

## Soaring loonie dampens Canadian pension returns

Toronto, July 20, 2007 — Interest rate jitters and the strengthening Canadian dollar largely erased healthy stock market gains in the second quarter, according to a survey just released by RBC Dexia Investor Services, which maintains the industry's most comprehensive universe of Canadian pension plans and money managers.

Within the CAD 340 billion RBC Dexia universe, Canadian pensions earned 0.9 per cent in the quarter ended June 30, 2007, bringing year-to-date totals to 2.9 per cent – a lacklustre return, although still ahead of inflation.

Domestic stocks, the top performing asset class for Canadian pensions, returned an impressive 6.3 per cent in the quarter, supported by firm commodity prices and market speculation about takeovers. “Year-to-date, Canadian pension plans have beaten the S&P TSX Composite benchmark index by almost a full percentage point – that’s a 10.0 per cent gain, on the strength of superior security selection in the materials sector,” noted Don McDougall, Director Advisory Services, RBC Dexia Investor Services.

However, the loonie's dramatic rise against most major currencies prevented most Canadian pension plans from benefiting from buoyant equity markets outside the country. The MSCI World index's healthy 6.0 per cent rise in local currency terms translated into a *loss* of 1.8 per cent for the quarter, once Canadian exchange rates were taken into account. “Currency fluctuations have assumed crucial significance for pension plan sponsors. Foreign stocks now account for about half of the typical pension plan's strategic equity allocation, but most plans do not hedge their foreign currency exposure,” explained McDougall. Over the quarter, Canada's dollar appreciated almost 8.0 per cent against a basket of world currencies, including 8.3 per cent against the US dollar, 6.8 percent against the Euro and 13.2 per cent against the Japanese yen.

Canadian pension plans also saw domestic bond holdings lose 1.8 per cent over the quarter, as anticipation of interest rate hikes triggered a sell-off, shaving 0.1 per cent from the Scotia Capital Universe Bond Index. Longer duration bonds (maturities of ten years or more) had their worst quarterly showing in 13 years, while Canadian real return bonds suffered the most, declining 3.5 per cent in value.

### About RBC Dexia Investor Services

RBC Dexia Investor Services offers a complete range of investor services to institutions worldwide. Established in January 2006, we are a joint venture equally owned by Royal Bank of Canada and Dexia. We rank among the world's top 10 global custodians, with USD 2.4 trillion in client assets under administration. Our innovative products and services help clients maximise operational efficiency, minimise risk and enhance portfolio returns. And our more than 4,300 professionals in 15 markets offer proven expertise to enhance clients' business performance.

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