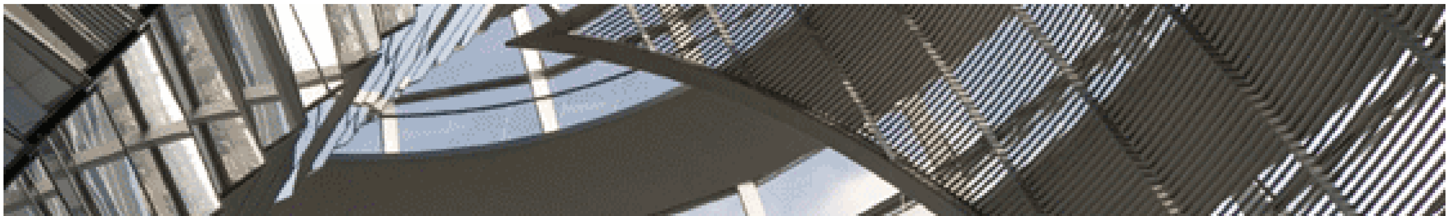
Performance & Risk Analytics

Analytical Insights

BNY MELLON
ASSET SERVICING



Fourth Quarter 2009

IN THIS ISSUE

Market Commentary

Canadian Markets

Both domestic and foreign equity markets achieved solid gains in fourth quarter 2009, concluding a remarkable year for equities as they recovered from the late 2008 market crash and subsequent global recession. The S&P/TSX Composite Index experienced its worst performance in February before recovering over the rest of the year. For the quarter, the index returned 3.86% and for the year it returned 35.05% — its biggest annual advance since 1979.

U.S. Markets

The U.S. stock market maintained its upward trajectory in 2009 after the S&P 500 Index hit a monthly low return of -8.56% in February. Positive economic indicators and increased investor confidence led the S&P 500 Index to a significant run over the past few months.

International Markets

As 2009 came to an end, markets around the world closed on a more positive note than many expected. Although Q4 slumped after the previous quarter, the markets overall seemed to hold their ground well on the eve of a new decade. Investors are weary of the global economic crisis, but glad that the worst appears to be over. Confidence is building despite continuing market vulnerabilities such as high unemployment and large public deficits, most apparent in developed nations.

Emerging Markets

Emerging market performance also dropped in fourth quarter. The MSCI Emerging Market Index returned 6.05% All numbers reflect gross index performance in Canadian currency., down from 11.86% in Q3. One-year returns for the index tell a different story with annual returns in 2009 reaching 52.03%, more than a full comeback from the 2008 one-year return of -41.44%.

Highlights

Investor Analytics wins Risk Magazine's 'Software Product of the Year 2010' Award

Building on the success of our alliance with Investor Analytics, we are pleased to let you know that Investor Analytics is the recipient of Risk Magazine's 'Software Product of the Year 2010' Award. In their seventh year, the Risk Awards recognize excellence and innovation in the fast-changing risk management sector.

Advanced Risk Analysis via Workbench

Our Advanced Risk Analysis product offering has been tightly integrated within Workbench, to provide you with reporting and on-line access to risk analysis capabilities.

Enhanced Analytics

We are pleased to share with you some new features of our core analytics and compliance monitoring solutions that will be available to you during the coming months.

New Report Writers Features

We are pleased to announce new features and functionality including Currency Conversion and Merrill Lynch Classification Schema are now available to you through Report Writers, our web-based, report writing and query tool that helps you build customized reporting and ad-hoc analysis.

Market Commentary

Canadian Economic Overview

Just one year ago, fear spread through the global financial system as Lehman Brothers collapsed, AIG sought financial bailout and the United States government proposed a $700 billion Trouble Asset Relief Plan (TARP). The Canadian economy began the first half of 2009 in an unsettled state, with sluggish activity in manufacturing, energy and retail trade pushing real GDP down. By the second half of the year, according to the Bank of Canada, the country was seeing an economic recovery. Contributing to that were monetary and fiscal stimuli, increased household wealth, improved financial conditions, higher commodity prices and stronger business and consumer confidence. In 2009, the Canadian economy contracted by 2.4%, while in 2010 and 2011, it is expected to grow by 3% and 3.3% respectively.

November saw a large increase in jobs across Canada, but the unemployment rate in December remained at 8.5% with 2,600 jobs lost that month according to Statistics Canada. For the year, the Canadian economy shed approximately 240,000 jobs, most during the first half of the year. South of the border, employment edged down 85,000 in December, with the unemployment rate remaining unchanged at 10% according to the U.S. Bureau of Labor Statistics. Employment losses there in the first quarter of 2009 averaged 691,000 per month; in fourth quarter, the average monthly employment loss in the U.S. was 69,000.

Monetary Policy

In fourth quarter 2009, the Bank of Canada maintained its policy rate at 0.25% and reaffirmed its conditional commitment to holding the current rate until the end of second quarter 2010. The Bank states that conditions in the global financial system have improved considerably since June 2009, with signs of global economic recovery emerging along with rising confidence in the stability of financial institutions. As the global economy continues to recover, stress on the financial system will likely decrease further. In recent months, core inflation has been slightly higher than Bank of Canada projections, although total CPI inflation remains close to those projections. The Bank expects inflation to return to the 2% target in third quarter 2011 — one quarter later than projected in July 2009.

Rising commodity prices as well as expectations that Canada will lead global economic growth in 2010 have heightened the appeal of Canadian assets in recent months, pushing investors toward the Canadian dollar. The appreciating currency does pose some challenges for exporters, and its greater-than-anticipated strength could further impede growth and subdue inflation pressures. Over time, however, the loonie’s strength is expected to more than offset many unfavourable developments in the last half of 2009. The Canadian dollar closed at US$0.9539 on December 31, 2009.

U.S. Monetary Policy

In the fourth quarter of 2009, the Federal Open Market Committee (FOMC) decided to maintain its target range for the federal funds rate at 0-0.25% and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of that rate for an extended period. The Federal Reserve states that U.S. economic activity has begun to pick up and the housing sector has shown some signs of improvement in recent months. It also states that, although economic activity is likely to remain weak for some time, the FOMC anticipates that policy actions will stabilize financial markets and institutions, and stimulate fiscal and monetary initiatives. It also expects market forces to contribute to strengthening economic growth in the U.S. and lead to a gradual return to higher levels of resource utilization. Inflation is expected to remain subdued for some time.

The Bond Market

The Canadian bond market has displayed resiliency to date, marked by persistent strength in the corporate bond arena. However, in fourth quarter 2009, Canadian bond prices were forced down on fears that economic growth in Canada might have been stronger than expected, creating a potential threat of inflation in 2010. The DEX Bond Universe returned -0.16% for the fourth quarter and 5.41% for the year 2009. Canadian bonds at the short-term maturity tier were the market's best-performing segment, returning 0.44% in the quarter. Mid-term and long-term bonds posted negative performance, returning -0.25% and -1.37%. For the year, however, mid-term bonds led the market, returning 7.54% versus 5.49% and 4.54% for long-term and short-term bonds respectively.

In the U.S., Barclays Capital Aggregate Bond Index finished the fourth quarter returning -2.13% (up from -4.12% in third quarter) and year at -10.04% in Canadian dollar terms. The U.S. bond market has also shown resiliency to date in its ability to absorb large amounts of new government bonds to finance U.S. deficits.

Canadian Equity Markets

Both domestic and foreign equity markets achieved solid gains in fourth quarter 2009, concluding a remarkable year for equities as they recovered from the late 2008 market crash and subsequent global recession. The S&P/TSX Composite Index experienced its worst performance in February before recovering over the rest of the year. For the quarter, the index returned 3.86% and for the year it returned 35.05% — its biggest annual advance since 1979. The quarter's best-performing sectors were Utilities, Industrial and Consumer Staples, returning 13.33%, 8.69% and 8.19% respectively. Weak performers included the Health Care, Financials and Information Technology sectors, returning -2.35%, -0.68% and 0.75% respectively.

The best-performing sectors for the year 2009 were Financials, Information Technology and Energy. This was due to strong overall returns in the banking sector, growth in Research In Motion stock and rebounding crude oil prices. The sectors returned 45.62%, 44.30% and 39.46% respectively. The year's worst performers were the Telecommunication Services, Consumer Staples and Consumer Discretionary sectors, returning 6.63%, 8.14% and 15.13% respectively.

Canadian Style Analysis

Canadian stocks at the small capitalization tier continued to outperform their larger capitalization counterparts in fourth quarter 2009, with the S&P/TSX Small Cap Index returning 12.93% and the S&P/TSX 60 Index returning 2.57%. Smaller capitalization stocks also significantly outperformed for the year 2009, with the S&P/TSX Small Cap Index returning 62.38% while the S&P/TSX 60 Index returned 31.94%. Growth stocks were the preferred investment style for the fourth quarter, as the MSCI Canada Growth and Value indices returned 3.26% and 2.27% respectively. However, value stocks were the year's preferred investment style, with the MSCI Canada Value Index returning 44.30% versus 23.61% for the MSCI Canada Growth Index.

The U.S. Markets

The U.S. stock market maintained its upward trajectory in 2009 after the S&P 500 Index hit a monthly low return of -8.56% in February. Positive economic indicators and increased investor confidence led the S&P 500 Index to a significant run over the past few months. The index ended the fourth quarter of 2009 returning 3.57% in Canadian dollar terms, led by the Information Technology, Health Care and Consumer Discretionary sectors (returning 8.13%, 6.56% and 6.54% respectively).

For the year 2009, five of the 10 sectors achieved positive performance, and the index overall returned 7.39%. Index performance for the year was led by the Information Technology, Materials and Consumer Discretionary sectors, returning 37.34%, 26.18% and 20.00% respectively in Canadian dollar terms.

U.S. Style Analysis

Since the end of first quarter, smaller capitalization stocks have generally been more vigorous than large capitalization stocks, bringing in superior returns in the first three quarters of 2009. In the fourth quarter, however, large-cap stocks outperformed small-cap stocks, with the Russell 1000 Index returning 3.61% and the Russell 2000 Index returning 1.46% (in Canadian dollar terms). Large-cap stocks also outperformed for the year 2009, with the Russell 1000 Index returning 9.07% and the Russell 2000 Index returning 8.00% (in Canadian dollar terms). At both the large and small capitalization tiers, growth stocks outperformed value stocks in fourth quarter. In Canadian dollar terms, the Russell 1000 Growth and Value indices returned 5.43% and 1.79%, and the Russell 2000 Growth and Value indices returned 1.72% and 1.22%. Growth stocks also significantly outperformed for the year, with year-to-date returns at 16.52% and 1.64% for the Russell 1000 Growth and Value indices, and returns of 14.19% and 2.40% for the Russell 2000 Growth and Value indices.

International Markets

As 2009 came to an end, markets around the world closed on a more positive note than many expected. Although Q4 slumped after the previous quarter, the markets overall seemed to hold their ground well on the eve of a new decade. Investors are weary of the global economic crisis, but glad that the worst appears to be over. Confidence is building despite continuing market vulnerabilities such as high unemployment and large public deficits, most apparent in developed nations. The MSCI World Index began 2009 with a return of -10.09%[1] in first quarter. It then went on to rebound and peak in second quarter at 11.73% and finish at a lacklustre, but positive, 1.75% by the end of fourth quarter. This translates into a decrease of 6.09% from the 8.65% seen in third quarter. The MSCI EAFE Index saw an even larger drop in returns, falling 10.61% from last quarter to -0.16% in Q4 2009. The one-year ending returns for the MSCI World Index and MSCI EAFE Index were 11.07% and 12.49% respectively.

This quarter also saw a large drop for Australia with the MSCI Australia Index bringing in only 2.52% compared to 23.08% in Q3. Europe followed a similar downward trend with the MSCI Europe Index reaching only 0.90%, well below its third-quarter return of 13.6548%. On a more positive note, the MSCI Philippines and MSCI Singapore were consistent performers, producing two of the strongest overseas national index returns at 7.26% and 7.21% respectively. This was only a small decrease from Singapore’s 10.31% last quarter and an increase over the Philippines’ previous quarter return of 6.48%.

Emerging Markets

Emerging market performance also dropped in fourth quarter. The MSCI Emerging Market Index returned 6.05%[1], down from 11.86% in Q3. One-year returns for the index tell a different story with annual returns in 2009 reaching 52.03%, more than a full comeback from the 2008 one-year return of -41.44%. Recovery continues but at varying speeds around the world, with China leading the way. China’s high growth levels are commonly credited to overinvestment. But as *The Economist* explains, the implementation of new technologies and scientific innovation are helping to increase the country’s productivity-the main driver behind superior growth levels. China is also slowly focusing more on domestic demand and relying less on exports—a strategy well suited to sustaining growth. The MSCI Emerging Markets Asia Composite Index brought in a one-year ending return for 2009 at a confident 48.05%. Singapore and Japan (classified by MSCI as developed Asian markets), produced one-year returns at opposite ends of the spectrum. The MSCI Singapore Index yielded the highest country return in Asia at 47.76% whereas the MSCI Japan Index brought in one-year ending returns at a discouraging -9.65%.

On the other side of the globe, emerging markets in Latin America outshone Asia. Fourth-quarter returns of 9.91% for the MSCI Emerging Markets Latin America Index slid from its previous 15.31% return in third quarter. This slump was, however, only a minor setback as the one-year return for this index was a staggering 73.40%, up from -39.06% in 2008.

[1] All numbers reflect gross index performance in Canadian currency.

↑ Back to Top

IN THIS ISSUE

Market Commentary

S&P/TSX Composite Sector Performance

Market Benchmarks

Highlights

Market Benchmarks

Quarter Ending December 31, 2009 - Canadian Dollars

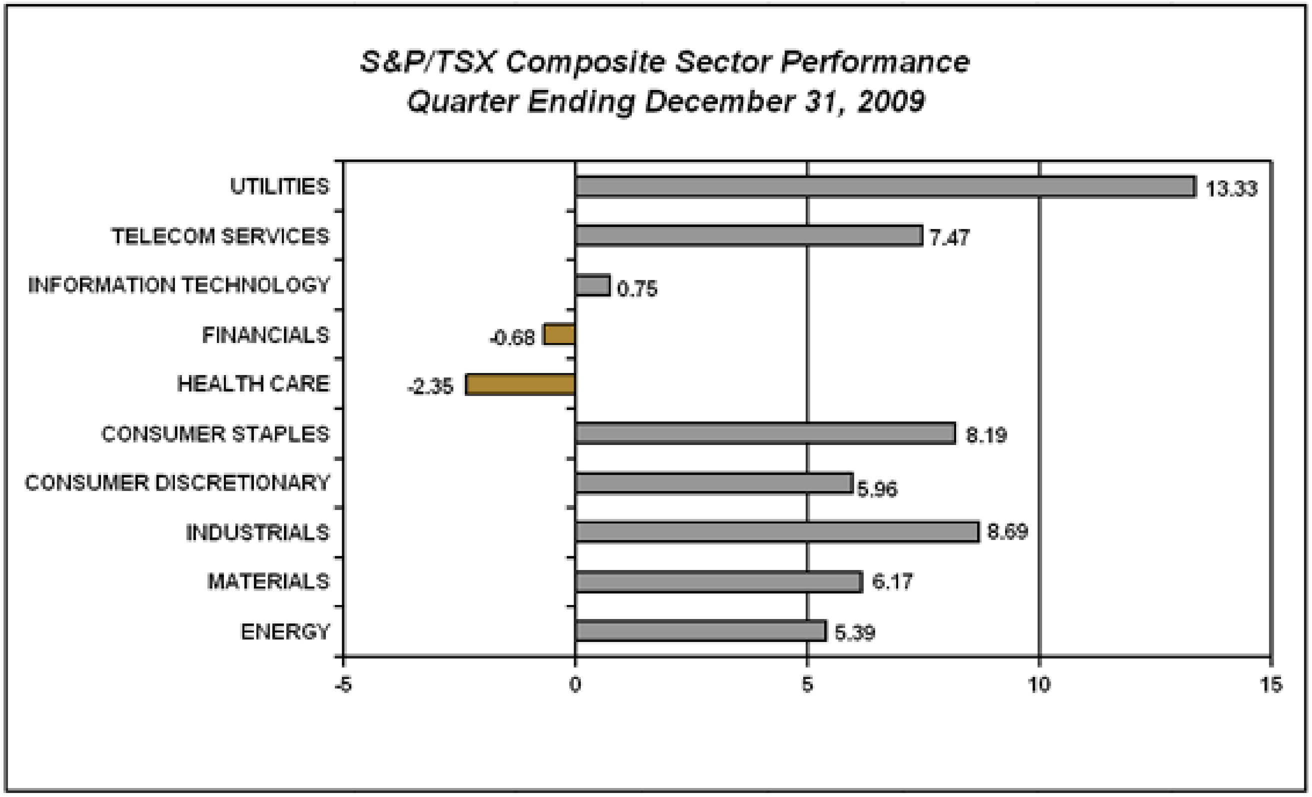
	QTR ENDING	YTD ENDING	1 YEAR ENDING	3 YEARS ENDING	5 YEARS ENDING	7 YEARS ENDING	10 YEARS ENDING
Cash							
DEX 91day T-Bill	0.08	0.62	0.62	2.78	2.98	2.87	3.28
DEX 30day T-Bill	0.05	0.36	0.36	2.39	2.73	2.68	3.06
Bonds							
DEX Bond Universe	-0.16	5.41	5.41	5.16	5.20	5.69	6.67
DEX Bond Short Term	0.44	4.54	4.54	5.71	4.69	4.81	5.74
DEX Bond Mid Term	-0.25	7.54	7.54	5.94	5.52	6.02	7.13
DEX Bond Long Term	-1.37	5.49	5.49	3.86	5.83	6.91	7.82
DEX Conv. Res. Mort. 3	1.34	10.31	10.31	8.29	6.96	6.79	7.48
DEX Conv. Res. Mort. 5	1.40	11.15	11.15	8.06	7.05	7.26	7.98
Equity							
S&P/TSX Capped Comp Index	3.86	35.06	35.06	-0.21	7.66	11.17	7.20
S&P/TSX Comp Index	3.86	35.05	35.05	-0.21	7.66	11.17	5.61
S&P/TSX 60	2.57	31.94	31.94	0.31	8.72	11.71	5.56
S&P/TSX Mid Cap	8.97	47.67	47.67	-1.48	5.81	11.08	5.90
S&P/TSX Small Cap	12.93	62.38	62.38	-3.70	1.97	6.73	5.27
BMO SC Blended Index (wtd)	13.45	75.10	75.10	-1.57	5.89	11.69	9.08
Foreign Bonds							
Barclays Capital Aggregate Bond	-2.13	-10.04	-10.04	2.42	2.20	-1.21	2.93
Foreign Equity							
MSCI World	1.75	11.07	11.07	-8.33	-0.14	2.16	-2.98
MSCI World Net	1.65	10.39	10.39	-8.86	-0.68	1.62	-3.44
MSCI EAFE Index	-0.16	12.49	12.49	-8.80	1.28	4.46	-1.67
MSCI EAFE Net Dividend	-0.20	11.91	11.91	-9.25	0.81	4.00	-2.06
S&P 500 Total Return Index	3.57	7.39	7.39	-8.85	-2.23	-0.48	-4.12

Back to Top

S&P/TSX Composite Sector Performance

Quarter Ending December 31, 2009

CLASSIFICATION	QTR ENDING	YTD ENDING	YEAR ENDING	3 YEARS ENDING	5 YEARS ENDING	7 YEARS ENDING	10 YEARS ENDING
TOTAL GROSS OF FEES	3.86	35.05	35.05	-0.21	7.66	11.17	5.61
ENERGY	5.39	39.46	39.46	-0.06	11.59	15.94	17.60
MATERIALS	6.17	34.17	34.17	8.72	15.68	15.95	11.97
INDUSTRIALS	8.69	26.99	26.99	1.70	7.29	8.48	5.39
CONSUMER DISCRETIONARY	5.96	15.13	15.13	-8.14	-0.31	3.94	1.78
CONSUMER STAPLES	8.19	8.14	8.14	-1.31	0.07	4.19	9.39
HEALTH CARE	-2.35	34.39	34.39	-10.74	-6.96	-7.39	-8.81
FINANCIALS	-0.68	45.62	45.62	-3.08	6.11	10.91	12.06
INFORMATION TECHNOLOGY	0.75	44.30	44.30	-0.67	1.00	10.09	-15.69
TELECOM SERVICES	7.47	6.63	6.63	-1.33	5.55	8.01	2.39
UTILITIES	13.33	19.00	19.00	1.93	9.40	11.50	14.26


S&P/TSX Composite Sector Performance
Quarter Ending December 31, 2009
UTILITIES
TELECOM SERVICES
INFORMATION TECHNOLOGY
FINANCIALS
HEALTH CARE
CONSUMER STAPLES
CONSUMER DISCRETIONARY
INDUSTRIALS
MATERIALS
ENERGY
13.33
7.47
0.75
-0.68
-2.35
8.19
5.96
8.69
6.17
5.39
-5
0
5
10
15

↑ Back to Top

Highlights

Investor Analytics wins Risk Magazine's 'Software Product of the Year 2010' Award

In June 2009, we formed a strategic alliance with Investor Analytics (IA), a global leader in risk analysis and risk management solutions, to provide enterprise-wide risk analysis and reporting (Advanced Risk Analysis) to BNY Mellon clients worldwide. Through this new alliance, we offer tools to measure and manage investment risks across multiple asset classes, strategies and portfolios using state of the art risk analytics, calculations, portfolio stress testing, and historical scenario analysis.

Building on the success of this alliance, we are pleased to let you know that Investor Analytics is the recipient of Risk Magazine's, 'Software Product of the Year 2010' Award. In their seventh year, the Risk Awards recognize excellence and innovation in the fast-changing risk management sector.

Risk Magazine cited IA's unique union of innovative quantitative models with behavioral economics, intuitive user interface, data management capabilities and very high customer satisfaction in its decision to select Investor Analytics. Among IA's differentiating capabilities are models developed by Dr. Andrew Lo, Harris & Harris Group professor of finance at the MIT Sloan School of Management. The integration of these approached has "raised the bar in the theory and practice of financial risk management," Dr. Lo told Risk.

We are excited to share this news with you. By partnering with industry leaders like Investor Analytics, we are committed to providing you with the most comprehensive and robust solutions, that will enhance your investment process.

Advanced Risk Analysis via Workbench

Our Advanced Risk Analysis product offering (provided by our strategic alliance with Investor Analytics) has been tightly integrated within Workbench, to provide you with reporting and on-line access to risk analysis capabilities. Most importantly, now you can include your risk analysis output with other Performance & Risk Analytics content (such as performance, analytics reporting) within a single workbook.

By extending the linkages between BNY Mellon Asset Servicing and Investor Analytics LLC to incorporate information delivery, we continue to build upon our relationship to provide you with risk management tools that can be accessed from a central point of contact.

Enhanced Analytics

We are pleased to share with you some new features of our core Analytics and Compliance Monitoring solutions that will be available to you during the coming months.

- Improved characteristic coverage on single payer credit default swaps, credit default indexes, futures options and short-term instruments.

- Upgraded models to better track interest rate sensitivity.
- Fixed income analytics coverage on instruments purchased intra-month.
- Moody’s, Fitch, and S&P issue level rating coverage on short-term instruments including commercial paper, certificates of deposit and money markets.
- Moody’s, Fitch, and S&P issuer and counter party credit ratings will be available to assist in the monitoring of credit exposures.
- Enhanced issuer coverage levels by incorporating the complex relationships between security identifiers, base issuers, affiliates and subsidiaries. This will assist in the monitoring of issuer exposures.

New Report Writers Features

We are pleased to announce new features and functionality are available to you through Report Writers, our web-based, report writing and query tool that helps you build customized reporting and ad-hoc analysis.

Currency Conversion (Summary Performance Report only)
Currency conversion will be offered in the Summary Performance report only. You will be able to select a single "Reporting Currency" and the report will be reflected in that currency. Reporting Currency will be available for the following columns:

- All Performance Returns
- Accrued Income
- Market Value (performance only)
- Market Value (3-month trailing Performance)
- Ex-post Risk Statistics
- Standard Deviations

Merrill Lynch Classification Schema
Merrill Lynch Classification Schema will be available in the Security Performance/Analytics reports. A subfolder will be added to the Sector/Industry Classification folder where users will be able to select four levels of the Merrill Lynch Index Sector Classification Schema including:

- Level 1 - Asset Class
- Level 2 - Group
- Level 3 - Category
- Level 4 - Sub-category

↑ Back to Top