

July 15, 2004

John Stevenson, Secretary  
Ontario Securities Commission  
20 Queen Street West  
19<sup>th</sup> Floor, Box 55  
Toronto, Ontario  
M5H 3S8

and

Denise Brousseau, Secretary  
Commission des valeurs mobilières du Québec  
800 Victoria Square, Stock Exchange Tower  
P.O. Box 246, 22<sup>nd</sup> Floor  
Montreal, Quebec  
H4Z 1G3

Dear Mr. Stevenson and Ms. Brousseau,

I am writing on behalf of Tradex Management Inc. to provide you with our comments on proposed National Instrument (NI) 81-106. Tradex is one of the oldest mutual fund groups in Canada, with the Tradex Equity Fund Limited having been created in 1960.

#### 1. Combining Financial Statements and Management Report of Fund Performance

As written, the Proposed Instrument would require the preparation of two sets of independent documents every six months, namely the "Financial Statements" (FS) document and the "Management Report of Fund Performance" (MRFP) document. This requirement is implied in Part 5 of the proposed instrument and is made evident in the required front-page disclosure wording of the MRFP which states,

“This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost by calling, by writing to us .....

and also from item 3.1.1 (Financial Highlights) regarding the Contents of the MRFP wherein the following wording must be used:

“ Please see the front page for information about how you can obtain the Fund’s annual and interim financial statements”.

...../2

At Tradex it has been our policy to mail a copy of the Annual Financial Statements (i.e., Annual Report) and the Interim Financial Statements to all unitholders. We intend to continue with the policy of sending the full package of Financial Statements to all investors since we believe that investors should receive this information, even if they read only a part of it. Under the new requirements, we would also plan to send the Management Report of Fund Performance to all unitholders every six months. In this regard, we agree with the CSA that more disclosure on the nature of each Fund and its performance is desirable and therefore we believe that this information should also be sent to all unitholders every 6 months.

However, the proposed wording indicates that, if we wish to provide all of this information to our unitholders, we will be required to send two independent sets of documents every six months, i.e., the Financial Statements and the Report on Fund Performance. Requiring us to produce and send two sets of documents will greatly add to our costs in terms of time, printing and mailing costs. In addition, we believe that it will be confusing to investors to receive two sets of “overlapping” documents from us, particularly given the front page disclosure requirements on the MFRP, when we will be sending the FSs to unitholders in any event.

We are therefore asking that the requirements be changed such that fund managers have the option of combining the two sets of documents into one comprehensive document. At fiscal year-end, the document could be entitled, "Annual Management Report of Fund Performance and Audited Financial Statements ". In the interim period, the document could be entitled "Interim Management Report of Fund Performance and Financial Statements".

Assuming the CSA allows the two sets of documents to be combined, we see only one redundancy with respect to the requirements outlined in Form 81-106F1. This relates to Item 5, “Summary of Investment Portfolio”. We would ask that in cases where the two sets of documents are combined into one comprehensive document that the need for this section be eliminated because the entire portfolio will appear in the financial statements section of the document.

## 2. Binding Management Reports of Fund Performance

Section 7.4.3 of the Proposed Instrument states:

“An investment fund may not bind its management report of fund performance with the management report of fund performance for another investment fund.”

Our reaction to this requirement is extremely negative for two reasons as follows:

- A. We cannot understand the logic behind this requirement. We are able to bind the Simplified Prospectus, Annual Information Form and Financial Statements for our three Funds into one document. Furthermore, the Quarterly Statement issued to investors shows all of their holdings in one statement as opposed to a different Quarterly Statement for each different Fund that they hold. Moreover, our Quarterly Report to Investors and our web site “bundle” information about our three Funds. Why then would we not be able incorporate the Management Report of Fund Performance for the three Funds that we offer into one document (each MRFP would be like a separate chapter of a book)? In this regard, our investors are interested in receiving information on all three Tradex Funds, even if they do not own all three, so that they can compare the results and commentary for one Fund with that of the other Funds. This type of information increases their overall investment knowledge and also enables them to make wiser investment decisions because it provides them with knowledge on the choices available to them and the relative performance of the various options. Removing the ability of fund managers to bind these reports will result in investors receiving far less information than they otherwise would receive and being far less informed on their investment options and the relative performance of the Funds that they own versus other Funds. This is the exact opposite of what I believe the CSA is attempting to promote, i.e., greater disclosure and better-informed investors.

We should also mention that your own research supports allowing binding (since if binding is not allowed it is very doubtful that most investors will receive information on sister funds), as seen in the following analysis of survey results:

“Those who read their reports with some care are information-hungry. They not only want longer documents but they also wish to receive them more frequently---61% favouring documents at least four times a year vs. 41% with that view among fund investors as a whole. They also want information on sister funds—40% actively desire such information vs. 23% among unit holders as a whole. Among careful readers, 74% either desire or would accept receiving reports on sister funds compared to 68% among unit holders as a whole. Meanwhile, the segment most averse to receiving information on sister funds is the elderly---47% vs. 29% among unit holders as a whole.”

Source: COMPAS Inc. Report to OSC dated May 2003, Section 3.4 (underlining added by Tradex).

- B. In addition to being a huge negative from the point of view of investor knowledge, this requirement would add greatly to costs for those fund managers who genuinely wish to keep their clients informed to the extent possible. In our own case, in order to provide the information that our clients want and deserve to get, we would be required to produce three separate documents and stuff each of them into the envelope rather than one single document containing three chapters. Furthermore, this would be very confusing to our clients since they are used to receiving all of their information on the Tradex Funds in one document.

For the reasons stated above, especially those related to investor knowledge, we strongly urge the CSA to change this requirement.

As a final note on this subject, we understand that this requirement was included in the proposed Instrument because the CSA was concerned that investors receiving "telephone book size" MRFP documents would be turned off from reading any of the information due to its volume. While we do not share this concern because we believe that investors are far more astute than they are often given credit for, one possible compromise would be to put a limit on the binding. For example, one could allow the MRFP for up to 10 Funds to be bound into a single document. In such as case, Section 7.4.3 would read:

"An investment fund may not bind its management report of fund performance with the management report of fund performance with more than nine (9) other investment funds offered by the same fund manager."

### 3. Date that the New Requirements Come Into Effect

The CSA is proposing that the new requirements come into effect December 31, 2004. We believe that this timing is extremely "tight" from a logistics point of view and also that it would result in considerable hardship for the industry. First, it would seem unrealistic to expect the CSA to adopt the new Instrument before mid-September, at earliest. Second, the industry will be required to complete a tremendous amount of work in order to meet the requirements of the proposed Instrument. Given human resource constraints within the industry and also given cost considerations, we would ask the CSA to delay implementation of this Instrument until January 1, 2005.

We sincerely hope that our comments will be taken into account when you finalize the requirements for NI 81-106.

Yours truly,

Robert C. White  
President  
Tradex Management Inc.