



November 13, 2002

SEDAR Project 485895

Attention: G. Eric Doherty  
Borden Ladner Gervais LLP  
Vancouver, BC

Dear Mr. Doherty,

**HSBC Asset Management (Canada) Limited (the “Applicant”)  
and HSBC Pooled Funds  
MRRS Application under Section 19.1 of National Instrument 81-102 *Mutual  
Funds* (“NI 81 102”)**

By letter dated October 16, 2002, as supplemented by a letter dated November 4, 2002 (the “Application”), you applied on behalf of the Applicant to the regulator or securities regulatory authority (collectively, the “Decision Makers”) in each province of Canada, except Prince Edward Island (collectively, the “Jurisdictions”) for discretionary relief from subsection 4.1(1) and section 4.2 of NI 81-102. The Applicant has caused the Application to be made on behalf of:

- (a) the mutual funds named in Appendix A (the “Existing Funds”); and
- (b) other mutual funds subject to NI 81-102 that the Applicant may establish and manage in the future (the “Future Funds” and together with the Existing Funds, the “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 HSBC Bank Canada (the “Bank”), HSBC Securities (Canada) Inc. (“HSBC Securities”), or any of their associates or affiliates acts or has acted as underwriter (collectively, the “HSBC 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 requested discretionary relief from this provision to enable the Funds to purchase and sell Fixed Income Securities (as defined below) from or to any of the persons or companies referred to in paragraphs 1 to 4 of section 4.2. acting as principal (collectively, the "Related Persons").

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

1. The Applicant is the manager, portfolio adviser and promoter of the Funds. The Applicant 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 manager mutual fund" within the meaning of section 1.1 of NI 81-102.
2. Each of the Applicant and HSBC Securities is a wholly-owned subsidiary of the Bank, a Schedule II chartered bank under the *Bank Act* (Canada).
3. The Applicant is registered under the *Securities Act* (British Columbia) (the "B.C. Act") and applicable securities legislation in each of the other Jurisdictions as a portfolio manager (or equivalent).
4. The Funds currently comprise nine open-end mutual fund trusts, each of which was established under the laws of British Columbia and each of which is qualified for distribution in the Jurisdictions by means of a simplified prospectus and annual information form.
5. The Applicant invests a portion of the assets of the Funds in the following types of fixed-income securities issued by parties other than Related Persons:
  - (a) bonds, debentures or other evidence of indebtedness of or guaranteed by (i) the government of Canada or by a province or territory of Canada, (ii) a municipal corporation, which is incorporated under the laws of the government of Canada or any province or territory of Canada, or (iii) a country or political division of a country recognized in an order by the British Columbia Securities Commission made for the purposes of section 46(a)(ii) of the B.C. Act;
  - (b) commercial paper, maturing not more than one year from the date of issue;
  - (c) bankers' acceptances, maturing not more than one year from the date of issue, which are accepted by a bank listed in Schedule I or II to the *Bank Act* (Canada), including by the Bank; and

- (d) such other fixed-income securities as may be specified from time to time in BC Instrument 81-504 or any successor instrument,

(collectively, "Fixed-Income Securities"). Currently, Fixed-Income Securities are purchased by the Funds from and sold by the Funds to parties unrelated to the Funds.

6. Fixed-Income Securities are purchased and sold by Related Persons as principal in the ordinary course of the Related Persons' business. Due to section 4.2 of NI 81-102, the Applicant is prohibited from purchasing Fixed-Income Securities for the Funds from Related Persons and from selling Fixed-Income Securities to Related Persons where such Related Persons sell or purchase, as the case may be, as principal. The transactions may not qualify for the exception contained in section 4.3 of NI 81-102 because it is not clear whether there are bid or ask prices for the Fixed-Income Securities which are reported by any available public quotation in common use.
7. The Investment Prohibition has made it difficult for the Applicant to acquire debt securities generally, and Corporate Debt Securities in particular, for the portfolios of the Funds. Since the HSBC Underwriters are frequently involved in underwriting or acting as selling group member in respect of the Offering of new issues of Corporate Debt Securities, the Funds are not able to purchase Corporate Debt Securities during the Investment Prohibition Period. The Investment Prohibition affects not only the Applicant's income funds but also the balanced, equity and other funds that are permitted to include Corporate Debt Securities in their investment portfolio.
8. The Applicant will only purchase Fixed-Income Securities from and sell Fixed-Income Securities to Related Persons on behalf of the Funds where such decision represents the business judgment of responsible persons and is not influenced by considerations other than the best interests of the Funds, or where such transaction is, in fact, in the best interests of the Funds.
9. Except to the extent that the Funds propose to engage in purchases and sales of Fixed-Income Securities as discussed above, the investment practices and policies of the Funds have been structured so as to comply with the applicable securities legislation and policies in each of the Jurisdictions, including those contained in NI 81-102.

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 an exemption from:

- A. subsection 4.1(1) of NI 81-102, so that a Fund may make an investment in Corporate Debt Securities during the Investment Prohibition Period, even if an

HSBC 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 Fund may purchase from a Related Person, or sell to a Related Person, Fixed Income Securities in the secondary market,

PROVIDED THAT

- (1) at the time of each purchase or sale (the "Trade") of Fixed-Income Securities by a Fund pursuant to this Decision, the following conditions are satisfied:
- (a) the Trade
    - (i) represents the business judgment of the Applicant uninfluenced by considerations other than the best interests of the Fund, or
    - (ii) is, in fact, in the best interests of the Fund;
  - (b) the Trade is consistent with, or is necessary to meet, the investment objective of the Fund as disclosed in its simplified prospectus;
  - (c) if the Trade is made pursuant to paragraph A of this Decision, the Fund does not place the order to purchase, on a principal or agency basis, with an HSBC 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 in Corporate Debt Securities pursuant to paragraph A or 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 the Applicant or a Related Person, as the case may be, or any of their respective affiliates or associates;
    - (ii) neither the Applicant 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 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 Fund discloses that it may
    - (i) invest in Corporate Debt Securities pursuant to paragraph A of this Decision, and
    - (ii) purchase or sell Fixed Income Securities pursuant to paragraph B of this Decision; and
  - (b) the annual information form of the Fund describes the policies and procedures referred to in paragraph (3) below;
- (3) prior to effecting any Trade pursuant to this Decision, the 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 Funds and other accounts managed by the Applicant, and
    - (ii) there is full documentation of the reasons for any allocation to a Fund that departs from the stated allocation factors or criteria;
  - (c) in connection with any Trade in Corporate Debt Securities or Fixed-Income Securities which are debt securities issued or fully and unconditionally guaranteed by the Canadian federal government or

Canadian provincial governments (“Government Debt Securities”) pursuant to paragraph B of this Decision,

- (i) each Fund maintains an itemized daily record of all such Trades showing, for each Trade
    - (a) the name and principal amount of the 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 Fund on the Trade,
    - (c) if the Trade is in Corporate Debt Securities
      - (A) the relevant Benchmark Bond or, in the case of US\$-Pay Corporate Debt Securities, the relevant U.S. treasury bond,
      - (B) the bid-ask price of the Benchmark Bond or U.S. treasury bond, and
      - (C) the spread over the Benchmark Bond or U.S. treasury bond that was paid or received by the Fund on the Trade,
    - (d) the time and date of the Trade, and
    - (e) the name of the dealer on the Trade;
  - (ii) the Applicant maintains written records of the quotations received from Independent Dealers, and each 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; and
  - (iii) the Applicant conducts a timely review of each Fund’s Trades with Related Persons to confirm that each Trade complied with the conditions of this Decision;
- (4) the following particulars of each Trade pursuant to this Decision are set out in a report certified by the Applicant and filed on SEDAR, in respect of each 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 HSBC Underwriters was the lead underwriter or syndicate manager and if applicable to the type of Offering, the portion of the Offering underwritten by the HSBC 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 Fund,
  - (v) the price at which the purchase was made,
  - (vi) if Corporate Debt Securities were purchased for two or more Funds and other accounts managed by the Applicant, the aggregate amount so purchased and the percentage of such aggregate amount that was allocated to each Fund, and
  - (vii) the dealer from whom the Fund purchased the Corporate Debt Securities and the fees or commissions, if any, paid by the 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 securities,
  - (ii) the principal amount of securities purchased or sold by the 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 Fund, or

- (B) in the case of a Trade in Corporate Debt Securities, the spread over the relevant Benchmark Bond or U.S. treasury bond that was paid or received by the Fund; and
  - (v) a certification by the Applicant that the Trade
    - (A) represented the business judgment of the Applicant uninfluenced by considerations other than the best interests of the Fund, or
    - (B) was, in fact, in the best interests of the 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 truly,

*Signed*

Angela Huxham  
Director



**Appendix A**  
**to**  
**Exemption Letter dated •, 2002**

**HSBC Pooled Funds**

HSBC Canadian Money Market Pooled Fund

HSBC Canadian Bond Pooled Fund

HSBC International Bond Pooled Fund

HSBC Canadian Dividend Income Pooled Fund

HSBC Canadian Equity Pooled Fund

HSBC U.S. Equity Pooled Fund

HSBC International Equity Pooled Fund

HSBC Small Cap Growth Pooled Fund

HSBC Future Growth Pooled Fund