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British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission of New Brunswick
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Dear Sirs/Mesdames:

RE: CSA Proposed Changes to the Principal Distributor Model

AGF Investments Inc. ("**AGFI**") is writing in response to the request for comments by the Canadian Securities Administrators ("**CSA**") on proposed amendments to various National Instruments relating to the principal distributor model in the distribution of mutual fund securities (the "**CSA Proposal**").

AGFI and Principal Distributor Arrangement Background

AGFI, alongside its affiliated entities, provides a diverse range of investment strategies within public and private markets for institutional and retail clients. AGFI's products include a diversified family of mutual funds, exchange traded funds, pooled funds and private funds. AGFI is registered in the categories of Investment Fund Manager, Exempt Market Dealer, Portfolio Manager and Commodity Trading Manager.

For almost 30 years, AGFI has built a strong strategic partnership with a well-known mutual fund dealer in Canada, with a shared purpose of helping investors achieve their financial goals by offering diversified investment solutions and providing the best possible stewardship of the investments under management. In 2022, AGFI expanded the relationship, contracting to offer a unique suite of customized investment funds managed by AGFI exclusively for our non-affiliated partner to act as principal distributor – funds specifically designed to provide solutions for a comprehensive spectrum of

investor objectives and goals that are specific to this principal distributor's client base (the "**AGF Platform Funds**").

In addition to selling the AGF Platform Funds, AGFI's unaffiliated dealer partner has also contracted with another unaffiliated fund manager, acting as a principal distributor for their suite of customized funds as well. AGFI thereby is a key stakeholder within the existing 'multiple principal distributor model' space.

AGFI's experienced position is that the one principal distributor/two fund manager model that it has been involved with for the last 3 years has been very successful, operating in the expected manner and providing a positive experience for the retail investor and registered representative base that it covers. Overall, AGFI's observation is that the benefits of the one principal distributor/two fund manager model for the dealer and investor base have outweighed the one principal distributor/one fund manager model. Such enhanced benefits have included a customized and unique product platform for investors within the middle market, broader investor choice of investment strategies and solutions, and expanded dedicated support from the fund managers. As set out more fully below, we believe that continuing to permit a multiple principal distributor model with the same rigour and investor protection measures as are in place with the model that we are part of is necessary in a healthy and competitive retail investor market as it supports greater investor choice and access to investment advice.

CSA Proposal

AGFI appreciates the rationale for the due diligence exercise on the part of the CSA to re-evaluate the purpose and construct of securities legislation with regard to the use of principal distributor models within the industry. In particular, AGFI certainly supports the CSA Proposal's change to update National Instrument 81-105 *Mutual Fund Sales Practices* ("**NI 81-105**") to replicate the prohibition on providing incentives to registered representatives to recommend mutual funds of one fund family over another that currently applies to participating dealers to also apply to principal distributors. Additionally, we support the CSA Proposal's anticipated disclosure updates.

AGFI is, however, of the view that the prevention under the CSA Proposal from a dealer having multiple principal distributor relationships (except where it acts as a principal distributor for mutual funds in the same mutual fund family) is overly prescriptive, and warrants reconsideration by the CSA, for the reasons set forth below.

Support in Favour of the Multiple Principal Distributor Model

Appropriateness in Certain Circumstances:

The CSA Proposal specifically prompts the following question for comment: "*are there any circumstances under which a dealer should be permitted to act as a principal distributor for more than one mutual fund family?*". AGFI submits that the answer to this question is a resounding 'yes'.

AGFI acknowledges that both the use of a non-affiliate fund manager in a principal distributor relationship, as well as the use of a multiple principal distributor model may not have been the original tenets of the principal distributor carve out in NI 81-105. That said, AGFI's view is that the

permissibility of such a model, with the necessary controls for conflicts of interest and robust disclosure, far outweighs any perceived regulatory risk and needs to be preserved.

While the traditional principal distributor model (i.e. affiliated dealer and fund manager) is relatively common (and predominantly found within the bank channel), it may not address all the needs of the wide-ranging demographic of the Canadian investing public. In particular, numerous small to mid-size dealers in Canada have focused on providing access to advice for investors who have moderate levels of investable assets but still desire personalized investment advice and customized solutions at a reasonable price. Most of these dealers do not have the affiliate structure or expertise to offer their own proprietary funds, so can leverage the principal distributor model to do so. Having multiple mutual fund families within a principal distributor model for these firms enables them to provide a wider range of tailored investment options for their large and diverse investor base while also ensuring a high level of dedicated support from multiple fund managers for a significantly sized registered representative sales force stretching across Canada.

(a) Wider range of tailored options and choice

It is well understood that core asset classes make up large portions of investors' accounts generally. Having differing fund options from multiple fund managers for the core product category allows a dealer's registered representatives to either recommend to clients what they perceive to be the stronger option or use funds from multiple fund managers to complement each other given that outcomes and exposures can vary in different periods from different core funds and strategies. Furthermore, multiple fund managers within a principal distributor model can provide a wider range of non-core and specialty strategies expanding the spectrum of categories available to help meet a wider array of investors' objectives since each manager will have its own unique non-core options not otherwise available from another manager within the multiple principal distributor model.

(b) Better fund manager support coverage

Multiple fund managers within a principal distributor model can also better serve dealers with significantly larger registered representative sales teams and investor bases. More committed resources across multiple fund managers ensures that portfolio managers and client support teams from each fund manager can dedicate the necessary time and effort so registered representatives can gain the needed investment proficiency to best serve their clients and adequately access the necessary training, education and operational support from the fund managers with respect to their tailored investment options. AGFI's observation from its existing multiple principal distributor arrangement is that two fund managers have been better able to serve a vast base of 6,500 licensed registered representatives to ensure that they have the support needed to best meet the needs and objectives of their investor clients.

Alignment with Objectives of Canadian Securities Regulation:

One of the core objectives of Canadian securities regulation is premised on the protection of investors. Ultimately, AGFI does not see how a principal distributor model that allows dealers to offer retail investors the choice of mutual funds managed by two or more mutual fund families by way of multiple principal distributor relationships gives rise to investor protection concerns that require regulatory intervention. While enabling greater investor choice (a clear benefit for investors), the permissibility of this type of distribution model is in alignment with another core objective of Canadian securities regulation: supporting fair and competitive capital markets. To this end, AGFI strongly urges the CSA to consider the benefit, and continue to permit the multiple principal distributor model as a valid and reasonable alternative for some dealers and retail investors, as supported by the advantages raised above.

Compensation Differential and Mitigated Conflict of Interest:

In a multiple principal distributor relationship, AGFI does not believe that the compensation arrangements between the principal distributor and each fund manager/mutual fund family should be required by regulation to be the same or substantially similar. The fees associated with a principal distribution arrangement are commercially negotiated between a fund manager and a principal distributor dealing with each other at arms' length, and reflect the services provided under the contract. It would be very unusual, in our view, for the CSA to intervene in such a manner with respect to commercially negotiated relationships.

One conflict of interest that the CSA appears to be concerned with is how best to ensure that compensation arrangement differences in a multiple principal distributor model *"would not influence a principal distributor to favour the mutual fund family with the most favourable compensation structure?"*. AGFI appreciates the concern and submits that this conflict of interest risk is/can be mitigated in two primary ways: (i) existing regulatory rules; and (ii) contractual controls.

The Client Focused Reforms ("**CFRs**") under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* have imposed an obligation on dealers and registered representatives to address conflicts in the best interests of clients. Within this regulatory regime, registered representatives must put the needs of their clients first, including adherence to suitability requirements. Consequently, this regulatory obligation already puts a stringent compliance onus on dealers and registered representatives, thereby mitigating any contemplated conflicts of interest that may arise within the framework.

Further, and within the context of the multiple principal distributor model, AGFI proposes that the close contractual nature of a principal distributor relationship allows for important elements under NI 81-105 to be managed with respect to the distribution of the funds. Notably, the obligations under the CFRs can be reinforced in contractual terms between the principal distributor and each fund manager, specifying that the dealer will not institute any compensation or other incentive

program that could cause its registered representatives to favour one fund manager/mutual fund family over another.

Limited Scope:

The principal distributor relationship is markedly different from a participating dealer relationship – namely, (i) the necessity for exclusivity across the relationship and products; (ii) the existence of a robust contractual agreement governing the relationship; (iii) heightened responsibilities on the principal distributor, including a significant role in the initial and ongoing fund offering and design, as well as liability with respect to the adequacy of disclosures in the prospectus for the funds; and (iv) the enhanced connection to the fund manager’s sales practices activities. In AGFI’s view, the uniqueness, customization and integration that is the result of these distinctions, together with the resources required from the principal distributor, serve as limiting factors to an accelerated development of dealers becoming principal distributors over participating dealers. Most dealers would choose to offer a broad shelf of mutual funds from a wide array of unaffiliated fund managers and hence retain their “participating dealer” status under NI 81-105.

From its own experience, AGFI does not expect that many independent investment fund managers would be able to make the commitment necessary to support an exclusive product shelf for a principal distributor, given the dedicated relationship support and service and product customization required.

Furthermore, it is quite foreseeable that there will be a natural limited scope/ceiling to the number of fund managers who would participate in a multiple principal distributor model (perhaps no more than two or three unaffiliated fund managers) given the finite economic opportunity that one principal distributor could naturally provide to multiple fund managers. For these reasons, AGFI submits that there will not be as much precedent for a proliferation of the multiple principal distributor model as may be anticipated.

As a result, the above-noted fundamental distinctions and marked realities between a dealer acting as a principal distributor and a participating dealer clearly demonstrate that lines will not become ‘blurred’ as the number of mutual fund families distributed by the same principal distributor increase beyond just a one-to-one ratio.

Regulatory Consideration

The one regulatory intervention we *do* recommend to the CSA in regard to the continuance of the multiple principal distributor model is to consider having Parts 2, 3, 5 and 7 of NI 81-105 apply, as if the principal distributor were a participating dealer. In our view, this would reduce any lingering concern of the perception of an “uneven” playing field between a multiple principal distributor model and a participating dealer model. The parties to our existing multiple principal distributor arrangement already comply with these provisions and they are a key component in the integrity of the offering.

Next Steps

As articulated in this letter, AGFI is a strong supporter of the multiple principal distributor model, and unwaveringly advocates for the recognition of its benefits, as well as its ultimate continued allowance. If, however, the CSA opts to proceed with the CSA Proposal, we respectfully request that the CSA further consider grandfathering *existing* principal distributor models with multiple fund families. Grandfathering existing structures and products is not unusual with rulemaking and we believe it is appropriate in this instance, particularly given the very small number of existing principal distributors who will be impacted. The cost and unnecessary upheaval of unwinding from this limited number of existing structures would be far more harmful than any perceived detriment to grandfathering.

Alternatively, if the CSA deems grandfathering *not* to be a viable option, we urge the CSA to consider a broader openness to exemptive relief – i.e. akin to the sentiment of the Ontario Securities Commission (in Annex I of the CSA Proposal), who note that they are prepared to consider requests for exemptive relief from the proposed prohibition from a multiple principal distributor model where it can be demonstrated any potential investor protection concerns can be adequately addressed.

The Canadian investment industry requires responsive regulation to the different demographic and socio-economic needs of investors to more efficiently and innovatively offer Canadians greater access to a range of tailored investment advice and services that help them meet their financial goals outside of the traditional channels. It is AGFI's belief, based on its experience, that the multiple principal distributor model is an important part of that innovative solution and needs to be preserved.

We appreciate the opportunity to provide you with our comments, and we welcome the chance to discuss the prospective outcomes further.

Yours very truly,

on behalf of **AGF Investments Inc.**



Kevin McCreadie
Chief Executive Officer