



DIVERSIFIED ETF SELECT PROGRAM FAQs – Effective November 1, 2009

General FAQs (Frequently Asked Questions)

Section 1: The Investment Advisors for the Portfolios

Q1: "Who provides Investment Advisory Services for the Portfolios?"

A: "DGM Bank & Trust Inc. has contracted HAHN Investment Stewards & Company Ltd ("HAHN") to provide Investment Advisory services. HAHN has the longest track record for managing globally diversified Separately Managed Account (SMA) portfolios exclusively utilizing Exchange Traded Funds (ETFs). All portfolios have outperformed their benchmarks since inception."

Q2: "How big is HAHN Investment?"

A: "HAHN is part of the Jovian (JOV:TSX) group of companies which manages in excess of \$12 billion in client assets, \$2.4 billion of which is represented by ETFs."

Q3: "What is distinctive about the portfolios managed by HAHN?"

A: "HAHN are world leaders in employing ETFs in diversified portfolios. Their global investment management expertise has been coupled with innovative, proprietary portfolio management technology to offer institutional quality customized portfolio management (normally requiring \$1 million minimum investment) to individual investors."

Q4: "Does HAHN receive commissions or other forms of compensation from brokerage firms, mutual fund companies, or other third parties?"

A: "No. As a fee-only firm, their only compensation is through investment management fees based on assets under management (AUM). As a result, investors receive advice that is fully independent and objective with no conflicts of interest."

Q5: "How is the Diversified ETF Select Program different from other Separate Managed Accounts?"

A: "HAHN's proprietary software custom manages each account uniquely. Cost efficiencies and custom portfolio optimization is applied to each client portfolio. Institutional brokerage rates have been negotiated with broker/dealers and are hard-coded into the program – a cost effective practice which exceeds the highest fair-dealing standards. Furthermore, in instances where trades are facilitated in bulk, transactions for all clients — whether large or small — are settled at the same average price."

Q6: "How can clients keep informed of HAHN's views and investment strategy?"

A: "HAHN publishes a wide range of research reports and commentaries. Most widely disseminated is the quarterly investment publication, the *Global Wealth Perspective*. A quarterly slide/audio update is produced and distributed to advisers and clients, which can be accessed by web-link. The *Portfolio Strategy Update* is a self-standing publication that serves to update clients and advisers with respect to current strategies and investment policies. Additional investment market and research commentaries including *ETFfocus*, *Global Spin*, the *HITCH Update* (Quarterly) and the *Global Chart Panorama* (Quarterly) are also made available through our public website at www.dgmbank.com.

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Section 2: The Program Custodian -- CIBC Bank & Trust Company (Cayman) Limited.

Q1: "Why has CIBC Cayman been chosen as program Custodian?"

A: "CIBC Bank and Trust Company (Cayman) Limited, established in 1967 is a leading international financial service provider in The Cayman Islands. The Cayman office of CIBC provides a full range of banking, trust, and investment services to individuals, corporations, and international financial intermediaries. CIBC Bank and Trust Company (Cayman) Limited has developed a strong reputation for providing Investment Administration Services for international investment funds and products.

CIBC Cayman is a wholly-owned subsidiary of CIBC (TSX, NYSE: CM), a leading Canadian-based global financial institution. CIBC provides a full range of financial service products and services to almost 11 million individual, small business and commercial, corporate and institutional clients in Canada and around the world. At year end (October 31, 2009):

- Revenue was \$9.9 billion.
- Net income was \$1.2 billion or \$2.65 per share diluted.
- Market capitalization was \$23.8 billion.
- Tier 1 capital ratio was 12.1%.
- CIBC had more than 41,000 employees worldwide.

Q2: "Why do I need a custodian?"

A: "A third-party custodian ensures a high level of protection for client assets, as it is a separate company from the Investment Advisors. CIBC Cayman provides a segregated account that holds each clients portfolio assets separately."

Q3: "How do I know that my assets are safe with CIBC Cayman?"

A: "With respect to client securities and investment holdings, client assets are "segregated." This means that client assets are not intermingled with the custodian's assets but separate. Therefore, clients' security assets — both their value and security — are not affected by the financial stability of the custodian. Security is an important assurance of the investment program as its structure promotes full and complete transparency. All portfolio holdings are securities listed on a public stock exchange. There are no securities or holdings of any kind that cannot be independently valued by the client."

Section 3: Separately Managed Accounts (SMAs)

Q1: "What are the key benefits of a SMA?"

A: "The chief advantage of SMAs is direct ownership of securities – peace of mind for clients that all portfolio holdings are held in their own account through an independent custodian. This also permits portfolio customization."

- **Customization:** SMAs allow for bespoke portfolios for each client.
- **Transparency:** SMAs hold assets uniquely by client, allowing full information as to holdings and transactions specific to the client account.

Q2: "How are HAHN-managed SMA portfolios different from a mutual fund?"

A: "When you purchase units of a mutual fund you have shared ownership of the underlying securities with all of the other unitholders in the fund. Separately managed accounts are only similar to mutual funds in that a money manager develops a portfolio mandate and manages its constituent holdings. Whereas mutual funds are a one-size-fits-all solution, a SMA provides the ability to have a customized portfolio that is continuously managed/monitored for each client."



Q3: "Why does HAHN use Exchange-Traded Funds (ETFs) instead of mutual funds or direct securities (stocks & bonds) in their SMA portfolios?"

A: "ETFs are less expensive, more tax-efficient, more transparent, more likely to offer pure asset exposure, and more flexible. ETFs have changed the economics of investing. What we were able to do only for institutional, multi-million-dollar global portfolios in the late 1990s, we can do today for private clients. Overall, ETFs are an indisputably beneficial step forward in the wealth management industry ... positively re-shaping investor economics and global portfolio construction."

Q4: "Why are SMAs increasing dramatically in popularity?"

A: "There are a several reasons driving the popularity of SMA accounts. Given the recent proliferation of fraudulent behavior, transparency is becoming a greater issue for investors. As such, SMA investment programs offer a welcome alternative. The investor retains many more rights in an SMA structure and has more transparency looking into the securities held and all trading activity."

Section 4: Program Information

A) Account Opening

Q1: "How quickly are new client accounts fully invested in alignment with current investment strategy?"

A: "Normally, once funds have been received into a client account which has been cleared for implementation, HAHN builds the prescribed portfolio the following Monday. However, please note that from time to time, HAHN may decide to defer implementation one or more weeks due to reasons of an extraordinary market climate. Also, if investable amounts are inconsequential in any given weekly trading cycle, HAHN may seek to delay until a more economical amount of assets is being invested."

Q2: "Can additional funds be allocated to an existing portfolio?"

A: "Yes."

Q3: "Are there any restrictions on account withdrawals?"

A: "Cash withdrawals can be initiated at any time. However, they do require a lead time of 5 to 10 business days as their facilitation involves several steps. Firstly, it takes time to sell a portfolio asset in order to raise sufficient cash to fund the withdrawal request. Therefore, there is time lag of at least 3 business days for the sell transaction(s) to be settled. Anytime that a withdrawal is requested, the portfolio system must again rebalance the portfolio to ensure it remains in line with targeted strategies. All withdrawal requests must be received by DGM no later than 3:00 PM EST on Thursdays. If liquidation of portfolio holdings are required, these will be executed on the next weekly investment cycle (normally on Monday excepting national or provincial holidays, which would necessitate a delay of 1 day). Funds will be available for payment to the client by the following Friday ("Bank" holidays may add additional delays)."

Q4: "Why are there withdrawal restrictions with SMA portfolios?"

A: "There are significant advantages to having a "Separate Managed Account" (SMA). One of these attractions is that there is a greater facility to control transaction cost than is possible with Mutual Funds or Pooled Funds. Many mutual funds can have high levels of redemptions or inflows over time. That adds to transaction costs for individual unitholders. Treating a SMA as if it were a demand or chequing account is costly and counterproductive. If a client will be issuing calls for funds frequently, a Diversified ETF Select Portfolio may not be the best investment choice for them. We encourage clients to adopt behavior that supports long-term asset accumulation."



Q5: "Can clients transfer assets "in-kind"?"

A: "No."

Q6: "Why does my performance vary from HAHN's reported performance results?"

A: "While we apply a transparent and consistent performance calculation methodology to represent each portfolio mandate's composite performance, it is important to note that SMAs are highly customized to individual accounts. Portfolio size, type of holdings and other external factors can contribute to performance variability between similar accounts. It is essential to understand that generating performance statistics for SMA portfolios is much more complicated than for determining performance for a single mutual or bond fund. In dealing with separate accounts what is published are "client composite" performance statistics. We try to represent the average experience of all accounts held in the same mandate. HAHN uses a "real-time" model relying on actual, unbiased price data. We use end-of-day (closing) pricing in determining our composite performance statistics. Experiences of individual client portfolios, however, will almost always be different from the "composite performance statistic" that we publish. The timing of the initial implementation of an account can have a significant impact on account performance compared to the "composite" figures, particularly when this occurs during periods of high market volatility. For example, if an account was initially invested on April 17, the performance of the account could vary slightly or substantially compared to the model performance at month-end. Of course, theoretically, this effect can work to the client's benefit or disadvantage. Accounts that are started intra-month will typically show the largest performance discrepancies.

Q7: "Where do I obtain Account Opening documents?"

A: "www.dgmbank.com/downloads/Diversified ETF Select Program Agreement.pdf"

Q8: "How do I know what information and documentation is required for an account type?"

A: "The cover page on each account-opening package provides a "Checklist" detailing the forms and attachments required for each account type.

Q9: "How will I know that a new account has been approved and opened?"

A: "A DGM Private Banking Representative will communicate with you."

B) Account Minimums

Q1: "What are the minimum account sizes?"

A: "All Diversified ETF Select portfolios currently have a minimum account size of \$100,000 per client account."

C) Portfolios

Q1: "How many different types of portfolio mandates do you currently offer?"

A: "We currently offer 8 Diversified ETF Select portfolio mandates which vary by the amount of international content and by the equities/fixed income/opportunity/cash composition: 6 "Core" portfolio mandates and 2 "Income Focus" portfolio mandates. See www.dgmbank.com for details."

Q2: "How many ETF holdings are in each portfolio?"

A: "Each portfolio is constructed using index ETFs designed to track the performance of selected asset classes around the world in a low cost manner. HAHN adheres to an unbiased "best of breed" selection process to identify the ETFs that best facilitates each portfolio strategy. The number of ETFs in each account depends on the account size. HAHN's proprietary portfolio management software optimizes costs and conformity to benchmark strategies to determine the optimal number of ETF holdings while strictly limiting the number of transactions to minimize trading costs. Depending on the current investment strategy, accounts > \$250,000 will hold between 15 and 25 ETFs providing exposure to

Investment Advisory
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hundreds of securities held inside the ETFs. To minimize trading costs, smaller accounts will hold a progressively smaller number of ETFs."

Q3: "How often are client assets reinvested or rebalanced?"

A: "Every week, all accounts are scanned for investable balances. The definition of an "investable amount" will change from time to time, as determined by the efficiency algorithms in HAHN's Performance Engine. These are dependent upon the current active investment strategy, trading costs within different markets and the size of the client's account. Also all portfolios are reviewed weekly for positions that have moved outside of their tolerance bands (thresholds set by the Investment Advisors to initiate asset class rebalancing). In this way, all portfolios remain compliant on a continuous basis with respect to portfolio design as well as maintaining conformity to current portfolio strategy. The frequency of rebalancing is driven by the cost efficiency algorithms, not a predefined policy of rebalancing every quarter or some other defined frequency. In short, our rebalancing methodology is superior because it acts to sell high and buy low on the condition that costs to do so are reasonable."

Q4: "All of HAHN portfolios have some international content. Why?"

A: "At this stage of globalization, domestic investing is vastly different from decades past. For many reasons, a portfolio invested in, say 100% US securities cannot avoid the influences of the rest of the world. For one, many corporations, though they may be listed on a US exchange, themselves own international assets, foreign subsidiaries ... etc. Or, a significant portion of their revenues may be dependent upon trade or the sales of their foreign subsidiaries. The portfolio advisors at HAHN are distinguished from other inward-looking managers as they have long cultured a global perspective and have been at the forefront of the global investing revolution."

Q5: "Why not hedge out all international currency exposure? Doesn't international content add currency risk?"

A: "Yes and no. It depends what time frame is being considered and the approaches that are employed to manage currency risk. To illustrate, we can use the Canadian : US Dollar example. During the long periods that the Canadian dollar was chronically falling ... between 1975 and 1985 and then again between 1993 and 2001, holding all one's asset in Canada was deemed to be risky. On the other hand, in recent years (2002 to 2007) when the Canadian dollar was strong against the US dollar, currency movements versus the Canadian dollar acted as a drag on foreign asset returns. What to do? HAHN's answer, after cutting their teeth on currency theory for some 2 decades, is to buy good assets around the world and only hedge currency when they become overvalued. This is a middle approach HAHN has not changed in nearly 2 decades...no matter popular sentiment and opinions amongst both client and other portfolio managers with respect to currency trends may fluctuate between extremes."

Q6: "How can clients determine their foreign currency exposure in their portfolios?"

A: "This is virtually impossible to measure exactly. Even multi-national companies themselves are hard-pressed to make this determination. Any portfolio holding exposure to a large number of equities or equity ETFs can only approximate its general currency exposures. For example, some corporations hedge their foreign assets or income, some do not. It would be impossible to know net exposure at any given point for one company, let alone the many hundreds that might be represented in one ETF. It is important to note that the currency in which a stock, bond or index ETF is listed, provides no indication as to what is the true currency exposure. One must first determine the content of each individual investment. For example, an index ETF such as the Barclays' iShare EAFE may be listed on a U.S. exchange and be denominated in U.S. dollars. However, the fact remains that all of its constituent holdings are companies that are domiciled in Europe, Asia and the Far East. Therefore, though one's portfolio report will show a U.S.-dollar security (namely the Barclays' iShare) in actuality this has no bearing on the actual currency exposure. That said, HAHN portfolio managers due to their experience, do have a fairly determinative sense of net currency exposure in any portfolio mandate."



Q7: "What should the client do with respect to managing currency exposure?"

A: "Once a client has determined a suitable portfolio mandate, let the portfolio advisors look after currency strategy. As it is, currency strategy is one of the most difficult things to get right. Even though HAHN has much experience in currency research and analysis, they only take a semi-active approach. Only when currency risks are high, do they actively hedge international currency exposures. Why? Currency hedging can be expensive and short-term trends of currencies are noisy and difficult to anticipate. All the same, currency exposure is an active component of our investment management approach. Clients seeking to manage the currency exposures of our portfolio mandates may find themselves negating our active policy at any given point in time. Anyone wishing more information about our proprietary currency management approach and its supporting theories is invited to review HAHN's presentation covering investment methodology."

Q8: "Can clients change the portfolio mandate, after the account is invested?"

A: "Yes. New mandate requests must be delivered to DGM no later than 3:00 PM EST on any Thursday (or prior business day should a Thursday be a national holiday) to effect the scheduling of the mandate change on the next weekly investment cycle."

Q9: "Will you be adding more portfolio mandates in the future?"

A: "Yes, we anticipate this will happen over time as new client needs are identified."

Q10: "Are any further enhancements planned to the portfolio platform?"

A: "We are always open to improvements and better ways to service clients' needs. Please let us know of any recommendations that can improve our service offerings."

D) Fees

Q1: "What fees are charged directly to the client?"

A: "The Investment Management Fee will be charged to the client account quarterly in arrears. Transaction costs, which are typically less than 0.20% per annum are the responsibility of the client. In certain cases, depending on account structure and custodian, custody fees may also be applicable."

Q2: "What about trading trading costs?"

A: "HAHN's policy is to avoid transactions whenever possible to improve returns. That is one of the primary reasons why HAHN Investment built its own proprietary portfolio management software. Program transaction costs generally range below 0.20% per annum (transaction costs for established accounts averaged 0.18% during calendar 2008). This is low because systemic costs and portfolio turnover are designed to be low."

Q3: "Besides minimizing frequency of trading, how do you control costs in active portfolios?"

A: "Transaction costs in the Diversified ETF Select portfolios are minimized through the use of proprietary optimization algorithms. For example, if a rebalancing requires one or more trades for which transactions costs are greater than a specified percentage of the purchase value, the portfolio management engine seeks less expensive opportunities to re-deploying cash. HAHN's proprietary "roll-up" feature identifies broader ETF securities for smaller accounts to reduce trading costs and minimize the MERs in the ETF holdings. "

Q4: "ETFs have MERs. Shouldn't these be included in the overall management costs to clients?"

A: "We agree that clients should be made aware of the fact that ETFs all have MERs and counsel that all investment product cost comparisons presented to clients should be completely transparent and represented on an equal and fair footing. That being said, the MER charged by the ETF manufacturer



(Barclays, State Street, Vanguard etc.) are highly competitive (between 18-35bps) and are reflected in the performance of the ETF – and subsequently the published performance figures.”

F) Reporting

Q1: "Client portfolio reports: Who issues them and how often?"

A: "Detailed portfolio reports are prepared for each individual client every quarter and can be delivered either by email or post as is preferable. The investment holdings data and securities pricing is supplied by an independent third party – CIBC Cayman. Performance data is provided by HAHN. Online access is available 24/7."

Q2: "What performance calculation methodology is used?"

A: "The Modified Dietz equation."

Q3: "Are on-line portfolio reports available to the adviser and client?"

A: "Yes. All clients are given access to HAHN's Portfolio Online Reporting Tool (H-PORT) upon request."

Q4: "What types of reports are available Online?"

A: "There are two types of portfolio reports available for your portfolio:

Current Report: This report lists all account holdings by Asset Class including; Average Cost, Book Value, Close Price, Market Value, Unrealized Gain/Loss, Income Since Inception and Total Gain/Loss.

Quarterly Account Statement: This report begins with a Summary of Investments detailing the Market Value, by Asset Class and as a % of the Total Portfolio Value. Positions by Asset Class are listed including; Book Value, Market Value, Income Since Inception, Total G/L (\$) and Total G/L (%), along with a summary of Last Quarter Activities, Last Quarter Realized Income and Last Quarter Realized Gain/Loss."

(Note: The use of a color printer is recommended.)

Q5: "The portfolio reports include the book value for each client account. Why does this differ from the original invested amount?"

A: "By definition, these two figures are not one and the same. The total book value of an account reflects the historical costs, which will deviate over time from the value of the account at inception as securities are bought and sold and realized gains/losses are factored in.

Q6: "How do I access my electronic statement?"

A: "Every quarter, electronic statements are available no later than the 15th of the month following a quarter-end. As electronic statements are offered within HAHN's portfolio reporting application, you will need your personal user name and password to gain access. Please contact DGM Private Banking if you do not have a user name and password."