

Demutualization

Implications for the Policyholders Labour-sponsored Funds

The demutualization of Canada Life, Industrial-Alliance, Manulife, Mutual Life and Sun Life is expected to represent the largest distribution of capital in Canada's history, with over three million insurance policyholders set to receive either cash or shares.

In the coming months, demutualization – the process by which a mutual life insurance company owned by policyholders is converted to a publicly traded company – will impact Canada's equity markets and the insurance industry. However, this process directly impacts the Canadian policyholders of these five companies. The following addresses the specific implications of demutualization.

What exactly happens to the ownership structure of the company through demutualization?

Currently, these mutual insurance companies operate for the benefit of their participating or "par" policyholders who exercise voting control over the company. A par policyholder will typically have a whole life policy with voting rights and is entitled to receive policy dividends from the profits and surplus

Company	Canadian Policyholders	Estimated PEO Date
Canada Life Assurance Company	220,000	Early 2000
Industrial-Alliance Life Insurance Company	650,000	Late 1999
Manufacturers Life Insurance Company	330,000	Late 1999
Mutual Life Assurance Company of Canada	890,000	June/July
Sun Life Assurance Company of Canada	420,000	Late 1999

of the insurance company. The rights are referred to as ownership rights.

Under demutualization, the ownership rights of par policyholders are separated from their policies and surrendered in exchange for cash or shares of the new public company.

What is the impact on policy benefits and dividends?

There will be no changes to any contractual benefits of policyholders as a result of demutualization. Premiums, policy benefits, annuity payments and the right to policy dividends will all remain unchanged.

Are voting rights retained?

Par policyholders will retain the right to vote as part of a shareholder-owned life insurance company but they will no

longer exercise voting control over the company. Proposed insurance industry regulations stipulate that a third of the life insurance company Board of Directors must be elected by policyholders, thereby ensuring representation of the policyholder interest.

How are the number of shares a policyholder is entitled to determined?

Each demutualizing company establishes a formula, developed by actuaries with input and approval by management and regulators, to determine how the value of the mutual insurance company will be allocated to participating policyholders. The formula will take into account the value of policyholders' right to vote and the contributions that

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1 Year Total Return

1 Royal Asian Growth Fund	81.5%
2 20/20 Aggressive Growth Fund	80.6%
3 Altamira Science and Technology Fund	73.9%
4 Green Line Asian Growth Fund	71.7%
5 C.I. Sector Global Telecommunications	70.9%
6 Talvest Global Sci & Technology C\$.	70.4%
7 AIM Global Technology Fund	68.7%
8 Hansberger Asian Fund	67.7%
9 BPI Global Opportunities Fund	66.8%
10 Fidelity Focus Technology Fund	62.9%

3 Year Total Return

1 BPI Global Opportunities Fund	50.9%
2 MAXXUM American Equity Fund	40.8%
3 Ethical North American Equity Fund	39.1%
4 Altamira Science and Technology Fund	38.3%
5 AGF American Growth Class	36.5%
6 BPI American Equity Value Fund	36.3%
7 20/20 Aggressive Growth Fund	32.1%
8 AIM American Premier Fund	30.4%
9 McLean Budden American Growth Fund	29.8%
10 Green Line Science & Technology Fund	29.1%

5 Year Total Return

1 Green Line Science & Technology Fund	35.2%
2 Ethical North American Equity Fund	31.4%
3 AGF American Growth Class	30.2%
4 20/20 Aggressive Growth Fund	30.0%
5 BPI American Equity Value Fund	28.9%
6 AIM Global Health Sciences Fund	28.3%
7 Spectrum United American Growth Fund C\$.	27.5%
8 McLean Budden American Growth Fund	26.3%
9 Altamira U.S. Larger Company Fund	24.9%
10 Spectrum United Global Telecomm	24.2%

10 Year Total Return

1 PH&N U.S. Pooled Pension Fund	19.5%
2 Spectrum United American Growth Fund C\$.	19.2%
3 McLean Budden American Growth Fund	19.2%
4 AGF American Growth Class	18.9%
5 BPI American Equity Value Fund	18.9%
6 PH&N U.S. Equity Fund	18.2%
7 Ethical North American Equity Fund	17.2%
8 Royal U.S. Equity Fund C\$.	16.2%
9 Elliott & Page American Growth Fund	15.8%
10 GBC North American Growth Fund Inc.	15.6%

1 Year Total Return

1 Dynamic Global Resource Fund	-39.1%
2 20/20 Managed Futures Value Fund	-34.6%
3 20/20 Latin America Fund	-21.9%
4 Dynamic Europe Fund	-19.6%
5 BPI American Small Companies Fund	-17.4%
6 Dynamic Real Estate Equity Fund	-16.6%
7 C.I. Sector Hansberger European	-16.3%
8 Hansberger European Fund	-15.7%
9 AGF Germany Class	-15.1%
10 AGF Germany Class M	-14.1%

3 Year Total Return

1 20/20 Managed Futures Value Fund	-21.8%
2 Fidelity Emerging Markets Portfolio Fun	-18.9%
3 Dynamic Global Resource Fund	-16.8%
4 Hansberger Asian Fund	-11.9%
5 Ethical Pacific Rim Fund	-10.1%
6 AGF Asian Growth Class	-9.1%
7 C.I. Sector Pacific	-8.2%
8 C.I. Pacific Fund	-7.3%
9 20/20 Latin America Fund	-5.8%
10 C.I. Latin American Fund	-5.6%

5 Year Total Return

1 Hansberger Asian Fund	-7.3%
2 Altamira Asia Pacific Fund	-6.9%
3 C.I. Sector Pacific	-4.9%
4 Royal Japanese Stock Fund	-4.3%
5 C.I. Pacific Fund	-4.2%
6 C.I. Latin American Fund	-4.1%
7 20/20 Emerging Markets Value Fund	-3.3%
8 AGF Asian Growth Class	-2.4%
9 Dynamic Global Resource Fund	-2.2%
10 Universal Far East Fund	-1.9%

10 Year Total Return

1 Royal Japanese Stock Fund	0.2%
2 AGF Japan Class	4.1%
3 C.I. Sector Short-Term Shares	4.1%
4 Atlas American Money Market Fund	4.5%
5 C.I. Sector Pacific	5.4%
6 C.I. Pacific Fund	5.9%
7 Templeton Global Bond Fund	7.1%
8 Global Strategy World Bond Fund	7.1%
9 Altamira Global Diversified Fund	7.1%
10 Universal International Stock Fund	8.5%

COMMENTARY

ScotiaMcLeod would be pleased to provide you with further detailed information on the above mutual funds, however we cannot provide information on the funds marked #. These are historical performance rankings, and are not indicative of future investment performance. When analyzing particular funds, stress longer term performance.

These rankings are not sales advice and ScotiaMcLeod does not recommend simply selling bottom past performance funds and buying top past performing funds. Purchase or redemption fees may be involved. Please call (416) 863-7777 or 1-800-387-9273 for specific recommendations tailored to your individual needs.

1 Year Total Return

1 Atlas American RSP Index Fund	23.5%
2 Green Line U.S. RSP Index Fund	20.5%
3 Scotia CanAm Stock Index Fund	19.7%
4 Cundill Canadian Security Fund Series A	18.8%
5 VenGrowth Investment Fund Inc. (LSVCC).	18.5%
6 Bissett Microcap Fund.	15.7%
7 Trimark Canadian Resources Fund	15.4%
8 Universal Future Fund.	13.1%
9 Synergy Canadian Fund - Momentum Class	10.9%
10 C.I. American RSP Fund	10.6%

3 Year Total Return

1 Quebec Growth Fund Inc.	26.0%
2 Scotia CanAm Stock Index Fund	24.6%
3 PH&N Dividend Income Fund	23.9%
4 AIC Diversified Canada Fund	23.8%
5 AIC Advantage Fund.	22.8%
6 Scudder Canadian Equity Fund	20.4%
7 C.I. American RSP Fund	20.2%
8 Royal Dividend Fund	20.1%
9 Cundill Canadian Security Fund Series A	19.8%
10 Scotia Canadian Dividend Fund.	19.6%

5 Year Total Return

1 AIC Advantage Fund.	26.2%
2 Scotia CanAm Stock Index Fund	24.6%
3 PH&N Dividend Income Fund	20.8%
4 Quebec Growth Fund Inc.	19.4%
5 Bissett Canadian Equity Fund	17.8%
6 Cundill Canadian Security Fund Series A	17.6%
7 Royal Dividend Fund	17.5%
8 PH&N Vintage Fund	17.1%
9 Tradex Equity Fund Limited	17.0%
10 GBC Canadian Growth Fund.	16.7%

10 Year Total Return

1 AIC Advantage Fund	18.9%
2 ABC Fundamental-Value Fund	18.4% #
3 GBC Canadian Growth Fund.	16.5%
4 Altamira Equity Fund	15.9%
5 Marathon Equity Fund.	15.2%
6 ABC Fully-Managed Fund	14.6% #
7 PH&N Vintage Fund	14.4%
8 Quebec Growth Fund Inc.	14.1%
9 Mawer New Canada Fund	13.9%
10 PH&N Dividend Income Fund	13.3%

1 Year Total Return

1 Spectrum United Canadian Resource Fund.	-25.7%
2 Atlas Canadian Small Cap Growth Fund	-22.8%
3 Bissett Small Cap Fund	-22.5%
4 20/20 RSP Aggressive Equity Fund	-22.0%
5 Atlas Canadian Emerging Growth Fund	-21.2%
6 20/20 RSP Aggressive Smaller Companies.	-20.3%
7 AIC Advantage Fund	-19.3%
8 Scotia Precious Metals Fund	-19.2%
9 AIC Advantage Fund II	-18.9%
10 Global Strategy Canadian Small Cap Fund.	-18.5%

3 Year Total Return

1 Global Strategy Gold Plus Fund.	-28.1%
2 Altamira Precious & Strategic Metal Fun.	-27.2%
3 Scotia Precious Metals Fund	-25.1%
4 Dynamic Precious Metals Fund	-23.6%
5 Royal Precious Metals Fund.	-21.8%
6 Universal Precious Metals Fund.	-21.1%
7 BPI Canadian Resource Fund Inc.	-20.3%
8 MAXXUM Natural Resource Fund	-17.2%
9 Green Line Precious Metals Fund	-16.4%
10 Altamira Resource Fund.	-13.4%

5 Year Total Return

1 Dynamic Precious Metals Fund	-10.8%
2 Scotia Precious Metals Fund	-9.3%
3 Global Strategy Gold Plus Fund.	-9.1%
4 BPI Canadian Resource Fund Inc.	-8.9%
5 Altamira Resource Fund	-8.0%
6 Industrial Equity Fund Limited	-7.2%
7 Universal Precious Metals Fund.	-5.8%
8 Green Line Resource Fund.	-3.7%
9 20/20 Canadian Resources Fund Ltd.	-1.2%
10 Universal Canadian Resource Fund	-0.4%

10 Year Total Return

1 Industrial Equity Fund Limited	0.4%
2 Dynamic Precious Metals Fund	1.7%
3 BPI Canadian Resource Fund Inc.	3.1%
4 Industrial Growth Fund	3.5%
5 Royal Precious Metals Fund	4.0%
6 Green Line U.S. Money Market Fund	4.5%
7 Atlas Canadian T-Bill Fund	5.6%
8 AGF Money Market Account	5.8%
9 Global Strategy Money Market Fund.	5.8%
10 Strategic Value Canadian Equity Fund.	5.8%

NOTES TO THE PERFORMANCE TABLES

- ScotiaMcLeod is unable to supply information on funds marked #
- Figures are average rates of return for the periods ending June 30, 1999
- Source data from the Mutual Funds Source Disk, July 12, 1999, which includes over 2,400 funds
- Funds with total assets under \$25 million are not included
- Only "totally public" funds are ranked
- RRSP Eligible Funds are at least 80% Canadian content and can also be held outside RRSPs
- Performance figures include reinvested dividends and management fees have been subtracted
- Non RRSP eligible funds can be held inside a ScotiaMcLeod RRSP to a maximum of 20% of book value

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policyholders have made to the value of the demutualizing company through the payments of premiums.

Approximately 20% to 30% of the shares allocated to policyholders will be in exchange for their vote (i.e. each policyholder receives the same number of shares).

The balance will be allocated based on relative contributions of each policy to the value of the company considering factors that include: size of death benefit, age of policy, cumulative premiums paid and current cash surrender value.

What are the tax implications that a policyholder should be aware of?

Policyholders who elect to receive cash will have the cash payment taxed as a dividend in the year it is received.

Those policyholders who receive shares will not be taxed when the shares are received. However, selling the shares will result in a capital gain being realized on the difference between the sale proceeds and the adjusted cost base of the shares. The adjusted cost base (ACB), the price at which policyholders are deemed to have acquired the shares on conversion, is zero.

Policyholders should consult with their tax advisor to determine specific tax consequences.

What are the key considerations a policyholder should keep in mind in deciding whether to take either cash or shares?

There are no changes to the contractual benefits of policyholders regardless of whether they choose cash or shares. However, there are some differences individuals should be aware of prior to making a decision on how they will exchange their ownership rights.

As noted above, there are different tax implications for policyholders who elect to take cash and for those who choose shares. Policyholders who elect to take stock will also be eligible for share dividends that are paid out.

Most importantly, a policyholder should consider his or her specific tax situation, financial circumstances and investment objectives. By taking shares of the company, an individual should be prepared to accept the level of risk that comes with investing in the stock market.

Each demutualizing company provides a demutualization guide for policyholders and this should be read carefully before any decision is made.

Policyholders should consult with their tax advisor in order to fully understand the specific implications before they elect to take either cash or shares. Our on-site insurance specialist, Allan McGlade is available at (416) 862-3066 to answer any questions or address any concerns.

Reminder

Labour Sponsored Investment Funds held in a RRSP may result in increases in foreign content room above the usual 20% limit. The additional foreign content that is permitted is 3 times the book value of the labour fund assets in your account to a maximum of 40% of your plan.

For Example:

Suppose you purchase \$5,000 of a LSIF in 1998 in an existing RRSP account with a total book value of \$20,000.

LSIF Purchase	\$5,000.00
Federal Tax Credit	\$750.00
Provincial Tax Credit	\$750.00
Total Tax Credit	\$1,500.00

Pre-LSIF Foreign Content Limit = \$4000 (20% of book value)

Additional Foreign Content Room with 1998 \$5000 LSIF purchase
= \$15,000 (\$5000x3)

Maximum Foreign Content capped at (40% x \$20,000)
= \$8000