

Forstrong Global Asset Management Inc. (Forstrong) defines “opportunity investments” as assets that respond differently to economic and financial market factors than traditional money market, stock and bond investments. Forstrong tactically selects opportunity investments that present timely and attractive risk/reward profiles than available in traditional asset classes, aiming to improve returns whilst reducing overall portfolio volatility. These assets are integrated into portfolios as an optional “overlay” to the core component and can be included within specified ranges (as outlined in each mandate description).

ELIGIBILITY CRITERIA

To be eligible for inclusion as an opportunity investment one of the criterion below must be satisfied:

i. “Satellite” Investment Qualification:

(a) Investment falls outside the range of traditional assets defined as core equities or core bonds (core equities = MSCI ACWI Equity Universe; core bonds = Bloomberg Global Aggregate Bond Universe); and (b) Favourable risk/return characteristics are identified and diversification vis-à-vis the core portfolio is exhibited.

ii. Market Capitalization Under-Represented:

Investment is under-represented in either the developed world stock or bond benchmarks and thus cannot achieve material weighting in the “core” portfolio. Total market capitalization of asset must be less than 3% of the MSCI ACWI Equity Index or the Bloomberg Global Aggregate Bond Index.

iii. Unique Macro-Thematic Driver(s):

Investment is uniquely positioned to benefit from a global macro secular trend or set of unique economic drivers and/ or trends.

WEIGHTING FACTORS

To be eligible for inclusion as an opportunity investment one of the criterion below must be satisfied:

5 factors; each count for 1 point (3 pts = 2.5% minimum bullish, 4 pts = 3.75% mid bullish, 5 pts = 5% maximum bullish):

i. Super Trends:

Entrenched structural factors which have an outsized impact on the long-term investment outlook of the target asset.

ii. Expected Return & Valuation:

An attractive expected return is defined as follows:

{3-year annualized expected return (or one half of a business cycle)} > {7-year annualized expected return (or a complete business cycle) of the Forstrong Global Balanced passive benchmark (by a factor of 1.5)}

Valuations are ranked on an absolute (vs. history) and relative to peers (vs. history and current) basis. Measures ranking in the top (bottom) quartile are viewed favourably (negatively).

iii. Opportunity Factors, Return Drivers & Correlations:

Target assets are categorized into their predominant opportunity factor category based on their underlying return drivers. The opportunity factor categories are defined by FIC and include: thematic, real return, equity, credit, interest rate, commodity, market psychology, tail and policy. These categories are ranked by FIC in terms of their relative importance (ability to generate alpha). Target assets categorized under high (low) ranking opportunity categories are viewed favourably (negatively).

For correlations and diversification benefits, target assets are viewed favourably if one of the following holds:

(1) 3 year correlation coefficients are less than 0.50 as measured against either the MSCI ACWI Index (for equity-oriented assets) or the Bloomberg Global Aggregate Bond Index (for fixed income-oriented assets).

(2) Mean-variance efficiency is improved by addition of investment to existing portfolio: (Sharpe ratio of new investment) > (product of Sharpe ratio of the existing portfolio and correlation of the new investment's returns with the returns of the existing portfolio).

iv. Behavioural Measures & Sentiment:

Low-risk entry point for target asset as defined by retail and institutional investor sentiment, relative performance trends, historical precedents, rotational analysis and other technical factors. Factors will change according to type of asset class. Liquidity should also be sufficient to facilitate an unproblematic exit.

v. Macro Event or Catalyst:

Macro event(s) which has a reasonable probability of materializing and has the potential to significantly reprice the target asset upwards or downwards.

SELL DISCIPLINE

Any criterion fulfilled below will generate a “sell”:

- i. Sell on deteriorating fundamentals.
- ii. Sell when opportunity investment is fully valued.
- iii. Sell if opportunity class risk budget has been fully utilized and more attractive opportunities exist elsewhere.
- iv. Sell at 2 or less than 2 points on the above-mentioned ratings schema.