QUARTERLY INTEREST

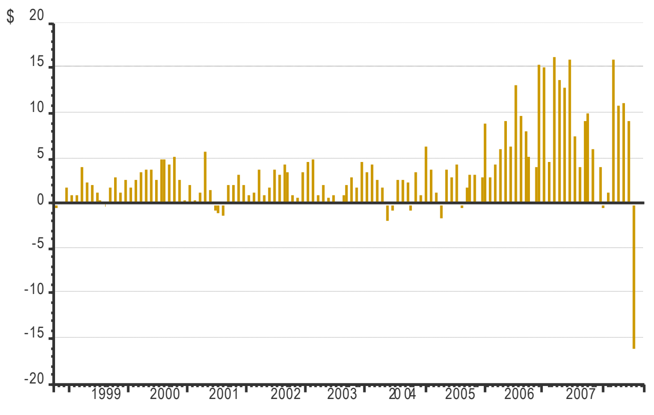
VIEWPOINT

Sunday Bloody Sunday

Usually people spend their weekends enjoying life with their families or even watching sports on TV, but in government land, officials devoted their 2008 weekends reshaping the United States' financial system with breathtaking announcements mostly on Sundays. What started as a subprime mortgage crisis in the summer of 2007, rapidly mutated into a liquidity problem and now into an insolvency crisis that only governments can resolve. But what exactly triggered this domino effect and will the proposed rescue plan solve this crisis are questions we will try to answer in this longer than usual edition of the Viewpoint.

Since the third quarter of 2006, residential investments have continuously acted as a drag on U.S. growth with home prices falling by 21% from the June 2006 peak according to the S&P/Case-Shiller Index. Mounting mortgage losses that were recorded in the financial system finally caught up with Fannie Mae and Freddie Mac, two mortgage giant agencies, thereby exposing their insufficient level of capital. As at June 30th 2008, Freddie Mac's financial statements showed a negative net worth, prompting fears of insolvency for the two companies that benefit from implicit government guarantees. The problem is that official foreign institutions, who held close to $1 trillion agency bonds at the time, were afraid of recording losses on these supposedly government safe-haven securities and therefore dumped more than $15 billion of agency paper last July.

Net Foreign Purchases of U.S. Agency Bonds
foreign official institutions (in billions)



Source: Thomson Datastream

After announcing an explicit guarantee of these agencies on Sunday July 13th, the Treasury Department decided to take the two quasi-government mortgage giants under conservatorship on Sunday September 7th, to reassure debt holders that their investments were safe and to improve conditions in the mortgage market. To avoid stepping into moral hazard issues, this bailout of agency debt holders wiped out common and preferred shareholders, closing down two sources of funding for troubled financial institutions with desperate needs for capital.

Lehman Brothers, which procrastinated in recognizing and solving its balance sheet issues, fit in that distressed category. With its depleted capital base, mounting losses and the shutdown of the preferred share market, the 158-year-old Lehman Brothers Holdings finally collapsed. Afraid of the moral hazard label tied to the Bear Stearns rescue, government officials decided that Lehman was not too big to fail, but the collateral damages of this inaction went far beyond what they expected. It accelerated the downward spiral of AIG Inc., a giant U.S. insurer that was deeply involved in writing credit-default swaps, a type of insurance against the failure of financial institutions like Lehman. To avoid the fallout of more institutions that had AIG as a counterparty in outstanding trades, the U.S. government bailed them out. In Lehman's bankruptcy, debt holders were also wiped out. The Reserve Primary Fund, a money market fund that owned $785 million in Lehman debt, then saw its net asset value fall below $1 per share, marking the first time in 14 years that a money-market fund hasn't been able to preserve the invested capital. Considered as safe investments, money-market funds also got drafted in this flight to quality away from anything but T-Bills. By letting Lehman fail, government officials closed the last and main source of funding that was available to financial institutions, the credit market. From that point on, nobody knew which financial institutions would be able to make good on their debts, either short or long term, and the market has since frozen.

From lenders of last resort, government officials are now viewed as saviours of last resort because investors are shying away from injecting new capital, even though assets have been devalued. Once bitten twice shy is what Sovereign Wealth Funds (SWFs) might be saying these days. Some of these funds have recapitalized financial firms early in this crisis with dire consequences. The $5 billion invested by Singapore and China in Barclays in July 2007 lost 55% of its value as at the end of last quarter. Even scarier, according to the Financial Times, the Norwegian oil fund increased its stake in Lehman Brothers from 1.7 million to 17.5 million shares during the second quarter of this year. Simply put, this crisis is too large for the private sector or SWFs alone to tackle. As a specialist of the Great Depression, Federal Reserve chairman Ben Bernanke knew that the road to recovery in those days came after large infusions of federal money into institutions. The Troubled Asset Relief Program (TARP) was therefore put in place in September to buy up to $700 billion of mortgage-related assets from institutions. But will it work?

VIEWPOINT (CONTINUED)

The reason why all government interventions so far have failed to solve the ongoing crisis is because they are not targeting the fundamental problems in the system, which are the lack of bank capital and the debt overhang of households.

The proposed Economic Rescue Plan, the politically correct way of saying bailout, only addresses part of these issues. By taking mortgage assets off banks' balance sheets, the government can only partly replenish the banks' capital if they pay above market value for those assets, which comes with an unpopular fiscal cost during an election period. On the other hand, paying market value for this toxic waste will only work if the government injects capital at the same time. But this will only be allowed if new banking regulations are in place to avoid repeating the same mistakes twice. On a positive note, this programme will unfreeze the mortgage market pricing environment which will help banks in evaluating their asset books.

Fuelled by easy access to credit, U.S. households' indebtedness jumped from 50% of GDP in 1980 to 100% in 2007, while the financial sector increased its IOUs from 21% to 116% within the same time frame. From a political standpoint, tax cuts are voter friendly but do not directly address the household debt problem nor will they stabilize the housing market freefall. The Home Owners' Loan Corporation (HOLC) created in 1933 during the Great Depression is an example of a stabilization measure that prevented foreclosures and relieved taxpayers. The HOLC bought mortgages from banks at discounted values and granted new mortgages to distressed homeowners with a lower debt value and at a lower interest rate.

When the HOLC ceased its operations in 1951, it turned in a small profit from the liquidated assets. A modern day HOLC would be better suited to attack the source of the problem and stabilize the depressed housing market.

There will be no such thing as a free lunch. Taxpayers will eventually have to bear the cost of this bursting bubble, either through a collective rescue plan, a recession or some combination of both. In an IMF1 study of historical banking crises around the world, the authors found that recognizing the problem early on and acting quickly will limit the costs. History also suggests that creating a government corporation to purchase toxic bank assets has never been a promising strategy.

However, a selective bank recapitalization and targeted relief for distressed debtors, like households, should be part of any rescue scheme. Standing aside in hope that the problems will disappear like Japan did in the 90's is therefore not a good idea.

A comparison with the Japanese crisis is inevitable, but major differences need to be pointed out. The Japanese model of foot-dragging and procrastinated half-measures that made them wait until 1998 to clean up the banks, is the main reason behind their lost economic decade. However, through its high domestic savings rate, the Japanese government was not dependant on foreign investors to support further fiscal stimulus. With a current account deficit at 5% of GDP and a ballooning fiscal deficit, U.S. government officials will have to reassure foreign creditors in order to avoid a repeat of the July agency debt selloff.

Unclogging credit markets and especially money markets is essential to restore confidence and allow general purpose funding requirements, like payrolls, to continue. But in designing their rescue package, officials should always focus on long term gain even at the cost of short term pain, which is a difficult electoral trade-off.

1. "Systemic Banking Crises: A New Database" by Luc Laevan and Fabian Valencia, International Monetary Fund (IMF), Working Paper WP/08/224.

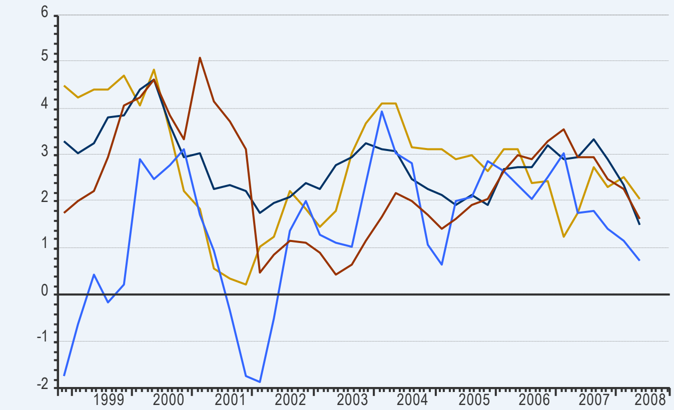
ECONOMIC COMMENTS

International

For the first time since the introduction of a common currency in 1999, the European economy shrank 0.8% in annualized terms during the second quarter, due to a somber mood and an inventory sell-off. In addition, household expenditures declined as commodity prices rose and as freefalling capital markets caused growing concern.

The contraction was more pronounced in Japan, where GDP recorded an annualized decrease of 3% for the second quarter, as rising materials prices reduced real household income and put a damper on discretionary expenditures. However, thanks to the recent reversal in commodity prices and to a banking system that appears to have avoided the errors of our neighbour to the south, the economic outlook in Japan is less cloudy than GDP figures would suggest.

Gross Domestic Product
annual change



Source: Thomson Datastream

United States

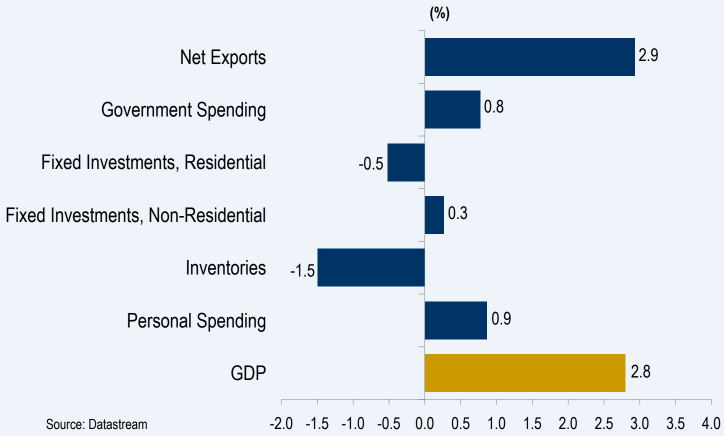
Driven by Uncle Sam's fiscal stimulus and by export growth, the U.S. economy defied gravity during the second quarter, advancing 2.8%. Nevertheless, economic conditions worsened throughout the summer as capital markets crumbled.

The pessimism that was weighing down capital markets finally contaminated consumers, who had until then put up a stalwart resistance. Despite a 0.5% increase in personal income during the month of August, consumer expenditures stagnated, reflecting the uncertainty facing households.

Already undermined during the first six months of the year, consumer confidence dropped even more as accumulated layoffs took their toll. Since the beginning of the year, 760,000 jobs have been lost, including 299,000 in the third quarter. This has brought the unemployment rate to its highest level since June 2003, i.e. 6.1%.

The worsening crisis, especially in terms of short-term funding, is also affecting the day-to-day operations of U.S. businesses (e.g. payment of salaries and suppliers). The unavailability of credit, combined with consumer anxiety, also resulted in a 27% plunge in September car sales, on a year over year basis.

Contribution to Growth in the United States
Second quarter 2008



Source: Datastream

U.S. Consumer Confidence Index
Conference Board

Source: Thomson Datastream

ECONOMIC COMMENTS (CONTINUED)

Canada

Canada's economy avoided a technical recession during the second quarter by posting a feeble annualized growth rate of 0.3% after declining 0.8% during the first quarter. Lower inventories during the first quarter were replaced by production during the second quarter, allowing inventories to contribute to growth.

The strength of our currency, in addition to the economic woes of our largest trading partner, continues to affect exports. In nominal terms, Canada's trade balance improved due to rising export prices, especially energy. However, the volume of exports was down in the second quarter. This decrease was felt in several industries, including energy products.

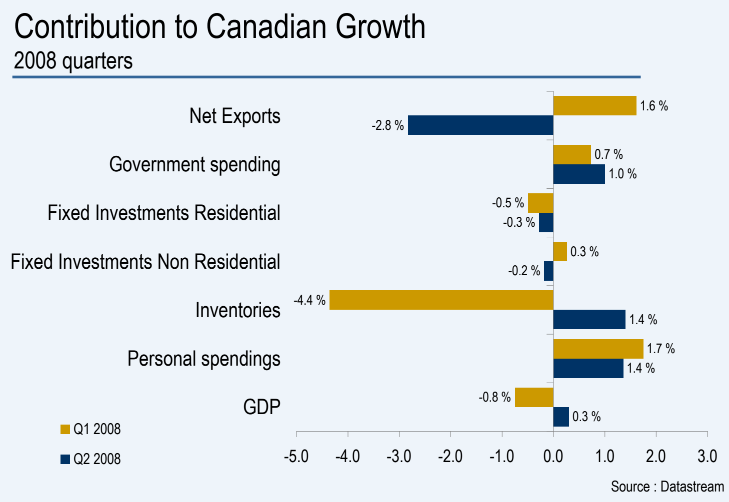
However, the rather dark picture painted by GDP ignores the impact of terms of trade improvements. Increased income from exports and lower costs for imports produce a wealth effect that is reflected in a country's gross domestic income. Whereas nominal GDP appears stagnant on an annual basis, growth in gross domestic income is in the 4% range.

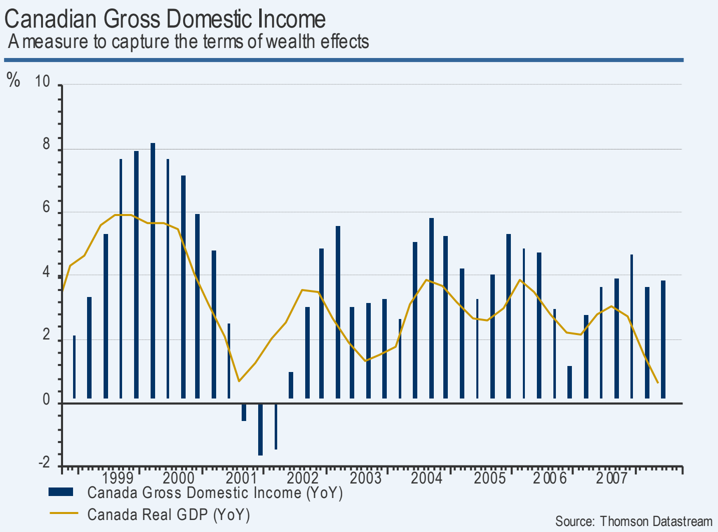
For the first time since February 1982, Canada's unemployment rate is the same as that of the U.S., i.e. 6.1%. However, the job market is slowing down, creating just 194,000 positions since the beginning of the year, compared to 275,000 for the same period last year. It should be pointed out that in July, employment fell 55,000, an unheard-of level since the 1991 recession. However, employment rose 67,000 during the quarter as a whole.

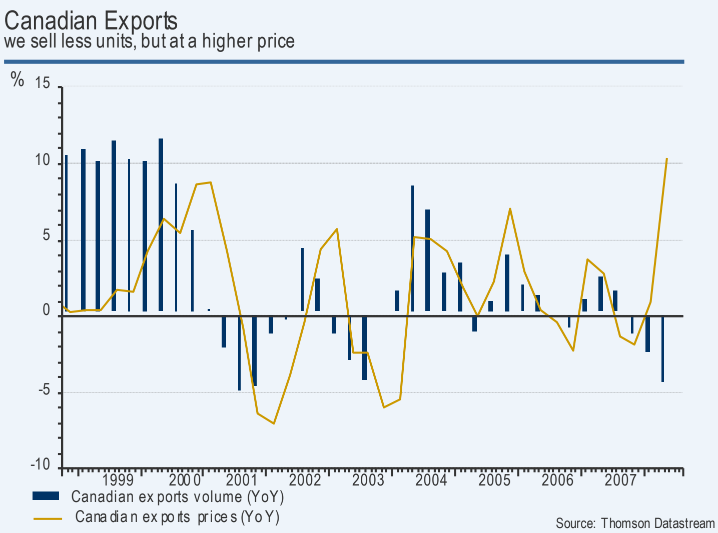
Fuelled by rising gasoline prices, inflation reached 3.5% in August. Still, the inflationary outlook moderated somewhat because of the marked decline in commodity prices and the heightened credit crunch.

ECONOMIC INDICATORS (annual % change)*	UNITED STATES		CANADA	
	2007	2008	2007	2008
REAL GDP	2.0	2.3	2.7	1.1
UNEMPLOYMENT RATE **	4.6	5.4	6.0	6.0
INFLATION	2.9	4.6	2.1	2.4
RETAIL SALES	4.0	2.6	5.8	4.8
INDUSTRIAL PRODUCTION	1.7	0.6	0.2	-3.3
CAPACITY UTILISATION **	81.0	80.0	83.3	79.3
EXPORTS OF GOODS	12.3	19.9	2.1	4.0
IMPORTS OF GOODS	5.7	13.7	2.7	3.8

** Most recent cumulative data (as at October 10, 2008)*
*** Average*







MARKET COMMENTS

Monetary Policy and Interest Rate Trends

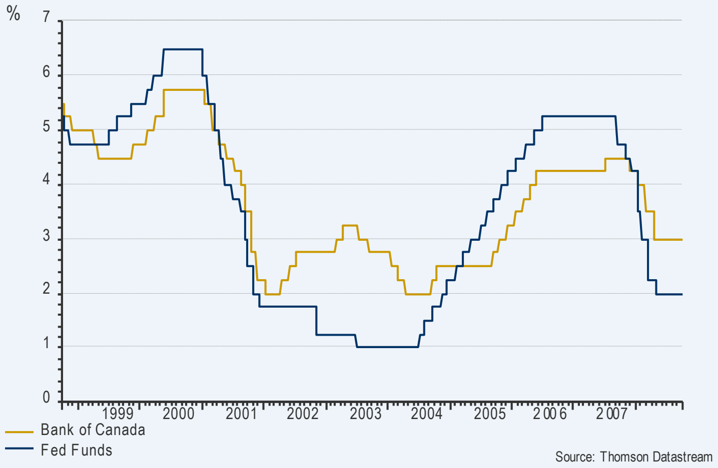
The quarter got off to a sleepy start only to be sharply awakened in September. The Bank of Canada left its key overnight lending rate at 3.00% as widely expected in July and again in early September. Likewise, the Fed unsurprisingly kept its rate unchanged at 2.00% in August and in September.

In the second week of September, with market participants back from summer holidays, it became apparent all was not right with the world. A slew of unprecedented events materialised, which were followed by unparalleled actions. Fannie Mae and Freddie Mac's debt was assumed by the US Treasury and they were moved into government conservatorship, while Lehman Brothers was left to fail. In the midst of this madness, the Fed did not cut the benchmark fed funds rate, despite market expectations, only to receive an 80% equity stake in AIG that night in exchange for a $85 billion line of credit. The FDIC (Federal Deposit Insurance Corporation) did not miss out on the action by seizing Washington Mutual and then having the deposits, assets and certain liabilities of the banking operations transferred over to JP Morgan. The FDIC also offered a loss protection agreement should Citigroup acquire Wachovia's banking operations.

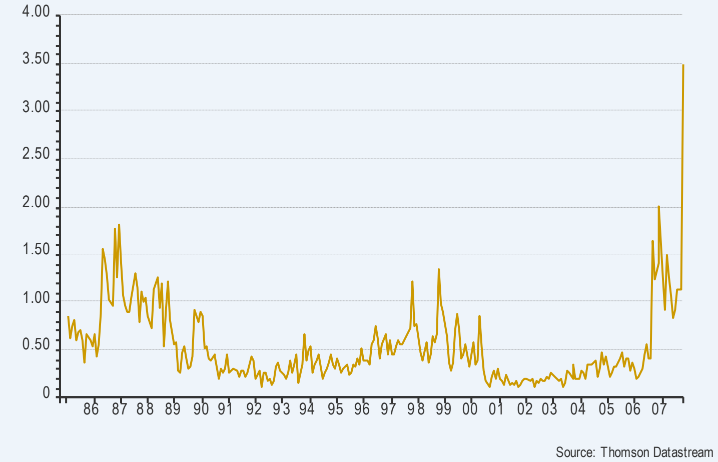
These events, among others, have had a host of effects as the Fed has continued to flood the market with liquidity, only for financial institutions to be hoaring cash and running reserves to excess levels. For starters, the Fed expanded its balance sheet by $246 billion in the last two weeks of the quarter, an expansion that had previously taken 6.5 years. The massive loans at the discount window played a big part in this, as well as the Term Auction Facility, with never before seen liquidity injections. The composition of Total Reserve Credit has also deteriorated, with Treasuries making up only about 42% of this amount, where pre-crisis levels were in the nineties. Furthermore, banks remain fearful of lending amongst each other, with the Libor-OIS spread increasing dramatically and with US$ Libor 300 basis points over T-bills in late September. This also demonstrates the enormous flight to the quality into T-bills, even after the Treasury's announcement it would guarantee money market funds.

We are in crisis-mode and usual monetary policy actions have not been able to calm the fires, yet unprecedented moves are not working so well either thus far. Are coordinated interest rate cuts lurking? Would they be effective? Even the governor of the Bank

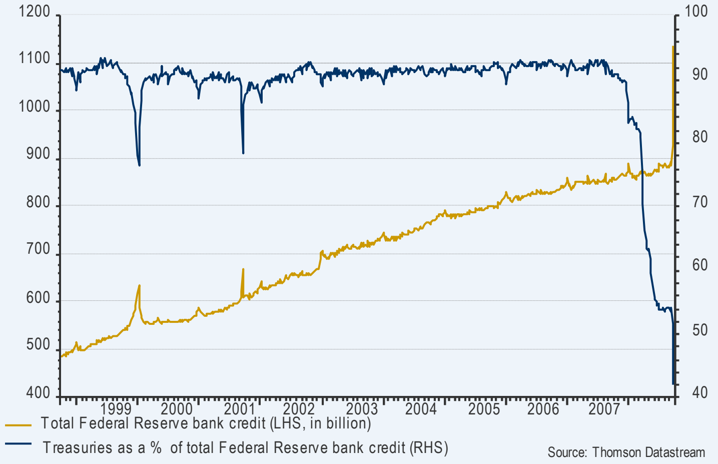
North-American Monetary Policy Target Rates



U.S. Interbank Market Paralysis
3-month LIBOR minus 3-month U.S. T-Bills



The Federal Reserve has Expanded its Balance Sheet
but its composition is different



MARKET COMMENTS (CONTINUED)

of Canada has left the door wide open, stating recently that "the G-7 is ready to take whatever actions may be necessary, individually and collectively, to ensure the stability of the international financial system." Note: On October 8, central banks of six countries, including the United States and Canada, lowered their policy rates in a concerted action.

The DEX bond index returned -0.37% during the period, due to a marked increase in risk premiums (agencies, provinces and corporations) and also to a pronounced steepening in the slope of the yield curve.

The DEX short-term index outperformed its mid and long term counterparts, returning 1.15%, compared to -0.27% and -3.05% respectively.

The quarter was marked by very wide fluctuations in interest rates, especially in September. The search for a safe haven in government bonds led to a marked drop in interest rates before the U.S. government announced its bail-out plan, which caused rates to edge upward as the quarter ended.

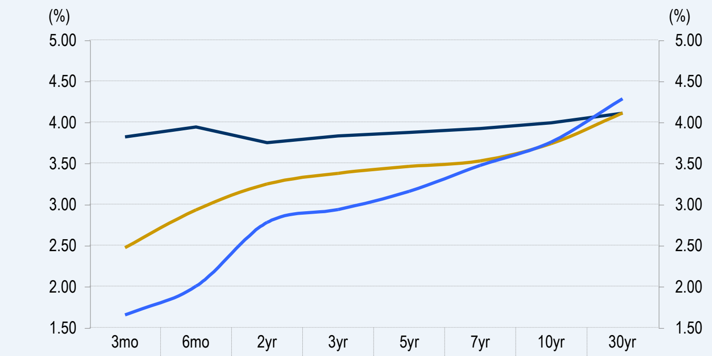
In the United States, the 2-year yield shifted within a range of 109 basis points during the quarter. From 2.62% on June 30, it fell to 1.96% on September 30, dropping below the 2.00% fed funds rate to 1.64% on September 17. Over the same period, the U.S. 30-year yield fluctuated within a range of 67 basis points. Between June 30 and September 30, it decreased from 4.52% to 4.31%, reaching a record level of 4.02% on September 15.

In Canada, the short term sector's outperformance reflected a pronounced drop in yields for maturities of fewer than 5 years, as the 2-year yield declined from 3.25% to 2.78% and the 5-year yield, from 3.46% to 3.16%. These decreases of 47 and 30 basis points stand in sharp contrast to increases of 3 and 17 basis points recorded for 10-year and 30-year yields over the same period. This resulted in a much steeper yield curve. On September 30, the 2- to 30-year curve stood at 150 basis points, i.e. 86 basis points more than three months before.

Note that at the peak of the crisis, 2-year yields were down to 2.48%, much lower than the 3% policy rate. Accordingly, the market is anticipating reductions in the Bank of Canada's overnight funding rate.

The records set by 10- and 30-year yields in early 2008 were broken during the quarter. For instance, the 30-year yield stood at 4.11% on June 30 and rose to

Canadian Yield Curves



	3mo	6mo	2yr	3yr	5yr	7yr	10yr	30yr
12/31/07	3.82	3.94	3.75	3.83	3.87	3.92	3.99	4.10
06/30/08	2.47	2.93	3.25	3.38	3.46	3.53	3.73	4.11
09/30/08	1.65	2.00	2.78	2.93	3.16	3.47	3.76	4.28

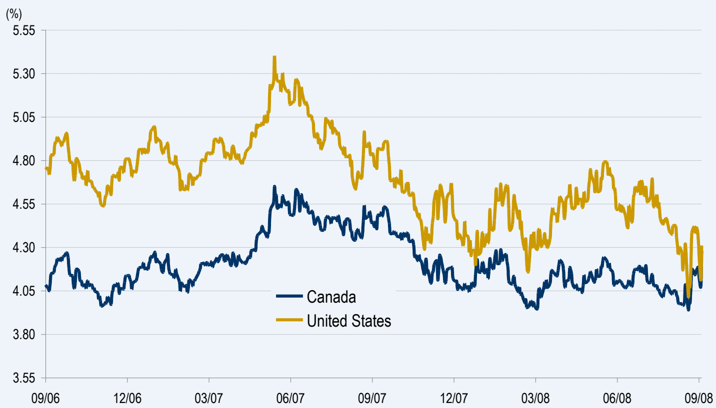
Canadian Interest Rate Trends

The Yield Curve Steepened

Source: Thomson Datastream

Canada and United States 30-year Yields

September 2006 - September 2008



MARKET COMMENTS (CONTINUED)

4.20% on July 30 before falling to a record low of 3.94% on September 15. However, it rebounded spectacularly a few days later, to 4.28% on September 30. It ranged a full 34 basis points during the quarter. Meanwhile, the 10-year yield increased from 3.73% to 3.86%, before setting a new mark by dropping to 3.34%. It was back up to 3.76% on September 30.

Canadian bonds underperformed their U.S. counterparts across all maturities of the yield curve. The worst relative performance was turned in by long Canadian bonds, as the Canadian 30-year yield reached parity with its U.S. counterpart for the first time since 2005. The 30-year yield spread was -44 basis points on June 30, but only -3 basis points three months later, fluctuating within a range of 60 basis points in the interim. Meanwhile 2-, 5- and 10-year spreads increased 19, 5 and 18 basis points respectively during the quarter.

Real Return Bonds (RRBs)

Long RRB yields in Canada increased dramatically during the third quarter, moving from 1.46% at the beginning to 2.27% at the end. A similar trend in the United States was observed as they increased by 55 basis points to 2.65%. The break even inflation rate fell by 66 basis points in Canada, to 1.96%, and by 76 basis points in the United States, to close out the quarter at 1.66%. At 1.96%, the Canadian break-even inflation stood slightly below the Bank of Canada's inflation target of 2.0%. Break-even inflation in the United States also moderated, declining from 2.42% to 1.66% at quarter-end.

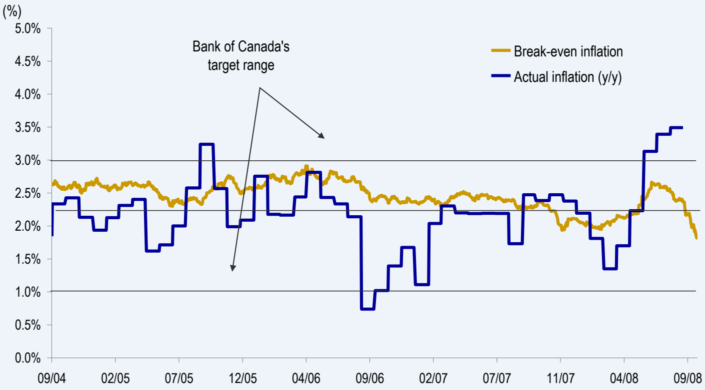
During the third quarter of 2008, the RRB index collapsed returning -8.97%, compared to -3.05% for the DEX Long Term Bond Index. Year to date, the RRB index erased most of the gains recorded in the first semester with a return of 0.80 % against -2.42% for the long term index. This underperformance is a reflection of increasing fear from the global financial crisis with asset deflation consequences.

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

Source: Thomson Datastream

	Yield (%)			Change (b.p.)	
	09/30/08	06/30/08	12/31/07	Quarterly	YTD
Canada					
3-month	1.65	2.47	3.82	-82	-217
2-year	2.78	3.25	3.75	-47	-97
5-year	3.16	3.46	3.87	-30	-71
10-year	3.76	3.73	3.99	3	-23
30-year	4.28	4.11	4.10	17	18
U.S.					
3-month	0.79	1.77	3.16	-98	-237
2-year	1.96	2.62	3.05	-66	-109
5-year	2.98	3.33	3.44	-35	-46
10-year	3.82	3.97	4.02	-15	-20
30-year	4.31	4.52	4.45	-21	-14
Canada/U.S. Yield Spread (b.p.)					
3-month	86	70	66	16	20
2-year	82	63	70	19	12
5-year	18	13	43	5	-25
10-year	-6	-24	-3	18	-3
30-year	-3	-41	-35	38	32

Break-even Inflation Implied by Canada Real Return Bonds and Actual Inflation
September 2004 - September 2008



MARKET COMMENTS (CONTINUED)

Provincial Bonds

Provincial bonds have been hard hit by the financial crisis. Their under performance during the quarter was due to a noticeable widening of spreads and to the fact that this sector's duration at 8.50 years is longer than that of the index. Thus, the DEX provincial bond index returned -1.53%, compared to 0.69% for government of Canada bonds.

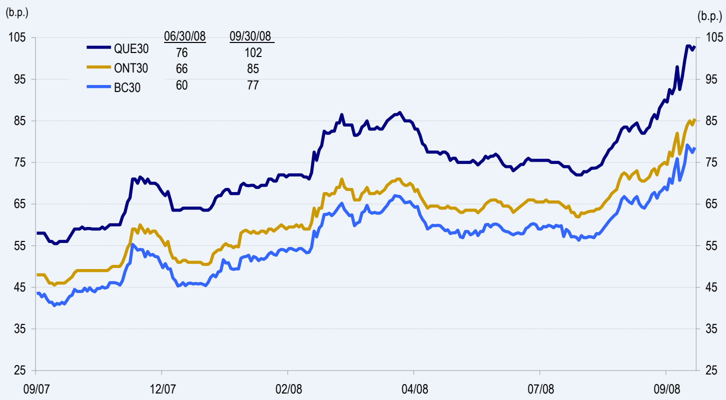
Provincial long term credit spreads reached new peaks for the year, widening throughout the quarter. They closed out the quarter at 102, 85 and 77 basis points for Québec, Ontario and British Columbia respectively, representing increases of 26 points for Québec, 19 points for Ontario and 17 points for British Columbia.

Spreads for 10-year provincial bonds widened more than those of 30-year bonds during the quarter. A sudden announcement by the country's largest issuer, Canadian Housing Trust, that it was planning to issue a new line of 10-year maturities in addition to the $40 billion already broken down into floating rate notes and 3-and 5-year bonds, increased the supply of government product in the 10-year sector. This pushed up the spread from 71 to 104 basis points for Québec and from 70 to 100 basis points for Ontario. The resulting credit curve is now inverted between 10- and 30-year spreads.

In addition to widening risk premiums, the current crisis is wreaking havoc with the traditional timetable for new provincial government issues. For instance, the volume of funding for the third quarter of 2007 was $10.325 billion, compared to $5.980 billion this year. Although the total volume of new issues for the year to date is higher than it was last year ($23.744 billion vs. $19.950 billion), note that funding requirements this year are higher than they were in 2007 ($50.325 billion vs. $35.727 billion).

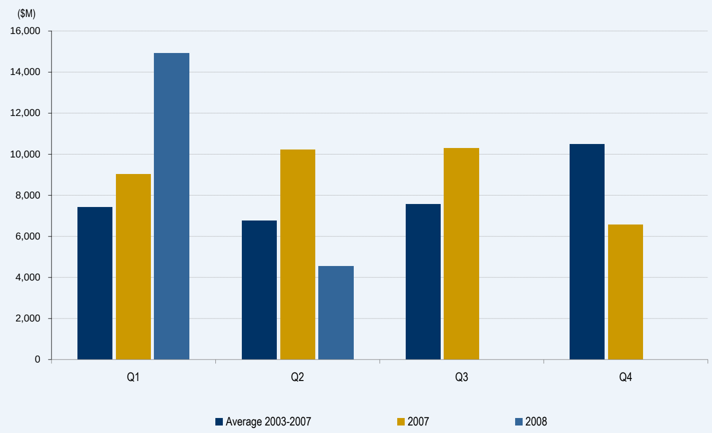
Federal agency bonds were not immune to the widening of risk premiums during the quarter. Still, this sector of the index posted a positive return of 1.25%, outperforming Canadas by 0.56%. Agency bonds are mostly issued in the short term sector, with a duration of 3.46 years (compared to 6.98 years for government of Canada bonds). This outperformance is due to a substantial drop in short term yields. Another historical milestone was reached in early September, when the risk premium for these securities stretched to 68 basis points.

30-year Provincial Spreads over Canada Bonds
September 2007 - September 2008



	Yield Spreads (b.p.)			Change	
	09/30/08	06/30/08	12/31/07	Quarterly	YTD
Quebec/Canada					
5-year	86	58	43	28	43
10-year	104	71	56	33	48
30-year	102	76	64	26	38
Ontario/Canada					
5-year	83	57	40	26	43
10-year	100	70	48	30	52
30-year	85	66	51	19	34
BC/Canada					
5-year	78	53	38	25	40
10-year	83	57	40	26	43
30-year	77	60	46	17	31
Yankee/US Treasuries					
Qc-30 yr	92	77	67	15	25

Quarterly New Issues



MARKET COMMENT (CONTINUED)

Corporate Bonds

The Canadian corporate bond market was greatly affected by the numerous bailouts, failures and shotgun weddings that occurred south of the border and in Europe. A great deal of uncertainty was created as every new situation was treated differently. Creditors of the various financial institutions such as Bear Stearns, Lehman Brothers, AIG, Fannie Mae, Freddie Mac, Washington Mutual and Wachovia have all experienced a different fate. Some now have full government support; some have the support of a stronger financial institution, while others may lose everything. This lack of clarity and consistency so far in government interventions has fostered renewed uncertainty and has resulted in a credit crisis turning into an enormous liquidity crisis throughout the world.

We have learned an important lesson through this crisis; there are financial institutions that are too big to fail and these are some that are not too big to fail. The line between the two is a very fine one and we will only know the results of those that were too big to fail and failed. It is unimaginable that political leaders would even want to test the limits of the financial system, but as a republican congressman said so eloquently in explaining why he voted down the $700B bailout plan; ''You are being asked to choose between bread and freedom, and I suggest the American people have chosen freedom''.

More than anything else, confidence must be restored. As Warren Buffet said ''Confidence in markets and in institutions, it's a lot like oxygen. When you have it, you don't even think about it. You can go years without thinking about it. When it's gone for five minutes, it's the only thing you think about. And the oxygen has been sucked out of the credit markets''. We can only hope political leaders act quickly and decisively to restore confidence before the markets wind-up with severe brain damage.

Spreads in Canada have widened significantly in the third quarter. Generic bank spreads widened 102, 110 and 113 basis points during the third quarter for the 5-, 10- and 30-year sectors respectively.

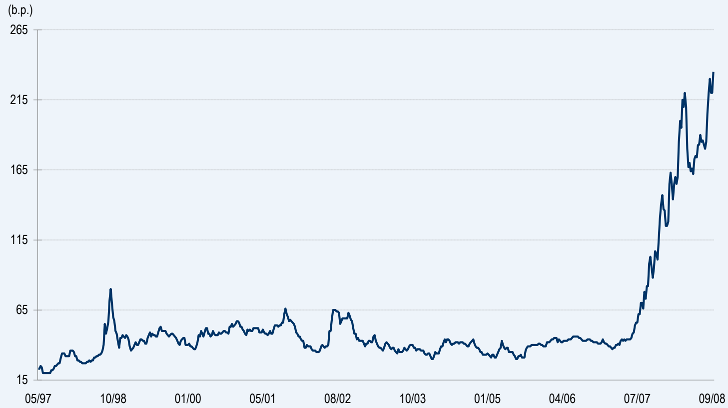
The generic bank curve closed at 285, 315 and 320 for the 5-, 10- and 30-year sectors respectively at the end of the third quarter. Since December 2007, the generic bank spreads have widened 160, 167 and 172 for the 5-, 10- and 30-year sectors respectively.

With the widening in credit spreads, corporate bonds underperformed government bonds posting a -1.12% return compared to a +0.90% return for federal government bonds during the quarter. Over the past five and ten years, corporate bonds were left with a return of 4.27% and 5.71%, compared to 4.99% and 5.63% for federal bonds, erasing all of the excess returns recorded by this asset class over the past ten years.

Amount of New Issues (million $)			
		Third Quarter	
	2007	2008	Difference
Corporate Bonds	41,001	49,110	20%
Securitization (ABS, CMBS)	5,251	4,858	-7%
Maple Issues	14,550	405	-97%
Total:	60,802	54,373	-11%

Source : CIBC Bank

Historical Credit Spread
(Generic 5-year Bank note)



Yield Spreads (b.p.) - Corporate Bonds				Change	
	09/30/08	06/30/08	12/31/07	Quarterly	YTD
Royal Bank					
5-year	285	183	125	102	160
10-year	315	205	148	110	167
30-year	320	207	148	113	172
Bell Canada					
5-year	470	460	330	10	140
10-year	525	490	375	35	150
30-year	545	500	400	45	145
Loblaw					
5-year	340	315	185	25	155
10-year	390	340	235	50	155
30-year	470	420	320	50	150
GTAA					
5-year	185	128	103	57	82
10-year	205	148	117	57	88
30-year	235	155	125	80	110
TransCanada Pipelines					
5-year	225	155	93	70	132
10-year	275	192	112	83	163
30-year	320	225	156	95	164

Source: National Bank Financial

MARKET COMMENT (CONTINUED)

International Bonds and Currencies

As was the case at the beginning of the year, concerns over the stability of the U.S. financial system grew as some businesses became financially distressed. This time, however, the problems spread to Europe and Asia, causing a flight to quality toward bonds issued by global governments, with increased demand for shorter maturities. The JPMorgan Global Government Bond Index (GBI) posted a return of 2.7% during the period, for a total of 2.9% for the year to date.

The hedged GBI (covering the risk of currency fluctuations against the Canadian dollar) also returned 2.7% for the third quarter of 2008.

Although the Canadian dollar weakened against its U.S. counterpart, it appreciated against the other major currencies. The unhedged GBI in Canadian dollar terms closed out the quarter up 2.1%, for a total increase of 10.0 % since the beginning of 2008.

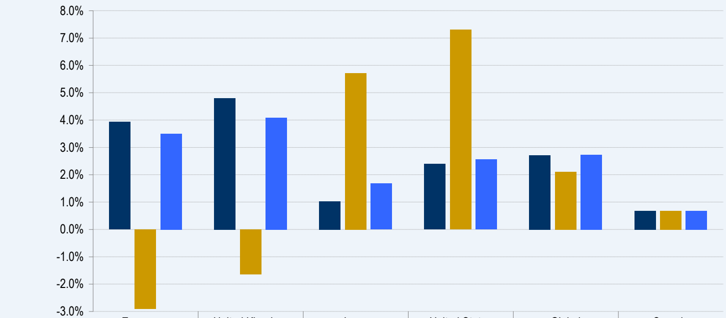
Although primarily concentrated in the United States until now, the problems linked to the current crisis spread to Europe during the latter part of the quarter. This caused central bank concerns over inflation to dissipate as the quarter wore on. The problems encountered in the real estate and banking sectors drove the British bond market up 4.8% during the quarter.

Despite a rise of 25 basis points in the European Central Bank's policy rate early on in the quarter, the fact that member countries were anticipating financial and economic problems sustained bond markets in the euro zone. Although risk premiums in some countries such as Italy and Spain widened in relation to those of Germany, euro zone markets advanced an average of 3.9%.

In spite of the shocks that the tribulations of Fannie Mae, Freddie Mac, Lehman Brothers, AIG and others had on U.S. capital markets, the U.S. bond market gained only 2.4% during the quarter. This weaker performance was due to the Federal Reserve Board's fixation on injecting cash into the system instead of further relaxing its monetary policy. It should be pointed out that, more than its counterparts elsewhere, this market had already anticipated financial and economic problems, since it is up 4.7% since the beginning of the year.

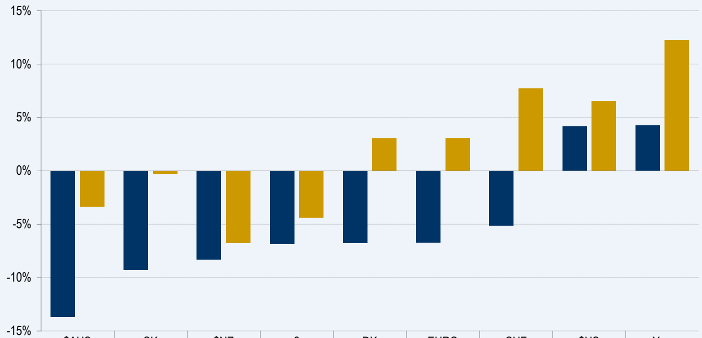
Although commodity prices declined sharply during the past quarter, the Canadian dollar depreciated only against the yen (-4.0%) and the U.S. dollar (-4.0%). It has traded for as little as $0.9240 against the greenback over the past three months, its lowest level

Quarterly Returns International Bonds
Q3-2008



	Euro zone	United Kingdom	Japan	United States	Global	Canada
Local Currency	3.9%	4.8%	1.0%	2.4%	2.7%	0.7%
Unhedged (C$)	-2.9%	-1.6%	5.7%	7.3%	2.1%	0.7%
Hedged (C$)	3.5%	4.1%	1.7%	2.6%	2.7%	0.7%

Exchange Rate Fluctuations vs Canadian Dollar
Q3-2008



	$AUS	SK	$NZ	£	DK	EURO	CHF	$US	Yen
Q3- 2008	-13.7%	-9.3%	-8.3%	-6.8%	-6.7%	-6.7%	-5.1%	4.1%	4.2%
2008	-3.4%	-0.3%	-6.7%	-4.4%	3.0%	3.1%	7.7%	6.5%	12.2%

International 10-year Bond Yields

Source: Thomson Datastream

MARKET COMMENT (CONTINUED)

since August 2007, but closed out the quarter at $0.9407. The anticipated economic weakness of European nations helped our dollar to gain nearly 7% against the euro and the British pound.

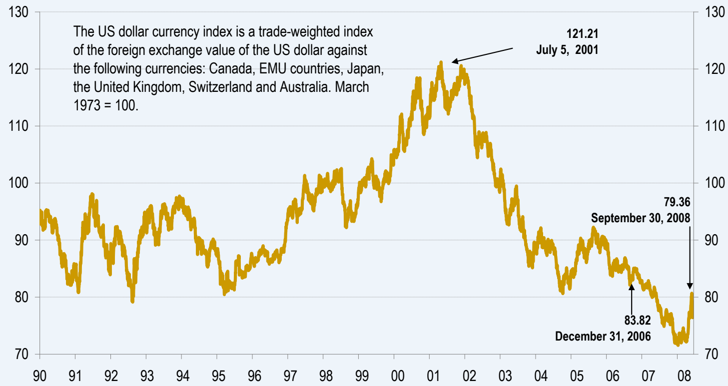
A feeling that economic and financial weakness in the United States would contaminate other areas of the world pushed the U.S. dollar up from its low level. The greenback was also propped up by a less promising outlook for the carry trade in securities not denominated in U.S. dollars and by the fact that many market players have been required to reduce their risk levels. On a trade weighted basis with major nations, the U.S. dollar rose nearly 10.0% during the quarter.

Monetary Policy Rates (%)

	12/2007	06/2008	09/2008	Quarterly Change (b.p)	Annual change (b.p)
Canada	4.25	3.00	3.00	0	-125
United States	4.25	2.00	2.00	0	-225
Europe	4.00	4.00	4.25	25	25
United Kingdom	5.50	5.25	5.00	-25	-50
Japan	0.50	0.50	0.50	0	0

U.S. Dollar Index

(1973 = 100)



Source : Datastream, Federal Reserve

Exchange Rates

	12/31/07	06/30/08	09/30/08	Quarterly change	Annual change
VS US$					
Euro	1.4588	1.5755	1.4116	-10.40%	-3.24%
Canadian Dollar	1.0021	0.9797	0.9407	-3.98%	-6.12%
Japanese Yen	0.0090	0.0094	0.0094	0.08%	5.37%
Danish Krona	0.1956	0.2113	0.1892	-10.45%	-3.30%
British Pound	1.9864	1.9935	1.7834	-10.54%	-10.22%
NZ Dollar	0.7660	0.7617	0.6707	-11.95%	-12.45%
Australian Dollar	0.8756	0.9583	0.7944	-17.10%	-9.27%
Swiss Franc	0.8826	0.9795	0.8922	-8.91%	1.09%
Swedish Krona	0.1546	0.1663	0.1448	-12.91%	-6.36%
VS C$					
Euro	1.4557	1.6081	1.5005	-6.69%	3.07%
US Dollar	0.9979	1.0207	1.0630	4.14%	6.52%
Japanese Yen	0.0089	0.0096	0.0100	4.23%	12.25%
Danish Krona	0.1952	0.2156	0.2011	-6.74%	3.01%
British Pound	1.9822	2.0348	1.8958	-6.83%	-4.36%
NZ Dollar	0.7644	0.7775	0.7129	-8.30%	-6.74%
Australian Dollar	0.8737	0.9781	0.8444	-13.67%	-3.36%
Swiss Franc	0.8808	0.9998	0.9484	-5.14%	7.68%
Swedish Krona	0.1543	0.1697	0.1539	-9.30%	-0.25%