BY EMAIL: comments@osc.gov.on.ca
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December 22, 2016

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

Attention: The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8

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

Dear Sirs/Mesdames:

RE: CSA Notice and Request for Comment – Modernization of Investment Fund Product Regulation – Alternative Funds

AGF Investments Inc. ("**AGF**") is writing to provide comments in respect of the Canadian Securities Administrators ("**CSA**") Notice and Request for Comment – Modernization of Investment Fund Product Regulation – Alternative Funds (the "**Proposal**").

AGF provides asset management services globally to institutions and individuals. AGF's products include a diversified family of mutual funds, exchange-traded funds, mutual fund wrap programs and pooled funds. AGF also manages assets on behalf of institutional investors including pension plans, foundations and endowments. AGF is registered in the categories of investment fund manager, mutual fund dealer, exempt market dealer, portfolio manager, and commodity trading manager.

AGF is supportive of the CSA's expansion in the Proposal regarding conventional mutual funds' investments in physical commodities other than gold and certain underlying funds. AGF also recognizes the benefits of allowing alternative funds to be available to retail investors and is appreciative of the opportunity to provide feedback to the CSA on the Proposal.

AGF is generally supportive of the positions being advocated by the industry, including The Investment Funds Industry of Canada (IFIC) and the Portfolio Management Association of Canada (PMAC), with respect to the Proposal.

Naming of new investment funds

AGF submits that the term "non-conventional mutual fund" is not appropriate to describe the investment funds that will be subject to the Proposal as it presupposes that investors understand and appreciate what are/are not "conventional" investment strategies for mutual funds.

Clarification re: leverage and borrowing restrictions

AGF understands that the intention of the CSA is for the proposed leverage and borrowing restrictions in the Proposal to only apply to non-redeemable investment funds and alternative funds, not conventional mutual funds. AGF is requesting that the CSA clarify the proposed drafting changes to section 2.9.1 (for leverage restrictions) and section 2.6.2 (for borrowing restrictions) to reflect the CSA's intention to exclude conventional mutual funds from these investment restrictions.

Investment restrictions – leverage

AGF shares similar views as the industry in submitting that: (i) specified derivatives for hedging purposes should be excluded from the method for calculating total leverage, and (ii) sovereign debt and similar guaranteed debt-like securities should be excluded from the method for calculating limits on short-selling.

AGF also submits that the calculation for maximum leverage under section 2.9.1 in the Proposal does not contemplate the ability to net any pledged collateral or margin associated with the transaction giving rise to the leverage. In practical terms, in the event of any failure to complete or cover a transaction, the pledged collateral or margin would be taken by the counterparty to cover the loss or amounts owing by the investment fund, such that the investment fund is exposed only to the *net* difference. In considering only the notional exposure, the economic reality of the exposure is not being considered in evaluating the investment fund's actual exposure, which may be significantly lower than the calculation yields. This has the effect of restricting certain investment strategies that, because of the existing of pledged collateral, are more conservative than an uncovered strategy. AGF submits that this may be an unintended consequence of the currently proposed calculation.

Further, AGF submits that there are more practical and meaningful ways of controlling risk beyond imposing an absolute limit on leverage based on notional exposure, particularly in the case of alternative funds and non-redeemable investment funds. In the global markets, we note that there currently exists regulatory frameworks for investment funds (i.e. European UCITS regime) that take a more holistic approach to measuring and monitoring risks. Such frameworks consider standardized risk metrics such as VAR, liquidity scores, margin ratios, volatility ratios, etc. and in their frameworks for leverage and borrowing, contemplate legal rights of offset such as segregated assets, pledged collateral and other similar standard market practices. In looking at the portfolio holistically, the interplay between a number of factors that impact the portfolio are considered and the regulatory framework can accommodate risk tolerance levels by fund type, similar to the approach being taken in respect of short selling, and require disclosures allowing investors the flexibility to select across investment options by risk appetite, in addition to investment strategy and fund type. Such a framework aligns with current know-your-client and suitability obligations of a registrant and allows non-accredited investors to have increased investment options that currently are primarily reserved for accredited investors.

Investment restrictions – fund-of-fund investing

AGF is supportive of the CSA's expansion in the Proposal regarding fund-of-fund structures. The Proposal currently permits conventional mutual funds to invest up to 10% of its net asset value in alternative funds and non-redeemable investment funds. AGF is requesting that the CSA consider increasing this investment level since such underlying funds will be subject to National Instrument 81-102 *Investment Funds*.

Proficiency standards for dealers and advisors

While there are no specific recommendations set out in the Proposal, AGF supports the CSA's intention to engage the Mutual Fund Dealers Association (MFDA) in assessing whether advisors and dealers should be subject to increased proficiency and suitability requirements when distributing alternative funds. In making such determinations, AGF requests that any increased proficiency and suitability requirements not cause increased confusion or burden on an investor; for example, an investor may now have to deal with multiple advising representatives from the same dealer firm with respect to the different investment funds being held in the investor's account with such dealer firm.

We thank you for the opportunity to comment on the Proposal, and look forward to continued constructive dialogue with respect to the Proposal.

Yours very truly,

[redacted]

Mark Adams
Senior Vice President, General Counsel & Corporate Secretary
AGF Investments Inc.