



Financial and Economic Notes

September 2007 vol. 94

Highlights

- Subprime woes continue
- S&P/TSX remains positive for the year

Economic indicators

Bonds, on the other hand, had a very strong month and are now back into positive territory as the crisis increased expectations of lower interest rates. The U.S. Federal Reserve did hold the Fed funds rate in check at their August 4th meeting, citing inflation as their primary concern. However, on August 17th, after most liquidity indicators showed a considerable amount of stress in the system, the Fed lowered another key rate, the discount rate, in order to provide some much needed relief to credit markets.

Financial markets

August saw the subprime crisis continue to spread to other credit and equity markets creating a high level of risk aversion in global financial markets. Needless to say, it was a difficult period for equities even with a significant rebound in the latter part of the month. Despite the decline in August, the S&P/TSX still remains in positive territory for the year, outperforming both U.S. and EAFE markets.

The Fund Managers now believe the Fed may have to ease the Fed funds rate by as much as 75 basis points while The Bank of Canada should stay on hold for the rest of the year.

Even though U.S. GDP growth may now decelerate, as low as 1% for a short period of time, we still do not believe the housing/sub-prime issue will trigger a recession. Most likely the Fed will respond with lower rates to offset the tightening that occurred due to the liquidity crisis. Clearly, the Fed does not want a recession at this stage of the business cycle given that the U.S. economy is operating below potential, inflation is falling, and the housing market is weak. They strongly believe that Congress, the Fed, and other world central banks, will bring confidence back into the credit markets in the near future.

There were no changes to asset mix in July with our balanced portfolios remaining overweight in equities. Our short term view has changed somewhat in that we anticipate increased volatility. The Fund Managers expect it will take several months for the impact of the liquidity crisis to clear but markets should at some point start to focus on recovery after digesting all of the negative news. Over the mid to long term, they still view equity markets as attractive; earnings are rising while inflation is generally well contained and should keep falling with recent events.

All major equity Markets decreased in value during the month of August except the SCM Universe Bond Index that indicates 0.1%. The S&P/TSX -0.1%, the S&P 500 -2.9% and the MSCI EAFE had a return of -1.3%.

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Assumption Life
Financial Services

Financial and Economic Notes

Assumption Life Investment Funds

Applicable for Registered Pension Plan clients only

Gross returns as of August 31, 2007

| FUNDS | 1 MTH % | YTD* % | 1 year % | 2 years % | 3 years % | 4 years % | 5 years % |
|---|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| ASSUMPTION LIFE FUNDS | | | | | | | |
| Assumption Life Balanced Fund - RPP | -0.5 | 1.2 | 8.1 | 7.1 | 10.2 | 10.5 | n/a |
| Multi-Index | -0.3 | 1.9 | 9.3 | 8.8 | 11.0 | 10.7 | n/a |
| Canadian Equity Fund | -1.3 | 5.1 | 12.5 | 11.8 | 17.9 | 16.8 | 15.6 |
| S&P / TSX Index | -1.3 | 7.5 | 16.0 | 15.8 | 20.3 | 18.5 | 18.00 |
| U.S. Equity Fund (\$CAN) | 1.4 | -1.6 | 12.6 | 6.5 | 5.4 | 4.8 | 2.8 |
| S&P 500 Index (\$CAN) | 0.6 | -4.6 | 9.9 | 5.5 | 4.2 | 4.7 | 3.6 |
| MONTRUSCO BOLTON FUNDS | | | | | | | |
| Canadian Equity+ Fund | -2.5 | 4.3 | 11.7 | 12.4 | 18.2 | 17.7 | 17.9 |
| S&P / TSX Index | -1.3 | 7.5 | 16.0 | 15.8 | 20.3 | 18.5 | 18.00 |
| Small Cap. Canadian Equity Fund | -4.1 | 9.1 | 17.2 | 16.0 | 23.5 | 22.2 | 22.1 |
| BMO NB Small Cap Weighted Index | -8.7 | 1.9 | 11.1 | 16.9 | 20.0 | 19.2 | 19.6 |
| TSX 100 Momentum | 0.8 | 23.4 | 39.6 | 25.7 | 40.1 | 35.0 | 28.5 |
| S&P/TSX Index | -1.3 | 7.5 | 16.0 | 15.8 | 20.3 | 18.6 | 18.2 |
| E.A.F.E. Equity Fund (\$CAN) | -3.3 | -5.5 | 5.7 | 6.1 | 6.9 | 8.2 | 6.2 |
| MSCI EAFE Index | -2.4 | -2.6 | 13.3 | 14.5 | 13.5 | 14.3 | 10.6 |
| Global Equity Fund (\$CAN) | -2.4 | -4.9 | 7.0 | 4.4 | 6.4 | 6.9 | 4.8 |
| MSCI World Index | -1.0 | -3.3 | 11.7 | 9.7 | 8.7 | 9.0 | 6.8 |
| Fixed Income Fund (Can. bonds) | 0.8 | -0.1 | 1.6 | 1.8 | 4.4 | 5.2 | 5.5 |
| SCM Universe Bond Index | 0.9 | 0.2 | 2.0 | 2.0 | 4.7 | 5.2 | 5.6 |
| T-Max Fund (money market) | 0.4 | 2.8 | 4.2 | 3.8 | 3.3 | 3.2 | 3.1 |
| SCM 91 Day T-Bills | 0.5 | 3.0 | 4.4 | 4.0 | 3.4 | 3.2 | 3.2 |
| FIDELITY FUNDS | | | | | | | |
| Canadian Opportunities Fund | -1.5 | 8.5 | 15.3 | 14.8 | 18.4 | n/a | n/a |
| S&P / TSX Small and Mid Cap Combined Index | -3.3 | 5.1 | 8.7 | 12.0 | 15.9 | n/a | n/a |
| True North Fund | 0.4 | 11.0 | 23.7 | 19.3 | 23.9 | n/a | n/a |
| S&P / TSX Index | -1.3 | 7.5 | 16.0 | 15.9 | 20.3 | n/a | n/a |
| Overseas Fund | -3.3 | -0.7 | 19.5 | n/a | n/a | n/a | n/a |
| MSCI EAFE Index | -2.5 | -2.4 | 13.2 | n/a | n/a | n/a | n/a |
| Focus Healthcare Fund | 0.4 | -3.5 | 3.8 | 3.6 | 6.1 | n/a | n/a |
| Goldman Sachs HealthCare Index | 0.6 | -6.8 | -0.5 | 2.1 | 2.9 | n/a | n/a |
| Focus Technology Fund | -0.3 | 3.6 | 19.7 | 12.0 | 10.2 | n/a | n/a |
| Goldman Sachs Technology Index | 1.0 | 1.4 | 17.3 | 10.2 | 8.7 | n/a | n/a |
| Europe Fund | -2.6 | 8.8 | 29.9 | 24.5 | 24.5 | n/a | n/a |
| MSCI Europe Index | -2.0 | -1.0 | 16.7 | 16.4 | 15.5 | n/a | n/a |
| CI FUNDS | | | | | | | |
| Harbour Growth & Income Fund | 0.3 | 0.3 | 11.2 | 12.4 | 16.3 | 15.1 | 12.9 |
| Multi-Index | -0.3 | 1.9 | 9.3 | 8.8 | 11.0 | 10.7 | 10.2 |
| Global Balanced Corporate Class | -1.9 | -1.9 | 10.4 | 8.5 | 8.2 | n/a | n/a |
| Multi-Index | -0.3 | 1.9 | 9.3 | 8.8 | 11.0 | n/a | n/a |
| Synergy American Fund | -0.4 | -0.4 | 14.0 | 8.8 | 11.5 | n/a | n/a |
| S&P 500 Index (\$CAN) | 0.6 | -4.6 | 9.9 | 5.5 | 4.2 | n/a | n/a |
| Global Managers Corporate Class Fund | -1.2 | -1.2 | 11.3 | 10.6 | 9.6 | n/a | n/a |
| MSCI World Index | -1.0 | -3.3 | 11.7 | 9.7 | 8.7 | n/a | n/a |
| Canadian Bond Fund | 0.9 | 0.9 | 2.3 | 2.5 | 4.8 | n/a | n/a |
| SCM Universe Bond Index | 0.9 | 0.2 | 2.0 | 2.0 | 4.7 | n/a | n/a |