



Alternative Investment Management Association (AIMA)

The Forum for Hedge Funds, Managed Futures and Managed Currencies

Chairman

Gary Ostoich
Tel. (416) 601-3171

Deputy Chairman

Andrew Doman
Tel. (416) 775-3641

Legal Counsel

Michael Burns
Tel. (416) 865-7261

Treasurer

Chris Pitts
Tel. (416) 947-8964

Secretary

Paul Patterson
Tel. (416) 363-6526

Chief Operating Officer

James Burron
Tel. (416) 453-0111

www.aima-canada.org

August 23, 2013

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

Dear Sirs/Mesdames:

Re: AIMA Canada's Comments on Canadian Securities Administrators' ("CSA") Proposals for the Modernization of Investment Fund Product Regulation – Alternative Funds Framework (the "Alternative Funds Proposal") in National Instrument 81-104 ("NI 81-104")

This letter is being written on behalf of the Canadian section ("AIMA Canada") of the Alternative Investment Management Association ("AIMA") and its members to provide our comments to you on the Alternative Funds Proposal.

We appreciate the opportunity to comment on the questions raised in Annex B to the Alternative Funds Proposal. We support the CSA's initiative to make alternative funds (for the purposes of this comment letter, "Alternative Funds") more readily available to Canadian retail investors and to provide them with a broad range of investment options. According to a September, 2012 report by McKinsey and Company¹, alternative investments are rapidly moving into the mainstream retail market in several jurisdictions around the world. Retail alternative investment strategies such as commodities, long-short products and market-neutral strategies have grown by 21% since 2005 accompanied by a shift in investment focus toward absolute return strategies. The McKinsey report notes that nearly 50% of the US based retail advisors it surveyed were already managing their client's portfolios using an absolute return benchmark and allocating assets to alternative strategies to help clients achieve their investment objectives. Participants in the McKinsey survey unanimously agreed that alternative investments will grow at a faster pace than conventional mutual funds.

AIMA was established in 1990 as a direct result of the growing importance of alternative investments in global investment management. AIMA is a not-for-profit international educational and research body that represents practitioners in hedge fund, futures fund and currency fund management – whether managing money or providing a service such as prime brokerage, administration, legal or accounting.

¹ How Alternatives Investments are Going Mainstream, McKinsey & Company, September, 2012.

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P.O. Box 786, Station "A", Toronto, ON, M5W 1G3
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AIMA's global membership comprises over 1,300 corporate members in more than 50 countries, including many leading investment managers, professional advisers and institutional investors. AIMA Canada, established in 2003, now has 100 corporate members.

The objectives of AIMA are to provide an interactive and professional forum for our membership and act as a catalyst for the industry's future development; to provide leadership to the industry and be its pre-eminent voice; and to develop sound practices, enhance industry transparency and education, and to liaise with the wider financial community, institutional investors, the media, regulators, governments and other policy makers.

The majority of AIMA Canada members are managers of hedge funds and fund of funds. Most are small businesses with fewer than 20 employees and \$50 million or less in assets under management. The majority of assets under management are from high net worth individuals and are typically invested in pooled funds managed by the member. Investments in these pooled funds are sold under exemptions from the prospectus requirements, mainly the accredited investor and minimum amount exemptions. Manager members also have multiple registrations with the securities regulatory authorities; as Portfolio Managers ("PMs"), Investment Fund Managers ("IFMs") and in many cases as Exempt Market Dealers ("EMDs"). AIMA Canada's membership also includes accountancy and law firms with practices focused on the alternative investments sector.

The comments in this letter have been written from the perspective of an AIMA Canada member working group comprised of fund managers who manage investment funds of different sizes and a diverse array of strategies as well as service providers to the Alternative Funds space including prime brokers, trustees and custodians and law firms. For more information about AIMA Canada and AIMA, please visit our web sites at www.aima-canada.org and www.aima.org.

Comments

General Comments

AIMA Canada members applaud the CSA's initiative to make a greater variety of investment choices available to Canadians by expanding the scope of NI 81-104. However, we have concerns that some of the language relating to Alternative Funds and the restrictions on Alternative Funds in the proposed approach to a reformulated NI 81-104 would: (i) create significant barriers to entry which could lead to the space being dominated by a few large fund companies, thereby reducing investment choices for Canadians; (ii) lead to all Alternative Funds being classified as "high risk", which would have the effect of drastically reducing the possible distribution channels for Alternative Funds and prevent many Canadians from

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having access to these investment products; and (iii) create restrictions on the investment strategies of Alternative Funds which would be limiting, could decrease investment performance and increase the risk of such funds.

AIMA Canada strongly encourages the CSA to adopt a purposive rather than an prescriptive approach in the amendments to be made to NI 81-104 so that Canadian investors will have access to as many different types of Alternative Funds as possible. In addition, we submit that all investment funds (NI 81-102 and NI 81-104) be placed on a level playing field with respect to matters such as the offering, operation and distribution requirements.

Comments in Response to Specific Questions

We refer to the specific questions of the CSA relating to the Alternative Funds Framework in NI 81-104 contained in Annex B to the Alternative Funds Proposal. Our responses to those questions are set out below.

Definition of Alternative Investment Fund

1. Does the use of the term “alternative fund” appropriately describe the types of investment funds that should be captured by NI 81-104? If not, please provide other terms that better describe the types of investment funds that use investment strategies that should be permitted under a revised version of NI 81-104.

There is a vast array of investment funds that could potentially seek to offer interests to investors pursuant to NI 81-104. AIMA Canada objects to the use of the term “alternative fund” to describe the types of investment funds that are captured by NI 81-104. Our concerns relate primarily to: (i) the possibility that the term “alternative fund” will be interpreted by advisors, investors and the general investing marketplace to mean that such funds are “high risk” or volatile; and (ii) use of the term “alternative fund” by NI 81-104 funds may either lead to confusion or possibly preclude privately offered funds from utilizing the term “alternative” in their names.

Investment Restrictions

Concentration Restrictions

2. We seek feedback on the types of investment strategies an alternative fund may engage in that would require a fund’s investment in an issuer to exceed the current 10% concentration restriction in proposed amended NI 81-102. If you think that the concentration under NI 81-104 should be higher than the current 10% issuer concentration limit in NI 81-102, please provide feedback on what an appropriate concentration restriction would be for alternative

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funds. See also question 2 in Annex A.

All investment funds, be they conventional or alternative, require prudent management of a number of factors including, but not limited to, liquidity, concentration, net exposure, leverage and correlation which must be monitored simultaneously in order to produce optimal returns for investors. The imposition of restrictions on selected aspects of the strategies utilized by investment funds may impair certain types of strategies without achieving the objective of increased investor protection. However, AIMA Canada recognizes and supports the use of balanced restrictions which enhance investor protection while, at the same time, permitting investment fund managers with sufficient latitude to effectively execute their investment strategies.

Alternative Funds employ a wide variety of investment strategies including, but not limited to: long/short equity, market neutral, credit, global macro, event driven, relative value and managed futures strategies. These types of strategies may require such funds to exceed the 10% issuer concentration restriction in proposed NI 81-102. We would recommend that Alternative Funds be permitted to have up to 20% of their total exposure (see response to Question #3 below) in a single issuer. This level for Alternative Funds is supported by the fact that most prime brokers will begin to restrict the leverage available to a fund once the fund exceeds 20% of NAV (on a notional basis) in a single issuer.

3. Given that we anticipate alternative funds having more leveraged exposure than is permissible under NI 81-102, should we consider other measurements for an alternative fund's concentration? Should issuer concentration for alternative funds be based on the total notional exposure of the fund? We seek feedback on this and other measurements that would better describe the level of concentration in an alternative fund portfolio.

We respectfully submit that the amount of leverage employed by an Alternative Fund cannot be examined in a vacuum. From a risk perspective, liquidity is far more important than leverage. Leverage can be utilized by Alternative Funds for several different purposes, including strategies which reduce risk to the fund's portfolio. AIMA Canada suggests that the term "leverage" in NI 81-102 be redefined as the quotient obtained when dividing a fund's total exposure by the NAV of the fund.

We submit that the "total exposure" of a fund can be calculated as the value of the total long security positions, excluding cash and cash equivalents, plus the absolute value of the fund's total unhedged short positions, excluding any positive or negative cash balances. In making such calculation, a fund's short positions in government bonds would not be included in calculating the fund's total exposure to

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the extent that such positions are hedges for long positions in corporate bonds.

AIMA Canada considers total exposure methodology as the most accurate measure of leverage in a fund's portfolio since it captures the levered and unlevered positions (both long and short) in the portfolio that are unhedged as a percentage of the NAV of the fund.

As noted above, we believe that the concentration restriction should be based on the total exposure of the fund and be limited to 20% of such exposure in a single issuer.

Borrowing

4. Should alternative funds that are structured as mutual funds and alternative funds that are structured as non-redeemable investment funds have different borrowing restrictions in NI 81-104? Would a mutual fund's need to fund regular redemptions mean that the amount of leverage through cash borrowings could increase rapidly and cause difficulties in maintaining the 3:1 total leverage limit we are considering?

We believe that Alternative Funds under NI 81-104 should have a higher borrowing limit than the 30% figure proposed for NI 81-102 conventional funds. Alternative Funds should be afforded greater flexibility in borrowing to accommodate the broader range of strategies employed by their investment managers. While borrowing generally exposes any strategy to increased risk, there are some strategies where increased borrowing does not create greater relative risk compared to an investment fund that does not borrow at all. Managers of Alternative Funds should have the flexibility to use borrowing as a means to create leverage where appropriate in light of the strategies pursued by the fund. As such, we believe a borrowing limit of at least 50% of NAV is appropriate for Alternative Funds.

Generally, Alternative Funds match their redemption terms to the liquidity of their investments so that borrowing is not necessary to fund redemptions. We believe it is more equitable to existing investors not to incur borrowing costs to fund redemptions and for the fund to pay the proceeds of redemption in line with the liquidity constraints on the fund. Therefore, we do not believe that a higher borrowing limit of at least 50% of NAV will have a negative impact on the ability of an Alternative Fund to comply with an overall leverage limit or to fund regular redemptions.

The proposed changes to NI 81-102 only permit non-redeemable investment funds to borrow from Canadian financial institutions. It is likely that most Alternative Funds will engage prime brokers to custody assets and settle trades. In addition,

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Alternative Funds will borrow and obtain other forms of leverage from their prime brokers. In our view, it would unduly restrict the ability of Alternative Fund managers to execute the strategies they employ and to obtain the best economic terms for borrowing, other forms of leverage and clearing, trading and execution services if the Alternative Funds they manage are restricted to using Canadian financial institutions. For example, if a majority of a fund's assets are held outside Canada or traded in markets outside Canada, it may be advantageous to be able to borrow from a non-Canadian institution and to reduce foreign currency risk by taking out a loan in the relevant non-Canadian currency. The CSA notes that requiring a lender to be a Canadian financial institution could provide additional monitoring and controls over borrowing. However, we are not aware of any prime brokers in the Alternative Funds space (inside or outside Canada) who do not impose leverage, liquidity and capital requirements on the funds they service. Both foreign and domestic prime brokers employ sophisticated systems to determine appropriate restrictions and to monitor compliance and foreign brokers in G20, OECD and IOSCO jurisdictions are subject to regulation in such jurisdictions which is equivalent or superior to Canadian regulation. As such we do not believe it adds any protection to mandate who may lend to Alternative Funds and in fact, such a requirement will create greater risks to Alternative Funds and their investors.

Alternative protections that may alleviate some of the CSA's concerns with respect to who may lend to an Alternative Fund include, but are not limited to, mandating a minimum credit rating and/or asset size of the prime broker, requiring funds to use more than one prime broker or by providing a list of approved jurisdictions in which an Alternative Fund may engage the services of a locally organized/based/registered prime broker.

Short Selling

5. Should NI 81-104 include exemptions from subsections 2.6.1(2) and (3) of NI 81-102 to permit the creation of leverage through short selling and increase flexibility for alternative funds to engage in long/short strategies?

Short selling may be used by Alternative Funds for many purposes other than the creation of leverage. A blanket restriction on short selling equal to 40% of NAV would be too restrictive for most Alternative Funds. We would submit that short selling for market risk hedging purposes (as defined by IIROC) should not be subject to any limits. If this were the case, a 40% of NAV restriction on short selling in NI 81-104 would be reasonable.

We believe that NI 81-104 should include an exemption from the 150% cash coverage as leverage is an important element of most Alternative Funds. In

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addition, the short selling of government bonds should also be exempt.

Leveraged Daily Tracking Alternative Funds

6. Are there specific issues relating to the marketing of Leveraged Daily Tracking Alternative Funds that the CSA should consider? Are there specific issues relating to the proficiency of individual dealing representatives who sell Leveraged Daily Tracking Alternative Fund securities and dealer supervision of trades in Leveraged Daily Tracking Alternative Fund securities that the CSA should consider?

While AIMA does not generally represent the interests of the sponsors of Leveraged Daily Alternative Tracking Funds, we are of the view that the current regulatory regime mandates sufficient proficiency for the marketing and sale of Alternative Funds, including Leveraged Daily Alternative Tracking Funds. The investment fund industry, the CSA and provincial and territorial commissions should ensure that the know-your-client and know-your-product rules are complied with in connection with the sale and marketing of all alternative and traditional funds.

Counterparty Credit Exposure

7. We seek feedback on the impact to existing commodity pools that are relying on the Counterparty Exposure Exemption if this exemption in NI 81-104 were to be repealed.

Would repealing the Counterparty Exposure Exemption sufficiently mitigate the risk of exposure to a single counterparty, particularly in connection with illiquid OTC derivatives? Are there other ways we should consider to mitigate counterparty risk; for example, by requiring the posting of collateral by the counterparty? If so, what requirements should apply to the use of collateral? If an alternative fund receives collateral from a counterparty to a specified derivatives transaction, should the collateral be considered in determining the alternative fund's exposure to the counterparty?

While repealing the exemption from subsections 2.7(4) and (5) of NI 81-102 (the Counterparty Exposure Exemption) would mitigate the risk of exposure to a single counterparty, we believe there are better ways to address counterparty credit risk in the context of Alternative Funds. The fact that a contract is OTC does not mean that it is inherently less liquid or more risky than an exchange traded contract. The liquidity and volatility profiles of OTC and exchange traded contracts vary enormously – often overlapping- thus preventing such a categorization.

The Counterparty Exposure Exemption should not be repealed. As indicated

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above, most Alternative Funds will retain the services of two or three prime brokers to custody assets and settle trades and to execute and clear trades. A fund's prime brokers will have the best transparency with respect to the fund's portfolio, will be most familiar with the fund's historic trading patterns and will have access to the fund's portfolio securities. As a result, such prime brokers are in an advantaged position to provide the most competitive quotes for derivatives trading. It would be inefficient to prohibit an Alternative Fund from executing all or a majority of trades with its prime brokers. As discussed under question 4 above, there are criteria, such as size and credit rating, which can be applied to such counterparties to seek to ensure they are creditworthy. In addition, the market trend is invariably to require variation margin in respect of exposure under derivatives transactions. Imposing mandatory posting of collateral on a daily marked-to-market basis will go a long way to eliminating counterparty credit risk.

In any event, posted collateral should be considered when determining an Alternative Fund's exposure to a counterparty and should work to reduce the fund's exposure. With respect to re-hypothecation of collateral, we believe the CSA should again look to market practice. It significantly reduces the cost of posting collateral to permit the recipient to use that collateral in their business. The amount of collateral at any time held by a counterparty in respect of a derivatives transaction should closely approximate the amount owed by the pledgor, resulting in little to no net exposure. As such, in our view the costs of the inefficiencies associated with prohibiting re-hypothecation would far out weight the credit risk management benefits that may result from such prohibition.

Total Leverage Limit

8. Do you agree with a total leverage limit for alternative funds of 3:1 based on the leverage calculation method currently specified in Item 6.1 of Form 41-101F2? If not, what should the total leverage limit of an alternative fund be, and why? Should the total leverage limit be lower for mutual funds that are alternative funds because of the need to fund regular redemptions?

The use of leverage by an investment fund does not necessarily imply that such fund would be riskier than a fund that employs no leverage. An unlevered fund can expose investors to factors such as directional, volatility and concentration risks.

The appropriate overall leverage limit for an Alternative Fund depends on a number of factors, including the volatility of the fund's investments, the risk parameters imposed by the manager, the liquidity of the portfolio and how quickly the fund can de-lever. In addition, it is important to note that leverage itself does not make a fund more or less risky than another fund. For example, a four or five times levered sovereign debt fund may be substantially less risky than a fund taking

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long positions in more volatile equity or commodity securities.

Notwithstanding the foregoing, AIMA Canada supports the general principle of an overall leverage limit which accommodates as many different types of Alternative Funds as possible. We believe that the calculation of the overall leverage of a fund should exclude hedging positions and positions in sovereign debt and their associated currencies. Hedging positions that are designed to lower risks inherent in the portfolio or in relation to certain investments should not be included in the leverage calculation because of the positive impact such positions have on the risks in a portfolio. The definition of hedging in NI 81-102 could be used to determine if a position constitutes a hedging position for the purpose of determining overall leverage. Investment grade sovereign debt funds and investments in sovereign debt instruments need to be levered to provide sufficient returns. However, despite being levered, a sovereign debt fund may still carry much less risk than an unlevered fund if the underlying investments are investment grade. Therefore, we believe that investment grade sovereign debt funds and investments in such instruments should be exempt from the overall leverage limit.

We also believe it is instructive for the CSA to examine approaches taken with respect to leverage in more developed Alternative Funds jurisdictions. We note that the largest market for regulated Alternative Funds currently is Europe where UCITS Funds have been offered for several years. Under UCITS regulation, when Alternative Funds use leverage through the use of derivatives, there are no leverage limits. Instead, more practical and meaningful ways of controlling risk are utilized such as liquidity, borrowing and diversification limits as opposed to imposing an absolute limit on leverage or notional investment exposure.

9. What other leverage measurement methods could be used to inform investors of the amount of leverage used by alternative funds, other than the method currently specified in Item 6.1 of Form 41-101F2? Please also explain why the alternative leverage measurements you propose provide investors with a better understanding of the amount of leverage used by alternative funds.

We believe that the current measurement of leverage as long positions plus short positions over net asset value should be changed. Short positions, to the extent they are entered into for hedging purposes, should be subtracted from long positions. Adding short and long positions is a measure of gross market exposure, which gives an indication of the risk from security specific movements. Typically, Alternative Funds hold a diversity of positions so the risk from security specific movements is reduced. By subtracting short positions (which are used for hedging purposes) the calculation of leverage is in terms of net market exposure and gives a better indication of the fund's risk in regards to market movements.

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Other Investment Restrictions

10. Are there other specific investment strategies that NI 81-104 should permit or restrict?

We do not believe that the proposed restriction which would limit Alternative Funds to investing in underlying funds that are reporting issuers in the same jurisdictions as the Alternative Fund is reasonable and would only serve to restrict the choices available to managers of Alternative Funds and investors. We submit that the liquidity of the underlying funds should be a more important consideration as to whether or not such fund is a reporting issuer in a jurisdiction. Furthermore, for the reasons set forth above, we believe that the concentration restriction for investments in a single underlying fund should be 20% of the Alternative Fund's notional exposure.

We would also encourage the CSA to consider permitting NI 81-102 conventional mutual funds to invest in NI 81-104 Alternative Funds subject to a maximum allocation of 10% of the NAV of the mutual fund and subject to such Alternative Funds also being reporting issuers.

We also strongly believe that there should not be any restrictions in NI 81-104 on Alternative Funds comparing themselves to other types of investment funds in sales communications provided that the comparisons are relevant and not misleading and that appropriate disclaimers are included. To prevent fair comparisons between different types of investment funds denies investors the opportunity to make informed investment decisions.

Ongoing Investment by Sponsors

11. Should the sponsors of an alternative fund be permitted to withdraw their seed capital investment in the alternative fund if the fund reaches a sufficient size? Or should the sponsors be required to maintain an investment in the alternative fund? We invite feedback on why sponsors should be required to maintain an on-going investment in an alternative fund and the amount of on-going investment that would be appropriate.

We submit that the requirements for the maintenance of a sponsor's seed capital in an Alternative Fund should be the same as the requirements for sponsors of NI 81-102 Funds. To require otherwise would create an unlevel playing field between NI 81-102 and NI 81-104 funds with no reasonable supporting basis for the different treatment.

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Proficiency

12. Should additional proficiency requirements for all individual dealing representatives who sell securities of alternative funds be introduced? If yes, please provide specific examples of the courses or experience that should apply. If no, please explain.

AIMA Canada does not believe that there should be any additional proficiency requirements for dealing representatives to sell securities of Alternative Funds. Alternative Funds should be sold by dealing representatives of securities dealers who are subject to ongoing suitability and know your product obligations which we believe are sufficient. To introduce additional proficiency requirements for dealing representatives would only serve to limit the available distribution channels for Alternative Funds.

Enhanced Disclosure and Transparency

Naming Convention

13. Would requiring an alternative fund to include the words “Alternative Fund” in its name achieve the purpose of distinguishing alternative funds from other investment funds for investors and the market? If not, please propose other ways to facilitate the ready identification of alternative funds.

In addition, would requiring investment funds governed only by NI 81-102 to include specific words (e.g. “Conventional Fund”) in their name further this purpose? If not, why not? Would the diversity of investment funds that are governed only by NI 81-102 and their different risk levels impede the creation of a uniform descriptor for such funds?

AIMA Canada objects to the requirement for funds utilizing NI 81-104 to include “Alternative Fund” in their name. In our view, it is exceedingly difficult to come up with “labels” that would meaningfully help investors distinguish the relevant differences between various types of investment funds available to them among the available offering methods (NI 81-102, NI 81-104 and private placement) and within each category as well. We also have significant concerns that: (i) the term “alternative fund” would be interpreted by advisors, investors and the general investment marketplace to mean that such funds are high risk or volatile; and (ii) use of the term “alternative fund” by NI 81-104 funds may either lead to confusion or potentially preclude privately offered funds from utilizing the term “alternative” in their names.

We would suggest that the better approach would be to require disclosure on the

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face pace of the offering and any marketing documentation that the Alternative Fund is being offered pursuant to NI 81-104 and that, as a result, it is subject to a different investment regime than NI 81-102 funds. Wherever possible, investors should be encouraged to read the prospectus of the fund in its entirety and to discuss whether an investment in the fund is appropriate for them with their advisors.

Monthly Website Disclosure

14. We seek feedback on whether there are any impediments for an alternative fund to disclose on its or its manager's website on a monthly basis (with appropriate time lag for the manager to prepare the information) the fund's largest monthly NAV drawdown for the past five years and the maximum and average daily leverage employed during the most recent 12 month period. We further invite feedback on whether this information will be useful to investors or the market generally.

Is there other information that could be provided regularly on the website of the alternative fund or its manager that would be meaningful for investors or for the market?

As a general comment, AIMA Canada believes that, to the greatest extent possible, there should be no distinction in disclosure requirements between conventional funds and Alternative Funds.

AIMA Canada adamantly supports meaningful periodic disclosure for both Alternative Funds and conventional mutual funds. We support the idea of publishing a variety of easy-to-understand variables to help investors assess the risk and performance of a fund. In keeping with the concept of leveling the playing field among all asset managers, we believe that these variables should be published by all investment funds, including conventional mutual funds, commodity funds, exchange traded funds and Alternative Funds. Publishing a fund's largest monthly net asset value drawdown is a good way of identifying funds that preserve wealth by minimizing drawdowns throughout up and down cycles, and gives investors a good indication of the possible losses that a fund can experience at any point in time. The time to recover from such drawdown may also be a useful tool for investors to determine how long a fund experiences negative returns.

AIMA Canada invites the CSA to consider other measurements and statistics that could be published to help inform investors as to what they should expect from a fund. Standard deviation is one of the most common metrics used to measure the level of volatility of returns, usually on an annual basis. Standard deviation gives a good indication of the variability of annual returns and it is easy to compare the

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standard deviation of one fund to that of another.

While we do not believe most AIMA Canada members would be troubled by publishing the maximum and average daily leverage, we do not think that it provides any meaningful information for investors to evaluate the relative or absolute performance or risk of a fund. In fact, publishing leverage may mislead investors as there is a common misconception that a levered asset is always riskier than an unlevered asset. For example, a fund that is highly levered but holds government of Canada bonds is far less risky than an unlevered fund that holds a portfolio of technology stocks. An unlevered fund could look safe next to a highly levered fund, even if the latter was composed of low-risk assets. Since leverage alone is a poor indicator of risk, it would not be valuable information to provide to investors, as it may reduce investor protection rather than having the desired effect.

Transition

15. How should the disclosure of an existing investment fund's intent to transition into the alternative fund regime in NI 81-104 be made? For example, should investors be provided with written notice or would a press release be sufficient? In addition to disclosing their intent to transition into the alternative fund regime, what other measures should be required for existing investment funds to transition into the alternative fund regime?

AIMA Canada believes that any funds which are no longer in public distribution at the time that NI 81-104 comes into force should be grandfathered under the prior rules. Any funds which seek to raise new or additional funds from the public following the adoption of NI 81-104 would be required to comply with the alternative fund regime in NI 81-104. For funds wishing to transition to the new NI 81-104 we believe that notice to existing investors by way press release would be sufficient.

Costs and Benefits of Implementing Alternative Funds Framework

16. Do you agree or disagree that the costs of the Proposed Amendments and the proposals relating to NI 81-104 are proportionate to the benefits? We seek specific data from non-redeemable investment funds and commodity pools on the anticipated costs and benefits of complying with the regulatory framework set out in the proposed amendments to NI 81-102 and the alternative funds regulatory framework contemplated in NI 81-104.

We strongly agree that the costs of the proposals relating to NI 81-104 must be proportionate to the benefits. It is vital that the costs of structuring, offering and maintenance of a NI 81-104 Alternative Fund not be prohibitive in order that

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investors can be provided with a broad array of potential investment strategies to choose from.

Specifically, we do not believe that organizational costs should be borne by the sponsors/managers of either NI 81-102 Funds or Alternative Funds under NI 81-104 as most of these costs (audit, legal, investment dealer fees, printing, regulatory fees) are non-discretionary. To require sponsors/managers to bear all organizational costs would create a significant barrier to entry for new strategies and funds and the space would likely become dominated by only a few large fund companies, thereby limiting investor choice. Furthermore, investors purchase investment fund securities with the expectation that they will profit from the investment and it is only fair that they should bear a portion of the organizational costs of such fund. We would suggest that any discretionary costs (such as marketing costs) associated with the launch or maintenance of a NI 81-102 or NI 81-104 fund be for the account of the manager.

Conclusion

In summary we applaud the CSA's wide consultation on these important topics and the objectives set out in the Alternative Funds Proposal. We believe that the time is opportune to include a broad choice of possible investment choices to Canadian investors while, at the same time, preserving a level playing field for all market participants.

We appreciate the opportunity to provide the CSA with our views. Please do not hesitate to contact the members of AIMA Canada set out below with any comments or questions you might have. We would be happy to meet with you in order to discuss our comments further.

Gary Ostoich, Spartan Fund Management.
Chair, AIMA Canada
(416) 601-3171
gostoich@spartanfunds.ca

Yours truly,

**ALTERNATIVE INVESTMENT MANAGEMENT ASSOCIATION -
CANADA**

By:

Enhancing understanding, sound practices and industry growth

The Alternative Investment Management Association - Canada
P.O. Box 786, Station "A", Toronto, ON, M5W 1G3

Tel. 416-453-0111 Email: info@aima-canada.org Internet: www.aima-canada.org