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

The Portfolio Management Association of Canada (**PMAC**) is pleased to have the opportunity to submit the following comments on the Ontario Securities Commission's (**OSC**) Consultation Paper 81-737 on an *Opportunity to Improve Retail Investor Access to Long-Term Assets through Investment Fund Product Structures* (the **Proposal**).

PMAC represents over 320 investment management firms registered to do business in Canada as portfolio managers with the members of the Canadian Securities Administrators (**CSA**). PMAC's members encompass both large and small firms and manage total assets in excess of $3.5 trillion as fiduciaries for institutional and private client portfolios.

PMAC's mission statement is "advancing standards". We are consistently supportive of measures that elevate standards in the industry, enhance transparency, improve investor protection and benefit the capital markets.

OVERVIEW

We applaud the OSC for recognizing the potential that access to long-term assets can offer as an investment option for retail investors and to support capital raising and innovation in the province. Our members have indicated that retail investors are interested in the private market opportunities that are currently available to institutional investors, accredited investors or Canadians participating in pension plans. These assets may provide retail investors with opportunities for portfolio diversification and positive returns.

We also believe that it is important to strike a balance between these opportunities and the significant risks attached to investing in illiquid, long-term assets. With proper guardrails, these investments may be suitable for some retail investors. It is imperative that appropriate protections and parameters be implemented to ensure that retail investors are properly educated and protected when investing in such products.

As proposed, creating and then running the Ontario Long-Term Funds (**OLTFs**) will be expensive. Our members expressed concerns that the layers of complexity being proposed could erode any "illiquidity premium" that might exist. This may result in investor capital being locked up for long periods in riskier assets without any real benefit to those investors. Potentially, layers of fees could be charged by managers of the collective investment vehicles, investment fund managers, portfolio managers, independent valuators, directors or IRC members and other legal, finance and audit professionals that may be engaged to assist with the creation of such funds and ensure compliance with the framework. These costs could make the funds unattractive to registrants and investors alike. As a result, such multi-layered funds may not be attractive to the market.

Some of our members note that the available capital in the Ontario retail market may be insufficient to pursue their most attractive target assets, and that this lack of capital would make optimal diversification difficult. We question whether the increased focus on and interest in private markets will lead to smaller returns in the future, as those markets become potentially overheated with so many entrants seeking the same kinds of assets. This may also diminish the quality of issues included in the funds.

We urge the OSC to closely study the development and outcomes of funds in jurisdictions that have created similar programs, referenced in the Proposal. We note that both the UK's Long Term Asset Fund (**LTAF**) and the EU's European Long-Term Investment Fund (**ELTIF**) structures were amended following low initial uptake by investors. These amendments have been in force for over a year; we recommend that the OSC focus its review of these products on investor outcomes.

We have provided feedback on the Proposal questions below.

KEY RECOMMENDATIONS

1. Prioritize Investor Protection and Suitability

Given the higher risks posed by some illiquid investments, we are of the view that if the OLTF framework is adopted, appropriate restrictions for retail clients, such as minimum income or asset levels, investment limits and a recommendation to obtain investment advice should be considered, to provide a measure of investor protection. We also consider education to be paramount, for both investors and distributors. Fundamentally, investors need to understand what they are buying, including the higher risks posed by some illiquid investments and any redemption restrictions that may be placed on their investments. Equally, investment professionals must have the proficiency necessary to understand the unique nature of the long-term asset products they are recommending, to assess their suitability for individual clients, and be capable of explaining these products to their clients.

2. **Harmonize the Framework Across Canada**

   We believe that limiting this proposal to Ontario investors will reduce interest in establishing and distributing these products from manufacturers and distributors due to the limited size of the commercial opportunity and increased regulatory burden. These concerns might lower the amount or quality of any private-market offerings available to Ontario retail investors, which would not be in their best interest.

3. **Eliminate the Cornerstone Investor Concept**

   We do not believe that any final OLTF framework should include the Cornerstone Investor concept. This concept would be unique to Ontario, would not likely be pursued by institutional investors or pension plans and as proposed, would not provide any greater protection for investors.

DISCUSSION

Objectives

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

Private and long-term assets are already available to retail investors who qualify as accredited investors and via the Offering Memorandum (**OM**) prospectus exemption set out in National Instrument 45-106 *Prospectus Exemptions* (the **OM Exemption**) (although not available for investment funds in Ontario); These assets have the potential to outperform standard benchmarks and may provide a sound diversification option. It appears that OLTFs are intended to make long-term illiquid assets available to the non-accredited investor sector.

Whether non-accredited retail investors could benefit from such investments will depend on the costs of accessing them and their suitability, among other factors. OLTFs are less likely to be suitable investments for this segment, and then only for a small proportion of a diversified portfolio. Non-accredited investors may not have a good understanding of the features and risks of such products, and therefore investor education should be a priority. Any potential benefit to retail investors must be weighed against the risks posed by this asset class, and the danger that misinformed investors could harm their retirement savings. Mere disclosure is likely not sufficient; in general, retail investors must be appropriately educated about the nuances of investing in long-term, illiquid assets, and must understand the risks and opportunities presented by investing in this asset class.

In addition to the fund's structure and attributes, we view the proficiency of those permitted to manage and distribute the product as a fundamental consideration when designing any framework for OLTFs. From a distribution perspective, the registrant must have the proficiency to enable them to perform a detailed suitability assessment, which will require a degree of familiarity with this asset class and its inherent risks.

We are of the view that distribution of such funds should only be permitted through advised channels (and proficiency requirements or registrant category restrictions should be considered); for example, a registered adviser or portfolio manager is better able to determine appropriate amounts of exposure to their clients within a diversified portfolio.[1] As we explain in more detail below, we do not believe that retail investors should be left to "do it yourself" (**DIY**) investing in OLTFs through an order-execution only (**OEO**) platform. We are concerned that uninformed retail investors could inappropriately concentrate their portfolios with illiquid assets.

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, investment funds that are professionally managed by an investment fund manager (**IFM**) overseen by the CSA are preferable to retail investors investing directly in long-term assets.

As noted above, we believe that making these products available to retail investors through advised channels may mitigate some of the risks associated with private market investing. Among other things, retail investors may be unfamiliar with or unable to withstand the risks of investing in long-term assets, and would have great difficulty conducting the due diligence required to evaluate these assets, both because of the skills required to perform such diligence and because information is difficult and often expensive to access. Obtaining advice through a registrant could help to address this informational imbalance due to the investment professional's superior access to the relevant information and ability to assess the suitability of the investment for the particular client. However, any final OLTF framework should recognize the need to manage any conflicting interests between the fund manager and investors in the OLTF.

[1] We are aware of a private credit product offered on a restricted PM platform, which requires a minimum investment of $10,000. Investors in this product must have $50,000 in liquid assets and the product must be suitable for them.

In addition to examining the experience with similar funds in other jurisdictions, we also believe the OSC should consider how interval funds have performed in Canada, as those products also can offer access to private markets to retail investors. Although this appears to be a rapidly growing category in the United States, we are not aware of any Canadian firms other than Mackenzie Financial Corporation launching an interval fund in the almost two years since Mackenzie obtained the first interval fund novel relief from the OSC.

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

We do not believe that the OSC should attempt to increase retail investor interest in any specific asset class. While PMAC recognizes that the OSC's mandate includes fostering capital formation, in PMAC's view, the OSC should pursue this part of its mandate by creating avenues for capital formation, such as the OLTF framework, with appropriate investor protections in place. The market will determine whether these products are of interest to investors.

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 do not believe that the OSC should prescribe any minimum investment in long-term assets located in Ontario. Our members view the Ontario-specific nature of the proposed product as a potentially significant impediment. A further restriction on the location of the long-term assets could further reduce the viability of OLTFs, to the point where it might not make sense for market participants to expend the resources necessary to satisfy the additional requirements proposed for OLTFs.

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.

We believe that portfolio managers (**PMs**) are in the best position to determine which assets and which asset mix belongs in the portfolio, in order to best achieve the fund's investment objectives. Additionally, sourcing assets in private markets can be challenging, and constraints may degrade the quality of OLTF products. We therefore do not recommend constraining the type of Long-Term Assets that would be eligible for OLTFs. What "is" or "is not" considered a Long-Term Asset can also change over time, through contractual relationships, government policy, changing technology etc. and therefore a flexible and principles-based approach may be preferable. It is not clear which projects or countries are being referred to, and certain projects and countries are already restricted – there are existing restrictions with respect to investing in jurisdictions that are subject to Canadian sanctions, for example.

One possible exception relates to "Long-Term Assets under development". Due to the unique and significant risks associated with the development process, those being cash flow timing, completion timing, cost uncertainty and revenue uncertainty, the inclusion of assets under development could present a challenge to the OLTF concept. An OLTF consisting entirely of Long-Term Assets under development would likely require a unique fund structure and be closed ended, without liquidity. We recommend that the OSC examine whether a threshold limit for these kinds of assets is appropriate for including in an OLTF.

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.*

These restrictions might be problematic depending on the size of a transaction and could also prevent OLTFs from participating in any follow-on investments.

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

We agree that the unique features and risks may require unique regulatory requirements. The nature of long-term assets requires distinct regulations to encourage adequate disclosure, competent governance and sufficient investor education and protection.

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

We agree that investors and advisers should receive the full, true and plain disclosure provided in a prospectus when deciding whether an OLTF is appropriate for an investor's portfolio.

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

We recommend that the OSC work with its CSA counterparts to create a national framework for retail access to long-term assets. We believe that it is in the best interests of Ontario retail investors to have access to a broad array of high-quality private-market products. We consider it more likely that such products would be developed under a national framework for practical and principled reasons.

Practically, from a manufacturing and distribution perspective, a product only available to Ontario investors is not as commercially attractive as one available nationally. As mentioned above, limiting OLTFs to Ontario investors may inhibit the product from the start. In fact, several investment fund manufacturers and distributors have indicated to us that they do not anticipate creating or distributing OLTFs at all if they will be restricted to Ontario investors. Putting an OLTF together will require significant effort and expense, both to create systems to comply with the OLTF requirements, and to identify and negotiate agreements with Cornerstone Investors to form collective investment vehicles (**CIVs**). The size of the Ontario market may not justify the resources required to create and offer OLTFs. Additionally, market participants operating nationally would prefer to offer a product more broadly than Ontario both to capture a larger business opportunity but also to be able to scale its fund management nationally.

As a matter of principle, PMAC has long held the view that CSA members should cooperate to harmonize regulation. We believe that any final OLTF framework should be harmonized throughout the CSA jurisdictions. A lack of harmonization across Canada will create significant regulatory burden. For example, it is not clear what would happen if an investor holding an OLTF moved from Ontario to another province.

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

Our members believe that both fixed-term or evergreen investment funds could be appropriate as OLTFs. However, the Proposal does not adequately explain the framework for evergreen OLTFs. Evergreen investment funds are different enough from fixed-term funds as to potentially require a specific framework unique to evergreen funds.

For example, the Proposal does not seem to contemplate a process or framework for capital calls. A capital call is where the fund manager demands the promised capital from investors over time, usually to pay for new investments as they arise, or for fund expenses. These arrangements may be employed in an evergreen fund, and are typically beneficial to investors, who retain the flexibility to invest their capital elsewhere until it is called. While the IFM would collect capital from retail investors for certain projects up front, it would not ordinarily commit the full amount to those projects immediately, and should retain the flexibility to invest in short or fixed-term investments until the capital is called. The Proposal is silent about this and other features of private market investing.

Additional complexity can also arise when the Long-Term Asset is still in its development period and is not yet income-producing. The timing of cash-flows required to fund development costs, the uncertainty related to the final cost of the project, the final completion date and future revenue will all contribute to influence the structure of the investment fund. Assets that are under development also provide very limited liquidity, therefore requiring very restrictive redemption terms for investors.

(vi) The proposed CIV requirement.

PMAC members question whether the CIV requirement is appropriate or practical for the OLTF framework. We note that neither LTAFs nor ELTIFs have this requirement. We also note that some retail investors may, if their pension plan becomes a Cornerstone Investor, already be indirectly participating in an OLTF, so further direct participation may add to the concentration of risk of their retirement portfolio. We have discussed the Proposal with institutions that could be Cornerstone Investors as described in the Proposal and learned that pension plans or other large institutions would be unlikely to participate in a CIV with an OLTF. These institutions highlighted to us how the specific requirements and expectations of institutional investors with respect to investment restrictions, redemption rights, fees, and other matters would not be attractive to those investors. These concerns are described below.

Investment restrictions

Institutional investors typically negotiate side letters to provide them with specific opt-out rights or place restrictions on the types of investments that the institution will participate in; for example, the institution might opt out of investing in fossil fuels. The Proposal is not clear about whether a CIV would be restricted to the Cornerstone Investors' investment requirements, or whether the OLTF would participate in some investments without the Cornerstone Investor. Nor is it clear what would happen to a CIV and the OLTF's investment should the Cornerstone Investor decide to liquidate its holding (either redemption from an evergreen fund or through a secondary sale): would the OLTF have to find a new Cornerstone Investor to replace the departing Cornerstone Investor, or would the OLTF have to liquidate its own position?

Redemption rights

Practically it is unlikely that an institutional investor would agree to act as a Cornerstone Investor to an investment structure where they are restricted to the same redemption and exit rights in a CIV as an OLTF. Often, an institutional investor will negotiate bespoke terms (typically in a side letter) setting out exit and secondary sale rights, participation in co-investments, etc. Agreeing to the same exit rights as an OLTF might mean that the institutional investor could not act in the best interests of its beneficiaries, which could constitute a breach of the fiduciary duty owed to them.

If the retail investors decide to redeem and the OLTF is required to wind up, the Cornerstone Investor would be at a significant disadvantage, given the greater amount of capital it would have invested and the fiduciary duty owed to its own stakeholders (in the case of a pension fund, for example). It is not likely that institutional investors would accept this risk to participate in an OLTF, when they are able to independently access similar investments with less cost and less risk.

Reputational risk

For institutional investors, investing in private assets as a Cornerstone Investor alongside retail investors may pose a serious reputational risk. The act of choosing a particular investment may well be seen as an endorsement of it. The CIV and/or OLTF might be marketed based on the Cornerstone Investor's identity even if it is unaffiliated with all the entities involved. The Cornerstone Investor might unfairly bear negative reputational consequences should the investment fail to perform.

Investor protection

The CIV requirement should not be relied upon as a measure to lower the risk of investing in long-term assets to retail investors. While the involvement of a

Cornerstone Investor might mitigate some of the risk inherent in this asset class, given the higher level of due diligence institutional investors are likely to perform on the management of the CIV, institutional investors also periodically suffer heavy investment losses in this category.[2] Additionally, in the proposed model, the Cornerstone Investor will not directly invest in companies, but in the CIV. The Cornerstone Investor would rely on the CIV's management to select appropriate companies for investment. This further weakens any perceived protection contributed by the presence of a Cornerstone Investor, as the Cornerstone Investor would not be conducting due diligence on the underlying companies.

Further, it appears from the Proposal that the OSC considers that any person meeting the definition of a "permitted client" could act as a Cornerstone Investor. We do not believe that this threshold will provide any meaningful investor protection. As outlined above, we do not think it likely that many large institutions or pension plans will participate as Cornerstone Investors; however, many market participants meet the permitted client threshold and may see OLTFs as an opportunity to raise capital from retail investors for projects they cannot finance through more conventional channels. This may be an undesirable unintended consequence of the proposed OLTF framework.

Given the attendant risk of investing in private assets, the OSC should not rely on the presence of a Cornerstone Investor to allow OLTFs to be distributed to DIY investors in the OEO channel. These products should only be available to investors after a stringent suitability analysis, and in most cases should form a very small proportion of an individual investor's portfolio.

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

We believe that OLTFs could be held within a fund-on-fund structure. We believe that for OLTFs to have the greatest chance of success, the OSC should work with its CSA counterparts to allow OLTFs to be authorized assets for NI 81-102 investment funds. This would ensure that retail investors would benefit from professional asset managers (both IFMs and PMs) who can properly assess and manage the illiquid assets within the NI 81-102 framework while still maintaining liquidity for retail investors.

[2] For example, it was recently reported that several Canadian public pension plans stand to lose some or all of their investment into the debt of Northvolt, a European battery manufacturer that declared bankruptcy in November 2024. As recently as 2023, Northvolt was touted as a leading company in renewable energy, raising several billion dollars through private equity and debt financing from numerous Canadian institutional investors.

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

OLTFs and Qualified Investments Regime

We believe that the OSC should consider the interaction between the proposed OLTFs and the qualified investments regime. Non-accredited investors typically hold a significant portion of their assets in registered plans. OLTFs could only be held in registered plans if their shares/interests are qualified investments for such registered plans. Depending on its redemption features (and structure), an OLTF may not be able to qualify as a mutual fund corporation or as a mutual fund trust that is an open-ended unit trust. Similarly, an OLTF may not be able to meet the requirements to be a closed-ended unit trust. If the OSC intends that OLTFs be available to non-accredited investors, we recommend that the OSC should discuss with the federal Department of Finance how investments in OLTFs can be qualified investments for registered plans. We note that the federal Department of Finance is working on a qualified investments consultation; now may be a good time to engage on this issue.

Risk Rating

Some members have noted that the Proposal does not include any discussion of Risk Rating. We encourage the OSC to determine an appropriate Risk Rating system for OLTFs that takes into consideration the nature and concentration of assets within an OLTF.

Threshold Issues

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

We agree that these are threshold issues. We have not identified any additional threshold issues.

Redemptions

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

(i) Frequency.

We agree that it is appropriate to allow fund managers to determine the frequency of redemptions. As calculating net asset value (**NAV**) comes at a cost, the frequency of calculation has a financial impact, and it is expected that aligning the frequence of NAV calculations with that of redemptions would generally be the most cost-effective structure.

However, we do not agree that the frequency of NAV calculations would necessarily need to be aligned with the timing of redemptions. We believe that the nature of the product should ultimately be determined by an OLTF's fund manager. Consideration must be given to ensure that redemptions are priced and executed using updated fair market asset valuations. Practically, this might require a responsive, flexible and complex valuation policy given that long-term assets can be more challenging to value. For example, an evergreen OLTF with a portfolio of long-term assets might not be able to value each of those assets at the same time or assets that are either under development or undergoing a significant capital investment plan can be very difficult to value; some valuations of the underlying assets might be estimates. This is generally understood by investors in long-term assets.

(ii) Discounts.

We agree that redemptions could be made at a discount to NAV and agree that any discount should generally be no greater than the actual cost incurred to administer a redemption.

(iii) Caps.

We agree that OLTFs should be permitted to cap total redemptions per period to manage liquidity. However, in our view the proposed requirement that a fund be wound up based on redemption requests is not appropriate and would inhibit the creation of OLTFs.

Requiring OLTFs to wind up in response to redemption requests is the antithesis of allowing investment in long term assets. The purpose of the OLTF should be to be predictably invested for a long period of time. Requiring an OLTF to wind up based on the actions of its retail investors would have a chilling effect on all aspects of the product and undermine its viability.

A forced wind-up of an OLTF would likely harm all investors in the OLTF as the fund manager would be required to sell the OLTF's assets without regard for market timing or opportunity. It is likely that the fund manager would have to sell the assets at a discount, and perhaps even a loss, if unexpectedly forced to dispose of the assets due to redemption requests. In some cases, a sale of the assets might not even be possible; by definition, the assets are illiquid.

Practically, we do not anticipate that any Cornerstone Investor would agree to participate in a CIV if the OLTF could be wound up unexpectedly during the project. Nor do we expect projects seeking institutional financing would welcome investment from a potentially unstable source. Finally, retail investors who are looking to participate in long-term projects and planning to hold their investments with a long time-horizon would likely prefer an investment that was not subject to the decisions of their co-investors; those with the means and opportunity to pursue other forms of private long-term investment would likely look to those avenues rather than participate in OLTFs.

(iv) Notice.

We agree that investors should be required to provide notice of their intent to redeem but believe the required notice period should be left to the decision of the OLTF fund managers. Generating liquidity in private market assets can take time. For example, while some private debt might be as liquid as some public assets, infrastructure or real estate are typically highly illiquid. A longer notice period would be preferred by managers so that they can generate the required liquidity in an orderly manner; however, long notice periods longer might not be attractive to retail investors. We recommend that if the OSC intends to prescribe a maximum notice period, it should consider whether other features, such as delayed payment following the redemption date, could balance a prescribed maximum notice period with managers' flexibility to generate liquidity.

(v) Payment.

We agree that OLTFs should require a period of time to make payment after the date on which the redemption price was established. However, while we recognize that requiring payments no later than 15 days after a valuation date is aligned with the payment requirements in subsections 10.4(1.1) and (1.2) of National Instrument 81-102 *Investment Funds*, some members have noted that based on their experience with OM products, a longer period of time might be necessary in certain circumstances. Most private market institutional funds will not have completed their valuation process within 60 days after a valuation period; requiring payment within 15 days would mean making a payment based on dated valuation information.

(vi) Suspensions.

OLTFs must be allowed to suspend or restrict periodic redemptions where it is in the best interest of the fund. In certain circumstances, suspending or restricting redemptions might be necessary to ensure the viability of the investment. Accordingly, in our view, prescribing a specified temporary suspension period is not appropriate. Fund managers should be permitted to suspend or restrict redemptions for as long as necessary where it is in the best interests of the fund.

We repeat our objections to the requirement that an OLTF be wound up after a certain threshold of redemption requests. Forcing an OLTF to be wound up during a suspension of redemptions would likely mean selling the OLTF's assets at a loss, and perhaps even below market value, given that the forced wind up would not be a secret within the marketplace. The presumption that an OLTF should be wound up after redemptions are suspended beyond the specified temporary period is contrary to the long-term view required to invest in private long-term assets.

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

PMAC considers it appropriate that the OLTF fund managers retain the discretion to determine the appropriate restrictions on redemptions to effectively manage liquidity.

The minimum redemption restrictions required will be directly dependent on the type of Long-Term Assets held within the fund. If the portfolio is broadly diversified and holds a significant number of smaller Long-Term Assets, all of which are income producing, then the redemption restrictions can be less significant. If the portfolio is highly concentrated in very large assets and/or also has a significant component that is under construction or undergoing a significant capital improvement (i.e. not stabilized and income-producing), then the redemption restrictions would need to be more restrictive.

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.

Yes, we believe there could be investor demand for restrictive products, provided they were structured to deliver a satisfactory "illiquidity premium". Demand for such products could be greater in contrast to the proposed OLTF forced wind-up provisions discussed above, as investors who truly understand the space and are taking the appropriate long-term view might prefer the certainty of a restrictive product that would be less likely to be wound up unexpectedly.

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

The nature of the Long-Term Asset portfolio will necessitate a broad array of redemption tools and terms to protect both the investors and the investment fund. High levels of asset concentration risk and development/capital improvement risk will be among the most important considerations influencing redemption terms.

Valuation (NAV)

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.

We believe the OLTF fund manager should retain the discretion to determine the appropriate distribution and redemption window. However, our members have raised concerns about the feasibility of synchronizing the calculation of NAV with the frequency of distributions and redemptions, particularly where an OLTF might be invested in several CIVs holding multiple long-term assets. It is not likely that the valuation dates of those assets or CIVs would align with the OLTF's distributions and redemptions. We note that there are several products currently available through the OM Exemption that allow monthly redemptions, where the valuation of the underlying assets is performed quarterly.

Whatever the redemption frequency, it is likely that stale valuations would be applied, and the accuracy of any valuations cannot be guaranteed due to the nature of long-term assets. For example, an investment in a specific real estate project may be valued based on all available information, but each project is unique. The actual value will not be known until the project is marketed and sold.

We note that OLTFs also need to be able to calculate NAV at the time of subscriptions (i.e. determine the price at which an investor enters the portfolio). Some institutional funds have internal interim valuation periods and less frequent external valuation periods – this may be an approach that can be considered.

These fundamental valuation issues are inherent to this asset class and are accepted by investors who invest in this space. The difficulty these valuations might pose to retail investors could be mitigated by extensive disclosure and investor education, to ensure to the extent possible that investors understand the differences between the illiquid private market and traditional retail investment funds.

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

(i) Experienced IFMs.

Our members agree that involving experienced IFMs could mitigate the difficulty of calculating fair and reasonable NAVs, provided the IFM has robust valuation practices and experience with valuing private-market asset classes.

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

Having an independent committee that: (a) is responsible for oversight of the OLTF valuation policy; and (b) deals with conflicts of interest could add to the credibility of the fund's underlying asset valuation results, increasing investor confidence.

(iii) Cornerstone Investors.

We recommend that the OSC should not consider the involvement of Cornerstone Investors as mitigating the difficulty of calculating fair and reasonable NAVs for Long-Term Assets.

We do not think it realistic that any Cornerstone Investor would involve itself in an OLTF's valuation process. Cornerstone Investors would likely not have a reason to share their valuations with the OLTF or other investors (whether due to confidentiality agreements with the CIV manager or as a practical matter). Additionally, the Cornerstone Investor would not want to risk its reputation or incurring liability by providing valuations to the OLTF, as institutional investors will not likely want to be seen as ensuring the efficacy of a product or its valuation for retail investors.

If Cornerstone Investors are involved in valuation, it is our view that safeguards such as confidentiality walls should be in place to address any potential conflicts. Timing of the placement of subscription and redemption orders must also be considered in the context of the timing of the asset and fund valuation process. Any imbalance of access to valuation information between Cornerstone Investors and OLTF investors prior to trades being placed must be avoided to maintain investor fairness.

(iv) Independent valuators.

Additional clarity about how the OSC believes the requirement for independent valuators would function is needed. In particular, our members indicated that a top-level manager of an OLTF should be able to rely on the valuation provided to them by arms-length CIV. This is necessary because where a CIV is arms-length from an

OLTF, the OLTF fund manager will not have access to the assets underlying the CIV to perform its own valuation.

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

We recommend that valuations and valuation processes applied by independent valuators be fully explained to investors. Often, a valuator will apply a negative confirmation; they will review the application of the manager's valuation models and see that they have been correctly applied, instead of determining their own valuation. If this model is applied to OLTFs, an OLTF might not be "independently valued" in a way that a retail investor might assume and therefore undue reliance could be placed on the involvement of independent valuators. Further disclosure or investor education about the role of independent valuators and their valuation processes would likely be required.

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?

Our members believe that to be viable, OLTFs must be permitted to be organized as entities other than corporations, such as a trust or a limited partnership, particularly if interests in an OLTF will not be a qualified investment for registered plans as discussed above in answer to Question #7. There are multiple tax considerations that would factor into this decision. The fund manager should be permitted to determine the appropriate structure for the fund.

We agree that a majority-independent body, whether a board of directors or other management group, should be in place to provide oversight. However, in our view, it would be most appropriate to separate the oversight and conflicts management functions. In our view, the appropriate current role of an independent review committee (**IRC**) is limited to reviewing conflicts of interest. As such, an expansion of an IRC's supervisory powers would be necessary for an IRC to perform the function described in the Proposal (which we would not recommend).

Disclosure

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

We agree that requiring a new form of Fund Facts disclosure document for OLTFs is appropriate.

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

We agree that requiring a new form of Management's Report of Fund Performance for OLTFs is appropriate.

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

We agree that the new prospectus form for an OLTF should include at least the eleven items set out at pages 12-13 of the Proposal. However, we recommend that all disclosure for an OLTF, including the prospectus, should make explicitly clear that investing in long-term assets is high risk, and that the investor's investment might be locked up for a long period of time.

Investment Restrictions

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

(i) Minimum level of Long-Term Assets.

We believe that the minimum level of long-term assets should be calibrated according to the type of assets held by an OLTF (for example, the concentration of private debt might be different than that of real estate). We expect that IFMs creating the products will make the adjustment necessary to make the product viable, and disclosure to investors will reflect what the product is offering.

We note that at all concentrations, the fund's redemption terms will need to be calibrated with its concentration of long-term assets. Evergreen and fixed-term products are unlikely to be calibrated in the same way, given the nature of their redemption profiles.

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

The minimum level of liquid assets held by the OLTF should be set in the context of the redemption terms, fund structure (open or closed ended) and portfolio composition (concentration and development risk).

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

Some form of investment concentration limits would be reasonable, with any such limit measured at the time of investment because as asset valuations change (up or down) over time, a manager cannot easily rebalance a portfolio of private assets.

Consideration should also be given to appropriate flexibility in the initial ramp up period.

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

A restriction on development projects could be left to each individual investment manager, with such restriction disclosed to investors and reflected in the risk rating of the project.

Concentration restrictions may limit an OLTF’s ability to participate in follow-on investments.

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

Practically, our members are skeptical that Cornerstone Investors would be interested in participating alongside OLTFs if CIVs’ investments are restricted as proposed. Concentration restrictions at both the CIV and fund level add complexity that will likely be undesirable for experienced private markets managers and hard to explain to retail investors.

While an OLTF would hold only 10% of a CIV, the CIV would necessarily be constrained by the restrictions placed on the OLTF’s investments. A Cornerstone Investor participating in a CIV might wish to make larger investments into a particular asset, but the CIV might be prevented from doing so by the size of the OLTF’s NAV. These constraints, which are beyond a Cornerstone Investor’s control, might discourage institutions and other qualifying investors from participating as Cornerstone Investors.

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

We agree that OLTFs should be permitted to enter into derivatives transactions. Private market investments generally include debt at the project, property or company level. Infrastructure projects in particular often use high levels of debt to achieve the target return. Any constraints on leverage will need to consider the roll-up at the fund level of market standard use of leverage in individual private market investments by asset class and leverage at the fund level for cash management and liquidity management purposes.

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

It is our view that limitations should be placed on the level of “assets under development” held by an evergreen fund due to the extraordinary risk associated with these types of investments. A restriction on financial leverage within the OLTF (calculated on a look through basis) should also be considered.

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?*

We recommend that the OSC consider whether the limits and investment requirements set out in the OM Exemption are appropriate to adopt in any OLTF framework. The OM Exemption includes certain restrictions that are designed to protect investors including minimum income levels, investment limits and encouraging obtaining investment advice. We believe that these could apply equally to OLTFs to provide a measure of investor protection.

Some of our members have expressed the view that, given their risk profile, these products should not make up more than 10% of a retail investor's portfolio. Our members have noted that determining any maximum limit might be challenging, as investors may have more than one account.

> *(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?*

PMAC agrees with the primary distribution channels outlined in the Proposal, which contemplates that OLTFs would only be available through investment dealers overseen by the Canadian Investment Regulatory Organization (**CIRO**), and portfolio managers registered with the CSA. The OSC should consider whether additional proficiency would be required for registered individuals to offer these products to clients, given their risk, and should consider whether these products should be restricted to CIRO-registered Portfolio Managers or CSA-registered Advising Representatives.

PMAC strongly believes that an OLTF should only ever be available through advised channels, as an option for portfolio diversification, if suitable for the specific investor. We do not believe an OLTF should be available to a retail investor through an OEO channel without additional controls.

PMAC acknowledges and appreciates the work the OSC is doing to create a framework that addresses the risk inherent in the private long-term asset class, and the multiple layers of checks and balances that are being contemplated within the OLTF structure. We agree that the "self-assessment questionnaire" proposed to assist individual retail investors in determining whether an OLTF is appropriate for their individual circumstances may help them to better understand the product and its suitability.

However, no framework can eliminate risk from these investments, and no amount of disclosure can prevent retail investors from choosing unsuitable investments.

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

Our members consider education to be paramount for any distribution framework for OLTFs, including education of both investors and of distributors.

Investors will need to be educated about the real risks in this asset class, the true costs of this kind of investment, what illiquidity means, and about other crucial features of long-term investing, including redemption restrictions and suspensions.

Distributors will need to be educated about who is eligible to sell this product, which investors would qualify, and what disclosure will be necessary. A focus on investor suitability should be emphasized.

We believe that OLTFs should only be distributed through advised channels and by registered individuals who have the proficiency and experience to understand the risks, the illiquidity, the potential for delayed payment, and valuation issues, and who can properly evaluate the suitability of the product for individual clients. Some members believe that OLTFs should only be distributed by professionals who would include OLTFs as part of an allocation strategy to meet the long-term investment goals for the client, and who also have a fiduciary responsibility for product due diligence and suitability.

CONCLUSION

We are encouraged by the OSC's recognition that retail investors could benefit from being able to integrate a portion of private-market assets into their portfolios. At present, retail investors with pension plans and those who are accredited investors have the opportunity to benefit fully from the long-term returns offered by these assets. We recognize the value in making these potential benefits available to all retail investors and recommend that any final OLTF framework emphasize investor suitability and education, be available through advisers with appropriate proficiency and be harmonized across the CSA jurisdictions.

If you have any questions regarding the comments set out above, please do not hesitate to contact Katie Walmsley at (416) 504-7018 or Victoria Paris at (416) 802-4347.

Yours truly,

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