



FIRST HORIZON GROUP



March 12, 2002

British Columbia Securities Commission  
Alberta Securities Commission  
Saskatchewan Securities Commission  
The Manitoba Securities Commission  
Ontario Securities Commission  
Office of the Administrator, New Brunswick  
Registrar of Securities, Prince Edward Island  
Nova Scotia Securities Commission  
Department of Government Services and Lands, Newfoundland and Labrador  
Registrar of Securities, Northwest Territories  
Registrar of Securities, Yukon  
Registrar of Securities, Nunavut

c/o John Stevenson, Secretary  
Ontario Securities Commission  
20 Queen Street West  
Suite 800, Box 55  
Toronto, Ontario M5H 3S8

**Regarding: National Instrument 81-104 Commodity Pools – Request for Comments**

Dear Sirs / Mesdames:

We are writing in response to the publication of revised NI 81-104 Commodity Pools and Companion Policy 81-104CP. Let us begin by thanking the Canadian Securities Administrators (“CSA”) for listening to the industry’s concerns with regard to the previously published version of the instrument, and for adopting changes which will permit greater public access to commodity pool mutual funds. Furthermore, we applaud the British Columbia Securities Commission (“BCSC”) for taking the additional step of mandating that no further proficiency requirements be applicable to a registrant distributing commodity pools in its jurisdiction. We feel that this is a prudent and realistic approach to the regulation of an important emerging asset class, and we would encourage the other commissions to adopt a similar stance.

Our primary concern with the previous version of the proposed instrument was with the imposition of restrictive proficiency requirements on salespersons and their supervisors who trade in securities of commodity pools. We previously commented that it was inappropriate to

impose additional proficiency requirements on commodity pools while not imposing such requirements on other mutual funds that, while not being designated as “commodity pools”, make extensive use of derivatives. Even balanced funds, for example, engage in the trading of options and futures to a considerable degree. As such, we strongly support the BCSC in its decision to carve out Section 4 of the proposed instrument in its entirety.

A further aspect of the legislation that we would like to comment on is the Front Page Disclosure mandated by Section 9.1(a). We feel that the required language does not reflect the fact that commodity pools employ a wide spectrum of strategies of varying risk levels such that individual commodity pools will have significantly different degrees of risk. While certain commodity pools may use the liberalized restrictions on the use of derivatives to increase the risk of their managed portfolios, others, such as the Horizons Mondiale Hedge Fund (“the Fund”) that we manage, use strategies that aim to reduce the investor’s exposure to both short and long-term market risk. By way of example, over the period that we have advised the Fund (October 1997 to February 2002), its annualized standard deviation of monthly returns has been only 7.5%, compared to 20.6% for the TSE 300 index. The required disclosure is also inappropriate when we consider that many regular mutual funds, such as emerging markets funds or certain equity sector funds, carry a substantial degree of risk, yet face no specifically required front page disclosure. In recent years such funds have lost a substantial portion of their investors’ capital, yet the CSA requires no specific risk disclosure from these funds.

Our experience has been that, given the mandated risk disclosure language applicable to commodity pools, the compliance departments of dealers tend to rate all commodity pools as high risk. This limits the ability of an advisor to place our Fund in a portfolio for a conservative to medium risk investor, for whom our Fund is designed. Traditional mutual funds are not required to place such a blanket disclosure on the front of the prospectus; rather, the fund manager is able to describe the risk level. We suggest that commodity pools should be given the same consideration.

Specifically, we suggest that the required disclosure may be more useful to the retail investor if it contained more educational information with regard to commodity pools, rather than dire warnings. We suggest that the disclosure should be changed to reflect the following:

“Unlike typical mutual funds, the Fund is permitted to use certain alternative investment strategies involving derivatives and commodities. You should carefully consider whether the specific strategies and asset classes employed by the Manager are appropriate for your investment portfolio. As with any speculative investment, trading can quickly lead to large gains and losses. These gains and losses may be exacerbated by the use of leverage. This prospectus contains disclosure on the Fund’s use of leverage, which should be carefully considered.”

Such qualitative risk disclosures could be accompanied by other quantitative measures, such as the historical standard deviation of returns. In the mutual fund industry, standard deviation is a generally accepted proxy for risk which is both easily measurable and standardized.

We further suggest that the third paragraph under Section 9.1(a) (that discusses the impact of fees on the fund's performance) does not fully address the nature of fees usually charged to commodity pools. Commodity pool managers typically receive the majority of their compensation via incentive fees, and are therefore only compensated when the commodity pool is posting positive returns. The fixed management fees of the Horizons Mondiale Hedge Fund, at 2.5%, are not significantly higher than "clone" mutual funds, which similarly offer foreign exposure within an RSP-eligible fund. It seems inequitable to require of commodity pools the described disclosure, when funds with similar fixed expense ratios are not required to make the same statements.

Finally, we strongly support the decision by the CSA to require commodity pools to disclose the degree of leverage employed. We firmly believe that the primary risk in alternative investing is the use of excessive leverage relative to the strategy being utilized. Given the potential risks to the investor, he/she deserves fair and accurate disclosure in this regard.

Overall, we are very pleased to see NI 81-104 moving forward. The CSA's efforts to address the regulation of commodity pools reflects a commitment to rational and fair regulation of increasingly sophisticated financial products that we, as industry representatives, appreciate.

Thank you for your time. We very much appreciate the opportunity to comment on the proposed instrument.

Sincerely,

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