



CONTRIBUTIONS

October 2011

Investment update (as at September 30, 2011)

The 3rd quarter of 2011 continued the volatility roller coaster ride that has now lasted more than 3 years. Significant declines occurred in equity markets globally in the 3rd quarter amid concerns about slowing global economic growth. These declines were driven by fears of financial contagion in Europe, potential slowing in emerging markets and political mismanagement in the United States.

The centre of financial market strains has been in Europe and this looks like it will continue for the coming months. Over the last several years, emerging markets have gained strength and prominence and helped the world recover from the last recession. However, the high pace of growth and easy credit conditions have led to inflation in many of these economies, leading to early signs of economic slowing, especially in China.

Finally, despite weak domestic economic growth and in the midst of these global concerns, U.S. policy makers did not deal decisively with the issue raising the debt ceiling and this had a further negative effect on consumer confidence. On the plus side, the Federal Reserve announced an intention to keep the federal funds target at the 0 – 0.25 per cent range until at least the middle of 2013 and took a further step to lower long term rates by announcing a plan to sell \$400 billion in short term bonds to buy longer term debt. Both of these measures were intended to have the effect of lowering longer term interest rates to provide a more favourable environment for refinancing mortgages and long term corporate debt.

Canada has not been immune to the effects of this global volatility. Over the quarter, Canadian stocks declined just over 12 per cent.

SPP portfolio
at September 30, 2011

	Balanced fund return*	Benchmark	Short-term fund return*
Short term	0.8%	0.8%	0.8%
Bonds & mortgages	7.6%	7.4%	n/a
Cdn. equities	-13.5%	-11.9%	n/a
U.S. equities	-8.3%	-4.2%	n/a
Non-North American equities	-12.6%	-10.8%	n/a
Cdn. Real estate	7.8%	8.3%	n/a

*Gross return before administration expenses

Top 10 balanced fund holdings

	Canadian Equities	% of Portfolio	U.S. Equities	% of Portfolio	Non-North American Equities	% of Portfolio
1	Toronto Dominion Bank	7.4	Pfizer	3.4	HSBC Holdings	2.4
2	Bank Nova Scotia	5.9	3M	3.3	Novartis Ag	2.4
3	Canadian Natural Resources	4.4	Johnson & Johnson	3.0	Total	1.9
4	Saputo	4.3	Apple	3.0	Nestle	1.8
5	National Bank of Canada	3.2	Intel	2.8	Adidas AG	1.8
6	Canadian National Railway	3.0	Proctor & Gamble	2.7	Canon	1.8
7	CAE	2.8	Markel	2.6	Royal Dutch Shell	1.7
8	Talisman Energy	2.8	Chevron	2.2	Tesco	1.5
9	Teck Resources/Royal Bank	2.6	Microsoft	2.2	Samsung Electr.	1.4
10	Manulife	2.5	Walgreen	2.1	BMW	1.3

Canadian interest rates have declined in sympathy with U.S. rates and have provided very strong capital gains in the bond market. With yield declines and weak equity markets, it was a very tough quarter for pension plans.

Since quarter end there have been a number of positives as good corporate earnings are announced. However, the European debit crisis is not going away soon and continues to have an effect on the markets. The S&P/TSX (Canadian equities) index returned -12 per cent in the quarter. Utilities and Telecom Services were the top performing sectors while Information Technology and Energy were the worst performing sectors. The S&P 500 (U.S. equities) returned -7 per cent (C\$) in the quarter. Utilities was the best performing sector while materials was the weakest sector. The MSCI EAFE index (Non-north American equities) returned -12.6 per cent (C\$) in the quarter. The Canadian dollar depreciated against six of the twelve currencies in the Index. While Consumer Staples was the top performing sector, none of the ten sectors experienced positive returns.

The DEX UBI (bonds) returned 5.1 per cent in the quarter. The Bank of Canada maintained its overnight rate at 1 per cent during the quarter.

The SPP balanced fund year to date return is -4.8 per cent and the short-term fund return year to date is 0.4 per cent.