

2002 BCSECCOM 996

Headnote

Mutual Reliance Review System for Exemptive Relief Applications – relief from certain reporting requirements and self-dealing provisions of the legislation to enable funds to change from a fund of fund investment strategy to a direct investment strategy through a dismantling transaction

Applicable British Columbia Provisions

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

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

AND

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

AND

IN THE MATTER OF CI SECTOR FUND LIMITED AND CI MUTUAL FUNDS INC.

MRRS DECISION DOCUMENT

WHEREAS the Canadian securities regulatory authority or regulator (the “Decision Maker”) in each of British Columbia, Alberta, Saskatchewan, Ontario, Nova Scotia and Newfoundland (the “Jurisdictions”) has received an application (the “Application”) from CI Mutual Funds Inc. (“CI” or the “Manager”) for a decision (the “Decision”) pursuant to the securities legislation of the Jurisdictions (the “Legislation”) that the following provisions of the Legislation shall not apply to CI:

- (a) the requirements in the Legislation that a management company, or mutual fund manager, file a report of every transaction of purchase or sale of securities between a mutual fund it manages and any related person or company and any transaction in which, by arrangement other than an arrangement relating to insider trading in portfolio securities, a mutual fund is a joint participant with one or more of its related persons or companies, in respect of each mutual fund to which it provides services or advice, within 30 days after the end of the month in which it occurs; and

2002 BCSECCOM 996

- (b) the restriction in the Legislation that prohibits a mutual fund or a portfolio manager from knowingly causing a mutual fund managed by it to purchase or sell the securities of any issuer from or to the account of a responsible person, any associate of a responsible person or the portfolio manager;

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the “System”), the Ontario Securities Commission is the principal regulator for this application;

AND WHEREAS, unless otherwise defined, the terms herein have the meaning set out in National Instrument 14-101 Definitions or in Québec Commission Notice 14-101;

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

1. The Manager is a corporation subsisting under the laws of the Province of Ontario and is registered under the *Securities Act* (Ontario) as, among other things, an adviser in the categories of investment counsel and portfolio manager.
2. CI Sector Fund Limited (the “Corporation”) is a mutual fund corporation that is comprised presently of 40 Sector Funds. Each Sector Fund consists of the assets and liabilities attributable to one or more classes of convertible special shares of the Corporation that share a common investment objective. The Manager is the manager of each Sector Fund and therefore is a “management company” and “responsible person” of each Sector Top Fund for purposes of the Legislation. The Manager owns more than 10% of the voting securities of the Corporation with the result that each Sector Fund may be considered an “associate” of the Manager within the meaning of the Legislation.
3. Certain Sector Funds (being those listed in Schedule A hereto) (the “Sector Top Funds”) invest exclusively in units of an underlying fund (an “Underlying Fund”) managed by the Manager. Each Sector Top Fund has an investment objective that is consistent with the investment objective of its corresponding Underlying Fund, with the exception that the investment objective of the Sector Top Fund includes a statement that it will invest in units of its Underlying Fund.
4. Each Underlying Fund is a mutual fund trust established under the laws of the Province of Ontario. The Manager is the manager and trustee of each Underlying Fund. Consequently, the Manager is a “management company” and “responsible person” of each Underlying Fund for purposes of the Legislation, and each Underlying Fund is an associate of the Manager within the meaning of the Legislation.

2002 BCSECCOM 996

5. Each Sector Top Fund and each Underlying Fund currently distributes securities pursuant to a simplified prospectus that has been filed with and accepted by the securities regulatory authority in each of the provinces and territories of Canada and is a reporting issuer in each of the provinces and territories of Canada.
6. The portfolio of each Sector Top Fund consists only of units of an Underlying Fund (referred to herein as a “fund-on-fund structure”) and a small amount of cash and cash equivalents. The performance of each Sector Top Fund therefore closely tracks the performance of its Underlying Fund. The fund-on-fund structure was created as a means for taxable investors to obtain exposure to Underlying Funds while being invested in a corporation that enables the investors to switch between Sector Funds on a tax-deferred rollover basis.
7. The management expense ratio (the “MER”) of a Sector Top Fund is typically between 40 and 60 basis points higher than the MER of its Underlying Fund. This is due principally to minimal, fund-specific operating expenses, large corporations tax and Ontario capital tax incurred at the Sector Top Fund level.
8. The Corporation and the Manager wish to dismantle the fund-on-fund structure between the Sector Top Funds and the Underlying Funds at their discretion. This would be achieved as follows (the “Dismantling Transaction”):
 - (a) each Sector Top Fund will change its investment objectives and strategies to be identical to its Underlying Fund, including removing the statement that the Sector Top Fund will invest in units of its Underlying Fund;
 - (b) each Sector Top Fund will redeem all the units it holds of its Underlying Fund at the net asset value per unit; and
 - (c) the redemption proceeds will be paid *in specie* by the Underlying Fund to the Sector Top Fund with a substantially *pro rata* portion of the portfolio of investments held by the Underlying Fund, the value of which will be equal to the amount at which those portfolio investments were valued in calculating the net asset value per unit used to establish the redemption price.
9. In the absence of this Decision, the Legislation prohibits the Manager or, in British Columbia, each Sector Top Fund and Underlying Fund, from knowingly causing the transfer of portfolio securities of an Underlying Fund to a Sector Top Fund as payment in kind of the redemption price pursuant to the Dismantling Transaction.

2002 BCSECCOM 996

10. In the absence of this Decision, the Legislation requires the Manager to file a report relating to the transfer of portfolio securities between each Underlying Fund and Sector Top Fund as part of the Dismantling Transaction.

11. The transfer of portfolio securities between each Underlying Fund and Sector Top Fund as part of the Dismantling Transaction represents the business judgment of responsible persons, uninfluenced by considerations other than the best interests of the Sector Top Funds.

AND WHEREAS under the System, this MRRS Decision Document evidences the Decision of each Decision Maker;

AND WHEREAS each Decision Maker is satisfied that the tests 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 is that pursuant to the Legislation the Manager is exempt from the requirements in the Legislation that a management company, or mutual fund manager, file a report of every transaction of purchase or sale of securities between a mutual fund it manages and any related person or company and any transaction in which, by arrangement other than an arrangement relating to insider trading in portfolio securities, a mutual fund is a joint participant with one or more of its related persons or companies, in respect of each mutual fund to which it provides services or advice, within 30 days after the end of the month in which it occurs, as such requirements relate to the Dismantling Transaction;

AND THE DECISION OF THE DECISION MAKERS is that pursuant to the Legislation the Manager is exempt from the restrictions in the Legislation that prohibits a mutual fund or a portfolio manager from knowingly causing a mutual fund managed by it to purchase or sell the securities of any issuer from or to the account of a responsible person, any associate of a responsible person or the portfolio manager as such restriction relates to the Dismantling Transaction.

DATED at Toronto this 10th day of December, 2002.

Howard I. Wetston

Theresa McLeod

2002 BCSECCOM 996

SCHEDULE A

SECTOR TOP FUNDS

BPI American Equity Sector Fund

BPI Global Equity Sector Fund

BPI International Equity Sector Fund

CI American Small Companies Sector Fund

CI Emerging Markets Sector Fund

CI European Sector Fund

CI Global Sector Fund

CI Global Small Companies Sector Fund

CI Global Value Sector Fund

CI International Sector Fund

CI International Value Sector Fund

CI Pacific Sector Fund

CI International Balanced Sector Fund

CI Canadian Bond Sector Fund

CI Global Bond Sector Fund

Harbour Sector Fund

Landmark American Sector Fund

Landmark Canadian Sector Fund

Signature Canadian Resource Sector Fund

Signature Explorer Sector Fund

Signature Select Canadian Sector Fund

Signature Dividend Sector Fund

Signature High Income Sector Fund