

### Client Agreement Form & Client Investing Requirements

In our *Client Agreement Form*, we ask clients for contact information, birth date, social insurance numbers, related professional advisors or parties, and names of beneficiaries. Additionally, security regulators ask that we collect banking information, employment information, net worth and income information, and photo identification. In beginning an investment program, we ask a client to define objectives for their funds and their required returns. This is the purpose of the *Investing Requirements Form*.

### Past Results & Setting Investment Objectives

This note comments on past investment returns and risks in the marketplace. It provides background on company and dividend growth. Our note can guide you, the investor, in consideration of our investment objectives expressed as *your time horizon*, *your return expectations*, the volatility of assets, and *your tolerance for loss*. We conclude with a disclosure on our Funds and their past returns and risks.

### Introduction – Investment Returns and Risks (Volatility)

As treasury bills are a sovereign issue, have a short fixed term to maturity, and a fixed rate of return, they display the lowest volatility, 3.4%, and lowest long-term return, 3.8% over the last 10 years. They are low risk investments. Bonds and debentures have fixed rates of return or coupons, but have long terms to maturity, up to 30 years. They can display greater volatility than treasury bills, 5.0%, but earning 6.4% in the past 10 years. They enjoy higher returns than bills. Preferred shares have a fixed dividend rate. However, they may have variable maturities. They do not carry a legal obligation to pay the dividend. Bonds and preferred shares we consider of moderate risk. Equities, because they represent ownership in a company have no fixed maturity date. They carry variable returns and may have variable dividends based on the earning power of the company. They are high-risk securities. The same applies to real estate, income trusts and energy royalty trusts.

The table shows returns over the past ten years, to December 2006, and for a longer period for which the start date is noted.

Assets	10 Years	Long Term	Volatility	Start Year
	%	%	%	
Inflation	2.1	4.5	0.9	1965
<b>Fixed Income</b>				
Treasury Bills	3.8	7.5	3.4	1966
Long Bonds	6.4	9.3	5.0	1965
<b>Equities</b>				
Cdn Equities	9.9	12.0	18.5	1965
Cdn Small Cap	7.6	10.5	13.4	1973
US Equities	4.4	12.0	7.8	1971
Int'l Equities	5.1	12.6	9.1	1970

*Data courtesy of API Asset Performance Inc.*

### Return Volatility

Returns shown in the table are long-term averages. However, over the period 1924 to 1997, share prices rose as much as 50% or fell as much as 30% in any one-year. Similarly, bond returns have risen 30% or fell 10% in any one year. However, with an increase in the holding period, portfolio returns tend to compress, that is the range, or spread of returns becomes less. By holding an asset longer, the more reliable and less volatile will be the outcome for any class of assets. Subject to value assessments, we prefer to hold high quality positions indefinitely.

You may note equity returns from different equity markets – domestic, small company, and U.S. tend to co-relate. Bonds and bills do not match closely with stock returns and their swings are more limited thus, their inclusion in a portfolio moderates the volatility of equities.

Over the years, equities have provided higher returns than fixed income securities. The reason is that companies are able to generate higher returns on their invested capital compared to interest rates. A common measure of corporate return is the return on equity, ROE. The average ROE of the Dow Jones Industrial Index from 1920 to 2005 was 13.4%, exclusive of non-recurring losses. Over the same period, Moody's Aaa bonds earned 5.9%. (As an aside, in the ten years ending 2003, the companies in the Dow Jones earned a return on equity of over 25% per annum, nearly twice the long-term average, but this is remarkable and something we expect will not persist.) In Canada, the ROE over the last 16 years was 11.8%, the weakest year being 7.4% in 1998 and the strongest year being 15.6% in 2006. An investor with a long-term horizon can endure more volatility than one with short-term principal or income needs.

### Dividends

As companies grow, they increase their invested capital, the base on which they create earnings. With growth, companies may re-invest income or pay increasing dividends, an attraction for long-term investors. In the last ten years, dividend growth in Canada was 10% per annum, well above the inflation rate. A company paying \$1.00 per annum ten years ago would now pay \$2.35. Assuming the yield at the start was 2.0%, the initial capital would yield 4.7% now. At QV Investors, we prefer to own companies able to increase their dividend payments.

### Investment Time Horizon

In this section, we ask you to state when you will need funds or the income from the money invested. Additionally, we ask you to consider if, and when you may need an ongoing allowance or tax payments. QV can make automatic payments to your bank for these purposes.

Most individuals invest for a secure retirement. They typically have a long-term outlook, beyond five years. Clients with an outlook longer than three to five years may assume more risk and diversification in their selection of securities or funds. The table above shows the longer a security can be held, the greater the chance of a positive outcome. However, a classic mistake is to invest long for hope of gain when the need is short. Investment time horizons may extend beyond your patience or longevity.

Clients needing funds over a shorter period, 36 months for example, should invest to secure the principle in fixed term investments. Treasury bills that have maturities within a year have every chance of earning a positive return with no loss to capital.

### Tolerance for Loss

In this section, we ask you to consider your comfort with changes in value in your portfolio over any one-year period in terms of "None", "Low", "Moderate" or "High". Investors with a horizon over five years may be able to tolerate "High" volatility, thus they may tolerate higher rates of change for higher returns. Short-term investors needing capital are advised to think in "No or Low Risk" terms for peace of mind with an expectation of lower returns but a sure principal.

Losses can prove beneficial for the patient investor. Consider the worse cases of loss in Canadian asset classes as follows - in the last thirty-five years, the worst period of loss for Canadian stocks was 1974 when shares fell nearly 26%. However, in the following six years, they rose 24% on average before succumbing to a 10% loss in 1981. For long bonds, the worst year was 1994 when they recorded a loss of 7%, but in the next four years, bonds enjoyed an average return of 18%, before incurring a 6% loss. The statistics illustrate a truth - that rising asset prices can be a risk, but falling asset prices may be a wonderful opportunity.

Tolerance for Loss	Change in Portfolio Value	Asset Class
None	No decline	Treasury Bills
Low	A tolerable decline of 5 to 10%	Long Bonds
Moderate	A tolerable decline of 10 to 15%	Equities
High	A tolerable decline of 15% or more	Equities

### Return Objectives

Your return objective should be consistent with your time for investment and your tolerance for loss. Return objectives may range from capital preservation, to steady income, to dividend growth and capital appreciation, and all the options in between. With capital preservation, your return becomes secondary to the assurance the capital is whole for some shorter-term purpose. Capital appreciation and dividend growth require longer horizons and higher tolerance for volatility and loss. We ask you to consider return objectives.

### Selecting the Assets

Objective	Return Objective (%)	Security / Portfolio
Capital Preservation	3 to 6%	T-Bills, Notes, Short Bonds
Income	5 to 10%	Bonds, Prefs, Income Stocks
Moderate Growth	7 to 14%	Bond and Equities
Capital Appreciation	9 to 18%	Equities

The investor, after considering their timeframe, their risk tolerance, and their return objectives, can address the Client Investing Requirements Form and create a portfolio consistent with their needs. We review our Pooled Funds for suitability with your goals.

### Monitoring

On an ongoing basis, we review your personal circumstances and the markets and adjust your portfolio accordingly.

A simple table for asset mix follows:

Risk Tolerance	Investment Objectives			
	Capital Preservation	Income	Moderate Growth	Growth
None	100% Money Market	50% Money Market, 50% Fixed Income	NA	NA
Low	80% Money Market, 20% Fixed Income	25% Money Market, 75% Fixed Income	75% Fixed Income, 25% Equities	40% Fixed Income, 60% Equities
Moderate	65% Money Market, 35% Fixed Income	75% Fixed Income, 25% Equities	50% Fixed Income, 50% Equities	25% Fixed Income, 75% Equities
High	NA	50% Fixed Income, 50% Equities	25% Fixed Income, 75% Equities	100% Equities

The above is only a guide. The reward and risk and value characteristics of the asset classes change. Personal circumstances change. As a general policy, QV is inclined to invest for moderate risk with moderate growth.

### Selecting the Pooled Funds

A client may use one or all of QV's five pooled funds to meet objectives. We disclose details of the funds on the website. You may click on the fund and learn of its objectives and its character. The table is effective 30 September 2008.

Pooled Fund Name	Risk	Return Expectations	Past Performance	Term of Past Performance	Std. Deviation 4 yr Average
		%	%	Years	
Cdn Income	Low	4.0 - 5.0	4.9	4	2.9
Cdn Balanced	Low/Moderate	8.0 - 9.0	10.1	10	4.7
Cdn Equity <sup>^</sup>	Moderate	10.0 - 11.0	18.1	8	11.0
Cdn Small Cap	Mod / High	12.0 - 14.0	16.0	10	11.9
Global Equity <sup>*</sup>	High	11.0 - 12.0	-5.4	1	TBA

<sup>^</sup> Canadian Equity Fund numbers are those from the Canadian Equities in the Balanced Fund

<sup>\*</sup> The Canadian and Global Equity Funds commenced January 2008

### **Classic Caveats**

A classic mistake is to invest long for hope of gain when the need is short. Investment time horizons may extend beyond your patience or longevity.

Past performance does not guarantee future performance. In fact, superior returns over longer cycles may be a caution for the new investor.

The Underlying value and quality of a business are guides to future results.

Predicting the market is difficult, predicting the economy is harder still.

Investment value of a company is independent of the rise or fall in the share price.

We are not here to make money in the stock market. We are here to grow with sound businesses over time.