

Investors Want to Know *Are the wheels coming off Canada's auto industry?*

With oil prices hitting record highs, the news has been full of stories about how consumers are finally driving less and becoming more energy-conscious. For the first time since the oil shock of 1979, Americans drove fewer miles in the spring this year than in the previous spring; moreover, the year-over-year drop in miles driven was the sharpest since recordkeeping began in 1942.

But nowhere has the impact of rising oil prices been more apparent than in the plummeting U.S. sales for light trucks (i.e., pick-up trucks and sport utility vehicles). Sales of light trucks have been slipping for some time, but the drop-off became alarming in May of this year and fell still further in June. Overall vehicle sales were down 10.1% in the first six months of 2008 compared with the same period in 2007, but it's the further breakdown that is particularly revealing: sales of light trucks were down 18% while sales of cars were down only 1.6%¹. In June, truck sales fell 28% versus a year earlier, making it one of the steepest monthly declines ever. This is bad news for the Big Three Detroit-based auto assemblers (GM, Ford and Chrysler) because, over the past decade, they have tilted their sales mix heavily in favour of light trucks, which have a higher profit margin per vehicle than do cars. Seven of the 10 top-selling trucks are made by GM, Ford or Chrysler, but consumers are shifting to cars (particularly energy-efficient models). Foreign automakers, which are less heavily reliant on trucks, are benefiting from this trend. Imported car sales actually rose 4% in June and the top five selling cars so far this year are all made by Japanese companies, representing 63% of all cars sold in the U.S.²

Assuming gasoline prices remain elevated (and many analysts do not expect a meaningful drop anytime soon), two key themes emerge: the Big Three automakers will continue to lose U.S. market share, and they will become less profitable companies. The Big Three's combined U.S. market share now sits at 45%, down from 75% in the 1970s³. Comparatively, Toyota and Honda together gained four percentage points over the past year to take 31% of the U.S. market. This trend will likely continue in the near term.

Market share losses and lower truck sales have a profound impact on the Big Three's profits. As a rule of thumb, light truck sales generate approximately \$10,000 in profit per unit. Cars, on the other hand, generate an average per-unit profit of about \$1,000. Moreover, this is an industry average; the Big Three's car sales

have not been consistently profitable in recent years but they have been able to offset car-related losses with profits from trucks and vehicle financing⁴. Despite these stopgap measures, the writing is on the wall for the Big Three: change, or continue to decline.

To their credit, the Detroit automakers have met this challenge with aggressive action in recent weeks. On top of the 23 plant closures announced by Ford and GM since 2006, Ford announced it may convert several truck plants to car production and plans to cut production of trucks and SUVs by more than 30% for the rest of 2008. GM will close four plants that assemble trucks and SUVs – including its Oshawa pickup truck plant – by 2009, and is considering a sale of its iconic Hummer division. Chrysler is also planning to cut truck production. Such sudden moves are rare and costly in the auto industry, where changes are typically made in slow, incremental fashion⁵. These dramatic responses to rising gas prices and falling truck sales highlight the intense pressure facing the Big Three. GM's share price, for example, hit a 53-year low in early July.

How important are the Big Three to Canada?

In big picture terms, Canada's auto sector is a relatively small and shrinking component of our gross domestic product (GDP), but it is still a fairly major employer. Canada's auto sector accounts for 11% of total manufacturing and 1.6% of GDP, both down from a 1999 peak of 15% and 2.7%, respectively.

The auto assembly industry employs approximately 48,000 people and the auto parts sector accounts for about 88,000 more jobs, for a total of 136,000 or 8% of total employment. But these figures fail to tell the whole story. Fully 97% of Canada's auto sector is concentrated in Ontario, home of one of the world's largest auto industries with 12 assembly plants and several hundred independent auto parts facilities. Auto manufacturing

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CUMIS plans to launch a Group Tax-free Savings Account in the New Year. For more details, please contact Ken Richards at (800) 263-9120, ext. 5004 or by e-mail at ken.richards@cumis.com

CUMIS Market-based Funds

Gross Annualized Rates of Return as at June 30, 2008

FUND	3 Month (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
Money Market					
Canadian Money Market Fund (PH&N)	0.9	4.6	4.1	3.5	3.9
Fixed Income					
Retirement Security Fund (CUMIS)	1.2	4.7	4.9	5.1	5.9
Universe Bond Index Fund (BGI)	-0.7	6.7	3.6	5.1	6.0
Income Fund (Ethical)	-0.5	6.7	3.8	5.3	—
Fixed Income Fund (McLean Budden)	-0.5	6.3	3.3	5.0	6.0
Short-Term Bond & Mtgage Fund (PH&N)	0.5	5.9	3.6	4.2	5.5
Bond Fund (PH&N)	0.0	6.3	3.8	5.4	6.4
Balanced					
Balanced Fund (Ethical)	1.6	2.1	8.2	10.2	—
Balanced Core Fund (McLean Budden)	0.6	-2.0	6.3	8.7	7.1
Balanced Fund (Mawer)	-0.2	-1.6	7.3	9.9	7.5
Balanced Fund (PH&N)	0.7	-3.6	5.5	8.5	5.7
Canadian Equity					
S&P/TSX Composite Index Fund (BGI)	9.7	7.5	16.5	18.4	9.1
Canadian Equity Fund (Bissett)	4.4	-5.0	9.0	13.9	—
Growth Fund (Ethical)	5.8	-0.2	12.6	14.4	—
Special Equity Fund (Ethical)	1.5	-4.2	11.5	—	—
Canadian Small Cap Fund (Franklin Templeton)	2.0	-7.7	16.2	—	—
Large Cap Canadian Equity Fund (Mawer)	4.4	-1.0	13.2	16.3	11.3
Small Cap Canadian Equity Fund (Mawer)	5.6	-3.6	13.9	19.9	16.3
Canadian Equity Core Fund (McLean Budden)	6.8	-1.0	13.9	16.0	11.6
Canadian Equity Value Fund (McLean Budden)	2.0	-5.5	10.2	13.5	11.8
Pure Canadian Equity Fund (PH&N)	6.6	-2.2	11.9	16.0	10.4
Canadian Equity Fund (PH&N)	7.2	-4.6	9.7	13.3	7.8
Dividend					
Dividend Income Fund (PH&N)	0.4	-12.5	4.9	10.8	10.5
U.S. Equity					
U.S. Equity Index Fund (BGI)	-3.9	-17.4	-2.2	1.2	-1.1
U.S. Equity Fund (Mawer)	-3.9	-9.1	-0.8	3.1	0.1
American Equity Fund (McLean Budden)	-4.8	-13.1	0.2	3.4	3.2
U.S. Equity Fund (PH&N)	-1.9	-17.0	-2.9	-0.4	-3.2
Foreign Equity					
EAFE Equity Index Fund (BGI)	-3.2	-14.6	6.0	10.0	2.0
International Fund (Bissett)	-4.8	-20.4	3.5	10.4	—
International Equity Fund (Ethical)	-2.5	-7.2	7.0	—	—
Non North American Equity Fund (Mawer)	-2.3	-10.6	10.0	13.4	7.4
Global Equity Fund (McLean Budden)	-4.1	-14.4	1.8	5.1	2.9
Overseas Equity Fund (PH&N)	-9.8	-21.2	2.6	7.0	—
Growth Fund (Franklin Templeton)	-2.2	-14.7	3.3	8.4	—
Actively Managed Asset Allocation Funds					
LifePoints® Balanced Income (Frank Russell)	-0.6	1.4	5.2	7.3	6.1
LifePoints® Balanced Growth (Frank Russell)	-0.2	-3.0	6.2	8.9	6.3
LifePoints® Long-Term Growth (Frank Russell)	0.0	-6.5	7.3	10.7	6.7
LifePoints® All-Equity (Frank Russell)	0.3	-10.0	6.8	10.1	—
Index Managed Asset Allocation Funds					
Conservative Balanced Index Fund (BGI)	0.5	1.1	5.1	6.8	4.9
Moderate Balanced Index Fund (BGI)	1.0	-1.0	6.7	9.1	5.8
Aggressive Balanced Index Fund (BGI)	1.5	-2.9	8.4	11.1	6.0
Target-date Funds					
LifePlan™ Retiree Fund (McLean Budden)	0.2	0.9	4.8	6.7	6.4
LifePlan™ Retirement 2010 (McLean Budden)	0.0	-0.1	5.3	7.3	6.6
LifePlan™ Retirement 2015 (McLean Budden)	0.3	-1.2	5.6	7.7	6.7
LifePlan™ Retirement 2020 (McLean Budden)	0.4	-2.1	5.8	8.1	6.8
LifePlan™ Retirement 2025 (McLean Budden)	0.4	-3.0	6.0	8.4	6.9
LifePlan™ Retirement 2030 (McLean Budden)	0.5	-3.7	6.5	8.8	7.0
LifePlan™ Retirement 2035 (McLean Budden)	0.6	-4.5	6.7	9.2	7.1
LifePlan™ Retirement 2040 (McLean Budden)	0.5	-5.5	6.9	9.4	7.1

Note: All performance data is shown on a gross or "pre-fee" basis except for Retirement Security Fund

1 - Retirement Security Fund charges 1.2% in Investment Management Fees. The returns shown above for RSF are net of fees.

2 - Please see the Fund Fact Sheets posted on the CUMIS website (www.cumis.com) for benchmark returns on all fund(s).

3 - Pooled funds are not guaranteed, their values change frequently and past performance may not be repeated.

4 - The Ethical Funds charge an expense management fee against the fund up to a maximum of 20 basis points.

5 - Mawer Investment Management charges expenses against the funds.

6 - McLean Budden charge expenses against the American Equity fund.

News from the Government

British Columbia

This following provides information relating to fee changes for British Columbia registered pension plans.

Overview:

The Superintendent of Pensions (“the Superintendent”) is responsible for regulating pension plans under the *Pension Benefits Standards Act* (“the Act”). Regulation of plans involves a number of administrative activities including: registration of plans, approval of amendments, monitoring of plan contributions and funding and various supervision and enforcement activities. The Superintendent is expected to fund all regulatory activities through fees drawn from pension plans registered in British Columbia. The Act has been amended to ensure that the regulatory program for pensions is adequately funded. The changes are necessary to deal with increasing program costs due to factors like inflation and increasing plan complexity. They will also provide some one time funding for program modernization. This is the only time fees under the Act have been changed since it was introduced in 1993. With the fee changes British Columbia will continue to have the lowest fees among major pension regulators in Canada.

The Fee Changes:

The changes to the annual filing fees for pension plans are:

- Decreasing the fee charged for active pension plan members from \$7 to \$6.15;
- Introducing a new fee of \$4.50 for non-active (e.g. retired) members; and,
- Increasing the maximum amount payable per plan from \$20,000 to \$75,000.

Effective Date:

The changes become effective July 1, 2008.

Calculation of Fees

To assist you in calculating the appropriate fees to be remitted we wish to describe how active and inactive members are determined.

Active Members

An active member is a current member who is either accruing benefits under the plan or on whose behalf contributions are being made to the plan. Active members include disabled members who are being credited with pensionable service under the plan.

Inactive Members

An Inactive Member is an individual who is either:

- A former member, whether vested or not, who is no longer accruing benefits under a defined benefit pension plan or on whose behalf contributions are being made to a defined contribution pension plan and who retains a right to receive a benefit, including a return of the member’s own contributions, from the plan, or
- A retiree or the surviving spouse or beneficiary of a retiree who is receiving a pension from the plan.

Filing of Returns

All administrators are required to include the prescribed fees with their Annual Information Return (“AIR”). AIRs are due to be filed within 180 days of the end of the plan fiscal year. Since the new fees are effective July 1, 2008, any plan that is required to file its AIR on or after July 1 will be required to pay fees in accordance with the changes described above. Fees remitted to FICOM will be reviewed for compliance with these changes. Any fees submitted that are not calculated in accordance with the changes described above will be returned to the plan administrator with a description of the fees owing and a request for remittance of the proper fees.

Further Information:

For further information on the changes please contact:

Executive Director, Pensions
Financial Institutions Commission
1200 – 13450 - 102 Avenue
Surrey, BC V3T 5X3
Telephone: 604 953-5300
Facsimile: 604 953-5301
E-Mail: FICOM@ficombc.ca

Old Age Security

Old Age Security (OAS) benefit rates are increased for the July to September 2008 quarter.

Basic OAS benefits, paid to people age 65 and over, are \$505.83 per month. The Guaranteed Income Supplement is \$638.46. The Spouse’s Allowance and the Widowed Spouse’s Allowance are increased to \$927.45 and \$1,028.06 respectively for the July to September 2008 quarter.

Investors Want to Know ...con'd

accounts for about 20% of Ontario's total manufacturing. The value of production is sizeable: the auto and parts industries produced over \$60 billion in output in Ontario in 2007, or \$165 million per day. To get a true picture of the auto sector's economic importance, one should include the value of spin-off financial, engineering and advertising work and all the activity generated by auto dealerships. Finally, each auto sector job creates spin-off business for local restaurants, stores and services. According to the Canadian Auto Workers union, each auto sector job stimulates another 7.5 jobs elsewhere in the economy, for a total of 1,000,000 jobs indirectly fuelled by auto manufacturing. With the majority of Ontario's assembly plants and parts makers operated by or largely tied to the Big Three, the province is especially vulnerable to an auto industry restructuring. In short, the industry is of crucial importance to one province, but only indirectly so to the rest of Canada.

The road ahead

So, what would happen if GM, Ford and Chrysler ceased production in Canada? Current events are providing an excellent guide: The companies would slash production of slow-selling models and lay off workers. Recently, GM has done just that with its stated intention to close the Oshawa truck plant that produces the Chevy Silverado and GMC Sierra pickups, eliminating 2,400 jobs. For its part, Chrysler ceased production of the Brampton-built Pacifica in 2007. Ford has already exited the minivan segment, formerly a mainstay of its Oakville plant, but the replacement vehicles in that plant are highly popular and selling well. All told, the Big Three cut production by 5% in 2007, eliminated nearly 100,000 jobs and shut down seven facilities across North America. Canada escaped with relatively minor bruises last year but the pace of restructuring appears to be picking up and will undoubtedly hit Canada harder in 2008.

It's difficult to know what the future holds for the Big Three, but we do know that the economics of doing business in Canada have changed significantly in just a few years. The appreciation of the Canadian dollar has eliminated what, in 2002, was a built-in 40% discount for American buyers of Canadian-made products. Increased security measures have made border crossings much more difficult, costly and time-consuming. Today, "just in-time" shipping is a distant memory and companies have resorted to building warehouses on both sides of the border to stockpile inventory. High gas prices now mean that the cost of transporting items back and forth over the border is greater than the cost of keeping them in inventory. Most importantly, a landmark United Auto Workers union agreement reached last year transfers the automakers' health care liability for retired workers to an employee association and introduces a two-tier wage system. This agreement will significantly reduce the cost structure of the Big Three's U.S.

operations from 2010 onward, cutting deeply into Canada's labour cost advantage. One might say that there has never been less reason to locate new automotive production facilities in Canada.

Clearly, these have the potential to be dark days for Ontario's auto sector as the effects of recent plant closings ripple through the province's auto-dependent communities. However, there are some factors that may mitigate the impact:

- **Big Three production in Canada is unlikely to drop to zero.** Popular vehicles will continue to be produced as long as Ontario plants continue to attract those models. For example, Ford's output from Oakville rose 77% in 2007 due to strong sales of the Ford Edge and Lincoln MKX. Tens of thousands of assembly workers will still be needed.
- **Existing plants have value and are unlikely to be mothballed.** Over \$7 billion in new automotive sector investments from the Big Three have been announced in recent years in Ontario. As well, there are hundreds of millions of dollars' worth of commitments from booming Toyota and Honda for new plants and enhanced operations.
- **Canadian assembly plants are highly productive.** According to an industry survey, five of the 10 most productive vehicle assembly plants in North America are located in Ontario¹.
- **Other sectors, such as construction trades, are clamouring for workers.** Although it is not easy to transition jobs, there are many opportunities outside the auto sector for those laid-off automotive workers who are able and willing to undertake the steps involved in retraining. While the auto sector has shed an estimated 25,000 workers since 2002, total employment in Ontario has increased by 950,000 over the same period.
- **A new equilibrium will arise.** Europeans have faced higher gas prices than North Americans for years, but they have not stopped buying big luxury cars with large engines. The difference is that they don't buy full-size trucks and drive them like personal runabout vehicles. Instead, they buy these vehicles when they're crucial for work. Detroit-based automakers must recapture a larger share of the profitable luxury car market currently occupied by Mercedes-Benz and BMW, boost the production of vehicles with diesel and hybrid engines, and (quite likely) shrink somewhat in size in order to become more profitable in North America in the long run.

¹Ward's Automotive Research, U.S. Light Vehicle Sales Summary, July 2008.

²Ward's Automotive Research, June 2008.

³GM's U.S. share has slipped 4.5 percentage points in the past year to 19.3%, Chrysler is down 2.2 points to 10.6% and Ford is down 0.9 points to 15.3%. *(Comparable Canadian shares are 21.7% for GM, 14.7% for Chrysler and 12.6% for Ford, a 49% market share that leaves 51% for the world's remaining car companies). Ward's Automotive Research, June 2008.

⁴Harbour Consulting Group, 2007

⁵Matthew Dolan and Jeff Bennett. The Wall Street Journal, reprinted in the Globe & Mail Report on Business, June 12, 2008, Page B11.

⁶Harbour Consulting Group

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