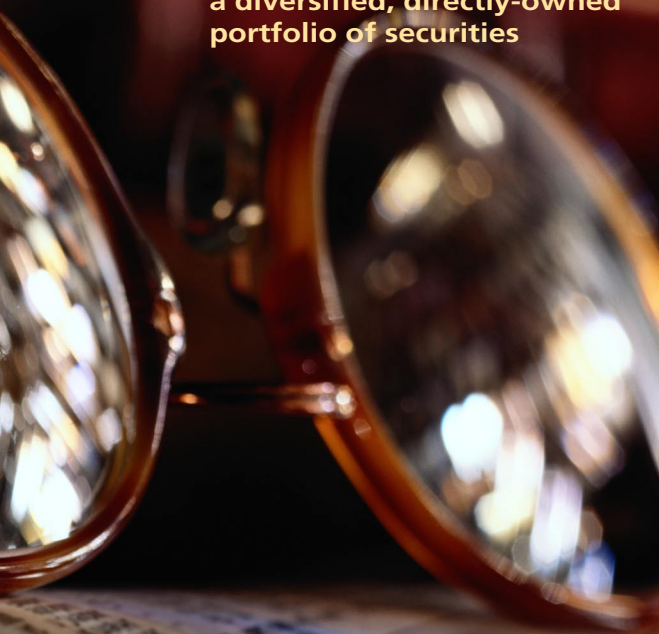




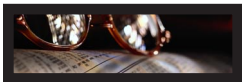
# BASKETS

The one-step solution to  
a diversified, directly-owned  
portfolio of securities



**NATIONAL  
BANK  
FINANCIAL**





## Baskets like no others

*“Don’t put all your eggs  
in one basket,” says  
the wise old adage.*

But what if some baskets were better designed and offered greater protection than others?

Wouldn’t that make them more attractive? They could become common carriers, transporting a variety of eggs in a safe, practical and cost-effective manner. That is precisely the reasoning we applied to your investments in setting out to create an innovative approach to making it even easier for you to reach your long-term investment goals. In fact, we call this approach **BASKETS**. And these baskets offer a variety of benefits that make a real difference:

- They allow you to diversify your investments, **lowering your risk**.
- They offer **affordable access** to an assortment of financial markets.
- They provide **professional management** for your investments.
- They allow you to **achieve specific objectives** by targeting certain types of investments.
- In other words, they really do enable you to **take full advantage of the potential offered by financial markets**.

*Call today to learn more about  
this innovative approach,  
exclusive to our firm.*

## What is a basket?

*A new way to put basic investment principles into practice.*

Baskets represent an innovative approach to investing. Instead of purchasing stocks or bonds separately, you acquire a diversified selection – a basket – of these securities in a single transaction, with a single order to buy.

At first glance, this may resemble the mutual fund formula, but in fact, baskets are substantially different. When you buy a basket, you acquire *direct ownership* of stocks or bonds from a variety of issuers. Each of these securities becomes part of your portfolio, and you become the sole and irrevocable beneficiary of all capital gains, interest or dividends that they generate.

In contrast, when you opt for a mutual fund, you are buying a share of the fund itself; you do not acquire direct ownership of the stocks or bonds selected by the fund manager. Mutual funds offer many benefits, notably an excellent way of obtaining professional management and broad diversification with a very small investment. However, funds also carry some drawbacks. For instance, units of a particular fund might be carrying accrued capital gains at the moment you purchase them, making you liable for paying tax on capital gains you didn't actually earn.

Baskets represent an alternative that, in certain cases, can be preferable to mutual funds. To learn which of these options is most advantageous for you, consult your Investment Advisor.

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## Benefit 1: Diversification

*Paradoxically, acquiring a basket is one of the best ways not to put all of your eggs in one basket.*

Diversification is the keystone of a strategy that optimizes performance while reducing volatility. Until recently, this could be done simply and affordably only through mutual funds. Now baskets offer a new option.

### Risk and diversification

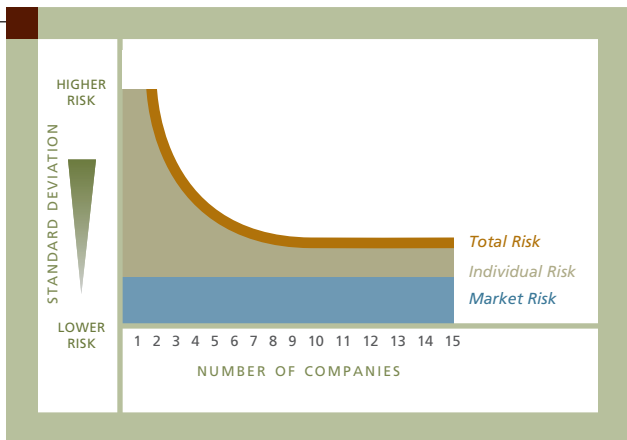
Diversification means spreading your investments across the various asset classes, as well as amongst a number of different securities within each asset class so as to reduce the risk associated with a particular class or investment.

With stocks, for example, you must consider two types of risk: **market-related** risk and the risk associated with **each individual security**.

- The first can be virtually eliminated with a long-term investment horizon. The risk of capital loss due to overall market decline is very low when you are working with periods of five years or more.
- The second, however, can be mitigated only through ownership of a *number of different* securities within a particular asset class, which allows appreciating securities to offset the possible depreciation of others.

With equity investments, as illustrated in the graph below, approximately 95% of the risk associated with individual securities can be eliminated by simultaneously investing in 20 different stocks. In fact, investing in just five different stocks eliminates close to 80% of this risk.

## Equity Investments and Risk



Each of our baskets contains enough different securities to maximize your exposure while reducing your level of risk – a simple, affordable way to optimize your risk/return ratio.

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## Benefit 2: Affordability and savings

*Baskets are based on economies of scale.*

Our baskets are composed of securities that we purchase in large quantities and redistribute to clients choosing this option. By pooling our transactions, we realize economies of scale that we pass on to you: costs are far lower than for buying the same securities individually, outside the basket.

And that's not all! Getting into the market with baskets can be done with a much smaller outlay than would be necessary if buying stocks and bonds directly. The rule of thumb is that it takes total assets of at least \$200,000 to build a well-diversified portfolio of directly-owned securities (keep in mind that this means diversifying not only *within* but also *across* asset classes.)

With baskets, the threshold is significantly lower, and you can expect to diversify each segment of your portfolio for as little as \$20,000 to \$30,000.

Ease of access and lower costs make baskets a truly economical option.

## Benefit 3: Professional management

*Managing a multiple security portfolio is a complex undertaking. With baskets, you can delegate this task to a team of specialists.*

Each basket is actively managed by a team of experts who select, buy and diligently track the most promising investments, selling them when they feel the time is right to obtain maximum return with minimum risk. Thus, the composition of any given basket will change a number of times during the year. It is important to note that all team decisions are based on the investment policy established for each particular basket. You can therefore trust that any basket you purchase will remain fully aligned with the objectives for which you selected it.

Upon purchasing a basket, you sign a discretionary management agreement authorizing us to automatically make the changes needed to keep it aligned with the model basket, without our having to bother you to approve each individual trade\*. In short, we provide professional management of your investments at a cost that is actually lower than managing your own investments!

### Swapping your basket for its individual components

You always have the option of setting aside the concept of the basket and reverting to simply owning the securities it was made up of. At that point, however, the decisions of our investment committee are no longer automatically reflected in your portfolio. Nor does our preferential pricing apply to your transactions. Simply put, you have traded your basket for its individual security components.

\* Note that this discretionary mandate applies only to the securities in your baskets, not to any other investments you may be holding with National Bank Financial in your portfolio.

## Benefit 4: Take full advantage of market potential

*Each basket is composed in such a way as to address a specific investment need. This may involve exposure to a number of asset classes, a specific asset class only, or even a subsection within a given asset class.*

Our family of baskets is constantly growing and evolving. But before creating new baskets, we ensure that they meet specific investment needs, providing sound foundations on which our clients can confidently build all or part of their portfolio.

For example, our *fixed-income* baskets allow you to reap maximum potential from the bond market while providing regular income (as in the Bond Basket) and superior protection for your capital. Our *equity* baskets give you a solid base in specific segments of the stock market. And our *asset allocation* baskets ensure that your investment capital is strategically diversified among the various asset classes.

The same concept applies to all of our baskets: one focus, one basket. When you opt for a basket, you are choosing an approach based on a clear-sighted vision of the financial markets.

### Further information

For more information on our baskets, consult the fact sheets included with this brochure, or contact your Investment Advisor.

## Baskets – Frequently Asked Questions

### *How do I buy a basket?*

Just like buying individual stocks and bonds, only easier. Because baskets have a market value, you simply place an order for the amount you wish to buy or sell. But rather than having to enter one transaction for each security purchased, one order is all it takes. At the same time as you enter your order, you sign the discretionary agreement that empowers our investment committee to manage your basket's contents on an ongoing basis. Please consult your Investment Advisor for information on the required minimum amounts for each of our baskets.

You can purchase entire baskets (one, two, three or more) or partial baskets (1.5, 2.5, etc.). In each case, your investment represents a multiple or partial multiple of the basket price.

### *How do I sell my basket?*

Once again, in the same way you sell individual stocks or bonds, only easier. You can sell all the contents of a basket with one simple instruction. Alternately, you always have the option of selling one or several of the basket's component securities at any time. However, by doing so, you are no longer considered as owning a basket.

*Do I give up control  
of my financial assets?*

Yes, to some extent. In purchasing a basket, you have given National Bank Financial a discretionary mandate, but this mandate only applies to the contents of the basket. For instance, if you hold a basket and several other investments in the same account, these other investments remain under your sole control at all times.

*Does the basket mix  
change often?*

There is no fixed rule in this regard. Different baskets have different turnover rates. Market conditions can also influence the turnover rate.

*How do I learn about changes  
to the basket's composition?*

Since at all times you retain direct ownership of the basket's individual component securities, each time there is a change to the composition of a basket you own, you will receive transaction confirmations reflecting the relevant "sell" and "buy" trades. These operations will also be reflected in the Activity section of your monthly Portfolio Statement.

*How much  
does all this cost?*

We charge an asset management fee for all our baskets that is levied monthly. For our fixed income baskets only (bond, stripped coupon), you have the option of replacing this asset management fee with commissions charged on a per transaction basis. Specific details on the pricing of each basket is given in the fact sheets at the end of this brochure.

Our basket management fees represent a significant savings over what you, as an individual investor, would pay to buy or sell a basket's component stocks and bonds, to say nothing of what you would have to pay for the professional management of these securities. These fees are also significantly lower than the average management expense ratios for mutual funds investing in comparable asset classes. The commissions charged for the fixed income baskets also represent a considerable saving over buying the underlying bonds and coupons directly.

*What will appear  
on my statement?*

Your statement will show a listing of the quantities and descriptions of each basket you own, plus specifics on all the underlying securities. Your statement will also report all transactions for each security (purchases, sales, interest or dividend payments, etc.). If you wish, the companies whose stocks are included in your basket will send you their reports and financial statements.

*Are baskets  
RSP and RIF-eligible?*

Some baskets are fully RSP-eligible, whereas others will be subject to the 30% foreign content rule because of the nature of the securities they contain.

*What role does  
my Investment Advisor  
play in all this?*

The introduction of baskets has in no way changed the role of your Investment Advisor. She or he is still the person best placed to suggest strategies and securities for reaching your investment goals. Your advisor's expertise is essential, particularly when it comes to helping you establish or review your overall asset allocation. Baskets are simply another tool in your advisor's toolbox.

*What if I want to transfer  
my account to another  
financial institution?*

You simply transfer the stocks or bonds from your basket to the new account. At your new financial institution, you will not have the advantage of being able to sell all your securities as a basket in one transaction, although this can always be done before the transfer.

## Ready to put a few eggs in a basket?

*Buying a basket is easy.  
Your Investment Advisor will  
be pleased to assist you.*

Consult your Investment Advisor  
for further information on the many  
benefits of our baskets.



NATIONAL  
BANK  
FINANCIAL

MANAGING  
THE WORLD'S  
MOST IMPORTANT  
INVESTMENTS:

YOURS!



[www.nbfinancial.com](http://www.nbfinancial.com)





# Top-15 Basket

## Description

The *Top-15* Basket allows investors to establish a solid core position in the Canadian stock market. Here the prevailing investment philosophy combines the top-down approach of our Strategy Department with the bottom-up approach used by our analysts in selecting stocks. This basket is managed by a five-member investment committee composed of representatives from our Research, Portfolio Management and Institutional Equity Departments.

## Launch date

September 30, 1993

## Composition

This basket consists of holdings in 15 Canadian TSE 300 companies, which are actively tracked by our analysts and/or our portfolio managers. Your Investment Advisor can provide an up-to-date list of these securities.

## Typical securities held in this basket

Anderson Exploration, Royal Bank, TD Bank, Barrick Gold, Bombardier, Canwest Global, Inco, TransCanada PipeLines

## Benchmark

TSE 300 index

## Historical performance

A summary of this basket's recent evolution and historical performance is available on request from your Investment Advisor.

## Pricing

Asset management fee of 1.75% per annum

## Minimum initial investment

Approximately \$30,000 (depending on the market value of the basket at the time of purchase).



# *U.S.* Basket

## **Description**

The *U.S.* Basket allows investors to establish a solid core position in the U.S. stock market. It is managed by two members from our Portfolio Management department, assisted by a representative of Crédit Suisse First Boston (CSFB), with which our firm has a contractual relationship. CSFB has a highly regarded Research Department with a truly global reach.

## **Launch date**

March 1996

## **Composition**

This basket is composed of holdings in 10 American companies. These stocks are chosen from within the CSFB universe of recommended stocks.

## **Typical securities held in this basket**

CVS Corp., Coca-Cola, Compaq Computer, General Electric, MBNA Group, Microsoft, Estée Lauder, Merck & Co., Telephone & Data Systems, Wells Fargo

## **Benchmark**

S&P 500 index

## **Historical performance**

A summary of this basket's recent evolution and historical performance is available on request from your Investment Advisor.

## **Pricing**

Asset management fee of 1.75% per annum

## **Minimum initial investment**

Approximately U.S. \$20,000 (depending on the market value of the basket at the time of purchase).



# *Dividend* Basket

## **Description**

The *Dividend* Basket is managed with emphasis on a value style, favouring quality securities that are temporarily being undervalued by the markets. This basket is intended for investors seeking high dividend returns and moderate capital growth, with an eye to preserving capital. It is managed prudently to reduce volatility and risk.

## **Launch date**

July 1995

## **Composition**

This basket is composed of high-yield equity securities (stocks, royalty trust units or other equity securities; no debt securities will be included in the *Dividend* Basket). All securities are Canadian and meet strict criteria with respect to credit ratings, financial viability and regular payment of dividends. The basket aims for a dividend yield at least 50% above that of the TSE 300.

## **Typical securities held in this basket**

Bank of Montreal, Manitoba Tel., Molson, Noranda, CIBC, Transalta Corp., TransCanada PipeLines, Westcoast Energy

## **Benchmark**

TSE 300 index

## **Historical performance**

A summary of this basket's recent evolution and historical performance is available on request from your Investment Advisor.

## **Pricing**

Asset management fee of 1.25% per annum

## **Minimum initial investment**

Approximately \$30,000 (depending on the market value of the basket at the time of purchase).

# Growth Basket

## Description

The *Growth* Basket is intended for investors seeking high returns in the medium term in exchange for a level of risk and volatility greater than that of the Canadian stock market, as reflected by the TSE 300 index.

## Launch date

October 1998

## Composition

This basket is composed of strong-growth companies included in the TSE 300 index. To be eligible for this basket, companies must have a projected annual growth rate (revenues and/or earnings) of at least 15 – 20% for the next three years. Focus is principally, but not exclusively, on the following sectors: high technology, biotechnology/pharmaceuticals and industrial products.

## Typical securities held in this basket

BCE Emergis, Biovail, Celestica, Nortel Networks, Intrawest, Leitch Technology, Talisman Energy, Royal Group Technologies

## Benchmark

1.2 times TSE 300

## Historical performance

A summary of this basket's recent evolution and historical performance is available on request from your Investment Advisor.

## Pricing

Asset management fee of 1.75% per annum

## Minimum initial investment

Approximately \$20,000 (depending on the market value of the basket at the time of purchase).



# *Bond* Basket

## **Description**

The *Bond* Basket is intended for investors wishing to optimize returns on the fixed-income portion of their portfolio through active management. More specifically, this basket seeks to outperform the benchmark without compromising capital safety. It contains high-grade securities issued by solid organizations and provides regular interest income. The *Bond* Basket is managed by an investment committee composed of representatives from our Research, Portfolio Management, Capital Markets and Institutional Fixed Income Departments.

## **Launch date**

January 1998

## **Composition**

This basket is composed of federal and provincial government bonds and high-grade corporate bonds.

## **Typical securities held in this basket**

Government of Canada, Ontario and Quebec bonds, certain corporate bonds (e.g. TransCanada PipeLines)

## **Benchmark**

SCU index

## **Historical performance**

A summary of this basket's recent evolution and historical performance is available on request from your Investment Advisor.

## **Pricing**

Option 1:

Asset management fee of 0.75% per annum

Option 2:

Commissions charged on transactions

## **Minimum initial investment**

Approximately \$35,000 (depending on the market value of the basket at the time of purchase).



# Stripped Coupon Basket

## Description

The *Stripped Coupon Basket* is intended for investors wishing to optimize returns on the fixed-income portion of their portfolio through active management. Under the responsibility of a team of specialists, this basket seeks to outperform the benchmark while maintaining an exceptionally high level of capital safety. It contains high-grade securities issued by solid organizations. However, unlike the *Bond Basket*, the *Stripped Coupon Basket* **does not** provide regular income, since the securities it contains do not generate any.

## Launch date

January 1999

## Composition

This basket is composed exclusively of stripped coupons and residuals.

## Typical securities held in this basket

Stripped coupons and residuals issued by the governments of Canada, Ontario or Quebec and certain government-owned corporations (e.g. Hydro-Québec)

## Benchmark

SCU index

## Historical performance

A summary of this basket's recent evolution and historical performance is available on request from your Investment Advisor.

## Pricing

### Option 1

Asset management fee of 0.75% per annum

### Option 2:

Commissions charged on transactions

## Minimum initial investment

Approximately \$30,000 (depending on the market value of the basket at the time of purchase).



# Asset Allocation Basket

## Description

This basket is designed for investors primarily seeking relatively stable returns, who are prepared to accept some volatility in order to maximize long-term capital growth. It should be considered seriously by investors whose risk tolerance is moderate and who do not expect to need their capital in the short or medium term.

## Launch date

January 2001

## Composition (target mix)

Equities	50%
Fixed-income securities	45%
Cash	5%

## Tactical margin

*for maneuvering*

*+ or - 10 to 15%  
per asset class*

## Basket content

### EQUITIES

High-grade Canadian stocks	25 to 35 %
High-grade American stocks	10 to 20 %
International equities/funds	0 to 10 %

### FIXED-INCOME SECURITIES

Federal, provincial or corporate bonds (min. "BBB" rating)	30 to 60 %
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### CASH

T-bills or bankers' acceptances	0 to 20 %
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## Historical performance

A summary of this basket's recent evolution and historical performance is available on request from your Investment Advisor.

## Pricing

Asset management fee of 1.50% per annum

## Minimum initial investment

Approximately \$55,000 (depending on the market value of the basket at the time of purchase).