Quarterly Portfolio Review
As at September 30, 2014

NELSON
PORTFOLIO MANAGEMENT CORP.

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Disclosures: "Douglas Nelson is registered as Portfolio Manager for Nelson Portfolio Management Corp. and is responsible for making all final decisions regarding client accounts and the NFC Tactical Asset Allocation Pool. Doug was the author of this report, but any reference to "our" or "we" represents the collective efforts and contributions of various members of the Nelson team."

NELSON
PORTFOLIO MANAGEMENT CORP.

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Announcements:

1. Mr. Ian Wood, CFP, CLU, CIM, FCSI. Ian joined our team on August 5th, 2014. He has worked in various roles in the financial services industry over the past 10 years. Over the past 4 years he has worked with two other financial advisory groups at the major Canadian banks. His experience, education and perspective is a great addition and adds to the technical strength of our team.

   In the same way in which Mike Webster supports the portfolio management process through the research and tracking of individual securities, Ian is supporting the portfolio management process by researching and tracking different exchange traded funds. This allows Doug to focus on the overall risk management and design of the pool and client portfolios. Together, Ian, Mike and Doug represent the investment committee for the NFC Tactical Asset Allocation Pool. All final investment decisions are Doug's responsibility.

   Ian is also responsible for the day to day management of our portfolio monitoring process. This is the process of reviewing client portfolios throughout the year to ensure that the asset mix of your portfolio is consistent with your Investment Policy Statement as well as the current market environment. Once these reviews have been completed, Doug completes a secondary review of those accounts that are beginning to drift to the outer ranges of the risk profile. This helps to ensure that your portfolio is reviewed regularly and consistently throughout the year, by more than one person, and is rebalanced pro-actively to help protect capital and take advantage of opportunities.

   Ian will be involved in client meetings and is available to answer any questions in the event that Doug is not available. We are pleased to welcome Ian to our team and we look forward to working with him for many years to come!

2. Annual Reviews: It is a regulatory requirement to complete a regular review with our clients. Over the next few months Doug and Ian will be contacting you to complete an annual review document. This document helps us ensure that we are up to date on your current objectives, risk profile and overall situation. Please assist us by completing these documents as quickly as you are able.

Ian Wood has joined our team. His experience, education and perspective is a great addition and adds to the technical strength of our team.

Announcements - continued:

❸ Discrepancies between Nelson [insert name of report] reports and NBCN monthly statements: We see that in some cases there are some small discrepancies [insert the discrepancy i.e. value of the portfolio] between the Nelson reports and the NBCN monthly statements. Upon review, it appears to be the result of the following: i) timing of the quarterly distribution of the NFC Tactical Pool vs. the timing of when NBCN produces the monthly statement; and ii) the timing of when dividends are declared and paid. Both of these are timing issues and are not considered to be errors. If you see any discrepancies that are of concern to you, please let us know immediately.

❹ Doug attended the national conference of the Institute for Advanced Financial Planning, September 28th to October 1st, in Calgary.

❺ Doug will be attending the annual NBCN Portfolio Managers conference in Toronto, October 23rd and 24th.

❻ In January 2015 we will be making adjustments to our fee schedules so as to accommodate changes to our referral arrangement with Nelson Financial Planning Corp. There will be no changes to your current fee schedule unless you agree to do so.

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Market Commentary: (as of October 3rd, 2014. By Doug Nelson, Portfolio Manager.)

Market Statistics: (data drawn from ca.finance.yahoo.com):

- Since January 1st this year the Toronto stock exchange has increased in value by 10.05%. The S&P 500 (the 500 largest companies in the US) has grown by 7.66%, while the EAFE index (Europe Asia Far East) has decreased by 2.72%. These are the growth components of a typical portfolio.
- Short term bonds (symbol: xsb) have had a flat return so far for the year while long term government bonds (symbol: xlb) have risen in value by 7.37%. US corporate bonds (symbol: XIG) have risen by 3.7% while US high yield bonds (symbol: xhy) have dropped by 1.25%. Preferred shares (symbol: xpf) have risen by 4.12% so far this year. These are the defensive components of a typical portfolio.
- Looking at different sectors we see that the real estate trusts (XRE) are up by 4.7%, financial services (XFN) is up by 8.83%, energy (XEG) is up by 8.27% and the materials sector (XMA) is up by 1.2%. Gold is down by 1.52%.

I would typically expect to see this type of correction any time between July and October each year.

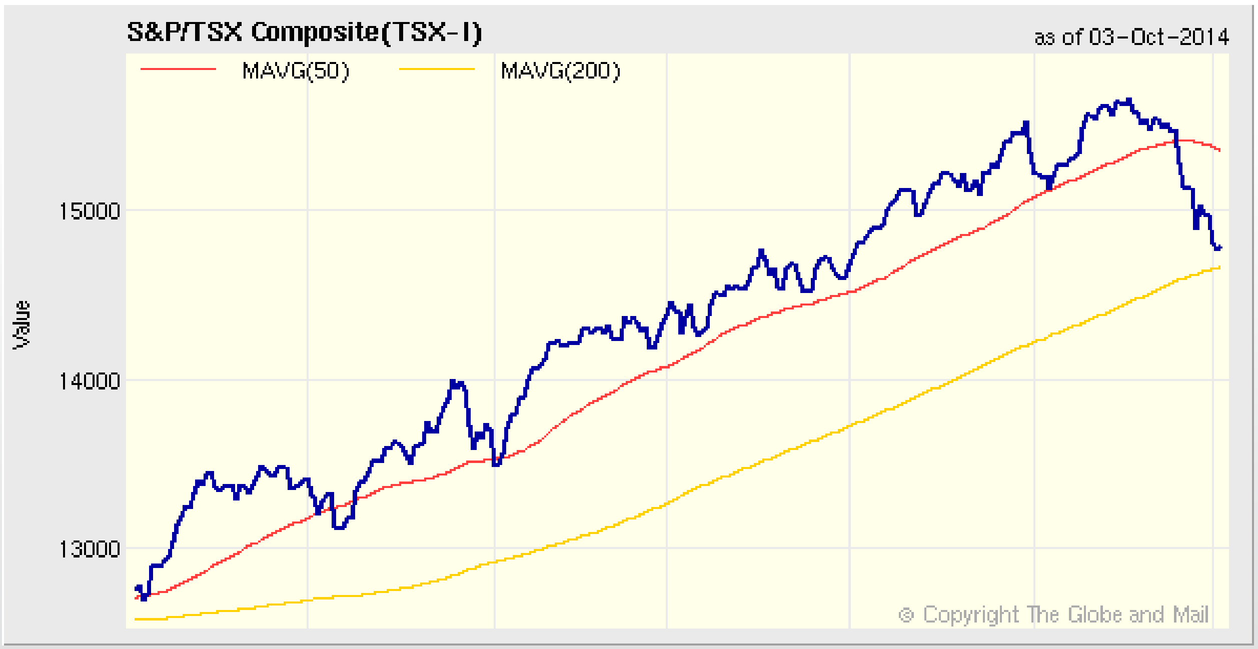
Commentary - continued:

Market Trends and Important Questions To Ask:

How has the stock market fluctuated throughout the year?

The Toronto stock exchange peaked most recently on September 3rd. At that time the year to date gain was 15%. Yet, since then I have seen the market decline by a reasonable 5%. The last time we were at this level was June 5th. In essence, the returns since June 5th have been flat, which is what I typically see during the summer months. Data going back to 1977 illustrate that the average return during the summer months is typically flat to negative (source: Thackray's 2013 Investor's Guide). This correction brings the Toronto stock exchange index down to its 200 day trend line (see Chart 1 below). At this time this is not a concern as I would typically expect to see this type of correction any time between July and October each year.

Market Trends - 12 Month Return



Commentary - continued:

With this being said, what has caused the bulk of this correction so far?

The bulk of the negative returns over the summer came from the energy sector. Between January 1st and June 16th, this sector rose in value by 25%. This is good. Historically, the oil and energy sector have outperformed the overall market from February through to May, 24 times over the last 29 years (Source: Thackray's 2013 Investor's Guide) and this year was no exception. As history has illustrated, however, this sector can then underperform the market for the balance of the year. Since June 16th, this sector has declined by 14%. This type of seasonal change is something that we watch for throughout the year. As a result, I began to exit out energy positions in mid-June of this year.

How have other sectors performed over the summer?

The materials sector (XMA) peaked in early August and has since declined by 16%. The Real Estate sector (XRE) peaked on August 21st and has since declined by 4.6% while the financial sector (XFN) peaked on September 12th and has since declined by 4.3%.

Since June 16th, this sector has declined by 14%. This type of seasonal change is something that I watch for throughout the year.

Commentary - continued:

Could this correction evolve into something more significant?

Yes, it certainly could, but this is nothing new. Markets fluctuate. Markets need to move down so that in the future they can move higher. The key is to make sure I protect your gains well during these periods of decline so that you have more money available and working for you when the next upside move begins. When looking at the Toronto stock exchange index over the past 5 years (see the chart below), I see that the gap between the current index value (ie: the end point of the blue line on the far right hand side) and the long term trend line (the yellow line) is still fairly significant. This is a gap of approximately 12%. This means that it is possible that the market could drop another 12% in value at this time, down to the 13,000 level on the index. If the market were to move down to the 13,000 level on the index, the total decline beginning September 5th would be approximately 16% to 17%. Based on history, this would be a very "normal" event. As a matter of fact, the last time I saw this type of correction in Canada was from April to October 2011. You can see this correction (the blue line) in the middle section on the chart below.

5 Year Returns: October 3rd, 2010 through to October 3rd, 2014

Commentary - continued:

How has the NFC Tactical Asset Allocation Pool performed during this time?

The pool produced a positive return after fees of +7.7% from January 1 through to September 30th. During this same period the Toronto stock exchange produced a return of +10%, suggesting that the pool captured over 75% of the upside move of the stock market. Remember, however, that the pool is a Balanced investment where throughout this time 50% of the pool was invested in growth oriented investments and 50% was invested in defensive investments. From September 3rd to September 30th, the Toronto stock exchange dropped in value by 4.5%. During this same period of time the NFC Tactical Asset Allocation Pool dropped in value by just over 1%, which I believe suggests that the pool protected our clients from 75% of the market decline. Needless to say, I am really pleased to see this. Looking at some other key dates, since June 16th, the energy sector has declined by 14% while the NFC Tactical Asset Allocation Pool increased in value by approximately 1.4%. Again, I am really happy to see this type of risk adjusted return. Please note all of the NFC Tactical Asset Allocation Pool figures noted above are after fees and expenses have been drawn from the pool. Actual client performance will have varied slightly from these figures due to the unique circumstances of each client account. In other words, your personal returns may be similar but not identical.

If the market did drop by another 12%, how might my portfolio perform during this time?

(The following example is an illustration and not a guarantee of future performance. Individual performance results will vary based on actual market conditions, asset mix, investment holdings, risk profile and events). Using the figures noted above, IF the market did drop by another 12%, this may suggest that your overall portfolio MAY decline by another 3% to 4%. From peak to trough, IF the market corrected by 16% and, IF during this type of correction I was able to continue to protect against 70% of the downside risk, this would mean that your portfolio would drop by approximately 5%. IF this were to happen, I would be very pleased with our level of downside risk protection. Yet, the bigger and more important question is: are YOU ok with this? With this illustration in mind, if you are interested in a review specific to your personal circumstances, please let me know.

Commentary - continued:

Looking ahead, what are other trends in the market?

- **Canadian Dollar:** I expect to see the Canadian dollar continue to trade in the mid 80 cent range over the next several months vs. the US dollar. It is currently trading at 88.32 (as of October 3rd) and has declined in value by approximately 5.7% since January 1st. Over the past 12 months the Canadian dollar has declined by 8.3% relative to the US dollar.

- **Interest Rates:** Will interest rates rise in the coming months? It is my view that the answer is no. I believe that interest rates will remain lower for a longer period of time than the market anticipates. Why is this? At this time the US would love to see a lower value to their currency. When a currency declines relative to other currencies, it is more profitable for those countries to export their goods. Thus, when the Canadian dollar falls by 8% relative to the US dollar, this can be an 8% increase in profits for Canadian firms. This is good! When the central bank raises interest rates, the primary goal is to keep inflation in check, and the result is typically a higher currency value. Currently, the inflation concerns in both Canada and the US remain low because the number of people not currently in the workforce remains very high (particularly in the US). If the US were to raise interest rates, then the value of the US dollar will likely rise, which in turn may make their exports less competitive, thus hurting their economy and potential future employment. Therefore, for these two reasons in particular, I do not see much risk of rising interest rates at this time. If rates were to rise, I would expect the increase to be small and likely not noticed by the economy or the equity markets. The ideal situation is one where I see continued economic growth. If this happens, I won't be too concerned about rising interest rates.

What's happening with gold, commodities and oil?

- With a rising US dollar, relative to other currencies, gold, commodities and oil have all fallen in value. Since these commodities are mostly priced in US dollars, when the US dollar rises in value, the commodity prices do tend to fall in value. This is exactly what I have seen over the past year. For these commodities to rise in value, I need to see more global economic growth and a lower US dollar. I do not anticipate that we will see significant growth in these areas in the coming months.

Is the economy growing?

- Yes, I am seeing positive signs that the US and Canadian economies are growing. This is good! But the rate of growth itself is not what it needs to be. I saw an interesting presentation last week in Calgary that showed the rate of economic growth during the 1990's, from 2002 through 2007 (ie: the recovery after the bursting of the technology bubble) and from 2008 through to today. The unfortunate trend is that the average rate of growth has been slowing. This is concerning, in my view, for the stock market and is something that we need to pay attention to.

Over the past 12 months the Canadian dollar has declined by 8.3% relative to the US dollar.

Commentary - continued:

With these comments in mind, how is Nelson Portfolio Management Corp. managing the portfolios today?

Our approach remains the same. When risk levels rise I either add an automatic sell order (ie: I enter a stop loss order) or I pro-actively sell the security. If I believe that it is beneficial to hold a security for a longer period of time, I may let it fluctuate over the shorter term. Once a security has declined in value by 10% or more, I look to protecting capital or selling out of the position. My primary goal is risk management and the preservation of capital. I believe that longer term returns will be good over time when I focus first on the preservation of capital. Over the past year the returns on the NFC Tactical Asset Allocation Pool have been approximately 75% of the upside move in the stock market, yet during periods of decline, the diversified nature of the pool has protected against close to 75% of the downside. I am very pleased to see these risk adjusted returns.

If you have any questions or concerns about the performance of your portfolio over the past few months or over the past year, please let me know.

Our primary goal is risk management and the preservation of capital.

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The NFC Tactical Asset Allocation Pool:

- On September 2, 2014 the pool celebrated its first birthday. The approximate 12 month return, after fees, was 14.7% (Source: as calculated using the Croesus software, which is provided to NPMC from NBCN, and which is the same software we use to generate client statements).
- The standard deviation over this 12 month period was 2.4%. This tells me that the level of fluctuation in the pool was very low during this time. For example, the long term average standard deviation for the average Canadian Balanced fund is approximately 8% (Source: Morningstar Paltrak software). This means that the standard deviation for the pool over the past year was well below the long term average. I do expect to see the standard deviation for the pool rise in the years ahead, but our goal and expectation is that the level of standard deviation for the pool will remain below the long term average for the typical Canadian Balanced mutual fund. I am very pleased to see this low level of standard deviation.
- What does this mean? This means that the pool generated a healthy one year return with a low level of risk. This is my goal.
- At this time we also did some work with SGGG Fund Services Inc., the accountant and record keeper for the pool. On this one year anniversaryI wanted to review and calculate the fees and expenses incurred by the pool over the past year. With their assistance I was able to determine that the average cost for the pool (ie: management fees and expenses) worked out to be approximately 0.94% of the value of the pool. When I add in the transaction costs for each of the trades (ie: the costs charged by NBCN), the total fees worked out to be approximately 0.98%. This means that the trading costs were approximately 0.04%, which in my view is a very small number.
- This means to us that establishing the NFC Tactical Asset Allocation Pool, as a way to reduce costs and increase efficiency, has proved so far to be a good idea.
- Today the pool continues to be a balanced investment: 47% defensive, 52% growth.
- The pool now has 22% in US and international stocks and another 5% in US preferred shares and bonds. I am comfortable with this US exposure because we believe that the US dollar will continue to rise while the Canadian dollar continues to decline. If this happens, I have the opportunity to capitalize on a currency gain, which would help increase the returns in the pool.
- The current yield in the pool is 3.3%. Our goal is to maintain a yield of 3% or greater.
- Since January 1st, 2014, the pool has generated realized capital gains of approximately $703,000. This means that I have sold investments that have increased in value by this amount. Since July 1st, 2014, I have sold 19 securities, realizing a total overall capital gain of approximately $285,000.

If you have any questions about the NFC Tactical Asset Allocation Pool and your portfolio, please let me know.

This means that the pool generated a healthy one year return with a low level of risk.

NFC Tactical Asset Allocation Pool

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Summary:

- As of the one year anniversary of the NFC Tactical Asset Allocation Pool and Nelson Portfolio Management Corp., I am pleased to see strong positive one year returns with below long term average levels of risk.
- My goal remains to provide a reasonable, after-fee return with as little risk as possible over time.
- These results illustrate to us the benefits of our current buy and sell strategies.
- Over the coming months we will be in touch with you to update our Know Your Client documentation.
- I wish to welcome, once again, Mr. Ian Wood, to our team.

Should you have any questions or concerns, please let me know.

All the best!

Doug

My goal remains to provide a reasonable, after-fee return with as little risk as possible over time.

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