

October 23, 2025

**IN THE MATTER OF
THE SECURITIES LEGISLATION OF ONTARIO
(the Jurisdiction)**

AND

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

AND

**IN THE MATTER OF
INVESCO CANADA LTD.
(the Filer)**

DECISION

Background

The principal regulator in the Jurisdiction has received an application from the Filer on behalf of all existing and future investment funds managed by the Filer or an affiliate of the Filer (collectively, the **Funds** and individually, a **Fund**) that are subject to National Instrument 81-102 *Investment Funds* (**NI 81-102**), for a decision under the securities legislation of the Jurisdiction of the principal regulator (the **Legislation**) pursuant to section 19.1 of NI 81-102, exempting the Funds from:

- (a) the restriction contained in subsection 2.1(1) of NI 81-102 to permit each Fund that is a mutual fund, other than an alternative mutual fund, to purchase a security of an issuer, enter into a specified derivative transaction or purchase index participation units (each a **Purchase**) when, immediately after the Purchase, more than 10% of the net asset value of the Fund would be invested in debt obligations issued or guaranteed by either the Federal National Mortgage Association (**Fannie Mae**) or the Federal Home Loan Mortgage Corporation (**Freddie Mac**); and
- (b) the restriction contained in subsection 2.1(1.1) of NI 81-102 to permit each Fund that is an alternative mutual fund or a non-redeemable investment fund to make a Purchase when, immediately after the Purchase, more than 20% of the net asset value of the Fund would be invested in debt obligations issued or guaranteed by either Fannie Mae or Freddie Mac,

(together, the **Exemption Sought**).

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

- (a) the Ontario Securities Commission is the principal regulator for this application; and
- (b) the Filer has provided notice that subsection 4.7(1) of Multilateral Instrument 11-102 *Passport System* (**MI 11-102**) is intended to be relied upon in all of the provinces and territories of Canada other than Ontario (together with Ontario, the **Jurisdictions**).

Interpretation

Terms defined in National Instrument 14-101 *Definitions*, MI 11-102, and NI 81-102 have the same meaning if used in this decision, unless otherwise defined. In addition:

1940 Act means the U.S. *Investment Company Act of 1940*, as amended from time to time;

Fannie and Freddie Securities means debt obligations issued or guaranteed by either Fannie Mae or Freddie Mac including, without limitation, bonds, mortgage-backed securities, uniform mortgage-backed securities and **Fannie or Freddie Security** means any one such debt obligation;

Minimum Rating means a credit rating of BBB-- assigned by S&P Global Ratings Canada or an equivalent rating assigned by one or more other designated rating organizations;

U.S. means the United States of America; and

U.S. Government Equivalent Rating means a credit rating assigned by S&P Global Ratings Canada, or an equivalent rating assigned by one or more other designated rating organizations, to a Fannie or Freddie Security that is not less than the credit rating then assigned by such designated rating organization to the debt of the U.S. government of approximately the same term as the remaining term to maturity of, and denominated in the same currency as, the Fannie or Freddie Security.

Representations

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

The Filer

1. The Filer:
 - (a) is a corporation amalgamated under the laws of Canada, with its registered head office located in Toronto, Ontario;
 - (b) is currently registered as:

- (i) an adviser in the category of portfolio manager in each province of Canada;
 - (ii) an investment fund manager in Ontario, Québec and Newfoundland and Labrador;
 - (iii) a dealer in the category of: (1) mutual fund dealer in Alberta, British Columbia, Nova Scotia, Ontario, Prince Edward Island, and Québec; and (2) exempt market dealer in each province of Canada; and
 - (iv) a commodity trading manager in Ontario;
- (c) is, or an affiliate of the Filer is or will be, the investment fund manager of each Fund; and
- (d) or an affiliate may act as portfolio manager of the Funds or may appoint one or more portfolio managers or sub-advisors to a Fund who will provide the Filer with investment advice in respect of a Fund's investments.

The Funds

2. Each Fund is, or will be, an investment fund to which NI 81-102 applies, subject to any exemptions therefrom that have been, or may be, granted by the applicable securities regulatory authorities.
3. Securities of the Funds are, or will be, offered by a prospectus filed in the Jurisdictions and, accordingly, each Fund is, or will be, a reporting issuer in the Jurisdictions.
4. The investment objective of each Fund that will rely on the Exemption Sought permits, or will permit, the Fund to invest a majority of its assets in fixed income securities. The ability to invest in Fannie and Freddie Securities is, or will be, an important feature of each Fund due to the size and role of Fannie Mae and Freddie Mac in the U.S. mortgage industry.
5. Neither the Filer nor the Funds are in default of securities legislation in any Jurisdiction.

Fannie Mae and Freddie Mac

6. Fannie Mae is a financial services corporation originally established by the U.S. Congress in 1938 to provide U.S. federal government money to local banks to finance home mortgages during the Great Depression. Its business includes borrowing money in the debt markets by selling bonds and providing liquidity to mortgage originators by purchasing whole loans which it then securitizes by issuing mortgage-backed securities. Fannie Mae also earns guarantee fees for assuming the credit risk on mortgage loans.
7. Freddie Mac is a financial services corporation that was created by the U.S. Congress in 1970 to expand the secondary market for mortgages in the U.S. It was established to provide competition to Fannie Mae. Similar to Fannie Mae, the business of Freddie Mac includes

- buying mortgages in the secondary market, pooling them, and issuing mortgage-backed securities, as well as earning guarantee fees for assuming the credit risk on mortgage loans.
8. Fannie and Freddie Securities provide a substantial portion of the financing for residential mortgages in the U.S.
 9. Originally, the obligations of Fannie Mae were explicitly guaranteed by the U.S. government. The explicit guarantee was removed as part of a reorganization of Fannie Mae in 1968. Like Fannie Mae, there is no explicit guarantee of the obligations of Freddie Mac by the U.S. government.
 10. Notwithstanding the absence of an explicit guarantee, it is widely assumed that there is an implied guarantee of the obligations of both Fannie Mae and Freddie Mac by the U.S. government. This assumption is based on the view that Fannie Mae and Freddie Mac each are considered to be "too big to fail" due to the critical roles they play as instrumentalities of the U.S. government existing to support the liquidity of the residential real estate mortgage market. Accordingly, it is widely believed that the U.S. government implicitly guarantees the obligations of Fannie Mae and Freddie Mac. This is reflected in Fannie and Freddie Securities currently having a U.S. Government Equivalent Rating.
 11. The implied guarantee was evidenced during the 2008 financial crisis. At that time, Fannie Mae and Freddie Mac together owned or guaranteed approximately half of the U.S.' US\$12 trillion mortgage market and were at risk of defaulting on their obligations. Such a default would have increased the cost of obtaining mortgage financing from other sources, thereby exacerbating the decline in the U.S. residential real estate market, as well as negatively impacting investors (including retirement funds and money market funds) that held Fannie and Freddie Securities. As a result, on September 7, 2008, Fannie Mae and Freddie Mac were placed into conservatorship of the U.S. Federal Housing Financing Agency in order to stabilize them. The U.S. government avoided creating an explicit guarantee of the obligations of Fannie Mae and Freddie Mac due to the negative impact it would have had on the U.S. Treasury. Fannie Mae and Freddie Mac were expressly excluded from the bail-in regime created under Title II of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act to preclude future U.S. government bailouts of large financial companies. It is expected that a further act of the U.S. Congress would be required to remove the implied guarantee of Fannie and Freddie Securities as part of a larger reform of the U.S. residential real estate market. No such initiative currently is a priority of the U.S. Congress.
 12. Under the 1940 Act, an investment company registered with the U.S. Securities and Exchange Commission (the **SEC**) seeking to qualify as a "diversified company" (a **1940 Act Fund**) is required, among other matters, to invest at least 75% of its total assets in a manner whereby not more than 5% of the value of its total assets is invested in the securities of any single issuer (**U.S. 5% Restriction**). This restriction is analogous to the diversification requirement imposed on public investment funds in Canada by subsections 2.1(1) and 2.1(1.1) of NI 81-102. Similar to paragraph 2.1(2)(a) of NI 81-102, the 1940 Act excludes a "government security" from the U.S. 5% Restriction.

13. The definition of "government security" in the 1940 Act differs from that contained in NI 81-102 by including any security issued by a person controlled or supervised by and acting as an instrumentality of the government of the U.S. pursuant to authority granted by the U.S. Congress (a **U.S. Government Instrumentality**). Each of Fannie Mae and Freddie Mac is considered to be a U.S. Government Instrumentality and Fannie and Freddie Securities therefore are "government securities" under the 1940 Act.
14. The definition of "government security" in NI 81-102 does not include U.S. government instrumentalities. Accordingly, the only U.S. securities which qualify as government securities are those directly issued by, or fully and unconditionally guaranteed by, the U.S. government. Fannie and Freddie Securities do not meet this definition since their obligations are not explicitly fully and unconditionally guaranteed by the U.S. government.
15. As a result, the restrictions in subsections 2.1(1) and 2.1(1.1) apply to each investment by a Fund in Fannie and Freddie Securities.
16. Fannie and Freddie Securities represent a large, attractive and unique category of investment that cannot be replicated by any other issuer. For this reason, it is important to the Funds that they be entitled to maximize their opportunity to invest in Fannie and Freddie Securities.
17. Investments in Fannie and Freddie Securities are considered to be more prudent than investments in equivalent bonds and mortgage-backed securities of other issuers due to the implied guarantee by the U.S. government. Accordingly, if the Exemption Sought is granted, each Fund will have the opportunity to maintain a more prudent portfolio through greater exposure to securities implicitly guaranteed by the U.S. government.
18. The current sub-advisor to the Funds seeking to rely on this decision manages 1940 Act Funds that currently hold significant amounts of Fannie and Freddie Securities, in many cases with individual 1940 Act Funds investing more than 10% of their net assets in the securities of either Fannie Mae or Freddie Mac. Granting the Exemption Sought will enable the Funds to invest in Fannie and Freddie Securities to the same degree and proportions as the 1940 Act Funds.
19. The Filer intends, either directly or through sub-advisors, to research and monitor the investment attributes and trading operations for Fannie and Freddie Securities. Such ongoing research and monitoring will include monitoring proposals to restructure the U.S. residential housing market that may impact the implied guarantee of Fannie and Freddie Securities by the U.S. government. If the U.S. Congress proposes legislation to change or remove the implied guarantee and the Filer determines in its judgment that, as a result of the announced proposed legislation, there is a significant risk that the Fannie and Freddie Securities held by the Funds could cease to have a U.S. Government Equivalent Rating or their credit ratings could decline below a Minimum Rating, the Funds will take steps that are reasonably required to dispose of their Fannie and Freddie Securities in an orderly and timely fashion such that the Fannie and Freddie Securities held by the Funds comply with subsections 2.1(1) and 2.1(1.1) of NI 81-102.

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 is that the Exemption Sought is granted provided that:

- (a) at the time of Purchase, the Fannie or Freddie Security has a U.S. Government Equivalent Rating and a rating not less than the Minimum Rating;
- (b) the prospectus or simplified prospectus of each Fund that is a mutual fund distributing its securities, the prospectus of each Fund that is a non-redeemable investment fund distributing its securities, and the prospectus or annual information form of each Fund that is not distributing its securities:
 - (i) discloses that the Fund has received permission to invest more than 10% (or, in the case of an alternative mutual fund or a non-redeemable investment fund, 20%) of its net assets in each of Fannie Mae and Freddie Mac provided the Fannie and Freddie Securities maintain a U.S. Government Equivalent Rating and a rating not less than the Minimum Rating;
 - (ii) discloses (in the case of a prospectus or simplified prospectus, under the heading or sub-heading "Investment Strategies") the maximum amount the Fund may invest in Fannie and Freddie Securities; and
 - (iii) contains risk factors that:
 - (I) the U.S. government may not guarantee payment of Fannie and Freddie Securities; and
 - (II) describe the risks associated with the Fund investing more than 10% (or, in the case of an alternative mutual fund or a non-redeemable investment fund, 20%) of its net assets in each of Fannie or Freddie Securities,

provided that in the case of a Fund that is a mutual fund currently distributing its securities, the information required by this condition (b) may instead be included in the prospectus or simplified prospectus of the Fund when it is next renewed or amended;

- (c) if the rating of a Fannie or Freddie Security held by a Fund ceases to have a U.S. Government Equivalent Rating or declines below the Minimum Rating, the Fund will take the steps that are reasonably required to dispose of such Fannie or Freddie Security in an orderly and timely fashion such that the Fannie and Freddie Securities held by the Fund comply with subsections 2.1(1) and 2.1(1.1) of NI 81-102; and
- (d) if the U.S. Congress:

- (i) proposes legislation intended to change or remove the implied guarantee by the U.S. government of Fannie Mae and/or Freddie Mac and the Filer determines in its judgment that, as a result of the announced proposed legislation, there is a significant risk that the Fannie and/or Freddie Securities held by the Funds could cease to have a U.S. Government Equivalent Rating or their credit ratings could decline below the Minimum Rating; or
- (ii) enacts legislation that:
 - (I) removes the implied guarantee by the U.S. government of Fannie Mae and/or Freddie Mac; or
 - (II) specifies a future effective date on which the implied guarantee by the U.S. government of Fannie Mae and/or Freddie Mac will end,

the Funds will take the steps that are reasonably required to dispose of such Fannie and/or Freddie Securities in an orderly and timely fashion such that the Fannie and/or Freddie Securities held by the Funds comply with subsection 2.1(1) of NI 81-102 and/or 2.1(1.1) of NI 81-102, as applicable.

“Darren McKall”

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