Investors Group™

MURRAY J. TAYLOR
President and Chief Executive Officer

March 9, 2016

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumers Affairs Authority of Saskatchewan
The Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)
Office of the Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Office of the Superintendent of Securities, Newfoundland and Labrador
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Office of the Superintendent of Securities, Nunavut

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, rue du Square-Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3
Email: consultation-en-cours@lautorite.qc.ca

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8
Email: comments@osc.gov.on.ca

Dear Sirs/Mesdames:

Re: CSA Mutual Fund Risk Classification Methodology for use in Fund Facts and ETF Facts – Proposed Amendments to NI 81-102 Investment Funds and Related Consequential Amendments

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We are writing to provide our comments on the Canadian Securities Administrators (CSA) proposed mutual fund risk classification methodology for use in Fund Facts and ETF Facts (the Proposed Methodology).

Investors Group Inc. (Investors Group) is a diversified financial services company and one of Canada's largest managers and distributors of mutual funds, with assets under management of over $74 billion at December 31, 2015. Investors Group distributes its products through approximately 5300 Consultants engaged with its subsidiaries, Investors Group Financial Services Inc and Investors Group Securities Inc., which are members of the MFDA and IIROC, respectively.

We agree with the statement in the introduction to the Proposed Methodology that a standardized risk classification methodology will be more useful to investors, as it will provide a consistent and comparable basis for measuring the risk of different mutual funds. We also support the seven criteria and objectives set out in the Introduction to Annex A published previously in CSA Notice 81-324 (the 2013 Proposal).[1]

General Comments

We thank you for the opportunity to comment on the Proposed Methodology. We are pleased with many of the key changes made to the 2013 Proposal and appreciate the CSA's responsiveness to the comments made. Specifically, we support:

- the retention of the five-category scale currently prescribed in the Fund Facts and proposed ETF Facts,
- the adoption of the standard deviation (SD) ranges currently used in the IFIC Methodology,
- the allowance of fund manager discretion to increase the investment risk level of a mutual fund,
- the application of the Proposed Methodology to ETFs,
- changing the frequency of determining the investment risk level of a mutual fund from monthly to at least annually, upon the filing of a Fund Fact or ETF Facts, and,
- reducing the period to maintain records of the determination of the investment risk level of a mutual fund from 10 years to 7 years.

Overall we believe this updated approach will be very useful and generally appropriate. However, we do have some important suggestions for you to consider before finalizing the Proposed Methodology. It is with the CSA's criteria and objectives set out in the 2013 Proposal in mind that we provide our comments on the Proposed Methodology.

Periodic Review of the Standard Deviation Ranges

The Proposed Methodology does not make any provision for the review and possible adjustment of the SD ranges in order to take into account general market volatility.

The CSA specifies that a key objective is for the methodology to be "…a stable indicator of risk while fairly reflecting market cycles and broad market fluctuations". The attached graph in Appendix A illustrates the historical fluctuations in general market volatility levels. The 10 year rolling SD of the S&P TSX Composite, S&P 500 and MSCI EAFE have been graphed against a back drop of the current IFIC Methodology risk classification SD ranges. These indices are good proxies for the volatility of broadly diversified mutual funds that invest in the markets these indices represent.

Currently, the Investment Funds Institute of Canada (IFIC) reviews its risk classification methodology (the IFIC Methodology) annually through a risk classification task force. Without a mechanism to review and adjust the SD ranges to ensure they remain relevant with current market trends and volatility, risk levels of mutual funds will have to be reclassified unnecessarily, causing unnecessary disruption and confusion to investors.

We strongly encourage the CSA to adopt in the Proposed Methodology a periodic review of the volatility of market indices to identify periods of unusually high or low volatility and adjust the SD ranges, as necessary, to achieve the CSA's objective for the Proposed Methodology to fairly reflect market cycles and broad market fluctuations. We believe it would be beneficial if the CSA conducts this review in collaboration with an industry advisory committee.

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[1] CSA Notice 81-324 and Request for Comment *Proposed CSA Mutual Fund Risk Classification Methodology for Use in Fund Facts* (December 12, 2013).

Fund Manager Discretion to Decrease a Mutual Fund's Risk Level

In the absence of the Proposed Methodology including a regular review and any necessary adjustments in the SD ranges, we believe discretion should be given to the fund manager to both decrease, as well as increase, the investment risk level of a mutual fund to avoid the unnecessary disruption and confusion for investors that would be caused by a reclassification due to general market conditions and fluctuations in market volatility levels. Some qualitative limitations could be made on situations that would justify reductions implemented by the fund manager in a fund's risk rating.

We think allowing the fund manager the discretion to decrease a mutual fund's risk level in such circumstances is consistent with the manager's statutory duty to act in the best interests of the mutual fund in instances where the manager has determined that a lower risk level would better reflect the volatility of the mutual fund.

The Use of a Reference Index

The CSA cites as a criteria for the methodology that it be "... relatively simple and cost-effective for fund managers to implement".

We support the CSA's approach of using a reference index as a proxy in the Proposed Methodology in instances where a mutual fund has less than 10 years of performance history. We agree with the language of the methodology, that "the mutual fund must select a reference index that reasonably approximates the "return on investment" of the mutual fund".

The instructions for the selection and monitoring of the reference index, however, describe factors that a mutual fund "should consider". We find the description of the factors to require a level of analysis that would be impracticable in some circumstances and onerous and, potentially, expensive in others. As a result, the current instructions in the Proposed Methodology on the factors to consider in choosing a reference index do not align with the CSA's stated objective.

For example, the instructions state that among the factors that a mutual fund **should consider** in choosing a reference index is whether the index "contains a high proportion of the securities represented in the mutual fund's portfolio with similar portfolio allocations". This particular instruction would require index constituent data that may not be readily available and may be expensive to obtain. It would also be extremely cumbersome in the case of a fund for which a blend of indices is selected as the reference index.

In the case of new mutual funds for which there is no actual performance data it would not be possible to conduct much of the analysis called for in the instructions, such as, "has returns highly correlated to the returns of the market". As well, in spite of the wide range of indices available, for an innovative strategy, a very specific strategy, or a strategy allowing significant manager discretion with respect to asset class or geographic asset allocation, it may not be possible to complete the analysis in order to identify a reference index (or blend of indices) that is as highly similar as the proposed instructions require.

Accordingly, if the factors specified in the instructions of the Proposed Methodology for choosing a reference index are retained, we ask that the CSA clarify that they are simply examples of criteria fund managers can consider.

Standardized time frame

The CSA specifies that among the key objectives for the methodology is that it be "uniform", "easily understood" and "...allow for easy comparison across funds". To achieve this, we recommend the CSA require that the time period of data used in calculating the Proposed Methodology be as of the most recently completed calendar year.

We believe standardizing the time frame in this way would serve three purposes:

- the time period on which the risk level is based would then be the same as the 10 year calendar year performance displayed graphically on the Fund Facts,
- the risk level for all Fund Facts filed by managers in a given year would be based on the same 10 year time period, and
- if an annual review of the risk level SD ranges is incorporated in the Proposed Methodology, which we would strongly advocate for, the analysis and any changes to a fund's risk level could also be based on the calendar year end.

Fundamental Changes

Finally, we support the inclusion in the Proposed Methodology of how to determine a fund's risk level in the event of a fundamental change. However, we find the wording in the Proposed Methodology unclear and would suggest that the section be revisited. We recommend that the instruction clarify that the manager must determine if the fund's previous performance is still relevant to the expected risk level of the fund subsequent to the fundamental change. If the change to the fund is such that the fund's history is not relevant, the manager needs to select a reference index to use in the place of the fund's previous performance data.

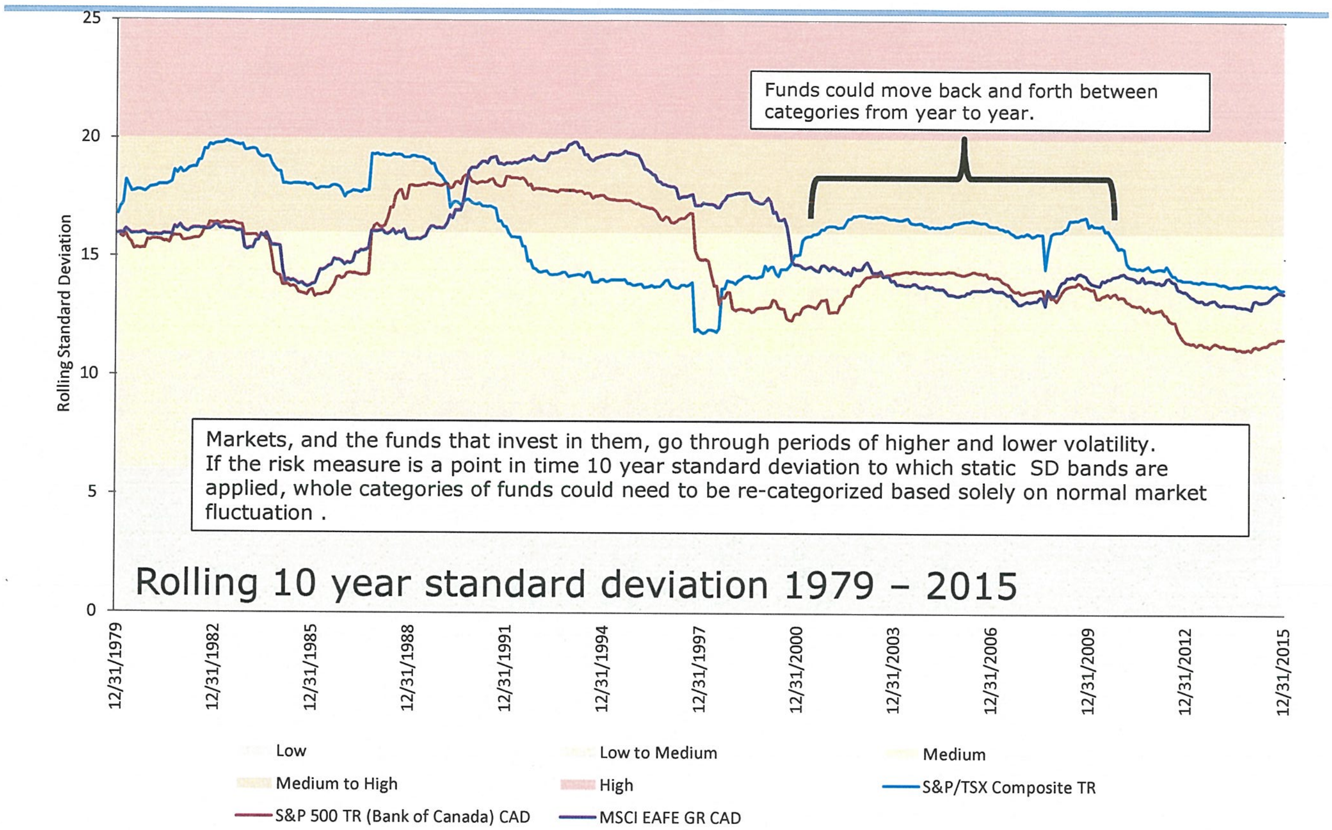
Thank you for the opportunity to provide comments on the Proposed Methodology. Please feel free to contact the undersigned or Scott Elson (scott.elson@investorsgroup.com) or Sandra Sigurdson (sandra.sigurdson@investorsgroup.com) if you wish to discuss or if you require additional information.

Yours truly,

INVESTORS GROUP INC.

Murray J. Taylor
President and Chief Executive Officer

Appendix A



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Source: Morningstar Direct