

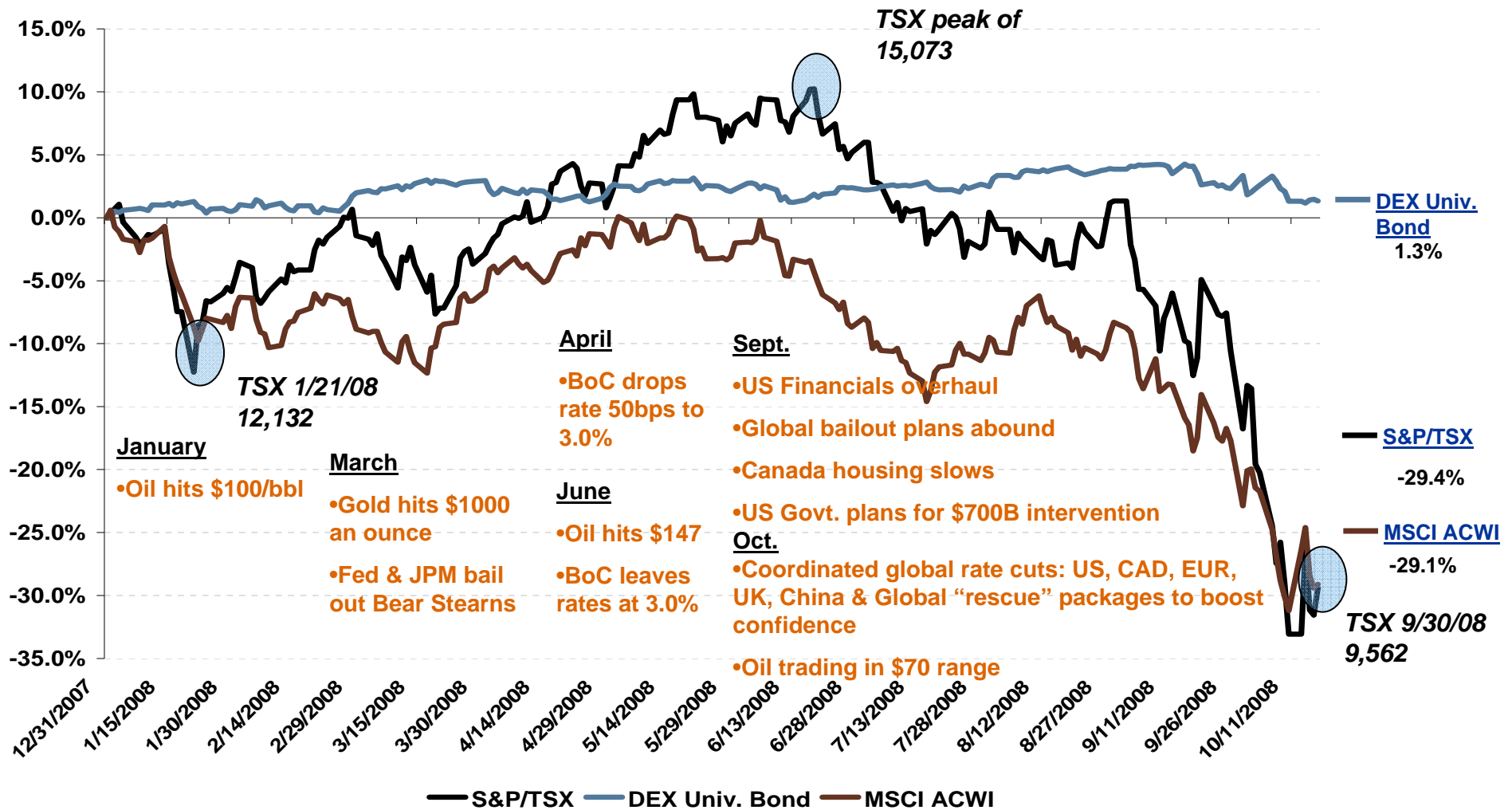
Uncertainty: What are Investors doing now?

“Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria. The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell.”

*Sir John Templeton. London Financial Times online Neil Hume
Published: July 11 2008 20:11*

Perspectives on 2008 markets

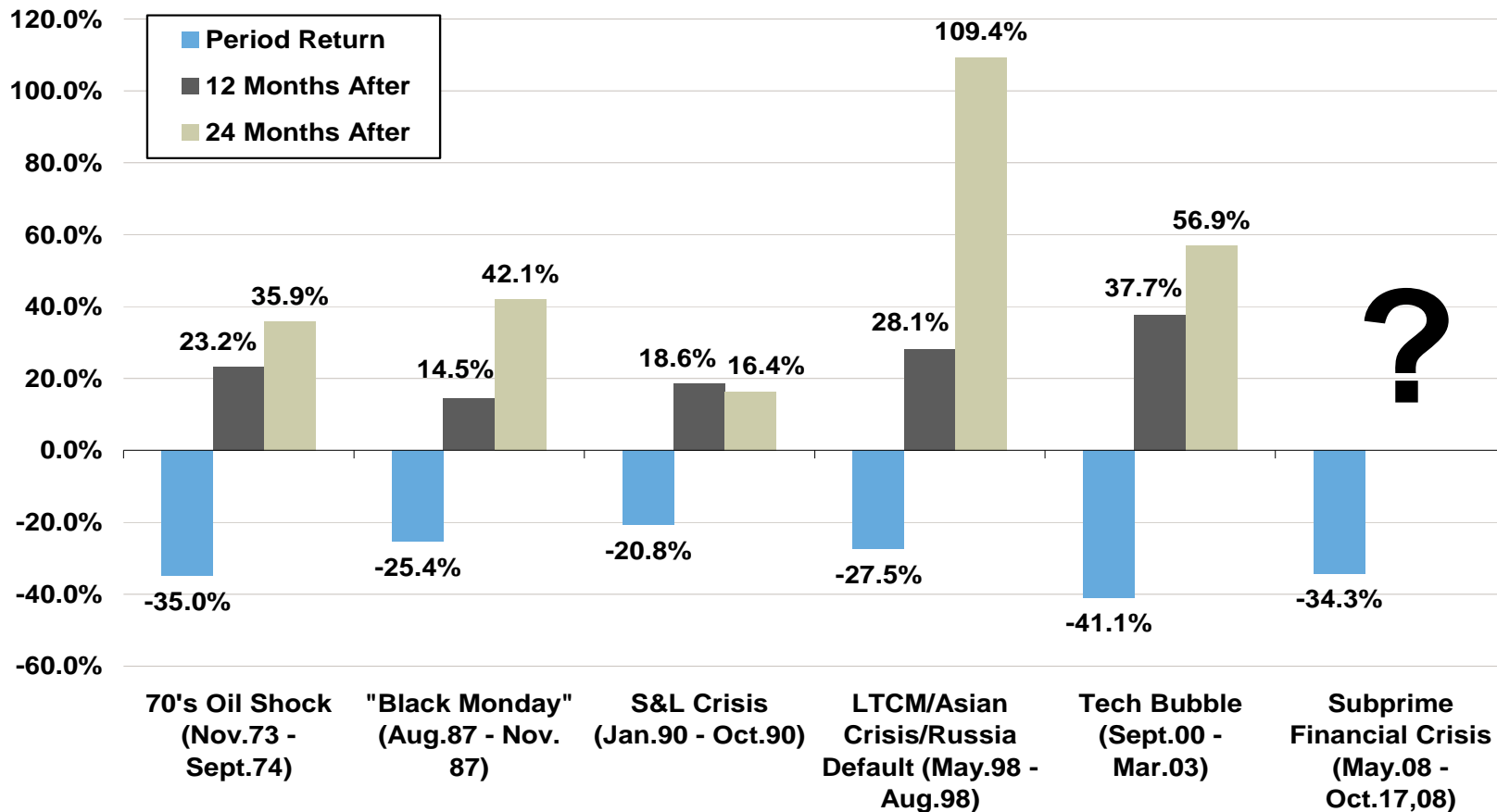
2008: A rollercoaster year filled with uncertainty



Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results. (Jan. 1, 2008 – Oct. 17, 2008, cumulative returns \$CAD)
 Source: Russell Investments, Factset, MSCI

Position your portfolio today for the rebound

S&P/TSX Returns After Steep Market Declines

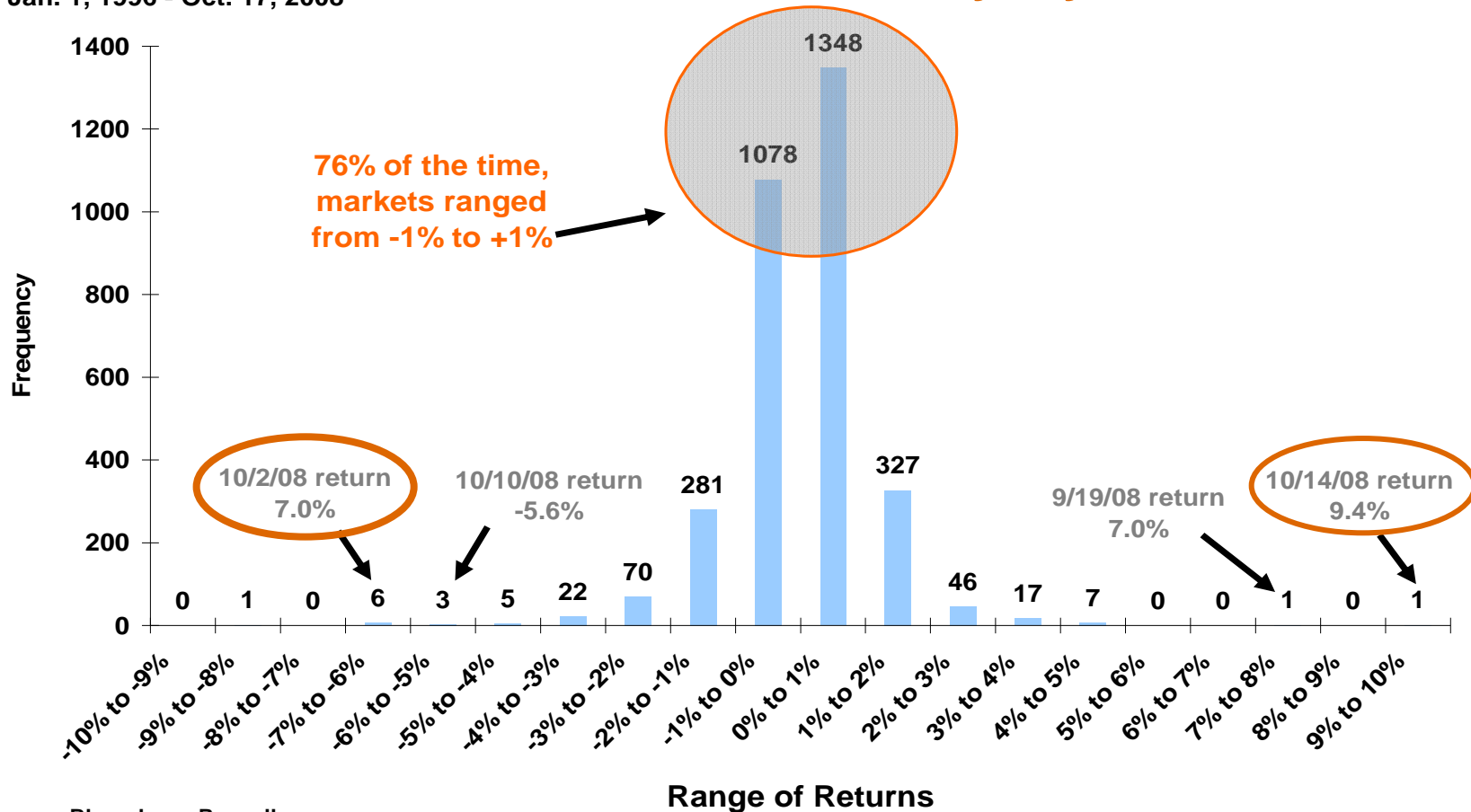


Source: BNY Mellon, Russell

Keeping uncertainty in perspective

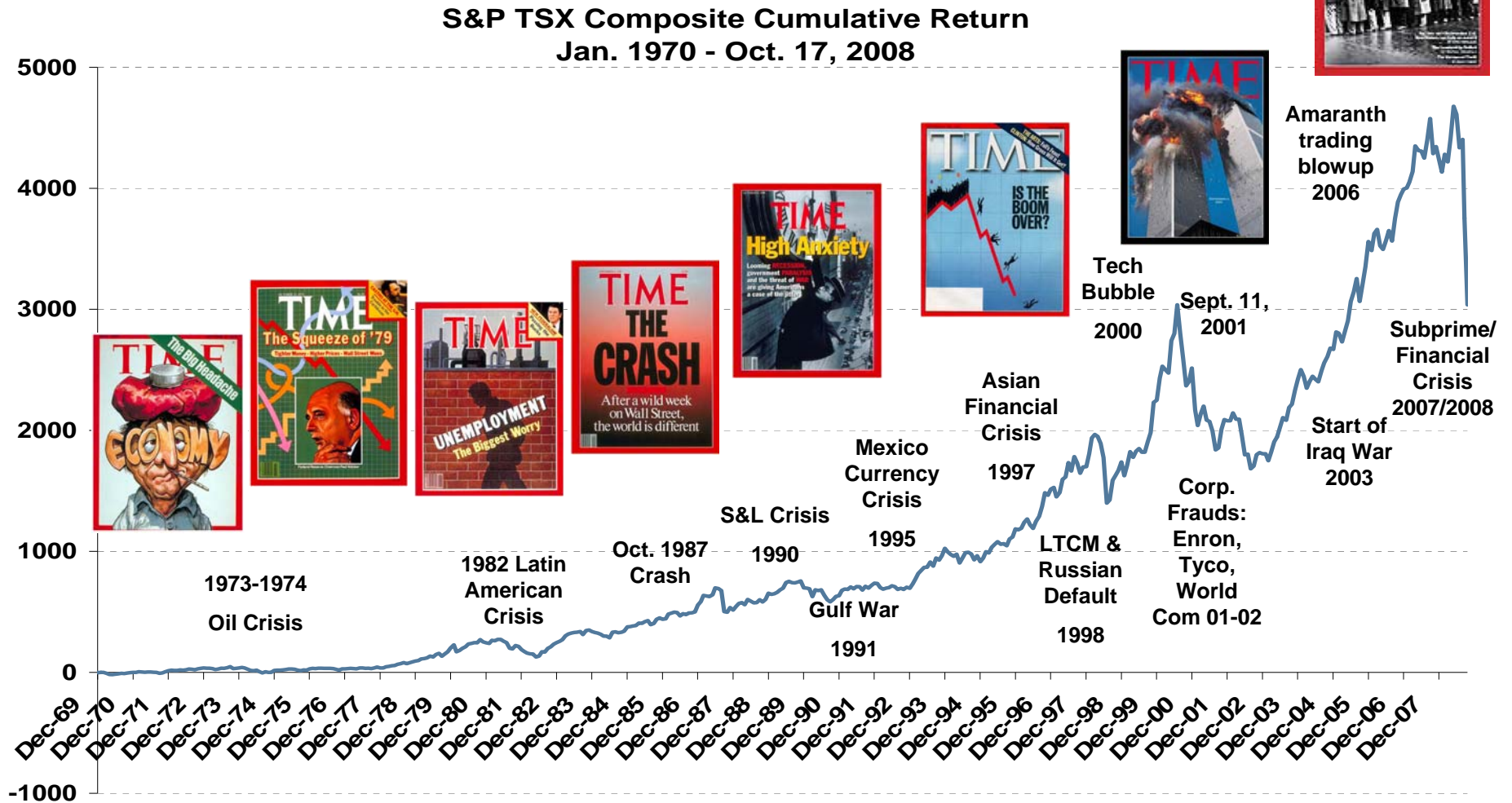
S&P/TSX Volatility Statistics
 Distribution of Daily Returns
 Jan. 1, 1996 - Oct. 17, 2008

Don't confuse tail events with everyday returns



Source: Bloomberg, Russell

Déjà vu? A history of *uncertain times*



Source: BNY Mellon, Russell

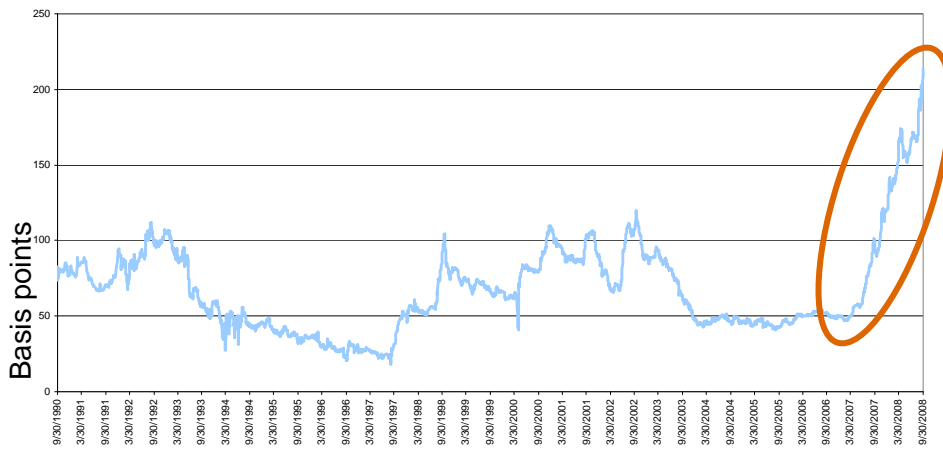
3Q Themes...Positioning...Result*

- **Commodities:** Substantial sell-off in 3Q
 - Fund Positioning: **Underweight** –
 - Positive for relative performance
 - Funds still positioned to benefit from longer term prospects of commodities
- **Financials:** Eye of the storm
 - Fund Positioning: **Underweight** –
 - Funds underweight was correct from macro perspective
 - Financials surprisingly was the strongest sector for the quarter which hurt relative performance
- **USD/CAD x-rate:** CAD depreciated 4.6% for the quarter vs. USD
 - Fund Positioning: **Un-hedged** –
 - Depreciation of CAD boosts un-hedged returns of foreign holdings
- **Foreign Exposure:** US outperformed developed; EAFE underperforms Canadian equities
 - Fund Positioning: **Global** –
 - Funds are generally overweight non-Canadian equity vs. peers: US a positive; EAFE detracted

*From perspective of a global balanced positioning

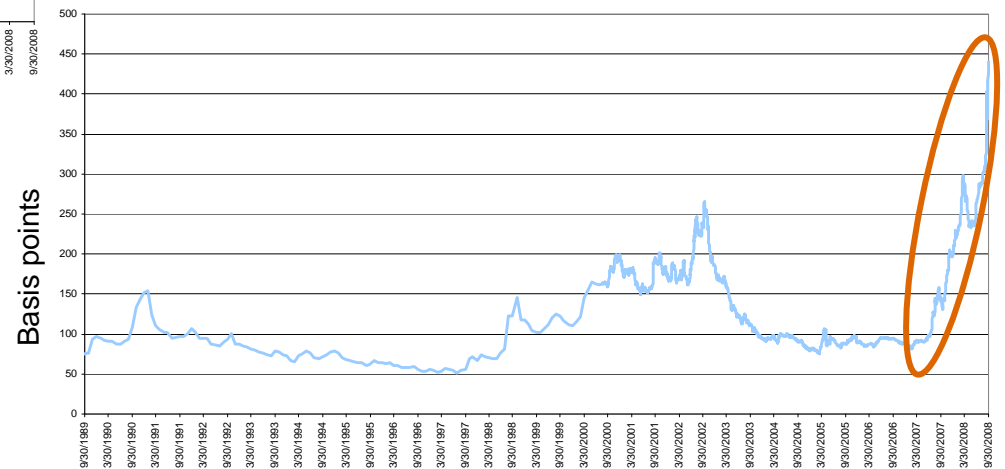
Investment grade corporate bond yields at unprecedented highs!

Canadian Corporate Bond Yield Spreads over Canadian Treasury Bonds*



Selling fixed income now is selling at an all time bond market extreme!

US Corporate Bond Yield Spreads over US Treasury Bonds*



Source: Lehman Live, Bloomberg, Russell

*Option adjusted.

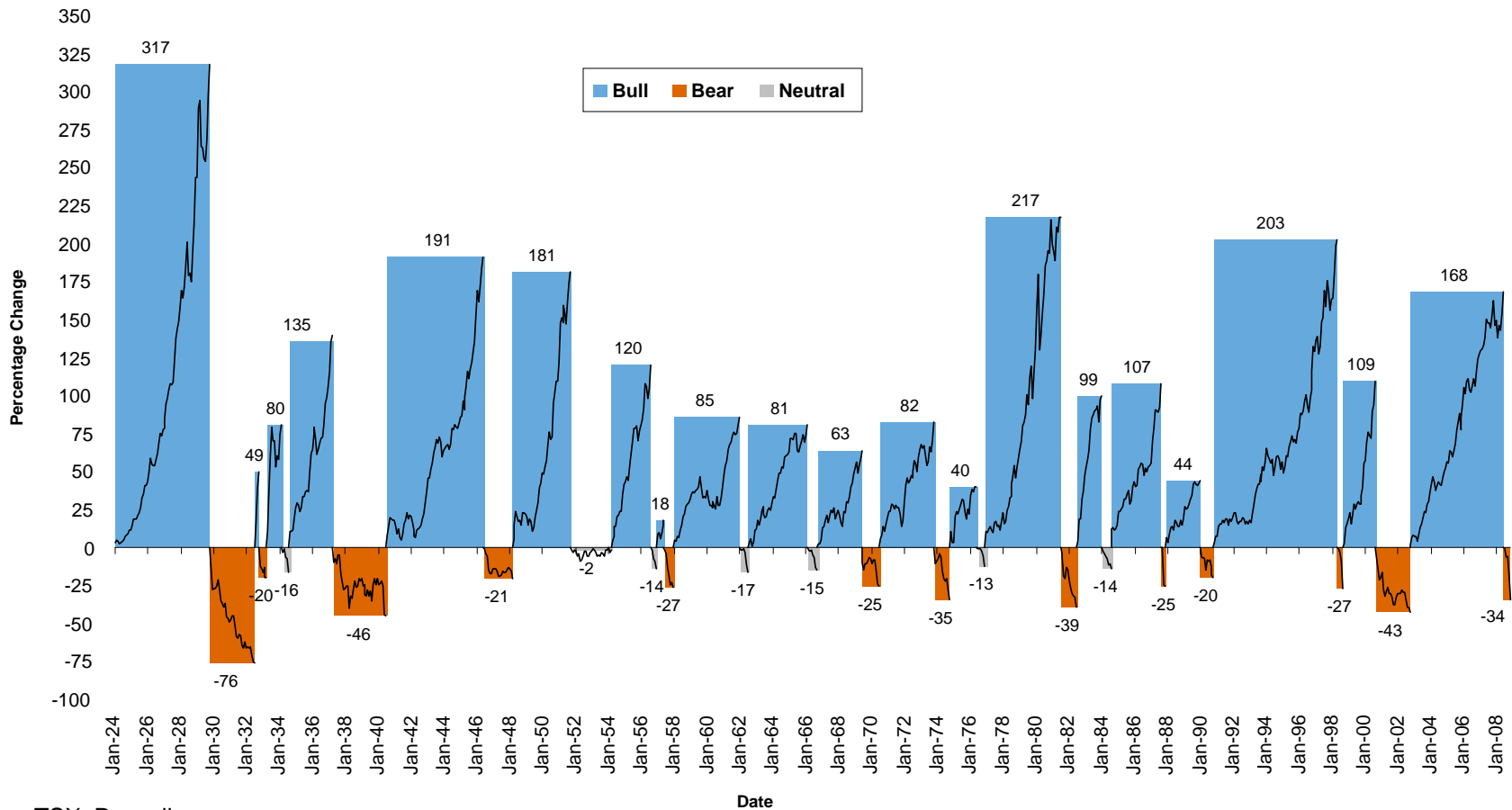
What are investors doing now....and why?

Pretty much everything we might guess...

- **Selling equities and bonds, particularly in emerging markets**
- **Buying GIC's and Treasury bills**
- **Staying put in their long term strategies (which does not make the news)**
- **Buying into bargains (which does make the news if it is Warren Buffet)**

Maintain a long term perspective: Canadian stock markets go up more than down

Canadian Stocks - Bull vs. Bear Markets - Duration and Magnitude
January 1924 to October 17, 2008



Source: TSX, Russell

What are professional investors doing now....and why?

Investing because it is a bargain hunter's dream come true!

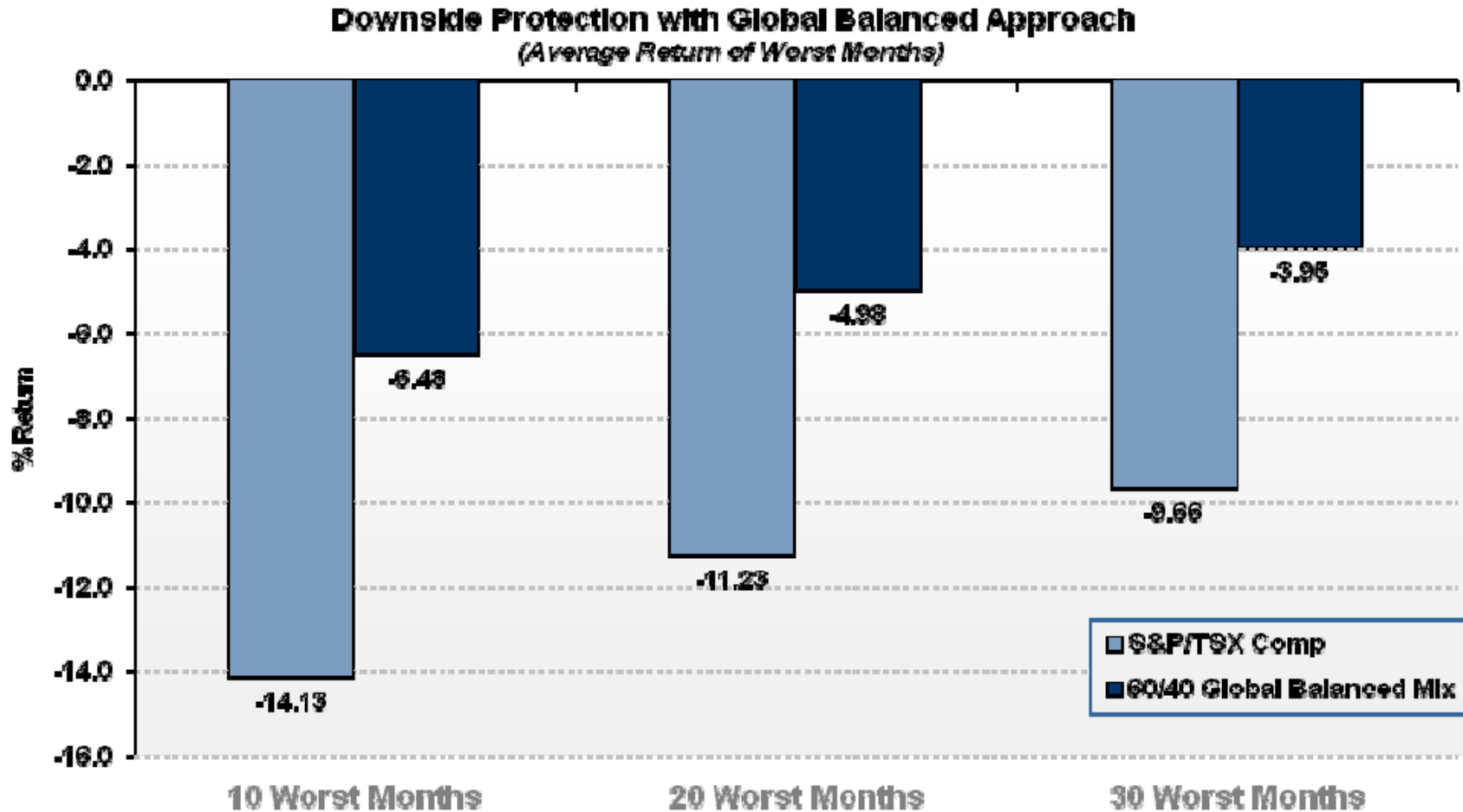
- **Buffett's Berkshire Hathaway (BRK.A) had invested \$3 billion in General Electric (GE) preferred stock carrying a 10% dividend. October 7, 2008 NY Times**
- **Xchanging (UK/Indian company), the FTSE 250 outsourcing specialist is buying in a market that is down 50% YTD. "Over the weekend, it confirmed that it was paying £83 million to take a 75 per cent stake in Cambridge Solutions, a Bangalore-based rival," achieving cross border capabilities at bargain prices. London Times September 28, 2008**
- **Vincent Delisle, equity strategist, Scotia Capital, Montreal: "My read on today is panic, extreme oversold conditions and certainly from a near-term perspective, this has to be viewed as a buying opportunity." 10/6/2008 Globe and Mail**

What are long-term investors doing now?

- **Not selling their equities or risky investments (why realize the losses when the odds are against that being a value added strategy?)**
- **Staying with their long term investment program**
- **Waiting for history to repeat itself, yet again**
- **And sometimes... looking for good quality investments to put more money to work in the markets gradually**

Balanced investing in uncertain times

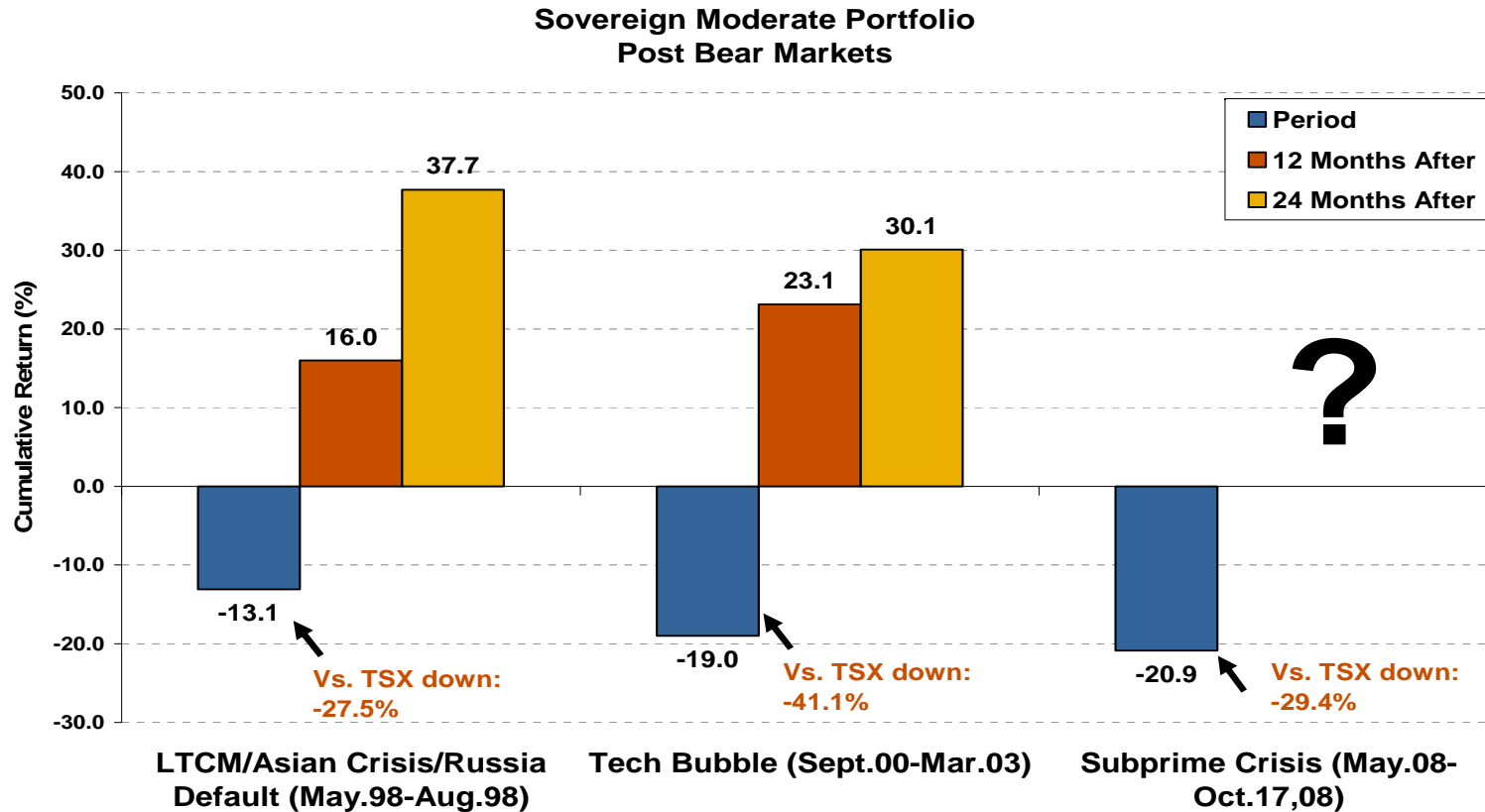
Protection when needed the most – global balanced funds



Source: BNY Mellon, Russell
(*Worst months based on returns of S&P/TSX Comp. as of Sept. 09)

Protection during steep declines & benefits of the eventual rebound

Sovereign Moderate Portfolio



Source: BNY Mellon, Russell

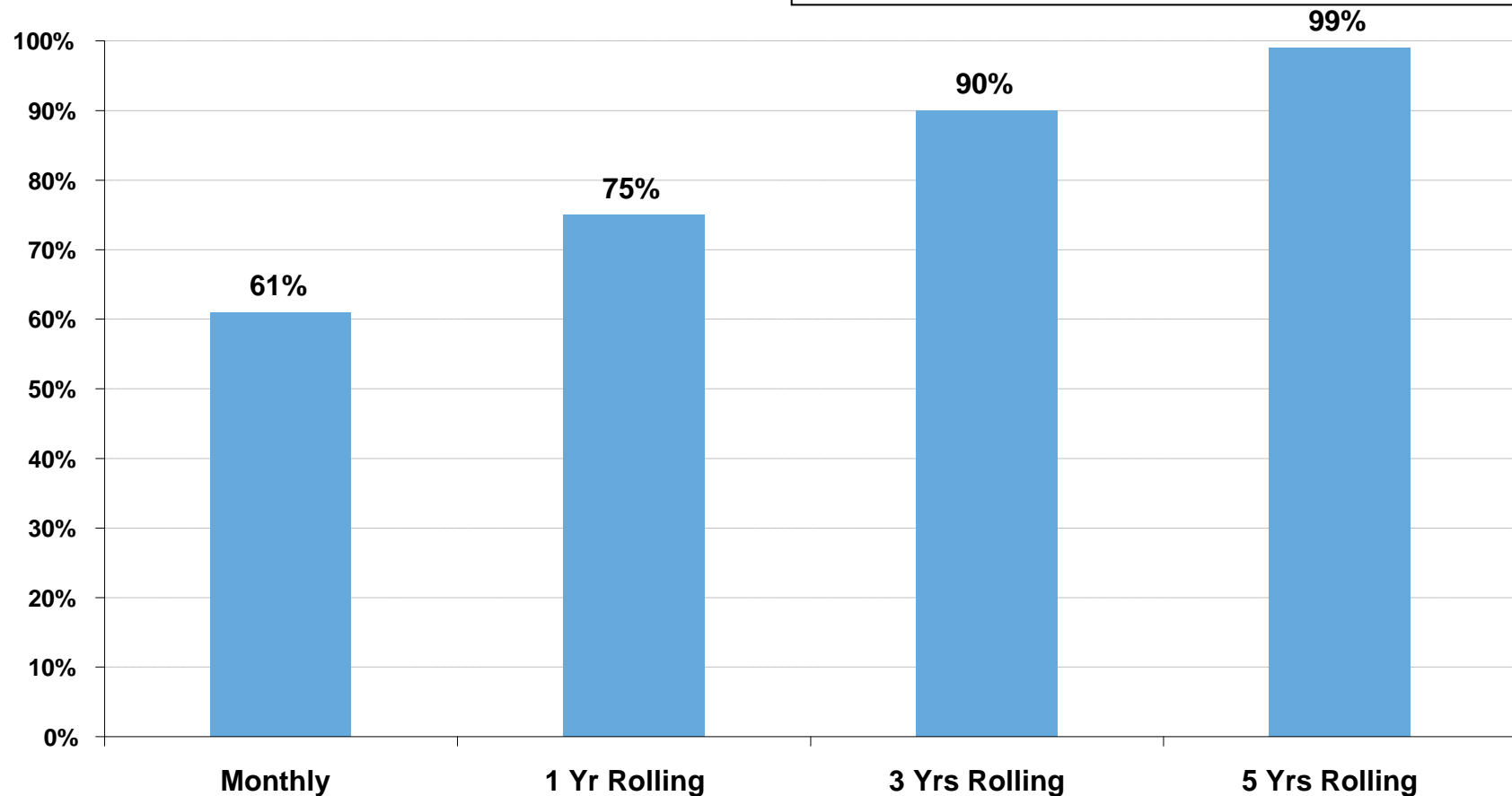
Sovereign Moderate Portfolio allocations: Fixed Income Pool (20%), Core Plus Fixed Income Pool (20%), Canadian Equity (20%), US Equity Pool (13%), Overseas Equity Pool (10%), Global Equity Pool (12%), Emerging Markets Equity Pool (5%)

Downside protection

Sovereign Moderate Portfolio

% of times Sovereign Moderate Portfolio Positive
Feb. 1993 - Sept. 2008

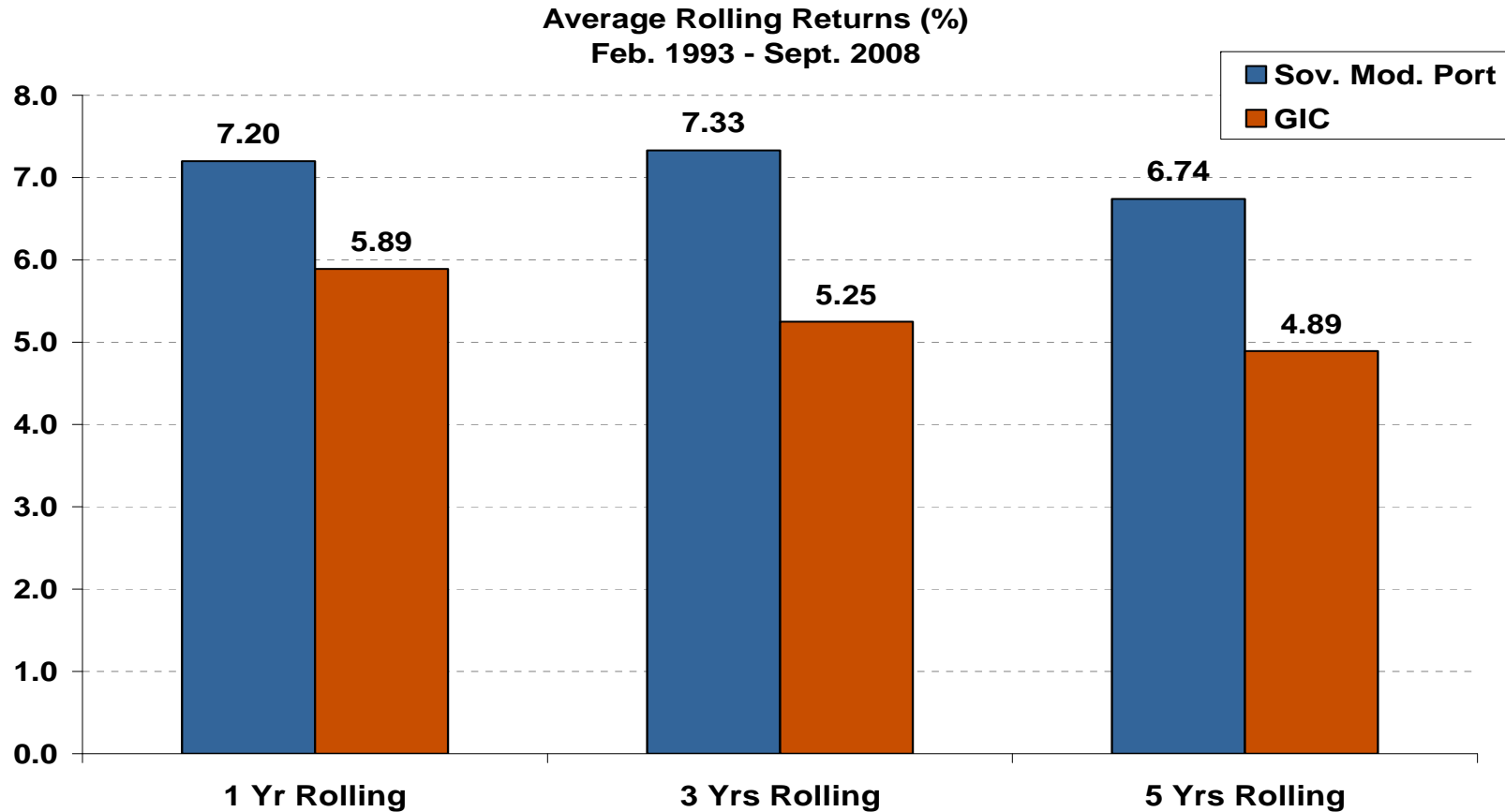
Provides for capital preservation & capital appreciation over time



Source: BNY Mellon, Russell

Long-term investors have fared better in balanced funds, historically

Sovereign Moderate Portfolio versus GIC's



Source: BNY Mellon, Russell

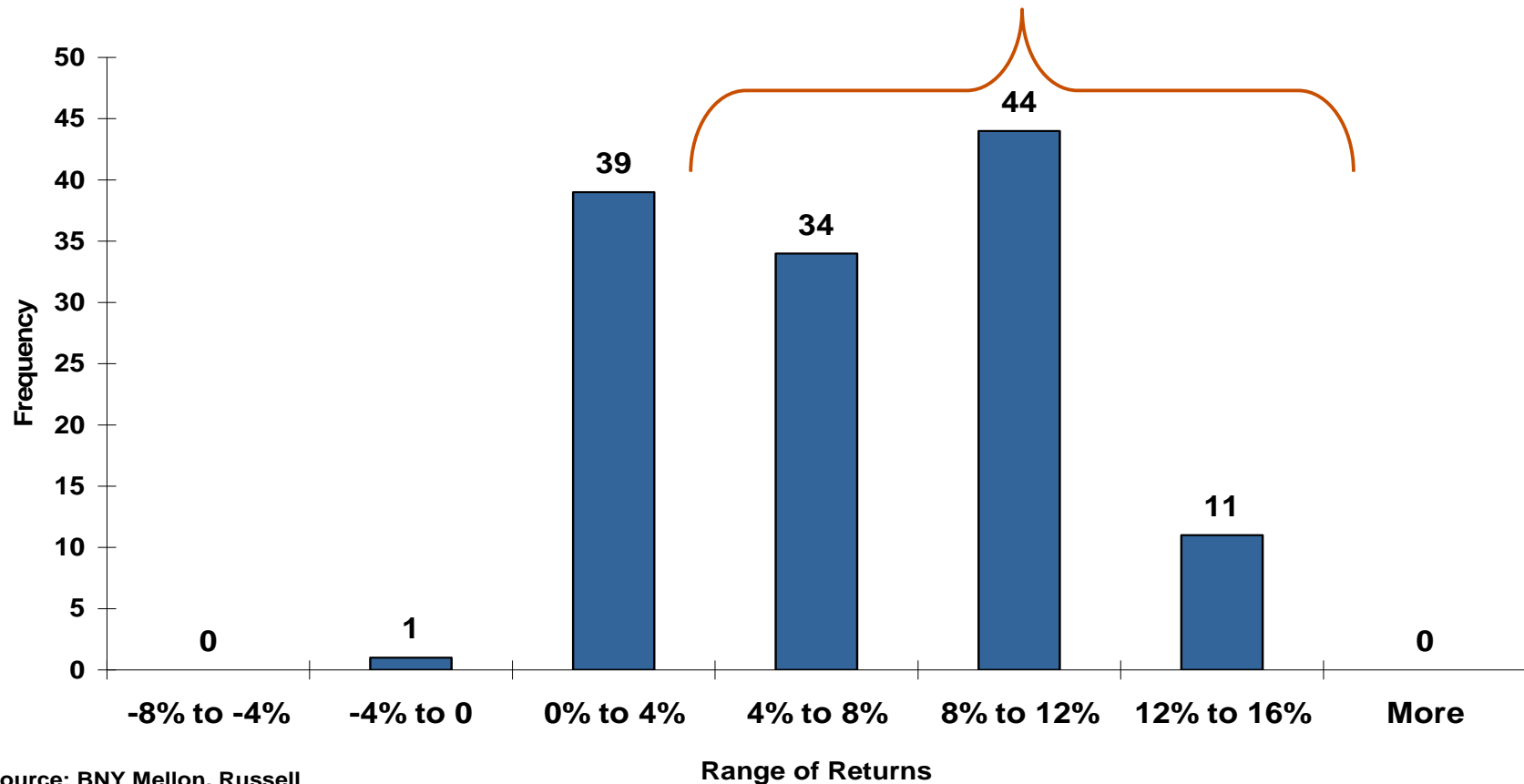
Sovereign Moderate Portfolio allocations: Fixed Income Pool (20%), Core Plus Fixed Income Pool (20%), Canadian Equity (20%), US Equity Pool (13%), Overseas Equity Pool (10%), Global Equity Pool (12%), Emerging Markets Equity Pool (5%)

Consistent positive outcomes

Sovereign Moderate Portfolio

Range of Returns (5 Yrs Rolling)
Feb. 1993 - Sept. 2008

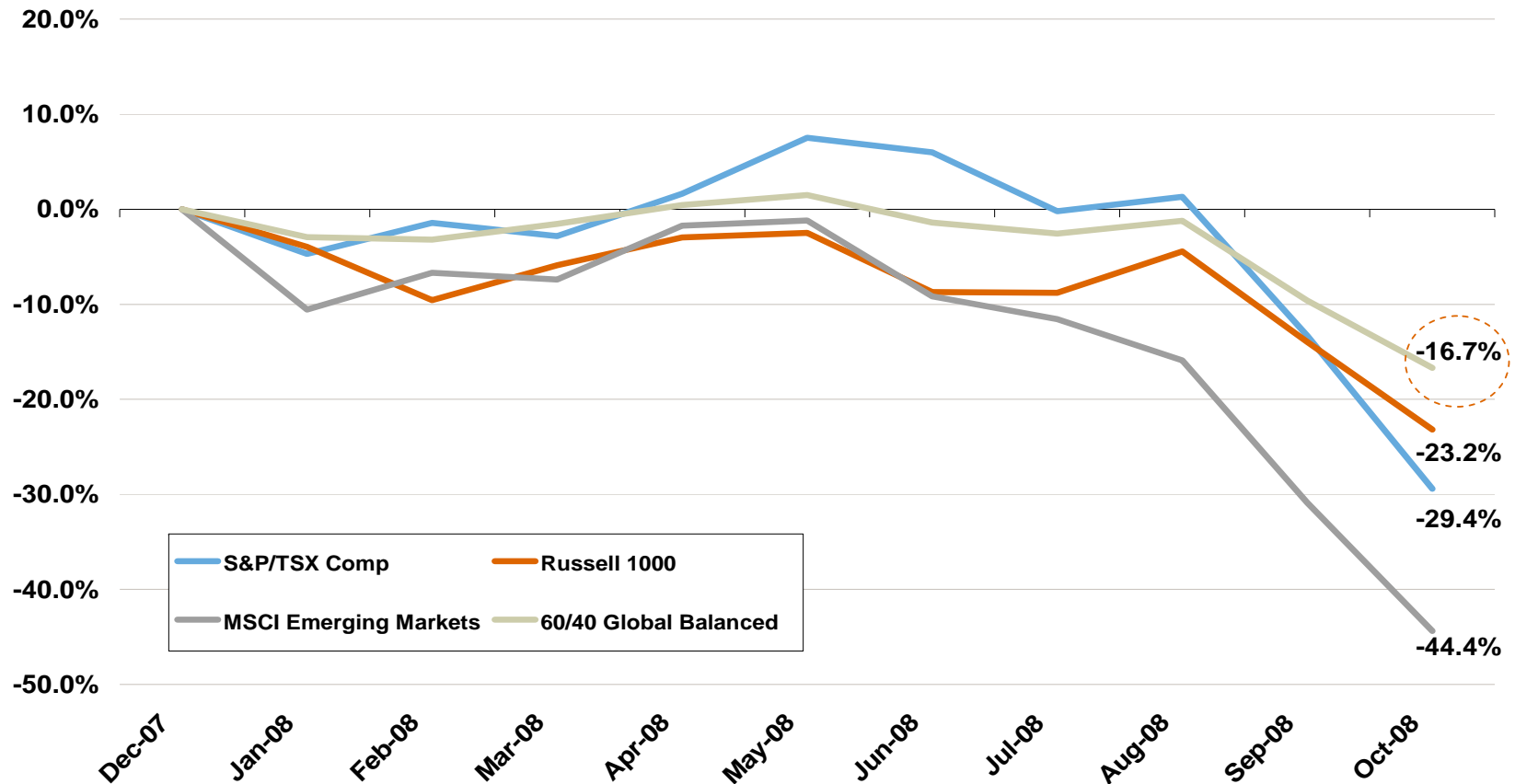
70% of instances returned
above 4%



Source: BNY Mellon, Russell

Don't confuse your portfolio with the market

Dont Confuse Your Portfolio With the "Market"
YTD Returns as of October 17, 2008

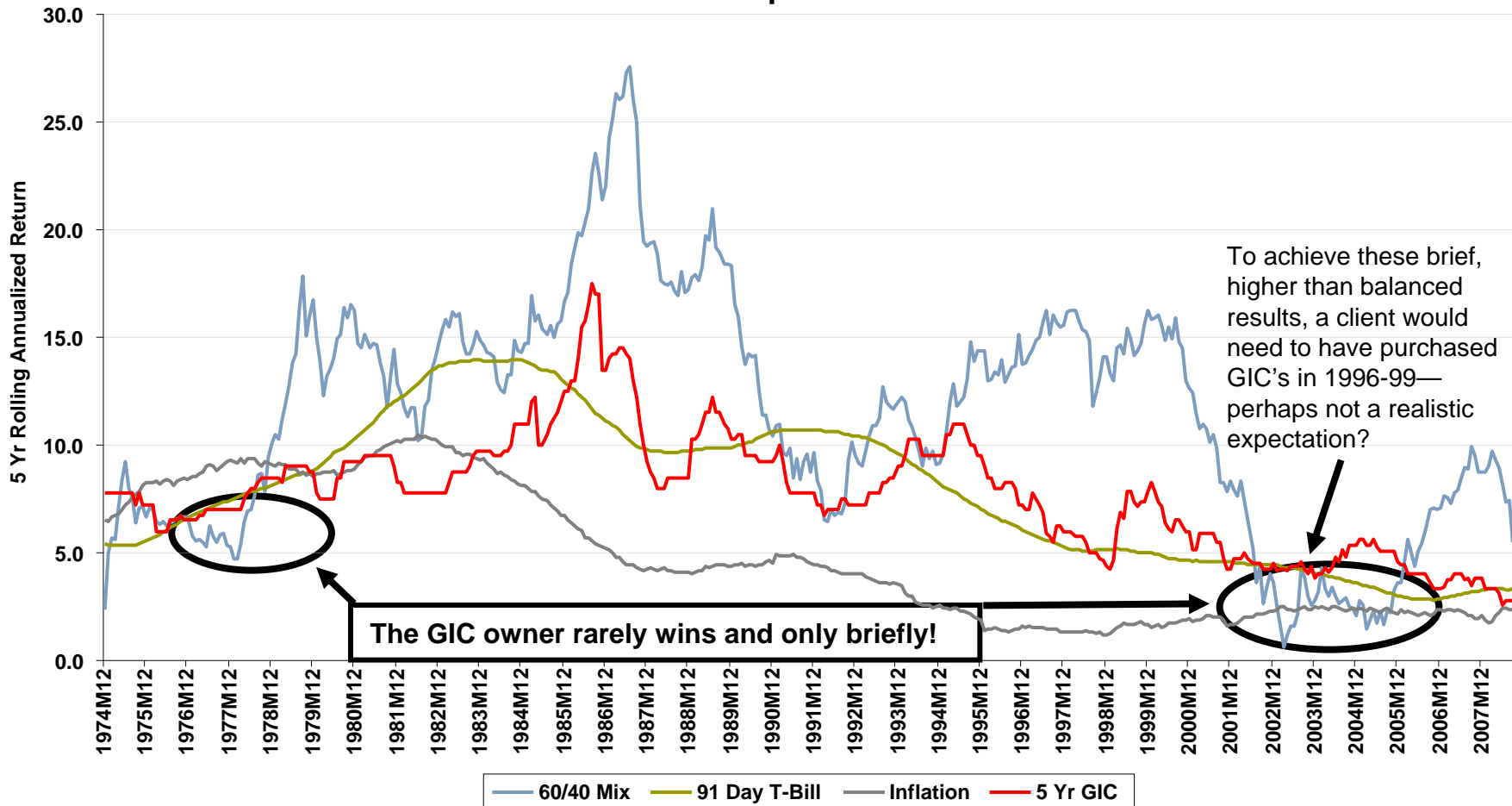


Source: BNY Mellon, Russell

GIC's and historical market returns

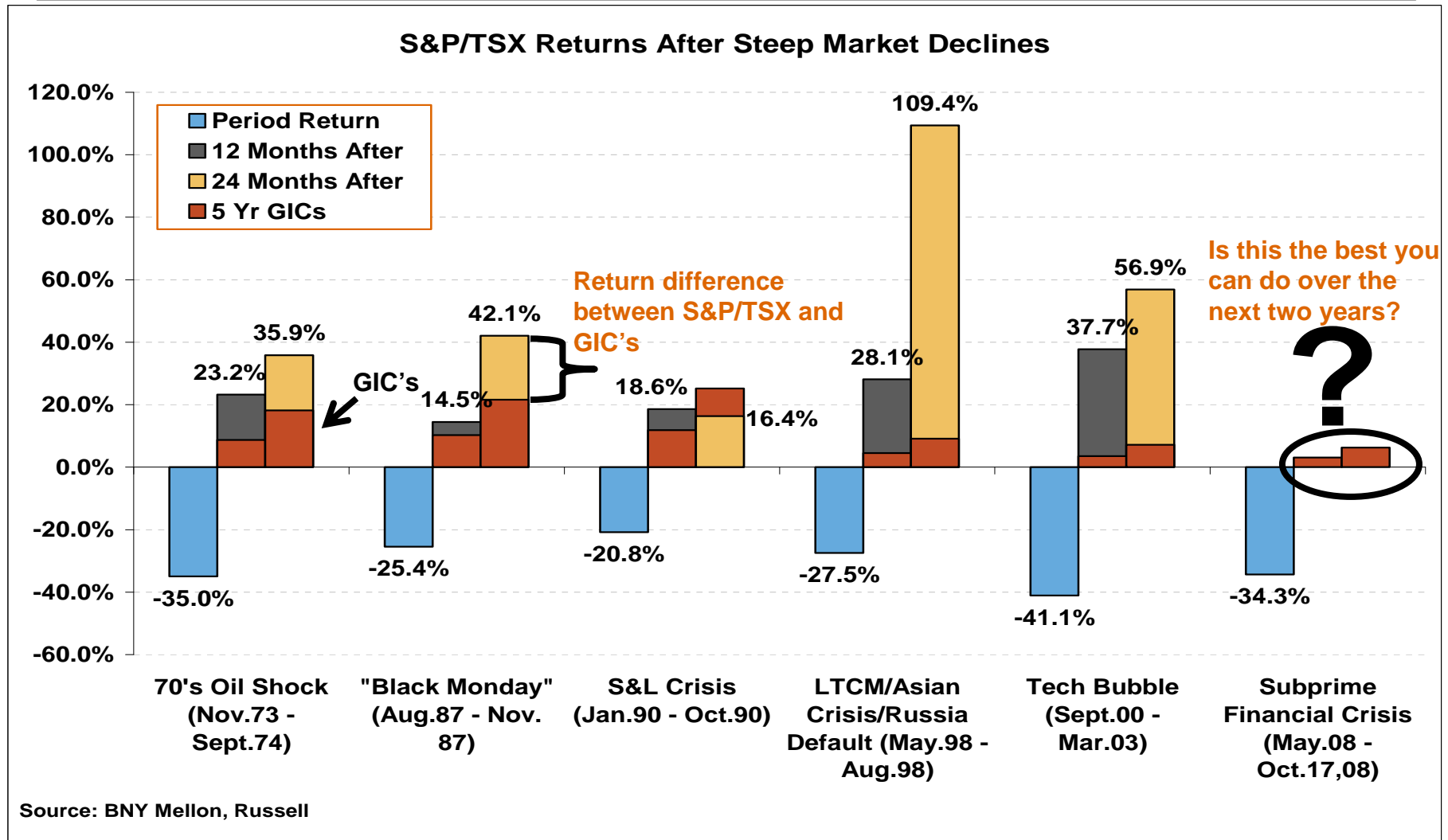
GIC's versus balanced funds and inflation: who wins?

60/40 Mix - 5 Yr Rolling Annualized Return
December 1974 - September 2008



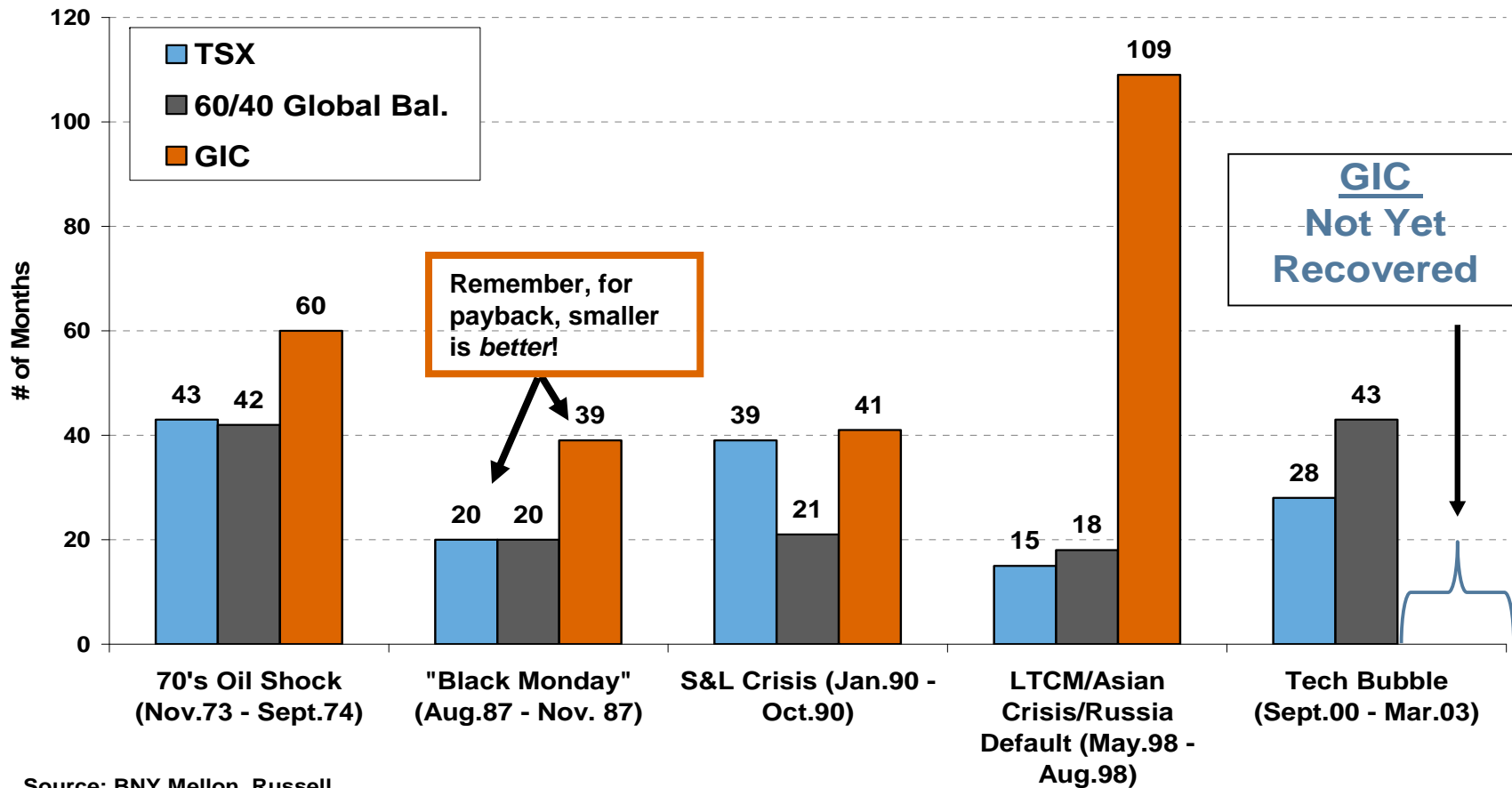
Source: BNY Mellon, Russell

GIC's alluring now--but do you want to lock in low returns for 2-5 years?



How Long Can You Wait to Recoup Losses?

Post Bear Market Payback Periods
 (# of months to recoup equity losses)



Source: BNY Mellon, Russell

Important Information

MSCI EAFE and MSCI Emerging Markets Index are calculated with net dividends daily.

Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.

Dex Universe Bond Index is a broad representation of the investment grade fixed income market in Canada. This index is maintained by TSX and measures the total return attributable to bonds.

Nothing in this publication is intended to constitute legal, tax securities or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. This is a publication of Russell Investments Canada Limited and has been prepared solely for information purposes. It is made available on an “as is” basis. Russell Investments Canada Limited does not make any warranty or representation regarding the information.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Russell Investments Logo are either trademarks or registered trademarks of Frank Russell Company and used under a license by Russell Investments Canada Limited.

Copyright © Russell Investments Canada Limited 2008

Date of first publication: October 2008



www.russell.com