----- Message from "Stan Buell" <sbuell@trebnet.com> on Mon, 14 Apr 2003 12:00:56 -0400 -----

To: "S. Paglia" <spaglia@fsco.gov.on.ca>
cc: "Bob Hagerman" <hagreen@planeteer.com>, "Phil Colley" <cbvins@broker.csio.com>, "E Nelles" <windscale76@hotmail.com>, "Bob Ivkovic" <ivkovic@telusplanet.net>, "Ken Kive <kenkiv@sympatico.ca>
Subject: Comments on Consultation Paper NI 81-403

April 14, 2003

Stephen Paglia, Senior Policy Analyst

Joint Forum Project Office

5160 Yonge St.

Box 85,17 th floor

North York, ON M2N 6L9

Re: Comments on Consultation Paper NI 81-403

Dear Mr. Paglia;

We are concerned about the recent de-regulatory efforts at a time when more and more investors appear to have been victimized by financial predators who seem to disregard existing regulations. Recent media reports of corporate wrongdoing indicate that ethics and morality are lacking and that there is an apparent failure to recognize the difference between right and wrong. In this environment it does not seem appropriate to be relaxing rules and regulations without appropriate regulatory measures to hold the industry properly accountable and provide adequate investor protection.

Ken Kivenko, Chair of SIPA's advisory committee, has prepared comments on your Consultation Paper NI 81-403 which we enclose for your consideration. These comments reflect the interests of the small investor – and indeed, all investors - and we trust you will take account of the concerns that we have raised.

We believe that better protection for small investors is needed rather than a relaxation of regulatory requirements for the industry. The Joint Forum's proposal to replace mandatory information mailings with online access to documents and remove a client's right of withdrawal or rescission in mutual fund sales is just not acceptable. Access does not equal delivery despite your assumption that it does.

The current regulatory system does not provide adequate investor protection nor a satisfactory dispute resolution mechanism. The argument that civil litigation is always available to resolve disputes rings hollow. Victims who have lost their savings when rules have been breached, and

head office: 7791 Ninth Line, Markham, Ontario L6B 1A8 • tel: 905-471-2911 • e-mail: buell@globalserve.net
incorporated as a national non-profit organization January 1999 • Ontario Corporation Number 1327366
directors: Stan Buell, Phillip Colley, Robert Hagerman, Edward Nelles

have no earning power do not have the financial resources, and often not the physical, mental and time resources to wage a legal battle that generally is long and costly.

It is said by many that our society is based on trust. One of the reasons that investors fail to exercise due diligence when they are sold an investment product is that they trust their brokers and advisors, and they trust that the industry is properly regulated. In reality this trust is misplaced. The rules and regulations are flagrantly breached with relative impunity, and there is little protection for investors. To erode the limited investor protection that exists by relaxing requirements for the industry is regressive.

It is unfortunate that an industry that is so vital to our economy is allowed to operate with a "loophole mentality" rather than be held to account for operations that fall short of good faith, honesty and integrity. Management and compliance either condone rule breaching actions or look the other way as long as the activities are profitable for the company. We do not believe there are any "rogue" brokers. The activities of these so-called "rogue" brokers are systemic and will remain so until the fundamental problems are recognized and dealt with properly.

While investor education should be a priority, it should not be considered an alternative to the requirement for the financial service industry to be properly regulated and held accountable for the position of trust they hold in our society.

Yours truly

Stan Buell,

President,
Small Investor Protection Association

head office: 7791 Ninth Line, Markham, Ontario L6B 1A8 • tel: 905-471-2911 • e-mail: buell@globalserve.net
incorporated as a national non-profit organization January 1999 • Ontario Corporation Number 1327366
directors: Stan Buell, Phillip Colley, Robert Hagerman, Edward Nelles

SIPA
SMALL INVESTOR PROTECTION ASSOCIATION

April 23, 2003

Stephen Paglia, Senior Policy Analyst
Joint Forum Project Office
5160 Yonge St.
Box 85,17 th floor
North York, ON M2N6L9

Comments on Consultation Paper NI 81-403

"Mutual Funds are sold not bought"

PREAMBLE

The fact that the regulators are reviewing mutual fund disclosure issues is a positive development. SIPA has been trying for years trying to get industry participants to improve disclosure and sales practices. We've had some success but the pace of change has been too slow.

One of the complicating factors of disclosure is that too few investors read and analyze all the mutual fund disclosure documents but in practice very few read and analyze any. This likely varies depending on the amount invested, with small investors at the low end.
A cost-benefit analysis probably wouldn't look pretty. The root causes are systemic. The Ishikawa diagram –Attachment III-illustrates the root causes of the dilemma.

It should be the duty and challenge of regulators to encourage investors make better use of the disclosure documents. This can be done by the regulators facilitating better Canadian investor education (e.g. how to read and interpret a fund prospectus, improve the teaching of investment principles in public schools) while at the same time improving the quality, readability, relevance and timely delivery of disclosure documents.

THE IMPORTANCE OF DISCLOSURE

Disclosure is a key element of investor protection. The participants in preparing the 81-403 proposals are industry players or regulators and the project was initiated by industry participants. The real "customer" of the proposals – the investor-has not been involved. (We deliberately use "*investor* " instead of consumer to make a clear distinction – investors do not consume; they are owners, who through their direct and indirect ownership of securities or interests in respect thereof, seek wealth creation and a happy retirement. Mutual fund investors own an undivided interest in the securities held by the mutual fund). Segregated fund investors own contractual tights in respect of the segregated fund securities. Mutual fund investors and segregated fund investors need to be treated with no less respect than investors who invest directly in stocks and bonds.

It is important to note that few people understand the difference between a mutual fund and a segregated fund and that many people do not know what kind of fund they have. They think of

head office: 7791 Ninth Line, Markham, Ontario L6B 1A8 • tel: 905-471-2911 • e-mail: buell@globalserve.net
incorporated as a national non-profit organization January 1999 • Ontario Corporation Number 1327366
directors: Stan Buell, Phillip Colley, Robert Hagerman, Edward Nelles

both types of funds as mutual funds. For the purposes of this letter, our references to "mutual funds "includes "segregated funds "unless the context otherwise requires. Over the years, investors have bombarded us with complaints about how they are treated and the kind of information they want but don't get. Here's a sampling:

- **If I hold the fund for 10 years, how much will I pay in fees in dollars and as a percentage of total return?**
- **Why aren't brokerage commissions included in the MER-at least notionally-or otherwise disclosed?**
- **Why wasn't I told the fund manager left nine months ago?**
- **Why is there no investor protection fund for mutual fund investments like there is for bank deposits or shares with a broker?**
- **Why do fund companies not have an open and transparent governance system including an independent board? (With names and contact numbers)**
- **I need to know the funds portfolio holdings and changes quarterly not semi-annually.**
- **How can I get fund companies to disclose how they voted their share proxies?**
- **I never knew my advisor received a continuing commission from the fund company. (refers to trailer fees)**
- **The manager commentary in the Annual Report is gibberish, vague and general – can we not obtain better disclosure from management of the results, lessons learned and corrective measures, like an MD&A?**
- **How do I know if the information being disclosed to me is the latest applicable information? Also, no one told me I didn't have to reinvest distributions!**
- **Why don't fund Annual Reports disclose senior management/ officer compensation-it would be nice to know that management didn't receive a bonus or raise if the fund lost money or underperformed its benchmark.**
- **I tried to find out the name of the Chair of my fund company's audit committee but after 3 calls, I gave up in disgust.**

On top of these complaints, mutual fund investors have had trouble obtaining historical tax information for calculating the ACB, obtaining delivery of the Annual Information Form, getting questions answered about the Prospectus or Annual Report content (or missing content such as the managers tenure), and contacting compliance officers. Several reported that they filled in the return card requesting receipt of semi-annual reports but did not receive them. Other complaints have centered on false or misleading advertising, the use of shills, conflicts of interest especially with regards to mutual fund affiliates/subs/diaries of bank mutual funds and Investors Group/Power Corp. and the privacy and security of personal data (e.g. the recent IT disaster with IBM/CSI/ Investors Group).

Some of the biggest complaints have come about as regards suitability. Investors have been sold wholly inappropriate funds by commission-oriented advisors whose sources of incomes were not adequately disclosed to investors. Both written and verbal disclosure of risks have been minimal and generally qualitative. If key disclosure documents explained risk and disclosed *quantitative* metrics like Beta, Standard Deviation and the Sharpe Ratio, we believe both evaluation and integrity would be served [i.e. place the fund in risk-return space, together with realistic expectations about future returns]. Funds have been sold on a DSC (deferred sales charge) basis when it's clear this has been disadvantageous to the investor in many, if not most, cases.

Sales prospects/ targets have not been limited to novice investors as the Joint Forum's Consultation Paper suggests. Financial illiterates, seniors, new Canadians with language

head office: 7791 Ninth Line, Markham, Ontario L6B 1A8 • tel: 905-471-2911 • e-mail: buell@globalserve.net
incorporated as a national non-profit organization January 1999 • Ontario Corporation Number 1327366
directors: Stan Buell, Phillip Colley, Robert Hagerman, Edward Nelles

difficulties, retirees, the ill and infirm have all felt the bitter taste of unsuitable and indeed, inappropriate mutual fund investments to meet their needs.

To reduce or prevent this abuse, a education Guide Document (or documents) needs to be prepared like the one proposed but with much greater substantive content including an emphasis on highlighting suitability and the relationship of fees to returns. The Guide should calibrate expected long-term rates of return by asset class. It should quantify risks by providing numerical metrics that investors can understand. It should point investors to independent data sources and provide a framework on how to make a mutual fund purchase decision within a portfolio context.

Better communication and disclosure of linked- advice can be achieved by the joint signing of a POS Checklist document highlighting investment objective, fees, loss/risk tolerance, performance and risk metrics (see www.investorism.com for example). If used however, such a document should not be used to relieve sellers of obligations they may not properly discharged.

SIPA believes several of the observations about the historical lack of attention by investors to Prospectus documents are correct but we don't agree with the reasons cited. We disagree also that mutual fund investor sophistication has reached anywhere near a satisfactory level (see Cartier Partners 2002 Investor test results- www.cartierpartners.com). Jointly reviewing and signing a Checklist form will, we believe, greatly assist disclosure and seller/ investor communication. Delivery of Quarterly Reports /notification via e-mail or snail mail is also required given the turbulence and volatility of modern day markets.

SOME BASIC PRINCIPLES

Before we comment directly on the proposals, we'd like to establish several axioms upon which our comments are rooted.

- **An informed investor is a smarter more discriminating investor**
- **The majority of mutual fund investors are financially illiterate, or at best unsophisticated- this seems to contradict the Joint Forum's central premise that they are knowledgeable. Even in the U.S., a much more mature mutual fund market, the 2002 Vanguard fund investors literacy test yielded an average score of 40 percent! Survey after survey in Canada has demonstrated that many mutual fund investors are second-order illiterate, that is, they don't know, what they don't know and therefore don't know what documents are important, what questions to ask, how to interpret the information that is disclosed or even the unique and complex terminology used by the industry.**

  The Mutual Fund Intelligent Glossary prepared by Mr. Kivenko, now over 80 pages long, is an indication of the large number of specialized terms the industry has created. A copy is available should you want it. A modified version could be a useful Addendum to the Consumer document the regulators ultimately release.
- **Disclosure is an investor protection tool intended to help investors make more informed investment decisions by leveling the information playing field BEFORE the investment is made. This includes key facts, numbers and metrics such as the MER and portfolio turnover ratio. The cost of portfolio transactions needs to be made more visible.**
- **The disclosure system is tied to KYC and suitability rules. A disclosure system that assumes investors are willing and able to download files, especially large ones, from the internet assumes a lot. Most surveys we've seen identify the primary uses of internet access to be email, news/weather/entertainment, chat rooms, basic financial transactions and for teens, music downloads. Adults & seniors are limited to the simplest most elementary uses of the internet which a pdf file download is not. 'Internet access-equals-download" is a premature, unsubstantiated leap of faith.**

- **The mutual fund industry has an exceptionally effective marketing and sales distribution network and strong influential lobbyists in IFIC, the IDA and the CLHIA**
- **Canadian fund MER's are nearly one full percentage point higher than those in the U.S. but unfortunately Canadians do not have easy purchasing access to them**
- **The primary beneficiary of any new disclosure rules should be unit holders and investors, not industry participants**
- **Unlike other investments, mutual fund investors have no investor protection fund (and pro-investor governance committees are essentially non-existent at this time)**
- **By its very nature, a mutual fund is rife with conflicts of interest. A recent controversial regulatory change, which was implemented by exemption orders, now even permits a fund to invest in its parent and affiliates thus adding to ethics, disclosure and self-dealing challenges.**

- **Disclosures under the current system have, by and large, not been effective in preventing investors from making non-optimal and/or unsuitable purchase decisions. A large part of the reason is late disclosure, low quality disclosure and incomplete disclosure coupled with conflicted linked advice from advisers. This thought is capture in the following quotation from the Five Year Committee's Draft Report dated May 29,2002:**

  "… Undoubtedly, many mutual fund managers also see the correlation between success by the funds they manage and success for themselves. Nevertheless, the reality of the Canadian mutual fund industry is that manufacturers of mutual funds are primarily in the business of marketing their mutual funds and a number of the marketing techniques employed encourage investors and their advisers to purchase funds that may have higher fees and expenses than competing mutual funds, either because of successful advertising or because of favorable compensation structures for advisers who recommend the mutual funds.

- **The financial services industry in North America, including brokers, analysts, mutual funds, auditors, boards of directors and CEO's have shown unprecedented greed and lack of ethics, even a disregard for the law. The words Nortel, JDS, Bre-X and YBM strike fear into abused Canadian investors. Regulators and regulations themselves have not been innocent bystanders. Any reforms to disclosure must address this environmental reality.**
- **A mutual fund is a *much more* complex financial investment than a GIC, CSB or common stock**
- **The approach to mutual fund sales involve subsumed MER's, nontransparent trailer fees, a commission grid biased towards higher MER funds, a investor abusing deferred sales charge system and the use of celebrity speakers (shills) among others-there is thus strong evidence that the industry has shifted from portfolio management being dominant to being a marketing game**

Starting with these axioms and facts, the following conclusions are applicable:

a. **Mutual fund investors need much better regulatory protection than they have had in the past. The reforms do not address the conflicted advice and huge losses investors have experienced nor the growing distrust of the fund industry**
b. **Disclosure involves providing facts on the nature of the investment, fees, fee waivers and expenses, historical performance vs. the benchmark, risks- qualitative and quantitative, tax implications, material information e.g. change of portfolio manager, acquisitions/**

head office: 7791 Ninth Line, Markham, Ontario L6B 1A8 • tel: 905-471-2911 • e-mail: buell@globalserve.net
incorporated as a national non-profit organization January 1999 • Ontario Corporation Number 1327366
directors: Stan Buell, Phillip Colley, Robert Hagerman, Edward Nelles

mergers merged results etc. and conflicts of interest (perceived, potential or real) and related party transactions.

c. **Disclosure is a communication process-there must be a identifiable discloser and an identifiable recipient who understands the disclosure and its impact on his/her investment. The recipient must also be made *aware* that a disclosure has occurred so it is essential that investors will at least receive a notification by mail or email that a disclosure has been made. It is unclear in the reform proposal that this minimum disclosure is to be made. A "process owner " should be defined to be responsible for continuous evaluation and improvement.**

d. **Basing the foundation of the new disclosure approach on commission –based advisers who are at an all-time low level of investor trust appears to be a risky proposition.**

e. **Investor education for mutual fund investing can be provided by an industry- independent document, coupled with improvements in elementary and high school financial training. This training would include an introduction to financial markets, basic mathematics of finance, mortgages, loans, credit cards and taxation). We believe this could be accomplished by a half course at each level. The theory of compound interest should be taught using real-world examples not theoretical constructs.**

f. **"Access equals –delivery" as described in the Consultation paper is not an appropriate investor protection philosophy for a sophisticated product sold to any investor, particularly an unsophisticated buyer, especially at a point in time where investor confidence in financial markets is near an all-time low. Access-equals- disclosure does not constitute actual delivery per the reform proposals. Unfortunately, this philosophy is not untypical of an industry that is marketing rather than customer driven. Regrettably, the message coming across is 'If you want it, you go find it ". It would appear also that the CSA and Joint Forum are ignoring the SEC's concerns that lead it to reject the access – equals-delivery approach. Furthermore, the new Reforms extend the approach to decision documents like the Prospectus despite the Five Year Committee's concerns about doing so. Acceptance of this approach as proposed would be an attack on the foundation of security law and a dereliction of duty to protect investors.**

g. **The root causes for the failure of the current approach to disclosure, excluding the impact of ill-informed, complacent investors, are inadequate regulation and associated enforcement (even fund names are unreliable descriptors as regulations do not specify a minimum holding of an equity class, say bonds in a "bond" fund, as is done in the U.S.), poor quality disclosure documents (see Appendix 1 for a commentary on fund Annual Reports), partial /incomplete data (e. g. funds disclose only the maximum trailer fees they *may* pay, but not what they did pay), a distribution system that is commission driven, token fund governance and lack of timely/ relevant disclosure of material information. The classic example of this appeared in a column by Ellen Roseman in the April 13, 1990 Globe and Mail. In a half page ad in the Globe & Mail on Feb. 27, Mackenzie Financial boasted that its flagship Industrial Growth fund had a one-year return of 16.2 percent. This was based on the period ended November 30, 1989. At the time, fund companies could advertise results that were up to 90 days old, despite the fact that more recent results were available and had in fact been printed in the paper in mid-February. For the period ending January 31, 1990 the results were less impressive, a one year return of only 1.8 percent.**

h. National Instrument 81-105, which has been a rule under the Ontario Securities Act since 1998, makes it very clear that no institution (such as a bank) with proprietary funds is supposed to provide any kind of incentive for its representative to sell its own funds over other funds it also distributes. According to the OSC, no action (investigation, hearing or sanction) has taken place because of its existence. Investors may be naïve and financially challenged, but they are incredulous that this shady and money-driven industry is so squeaky clean with respect to incentives, compensation and solicitations that there has been no need for enforcement.

i. Unless the CSA appoints a "Investor Panel" to counter skilled, well financed industry lobbyists, regulatory decisions, policies and will continue to be based on a biased and incomplete input. Alternatively, organizations such as SIPA could be funded to get the "people's " perspective.

A poorly educated investor base with $380 billion in mutual fund investments makes this a toxic mixture for Canadians' financial future. A negative option on receiving Annual Reports encourages and maintains unitholder ignorance and complacency which is surely not the goal a contemporary disclosure system should be striving for.

When Rogers Cable tried negative option sales of cable channel packages, thousands of viewers unwittingly bought the new packages until shrieks from consumer groups put an end to the chicanery.

Mr. Richard Austin a VP at Scotia Securities pointed out in Investment Executive (Mid Feb. 2003) that only 1 in 900 mutual fund investors requested semiannual reports as evidence that unit holders don't want the flood of paper (and presumably don't need it). We do not believe4 his evidence supports his conclusion. Generally speaking, semi-annual reports are not read/analyzed by investors because these reports are poorly written, provide minimal useful information and are even worse than Annual Reports. They are not requested or read because they are virtually useless in highlighting issues and problems. Mr. Austin's comments are akin to saying that because warnings on cigarette packages haven't totally stopped people from smoking they are redundant. If quality is improved, they'll be read by investors.

Mutual fund companies, as responsible corporations, should want, perhaps insist, that investors in their funds know and understand their investments, how they are doing and how they are managed. To believe otherwise is to believe that fund factories wants investors kept ignorant which surely cannot be the case that the regulatory system is supporting.

ACCESS/DELIVERY BY ELECTRONIC MEDIA

This is not just a matter of telling investors to use the internet. If deemed suitable in Canada, the fund Company must as a minimum, assume responsibility for certain undertakings. When delivery by electronic media is utilized, the issuer must:

1. **Ensure <u>positive documented</u> investor consent, either selective or global, is formally obtained and that it is "informed "**
2. **Advise investor directly by e-mail or mail each time a disclosure is made and how to access it or to email disclosures directly to the investor**
3. **Provide access to Adobe Acrobat Reader (assuming PDF is the chosen format) on their web- site with instructions on how to download**

4. Advise the investor of the system requirements necessary for receipt of documents in PDF format and warn the investor that download time may be slow
5. Provide no- cost technical service support via a toll-free line during normal business hours to assist investors with Internet access and downloads or to request a paper copy of disclosure documents
6. Formally advise investors in writing (i) of the costs-Internet online costs, printing, (ii) risks-system outages, viruses (iii) that while electronic delivery is indefinite consent can be revoked by mail, email or telephonically at any time without penalty or fee and (iv) no loss of legal rights if electronic media access is utilized -part of "informed "consent
7. Provide easy reliable access and web- site navigatability
8. Best practices will be used as regards on-screen readability of documents
9. Assume liability for any hyperlinks within disclosure documents
10. Take responsibility and assume liability if a third party site is utilized

We believe these features are not inconsistent with National Policy11-201.A good prototype consent form was recently used by INCO for the electronic delivery of documents (www.cibcmellon.com/electronicdelivery). Nortel (NT) also recently offered electronic access to Disclosure documents including proxy statements and the ability to vote on-line (www.proxyvotecanada.com). Receipt of NT paper documents is the default option unless shareholders formally decline receipt or request electronic delivery (www.investordeliverycanada.com). These can be used as benchmark models by the fund industry.

We remain concerned also that the industry will be able to effectively and simultaneously manage two channels of disclosure information-paper and edoc - and that the costs for duality will ultimately be passed on to all investors in the form of a higher MER.

We would want assurances that the above criteria could not be removed or watered down by clandestine Exemption Orders.

SPECIFIC COMMENTS

Here are some specific comments on the Proposals:

1. Splitting disclosure into logical pieces is not inappropriate IF joint signing of a POS document is mandated, everything is clearly cross-referenced, governance boards are legislated and fund factories prove they can effect co- dependent multi-document configuration management. However, all of this is useless unless the documents are actually delivered to investors. The regulatory assumption that "Access-equals-disclosure" as delineated however just won't play with investors, is not in their best interests, is perceived as pro-industry and may have legal implications that will hurt investors.

2. SEDAR should not be used as an information mode to satisfy delivery – investors should contact the fund company who presumably will always have the latest and most accurate information and the legal liability. The fund Company's web-site should be the primary information source since they maintain the site, sell the product(s) and bear the responsibility for disclosure. Under fund company control, downloads or email transmissions can be optimized and tailored to suit investor tastes. SEDAR could alter, without prior notice, its site architecture so that navigatability was not optimum. Furthermore, a SEDAR system outage would deny access to critical information if it were the only source. As a general principle, a public site that is not under the control of the issuer should not be used to effect delivery.

3. ALL of the information required by a investor is not generally known or communicated at the time of sale - pressure sales tactics could have been used say on a person not versed in English /French or a senior so the withdrawal rights should be kept in place. We doubt whether investors have used this as a zero cost put option and in any event, no substantiating data was provided. Shills like Brian Costello for example have proven the effectiveness of a brain hijacking "educational seminar", contributing to unsuitable investment decisions are routinely made. No existing right of a mutual fund investor should be removed -investor's hold too few of the cards to give up anything.

4. Marketing brochures should not be used as a source or substitute source of information. We have found in these brochures many errors of omission (forgetting to include benchmarks), use of small font for important notes, promulgation of myths such as Dollar Cost Averaging, biased & selective disclosure of data and cunning penmanship and graphing. Marketing brochures are often dated, incomplete and a little too slick to serve as an objective investor disclosure document. They often contain disclaimer clauses which negate any legal value.

5. Electronic delivery may be acceptable for some internet –literate investors for non-decision documents as long as it is a positive opt-in option, can be certificated, kept an option and reversed on demand without penalty or fee

   Prospectus Express® for example, from NewRiver Canada (www.newriver.ca) provides investors with Internet access to Prospectuses, statements of additional information, annual and semi-annual reports, quarterly statements, supplements and fund profiles for all U.S. and Canadian mutual funds from their proprietary database. Using Prospectus Express, investors can immediately retrieve and view these filings online in HTML or XML format. However, a majority of investors do not have internet access, are uncomfortable with downloading especially dial-up, have trouble with ZIP or .pdf files, can't site navigate or search well, accidentally delete files and have slow inkjet printers. Many seniors still have trouble with ATM's and VCR's! Electronic delivery, in effect, shifts the cost of printing to the unitholder. Hard copy documents, particularly lengthy ones, are more mobile, much easier to read than a 15 in. or 17 in. monitor and easier to file/retrieve for most PC user/investors.

6. More and more unitholders/investors do see the value of reading a Prospectus and Annual Report in apparent contradiction of statements in the report. The bear market has wisened up millions of Canadians to advisor/planner sales practices. Indeed, since March 2002,IFIC reports a $64 billion drop in assets under management.
   We have NEVER heard of investors objecting to the costs of Prospectuses or Annual Reports although anything is possible from an uninformed investor. Disclosure is a cost of doing business.

   We have however heard that they are unhappy with the way the data is presented, its tardiness, font size, the quality of commentary and the physical location and scattering of the information (e.g. current year brokerage commissions as a Note at the very back of the Annual Report, no carry-forward of historical transaction expense data). The lengthy cycle time from period end to release of reports, 90 days, infuriates unitholders who believe 15 days is more than adequate for unaudited reports and 45 days for audited fund reports. They are also disturbed that the Prospectus arrives 2 or 3 days AFTER the purchase and

that fund salespeople, themselves minimally trained, deliberately or through ignorance downplay the importance of the disclosure documents.

7. **Annual Reports should be mailed or otherwise delivered to unit holders unless specifically asked not to do so. The Annual Report is the barest minimum of information required by a mutual fund investor. In fact, the disclosure system should insist investors receive it in an initiative to protect them from themselves. See Attachment II from Mr. Kivenko's Intelligent Mutual Funds Glossary. *If mutual fund companies and banks don't want to communicate with their customers, perhaps they shouldn't have any.***

8. **Funds should disclose share voting policies and voting results/logic on their websites to allay the many suspicions and perceptions of conflicts of interest and to increase understanding of the fund managers thought processes. It will also help regulators regulate. This will be all the more important if the Canadian "bank" mergers ("Bank " includes retail banking but also investment dealers/brokerages, wealth management, corporate finance and mutual funds) are transacted and a powerful oligopoly created.**

9. **Consideration should also be given to archiving requirements and record retention periods for the new disclosure documents. They should all bear issue dates and unique control numbers.**

10. **Do not forget to address the issue of web-based or cell phone purchases or switches and how disclosure can be achieved in these cases.**

11. **We are concerned with the configuration management of the proposed larger number of documents and their timely confirmed distribution to all points of delivery and use.**

12. **The CSA should take immediate steps to permit Canadians to buy U.S. based mutual funds. This is not inconsistent with NAFTA. We can buy U.S. stocks, why not U.S. mutual funds to broaden the competitive choices as long as we accept their disclosure system, which many independent observers regard as superior.**
13. **Investors, in the interests of clarity, would favor easy to understand information unique to the fund- with less than 5000 funds in Canada this should not be too onerous. The foundation and fund summary documents would however have to be of a dramatically improved quality level that address historical investor and media concerns and complaints .NI 81-101, NI 81-102 and other relevant regulatory documents would need to be revamped to provide the legal backbone of such a new regulatory regime.**

14. **Note also that new high- tech paper printers can provide quality customized print -on -demand information packages quite economically without the need for large quantities to be printed. These are sometimes referred to as "Intelligent printers " as they can customize the print job based on unitholder data /preferences and consents stored in a database. "Intelligent " web based reports sent by email can, through hyperlinking, let the investor drill down to the level of detail desired.**

15. **With changes in disclosure, consideration should be given to minimum requirements for statements and transaction documents. These are in fact part of the disclosure system. *Personalized* rates of return using modified Dietz have proven to be effective well- read document quality enhancers.**

head office: 7791 Ninth Line, Markham, Ontario L6B 1A8 • tel: 905-471-2911 • e-mail: buell@globalserve.net
incorporated as a national non-profit organization January 1999 • Ontario Corporation Number 1327366
directors: Stan Buell, Phillip Colley, Robert Hagerman, Edward Nelles

16. **There needs to be a means for monitoring the system for compliance and suitable sanctions/penalties for breaches. This is where governance boards come in and why we believe certain reforms must be done in a orderly/logical sequence or concurrently. The MFDA and IDA have to better articulate their monitoring and enforcement practices. Their role under the new disclosure system is unclear but the IDA's dubious history in proactively protecting investors is a matter of record. Note that a legal challenge is in progress regarding the IDA as an SRO. (R. Kyle case)**

17. **Appendix I "Consumer" Guide is a beginning. IFIC's "Investing in Your Future " booklet could be the starting point .We think much more work is needed in the areas of linked advice –trailer fees, the long term impact of MER's on fund returns, risks including governance risk which is never identified as a risk, quantitative risk measures, tax exposure and service request/complaint mechanisms-access to the names, addresses – physical and virtual and phone/FAX numbers of service quality executives, governance board members, audit committee members and compliance officers is required. The CSA should go beyond the Consumer (Investor) Document and offer web-based educational material directly or to authoritative links. Seminars, quizzes, case studies, contests, videos, board games like Mutual Mania ®, stimulating crosswords etc + some creative imagination could dramatically accelerate the education process. Additionally, the CSA should proactively work with the public education system to introduce Life Skills courses that would include sections on money management and investing.**

18. **On a go-forward basis**

- **A mutual fund investor protection fund is vital**
- **Ethics, voting and governance policies should be disclosed at least via the internet**
- **A means for being reimbursed for disclosure misrepresentations should be provided**
- **A better operational definition of "material information" is needed**

These are all related to the disclosure issue.

CONCLUSION

In summary, here's our take on the Reform Proposals document:

- **Investor input to date has been minimal or NIL, industry input has been substantial. The root causes of poor disclosure system effectiveness in protecting investors have not been addressed; the symptoms as enunciated by fund Companies' are being addressed.**
- **Mutual fund Investors are considered as *consumers* not clients providing hard-earned capital for paid professional money management**
- **One of the "reforms ", that regarding mandatory mailings of Annual Reports, has already been pre-emptively approved by the CSA via quasi-clandestine exemption orders .The Saskatchewan Financial Services Commission makes all mutual funds exempt from financial statement delivery unless [financially illiterate] investors request them. There is a perception created, no doubt incorrectly, that regulators have already made up their minds and the consultation process is merely a PR exercise.**
- **Investor rights of withdrawal and rescission would be eliminated thus removing the traditional and valuable cooling- off period for purchases of goods and services**
- **The number of documents to be reviewed would be increased and fragmented**
- **The communication flowdown process and channel to the investor is a fuzzy combination of verbal, reference and written steps based on generally unsubstantiated good faith and integrity assumptions on the part of advisers, salespersons and marketeers**

head office: 7791 Ninth Line, Markham, Ontario L6B 1A8 • tel: 905-471-2911 • e-mail: buell@globalserve.net
incorporated as a national non-profit organization January 1999 • Ontario Corporation Number 1327366
directors: Stan Buell, Phillip Colley, Robert Hagerman, Edward Nelles

- **Historical investor complaints about the poor quality, irrelevance and bulk of existing disclosure documents and the Stromberg Reports remain essentially unaddressed & deferred to a later unspecified date**
- **No regulatory *prerequisites* such as governance boards, share voting disclosure and a investor protection fund are delineated**
- **There is no requirement to actually deliver documents or technically support downloads; "access- equals- delivery", presumably meaning Internet access (download) from issuer web- sites would constitute full disclosure and delivery of disclosure documents even if they have not been accessed. NOTE: The SEC in the U.S. has not moved forward with this approach due to legal, technical, regulatory, administrative, human factors, limited large scale internet accessibility, long download times, investor protection principles and procedural reasons as well as feedback from consumer groups, individuals and investor advocates.**
- **Cost savings to issuers' will be not be disclosed nor necessarily flowed down to investors in the form of lower fees. Practically speaking however these savings are likely not material and if history is any guide, will in any event not result in reduced MER's.**
- **Investors, demonstrably complacent and busy, would now have to take the time to formally request Disclosure documents to support their mutual fund investment decisions-essentially dramatically cutting the likelihood of disclosure and potentially damaging rates of return & retirement pension plans. Negative options have seldom proven to be in the consumers' or investor's best interests and accordingly this practice is unacceptable to SIPA.**
- **Besides pointing out that the SEC has not accepted "access-equals –delivery", the DRAFT report of the Five Year Committee chaired by Purdy Crawford went on to say that National Policy 11-201 states that "referring an intended recipient to a third party website will generally not constitute valid delivery unless the recipient had previously consented to this form of delivery. Thus, the CSA would permit an issuer and shareholder to agree between themselves that delivery obligations can be satisfied by reference to the third party website. However, the Policy does not, and could not, shift the onus of ensuring that shareholders receive disclosure documents from issuer to investor."**
- **Documents such as a Fund Prospectus relate to a decision or action to buy or a material change notice which relate to a decision to hold or sell *are not differentiated* from information-only documents such as an unaudited semi-Annual report as regards delivery. No mechanism is provided for investors to know that action or information-only documents have been released so access would mean continuous surveillance of web sites, a time consuming chore.**

- **Educational initiatives would be limited to a industry endorsed Consumer education Guide document, hardly an encouraging sign given the track record. Accountability (liability) for this document-APPENDIX I- will rest with no one even if the document is misleading, wrong or deliberately incomplete. An Investor Panel should review the document since investors will be the users**
- **Monitoring mechanisms, enforcement plans, statistical information and sanctions for breaches are to be defined later**
- **The legal rights of investors not requesting Disclosure documents *may* be compromised. A legal opinion would be required to determine that lack of due diligence at the time of investment would not disadvantage an investor in filing a future claim. Conversely, a collateral damage effect might actually expose advisers and salespeople to increased liability exposure**

head office: 7791 Ninth Line, Markham, Ontario L6B 1A8 • tel: 905-471-2911 • e-mail: buell@globalserve.net
incorporated as a national non-profit organization January 1999 • Ontario Corporation Number 1327366
directors: Stan Buell, Phillip Colley, Robert Hagerman, Edward Nelles

- **The reforms appear to be diametrically opposed to Federal, OSC and other regulators' and political initiatives to improve investor protection and education in the post-Enron/post-Nortel environment. The OSC has for instance proposed quarterly reporting for mutual funds. In the U.S., the House of Representatives is looking into the $6.5 trillion U.S. mutual fund industry. Questions are being raised regarding the disclosure of "soft" dollars, opaque fees and portfolio manager pay. Legislation regarding disclosure of voting policies and records was enacted in January by the SEC after intense lobbying led by unions. American mutual fund investors are being better protected through improved regulation and disclosure**
- **Thirteen + independent regulators would evaluate the effectiveness of the reforms and hopefully make coordinated, timely mid-course corrections on behalf of investors-we regard this as unlikely**
- **The irrelevant cost- benefit analysis will presumably be trivial as there are no benefits to investors at all but potentially added costs in printing out documents previously supplied and the loss of the cooling- off period. If the analysis is done from the industry viewpoint then the definition of "benefit" would have to be allowed a net negative value as the proposals are regressive, i.e. de-regulatory, for investors. Intermediaries could well face a net negative benefit due to increased workload and legal exposure.**

We can hardly regard these reforms, individually or worse collectively, as pro-investor no matter how well intentioned. We are not saying this is an example of regulatory malpractice but rather that investors/advocates were not an integral part of the original inputs. All is not lost. The reform process is a healthy opportunity to improve investor protection but much more consultation with investors is required.

Fund governance boards need to be established to oversee the introduction of this new disclosure regime. The relationship with other mutual fund regulatory reform initiatives needs to be thoughtfully considered as part of an integrated time-phased improvement plan. The National Quality Institute (NQI) provides guidance and useful tools (such as the Ishikawa diagram) for problem solving and process improvement (www.nqi.ca). Time is of the essence.

As we move deeper into the Information and Investorism Age, fund companies will also have to be forthcoming with more and better information delivered more promptly.

We sincerely hope that our will motivate and inspire regulators, industry participants and politicians to provide the necessary leadership. Better regulation provides a benefit opportunity .The result will be a stronger economy, a welcoming investment environment and more Canadians better able to control their own financial destiny.

We hope this gives you some useful feedback from the public as it regards the "public interest". It would be our pleasure to meet with you and/or your staff to discuss this further.

Ken Kivenko, P.Eng.
Chairman, Advisory Committee
Small Investor Protection Association
kenkiv@sympatico.ca

REFERENCES

The following Documents and web-sites were used in our research of this Commentary:

Baer Gregory & Gensler Gary," the Great Mutual Fund Trap: How Americans are losing billions to the Mutual Fund and Brokerage industries-and how you can earn more with less risk", ISBN 0-7679-1071-0, Broadway Books, 2002

Bell, Andrew "Mutual Funds for Dummies For Canadians", CDG Books, ISBN -894413-01-6, 2000

Bell Blake A.,"A Summary and Analysis of the SEC's April 28,2000 Interpretive Release Entitled "Use of Electronic media " ", Simpson, Thatcher & Bartlett, May 1, 2000. (Mr. Bell is also Editor –in Chief of CybersecuritiesLaw.com)

Brass Dick, Vice President of Technology Development at Microsoft " Microsoft Reader Uses ClearType Technology and Traditional Typography to Enhance On-Screen Reading ", Aug. 30,1999 (http://www.microsoft.com/presspass/features/1999/08-30seybold.asp) (…"There are many problems with reading on a computer screen," Brass said. "First, the resolution of the screen doesn't approximate the resolution of a well-printed paper page. Second, the conventions of computer displays-lots of icons, ragged right columns, arbitrary spacing and, in general, a fair amount of indifferent layout-has made an on-screen read inferior to a paper read.")

Chevreau, Jonathan "the Wealthy Boomer-Life After Mutual Funds"; Key Porter Books, ISBN - 55263-006-4, 1998

Chevreau, Jonathan "Fund industry stuck in the 20th century", FP, Jan. 25, 2003

Crawford Purdy (Chair), "Five year Committee Draft Report: Reviewing the Securities Act (Ontario) ", May 29,2002 –available at www.osc.gov.on.ca or from Osler, Hoskin & Harcourt LLP

DeCloret Derek, "Banks as money managers may mangle Chinese wall ", Financial Post, Wed. April 17, 2002

Dewdney A.K.,"200 % of Nothing: From percentage pumping to Irrational Ratios", ISBN 0-471-57776-6, John Wiley & Sons, 1993

Ebner Dave," Investors need watchdogs with teeth", The Globe and Mail, Feb. 19,2002

Erlichman Stephen . " Investment Fund Bulletin", July/August 2000-Mr. Erlichman is Senior Partner with Fasken, Martineau DuMoulin LLP and author of the June 2000 CSA report "Making it mutual: Aligning the interests of investors and managers-Recommendations for a mutual fund governance regime for Canada". He can be contacted at serlichman@tor.fasken.com

Harmes, Adam, "Unseen Power: How Mutual Funds Threaten the Political and Economic Wealth of Nations ", Stoddart, 2002

Heinzl, Mark J. " Stop buying mutual funds"-The book Bay Street *Still* Doesn't want You to Read (2'nd edition); John Wiley and Sons Canada Limited, ISBN 0-471-64613-X, 2001

Investment Funds Institute," Report of the Advisory Group on Best Practices for Fund Directors: Enhancing a Culture of Independence and Effectiveness", June 24,1999

Kivenko Ken, "Mutual Fund Governance-Self Assessment Checklist", Feb. 2002 (available from kenkiv@sympatico.ca)

Kivenko Ken, "Intelligent Mutual Fund Glossary ", Doc. # 102 (available from kenkiv@sympatico.ca)

Kivenko Ken, "Regulation," public interest ", mutual funds and more ", Doc. # 117 (available from kenkiv@sympatico.ca)

Levitt Arthur," Take on the Street ", Pantheon Books, ISBN 0-375-42178-5, 2002

Maclean's Magazine, Year –end Poll, "Crooks in the Boardroom ", Maclean's Dec.30, 2002

Mohindra Neil, "Securities market regulation in Canada", the Fraser Institute, ISSN 1480-3666, April. 2002 (see www.fraserinstitute,ca)

NI 81-402,"Striking a New Balance: A Framework for Regulating Mutual Funds and their Managers" (Concept Paper Proposal), CSA, March 1,2002

Ontario Securities Commission, "Financial Disclosure: What you NEED to know", April, 2002 (available at www.osc.gov.on.ca)

Ontario Securities Commission, "Mutual Fund Dealer Compliance Issues", Jan. 1999 (available at www.osc.gov.on.ca)

Ontario Securities Commission, "The Canadian mutual fund industry :Its experience with and attitudes towards mutual fund regulation", March 1, 2002

Roseman Ellen, "Questionable practices hurt mutual funds", The Globe and Mail April 13, 1990

Securities and Exchange Commission (U.S),"SEC Interpretation: Use of Electronic Media ", Release Nos. 33-7856, 34-42728, IC24426, file No. S7-11-00, May 2000 (available at www.sec.gov)

Smith Geoffrey, "Mutual Funds: Investors are still in the Dark", Business Week, April 29,2002, pg 90

Stoffman, Daniel, "The Money Machine: How the mutual fund industry works and how to make it work for you", Macfarlane, Walter & Ross, ISBN 1-55199-052-0, 2000

Stromberg, Glorianne, "Why fund governance matters ", Investment Executive, Sept. 2002

Stromberg, Glorianne, "Joint Forums' fund disclosure proposals miss the point ", Investment Executive, March. 2003

Stromberg, Glorianne, "Disclosure", The 9th Annual Business Law Symposium, Queen's University, Nov. 8/9, 2002

Stromberg Reports: Ms. Glorianne Stromberg, a lawyer by profession, has issued two Key reports relevant to the mutual fund industry in Canada.

1.0 With the release in 1995 of "Regulatory strategies for the Mid 90's": Recommendations for regulating investment funds in Canada", Ontario Securities Commission member Glorianne Stromberg dissected and analyzed the mutual fund industry. Ms. Stromberg embarked upon a comprehensive review of every aspect of the industry and boldly proclaimed the need for significant change. In response to the rather scathing observations of the Stromberg report in the area of sales practices and incentives, on May 1st 1998 a new national instrument titled "Mutual fund sales practices" came into force. Under NI 81 - 105, the interests of investors are paramount and conflicts between the commercial goals of fund companies and the best interests of investors must be minimized. NI 81 - 105 restricts certain sales practices between fund management companies and distributors, prohibiting the payment of money and the provision of non-monetary benefits except as specifically permitted. It requires that fund companies deal with and compensate distributor firms rather than sales representatives directly, and prescribes parameters for the payment of sales commissions, including trailing commissions. It also requires Prospectus disclosure of commissions paid and the incentives provided to distributors, and to ownership relationships between a member of the mutual fund organization and a participating distributor.

2.0 In October 1998 a second report entitled "Investment funds in Canada and Consumer Protection: Strategies for the Millennium" was prepared for the Office of Consumer Affairs, Industry Canada. This report (ISBN-0-662-27425-3/code 52487E) examined the requirements for the reasonable protection of investors and made recommendations to enhance consumer/investor protection.
The reports are respectively available from the OSC (http://www.osc.on.ca) and Industry Canada Web sites (http://strategis.ic.gc.ca).

Toronto Star, "Investment Statements are Hiding Something", Jan. 6, 2002
(The Portfolio Doctor column)

Weinberg Ari," Congress takes lid off Mutual, Funds ", Forbes.com, March 12,2003

White, Anne & Guadarrama, Antonio, "Investigation Report: Electronic Typeface Readability ", San Diego State University, contact awhite@san.rr.com (paper concludes that Times or Arial are recommended fonts and references studies showing that the reading speed of electronic text is *28 % slower* than printed text)

http://www.fundalarm.com. Fundalarm is a U.S. site run by investor advocate Roy Weitz. It provides terrific insight into the U.S. Fund industry (the relevance to Canada is very obvious).*"FundAlarm* is a free, non-commercial Website. " FundAlarm has often been accused of taking a simplistic approach to complex issues. In keeping with that tradition, here's our analysis of one current controversy within the mutual fund industry:

- Virtually no mutual funds disclose their proxy votes;
- Using the Internet, it would be extremely easy for mutual funds to disclose their proxy votes if they wanted to;
- Therefore, mutual funds have something to hide.

head office: 7791 Ninth Line, Markham, Ontario L6B 1A8 • tel: 905-471-2911 • e-mail: buell@globalserve.net
incorporated as a national non-profit organization January 1999 • Ontario Corporation Number 1327366
directors: Stan Buell, Phillip Colley, Robert Hagerman, Edward Nelles

What do fund companies have to hide? Well, let's say that General Motors is looking for a fund company to service its 401(k) plan, and Fidelity discloses that it has voted an important proxy issue against General Motors in the past. Isn't it likely that General Motors might decide to give its business to a friendlier fund company? Examples like that are probably rare, so we suspect that the fund industry opposes proxy vote disclosure for a more basic reason: Fund companies don't want to tell the rabble any more than they have to... If funds routinely disclosed their proxy votes, investors might have one more reason to tie up the toll-free telephone lines, or write an e-mail, both of which require "customer service". And, of course, any given proxy vote is likely to antagonize someone, and fund companies have a hard enough time getting customers without disclosing what they really think or do. Mutual funds control nearly one-third of the equity voting power in the U.S., and failure to disclose mutual fund proxy votes makes a charade of corporate democracy. But mutual funds are allowed to get away with non-disclosure, so of course they don't disclose. *"Activists renew push for proxy disclosures," Sarah O'Brien, Investment News, January 14, 2002*

www.ific.ca This is the official web-site of The Investment Funds Institute of Canada (IFIC), an investment fund industry lobby group. The site includes useful statistics, investor notes and articles.

www.osc.gov.on.ca The official website of the Ontario Securities Commission. The site contains a downloadable set of Regulations, proposals, educational materials, Annual Report etc.

www.mfda.ca This is the web-site of the Mutual Fund Dealers Association of Canada (MFDA), the mutual fund industry's self-regulatory organization ("SRO") for the distribution side of the industry. The site contains related links, MFDA rules, by-laws and regulations, a media center and a complaint procedure with associated forms.

www.nqi.ca Official web-site of the National Quality Institute. The site contains a wealth of quality and process improvement related information. The National Quality Institute is a not-for-profit organization that provides strategic focus and direction for Canadian organizations including government agencies/departments to achieve excellence, enabling Canada to set the standard for quality and healthy workplace practices throughout the world. Members include IBM Canada, AT&T Canada, Canada Life, Xerox, AMEX Canada and Hill & Knowlton. The annual Awards for Excellence are similar to the Malcolm Baldridge Awards. Ken Kivenko is a member of the Board of Governors.

http://regulators.itgo.com This fact –filled site covers many securities regulatory affairs and issues in Canada. It is not specifically aimed at mutual fund investors but many of the points are relevant.

www.sipa.to- This is the official web–site of SIPA, The Small Investor Protection Association. SIPA is a volunteer member organization committed to fair practice in the investment industry. SIPA was incorporated (Ontario corporation number 1327366) as a national non- profit organization at the end of January, 1999, with headquarters in Markham, Ontario. The site contains a library, media links, litigation and news of interest to investors. Most resources are free to the public but some require membership. Contact Stan Buell.

http://www.wealthyboomer.com/forum/ Wealthy Boomer Discussion Forum -
This is the site of Jonathan Chevreau, consumer-friendly personal finance columnist for the National Post. The discussion forum is moderated by Chevreau and is lively.

Attachment I

Fund Spy: The Shareholder Letter You Probably Won't See
A plea for more candors and less jargon in managers' messages.
by Gregg Wolper, Senior Fund Analyst | 11-19-02

Candor is likely to be in short supply this holiday season. At family gatherings, countless parents will swear their cooking-challenged daughter has produced the tastiest turkey ever, and middle-aged men will chortle giddily when their youngsters give them Spiderman ties for Christmas. Likewise, the year-in-review letters written by stock-fund portfolio managers, which will appear in the annual reports arriving in the coming months, probably won't provide a model of forthright expression.

Some managers, such as Marty Whitman or the Clipper crew, are brutally honest in writing these letters. They not only concede their mistakes, they explain their strategies and trades with clearly written details that allow shareholders to understand exactly how their funds work. But most such letters are short and filled with jargon and numbers. And even when the fund's returns aren't pretty, the letters often avoid a straightforward discussion of the problems, leaving shareholders wondering what happened.

It's possible managers will provide candid letters this year. But many of the quarterly reviews posted on fund Web sites in recent months are already following the typical pattern, so the year-end reviews probably won't be much different.

In short, you're unlikely to get a letter such as the following. But it would be nice if you did.

Dear Shareholder,

I'm sorry for letting you down this year. Sure, the markets were terrible and it would've been a miracle to actually make money in 2002. But I should have produced better results than I did. And I won't blame the economy, the weather, or Wall Street investment bankers. I made some mistakes; they're my fault.

I could shift the focus here and point out that the fund only lagged our benchmark index by half a percentage point and that some of our peers lost just as much money as we did. But I'm a shareholder just like you are, and that's not what I would want to hear when the fund has suffered a double-digit loss.

Instead, on the next page you'll find a chart listing the most harmful errors I made during the year. The list is long, and it includes trades made as well as some I failed to make. For each move that backfired, I explain my thinking and where it fell short. I 've also listed the lessons we learned from those mistakes. For the sake of my own pride--and also in fairness to our analysts here— I also cite and explain a few moves we made that worked out well. Fortunately, the fund did have some winners.

I must also tell you that because of the losses and withdrawals by some shareholders, the fund's asset base shrank. When that happens, a fund's expense ratio usually climbs. I am trying to convince my colleagues here to absorb some costs so that expenses won't increase. You

head office: 7791 Ninth Line, Markham, Ontario L6B 1A8 • tel: 905-471-2911 • e-mail: buell@globalserve.net
incorporated as a national non-profit organization January 1999 • Ontario Corporation Number 1327366
directors: Stan Buell, Phillip Colley, Robert Hagerman, Edward Nelles

shouldn't have to pay more simply because the fund lost money and other shareholders departed. So far, my colleagues have not responded with glee to my suggestion.

I've been candid about my own shortcomings. Now, I hope you won't mind if I turn the tables for a moment. If you, as a shareholder, are irritated that I didn't deliver a much more limited loss this year, I understand and share your feelings, as I 've noted above. But if you are angry that the fund lost any money at all--if you're convinced we should be posting gains every year, every quarter, no matter what-- then perhaps you should reconsider whether this fund has a place in your portfolio. I respect all of you and would like to retain all of you as shareholders, but it's important to recognize that stocks and stock funds will inevitably suffer losses at times.

This closing paragraph is where the manager often writes how things are looking up now, which means next year the market--and the fund--will almost surely post comfortable gains. But I won't say that. I have never been able to predict how the markets will perform. I do, however, promise that I will learn from my mistakes and will work as hard as I can to post the best performance possible for our fund. If you look at our long-term record, you'll see that I 've usually been more successful than I was in 2002--even if that has meant limiting losses instead of posting gains. I will make every effort to return to that form. Thank you for your patience,

Your portfolio manager

Attachment II -extract from "Intelligent Mutual Fund Glossary"

"Annual Report: Audited financial document required by the CSA's and securities regulation to be sent to a mutual fund's shareholders/unitholders at the end of each fiscal year. The document contains the financial results/returns for the year (including a statement of financial highlights, statement of net assets, statement of changes in net assets, description of operations, some marketing hype, a complete listing of portfolio holdings including book and market values and applicable NOTES) and general commentary on the outlook for the future. It is an integral part of a company's disclosure system. The Annual Report is a key document for unitholders in assessing a fund's performance and suitability. Not reading it can be hazardous to your financial health. Too often, general comments about the economy are made or some philosophy is presented with no real value to the reader. What unitholders deserve and are often denied is an honest discussion of results of whether the fund kept up with the market and peers. All Annual Reports for mutual funds incorporated in Canada are available from the Fund Co. or on SEDAR (www.sedar.com) for free. At present, a semi-annual report is also required but it must be requested. Unlike corporations, mutual fund quarterly reports are not required at this time. (A controversial Dec., 2002 OSC precedent- setting exemption ruling will allow mutual funds to stop automatic mailing of Annual Reports to already under-informed investors. "Bates, a former chief executive in the fund industry agrees that much of the costs associated with the Annual reports were a waste in the first place because so few investors take the time to read through the document. "There's no question that for many recipients it tends to end up in the category of bulk mail. In many cases, it's superfluous. For people that want it, they make a choice or you can get it tangibly online." Source :Investment Executive Jan., 2003). A truly disrespectful view of Canadian unitholders/investors). See also Annual Information Form, Disclosure and Window dressing "

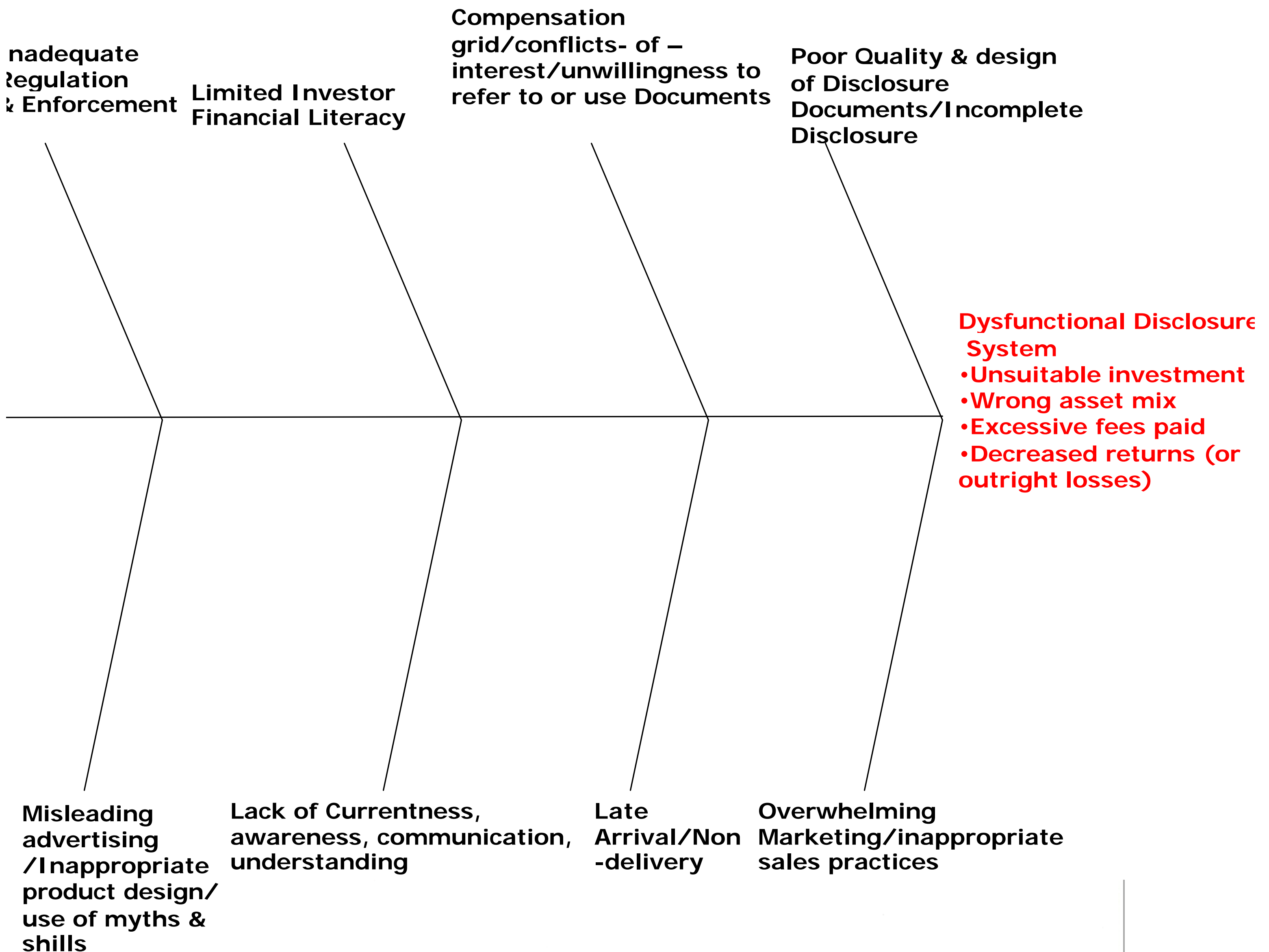
Some extremists, fed up with the games, have floated the idea of a WARNING on the front cover of Annual Reports that might be useful in preventing some of the mal-advised investments of the past and actually promote investor education.

WARNING: This Annual Report contains important information regarding the performance and management of the designated mutual fund. Failure to digest its contents may result in inappropriate investments, inferior rates of return, excessive fees and/or undue exposure to income taxes.

head office: 7791 Ninth Line, Markham, Ontario L6B 1A8 • tel: 905-471-2911 • e-mail: buell@globalserve.net
incorporated as a national non-profit organization January 1999 • Ontario Corporation Number 1327366
directors: Stan Buell, Phillip Colley, Robert Hagerman, Edward Nelles

ATTACHMENT III

ISHIKAWA DIAGRAM:
ROOT CAUSES OF DYSFUNCTIONAL DISCLOSURE



head office: 7791 Ninth Line, Markham, Ontario L6B 1A8 • tel: 905-471-2911 • e-mail: buell@globalserve.net
incorporated as a national non-profit organization January 1999 • Ontario Corporation Number 1327366
directors: Stan Buell, Phillip Colley, Robert Hagerman, Edward Nelles