December 18, 2002

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
Manitoba Securities Commission
Ontario Securities Commission
Securities Administration Branch, New Brunswick
Office of the Attorney General, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Department of Justice, Government of the Northwest Territories
Registrar of Securities, Government of Yukon
Registrar of Securities, Legal Registries Division, Department of Justice, Government of Nunavut

c/o John Stevenson, Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8
E-mail: jstevenson@osc.gov.on.ca

- and -

Denise Brosseau, Secretary
Commission des valeurs mobilières du Québec
800 Victoria Square, Stock Exchange Tower
P.O. Box 246, 22nd Floor
Montreal, Quebec H4Z 1G3
E-mail: consultation-en-cours@cvmq.com

Re: Proposed National Instrument 81-106 – Investment Funds Continuous Disclosure

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Rosseau Asset Management Ltd. is a small investment management firm registered in the province of Ontario (LMDC IC PM). We currently offer one hedge fund product Rosseau Limited Partnership, a limited partnership formed in the province of Ontario. It is available through private placement only and is not redeemable on demand. Our current financial reporting obligations are those listed in the offering memorandum and not the regulations for publicly offered mutual funds.

We are responding to this Request for Comment for NI 81-106 (Proposed) as it is not clear to us whether the definition of investment fund may include privately placed investment funds such as ours. We believe that the Instrument as proposed would be detrimental to the viability of our business and the financial welfare of our investors. Accordingly, we are opposed to the application of this Instrument to funds such as ours.

Attached are our comments. They are from the perspective of an actively managed, single strategy hedge fund offered through private placement only. In some cases, our comments may apply to all investment funds in general. Should you wish to discuss further, please contact me at your convenience.

Regards,

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Encl.

<u>Response to NI 81-106 – Investment Funds Continuous Disclosure</u>

Hedge funds sold through private placement should be excluded from NI 81-106.

Accredited investors in funds such as ours have subscribed into a private partnership which is subject to the terms and conditions as stated in the offering memorandum and limited partnership agreement. All financial reporting obligations should be those stipulated in the official fund documents.

The manager's ability to execute the investment strategy of the fund could be impaired if detailed portfolio disclosure is imposed (see notes below). The impact to investors of proprietary information being made available to unauthorized individuals could include permanent losses and artificially manipulated fund valuations (NAVs).

- *The new instrument should exclude funds sold through private placement. Alternatively, investors in privately placed funds should be able to opt out of the new requirements as long as certain conditions are met with regard to the private nature of the fund.*

Detailed portfolio disclosure will have a negative impact on manager's ability to execute investment strategies

Investment strategies often rely on significant proprietary research to produce strong performance results. Detailed portfolio disclosure will expose these strategies while in progress, thereby subjecting the fund and its investors to risks of competitive sabotage (examples of such abuses include front running, free riding, short squeezes and loss of borrows). These risks are uncontrollable and could reduce or eliminate the value of the strategy. As a result, fund mandates may be terminated with permanent losses being felt by investors.

Losses due to competitive sabotage could be exacerbated for hedge funds over mutual funds as investment strategies are generally broader with fewer restrictions. Specific mutual fund restrictions that may not be applicable to hedge funds include use of leverage, higher concentration limits, short positions, less liquid securities and derivatives. To manage additional risks effectively, portfolio positions must be kept confidential and only be revealed after a specified period of time has passed. Such time period is variable depending on the strategy.

Investors pay for investment strategies and they should be the exclusive beneficiary of the performance results. In order to ensure that investors receive full value for fees paid, every effort should be made protect them from unauthorized access to competitive information contained within detailed portfolios.

- *Detailed portfolio disclosure should be eliminated from the proposed instrument*
- *Any portfolio summaries should exclude reference to specific security holdings*

Supplemental financial information should be relevant to fund investors and advisors.

Supplemental information is defined as disclosures required exclusive of financial statements and statement of portfolios.

The annual and quarterly management reports of fund performance contain significant duplication and redundancy with financial statement disclosure with respect to financial highlights and summary of portfolio investments. This should be eliminated.

The financial highlights table contains measures and disclosures that are appropriate for mutual funds but not necessarily appropriate or meaningful for hedge funds. The table below illustrates some of the differences between mutual and hedge funds that undermine the value of the highlights table.

	Mutual funds	Hedge funds
Distributions	Distribution amounts per unit that is same for all unitholders of fund	Fund may pay distributions or make taxable allocations Additional concept: • Taxable allocations or distributions that may vary by unitholder of fund
MER	Generally percentage fee based on assets in fund	Generally percentage fee based on assets in fund Additional concepts: • Performance fees which are paid when performance exceeds certain thresholds. • Hurdle rates • High water marks
Portfolio turnover – implications	Standard commentary is for long only investment strategies only.	Funds not bound by investment restrictions for mutual funds. Long / short strategies could increase portfolio turnover significantly. Implications could vary dramatically depending on investment strategies. Standard commentary wording will not be applicable.

Leverage	None allowed	Commonly used.
Long / short	Allowed only with exemptions	Commonly used.

There are some statistical measures of volatility and risk currently being used within the industry. However, their use is not standardized nor generally accepted. It would be imprudent at this time to require use of any of these measures in a fund's financial reporting.

- *Remove duplication / redundancy from required disclosure*
- *Eliminate highlights or provide managers some latitude to define relevant measures that are relevant to their fund objectives and strategies*
- *Avoid disclosures regarding risk and volatility measures*

Proposed reporting and disclosure requirements will be significant cost burden to smaller investment firms.

Hedge funds generally charge an administrative fee based on assets under management and a performance fee based on positive performance. Administrative fees are meant to cover the costs incurred to manage, administer and operate the fund. With asset bases that are significantly lower than mutual funds, these fees generally are just enough to cover operating expenses leaving managers compensation almost exclusively based on performance fees. In years when performance is minimal or negative, managers will not earn meaningful compensation.

Proposals for increased financial reporting and disclosure would require a significant investment in time and resources for hedge fund companies to establish and maintain processes necessary to comply. This would put a strain on scarce financial resources. For mutual funds, this represents only an increment of work for existing staff.

- *Exclude the application of Instrument to hedge funds*
- *Increase focus on qualitative disclosures supplemented by quantitative summaries that are relevant to investment strategies. Any generic or ambiguous charts or exhibits should be eliminated.*