

## QUARTERLY INTEREST

### VIEWPOINT

#### Is the Risk Worth Taking?

Nothing ventured, nothing gained. That's probably what return-starved investors are saying these days following the stock market meltdown of 2008. After remaining on the sidelines during the first quarter to see what governments and central banks would do, investors are now hanging on to any sign – no matter how faint – that the economy is improving, and are returning to the markets in droves. And, as usual, lower-quality issuers and securities appear to be attracting most of the attention.

Thus, following a first quarter in which scepticism continued to reign supreme, stock markets shot up again during the past six months. Indeed, the Canadian stock market posted a total return (including dividends) of 32.7% from April 1 to September 30, 2009, after losing 2% during the first quarter. In the United States, the S&P 500 index gained 34.0% in U.S.-dollar terms, raising its year-to-date return to 19.3%. Canadian corporate bonds had already paved the way, increasing during each quarter of the year. This led to a year-to-date return of 15.1% for the Corporate Universe index and to a spectacular 25.5% for the Corporate long-term subindex. Investors, who were almost completely risk-averse last year, now appear to have regained their confidence.

To what can this sudden whetting of risk appetite be attributed? First of all, the economic background seems to be stabilizing. There is a perception that governments are willing to do anything to prop up the economy, and this is comforting. The VIX index<sup>1</sup>, an indicator of volatility of the S&P 500 index, has in fact dropped considerably since its November 2008 peak.

Of note, investors and issuers alike are taking advantage of this respite. For investors such as pension funds, the market collapse has combined with lower interest rates to create a rift between the values of their assets and liabilities. Any market recovery that helps to bridge this gap is therefore more than welcome.

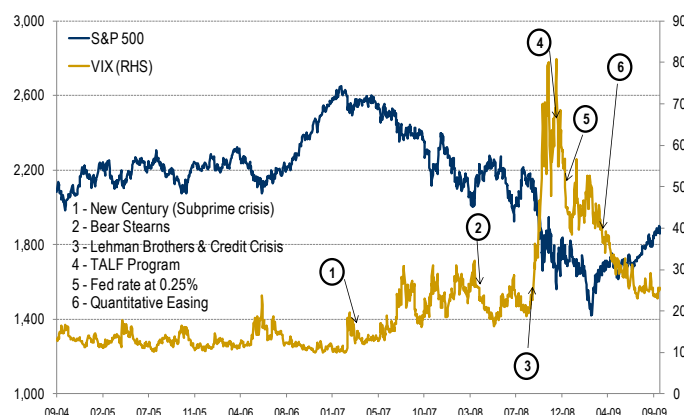
For issuers, a return to relative calm in the markets makes investors more receptive to their funding needs, whether in the form of stocks or bonds. This can be ascertained by glancing at market returns over the last six months. It is interesting to note that lower-rated securities had the strongest contribution. Indeed, the Russell 2000 index of small-cap U.S. stocks has gained 71% since March 2009, after losing 55% during the credit crunch. For U.S. high-yield bonds, the market is up 48.5% in 2009 after dropping 26.4% last year. However, this so-called “dash for trash” has left us wondering about the risk-return relationship.

To estimate risk, investors fall back on statistical measures based on historical data and on relationships that are assumed to extend into the future. Far from infallible, such measures ignore fundamentals that are also crucial to assess risk. Furthermore, the tendency of markets to return to more “normal” levels is probably responsible for part of the recent upsurge in investor confidence.

While traditional statistical measures are critical to developing a long-term investment policy, they are of little use in the assessment of event-driven (i.e. short-term) risk. Statistical risk measures are no substitute for fundamental investment analysis.

It should be stressed that, in periods of instability and uncertainty, no one is immune from market turbulence, not even investors who maintain a well-defined strategy based on fundamental analysis and who are confident enough to dismiss investment fads that are incompatible with the principles of conservative management. Still, investments based on this approach can weather the storm and deliver anticipated long-term returns.

VIX Index and S&P 500  
September 2004 - September 2009



<sup>1</sup> The VIX index is published by the Chicago Board Options Exchange (CBOE). It measures the expected volatility of the S&P 500 index imbedded in options prices. During financial shocks and periods of uncertainty, the price of options and the VIX index usually increase substantially. Then, as investor fears are allayed, the index also tends to decrease.

# ECONOMIC COMMENTS

## International

After experiencing a deep cyclical trough earlier in 2009, the global economy now appears about to embark on the path to recovery, pulled along in the wake of China's economic fortunes. The Chinese economic growth rate seems to have picked up considerably during the second quarter. The International Monetary Fund now estimates that China's GDP will expand 8.5% in 2009 as a result of the special measures implemented by the country's authorities. These measures have provided powerful stimulus for household consumption and capital investment. This has outweighed the continuing contraction of the Chinese trade surplus and has had a major ripple effect on China's Asian neighbours. For instance, the Japanese economy rebounded during the second quarter, posting GDP growth of 3.7%.

In the Euro Zone, despite overall negative growth of 0.5% for the second quarter, a number of economies, including those of France and Germany, were already showing signs of recovery as their GDP rose marginally.

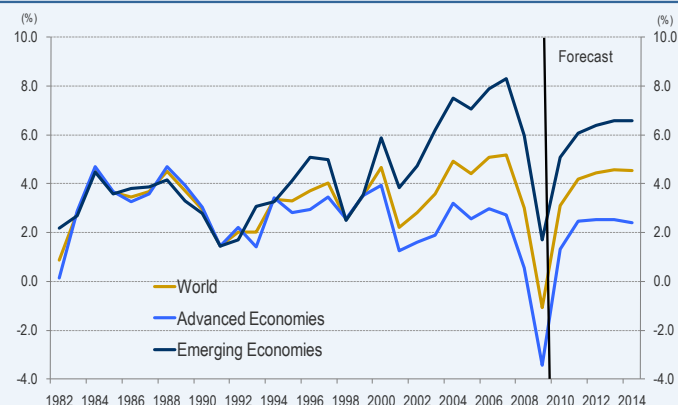
## United States

The U.S. economy continued to contract during the second quarter (-0.7%), although much more slowly than in the first (-6.4%). This improvement was primarily due to a slowing down in the decrease of capital expenditures and the liquidation of inventories from their first-quarter pace. Furthermore, household spending, which recovered slightly during the first three months of the year, returned to negative territory during the second quarter. However, increased government expenditures under the economic recovery program began to make a positive contribution to growth.

Following a peak of 681,000 last January, the monthly rate of job losses has slowed down considerably over the past few months (-263,000 in September). Residential real estate, where prices plunged approximately 32% between 2006 and last May, stabilized during the summer. Activity in the resale market perked up, and the inventory of unsold homes is shrinking. Although consumer confidence has recovered from its first-quarter low, the current level remains historically weak.

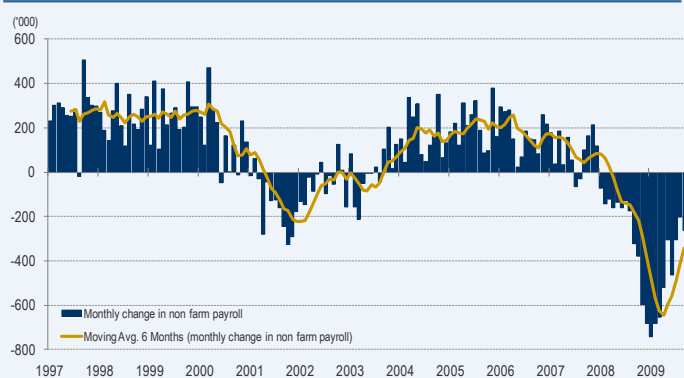
Special government programs to stimulate car sales and home purchases appear to have succeeded in temporarily spurring demand in the third quarter; however, the U.S. consumer is coming back not with a bang, but a whimper. Though growth may have resumed moderately during the summer, the strength and sustainability of this recovery remain highly uncertain.

IMF Growth Estimates



Source: IMF, October 2009

Change in Employment in the United States according to Non Farm Payroll



Source: Datastream

Savings Rate - United States as a % of Disposable Income



Source: Datastream

# ECONOMIC COMMENTS (CONTINUED)

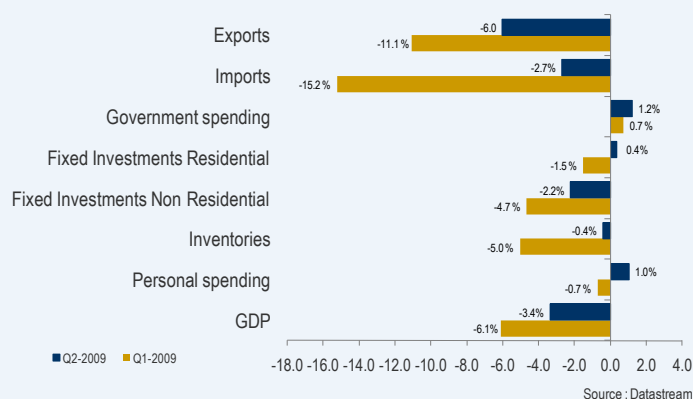
## Canada

The second quarter showed how Canada is dependent on international trade. Indeed, even though final demand in Canada had already begun to grow (+0.1%) during the quarter, the country's GDP declined 3.4% following another substantial liquidation of inventories and a sharp drop in exports. Exports to the United States – notably industrial goods and energy products – were especially hard hit.

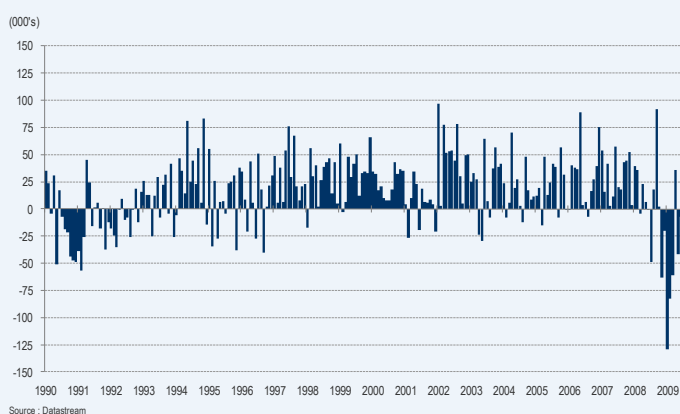
There are three major reasons for the recovery in domestic demand. Our real estate market was less affected than that of the United States: prices dropped much less, while residential construction, despite a definite slowdown, did not collapse as it did south of the border. In addition, the financial health of Canadian households is strong enough to make an early recovery of consumer expenditures a distinct possibility. What's more, the sound condition of Canada's banking system was conducive to renewed growth in consumer and mortgage credit.

During the third quarter, economic conditions should continue to sustain the build-up of domestic demand. Furthermore, the recovery in the automotive sector suggests that inventory liquidation could be drawing to a close and exports have levelled off during the summer. Finally, government infrastructure investment programs should continue to support growth for a few quarters. Accordingly, conditions are ripe for recovery to begin in Canada during the third quarter. However, international trade will have to improve for this recovery to be strong and sustainable. For the time being, the global recovery is still too fragile for us to dismiss the risk of a relapse out of hand, especially when the impact of government stimulus programs will taper off.

### Contribution to Canadian Growth

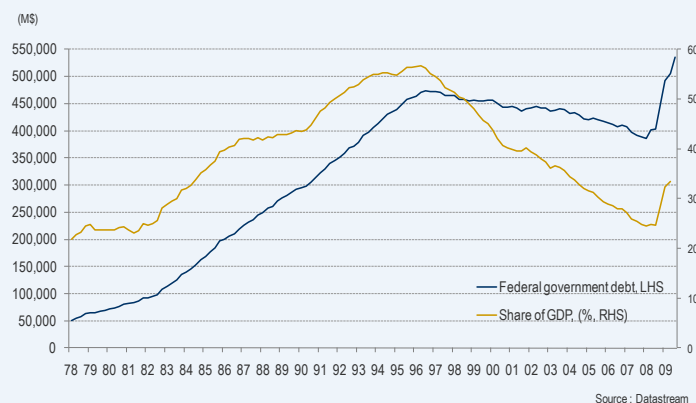


### Employment creation - Canada



### Debt Outstanding

Federal Government - in Millions of \$ and % of GDP



#### ECONOMIC INDICATORS

(annual % change)\*

|                         | UNITED STATES |       | CANADA |       |
|-------------------------|---------------|-------|--------|-------|
|                         | 2008          | 2009  | 2008   | 2009  |
| REAL GDP                | 0.4           | -3.6  | 0.4    | -2.8  |
| UNEMPLOYMENT RATE **    | 5.8           | 9.0   | 6.2    | 8.2   |
| INFLATION               | 3.8           | -0.9  | 2.3    | 0.3   |
| RETAIL SALES            | -0.7          | -8.6  | 3.4    | -5.2  |
| INDUSTRIAL PRODUCTION   | -2.2          | -12.1 | -4.2   | -11.3 |
| CAPACITY UTILISATION ** | 77.6          | 69.5  | 78.4   | 68.8  |
| EXPORTS OF GOODS        | 12.2          | -24.0 | 5.8    | -25.5 |
| IMPORTS OF GOODS        | 7.5           | -32.6 | 6.7    | -14.6 |

\* Most recent cumulative data (as at October 9, 2009)

\*\* Average

## MARKET COMMENTS

### Monetary Policy and Interest Rate Trends

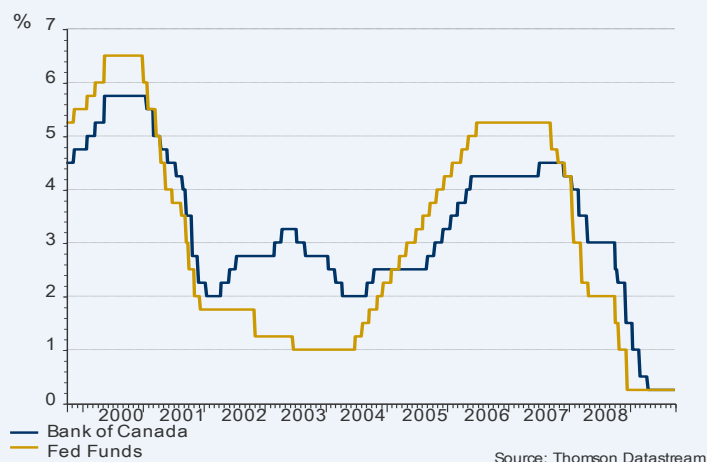
During the summer, the Bank of Canada (BoC) repeatedly reiterated its commitment to maintain the overnight funding rate at 0.25% until June 2010 to promote economic recovery and return inflation to its 2% target. Each time it did so, however, the BoC clearly stated that this commitment was predicated on the assumption that changes in inflation would not compel it to act otherwise. In its most recent Monetary Policy Report, the BoC writes: “The Bank projects that the economy will contract by 2.5% in 2009 and then grow by 3.0% in 2010 and 3.5% in 2011”. The BoC also estimates that inflation “should trough in the third quarter of this year before returning to the 2% target in the second quarter of 2011”. Governor Carney warned, however, that current growth is highly dependent on the concerted action of the monetary and fiscal authorities and that private demand will soon have to take up the slack, a necessary but still uncertain precondition for a stand-alone recovery. Mr. Carney added that a strong Canadian dollar also jeopardized the chances for recovery and for a return of inflation to its target.

Despite the uncertainty surrounding the recovery, note that liquidity continued to improve to such an extent that the Canadian central bank announced the imminent termination of a number of special liquidity-enhancing programs, such as term purchase and resale agreements and the term loan facility. In late August, the funds allocated under these programs amounted to only \$29 billion, which made them manageable, all things considered, within the framework of the Canadian money market.

During its August and September meetings, the Fed confirmed that it was witnessing further improvement in financial markets and renewed activity in residential real estate. It reiterated its own commitment to using all of the means at its disposal to promote recovery while maintaining stable prices. The Federal Open Market Committee confirmed its plan to keep the target rate between 0% and 0.25% for an as yet unspecified but extended period.

The Fed also announced a slight reduction in the liquidity that it provides through a number of special programs, given the enhanced availability of conventional funding. However, the current size of its balance sheet, i.e. \$2.2 US trillion, shows that the central bank is providing over \$1.2 US trillion in non-standard liquidity support. Recent statements by several spokespersons have begun to pave the way for a time when it will become imperative to siphon off this mass of liquidity, which is still currently crucial to the stability of the financial system.

### North American Monetary Policy Target Rates

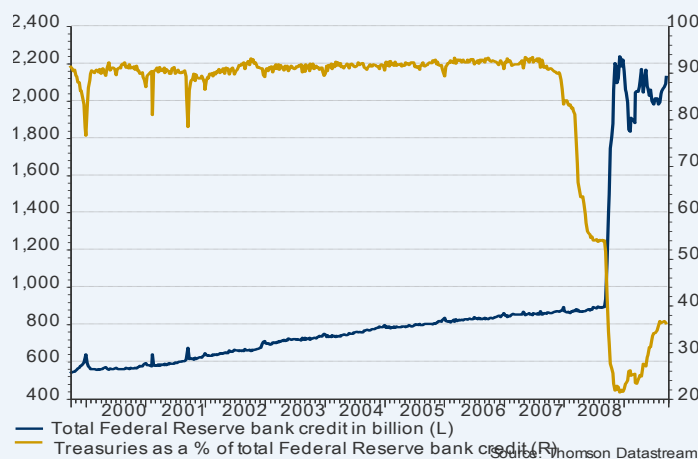


### U.S. Interbank Market

3-month LIBOR - 3-month U.S. T-Bills (TED Spread estimate)



### The Federal Reserve has Expanded its Balance Sheet but it is now riskier



## MARKET COMMENTS (CONTINUED)

Following a highly unsettled second quarter marked by a substantial increase in government yields, bond market volatility decreased significantly during the third quarter of 2009. The market finally made a number of adjustments in the wake of concerns that the imminent economic recovery might soften.

During the quarter, the DEX Universe Index generated a return of 2.71%. Once again, this was primarily due to the long term sector, which gained 4.27%, compared to 3.48% and 1.65% for the mid and short term sectors respectively. All issuers recorded positive returns for the period, although further tightening of provincial and corporate credit spreads was once again primarily responsible for the strong return of the overall index during the quarter.

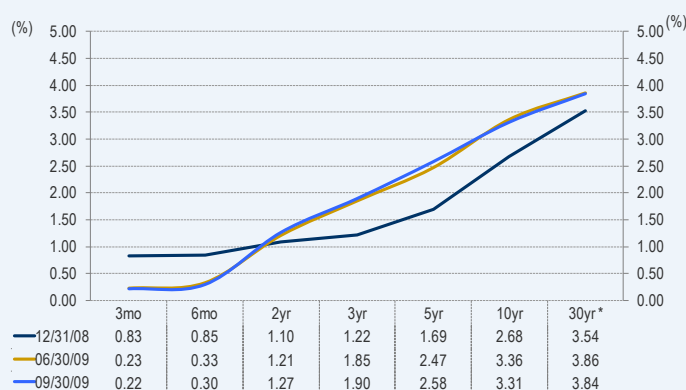
The U.S. Federal Reserve Board (“Fed”) maintained its federal funds rate at an all-time low throughout the summer. Despite the massive program of monthly issues by the U.S. Treasury, demand for new issues rose as investors moderated their expectations for economic recovery. On September 30, the 30-year yield stood at 4.05%, some 28 basis points lower than on June 30. It is interesting to note that the fluctuation range was 61 basis points (from 4.02% to 4.63%), down by more than half compared to the previous quarter (1.35%).

The spread between 2- and 30-year yields also narrowed during the quarter. The slope of the curve moved from 265 basis points to a high of 281 basis points, settling at 257 basis points on September 30.

The Bank of Canada repeatedly reiterated its commitment to maintaining a policy rate of 0.25% until mid-2010 to promote economic recovery. Meanwhile, the federal government revised its deficit for the 2009-2010 fiscal year upward, from \$50 billion to \$56 billion.

The pattern of change in Canadian yields was different from that in the United States during the quarter, as an increased supply of federal bonds had a larger impact in Canada. Yields on shorter maturities (up to 5 years) rose slightly while those on longer maturities fell somewhat. While 2-year and 5-year yields rose 6 and 11 basis points respectively, 10-year and 30-year yields dropped 8 and 1 basis points respectively.

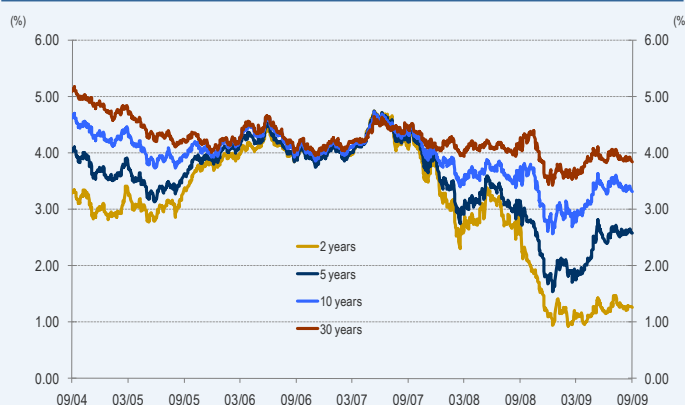
### Canadian Yield Curves



\* Change of bond benchmark January 1<sup>st</sup>2009

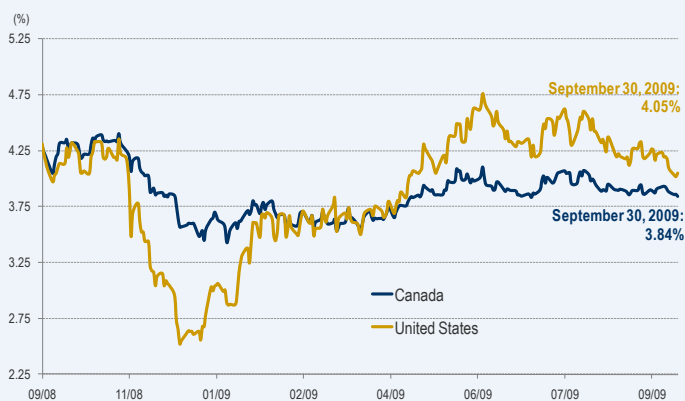
### Canadian Interest Rate Trends

The yield curve steepened



### Canada and United States 30-year Yields

September 2008 - September 2009



## MARKET COMMENTS (CONTINUED)

On September 30, the 30-year yield was 3.84%, following a peak of 4.07% in early August.

Fluctuation ranges narrowed during the period. The 10-year yield recorded the greatest change (34 basis points), while volatility for 2-, 5-, and 30-year yields was 32, 33 and 24 basis points respectively.

The slope of the 2-year to 30-year curve in the United States flattened out slightly between July and September. From 322 basis points, it peaked at 359 points and closed out the quarter at 311 points, a drop of 11 basis points for the period.

This discrepancy between Canadian bond yields and the widespread decrease in U.S. government bond yields caused U.S. sectors as a whole to outperform. Indeed, Canadian yields are now at or above those of their U.S. counterparts, except for the 30-year maturity. In the latter, the spread moved from -47 basis points to a high of -55 basis points, before ending the quarter at -21 basis points, as U.S. long bonds yields decreased by 26 basis points more than those on comparable Canadian maturities during the quarter.

### Real Return Bonds (RRBs)

The yield on Canadian long-term RRBs decreased during the third quarter, from 1.90% at the beginning of the quarter to 1.75% three months later. In the United States, the corresponding yield also dropped 15 basis points, to 2.07%. Moreover, the break-even inflation rate in Canada was up 13 basis points to 2.20%, which was slightly higher than the Bank of Canada's target. Conversely, break-even inflation declined in the United States, from 2.08% to 1.95% at quarter's end.

During the third quarter of 2009, the RRB index returned 3.32%, compared to 1.40% for Government of Canada long bonds. This strong showing for a second straight quarter, by the RRB index is reflecting resurgence in inflationary expectations due to an enhanced economic outlook.

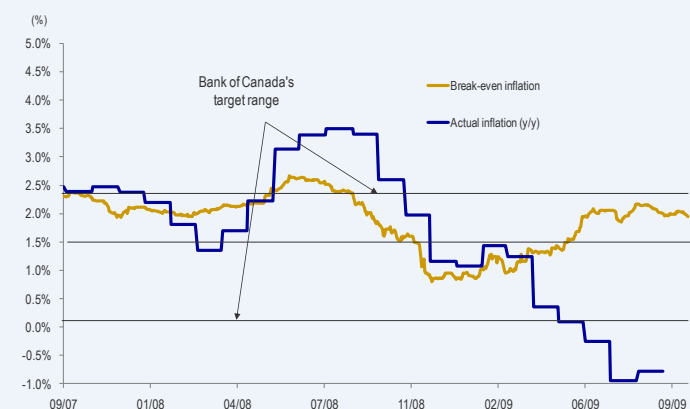
Canada - United States 10 Year Spread  
(in basis points)



|  | Yield (%) |          |          | Change (b.p.) |              |
|--|-----------|----------|----------|---------------|--------------|
|  | 09/30/09  | 06/30/09 | 12/31/08 | Q3-2009       | Year to date |
| <b>Canada</b>                          |           |          |          |               |              |
| 3-month                                | 0.22      | 0.23     | 0.83     | -1            | -61          |
| 2-year                                 | 1.27      | 1.21     | 1.10     | 6             | 17           |
| 5-year                                 | 2.58      | 2.47     | 1.69     | 11            | 89           |
| 10-year                                | 3.31      | 3.36     | 2.68     | -5            | 63           |
| 30-year*                               | 3.84      | 3.86     | 3.54     | -2            | 30           |
| <b>U.S.</b>                            |           |          |          |               |              |
| 3-month                                | 0.08      | 0.17     | 0.03     | -9            | 5            |
| 2-year                                 | 0.94      | 1.11     | 0.76     | -17           | 18           |
| 5-year                                 | 2.31      | 2.55     | 1.55     | -24           | 76           |
| 10-year                                | 3.31      | 3.53     | 2.21     | -22           | 110          |
| 30-year                                | 4.05      | 4.33     | 2.68     | -28           | 137          |
| <b>Canada/U.S. Yield Spread (b.p.)</b> |           |          |          |               |              |
| 3-month                                | 14        | 6        | 80       | 8             | -66          |
| 2-year                                 | 33        | 10       | 34       | 23            | -1           |
| 5-year                                 | 27        | -8       | 14       | 35            | 13           |
| 10-year                                | 0         | -17      | 47       | 17            | -47          |
| 30-year                                | -21       | -47      | 86       | 26            | -107         |

\*Change of bond benchmark January 1<sup>st</sup>, 2009

Break-even Inflation Implied by Canada Real Return Bonds and Actual Inflation  
September 2007 - September 2009



## MARKET COMMENTS (CONTINUED)

### Provincial Bonds

During the quarter, provincial bonds gained 3.58%, compared to 0.98% for Canadas, as a result of a major tightening in provincial spreads.

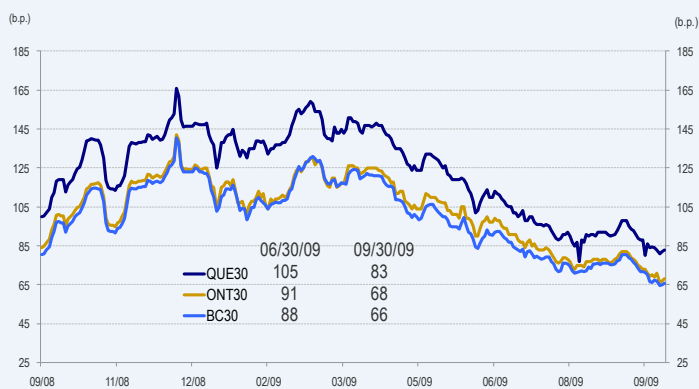
Normalization of the credit curve continued during the third quarter. After flattening out considerably at the height of the credit crunch, the curve has steepened as risk appetite has made a partial comeback. Thus, the table opposite shows that 5-year spreads have typically tightened the most, followed by spreads for 10-year and longer term instruments. In the 30-year sector, spreads closed out the quarter at 83 basis points for Québec, 68 points for Ontario and 66 points for British Columbia, tightening 22, 23 and 21 points respectively.

The provinces significantly reduced the pace of their funding operations during the summer; still, a total of \$30 billion in provincial bonds has been issued this year, compared to \$20.4 billion at the same time last year. This slower rate of issue, combined with growing investor appetite for this asset class, has certainly contributed to the narrowing of credit spreads.

Near the end of September, Ontario and Québec released a fiscal update disclosing in both cases a deteriorating fiscal position that should result in slightly larger than expected funding operations. We should have more details when the funding requirements of both provinces are updated sometime in October. However, these updates have, so far, had no negative impact on the level of spreads.

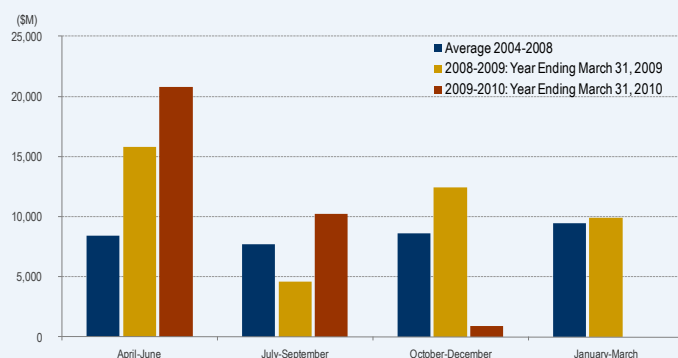
There was a substantial improvement in market liquidity during the quarter. Indeed, Canada Mortgage Bonds (CMBs), whose spreads widened considerably as a result of the liquidity crisis (since these instruments are explicitly guaranteed by the Government of Canada, there is no credit risk associated with them), also benefited from a greater overall appetite for risk. For the 5-year term, the spread narrowed by 27 basis points during the period.

30-year Provincial Spreads over Canada Bonds  
September 2008 - September 2009



|                             | Yield Spreads (b.p.) |          |          | Change  |              |
|-----------------------------|----------------------|----------|----------|---------|--------------|
|                             | 09/30/09             | 06/30/09 | 12/31/08 | Q3-2009 | Year to date |
| <b>Quebec/Canada</b>        |                      |          |          |         |              |
| 5-year                      | 49                   | 77       | 130      | -28     | -81          |
| 10-year                     | 79                   | 105      | 174      | -26     | -95          |
| 30-year                     | 83                   | 105      | 147      | -22     | -64          |
| <b>Ontario/Canada</b>       |                      |          |          |         |              |
| 5-year                      | 41                   | 77       | 119      | -36     | -78          |
| 10-year                     | 63                   | 92       | 155      | -29     | -92          |
| 30-year                     | 68                   | 91       | 124      | -23     | -56          |
| <b>BC/Canada</b>            |                      |          |          |         |              |
| 5-year                      | 32                   | 54       | 124      | -22     | -92          |
| 10-year                     | 66                   | 90       | 148      | -24     | -82          |
| 30-year                     | 66                   | 87       | 123      | -21     | -57          |
| <b>Yankee/US Treasuries</b> |                      |          |          |         |              |
| Qc-30 year                  | 61                   | 96       | 112      | -35     | -51          |

Quarterly New Issues



## MARKET COMMENT (CONTINUED)

### Corporate Bonds

The corporate bond market continued to outperform Government bonds during the third quarter, although at a slower pace than in the first half of the year. Yield spreads narrowed on average by 50 basis points during the quarter as investors chased the higher yields of the corporate sector, and this robust demand outweighed a light quarter of new supply. The continued interest for corporate bonds was also reinforced by improving global equity markets and signs that the global economic picture was improving.

Liquidity and pricing in the market has dramatically improved from earlier this year. It reflects the improved tone and momentum generated from successful new issues, but also more active secondary market flows from investors. Also, the pace of rating downgrades in North America has steadily declined since December and has returned to levels last seen prior to Lehman Brothers' bankruptcy. These improving trends are consistent with the rating agencies' forecasts that the U.S. speculative-grade default rate will peak around 13% in the fourth quarter of 2009, followed by a steady decline to 4% next year, which is close to the long term average.

New corporate bond issuance in Canada remains significantly lower than at the same time last year, with a total of \$36.9 billion year to date versus \$52.9 billion in 2008. The new issue supply in the third quarter came from almost all sectors, with financials accounting for just over half of the supply. The new deals continued the trend from the first half of the year with a bias towards lower quality. There was over \$1.9 billion of BBB or lower rated issues in the market during the quarter, including two new high yield issues from Fairfax Financial and Baytex Energy. The market also saw a much improved tone in the securitization sector as spreads narrowed for securities backed by credit card and auto loan receivables and commercial mortgages after lagging the rest of the market during the first half of 2009.

The DEX corporate bond index returned 4.5% during the third quarter which significantly outperformed Government bonds that returned 2.1%.

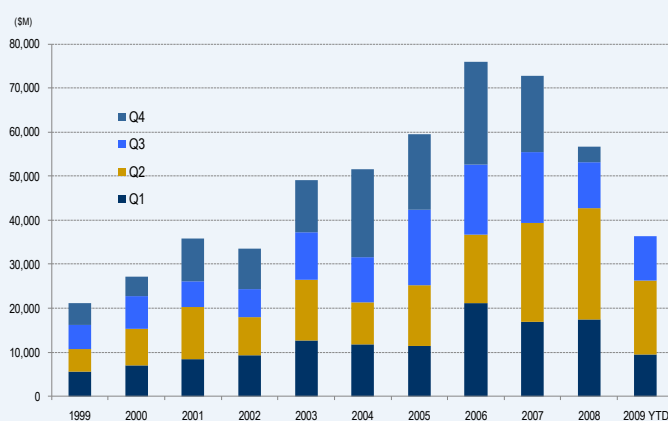
| New issuance by rating |         |         |            |
|------------------------|---------|---------|------------|
|                        | Q3-2008 | Q3-2009 | Difference |
| AAA                    | 1,000   | 0       | -100%      |
| AA                     | 6,915   | 4,400   | -36%       |
| A                      | 2,475   | 3,757   | 52%        |
| BBB                    | 0       | 1,755   | n/a        |

Source: BMO Capital Markets, Bloomberg

| Yield Spreads (b.p.) - Corporate Bonds |          |          |          | Change  |      |
|--|----------|----------|----------|---------|------|
|  | 09/30/09 | 06/30/09 | 12/31/08 | Q3-2009 | YTD  |
| <b>Royal Bank</b>                      |          |          |          |         |      |
| 5-year                                 | 115      | 185      | 450      | -70     | -335 |
| 10-year                                | 140      | 200      | 465      | -60     | -325 |
| 30-year                                | 175      | 210      | 465      | -35     | -290 |
| <b>Bell Canada</b>                     |          |          |          |         |      |
| 5-year                                 | 145      | 220      | 510      | -75     | -365 |
| 10-year                                | 195      | 260      | 540      | -65     | -345 |
| 30-year                                | 290      | 320      | 540      | -30     | -250 |
| <b>Loblaws</b>                         |          |          |          |         |      |
| 5-year                                 | 135      | 210      | 420      | -75     | -285 |
| 10-year                                | 180      | 245      | 470      | -65     | -290 |
| 30-year                                | 285      | 305      | 540      | -20     | -255 |
| <b>GTAA</b>                            |          |          |          |         |      |
| 5-year                                 | 95       | 170      | 360      | -75     | -265 |
| 10-year                                | 125      | 210      | 370      | -85     | -245 |
| 30-year                                | 185      | 230      | 370      | -45     | -185 |
| <b>TransCanada Pipelines</b>           |          |          |          |         |      |
| 5-year                                 | 90       | 140      | 385      | -50     | -295 |
| 10-year                                | 125      | 180      | 420      | -55     | -295 |
| 30-year                                | 185      | 215      | 460      | -30     | -275 |

Source: National Bank Financial

### Historical New Issuance



Source: BMO Capital Markets, Bloomberg

## MARKET COMMENT (CONTINUED)

### International Bonds and Currencies

Economic statistics published during the past three months point to a stabilization and to an embryonic recovery in global growth. At the same time, central banks and governments have been discussing a strategy for removing the various stimuli implemented since the outbreak of the crisis. Despite an improved outlook, global government bond markets advanced during the quarter for the first time this year. Indeed, the international Government Bond Index (“GBI”) climbed 2.0% during the quarter just ended, pulling returns for the year to date up into positive territory, to 0.9%.

Canada’s historically low yields have now completely eliminated the typically positive carry associated with hedging against the dollar’s foreign exchange risk. The GBI hedged against this risk closed out the quarter up 2.1%, for a total increase of 0.9% since the beginning of 2009.

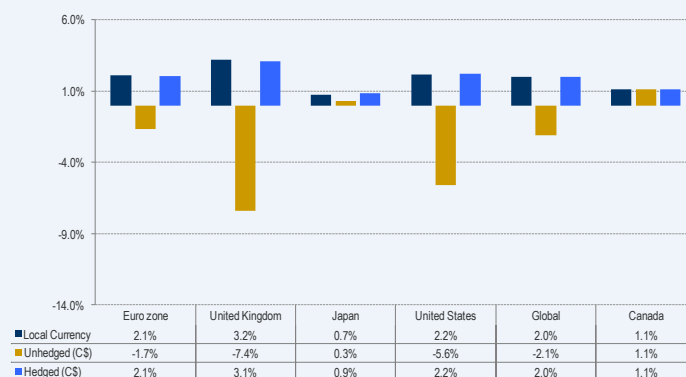
For a third straight quarter, the Canadian dollar rose against most major currencies, causing a drop in the unhedged GBI in Canadian-dollar terms. Down 2.0% during the past quarter, the unhedged index has retreated 9.8% for the year to date.

While most central banks were openly discussing the potential reversal of monetary stimuli, the Bank of England bucked the trend in early August, announcing that it was increasing its quantitative easing program by £50 billion to £175 billion. Thus, the British market postponed rate increases, supporting the bond market and generating a 3.2% return during the quarter just ended.

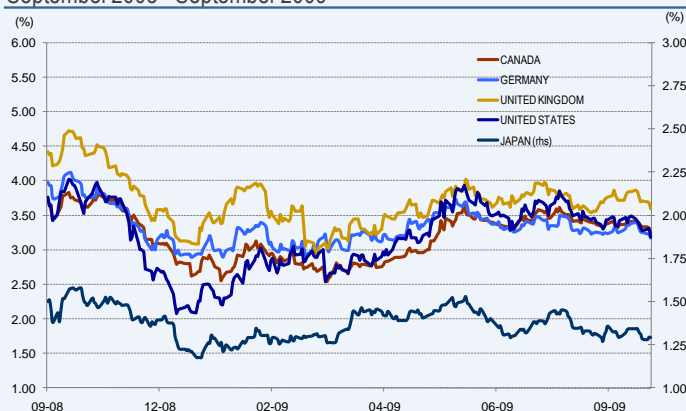
Renewed risk appetite in financial markets has had a beneficial impact on government securities of Euro Zone peripheral countries. Strong returns in Italy (+3.9%) and Portugal (+3.6%) led the zone’s bond market to a gain of 3.0% for the quarter.

After falling during the first two quarters of the year, the U.S. bond market recovered from July to September. Shunned in favour of credit instruments since the beginning of the year, U.S. Treasury securities have become popular again. An appetite for yield and a drop in inflationary expectations as governments and central banks ponder a strategy for removing their stimuli have pushed the bond market up 2.2% for the quarter. Although demand for long term instruments was stronger than that for shorter maturities, the 2-year to 30-year curve has remained relatively steep, i.e. at 311 basis points at the end of the quarter.

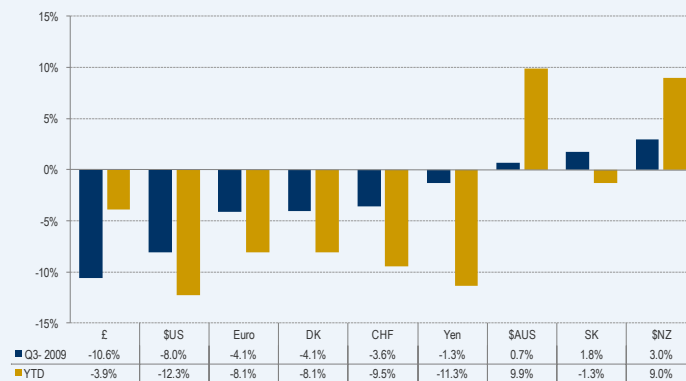
Quarterly Returns International Bonds  
Q3-2009



International 10-year Bond Yields  
September 2008 - September 2009



Exchange Rate Fluctuations vs Canadian Dollar  
Q3-2009



## MARKET COMMENT (CONTINUED)

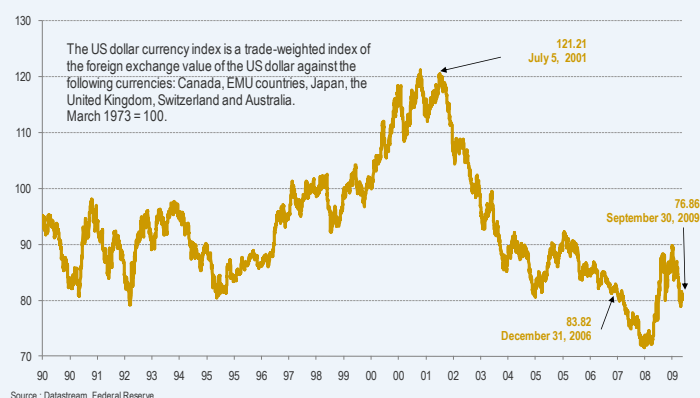
The depreciation of the U.S. dollar that began during the previous quarter continued through the third quarter. As the world's economies have stabilized, demand for a safe harbour (which the greenback represented during the financial crisis) appears to be waning. A number of persistent questions about the U.S. dollar's status as a reserve currency have also weighed heavily against it. Among major currencies, only the British pound has lost ground against the greenback. The largest gains have been recorded by the currencies of countries associated with commodities, such as New Zealand, Australia and Norway. From 89.78 in late March, the trade-weighted U.S. dollar index had retreated to 76.86 at the end of September, a drop of 14.4%.

Because the Canadian dollar is also labelled a commodity currency, it too appreciated against its U.S. counterpart during the third quarter, from US\$0.8600 to US\$0.9353, an increase of 8.75%. Meanwhile, the Bank of Canada continues to warn that the ongoing strength of the loonie is holding back economic growth, hinting at the possible threat of intervention in foreign exchange markets.

### Monetary Policy Rates (%)

|                | 12/2008 | 06/2009 | 09/2009 | Year to date |
|----------------|---------|---------|---------|--------------|
| Canada         | 1.50    | 0.25    | 0.25    | -125         |
| United States  | 0.25    | 0.25    | 0.25    | 0            |
| Europe         | 2.50    | 1.00    | 1.00    | -150         |
| United Kingdom | 2.00    | 0.50    | 0.50    | -150         |
| Japan          | 0.10    | 0.10    | 0.10    | 0            |

### U.S. Dollar Index (1973 = 100)



### Exchange Rates

|                   | 12/31/08 | 06/30/09 | 09/30/09 | Quarterly change | Year to date |
|-------------------|----------|----------|----------|------------------|--------------|
| <b>VS US\$</b>    |          |          |          |                  |              |
| Euro              | 1.3964   | 1.4036   | 1.4637   | 4.28%            | 4.82%        |
| Canadian Dollar   | 0.8204   | 0.8600   | 0.9353   | 8.75%            | 14.00%       |
| Japanese Yen      | 1.1021   | 1.0381   | 1.1143   | 7.35%            | 1.11%        |
| Danish Krona      | 0.1876   | 0.1885   | 0.1966   | 4.32%            | 4.80%        |
| British Pound     | 1.4603   | 1.6466   | 1.6006   | -2.79%           | 9.61%        |
| NZ Dollar         | 0.5827   | 0.6461   | 0.7237   | 12.02%           | 24.21%       |
| Australian Dollar | 0.7052   | 0.8070   | 0.8837   | 9.50%            | 25.31%       |
| Swiss Franc       | 0.9355   | 0.9208   | 0.9654   | 4.84%            | 3.20%        |
| Swedish Krona     | 0.1275   | 0.1297   | 0.1435   | 10.68%           | 12.51%       |
| <b>VS C\$</b>     |          |          |          |                  |              |
| Euro              | 1.7020   | 1.6320   | 1.5649   | -4.11%           | -8.05%       |
| US Dollar         | 1.2189   | 1.1628   | 1.0692   | -8.05%           | -12.28%      |
| Japanese Yen      | 1.3434   | 1.2070   | 1.1915   | -1.29%           | -11.31%      |
| Danish Krona      | 0.2287   | 0.2191   | 0.2102   | -4.07%           | -8.07%       |
| British Pound     | 1.7800   | 1.9145   | 1.7114   | -10.61%          | -3.86%       |
| NZ Dollar         | 0.7102   | 0.7512   | 0.7738   | 3.01%            | 8.95%        |
| Australian Dollar | 0.8595   | 0.9383   | 0.9448   | 0.69%            | 9.92%        |
| Swiss Franc       | 1.1402   | 1.0707   | 1.0322   | -3.60%           | -9.48%       |
| Swedish Krona     | 0.1555   | 0.1508   | 0.1534   | 1.78%            | -1.31%       |