



February 7, 2025

The Secretary
Ontario Securities Commission
20 Queen Street West
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Toronto, Ontario M5H 3S8
Fax: 416-593-2318
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Dear Sirs/Mesdames:

Re: Ontario Securities Commission Consultation Paper 81-737 – Opportunity to Improve Retail Investor Access to Long-Term Assets through Investment Fund Product Structures

The Private Capital Markets Association of Canada (“**PCMA**”) appreciates the opportunity to provide our comments in connection with Ontario Securities Commission (the “**OSC**”) Consultation Paper 81-737 – *Opportunity to Improve Retail Investor Access to Long-Term Assets through Investment Fund Product Structures* (the “**Proposal**”).

About the PCMA

The PCMA is a not-for-profit association founded in 2002 as the national voice of the exempt market dealers (“**EMDs**”), issuers and industry professionals in the private capital markets across Canada.

The PCMA plays a critical role in the private capital markets by:

- assisting hundreds of dealers and issuer member firms and individual dealing representatives to understand and implement their regulatory responsibilities;
- providing high-quality and in-depth educational opportunities to the private capital markets professionals;
- encouraging the highest standards of business conduct amongst its membership across Canada;
- increasing public and industry awareness of private capital markets in Canada;
- being the voice of the private capital markets to securities regulators, government agencies and other industry associations and public capital markets;
- providing valuable services and cost-saving opportunities to its member firms and individual dealing representatives; and
- connecting its members across Canada for business and professional networking.

Additional information about the PCMA is available on its website at www.pcmacanada.com.

The PCMA has also established its **Fair and Balanced Regulation Advocacy Website** at: <https://fairandbalancedregs.com>. This Advocacy Website is a platform for commentary and analysis on regulatory proposals, consultations, and requests impacting capital raising, securities registration and compliance in Canada's private capital markets. The PCMA examines the implications of these initiatives on issuers, exempt market dealers and dealing representatives. The PCMA is committed to supporting fair and balanced regulations in the Canadian capital markets and this is our resource to the public to share the PCMA's views and for education and training purposes.

PCMA's responses are set out below for your review and consideration.

I. GENERAL COMMENTS

1. PCMA Supports Opening up Private Capital Markets to Retail Investors

The PCMA supports the OSC's initiative to enhance individual investors' autonomy and choice by providing access to diversified investment opportunities in long-term illiquid assets ("**Long-Term Assets**")¹, such as venture capital, private equity, private debt, mortgages, real estate, infrastructure, and natural resource projects.

The PCMA has been a champion of alternative investment opportunities for retail investors in Canada and this has formed the basis of much of the Association's advocacy work and public commentary on existing and proposed regulation. In particular, the PCMA applauds the OSC's discussion on the benefits of Long-Term Assets for those investors whose time horizon, investment objectives and risk profiles align with an asset class that has been traditionally restricted from Canadian retail investors.

The benefits and risks of Long-Term Assets in Part B of the Proposal are features that private market issuers, investment fund managers ("**IFMs**") and dealers have been analyzing and discussing for years, including:

- i. the potential for Long-Term Assets to *"play a significant role in investment strategies, particularly for [investors] with extended time horizons"* so long as there is *"clarity about the benefits and risks of such investments"*;
- ii. diversification as *"another key benefit, as long-term assets typically exhibit lower correlation with public market investments, thereby potentially reducing portfolio risk"*;
- iii. the potential to align with the investment horizons of long-term investors *"as they are less concerned with short-term market swings and can afford to wait for the assets to mature, potentially realizing greater returns"*, together with their ability to *"encourage a 'buy and*

¹ As discussed in the Proposal, "**Long-Term Assets**" fall within the definition of "illiquid assets" in section 1.1 of NI 81-102. Under section 1.1 of NI 81-102, "*illiquid asset*" means: (a) a portfolio asset that cannot be readily disposed of through market facilities on which public quotations in common use are widely available at an amount that at least approximates the amount at which the portfolio asset is valued in calculating the net asset value per security of the investment fund, or (b) a restricted security held by an investment fund. Long-Term Assets are illiquid assets that cannot be readily disposed of, may be difficult to value, and generally have longer investment time horizons than other assets. They include venture capital, private equity, private debt, mortgages, real estate, infrastructure, and natural resource projects.

hold’ strategy which may result in lower costs and higher yields than active trading strategies”; and

- iv. the need for a balanced approach when analyzing the potential benefits alongside the potential for greater risk that can arise during times of financial stress when the inability to divest of Long-Term Assets without incurring losses can dramatically increase the individualized risks of overconcentration.

The PCMA believes fostering conditions for capital formation and innovation in both the public and private capital markets, strengthens market resilience by ensuring businesses have access to growth capital during economic cycles, promoting overall financial stability. Issuers in Canada have been staying private (illiquid) longer and in some cases may be unable to go public based on their structure or for commercial reasons. The PCMA agrees that expanding the capital-formation options available to Ontario issuers should allow them to raise more capital to meet their needs for growth while also facilitating retail investor access to this growing market segment. The PCMA views the Proposal is a further step in the democratization of the private capital markets.

2. PCMA Encourages Consideration of Existing Frameworks Granting Retail Investor Access to Long-Term Assets

The PCMA was surprised by the OSC's omission of any discussion on Canada's existing regulatory frameworks that already facilitate retail investor access to Long-Term Assets. These frameworks could be expanded to meet the OSC's goals efficiently and through established channels. The Proposal states that retail investors are “*restricted from investing in [Long-Term Assets] through existing channels*”. Conversely, many of the initiatives described in the Proposal have been accomplished and refined by certain CSA members in the Offering Memorandum Exemption (the “**OM Exemption**”) set out in section 2.9 of National Instrument 45-106 – *Prospectus Exemptions* (“**NI 45-106**”), and partially through the OSC’s own form of OM Exemption. This method of providing Long-Term Assets to retailers is well-regulated, and 15 years of improvements have enhanced investor protection.

The Proposal identifies “retail investors” as non-accredited retail investors. However, it does not recognize that such long term securities have been offered to retail investors (*i.e.*, eligible and non-eligible investors) in Ontario by EMDs under the OM Exemption for over a decade and for a longer period of time in other Canadian jurisdictions.

Collective investment vehicles (“**CIVs**”) are defined in NI 45-106 as being investment funds and any other issuer whose primary purpose is to invest money provided by its security holders in a portfolio of securities other than securities of subsidiaries of the issuer. This concept aims to improve the disclosure frameworks in NI 45-106, aligning them with the increasing use of the OM Exemption. CIVs pooling Long-Term Assets and distributing securities under the OM Exemption already use many features outlined in the Proposal. Contradicting the Proposal's objectives, investment fund issuers cannot use the OM Exemption in Ontario due to their prohibition in section 2.9(2.2) of NI 45-106. The PCMA believes the prohibition on investment funds should be reconsidered based on the OSC’s analysis of the benefits and risks of long-term assets in the Proposal.

Private market CIVs using the OM Exemption in Canada already address many “threshold issues” in the Proposal, such as liquidity and valuation. It is a common feature of these issuers relying on the OM

Exemption to restrict redemptions to a frequency of no greater than monthly, but at least annually in order to manage the nature of the underlying illiquid assets and to align these restrictions with the timing of NAV calculations. Total redemptions are typically capped and, if processed before the investment's expected lifecycle, are often discounted from NAV, benefiting the fund rather than acting as a deferred sales charge for distributors. All of these features that are set out in the Proposal are being utilized by private CIVs in jurisdictions across Canada under the OM Exemption with detailed disclosure provided to investors that describes these features in detail and is accompanied by specialized Risk Acknowledgment Forms required under NI 45-106 to ensure participants are aware of the unique risk profile of a Long-Term Assets.

The PCMA strongly encourages the OSC to consider that it may be able to achieve its objectives by expanding upon the OM Exemption framework in Ontario to align with those found in Alberta and British Columbia. To achieve regulatory consistency in Canada, the PCMA does not believe the market needs a new solution when an existing one has already been developed and could be more readily and efficiently deployed in Ontario. For example, many of the consultation questions raised in the Proposal are already effectively addressed through existing disclosure frameworks in [Form 45-106F2 Offering Memorandum for Non-Qualifying Issuers](#) ("**Form 45-106F2**") and [Form 45-106F3 Offering Memorandum for Qualifying Issuers](#) ("**Form 45-106F3**").

The PCMA is concerned that the OSC has tried various prospectus exemptions, like the Self-Certified Investor Exemption and Crowdfunding Exemption which, according to recent data, have not significantly boosted capital raising. To increase retail investor participation in Ontario's infrastructure projects, existing tools like the OM Exemption, which balance investor protection with capital raising, should be considered in addition to the Proposal. Therefore, it is recommended that the OM Exemption in Ontario be reviewed to permit its use for non-redeemable investment funds. As amending NI 45-106 would take time, a blanket order could be issued by the OSC to expand the scope of issuers that can rely on the OM Exemption to include non-redeemable investment funds, as is currently allowed in Alberta, Nova Scotia, and Saskatchewan.

3. PCMA has concerns with the Cornerstone Investor Concept

The PCMA is concerned that the Proposal relies heavily on a Cornerstone Investor, rather than dealer registration and compliance requirements, as a proxy for aligned and appropriate investor protection. The PCMA believes that this potentially undermines the registrant oversight regime that has been developed in Canada to protect retail investors and has the potential to cause real and significant harm to the capital markets. A registrant in Canada, whether a dealer, IFM or portfolio manager ("**PM**"), has duties of care owed to the investor (or in the case of an IFM, the fund and its securityholders) that would not apply to an unregistered and unregulated Cornerstone Investor. In particular, the Proposal implies that an IFM should be entitled to rely in part on a Cornerstone Investor to the required external evidence to determine the net asset value ("**NAV**") of an OLTF. This reliance will only be increased by mandating their involvement that the PCMA believes may unduly fetter the duties of an IFM.

NI 31-103 sets out a methodology for security valuation and reporting that has been deemed to be fundamental disclosure to investors. Issuers may consider a Cornerstone Investor's input as one factor in their valuation process. However, making their involvement mandatory or relying too heavily on them creates significant influence over the OLTF. This level of influence currently lacks proper regulatory

protection, including those involving conflicts of interest, which is a focus in recent updates to NI 31-103.

A Cornerstone Investor will have their own objectives and desires with respect to its investment in a Long-Term Asset, which may include early liquidation or even tax planning requirements. These will not necessarily be shared by retail investors who are often identified as having unique needs when contrasted with institutional market participants. By mandating the involvement of a Cornerstone Investor, the Proposal not only re-introduces the competitive advantage that high-net worth and institutional investors already wield over retail investors, it also risks exposing these investors to harm from unregulated and potentially conflict-driven influences.

4. PCMA believes EMDs should be able to distribute OLTF securities.

(a) The Proposal does not explicitly allow EMDs to sell OLTF securities

The Proposal states that OLTF securities would be made available through investment dealers overseen by the Canadian Investment Regulatory Organization (“CIRO”), and/or PM registered with Canadian securities regulators. In addition, it further states that where the OLTF is a mutual fund, OLTF securities may be distributed by mutual fund dealers that distribute alternative mutual funds.

The Proposal is silent on whether EMDs can distribute OLTF securities. However, the PCMA understands the OSC presently does not contemplate EMDs selling OLTF securities. The rationale for the exclusion of EMDs from distributing OLTF securities was not discussed in the Proposal.

EMDs (and limited market dealers in Ontario before them), have been instrumental in raising capital through the distribution of illiquid securities in Ontario’s capital market for decades. Since the introduction of the EMD registration category in 2009 under [National Instrument 31-103 Registration Requirements, Exemptions And Ongoing Registrant Obligations](#) (“NI 31-103”), EMDs have accumulated over 15 years of experience in the private capital markets. This experience is invaluable in structuring investments that balance investor protection with the promotion of fair and efficient capital markets. PCMA members, such as EMDs, are highly experienced in know-your-client (“KYC”) and know-your-product (“KYP”) due diligence, using professional judgment to select suitable illiquid investments for retail investors, including those defined as “eligible investors” in NI 45-106.

The PCMA believes that excluding EMDs from selling OLTF securities creates a gap in market access and reduces competition among distribution channels. The PCMA believes that EMDs are better suited to selling OLTF securities than mutual fund dealers and some investment dealers, since EMDs generally have more experience in selling illiquid securities of reporting and non-reporting issuers in the private capital markets. The experience of mutual fund dealers is largely limited to public mutual funds where investment liquidity is essentially mandated by legislation. One can also assert that investment dealers are generally biased toward liquid securities, leaving issuers of illiquid securities significantly under-covered by investment dealers. This is the niche that EMDs were meant to fill. By leveraging their expertise, the PCMA believes EMDs can better serve investors and issuers alike, creating a better opportunity to achieve more efficient capital raising and distribution.

(b) Ontario EMDs should be able to sell OLTF securities as part of its permitted registration activities

The PCMA believes EMDs should be able to raise capital under all available prospectus exemptions available under applicable securities law, as set out in Section 7.1(2)(d) of NI 31-103.² The exemption created by the Proposal should be no different. The Companion Policy of NI 31-103 states the following:

*Under subparagraph 7.1(2)(d)(i), exempt market dealers are permitted to trade in securities if the trade is a distribution made under a prospectus exemption. **This includes trading in securities of investment funds and reporting issuers provided the securities are distributed under an exemption from the prospectus requirement.** For example, where a reporting issuer is making a prospectus offering through an investment dealer, an exempt market dealer may participate in a private placement of securities of the same class, if those securities are actually distributed by the reporting issuer under a prospectus exemption. (emphasis added)*

Based on the foregoing, OLTF securities fall within the permitted registration activities of an EMD. Excluding EMDs from this activity reduces their ability to operate fully within their permitted scope of registration and limits investor choice. Further, excluding EMDs creates a competitive disadvantage for EMDs compared to other dealer categories despite EMDs' expertise and considerable experience in dealing with illiquid securities.

(c) EMDs can now take part in prospectus offerings in Ontario

On June 20, 2024, the securities regulatory authorities in Alberta, British Columbia, Nova Scotia, Ontario, Québec and Saskatchewan (the "**Participating Jurisdictions**") published a temporary exemption from the restrictions set out in subsection 7.1(2)(d) of NI 31-103 Obligations so that EMDs may participate in prospectus offerings as members of selling groups (the "**Blanket Order**").³

If the OLTF is a mutual fund that is a reporting issuer, then EMDs should be permitted to act as selling group members in connection with the distribution of OLTF securities made under a simplified prospectus. This would be consistent with the Blanket Order that includes Ontario. The policy reasons underpinning the Blanket Order supports the conclusion that EMDs should be included in prospectus distributions of OLTF securities.⁴

² Section 7.1(2)(d) of NI 31-103 states that a person or company registered in the category of exempt market dealer may:

- i. act as a dealer by trading a security that is distributed under an exemption from the prospectus requirement,
- ii. act as a dealer by trading a security, if all of the following apply:
 - A. the trade is not a distribution;
 - B. an exemption from the prospectus requirement would be available to the seller if the trade were a distribution;
 - C. the class of security is not listed, quoted or traded on a marketplace;
- iii. [repealed]
- iv. act as an underwriter in respect of a distribution of securities that is made under an exemption from the prospectus requirement.

³ <https://www.osc.ca/en/securities-law/instruments-rules-policies/3/31-930/osc-coordinated-blanket-order-31-930-exemption-allow-exempt-market-dealer-participation-selling>

⁴ The PCMA notes that many EMDs have concerns with the unfair economics set out in the Blanket Order. Specifically, the Blanket Order states, among other things, that the total compensation paid to an EMD cannot exceed 50% of the lowest total compensation paid or payable to any selling group member that is an investment dealer. Accordingly, EMDs may prefer to sell OLTF securities under a prospectus exemption, as discussed below.

(d) EMDs should be able to raise capital under the AI Exemption

EMDs typically raise capital for issuers using the accredited investor (“AI”) exemption set out in section 2.3 of National Instrument 45-106 – *Prospectus Exemptions* (“NI 45-106”).

In Ontario, there are minimal disclosure requirements for an “*offering memorandum*” or “OM” (as defined under Ontario securities law). Simply stated, an Ontario offering memorandum must include a statement of the investor’s statutory rights of action and the offering memorandum cannot include a misrepresentation.

The Proposal states that an OLTF will have a prescribed form of offering document. Where an OLTF is a mutual fund that is a reporting issuer, the offering document of the issuer will have prospectus-level liability. With these heightened disclosure requirements, the PCMA believes that the OSC should have no issue with EMDs providing such offering documents to retail investors under the AI Exemption. This approach would enhance investor protection while allowing experienced EMDs to offer OLTF securities, maintaining market integrity and access. Moreover, the PCMA is not aware of any unique investor harm that could be attributed to participation of EMDs in such circumstances.

(e) All EMDs should be able to sell OLTF securities under the OM Exemption in Canada except in Ontario, Quebec and New Brunswick.

Ontario, Quebec and New Brunswick do not permit the distribution of securities of “investment funds” under the OM Exemption (section 2.9(2.2)(b) of NI 45-106).

At the same time, the OM Exemption is available in Manitoba, Northwest Territories, Nunavut, Prince Edward Island, Yukon, Alberta, Nova Scotia and Saskatchewan to an issuer that is a “*non-redeemable investment fund*”⁵ (“NRIF”) or a mutual fund that is a reporting issuer. Specifically, the OM Exemption has a prescribed form of offering document for reporting issuers set out in Form 45-106F3.⁶ Typically, such issuers would prepare what is called an “OM wrapper” where it would attach the final form of an OLTF prospectus to a form of OM that would incorporate by reference parts of the OLTF prospectus, as applicable, that conform to the OM form requirements.

British Columbia and Newfoundland and Labrador have no restrictions involving the sale of investment funds under the OM Exemption.

In conclusion, the PCMA believes the regulatory framework should recognize the ability EMDs to distribute OLTF securities based on established principles under NI 31-103 and existing prospectus exemptions. As discussed above, the PCMA’s position is supported by several key regulatory considerations:

⁵ “**non-redeemable investment fund**” means an issuer, (a) whose primary purpose is to invest money provided by its securityholders, (b) that does not invest, (i) for the purpose of exercising or seeking to exercise control of an issuer, other than an issuer that is a mutual fund or a non-redeemable investment fund, or (ii) for the purpose of being actively involved in the management of any issuer in which it invests, other than an issuer that is a mutual fund or a non-redeemable investment fund, and (c) that is not a mutual fund.

⁶ <https://www.asc.ca/-/media/ASC-Documents-part-1/Regulatory-Instruments/2023/09/6100624-45-106-F3-Consolidation-Eff-June-9-2023.ashx>

- as set out in section 7.1(2)(d) of NI 31-103, EMDs are expressly permitted to trade in securities of reporting issuers distributed under prospectus exemptions. The Companion Policy to NI 31-103 further clarifies this scope, specifically contemplating EMD participation in private placements concurrent with prospectus offerings. The OLTF framework should align with these established parameters;
- the June 2024 Blanket Order in the Participating Jurisdictions permitting EMD participation in prospectus offerings as selling group members establishes clear regulatory precedent for expanding EMD distribution channels. This temporary relief demonstrates regulatory comfort with EMD involvement in prospectus-qualified offerings, which should logically extend to OLTF distributions;
- the robust disclosure requirements proposed for OLTFs, including prospectus-level liability and enhanced continuous disclosure obligations under National Instrument 81-106 – *Investment Fund Continuous Disclosure* (“**NI 81-106**”), provide sufficient investor protection mechanisms to support EMD distribution under the Accredited Investor exemption in section 2.3 of NI 45-106. The heightened disclosure standards address traditional regulatory concerns about EMD distributions to retail investors; and
- while acknowledging the current restrictions on investment fund distributions under the OM Exemption in Ontario, Quebec, and New Brunswick (section 2.9(2.2)(b) of NI 45-106), the established practice of using OM wrappers with prospectus disclosure in other jurisdictions provides a proven regulatory model for EMD distribution of OLTF securities. Accordingly, the PCMA believes the OSC should consider allowing the distribution of securities by non-redeemable investment funds under the OM Exemption in Ontario.

In conclusion, the PCMA believes the exclusion of EMDs from OLTF distributions would create an unwarranted regulatory asymmetry, particularly given EMDs' demonstrated expertise in private market distributions involving illiquid securities. A distribution framework incorporating EMDs would enhance market efficiency while maintaining appropriate investor protection through existing regulatory mechanisms.

5. Cornerstone Investors and Proposal Requirements: Possible Disconnect

In furtherance of earlier comments, the PCMA acknowledges the potential benefit of Cornerstone Investors in the context of the Proposal. It is reasonable to expect that a sophisticated and substantial investor will satisfy itself as to the merit of an investment while arranging appropriate investment protection for itself. The Proposal's framework for proportional rights between Cornerstone Investors and OLTFs makes sense, but requires careful analysis considering fundamental market realities and established institutional investment practices in the private capital markets.

Institutional investors typically secure extensive rights packages through “*side letter*” arrangements proportionate to their capital commitments. Depending on the size of an investment, they may include “*most favored nation*” provisions ensuring an institutional investor receives rights equal or superior to other investors. Terms of a typical side letter might include the following:

- governance rights (board seats, investment committee participation);
- enhanced information rights beyond statutory requirements;

- direct operational oversight mechanisms;
- consent rights over material transactions;
- priority rights in future capital raises;
- customized reporting and valuation protocols; and
- special redemption privileges.

An OETF, as an “investment fund”, cannot have such control rights otherwise it may fall out of the definition of an investment fund under Ontario securities law. However, the Proposal's 10% ownership limit for OETFs in any single CIV creates an inherent structural conflict with the principle of proportional rights. Customary and usual market practice dictates that a 10% minority investor would not receive rights equivalent to Cornerstone Investors committing 25-50% of capital. The Proposal's requirement that Cornerstone Investors hold "*at least 10% of the CIV's equity*" further highlights this disconnect. While OETFs are capped at 10%, they are expected to receive equivalent rights to Cornerstone Investors who potentially hold substantially larger positions. The PCMA questions whether it is realistic to expect Cornerstone Investors to co-invest with OETFs on this basis.

Furthermore, the assumption that Cornerstone Investors will serve as effective due diligence proxies through information sharing faces several practical barriers:

- confidentiality obligations under existing CIV agreements;
- competitive concerns regarding investment analysis and strategy;
- resource constraints for investor relations functions;
- potential liability exposure from retail investor reliance;
- administrative costs of maintaining parallel information flows;
- different valuation perspectives and time horizons; and
- potential conflicts in redemption scenarios.

The Proposal's framework regarding valuation assumes Cornerstone Investors will provide "*external evidence that the process of valuing a particular Long-Term Asset is fair and reasonable.*" However, this overlooks potential conflicts where Cornerstone Investors may have different valuation incentives based on their own portfolio management needs and time horizons.

The PCMA submits that more commercially viable approach would recognize legitimate differentiation of Cornerstone Investors versus OETF investor rights based on:

- investment size and timing relative to fund lifecycle;
- administrative and monitoring capabilities;
- regulatory status and obligations;
- commercial negotiating leverage; and
- portfolio management requirements.

The PCMA believes the Proposal's regulatory framework should focus on establishing appropriate baseline protections for OETF investors through existing disclosure and governance requirements rather than attempting to artificially replicate institutional investor rights. Attaining such rights may prove impractical for an OETF's minority investment in a CIV when investing alongside a Cornerstone Investor.

In sum, the PCMA believes that a Cornerstone Investor should give retail investors some comfort as being a lead or co-investor along with an OETF. However, without fully considering certain commercial

realities, Cornerstone Investors may not want to invest alongside an OLTf for various reasons. If so, this would defeat the purpose of the Proposal.

Please see our additional comments below about Cornerstone Investors in response to Question 14 (iii) *Cornerstone Investors*.

II. RESPONSE TO PROPOSAL QUESTIONS

A. Objectives

1. Do you agree that retail investors could benefit from increased access to Long-Term Assets?

Please explain.

Yes, the PCMA agrees that retail investors could benefit from increased access to OLTfs for the reasons set out in the Proposal, as summarized below:

- **Access to Diverse Investments** - OLTfs would provide retail investors with exposure to a broader range of assets, such as infrastructure, natural resource projects, private equity, and private debt, which are not typically accessible through traditional investment channels. These assets can diversify portfolios and potentially reduce overall risk due to their lower correlation with public market investments.
- **Potential for Higher Returns** - Long-Term Assets often offer higher returns compared to more liquid investments, particularly when investors can hold these assets over extended periods. This aligns with the needs of long-term investors who are less impacted by short-term market fluctuations.
- **Professional Management** - OLTfs would be managed by registered IFMs and PMs. This professional oversight ensures that retail investors are protected through the registration regime and benefit from their expertise in navigating the complexities and risks associated with Long-Term Assets.
- **Alignment with Long-Term Goals** - Long-Term Assets align with “*buy-and-hold*” strategies, fostering disciplined financial planning. This approach can lead to reduced costs and higher yields over time, as it avoids the pitfalls of frequent trading and market timing.
- **Mitigation of Information Asymmetry** - Investing through OLTfs provides retail investors with greater transparency, as the fund structure requires clear disclosure of investment objectives, strategies, and risks. This reduces the information gaps that typically disadvantage smaller investors.
- **Potential for Lower Costs** - Diversified investment funds like OLTfs lower the barrier to entry for retail investors by reducing minimum investment thresholds and trading costs compared to direct investments in Long-Term Assets.
- **Co-Investment with Sophisticated Investors** - Retail investors would have the opportunity to invest alongside institutional investors, such as pension funds, which act as Cornerstone

Investors. This co-investment framework provides additional credibility and confidence in the management and viability of Long-Term Assets.

- **Regulatory Framework** - The proposed regulatory framework introduces investor protections for OLTs through the registration and compliance requirements under NI 31-103. These include suitability determinations by dealers and advisers, transparency in fund objectives, and governance structures to manage the unique risks of Long-Term Assets. This ensures retail investors are better informed and protected.
- **Supporting the Government of Ontario's Capital Formation Goals** - As stated in the Proposal, the introduction of OLTs directly aligns with the Ontario government's objectives to enhance capital formation. Retail investor participation in these funds could channel significant capital into essential infrastructure, housing, energy, and municipal projects. This influx of retail investment could lower funding costs for these capital-intensive assets while simultaneously fostering economic growth and innovation.

As the OSC knows, the proposed tariffs on Canadian exports to the United States by President Trump pose a serious threat to Ontario's economy. Therefore, strengthening and developing Ontario's own long-term assets is of paramount importance to mitigate potential economic damage and ensure future stability. By prioritizing the growth of domestic infrastructure and resource projects, OLTs can reduce reliance on external markets and enhance the Province's economic resilience. Investing in Ontario's Long-Term Assets not only supports local job creation and industrial development but also positions the Province to better withstand external economic shocks. By facilitating broader investment opportunities, OLTs contribute to building a robust, self-reliant investment ecosystem that benefits both individual investors and Ontario's economic infrastructure. The PCMA believes that the OSC should also consider allowing investors outside of Ontario, particularly other jurisdictions in Canada, to invest in OLTs. If the OSC considers expanding the OM Exemption to include non-redeemable investment funds, this would automatically expand the jurisdiction of investors.

In conclusion, the PCMA believes that expanding retail access to OLTs across Canada offers significant benefits, including diversification, higher returns, and alignment with long-term financial goals, all while supporting the Ontario government's broader economic objectives.

2. Could investment fund product structures facilitate increased retail investor allocation to Long-Term Assets, while mitigating some of the risks of holding these illiquid assets? Please explain.

Investment fund product structures could facilitate increased retail investor allocation to Long-Term Assets, but the fundamental determinant of success lies in the execution and performance of the underlying CIVs and their investments. While professional oversight from registered IFMs and PMs provide important governance and expertise, they are ultimately investing through CIVs where the professional managers of the OLT may not have direct control over investment decisions or operational execution. Ultimately, whether retail investors see their capital deployment succeed rests on the combined impact of several major factors including: (a) the strength and potential of the underlying investments; (b) the skill and expertise of the CIV management teams; and (c) the ability of the CIV management teams to generate returns through the effective implementation of sound business operations and strategic value creation initiatives.

The proposed investment fund structure offers certain benefits such as diversification across multiple CIVs, orderly liquidity management through redemption mechanisms, and co-investment alongside institutional investors (*i.e.*, Cornerstone Investors). However, these structural elements, while helpful for risk management, are secondary to the fundamental performance of the underlying investments for investors. The layered structure of retail investment fund investing in CIVs also introduces additional costs and complexity that need to be justified by superior investment returns.

Investor protection is enhanced by the Proposal's regulatory framework, which incorporates prospectus requirements for OLTFs and investment restrictions. However, investors remain exposed to the inherent risks of a OLTF's underlying investments. The success of a CIV investment is determined by various factors, including the ability of the CIV manager to identify opportunities, execute business plans, manage operations effectively, and successfully exit investments, not solely by OLTF structure.

Therefore, while investment fund structures can provide a regulated and professionally managed vehicle for retail participation in Long-Term Assets, they should be viewed primarily as an access mechanism rather than a risk mitigation tool. The key focus should be on the quality of the underlying CIVs and their management teams, their investment strategy and track record, and their ability to generate attractive risk-adjusted returns net of all fees. The investment fund structure can help facilitate retail access to these opportunities in a more controlled way, but cannot fundamentally alter the risk-return proposition of the underlying investments themselves. As noted by the International Organization of Securities Commissions, regulation cannot eliminate market risk but it can provide tools to help mitigate that risk.

3. What else could be done to increase retail investor interest in specific types of Long-Term Assets?

The market should ultimately determine which types of Long-Term Assets generate the most interest, rather than the OSC directing capital to particular sectors. Historical evidence from the EMD channel demonstrates that investor interest naturally gravitates toward investments that deliver successful outcomes and strong returns. Conversely, failed investments or poor performance can create lasting skepticism toward certain asset types or investment structures.

Track record and transparency will be crucial for building credibility. Clear reporting on investment outcomes, including both successes and failures, helps investors and their advisors make informed decisions. The marketplace needs to see concrete examples of how these investments have performed through different market conditions and how they have created value for investors. Consideration should be given to, among other things, the following:

- creating educational resources and tools to help advisors assess suitability;
- facilitating knowledge sharing between an OLTF and its retail markets;
- encouraging research and analysis on the role of Long-Term Assets in retail portfolios; and
- building awareness of successful investment cases while being transparent about risks and failures.

Equally important is the education and training of registrants who will be advising on these investments. Registrants selling OLTF securities need an understanding of not just the technical aspects of Long-Term Assets, but also how they fit into different investor portfolios based on an investor's investment objectives, risk profile, and time horizon. This requires ongoing professional development focused on private markets, illiquid investments, and portfolio construction incorporating alternative assets. This is something EMDs and their dealing representatives have been doing for years. Of course, this is one of

the main reasons the PCMA supports permitting EMDs to participate in the distribution of OLTf securities by allowing the use of the AI Exemption or consider expanding the OM Exemption to include non-redeemable investment funds which can be distributed by EMDs.

As stated above, ultimately, success in attracting retail investor interest will ultimately depend on the market's ability to deliver compelling investment opportunities with strong risk-adjusted returns, supported by robust education, professional expertise, and transparency in both successes and failures.

4. Would the investment fund structure be less attractive or not viable if the Proposal were to place some restrictions on minimum investments in Long-Term Assets located in Ontario? Please explain.

We can only speculate on the answer to this question. In theory, any investment criterion imposed on the portfolio of a fund has potential to impair investment performance and complicate operations. The PCMA sees no reason to assume that a requirement to invest a minimum amount of an OLTf's investment portfolio in Ontario-based Long-Term Assets would be any different. This could potentially conflict with fundamental investment principles, suitability determination and portfolio construction, and market dynamics. With that said, the PCMA acknowledges, as stated in the Proposal, that promoting Ontario investments may align with broader policy objectives mentioned in Section D "Improving conditions for investment in Ontario," such restrictions could create several challenges. From an investment management perspective, artificially constraining the investment universe to require minimum Ontario allocations could:

- reduce the ability to optimize portfolio returns by forcing investments in Ontario even when better opportunities exist elsewhere;
- create concentration risk by overexposing investors to Ontario's economic conditions and market cycles;
- limit diversification benefits that come from geographic dispersion across different markets and regions; and
- potentially increase competition for limited Ontario-based opportunities, affecting pricing and returns

In the end, we are balancing a theoretical risk against a theoretical benefit.

In addition, the Proposal states that the Ontario government is looking at innovative ways to finance transportation, housing, energy, and municipal services through "crowding in" private sector investment. If this is the main policy goal, it might be better achieved with other specific policy tools instead of restricting investments in OLTfs, which could hurt their investment value, suitability, and add another layer of regulation for market participants.

Moreover, institutional investors like pension funds, who would serve as Cornerstone Investors under the Proposal, typically invest based on an investment's return potential rather than primarily geography. Forcing geographic restrictions could make it harder to attract these sophisticated co-investors who are crucial to the proposed structure's success.

If there is a policy imperative to promote Ontario investments, this should be:

- clearly separated from the OLTf framework's investment objectives;

- pursued through other policy mechanisms like targeted incentives or separate investment vehicles; and
- transparently communicated as an Ontario government policy objective rather than an investment requirement reflected in Ontario securities law.

Again, the success of OLTs will ultimately depend on their ability to generate competitive risk-adjusted returns by accessing the best available opportunities, regardless of geography. This aligns with the Proposal which state that "inclusive parameters will provide the greatest opportunities for participation by investors." Geographic restrictions would run counter to this principle of inclusivity and could limit the Proposal's effectiveness in achieving its broader objectives of improving retail investor access to Long-Term Assets.

5. Should the Proposal exclude certain types of Long-Term Assets (e.g., sensitive infrastructure projects in specific countries or Long-Term Assets that non-investment fund issuers would be prohibited from owning)? Please explain.

Yes, the PCMA believes the Proposal should exclude certain types of Long-Term Assets for several key reasons set out in the Proposal:

- there needs to be clarity about investment risks while protecting retail investors. Sensitive infrastructure projects in specific countries may present heightened geopolitical, regulatory, and operational risks that could be difficult for retail investors to fully evaluate and for fund managers to effectively monitor and manage;
- the Proposal emphasizes that retail investors have limited opportunities compared to institutional investors and face greater risks of information asymmetry. This asymmetry would be particularly acute with sensitive foreign infrastructure projects where access to reliable information and ability to conduct proper due diligence may be constrained. This in turn would impact the ability of an OLT's management team to undertaking ongoing monitoring of its investments and registrants to due diligence such matters as part of their ongoing regulatory responsibilities, as required under NI 31-103;
- the Proposal further states that OLTs would need to address "inherent risks associated with Long-Term Assets, such as liquidity, volatility, concentration, duration, and informational asymmetries." Sensitive infrastructure in certain jurisdictions could amplify these risks beyond acceptable levels for retail investment products; and
- the Proposal identifies sensitive foreign infrastructure assets as possibly presenting unique challenges for IFMs and PMs in fulfilling their monitoring and fiduciary obligations. The Proposal emphasizes the importance of "*robust requirements and protections*", and excluding certain high-risk assets would align with the protective framework set out in the Proposal.

In sum, the ultimate goal should be to facilitate retail investment in Long-Term Assets while maintaining appropriate safeguards. Excluding certain types of high-risk or sensitive assets would help achieve this balance while still preserving investment opportunities in more suitable Long-Term Assets.

B. Overview

6. Please explain your views on each of the following overview elements:

(i) OLTFs having the same restrictions on control that apply to investment funds under section 2.2 of NI 81-102.

The PCMA believes OLTFs should not have the same control restrictions that apply to investment funds under section 2.2 of National Instrument 81-102 *Investment Funds* (“**81-102**”). The rationale for control restrictions has a natural application to traditional investment funds designed as passive investment vehicles. Those restrictions also promote liquidity, which is not an objective in the case of the Proposal. In the PCMA’s view, the unique nature of long-term illiquid assets requires a fundamentally different approach to governance and control.

At this point, it is hard to say whether an OLTF would ever have an opportunity to make an investment in Long-Term Assets that carry 10% or more of the voting rights. However, the PCMA does not see a reason to block that possibility. One of the core propositions for an OLTF is experienced management. The PCMA is of the view that it may be better to allow those managers the leeway to make the best investments rather than curtail their investment parameters with rules designed for another application.

The current section 2.2 restrictions in NI 81-102, including the 10% limit on voting rights and prohibition on exercising control or management, could significantly impair the ability of an OLTF to effectively manage and create value from private market investments. Long-term illiquid assets in sectors like infrastructure, real estate, and private equity inherently require more active involvement to protect investor interests and optimize performance. The ability to exercise meaningful governance rights, including board representation, veto rights over major decisions, and strategic input, is essential for proper risk management and value creation in these types of asset classes. An OLTF should not be mandated to be passive and assume its interests will always align with those of a Cornerstone Investor. Moreover, these restrictions would put OLTFs at a severe disadvantage in the private markets where significant ownership stakes and control rights are standard market practice for institutional investors.

From a risk management perspective, passive ownership in complex, illiquid investments could actually increase risks to retail investors by limiting the ability of the OLTF to monitor and influence important decisions affecting its investments. Active involvement in governance, through appropriate control rights, provides crucial oversight mechanisms and the ability to protect investor interests, particularly given the long-term, illiquid nature of these investments.

The success of OLTFs in providing retail investors access to long-term assets depends on their ability to operate effectively within the private capital markets. This requires moving beyond the traditional passive investment model and its associated control restrictions to a framework that recognizes the active governance requirements of long-term illiquid investments.

(ii) OLTFs being subject to their own unique regulatory requirements.

The PCMA believes OLTFs should be subject to their own unique regulatory requirements based on the Proposal’s framework. The Proposal clearly identifies several distinctive characteristics of Long-Term Assets and OLTFs that necessitate a tailored regulatory approach. For example, Section B (Overview) of

the Proposal, states that *"many of the current requirements applicable to those types of funds would not be appropriate to OLTFs, necessitating a unique regulatory framework that balances flexibility with investor protection."* This is evident when considering the following aspects outlined in the Proposal:

- **Asset Composition:** OLTFs invest in illiquid assets that *"cannot be readily disposed of, may be difficult to value, and generally have longer investment horizons than other assets."* This includes venture capital, private equity, private debt, mortgages, real estate, infrastructure, and natural resource projects. These assets require different valuation, liquidity management, and risk assessment approaches than traditional investment funds;
- **Investment Structure:** The Proposal requires that OLTFs invest through CIVs alongside Cornerstone Investors, and sets out specific regulations around co-investment structures, governance, and investor protections that differ from conventional investment fund requirements;
- **Redemption Mechanics:** As outlined in the Proposal, OLTFs need unique redemption provisions that align with the illiquid nature of their investments, ranging from monthly to annual redemption frequencies with appropriate notice periods and caps;
- **Valuation Requirements:** The Proposal discusses the need for specific valuation frameworks given the challenges in valuing Long-Term Assets, including requirements for independent valuations and appropriate net asset value ("**NAV**") calculation frequencies; and
- **Disclosure Requirements:** OLTFs require tailored disclosure requirements to adequately communicate the unique risks, features, and characteristics of Long-Term Assets to retail investors.

These distinct characteristics demonstrate that attempting to regulate OLTFs under existing NI 81-102 series investment fund structures would be inadequate and potentially counterproductive. The PCMA supports a specialized regulatory regime on the basis that it would better serve both investor protection and market efficiency objectives while facilitating retail access to Long-Term Assets.

(iii) OLTFs distributing units through a prospectus-qualified offering.

The PCMA believes OLTFs should be distributed through a prospectus-qualified offering structure, as discussed in the Proposal. As outlined in the Proposal, "OLTFs would become reporting issuers in Ontario through a prospectus-qualified offering."

The OLTF prospectus regime creates a comprehensive regulatory framework specifically designed for retail access to Long-Term Assets through:

- standardized disclosure tailored to illiquid asset investments;
- prescribed investment and redemption structures;
- required involvement of Cornerstone Investors through CIVs;
- investment restrictions and concentration limits;
- formal valuation requirements;
- ongoing reporting obligations as a reporting issuer; and
- enhanced regulatory oversight and compliance requirements.

If certain issuers seek to raise capital as a non-reporting issuer, the OM Exemption provides a viable alternative as such Long-Term Assets are presently distributed across Canada under the OM Exemption and its prescribed form of offering document and related terms and conditions.

(iv) The impact of OLTFS being only distributed to Ontario investors.

The PCMA does not believe OLTFS should be distributed to Ontario investors only. The PCMA believes this would limit capital raising and create disadvantages for both OLTFS and investors. The successful development and operation of investment vehicles focused on Long-Term Assets requires significant scale that would be difficult to achieve with an Ontario-only investor base.

Long-Term Assets like infrastructure projects, real estate developments, and private equity investments typically require substantial capital pools to be viable. Restricting the investor base to Ontario would artificially constrain capital formation, potentially making many projects unfeasible or inefficient. This limitation may be problematic for attracting institutional Cornerstone Investors, who typically seek larger, national investment platforms that can achieve proper scale and diversification. The requirement for Cornerstone Investors through CIVs, as outlined in the Proposal, could become significantly more challenging to satisfy if the Proposal is restricted to Ontario.

The PCMA believes OLTFS issuers seeking to raise capital for Long-Term Assets would be unnecessarily disadvantaged by being unable to access investors across Canada. This contradicts the Proposal's stated goal of finding innovative ways to finance transportation, housing, energy, and municipal services through "crowding in" private sector investment. Arguably, the capital requirements for such projects often exceed what could reasonably be raised from Ontario investors alone.

The restriction would also create operational inefficiencies by requiring separate Ontario-only vehicles when IFMs want to raise capital nationally or internationally. This would increase costs through duplicative structures and reduced economies of scale; costs that would ultimately be borne by investors. Moreover, Ontario-based IFMs would be put at a competitive disadvantage compared to managers in other jurisdictions who might have more flexibility in their capital raising.

Instead of an Ontario-only approach, the PCMA recommends working with other Canadian Securities Administrators to develop a harmonized national framework for retail investment in Long-Term Assets. This would create a larger, more efficient market that would better serve the objectives of increasing retail access to Long-Term Assets while providing OLTFS issuers with the scale needed to successfully execute their investment strategies. A national approach would also better align with existing capital markets practices where investment products are typically distributed across multiple jurisdictions in Canada to achieve necessary scale and efficiency.

In sum, the PCMA believes the success of OLTFS in providing retail investors access to Long-Term Assets, while supporting capital formation for important projects, requires the flexibility to raise capital beyond Ontario's borders. An Ontario-only restriction would undermine these objectives and create unnecessary barriers to the development of an effective retail investment framework for Long-Term Assets. In addition, with the recent imposition of tariffs on Canadian exports to the United States, it is important to reduce interprovincial trade barriers in Canada.

(v) OLTFs being either fixed-term or evergreen investment funds.

The PCMA supports the flexibility discussed in the Proposal to structure OLTFs as either fixed-term or evergreen investment funds. However, as discussed in the Proposal, each structure requires specific regulatory safeguards and operational frameworks to ensure appropriate investor protection while maintaining the distinct characteristics that make each model effective for different types of Long-Term Assets.

Fixed-term OLTFs provide a clear alignment with specific project completion timelines, particularly suited for infrastructure and development investments with defined horizons. These vehicles require a structured approach to capital raising and deployment, with definitive winding-up dates that match underlying project lifecycles. The vehicles should also have the right to extend a wind-up so management of the CIV can plan an orderly exit of an investment and not force an asset sale at less than fair market value due to fixed wind-up dates.

The PCMA also believes the regulatory framework for fixed-term OLTFs must explicitly prohibit automatic rollovers or unilateral capital redeployment decisions by management to new projects without securityholder approval, and clear exit rights for dissenting unitholders. Such management decisions would constitute fundamental changes under section 5.1(1) of NI 81-102. Any extension of fund terms, redeployment of assets to new projects, or rollovers into new investment vehicles should require supermajority (2/3) approval from unitholders, with independent oversight of asset valuations and capital return procedures.

In contrast, evergreen OLTFs, operating in continuous distribution, face different regulatory challenges centered around ongoing portfolio and liquidity management. These vehicles are best suited for strategies like private equity and real estate, which require constant reinvestment, need clear frameworks to manage subscriptions, redemptions, and portfolio turnover. The regulatory regime must establish clear protocols for liquidity management, including queuing and gating mechanisms, alongside comprehensive valuation frameworks for determining NAV and managing vintage risk across different investor entry points.

Both structures share common regulatory considerations arising from the Proposal's core elements. The requirement to invest through CIVs with Cornerstone Investors necessitates careful alignment of fund terms with underlying investment vehicles. This includes clear protocols for IFM and PM oversight, conflict management procedures between different investor vintages, and comprehensive disclosure requirements tailored to each structure's specific characteristics.

(vi) The proposed CIV requirement

The proposal to require OLTFs to invest through CIVs represents a logical extension of existing regulatory frameworks, particularly aligning with the enhanced disclosure requirements for CIVs introduced in *Schedule 2* of Form 45-106F2 under the OM Exemption that came into effect on March 31, 2023. The PCMA submits that the OLTF CIV structure is not a novel concept but rather builds upon established regulatory approaches to CIVs under an existing prospectus exemption adopted by all CSA members, including Ontario.

Schedule 2 of Form 45-102F2 already provides a comprehensive disclosure framework addressing key aspects of CIVs that should be considered and reviewed by the OSC as it contemplates the required CIV disclosure for an OLTF offering document. Schedule 2 includes, among other things, detailed requirements for investment objectives and strategy disclosure, portfolio management oversight and qualifications, portfolio composition, performance measurement, ongoing disclosure obligations, and conflict of interest management. These established requirements can be readily adapted to address the specific characteristics of Long-Term Assets while maintaining consistent investor protection standards.

The consistency with existing regulatory frameworks under the OM Exemption means market participants are already familiar with these disclosure requirements. Compliance frameworks and documentation standards have been established, and regulatory expectations are well understood. This allows for efficient adoption of proven practices rather than requiring market participants to develop entirely new compliance systems.

Rather than creating a new disclosure regime, leveraging the existing Schedule 2 CIV framework for OLTFs provides regulatory efficiency while ensuring appropriate transparency and investor protection. This approach represents a practical evolution of collective investment vehicle regulation, building upon established principles while adapting them to the specific needs of retail investment in Long-Term Assets. The alignment with existing CIV disclosure requirements under the OM Exemption demonstrates that the OLTF framework follows a proven regulatory approach to collective investment vehicles.

The requirement for CIVs to include Cornerstone Investors provides several structural benefits that enhance the OLTF framework compared to the OM Exemption. This approach leverages existing institutional investment expertise, creates alignment of interests between retail and sophisticated investors, and arguably provides additional oversight through institutional due diligence processes. The involvement of Cornerstone Investors also helps establish market-standard governance practices and facilitates proper portfolio monitoring and valuation, critical elements for Long-Term Asset investments.

(vii) OLTFs within a fund-on-fund structure under an investment fund subject to the requirements of NI 81-102.

The PCMA believes a fund-of-fund investment framework for OLTFs should largely rely on the existing protections already established under section 2.5 of NI 81-102. This section provides certain safeguards around fee structures, investment restrictions, and investor protection that would apply effectively to fund-of-fund investments in OLTFs.

Section 2.5 of NI 81-102 already addresses key investor protection concerns, particularly around duplicative fees and charges. The section prohibits management fees or incentive fees that would duplicate fees payable by the underlying fund for the same service. It also prevents double charging of sales and redemption fees when the underlying fund is managed by the same manager or an affiliate. These provisions would effectively prevent the "*double dipping*" of fees in OLTF fund-of-fund structures without requiring additional regulation.

The section also establishes important investment restrictions, including requirements that the underlying fund be a reporting issuer in the jurisdiction and that it hold no more than 10% of its net asset value in securities of other investment funds. These provisions help maintain proper regulatory oversight and prevent excessive layering of fund structures that could harm investor interests.

However, some aspects of section 2.5 of NI 81-102 would need amendment to accommodate OLTF investments effectively. Most significantly, section 2.5(2)(a) currently restricts investments to mutual funds subject to NI 81-102 or alternative mutual funds. This would need to be amended to specifically permit investment in OLTFS. Additionally, the 10% limit on underlying fund investments in section 2.5(2)(b) may need adjustment to accommodate the illiquid nature of OLTF investments and allow for effective portfolio construction.

The framework could largely maintain the existing investor protection mechanisms in section 2.5 while making targeted amendments to accommodate the unique characteristics of Long-Term Assets and OLTF structures. This approach would leverage proven regulatory standards while enabling broader access to Long-Term Asset investments through fund-of-fund structures. The key is ensuring any amendments maintain the investor protection principles underlying the current requirements while providing appropriate flexibility for OLTF investments.

7. Are there other overview elements the Proposal should consider? Please explain.

In addition to the types of OLTF structures, the PCMA believes the OSC needs to provide guidance on the types of securities offered by OLTFS, whether debt, equity, or hybrid securities. The types of securities offered by an OLTF directly impacts the regulatory framework and operational considerations that must be addressed under NI 81-102. Moreover, the choice of securities offered, fundamentally affects how the OLTF structures its investment offerings and manages its obligations to investors, particularly in the context of Long-Term Assets.

Equity securities in OLTFS align with traditional investment fund principles under NI 81-102, requiring robust NAV calculation methodologies and clear redemption mechanisms. The inherent illiquidity and valuation challenges of Long-Term Assets make these calculations particularly complex, necessitating detailed disclosure of valuation methodologies and redemption restrictions. Equity structures must also address governance rights, profit-sharing mechanisms, and distribution policies, all while maintaining compliance with investment fund conflict provisions under National Instrument 81-107 *Independent Review Committee for Investment Funds* (“NI 81-107”).

Debt securities introduce a different regulatory paradigm, focusing on fixed payment obligations and credit risk management. These securities must align payment schedules with project cash flows, requiring careful structuring of interest rates and maturities. The regulatory framework needs to address ranking and security interests, particularly in the context of the CIV structure mandated for OLTFS. Default scenarios and enforcement mechanisms require clear definition, with specific consideration for how these interact with the underlying Long-Term Assets and Cornerstone Investor relationships.

Hybrid securities, combining characteristics of both debt and equity, present the most complex regulatory challenges. These instruments require comprehensive disclosure frameworks addressing conversion features, priority rankings, and distribution waterfalls. The PCMA believes the regulatory regime should provide clear guidance on how hybrid securities interact with the OLTF's fundamental structure, particularly regarding voting rights, conversion timing, and valuation methodologies that address both fixed-income and equity components.

The choice of security type particularly impacts fixed-term versus evergreen OLTf structures. Fixed-term OLTfs issuing debt securities can align payment obligations with project completion timelines, while equity or hybrid securities require clear protocols for terminal value determination and final distributions. Evergreen OLTfs face additional complexity in managing ongoing refinancing or conversion cycles for debt securities, while maintaining continuous NAV calculations for equity components.

C. Threshold Issues

8. Do you agree that these are threshold issues? Are there any other threshold issues? Please explain.

The PCMA agrees the issues identified by the OSC above are threshold issues.. However, the PCMA believes there are other threshold issues that need to be addressed as follows.

- *Fee Structures and Control Rights* - While OLTfs would be required to follow investment fund restrictions against control under NI 81-102, this conflicts with standard market practice for illiquid asset investments, where large investors typically negotiate significant control rights in exchange for their capital. The Proposal maintains traditional investment fund fee structures, but does not address how OLTfs can protect investor interests without typical institutional investor rights over fees, expenses, and major decisions in CIVs.⁷
- *Monitoring and Due Diligence* - The consultation paper requires OLTf investments through CIVs but does not recognize that institutional investors in illiquid assets typically secure extensive information rights, audit rights, and board representation to monitor their investments. The proposed framework maintains passive investment fund principles while lacking mechanisms to ensure OLTfs can adequately monitor CIVs without these traditional control levers.
- *Financial Reporting and Valuation* - While the Proposal addresses NAV calculation requirements, it does not fully consider how OLTfs would ensure timely and accurate financial information from CIVs without negotiated reporting rights. Institutional investors typically secure enhanced financial reporting, audit rights, and valuation validation mechanisms that may not be available to OLTfs under investment fund control restrictions.
- *Governance Rights* - The Proposal maintains investment fund governance structures but does not address how OLTfs can protect investor interests without typical institutional investor governance rights in a CIV such as:
 - board representation;
 - veto rights over major decisions;

⁷ *Further Consideration Regarding Minimum Investment Requirements* The PCMA believes potential solution could be requiring OLTfs to make minimum investments in each investee project that are substantial enough to command "most favoured nation" treatment. This requirement, coupled with a mandatory matching investment from a Cornerstone Investor, could help achieve the benefits sought in the Proposal. Without such requirements, an OLTf's investment might be viewed as a disproportionate burden relative to its capital contribution and could actually hinder the infrastructure project's ability to raise capital. To ensure OLTfs can effectively participate alongside sophisticated investors, they should be required to make commitments commensurate with institutional standards. While this approach might limit some investment opportunities, it would strengthen the quality of executed investments and enhance the management team's ability to negotiate optimal terms. The combination of expert management oversight and matching investment requirements would help secure most favoured nation treatment and reinforce management's negotiating position.

- rights to remove management;
- control over exit timing; and
- ability to force liquidity events.

Such rights would be contrary to a CIV being an “Investment fund” as defined under Ontario securities law.

- *Alignment of Interests* - While the Proposal requires Cornerstone Investors, it does not address how OLTFS can ensure ongoing alignment without typical institutional investor rights to:
 - participate in follow-on investments;
 - prevent dilution;
 - control management changes;
 - influence investment strategy; and
 - participate in exit decisions.

The key tension is that successful illiquid asset investment typically requires active control rights that conflict with investment fund restrictions. The PCMA believes that the Proposal’s regulatory framework needs to either provide alternative protection mechanisms or consider selective exemptions from control restrictions where necessary to protect OLTF investor interests.

(i) Redemptions

9. Please explain your views on each of the following redemption features:

OLTFS are dedicated to investing in illiquid assets, but redemptions need to be in liquid form. It also requires a redemption value. Both of those factors represent inherent challenges in the context of illiquid assets. Where liquidity is constrained, redemption requires alternative arrangements. These alternative arrangements include:

- a formal valuation requirement;
- limiting the frequency of redemptions;
- limiting the amount of redemption at any particular time;
- creating a credit facility to fund redemptions;
- imposing a blackout period for redemption that might be measured in months or years from the date of investment; and
- creating the ability to turn redemptions off and back on again as circumstances change.

All of these alternative measures should be considered by the OSC in order to balance the investor benefit of redemption against the realities of the OLTF and its investment portfolio.

i. Frequency

The PCMA agrees that redemption frequency should be tailored to the specific characteristics of each OLTF, with flexibility ranging from monthly to annual redemptions, as set out in the Proposal. The appropriate redemption frequency fundamentally depends on the nature of the underlying Long-Term Assets, investment strategy, and liquidity management capabilities of the CIV in which the OLTF invests.

For OLTFS investing in more actively traded Long-Term Assets, such as private credit or certain real estate strategies, more frequent redemption periods (e.g., monthly or quarterly) may be appropriate given relatively shorter realization cycles and more regular cash flows. However, for OLTFS focused on infrastructure projects, development properties, or other assets with longer investment horizons and less predictable cash flows, semi-annual or annual redemption frequencies would better align with the underlying asset characteristics.

The Proposal's range of permissible redemption frequencies provides appropriate flexibility while establishing reasonable boundaries. The monthly minimum frequency prevents operational inefficiencies from too-frequent redemptions, while the annual maximum ensures investors maintain some liquidity access. This flexibility allows OLTFS to establish redemption terms that match their investment strategy and asset profile.

However, whatever redemption frequency is selected, the PCMA believes OLTFS offering documents must clear disclose the following:

- the rationale for the chosen redemption frequency;
- how redemption frequency aligns with the underlying asset liquidity;
- the relationship between redemption frequency and NAV calculations;
- any limitations or restrictions on redemption capacity;
- the process for handling excess redemption requests; and
- potential circumstances that could impact redemption fulfillment.

The key is ensuring investors understand how the redemption frequency relates to the OLTFS's investment strategy and liquidity management approach. This transparency allows investors to assess whether the redemption terms meet their liquidity needs while maintaining the OLTFS's ability to effectively manage its Long-Term Asset portfolio.

ii. Discounts

The PCMA supports the implementation of early redemption fees (or discounts from the redemption price) for OLTFS, drawing from established mutual fund practices but adapted to the unique characteristics of Long-Term Assets. Early redemption fees or discounts are also a common features of issues distributing securities under the OM Exemption. Early redemption fees are important given the illiquid nature of the underlying investments and the need to protect long-term investors.

Early redemption fees should be structured to serve multiple critical purposes in OLTFS. First, they discourage short-term trading that could destabilize the OLTFS's ability to maintain appropriate exposure to Long-Term Assets. This is especially important given the illiquid nature of these investments and the potential impact of unexpected redemptions on portfolio management. Second, these fees help recover costs associated with early redemptions (e.g., commissions paid), which can be substantial given the complexity of valuing and liquidating positions in Long-Term Assets. Third, they protect long-term investors by ensuring that the costs of providing liquidity are borne by those demanding it rather than being spread across all investors.

The duration and level of early redemption fees for OLTFS should be determined based on several key factors. The investment strategy and underlying asset characteristics should drive the fee structure, with longer redemption fee periods potentially necessary for less liquid assets or development-stage

investments. The fee levels should be set to adequately cover transaction costs (commissions, fees and expenses paid by an OLTF) and market impact while providing effective deterrence against inappropriate short-term trading. However, they must remain reasonable and clearly disclosed to investors.

A tiered approach to early redemption fees may be particularly appropriate for OLTFs, with higher fees in early years that decrease over time. This structure could help align investor behavior with the long-term nature of the underlying assets while providing increasing flexibility as holding periods extend. The specific tiers and fee levels should reflect the OLTF's investment strategy, underlying asset liquidity, and operational costs associated with managing redemptions.

Clear disclosure of early redemption fee structures is essential, including detailed explanation of the rationale for the fees, how they are calculated, and the circumstances under which they apply. This transparency helps investors understand the relationship between the fee structure and the fund's investment strategy while supporting informed decision-making about investment horizons and liquidity needs.

iii. Caps

The PCMA supports the Proposal's implementation of a minimum 10% redemption cap based on the NAV of an OLTF. However, the PCMA disagrees with the mandatory wind-up requirement if redemption requests exceed this cap for two consecutive years. The PCMA believes a 10% threshold is too low for triggering a wind-up given the long-term nature of the underlying assets and normal market cycles that can temporarily increase redemption demands.

The PCMA also believes a percentage-based redemption cap structure is superior to flat amount redemption limits sometimes seen in private market offerings under the OM Exemption. While some issuers offer fixed redemption amounts (like \$250,000 per quarter), this approach becomes problematic as funds grow. A percentage of NAV ensures redemption capacity grows proportionately with fund size, maintaining appropriate liquidity management across the fund's lifecycle.

Instead of a mandatory wind-up at 10%, the PCMA proposes requiring an OLTF unitholder vote on wind-up if redemption requests exceed a higher threshold, such as 30%, for two consecutive years. This voting mechanism should require a special resolution (2/3 approval) of remaining unitholders, with clear disclosure of the implications of continuing versus winding up, management's plan for addressing redemption demands, potential impact on portfolio management and returns, liquidity management options, and risks of maintaining or liquidating positions.

A voting mechanism at a higher threshold maintains investor protection while providing more flexibility than an automatic wind-up requirement. It recognizes that sophisticated investors in Long-Term Assets should have agency in determining how to address significant redemption demands, particularly given the potential value destruction that could result from forced liquidation of illiquid assets. The framework should establish clear parameters around the voting process, including timing requirements, disclosure obligations, and the role of the independent board or review committee in making recommendations to unitholders.

Significant concerns also arise regarding OLTFs that use new investor funds to pay redemptions in excess of the stated redemption cap. While the cap serves as a baseline and an OLTF may have discretion to exceed it, using new investments to fund excess redemptions raises serious fairness issues. This practice effectively transfers liquidity risk from redeeming investors to new investors, who reasonably expect their capital to be deployed into Long-Term Assets rather than used to facilitate redemptions.

The use of new investor funds for excess redemptions can create problematic dynamics similar to Ponzi-like structures, where new investments primarily serve to provide liquidity for existing investors rather than pursuing the fund's stated investment objectives. This practice can disadvantage new investors by immediately diverting their capital to redemptions rather than long-term investments, potentially reducing their future returns and exposing them to greater risk.

The regulatory framework should require clear disclosure of any practices involving the use of new investor funds for redemptions exceeding the cap. OLTFs should be required to demonstrate how such practices align with their fiduciary duties and the fair treatment of all investors. Additionally, regular reporting of redemption sources should be mandated to ensure transparency around liquidity management practices.

iv. Notice

The PCMA believes the notice period requirement for redemptions should be aligned with and proportionate to the redemption frequency of the OLTF. While the Proposal suggests a maximum notice period of 30 days with flexibility to set shorter periods, The PCMA believes this approach requires refinement to better match operational realities of different OLTF structures and their underlying CIV investments.

For monthly redemptions, a 30-day notice period may be appropriate as it gives the IFM sufficient time to manage liquidity while maintaining reasonable investor access. However, for quarterly redemptions, the notice period (e.g., 60-day) might need to be longer to allow proper liquidity planning, particularly given the larger potential redemption amounts that could accumulate over a quarter. Semi-annual and annual redemption structures may require even longer notice periods to effectively manage the potentially significant redemption requests that could accumulate over these extended periods.

The IFM of an OLTF should have discretion to set appropriate notice periods based on their specific liquidity management needs, underlying asset characteristics, and operational requirements. While 30 days should be established as a minimum notice period, IFMs need flexibility to require longer periods when necessary to ensure they can properly assess and arrange liquidity to satisfy redemption requests. This is particularly important given the illiquid nature of Long-Term Assets and the potential complexity of arranging liquidity for larger redemption windows.

The PCMA believes the OSC should include standardized requirements for the form and content of redemption notices, methods of delivery, confirmation procedures, and any requirements for acknowledging receipt. Clear procedures around the timing of notices relative to redemption dates and valuation periods would help prevent confusion and ensure smooth operation of redemption processes.

The PCMA also believes the regulatory framework should also address how notice periods interact with any redemption caps or restrictions, ensuring investors understand both when they need to provide

notice and how their redemption requests will be processed if caps are reached. This includes clear disclosure of how excess redemption requests will be handled and whether they will be carried forward to subsequent redemption periods.

v. Payment

The PCMA believes the proposed 15-day payment timeframe for redemption proceeds following a valuation is impractical. The PCMA believes it is unrealistic to assume that one or more CIVs can provide a OLTF with frequent NAV calculations based on current valuations.

The calculation of NAV for OLTFs presents unique challenges due to their reliance on CIVs for underlying asset valuations. CIVs managing illiquid private market investments do not typically perform frequent valuations. The key question is not how quick an OLTF can calculate NAV in order to make a payment, rather this timeline depends entirely on receiving timely valuation information from the underlying CIVs. This may not be feasible or economically practical on a frequent basis. Moreover, a CIV may not want to accept OLTF investment proceeds if it is required to provide frequent valuations.

The PCMA believes a more realistic approach would be to allow OLTFs flexibility in determining redemption prices based on the most recent reliable valuation information from their CIVs. This could mean basing redemption prices on the last annual or semi-annual valuation or other ongoing reporting to investors, depending on what the CIV provides the OLTF. The regulatory framework should acknowledge this practical limitation while requiring clear disclosure to investors about how redemption prices will be determined and the potential lag between valuation dates and redemption payment dates.

The PCMA believes that forcing more frequent valuations could impose unnecessary costs on OLTFs and their underlying CIV issuers, without providing proportionate benefits to investors. Instead, the focus should be on ensuring valuation methodologies are robust and transparent, even if performed less frequently than traditional investment funds. This approach better aligns with the long-term nature of the underlying assets and the practical constraints of obtaining accurate valuations from CIVs.

Therefore, the PCMA recommends that the regulatory framework allow OLTFs to establish their redemption pricing and payment mechanisms based on the practical realities of obtaining valuations from CIVs. Specifically, each OLTF should:

- clearly disclose in its offering documents whether redemption prices will be based on annual, semi-annual or more frequent valuations from CIVs;
- establish specific valuation dates that align with expected receipt of CIV valuation information;
- set clear timelines for calculating redemption prices once CIV valuations are received; and
- make redemption payments within 15 days after the redemption price is calculated

This approach provides transparency to investors about when and how redemption prices will be determined and paid, while acknowledging the practical limitations of obtaining frequent valuations of Long-Term Assets through CIV structures. It also maintains reasonable payment timelines once prices are determined while ensuring the valuation process itself reflects the realities of private market investments.

Most importantly, this framework allows OLTFs to align their redemption mechanisms with their underlying CIV relationships and reporting cycles, rather than imposing artificial timelines that may not be achievable. The focus should be on ensuring investors understand the process and timing rather than trying to force OLTFs to meet timing requirements better suited to more liquid investment funds.

vi. Suspensions

The PCMA supports the Proposal's framework permitting the temporary suspension of redemptions in OLTFs in certain circumstances, however the conditions and procedures should be more clearly defined. The PCMA recommends establishing a maximum temporary suspension period of 45 days, during which an OLTF could suspend redemptions with approval from its independent directors or independent review committee, based on clearly defined circumstances that make suspension necessary to protect fund interests.

The regulatory framework should explicitly list the circumstances that justify a temporary suspension. These could include major market disruptions impacting asset valuations, substantial uncertainty in CIV valuations, exceptional circumstances affecting underlying assets, or operational disruptions at the CIV level hindering accurate NAV calculations. Extensions beyond the initial 45-day period should be available through application to the OSC, with clear requirements for demonstrating continued necessity and plans for resuming redemptions.

The PCMA agrees with the Proposal's approach to fixed-term OLTFs, which may operate without ongoing redemption rights provided they have clearly disclosed end dates. This structure is particularly important for certain types of Long-Term Assets, especially development projects or infrastructure investments with defined completion timelines. However, the framework must require detailed disclosure of expected end dates and return of capital mechanisms, as these are crucial elements for determining investment suitability for different investors.

The PCMA also supports the Proposal's requirement that fixed-term OLTFs return proceeds to investors if not substantially deployed by the end of the ramp-up period. However, this requirement should be part of a broader capital raising framework that includes minimum offering thresholds.

Fixed-term OLTFs should establish clear *minimum offering amounts* that represent the capital necessary to execute their investment strategy effectively. If these minimum amounts are not raised during the initial offering period, the OLTF should be required to return all proceeds to investors rather than attempting to operate with insufficient scale. This protects investors from the risks of undercapitalized funds while ensuring OLTFs have sufficient capital to properly execute their investment strategies.

For funds that successfully raise their minimum amounts, the PCMA supports the requirement to return undeployed capital after the ramp-up period. This ensures capital is not held unnecessarily in liquid investments when it could be returned to investors. Similarly, the PCMA supports requiring the return of proceeds after CIV exits or at fund termination, as this provides clear mechanisms for returning capital to investors as investments are realized.

The regulatory framework should require clear disclosure of these capital raising and return mechanisms, including specific thresholds, timelines, and processes for returning capital in various

scenarios. This transparency is essential for investors to understand how and when they might receive returns of capital, particularly given the restricted redemption rights in fixed-term structures.

Additional Considerations

vii. Need for Historical Redemption Disclosure

For evergreen OLTs, the PCMA believes the Proposal should be amended so OLTs are required to provide detailed reports of their historical redemption activity, as required by the OM Exemption. This would include information about the number of securities subject to redemption requests, the number actually redeemed, average redemption prices paid, sources of funds used for redemptions, and any outstanding redemption requests. Importantly, OLTs should be required to explain any non-fulfillment of redemption requests, providing investors with practical insight into the operation of an OTF's redemption mechanisms. This would be consistent with the Item 6 – *Redemption Requests* under Form 45-106F2, which is prescribed disclosure under the OM Exemption, as set out below.

Item 6: Repurchase Requests

- (1) With respect to any securities of the issuer for which investors have a right to require the issuer to repurchase the securities, disclose the following:

- (a) for each of the two most recently completed financial years, the information specified by the following table;

Description of security	Date of end of financial year	Number of securities with outstanding repurchase requests on the first day of the year	Number of securities for which investors made repurchase requests during the year	Number of securities repurchased during the year	Average price paid for the repurchased securities	Source of funds used to complete the repurchases	Number of securities with outstanding repurchase requests on the last day of the year

- (b) for the period after the end of the issuer's most recently completed financial year and up to a date not more than 30 days before the date of the offering memorandum, the information specified by the following table;

Description of security	Beginning and end dates of the period	Number of securities with outstanding repurchase requests on the first day of the period	Number of securities for which investors made repurchase requests during the period	Number of securities repurchased during the period	Average price paid for the securities repurchased	Source of funds used to complete the repurchases	Number of securities with outstanding repurchase requests on the last day of the period

- (c) with respect to the periods specified in (a) and (b), the reason for any non-fulfillment of investor repurchase requests, unless the non-fulfillment was in accordance with terms governing the right.

10. What are the minimum redemption restrictions OLTFs would need to effectively manage their liquidity?

As discussed above, the PCMA believes that minimum redemption restrictions for OLTFs should be structured around four key elements to effectively manage liquidity.

- *Redemption frequencies* should align with the characteristics of the underlying assets. For OLTFs invested in more liquid Long-Term Assets like private credit or stabilized real estate, monthly or quarterly redemptions may be appropriate. However, for infrastructure or development projects, semi-annual or annual redemptions better match the assets' liquidity profile. The framework should allow OLTFs to set redemption frequencies that reflect their specific investment strategy and asset mix.
- *Notice periods* for redemptions must be sufficient to allow proper liquidity planning. While the Proposal suggests a 30-day maximum notice period, the PCMA believes longer periods may be necessary, particularly for less frequent redemption windows. Notice periods should scale with redemption frequency - longer notice for annual redemptions versus monthly redemptions - to allow proper liquidity management. OLTFs should have flexibility to set appropriate notice periods based on their specific circumstances.
- *Redemption caps* are essential but should be structured as minimums rather than maximums. While the Proposal suggests a 10% annual cap, OLTFs should be able to set higher caps if their liquidity management capabilities allow. The key is ensuring the cap aligns with the fund's ability to generate liquidity through normal operations without forcing disadvantageous asset sales or funding redemptions with new investor proceeds.
- The framework should require clear procedures for managing redemption queues when requests exceed caps. This includes policies for:
 - order of priority for fulfilling redemptions;
 - treatment of unfulfilled requests;
 - whether unfulfilled requests carry forward;
 - conditions for suspending redemptions; and
 - process for resuming redemptions after suspension.

These minimum restrictions must be complemented by comprehensive disclosure requirements ensuring investors understand how redemption mechanisms work in practice and the potential limitations on liquidity. The focus should be on establishing realistic parameters that allow effective liquidity management while maintaining transparency about potential constraints.

11. Could there be investor demand for fixed-term OLTFs that do not offer any or very restrictive redemption rights to their securityholders? Please explain.

Yes, the PCMA believes there could be significant investor demand for fixed-term OLTFs with very restrictive or no redemption rights, particularly for specific types of Long-Term Assets and investment strategies. The PCMA believes that a realistic limit on redemptions will offer the greatest ability to seek the best investment opportunities in illiquid assets. Fixed-term structures with limited redemption rights work particularly well for:

- infrastructure development projects with defined completion timelines;
- real estate development projects requiring full investment cycles;
- private equity investments with clear exit horizons;
- natural resource projects with defined development phases; and
- other Long-Term Assets with predictable realization periods.

With limited or no redemption rights, the PCMA believes there should be clear mechanisms and disclosure in OLTF offering documents on how and when capital is returned including:

- required distributions following CIV exits;
- mandatory return of uninvested capital after ramp-up periods;
- defined processes for asset realization at termination;
- clear timelines for final distributions, and
- interim distribution requirements where applicable.

The PCMA believes these mechanisms provide investors with transparency about how and when they can expect to receive returns of their capital.

The PCMA believes these types of products would appeal to investors who: (a) have long-term investment horizons matching fund terms; (b) understand and accept illiquidity; (c) seek exposure to specific Long-Term Assets; (d) can tolerate lack of redemption rights; and (e) have portfolios that can accommodate illiquid allocations. Given this specific investor profile, enhanced disclosure becomes essential regarding expected fund duration, capital deployment timelines, return of capital mechanisms, exit strategies for investments, risks of illiquidity, and circumstances that might affect timing.

The success of fixed-term OLTFs with restricted redemption rights depends on clear alignment between investment strategy, fund terms, and investor expectations. While these structures require investors to accept significant illiquidity, they can be attractive to those seeking specific Long-Term Asset exposure who understand and accept the illiquidity trade-off in exchange for potentially enhanced returns. The key is ensuring investors fully understand the implications of the fixed-term structure and limited liquidity options from the outset through comprehensive disclosure and suitability assessment by registrants.

12. Are there other redemption issues the Proposal should consider? Please explain.

The PCMA's comments on various redemption issues have been addressed above.

(ii) Valuation (NAV)

13. Should OLTFs only be required to calculate NAV as often as the frequency of distributions and redemptions in addition to financial reporting periods? Please explain.

Valuation of an illiquid investment is an expensive proposition. The need for valuation goes hand in hand with redemption. To the extent to which redemption is constrained, it becomes less meaningful to require more frequent formal valuation. At the same time, it is appropriate to impose a valuation discipline. The PCMA believes that NAV calculation frequency for OLTFs should align with their redemption and distribution schedules but must fundamentally be driven by the practical realities of

obtaining valuations from underlying CIVs. This creates an important balance between operational needs and practical limitations.

As previously discussed, CIVs managing illiquid private market investments typically do not perform frequent valuations due to the time, money and complexity involved in properly valuing Long-Term Assets. While OLTFS might theoretically calculate NAV more frequently, the accuracy and reliability of such calculations would be questionable without current underlying asset valuations from their CIVs. Therefore, NAV calculation frequency should be determined primarily by when reliable CIV valuations are available, which may be annual or semi-annual depending on the CIV's practices.

This means redemption and distribution frequencies should be structured around when reliable NAV calculations can be performed, rather than forcing NAV calculations to match desired redemption schedules. For example, if underlying CIVs only provide semi-annual valuations, it may be impractical or misleading to calculate NAV monthly, even if monthly redemptions are desired. In such cases, redemption prices might need to be based on the most recent reliable NAV calculation, with clear disclosure to investors about the potential lag between valuation dates and redemption dates.

Based on the foregoing, the PCMA believes the regulatory framework should require OLTFS to clearly disclose:

- the frequency of CIV valuations;
- how NAV calculations relate to these valuations;
- any lag between valuation dates and redemption/distribution dates;
- methodology for determining redemption prices between valuation dates; and
- risks associated with using non-current valuations.

This approach recognizes that forcing more frequent NAV calculations than underlying CIV valuations permit, could create misleading precision while imposing unnecessary costs on OLTFS. The focus should be on ensuring NAV calculations are reliable and based on proper valuations, even if this means less frequent calculations than might be desired for redemption purposes.

14. Please explain if any of the following mitigate the difficulties of calculating fair and reasonable NAVs for Long-Term Assets:

i. Experienced IFMs

The PCMA does not believe that IFM registration or experience alone can mitigate the difficulties in calculating fair and reasonable NAVs for Long-Term Assets through OLTFS. While IFM expertise is valuable, as discussed above, the fundamental challenge lies in the OLTFS's reliance on underlying CIVs for asset valuations and the practical limitations IFMs face in verifying these valuations.

An OLTFS's NAV calculation is effectively an aggregation exercise based on valuations provided by its underlying CIV investments. The IFM does not directly value the Long-Term Assets, this valuation occurs at the CIV level where the assets are actually held and managed. Even the most experienced IFM cannot overcome the timing and availability constraints of receiving valuation information from CIVs, nor can they fully verify valuations without complete access to underlying asset data and valuation inputs.

This raises important questions about the IFM's ability to fulfill its oversight responsibilities regarding CIV valuations. Without direct access to underlying asset information, transaction details, and valuation assumptions, IFMs face significant challenges in independently verifying CIV valuations. While IFMs can perform reasonableness checks and review methodologies, their ability to deeply validate valuations is inherently limited by their position as an investor in the CIV rather than its manager.

Accordingly, the PCMA respectfully submits that the OSC should be cautious about prescribing specific experience requirements for IFMs regarding valuation calculations. The private markets ecosystem is complex and diverse, with different types of Long-Term Assets requiring different valuation expertise. IFMs have deep experience across all relevant asset classes, and those with public market expertise may not have equivalent private market valuation experience. Rather than focusing on IFM experience, the framework should emphasize:

- clear disclosure of valuation limitations and reliance on CIVs;
- robust processes for reviewing and aggregating CIV valuations;
- appropriate use of third-party valuation experts when needed;
- regular communication with CIVs about valuation methodologies; and
- proper disclosure to investors about valuation timing and limitations.

The PCMA believes this pragmatic approach recognizes the realities of the OLTF structure while ensuring appropriate investor protection through transparency and process rather than potentially arbitrary experience requirements.

ii. Independent boards of directors (or an independent review committee with enhanced supervisory powers additional to reviewing conflict of interests)

The PCMA does not believe that independent boards of directors or enhanced independent review committees would mitigate the difficulties of calculating fair and reasonable NAVs for Long-Term Assets of an OLTF.

While these governance bodies serve important oversight functions, particularly regarding conflicts of interest, detailed valuation methodology decisions should remain with the IFM who has the operational responsibility and expertise for fund management. IFMs are also registered by the OSC and subject to applicable securities law in their execution of such functions.

The PCMA believes that independent directors and independent review committee members, while providing valuable oversight, typically do not possess the specialized expertise in private market valuations necessary to meaningfully improve valuation methodologies. Their compensation structures and time commitments are also not designed for the kind of detailed technical analysis that proper valuation oversight would require. Attempting to expand their role into detailed valuation oversight could create an inappropriate delegation of what should be core IFM responsibilities.

Moreover, the valuation process for OLTFs is fundamentally constrained by their reliance on CIV valuations. Independent boards cannot overcome these structural limitations any more than IFMs can. Their role should remain focused on their traditional strengths, overseeing conflicts of interest, reviewing major fund decisions, and ensuring proper processes are followed, rather than attempting to validate complex valuation methodologies.

The PCMA believes the Proposal's regulatory framework should maintain clear delineation of responsibilities: IFMs should manage valuation processes and methodologies as part of their core duties, while independent boards and review committees should focus on conflict oversight and process review. The PCMA believes this maintains appropriate accountability while recognizing the practical limitations of what independent directors can reasonably be expected to contribute to valuation determinations.

iii. Cornerstone Investors.

As discussed earlier, the PCMA acknowledges that Cornerstone Investors can provide valuable input into the valuation process for Long-Term Assets held through CIVs, but cautions against over-reliance on their participation as a primary valuation safeguard in the OLTF framework. While institutional investors typically have sophisticated valuation capabilities, their involvement does not automatically ensure enhanced valuation reliability for OLTF investors. Further, Cornerstone Investors are not assessing value for the purpose of publication and reliance by others, and the valuation exercise may be limited to the point of investment, not an ongoing assessment.

A fundamental misconception exists regarding the role of Cornerstone Investors in the valuation process. These institutional investors, despite their sophistication, typically rely on valuations prepared by CIV management or independent third-party valuers rather than conducting primary valuations themselves. Their oversight role, while valuable, is primarily focused on reviewing methodologies and assumptions rather than generating independent valuations. Furthermore, there is no regulatory requirement under the proposed framework obligating Cornerstone Investors to share their valuation analysis or methodologies with OLTFs, even if they conduct such analysis internally.

The assumption that Cornerstone Investors will voluntarily share valuation information with OLTFs faces several practical challenges: (a) institutional investors often have confidentiality obligations that may restrict their ability to share detailed valuation analysis; (b) competitive considerations may limit their willingness to disclose proprietary valuation methodologies or assumptions; and (c) liability concerns could make institutions hesitant to share information that might be relied upon by retail investors through the OLTF structure.

While mechanisms could theoretically be developed to facilitate information sharing, such as standardized valuation reporting requirements in OLTF agreements with a CIV or formal information-sharing protocols, implementing these would require significant negotiation and likely increase costs for all parties. Moreover, such arrangements would need to carefully balance the legitimate confidentiality interests of Cornerstone Investors with the transparency needs of OLTF investors.

Therefore, while Cornerstone Investor participation provides valuable market validation, the PCMA believes the Proposal's framework should primarily rely on independent valuation requirements at the CIV level, rather than assuming enhanced valuation reliability through Cornerstone Investor involvement. Simply, the PCMA believes the focus should be on establishing clear valuation standards and reporting requirements that apply regardless of the specific institutional investors involved in any CIV.

iv. Independent valuers.

The PCMA believes that independent valuations at the CIV level represent the most appropriate mechanism for ensuring reliable NAV calculations for OLTFS investing in Long-Term Assets. While IFMs traditionally calculate NAV based on readily available market prices, the valuation of illiquid Long-Term Assets through CIV structures presents fundamentally different challenges that warrant enhanced regulatory requirements.

The proposed OLTf framework should recognize that the primary valuation complexity exists at the CIV level, where the underlying Long-Term Assets are held and managed. The IFM's role in NAV calculation is effectively an aggregation function, consolidating valuations provided by underlying CIVs. Given this structure, the PCMA believes mandating independent valuations at the CIV level would provide a more robust foundation for OLTf NAV calculations than relying solely on IFM expertise or Cornerstone Investor oversight.

The rationale for mandating CIV-level independent valuations is particularly compelling since the PCMA believes IFMs may lack substantial experience valuing illiquid private market assets. Unlike public market securities, where NAV calculations primarily involve aggregating readily available market prices, Long-Term Asset valuation requires sophisticated methodologies, significant professional judgment, and deep sector expertise. Independent validation of these complex valuations would provide an important check on potential conflicts and enhance the reliability of OLTf NAV calculations.

Accordingly, the PCMA believes the regulatory framework should establish clear parameters around the independence, qualifications, and responsibilities of CIV valuers. This would create a standardized approach to Long-Term Asset valuation while recognizing the distinct challenges posed by illiquid investments in the OLTf structure.

15. Are there other valuation issues the Proposal should consider? Please explain.

The PCMA believes that formal valuation has its limits. The PCMA further believes that investors in OLTfs should be aware of those limitations. Finally, the PCMA believes that a statement of those risks, along with the valuations criteria employed, should be disclosed in the offering document issued by the OLTf.

(iii) Monitoring, Review and Governance

16. Please provide your views on whether, given its unique purpose and structure, an OLTf should only have a majority-independent board of directors and no independent review committee or alternatively, whether it should have an independent review committee with enhanced supervisory powers additional to reviewing conflict of interests. Also, could an OLTf also be organized as another type of entity, such as a trust with a majority-independent board of trustees?

While the PCMA agrees that the proposed OLTf governance framework appropriately addresses fund-level oversight through majority-independent boards or independent review committees (e.g., NI 81-

107), it is insufficient in tackling the crucial governance complexities within the multi-layered investment structures of CIVs.

The PCMA believes that the main governance issue in the OLTf framework is not at the OLTf level, where traditional investment fund conflicts are well-managed, but at the CIV level, where significant investment decisions and potential conflicts might lack independent oversight. Under the current proposal, an OLTf could maintain robust independent oversight at the fund level while having no visibility into or influence over conflict management at the CIV level where the actual Long-Term Asset investments are managed.

Consequently, the PCMA believes that the regulatory framework should mandate the extension of independent oversight to the CIV level, potentially by requiring CIVs accepting OLTf investments to maintain independent committees or directors with clearly defined oversight responsibilities. This approach recognizes that effective conflict management requires comprehensive governance across all levels of the investment structure. The principle that independent oversight is only as effective as its weakest link is particularly relevant given the increased complexity and potential conflicts inherent in Long-Term Asset investments.

The PCMA believes that expanding the powers of an independent review committees beyond traditional NI 81-107 conflict reviews requires careful consideration of how responsibilities should be divided between these committees and registered firms. While expanded oversight powers may be warranted in certain areas, these must be clearly defined and carefully balanced against the core responsibilities of IFMs and PMs under NI 31-103. The framework should avoid inappropriately shifting fundamental management responsibilities to independent committees.

On the question of organizational structure, the PCMA believes that mandating a corporate form would unnecessarily restrict legitimate business considerations. The framework should maintain flexibility for OLTfs to organize as trusts with majority-independent boards of trustees or other appropriate structures, provided they maintain equivalent governance standards. This flexibility allows optimization of tax, operational, and other legitimate business considerations while maintaining appropriate independent oversight. Trust structures with underlying limited partnership structures are commonly used by issuers raising capital under the OM Exemption.

In sum, the PCMA believes that a governance framework must be supported by clear regulatory guidance on independence standards, committee responsibilities, and reporting obligations to ensure consistent implementation across different organizational structures and investment strategies.

**17. Are there other monitoring, review and governance requirements the Proposal should consider?
Please explain.**

No, the PCMA does not have any other comments involving the monitoring, review and governance requirements other than as discussed.

(iv) Disclosure

18. Should the Proposal require a new form of Fund Facts for OLTFs? Please explain.

The PCMA supports the development of a new, specialized Fund Facts document tailored specifically for OLTFs, recognizing that the current Fund Facts requirements under Form 81-101F3 *Contents of Fund Facts Document* do not adequately capture the unique characteristics and risks of Long-Term Asset investments. While maintaining the fundamental principles of clear, concise, and accessible disclosure, this new document must incorporate additional elements specific to the complexities of Long-Term Assets and the OLTF structure.

The delivery requirements should align with section 3.2.01 of NI 81-101 - *Mutual Fund Prospectus Disclosure* ("**NI 81-101**"), mandating pre-trade delivery to ensure investors understand the unique features of OLTFs before making investment decisions. This is particularly crucial given the sophisticated nature of Long-Term Asset investments being made available to retail investors through this new structure.

The specialized OLTF Fund Facts must provide comprehensive disclosure around several key areas that distinguish these vehicles from traditional investment funds. This includes detailed explanation of the CIV investment structure, the role and requirements of Cornerstone Investors, asset deployment timelines, and return of capital mechanisms for fixed-term structures. The liquidity framework requires particular attention, with clear disclosure of redemption frequencies, notice periods, caps, and the process for handling excess redemption requests.

Valuation methodology represents another critical disclosure area, requiring explanation of NAV calculation frequency, reliance on CIV valuations, potential lags between valuation dates and redemption dates, and the methodology for interim valuations. The risk disclosure section must address illiquidity risks specific to Long-Term Assets, valuation uncertainty, risks related to the CIV structure and Cornerstone Investors, and potential conflicts between different investor classes.

OLTF structures also require clear fee disclosures including management and performance fees (at both OLTF and CIV levels), transaction and operating costs, early redemption penalties, and how layered fees affect returns. The format must balance maintaining the accessibility of current Fund Facts while providing sufficient detail for investors to understand these complex fee arrangements.

This enhanced disclosure framework would complement rather than replace existing continuous disclosure obligations under NI 81-106, providing a more focused and accessible summary of key OLTF features and risks. The success of the OLTF initiative depends significantly on ensuring retail investors can make informed decisions through clear, standardized disclosure that appropriately conveys the unique characteristics and risks of these investment vehicles.

19. Should the Proposal require a new form of MRFP for OLTFs? Please explain.

The PCMA believes that the regulatory framework for OLTFs should require an enhanced and tailored Management's Report of Fund Performance ("**MRFP**") specifically designed to address the unique characteristics of Long-Term Assets and the CIV investment structure. This specialized MRFP, required

under NI 81-106, must provide investors with detailed insight into the valuation methodologies and performance metrics appropriate for illiquid asset portfolios.

The tailored MRFP framework should expand upon the current requirements of Form 81-106F1 to specifically address how OLTFS value and monitor their investments in CIVs, including detailed discussion of the timing and reliability of underlying asset valuations. This enhanced disclosure should include comprehensive analysis of how CIV valuations are incorporated into the OLTFS NAV calculations, any significant adjustments made to reported CIV values, and the rationale for such adjustments.

Given the importance of Cornerstone Investors in the OLTFS structure, the MRFP should provide specific reporting on CIV performance relative to other institutional investors, if possible, including any material differences in rights or returns between the OLTFS and Cornerstone Investors. This transparency is crucial for retail investors to understand their position within the investment structure and any potential misalignments of interest.

Performance reporting in the MRFP must be adapted to reflect the long-term nature of the underlying assets. Traditional performance metrics designed for liquid public market investments may not provide meaningful insight into Long-Term Asset performance. The MRFP should include alternative performance measures that better reflect the investment lifecycle of infrastructure, real estate, and other illiquid assets, with clear explanation of how these measures are calculated and their limitations.

The MRFP should also provide enhanced disclosure around liquidity management, including detailed reporting on redemption request volumes, fulfillment rates. This information is crucial for investors to understand the practical operation of the OLTFS's redemption mechanisms and assess potential liquidity risks.

This enhanced MRFP framework must maintain semi-annual reporting frequency to provide timely information to investors while recognizing the challenges of frequent valuations for Long-Term Assets. The focus should be on providing meaningful, reliable information that helps investors understand the true performance and risks of their OLTFS investments, rather than attempting to force more frequent reporting that might not reflect the fundamental nature of the underlying assets.

20. Are there other disclosure requirements the Proposal should consider? Please explain.

The PCMA believes such matters have been previously addressed in this comment letter.

(v) *Investment Restrictions*

21. Please explain your views on each of the following investment restrictions:

a. *Minimum level of Long-Term Assets*

The PCMA supports the Proposal's framework requiring OLTFS to invest between 50% and 90% of NAV in Long-Term Assets, as this range provides appropriate flexibility while ensuring meaningful exposure to this illiquid asset class. The 50% minimum threshold is crucial for maintaining the fundamental character of OLTFS as vehicles for Long-Term Asset investment, ensuring investors receive sufficient exposure to capture illiquidity premiums and diversification benefits these assets can provide.

However, careful consideration must be given to the implications of different minimum thresholds within this range. A higher minimum threshold (e.g., 70%) would provide greater certainty of meaningful Long-Term Asset exposure but could create liquidity management challenges, particularly during market stress periods and high redemption requests. Conversely, allowing minimums closer to 50% provides greater flexibility for liquidity management but risks diluting the distinctive character of OLTFS as Long-Term Asset vehicles.

The 90% maximum ceiling appropriately recognizes the need for liquidity buffers to manage redemption requests and ongoing operations. This aligns with established principles under section 2.4 of NI 81-102 regarding illiquid asset restrictions, while providing greater flexibility appropriate for an OLTFS structure.

The PCMA believes the requirement to add investments to holdings below a minimum threshold or reduce holdings exceeding a maximum threshold should be principles-based rather than prescriptive. This would allow OLTFS to implement reduction strategies appropriate to their specific circumstances. This approach recognizes that different Long-Term Assets have varying liquidity profiles and realization timelines. The framework should require OLTFS to establish and disclose their methodology for managing threshold exceedance, including:

- criteria for determining "reasonable time" for reductions or additions;
- consideration of market conditions and investor interests;
- impact on portfolio composition and strategy; and
- process for regulatory notification and oversight.

For amounts allocated to non-Long-Term Assets beyond a reasonable liquidity buffer, the PCMA requests the OSC provide clear disclosure that allows OLTFS to invest their non-Long-Term Asset allocation in public market securities consistent with their investment objectives and strategies. This flexibility is crucial for effective portfolio management, allowing OLTFS to:

- maintain appropriate liquidity buffers;
- generate returns on uninvested capital;
- implement tactical asset allocation strategies;
- manage cash flows efficiently; and
- provide complementary market exposure.

The PCMA believes, the OSC's should require clear disclosure of how public market investments must complement the OLTFS's Long-Term Asset strategy.

b. Minimum level of liquid assets (maximum level of Long-Term Assets)

The PCMA supports the Proposal's establishment of a maximum 90% threshold for Long-Term Asset investment under a modified NI 81-102 framework. This is important for maintaining adequate liquidity buffers in these investment vehicles. However, several aspects of the liquidity management framework require careful regulatory consideration.

The 10% minimum liquidity requirement aligns with foundational principles of investment fund regulation, particularly the investor protection objectives underlying NI 81-102's illiquid asset restrictions. This threshold provides essential flexibility for OLTFS to manage redemptions while

maintaining portfolio stability. However, the framework must establish clear parameters around permissible sources of liquidity.

The PCMA has concerns over an OLTF's potential use of new investor subscriptions to fund redemption requests. This practice raises significant regulatory issues under NI 81-102's fundamental principles:

- risk of creating effective Ponzi-like structures where new capital primarily serves redemptions;
- potential misalignment between disclosure obligations and actual portfolio management;
- challenges in maintaining appropriate asset allocation during subscription/redemption cycles;
- conflicts between existing and new investors regarding capital deployment; and
- difficulty maintaining portfolio diversification during redemption periods.

The PCMA believes that the OSC should explicitly state that such a practice is not permitted under the final version of the Proposal.

In addition, the Proposal's contemplated 10% borrowing limit, while appropriate as a baseline restriction, requires additional regulatory guidance regarding temporary liquidity facilities. The PCMA believes the final framework should establish:

- a clear definition of "temporary" liquidity management purposes;
- a maximum duration for temporary borrowing arrangements;
- requirements for lender qualification and facility terms;
- disclosure obligations regarding liquidity facility usage; and
- integration with overall liquidity management framework.

The PCMA believes short-term debt facilities could serve as a valuable liquidity management tool when properly structured. The PCMA believes the final regulatory framework set out in the Proposal should permit OLTFs to establish revolving credit facilities that:

- are limited to genuine liquidity management purposes;
- maintain appropriate leverage restrictions;
- include clear repayment parameters;
- require regular reporting on facility usage; and
- incorporate proper risk management controls.

However, the PCMA believes these facilities should supplement rather than replace proper liquidity management through portfolio construction. The framework must require OLTFs to maintain appropriate liquid asset positions rather than relying primarily on borrowing or new subscriptions for redemption management.

The prohibition on securities lending and repurchase transactions under NI 81-102 appropriately recognizes the challenges of using illiquid Long-Term Assets in these arrangements. This restriction, combined with limitations on derivative usage except for hedging, creates a coherent framework for controlling leverage while maintaining necessary operational flexibility.

The PCMA believes this balanced approach to liquidity management preserves investment flexibility while establishing appropriate guardrails for retail investor protection.

c. Concentration restrictions for evergreen OLTs investing in pools of Long-Term Assets

The PCMA supports the Proposal's concentration restrictions for evergreen OLTs. The PCMA believes it aligns with established principles under section 2.1 of NI 81-102 while recognizing the unique characteristics of Long-Term Asset investments through CIV structures. The 10% concentration limit per individual asset for evergreen OLTs investing in pools of private equity, private credit, or real estate, appropriately balances portfolio diversification with practical investment considerations.

The PCMA believes the framework's application of concentration limits across all CIV holdings provides important flexibility while maintaining core diversification principles. The ability for OLTs to invest in single or multiple CIVs, provided the aggregate portfolio meets concentration requirements, recognizes market realities while preserving investor protection objectives. The PCMA believes this approach effectively implements the diversification principles underlying section 2.1 of NI 81-102 in the context of indirect investment through CIV structures.

However, the PCMA believes that the framework should provide guidance on the following factors in connection with any concentration limit:

- the valuation methodology consistency across CIVs for concentration calculation;
- treatment of multi-asset CIVs under concentration limits;
- impact of asset value fluctuations on concentration compliance;
- monitoring and reporting requirements for look-through concentration; and
- rebalancing protocols when concentration limits are exceeded.

The PCMA believe the Proposal's concentration framework appropriately differentiates between evergreen and fixed-term structures, recognizing their distinct investment characteristics. The 10% limit for evergreen OLTs reflects the ongoing nature of these vehicles and their focus on diversified pools of assets. This aligns with traditional mutual fund concentration restrictions while accommodating the illiquid nature of Long-Term Assets.

In addition, the PCMA believes the "look-through" approach to CIV holdings ensures meaningful diversification at the underlying asset level rather than just superficial compliance at the CIV level. This prevents circumvention of concentration limits through CIV structuring while maintaining flexibility for efficient portfolio construction. The PCMA also believes that the ability to achieve compliance through portfolio-level aggregation, rather than requiring individual CIV compliance, provides important operational flexibility while preserving the protective intent of concentration restrictions.

In sum, the PCMA believe the concentration parameters for evergreen OLTs establish appropriate guardrails for portfolio construction while recognizing the practical challenges of managing Long-Term Asset portfolios. The PCMA believes the Proposal balances investor protection through diversification with the operational requirements of institutional-quality private market investment programs.

d. Concentration restrictions for fixed-term OLTs investing in infrastructure or other development projects

The PCMA supports the Proposal's 20% concentration limit for fixed-term OLTs investing in infrastructure and development projects, recognizing the unique characteristics of these investments under a modified NI 81-102 framework. This higher concentration threshold, compared to the 10% limit

for evergreen OLTfs, appropriately reflects the project-specific nature of infrastructure investments while maintaining meaningful portfolio diversification.

The framework's incorporation of a ramp-up period for deployment acknowledges the practical challenges of infrastructure investment through CIV structures. This flexibility allows fixed-term OLTfs to effectively execute their investment strategies while working toward ultimate concentration compliance.

However, as discussed above, the PCMA believes that the application of concentration limits across aggregate CIV holdings for fixed-term OLTfs, introduces certain implementation considerations, including, but not limited to, the following:

- the methodology for calculating concentration during development phases;
- the treatment of multiple project phases under single investment programs;
- the impact of cost overruns on concentration compliance;
- the monitoring requirements during construction periods; and
- the rebalancing protocols for project completion scenarios, including completion delays.

The PCMA recommends that the OSC develop comprehensive guidance through a Staff Notice or Companion Policy addressing the technical implementation challenges specific to infrastructure investment concentration calculations. This would provide necessary clarity while maintaining appropriate flexibility for different project types and investment structures within the fixed-term OLTf framework. In fact, such guidance may be important matters that need to be addressed in a fixed-term OLTf's investment agreement, with one or more CIVs to ensure compliance with the final OLTf framework.

e. Concentration restrictions if there is a CIV requirement

The PCMA strongly supports the Proposal's requirement for OLTfs to invest through CIV structures rather than making direct investments in Long-Term Assets. The Proposal recognizes the fundamental nature of investment funds, under Ontario securities law, and establishes practical mechanisms for retail access to private market investments. For example, the definition of "*investment fund*" under Ontario securities law, including the Companion Policy to 81-106, emphasizes that investment funds are vehicles created to pool assets for investment rather than operate businesses directly. This principle creates inherent challenges for direct investment in Long-Term Assets, which often require active management, operational involvement, and control rights that conflict with the passive investment fund model.

From a regulatory standpoint, the PCMA believes a direct investment in a Long-Term Asset would raise several concerns for OLTfs. For example:

- active management of underlying assets would be viewed as operating a business rather than undertaking a passive investment;
- direct control rights and governance roles would arguably contravene investment fund restrictions; and
- operational involvement could exceed permissible activities under the investment fund framework in Ontario.

However, the PCMA believes the CIV requirement effectively addresses these issues by maintaining clear separation between the OLTf's operations and the CIV's asset-level management activities. This

would ensure that the OLTF retains its passive investment character and complies with NI 81-102 portfolio management rules. Furthermore, this delineation preserves the essential attributes of an investment fund while granting OLTFs meaningful exposure to Long-Term Assets through registered specialized, professional advisers.

Within this structure, the Proposal's concentration restrictions play a crucial role. By requiring OLTFs to invest through CIVs and limiting OLTF ownership to no more than maximum amount in any single CIV (10% for evergreen structures and 20% for fixed-term vehicles), the Proposal creates a specific regulatory framework for managing both diversification and access to Long-Term Assets.

Investing directly would also impose significant operational demands on OLTFs, such as sourcing and evaluating opportunities, conducting due diligence, negotiating investments, and managing ongoing administration. In contrast, the CIV model merges these functions with registered third-party managers. This arrangement supports standardized reporting, Cornerstone Investor co-investment validation, established valuation processes, and well-defined exit mechanisms.

The mandatory CIV approach does introduce a set of layered concentration requirements that demand sophisticated portfolio management. As set out in the Proposal, OLTFs must abide by a maximum 10% ownership stake in each CIV, meet asset-level concentration limits (10% for evergreen structures and 20% for fixed-term vehicles), and still maintain an overall 50–90% allocation to Long-Term Assets. At the same time, OLTFs must ensure look-through compliance across multiple CIVs, balancing these constraints while pursuing desired Long-Term Asset exposure. The inclusion of portfolio-level aggregation across CIVs provides necessary flexibility for efficient investment management while maintaining meaningful diversification requirements.

Alternative approaches to Long-Term Asset investments, particularly those without mandatory CIV structures, would require different concentration frameworks more aligned with direct-investment models. This would likely sacrifice the operational efficiencies and oversight benefits that professional CIV management and institutional co-investment requirements provide. By contrast, the current framework preserves the core principles of investment funds, streamlines the investment process for retail investors, and maintains investor protections, marking it as a viable regulatory pathway for OLTFs seeking exposure to Long-Term Assets.

f. Limitations on debt, leverage, the use of specified derivatives, securities lending transactions and purchase or repurchase transactions

PCMA supports the proposed investment limits for OLTFs because they create a regulatory system that balances investor protection and operational flexibility. These restrictions state that:

- OLTFs' debts would be limited to 10% of their most recent NAV at the time of borrowing;
- OLTFs should not take on additional leverage though an exception for temporary liquidity management may be necessary; and
- OLTFs would not be permitted to:
 - hold, or enter into, transactions that involve specified derivatives, except when used for hedging purposes;
 - enter into any securities lending transactions in respect of its holdings of Long-Term Assets; or

- enter into purchase or repurchase transactions in respect of its holdings of Long-Term Assets.

The PCMA believes that a 10% NAV debt limitation provides regulatory consistency when combined with the temporary liquidity management exception. However, the PCMA believes that this exception requires precise definition through Companion Policy guidance to prevent regulatory arbitrage and ensure effective oversight of temporary borrowing activities.

The PCMA believes the derivatives framework appropriately restricts speculative usage while preserving essential risk management capabilities through a targeted hedging exception. This approach should enable OLTFs to implement necessary risk management strategies while preventing excessive speculation. However, the PCMA believes the framework would benefit from additional guidance clarifying the parameters of legitimate hedging activities and the scope of the "specified derivatives" definition, particularly regarding hybrid instruments and structured products.

While a complete ban on securities lending might slightly reduce portfolio efficiency, the PCMA acknowledges that it removes counterparty risk, simplifies operations, and clarifies compliance guidelines for IFMs.

The PCMA believes these restrictions will facilitate effective oversight while providing sufficient flexibility for PMs to execute their investment strategies within appropriate risk parameters. The PCMA believes the Proposal advances the dual objectives of promoting efficient capital markets and ensuring appropriate investor protection mechanisms, consistent with the fundamental principles of Ontario securities law.

22. Are there other investment restrictions the Proposal should consider? Please explain.

No, the PCMA is not aware of any other investment restrictions that should be considered by the OSC in connection with the Proposal.

g. Distribution

23. Please explain your views on each of the following distribution matters:

- (i) **Should there be limits on the amount that an investor can invest? If so, what should the limits be?**

The PCMA recommends that the OSC adopt investment limits for OLTFs that align with the established framework under section 2.9(2.1) of NI 45-106 for the OM Exemption. This approach would maintain regulatory consistency with investor protections in Long-Term Assets and which are commonly invested in by issuer raising capital under the OM Exemption.

As the OSC knows, the current OM Exemption provides for limits based on investor sophistication and access to professional advice: \$10,000 for non-eligible investors, \$30,000 for eligible investors, and \$100,000 for eligible investors receiving suitable investment advice from registered firms. These thresholds reflect the OSC's considered assessment of appropriate retail investor exposure to illiquid

exempt market investments, as demonstrated through multiple regulatory amendments and extensive public consultation prior to the OSC adopting the OM Exemption over a decade ago.

While OLTFS will operate as reporting issuers with enhanced disclosure obligations, these requirements do not necessarily mitigate the fundamental risks associated with its underlying investments in Long-Term Asset. As previously discussed, the prescribed disclosure under the Proposal may actually provide less detailed information about underlying investments than the specific disclosure requirements under Form 45-106F2 and Form 45-106F3, particularly regarding asset-level performance and risks.

Therefore, adopting the established OM Exemption investment limits would provide appropriate investor protection safeguards while maintaining consistency with existing regulatory frameworks. This approach would also facilitate compliance by registered firms, such as EMDs, already familiar with these thresholds through their exempt market activities.

Lastly, the OSC has successfully implemented similar investment limits under other capital raising frameworks including:

- Multilateral Instrument 45-108 *Crowdfunding*. For example, for non-accredited investors, the investment limits are set at \$2,500 per single investment and \$10,000 annually for all crowdfunding investments. Accredited investors have higher limits, with a maximum of \$25,000 per single investment and an annual limit of \$50,000. Permitted clients, typically institutional investors, face no investment limits.
- Ontario's *Start-Up Crowdfunding Exemption* with slightly different limits, allowing individual investors to invest up to \$2,500 per distribution, which can be increased to \$5,000 under certain conditions.

It is important to note that these prospectus exemptions limit the amount of capital that can be raised by an issuer. However, there is no limit on the amount of capital that can be raised by an OETF under the Proposal which is consistent with the regulatory framework for issuers raising capital under the OM Exemption.

(ii) Should a purchaser be required to receive investment advice from an adviser in order to invest in an OETF? Should OETF units be available through order-execution-only channels?

As discussed above, the PCMA supports a tiered investment approach for OETFs that differentiates between advised and non-advised investors, similar to the framework established under section 2.9(2.1) of NI 45-106 for the OM Exemption. Investment limits recognize both the value of professional advice in complex investment decisions and the growing sophistication of self-directed investors.

For investors receiving advice from registrants, the PCMA supports higher investment limits reflecting the additional investor protection provided through KYC, KYP, and suitability obligations under NI 31-103. The current \$100,000 threshold for eligible investors receiving advice under the OM Exemption provides a reasonable benchmark for OETF investments. This higher threshold recognizes that registrants' obligations under sections 13.2 and 13.3 of NI 31-103 that provide meaningful investor protection mechanisms that justify greater investment flexibility.

Also, the PCMA believes that OLTf offerings should be available through order-execution-only channels with appropriate and lesser investment limits than those permitted where a registrant is involved. The financial markets have evolved significantly, with many sophisticated retail investors preferring direct market access through discount brokerage platforms. These investors should not be prevented from accessing OLTfs solely because they choose not to receive advice, provided their investments are subject to appropriate limits that reflect the absence of registrant oversight.

The PCMA recognizes that while the OM Exemption under section 2.9 of NI 45-106 distinguishes between eligible and non-eligible investors, a simplified approach focused on investment limits rather than investor qualification may be more appropriate for OLTfs operating as reporting issuers.

Accordingly, the PCMA proposes a unified investment cap structure that would apply across all retail investors, with enhanced limits available when investments are made through registrants providing advice. This approach acknowledges that OLTfs, as reporting issuers, will provide standardized disclosure under NI 81-106 and operate within the investment fund regulatory framework, potentially justifying a departure from the traditional exempt market investor qualification requirements.

In sum, the PCMA believes a unified investment cap structure could establish:

- a base investment limit (e.g., \$30,000) for all retail investors through any distribution channel;
- an enhanced limit (e.g., \$100,000) when investing through registrants subject to KYC, KYP and suitability obligations under NI 31-103; and
- monitoring obligations for dealers and order-execution-only platforms to track compliance with these limits.

The PCMA believes the Proposal should provide clear disclosure of these investment limits and the implications of choosing advised versus non-advised channels. Also, order-execution-only platforms should implement appropriate systems to monitor and enforce investment limits, similar to processes developed for OM Exemption investments.

The PCMA believes this balanced approach respects investor autonomy while maintaining appropriate protections for complex, illiquid investments. While professional advice provides valuable protection, the PCMA's proposal acknowledges that sophisticated investors in 2025 increasingly demand the capability to make independent investment decisions through DIY platforms. In sum, the PCMA believes the Proposal should facilitate both channels while ensuring appropriate investor protection through carefully calibrated investment limits.

24. Are there other distribution matters, specifically other investor protection mechanisms, the Proposal should consider? Please explain.

As discussed above, the PCMA believes that EMDs should be permitted to distribute OLTf securities as set out in the Proposal. As stated earlier, the PCMA also recommends that the OSC review the OM Exemption in Ontario to permit its use for non-redeemable investment funds. Again, this could be done as an amendment to NI 45-106 or a blanket order to expand the scope of issuers that can rely on the OM Exemption to include non-redeemable investment funds.

Conclusion

In conclusion, the PCMA supports the OSC's Proposal which seeks to enhance retail investor access to Long-Term Assets through the OLTf framework while ensuring appropriate investor protection mechanisms. However, the Proposal's success requires careful consideration of several critical regulatory elements that have been outlined in the PCMA's comment letter.

Of particular importance is the recognition that EMDs, with their extensive experience distributing illiquid securities under NI 45-106, should be permitted to distribute OLTf securities consistent with their permitted activities under section 7.1(2)(d) of NI 31-103. This aligns with established regulatory principles and recent policy developments, including the June 2024 Blanket Order permitting EMD to participating in prospectus offerings.

The proposed CIV structure, while appropriate in principle, requires refinement regarding the practical implementation of proportional rights between Cornerstone Investors and OLTfs. This includes careful consideration of how the 10% ownership restriction under the Proposal interacts with market standard institutional investor rights packages (or side letters), particularly in light of the definition of "investment fund" under Ontario securities law.

Additionally, the PCMA recommends that the OSC review the OM Exemption to include the distribution of securities of a non-redeemable investment funds. As stated, while NI 45-106 amendments take time, a blanket order could quickly expand the exemption's scope to match other jurisdictions.

Lastly, the PCMA recommends collaboration between the OSC's Investment Funds Division and Corporate Finance Branch in developing the OLTf framework, leveraging the latter's extensive experience with CIV structures and disclosure requirements under the OM Exemption. The PCMA believes this cross-divisional expertise would materially strengthen the Proposal while maintaining consistency with established securities law principles regarding investment vehicles holding illiquid assets.

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The PCMA thanks the OSC for the opportunity to provide you with our comments and would be pleased to discuss them with you further at your convenience.

Yours truly,

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**The views expressed herein are those of the above individuals in their role as members of the PCMA and not necessarily those of the organizations of which they are employed or affiliated.*

cc: PCMA Board of Directors