

September 22, 2020
Order No. 7530

**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
I.G. INVESTMENT MANAGEMENT, LTD.
[referred to as “IGIM” and
Collectively with: PIMCO – IG Global Bond Pool and IG PIMCO Global Bond Fund
 (“Current Funds”) referred to as the “Filer”]**

DECISION

Background

The securities regulatory authority or regulator in each of the Jurisdictions has received an application from the Filer on behalf of the Current Funds and any future mutual funds the Manager may launch (the **Future Funds** and, together with the Current Funds, the **Funds** and, individually, a **Fund**) that are sub-advised by PIMCO Canada Corp. or its affiliates (PIMCO and its affiliates are collectively referred to herein as **PIMCO**), for a decision under the securities legislation of the Jurisdiction (the **Legislation**) that grants exemptive relief to the Filer and the Fund from subsection 2.1(1) of National Instrument 81-102 *Investment Funds (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 percent 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**) (the **Requested Relief**).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a passport 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 in British Columbia, Alberta, Saskatchewan, Quebec, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, Yukon, Nunavut and the Northwest Territories; 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 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 United States *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 and mortgage-backed securities and **Fannie or Freddie Security** means any one such debt obligation;

Minimum Rating means a credit rating of BBB- assigned by Standard & Poor's Rating Service or an equivalent rating by one or more other designated rating organizations; and

U.S. Government Equivalent Rating means a credit rating assigned by Standard & Poor's Rating Services (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 United States 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:

IGIM

1. IGIM is a corporation continued under the laws of Ontario. It is the trustee, the portfolio advisor and the manager of the Fund. The head office of IGIM is in Winnipeg, Manitoba.
2. IGIM is registered as a Portfolio Manager and an Investment Fund Manager in Manitoba, Ontario, and Quebec and as an Investment Fund Manager in Newfoundland and Labrador.
3. IGIM and the mutual funds it manages or advises are not in default of any of the requirements of securities legislation of any of the provinces and territories of Canada.

The Funds

4. The Funds are mutual fund subject to NI 81-102, subject to any exemptions therefrom that have been, or may be, granted by the applicable securities regulatory authorities. The Funds distribute its securities under a simplified prospectus and annual information form prepared in accordance with National Instrument 81-101 - *Mutual Fund Prospectus Disclosure*. The Funds are or will be reporting issuers in one or more of the provinces and territories of Canada and are or will be sub-advised by PIMCO.

5. The investment objective of the PIMCO – IG Global Bond Pool is to provide interest income by investing primarily in bonds and debentures of non-Canadian issuers.
6. The investment objective of the IG PIMCO Global Bond Fund is to provide interest income by investing primarily in bonds and debentures of non-Canadian issuers. The Fund aims to achieve this exposure by investing primarily in Underlying Funds and/or directly in fixed income investments.
7. The Requested Relief for the Current Funds are sub-advised by PIMCO. PIMCO has obtained the Requested Relief for a number of Canadian mutual funds it manages that currently hold Fannie and Freddie Securities with more than 10% of the mutual fund's net assets. As the investment sub-adviser to each Current Fund, PIMCO has experience in investing more than 10% of their net assets in Fannie and Freddie Securities and have utilized the Requested Relief in Canada to the benefit of their unit holders. PIMCO will use this experience to invest in Fannie and Freddie Securities in a similar manner.
8. The Fund may engage in securities lending, repurchase and reverse repurchase transactions, and use derivatives. These transactions and derivatives will be used in conjunction with the Fund's other investment strategies in a manner considered most appropriate to achieving the Fund's overall investment objectives and enhancing the Fund's returns as permitted by securities rules
9. Fannie Mae is a financial services corporation originally established by the United States Congress in 1938 to provide United States 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.
10. Freddie Mac is a financial services corporation that was created by the United States Congress in 1970 to expand the secondary market for mortgages in the United States. 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.
11. Fannie and Freddie Securities provide a substantial portion of the financing for residential mortgages in the United States.
12. Originally, the obligations of Fannie Mae were explicitly guaranteed by the United States 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 United States government.
13. 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 United States 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 United States government existing to support the liquidity of the residential real estate mortgage market. Accordingly, it is widely believed that the United States 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.

14. 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 United States' 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 United States Federal Housing Financing Agency in order to stabilize them. The United States 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 United States Treasury. Fannie Mae and Freddie Mac were expressly excluded from the bail-in regime created under Title II of the United States Dodd-Frank Wall Street Reform and Consumer Protection Act to preclude future U.S. government bail-outs 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.
15. Under the 1940 Act, an investment company registered with the United States Securities and Exchange Commission (the **SEC**) seeking to qualify as a "diversified company" 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. This restriction is analogous to the diversification requirement imposed on public mutual funds in Canada by subsection 2.1(1) of NI 81-102 on public mutual funds in Canada. Similar to paragraph 2.1(2)(a) of NI 81-102, the 1940 Act excludes a "government security" from the 5% limit described.
16. 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 United States pursuant to authority granted by the Congress of the United States (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.
17. The definition of "government security" in NI 81-102 does not include U.S. government instrumentalities. Accordingly, the only United States securities which qualify as government securities are those directly issued by, or fully and unconditionally guaranteed by, the United States government. Fannie and Freddie Securities do not meet this definition since their obligations are not explicitly fully and unconditionally guaranteed by the United States government.
18. As a result, the restriction in subsection 2.1(1) applies to each investment by a Fund in Fannie and Freddie Securities. 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.

19. Investments in Fannie and Freddie Securities are considered by PIMCO to be more prudent than investments in equivalent bonds and mortgage-backed securities of other issuers due to the implied guarantee by the United States government. Accordingly, if the Requested Relief is granted, each Fund will have the opportunity to maintain a more prudent portfolio through greater exposure to securities implicitly guaranteed by the United States government.
20. PIMCO has experience in investing client assets in Fannie and Freddie Securities and continuously researches and monitors the investment attributes and trading operations for Fannie and Freddie Securities. Such ongoing research and monitoring includes 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 judgement 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 Fund comply with subsection 2.1(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 Requested Relief 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 simplified prospectus and annual information form of each Fund:
 - (i) discloses that the Fund has received permission to invest more than 10% 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) the simplified prospectus contains risk factors that:
 - (A) the U.S. government may not guarantee payment of Fannie and Freddie Securities; and

- (B) describe the risks associated with the Fund investing more than 10% of its net assets in securities of Fannie Mae or Freddie Mac,

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 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 of such issuer held by the Fund comply with subsection 2.1(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 judgement 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 the Minimum Rating; or
 - (ii) enacts legislation that:
 - (A) removes the implied guarantee by the U.S. government of Fannie Mae and/or Freddie Mac; or
 - (B) 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 Freddie Securities in an orderly and timely fashion such that the Fannie and Freddie Securities held by the Funds comply with subsection 2.1(1) of NI 81-102.

“Chris Besko”

Christopher Besko
Director, General Counsel
The Manitoba Securities Commission