BROMPTON
FUNDS LIMITED

Suite 2930, P.O. Box 793,
Bay Wellington Tower, Brookfield Place
181 Bay Street, Toronto, Ontario M5J 2T3
Main: (416) 642-6000 Fax: (416) 642-6001

Via email: comments@osc.gov.on.ca
consultation-en-cours@lautorite.qc.ca

August 23, 2013

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
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
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

Attention: The Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, ON M5H 3S8

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, Tour de la Bourse
Montréal (Quebec) H4Z 1G3

Dear Sirs/Mesdames:

Re: CSA Notice and Request for Comments regarding proposed amendments to National Instrument 81-102 *Mutual Funds* ("NI 81-102") and Related Consequential Amendments under Modernization of Investment Fund Product Regulation (Phase 2) ("Phase 2")

Introduction

The proposed amendments to NI 81-102 are detailed and indicate a considerable amount of work on the part of the CSA. However, in its current form, we believe that Phase 2 will have a significant negative impact on investors and on an industry which we believe has functioned very well under the current regulatory regime and with market practices that have been voluntarily developed by investment dealers.

Brompton Funds Limited ("Brompton") (or its predecessors) has been a manager of closed-end investment funds since 2002 and also offers flow-through funds, mutual funds and an accredited investor hedge fund. Brompton currently manages 12 closed-end investment funds. Brompton focuses on offering unique investment products with investor friendly terms complemented with strong corporate governance. We would like to take this opportunity to provide comments in response to Phase 2 given that its impact will fundamentally change the closed-end fund ("CEF") space and we believe negatively impact investors.

Summary

We believe that the purpose of Phase 2 to "level the playing field" and "fairness" is to attempt to fit CEFs into a regulatory framework that was designed specifically for mutual funds. Attempting to fit CEFs into a mutual fund framework would greatly reduce investor choice, product innovation and the raising of capital and would create regulatory rigidity, increasing the pressure on the regulators for exemptive relief. CEFs are currently subject to separate regulatory requirements including regulations of stock exchanges which are designed to reflect the attributes of the CEF asset class that make it unique.

We believe that CEFs differ from mutual funds in certain key fundamental aspects and as a result of these differences CEFs are able to offer unique investment strategies and greater choice for investors. In particular, CEFs generally offer investors redemptions on an annual basis, are subject to a due diligence and approval process by a syndicate of independent investment dealers which sign the CEF's prospectus and are distributed through registered investment advisers. Mutual funds offer daily redemptions and are not subject to the same due diligence and approval process. Mutual fund prospectuses are not signed by investment dealers rather only by investment fund managers and mutual funds may be distributed through financial planners. Daily redemptions cause mutual funds to hold assets that are readily convertible into cash in order to fund redemptions and as a result mutual funds are currently subject to the investment restrictions prescribed by NI 81-102. CEFs generally offer annual redemptions and as a result it is not necessary to have CEFs subject to the investment restrictions required for mutual funds. In addition, the due diligence process which CEFs are subject to provides investors with an independent review of the investment product and structure to ensure that not only can the CEF meet its investment objectives using its investment strategies but also that the CEF provides investors with appropriate rights and protections.

Brompton believes that investors should have access to the widest possible choice of investment products as they seek to diversify their investments and to reduce their cost of investing. We believe that certain of the proposed changes in Phase 2 will reduce investor's choice of investment product and strategies and reduce competition in the asset management business thereby potentially increasing costs. We agree with certain of the changes to protect investor rights to approve certain fundamental transactions such as changes in the manager; however, we also believe that certain of the investor protections under the proposed changes including those relating to investment restrictions and leverage could best be provided through clear prospectus disclosure and continuous disclosure requirements. In addition, if changes are made as proposed in Phase 2 without a grandfathering provision for existing CEFs we believe that there will be significant costs to comply with changes for funds (such as unitholder meeting costs and legal costs). Such changes will also likely cause a significant reduction in the trading price of CEFs resulting in a significant reduction in the value of investor's assets. The reduction in value would be the result of the CSA changing the investment bargain under which investors' initially purchased a CEF.

CEF Industry

CEFs have been an important part of the Canadian investment industry and in recent years have represented a significant percentage of new listings on the Toronto Stock Exchange. CEFs were never intended to duplicate open-ended mutual funds but rather to provide retail investors with an important investment alternative which may include features such as:

- Monthly or quarterly cash distributions;
- Professional investment management in sectors that are under-represented by mutual funds, such as senior loans, high yield bonds, concentrated portfolios and international markets;
- Access to investment strategies that are designed to lessen volatility and preserve capital, such as investment grade bond portfolios along with strategies designed to reduce or eliminate interest

rate risk that are not available in the mutual fund industry and are not easily implemented by investment advisors;
- Access to high quality, proven Canadian and international investment managers that are generally not available to retail investors in a mutual fund; and
- TSX listing and liquidity which allows investors to sell their funds through the stock exchange.

The CEF sector is also an important part of the capital markets with market capitalization at June 30, 2013 of approximately $30 billion.

We believe that the CEF market is working well and the major investment dealers have a robust risk rating and approval process under which CEF offerings are reviewed. These offerings are reviewed by experienced market professionals with respect to disclosure, risk and suitability for investors. We understand that CEFs must undergo an underwriting committee process before a major investment dealer firm will support a public offering and specific terms such as leverage and the use of derivatives as well as disclosure concerning the CEFs ability to pay indicated distributions are carefully reviewed. We believe investment dealers and the investment fund managers who have prospectus liability and risk as to reputation and relationships for these products have been effectively supervising and imposing key terms for the benefit of the market and investors.

CEFs are Unique

CEFs were not intended to replicate open-ended mutual funds. CEFs are primarily marketed through an initial public offering, are generally listed on an exchange and are generally distributed through full service investment dealers.

As a result of a stock exchange listing, investors do not need to rely only on redemptions for liquidity and as a result, concentration and investment restrictions and liquidity concerns are not the same as those for mutual funds. Because CEFs are typically one-time offered and distributed through full service investment dealers, the process of bringing a CEF to market is much more complex and expensive via the process undertaken for a long form prospectus. The simplified prospectus and annual information form requirement for a mutual fund is a much simpler document that requires no investment dealer involvement and minimal legal work. Unlike mutual funds that provide more standardized disclosure in their offering documents, CEF prospectuses are very detailed in their investment description covering terms such as leverage, hedging, covered call writing, methodology for determining and paying distributions as well as the tax treatment of such distributions.

Distribution through investment dealers also means extensive involvement by agents in the preparation of the prospectus with the issuer and performing due diligence. Both the fund and the investment dealers engage separate external legal counsel, the fund retains an external audit firm and both the investment fund manager and the agents commit significant internal resources in the development, due diligence and launch of a single CEF. Unlike mutual funds it is generally not possible to include several funds in one prospectus. Accordingly, the cost to bring a CEF to market may not be spread over several funds. In addition, mutual funds have the benefit of a continuous distribution model which allows them to continue to issue units without the 90 day time limit imposed on a long form prospectus offering.

We believe that the objectives of securities regulation are investor protection and market efficiency and the latter includes the promotion of capital formation and investor choice. The current regulatory requirements for CEFs provide investor protection. In terms of market efficiency, it should be noted that with CEFs have come: (i) a wide variety of asset classes (many of which have never been provided by conventional mutual funds) and investment strategies, all made accessible to the retail

market; (ii) new asset managers with new ideas for products that leverage the expertise and distribution expertise of full service investment dealers; and (iii) leading foreign investment advisors whose expertise would not otherwise be available to the Canadian retail market. Although CEFs do not fit squarely into a regulatory regime that was not designed for them does not mean that they present more of an investment risk to investors. Investors in the Canadian marketplace benefit from this wide array of choice, which offers accessibility to new product initiatives and portfolio diversification. We believe that new regulatory requirements should not restrict investor choice, product innovation and capital raising.

Annual Redemptions of Securities Based on NAV

We believe that investment funds that redeem their securities once a year based on NAV should not be considered mutual funds and subject to the rules of NI 81-102 as it is currently designed. CEFs are specifically designed to be different than mutual funds and are structured to meet their investment objectives and strategies and the annual redemption mechanism is an integral part of the overall structure of a CEF. As it is currently designed, NI 81-102 is appropriate for mutual funds as they may be redeemed daily with payment of redemption proceeds in three business days.

Brompton's CEFs were designed with an annual redemption as an important tool to mitigate potential trading discounts versus NAV that closed-end investment funds without any redemption have suffered in the past. We are of the view that a regime that does not permit CEFs to provide for redemptions at NAV at least once per year could have significant negative impact on the trading price and therefore harm investors whose primary means of gaining liquidity is expected to be through the trading the CEF on an exchange.

Investment Restrictions

Concentration Restriction

We believe that CEFs should not be subject to a 10% concentration limit. At this level, at least 4 funds managed by Brompton would exceed the limit. Shares of these 4 funds generally trade at premiums to their net asset value thereby demonstrating that there is a strong investor demand for a well-designed, focused product. Concentration limits provide diversification and liquidity benefits for mutual funds that offer daily redemptions. CEFs are not constrained by the need to maintain certain levels of diversification and liquidity as they generally offer annual redemptions and redemption notice periods of up to 60 days. As a result, CEFs are able to offer different investment strategies for investors such as strategies that invest in concentrated portfolios that provide exposure to specific sectors. Investors are not restricted from buying the underlying securities of a CEF and therefore they should not be restricted from buying a CEF that provides some level of diversification. A concentration limit would reduce investor choice. In addition, investment strategies are disclosed in a prospectus and have been subject to a due diligence process by independent investment dealers and their legal counsel. As a result, we believe that there should be no concentration limit assigned to CEFs. We are unclear as to why investors should be denied access to such innovative products.

Investments in Illiquid Assets

We believe that limits on illiquid assets held by CEFs should be higher than those provided for under NI 81-102. CEFs are not constrained by the need to maintain certain levels of liquidity required by mutual funds as they generally offer annual redemptions and redemption notice periods of up to 60 days. As a result, CEFs are able to offer different investment strategies for investors and such strategies may include illiquid assets. We believe that no limit on illiquid assets is required. We recognize the risks of investing

in illiquid assets and endeavor to structure funds that are able to meet annual redemption commitments. Fund structure, investment objectives, investment restrictions and prospectus disclosure are all subject to an independent due diligence process by independent investment dealers and legal counsel. We believe that additional disclosure requirements for illiquid securities may be warranted. For valuation, CEFs have set up procedures for valuing illiquid assets which include evaluations by independent audit firms on at least an annual basis.

Borrowing

We do not believe that restricting the use of leverage by CEFs is appropriate or necessary to ensure that the regulatory approach with respect to CEFs continues to adequately protect investors. The current framework is appropriate as the level and type of leverage for a given CEF is highly subjective and should be based on the determination of the asset class and applicable market participants. Phase 2 proposes no such difference and imposes an arbitrary 30% of NAV limit. At this level at least 5 and potentially up to 9 funds managed by Brompton (depending on how leverage is determined) may exceed the 30% limit. We believe that CEFs should not be limited as to the percentage of borrowings as they are not constrained by the daily redemption requirements of a mutual fund and generally offer annual redemptions. CEFs also often provide for a redemption notice period of up to 60 days to permit adequate time to liquidate its portfolio on an orderly basis. As a result, CEFs are able to manage higher levels of leverage. In addition, the CEF structure, investment strategies and investment restrictions have been subject to the review of independent investment dealers to ensure that CEFs and their assets have manageable levels of leverage. CEFs are also able to obtain financing at more favourable interest rates than retail investors and we believe that a lower leverage limit will reduce investor choice.

CEF investors are also assisted by industry professionals who are required to do a suitability analysis. We believe that CEF investors who have the benefit of full, true and plain disclosure and the advice of registered advisors working in the investment dealer channel should enjoy access to a broad choice of investment strategies.

Concerns that the CSA may have with respect to leverage should be addressed through enhanced disclosure. We note that current disclosure regarding leverage typically appears in both the summary and main body section of the prospectus (both under investment strategy and investment restrictions) and sets out the maximum amount of leverage as a percentage of the portfolio or total assets as well as a percentage or ratio of debt to NAV. We suggest that, if considered appropriate, such disclosure also appear on the face page of the prospectus. Additional disclosure regarding leverage could also be mandated including whether the borrowing may be secured or unsecured, whether the fund is permitted to borrow from a foreign financial institution and as to how the leverage is obtained.

We note that currently a CEF can obtain leverage in several different ways including through shorting, margin, derivatives, through investment in other funds, including ETFs, futures, as well as through conventional borrowing. While leverage may be employed to enhance a fund's return, it may also be used to hedge the portfolio from certain risks and if leverage limits are required, including the possibility of excluding positions assumed for hedging purposes from the calculation of a fund's leverage.

Phase 2 also raises the possibility of limiting CEFs to borrowing from a "Canadian financial institution" and the CSA suggest that there may be benefits associated with borrowing from a "Canadian financial institution". Additional information is needed with respect to the rationale and any potential benefits of this proposed amendment before we can adequately assess the advantages and disadvantages of the proposed change. The effect of this restriction would be to significantly limit the sources of financing for CEFs, which would have the likely effect of reducing liquidity and increasing the cost

of financing and ultimately the cost to investors. It is unclear whether this proposed change is meant to address a perceived risk associated with foreign lenders or Canadian lenders who are not financial institutions. In any event, if a fund is complying with the terms of the borrowing there should be no issue. If a fund is in breach, the terms of the loan agreement and related security will govern the rights of the parties. In a breach scenario it would be expected that the behavior of the lender will be the same whether it is a Canadian or foreign bank or financial institution. In all cases, the lender will attempt to enforce its rights under the applicable loan and security agreements. We propose that lenders be regulated lenders within their country of business to provide assurance that their business is on commercial terms.

Another point which we believe the CSA should consider for future revisions to National Instrument 81-106 is the calculation of the management expense ratio ("MER") as it applies to CEFs that employ leverage. Currently the calculation of the MER requires the inclusion of interest expense which increases the MER. However, interest expense is not a management expense if the CEF is borrowing as part of the investment strategy to enhance income or returns. If the CEF is borrowing to manage daily working capital deficiencies due to an inability to meet redemption obligations, then interest expense could be incurred as part of the daily management of the CEF's operations. However, as NI 81-106 is currently drafted, the calculation of the MER does not consider that the borrowings employed as part of the investment strategy that generated the interest expense may have generated additional income or returns that benefits investors of the CEF thereby reporting a confusing, one-sided calculation. We would propose that interest expense and other similar financing costs be excluded from the calculation of MER as we believe that this would provide a better representation of the ongoing operating costs of a CEF.

Investments in Mortgages

We believe that investments in mortgages should not be restricted to guaranteed mortgages in the same way that we do not believe bond investors should be restricted to only holding guaranteed government bonds. This is generally not an asset class that investors can participate in individually and investment options available to investors should not be limited and should allow investors to make an informed decision based on disclosure in the long form prospectus and other continuous disclosure documents. If the proposed restriction is adopted (without grandfathering) the mortgage investment corporations that are currently CEFs would be required to wind-up or convert to corporate issuers which is extremely problematic given the current Toronto Stock Exchange listing rules. In addition, we are unclear as to how a mandated transition of mortgage investment corporations that are currently CEFs to a corporate issuer regime would alleviate any concerns relating to investor protection.

We believe that existing CEFs that invest in non-guaranteed mortgages should be grandfathered otherwise an investor's original investment bargain will change adversely which we do not believe would be fair to investors.

Fund-of-Fund Structures

To date, the prospectus of the underlying funds (generally non-offering prospectuses) have been required to be filed only in Ontario and/or Quebec in order for the underlying funds to become reporting issuers in those jurisdictions and subject to National Instrument 81-106. We believe that if the underlying fund becomes a reporting issuer in at least one jurisdiction in Canada, the objective of making continuous disclosure relating to the underlying fund publically available to investors via SEDAR is satisfied. We are not clear why requiring the underlying fund to become a reporting issuer in all of the jurisdictions in which the CEF offers its securities would enhance investor protection. It would instead, impose an unnecessary and ongoing cost burden on the underlying fund which would negatively impact returns from investors. We also do not believe that the prospectus of the underlying fund should be required to be

delivered to investors in the top fund since the top fund's prospectus is required to provide full, true and plain disclosure in respect of the securities acquired by investors.

Organizational Costs of New Non-Redeemable Investment Funds

We believe that proposed sub-section 3.3(3) of NI 81-102 will result in greater costs for investors and managers than benefits. Although costs borne by investors of CEFs on the initial public offering would be initially lower if paid by the manager, greater costs will be incurred through (1) higher ongoing fees required by managers in order to recover: (a) such organizational costs; (b) related financing costs; and (c) costs related to the risk of smaller CEFs; (2) a reduction of competition as there will be much greater barriers to entry in the asset management business which may result in increased costs for investors; and (3) managers will likely impose redemption fees on investors to ensure recovery of costs (for example, Lawrence Park Tactical Credit Fund offering) and the use of redemption fees may adversely impact the trading price of the CEF as the redemption value will not be equal to the NAV of the CEF, thereby causing confusion for investors and potentially misleading new buyers.

It is significantly more expensive to launch a CEF, pursuant to the due diligence process that involves registered investment dealers and their counsel, an auditor, due diligence review and extensive regulatory review (costs generally associated with investor protection efforts) than it is to launch a conventional mutual fund. We believe that investors in CEFs benefit from the organizational costs of CEFs. Organizational costs for a CEF are generally $600,000 to $700,000 and include:

Legal costs for the fund	35%
Legal costs for the underwriters	20%
Audit costs	6%
Listing fees	4%
Filing fees	6%
Prospectus costs	5%
Printing costs	14%
Sales and marketing costs	10%
	100%

The bulk of the costs noted above can be attributed to "investor protection" focused regulatory requirements. Other costs provide investor benefit by increasing the size of a fund thereby increasing trading liquidity and reducing the MER.

CEFs are subject to an initial public offering process which includes the engagement of registered investment dealers who provide investors with an independent review of the structures of CEFs, investor rights and marketing claims that may be made prior to the CEFs being distributed. Organizational costs include costs incurred by underwriters and their legal counsel and legal counsel for the manager and the CEF. These costs ensure that the CEF is compliant with all applicable laws; adequate disclosure of investment strategies and risks is provided in the prospectus and provides a legal review of agreements of the CEF. Other costs incurred are: (i) listing fees to have the shares of the CEF listed on a stock exchange which provides daily liquidity for investors; (ii) audit costs for the audit of the financial statements; (iii) filing fees paid to regulators; (iv) translation costs for French prospectuses to distribute in Quebec; (v) costs of printing prospectuses which are delivered to investors for their review and understanding of the CEF; and (vi) sales and marketing costs for the distribution of securities of the CEF.

We also believe that although managers of mutual funds are responsible for the costs of organizing a mutual fund, the costs of organizing mutual funds are much lower and the process does not provide investors with the benefit of the services provided by the independent investment dealers who are

engaged to assist in the distribution of CEFs. As a result, organizational costs of CEFs are higher than mutual funds and such costs are more appropriately borne by the CEF and consequently investors.

It would also be our expectation that the proposed change to the economic model that has governed CEFs since their inception would favour investment fund managers with significant capital resources and therefore contribute to a CEF market with a similar profile to the existing mutual fund market – one currently dominated by a few very large participants. We do not believe that this is in the long term best interests of Canadian retail investors or the Canadian capital markets generally.

Alignment of Interests

There is greater capital risk on the launch of a CEF than that of a mutual fund. In connection with a CEF launch, the investment fund manager must be prepared to absorb the loss of capital as a result of a failed deal, which we believe is a motivation that aligns the interest of the investment fund manager with investors to keep offering costs down.

CEFs are currently generally subject to a 1.5% limit on organizational costs that are paid by a CEF. Although this is not a regulatory rule, this limit is imposed by independent investment dealers for the benefit of investors. By requiring an investment fund manager to fund expenses that exceed this cap, industry participants have ensured that the investment fund manager's interests are better aligned with investors which contributes to cost efficiencies on the launch of a new CEF.

Incentive Fees

We believe that the types of fees that a CEF manager can charge should not be restricted. Investors may select an investment fund based on an investor's appetite for risk and returns as well as a fund manager's performance and the level of fees charged, so long as they are properly disclosed.

NI 81-104 permits an incentive fee to be charged based on an internal, cumulative total return (as opposed to an external benchmark) of a commodity pool. These types of incentive fees are charged by many CEFs, including flow-through funds that have charged such fees for at least the past 15 years. We believe that such incentive fees are highly standardized and well-understood by investment advisors. We believe that the standard set forth in NI 81-104 is appropriate for all CEFs, provided that the method of calculation of the fee is disclosed in the prospectus. Since incentive fees are reflected in a fund's management expense ratio all investment funds will continue to be comparable on the basis of both fees and investment returns.

Dilutive Issuances of Securities

We believe that securities should not be issued at a price that is dilutive to the NAV at the time the price is determined.

We also believe that contrary to proposed section 9.1 CEFs should be permitted to issue warrants and rights, subject to the ability to issue such warrants and rights being disclosed in the initial public offering prospectus or with shareholder or unitholder approval of such ability if not disclosed in the prospectus. We believe that warrants are not prejudicial when they are listed and, as a result, shareholders can realize their value should they choose not to exercise their warrants. We believe that warrants should have an exercise price that would not be dilutive at the time of determining the exercise price. Warrants and rights offer investors of a CEF, as well as the CEF, a potentially less costly way to increase assets as costs relating to a warrant offering including the preparation of a prospectus are generally lower than those

relating to a follow-on issue of securities. The issuance of securities pursuant to the exercise of warrants and rights by a CEF improves the trading liquidity of the securities of a CEF and lowers the MER for investors. Brompton has had numerous successful warrant offerings that were issued with an exercise price at or above net asset value and which resulted in positive returns for investors that exercised. In these circumstances, warrants were issued at a time when the portfolio manager believed that there were compelling investment opportunities to exploit.

Naming Convention for Investment Funds

It is not clear to us why the current naming conventions are not adequate. We believe that the "alternative" naming convention improperly labels CEFs and may serve to marginalize financial products that are currently mainstream in the Canadian market. Including "Alternative Fund" in a name does not necessarily identify risk for an investor and therefore provides no significant benefit for investors. We believe that it is more appropriate that risks are adequately explained in the risk disclosure of a prospectus and continuous disclosure documents such as an annual information form.

In addition changing existing fund names may require shareholder meetings and would result in significant additional work including the change to CUSIP numbers and costs to the CEFs. We also believe that a change of existing fund names would also result in unnecessary confusion to investors, CDS, FundServ, dealers and fund managers.

Transition Period for Investment Restrictions in Proposed Amended NI 81-102 and Alternatives

We believe that grandfathering and continuation of exemptive relief be granted to existing CEFs under Phase 2.

We believe that a transition period for existing CEFs is not appropriate for the following reasons: (i) certain issuers, such as mortgage investment corporations or other funds that do not fit within the Alternative Fund Framework, would be required to either wind-up or convert to regular corporate issuers; (ii) the proposed amendments are inconsistent with the investment decision made by investors and their legitimate expectations or the commercial decision made by the investment fund manager in launching the fund. Neither investors nor fund managers should be forced into paying for amendments that are inconsistent with the bargain that was entered into at the time of investment; and (iii) the costs and disruption associated with a requirement to transition an entire fund family would be significant for CEF managers and investors. Amending fund documents, obtaining securityholder approvals, if required, and the associated notice and continuous disclosure requirements would be extremely difficult. Many issues are also raised, for example, tax implications of realigning portfolios, impact on trading of CEF securities and the possibility that investors do not approve changes.

The grandfathering of all existing CEFs and follow-on offerings of such CEFs will lead to the least confusion and inequity for investors and all other market participants. It will take time for the investment community to adjust to two new investment fund regimes (or more, depending on what becomes of mortgage investment corporations and non-alternative investment funds), in addition to dealing with transitioning existing CEFs. Imposing a new regime on existing CEFs does not level the playing field nor does it foster either investor protection or competition; but rather jeopardizes a vital alternative to mutual funds.

Anticipated Costs of the Proposed Amendments and of Implementing the Alternative Funds Framework

The proposal for a short grandfathering provision to allow funds to get onside many of the proposed restrictions does not consider how and at what costs that might be achieved. We believe that the changes proposed in Phase 2 are unlikely to be proportionate to the expected benefit of the amendments. We believe that changes currently proposed in Phase 2 will likely result in significant costs impacting investors: (i) loss of value of investments; (ii) costs of securityholder meetings to implement the changes; (iii) increased cost to managers which could reduce competition; and (iv) increased management fees to cover increased costs.

We believe that changes proposed in Phase 2 will likely require securityholder meetings. Changes that generally require securityholder meetings include: (i) changes to the investment objectives; (ii) changes to the investment strategies or guidelines; and (iii) changes to the investment restrictions. The costs of securityholder meetings are estimated at $125,000 per CEF which would translate into approximately $2,000,000 in costs to be borne by Brompton's CEFs and indirectly investors.

The proposal that managers cover the costs associated with an initial public offering could be significant and would be a barrier for managers to make offerings in the CEF space which would reduce competition. The proposal for fund managers to incur the costs of an initial public offering of a CEF would result in no benefit to investors when management fees are simply increased on an initial public offering to recover the cost of the initial public offering.

It is impossible to analyze fully the impact of Phase 2 would have on CEFs without knowing more about the Alternative Fund Framework. If the Alternative Fund Framework were to provide a viable framework for new funds, certain investment restrictions applicable to CEFs (restrictions on physical commodities, leverage, use of derivatives and short-selling) may be less of an issue. However, the Alternative Fund Framework is only being proposed on a highly conceptual basis and it is impossible to know if it would provide a viable alternative to a CEF.

Alternative Fund Framework

It is difficult to respond to the suggested changes to NI 81-102 in the absence of concrete proposals for NI 81-104. CEF market participants should be able to ascertain whether they will be able to develop and offer new CEF products in substantially the same manner as they are now and are unable to do so at this time. By way of example, the uncertainty over whether additional proficiency requirements would be needed to distribute conventional CEFs and the prospect for a significant adverse impact on the CEF industry becomes a possible outcome. We respectfully submit that it would be better to continue to regulate CEFs substantially on the basis that they are currently regulated and to develop amendments to NI 81-104 on a fully consultative basis.

Securities Lending, Repurchases and Reverse Repurchases by Investment Funds

We do not believe that additional disclosures related to the performance of the securities lending of a CEF would more beneficial for investors and we do not believe that these agreements should be material agreements. Securities lending programs are generally not fundamental to the investment objectives of a CEF or provide material revenues.

Termination of a CEF

As currently drafted, under proposed NI 81-102, Phase 2 would permit a CEF to terminate, upon issuing a news release, no earlier than 15 days after the news release is filed and no later than 30 days after the filing of the news release. We submit that the 30 day limit may not be a sufficient period of time to wind up the affairs of a CEF in an orderly manner and may result in an unnecessary loss of investor assets if the liquidation process is too onerous. A longer period of time, for example 90 days would generally allow a CEF to liquidate its portfolio in an orderly manner and to wind up its affairs.

Conclusion

Phase 2, particularly the restrictions limiting the investment strategies of CEFs, provides no clear explanation of underlying market efficiency or investor protection concerns nor do we believe it provides substantive analysis of costs, benefits or impacts of the proposed changes. We would welcome the opportunity to be involved in the development of a set of operational rules and requirements that would govern the operations of CEFs and we respectfully submit that this is something the industry should be afforded the opportunity to pursue with the CSA.

While we appreciate the need for on-going review and modernization of regulation to address evolving market conditions, we are not aware of any evidence to suggest that the regulatory framework for the CEF industry is in urgent need of the fundamental changes proposed in Phase 2. We have concerns about many of the proposals included in Phase 2 which we do not believe have been the subject of prior wide consultation and in our view are not yet supported by clear evidence or analysis.

The industry is a highly regulated and stable one. Assets under management have not varied significantly in the past decade and the vast majority of CEFs held up well through the unprecedented conditions of the global financial crisis. While different, there is nothing to suggest that their construction, distribution process, management, performance or regulatory framework are inferior to that in respect to mutual funds. In contrast, there are many reasons why combining the two regulatory frameworks could detract from investor protection, choice and market efficiency.

Some CEFs are using increasingly complex strategies. In doing so, we believe they are fulfilling their role as an alternative to mutual funds and other less sophisticated financial products. The CEF industry innovates and demands the services of highly qualified specialists in a variety of professions and in doing so it bolsters the Canadian capital markets. Regulatory reform should not be undertaken on a piecemeal basis and without a clear evidentiary basis. Appropriate cost benefit and regulatory impact analyses must be undertaken and should take into account the spin-off benefits of a robust CEF industry on the Canadian capital markets and the financial service industry as a whole.

If CEF regulation is to be modernized it should be done in consultation with CEF market participants including investment fund managers, portfolio managers, dealers, custodians, prime brokers, administrators, independent review committees, auditors, legal advisers, the Toronto Stock Exchange and IIROC. In formulating CEF regulation, we should not focus on how CEFs are similar to mutual funds but rather on the special attributes of CEFs and how such attributes can be maintained and fostered in a fair and efficient capital market.

We look forward to working with you on this initiative.

Yours truly,

//Signed// *"Mark A. Caranci"*
Mark A. Caranci
President & Chief Executive Officer

//Signed// *"Craig T. Kikuchi"*
Craig T. Kikuchi
Chief Financial Officer