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Headnote

Mutual Reliance Review System for Exemptive Relief Applications – limited purpose trust exempt from prospectus and registration requirements in connection with issuance of units to existing unitholders under a distribution reinvestment plan whereby distributions of income are reinvested in additional units of the trust, subject to certain conditions - first trade relief provided for units of trust, subject to certain conditions.

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, ss. 48 and 76

Multilateral Instrument 45-102 *Resale of Securities*

**IN THE MATTER OF THE SECURITIES LEGISLATION OF BRITISH
COLUMBIA, SASKATCHEWAN, MANITOBA, ONTARIO, QUEBEC,
NOVA SCOTIA, NEW BRUNSWICK, PRINCE EDWARD ISLAND,
NEWFOUNDLAND AND LABRADOR, YUKON, NORTHWEST
TERRITORIES AND NUNAVUT**

AND

**IN THE MATTER OF THE MUTUAL RELIANCE REVIEW SYSTEM
FOR EXEMPTIVE RELIEF APPLICATIONS**

AND

IN THE MATTER OF MORTGAGE-BACKED SECURITIES TRUST

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the “Decision Maker”) in each of British Columbia, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland and Labrador, Yukon, Nunavut and Northwest Territories (the “Jurisdictions”) has received an application from Mortgage-Backed Securities Trust (the “Trust”) for a decision, pursuant to the securities legislation of the Jurisdictions (the “Legislation”), that the requirement contained in the Legislation to be registered to trade in a security and to file and obtain a receipt for a preliminary prospectus and a final prospectus (the “Registration and Prospectus Requirements”) shall not apply to certain trades in units of the Trust pursuant to a distribution reinvestment plan (the “Plan”);

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AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (“System”), the Ontario Securities Commission is the principal regulator for this application;

AND WHEREAS, unless otherwise defined, the terms herein have the meaning set out in National Instrument 14-101 Definitions or in Quebec Commission Notice 14-101;

AND WHEREAS the Trust has represented to the Decision Makers that:

1. The Trust is a limited purpose trust established under the laws of the Province of Ontario pursuant to a declaration of trust dated March 28, 2003 (the “Declaration of Trust”).
2. The Trust is authorized to issue an unlimited number of units.
3. The Trust became a reporting issuer or the equivalent thereof in the Jurisdictions upon obtaining a receipt for its final prospectus dated March 28, 2003. As of the date hereof, the Trust is not in default of any of the requirements under the Legislation.
4. The trustee and manager of the Trust is Sentry Select Capital Corp. (the “Manager”), a mutual fund manager and dealer with its head office in Ontario.
5. The investment objects of the Trust are: (i) to provide holders of Units (“Unitholders”) with a stream of monthly cash distributions that, in any year, will be targeted to approximate the average 10-year U.S. Treasury Note yield for that year plus 3.50%; and (ii) to preserve the net asst value (the “NAV”) of the Trust.
6. Upon completion of the offering, the Trust will use the net proceeds of the offering to become the sole limited partner with a 99.99% interest in the income of Mortgage-Backed Securities Limited Partnership (the “Partnership”), a limited partnership established under the laws of the State of Delaware. A wholly-owned subsidiary of the Manager will be entitled to 0.01% of the income of the Partnership.
7. The assets of the Partnership will be invested in a portfolio consisting primarily of AAA rated mortgage-backed securities issued by Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and Government National Mortgage Association (collectively, the “U.S. Agencies”).

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8. The investment manager of the Partnership will be Fixed Income Discount Advisory Company (the “Investment Manager”), a fixed income management company in the United States, based in New York, specializing in managing interest rate sensitive strategies and investing in U.S. Agency mortgage-backed securities and U.S. Treasury securities.
9. Each of the Trust Units represents an equal, undivided interest in the net assets of the Trust, is entitled to one vote and to participate equally with all other Trust Units in all distributions made by the Trust.
10. Registrations of interests in and transfers of Trust Units will be made only through a book-based system administered by The Canadian Depository for Securities Limited (“CDS”).
11. The Trust Units have been conditionally approved for listing on the Toronto Stock Exchange (the “TSX”).
12. On a monthly basis, each Unitholder of record at the close of business on the last business day of the month (the “Record Date”) will be entitled to receive monthly distributions (the “Distributions”). Distributions by the Trust will be paid on or about the 15th day following month-end (“Distribution Dates”). The Trust may make special distributions in cash or in Trust Units at any time in addition to monthly cash distributions.
13. The Trust intends to adopt, on or prior to the closing of the initial public offering of Trust Units, the Reinvestment Plan so that, subject to obtaining all the requested decisions, Distributions may be automatically reinvested, at the election of each Unitholder, to purchase additional Trust Units (the “Plan Units”) on each Unitholder’s behalf, pursuant to the Reinvestment Plan in accordance with the provisions of a distribution reinvestment plan agency agreement (the “Plan Agreement”) to be entered into among the Trust and Computershare Investor Services Inc. (the “Plan Agreement”).
14. Unitholders will have no right to purchase additional Trust Units from the Trust other than pursuant to the Reinvestment Plan.
15. Pursuant to the terms of the Reinvestment Plan, a Unitholder will be able to elect to reinvest his or her share of Distributions from the Trust in Plan Units by giving notice of the Unitholder’s decision to participate in the Reinvestment Plan to the Plan Agent through the Unitholder’s dealer or other participant in CDS (a “CDS Participant”) through which it holds its Trust Units. The Distributions due to Unitholders who have elected to participate (the “Plan Participants”) will be automatically reinvested on their behalf by

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the Plan Agent to purchase Plan Units in the market or from the Trust as follows: purchases of Plan Units in the market will be made by the Plan Agent on an orderly basis during the 5 trading day period following the Distribution Date and the price paid for those Plan Units will not exceed the higher of 95% of the closing price of the Trust Units on the TSX on the trading day immediately preceding the Distribution Date (the "Market Price") and the NAV per Trust Unit on the relevant Distribution Date. On the expiry of such 5 trading day period, the unused portion, if any, of the Distributions attributable to the Plan Participants will be used to purchase Plan Units from the Trust at a purchase price equal to the higher of the NAV per Trust Unit on the relevant Distribution Date and 95% of the Market Price.

16. As all Trust Units, including those issued pursuant to the Reinvestment Plan, are issued in book-entry only form and are held by CDS, Plan Participants will not be entitled to receive certificates representing Plan Units purchased or issued under the Reinvestment Plan. The Plan Agent will furnish to each Plan Participant (i) reports of the Plan Units purchased for the Plan Participant's account in respect of each Distribution and the cumulative total of all Plan Units purchased for that account, and (ii) any relevant information about the Reinvestment Plan disseminated by the Trust.
17. No fractional Trust Units will be issued under the Reinvestment Plan. A cash adjustment for any fractional Trust Unit will be paid by the Plan Agent to CDS to be credited to the Plan Participant via the applicable CDS Participant.
18. A cash adjustment for any fractional Plan Unit will be paid by the Plan Agent upon the withdrawal from or termination by a Plan Participant of his or her participation in the Reinvestment Plan, or upon termination of the Reinvestment Plan, based on the NAV per Trust Unit on the last business day prior to such withdrawal or termination.
19. The Plan Units purchased pursuant to the Reinvestment Plan in the market or from the Trust will be allocated on a pro rata basis to the Plan Participants.
20. The Plan Agent's charges for administering the Reinvestment Plan and all brokerage fees and commissions in connection with purchases in the market pursuant to the Reinvestment Plan will be paid by the Trust.
21. The Manager may terminate the Reinvestment Plan in its sole discretion, upon not less than 30 days' notice to (i) the Plan Participants via the CDS Participants through which the Plan Participants hold their Trust Units and (ii) the Plan Agent. The Manager may also amend, modify or suspend the Reinvestment Plan at any time in its sole discretion, provided that it gives

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notice of that amendment, modification or suspension to (i) the Plan Participants via the CDS Participants through which the Plan Participants hold their Trust Units and (ii) the Plan Agent.

22. The Manager may, in its sole discretion, and upon at least 90 days' notice to the Plan Agent, remove the Plan Agent and appoint any person or entity licensed to carry on the business of a trustee in Ontario as the Plan Agent. The Plan Agent may resign as agent under the Reinvestment Plan upon at least 90 days' notice to the Manager and upon delivery to the Manager of all documents and monies being held by the Plan Agent on the Trust's behalf pursuant to the Agreement.
23. The Plan Agent will be purchasing Plan Units only in accordance with the mechanisms described in the Plan and, accordingly, there is no opportunity for a Plan Participant or the Plan Agent to speculate on changes in the NAV per Unit.
24. The Trust will invest in the assets with the objective of providing Unitholders with a high level of sustainable income as well as a cost-effective method of reducing the risk of investing in such securities. Accordingly, the NAV per Unit should be less volatile than that of a typical equity fund, and the potential for significant changes in the NAV per Unit over short periods of time is moderate.
25. The amount of Distributions that may be reinvested in Plan Units issued from treasury is small relative to the Unitholders' equity in the Trust. The potential for dilution arising from the issuance of Plan Units by the Trust at the NAV per Unit on a Distribution Date is not significant.
26. The Plan is open to participation by all Unitholders (other than Unitholders who are non-residents of Canada) so that such Unitholders can ensure protection against potential dilution, albeit insignificant, by electing to participate in the Plan.
27. No commissions, service charges or brokerage fees will be payable by Plan Participants in connection with the Plan.
28. Plan Units purchased under the Plan will be registered in the name of CDS and credited to the account of the CDS Participant through whom a Unitholder holds Trust Units.
29. Each Unitholder must elect to participate in the Plan on a monthly basis through the applicable CDS Participant and will not be required to participate

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in the Plan in respect of any particular Distribution unless a Unitholder has specifically elected to do so. The Trust has the right to amend, suspend or terminate the Plan at any time, provided that such action shall not have a retroactive effect which would prejudice the interests of the Plan Participants. All Plan Participants will be sent notice of any such amendment, suspension or termination via the applicable CDS Participant.

30. The distribution of the Plan Units by the Trust pursuant to the Plan cannot be made in reliance on certain registration and prospectus exemptions contained in the Legislation as the Plan involves the reinvestment of income distributed by the Trust and not the reinvestment of dividends or interest of the Trust.
31. The distribution of the Plan Units by the Trust pursuant to the Plan cannot be made in reliance on registration and prospectus exemptions contained in the Legislation for distribution reinvestment plans of mutual funds, as the Trust is not a “mutual fund” as defined in the Legislation.

AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each of the Decision Makers (collectively, the “Decision”);

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Makers with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers pursuant to the Legislation is that the trades in Plan Units by the Trust to the Plan Participants pursuant to the Plan shall not be subject to the Registration and Prospectus Requirements of the Legislation provided that:

- (a) at the time of the trade the Trust is a reporting issuer or the equivalent under the Legislation and is not in default of any requirements of the Legislation;
- (b) no sales charge is payable in respect of the distributions;
- (c) the Trust has caused to be sent to the person or company to whom the Plan Units are traded, not more than 12 months before the trade, a statement describing:
 - (i) their right to elect to participate in the Plan on a monthly basis to receive Plan Units instead of cash on the making of a distribution of income by the Trust; and

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- (ii) instructions on how to exercise the election referred to in (i);
- (d) except in Quebec, the first trade in Plan Units acquired pursuant to this Decision in a Jurisdiction shall be deemed a distribution or primary distribution to the public under the Legislation unless the conditions set out in paragraphs 2 through 5 of subsection 2.6(3) of Multilateral Instrument 45-102 are satisfied
- (e) in Quebec, the first trade (alienation) in Plan Units acquired pursuant to this Decision will be deemed to be a distribution or a primary distribution to the public unless:
 - (i) at the time of the first trade, the Trust is and has been a reporting issuer in Quebec for the four months preceding the trade;
 - (ii) no unusual effort is made to prepare the market or to create a demand for the securities that are the subject of the alienation;
 - (iii) no extraordinary commission or other consideration is paid in respect of the alienation;
 - (iv) If the seller of the securities is an insider of the Trust, the seller has no reasonable grounds to believe that the Trust is in default of any requirement of Quebec's securities legislation.

DATED April 29, 2003

Robert W. Korthals

H. Lorne Morphy