NATIONAL POLICY

NO. 29

MUTUAL FUNDS INVESTING IN MORTGAGES

Part I
APPLICABILITY

1. This policy applies to any mutual fund having 10% or more of its portfolio invested in mortgages or hypothecs, except that paragraph (1) of section 4 applies only to a mutual fund having 50% or more of its portfolio invested in mortgages or hypothecs.

2. Except where in conflict with this policy, all relevant mutual fund policies apply.

Part II
DEFINITIONS

3. For the purpose of this policy:

   (1) "qualified appraiser" means a bank, trust company, loan company or insurance company, or other person or company which makes appraisals and whose opinions are relied upon in connection with lending or servicing activities, and who in the judgment of the management company or trustee of the specific fund is properly qualified to make such a determination;

   (2) "substantial security holder" means any person that beneficially owns more than 10% of the voting rights attached to all outstanding equity shares; to evaluate the holding of the substantial holder, it must be added to the securities he owns, those owned by associates and those controlled by him and associates, in particular due to the fact that they can exercise the voting rights attached to these securities;

IN FORCE FROM JUNE 12, 2001 TO SEPTEMBER 18, 2005
4. Liquidity

(1) The prospectus of a mutual fund investing in mortgages shall include a provision that the fund will not invest in mortgages if such acquisition would have the effect of reducing the fund's liquid assets to an amount less than the amount established by the following formula:

<table>
<thead>
<tr>
<th>Net assets of the fund (market value)</th>
<th>Minimum amount to be held as liquid assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000,000 or less</td>
<td>$100,000</td>
</tr>
<tr>
<td>$1,000,000</td>
<td>$100,000 + 10% on next $1,000,000</td>
</tr>
<tr>
<td>$2,000,000</td>
<td>$200,000 + 9% on next $3,000,000</td>
</tr>
<tr>
<td>$5,000,000</td>
<td>$470,000 + 8% on next $5,000,000</td>
</tr>
<tr>
<td>$10,000,000</td>
<td>$870,000 + 7% on next $10,000,000</td>
</tr>
<tr>
<td>$20,000,000</td>
<td>$1,570,000 + 6% on next $10,000,000</td>
</tr>
<tr>
<td>$30,000,000 or more</td>
<td>$2,170,000 + 5% on excess</td>
</tr>
</tbody>
</table>

(2) To provide liquidity for redemption purposes only, a fund may borrow an amount not exceeding 10% of its net assets.

5. Restrictions

(1) A fund may not invest in mortgages:

(a) more than 10% of its net assets until its net assets have reached
and continue to be maintained at a minimum of $350 000;

(b) on raw land or undeveloped land;

(c) other than first mortgages on properties located in Canada;

(d) on residential properties of more than 8 units and on commercial and industrial properties, until the fund has net assets of at least $15 000 000. In any event, the total amount of such mortgages must never exceed 40% of the net assets of the fund provided that those mortgages constituting the excess of 20% of the net assets of the fund that are invested in such mortgages must be insured either by an agency of the Government of Canada or of a Province of Canada;

(e) unless the property securing the mortgage has been appraised by a qualified appraiser;

(f) an amount which is more than 75% of the fair market value of the property securing the mortgage, except when:

(i) such mortgage is insured under the National Housing Act (Canada) or any similar act of a province, or

(ii) the excess over 75% is insured by an insurance company registered or licensed under the Insurance Companies Act (Canada) or insurance acts or similar acts of a Canadian province or territory;

(g) with a maturity exceeding 10 years for mortgages on the types of properties referred to in paragraph (d) and 5 years in all other cases except that up to 10% of the net assets of the fund may be invested in residential mortgages with a maturity not exceeding 10 years; the amortization period of each mortgage must not exceed 30 years, except for mortgages insured under the National Housing Act (Canada) or any similar act of a province;

(h) an amount exceeding $75 000 for funds having less than $1 500 000 in net assets; and the lesser of $1 000 000 or 5% of its net assets when they exceed $1 500 000, but are less than $50 000 000; and an amount exceeding 2% of its net assets for funds having $50 000 000 or more in net assets, for any one mortgage,
and for the purpose of this paragraph, a series of mortgages on one condominium development shall be considered as one mortgage;

(i) on a property in which:

(i) any senior officer, director or trustee of the mutual fund, its management company or distribution company, or

(ii) any person or company who is a substantial security holder of the mutual fund, its management company or its distribution company, or

(iii) any associate or affiliate of persons or institutions mentioned in subparagraphs (i) or (ii), except in the case of a mortgage on a single family dwelling for less than $75 000, has an interest as mortgagor.

(2) Neither the fund nor the management company on behalf of the fund shall enter into forward commitments binding on the fund with regard to mortgages to be acquired by it if, at the time moneys are to be disbursed by the fund as a result of such commitments, the liquidity requirements established under paragraph (1) of section 4 would be violated by such a disbursement.

Arm’s length transactions

Investor’s yield

(3) Where a fund acquires mortgages from a lending institution with which the fund, its management company and/or the insiders of either of them are dealing at arm’s length, such mortgages shall be acquired at that principal amount which produces at least the yield prevailing for the sale of comparable unserviced mortgages by major mortgage lenders under similar conditions.

Not at arm’s length transactions

(4) In all cases not covered by subsection (3), mortgages shall be acquired by the fund according to only one of the following three methods:

Lender’s rate

(a) at that principal amount which will produce a yield to the fund
equal to the interest rate at which the lending institution is making commitments to loan on the security of comparable mortgages at the time of purchase by the fund;

**Forward commitment rate**

(b) at that principal amount which will produce the same yield to the fund as the interest rate charged by the lending institution to the mortgagor on the date of commitment provided that the date of commitment is not more than 120 days prior to the date of acquisition of the mortgage by the fund, and the interest rate is equal to the rate at which the lending institution made commitments to loan on the security of comparable mortgages on the date of commitment; or

**Modified lender's rate**

(c) at that principal amount which will produce a yield to the fund of not more than a quarter of 1% less than the interest rate at which the lending institution is making commitments, at the time of purchase, to loan on the security of comparable mortgages, provided that the lending institution which sells mortgages to the fund has entered into an agreement to repurchase the mortgages from the fund in circumstances benefiting the fund and that such an agreement is considered by the administrators to justify the difference in yield to the fund.

(5) For the purpose of determining the net asset value of mortgages in the portfolio:

(a) the value of conventional mortgages shall be calculated on a consistent basis, to produce a principal amount which will produce a yield,

(i) equal to the yield prevailing for the sale of comparable conventional mortgages by major lending institutions, if ascertainable on the date of valuation; or

(ii) equal to or not less than one quarter of 1% below the interest rate at which major lending institutions are making commitments on the date of valuation.
in the case of mortgages guaranteed under the National Housing Act such mortgages shall be valued at market value.

Any change by a fund from one of the methods of acquisition described in subsection (4) to another of these methods, or in the method of valuation of mortgages included in its portfolio, shall be subject to the prior approval of the Administrators.

Part IV
DISCLOSURE

6. The prospectus of the fund shall include:

   (1) (a) A statement of the various methods used by mutual funds generally for determining the price at which mortgages are acquired in the terms of paragraphs (3) and (4) of section 5, and a brief comparison of the effects these methods may have on the yield to the fund under the assumptions of increasing, decreasing and stable interest rates;

   (b) A designation of which of the methods outlined in subparagraph (a) is used by the fund;

   (c) The method used for determining the price at which mortgages have been sold by the fund during the preceding financial year, if any;

   (2) A description of the methods used to value all portfolio holdings (including mortgages in arrears) in determining the net asset value of the fund;

   (3) A statement of the benefits or advantages derived by the management company or an affiliate or associate of the management company, from managing the fund and the sale or purchase of mortgages to or from the fund;

   (4) (a) The origin of the mortgages acquired by the fund during the preceding financial year;

   (b) The distribution of mortgages between mortgages insured under the National Housing Act (Canada) insured and uninsured conventional mortgages;
(c) The fund’s policy concerning the origin and distribution of mortgages to be acquired by the fund in the future;

(5) A table showing the distribution of the mortgage portfolio according to the type of property securing the mortgage (single family dwelling, condominium, multi-unit dwelling of up to 8 units, multi-unit dwelling of more than 8 units, commercial, industrial);

(6) A table showing the contractual interest rate in groups of not more than one quarter of 1% for the mortgages in the portfolio;

(7) A table showing, with one year intervals, the date at which mortgages included in the portfolio reach maturity;

(8) A table showing the geographical distribution of the mortgage portfolio;

(9) A table showing the status of mortgages having instalments 90 days or more in arrears;

(10) In each of the tables required under this Section, the number of mortgages and market value shall be shown. Furthermore, in the case of the tables required under paragraphs (6) and (7) the amortized cost and outstanding principal value shall be shown.

Décision n° 5258 - 28 juin 1977

Décision n° 8613 - 23 novembre 1987

Décision 2001-C-0266 -- 12 juin 2001

Modification

Décision 2001-C-0267 -- 12 juin 2001