



Pension Watch

A CUMIS Life Insurance Company Publication

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The last edition... of Pension Watch we looked at the twin virtues of rebalancing and diversification. This edition takes a look at the globalization of equity markets.

GLOBALIZATION OF EQUITY MARKETS

Globalization of the world's capital markets is one of the greatest factors changing the investment industry today.

What does globalization mean?

Consumers are purchasing goods and services across international borders on a scale never before seen. As a result of the globalization of industrial competition, business cycles are becoming increasingly correlated between different countries and economic regions. Companies now compete in an international market to produce goods and services that are attractive in terms of quality, cost and service. Consequently, world-class companies are emerging to take leadership in their industries across national borders.

How has one of our fund managers, PH&N adapted to the new investment

context? PH&N's recognition of this trend has led to some significant and exciting changes in their global investment process.

Research in the past revealed that the country allocation decision was a more important factor in investment returns than individual security selection. In other words, it was more important to pick the right markets than to pick the right stocks. Therefore, the investment process focused on macro-economic research for active country allocation, and stock selection in these countries was implemented through the use of index futures or baskets of stocks that replicate a market. This approach was valid until accelerated globalization began to change the way equity markets interrelate.

Today globalization has created a greater need to recognize which industries are growing profitably on a global scale, and to select the very best companies within those industries. In

this context, returns on a global portfolio reflect an investment manager's ability to analyze industry sectors across national and regional borders, and to conduct company research that will ensure that only the highest quality growth stocks are held in the portfolios.

As a result, they have increased their resources for global research and introduced a new process of active security selection. Their analysts work in teams organized by industry sectors, and they invest in high quality growth companies. In other words, the global process has become very similar to their traditional Canadian equity process.

Global investment

Global investment is an increasingly important component in investment portfolios.

Why is this so? The Canadian Stock market is small in global terms, representing less than 3% of the world's market capitalization. Investors are increasingly aware that global diversification is an attractive complement to their Canadian equity portfolios.

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PERFORMANCE COMPARISON

For The Period: Ending Dec. 31, 2001	3 Months %	1 Year %	3 Year %	5 Year %	10 Year %
ACTIVELY MANAGED FUNDS					
Balanced Fund	8.8	-2.0	6.6	8.2	10.8
Canadian Equity Fund	12.9	-4.7	10.2	10.2	12.7
Overseas Equity Fund ^{(1) (2)}	10.9	-17.4	N/A	N/A	N/A
U.S. Equity Fund ⁽²⁾	12.2	-6.4	-2.4	8.3	13.9
Dividend Income Fund ⁽³⁾	9.9	8.2	19.8	21.6	18.6
Short-Term Bond & Mortgage Fund	1.7	9.3	6.8	6.5	N/A
Bond Fund	2.1	7.8	6.2	7.4	9.3
Canadian Money Market Fund	0.7	4.4	5.0	4.7	5.3
CUMIS FUND					
Retirement Security Fund	6.4 ⁽⁴⁾	6.6	7.0	7.3	7.9
PASSIVELY MANAGED FUNDS					
TSE 300 Equity Index Fund ⁽⁵⁾	12.9	-12.5	7.4	7.1	N/A
U.S. Equity Index Fund ^{(2) (6)}	11.3	-6.7	-0.1	13.9	N/A
EAFE Equity Index Fund ^{(2) (7)}	7.8	-16.3	-3.7	4.2	N/A
Universe Bond Index Fund ⁽⁸⁾	2.1	8.1	5.7	7.2	N/A
Conservative Balanced Index Fund ⁽⁹⁾	5.2	-0.2	4.4	7.4	N/A
Moderate Balanced Index Fund ⁽¹⁰⁾	7.4	-4.0	6.0	8.4	N/A
Aggressive Balanced Index Fund ⁽¹¹⁾	9.6	-8.1	6.0	8.1	N/A
INDICES					
TSE 300	12.9	-12.6	7.3	7.0	10.4
S&P 500	11.6	-6.4	0.2	14.1	16.6
MSCI EAFE	7.9	-16.6	-3.9	4.0	7.9
ScotiaMcLeod Universe	2.1	8.1	5.6	7.1	9.0
30 Day T-bills	0.7	4.4	4.7	4.3	5.0

(1) Overseas Equity Fund merged with Euro-Pacific Equity Fund March 9, 2001

(2) Subject to Canada Customs and Revenue Agency Foreign Content Limit of 30%

(3) Only available under group RSP and DPSP contracts

(4) Annualized

(5) Fund Inception: October 1999. Performance prior to November 1999 is for TSE 300 Equity Index Fund

(6) Fund Inception: January 2000. Performance prior to February 2000 is for Barclays U.S. Equity Index Fund - Canada

(7) Fund Inception: June 1999. Performance prior to July 1999 is for EAFE Equity Index Fund B

(8) Fund Inception: October 1999. Performance prior to November 1999 is for Universe Bond Index Fund

(9) Fund Inception: August 1999. Performance prior to September 1999 is modeled using the benchmark asset mix and index returns

(10) Fund Inception: June 1999. Performance prior to July 1999 is modeled using the benchmark asset weights and index returns

(11) Fund Inception: August 1999. Performance prior to September 1999 is modeled using the benchmark asset weights and index returns

GLOBALIZATION OF EQUITY MARKETS ...CONT'D

Global investment can contribute to:

- enhanced long-term returns through investment in companies and economies with greater growth potential than the domestic market; and
- lower long-term volatility through diversification of risk

Moreover the foreign content limit in registered retirement plans under the Income Tax Act of Canada is now 30%.

As part of your investment

Global funds can enhance your long-term investment returns while reducing volatility through greater diversification. If your registered retirement portfolio does not currently take full advantage of the 30% foreign content limit under the Income Tax Act of Canada, we recommend that you review your investment objectives with your advisor.

CUMIS

RETIREMENT SERVICES

INCOME Distribution For Unitized Pooled Funds

At this time of year we receive a number of inquiries with respect to the year-end distributions under the unitized pooled funds. The distribution is comprised of net income and net realized capital gains earned by each fund for that year. The following are examples of how an income distribution is handled under the funds managed by BGI and PH&N.

BGI INDEX FUNDS

BGI calculates an income factor, which is based on total net income for the fund, divided by units outstanding. A dollar amount of income is then allocated by BGI to each unit holder, based on the income factor times each participant's units outstanding. BGI then purchase additional units, at a "net of income distribution" price for the total amount of the distribution.

BGI then consolidate the units (you can think of this as a reverse split...for every unit you hold you receive a fraction of a unit) back to the number of units outstanding before the distribution.

After the distribution, purchase and consolidation, the net effect is that participants hold the same number of units, the market value stays the same, but the book value has increased.

Here is a numerical example.

Let's say a participant holds 100 units of our TSE 300 fund, and the closing unit value for the fund at Dec 31, 2001 is \$11 per unit. Let's say this participant bought their units at \$9 per unit. So they hold units with a total cost of \$900 (average cost of \$9) and total market value of \$1100. Let's also say the income distribution at December 31 is \$1 per unit.

The following are the steps we follow to distribute income:

1. BGI distribute \$100 of income (\$1 times 100 units). At this point the participant has 100 units at a "net of distribution" price of \$10 per unit (\$11 - \$1) plus \$100 cash and an original cost of \$900 (\$9 times 100) and a total market value of \$1100 (\$100 cash plus 100 units times \$10)
2. BGI purchase additional units at the "net of distribution" price of \$10 (\$11 minus \$1) which provides an additional 10 units (\$100 divided by \$10). At this point the participant has 110 units at a cost of \$1000 (\$900 plus \$100) and a market value of \$1100 (110 units times \$10). There is no longer any cash as it was used to purchase units.
3. BGI consolidate the units to the original number of units held. In this example, for every unit held, the participant gets 0.9091 units (10 divided by 11). We then adjust the unit value to account for the split (\$10 divided by 0.9091 = \$11). Now the participant has 100 units, at a cost of \$1000 (average cost of \$10) and a market value of \$1100 (100 units times \$11 per unit).

So the only change after the distribution is to that the cost has been increased equal to the amount of the distribution. The number of units (100) and the price per unit (\$11) remains the same, while average cost per units goes from \$9 to \$10.

PH&N ACTIVELY MANAGED FUNDS

The distribution is automatically reinvested in additional units of the fund at the fund's net of distribution unit value.

For example, on December 31, an investor owns 1,000 units of a fund that has a net asset value of \$10.00 per unit (portfolio market value equals \$10,000). The fund declared a \$2.00 per unit distribution.

This distribution is reinvested at the net of distribution value ((\$8.00 per unit) resulting in an additional 250 units for a total of 1,250 units at \$8.00 per unit (portfolio market value = \$10,000). There is no change to the market value of the investor's portfolio.

Although the unit value of the fund drops by the size of the year-end distribution, the market value of the investment remains the same. The investor now owns more units at a lower unit value.

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INCOME Distribution For Unitized Pooled Funds...cont'd

The magnitude of the year-end distribution varies from fund to fund and from year to year and has no bearing on the performance of the underlying fund. The distribution applies only to realized capital gains, which arise when securities are sold for an amount greater than their adjusted cost base. Not all gains realized in 2001 result from 2001 investments. Some securities purchased prior to 2001 appreciated in value before being sold in 2001. The appreciation in value of securities held by a fund is reflected in an increased unit value. This appreciation remains unrealized until the security is sold, at which time it becomes a "realized gain".

All of our funds are mutual fund trusts under the Income Tax Act. As such, if a fund pays the net income and net realized capital gains earned by the fund to the unit holders at the end of each year, the fund incurs no tax liability.

NEWS FROM THE GOVERNMENT

Government Retirement Programs - 2002

Old Age Security (First Quarter of 2002)				
Basic Benifits	GIS max. single	GIS max. married	Spouse's Allowance	Widow/Widower
\$442.66	\$526.08	\$342.67	\$785.33	\$867.02
Canadian Pension Plan		Quebec Pension Plan		
	2001	2002	2001	2002
YMPE	38,300.00	39,100.00	38,300.00	39,100.00
Basic Exemption Contribution Rate	3,500.00	3,500.00	3,500.00	3,500.00
- employee	4.3%	4.7%	4.3%	4.7%
- employer	4.3%	4.7%	4.3%	4.7%
- self-employed	8.6%	9.4%	8.6%	9.4%
Annual contribution (maximum)				
- employee	1,496.40	1,673.20	1,496.40	1,673.20
- employer	1,496.40	1,673.20	1,496.40	1,673.20
- self-employed	2,992.80	3,346.40	2,992.80	3,346.40
Retirement benefit (maximum)	775.00/mo	788.75/mo	775.00/mo	788.75/mo
Death benefits				
- lump sum	2,500.00	2,500.00	2,500.00	2,500.00
- spouse maximum under				
55	428.70	437.99/mo	644.47	660.24/mo
65	428.70	437.99/mo	690.22	695.37/mo
- spouse maximum over 65	465.00	473.25/mo	465.00	473.25/mo
- orphan (per child)	178.42	183.77/mo	56.65	58.35/mo
Disability benefits				
- contributor (maximum)	935.12	956.05/mo	935.09	956.02/mo
- child (per child)	178.42	183.77/mo	56.65	58.35/mo

Pension Watch is intended to provide general information only. It is not intended to provide specific advice or recommendations for any individual.

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