



*Prudent Investments:
How to Manage in Volatile Times*



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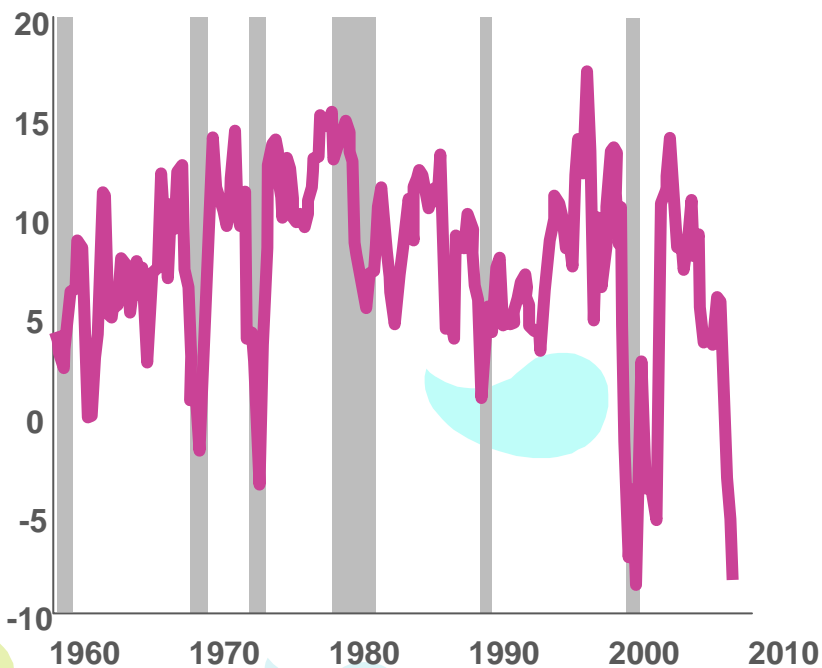
Gordon H. MacDougall, Vice Chairman
November 7, 2008

Connor, Clark & Lunn
INVESTMENT MANAGEMENT LTD.

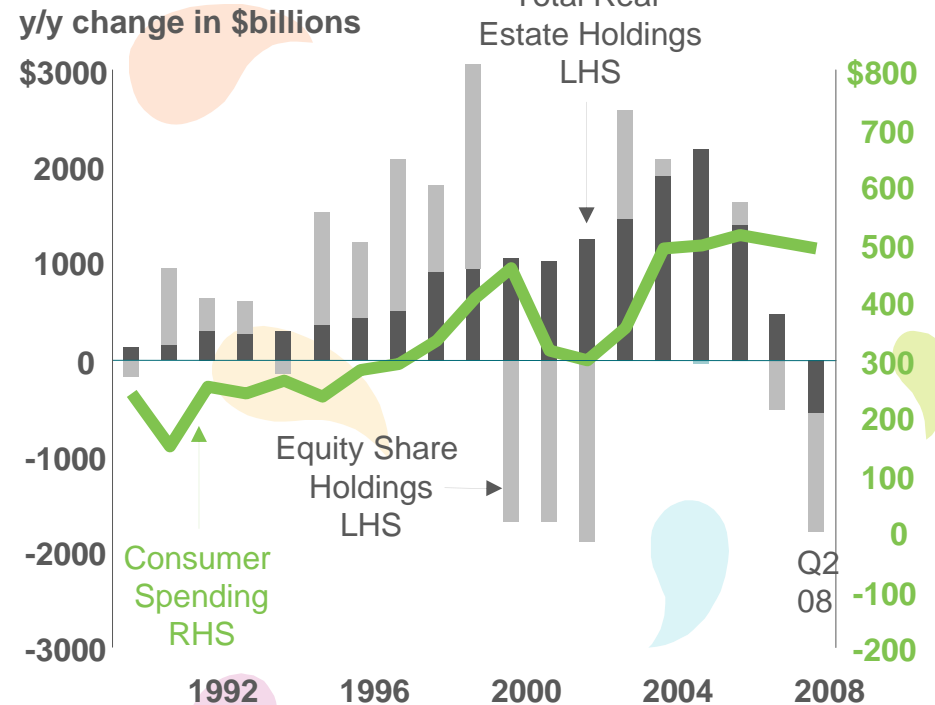
Lowering the Bar

- Structural deleveraging virtually assures below trend GDP growth and lower investment returns for some time to come

US Consumer Net Worth



Household Wealth

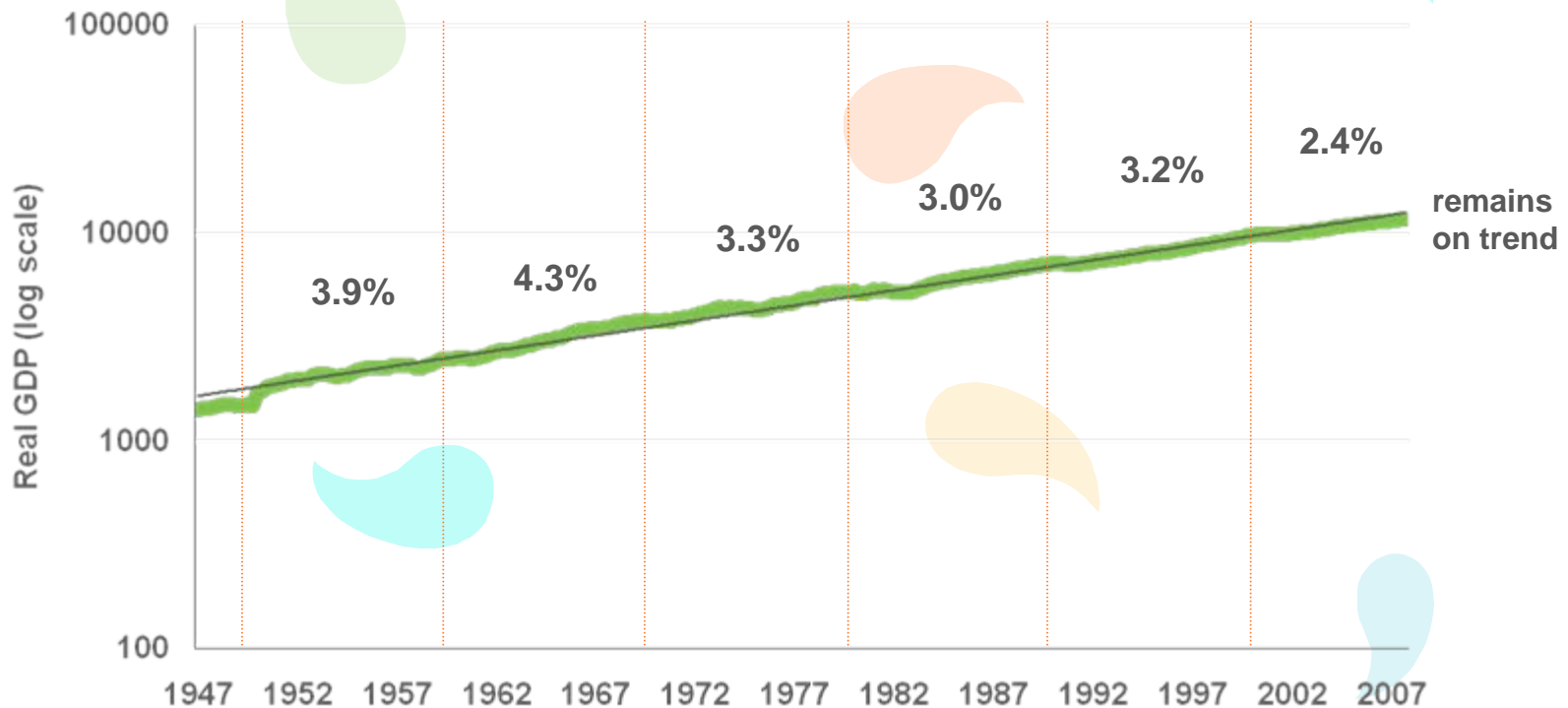


- For each \$1 change in net worth, Consumer Spending is affected by 6¢



Lowering the Bar

- Experience over the last 30 years suggests 2-3% economic growth is the most likely range over the next few years



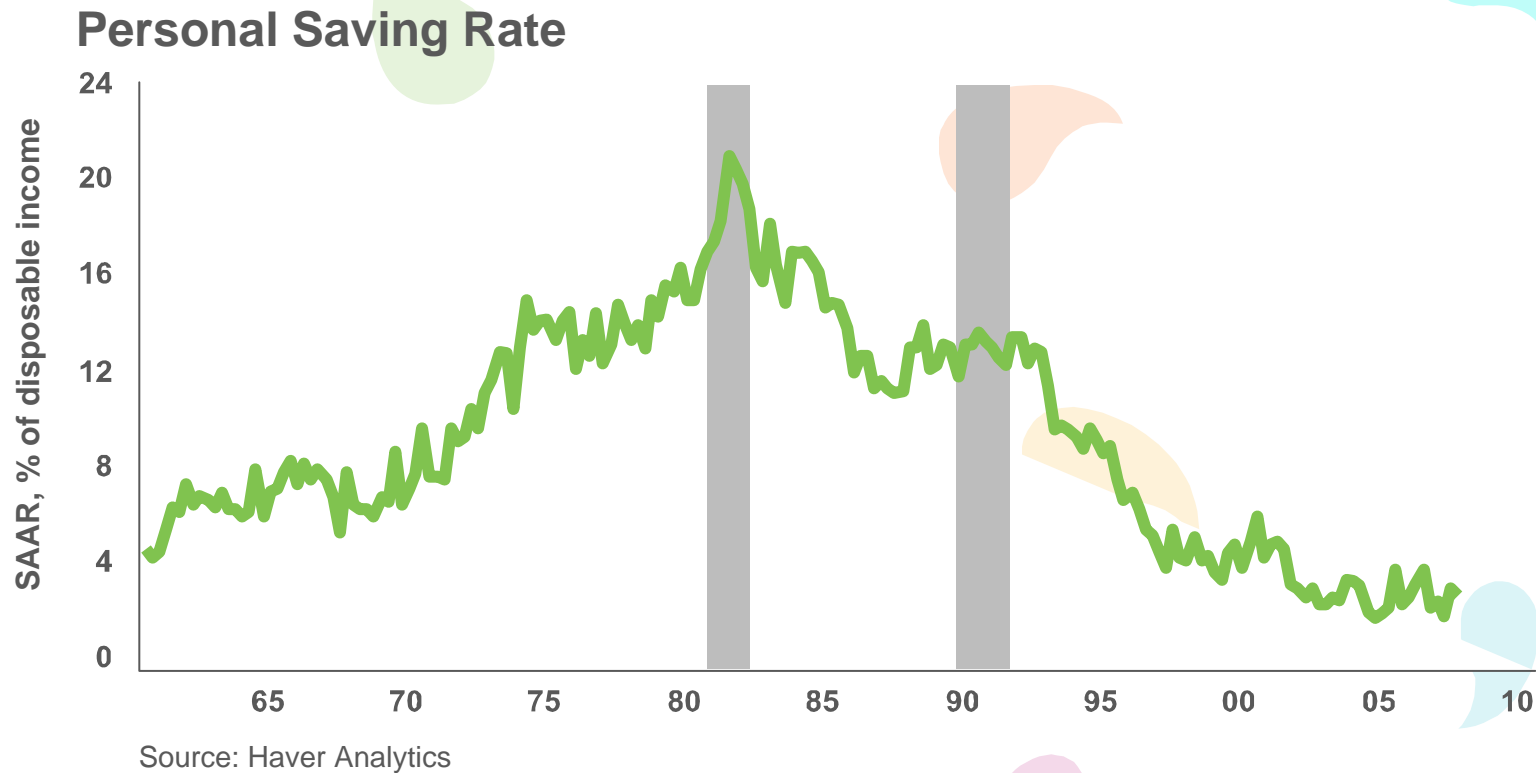
Source: Datastream International

- Economy has expanded 1000% in real terms over the last 200 years (or 3.7% p.a.)



Lowering the Bar

- Consumer recession – lower spending, pay down debt, increase savings



- Entering a SECULAR credit contraction: debt paydown, asset liquidation, and rising savings rates.



Investment Strategy Should Reflect NEED Not GREED

- What do we need to earn to meet the objectives of our stakeholders?
- Any investment involves risk (volatility) but only intended risks should be taken
- Strategy should reflect a high probability of achieving the objective (NEED)



Defining *NEED*

- *NEED* is equal to the Required Investment Return

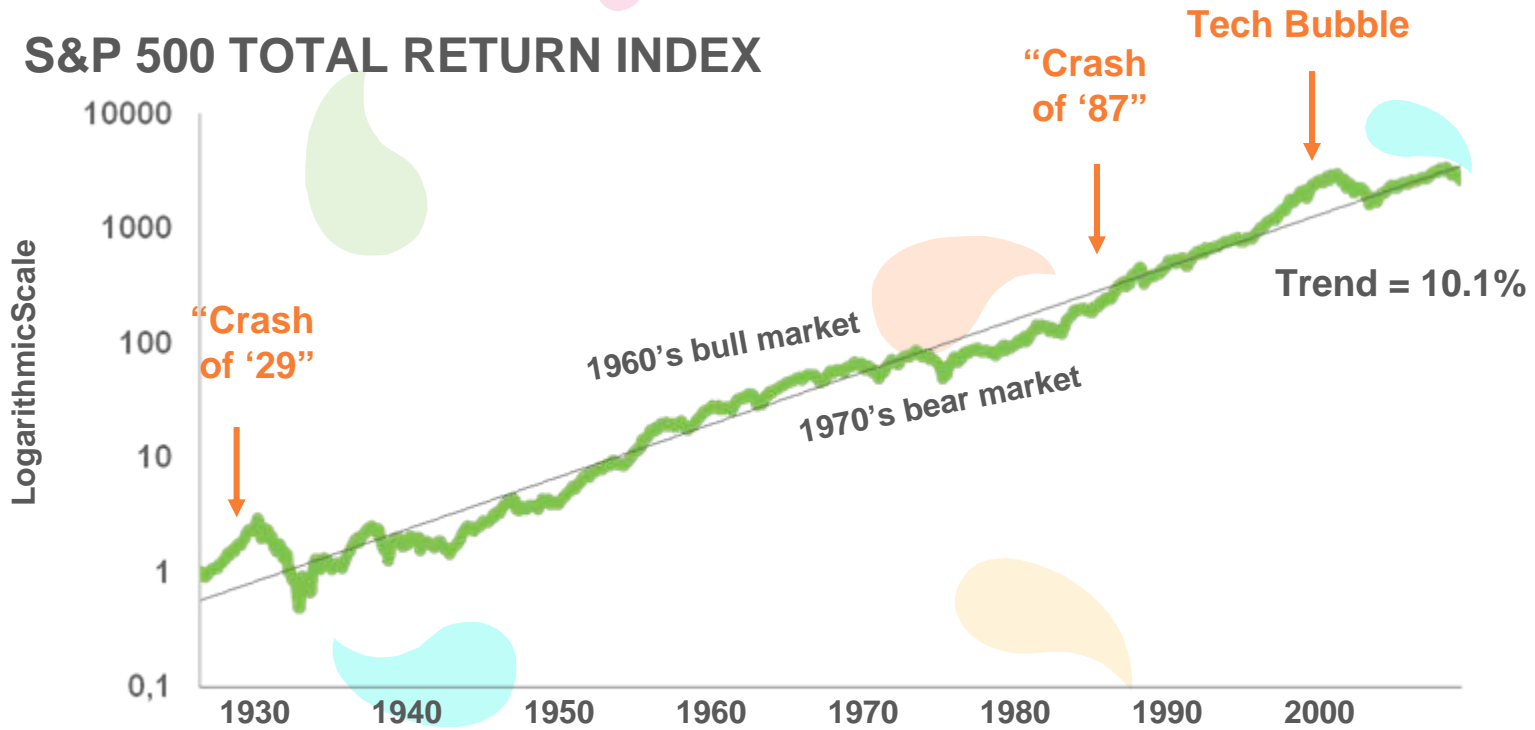
$$\begin{aligned} \text{Required Investment Return} &= \text{Inflation Rate (to preserve capital)} \\ &+ \text{Cost Recovery (admin/investment)} \\ &+ \text{Distribution Rate} \end{aligned}$$

Today

Inflation Rate	2.5%	}	Total 7-8.5%
Cost Recovery	0.5-1.0%		
Distribution Rate	4-5%		



What Return is Achievable?



Source: Datastream International, Ibbotson

■ Sources of Return:

— Dividends	4.2%
— P/E growth	1.0%
— Earnings growth	4.9%

■ Guestimate for the next 3-5 years

— Dividends	2.5-3.5%
— P/E growth	0.0%
— Earnings growth	2.0-3.0%



Asset Allocation – Historical Approach

- Traditionally stocks 60%, bonds 40%
- Too much risk for return



Asset Allocation – Today's Approach

- Asset Classes that are less correlated

- Stocks

- *Break Equities into large and small cap → small cap less correlated to bonds as well as to US and international equity*
 - *Market neutral hedge fund → negative correlation to all bond strategies as well as Canadian/US large cap*

- Bonds

- *Add “Universe Core Plus” and mortgages*

- Large Funds

- *Consider real estate, private equity, infrastructure*

- Assets that emphasize cash yield (lower volatility)

