



IN THE MATTER OF  
THE SECURITIES LEGISLATION OF MANITOBA AND ONTARIO  
(the Jurisdictions)

and

IN THE MATTER OF  
THE PROCESS FOR EXEMPTIVE RELIEF APPLICATIONS  
IN MULTIPLE JURISDICTIONS

and

IN THE MATTER OF  
I.G. INVESTMENT MANAGEMENT, LTD.  
(the Filer)

**DECISION**

The principal regulator in the Jurisdiction has received an application from the Filer for a decision under the securities legislation of the Jurisdiction (the **Legislation**) exempting the Filer from the following requirements with respect to clients invested in the Model Portfolios (as defined below):

- (a) the requirement (the **Know Your Client Requirement**) in the Legislation that the Filer must take reasonable steps to:
  - (i) establish the identity of a client and, if the Filer has cause for concern, make reasonable inquiries as to the reputation of the client;
  - (ii) establish whether the client is an insider of a reporting issuer or any other issuer whose securities are publicly traded;
  - (iii) ensure that the Filer has sufficient information regarding the client's investment needs, objectives, financial circumstances and risk tolerance, among other information, to enable the Filer to meet its obligations under the Legislation to make determination with respect to the Suitability Requirement (as defined below); and
  - (iv) keep the information described above current;(collectively, the **Know Your Client Exemption**);

- (b) the requirement in the Legislation (the **Suitability Requirement**) that the Filer take reasonable steps to ensure that, before it makes a recommendation to or accepts an instruction from a client to buy or sell a security, or makes a purchase or sale of a security for a client's account, or upon the occurrence of any other required suitability assessment event, such action is suitable for the client (the **Suitability Exemption**); and
- (c) the requirement (the **Statement Delivery Requirement**) in the Legislation that the Filer deliver account statements and investment performance reports to clients who have invested in the Model Portfolios (the **Statement Delivery Exemption**);

The Know Your Client Exemption, Suitability Exemption, and Statement Delivery Exemption are collectively referred to as the **Exemption Sought**.

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a dual application):

- (a) the Manitoba Securities Commission is the principal regulator for this application;
- (b) the Filer has provided notice that section 4.7(1) of Multilateral Instrument 11-102 *Passport System* (**MI 11-102**) is intended to be relied upon by the Filer in British Columbia, Alberta, Saskatchewan, Québec, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, Northwest Territories, Yukon and Nunavut (together with Manitoba and Ontario, the **Jurisdictions**); and
- (c) The decision is the decision of the principal regulator and evidences the decision of the securities regulatory authority or regulator in Ontario.

### **Interpretation**

Terms defined in MI 11-102 and National Instrument 14-101 *Definitions* have the same meaning if used in this decision, unless otherwise defined.

### **Representations**

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

### **Facts**

#### ***The Filer and Dealers***

1. The head office of the Filer is located in Winnipeg, Manitoba.
2. The Filer is the investment fund manager of certain mutual funds that will form part of a model portfolio service (the "**Service**") offered exclusively

to clients of Investors Group Financial Services Inc. (**IGFS**) and Investors Group Securities Inc. (**IGSI**), dealers that are affiliated with the Filer (individually a **Dealer** and collectively, the **Dealers**).

3. The Filer is registered as an investment fund manager in Manitoba, Ontario, Québec and Newfoundland & Labrador, and as an advisor in the category of portfolio manager in Manitoba, Ontario, Québec. The Filer will seek registration as an advisor in each of the remaining Jurisdictions where it will offer the Service.
4. Each Dealer is registered as a dealer in all provinces and territories of Canada. IGFS is registered as a mutual fund dealer and is a member of the Mutual Fund Dealers Association of Canada (**MFDA**). IGSI is registered as an investment dealer and is a member of the Investment Industry Regulatory Organization of Canada (**IIROC**).
5. The Filer, the Dealers and the Funds (as defined below) are not in default of the securities legislation in any of the Jurisdictions.

#### ***The Service***

6. As part of the Service, the Filer constructs and makes available to clients of the Dealers, asset allocation portfolios comprised entirely of mutual funds for which the Filer acts as investment fund manager (the **Funds**) as well as cash and cash equivalents (the **Model Portfolios**).
7. Each Fund is, or will be, a reporting issuer in one or more of the Jurisdictions, and subject to the requirements of National Instrument 81-102 *Investment Funds*. Securities of the Funds are, or will be, qualified for sale pursuant to a simplified prospectus, annual information form and Fund Facts that have been, or will be, prepared and filed in accordance with National Instrument 81-101 *Mutual Fund Prospectus Disclosure*.
8. The Service offers a number of Model Portfolios that correspond to a different investment objective, investment horizon and risk profile. The Model Portfolios are designed to meet a wide range of investor goals and span a broad risk-return spectrum.
9. Each Model Portfolio has a specified target fund allocation that defines the percentage of the portfolio to be invested in each Fund (the **Target Weight**). Due to changes in the relative market value of each Fund, the weighting of each Fund may increase or decrease within an upper and lower range from its Target Weight (the **Permitted Range**).
10. When one or more Funds in a client's Model Portfolio exceed the Permitted Range, the Filer will execute appropriate trades so that each Fund is returned to a relative weight that is within the Permitted Range (the **Rebalancing Trades**).



11. In addition, as part of the Service, the Filer may also reallocate securities of the Funds held in a client's account through purchases and redemptions of securities of the Funds in order to change the composition of the selected Model Portfolio, including to:
  - (a) add one or more new Funds to a Model Portfolio (the **Fund Addition Trades**);
  - (b) remove one or more Funds from a Model Portfolio (the **Fund Removal Trades**); and
  - (c) change the Target Weight and/or Permitted Range of one or more Funds within a Model Portfolio (the **Weighting Change Trades**, and together with the Rebalancing Trades, Fund Addition Trades and the Fund Removal Trades, the **Service Trades**).
12. To the extent the Filer effects a Service Trade, the Service Trade will be consistent with the investment objective, investment time horizon, and risk profile of the Model Portfolio.
13. In order to invest in a Model Portfolio, clients will meet with a registered representative of their Dealer who will collect and assess the client's financial circumstances, investment knowledge, investment objectives, investment time horizon and risk tolerance.
14. The registered representative of the Dealer and client may also complete a questionnaire (the "**Questionnaire**") to determine which Model Portfolio is suitable for the client. The Dealers and the Filer jointly created the Questionnaire, and each agree that the Questionnaire is an effective tool for determining whether each client is suitable for a Model Portfolio.
15. The Dealers will use the information obtained from the client as well as the registered representative's knowledge of the client's affairs, to complete a know your client and suitability assessment on the client's affairs as required under sections 13.2 and 13.3 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* ("**NI 31-103**"), and similar provisions of IIROC and MFDA rules, as applicable.
16. The Model Portfolio will be selected by the client in consultation with their Dealer based on the know your client and suitability assessment, and the investment mandate of each Model Portfolio.
17. Clients will have no direct contact with the Filer in connection with the selection of the Model Portfolio as well as the Filer's management of the Model Portfolio. Clients will instead interact solely with their Dealer and their Dealer's registered representatives.

18. If a client decides to invest in a Model Portfolio, the client will complete an agreement with the Filer and the applicable Dealer (the **Agreement**). The Agreement will:
  - (a) be signed by the client and include an investment policy statement that will describe the investment objectives and composition of the Model Portfolio, including the Funds in the Model Portfolio as well as their respective Target Weights and Permitted Ranges;
  - (b) authorize the Filer to act as manager of the cash and securities held in respect of the client's account with the Dealer on a discretionary investment basis in accordance with the selected Model Portfolio, including to rebalance the percentage allocations of the Funds in the selected Model Portfolio within their applicable Permitted Range, add and remove Funds from the selected Model Portfolio, and change the applicable Target Weight and Permitted Ranges of the Funds.
  - (c) establish a clear understanding of the roles and responsibilities of the Filer and the respective Dealers. This will include disclosure that the Filer is responsible for managing the Model Portfolio without reference to the client's circumstances and only in accordance with the Model Portfolio selected by the client, and the Dealers alone will have the responsibility for gathering and periodically updating the Know Your Client Information concerning the client and for determining that the selected Model Portfolio is and remains suitable for the client. The client will also acknowledge that the Dealers will not have discretionary authority to participate in the management of the Model Portfolio.
19. To the extent the Dealers and/or registered representatives acting on behalf of the Dealers determine that a Model Portfolio is no longer suitable for a Client, the Client will no longer be permitted to invest in the model and will be recommended a suitable alternative.
20. There will be no duplication of any fees or charges as result of a client's decision to use the Service. In particular:
  - (a) The Filer will receive management and administration fees directly from each Fund in respect of the client's holding of securities of the Funds, which reflects the costs associated with performing its portfolio manager responsibilities of the Service. Only series of securities that do not pay advisor service fees such as trailing commissions to the Dealers (currently series I and/or series Ti securities of the Funds) will be used in the Service;



- (b) The Dealers and their registered representatives will not receive any advisor service fees such as trailing commissions from the Funds and instead will receive advisor services fees directly from each client in the Service, which reflects the costs associated with performing its dealer responsibilities for the Service; and
  - (c) No sales charges, redemption fees, switch fees or early trading fees will be charged in connection with any trades under the Service.
- 21. The fees and expenses charged in respect of the Service by the Dealers and the Filer through the Funds will be disclosed in the Agreement. The fees and expenses pertaining to the particular Funds used in the Model Portfolio will be set out in the simplified prospectus and Fund Facts of the Funds.
- 22. Fund Facts will be delivered to each client as required by Legislation, subject to any applicable exemption or relief order. Trade confirmations will also be provided to each client as required by Legislation.
- 23. Consistent with the discretionary nature of the Service, clients will not receive any advance notice of changes to their Model Portfolio. However, changes to a Model Portfolio's Target Weights, Permitted Ranges, and/or constituent Funds will be communicated to clients in writing – in their account statement or otherwise – on a no less than semi-annual basis.
- 24. The following monitoring and oversight procedures will be carried out in connection with each client's account in the Service:
  - (a) An annual portfolio review will be conducted by the registered representative of the Dealer to determine whether there have been any changes to the client's circumstances that would warrant the selection of another Model Portfolio; and
  - (b) Ongoing oversight of each Model Portfolio by the Filer, including to determine whether the composition of the Model Portfolio remains suitable for the risk profile of the model or whether any changes to the Target Weights and/or Permitted Ranges of the Funds within the model would be appropriate.

***Know Your Client and Suitability***

- 25. As a registered portfolio manager and the manager of the Service, the Filer is responsible for ensuring that the client's assets are invested in accordance with the terms of the selected Model Portfolio and for monitoring the suitability of trading decisions, including the Service Trades, it makes at the level of the Model Portfolio such that the trading decisions are suitable for the particular risk-return profile of the Model Portfolio selected by the client.

26. As the Filer does not have any direct interaction with the client, the Service contemplates that the Dealer is solely responsible for compliance with the Know Your Client Requirement and the Suitability Requirement at the level of the client. In particular, it is the program intention that the Dealer is solely responsible for gathering and periodically updating Know Your Client information concerning the client and confirming the suitability of the selected Model Portfolio for the client given the client's financial goals, risk tolerance and unique circumstances.
27. In order to give effect to the program intention, the Filer will maintain and apply policies and procedures designed to provide reasonable assurance that the Dealers comply with the Know Your Client Requirement and the Suitability Requirement with respect to each Client. These policies and procedures (the **KYC and Suitability Oversight Policies and Procedures**) include:
  - (a) a written explanation in the Agreement of the different roles and responsibilities of the Filer and the Dealers, and specifically the Filer's expectation that the Dealers will be solely responsible for gathering and periodically updating Know Your Client information concerning the client and confirming the suitability of the selected Model Portfolio for the client given the client's financial goals, risk tolerance and unique circumstances; and
  - (b) a requirement that the Dealers responsible for gathering and periodically updating Know Your Client information concerning the client and confirming the suitability of the selected Model Portfolio for the client will, on an annual basis, no later than 30 days after the end of the calendar year, provide a certificate to the Filer that the Dealers have complied with their Know Your Client and suitability obligations.

### ***Account Reporting***

28. Under the Service, the Filer maintains records of portfolio assets, including all purchases and redemptions of Funds as a result of Service Trades.
29. The securities of the Funds that comprise each Model Portfolio are directly held by each client in his/her own account(s) established with the respective Dealer.
30. All trades, including the Service Trades, will be effected by the Dealers solely upon the instruction of the Filer, and reflected in each client's account(s) with the respective Dealer on the business day following such trades.



31. An account statement will be sent to the client by the respective Dealer on a monthly basis for clients of IGSI and on a quarterly basis for clients of IGFS. An investment performance report will also be sent to the clients annually.
32. The Filer will maintain and apply policies and procedures designed to provide reasonable assurance that the Dealers through which the Model Portfolios are marketed and sold comply with the client-reporting obligations under the applicable rules of the MFDA or IIROC (the **Client Reporting Oversight Policies and Procedures**). These policies and procedures will include, without limitation,
  - (a) a requirement that the Filer maintain records of each client's investment positions and trades;
  - (b) A requirement that the Filer inform each client in writing, in the Agreement or otherwise, that it will not provide account statements and investment performance reports in addition to those delivered by the Dealer; and
  - (c) A requirement that, for the duration that a client holds an account with the Dealer, the Filer will take reasonable steps, including documented sample testing and reconciliations, to verify that account statements and investment performance reports are provided by the Dealers, and are complete, accurate and delivered on a timely basis in a format that is compliant with the MFDA or IIROC rules, as applicable.
33. The respective responsibilities of the Filer and Dealers regarding the delivery of account statements and investment performance reports will be set out in a written agreement between the Filer and the Dealers.

***Exemption Sought***

34. In the absence of the Exemption Sought, the Filer would be required to:
  - (a) gather and update the information contemplated by the Know Your Client Requirement for each client;
  - (b) ensure that each trade in a given client's Model Portfolio is suitable for such client in accordance with the Suitability Requirement rather than invested on terms that are suitable to the particular Model Portfolio itself; and
  - (c) deliver account statements and investment performance reports to clients who have invested in the Model Portfolios.



35. The Dealers do not require an exemption from the adviser registration requirement under the Legislation as a result of their involvement with the Model Portfolios as they will not be engaged in providing discretionary management advice to clients in connection with the management of the Model Portfolios.

**Decision**

The principal regulator is satisfied that the decision meets the test set out in the Legislation for the principal regulator to make the decision. The decision of the principal regulator under the Legislation is that the Exemption Sought is granted on the following conditions:

- (a) the Filer is, at the time of any Service Trade, registered under the Legislation as an adviser in the category of portfolio manager;
- (b) each Service Trade is made in accordance with the terms of the selected Model Portfolio;
- (c) the Filer has adopted and maintains and applies the KYC and Suitability Oversight Policies and Procedures; and
- (d) the Filer has adopted and maintains and applies the Client Reporting Oversight Policies and Procedures.



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Chris Besko, Director  
Manitoba Securities Commission