



## United Financial Portfolio Manager Conference Call Summary December 11, 2008

*As 2008 wound down, stock prices continued to be held in the grip of a bear market and policymakers around the world increased the scope and magnitude of their programs to stimulate the global economy. This document offers insights into this period of uncertainty from two of our leading investment managers, as well as United Financial Chairman and CEO Joseph Canavan. The investment managers also explain how they are positioning their Canadian and U.S. equity portfolios to benefit from market opportunities on your behalf. United Financial is committed to keeping you informed of market developments and of the strategy and discipline we employ in constructing and managing your portfolio.*

Who	Manages
<b>Daniel Bubis</b> President and Chief Investment Officer Tetrem Capital Management Ltd.	Canadian Equity Value Pool, US Equity Alpha Corporate Class, and a portion of the Canadian Equity Diversified Pool, Institutional Managed Canadian Equity Pool and Institutional Managed US Equity Pool
<b>Christopher Marx</b> Senior Portfolio Manager AllianceBernstein L.P.	US Equity Value Pool, International Equity Diversified Pool, and portions of the International Equity Value Pool and Institutional Managed US Equity Pool

### **The key overall message of our portfolio managers:**

**The market downturn has created exceptionally compelling investment opportunities in industry sectors including energy, technology, pharmaceuticals, consumer products and especially financials. Valuations across many sectors are very attractive.**

### **OVERVIEW OF CURRENT ECONOMIC AND MARKET ENVIRONMENT**

**Joe Canavan: We're likely closer to the end than the beginning of this bear market since we are now approaching the 15-month average duration of these down cycles, and the percentage decline already exceeds the average.**

- The equity market's decline from its peak, as measured by the S&P 500 Index, has been more than 40%, compared to an average bear market since 1946 of 31%.
- In the post war period, the average percentage recovery from a bear market decline has been 150%.
- The erosion of stock market value in recent months means key industry sectors, like financials, are severely undervalued, creating one of the best buying opportunities in 50 years.
- Some stocks that we are considering buying are down very significantly – companies that are not going out of business, are well-capitalized, well-run and that we expect will do very well in the next market cycle.
- Governments and central banks around the world are coordinating their efforts with aggressive stimulus programs – including spending on public works projects and massive interest rate cuts – to manage this challenging period.

### **Fall in gasoline prices a huge stimulus for U.S. economy: Danny Bubis**

- Since its price peak last summer of US\$147 a barrel, oil has plummeted to around \$47.
- The plunge in commodity prices is an effective tax cut to consumers. For Americans, the dramatic decline in the price of gasoline represents a savings of well over \$300 billion, which is a huge economic stimulus and an important boost to consumer confidence.

### **Chris Marx: Corporations have strong balance sheets**

- Most companies in the U.S., aside from financials, have been paying down debt and are less leveraged today than they were in prior periods – giving them much more flexibility to weather the economic downturn and thrive as they emerge from the recession.

### **COMPARING CANADA'S BANKS AND BANKING SYSTEM...**

**The Big Five banks are probably the most solid in the world, Danny Bubis says.**

- Canada's major banks are well capitalized.
- Over the past few months, banks had restricted credit, but are now gradually starting to provide more loans – although the interest rates are a little higher than what customers might want to pay.

### **...AND THEIR U.S. COUNTERPARTS**

#### **Chris Marx: U.S. government is addressing banking problems**

- Banking issues in the U.S. have been much more extreme than in Canada, leading to severe capital adequacy and liquidity issues.
- The U.S. government recently moved to ease capital adequacy and liquidity pressures by injecting capital to guarantee assets on the balance sheets of some of the banks, by directly buying commercial paper securities and by guaranteeing debt issued by financial institutions.
- Real estate lending in the U.S. has been at the centre of the global financial crisis, with loans before the credit crisis priced at absurdly low rates, and offered to anyone who wanted one, regardless of ability to repay.
- Ironically, part of the answer to the crisis is more credit; the U.S. government is encouraging banks to increase their lending.

### **ATTRACTIVE CANADIAN EQUITIES INCLUDE ENERGY, CONSUMER PRODUCTS AND FINANCIALS SECTORS**

#### **One of the best opportunities in a generation to buy stocks: Danny Bubis**

- Commodity stocks are now attractive because they have been driven down by the collapse in commodity prices.
- We favour energy stocks. Although oil and other commodity prices could continue to decline in the near term, any erosion below today's prices would likely be short-lived and demand would recover.
- We expect to look back in a few years and say that this was one of the best buying opportunities in a generation for so many different types of companies — including commodity companies, consumer companies and financial services.
- The Big Five Canadian banks are strong long-term investments, and their dividends should be safe, although their earnings may decline in this recessionary period.

### **EXCELLENT VALUE SEEN IN U.S. BANK AND TECHNOLOGY STOCKS**

#### **Chris Marx says anxiety helps to make equities incredibly undervalued**

- Stocks, on a price-to-book basis, price to any sort of long-term or normalized earnings basis, or based on dividend yield, are very appealing in many sectors.
- We see very attractive opportunities in banks: Citigroup is trading at 33% to 40% of its book value, while JPMorgan, one of the strongest banks, is trading at less than book value.



The  
Game Plan

- We own some firms that formerly were investment banks – such as Morgan Stanley. Assuming Morgan Stanley’s leverage drops from 30 times assets to 10 or 12 times, and that its return on equity declines from the mid-20% range to 7%, it is still trading at only four or five times next year’s estimated earnings.
- The technology sector in the U.S. and around the world offers investors leading companies that have 40% to 60% market share, net cash on their balance sheets equal to 10% or 20% of their market capitalization and that are trading at between four and six times estimated earnings as we emerge next year from challenging conditions.
- We like energy stocks and pharmaceuticals.

#### **Danny Bubis likes Best Buy**

- U.S.-based consumer electronics superstore Best Buy will likely have a tough 2009, but should exit the economic slowdown with even greater market share, pricing power and leverage over its suppliers.

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