

Corporate class case study

David and Mary: transitioning into retirement

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

1. **Preserve** their retirement savings.
2. **Transition** to a more conservative, income-producing portfolio at retirement.
3. **Defer** investment taxes until they are in a lower marginal tax rate.

The clients, David and Mary

- › David and Mary are both five years away from retirement and enjoying successful working careers.
- › In addition to their sizeable registered assets, they have a non-registered portfolio of roughly \$500,000.
- › They would like to use this portfolio to generate retirement income of between \$25,000 and \$30,000 per year, implying an annual yield of approximately 5%.
- › They would also like to maximize their after-tax income in retirement to the greatest extent possible.

Their advisor, Sam

- › Sam identifies the need for a reliable and tax-efficient income solution.
- › He believes the couple, who is in the corporate structure, should transition from their current asset mix of approximately 50% equity / 50% fixed income into a more conservative asset mix of 35% equity / 65% fixed income when they reach retirement.
- › Ideally, he would like to make this transition as tax-efficient as possible, given that the couple is likely to accumulate capital gains between now and their retirement date.

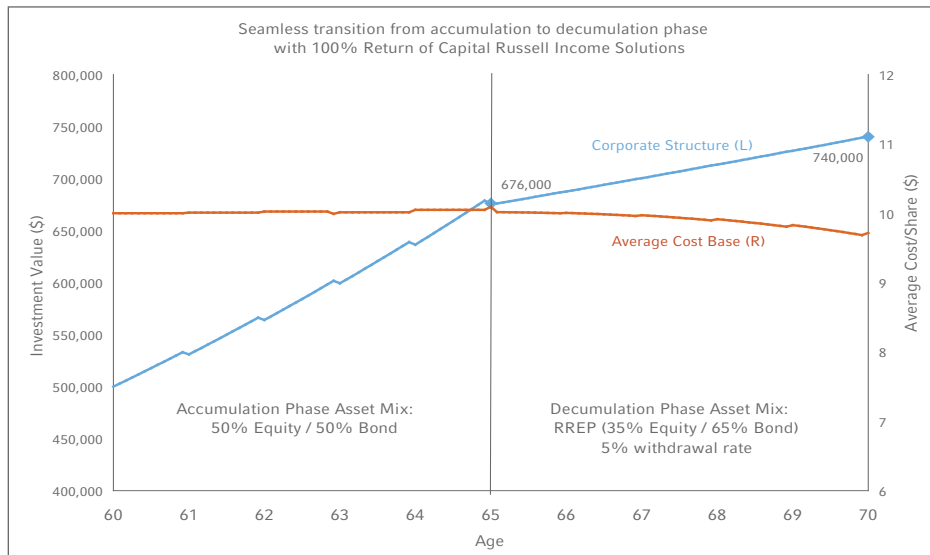
Recommended corporate class strategy

- › Sam recommends investing in a 50% equity / 50% fixed income blend of Russell Corporate Class Funds right now.
- › In five years, when the couple reaches retirement, they will be able to make the transition to a 35% equity / 65% fixed income portfolio without triggering immediate capital gains consequences. In addition, they will be able to opt for a 5% income distribution from their portfolio, which will be composed entirely of a return of capital (ROC).*
- › David and Mary may be able to defer the realization of any taxable capital gains until they sell their portfolio shares out of the corporate class structure.
- › As an added benefit, David and Mary's Russell Corporate Class portfolio will be automatically rebalanced to effortlessly maintain their conservative asset mix.

*A payment of ROC reduces your adjusted cost base (ACB). If your ACB becomes negative in a year, that negative amount will be a capital gain, a portion of which is taxable. The ACB will then be nil for the following year.

David and Mary's results

- › During the five years until retirement, David and Mary's \$500,000 initial portfolio grows to over \$675,000.
- › Sam seamlessly transitions the portfolio into Russell Retirement Essentials Class Portfolio, avoiding any immediate capital gains consequences to the portfolio.
- › The portfolio continues to grow, reaching a value of nearly \$750,000 over the next five years.
- › At the same time, if it distributes 5% of its value to the couple each year, it will be in the form of a return of capital. This income is not taxable when it is received, but it reduces the average cost base of the portfolio as seen in the chart below. The lower the ACB, the higher the capital gain, a portion of which is taxable.



Assumptions

- › This hypothetical example is not intended to reflect actual or expected future returns. It 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. Interest income and foreign dividends for Russell Retirement Essentials Portfolio are offset by management expenses. 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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