

TAX MATTERS



PORTLAND
INVESTMENT COUNSEL

INFORMATION FOR INVESTORS

This document relates to Portland Mutual Funds, Portland Private Income Fund, Portland Advantage Plus Funds, Portland Global Aristocrats Plus Fund and Portland Focused Plus Fund and is intended only for Canadian residents holding mutual fund trust units in a non-registered account. If you have not yet purchased mutual fund trust units, you should seek independent tax advice before doing so. Investors in mutual fund trusts are strongly advised to seek their own independent tax advice regarding their investments. If you have any questions regarding the tax forms, please contact your tax advisor.

Taxes, an important component of your investment portfolio

Understanding how your investments are taxed is an important part of developing an effective investment portfolio. This guide provides general tax information related to the purchase and sale of funds structured as trusts in a non-registered account.

What is a mutual fund?

The majority of funds in Canada are structured as trusts. Investors in such funds receive units of the trust and are referred to as unitholders.

Money received by the fund from unitholders who purchase units is pooled together with that of other unitholders and the resulting pool of money is managed by a portfolio manager. The portfolio manager buys and sells securities on behalf of the unitholders in the fund. The securities purchased depend on the fund's investment objective and strategies; examples include, but are not limited to, cash, bonds and stocks of particular companies, private and public debt and real estate. These investments may generate income in the form of interest or dividends. In addition, capital gains or losses may be realized when securities held in the fund are sold including changes in foreign exchange rates applicable to foreign investments sold by the fund.

Income tax considerations and consequences

This document discusses the impact of taxation on funds held in non-registered accounts. Funds held within registered plans, such as TFSAs, RRSPs, RRIIFs and RESPs, are not subject to tax until money is withdrawn.

When do I pay taxes on my fund investments?

Generally, tax considerations related to your fund investments can be grouped into two categories:

- Taxes associated with selling or switching units of a fund.
- Taxes related to the distributions received from a fund.

SELLING OR SWITCHING UNITS

A redemption (i.e., sale) of units is a taxable disposition. Switching units of one fund for units of another fund is considered a sale for tax purposes and the same rules apply as if you redeemed those units. In selling or switching your units, you first must consider the adjusted cost base ("ACB") of your units. The ACB of your units is made up of:

- the amount you paid for your units, including sales commission, plus
- any reinvested distributions, minus
- any return of capital (ROC) distributions, minus
- the aggregate ACB of any units already redeemed.

If you redeem units at a value that is greater than your ACB, you will have a capital gain. A capital gain is to be reported in the current tax year and currently 50% of the capital gain will be subject to tax.

If you redeem units at a value that is less than your ACB, you will have a capital loss. If you have no realized capital gains in the tax year in which a capital loss is realized, you can use this loss to offset taxable capital gains realized in any of the three preceding taxation years or carry it forward indefinitely to offset future taxable capital gains.

In general, you can calculate your capital gain or capital loss using the following formula:

$$\text{Proceeds from sale of investment} - \text{ACB} = \text{Capital gain/loss}$$

Example 1 - Capital gain:

Assume you bought 100 units for \$10 and your ACB is \$10 per unit. Also assume that you sell the units at a later date, in the same tax year for a price of \$15 per unit.

Your capital gain is \$500:

$$(\$15 \times 100) - (\$10 \times 100) = \$500$$

Currently 50% of the capital gain is subject to tax, so the taxable capital gain is:

$$\$500 \times 50\% = \$250$$

Assuming a marginal tax rate of 53.53% this would result in taxes payable of \$134:

$$\$250 \times 53.53\% = \$134$$

Example 2 - Capital loss:

Assume you bought 100 units for \$10 and your ACB is \$10 per unit. Also assume that you sell the units at a later date, in the same tax year for a price of \$5 per unit.

Your capital loss is \$500:

$$(\$5 \times 100) - (\$10 \times 100) = -\$500$$

You may use this loss in the current tax year, carry it back three years or forward indefinitely to reduce realized capital gains.

DISTRIBUTIONS

Distributing income or capital gains earned by fund holdings benefits unitholders by minimizing overall taxes paid by the fund. These investments are taxed at a rate equivalent to the highest personal tax rate within the Fund and any income or capital gains retained by a fund is typically subject to a higher tax rate than if it were taxed in the hands of individual investors. Distributing income or capital gains to unitholders, many of whom may be taxed at a lower marginal tax rate than the fund, generally results in a lower amount of total taxes paid. By reducing taxes paid by the fund, more can be distributed to investors, which improves the return on their investment. You are generally required to include distributions as part of your taxable income for the year in which you received them.

Different type of distributions paid to unitholders

Below is a description of each type of distribution that unitholders may receive from a fund and how they are taxed:

1. Interest Income

Interest income is earned on investments such as bonds. Interest income is fully taxable at the same marginal tax rate as employment income.

2. Canadian Dividends

Dividend income is earned when a fund invests in shares of Canadian corporations that pay dividends. A dividend tax credit may be applied towards dividend income from Canadian corporations

which may reduce the amount of tax you pay on dividend income.

3. Capital Gains

Capital gains occur when an investment within the fund is sold for more than its ACB. Currently 50% of a capital gain is taxable.

4. Foreign income

Foreign income is earned when the fund receives dividends or interest from non-Canadian investments. Foreign income is fully taxable at the same marginal tax rate as employment income.

5. Return of Capital (ROC)

ROC occurs when a fund distributes more than its taxable income (consisting of income, dividends and capital gains). ROC represents a return of your invested principal. This type of distribution is not taxable; however it reduces the ACB of your mutual fund units in the year when ROC is received which results in a larger capital gain or a smaller capital loss when the investment is sold.

Unitholder options when a fund makes distributions

When a fund make distributions, you have two options:

- Receive the distributions as a cash payment; or
- Reinvest the distributions by purchasing more units at the current net asset value per unit.

T3 TAX YEAR END SLIPS

Interest income, dividends and capital gains earned by your mutual fund may be distributed to you on a monthly, quarterly or annual basis. The different types of distribution you receive are reflected on your T3 tax slip which is mailed annually on or before the last day in February.

A sample and instructions on a T3 tax slip are attached below:

 Canada Revenue Agency / Agence du revenu du Canada		Year / Année	Statement of Trust Income Allocations and Designations État des revenus de fiducie (répartitions et attributions) T3	
49 Actual amount of eligible dividends / Montant réel des dividendes déterminés	50 Taxable amount of eligible dividends / Montant imposable des dividendes déterminés	51 Dividend tax credit for eligible dividends / Crédit d'impôt pour dividendes déterminés	21 Capital gains / Gains en capital	30 Capital gains eligible for deduction / Gains en capital admissibles pour déduction
23 Actual amount of dividends other than eligible dividends / Montant réel des dividendes autres que des dividendes déterminés	32 Taxable amount of dividends other than eligible dividends / Montant imposable des dividendes autres que des dividendes déterminés	39 Dividend tax credit for dividends other than eligible dividends / Crédit d'impôt pour dividendes autres que des dividendes déterminés	26 Other income / Autres revenus	Trust year end / Fin d'année de la fiducie Year / Année: Month / Mois:
Other information (see the back) / Autres renseignements (lisez le verso)		Footnotes – Notes		
Recipient's name (last name first) and address – Nom, prénom et adresse du bénéficiaire			Trust's name and address – Nom et adresse de la fiducie	
Recipient identification number / Numéro d'identification du bénéficiaire	Account number / Numéro de compte	Report code / Code du genre de feuillet	Beneficiary code / Code du bénéficiaire	For information, see the back. Pour obtenir des renseignements, lisez le verso.

BOX 23 and BOX 49 – ACTUAL AMOUNT OF DIVIDENDS: This amount is provided for information purposes only and is not included on your tax return.

BOX 32 and BOX 50 – TAXABLE AMOUNT OF DIVIDENDS: This represents taxable amount of dividends that was allocated to you. Include this amount in Part I of Schedule 4.

BOX 39 and BOX 51 – FEDERAL DIVIDEND TAX CREDIT: The dividend tax credit is a non-refundable tax credit which applies when Canadian dividends are included in income. Include the total of box 39 and 51 on Schedule 1.

BOX 21 – CAPITAL GAINS: This represents your share of capital gains and is included on Schedule 3 of your tax return.

BOX 26 – OTHER INCOME: Include this amount on line 130 of your tax return.

BOX 25 – FOREIGN NON-BUSINESS INCOME: Include this amount on line 121 of your return and on line 433 of Form T2209.

BOX 34– FOREIGN NON-BUSINESS INCOME TAX PAID: This amount is used in calculating your federal foreign tax credit on Form T2209

BOX 42 – RETURN OF CAPITAL: This amount represents a distribution or return of capital from the trust. Amount is used to adjust the cost base of the investment.

ADJUSTED COST BASE

It is important to mention that in addition to the ACB adjustment, the distribution is taxable in the year the distribution was made. The taxation of the distribution will depend on whether it is in the form of interest income, Canadian dividends, foreign income, capital gains, etc. The tax breakdown should be included on the annual T3 tax slip sent to you by Portland. The amount and character of distributions (if any) can be obtained after the tax year end has passed from Portland's website (www.portlandic.com) or from your dealer.

The following examples show how ACB is calculated.

Example 3 - ACB calculation without distributions:

Assume on January 1st you bought 1,000 units at \$10 and pay a \$10 sales commission. Also assume that on July 1st you bought another 500 units at \$12 and pay a \$10 sales commission. Your ACB is:

You own 1,500 units: $1,000 + 500 = 1,500$

You paid \$16,020 to buy 1,500 units: $((1,000 \times \$10) + \$10) + ((500 \times \$12) + \$10) = \$16,020$

Your ACB per unit: $\$16,020 / 1,500 = \10.68

Example 4 - ACB calculation with distributions reinvested:

The reinvestment of distributions is equivalent to buy units of a fund. A reinvested distribution typically doesn't involve any brokerage commission or any other transactions costs. If you do incur sales commissions or transaction costs, they should be added to the ACB.

Assume on January 1st you bought 1,000 units at \$10 and pay \$10 sales commission. Also assume that on July 1st you received a \$600 distribution and you elected to reinvest into units of the fund. Also assume the unit price on July 1st is \$12. Your ACB is:

You own 1,050 units: $1,000 + (\$600 / \$12) = 1,050$

Your ACB is \$10,610: $((1,000 \times \$10) + \$10) + \$600 = \$10,610$

Your ACB per unit: $\$10,610 / 1,050 = \10.11

Example 5 - ACB calculation with distributions received in the form of ROC and is reinvested:

Generally, if the distribution is 100% ROC, the distribution is NOT taxable in the year of the distribution.

Assume on January 1st you bought 1,000 units at \$10 and pay \$10 sales commission. Also assume that on July 1st you received a \$600 distribution that was considered 100% ROC and all \$600 was reinvested in the new units of the fund. Also assume the unit price on July 1st is \$12. To make the concept of how to calculate your ACB when ROC distributions are reinvested easier to understand, we have calculated the ACB in 2 steps.

Step 1: Calculation of the ACB after the distribution was paid out.

You own 1,000 units: no change to the number of units at this Step

Your ACB after the distributions was paid out \$9,410: $((1000 \times \$10) + \$10) - \$600 = \$9,410$

Your ACB per unit: $\$9,410 / 1000 = \9.41

Step 2: Calculation of the ACB after the distribution was reinvested.

You own 1,050 units: $1,000 + (\$600 / \$12) = 1050$

Your ACB after the distributions was reinvested is \$10,010: $\$9,410$ (ACB from Step 1) + $\$600 = \$10,010$

Your ACB per unit: $\$10,010 / 1,050 = \9.53

FREQUENTLY ASKED QUESTIONS

When I sell my fund units, does Portland send me a capital gain/loss tax slip?

No. The capital gains on your T3 tax slips include only those gains that were realized within a fund and distributed to unitholders. T3 slips do not indicate capital gains you may have realized by selling your own fund units. You are responsible for reporting capital gains resulting from the sale of fund units on your tax return.

Should I include all the distributions I received from the fund in my tax return?

Yes. Except for ROC distributions, you will have to pay tax on any distributions you receive each year in a non-registered account. You will be issued a T3 tax slip annually for any interest income, dividends or capital gains distributed to you by the fund you own. These amounts must be reported on your tax return.

If I choose to reinvest all distributions in to more units of the fund, do I still have to pay taxes?

Yes. If your investments are in non-registered accounts, distributions are taxed in the year received, whether in the form of cash or reinvested in additional units of the fund. All distributions, whether reinvested or paid to you in cash, are reported on your T3 tax slip.

Do I know the breakdown of distributions paid by a fund in advance?

No. The character of fund distributions is not known until the end of the tax year when a fund accounts for the income generated by the various securities it holds or capital gains generated by selling securities it held. As a result, it is not possible to specify in advance when the character breakdown of any distributions will be.