



meritage
PORTFOLIOS®

Q&A
FOR INVESTORS



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General Features

What does Meritage mean?

Meritage is derived from “merit” and “heritage”. It symbolizes both the merit of the quality and success of the portfolio managers and the heritage of established funds that have an above-average performance potential over the long term.

In 1988, a group of American vintners formed The Meritage Association to identify hand-crafted wines blended from the traditional “noble” Bordeaux varietals including: Cabernet Sauvignon, Merlot, Cabernet Franc, Petit Verdot and Malbec (red wines), and Sauvignon Blanc, Semillon, and Sauvignon Vert (white wines). “Meritage”, pronounced like “heritage”, was selected from more than 6,000 entries in an international contest to name the new wine category. The release of Meritage must be under 25,000 cases and has to be a “high-end” wine for the winery.¹

1. Source: The Meritage Association

How many types of portfolios are there?

There are 14 different portfolio types with a wide range of asset allocation mixes and benchmarks.

Why 14 different portfolios?

The Meritage Portfolios® offer a robust line-up of five investment funds to suit the investor’s need for capital appreciation. Also, since the requirement for income should not drive the risk level, five income funds are also offered with fixed distributions. They feature the same general fixed income/equity asset allocations as the investment line-up, with a focus on income producing funds. Finally, four other funds complete the line-up: a Canadian Equity fund, a Global Equity fund, an International Equity fund and a US Equity fund.

How many different funds are comprised in the portfolios?

23 stand-alone funds are included in the program with an optimal number of funds per portfolio.

How many partners are involved in the Meritage Portfolios®?

The Meritage Portfolios® include funds from 11 different fund companies, which are all large and well-known financial institutions:

- AGF Management Limited
- Invesco Trimark Ltd.
- Beutel, Goodman & Company Ltd.
- Capital International Asset Management (Canada), Inc.
- CI Investments
- Dynamic Funds
- Fidelity Investments Canada Ltd
- Mackenzie Investments
- McLean Budden Ltd
- RBC Asset Management
- TD Asset Management Inc.

General Features

Why are the portfolios made only of third-party funds?

Although National Bank offers an impressive line up of stand-alone funds, we wanted to optimize the objectivity and transparency of the selection and due diligence processes by choosing only third-party funds. By doing so, we are sure to avoid all possible conflicts of interests.

What is the rebalancing target?

The Meritage Portfolios® are rebalanced on an ongoing basis to fit the initial selection and prevent overexposure to any specific asset category. If a specific fund market value deviates more than 2.5% from its original target or an asset class varies by more than 5%, we will proceed with a rebalancing of the portfolio.

What are the distribution rates?

For the investment and pure equity portfolios, the distributions are variable and made of dividends, interests and capital gains. For the income line-up however, a fixed distribution target is set and reviewed annually to account for market conditions. The distributions consist of dividends, interest income, capital gains and return of capital. The distribution targets are reviewed annually to adapt to the market environment. All distributions are automatically reinvested.

What is the distribution frequency?

For the income portfolios:	monthly
For the investment portfolios:	quarterly
For the equity portfolios:	annually

What about tax efficiency?

The Meritage Income Portfolios provide the investor with a fixed distribution that includes dividends, capital gains and returns of capital, all of which are more tax efficient than interest income.

Are the portfolios currency-hedged?

No, the Portfolios are not currency-hedged. However, portfolio managers of the underlying funds are able to hedge their foreign currency exposure strategically or tactically, as is the case for example of the Mackenzie Cundill Value Fund, the RBC O'Shaughnessy US Value Fund and the Mackenzie Sentinel Corporate Bond Fund.

Fund Selection Process

How are the funds selected?

The funds are chosen using the Select Rating System[®], which is a multi-stage, quantitative fund selection process designed by the Meritage Portfolios[®] team of investment specialists.

1. The Screening Process - 5,000 funds | Focus on proven funds

The funds were screened to meet specific criteria:

- Minimum performance history
- Solid, well-established companies

2. The Quantitative Analysis – 250 funds | Seek added value with optimal volatility

The funds were analyzed using a proprietary quantitative model that includes the following criteria:

- Returns by unit of risk analysis
- Downside risk analysis
- Value added by manager performance analysis
- Style consistency
- Correlation

3. The Final Selection – 23 funds working together to create the perfect blend | Make informed choices

The due diligence and final selection processes are approved and monitored by Aon Consulting.

- Investment firm: quality of research, security selection process, etc.
- Manager: experience, philosophy, compensation, succession plan
- Management style: consistency

What is Aon Consulting?

A subsidiary of Aon Corporation, one of the world's top global human capital and management consulting firms with over 36,000 employees in 500 offices in 120 countries, 150 consultants specialized in investment consulting, and 22 analysts dedicated to evaluating investment managers, developing selection processes and regularly updating databases on portfolio characteristics and performance. Since it has no portfolio line-up or investments, Aon Consulting is therefore able to provide a truly unbiased opinion on the selection process and the choice of funds.

What is the role of Aon Consulting?

Aon Consulting was asked to review our Select Rating System[®]. The consulting firm validated the screening criteria, the quantitative model and the final selection. Aon is not only part of the due diligence process, but will also review any major change made to the portfolios.

Portfolio Characteristics and Asset Categories

What is the type of asset allocation in the portfolios?

The Meritage Portfolios® asset allocation is strategic. The maximum deviation from the target allocation for the underlying funds is 2.5% and 5% for the asset classes. When the ranges are breached, the portfolios are automatically rebalanced. This widely used approach has been proven very effective for achieving long term performance.

Why isn't the asset allocation tactical?

The tactical allocation is made within the individual funds of the portfolios. Each underlying portfolio manager is free to make tactical asset allocation decisions to countries, sectors or even asset classes.

Why are there a limited number of funds in the portfolios?

There are a limited number of funds because of a phenomenon called “diworsification”² which is the process of adding funds to a portfolio in such a way that the risk/return is worsened. Investing in too many assets with similar correlations can result in an averaging effect where risk is at its lowest level and additional assets reduce potential portfolio returns as well as the chances of outperforming the benchmark.

2. Source: *The dangers of over-diversification.*

Why is there a significant portion of Canadian equity funds in the portfolios, especially compared with the representation of Canada within the MSCI World Index?

- A number of Canadian underlying funds have the ability to gain exposure to foreign equities should they find opportunities in these markets;
- Dividends collected in Canada are more tax efficient than foreign dividends;
- Canadian investors have traditionally preferred to be slightly home-country biased.

Why are there three different styles for the equity portion?

The style classification (value, blend, growth) is derived from the Morningstar methodology³. It provides a good protection against the risk of having only one specific style in the portfolios, in case of a market turnaround and it makes sure that we have different investment styles represented in the portfolios.

3. Source: *Morningstar Style Methodology.*

Operations

What was the inception date of the funds?

September 25, 2007 for the International Equity and American Equity Portfolios and September 25, 2006 for the 12 other portfolios.

What series are available?

Two series are available for purchase: F Series and Advisor Series (with front load, low load and back load options).

What is the minimum initial investment for the funds?

\$5,000

What is the minimum for subsequent investments?

\$50

What is the minimum initial investment for Systemic Investment Plans (PAC)?

\$5,000

What is the minimum subsequent investment amount for Systemic Investment Plans (PAC)?

\$25

What is the minimum investment for Systemic Withdrawal Plans (AWD)?

\$10,000 down to \$5,000

What is the minimum Systemic Withdrawal Plans (AWD) payment amount?

\$50

What is the settlement date for the funds?

T+3 for all funds.

Operations

Where are the Meritage Portfolios® distributed?

The Meritage Portfolios® are available in all provinces. Some exceptions apply for the RIF and LIRA in certain provinces.

What is the website address for clients?

www.meritageportfolios.com

What is the customer service phone number for investors?

Investors can reach customer service at 1-866-603-3601 or at 514-844-9019.

Meritage Portfolio® (the “Portfolios”) are offered by National Bank Securities Inc., a subsidiary of National Bank of Canada. References to National Bank Securities are to National Bank Securities Inc. Commissions, trailing commissions, management fees and expenses all may be associated with Portfolios investments. Please read the prospectus of the Portfolios before investing. The Portfolios securities are not insured by the Canada Deposit Insurance Corporation or by any other government deposit insurer. The Portfolios are not guaranteed, their values change frequently and past performance may not be repeated. “Meritage Portfolios®” and the Meritage Portfolios logo are trade-marks of National Bank of Canada. References to National Bank Securities are to National Bank Securities Inc. All trade-marks and logos of the mutual funds companies are their property. National Bank Securities Inc. is an authorized user. Fidelity Investments is a registered trade-mark of FMR LLC. © CI Investments and the CI Investments design are trade-marks of CI Investments Inc. “Dynamic” is a registered trade-mark of Dundee Corporation. “Dynamic Funds” and “Invest with Advice” are trade-marks of Dundee Corporation. TD Asset Management Inc. is a wholly owned subsidiary of The Toronto-Dominion Bank. The TD logo is a trade-mark of The Toronto-Dominion Bank. Invesco and all associated trade-marks are trade-marks of Invesco Holding Company Limited, used under licence. AIM and all associated trade-marks are trade-marks of Invesco Aim Management Group, Inc., used under licence. Trimark and all associated trade-marks are trade-marks of Invesco Trimark Ltd. The AGF logo and “What are you doing after work?” are trade-marks of AGF Management Limited and are used under licence.