



VIA SEDAR

May 14, 2002

Torys

Attention: Deanna Dobrowsky

Dear Sirs/Mesdames:

Re: Harmony RSP North American Small Cap Pool (to be renamed Harmony RSP Americas Small Cap Equity Pool), Harmony RSP Overseas Equity Pool and Harmony RSP U.S. Equity Pool (collectively, the "Existing Top Pools) and Harmony Americas Small Cap Equity Pool, Harmony Overseas Equity Pool and Harmony U.S. Active Equity Pool (to be renamed Harmony U.S. Equity Pool) (collectively, the "Underlying Pools")

MRRS Exemptive Relief Application pursuant to Section 19.1 of National Instrument 81-102 Mutual Funds ("NI 81-102") Application No. 192/02

By letter dated March 12, 2002 (the "Application"), you applied to the securities regulatory authority or regulator in each of the provinces and territories of Canada (the "Decision Maker"), on behalf of AGF Funds Inc. ("AGF"), as manager of the Existing Top Pools and other mutual funds to be established by AGF from time to time (the "Future Top Pools" and collectively with the Existing Top Pools, the "Top Pools"), for exemptions from the following provisions of NI 81-102 in order to permit each Top Pool to invest its assets directly and indirectly (through derivative exposure), in a specified mutual fund managed by AGF (each an "Underlying Pool"):

- subsections 2.1(1) and 2.2(1);
- clauses 2.5(1)(a), 2.8(1)(d) and 5.5(1)(d).

Additional relief from subsection 4.2(1)(3) of NI 81-102 is also being sought, to permit AGF to sell to Harmony Americas Small Cap Equity Pool ("Americas") portfolio securities of Harmony RSP North American Small Cap Pool ("NA RSP") in connection with the change of its objective investment and to permit Americas to purchase from NA RSP such portfolio securities.

An amendment dated April 3, 2002 to the simplified prospectus and annual information form of the Existing Top Pools dated December 27, 2001 has been filed to reflect the proposed change in investment objectives of the Existing Top Pools. An amendment will also be filed if the changes are approved and the Existing Top Pools proceed with the changes.

At a meeting to be held on May 16, 2002, the holders of the Existing Top Pools will be requested to approve a change in investment objective such that the investment objective will be to provide long-term growth of capital while maintaining 100% eligibility for Registered Plans, by entering into forward contracts and other derivatives instruments that are linked to the performance of the applicable Underlying Pool or to the performance of portfolio securities of the applicable Underlying Pool. Each Top Pool may also invest directly in the applicable Underlying Pool up to the amount prescribed from time to time as the maximum permitted amount which may be invested in foreign property under the *Income Tax Act* (Canada) (the “Tax Act”) without the imposition of tax (the “Permitted Limit”).

This letter confirms that, based on the information and representations contained in the Application, and for the purposes described in the Application, the Decision Makers hereby grant exemptions from the following regulatory requirements:

- (a) subsection 2.1(1) of NI 81-102 - to permit each Top Pool to obtain exposure, through the use of forward contracts and other specified derivatives (the “Forward Contracts”), to a specified Underlying Pool beyond the prescribed limits, as determined under subsections 2.1(3) and (4);
- (b) subsections 2.1(1) and 2.2(1) and clause 2.5(1)(a) of NI 81-102 - to permit each Top Pool to invest directly in units of a specified Underlying Pool beyond the prescribed limits;
- (c) clause 2.8(1)(d) of NI 81-102 - to permit each Top Pool, in respect of its exposure under the Forward Contracts, to have a shortfall in its cash cover position for a period not to exceed one business day;
- (d) clause 5.5(1)(d) of NI 81-102 - to permit each Top Pool to suspend the right of its security holders to redeem securities of the Top Pool, whenever the right to redeem securities of its Underlying Pool is suspended in accordance with subsection 10.6(1) of NI 81-102; and
- (e) subsection 4.2(1)(3) - to permit NA RSP to sell all of its portfolio securities, excluding derivative instruments, to Americas in connection with the change of investment objectives of NA RSP.

The Decision Makers grant the exemptions to permit each of the Top Pools to gain exposure to a specified Underlying Pool through Forward Contracts, subject to the following conditions:

- a. there is no duplication of fees or sales charges to the Top Pool’s security holders as a result of gaining exposure to the Underlying Pool through Forward Contracts;
- b. to the extent that the Top Pool and the Underlying Pool do not use a combined simplified prospectus and annual information form containing disclosure about the Top Pool and the Underlying Pool, copies of the simplified prospectus and annual information form of the Underlying Pool have been provided upon request to security holders of the Top Pool and the right to receive these documents is disclosed in the simplified prospectus of the Top Pool;

- c. all of the disclosure and notice material prepared in connection with a meeting of security holders of the Underlying Pool and received by the Top Pool will be provided to its security holders and the security holders will be permitted to direct a representative of the Top Pool to vote its holdings in the Underlying Pool in accordance with their direction, and the representative of the Top Pool will not vote its holdings in the Underlying Pools except to the extent the security holders of the Top Pool have directed;
- d. in addition to receiving the annual and, upon request, the semi-annual financial statements of the Top Pool, security holders of the Top Pool have received the annual and, upon request, the semi-annual financial statements, of the Underlying Pool in either a combined report, containing financial statements of the Top Pool and the Underlying Pool, or in a separate report containing the financial statements of the Underlying Pool; and
- e. the simplified prospectus of the Top Pool contains full disclosure of:
 - (i) the investment objectives, strategies and risks of the Underlying Pool, and
 - (ii) the fact that security holders of the Top Pool have no direct voting rights in respect of any changes, whether fundamental or otherwise, that may be proposed to the Underlying Pool.

The Decision Makers grant the exemptions to permit each of the Top Pools to invest directly in units of a specified Underlying Pools, subject to the following conditions:

- 1. the Decision, as it relates to the jurisdiction of a Decision Maker, will terminate one year after the publication in final form of any legislation or rule of that Decision Maker dealing with matters in subsection 2.5 of NI81-102.
- 2. the Decision shall only apply if, at the time a Top Pool makes or holds an investment in an Underlying Pool, the following conditions are satisfied:
 - (a) the securities of both the Top Pool and the Underlying Pool are being offered for sale in the jurisdiction of the Decision Maker pursuant to a simplified prospectus and annual information form which has been filed with and accepted by the Decision Maker;
 - (b) the Underlying Pool is not a mutual fund whose investment objective includes investing directly or indirectly in other mutual funds;
 - (c) the investment by the Top Pool in the Underlying Pool is compatible with the fundamental investment objectives of the Top Pool;
 - (d) the simplified prospectus of the Top Pool discloses the intent of the Top Pool to invest directly and indirectly (through derivative exposure) in the Underlying Pool, and the name of the Underlying Pool;

- (e) the Top Pool restricts its direct investment in the Underlying Pool to a percentage of its assets that is within the Permitted Limited;
- (f) there are compatible dates for the calculation of the net asset value of the Top Pool and the Underlying Pool for the purpose of the issue and redemption of the securities of such mutual funds;
- (g) no sales charges are payable by the Top Pool in relation to its purchases of securities of the Underlying Pool;
- (h) no redemption fees or other charges are charged by the Underlying Pool in respect of the redemption by the Top Pool of securities of the Underlying Pool owned by the Top Pool;
- (i) no fees and charges of any sort are paid by the Top Pool and the Underlying Pool, by their respective managers or principal distributors, or by any affiliate or associate of any of the foregoing entities to anyone in respect of the Top Pool's purchase, holding or redemption of the securities of the Underlying Pool;
- (j) the arrangements between or in respect of the Top Pool and the Underlying Pool are such as to avoid the duplication of management fees;
- (k) any notice provided to securityholders of the Underlying Pool, as required by applicable laws or the constating documents of the Underlying Pool, has been delivered by the Top Pool to its securityholders and all voting rights attached to the securities of the Underlying Pool that are owned by the Top Pool will be passed through to securityholders of the Top Pool;
- (l) all of the disclosure and notice material prepared in connection with a meeting of security holders of the Underlying Pool and received by the Top Pool has been provided to its security holders, the security holders have been permitted to direct a representative of the Top Pool to vote its holdings in the Underlying Pool in accordance with their direction, and the representative of the Top Pool has not voted its holdings in the Underlying Pool except to the extent the security holders of the Top Pool have directed;
- (m) to the extent that the Top Pool and the Underlying Pool do not use a combined simplified prospectus and annual information form containing disclosure about the Top Pool and the Underlying Pool, copies of the simplified prospectus and annual information form of the Underlying Pool have been provided upon request to security holders of the Top Pool and the right to receive these documents is disclosed in the simplified prospectus of the Top Pool; and

- (n) in addition to receiving the annual and, upon request, the semi-annual financial statements, of the Top Pool, security holders of the Top Pool have received the annual and, upon request, the semi-annual financial statements, of the Underlying Pool in either a combined report, containing financial statements of the Top Pool and Underlying Pool, or in a separate report containing the financial statements of the Underlying Pool.

Yours truly,

“Paul A. Dempsey”

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