

## AllianceBernstein L.P.

### PRODUCTS AFFECTED

PRODUCT	ASSET CLASS	GEOGRAPHIC EMPHASIS	STYLE	SUBSTYLE
Bernstein Canadian Value Equity	Equity	Canada	Value	-
Bernstein Small Capitalization Value Equity	Equity	US	Small Capitalization	Value
Bernstein Small/Mid Cap Value Equity	Equity	US	Small Capitalization	Value

### FLASH REPORT

On March 30, 2009, Phil Chen and Kathleen Wylie of Russell Investments had a phone call with John Akkerman and Susan Kenneally of AllianceBernstein L.P. (Bernstein) about changes the firm has made to the Investment Policy Group and more importantly, to the portfolio manager of the Bernstein Canadian Value Equity product. The firm has decided to move to a North American structure and combine the U.S. and Canadian Investment Policy Groups. As a result, the Canadian Value product will now be managed by James MacGregor and Jeff Singer will be leaving the firm on June 30, 2009. Jeff had been the CIO and portfolio manager of the Canadian product since 1999 and we have had a favourable view generally of his investment insight and portfolio management abilities. However, we have had concerns throughout the years about the risk profile of the Canadian portfolio, Jeff's time allocation to duties other than portfolio management and most recently, the inconsistent approach with the value philosophy. We downgraded this product to a "Retain" rank in 2005 and have highlighted concerns since then which are well documented.

Our concern now is that James, who will become the CIO, has no portfolio management experience whatsoever and that in addition to becoming portfolio manager for the Canadian Value product, he will also be responsible for the Bernstein U.S. Small Capitalization Value and Small/Mid Cap Value equity products. He reports directly to John Mahedy, who is CIO for U.S. Large Cap Value and North American Value. James has worked as an analyst with the Bernstein small cap equity team since 1998 and in 2004 was appointed Director of Research of U.S. Small and Mid Cap Value equities. John Akkerman attempted to justify his appointment as portfolio manager for the Canadian product by suggesting that the market capitalization size of Canada is similar enough to U.S. small and mid cap stocks but our opinion is that there are nuances of the Canadian market that require dedicated resources. The only experience James has in terms of even researching Canadian stocks was as a sell-side analyst with Morgan Stanley and Co. where he covered Canadian paper stocks.

Although we have had issues with Jeff Singer's management of the Canadian portfolio, we view his termination as negative. As a result of James' lack of experience in portfolio management generally and his extremely limited exposure to Canadian stocks specifically, we are downgrading the Canadian Value product to "Review" from "Retain." We plan to meet with James within the next month to assess his knowledge of the Canadian market and his abilities and will consider whether a further downgrade is warranted at that time. The only positive is that Peter Frith remains as the dedicated Director of Research for Canada; we met with Peter in June 2008 and our initial impression of him was positive.

Furthermore, there have been numerous reassignments of duties generally at the firm and we view these as disruptive. The pertinent changes are detailed below.

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For the portfolio management of the two U.S. products, James replaces Gerry Paul who remains a member of the North American Investment Policy Group. He was promoted to the Cross Border Team as Global Head of Diversified Value earlier this year where he oversees all diversified services. Andrew Weiner replaces James as the Director of Research for U.S. Small and Mid Cap Value. Andrew joined the firm in 1997 as a research analyst and was previously a project manager at another firm. During his 12 years at Bernstein he has been focused on small and mid cap value and covered many sectors and stocks; however, Russell U.S. analysts do not have a strong opinion of his abilities as an analyst.

The firm has struggled in this environment with firm-wide assets under management down 51% during the period from December, 31 2007 to February 28, 2009 with assets under management in the Canadian Value product down 65% over the same period to a level of only \$1.5 billion. Only one significant client termination occurred in the Canadian product in 2008 so the decline in AUM was a combination of market action and performance. Their Canadian Value performance was significantly worse than peers in 2008 with the Canadian Value product returning -37.3%, which was roughly 430 basis points behind the S&P/TSX Composite return and almost 760 basis points behind the median value manager return.

If you have any questions on this manager or product, please contact your client executive.

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