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August 23, 2013

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
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Attention:

The Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, ON M5H 3S8
Fax : 416-593-2318
Email: comments@osc.gov.on.ca;

-And-

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, Tour de la Bourse
Montréal, (Québec) H4Z 1G3
Fax : 514-864-6381
Email : consultation-en-cours@lautorite.qc.ca

Dear Sirs and Mesdames:

Re: CSA Notice and Request for Comment: Proposed Amendments to National Instrument 81-102 *Mutual Funds* Companion Policy 81-102CP *Mutual Funds* and Related Consequential Matters and Other Matters Concerning National Instrument 81-104 *Commodity Pools* and Securities Lending, Repurchases and Reverse Repurchases by Investment Funds

CI Investments Inc. ("**CII**"), is pleased to have the opportunity to respond to the CSA's notice and request for comment regarding the proposed modernization of investment fund product regulation (the "**Proposed Amendments**") published on March 27, 2013 (the "**CSA Notice**"). Generally, we are in favour of regulatory measures that would encourage market diversity and growth through rules that provide greater

certainty and consistency. We appreciate the worthwhile goals of the modernization project which would streamline regulation while maintaining access to alternative investment strategies. Although we are in support of many aspects of the modernization project, we do have some concerns.

As a preliminary comment, we wish to make note of the fact that we find it difficult to provide a comprehensive response to the Proposed Amendments in the absence of a complete proposal for the regulation of this area. We recognize that this process, and the introduction of any new regulatory regime, must be undertaken in measured steps, but it is very difficult to comment on one step without knowing where the complete path is leading. We believe that ongoing dialogue is necessary for developing regulation that appropriately deals with novel market practices. However, in assessing the efficacy of proposed regulation, both for regulators and market participants alike, it would be helpful to have a more definite understanding of the issues that regulation seeks to address.

The stated purpose of the Proposed Amendments is to provide investors with baseline protection and to mitigate the potential for regulatory arbitrage. However, it is unclear to us, how these general risks warrant the imposition of retroactive and costly changes to the investment fund landscape. The contemplated changes would fundamentally and retroactively change the nature of current investment funds in a manner that no market participant could have anticipated. As it stands, baseline protection for investors is provided by ongoing disclosure requirements, market forces and prudent business judgment. The fact that many non-redeemable investment funds already implement the proposed restrictions suggests that existing market forces are working as they should. In our view, it does not support the unnecessary codification of such restrictions. We do not understand how increased regulatory costs, that needlessly limit market diversity, are in investors' best interest. Moreover, we are not aware of the existence of regulatory arbitrage opportunities in either of our conventional mutual funds or closed-end funds.

It is our respectful submission that the implementation of a project of this scope requires additional work on the part of the regulators, at this critical step, to identify specific and substantiated risks. Without such consideration, it is almost certain that these regulations will have material consequences that are both unforeseen and unintended.

We hope that our specific commentary below will assist the CSA in providing additional clarity in respect of these concerns.

Thank you for the opportunity to provide comments with respect to these Proposed Amendments. If you have questions or wish for us to clarify any comments, please contact David C. Pauli, the undersigned below, at 416-681-6542.

Sincerely,

CI Investments Inc.

"*David C. Pauli*"

David C. Pauli
Executive Vice-President
and Chief Operating Officer

ANNEX A: SPECIFIC QUESTIONS OF THE CSA RELATING TO THE PROPOSED 81-102 AMENDMENTS

Annual Redemptions of Securities Based on NAV

1. *Topic for Consideration*

   Should the CSA reconsider its present view and consider an investment fund to be a mutual fund if it offers any redemptions based on NAV?

CII supports the CSA's present definition of mutual funds which permits an investment fund that offers annual redemptions of its securities to be considered a non-redeemable investment fund.

This approach provides the necessary balance between flexibility and investor protection in allowing non-redeemable investment funds to continue to provide investors with access to diverse investment strategies while remaining within the NI 81-102 framework.

A change to the definition as suggested would result in a number of funds, that are currently considered non-redeemable investment funds, being forced into the more rigorous framework applying to mutual funds governed by NI 81-102 or else being reclassified as "alternative" mutual funds governed by NI 81-104. We are uncertain how the definition can be properly considered without more particular details on how exactly the interrelated NI 81-104 framework will be changed to accommodate such funds.

Investment Restrictions

Concentration Restriction

2. *Topic for Consideration*

   Do you agree with the 10% issuer concentration restriction for non-redeemable investment funds set out in proposed amended section 2.1 of NI 81-102?

CII is of the view that non-redeemable investment funds should be permitted to have a concentration limit higher than the proposed 10% limit set out in the amended section 2.1 of NI 81-102.

Although we recognize the positive affect a concentration limit may have in encouraging portfolio diversification, we believe this restriction acts primarily to ensure that funds maintain sufficient liquidity levels to support regular redemptions. Given that non-redeemable investment funds do not offer regular redemptions, a restriction of 10% may unnecessarily limit the range of investment strategies available to portfolio managers.

We would suggest a limit of 20% which would provide for a sufficient level of portfolio diversification while allowing managers flexibility to pursue strategies with potential for generating higher returns.

If NI 81-102 provides for a concentration limit that is greater than 10% for non-redeemable investment funds, should NI 81-104 provide an even higher concentration limit for non-redeemable investment funds that are alternative funds subject to NI 81-104?

We believe that the concentration limit should be the same for non-redeemable investment funds governed by both NI 81-102 and NI 81-104, provided it is set at 20% under both instruments.

Investments in Illiquid Assets

3. *Topic for Consideration*

Would the ability to purchase and hold more illiquid assets than the levels currently permitted by subsections 2.4(1) to (3) of NI 81-102 be beneficial for non-redeemable investment funds?

Although the 10% limit may be adequate for current 81-102 mutual funds, the ability to purchase and hold illiquid assets at levels greater than those currently permitted by subsections 2.4(1) to (3) of NI 81-102 would be beneficial for non-redeemable investment funds. We believe this would permit a skillful portfolio manager to collect return premiums on illiquid assets for the benefit of the unitholders. Since these funds are redeemed annually, with at least one months notice, there is less need for liquid assets to fund redemptions. Note, however, that the definition of illiquid assets does need to be updated to reflect the current market environment. For example, an unintended consequence of the proposals would be the imposition of an improper investment restriction stemming from the current definition of illiquid assets which captures highly liquid over-the-counter securities including bonds and senior loans..

Would a portfolio containing a significant amount of illiquid asset give rise to difficulties in valuing the NAV of the fund?

Although, a portfolio containing a significant amount of illiquid assets would give rise to difficulties in valuing the NAV of the fund, a proposed limit close to 20% would not pose a significant challenge to valuation.

What types of illiquid assets do non-redeemable investment funds wish to invest in, and why?

Non-redeemable investment funds invest in any number of illiquid assets dictated by their investment objectives. Some examples might include:

- debt or equities issued by private companies;
- over-the-counter securities, including over the counter options; and
- thinly traded securities.

The fund would invest in these securities if the portfolio manager determined the return premiums on illiquid assets would outweigh the risk of holding the security for potentially longer terms. In the case of some debt securities a successful strategy might include buying at a discount, and holding the debt

security to maturity.

What would be an appropriate amount of illiquid assets for non-redeemable investment funds to purchase and hold?

As discussed above, an increased limit of 20% would have some value to investors without creating substantial risk of liquidity problems.

Should non-redeemable investment funds be given more than 90 days to divest illiquid assets (see: 2.4(2) and (3) of NI 81-102)?

Given the non-redeemable nature of the funds, and the current notice period for annual redemptions, we would suggest a longer cure period is warranted.

Should the limit on illiquid asset investments be different for non-redeemable investment funds that do not offer any redemptions and non-redeemable investment funds that offer annual redemptions?

The limit on illiquid asset investments should be higher for non-redeemable investment funds that do not offer any redemptions as compared to non-redeemable investment funds that offer annual redemptions as the two types of funds have different liquidity needs.

Borrowing

4. Topic for Consideration

Is the proposed requirement for non-redeemable investment funds to borrow from a "Canadian financial institution" appropriate?

In CII's view, it is not appropriate to require that non-redeemable investment funds borrow exclusively from "Canadian financial institutions". Flexibility is required to allow portfolio managers to be competitive in a global market.

If more flexibility is required, what conditions should other lenders have to meet?

A lender who is an institution that is licensed to carry on a lending business should be a qualified lender.

Investments in Mortgages

5. Topic for Consideration

We have no comment.

Fund-of-Fund Structures

6. Topic for Consideration

Would a carve-out from the proposed paragraph 2.5(2)(a) of NI 81-102 be effective for this purpose and if so, what conditions should attach to the use of the carve-out?

CII supports measures that would enable a non-redeemable investment fund, acting as top fund in a fund-of-fund structure, to continue to gain exposure to an underlying mutual fund investing in accordance with the restrictions adopted by the top fund.

In order to benefit from such a carve-out the underlying fund should be redeemable concurrently with the top fund and have objectives that are a subset of the top fund.

7. Topic for Consideration

Should proposed amended paragraph 2.5(2)(c) apply to non-redeemable investment funds that use a fund-of-fund structure? If not, why not?

Proposed amended paragraph 2.5(2)(c) should not apply to non-redeemable investment funds that use a fund-of-fund structure in which the underlying fund is a reporting issuer in at least one province in Canada. However, the proposed amendments may be appropriate in circumstances where the underlying fund is a foreign investment fund.

For Canadian based investment funds, there is limited value in requiring the underlying fund to be a reporting issuer in all the jurisdictions in which the non-redeemable investment fund is a reporting issuer. This is particularly the case for single purpose funds, which are not directly available for purchase, and for which full disclosure is made in the prospectus of the top fund. The disclosure provided in the prospectus of the top fund and the ongoing disclosure provided by the underlying fund (as a reporting issuer in a province of Canada), provides sufficient information and protection for investors.

Given the limited benefits to investors and considerable costs associated with the Proposed Amendments, grandfathering is warranted for existing funds relying on such structures.

What other parameters could be used to address the CSA's objectives?

CII believes that the parameters discussed above sufficiently address the CSA's objective.

Organizational Costs of New Non-Redeemable Investment Funds

8. Topic for Consideration

Are there other parameters that could be developed that would achieve benefits similar to the benefits from proposed subsection 3.3(3)?

No.

Could the different capital raising model followed by non-redeemable investment funds support the fund continuing to pay some of the organizational costs out of the proceeds of the IPO? Are there specific components of organizational costs that are more appropriately borne by the non-redeemable investment fund and components that are more appropriately borne by the manager?

The different capital raising model followed by non-redeemable investment funds could support, for instance, the agent's fee being paid by the fund and other flat fees being borne by the manager.

On a deal that is $100 million, agent's fees would typically amount to $5.25 million (5.25%) while other issue costs would typically amount to around $0.75 million (0.75%).

Dilutive Issuances of Securities

9. *Topic for Consideration*

Do the proposed subsections 9.3(2) and (3) achieve the purpose of preventing dilutive issuances while taking into account how new securities are distributed?

CII supports measures that would require an investment fund, raising additional money from the public through a new issuance of securities, to include the price of the securities in the prospectus. This may allow for and encourage innovation in the market.

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

10. *Topic for Consideration*

Is the proposed transition period of 18 months sufficient for non-redeemable investment funds to come into compliance with the investment restrictions in proposed amended sections 2.2, 2.3, 2.4 and 2.5 of NI 81-102 (i.e. Investment Restrictions)?

A grandfathering provision is warranted for existing funds to allow them to continue in accordance with their offering documents. However, discretion should remain for managers to transition funds into the new framework if they so choose and are willing to accept the new restrictions.

Is a grandfathering provision warranted?

Existing non-redeemable investment funds should not be required to comply with the specific sections in Part 2 of NI 81-102 as forcing them to do so would completely change the nature of affected funds and would be contrary to the expectations of current investors. Ultimately, a change of this nature could require unit-holder approval, the costs of which would be borne by the fund; or alternatively require dissolution of the fund. Fairness in our mind is a function of the expectations of investors when they make their investment decisions. Requiring all new products to follow any new regulations, rather than retroactively enforcing rules on existing products in the market place would be a fair outcome.

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

11. Topic for Consideration

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?

Generally, CII is of the view that there may be significant costs for existing funds to comply with the new rules, and we do not believe there will be sufficient benefits. For new funds there is a risk that, rather than leveling the playing field, the regulatory framework could eliminate a significant portion of investment fund products.

However, if regulation provides better guidance and sufficient flexibility, it could be beneficial and result in a greater willingness to explore diverse investment strategies. If this is to be the case, NI 81-104 will require a substantial overhaul, in conjunction with NI 81-102 and not after the fact, to provide the flexibility and clarity required.

ANNEX B: SPECIFIC QUESTIONS OF THE CSA RELATING TO THE ALTERNATIVE FUNDS FRAMEWORK IN NI 81-104

Definition of "Alternative Fund"

1. *Topic for Consideration*

   Does the use of the term "alternative fund" appropriately describe the types of investment funds that should be captured by NI 81-104?

The term 'alternative fund' provides an appropriate description of the types of investment funds that should be captured by NI 81-104. However, the instrument will require major revisions in order to provide greater flexibility.

Investment Restrictions

Concentration Restriction

2. *Topic for Consideration*

We have no comment.

If you think that the concentration restriction should be higher than the current 10% issuer concentration limit in NI 81-104, what would be an appropriate concentration restriction for alternative funds?

If the concentration restriction in proposed amended NI 81-102 were increased to 20% for non-redeemable investment funds there would be no need for an even higher concentration under NI 81-104.

3. *Topic for Consideration*

   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?

Current measurements for calculating an alternative fund's concentration, based on its net asset value, would provide accurate information about the concentration of the fund's portfolio, notwithstanding the amount of its leveraged exposure.

Borrowing

4. Topic for Consideration *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?*

Any fund offering regular redemptions should be governed by NI 81-102 and subject to the rules applicable to mutual funds. Conversely, alternative funds that do not offer regular or frequent redemptions should be subject to the proposed NI 81-104 and its higher leverage limits.

If some mutual funds are included as alternative funds under NI 81-104, they should be required to have different borrowing restrictions than alternative funds that are structured as non-redeemable investment funds. A mutual fund's need to fund regular redemptions requires the fund to adhere to more stringent borrowing requirements.

Short Selling

5. Topic for Consideration *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?*

Yes.

Leveraged Daily Tracking Alternative Funds

6. Topic for Consideration

We have no comment.

Counterparty Credit Exposure

7. Topic for Consideration *Would repealing the Counterparty Exposure Exemption sufficiently mitigate the risk of exposure to a single counterparty, particularly in connection with illiquid OTC derivatives?*

Generally, CII does not anticipate investment funds will continue to use over-the-counter derivatives in the long-term, due to regulatory reform requiring clearing corporations in such transactions. However, limiting unsecured counterparty exposure to any one counterparty will mitigate risk.

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?

Requiring the posting of collateral by the counterparty, that is segregated from the other assets of the fund, would mitigate counterparty risk. In addition, the CSA might consider imposing requirements as to the nature of collateral that should be used.

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?

Any collateral received from a counterparty to a specified derivatives transaction should be considered in determining the alternative fund's net exposure to the counterparty (i.e. reducing it).

Total Leverage Limit

8. Topic for Consideration

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?

CII would propose a total leverage limit for alternative funds of no more than 4:1 as an absolute limit, not to be exceeded, and would suggest that 3:1 be set as the maximum at the time of investment, which would provide greater flexibility to account for market fluctuations.

Should the total leverage limit be lower for mutual funds that are alternative funds because of the need to fund regular redemptions?

The total leverage limit should be lower for mutual funds that are alternative funds because of the need to fund regular redemptions.

9. Topic for Consideration

We have no comment.

10. Topic for Consideration

We have no comment.

On-going Investment by Sponsors

11. Topic for Consideration

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?

Sponsors of an alternative fund should be permitted to withdraw their seed capital investment in the alternative fund if the fund reaches a sufficient size.

Proficiency

12. Topic for Consideration

We have no comment.

Enhanced Disclosure and Transparency

Naming Convention

13. Topic for Consideration

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?

The inclusion of the words "Conventional Fund" or "Alternative Fund" in the fund's name is not necessary to convey meaning about the nature of the product. Given the diversity of investment funds offered to the public, it is important that investors read the prospectus to gain an understanding of the nature of the fund rather than relying on information in the fund's name.

Monthly Website Disclosure

14. Topic for Consideration

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.

The proposed information is limited and can easily be taken out of context. Showing only the largest drawdown without reference to the any increases is misleading and highlights only the risk of the investments without reference to returns. Showing maximum and daily average leverage is not meaningful without the context of the manager's discussion of results (i.e. an explanation of the rationale for employing leverage). So while we support providing meaningful information to investors, we do not believe such selective disclosure would provide meaningful benefits 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?

Portfolio manager commentary provides the best contextual information for advisors, and would generally deal with performance or leverage on an absolute and relative basis.

Transition

15. Topic for Consideration

How should the disclosure of an existing investment fund's intent to transition into the alternative fund regime in NI 81-104 be made?

Existing funds should not be forced to transition into the alternative fund regime in NI 81-104 except at the discretion of the manager.

We strongly believe that grandfathering is an appropriate consideration for any existing fund so it can continue to comply with its original offering document. More importantly, we feel it is premature to discuss transition when the new rules have not yet been determined.

ANNEX C: SPECIFIC QUESTIONS OF THE CSA RELATING TO SECURITIES LENDING, REPURCHASES AND REVERSE REPURCHASES BY INVESTMENT FUNDS

1. *Topic for Consideration*

   Are there other costs of conducting securities lending, other than the fee paid to the lending agent?

In general, we would have expected the regulator to have sought information from managers, as to the nature and extent of securities lending and its revenue contribution, before suggesting additional disclosure is required. The entire cost of securities lending is borne by the agent, who is also the custodian for NI 81-102 mutual funds, and as discussed below, their fee would be in the 1 to 2 basis point ("**bps**") range.

2. *Topic for Consideration*

   What approaches could the CSA consider to ensure that the financial statements of an investment fund disclose the revenue from securities lending inclusive of the share paid to the agent?

It is not meaningful for financial statements of an investment fund to disclose the revenue from securities lending inclusive of the share paid to the agent, and then showing an additional cost. Typically for existing NI 81-102 mutual funds, the revenue split is negotiated between the fund and the agent (who is also the custodian), and the agent pays the costs of lending out of its share. Often the securities lending split is subject to non-disclosure agreements because of competitive concerns of the agents. We would support additional disclosure for investment funds where the manager was acting as it own agent or where the agent was someone other than the custodian of the investment fund's assets should that be allowed in the future.

What approaches could the CSA consider to ensure that the financial statements of an investment fund disclose the costs of securities lending?

Generally, CII considers it important for the regulators to have an accurate representation about the prevalence of this type of activity as part of investment fund strategy. The value of securities lending, repurchases and reverse repurchases activity to investment funds is minimal, corresponding generally to less than 5 bps on average. As a result, it is not a material activity that should require additional disclosure as the portion paid to the agent would generally be less than 2 bps and is *de minimis*.

There is significant competition around securities lending and information is kept confidential. Requiring greater disclosure may reduce competition at the expense of investors while providing little to no added benefit.

A more preferable approach would be for the IRC to review and approve such arrangements.

3. Topic for Consideration

What approaches could the CSA consider to ensure that the costs of securities lending are included in either the management expense ratio or the trading expense ratio of the investment fund?

As discussed above, CII does not believe the costs of securities lending need be disclosed given their *de minimis* levels and the competitive landscape.

We think that the disclosure of the returns and the costs of repurchases should be the same as the disclosure of securities lending, since both activities are substantively similar.

4. Topic for Consideration

Should the same type of disclosure for reverse repurchases be provided?

We have no additional comments.

Should the returns and costs of securities lending and repurchases be aggregated, rather than disclosed separately?

CII does not support additional cost disclosure as described previously, so we do not see added value in providing separate disclosure.

5. Topic for Consideration

Do you agree that these disclosure items (i.e. average daily aggregate dollar value, percentage profitability, percentage return and percentage of net asset value lent (or sold)) are useful in increasing transparency regarding the profitability and scope of a fund's securities lending and repurchases?

CII does not agree that the disclosure items identified in the CSA notice are useful in increasing transparency regarding the profitability and scope of a fund's securities lending and repurchases. This information would likely be confusing to investors rather than being helpful and would also require substantial costs to be borne by the fund. Particularly considering the minor role these transactions play in the investment strategies of investment funds generally, the benefits do not outweigh the costs. And as discussed above, the revenue from securities lending is *de minimis*.

6. Topic for Consideration

Are there any other measurements regarding securities lending, repurchases or reverse repurchases that would provide useful information to investors in addition to, or in lieu of, the items described in question 5?

If additional disclosure is required, alternate measurements in lieu of the items described in question 5 are warranted for the reasons outlined above, however given the *de minimis* nature of revenue from such transactions, we cannot identify any circumstances where the costs would exceed the benefit.

7. *Topic for Consideration*

Is this disclosure useful (i.e. adding the agent in respect of securities lending, repurchases and, if applicable, reverse repurchases to the list of service providers for the purposes of Items 3.4 and 19 of Form 41-101F2, Item 5 of Part A and Item 4 of Part B of Form 81-101F1, and Item 10 of Form 81-101F2)? Should any additional details regarding the agent be provided in an investment fund's prospectus or AIF?

The identity of the agent is prescribed for NI 81-102 mutual funds (i.e. the custodian) and this information is already provided in our continuous disclosure documents. Any related party disclosure that is relevant would be available in a fund's financial statement disclosure.

8. *Topic for Consideration*

Would disclosure of the indemnities obtained by an investment fund from its lending agent in the AIF or prospectus of the investment fund be useful for investors in assessing the risks from securities lending?

Disclosure of the nature of the indemnities obtained by an investment fund from its lending agent, in the AIF or prospectus of the investment fund, may be useful for investors in assessing the risks stemming from securities lending.

9. *Topic for Consideration*

Should these agreements (i.e. agreements between investment funds and their lending agent) be required to be included as material contracts and filed on SEDAR?

CII believes that agreements entered into between investment funds and their lending agent should not be required to be filed on SEDAR as returns from securities lending (and, more importantly, costs to generate these returns) are not material to a fund.