent large investors from unfairly benefiting from limited liquidity.
- **In-Kind Redemptions**: Where possible, instead of cash the fund can offer in-kind redemptions where investors receive a portion of the illiquid assets held by the fund.
- **Liquidity Buffer or Cash Reserve**: Involves the maintenance of a liquidity buffer or cash reserve to meet redemption requests, designed to eliminate the need to sell illiquid assets quickly. This reserve allows the fund to manage redemptions more effectively and reduce the risk of forced sales of illiquid assets at unfavorable prices. This could, however, result in a cash drag for all investors in the OLTF and reduce the benefits of gaining access to Long-Term Assets.
- **Redemption Fees or Penalties**: Fees or penalties can be used to discourage excessive redemptions or redemptions prior to the passage of a required holding period.

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.

A11. There could be instances where there is investor demand for fixed-term OLTFs that offer no or very restrictive redemption rights to security holders. Demand for these types of offerings would depend on several factors, including an investor's risk appetite, investment objectives, and the specific structure, term and risk profile of the OLTF.

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

A12. IFIC members oppose the proposed wind-up requirement which constrains the agency of an OLTF's IFM to determine whether a fund should be wound up or not. In addition, a forced wind-up eliminates the option for an IFM to merge the OLTF with another fund, which may yield a positive outcome for investors. We urge the OSC to remove this provision from consideration.

In general, we reiterate the point we have made throughout this response letter relating to the importance of the OLTF structure providing IFMs with the flexibility necessary to ensure that all relevant factors in each situation can be reflected in the IFM's decision.

<u>ii. Valuation (NAV)</u>

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.

A13. Given the long-term nature of OLTFs we support OLTFs calculating NAV only as often as the frequency of distributions and sales/redemptions in addition to the frequency required for financial reporting periods, which would require amendments to applicable national instruments, including NI 81-106.

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

- Experienced IFMs
- Independent boards of directors (or an independent review committee with enhanced supervisory powers additional to reviewing conflict of interests)
- Cornerstone Investors
- Independent valuators

A14. While each of these parties could contribute to the mitigation of valuation challenges depending on the circumstances, we believe that experienced IFMs and independent valuators possess demonstrably greater expertise in asset valuation and should be the parties primarily involved in conducting valuations. Each OLTF should have an independent review committee (**IRC**), which is responsible for reviewing and assessing the adequacy and effectiveness of its IFM's asset valuation policy for the fund's holdings. (see A16 below).

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

A15. We note that while not all Long-Term Assets require an independent valuator, using one may be helpful, or necessary, in certain cases. Again, we urge the CSA to adopt a principles-based approach, providing IFMs with the flexibility to determine when an independent valuator should be retained.

iii. Monitoring, Review and Governance

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?

A16. IFIC recommends that OLTFs should be governed by NI 81-107 and have an IRC that carries out the role and has the responsibilities set out in that instrument.

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

A17. Given the challenges that OLTFs would have meeting the current financial reporting deadlines prescribed under NI 81-106, which we discussed in our covering letter, we recommend that the OSC extend the reporting deadlines applicable to OLTFs to address these timing challenges.

iv. Disclosure

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

A18. We believe that retail investors' familiarity with the Fund Facts document helps to ensure that key information about the OLTF information is transparent and easily understood. As such, we recommend that the Fund Facts be tailored to include additional information, as appropriate. While maintaining the existing form may be preferrable, that decision will need to be made once the OLTF requirements have been determined, and formatting options are assessed.

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

A19. We believe that the MRFP form will also be familiar to some retail investors. If no additional information is required, we recommend using the existing form. In any event, the new form of MFRP under development should have the flexibility to accommodate any new or incremental information specific to OLTFs.

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

A20. We do not have any other recommendations regarding proposed disclosure requirements.

v. Investment Restrictions

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

(i) Minimum level of Long-Term Assets.

A(i). While a minimum level of Long-Term Assets is reasonable, given the nature of an OLTF offering, circumstances may make that difficult to achieve and it would be counter-productive to force IFMs to invest in sub-optimal assets simply to comply with a minimum Long-Term Asset threshold. We recommend an alternative approach in which IFMs set a “target level” that can be deviated from if necessary. This principles-based approach provides IFMs with the flexibility to act in the best interests of OLTFs, based on the circumstances at a point in time.

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

A(ii). Requiring OLTFs to hold a minimum level of liquid assets is inappropriate. IFMs should be given flexibility to determine the appropriate holdings level, based on relevant factors, including the OLTF’s investment objectives, strategies and holdings, and redemption frequency. This approach will avoid a potential unnecessary drag on the fund’s performance when the fund’s liquid asset level is appropriate.

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

A(iii). Concentration restrictions are critical to effective management of concentration risk within an evergreen OLTF. However, IFMs should have the flexibility to update concentration restrictions based on relevant and evolving considerations.

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

A(iv). Concentration restrictions are critical to effective management of concentration risk within a fixed-term OLTF, however, IFMs should have the flexibility to update concentration restrictions based on relevant and evolving considerations.

The expectation that ownership by OLTFs in any one CIV would be limited to 10% of the CIV’s equity is unduly restrictive and would be difficult to manage, particularly where a CIV is specifically created for the OLTF. Giving IFMs the flexibility to set an OLTF’s ownership limit in the underlying CIV, at least temporarily, would likely enable more OLTFs to be launched. Once the market has adjusted to the introduction of OLTFs, the OSC could then revisit whether ownership limits should be introduced.

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

A(v). If OLTFs are structured as Collective Investment Vehicles (CIVs) concentration restrictions on the underlying investments are necessary to prevent the CIV from being overly dependent on one asset, sector, or investment style. Concentration restrictions help to balance risk reduction with the need to pursue high-return, high-growth investments, keeping a strategic focus on diversification without overly diluting potential returns. As stated above, evaluation of concentration should “look through” the underlying assets in the CIV to more effectively evaluate concentration.

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

A(vi). Limiting leveraged use of derivatives, and securities lending is crucial to ensuring that OLTFs remain within acceptable risk parameters. However, some degree of flexibility should be allowed for fund managers to enhance returns and hedge risks without exposing the fund to excessive volatility or default risk.

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

A22. We do not have any other recommendations regarding investment restrictions.

vi. Distribution

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?

A23(i). IFIC recognizes that Investment funds, as collective investments, are potentially exposed to risks related to ownership concentration, liquidity management and investor protection.

While limits are not, in our view, the best approach to mitigating all risks, they can be an effective risk management tool to mitigate potential concentration, liquidity management and investor protection risks within an investment fund that can arise when a single investor holds a disproportionately large share of a fund.

We therefore recommend that the OSC ensures that IFMs are given the flexibility necessary to use a broad spectrum of risk management tools, including limits if so desired by the fund, to effectively mitigate identified risks.

***(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*?**

A23(ii) Given the inherent risks of OLTF offerings, particularly liquidity-related risks, we agree that retail investors should receive investment advice before they can invest in OLTF offerings. This requirement would help retail investors to make informed and suitable investment decisions based on advisors' suitability, know-your-client and know-your-product obligations.

For greater clarity, we do not recommend the application of this requirement to accredited investors.

Notwithstanding that, in our view, investors would benefit from receiving investment advice before investing in an OLTF, we do not oppose retail investors having access to OLTF offerings through order-execution-only (**OEO**) channels, provided that before an OEO investor's order is accepted, the OEO investor:

- receive written disclosure information that:
  - clearly and concisely provides a description of all risks that the investor may be exposed to by investing in the OLTF, and
  - highlights the most significant of these risks (e.g., liquidity risk), as well as the OLTF's redemption rights and redemption restrictions, if any, that an IFM may in its judgement use and how these highlighted risks and OLTF features could impact the OEO investor, and
- the investors are required to review, sign and return a document acknowledging that they have received, understand and accept the risks that investing in the OLTF fund may expose OEO investors to.

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

A24. IFIC does not have any other comments relating to investor protection mechanisms at this time, but we may provide additional views to the OSC after reviewing the forthcoming regulatory proposal referred to in the Proposal.