



Pacific Spirit | Investment Management Inc

1100 – 800 W Pender St.
Vancouver, BC V6C 2V6

02 June 2017

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 Consumer 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
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

Dear Friends:

Re: Embedded Commissions – CSA Consultation Paper 81-408

We thank you for this opportunity to submit our thoughts on CSA Consultation Paper 81-408 (Embedded Commissions).

Pacific Spirit Investment Management Inc. is licensed as a Portfolio Manager in the Provinces of British Columbia, Saskatchewan, and Ontario. Our firm works exclusively with individual investors and we do not manage funds for institutional investors. We manage approximately \$170 million for approximately 170 client families.

We manage each client account separately – each account holds its own investments which are consistent with the Investment Policy Statement for that account. We do not offer any proprietary products – no proprietary funds, no proprietary pools. We are fee-only. The only compensation we receive is the portfolio management fee that we invoice our clients quarterly. **We do not receive any commissions, referral fees, trailer fees, or soft dollars.**

We generally prepare a basic retirement plan for clients as part of the onboarding process when we enter into a new client relationship. We believe that the preparation of a plan serves as an excellent communication tool between

ourselves and our client and the plan provides inputs for the Investment Policy Statement.

We have two registered Advisers (Portfolio Managers) who both hold the CPA, CFA, and CFP designations.

Our clients may hold individual equities and fixed income investments as well as mutual funds and ETFs.

When we make mutual fund investments we generally will invest in F class funds to reduce the cost to our clients. However, we will use regular class mutual funds – those that pay a trailer fee to the custodian – where, in our opinion, the cost to the client would be lower holding the regular class fund compared to the F class fund.

Brokerage firms may charge a commission for an F class trade of up to \$29 per trade. This would apply to both a purchase and a sell of an F class fund. There are no fees associated with buying or selling a regular class fund. For smaller amounts it is better for our clients to purchase the regular class fund than the F class fund.

A specific illustration will provide some detail. For short-term idle cash we have a choice of leaving the cash in the brokerage account where it earns no interest and is exposed to the creditors of the brokerage firm, or we can purchase CDIC insured mutual funds that pay up to 1.75% per annum F class or 1.5% per annum for regular class. The difference in the rates is the trailer fee (0.25% per annum) paid to the broker. If we have \$1,000 to invest in the short-term we would purchase the regular class fund and earn the 1.50% per annum. To cover the \$58 potential round trip commission on the F class fund from the extra return (1.75% versus 1.50%) we would need to have the funds in the money market fund for 23 years. Funds with trailer commissions can be a good deal for our clients – especially if the amounts invested are small.

Please do not take away the opportunity for us to use these low cost investment vehicles for our clients.

Thank you for this opportunity to submit our thoughts.

Sincerely,

PACIFIC SPIRIT INVESTMENT MANAGEMENT INC.

John S Clark

John S Clark CPA, CA, CFA, CFP
President