DIVERSIFIED ETF SELECT PORTFOLIOS

TRADING AND TURNOVER – POLICIES AND PROCEDURES

GENERAL OBJECTIVES:

A. Only implement strategy changes that make a material impact upon the long-term performance of client portfolios.

B. Achieve low transaction charges through low turn-over and optimal trade execution.

PART 1 – TACTICAL STRATEGIES

Rule 1. Only implement strategy changes that make a material impact upon long-term performance. All tactical shifts must meet:

1. Macro Strategies – Long-term Frequency Criteria

As a guideline, the following long-term expected frequencies should apply:

Frequency of Macro Strategy Shifts by Type

- **Asset Mix**: No more than onece a year on average. (This is the only category in which shifts can be staged as per the criteria described below.)
- **Opportunity Assets (Core portfolios only)**: Opportunistic and higher-turnover category. Typical holding period is 3 years.
- **Fixed Income – Aggregate/Credit/Duration**: Each aggregate bond position must be greater than 5% of total portfolio. Once every 2 years with respect to Credit Spread. Duration changes should not be initiated more than once per year.
- **Equity – Style Changes**: Once every 4-5 years on average with respect to Capitalization (Small/Mid/Large Cap) and Style (Value/Core/Growth).
- **Equity – Sector Shifts**: Once every 2 years (or half the term of an average business cycle). Sector overlay(s) cannot replace more than 50% of the underlying broad index. Max 3 sector overweights for each region.
- **Currencies**: Once every 4-5 years for each major currency pair – CAD/USD, USD/Euro, USD/Yen, USD/GBP, etc. Currency hedging should not be applied to more than 50% of the overall portfolio.
- **Short-term implementation**: Differences (if any) in short-term implementation versus long-term implementation should remain no longer than one year. These differences should be based on current market volatility and not short-term forecasts.
- **Opportunistic Strategy Changes**: During periods of heightened market volatility and/or large changes in asset values, "opportunistic" strategy shifts may also be employed subject to the following restriction; Implied volatility (as measured by the ^VIX index) must be above 1.5 standard deviations as compared to its trailing five-year moving average.

2. Execution Costs Versus Expected Return Hurdles

Each strategy shift must meet the following expected return hurdles (versus execution costs):

a) The effect of the change must meet or exceed the expectation of a 15% relative out-performance versus the existing postion/stance over a 2-yesr time frame. A secondary criterion to apply is that the expected relative out-performance versus the existing position should be 4X the round-trip cost of affecting the change including transaction and market impact costs.

b) The shift must impact 5% or more of the market value of a portfolio (however not applying to sector, individual country weightings or opportunity classes).

Rule 2. To avoid all unnecessary trading, all decisions that require a market trade in client accounts must be thoroughly vetted, meeting the following criteria.

Is the change meaningful in impact?
Are transaction costs to affect the change low enough?
Is a currency purchase avoided?
What are the potential taxation consequences?

Rule 3. When in doubt, never implement a trade!

PART 2 – REBALANCING

We approach portfolio rebalancing with three primary goals: (i) maintenance of low transaction costs; (ii) monitoring portfolio risk ranges through regular rebalancing and "tolerance bands"; and , (iii) "opportunistic" rebalancing to capture and benefit from extreme asset price distortions. Our proprietary Precision Performance Engine monitors portfolios daily and triggers trades based on this rebalancing philosophy.