

2010 BCSECCOM 399

July 7, 2010

Headnote

National Policy 11-203 *Process for Exemptive Relief Applications in Multiple Jurisdictions – Securities Act*, s.88 – *cease to be a reporting issuer* - The securities of the issuer are beneficially owned by more than 50 persons and are not traded through any exchange or market – The issuer is a mutual fund; Canadian residents own less than 2% of the issuer's securities and represent less than 2% of the issuer's total number of security holders; the issuer does not intend to do a public offering of its securities to Canadian residents, will not be a reporting issuer in any Canadian jurisdiction, is subject to the reporting requirements of foreign securities law, and all shareholders receive the same disclosure; the issuer intends to only distribute securities to Canadian residents who are existing securityholders as reinvestment of dividends under exemptions from the prospectus and registration requirements, and provides the disclosure required by such exemption in its current prospectus

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, s. 88

In the Matter of
the Securities Legislation of
British Columbia, Alberta, Saskatchewan and Nova Scotia
(the Jurisdictions)

and

In the Matter of
the Process for Exemptive Relief Applications in Multiple Jurisdictions

and

In the Matter of
Diversified International Fund
LargeCap Growth Fund
(the Filers, and each, the Filer)

Decision

Background

- ¶ 1 The securities regulatory authority or regulator in each of the Jurisdictions (Decision Maker) has received an application from the Filers for a decision under

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the securities legislation of the Jurisdictions (the Legislation) that each of the Filers be deemed to each have ceased to be a reporting issuer under the Legislation of the Jurisdictions.

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a coordinated review application):

- (a) the British Columbia Securities Commission is the principal regulator for this application, and
- (b) the decision is the decision of the principal regulator and evidences the decision of each other Decision Maker.

Interpretation

- ¶ 2 Terms defined in National Instrument 14-101 Definitions and MI 11-102 have the same meaning if used in this decision, unless otherwise defined.

Representations

- ¶ 3 This decision is based on the following facts represented by the Filers:
- 1. the Filers are each mutual funds constituted as separate series of shares of Principal Funds, Inc. (Principal Funds), a corporation incorporated under the laws of Maryland; the principal office of Principal Funds is 7 St. Paul Street, Suite 1660, Baltimore, MD, USA, 21202;
 - 2. Principal Management Corporation (Principal), a corporation incorporated under the laws of Iowa, is the manager of the Filers; the principal office of Principal is 711 High Street, Des Moines, IA, USA, 503920306;
 - 3. the Filers are reporting issuers in British Columbia, Alberta, Saskatchewan and Nova Scotia;
 - 4. each Filer is not in default of any of the requirements of the Legislation of each Jurisdiction;
 - 5. the Filers are applying for relief to cease to be a reporting issuer in all of the jurisdictions in Canada in which each Filer is currently a reporting issuer;
 - 6. as of May 28, 2010, the authorized capital of Principal Funds in respect of Diversified International Fund (Diversified) consists of 200,000,000 Class A shares, 50,000,000 Class B shares, 50,000,000 Class C shares, 75,000,000 Class J shares, 200,000,000 Institutional Class shares, 100,000,000 Class R-1

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shares, 75,000,000 Class R-2 shares, 75,000,000 Class R-3 shares, 10,000,000 Class R-4 shares, and 75,000,000 Class R-5 shares;

7. as of May 28, 2010, the authorized capital of Principal Funds in respect of LargeCap Growth Fund (LargeCap) consists of 200,000,000 Class A shares, 75,000,000 Class B shares, 50,000,000 Class C shares, 50,000,000 Class J shares, 500,000,000 Institutional Class shares, 100,000,000 Class R-1 shares, 45,000,000 Class R-2 shares, 45,000,000 Class R-3 shares, 10,000,000 Class R-4 shares, and 45,000,000 Class R-5 shares; the various classes of shares differ in respect of sales charges;
8. Principal Funds has many series of shares, but only Class A shares of Diversified and LargeCap, respectively, have been offered publicly in Canada; no other funds of Principal Funds are reporting issuers in Canada; residents of Canada have also acquired Class C and Class J shares of each of the Filers pursuant to prospectus exempt trades or as result of changes of residency of the holder;
9. as of May 14, 2010, there were issued and outstanding:
 - (a) 43,412,386.258 Class A shares of LargeCap;
 - (b) 30,019,866.092 Class A shares of Diversified;
 - (c) 1,463,415.753 Class C shares of LargeCap;
 - (d) 1,299,020.584 Class C shares of Diversified;
 - (e) 6,484,697.55 Class J shares of LargeCap; and
 - (f) 19,254,843.257 Class J shares of Diversified;
10. the shares of the Filers are not currently listed on any exchange; no securities of the Filers have ever been listed, traded, or quoted on a marketplace in Canada as defined in National Instrument 21-101 *Marketplace Operation* (NI 21-101);
11. in 1988, a predecessor fund to Diversified purchased the assets of what was then known as the Principal World Fund and a predecessor fund to LargeCap purchased the assets of what was then known as the Principal Equity Fund; prior to the transaction, the Principal World Fund and Principal Equity Fund sold their shares in both Canada and the United States;

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12. in order to allow the Diversified and LargeCap shareholders to reinvest dividends, Principal maintained reporting issuer status for each of the Filers in the jurisdictions where the Principal World Fund and Principal Equity Fund were reporting issuers;
13. the Filers are currently subject to reporting and regulatory requirements of the United States *Securities Act of 1933*, as amended, the United States *Securities Exchange Act of 1934*, as amended and the United States *Investment Company Act of 1940*, as amended (collectively, the US Legislation); the Filers are not in default of any reporting or other requirement under the US Legislation;
14. the net asset value of each class of share of each Filer is available at www.principal.com;
15. under National Instrument 13-101 *System for Electronic Document Analysis and Retrieval* (SEDAR) (NI 13-101), each Filer is a “foreign issuer (SEDAR)”; as a result, each Filer is not required to comply with NI 13-101;
16. the Filers only maintain information with respect to registered holders;
17. with respect to registered holders of shares of each of the Filers, as of May 14, 2010:
 - (a) there were 20 registered holders of Class A shares of LargeCap with addresses in Canada, holding 14,335.238 shares, representing approximately 0.04% of the holders of such outstanding shares worldwide and approximately 0.03% of such outstanding shares worldwide;
 - (b) there were 49 registered holders of Class A shares of Diversified with addresses in Canada, holding 40,770.411 shares, representing approximately 0.12% of the holders of such outstanding shares worldwide and approximately 0.14% of such outstanding shares worldwide;
 - (c) there was one registered holder of Class C shares of LargeCap with an address in Canada, holding 2,386.086 shares, representing approximately 0.11% of the holders of such outstanding shares worldwide and approximately 0.16% of such outstanding shares worldwide;
 - (d) there was one registered holder of Class C shares of Diversified with an address in Canada, holding 1,393 shares, representing approximately 0.07% of the holders of such outstanding shares worldwide and approximately 0.18% of such outstanding shares worldwide;

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- (e) there were 7 registered holders of Class J shares of LargeCap with addresses in Canada, holding 8,867.981 shares, representing approximately 0.11% of the holders of such outstanding shares worldwide and approximately 0.14% of such outstanding shares worldwide;
- (f) there were 28 registered holders of Class J shares of Diversified with addresses in Canada, holding 21,527.824 shares, representing approximately 0.12% of the holders of such outstanding shares worldwide and approximately 0.11% of such outstanding shares worldwide; and
- (g) residents of Canada do not hold any other class of share of either of the Filers;

18. based upon the foregoing, residents of Canada:

- (a) do not own directly or indirectly more than 2% of a class or series of the outstanding securities of either Filer; and
- (b) do not represent in number more than 2% of the total number of owners directly or indirectly of a class or series of securities of either Filer;

19. in the last 12 months, each Filer has not conducted an offering of its securities in Canada or taken any other steps that indicate that there is a market for its securities in Canada;

20. each Filer has no plans to seek a public offering of its securities in Canada, or to conduct an offering under an exemption from the registration requirement and prospectus requirement of the Legislation otherwise than as permitted under section 2.18 of National Instrument 45-106 *Prospectus and Registration Exemptions* (NI 45-106);

21. as required by section 2.18(5) of NI 45-106, each Filer provides in its current prospectus disclosure of sales charges or redemption fees payable at the time of redemption and the rights of holders to make elections to receive cash instead of securities on the payment of a dividend or making of a distribution by each Filer;

22. neither Filer nor Principal has any place of business in Canada;

23. on June 17, 2010, the Filers issued a press release in Canada announcing that they had submitted an application to the Decision Makers for a decision under the Legislation that each Filer is not a reporting issuer in the Jurisdictions;

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24. neither Filer is eligible to file under the simplified procedure in CSA Staff Notice 12-307 *Applications For A Decision That An Issuer Is Not A Reporting Issuer* (CSA Notice 12-307) as each Filer: (i) is a reporting issuer in British Columbia whose outstanding securities at the date of this Application are beneficially owned, directly or indirectly, by more than 50 persons and therefore not eligible to file a notice described in British Columbia Instrument 11-502 *Voluntary Surrender of Reporting Issuer States* and (ii) is an US-incorporated issuer that is not listed on an US exchange;
25. each Filer otherwise meets the conditions of CSA Notice 12-307 as they apply to foreign issuers;
26. each Filer is subject to the reporting requirements of the US Legislation applicable to investment funds;
27. all of the Filers' securityholders resident in each of the Jurisdictions will continue to have immediate access to the same continuous disclosure documents through the EDGAR database (www.sec.gov) maintained by the United States Securities and Exchange Commission that are currently being provided to the securities regulatory authorities in each of the Jurisdictions; and
28. the Filers have undertaken in favour of each of the Decision Makers that each Filer will continue to concurrently deliver to its securityholders resident in Canada, all disclosure material it is required by the US Legislation to deliver to United States resident securityholders.

Decision

- ¶ 4 Each of the Decision Makers is satisfied that the decision meets the test set out in the Legislation for the Decision Maker to make the decision.

The decision of the Decision Makers under the Legislation is that the Exemptive Relief Sought is granted provided that:

- (a) each Filer continues to concurrently deliver to its securityholders resident in Canada all disclosure material it is required by the US Legislation to deliver to United States resident securityholders; and

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- (b) each Filer continues to include in its current prospectus the disclosure required by section 2.18(5) of NI 45-106.

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British Columbia Securities Commission