

To:

- Ms. Denise Weeres, Manager, Legal, Corporate Finance @ Alberta Securities Commission, e: denise.weeres@asc.ca
- Madame Anne-Marie Beaudoin, Directrice du secrétariat Autorité des marchés financiers, e: consultation-en-cours@lautorite.qc.ca
- The Secretary, Ontario Securities Commission, e: comments@osc.gov.on.ca

CC:

- Cora Pettipas, Vice President, National Exempt Market Association, e: cora@nemaonline.ca
- Ontario Ministry of Finance, Hon. Charles Sousa, e: financecommunications.fin@ontario.ca
- Alberta Treasury Board and Finance, Hon. Doug Horner, e: tra.revenue@gov.ab.ca
- Ministry of Finance Hon. Jim Oliver, e: Joe.oliver@parl.gc.ca
- Quebec Ministry of Finance, Hon. Nicolas Marceau, e: info@mfeq.gouv.qc.ca

Jun 25, 2014

Re: CSA Proposed \$30,000 CAP Relating to the Offering Memorandum Exemption

Dear Mesdames & Sirs:

Trust this finds you all doing well, and making the most of our glorious Summer!

I am writing to comment on the proposed amendments to NI 45-106, in particular the proposed annual investment limits of a mere \$30,000 for eligible investors.

I want to say, "Thank You" in advance, for your patience to read & consider my requests, and offer apologies in advance if the tone of the letter causes any offence.

Our company invests primarily in rental apartment buildings, founded with my own capital in the year 2009. We are considering using the OM exemption and plan to distribute our securities through a number of Exempt Market Dealers (EMDs). In the next 12 months our portfolio will grow to about \$15M in assets under management, provide affordable housing for 150-200 people, employ 5+ individuals and earn an annual revenue stream approaching \$1.5M for over fifty of our investors. We will be a small-to-medium-sized private equity firm, too large for a single retail investor/founder but too small for a publicly traded entity.

Access to capital is vital for small-and-medium sized Canadian firms to grow, to provide employment and to deliver numerous social benefits. ☐

(1) This access to reasonably-priced growth capital, and this opportunity for Canadian middle class investors to get a decent return on their investment, is severely threatened by the proposed legislation!

(2) Private company investment opportunities, on a small and large scale are required in a functioning market place. The access to these investment opportunities should not be limited to accredited or institutional investors but should also be made available to eligible investors. Eligible investors are the Canadian middle class, that perhaps have as little as \$40,000 or as much as \$990,000 in their RRSP or make less than \$200,000 a year, i.e. mature, sophisticated & hardworking middle-class citizens with often healthy incomes but below the “accredited” or “upper-class” threshold.

The suggestion to cap the investment amount of a private equity investment is ILL ADVISED, UNFAIR, JOB-DESTROYING and possibly UNCONSTITUTIONAL. Specifically it should not be implemented because:

1) Penny stocks, gambling, gold, seg funds or mutual fund investment is not capped either

The private equity space provides welcome alternatives to other investment classes, like ETFs, mutual funds, physical resources (like gold, diamonds or silver), penny stocks, large cap stocks, segregated funds, etc. None of these investment classes are capped. Why would it make sense to cap alternative investments but not any of the other investment classes? That makes no sense whatsoever!

2) Not more risky than public entities

While the required risk acknowledgement form states “This is a risky investment. You could lose all your money” it is not necessarily risky to invest in well managed real estate firms, mortgage companies, operating mining companies or securitised consumer debt, just because they are private and not publicly traded. Risk exists in buying gold, diamonds, bank shares or especially mining penny stocks, yet none of these investment classes are capped nor do they carry a risk acknowledgement form. If someone wants to buy \$120,000 worth of gold or privately held real estate is it really the security commissions’ business to tell this person “no” or “you are over-allocated” or “like gold, real estate prices fluctuate and may drop”?

In fact, I would assert that by investing in a firm like ours, or many others in the exempt space, where principals co-invest and assets have been managed for well over half-a-decade, the chance of loss of capital is very low, far lower possibly than in any of the other un-capped investment class mentioned. Why restrict access to these investments by eligible investors? Risk exists not merely because an investment is not publicly traded, but for a host of other reasons that have nothing to do with being exempt from issuing a prospectus. Research and statistical evidence is needed to back the CSA’s assumption that a prospectus reduces investor loss and reduces the quantity of investor complaints.

Without it, this assumption is not valid. Many OMs today actually approach or often exceed the disclosure of a prospectus and are often quite in-depth.

3) Risk of low returns or capital loss through excessive regulations & fees

What creates risk of low returns or loss of capital for investors is not only operator and market risk, but also excessive fees, undue paperwork, excessive filing requirements and high sales commissions that can approach publicly traded firms' cost of capital. Audited IFRS statement requirements for small funds raised, excessive EMD due diligence fees and more and more paper intensive security filing requirements all cost money time and thus create additional risk too, namely the risk of loss of money as all these fees come out of the investors' pockets through reduced investor returns.

4) Less cost & volatility than publicly traded firms & no insider trading or High Frequency Trading (HFT)

Private equity firms can be very efficiently run and with lower overhead, than small publicly traded firms, on a per dollar under management basis. In addition, HFT, high volatility, insider trading and other schemes by market makers have shattered the trust in public markets. Investors want stable non-volatile decent yielding investments, and the private equity space can provide those!

5) \$30,000 maximum annual investment diversified across multiple opportunities means very small investment amounts per issuer and thus no viable EMD business model. Since diversification is a prudent investment and risk reduction strategy EMDs will recommend at least 3 or maybe 4-5 issuers per \$30,000 investment resulting in very small investments per issuer of \$6,000 to \$10,000 per. This makes fund raising very onerous and expensive for the issuers, and will result in lower investor returns under the name of "investor protection". Further, if you assume an average 6-8% commission on products sold, of which 25% is for the EMD and 75% of it for the Exempt Market Rep (EMR), an EMD would make a mere \$150-\$200 per transaction and as such this business model today would collapse as most EMDs would not take on eligible investors. EMDs may tack on additional transaction fees, and combined with a trustee fee for RRSP accounts this "investment model" would self-implode.

6) Vetting better today after the introduction of NI 31-103 in September 2010

While I acknowledge that several corrupt and poorly managed issuers in the 2006-2010 timeframe have gone out of business, having another unrelated party vet product and management has improved product quality dramatically over the last 3-4 years. NI 31-103 requires EMDs to vet a product through Know-Your-Product (KYP) forms and to have EMRs educated, registered and required to know the products they sell as well as know their client through a Know-Your-Client (KYC) form. Also, it requires EMRs to know confirm suitability of the investment product for their clients. This ensures a far more scrutinized and balanced approach to investing by vetting out bad deals with poor managers and better asset allocation of clients' money compared to the time period prior to introduction of NI 31-103.

7) Potentially higher returns for investors than segregated funds and/or mutual funds
Many private equity firms can provide and have provided investor returns in excess of seg funds, mutual funds or publicly traded stocks, often due to the lower overhead and alignment with the founders' capital. Is the intent of this cap to limit smaller investors' access to these potentially lucrative investment vehicles so that more money will flow again into higher fee seg funds or mutual funds?

8) Chapter 7 of the Canadian Charter of Rights and Freedom to allow protection of "liberty"

Liberty is the quality individuals have to control their own actions. The state ought not to unduly interfere with this intrinsic right. Clearly, capping an investor's right to invest their own hard earned money as they see fit is a fundamental restriction, much like telling them not to buy a car over \$25,000, a high end kitchen for \$45,000 or a luxury cruise over \$18,000. Education is critical here, as is freedom of choice but not a cap. A cap may be unconstitutional in fact.

Would the Hon. Security Commissions kindly consider a request to revisit this perhaps well-intended but impractical and job-destroying rule, and choose to emphasise investor education by, e.g., highlighting the negative impact of fees on investment returns, the importance of diversification as well as stressing that risk is a continuum, not a black-or-white criteria.

Much like publicly traded stocks, some stocks are more risky than others, and that is equally true in the private equity (aka exempt market) space. An education about what makes an investment risky such as high fees, poor management, poor product quality, low margins, lack of track record, price of debt, debt levels, unrealistic future expectations or customer demand fluctuations, would be a great idea. In fact, every extra compliance burden on an issuer reduces the clients' investment return, yet provides no increase in investor protection.

If a cap must be set, then set that cap to all investment classes, please, and/or set a more realistic cap of perhaps 25% of any investable assets per asset class. Also, do not set a cap at a fixed amount (ie. \$30,000) but instead a percentage of each investor's investable assets, say 25% per issuer. Better yet is to allow investors to make their own choice of reasonable limits, after thorough due diligence and advice by free, for-fee or commissioned advisors, as they do today for cars, bread, phone plans, credit cards, travel, ETFs, kitchens, mutual funds or seg funds.

Please do not starve the job generating entrepreneurial class of Canada of much needed growth capital to protect primarily the entrenched and fee rich insurance, mutual fund and banking industry. ☒

Investors want alternatives outside the high-fee mutual fund space, the low rate bond space and the volatile public equity space

Raising capital is already a challenge and takes tremendous efforts by the EMDs, and for the Issuers while demonstrating a strong track record which usually takes years of experience. As such, further limitation will not only limit individual's choices in life, but will shrink this industry resulting in higher unemployment in Canada and less investment choices for the Canadian middle class!

Thank you for your patience to read & consider my requests, and apologies if the tone of the language has caused any offence.

Yours Sincerely,

Anand Murthy, Founder

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