

Russell Investment Manager Outlook

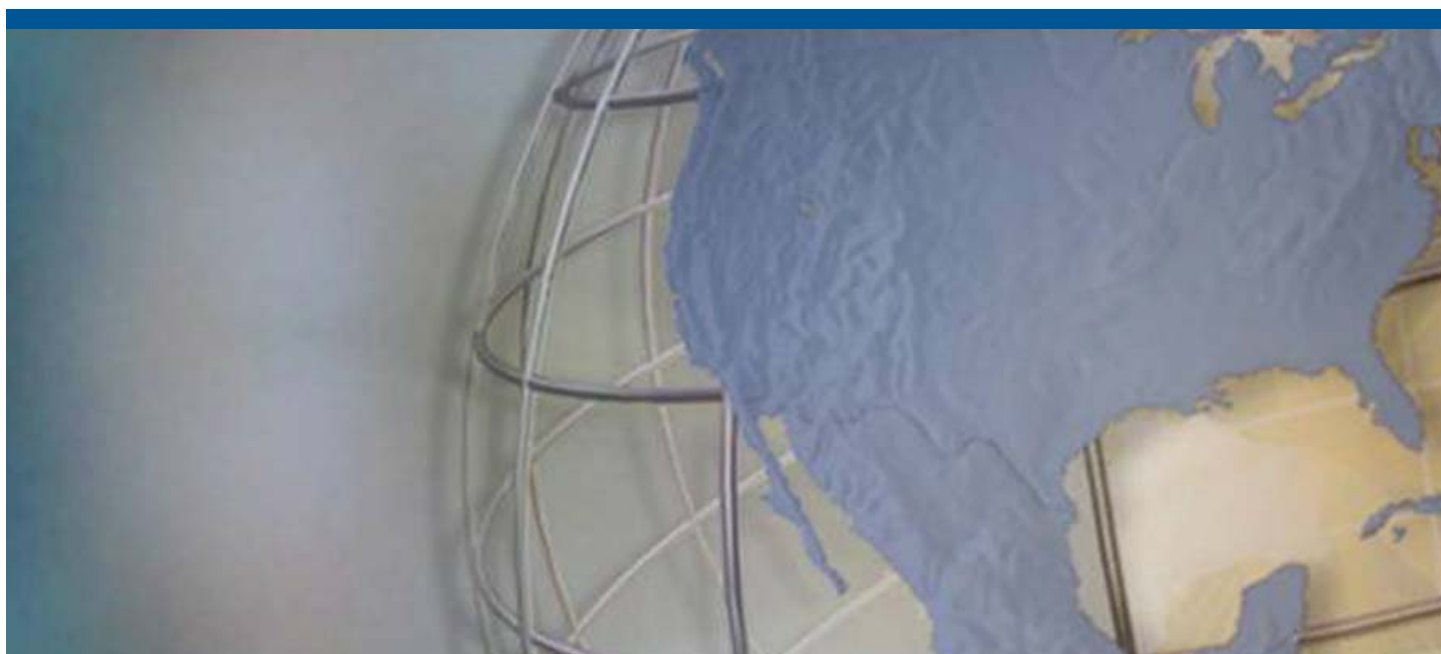
Quarterly Survey of Canadian Investment Managers and their Views of the Market

Commentary by

Timothy Hicks, CFA

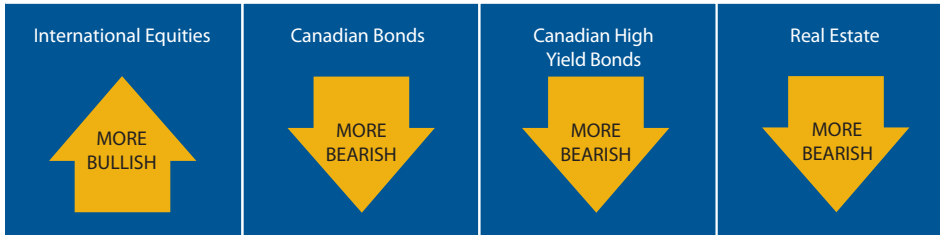
Chief Investment Officer – Canada

DECEMBER 2005



Survey Goals and Summary of Key Findings

Key Trends—December 2005 Investment Manager Survey



Summary of Key Findings

Investment managers see more prospects for advances in the coming months in international equities than any other asset class, according to the results of the December 2005 Russell Canadian Investment Manager Outlook.

The survey of 30 senior-level investment managers at Canadian investment management firms found bullish sentiment for international equities (64%), yet almost half also have bullish sentiment (48%) towards the Canadian broad market. Managers are most bearish on Canadian bonds (76%), Canadian high yield bonds (86%) and real estate (52%).

Looking more closely at the Canadian equity market, 17% feel that it is undervalued, 50% believe that it is fairly valued and 33% believe it to be overvalued.

Among market sectors, managers are bearish on utilities (48%), energy (44%) and industrials (41%), all strong performers in 2005. Sentiment is positive or at worst neutral for the other seven sectors. The most bullish view is on the financials (74%) and materials (52%) sectors.

Nearly two-thirds (65%) of the managers surveyed believe the U.S. Federal Reserve may end its short-term rate increases soon, at either 4.5 percent or 4.75 percent.

About Russell's Canadian Investment Manager Outlook

Welcome to the first edition of Russell's quarterly Canadian Investment Manager Outlook, intended to generate a meaningful snapshot of Canadian investment manager sentiment.

As consultants to more than \$3.0 trillion in assets worldwide, and the only firm that researches more than 3,800 investment management companies, Russell Investment Group has extraordinary access to senior-level Canadian investment decision-makers. Prior to the end of each quarter, Russell surveys a sample of those decision-makers to collect their top-line opinions about the direction of the markets, sectors/styles to watch, and trends on the horizon that could impact investment strategy. The result of this survey is the Russell Investment Manager Outlook.

Three of the four questions posed to investment managers will be repeated each quarter, so that results can be measured over time. The poll also includes one topical question that changes each quarter. In addition to providing quantitative results, Russell reviews the data collected each quarter, and provides a qualitative analysis from a senior investment strategist (see page 2).

Russell Investment Manager Outlook is completed and distributed at the end of each quarter (see anticipated future release dates to the left). This report includes responses from investment managers with a variety of investment focuses.

The manager research that Russell conducts for investment purposes is done entirely independent of Russell Manager Outlook, and responses to the survey are on a purely voluntary basis.

FUTURE RELEASE DATES
 Wednesday, March 29th, 2006
 Wednesday, June 28th, 2006

Wednesday, September 27th, 2006
 Tuesday, December 19th, 2006

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Commentary & Analysis



By Timothy Hicks, CFA
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 Russell Investment Group

Over 60% of Investment Managers Bullish on Non-Canadian Markets At Year-End

Canadian investment managers are looking outside the country to find improved market returns. They see more prospects for advances in coming months in international equities than in any other asset class.

More than 60% of the managers who responded to the December 2005 Canadian Investment Manager Survey are bullish on non-Canadian issues.

Among the factors driving managers to look abroad are the decreased prospects they see for energy stocks, which have been a major force in the recent Canadian market gains. Energy stocks comprise some 26 percent of the market, judging by the MSCI Canadian Index, and therefore its influence is significant. By contrast in the United States the energy sector is only 8.5 percent of the equivalent MSCI index for that country.

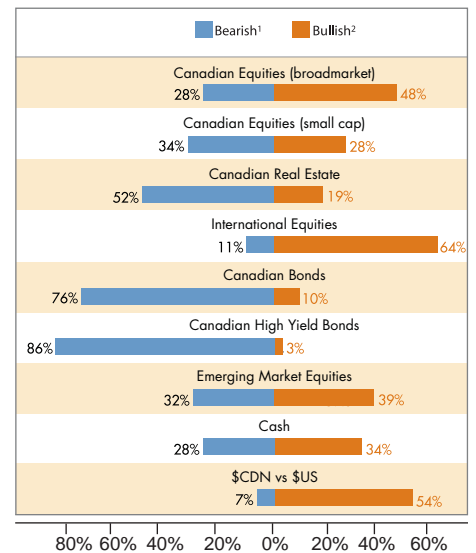
While favouring international markets, Canadian managers remain positive on the broad Canadian equity market. Excluding the 24% of respondents who are neutral, the bulls outnumber the bears by an almost two to one margin. This

upbeat assessment is corroborated by the view that two-thirds of respondents (67 percent) believe the market is fairly valued or undervalued, compared with 33 percent who consider it overvalued.

This result reflects a bifurcated view of the market at the sector level. Managers are bearish on prospects for the two sectors that have dominated the market this year, energy and utilities, as well as industrials, another strong performer. But sentiment is constructive or at worst neutral for the other seven sectors. The key is the positive outlook for the financials and materials sector, which combined make up over 47% of S&P/TSX Composite. Even if valuations soften in energy and utilities, leadership from these other major groups should be enough to keep the market moving forward.

Although not as strongly supported as international issues, emerging markets are the third most-favoured equity class. Here, too, managers who responded to the survey see these markets as continuing to provide opportunities in spite of strong gains in the last two years.

Manager Expectations by Asset Class



Note: Bearish = percent of managers responding with 1-3 on a scale of 1-7. Bullish = percent of managers responding with 5-7 on a scale of 1-7. Scores for neutral (4) are not included. See detailed charts on the following pages.

In the Canadian equity market, the respondents see more opportunities in the broad market issues than in small-cap stocks, on which only about a fourth are bullish.

The reason for the managers' muted support for Canadian stocks appears to lie in a number of related factors. An obvious candidate for caution would be the price of oil, which has retreated from highs approaching \$70 a barrel to the higher \$50s in recent weeks, thereby reducing the immediate attraction of the energy sector.

Commentary & Analysis (continued)

Coming off gains of more than 60 percent from Jan. 1 to Nov. 30 this year and 38 percent last year, the Canadian energy sector is seen as overvalued and due for a correction. As a result, managers, believing that the best gains lie behind them, have turned more bearish than bullish on this sector.

The bearishness on energy flows over into the utilities sector, where only one quarter of respondents are bullish.

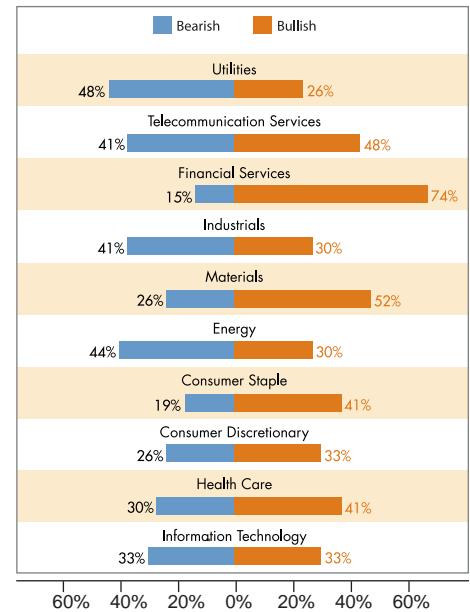
The respondents are hesitant to commit themselves on the impact of rising interest rates on consumer spending, with almost half neutral on the sector. For the rest, those bullish outnumber the bearish by a small percentage.

But, more surprisingly, financial services is the most favoured equity sector, receiving 74 percent bullish support. The sector has performed well so far this year, with gains of over 20% for the year to Nov. 30. Given the expectation of rising interest rates and bond yields, it may seem surprising that this sector received the highest number of bullish votes (74%) from the managers. Historically considered an interest-sensitive group, one would expect the opposite. This survey result seems to indicate that managers are attracted to Canadian banks and insurance companies more for the growth potential of their fee-based and capital markets activities than their traditional loan business, which will be hurt by rising interest rates and a flattening yield curve.

Relative to equities, Canadian managers are downright negative on the prospects for fixed income. In the survey, nearly 50% of respondents expect the U.S. Federal Reserve to continue to push up administered rates to 4.75% or higher in 2006. Over 75% of respondents are bearish on the Canadian bond market, implying concerns over inflation pressures and an expectation of continued tightening by the Bank of Canada. The view for credit spreads is even more dire, with 86% of respondents bearish on the outlook for high yield bonds. The negative sentiment around long-dated investments and the expectation for rising interest rates helps explain why 72% of managers are neutral to bullish on cash in the coming year.

A very clear outcome of the survey was the bullish outlook for the Canadian dollar. Over 50% of respondents are positive on the Canadian dollar while only 7% are bearish. This is consistent with the positive view of the materials sector and indicates an expectation of continued cyclical demand for Canada's resources. The positive implication for Canada's trade balance and anticipation of continued tightening by the Bank of Canada are clearly factors that help explain the managers' confidence in the Canadian currency relative to the U.S. dollar.

Manager Expectations by Asset Sector



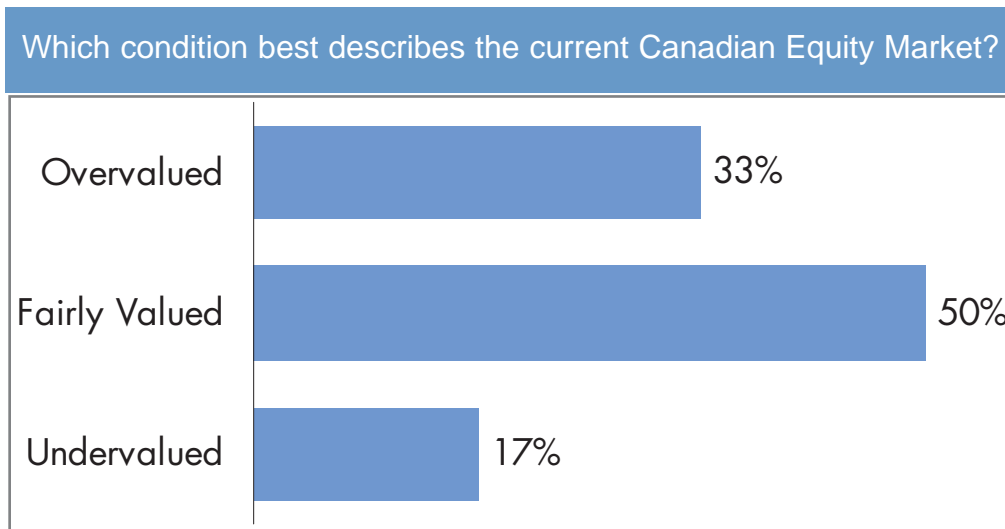
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Question 1 Results—Valuation of the Canadian Equity Market

Which of these general valuation conditions best describes the current Canadian equity market?

Key Findings:

- 17% believe the market to be undervalued
- Half of the managers (50%) believe the market is fairly valued
- Another 33% believe the market to be overvalued



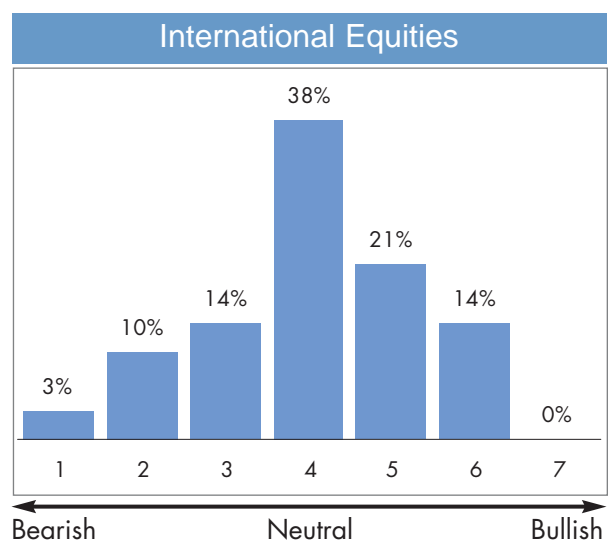
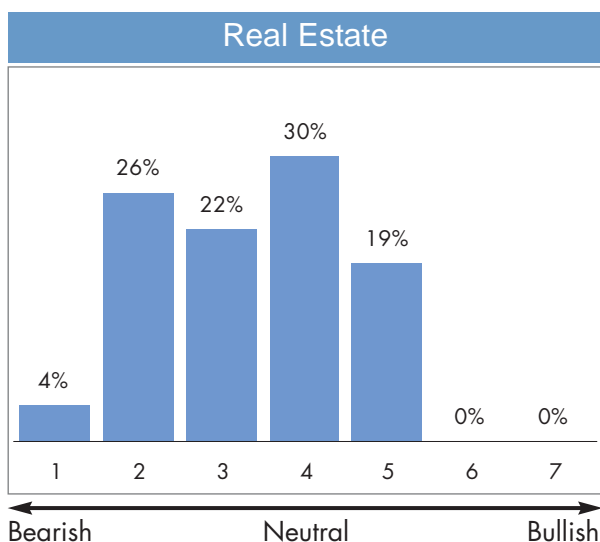
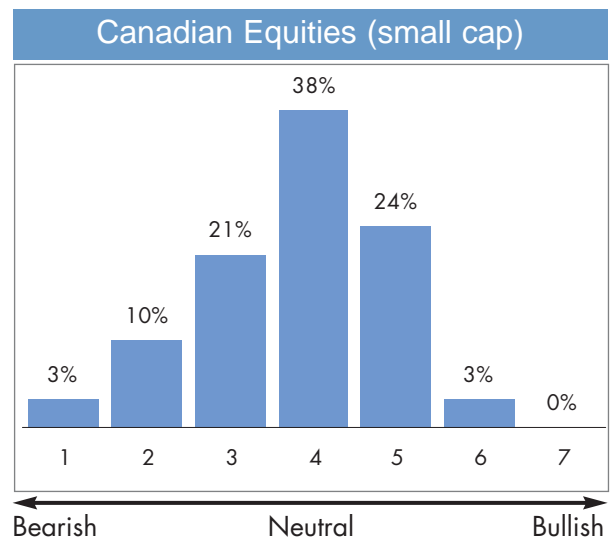
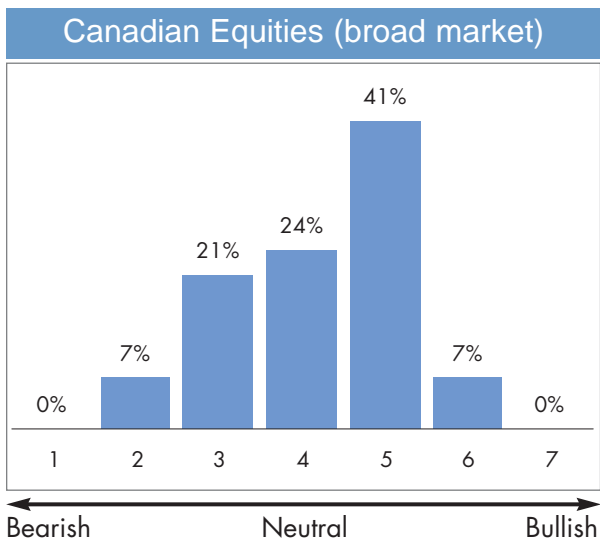
Question 2 Results—Asset Class Expectations

What are your expectations for the performance of the following asset classes over the next 12 months?

Key Findings:

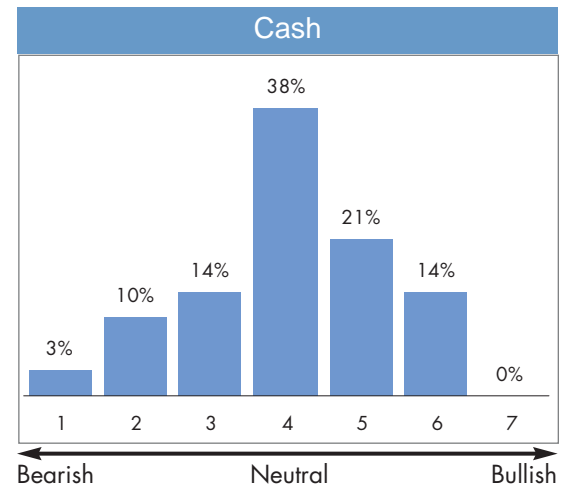
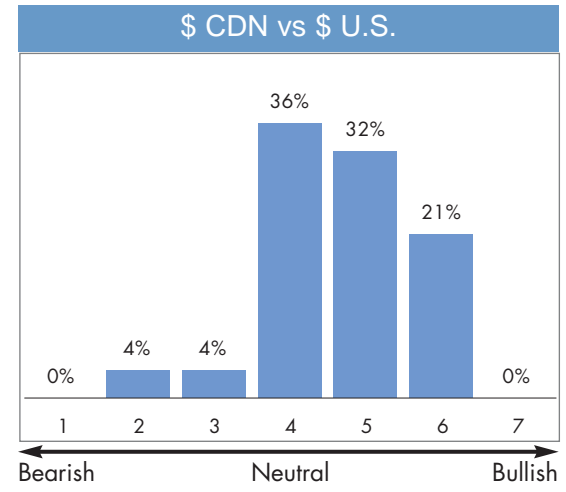
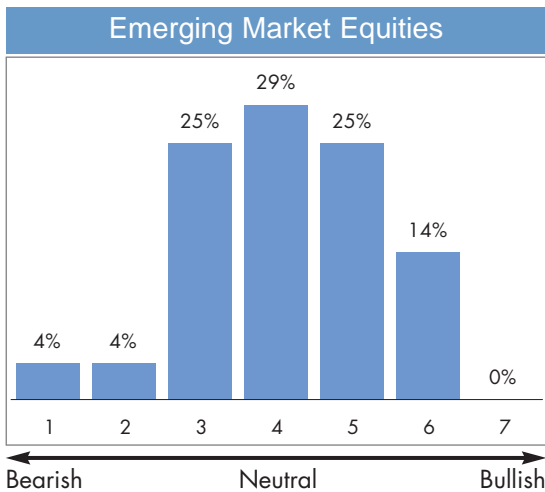
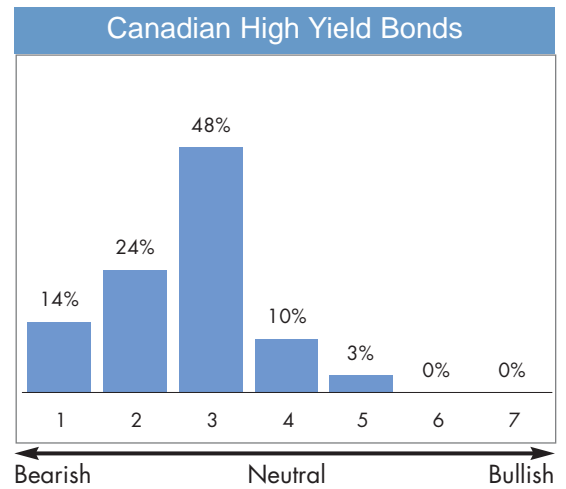
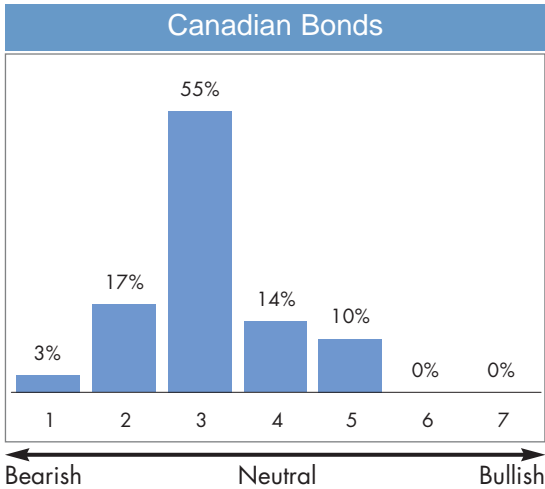
- Managers favour international equities ahead of other asset classes - with 64% reporting positive (bullish) outlook
- Most managers are either bullish (48%) or neutral (24%) about the Canadian broad equity market
- Managers are most bearish about domestic and high yield bonds; 86% are bearish towards high yield bonds and 76% are bearish about bonds
- Managers have a mixed outlook for cash, with 28% bearish, 38% neutral and 34% bullish
- 54% of managers are bullish on the outlook of the \$C versus the \$U.S.

Scale is 1 to 7: 1 = “strongly bearish” 4 = “neutral” 7 = “strongly bullish”



Question 2 Results—Asset Class Expectations (continued)

Scale is 1 to 7: 1 = "strongly bearish" 4 = "neutral" 7 = "strongly bullish"



Note: Numbers may not add to 100 percent due to rounding.

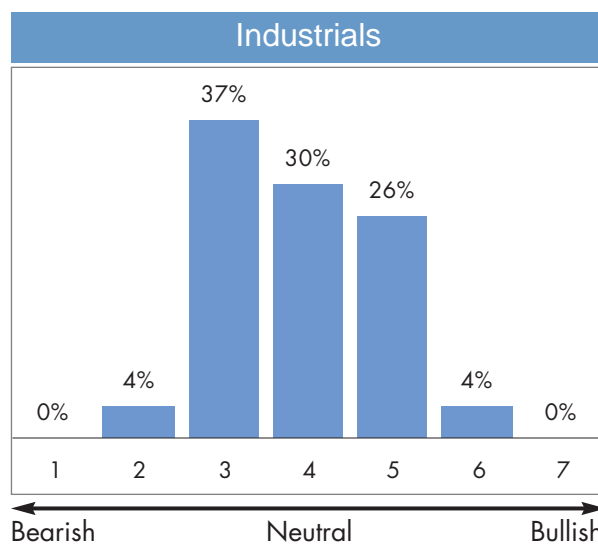
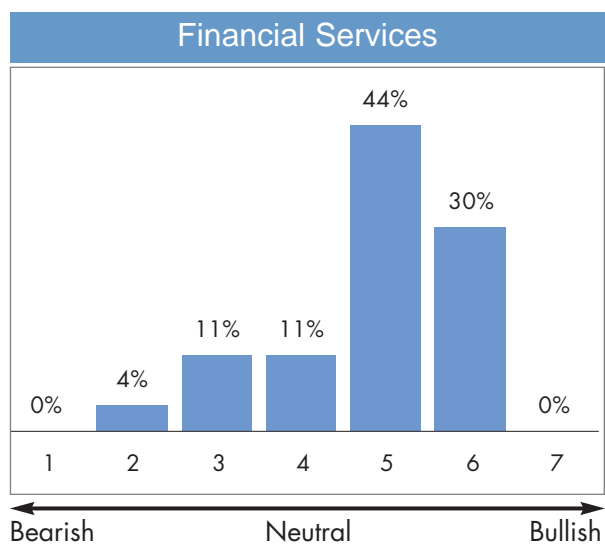
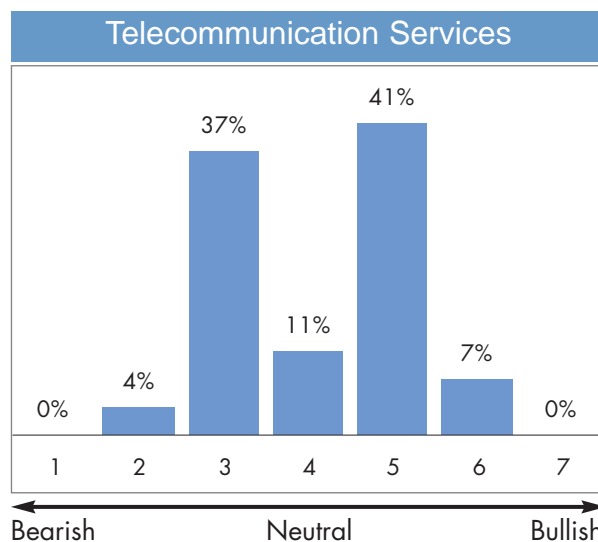
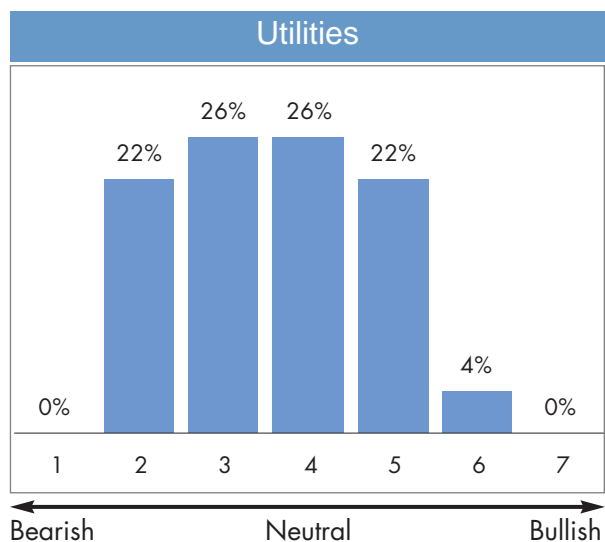
Question 3 Results—Sector Expectations

What are your expectations for the performance of the following sectors over the next 12 months?

Key Findings:

- Managers are most bullish about financial services (74%), materials (52%) and telecommunications (48%). Financial services is the most favoured sector overall with only 15% of managers reporting a bearish outlook
- Managers disagree on the outlook for the consumer discretionary sector, with 26% bearish, 41% neutral and 33% bullish
- Managers are most bearish about utilities (48%) and energy (44%)

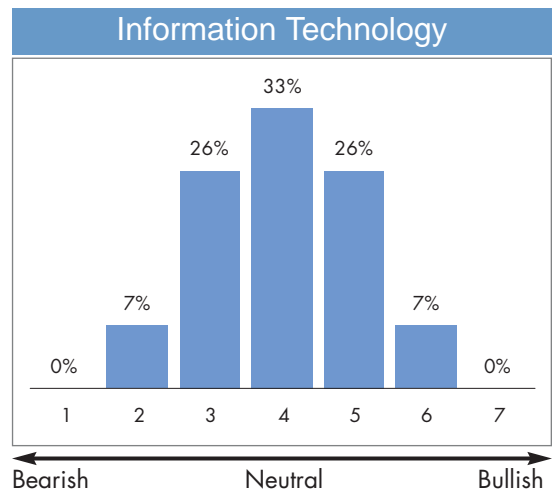
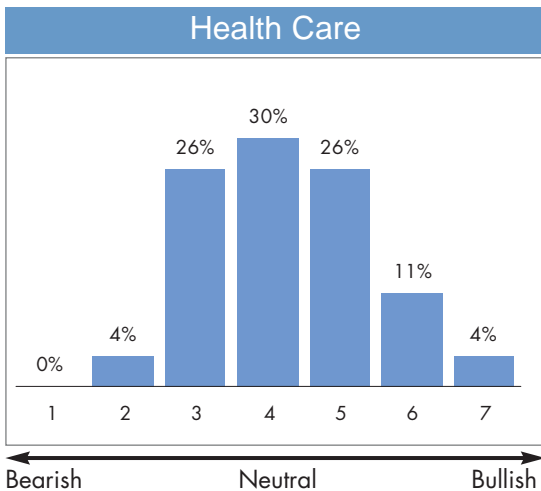
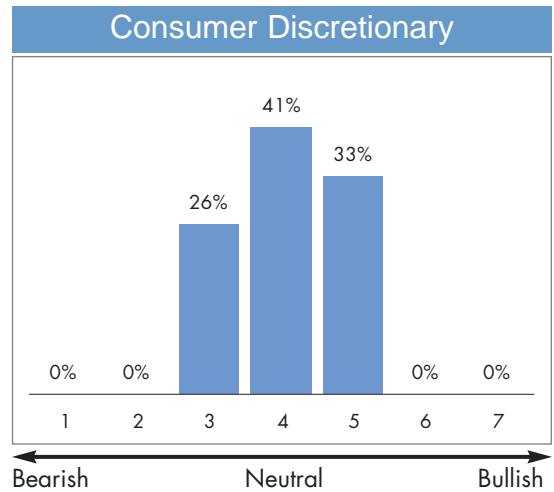
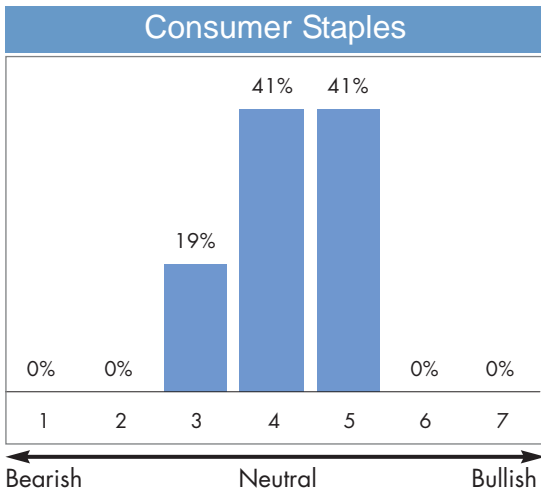
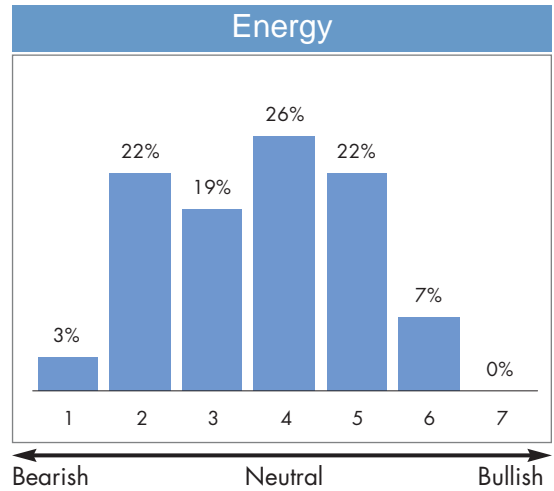
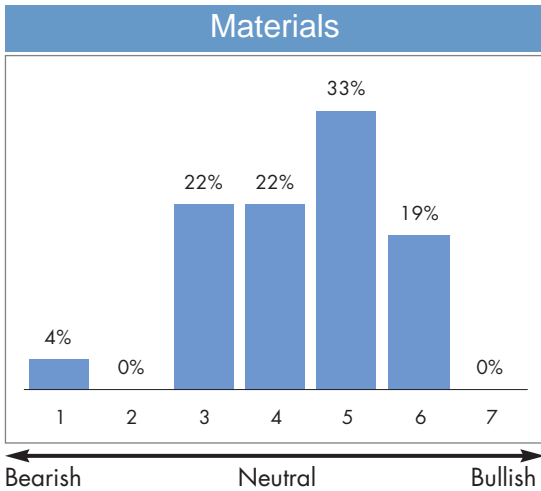
Scale is 1 to 7: 1 = “strongly bearish” 4 = “neutral” 7 = “strongly bullish”



Note: Numbers may not add to 100 percent due to rounding.

Question 3 Results—Sector Expectations (continued)

Scale is 1 to 7: 1 = "strongly bearish" 4 = "neutral" 7 = "strongly bullish"



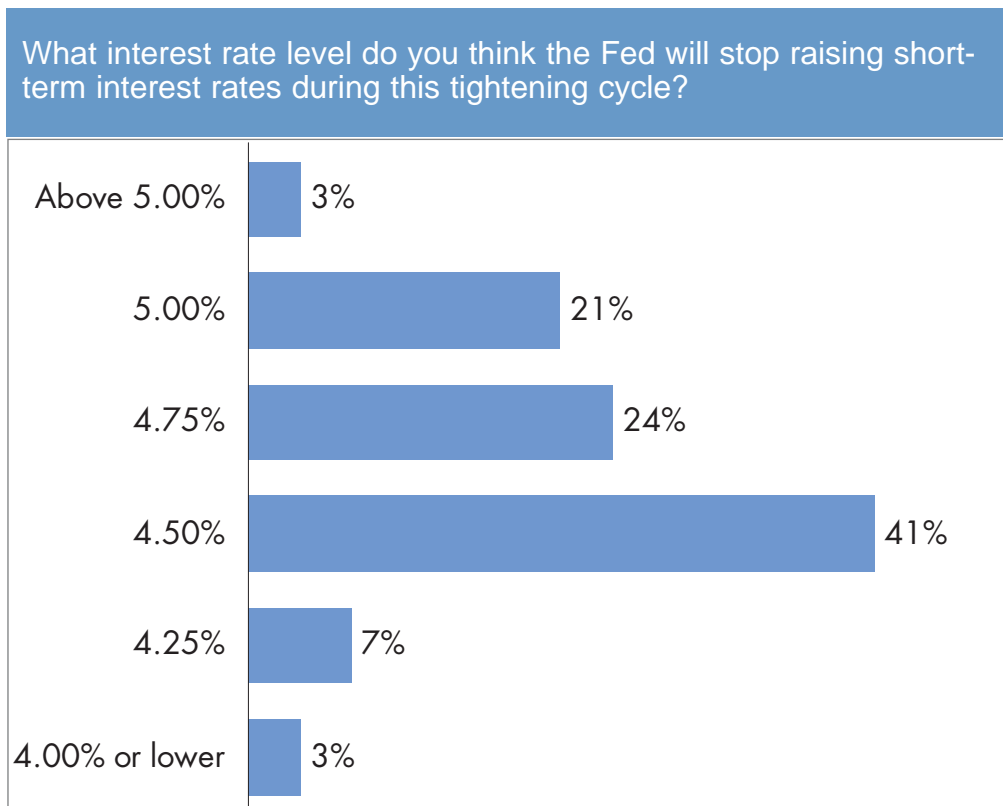
Note: Numbers may not add to 100 percent due to rounding.

Question 4 Results—When will the Fed stop raising interest rates?

Since June 2004, the Federal Reserve Board has increased U.S. short-term rates 12 consecutive times. With Ben Bernanke slated to take over from Alan Greenspan as the Chairman of the Fed on January 31, 2006, at what interest rate level do you think the Fed will stop raising short-term interest rates during this tightening cycle?

Key Findings:

- 65% of managers expect the Fed to stop raising rates between 4.50% and 4.75%
- Another 21% expect the rate to stop at 5.00%



Note: Numbers may not add to 100 percent due to rounding.

Supplementary Information

The Asset Sectors are based on an appropriate broad based index applicable to that sector. For example returns for the Canadian equity market represented are based on the S&P/TSX Composite Index.

Chart: Annualized Asset Sector Returns to 30 November 2005

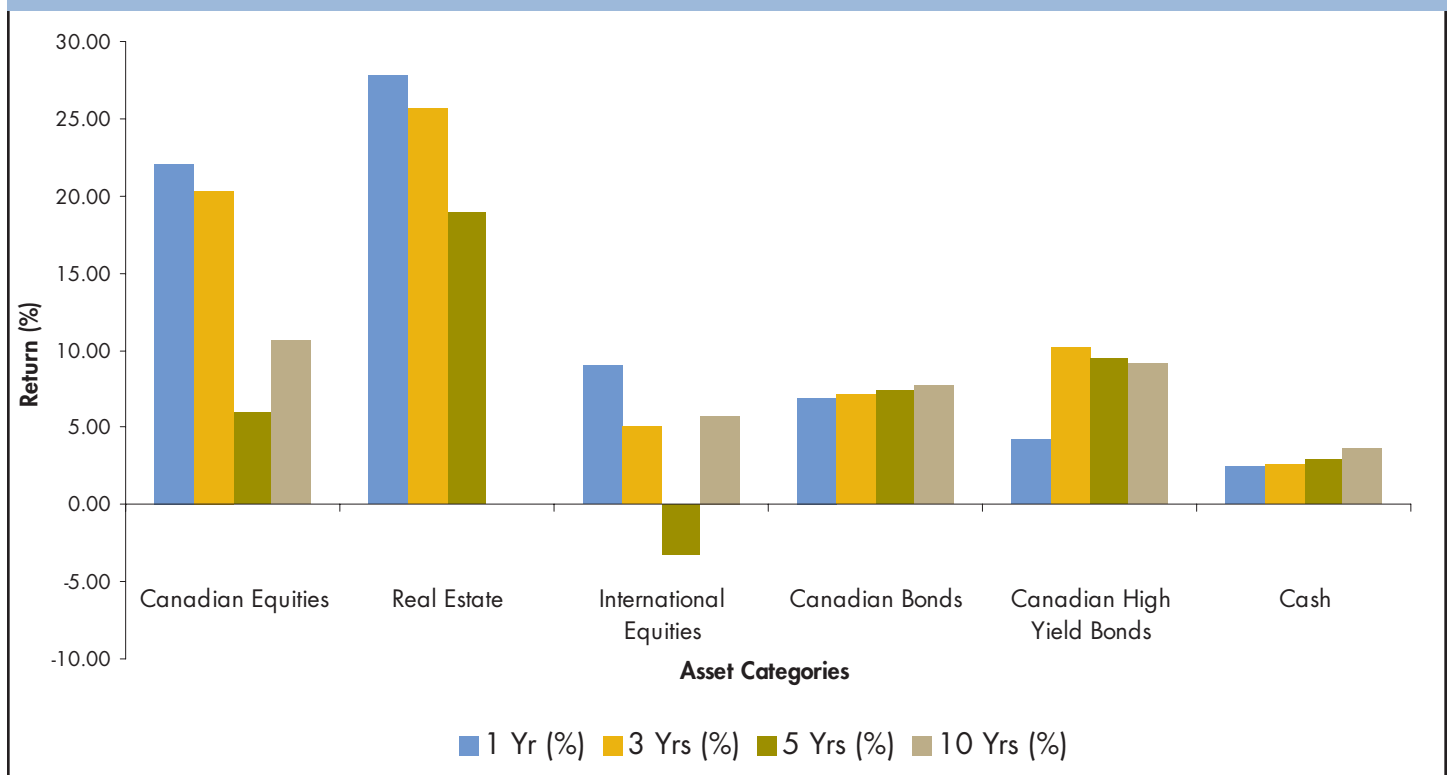


Table: Annualized Asset Sector Returns to 30 November 2005

Asset Sector	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)
Canadian Equities	22.02	20.29	6.00	10.65
Canadian Real Estate	27.80	25.70	18.90	N/A
International Equities	9.00	5.09	-3.23	5.74
Canadian Bonds	6.94	7.19	7.42	7.68
Canadian High Yield Bonds	4.25	10.14	9.45	9.15
Cash	2.50	2.55	2.91	3.64

Index Sources: MSCI, Scotia Capital, TSX Group, RBC Capital Markets

Methodology and Background about Russell

Methodology

Russell Investment Group conducted *Investment Manager Outlook* between November 28 – December 5, 2005. The survey was sent to investment managers with a variety of investment focuses. Having a financial relationship with Russell was not part of the criteria for being included in the survey. In total, 30 investment management firms from Canada participated in the survey.

The large majority of individual respondents to *Investment Manager Outlook* have senior-level investment decision responsibilities, and are often portfolio managers or CIOs. Other participants included investment strategists, select research analysts, and others. The manager research that Russell conducts for investment purposes is done entirely independent of *Investment Manager Outlook*, and responses to the survey are on a purely voluntary basis.

About Russell Investment Group

Russell Investment Group is a global market leader among manager-of-manager investment firms, based on assets under management, as measured by The Cerulli Report.[™] Russell has also been named the “Multi-manager of the Year” for two consecutive years by *Global Investor* magazine.

Russell, which launched its first multi-manager funds in 1980, advises clients on more than \$3.0 trillion in assets and delivers investment programs to more than 2,000 clients in 40 countries. Russell manages over \$173 billion in assets in a variety of multi-manager funds.

Institutional investors seek Russell’s advice on evaluating and selecting talented investment managers, while organizations large and small take advantage of Russell’s innovative investment management skills through our MULTI ASSET MULTI STYLE MULTI MANAGER[™] investment programs.

More than 40 million individual investors also have access to Russell’s services through a network of alliances that includes many of the world’s top banks, insurance companies, broker/dealers, and independent investment advisors.

In Canada, Russell serves both retail and institutional investors with a full range of investment services, including investment consulting, manager research, investment funds (which include private equity and hedge funds, transition management and commission recapture services, for institutional investors). Russell Canada manages over \$8 billion in its multi-manager investment funds and programs. Individual investors can access Russell’s expertise through the purchase of its fund-of-funds, LifePoints[®] Portfolios, and through customizable investment programs such as the Sovereign Investment Program and Sovereign Separate Accounts.

Founded in 1936, Frank Russell Canada Limited is a wholly owned subsidiary of Frank Russell Company and is headquartered in Tacoma, Washington. Russell has additional offices in New York, Toronto, Australia, London, Paris, Singapore, Sydney, Auckland, and Tokyo.

For more information, please visit www.russell.com/ca

Asset Class Definitions

CANADIAN EQUITY

Index Source: S&P/TSX Composite Index

Canadian equities are a growth asset involving the purchase of ownership interests – and the rights to profits and voting that this implies – in a company listed on the S&P/TSX Composite Index. Equities may be purchased from the Global Industry Classification Standard sectors, including financials, energy, materials, industrials, consumer discretionary, consumer staples, health care, information technology, telecommunications, and utilities.

The risks faced by Canadian equities include liquidity risk, market risk and company-specific risk. The value of investments is subject to changes to management, product distribution, investor confidence, internal operations and the company's business environment.

CANADIAN BONDS

Index Source: RBC CM Canadian Bond Market Index

Canadian bonds (Canadian fixed income) are a defensive asset providing debt capital to organizations in return for coupon payments and return of capital at expiry. Canadian bonds may be sold which finance a variety of sectors including government, corporate, and international fixed income products. The sector chosen will determine, in part, the bond's level of risk.

The primary risks associated with Canadian bonds include interest rate risk, inflation risk and credit risk. In general there is a negative relationship between interest rates and the value of bonds.

HIGH YIELD BONDS

Index Source: Scotia Capital High Yield Bond Index

High yield bonds are non-investment grade debt obligations. In general, when interest rates rise, the value of bonds will decline. Bond investors should carefully consider risks such as interest rate risk, credit risk, inflation, securities lending, repurchase and reverse repurchase transaction risk. Portfolios that invest primarily in high yield bonds are subject to additional risks such as limited liquidity and increased volatility.

INTERNATIONAL EQUITIES

Index Source: MSCI World ex Canada Index

International equities are a growth asset involving equity investments in regions such as the U.S., Europe, Japan and the UK. International equities have historically produced higher long-term returns than lower risk investments; however they tend to be relatively less liquid and more volatile than domestic equities.

International equities entail different risks than those typically associated with domestic equities, including currency fluctuations, political and economic instability, accounting changes and foreign taxation.

EMERGING MARKETS EQUITIES

Index Source: MSCI Emerging Markets Index

Investments in emerging or developing foreign markets involve exposure to economic structures that are generally less diverse and mature, and to political systems which can be expected to have less stability than those of more developed countries. As a result, emerging markets securities may be less liquid and more volatile than domestic and more developed foreign markets.

REAL ESTATE

Index Source: S&P/TSX Capped Real Estate Index

Investments in real estate are usually through Real Estate Investment Trusts (REIT) or equities representing real estate public companies. Specific sector investing can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes and tax laws and interest rates all present potential risks to real estate investments.

CASH

Index Source: Scotia Capital 30-Day T-Bills Index

Cash is a defensive, low-risk asset that typically involves instruments such as 90-day government Treasury Bills, high quality short term notes and commercial paper issued by major financial institutions and blue chip companies. Cash provides diversification and liquidity benefits to a portfolio; however cash generally provides lower investment returns than investments such as fixed income, real estate or equities. While highly liquid, cash generally has not kept pace with inflation.

Disclaimer

¹We define bearish as on balance, an organization's or individual's predominant view based on a belief that general market conditions for the period in question will be negative, and relative valuations of securities in general will trend downward. This view should not be considered investment advice nor does it apply to any specific security.

²We define bullish as on balance, an organization's or individual's predominant view based on a belief that overall market conditions for the period in question will be positive, and relative valuations of securities in general will trend upward. This view should not be considered investment advice nor does it apply to any specific security.

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