Investment Management

FOUNDATION
PRIVATE WEALTH MANAGEMENT

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Disclaimer

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Labour Sponsored Investment Funds (“LSIF”) have tax credits that are subject to certain conditions and are generally subject to recapture, if shares are redeemed within eight years. Please note that Mutual Fund Representatives in Alberta are not permitted to sell LSIF.

An investor proposing to borrow for the purchase of securities should be aware that a purchase with borrowed monies involves greater risk than a purchase using cash resources only. The extent of that risk is a determination to be made by each purchaser and will vary depending on the circumstances of the purchaser and the securities purchased.

Discuss the risks associated with leveraged mutual fund purchased with an investment funds advisor before investing. Purchases are subject to suitability requirements. Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same if the value of the securities purchased declines.

Investors should educate themselves regarding securities, taxation or exchange control legislation, which may affect them personally. This web site is for general information only and is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. Please consult an appropriate professional regarding your particular circumstances.

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All non-mutual fund related business conducted by Foundation Private Wealth Management is not in the capacity of an employee or agent of FundEX Investments Inc. Non-mutual fund related business includes, without limitation, advising in or selling any type of insurance product, advising in or selling any type of mortgage service, estate and tax planning or tax return preparation. Accordingly, FundEX is not liable and/or responsible for any non-mutual fund related business conducted by Foundation Private Wealth Management. Such non-mutual fund related business is the responsibility of Foundation Private Wealth Management alone.

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Investment Philosophy

At Foundation Private Wealth Management, our primary investment objective is to achieve long term growth. Within our long term growth objective, the preservation and protection of our client's hard earned wealth is paramount. Our portfolio construction process considers each individual investment decision with respect to how it integrates and delivers measurable value within the overall portfolio. Ultimately, it is this asset allocation process that we believe plays the defining role in achieving these objectives.

As a firm, we bias towards a value management style as we believe that superior risk-adjusted returns will be achieved over time through this investment management style. We also believe that active stock selection can further enhance returns and as such, we look to identify and integrate top portfolio managers who have shown a consistent ability to out-perform their relative benchmarks. We typically exclude portfolio managers who have accumulated excessive assets as we do not believe that they are able to consistently outperform their relative benchmarks.

Finally, we actively monitor the investment climate from a Canadian perspective to verify that our portfolios remain properly allocated. Our recommendations are continually monitored to confirm they are meeting expectations and maintaining integrity.

"An investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative."

Benjamin Graham

Client Profile

Entrepreneurs

Entrepreneurs often have a disproportionate amount of their overall wealth invested within their businesses. As such, they are exposed to a much greater overall level of investment risk than traditional investors. Given their increased risk exposure, it is imperative that their investment wealth be protected. We firmly believe that capital preservation should be at the heart of all their investment planning strategies.

As entrepreneurs ourselves, we understand and appreciate the importance of protecting wealth. We also recognize that successful retirement planning, including a strategically implemented and successful exit policy, is paramount. Our process will concentrate on the personal, financial, and tax concerns of the entrepreneur. Family dynamics are also discussed as they can play a defining role in overall process. To achieve the very best results, Foundation will endeavor to work closely with the entrepreneur's team of professionals. This team approach will help set the stage for an excellent client experience and a much higher level of overall client satisfaction.

Professionals

Recent legislation now allows many professional groups to incorporate. This unique planning structure affords professionals the opportunity to accumulate and defer taxes on earnings, which previously would have been taxed at the highest marginal tax rates.

At Foundation, we review all planning opportunities afforded to professionals with the ultimate objective of creating a customized investment portfolio and a long-term financial planning strategy to meet their individual goals and objectives.

High Net Worth Individuals

Having already achieved financial success, wealth preservation is often the primary investment objective of these accomplished individuals. Risk management and risk mitigation play a central role in each investment decision. As always, careful consideration is given to asset allocation, as we believe it to be the single-most effective means of managing risk. Portfolio returns can be further enhanced by effectively structuring the investments to minimize taxes.

Finally, high net worth individuals are often concerned with estate planning issues and may have special interests in charitable gifting. At Foundation, we have considerable experience in these specific areas of planning and are most pleased to offer our expertise.

Client Engagement Process

Discovery

The main objective of the initial client interview is discovery. It is the prospective client's opportunity to get to know our firm, our philosophies and our methodologies. More importantly, it is our opportunity to begin the listening process that we hold sacred at Foundation. It is our firm belief that a relationship based on listening will lead to a successful relationship as it will allow us to clearly understand the goals and objectives of the prospective client.

During this initial meeting we attain an understanding of what the client seeks to achieve from their investment portfolio. We will also collect all relevant documentation and complete a risk tolerance questionnaire. We will subsequently review all documents and questionnaires and then begin the process of constructing a client specific **Investment Policy Statement**, which will be reviewed and discussed during our second meeting.

Investment Policy Statement

The second meeting will focus on the Investment Policy Statement. Foundation will customize an investor policy statement for each client that will define the clients risk and return objectives. The Investment Policy Statement will detail all constraints in managing the portfolio including investment time horizons, liquidity requirements, tax considerations, legal and regulatory requirements and unique circumstances. The initial asset allocation will be defined along with the suitable performance benchmarks they will ultimately be compared against.

As part of the overall process, we will review all current holdings to determine how they should integrate into the overall plan. We will also ensure that the client's investment objectives are consistent with their risk tolerance. For example, if it becomes evident that a client would like to generate a greater return than the investment risk they are willing to tolerate (as per their risk tolerance questionnaire), one of the following outcomes must occur:

1. The client adjusts their return expectations (likely outcome).
2. The client accepts more investment risk (unlikely outcome).
3. It is agreed that Foundation will not manage their investment portfolio.

Upon completion of the Investment Policy Statement, we will begin the process of selecting the investments that will be discussed and finalized in the third meeting.

Investment Allocation

During the third meeting, we will allocate the specific investments according to the strategic asset allocation model as defined within the Investment Policy Statement. Each investment will be carefully chosen based on the risk tolerances and long-term investment objectives of the client. For example, we may place even more emphasis on value style managers if our client's risk tolerance questionnaire reflects a higher sensitivity to short and medium-term market fluctuations. Investments will also be reviewed with respect to how they correlate to the other holdings within the identified portfolio. This is of particular importance in managing overall portfolio risk.

Once the investments have been made, we will prepare a summary document for our client detailing each transaction and investment position.

Review

We meet with our clients twice a year to conduct a full portfolio review. We also send out regular broadcasts on a variety of timely and informative investment topics. In addition, we encourage our clients to contact us should they have any questions or if they feel that there have been changes in their lives that may warrant a review of their investment portfolio. Once the portfolio has been allocated, we regularly monitor the initial asset allocation to confirm that it remains within the thresholds established within the Investment Policy Statement.

"Investment Policy (asset allocation) is the foundation upon which portfolios should be constructed and managed."

Charles D. Ellis Ph.D

Asset Allocation Process

Our asset allocation process begins with a macroeconomic analysis of the global economy. We look to identify major themes or trends occurring in the market place. Based on this analysis, we formulate a set of probable outcomes which are incorporated into our investment portfolios. This top-down process is continually repeated to verify that all current data is reflected within our investment portfolios.

Research

The focus of our research is on the North American marketplace as Canada is our domestic market and the United States is the most dominant economy, directly influencing virtually all global economies. Based on our analysis of the overall global economy, we then focus on key geographic regions and sectors that have been identified to potentially outperform. Each identified region or sector will then be further examined. Our review will include an analysis of the political system and the primary objectives of the ruling party, regional demographics, catalysts for growth and a host of other factors that may impact regional performance.

It should be noted that as an independent wealth management firm, we collect our data from a wide range of sources to guarantee impartiality. This ensures that our clients are receiving a truly objective opinion with regards to their investments. Ultimately, we believe that any investment decision is only as good as the integrity of the data used to arrive at the recommendation.

Time Horizons

In allocating our client’s portfolios we focus on a three to five year time horizon as we recognize that a number of the investment decisions made for our clients will take time to be fully realized. It is our belief that it is nearly impossible to project potential outcomes in the very short term and as such, we consider longer term global themes and their potential impact on our investment allocations. Finally, we do not attempt to time markets. However, our short-term analysis may periodically indicate a need to implement a temporary shift (tactical movement) from our strategic allocation.

Ongoing Monitoring

As global dynamics are forever changing, we continually monitor our client’s investment portfolios with respect to asset allocation. The economic outlook is constantly being reshaped through monetary and fiscal policy, changing governments, political turmoil, shifts in consumer spending patterns, emerging economies and numerous other factors. As such, when we believe it appropriate, we may adjust our client’s strategic asset allocation and in some cases implement a tactical portfolio shift.

“Ninety-seven percent of performance variation is due to asset class structure – Study of 31 institutional pension funds during a range of six- to 12-year periods.”

Eugene F. Fama Jr.

Manager Selection

Our management selection process involves three levels of analysis. Each prospective manager is formally interviewed and subjected to a strict due diligence and review process. Our investigation will include, but will not be limited to, performance analysis, risk analysis, attribution analysis and style bias.

First Level Analysis

Our first level of analysis focuses on filtering through the initial universe of over 3000 mutual funds, pooled funds and private client managers[i] in Canada to identify a very short list of investment managers within each category. To produce this selective list, we will employ broad risk-return analysis. Each investment will be compared to other investments within its relative category.

The investment categories we review include:

1. Canadian Growth
2. Canadian Value
3. Global Growth
4. Global Value
5. Canadian Balanced
6. Canadian Small Cap
7. Global Small Cap
8. U.S. Growth
9. U.S. Value
10. Canadian Fixed Income
11. Global Fixed Income
12. Canadian Corporate Fixed Income
13. International Value
14. International Growth
15. High Yield Debt
16. Alternative Strategies

Given that this list is not inclusive, we may also monitor other categories not identified above.

Second Level Analysis

In the second phase of our analysis, we begin the process of thoroughly reviewing each manager within our identified short list. We now perform an in-depth analysis of their risk-return performance, looking to identify how each manager performed over an entire market cycle. As risk mitigation and preservation of capital are core philosophies at Foundation, we pay particular attention to how the manager performed in down markets.

Finally, we interview each manager to gain a more complete understanding of their investment selection process to confirm that it is consistent with the portfolios stated objectives. We also thoroughly review the commitment the manager has to the particular portfolio. Direct questions we will ask the manager include:

1 How much of their personal wealth is in the portfolio?
2 How they are compensated?
3 What percentage of their compensation is based on performance?

4 What performance measures are used?
5 Are they involved in the management of other assets?

Third Level Analysis

Once we have selected a manager for inclusion in our recommended list, we continue to monitor their performance ensuring that they maintain superior relative risk adjusted returns. We will continue to regularly meet or conference with each manager. This will be more frequent if the portfolio is underperforming over any measurable time period.

We will also monitor each manager to validate that they maintain their stated investment style, philosophy and objectives, as each manager has a defined investment role within our client portfolios. Should any deviation occur, we will initiate steps to remove the manager from the portfolio.

"One thing is clear: Style drift happens to a sizeable percentage of mutual funds…For (investors or) planners seeking to create portfolios tapping into consistently different equity styles, style drift presents a significant concern."

Craig L. Israelsen Ph.D

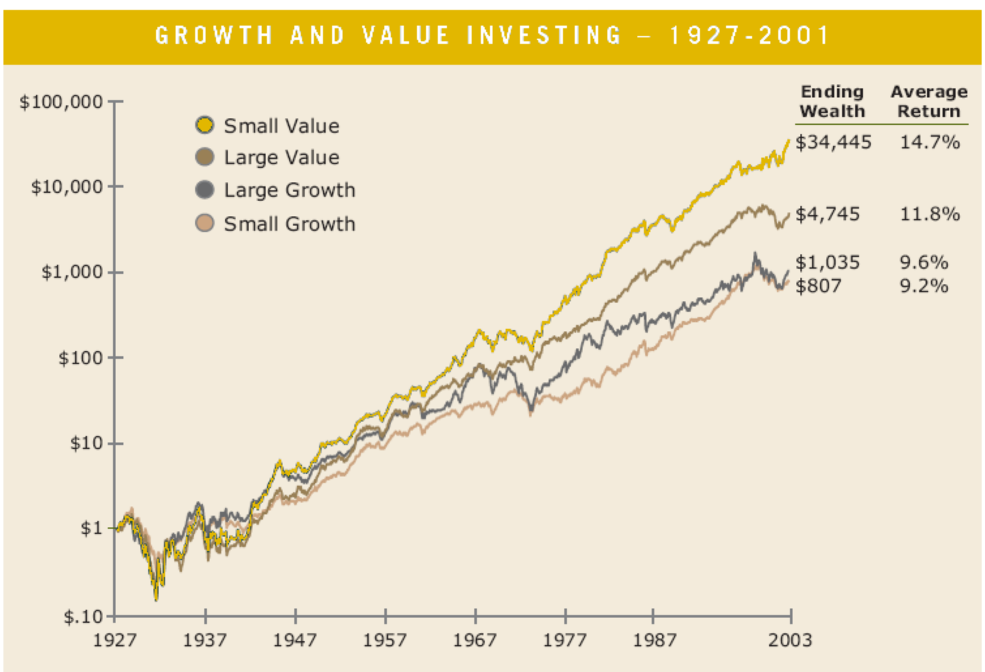
Portfolio Construction Process

Overview

Investment selection and portfolio construction are the culminating points of the asset allocation process. In strategically selecting the individual investments for our client portfolios, we immediately reference our client's **Investment Policy Statement**. Based on our manager analysis, we will then integrate the investments to construct a customized client portfolio. Careful consideration will be given to the potential tax implications of each recommended investment. We will look to hold tax deferred investments within non-registered and corporate accounts and tax inefficient investments within tax sheltered accounts. We also review a broad range of statistical measures including correlation analysis. Correlation analysis is extremely relevant as it determines which investments, when integrated, will generate the greatest risk/reward tradeoff for our clients.

Equity Based Investments

When selecting equity based investments we look to determine the best method to invest in a particular region. Direct or indirect exposure can be used depending on the risk tolerance of the client or the perceived risk of the investment. Investment style is a very important consideration when allocating funds. As a firm, we tend to bias towards a value style of management, but understand that a growth style of management can also add considerable value to an investment portfolio.



Source: © 2004 Ibbotson Associates, Inc. This is for illustrative purposes only and not indicative of any investment. Past performance is no guarantee of future results.

Fixed Income Investments

With respect to fixed income based investments, our analysis will focus on duration and credit quality. We will consider both domestic and currency-hedged global bonds, recognizing that when investing in foreign bonds we must be aware of the potential additional risks. These risks include political instability and interest rate movements within the identified country.

Inflation-protected bonds will also be considered, as their values are periodically adjusted for changes in the Consumer Price Index. These types of bonds are ideal for pension plans and long term retirement planning. They also have a low correlation to traditional bonds and will subsequently reduce overall portfolio volatility.

Alternative Investments

We may consider alternative investments within our client portfolios including principle protected notes and hedge funds. This area of the financial marketplace has rapidly evolved in recent years and may provide unique investment opportunities including additional diversification, guarantee of capital and potential tax-deferral possibilities.

Principle protected notes may be used in scenarios where a client would like to generate equity like returns, but are willing to sacrifice some of their return for higher embedded fees, in order to protect their initial investment.

Hedge funds are often talked about in the financial press; however, they are commonly misunderstood by clients and the investment public. Notwithstanding, they may provide excellent diversification opportunities for higher net worth clients, in that they are often non-correlated to traditional investments.

It is important to understand that hedge funds are very complex and employ a variety of strategies, all of which have different risk-return profiles. Furthermore, as they are not as transparent as traditional investments, an even greater level of due diligence must be conducted before making a recommendation.

At Foundation, we conduct a thorough investigation of each prospective hedge fund. This examination includes the manager and all parties relating to the hedge fund. Particular attention must also be paid to the overall structure of the hedge fund. Should any hedge fund fail to disclose, at any time, information related to their structure, we will immediately begin the process of removing the fund from all client portfolios.

Thresholds

Assets Under Management	How Assets are Managed[1]
$150,000-$499,999	• Within this threshold, we construct portfolios using mutual funds. • Our unique investment selection process creates mutual fund portfolios that reflect the same quality and high level of due diligence afforded to our higher net worth clients, with minimal extra costs for the value added.
$500,000 -$999,999	• We now integrate pooled versions or F class mutual fund shares within our portfolios. Where accredited investor[ii2] rules apply, each mandate may have a minimum investment of $25,000 or more. • Where the minimum investment requirements can be met, we may consider private client managers through a consulting agreement. • Finally, we may employ mutual funds for specific geographic regions or sectors that are not available in the above-mentioned formats.
$1,000,000 and up	• We may now integrate premier private investment counselors, typically requiring a minimum mandate per investment counselor of $1,000,000 again through a consulting agreement. • Each investment counselor will be hired based on their investment style and ability to integrate within the client mandate. • Finally, we will consider F Class shares, pooled funds and mutual funds where applicable.

[1] Please note that the above stated thresholds are only guidelines for how assets are managed.
[2] Please see endnote on page 15 for accredited investor definition.

Fees

Assets Under Management	How Fees are Charged[3]
$150,000-$499,999	• Our compensation is incorporated within the Management Expense Ratio (MER) of the Fund and may range between 25 and 125 basis points annually. In some cases there may be an upfront commission that varies between investment types. All commissions are disclosed to the client before a recommendation is implemented.
$500,000 -$999,999	• The total fee to the client, including our fee plus the fee charged by the investment manager, will normally be as follows: o Fixed Income – 1.25% o Equity – 2.00% • Within the above mentioned fee, Foundation will be compensated as follows: o Fixed Income – 0.50% o Equity – 1.00% i. For non-registered accounts, fees may be tax-deductible. Please consult your accountant for tax advice. ii. Fee-for-service (F Class) mutual funds may be used if applicable.
$1,000,000 and up	• The overall fee structure is as follows: o $1,000,001 – 2,000,000 … 1.75 – 1.95% o $2,000,001 – 5,000,000 … 1.25 – 1.75% o $5,000,000 – 10,000,000 .. 0.85 – 1.25% o $10,000,000 and above …. 0.45 – 0.85% i. The above stated fees are based on a balanced portfolio consisting of equities and fixed income. ii. Fee-for-service (F Class) mutual funds may be used if applicable. iii. Overall fees may be reduced for portfolios largely comprised of fixed income. iv. For accounts in excess of $10,000,000 fees will be negotiable.

[3] Please note that the above stated fees are intended to be guidelines. All fees will be discussed and agreed upon prior to allocating assets.

Other Core Services

At Foundation, we believe that wealth preservation must include protecting your hard earned wealth from creditors and ultimately final taxes.

Approaches we consider with respect to minimizing creditor risk include investment holding companies, trust structures, Individual Pension Plans (IPPs), Retirement Compensation Arrangements (RCAs) and the tactical use of segregated funds.

With respect to estate planning, we look to employ strategies to minimize final taxes. Life insurance can play a central role in preserving the value of your estate. Properly drafted wills and effective trust planning are also crucial as they can help to ensure a smooth transfer of your wealth to your beneficiaries in a timely and cost effective manner.

Finally, Disability, Critical Illness and Long Term Care strategies will be considered to ensure that many years of long-term investment planning are not eroded by the costs of such an occurrence.

At Foundation we strongly advocate that a sound long-term investment plan must consider and ultimately reflect our clients' estate planning objectives.

Backgrounds of Quoted Individuals

Benjamin Graham

Benjamin Graham (May 8, 1894 – September 21, 1976) was an influential economist and professional investor who is today often called the "Father of Modern Security Analysis" from frequent references made to him by billionaire investor Warren Buffett, who studied under Graham at Columbia University, and was his only pupil to receive an A+. Graham was also called the "Dean of Wall Street" and is considered the first proponent of Value Investing. Other well known disciples (students and teaching assistants) of Graham include William J. Ruane, Irving Kahn, Walter J. Schloss and Charles Brandes. Buffett, who credits Graham as grounding him with a sound intellectual investment framework, described him as the second most influential person in his life after his own father.

Charles D. Ellis '59 B.A.

Charles D. Ellis is a consultant to large institutional investors. For thirty years he was managing partner of Greenwich Associates, an international business strategy consulting firm he founded that serves virtually all the leading financial service organizations around the world. Mr. Ellis earned his M.B.A. from Harvard University and his Ph.D. from New York University. He has taught investment management courses at Harvard and Yale, is the author of eleven books, mostly on investing, and has written nearly 100 articles for business and professional magazines. Mr. Ellis has served on the boards of Harvard Business School and Phillips Exeter Academy. He is currently a trustee of the Whitehead Institute for Biomedical Research, an overseer of the Stern School of Business at New York University, and a director of Vanguard and several small firms. He was elected Successor Fellow in 1997.

Eugene F. Fama Jr.

Vice President, Dimensional Fund Advisors

Eugene F. Fama Jr. adapts academic research to the real world of investing. His presentations make complex ideas not only understandable, but useful and fun. He works equally with advisors and institutional plans. Gene has spent more than fifteen years cultivating, refining, and discussing Dimensional's efficient markets investment philosophy. He has been instrumental in shaping the firm's communications, both in print and on the internet. A key contact for many of Dimensional's large US institutional clients, Gene travels frequently, helping advisors and investment plans implement concepts of multifactor investing. Gene writes extensively. From articles published in journals to working papers and the monthly *Factors in Practice* column on Dimensional's password-protected website, his writing helps clarify detailed ideas like asset pricing and diversification, and explains why these principles are so important for investment plans. He holds a B.A. in economics from the University of Chicago.

Craig L. Israelsen, Ph.D.

Craig L. Israelsen is an Associate Professor in the School of Family Life at Brigham Young University in Provo, Utah where he teaches Personal and Family Finance. He holds a Ph.D. in Family Resource Management from Brigham Young University. He received a B.S. in Agribusiness and a M.S. in Agricultural Economics from Utah State University. Prior to teaching at BYU, he was on the faculty of the University of Missouri-Columbia for 14 years, where he taught Personal and Family Finance in the Personal Financial Planning Department.

Primary among his research interests is the analysis of investment products, particularly mutual funds. He writes monthly for *Financial Planning* magazine and www.horsesmouth.com. His research has also been published in *Journal of Indexes, Journal of Financial Planning,* and *Journal of Asset Management.*

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[i] Available through consulting agreement

[ii] **"accredited investor"** means

(a) a Canadian financial institution, or a person authorized in a foreign jurisdiction to carry on banking, insurance or trust business,

(b) an authorized foreign bank listed in Schedule III of the *Bank Act (Canada),*

(c) the Business Development Bank of Canada continued under the *Business Development Bank of Canada Act (*Canada),

(d) a subsidiary of any person in paragraphs (a) to (c), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of the subsidiary,

(e) a registered dealer or adviser, a dealer or adviser in another province or a foreign jurisdiction that is registered under the securities laws of the other province or foreign jurisdiction for the purpose of trading or acting as an adviser,

(f) a registered representative or another person that trades a security or acts as an adviser on behalf of an entity referred to in paragraph (e), if the person is registered under the securities laws of another province or a foreign jurisdiction,

(g) an individual that was formerly registered under the Act, the *Securities Act,* RSBC 1996, c. 418, or securities legislation of another province,

(h) a registered charity under the *Income Tax Act* (Canada) that has obtained advice for the trade from a registered adviser, or an adviser in another jurisdiction registered under the securities laws of the other jurisdiction for the purpose of acting as an adviser,

(i) a government, government agency, municipality, public board, or commission in or outside British Columbia,

(j) a pension fund that is regulated by the Office of the Superintendent of Financial Institutions (Canada) or a provincial pension commission or a similar regulatory authority in any foreign jurisdiction,

(k) an individual whose net income before taxes exceeded $200 000 or, combined with that of a spouse, exceeded $300 000 in each of the two most recent calendar years and who, in either case, reasonably expects to exceed that net income level in the current year,

(l) an individual who, either alone or jointly with a spouse, owns cash and securities having an aggregate realizable value that before taxes, but net of any related liabilities, exceeds $1 000 000,

(m) an individual who, either alone or jointly with a spouse, has net assets of at least $5 000 000,

(n) a person, other than an individual, that had net assets of at least $5 000 000 as shown, in aggregate, on its most recently prepared financial statements, and the most recently prepared statements of any wholly-owned subsidiary,

(o) a mutual fund or other investment fund if

(i) each securityholder of the fund was an accredited investor at the time the securityholder purchased a security of the fund,

(ii) the investment portfolio of the fund is managed by a registered adviser, or an adviser in another jurisdiction registered under the securities laws of the other jurisdiction for the purpose of acting as an adviser, or

(iii) it is a public mutual fund, public issuer or an issuer that is a reporting issuer under the securities laws in another province or foreign jurisdiction,

(p) a person, other than an individual, if all of the owners of interests in the person are accredited investors, not including directors who are legally required to own one or more voting securities of the person, and

(q) a person or class of persons designated as an accredited investor for the purposes of this definition;