

Russell Investment Manager Outlook

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

Commentary by

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Survey Goals and Summary of Key Findings

Key Trends—December 2006 Investment Manager Survey



Summary of Key Findings

Bullishness among Canadian investment managers has held fairly steady in the fourth quarter of 2006 and, perhaps more tellingly, a number of managers are no longer expressing bearish sentiment towards Canadian, U.S., EAFE and emerging markets equities.

The net result is that a higher proportion of investment managers now stand in neutral territory, especially towards the U.S. market. While a slump in manufacturing, housing and the dollar may still be cause for concern, it appears that fewer managers are as focused on worrying about inflation and the Fed.

Perhaps as a side-effect of weakness in the U.S., bullish sentiment towards EAFE equities has risen sharply to 62 percent. Strong EAFE currencies and low relative valuations may be signaling value in the region. Emerging markets also saw an up-tick in sentiment over the quarter.

Bullishness towards broad market Canadian equities increased 8 percent from the previous quarter, with bulls

now outnumbering bears for the first time since the end of 2005. The Financial Services, Telecoms and Information Technology sectors lead the pack, each garnering bullish sentiment from 50 percent or more of the managers polled.

Consumer Staples are falling out of favour. With rates now stable and many Consumer Staples stocks already run-up by a flight to defensive positions earlier this year, bullishness towards the sector fell to 32 percent, and bearishness more than doubled to 34 percent.

Bearishness towards Canadian bonds increased from 23 percent to 35 percent of managers, while optimism about the performance of the Canadian dollar eroded. High-yield bonds are the only fixed-income sector to see an increase in bullishness this quarter.

Overall, opinions on the markets remain mixed, but it certainly appears that pessimism has waned somewhat during the last quarter of 2006.

About the *Russell Investment Manager Outlook*

Welcome to the fourth edition of the *Russell Investment Manager Outlook*, intended to generate a meaningful snapshot of Canadian investment manager sentiment.

As consultants to nearly \$3.0 trillion in assets worldwide, and the only firm that monitors more than 4,000 investment managers, Russell Investments 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. 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 Investment Manager Outlook, and responses to the survey are on a purely voluntary basis.

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Commentary & Analysis



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TRANSITIONING INTO CAUTIOUS OPTIMISM FOR 2007

Canadian investment managers are now considerably less bearish on U.S. equities than they were just a quarter ago, but it's EAFE (Europe, Australasia and Far East) equities that have recently garnered the most significant jump in bullishness.

The investment managers expressed these views in the latest quarterly *Russell Investment Manager Outlook* poll conducted by Russell in early December.

Around the time of our last poll, anxiety about U.S. interest rates, inflation, and even recession were still common topics of conversation. Despite this, almost two-thirds of investment managers said they did not believe a U.S. recession was likely by the first quarter of 2007. In our current poll, bearish sentiment towards U.S. equities has fallen significantly, from 33 percent of managers to 21 percent, indicating that even fewer managers are expecting the worst case scenario to unfold south of the border.

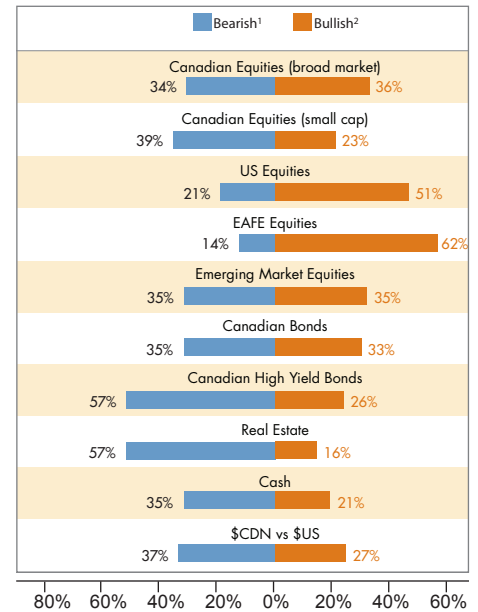
However, even if outright bearishness towards the U.S. is on the decline, there are clear signs that managers are finding a more attractive balance of

risk/return elsewhere. Whereas the U.S. economy is currently weighed down by a slump in manufacturing and housing and a falling dollar, EAFE economies appear buoyant, their currencies have gained strength, and many stock valuations there have remained relatively low.

Perhaps as a result, there's been a surge in bullishness towards overseas markets. In the current poll, 62 percent of managers are bullish towards EAFE equities, compared to only 36 percent in the previous quarter. Emerging markets also seem to be gaining traction on the back of weak growth prospects in the U.S., with over a third of managers now bullish.

In Canada, the balance of bulls and bears towards broad market Canadian equities is almost even, at 36 percent and 34 percent respectively. This is a notable improvement from last quarter, when only 28 percent of investment managers were bullish. The reason for increased optimism is likely similar to what we've seen in the U.S.—a cooling of commodity prices and inflation fears, and a protracted pause in central bank hikes.

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.

However, even with bulls and bears split down the middle, a full two-thirds of those surveyed rate the Canadian market as fairly valued, suggesting that the divergence of opinions on the broad market is not terribly wide. The range of opinions seems more pronounced regarding individual sectors within the Canadian market.

For example, bullishness on Financial Services has slipped a little since the same quarter last year, but remains higher than any other sector at 68 percent. This is consistent with general optimism around large cap growth stocks and a sense that rates may have

Commentary & Analysis (continued)

peaked. It may also be a reflection of the desire for yield alternatives following the decline of income trusts.

Bullishness on Telecoms fell from 60 percent to 52 percent quarter-over-quarter, perhaps impacted by the income trust ruling that stopped the proposed Bell and Telus conversions. Nonetheless, Bell and Telus are big fish in a small Canadian telecom pond, and still hold promise in the eyes of the majority. Only 26 percent of the managers polled are bearish on Telecoms.

One sector that has undergone a sharp reversal is Consumer Staples. Earlier this year, the sector experienced a run-up as investment managers sought a defensive play amidst inflation concerns and uncertainty about the Bank of Canada's intentions. Today, with the economic landscape relatively more stable and many Consumer Staples stocks at higher valuations, bullishness on the sector has plummeted from 52 percent to 32 percent, and bearishness has more than doubled to 34 percent.

In line with the view that inflation will remain under control is the opinion expressed by 47 percent of investment managers that the price of oil will be lower at the end of 2007 than it is today. Although this prediction is clearly bad news for energy producers, it comes as no great surprise, and lower oil is already priced into most energy stocks. Accordingly, sentiment on the Energy sector remains virtually unchanged at a mere 20 percent bullish.

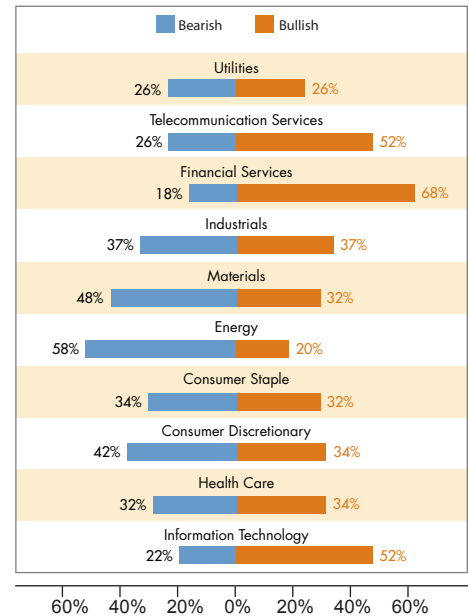
It's notable that bullishness towards Canadian healthcare companies has dropped sharply from 53 percent last quarter, to only 34 percent today. However, it is important to realize that the Canadian Healthcare sector is overwhelmingly tied to the fortunes of Biovail and MDS. The recent drop in bullishness on this sector is essentially a proxy for the outlook on these two companies.

In the fixed income arena, quite a few investment managers have moved from neutral to bearish, with a small majority of respondents now negative on the outlook for Canadian bonds. This may be a reflection of the expectation that the Canadian dollar will ease versus the U.S. dollar, and that Canada will start to see some cash outflows as a result. Bullishness on cash has also dropped, with only 21 percent expressing optimism towards this asset class.

Although 57 percent of investment managers remain bearish on Canadian high-yield bonds, a few more voices have been added to the relatively small band of bulls. Despite the narrowing yield spread between riskier corporates and risk-free governments, more than a quarter of survey respondents now say they are bullish on the high-yield bond sector.

Overall, with a few notable exceptions, bullishness among Canadian investment managers remains about the same this quarter as last quarter. Perhaps the most significant change in mood is a general reduction in

Manager Expectations by Asset Sector



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.

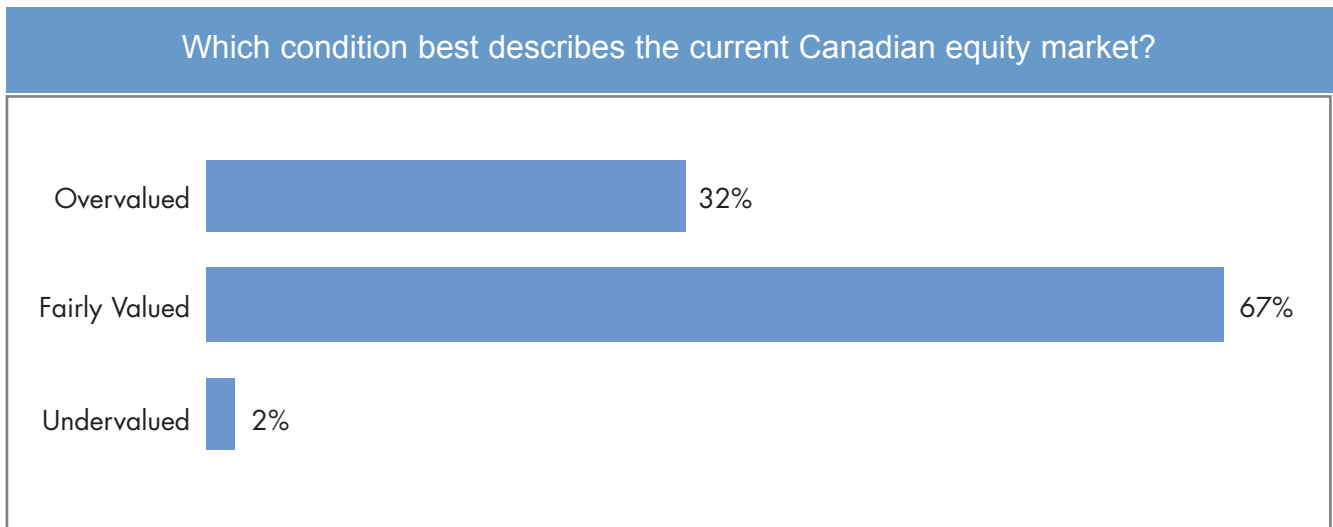
pessimism. As more of the bears move into neutral territory, one can infer that the fear and tension that pervaded earlier quarters of 2006 may be transitioning into cautious optimism. Whether this optimism develops into widespread bullishness in 2007 remains to be seen. ■

Question 1 Results—Valuation of the Canadian Equity Market

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

Key Findings:

- Only 2% find the market to be undervalued.
- 67% of the managers find the market to be fairly valued compared to 52.6% in Q3, 2006.
- The number of managers who feel the market is overvalued is nearly 10% less that it was in Q3, 2006.



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

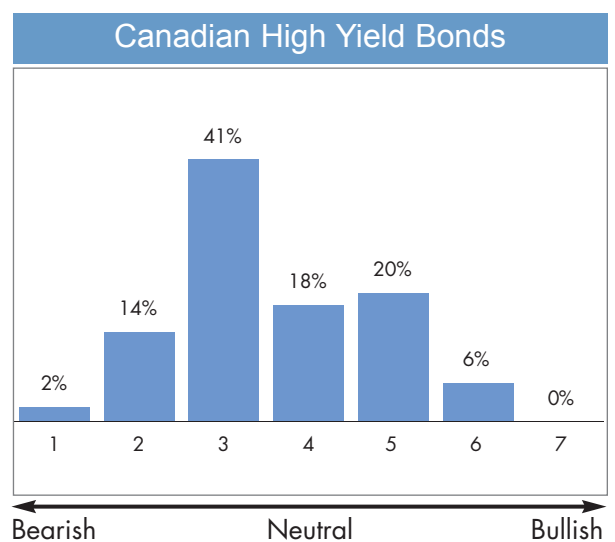
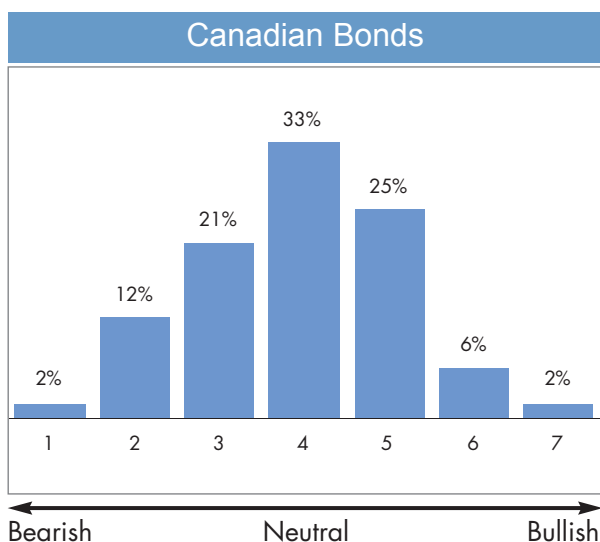
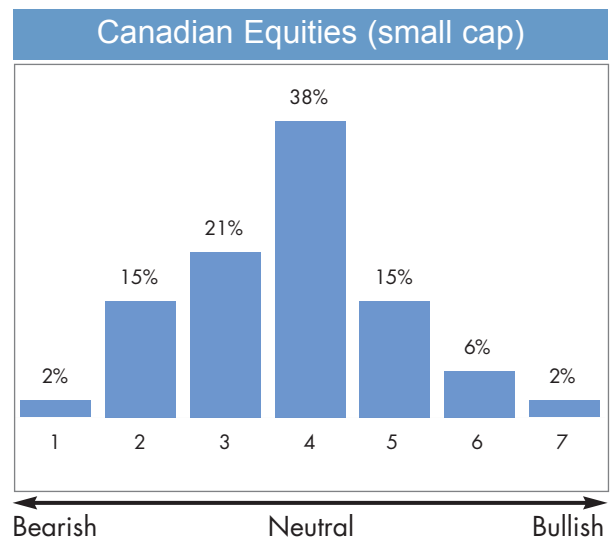
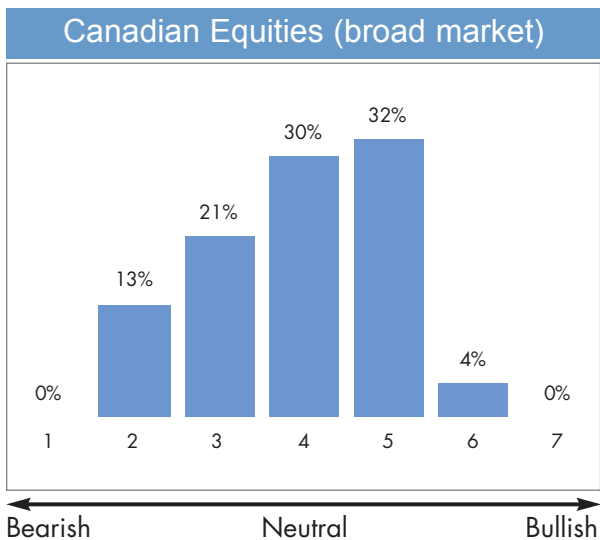
Question 2 Results—Asset Class Expectations

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

Key Findings:

- Bullish sentiment towards EAFE equities have risen sharply to 62 percent compared to 36% in the third quarter.
- Bullish and bearish sentiment on Canadian equities is almost evenly split, at 36 percent and 34 percent respectively.
- Continue to favour EAFE equities (62%) and US equities (51%) ahead of other asset classes.
- Bullishness on Canadian high-yield bonds increased from 10% to 26%.
- Bullishness outlook for the Canadian dollar versus the U.S. dollar has declined from 54% in Q4 2005 to 27% in Q4 2006.

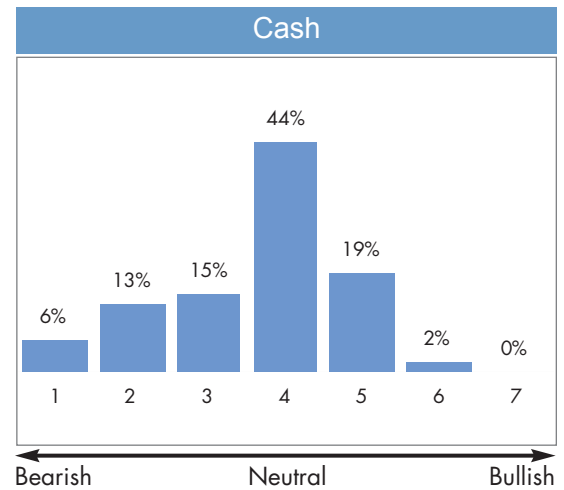
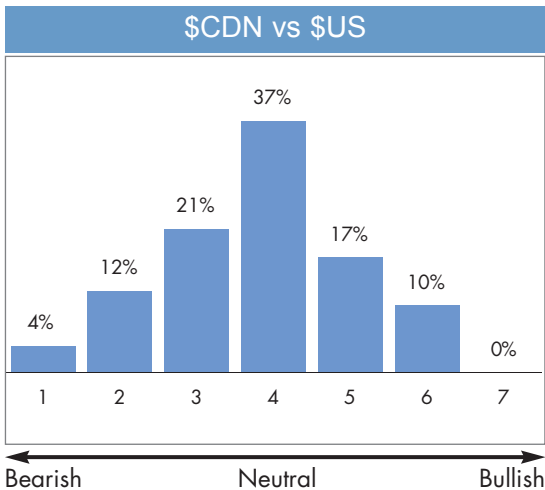
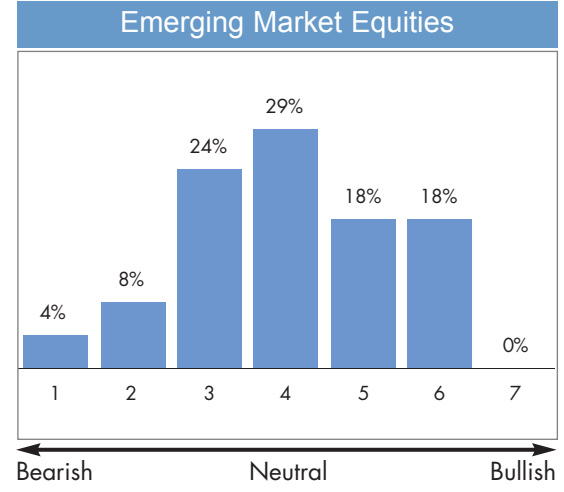
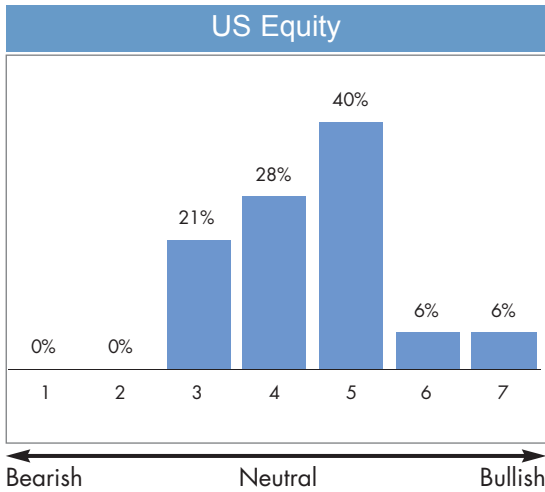
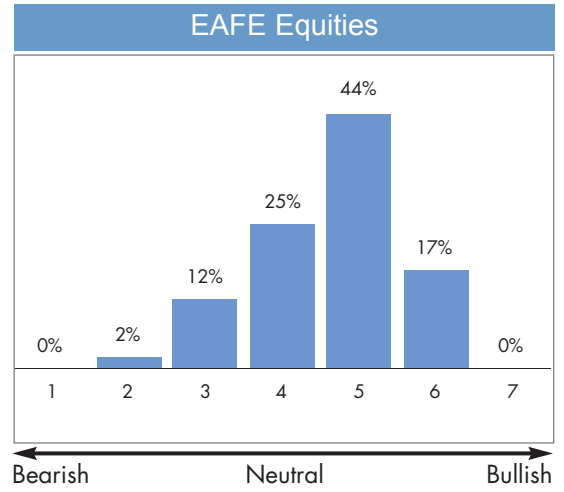
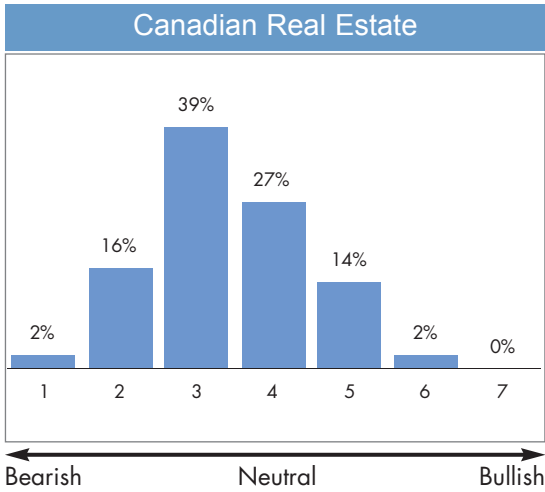
Scale is 1 to 7: 1 = “strongly bearish” 4 = “neutral” 7 = “strongly bullish”



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

Question 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.

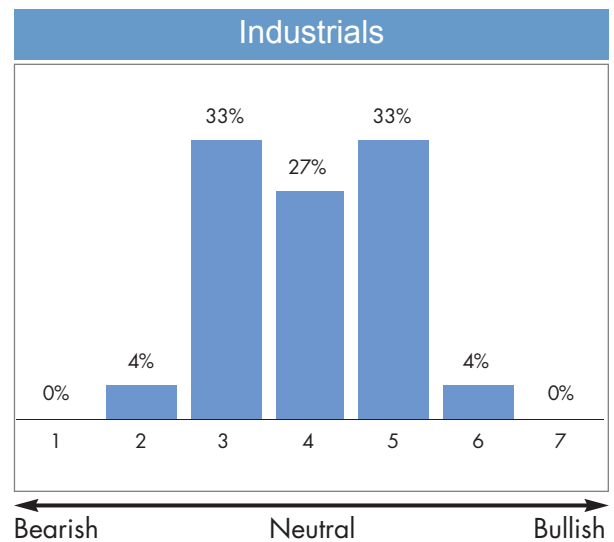
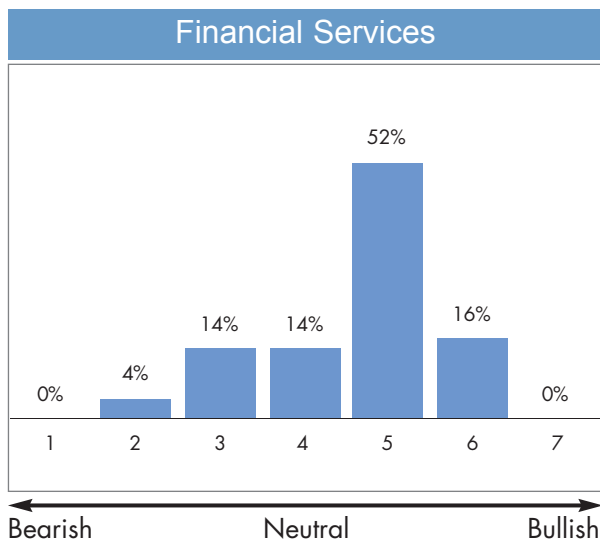
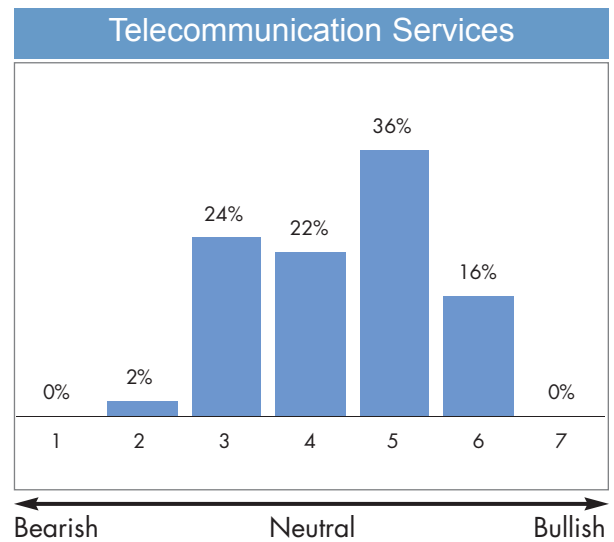
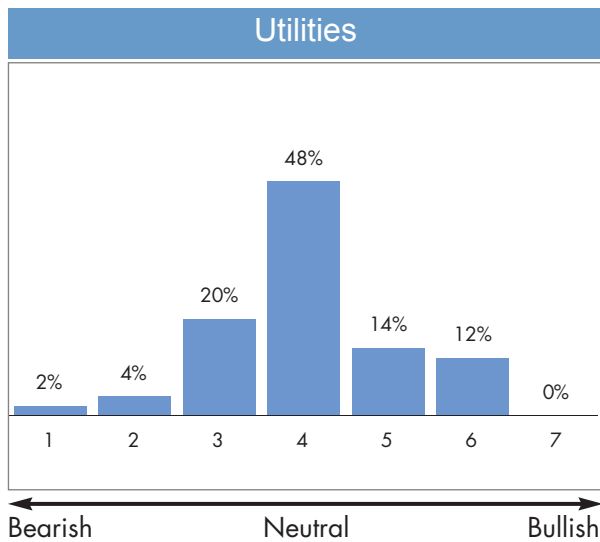
Question 3 Results—Sector Expectations

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

Key Findings:

- Bullishness on Financial Services has slipped from the same quarter last year but remains higher than any other sector at 68%.
- Bullishness on the Consumer Staples sector has plummeted from 52% to 32%.
- Bullishness on Telecoms fell from 60% to 52% quarter-over-quarter, perhaps impacted by the income trust ruling that stopped the proposed Bell and Telus conversions in their tracks.

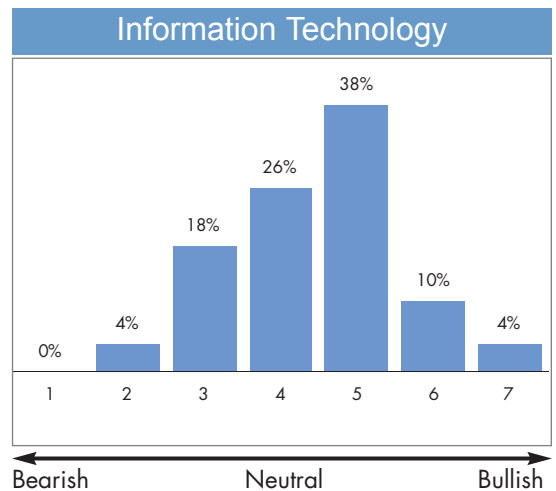
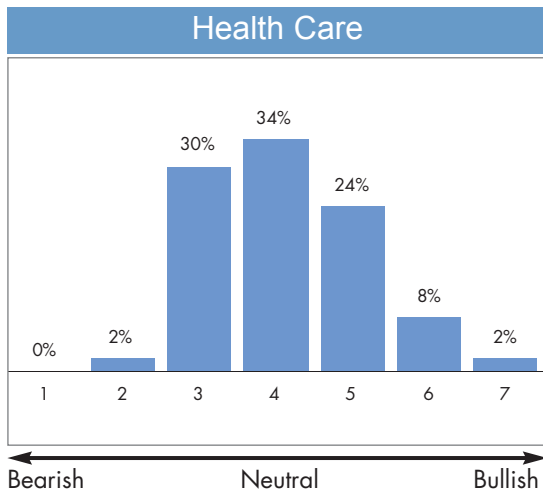
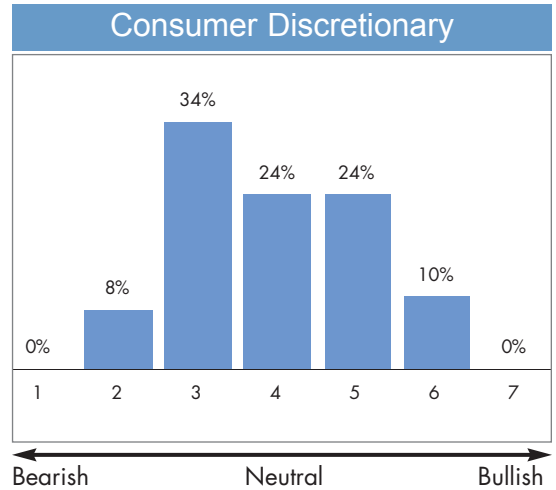
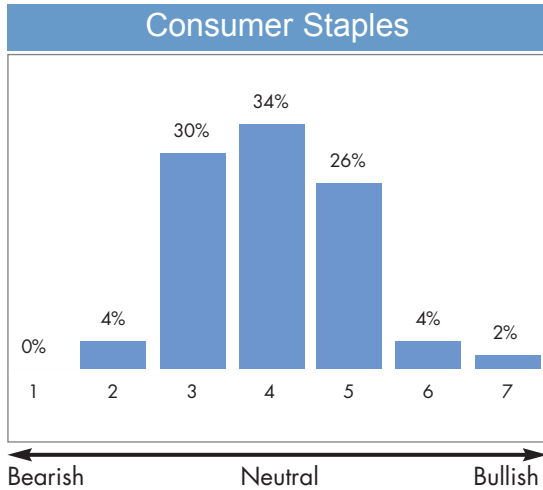
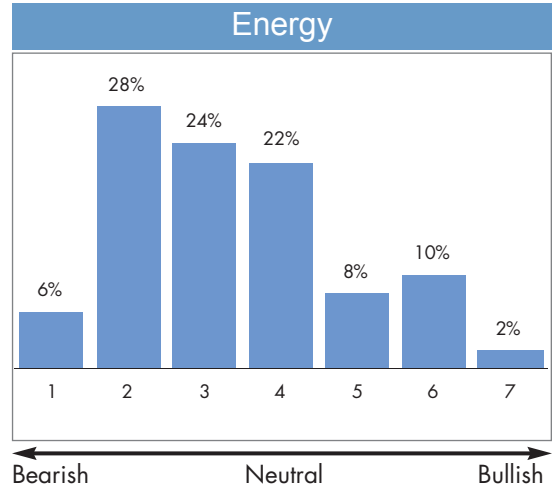
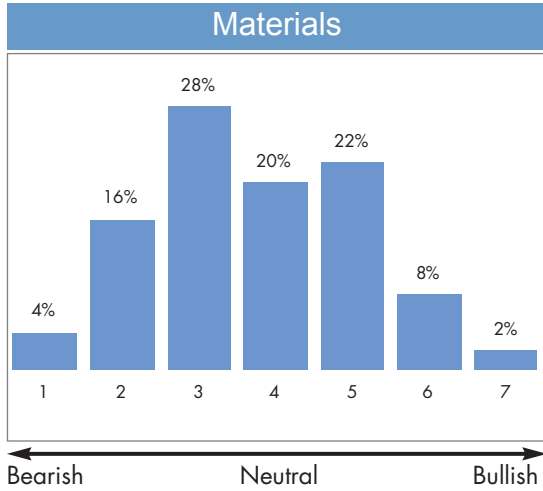
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Question 3 Results—Sector Expectations (continued)

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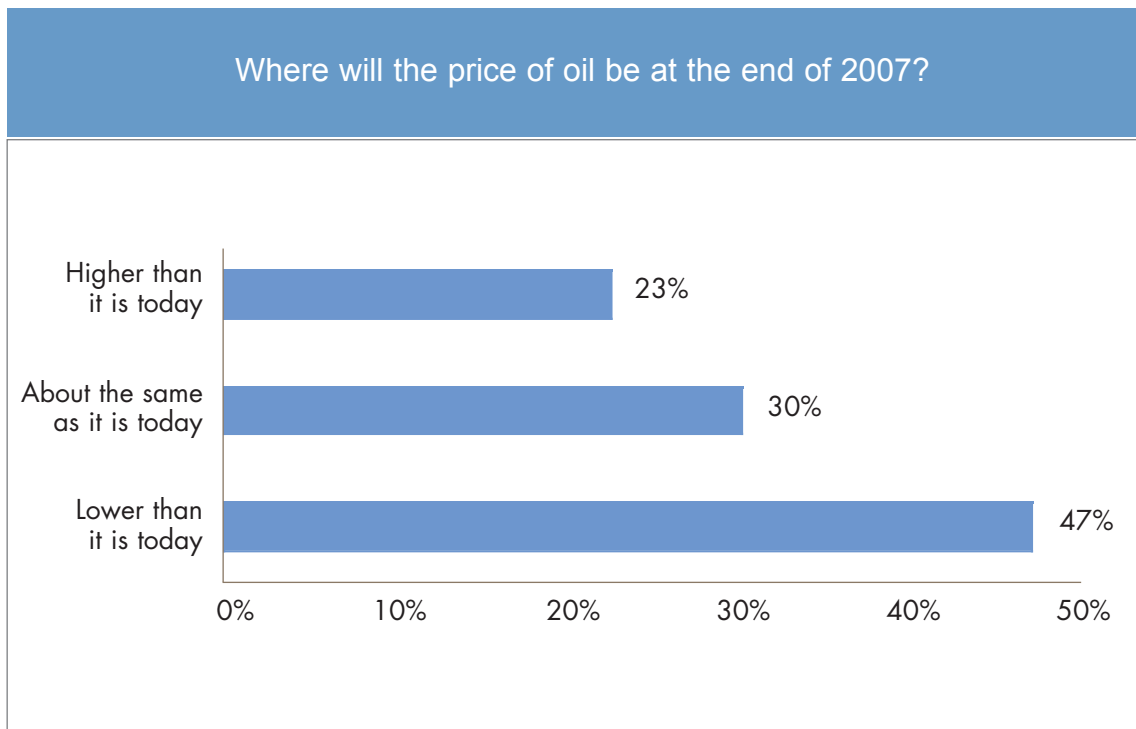
Note: Numbers may not add to 100 percent due to rounding.

Question 4 Results—Where will the price of oil be at the end of 2007?

Where will the price of oil be at the end of 2007?

Key Findings:

- Almost half of the Canadian investment managers expect the price of oil to be lower at the end of 2007 than it is today.



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 broad Canadian equity market represented are based on the S&P/TSX Composite Index.

Chart: Annualized Asset Sector Returns to November 2006

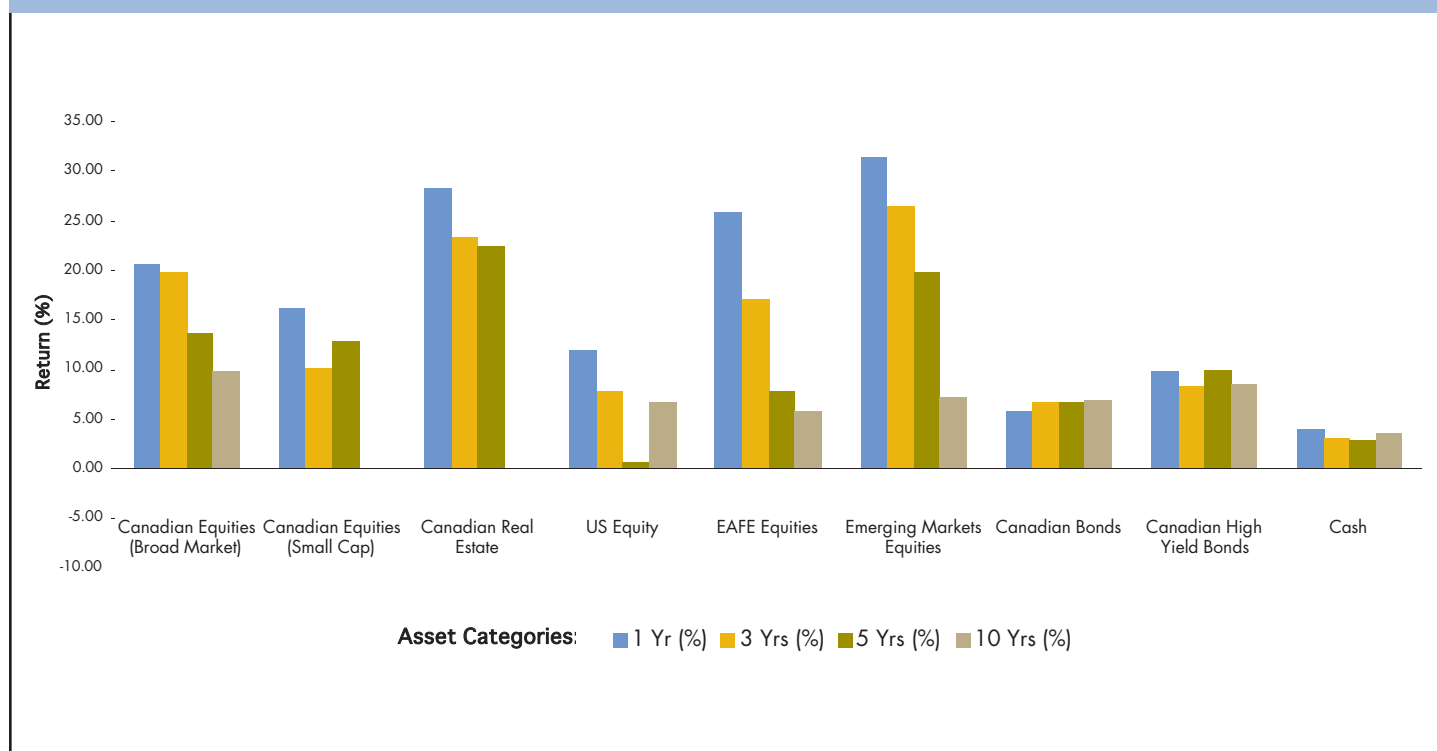


Table: Annualized Asset Sector Returns to November 2006

Asset Sector	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)
Canadian Equities (Broad Market)	20.60	19.80	13.60	9.70
Canadian Equities (Small Cap)	16.10	10.20	12.80	N/A
Canadian Real Estate	28.30	23.30	22.40	N/A
US Equity	11.90	7.70	0.60	6.60
EAFE Equities	25.80	17.00	7.70	5.80
Emerging Market Equities	31.30	26.50	19.90	7.20
Canadian Bonds	5.70	6.70	6.70	6.80
Canadian High Yield Bonds	9.73	8.25	9.86	8.41
Cash	3.90	2.90	2.80	3.50

Index Sources: MSCI, Scotia Capital Inc., TSX Inc., Russell Investments

Methodology and Background about Russell Investments

Methodology

Russell Investments conducted the *Russell Investment Manager Outlook* survey between November 27th to December 4th, 2006. 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, 40 investment management firms, and almost 54 investment managers from Canada participated in the survey.

The large majority of individual respondents to the *Russell Investment Manager Outlook* have senior-level investment decision responsibilities, and are often portfolio managers or CIOs. Other participants included investment strategists, research analysts and others. The manager research that Russell conducts for investment purposes is done entirely independent of *Russell 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 nearly \$3.0 trillion in assets and delivers investment programs to more than 1,900 clients in 44 countries. Russell manages over CDN\$200 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 \$9.4 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®.

Founded in 1936, Russell Investments 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, Melbourne, London, Paris, Singapore, Sydney, Auckland, and Tokyo.

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

Asset Class Definitions

CANADIAN EQUITY (BROAD CAP)

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 EQUITY (SMALL CAP)

Index Source: S&P/TSX Small Cap Index

These securities are small capitalization stocks which are represented by the S&P/TSX SmallCap Index. The S&P/TSX SmallCap Index is a benchmark of smaller Canadian companies that have been included in the S&P/TSX Composite Index, but are not members of the S&P/TSX 60 or the S&P/TSX Midcap Indices.

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.

US EQUITY

Index Source: Russell 3000® Index

US equity is a growth asset involving the purchase of ownership interests – and the rights to profits and voting that this implies – in companies listed on an American equity benchmark, such as the Russell 3000 Index. The Russell 3000 Index offers investors access to the broad US equity universe representing approximately 98% of the US market.

The risks faced by US equity 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.

EAFE EQUITIES

Index Source: MSCI EAFE Index

MSCI EAFE is a Morgan Stanley Capital International index that is designed to measure the performance of the overseas developed stock markets of Europe, Australasia, and the Far East. 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.

CANADIAN BONDS

Index Source: Scotia Capital Universe Bond 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.

Asset Class Definitions (continued)

CANADIAN 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.

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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