



Impact of Harmonized Sales Tax (HST) on Mutual Funds

OVERVIEW

Effective July 1, 2010, the Government of Ontario and the Government of British Columbia will replace the provincial sales tax (PST) with a single harmonized sales tax (HST).

The HST combines the federal goods and services tax (GST) rate of 5% with the respective PST rate. The harmonization will result in an HST rate of 13% in Ontario and 12% in British Columbia. Other Canadian provinces have already implemented an HST. Ontario and British Columbia will be joining Newfoundland and Labrador, Nova Scotia, and New Brunswick as provinces that have implemented an HST.

Investment funds in Canada, including Dynamic funds, will have to change the way they calculate GST/HST. Investment funds will be required to calculate the HST rate using specific rules. The new rules were released in a 39-page Backgrounder by the Department of Finance on May 19th.

Management fees and operating expenses associated with investment funds will be subject to HST. Currently, management fees and operating expenses are subject only to the 5% GST. The new tax structure will result in an increase in our fund's Management Expense Ratios (MERs), as taxes are included in the calculation of the MER.

The specific rules and guidance require HST be calculated using the residency of unitholders and the current value of their interests, rather than the physical location of the fund manager. This will result in a rate typically lower than 13% to be charged to our funds, as not all unitholders will reside in harmonized provinces.

The following table shows a hypothetical fund with a current MER of 2.31% and a provincial residency breakdown of unitholders of 55% in Ontario, 20% in B.C., 3% in Nova Scotia and 22% in non-harmonized provinces. This hypothetical provincial residency breakdown results in a calculated effective HST rate of 11%. The 11% HST rate will be charged on the management fees and operating expenses instead of the current 5% GST, which results in an MER increase of 0.13 percentage points.

	GST @ 5%	HST @ 11%
Management fee	2.00%	2.00%
Operating expenses	0.20%	0.20%
Taxes	0.11%	0.24%
MER (including taxes)	2.31%	2.44%

The application of HST to investment funds involves complex tax rules. We will continue to monitor the impact of HST on all of our funds.



If you have questions about the impact of HST on mutual funds, please refer to the Questions & Answers section that follows or call our Customer Relations Centre at 1.800.268.8186.

QUESTIONS & ANSWERS

1. Will HST affect investors who hold funds in a province that does not impose an HST?

Yes, the HST calculations will cause investors to bear the same HST rate in our funds, irrespective of which province they reside in. Generally, we expect the application of HST will result in an increase in taxes across all Dynamic funds.

2. How will HST be charged to a fund?

Taxes, including the HST once implemented, are charged to a fund on the same basis as management fees, which means a proportionate amount is deducted from a fund's assets on a daily basis.

3. How will HST be charged to a series?

HST will be calculated and charged within a fund at the series level.

4. How will the implementation of HST impact mutual fund returns?

Since investors' returns are determined after deducting a fund's MER, the increase in a fund's MER following the implementation of HST (see above example), will result in a lower return to a fund by that same amount.

5. Will our funds still be competitive from a fee perspective?

The implementation of HST impacts all mutual funds across Canada, as well as pension plans, segregated funds, and ETFs.

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