David Burnie

Chief Compliance Officer

SONA Wealth Counsel Inc.

1565 Carling Avenue, Suite 602

Ottawa, Ontario, K1Z 8R1

17 October 2024

Ontario Securities Commission

20 Queen Street West

22nd Floor

Toronto, Ontario M5H 3S8

Re: Feedback on Ontario Long-Term Asset Funds (OLTFs) Proposal

Dear Ontario Securities Commission,

I am writing to provide feedback on the proposed Ontario Long-Term Asset Funds (OLTFs). As a Chief Compliance Officer of an unrestricted portfolio management firm and a vested interest in investor protection, I appreciate the opportunity to contribute to this important discussion.

Please find enclosed my responses to the questions posed in the consultation document. My feedback addresses various aspects of the OLTF proposal, including:

- The potential benefits and risks for retail investors

- Governance structures and oversight mechanisms

- Disclosure requirements and investor education

- Investment restrictions and liquidity management

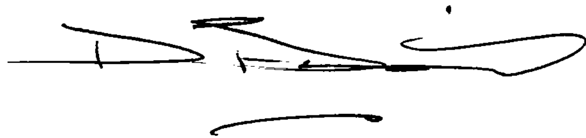
- Distribution considerations and investor protection measures

I believe that OLTFs have the potential to provide retail investors with valuable access to long-term assets while diversifying their portfolios. However, it is crucial to implement robust safeguards and clear guidelines to protect investors and ensure the stability of these funds.

My responses aim to strike a balance between fostering innovation in the investment fund space and maintaining strong investor protections. I have endeavored to provide constructive suggestions that could enhance the OLTF framework while addressing potential risks.

Thank you for your consideration of my feedback. I look forward to seeing how the OLTF proposal develops and its potential impact on Ontario's investment landscape.

Sincerely,



David Burnie

Chief Compliance Officer

SONA Wealth Counsel Inc.

Enclosure: Detailed responses to consultation questions

Based upon the provided information and questions, here are my responses:

**Q1**. Yes, retail investors could benefit from increased access to Long-Term Assets for several reasons:

1. Portfolio diversification: Long-term assets typically exhibit lower correlation with public market investments, potentially reducing overall portfolio risk.

2. Higher potential returns: Long-term assets may offer opportunities for higher returns over extended periods compared to traditional investments.

3. Participation in capital-intensive projects: Retail investors could gain exposure to ventures like infrastructure and natural resource projects that were previously inaccessible.

4. Professional management: Access through investment funds would provide the expertise of registered investment fund managers and portfolio managers.

**Q2**. Investment fund product structures could indeed facilitate increased retail investor allocation to Long-Term Assets while mitigating some risks:

1. Risk mitigation: Professional management by experienced IFMs and PMs can help navigate the complexities of illiquid assets.

2. Regulatory framework: Investment funds provide a structure tailored to retail investor needs, including suitability assessments and KYC/KYP requirements.

3. Diversification: Funds can spread investments across various long-term assets, reducing concentration risk.

4. Liquidity management: Funds can implement strategies to manage the illiquidity of long-term assets, such as redemption restrictions and liquidity buffers.

**Q3**. To increase retail investor interest in specific types of Long-Term Assets:

1. Education: Provide comprehensive information about the benefits and risks of long-term assets.

2. Tax incentives: Consider offering tax benefits for long-term investments in specific asset classes.

3. Transparency: Ensure clear disclosure of valuation methodologies and performance metrics.

4. Technology integration: Utilize user-friendly platforms to make these investments more accessible and understandable.

5. Targeted marketing: Highlight the potential for higher returns and portfolio diversification benefits.

**Q4**. Placing restrictions on minimum investments in Long-Term Assets located in Ontario could make the investment fund structure less attractive:

1. Limited diversification: Geographical restrictions may reduce the fund's ability to diversify across markets and opportunities.

2. Reduced returns: Limiting the investment universe could potentially lower overall returns.

3. Increased concentration risk: Focusing on Ontario-based assets may increase exposure to local economic factors.

However, some level of local investment requirement could be viable if balanced with flexibility to invest in other regions.

**Q5**. The Proposal should consider excluding certain types of Long-Term Assets:

1. Sensitive infrastructure projects in specific countries: This could help mitigate geopolitical and security risks.

2. Assets prohibited for non-investment fund issuers: Maintaining consistency with broader regulatory frameworks is important for investor protection.

3. Highly speculative or unproven technologies: To manage risk for retail investors.

4. Assets with significant environmental or social risks: To align with growing ESG concerns.

5. Assets with extreme valuation challenges: To ensure accurate and fair NAV calculations.

Exclusions should be carefully considered to balance investor protection with maintaining attractive investment opportunities.

**Q6**(i). OLTFs having the same restrictions on control that apply to investment funds under section 2.2 of NI 81-102:

This approach is appropriate for OLTFs as it:

1. Ensures consistency with existing investment fund regulations

2. Prevents OLTFs from exerting undue influence over investee companies

3. Maintains the passive investment nature of the fund

4. Protects investors by limiting concentration risk

However, some flexibility might be needed for certain long-term assets where greater control could be beneficial for value creation.

**Q6**(ii). OLTFs being subject to their own unique regulatory requirements:

This is a sensible approach because:

1. It acknowledges the unique characteristics of long-term, illiquid assets

2. Allows for tailored rules addressing specific risks associated with these assets

3. Provides flexibility to adapt regulations as the OLTF market evolves

4. Ensures appropriate investor protection measures for this new investment vehicle

Care should be taken to balance investor protection with the need for operational flexibility in managing long-term assets.

**Q6**(iii). OLTFs distributing units through a prospectus-qualified offering:

This is a prudent requirement as it:

1. Ensures transparency and comprehensive disclosure to investors

2. Aligns with existing practices for publicly offered investment funds

3. Provides regulatory oversight and investor protection

4. Facilitates easier comparison with other investment products

However, the prospectus requirements may need to be adapted to address the unique characteristics of long-term assets.

**Q6**(iv). The impact of OLTFs being only distributed to Ontario investors:

Limiting distribution to Ontario investors could have several implications:

1. Reduced investor base, potentially limiting fund size and diversification

2. Increased concentration of Ontario-based assets, which could increase geographic risk

3. Potential competitive disadvantage compared to national or international funds

4. Simplified regulatory oversight within a single jurisdiction

Consideration should be given to expanding distribution to other provinces or creating a national framework for these funds.

**Q6**(v). OLTFs being either fixed-term or evergreen investment funds:

Offering both options provides flexibility and caters to different investor needs:

1. Fixed-term funds align well with specific long-term projects or investment horizons

2. Evergreen funds offer ongoing exposure to long-term assets and potential for reinvestment

3. Both structures can help manage liquidity risks associated with long-term assets

4. Allows for tailored strategies based on the underlying assets and investor preferences

The choice between fixed-term and evergreen should be clearly communicated to investors, along with associated risks and benefits.

**Q6**(vi). The proposed CIV requirement:

The Collective Investment Vehicle (CIV) requirement has several potential benefits:

1. Allows for efficient pooling of capital for large-scale investments

2. Provides a layer of professional management and oversight

3. May offer better diversification within specific asset classes

4. Could facilitate access to investments that might be otherwise unavailable to individual funds

However, it's important to ensure that the CIV structure doesn't add unnecessary complexity or costs, and that there's sufficient transparency for investors to understand the underlying investments.

**Q6**(vii). OLTFs within a fund-on-fund structure under an investment fund subject to the requirements of NI 81-102:

This structure could offer several benefits:

1. Increased accessibility: It allows retail investors to gain exposure to long-term assets through more familiar investment vehicles.

2. Enhanced diversification: The fund-of-funds structure can provide additional diversification across different OLTFs or asset classes.

3. Professional management: Investors benefit from multiple layers of professional management and oversight.

4. Regulatory consistency: Aligning with NI 81-102 requirements ensures a level of investor protection and regulatory familiarity.

However, there are potential drawbacks to consider:

1. Higher fees: Fund-of-funds structures often involve multiple layers of fees, which could impact overall returns.

2. Complexity: The multi-layered structure may make it more difficult for investors to understand the underlying investments and associated risks.

3. Potential dilution of returns: The broader diversification might lead to more stable but potentially lower overall returns.

**Q7**. Additional overview elements the Proposal should consider:

1. Liquidity management framework: Develop specific guidelines for managing liquidity risks associated with long-term assets, including stress testing requirements.

2. Investor education initiatives: Implement programs to educate retail investors about the unique characteristics and risks of long-term assets.

3. Performance reporting standards: Establish standardized methods for reporting performance of long-term assets to ensure consistency and transparency.

4. ESG considerations: Include guidelines for integrating environmental, social, and governance factors into the investment process for long-term assets.

5. Technology integration: Explore how advanced technologies like blockchain could enhance transparency and efficiency in managing and valuing long-term assets.

6. Conflict of interest policies: Develop specific guidelines to address potential conflicts of interest in valuing and managing illiquid long-term assets.

7. Exit strategies: Require OLTFs to have clear exit strategies for their investments, especially for fixed-term funds.

8. Cornerstone investor requirements: Consider mandating a minimum participation from institutional or experienced investors to enhance credibility and align interests.

9. Periodic review mechanism: Establish a framework for regular review and potential updates to the OLTF regulations as the market evolves.

These additional elements would help create a more comprehensive and robust framework for OLTFs, addressing key challenges associated with long-term asset investing while maximizing potential benefits for retail investors.

**Q8**. These do appear to be key threshold issues for OLTFs. Additional threshold issues to consider might include:

- Valuation methodologies for illiquid assets

- Disclosure requirements specific to long-term assets

- Investor eligibility criteria

**Q9**. Views on redemption features:

(i) Frequency: Monthly to annual redemptions seem appropriate, balancing liquidity management with investor needs. Quarterly or semi-annual may be a good middle ground.

(ii) Discounts: Allowing OLTFs to charge actual redemption costs to investors is reasonable to protect remaining shareholders.

(iii) Caps: A 10% annual redemption cap seems prudent for liquidity management. The wind-up requirement after two years of exceeding the cap provides investor protection.

(iv) Notice: A maximum 30-day notice period with flexibility for shorter periods balances fund management needs and investor preferences.

(v) Payment: Extending the payment window to 15 days after valuation date accommodates the challenges of valuing and liquidating illiquid assets.

(vi) Suspensions: Allowing temporary suspensions with regulatory approval for longer suspensions provides necessary flexibility while protecting investors.

**Q10**. Minimum redemption restrictions for effective liquidity management:

- Quarterly or semi-annual redemption frequency.
- 30-day notice period.
- 10% annual redemption cap.
- Ability to suspend redemptions temporarily.

**Q11**. There could be investor demand for fixed-term OLTFs with very restrictive redemption rights, particularly from:

- Institutional investors with long-term liabilities to match.
- High-net-worth individuals seeking higher returns and willing to accept illiquidity.
- Investors specifically interested in long-term projects like infrastructure.

However, the demand may be limited among retail investors who typically prefer more liquidity.

**Q12**. Additional redemption issues to consider:

- Gating provisions to manage large redemption requests.
- In-kind redemptions for large investors.
- Redemption fees that decrease over time to encourage long-term holding.
- Special provisions for hardship redemptions.
- Clear disclosure of all redemption terms and potential risks.

**Q13**. OLTFs should be required to calculate NAV more frequently than just at distribution and redemption periods, in addition to financial reporting periods. Here's why:

1. Transparency: More frequent NAV calculations provide investors with up-to-date information about their investment's value.

2. Risk management: Regular NAV calculations allow fund managers to monitor and manage risks more effectively.

3. Alignment with redemption frequency: The OSC suggests that "redemptions should be no more frequent than monthly and no less frequent than annually". NAV calculations should align with this frequency to ensure accurate pricing at redemption points.

4. Regulatory compliance: More frequent NAV calculations help ensure compliance with regulatory requirements and facilitate timely reporting.

However, the frequency should be balanced against the challenges of valuing illiquid assets. Monthly or quarterly NAV calculations might be appropriate, depending on the specific assets held by the OLTF.

**Q14**. The following factors can indeed mitigate the difficulties of calculating fair and reasonable NAVs for Long-Term Assets:

(i) Experienced IFMs: Investment Fund Managers with expertise in valuing illiquid assets can provide more accurate and consistent valuations.

(ii) Independent boards of directors (or an independent review committee with enhanced supervisory powers): These bodies can provide oversight and ensure that valuation processes are fair and unbiased.

(iii) Cornerstone Investors: Their involvement can provide additional expertise and potentially more stable valuations due to their long-term commitment.

(iv) Independent valuators: External, unbiased valuations can significantly enhance the credibility and accuracy of NAV calculations for illiquid assets.

These factors collectively contribute to a more robust valuation process, reducing the risk of mispricing and enhancing investor confidence.

**Q15**. Additional valuation issues the Proposal should consider include:

1. Valuation frequency mismatches: The timing of OLTF NAV calculations could be affected by mismatches with the valuation frequencies of certain Long-Term Assets, such as private loans, real estate, or mortgages.

2. Financial reporting period discrepancies: NAV calculations could be impacted by differences in financial reporting periods of certain Long-Term Assets or Collective Investment Vehicles (CIVs).

3. Liquidity discounts: Consider whether applying liquidity discounts to illiquid assets is appropriate when calculating NAV.

4. Valuation methodologies: Establish clear guidelines for valuation methodologies specific to different types of illiquid assets.

5. Stress testing: Implement regular stress testing of valuation models to ensure they remain robust under various market conditions.

6. Technology integration: Consider how advanced technologies like AI and blockchain could enhance the accuracy and efficiency of valuation processes.

7. Disclosure requirements: Establish clear disclosure requirements for valuation methodologies and any assumptions made in the NAV calculation process.

By addressing these additional issues, the Proposal can further strengthen the valuation framework for OLTFs and enhance investor protection.

Based on the provided questions, here are my views on the various aspects of the OLTF proposal:

**Q16**. Governance structure:

- A majority-independent board of directors seems appropriate for OLTFs, given their unique structure and risks.

- An independent review committee with enhanced powers could provide additional oversight, particularly for conflict-of-interest matters.

- Allowing OLTFs to be organized as trusts with majority-independent boards of trustees could provide flexibility while maintaining strong governance.

**Q17**. Additional monitoring and governance considerations:

- Regular third-party audits of valuation processes.

- Mandatory risk management committees.

- Enhanced reporting requirements on liquidity management.

**Q18**. New Fund Facts for OLTFs:

A new form of Fund Facts tailored to OLTFs is advisable, highlighting:

- Unique risks associated with long-term assets.

- Liquidity restrictions and redemption policies.

- Historical performance of similar long-term assets.

**Q19**. New MRFP for OLTFs:

A modified MRFP for OLTFs should be considered, focusing on:

- Long-term performance metrics.

- Detailed explanations of valuation methodologies.

- Updates on major projects or investments.

**Q20**. Additional disclosure requirements:

- Stress test results for various market scenarios.

- Detailed breakdowns of fees and expenses.

- Regular updates on the progress of long-term projects.

**Q21**. Investment restrictions:

(i) Minimum level of Long-Term Assets: 50-70% seems reasonable to ensure focus on long-term investments.

(ii) Maximum level of Long-Term Assets: 80-90% to maintain some liquidity.

(iii) Concentration restrictions for evergreen OLTFs: 10-15% in any single asset or related group.

(iv) Concentration for fixed-term OLTFs: Higher limits (20-25%) may be appropriate for specific projects.

(v) CIV concentration: 20-30% in any single CIV to maintain diversification.

(vi) Limitations on debt and leverage: Conservative limits (e.g., 20-30% of NAV) to manage risk.

**Q22**. Other investment restrictions to consider:

- Limits on investments in emerging or frontier markets.

- Restrictions on related party transactions.

- Minimum credit quality for debt investments.

**Q23**. Distribution matters:

(i) Investment limits: Consider tiered limits based on investor sophistication and net worth.

(ii) Investment advice: Mandatory advice seems prudent given the complexity of OLTFs. Availability through order-execution-only channels should be limited.

**Q24**. Additional distribution considerations:

- Mandatory investor education programs.
- Cooling-off periods for investments.
- Enhanced suitability requirements for distributors.

These recommendations aim to balance investor protection with the unique characteristics and potential benefits of OLTFs.