



PERSPECTIVES ON BUSINESS & FINANCIAL MANAGEMENT

# the Capital Partner

*"Preserving, Protecting & Propagating Capital through Prudent Planning"*

## Bill C-208 Receives Royal Assent Act Aids Farmers, Fishers & Small Businesses with Family Succession Planning

**O**N JUNE 23, Bill C-208 received Royal Assent, one day after having been approved by the Canadian senate.

Bill C-208 was tabled as a private member's bill by *Brandon-Souris* M.P. **Larry MacGuire**. Going forward it will be known as an "Act to Amend the Income Tax Act (transfer of small business or family farm or fishing corporation).

### The Act's Objective

The Act is aimed at allowing the intergenerational transfer of certain family businesses so they might receive the same tax treatment and consideration as businesses sold to third parties.

Prior to the bill being enacted, anti-avoidance rules in the Income Tax Act (ITA) treated intergenerational transfers of a business as a dividend versus a capital gain. Senior family members could not take advantage of the lifetime capital gains exemption if they wished to sell their farm or business to a younger family member.

Bill C-208 changes that. Under the new act, family members will have access to the lifetime capital gains exemption. The Act will also provide benefits when dividing a family business amongst siblings.

"Parents will no longer have to be given a false choice of having to choose between a larger retirement

package by selling to a stranger, or a massive tax bill because they sold to a family member - their own child or grandchild," said Maguire, who had received support from Keystone Agricultural Producers and the Canadian Federation of Agriculture.

### Critical Time for Farm Succession

With billions in family farm assets needing to change hands in the coming years, the passage of this Bill comes at a critical time for the sector.

"The average age of Canadian farmers is now over 55 years. It continues to climb and farm debt is at an all-time high. If we want to ensure the next generation of family farms is in strong financial health to capitalize on the immense opportunities facing our sector and drive Canada's economic recovery, we cannot burden them with undue tax liabilities from day one," said CFA President **Mary Robinson**.

With more than 95% of Canadian farms owned and operated by Canadian farm families, Bill C-208 will contribute directly to the sustainability of thousands of family farms in the next few years alone.

The 199 (majority) votes in favour of the bill came largely from the Conservative Party. There were 128 opposing votes from the Liberal benches including the cabinet and the Minister of Agriculture, **Marie-Claude Bibeau**.

### CANADA DAY ISSUE

#### THE FAMILY BUSINESS

A private member's bill aimed at helping family farms and family businesses with succession planning and taxes has been passed by Canada's Parliament.

*page 1*

#### THE CAPITAL PARTNER INTERVIEW

**Hardev Bains** has long been an impassioned value investor. In 2003, he set up Lionridge Capital Management - a Canadian firm managing clients' capital using a Warren Buffett approach

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#### GIVING IT ALL AWAY

In 2006, **Warren Buffett** pledged to distribute his Berkshire Hathaway shares to philanthropy. Since then, he's given 1/2 of it away. His latest donation was a mere \$4.1 billion."

*page 5*

#### CASE FILES

In a recent case, the BC Supreme Court over-turned the will of a father who abandoned his twin daughters decades ago.

*page 8*

## GORDO'S CAPITAL COMMENT



## "Happy Canada Day! "

### For Generations of Canadians, It's a Great Day to Celebrate

**T**HERE'S AN EXPRESSION about family wealth amongst advisors that says, "the first generation makes it, the second generation spends it, and the third generation blows it."

Forbes magazine has suggested only 5% of the affluent have inherited large scale wealth. And, in his classic book, *The Millionaire Next Door*, Thomas Stanley argued that the majority of millionaires had created wealth over one generation.

Creating & sustaining family wealth requires a long term time horizon, planning, implementing, monitoring and updating. It's why the pages of this newsletter are filled with ideas and opinions, legal interpretations, legislative changes, tax and regulatory updates, personal stories and narratives. All are an effort to help you be more knowledgeable and informed when managing your family's time and resources.

On page one, an amendment to the Income Tax Act should help family farms and family businesses with succession planning by providing some tax relief.

On page five, the Oracle of Omaha shares some of his insights and ideas

about philanthropy and just how much he thinks his children should receive.

The interview in this edition features a discussion with **Hardev Bains**, an ardent value investor and one of the country's most business minded portfolio managers.

And, from the case file... a story about a BC Court overturning a father's will that had left no provisions for his disinherited twin daughters (don't try this at home, but he may have got away with it if he had spoken to an astute financial advisor. Ask me how).

I don't know about you, but I'm happy to live in country - and a province, where a father can't simply cut out his progeny with the stroke of a pen.

These days, it seems like there is no shortage of talking heads ready to detract from the many successes Canadians have achieved and the countless opportunities we enjoy.

Even the prime minister seems measured in his enthusiasm for things Canadian. Then again, he is a third generation "trust kid." That's the generation... that blows it, right?

Happy Canada Day to you and your family. ○

### *the Capital Partner*

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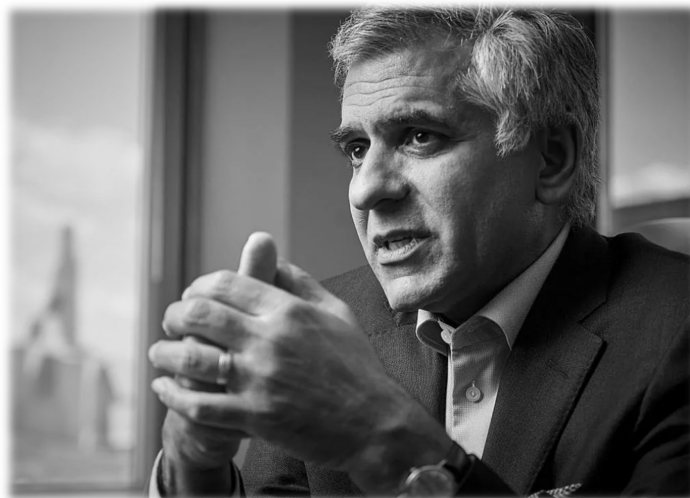
# Bains on Minding His Clients' Businesses

**Hardev Bains** has been a dedicated practitioner of value investing for decades. He started in the financial industry in 1994, initially working as a lawyer in corporate finance & merchant banking. He then held the position of Vice-President, U.S. Equities with AIC Group of Funds - a Canadian firm known for its Buffett style of investing.

In 2003, he established Lionridge Capital Management. It's a boutique investment counsel firm practicing a disciplined, fundamental value investing approach - free of the parameters and constraints often placed on managers at large institutions.

In March of this year, he was the guest speaker at the **Ben Graham Centre for Value Investing**, hosted by the Ivey Business School on the campus of the University of Western Ontario.

The C.P. spoke with Mr. Bains at the end of June.



**TCP:** I want to start by asking you about your career path. You have a law degree, an MBA and a CFA designation. How did you come to be a portfolio manager?

**H.B.** I studied Economics and Political Science at the University of Manitoba. The final year of studies offered specialty courses in capital markets. The material was pretty theoretical, but it piqued my interest. I completed a law degree, articulated and practiced for about 3 years.

When practicing law, I worked for a firm that filed national security syndications for Manitoba. The position provided a window into the capital markets. It was interesting work and I decided to pursue finance.

I completed an MBA at the Ivey School of Business at Western. At the time, the curriculum relating to investment management was largely focused on "buy side" investing. And, it was also focused on quantitative strategies, results and returns. More theory, but it still didn't answer the questions I had.

Then, I came across an article that talked about investor **Warren Buffett** and his approach. When purchasing stock or shares of a company, he viewed it as though he were buying

the entire enterprise much like a business owner would. That was a different paradigm from what I had been taught in business school. It took hold.

That was the 1990s. Information and material wasn't nearly as available as it is today. I scrambled to read whatever books I could find about Buffett, like: **Roger Lowenstein's** "*Buffett: The Making of an American Capitalist*" or **Robert G. Hagstrom's**, "*The Warren Buffett Way*." It became a path I wanted to pursue, but how?

I saw an article in the paper. **Larry Sarbit**, a former Investor's Group U.S. Value manager had joined AIC and was managing a fund for them from Winnipeg. I approached him and was hired. It was a good fit. I worked there until 2003 when I started Lionridge Capital Management.

**TCP:** I know Berkshire Hathaway and Fairfax Financial are holdings in your portfolio. Your investment management style is influenced by **Ben Graham**, **Warren Buffett** and **Prem Watsa**. What is it about their approach or investment personalities that resonates with you?

**H.B.** It's the perspective that publicly traded shares are actually pieces of

bona fide companies. It seemed the best investors didn't just see "numbers on a screen." They were looking to see what the companies were about.

They'd ask questions like what the business would be worth as a private company and attempt to assess the underlying value. Then, once they'd invested, they would have the patience to hold onto the companies as long as they were creating value. And, they'd stick with their decision as long as the investment was reasonably priced.

Trading in and out of stock doesn't create value. It's the companies that create value. When a profitable business is run and operated by honest and competent management, it acts as a compounding machine, creating greater amounts of shareholder equity and wealth over the long run.

Like Buffett and Watsa, my team and I strive to identify and invest in those types of companies.

**TCP:** Buffett and Munger talk about knowing one's "circle of competence." What is unique about how Lionridge handles money versus other money managers? Does your law background assist with due diligence?

(Continued on page 4)

## THE CAPITAL PARTNER INTERVIEW...

## Bains on Business Interview Continued

(Continued from page 3)

**H.B.** First, we stick to things we can understand. That eliminates countless mediocre, non-profitable companies. It also eliminates startups, etc.

I don't know enough about biotech companies to do any sort of meaningful valuation. But, that's okay. It narrows our universe and we can concentrate on the businesses we do understand. We don't feel compelled to mimic an index or over diversify. We're investors, not speculators.

As for having a law degree, sometimes it has advantages. For example, Manulife is one of our long term holdings. A few years ago, **Mosten Investments** - a Saskatchewan firm started "trafficking" universal life policies issued in the 1990s. Those policies had no limits on their "dump in feature" and they had guaranteed interest rates of 3-4%.



In theory, the firm could have deposited an infinite number of dollars into the policies and Manulife would have been obligated to pay higher rates. With rates at record lows, it could have bankrupted the company.

However, Manulife took the firm to court and prevailed. We were fairly certain they would. Knowledge of finance, insurance and contract law suggested the courts wouldn't enforce those policy terms. Neither the government nor the regulators would have wanted to see major financial institutions like Manulife or BMO Insurance insolvent because of an obscure policy clause or a one sided interpretation. That's an instance where a background in law was advantageous.

**TCP:** How do you define risk? What steps do you take to manage that risk?

**H.B.** Risk is simply the "possibility of a permanent capital loss." That's a different view than the industry as a whole. A number of managers tend to associate risk with changes in price - regardless of underlying business value. And, the industry tends to measure risk in terms relative terms vs. absolute terms. If you beat the index by two percentage points but you sustain negative returns, what good is that? That won't create or sustain long term wealth.

We see risk in absolute terms. We consider both quantitative and qualitative factors when buying and holding businesses. We want to have a high degree of certainty about the sustainability of future revenues, income and cash flows. We want to ensure companies have a "competitive advantage or a competitive position" and valuations will strengthen over the long term.

**TCP:** You emphasize a "business perspective," how do you value a company's worth?

**H.B.** It boils down to making conservative assumptions about future cash flows.

Some managers justify valuations by tweaking the DCF (*discounted cash flow*) model. When assessing the value of a company "we don't think you can be precise, but you can be accurate." We ultimately want the company to be worth more than what we paid for it so we factor in a "margin of safety." That usually means a discount or a hurdle rate of a minimum ten percent, regardless of the "risk free rate."

Given the low-rate environment we're in, many institutional managers believe lower rates are justified. But, if rates rise - and they will at some point, those lower rate assumptions could come back to haunt them and erode their client's capital.

**TCP:** How much consideration do you give to taxes - at the corporate, shareholder and client level?

**H.B.** Our management decisions are NOT tax driven. We don't want to employ investment strategies where the tail wags the investment dog. Many "tax driven" strategies turn out badly.

Having said that, our long-term approach is highly tax efficient. Low turnover means taxes on capital gains are deferred. That allows capital to grow and compound, unimpeded for maximum effect.

Regarding dividends... We really have no preference. We are "dividend agnostic." If a company has excess cash, minimal debt levels and there is not a better way to deploy capital, then dividends are fine. But, if shares could be re-purchased at reasonable levels, we'd prefer the company reward shareholders by repurchasing its shares. It's far more tax efficient.

**TCP:** You've spoken about "Time Arbitrage," can you share what that means?

**H.B.** Time arbitrage is the advantage bestowed upon an investor willing to be patient. When you invest in a quality asset with a long term perspective, investors benefit. It allows you to get into opportunities others overlook because they don't have the time horizon. It means time becomes your ally, not your foe.

Most professional managers and most investors are under pressure to perform over the short term, be it quarterly or even annually. There's an "institutional imperative" that exists, even if unspoken. But it's still real.

Where great business are concerned, the crowd often only sees the tip of the iceberg, not the whole entity. That affects decisions, performance and ultimately investor outcomes.

We're not fussed about the short term and are willing to wait years for business values to be reflected in the marketplace. That's time arbitrage.

**TCP:** Earlier in his career, Buffett was known for "workouts" or merger arbitrage. Is that a strategy you employ on behalf of clients?

(Continued on page 5)

**H.B.** No. Buffett could implement those strategies in a different investing environment. There was less flow of information. Today, any hedge fund manager is able to employ arbitrage strategies so the “spreads” (*i.e. the difference between the market price and the takeover bid*) have thinned.

*TCP: You're headquartered in Winnipeg. Are there advantages to being located here? Aren't you a fair distance from all the action?*

**H.B.** I'm away from distractions and lots of the noise. There are advantages to being located here. Winnipeg is actually host to a number of portfolio managers. Investor's Group and Great-West Life have been located here for a long time. Some local investment managers also came from the research department of the old Richardson - Greenshields firm. There's a bit of legacy for investment management in Winnipeg.

*TCP: There is a certain amount of "non-investment" work required to do running a firm (filing regulatory items, etc.). Do other tasks encroach on your love for the business?*

**H.B.** It's manageable. We outsource much of the compliance and legal work. But, there's also a benefit to it.

Buffett has a quote about “being a better investor because he's a business owner and being a better business owner because he's an investor.” Running a business keeps me mindful of business concerns and issues when analyzing potential opportunities.

*TCP: Do you have any concerns about the valuations in the North American markets? How much consideration do you give to market or macro-economic trends?*

**H.B.** We give little consideration to macro factors at the market level. I'm never trying to anticipate what the market is going to do over short term.

I do consider long term macro trends as they pertain to individual holdings.

*TCP: Charlie Munger suggested we may be in for a "lost decade." Do you concur? Why? Why not?*

**H.B.** I think it's a possibility in the sense that markets might not do much over a period of years - given the current stretched valuations and the potential for significant volatility. But, we don't buy the market. We concentrate on companies that are growing

shareholder's wealth whether or not that growth is immediately reflected in market prices. And, we only invest clients' long term money in equities.

*TCP: What do you see happening with the digital currency phenomena?*

**H.B.** No predictions, but instances of fantastically large increases in asset prices fueled by greed and speculation, coupled with a lack of an underlying support of fundamental values don't typically end well.

*TCP: Are you still able to find business deals (i.e. great businesses at advantageous prices)?*

**H.B.** It's tough right now and we have a lot of cash in our portfolio - around 30%.

But, 70% of our portfolio is invested in names that we believe will provide us with a good long term return at current prices

*TCP: Do emerging markets hold any interest for you? If yes, do you see any opportunities there?*

**H.B.** Yes and no. I am positive about the prospects of economic growth in those markets over the long term. I don't want to invest directly in many of these smaller markets due to a lack of confidence in the integrity of their oversight and market infrastructures.

I do play the emerging market theme, by investing in a number of multinational companies. They are well entrenched in emerging economies and are able to provide products that citizens want - particularly those economies with



growing middle classes. This would include consumer product names like **Unilever** and **Mondelez**, and some of the healthcare names we are in like **Johnson & Johnson**, **Medtronic** or **Novartis**.

We think that's a more prudent approach when investing in emerging market opportunities.

*TCP: Prudence is prized. Thanks, Hardev for sharing your wisdom & investment insights with us. ○*



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## From the Chairman's Desk

# Buffett Reaches Philanthropic Milestone

Comments released by Warren E. Buffett on June 23, 2021, in conjunction with his annual contribution of Berkshire Hathaway shares to five foundations

**T**ODAY IS A MILESTONE for me. In 2006, I pledged to distribute all of my Berkshire Hathaway shares - more than 99% of my net worth - to philanthropy. With today's \$4.1 billion distribution, I'm halfway there.

In June of 2006, I owned 474,998 "A" shares. Now, I own 238,624 shares, worth about **\$100 billion**. All remain destined for philanthropy. Having reached the midway point of my plan, I would like to supply a bit of history and suggest a few subjects for further thought by philanthropists, government and the public.

## (1) My personal situation:

The easiest deed in the world is to give away money that will never be of any real use to you or your family. The giving is painless and may well lead to a better life for both you and your children.

The second step of disbursing huge sums is more challenging, particularly when the goal is to focus on crucial problems that have long been difficult to conquer or even dent. The specter of weapons of mass destruction remains undiminished. Can private philanthropy temper the threats to society that cyber is serving up?

My own case illustrates the first, more pleasant, point. Over many decades I have accumulated an almost incomprehensible sum simply by doing what I love to do. I've made no sacrifice nor has my family. Compound interest, a long runway, wonderful associates and our incredible country have simply worked their magic. Society has a use for my money; I don't.

Please understand that these remarks are no swan song; I continue at my enjoyable job, doing what I like, aided by associates I like and working to deploy the savings of people who have long trusted me. I still relish being on

the field and carrying the ball. But I'm clearly playing in a game that, for me, has moved past the fourth quarter into overtime.

## (2) The most admirable philanthropists:

A much more admirable form of philanthropy than mine involves the giving of personal time and effort. I've done little of that.

Those who give their love and time in order to directly help others - perhaps adding a monetary gift that requires them to give up the purchase of something meaningful for their own use - are the heroes of philanthropy. America has millions of such givers. These people receive no recognition whether they mentor the young, assist the elderly or devote precious hours to community betterment. They do not have buildings named after them, but they silently make those establishments - schools, hospitals, churches, libraries, whatever - work smoothly to benefit those who have received the short straws in life.

I have not given my time or energy in comparable measure.

## (3) A contrast within my family:

My older sister, Doris, who died during the past year, used both her heart and head to help thousands in a one-by-one manner. I labeled her efforts "retail" philanthropy. In contrast, I elected the much easier "wholesale" path, in very large part depending on the five foundations I selected in 2006. To them, I've delegated the hard work.

After 16 years of pursuing my philanthropic plan, I'm delighted with its workings. Each of the five foundations set its own course and the leaders of all five work hard and effectively. My own involvement has essentially been nil, which leaves me to do what I love.

For years I have been a trustee - an inactive trustee at that - of only one recipient of my funds, the **Bill and**

**Melinda Gates Foundation (BMG)**. I am now resigning from that post, just as I have done at all corporate boards other than Berkshire's. The CEO of BMG is **Mark Suzman**, an outstanding recent selection who has my full support. My goals are 100% in sync with those of the foundation, and my physical participation is in no way needed to achieve these goals.

## (4) Philanthropy is now a hot topic:

The attention is appropriate - one reason being that all or a portion of philanthropic contributions can generate significant tax deductions for the donor. That benefit, however, is far from automatic.

In my own case, the \$41 billion of Berkshire shares I have donated to the five foundations has led to only about 40¢ of tax savings per \$1,000 given. That's because I have relatively little income. My wealth remains almost entirely deployed in tax-paying businesses that I own through my Berkshire stockholdings, and Berkshire regularly reinvests earnings to further grow its output, employment and earnings. The income I receive from other assets allows me to live as I wish. My needs are simple; what made me happy at 40 makes me happy at 90.

Nevertheless, tax deductions are important to many - particularly to the super-rich - who give large amounts of cash or securities to philanthropy. It is fitting that Congress periodically revisits the tax policy for charitable contributions, particularly in respect to donors who get "imaginative."

## (5) At what point in their lives should the wealthy fund philanthropy?

My 16 annual contributions to the five foundations I've funded were worth \$41 billion when disbursed. As I instructed, the funds were spent or committed quite promptly.

Had I waited until now to give the

(Continued on page 7)

*“Compound interest, a long runway, wonderful associates and our incredible country have simply worked their magic.”*

shares, they would have instead brought \$100 billion to the five foundations. The question then becomes: Would society ultimately have benefited more if I had waited longer to distribute the shares?

My first wife and I were totally in sync in respect to our philanthropic goals. She, however, favored giving away large sums when we were young – when our net worth was a tiny fraction of its eventual size. I held out for later, remaining charmed by the results of compounding. I was restrained as well by the desire to retain unassailable control of Berkshire. It was only after my wife's death that I, at 75, stepped on the accelerator.

Deciding when to switch from building philanthropic-destined funds to depleting them involves a complicated calculation based on the nature of the assets involved, family matters, the seldom confessed instinct to not “let go” and a host of other variables. One size definitely does not fit all.

## (6) Dynastic wealth remains an option in America.

Dynastic behavior is less the norm here than in most countries and its appeal will likely diminish.

After much observation of super-wealthy families, here's my recommendation:

***Leave the children enough so that they can do anything but not enough that they can do nothing.***

I'm delighted that my three children – now in their mid-60s – pursue philanthropic efforts that involve both money and time. More important, they are happy that they can be involved in helping others. They have their mother's genes.

## (7) Conclusion:

I'm optimistic. Though naysayers abound – as they have throughout my life – America's best days most certainly lie ahead. What's happened here since 1776 has not been a historical fluke.

Philanthropy will continue to pair human talent with financial resources. So, too, will business and government.

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Warren Buffett

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## Appointments

On June 28, the Chief Justice of Canada, the **Rt. Hon. Richard Wagner**, welcomed **Mr. Justice Mahmud Jamal** to the **Supreme Court of Canada**.

Justice Jamal's appointment is effective July 1, 2021. He will be sworn in as a judge of the Supreme Court of Canada at a private ceremony, and the Court will hold an official welcoming ceremony this fall.

**Peter Routledge** has been appointed as **Superintendent of Financial Institutions**. His term will begin on June 29<sup>th</sup>. Mr. Routledge has been the CEO of CDIC, since 2018. Prior to this, he gained extensive experience with Canadian financial sector issues in the public sector at the Department of Finance and in the private sector with National Bank and Moody's Canada.

Public policy expert **Jack Mintz** was appointed to the **Alberta Health Services** board on June 2<sup>nd</sup>.

## Case Files

### Beneficiary Designations Affirmed in Ontario Court

An Ontario Superior Court decision has reaffirmed the primacy of beneficiary designations for registered plans.

In **Mak (Estate) v. Mak**, the plaintiffs unsuccessfully sought to overturn the beneficiary designation of a RRIF.

Questions about registered beneficiary appointments had been raised after an Ontario court had declared that a father's RRIF belonged to the estate rather than son named as beneficiary in **Calmusky v. Calmusky**.

### Father Who Disinherited His Twin Daughters Has Will Overturned in BC Court

When **Ronald Poole** died in 2017, the will he drafted in 2006 left nothing to his twin daughters whom he abandoned at birth. His daughters took the estate to court and won.

This April, **Mr. Justice Wetherhill** of the **BC Supreme Court** overturned the terms of the will and granted the adult twins 70% (i.e. \$630,000) of the estate proceeds, worth \$900,000.<sup>00</sup> See: **Jung v. Poole Estate**

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Important Information - Borrowing to invest may be appropriate only for investors with higher risk tolerance. You should be fully aware of the risks and benefits associated with investment loans since losses as well as gains may be magnified. Preferred candidates are those willing to invest for the long term and not averse to increased risk. The value of your investment will vary and is not guaranteed, however you must meet your loan and income tax obligations and repay the loan in full. Please ensure you read the terms of your loan agreement and the investment details for important information. Manulife Bank of Canada solely acts in the capacity of lender and loan administrator, and does not provide investment advice of any nature to individuals or Advisors.

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## Sample Annuity Rates

Rates are as of **June 30, 2021** & based on a registered (i.e. RRIF/RRSP) \$100,000 premium. Payments are **Guaranteed for LIFE** & include a 10-year guaranteed payment stream (i.e. balance paid to beneficiaries). Rates change daily. Quotes available upon request. E & O.E.

# of Lives, Age & Gender	Monthly Income	Annual Payment as % of Premium
65 Yr Male	\$ 498.33	5.86%
65 Yr Female	\$ 460.33	5.52%
65 Yr Joint	\$ 418.86	5.03%
70 Yr Male	\$ 563.82	6.77%
70 Yr Female	\$ 523.39	6.28%
70 Yr Joint	\$ 470.65	5.65%
75 Yr Male	\$ 633.67	7.60%
75 Yr Female	\$ 579.70	6.96%
75 Yr Joint	\$ 533.91	6.41%
80 Yr Male	\$ 744.89	8.94%
80 Yr Female	\$ 688.82	8.27%
80 Yr Joint	\$ 633.32	7.60%