FIQ
FOSTER & ASSOCIATES

QUARTERLY REPORT

2017: First Quarter Highlights

Q1-2017 saw a continuation of the solid results we saw in Q4-2016. Most surprising was how, despite the political backdrop, the volatility of our portfolio remained at very muted levels.

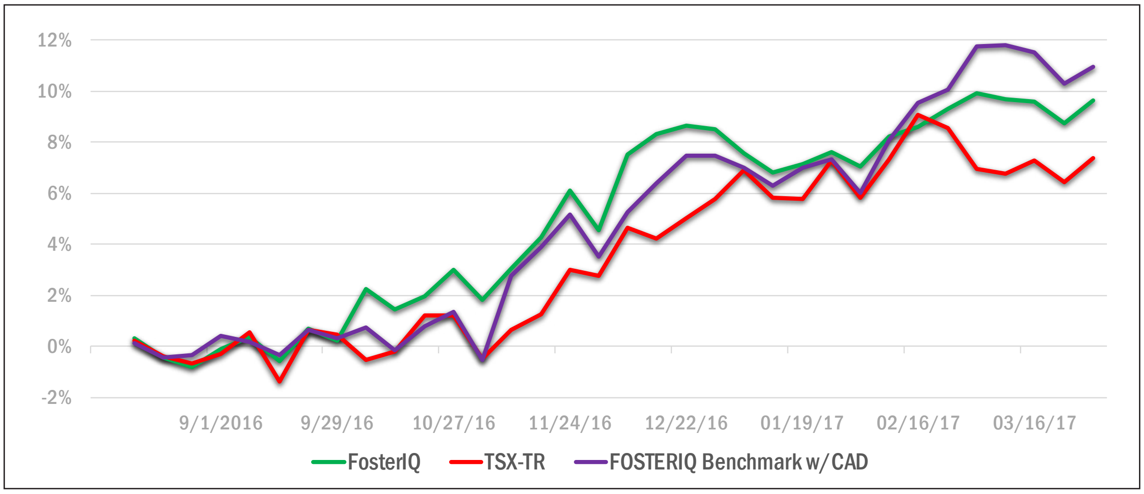
Our accounts saw very few changes over the quarter, with most of our individual equities continuing to perform well. Our overall portfolio, including alternatives, lost ground to our benchmark as the slow-moving alternative investments we hold could not keep pace with the surging stock market. It's the price we're willing to pay for holding investments that will, we believe, redeem us when we have darker days.

The first quarter of the year is when we do a comprehensive update of our multi-factor model, but after a lengthy review we decided upon only one minor change. For both the Canadian and US model we abandoned the Price/Book ratio as a meaningful indicator of future stock performance.

	2017 Q1	Since Inception (Aug 2016)
FIQ Model Portfolio	**1.40%**	**9.78%**
S&P/TSX-TR	2.41%	7.35%
FIQBM Index	4.21%	10.90%

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.

Price/Book was only a small part of our overall model, but our research indicated it was no longer a relevant input, possibly a function of book values being less important in a modern economy.

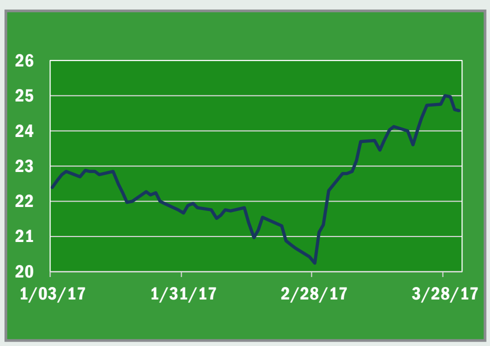
There were only two small changes to our weightings in Q1. First, we lightened up slightly on our US stocks, and second, we switched a small portion (about 3%) of our US allocation into the Canadian stock market, attempting to take advantage of the weak Canadian dollar.

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.

As mentioned above, we have raised a small amount of cash in recent months, and are prepared to lighten up more in Q2.

A few highlights from Q1:



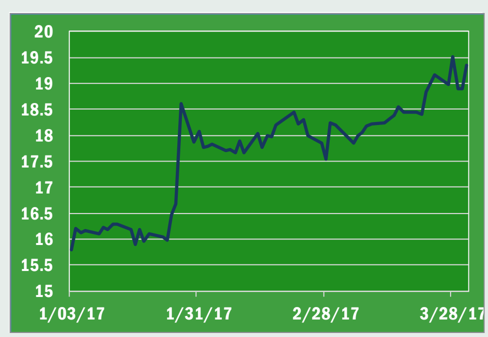
All amounts in C$

Transcontinental (TCL.A - CDN)

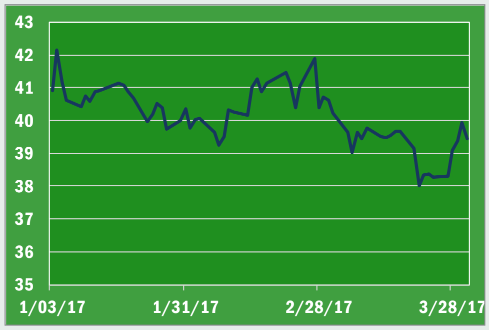
The market finally agreed that Montreal-based Transcontinental is a stable, undervalued business. The company is comprised of a growing packaging division, a stable media business and a steadily declining print division. The packaging and media businesses have offset the decline in printing as revenue and profits increased in the past quarter.

Celestica (CLS-CDN)

A name that will be familiar to all Canadian investors that lived through the dot-com era, Celestica is enjoying a resurgence as of late. The company's prudent decision to exit the solar-panel manufacturing business and expand into the aerospace and renewable energy sectors is being cheered by investors. The stock was up 21.56% in the first quarter of 2017.



All amounts in C$



All amounts in US$

Bed Bath and Beyond (BBBY-US)

Our worst performer, Bed Bath and Beyond, disappointed as the entire retail sector fell out of favour. The stock declined 2.6%, which for a retail stock was not a complete disaster, as the US retail ETF (XRT) dropped by 3.9% for the quarter. While the retail landscape looks rocky, our model continues to see value in the company so the stock will remain in our portfolios for the time being, but we confess to being concerned.

ALTERNATIVES

Our Alternatives allocation remains at 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 specific 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.

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 – RRSPs, TFSAs, taxable accounts, etc.

We divide our 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

FOSTER IQ
info@fosteriq.ca
www.fosteriq.ca

FOSTER & ASSOCIATES FINANCIAL SERVICES INC.
372 Bay Street, Suite 1100, Toronto Ontario, M5H 2W9
416.369.1980 TF 1-800.559.8853