

February 28, 2009

Markets at a Glance

The last half of February was very difficult for financial markets everywhere. The slowdown in economic activity worldwide continued to gain momentum and sentiment about the banking system worsened again. The data indicate that consumers in the United States are curtailing purchases significantly as production and employment worsen. There is a sharp split of opinion about the new American administration's three-pronged plan of fiscal stimulus, banking measures, and mortgage relief: many observers of Keynesian persuasion maintain that the program is not big enough, given the magnitude of the situation. Others, on the right end of the political spectrum, hold the opposite opinion. In addition, there has been increased awareness of the economic problems faced by Eastern European countries and their impact on Western European banks. After the significant January correction, the government bond market has held its ground. It does appear as if investor worries about the depth of the recession are trumping concerns of the much higher government deficits to come, at least for now. For those with strong stomachs, the high yield market continues to offer tremendous value. Commodities were relatively flat over the period with the exception of oil prices, up slightly, and most foodstuffs which have declined further. On the currency front, the Canadian dollar was down against the US dollar and the Euro, but up against the Yen. Interestingly, the Euro/Yen cross has broken through the 114-118 level reaching close to 125 at month end, before retreating to around 122 at this writing. The cross has shown strong positive correlation with emerging stock markets. This could be a sign that selling pressure in these markets is starting to abate.

	Levels		
	Feb. 15	Feb. 28	% Change
Stock Markets			
S&P TSX	8678	8123	-6.40
S&P 500	827	735	-11.12
FTSE (UK)	4190	3830	-8.59
DAX (GERMANY)	4413	3844	-12.89
NIKKEI (JAPAN)	7779	7568	-2.71
SHGAIDX (CHINA)	2436	2187	-10.22
SENSEX (INDIA)	9635	8892	-7.71
IBOV (BRAZIL)	41674	38183	-8.38
Bond Futures			
10 year Treasuries (June)	120.75	120.25	-0.41
10 year Canadas (June)	123.9	124	0.08
Currencies			
C\$ in US\$	0.808	0.785	-2.85
C\$ in Euro	0.627	0.619	-1.28
C\$ in Yen	73.78	76.63	3.86

pg 1

February 28, 2009

Manager Update

Comments on the various managers appear below in alphabetical order. The changes noted have occurred over the period since the last publication of the newsletter, February 15, 2009 to February 28, 2009. The stock holdings singled out are in the order of 4%-5% of the portfolio or more. For easier reading, the portfolio mandates, to which the updates apply, appear in bold characters.

For complete portfolio holdings and performance data, please contact your Investment Advisor.



What are you doing after work?

Mandates: ▪ Global Equity ▪ International Equity
▪ US Equity Growth

Style: Value/Growth

The **Global and International** portfolios are managed using a deep value approach with 35+ holdings currently. The manager had no trading activity over the period. The managers continue to be over weighted in financials (21%), consumer products (23%-25%), particularly healthcare, and industrials (14%-19%). In their year-end commentary, they state that equity valuations are extremely cheap and believe that the global concerted monetary and fiscal policy actions will eventually translate into an economic recovery. The most important positions are in Paribas, Sanofi, Glaxo, Kingfisher, Conoco, Mitsubishi, and France Telecom, and Shell. In the **International** portfolio, there is a higher weighting of 16% in resource stocks with ENI as an additional significant position. That sector is less important in the **Global** portfolio, accounting for about 12%. The **US Equity Growth** mandate is a growth-style mandate with approximately 30 holdings. Activity was limited to purchases of CVS, Apollo, and Nintendo. The portfolio is over-weighted in consumer stocks (34%, with 14% in healthcare), technology (21%) and non-bank financials (19%). It is under-weighted in energy, utilities, and telecoms. Large holdings include Monsanto, Apple, Qualcomm, Charles Schwab, Nike, McKesson, and Amazon. Cash level is around 10%.

pg 2

ALLIANCE EXCHANGE MARKET UPDATE

February 28, 2009

barometer

Mandates: ▪ Canadian Equity ▪ Global Tactical Equity
▪ High Income Equity ▪ U.S. Equity

Style: Quantitative

This quantitative manager follows a momentum-based method and is an active trader. Holdings in the portfolio usually number 30 to 35 names. In a recent comment, the managers restated their defensive stance, noting that the “window of opportunity” in stock markets seems to be closing. In the **Canadian Equity** (which almost always contains US stocks), sales included Cameco, Manulife, Bank of Montreal, Petrohawk, Canadian Pacific, CAE, Goldman Sachs, Bank of Commerce, Bristol Myers, Research in Motion, Barrick, Genco Shipping, and TSX 60 iShares. Purchases were limited to Beta Pro TSX 60 Bear shares. The portfolio cash balances were increased to 26%. Most important sectors are golds (16%) and industrial products (10%). The **High Income** portfolio saw sales of Bank of Montreal and Transalta. There were no purchases. Cash position was increased to around 7% and holdings of investment trusts are at 20%. There is now 48% in bonds, over half in short Canadas, and about 17% in various preferreds. In the **US Equity** portfolio, we saw sales of Sun Oil, Southern Copper, Strayer, Research in Motion, Cameco, Petrohawk, Occidental Petroleum, Exxon, De Vry, Goldman Sachs, Morgan Stanley, Barrick, Agnico Eagle, Acqua America, Digital Realty, Alaska Air, and iShares on the S&P Preferreds. The only purchase was in Ultra Short Pro Shares on small cap NYSE 600. Cash position was increased to 42% and the most important sectors are now consumer products (14%) and technology at 15%. Activity in the **Global Tactical Balanced** portfolio included sales of Bank of Montreal, Goldman Sachs, Morgan Stanley, Barrick, and New Flyer Industries. There were no purchases. There is 38% in bonds, mostly Canadas and provincials, 17% in Canadian investment trusts, and about 14% in various preferreds. Cash position is around 15%.

pg 3

ALLIANCE EXCHANGE MARKET UPDATE

February 28, 2009



Style: GARP

Mandates:

- Canadian Large Cap
- Canadian Balanced
- Canadian Dividend Income

The manager follows a GARP (growth at reasonable prices) investment strategy. Portfolios usually have 35+ stock names. Activity in the portfolios was limited mostly to rebalancing trades, particularly involving corporate bonds (selling small amounts of GE Capital, Wells Fargo, and TD). The managers expect a difficult year in 2009 and are positioned defensively in “economically-sensitive issues”. In the **Large Cap Equity**, the main sectors are financials (32%), and consumer products (28%). Oil & gas accounts for 18% and cash reserves are around 5%. Important positions are in Rogers, Couche Tard, Canadian Nat. Res., CNR, Thomson, TMX Group. The **Dividend Income** portfolio is heavy in financials (31%) and pipelines/utilities (17%). There is roughly 14% in US consumer stocks and about 4% in cash. Important equity positions include Scotiabank, TMX Group, and Thomson. The portfolio also holds about 12% in preferreds, mostly financials. In the **Balanced** portfolio, the main equity sectors are financials (19%), Consumer products (15%). The bonds account for 42% (18% in corporates, 11% Federal, 12% Provincials). Cash level is around 3%.



Mandates:

- Canadian Equity
- Canadian Income Growth
- Canadian Balanced
- Cash Management
- Bond

Style: Value

Portfolios are managed using a value approach within a Canadian context. The manager is very bullish on North American stock markets and expects returns of 20-40% range for the year. In the **Canadian Equity** portfolio, we saw sales of Manulife, Sunlife, Savannah, and Trinidad. There were no purchases. The portfolio has 17% in financials and 23% in oil & gas. Golds are at 14%, industrials around 13%, and cash has been raised to 7%. Main positions are Encana, TD Bank, Scotiabank, Suncor, and Potash. In the **Income Growth**, we saw the same sales plus an additional one of H&R Reit. A purchase of Boardwalk Reit was noticed. The portfolio's sectoral emphasis is similar to that of the Canadian equity portfolio. In addition, there is 18% in income trusts, the majority energy-related. Main holdings include Energy Savings, Encana, Trans Canada, Telus, Imperial Oil, Thomson Reuter, Scotiabank, TD Bank, Suncor, Boardwalk, and Brookfield. Cash level is around 7%. In the **Balanced** portfolio we saw the same sales as in the Canadian equity portfolio. No purchases were recorded. The portfolio's equity portion is similar to that of the Canadian equity portfolio. There is 34% in bonds (11% corporates, 6% Federal, 17% Provincials). None of the bonds have long term maturities. Cash balances are around 5%. There was no activity in the **Bond** portfolio. Sectoral breakdown is now 64% in corporates, 10% in federal, 19% in Provincials, and 7% in cash. There was no activity in **Cash Management portfolio**. That portfolio holds 32% in money market securities, the remainder in short term bonds (mostly 1-3 years), 20% banks, 28% Federal, and 20% Provincials.

pg 4

ALLIANCE EXCHANGE MARKET UPDATE

February 28, 2009



Mandate: ▪ Core Income & Growth

Style: High Yield

The manager follows an investment strategy designed to maximize cash flows into a 25+ names portfolio while preserving some growth characteristics. The managers believe that the time to be defensive was 6-12 months ago and are very upbeat about the coming year. Last month, they issued the following directives: in light of current poor liquidity conditions, the bond positions in GMAC, Brookfield, and Royal Bank of Scotland are not to be purchased for new accounts and are replaced by CIBC 5%-2012, and Bank of Montreal "BOATs" 10.2%-2018. However, they are to be retained for existing accounts. Activity over the period included sales of Shoppers, Saputo, Jazz Air, Bell Aliant, and Dundee Reit. Purchases of Trans Canada, Telus, and Canadian Apartment Properties Reit were recorded. Current asset breakdown is 39% equities, 31% Income Trusts & REITs, and 28% bonds. Cash holdings are around 1%. Currently, consumer stocks (12%) and financials (16%) account for most of the investment in straight equities. Main REITs holdings is Boardwalk. The bonds are mostly high grade corporates and mostly under 10 years in maturity. The portfolio does not provide exposure to commodity-related investments and has a yield of above 8% (over 10% on an interest equivalent basis).



Mandates: ▪ Balanced ▪ Canadian Equity

▪ Diversified Income ▪ Total Equity

Style: Value

This manager follows a value style with a special focus on the quality of management and competitive advantage. The manager runs pretty concentrated portfolios, usually 20-25 holdings. In their most recent commentary, they reiterated their preference for "low duration" equity portfolios, i.e., portfolios featuring stocks with dividends and dividend growth. The only activity in the portfolios was selling of Nokia replaced in the relevant portfolios by Nike. There was also a purchase of Encana shares in the **Diversified Income** portfolio. The manager also issued a hold on buying Ritchie Brothers for new accounts. The **Canadian Equity** portfolio is heavy in financials (30%), consumer stocks (25%), and unit trusts (9%). Most positions are in the 4-5% range with the most important being Corus, TMX Group, Scotiabank, TD Bank, Husky, CNR, Encana, Ritchie Bros., Corby's, Riocan, Trans Canada, First National, and Thompson. Cash position is around 10%. The **Balanced** portfolio has about 20% in US stocks (half consumer-related) in addition to the Canadian stocks, allocated with similar emphasis to that of the Canadian equity portfolio. The bond portion accounts for 35% (16% corporates, 9% Federal, 10% Provincials), with an additional 2% in iShares Canadian corporate bonds ETF. The only bond with a maturity longer than 10 years is a Canada real return bond. Cash holdings are close

pg 5



INDEPENDENT THINKING

February 28, 2009

to 12%. The **Diversified Income** has 8% in US consumer stocks, 16% in financials, 12% in consumer, and about 7% in trust units. There is 34% in bonds allocated in similar proportions to the Balanced, plus a 4% position in SPDR high yield bond. Main positions include Corby Distilleries, J&J, Trans Canada, and TMX Group. Cash level is about 9%. The **Total Equity** portfolio has 19% in financials, 11% in consumer, 6% in trust units and about 34% in US stocks (20% consumer-related). Main positions are in CRH, J & J, Visa, and Corus. Cash level is around 13%.



GUARDIAN CAPITAL LP

Mandates: ▪ Canadian SRI Equity ▪ Global Dividend
 ▪ Global SRI Equity ▪ International Equity
 ▪ Fixed Income

Style: GARP

This manager follows a “GARP” style of management. Portfolios usually comprise 40+ equity holdings. Guardian has a strong quantitative bent and uses a large scale valuation model (“GEM”) to diversify its international portfolios across sectors and markets. In their most recent commentaries, the managers find several reasons to be optimistic on the markets (stimulative policies, valuations, low interest rates, high cash on the sidelines, etc...). Trading activity in the **International Equity** and the **Global SRI Equity** portfolios included sales of Statoil, Astra Zeneca, Apache, and Banco Bilbao. A purchase of Mylan shares was seen. The portfolios have around 39% in consumer stocks, 8% in resources, and 19% in technology. Main positions are in Nestle, Fresenius, and Hong Kong Electric. Cash position is around 11%. In the **Global Dividend** we saw sales of Trilogy and purchases of Crescent Point, Chevron, Keyera Facilities, Pepsico, and Republic Services. The portfolio has 37% in consumer stocks, 5% in financials, 21% in industrials, and 19% in technology. Cash holdings are around 6%. The main positions are in Nestle, MacDonald’s, J&J, France Telecom, Hopewell, and Royal KPN. There were no purchases and only the sale of Statoil in the **Canadian SRI Equity** portfolio. That portfolio is more concentrated than the others and holds 24% in consumer stocks, 18% in financials, 16% in oil & gas, and 15% in utilities/pipelines. Cash is about 3%. Main positions are in Encana, Shaw, Barrick, Enbridge, Shoppers, Potash, Goldcorp, and Rogers. There was no activity in the **Fixed Income** portfolio. The portfolio has less than 2% in cash and includes 27% in federally-guaranteed agency bonds, 31% in provincials and 41% in corporates. About 1/3 of the bonds have a maturity longer than 10 years, including 2 Sunlife issues and some Provincials. Finally, Guardian is responsible for our SRI (socially responsible investments) mandates; to that effect they use a “best of class” screen provided by a third party that specializes in those investments.

ALLIANCE EXCHANGE MARKET UPDATE

February 28, 2009



Style: GARP

- Mandates:**
- Canadian Equity
 - U.S. Equity
 - North American Balanced
 - Total Equity
 - North American Equity

The Manager follows a “GARP” style of management and likes large cap companies with established global consumer brands. With the exception of the **Canadian Equity portfolio**, the number of equity holdings is usually above 60 so that positions above 4% are very rare. The managers expect the economic slowdown to last into early 2010 but believe that the market has discounted that outcome. In their words: “stocks are valued at attractive levels and provide the best return potential over the coming years”. Portfolio trading activity over the period included purchasing Philip Morris and establishing a new position in Becton Dickinson. There was also a substantial rebalancing of bond positions in the **North American Balanced** portfolio. The **Canadian Equity portfolio** has weightings of 27% in consumer stocks and 20% in financials. Oil and gas stocks account for about 21%. Main positions include Imperial Oil, Rogers, Shaw, Royal Bank, TD Bank, Scotiabank, Talisman, Thomson, Enbridge, and Potash. Cash level is around 5%. The **North American Equity** portfolio has over 48% in US stocks, (31% in consumer stocks), 9% in financials, 11% in oil & gas, 9% in consumer, and 9% in cash. The **North American Balanced** has about 26% in US stocks (16% consumer-related). The remainder in Canadian equities has a similar weighting profile to that of the Canadian Equity portfolio. There is 43% invested in bonds, 26% in corporates (mostly financials), 16% in Federal, and 2% in Provincials. Long bonds account for about 7%. Cash level is about 10%. The **Total Equity Portfolio** has about 45% in US and international stocks (22% consumer-related). The most important sector weights in the Canadian portion of the portfolio are 10% in financials, 9% in oil and gas, and 11% consumer stocks. Cash level is around 14%.

pg 7

ALLIANCE EXCHANGE MARKET UPDATE

February 28, 2009



Mandates: ▪ Large Cap US Value Equity ▪ Global Equity
▪ International Equity

Style: Value

Portfolios managed by this deep value-style manager usually contain 50+ stock names so that few positions are ever in excess of 4%, especially in the international portfolios. The manager is of the view that the correction in stock prices is close to complete and that a range-bound market will develop this year. They believe that such an outcome can play to their strengths. On the international front they like the valuations, particularly in Asia. In the **Large Cap Value US**, there were sales of General Electric and Bank of America. There were no purchases. The portfolio is heavy in consumer stocks (28%), industrials (27%), technology (19%), and financials (17%). Significant holdings include Walmart, Conoco Phillips, Tidewater, Comcast, and Toyota. Cash level is around 6%. There was no trading activity in both the **International and Global Equity** portfolios. As in the other portfolio, larger sector weights are in consumer stocks (41%), Industrials (11), financials (17%) and technology (21%). Cash levels are around 8%.



Mandate: ▪ Canadian Equity

Style: Growth

The portfolio which usually comprises 30+ equity positions is managed using a growth style strategy. Activity over the period included sales of Agnico Eagle and BCE as well as purchases of Encana and Royal Bank. The portfolio has 23% in oil & gas stocks, 13% in golds, 21% in financials, 12% in industrials, and 13% in consumer products. Many equity positions are above 4% including Royal Bank, TD Bank, Scotiabank, Rogers, CNR, Encana, Suncor, Potash, Research in Motion, Barrick, and Goldcorp. Cash level is around 2%.



Mandate: ▪ Canadian Equity

Style: Value

The portfolio is managed using a value strategy. There are 30 + holdings in the portfolio. There was no trading activity over the period. The portfolio has 28% in financials, 26% in energy and 14% in industrials. Main positions are Royal Bank, Bank of Commerce, Scotiabank, TD Bank, Encana, Canadian Natural Resources, Suncor, Agrium, and Barrick. Cash level is now around 6%.

Ray Gribeauval, CFA

pg 8