



EMISSARY PORTFOLIO SERVICE



A
NATIONAL
BANK
FINANCIAL
TURNKEY
SOLUTION

 NATIONAL
BANK
FINANCIAL

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NATIONAL BANK FINANCIAL TURNKEY SOLUTIONS®

Emissary Portfolio Service is one of our four **Turnkey Solutions**, designed to make discretionary money management accessible to all of our clients.

Our **Emissary Portfolio Service** is designed to meet the needs of investors with assets of \$20,000 or more, who are looking for innovative solutions to building wealth that go beyond traditional investment vehicles. **Emissary Portfolio Service** gives our clients access to portfolios composed of combinations of seven high-quality private investment pools, designed to National Bank Financial's exacting specifications. Our other **Turnkey Solutions** – **Delegate Portfolio Service**, **Ambassador Portfolio Service** and **Private Wealth Management Service** – are designed to meet the needs of clients who prefer portfolios composed of directly owned individual securities.

EMISSARY PORTFOLIO SERVICE®

DELEGATE PORTFOLIO SERVICE®

AMBASSADOR PORTFOLIO SERVICE®

PRIVATE WEALTH MANAGEMENT SERVICE®

THE LEADING EDGE OF INVESTMENT SCIENCE

“Let me tell you something about the very rich.

They are different from you and me.”

– F. Scott Fitzgerald to Ernest Hemingway

Hemingway’s reply? *“Yes, they have more money.”* Of course, there is much more that distinguishes those who are wealthy from those who aspire to be. And one of the key differences is that *wealthy people seldom manage their own money.* In most cases, they employ professionals to do this task. Why? Because they have learned that it is far more profitable to concentrate on the skill or business that earned them their wealth in the first place than to try to keep up with everything that is going on in the world of investing.

Increasingly, people have come to realize that making investment decisions on their own isn’t always

the best, or even the fastest way to create wealth. Many now recognize that their prospects for investment success can be vastly improved if they do what wealthy people have always done to grow their wealth – focus on what they do best and take advantage of the expertise of professional money managers.

Our **Emissary Portfolio Service** was specifically designed to meet the needs of investors whose assets have grown to a certain level and who are finding that the traditional investment solutions are no longer enough. It brings together the power of three specialist organizations – the

financial acumen of National Bank Financial Investment Advisors, the asset allocation and manager selection expertise of William M. Mercer Limited, and the portfolio design experience of Opus 2 Financial. By combining the key components of wealth creation – expert financial advice, access to world-class money management, and diversification by asset class, style and geographic region – **Emissary Portfolio Service** clients can now benefit from the same approach used to manage portfolios for large institutions and the most affluent individual investors.

THE BEST OF OURSELVES... AND MORE

TO CREATE OUR **EMISSARY PORTFOLIO SERVICE**, WE HAVE TAKEN ADVANTAGE OF THE EXPERTISE OF THREE FIRMS WHO ARE ACKNOWLEDGED LEADERS IN THEIR RESPECTIVE FIELDS.

We began by drawing on the intimate knowledge of investor needs that **National Bank Financial** has amassed in 100 years of serving individual investors. National Bank Financial's proven ability to develop innovative approaches that accurately target the expectations of specific client groups provides the very foundation of **Emissary Portfolio Service**. Integrated with this is the expertise of **William M. Mercer Limited**, one of the world's best-known pension benefits consulting firms. William M. Mercer is a global leader whose specialties include consulting with major pension funds to assist in portfolio design and manager selection. Founded in Canada in 1945, the company has a dozen offices in Canada and 125 around the world. We put the

knowledge of William M. Mercer to good use in helping us design optimized portfolios – i.e. “efficient frontier portfolios,” in economics jargon. Mercer also participates in the portfolio manager selection process, as well as in the ongoing monitoring of these portfolios. Lastly, **Opus 2 Financial** weighs in with its know-how in the area of originating powerful investment tools built on the integration of optimally diversified management styles and asset classes. Opus 2 is widely recognized for its skill in setting up innovative investment approaches and extremely flexible operational systems that make it possible to deliver an effective investment strategy at competitive prices.

Focusing these three very different areas of expertise on a common goal demonstrates our desire to do everything possible to enable our clients to benefit from an investment approach of unusually high quality and potential.

PERFORMANCE BY DESIGN

The strength of our approach comes from a disciplined application of “Modern Portfolio Theory,” a Nobel Prize-winning methodology for managing money.

A detailed and well-defined profiling process, conducted by one of our Investment Advisors, generates a recommendation for one of five Emissary Portfolios. Each portfolio is designed to correspond to a specific investment profile. Your advisor will help you determine which one is best suited to achieving your financial goals.

When you choose Emissary Portfolio Service you are doing what successful investors have always done to create wealth – employing professionals to do what *they* do best, so that you can focus on what *you* do best.

NOT JUST A PRODUCT: A SOLUTION

There was a time when success in this area rested largely on the individual skill of the investor or his/her advisor, and lots of good old-fashioned luck. Today we enjoy the benefits of the work of two Nobel Prize winners, William Sharpe and Harry Markowitz, who contributed to the understanding that it is *possible to simultaneously minimize risk and improve returns by having a broadly diversified portfolio.*

The goal of Emissary Portfolio Service is not to try to “beat the market,” but rather to devise long-term strategies to move you towards your financial goals with the least amount of risk. Our professional managers do not try to outguess the markets so much as work with them intelligently, allowing the inherent power of long-term trends to shine through.

Emissary Portfolio Service employs the principles of modern portfolio theory and, *by design*, focuses on consistency of returns and capital protection – the key elements of wealth creation.

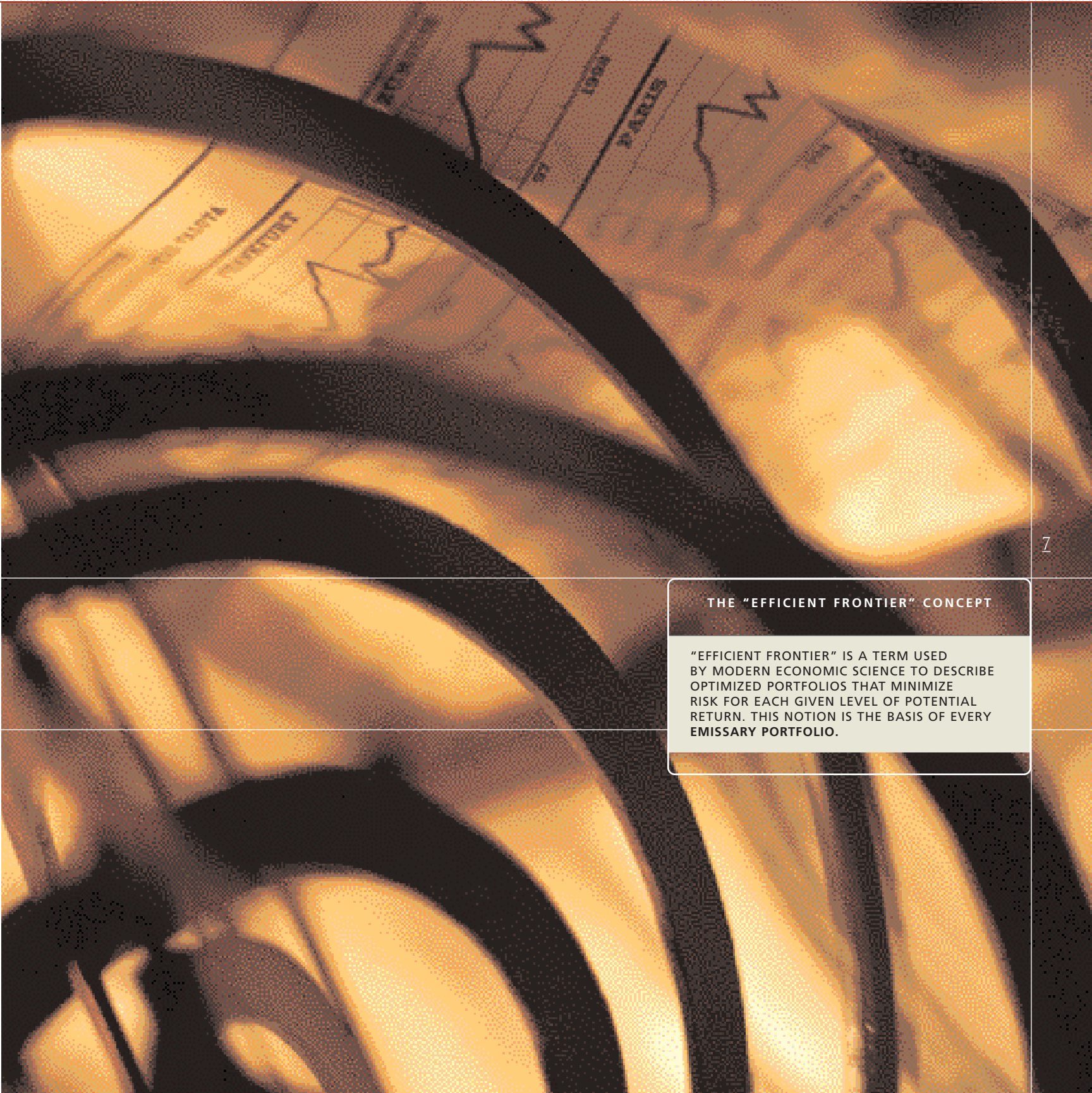
A TURNKEY SOLUTION TO WEALTH CREATION

*Emissary Portfolio Service represents the culmination
of the best in managed money practices.*

Emissary Portfolio Service is based on a sophisticated *profiling process* that allows you, with the help of your Investment Advisor, to determine the optimal composition of your portfolio – the composition that offers you the highest potential return for the lowest level of risk, based on your investor profile. This process draws on the principle of the “efficient frontier,” a term that modern economic science uses to describe portfolios that present the minimum risk for each given

level of potential return. The process ultimately tells you which of our various **Emissary Portfolios** best matches your particular profile. There are five basic **Emissary Portfolios** to complement the five investor profiles, plus five matching portfolios for registered plan accounts (RSPs, RIFs, etc.). Each portfolio consists of the most appropriate investment classes, allocated according to scientifically determined ratios, and is actively managed by investment managers who are acknowledged

to be among the world’s best. To further ensure consistency over time and effectiveness, the process is constantly monitored by our team. The result? You benefit at all times from superior portfolio management that is truly tailored to your needs.



THE “EFFICIENT FRONTIER” CONCEPT

“EFFICIENT FRONTIER” IS A TERM USED BY MODERN ECONOMIC SCIENCE TO DESCRIBE OPTIMIZED PORTFOLIOS THAT MINIMIZE RISK FOR EACH GIVEN LEVEL OF POTENTIAL RETURN. THIS NOTION IS THE BASIS OF EVERY EMISSARY PORTFOLIO.

WHY IS MODERN PORTFOLIO THEORY SO IMPORTANT?

We know from experience that, in the short-term, investment markets can be quite unpredictable.

Over an extended period of time, however, they have a rhythm to them that we can rely on to meet long-term objectives. Modern Portfolio Theory allows us to keep focused on such long-term objectives during short-term swings in the market. This broader perspective is what results in such a high probability that Brother A's apparent conservatism will ultimately outperform the more aggressive approach of Brother B (see opposite).

Applying the principles of Modern Portfolio Theory is a proven recipe for wealth creation. As with any recipe, the quality of the ingredients, which can be equated to the expertise of the money managers, is important. However, the *choice* of ingredients, which equates to the asset class selection, and the *ratio* and *method* of combining these ingredients,

which equates to the asset allocation, are even more important to the outcome than manager selection. Industry research has repeatedly proven that asset class selection and asset allocation are the most important determinants of portfolio performance. In fact, portfolio design statistically accounts for more than 90% of the results achieved.

The real benefits of diversification do not come from holding many assets but from holding the right asset classes in the right proportions. In the 1950s, the father of Modern Portfolio Theory and Nobel Prize winner, Harry Markowitz, began exploring how to go beyond the traditional “don't put all your eggs in one basket” approach to investing. He was interested in the answers to two questions: first, “Can we earn above-average returns without

taking undue amounts of risk?” and, second, “How *much* risk is necessary to achieve our goals?” Using mathematics to solve the puzzle, Markowitz discovered that it *was possible to simultaneously minimize risks and improve returns by having a broadly diversified portfolio.* Based on historical investment performance, he created a “mathematically correct” or “efficient” portfolio. The scientific system that Markowitz pioneered to achieve maximum returns with the least amount of risk is popularly referred to as *asset allocation*. The core strength of asset allocation lies in combining investments with varying patterns of return so that “downside risk” is substantially reduced. By minimizing the chance of negative returns and dampening volatility, overall performance is significantly enhanced.

Emissary Portfolio Service takes the notion of asset allocation to the optimum, diversifying not only across fixed-income and equities, but also by broad geographic region, size of company and management style (*growth* and *value*). At the same time, asset classes that do not appear to have a good risk vs. reward trade-off, such as emerging markets, for example, are specifically excluded. Successful investors recognize the importance of maintaining a long-term view. That's why Emissary Portfolios specifically avoid "market timing" in favour of regular reviews of the efficient frontier portfolios and disciplined rebalancing.

LET'S TALK ABOUT REAL PERFORMANCE!

PRUDENT INVESTORS KNOW THAT FOCUSING ON RATE OF RETURN ALONE IS NOT WISE. CLOSE ATTENTION MUST ALSO BE PAID TO THE PROBABILITY OF THE DESIRED RETURNS ACTUALLY OCCURRING AS EXPECTED.

This is paramount for the growth and preservation of your capital because unexpected losses can seriously impair the likelihood of meeting your long-term accumulation target. This can be demonstrated by considering the example of two brothers with different investment strategies.

Brother A understands the importance of capital protection and invests his \$100,000 in a diversified Emissary Portfolio. Using the discipline of Modern Portfolio Theory, a properly diversified portfolio improves the chance of attaining a consistent and reasonable return, which is critical to preserving the existing capital. Let's assume **Brother A's** portfolio earns an 8% rate of return in Year 1. Nothing to write home about, perhaps, but an acceptable, and above all realistic performance.

Brother B's choice is driven largely by short-term performance and so he purchases a mutual fund that has a history of spectacular returns – both positive and negative. In spite of being last year's best performer in its category, **Brother B's** "hot" fund suffers a loss (-8%). The result is that **Brother A** now has \$108,000 in his Emissary Portfolio while **Brother B's** mutual fund value has fallen to \$92,000.

Brother A, pleased with the outcome of his choice, elects to continue with his Emissary Portfolio strategy while **Brother B**, now concerned about protecting his capital, decides to switch to Emissary Portfolio Service himself. Let's suppose that the Emissary Portfolio repeats the return of 8% in Year 2. How do the brothers' portfolios compare? Well, **Brother A** would end the second year with a portfolio valued at \$116,640. **Brother B**, of course, would have less – \$99,360 to be precise, meaning that even after earning a reasonable return in the second year he still has less capital than when he started! In fact, if **Brother B** wanted to "catch up" to **Brother A** he would be faced with the formidable task of generating a 26.8% rate of return in Year 2 – a target that he has a very low probability of reaching, and that would require taking considerable risk with his already diminished capital.

Generating superior long-term investment performance has everything to do with protecting existing capital and increasing the probability of a positive return on that capital. That's how wealth is created – a process we have been intimately involved in for more than 100 years. And that is why our Emissary Portfolios are scientifically designed to place so much emphasis on capital protection.



AN ALL-STAR SELECTION

IN THE BOTTOM OF THE NINTH INNING OF THE SEVENTH GAME OF THE WORLD SERIES WITH THE SCORE TIED, DO YOU CHOOSE A PINCH HITTER WITH A .175 BATTING AVERAGE?

Of course not. You go with your "heaviest bat," even though there are no guarantees. We are all aware of the disclaimer that "past results may not be

indicative of future performance." That is, of course, a true and proper statement. However, we also know that it is possible, through a scientific selection process, to identify those managers who have a solid and consistent record of above-average investment results. These are the managers we seek for **Emissary Portfolio Service**.

WORLD-CLASS MONEY MANAGEMENT

Emissary Portfolios are managed by carefully selected professional managers who are normally only available to serve extremely wealthy individuals, or large institutional investors.

However, despite their proven expertise, these managers are not simply left to their own devices. They operate within strict mandates set by the professionals at National Bank Financial and the consultants it has retained: William M. Mercer and Opus 2 Financial. Investors can therefore be confident that their money continues to be managed according to the same philosophy and manner they elected with their initial investment. Our Emissary team ensures this consistency through constant monitoring and periodic review of management style, portfolio weightings and holdings, as well as performance. In a nutshell, once our managers are chosen, we diligently monitor them to make sure they continue to deliver according to their mandate.

SO WHAT IF THINGS CHANGE?

One thing is certain: the investment universe is always undergoing change of one sort or another. That's why we stand guard to constantly monitor **Emissary Portfolios**, the underlying asset classes, and particularly, our managers, to ensure that their strategies continue to be appropriate and that they remain true to their original portfolio investment objectives.

While we know that in the long term, investment returns can be quite predictable, the truth is that, in any given year, any asset class can outperform the others. Consequently, the asset allocation diligently implemented when you first purchase a portfolio will, over

time, vary from its original weightings. It is essential to rebalance the portfolio periodically to maintain the target risk/reward profile. Rebalancing when key criteria are met, rather than at fixed intervals, helps to maximize the performance of our portfolios. We have designed an automatic rebalancing capability that our team of Emissary experts will trigger only when the time is right, rather than at specific, preset times – we call it *Triggered Rebalancing*. Disciplined portfolio rebalancing has repeatedly proven its value in *enhancing overall long-term portfolio returns*.

HOW DO I START TO CREATE WEALTH WITH EMISSARY PORTFOLIO SERVICE?

Your Investment Advisor will help you choose the Emissary Portfolio that best suits your circumstances.

Drawing on his or her knowledge and experience, your advisor will guide you through our unique portfolio planning process. By asking a series of questions he/she

will establish an investment profile based on your financial situation, objectives and risk tolerance. Then your advisor will recommend a specific **Emissary Portfolio** to

match your investment profile, setting you on the right path to wealth creation.

WE MANAGE THE WORLD'S MOST IMPORTANT INVESTMENTS: YOURS

National Bank Financial is a full-service investment dealer, which traces its origins to 1902. The firm offers a wide range of integrated services to a large clientele of individual, institutional, corporate and government investors. Our total capital base exceeds \$500 million, and annual revenues are approximately \$600 million. The company has more than 2,700 employees located in 89 offices across Canada, the United States and Europe. Our 820 Investment Advisors manage close to \$35 billion in assets for some 275,000 individual investors across Canada. The Investment and Corporate Banking group, which operates out of Toronto, Calgary and Montreal, helps governments and corporations with their equity and debt financing needs

and provides expertise in the area of mergers, acquisitions and divestitures. A separate team of 130 professionals serves the needs of pension fund companies and other institutional investors in Canada, the U.S., Europe and Australia. From our Research Department offices in Montreal, Toronto, Winnipeg, Calgary and Vancouver, experts cover more than 200 corporations included in the TSE index, as well as many smaller companies. National Bank Financial is a 100%-owned subsidiary of the National Bank of Canada. With an asset base of \$70 billion, the National Bank of Canada – one of Canada's seven main chartered banks – is clearly a reliable and dynamic partner.

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