



## AIMA and CAIA Call for Review of Risk Rating for Alternative Investments in Canada

**Toronto - 8 January 2019**

AIMA and CAIA (“the Associations”) propose a new system to help reduce the complexity of current methods of risk ratings at investment dealer firms. The Associations have today published guidelines on these methods in response to new regulations and consistent feedback from AIMA member firms that retail risk ratings unfairly rate alternative products automatically as high risk.

The final amendments to regulation NI 81-102 will make alternative investment funds available to retail investors. This has the potential to expand the market for alternative investment products that were previously only available to accredited investors. Consequently, some early predictions anticipate the Canadian alternative mutual fund market could grow to C\$20bn in the next five years.

Existing risk rating methods often result in all alternative funds being rated as high risk in the retail channel. This limits the number of investors who can access these products, and dealer firms often overlay additional risk rating policies on standards outlined by the Canadian Securities Commission (“CSA”). To facilitate risk-reducing portfolio construction and to give retail investors access to available alternative investment products, **the Associations advocate that:**

1. Additional Risk Rating systems at the investment dealer should be re-assessed for all alternative fund strategies, including the new alternative mutual funds, to reflect their true risk.
2. Any risk rating scale at the investment dealer should include 5 categories of risk (rather than only 3) consistent with prospectus risk ratings.
3. Fund categories should be separated for alternative fund strategies and alternative mutual funds. They should then also be expanded to include sub-categories so that products can be evaluated adequately and individually against their peers.

**The Associations’ proposed new risk rating system is based on the median trailing standard deviation of funds within indices (see table below).** No alternative mutual funds or alternative strategies will be rated in the ‘low risk’ category.

Low	Low to Medium	Medium	Medium to High	High
<b>Not applicable to alternative mutual funds or alternative strategies</b>	0% to 7%	6% to 11%	11% to 16%	Over 16%
	<b>Market Neutral Equity</b>	<b>Equity Long-Short</b>	<b>Equity Long-Only</b>	
	<b>Multi-Strategy</b>	<b>Global Macro</b>	<b>Emerging Markets</b>	
	<b>Long-Short Credit</b>	<b>CTA/Futures</b>		
	<b>Relative Value Arbitrage</b>	<b>Event-Driven</b>		



The Guidance paper released today provides specific rationale and considerations on all these points. This guide can be accessed [here](#).

**Claire Van-Wyk-Allan, Director & Head of AIMA Canada, commented:** “To improve access to alternative investments for retail investors, AIMA Canada and the CAIA Association are pleased to propose our risk rating system that more accurately reflects the lower risk that these products provide to a portfolio. Canadian investors deserve a fair opportunity to access the talent and strategies managed at boutique and established investment firms without requiring an unjustly high-risk investing profile to do so.”

**Belle Kaura, Chair, AIMA Canada, commented:** “Alternative investments play a key role in a balanced portfolio, offering diversification, risk reduction and non-correlated returns to investors. It is imperative, especially late in the economic cycle amid a rising rate environment, that Canadian investors are not denied access to the benefits of alternative strategies by simplistic and unfair methods that rate all alternative investments as high risk.”

“AIMA Canada and CAIA’s Risk Rating Guideline seeks to eliminate barriers to distribution by more fairly aligning risk ratings with true risk based on the specific type of alternative strategy and qualitative due diligence on the manager and product. We advocate a review of risk rating systems by investment dealers for all alternative strategies and the use of a 5-tier risk scale (rather than only 3) for greater flexibility, improved accuracy and consistency with prospectus risk ratings.”

**Keith Black, Managing Director of Curriculum and Exams at the CAIA Association, commented:**

"Alternative investments can be complex, in both liquid alternatives and lock-up fund structures. The CAIA Association advocates that all market participants become fully informed regarding the new Canadian fund structure, including the benefits, drawbacks, and complexities. We are pleased to be working with AIMA to further the education of investors, especially those in Canada who choose to embrace the new investment opportunities now available under NI 81-102."

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## Notes to Editors

### AIMA

The Alternative Investment Management Association (AIMA) is the global representative of the alternative investment industry, with more than 2,000 corporate members in over 60 countries. AIMA’s fund manager members collectively manage more than \$2 trillion in hedge fund or private credit assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programs and sound practice guides. AIMA works to raise media and public awareness of the value of the industry. AIMA set up the Alternative Credit Council (ACC) to help firms focused in the private credit and direct lending space. The ACC currently represents over 100 members that manage \$350 billion of private credit assets globally. AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the first and only specialized educational standard for alternative investment specialists. AIMA is



governed by its Council (Board of Directors). For further information, please visit AIMA's website, [www.aima.org](http://www.aima.org).

## **CAIA Association**

The CAIA Association, a non-profit organization founded in 2002, is the world leader and authority in alternative Investment education. The CAIA Association is best known for the CAIA Charter®, an internationally recognized credential granted upon successful completion of a rigorous two-level exam series, combined with relevant work experience. Earning the CAIA Charter is the gateway to becoming a member of the CAIA Association, a global network of over 10,000 alternative investment leaders located in 80+ countries, who have demonstrated a deep and thorough understanding of alternative investing. Having grown rapidly, the CAIA Association now supports vibrant chapters located in financial centres around the world and sponsors more than 200 educational and networking events each year. The CAIA Association also offers a continuing education program, where investment advisors and dealers can learn the Fundamentals of Alternative Investments in a 20-hour, video-based program. For more information, please visit <https://caia.org/programs/fundamentals>

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