

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - Relief granted from certain of the self dealing requirements regarding investments for specified purposes by mutual funds in securities of other mutual funds that are under common management.

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, ss. 120(1), 120(2), 121(2)(b), 126(a), 126(d), 127(1) and 130(b)

IN THE MATTER OF THE SECURITIES LEGISLATION OF BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, ONTARIO, NOVA SCOTIA, NEWFOUNDLAND, PRINCE EDWARD ISLAND, AND YUKON TERRITORY

AND

IN THE MATTER OF THE MUTUAL RELIANCE REVIEW SYSTEM FOR EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF CREDENTIAL SELECT BALANCED PORTFOLIO, CREDENTIAL SELECT GROWTH PORTFOLIO, CREDENTIAL SELECT HIGH GROWTH PORTFOLIO

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the ^ADecision Maker[®]) in each of British Columbia, Alberta, Saskatchewan, Ontario, Nova Scotia, Prince Edward Island, Newfoundland, and the Yukon Territory (the ^AJurisdictions[®]) has received an application from Ethical Funds Inc. (^AEFI[®]) in its capacity as Manager of the Credential Select Growth Fund, Credential Select Balanced Fund and Credential Select High Growth Fund (the ^ACredential Select Funds[®]) for a decision under the securities legislation of the Jurisdictions (the ^ALegislation[®]) that;

1. the provision contained in the Legislation prohibiting a mutual fund from knowingly making or holding an investment in a person or company in which the mutual fund, alone or together with one or more related mutual funds, is a substantial securityholder;
2. the requirement contained in the Legislation for a mutual fund manager to file a report in the required form for each mutual fund to which the mutual fund manager provides services or advice respecting a purchase or sale of securities between the mutual fund and any related person; and
3. other than in Ontario, the provision contained in the Legislation prohibiting a mutual fund or responsible person or if applicable, a portfolio manager, from knowingly causing the mutual fund to invest in any issuer in which a responsible person is an officer or director unless the specific fact is disclosed to the client and, if applicable, the written consent of the client to the investment is

obtained before the purchase;

(the "Applicable Requirements") shall not apply to investments by the Credential Select Funds directly in securities of certain third party or EFI managed mutual funds (the "Underlying Funds"):

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the British Columbia Securities Commission is the principal regulator for this application;

AND WHEREAS EFI has represented to the Decision Makers that:

1. EFI is a corporation established under the laws of Canada and is the manager of the Credential Select Funds; the head office for EFI is located in Vancouver, British Columbia;
2. EFI is registered as an investment counsel and portfolio manager under the Legislation in British Columbia;
3. the Credential Select Funds will be comprised of three open-ended mutual fund trusts, each of which will be established under the laws of British Columbia and will be qualified for distribution in all Jurisdictions by means of a simplified prospectus and annual information form (the ^AProspectus[®]); upon obtaining the receipt for the Prospectus, each of the Credential Select Funds will become a reporting issuer or the equivalent under the Legislation of the Jurisdictions;
4. under the Prospectus, each Credential Select Fund will offer Class A units;
5. each of the Credential Select Funds will invest specified percentages (the "Fixed Percentages") of its assets in units of third party or EFI managed Underlying Funds and may not deviate more than 2.5% above or below the Fixed Percentages (the "Permitted Range");
6. the Underlying Funds are or will be qualified for distribution in the Jurisdictions under a simplified prospectus and annual information form; none of the Underlying Funds include investing directly or indirectly in other mutual funds in its investment objective;
7. the Prospectus will contain disclosure with respect to the investment objectives, investment policies, Fixed Percentages, Permitted Range, maximum management fees and risk profiles of the Credential Select Funds, as well as the name, manager, investment objectives, management expense ratio and risks of each Underlying Fund;
8. each of the Credential Select Funds will have different investment objectives, which will determine the investment allocation among the Underlying Funds;
9. if at any time the investment of a Credential Select Fund in an Underlying Fund deviates from the Permitted Range, the necessary changes will be made to the Credential Select Fund's investment portfolio as at the next valuation date in order to bring its investments in accordance with the Fixed Percentage;
10. the Fixed Percentages and the Underlying Funds disclosed in the Prospectus will not be changed unless the Prospectus is amended to reflect the proposed change and the amended Prospectus is filed with and receipted by the Decision Makers and existing unitholders of the applicable Credential Select Fund are given at least 60 days prior notice of the proposed change; each purchaser of units of the applicable Credential Select Fund who acquires units following the delivery of such written notice to existing unitholders will be provided with an amended Prospectus;

11. the purchase and sale of securities of an Underlying Fund by a Credential Select Fund will represent the business judgment of responsible persons uninfluenced by considerations other than the best interests of the Credential Select Fund;

12. except to the extent evidenced by this decision and specific approvals granted by the Decision Makers under National Instrument 81-102, the investments by the Credential Select Funds in the Underlying Funds have been structured to comply with the investment restrictions of the Legislation and National Instrument 81-102;

13. in the absence of this Decision, under the Legislation, the Credential Select Funds are prohibited from (a) knowingly making an investment in a person or company in which the mutual fund, alone or together with one or more related mutual funds, is a substantial securityholder; and (b) knowingly holding an investment referred to in subsection (a) hereof. As a result, the Credential Select Funds would be required to divest themselves of any investments referred to in subsections (a) and (b) hereof; and

14. in the absence of this Decision, the Legislation requires EFI to file a report on every purchase or sale of securities of the Underlying Funds by the Credential Select Funds;

AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the ^ADecision[®]);

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with jurisdiction to make the Decision has been met;

The Decision of the Decision Makers under the Legislation is that the Applicable Requirements shall not apply to the Credential Select Funds investing in, or redeeming the securities of, the Underlying Funds:

PROVIDED THAT IN RESPECT OF the investment by the Credential Select Funds directly in securities of the Underlying Funds:

1. this 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 section 2.5 of National Instrument 81-102; and

2. this Decision shall only apply in respect of investments made by the Credential Select Funds in compliance with the following conditions:

a) securities of the Credential Select Funds and the Underlying Funds are offered for sale in the jurisdiction of the Decision Maker under a prospectus that has been filed with and receipted by the Decision Maker;

b) each Credential Select Fund invests its assets (exclusive of cash and cash equivalents) in the Underlying Funds in accordance with the Fixed Percentages, subject to a permitted variation above or below such Fixed Percentages to account for market fluctuations of not more than 2.5% of the net asset value of the Credential Select Fund;

c) the Prospectus will disclose the intent of each Credential Select Fund to invest in securities of the Underlying Funds, the names of the Underlying Funds, the Fixed Percentages, and the Permitted Ranges within which such Fixed Percentages may vary;

d) the investment by each Credential Select Fund in the Underlying Funds is compatible with the

fundamental investment objective of the Credential Select Fund;

e) the Fixed Percentages and the Underlying Funds which are disclosed in the Prospectus may be changed only if the Prospectus is amended, or a new prospectus is filed, and receipted and in either event, if the unitholders of the Credential Select Fund are given at least 60 days notice of the proposed change;

f) if at any time the investment of a Credential Select Fund in an Underlying Fund deviates from the Permitted Range, the necessary changes are made to the Credential Select Fund's investment portfolio as at the next valuation date in order to bring its investments in accordance with the Fixed Percentage;

g) there are compatible dates for the calculation of the net asset value of the Credential Select Funds and the Underlying Funds for the purpose of the issue and redemption of the securities of such mutual funds;

h) in the event of the provision of any notice to unitholders of an Underlying Fund, as required by the constating documents of or the laws applicable to the Underlying Fund, such notice will also be delivered to the unitholders of each Credential Select Fund that holds securities of the Underlying Fund; all voting rights attached to the securities of the Underlying Funds that are directly owned by a Credential Select Fund will be passed through to the unitholders of the Credential Select Fund;

i) in the event that a meeting is called for the unitholders of an Underlying Fund, all of the disclosure and notice material prepared in connection with such meeting and received by a Credential Select Fund will be provided to its unitholders, and such unitholders will be entitled to direct a representative of the Credential Select Fund to vote its holdings in the Underlying Fund in accordance with their direction; the representative of the Credential Select Fund will not be permitted to vote its holdings in the Underlying Fund except to the extent the unitholders of the Credential Select Fund so direct;

j) no sales charges are payable by the Credential Select Funds in relation to purchases of securities of the Underlying Funds;

k) no fees and charges of any sort are paid by the Credential Select Funds and the Underlying Funds, their respective managers or principal distributors, or by any affiliate or associate of any of the foregoing entities to anyone in respect of the Credential Select Fund's purchase, holding or redemption of the securities of the Underlying Funds;

l) the arrangements between or in respect of the Credential Select Funds and the Underlying Funds are such as to avoid the duplication of management fees;

m) any management fee rebates received from the Underlying Funds will be retained by the Credential Select Fund for the benefit of the unitholders of the Credential Select Fund;

n) the simplified prospectus of the Credential Select Funds discloses that the simplified prospectus and annual information forms of the Underlying Funds are available upon request and unitholders will receive the annual and, upon request, the semi-annual financial statements of the Credential Select Fund together with (i) appropriate summary disclosure in the financial statements of the Credential Select Fund concerning each Underlying Fund in which it invests; or (ii) upon request, the annual and semi-annual financial statements of each applicable Underlying Fund in either a combined report containing both the Credential Select Fund and Underlying Fund financial statements, or in a separate report containing Underlying Fund financial statements; and

o) the Credential Select Funds do not invest in any mutual funds (including RSP clone funds) that include investing directly or indirectly in other mutual funds as their investment objective.

DATED December 21, 2000.

*A*Brenda Leong®
Director