Guided Portfolios
Disciplined portfolio management

"To invest successfully over a lifetime does not require a stratospheric I.Q., unusual business insight, or inside information. What is needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework."

Warren Buffet

RBC Dominion Securities

Guiding principles

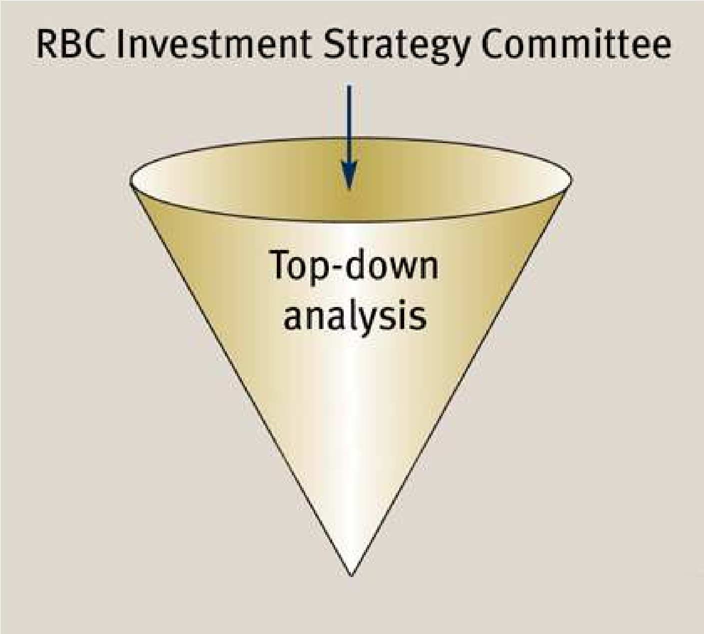
- Guided Portfolios operate within rules and guidelines that bring discipline to the management of equity portfolios.
- Our "guiding principles" are to:
    - Diversify the portfolio across industry sectors in a way that fits the global economic outlook
    - Choose high quality companies in each sector according to objective guidelines
    - Adhere to pre-established rules for making changes to the portfolio

Investment strategy

- The underlying investment strategy uses a combination of top-down and bottom-up evaluation.
- Top-down evaluation determines the allocation of stocks between all major economic sectors.
- Bottom-up evaluation filters stocks according to three research disciplines – fundamental, technical, and quantitative analysis.

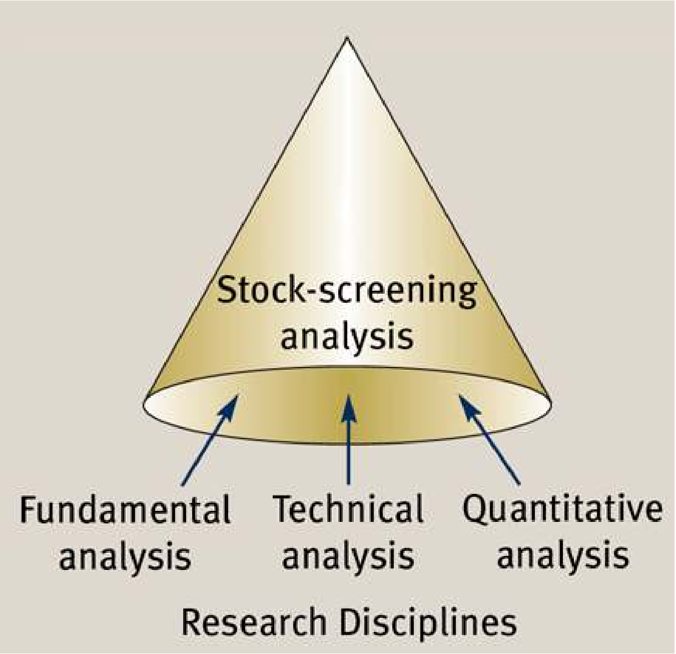
Top-down analysis

- Strategy Committee comprised of our leading economists, research analysts and portfolio strategists meets quarterly to provide recommendations regarding:
    - Economic outlook, interest rates, corporate earnings and equity valuations
    - Asset allocation between equities, fixed-income and cash
    - Sector allocation between four major economic sectors – Industrial, Interest Sensitive, Consumer and Resource



Bottom-up analysis

- Individual companies assigned a score based on three research disciplines: fundamental, technical and quantitative.
- Bottom-scoring companies eliminated from universe of stocks.
- Independent selection committee applies qualitative screen.
- End result is a list of quality companies suited to the forecast environment.



Fundamental analysis

- Fundamental research looks at factors such as a company's competitive position within its industry, its financial statements, quality of management, and valuation to determine a recommendation.

Canada

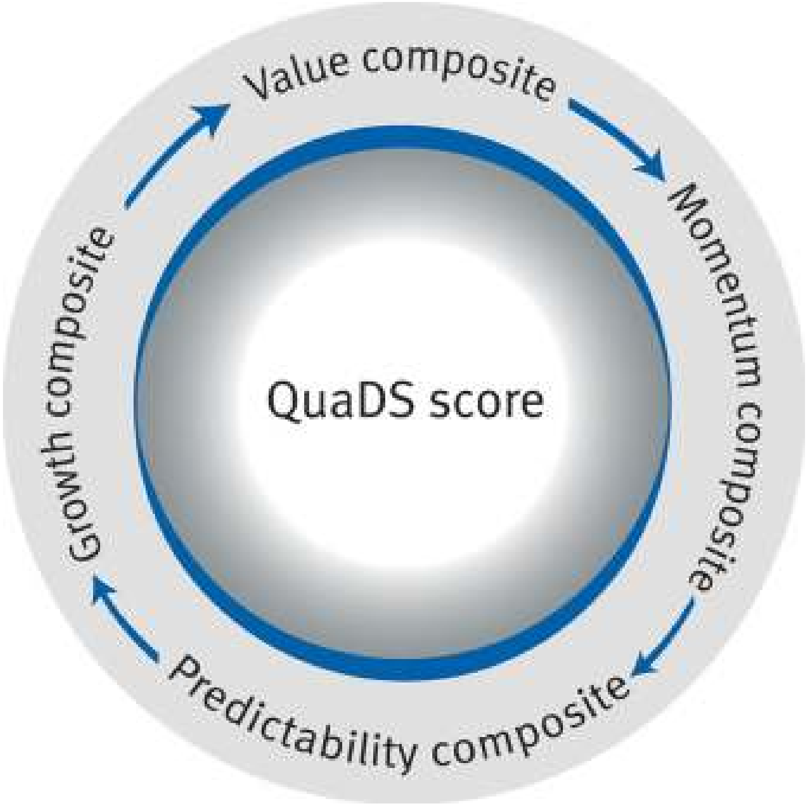
- RBC Capital Markets

United States

- Standard & Poor's
- Bear Stearns

Quantitative analysis

- Value composite combines valuation metrics such as price/recurring earnings, price/estimated earnings, and price/normalized earnings.
- Momentum composite considers factors such as earnings momentum, revenue momentum and total return momentum.
- Predictability composite based on various measures such as total return stability, earnings stability and confidence of earnings estimates.
- Growth composite considers, among other things, earnings growth, revenue growth and dividend growth.



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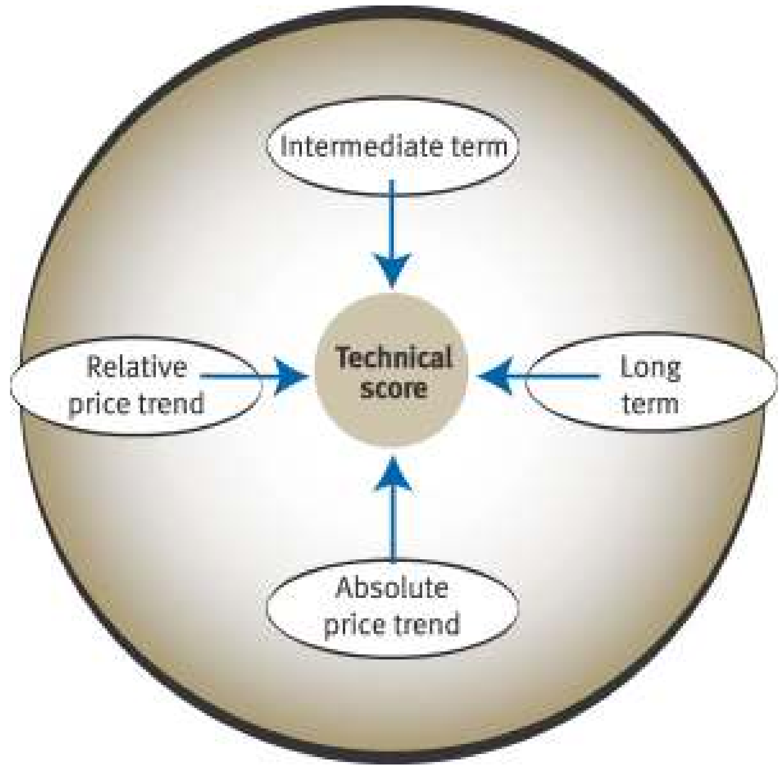
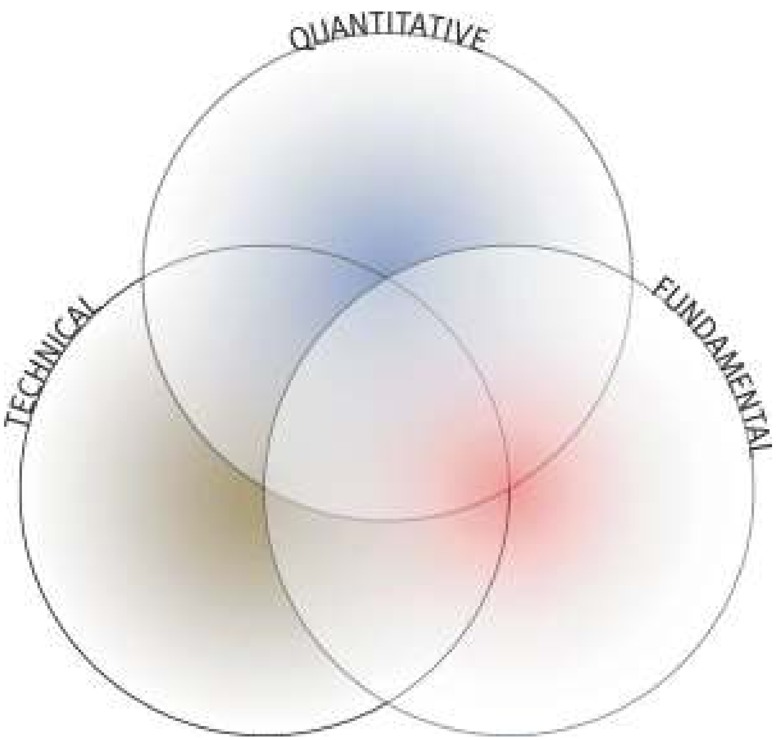
Technical analysis

- Technical analysis focuses on price momentum and relative strength over two time periods – intermediate and long term.



A "3-Discipline" process

- This 3-Discipline process is designed to identify the stocks that score best in all three research disciplines combined.

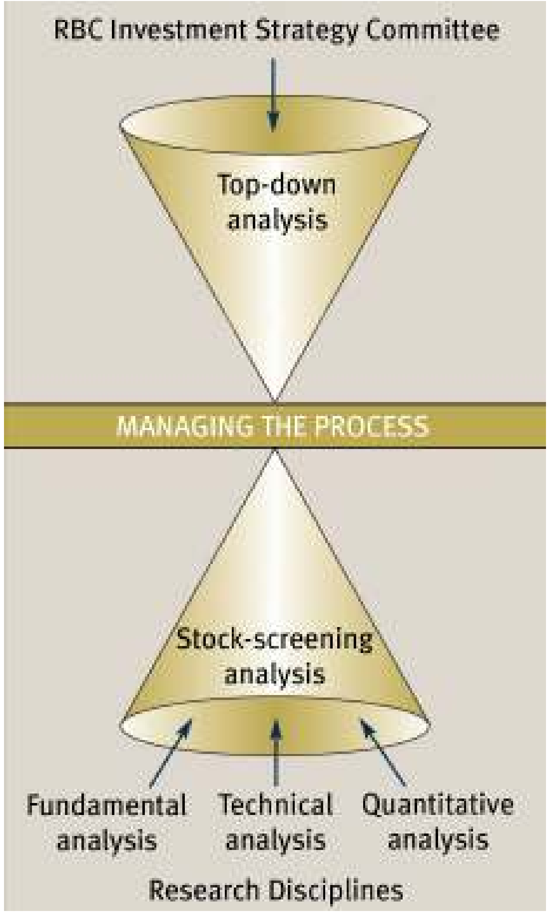


Qualitative analysis

- Our stock selection committee applies a qualitative screen to the stocks that score best in three research disciplines.
- Factors that are considered include:
  - Business model that generates excess capital
  - Strong management team
  - Competitive position
  - Financially healthy customer base
  - Favourable industry environment
  - History of product innovation and/or a competitive cost structure

The resulting portfolio

The Guided Portfolio process



- The portfolio is structured with exposure to sectors likely to outperform, while ensuring it is not overexposed to those sectors likely to underperform.
- The portfolio only holds quality companies that have passed a multi-disciplinary screening process.

Managing the portfolio

- The decision to buy, sell or hold is driven by specific criteria – effectively removing the guesswork and emotion from investing:
  - Match sector recommendations
  - Only hold recommended companies
  - Rebalance large positions

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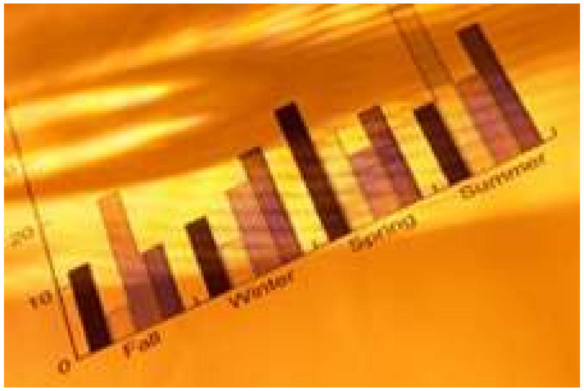
Matching sector recommendations

- Top-down analysis will from time to time dictate changes in the number of positions to be held in each sector in the portfolio.
- This may require specific stocks to be replaced by ones in different industries.
- These changes ensure the portfolio is always structured to fit the current market outlook.

Holding only recommended companies

- Recommended companies are monitored to ensure they meet requirements.
- Companies that no longer qualify are sold from the portfolio.
- This ensures the portfolio always owns only companies that are highly ranked across the independent analytical disciplines.
- Discipline forces the portfolio to deal decisively with companies whose fortunes deteriorate – eliminating the emotions associated with selling losers.



Rebalancing large positions

- Typically, new portfolios are equally allocated across 20 stock positions.
- Over time, positions may grow to represent a greater percentage of the portfolio.
- Positions will be rebalanced if they’ve grown past a certain threshold.
- This ensures the portfolio does not become overexposed to one particular company.

The benefits

- Brings a business-like approach to a task that is too often emotionally driven.
- Forces the portfolio to deal with negative developments promptly.
- Adapts the portfolio to a changing economic and market environment.
- Ensures the portfolio always owns quality companies that have met high standards.
- Places emphasis on portfolio structure and not just on the individual companies within.