



# BLACKHEATH

Fund Management Inc

June 20, 2013

The Secretary  
Ontario Securities Commission  
20 Queen Street West  
Toronto, ON M5H 3S8  
By email

Re: Modernization of Investment Fund Product Regulation (Phase 2)

To whom it may concern:

Blackheath Fund Management Inc. is a Commodity Trading Manager, an Investment Fund Manager and an Exempt Market Dealer located in Toronto. We strongly support this initiative as a means to safely allow retail access to alternative investment strategies.

We have reviewed the Supplement to the OSC Bulletin dated March 27, 2013 and we have a single comment regarding leverage.

Annex B, Total Leverage Limit: We understand that leverage can increase risk. However, discussing leverage without discussing the asset that is leveraged, creates problems. For example, being three times leveraged in crude oil is significantly more risky than being three times leveraged in the Canadian dollar or in US Treasury bond futures. We strongly recommend that, when it comes to portfolios of futures contracts, that the Commission focus on margin-to-equity ratios rather than leverage. The exchanges do a fantastic job of assessing risk via their margin system which takes into account liquidity, volatility, and leverage. For example, a simple and effective way of limiting risk would be to allow only a maximum 25% margin-to-equity ratio for futures contract portfolios.

I am available to discuss this in person at any time at your convenience.

Sincerely,

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**Blackheath Fund Management Inc.**

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