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Stock markets once again rally ahead of global economy

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Since the stock markets bottomed in March, we have seen a series of positive developments – credit markets began to function more effectively, the U.S. banking system continued to recapitalize, manufacturing activity increased and consumer confidence rose. All of these contributed to a robust stock market rally in the second quarter.

Returns for selected indexes

Total returns	DEX Universe All Government Bond Index	S&P/TSX Composite Index	S&P 500 Index (C\$)	MSCI World Index (C\$)
Month of June	0.9%	0.3%	6.3%	5.6%
Second quarter	-0.7%	20.0%	6.9%	11.7%

Source: Bloomberg

We anticipate global economies will resume growth some time in the second half of 2009, driven initially by companies rebuilding their inventories. Economic growth in the next several years, however, will likely be sub-par compared to other post-recession recoveries. Savings, which did not exist in the U.S. in the last decade, will continue to build and, as a result, consumer and business spending will be restrained. In an environment where economies are growing at a slow pace, the potential for above average returns from investing in stocks is still possible provided that investors are patient and selective in the companies they own. Our portfolio managers favour companies that have solid balance sheets and are capable of generating strong cash flows, regardless of economic conditions. They are finding plenty of opportunities among quality securities available at attractive valuations.

Asset allocation

One of the more significant changes in June was the repositioning of the global real estate portfolio. Our portfolio advisor, Cohen & Steers Capital Management, sees better real estate opportunities outside of the U.S., from both return and risk perspectives. As a result, they have reduced our real estate investment pool's exposure to the U.S., while increasing exposure to Asia, and to a lesser degree, Europe.

Currency management

Currency markets continue to be volatile. The U.S. dollar strengthened in June, gaining seven cents (6.5%) against the Canadian dollar (from \$1.09 to \$1.16). As a result, in June, our hedging of the U.S. dollar detracted value. However, over the three-month period ended June 30, our currency management strategy, including our decision to close off some of our currency hedges in late May and early June, added approximately 5.3% to the performance of our U.S. portfolios.

Portfolio manager tactics

Combined top 15 equity holdings as of June 30, 2009 across all United Portfolios:

1. Microsoft Corporation	9. Toronto Dominion Bank
2. Sun Hung Kai Properties Ltd.	10. Westfield Group
3. Barrick Gold Corporation	11. DeVita Inc.
4. Power Corporation of Canada	12. Goldcorp Inc.
5. Visa Inc.	13. Mullen Group Ltd.
6. EnCana Corporation	14. CCL Industries Inc.
7. ExxonMobil Corporation	15. Heineken NV
8. Simon Property Group Inc.	

To see the top 15 holdings of the individual United Pools or of the equity Alpha Pools, please visit the [unitedfinancial.ca](http://www.unitedfinancial.ca) website by right clicking on this link and selecting “open web link in browser”: <http://www.unitedfinancial.ca/solutions/optima/financials.jsp#united15>. The top 15 for the Institutional Managed Portfolios’ Pools are available by right clicking on this link and selecting “open web link in browser”: <http://www.unitedfinancial.ca/solutions/institutional/financials.jsp#imp>.

Fixed-income mandates

Corporate bonds outperformed government bonds as they continued to generate superior interest income for investors. The average yield on our Canadian fixed-income pool, which benefited from an overweight position in corporate bonds compared to the benchmark index, stood at 4.7% at June 30, representing a 1.3% premium over the index. The global fixed-income pool had strong results in June, due mainly to exposure to foreign currencies that appreciated against our dollar. The gain more than offset the loss in May.

Equity mandates

There was a lot of activity in the international equity alpha mandate, the most significant change being the sale of several holdings in the financials sector, which reduced the portfolio’s exposure to financials by 5.6%. The portfolio manager, Picton Mahoney Asset Management, increased exposure to the information technology sector by adding several new names, mostly in the emerging Asian markets. Picton Mahoney expects strong earnings growth from that region.

The U.S. equity value mandate continues to have limited exposure to the major U.S. banks. Epoch Investment Partners, manager of the portfolio, is finding value in insurance companies and increased its holdings of MetLife Inc.