



US and Global Dividend & Income Equity Categories Proposal | Comments Received

The Canadian Investment Fund Standards Committee (CIFSC) would like to thank industry stakeholders for their valued input to the proposed US and Global Dividend & Income Equity Categories. Commenters included:

- Investment Funds Institute of Canada (IFIC)
- Empire Life
- Fidelity Investments Canada
- NEI Investments
- RBC Global Asset Management
- TD Asset Management

We respectfully respond to comments in the sections below. Note that in all instances below, “we” refers to the voting members of the Canadian Investment Funds Standards Committee.

	Comments Received	Responses/Notes
Mandate	Commentors reiterated the importance of having a dividend investing approach clearly stated in the investment objective of the prospectus.	We agree with this comment, and it is reflected in the first sentence of the definition: <i>Funds in the US Dividend & Income Equity category must have a stated mandate to invest primarily in income-generating securities and must invest at least 90% of their equity holdings in securities domiciled in the US.</i>

<p>Dividend Yield Threshold</p>	<p>Many commentors were concerned about the proposed dividend yield threshold of 1.25x the dividend yield of the S&P 500 and MSCI World. Specific comments included:</p> <ul style="list-style-type: none"> - 1.25x eliminates some funds that have a dividend oriented mandate - 1.1x or 1.15x were proposed as a threshold - Stating the threshold as "above the index" would allow dividend growers to be included in the category - Reference to the Canadian Dividend & Equity Income category where a threshold is clearly defined as being greater than the S&P Composite Dividend Index as a clearer objective - 1.25x could create yield chasing behaviour to remain in the category 	<ul style="list-style-type: none"> - Dividend growth strategies tend to have more characteristics of traditional blend funds rather than those focused on dividend yield. - The multiplier used was for consistency purposes as it was the threshold established for the Canadian Dividend & Income Equity category prior to the availability of the S&P/TSX Composite Dividend Index. That said, the committee agrees that the threshold should be reduced to be comparable to the current S&P/TSX Composite Dividend Index vs. the S&P/TSX Composite. <u>As such the threshold will be reduced to 1.15x.</u> - The committee has not found an appropriate broad U.S. or global dividend benchmark which measures all positive dividend paying companies, similar to the S&P/TSX Composite Dividend Index. - CIFSC requires a quantifiable threshold to establish the universe and provide clarity to investors. Dividend yield "greater than the appropriate benchmark" creates ambiguity. Per the definition, the funds must first qualify for the category quantitatively with the mandate check being the second requirement. We are unable to screen investment objectives as the first step of the process and it would be inconsistent with CIFSC's methodology more broadly. Additionally, the funds that did not meet the threshold have the characteristics of a blend fund and may not meet the dividend requirement of investors. - CIFSC does not consider how effectively an investment team manages their products. Should a management team veer outside of their investment process to yield chase, it would be a requirement to consider from an advisor/investor suitability standpoint.
<p>Dividend Yield Threshold</p>	<p>Commentors requested clarification on how the dividend yield threshold would be calculated</p>	<ul style="list-style-type: none"> - Similar to the calculation for the Canadian Dividend and Equity Income Category, the threshold would be calculated as follows: 3-year weighted average yield on the equity component of the fund's portfolio is above 1.15x the 3-year weighted average yield of the S&P 500 or MSCI World Index. These

		yields are taken from monthly Factsheets on each index provider's website.
Additional Comments	Commentors suggested increasing the minimum dividend-paying equity holding threshold from 50% to 75%.	- The 50% threshold is in place to ensure that most of the portfolio is composed of dividend paying equities. The committee believes that increasing this requirement to 75% would restrict investment flexibility with minimal benefit.
	Commentors would like clarification on the fund series selection process for the peer group.	- Fund selection was identified using Morningstar and Fundata identification methods. Generally, they are the oldest share class of a mandate. Corporate Class funds are also considered separately.
	Commentors were concerned that the tax treatment of foreign dividends does not offer Canadians the same preferential tax treatment and suggested the US and Global categories do not have merit.	- Investor tax considerations are individualized and outside the scope of mutual fund categorization.
	- Commentors were concerned about the small number of funds in the proposed movers creating volatility in peer rankings. Reference was made to this being the cause for the delayed launch of the Multi-Sector Fixed Income Category	- Each category has over 50 potential movers. We aim to have categories contain at least 15 funds. Currently there are 26 categories with less funds than the proposed dividend categories. - The delay on the Multi-Sector Fixed Income category was not due to minimum number of funds but instead related to gaining alignment on the category definition as well as due to our stated process to only launch new categories at quarter ends.
	Commentors were concerned about the inclusion of covered call strategies in the list of potential movers. The concerns arise due to the different risks the fund takes on by using derivatives	CIFSC agrees that option premium is different than collecting a dividend and that it requires taking on additional risk. <u>We agree these should be removed from the list of potential movers.</u>

The proposed categories have been approved with the changes highlighted in red above. Changes will be implemented effective April 1st, 2024. The CIFSC will provide an updated list of movers no later than February 29th, 2024.

The Canadian Investment Fund Standards Committee (CIFSC) would like to thank industry stakeholders for their valued input to the proposed edits to the Multi-Sector Fixed Income category definition. Commenters included:

Investment Funds Institute of Canada (IFIC)
Capital Group
Fidelity

Commentors were in favour of providing definitive boundaries to establish which funds should be classified in Multi-Sector Fixed Income in comparison to High Yield Fixed Income. Comments in favour provided the following rationale:

- Provides better clarity and support making the funds in the category mostly investment grade. This is potentially better for asset allocation decisions and avoids excess risk taking in fixed income.
- It removes high yield focused funds from the category and allows for better comparisons within categories.
- Reduces ambiguity with the category's existing definition and facilitates fund classification.

Commentors against the proposed edits provided the following rationale:

- Concerns the change would further dilute the High Yield Fixed Income Category.
- Concerns that 40% is too low of a threshold and places constraints on flexible multi-sector and unconstrained funds.

Please note that based on comments received, the CIFSC has rejected the proposed edits to the definition and will submit a new proposal for public comment in Q1'24.

The CIFSC thanks all commenters and will discuss feedback prior to a formal member vote.

Thank You,

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