

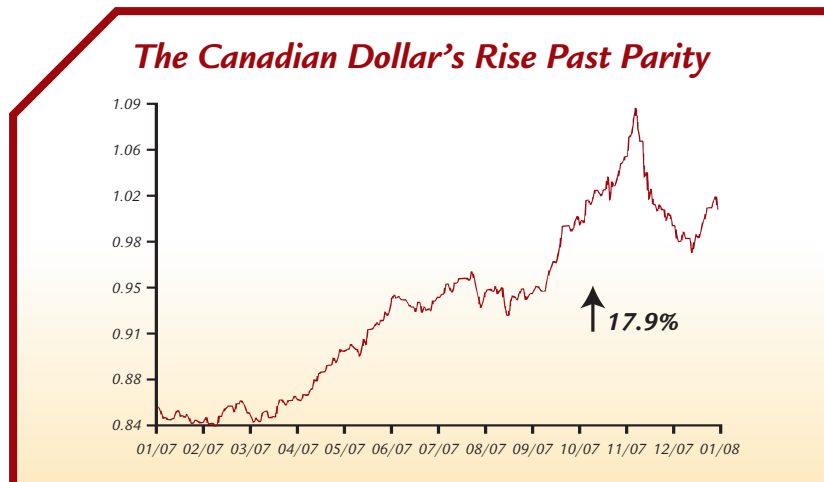
Student Investment Fund 2007 in Review

IT'S NEVER
BUSINESS
AS USUAL

A COMMENTARY FROM STUDENT PORTFOLIO MANAGERS

Looking back at 2007, Canadian financial markets were volatile. Commodity prices rose to record levels, the Canadian dollar reached and surpassed parity compared to the weak U.S. dollar, and the sub-prime mortgage crunch in the United States all contributed to the market woes. The resultant liquidity crisis forced the U.S. Federal Reserve Bank to reduce interest rates. Canada reaped the benefits of record high oil and gold prices. However, the country experienced a crisis with asset backed commercial paper which led the Bank of Canada to lower interest rates. The S&P/TSX Composite Index, a measure of stock market performance, posted negative fourth quarter results for only the 10th time in the past 52 years.

The Student Investment Fund portfolio peaked at \$2.27 million during the year. With a portfolio value of \$2.24 million at year end, the fund recorded a 7.82% annual rate of return, 31 basis points below the benchmark. However, the student-managed fund outperformed its equity and bond benchmarks. The year's underperformance was attributable to the fund managers' asset mix decision. In early 2008, as the economy contracted, the asset allocation was proven to be correct. As the great baseball coach Yogi Berra said, 'it is tough to make predictions, especially about the future.' (Taleb, Nassim Nicholas; The Black Swan)



The Canadian Dollar had a meteoric rise in 2007. Unfortunately, this rise also diminished any US\$ returns for Canadian investors.
Source: CPMS

Student Investment Fund Portfolio Performance

January 1 to December 31, 2007
(expressed in percent)

	2007	4th Quarter
Total Fund	7.82	1.47
Benchmark	8.13	1.33
Difference	(0.31)	0.14
Equities	11.37	0.03
Benchmark	11.26	(0.27)
Difference	0.11	0.30
Fixed Income	4.53	3.12
Benchmark	4.45	3.07
Difference	0.08	0.05
Short-term	4.80	1.30
Benchmark	4.44	1.07
Difference	0.37	0.23

EQUITIES

The equities portfolio yielded an annual return of 11.37%, outperforming the S&P/TSX 60 by 11 basis points. The Student Investment Fund program uses a market neutral strategy to manage its equities portfolio which requires offsetting long and short bets. Long positions were based primarily on a lower PEG(prospective earnings growth) ratio versus its opposing short position. The success ratio measures the rate at which the long position outperformed its corresponding short position. The students recorded a better than average 58% success ratio on the 19 bets active at the end of the year.

Research in Motion, the firm which created and manufactures the Blackberry, continues to dominate the smart phone industry. The stock was the SIF's best performer during the year. Potash Corporation of Saskatchewan ranked second, reflecting a sustained high demand for the commodity. Potash is used to make fertilizer. As wheat prices reached an all-time high during the year demand for fertilizer soared.

FIXED INCOME

The SIF bond portfolio returned 4.53% during the year, 8 basis points above its benchmark index. The outperformance was attributable to two factors: credit spreads and yield curve strategy. The student fund managers overweighted provincial and municipal bonds, primarily those issued in Atlantic Canada, to take advantage of their higher yields. Students adopted a long-term "bullet strategy" for the fund, overweighting mid- and long-term bonds versus the DEX index. This approach reflects their assessment that the market had peaked and would experience downward pressure in 2007. The students did not make a duration bet during the year. The lower duration for the SIF portfolio was due to a cash payment received in December that was not reinvested by year end.

	SIF Portfolio ¹	DEX ²	Difference
1-year return(%)	4.53	4.45	0.08
Modified Duration (years)	6.63	7.04	(0.41)
Federal bonds(%)	53.00	61.60	(8.60)
Provincial bonds(%)	44.44	36.68	7.76
Municipal bonds(%)	2.56	1.72	0.84
Short-term (1-5 years)	31.71	47.21	(15.50)
Mid-term (5-10 years)	26.25	22.51	3.74
Long-term (10+ years)	42.03	30.28	11.75

¹ The SIF portfolio performance is calculated by NBIMC.

² DEX refers to data derived from PC Bond Analytics. Data is current as at December 31, 2007.

TACTICAL ASSET ALLOCATION DECISION

A decision to underweight equities resulted in an underperformance of 40 basis points in 2007. The strategy reflects an expectation that a slowdown in the Canadian economy was imminent. Consequently, the fund managers felt that equities' performance would weaken while bonds would respond favourably. In this scenario, the Bank of Canada would be forced to cut its lending rate to stimulate the economy. This tactical asset allocation decision was made during the first quarter of the year, shortly before the equity markets rebounded. As a result, the SIF portfolio was offside for the first six months of 2007. The portfolio gained ground later in the year when the sub-prime mortgage default crisis in the United States sent investors looking for safer investment havens such as bonds. However, the downturn in the equity markets was insufficient to move the fund to a positive position by year end.

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