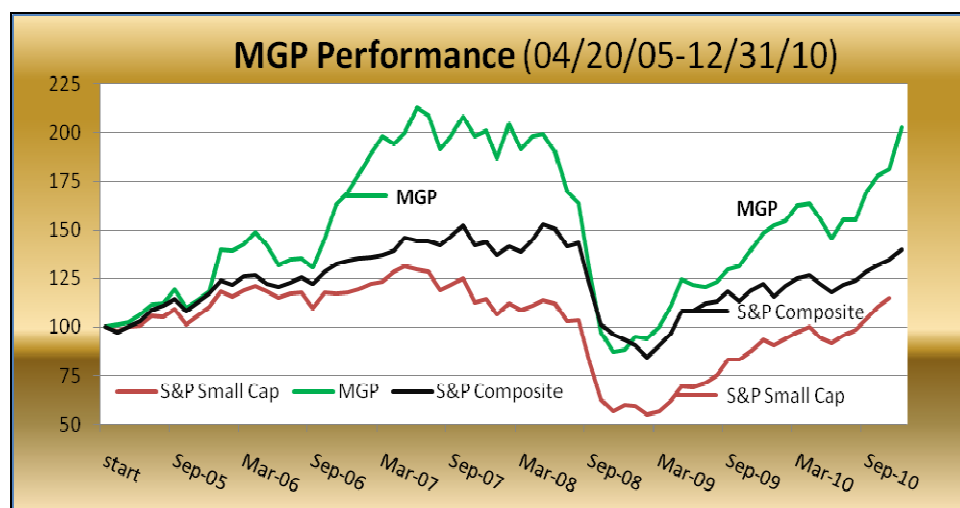




Frequently Asked Questions (FAQ)

What is the performance track record of the MGP?

As can be seen in the following chart and table for the period ending December 31, 2010, the MGP has significantly outperformed its two most relevant comparable benchmarks since inception. Upon closer investigation, the MGP has tended to significantly outperform its comps during bull markets and has performed very similarly to its comps in bear markets. I believe there is room for improvement in the latter and have implemented new strategies to better insulate the MGP from financial-crisis-like declines in the future. Of note, these strategies are also reducing the volatility of the MGP, or its Beta.



Yearly Returns	2005*	2006	2007	2008	2009	2010	Annualized** Since Inception
MGP	18.1%	43.4%	18.6%	-56.2%	68.6%	36.7%	13.2%
S&P Small Cap	10.6%	6.7%	-2.9%	-47.9%	56.2%	31.3%	3.6%
S&P Composite	17.3%	14.5%	7.2%	-35.0%	30.7%	14.4%	6.1%

* Starting April 30th, 2005 ** As of December 31st, 2010

What are the fees charged by the MGP?

The fees are 2% per annum plus a 10% performance bonus on any net annual returns over a 10% hurdle rate and are subject to a high watermark. For example if the MGP returned a net 25% one year (after the 2% management fee), the client would pay a 1.5% performance bonus at the end of the year $((25\% - 10\% \text{ hurdle}) \times 10\%)$. The high watermark ensures clients do not pay twice for the same performance. The 10% hurdle rate ensures the first 10% net return per annum accrues 100% to the client and keeps the bar high for the manager.

Canadian Equity mutual funds charge an average of 2.45%. Hedge funds typically charge 2%, plus a 20% performance bonus, usually with no hurdle rates.

I am therefore convinced the MGP offers excellent value to clients seeking exposure to Canadian growth equities.

What do you mean by 'Active Management'?

Clients of the MGP are rewarded by its size and agility. With only a fraction of the assets of most mutual funds, the MGP can better take advantage of short-term price fluctuations in stocks, where liquidity would prevent larger entities from making a move. Complementing our longer-term investments with short-term trades can significantly enhance the returns of the MGP while at the same time reducing its risk.

For example: recently Imperial Metals (III:T), an established copper producer, announced a staggering new drill intercept below their planned open pit. I was able to acquire a position quickly when the halt came off the stock at \$7.75 and sell it only days later at \$9.45 after having a chance to meet with management.

Most common is a scenario where a current holding spikes and I may choose to sell a portion of our position with the aim of replacing it on a subsequent dip in price; or conversely, when a holding falls in price I may choose to exploit the low price and add to our position for a short-term rebound. This is often referred to as 'trading around positions' and is advocated by some of the best published investors in history.

How much cash does the MGP hold?

As of December 31, 2010 the MGP held 22.06% of its holdings in cash. This is a relatively cautious stance. When conditions warrant, the cash allocation could decline to zero or increase to 50% for example.

How do you incorporate technical indicators, or charts, in your decision process?

I strongly believe that charts are visual representations of investor psychology, or the underlying driver of equity markets. For this reason I find them indispensable and nearly as important as fundamentals. I favour strategies such as buying breakouts and selling breakdowns. Charts have convinced me to stop-loss out of positions and have saved MGP investors from some significant losses. Charts can also identify extremes in historical prices to provide confidence when buying on dips and selling into spikes. With the help of volume, charts can also provide evidence of strength prior to a significant move in price. Serious consideration of such information has served MGP clients very well since the beginning.

What advantages does the MGP have over mutual funds?

The MGP's primary advantages over mutual funds, in my order of importance, are:

- Size: the MGP may make a more relatively significant investment in a smaller or less-liquid company that can have a more material impact on its ultimate performance. Canadian mutual funds tend to be over-concentrated in a few large-cap names, such as the bank stocks. This is out of necessity and, some will say, manager job preservation, but that is both cynical and speculative. However, as a mutual fund manager, when you have \$500 million to invest in Canadian equities, you will be forced to include behemoths like TD and Suncor to ensure you at least keep up with the index. As a result, you will have less of the investments that could truly differentiate your performance from the herd and they, in turn, will influence a smaller percentage of your performance. Hence mutual funds (and large asset managers' portfolios) reversion to the mean (minus fees. See my comments on ETFs below.)
- Agility: the MGP's smaller size also enables the manager to capitalize on short-term price fluctuations. Such price spikes or dips represent a significant opportunity and can greatly enhance performance.

- Transparency: funds will typically show their hand only quarterly and that information is weeks old due to the logistics of its release. The MGP makes positions visible in your clients' accounts as soon as their accumulation or disposition has been completed. Furthermore, trades are often accompanied by an e-mail explanation of the rationale behind them.
- Accessibility: clients can meet with or call the manager to discuss anything from individual investments to how the MGP would best fit into their overall investment portfolio and how best to compliment it.
- Clients' investments in the MGP are not pooled, instead clients hold the actual equities and cash in their own segregated account.

What advantages does the MGP have over investment counselors' portfolios?

In addition to **most of the points above** (advantages over mutual funds):

- A low minimum. You can get started in the MGP with \$100,000. Most investment counselors require over 10 times that.
- Complementary financial services. Haywood Securities can administer numerous types of accounts such as RSPs, TFSAs and foreign currency accounts. We can transfer your funds between them and your other financial institutions at your request. You can also do things like deposit securities, invest in T-Bills and even hedge through the application of short sales or option positions. In other words, the MGP could be just the beginning of your relationship with Haywood.

How does the Canadian investment landscape favour the smaller entities like the MGP?

First, on the note of the advantages of the small size of the MGP, so much of Canada's equity value is concentrated in so few equities, the larger participants are left with fewer opportunities to differentiate themselves – read: outperform the market. For large-cap or “blue chip” exposure you may as well just buy an ETF. (Please see below or ask for further information on these since they make up a big part of our advantage to our diversified clients.)

Second, when things get ugly, stock bids can virtually disappear as they did in the winter of 2009. When this happens, the larger market participants may simply not be able to sell their less-liquid positions and may be forced to sell their more fundamentally strong holdings when investors want



redemptions. The MGP's smaller positions will be far less constrained in such a scenario.

The opposite can happen when the markets take off. Where the big funds might require weeks of liquidity to build positions, the MGP can, so far, add positions in a matter of hours.

It is common to see last year's smaller "star" mutual funds perform below average in the following year. Hopeful new investors, sold on past performance, pile aboard making the funds too large and cumbersome.

How can I diversify beyond growth stocks and the MGP at Haywood?

From my observation and research, "blue chip" or large-cap portfolios or funds rarely outperform their benchmark indices. When they do it is often due to the contribution of a more growth-oriented holding. Therefore, for large cap exposure, I recommend clients invest in Exchange Traded Funds (ETFs) or Index Funds.

ETFs, such as Barclay's iShares, emulate an index for a small administrative fee but no management fee. These ETFs provide clients with efficient diversification and large-cap equity exposure and make perfect long-term proxies to the markets. You see, index administrators such as Standard and Poors hold regular meetings to decide which stocks will make up their indices. They will typically add up-and-coming companies and delete has-beens. This index refreshing is carefully contemplated and acts as a portfolio manager but without the associated fees. Many of my clients hold ETFs alongside their MGP portfolios for complete and efficient equity market exposure.

For further information or to open your own MGP account, call me anytime.

Best regards,

Randal van Eijnsbergen | CIM - Portfolio Manager



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