

April 12, 2013

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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
Superintendent of Securities, Yukon Territory
Registrar of Securities, Nunavut

Attention:

The Secretary
Ontario Securities Commission
20 Queen Street West,
19th Floor, Box 55
Toronto, ON M5H 3S8
E-mail: comments@osc.gov.on.ca

and

M^e Anne-Marie Beaudoin, Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22^e étage
C.P. 246, tour de la Bourse
Montréal, (QC) H4Z 1G3
E-mail: consultation-en-cours@lautorite.gc.ca

Dear Sirs/Mesdames:

Re: Canadian Securities Administrators Discussion Paper and Request for Comment 81-407 – *Mutual Fund Fees*

Thank you for the opportunity to provide comments regarding the Canadian Securities Administrators (CSA) Discussion Paper and Request for Comment 81-407 – *Mutual Fund Fees* (Mutual Fund Fees Paper). We appreciate that the CSA has raised its concerns regarding the distribution of mutual funds and welcome the opportunity to provide our comments.

Brandes Investment Partners & Co. (Brandes) is registered as an investment fund manager in Ontario, Quebec and Newfoundland, and in all jurisdictions across Canada, is registered as an exempt market dealer, a portfolio manager and a mutual fund dealer exempt from the requirement to join the MFDA (except in Quebec). Our primary role is of a mutual fund manager. We build investment funds that are designed to offer attractive long-term appreciation potential for Canadian investors. Our mutual funds are available to individual investors through third party financial advisor firms because we believe individual investors are generally best served working with a financial advisor. It is from this view that we offer the following comments.

General Comments

Brandes is supportive of thoughtful and cost effective regulatory initiatives that are designed to offer greater protection to investors and that foster the integrity of Canada's capital markets. We recognize that these areas are critical in building confidence and maintaining the competitiveness of financial markets in Canada. We have been and continue to fully support initiatives that are designed to improve investor literacy, confidence, and protection in financial products and services.

Brandes recognizes the challenges regulators face in our environment of rapidly changing market structures, continuing innovative investment products and the evolving globalization of financial markets. However, Brandes also urges regulators to be mindful of the increasing costs associated with additional regulation and that consideration is given to conducting rigorous cost benefit analysis at the development stage of policy creation. Mutual fund products and their distribution have and continue to be extensively regulated. We urge the CSA to identify and eliminate duplicated regulations prior to issuing new ones. Further, we recommend that the CSA allow sufficient time to assess the effectiveness of recently implemented reforms relating to disclosure, such as the introduction of the Fund Facts document¹ and the relationship disclosure document² and the amendments relating to the Cost Disclosure, Performance Reporting and Client Statements³ (CRM2), as well as the pending reforms to be implemented with Stage 3 of Point of Sale.

We firmly believe that mutual fund investments are an effective vehicle for *all* Canadians to access professional investment management services and provide an opportunity to grow wealth over time. Our affiliated thought leadership group, the Brandes Institute, among others, have conducted various studies that show how investor behaviour and perceptions can negatively impact their decision-making as it relates to investing. Research such as this supports our view that investors who receive and follow prudent investment advice do better over the long term.

Specific Response to Proposals:

- i. Advisor services to be specified and provided in exchange for trailing commissions

As a general principle, Brandes supports the provision of meaningful plain language disclosure to investors. We appreciate the CSA's concern regarding transparency with the payment of trailing commissions to registered dealers and we support the goal of making it easier for investors to understand. However, our main concern with mandating a minimum level of ongoing services that advisors must provide in exchange for the payment of these commissions is that these commissions are paid to the registered dealer firm and not to individual advisors. These commissions currently provide compensation to both the registered dealer and advisor for services relating to the distribution of the mutual fund units. The registered dealer retains a portion of the trailing commission as compensation for services it provides relating to the administration of distributing mutual fund securities and pays a portion to the advisor as compensation for the advisor's services to the investor. The specific amounts retained or paid out are determined by the dealer firm and Brandes is not involved in that determination.

The registered firm incurs costs such as those associated with conducting sufficient due diligence or 'know your product' information regarding the specific Brandes mutual fund to make it available on its platform and

¹ As required in NI 81-101

² Section 14.2 of NI 31-103

³ Amendments to NI 31-103 to come into force July 15, 2013.

other administrative functions. Registered dealers have different business models and provide various levels of administrative support to their advisors which is generally reflected in the determination of the portion of trailing commissions retained or paid out. With the provision of disclosure, our view is that investors and their financial advisors are the appropriate parties to determine and agree upon the level of service to be provided based on their relationship.

- ii. A standard class for DIY investors with no or reduced trailing commission

Brandes believes that there is value to investors (big and small) in the provision of professional investment advice. Indeed, even our large non mutual fund investors (such as pension plans, etc.) utilize professional paid advisors or paid consultants. Brandes has not created a lower priced class of units for this channel which would compete against dealers and advisor firms that make recommendations to investors. While we have not restricted investors from purchasing our funds through these channels or transferring existing holdings to a DIY account, we have not actively promoted or targeted the DIY channel for the distribution of our mutual funds.

We would not support the introduction of a standard class of units for DIY investors as it would increase costs and there are already mechanisms available to dealers who wish offer management fee rebates to investors. It is our view that a separate class would result in unnecessary increased costs to investors due to the expenses that are incurred relating to separate classes, such as regulatory filing fees, providing additional disclosure documents (ie. Fund Facts document, Management Report on Fund Performance), accounting fees, administration costs of tracking and switching units from an 'advice' class to a 'DIY' class.

- iii. Trailing commission component of management fees to be unbundled and charged/disclosed as a separate asset based Fee

Brandes appreciates that there are benefits of providing additional transparency relating to the unbundling of fees associated with all financial products and services. We believe that the transparency objective will be achieved by the regulatory initiatives already underway with the implementation of CRM2.

- iv. A separate series or class of funds for each purchase option

In principle, Brandes would be supportive of mandating a separate class of units for each purchase option, recognizing that there would be administrative costs associated with implementing such a framework. As noted in the Mutual Fund Fee paper, there has been a decline in the use of the DSC option and an increase in the use of both the low-load and fee-based options. We appreciate the rationale for applying specific distribution costs and expenses associated with the specific class, rather than being borne equally by all investors in a mutual fund. We would note however, that certain other expenses borne by mutual funds are allocated across the fund rather than allocated by class of units. For example, harmonized sales taxes, costs of mailing paper copies of financial statements, are applied at the fund level.

- v. Cap commissions

Brandes would not support a regulatory imposed cap on commissions and would caution the regulators against regulating the economics of the industry. Market forces can and have created competitive options for Canadian investors.

- vi. Implement additional standards or duties for advisors

As stated previously, Brandes is fully supportive of regulations designed to offer greater protection to investors and that foster the integrity of Canada's capital markets. We support regulations that require appropriate knowledge and experience of industry practitioners. Brandes believes that investors are well served by the guidance of sound professional financial advice. There are multiple professional designations and multiple standards under which reputable professional financial advice is offered. Brandes is generally supportive of standardization and Codes of Conducts as long as they replace existing structures and not layer on top of existing structures.

- vii. Discontinue the practice of advisor compensation being set by mutual fund manufacturers

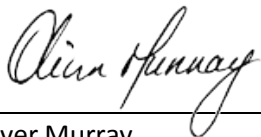
We think that broad access to professional investment advice is a good thing for Canada and Canadian investors. We agree that the cost of advice needs to be clearly understood and disclosed to investors. Firms like Brandes should be allowed to offer different purchase options (including or not including advisor compensation) and let the informed investor decide if they want to purchase. The investor and *not* regulation should make this choice.

Lastly, we wish to address the suggestion in the Mutual Fund Fee paper that mutual fund companies pay higher trailers on equity funds in order to incent this type of fund over fixed income or money market funds. This is simply not true. The costs associated with managing an equity mutual fund are higher than those associated with managing a fixed income fund. Specifically, managing an equity mutual fund incurs higher costs associated with trading, evaluating trade execution, direct market access feeds, indeed global equity funds and emerging markets funds have additional costs relating to establishing trading accounts in foreign markets.

Conclusion

Brandes remains supportive of regulatory initiatives aimed at providing investors with the appropriate tools to make informed decisions regarding all financial products and services. We would be pleased to participate in the roundtable discussions organized by the CSA in June 2013 and appreciate the opportunity in providing our comments.

Yours truly,



Oliver Murray
CEO



Carol Lynde
President & COO