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September 7, 2007

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - *Securities Act*, s. 130 - Relief from certain self-dealing restrictions in Part 15 of the Act - A mutual fund manager wants relief from self-dealing requirements in section 127(1)(b) of the Securities Act for trades in portfolio securities between mutual funds managed by the filer or between those mutual funds and discretionary accounts managed by the filer - A senior compliance officer or a member of the board of directors of the filer will approve each cross transaction; any securities that are subject of a Cross Transaction must be compatible with the investment objectives and of the Purchasing Fund or the Managed Account, as the case may be; and if securities are traded from a Managed Account, the Managed Account holder must have consented to trades from that account to a Fund

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, ss. 127(1)(b) and 130

In the Matter of
the Securities Legislation of
Québec, Ontario, British Columbia, Alberta, Saskatchewan,
Nova Scotia, New Brunswick and Newfoundland and Labrador
(the “Jurisdictions”)

and

In the Matter of
the Mutual Reliance Review System for Exemptive Relief Applications

and

In the Matter of
Natcan Investment Management Inc.
(the Filer)

MRRS Decision Document

Background

The local securities regulatory authority or regulator (the “Decision Maker”) in each of the Jurisdictions has received an application from the Filer for a decision

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under the securities legislation of the Jurisdictions (the “Legislation”) that the prohibition contained in the Legislation that prohibits a portfolio manager acting under a management contract from having its own interest distort its judgment (the “Self-Dealing Prohibition”) shall not apply to the Filer in connection within In Specie Transfers between the Separately Managed Accounts and the Funds (all of which are defined below) (the “Requested Relief”).

Under the Mutual Reliance Review System for Exemptive Relief Applications:

- (a) the *Autorité des marchés financiers* is the principal regulator for this application; and
- (b) this MRRS decision document evidences the decision of each Decision Maker.

Interpretation

Defined terms contained in National Instrument 14-101 *Definitions* have the same meaning in this decision unless they are defined in this decision.

Representations

This decision is based on the following facts represented by the Filer:

1. The Filer is a corporation incorporated under part 1A of the *Companies Act* (Québec). The Filer is registered as a securities adviser with an unrestricted practice with the *Autorité des marchés financiers* and as an investment counsel and portfolio manager (or its equivalent) with the securities regulatory authorities of all other provinces (other than Prince Edward Island and the Northwest Territories). The Filer is also registered as a limited market dealer in Ontario and in Newfoundland and Labrador. The Filer has its head office in Montréal, Québec.
2. The Filer currently acts as manager and portfolio manager of various pooled funds. Such funds, together with any other pooled funds established in the future and for which the Filer will act in the same capacity, are collectively referred to hereinafter as the “Funds”. By acting in such capacity, the Filer serves or will serve in a capacity similar to that of a trustee of the Funds.
3. Each of the Funds is or will be an open-end mutual fund trust established under the laws of the Province of Québec or the Province of Ontario. The Funds are not and will not be reporting issuers in any province or territory of Canada. The Funds are or will be specifically designed by the Filer to meet the needs of its clients and are or will be used exclusively for such clients.

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4. The Filer provides discretionary portfolio management services to clients pursuant to investment management agreements between such clients and the Filer (the “Managed Account Agreements”). Based on the size of the assets of the clients and depending on the allocation of a client's assets to a particular asset class, the Filer either manages the client's assets on a segregated account basis (the “Separately Managed Accounts”) or on a pooled basis.
5. Pursuant to the Managed Account Agreements, the Filer has full discretion and authority to provide portfolio management services, including investing clients in Funds for which the Filer is the portfolio manager and for changing those Funds as the Filer determines in accordance with the mandate of the clients. To the extent the Filer either currently does not have such authority or enters into an agreement with a new client, the Filer will obtain the prior written consent of the relevant Separately Managed Account client before it engages in any In Specie Transfers, as defined below, in connection with the purchase or redemption of units of the Funds for the Separately Managed Accounts.
6. The Filer may determine that in lieu of holding securities in a Separately Managed Account, a client would be better served to be invested in one or more of the Funds. As a result, the Filer desires to have such clients subscribe *in specie* for units of the relevant Funds. Further, future clients of the Filer may have an existing portfolio of securities when they retain the Filer such that the Filer may similarly desire to have the clients subscribe for the Funds *in specie* provided these securities are appropriate for the Fund.
7. In addition, due to portfolio changes for a client, the Filer may determine, in connection with a redemption, to redeem *in specie* certain portfolio securities held by a Fund and subscribe *in specie* for another Fund or Funds or simply hold the portfolio securities on behalf of the clients in a Separately Managed Account. Alternatively, the client may determine to terminate its relationship with the Filer or to change its mandate and may request a redemption *in specie* of its units in a Fund.
8. Moreover, where a client advises the Filer that it wishes to terminate its Managed Account Agreement and where its Separately Managed Account contains units of one or more Funds, the constating documents of the Funds provide or will provide that the Filer may determine to effect redemptions *in specie*.
9. To ensure that neither the Separately Managed Accounts nor a Fund incurs significant expenses related to the disposition and acquisition of portfolio securities in connection with the purchase or redemption of units of a Fund,

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the Filer proposes to facilitate such purchases and redemptions of the Fund units by transfers *in specie* of portfolio securities between a Separately Managed Account and a Fund (“In Specie Transfers”). These transactions will either involve the payment of the purchase price for units of a Fund or the payment of the redemption price of units of a Fund by In Specie Transfers between the Separately Managed Account and the Funds.

10. Effecting such In Specie Transfers will allow the Filer to manage each asset class more effectively and reduce transaction costs for the client and the Fund. For example, such trading reduces market impact costs, which can be detrimental to the clients and/or the Fund(s). Such transfers also allow a portfolio manager to retain within its control institutional-size blocks of securities that otherwise would need to be broken and reassembled. Such securities often are those that trade in lower volumes, with less frequency, and have larger bid-ask spreads.
11. The Filer issues a statement of policies to clients setting out the relationship of the Funds to the Filer. In addition, clients specifically consent to invest in the Funds pursuant to the terms of their Managed Account Agreements.
12. The only cost which will be incurred by a Fund or Separately Managed Account for an In Specie Transfer is a nominal administrative charge levied by the custodian of the Separately Managed Account or Fund in recording the trade and a nominal commission charged by the dealer executing the trade (collectively, the “Custodian and Execution Charges”).
13. The Filer will value the securities under an In Specie Transfer using the same values to be used on that day to calculate the net asset value for the purpose of the purchase or sale of the portfolio securities and for the purpose of the issue price or redemption price of a unit of a Fund.
14. If the holder of the Separately Managed Account has provided notice to terminate its Managed Account Agreement, the Filer will only be entitled to effect In Specie Transfers if redemptions of units of a Fund in cash have been suspended in accordance with the terms of the constating documents of the relevant Funds;
15. None of the securities which are the subject of In Specie Transfers are or will be securities of related issuers of the Filer.
16. To execute an In Specie Transfer, Natcan will follow its internal policies and procedures, which require a pre-approval from its Compliance Department. Accordingly, In Specie Transfers will be monitored by Natcan’s Compliance

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Department to ensure that the conditions of this MRRS Decision Document are or will be met at the time of the transaction and to determine that the transaction represents the business judgment of the Filer acting in its discretionary capacity with respect to the Fund and the Separately Managed Account, uninfluenced by considerations other than the best interests of the Fund and the Separately Managed Account.

17. Since the Filer is the manager and portfolio manager of the Funds and since the Filer is also the portfolio manager of the Separately Managed Accounts, in the absence of the Requested Relief, the Filer would be prohibited, under section 236 of the *Regulation respecting securities* (Québec), from (a) causing a Separately Managed Account to make In Specie Transfers of securities of any issuer to a Fund in payment of the purchase price for units of a Fund subscribed for by the Separately Managed Account; and (b) causing the Fund to make In Specie Transfers of securities of any issuer to a Separately Managed Account in payment of the redemption price for units of the Fund redeemed by a Separately Managed Account.

Decision

Each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Makers with the jurisdiction to make the decision has been met.

The decision of the Decision Makers under the Legislation is that the Self-Dealing Prohibition shall not apply to the Filer in connection with the payment of the purchase price or redemption price of units of a Fund by In Specie Transfers between the Funds and the Separately Managed Accounts provided that:

- a) in connection with the purchase of units of a Fund by a Separately Managed Account:
 - i) the Filer obtains the prior written consent of the client of the relevant Separately Managed Account before it engages in any In Specie Transfers in connection with the purchase of units;
 - ii) the Filer's Director of Compliance or the Vice-President, Compliance and Operational Risk has pre-approved each In Specie Transfers in connection with the purchase of units;
 - iii) the Fund would at the time of payment be permitted to purchase those securities;

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- iv) the securities are acceptable to the Filer as portfolio manager of the Fund and consistent with the Fund's investment objectives;
 - v) the value of the securities is equal to the issue price of the units of the Fund for which they are used as payment, valued as if the securities were portfolio assets of the Fund; and
 - vi) the account statement next prepared for the Separately Managed Account shall include a note describing the securities delivered to the Fund and the value assigned to such securities; and
- b) in connection with the redemption of units of a Fund by a Separately Managed Account:
- i) the Filer obtains the prior written consent of the client of the relevant Separately Managed Account to the payment of redemption proceeds in the form of an In Specie Transfer;
 - ii) the Filer's Director of Compliance or the Vice-President, Compliance and Operational Risk has pre-approved each payment of redemption proceeds in the form of an In Specie Transfer;
 - iii) the securities are acceptable to the Filer as portfolio manager of the Separately Managed Account and consistent with the Separately Managed Account's investment objectives;
 - iv) the value of the securities is equal to the amount at which those securities were valued in calculating the net asset value per unit used to establish the redemption price;
 - v) the account statement next prepared for the Separately Managed Account shall include a note describing the securities delivered to the Separately Managed Account and the value assigned to such securities; and
 - vi) if the holder of the Separately Managed Account has provided notice to terminate its Managed Account Agreement, the redemption of units of a Fund in cash has been suspended in accordance with the terms of the constating documents of the Funds; and
- c) the Filer does not receive any commission in respect of any sale or redemption of units of a Fund and, in respect of any delivery of securities

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further to an In Specie Transfer, the only charges paid by the Separately Managed account or the Fund are the Custodian and Execution Charges.

Interim Superintendent, Distribution,
Claude Prévost