

**Business Development  
Bank of Canada**

**Managed Futures  
Notes, Series N-1**



Banque de développement du Canada  
Business Development Bank of Canada



# THE FUTURES PARADOX

THE WORLD IS FLAT.  
ALCOHOL IS NOT  
GOOD FOR YOUR  
HEALTH. INVESTING  
IN FUTURES IS RISKY  
AND ONLY FOR THE  
PROFESSIONALS.

At some point, most people would have said these were statements you could take to the bank. Now, we all know that the world isn't flat. And a few years ago, medical researchers came out with data suggesting that the consumption of red wine, in moderation, actually reduced the risk of heart disease. In other words, something perceived to be bad for you actually had a risk-reducing effect when used in moderation. It became known as the French Paradox.

Interestingly, there is a similar paradox in investing - the Futures Paradox. You probably think of futures as risky investments, but in fact, investors around the world are discovering that managed futures, when added in moderation to a portfolio, tend to reduce, not increase, the overall risk of your portfolio.

Yes, it's true. When added to a balanced portfolio of stocks and bonds, **managed futures** help further diversify your investments with an asset whose performance is independent of stocks and bonds, as well as interest rates and market conditions. We all know that diversification is essential to **reduce risk**; this is just another way to get it. So, managed futures can actually become a risk reducer in your portfolio.

While past performance is not always indicative of future gains, managed futures have historically enjoyed enhanced portfolio returns - **with the ability to profit in up and down markets**. And, you can take advantage of this potential for robust and consistent returns while **maintaining protection of your principal** when you purchase Managed Futures Notes issued by the Business Development Bank of Canada (BDC) and hold to maturity.

## MANAGED FUTURES: ADDING A UNIQUE ASSET TO THE MIX

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Managed futures are based on the trading of futures contracts by professional managers, with a track record of realizing the significant profit potential of futures. Institutional investors, such as pension funds, have been using managed futures for more than ten years to help balance and diversify their large portfolios. BDC is offering a way for individual investors to take advantage of the potential returns of the futures market without risking their principal, when held to maturity.

# FUTURE SPEAK

**MANAGED FUTURES** - The trading of futures contracts by professional managers who trade in the global futures markets, as either buyers or sellers of real assets such as gold, silver, wheat, corn, coffee, sugar, and heating oil, as well as financial assets such as government bonds and currencies.

**CORRELATION** - If things go up at the same time and pace, they are correlated. If one goes up when the other goes down, they are negatively correlated. If they act completely independently of one another, they are non-correlated (i.e., futures vs. stocks or bonds).

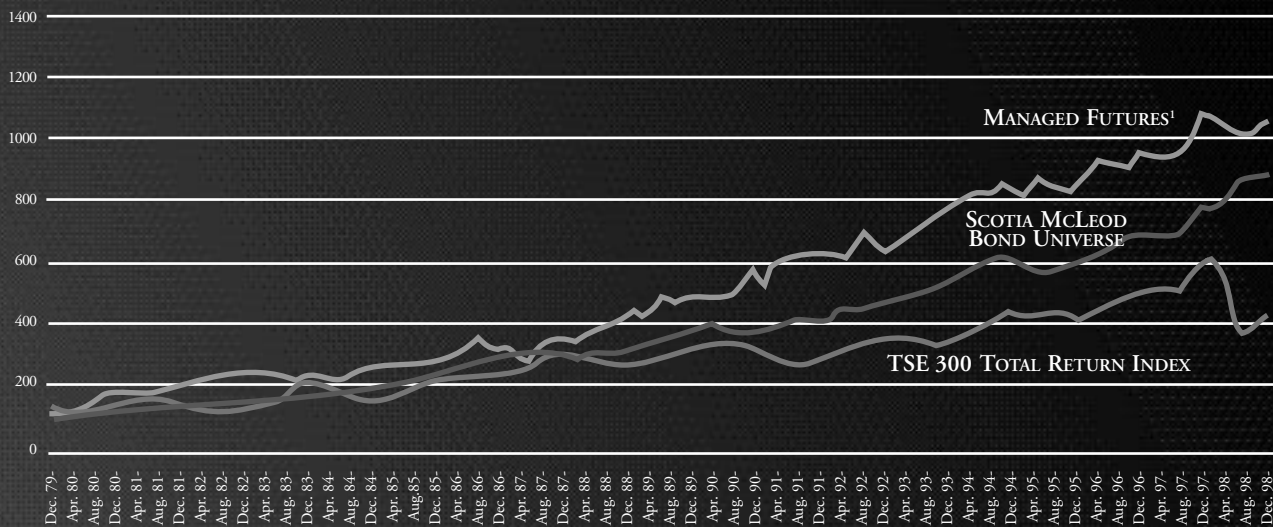
**VOLATILITY / RISK** - The unpredictable ups and downs of investing. Diversifying your portfolio with up to 10% managed futures helps to stabilize those ups and downs, decreasing your risk.

**DIVERSIFY** - Putting your eggs in more than one basket (i.e., stocks, bonds, managed futures). Diversification is important in reducing portfolio risk.

**MATURITY** - This issue of BDC Managed Futures Notes mature on Dec, 31 2005. At that time, your original investment, plus any net profits generated by the trading program, will be returned to you.



## PERFORMANCE COMPARISON: 1980-1998



Source: Nesbitt Burns Managed Futures <sup>1</sup> MAR Fund/Pool Dollar Weighted Index adjusted for Cdn. T-Bills net of fees 1980-98

### INCREASING THE RETURN

Perhaps the best thing about adding BDC Managed Futures Notes to your portfolio is the potential for return – without risking the loss of your initial capital investment. If you hold this investment to maturity, **you will receive your initial principal back – plus any net profits.** This is good news, considering that historically, managed futures have had higher average annual returns than stocks or bonds.

Table: Avg. Annual Return*	(1980-98)
Managed Futures <sup>1</sup>	14.12%
Scotia McLeod Bond Universe	12.32%
TSE 300	10.40%

\*Past performance does not guarantee future returns.

In fact, this effect is even more significant when viewed in the context of a portfolio that includes futures. When added to a traditional

portfolio of stocks and bonds, **managed futures tend to increase profits while decreasing the risk factor** for the whole portfolio.

### ARE MANAGED FUTURES RIGHT FOR ME?

The answer is yes if:


- You are looking for a long-term investment opportunity with growth potential
- Protection of principal is a priority
- You are seeking to reduce the overall volatility, or risk, of your portfolio
- You appreciate smoother returns in your overall portfolio
- You are adding managed futures to a portfolio of \$20,000 or more (to allow managed futures to comprise up to 10% of your portfolio)

## BUY AND HOLD TO MATURITY

Perhaps the greatest benefit of this investment is not always instantly apparent. Only through the inevitable ups and downs of the markets will the true balancing effect of Managed Futures Notes be demonstrated. Historically, the balancing effect (non-correlation to stocks and bonds) intensifies after three years, and becomes more effective after five. It's for this reason we've structured the product to encourage investors to hold it until maturity. Managed Futures Notes are intended to be bought and held to maturity.

## CONSIDER INVESTING IN MANAGED FUTURES NOTES

We believe that Managed Futures Notes are the best way to access all of the profit potential of futures investing while protecting your original investment when held to maturity. Above all, Managed Futures Notes provide access to an asset class **proven to be a risk reducer** when added, in moderation, to a diversified investment portfolio.



“Powerful diversification is the most attractive feature [of managed futures]. Allocations to managed futures tend to reduce, not increase, the overall risk [of a portfolio].”

TOWERS PERRIN,  
“MANAGED FUTURES AS AN INVESTMENT FOR PENSION FUNDS”  
JULY, 1994

“It worked. Managed futures that is. Along with derivatives hedging and selected market neutral strategies, managed futures gave institutional investors diversification in the U.S. stock market’s free fall.”

PENSIONS AND INVESTMENTS AGE, “AND THE WINNER IS... MANAGED FUTURES”  
SEPTEMBER, 1998

“[Including futures in an investment portfolio] reduces volatility while enhancing return [and futures portfolios] have substantially less risk at every possible level of return than portfolios of stocks, or stocks and bonds.”

PROFESSOR JOHN E. LINTER,  
HARVARD BUSINESS SCHOOL  
MAY, 1983

# IMPORTANT INFORMATION

**BDC Managed Futures Notes have a term of 6 3/4 years.** There is no fixed coupon with the yield based on the performance of a multi-advisor managed futures program. The minimum investment is \$2,000, and the notes can be purchased in multiples of \$1,000.

**Managed Futures Notes are 100% RRSP eligible as Canadian property.** Managed futures are an ideal way to further diversify your RRSP and offer exposure to global markets, without adding foreign content to your portfolio.

**This investment is designed to be held to maturity.** However, redemption at the holder's option is available semi-annually after the first year, at a price reflecting the performance of the program since issuance. There is a redemption penalty for redeeming in the first 2 3/4 years. There may also be a secondary market to facilitate sale prior to maturity, but there can be no assurance that such a market will develop.

**The tax implications of this investment are straightforward.** Any increase in value realized is taxable as income at the investor's full marginal rate in the year of sale, redemption or maturity.

**Credit Risk.** BDC Managed Futures Notes carry the full faith and credit of the Government of Canada.

**Opportunity Risk.** There is no fixed coupon interest on this product. It is possible that an investor may simply receive his or her original investment back at maturity.

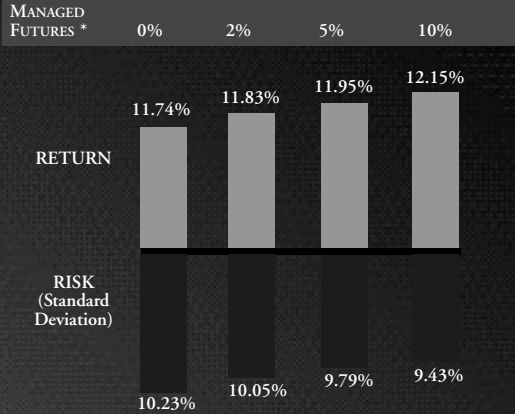
**Marked to Market Risk.** Because this product is priced daily, an investor who redeems early is subject to market prices on the day of redemption, which may be lower than the amount originally invested.

**Potential Risks.** In the unlikely event that the net asset value of the program declines by 22.5% of the original capital as a result of trading futures contracts, trading of futures would be discontinued. The principal amount of Managed Futures Notes would still be repaid in full at maturity. Based on historical monthly data, this would not have occurred from 1980 to 1998.

**Superior Return Potential.** While there is no assurance that a portfolio's future performance will be consistent with past performance, the Performance Comparison graph on page 4 illustrates the performance of the Managed Accounts Reports (MAR) Fund/Pool Dollar Weighted Index adjusted for Cdn. T-Bills from 1980 to 1998 (net of fees). This Index is comprised of the net performance records of approximately 400 managed futures funds and pools, established and owned by a large number of sponsors, collectively managing close to U.S. \$10 billion. The return on a particular managed futures investment may vary from the MAR Index.

## PORTFOLIO ENHANCEMENT

January 1980 - December 1998  
Effects of Adding Managed Futures\* to a  
Balanced Portfolio (50/50 equities/bonds)



Source: Towers Perrin

\* Managed Accounts Reports (MAR) Fund/Pool Dollar Weighted Index adjusted for Cdn. T-Bills net of fees 1980-98

Having up to 10% of your portfolio invested in Managed Futures may increase the overall return and reduce the risk of volatility.

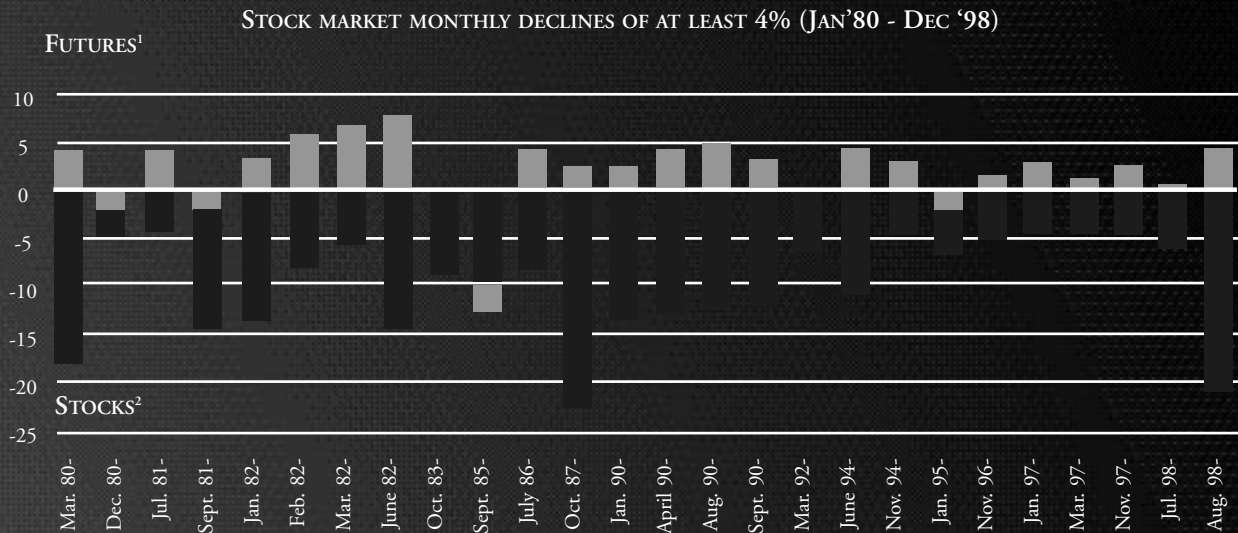
## DIVERSIFY FOR LESS VOLATILITY

There are many ways to diversify your portfolio to reduce the risk of loss. One common way is to spread your investments across different geographic regions so that a downturn in one country, or its currency, won't affect all of your investments. The same principle applies here. Because managed futures do not respond in the same way as stocks and bonds to different market conditions, you can use them to diversify your investments over different asset classes. This helps ensure that your whole portfolio will not react in the same manner to one specific change or event in the market. In fact, managed futures may enable you to profit in different environments:

- Rising or falling markets
- Rising or falling interest rates

All of this means Less Volatility. Less Risk.

## DOWN MARKETS SINCE 1980



<sup>1</sup> MAR Fund/Pool Dollar Weighted Index adjusted for Cdn. T-Bills net of fees 1980-98 <sup>2</sup> TSE 300 Total Return Index

Owning managed futures<sup>1</sup>(shown above in green) would have helped to offset losses during downturns in the stock market<sup>2</sup>(shown above in blue)



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For more information on Business Development Bank of Canada  
Managed Futures Notes, please speak to your Investment Advisor  
or Financial Consultant.

Managed Accounts Reports (MAR) Fund/Pool Dollar Weighted Index adjusted for Cdn. T-Bills net of fees 1980-98. This index reflects the combined performance of a large number of sponsors.

Historical experiences with managed futures investments are not indicative of future performance. There are several risks associated with futures trading, which will have an effect on the yield or return on these investments. Disclosure with respect to these and other risks, as well as other information about the offering (including information with respect to fees) is contained in the information statement relating to this offering. A copy of the information statement may be obtained from your broker. Investors should obtain and carefully review this document before making an investment decision.

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