
Russell Investment Manager Outlook

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

Commentary by

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MARCH 2007

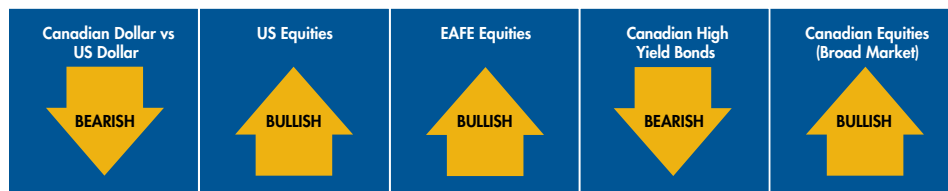


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Survey Goals and Summary of Key Findings

Key Trends - March 2007 Investment Manager Survey



Summary of Key Findings

During the first quarter of 2007, bearishness among Canadian investment managers held fairly steady, but bullish sentiment rose across every equity market surveyed.

Bullishness towards broad Canadian equities leapt from 36% to 48%, and the sentiment towards Canadian small cap equities was even more pronounced, with bullishness increasing from 23% to 45%.

Canadian investment managers identified lower energy prices as the single biggest risk to Canadian equity market performance. Nonetheless, only 27% of the managers consider the market overvalued today, compared to 41% one year ago.

EAFE equities are still riding high, with 64% of managers feeling bullish. The number of bears has continued to dwindle, and now stands at just 12%.

Bullish sentiment towards U.S. equities remains solid at 58%, as attention turns to companies attractively valued relative to their expected earnings growth.

Bullishness towards emerging markets equities surged 14% in the first quarter, from 35% to 49%.

In the fixed income arena, bulls and bears remain split fairly evenly when it comes to Canadian bonds. Bearishness towards the Canadian dollar picked up slightly to 41%.

At the end of 2006, the prevailing mood among Canadian investment managers was tentative. During the most recent quarter, more managers were ready to assert their status as bulls. Our next survey should reveal whether these managers have continued their march towards bullishness, or whether the Chinese market pull-back in late February has given them cause to retreat. ■

About the *Russell Investment Manager Outlook*

Welcome to the first 2007 edition of the *Russell Investment Manager Outlook*, intended to generate a meaningful snapshot of Canadian investment manager sentiment.

As consultants to nearly \$2.0 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 overtime. 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 the Russell Investment 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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CANADIAN INVESTMENT MANAGERS GROW INCREASINGLY BULLISH FOR ALL EQUITY MARKETS

In the final quarter of 2006, pessimism on the part of Canadian investment managers declined. Although bullish sentiment didn't increase significantly, a number of formerly bearish managers had indicated a more neutral outlook. During the first quarter of 2007, the remaining bears largely held their ground, but a sizable contingent of neutral managers moved into positive territory. As a result, bullish sentiment was higher across every equity market surveyed.

The investment managers expressed these views in the latest quarterly *Russell Investment Manager Outlook* (IMO) poll conducted by Russell in late February and early March.

It is important to note that roughly one third of the managers participating in this survey responded in the days before the Shanghai Composite Index plunged almost nine percent on February 27th, sending shockwaves around the world. Although this event may lead some managers to revise their positions, it's clear that bullishness was on the rise leading up to the correction.

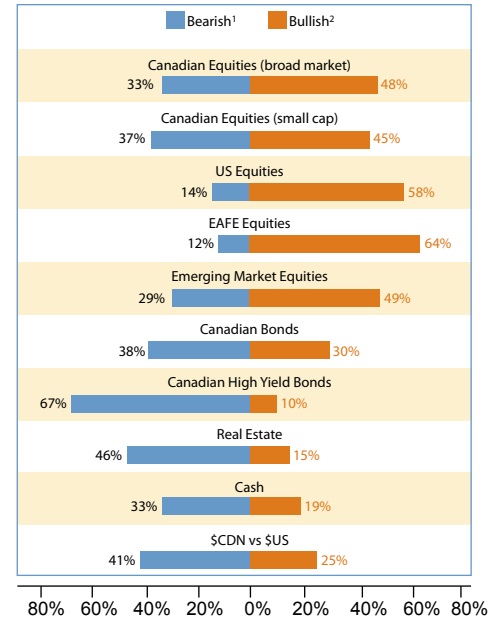
For example, bullishness towards broad Canadian equities leapt from 36% to 48% in the first quarter, while bearishness saw only a slight drop to 33%. This is indicative of the general trend of neutral managers shifting over to the bullish camp.

The shift in sentiment towards Canadian small cap equities was even more pronounced, with the number of bulls increasing from 23% to 45%. Despite this increase in bullishness, the number of managers calling themselves bearish remained steady at 37%.

We asked Canadian investment managers to identify the largest risk factor threatening the performance of Canadian equity markets. The prospect of lower energy prices was cited as the top risk by 52% of respondents. Other factors that drew a sizable consensus were the valuation of the Canadian market relative to the rest of the world (19%) and geopolitical instability (14%).

Despite these perceived risks, only 27% of the investment managers consider the Canadian market overvalued today. This contrasts with one year ago, when 41% of managers shared that view.

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.

Canadian investment managers registered some notable changes in sentiment towards individual equity sectors. Enthusiasm for financial services companies cooled somewhat, as bullishness slid from 68% to 56%. One possible explanation is a perception that earnings in this hot sector have peaked.

The telecommunications sector took over from financial services as the leader in bullish sentiment. Canadian telecoms continue to enjoy strong earnings power in the wireless sector, bolstered by a lack of competition.

Commentary & Analysis (continued)

Healthcare, utilities and energy continue to languish, with less than one-third of managers expressing a bullish outlook on these sectors. Bearish sentiment towards energy remains high at 57%, which is consistent with the widely-held view that lower energy prices are the greatest risk facing the Canadian market.

Managers are generally optimistic about Canada, but many appear to favour the risk/reward characteristics of international markets. EAFE equities have attracted tremendous interest over the past year, and are still riding high with 64% of managers expressing bullishness. The number of bears has continued to dwindle, and now stands at just 12%.

Meanwhile, the U.S. economy has been confounding naysayers for many consecutive quarters, and bullish sentiment towards U.S. equities remains solid at 58%. Bears have dropped to less than 14%.

Although U.S investment managers participating in Russell's U.S. IMO survey recently cited inflation as the number one risk to the market, the threat seems considerably less dire than it did one year ago. Today, much of the debate has shifted to whether earnings will continue to grow and at what rate. Based on our survey, Canadian investment managers appear to be expecting healthy growth.

Bullishness towards emerging markets equities surged by 14% in the first quarter, from 35% to 49%. It will be interesting to see whether the sudden volatility that struck world markets in late February affects this outlook.

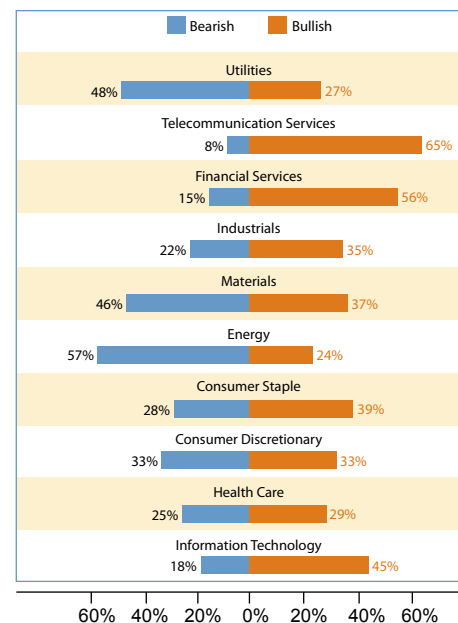
In our view, it is reasonable to expect greater volatility in emerging markets compared to mature economies. At the same time, we are mindful of the fact that many companies in emerging markets participate in staple industries, and tend to be relatively resilient.

In the arena of fixed income, little has changed since last quarter. Bulls and bears remain split fairly evenly at 30% and 38% respectively when it comes to Canadian bonds. Bearishness towards the Canadian dollar picked up slightly to 41%.

The bears continue to dominate the outlook for high yield bonds, with 67% of respondents expressing negative sentiment. This is likely due to the fact that credit spreads between high-yield and government bond issues are currently considered to be unsustainably narrow.

A meagre 15% of investment managers are bullish on Canadian real estate, but bears have actually decreased in number from 57% to 46%. Despite challenges in the U.S. real estate market, Canada is widely seen as less leveraged and therefore less risky.

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.

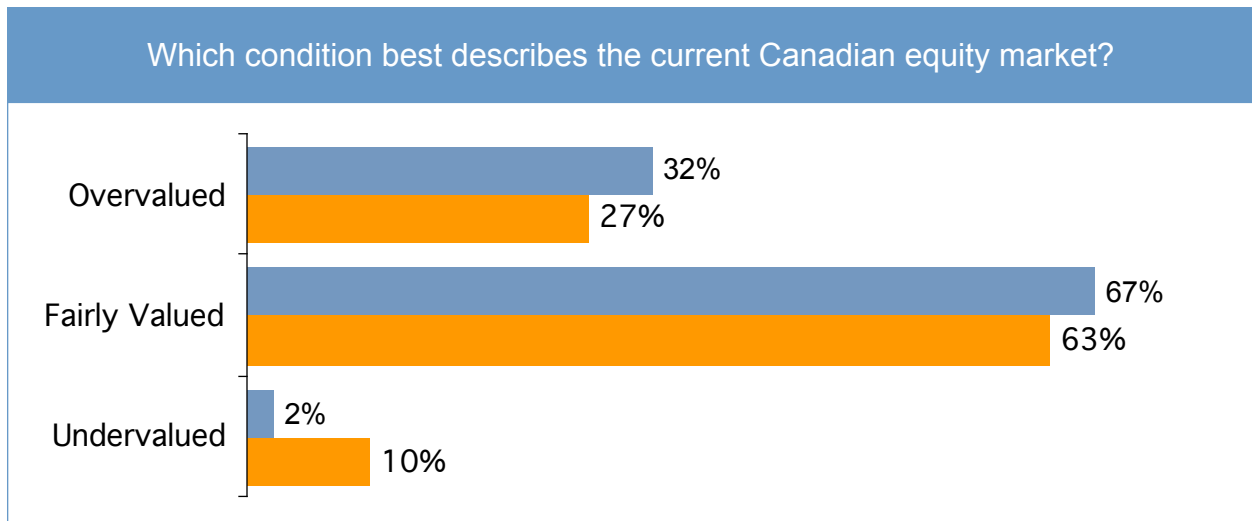
At the end of 2006, the prevailing mood among Canadian investment managers was tentative. Bearishness was on the decline, yet there was little, if any, correlating increase in bullishness. During the first quarter of 2007, however, more and more managers were willing to assert their status as bulls. Our next survey should reveal whether these managers have continued their march towards bullishness, or whether the Chinese market pull-back in late February has given them cause to retreat. ■

Question 1 Results—Valuation of the Canadian Equity Market

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

Key Findings:

- 27% of managers consider the market overvalued, compared to 41% one year ago
- 63% of managers find the Canadian market fairly valued, which is 4% less than what it was last quarter
- 10% of managers find the market undervalued, compared to 2% last quarter



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

■ 4Q2006 ■ 1Q2007

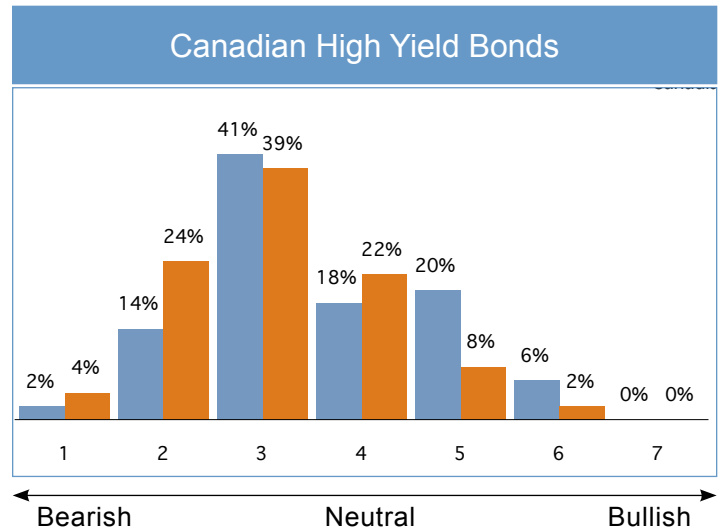
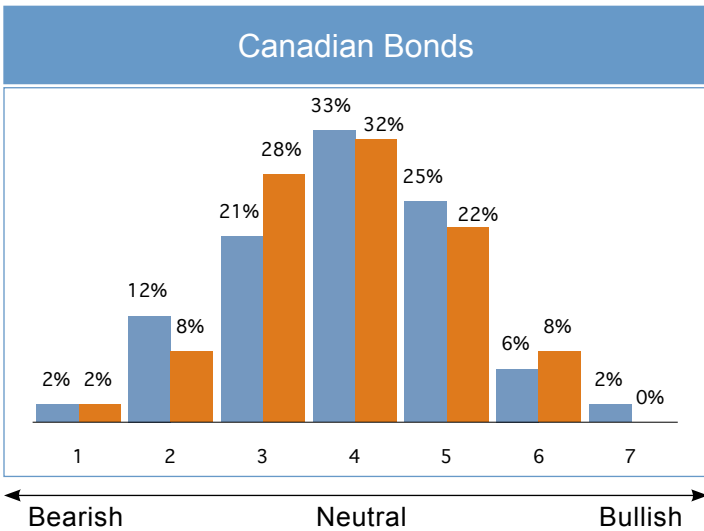
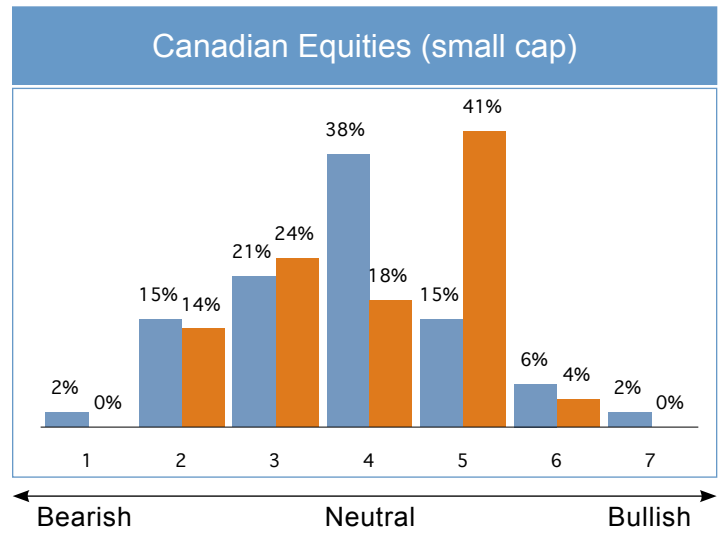
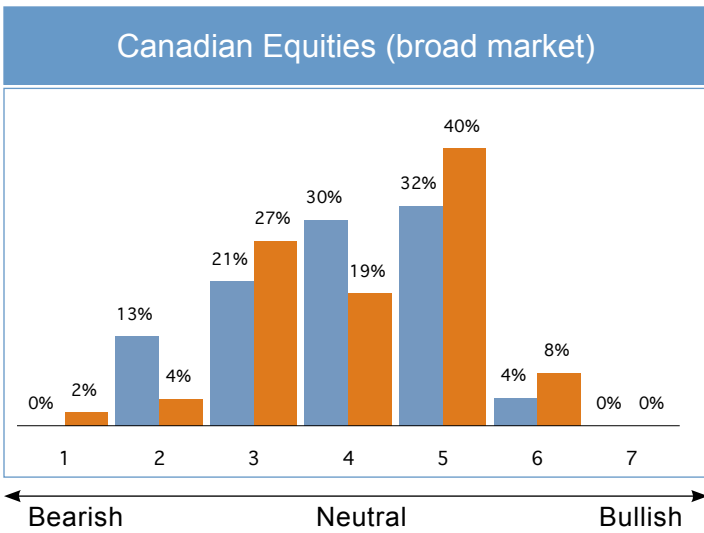
Question 2 Results—Asset Class Expectations

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

Key Findings:

- Bullishness towards broad Canadian equities leapt from 36 percent to 48 percent
- Bullishness towards small cap equities was even more pronounced with bullishness increasing from 23 percent to 45 percent quarter over quarter
- EAFE equities are still riding high with 64 percent of managers feeling bullish
- Bullish sentiment towards US equities remains solid at 58 percent

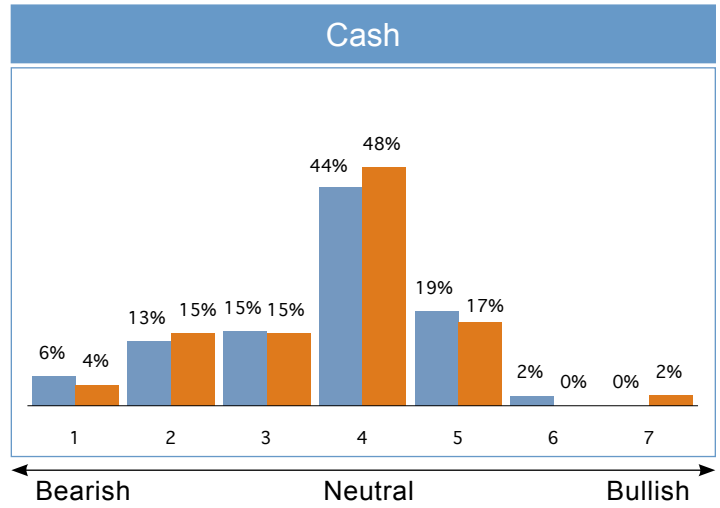
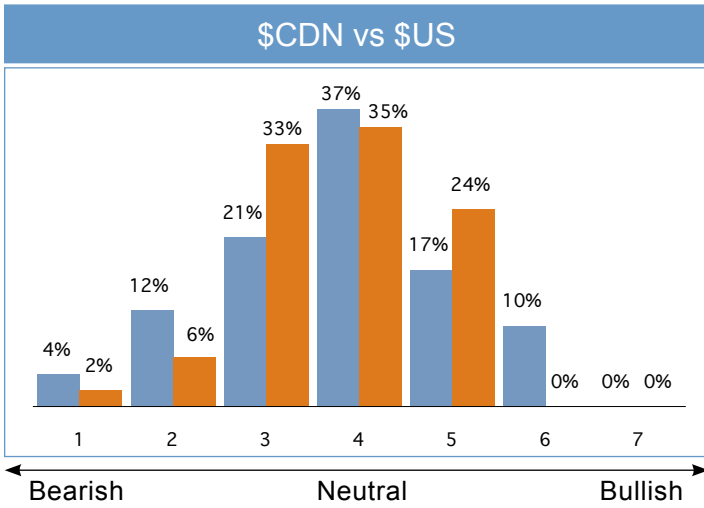
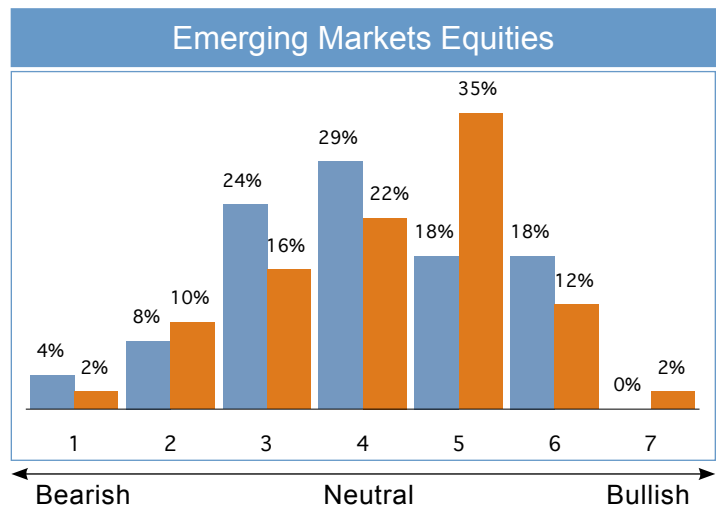
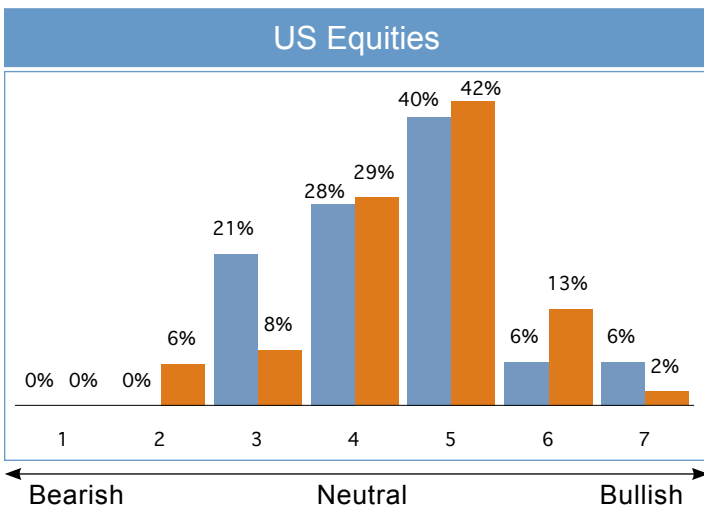
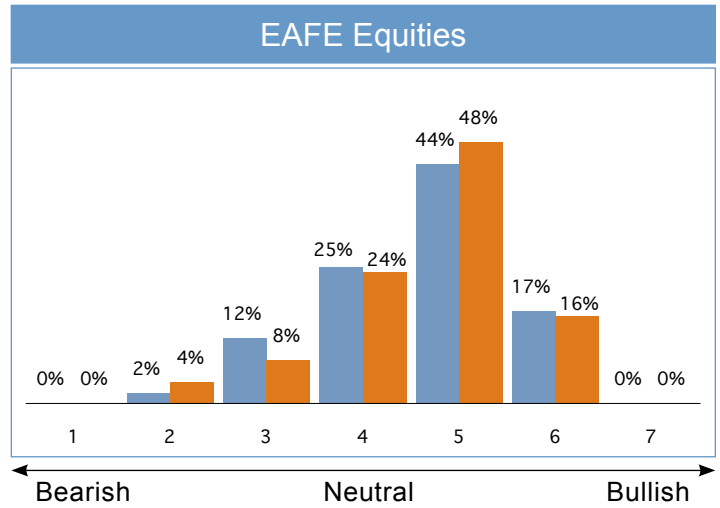
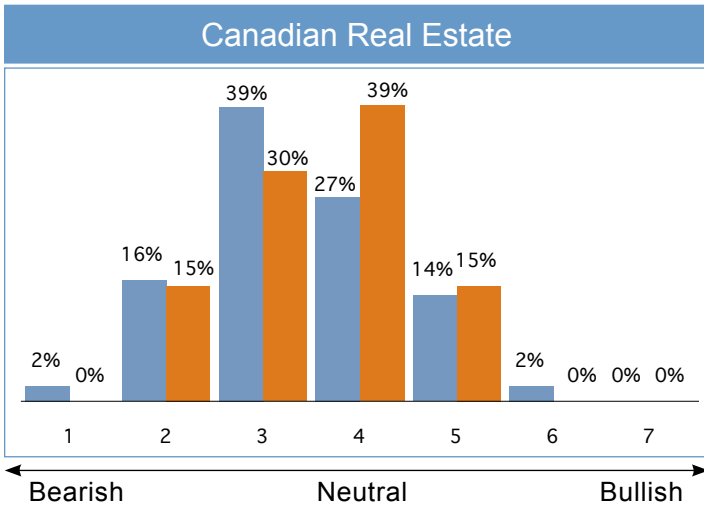
SCALE IS 1 TO 7: 1 = "STRONGLY BEARISH" 4 = "NEUTRAL" 7 = "STRONGLY BULLISH"



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

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Question 2 Results—Asset Class Expectations (continued)



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

■ 4Q2006 ■ 1Q2007

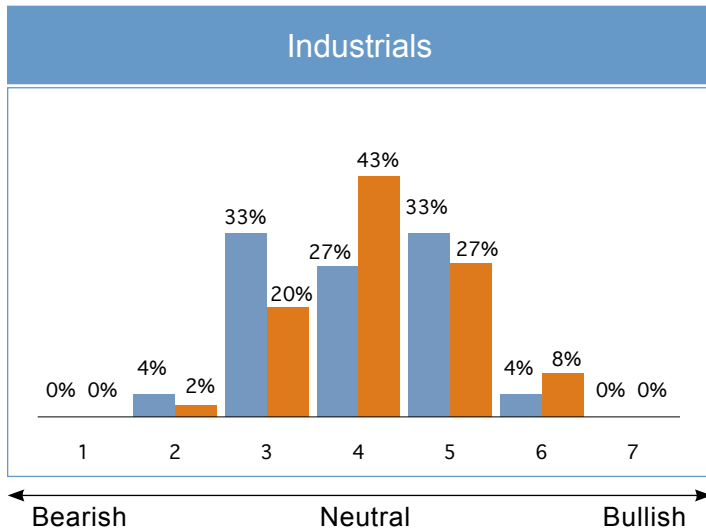
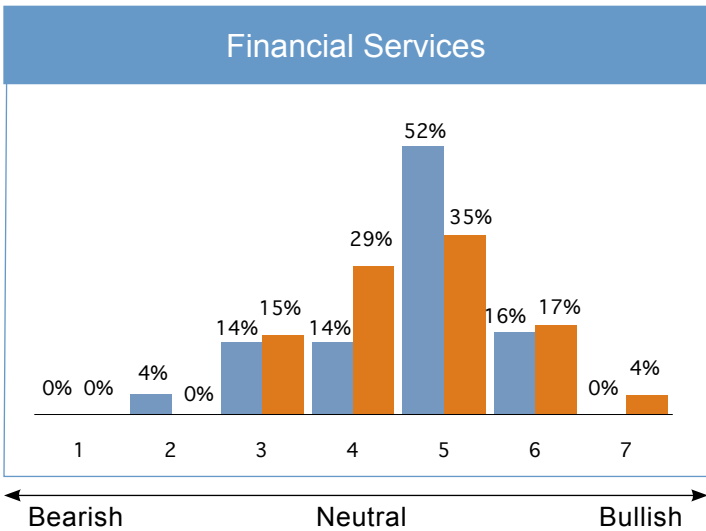
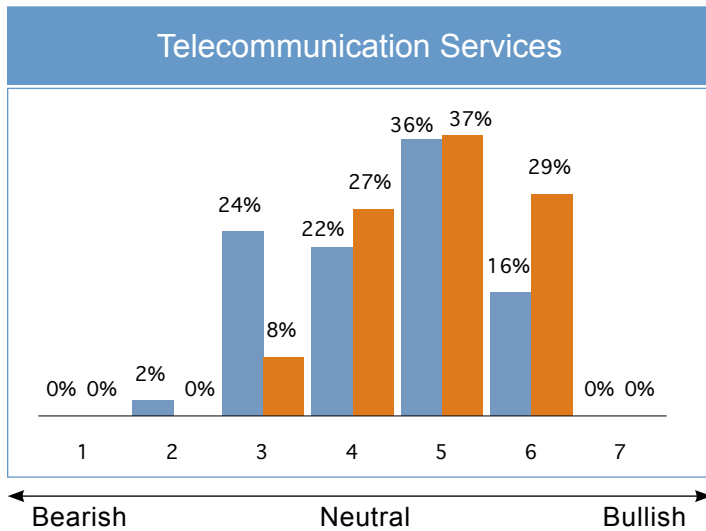
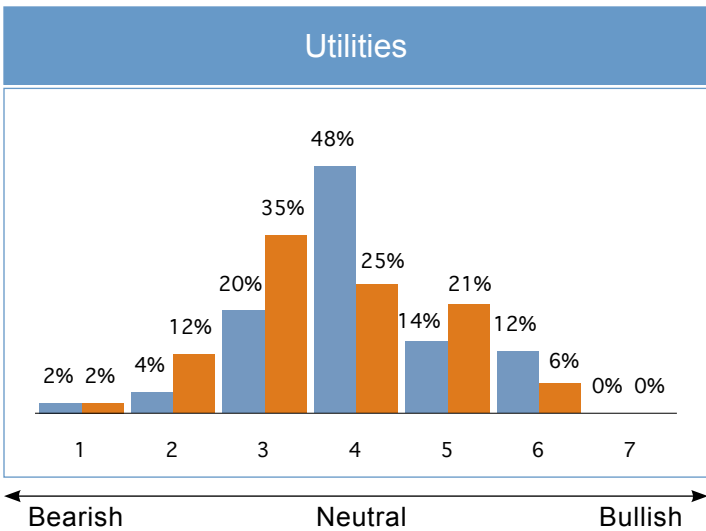
Question 3 Results—Sector Expectations

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

Key Findings:

- Enthusiasm for financial services companies cooled somewhat, as bullishness slid from 68 percent to 56 percent
- The telecommunications sector took over from financial services as the leader in bullish sentiment
- Healthcare, utilities and energy continue to languish

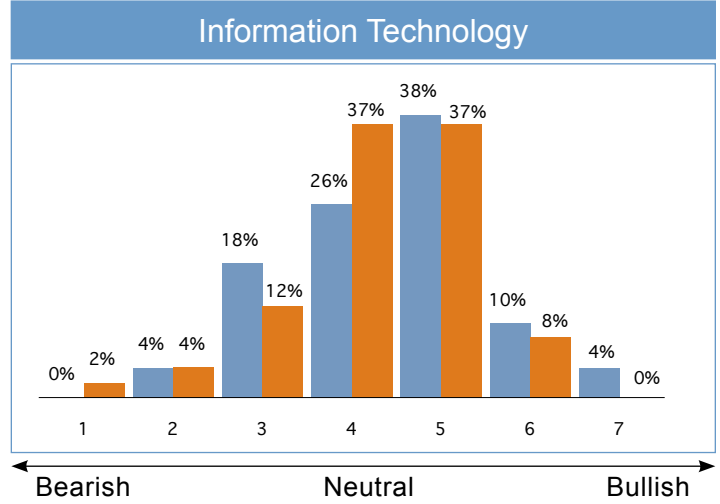
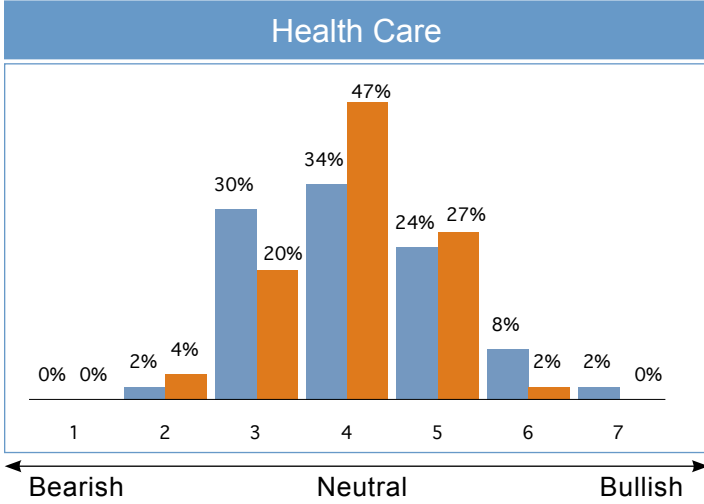
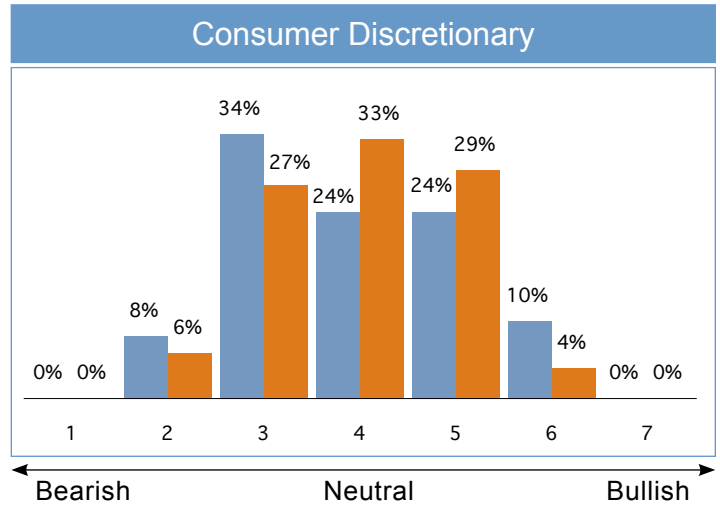
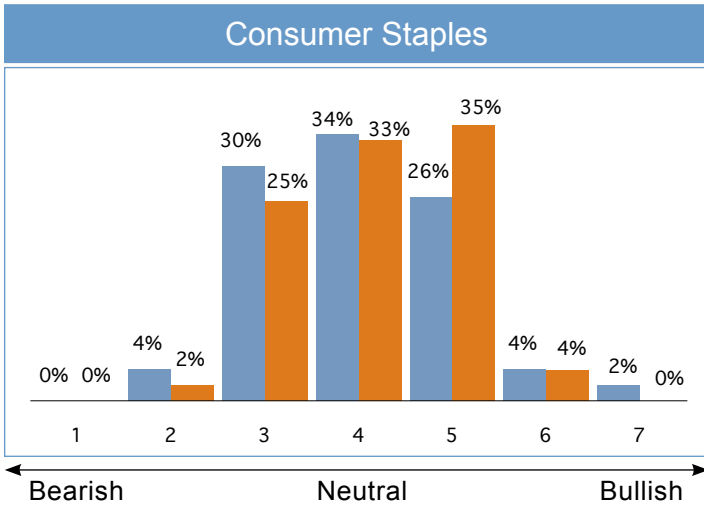
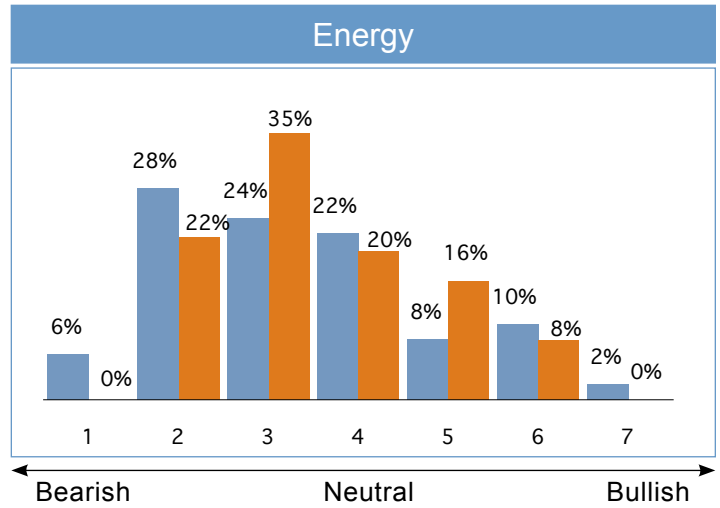
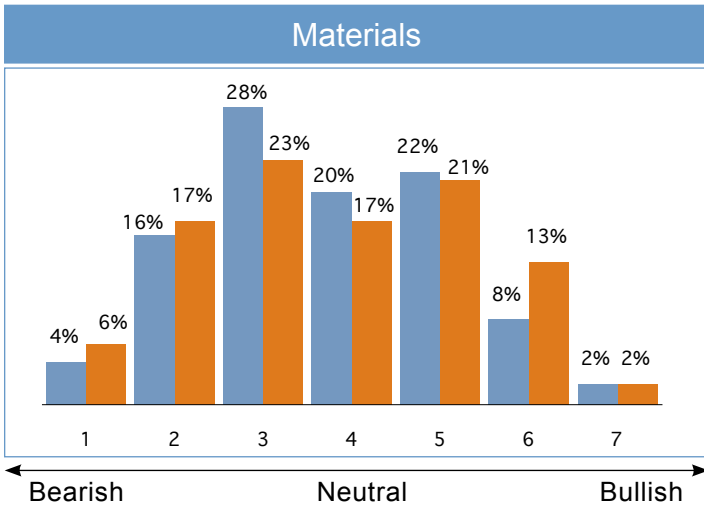
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Note: Numbers may not add to 100 percent due to rounding.

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Question 3 Results—Sector Expectations (continued)



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

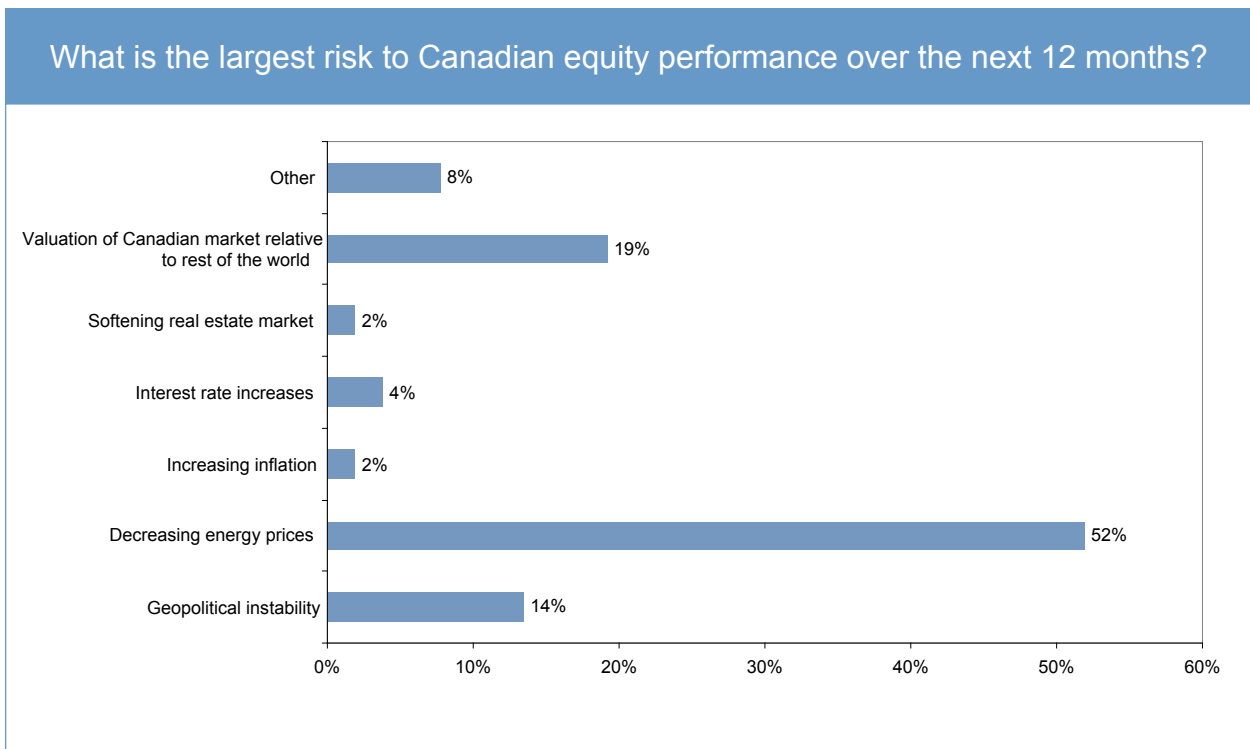
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Question 4 Results—What is the largest risk to Canadian equity?

What is the largest risk to Canadian equity performance over the next 12 months?

Key Findings:

- The prospect of lower energy prices was cited as the top risk by 52 percent of respondents
- Valuation of the Canadian market relative to the rest of the world was listed as the second largest risk



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 February 2007

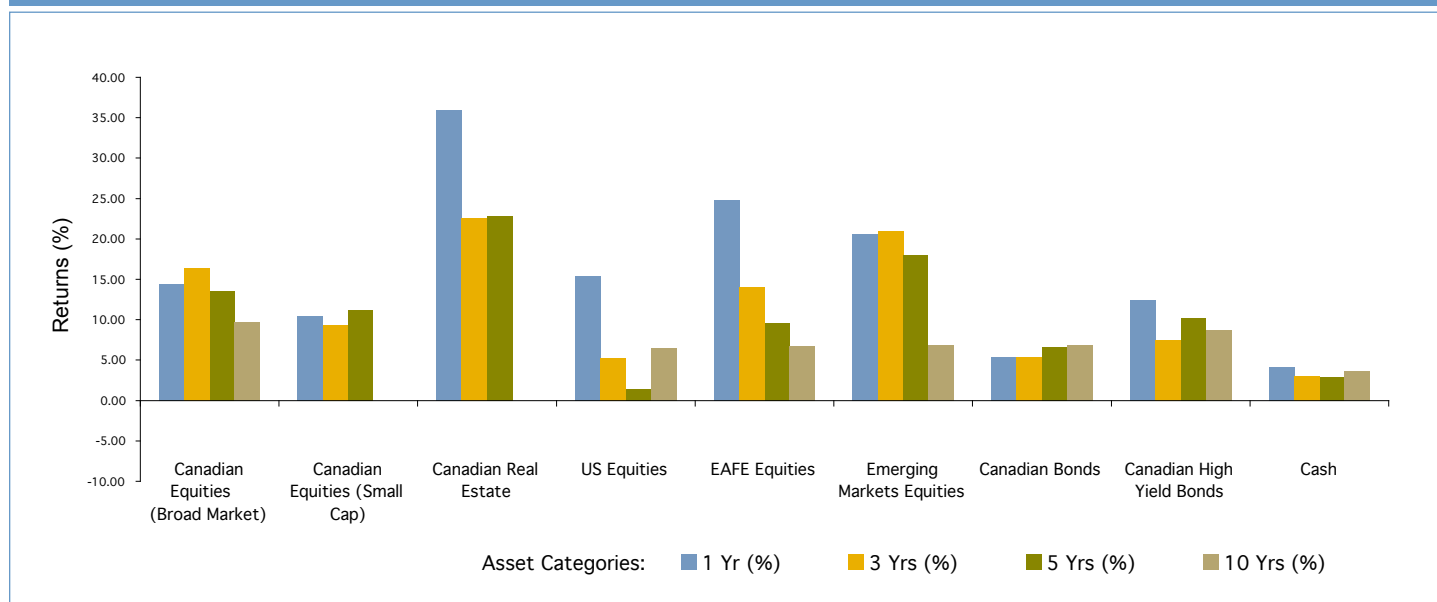


Table: Annualized Asset Sector Returns to February 2007

Asset Sector	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)
Canadian Equities (Broad Market)	14.43	16.41	13.50	9.68
Canadian Equities (Small Cap)	10.40	9.28	11.21	N/A
Canadian Real Estate	35.94	22.59	22.82	N/A
US Equities	15.44	5.19	1.37	6.43
EAFE Equities	24.75	13.98	9.60	6.70
Emerging Markets Equities	20.61	21.01	17.95	6.87
Canadian Bonds	5.36	5.36	6.63	6.85
Canadian High Yield Bonds	12.44	7.48	10.20	8.66
Cash	4.09	3.01	2.87	3.58

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 February 26th to March 5th, 2007. 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, 34 investment management firms and 52 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 fund in 1980, advises clients worldwide whose assets represent approximately US\$2 trillion and delivers investment programs to more than 2,800 clients in 44 countries. Russell manages over CDN\$230 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 Small Cap Index. The S&P/TSX Small Cap 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

Asset Class Definitions (continued)

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

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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