Pinnacle Optimized Portfolios Overview

Launched in 2002, the Pinnacle Optimized Portfolios are a comprehensive suite of multi-manager portfolios that are designed to enhance potential returns while minimizing risk. In total there are 36 Portfolios from which to choose - both taxable and non-taxable - that will appeal to a wide range of investors. The Portfolios were designed by Northern Trust Global Advisors (NTGA), our external investment management consultant, leveraging modern portfolio theory and sophisticated portfolio construction tools to provide multi-level diversification by asset class, market capitalization, country and investment style.

How Asset Allocation Is Determined

Asset allocation is determined using a combination of factors: forecast market returns, market correlations and market volatility. While all Portfolios are based on long-term, strategic asset allocation, NTGA created the portfolios using slightly different approaches. The result is a broad array of portfolios to suit your unique needs.

We offer standard Portfolios in which NTGA employs a fixed strategic asset allocation. In addition to our standard Portfolios, NTGA has also created "core/explore" Portfolios, specialty Portfolios and capped foreign exposure Portfolios.

The "core/explore" Portfolios are constructed using a balanced fund as the "core" component and specialty funds as the "explore" component. These Portfolios are premised on similar long-term asset allocation to our standard Portfolios, but include active asset allocation at the core, with the balanced fund manager making shorter term, asset mix decisions.

The specialty Portfolios (i.e. non-diversified) are 100% equity and 100% foreign respectively. They are designed to complement portfolios that include outside assets.

The limited foreign exposure Portfolios are non-taxable. While all non-taxable Portfolios keep foreign content below the 30% allowable limit, the capped foreign exposure versions have a lower level of foreign holdings than would be optimal, but help to reduce foreign currency risk.

How the Money Managers Are Selected

NTGA has a global capacity to research, compare and select money managers through its offices in Toronto, Stamford, Chicago, San Francisco and London. They track over 5,000 money managers in select investment specialties, recommending fewer than 200 to their clients. Money managers selected for the Pinnacle Program are subjected to an in-depth selection methodology that includes both qualitative and quantitative analysis. Key points of focus include investment process, stock selection and risk management skills, performance, quality of the firm and key personnel. Managers who are ultimately selected for the Pinnacle Program must also undergo a disciplined, ongoing evaluation process that includes on-site due diligence visits, extensive interviews, and independent analysis of portfolios and performance, including their market capitalization, regional diversification and investment style.

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Money manager selection for the Optimized Portfolios is driven by scenario analysis to determine what combination of Pinnacle managers provides the best pattern of excess return and reduced risk. Money managers with differing styles are offset to reduce volatility and add return for core asset classes. The Portfolios also balance growth and value investment styles so as to avoid the uncertain return patterns and extra volatility associated with overweighting any one investment style. At the same time, careful attention is paid to overall capitalization in the Portfolios to eliminate unintended capitalization bases that can rob performance.

Key Benefits

Investors who participate in the Pinnacle Optimized Portfolios benefit from:

- A personalized Investment Policy Statement (IPS) - The IPS is tailored to reflect investors' unique needs and goals
- Multi-level diversification - Multi-level diversification is provided by asset class, market capitalization, country and investment style
- Manager selection and due diligence by NTGA - NTGA is one of the world's most respected investment management consultants
- Access to leading money managers - The money managers who have been selected for the Pinnacle Program are typically only available to large institutional investors and pension funds
- Detailed quarterly performance reporting - The Pinnacle Performance and Portfolio Summaries provide in-depth details of Portfolio performance relative to a custom blended benchmark
- Comprehensive annual reviews - Annual reviews ensure that investors' portfolios continue to work toward meeting their individual goals
- Solid performance - The majority of the Pinnacle Optimized Portfolios regularly outperform their benchmarks

For more information on the Pinnacle Optimized Portfolios, please contact your ScotiaMcLeod advisor.

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