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British Columbia Securities Commission  
Alberta Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
Financial and Consumers Services Commission, New Brunswick  
Superintendent of Securities, Department of Justice and Public Safety,  
Prince Edward Island  
Nova Scotia Securities Commission  
Securities Commission of Newfoundland and Labrador  
Registrar of Securities, Northwest Territories  
Registrar of Securities, Yukon Territory  
Superintendent of Securities, Nunavut

The Secretary  
Ontario Securities Commission  
20 Queen Street West  
22<sup>nd</sup> Floor  
Toronto, Ontario M5H 3S8  
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#### SENT VIA EMAIL

**Re: CSA Notice and Request for Comment re: Modernization of Investment Fund Product Regulation – Alternative Funds (“the Notice”)**

Morgan Meighen & Associates Limited (“MMA” or “we”), appreciates the opportunity to submit comments with respect to the Notice.

By way of background, MMA is registered as portfolio manager and exempt market dealer in the provinces of Ontario, Alberta, British Columbia and Manitoba. We are also registered as an



investment fund manager in the province of Ontario. MMA has approximately \$1.6 billion in assets under management. We have a broad base of clients, including individual and institutional private clients, as well as pooled funds, for which we carry out activities under our portfolio manager, exempt market dealer and investment fund manager registrations, as applicable.

Of particular relevance to the Notice is the fact that MMA manages two TSX-listed closed-end investment funds, considered non-redeemable investment funds under securities regulations. These funds are "traditional" closed-end funds, which do not offer redemption privileges, at any time, to shareholders, or have a future "wind-up" date. One of these funds, Canadian General Investments, Limited ("CGI"), which has been in existence for over eighty years, also carries a listing on the London Stock Exchange. CGI has engaged in a leveraging strategy since 1998 in an effort to enhance returns to common shareholders, primarily through the issuance of series of TSX-listed preferred shares but, since 2013, also through a credit facility. The other fund, Canadian World Fund Limited, also maintains a credit facility, but has not drawn down on the facility for several years.

We would like to acknowledge that we are supportive of the efforts to harmonize regulations pertaining to operational requirements and investment restrictions for all investment funds, including alternative funds and non-redeemable investment funds, under National Instrument 81-102 *Investment Funds*.

### ***Illiquid Assets:***

In Annex A, you are soliciting feedback concerning whether the proposed limits on the amount of illiquid assets held by a non-redeemable investment fund (20% of NAV at the time of purchase, with a hard cap of 25% of NAV) are appropriate for most non-redeemable investment funds, as well as whether a different limit on illiquid assets should apply in circumstances where a non-redeemable investment fund does not allow securities to be redeemed at NAV. We had provided our views in this area in our August 23, 2013 comment letter regarding Staff Notice and Request for Comment re: Proposed Amendments to National Instrument 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. We repeat those comments below as our position on this has not changed:

#### ***"Investments in Illiquid Assets***

Historically, the ability to invest in less liquid investments has been one of the primary benefits of the closed-end fund structure over that of a mutual fund. Illiquid investments, whether unlisted or thinly traded, can be undervalued by the market as a result of their illiquid nature, providing an opportunity for the fund to earn a higher return, particularly over the longer term. Specific examples would be a private company eventually going public, a closely-held company buying in shares held by outside shareholders, or similar special situation.

Liquidity needs of closed-end fund shareholders, each of whom has different





requirements or expectations, are handled directly by the shareholders themselves, selling or buying their shares of the fund through a broker or dealer. With infrequent redemptions to worry about, or in our case where there are no redemptions, cash flows are limited primarily to dividend payments, management fees, operating expenses, and tax instalments, which are relatively easy to forecast.

As every investment fund is unique, in our view, with respect to illiquid investments no single specific limit (or limits – one for redeemable funds and one for non-redeemable funds) should be mandated. Whether a fund is redeemable or non-redeemable, the manager of the fund, acting under the oversight of the fund's board of directors or trustees, is in the best position to evaluate a fund's own liquidity needs and, in the normal course of conducting prudent portfolio management practices, determine the appropriate level of illiquid assets that may be held. This determination will be driven by such factors as the frequency of redemptions, other cash flow needs, investment mandate, market conditions, outlook for different asset classes and so on. Shareholders and other interested parties are already provided information enabling them to evaluate a fund's liquidity risk and what is being done to manage that risk by reading through the notes to a fund's financial statements as this is required disclosure under current accounting guidelines."

It is our continued belief that no single limit can be established that should apply to all non-redeemable investment funds. In particular, since the concerns expressed in the Notice all seem to be tied into an investment fund's ability to fund redemptions, where a non-redeemable investment fund does not allow securities to be redeemed, there doesn't seem to be a potential concern that needs to be addressed in the first place and therefore no reason to establish a limit.

### ***Borrowing:***

We wanted to seek clarification on the wording in the text of the proposed amendments related to borrowing contained in proposed section 2.6 Investment Practices. Specifically, 2.6(1) states:

- "(1) An investment fund must not,
- (a) borrow cash or provide a security interest over any of its portfolio assets unless
    - (i) the transaction....."

Subsequently, the proposed amendments incorporate draft wording for 2.6(2), specifically intended for alternative funds and non-redeemable investment funds, as follows:

- "(2) An alternative fund or a non-redeemable investment fund may borrow cash in excess of the limits set out in subsection (1) provided that each of the following applies:
- (a) the alternative fund or non-redeemable investment fund .....
  - (b) if the lender .....
  - (c) the borrowing agreement entered into is in accordance with normal industry practice and on standard commercial terms for the type of transaction; and
  - (d) the total value ....."



Although 2.6(2) permits alternative funds and non-redeemable investment funds to borrow cash outside of the parameters of 2.6(1), it is silent on the ability of an alternative fund or a non-redeemable investment fund to provide a security interest over its portfolio assets. For longer-term borrowing arrangements, it is common practice for alternative funds and non-redeemable investment funds to provide a security interest over portfolio assets by entering into a general security agreement with the lender. While this may have been implied by the inclusion of draft 2.6(2)(c) above, since it refers to "normal industry practice and on standard commercial terms", we ask that consideration be given to clarifying the wording of this subsection further. For example;

" (c) the borrowing agreement entered into is accordance with normal industry practice and on standard commercial terms, including the granting of a security interest over the investment fund's portfolio assets, for the type of transaction."

If you should have any questions, or require further information, please do not hesitate to contact me.

Yours truly,

A handwritten signature in blue ink, appearing to read "Frank Fuernkranz".

Frank Fuernkranz  
Vice-President Finance & Secretary