

Asset Allocation	Q 4 2008	Q 1 2009
Can. Equity*	25%	30%
US Equity	20%	25%
Int'l Equity	10%	10%
Fixed Income	45%	35%

\*Includes income trusts.

**CANADIAN EQUITY:**

Benchmark: S&P TSX Comp.

C\$ total returns to Dec 31<sup>st</sup>, 2008:  
-33%

**US EQUITY:**

Benchmark: S&P 500

C\$ total returns to Dec 31<sup>st</sup>, 2008:  
-22.9%

**INTERNATIONAL EQUITY:**

Benchmark: EAFE (Net)

C\$ total return to Dec 31<sup>st</sup>, 2008:  
-29.8%

**FIXED INCOME:**

S&P Broad Composite Bond Index

C\$ total returns to Dec 31<sup>st</sup>, 2008:  
+6.4%

**Investor confidence:** Trust and confidence are as big a part of investing as are earnings and yields. The 2008 global recession was not a surprise, nor was the decline in the aggregate S&P 500 earnings or the demise of small financial corporations like Indy Mac. What was a shock, however, was the complete breakdown of investor confidence over a 12 week period from Labour Day to US Thanksgiving that turned a typical bear market decline of 15-20% into the greatest equity markets' rout since the early 1930's. Also less obvious but far more damaging was the impact on credit markets which sideswiped financial institutions worldwide. At the height of the crisis, top grade borrowers were either denied funding entirely or saw credit spreads (borrowing costs minus government yields) rise to unimaginable levels which devastated the price of even the most conservative non-government fixed income investments. So great was the systemic distrust that at one point, 90 Day US Treasury Bills, normally purchased at a discount to par, actually traded through 100 producing a negative interest rate.

**So what happens now?** Two courses of action are being pursued to restore investor confidence and pave the way for a recovery in capital markets. The first is already well underway with the world's major central banks unconditionally supporting the financial system while at the same time slashing interest rates and providing copious quantities of funds to almost any and all borrowers. The second course of action will be a jolt of fiscal stimulus including tax cuts and government spending on a scale not seen in the post war period. We believe that the combination of aggressive monetary and fiscal policy on a global scale will stimulate economic growth (and confidence) leading to higher prices in capital markets though the economy will continue to experience considerable turbulence for the bulk 2009.

**And as investors ...** As investors we need to ignore much of the daily "noise" coming from media and other experts and concern ourselves with long term opportunities and risks and with maintaining widely diversified portfolios with an emphasis at this time on high quality income-oriented securities such as preferred shares and corporate bonds. Our global balanced portfolios have already been rebalanced to raise equity exposure following the drop in value in 2008. In the near term we expect to further boost equity exposure and add yield in the short term and value in the long term. For the equity allocation, broad index tracking stocks facilitate simple and efficient asset allocation and protect against single stock risk, while also providing dividend yields that easily exceed government bond yields. Canadian equity exposure is balanced by international or US equity exposure to provide sector diversification (away from financials, materials and energy.). Our view is that prudent risk taking today (i.e. investing in high quality income-oriented securities) will be rewarded with above average returns when confidence reasserts itself in the future. Conversely, too conservative a stance today will result in a significant missed opportunity to shore up future portfolio values.

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## Performance to December 31, 2008

<b>Canadian \$ Total Returns</b>	<b>Canadian Heavyweight*</b>	<b>TSX Composite</b>
1 Year Annualized	-23.3%	-33.0%
3 Year Annualized	2.0%	-4.80%
5 Year Annualized	8.1%	4.16%
12 Month Trailing to Dec 31 2008	-23.3%	-33.0%
12 Month Trailing to Dec 31 2007	12.3%	9.8%
12 Month Trailing to Dec 31 2006	23.2%	17.3%
12 Month Trailing to Dec 31 2005	21.8%	24.1%
12 Month Trailing to Dec 31 2004 (Back-tested)	14.1%	14.5%
3 Year Standard Deviation of Returns	15.8%	-
5 Year Standard Deviation of Returns	14.5%	-
* Note: The Canadian Heavyweight Portfolio does not include any income trust issuers.		
<b>US \$ Total Returns</b>	<b>US Heavyweight</b>	<b>S&amp;P 100</b>
1 Year Annualized	-33.0%	-35.3%
3 Year Annualized	-4.8%	-6.66%
5 Year Annualized	-1.6%	-2.62%
12 Month Trailing to Dec 31 2008	-33.0%	-35.3%
12 Month Trailing to Dec 31 2007	6.7%	6.1%
12 Month Trailing to Dec 31 2006	20.4%	18.5%
12 Month Trailing to Dec 31 2005	2.3%	1.17
12 Month Trailing to Dec 31 2004 (Back-tested)	4.7%	6.43
3 Year Standard Deviation of Returns	17.0%	-
5 Year Standard Deviation of Returns	16.3%	-
<b>US \$ Total Returns</b>	<b>International Heavyweight</b>	<b>MSCI EAFE</b>
1 Year Annualized	-40.8%	-43.4%
3 Year Annualized	-4.1%	-7.35%
5 Year Annualized	1.5%	1.66%
12 Month Trailing to Dec 31 2008	-40.8%	-43.4%
12 Month Trailing to Dec 31 2007	17.4%	11.2%
12 Month Trailing to Dec 31 2006	26.7%	26.3%
12 Month Trailing to Dec 31 2005	8.2%	13.5%
12 Month Trailing to Dec 31 2004 (Back-tested)	13.3%	20.2%
3 Year Standard Deviation of Returns	22.1%	-
5 Year Standard Deviation of Returns	20.9%	-
<b>Canadian \$ Total Returns</b>	<b>Taxable*</b>	<b>Registered*</b>
	<b>Global Balanced</b>	<b>Global Balanced</b>
1 Year Annualized	-16.4%	-26.1%
3 Year Annualized	-3.43%	-7.42%
5 Year Annualized	0.95%	0.63%
12 Month Trailing to Dec 31 2008	-16.4%	-26.1%
12 Month Trailing to Dec 31 2007	-6.4%	-3.2%
12 Month Trailing to Dec 31 2006	15.1%	10.9%
12 Month Trailing to Dec 31 2005	8.8%	17.8%
12 Month Trailing to Dec 31 2004	7.0%	10.4%

\*Composite returns.

## 2008 Attribution Analysis

Shaunessy's Heavyweight portfolios are constructed using a transparent quantitatively-derived investment strategy for Canadian, US and International large capitalization equities. Portfolios are re-balanced semi-annually following clearly defined rules for each equity class.

### **Shaunessy Canadian Heavyweight C\$ --- 2008 Attribution Analysis**

<b>Return by Sector and Weighting</b>	<b>Canadian Heavyweight %</b>	<b>S&amp;P/TSX Composite TRI* %</b>	<b>Canadian Heavyweight Weighting %</b>	<b>S&amp;P/TSX Composite Weighting* %</b>
Energy	(25.7)	(33.9)	16.0	27.4
Materials	(12.7)	(26.5)	18.0	17.6
Industrials	(23.7)	(25.1)	10.0	6.1
Con Discretion	(25.7)	(35.4)	10.0	4.7
Con Staples	(3.1)	(6.1)	8.0	3.4
Healthcare	0.0	(30.2)	0.0	0.4
Financials	(30.2)	(36.4)	24.0	29.2
Info Tech	(63.9)	(38.0)	2.0	3.3
Telecom	(28.5)	(4.6)	4.0	6.0
Utilities	(12.0)	(15.5)	8.0	1.9
Other			0.0	0.0
<b>Total</b>	<b>(23.3)</b>	<b>(33.0)</b>	<b>100.0</b>	<b>100.0</b>

\*Source: RBC Capital Markets

The Canadian Heavyweight portfolio exceeded the S&P/TSX Composite Total Return Index by 970 basis points in 2008. This result is evident as the portfolio out-performed the index in 8 out of 10 Industry Sectors with only information technology and telecom services lagging. Approximately 50% of the Heavyweight benchmark out-performance is attributable to the better performance and lower weighting in the energy sector. Similarly, the lower weighting and better sector performance of the financial services sector accounted for 35% of the overall out-performance.

### **Shaunessy US Heavyweight US\$ --- 2008 Attribution Analysis**

<b>Return by Sector and Weighting</b>	<b>US Heavyweight %</b>	<b>S&amp;P 500 Returns* %</b>	<b>US Heavyweight Weighting %</b>	<b>S&amp;P 500 Index Weighting* %</b>
Energy	(33.5)	(35.9)	10.0	13.3
Materials	0.0	(47.1)	0.0	2.9
Industrials	(37.1)	(41.5)	10.0	11.1
Con Discretion	(20.7)	(34.7)	8.0	8.4
Con Staples	(19.3)	(17.7)	16.0	12.9
Healthcare	(14.1)	(24.8)	18.0	14.8
Financials	(53.6)	(57.0)	14.0	13.3
Info Tech	(42.5)	(43.7)	18.0	15.3
Telecom	(22.0)	(33.6)	4.0	3.8
Utilities	(29.5)	(31.6)	2.0	4.2
Other	0.0	0.0	0.0	0.0
<b>Total</b>	<b>(33.0)</b>	<b>(37.0)</b>	<b>100.0</b>	<b>100.0</b>

\*Source: Standard & Poor's

The return of the 2008 US Heavyweight portfolio was 400 basis points better than the S&P 500 Total Return Index. The US Heavyweight portfolio out-performed in 9 out of 10 industry sectors with only Consumer Staples lagging the sector benchmark. Approximately 75% of the out-performance can be attributed to energy, consumer discretionary and the absence of holding in the materials sector.

### International Heavyweight US\$ --- 2008 Attribution Analysis

Return by Sector and Weighting	International Heavyweight %	S&P 700 Sectors*	Q4 Portfolio Weighting %
Energy	(31.7)	(41.3)	8.0
Materials	(46.2)	(51.5)	6.0
Industrials	(41.3)	(45.1)	12.0
Con Discretion	(44.4)	(47.0)	10.0
Con Staples	(18.3)	(31.0)	8.0
Healthcare	(10.9)	(20.6)	10.0
Financials	(56.9)	(55.9)	26.0
Info Tech	(25.0)	(46.4)	4.0
Telecom	(36.4)	(35.9)	12.0
Utilities	(32.0)	(32.7)	4.0
<b>Total</b>	<b>(40.7)</b>	<b>EAFE** (43.4)</b>	100.0

\* The S&P 700 Index is used as a proxy for sector analysis since EAFE does not provide sector returns. \*\*Source: S&P, MSCI

The International Heavyweight portfolio beat the EAFE TRI Index net of withholding taxes by 270 basis points in 2008. Sector performance and weightings are not as widely publicly available for the EAFE index so that accurate attribution analysis is more difficult. Using the S&P 700 as a guideline, it would appear that the out-performance of the International Heavyweight portfolio can however be reasonably attributed to the Energy, Consumer Staples and Healthcare sectors.