YTM CAPITAL

January 27, 2024

Alberta Securities Commission
British Columbia Securities Commission
The Manitoba Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Government of Newfoundland and Labrador, Financial Services Regulation Division
Nova Scotia Securities Commission
Ontario Securities Commission
Prince Edward Island Securities Office
Québec Autorité des Marchés Financiers
Financial and Consumer Affairs Authority of Saskatchewan
Government of the Northwest Territories, Office of the Superintendent of Securities
Government of Yukon, Department of Community Services
Government of Nunavut, Department of Justice

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

Me Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés fnanciers
Place de la Cité, tour Cominar
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Dear Sirs/Mesdames:

Re: Comments on Proposed Amendments to Modernize Continuous Disclosure Regime Released on September 19, 2024

Our comments are focused solely on the proposal to replace management expense ratio (MER) in Item 2 of Part I of Form 31-101F3 with Fund Expense Ratio (FER). This change is described by the CSA as a "minor amendment". With respect, it is not minor. In our experience, the front page Fund Facts MER disclosure is by far the single most important piece of cost information used by investors.

Hedging Strategies Deliver Compelling Net Returns and Low Risk to Investors

YTM Capital offers three debt-focused funds, including a liquid alternative fund called YTM Capital Fixed Income Alternative Fund ("Fund"). The Fund uses hedging strategies to remove interest rate risk that, taken on their own have material cost, but when considered in the context of the Fund's net return are effective at producing strong returns with low volatility.

From inception on June 24, 2019 to December 31, 2024, Series F of the Fund delivered an annual net return of 4.34% with standard deviation of 3.60%. Its trading expense ratio in fiscal 2024 was 1.74%.

Over the same period, the FTSE Canadian Bond Universe Index – widely considered a proxy for long-only fixed income investing – delivered a return of 0.78% with volatility of 6.25%. In other words, the Fund beat the no-fee, no transaction cost Index every year for 5+ years by more than 4 times *per year*, with approximately 60% *less* risk.

The Fund also outperformed 90%+ of traditional active long-only funds available to Canadian investors on return and risk over the same period. This outperformance over lengthy time period during volatile markets occurred because of risk mitigation trading strategies that have material cost.

Submissions

The policy rationale for MER disclosure is to tell investors *primarily* how much a fund pays an investment fund manager ("IFM") and *secondarily* how efficiently the fund is operated by the IFM in order to provide a basis of comparison. Those MER components are relevant for every fund offered in Canada and, thanks to the longstanding educational efforts of the CSA, MER is recognized as the key cost measure. Requiring disclosure of the MER in a prominent, standardized place enhances an investor's ability to compare funds on a level playing field.

Trading costs are only material for a small sub-set of alternative funds available in Canada, like the Fund. Traditional long-only strategies have negligible trading costs. Fund trading cost information (FER and TER) is available to investors in a less prominent place in Fund Facts, where it will remain.

In our view, there is no benefit to making the disclosure change. The stated benefit – alignment of various disclosure documents – is theoretical, at best. There is nothing inconsistent with the current, clearly labelled Fund Facts form and TCR or proposed Fund Report and no opportunity for confusion.

Requiring FER disclosure in a prominent place would mislead investors and it would unfairly discriminate against that small sub-set of funds. Investors will conclude that FER is a measure of compensation paid to an IFM – i.e. that it is the same as the MER – and that funds with high FERs should be avoided. This erroneous conclusion will prejudice investors against a sub-set of funds that have delivered compelling low risk net returns. In other words, this disclosure change will hurt investors.

We submit that the CSA got the disclosure right in the first instance when it chose MER as a fair way of creating a cost comparison across funds. By replacing MER with FER the CSA is initiating two unintended consequences: misleading investors and unfairly tilting the playing field against a small number of funds, without any benefit to investors.

Sincerely,

"David Burbach" (Signed)

David Burbach
Partner, Chief Compliance Officer