



# INVESTMENT FUNDS

The easiest way  
to diversify your  
investments



**NATIONAL  
BANK  
FINANCIAL**



## Professional management, diversification and liquidity

*Canadians have become increasingly conscious of the difference between saving and investing. If you concentrate most of your investments in short-term savings instruments and term deposits, the value of your capital will be eroded by inflation and taxes over time. Although saving may enable you to attain a short-term goal, it cannot provide you with long-term financial security.*

Many of us have a tendency to think that only a select few blessed with wealth and financial expertise can invest. This attitude is changing rapidly as more and more people discover investment funds.

Investment funds, or mutual funds as they are often referred to, are professionally managed enterprises in which individuals pool their capital for investment, and then participate in the growth and income generated by this pool. This allows you to accomplish collectively what is so difficult to do on an individual basis.

For this reason, assets managed by Canadian investment funds have grown to over \$350 billion, and more than 30% of Canadian households have already chosen this form of investment.

If you are seeking a convenient and effective way of turning your savings into an investment with a minimum of risk, investment funds could be the right choice for you, for the following reasons.

# Categories of investment funds

| TYPE                                 | OBJECTIVES  | PORTFOLIO   | RISK FACTORS   | RSP ELIGIBILITY <sup>(1)</sup>   |
|--------------------------------------|---|---|--|--|
| <b>1. Money market funds</b>         | Regular interest income and very high capital safety.   | Short-term debt instruments issued in Canadian dollars (Canadian money market funds).<br>Short-term debt instruments issued in US dollars (US money market funds).  | The income generated by these funds fluctuates as interest rates prevailing in the Canadian or US money markets increase or decrease.<br>The net asset value per unit of a money market fund is maintained at a fixed price, so these funds offer a very high capital safety.  | Generally, Canadian money market funds are fully eligible.<br>US money market funds are eligible, subject to foreign content limits, unless the securities held by the fund are debt instruments of Canadian issuers. In this case, the fund will be fully eligible. |
| <b>2. Fixed income funds</b>         | Regular interest and/or dividend income and preservation of capital.  | First mortgages on properties located in Canada (mortgage funds).<br>Medium and/or long-term government or corporate bonds (bond funds).<br>Preferred shares (dividend funds).  | The net asset value per unit of these funds will have a tendency to increase when interest rates fall and vice versa.<br>The longer the average maturity of the mortgages or bonds held by an individual fund, the greater the fluctuations in the net asset value per unit.   | In general, fixed income funds are fully eligible.   |
| <b>3. Balanced funds</b>             | Interest and/or dividend income.<br>Long-term capital growth and preservation of capital during economic slowdowns.   | Money market instruments, government and corporate bonds, preferred and common shares of Canadian corporations.   | The asset mix will vary based on the fund manager's opinion on current economic conditions, and forecasts of future developments.<br>The net asset value per unit of each of these funds depends in large part on the asset allocation decisions of its managers, but also on the evolution of interest rates and the stock market.  | In general, balanced funds are fully eligible.   |
| <b>4. Canadian equity funds</b>      | Long-term capital growth and preservation of capital during economic slowdowns.<br>A multitude of different funds with varying degrees of risk and potential return are available within this category.   | Common shares of corporations listed on major Canadian stock exchanges.<br>Managers of lower variability equity funds will favor shares of blue chip corporations. Managers of higher variability funds will look to shares of smaller capitalization corporations which are enjoying rapid growth. | The net asset value per unit of both lower and higher variability equity funds will have a tendency to follow the evolution of the Canadian stock market.<br>The evolution of blue chip share prices will have a greater impact on the net asset values of lower-variability funds.<br>The evolution of share prices of high growth, low capitalization corporations will have a greater impact on the net asset values of higher variability funds. | In general, Canadian equity funds are fully eligible.  |
| <b>5. US equity funds</b>            | Long-term capital growth by taking advantage of the numerous investment opportunities available in the United States.   | Shares of blue chip or high growth US corporations, depending on the investment philosophy of the fund.   | The net asset value per unit of US equity funds will have a tendency to follow the evolution of the US stock market. Individual funds' performances will be dependent on the industrial sectors and companies favoured by its managers.<br>The evolution of the exchange rate between the Canadian and the US dollar will also influence the net asset values per unit of these funds.   | US equity funds are generally eligible, subject to foreign content limits.   |
| <b>6. International equity funds</b> | Long-term capital growth by taking advantage of the numerous investment opportunities available in the world's major industrialized countries.  | Shares of corporations traded on the stock markets of the world's major industrialized countries.   | The net asset value per unit of each of these funds will have a tendency to follow the evolution of share prices in countries favoured by its managers.<br>The evolution of the exchange rates between the Canadian dollar and the currencies of countries in which the fund is invested will also influence the net asset value per unit of an international equity fund.   | International equity funds are generally eligible, subject to foreign content limits.  |
| <b>7. Real estate funds</b>          | Long-term capital growth and rental income.<br>In some cases the fund gives unit-holders a tax advantage by allowing them a deduction for the capital cost allowance on properties held in the portfolio. | Multiple residential buildings, office and commercial buildings.  | The net asset value per unit of a real estate fund will depend on the quality of the properties it owns, the occupancy rates of these properties and current interest rates.   | In general, real estate funds are fully eligible.  |

(1) Your National Bank Financial Investment Advisor will be able to give you information on the RSP eligibility of the specific fund you select.

## **1. Professional management**

For those who lack the time and expertise to follow financial markets on a day-to-day basis, as well as the ability to evaluate the potential of a wide variety of individual securities, investment funds offer an ideal solution. They employ full-time professional managers who constantly monitor portfolios, choosing securities, buying and selling as necessary.

These managers have access to the information, technical resources and market knowledge necessary to ensure the safety of the invested capital and to achieve superior investment returns.

When you purchase units of an investment fund, you are essentially hiring your own team of portfolio managers. This does not eliminate the need to follow your investments but it enables you to delegate day-to-day decisions so as to concentrate on strategic ones.

## **2. Diversification**

Financial constraints limit the average investor to owning only a few stocks and bonds at any one time. While this can simplify the task of monitoring your portfolio, you may have to bear a much higher overall risk by having your money invested in a limited number of securities.

Apart from market risk (the risk that the overall market will perform poorly), you are subject to individual risk. This is the risk that the individual securities in your portfolio will underperform.

Investment fund managers cannot eliminate market risk but they are able to greatly reduce exposure to individual risk by collectively investing your money and many other people's in a large number of different securities. By "putting your eggs in many baskets", portfolio managers are effectively reducing your overall risk.

### **3. Liquidity**

Investment fund companies will repurchase units from you on short notice (typically 24 hours), at their current market value. Furthermore, you can redeem the exact number of units required to meet your needs, rather than having to liquidate a round number.

With investment funds, you can have quick access to your cash in an emergency or to take advantage of new investment opportunities.

### **4. Superior returns**

Professional management and diversification have enabled many investment funds to achieve long-term results far superior to what the average investor could hope for by buying stocks and bonds on an individual basis. While even the best funds may underperform during certain periods, a well-managed fund should equal or surpass market indices over the longer run, while exhibiting lower volatility.

Comparative statistics published regularly in major financial newspapers should not be taken as a guarantee of future performance, but they do provide a good indication of the quality of a fund's management.

### **5. A wide variety of investment objectives**

Investment funds can be divided into 7 basic categories according to investment objectives and the types of securities held. This variety is one of the most attractive features of investment funds. These 7 categories are described in the table overleaf.

With the help of your Investment Advisor, you select one or more categories according to your investment objectives and then choose the best funds in these categories.

You may also switch from one fund to another with a different investment objective when your personal situation changes, or when you adjust your investment portfolio to take advantage of new economic developments.

## 6. Convenience

Investment funds also help reduce your paper-work by automatically providing you with records of dividend distributions, realized capital gains and losses, and year-end statements for income tax purposes.

Investment funds can give you the benefits of a diversified, well-managed investment portfolio, with the convenience of a simple savings account.

## 7. Special features

In addition to the benefits already mentioned, most investment funds come with a variety of special features designed to increase their flexibility. Listed below are just a few of the options frequently offered.

### Periodic purchase plans

You can choose to have your bank automatically forward a pre-determined amount to the fund of your choice each month, quarter or year, to purchase units. Naturally, the amount and frequency can be changed at any time upon request. This feature offers several benefits. First, it is automated, and therefore an easy and painless way to accumulate wealth. Second, by investing a little each month you avoid the dilemma of trying to pick the "best" time to invest. Third, regularly committing a fixed amount to the market each month is the most risk-free way of investing.

With a periodic purchase plan you establish a new cost base with each monthly purchase, which ultimately allows you to use market fluctuations to your advantage. Declining stock and/or bond prices allow you to purchase more units with your fixed monthly investment. This gives you greater leverage when prices rise again. Ask your Investment Advisor for more information on the advantages of periodic purchase plans.

### Automatic reinvestment of income and capital gains

You can enjoy the benefits of compounding without the inconvenience of having to keep track of your earnings and making the reinvestment transactions yourself. The automatic reinvestment feature also enables you to keep small amounts productively working for you, which would not otherwise be possible.

### Transfer between related funds

You can usually transfer your investments between funds offered by the same management company, at little or no cost.

### Systematic withdrawal plans

With this feature, you can withdraw a fixed amount from a fund each month, and keep the rest of your capital productively invested. Withdrawal plans let you set up an income stream that corresponds exactly to your needs.

### Registered plans

A wide variety of investment funds are eligible for registered plans such as the RSP (retirement savings plan), RIF (retirement income fund) and ESP (education savings plan).

*More than 2,500 different investment funds are available in Canada. We monitor funds and recommend those which we feel offer the best combination of historic performance, management excellence and special features.*

*Your National Bank Financial Investment Advisor will offer you independent advice on investment funds geared to your personal circumstances and financial objectives.*

**Contact our office nearest you for further information.**

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