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**2023 fiscal implications for the DFS GIF - Canadian Small Cap Equity – NEI
and DFS GIF – Growth and Income - NEI**

Frequently asked questions

October 10, 2023

Why contract owners may experience tax implications if they have not traded in 2023?

Although contract owners may not have proceeded to any kind of transaction, the *DFS GIF - Canadian Small Cap Equity - NEI* and *DFS GIF – Growth and Income - NEI* hold units of an underlying fund affected by transactions made by the fund manager Northwest & Ethical Investments L.P. (NEI) that have generated taxable dispositions. If units of these guaranteed investment funds (GIF) are allocated to a non-registered contract, a portion of the GIF's capital gain or loss may be allocated to the contract owner. A portion of the capital gains or losses arising from these transactions could be allocated to non-registered contract owners.

Why are funds managed by Northwest & Ethical Investments L.P. (NEI) have more significant capital gains in 2023?

As part of its investment management, NEI has changed the sub-advisor for the management of the NEI Canadian Small Cap Fund. At the same time, NEI also plan to change the sub-advisor overseeing the Canadian equities held in the NEI Growth and Income Fund.

These changes in sub-advisors have led (or will lead) to changes in the Funds' investment strategy, resulting (or that will result) in transactions on several securities.

Please see the NEI press release for the NEI Canadian Small Cap Equity Fund :

<https://www.neiinvestments.com/content/dam/nei/docs/en/press-releases/2023/NEI-SPFiling-PR-en.pdf>

Please see the NEI press release for the NEI Growth and Income Fund:

<https://www.neiinvestments.com/content/dam/nei/docs/en/press-releases/2023/NEI%20Press%20Release%20-%202023.08.17.pdf>

When will these changes be made?

The sub-advisor for the NEI Canadian Small Cap Equity Fund changed on August 1, 2023.

The change of sub-advisor for the NEI Growth & Income Fund is expected to occur on or around November 21, 2023.

Have these changes had an impact on the DFS GIF funds?

The *DFS GIF - Canadian Small Cap Equity - NEI* and *DFS GIF – Growth and Income - NEI* are directly impacted.

Are the fees paid by contract owners changed?

No

Has the investment objective of the *DFS GIF - Canadian Small Cap Equity - NEI* fund changed?

The change of sub-advisor has not resulted in any change to the investment objective of the *DFS GIF - Canadian Small Cap Equity - NEI*.

Has the investment objective of the *DFS GIF – Growth and Income - NEI* fund changed?

The change of sub-advisor has not resulted in any change to the investment objective of *DFS GIF – Growth and Income - NEI*.

Why are there tax implications?

When a sub-advisor changes and its investment strategy differs from that of the previous sub-advisor, the new sub-advisor trades portfolio securities to adjust the fund's allocation with its strategy. Where a GIF is composed of units of an underlying fund that has engaged in trading, there may be tax implications for non-registered contract owners who have selected this GIF. This could result, for those contract holders, in capital gains or losses for the year 2023.

Do we have an estimate of the tax implications by fund?

The following are high-level estimates for the year 2023 of the percentage of capital gain on net assets for each of the DFS GIF funds managed by NEI that are impacted by these changes. These estimates are based on data available as at September 14, 2023, and relate solely to major transactions carried out or anticipated by NEI in connection with sub-advisor replacements for the NEI Canadian Small Cap Fund and the Canadian equity portion of the NEI Growth and Income Fund. Other transactions by NEI during the year may also have generated capital gains and losses for non-registered contract owners.

DFS GIF	Estimated percentage of capital gain on net assets	Contracts for which these funds are available			
		Helios2	Helios	Millennia III – New Era (Series 3)	Millennia III – Classic (Series 3)
DFS GIF – Growth and Income - NEI	5%	✓	✓	✓	
DFS GIF - Canadian Small Cap Equity - NEI	9%	✓	✓	✓	✓

Why can't we provide accurate tax impact estimates for each contract owner before the end of the year 2023?

When GIF units are allocated to a non-registered contract, a portion of the GIF's capital gain or loss may be allocated to the contract owner. However, it is difficult to estimate this gain or loss for each contract owner, since the allocation depends in particular on their transactions during the year. Their gains and losses will be communicated to them individually on the tax slips sent out at the beginning of 2024.

There are no tax implications for owners of registered contracts (RRSPs, RRIFs, TFSAs, LIRAs, LIFs, etc.).

Here is a simplified example of a GIF for which the estimated capital gain on net assets would be 5% (estimated capital gains of \$2.5M on total net assets of \$50M) with 5 fictitious clients whose percentage of allocated gains varies from the initial percentage of estimated gains for the fund:

Client	Asset	Capital gains on withdrawal moment	Allocated capital gains on withdrawal	Remaining allocated capital gains	Capital gains as % of assets
Funds	50,000,000		500,000	2,000,000	5.0%
A	350,000		0	14,000	4.0%
B	50,000		0	2,000	4.0%
C	250,000		0	10,000	4.0%
D*	100,000	2,000	2,000	0	2.0%
E*	150,000	12,000	12,000	0	8.0%

*Client who redeemed their contract in 2023

For more information on the taxation of guaranteed investment funds, please consult the following brochure:

<https://www.webi.desjardinsassurancevie.com/en/DocumentsWebi/15200E.pdf>

When and how did we communicate these changes and tax implications?

We are going to publish a Webi newsflash on October 24, 2023 to inform advisors of changes and tax implications regarding the DFS Guaranteed Investment Funds whose underlying fund is a fund affected by NEI transactions.

If you have any questions or need more information, speak to your Regional Sales Director, Sales Consultant, or GIF Client Service (see contact information below):

Atlantic

Jeff Farquhar

Regional Sales Director
jeff.farquhar@desjardins.com
Phone: 902-499-2239

Tyler Butters

Regional Sales Consultant
tyler.butters@desjardins.com
Phone: 902-494-1092
Toll-free phone: 1-877-906-5551, ext. 5593032

Ottawa and Eastern Ontario

Cem Esen

Regional Sales Director
cem.esen@desjardins.com
Phone: 613-859-2779

Silviu Burlibasa

Regional Sales Consultant
silviu.burlibasa@desjardins.com
Phone: 613-224-8478
Toll-free phone: 1-877-806-5551, ext. 5591118

Greater Toronto Area – East

Sadaf Chowdhury

Regional Sales Director
sadaf.chowdhury@desjardins.com
Phone: 416-729-7087

Tyson Kash

Regional Sales Consultant
tyson.kash@desjardins.com
Phone: 416-926-5012
Toll-free phone: 1-877-906-5551, ext. 5596598

Toronto – Downtown

Jacob Lamanna

Regional Sales Director
jacob.lamanna@desjardins.com
Phone: 647-239-9237

Harrison Chen

Regional Sales Consultant
harrison.chen@desjardins.com
Phone: 416-607-0098
Toll-free phone: 1-877-906-5551, ext. 5590098

Toronto – Downtown

Jackson Lin

Regional Sales Director
jackson.lin@desjardins.com
Phone: 416-938-0816

Thomas Jakovljevic

Regional Sales Consultant
thomas.jakovljevic@desjardins.com
Phone: 416-607-3198

Greater Toronto Area – North and Northern Ontario

Kaitlyn Davis

Regional Sales Director
kaitlyn.davis@desjardins.com
Phone: 705-794-3729
Toll-free phone: 1-877-9065551, ext. 5590062

Vacant

Regional Sales Consultant
Phone:
Toll-free phone:

Greater Toronto Area – West

George Iovankas

Regional Sales Director
georgeiovankas@desjardins.com
Phone: 416-402-5378
Toll-free phone: 1-877-906-5551, ext. 5592213

Emelia Dandan

Regional Sales Consultant
emelia.dandan@desjardins.com
Phone: 416-926-5013
Toll-free phone: 1-877-906-5551, ext. 5591635

Golden Horseshoe and Kitchener – Waterloo

Daniel Mondou

Regional Sales Director
daniel.mondou@desjardins.com
Phone: 416-659-6382

Nicolas Pirraglia

Regional Sales Consultant
nicolas.pirraglia@desjardins.com
Phone: 416-926-5017
Toll-free phone: 1-877-806-5551, ext. 5590024

Southwestern Ontario

Bronson Fridal

Regional Sales Director
bronson.fridal@desjardins.com
Phone: 519-767-8715

Michael Bejgu

Regional Sales Consultant
michael.bejgu@desjardins.com
Phone: 519-430-6450
Toll-free phone: 1-877-806-5551, ext. 5594047

Manitoba and Saskatchewan

Will Hall

Regional Sales Director
will.hall@desjardins.com
Phone: 205-588-7331

Leigh Middleton

Regional Sales Consultant
leigh.middleton@desjardins.com
Phone: 403-774-2006
Toll-free phone: 1-877-398-2470, ext. 5025704

Calgary and Northern Alberta

Alejandro Ayala

Regional Sales Director
alejandro.ayala@desjardins.com
Phone: 780-995-1833

Calgary and Southern Alberta

Benjamin Sylvester

Regional Sales Director
benjamin.sylvester@desjardins.com
Phone: 403-589-4490

Vacant

Regional Sales Consultant
vitaliy.kan@desjardins.com
Phone: 403-532-6605

British Columbia – Fraser Valley, Lower Mainland, Interior and Northern

Samuel Marceau

Regional Sales Director
samuel.marceau@desjardins.com
Phone: 236-334-7707

Zach Boyer

Regional Sales Consultant
zach.boyer@desjardins.com
Phone: 604-235-2465

British Columbia – Vancouver Island, Tri-Cities and Lower Mainland

John Li

Regional Sales Director
john.li@desjardins.com
Phone: 604-349-6168

Brandon Crowther

Regional Sales Consultant
brandon.crowther@desjardins.com
Phone: 604-718-4427
Toll-free phone: 1-877-398-2470, ext. 5024427

Quebec – Capitale-Nationale, Chaudière-Appalaches, Saguenay, Côte-Nord, Bas St-Laurent and Gaspésie

Marie-Chantal Landry

Regional Sales Director
marie-chantal.a.landry@desjardins.com
Phone: 418-955-2447

Dave Desmarattes

Regional Sales Consultant
dave.desmarattes@desjardins.com
Phone: 418-647-5445
Toll-free phone: 1-877-750-8700, ext. 5574853

Quebec – Outaouais, Laurentides, Lanaudière, Mauricie and Abitibi

Jean-François Ratelle

Regional Sales Director
jfratelle@desjardins.com
Phone: 514-891-7267
Toll-free phone: 1-877-750-8700, ext. 5578656

Nathalie Nepveu

Regional Sales Consultant
nnepveu@desjardins.com
Phone: 514-285-3141
Toll-free phone: 1-877-750-8700, ext. 5578585

Quebec – Montreal and Laval

Patrick Jean-Mary

Regional Sales Director
patrick.jean-mary@desjardins.com
Phone: 514-213-4243

Sima Etezadi

Regional Sales Consultant
sima.a.etezadi@desjardins.com
Phone: 514-285-3065
Toll-free phone: 1-877-750-8700, ext. 5573065

Quebec – Montreal/Downtown

Ahmad Kraidli

Regional Sales Director
ahmad.kraidli@desjardins.com
Phone: 514-607-9449

Jérôme Carrier

Regional Sales Consultant
jerome.p.carrier@desjardins.com
Phone: 514-285-3142
Toll-free phone 1 877 750-8700 ext. 5570270

Quebec – Montérégie, Centre-du-Québec and Eastern Townships

Jay Kamli

Regional Sales Director
jay.kamli@desjardins.com
Phone: 514-212-5830

Eric Ayala

Regional Sales Consultant
eric.ayala@desjardins.com
Phone: 514-281-2327
Toll-free phone: 1-877-750-8700, ext. 5552327

GIF Client Service

1-877-647-5435
gifclientservice@DFS.ca