GLOBAL ASSET ALLOCATION
Strategy Report
TAL Global Asset Management Inc.

DECEMBER 8, 2005

Asset Mix Change Eyes Equity Market Opportunities

We are implementing a series of changes to our global asset allocation mandates:

- Underweight international bonds in favour of international equities, where applicable
- Underweight U.S. equities in favour of Canadian equities
- Return to a neutral position in Canadian bonds and cash
- Maintain our U.S. underweight versus emerging market equities

International equity opportunities

Where applicable, we are selling international bonds and buying international equities with the proceeds. This change creates an underweight in international bonds and an overweight in international equities for those mandates exposed to international markets. Relative valuation favours international equities with an earnings yield close to 7% while the yield on a basket of international corporate bonds remains below 4%. This yield differential favours equities over bonds.

Our global economic outlook reflects continued above trend growth, with potential pockets of weakness in the U.S. and China being offset by stronger growth in other areas, particularly Japan, Europe and South East Asia. The structural environment has demonstrated improvement in market statistics – corporate return on equity (ROE) reports show healthy gains, which seems to be the driver of this cycle. Moderate economic growth and tame inflation combine with healthy improvement in corporate profitability to provide an environment for good earnings growth in international equity markets, and also sets a backdrop that makes international bonds relatively less appealing.

Favouring Canada over the U.S.

We are selling U.S. equities, further increasing our underweight in this asset class and buying Canadian equities with the proceeds, moving to an overweight in this asset class.

U.S. equities remain one of the relatively more expensive markets, and we believe it could be more affected than other markets by economic weakness in 2006. We are concerned that U.S. profit margins are at their historical peaks and could start to decline, and that earnings growth is beginning to slow. These are not characteristics for which we want to pay a premium.

Our decision to overweight Canadian equities results from our outlook for the Canadian dollar and from our assessment of relative valuations. Canadian stocks represent more attractive value than the U.S., and given that the Bank of Canada has been raising its key lending rate in line with inflation, real interest rates remain low. With no valuation headwinds and a constructive outlook for commodity markets, the Canadian dollar remains the stronger currency. Therefore, the Canadian equity market is well positioned to outperform the U.S. market in Canadian dollar terms.

Neutrality for Canadian bonds and cash

A slowing of U.S. economic activity in 2006, a tame Canadian inflation environment, continued gradual tightening by the Bank of Canada and a firm currency should help keep Canadian bonds in a tight range. As such, the risk of further rise in bond yields is receding as we enter 2006. We are therefore closing our underweight in Canadian bonds using the available cash to finance this purchase.

Emerging markets still appealing

We are maintaining our overweight in emerging markets relative to the U.S. equity market. We believe emerging markets are poised to provide another year of outperformance, though more limited compared to previous years. Current relative valuation remains attractive considering the continued improvement in their fundamentals – good earnings growth, continued improvements in ROE and macro economic strength.