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Headnote

Mutual Reliance Review System for Exemption Relief Applications - Securities Act s. 130 Mutual funds - Relief from certain self-dealing restrictions in Part 15 of the Act - A mutual fund manager wants relief from the requirement to file a report relating to a purchase or sale of securities between a mutual fund and any related parties - Private mutual funds that it manages invest in securities of public mutual funds that it also manages - The top funds are not subject to and do not comply with section 2.5 of NI 81-102 - The relief is required only for the underlying funds and is subject to conditions similar to those in section 2.5 of NI 81-102

Applicable British Columbia Provisions

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

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

AND

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

AND

**IN THE MATTER OF LEGG MASON CANADA INC.
(the “Manager”)**

AND

**LEGG MASON BALANCED ALPHA POOL
(the “Balanced Pool”)**

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the “Decision Maker”) in each of British Columbia, Alberta, Saskatchewan, Ontario, Nova Scotia, New Brunswick and Newfoundland and Labrador, (the “Jurisdictions”) has received an application from the Manager, as manager of the Balanced Pool for following decisions:

1. in Alberta and Ontario only, a decision pursuant to the securities legislation of Alberta and Ontario (the “Alberta and Ontario Legislation”) that the following investment restriction (the “Investment Restriction”) shall not apply to the Balanced Pool and other mutual funds managed by the Manager from time to

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time that are not reporting issuers (the “Top Funds”), in respect of each Top Fund’s investment in securities of the Underlying Funds (as defined in Schedule “A”):

- (a) the restrictions contained in the Alberta and Ontario Legislation that prohibit a mutual fund from knowingly making or holding an investment, in any person or company in which the mutual fund, alone or together with one or more related mutual funds, is a substantial security holder; or in an issuer in which, any officer or director of the mutual fund, its management company or distribution company or an associate of any of them, or any person or company who is a substantial security holder of the mutual fund, its management company or its distribution company, has a significant interest; and
2. a decision pursuant to the securities legislation of the Jurisdictions (the “Legislation”) that the following reporting requirement (the “Reporting Requirement”) shall not apply to the Manager and the Top Funds, in respect of each Top Fund’s investment in securities of the Underlying Funds:
 - (a) the requirements contained in the Legislation that require a management company, or in British Columbia, a mutual fund manager, to file a report relating to a purchase and sale of securities between a mutual fund and any related person or company, or 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.

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;

AND WHEREAS the Manager has represented to the Decision Makers that:

1. Legg Mason is a company incorporated under the laws of Canada.
2. Legg Mason is registered as an adviser in the categories of investment counsel and portfolio manager in British Columbia, Alberta, Manitoba, Ontario, Quebec, Nova Scotia, New Brunswick and Newfoundland, as a commodity futures manager under the *Commodity Futures Act (Ontario)*, a limited market dealer in Newfoundland and as a dealer in the category of mutual fund dealer

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in Ontario, British Columbia and Manitoba, but is exempt from membership with the Mutual Fund Dealers Association of Canada.

3. Legg Mason is the trustee and manager of the Top Funds and the Underlying Funds.
4. The Top Funds and each Underlying Fund is or will be an open-end mutual fund trust established under the laws of Ontario by declaration of trust or trust agreement.
5. Units of the Top Funds will be distributed on a private placement basis only pursuant to available prospectus exemptions in each of the provinces of Canada.
6. Units of the Underlying Funds are or will be distributed on a private placement basis pursuant to available prospectus exemptions or be offered pursuant to a prospectus in each of the provinces of Canada.
7. It is anticipated that certain officers of Legg Mason will be the investors with significant interests in certain of the Underlying Funds.
8. Legg Mason intends to invest a certain portion of the assets of the Top Funds in the Underlying Funds. The percentages invested in each Underlying Fund may fluctuate on a daily basis based on the investment decisions made by Legg Mason in order to meet the investment objectives of each Top Fund.
9. The actual weightings of the investments by each Top Fund in the Underlying Funds will be reviewed on a regular basis and adjusted to ensure that the investment weightings continue to be appropriate for that Top Fund's investment objectives. Legg Mason will actively manage the investments made by each Top Funds in the Underlying Funds on a regular basis.
10. The annual financial statements of the Top Funds, which are provided to unitholders together with an auditors report will include summary disclosure of the securities held by the Underlying Funds. In addition the annual report will contain information about how to obtain a copy of the Legg Mason Canada Funds simplified prospectus, annual information form and annual and semi-annual financial statements, which will be sent to the requesting unitholder free of charge.
11. No charges will be payable in connection with the acquisition or disposition by the Top Funds of units of the Underlying Funds.

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12. No management fee or incentive fees are payable by the Top Funds that, to a reasonable person, would duplicate a fee payable by the Underlying Fund for the same service.
13. Where a matter relating to an Underlying Fund requires a vote of securityholders of the Underlying Fund, Legg Mason will not cause the securities of the Underlying Fund held by a Top Fund to be voted at such meeting.
14. In the absence of the Decision, the Investment Restriction prohibits the Top Funds from knowingly making or holding an investment in an Underlying Fund.
15. In the absence of the Decision, the Reporting Requirement requires the Applicant to file a report on every purchase or sale of securities of any Underlying Fund by a Top Fund, if the Underlying Fund is a reporting issuer.
16. The investments by the Top Funds in the securities of the Underlying Funds represent the business judgement of Responsible Persons uninfluenced by considerations other than the best interests of the funds.

AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the “Decision”);

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;

THE DECISION of the Decision Makers in Alberta and Ontario pursuant to the Alberta and Ontario Legislation is that the Investment Restriction shall not apply to the Top Funds, in respect of each Top Fund’s investment in securities of the Underlying Funds;

AND THE DECISION of the Decision Makers under the Legislation is that the Reporting Requirement shall not apply to the Manager, in respect of each Top Fund’s investment in securities of the the Underlying Funds;

PROVIDED THAT, the following conditions are met:

- (a) the annual report and annual financial statements for each of the Top Funds discloses:

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- (i) the intent of the Top Fund to invest a portion of its assets in securities of the Underlying Funds;
 - (ii) the manager of the Underlying Funds;
 - (iii) the name of the Underlying Funds; and
 - (iv) the investment objectives, investment strategies, risks and restrictions of the Underlying Funds;
- (b) the arrangements between or in respect of a Top Fund and the Underlying Funds are such as to avoid the duplication of management and performance fees;
- (c) the Manager does not vote the securities of the Underlying Funds held by a Top Fund at any meeting of holders of such securities; and
- (d) in addition to receiving the annual and the interim financial statements of a Top Fund, unitholders of the Top Fund have received appropriate summary disclosure in respect of the Top Fund's holdings of securities of the Underlying Funds in the financial statements of the Top Fund.

September 3, 2004

Paul K. Bates

Robert L. Shirriff

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SCHEDULE “A”

Underlying Funds

Legg Mason Canadian Equity Alpha Pool
Legg Mason Canadian Fixed Income Alpha Pool
Legg Mason Private Capital Management U.S. Equity Pool
Legg Mason U.S. Value RP Pool
Legg mason T-Plus Fund
Legg Mason Private Client Canadian Bond Portfolio
Legg Mason Canadian Index Plus Bond Fund
Legg Mason Canadian Active Bond Fund
Legg Mason Private Client Canadian Equity Portfolio
Legg Mason Canadian Core Equity Fund
Legg Mason Canadian Sector Equity Fund
Legg Mason North American Equity Fund
Legg Mason Canadian Growth Equity Fund
Legg Mason Brandywine Fundamental Value U.S. Equity Fund
Legg Mason Batterymarch U.S. Equity Fund
Legg Mason U.S. Value Fund
Legg Mason International Equity Fund
Legg Mason Canada Liquidity Plus Pool
Legg Mason Canada Treasury Plus Pool
Legg Mason Canada Income Plus Pool

and other mutual funds managed by the Manager from time to time.