

## Macquarie EquityPlus Case Study

We take the risks, you take the profits.

### Case Study Introducing Paul

Paul, a resident of Ontario, is a 42 year old doctor earning \$250,000 a year. As with most affluent investors, his annual savings are often well above the limits of RRSPs and TFSAs. Paul maximizes his annual RRSP contribution in order to build his wealth, but he's frustrated that his ability to do so is limited to only \$22,000 per year. Paul is looking to invest in the Canadian stock market over the medium term, but he wants protection from potential losses, given today's volatile market.

After consulting with his investment advisor, Paul decides to purchase a \$100,000 portfolio of TSX listed securities using Macquarie EquityPlus, investing for five years. The portfolio and cash flows are set out below:

Macquarie EquityPlus – Cash flows:						
	Year 1	Year 2	Year 3	Year 4	Year 5	
Interest Rate	13%	13%	13%	13%	13%	
Interest Expense	-\$13,000	-\$13,000	-\$13,000	-\$13,000	-\$13,000	
Dividends Received*	\$4,000	\$4,240	\$4,494	\$4,764	\$5,050	
<b>Pre-Tax cash flow</b>	<b>-\$9,000</b>	<b>-\$8,760</b>	<b>-\$8,506</b>	<b>-\$8,236</b>	<b>-\$7,950</b>	
Tax on Dividends (@26.57)	-\$1,063	-\$1,127	-\$1,194	-\$1,266	-\$1,342	
Tax saving from Interest Deduction (@46.41)	\$6,033	\$6,033	\$6,033	\$6,033	\$6,033	
<b>Tax Impact</b>	<b>\$4,970</b>	<b>\$4,907</b>	<b>\$4,839</b>	<b>\$4,768</b>	<b>\$4,692</b>	
Pre-Tax cash flow	-\$9,000	-\$8,760	-\$8,506	-\$8,236	-\$7,950	
Tax Impact	\$4,970	\$4,907	\$4,839	\$4,768	\$4,692	
<b>After-Tax Financing Cost (\$)</b>	<b>-\$4,030</b>	<b>-\$3,853</b>	<b>-\$3,667</b>	<b>-\$3,468</b>	<b>-\$3,258</b>	<b>-\$18,276</b>
<b>After-Tax Financing Cost (%)</b>	<b>-4.03%</b>	<b>-3.85%</b>	<b>-3.67%</b>	<b>-3.47%</b>	<b>-3.26%</b>	<b>-18.28%</b>

#### DIVIDENDS AND POTENTIAL TAX BENEFITS HELP REDUCE THE FINANCING COST

The net after tax cost to Paul to hold the portfolio for the full five years is \$18,276. Over this term, Paul benefited from rising dividends across the portfolio, which reduced his year-over-year after tax holding cost. It is this after-tax holding cost that represents the breakeven point for Paul on the strategy.

Macquarie EquityPlus – Security level protection						
	Stock A	Stock B	Stock C	Stock D	Stock E	
Protected Price	\$50.00	\$40.00	\$60.00	\$45.00	\$35.00	
Protected Value	\$15,000	\$20,000	\$25,000	\$30,000	\$10,000	\$100,000
Financed Amount	\$15,000	\$20,000	\$25,000	\$30,000	\$10,000	\$100,000
Price at Maturity	\$65.00	\$32.00	\$111.00	\$9.00	\$87.50	
Price Change (% over term)	30%	-20%	85%	-80%	150%	
<b>Market Value at Maturity</b>	<b>\$19,500</b>	<b>\$16,000</b>	<b>\$46,250</b>	<b>\$6,000</b>	<b>\$25,000</b>	<b>\$112,750</b>
Profit/Loss without Macquarie EquityPlus	\$4,500	-\$4,000	\$21,250	-\$24,000	\$15,000	\$12,750
<b>Profit/Loss with Macquarie EquityPlus</b>	<b>\$4,500</b>	<b>\$0</b>	<b>\$21,250</b>	<b>\$0</b>	<b>\$15,000</b>	<b>\$40,750</b>

#### UNPROFITABLE SECURITIES WILL NOT BE OFFSET AGAINST PROFITABLE ONES

\* Assumes dividends increase by 6% per year. All dividends received in this example are "eligible dividends" for purposes of the Tax Act. Generally, eligible dividends in the 2010 taxation year are subject to a gross-up of 44% and a federal and Ontario dividend tax credit rate of 17.97% and 6.4% respectively, resulting in a marginal tax rate of 26.57%. The tax saving from the interest deduction is calculated at the rate of 46.41%, being the highest combined marginal tax rate in Ontario for 2010.

The case study above is an example only. It should not be taken as personal advice or as an indication of actual or future performance, or of the likely outcome of investing in Macquarie EquityPlus. Refer to the Information Folder and seek your own professional legal, taxation and financial advice before making any investment decision.



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## Case Study Paul's Outcome

If, at maturity, any of the stocks selected are below their initial purchase price, this loss would not be offset against the gains made on the other positions. In this example, the amount Paul would be required to repay in relation to stocks B and D would be reduced to their current market value, ensuring Paul does not incur a loss on these securities. Paul is, however, able to retain all the gains on stocks A, C and E. Paul's total gain on the portfolio is therefore \$40,750 under the Macquarie EquityPlus program, versus just \$12,750 outside of the Program.

Paul's total gain, net of holding costs, is \$22,474, representing a return on his after tax holding cost of 123%. Assuming he sells the securities at maturity, he will crystallize a capital gains tax liability of \$9,456, for a total after-tax gain of \$31,294 – a return on his after-tax holding cost of 71%.

## Making an application is quick and easy

To apply, you and your Investment Advisor simply complete the MEP application form (available online or from MGI). Your Investment Advisor faxes the completed and signed application form to Macquarie Global Investments, along with the required supporting client documentation.

## Key Risks

As with any investment decision, you need to consider an investment in Macquarie EquityPlus carefully and in light of your individual circumstances.

Before deciding to participate in the Program, you should obtain the Information Folder and the related contracts and consider their content carefully. The Information Folder and contracts are available at [www.macquarieglobalinvestments.ca](http://www.macquarieglobalinvestments.ca).

You should also obtain financial, legal and taxation advice before making any decision about whether to participate in the Program. In particular, you should understand the tax consequences and payment obligations associated with your participation in the Program.

## Macquarie EquityPlus At A Glance

<b>Eligible investors</b>	Individuals who are residents in Canada (excluding residents of Quebec and the Territories) for the purposes of the Income Tax Act (Canada) can participate
<b>Financing term</b>	You select from 1-5 years
<b>Minimum financing amount</b>	\$100,000. There is no maximum; however MSFL reserves the right to decline or limit any application
<b>Financing ratio</b>	100% of your initial purchase is financed by MSFL
<b>Capital protection</b>	On maturity date, Macquarie will reduce the payment obligation by the amount of the capital loss on any security within the client portfolio. This feature provides 100% protection from capital losses at the individual security level. Gains from profitable investments are not offset by any unprofitable ones
<b>Interest rates</b>	The interest rate will vary depending on the securities you choose and the term of your financing. Both fixed and variable interest rates are available
<b>Tax</b>	The program allows you to take advantage of potential interest deductions and favourably taxed dividends. These benefits may reduce your net cost of financing. See section 10 of the Information Folder for more information on "Canadian federal income tax considerations"
<b>Choice of securities</b>	You can select your own portfolio of TSX listed securities and ETFs from the Macquarie published eligible securities list
<b>Dividends</b>	You own the securities and benefit from all ordinary course dividends on the selected securities
<b>Margin calls</b>	There are no margin calls - allowing you peace of mind
<b>Trading</b>	The Limited Trading feature allows you to magnify your profit potential. You can trade in and out of your securities, on a limited basis, without triggering Early Exit costs.

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