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Build your wealth with GIF Select InvestmentPlus®
and Manulife Bank Investment Loans

THE MANUFACTURERS LIFE INSURANCE COMPANY



Give your investments a boost with a Manulife Bank Investment Loan

An investment loan¹ helps you take advantage of compound returns to boost your savings growth potential.

Unlike traditional investing, where you simply invest your savings each month, an investment loan involves borrowing money and investing a larger amount all at once. Also known as investment leveraging, this strategy allows a much larger deposit to grow for the full investment period. Then, instead of making additional monthly or annual contributions to your investment, you make payments on the loan.²

Plus, interest charged on an investment loan is generally tax-deductible.³ This may reduce the cost of the loan.

¹ Borrowing to invest may be appropriate only for investors with a higher risk tolerance. You should be fully aware of the risks and benefits associated with investment loans since losses as well as gains may be magnified. Preferred candidates are those willing to invest for the long term and not averse to increased risk. The value of your investment will vary and is not guaranteed however you must meet your loan and income tax obligations and repay the loan in full. Please ensure you read the terms of your loan agreement and the investment details for important information. Manulife Bank of Canada solely acts in the capacity of lender and loan administrator and does not provide investment advice of any nature to individuals or advisors. The dealer and advisor are responsible for determining the appropriateness of investments for their clients and informing them of the risks associated with borrowing to invest.

² For more information, visit manulifebank.ca and view the "Understanding Investment Leverage" presentation. You can find this presentation by using the search tool.

³ Actual tax deductibility of loan interest depends on a number of factors with the Income Tax Act (Canada) providing the framework for deductibility. Results for Quebec residents may differ due to the different interest deductibility rules. Readers should consult their tax and legal advisor with respect to their particular circumstances.



Explore the flexibility and potential of leveraging

Manulife Bank offers two great options for your investment loan:

100% LOANS:

- 100% financing - no deposit required.
- Interest-only or principal and interest payments.
- No risk of margin calls due to market volatility (which means you'll never be required to make a deposit if the value of your investment declines).⁴
- You may choose to repay all or part of your loan at any time with no prepayment charge.

MULTIPLIER LOANS:

We provide 3:1 loan-to-deposit ratio financing for more sophisticated investors who wish to borrow higher amounts. Speak to your advisor to determine if this option could be right for you.

IDEAL CANDIDATES

You may be well suited for an investment loan if you:

- Currently make regular contributions to your non-registered investments.
- Have a long-term investment horizon.
- Are comfortable with a higher amount of risk.
- Have experience investing.

GIF Select InvestmentPlus: make the most of your investment loan

GIF Select InvestmentPlus is a savings solution that offers a broad selection of investment funds. Manulife Bank's investment loan program allows you to access additional cash to invest in a GIF Select InvestmentPlus contract using a leverage strategy.

COMPREHENSIVE SELECTION OF INVESTMENT FUNDS

With GIF Select InvestmentPlus, you can choose from a wide variety of selected funds. GIF Select InvestmentPlus offers a full spectrum of funds in various asset classes, from fixed income to specialty equity. Plus you have access to many of Canada's quality fund managers.

PROTECTION FEATURES

GIF Select InvestmentPlus provides the additional benefit of potential creditor protection, which may be particularly attractive if you're a professional or a business owner. Furthermore, in the event of death, the proceeds of your contract have the ability to pass quickly and privately⁵ to designated beneficiaries (other than an estate), without legal, estate administration and probate fees.

⁴ If you choose interest-only payments and the loan-to-value becomes higher than 125%, we may require you to change to principal and interest payments.

⁵ In Saskatchewan, jointly held property and insurance policies with a named beneficiary are included on the application for probate despite the fact that these assets do not flow through the estate and are not subject to probate fees.

Case study: Dianne

Dianne wants to maximize the growth of her non-registered investment. She's an experienced investor who's committed to investing over the long term. She also knows it's important to have a strategy in place to repay the loan.

With an investment loan

Dianne borrows \$100,000 from Manulife Bank with a 100% Loan option. She invests that money in a GIF Select InvestmentPlus contract. Here are the details of her situation:

- Dianne invests over a 10-year term.
- The interest rate on her loan is 4.5%.
- She makes monthly loan interest repayments of \$375.
- Each year, her investment has a 5% rate of return.

After 10 years, Dianne's market value has increased to \$162,889⁶. At the end of the loan term she will have to repay the loan principal of \$100,000. With this strategy, she's earned \$62,889.

Without an investment loan

Had Dianne made annual contributions at the end of each year instead, assuming the same 5% annual rate of return, she would have accumulated \$36,316 after 10 years.

The table below provides a detailed summary of the costs of investing and the investment returns for this case study. Your advisor or tax advisor can help you understand the various components.

The investment loan strategy with the power of compound growth and interest deductibility **earns 8.5% more after 10 years**, after factoring in the cost of borrowing and income tax deductions.

Dianne earns \$17,211 more after 10 years with an investment loan

	With investment loan (\$)	Without investment loan (\$)
COST OF INVESTING		
Total cash contributed during the 10-year investment period	0	28,912
Income tax paid on investment income during those 10 years (This is the tax on income and capital amounts allocated during the 10-year period)	+ 4,717	+ 555
Total after-tax loan interest	<u>+ 24,750</u>	<u>+ 0</u>
Total cost of investing	= 29,467	= 29,467
Investment results		
Investment value at the end of 10 years	162,889	36,316
Cost to repay the loan	- 100,000	- 0
Capital Gains tax on sale of investment	<u>- 10,612</u>	<u>- 1,250</u>
Equity at the end of investment period	= 52,277	= 35,066
Total net gain on investment (after deducting total cost of investing)	22,810	5,599
Internal after-tax rate of return	12.4 %	3.9%

This example assumes the end-of-year deposit in the non-leverage strategy is equivalent to the annual cash outflow (after tax) less the income tax payable in the leveraged strategy. Dianne and her situation are fictitious.

⁶ Investment value is for illustration purposes only and may be exaggerated to illustrate how a leverage strategy could work. Assumptions: \$100,000 borrowed, 10-year investment period, 5% annual rate of return (net of fees), 4.5% average interest rate on loan, 45% marginal tax rate, 30% tax rate on investment income, 25% taxable portion of return, 100% loan interest tax deductibility. Actual tax deductibility of loan interest depends on a number of factors, with the Income Tax Act providing the framework for determining tax deductibility. Tax laws are subject to change and therefore, tax treatment of illustrated figures cannot be guaranteed. Results for Quebec residents may differ due to different deductibility rules. Readers should consult their own tax and legal advisors with respect to their particular circumstance.

Options for repaying the investment loan

You can choose how you'd like to repay your investment loan. How and when an investment loan is repaid may impact the monthly loan cash flow commitment and loan interest deductibility.

	Strategy 1: Repay loan over a 10-year term	Strategy 2: Repay loan over a 20-year term	Strategy 3: Repay loan principal after 10- or 20-year term
Strategy description	Repay loan in years 1-10 with principal and interest payments (equal principal amounts plus variable interest).	Repay loan in years 1-20 with principal and interest payments (equal principal amounts plus variable interest).	Pay interest only during the loan term; repay the principal using proceeds of the investment contract at the end of the loan term.
Loan payments	Principal and interest	Principal and interest	Interest only
Pros	Debt-free after 10 years. Greater access to a portion of your investment, should you need it (it's less likely that a one-time withdrawal would be declined due to insufficient market value).	Smaller cash flow commitment than Strategy 1, may make a larger loan more manageable. Debt-free after 20 years. Greater access to a portion of your investment, should you need it (it's less likely that a one-time withdrawal would be declined due to insufficient market value).	Interest deduction is maximized because loan principal is not declining. Existing investment could be used to repay the loan in the future (depending on investment growth).
Cons	Larger cash flow commitment may limit the size of loan that can be supported. Interest deduction will decline each year as loan principal is repaid. Interest deduction will also decline if withdrawals take place.	Must continue loan payments after year 10. Interest deduction will decline each year as loan principal is repaid. Interest deduction will also decline if withdrawals take place.	The existing investment may not grow enough to fully repay the loan. No certainty of when the loan will be repaid. Access to a portion of your investment may be limited since the principal is not being paid down.



GIF Select InvestmentPlus withdrawals⁷ before the loan is repaid

If, later on, you want to make a withdrawal from your GIF Select InvestmentPlus contract before the investment loan has been repaid, Manulife Bank must approve the withdrawal subject to the following conditions:

- Withdrawals are not permitted if they would reduce the market value of the GIF Select InvestmentPlus contract below the outstanding loan balance.
- Scheduled (recurring) payments from a GIF Select InvestmentPlus contract are not permitted until the loan has been fully repaid.
- If approved, two free withdrawals can be made per year. A \$100 fee applies to each withdrawal thereafter. A minimum withdrawal amount of \$2,500 is required.

Requests to withdraw money from a GIF Select InvestmentPlus contract with an outstanding loan will be reviewed by Manulife Bank using the market value of the GIF Select InvestmentPlus contract.

Is this strategy right for me?

Investment loans are not intended for everyone. Before obtaining an investment loan, it's important to carefully consider the following questions:

- Do I understand how this strategy works?
- Do I have a specific goal in mind? A clearly defined investment goal will help make sure you remain invested, even during times of market volatility, so you're more likely to succeed with this strategy.
- Am I willing to commit to the leverage strategy, including ongoing loan payments for a long-term period, perhaps 10 years or more?
- Do I have adequate reliable income to comfortably service the payments?
- Do I have a higher tolerance for risk?

⁷ Fees may apply. A withdrawal from GIF Select InvestmentPlus includes a return of capital. Unless the amount is used to repay the loan, a portion of the borrowed funds is considered to be used for personal use and no longer used to earn income. Therefore the interest deduction must be proportionately reduced.

Understanding the risk of leveraging

Before deciding to invest with an investment loan, it's important to understand that this strategy involves a greater degree of risk than traditional investing. If you use your own cash to purchase an investment, the gain or loss you experience will equal the gain or loss of the investment. However, if you use borrowed money to purchase an investment, the gain or loss you experience may be greater, relative to the performance of the investment.

FOR EXAMPLE:

Scenario 1: If you invest \$50,000 of your own money and the investment declines in value to \$40,000 over 10 years, you will have lost \$10,000.

Scenario 2: However, if you borrow \$50,000 at an interest rate of 6.0% per year and invest this amount and the value declines to \$40,000 over 10 years, you will be in a worse financial position.

- To repay the loan, you must come up with an additional \$10,000 to supplement the \$40,000 raised from the sale of the investment.
- In addition, you will have paid \$30,000 in loan interest over the 10 years. In other words, you will have lost \$40,000 with this investment strategy.

This example assumes loan payments are interest only, not principal and interest. It also does not factor in the tax deductibility of loan interest for simplicity.

In addition, regardless of how your investment is performing, you're still obligated to pay the interest on your loan. Investment leverage could be a powerful tool for helping to accelerate investment growth. But make sure you understand and are comfortable with the potential downside before you decide to use this strategy.

HOW DO I GET STARTED?

If this sounds like a strategy that you might be interested in, speak with your advisor or visit www.manulifebank.ca for more information. Investment leverage could be a powerful tool for helping you achieve your investment goals sooner. Speak to your advisor to find out if it's right for you.

Things you should know

Borrowing to invest may only be appropriate for investors with higher risk tolerance. You should be fully aware of the risks and benefits associated with investment loans since losses as well as gains may be magnified. Preferred candidates are those willing to invest for the long term and who are not averse to increased risk. The value of your investment will vary and is not guaranteed however you must meet your loan and income tax obligations and repay the loan in full. Please ensure you read the terms of your loan agreement and the investment details for important information.

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For more information, please contact your advisor or visit manulife.ca/investments



100% Loans and Multiplier Loans are offered through Manulife Bank of Canada. The Manufacturers Life Insurance Company is the issuer of the Manulife GIF Select insurance contract which offers the InvestmentPlus Series and the guarantor of any guarantee provisions therein. Any amount that is allocated to a segregated fund is invested at the risk of the contractholder and may increase or decrease in value. Withdrawals proportionally decrease Maturity and Death Benefit Guarantees.

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