

**IN THE MATTER OF THE SECURITIES LEGISLATION OF
BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN,
ONTARIO, QUÉBEC, NOVA SCOTIA,
AND NEWFOUNDLAND**

AND

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

AND

**IN THE MATTER OF
SCOTIA SECURITIES INC.
CAPITAL U.S. LARGE COMPANIES FUND
CAPITAL U.S. SMALL COMPANIES FUND
CAPITAL INTERNATIONAL LARGE COMPANIES FUND
CAPITAL GLOBAL DISCOVERY FUND
CAPITAL GLOBAL SMALL COMPANIES FUND**

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the **ADecision Maker**) in each of the provinces of British Columbia, Alberta, Saskatchewan, Ontario, Québec, Nova Scotia and Newfoundland (the **AJurisdictions**) has received an application (the **AApplication**) from Scotia Securities Inc. (the "Manager") in its own capacity and on behalf of Capital U.S. Large Companies Fund, Capital U.S. Small Companies Fund, Capital International Large Companies Fund, Capital Global Discovery Fund and Capital Global Small Companies Fund (the **AExisting Funds**) and other mutual funds managed by the Manager after the date of this Decision (defined herein) having an investment objective or strategy that is linked to the returns of a single specified mutual fund (together with the Existing Funds, the **ATop Funds**) for a decision pursuant to the securities legislation of the Jurisdictions (the **ALegislation**) that the following prohibitions or requirements under the Legislation (the **AApplicable Requirements**) shall not apply to the Top Funds or the Manager, as the case may be, in respect of certain investments made by the Top Funds in Capital International - U.S. Equity, Capital International - U.S. Small Cap, Capital International - International Equity, Capital International - Global Discovery and Capital International - Global Small Cap and such other specific prospectus-qualified mutual funds which the Top Funds may invest in from time to time (the **AUnderlying Funds**):

the restrictions contained in the Legislation prohibiting a mutual fund from knowingly making and 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 shall not apply in respect of investments to be made by the Top Funds in the Underlying Funds (collectively, the "Funds"); and

the requirements contained in the Legislation requiring the management company or, in British Columbia, a mutual fund manager, to file a report relating to a purchase or sale of securities between the mutual fund and any related person or company, or any transaction in which, by arrangement other than an arrangement relating to insider trading in portfolio securities, the mutual fund is a joint participant with one or more of its related persons or companies, shall not apply in respect of investments to be made by a Top Fund in an Underlying Fund.

AND WHEREAS pursuant to the Mutual Reliance Review System for Exemptive Relief Applications (the **ASystem**), the Ontario Securities Commission is the principal regulator for this Application;

AND WHEREAS it has been represented by the Manager to the Decision Makers that:

1. The Top Funds will be open-ended mutual fund trusts established under the laws of the Province of Ontario. The Manager is a corporation established under the laws of the Province of Ontario. The Manager is the manager, trustee and promoter of the Top Funds.
2. The Underlying Funds will be open-end mutual funds established under the laws of the Province of Ontario. The units of the Underlying Funds are to be qualified in the jurisdiction of the Decision Makers for sale pursuant to a simplified prospectus and annual information form which has been filed with and accepted by the Decision Makers.
3. The Funds will be reporting issuers. The units of the Top Funds are to be qualified under a simplified prospectus and annual information form (collectively, the "Prospectus") which will be filed in the Jurisdictions and are not in default of the requirements of the Legislation.
4. To achieve its investment objective, each Top Fund attempts to replicate the return of an Underlying Fund by investing its assets, excluding cash and cash equivalents held to meet redemptions and expenses, in securities of a single Underlying Fund. The investment objective of an Underlying Fund will align with the investment objective of the corresponding Top Fund.
5. The Underlying Fund in which a Top Funds invest will at all times be a prospectus-qualified mutual fund.
6. The investment objectives of each of the Top Funds and its corresponding Underlying Fund will be described in the Prospectus. The name of the Underlying Fund in which a Top Fund invests will be included in the investment objectives of that Top Fund and the Underlying Fund will not be changed unless the prior approval of the unitholders of that Top Fund has been obtained. A new prospectus or an amended prospectus will be filed with the Decision Makers forthwith disclosing the change in the Underlying Fund.
7. The manager of each Underlying Fund will deal at arm's length with the Manager and will be chosen on the basis of, among other criteria, its management style, its choice of sub-advisers and other consultants, its efficiency of administration, the calibre of its reporting procedures and the historic performance of its mutual funds.
8. The arrangements between the Top Funds and Underlying Funds will avoid the duplication of management fees and operating expenses. Either no management fee will be charged by the Underlying Funds' manager in connection with the units held by the Top Fund or the management fee charged by the Underlying Funds' manager will be reduced through the payment of a management fee distribution or the use of a class of securities with a lower management fee than is available to the general investing public, with the result that, except as described below, the aggregate of the management fees payable by the Top Fund at the Underlying Fund level and the management fee payable at the Top Fund level will not exceed the management fee which is otherwise charged indirectly to the general investing public at the Underlying Fund level.
9. Except to the extent evidenced by this Decision and specific approvals granted or to be granted by the

Canadian securities administrators under National Instrument 81-102 (ANI 81-102"), the investment by each Top Fund in an Underlying Fund will be structured to comply with the investment restrictions of the Legislation and NI 81-102.

10. The investments by the Top Funds in securities of the Underlying Funds will represent the business judgment of responsible persons uninfluenced by considerations other than the best interests of the Top Funds.
11. In the absence of this Decision, pursuant to the Legislation, each Top Fund is 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, in the absence of this Decision, a Top Fund would be required to divest itself of any investments referred to in subsection (a) hereof.
12. In the absence of this Decision, the Legislation requires the Manager to file a report on every purchase or sale of securities of the Underlying Funds by the Top Funds.

AND WHEREAS pursuant to the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the ~~AD~~Decision@);

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

THE DECISION of the Decision Makers under the Legislation is that the Applicable Requirements do not apply to the Top Funds or the Manager, as the case may be, in respect of investments to be made by the Top Funds in securities of the Underlying Funds;

PROVIDED IN EACH CASE THAT:

13. 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 the matters in subsection 2.5 of NI 81-102; and
14. the foregoing Decision shall only apply in respect of investments in, or transactions with, an Underlying Fund that are made by a Top Fund in compliance with the following conditions:
 - (1) the investment by a Top Fund in an Underlying Fund is compatible with the fundamental investment objective of such Top Fund;
 - (2) the securities of the Top Funds and the Underlying Funds are and will continue to be offered for sale in the jurisdiction of the Decision Maker pursuant to a prospectus which has been filed with and accepted by the Decision Maker;

- (3) the investment objective outlined in the Prospectus of a Top Fund will describe the intent of the Top Fund to invest substantially all of its assets in units of a specified Underlying Fund and will name the Underlying Fund, and the Prospectus of a Top Fund will disclose the manager of the specified Underlying Fund and include all of the disclosure in respect of such Underlying Fund that the Underlying Fund will be required to include in its own simplified prospectus in accordance with the disclosure requirements of Part B of Form 81-101F1 Contents of Simplified Prospectus;
- (4) none of the Top Funds will invest in an Underlying Fund whose investment objective includes investing directly or indirectly in other mutual funds (i.e. RSP Clone Funds or Fund-of-Funds);
- (5) the particular Underlying Fund in which a Top Fund will invest, and which will be disclosed in the investment objective outlined in the Top Fund's Prospectus, may not be changed unless the prior approval of the unitholders of the Top Fund has been obtained and the Prospectus is amended or a new prospectus is filed forthwith with the Decision Makers ;
- (6) there are compatible dates for the calculation of the net asset value of the Top Fund and its Underlying Fund for the purpose of the issue and redemption of the securities of such mutual funds;
- (7) in the event of the provision of any notice to securityholders of an Underlying Fund as required by the constating documents of that Underlying Fund or by the laws applicable to that Underlying Fund, such notice will also be delivered to the securityholders of the applicable Top Fund; all voting rights attached to the securities of the Underlying Fund which are owned by an applicable Top Fund will be passed through to the securityholders of the applicable Top Fund.
- (8) if a securityholders' meeting is called by the Underlying Fund in respect of a matter requiring securityholder approval under NI 81-102, all of the disclosure and notice material prepared in connection with such meeting will be provided to the security holders of the Top Fund and such security holders will be entitled to direct a representative of the Top Fund to vote the Top Fund's holding in the Underlying Fund in accordance with their direction; and the representative of a Top Fund will not be permitted to vote the Top Fund's holdings in the Underlying Fund except to the extent the security holders of the Top Fund so direct;
- (9) no sales charges will be payable by a Top Fund in relation to its purchases of securities of an Underlying Fund;
- (10) no trailing fees will be payable in respect of a Top Fund's investments in a specified Underlying Fund;
- (11) no redemption fees or other charges are charged by an Underlying Fund in respect of the redemption by a Top Fund of securities of that Underlying Fund owned by that Top Fund;

- (12) the arrangements between or in respect of a Top Fund and its Underlying Fund are such as to avoid the duplication of management fees;
- (13) in addition to receiving the annual and, upon request, the semi-annual financial statements of a Top Fund, security holders of that Top Fund will receive appropriate summary disclosure in respect of a Top Fund's holdings of securities of its corresponding Underlying Fund; and
- (n) copies of the simplified prospectus, annual information form and annual and semi-annual financial statements relating to the applicable Underlying Fund may be obtained, upon request, by a security holder of the Top Fund without charge and this fact will be disclosed in the Prospectus of the Top Funds.

DATED at Toronto, Ontario this December 13, 2000.

J.A. Geller

David Brown

Headnote

Investment of virtually all assets of Top Fund in specified third party managed mutual funds exempted from the self-dealing and reporting requirements of subsections 111(2)(b), 111(3) 117(1)(a) and 117(1)(d) subject to certain specified conditions, including unique condition with respect to investment objective.

Statutes Cited

Securities Act (Ontario), R.S.O. 1990 c.S.5, as am., s.s. 111(2)(b), 111(3), 117(1)(a) and 117(1)(d).