

LSIFs – Is the extra risk worth the tax benefits?

Tax credits vs. Returns

How they work

Fund News

Over the past few years we have had considerable volatility in the markets. If you have been invested over this period you will likely have noticed this in your own portfolio, especially if you have just started out over the last few years or if you invested in securities that had more risk attached to them.

Labour Sponsored Investment Funds (LSIF's) were not unaffected by this instability. In fact, if you were already a holder of these funds, they may have been the hardest hit in your portfolio. This is the reality of Venture Capital Investments as they are simply higher risk.

The GOOD News is that in purchasing a Labour Sponsored Investment Fund you would have received a considerable tax break. This tax break would have made your overall net worth higher due to the fact that the government either reduced your taxes or gave you a refund of up to \$1,750, which you could use in the subsequent year to bring yourself further reductions/refunds. The significance of that tax reduction/refund shows that many clients who purchased an LSIF in these very volatile markets have at least broken even. For example, as of Septemeber 30th , 2001, the BEST Discoveries Fund, a technology based LSIF, that we have recommended for a more aggressive position, was showing

figures down 24% over the year while the TSE 300 had shown declines of 33% over the last year. Considering this, had you purchased a comparable tech based, non-LSIF investment – your investment would likely be down, with no real advantage other than not being locked into the investment and perhaps a little less volatility – depending on where you invested. Had you been interested in investing in technology for the long-term, the BEST fund would have been a safer bet than a regular tech-based mutual fund. The other good news, either way, is that time is on your side. The longer you hold an investment, the more likely you are to have gains on it. The most movement and risk in a mutual fund or Labour Sponsored Investment Fund usually occurs within the first few years of investment. Patience is key to all types of investing. If you have the time frame to work with and don't mind some fluctuations, LSIFs may be right for you. As far as we are concerned, as long as the government is offering free money – we'll take it.

LSIF Investor Profile

This investment may be right for you if you are an investor who:

- Has maximized RRSP contribution room and are looking for additional tax savings ideas
- Is interested in potentially incurring above average returns over the long-term
- Would like to increase foreign content room in your RRSP
- Would like to get the most tax savings possible out of RRSP contributions and doesn't mind a long-term investment (usually 8 years)

If any of the above apply to you and your investment goals, you should consider adding this investment to your portfolio!

Quick Refresher – What is a Labour Sponsored Fund?

A Labour Sponsored Investment Fund (LSIF) is a venture capital fund that invests in small and medium sized Canadian busi-
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LSIF Investment vs. Regular Mutual Fund Investment

Investments	Initial Investment	Tax Credit Return	1 Year Returns as of Oct 31, 2001	Net Value to you
Average Labour Sponsored Investment Fund	\$5,000	\$1,500	-13.6%	\$5,820
Average Canadian Small Cap Fund	\$5,000	N/A	-14.4%	\$4,280

UP TO 30% IN AN RRSP

1 Year Total Return

1 Fidelity Small Cap America	23.6%
2 AGF Global Total Ret Bond	14.5%
3 AGF Global Gov't Bond	14.1%
4 Talvest Global Health Care	13.0%
5 Mac Univ World Tactical Bond	12.5%
6 CI World Bond	11.7%
7 CI Global Energy Sector	10.9%
8 TD Global Government Bond Fund	10.8%
9 Mac Cundill Value Series A	9.2%
10 Mac Cundill Value Series C	8.9%

3 Year Total Return

1 Talvest Global Health Care	43.2%
2 Talvest China Plus	32.3%
3 Talvest Global Small Cap	27.4%
4 Fidelity Small Cap America	25.1%
5 BPI Global Opportunities	24.1%
6 AGF Aggressive Growth	22.5%
7 Mac Cundill Value Series A	21.3%
8 CI Signature Gbl Small Cos	21.2%
9 CI Global Consumer Products	20.9%
10 Mac Cundill Value Series C	20.8%

5 Year Total Return

1 BPI Global Opportunities	34.9%
2 Talvest Global Health Care	32.3%
3 Fidelity Small Cap America	20.5%
4 Orbit World	19.4%
5 Altamira Science & Technology	18.3%
6 TD Health Sciences Fund - I	18.1%
7 AGF International Value	17.9%
8 AGF Aggressive Growth	17.6%
9 CI Global Health Sciences	16.3%
10 CI Global Financial Serv Sec	16.1%

10 Year Total Return

1 CI Signature Amer Small Cos	16.5%
2 Trimark Fund	16.0%
3 AGF International Value	15.5%
4 TD U.S. Index - I C\$.	15.5%
5 McLean Budden American Equity	14.9%
6 Altamira Select American	14.7%
7 Spectrum American Growth	14.5%
8 AIC Value	14.4%
9 Trimark Select Growth	14.4%
10 BPI American Equity	14.2%

1 Year Total Return

1 Royal e-Commerce	-73.2%
2 Talvest Global Sci & Tech	-70.9%
3 CI Global Telecom Sector	-69.1%
4 Altamira Science & Technology	-68.9%
5 Altamira e-business	-67.3%
6 AIM Global Technology	-67.3%
7 AIM Global Telecom Class	-66.5%
8 AIM American Blue Chip Growth	-66.3%
9 CI Global Technology Sector	-65.3%
10 Spectrum Global Telecomm	-63.5%

3 Year Total Return

1 AIM American Blue Chip Growth	-19.8%
2 TD International Growth Fund -	-10.0%
3 AGF Germany Class	-8.7%
4 Spectrum Global Telecomm	-8.6%
5 Clarington Gbl Communication	-8.2%
6 Mac Univ Wld Science & Tech	-8.0%
7 TD European Growth Fund - I	-7.9%
8 Acuity Clean EnviroGbl Equity	-7.9%
9 Sceptre Global Equity	-7.9%
10 AIM European Growth	-7.6%

5 Year Total Return

1 Royal Asian Growth	-12.5%
2 HSBC AsiaPacific	-10.9%
3 AGF Asian Growth Class	-10.5%
4 CI Pacific Sector	-8.6%
5 AGF Latin America	-7.4%
6 CI Pacific	-7.4%
7 AIM Indo-Pacific	-6.2%
8 TD Emerging Markets Fund - I	-5.2%
9 TD Asian Growth Fund - I	-5.0%
10 TD Japanese Growth Fund - I	-4.3%

10 Year Total Return

1 Royal Japanese Stock	-1.0%
2 AGF Japan Class	0.4%
3 CI Pacific Sector	2.1%
4 CI Pacific	2.9%
5 CI Short-Term Sector	3.5%
6 AGF Asian Growth Class	3.8%
7 Royal \$US Money Market	4.0%
8 Merrill Lynch US Money Mkt	4.0%
9 Templeton Emerging Markets	4.1%
10 AGF US Dollar Money Market	4.2%

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 performance 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.

Important information about any particular fund is contained in its prospectus. You may obtain a copy of the prospectus by calling (416) 863-7777. You should read the prospectus carefully before investing.

1 Year Total Return

1 Dynamic Precious Metals	46.8%
2 Mac Universal Precious Metals	39.8%
3 Scotia Precious Metals	37.5%
4 Royal Precious Metals	33.3%
5 TD Precious Metals Fund - I	29.6%
6 Royal Energy	24.7%
7 Mac Industrial Growth	24.5%
8 Merrill Lynch Cdn Inc Trust	22.7%
9 Trimark Canadian Resources	22.7%
10 Trimark Canadian Small Cos.	22.3%

3 Year Total Return

1 Dynamic Venture Opportunities	23.6%
2 CI Signature Select Cdn	21.5%
3 AIM Canadian First Class	19.8%
4 TD Energy Fund - I	18.8%
5 CI Signature Cdn Resource	18.7%
6 StrategicNova Cdn Technology	18.7%
7 Working Opportunity (Balanced)	18.0%
8 Capital Alliance Ventures	17.8%
9 Royal Energy	17.2%
10 Trimark Canadian Small Cos.	16.5%

5 Year Total Return

1 PH&N Dividend Income	19.6%
2 Royal Dividend	13.7%
3 Scotia Cdn Dividend	13.5%
4 MAXXUM Dividend	12.5%
5 Fidelity True North	12.2%
6 Working Opportunity (Balanced)	12.1%
7 TD Dividend Growth Fund - I	12.0%
8 Fidelity Cdn Growth Company	11.9%
9 AIC Diversified Canada	11.6%
10 Beutel Goodman Small Cap	11.5%

10 Year Total Return

1 AIC Advantage	18.1%
2 PH&N Dividend Income	16.6%
3 Northwest Specialty Equity	15.3%
4 MAXXUM Dividend	15.2%
5 Dynamic Power Canadian Growth	14.1%
6 GBC Canadian Growth	13.9%
7 Mawer New Canada	13.6%
8 PH&N Vintage	13.2%
9 Royal Energy	12.9%
10 Mac Industrial Dividend Grth	12.8%

1 Year Total Return

1 CI Global Telecom RSP	-69.1%
2 Altamira RSP Science & Tech	-68.8%
3 AIM RSP Global Technology	-67.0%
4 AIM RSP Global Telecomm.	-66.6%
5 AIM RSP Amer Blue Chip Growth	-65.9%
6 CI Global Technology RSP	-65.3%
7 Spectrum RRSP Global Telec.	-63.6%
8 Mac Univ RSP World Sci & Tech	-63.4%
9 TD Science & Technology RSP	-61.3%
10 TD Nasdaq RSP Index - I	-59.6%

3 Year Total Return

1 StrategicNova Cdn High Y Bond	-11.9%
2 AGF Canadian Aggressive AllCap	-11.5%
3 Global Strategy Eur+ RSP	-10.0%
4 AGF Canadian Small Cap	-9.0%
5 Working Ventures Canadian	-8.0%
6 TD EuroGrowth RSP Fund - I	-7.9%
7 AGF Cdn Opportunities	-7.6%
8 Talvest Global RSP	-6.0%
9 AGF Canadian Aggressive Equity	-5.5%
10 Mac Univ World Growth RSP	-5.4%

5 Year Total Return

1 AGF Precious Metals	-17.9%
2 Scotia Precious Metals	-14.3%
3 Dynamic Precious Metals	-11.5%
4 Altamira Resource	-11.3%
5 CI Signature Explorer	-10.7%
6 Royal Precious Metals	-10.4%
7 AGF Canadian Aggressive AllCap	-9.6%
8 TD Precious Metals Fund - I	-9.4%
9 TD AsiaGrowth RSP Fund - I	-9.3%
10 MAXXUM Natural Resource	-8.1%

10 Year Total Return

1 Working Ventures Canadian	-0.8%
2 Mac Money Mrkt	3.8%
3 TD U.S. Money Market Fund - I	3.9%
4 Mac Industrial Growth	3.9%
5 Merrill Lynch Canadian T-Bill	4.0%
6 AGF Canadian Money Market	4.1%
7 Dynamic Precious Metals	4.1%
8 Fidelity Cdn Money Market	4.2%
9 Ethical Money Market	4.2%
10 Scotia T-Bill	4.3%

NOTES TO THE PERFORMANCE TABLES

- ScotiaMcLeod is unable to provide information on funds marked #
- Figures are average rates of return for the periods ending Oct. 31, 2001
- Source data from Bell Charts, including over 3900 funds
- Funds with total assets under \$25 million are not included
- Only "totally public" funds are ranked
- RRSP eligible funds are at least 70% 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 30% of book value

nesses. When we consider that over 99% of Canada's businesses operate with less than 500 employees, we can see that small business plays a significant role in the Canadian economy. It is these small companies who turn to Labour Sponsored Venture Capital Corporations for their financing needs.

In return for creating jobs and promoting economic growth through your investment in these companies, the government provides a tax credit of 30-35% of your investment amount up to \$5,000. For additional information on LSIFs – visit our website: www.mutualfundreporter.com/lsif or see back issue MFR 165 – November 2000.

Double Your Tax Savings When Purchased In an RRSP

When an LSIF is purchased inside an RRSP, you benefit from substantial tax savings. If you were to deposit \$5,000 into your RRSP account, the government will reduce your taxes anywhere from \$1,110 to \$2,320 – the greater your income and tax bracket, the greater your tax refund/reduction. If you invest that \$5,000 in an LSIF, you can receive an additional \$1,500 to \$1,750 in federal and provincial tax credits. The end result is that your \$5,000 investment required an initial investment of less than half of that amount.

For Example: (Assuming a \$5,000 RRSP Contribution with an LSIF Purchase)

LSIF Investment	\$5,000
15% Federal Tax Credit	\$750
15-20% Prov. Tax Credit	\$750-\$1,000
RRSP Tax Savings (@50%)	\$2,500
Total Tax Savings	\$4,000

Increase Your Foreign Investment Exposure

A larger foreign content position provides for added diversification and the potential for greater returns from exposure in larger

foreign markets and sector specific investments. When you hold an LSIF in your RRSP account, your foreign content room increases above the basic 30% limit. The additional foreign content that is permitted is 3 times the book value of the LSIF assets in your account, to a maximum of 50% of your plan's overall book value.

For Example: Suppose you purchase \$5,000 of a LSIF in 2001 in an existing RRSP account with a total book value of \$20,000:

- i) Pre-LSIF Foreign Content Limit = \$6,000 (30% of book value i.e. 30% of \$20,000)
- ii) Additional Foreign Content Room with \$5,000 LSIF purchase = \$15,000 (\$5,000 x 3)
- iii) Maximum Foreign Content capped at 50% = \$10,000 (50% of \$20,000)

Rollover Option and Redemption Restrictions

Rollover Option

If you currently hold shares in an LSIF purchased before March 5th, 1996, you can elect to 'Rollover' these shares into the same LSIF or another one of your choice and re-claim tax credits for the 2001 tax year. This is an ideal option for those of you who have maximized your RRSP contributions for the 2001 tax year. **For the clients of Carl Spiess who qualify for this rollover opportunity, you will be contacted shortly with options and instructions.**

Redemption Restrictions

Purchased before March 5th, 1996: Units redeemed prior to the 5 year anniversary require the return of the tax credits to both the Federal and Provincial Governments. Exceptions are made for individuals 65 years of age, retired or cease to be residents of Canada.

Purchased after March 5th, 1996: Units must be held for 8 years for ALL

Fund News

StrategicNova has terminated a few of their funds: the Eurotech fund, US High Yield Bond U\$, US Midcap Growth, World Bond and World Tech funds. If you hold these funds, you may have been moved into their money market fund. Call our office if you would like suggestions for reinvestment.

AGF has announced that effective December 15th, 2001 they will be merging the AGF Canadian Aggressive Equity and AGF Canadian Opportunities into the AGF Canadian Aggressive All-Cap Fund.

Team News

Effective this month, Jane-Ann Crombeen and Brenda Petrunick, longstanding members of our team, have gone on maternity leave. We wish them both all the best and a great year. Nalini Singh who is currently on maternity leave will be returning in January, 2002.

shareholders, or repayment of the tax credits will apply.

For a complete overview of the LSIF's available to you, refer to the handy insert. For more information, please call our Service Centre at: (416) 863-7777 or 1-800-387-9273 or visit our website at: www.mutualfundreporter.com/lsif.