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**VIA SEDAR ONLY**

September 13, 2002

McCarthy Tétrault LLP  
Toronto, Ontario

**Attention: Michael Nicholas**

Dear Sirs/Mesdames:

**Re: TD Asset Management Inc. ("TDAM") and each of the Mutual Funds named in Appendix A that are managed by TDAM - MRRS Application under National Instrument 81-102 ("NI 81-102") - Sedar Proj. No. 419575**

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By letter dated February 6, 2002 as supplemented by letters dated April 19, 2002 and August 7, 2002 (collectively, the "Application"), you applied on behalf of TDAM to the regulator or securities regulatory authority (collectively, the "Decision Makers") in each province and territory of Canada (collectively, the "Jurisdictions") for discretionary relief from subsection 4.1(1) and section 4.2 of NI 81-102. TDAM has caused the Application to be made on behalf of

- (a) the mutual funds named in Appendix A (the "Existing Funds"), and
- (b) mutual funds subject to NI 81-102 that TDAM may establish and manage in the future (the "Future Funds"), except those mutual funds whose investments would be managed by TD Quantitative Capital ("TDQC") (the Existing Funds and Future Funds collectively the "Funds" or "Dealer Managed Funds").

Subsection 4.1(1) of NI 81-102 prohibits a dealer managed mutual fund from knowingly making an investment in a class of securities of an issuer, during the offering (the "Offering") of such securities or for 60 days after such Offering (the Offering period and the 60-day period together, the "Investment Prohibition Period"), if the dealer manager or any of its associates or affiliates acts as underwriter of the Offering (the "Investment Prohibition"). However, it does not apply if the dealer manager or any of its associates or affiliates only acts as a member of a selling group distributing five percent or less of the underwritten securities. You requested discretionary relief from this provision to enable the Funds to invest in a class of debt securities of an issuer other than the federal and provincial governments ("Corporate Debt Securities"), during the Investment Prohibition Period, even if The Toronto-Dominion Bank ("TD Bank"), TD Securities Inc. ("TDSI"), or any of their associates or affiliates acts or has acted as underwriter (collectively, the "TD Underwriters") of the Offering of such Corporate Debt Securities.

Section 4.2 of NI 81-102 prohibits a mutual fund from purchasing a security from, or selling a security to, among others, the mutual fund's manager, portfolio adviser or trustee or their respective associates or affiliates acting as principal in the transaction. You also requested discretionary relief from this provision to enable the Dealer Managed Funds to purchase Corporate Debt Securities from any of the persons or companies referred to in paragraphs 1 to 4 of section 4.2, other than a mutual fund, acting as principal (collectively, the "Related Persons"), during or after the Investment Prohibition Period. You have subsequently clarified this request so that the relief sought would enable the Dealer Managed Funds to

- purchase Corporate Debt Securities from, or sell such debt securities to, a Related Person in the secondary market, or
- purchase debt securities issued or fully and unconditionally guaranteed by the federal or provincial governments ("Government Debt Securities") from, or sell such debt securities to, a Related Person in the secondary market.

From our review of the Application and other information communicated to staff, we understand the relevant facts and representations to be as follows:

1. TDAM is currently (or will be) the manager and portfolio adviser of the Funds and, therefore, is (or will be) a "dealer manager" of the Funds as such term is defined in section 1.1 of NI 81-102. Accordingly, each Fund is (or will be) a "dealer managed mutual fund" within the meaning of section 1.1 of NI 81-102.
2. Each of TDAM and TDSI is a wholly-owned subsidiary of the TD Bank.
3. The TD Bank Financial Group conducts all of its Canadian discretionary investment management operations through TDAM, which offers passive, quantitative, enhanced and active portfolio management through different divisions or business units.
4. TDQC is one of TDAM's divisions or business units. It provides (and will provide) passive investment portfolio management to existing (and future) index mutual funds under TDAM's general management ("TDQC Index Funds") and to institutional clients ("TDQC Clients"). TDQC trades securities only to the extent necessary to enable the TDQC Index Funds to track the performance of their respective target indices, or to implement the passive investment strategies specifically designed for the TDQC Clients.
5. TDQC conducts its investment portfolio management operations independently of all other divisions of TDAM. It has established a firewall around its operations for purposes of the aggregation relief available under section 5.1 of National Instrument 62-103 - The Early Warning System and Related Take-Over Bid and Insider Reporting Issues.
6. The investment objectives of the Funds permit (or will permit) them to invest in debt securities of any issuer.

7. The securities of all of the Funds are qualified for distribution in the Jurisdictions pursuant to simplified prospectuses and annual information forms that have been prepared and filed in accordance with their respective securities legislation.
8. In recent years, the amount of Government Debt Securities available for investment in Canada has declined significantly due to government deficit reduction programs. As a result, investors in debt securities have had to rely increasingly on Corporate Debt Securities. However, because of the limited supply of Corporate Debt Securities in the primary market, holders of outstanding Corporate Debt Securities have tended not to sell their holdings prior to the maturity date of their Corporate Debt Securities holdings. This has, in turn, led to the limited availability of Corporate Debt Securities in the secondary market. Moreover, because of this limited availability, the Corporate Debt Securities that are available in the secondary market are usually sold at prices that are higher than if they were purchased in the primary market, assuming no change in the markets and in the status of the issuer.
9. The excess demand for the limited supply of Corporate Debt Securities in both the primary and secondary markets has made it difficult for all prospective investors (including mutual funds) to acquire Corporate Debt Securities for investment purposes.
10. The Investment Prohibition has made it even more difficult for TDAM to acquire debt securities generally, and Corporate Debt Securities in particular, for the portfolios of the Dealer Managed Funds. Since the TD Underwriters do not generally act as members of selling groups and are frequently involved in underwriting the Offering of new issues of Corporate Debt Securities in any event, the Dealer Managed Funds are not able to purchase Corporate Debt Securities during the Investment Prohibition Period. The Investment Prohibition affects not only TDAM's income funds but also the balanced, equity and other funds that are permitted to include Corporate Debt Securities in their investment portfolio.
11. There are three principal categories of Corporate Debt Securities that are sold to investors, including mutual funds.
  - (a) Commercial paper is typically sold on a private placement basis pursuant to an information memorandum that does not constitute an "offering memorandum" under securities legislation. An issuer of commercial paper usually appoints one or two dealers as agents for a term of six months or longer, with no termination date in some cases. The issuer determines the timing of a particular commercial paper offering according to its need for cash. The price of commercial paper on any given day is set by the issuer upon recommendation of the dealers. Approximately 98% of all commercial paper has a term to maturity of 60 days or less.
  - (b) Medium-term notes are typically sold pursuant to a base shelf prospectus (the "Base Shelf") that expires in two years. The issuer usually appoints a syndicate of dealers for the term of the Base Shelf, with a lead underwriter or syndicate manager appointed for each offering pursuant to a supplement to the Base Shelf (a

“Supplement”). The issuer determines the timing of each offering under a Supplement. The price is set by the issuer upon recommendation of the dealers or lead underwriter, and is set out in the Supplement.

- (c) Debentures and bonds may be offered pursuant to a prospectus, or on a private-placement basis under an offering memorandum or term sheet, usually for a limited offering period with one closing date.
    - i. In a prospectus offering, the issuer may appoint two or more dealers as principal or agent. The size of the offering may be a fixed maximum and/or minimum, with or without a “green shoe”. The price is established through negotiations between the issuer and the dealers, and is disclosed in the prospectus.
    - ii. In a private placement offering, the issuer may appoint one or two dealers as principal or agent. The size of the offering is usually fixed, and the price is determined by the issuer upon recommendation of the dealers. The price is set out in the offering memorandum or term sheet or may be communicated by the dealers to potential investors.
12. Section 4.2 of NI 81-102 prohibits the Dealer Managed Funds from purchasing or selling securities from or to Related Persons. The Dealer Managed Funds are unable to rely on the exemption provided by section 4.3 of NI 81-102 because there are no available public quotations in common use for secondary market trading in debt securities.

This letter confirms that, based on the information provided in the Application, other communications to staff and the facts and representations above, and for the purposes described in the Application, the Decision Makers hereby grant exemption from

- A. subsection 4.1(1) of NI 81-102, so that a Dealer Managed Fund may make an investment in Corporate Debt Securities during the Investment Prohibition Period, even if a TD Underwriter acts or has acted as underwriter in the Offering of such Corporate Debt Securities; and
- B. section 4.2 of NI 81-102, so that a Dealer Managed Fund may purchase from a Related Person, or sell to a Related Person, Corporate Debt Securities or Government Debt Securities in the secondary market,

**PROVIDED THAT**

- (1) at the time of each purchase or sale (the “Trade”) of Government Debt Securities or Corporate Debt Securities by a Dealer Managed Fund pursuant to this Decision, the following conditions are satisfied:
  - a. the Trade

- (i) represents the business judgment of TDAM uninfluenced by considerations other than the best interests of the Dealer Managed Fund, or
  - (ii) is, in fact, in the best interests of the Dealer Managed Fund;
- b. the Trade is consistent with, or is necessary to meet, the investment objective of the Dealer Managed Fund as disclosed in its simplified prospectus;
- c. if the Trade is made pursuant to paragraph A of this Decision, the Dealer Managed Fund does not place the order to purchase, on a principal or agency basis, with a TD Underwriter;
- d. if the Trade is made pursuant to paragraph B of this Decision, the terms of the Trade are better than the terms quoted by one or more dealers who are neither affiliates nor associates of the Related Person (the “Independent Dealers”) with whom the Trade is made;
- e. if the Trade is a purchase of Corporate Debt Securities pursuant to paragraph A or paragraph B of this Decision,
  - (i) the issuer of the Corporate Debt Securities is not a “related issuer” or “connected issuer”, as defined in National Instrument 33-105 Underwriting Conflicts, of TDAM or a Related Person, as the case may be, or any of their respective affiliates or associates;
  - (ii) neither TDAM nor a Related Person, as the case may be, nor any of their respective affiliates or associates is
    - (a) the issuer of the Corporate Debt Securities, or
    - (b) a promoter of the issuer of the Corporate Debt Securities; and
  - (iii) the Corporate Debt Securities have been given, and continue to have, an “approved rating” by an “approved rating organization” as such terms are defined in section 1.1 of NI 44-101 - Short Form Prospectus Distributions; and
- f. if the Trade is a purchase of Corporate Debt Securities pursuant to paragraph B of this Decision, the Dealer Managed Fund does not purchase from a Related Person during the 60-day period after the Offering of such Corporate Debt Securities, if the Related Person or any of its affiliates or associates acted
  - (i) as underwriter in the Offering of the Corporate Debt Securities, or

- (ii) as a selling group member selling more than 5% of the underwritten Corporate Debt Securities;
- (2) prior to effecting any Trade pursuant to this Decision,
  - a. the simplified prospectus of the Dealer Managed Fund discloses that it may
    - (i) invest in Corporate Debt Securities pursuant to paragraph A of this Decision, and
    - (ii) purchase or sell Government Debt Securities or Corporate Debt Securities pursuant to paragraph B of this Decision; and
  - b. the annual information form of the Dealer Managed Fund describes the policies and procedures referred to in paragraph (3) below;
- (3) prior to effecting any Trade pursuant to this Decision, the Dealer Managed Fund has in place written policies and procedures to ensure that,
  - a. there is compliance with the conditions of this Decision,
  - b. in connection with any Trade in Corporate Debt Securities pursuant to paragraph A of this Decision,
    - (i) there are stated factors or criteria for allocating Corporate Debt Securities purchased for two or more Dealer Managed Funds and other accounts managed by TDAM, and
    - (ii) there is full documentation of the reasons for any allocation to a Dealer Managed Fund that departs from the stated allocation factors or criteria;
  - c. in connection with any Trade in Government Debt Securities or Corporate Debt Securities pursuant to paragraph B of this Decision,
    - (i) each Dealer Managed Fund maintains an itemized daily record of all such Trades showing, for each Trade,
      - (a) the name and principal amount of the debt securities,
      - (b) if the Trade is in Government Debt Securities, the relevant benchmark Canada bond (the “Benchmark Bond”), the bid-ask price of the Benchmark Bond, and the price that was paid or received by the Dealer Managed Fund on the Trade,
      - (c) if the Trade is in Corporate Debt Securities,

- i. the relevant Benchmark Bond or, in the case of US\$-Pay Corporate Debt Securities, the relevant US Treasury Bond,
  - ii. the bid-ask price of the Benchmark Bond or US Treasury Bond, and
  - iii. the spread over the Benchmark Bond or US Treasury Bond that was paid or received by the Dealer Managed Fund on the Trade,
- (d) the time and date of the Trade, and
- (e) the name of the dealer on the Trade;
- (ii) TDAM maintains written records of the quotations received from Independent Dealers, and each Dealer Managed Fund maintains a daily consolidated record of the quotations (including the price, quantity, time and date) received from one or more Independent Dealers, in respect of each Trade made with a Related Person;
- (iii) TDAM conducts a timely review of each Dealer Managed Fund's Trades with Related Persons to confirm that each Trade
  - (a) represented the business judgment of TDAM uninfluenced by considerations other than the best interests of the Dealer Managed Fund, or
  - (b) was, in fact, in the best interests of the Dealer Managed Fund;
- (4) the following particulars of each Trade pursuant to this Decision are set out in a report certified by TDAM and filed on SEDAR, in respect of each Dealer Managed Fund, no later than 30 days after the end of the month in which one or more such Trades were made:
  - a. in the case of a purchase of Corporate Debt Securities pursuant to paragraph A of this Decision,
    - (i) the date of the Offering of Corporate Debt Securities, whether the Offering was made pursuant to a prospectus or on a prospectus-exempt basis, the Offering price, and the date that the purchase was made,
    - (ii) the issuer of the Corporate Debt Securities, the lead underwriter(s) or syndicate manager(s) (if any) of the Offering and, if none of the TD Underwriters was the lead underwriter or syndicate manager and if applicable to the type of Offering, the portion of the Offering underwritten by the TD Underwriters,

- (iii) if applicable to the type of Offering, whether the lead underwriter or syndicate manager had indicated its intention (if any) to engage in market stabilization activities,
  - (iv) the principal amount of Corporate Debt Securities purchased by the Dealer-Managed Fund,
  - (v) the price at which the purchase was made,
  - (vi) if Corporate Debt Securities were purchased for two or more Dealer Managed Funds and other accounts managed by TDAM, other than accounts managed for the TDQC Index Funds and TDQC Clients, the aggregate amount so purchased and the percentage of such aggregate amount that was allocated to each Dealer Managed Fund, and
  - (vii) the dealer from whom the Dealer Managed Fund purchased the Corporate Debt Securities and the fees or commissions, if any, paid by the Dealer Managed Fund in respect of such purchase;
- b. in the case of a Trade in Government Debt Securities or Corporate Debt Securities pursuant to paragraph B of this Decision,
- (i) the issuer of the debt securities,
  - (ii) the principal amount of debt securities purchased or sold by the Dealer Managed Fund,
  - (iii) the price at which the purchase or sale was made,
  - (iv) the Related Person with whom the Trade was made, and
    - (a) in the case of a Trade in Government Debt Securities, the price paid or received by the Dealer Managed Fund, or
    - (b) in the case of a Trade in Corporate Debt Securities, the spread over the relevant Benchmark Bond or US Treasury Bond that was paid or received by the Dealer Managed Fund; and
- c. a certification by TDAM that the Trade
- (i) represented the business judgment of TDAM uninfluenced by considerations other than the best interests of the Dealer Managed Fund, or
  - (ii) was, in fact, in the best interests of the Dealer Managed Fund; and



- (5) each of paragraph A or paragraph B of 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 the matters regulated by section 4.1 or section 4.2, respectively, of NI 81-102.

Yours very truly,

*Paul A. Dempsey*

Paul A. Dempsey

Manager, Investment Funds

Capital Markets Branch

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**Appendix A**  
**to**  
**Exemption Letter dated September 13, 2002**

**TD Mutual Funds**

TD Canadian Money Market Fund  
TD Premium Money Market Fund  
TD Money Market Plus Fund  
TD US Money Market Fund  
TD Short Term Monthly Income Fund  
TD Monthly Income Fund  
TD Short Term Bond Fund  
TD Canadian Bond Fund  
TD Real Return Bond Fund  
TD Balanced Fund  
TD Dividend Growth Fund  
TD Dividend Income Fund  
TD High Yield Income Fund  
TD Global RSP Bond Fund  
TD Global Growth RSP Fund  
TD Euro Growth RSP Fund  
TD Global Asset Allocation Fund  
TD Mortgage Fund  
TD Canadian T-Bill Fund

**Emerald Pooled Funds**

Emerald Canadian Short Term Investment Fund

**TD Private Funds**

TD Private Canadian Bond Income Fund  
TD Private Canadian Bond Return Fund  
TD Private Canadian Corporate Bond Fund  
TD Private Canadian Equity Growth Fund  
TD Private Canadian Equity Income Fund  
TD Private North American Equity Growth Fund  
TD Private North American Equity Income Fund  
TD Private Small/Mid-Cap Equity Fund  
TD Private US Equity Growth Fund  
TD Private US Equity Income Fund