EXCHANGE-TRADED FUNDS SELECTION CRITERIA

Forstrong Global Asset Management Inc. (Forstrong) implements its active global strategies through investments in Exchange-Traded Funds (ETFs). ETFs are baskets of securities tracking different types of indices and are listed on multiple stock exchanges worldwide. We select suitable and effective ETF investments that can be employed to build a portfolio that will carry out our active strategies with the highest fidelity.

With the use of ETFs, portfolios can have diversified exposure to many countries and industry sectors and thousands of companies. ETFs track equity indices on a country, regional, sector and style basis. Fixed-income indices are also available that track both domestic and international government and corporate bond indices and different interest rate spectrums.

These listed portfolios are selected to actively manage our client investment mandates. As such, an active asset mix is achieved with widely-diversified investments that have no specific equity or corporate fixed-income risk.

Our bottom-up selection methodologies ensure that only the best exchange-traded products (ETFs) are utilized. We employ a rigorous and disciplined set of criteria in selecting the constituent holdings for client portfolios. As a rule, Forstrong does not employ securities in its portfolios which may result in a potential conflict of interest (and if and when, only with full disclosure.) Factors are either quantitatively screened or evaluated, each on a specific regular cycle. All ETFs are assigned ratings, based on this series of criteria. Additionally, and with the rapid proliferation of ETFs in recent years, all new offerings are reviewed for their eligibility in Forstrong portfolios.

Following is a general list of the key factors reviewed:

DIVERSIFICATION

Review Period: Quarterly/New ETF Listings

- Number of constituents and individual security weightings (percentage weight of the top 10 holdings) surveyed to ensure adequate diversification.
- Single underlying security cannot constitute > 10% of ETF (certain exceptions may apply)
- Portfolio optimization techniques are reviewed for sufficient diversification and acceptable tracking (see tracking error section).

TRACKING ERROR

Review Period: Ongoing

- Reasons for tracking error include ETF management fees, rebalancing and transaction costs, and portfolio optimization techniques. Tracking error is expressed as a standard deviation of performance differences between benchmark and the ETF portfolio over time.
- Average tracking error must be < 30 basis points (ETFs tracking domestic indexes)
- Average tracking error must be < 50 basis points (ETFs tracking non-North American indexes, excluding emerging markets)

INDEX CONSTRUCTION

Review Period: Quarterly/New ETF Listings

- Primary investments in pure market cap-weighted indexes. Alternative methodologies (rules-based, quantitatively-driven, dividend, equal and other fundamentally-weighted approaches), commonly referred to as “smart beta,” may also be employed where underlying sector/style/region/fundamental biases are consistent with FIC’s (Forstrong Investment Committee) active strategy stance.
- Smart beta products generally carry higher fees and produce higher turnover (and thus are potentially less tax efficient). These factors must be given due consideration when evaluating products of this nature against pure marketcap weighted index products.
- Ultimately, smart beta is a form of active management. Research conclusively shows that overall asset mix is the most important determinant of returns. Accordingly, Forstrong’s focus is on generating enhanced returns through active asset allocation rather than altering indexing methodologies.

STRATEGY MAPPING

Review Period: Quarterly

- ETF investments are selected to build a portfolio that will carry out our active strategies with the highest fidelity. Sectoral/style/regional weightings and biases reviewed for consistency with active investment strategy.
- Underlying holdings surveyed to ensure consistency with tracking benchmark.

EXPENSES

Review Period: Ongoing/New ETF Listings

- Management expense ratio (MER) reviewed for lowest cost. MER reductions are common as competition among ETF providers increases.
- When multiple ETFs track the same index, ETF MER must be in first quartile (sorted from lowest cost to highest cost).
- Preference for ETFs listed on domestic exchanges rather than international exchanges (avoidance of currency translations and additional exchange fees). ETF cross-listing is becoming common.

LIQUIDITY

Review Period: Ongoing

- Both primary market and secondary market liquidity is reviewed and monitored for all newly initiated and held ETFs. While the underlying constituent liquidity is the primary driver of ETF liquidity, investors can also benefit from high on-screen liquidity
- Spread Risk: Studies have shown that both the underlying liquidity of the securities held in the ETF, as well as the trading activity of the ETF in the secondary markets are factors which determine the average bid-ask spread. ETFs with large asset bases, lower expense ratios and higher average trading volumes typically show very small spreads.
- In general large trades that is over 10% of the ETF's average daily volume, and/or the bid-ask spread over 0.15% (based on 30 day average spread), alternate liquidity providers will be used. See "Trading Policies" document for further guidelines.

UNIQUE FACTORS

Review Period: Ongoing/New ETF Listings

- Tax issues (e.g. gold bullion unique tax implications)
- Counterparty risk: credit quality of underwriter reviewed for exchangetraded notes (ETNs)
- Client income requirements: distributions reviewed (paid out or reinvested).
- Certain income-focused mandates prefer cash payouts.