Man Investments

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 (Financial and Consumer Services 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
comments@osc.gov.on.ca

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
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consultation-en-cours@lautorite.qc.ca

Dear Sirs and Mesdames:

Re: Response to CSA Request for Comments on Investment Fund Modernization Project Materials

Man Investments Canada Corp. ("Man Canada") is responding to the Canadian Securities Administrators' (CSA's) March 27, 2013 Notice and Request for Comment, *Proposed Amendments to National Instrument (NI) 81-102 Mutual Funds, Companion Policy 81-102CP Mutual Funds and Related Consequential Amendments and Other Matters Concerning National Instrument 81-104 Commodity Pools and Securities Lending, Repurchases and Reverse Repurchases by Investment Funds* (the Proposals), as well as CSA Staff's June 25, 2013 Notice 11-324 (collectively the "Notice").

Man Group plc., one of the world's largest independent alternative asset managers is an industry leading alternative investment provider offering a comprehensive range of transparent, dynamic and thematic trading strategies across spectrum of alternative investment funds to a highly-diversified client base. For over twenty years we have been managing alternative investment funds on behalf of retail and high net worth investors, pension funds and sovereign wealth funds around the world. We are currently regulated in 19 jurisdictions globally and currently manage in excess of $US 50 Billion on behalf of our investors. Man Group plc. has over 1,300 employees, of which more than 300 work as investment professionals, portfolio managers, analysts and risk managers.

Man Canada is the Canadian division of Man Group plc. The portfolio attributes of the Man Canada investment funds focus primarily on liquid alternative funds. Man Canada manages and advises a number of public investment

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funds structured as commodity pools and non-redeemable investment funds or closed-end funds ("CEFs") as referred to in the Notice. Man Canada is registered as an Investment Fund Manager in Ontario, Québec and Newfoundland and Labrador, as an adviser in the category of Portfolio Manager in Ontario and Alberta and as a dealer in the category of Exempt Market Dealer in Ontario, British Columbia, Alberta, Saskatchewan, Manitoba, Québec, New Brunswick and Nova Scotia.

As a manager of funds which to date have been categorized as commodity pools and governed by National Instrument 81-104 Commodity Pools (and National Instrument 81-102 Mutual Funds), we are particularly interested in the proposed regulation of Alternative Funds and would welcome a modernization of the regulation for alternative funds ("**Alternative Funds**"). We believe that such modernization would create opportunities for managers like Man Canada to expand the range of products offered by prospectus, as opposed to private placement, to Canadian investors. We also very much welcome and appreciate the ability to offer more of our investment strategies within a regulated framework.

We applaud the CSA for the initiative to make Alternative Funds more readily available to Canadian retail investors and to provide them with a broad range of investment options. As investors have faced multiple market crises and rising volatility, regulators around the globe have been embracing the regulation of Alternative Funds, particularly in the European Union through UCITS and through regulated US mutual funds.

Growth and popularity of these types of investment strategies is being driven by the realization that most Alternative Funds have been built to provide added diversification and to enhance the risk/reward profile of a conventional investment portfolio. The rules governing these funds appear to be focused on risk measurement and management of the strategies and maintaining appropriate liquidity within the strategies.

Man Canada would hope that the CSA focus on the potential positives available from the modernization and regulation of Alternative Funds and the benefits which Canadian investors can realize through increased offerings of these investment vehicles. While a strong rule set and framework is necessary, particularly around an Alternative Fund's liquidity, standard deviation targets ("Value-at-risk" or "VAR"), borrowing and diversification limits, it is important not to limit the strategies used by Alternative Funds and dilute their ability to get the benefits they are attempting to achieve.

We are members of The Alternative Investment Management Association – Canada ("AIMA Canada") which is providing a response to the Notice on behalf of its members. Given such, we will not repeat comments passed along to them. However, despite the fact that it is difficult to respond to the proposals in the Notice for an Alternative Funds Framework given their highly conceptual nature, we wanted to convey our interest in the proposals and, specifically, share with you our views on the appropriate use of leverage in Alternative Funds from our perspective as a manager of portfolios employing managed futures strategies.

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

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strategies which reduce risk to the fund's portfolio. For example, a four or five times levered sovereign debt fund may be substantially less risky than an unlevered fund taking long positions in more volatile equity or commodity securities.

Many Alternative Funds are using leverage with the sole intention of designing investment strategies which provide added diversification to conventional investment portfolios and enhance the risk/reward profile for the investor. The appropriate overall leverage limit for an Alternative Fund depends on a number of factors, including the volatility of the fund's investments, the risk parameters imposed by the manager, the liquidity of the portfolio and how quickly the fund can de-lever.

We respectfully submit that the amount of leverage employed by an Alternative Fund cannot be examined in a vacuum. From a risk perspective, liquidity, VAR, borrowing and diversification limits are far more important than leverage.

Man Canada believes that it is dangerous to monitor or regulate the risk of Alternative Funds by limiting leverage or solely through a leverage limit.

Alternatively, Man Canada believes that Alternative Funds should follow the examples set by other global regulators. The largest market for regulated Alternative Funds is in Europe where UCITS Funds have been offered for years.

Under UCITS regulation, when Alternative Funds use leverage through the use of derivatives, there are no leverage limits. Instead, more practical and meaningful limits are set around the volatility and the VAR of the portfolio. Specifically, absolute VAR cannot exceed 20% of NAV. Furthermore, the VAR model used needs to have a high confidence level, be verified by independent third parties and have adequate stress testing controls used.

Man Canada respectfully submits that controlling risk of Alternative Funds would be better met by controlling the liquidity, VAR, borrowing and diversification limits rather than putting an absolute limit on leverage or notional investment exposure.

We have decades of experience in working with regulators in other countries and have been actively involved in managing several Alternative Funds under the UCITS framework, including managing the risk controls and methodology around VAR limits. It is our intention to pass along further information to the CSA in the coming weeks around such framework and we would welcome having members of our risk management team meet with the members of the CSA as they go through the modernization proposals and process.

We hope that our views will be taken into consideration in developing the Alternative Funds Framework and would be pleased to participate further in consultations with this regard.

Yours truly,

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