

January 31, 2025

Delivered by Email

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Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission of 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

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Dear Sirs/Mesdames:

Re: CSA Notice and Request for Comment

Proposed Amendments to National Instrument 81-101 Mutual Fund Disclosure (NI 81-101), National instrument 81-102 Investment Funds (NI 81-102), National Instrument 81-106 Investment Fund Continuous Disclosure (NI 81-106), National Instrument 81-107 Independent Review Committee for Investment Funds (NI 81-107), published for comment on September 19, 2024 (the Proposed Amendments)

Brompton Funds Limited (“**Brompton**”) and Quadravest Capital Management Inc. (“**Quadravest**” collectively, the “**Managers**”) each act as manager of several mutual fund corporations known as split share corporations (each, a “**Split Share Corporation**”). Currently, the aggregate market capitalization of all

Preferred Shares and Class A Shares of Split Share Corporations listed and traded on the Toronto Stock Exchange is approximately C\$10 billion.

Split Share Corporations typically offer two classes of shares: Preferred Shares and Class A Shares. The Preferred Shares and the Class A Shares are each listed and trade separately on a stock exchange in Canada. The Preferred Shares and Class A Shares have different financial attributes and are generally offered on the basis that there will be an equal number of Preferred Shares and Class A Shares outstanding at all material times:

1. **Preferred Shares:** customarily offer (a) cumulative preferential dividends which are primarily derived from the dividend and other income on the public equity securities or other securities or assets held in the Split Share Corporation's portfolio and (b) priority on the return of the original subscription amount or redemption value for the shares.
2. **Class A Shares:** customarily offer capital appreciation on the underlying portfolio securities held by the Split Share Corporation and may pay non-cumulative dividends to their holders.

The Managers are pleased to provide the members of the Canadian Securities Administrators with comments on the Proposed Amendments as they relate to Split Share Corporations. More specifically, we wish to respond to Question 15 with respect to whether modifications should be made for specific investment funds to improve the quality of disclosure provided to investors.

NI 81-106 requires that a fund's management expense ratio ("**MER**") be calculated and presented in Form 81-106A based on the "total expenses of the investment fund... commissions and other portfolio transaction costs, before income taxes... as shown on its statement of comprehensive income" (NI 81-106 s. 15.1(a)(i)(A)). These provisions have not been changed by the Proposed Amendments or in the proposed form of Form 81-106A ("**Proposed Form 81-106A**").

We consider that the MER is intended to be focused on *management* expenses, such as trading commissions and advisory, accounting and custodial fees, and the reference above to "total expenses of the investment fund... commissions and other portfolio transaction costs, before income taxes... as shown on its statement of comprehensive income" is not intended to capture the payments made on portfolio positions, such as borrowing costs to obtain leverage (including securities borrowing costs for shorting securities). Instead, Item 12 of Form 81-106A requires specific disclosure in respect of the use of borrowing and leverage.

The problem with including borrowing costs in MER is apparent from a simple example. If a leveraged fund were to borrow \$20 million at 4% interest in order to purchase investment grade bonds earning 6% interest, then this would be a reasonable portfolio management strategy and the 2% net return on the \$20 million would be reflected in portfolio returns. There is no benefit to investors to have MER disclosure obscured by the inclusion of a 4% borrowing cost as part of the MER. Furthermore, if an investment fund were to obtain exactly the same investment exposure to the \$20 million investment by entering into a total return swap with identical risks and rewards to the investment fund, the 4% borrowing cost would not be required to be reflected in the MER.

We consider that Companion Policy disclosure should be added to clarify that costs of borrowing for

the purpose of investing are not required to be included as part of total expenses, commissions and portfolio transaction costs of the investment fund for the purposes of the MER and NI 81-106 s. 15.1.

This issue is particularly acute for Split Share Corporations because these funds are structured to stream returns in a tax-efficient manner between two classes of securities which have roughly equal number of units outstanding. Section 10.1(2) of Companion Policy 81-106 labels payments to holders of Preferred Shares that “provide leverage” as “financing costs” which are to be included in total expenses when calculating the MER for the other classes of securities that “benefit from the financing or leverage”.

We note that the structuring purpose of Split Share Corporations is not solely to “provide leverage” for the Class A Shares but also to facilitate streaming of distributions. The types of securities typically included in Split Share Corporation portfolios are low volatility securities with high and relatively predictable dividend streams which facilitate tax-efficient streaming. Moreover, the Class A Shares and the Preferred Shares share the benefit of this arrangement. Accordingly, we would suggest that if it is not possible to correct what we consider to be the incorrect inclusion of borrowing costs in the management expenses included in the MER calculation, then it would be appropriate to amend Section 10.1(2) of the Companion Policy 81-106 to specify that distributions on Preferred Shares of Split Share Corporations will not be considered to constitute financing costs of the Class A Shares which are to be included in total expenses when calculating the MER.

We note that managers of Split Share Corporations have historically included additional disclosure in their continuous disclosure documents relating to the calculation of the MER for the Class A Shares and Preferred Shares which takes into consideration the unique structure of Split Share Corporations. This additional disclosure includes the carveout of distributions made to the holders of Preferred Shares of Split Share Corporations. However, due to the new form of presentation of MER under the Proposed Amendments and the current form of NI 81-106 s. 15.1(a)(i)(A) and Companion Policy 81-106CP s. 10.1(2), the Proposed Amendments do not provide a Split Share Corporation with the ability to present MER of the Class A Shares without including Preferred Share distributions as an expense of the Class A Shares.

The Managers respectfully submit that modifications to the Proposed Amendments, in particular those amendments which relate to the presentation of MER and fund expense ratio (“**FER**”), are necessary in order to allow the Managers to (a) provide clear, transparent and meaningful disclosure relating to fund costs and operations of each class of shares of a Split Share Corporation and (b) present the MER and FER of Split Share Corporations on the same basis as a fund that offers only one class of equity securities. Such modifications will allow investors to compare more closely the MER of their investments in Class A Shares of Split Share Corporations with equity securities of other investment funds and make more informed investment decisions.

The Managers respectfully submit that modifications be made to the Proposed Amendments to permit a Split Share Corporation to exclude Preferred Share distributions as an expense of the Class A Shares. Alternatively, the Proposed Amendments should be modified to permit a Split Share Corporation the ability to: (a) include two additional columns to the table in Item 6: (i) “MER without cost of preferred shares” and (ii) “Cost of preferred shares”, and (b) calculate FER as the sum of (i) “MER without cost of preferred shares” and (ii) the fund’s trading expense ratio (TER) (collectively, the “**Proposed Changes**”). The Proposed Changes will allow Split Share Corporations to provide their investors with a clearer understanding of the costs associated with the Split Share Corporation.

We respectfully submit that without the Proposed Changes, disclosure relating to the MER of the Class A Shares of a Split Share Corporation could be misleading to investors.

Thank you for the opportunity to provide our comments on the Amendments.

Please contact Ann Wong [REDACTED] at Brompton and Silvia Gomes [REDACTED] at Quadrainvest if you have any questions relating to our comments or wish to meet with us to further discuss.

Sincerely,

“Ann Wong” (Signed)

Ann Wong
Chief Financial Officer and Chief Compliance Officer, Brompton Funds Limited

“Silvia Gomes” (Signed)

Silvia Gomes
Chief Financial Officer and Chief Compliance Officer, Quadrainvest Capital Management Inc.