



Global Asset Management Inc.

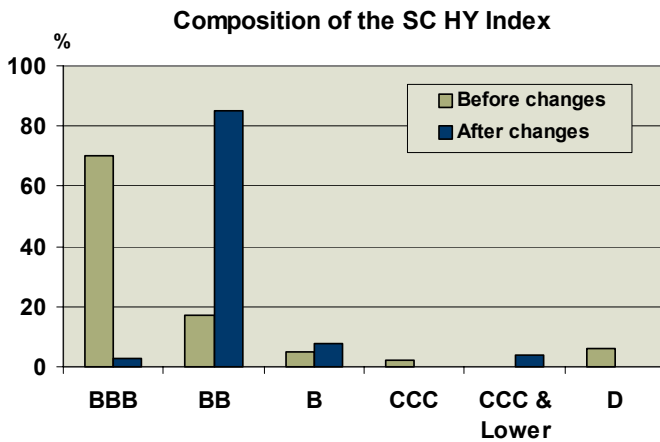
Market Insight



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HIGH YIELD BOND INDEX SAYS GOODBYE TO INVESTMENT GRADE BONDS

The Scotia Capital High Yield Bond Index (SC HY Index) is the main benchmark index for the Canadian non-investment grade fixed income market, but since its inception in 1994, it has included some investment grade bonds (BBB and higher). However, effective December 31, 2004, Scotia Capital changed the index to exclude all investment grade securities and to include only securities rated less than BBB (low) but greater than D.



Source: Scotia Capital

This change in index methodology is significant to investors who use the SC HY Index as their benchmark. Prior to the change, approximately 66% of the SC HY Index was considered to be investment grade in quality. As a result, the new SC HY Index will be a more accurate representation of the Canadian high yield market today and the index will be a more appropriate benchmark index for most Canadian high yield funds.

“We have evaluated the new index inclusion criteria released by Scotia Capital and our conclusion is that the SC HY Index is still a suitable index for our high yield mandates,” says **Mark Kanar**, TAL Global Asset Management Global Fixed

Income Vice President responsible for TAL's high yield bond products. “Though the number of names in the index has been reduced to just over 20, there is still reasonable industry diversification.”

One of the internal measures TAL uses to evaluate its high yield portfolios is a benchmark consisting of 70% SC HY Index and 30% Merrill Lynch U.S. High Yield Index (ML HY Index). Our high yield portfolios typically hold between 45 and 55 names, and the issuers not included in the SC HY Index are generally included in the ML HY Index, which contains upwards of 1,800 securities. We use that allocation to achieve the additional diversification that otherwise could not be obtained in the Canadian market. This blended benchmark is a more accurate reflection of our mandates since our high yield portfolios are permitted to hold up to a maximum of 28% to 30% in U.S. high yield securities.

“Given our level of industry and security diversification, we believe this blended index is the most appropriate benchmark against which to measure the risk and return of our funds,” Mr. Kanar says.

The high yield bond market has grown rapidly since the 1990s, offering fixed income investors diversity and opportunity. TAL Global Asset Management has been active in the high yield bond market since 1994 and currently has approximately \$350 million under management.

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