

Russell Investment Manager Outlook

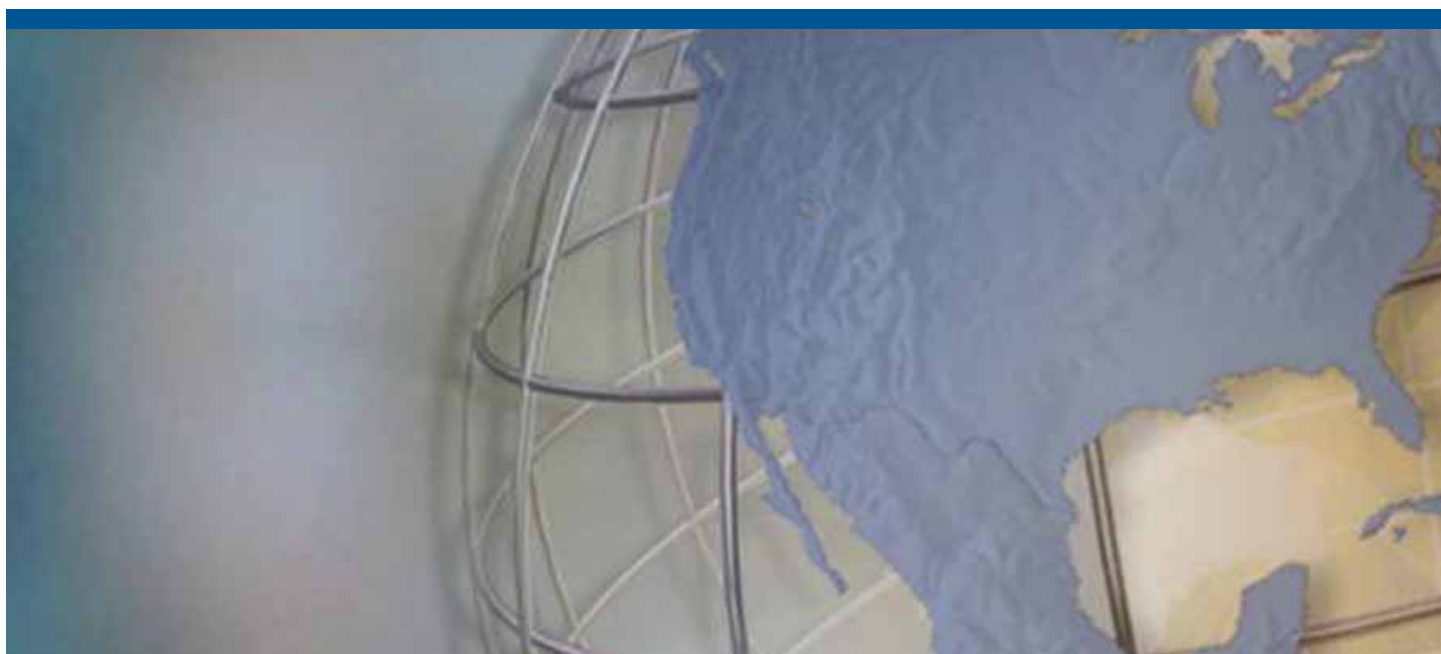
Quarterly Survey of Canadian Investment Managers and their Views of the Market

Commentary by

Timothy Hicks, CFA

Chief Investment Officer – Canada

JUNE 2006



Survey Goals and Summary of Key Findings

Key Trends—June 2006 Investment Manager Survey



* Compared to survey results from 1Q06 Investment Manager Outlook poll

Summary of Key Findings

Canadian investment managers have sharply lowered their bullish sentiment for all equity asset classes, so much so, that they are more bullish on the prospects for the Canadian dollar against the US dollar, according to the results of the June 2006 Russell Canadian Investment Manager Outlook.

Last quarter, managers pegged the dollar at third place in bullish outlook, behind equities in the developed countries and those in the US. The leap into top place is due largely to a slump in the outlook for equities. Although they occupy second and third places in the rankings, support for developed market and US equities has dropped sharply, as has that for Canadian equities.

Indeed, the outlook for Canadian broad-market equities has fallen sharply compared with the end of last year and this asset class is now second-to-last in the rankings. The outlook for small-cap Canadian equities remains at about the same level as the last two quarters, but trails that of cash, support for which now almost equals that for US equities.

The drop in support for equities reflects the belief, expressed by almost half of the managers, that Canadian stocks are overvalued.

Although the managers remain less enthusiastic on Canadian bonds than on equities, they are considerably more optimistic on this asset class than they were last quarter. Indeed, bonds have jumped in the bullish rankings to sixth place from ninth place last quarter. Managers are most bearish on Canadian high-yield bonds, real-estate and small caps.

The outlook for energy stocks has risen slightly, but the managers remain more bearish on this sector than any other. Other bearish sectors include Utilities and Materials. On the other side of the scale, managers are most bullish on Consumer Staples, Financials and Telecommunications services.

About a third of the managers believe the recent rapid rise in the Canadian dollar to the US 90-cent level will negatively affect the country's economic growth. Around a fifth, however, believe the impact will be positive.

About Russell's Canadian Investment Manager Outlook

Welcome to the third edition of Russell's quarterly Canadian 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 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. 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.

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Commentary & Analysis



By Timothy Hicks, CFA
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 Russell Investments

FEARS OF RISING INTEREST RATES DAMPEN OUTLOOK FOR CANADIAN EQUITIES

Fearful that rising interest rates around the world will dampen investor enthusiasm, Canadian investment managers have sharply lowered their outlook for domestic stocks. So much so, that the degree of bullish sentiment in the latest snapshot of manager opinion stands at only 15 percent, the lowest bullishness of any equity class in the survey.

Sectors sensitive to rising interest rates and discretionary consumer spending led the decline, indicating that respondents believe higher rates would harm retail sales and slow the economy.

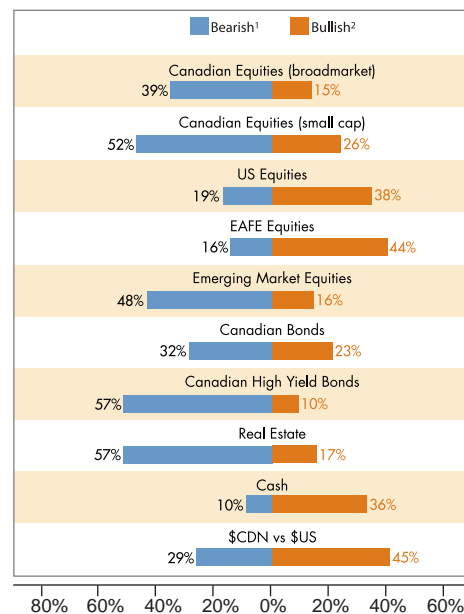
Increased caution and a renewed appreciation for risk and volatility are clearly reflected in this quarter's survey, which was compiled in the midst of a significant sell-off in global equity markets that saw many regions decline 10 percent or more from their April peaks, with emerging markets hit the hardest. The catalyst was a growing recognition by investors that a globally-coordinated contraction in liquidity was under way, as central banks from Asia to America made known their intention to further raise interest rates.

Managers' bearish approach to stocks is reflected in their view of equity valuations. The percentage of managers who see the market as undervalued slipped to just 6 percent whereas those who see the market as overvalued increased 5 percentage points to 46 percent. This is another indication that the managers believe the greatest threat to equities lies in rising interest rates and their potential impact on economic growth.

The managers also:

- Lowered their bullish sentiment toward both developed and emerging markets by a strong 20 percentage points. The dramatic decline - triggered by investor reaction to central bank tightening - clearly has raised the risk premium for these markets and the survey reflects that new reality.
- Increased their outlook for bonds by 16 percentage points, albeit from the extremely bearish level registered in the previous survey.
- Believe the rise in the Canadian dollar is not a serious threat to the overall domestic economy.

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.

- Turned slightly more bullish on small caps than the broader market, although bearish sentiment on this asset class rose to 50 percent.

On a sector level, bullish sentiment slipped for all groups other than Utilities, which rose slightly from a low base last quarter. Here, too, similar to the upturn in bonds, these gains may result more from a moderation of the extreme negativity for this interest-sensitive sector than a material improvement in outlook.

Across the other sectors, the widespread decline in sentiment

Commentary & Analysis (continued)

brought bullish ratings into a narrow range of between 13 percent for the Consumer Discretionary sector and 39 percent for Consumer Staples. The spread of only 26 percentage points among sectors compares with a 40 percentage-point spread last quarter and reflects a general concern over the equity asset class in contrast to the focus on specific industries that was prevalent in previous surveys.

The relatively strong showing this quarter for Consumer Staples, a typically defensive sector, is consistent with an overall deterioration in market sentiment.

The bearish camp swelled in all sectors except in Consumer Staples, Information Technology and Energy, the latter two perhaps attracting some bulls after sharp declines in the second quarter.

Two of the largest drops in bullish sentiment were in the Financial and Telecom sectors, both of which are interest-sensitive groups. The outlook for stocks in these sectors reflects uncertainty over the extent of monetary tightening that may be necessary in the current cycle.

The largest single drop in bullish sentiment was in Health Care, which is the smallest sector in the S&P/TSX Composite at just over 1 percent. Given the dominance of a few large stocks in this group, the slip in sentiment is most likely related to recent stock-specific disappointments rather than any overall theme.

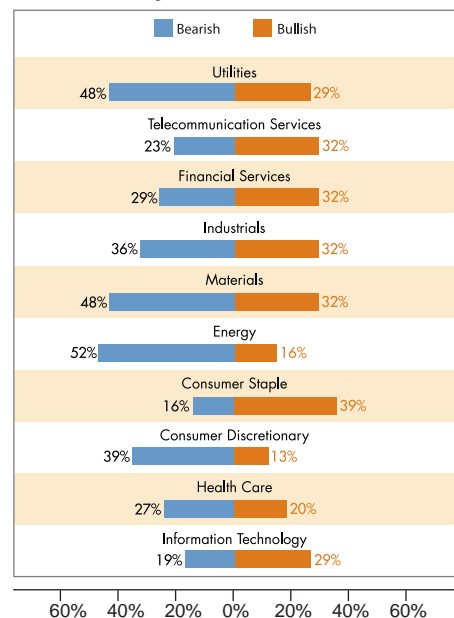
A surprising result in the survey was the modest change in sentiment toward the Materials sector, in spite of the sharp sell-off in many commodities near the end of the second quarter. Combined with a continuing positive view on the Canadian dollar, this indicates investment managers see the recent move as a correction in a bull market for commodities rather than the beginning of a prolonged downturn.

Bullish sentiment toward Energy, already at a low 18 percent in the first quarter survey, slipped lower to 16 percent, but the high bearish score of 60 percent for the sector in the last survey dropped by about 10 percentage points.

Even though bullishness on bonds rose strongly, sentiment still remained tilted toward the bears, given the low starting point for this quarter's results. The yield curve in Canada from two years out has shifted up by about 40 basis points since the beginning of 2006, with about half of that coming in the second quarter. The curve remains flat, with the spread between 2-year and 10-year Canada's still at less than 20 basis points.

The managers got the direction of the curve right in the previous survey so this turn in sentiment would indicate managers are seeing some value returning to bonds, especially relative to equities. The extreme bearish reading for high-yield bonds also declined, but the bulls remain at just 10 percent, the lowest such rating of any asset class in the survey. While spreads may have widened, the survey result

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.

suggests managers see them as still insufficient to compensate for the risk in the credit market at this point.

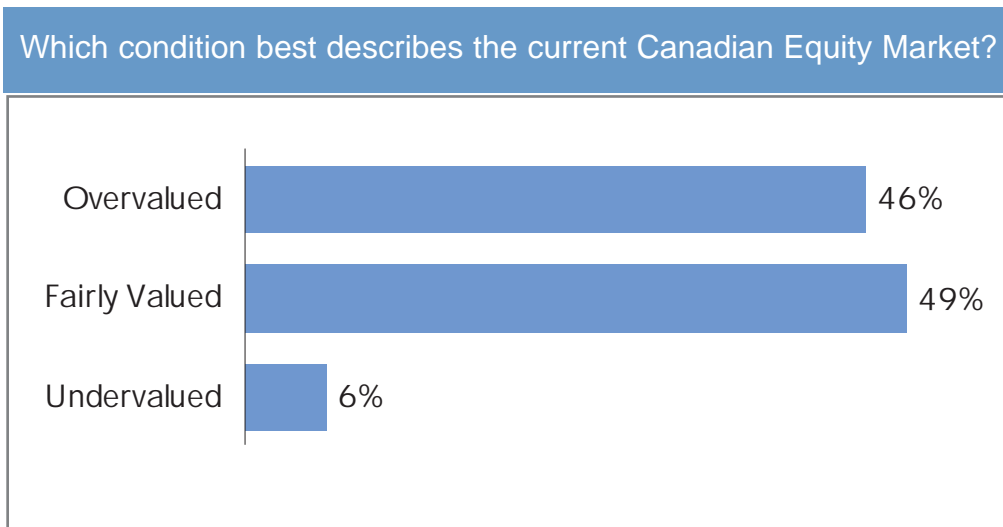
Finally, the overall themes of increased caution toward equities and concerns over rising interest rates were further supported by the fact that the four-to-one bull-to-bear ratio for cash remained unchanged. ■

Question 1 Results—Valuation of the Canadian Equity Market

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

Key Findings:

- Percentage of managers who see the market as undervalued slipped to just 6%
- Percentage of managers who see the market as overvalued increased 5% to 46%
- Almost half of the managers surveyed (49%) see the market as fairly valued



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

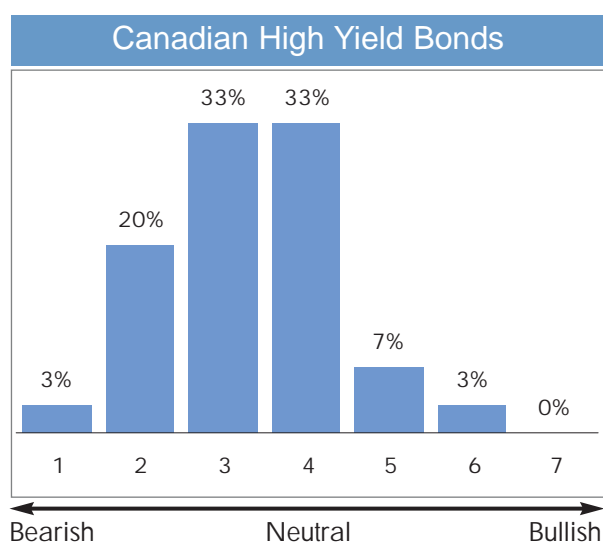
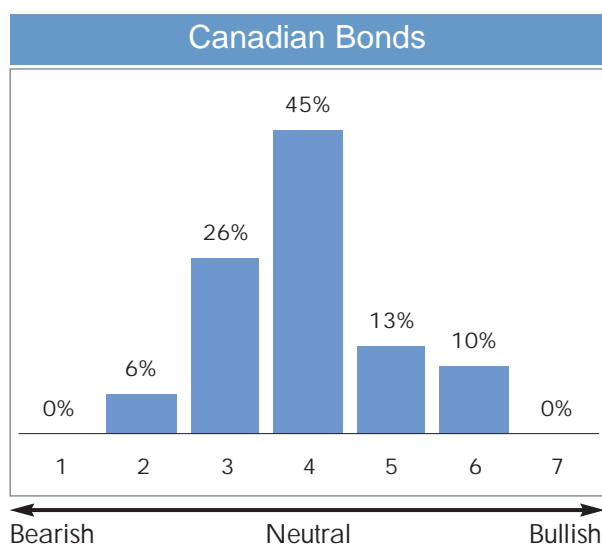
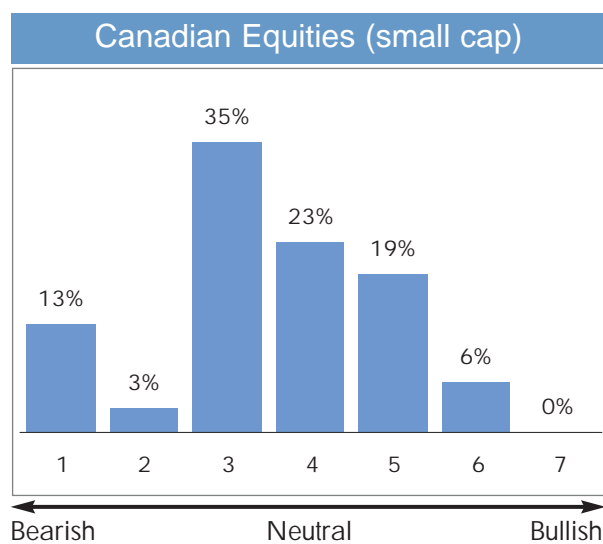
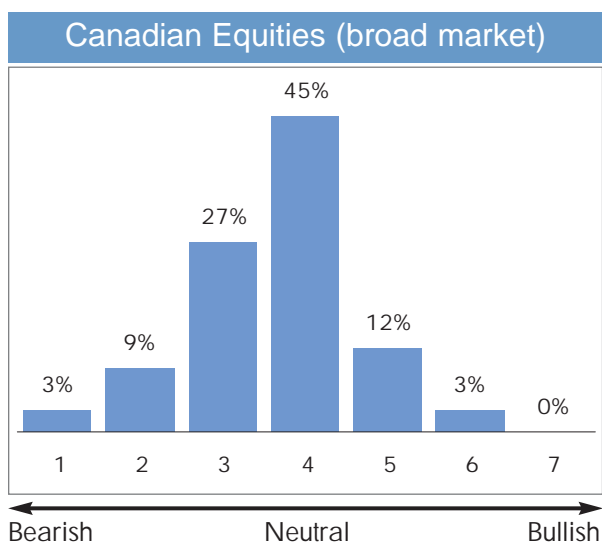
Question 2 Results—Asset Class Expectations

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

Key Findings:

- Continue to favour EAFE equities (44%) and US equities (38%) ahead of other asset classes
- Lowered their bullish sentiment toward emerging equity markets by 20%
- Increased their outlook for Canadian bonds by 16%, albeit from extremely bearish level (72%) in March 2006 survey
- Are most bearish on Canadian high yield bonds (57%) and Canadian real estate (57%)
- Turned slightly bullish on Canadian equity small caps than the Canadian equity broad market, although bearish sentiment on small caps rose to 50%
- 45% of managers are bullish on strength of the Canadian dollar versus the US dollar

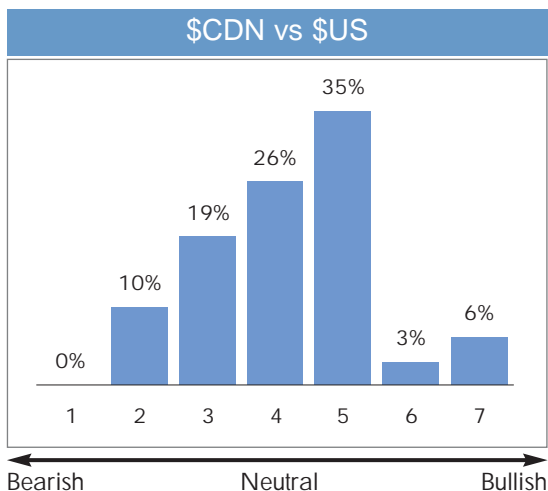
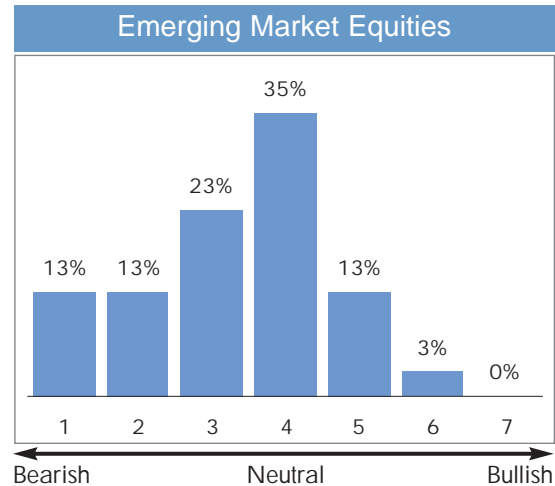
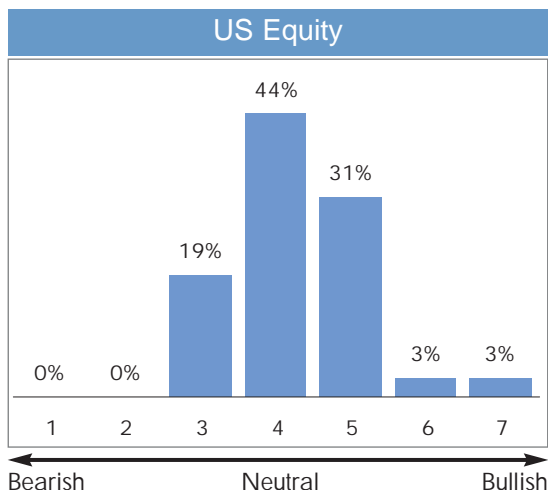
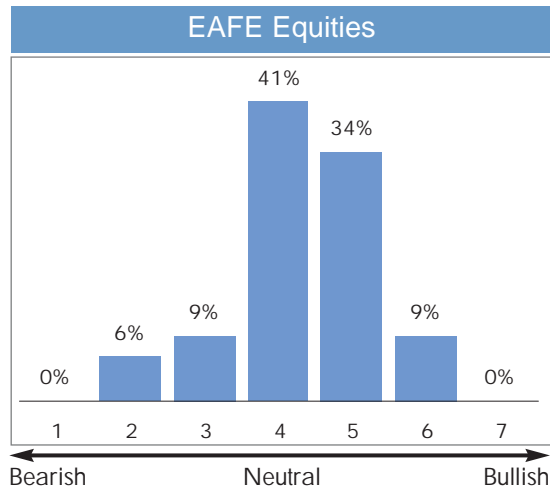
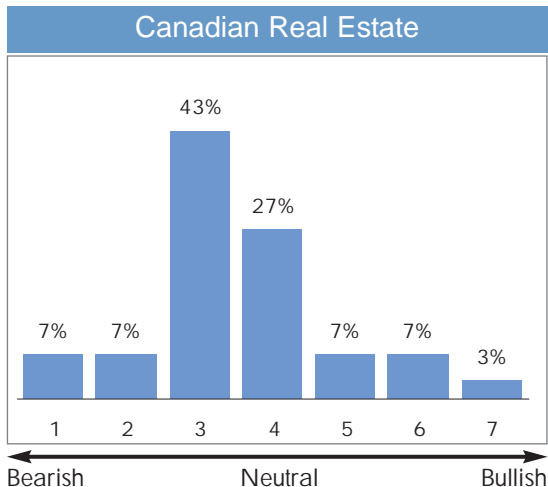
Scale is 1 to 7: 1 = “strongly bearish” 4 = “neutral” 7 = “strongly bullish”



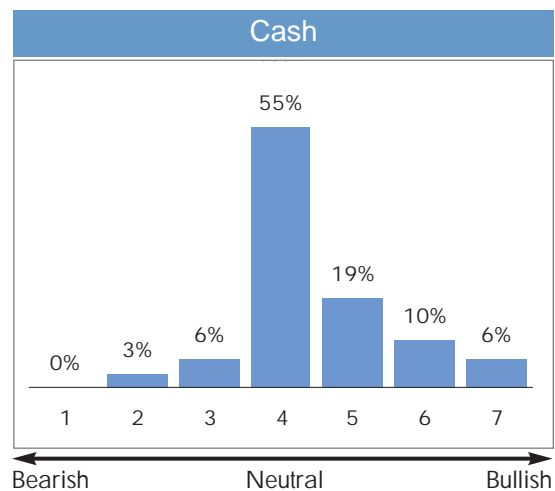
Note: Numbers may not add to 100 percent due to rounding.

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.



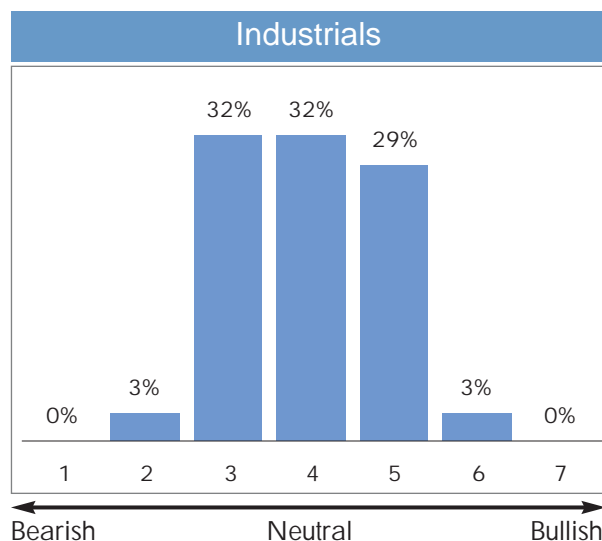
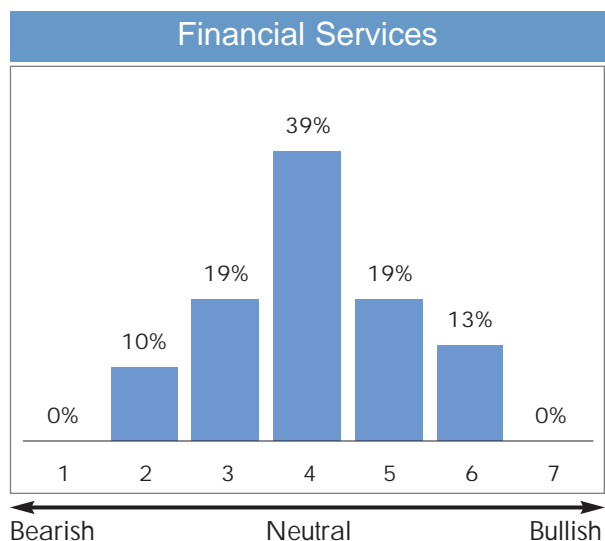
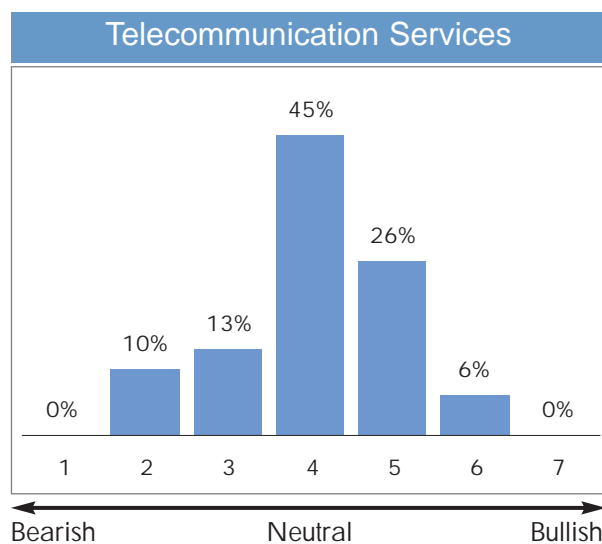
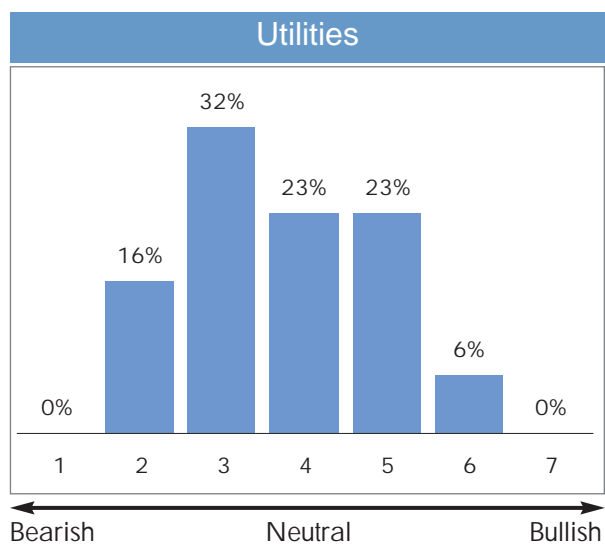
Question 3 Results—Sector Expectations

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

Key Findings:

- Bullish sentiment slipped for all sectors other than Utilities, up slightly from low base last quarter
- Widespread decline in sentiment brought bullish ratings into narrow range between 13% for Consumer Discretionary and 39% for Consumer Staples
- Bearish sentiment increased in all sectors except in Consumer Staples, Information Technology and Energy
- Largest single drop in bullish sentiment was in Health Care (down 37% from previous survey)
- Surprising result was modest change in sentiment toward Materials, in spite of sharp sell-off in many commodities near end of second quarter

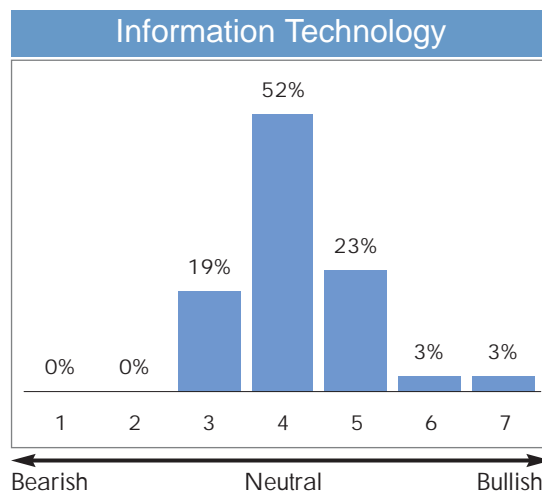
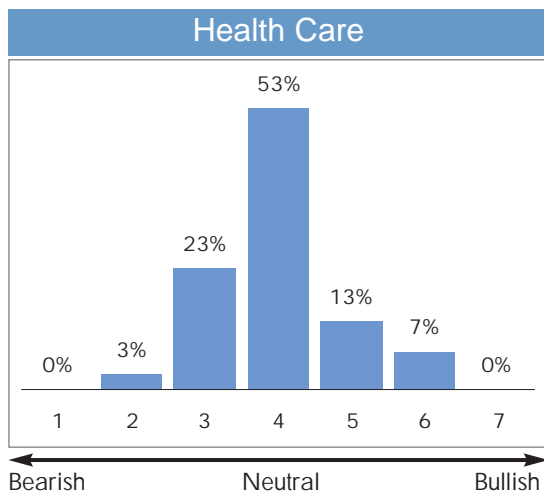
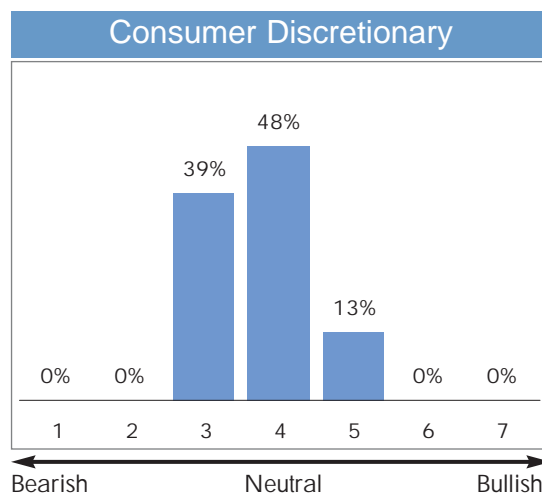
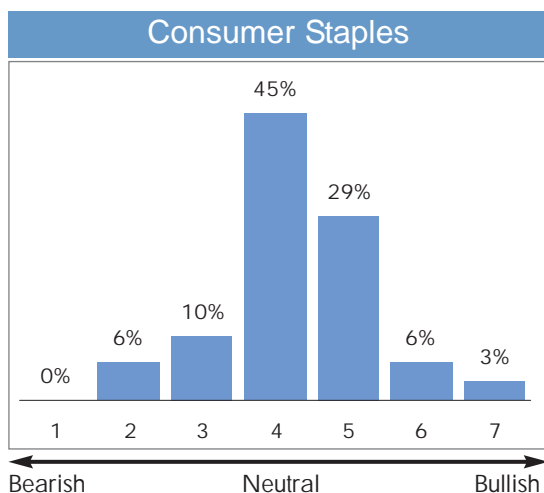
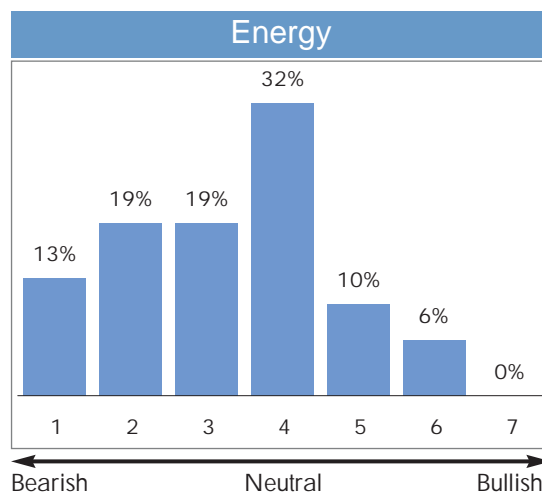
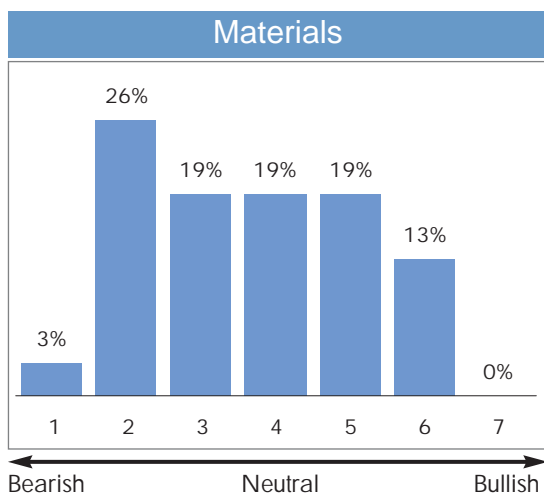
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Question 3 Results—Sector Expectations (continued)

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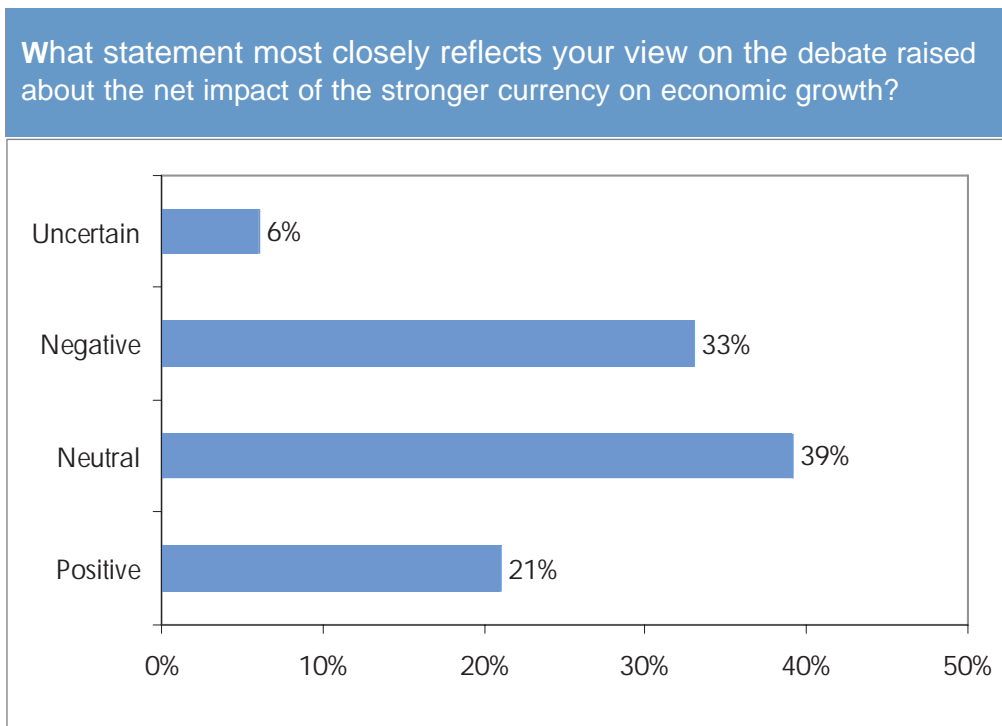
Note: Numbers may not add to 100 percent due to rounding.

Question 4 Results—What is your view on the net impact of the stronger Canadian dollar?

The rapid rise in the Canadian dollar to the US \$0.90 level has again raised debate about the net impact of the stronger currency on economic growth. What statement most closely reflects your view?

Key Findings:

- Managers believe the rise in the Canadian dollar is not a serious threat to the overall domestic economy



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 May 31st, 2006

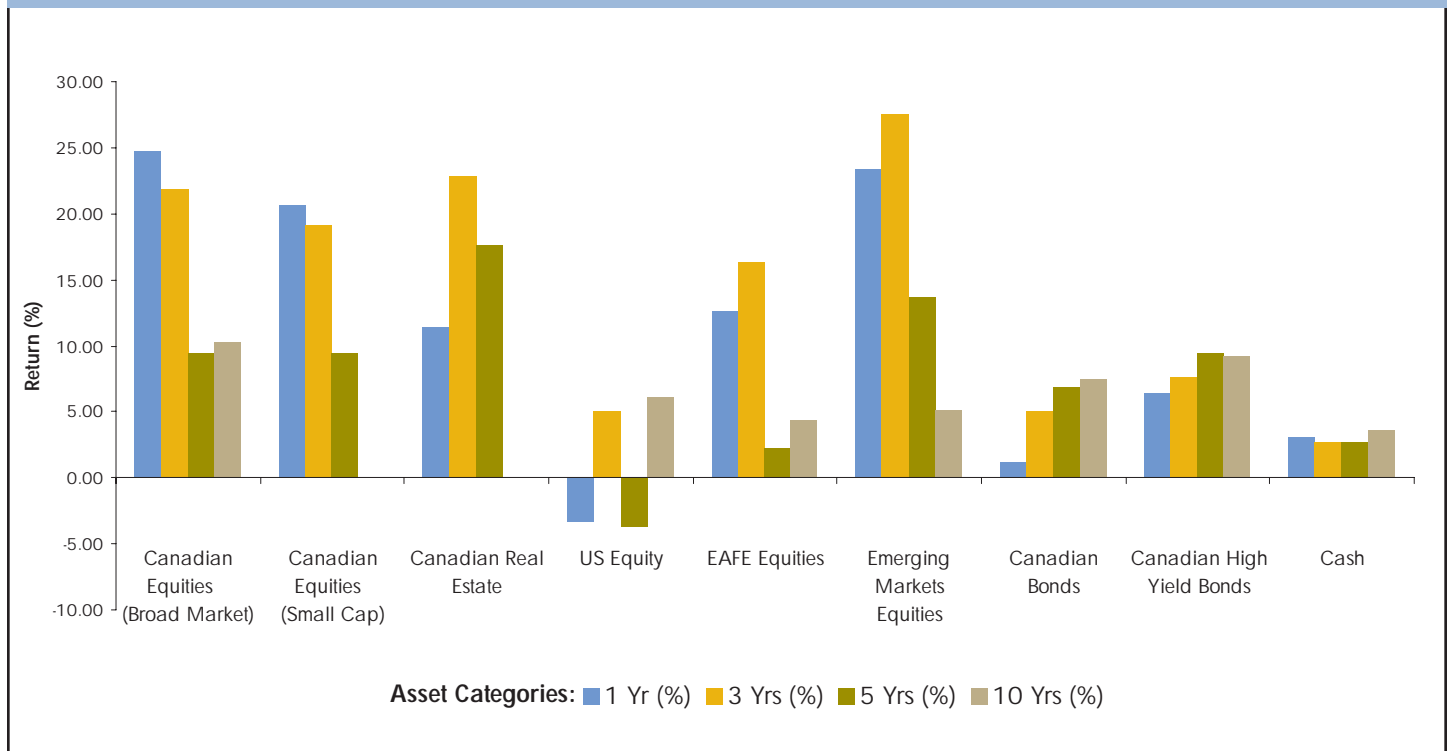


Table: Annualized Asset Sector Returns to May 31st, 2006

Asset Sector	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)
Canadian Equities (Broad Market)	24.70	21.80	9.50	10.30
Canadian Equities (Small Cap)	20.70	19.20	9.50	N/A
Canadian Real Estate	11.50	22.90	17.60	N/A
US Equity	-3.30	5.00	-3.70	6.10
EAFE Equities	12.60	16.30	2.20	4.40
Emerging Market Equities	23.30	27.50	13.70	5.20
Canadian Bonds	1.20	5.00	6.90	7.50
Canadian High Yield Bonds	6.50	7.60	9.50	9.20
Cash	3.10	2.70	2.70	3.60

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

Methodology and Background about Russell

Methodology

Russell Investments conducted the *Investment Manager Outlook* survey between June 4 – June 12, 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, 33 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, 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 nearly \$3.0 trillion in assets and delivers investment programs to more than 1,900 clients in 44 countries. Russell manages over \$181 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, 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, Australia, 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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