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**VIA SEDAR**

December 12, 2000

Borden Ladner Gervais LLP

**Attention: Karen Koszo**

Dear Sirs/Mesdames:

**Re: Scotia Securities Inc., Capital U.S. Large Companies RSP Fund, Capital U.S. Small Companies RSP Fund, Capital International Large Companies RSP Fund, Capital Global Discovery RSP Fund and Capital Global Small Companies RSP Fund**  
**- MRRS Application for Exemptive Relief pursuant to section 19.1 of National Instrument 81-102 ("NI 81-102")**  
**- Application #1135/00; SEDAR #304780**

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By letter dated October 16, 2000 as amended by letters dated October 26, 2000 and November 10, 2000 (together, the "Application"), you applied to the securities regulatory authority (the "Decision Maker") in each of the provinces and territories of Canada, on behalf of Scotia Securities Inc. ("Scotia"), as manager of Capital U.S. Large Companies RSP Fund, Capital U.S. Small Companies RSP Fund, Capital International Large Companies RSP Fund, Capital Global Discovery RSP Fund and Capital Global Small Companies RSP Fund, and other mutual funds which may be created by Scotia in the future (collectively, the "RSP Funds" and individually a "RSP Fund") managed by Scotia after the date of this approval having an investment objective or strategy that is linked to the returns or portfolio of another specified mutual fund (collectively, the "Underlying Funds"), for exemptions from the following provisions of NI 81-102:

- subsections 2.1(1) and 2.2(1);
- clauses 2.5(1)(a), and 2.8(1)(d); and
- section 4.2(3).

A preliminary simplified prospectus (the "Prospectus") and annual information form has been filed for each of the RSP Funds and is currently being reviewed under SEDAR Project No. 304456.

The Application states and the Prospectus discloses or will disclose that the RSP Funds will obtain exposure to the Underlying Funds (as described in the Application), whose units are "foreign property" under the *Income Tax Act* (Canada) (the "Tax Act"), by

- directly investing in units of the Underlying Funds, or
- entering into forward contracts or other specified derivatives with one or more institutions, including The Bank of Nova Scotia ("BNS") (collectively, the "Related Counterparties"),

which are linked to the units or underlying portfolio securities of the Underlying Funds.

This investment strategy would enable the RSP Funds to obtain foreign exposure in excess of the foreign property limit prescribed from time to time for registered plans (the "Foreign Property Maximum") under the Tax Act.

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 the RSP Funds to obtain exposure, through the use of forward contracts and other specified derivatives, to a specified Underlying Fund 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 the RSP Funds to invest directly in securities of their corresponding Underlying Fund beyond the prescribed limits and up to the maximum amount (the "Permitted Limit") that can be invested in foreign property under the *Income Tax Act* (Canada) for registered tax savings plans (the "Permitted RSP Fund Investments");
- (c) clause 2.8(1)(d) of NI 81-102 - to permit the RSP Funds, in respect of each exposure under forward contracts or other specified derivatives, to have a shortfall in its cash cover position for a period not to exceed one business day; and
- (d) section 4.2(3) of NI 81-102 - to permit the RSP Funds to enter into forward contracts (the "Forward Contracts") with the Bank of Nova Scotia ("BNS"), or its affiliates, which are linked to the units or portfolio securities of their corresponding Underlying Fund.

The Decision Makers grant the exemptions to permit the RSP Funds to gain exposure to their corresponding Underlying Fund through the use of forward contracts and other specified derivatives, subject to the following conditions:

- (a) there is no duplication of fees or sales charges to the RSP Funds' securityholders as a result of gaining exposure to their Underlying Fund through forward contracts and other specified derivatives;
- (b) where the RSP Funds and the Underlying Funds are qualified for sale under different disclosure documents, the securityholders of the RSP Funds receive the prospectus and annual information form and financial statements of their Underlying Fund if they ask for these documents in connection with their acquisition of securities of the RSP Funds; the availability of these documents must be disclosed in the simplified prospectus and annual information form (the "Prospectus") of the RSP Funds;
- (c) securityholders of the RSP Funds will receive all other continuous disclosure relating to their Underlying Fund, including notice of securityholder meetings; and
- (d) the Prospectus of the RSP Funds contains full disclosure of

- (i) the investment objectives and strategies of their Underlying Fund, and
- (ii) the fact that securityholders of the RSP Funds have no voting rights in respect of any changes, whether fundamental or otherwise, that may be proposed to their Underlying Fund.

The Decision Makers grant the exemptions to permit RSP Funds to invest directly in securities of their Underlying Fund, subject to the following conditions:

1. the exemption, 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 the matters in section 2.5 of NI 81-102; and
2. the exemption shall apply only to investments in, or transactions with, the applicable Underlying Fund that are made by the RSP Funds in compliance with the following conditions:
  - a) the Underlying Funds' securities are offered for sale in the jurisdiction of each Decision Maker pursuant to a simplified prospectus and annual information form which has been filed with and accepted by the Decision Maker;
  - b) the RSP Funds restrict their aggregate direct investment in the corresponding Underlying Fund to a percentage of its assets that is within the Permitted Limit;
  - c) the investments by the RSP Funds in the Underlying Funds are compatible with the fundamental investment objectives of the RSP Funds;
  - d) the RSP Funds will not invest in an Underlying Fund whose investment objective includes investing directly or indirectly in other mutual funds;
  - e) the investment objective in the prospectus of the RSP Funds will describe the intent of the RSP Funds to invest in the specified Underlying Funds and will name the underlying Funds;
  - f) the RSP Funds may change the Permitted RSP Fund Investments if they change their fundamental investment objectives in accordance with the Legislation;
  - g) no sales charges are payable by the RSP Funds in relation to their purchases of securities of the Underlying Funds;
  - h) there are compatible dates for the calculation of the net asset value of the RSP Funds and the Underlying Funds for the purpose of the issue and redemption of the securities of such mutual funds;
  - i) no redemption fees or other charges are charged by the Underlying Funds in respect of the redemption by the RSP Funds of securities of the Underlying Funds owned by the RSP Funds;

- j) the arrangements between or in respect of the RSP Funds and the Underlying Funds are such as to avoid the duplication of management fees;
- k) no fees and charges of any sort are paid by the RSP Funds or by the Underlying Funds or by the manager or principal distributor of the RSP Funds or the Underlying Funds or by any affiliate or associate of any of the foregoing entities to anyone in respect of the RSP Funds' purchase, holding or redemption of the securities of the Underlying Funds, other than the management fees as addressed in (j) above;
- l) in the event of the provision of any notice to securityholders of the Underlying Funds as required by the constating documents of the Underlying Funds or by the laws applicable to the Underlying Funds, such notice will also be delivered to the securityholders of the RSP Funds; all voting rights attached to the securities of the Underlying Funds which are owned by the RSP Funds will be passed through to the securityholders of the RSP Funds; in the event that a securityholders' meeting is called for the Underlying Funds, all of the disclosure and notice material prepared in connection with such meeting will be provided to the securityholders of the RSP Funds and such securityholders will be entitled to direct a representative of the RSP Funds to vote the RSP Funds' holding in the Underlying Funds in accordance with their direction; and the representative of the RSP Funds will not be permitted to vote the RSP Funds' holdings in the Underlying Funds except to the extent the securityholders of the RSP Funds so direct;
- m) in addition to receiving the annual and, upon request, the semi-annual financial statements, of the RSP Funds, securityholders of the RSP Funds will receive the annual and, upon request, the semi-annual financial statements, of the Underlying Funds in either a combined report, containing both the RSP Funds' and Underlying Funds' financial statements, or in a separate report containing the Underlying Funds' financial statements; and
- n) to the extent that the RSP Funds and the Underlying Funds do not use a combined simplified prospectus and annual information form containing disclosure about the RSP Funds and the Underlying Funds, copies of the simplified prospectus and annual information form relating to the Underlying Funds may be obtained upon request by a securityholder of the RSP Funds.

The Decision Makers grant the exemption to permit the RSP Funds to invest in the Forward Contracts, subject to the following conditions:

1. the pricing terms offered by Related Counterparties to the RSP Funds under the forward contracts are at least as favourable as the terms committed by the Related Counterparties to other third parties which are of similar size as the RSP Funds;
2. prior to the RSP Funds entering into a forward contract transaction with the Related Counterparties, the independent auditors of the RSP Funds will review the pricing offered by the Related Counterparties to the RSP Funds against the pricing offered by

the Related Counterparties to other fund groups offering RSP funds of similar size, to ensure the pricing is at least as favourable;

3. the review by the independent auditors will be undertaken whenever the Prospectus is renewed and whenever it is proposed to amend the pricing and terms of such contract;
4. the RSP Funds' simplified prospectus (and each renewal thereof) discloses the independent auditors' role and their review of the forward contracts, as will the involvement of the Related Counterparties; and
5. the RSP Funds will enter into forward contracts with the Related Counterparties only once confirmation of favourable pricing is received from the independent auditors of the RSP Funds.

Yours truly,

*Paul A. Dempsey*

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