

# ROC PREFERRED CORP. SERIES UPDATE

SERIES UPDATE — JANUARY 2006

As the new year begins we thought it would be timely to give you an update on the ROC Preferred Corp products. As a reminder, the products are designed to pay a tax efficient, quarterly return of capital dividend to shareholders and return the \$25 purchase price at maturity. We are pleased with their performance, they have all maintained their P-1 (low) rating from S&P, made all their scheduled distributions and are on track to pay back the \$25 upon maturity. Thus, everything is going according to plan.

CC&L Investment Management's fixed income team actively manages the products. There are two parts to active management: 1) a thorough review and analysis of the investment universe leading to the selection of a portfolio which minimizes the expected default rate while achieving our target yield; and 2) active monitoring of the portfolio with substitutions of the reference companies in the portfolio being made from time to time. The details of the ROC Preferred Corp series are as follows:

Structured Prefs	Issue Date	Symbol	Last PRICE	Face Coupon	YIELD To Mat	"Pre-Tax Interest" Equiv	Issue Size	MATURITY Date	Years Left
ROC Preferred Corp	2-Jun-04	PRF.PR.A	25.00	4.30%	4.30%	6.24%	60,000,000	9/30/2009	3.7
ROC Preferred II Corp	1-Oct-04	RPA.PR.A	24.90	4.65%	4.76%	6.98%	300,000,000	12/31/2009	3.9
ROC Preferred III Corp	8-Mar-05	RPB.PR.A	23.29	4.40%	5.73%	8.97%	265,000,000	3/23/2012	6.2

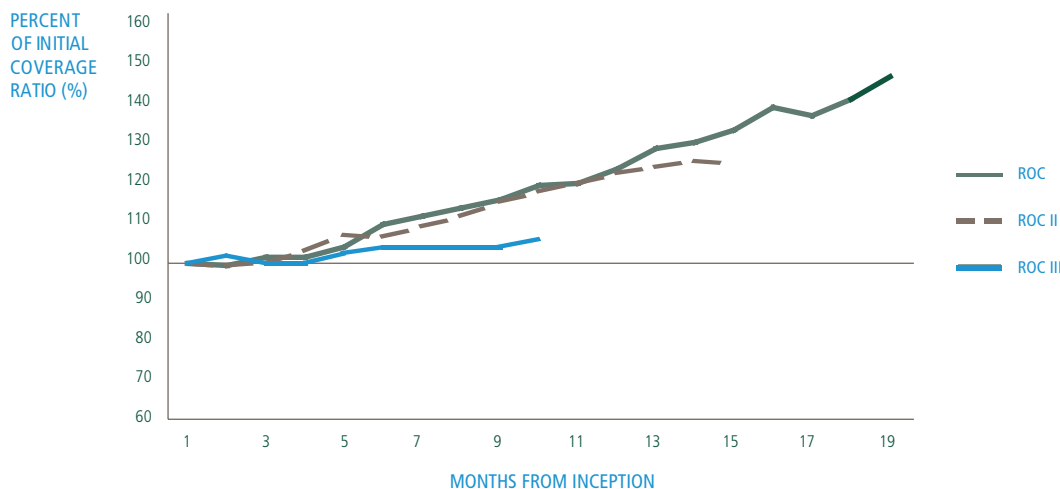
Notes: TSX prices are as of the close January 26, 2006.

Pre-Tax Interest Equivalents are based on Ontario Capital Gains Tax Rate.

## THE ROC PREFERREDS ARE MATURING

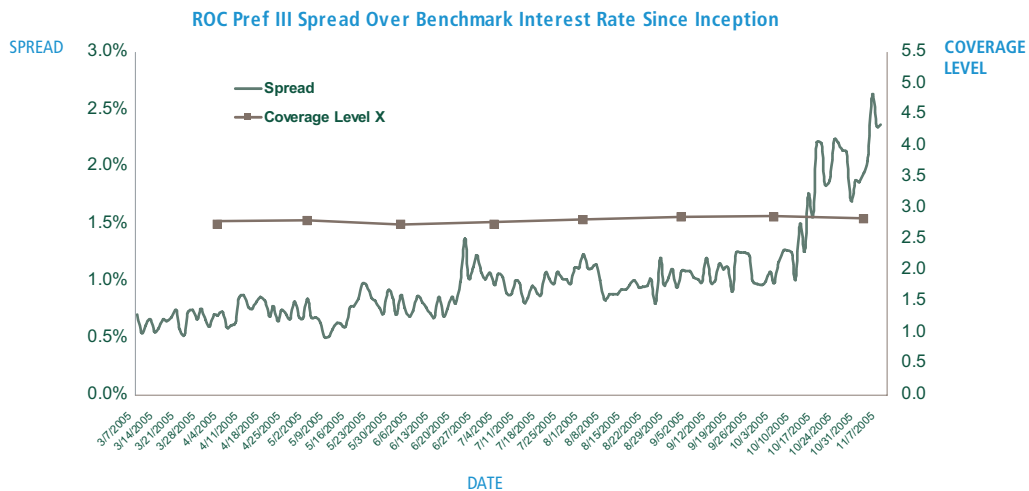
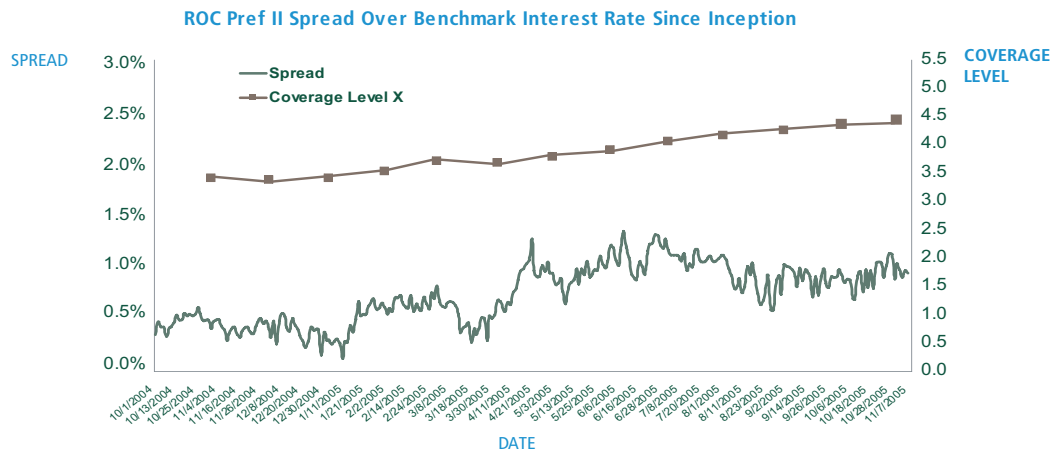
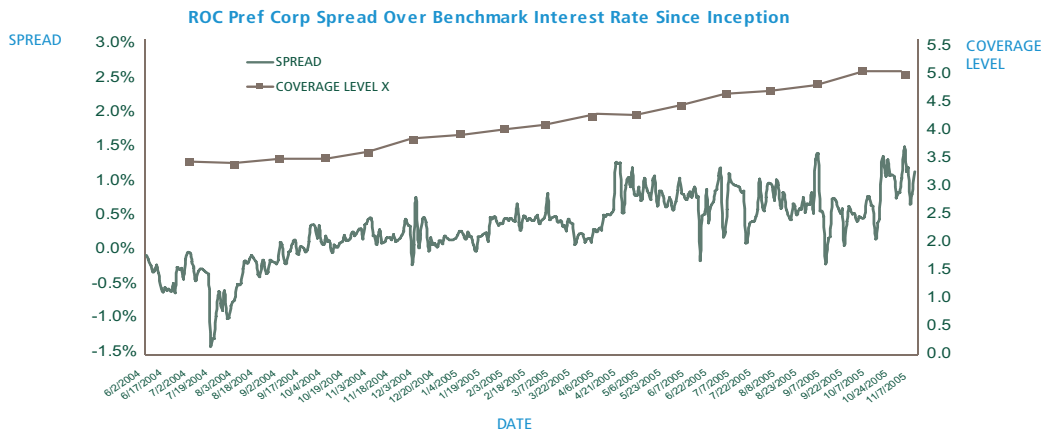
The passage of time is an important aspect of these products. The Standard & Poors ("S&P") rating methodology, based on their extensive historical records, assesses the risk of loss on the preferred shares. A way to measure this risk is by looking at coverage levels over historical defaults. S&P's analysis shows that the probability of any particular company going into default becomes lower as the note approaches maturity. Thus, if the coverage levels, which may be used as a proxy for S&P's rating criteria, are to remain constant then the average rating of the portfolio may move lower over time. Any increases/decreases in the trading reserve account will also impact coverage levels. Coverage levels are defined as the number of defaults required before a loss is incurred divided by the average level of defaults (using the S&P database) for the relevant time period to maturity.

The following chart shows the change in coverage ratio of the ROC Preferred Corp series of products since inception. The goal with respect to coverage ratios should be to maintain coverage at 100% of the initial level. An increase in the coverage ratios shows that the portfolios are performing better than the historical averages, which are a significant factor in determining the rating of the preferred shares.



**TSX TRADING PRICE**

The experience of the ROC Pref Corp series and other credit linked note products globally has been that they tend to trade primarily on yield and rating. All of the ROC Pref Corp products were rated P-1 (low) by S&P initially and they continue to hold this rating. S&P reviews the rating on a monthly basis. We believe a method of gauging how the products are trading is to measure the spread between the yield to maturity of the product and the equivalent benchmark interest rate as set out in the three graphs below. An increase in the spread indicates the market's perception that there has been an increase in risk. We have also included the coverage levels as this is one method of assessing risk (over and above S&P's on-going assessment and rating).




**FACTORS WHICH AFFECT THE NET ASSET VALUE**

There are a number of factors that affect the on-going NAV of a ROC Pref Corp product. They include: 1) interest rate levels; 2) the spread of corporate interest rates over government rates; 3) the corporate spreads on the particular product's portfolio; and 4) the level of the trading reserve account. The following table provides information about how each of the factors has changed during the life of the products.

	6/30/2004	10/31/2004	12/31/2004	3/31/2005	6/30/2005	9/30/2005	12/31/2005
5 Year Canada interest rates	4.52	4.12	3.89	4.01	3.44	3.8	3.92
Dow Jones IG 2 index	66.34	54.1	43.76	56.28	86.7	66.11	79.69
ROC I portfolio spread	61.53	49.07	41.66	48.83	74.82	61.29	71.21
ROC I TRA	\$516,218	\$516,218	\$582,219	\$635,219	\$1,523,680	\$1,580,680	\$1,530,480
Dow Jones IG 3 index		48.76	40.94	52.83	81.95	61.16	77.36
ROC II portfolio spread		50.97	40.86	45.68	66.42	51.03	53.55
ROC II TRA		\$2,567,010	\$2,567,010	\$2,699,010	\$2,775,010	\$2,555,209	\$2,419,549
			2/28/2005	3/31/2005	6/30/2005	9/30/2005	12/31/2005
7 Year Canada interest rates			4.23	4.32	3.74	3.99	3.92
Dow Jones IG 4 index			36.29	48.29	76.64	60.11	66.27
ROC III portfolio spread			42.99	52.30	72.82	60.18	70.92
ROC III TRA			\$2,172,982	\$2,172,982	\$3,816,666	\$3,648,705	\$3,945,278

There are a number of points to note: i) interest rates have not had a significant impact on the NAVs; ii) corporate spreads, as measured by the relevant Dow Jones Investment Grade indices, have widened considerably during the life of these products; iii) the spreads on our individual portfolios, while not widening by as much as the indices, have also widened considerably for the ROC Pref and ROC Pref III portfolios. The widening spreads have been the main driver in the change in the NAVs. The portfolios have outperformed the indices in each of the products. This strong performance is due to good security selection when creating the portfolios and substitution activity; iv) the trading reserve accounts have been substantially increased in ROC Pref Corp and ROC Pref III Corp and maintained in ROC Pref II Corp.

It is important to realize that changes in the net asset value do not reflect actual losses incurred. A simple analogy would be to a zero coupon bond. Price can move up or down during the life of the bond but you will still get the face amount at maturity. There are two events which could cause on-going NAV fluctuations beyond the zero coupon bond analogy. The first is if there has been a default and the second is if losses were incurred when substituting reference companies in the portfolio. There have been no defaults in any of the portfolios. The trading reserve accounts have remained constant or increased in each of the products as shown in the table above. Neither of these events would impact the products' ability to pay the full coupon or \$25 at maturity unless the total number of defaults exceeded the equity cushion. The equity cushion for ROC Pref Corp is now 10 defaults, for ROC Pref II Corp 8 defaults and for ROC Pref III Corp 8 defaults and unless these thresholds are exceeded we would still be in a position to pay all distributions and the full \$25 at maturity.


**MANAGEMENT CAN MAKE A DIFFERENCE**

The CC&L Investment Management fixed income team is one of the best in Canada. The nine-person team has a strong first quartile track record, \$6.8 billion in AUM, and has been awarded over \$1.5 billion dollars of new mandates in the past year. They are known for having a conservative bias. The team spent many hours analyzing the companies that were placed in the reference portfolio and has a systematic approach in place for the on-going monitoring of the credit prospects of the portfolios. The team has never had a bond default in any of their portfolios.

Another differentiation of the CC&L ROC Pref Corp Series is the structuring of the product. CC&L Capital Markets has put in place a number of items that we believe provide additional protection for investors. The first step is to go through the extensive process of getting the product rated by S&P. The rating applies to both the credit linked note and the preferred shares that investors purchase. S&P monitors the product during its life to ensure that we continue to meet the standards required to keep the rating. Another structural safeguard that we put in the products is to set aside funds to create a trading reserve account. The trading reserve account gives CC&L Investment Management the opportunity to make substitutions in the portfolio without impacting the payment of the \$25 at maturity. They will make substitutions based on their analysis of changes in default risk for a portfolio holding. The S&P rating does not take into account the benefits of active management or the benefit of the trading reserve account, i.e. we would get the same rating if they did not exist. We have also deferred the majority of our management fee until the end of the product. We do not get paid the deferred fee until shareholders receive their full distributions and \$25 at maturity.

In conclusion, the ROC Pref Corp products have met their objectives to date and are well positioned to continue to meet their objectives. We believe that they continue to represent an excellent investment opportunity and the recent share price drops are unwarranted by any increased risk in the products.

We hope the above information has been timely and relevant for communication to your clients. Thank you for your continued support and please do not hesitate to contact us should you have any questions or wish to discuss the products further.

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