Russell Research / Ranks and Commentary

GREYSTONE MANAGED INVESTMENTS INC.

PRODUCT: CANADIAN EQUITY

ASSET CLASS	GEOGRAPHIC EMPHASIS	STYLE	SUBSTYLE
Equity	Canada	Market Oriented	Growth

ACTIVITY DATE	LOCATION	ACTIVITY TYPE	PURPOSE
11Apr2011	Regina, SK, Canada	Research - Manager Office	Product Review

OVERALL EVALUATION

1 2 **3** 4

Retain

We recommend that clients retain this manager.

Target Excess Return: 50 bp
Target Tracking Error: 350 bp
Time Period: > 4 years
Russell Assigned BenchMark: S&P/TSX COMP

Expected Performance Pattern

We expect Greystone Managed Investments Inc. (Greystone)'s Canadian Equity product to outperform the S&P/TSX Composite Index by roughly 50 basis points over longer annualized time periods (i.e. in excess of four years). Lower sector bets in the last couple of years have resulted in active risk trending lower since the start of 2009. As a result, we expect tracking error to remain around 350 basis points.

With it's growth emphasis, this product will struggle in falling markets where the value style of investing is more rewarded. It will perform best in markets that are trending higher but will struggle when the market is in transition or experiencing high volatility.

Manager Update

The purpose of this meeting with Greystone was to get an update on the firm, process and professionals and discuss recent performance challenges. As usual, we focused on recent portfolio positioning and the firm’s outlook for the market and the impact on portfolio positioning. Although the environment in the last three years has not favoured Greystone’s investment style and process, we continue to believe they will add enough value in the next four year period to achieve a return that is consistent with a “Retain-3” rank so we are maintaining this rank.

LOW 1 2 3 4 5 HIGH

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The only change to the team is that Scott Linner is no longer involved in stock and sector research because he is focusing on a recently launched Investment Risk Initiative. At this time, his involvement in that initiative is expected to be permanent so they have moved James Baldwin from the U.S. equity team back to the Canadian team. Prior to 2008, James worked jointly on Canada and the U.S. so has experience in Canadian equities. We had a high opinion of his abilities in the past but need to spend more time with him now that he is dedicated to Canada.

The firm is stable with assets under management of $35 billion. They recently closed their Canadian Income and Growth product and their balanced products to new assets. They have been closed in Canadian Equity since 2008 to new clients but with assets under management of $13 billion, we remain concerned about the level impacting implementation.

The risk initiative that Scott is leading is an internally focused project with purpose of formalizing and standardizing the risk metrics they use across their equity funds. Greystone maintains that it is not in response to the recent poor performance. They have always done attribution on their funds but the plan is to use common risk measures, spend time stress testing portfolios, establish a trade simulation system to test the impact of buy and sell decisions and do quantitative factor analysis to determine if certain factors are more effective at different points in the economic cycle. This type of analysis is already done by many investment managers so there is nothing unique about this initiative.

Although we continue to have confidence in Greystone’s stock selection process, the recent underperformance has highlighted that the process tends to get them into and out of names late because of their ranking. Since the ranking includes price momentum in addition to other growth characteristics, the often do not add a name until the stock has experienced price appreciation and confirmation of earnings. As a result, this product will struggle in volatile markets or markets that are in the middle of a leadership change. We do believe that in the long run, they will add value but as we have seen, they will struggle in certain environments more than other managers who are more forward looking.

Performance Analysis

The last three years have generally been challenging for Greystone to beat the benchmark and while we believe that some of that may be attributable to their process and waiting for confirmation from their ranking before buying and selling names, the active management environment has also had a negative impact. Greystone has not been alone is struggling to beat the benchmark with 2009 and 2010 the most challenging years combined since the technology bubble in 1998 and 1999. The worst quarters for Greystone (first quarter 2011, second quarter 2010, and the first and second quarters of 2009, the first quarter of 2008) were also the worst environments for all large cap managers in Canada.

In the first quarter of 2011, only 39% of large cap managers were able to beat the S&P/TSX Composite and although Greystone’s return of 4% lagged the benchmark return of 5.6% and the median market-oriented manager return of 5%, their underperformance was not a surprise. Their underweights to Financials and Energy, which outperformed and their overweight to Materials, which underperformed, hurt their benchmark relative performance.

For the one-year period ending March 31, 2011, the portfolio returned 17.6%, which was 280 basis points behind the S&P/TSX Composite return of 20.4% and roughly 125 basis points behind the median market-oriented manager return.

Over the longer periods, their four-year return ending March 31, 2011 is roughly 285 basis points behind the S&P/TSX Composite and 250 basis points behind the median manager return. Over the five-year period ending March 31, 2011,

LOW ① ② ③ ④ ⑤ HIGH

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they were 130 basis points behind the benchmark and the median manager. While this longer term performance is well below our expectations, we continue to believe that Greystone will add value in more normal environments that are driven by bottom-up fundamentals.

If you have any questions on this manager or product, please contact Kathleen Wylie at 416-640-2483 or kwylie@russell.com.

Investment Staff 1 2 **3** 4 5

Donnie MacKay has been heading the Canadian Equity team since 2004; we believe that Donnie is capable and motivated.

In addition to Donnie, Rod Balkwill, and James Baldwin are considered portfolio managers and are senior members of the team. Previously, Scott Linner was a key member of the team but has shifted responsibilities to an investment risk initiative that Greystone announced they are undertaking in February 2011. As a result, James Baldwin has returned to the Canadian Equity team after focusing on U.S Equities since 2008. As well, Heather Greenman and Mark Scollan are considered portfolio managers with Curtis Runge as the senior analyst. We have been sufficiently impressed by Rod and James but our confidence rests with Donnie, who remains the key decision-maker.

We have had concern over the years about the level of experience on the team; we are less concerned now that all members have many years of experience. Still, our opinion of the team overall is that they are still average in terms of investment abilities relative to peer managers.

Organizational Environment 1 2 3 **4** 5

Greystone is based in Regina and is one of the prairies' largest multi-product investment counselors with branch offices in Edmonton and Winnipeg. There was ownership reorganization in 1999 which included Greystone merging with Mentor Capital Management in Winnipeg. Roughly 70% of the firm is still owned by the employees, with the vast majority of Greystone's investment professionals owning a piece; three institutional investors own the remainder of the firm.

We believe that Greystone as an organization is strong and considerably less susceptible than peers to disruptive staff turnover; the only significant departure was by Tim Frostad in 2004; there have been no other key departures from the firm since then other than a couple of retirements by non-investment professionals. We continue to believe that the firm's culture and compensation arrangements should ensure relative stability. Firm-wide assets under management are roughly $35 billion so the firm is financially stable.

Frank Hart joined the firm in March 2010 as President mainly to focus on the operational aspects of the firm. Rob Vanderhooft is still the CEO and CIO and more focused on the investment side of the business. Most of Frank's background is management consulting and as he indicated last year, he has not made any significant changes other than in infrastructure.

Security Selection 1 2 **3** 4 5

LOW 1 2 3 4 5 HIGH

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The product's selection methodology combines the key growth and valuation factors that have proven successful in the Canadian equity marketplace. The majority of Greystone's attention is spent on finding companies with high market-relative, sustainable earnings growth and momentum characteristics – their focus on these characteristics is appealing although not as unique compared to peers as it once was. Companies within Greystone's portfolio also typically require positive earnings, with low industry-relative forward price/earnings ratios. Despite their focus on valuations, they tend to lag during periods when growth stocks are de-emphasized.

Price momentum is a small weight within the screening process, and our view previously was that it existed more as a check on their ideas than a key criterion for purchases but it does appear to have enough of an impact on ranking of stocks that it is impacting portfolio decisions. Greystone admits that their ranking process often results in them purchasing names late since they wait for confirmation of earnings and momentum characteristics. Our view overall is now that Greystone's security selection process is average compared to peers so we have lowered the ranking.

Research ① ② ❸ ④ ⑤

With six professionals contributing to Canadian equity research, including Donnie, the team is sufficiently deep compared to peers although their level of experience is average.

Research is a combination of internal and external analysis, with sell-side analyst models and earnings estimates used extensively as a complement to Greystone's own industry and company specific research. Our view is that their research is in-depth but does not differentiate them relative to peers.

Despite Greystone's physical location, we believe they have excellent access to company management teams as well as street analysts stemming from the size of the firm. We view that positively.

Asset Allocation ① ② ③ ④ ⑤

The objective of this product is to remain fully invested, with cash balances being a residual of portfolio turnover. As a result, we are not assigning a rank to this category.

Sell Decision ① ② ❸ ④ ⑤

The product's sell discipline typically requires a formal review by the covering analyst to confirm if the original investment thesis is still intact, or if a shorter-term negative event or price weakness is the result of a fundamental problem with the company. Greystone's focus on short-term earnings factors should help them to exit positions more effectively than peers but the use of their ranking methodology can result in them selling late out of names that drop in ranking. We did see some evidence during the recent market environment that Greystone has been more decisive in their sell discipline by selling out of companies that have experienced any disappointments in their fundamentals more quickly but our view overall is that their sell discipline is average compared to peers.

Portfolio Construction ① ② ③ ❹ ⑤

Greystone's capitalization bets are moderate and historically, their sector- and stock-level bets have been aggressive compared to other managers and the largest source of tracking error. However, sector bets have been trending lower the last couple of years, which has resulted in lower active risk according to Barra Analytics. It is not clear whether the lower sector bets are the result of the environment or a permanent change so we will monitor that. The firm has maintained the number of names in their typical range of 35 to 45 stocks; as a result, the portfolio has kept active bets at a sufficient level. We continue to believe that the portfolio is still concentrated in their highest-conviction ideas, which is

LOW ① ② ③ ④ ⑤ HIGH

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positive compared to peers.

Implementation ① ② ❸ ④ ⑤

Implementation of ideas is efficient with Donnie MacKay officially having the final say as the Canadian Equity team leader although it is a team approach generally.

Despite Greystone's low turnover (roughly 30% per annum), large-cap biased strategy, we believe that growth in assets under management over the years has resulted in some implementation problems. This has resulted in increased time to make portfolio changes, even when buying and selling the most liquid stocks in the index.

In March 2008, Greystone closed this strategy to new assets but are still accepting cash flows from existing clients. With AUM in this product at $13 billion, we prefer they close the product to all cash flows.

We have had in-depth discussions with the head trader at Greystone, Jeff Robertson, and have a high opinion of his abilities and insight with respect to trading.

LOW ① ② ③ ④ ⑤ HIGH

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LOW ① ② ③ ④ ⑤ HIGH