

August 4, 2005

**IN THE MATTER OF THE SECURITIES LEGISLATION OF  
ONTARIO, ALBERTA, SASKATCHEWAN, MANITOBA, QUEBEC, NEW  
BRUNSWICK, NOVA SCOTIA, NEWFOUNDLAND AND LABRADOR, PRINCE  
EDWARD ISLAND, NORTHWEST TERRITORIES, NUNAVUT, AND YUKON**

**AND**

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

**AND**

**IN THE MATTER OF ROYAL MUTUAL FUNDS INC.**

**MRRS DECISION DOCUMENT**

**Background**

The local securities regulatory authority or regulator (the **Decision Maker**) in each of Ontario, Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Newfoundland and Labrador, Prince Edward Island, Northwest Territories, Nunavut, and Yukon (the **Jurisdictions**) has received an application from Royal Mutual Funds Inc. (the **Applicant**) for a decision pursuant to the securities legislation of the Jurisdictions (the Legislation) seeking exemption from registration as an adviser in each of the Jurisdictions with respect to the Investment Activities (as defined below) carried out by RBC Asset Management Inc. (**RBC AM**) in connection with the Product (as defined and described below).

Under the Mutual Reliance Review System for Exemptive Relief Applications:

- (a) the Ontario Securities Commission has acted as 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 Applicant:

1. The Applicant is registered under the Legislation as a dealer in the category of mutual fund dealer or the equivalent.

2. RBC AM is registered under the Legislation as an adviser in the categories of investment counsel and portfolio manager or the equivalent.
3. The Applicant and RBC AM are affiliated entities.
4. The Applicant's salespersons propose to distribute the RBC Managed Portfolios (the **Product**) to their clients (**clients**).
5. The Product consists of a number of model portfolios (the **Model Portfolios**), which together occupy successive portions of the investing spectrum from conservative, income-maintenance investing to aggressive growth investing. Each Model Portfolio is made up exclusively of units of RBC Private Pools or RBC Funds.
6. Any of the RBC Private Pools or RBC Funds that currently exist or that may be created in the future (the Funds) and that are used in the Program is and will be qualified under a simplified prospectus that has been received by the applicable securities regulators under the Legislation.
7. If a client is interested in the Product, the client completes an investor profile form. (the **Form**). The Form is used by the Applicant as a "know your client" form, to enable the Applicant to consider the client's financial circumstances, investment knowledge, investment objectives and risk tolerance, and thereby assist in determining an appropriate Model Portfolio for the client. From and based on the information provided in the Form, the Applicant recommends one of the Model Portfolios as suitable for the client.
8. The client receives a description of the Model Portfolio selected by the client (the **Selected Model Portfolio**), completes the account application and enters into an agreement (the **Account Agreement**) with the Applicant.
9. The series of units of the Funds that are available under the Program enable management fees to be paid by the Applicant to RBC AM, as manager of the Funds, pursuant to an advisory agreement (the **Advisory Agreement**) between RBC AM and the Applicant.  
  
No management fees would be charged by RBC AM directly to the Funds or to the clients. No sales charges or trailing commissions would be payable in respect of any sales, redemptions or fund switches, and each Fund would pay its own operating expenses. As a result, there will be no duplication of any fees.
10. The client agrees to pay the Applicant a monthly fee outlined in the Account Agreement, which fee will be based on the net asset value of the client's account and not on transactions effected in the client's account. Fees could be changed from time to time, provided clients are given at least 30 days' advance written notice.
11. The Account Agreement authorizes the Applicant to permit RBC AM, pursuant to the Advisory Agreement, to invest client monies in accordance with the terms of the Selected Model Portfolio.

12. Pursuant to the Advisory Agreement, RBC AM is responsible for developing and managing the Model Portfolios. Each Model Portfolio is broken down into different asset classes (**Asset Classes**). Each Asset Class is allocated a permitted range (**Permitted Range**), being a minimum and maximum percentage of, the Model Portfolio that can be allocated to Funds of a particular Asset Class. The Asset Classes and Permitted Ranges: are disclosed to the client in the Selected Model Portfolio and cannot be changed without the client's prior approval.

13. RBC AM manages the Model Portfolios on a discretionary basis. In doing so, RBC AM determines a benchmark percentage (**Benchmark Percentage**) for each Asset Class, representing the target percentage within the Permitted Range, and adjusts that percentage at its discretion. RBC AM also uses its discretion in choosing which Funds will be used for each Asset Class, provided the involvement objective and strategies of any Fund are consistent with the Asset Class and any such Funds are listed in the Selected Model Portfolio for the client. RBC AM's actions will be carried out with a view to ensuring that the Model Portfolio continues to abide by the stated objectives. The above activities are herein defined as the Investment Activities.

14. The Applicant will carry out trades in units of the Funds for a client in connection with an investment of monies (an **Investment**) by the client in the Funds comprising the Selected Model Portfolio at the time of Investment. RBC AM will carry out trades in units of the Funds for a client of the Applicant that are necessary and incidental to its Investment Activities, other than trades relating to an Investment. All trades will be reflected in the client's account on the day following the trade, and will also be reflected; in the trade blotter to be shared by the Applicant and RBC AM in connection with the Product.

15. RBC AM is responsible for ensuring that the client monies are invested in accordance with the terms of the Selected Model Portfolio. Notwithstanding that there is no direct relationship between the client and RBC AM, the client will be entitled to treat RBC AM as if RBC AM were a party to the Account Agreement with respect to its responsibilities in this regard.

16. The client is provided with a simplified prospectus for the Funds on an annual basis. In addition, if and when new Funds are created and qualified under the simplified, prospectus, and are intended to be used in the Model Portfolio, the Applicant will provide clients of the Model Portfolio with a new or amended simplified prospectus which includes those new Funds prior to investing any of the Model Portfolio in such Funds.

## **Decision**

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 under the Legislation is that the Applicant is exempt from registration as an adviser under the Legislation with respect to the Investments carried out by the Applicant and the Investment Activities carried out by RBC AM in connection with the Product, provided that:

(a) the Asset Classes and Permitted Ranges cannot be changed without a client's prior approval;

(b) if and when new Funds are created and qualified under the simplified prospectus, and are intended to be used in a Model Portfolio and are within the same Asset Class and Permitted Range, the Applicant will provide each client of the Model Portfolio with a new or amended simplified prospectus that includes those new Funds and a notice that the Funds are being added to the Asset Class(es) of the Selected Model Portfolio prior to investing any of the Model Portfolio in such Funds;

(c) the Applicant ensures that the Account Agreement and the Selected Model Portfolio fully describe the Product and applicable Model Portfolio including (but not limited to) that:

(i) RBC AM manages the investment portfolios of the Model Portfolios pursuant to the Advisory Agreement;

(ii) RBC AM and the Applicant are affiliated entities;

(iii) while RBC AM manages the Model Portfolios, it is not responsible for determining or confirming the suitability of a Model Portfolio for the client, and RBC AM has no direct

relationship with the client and will not provide the client with direct access to investment management services;

(iv) the Asset Classes comprising a Model Portfolio and the Funds that may be invested in each of the Asset Classes will be listed along with the Permitted Range for each Asset Class;

(v) the Asset Classes and Permitted Ranges cannot be changed without the client's prior approval;

(vi) RBC AM will in its discretion adjust the Benchmark Percentage of an Asset Class within the Permitted Range;

(vii) RBC AM will in its discretion choose the Funds in which each Asset Class will invest and their weightings, and each Asset Class of a Model Portfolio will be invested in units of Funds that have investment objectives and strategies that are consistent with the Asset Class;

(viii) RBC AM will carry out the trades in units of the Funds for clients that are necessary and incidental to its Investment Activities, other than trades related to an Investment. All trades

will be reflected in the client's account on the day following the trade, and will also be reflected in the trade blotter to be shared by the Applicant and RBC AM in connection with the Product.

(ix) full disclosure of compensation to RBC AM and the Applicant, including

(A) the Applicant pays RBC AM a management fee pursuant to the Advisory Agreement, no management fees will be charged by RBC AM directly to the Funds or to the clients, no sales charges or trailing commissions would be payable by the client to the Funds in respect of their units in connection with any sales, redemptions or Fund switches, and each Fund pays its own operating expenses;

(B) the client will pay the Applicant a monthly fee in accordance with the fees outlined in the - Account Agreement, which fees will be based on the net asset value of the client's account and which fees could only be changed from time to time provided the client is given at least 30 days' advance written notice.

"Paul Moore"  
Commissioner  
Ontario Securities Commission

"Harold P. Hands"  
Commissioner  
Ontario Securities Commission