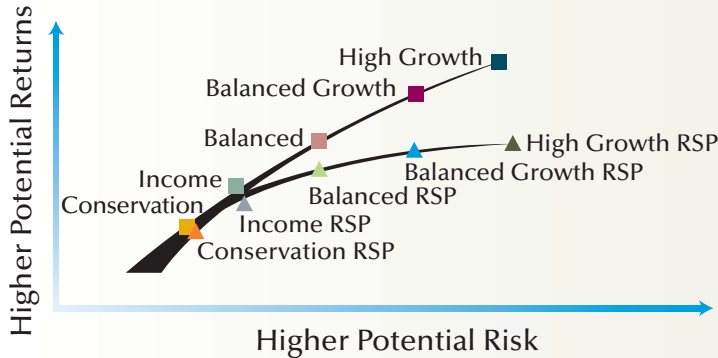


Building PORTFOLIOS



For advisors who build their own portfolios

Cartier Partners' Portfolio Management Team has built a set of **model asset allocation portfolios**, from all-equity to income-oriented, for registered and open accounts with horizons of **five years** and beyond:

- Each portfolio has a sound **benchmark** based on our research.
- For additional diversification refer to the **equity style** guidelines (page 4) which offer **regional, global** and **basic solutions**.
- For **fund recommendations**, refer to Portfolio Management at www.cartierpartners.ca >>> login.

Asset allocations, based on past and projected behaviour of the major asset classes

The portfolios are designed to offer long-term investors the highest return for a given level of risk (in technical terms, they are optimized), based on our research into the historical returns, volatility and correlations of the major asset classes: **Canadian, U.S., European** and **Asia-Pacific equities**; **Canadian bonds** and **treasury bills**; and **global bonds**. We have also taken into account **investor profiles** and **constraints**.

Financial markets and the economy

- We have used the compound annual returns in C\$ between 1970 and 2001 for **equities**.
- We have assumed that **Canadian bonds** and **treasury bills**, which had extremely high returns in most of the period, will provide lower returns in future because of the big decline in interest rates. We also assumed lower returns for **global bonds**.
- The 1970-2001 period is a good gauge of equity returns, as it spanned the full spectrum of economic and market conditions:
 - **high inflation** (late 1970s to early 1980s) and **low inflation** (1995 to current);
 - **high growth** (late 1990s), **stagnation** (mid 1970s) and **deep recessions** (1973-74 and 1980-82);
 - **historically high interest rates** (early 1980s) and **extremely low interest rates** (current);
 - a long period of U.S. **stock market stagnation** (early to mid 1970s), a **long bull market** (early 1980s to 2000), and **seven corrections** with declines of 20% plus.

Volatility of returns

- Calculation of **standard deviations** (monthly, annualized) of the main asset classes in the 31 years ended 2001, to assess the trade-off between return and risk.
- We have assumed that **Canadian equities**, which were very volatile in that period due to the rise and fall of Nortel (one-third of the TSX Composite Index at its peak) will be less volatile in future.

Correlations between asset classes

- Evaluation of monthly correlation of returns for the main asset classes over the 31 years to 2001.
- By taking advantage of the low correlations between major asset classes, broadly diversified **portfolios can reduce volatility and enhance returns in comparison with portfolios invested in one asset class**. Example: In the 1970 to 2001 period, a portfolio with 25% Canadian bonds, 45% Canadian equities and 30% global equities had better returns and less volatility than a portfolio with 100% Canadian equities.

Profiles and constraints

- These select few portfolios can serve the majority of investors because, historically, large variations in asset allocation have been required to provide substantially different long-term returns.
- **All RSP portfolios** (except Income and Conservation) contain 30% in global equities.
- Asia-Pacific equities, given their high volatility, are only in our **High Growth** open asset allocation.

FOR DEALERS ONLY

These recommendations are for advisors who build their own portfolios.
Not approved for distribution to clients.



CARTIER PARTNERS

OPEN PORTFOLIOS

Three approaches to style diversification

FOR DEALERS ONLY



Asset Allocation

- Canadian equity 10%
- U.S. equity 50%
- European equity 30%
- Asia-Pacific equity 10%

High Growth

Equity style diversification	Regional				Global				Basic
	Value	Growth	GARP	Core	Value	Growth	GARP	Core	Core or GARP
Cdn. equity				10%				10%	10%
U.S. equity	25%	25%							
European eq.	15%	15%							
Asian equity			10%						
Global equity					20%	20%	30%	20%	90%



Asset Allocation

- Canadian equity 10%
- U.S. equity 45%
- European equity 25%
- Canadian bonds 10%
- Global bonds 10%

Balanced Growth

Equity style diversification	Regional				Global				Basic
	Value	Growth	GARP	Core	Value	Growth	GARP	Core	Core or GARP
Cdn. equity				10%				10%	10%
U.S. equity	22.5%	22.5%							
European eq.	12.5%	12.5%							
Global equity					15%	15%	25%	15%	70%



Asset Allocation

- Canadian equity 10%
- U.S. equity 30%
- European equity 20%
- Canadian bonds 30%
- Global bonds 10%

Balanced

Equity style diversification	Regional				Global				Basic
	Value	Growth	GARP	Core	Value	Growth	GARP	Core	Core or GARP
Cdn. equity				10%				10%	10%
U.S. equity	15%	15%							
European eq.	10%	10%							
Global equity					12.5%	12.5%	12.5%	12.5%	50%



Asset Allocation

- Canadian equity 10%
- U.S. equity 15%
- European equity 15%
- Canadian bonds 50%
- Global bonds 10%

Income

Equity style diversification	Regional				Basic
	Value	Growth	GARP	Core	Core or GARP
Cdn. equity				10%	10%
U.S. equity	7.5%	7.5%			
European eq.	7.5%	7.5%			
Global equity					30%

Note:
A Conservation portfolio is on page 4, for open and registered accounts.

REGISTERED PORTFOLIOS

Two approaches to style diversification

FOR DEALERS ONLY



Asset Allocation

Canadian equity	60%
U.S. equity	20%
European equity	10%
Canadian bonds	10%

High Growth RSP

Equity style diversification	Regional				Basic Core or GARP
	Value	Growth	GARP	Core	
Cdn. equity	15%	15%	15%	15%	60%
U.S. equity	10%	10%			
European eq.	5%	5%			
Global equity					30%



Asset Allocation

Canadian equity	45%
U.S. equity	15%
European equity	15%
Canadian bonds	25%

Balanced Growth RSP

Equity style diversification	Regional				Basic Core or GARP
	Value	Growth	GARP	Core	
Cdn. equity	11.25%	11.25%	11.25%	11.25%	45%
U.S. equity	7.5%	7.5%			
European eq.	7.5%	7.5%			
Global equity					30%

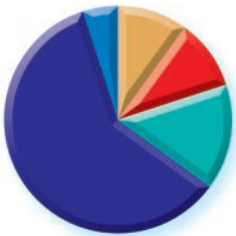


Asset Allocation

Canadian equity	25%
U.S. equity	15%
European equity	15%
Canadian bonds	45%

Balanced RSP

Equity style diversification	Regional				Basic Core or GARP
	Value	Growth	GARP	Core	
Cdn. equity	6.25%	6.25%	6.25%	6.25%	25%
U.S. equity	7.5%	7.5%			
European eq.	7.5%	7.5%			
Global equity					30%

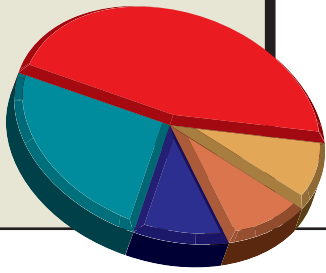


Asset Allocation

Canadian equity	10%
U.S. equity	10%
European equity	15%
Canadian bonds	60%
Global bonds	5%

Income RSP

Equity style diversification	Regional				Basic Core or GARP
	Value	Growth	GARP	Core	
Cdn. equity				10%	10%
U.S. equity	5%	5%			
European eq.	7.5%	7.5%			
Global equity					25%



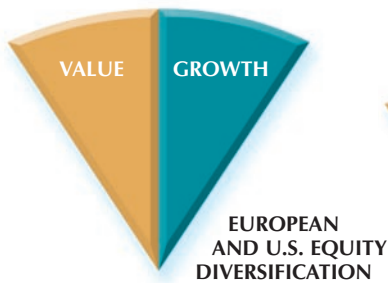
Building PORTFOLIOS

FOR DEALERS ONLY

Equity style guidelines

Since economic and market trends change constantly, and without warning, you can enhance returns and reduce volatility by diversifying across the main styles.

- **Growth** managers focus on companies which generally grow faster than the average, have greater highs and lows, and prosper in a fast-growing economy.
- **Value** managers focus on companies whose shares are available at a discount from the company's true worth, tend to be less volatile, and often outperform in recessions.
- **Growth-at-a-Reasonable-Price (GARP)** managers look for the best of both worlds – growth stocks at value prices – and tend to be more stable through the economic cycle.
- **Core** funds combine **multiple large-cap managers** with different styles, to cope with any economic environment, so they are suitable for the core of any portfolio.



Style diversification: Three different approaches

Depending on your preferences with funds, and the investors you serve, we have provided different style diversification guidelines for each portfolio. The focus here is on the essentials of portfolio construction so we have restricted the guidelines to large-cap style diversification.

- **Regional solutions**, using funds that specialize in one region or country, and style.
- **Global solutions**, using broadly diversified global equity funds, which may invest in U.S., European and Asia-Pacific markets.
- **Basic solutions**, for smaller portfolios, using broadly diversified core or GARP funds.

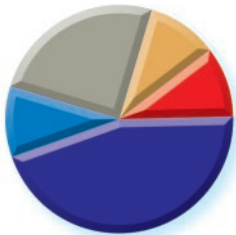
Large-cap equity style diversification

U.S. and European markets offer a broad selection of value and growth stocks, so **value/growth** diversification is appropriate.

Canadian and global markets, where differences between sectors and regions can be pronounced through the cycle, are best served by a combination of **value, growth, GARP and core** managers.

Conservation – RSP or Open

With a Conservation strategy, the same asset allocation applies to both open and registered accounts.



Asset Allocation	
Canadian equity	10%
U.S. equity	10%
Canadian bonds	45%
Global bonds	10%
Cash	25%

Equity style diversification	Regional				Basic Core or GARP
	Value	Growth	GARP	Core	
Cdn. equity				10%	10%
U.S. equity	5.0%	5.0%			10%



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