COMPILED ON: FEBRUARY 18, 2009

RussellResearch

Greystone Managed Investments Inc.

CANADIAN EQUITY

Equity | Canada | Market Oriented | Growth

CONTENTS

Greystone Managed Investments Inc.

PRODUCT: CANADIAN EQUITY

ASSET CLASS	GEOGRAPHIC EMPHASIS	STYLE	SUBSTYLE
Equity	Canada	Market Oriented	Growth

OVERALL EVALUATION

① ② ③ ④
Retain

We recommend that clients retain this manager.

Updated By: Kathleen Wylie
Target Excess Return: 50 to 100 bp
Target Tracking Error: 300 to 500 bp
Time Period: > 4 years
Russell-Assigned Benchmark: S&P/TSX Composite Index

DISCUSSION

We recommend that clients retain this manager.

We expect Greystone Managed Investments Inc. (Greystone)'s Canadian Equity product to outperform the S&P/TSX Composite Index by greater than 50 basis points over longer annualized time periods (i.e., in excess of four years). Active risk has been trending up during the last 4 years but most notably during 2008 mainly as a result of increased sector bets stemming from the market environment. We expect tracking error to remain at the top end of 300 to 500 basis points range.

In March 2008, Greystone closed its Canadian Equity and Balanced strategies to new clients and has reserved their remaining capacity for existing clients.

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.

We view negatively that two of the five senior members left the Canadian Equity team in last couple of years; however, they remain at the firm and have joined other Greystone teams. Travis Wetsch joined their EAFE team in November 2007 and James Baldwin, who was already splitting his time (i.e. covering U.S. Equities), has joined that team full-time. The three remaining portfolio managers are Donnie, Rod Balkwill and Scott Linner. We have been sufficiently impressed by Rod and Scott but our confidence rests with Donnie, who remains the key decision-maker.

LOW ① ② ③ ④ ⑤ HIGH

GREYSTONE MANAGED INVESTMENTS INC.

There are now four analysts on this team. Mark Scollan joined as a Senior Analyst on July 1, 2006. Heather Greenman joined the team on January 1, 2007 after working as a money market trader at Greystone for 5 years and Curtis Runge also joined in early 2007. We met these three junior analysts in 2007 and they are working closely with the more senior members of the team. In January 2008, Jennilee Julé was also hired as an analyst and remains a generalist; she attended our May 2008 meeting but was only an observer.

These recent changes have lowered the experience on the team; as well, we also have some concerns with level of resources given that the team is also managing a small cap fund and incubating a 130/30 product; Curtis Runge contributes to the 130/30 product but we have no concerns that this is a major draw on his time. Nevertheless, 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 ❹ 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. Today, about 70% of the firm is now 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 but that was in 2004 and there have been no other departures from the investment team since then. We continue to believe that the firm's culture and compensation arrangements should ensure relative stability.

We view positively that Greystone succession planning has already addressed the three senior level retirements that will occur by the end of 2009 i.e. Managing Director for marketing/client services, Chief Operating Officer and Chief Compliance Officer. As well, they have hired a new Chief Financial Officer.

SECURITY SELECTION ① ② ③ ④ ❺

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 considering the relative lack of attention peer managers spend on these factors. Companies within Greystone's portfolio also typically require positive earnings, with low industry-relative forward price/earnings ratios, which will enable them to weather market environments when growth stocks are de-emphasized.

Price momentum is a small weight within the screening process, and exists more as a check on their ideas than a key criterion for purchases.

RESEARCH ① ② ❸ ④ ⑤

We view negatively the reduced resources following the departure of two senior members to other areas in the firm; there are now three portfolio managers plus four junior analysts who remain on the team. Nevertheless, the team is still sufficiently deep compared to peers which results in the average ranking in this category.

LOW ① ② ③ ④ ⑤ HIGH

GREYSTONE MANAGED INVESTMENTS INC.

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.

Despite Greystone's physical location, we believe they have excellent access to company management teams as well as street analysts.

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 historically has allowed them to exit positions more effectively than peers. During the recent market environment there is evidence 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. We view this positively but will be watching closely to see if this is a permanent change.

PORTFOLIO CONSTRUCTION ① ② ③ ❹ ⑤

Greystone's capitalization bets are moderate but their sector- and stock-level bets can be aggressive compared to other managers and are the largest source of tracking error. 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. Barra analytics shows active risk trending up particularly during 2008 mainly as a result of higher sector bets. We believe those higher sector bets are a result of the environment and stem from their bottom-up stock selection so are not concerned that the trend stems from a change in their process. Barra also shows lower growth and momentum risk exposures compared to a few years ago; we will continue to monitor these closely. Nevertheless, we view positively that they have returned to concentrating their portfolio in their highest-conviction ideas because we believe that this provides the product with an advantage over 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 on average although higher in 2008) 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. However, assets under management in the Canadian Equity growth product have dropped to $10 billion so we have fewer concerns about implementation at this level.

In March 2008, Greystone closed this strategy to new assets; while we view this positively, we note that they re-opened this product (after closing it the first time).

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

LOW 1 2 3 4 5 HIGH

Greystone Managed Investments Inc.

PRODUCTS REVIEWED

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MANAGER UPDATE

On January 26, 2009, Sadiq Adatia and Kathleen Wylie of Russell Investments (Russell) met with Donnie MacKay and Loren Gee of Greystone Managed Investments Inc. (Greystone) for a research update while we were all in Calgary. Our discussion focused mainly on recent portfolio positioning based on Donnie's view of the markets and confirmed that he is continuing to manage the portfolio using a consistent, insightful and thoughtful approach. As a result, we are reiterating our "Retain" rank on Greystone's Canadian Equity product.

There have been no changes to the Canadian Equity investment team. Curtis Runge, who is an analyst, is spending some time on a new 130/30 product but we do not believe it is a significant draw on his time. The 130/30 product was seeded with capital in July 2008.

Assets under management at the firm have declined in this challenging market environment from $32.0 billion at the end of 2007 to $27.4 billion as of December 31, 2008 but given the diversified line-up of products and the high level of AUM, we have no concerns about the financial viability of the firm.

We observed that active risk according to Barra has been trending higher in the last four years and most notably during 2008. Although stock level bets increased slightly at the end of 2008, the increase in active risk stemmed mainly from their sector bets which have increased significantly. During 2008 Greystone had increased their underweight to Financials stemming from concerns over the credit crisis so that was the main reason for the wider sector bets. Over the long run we still expect tracking error to remain in the 300 – 500 basis point range but we expect it to be at the top end of that range or above it in the near term because of the market environment. We will monitor this closely but our conversation with Donnie confirmed that he is managing the portfolio from a bottom-up perspective and is not making top-down macro calls.

Greystone has been actively repositioning their portfolio which has led them to move away from deep cyclicals that have shown a deterioration in company fundamentals and toward companies they view as being defensive with repeatable growth. In this environment, Donnie favours Consumer Staples, Consumer Discretionary and Information Technology companies that have those characteristics. He also views select Financials as defensive although is notably underweight the sector overall. Donnie believes that low quality companies could be the first to rebound when the market turns around but that quality companies will be rewarded in the long run.

Our observation is that their sell discipline has been more responsive during this market environment as they have sold a number of companies that showed deteriorating fundamentals. As a result, their turnover has moved above the normal 20% to 50% range but is not likely to remain high. We have no concerns with this as we view positively that he has been actively adding to existing names and adding new names in order to reposition the portfolio.

Performance

GREYSTONE MANAGED INVESTMENTS INC.

After four solid years of outperforming, Greystone lagged the S&P/TSX Composite return of -33% in 2008 by roughly 370 basis points with their return of -36.7%. As well, the one year return ending December 31, 2008 was roughly 440 basis points behind the median market-oriented manager. Their performance was hurt mainly by their underweight to gold stocks with their void in Goldcorp being the largest detractor of performance but other gold stocks also hurting. They were also hurt by their stock selections in Financials with their void in Royal Bank for the most of the year a key detractor.

Greystone's longer term performance remains ahead of the benchmark with the 4- and 5-year annualized returns to December 31, 2008 roughly 90 and 110 basis points above the S&P/TSX Composite return, respectively. Compared the median market-oriented manager, Greystone was ahead by just 5 basis points over the same 4- and 5-year annualized periods.

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