The 411 on Distributions

AGF SOUND CHOICES

Distributions are payments from a mutual fund to the investor and can derive from multiple sources, such as income and capital gains realized from securities held within the underlying funds as well as return of capital.

Components of a distribution may consist of:

Dividends	Interest	Realized Capital Gains	Return of Capital
Income earned on Canadian and foreign equities.	Income derived primarily from fixed-income products such as bonds, GICs and cash equivalents.	The gain received when an investment is sold at a higher price than purchased at.	Occurs when a mutual fund "returns" a portion of the money you invested in the fund, typically resulting from the fund paying a higher amount of distribution compared to the net income and gains earned by the fund.

Here is a guide to dispel common misconceptions surrounding distributions and provide a better understanding of how they can impact your investments.

1. Distributions do not create wealth

Wealth gets created when a fund receives dividends and interest from the underlying holdings, and through realized capital gains when holdings are sold at a profit. A distribution, when reinvested, creates units without changing the total value of the investment. Here is an example to illustrate how it works:

	Units	Price	Total
Day 1 Pre-Distribution	1000	$10.00	$10,000
Declared Distribution: $0.10/unit	10	$9.90	$100
Day 2 Ex-Distribution	1000	$9.90	$9,900
Post-Distribution Reinvestment	1010		$10,000

When the fund declares a distribution of $0.10 per unit and reinvests it, there are two results:

i) The unit price drops by the amount of the distribution paid ($0.10) presuming the market is steady.

ii) The number of units owned increases when the value of the distribution is used to buy additional units of the fund at the post-distribution price ($100 distribution buys 10 units of the fund at $9.90/unit).

Although you now own additional units of the fund, the distribution does not affect the total dollar value of the investment as you own more units valued at a lower price.

2. 'Distributions' and 'Dividends' are not the same

A fund distribution can be comprised of dividends, earned interest realized net capital gains and return of capital.

Dividends are only a component of distribution. They can be earned by a fund holding Canadian or foreign companies paying a dividend per share.

3. The higher the distribution amount does not mean the better the fund

All mutual funds have different objectives and may have different distribution policies. One series of the fund may target a 3% payout while another series of the same fund may target a 5% payout, despite holding the same investments.

If a fund cannot cover its target distribution from earned income (interest, dividends and realized capital gains), it will return capital to the investor, depleting the principal available to grow.

4. Distributions are not an indicator of a fund's performance

Distribution is often misconstrued as positive performance of a fund. However, a distribution may include a combination of earnings and/or return of capital. The portion of the distribution relating to earnings only represents a part of the fund's total return. Overall appreciation in market value is a better indication of how well a fund is performing.

AGF™

Keep More to Grow More

Distributions can either be reinvested in additional units of the fund or paid out as cash. Deciding which is best for you will be determined by account type and preference for income or to maximize growth. The best ways to maximize compound growth include:

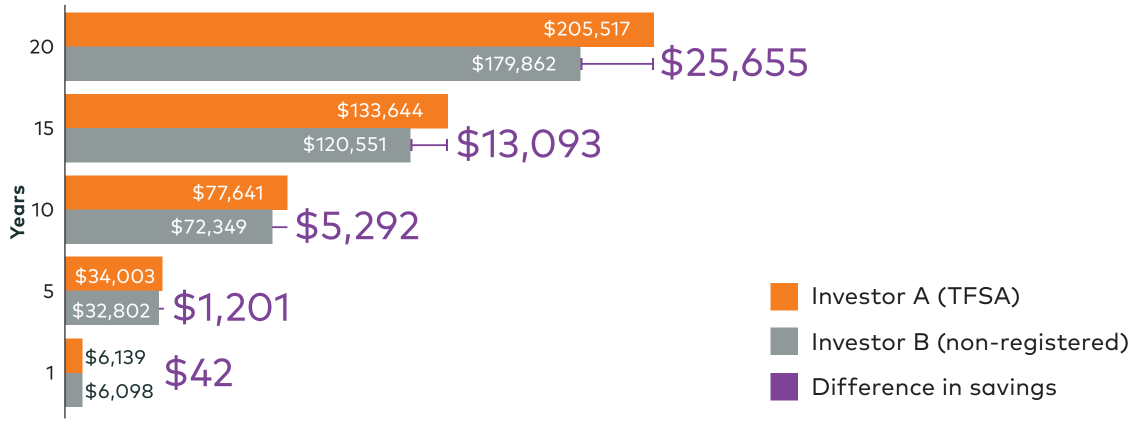
- Reinvesting all distributions in additional units to grow your principal, rather than getting paid out in cash
- Taking advantage of tax-sheltered plans such as a Registered Retirement Savings Plan (RRSP), which defers any tax on distributions as long as the funds remain registered, and/or a Tax-Free Savings Account (TFSA) where all investment income is tax-free

Please note: If you held an investment outside of a tax-sheltered plan, you are required to report on your Canadian income tax return all distributions (interest, dividends or capital gains) paid to you by any fund, including those reinvested.

Does it really make a difference if you put the money into a tax-sheltered plan, such as a TFSA, which can be used for any financial goal? The chart below shows:

- the same amount of money ($500/month) being invested in the same product (a hypothetical investment with a 5% annual return)
- the only difference – Investor A chose a TFSA account, while Investor B chose a non-registered account

After one year, the amount may not seem significant but it makes a big difference over a longer time period.



To find out how to get the most out of distributions, please contact your financial advisor.

Source: AGF Investments Inc. Performance returns presented are hypothetical and for illustrative purposes only. It does not represent actual performance. Assumptions were made in the calculation of these returns including $500 invested at the beginning of each month in a hypothetical investment with a rate of return of 5%. Of the 5% return, distribution yield of 2.0% (distribution composed of 50% interest and 50% capital gain). Interest taxed in the year received, while unrealized capital gains were taxed at the end of the holding period. Marginal tax rate of 50% for interest and 25% for capital gains, distributions reinvested. Taxes paid from out of pocket (not from sale of shares). Trading costs and other fees associated with the portfolios are not included and trading prices and frequency implicit in the hypothetical performance may differ from what may have actually been realized at the time given prevailing market conditions. This performance simulation is for illustrative purposes only and does not reflect actual past performance nor does it guarantee future performance.

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