

Index Heavyweights

Canadian Equity Funds

Fund News

Happy New Year !!!

Pity the plight of Canadian mutual fund managers. The stock markets in Canada have been rough enough for the last three years and now they face a new investing challenge. What to do about Nortel Networks?

Most investors understand that mutual fund managers operate in a very competitive environment. There are literally thousands of mutual funds in Canada and their managers must post strong performance numbers to attract and retain investors. Their performance is always measured by how their fund compares to that of a peer group of similar funds and also how they did in relation to some benchmark "index". For

equity fund managers, the index in question is usually the Toronto Stock Exchange or TSE 300.

The index technically covers the 300 largest publicly traded companies on the TSE and it is supposed to represent how Canada and Canadian investors are generally doing. In order to better achieve this result, the index is weighted – or biased – towards the larger companies with the bigger market capitalizations. In other words, a company's weighting is determined by the number of shares it has outstanding times the price of its shares. If either of those numbers go up at a time when the rest of the companies in the index stay relatively constant, then a company's weighting in, and importance to, the index will rise.

In general, the structure makes sense. There are far more investors who are

concerned about the performance of the very large companies than how the very small companies are doing. Similarly, there is a whole lot more money at stake when an index heavyweight increases or decreases dramatically than a junior issue. A somewhat distressing example of this statistical bias is the tremendous impact Bre-X had on the broad market both on the way up and on the way down. In matters of the stock market, size does matter.

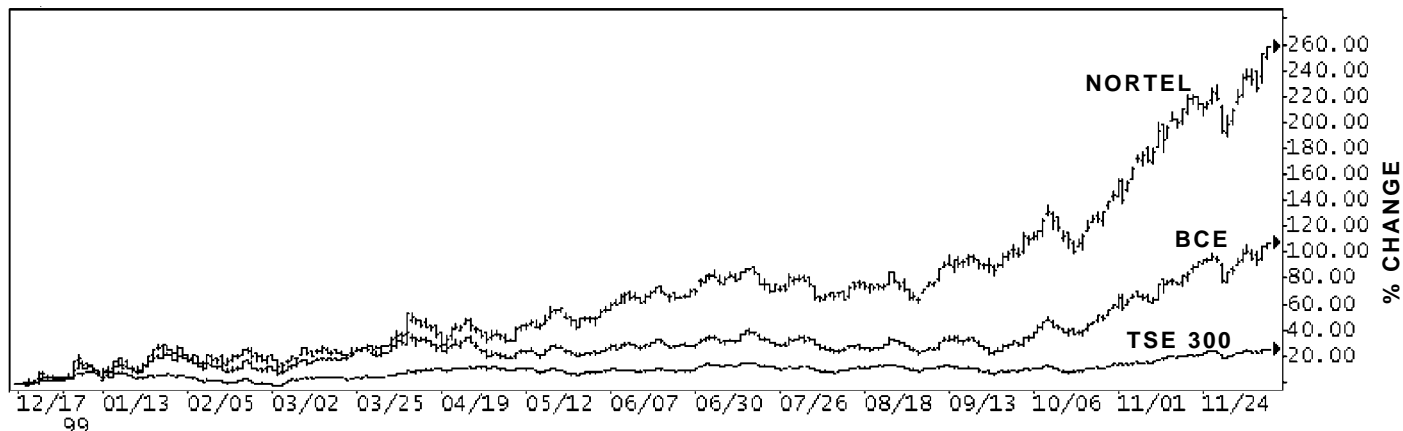
Hence the Nortel dilemma. The incredible run-up in the price of Nortel shares

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Happy New Year !!!

**From the staff at
Mutual Fund Reporter**

Nortel and BCE versus TSE 300



1 Year Total Return

1	Altamira e-business Fund	188.5%
2	AIM Global Technology Fund	176.6%
3	Talvest Global Sci & Technology C\$	157.4%
4	AGF 20/20 Aggressive Growth Fund	156.8%
5	Altamira Science and Technology Fund	149.3%
6	Atlas Pacific Basin Value Fund	146.0%
7	Universal Japan Fund	131.1%
8	Talvest Global Small Cap Fund	125.7%
9	C.I. Sector Global Telecommunications	117.2%
10	Fidelity Japanese Growth Fund	116.6%

3 Year Total Return

1	C.I. Sector Global Telecommunications	67.9%
2	Talvest Global Sci & Technology C\$	62.3%
3	BPI Global Opportunities Fund	61.0%
4	Altamira Science and Technology Fund	60.4%
5	AGF 20/20 Aggressive Growth Fund	50.4%
6	C.I. Sector Global Technology	46.9%
7	MAXXUM American Equity Fund	44.7%
8	Universal World Science & Technology	42.9%
9	Spectrum United Gbl Telecommunications	40.3%
10	BPI American Equity Value Fund	38.6%

5 Year Total Return

1	AGF 20/20 Aggressive Growth Fund	37.1%
2	Green Line Science & Technology Fund	36.0%
3	Ethical North American Equity Fund	31.9%
4	Spectrum United American Growth Fund C\$	31.5%
5	BPI American Equity Value Fund	31.3%
6	AGF American Growth Class	30.2%
7	Spectrum United Gbl Telecommunications	29.1%
8	AIM Global Telecommunications Class	28.2%
9	Universal European Opportunities	28.1%
10	AIM Global Health Sciences Fund	26.7%

10 Year Total Return

1	Spectrum United American Growth Fund C\$	21.5%
2	BPI American Equity Value Fund	20.3%
3	AGF American Growth Class	19.0%
4	PH&N U.S. Pooled Pension Fund	18.1%
5	McLean Budden American Growth Fund	17.6%
6	Ethical North American Equity Fund	17.4%
7	PH&N U.S. Equity Fund	16.9%
8	GBC North American Growth Fund Inc.	15.9%
9	BPI Global Equity Value Fund	15.4%
10	Guardian American Equity Fund Ltd.	15.2%

COMMENTARY

ScotiaMcLeod would be pleased to provide you with further detailed information on the above mutual funds, however we cannot provide information on the funds marked #. These are historical performance rankings, and are not indicative of future investment performance. When analyzing particular funds, stress longer term performance.

1 Year Total Return

1	Dynamic Real Estate Equity Fund	-20.3%
2	@rgentum Market Neutral Portfolio C\$	-12.3%
3	AGF Global Government Bond Fund	-9.5%
4	AIC Value Fund	-9.3%
5	AIM Global Growth & Income Fund	-9.2%
6	Templeton Global Bond Fund	-8.8%
7	Universal World Tactical Bond	-8.6%
8	Global Strategy World Bond Fund	-8.5%
9	Altamira Global Bond Fund	-8.5%
10	Royal Global Bond Fund	-7.7%

3 Year Total Return

1	AGF 20/20 Managed Futures Value Fund	-17.8%
2	Fidelity Emerging Markets Portfolio Fun	-17.4%
3	Ethical Pacific Rim Fund	-11.2%
4	AGF Asian Growth Class	-8.4%
5	Hansberger Asian Fund	-7.8%
6	AGF 20/20 Latin America Fund	-7.2%
7	Universal Far East Fund	-5.1%
8	C.I. Latin American Fund	-3.1%
9	Royal Asian Growth Fund	-2.7%
10	Templeton Global Bond Fund	-1.7%

5 Year Total Return

1	AGF 20/20 India Fund	-6.8%
2	C.I. Latin American Fund	-6.7%
3	AGF 20/20 Latin America Fund	-6.4%
4	Hansberger Asian Fund	-5.7%
5	AGF Asian Growth Class	-3.1%
6	AGF 20/20 Emerging Markets Value Fund	-3.0%
7	Altamira Asia Pacific Fund	-2.5%
8	Universal Far East Fund	-2.0%
9	Fidelity Latin American Growth Fund	-1.8%
10	Green Line Emerging Markets Fund	-0.7%

10 Year Total Return

1	Royal Japanese Stock Fund	2.6%
2	C.I. Sector Short-Term Shares	4.0%
3	Atlas American Money Market Fund	4.3%
4	AGF Japan Class	5.0%
5	Templeton Global Bond Fund	6.4%
6	Global Strategy World Bond Fund	6.8%
7	C.I. Sector Pacific	7.7%
8	Strategic Value Global Balanced Fund	8.0%
9	C.I. Pacific Fund	8.3%
10	Strategic Value Commonwealth Fund Ltd.	8.6%

These rankings are not sales advice and ScotiaMcLeod does not recommend simply selling bottom past performance funds and buying top past performing funds. Purchase or redemption fees may be involved. Please call (416) 863-7777 or 1-800-387-9273 for specific recommendations tailored to your individual needs.

1 Year Total Return

1 Bissett Microcap Fund	53.5%
2 AIM Canadian Premier Fund	48.5%
3 Working Opportunity Fund (EVCC) Ltd.	43.7%
4 Triax Growth Fund (LSVCC)	43.2%
5 Altamira Capital Growth Fund Limited	41.1%
6 Universal Future Fund	37.8%
7 Dynamic Power Canadian Fund	37.4%
8 Strategic Value Canadian Small Companies	36.5%
9 Altamira Equity Fund	36.2%
10 Synergy Canadian Momentum Class	35.9%

3 Year Total Return

1 Quebec Growth Fund Inc.	22.1%
2 Atlas American RSP Index Fund	21.4%
3 Scotia CanAm Stock Index Fund	20.2%
4 C.I. American RSP Fund	19.5%
5 Global Strategy Diversified Europe Fund	18.4%
6 AIM Canadian Premier Fund	17.8%
7 C.I. Global Equity RSP Fund	17.4%
8 Universal Future Fund	17.2%
9 Atlas International RSP Index Fund	16.8%
10 Talvest Global RSP Fund	16.7%

5 Year Total Return

1 AIC Advantage Fund	24.3%
2 Scotia CanAm Stock Index Fund	24.0%
3 Quebec Growth Fund Inc.	21.6%
4 Fidelity Canadian Growth Company Fund	18.8%
5 PH&N Dividend Income Fund	18.0%
6 AIM Canadian Premier Fund	17.9%
7 Universal Future Fund	17.9%
8 GBC Canadian Growth Fund	17.9%
9 PH&N Vintage Fund	17.4%
10 Tradex Equity Fund Limited	16.9%

10 Year Total Return

1 AIC Advantage Fund	17.9%
2 ABC Fundamental-Value Fund	17.2% #
3 Altamira Equity Fund	15.9%
4 Quebec Growth Fund Inc.	15.3%
5 GBC Canadian Growth Fund	15.2%
6 Marathon Equity Fund	13.9%
7 ABC Fully-Managed Fund	13.8% #
8 Dynamic Power Canadian Growth Fund	13.8%
9 PH&N Vintage Fund	13.7%
10 Mawer New Canada Fund	12.2%

1 Year Total Return

1 Spectrum United Canadian Resource Fund	-17.9%
2 Clean Environment Balanced Fund	-15.4%
3 Scotia Precious Metals Fund	-14.6%
4 Dynamic Canadian Real Estate Fund	-13.5%
5 Dynamic Global Bond Fund	-12.3%
6 Royal Precious Metals Fund	-11.4%
7 AIC Advantage Fund	-10.9%
8 Scotia CanGlobal Income Fund	-10.7%
9 Ivy Enterprise Fund	-10.6%
10 AIC Advantage Fund II	-10.6%

3 Year Total Return

1 Global Strategy Gold Plus Fund	-27.9%
2 Scotia Precious Metals Fund	-24.9%
3 Spectrum United Canadian Resource Fund	-24.6%
4 Dynamic Precious Metals Fund	-22.2%
5 Royal Precious Metals Fund	-21.2%
6 MAXXUM Natural Resource Fund	-20.5%
7 Universal Precious Metals Fund	-19.5%
8 BPI Canadian Resource Fund Inc.	-19.1%
9 Green Line Precious Metals Fund	-19.0%
10 Industrial Equity Fund Limited	-18.7%

5 Year Total Return

1 Dynamic Precious Metals Fund	-9.5%
2 Scotia Precious Metals Fund	-8.5%
3 Industrial Equity Fund Limited	-8.0%
4 Global Strategy Gold Plus Fund	-7.5%
5 BPI Canadian Resource Fund Inc.	-6.5%
6 Altamira Resource Fund	-5.8%
7 Universal Precious Metals Fund	-4.3%
8 Green Line Energy Fund	-3.7%
9 Green Line Resource Fund	-2.8%
10 AGF 20/20 Canadian Resources Fund Ltd	-0.6%

10 Year Total Return

1 Industrial Equity Fund Limited	-1.4%
2 Dynamic Precious Metals Fund	0.4%
3 BPI Canadian Resource Fund Inc.	2.9%
4 Industrial Growth Fund	2.9%
5 Royal Precious Metals Fund	3.5%
6 AGF 20/20 Canadian Resources Fund Ltd	4.4%
7 Green Line U.S. Money Market Fund	4.4%
8 Atlas Canadian T-Bill Fund	5.3%
9 AGF Money Market Account	5.4%
10 Global Strategy Money Market Fund	5.5%

NOTES TO THE PERFORMANCE TABLES

- ScotiaMcLeod is unable to supply information on funds marked #
- Figures are average rates of return for the periods ending November 30, 1999
- Source data from the Mutual Funds Source Disk, December 9, 1999, which includes over 2,700 funds
- Funds with total assets under \$25 million are not included
- Only "totally public" funds are ranked
- RRSP Eligible Funds are at least 80% Canadian content and can also be held outside RRSPs
- Performance figures include reinvested dividends and management fees have been subtracted
- Non RRSP eligible funds can be held inside a ScotiaMcLeod RRSP to a maximum of 20% of book value

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over the past year now means that the technology giant accounts for a whopping 15.6 percent of the Toronto Stock Exchange 300 index. The company has been on a tremendous roll over the past year as it forges into new business areas and aggressively grows its sales and profits. Investors, particularly American investors, like what they see and they have rewarded the company with a high price to earnings multiple. The shares now trade at roughly 50 times forecast earnings which is extremely expensive in the old world of investing yet it is still seen as something of a bargain in context of the times. The technology giants like Microsoft or Cisco or Intel all trade at relatively the same lofty levels but they are American.

Nortel is one of ours and it is essentially in a class by itself. The company is 40 percent owned by telecommunications giant BCE which accounts for another 10.5 percent of the TSE 300 index. Taken together the two companies have a combined market weight that is greater than most of the sub-indices. For example, the oil and gas portion of the index amounts to just 10.58 percent of the TSE 300.

Mutual fund managers who strive to beat the index – and they all do – have to put in place a “Nortel” strategy. If they ignore or underweight the stock, then a manager’s risk of relative underperformance soars if the company’s heavyweight status carries on. The managers might choose to bet against Nortel on the basis that the shares are either too expensive or because a large weighting would overly expose their portfolio to the performance of a single company in a volatile business. Unfortunately, in a competitive business where results count for so much, the reasons may not matter.

Most of the large funds in Canada did underweight Nortel and quite a number didn’t even include the giant in their top ten holdings. Many of these large funds will have some explaining to do.

If it makes the managers feel any better, they can take comfort in knowing that the challenges posed by a heavyweight in a small investing pond, do exist elsewhere. Nokia of Finland accounts for 56 percent of the local index while HSBC Holdings represents 27 percent of the Hong Kong Exchange.

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Fund News

New Dynamic RSP Funds

- Dynamic RSP Americas
- Dynamic RSP Europe
- Dynamic RSP Far East
- Dynamic RSP International
- Dynamic RSP Power American

New BPI Funds

- BPI American Opportunities
- BPI Global Opportunities III

New AIC Funds

- AIC American Focused
- AIC RSP American Focused

New SVC O'Donnell Funds

- O'Donnell U.S. Mid-Cap RSP
- O'Donnell World Equity RSP
- Strategic Value Europe RSP
- Strategic Value World Balanced RSP

SVC O'Donnell Fund Changes

The following funds are capped:

- Strategic Value Asia Pacific Fund to be replaced by Strategic Value Asia and Emerging markets Fund.
- O'Donnell Short-Term Fund and O'Donnell Canadian Bond Fund to be replaced by O'Donnell Money Market Fund.
- O'Donnell Select Fund to be replaced by O'Donnell Canadian Large Cap Fund