

# High Yield Market *Update*

HIM Money, Inc.

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HIM Money's experienced group of professionals specialize in managing high yield debt. This quarterly report has been created to provide a regular update of the high yield market and our performance.

HIM Money believes the attraction of high yield lies in its high historical rate of return, its relatively modest volatility and its low level of correlation with other asset classes. A well diversified, actively managed pool of high yield securities can not only provide attractive returns, but also an important balance within a larger portfolio.

## Overview

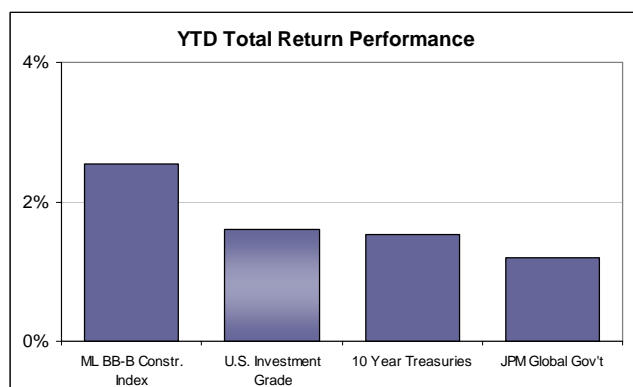
Money HY Bond Composite ("Composite") includes portfolios of high yield bonds managed on behalf of third parties. In managing the portfolios that form the Composite, we seek to maximize the benefits of diversification (limit capital erosion) and target better than index return performance over time, with the least amount of risk.

The Composite returned 2.53% in the first quarter, in line with the Merrill Lynch BB/B US High Yield, BB-B Rated, Constrained Index ("ML BB-B Constr Index") which returned 2.54%, bringing the last twelve months return to 9.02%. On the plus side, our underweight position in the Autos sector (GMAC and GM in particular) and lack of exposure to TXU (large LBO) helped the Composite's relative performance. Conversely the Composite's lack of exposure to Intelsat, a large private issuer in the Telecom space, and underperformance in the Homebuilders/Real Estate and Metals/Mining sectors had a negative impact on the Composite's performance relative to the index.

	Total Return (USD)	
	1st QTR	Inception
<b>Composite (gross of fees)</b>	<b>2.53%</b>	<b>9.02%</b>
<b>ML BB-B Constr Index</b>	<b>2.54%</b>	<b>6.72%</b>

*Note: See attached disclosure statement. Past performance is not indicative of future results  
Composite inception Q4 1999*

For the 1<sup>st</sup> quarter of 2007, high yield led other fixed income assets classes with the 10-year Treasury returning 1.5%, US Investment Grade Corporates returning 1.6% and the JPM Global Government Index returning 1.2%.



*Source: Merrill Lynch, JPM, Ryan Labs*

*Note: The ML BB-B Constr Index is a benchmark index for high yield corporate bonds which excludes lower-rated securities and caps exposure to any one issuer at 2% and is administered by Merrill Lynch.*

## Market Overview

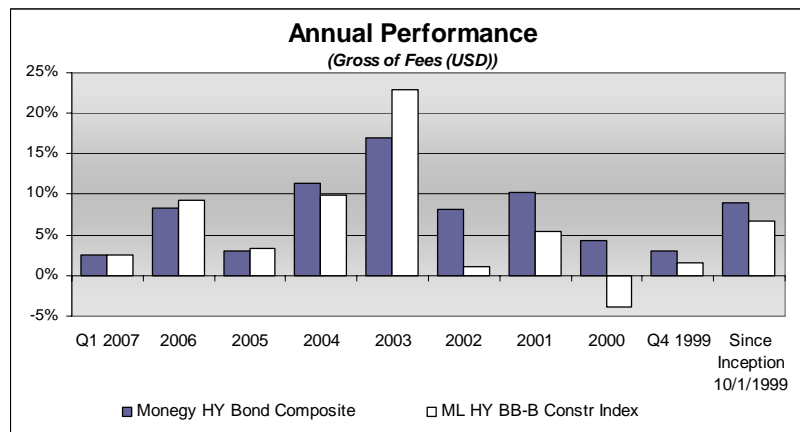
For the first quarter of 2007, the high yield market continued to see strong momentum through February before decelerating in March, as higher gas prices, sub-prime lending woes and an unexpected shift in Fed bias added volatility. The much needed wake-up call finally arrived on the 27th of February, courtesy of the Chinese stock market; and bringing with it an end (for now) to the sense of complacency that had infiltrated the credit markets. This, in our view, has led to a much better balanced market. We note the spread to treasuries for the ML BB/B Constr Index hit all-time tights of 225 bps (vs. 250 bps at December 31st) during February, before paring back to 252 bps at the end of the period.

In terms of credit quality, lower rated bonds continued to outperform higher quality names with CCCs returning 4.77% versus the Bs and BBs returning 3.02% and 2.12%, respectively. Except for Homebuilders, all sectors posted positive returns with Metals/Mining (3.87%), Services (3.64%) and Transportation Ex Air/Rail (3.6%) leading the pack; conversely, Banks & Thrifts (1.35%), Automotive & Auto Parts (0.75%) and Homebuilders/Real Estate (-0.15%) were the notable laggards.

Despite the recent increase in volatility, the new issuance pipeline remains robust. Indeed, the month of March saw North American new issuance of US\$18.2 billion - the second largest monthly amount in five years. The flow continues to be largely M&A driven, and over the past few months has been led by such blockbuster deals as the financing of Freescale's LBO and Freeport-McMoran's acquisition of Phelps Dodge (both in the US\$6 billion range).

## Performance summary

The Composite continues to provide consistent, relatively stable returns. Annualized US\$ return (gross of fees) since inception now stands at 9.02% (versus 6.72% for the ML BB-B Constr Index). Additionally, the annualized volatility of the monthly Composite returns since inception is only 4.68%, representing 70% of the volatility of its benchmark.



Note: See attached disclosure statement

Past performance is not indicative of future results

Composite inception Q4 1999

USD Returns

	Q1 2007	2006	2005	2004	2003	2002	2001	2000	Q4 1999	Since Inception 10/1/1999
Money HY Bond Composite	2.53%	8.36%	3.08%	11.38%	17.01%	8.23%	10.17%	4.27%	3.01%	9.02%
ML HY BB-B Constr Index	2.54%	9.29%	3.39%	9.93%	22.89%	1.10%	5.43%	-3.91%	1.57%	6.72%
Difference	-0.01%	-0.93%	-0.31%	1.45%	-5.88%	7.14%	4.74%	8.18%	1.44%	2.31%

## Market outlook

### Fundamentals Stable, Default Rates Low

Looking forward, we continue to believe the higher quality segment of the high yield market is well supported by strong fundamentals, while lower quality names remain much more vulnerable to spread widening. We view this as a positive as, in general, we believe the market has not been sufficiently discriminating in pricing between higher and lower risk names. While we do expect to see continued volatility in the coming months, in our view, any spread widening will be tempered by the continued strong demand for yield in the market. BB/B spreads are approximately 28 bps wide of their tightes earlier in the year. We do not expect to see spreads tightening in much from their current levels. We consider the biggest risks facing credit markets over the near-term – in addition to geopolitical events – to be the spillover effect of the weakness in the US sub prime market as well as shareholder value driven transactions such as LBOs and special dividends. We note that the majority of high yield securities have covenant protections that limit these types of transactions.

Our strategy of maintaining defensive, highly-diversified portfolios remains unchanged as we continue to believe this type of portfolio represents the most appropriate risk profile to meet our client's objectives. While there is room to increase the risk profile of the portfolios, we have been reluctant to do so as we do not believe we are being adequately compensated at this time.

## Characteristics

### Consistent focus on the High Quality End of the Market

Portfolio Statistics - Money HY Bond Composite			
	Curr. Qtr	Prev. Qtr	Change
Market Value of Assets (incl cash & accrued)(US\$M)	771.0	1041.0	-270.0
Number of Issuers Held	232	215	17
Portfolio Average Default Probability (bps)	21	22	-1
Average Price (US\$)	102.05	101.83	0.22
Average Fixed-Rate Coupon	7.70%	7.72%	-0.02%
Average Yield to Worst	7.06%	7.08%	-0.02%
Average Option Adjusted Spread	230	227	3

As of March 31<sup>st</sup>, the market value of the Composite was US\$775 million. The credit quality of the Composite remains strong; at an average default probability of 21 bps, the implied average risk of the Composite is in the BB range. Investments have been made across a broad range of industries, positioning the Composite solidly in the higher quality segment of the high yield market. The Composite ended the quarter with a yield of 7.06% and a spread of 230 bps.

### HIM Money

HIM Money is a part of Chicago based Harris Investment Management, Inc, and operates within the BMO Financial Group. We are an experienced group of professionals dedicated to managing high yield bonds, loans and credit default swaps with US\$1.2 billion in assets under management. Our principals have extensive experience constructing, analyzing and managing portfolios of high yield debt. We are a small cohesive team with a global reputation for developing and using cutting edge technology and techniques for managing portfolios with credit risk.

Our approach emphasizes broad diversification as the key to stable portfolios. Our unique style combines leading edge credit risk measurement technology with fundamental analysis provided by a group of dedicated analysts. This linkage enables efficient monitoring and a disciplined style that has led to attractive, low volatile returns for HIM Money's clients over the credit cycle.

## Style and philosophy

### Key Elements of Our Style

**Rigorous Asset Selection using quantitative model**

**Risk-Adjusted Portfolio Construction and Monitoring**

**Very High Levels of Diversification**

**Disciplined Approach to Sales Decisions**

**Focus on low volatility, stable returns**

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**HIM MONEY, INC.**  
**HIGH YIELD BOND SEGREGATED COMPOSITE**  
**ANNUAL DISCLOSURE PRESENTATION**

Year End	Total Firm Assets (millions)	Composite Assets			Annual Performance Results			
		USD (millions)	% of Carve-Outs	Number of Accounts	Composite Gross	Composite Net	ML BB-B Constrained	Composite Dispersion
2006	1,509	1,041	2%	6	8.36%	7.98%	9.29%	0.2%
2005	1,561	1,168	11%	8	3.08%	2.71%	3.39%	0.2%
2004	1,165	848		6	11.38%	10.81%	9.93%	0.7%
2003	2,012	306		3	17.01%	16.69%	22.89%	0.0%
2002	4,594	186		2	8.23%	7.55%	1.10%	0.1%
2001	5,710	153		2	10.17%	9.29%	5.43%	0.5%
2000	6,289	73		1	4.27%	3.37%	(3.91%)	N.A.
1999*	3,373	40		1	3.01%	2.88%	1.57%	

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.  
\*Results shown for the year 1999 represent partial period performance from October 1, 1999 through December 31, 1999.

**High Yield Bond Segregated Composite** contains fully discretionary highly diversified portfolios of high yield bonds focusing primarily on the U.S. market with an objective of maximizing the total return, both interest income and gains for a given risk appetite. For comparison purposes, the composite is measured against the Merrill Lynch, U.S. High Yield, BB-B Constrained Index. In presentations shown from January 1, 2004 through December 31, 2004, the Merrill Lynch, U.S. High Yield, BB-B Rated Index was presented as the benchmark for this composite. In presentations shown prior to January 1, 2004, the Bear Stearns BB/B Index was presented as the benchmark for this composite. The indices were changed to be more representative of the composite strategy. Effective January 1, 2005, HIM Money, Inc. changed its pricing sources to conform to systems used by its parent. This change resulted in a one-time gain of 0.42% in 2005. As of December 31, 2006, 9% of composite assets are comprised of one account that uses currency hedging to remove the effect of currency. The minimum account size for this composite is \$5 million.

HIM Money, Inc. has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

HIM Money, Inc. is a wholly owned subsidiary of Harris Investment Management, Inc., a well-established U.S. asset manager within the BMO Financial Group. Prior to 2003, HIM Money, Inc. was known as BMO Money. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Settlement date valuation was used to calculate performance prior to January 1, 2004. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. Gross of fee performance returns are presented before management fees, custodial fees and withholding taxes, but net of all trading expenses. The annual composite dispersion presented is an equal-weighted standard deviation calculated for the accounts in the composite the entire year. Additional information regarding policies for calculating and reporting returns is available upon request.

The investment management fee schedule for the composite is: 0.50% on the first \$50 million, 0.45% on the next \$50 million, and 0.40% thereafter. Actual investment advisory fees incurred by clients may vary. Balanced portfolio segments are included in this composite and performance reflects total segment returns. The accounts from which balanced segments are taken do not hold a cash balance. Purchases are funded by the client upon purchase and proceeds from sold assets are returned to the client upon the close of the sale.

The High Yield Bond Segregated Composite was created October 1, 1999. HIM Money, Inc.'s compliance with the GIPS standards has been verified for the period January 1, 2005 through December 31, 2006 by Ashland Partners International Limited and for the period October 1, 1999 through December 31, 2004 by a previous verifier. In addition, a performance examination was conducted on the High Yield Bond Segregated Composite for the period January 1, 2005 through December 31, 2006 by Ashland Partners International Limited and for the period October 1, 1999 through December 31, 2004 by a previous verifier. Copies of the verification reports are available upon request.