

HIGHSTREET

ASSET MANAGEMENT INC.

244 Pall Mall Street, Suite 200
London, Ontario
N6A 5P6

October 17, 2002

Canadian Securities Administrators
c/o Ms Denise Brosseau, Secretary
Commission des valeurs mobilières du Québec
800 Victoria Square, Stock Exchange Tower
P.O. Box 246, 22nd Floor
Montreal Quebec H4Z 1G3

e-mail: consultation-en-cours@cvmq.com

Dear Ms Brosseau

Re: "Fund of Funds Amendments"

On behalf of Highstreet Asset Management Inc. ("Highstreet") I would like to thank the Canadian Securities Administrators ("the CSA") for the opportunity to comment on the proposed changes to "Fund of Funds" structures of mutual funds.

Highstreet would like to specifically comment on the Proposed restriction on fund layering and whether mutual funds should be allowed to invest in "non-traditional" funds such as Pooled Funds and if so, should Pooled Funds be classified as "illiquid assets" and should there be any limit as to the amount a top fund could invest in these other funds.

There may be many different reasons why a mutual fund would invest in a Pooled Fund. One reason may be to provide an investment opportunity to smaller investors who don't meet the income or net worth criteria required of an accredited investor as defined in OSC Rule 45-501 or the exemptions in section 2.12 of 45-501.

A Pooled Fund may have been created initially to serve clients such as charities, trusts or "sophisticated investors" through a distribution system that precludes the necessity of a prospectus but not the obligation to adequately address and communicate the investment objectives and expectations of the fund's mandate to prospective clients. Many of these investors might require a Pooled Fund to mitigate risk through diversification and exposure to assets that can meet specific qualitative tests. Such a Pooled Fund may itself be a fund of funds, representing a balance of debt and equity that is diversified globally. A mutual fund that was set up to invest in such a fund would not be possible under the proposed restriction on multiple layering of funds.

We agree that multiple layering can potentially create confusion as to where the investment is actually made but that such confusion can be overcome if disclosure is in plain language and meets the need for open and honest communication. The advantage of investing in units of a balanced Pooled Fund rather than directly in the Pooled Funds that are held in the balanced fund include reduced transaction fees and administrative costs for the fund and ultimately the investor.

Regarding the suggestion that Pooled Funds should be considered "illiquid assets", please consider the following: a "Pooled Fund" can be comprised of as many different asset mixes, investment strategies and risk profiles as a "Mutual Fund". The liquidity and the investment risk of a fund is a function of the assets held in the fund regardless of how the fund is distributed. Pooled Funds that hold exchange traded or investment grade assets are sufficiently liquid to meet the demands of day-in day-out redemptions. Applied without discrimination, the definition of an illiquid asset in NI 81-102 and the restriction on exposure to illiquid assets in section 2.4 of NI 81-102 are just as restrictive of a mutual fund as a Pooled Fund in determining whether it is a qualified "bottom fund" investment. The top fund should be seen as investing in the market exposure of the actual holdings in the bottom fund and that's where the determination of liquidity should be based.

In order to address the concern that a Pooled Fund may invest in assets that are not permitted assets under NI 81 102, only Pooled Funds that are comprised of assets that are not restricted in NI 81 102 should be eligible as bottom funds. In meeting this requirement a Pooled Fund should be exempt from the illiquid asset exposure limits and should also be exempt from the concentration and control limits just as the revised amendments will exempt Mutual Funds issued under a prospectus.

Again, Highstreet would like to thank the CSA for their continued policy of inviting comments from industry participants and we look forward to continuing a dialogue with the CSA around our above noted concerns.

Sincerely

A handwritten signature in black ink, appearing to read 'Rob Badun', with a long horizontal flourish extending to the right.

Rob Badun
President