PACIFIC SPIRIT INVESTMENT MANAGEMENT INC.
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British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Securities Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorite des marches financiers
New Brunswick Securities Commission
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Dear Friends:

Cost Disclosure and Performance Reporting

Pacific Spirit Investment Management Inc. is registered as a Portfolio Manager in British Columbia, Saskatchewan, and Ontario.

We offer portfolio management services on a discretionary basis in conjunction with a comprehensive suite of financial planning services. Our firm is a fee for service adviser.

Our clients are generally high net worth families who value the comprehensive nature of our service offerings.

Performance Reporting

We have never marketed our firm based on the performance of our client portfolios. Our website and our marketing information do not provide any performance information.

Our market niche is those high net worth families who wish a **comprehensive wealth management plan** to **preserve** wealth, and then **transfer** wealth to future generations.

Our clients are most concerned about the safety of their money and greatly value the peace of mind that comes from a long term relationship with a trusted advisor who understands that topping performance charts is not their mandate. **Rather than trying to maximize returns, our mandate is to maximize the probability that our clients will achieve their financial goals**. Our clients also understand that they are not able to successfully manage their own funds due to a lack of knowledge, time, interest, or the right psychological make up.

Our clients realize that they need the assistance of a behavioral coach for them to achieve their family's financial goals. As Nick Murray in his book "Simple Wealth, Inevitable Wealth' succinctly states, "The single most important variable in the quest for equity investment success is also the only variable you ultimately control: your behaviour." Murray goes on to offer the following advice, "Most people put huge amounts of energy into variables they can't control, and which won't have much if any real effect on their total lifetime return: trying to figure out which way the markets next zig or zag will be, or which large-company growth fund will outperform its peers to name two. But as we have observed before and will again – wealth as we've defined it isn't driven by performance but by investor behaviour."

Nick Murray, in his book "The Nick Murray Reader" identifies the top three determinants of "real people's real returns", which are:

1. The presence or absence of a financial plan.
2. Asset allocation
3. Behaviour modification/Big mistake prevention

You will note that investment performance isn't in the top three. Murray notes that investors "fatally believe that the critical variable is investment performance. It isn't, of course."

We recommend that those in the position of determining the fate of the performance reporting measures in these proposals read the following books:

Simple Wealth, Inevitable Wealth by Nick Murray
The Nick Murray Company, Inc.
P.O. Box 1554
Mattituck, NY 11952

The Nick Murray Reader by Nick Murray
The Nick Murray Company, Inc.
P.O. Box 1554
Mattituck, NY 11952

Our clients are aware that we will gladly calculate and report on portfolio performance. Our clients generally fall into 3 categories with respect to performance reporting requirements:

1. Clients who require us to report performance measures on an annual basis. Most request percentage returns, while some prefer other measures. In all cases we present performance measures with benchmark comparisons and include a tailored benchmark index which reflects the client's target asset mix.

2. Clients who maintain their own performance measures and do not wish performance measures prepared by our firm. These client prepared performance measures vary from client to client.

3. Clients who do not require performance measures of any kind. **This category includes the vast majority of our client base**.

We will not prepare performance measurements more frequently than annually as our experience and the research indicates that the more frequently a client measures performance, the more short-term oriented the client's decision making becomes.

Our clients also understand that relative superior performance, except in rare circumstances, is short lived and flighty. They know that performance chasing is one of the largest contributors to sub-par investment performance.

Requiring the publishing of performance measures on an annual basis is not helpful to the client's long term wealth, but is actually the anathema of building wealth as:

a. Performance measures focus attention on a measure that may not be sustainable. There are numerous studies that show that top performing managers and the best performing sectors in one period tend to underperform in subsequent periods. How much credibility should you ask clients to put in numbers that are generally followed by disclaimers to the effect that "past performance is no guarantee of future performance"?

b. Performance does not measure attributes that may be more important including stability of portfolio value, especially when a client is retired and is dependent on a portfolio to generate their cash flow.

c. Performance measures do not assess after-tax results, which may be more important to a client.

d. Performance measures do not measure the benefit to a client of investing in well known, well financed companies that give the client the comfort to remain faithful to a long term wealth management program, even though they may be underperforming the market.

e. Performance measures do not measure the risk that has been assumed to generate that return.

f. Performance measures do not provide useful information concerning the real management mandate, which is to maximize the probability that our clients will achieve their financial goals.

We note that even the most successful investors (Buffet, Lynch, etc.) underperform the market a significant portion of the time. At its website, Davis Advisors (http://davisfunds.com/document/read/the_wisdom_of_great_investors) offers "The Wisdom of Great Investors". They site a study of top-performing large cap investment managers from January 1, 1998 to December 31, 2007. "The results are staggering:

- 98% of these managers' rankings fell to the bottom half of their peers for at least one three year period
- A full 75% ranked among the bottom quartile of their peers for at least one three year period, and
- 43% ranked in the bottom decile for at least one three year period

Though each of the managers in the study delivered excellent long-term returns, almost all suffered through a difficult period."

In "10 Ways to Beat an Index", (http://www.legend-financial.com/files/10%20Ways%20to%20Beat%20an%20Index.pdf) Tweedy Browne reports, “V. Eugene Shahan analyzed the investment records of seven investment managers with exceptional long term track records, which were described in an article by Warren Buffett, The Superinvestors of Graham-and-Doddsville, in the Fall issue of HERMES. The common characteristic of all seven investment managers in Warren Buffett’s article was that they practiced a value-oriented investment approach. This sample of investment managers had investment results which exceeded either the Dow Jones Industrial Average (the “DJIA”) or the Standard & Poor’s 500 Stock Index (the “S&P 500”) by between 7.7% and 16.5% per year over periods ranging from 13 years to 28.25 years. None of the seven managers out-performed the S&P 500 each year. Six of the seven investment managers underperformed either the DJIA or the S&P 500 from between 22% to 42.1% of the years covered. The average underperformance of the six managers was 33.3% of the years covered. In examining the seven long term investment records, unfavorable investment results as compared to the Index did not predict the future favorable comparative investment results which occurred, and favorable investment results in comparisons to the DJIA or the S&P 500 were not always followed by future favorable comparative results. Stretches of consecutive annual underperformance ranged from one to six years. Mr. Shahan concluded, “Unfortunately, there is no way to distinguish between a poor 3-year stretch for a manager who will do well over 15 years, from a poor 3-year stretch for a manager who will continue to do poorly. Nor is there any reason to believe that a manager who does well from the outset cannot continue to do well, and consistently.”

Performance measures provide information that is almost useless and in fact may be detrimental to the client’s financial health. The important information to be reported is how is the client doing in relation to their long term plan.

The performance reporting recommendations being considered will bring about more harm to investors than positive benefits.

Recommendations

We recommend that performance reporting not be a legislated requirement.

The legislation should state that account holders/clients have the right to request performance measurements on an annual basis, and further, the legislation should only set out that performance measures, when presented, should be accurate and meaningful and that any benchmarks presented should be accurate and relevant. We recommend that performance measures be presented in accordance with GIPS from the CFA Institute.

Our recommended approach would reduce the costs of the implementation of performance reporting as advisers would only incur the costs or performance reporting for client’s who wish such reporting.

In the event that performance reporting is legislated, clients of portfolio managers should have the ability to opt out of the requirement. Portfolio managers deal with sophisticated, high net worth individuals who recognize the value or lack thereof of performance reporting.

Cost to Implement the Proposals

We estimate that the cost to Pacific Spirit Investment Management Inc. develop a performance reporting system as envisioned by the proposed amendments would be in excess of $25,000. **This would represent the single largest system investment ever made by Pacific Spirit.** In addition, we believe that the reporting of performance measures as required by the amendments would require additional client contact time to explain the measures, their significance, and their limitations. This additional time would have a further significant additional cost.

In addition it is our opinion that there will be a very real long term cost to investors of focusing attention on performance measures.

Cost Disclosure

We support proposals to provide cost information to clients as proposed by the amendments.

We recommend that tax cost be used, if different from original cost. In most cases tax cost and original cost are identical. For mutual fund holdings where distributions have been reinvested tax cost will differ from original cost, similarly investments such as income trusts which may have a return of capital component to their distributions may also have a tax cost different from original cost. We recommend that tax cost be used as many clients use their brokerage statements to prepare the capital gains section of their income tax returns.

Using tax cost may distort the comparison to market value in assessing performance for an individual security, but our experience has been that most clients understand the short comings of the tax cost basis and accept it. Occasionally, we are asked for the original cost with respect to an investment, and we gladly glean that information from our system and report it to the client.

Our portfolio management system is based on tax cost reporting, and we may not be able to move to an original cost reporting on the same system.

Thank you for this opportunity to submit our views on the proposed amendments.

Respectfully submitted.

Yours truly,

PACIFIC SPIRIT INVESTMENT MANAGEMENT INC.

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President