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VIA ELECTRONIC MAIL

July 28, 2005

British Columbia Securities Commission  
Alberta Securities Commission  
Saskatchewan Financial Services Commission  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
New Brunswick Securities Commission  
Registrar of Securities, Prince Edward Island  
Nova Scotia Securities Commission  
Superintendent of Securities, Newfoundland and Labrador  
Registrar of Securities, Northwest Territories  
Registrar of Securities, Yukon Territories  
Registrar of Securities, Nunavut

Dear CSA Member Commissions,

We are writing on behalf of Tradex Management Inc. (TMI) to provide you with our views on proposed National Instrument 81-107, as published on May 27, 2005. While we strongly agree in principle with improving governance in the mutual fund industry and the introduction of Independent Review Committees (IRCs), we believe that the proposed Instrument is not sufficiently flexible in addressing the needs of the entire mutual fund industry. Furthermore, from a cost point of view, the proposal is very punitive for small mutual fund management companies such as Tradex.

Tradex was created in 1960 and is therefore one of the oldest mutual fund groups in Canada. Because we were created solely for the benefit of our investors, we have a rather unique governance structure that we believe far surpasses most of the industry in protecting the interests of investors. However, proposed NI 81-107 would not recognize this enlightened governance structure since it would prevent our independent, or public, directors from being members of the Tradex Independent Review Committee. Let us explain our position:

1. Tradex Equity Fund Limited (the largest mutual fund in the Tradex group) was incorporated under the laws of Canada in 1960 by a group of Government of Canada Foreign Service Officers solely for the benefit of Tradex investors.

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2. Tradex Management Inc. (TMI) was incorporated in 1989 and is the manager for Tradex Equity Fund Limited (TEF) and the manager and trustee for Tradex Bond Fund (TBF) and Tradex Global Equity Fund (TGE). TMI was created when steps were being taken to create TBF as a mutual fund trust in order to better serve our members (investors).
3. TMI has share capital of 10 shares and each share is worth \$1. The 10 shareholders, each of whom holds a 10% interest in the company, are the 10 Directors of the company. A shareholder on ceasing to be a Director of TMI must transfer his or her share to the replacement Director for consideration of \$1. Directors of TMI receive a modest honorarium for their services, as published in the Annual Information Form for the Funds (other than the President who receives no remuneration as a Director but a salary as President). There is no other financial benefit in being a Director. In this regard, there is a shareholder agreement between TMI and TEF that states, TMI “shall not declare or pay any dividends on any of its common shares or set aside for such purpose or otherwise make a distribution to the Shareholders”. Furthermore, the management agreements between TMI and the three Tradex mutual funds state the following, “The Manager covenants and agrees not to declare or pay any dividends or make any other distributions to its shareholders.”
4. TEF is also governed by a 10 person Board of Directors, who are the same individuals on the TMI Board. There is no honorarium for being a Director of TEF. Each Director performs his/her duties purely in the spirit of public service.
5. Nine of the ten TMI Directors are not employed by TMI and are completely independent of the company’s management team (the President being the only employee of TMI who is a Director). These individuals are all presently employed in full-time senior public sector positions or are retired senior public sector employees. All of these directors carry out their duties in the spirit of public service ensuring that the company operates effectively and in the best interests of its investors. It is extremely important to note that they receive no financial reward (or potential for financial reward) for their services other than a small honorarium. (In this regard, they perform their duties very much in the same way that the public directors of the Mutual Fund Dealers Association of Canada or a charitable organization perform their duties.) At present, the professional qualifications of the nine public Tradex Directors are as follows:
  - a retired Assistant Deputy Minister of Indian and Northern Affairs, Government of Canada (who is also a Rhodes Scholar)
  - the Chief Executive Officer of Nunavut Trust

- the Assistant Secretary, Pension & Benefits Sector, Treasury Board Secretariat, Government of Canada
  - a retired President & Chief Executive Officer of Atomic Energy of Canada Ltd. (who is also a former Canadian Ambassador and Deputy Minister)
  - a senior lawyer with the Department of Justice, Government of Canada
  - Canada's former Ambassador to Turkey and to Chile, who has also served as Inspector General, Department of Foreign Affairs and International Trade, Government of Canada
  - a retired scientist and engineer from the National Research Council
  - a Senior Coordinator, Intergovernmental Operations, Infrastructure Canada (who is also formerly Chief Advisor, Office of the Ethics Counsellor, Government of Canada)
  - the Vice-President and Chief Financial Officer of the Canadian Tourism Commission.
6. To ensure that the Board of Directors carries out its fiduciary responsibilities effectively, Tradex has adopted best practices in governance, including:
- there is a separation of the roles of Board Chair and President, with the Chair being an independent or public Director elected by the Directors.
  - the President of the management company (as well as the entire management team) is appointed by the Board and his/her services are retained, under good behavior, at the pleasure of the Board.
  - the Audit Committee of the Board consists of three public Directors.
  - at the end of each Board meeting there is an "in camera" session where the public Directors meet without management personnel present in order to encourage the most candid discussions.
  - annually, the Board conducts a self-assessment to gauge its own effectiveness and to set priorities for the coming year.
  - any conflicts of interest (there are very few since we contract out most of our functions) are discussed and resolved by the full Board.
  - the three mutual funds that Tradex manages also have committees consisting of two public Directors and one investor representative. These committees oversee the activities and performance of the fund and report to the Board of Directors (including on such things as approving any changes to the investment guidelines and presenting them to the Board for approval). This service is provided in the spirit of public service for the benefit of all Tradex investors.
  - Tradex Equity Fund Limited holds an Annual General meeting to which all Tradex investors are invited and are encouraged to question the Directors of TEF and TMI.

7. Finally, TMI operates on an “at-cost” basis and returns all excess revenue that it earns to the three mutual funds that it manages. For example, in 2004 Tradex Management Inc. remitted \$82,000 (plus GST) back to the Tradex Funds in this regard (see the 2004 Annual Report for the Tradex Funds).

Despite the fact that Tradex’s entire governance structure is designed to promote and protect the interests of our investors, it is our understanding that, under the proposed Instrument, our public directors will not be allowed to serve as members of the Tradex IRC because they would not be considered by the CSA as being “independent”. Based on reality, we believe that any “reasonable person” would view them as being independent. Furthermore, in contrast, under the proposed Instrument, independent members of existing advisory boards and independent members of IRCs established for exemptive relief purposes will be allowed to act as members of a Fund’s IRC. We quite simply cannot understand why the CSA would consider public directors, such as those at Tradex, as not being independent while the other groups referred to above would be viewed as being independent.

Turning to the question of costs, the Office of the Chief Economist at the Ontario Securities Commission has found the range of operational costs for an IRC to be \$50,000 to \$250,000 per year. Assuming that Tradex is required to recruit “professional independent individuals” to its IRC and that the cost is \$50,000 per year (the lowest estimate provided by the Office of the Chief Economist) and that Tradex divides this expense equally among the three Tradex mutual funds (\$16,666 per fund), our cost structure would increase as follows:

Tradex Bond Fund:

Total expenses in 2004 were \$167,759 (see audited financial statements). If \$16,666 in IRC costs were to be added, expenses in 2004 would have been \$184,425. The increase in the Fund’s overall expenses due to the IRC would be 9.9% and the IRC would represent 9.0% of the total expenses involved in operating the Fund. The Fund’s MER would increase from 1.42% to 1.56%

Tradex Global Equity Fund:

Total expenses in 2004 were \$184,031 (see audited financial statements). If \$16,666 in IRC costs were to be added, expenses in 2004 would have been \$200,697. The increase in the Fund’s overall expenses due to the IRC would be 9.1% and the IRC would represent 8.3% of the total expenses involved in operating the Fund. The Fund’s MER would increase from 2.71% to 2.96%.

Tradex Equity Fund Limited:

Total expenses in 2004 were \$1,435,832 (see audited financial statements). If \$16,666 in IRC costs were to be added, expenses in 2004 would have been \$1,452,498. The increase in the Fund's overall expenses due to the IRC would be 1.2% and the IRC would represent 1.1% of the total expenses involved in operating the Fund. The Fund's MER would increase from 1.29% to 1.31%.

It should also be mentioned that the sum of \$50,000 is equal to approximately 6% TMI's (i.e., the management company's) total expenses in a year.

The above costs are extremely high, particularly when one considers the potential workload of IRC members (as well as the existing checks and balances that already exist in our governance structure). We are not aware of any potential "structural" conflicts of interest that Tradex would be subject to since Tradex has no "related entities". Furthermore, we believe that we have very few "business" or "operational" conflicts since virtually all of our functions are contracted out to leading professionals in the mutual fund industry. This includes the portfolio advisory function (contracted out to three different firms—one per fund), the custodial function, the registrar function and the audit & legal functions. Furthermore, since we remit all of the revenue we receive in excess of operating, capital and regulatory requirements back to the Funds that we manage, we believe that, in almost all cases, the conflicts of interest that we do face are not material.

In our first comment letter on NI 81-107 dated April 7, 2004 we stated that we believe that a model which centers around the establishment of a governance framework with a strong, independent Board of Directors is far superior in protecting the interests of investors than the more limited model being proposed in NI 81-107 whereby the Independent Review Committees will only handle conflicts of interest. We stand by that belief. However, we realize that it is not practical for the CSA to require all mutual fund management companies to establish a Board of Directors that has a majority of independent directors. Therefore, we support the proposed Instrument as a step in the direction of improving corporate governance in the mutual fund industry. We do object, however, to the fact that the Instrument is not sufficiently flexible in recognizing corporate structures, such as ours, that go far beyond the scope of the proposed Instrument in protecting the interests of investors.

Specifically, we request that the Instrument be made sufficiently flexible such that independent members of the Board of Directors of a mutual fund management company would be permitted to sit on that company's Independent Review Committee in cases where the company has a corporate governance structure that meets the following requirements:

- a minimum of 80% of the directors of the management company are independent of management
- the corporate structure of the management company is such that independent directors cannot gain a financial benefit from being a director or shareholder of the company other than from the stated directors fee which is published in the company's Annual Information Form
- there is a separation of the positions of Chair of the Board of Directors and President
- the Chair of the Board is an independent Director, and
- the Board conducts an annual self assessment and meets separately (without management) on a regular basis.

In closing we want to emphasize that we agree with the establishment of IRCs, both for our own company and the rest of the industry, since they are a step in the right direction in improving governance in our industry. We are also in favour with all of the reporting requirements etc. that are an integral part of this initiative. Our concern relates to the fact that the proposed Instrument does not seem to recognize that, given our current unique governance structure, we already have in place individuals (i.e., our public directors) who are better placed than anyone else to perform the duties as members of the IRC. It is for this reason that we are asking that the Instrument be made sufficiently flexible to handle such situations.

Yours very truly,

*Original signed by  
John S. Rayner*

John S. Rayner  
Chair  
Tradex Management Inc.

*Original signed by  
Robert C. White*

Robert C. White  
President  
Tradex Management Inc.