DURATION RANGE

Russell Research / Ranks and Commentary

BEUTEL, GOODMAN & COMPANY LTD.

PRODUCT: TRADITIONAL VALUE CANADIAN EQUITY

ASSET CLASS GEOGRAPHIC EMPHASIS

Equity Canada

STYLE SUBSTYLE

Value

ACTIVITY DATE LOCATION ACTIVITY TYPE PURPOSE

Product Review Toronto, ON, Canada 19Apr2012 Research - Manager Office

OVERALL EVALUATION









We recommend that clients retain this manager.

Target Excess Return: 100 bp Target Tracking Error: 500 bp Time Period: > 4 years

Russell Assigned Benchmark: S&P/TSX

COMP

CAP TIER

Large Cap

MARKET STATUS

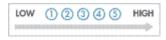
Developed Markets

Expected Performance Pattern

We expect this product to outperform the S&P/TSX Composite Index by roughly 100 basis points per annum, over longer annualized periods (i.e., in excess of four years). Based on the broad sector constraints and the concentration in approximately 35 - 45 holdings, we expect the associated tracking error to be roughly 500 basis points over the same time horizon.

Manager Update

On April 19, 2012, Kathleen Wylie and Kathleen Baldwin of Russell Investments met with Peter Clarke, Mark Thomson and Steve Arpin of Beutel, Goodman & Company (BG) to discuss their Traditional Value Canadian Equity fund, Canadian Small Cap fund and Canadian Dividend fund. Mark emphasized that preservation of capital is paramount to their disciplined valuation-focused investment process that is applied to all of BG's equity mandates. The small cap product is closed to new assets and there have not been any changes to the team or investment process so we spent the majority of time discussing their traditional value and dividend products. As a result of this meeting we discovered that the dividend product is essentially identical to their traditional value product, with the exception that every stock in the portfolio must have a minimum yield equal to or greater than 1.5% and has the option to invest up to 30% in foreign content. As such, we are comfortable formalizing the rank from "B-Moderate Interest" to "3-Retain". Although we view the depth of their research favourably, we find they are much slower than peers getting a name into the portfolio, which is certainly one of the main





flaws in their research process. Nevertheless, we are also reiterating the "3-Retain" rank on the traditional value and small cap funds.

Performance Analysis

The traditional value and dividend focused mandates performed as we would expect over the past one-year period ending March 31, 2012 given the active management environment that rewarded managers who emphasized dividends in their process. BG's traditional value portfolio outperformed the S&P/TSX Composite Index and median value manager by approximately 660 and 500 basis points, respectively over the one-year period. Strong performance can mainly be attributed to favourable positioning in Materials and Consumers Staples, as well as avoiding RIM. The dividend fund posted exceptionally strong relative performance against both the Index and peers, adding roughly 15.6% and 7.9% of value, respectively over the same period. The portfolio's defensive positioning, large overweight to TELUS as well as U.S. exposure drove strong results over the one-year period. The small cap fund reported mixed results over the short term, adding about 290 basis points against the BMO Small Cap Index (Blended) but lagged its peers by roughly 150 basis points.

The latter half of 2008 is carrying most of the traditional value and dividend products' longer four- and five-year performance ending March 31, 2012. To put it in perspective, the dividend fund beat the Index by almost 18% in Q3 2008. Not to mention, value managers have enjoyed a stronger active management environment compared to their growth peers over the majority of the last four years. That being said, the traditional value portfolio outperformed the Index and median value manager by 375 and 185 basis points over the four-year period. The dividend product performed even better, adding 435 basis points versus the benchmark and 125 basis points against the median dividend manager over the same four-year duration. The small cap product far exceeds our expectations, beating its benchmark and median small cap manager by 620 and 590 basis points, respectively over the four-year period ending March 31, 2012.

Investment Staff 1 2 3 4 5

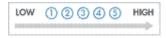
Mark Thomson is the team leader for the Traditional Value Canadian equity product and has been in this role since 2002; our opinion of Mark in this role is favourable. There have been no notable departures to the team since Andrew Sweeney left in April 2007.

Colin Ramkissoon is the newest team member having joined in November 2011; he is part of the global equities team. Colin joins with over 15 years of investment and banking experience, primarily in private equity and M&A. The Traditional Value team has been relatively stable since 2008, when KC Parker officially moved to the Global Equity team; KC was hired to replace Norm MacDonald who left the firm in late 2005. Bill Otton is still co-managing the small cap portfolio with Steve Arpin; as well, he remains the analyst for the Materials sector. Only Mark Thomson, Pat Palozzi and James Black are listed as members of the Canadian large cap team while Steve Arpin and Bill Otton are on the small cap team but have some large cap sector coverage. They are not looking to expand the Canadian equity team anytime in the near future.

Nevertheless, we still believe that Beutel Goodman's investment team has good depth and breadth with seasoned key professionals. As well, there are few distractions from the investment process for the portfolio managers and analysts due to minimal client servicing responsibilities.

Organizational Environment 1 2 3 4 5

In April 2005, Affiliated Managers Group (AMG) acquired First Asset Management, which owned 49% of Beutel Goodman. Beutel Goodman retains complete control over its entire operations, with internal partners controlling 5/8ths of the voting rights at the firm. In addition, Beutel Goodman continues to have the first right of refusal in any sale of its shares.





The 51% that Beutel Goodman owns is split among 41 partners. Overall, the firm has taken positive steps in terms of succession planning for both this product at the firm-wide level.

The firm is stable with firm-wide AUM flat at \$27.5 billion as of March 31, 2012, which is up \$3.5 billion over the last year. The firm has weathered the financial crisis better than many peers and has had manageable growth in assets during the last five years.

Following a long period of stability, there have been a few staff changes since 2005 with the most notable being the departure of Andrew Sweeney in April 2007. However, other than the retirement of Bill Ashby in 2010 and James Edwards in 2011 who both were on the client-servicing side, there have been no other departures. Our view is that the culture is positive and recent improvements in performance should have a positive impact on morale and reduce the likelihood of further departures.

Security Selection 1 2 3 4 5

Beutel Goodman's stock selection process has evolved in recent years to incorporate a broader definition of value, which we view positively. The team has placed an increased consideration to factors such as a firm's ability to create long-term shareholder value through free cash flow generation or sustained earnings growth. They have a return hurdle of 50% for non-cyclical companies and a hurdle of 100% for cyclical companies with a time horizon of three years. In addition to discounted free cash flow analysis, Beutel Goodman will compare a stock's valuation against industry comparables using a variety of typical valuation measures such as P/B, P/E and discount to replacement value. They also favour companies that pay dividends provided that they generate free cash flow. They believe a good dividend policy is a sign of good capital discipline. Overall, we view favourably that Beutel uses a number of measures to value companies and believe that their emphasis on free cash flow leads them to higher quality companies. We continue to view their security selection process as above average compared with peer value managers.

Research (1) (2) (3) (4) (5)

The firm's internal research capability is better than peers with portfolio managers/analysts who are sector specialists. Research recommendations are supported by comprehensive research reports that must address minimum standards in terms of growth rates, profitability levels, balance sheet quality and management effectiveness. Although we view the team as having fewer resources compared to the past, we still believe that the vast majority of large and mid-cap stocks are afforded the proper amount of attention and that the team has sufficient depth and breadth of experience. Nevertheless, the pace of research and idea generation is not as strong as that of some peer managers.

Asset Allocation 1 2 3 4 5

In unconstrained portfolios, the cash weight could go as high as 15%, which is down from their previous limit of 25%, but this is still too high in our opinion. Beutel Goodman has not demonstrated an ability to effectively time the use of cash in its fully discretionary mandates and this has been a significant detractor in the past. This is unlikely to be an issue in the future since they are now actively targeting cash around 2%. However, we continue to recommend that clients specify a fully invested portfolio with less than 5% cash.

Sell Decision 1 2 3 4 5

The team has recognized the need to be more responsive to deteriorating fundamentals with portfolio holdings and has assigned a second analyst (usually Mark Thomson) to undertake a review of poor performing stocks in some cases. Beutel Goodman continuously monitors the fundamentals of all the stocks in the portfolio.





For each stock that reaches its target price, they automatically sell one-third of the position and then review the fundamentals immediately to establish a new target price; however, if they feel the stock is fully valued, then the remaining shares are sold. Years ago, they completed a review of their sell discipline for cyclical stocks which have a tendency to overshoot their target prices; while cyclical stocks will still be automatically trimmed at their target prices, during overvalued markets, however, they will be allowed to appreciate to their calculated "irrational" prices before being trimmed again or sold. We view positively that Beutel recognized this flaw in their process but do not have much evidence that they followed through with this new approach during the resource run; we will monitor this closely in the future.

For each stock that has not yet reached its target price, Beutel Goodman monitors for fundamentals deterioration and will sell if they feel that the stock will not reach its potential. We continue to believe that Beutel Goodman's sell discipline is disciplined and more responsive than peer managers but that during narrow markets when cyclicals lead, their discipline might hurt them.

Portfolio Construction 1 2 3 4 5

Portfolios are created from bottom-up research resulting in large active industry-relative and stock-specific bets, which are fallouts from the firm's valuation discipline. Allowable sector ranges are quite broad, which is not unusual for value managers. Beutel Goodman's increased attention to benchmark relative bets is a positive development; however, fully discretionary portfolios will continue to deviate significantly from the S&P/TSX Composite Index. Beutel Goodman's Canadian equities portfolio can hold a position between 5 - 20% in their Canadian small cap portfolio. Although adding small cap exposure to their portfolio can add value, we do not believe that they have an advantage in determining what allocation of small cap exposure is appropriate. The small cap weight is typically in line with the Index.

We are encouraged by the evolution of Beutel Goodman's analytical framework and we believe that their distinct expected return hurdle targets (50% for non-cyclical companies and 100% for cyclical companies) create a portfolio that is properly compensated for stock specific risk.

We view their attention to risk and portfolio construction discipline as being on par with other value managers.

Implementation (1) (2) (3) (4) (5)

Mark is the final decision-maker for this product although he works very closely with other team members. Although stock ideas are subject to a review process by peers, we believe implementation is efficient given the low turnover of the portfolio. The cap for assets under management for Canadian equities is set at 1% to 1.5% of the S&P/TSX Composite market capitalization, which we view as high for such a concentrated strategy. They are managing about \$8 billion as of March 31, 2012, which above peak levels; they anticipate the product will be closed to new assets by the end of 2012.





Important Legal Information

This material is confidential and proprietary, not to be shared, reproduced, transferred or distributed in any form to any party without prior written permission from Russell Investments. This material is confidential and is intended only for the recipient. This is delivered on an "as is" basis without warranty. It is not an offer, solicitation, or recommendation to purchase any security or the services of any organization unless otherwise noted. The opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. The material is based on information that Russell considers to be reliable, but neither Russell nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. Russell Investments, including its subsidiaries and affiliates, may have past, current or future commercial relationships with investment management firms it researches and evaluates and as a result you should be aware that Russell may have a conflict of interest that could affect the objectivity of this report. For example, managers may use Russell analytical or index products. They may also serve as managers in Russell's funds or participate in commission recapture, transition management or other services offered by a Russell broker/dealer. These other relationships are not a factor in Russell's ranking process, and we believe we have adequate controls to protect the integrity of the research process. Through these other relationships, Russell solicits additional data about investment management firms, which data is not shared with Russell's manager research analysts in order to maintain the independence of Russell's manager research activities. Russell's manager research analysts are generally unaware of any business relationships that may exist between a particular investment manager and Russell or a Russell affiliate except as may be known from public sources or as may be discovered in the course of Russell's manager research and due diligence activities. In order to isolate the manager research activities from possible conflicts of interest, information acquired in other areas or affiliates is not shared with the research department. As a result, the information in this report is not a complete representation of all data known to Russell about an investment management firm that, if known to the manager research analysts, could affect their opinions or the objectivity of this report. Russell's manager research process and associated investment product ranks primarily seek to identify strategies with potential to deliver superior investment performance. Russell believes its approach, which includes in-person meetings as well as qualitative and quantitative analysis, is a valuable part of a broader due diligence process. However, it is not the focus nor intention of the manager research process to assess or guarantee a manager's operating systems or financial controls. Separately, Russell may conduct compliance and operational due diligence reviews ('Manager CORE') on select managers. Where Manager CORE has been conducted on a manager, this information will be considered by Russell's manager research in arriving at investment product ranks. However, an investment product rank does not necessarily mean a compliance and operational review has been conducted. Russell recommends that clients assess their managers carefully in light of each manager's assignment and their own operating environment before entering into investment management agreements.



