

**GD-1 MANAGEMENT INC.  
GLOBAL DIGIT II MANAGEMENT INC.**

800 Place Victoria, Suite 3700  
Montréal, Québec H4Z 1E9

June 5, 2013

British Columbia Securities Commission  
Alberta Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
New Brunswick Securities Commission  
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

c/o Me Anne-Marie Beaudoin  
Corporate Secretary  
Autorité des marchés financiers  
800, Square Victoria, 22<sup>nd</sup> Floor  
C.P. 246, Tour de la Bourse  
Montreal, Québec H4Z 1G3

c/o John Stevenson, Secretary  
Ontario Securities Commission  
20 Queen Street West, Suite 1903, Box 55  
Toronto, Ontario M5H 3S8

Dear Sirs/Mesdames:

**Re: Response to the Notice and Request for Comments dated March 27, 2013 from the above securities authorities on Proposed Amendments to National Instrument 81-102 *Mutual Funds*, Companion Policy 81-102CP *Mutual Funds* and Other Matters concerning National Instrument 81-104 *Commodity Pools* under Phase 2 of the Modernization of Investment Fund Product Regulation Project (together the “Proposal”)**

GD-1 Management Inc. (“**GD-1**”) and Global Digit II Management Inc. (“**GD-II**”) each manages a non-redeemable investment fund (each, a “**Fund**” and collectively, the “**Funds**”). The units of both Funds are listed on the Toronto Stock Exchange (“**TSX**”). There are limited redemption opportunities, consisting of an annual redemption and three quarterly redemptions, on terms determined contractually with unitholders at the time of purchase pursuant to the Funds’ Declarations of Trust and prospectuses.

By this joint letter, GD-1 and GD-II are writing to provide comments relating to the Proposal only as it relates to the proposed amendment to prohibit the redemption of units of non-redeemable investment funds, also known as closed-end funds (“**CEFs**”), at an amount greater than the net asset value (“**NAV**”) of the units.

### **A Redemption Price Higher than the NAV per Unit Does Not Always Dilute Remaining Unitholders**

The proposed amendment prohibiting redemptions at a price higher than the net asset value per unit seems to be predicated on the premise that such redemptions would dilute the remaining unitholders. This is not necessarily the case. At the annual redemption, the Funds redeem units at a price which is sometimes higher than the net asset value per unit without in any way diluting the remaining unitholders.

Each of the Funds is a party to credit default swap agreements under which it may become liable to compensate the swap counterparty if credit events occur in connection with the underlying portfolios of debt securities. The fair value of the liability is reflected in the net asset value per unit.

In order to fund annual redemptions, the Funds are entitled to terminate or unwind a portion of the notional amount of the credit default swap agreements. This requires the payment to the swap counterparty of an unwind amount representing the proportionate value of the liability under the credit default swaps. The payment of the unwind amount releases a Fund from all future liability in respect of the portion of the notional amount of the credit default swaps which has been terminated. At the same time, the swap counterparty releases a proportionate share of the Fund’s assets previously pledged to it as collateral. The assets are then sold and the proceeds used to pay the redeeming unitholders.

The redemption price is based on the actual unwind amount payable to the swap counterparty, which is agreed between the latter and each of the Funds. Depending on the swap counterparty’s objectives, it has sometimes been willing to accept an unwind amount lower than the fair value of the liability, as reflected in the net asset value. This results in a redemption price higher than the net asset value. However, this excess effectively comes out of the pockets of the swap counterparty and not of the remaining unitholders. The latter are not diluted in any way.

### **The Proposed Amendment will Interfere with Existing Rights**

In addition to the annual redemption, unitholders may redeem their units on a quarterly basis at a price related to the market price of the units, which may be higher or lower than the NAV per unit.

The quarterly redemption price of the units has frequently been higher over the years than the NAV per unit. In order to avoid diluting the positions of the remaining unitholders of the Funds, units tendered for redemption are, whenever possible, recirculated and sold to purchasers before the redemption payment date through the facilities of the TSX. The sale proceeds are paid to the redeeming unitholders and must always be at least equal to the contractual redemption price.

Depending on market conditions, recirculation is not always possible. In this event, the Funds redeem the units tendered for redemption using their own assets. If the proposed amendment were implemented, the redemption price would need to be at the NAV per unit in those circumstances where the market price is higher. Redeeming unitholders would no longer be paid according to the contractual terms on the basis of which all unitholders agreed to invest in the first place, and would thus lose an existing right.

### **Possible Consequence**

We also note the existing policy of the CSA to treat an investment fund as a mutual fund if it redeems its units at NAV more than once a year. The interaction of this policy with the proposed amendment may well encourage CEFs to initiate internal changes limiting redemptions to an annual basis.

### **Recommendations**

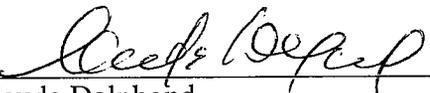
Should you decide to proceed with the draft amendment, we would strongly recommend that it be amended to:

1. prohibit redemptions at a price higher than the net asset value per unit only in circumstances where this would have the effect of diluting the remaining unitholders, and
2. grandfather existing CEFs that have proved to be viable over time, particularly if they are based on complex structures which would be costly to amend.

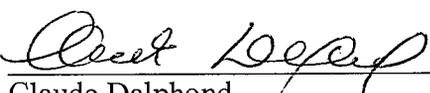
We would be pleased to discuss these issues with you further. Please do not hesitate to contact Claude Dalphond, the Chairman of GD-1 and GD-II, by phone at 514-982-4707 or by email at [claude.dalphondd@ivanhoecambridge.com](mailto:claude.dalphondd@ivanhoecambridge.com).

Yours truly,

**GD-1 MANAGEMENT INC.**

By:   
\_\_\_\_\_  
Claude Dalphond  
Chairman

**GLOBAL DIGIT II MANAGEMENT  
INC.**

By:   
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Claude Dalphond  
Chairman