

February 9, 2010

## Canadian Bond Yields

	Dec. 31 2009	Feb. 8 2010	
Canada 5-yr	2.77	2.43	↘
Canada 10-yr	3.61	3.36	↘
Prov. Ontario 5-yr	3.04	2.84	↘
Prov. Ontario 10-yr	4.26	3.96	↘
Prov. Quebec 5-yr	3.09	2.75	↘
Prov. Quebec 10-yr	4.39	4.09	↘

Source: Bloomberg

## Equity Index Returns

% Change	2010 in local currency	2010 in C\$	
S&P/TSX	-4.7	-4.7	↘
S&P 500	-4.5	-2.3	↘
Russell 2000	-5.4	-3.4	↘
MSCI EAFE	-6.1	-5.7	↘
MSCI EAFE Small Cap	-2.3	-1.6	↘
MSCI Emerging Markets	-7.4	-6.9	↘

Source: Bloomberg

## Takeaways for Good Portfolio Governance

Recently, Michael Sabia of the Caisse de Dépôt et Placement du Québec (CDPQ), was focused on public communications. He clearly wants to advise the public of where the CDPQ is heading. His reflections include some useful takeaways for individual investors.

First, the CDPQ wants to improve its relationship with its clients (it has 25). It's a sore point that, over the years, it has occasionally delivered its clients some unpleasant surprises: extraordinary losses on investments such as Quebecor Media or the Asset-Backed Commercial Paper portfolio. It is noteworthy that the only types of investment that the CDPQ singled out as an antidote to negative surprises are index funds. And with good reason. With index funds, it is nearly impossible to be unpleasantly surprised, because investors will earn a return that is very similar to that of the market in general. No more, but more importantly, no less either.

The second key element announced by Michael Sabia is that the race for short-term returns is over for the CDPQ. Excessive concern with beating benchmarks and peer returns has been a major driver towards a riskier and more complex portfolio, which in turn, has damaged long-term performance.

The third element is that CDPQ is vowing that, from now on, it will only "invest in things it understands". This may raise some eyebrows, since no one would say they invest in things they don't understand. But if this means investing in simple investment vehicles and seriously limiting its involvement with complex structures, then it's probably a wise decision.

In conclusion, I find that individual investors can learn several things from the CDPQ's recent communication exercise. First, index funds are one of the best tools available (if not the best) to build a portfolio that is protected from unexpected losses. As long as the underlying index is broadly diversified, the returns of the portfolio and the market will be similar. Second, it is my view that focusing too much on short-term returns inevitably leads to disappointing long-term investment results. Such a focus induces investors to use complex strategies and bear unnecessary risks. But even worse, it diverts them from taking steps towards long-term success. Third, simplicity is the investor's friend, as complex investments often mask unforeseen risks and high investment costs.

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