FIQ Managed Portfolios

QUARTERLY REPORT

2017: Fourth Quarter Highlights

The fourth quarter of 2018 saw very respectable growth of 2.2% in our model portfolio. This marked our sixth straight quarter with gains, the same of which cannot be said for the TSX.

As financial markets continued to rise moving into the tail end of 2017, there was an excellent opportunity to rebalance the equity portfolio, reduce risk and diversify further. Although we haven't been too optimistic about them over the past few years, fixed income investments provided the portfolio with the balance we were looking for. We sold enough of our equity portfolio to build a position in two ETFs; the iShares Core Canadian Short-Term Bond Index ETF and the BMO Short Corporate Bond Index ETF. The rise of the ETF is a great thing for our investors; it provides cheap execution and easy diversification, and allows us to gain exposure to the precise instruments we think are currently best – in this case, short duration bonds. Taking advantage of this rebalancing, we sold a little more off the top of our largest US equity holdings, bringing them back inline with the average position size, and lowering our overall USD exposure.

	2017 Q4	Since Inception (Aug 2016)
FIQ Model Portfolio*	**2.24%**	**14.56%**
S&P/TSX-TR*	3.94%	14.39%

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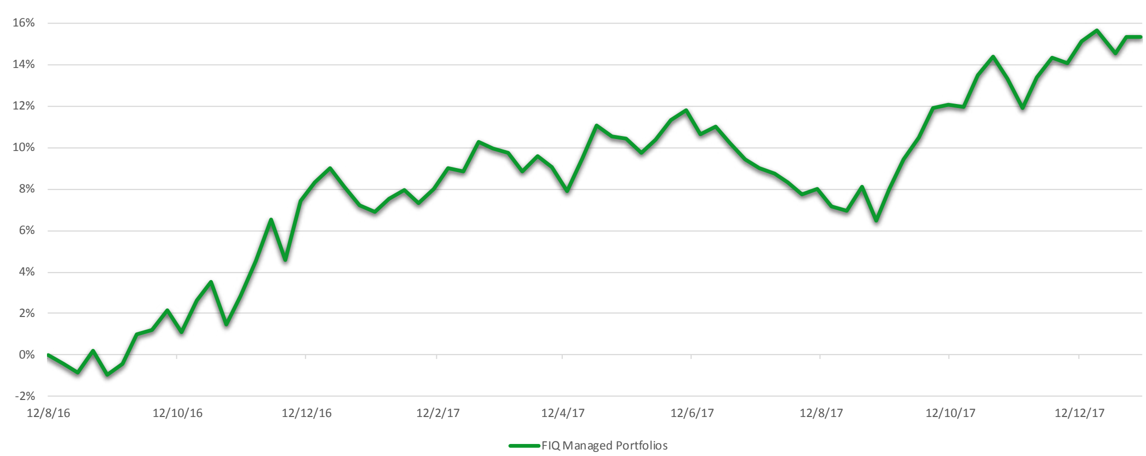
FIQ Model Portfolio Performance

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 FIQ Managed Portfolio 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.

Our alternative investments (alts) continued to be a beacon of predictability and stability, appreciating by the same 1.8% they did last quarter. Our alts have returned 10.6% since the inception of the program in 2016. While we are constantly reviewing them to see if there are better products available on 'the street', we are happy with the current alternatives portfolio and do not foresee any major changes in 2018.

EQUITY MARKETS

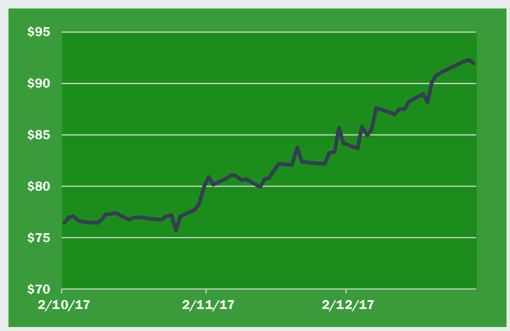
Equities currently account for 55.9% of the overall model portfolio, which is significantly less than the 68.7% we reported in Q3. US market exposure is currently 54.7%, with Canada at 34.0% and International exposure at 6.4%.

Please be reminded, that this equity exposure is designed for our more aggressive investors. An investor with a shorter time horizon or lower risk appetite would have a lower exposure to equities.

A few choices from Q4:

Valero Energy (VLO-NYSE) $92

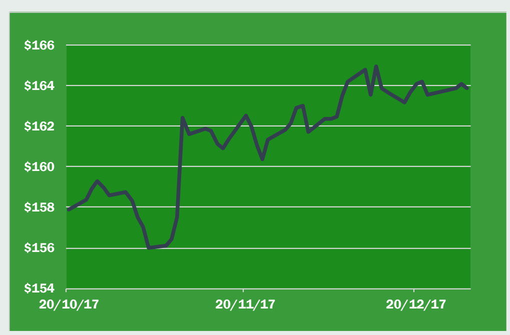
A long-time holding, Valero Energy continues to benefit from the recovery in oil prices. Since the price of oil declined in 2014, Valero has shown a commitment to capital discipline, keeping its dividend and capex spending at reasonable amounts. The market can't get enough of Valero's stable management, fantastic free cash flow yield and healthy balance sheet.



All amounts in US$

Canadian Tire (CTC.A-TSX) $164

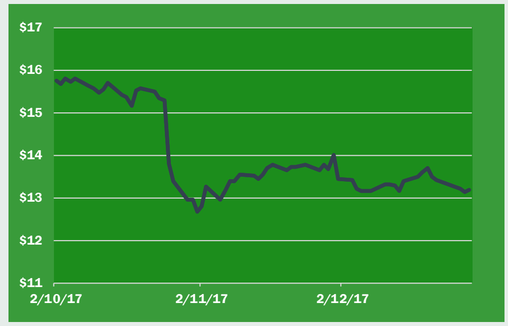
A familiar name to all Canadians, Canadian Tire is a new addition to portfolios after being purchased on November 20th. Shrugging off fears of the 'retail apocalypse' Canadian Tire recently increased their dividend and issued very positive guidance. While the current EPS miss has muted our excitement, Canadian Tire should remain a steady holding due to its strong retail brands, nationwide geographic and banner diversification, and majority ownership and control of its real estate.



All amounts in C$

Celestica (CLS-TSX) $13.25

Coming full circle, we must highlight the disappointment that is Celestica. In Q1 of this very year we celebrated the resurgence of this once-popular Canadian tech company. Our timing could not have been much worse, as they drastically underperformed the rest of the market for the remainder of the year. Management has released a plan to streamline operations and expand both their renewables and aerospace businesses, which makes us optimistic. With a limited amount of debt and no dividend to maintain, Celestica should be able to accomplish their goals on a prudent and reasonable timeline.



All amounts in C$

ALTERNATIVES

Our Alternatives allocation remains at 30%, which is close to our preferred target exposure.

Our approach to alternatives is what makes FIQ Managed Portfolios 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
Westboro Mortgage Company Inc.
Kensington Private Equity Fund
Timbercreek Four Quadrant Fund

BOND MARKETS

After making investments in two short duration bond ETFs this quarter our overall fixed income exposure is 11.6%. The ETFs are a mix of government and corporate bonds. We do not have any high yield exposure.

MONEY MARKETS

At the end of the quarter cash was about 2.88% of our portfolio. Cash is expected to fluctuate between 1-3% of portfolios. Our preferred cash instrument is currently the NBC200 which yields 1.2% per annum.

Our core beliefs

We pride ourselves in a disciplined and rigorous approach to Portfolio Management. While Foster continuously invests in technology, we're not robots. Politics, market trends, and the business cycle will all cause us to think differently about the way we invest our clients' money. However, there are a few things you can count on from us, through good markets and bad, through recessions and bouyant recoveries.

Asset Allocation is Key. While some individual securities will do well, and some less well, most of what will make or break your portfolio over time is asset allocation. Of course, we all remember our great buys, and mourn our missteps, but the key to how well you do in the markets will come from how much you owned of various asset classes, and when you owned them.

Markets are Efficient, but not completely. Just buying an index can sometimes be the right decision, especially in far flung markets, but there are still some market inefficiencies that even retail investors can take advantage of. Small companies tend to do better than very large ones, and the market tends to under-price value stocks, to name but two.

Costs matter a Great Deal. Over time, even small increases in costs can lower returns. If you pay us to manage your money, we will pinch your pennies for you. That means wherever possible we will own securities directly, and not use third party fund managers to invest for you. If for whatever reason we need to buy a fund, low-cost ETFs will be the way we go.

We Love Canada, but... it's not where we want to put all your money. The Canadian stock market is heavy on banks and resource companies, making True Diversification hard to achieve. Venturing abroad can improve returns and lower volatility. You'll also find companies where Canada isn't as strong, such as in consumer staples and biotechnology.

Alternatives aren't that Scary. Sure, some hedge funds can be dangerous, but there's more to the Alternatives space than hedge funds. There's private debt, real estate, infrastructure and market-neutral funds, all of which can provide a place of refuge during periods of excessive market volatility.

Liquidity is good, but Illiquidity isn't always Bad. What we mean by that is that investors are often rewarded for a lack of liquidity. Private Equity, for example, has had great returns over the years, and is a good diversifier. Problem is, it can be hard to get out of a private equity investment on short notice. Of course, this is not great if you need access to your money right away. But for a portion of your portfolio that you DON'T need access to right away, the trade-off can be well worth it.

What defines an FIQ Managed Portfolio?

Our Portfolio Managers take both an Intelligent and strong Quantitative approach to investing. We never invest on emotion.

The FIQ Managed Portfolio program isn't a fund. It's an overall approach that can be implemented across a variety of different client accounts – RRSPs, TFSAs, taxable accounts etc. It's a carefully selected, diversified portfolio of traditional assets and alternative investments, all designed to provide our clients with a customized balance of risk and stability.

We carefully divide our asset allocations through the Foster 4, four specific investment pillars:

Equities;
Alternatives;
Fixed Income; and,
Cash.

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.

Our Quantitative approach to stock selection and portfolio building uses a proprietary equity selection model that anlayzes both US and Canadian equities to find the best investments for your portfolio.

FIQ Managed Portfolio 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

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