



Canadian Markets' Performance

The Canadian equity market started 2008 with a downturn during a volatile quarter where intraday trading was a rollercoaster ride for investors. The markets continued to retreat throughout the quarter as fallout from the U.S. sub-prime mortgage market continued to pressure the global economy, however, the Canadian market still managed to fare better than most global markets. In mid-January, several of the world's largest banks announced massive write-downs related to the situation in the U.S. mortgage market. The Canadian market bottomed out on January 21 when the S&P/TSX Composite Index fell 4.8% in one day, the largest single day drop in almost seven years. The Bank of Canada (BoC) elected to lower the overnight rate by 25 basis points in January citing slower projected growth due to the weakening U.S. economy. In March, the BoC dropped the overnight rate by another half percentage point to 3.5% over concerns that a deeper, more prolonged market slowdown may occur.

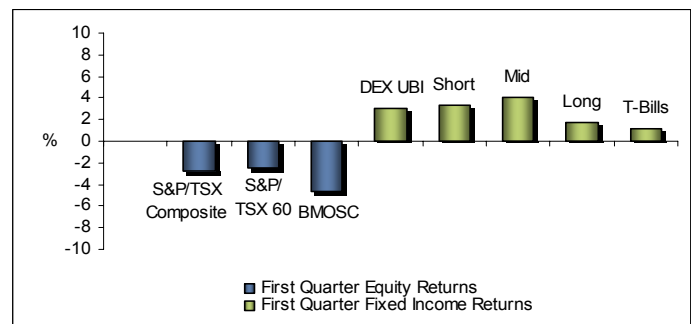
Within the S&P/TSX Index (-2.8%), only two of the ten sectors posted positive returns for the quarter. Materials (7.3%) continued its positive trend from the previous year as gold prices hit record highs. Propelled by the on-going bleak news from the financial sector and the weakening U.S. dollar, gold futures on the New York Mercantile Exchange broke above the psychologically key level of US\$1,000 an ounce. Energy (1.2%) was the other positive contributor to the Index. Crude oil prices continued to rise as futures for April delivery reached over US\$110 a barrel in mid-March before closing the quarter just above the US\$100 per barrel. Consumer Discretionary (-14.3%) and Telecom (-12.0%) were the largest detractors. BCE (-12.0%) which accounts for 41% of the Telecom sector, fell amid speculation that the proposed Teachers buyout would fall through.

Small cap stocks, as measured by the BMO Small Cap Index (BMO SC) (-4.7%), continued to underperform in the first quarter lagging the large cap S&P/TSX by 1.9%. Only one sector posted positive returns

over the quarter. Energy (10.5%) was the best performing sector reversing fortunes from the previous two quarters. Consumer Staples (-20.9%) was the worst performing sector after closing 2007 on a positive note.

Once again, it was a volatile quarter for the Canadian dollar. After declining in January, the dollar bounced back in late February, only to fall towards the latter days of March. The Canadian dollar declined 3.8% relative to the U.S. dollar to finish the quarter below parity.

The Canadian bond market, as measured by the DEX Universe Bond Index, continued its positive performance, outpacing the S&P/TSX Index with a return of 3.0%. Yields continued to decline; to 4.0% as at the end of March. All sectors posted positive returns with federal issues (3.8%) leading the way. Mid-term bonds performed best with a return of 4.0%, while short-term (3.3%) and long-term (1.7%) bonds were positive. T-Bills rose slightly, earning 1.2%.

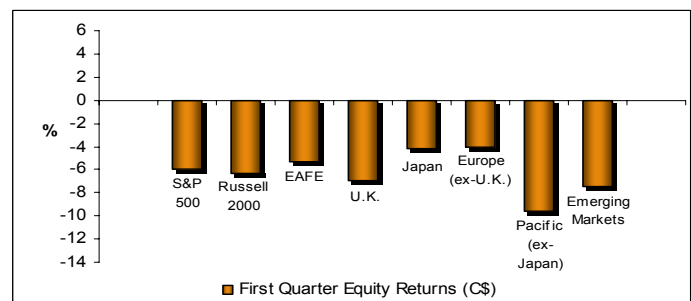


Global Markets' Performance

The global equity markets as, measured by the MSCI World Index (-5.5% C\$), continued to decline in the first quarter of 2008.

The S&P 500 returned -5.9% in Canadian dollar terms over the quarter. Financials (-11.3%) underperformed the broader index for the sixth consecutive quarter with brokerage firm Bear Stearns, being brought to the brink of insolvency before JPMorgan, with the support of the Federal Reserve, acquired the firm. The Federal Reserve cut its overnight rate on three separate occasions during the quarter. The Fed lowered the rate by 75 and 50 basis points in January and another 75 basis points in March to 2.25%. Also in March, the central bank announced the injection of an additional \$200 billion of liquidity into the markets through an arrangement that would lend Treasuries to primary dealers in exchange for mortgage related paper.

The MSCI EAFE Index returned -15.0% in local currency terms (-5.3% C\$) as the Canadian dollar depreciated against all currencies within the Index. Due to its weight within the Index, Financials (-7.0% C\$), was the largest detracting sector. Consumer Staples (0.1%) and



Health Care (-2.2%) were amongst the top contributors, as investors opted to move towards more defensive positions.

The Europe ex-UK (-4.1%) region was the largest detracting region to the Index, while the U.K (-7.0%) was the largest detracting country.

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Paul Malizia—Hewitt Associates
225 King Street West, 16th Floor
Toronto, Ontario M5V 3M2
Tel: (416) 227-5737

Introducing the TFSA

The most important Canadian investment development over the first quarter of 2008 has been the introduction of the Tax Free Savings Account (TFSA) in this year's federal budget. One may argue that the expected but undelivered capital gains exemptions would have delivered more punch, or debate the advantages between the TFSA vs. RRSP and which is better for different people with different circumstances. But, what cannot be argued, is that the introduction of the TFSA has created a savings vehicle that has benefits for individuals in all circumstances.

The TFSA will come into effect on January 1, 2009. The essence of this account is that it accepts after-tax contributions, which therefore, do not provide a tax deduction. However, it permits withdrawals to be made on a tax-free basis.

A Canadian resident (18 years of age or older with no maximum age limit) is able to contribute \$5,000 each year, as long as the individual has filed their tax return. If the individual is unable to use a portion or all of the year's contribution room, it is carried forward until it is used. The \$5,000 contribution room is provided to all residents regardless of the individual's income level. The \$5,000 contribution room will be indexed to the consumer price increased.

The primary advantage is that any investment income or capital gains incurred within the TFSA are not taxable. On the other hand, capital losses are not able to be used to offset capital gains incurred on investments outside the TFSA. Further, any withdrawals from the account are not subject to tax and the individual's contribution room will be increased by the amount of the withdrawal. As an example, if the individual were to fully utilize their room in 2009 by contributing \$5,000 to a TFSA and in January 2010, the account is worth \$5,500 and the individual withdraws the full amount, the individual's room will now be \$10,500, equaling the amount of the withdrawal and the 2010 contribution room of \$5,000.

The obvious advantage is the flexibility of the TFSA. It allows tax free savings and withdrawals with the unlimited ability to access the funds whenever it is required without losing the contribution room. Along with this great opportunity, there does come some complexity, not the least of which is the debate between when to use the TFSA and when to use the RRSP. For individuals who can afford to maximize contributions in both accounts that is the ideal situation. However, for those who must choose between both accounts, the decision may be

complex and will depend on the individual's situation.

A young individual may decide that the flexibility to access funds from the TFSA for anything from purchasing a house (without having to repay the funds back based on a pre-determined schedule) to buying their next car is to their advantage, especially in light that their RRSP contribution room will build and will allow them to use the RRSP contribution room when they are earning more and in a higher tax bracket. An individual nearing retirement may decide that they are better off contributing money into the TFSA because they want to keep payments from a RRIF after retirement to a minimum level to ensure they are not subject to the Old Age Security clawback based on their income level.

For many individuals, the RRSP account may be the preferred vehicle if their circumstances are such that they are currently working and are in a higher tax bracket than they expect to be after retirement. The complexity in tax planning only increases when you try and decide between other vehicles such as an RESP, making contributions to one of these registered accounts versus paying down debt (such as a mortgage).

No matter what the circumstance, these accounts do provide an opportunity for all individuals and as such employers should consider adding this option as part of a group plan along with their more traditional defined benefit or defined contribution plans. For example, the TFSA would be especially advantageous in a defined benefit arena where an individual's RRSP contribution room is fully used up by the pension adjustment created by the pension plan.

The list of potential group retirement vehicles has now been lengthened and while it creates an advantage for employees, the complexity of how to structure multiple plans has now increased along with the communication effort necessary in offering these plans to members.

Whether in a group or individual environment, the introduction of the TFSA will create an additional vehicle for tax-assisted savings. The government is in the process of finalizing the more detailed provisions of the TFSA, however, the information provided in the budget release signifies further opportunities for all individuals.

For convenience, we have included a chart comparing the TFSA to RRSP.

TFSA Versus RRSP

	TFSA	RRSP
Minimum Age for Contributing	18	None (must have earned income)
Maximum Age for Contributing	None	Age 71 (end of year)
Requirement to File Tax Return	Yes	Yes
2009 Contribution Room	\$5,000	18% of 2008 Income (maximum \$21,000) less 2008 PA plus 2009 PAR less 2009 PSPA plus unused room
Carry-forward of Unused Room	Yes	Yes
Penalty for Over-contributions	1% per month	1% per month (for excess > \$2k)
Contributions to Spouse's Plan	Allowed	Not allowed
Tax Deduction for Contributions	No	Yes
Taxation on Withdrawals	None	Taxed as income
Impact of Withdrawals	Room restored	Room not restored
Subject to OAS Clawback	No	Yes
Subject to Income Splitting	Not applicable	Yes
Deductibility of Interest on Borrowed Funds	None	None

Notable Dates

Jan 22 & Mar 4 – The Bank of Canada cuts its key rate by a quarter point and half point respectively, to 3.5%.

Jan 22, 30 & Mar 18 – The Fed cuts its key rate by 75, 50 and 75 basis points respectively, to 2.25%.

Feb 19 – Crude oil prices settle at over US\$100 a barrel on the New York Mercantile Exchange.