



Global Asset Management Inc.

Market Insight



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Canadian Investors Broaden Their Horizons

Eliminating the 30% foreign content ceiling for tax-sheltered retirement funds is one of the proposals Finance Minister Ralph Goodale tabled in the federal budget on February 23rd. While it is uncertain how investors will react, this change will certainly present some new opportunities, since the Canadian market represents only about 2% of world assets.

TAL Global Asset Management Inc. expects this change to have an impact on domestic fixed income markets. "More choice for the non-Government of Canada sectors will result in better portfolio diversification," says **Jeffrey Waldman**, First Vice President of Global Fixed Income. "We believe expanding the investment horizon to include global and alternative bond markets can enhance return potential while actually reducing risk." TAL Global manages approximately \$37.9 billion in Canadian fixed income assets, and more than \$1.2 billion in International fixed income assets.

TAL Global also expects to see pressure on spreads of Canadian fixed income issuers to widen, since assets that are currently invested in Canadian bonds will likely finance the purchase of international bonds. More and more international issuers are expected to come to the Canadian market as demand grows, which may shift the mix of sector weightings away from the Government of Canada sector.

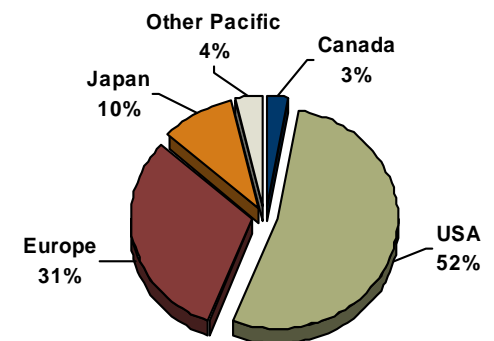
Shaun Hegarty, TAL Global's Vice President of International Equities expects the impact of foreign content elimination to be limited. He thinks investor psychology will overpower pure investment logic. "Even though the Canadian marketplace represents very little choice for investors relative to global markets, many investors have not maximized their allowable limits in the past," says Hegarty. "People like to invest in what they know, even though better opportunities may exist beyond Canadian borders."

He adds that this is not a Canadian phenomenon. Look at Australia, a comparable market to Canada, and one that does not restrict its citizens in terms of the foreign content of their investments, for example. "The standard allocation to non-Australian stocks by Australian investors is only around 15% to 20%," says Hegarty, an Australian himself.

Maxime Tessier, Vice President, Currency Management at TAL Global expects the Canadian dollar to react to the budget news. The net capital outflows caused by this measure, while not extreme, will likely be enough to create a significant drag on the value of the Canadian dollar in the next 12 months," says Tessier. "The last time the foreign content limit was increased, the Canadian dollar depreciated by roughly 10%, even though the current account surplus was sizable, as it is today."

Regardless of the overall financial market impact, TAL Global's Chief Investment Officer **Richard Campbell** believes this is good news for Canadians. "This change gives Canadian investors greater access to global capital markets and tremendous investment opportunities," says Campbell. "With TAL Global's wide range of investment expertise, I believe we are well-positioned to meet investors' demands both within and beyond Canadian borders."

World Equity Market Composition
Most opportunities are non-Canadian



Source: MSCI World Index at January 31, 2005

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