EVOLUTION
Private Managed Accounts

A Guide to Corporate Class




What is Corporate Class?

For a variety of reasons, Canadian investors save and invest their money in non-registered accounts. This is when Corporate Class comes into play. The Corporate Class structure is simply a different structure for investment pools that can extend certain tax efficiencies to non-registered investments.

What's the difference between a trust pool and a Corporate Class pool?

An investment pool trust is a single entity. Most importantly to investors, this means that net interest, dividends and capital gains earned in a pool is paid to investors.

Corporate Class pools can be grouped together to form a corporation for tax purposes. This corporation may consist of many investment pools called "classes" and can typically hold the same types of investments as investment pool trusts. The benefit of this structure is the potential to minimize taxable dividends for investors who hold investments in non-registered accounts. In addition, Corporate Class dividends are in the form of Canadian and capital gains dividends – currently the most tax-efficient sources of income.

How can Corporate Class benefit you?

Key features of Corporate Class	How can this generate a tax advantage?
■ Ability to aggregate income and expenses across mandates within the Corporate Class structure	■ May reduce interest income and foreign dividends, the most highly taxed forms of income
■ Low dividend policy	■ May minimize taxable dividends
■ Distributions in the form of Canadian eligible dividends and capital gains dividends, regardless of mandate	■ Canadian and capital gains dividends are more tax efficient compared with interest and foreign income
■ Ability to generate tax-efficient cash flow through T-Class pools	■ T-Class can provide more after-tax cash flow than conventional systematic withdrawal plans by paying monthly cash flow in the form of tax-deferred return of capital. (Taxes are deferred until the adjusted cost base (ACB) is depleted or shares are redeemed).

Why Evolution Corporate Class?

Evolution Private Managed Accounts is part of CI's Corporate Class structure.
CI was the first company to establish a multi-class pooled fund corporation in 1987.
Today, CI has the most experience in managing the Corporate Class structure.
CI's Corporate Class structure is also one of the largest of its kind in Canada, with a choice of over 60 mandates. Over 40 of these mandates are available to Evolution clients.

Corporate Class defined

In Canada, there are two principal ways to structure pooled investments. As a:

- Mutual fund trust, which is a stand-alone investment pool, or
- Mutual fund corporation, which can generally hold multiple investment pools within one corporate structure. This is the case with our Corporate Class.

Differences between a Corporate Class pool and an investment pool trust

	Corporate Class	Trust
Investor	Shareholder	Unitholder
Structure	Corporate Class subject to provincial or federal corporation acts and articles of incorporation	Governed by trust document
Number of pools	One corporation may have many pools set up as separate share classes	Each pool is one trust
Investment mandate	A selection of mandates are available within the corporate structure	One mandate per trust

Evolution's Corporate Class lineup

We have designed and manage a Corporate Class pool structure that includes:

- A broad choice of investment options diversified by asset class, geographic region and industry sector
- A wide selection of portfolio management teams with extensive experience and deep expertise within their asset classes
- A larger weighting of equities to income so that interest income may be offset by expenses
- The ability to allocate distributions among all classes of investment pools
- A wide selection of T-Class shares, which allow you another option to meet your cash flow needs.

Key fact

In the corporate structure, only one corporate tax return is filed for the entire corporation, despite the multiple classes representing multiple investment strategies. Any remaining net realized gains or dividends across all the classes, will be distributed to investors of the various Corporate Classes.

The mechanics of Corporate Class

How Corporate Class can create tax efficiencies for investors

In general, investment pools earn income from four sources: interest, capital gains, Canadian dividends and foreign dividends. Interest and foreign dividends are taxed at the highest rates of the four. In Corporate Class, expenses and capital losses can be shared across the corporate structure to reduce its overall taxable income. In other words, capital losses incurred by one investment pool can be used to offset capital gains in another pool, and expenses incurred by one investment pool can be deducted against income earned by another pool. This is one of the key features that can make Corporate Class more efficient from a tax standpoint than investment pool trusts.

With an investment pool structured as a trust, any remaining interest income, dividends and/or capital gains that cannot be offset by expenses or capital losses within the pool are distributed to investors. With an investment pool structured as a corporation, only Canadian and capital gains dividends can be distributed to investors. Any interest or foreign income generated within the corporation must be offset or the corporation will pay tax at its corporate rate. With Corporate Class, all of the pools' expenses can be used to offset taxable income, and capital losses against capital gains within the structure.

Different taxation: Corporate Class compared with investment pool trust

	Corporate Class	Trust
Taxation	Corporation taxed as a whole. Corporate taxes may apply to some types of investment income earned in the corporation	Each trust is taxed separately. All accumulations of income are generally distributed
Taxable distributions	The corporate structure can minimize or eliminate annual dividends. If there are any taxable distributions from these pools, they will be paid as Canadian and capital gains dividends – currently the most tax-efficient forms of income	All taxable income is generally distributed to unitholders
Flow-through income	Can distribute only Canadian and capital gains dividends	Can distribute all forms of income, including interest and foreign income

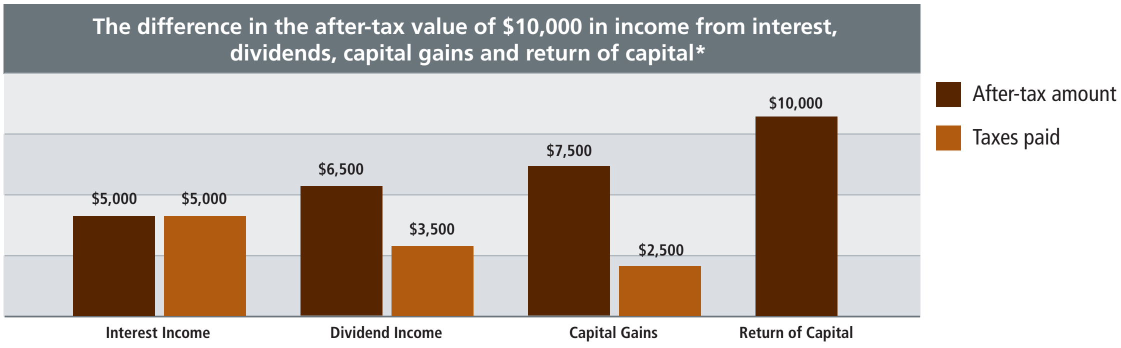
This means:

- Interest income generated by yield classes, such as bond and high-income classes, may be offset by expenses from other classes, like foreign equities
- Foreign dividends generated by equities may be offset by expenses generated by other classes, like Canadian equities
- Capital gains realized by equity pools or sectors like REITs may be offset by capital losses from other sectors, like European equities.

This ability to combine taxable income, losses and expenses across many share classes allows Corporate Class to minimize, eliminate or defer taxable dividends to its shareholders.

The key to Corporate Class

The fact that different forms of income are taxed at different rates is an important factor in making investment decisions. This chart compares the tax treatment of different types of income, along with return of capital.



*Assumes a tax rate of 50% on interest income, 35% on eligible dividend income and 25% on capital gains as of 2018. Tax rates based on an average of the highest combined federal and provincial personal income tax rates.

Who should consider Corporate Class?

Corporate Class pools may be suitable for a variety of non-registered investors:

Individuals investing outside of a registered plan

Investing outside of a registered plan requires consideration of after-tax returns, which is how Corporate Class can help given dividends are in the form of Canadian and capital gains dividends – currently the most tax-efficient sources of income.

Income investors looking for a tax-efficient source of cash flow

Our Corporate Class structure provides the option of T-Class pools, which allow for monthly payments that are tax-deferred return of capital (ROC). That means your after-tax cash flow can be higher than with other forms of income or systematic withdrawal plans. *(See T-Class: tax-efficient customized monthly cash flow.)*

Note that there are no tax consequences to switch to T-Class shares from other share classes of the same Corporate Class pool. As a result, you could invest in Corporate Class pools while in the accumulation stage, and then switch to T-Class as part of a decumulation strategy, while continuing to defer taxes.

Seniors who are collecting Old Age Security benefits

Retirees who are concerned about triggering Old Age Security clawbacks may opt for T-Class pools, which make distributions in the form of ROC (not reported for tax purposes). *(See T-Class: tax-efficient customized monthly cash flow.)*

Incorporated business owners

Corporations are taxed at a flat rate and passive investment income is highly taxed, thus finding tax-efficient sources of investment income is important. Corporate Class dividends are in the form of Canadian and capital gains dividends – currently the most tax-efficient sources of income. In addition, Corporate Class can help fund a corporation's capital dividend account (CDA). This allows the untaxed portion of either capital gains dividends or capital gains on dispositions of Corporate Class shares to pass tax-free from the company to shareholders.

In addition, starting in 2019, incorporated business owners who utilize the small business tax rate may see a reduction in income eligible for this rate when the corporation and its associated corporations earn annual passive investment income in excess of $50,000. The reduced rate will be completely eliminated when the corporation(s) earn passive income in excess of $150,000. Corporate Class can help reduce this taxable income due to the fact that it has a low dividend payout policy, distributes capital gains dividends that are only 50% taxable and can pay return of capital distributions (through T-Class).

Parents and grandparents who set up in-trust accounts for minor children/grandchildren

Parents and grandparents who invest for their minor children or grandchildren through in-trust accounts may be subject to attribution (they have to pay the tax as opposed to the child or grandchild being liable to pay) if the investment income is in any form other than capital gains (such as interest and foreign income). As Corporate Class cannot distribute interest and foreign income, these types of income subject to attribution would not be received, regardless of the investment mandate. This means that the portion of return realized as capital gains will be taxed in the child or grandchild's hands, potentially at a lower rate than the parents or grandparents. Corporate Class can pay Canadian dividends and, to the extent that it does, such dividends may be subject to attribution.

Individuals or corporations planning to make a charitable donation with their investment

Current tax law allows for a zero percent capital gains inclusion rate on publicly traded securities such as Corporate Class that are donated to a registered charity, effectively eliminating the tax on the unrealized gain. Given the low dividend payout policy, Corporate Class may provide greater tax-deferred growth when compared with other investments, resulting in larger unrealized capital gains which ultimately increases the portion of your return not subject to tax when utilized as part of a charitable giving strategy.

Are you interested in tax-efficient customized monthly cash flow?

T-Class: Tax-efficient customized monthly cash flow

Our T-Class platform, which is built on our Corporate Class structure, creates a stream of predictable tax-deferred cash flow without sacrificing a choice of investments. T-Class can provide more after-tax cash flow than conventional systematic withdrawal plans by paying monthly cash flow in the form of tax-deferred return of capital (ROC).

By using T-Class, you can:

- Create a predictable, tax-efficient stream of monthly cash flow to meet your needs while maintaining some potential for growth.
- Customize your payments by selecting a fixed dollar amount per month. You can request a dollar amount anywhere between 0.25% and 8% of the value of the investment.

It's important to note that taxes are deferred until the adjusted cost base (ACB) is depleted. ROC distributions reduce the ACB of the investment. Over time, the ACB may fall to zero, in which case 100% of the monthly payments from the T-Class investments will be classified as capital gains – which are still taxed at favourable rates. T-Class shares may pay a taxable annual dividend in addition to the monthly ROC payments.

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