



U.K. Pound



Canadian Dollar



STUDENTS TRUST INTERNATIONAL



U.S. Dollar



Euro Dollar

ANNUAL REPORT 2010

PRESIDENTS REPORT – 2010



Every year I ponder over what to write in the content of my annual report to subscribers. While there are many topics to choose from I want to make sure I touch on relevant topics that focus on the importance of college and university education and how education is the great equalizer in a world where some are born into classes that easily trap them into a life less fulfilling unless they have the courage, desire and opportunity to break free.

Today we have a perfect example of how education of the youth of the world will lead to radical change that will in the long run make it a better place to live for everyone. The protests and removal of a corrupt government in Egypt were initiated, co-ordinated and lead by young people who were university educated and aware of how democracy would make their country a better place.

They were organized and used their education to rally support from all walks of life to create a groundswell that is now spreading to other countries. While there is still a long way to go to provide better opportunities for all Egyptians the university student body and professors are poised take a leading role in shaping a new country that provides opportunity for all.

I am sure that when most of you enrolled to save with us so your children could achieve the dream of a university education you did not envision them toppling governments and writing new constitutions – perhaps more so that they will learn a trade – Lawyer, doctor, banker etc. and translate that into becoming a captain of industry or the community. We are now seeing that a university education can mean much more than that – it can spur people on to do great and courageous things.

As I have said to many who will listen to me, my ultimate dream for Students Trust International is not to achieve a certain size in assets under administration, or gain a reputation as a skilled investment trader that will attract new clients. My ultimate dream is that one of our students, coming from a common background with nothing more than their skill, desire and ability to attend university due to the foresight of their parents does something so special that they are nominated for a Nobel Prize.

Over the years we have helped thousands of families better their lives through the education of their children and I am sure many have gone on to do great things for their community and the people living there. I encourage you to share their stories with us so we can share these with others and create more excitement around the power of education.

On the investment side, the world markets continue to be unstable – while equity markets have slowly rebounded to higher levels there still remain significant imbalances in trade and currency holdings resulting in some major shifts in currency valuations. While emerging markets have generated excellent investment opportunities, their constant dollar returns have been reduced by these currency imbalances. Also for us the near term challenge is to have the patience to stick to our investment philosophy as US and Canadian long government bonds have seen one of the largest increases in cost (i.e. lowering of return) in recent history.

We believe that these long markets will return to traditional levels, however

there may be a little pain in 2011 as we wait for this to happen. In 2010 we were able to ride equity market increases along with our traditional holdings to achieve returns that fell into our target range:

	Return on Investments	Return after expense and donation
Canadian \$ Plan	6.55%	6.21%
US \$ Plan	7.98%	7.36%

The potential for equity gains in 2011 matching 2010 is unlikely and with long bond yields at under 5% we are not excited about committing our client funds for the next 15 to 20 years at these levels. As a result, 2011 may be a year of sacrifice – lower than average returns waiting for the long bond yields to return to levels we consider acceptable.

As you know, our investment strategy will never generate negative return so 2011 we expect to be lower than average, followed by above average returns in future years.

2010 saw our first full year of education payments for the Canadian \$ Plan and the good news is that every one of our beneficiaries for that year collected benefits. What this means is that when everyone collects the amount paid is divided between a larger group, hence the education payments have remained at the \$500 per unit level. Eventually we do expect to see some attrition which is one area that allows us to pay superior returns for the investment philosophy we follow; however as of now we don't expect that "bonus" to be realized in the next year or two.

Another piece of big news for us was to enter into a distribution arrangement with Grandtag Financial of Hong Kong – a licensed IFA resident in Hong Kong – to boost our presence in many countries in South East Asia. We are still in the early stages of this relationship however we encourage our clients in Hong Kong, Singapore and other South East Asian territories to contact Grandtag if you wish to enroll a new child or add units for an existing child in the STI Plan.

And finally, I wanted to advise our clients that not only am I the President of STI, I am also a proud subscriber. I am pleased to report that I set up an education plan for my daughter Caroline when she was born – the proceeds from the plan have financed her 4 year degree in Engineering at the University of Toronto and I will be attending her graduation ceremony on June 15th, 2011. The program does work and I am proof that it does.

On behalf of our staff, agents around the world representing our Plan and our Board of Directors we thank you for the trust you have placed in us. We hope the information in this report is well received and we look forward to helping you realize your children's dreams for a better future – and perhaps a Nobel Prize - though college or university education.

Respectfully,

Tom F. O'Shaughnessy, C.A.
President and Founder
Students Trust International Plan

VALUE OF COLLEGE DEGREE IS GROWING, STUDY SAYS

Despite rising tuition and student-loan debt levels, the long-term payoff from earning a college degree is growing, according to a report to be issued Tuesday by the College

Board. (http://topics.nytimes.com/top/reference/timestopics/organizations/c/college_board/index.html "More articles about College Board")

Workers with a college degree earned much more and were much less likely to be unemployed than those with only a high school diploma, according to the report, "Education Pays: the Benefits of Higher Education for Individuals and Society."

According to the report, the median earnings of full-time workers with bachelor's degrees were \$55,700 in 2008 — \$21,900 more than those of workers who finished only high school.

And the pay premium for those with bachelor's degrees has grown substantially in recent years. Among those ages 25 to 34, women with college degrees earned 79 percent more than those with high school diplomas, and men, 74 percent more. A decade ago, women with college degrees had a 60 percent pay premium and men 54 percent.

The report found that after about 11 years of work, college graduates' higher earnings compensated for four years out of the labor force and for student loans, at 6.8 percent interest, to cover the average tuition and

fees at a public four-year university.

(<http://www.nytimes.com/info/student-loans/> "More articles about student loans.")

Even during the recession, a degree offered protection from unemployment. The 2009 unemployment rate of college graduates 25 and older was 4.6 percent, compared with 9.7 percent for high school graduates.

"Consistently over time, unemployment rates are about half for college graduates," said Sandy Baum, an author of the report. "And jobs began recovering for college graduates about a year and half ago. While it's easy to find a college grad who's unemployed, you're statistically much less likely to be in that circumstance if you have a higher level of education."

The debate over whether college is worthwhile has grown more spirited as tuition spirals higher, faster than inflation.

"For reasons that are not entirely clear, more people are questioning whether it's necessary to go to college," Ms. Baum said.

Among economists, though, even those who emphasize alternative approaches to skill development agree that for most people, a college degree pays off.

IS YOUR DEGREE WORTH \$1 MILLION -- OR WORTHLESS?

A recent study in the USA calculated the "present value" of university degrees by taking the average salary made by graduates over their lifetime and discounted to the present using an annual discount rate of 5%. The first graph shows the present value for a Bachelor's Degree – note that going into the field of education from a high end expensive university may not be the best economic decision.

Bachelor's degree	
Average	\$308,588
Business	\$349,028
Computers	\$443,180
Engineering	\$497,930
Liberal arts	\$243,883
Social science	\$210,080
Science	\$283,286
Education	\$108,461
Professional degree	
Average	\$716,927
Law	\$748,865
Medicine	\$977,601

Professional school degrees like law, business and medicine make even more sense – even with degrees that might cost up to \$400,000 currently students in these fields will recover their investment and more over their lifetimes.



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As we do each year, here are the most popular sites to determine the cost of studying in the most popular English speaking jurisdictions:

<http://www.studentcalculator.org.uk/international/>

<http://www.edupass.org/>

<http://studyinaustralia.gov.au/Sia/Default.aspx>

<http://studyinaustralia.gov.au/Sia/en/studycosts/studycosts.html>

There is no education service website in Canada that provides calculations however we did find the following business periodical that provides at least tuition costs for Canada:

http://www.canadianbusiness.com/my_money/planning/education/university_cost/tool.jsp

Here is a recent study that is useful for those considering studying in the USA. To access the study go to the website link listed below:

<http://trends.collegeboard.org/>

INVESTMENT COMMENTS BY: 

Concerns about an acceleration of price pressures have blown hot and cold over the past year. Investors became worried about inflation around the beginning of 2010 when massive government stimulus and inventory rebuilding temporarily led to stronger-than-expected economic news. These fears turned to renewed concerns about a double-dip and deflation in the spring as economic momentum waned and the sovereign debt crisis in Europe escalated. By year-end, better economic news and rising commodity prices were again putting the spotlight on inflation prospects. However, on a year-over-year basis, headline consumer price inflation was running around 2% in Canada and 1% in the U.S. at the end of 2010.

For 2011 we expect equity markets to trend higher; however, similar to the choppy nature of the economic recovery, we anticipate stock prices will continue the uneven trading pattern observed over the past two

years. Given the equity market rally experienced since late August, much of the earnings growth anticipated in 2011 may be priced in already and we remain mindful of the threat of a modest pullback in stock prices.

Fixed income prices weakened in the last part of 2010 pushing the DEX All Government Bond Index to a negative return figure. The higher yields now offered in the 10 and 30 year term are 5 to 15% higher since Scotia Economics predicted a flatter yield curve in late 2010. As a result the Fixed Income Group now has the following recommendations:

Term Call – given the recent rise in yields we recommend investors move farther out on the yield curve. Sector Call – Underweight Government of Canada, overweight provincial bonds

Currency Call – We recommend C\$ investors remain in C\$ for their fixed income holdings

INVESTMENT COMMENTS BY: 

We continue to recommend that investors hold relatively high allocations to equities in their investment portfolios, because we believe that equity markets are roughly at fair value, and investor sentiment, while improving, remains quite bearish, which is positive for equities from a contrarian perspective.

Bond mutual fund sales have been huge since the end of 2008, but in the last few weeks, mutual fund investors on net have been redeeming their holdings in fixed income mutual funds, particularly in municipal and high-yield bond funds, for the first time in nearly two years. We do not yet see convincing evidence that these redemptions of fixed income funds represent a shift in individual investors' asset allocation towards equities, but it is possible that the shift is underway.

With stocks in December 2010 having further extended the rally from the July 2010 correction lows, the broad Canadian and U.S. equity markets end the year slightly overvalued on our long-term gauges. At present valuations, the expected five-year return from these valuation levels is in the realm of 7–9 percent. These expected rates of return are below the long-term average rates of return from North American equities, but relative to competing asset classes such as government or corporate bonds they are very compelling.

For example, as of the end of December 2010, the weighted average yield to maturity of the broad Canadian bond market was 3.11 percent, and the broad investment-grade corporate bond market closed the year with a weighted average yield of 3.81 percent. Money market rates are still extremely low, so the comparison between prospective equity returns and short-term rates is even starker than for bonds.

The broad Canadian fixed income market, as represented by the DEX Universe Bond Index, fell 0.4 percent on a total return basis in January 2011. Federal government and provincial debt sectors showed losses in

January, while the broad Canadian corporate bond market was flat in the month. This means that government bond yields continued to rise in early 2011 after reaching long term price highs in August of 2010. However, at these yield levels there is still more movement to come before these classes match the outlook for the equity markets.

Below is the recommended asset allocation for a portfolio with an objective of income growth and capital preservation. The current recommended level is weighted more to equities than the benchmark.

	Recommended	Benchmark
Cash	5	5
Fixed Income	65	70
Equity	30	25
- Canadian	15	15
- U.S. Equity	15	5
- EAFE Equity	0	5

Note from the President: As a result of issues with respect to HSBC Private Bank trademarks we have not been able to publish any investment outlook comments from HSBC.

ADMINISTRATION REPORT

For subscribers who have chosen the annual or 5YR annual method of deposit, your deposit is due on the anniversary date of the agreement (as noted in your welcome package). Please make all deposits by wire transfer to the Trustee HSBC, as follows:

DEPOSITS FOR THE CDN\$ PLAN

Correspondent Bank:

Royal Bank of Canada, 180 Wellington St. W. 6th Floor
Toronto, Ontario M5J 1J1 Canada

Swift Code: ROYC CAT2

Beneficiary Bank:

HSBC Bermuda, 6 Front Street Hamilton, Bermuda

Swift Code: BBDABMHM

Beneficiary Account Number: 010-832921-511

Beneficiary Address (use only if required by remitting bank):

Compass Point, 9 Bermudiana Road, Hamilton, HM 11 Bermuda

Important Additional Instruction:

Please make sure the remitting bank identifies your STI Agreement # on the wire confirmation.

DEPOSITS FOR THE US\$ PLAN

Correspondent Bank:

HSBC Bank USA, N.A. 452 Fifth Avenue,
New York, New York 10018, U.S.A.

Swift Code: MRMD US33

Beneficiary Bank:

HSBC Bermuda, 6 Front Street Hamilton, Bermuda

Swift Code: BBDABMHM

Beneficiary Account Number: 010-833077-501

Beneficiary Name: HSBC International Trustee Ltd as trustee of the STI US\$ Plan

Beneficiary Address (use only if required by remitting bank):

Compass Point, 9 Bermudiana Road, Hamilton, HM 11 Bermuda

Important Additional Instruction:

Please make sure the remitting bank identifies your STI Agreement # on the wire confirmation.

DEPOSITS FOR THE BERMUDA PLAN

Correspondent Bank:

Royal Bank of Canada, 180 Wellington St. W. 6th Floor
Toronto, Ontario M5J 1J1 Canada

Swift Code: ROYC CAT2

Beneficiary Bank:

HSBC Bermuda, 6 Front Street Hamilton, Bermuda

Swift Code: BBDABMHM

Beneficiary Account Number: 010-739639-511

Beneficiary Name:

Bermuda Trust Company Limited as trustee of the STI Bermuda Plan

Beneficiary Address (use only if required by remitting bank):

Compass Point, 9 Bermudiana Road, Hamilton, HM 11 Bermuda

Important Additional Instruction:

Please make sure the remitting bank identifies your STI Bermuda Agreement # on the wire confirmation. Please send a copy of wire receipts to your respective agent or at service@stiplan.com after funds are remitted by your bank.

EDUCATION PAYMENT APPLICATION PROCESS FOR PLAN BENEFICIARIES

1. When are Education Payments distributed?

As soon as the Beneficiary sends an STI Official Education Payment Application that confirms enrolment/registration to a Qualifying Education Program of college or university education. For Bermuda Plan Beneficiaries receive payments for Academic Year 2, 3 and 4. For CDN\$ and US\$ Plans Beneficiaries receive payments for Academic Year 1,2,3 and 4.

2. How do I get an STI Official Education Payment Application ?

Applications are automatically sent to beneficiaries (via e-mail) in May of every year. Please make sure you provide us with your most current e-mail address.

3. Only the original STI Official Education Payment Application document is accepted for evaluation (no copies)

Please send your document by courier or registered mail to:

Students Trust International Plan
c/o O'Shaughnessy Education Foundation
The Exchange Tower, PO Box 427
130 King St. W. Suite 1800
Toronto, Ontario
Canada M5X 1E3

4. Can I receive credit for Certificate Programs?

In some cases courses taken in secondary school or college qualification schools are accepted as equivalent to courses in a college or university stream.

To be considered for credit you must submit a Certified True copy of the certificate (via courier or registered mail), along with your STI Official Education Payment Application. The following programs are currently recognized:

- i) "A Levels" Certification or equivalent
- ii) International Baccalaureate Diploma (IBO)
- iii) Foundation Level Certificate of Completion

5. What if I need an STI Official Education Payment Application before May?

Just go to www.stiplan.com, double click on the link at the bottom of the homepage "How To Apply for your Education Payment". Follow the directions and print the Application in Word File.

STI PLAN CLIENT SERVICE INFORMATION

Bermuda Subscribers please send enquiries to: service@stiplan.com
All other inquiries please send to: jspeers@stiplan.com
To leave a voicemail message please call our customer service line +1-905-231-1142

