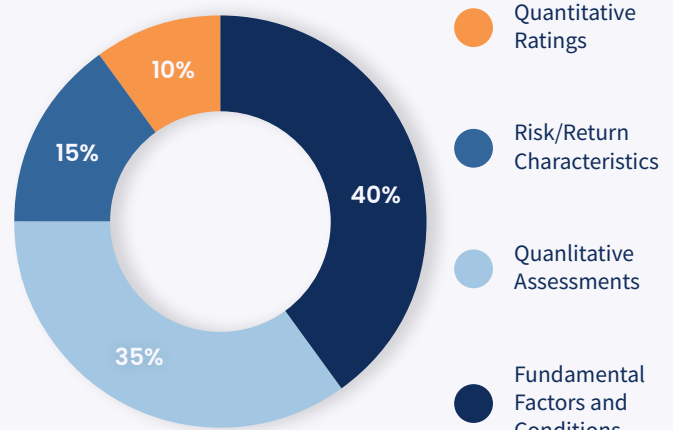# INTRODUCTION

This document provides a summary overview on the Global Asset Mix Approach employed by Forstrong Global Asset Management Inc. (Forstrong). More detailed materials can be supplied upon request as well as additional process publications describing, fixed income, equity, sectoral, currency and "opportunity" policies. A broad overview which outlines how various Forstrong processes interlink is found in Exhibit I at the end of this document. Following comments pertain directly to sections found under segment 5 found in that exhibit.

Forstrong employs a multi-disciplined approach in determining an optimal global asset mix defined by risk, reward and diversification/composition requirements. Our firm methodically surveys a wide array of global economic and financial conditions in order to assess the relative attractiveness of the major asset classes and asset types — stocks, bonds, cash, and alternative assets.

# ASSET MIX PROCESS

On a regular quarterly basis, the Forstrong Investment Committee (FIC) determines the relative desirability of the major asset classes (stocks, bonds and cash) by grading them according to 7 groups of criteria and conditions as described below. Each of the factors making up these groups can determine or influence the relative investment return prospects of global financial asset classes and are graded according to their favorability or hostility to the performance prospects for each. A rating scheme of 1 to 7 is applied — 7 is considered highly favorable, a rating of 1 extremely negative. Broadly, the relative influence of the factors surveyed in determining asset mix policy can be categorized as follows:

# INVESTMENT VIEW



- Quantitative Ratings — 10%
- Risk/Return Characteristics — 15%
- Quanlitative Assessments — 35%
- Fundamental Factors and Conditions — 40%

# ASSET MIX RANGES

Though asset mix ranges for any given portfolio are determined by the nature of investment objectives desired — low risk, high income, aggressive growth, etc. — basic investment policy is expressed in terms of the Forstrong Benchmark Global Balanced Portfolio. All other investment mandates are linked to this base strategy. The weighting ranges for each of the major assets classes for this hypothetical portfolio are shown below. All active strategies for actual portfolio mandates are expressed proportionately.

|  | Low | High |
|---|---|---|
| Cash | 0% | 20% |
| Stocks | 20% | 70% |
| Bonds | 25% | 70% |
| Alternative/Opportunity[1] | 0% | 25% |

[1] *Please note that alternative/opportunity type assets are determined as an overlay, supplanting commitments to the three traditional asset classes. This asset class is the subject of a separate document.*

# COMPONENTS OF GLOBAL ASSET SELECTION MODEL

The following seven categories of factors are considered in determining the relative attractiveness of the three main financial asset classes. The Asset Mix Score Sheet portrays this grading exercise. Ratings are weighted and summed to indicate the relative attractiveness of an individual asset class. A high relative rating will recommend a portfolio weighting for that particular asset class towards the higher end of its allowed range (see previous page). Conversely, a low rating relative to the other investment classes will force a portfolio weighting towards the lower end of that asset class' prescribed range.

All of the following categories have separate defined methodologies and approaches. (These are each documented separately).

# LONG-TERM
## INVESTMENT GUARDRAILS

## 1. Super Trends and Themes

World macro trends — such as globalization, financialization, population growth, political developments — are assessed as to their impact on the attractiveness of each asset class. Investment-related trends that may be identified as relevant to the performance prospects of an asset class are considered. Factors such as capital shortages, high real interest rates, fiscal retrenchment, low income growth, global savings imbalances... etc. may be considered.

## 2. Relative Expected Returns

The Forstrong Investment Committee forecasts asset class returns individually for major global regions—

each for stocks, bonds and cash (nominal and real). These forecast returns are rated and risk-adjusted; then weighted to replicate the return profile of a world equity and fixed-income index. After adjusting these returns with required risk premiums the relative attractiveness of the return is rated.

# MEDIUM TERM
## MACRO ENVIRONMENT & FUNDAMENTALS

## 3. World Economic Outlook (vs Consensus)

## 4. Monetary Policy/Credit Conditions

**a.** Global Monetary Policy/Conditions. Factors which identify the general policy stance of the world's central financial institutions are surveyed and assessed. World reserve growth, major yield curve trends, monetary growth ... etc. may be among the factors considered.

**b.** Global Investment Liquidity Conditions. Idle cash balance conditions, interest rate trends, and conditions of excess or inadequate liquidity relative to expected economic growth trends, statistics indicative of investment fund liquidity are among the factors reviewed to help predict future relative investment returns.

## 5. Historical Valuation Ranking

**a.** Absolute Valuation Ranking (to Country History). The valuation level — over- or under-valued — of global equities and bonds are individually assessed in terms of factors independent of each other. Forstrong employs its own valuation barometers. The value rating of cash assets is considered a residual of the bond and stock ratings.

**b.** Relative Valuation Globally. Stocks, bond and cash valuation are graded relative to each other.

# SHORT TERM
## TACTICAL POSITIONING

### 6. Technical (Momentum, Trends)

**a.** Relative Performance Trends: Global rotational trends are seen as offering important insights.

**b.** Other Technical Factors (Forstrong does not consider ultra-short term indicators ... i.e. less than 13 weeks.)

### 7. Behavioural Consensus Views/Market Psychology

**a.** Institutional Investor Sentiment

**b.** Private Investor Sentiment

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A summary rating schema for all of the above-mentioned criteria sets is shown on page 4.

## GLOBAL OVERVIEW

### Macro Thematic Review

- Investment Themes
- Key Considerations
  - *Decision Points, Significant Events*

### Return Forecasts
*Global, Regional, Country*

- Cash ex. Currency
- Fixed-Income
- Equities
- Regions
- Alternative Assets
- Currencies

### Currency Strategy

- Relative Valuations US/CAD, US/EUR,US/YEN, US/YUAN
- Hedging Strategies

## ASSET MIX STRATEGY

### Core Strategy

Long-Term View - *Significant Event*

### Country/Region Analysis

| Equities | Fixed Income |
|---|---|
| • Value Rating | • FEH[1] Rating |
| • Core Rating | • Cyclical Outlook |
| | • Duration |

### Equities Strategy

- Economic Themes
- Selection Process

### Fixed-Income Strategy

- Economic/Monetary Process & Themes
- Sovereign/Corporate
- Duration Strategy

- Canada
- Europe
- EM
- US
- Asia

### Opportunity Strategy

- EM - Bonds
- EM - Equities
- Commodities
- Precious Metals
- Real Estate Trusts
- TIPs
- Special Situations
- Fundamental ETFs
- Income Trusts
- Timberland

[1]FEH = Fundamental Economic Health Rating. Proprietary process to Forstrong.

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**FORSTRONG GLOBAL**

| REGION | | CANADA | | | UNITED STATES | | | EUROPE | | | PACIFIC | | | EMERGING MARKETS | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **REGION WEIGHT** (50% GDP/ 50% STOCK MARKET CAPITALIZATION) | | 5% | | | 47% | | | 23% | | | 12% | | | 13% | | |
| *Risk Factor Categories - Ratings 1(-) to 7(+)* | W | S | B | C | S | B | C | S | B | C | S | B | C | S | B | C |
| **LONG-TERM – INVESTMENT GUARDRAILS** | | | | | | | | | | | | | | | | |
| 1  *Super Trends and Themes* | 15.0 | 3.0 | 3.0 | 5.0 | 3.0 | 3.0 | 5.0 | 4.0 | 2.0 | 5.0 | 4.0 | 2.0 | 5.0 | 6.0 | 5.0 | 2.5 |
| 2  *Relative Expected Returns* | 15.0 | 6.0 | 3.0 | 3.0 | 4.0 | 2.0 | 2.0 | 7.0 | 2.0 | 2.0 | 6.0 | 1.0 | 2.0 | 7.0 | 3.0 | 3.0 |
| **MEDIUM TERM – MACRO ENVIRONMENT & FUNDAMENTALS** | | | | | | | | | | | | | | | | |
| 3  *World Economic Outlook (vs Consensus)* | 10.0 | 4.0 | 3.0 | 4.5 | 4.0 | 2.0 | 5.0 | 5.0 | 1.0 | 5.0 | 4.0 | 3.0 | 4.5 | 5.0 | 3.0 | 4.0 |
| 4  *Monetary Policy/Credit Conditions* | 10.0 | 4.0 | 4.0 | 4.0 | 4.0 | 3.0 | 4.5 | 5.0 | 3.0 | 4.0 | 5.0 | 4.0 | 3.5 | 5.0 | 4.0 | 3.5 |
| 5  *Historical Valuation Ranking* | | | | | | | | | | | | | | | | |
|      *Absolute to Country History* | 7.5 | 6.0 | 4.0 | 1.0 | 2.0 | 6.0 | 2.0 | 6.0 | 1.0 | 1.0 | 6.0 | 1.0 | 1.0 | 5.0 | 4.0 | 2.0 |
|      *Relative Globally* | 12.5 | 3.0 | 5.0 | 3.0 | 1.0 | 7.0 | 5.0 | 5.0 | 4.0 | 1.0 | 5.0 | 3.0 | 1.0 | 5.0 | 6.0 | 3.0 |
| **SHORT TERM – TACTICAL POSITIONING** | | | | | | | | | | | | | | | | |
| 6  *Technical (Momentum, Trends)* | 10.0 | 4.0 | 3.0 | 4.5 | 2.0 | 2.0 | 4.0 | 4.0 | 2.0 | 5.0 | 5.0 | 2.0 | 4.0 | 6.0 | 3.0 | 3.5 |
| 7  *Behavioural Consensus Views/Market Psychology* | 20.0 | 4.0 | 2.0 | 5.0 | 4.0 | 2.0 | 5.0 | 6.0 | 2.0 | 4.0 | 5.0 | 2.0 | 4.0 | 6.0 | 3.0 | 3.5 |
| **Rebased New Grand Total** | 100.0 | 4.5 | 3.5 | 4.2 | 3.4 | 3.4 | 4.5 | 5.7 | 2.3 | 3.7 | 5.3 | 2.4 | 3.5 | 6.2 | 4.1 | 3.4 |
| **Rebased Previous Grand Total** | 100.0 | 4.4 | 3.6 | 3.9 | 3.5 | 3.8 | 4.5 | 5.2 | 2.7 | 3.6 | 4.9 | 2.3 | 3.4 | 5.8 | 5.2 | 3.2 |
| **Rebased Change** | 0.0 | 0.1 | -0.1 | 0.3 | -0.1 | -0.4 | 0.0 | 0.5 | -0.4 | 0.1 | 0.4 | 0.0 | 0.1 | 0.4 | -1.1 | 0.2 |

## W = WEIGHT | S = STOCKS | B = BONDS | C = CASH