# Summary of results from 2002 Fearless Forecast

### The Canadian Economy

| The Canadian Economy | Forecast | Actual | |
|---|---|---|---|
| Bank of Canada Rate | 3.0% | 3.0% | Dec 31/2002 |
| Annual Inflation Rate (CPI) | 2.0% | 4.3% | Nov 30/2002 |
| Canadian Exchange Rate ($US/$CDN) | 0.65 | 0.64 | Dec 31/2002 |
| Unemployment Rate | 7.5% | 7.5% | Dec 31/2002 |
| Real GDP Growth Rate | 1.5% | 3.5% | Estimate |

### Investment Benchmarks

| | Forecast | Actual* |
|---|---|---|
| S&P/TSX Composite | 11.5% | -12.4% |
| Nesbitt Burns Small Cap | 13.5% | -0.9% |
| S&P 500 ($CDN) | 11.0% | -22.7% |
| MSCI EAFE ($CDN) | 11.5% | -16.4% |
| MSCI World ($CDN) | 12.0% | -20.2% |
| Russell 2000 ($CDN) | 12.0% | -22.2% |
| IFCI Emerging Composite ($CDN) | 14.0% | -5.0% |
| SC Universe Bond | 5.0% | 8.7% |
| SC 91 Day T-Bills | 2.9% | 2.5% |

*Total Return for the 1 year period ending December 31, 2002

### Top Performing Canadian Sectors
### (Ranking out of 14 sectors in the S&P/TSX Composite)

| | Forecast | Actual |
|---|---|---|
| Industrial Products | 1st | 14th |
| Financial Services | 2nd | 6th |
| Metals and Minerals | 3rd | 8th |

**Actual Top 3 Sectors**

1. Gold & Precious Metals
2. Oil & Gas
3. Pipelines

### Top Performing Countries within the MSCI World Index
### (Ranking out of 23 countries within the MSCI World Index)

| | Forecast | Actual |
|---|---|---|
| U.S. | 1st | 18th |
| Canada | 2nd | 9th |
| U.K. | 3rd | 14th |
| Japan | 4th | 7th |
| Hong Kong | 5th | 15th |

**Actual Top Performing Countries within the MSCI World Index**

1. New Zealand
2. Austria
3. Australia
4. Norway
5. Italy

# Our 2003 results

We are pleased to present the results of our Canadian and Global Fearless Forecast. These results represent the views of 49 Canadian and 40 global institutional investment managers on the economy and capital markets from a local and global perspective. Please see pages 16 and 17 for a list of participating managers.

### Highlights of the 2003 Canadian Results

- Equity markets around the world are expected to significantly outperform bonds in 2003. These forecasts come at the end of another difficult year for equity markets with the S&P/TSX Composite Index down by more than 12%, the S&P 500 Index and the MSCI EAFE Index down more than 22% and 16% respectively (in Canadian dollar terms). Bond markets, on the other hand, delivered positive returns, with the SC Bond Universe Index up 8.7%.

- The Canadian managers forecast a reversal of fortune for the equity markets with the Canadian, U.S. and International equity markets each expected to generate positive returns in 2003, with a median expected return of 10%. The managers expect a median return of 8% over the next five years for the Canadian and U.S. markets and 9% for the International market. For the bond markets, the managers expect more modest returns with a median expected return of 4.0% for 2003 and 5.0% over the next five years.

- Equities are expected to outperform bonds in the 5-year term by approximately 3% per year. This differential is consistent with long-term estimates of the equity risk premium produced by Mercer's own research. The optimistic forecasts are perhaps not surprising, considering the financial markets experience of the past few years.

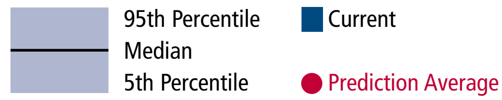
- What could derail this positive outlook? The U.S./global economy and threat of terrorism/war on terrorism are the key issues expected to influence capital markets in 2003. Assuming no significant bad news, the Canadian investment managers predict Canada's real GDP growth to be 3% in 2003, which is stronger than the outlook for global growth of 2.5%. The managers predict an increase over the year in both the Bank of Canada and U.S Fed Fund rates by 0.5% and 0.75%, respectively, which would leave Canadian rates still well above US rates.

- There will be no let up on merger and acquisition activity. Seventy percent of the Canadian managers expect an increase in merger activity, both in Canada and globally. The financials, energy and materials sectors are predicted to experience most consolidation in 2003.

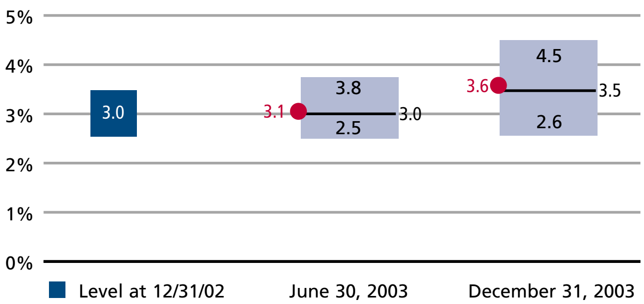
- With respect to the various sectors of the economy, the Canadian managers predict the financial services sector as being the most attractive for 2003, while the utilities sector is expected to be the least attractive. The top performing Canadian large cap stocks for 2003 are predicted to be Biovail, Alcan and BCE, while Forzani, Cinram International and Zarlink are predicted to be the top performing Canadian small cap stocks.

We wish you all the best for 2003.

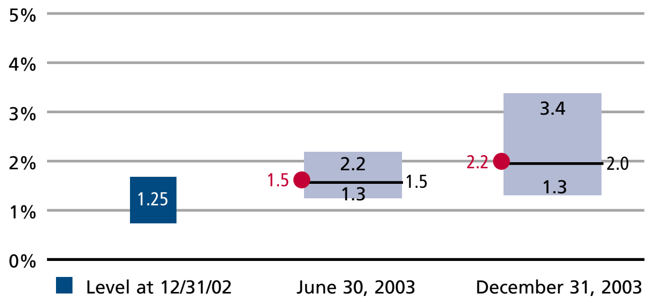
# Canadian findings
# The economy – 2003



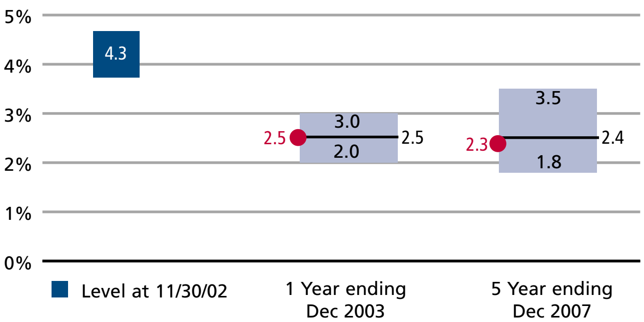

## Bank of Canada Rate



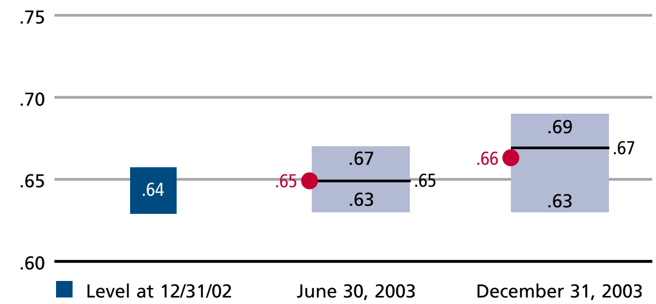

## Federal Funds Rate (U.S.)



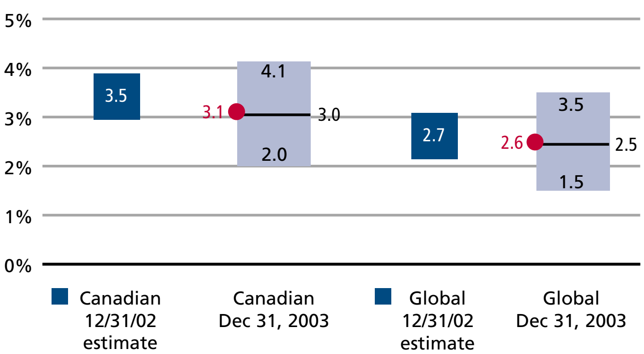

## Annual Inflation Rate (CPI)



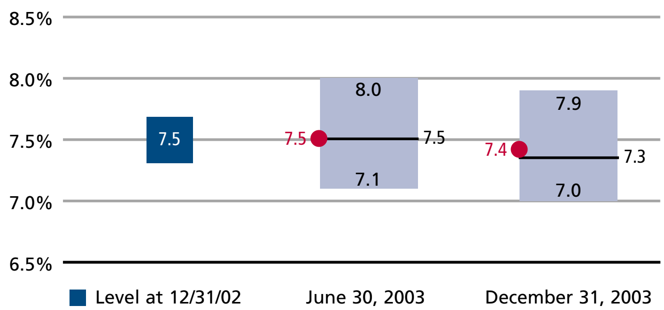

## Canadian Exchange Rate ($US/$CDN)




## Real Canadian and Global GDP Growth Rate

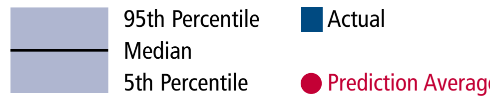



## Unemployment Rate

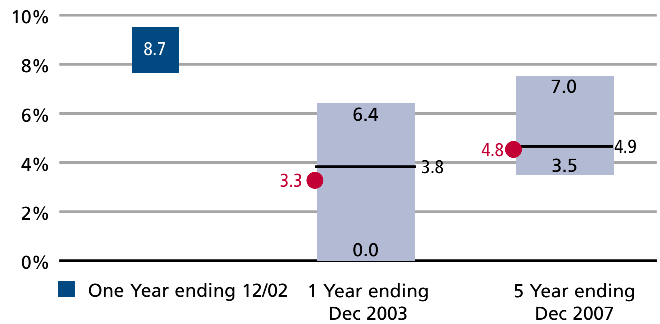


# Canadian findings
# Market data

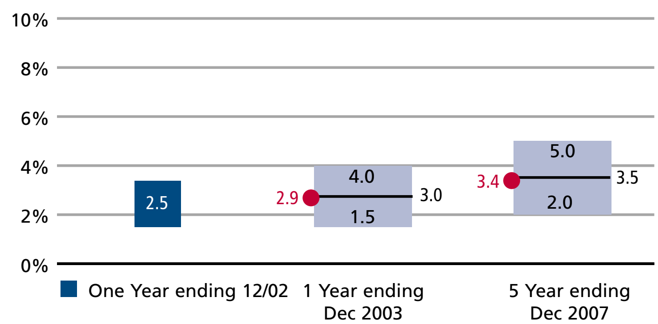
### Legend



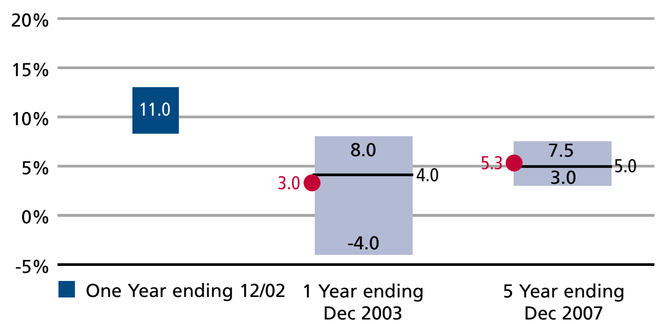

### SC Universe Bond Total Return



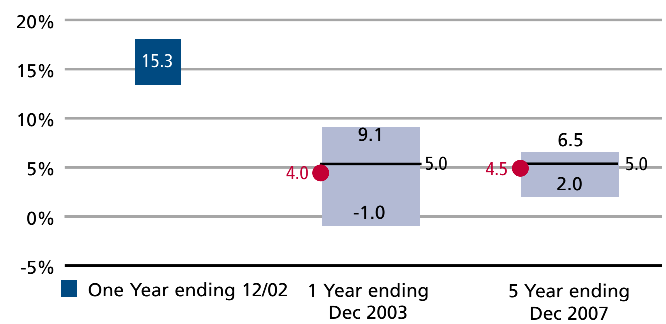

### SC 91 Day T-Bills Total Return



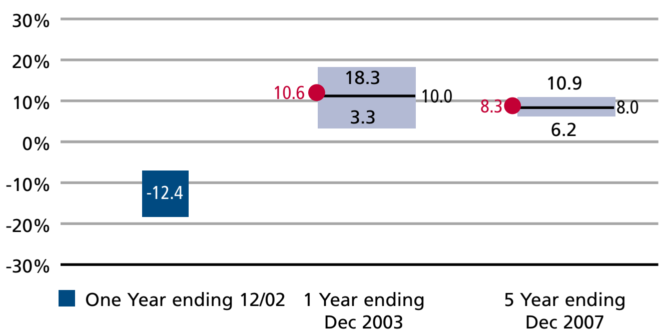

### SC Long Bond Total Return



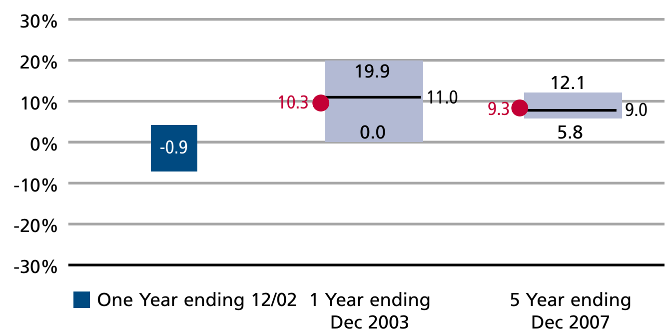

### SC Real Return Bonds Total Return




### S&P/TSX Composite Total Return

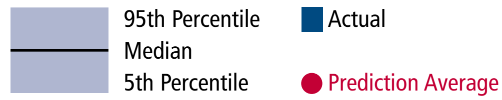



### Nesbitt Burns Small Cap Total Return

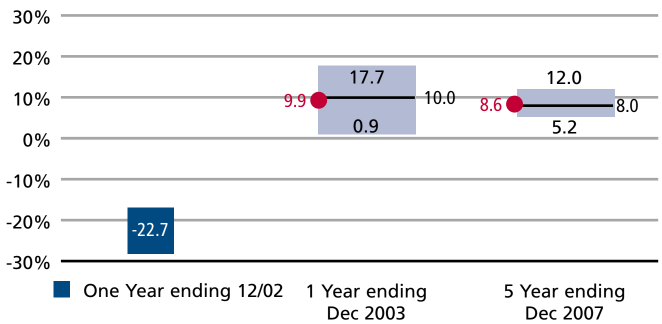


# Canadian findings
# Market data

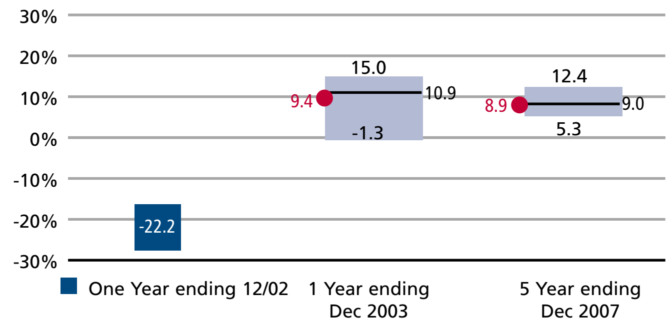
**Legend**



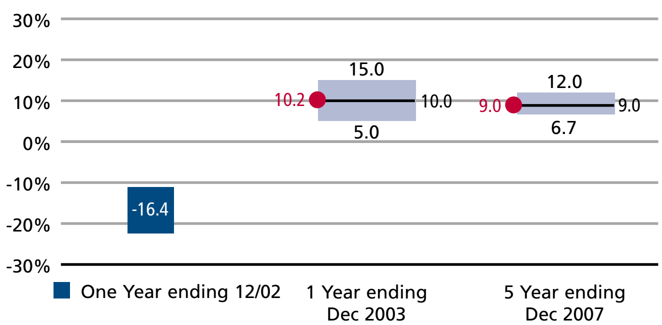

### S&P 500 Total Return ($CDN)



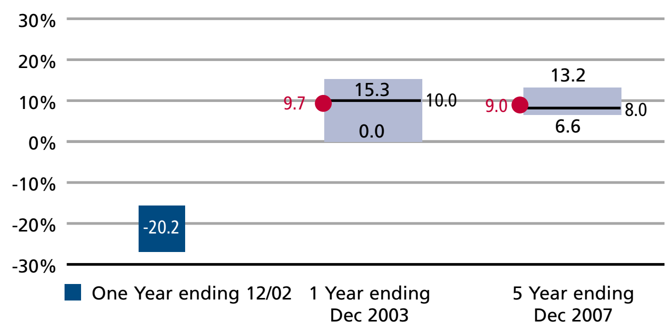

### Russell 2000 Total Return ($CDN)



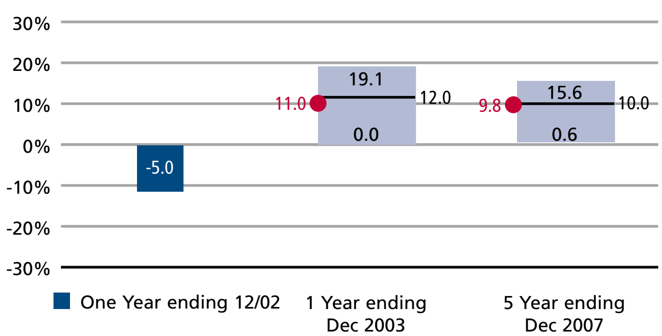

### MSCI EAFE Total Return ($CDN)




### MSCI World Total Return ($CDN)

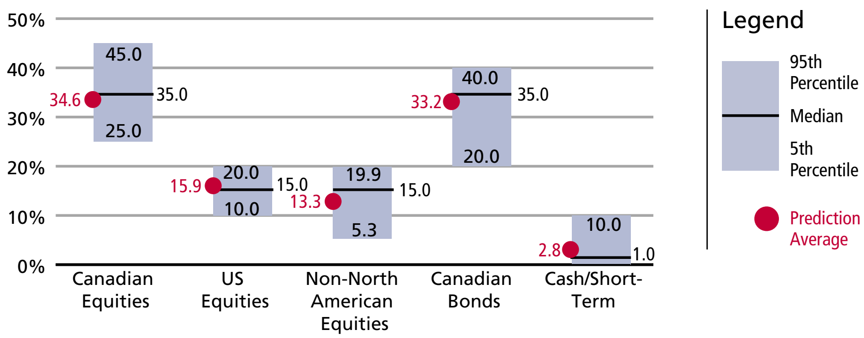



### IFCI Emerging Composite Total Return ($CDN)

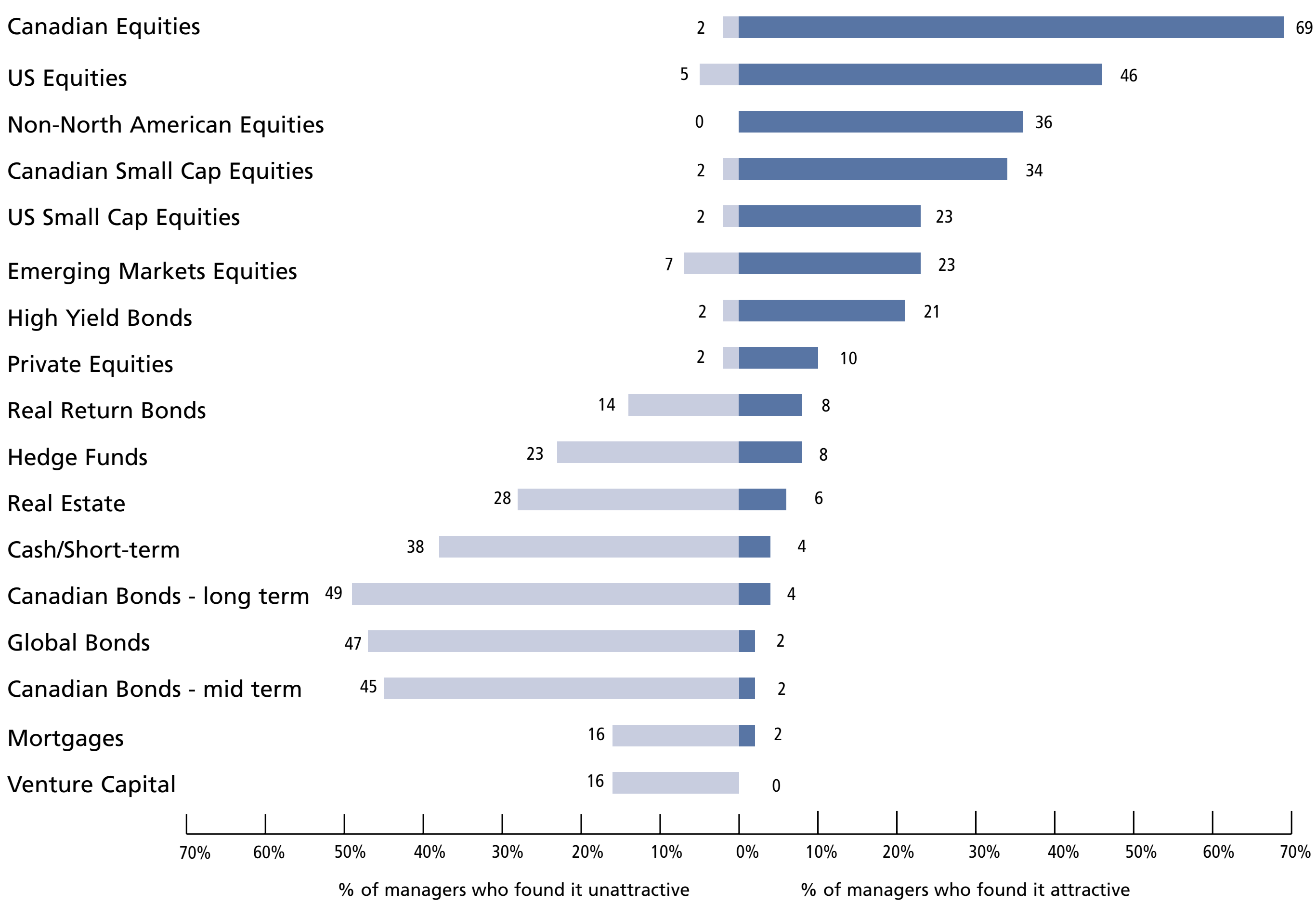


# Canadian findings
# Market data

### Managers expect the best tactical asset allocation in 2003 for a pension plan with a policy mix of 30% Canadian equities, 15% US equities, 15% Non-North American equities and 40% Canadian bonds to be

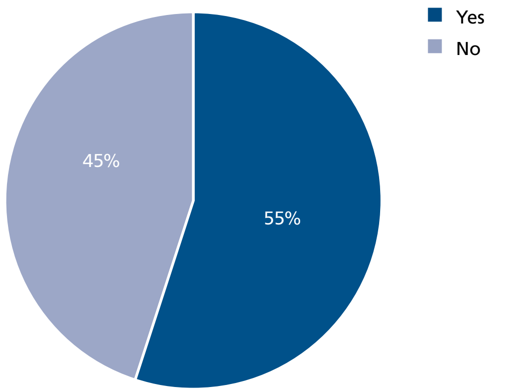



### Managers ranked the following as the most attractive (top 3) and least attractive (bottom 3) asset classes in 2003

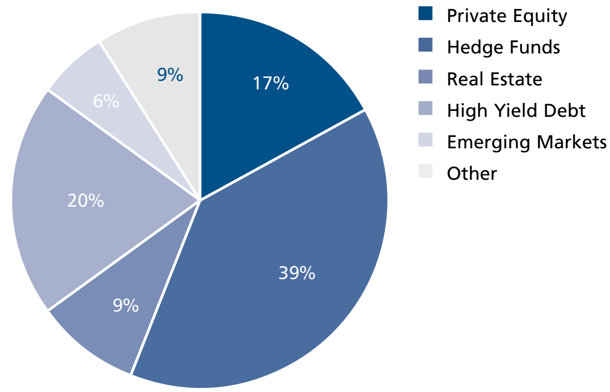


# Canadian findings
# Market data

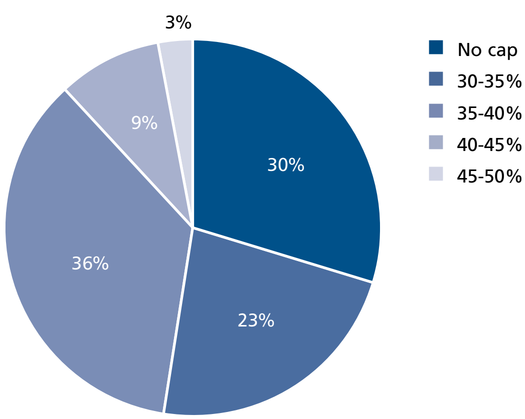
### Managers were asked if they believe alternative investment mandates will increase in 2003




### If yes, what type?



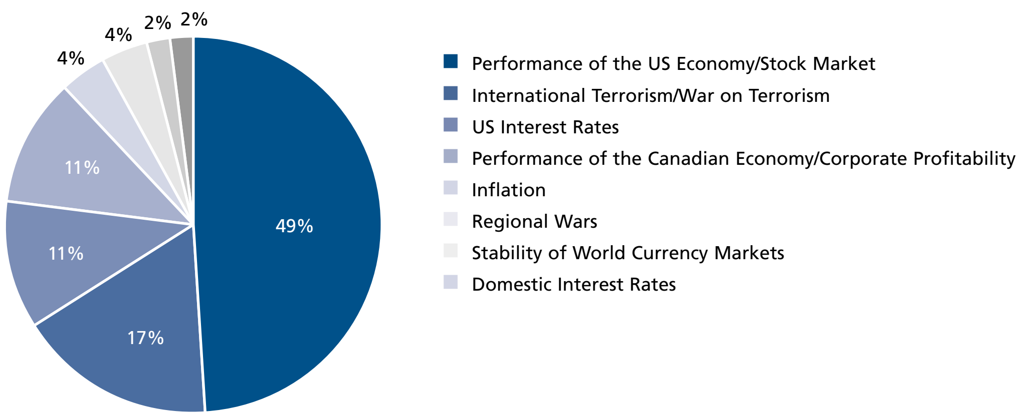

### Managers were asked what cap if any should be placed on the financial services sector weight* in a prudent Canadian equity portfolio



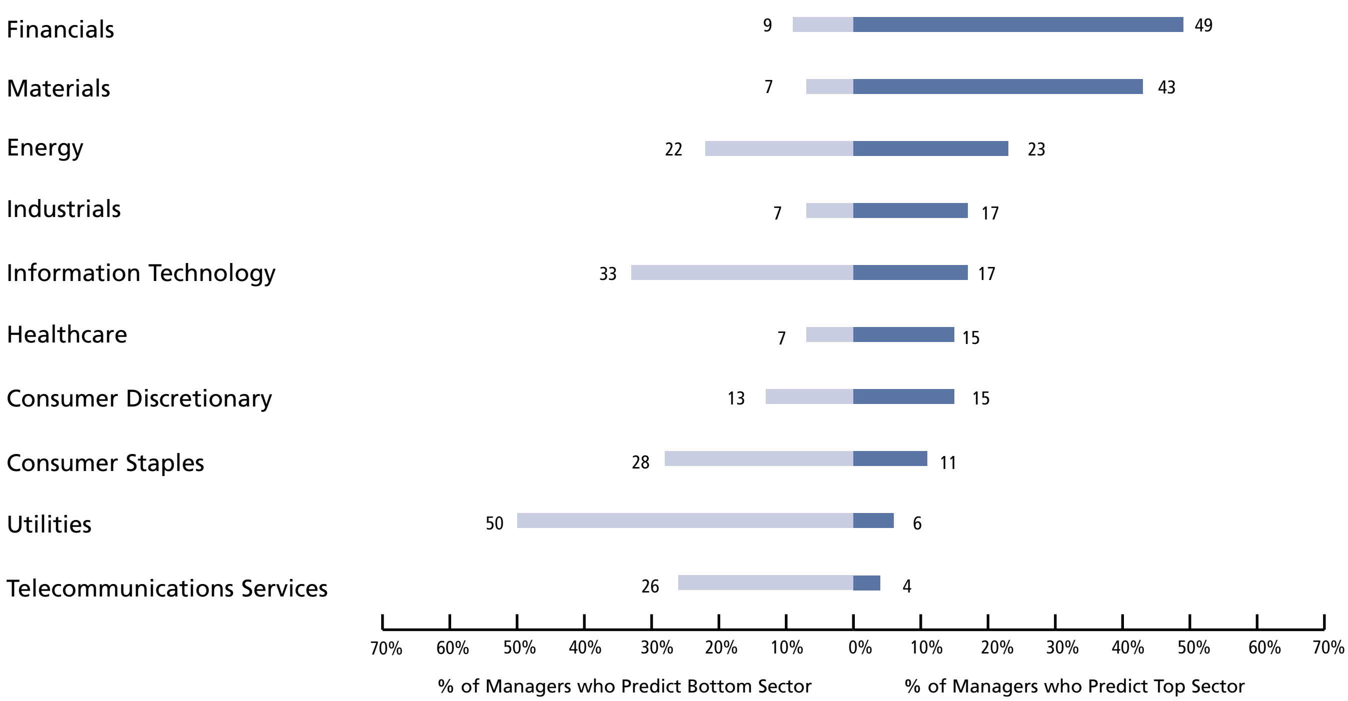

* As at December 31, 2002, the financial services sector represented 32.2% of the S&P/TSX Composite Index.

# Canadian findings
# Market data

### Managers ranked the following as the top issues affecting the Canadian capital markets in 2003




### Managers expect the following to be the top 2 and bottom 2 performing sectors of the S&P/TSX Composite Index in 2003



# Canadian findings
# Market data

### Managers predicted the top Canadian large cap stocks for 2003

- Biovail
- Alcan
- BCE

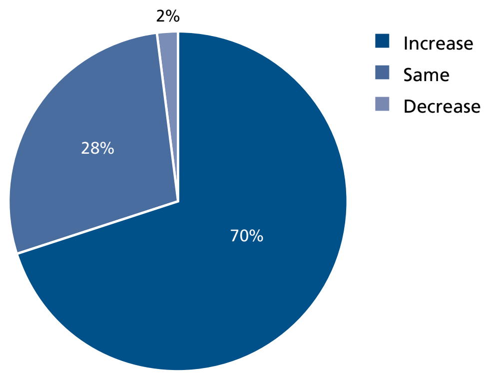
**Based on the number of times the managers chose each stock in their top 5 picks.**

### Managers predicted the top Canadian small cap stocks for 2003

- Forzani
- Cinram International
- Zarlink

**Based on the number of times the managers chose each stock in their top 5 picks.**

### Managers were asked if merger/acquisition activities in Canada will increase/decrease or remain the same in 2003

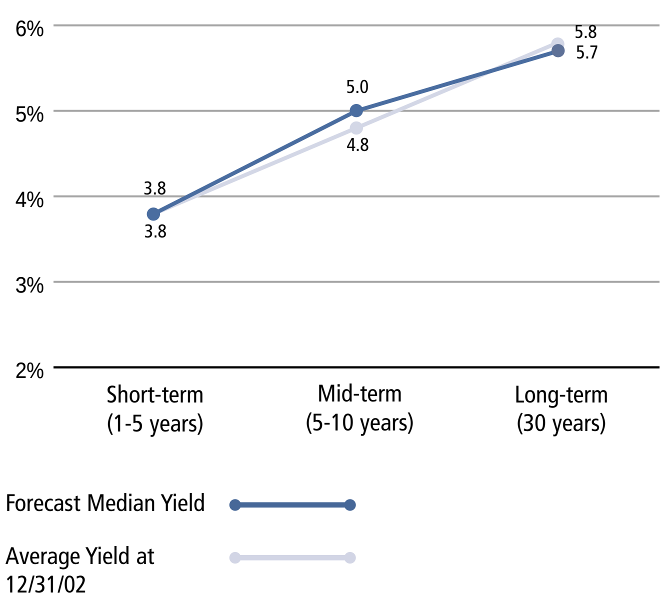



### Managers were asked to rank the top Canadian sectors/industries that would experience the most consolidation in 2003

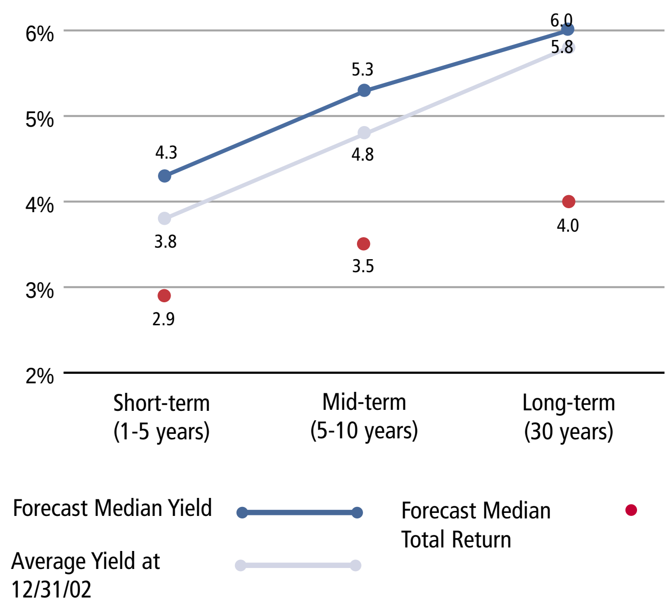
- Financials
- Energy
- Materials

**Based on the number of times the managers chose each sector/industry in their top 2 picks.**

### Government of Canada Bonds (at June 30, 2003)




### Government of Canada Bonds (at December 31, 2003)



# Global findings
# Global capital markets

The following section of the report summarises the expectations of the 40 leading global investment management organizations who responded to Mercer's 2003 Global Fearless Forecast survey.

### Highlights of 2003 Global Results

- The global managers expect average returns of +10.3% for the MSCI World Index and +11.0% for the MSCI EAFE Index in 2003. The global managers' outlook for the US is less optimistic, however, with the firms predicting the S&P 500 to return +8.9%. The results would be considerably better than for 2002, when the MSCI World Index declined 21.1% and the MSCI EAFE and S&P 500 declined 17.5% and 22.1%, respectively. Emerging markets remain attractive to the managers, who expect the MSCI Emerging Markets Index to return +13.5% for 2003.

- The three-year outlook for global markets is expected to continue in line with the 2003 positive predictions. The majority of managers expect an increase in the level of merger and acquisition activity, with only a handful expecting it to decrease in the near future — another sign of cautious optimism.

- For 2003, Hong Kong, South Korea, Japan, and the UK are predicted to be the best-performing countries and the US is also highly ranked. In 2002, these markets had mixed results with Hong Kong, the UK and the US all in the bottom half of the group of global markets in terms of performance. Japan fared better, but still declined 11.0%, while South Korea achieved +7.4%. The best-performing major countries last year were New Zealand and Austria with returns of +20.0% and +14.4%, respectively. A handful of the managers predicted that these two countries would continue to be high performers in 2003, but they are not among the most widely favoured countries.

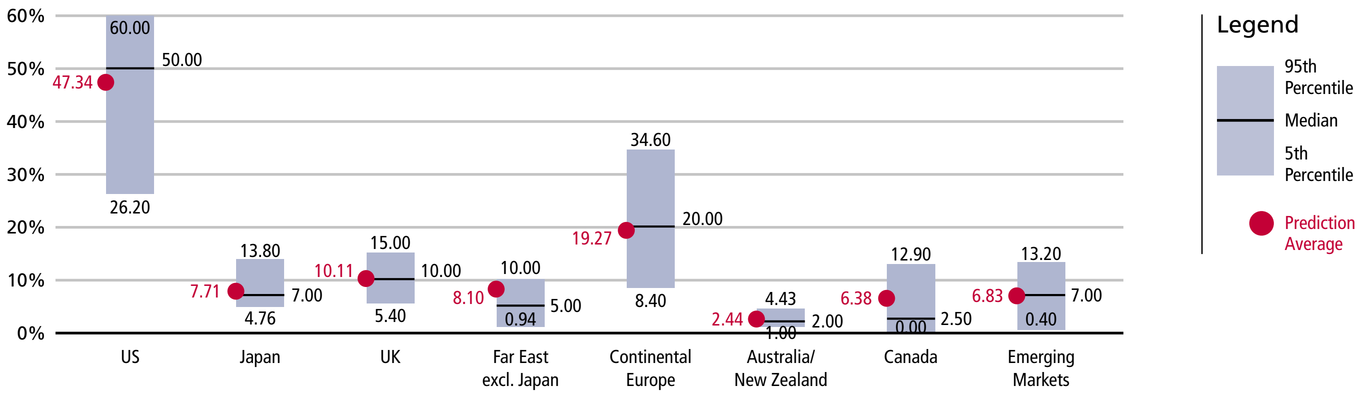
- While both the Canadian and global managers expect the U.S. equity market to be one of the better performing markets in 2003, they diverge on their view of Canada's ranking for next year. Forty percent of Canadian managers expect Canada to be one of the most attractive markets for 2003, while only 10% of global managers support this view.

- Increasingly, managers are choosing to look at the world in terms of global industrial sectors instead of along country lines. The global managers expect the leading sectors in 2003 to be financials and telecommunications. Their outlook is pessimistic for the utilities and consumer staples.

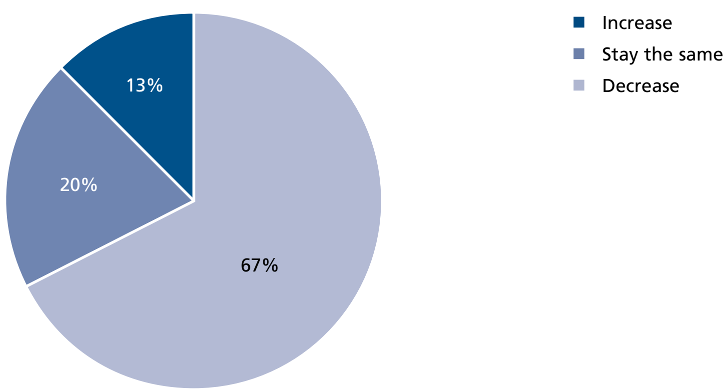
- What could derail the global managers' optimistic outlook? No surprises here and consistent with the Canadian managers, the global economy and the threat of terrorism are expected to most likely impact the global capital markets in 2003.

# Global findings

## Managers predict the following to be the best country/region allocation for a global equity portfolio in 2003




## Managers predict global volatility in 2003 will



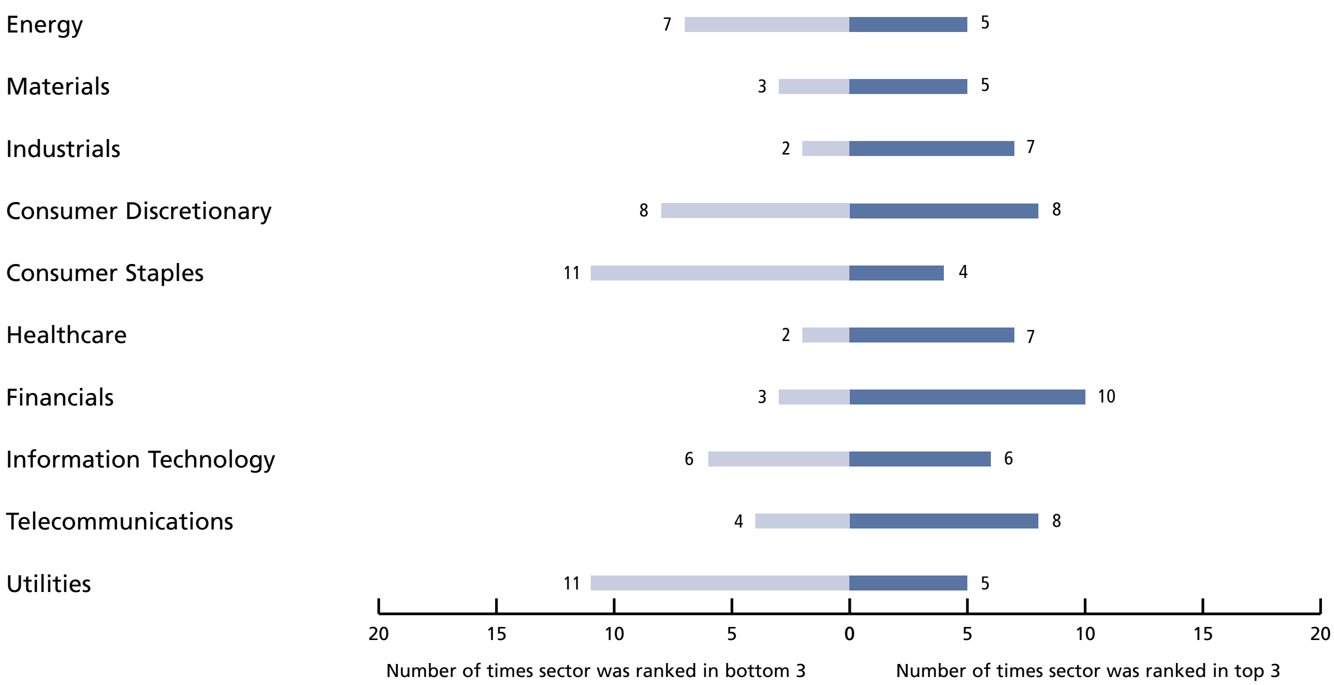

## Managers rank the following countries as the most attractive equity markets for 2003

- Hong Kong/China
- US
- South Korea
- Japan
- UK

**Based on the number of times the managers chose each country in their top 5.**

# Global findings

### Managers expect the following to be the top 2 and bottom 2 performing sectors of the MSCI World index in 2003




### Managers predicted the top 2 global sectors for 2003 to be

- Financials
- Telecommunications

**Based on the number of times the managers chose each sector in their top 2.**

### Managers predicted the bottom 2 global sectors for 2003 to be

- Utilities
- Consumer staples

**Based on the number of times the managers chose each sector in their bottom 2.**

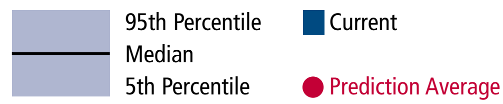
### Managers rank the following five stocks as the most attractive globally for 2003

- Kookmin Bank
- Royal Bank of Scotland
- Pfizer, Inc
- Samsung Electronics
- TeliaSonora

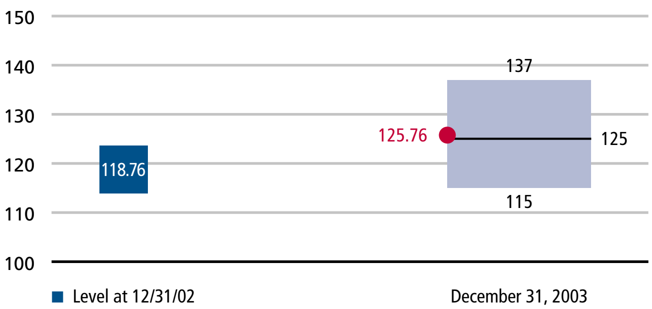
**Based on the number of times the managers chose each stock in their top 5.**

# Global findings

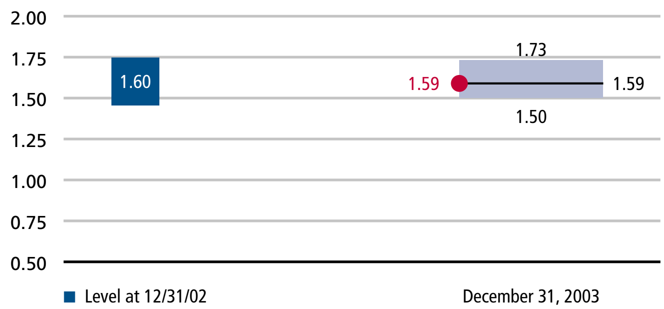
### Legend



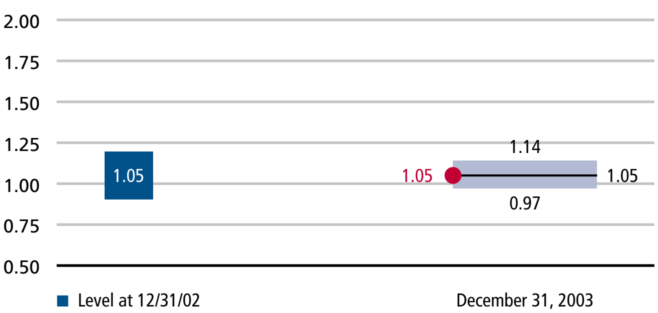

### Yen/US $



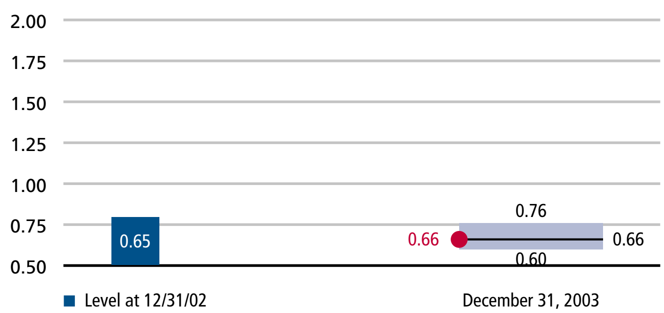

### US $/£



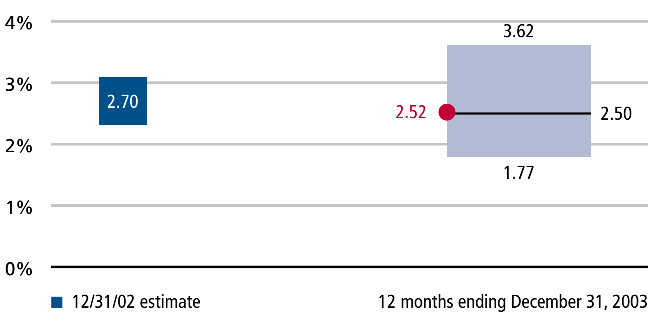

### US $/€




### £/€

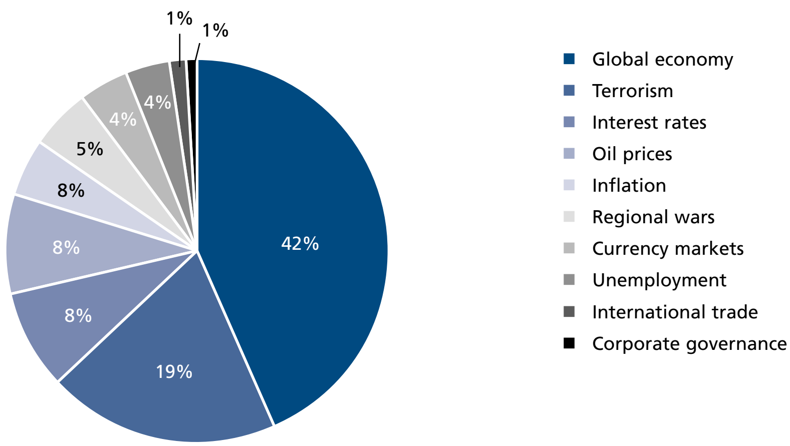



### Real GDP Growth Rate

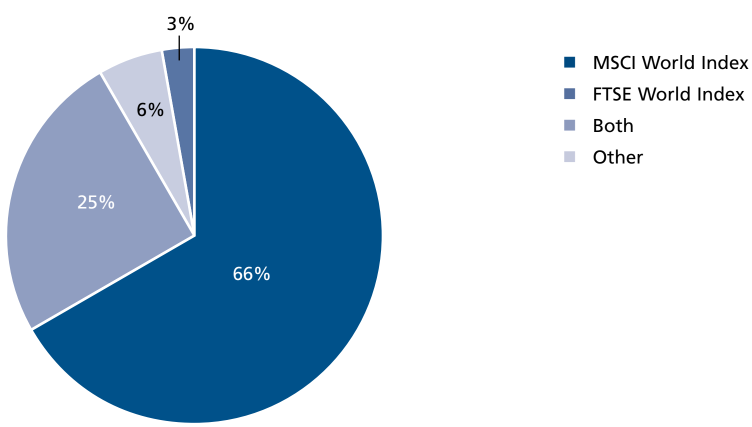


# Global findings

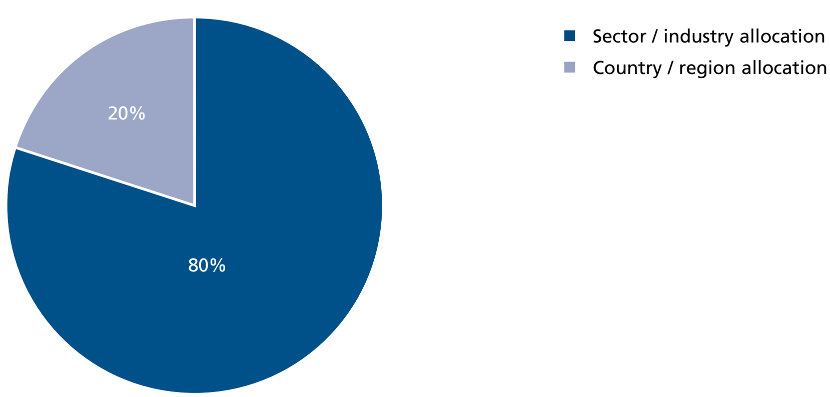
### Managers rank the following as the top issues affecting global capital markets in 2003




### Managers were asked which benchmark they were currently using for their global equity portfolios



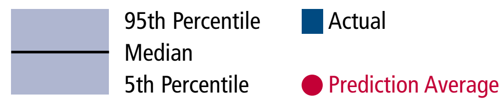

### Managers were asked which allocation would be more important in future global equity portfolio management



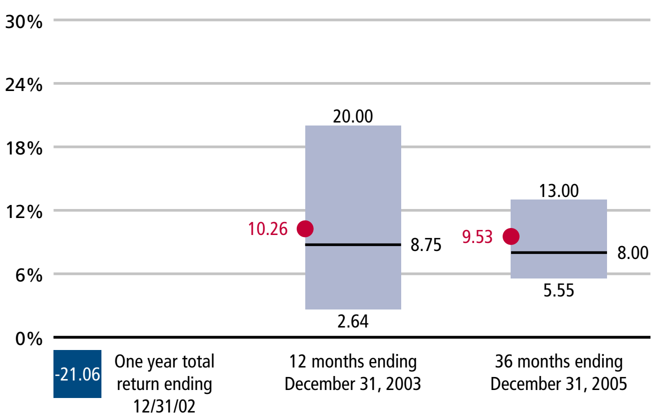
# Global findings

### Managers predict the total rate of return ($US) over the forecast period for the following indices

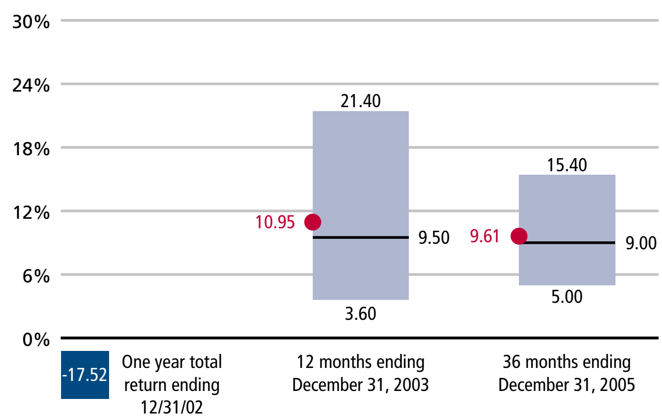
**Legend**



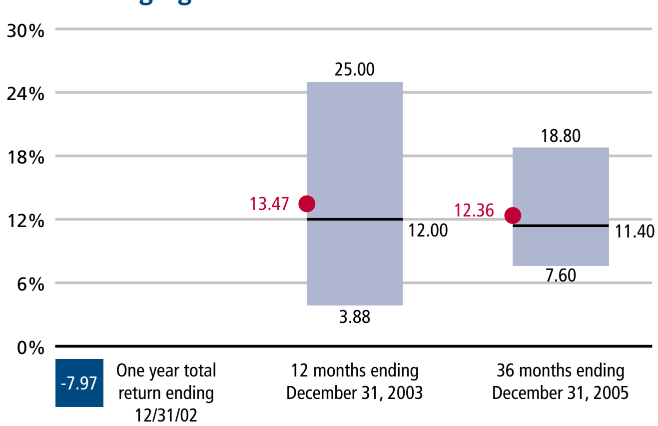

### MSCI World Index



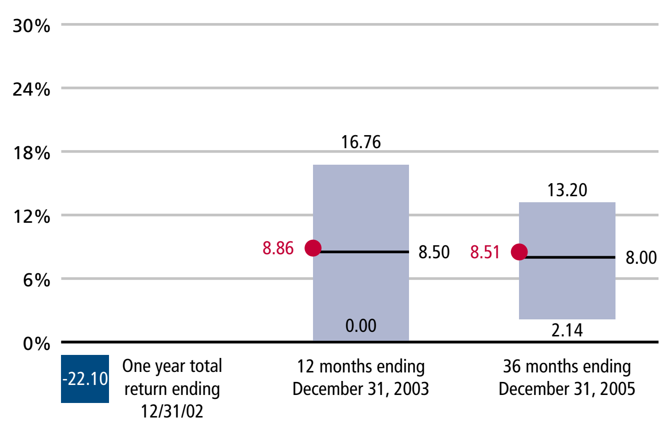

### MSCI EAFE Index




### MSCI Emerging Markets Index

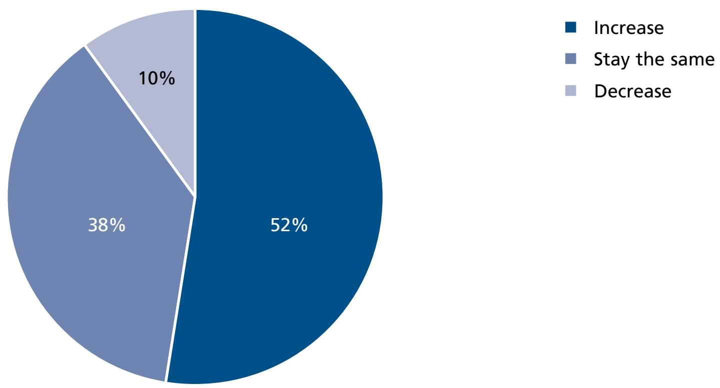



### S&P 500 Index



# Global findings

**Managers were asked if cross border merger/acquisition activity would increase, decrease, or remain the same in 2003**




**List of Global Participants**

*The global section of this survey was compiled from the results of these 40 participating global investment managers.*

| | |
|---|---|
| ABN AMRO Asset Management | Lazard Asset Management |
| Acadian Asset Management | Loomis Sayles and Company, L.P. |
| American Express Asset Management Ltd. | Marvin & Palmer Associates |
| Arrowstreet Capital, L.P. | McKinley Capital Management, Inc. |
| Barclays Global Investors | Merrill Lynch Investment Managers |
| Baring Asset Management Limited | Nicholas – Applegate Capital Management |
| BPI Global Asset Management LLP | New Star Institutional Managers Ltd |
| Brandywine Asset Management LLC | Oechsle International Advisors |
| Capital Guardian Trust Company | Oppenheimer Capital |
| Citigroup Asset Management | Pacific Investment Management Company (PIMCO) |
| Clay Finley Inc | Putnam Investments |
| Deutsche Asset Management | Robeco Group |
| Dresdner RCM Global Investors | Rogge Global Partners Plc |
| F&C Investment Management | Rothschild Asset Management Limited |
| Fiduciary Trust Company | Sanderson Asset Management |
| Grantham, Mayo, Van Otterloo & Co. | Schroders |
| Goldman Sachs Asset Management | SG Asset Management |
| ING Aeltus Investment Management | SSgA |
| INVESCO | Standish Mellon Asset Management |
| JPMorgan Fleming Asset Management | Templeton Investment Counsel, LLC |

### List of Canadian Participants

*The Canadian section of this survey was compiled from the results of these 49 participating Canadian investment managers.*

Acuity Investment Management Inc.
Addenda Capital Inc.
Altamira Financial Services
AMI Partners Inc.
Aurion Capital Management Inc.
Baker Gilmore & Associates Inc.
Barclays Global Investors Canada Ltd.
Beutel, Goodman & Company Ltd.
BLC - Edmond de Rothschild Asset Management Inc.
BonaVista Asset Management Ltd.
Connor, Clark & Lunn Investment Management Ltd.
Co-operators Investment Counselling Ltd.
Elantis Global Investment Management
Foyston, Gordon & Payne Inc.
Franklin Templeton Institutional
Galileo Equity Management Inc.
Greystone Managed Investments Inc.
Guardian Capital Inc.
Highstreet Asset Management
Hillsdale Investment Management Inc.
HSBC Asset Management Canada
Invesco Inc.
J. Zechner Associates Inc.
J.R. Senecal & Associates Investment Counsel Inc.
Jarislowsky Fraser Ltd.
Jones Heward Investment Counsel Inc.
KBSH Capital Management Inc.
Laketon Investment Management Ltd.
Leith Wheeler Investment Counsel Ltd.
Lincluden Management Ltd.
London Life Investment Management Ltd.
McLean Budden Limited
Middlefield Group
Montrusco Bolton Inc.
Morguard Investments Ltd.
Mulvihill Capital Management Inc.
Natcan Investment Management
PCJ Investment Counsel Ltd.
Perigee Investment Counsel Inc.
Pictet International Management
QVGD Investors Inc.
Sceptre Investment Counsel Ltd.
Scheer, Rowlett & Associates Investment Mgmt Ltd.
Standard Life Investments Inc.
State Street Global Advisors
Synergy Asset Management Inc.
TD Quantitative Capital
UBS Global Asset Management (Canada)
YMG Capital Management Inc.

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The Mercer Investment Consulting team is over 600 people strong with employees located in 40 investment consulting offices in 20 countries around the world. We advise clients with assets in excess of $Cdn 2.2 trillion, including over 950 retainer clients.

We are part of Mercer Human Resource Consulting, an advantage which allows us to bring enhanced value to our clients through accessing their wealth of experience, network of over 13,000 employees, and presence in some 40 countries around the world. Mercer Human Resource Consulting is a subsidiary of Marsh & McLennan (MMC), a *Fortune* 500 company.

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- Optimal Asset Allocation
- Asset/Liability Modelling and Risk Analysis
- Applied Immunisation Strategies
- Designing Investment Manager Structure
- Investment Manager Search and Selection
- Investment Manager Monitoring and Evaluation
- Transaction Cost Analysis
- Defined Contribution Services
- Recordkeeper Searches
- Design of Investment Option Packages
- Investment Planning Assistance
- Group Anuity Purchases
- Master Trustee/Custodian Selection
- Special Projects

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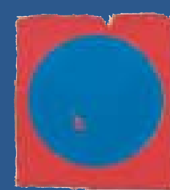

# 2003 Fearless Forecast

## Survey of Canadian and Global Investment Managers

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