QUARTERLY REPORT
2016 Q4

FOSTER & ASSOCIATES

This being our first quarterly report for the FosterIQ Managed Portfolio program, it's a pleasure to report how strong performance has been, right out of the gate.

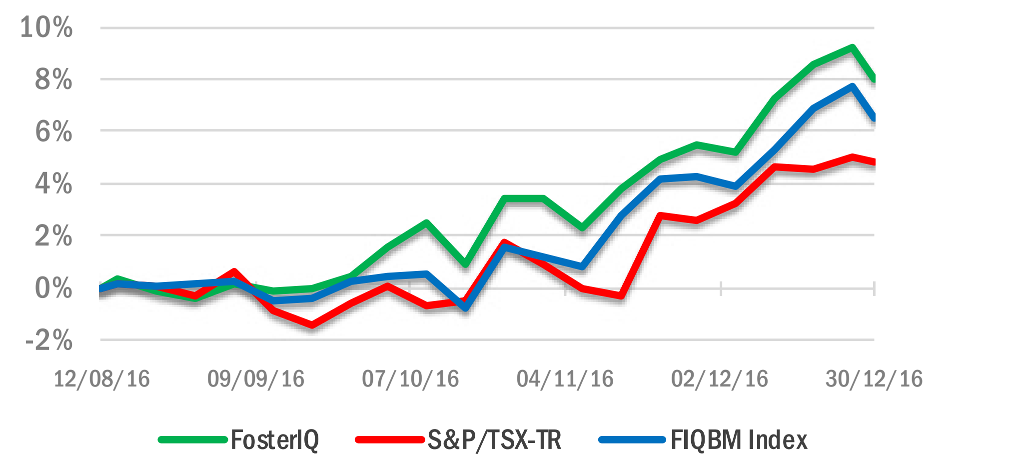
For the fourth quarter of 2016, The FosterIQ (FIQ) Model Portfolio return was 6.34%, outpacing the custom benchmark (FIQBM Index), but also outperforming the S&P/TSX Total Return Index (S&P/TSX-TR) by a handsome margin, even after fees and all transaction costs and without the use of any leverage.

This result is a great vindication of FosterIQ's True Diversification approach which uses alternatives and wide sectoral and geographic diversification, along with a disciplined and quantitative approach to buying and selling individual stocks. This means you will rarely see 'story stocks' or 'flavour of the month' investments in your portfolio. But as far as we're concerned, that's for the best.

	2016 Q4	Since Inception (Aug 2016)
FIQ Model Portfolio	**6.34%**	**8.00%**
S&P/TSX-TR	4.80%	4.85%
FIQBM Index	6.07%	6.50%

FosterIQ Model Portfolio compared to S&P/TSX-TR Index and FIQBM Index

Since inception of the FIQ Model Portfolio in August 2016



DISCLAIMER: Net returns are stated in Canadian dollars and are the actual returns of the first portfolio in our FosterIQ Managed Account Program (the Model Account). This account is charged a 1% per year management fee, accrued monthly (standard on investments over C$ 1.0 mil). Different portfolios' performance in this program will be higher or lower than the above reported performance of the program depending on several factors, such as fee levels, starting point, investment amount, asset allocation, government taxes (if any).

The S&P/TSX Composite Total Return Index (S&P/TSX-TR) is a capitalization-weighted index of stocks traded on the TSX. It is not an investable index and as such is not a direct comparison to an investment in the FosterIQ program, and should therefore the returns should be considered hypothetical in nature and for illustrative purposes only.

The FIQBM Index is a composite index calculated by the Portfolio Management team at Foster & Associates Inc. It is calculated by taking a 33.3% exposure to the S&P/TSX Total Return Index and a 66.7% exposure to the S&P500 Total Return Index, converted to Canadian dollars at the daily closing rate (Data Source: Bloomberg). Since this index is not investable, the returns of the FIQBM Index should be considered hypothetical in nature and for illustrative purposes only. Additional details of this computation and calculation of the performance are available upon request.

What defines a FosterIQ Managed Portfolio?

"I" stands for an institutional approach to diversification.
"Q" stands for a quantitative and disciplined approach to stock selection.

The FosterIQ Managed Portfolio program is focused strongly on True Diversification.

For us, that means holding a carefully selected portfolio of traditional assets and alternative investments that attempts to provide stable performance for the long term. It's not a fund, but rather an overall approach that can be implemented across a variety of different client portfolios – RSP's, TFSAs, taxable accounts, etc.

We divide out investment universe into Four Pillars:

Equities,
Alternatives,
Fixed Income
and, Cash

and we very carefully allocate among them.

New investors may be surprised by the prominence we give to Alternatives, but it's our belief that carefully selected alternative investments can provide much-needed shelter in times of stress, and thereby improve investor outcomes.

FosterIQ Investment Definitions

Traditional Investments:

- Stocks
- Bonds
- Notes and preferred shares
- Money market instruments

Alternative Investments:

- Real Estate
- Alternative Lending
- Multi-Strategy Funds
- Mortgage Investment Companies
- Precious Metals
- Private Equity

EQUITY MARKETS

Since the inception of the program, our model account exposure to equities has been 70%, two-thirds of which has been in the US market, with the remaining one-third in Canada.

That said, in recent weeks we made our first International Allocation, into a Japanese currency-hedged ETF, and then shortly thereafter another allocation into a currency-hedged European ETF.

A few highlights from Q4:

All amounts in US$

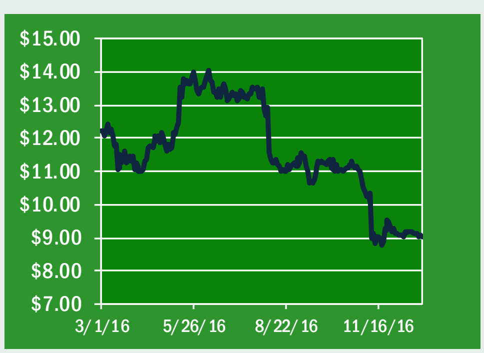
American Airlines (AAL – US)

In 2013 Warren Buffett wrote that the airline industry had been a "death trap for investors". So when it was announced in November that his company, Berkshire Hathaway, had invested in 'AAL', the market reacted with surprise and excitement. While we shared Mr. Buffett's previous concerns, in August our model had identified 'AAL' as a top decile pick allowing us to pick up a full allocation at well below current market levels.

Cabela's (CAB – US)

About two months after we bought Cabela's shares, the company agreed to be purchased by Bass Pro Shops. While the acquisition has not yet been consummated, we followed our policy to exit an investment after a takeover offer has been made and we believe a follow-on offer is a low probability event. We are pleased with the quick 22.55% return.

All amounts in US$



All amounts in C$

Bird Construction (BDT – CDN)

Bird Construction did not take long to disappoint. Within a week of our purchase, the company announced a dividend cut and poor guidance. Along with the rest of the market, we were surprised at the reduced dividend as their free cash flow seemed to easily cover the distribution. The stock price dropped sharply as the market punished the perceived over-cautiousness of management. Our Canadian stock model has a sizeable momentum component, so the poor price performance contributed to the decision to crystalize the loss.

ALTERNATIVES

Our Alternatives allocation is currently 30%, which is close to our preferred target exposure. Our approach to alternatives is what makes FosterIQ an institutional-style program. While many investors are attracted to alternative investments for the high-octane returns they can sometimes offer, our interest is in the protection and diversification they can provide. So, while we obviously want to make money, we look to them to moderate declines in our overall account values during times of stress. For that reason, you typically won't see any double-digit returns in our alternative investments. But ideally, we will see slow and steady returns through thick and thin.

Before we allocate to any alternative investment, we subject the manager to a thorough due diligence process before being approved by our Investment Committee. Currently, our allocations are to the following funds:

- Polar Multi-Strategy Fund LP
- Sprott Bridging Finance Trust
- Sprott Private Credit Trust II
- Westboro Mortgage Company Inc
- Kensington Private Equity Fund

There isn't enough space here to do a deep dive on any of these investments, but please follow our Portfolio Manager's blog for updates at www.fosteriq.ca/blog

BOND MARKETS

Our fixed income exposure is currently at zero. Our view of traditional notes and bonds is that they don't present enough reward to compensate for the multi-year marked-to-market losses they could suffer if yields continue to trudge higher.

MONEY MARKETS

Until very recently we have been running our cash exposure at near-zero, but we have recently bumped that up to 3% of our portfolio. Our preferred cash instrument is currently a Scotiabank HISA yielding 1.0% per annum.

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