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VIA ELECTRONIC MAIL

October 14, 2009

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 Members,

I am writing to provide the CSA with Tradex Management Inc.'s comments on proposed Framework 81-406: Point of sale disclosure for mutual funds and segregated funds as released on June 19, 2009. Tradex is one of the oldest mutual fund management companies in Canada and is also a Member of the MFDA. Therefore, we have a very strong interest in both governance and communications issues related to the mutual fund industry.

With respect to the draft "Fund Facts" document we reiterate our view that we are very concerned that the draft document does not provide the average investor with sufficient information to make an informed decision with respect to investing in a particular mutual fund. Indeed, we have concerns that the document may actually mislead or misinform potential investors since its content is, in our view, overly simplistic. While it provides "plain" disclosure it may not provide "full enough" disclosure to give the investor a "true" overall description of the investment.

Our key concerns and comments for improving the draft Fund Facts document are as follows:

1. We continue to believe that there should be a separate heading that states “Investment Objectives and Key Investment Strategies” since this is vital information for investors (and we cannot understand why the CSA is so opposed to including this information). A simple statement of “Investment Objectives” is a key element to the Simplified Prospectus that, in the future, most investors will not see. It is impossible to judge the performance of a mutual fund (or any investment or any other endeavor) unless it is judged versus its stated objective. Therefore, we urge the CSA to reconsider this point.
2. We believe that the top 10 investments table would be much more meaningful if percentages accompanied the top 10 holdings. This would give investors a much better understanding of the degree of concentration of the portfolio (and take up no additional space).
3. We once again note that the term “MER” is not defined until the second page of the document. We believe that it should be defined on the first page (or at a minimum there should be some reference to the effect, “see page 2 for a definition of the MER”).
4. With respect to the “Average Return” portion of the “How has the fund performed” section, we once again note that prior to NI 81-106 this information was contained in the simplified prospectus for mutual funds. However, with the introduction of the Management Report of Fund Performance (MRFP) this information was dropped. We support the re-introduction of this information but recommend that it should be in the form of a graph that shows not only the “end amount after 10 years” but also the path followed to arrive at the end result (as presented in the “old” prospectus format). We also believe that this information should be re-introduced in the MRFP since it would seem inconsistent to have information in a “summary document” that is not contained in the more detailed legal document. Furthermore, we believe that a table showing compounded annual returns for the previous 1,3,5 and 10 year periods versus the fund’s benchmark is much more meaningful information to the investor. Therefore, we suggest that this information be added to the Fund Facts document.

We also note that the statement in the draft Fund Facts document, “A person who invested in the fund 10 years ago now has \$2,705” will be incorrect in a great many instances as it assumes that the investor has reinvested all distributions in the fund. This is once again an example of how over simplifying the information can result in making it misleading.

We also find the dating of the “average return” section to be somewhat confusing since it does not correspond to the “year-by-year” data, which is to be presented

on a calendar year basis. If, for example, the Fund Facts document is dated June 30, the “Average return” data must be for the 10 year period ending May 31 of that year. Therefore we believe that some clarification is needed with respect to the exact time period. For example, the wording could be: “This section tells you how the fund has performed over the past 10 years ending May 31, 2010”.

We would also suggest changing the draft wording, “Returns are after MER has been deducted” to “Returns are after all expenses have been deducted”. There are two reasons for suggesting this change. First, the stated returns are after both MER and trading expenses. Therefore, it is technically correct to use “all expenses” versus “MER”. Second, the concept of “all expenses” is much easier for a typical investor to understand than “MER”.

We also note that while we have no particular objections with the suggestion that fund companies should be allowed to voluntarily update the Fund Facts document as often as they wish, they would have a tendency to do so only when markets are rising (or alternatively when the performance calculation eliminates a period of poor performance that occurred essentially 10 years ago). This is because, for competitive purposes, there would be an incentive to voluntarily update the Fund Facts document if it resulted in showing a stronger performance whereas there would be no incentive (indeed there would be a disincentive) to do so if it were to show a poorer performance for the fund.

5. With respect to “How risky is it?” section, we continue to have significant concerns that this section is too simplistic. Indeed, as proposed we believe that it may either confuse or mislead the investor. For example, from peak to trough in the past 12-18 months we have witnessed the TSX Composite Index decline by approximately 50%. However, in most cases a Canadian equity fund would be placed in the “medium” risk category. Without a further explanation as to what “medium” means, we believe that this could be very misleading to the investors. In this regard, we strongly agree with the CSA’s statement in its June 19, 2009 *Notice of Request for Comments* that “We think the current market conditions highlight the importance for investors to have the opportunity to understand what they are buying”. We therefore strongly urge to CSA to reconsider the simplicity of this section.
6. Regarding the “Ongoing fund expenses” section we believe that the required breakdown between “management fees” and “operating expenses” should be eliminated as in many cases this would lead to misleading comparisons. This is because some fund companies include many of the “operating expenses” such as custodian fees, registration fees, audit fees, etc. in their calculation of management fees whereas other fund companies break them out separately as operating expenses. Thus, between fund companies, the comparison would be similar to comparing apples to oranges. We believe that the following text would provide the investor with a better understanding of the situation.

## 2. Ongoing fund expenses

You don't pay these expenses directly, but they affect you because they reduce the return you get on your investment.

The Management Expense Ratio (MER) represents the total indirect cost (other than trading fees) paid by you. It is expressed as an annual percent of the fund's value.

**For this Fund, the MER in 2009 was x.xx%. This amounts to \$xx.xx for every \$1,000 invested in the Fund.**

Included in the MER are the following items:

- Fees paid to XYZ Mutual Fund Company for managing the fund.
- Custodian, legal, audit, registration, administrative and other expenses.
- Any trailing commission paid by XYZ Mutual Fund Company to your investment firm for as long as you own the fund. This is for services and advice provided to you. Investment firms may pay part of the trailing commission to your individual adviser. The rate depends on a number of factors, but may be up to xx% of the value of your investment each year.

7. The goal of the Fund Facts document is to provide plain disclosure in as simple a form as possible. Therefore, we believe that it would be misleading to show the MER without taking into account any expense reductions or absorptions. While we realize that, as indicated by the CSA, "there are no guarantees such waivers or absorptions will continue", there are in general no other guarantees with respect to what the MER will be in the future. The goal should be to reflect reality (what actually happened in the past) and this can only be done if the actual (final) MER is used for purposes of the Fund Facts document.
8. With reference to the "For more information" section, we note that it is the responsibility of the dealer to provide the Fund Facts to the investor both at the time of sale and in subsequent years. However, there is no mention that the investor can get more information from the mutual fund dealer---only the name and address etc. of the manufacturer (mutual fund company) is given. We believe that there should be a reference to the fact that the investor can get more information through his/her dealer.
9. As an overall comment, while we are strongly in favour of plain and clear disclosure, we question restricting the Fund Facts document to a grade 6.0 level or less on the Flesch-Kincaid readability scale. This requirement forces the use of extremely simplistic language and, in our view, prevents communicating information in a form that would allow for an adequate level of information or discussion. Therefore, we ask the CSA to reconsider forcing fund companies to meet this requirement. Take, for example, the following sentence from our Simplified Prospectus, which is written at a grade 12 level on the Flesch-Kincaid scale:

“The Fund’s objective is to achieve long-term capital appreciation by investing primarily in a diversified portfolio of Canadian companies plus shares of U.S. companies.

We can get to sentence down to the 9.7 level on the Flesch-Kincaid scale by changing it to the following:

“The goal of the Fund is to achieve long-term capital appreciation. The strategy is to invest mainly in Canadian companies plus some U.S. companies.”

Going further, we can get it down to the 8.3 level on the Flesch-Kincaid scale by changing it to the following:

“The goal of the Fund is to increase the value of your investment over the long term. The strategy is to invest mainly in Canadian companies plus some U.S. companies.”

Going even further, we can get it to the 6.7 Flesch-Kincaid level by changing it to the following:

“The goal of the Fund is to grow your money over the long term. We do this by investing mainly in Canadian companies plus some U.S. companies.”

Next, to get it to the grade 6.3 Flesch-Kincaid level we have changed it to the following:

“The goal of the Fund is to grow your money over time. The Fund invests mainly in Canadian companies plus some U.S. companies.”

Finally, to get it to the 6.0 level (actually 5.9) we have had to change it to the following:

“The goal of the Fund is to grow your money. The Fund invests mainly in Canadian companies plus some U.S. companies.”

Our point is that, to meet the Flesch-Kincaid requirement, we have now “watered down” the message to such an extent that it becomes somewhat meaningless----in a nutshell the statement is now too simplistic to communicate what we believe needs to be said to give the investor a true picture of the fund’s objective and the way it plans to achieve its objective.

Turning to the broader picture, we very strongly concur with and support the comments that were made by Borden Ladner Gervais, LLP in its letter to the CSA dated December 23, 2008, as follows:

“We urge the CSA not to simply layer the Fund Facts on top of our existing disclosure regime, but rather to develop an appropriate disclosure regime when developing the proposed rules to implement the Framework. We believe that the CSA should take a more holistic approach, rather than make incremental amendments to the disclosure documents that are costly to implement and may be difficult to explain to investors.

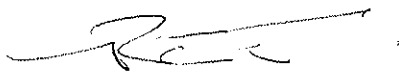
We believe that the Fund Facts should not simply be an add-on to today’s disclosure documents, being the simplified prospectus and annual information form. While these documents will no longer have to be printed or delivered to investors other than on request, there is still a cost to prepare them and, in our view, the information currently contained in them is today duplicative and inconsistent with the aims of the CSA regarding simplifying the disclosure system and ensuring investors have access to full, true and plain disclosure about their mutual fund investments. These documents also must be reviewed in light of the advances in the continuous disclosure system since NI 81-106 came into force.

We are strongly in favour of a foundation document for a fund of the nature described in the CSA’s Consultation Paper released in 2003, but urge the CSA to consider allowing funds in a fund family to combine disclosure into one central foundation document. This foundation document should not be considered a reversion back to the pre-2000 “simplified prospectuses” or even the pre-1986 “prospectuses” for mutual funds, but a simple and complete discussion of the important material facts about the operations, management, structure and administration of a fund that would not repeat information contained in the continuous disclosure documents. The foundation document would (to the greatest extent possible) be “evergreen”. The combination of the foundation document and the continuous disclosure information would allow a fund to disclose all material facts about the fund so that disclosure would be “full, true and plain” as require by securities laws.”

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We sincerely hope that our comments will be of help to the CSA as it moves forward with the aim of ensuring that Canadian investors are properly informed prior to making investment decisions with respect to mutual funds.

Yours truly,



Robert C. White  
President  
Tradex Management Inc.