

Contributions

The Saskatchewan Pension Plan Newsletter

Economic Perspective

to March 31, 2008

Members will recall that 2007 was a disappointing year for balanced funds and, unfortunately, this trend continued into the first quarter of 2008 as markets continued to struggle. To put this into some context, investments typically fluctuate on a day to day basis. But, the longer you stay in the market, the less the fluctuation affects the overall performance of the fund. In addition, economic and investment market cycles typically end as a result of unsustainable excesses. During the 1970s and 1980s, for example, several growth periods ended badly because of inflationary excesses. In the late 1990s, overexpansion in technology/telecom and inflated valuations ultimately provoked a stock market implosion and recession.

The global expansion that began in 2002 owed much of its beginning to the extensive monetary and fiscal measures instituted in response to the 2001 recession. An overextended period of low interest rates led to excesses in U.S. housing. In turn, this fuelled a sub-prime debt crisis in global financial markets.

Current Trends

The U.S. economy grew modestly in the first quarter while their housing situation turned more bleak. Forecasters now believe the American economy will likely be in recession sometime during the second quarter. Although overall global growth expectations are declining, to date there are no overt signs of recession outside of the U.S. Global growth continues to be buoyed by emerging Asia. Canada has also fared comparatively well because of more financially secure consumers and its economic exposure to commodities such as energy, metals and fertilizer. This was reflected in the outperformance of the Materials sector of the TSX index this quarter.

Prospects

There is need for short term caution: a U.S. recession is unique in the post-WWII era; a prolonged, deeper slowdown has potential for new negative surprises; and banking systems have been traumatized and require time to recapitalize. However, there is also a basis for longer-term optimism: monetary and fiscal authorities in the U.S. and elsewhere have recognized the gravity of the situation and the positive consequences of their initiatives will become evident in upcoming months. In addition, stock markets reach bottom several months in advance of the real economy. The Plan's investment managers remain very cautious in their outlook and seek to add value, and reduce risk, through superior stock selection.

The Board of Trustees has carefully developed the Plan's investment policy and is confident that it will produce strong, long term results for members. They also recognize that this long term strategy can sometimes cause short term losses to members. While SPP's return will vary each year depending on investment returns, it is a long term retirement savings plan that has yielded strong returns to members over time. ❖

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Equities

The S&P/TSX Composite Index (Canadian equities) was down 2.8 per cent at the end of the quarter but still outperformed global equity markets. Strong commodity prices, particularly crude oil, base and precious metals, grains and fertilizer, bolstered the Canadian equity market. The S&P 500 Index (U.S. equities), returned -5.9 per cent in Canadian dollar terms over the quarter. The U.S. sub-prime mortgage crisis has led to plunging property prices, billions in losses within the financial industry and a dramatic slowdown in the economy. Equity markets have likely already priced in much of the negative consequences of the U.S. economic downturn and, accordingly, will rebound well in advance of a turn in the real economy. Non-North American equities, measured by the MSCI EAFE Index, returned -15.0 per cent in local currency terms (-5.3 per cent C\$) as the Canadian dollar depreciated against all currencies within the Index. Concerns about credit, liquidity and solvency risks to financial systems also dominated international equity markets.

Bonds

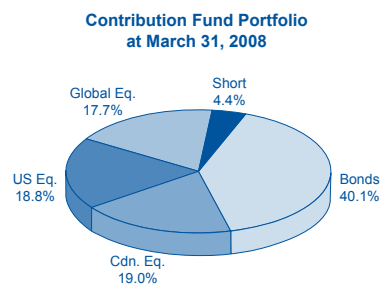
The Canadian bond market, as measured by the DEX Universe Bond Index, continued its positive performance, outpacing the S&P/TSX Index with a return of 3.0 per cent. Yields continued to decline to 4.0 per cent as at the end of March.

The Bank of Canada elected to lower the overnight rate twice in the quarter to 3.5 per cent. The Federal Reserve cut its overnight rate on three separate occasions during the quarter to end at 2.25 per cent.

Once again it was a volatile quarter for the Canadian dollar. After declining in January, the dollar bounced back in late February, only to fall towards the latter days of March. The Canadian dollar declined 3.8 per cent relative to the U.S. dollar to finish the quarter below parity.

The SPP fund returned -1.8 percent for the quarter.

The chart on the right shows the holdings in the Contribution Fund as at March 31, 2008. ❖



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