MACKENZIE Investments | CONFIDENCE IN A CHANGING WORLD

VIA EMAIL

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 Superintended of Securities
Office of the Superintendent of Securities, Nunavut

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
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The Secretary
Ontario Securities Commission
20 Queen Street West
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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***

We thank you for the opportunity to comment on the CSA's mutual fund risk classification methodology for use in fund facts and ETF facts (the "**Proposed Methodology**"). Mackenzie Financial Corporation ("**Mackenzie Investments**") is a portfolio adviser and investment fund manager registered under National

Instrument 31-103 with total assets under management of over $59 billion as of January 31, 2016. Mackenzie Investments is a wholly-owned subsidiary of IGM Financial Inc., which is a member of the Power Financial Corporation group of companies. Mackenzie Investments distributes its products through more than 230 dealers representing over approximately 41,000 financial advisers. At Mackenzie Investments, we are committed to the financial success of investors, through their eyes.

We agree with the statement in the introduction to the Proposed Methodology that a standardized risk classification methodology provides for greater transparency and consistency, which will allow investors to more readily compare the investment risk levels of different mutual funds and/or ETFs.

Overall, we find the key changes from the 2013 proposal to be positive, and thank the CSA for their responsiveness. Our specific comments on the Proposed Methodology are set out below.

Application of Proposed Methodology to ETFs

We support the CSA's decision to apply the Proposed Methodology to both mutual funds and ETFs. We would continue to note, however, that the investment choices available to Canadian investors are not limited to mutual funds and ETFs, but include other types of investment funds and financial products. While we acknowledge that this is outside the scope of this publication, we strongly encourage the CSA to consider adopting the Proposed Methodology to all types of investment funds and financial products within its regulatory mandate and to work collaboratively with insurance and banking regulators to affect similar risk disclosure on competing investment products to mutual funds and ETFs, such as segregated funds and guaranteed investment certificates (GICs).

Five-Category Scale and Standard Deviation Ranges

We agree with the decision to keep the five-category scale currently prescribed in the Fund Facts and proposed ETF Facts. We are also supportive of the adoption of the standard deviation ("**SD**") ranges from the IFIC Methodology. Many fund managers currently use the IFIC five-category scale; therefore, maintaining the five bands will limit the disruption caused by reclassifying funds.

We note, however, that the Proposed Methodology is silent with respect to the frequency of review of the SD ranges. Currently, IFIC reviews its methodology annually through a risk classification task force. This ensures that a mutual fund's risk level stays relevant with current market trends and volatility. We believe such annual review is crucial with the introduction of the SD ranges, and strongly encourage the CSA to embed this commitment within the Proposed

Methodology. We believe an annual review by the CSA, working collaboratively with an industry advisory committee, would achieve the best outcome.

The need for such a review becomes more pertinent in the absence of permitting fund manager discretion to lower the investment risk level of a fund.

Use of a Reference Index

Mirrored Corporate Class and Trust Funds and Clone Funds

Although we are generally supportive of the requirement to use a reference index where a mutual fund does not have the requisite past performance history to calculate the fund's risk under the Proposed Methodology, we have identified some scenarios where another fund's performance, rather than a reference index, may be the more appropriate proxy. For example, we offer certain corporate class funds that essentially emulate the trust version. In these cases, the trust fund has 10 years of history, but the corporate class has less. Under the Proposed Methodology, the corporate class fund would be required to use a reference index rather than having the ability to use the trust fund's performance history, resulting in two identical funds having different risk ratings.[1] In such circumstances, we believe the Proposed Methodology should allow for the use of the longer performing fund's history in determining the risk level of both funds. Having two different risk ratings would likely cause unnecessary confusion.

Similarly, we note that in Annex A of the Proposed Methodology, the CSA has indicated that where a clone fund does not have 10 years of performance history, the manager can apply for exemptive relief to use the underlying fund's history instead of a reference index. We query why exemptive relief must be sought. We think in these instances the Proposed Methodology should permit the clone fund to use the underlying fund's history, without the need to seek exemptive relief.

Actively Managed Funds

We continue to be of the view that the use of a reference index, without the discretion of the fund manager to both increase and, in certain circumstances, decrease a fund's investment risk level, is problematic.

Our funds are designed to be actively managed and frequently do not resemble any index. Investors are paying us for active management and we believe that, among other things, this requires our funds to look and behave differently from indices. In other words, the purpose of our funds are not to be "highly correlated" to any index, a factor indentified in the Proposed Methodology for choosing a reference index. This can make identifying a reference index for new mutual funds, or those without the 10 year performance history, difficult. We

[1] See Mackenzie Cundill Recovery Class and Mackenzie Cundill Recovery Fund; and Mackenzie Global Concentrated Class and Mackenzie Global Concentrated Fund.

acknowledge that a reference index must be used for all funds in our management report of fund performance ("**MRFP**"), however the purpose of a reference index in the MRFP is to compare performance, not to be a proxy for risk. We therefore continue to advocate for the ability of the fund manager to use discretion to adjust the investment risk level, either higher or lower, in certain circumstances, where a reference index is used.

Instructions when Choosing a Reference Index

With respect to the instructions in the Proposed Methodology on factors to consider in choosing a reference index, we find the wording unclear as to whether the factors are merely examples of considerations a manager should employ when identifying and choosing a reference index, or, if the CSA expects <u>all factors</u> listed to be met. For the reasons cited above, as well as for reasons to be articulated, we support fund managers having the flexibility to decide which of the factors listed in the instructions are relevant to the mutual fund for the purposes of choosing a reference index, as well as having the flexibility to consider factors outside of those listed in the Proposed Methodology.

If the index or indices used in the MRFP may be used as a reference index, as indicated in the notice, we would ask that this too be clarified in the Proposed Methodology or instructions.

We further find the factors in the instructions of the Proposed Methodology for identifying and choosing a reference index to be unnecessarily prescriptive. As we've stated, with actively managed funds it may be difficult to find a reference index that "contains a high proportion of the securities represented in the mutual fund's portfolio with similar portfolio allocations," as the purpose of actively managed funds is <u>not</u> to track an index. Similarly, identifying a reference index that has "returns highly correlated" to the fund does not necessarily indicate a correlation of volatility between the fund and the reference index. We further query how such principals could ever possibly be met for new funds. We believe these issues can be fixed by the CSA clarifying that the factors specified in the instructions of the Proposed Methodology for choosing a reference index are merely examples or suggestions of criteria, and by the CSA introducing less prescriptive wording in the factors.

Finally, we also seek clarity in the Proposed Methodology or instructions on whether multiple reference indices may be used for one fund. We note that there may be periods where one reference index more closely resembled the fund during a certain period, but either the mandate of the fund or the reference index itself changed so that it is not appropriate to use for the entire historical period. In addition, some reference indices that are most relevant for our funds do not themselves have a 10-year history.[2] In these instances, it would be helpful to be able to use multiple reference indices.

Use of Discretion to Increase a Risk Rating

As stated, we believe a fund manager should have the discretion to adjust the investment risk level of the fund, either higher (as now permitted) or lower, in certain circumstances. While we appreciate that the Proposed Methodology now permits the manager to increase the fund's risk level, we continue to stress the importance of allowing the manager the discretion to decrease the risk level of a mutual fund in particular instances.

For example, we offer mutual funds that use derivatives to decrease the volatility of a fund. However, most reference indices do not employ these strategies and may, as a result, incorrectly increase the investment risk level of the fund. As an example, Mackenzie US Low Volatility Fund seeks long term capital growth similar to the US equity market (its benchmark being the S&P 500), but with lower volatility. The fund invests in low-beta stocks, with the intent of capturing the low-beta anomaly and employs options strategies such as a collar strategy, which involves buying put options and selling call options with the intention of reducing volatility. These investment derivatives strategies, and particularly the latter one, cannot be represented by using a reference index. Using the S&P 500 as the reference index, this fund's risk rating would be "medium", however because the fund employs these strategies to achieve lower volatility, we believe the more appropriate investment risk level is "low-to-medium". In such circumstances, with additional disclosure in the Fund Facts and/or the prospectus, we think the manager should be allowed to decrease a risk level. Alternatively, we would urge the CSA to recognize in the Proposed Methodology or instructions its willingness to consider exemptive relief on a case-by-case basis for a manager to exercise discretion to lower a fund's risk level.[3]

Similarly, where a fund is on the cusp of two SD ranges, and the fund fluctuates between these two ranges, we believe the manager should also have the discretion to identify the more appropriate risk level (higher or lower) for that mutual fund.

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[2] For example, the reference index that is most highly correlates with our Mackenzie Investment Grade Floating Rate Fund is FTSE TMX Canada Floating Rate Note (FRN) Index, which has an inception date of June 30, 2011.

[3] We note similar guidance has been given in 81-102CP s 3.1(3) to NI 81-102.

Fundamental Changes

Where there is a reorganization, we are supportive of using the monthly return on investment of the continuing mutual fund.

Frequency of Determining the Investment Risk Level of a Mutual Fund

We support the proposal for fund managers to review the risk level at least annually during the renewal process. However, we seek clarification on whether the risks must be determined upon every filing of Fund Facts, for example, where there is an amendment that requires a change to the Fund Facts that is not related to the investment objectives. In such circumstances, we do not believe that the risk level of the fund should be reviewed.

Records of Standard Deviation Calculation

We are pleased the requirement to maintain records has been reduced from 10 years to seven years as this coincides with other securities statutory requirements for record-keeping.

Transition

We support the CSA's proposal to permit the transition to the Proposed Methodology at the time of the funds' renewal.

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Thank you for the opportunity to provide comments on the Proposed Risk Classification Methodology. Please feel free to contact the undersigned or Johanna Di Staulo at jdistaul@mackenzieinvestments.com or Nick Westlind at nick.westlind@mackenzieinvestments.com if you wish to discuss this further if you require additional information.

Yours truly,

MACKENZIE FINANCIAL CORPORATION

[redacted]

Jeffrey R. Carney
President and Chief Executive Officer