

# SEGFUNDS UPDATE

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## Volatility still present

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**T**he financial crisis may be a thing of the past, but investor confidence remains tenuous, given the renewed challenge of sovereign debt—a problem that surfaced at the start of the year—and the frailty of the economic recovery.

For stock markets, the start of the year was rather difficult, with equities gaining and losing throughout the quarter. Fears of defaults on payments by the PIGS countries (Portugal, Ireland, Greece and Spain), and especially Greece, continued to plague investor confidence. In addition, China asked its banks to increase their reserves, as a means of limiting the amount of credit given out. Its objective is to control Chinese economic growth and thus prevent inflation from running away. Given all these factors, at one point during the last quarter the major stock markets indices had retreated nearly 8%.

Then in February, in the midst of the quarter, after some encouraging statistics were published and assurances given that Greece would be able to meet its obligations, stock markets returned to positive territory. After several weeks of discussions, the European Central Bank (ECB) and European finance ministers reached an agreement on an aid “mechanism” for Greece. This mechanism was agreed on within a “European framework,” and it is more than a simple rescue plan. As has been the case since the start of the sovereign debt crisis, the requirement of preserving the financial stability of the euro zone as a whole is a central aspect of the agreement.

All this uncertainty surrounding the sovereign debt crisis in Europe has affected the euro, if we compare its value to that of other currencies. For example, the euro has fallen 8% since the end of December in relation to the U.S. dollar. The deterioration of public finances in Europe is likely to continue to weigh heavily

**Investor confidence remains tenuous.**

on the European economy; draconian measures will have to be taken to bring national debt to a level more acceptable to the ECB. Moreover, the economic outlook for the euro zone remains dismal, and GDP growth is expected to be well below that of the United States.

Even though the unveiling of the most recent results of U.S. companies auger well for investors, the U.S. economy is still fragile. Job creation is a long time in coming. The unemployment rate appears to have stabilized, but more than 8.4 million jobs have been lost since the start of the U.S. recession (i.e. since December 2007). To date, corporate profitability has largely been the result of reductions in spending. To revive investor interest in these stocks, profits will have to come predominantly from business growth, and this will have to come from new sales and consumers' pockets.

Central banks will maintain their accommodating policy of low interest rates until the private sector shows that it can take over the driver's seat of the economy. For the moment, consumers—whether American, Canadian or European—are benefiting from this monetary policy.

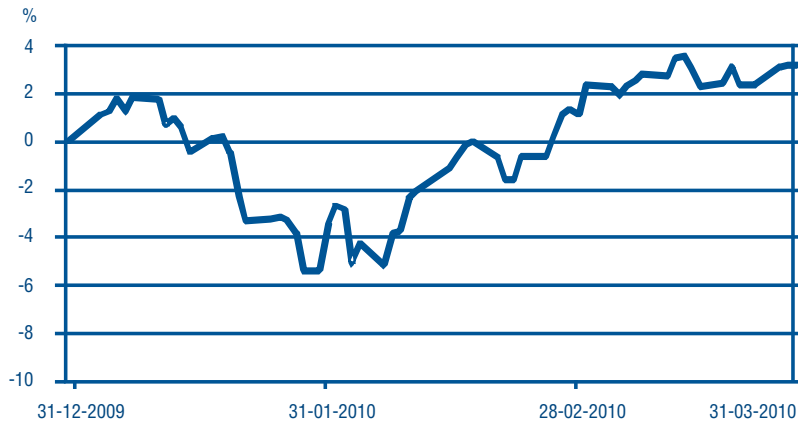
At the end of this quarter, the main stock markets were up slightly. For the Canadian market, the S&P/TSX returned 3.1%, while the BMO Nesbitt Burns Small Cap index

ended the quarter with a 7.4% return. The leading sectors were health (10.3%), finance (8.1%) and industrials (6.2%). The only sector to finish the quarter in negative territory was energy (-2.0%).

In the U.S., the S&P 500 ended the quarter with a 5.4% return in local currency (2.3% in Canadian dollars). The leading sectors of the U.S. index were industry, discretionary consumption and consumer staples. In terms of international equities, the MSCI EAFE ended the quarter up 4.3% in local currency (-2.1% in Canadian dollar terms).

For the next few months, insofar as emerging economies remain positive overall and, more particularly, that more jobs are created south of our border, stock markets will continue to climb. However, volatility will remain, providing portfolio managers with purchase opportunities. ~

Evolution of the S&P/TSX since the beginning of 2010



Source: IAMM

## Table of net returns as at March 31, 2010

	Unit value	Net assets in millions	Simple returns <sup>1</sup>			Compound annual returns				Investment Advisor
			1 month	3 months	YTD	1 year	3 years	5 years	10 years	
	\$	\$	%	%	%	%	%	%	%	
<b>INCOME FUNDS</b>										
										<b>APEX</b>
APEX Money Market	1.22	2.6	0.0	0.2	0.2	0.3	1.4	1.6	1.8	Industrial Alliance
APEX Fixed Income	7.57	4.1	(0.8)	0.9	0.9	3.5	2.6	2.9	4.2	Industrial Alliance
<b>BALANCED FUNDS</b>										
										<b>APEX</b>
APEX Balanced (AGF)	8.51	8.8	0.2	(0.2)	(0.2)	8.3	(2.4)	2.4	3.0	AGF
APEX Growth & Income	9.54	3.8	1.5	0.7	0.7	17.8	(1.0)	2.9	5.1	Industrial Alliance
<b>CANADIAN EQUITY FUNDS</b>										
										<b>APEX</b>
APEX Canadian Growth (AGF)	11.88	7.3	1.2	(0.4)	(0.4)	20.2	(4.6)	3.3	3.6	AGF
APEX Canadian Value (Dynamic)	17.31	542.7	1.7	(1.5)	(1.5)	45.5	(1.3)	9.4	9.8	Dynamic
APEX Canadian Stock	11.16	3.0	3.9	1.5	1.5	32.9	(3.9)	3.6	6.1	Industrial Alliance

## Reference indexes - Returns as at March 31, 2010

### Total return

	Simple returns <sup>1</sup>			Compound annual returns			
	1 month	3 months	YTD	1 year	3 years	5 years	10 years
	%	%	%	%	%	%	%
Money market index							
DEX 91 day Tbill Index	0.0	0.0	0.0	0.3	2.4	2.9	3.2
Bond index							
DEX Universe Bond Index	(0.7)	1.3	1.3	5.1	5.3	5.2	6.5
Equity securities indexes							
S&P/TSX Composite Index	3.8	3.1	3.1	42.1	0.0	7.4	4.7
S&P 500 (Can. \$)	2.3	2.3	2.3	20.7	(8.1)	(1.6)	(4.1)
MSCI - World (Can. \$)	2.5	0.2	0.2	22.8	(9.3)	(0.6)	(3.5)

Returns after deduction of management and administration fees. Past performance is not a guarantee of future returns.

<sup>1</sup> The rates for the period are non-annualized.

## Our Managers



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