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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
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

c/o The Secretary
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Dear Sirs / Mesdames:

Re: Modernization of Investment Fund Product Regulation (Phase 2)

First Asset Investment Management Inc. ("**First Asset**") appreciates the opportunity to comment on the Proposed Amendments to National Instrument 81-102 *Mutual Funds*, Companion Policy 81-102CP *Mutual Funds* and Related Consequential Amendments (the "**Proposed Amendments**").

Originally founded in 1996, First Asset is a leading independent Canadian manager and administrator of non-redeemable investment funds (or closed-end funds) ("**CEFs**"), exchange-traded funds ("**ETFs**") and redeemable mutual funds ("**mutual funds**"). We believe that our experience across these three investment fund categories provides us with a unique perspective from which to consider the potential impact of the Proposed Amendments on investment fund managers and the investors they serve.

As a general comment, we are supportive of the efforts of the Canadian Securities Administrators (the "**CSA**") to enhance overall investor protection through what we consider to be the "core operational" elements of the Proposed Amendments. We agree with the statement that "many of the requirements of NI 81-102 provide core protections for investors that invest in investment funds and should not be limited only to mutual fund investors." Specifically, we support the Proposed Amendments which would harmonize conflicts of interest matters, securityholder and regulatory approval for fundamental changes, custody requirements, securities lending and repurchase agreement requirements, redemption mechanics, including those related to trust account requirements, recordkeeping requirements, and sales communications generally. We refer to these as "core operational elements" in the sense that they relate to fund operations and do not generally impact a fund's strategy or risk/return objectives – things which go to the heart of product differentiation, choice and competition in the marketplace. We also support the concept that investors should not suffer the open-ended dilution associated with long-dated warrants, while noting that as fiduciaries, managers of investment funds should not necessarily be precluded from dilutive issuances *per se*, particularly where attendant benefits outweigh minor dilution – a decision entrusted to management of listed companies daily.

However, our unique perspective as a manager of all three fund categories also allows us to observe that the elements of the Proposed Amendments that extend beyond the core operational elements appear to be based on some fundamental misunderstandings and incorrect assumptions about the different types of investment funds and the constituencies they serve. While we have attempted to articulate our concerns on an itemized basis in the attached Schedule "1", we note that it is very difficult to comment on, or quantify the impact of, proposals related to the "alternative fund" initiative identified as the subject of future consideration by the CSA and accordingly our analysis and understanding is therefore necessarily incomplete.

<u>Evolution of the Fund Marketplace</u>

We respectfully submit to the CSA that mutual funds, ETFs and CEFs often serve very different portfolio needs, and are used by different investors in completely different ways. The market for the different fund types has evolved to fill different needs. The CSA state in the Proposed Amendments that the "framework is intended to create a more consistent, fair and functional regulatory regime across the spectrum of publicly offered investment fund products." As mentioned above, we agree in respect of "core operational" elements. Respectfully, those elements of the Proposed Amendments that reach beyond core operations and impact investment strategy and structure - that are intended by the CSA to "level the playing field" and provide "fairness" across these three different categories of funds - fail to recognize the realities of both the use of, and capital formation process associated with, the different fund types and will result in unintended consequences such as limiting investor choice, reducing competition and innovation, and most importantly, reducing investor protection. One example of this potential for unintended consequences would arise in relation to the proposed requirement for CEF managers to fund the up-front expenses of offerings while still requiring the use of, and attendant material incremental costs associated with, filing long-form prospectuses involving multiple sets of counsel, tax opinions and due diligence. If implemented as proposed, such a requirement would in fact create a ***more*** uneven playing field among fund types (mutual funds, and more recently certain ETFs, being able to access the simplified prospectus regime and offer on a continuous basis), no ultimate cost savings for investors (such up front expenses would necessarily be factored into levels of management fees), would create significant barriers to entry that favour larger incumbents, and be necessarily procedurally unfair. We use this example, fully understanding that we would be a significant beneficiary of such barriers to entry. Conversely, an outcome which permitted CEF managers to access the simplified prospectus regime and deliver a point of sale document instead of a prospectus, and which required them to pay the expenses of the offerings, would indeed level the playing field with mutual funds and ETFs (albeit without the ability to offer on a continuous basis), but would result in less rigorous disclosure standards, less transparency of strategy, less fulsome due diligence, less efficient secondary markets and overall erosion of important investor protections that we believe have evolved in the launch and management of CEFs over their approximately thirty year history in this country. In our view, the CSA should be focusing their efforts on ensuring that fairness and level playing fields exist and are maintained ***within*** the individual fund categories, as opposed to among them.

As indicated, we have concerns with what appear to us to be the CSA's guiding assumptions in introducing the Proposed Amendments, which we have synthesized into three main topics: (i) the perceived lack of a level playing field; (ii) the perceived need for increased competition; and (iii) the perceived need to eliminate regulatory arbitrage. Again noting our unique perspective as a manager of all three types of funds, some important observations with respect to these assumptions are summarized below.

1. Same playing field, different games

First Asset believes that, if the CSA wants to assess whether the regulatory landscape favours one type of fund over another, they need to undertake a much broader review of the realities facing smaller fund managers and how/why the market for the three types of funds has evolved before they attempt to impose sweeping changes to create a "level playing field". First Asset is not aware of any empirical studies that have been conducted which demonstrate that the status quo results in a playing field which is not level in any aspect that negatively impacts investor protection, or results in inefficient capital markets. Managers choose to construct different types of funds for a variety of reasons, among which are: investor needs and demand, immediacy of market opportunity for investment, investment strategy, intended user constituency (i.e., IIROC licensed advisors or investment planners), as well as start-up risk (weighed against the opportunity). We believe that the Proposed Amendments which are intended to harmonize the rules for CEFs, ETFs and mutual funds in an attempt to "level the playing field" overlook the key fact that different "games" are being played on the same field. A strong sports analogy illustrates the point - assume a scenario where a governing body tries to harmonize the rules for three-pitch softball with those of hardball. On the surface both games look very similar and are played with a ball, a bat and a glove. However, nobody would suggest that since pitching underhand is easier to watch and has a lower likelihood of the batter being struck by a pitch that necessarily all pitching should be done underhand. The rules have evolved to suit the needs of each variant of the game, and so long as those rules are transparent and participants understand which game they are playing, different participants will find the game that suits their needs and tastes.

2. Regulatory intervention is not required in order to foster competition

With respect, First Asset does not believe that fostering competition between different fund types or their respective managers is properly within the scope of the mandate of the CSA. As a participant in the market for CEFs, ETFs and mutual funds, we do not expect the CSA to facilitate competition amongst ourselves and our competitors, either at the product level or on a corporate level. Moreover, we question the proposition that CEFs pose any imminent competitive threat to traditional mutual funds, which account for almost three-quarters of Canadian investment fund industry assets under management[1]. First Asset believes that subjecting CEFs to rules designed specifically for mutual funds – a category of fund created to serve a different market - will only

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[1] As at the end of 2011, the mutual fund industry managed $762 billion in assets on behalf of Canadians. Those assets accounted for 73.8% of all Canadian investment fund industry assets under management. By comparison, closed-end funds made up 3.1% and exchange-traded funds made up 3.5%. The source for this information is the Canadian Securities Administrators' Discussion Paper and Request for Comment 81-407 *Mutual Fund Fees*.

serve to lessen competition among the different fund types and may ultimately deny the investing public access to the innovation that CEFs have offered Canadian investors for almost thirty years.

In particular, we note that there are very few barriers to entry into the CEF market for willing mutual fund managers, all of whom already possess the requisite infrastructure (e.g., registrations, independent review committees, printing, etc.). CEFs have evolved to serve a very specific market niche, and the risks associated with creating and managing them are well understood by mutual fund managers. They choose not to subject themselves to the financial risk and limited duration sales process of CEFs when they can focus on their chosen paradigm. The Proposed Amendments which extend beyond the core operational elements in an effort to provide "a more consistent framework within which these funds can compete with each other" will only serve to tilt the playing field in favour of mutual funds and ETFs. It may appear obvious, but it is worth asking the question: if CEFs have such an inherent advantage in competing with mutual funds, as implied by the Proposed Amendments, why are not all fund managers launching and managing CEFs, or put another way, why have CEFs not become the dominant fund paradigm in Canada?

Regardless of the obvious dominance of the mutual fund industry, First Asset believes that a strong and healthy competitive market already exists among the three fund types. As long as the markets are permitted to operate as efficiently as they have in the past, these funds will continue to compete with each other, and with other types of investment products, on their respective merits and to serve their distinct markets well.

3. The CSA are placing undue emphasis on regulatory arbitrage.

We are unclear as to the basis for the CSA's concerns regarding the potential for what has been termed "regulatory arbitrage". As we understand it, the issue arises where a manager launches a CEF that will subsequently convert into another fund type. An arbitrage opportunity necessarily implies an opportunity for a (near) riskless profit and/or a way to avoid the imposition of undesirable fund regulation. It is not clear to us how launching a fund as a CEF and subsequently converting that fund into an ETF or mutual fund would constitute "regulatory arbitrage", as opposed to, by contrast, launching a mutual fund that is subsequently converted into a CEF, particularly since the standards of disclosure and investor protections are significantly enhanced in the CEF capital formation process. While the latter example has not, to our knowledge, happened, in our view it would be more representative of the type of regulatory arbitrage that we understand the CSA to be concerned with. In addition, far from being a "riskless" opportunity, the manager who launches a CEF has far greater capital at risk in the launch process, and stands to lose hundreds of thousands of dollars in the event of a "failed deal". The launch of a mutual fund can be accomplished by filing an amendment to an existing simplified prospectus, as opposed to the more cumbersome and expensive long form prospectus process required to launch a CEF.

In our view, the process of launching a CEF and subsequently converting it to a mutual fund or ETF is in many respects the antithesis of an arbitrage. Our decision to launch a particular fund as a CEF is driven by market considerations (such as the benefit of being able to invest in a market opportunity on a scale basis in a timely fashion), target constituency (fully licensed investment advisors versus MFDA advisors or "do it yourselfers"), market opportunity (whether similar funds already serve the market need or whether there is an opportunity to offer something new and/or unique), and relative competitive advantage. We identify investment opportunities that will provide investors with something their portfolios are missing, and then we structure and launch a fund in a manner that we expect will most likely lead to the fund's success from an asset raising and performance perspective. To the extent that we propose that the CEF convert to a different fund structure in the future, it is largely in response to what we perceive to be in the best long term interests of the investors in that particular fund, giving due consideration to all the relevant factors.

If, as we understand it, the underlying "regulatory arbitrage" concern is a perception that an opportunity exists to avoid paying the up-front expenses associated with the launch of an ETF or mutual fund by launching a fund as a CEF and later converting it to an ETF or mutual fund, we would again point out that there is far greater financial risk to the manager in the launch of a CEF versus a mutual fund or ETF. Simply put, the fact that the entire fund market has not migrated to this manner of launching funds is compelling evidence that this risk is very real. Furthermore, if we are correct in our assumption that the CSA are particularly concerned about who absorbs the expenses of a new fund launch, and is not convinced by the reality of the significant financial risk already borne by the manager in the CEF launch as discussed above, a simple remedy would be to require a manager launching a CEF in these circumstances to bear an expense approximating what it would have cost to launch the fund as a mutual fund or ETF.

Finally, and further to all of the above, First Asset believes it is important that the CSA appreciate that different market participants have different inherent advantages in their respective business models. When a participant uses such an advantage to their benefit, it does not mean that there is (a) not a level playing field; (b) less competition; and (c) regulatory arbitrage. For example, it is not presented as unfair, uncompetitive or a regulatory arbitrage when a mutual fund is set up to invest solely in a manager's own ETFs, yet the manager is using its mutual fund business model to best advantage - to build scale in its ETFs, all while delivering a good investment solution to a particular constituency. The CSA has not chosen to prohibit such activity, even though it exhibits similar traits to those posed as concerns in the Proposed Amendments, but instead chose to ensure that potential conflict-of-interest matter be vetted by the IRC. Similarly, a manager of CEFs which utilizes its competitive advantage in the CEF capital raising process, and which follows proper conflict of interest policies in relation to any proposed conversion, should not be singled out for capitalizing on its market expertise in order to compete with other market participants in the mutual fund and ETF categories. Practices by managers which are "unfair" in the eyes of their competitors should not be conflated to being unfair to investors, particularly when the result is beneficial to investors and enhances their overall level of protection.

The Proposed Amendments

In Schedule "1" we have offered our specific views on each of the Proposed Amendments, although as stated above we find it difficult to comment without more detail and a better understanding of how the Alternative Funds framework will operate. In Part A of Schedule 1 we have provided our comments on those proposals identified by the CSA in CSA Staff Notice 11-324 published on June 25, 2013 (the "**Extension Notice**"). In Part B of Schedule 1 we have provided our comments on the balance of those proposals contained in the CSA Notice and Request for Comment published on March 27, 2013 (the "**Notice**") concerning Phase 2 of the CSA's modernization project.

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Thank you for providing us with is opportunity to comment on the Proposed Amendments. We would be pleased to provide further detail regarding our comments upon request from the CSA.

Yours truly,

First Asset Investment Management Inc.

"Z. Edward Akkawi"

Per: ______________________________

Z. Edward Akkawi

General Counsel & Chief Operating Officer

SCHEDULE 1

In addition to the commentary provided in the main body of our response, First Asset's further comments are provided herein.

PART A – PROPOSALS IN THE EXTENSION NOTICE

Part 2 of NI81-102 - Investment Restrictions

First Asset believes that all investment restrictions for CEFs should be matters determined by the manager of the CEF in collaboration with the agents for a particular offering having regard to the investment thesis, objectives and strategies of the CEF. Provided that there is comprehensive disclosure of the investment objectives, strategies and the risks associated with pursuing these strategies, investors (and their advisors) can decide if the CEF is an appropriate investment for them. The Proposed Amendments which purport to harmonize rules relating to investment strategies and restrictions will not, in First Asset's opinion, result in enhanced investor protection or market efficiency, but will instead serve to restrict choice, competition and innovation among investment funds. Robust "know your product" and suitability procedures are implemented at the investment dealer level and overseen by IIROC, resulting in "risk ratings" for CEFs. CEFs which adopt investment strategies which are more "risky", or which fail to implement restrictions that result in increased risk, are rated appropriately and may only be purchased by suitable investors.

Concentration Restrictions and Investments in Illiquid Assets

First Asset believes the 10% issuer concentration restriction for CEFs is inappropriate. While many of the CEFs we manage voluntarily adopt a 10% concentration restriction, other CEFs have an investment thesis that necessarily involves concentrations exceeding the proposed 10% concentration limit in order to achieve the CEF's investment objectives and strategy. In each case, the prospectus clearly identifies the reduced diversification as a risk and leaves it to investors (and their advisors) to assess the appropriateness of the CEF as an investment.

Investments in Illiquid Assets

First Asset's view is that CEFs should not be subject to any limits on illiquid asset investments provided that there is comprehensive disclosure of any associated risks. Unlike mutual funds, CEFs do not require portfolio liquidity at all times in order to honour redemption requests. This ability to manage the portfolio without having to be concerned about honouring regular redemption requests permits a CEF to access asset classes that retail investors would not otherwise be able to gain exposure to through traditional mutual funds. To the extent that a CEF offers an annual redemption feature, appropriate liquidity requirements and timelines for notice and delivery of payment are created through negotiation between the agents and the manager to strike the proper balance between achieving the investment objectives and liquidity.

Borrowing

First Asset believes that the appropriate level of leverage for CEFs should be a matter decided by the manager of the CEF and the agents for that particular offering having regard to the investment thesis, objectives and strategies of the CEF. Provided that there is comprehensive disclosure of the permissible leverage, and the risks associated with using leverage, investors (and their advisors) can decide if the CEF is an appropriate investment for them. The leverage limits consistently observed by the CSA are the result of such an approach.

We also believe that it is inappropriate to limit the source of CEF borrowings to Canadian financial institutions. Such a restriction will limit the availability of sources of leverage for CEFs which will have the effect of reducing choice, increasing the cost of financing and, ultimately, the cost to investors, which will necessarily impede fund performance. Instead of prohibiting borrowings from non-Canadian lenders, we recommend that the CSA focus on the quality of the non-Canadian lenders instead. For example, CEFs could only be permitted to borrow from foreign financial institutions with a minimum credit rating, established and regulated under select jurisdictions that have adopted international banking standards and regulations similar to those in Canada (e.g., Basel III).

Securities Lending, Repurchases and Reverse Repurchases

First Asset supports extending the securities lending, repurchase and reverse repurchase provisions of Part 2 of NI81-102 to CEFs.

Fund of Fund Structures

First Asset believes that the current regulatory requirement to file the prospectus of the underlying funds only in Ontario and/or Québec in order for the underlying funds to become reporting issuers in those jurisdictions adequately and efficiently addresses any concerns about continuous disclosure requirements without imposing an unnecessary and ongoing cost burden on the funds in question.

We question the benefit of requiring delivery of the prospectus of the underlying fund 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.

We believe the proposition to prohibit CEFs from investing in other CEFs is unnecessary. Concerns about leverage could be addressed by requiring that any applicable leverage threshold is calculated on an aggregate basis taking into account leverage in the underlying CEF.

<u>Section 3.3 of NI81-102 – Organizational Costs</u>

First Asset does not support the CSA's proposal to require investment fund managers to bear the organizational costs associated with launching new CEFs.

We do not believe it is appropriate to compare the cost obligations of mutual fund managers to those of CEF managers in this regard. CEFs and mutual funds are fundamentally different products and that difference is particularly evident in how these products are launched and the significant cost differences associated therewith. As a mutual fund manager, when we launch a mutual fund, we are able to rely on the simplified short-form prospectus regime. We are able to qualify multiple funds under a single prospectus. As a result, our mutual funds are launched relatively quickly with nominal cost to us. After launch, we are able to recoup our initial costs over time as our funds accept new investments through a continuous offering process.

By contrast, the process to launch a new CEF is materially different, involving, *inter alia*, qualification pursuant to a long-form prospectus, registered investment dealers, two sets of legal counsel, an auditor, external due diligence processes and a more extensive regulatory approval process including TSX listing approval. Further, unlike with our mutual funds, by not being in continuous distribution, as a CEF manager we have very limited opportunities to grow our investor base over time.

Thus, in the absence of addressing the fundamental differences between the manner in which these products are launched, the costs associated with those processes, and market access, First Asset does not believe it is appropriate or meaningful to compare the respective obligations for costs of mutual fund managers to those of closed-end fund managers in formulating a new policy towards payment of the start-up costs of a CEF.

First Asset also believes that the CSA have not given appropriate weight to the protections that have developed in the marketplace to ensure that organizational costs do not negatively affect the sustainability of new funds. For example, the current market practices of capping issue expenses and ensuring funds achieve a critical mass before launching are excellent examples of the marketplace addressing the types of concerns raised by the CSA.

Finally, First Asset believes that the CSA are placing undue emphasis on regulatory arbitrage. From a manager's perspective, the financial risk associated with a failed launch of a CEF (where the manager would be responsible for all the issue expenses) is far greater than the risk of an unsuccessful launch of a mutual fund, eliminating any potential benefit to making the decision to structure a product based on a perceived regulatory arbitrage opportunity. If such an argument is unconvincing, the appropriate remedy would be to cause the manager to bear a portion of the start-up costs which approximate the launch of the fund as a mutual fund, not to change the entire cost paradigm for the industry.

In summary, First Asset believes that a requirement for managers to absorb the organizational costs of a CEF launch would be procedurally unfair, will impede efficient markets, will deter new entrants into the market and will result in increased management fees in order to recuperate those costs.

<u>Part 4 of NI81-102 – Conflicts of Interest Provisions</u>

First Asset supports extending the conflict of interest provisions of Part 4 of NI81-102 to CEFs.

<u>Part 5 of NI81-102 – Fundamental Changes</u>

Except as noted below, First Asset supports extending securityholder and regulatory approval requirements to CEFs and their management.

With respect to the termination of CEFs, we believe that the 30 day period within which a CEF must be terminated is not appropriate. The manager of a Fund should be permitted to set the final termination date having regard to, *inter alia*, the orderly liquidation of the portfolio, contractual consents that require termination and any external approvals that may be required.

<u>Part 6 of NI81-102 – Custodianship Requirements</u>

First Asset supports extending the custodianship requirements of Part 6 of NI81-102 to CEFs.

<u>Parts 9 and 10 of NI81-102 – Sales and Redemptions</u>

Except as noted below, First Asset supports extending the sales and redemption provisions of Parts 9 and 10 of NI81-102 to CEFs.

First Asset seeks confirmation that the new notice requirement for annual redemptions is satisfied by the bulletins issued by CDS and/or CEFs' annual information forms.

<u>Part 9.1 of NI81-102 – Warrant Offerings</u>

First Asset supports a prohibition on long-dated warrants that may impose unquantifiable and unsupportable dilution on a fund. However, a complete prohibition on dilutive offerings presupposes that there are never circumstances where minor dilution is offset by the advantages of an offering, and supplants/eliminates the manager qua fiduciary exercising its duties. Managers of listed companies exercise these duties in the issuance of securities on a dilutive basis daily.

Part 11 of NI81-102 – Commingling of Cash relating to Sales and Redemptions

Except as noted below, First Asset supports extending the provisions of Part 11 of NI81-102 to sales and redemptions of CEFs.

First Asset seeks confirmation that the existing market practices of CEFs for processing subscriptions and redemptions will satisfy these new requirements. In particular, net sales proceeds on an initial public offering (or other follow-on offering) by a CEF are transferred directly from the lead agent to the CEF's custodial account. Redemption proceeds and distribution payments are transferred directly from the CEF's custodial account to the registrar and transfer agent or distribution disbursing agent, as the case may be, for onward payment to CDS. There is no opportunity for commingling of cash.

Part 14 of NI81-102 – Record Date Requirements

First Asset supports extending the record date requirements of Part 14 of NI81-102 to CEFs.

Part 15 of NI81-102 – Sales Communications Parameters

First Asset supports extending the sales communications parameters of Part 15 of NI81-102 to CEFs.

Part 18 of NI81-102 – Securityholder Record Requirements

Except as noted below, First Asset supports extending the securityholder record requirements in Part 18 of NI81-102 to CEFs.

Unlike mutual funds, most CEFs are book-entry only though the facilities of CDS. Accordingly, CEFs' securityholder records will be more limited than those of mutual funds. First Asset seeks confirmation that this is acceptable to the CSA.

PART B – PROPOSALS IN THE NOTICE

The following are First Asset's comments on the proposals and specific questions raised by the CSA in the CSA Notice and Request for Comment published on March 27, 2013 (the "**Notice**") concerning Phase 2 of the CSA's modernization project, but which were not specifically identified by the CSA in CSA Staff Notice 11-324 published on June 25, 2013.

Annual Redemption of Securities Based on NAV

First Asset believes that the CSA's current view that "on demand, or within a specified period after demand" in the definition of "mutual fund" means that the securities of the fund entitle the holders to request that their securities be redeemed by the fund more frequently than once a year.

In our view, an annual redemption right does not constitute redemption "on demand, or within a specified period after demand." Reclassifying CEFs as mutual funds because they offer an annual redemption will create unnecessary confusion among investors who are accustomed to mutual funds being redeemable daily.

Dilutive Issuances of Securities

First Asset generally supports the introduction of the anti-dilution provisions contemplated by section 9.3(2) and (3), subject to the comments made above.

Naming Convention for Investment Funds

First Asset does not support the proposed "Alternative Fund" naming convention for CEFs. The use of "alternative" is arbitrary and offers no significant guidance to investors. Further, First Asset submits that "alternative" may have a negative connotation among retail investors, suggesting that CEFs are new or somehow operate outside an established regulatory system.

Transition Period for Investment Restrictions and Anticipated Costs

The final version of the Proposed Amendments should only apply to any CEFs established after the coming-into-force date of the Proposed Amendments. CEFs established prior to that date should be grandfathered and permitted to operate in the ordinary course until their eventual termination in accordance with their constating documents.

First Asset believes that requiring existing CEFs that were launched in compliance with the current regulatory regime to change their investment strategies, restrictions and operations is not appropriate, and will lead to confusion and market inefficiency. The proposed reforms are material and substantive and will affect the viability of many CEFs. The imposition of new investment restrictions will, in many cases, mean that the CEFs may not be able to pursue their investment strategies as originally contemplated in furtherance of their investment objectives. Many CEFs will be required to either terminate, or go through the costly process of obtaining unitholder approvals to implement the Proposed Amendments.

First Asset believes that it is not fair for unitholders (or fund managers) to bear the costs associated with obtaining such approvals, particularly since the CEFs were originally launched, marketed, and managed in compliance with then existing regulatory regime. We expect that all investors will share the same view that these changes, and the costs associated therewith, were not part of their investment bargain.

Incentive Fees

First Asset opposes the extension of the incentive fee provisions of Part 7 of NI81-102 to CEFs. We believe that the appropriate level of incentive fees to be paid by CEFs should be a matter decided by the manager of the CEF and the agents for that particular offering having regard to the investment thesis, objectives and strategies of the CEF. Provided that there is adequate disclosure of the incentive fees payable, and the impact on their investment, investors (and their advisors) can decide if the CEF is an appropriate investment for them.