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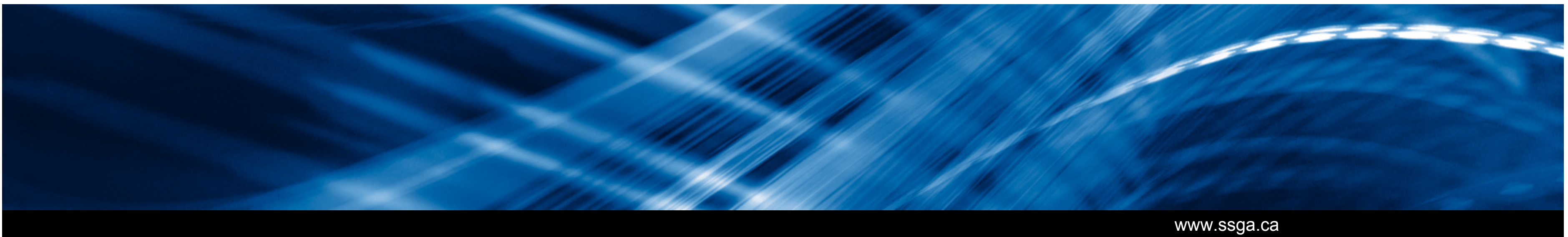

Month End Investment Commentary Report

As of 29 Feb 2012

University of Western Ontario

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Canadian Fixed Income Market Commentary

February 2012

Global Economic Background

European leaders have finally been able to close the deal on the new Greek bailout package. First, after a marathon session, euro group finance ministers formally agreed to provide €130 billion in official financing to the Greek government, who had earlier this month passed a severe austerity package. Second, Greece and the Troika (EU, IMF, and ECB) have at long last completed debt restructuring negotiations with Greece's private sector creditors, who hold an estimated €200 billion of Greece's roughly €350 billion in debt. The IMF projects this deal could put Greece on the path of sustainability by reducing its debt burden from nearly 170% of GDP this year to close to 120% of GDP by 2020. However, the path remains "accident prone" (the IMF's words) to say the least, particularly given rather optimistic Greek growth assumptions.

Risk appetites supported equities but they remained choppy throughout the month, caught in crosscurrents of easing Greek stress, mixed activity data, and rising oil prices. Oil prices continued their disconcerting march higher, creating unwelcome headwinds to already fragile economic growth prospects. Inflation also risks proving much stickier, potentially complicating monetary policy. With the notable exception of Greece, Israel and Spain, all countries within the MSCI World Universe posted positive local returns, ranging from 1.37% for Australia to 11.92% for Denmark; the MSCI U.S. index returned 4.41%, MSCI Canada 1.73%; the non-American countries, represented by the MSCI EAFE index, returned 5.63% in local terms. On the currency side, the Japanese yen suffered the most as the Bank of Japan expanded its Quantitative Easing (QE) program.

Canadian Economic Background

The January jobs print was disappointing. Employment rose a meager 2,300, which was insufficient to prevent the unemployment rate from rising another tick to 7.6%. This is the highest level of joblessness since April. The leading index rose 0.7% in January, its third consecutive robust gain. The series has been on an encouraging uptrend over the last several months, which would seem to signal that the economy is beginning 2012 with sufficient momentum to sustain a respectable recovery.

On the inflation front, consumer prices (CPI) rose a slightly greater than expected 0.4% in January, their largest gain since May. Energy rose 1.8%, led by a 2.8% jump in gasoline prices. Food also rose a hefty 0.7%, while prices excluding food and energy were much a more benign, rising a moderate 0.2%. Year-over-year (y/y), the overall CPI inflation rate rose two ticks to 2.5%, keeping it above the Bank of Canada's 2.0% target for the 14th straight month, although it remains comfortably within the 1.0-3.0% inflation control zone. Meanwhile, core inflation also rose two ticks to 2.1% y/y.

Retail sales ended 2011 on a weak note, falling 0.2% in December. Weakness in the month was spread across discretionary segments and staples. In spite of the generally soft December print, strong gains over the previous few months ensured a good performance for the fourth quarter overall-total retail sales rose a robust 7.8% annual rate in Q4, more than double the pace posted in each of the previous two quarters. The economy slowed sharply at the end of last year. GDP rose at a 1.8% annual rate in Q4, down from the robust 4.2% rate posted the previous quarter. The key factors behind the marked slowing were the 3.3% decline in government purchases (the largest since 1996), which subtracted eight ticks from growth, and the sharp decline in stock building, which subtracted a full percentage point. Meanwhile, consumer spending and residential investment were solid, rising 2.9% and 3.3% respectively. And nonresidential fixed investment was robust, rising 8.1%. International trade also added seven ticks, as exports rose a solid 4.6% and imports only 2.2%. For 2011 overall, GDP rose a respectable 2.5%. We expect growth so slow a bit this year to between 2.0% and 2.5%.

Canadian Bond Market

The DEX Universe Bond Index TM returned -0.40% for the month of February as Canada rates ended the month 10 to 20 bps higher along the curve. This broad index's first negative return in four months can be largely attributed an increase in investor's risk appetite as improving U.S. data, perceived progress in containing the European sovereign debt crisis, and reduced expectation of further Fed gave pause to the flight to liquidity that had driven this rate rally so far.

From a sector perspective, the Corporate Bond Index extended its lead over the Government sector with a positive return 0.29% for the month despite a steady flow of new corporate issuance. All major credit categories within the sector posted positive returns for the quarter; lead by BBB's which again benefited from resurgence in investors' risk appetite.

With a negative return of -0.88%, Provincials lagged all other sectors of the broad index for the month, underperforming the Canada sector by 0.39%. While this underperformance can be partially attributed to the longer duration of the sector, investor's preference for corporate bonds and weaker fiscal prospects for some provincial issuers contributed to an overall widening in provincial spreads during the period.

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CanPE-0241

SSgA Enhanced Canadian Universe Bond Fund Investment Commentary

February 2012 performance attribution (bps)

Dura.	Curve	Corp.	Provi. / Agencies	Carry	Others	Month Total
-1	+1	0	-1	0	-1	-2

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The SSgA Enhanced Canadian Universe Bond Fund returned -0.42% for February 2012, underperforming the DEX Universe Bond Index™ by 2 basis points (bps). Overall, the fund's duration and curve positioning had a neutral impact on performance. Our overweight to the provincial sectors had a negative impact of 1 bps while other sources of tracking such as issue specific factor and transaction costs subtracted an additional 1bp from performance.

At month end our overall allocation continued to favour provincial, agency and corporate sectors based on attractive valuations and stable fundamentals.

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SSgA Canadian Short Term Investment Fund Commentary

February 2012

The Canadian Short Term Investment Fund returned 0.10% for February, outperforming the DEX 91 Day T-bill Index™ by 4 bps. The fund's performance for the month is explained by the positive yield carry of the fund over the index which has more than offset transaction costs. As of February 29th, 2012, the Fund had an average duration of 42 days for an annualized yield of 1.30%, compared to 91 days and 0.94% for the Index.

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SSgA Canadian Long Term Government Bond Index Fund Investment Commentary

February 2012

The DEX Long Term All Governments Bond Index™ posted a negative return of -1.16% for February 2012 as 30-year Government of Canada bond yields ended the month 9 bps higher at 2.59%. From a sector perspective, the DEX Long Term Provincial Bond Index™ underperformed the DEX Long Term Canada Bond Index™ by 23bps as long term provincial spreads crept wider for the month. The SSgA Canadian Long Term Government Bond Index Fund performed within its tracking error objective with a return of -1.17% for the month. The investment objective of the fund is to match the return of the DEX Long Term All Governments Bond Index™ using a stratified sampling process, and as such the fund's sector weights, duration and cash flow distribution follow closely those of the Index.

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US Markets Investment Commentary

February 2012

Overview and Outlook
Given a historical tendency for late-winter consolidation in equity markets, investors could be forgiven for expecting a modest pause after the exuberant rallies that took hold in January 2012. Amid complex restructuring of Greek bond obligations and broader credit concerns across eurozone sovereigns, not to mention unrelenting gains in oil prices, a February boost in volatility would hardly have come as a surprise. But the dedicated provision of liquidity from the world's major central banks, highlighted by a fresh expansion of asset purchases at the Bank of Japan, continued to undergird financial assets. Signs that US employment conditions were continuing to heal, and that confidence was stabilizing even in beleaguered Europe, lent further support to share prices as the month wore on. By the end of February, measures of both implied and realized volatility had taken another step lower across a range of markets, and credit spreads had tightened even further. The month finished on a constructive note, with the European Central Bank completing its second Long-Term Refinancing Operation. A total of 800 banks took advantage of the latest tranche of nearly €530 billion, handily exceeding the scope of the initial LTRO in December. Borrowing costs for Spain and Italy continued to erode nicely, yields on cash remained minimal, and investors saw few alternatives to deploying more of their funds in global equity markets, which chalked up a second consecutive set of solid monthly gains. Indeed many averages have already achieved double-digit returns on a year-to-date basis in 2012.

Reveling in the sheer bounty of central bank balance sheets, share prices around the world also benefited from growing perceptions that economic activity was holding its own and unlikely to decelerate quickly. Housing activity showed signs of life in the US despite a still flaccid pricing environment, while business confidence in Germany continued to bounce back impressively from the lows of last autumn. Japan enjoyed its best reading on consumer confidence since last year's tsunami, and the Reserve Bank of Australia felt constructive enough to refrain from a widely expected reduction in interest rates. Favorable liquidity and diminished economic concerns seemed to trump news on corporate profits during February. Earnings held up reasonably well as the remainder of reports from 2011 rolled in, but profit and revenue outperformance relative to expectations seemed to be losing momentum, and estimates for 2012 continued to work their way gently lower. Share valuations remained reasonable enough, particularly relative to yields on cash and bonds, to prevent the mild pullback in earnings prospects from causing much consternation, but the ebb in momentum could prove more burdensome if the friendly financial conditions of early 2012 eventually take another antagonistic turn. Investors betrayed no such concerns in February, however, as the MSCI World Index of developed markets equities added 4.9% for the month, nearly matching its January performance, and climbing nicely into double digits with a 10.2% return on a year-to-date basis. The emerging markets underwent considerable backing and filling in the latter weeks of February as many currencies consolidated their sharp January gains, but they still capped the month with a solid rally. The MSCI Emerging Markets Index finished with a 6.0% advance to extend its impressive 2012 gain to 18.0% on a year-to-date basis.

Despite the impressive strength in equities and the gathering sense that global economic growth may hold its own during 2012, fixed income assets resisted any major deterioration in February. Inflation data showed scant indication of trouble, even amid steady ascents in oil and precious metal prices. Perhaps more importantly, unperturbed accommodation of central banks and investor preferences for less volatile assets have been keeping bond bids firm. Still, since they had ended January with a flourish, most government bonds could not resist the twin February headwinds of rallying equities and firmer economic releases, and their modest yields were not enough to lift them into positive territory for the month. For bonds offering a yield spread over government issues, though, February worked out swimmingly, as waning volatility and improving sentiment led to continued outperformance and solidly positive returns. Netting out the winners and the losers, the Barclays Capital US Aggregate Index ended the month just shy of flat.

Investor sentiment has clearly improved from the dour moods that prevailed through the final weeks of 2011, and indeed with some justification, since a number of global indicators are showing promise for the months ahead. But with Greece still facing daunting economic adjustment, and nerves still raw in many parts of the Middle East, it would be hard to characterize financial attitudes as complacent at the current juncture. Nonetheless, the sheer scope of the gains that early 2012 have bestowed on equity holders lifts the temptation to lock in profits in hopes that a better entry point may develop in the weeks and months ahead. The ebbing of momentum in smaller stocks, and the modest deterioration in the ratio of the number of advancing issues to the number of decliners, suggests that some investors are already acting with a bit more caution. It seems unlikely, however, that equity buyers will retreat completely, since any material pullback in share prices will enhance the appeal of dividend yields in an environment that remains extraordinarily challenging for income-oriented investors. With all major central banks continuing to provide exceptional accommodation, those maintaining or adopting defensive positions need to remain wary lest they overstay their welcome on the sidelines.

US Equities

Apart from a mild case of nerves in the middle of the month, US stocks continued their solid upward progress during February, bolstered by data releases that corroborated the theme of steady economic recovery. Initial weekly jobless claims declined to just above 350,000, their lowest level in almost four years, and held there. Homebuilder confidence jumped for a fifth consecutive month, printing its best reading since the first half of 2007. Actual home prices remained behind the eight ball, but the more relevant source of hesitation for US equities was likely Moody's decision to review credit ratings at 17 major financial institutions. Signs that Greece was struggling to adopt mandated austerity measures contributed to the heightened worries about banks, but these concerns ultimately proved no match for abundant liquidity and improving credit markets. The S&P 500® maintained its impressive 2012 streak of avoiding any 1% daily losses; its largest decline since the start of the year was just under 0.7% on February 10. By the end of the month, the S&P had climbed 4.3% and extended its year-to-date gain to a bountiful 9.0%. As impressive as these figures were, non-US markets fared even better, enjoying continued relief from a dreary 2011 and benefiting from a number of currency rebounds as well. The MSCI World ex-US Index added another 5.5% in February to extend its 2012 advance to 11.2%.

The largest US stocks maintained their positive momentum nicely through February, but in potentially worrisome fashion, smaller cap names began to struggle after a zippy start to the month. Perhaps reflective of lingering disillusionment among individual investors, the Russell 2000® Index turned choppy after February 3, when it closed strong but at levels that it never revisited for the remainder of the month. Indeed, unlike the S&P 500, which smoothly surpassed its highest print of 2011 before February was over, the Russell 2000 struggled noticeably when it rallied to within 2% of its 52-week best. Even so, the popular small cap benchmark retained a 2.4% gain for February, and its 9.6% year-to-date return kept it ahead of the S&P 500. Middle-tier names held in considerably better, and the S&P Midcap 400 IndexTM climbed 4.5% in February to produce an 11.4% advance on a year-to-date basis.

Growth-oriented portfolios continued to recover nicely in February, though their outperformance in the large cap arena moderated after a strong January. Still, driven by the relentless march of iPad maker Apple past a market capitalization of $500 billion, the information technology sector boosted the Russell 1000® Growth Index to a 4.8% February gain that extended its year-to-date advance to 11.0%. The Russell 1000® Value Index had to settle for a 4.0% February move that left it with a more modest 7.9% gain since the start of 2012. The growth advantage remained more dramatic among smaller caps, as a number of biotechnology names enjoyed stunning February rallies. The Russell 2000® Growth Index added 3.3% for February, against a 1.5% advance for the Russell 2000® Value Index. On a year-to-date basis, Russell 2000 Growth stands with the same 11.0% gain as its larger counterpart, while Russell 2000 Value has added a lesser 8.2%.

Shares of Apple, which have been on a tear since the company obliterated estimates with its earnings report in January, ended February more than a third higher than where they finished 2011. Since the hardware maker has now surpassed energy giant Exxon Mobil to reign with the highest capitalization of any US firm, its effect on large cap performance in 2012 has been substantial, and the information technology sector has been leading the S&P 500 higher. The technology group gained 7.4% in February and has now climbed 15.6% thus far in 2012. Second place for February went to energy, which gained 5.9% for the month as crude oil and gasoline prices advanced steadily. The financials chalked up a 5.0% February gain, good enough to lift them to 13.5% appreciation on a year-to-date basis, as signs of progress in European finances allowed banking shares to build on their rebound from a difficult 2011.

Defensive groups continued to lag in February, though the weakest sector of the S&P for the month was materials, which had outpaced all comers during January. Hurt by declines in steel stocks, which retreated on indications of ample supply, the materials sector slipped 0.4% for the month, making it the only S&P sector to lose ground in February. But utilities and healthcare also underperformed the S&P 500 by more than 3% for the month, and the utilities retain a decline of 2.9% since the beginning of 2012, making them the only S&P sector still in the red for the year. Their slow start is somewhat forgivable, though, when one recalls that the utilities returned nearly 20% in 2011 and easily outpaced all other S&P sectors through that challenging period.

Global Fixed Income

As investors grew more comfortable with financial and economic prospects during February, they continued to trim defensively oriented positions in favor of those that could benefit more dramatically if and as global risk appetites kept on picking up. The trend to a more sanguine outlook manifested itself in several ways across fixed income portfolios. Government yields worked higher across Anglo-Saxon countries, where it would likely take significant new deterioration in growth prospects to pressure them lower from already paltry levels. But in stressed eurozone nations, government yields had ample room to fall, given reduced refinancing risks and plentiful liquidity provisions from the European Central Bank. Unhedged investors in eurozone issues benefited from a confidence-driven rally in the euro and other regional currencies, while those with yen exposure endured losses. The yen suffered in part from the diminished appeal of safer currency havens, but even more tangibly, the ¥10 trillion expansion of asset purchases by the Bank of Japan may have signaled the advent of a bolder monetary approach in the months and quarters ahead.

Steadfast commitment to low interest rates across the developed world kept shorter-term yields anchored close to home during February. Although the Reserve Bank of Australia did not produce the fresh rate cut expected, it seemed ready to trim again should global conditions warrant a further reduction. Prior to the Bank of Japan's latest move to increase asset purchases, the Bank of England boosted its own quantitative easing program by £50 billion. The BoE did keep its official bank rate at its long standing level of 0.5%, but Sweden followed its December move by cutting its target rate by another 25 basis points on February 16. While the European Central Bank like the BoE left its short-term interest rate target unchanged, the main focus remained on its long-term collateralized lending to banks. Results of the ECB's second Long-Term Refinancing Operation emerged on February 29, when 800 banks accessed aggregate liquidity of more than €529 billion. Also on leap day, while congressional testimony from US Fed Chairman Ben Bernanke disappointed investors with its lack of reference to additional quantitative easing, his assessment of economic prospects could hardly be deemed exuberant. Nor did interbank lending markets view the growth outlook as buoyant enough to start contemplating rate hikes. Improved confidence and liquidity no doubt contributed to declining Libor rates during February, but they still dropped noticeably for both euros and US dollars, and Libor rates for British pounds actually saw their first monthly decline since last June.

The front end of most term structures accordingly saw relatively narrow movement during February, but longer yields climbed by 10 to 20 basis points in the US, Canada, and the UK. In the absence of an expected rate cut, Aussie yields advanced a bit more. But German yields were little changed despite a tentative stability in the eurozone, while other euro nations benefited from continued reduction in financial strains. French yields slipped by 15 to 25 basis points, with intermediate issues performing best. Spanish yields saw narrow movement at longer maturities, but the front end steepened sharply in a boon to borrowing costs. Italy enjoyed even greater relief, with all yields falling by at least 50 basis points during the month. The most dramatic moves, though, came in Portugal, where yields largely reversed the steep increases that had afflicted them in January. The rally in confidence boosted the euro and other regional currencies, helping unhedged dollar-based investors. Unfortunately, the signal adjustment in Japanese monetary policy produced material weakness in the yen, largely offsetting the euro-related foreign exchange benefits. With the Barclays Capital US Treasury Index slipping 0.7% on the month, and UK gilts suffering even greater losses, it was difficult for euro area bonds alone to protect unhedged global averages from the stark declines in the yen. The Citigroup World Government Bond Index (WGBI) dropped 1.0% in February, paring its year-to-date result to 0.6%.

With equities moving steadily higher, corporate bonds enjoyed a much better month than government issues. In most cases, yield spreads tightened enough to offset government yield gains and then some. As a result, the Barclays Capital US Corporate Index climbed 0.8% in February to lift its year-to-date gain to a solid 3.1%. Mortgages on commercial property saw even stronger performance than corporate issues, but US agency-backed mortgages did not tighten quite as aggressively. Nevertheless, the Barclays Capital US MBS Index was protected by its relatively modest du ration, tacking on 0.1% for the month to extend its year-to-date return to 0.5%. The strength in mortgages and corporate issues was almost enough to overcome the weakness in Treasury paper, and the Barclays Capital US Aggregate Index finished February just shy of unchanged. The Aggregate retains a year-to-date gain of 0.9%.

High-yield paper continued the solid outperformance that it enjoyed in January, as declining volatility and rallying stock prices made default probabilities sink even lower. Improving interbank conditions and clear signs of diminished stress in Europe contributed further to the appeal of higher yielding debt. Indeed, by the end of February, the yield on the Barclays Capital US High Yield Index had fallen all the way back to 7%, in the same range that prevailed during the buoyant second quarter of 2011. For February as a whole, the High Yield Index advanced another 2.4%, extending its 2012 prosperity to 5.5% on a year-to-date basis.

Alternative Assets

After mounting a consistently vigorous rebound from their daunting 2011 lows, US real estate investment trusts (REITs) seemed poised for further progress in February. But REIT shares neared their July 2011 peaks in the first few days of the month, and investors found it easy to lighten positions. Helping lead the group lower in February were apartment and healthcare REITs, as larger firms in both areas suggested that 2012 earnings might not be quite as strong as anticipated. Budding strength in home building stocks may have signaled potential rent limitations for apartment owners, while healthcare names may have fallen back in sympathy with a continued rotation away from defensive issues. One area of strength in February was industrial REITs, which benefited from solid earnings and guidance. These were not enough to lift the entire sector into the black, though, and the Dow Jones US Select REIT Index[SM] slipped 1.1% for February. Still, the Index retains a 5.2% gain since the start of 2012. Unlike US REITs, property-related shares outside the US maintained their January strength on through February, as a buoyant outlook for Hong Kong property values provided a continuing boost.

Commodities continued to gain ground in February, with Brent crude oil and soybeans contributing especially strong moves. Brent climbed steadily through the month, nearing its Libya-related highs from the spring of 2011. But unrest across the Middle East has kept supply worries elevated thus far in 2012, with particular concern that tensions between Iran and Israel might result in a more severe disruption of global crude distribution. Other energy liquids followed Brent prices higher, but natural gas remained weak amid abundant US supplies. As for soybeans, prices surged as the production outlook dimmed amid drought conditions in South America. Other grains were mixed in February on expectations that US plantings would be strong. Precious metals were having a prosperous enough month until the final day, when prices dropped sharply after testimony from US Federal Reserve Chairman Ben Bernanke failed to include explicit mention of expanded quantitative easing. Industrial metals also had a lackluster month. Copper held in well in conjunction with signs of health in housing, but nickel retreated on ample inventories and uninspiring demand signals. Thanks to the oil gains, the S&P GSCI® Commodity Index tacked on 6.1% for the month, lifting its year-to-date gain to 8.4%. The Dow Jones-UBS Commodity IndexSM had to settle for a more modest February return of 2.7%, but that was enough to lift the Index to a 5.2% appreciation on a year-to-date basis.

The February strength in commodities had a mildly positive influence on inflation expectations around the world, but in the US and the UK, breakevens did not rise enough to offset the gentle but measurable upward pressure on longer-term nominal yields, and real yields climbed for higher duration paper. Real yields remained deeply negative at shorter maturities, even falling further in many countries. On average, Treasury inflation-protected securities (TIPS) in the US lost modest value during the month, and recently low inflation figures kept income muted as well. The Barclays Capital US TIPS Index slipped by 0.3% in February, marking only its second monthly decline since the start of 2011, but the TIPS Index remains ahead by 2.0% since the beginning of 2012. With help from strong currencies and declining real yields in continental Europe, linkers outside the US enjoyed stronger results in February, building further on their solid January gains.

Sources: Bloomberg, FactSet, Morgan Stanley, JPMorgan, RBS, Credit Suisse, Citigroup, SSgA Performance Group, MSCI

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Investing in commodities' entail significant risk and is not appropriate for all investors.

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