[ROYAL BANK OF CANADA LETTERHEAD]

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Canadian Securities Administrators
c/o Denise Brosseau, Secretary
Commission des valeurs mobilieres du Quebec
800 Victoria Square, Stock Exchange Tower
P.O. Box 246, 22nd Floor
Montreal, Quebec
H4Z 1G3

Dear Sirs:

Re: "Fund-of-Funds" Amendments to NI 81-101 and NI 81-102

I am internal counsel for Royal Bank of Canada and its wealth management affiliates. I am writing on behalf of RBC Funds Inc. ("RBCFI"), the manager of the Royal Mutual Funds (including the Royal Select Portfolios and the Royal Select Choices Portfolios (collectively, the "Portfolios")) and the RBC Advisor Funds, and RBC Global Investment Management Inc. ("RBCGIM"), the portfolio advisor to the Portfolios, to provide you with our comments on the proposed "fund-of-funds" amendments (the "Proposed Amendments") to National Instruments 81-101 ("NI 81-101") and 81-102 ("NI 81-102") and their companion policies.

We are pleased to have the opportunity to comment on the Proposed Rule. We have also participated in the development of the comment letter submitted by the Investment Funds Institute of Canada ("IFIC") in respect of the Proposed Amendments and support those comments.

General

In general we are very pleased with the fundamental approach adopted by the Canadian Securities Administrators' ("CSA") in the Proposed Amendments. We are particularly encouraged by the move to permit "top fund" portfolio managers to actively manage their investments in "bottom funds", the inclusion of RSP clone funds as permitted bottom funds and the proposed elimination of the requirement in existing discretionary relief that

top funds flow voting rights and disclosure materials in respect of bottom funds through to top fund unitholders.

Our comments below are intended to highlight those provisions of the Proposed Amendments which would be particularly problematic for the Portfolios.

Removal of 10% Threshold

Under existing section 2.5(1)(a) of NI 81-102, a mutual fund is permitted to invest up to 10 per cent of its assets in securities of other mutual funds (the "10% Threshold"). The definition of "top fund" contained in the Proposed Amendments would in effect remove the 10% Threshold, since a fund would be required to declare itself to be a "top fund" through its fundamental investment objectives if it intended to use "all *or some portion* of its assets" to purchase other mutual funds.

In our view, the removal of the 10% Threshold is inconsistent with the CSA's fundamental principle that investment in another fund is simply one of many potential investments that a portfolio adviser may choose to make in the best interests of a mutual fund's securityholders. We do not believe that a portfolio adviser should be precluded from investing a small portion of a mutual fund's assets in, for example, a money market fund for cash management purposes or an equity fund pending full "active" investment where investment in the fund is otherwise consistent with the mutual fund's investment objectives.

We would point out that Instruction (1) of Part B, Item 6 of Form 81-101F1 requires a mutual fund to "state the type or types of securities … in which the mutual fund will *primarily* invest under normal market conditions". NI 81-101 and NI 81-102 and their Companion Policies do not prohibit a mutual fund that intends to invest *primarily* in one type of securities from investing in other types of securities. Accordingly, most mutual funds' investment objectives specifically use the word "primarily" when describing the types of securities they intend to invest in, in order to provide portfolio advisers with flexibility to invest in other types of securities where it would be in the best interest of investors to do so. We submit that this flexibility should not be removed where the other type of security in which a portfolio adviser wishes to invest are mutual fund securities.

We would also point out that Instruction (3) of Part B, Item 6 of Form 81-101F1 also requires that an investment strategy be described in the fundamental investment objectives if the strategy "is an essential aspect of the mutual fund, as evidenced by the name of the mutual fund or the manner in which the mutual fund is marketed". In our view, the use of a money market fund or equity fund in the manner described above is a strategy that would not be an essential aspect of the fund.

Accordingly, we suggest that the proposed definition of "top fund" be amended to provide that a mutual fund need only declare itself to be a "top fund", by including the appropriate disclosure in its fundamental investment objectives, if it intends to invest

"primarily" in other mutual funds or if it intends to use other mutual funds as a strategy that is an essential aspect of the top fund.

Use of Index Participation Units

Existing section 2.5(2) of NI 81-102 provides that the existing fund-of-funds rules set out in section 2.5(1) do not apply to the purchase of an index participation unit that is a security of a mutual fund (an "IPU"). The proposed replacement for section 2.5(2) would provide that only certain provisions of new section 2.5(1) do not apply to the purchase of an IPU.

Barclays Global Investors Inc. ("BGI") has submitted to you a comment letter dated September 3, 2002 in which BGI describes the manner in which most mutual fund portfolio advisers use IPUs and the significant problems that would be created for mutual funds that use IPUs by the removal of the 10% Threshold and the proposed changes to section 2.5(2). We strongly support and therefore do not intend to reiterate the submissions made in that comment letter.

We strongly urge the CSA to amend the Proposed Amendments regarding the use of IPUs in accordance with the comments submitted by BGI.

Financial Arrangements – Proposed Sections 2.5(1)(g) and (h)

At the time the Royal Select Choices Portfolios were established in 2000, the manager (which, at the time was Royal Mutual Funds Inc., but is now RBCFI) negotiated management fee rebates which are payable by the bottom fund managers directly to the relevant Royal Select Choices Portfolio. These payments would be permitted by proposed paragraph 2.5(1)(h).

However, the manager also negotiated a form of "trailer" fee payable by certain of the bottom fund managers to the manager. The payment of these trailer fees by a bottom fund manager to RBCFI was designed as a mechanism to ensure that there is no duplication of management fees, as is required under existing exemptive relief and would be continued under subsection 2.5(1)(d). A very significant proportion of management fees of any mutual fund are used to fund "distribution" costs, specifically trailer fees payable to mutual fund dealers and investment dealers. In a fund-of-funds structure, a bottom fund and its manager have no such distribution costs in respect of those securities of the bottom fund owned by a top fund, but the top fund manager does have such costs. Accordingly, in the case of the Royal Select Choices Portfolios, the payment of trailer fees from the bottom fund managers to RBCFI was seen as an efficient way to redistribute this income and appropriately recognize that RBCFI, not the bottom fund managers, has to bear the cost of paying trailer fees to the distributors of the Royal Select Choices Portfolios. To the extent that these payments are (a) made in respect of the Royal Select Choices Portfolios' holdings of securities of the bottom funds and (b) made by the bottom fund managers to RBCFI (i.e. not to the Royal Select Choices Portfolios), these payments would be prohibited by both proposed paragraphs 2.5(1)(g) and (h).

Accordingly, in order to fund its obligations to pay trailer fees, RBCFI would need to increase the fees charged directly to the Royal Select Choices Portfolios, which would would require it to seek unitholder approval for an increase.

We would point out that this fee arrangement was specifically contemplated in the discretionary relief that was obtained at the time the Royal Select Choices Portfolios were formed (an applicable extract of which is attached as Appendix 'A') and in the current simplified prospectus (an applicable extract of which is attached as Appendix 'B').

We would encourage the CSA to consider replacing proposed paragraphs 2.5(1)(d), (g) and (h) with provisions that would allow top fund managers and bottom fund managers maximum flexibility to negotiate their financial arrangements, provided that investors are always able to determine from the top fund's simplified prospectus their total cost of investing.

We would like to thank the CSA for the opportunity to provide comments on the Proposed Amendments. Please feel free to contact me if you have questions or would like to discuss further any of the matters raised in this letter.

Yours truly,

Mark D. Pratt
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RBC Financial Group

cc: George Lewis, CEO, RBC Funds Inc.
Brenda Vince, President, RBC Funds Inc.