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Headnote

Mutual Reliance Review System for Exemptive Relief Application - registration and prospectus relief to allow units to be distributed under a distribution reinvestment plan by a closed-end trust that does not meet the definition of mutual fund. First trade relief granted such that the seasoning period that would otherwise apply is eliminated

Applicable British Columbia Provisions

Securities Act, R.S.B.C.1996, c. 418, ss. 48 and 76

Multilateral Instrument 45-102 *Resale of Securities*

**IN THE MATTER OF THE SECURITIES LEGISLATION OF BRITISH
COLUMBIA, ALBERTA, SASKATCHEWAN, MANITOBA, ONTARIO,
QUEBEC, NEW BRUNSWICK, NEWFOUNDLAND & LABRADOR,
NOVA SCOTIA AND PRINCE EDWARD ISLAND**

AND

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

AND

IN THE MATTER OF SERIES S-1 INCOME FUND

MRRS DECISION DOCUMENT

1. WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Newfoundland and Labrador, Nova Scotia and Prince Edward Island (the "Jurisdictions") has received an application from Series S-1 Income Fund (the "Fund"), for a decision under the securities legislation of the Jurisdictions (the "Legislation") that the requirement contained in the Legislation to be registered to trade in a security (the "Registration Requirement") and to file a preliminary prospectus and a final prospectus and obtain receipts therefor (the "Prospectus Requirement") shall not apply to certain trades in trust units of the Fund ("Trust Units") under a distribution reinvestment plan (the "DRIP");
2. AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Alberta Securities Commission is the principal regulator for this application;

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3. AND WHEREAS, unless otherwise defined, the terms herein have the meaning set out in National Instrument 14-101 - *Definitions* or in Quebec Securities Commission Notice 14-101;
4. AND WHEREAS the Fund has represented to the Decision Makers that:
 - 4.1 the Fund is a closed-end investment trust established under the laws of Alberta under a declaration of trust dated April 17, 2003 (the "Declaration of Trust");
 - 4.2 Computershare Trust Company of Canada is the trustee of the Fund (in such capacity, the "Trustee");
 - 4.3 under the Declaration of Trust, the Fund is authorized to issue an unlimited number of transferable, non-redeemable Trust Units, of which there were 34,376,000 Trust Units issued and outstanding on July 2, 2003;
 - 4.4 the Fund is not a "mutual fund" as defined in the Legislation because the holders of Trust Units ("Unitholders") are not entitled to receive on demand an amount computed by reference to the value of a proportionate interest in the whole or in part of the net assets of the Fund as contemplated in the definition of "mutual fund" contained in the Legislation;
 - 4.5 the assets of the Fund consist of a portfolio of securities including Canadian income funds and Canadian high yielding investment grade debt and instalment receipts or other rights to acquire such securities in respect thereof, as well as cash and cash equivalents (the "Portfolio");
 - 4.6 the investment objective of the Fund is to achieve the maximum total return for Unitholders by balancing the following three underlying objectives:
 - 4.6.1 to provide Unitholders with highly stable and sustainable monthly distributions comprised of amounts received by the Fund from the Portfolio ("Distributable Income");
 - 4.6.2 to maintain a S&P SR-1 stability rating or equivalent rating; and
 - 4.6.3 return at least the original issue price of the Trust Units to Unitholders upon termination of the Fund;

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- 4.7 each Trust Unit represents an equal, fractional undivided beneficial interest in the net assets of the Fund, and entitles its holder to one vote at meetings of Unitholders and to participate equally with respect to any and all distributions made by the Fund, including distributions of net income and net realized capital gains, if any;
- 4.8 the Fund became a reporting issuer in each of the Jurisdictions on May 28, 2003 when it obtained a Final Decision Document for its prospectus dated May 28, 2003 (the "Prospectus"). As of the date hereof, the Fund is not in default of any requirements under the Legislation;
- 4.9 the Fund is not a "qualifying issuer" as defined in Multilateral Instrument 45-102 – *Resale of Securities*;
- 4.10 Citadel Series Management Ltd. (the "Administrator") is the authorized attorney of the Fund;
- 4.11 the Trust Units are listed on the Toronto Stock Exchange under the symbol "SRC.UN";
- 4.12 the Trust Units are available only in book-entry form whereby CDS & Co., a nominee of The Canadian Depository for Securities Limited, is the only registered holder of Trust Units;
- 4.13 the Fund has established the DRIP to permit Unitholders, at their discretion, to automatically reinvest the Distributable Income paid on their Trust Units in additional Trust Units ("DRIP Units") as an alternative to receiving cash distributions;
- 4.14 distributions due to participants in the DRIP ("DRIP Participants") will be paid to Computershare Trust Company of Canada in its capacity as agent under the DRIP (in such capacity, the "DRIP Agent") and applied to the purchase of DRIP Units;
- 4.15 no commissions, service charges or brokerage fees will be payable by DRIP Participants in connection with the DRIP;
- 4.16 the DRIP Agent will purchase DRIP Units from the Fund at the net asset value per Trust Unit as at the applicable distribution date;
- 4.17 DRIP Participants may terminate their participation in the DRIP by providing 10 days' written notice to the DRIP Agent prior to the applicable record date;

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- 4.18 DRIP Participants do not have the option of making cash payments to purchase additional DRIP Units under the DRIP;
- 4.19 the distribution of the DRIP Units by the Fund pursuant to the DRIP cannot be made in reliance on certain registration and prospectus exemptions contained in the Legislation as the DRIP involves the reinvestment of distributable income including net realized capital gains distributed by the Fund and not the reinvestment of dividends, interest, earnings or surplus of the Fund; and
- 4.20 the distribution of the DRIP Units by the Fund pursuant to the DRIP cannot be made in reliance on registration and prospectus exemptions contained in the Legislation for distribution reinvestment plans for mutual funds, as the Fund is not considered to be a "mutual fund" as defined in the Legislation;
- 5. AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each of the Decision Makers (collectively, the "Decision");
- 6. AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;
- 7. THE DECISION of the Decision Makers under the Legislation is that:
 - 7.1 the Registration Requirement and Prospectus Requirement contained in the Legislation shall not apply to trades or distributions by the Fund of DRIP Units for the account of DRIP Participants pursuant to the DRIP, provided that:
 - 7.1.1 at the time of the trade or distribution the Fund is a reporting issuer or the equivalent under the Legislation and is not in default of any requirements of the Legislation;
 - 7.1.2 no sales charge is payable in respect of the trade;
 - 7.1.3 the Fund has caused to be sent to the person or company to whom the DRIP Units are traded, not more than 12 months before the trade, a statement describing:

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- 7.1.3.1 their right to withdraw from the DRIP and to make an election to receive cash instead of DRIP Units on the making of a distribution of income by the Fund (the "Withdrawal Right"); and
 - 7.1.3.2 instructions on how to exercise the Withdrawal Right;
- 7.1.4 the first trade of the DRIP Units acquired under this Decision shall be deemed to be a distribution or a primary distribution to the public; and
- 7.2 the Prospectus Requirement contained in the Legislation shall not apply to the first trade of DRIP Units acquired by DRIP Participants pursuant to the DRIP, provided that:
 - 7.2.1 except in Quebec, the conditions in paragraphs 2 through 5 of subsection 2.6(4) of Multilateral Instrument 45-102 – *Resale of Securities* are satisfied; and
 - 7.2.2 in Quebec:
 - 7.2.2.1 at the time of the first trade the Fund is a reporting issuer in Quebec and is not in default of any of the requirements of the Legislation in Quebec;
 - 7.2.2.2 no unusual effort is made to prepare the market or to create a demand for the DRIP Units;
 - 7.2.2.3 no extraordinary commission or consideration is paid to a person or company other than the vendor of the DRIP Units in respect of the trade; and
 - 7.2.2.4 the vendor of the DRIP Units, if in a special relationship with the Fund, has no reasonable grounds to believe that the Fund is in default of any requirement of the Legislation.

DATED this 1st day of August, 2003

Stephen R. Murison, Vice-Chair

Thomas G. Cooke, Q.C., Member