

Corporate class case study

Jeff and Anne: 20 years to retirement

Jeff and Anne are working with their investment advisor, Sam, to pursue three primary financial objectives:

1. **Maximize** their retirement savings
2. **Defer** investment taxes until they are in a lower marginal tax rate
3. **Manage** their portfolio so that it becomes more conservative as they approach retirement

The clients, Jeff and Anne

- › Jeff and Anne are a couple in their mid 40s who are both highly successful professionals. Jeff has his own small business and Anne works in the financial services industry – they are both in the top marginal tax bracket in Ontario.
- › They have twenty years to go until retirement at age 65 and have a total investment portfolio of \$750,000, of which approximately \$500,000 is non-registered.

Their advisor, Sam

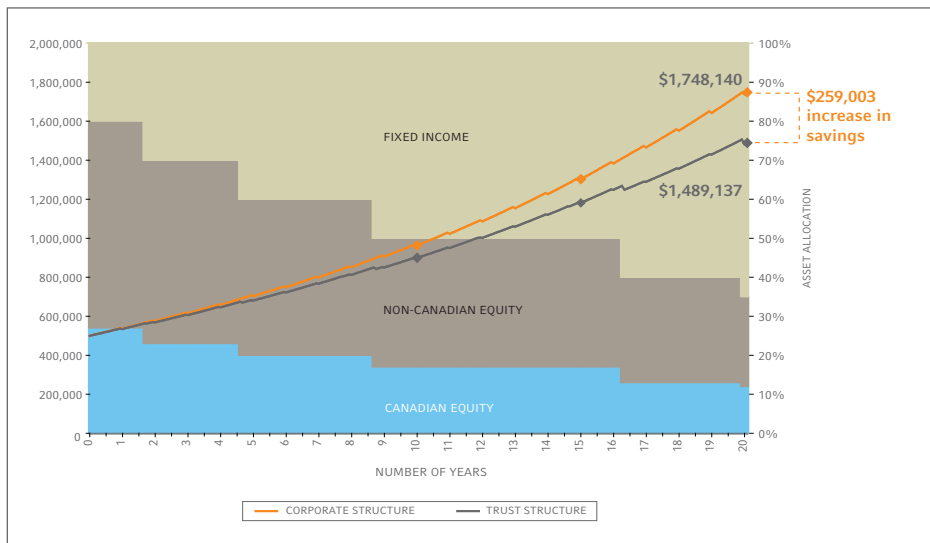
- › Sam is a firm believer in developing a long-term asset allocation strategy and rebalancing the portfolio regularly.
- › He believes Jeff and Anne should pursue a flexible, tax-efficient investment strategy that becomes more conservative over time in order to reduce risk as retirement approaches.
- › Upon retirement, he believes Jeff and Anne should move into a tax-efficient income solution, since a high percentage of their portfolio is in non-registered assets.

Recommended corporate class strategy

- › Sam recommends Russell Corporate Class Funds for Jeff and Anne's non-registered assets, as they provide the tax benefits of Corporate Class along with the flexibility to actively manage their asset allocation over time.
- › Russell LifePoints Class Portfolios are automatically rebalanced while Russell Sovereign Investment Classes offer an automatic rebalancing program in order to ensure that the couple's portfolio remains aligned with their goals.
- › Initially, Sam starts the couple off with an 80% equity / 20% fixed income asset mix.
- › Gradually over time, he will adjust this asset mix until it reaches 35% equity / 65% fixed income when they are both 65 years old.

Jeff and Anne's results

- › At the end of 20 years, Jeff and Anne's \$500,000 non-registered portfolio grows to over \$1.7 million in value.
- › Along the way, the Corporate Class structure generates tax savings at multiple levels, including the ability to avoid any realized gains when Sam rebalances the portfolio.
- › By investing in Corporate Class funds, Jeff and Anne realized an increase in total value of their portfolio **by more than 17 percent or \$259,003.***



Comparing the tax advantages

- › A Corporate Class fund may be constructed of exactly the same underlying investments as a conventional mutual fund trust, yet there are significant differences.

	Corporate Class	Mutual Fund Trust
Rebalancing within a fund, or switching between funds †	No taxes applicable to the individual as long as funds are rebalanced or switched within Corporate Class structure	Triggers a taxable event
Interest income (including foreign dividends)	Interest income is offset by expenses from all Corporate Classes	Income, including dividends and capital gains, is offset by expenses at the individual Mutual Fund Trust level

†Capital gains taxes may arise when a shareholder of one Corporate Class converts shares to another Corporate Class and the first Corporate Class must dispose of a portion of its portfolio as a result.

*This hypothetical example assumes a return of 9% on equity and 6% on fixed income, 5% interest income, 1.5% dividends, 2.5% turnover rate on equities, monthly rebalancing and 0.50% forward transaction counterparty fee for Russell Managed Yield Class. The Ontario 2008 highest marginal tax rate is used for calculating tax liabilities. This example is used to illustrate the effect of compound growth on a trust versus corporate class structure and is not intended to reflect actual or expected future returns. Investors should consult their tax advisors prior to implementing any changes to their investment strategy.

To learn more, please talk to your advisor or visit us at www.russell.com/ca today.

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