

Notice relating to findings from an issue-oriented review on the fund facts document – Item 3 “Investments of the Fund”

The *Autorité des marchés financiers* (the “Authority” or “we”) has performed an issue-oriented review on the fund facts document - Item 3, Part I of Form 81-101F3 *Contents of Fund Facts Document* (“Form 81-101F3”). This review concerned reporting issuers subject to Regulation 81-101 respecting Mutual Fund Prospectus Disclosure, CQLR, c. V-1.1, r. 38 (“Regulation 81-101”), whose investment fund managers are headquartered in Québec (the “funds”).

In this notice, the Authority would like to share the principal findings that have already been communicated to investment fund managers as part of this review.

Objective and scope

The main objective of the review was to analyze the consistency between the nature of the fund and the information presented in the fund facts document under the heading “What does the fund invest in?”

Through our observations and exchanges, we want to support the investment fund managers’ efforts to comply with fund facts document requirements.

Principal findings

Investment fund managers should pay closer attention to the charts they choose to present in fund facts documents. Instruction 11 under Item 3, Part I of Form 81-101F3 specifies that each investment mix chart or table must show a breakdown of the fund’s investment portfolio into appropriate subgroups, and the fund should use the most appropriate categories given the nature of the fund.

To ensure that the nature of funds is reflected in the investment mix charts or tables presented in the fund facts document and the management report of fund performance (MRFP), we expect the charts or tables to be consistent with the investment approach, philosophy, practices or techniques used by the portfolio manager to achieve investment objectives.

Thirty-six funds were selected from 16 groups of funds. The findings concerning the fund facts documents may be summarized as follows:

- **36%** presented charts that were not sufficiently consistent with the nature of the funds;
- **17%** presented incomplete information, i.e., the scope and nature of the investment strategies described in the prospectus required a second chart to adequately illustrate the nature of the fund;
- **11%** did not disclose the level of complexity of the strategy described in the prospectus;
- **6%** presented charts that were inconsistent with those in the MRFP.

As a result of these findings, prospective changes were requested. Moreover, based on the responses obtained as part of this review, we noted a lack of adequate control to verify the quality of information.

I. Bond funds

None of the selected bond funds presented any charts or tables on the credit quality breakdown of the portfolio securities. Therefore, in some cases, these fund facts documents did not provide the information necessary for a reasonable investor to understand the fundamental and particular characteristics of the fund. Contrary to the main objectives of the fund facts document, this omission made it more difficult to compare funds within the same category.

This is all the more so with high-yield bond funds, as the information presented in credit quality breakdown charts or tables is generally necessary for a reasonable investor’s decision-making.

II. Global equity funds

Some selected global equity funds presented only a single asset mix chart containing only one asset class, i.e., global equities. Since we believe that a reasonable investor should in fact expect that a global equity fund own mainly global equities, we think this raises doubt as to the actual value added by this type of chart. In most cases, we believe that a chart showing fund investments by industry segment or geographic location would be more appropriate. It should be remembered that information in this section of the fund facts document must allow investors to understand the nature of the fund in order to help them in their decision-making.

III. Balanced funds

Some balanced funds consisting mainly of equities and bonds only present an asset mix chart. Adding a chart that breaks down the equity or bond component into subgroups, depending on which component is most important in the fund portfolio, may assist in understanding the nature of the fund.

IV. Funds of funds

Most charts presented in the fund facts documents of top funds show assets broken down by value of bottom funds. However, the disclosure in a prospectus generally refers to the use of strategies specific to top funds. Accordingly, consolidated disclosure of underlying portfolios may help clarify the strategies used by the top funds.

V. Charts not consistent with MRFPs

A number of funds were non-compliant with Instruction 11 under Item 3, Part I of Form 81-101F3, which states that the information in the fund facts document must be consistent with disclosure provided in the fund's MRFP. Furthermore, for the sake of consistency, we would like the disclosure provided in the documents prescribed by regulation to match that contained in documents developed by the funds in their advertisement.

Conclusion

Policy Statement to Regulation 81-101 respecting Mutual Fund Prospectus Disclosure requires that the fund facts document be concise, be written in plain language and highlight key information about the fund. The Authority expects investment fund managers to use the findings in this notice to improve the quality of disclosure provided to investors and the public. We believe that quality information allows investors to be more knowledgeable when discussing investments with their representatives and, ultimately, to make informed investment decisions.

The Authority will follow up on this review. In particular, we may require prospective or immediate changes to the fund facts document if we do not see any improvements.

Additional Information

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