



Lysander Funds Limited
100 York Blvd., Suite 501
Richmond Hill, ON L4B 1J8
Office: 416-640-4275
Toll Free: 1-877-308-697
Fax: 905-764-0000
www.lysanderfunds.com

VIA EMAIL

December 20, 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 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

Delivered to:

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, ON M5H 3S8
comments@osc.gov.on.ca

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22^e étage
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3
consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames:

**RE: CSA Request for Comments – Modernization for Investment Fund Product Regulation –
Published for Comment on September 22, 2016 (the “Proposed Amendments”)**

Lysander Funds Limited is registered as an Investment Fund Manager in Ontario, Québec and Newfoundland & Labrador and as an Exempt Market Dealer in Ontario.

We are restricting our comments to the shorting, borrowing and leverage limits under the Proposed Amendments. We are the manager of two non-redeemable funds, also known as closed-end funds. We are particularly focused on the application of the Proposed Amendments to our closed-end funds, which have been in operation for several years.

1. Shorting Limit of 50% of NAV

We believe that a fund should have the ability to fully hedge a portfolio of long assets by shorting securities against them (subject to other restrictions e.g. leverage limits). This is a key component of portfolio risk management, and we believe that for closed-end funds at least, the shorting limit should be set to 100% of NAV. This strategy of fully hedging a portfolio is routinely used by IIROC firms when managing their own portfolio exposures and reducing their risk.

At a minimum, we believe that the shorting of “risk-free” assets like Government of Canada bonds, U.S. Treasuries and other government securities should be exempt from the limit of 50% of NAV. Our closed-end funds invest in corporate bonds, whose prices are quoted using spreads against government bonds. A key component of our strategy is to hedge interest rate risk by shorting government bonds against our long corporate bond positions. This has been an essential and very appropriate way to hedge against interest rate risk. The funds’ prospectus explicitly discloses that we employ this strategy, and we have marketed the funds to investors on this basis. Under the Proposed Amendments we would be unable to effectively hedge all the interest rate risk, which would be detrimental to our unitholders and would be contrary to what was promised to unitholders upon initial purchase.

Alternatively, as the investment objectives and strategies of our existing funds were established to comply with the current regime, we submit that if the Proposed Amendments are adopted, that there be included a provision which would permit existing funds be grandfathered to continue to operate in their current manner under an exemption from the leverage, borrowing and shorting limits of the Proposed Amendments.

2. Combined Shorting and Borrowing Limit of 50% of NAV

In a scenario where a closed-end fund has fully hedged its interest rate risk by shorting “risk free assets” up to 100% of its NAV as described above, we believe that the fund should still be able to borrow some cash at up to 10% of NAV in addition. This would be to deal with a variety of situations including covering operating cash shortfalls, ongoing investment reasons, or funding redemptions.

We therefore submit that the combined limit for shorting and borrowing be 110% of NAV.



3. Leverage Limit

We believe that for closed-end funds the aggregate gross exposure limit for borrowings, short selling and derivatives should be extended from the contemplated 3 times NAV to 4 times NAV.

A leverage limit of 4 times NAV would allow a closed-end fund to:

- short up to 100% of NAV for credit/interest rate hedging purposes;
- pledge collateral against borrowings of securities from a prime broker, which could amount up to 200% of NAV;
- hedge currency exposure through forward contracts with a notional value up to 100% of NAV.

It is therefore possible to require a leverage limit of 4 times NAV so a fund can fully hedge credit and/or interest rate risk and currency exposure, while at the same time pledging the required collateral with a prime broker.

As outlined above, investors expect that we will fully hedge credit and/or interest rate risk based on the fund's prospectus and they will not be aware that we are no longer permitted to do so based on a subsequent rule change. We believe this change would be detrimental to the unitholders interest.

Thank you for considering our comments. Please contact me if you would like additional information or wish us to elaborate on our comments.

Yours very truly,



Raj Vih
Lysander Funds Limited
rvih@lysanderfunds.com

cc: Richard Usher Jones, President and Ultimate Designated Person, Lysander Funds Limited

