

# 2012 BCSECCOM 245

June 12, 2012

## Headnote

Multilateral Instrument 11-102 *Passport System* and National Policy 11-203 *Process for Exemptive Relief Applications in Multiple Jurisdictions* – National Instrument 81-102 *Mutual Funds* - A mutual fund manager seeks approval of proposed fund mergers under the approval requirements in NI 81-102 – The fund mergers comply with the pre-approved merger requirements in NI 81-102 except that the terminating fund and the continuing fund may have a different fee structure and the fundamental investment objective of the terminating fund is not “substantially similar” to the current fundamental investment objective of the continuing fund; the funds’ independent review committee approved the merger; unitholders will vote on the proposed mergers

## Applicable Legislative Provisions

National Instrument 81-102 *Mutual Funds*, s. 5.5(1)(b)

In the Matter of  
the Securities Legislation of  
British Columbia and Ontario (the Jurisdictions)

and

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

and

In the Matter of  
Matrix Funds Management (a Division of Growth Works Capital Ltd.)  
(the Filer)

and

Matrix Sierra Equity Fund  
and  
Matrix Strategic Yield Fund  
and  
Matrix Asia Pacific Fund

Decision

## Background

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- ¶ 1 The securities regulatory authority or regulator in each of the Jurisdictions (the Decision Maker) has received an application from the Filer for a decision under the securities legislation of the Jurisdictions (the Legislation) granting approval under subsection 5.5(1)(b) of National Instrument 81-102 *Mutual Funds* (NI 81-102) of the mergers of Matrix Sierra Equity Fund into Matrix Monthly Pay Fund; Matrix Strategic Yield Fund into Matrix Monthly Pay Fund and Matrix Asia Pacific Fund into Matrix International Balanced Fund (the Mergers) (the Approvals Sought).

Matrix Sierra Equity Fund, Matrix Strategic Yield Fund and Matrix Asia Pacific Fund are referred to as the Terminating Funds and each a Terminating Fund. Matrix Monthly Pay Fund and Matrix International Balanced Fund are referred to as the Continuing Funds and each a Continuing Fund. The Terminating Funds and Continuing Funds are referred to as the Funds and individually as a Fund.

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

- (a) the British Columbia Securities Commission is the principal regulator for this application;
- (b) the Filer has provided notice that section 4.7(1) of Multilateral Instrument 11-102 *Passport System* (MI 11-102) is intended to be relied upon in Alberta, Saskatchewan, Manitoba, Quebec, Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland and Labrador, Yukon, Northwest Territories and Nunavut; and
- (c) the decision is the decision of the principal regulator and evidences the decision of the securities regulatory authority or regulator in Ontario.

### **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 Filer:

#### *The Filer and the Funds*

1. the Filer is a corporation incorporated under the *Canada Business Corporations Act* (R.S.C. 1985, c. C-44) with its head office located in Vancouver, British Columbia;

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2. the Filer is the manager and trustee of the Funds; and the Filer is not in default of securities legislation in any jurisdiction;
3. each Fund was established pursuant to a declaration of trust under the laws of the Province of Ontario; each Fund is a mutual fund in each of the provinces and territories of Canada and offers Class A, F, I and O units under a simplified prospectus dated June 30, 2011, as amended;
4. each Fund is a reporting issuer under the securities legislation of each of the provinces and territories of Canada and each of the Funds is not on the list of defaulting reporting issuers maintained under Canadian securities legislation and is not in default of securities legislation in any jurisdiction;
5. unless an exemption has been obtained, each of the Funds follows the standard investment restrictions and practices established under securities legislation;
6. the NAV for the units of each Fund is calculated on a daily basis on each day that the TSX is open for trading and units of each Fund are generally redeemable on a daily basis.

### *Details of the Merger*

7. the Terminating Funds have complied with Part 11 of National Instrument 81-106 *Investment Fund Continuous Disclosure* in connection with the making of the decision to proceed with the Mergers by the board of directors of the Filer; the press release was filed on April 23, 2012, the material change report was filed on May 2, 2012 and amendments to the simplified prospectus and annual information form of the Terminating Funds in respect of the Mergers were filed on May 2, 2012;
8. subject to receipt of the required unitholder and securities regulatory approvals, it is expected that the Mergers will be effective on or about June 29, 2012;
9. the Filer referred the Mergers to the independent review committee of the Funds (the IRC) for its recommendation, and after reasonable inquiry, the IRC considered the conflict issues arising from the Mergers and determined that the Mergers achieve a fair and reasonable result for each of the Funds;
10. the Filer believes that the Mergers will be beneficial to the unitholders of the Terminating Funds for the following reasons:

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- (a) unitholders of the applicable Terminating Fund and Continuing Fund may enjoy increased economies of scale and lower operating expenses (which are borne indirectly by unitholders) as part of the larger combined Continuing Fund;
  - (b) the Mergers will eliminate the administrative and regulatory costs of operating the Terminating Funds as separate mutual funds;
  - (c) the combined Continuing Fund will have a portfolio of greater value than the Terminating Fund allowing for increased portfolio opportunities than the Terminating Funds currently enjoy and which may enhance the ability of the Continuing Fund to further its investment objectives;
  - (d) to the extent that securities in a Terminating Fund's portfolio are transferred to the Continuing Fund, there will be a savings in brokerage charges over a straight liquidation of those portfolio securities if the Terminating Fund was simply terminated; and
  - (e) each combined Continuing Fund will benefit from a more significant profile in the marketplace as a result of a more streamlined offering of the Matrix Funds, and therefore fewer competing funds within the Matrix family of funds, and its increased size;
- 11. the result of each Merger will be that unitholders in each Terminating Fund will cease to be unitholders of a class of the Terminating Fund and will become unitholders of an equivalent class of the applicable Continuing Fund;
  - 12. the portfolios and other assets of each Terminating Fund are currently, or will be at the effective date of the Mergers, acceptable to the portfolio advisor and consistent with the fundamental investment objectives of the applicable Continuing Fund;
  - 13. the merger of each Terminating Fund into the applicable Continuing Fund is not contingent on any other merger and one or more Mergers may proceed even if one or more of the others is not approved by unitholders of the applicable Terminating Fund;
  - 14. the transaction is a “qualifying exchange” within the meaning of section 132.2 of the *Income Tax Act* (R.S.C., 1985, c. 1 (5th Supp.);
  - 15. unitholders of the Terminating Funds will be asked to approve the Mergers as required by subsection 5.1(f) and section 5.2 of NI 81-102; as required by section 5.4 of NI 81-102, a form of proxy, notice and management information

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circular in connection with the Mergers was mailed to unitholders of the Terminating Funds on May 30, 2012 and filed on SEDAR on May 31, 2012 for a special meeting of unitholders scheduled for June 22, 2012; the management information circular contains sufficient information about the Mergers (including the information required by subsection 5.6(f)(i) of NI 81-102) to permit unitholders to make an informed decision about the Mergers; as required by section 5.6(1)(f)(ii), unitholders of each Terminating Fund received a copy of the fund facts for the applicable Continuing Fund; as required by section 5.6(1)(f)(iii), the materials contain a statement that unitholders of the Terminating Funds may obtain in respect of the reorganized Continuing Fund, at no cost, a simplified prospectus, an annual information form, the most recently filed funds facts document, the most recent annual and interim financial statements, and the most recent management reports of fund performance that have been made public, by accessing the SEDAR website at [www.sedar.com](http://www.sedar.com), accessing the Filer's website, by calling the Filer's toll free number or by emailing a request to the Filer;

16. upon receipt of a request from a unitholder of a Terminating Fund for the simplified prospectus, annual information form or financial statements of the applicable Continuing Fund, the Filer will make best efforts to fulfill the request before the unitholder meeting held to approve the applicable Merger;
17. the Funds will bear none of the costs and expenses associated with the Mergers, including all brokerage expenses incurred in respect of any required sale of portfolio assets of the Terminating Funds; these costs and expenses will be borne by the Filer;
18. unitholders of the Terminating Funds will continue to have the right to redeem securities of the Terminating Funds up to the close of business on the business day immediately before the effective date of the Mergers;
19. no sales charges will be payable in connection with the purchase by the Terminating Funds of units of the Continuing Funds;
20. as soon as reasonably possible following the Mergers, the Terminating Funds will be wound up;
21. the Filer has concluded that pre-approval under section 5.6 of NI 81-102 is not available for the Mergers because:
  - (a) in respect of the mergers of Matrix Sierra Equity Fund into Matrix Monthly Pay Fund and Matrix Asia Pacific Fund into Matrix International

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Balanced Fund, the Terminating Fund and the Continuing Fund each have a different fee structure;

- (b) in respect of each Merger, the fundamental investment objective of the Terminating Fund is not, or may be considered not to be, "substantially similar" to the current fundamental investment objective of the Continuing Fund; and

22. the Filer has complied, and will continue to comply, with all applicable legal and regulatory requirements in effecting the Mergers, including obtaining all requisite unitholder approvals for the Mergers.

### **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 Approvals Sought are granted so long as:

- (a) the management information circular sent to unitholders in connection with the Mergers provides sufficient information about the Mergers to permit unitholders to make an informed decision; and
- (b) each applicable Terminating Fund and Continuing Fund have an unqualified audit report in respect of their last completed period.

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British Columbia Securities Commission