A PORTFOLIO MANAGER'S PERSPECTIVE

Outlook and Positioning of the United Canadian Equity Growth Pool

WEALTH MATTERS

As part of our August 3, 2016 Wealth Matters webcast, we heard from ***Greg Dean****, Principal and Portfolio Manager of Cambridge Global Asset Management. His presentation, summarized on this page, provided an update on Cambridge's current positioning of the United Canadian Equity Growth pool. Please see the reverse for highlights of the other half of the webcast, in which Thomas Holmes, Regional Vice-President, Wealth Planning at Assante Private Client, discussed retirement planning strategies for business owners.*

Cambridge Global Asset Management

- Founded in 2008 by Alan Radlo
- Today, Cambridge manages over $15 billion in assets from offices in Toronto and Boston
- Collaborative effort amongst team members with a focus on overall client experience
- Cambridge is personally aligned with the objectives of clients
  - Significant owners of our funds
  - If we lose money, our pay goes down
- Absolute return and downside-focused
  - Primary focus is understanding what can go wrong
  - If you invest in good companies, the upside takes care of itself
  - Belief that avoiding big losses is the best way to grow wealth over time
  - Willingness to hold high cash balances (5-35%) and high active share (85%+) the percentage of a fund's portfolio that differs from the index
- Active management
  - Conviction in what we own and why we own it – we get paid to worry so that our clients don't have to
  - Not index-focused
  - Nearly 100 years of diversified investment experience on the team

Current environment

- U.S. slowdown and China have us very cautious.
  - The amount of leverage China uses to its current level of growth concerns us. The only way forward, as we see it, is for China to devalue its currency 15-25%.
  - However, China's currency, one of the weakest in the world, is pegged to the world's strongest economy: the United States.
  - The rapid slowing down of China's economy would be a global deflationary shock.
- Fixed income market is fragile and expensive
  - Most of the risk-seeking behavior occurs in fixed income, not in the stock market like it did five years ago.
  - We've doubled our fixed income analysts over the past month to focus on opportunities in this area.
- Finally starting to see world-class companies reach compelling absolute values
  - Many stocks reaching 2011 valuations.
  - We are setting up a very strong three-year environment within our portfolios.

United Canadian Equity Growth

- Over the past five years the fund has delivered all of the upside with none of the risk, a very positive risk-reward outcome.
- We invest in small to mid-cap stocks with excellent business models, that allocate capital efficiently and that display competent and well-aligned management.
- We also select companies that have high free cash flow generation and that use that free cash flow to buy back stock when there are no compelling mergers or acquisitions.
- Examples of these companies include Middleby Corp. and Priceline Group, both U.S.-based companies.
- In keeping with our investment philosophy of true active management, United Canadian Equity Growth has an active share of 94% against the S&P/TSX Composite Index as at June 30, 2016

A WEALTH PLANNING PERSPECTIVE

Retirement Income Strategies for Business Owners

WEALTH MATTERS

*There are many strategies for business owners when it comes to planning for retirement and only one general rule. During the Wealth Matters webcast, **Thomas Holmes**, Regional Vice-President, Wealth Planning at Assante Private Client, discussed this rule as well as six of the most common and tax-efficient strategies that business owners can explore.*

First things first: there is no concrete set of rules when it comes to planning for retirement as a business owner. However, there is one very important general rule that applies in all scenarios: people need comprehensive advice that integrates their situation and circumstances with their needs. The right strategy depends on each unique financial situation and one's retirement objectives. Consider coordinating a number of strategies and income streams for optimal results.

Six strategies to help business owners create income streams during retirement

1: Salary vs. dividend
Salaries create Registered Retirement Savings Plan (RRSP) contribution room, Canada Pension Plan (CPP) retirement benefits, pension income benefits under Individual Pension Plans (IPPs) or Retirement Compensation Arrangements (RCAs) as well as the ability to pay a retirement allowance. Dividends, however, are much easier to manage and can avoid CPP deductions.

2: IPP
An IPP is a defined benefit registered pension plan where a corporation contributes to a plan on behalf of the owner-manager. Advantages include: tax deferral over and above RRSP limits and potential to transfer money to the next generation tax-free. Disadvantages include: actuarial valuation upon set up of plan and every three years going forward. Benefits are also locked in. An ideal candidate for this plan does not need access to funds until retirement and desires a fixed pension, promised upon retirement.

3: RCA
In an RCA, a special trust established for key management personnel, there is no taxable benefit to an employee until the income is received. This is valuable when an employee expects to be taxed at a lower rate during retirement. The trust itself is exempt from tax; however, a 50% refundable tax is imposed on any contributions and all income earned. The Canada Revenue Agency (CRA) holds the refundable tax but does not pay interest, which is not favourable for growth objectives.

4: Creating a rental corporation
Creating a rental corporation can be done on a tax-deferred basis and provides asset protection. The transactions required to facilitate this type of strategy can be costly and complex.

5: Planning for the Capital Gains Exemption (CGE)
A total of $824,176 can be claimed per lifetime under this exemption, but only on sale of qualified small business corporation shares. The rules surrounding this exemption are complex but can pay off in the long run.

6: Redemption of post-freeze preferred shares
Shareholders can exchange growth shares for fixed-value preferred shares. Create a retirement income stream by redeeming these preferred shares over time, instead of all at once. This will reduce your tax liability on death and allow you to keep voting rights.

Your Assante advisor is available to help
If you have questions regarding creating tax-efficient income during your retirement, talk to your advisor for assistance.

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