



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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VIA SEDAR

February 27, 2002

Osler, Hoskin & Harcourt

Attention: Linda G. Currie

Dears Sirs/Mesdames:

Re: Royal Canadian Index Fund and Royal Premium Canadian Index Fund (collectively, the "Canadian Index Funds"), Royal U.S. Index Fund and Royal Premium U.S. Index Fund (collectively, the "U.S. Index Funds" and together with the Canadian Index Funds, the "Index Funds"), Royal U.S. RSP Index Fund and Royal International RSP Index Fund (collectively, the "RSP Index Funds"), O'Shaughnessy Canadian Equity Fund, O'Shaughnessy U.S. Value Fund and O'Shaughnessy U.S. Growth Fund (collectively, the "O'Shaughnessy Funds")
- MRRS Exemptive Relief Application under section 19.1 of National Instrument 81-102 Mutual Funds ("NI 81-102")
- SEDAR Project Nos. 395657 & 395660 ; Application No. 1094/01

By letter dated October 19, 2001, as supplemented by letters dated November 19, 2001 and December 19, 2001 (together, the "Application"), you applied to the securities regulatory authority or regulator in each of the provinces and territories of Canada (collectively, the "Decision Makers"), on behalf of Royal Mutual Funds Inc. ("RMFI"), as manager of the Index Funds, the RSP Index Funds and the O'Shaughnessy Funds for an exemption from the investment prohibition in subsection 4.1(1) of NI 81-102 (the "Investment Prohibition"). RMFI has, since the filing of the Application, ceased to be the manager of the Index Funds, the RSP Index Funds and the O'Shaughnessy Funds, and RBC Funds Inc. ("RBC FI"), an affiliate of RMFI, has become the manager. The Investment Prohibition prohibits a dealer managed mutual fund from knowingly making an investment in a class of securities of an issuer, during the offering of such securities (the "Offering"), or for 60 days after the Offering, if the mutual fund's dealer manager or its associate or affiliate acts as underwriter of more than 5 percent of the Offering.

The exemption from subsection 4.1(1) is requested to enable the Index Funds, the RSP Index Funds and the O'Shaughnessy Funds, as well as index mutual funds to be established or managed by RBC FI or an affiliate of RBC FI from time to time (the "Future Index Funds"), to invest in securities of the same type and class as a constituent security (a "Constituent Security") of their respective target index, during the Offering and for a period of 60 days after the closing of the Offering, even if more than 5 percent of the Offering of such security is underwritten by RBC Dominion Securities Inc. ("RBC DS") or RBC Dominion Securities Corporation ("RBC DS U.S.") or by Dain Rauscher Inc. ("DRI"), each an affiliate of RBC FI, or by Tucker Anthony Sutro Corporation ("TAS"), upon becoming an affiliate

of RBC FI, or by any other affiliate of RBC FI (collectively with RBC DS, RBC DS U.S., DRI and TAS, the "Affiliated Underwriters").

Further to a review of your submissions in respect of the Index Funds, the RSP Index Funds and the O'Shaughnessy Funds, you have been advised that staff are not prepared to recommend relief to the RSP Index Funds, the O'Shaughnessy Funds and the Future Index Funds. Accordingly, this decision (the "Decision") only grants relief to the Index Funds.

From our review of the Application and your responses to our comments on the Application, we understand the relevant facts and representations to be as follows:

1. RBC FI is a "dealer manager", so that each of the Index Funds is a "dealer managed mutual fund" as such term is defined in section 1.1 of NI 81-102. The head office of RBC FI is situated in Toronto, Ontario.
2. RBC Global Investment Management Inc. ("RBC GIM"), an affiliate of RBC FI, is the primary portfolio advisor of the Index Funds and has retained State Street Global Advisors Ltd. ("SSGA") as a sub-advisor for each Index Fund. SSGA is not an affiliate or associate of RBC FI or RBC GIM.
3. Pursuant to an Investment Sub-Adviser Agreement dated September 4, 1998 between RMFI, RBC GIM and SSGA, which was assigned to RBC FI, SSGA has full power and discretionary authority, subject to the direction of RBC FI and RBC GIM, to manage the investment portfolio of each Index Fund on a day-to-day basis. RBC FI and RBC GIM do not engage in the stock selection for the Index Funds, nor do they influence the decisions of SSGA as to the purchase, sale or holding of any securities of an issuer, or as to with whom an order for the sale or purchase of a specific security may be placed.
4. Each of the Index Funds is an "index mutual fund" as such term is defined in section 1.1 of NI 81-102.
5. The investment objective of the Canadian Index Funds is to track the performance of a generally recognized index of Canadian equity market performance currently being the Toronto Stock Exchange 300 Total Return Index (the "TSE 300 Index"). Each of the Canadian Index Funds tracks the performance of the TSE 300 Index by investing in its Constituent Securities in substantially the same proportion as the Constituent Securities are reflected in the TSE 300 Index.
6. The investment objective of the U.S. Index Funds is to track the performance of a generally recognized index of U.S. equity market performance currently being the Standard & Poor's 500 Total Return Index (the "S&P 500 Index"). Each of the U.S. Index Funds tracks the performance of the S&P 500 Index principally by investing in its Constituent Securities in substantially the same proportion as the Constituent Securities are reflected in the S&P 500 Index.

7. Both the TSE 300 Index and the S&P 500 Index (each a "Target Index") is a "permitted index", as such term is defined in section 1.1 of NI 81-102. Each was designed and established and is currently maintained and calculated by Standard & Poor's Corporation ("S&P").
8. A small percentage of each Index Fund's net assets may be
 - (a) held in cash in order to fund redemptions of each Index Fund's units, or
 - (b) invested from time to time in index participation units ("IPUs) and derivatives, such as futures, for non-hedging purposes as a substitute for direct investment, pending the purchase of Constituent Securities in the Target Index. As of the date of this Decision, the U.S. Index Funds hold S&P 500 Depository Receipts ("SPDRs"), while the Canadian Index Funds do not hold any IPUs.
9. The investment objective of each issuer of the IPUs is also to track the performance of the respective Target Index by investing in the Constituent Securities in substantially the same proportion as they are reflected on the Target Index. The IPUs and the SPDRs are traded on the Toronto Stock Exchange (the "TSE") and the American Stock Exchange (the "AMEX"), respectively. The IPUs used by the Index Funds are or will be traded on a recognized stock exchange.
10. For the purposes of tracking the performance of the Target Index, the use of IPUs by the Index Funds is not as efficient as direct investments in the Constituent Securities because of the management fees and expenses associated with them.
11. As a result of the role of RBC DS in the recently completed secondary offerings of Loblaw Companies Ltd., Domtar Inc., Sun Life Financial Services of Canada Inc. ("Sun Life"), Geac Computer Corporation Limited and The Toronto-Dominion Bank ("TD Bank"), the Canadian Index Funds have been prohibited by the Investment Prohibition from investing in the securities of these issuers until the expiry of the 60 day period following the closing of their Offering. These five "restricted" issuers represented approximately 7 percent of the TSE 300 Index at the time of the Application.
12. As a result of the additional offering of Constituent Securities of a Target Index, the relative weight of such securities in the Target Index will generally change and the relative weight of other securities in the Target Index will also generally change. For example, S&P adjusted the weightings of SunLife and TD Bank in October, 2001, during the 60-day period after each issuer's offering. Further, four index changes have occurred that have indirectly caused an increase in the weighting of SunLife in the TSE 300 Index over the course of the 60-day period following the closing of its secondary offering on October 4, 2001. RBC FI confirms that there were several adjustments to the TSE 300 Index during the 60-day period which followed the closing of the TD Bank secondary offering on November 1, 2001, the net effect of which was an increase in the weighting of TD Bank on the TSE 300 Index.
13. Due to the Investment Prohibition, and because of the upward adjustment of the weightings of SunLife and TD Bank common shares on the TSE 300 Index during the 60-day period following the completion of the secondary offerings, the Canadian Index Funds were not able

to track the performance of their Target Index as efficiently and as fully as possible during this period.

14. DRI is one of the leading U.S. investment dealers in the health care and energy and technology sectors. Its intended merger with TAS is expected to create the ninth largest full service securities firm in North America. As the RBC Financial Group acquires additional dealers, the potential prejudice to the U.S. Index Funds as a result of the Investment Prohibition will increase.
15. The Index Funds will be unable to track the performance of their Target Index as efficiently and as fully as possible if
 - (a) any future additional Offering of the same type and class of securities as a Constituent Security of their Target Index results in, or coincides with, an upward adjustment of the weighting of the Constituent Security in such Target Index, or
 - (b) there are proceeds from sales of units of the Index Funds that are required to be invested as soon as it is reasonably opportune to do so,

and the Index Funds continue to be precluded from investing in a Constituent Security during the Offering or for 60 days thereafter because the Offering of more than 5 percent thereof is underwritten by Affiliated Underwriters of RBC FI.

Decision

This letter confirms that, based on the information provided in the Application and the facts and representations above, and for the purposes described in the Application, the Decision Makers hereby grant exemption from subsection 4.1(1) of NI 81-102, to enable each of the Index Funds to invest in the same type and class of securities as a Constituent Security of their respective Target Index, notwithstanding that more than 5 percent of the Offering of such securities may be underwritten by RBC FI's Affiliated Underwriters, during the Offering or during the 60-day period after the Offering,

provided that,

- A. at the time of each investment made pursuant to this Decision, the following conditions are satisfied:
 - i. each Target Index, and any successor index to a Target Index, is a "permitted index" as such term is defined in section 1.1 of NI 81-102;
 - ii. the investment is necessary to meet each Index Fund's investment objective of tracking the performance of the Target Index by investing directly in the Constituent Securities of such index in substantially the same proportion as those securities are reflected in the index because
 - (a) there is an upward adjustment of the weighting of such Constituent Security in the index; or

- (b) there are proceeds from sales of units of the Index Funds that are required to be invested;
 - iii. each of the Index Funds purchases no more than the number of shares of the same type and class as the Constituent Security that are necessary, in order for the Index Funds to hold them in substantially the same proportion as those securities are reflected in the Target Index;
 - iv. in the case of a purchase during the 60-day period after the Offering, the purchase is made on the TSE, the AMEX, or any other stock exchange on which shares of the same class as the Constituent Security are listed and traded;
 - v. with respect to investments made in reliance on this Decision, each of the Index Funds does not place an order on a principal or agency basis with RBC FI's Affiliated Underwriters if RBC FI, RBC GIM or any of their respective affiliates or associates
 - (a) acts as portfolio advisor to the Index Funds,
 - (b) participates in making any investment decision with respect to the purchase, sale or holding of Constituent Securities, or
 - (c) in fact influences or has taken action to influence any investment decision of SSGA or of a successor sub-advisor of the Index Funds with respect to the purchase, sale or holding of any Constituent Securities, or with respect to with whom to place an order for the sale or purchase of Constituent Securities,provided, however, this condition shall not apply where, with respect to any investment, the investment decision is made and the order is placed by SSGA or a successor sub-advisor that is not an associate or affiliate of RBC FI or of its Affiliated Underwriters, and which has been granted complete discretionary authority with respect to investment decisions in respect of the Index Funds and which has made the investment decision pursuant to such discretionary authority;
 - vi. each Index Fund's simplified prospectus discloses that if necessary to meet its investment objective, the Index Funds may purchase shares of the same type and class as any Constituent Security of the Target Index where more than 5 percent of the Offering is underwritten by RBC FI's Affiliated Underwriters, during the Offering period or during the 60-day period after the closing of the Offering;
 - vii. each Index Fund's annual information form discloses and discusses the policies, practices or guidelines relating to transactions involving actual or potential conflicts of interests;
- B. the following particulars of each investment made by each Index Fund pursuant to this Decision are set out in a report certified by RBC GIM and filed on SEDAR within 30 days after the end of each month in which the investment was made:

- i. the date of the Offering, the Offering price, and the date that the investment was made;
 - ii. the issuer of the Constituent Security, the lead underwriter of the Offering and, if an Affiliated Underwriter of RBC FI was not the lead underwriter, the portion of the Offering underwritten by one or more Affiliated Underwriters of RBC FI;
 - iii. the number of shares of the same type and class as the Constituent Security that was purchased by each Index Fund;
 - iv. the purchase price;
 - v. the dealer with whom the order to purchase shares of the same type and class as the Constituent Security was placed, and the fees (if any) paid by each of the Index Funds in respect of such purchase;
 - vi. that RBC GIM has determined that the purchase made for the Index Fund was necessary to meet the investment objective of the Index Fund and was in the best interest of the Index Fund; and
- C. this Decision, as it relates to the jurisdiction of a Decision Maker, will terminate after the coming into force of any legislation or rule of that Decision Maker dealing with matters regulated by section 4.1 of NI 81-102.

Yours truly,

"Paul A. Dempsey"
Paul A. Dempsey
Manager, Investment Funds
Capital Markets