May 13, 2002

Ms. Patricia Leeson Gariepy
Legal Counsel
Alberta Securities Commission
4th Floor, 300-5th Ave SW
Calgary AB
T2P 3C4

Dear Patricia

We are pleased to provide our comments to the Concept Proposal 81-401 and to the specific points in which the British Columbia Securities Commission has raised interest.

<u>Background</u>

Mawer Investment Management is an investment counseling firm, registered in Alberta, BC, Ontario, and other provinces in Canada. The firm manages $1 billion in assets for our clients. The firm established Mawer Investment Management Mutual Funds in 1987 to broaden the delivery of our portfolio management services to clients whose investment assets are not large enough to provide cost efficient management through individually managed portfolios. The Mutual Funds are now a total of $523 mm. The funds are no load, distributed largely by Mawer personnel and to a small degree through a small number of third party mutual fund dealers such as discount brokers.

The firm is one of Canada's oldest investment counseling firms and prides itself on rigorous ethical standards. We adhere to a Personal Trading Policy that restricts all investing by our investment personnel to Mawer Investment Management Mutual Funds. 11 of our partners and portfolio managers are CFA Charter Holders and 4 of our Partners have served as President of the Calgary Society of Financial Analysts. The writer is currently a Director of the Investment Funds Institute of Canada and serves on the Fund Governance Committee.

Mawer Investment Management Comments

We attach our responses to the questions set out in the Concept Proposal. In addition there is interest in hearing our views on 4 specific points. Those views follow.

In our view the objective for any changes to mutual fund regulations, policies, registrations or other means of controlling the mutual fund industry must be demonstrated benefits to the consumer, the holder of mutual fund units. Our response is thus framed from the standpoint of the consumer. Readers should recognize that Mawer Investment Management can legitimately look at the Concept Proposal from the standpoint of unitholders as under our Personal Trading Proposal the only investments Partners can make is in units of Mawer Investment Management Mutual Funds. Our interests are therefore directly aligned with our clients.

1. What factors should we consider in weighing the costs and benefits of the system of mutual fund governance and manager registration described in the Concept Proposal? Do you think that the benefits would outweigh the costs?

In our view, looking at the Concept Proposal from the standpoint of the holders of units of Mawer Investment Management Mutual Funds, it is difficult to see any significant benefits (as the document itself states on page 38 Part C " important qualitative benefits that are hard, if not impossible, to assign a dollar figure to"). On the other hand we see significant costs to the funds (assuming that the governance costs can be assumed by the funds) and to the firm.

The concept Paper provides a cost estimate for the industry of a fund governance mechanism. What is quite distressing to a "small" manager such as us is the level of the start-up costs and annual costs of running a fund governance agency.

Using the concept proposal's cost estimates; start-up costs would be 4 basis points (.04% or 4 BPS) of Mawer Investment Management Mutual Funds assets as of March 31, 2002. Annual costs would be 17.8 BPS using the Concept Paper's estimates. This represents 14.1% of our current average management expense ratio. It also represents 46.8% of the "administrative" or non investment management costs in our average MER. In our mind these are very big increases. Our funds have been deliberately established and managed so as to achieve low management expense ratios, providing our clients with excellent value. Our clients are cost conscious and would be justifiably alarmed at such regulator imposed cost increases.

These external costs do not include the costs to the firm in terms of management time spent providing information to the Governors and in dealing with them. We estimate considerable senior management time would be spent to “service” the fund governance structure.

2. Would the proposal affect large and small fund groups differently? What would the costs and benefits be for different types of fund groups?

The imposition of a fund governance structure, as set out in the Concept Proposal, will result in significant additional costs to small fund companies and their clients, further enhancing the competitive position of the large players. The proposal indicates a massive difference in costs to large and small fund companies. This will tend to stifle the introduction of new fund families and may lead to consolidation among small organizations. The result would be fewer not more fund complexes for the consumer to choose from. In any other economic model, costs are brought down by more rather than less competition. One has to view the fund governance structure as one that will favor large companies over small. This is not only a problem for small fund companies but also a major problem for consumers.

In considering the costs versus benefits we urge a more detailed discussion and quantification of the benefits, as well as consideration for the efficacy of imposing a structure where benefits might be provided to some organizations but no benefits to others. The benefits of relaxation of rules on self-dealing clearly benefit large not small players. A thrust for the governance proposal seems to be to investigate conflicts of interest. In small independent organizations the conflicts of brokerage, custodial, and trust company affiliations do not exist. A Governance structure to eliminate conflict of interest achieves little if there are few conflicts of interest. Smaller industry players have few, if any conflicts but would assume an immensely larger increase in fund expense ratios. In short and perversely, where there are no conflicts, the costs will be more punitive and value destroying to their clients.

The capital requirement proposal has questionable merit in the first place, but if implemented would be potentially devastating to small firms.

3. Would any of the alternative proposals described in the paper be better than the main proposal?

We favour the approach of each fund company proposing its own unique governance structure to deal with the unique conflicts and other issues that a governance mechanism should deal with. This statement as to “conflict avoidance" could be required in the Prospectus. The Prospectus still requires approval by the regulator. The benefit of this is greatly reduced costs over a one-size fits all approach. Most importantly, it provides more cost effective protection and choice to consumers.

4. The concept proposal suggests that detailed restrictions on mutual fund investments and related party transactions could be relaxed after adoption of independent governance rules. Do you agree with this aspect of the proposal? Should the CSA consider liberalizing these restrictions independently of the fund governance issue? Would any alternative protection for investors be necessary or appropriate if these changes were made?

The only restriction on mutual fund investment that would benefit our organization if lifted would be the 10% limit on fund on fund investments. Regulations on related parties do not effect us and their relaxation would not assist us in any way. Thus the benefits of independent governance are quite small. This notwithstanding, we favour coincident relaxation as opposed to relaxation after adoption. We are aware that relaxation of restrictions is more difficult for regulators to achieve than increases in regulation.

We believe the securities commissions would avoid the public's inevitable outrage about additional costs if they exempted fund managers where no conflict exists. This would include fund managers that do not own or are not owned by banks, investment dealers, etc. This exemption should alleviate exempt mangers from establishing costly governance structures and impractical capital structures.

Thank you for soliciting our views. We would welcome the opportunity to elaborate.

Yours Truly

Donald T. Ferris CFA
Managing Partner
Mawer Investment Management