

## Focus Stock Report

February 27, 2009

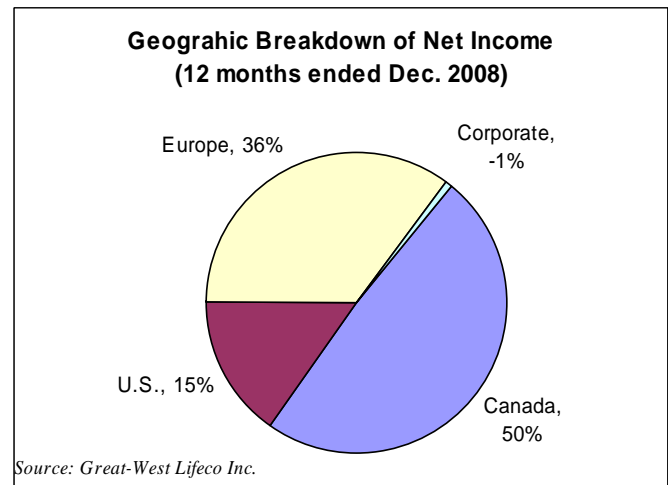
### Great-West Lifeco Inc. (GWO-TSX)

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#### COMPANY DESCRIPTION

Great-West Lifeco is a financial holding company with interests in the life insurance, health insurance, retirement savings, investment management, and reinsurance businesses. These businesses offer various products including life, disability and critical illness insurance for individuals and families as well as a variety of investment and retirement savings options. Headquartered in Winnipeg, Manitoba, the company has a diverse operating platform with subsidiaries in Canada, United States, and Europe. The company is one of the largest financial institutions in Canada, with a market cap of \$16 billion and assets under management of more than \$356 billion.

The majority of the company's shares, approximately 73%, are controlled by Power Financial Corporation (TSX: PWF). Despite this sizeable ownership stake, Great-West Life also maintains a substantial public float of roughly 258 million shares and represents a highly liquid investment vehicle in the S&P/TSX Composite Index. Investors exchange an average of over 900,000 GWO shares per day. The company represents 0.5% of the overall index and roughly 2% of the S&P/TSX Financials Index.



#### REASONS TO BUY

**Solid capital base to help weather the storm.** Following suit with other firms in the financial sector, Great-West Lifeco recently took the opportunity to strengthen its balance sheet with a \$1 billion equity offering (48 million shares at \$20.75). The company is now armed with over \$1 billion in excess capital and \$1 billion in excess debt capacity leaving it with abundant capacity to capitalize on acquisition opportunities and flexibility to sustain and perhaps even increase dividends. With a pro-rata minimum continuing capital and surplus requirements ratio (MCCSR) of approximately 236%, the ratio is now well-above the top-end of management's 185%-200% target. To provide more context, Scotia Capital's insurance analyst Tom MacKinnon indicates that the TSX would essentially need to fall to the low 5,000 range before the MCCSR ratio would approach the low end of that target range as each 10% change in equity markets will impact the ratio by 5 bps.

**Limited exposure to credit issues and risky investments.** The company's exposure to the various sectors and assets that have plagued the general financial sector has been limited and should remain so given prudent and conservative investment mandates. The investment portfolio is fairly diverse in terms of industry and geography, with only a small percentage of the investments considered to be below investment grade. Exposure to sub-prime and monoline as well as European banking institutions appears manageable and the majority of credit exposure relates to widening credit spreads (yield difference between corporate bonds and government bonds) as opposed to credit defaults.

#### Great-West Lifeco Inc. (GWO-TSX)

Rating: Outperform

Risk: Low

#### Summary Data (C\$)

<b>Price (February 26):</b>	\$17.00	<b>Fiscal Year-End:</b>	December
<b>12-Month Target:</b>	\$27.00	<b>Dividend:</b>	\$1.23
<b>Total Return:</b>	66%	<b>Yield:</b>	7.2%
<b>52-Week High:</b>	\$35.94	<b>52-Week Low:</b>	\$13.72
<b>2008 ROE</b>	19.2%	<b>Market Value (\$mil)</b>	\$16,046

#### Earnings Per Share (C\$)

Annual	2006A	2007A	2008A	2009E
<b>EPS:</b>	\$2.09	\$2.41	\$2.26	\$2.35
<b>P/E Multiple:</b>	16.2x	14.8x	7.5x	7.2x

Source: Company Reports, Scotia Capital, Bloomberg

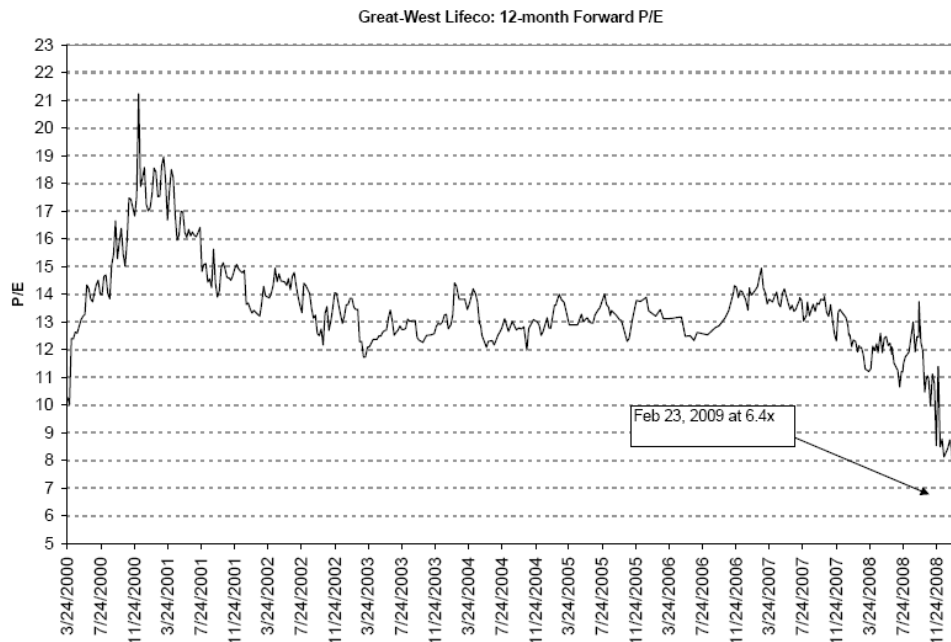


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**Earnings stability in a volatile environment.** With a diverse geographic presence, prudent cost and risk controls, and an experienced management team, Great-West Lifeco's business model offers good earnings visibility and results have consistently demonstrated solid growth. Reflecting both organic initiatives and an acquisitive growth strategy, earnings per share have increased by an average of 13% between 2003 to 2007. Relative to its peer group in Canada, the company has rewarded investors with one of the highest returns on equity (ROE) in the insurance sector; ROE has consistently hovered near the 20% range versus the peer group that is generally at or near the mid-teens range.

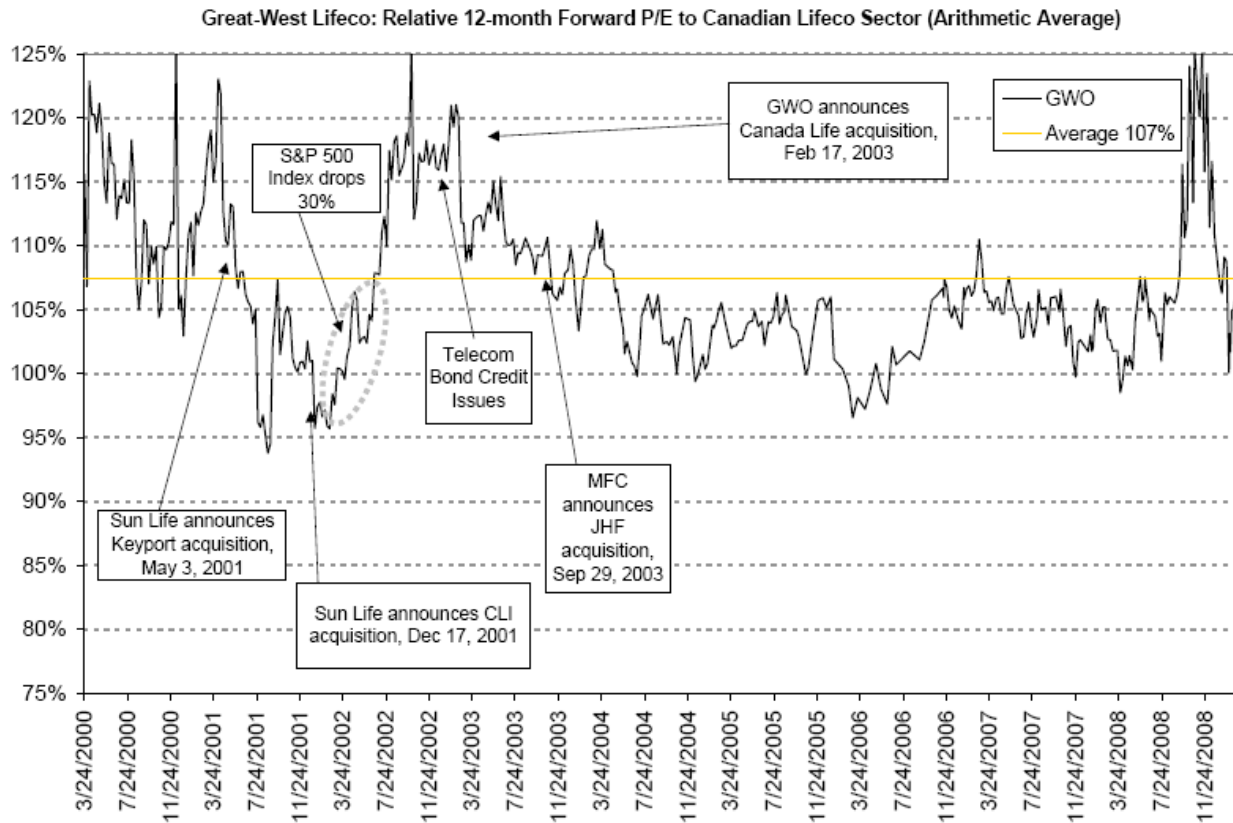
**Dividend yield near all-time high.** The steady earnings growth has translated into strong shareholder returns in the form of dividends. The company's dividend has progressively increased from \$0.59 per share in 2003 to the current annual rate of \$1.23. Correspondingly, with a growing asset base and strong track record stability, the company has gradually increased its payout ratio from 40% to approximately 53% over that same time period. Despite this history of dividend returns, however, the market has largely ignored this factor under current market conditions as the price of the shares are down over 50% after reaching an all-time high in early-2007. Great-West Lifeco's shares now offer a dividend yield of over 7.5%, their highest level since the inception of dividends and the highest yield among its peers. In combination with a conservative payout ratio, there should be good yield support for investors at current levels, particularly those with a longer-term investment horizon. Although the share price may continue to be pressured by negative sentiment towards the broader financial sector in the near term, the current dividend rate appears sustainable and the shares present an attractive investment opportunity as this is one of the most defensive ways to play the Canadian insurance sector given that it is the least sensitive to credit and equity market volatility and has limited exposure to below investment grade assets, particularly relative to other life insurance companies.

**Valuation looks attractive on an absolute and relative basis.** The company has substantially grown its asset base, earnings, and dividends over the past several years but the shares have fallen to 2002-2003 levels, essentially reflecting no value creation during that time period. The shares are currently valued at 6.4x forward 12-month earnings, well below the long term average of approximately 13.0x. On a relative basis, the shares are trading at a 7% premium to the group, in line with the long term average. Given the company's defensive traits, limited exposure to volatile markets relative to the peer group, and superior ROE, we would expect the premium to expand under current market conditions.



Source: Scotia Capital; Bloomberg

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### RISKS

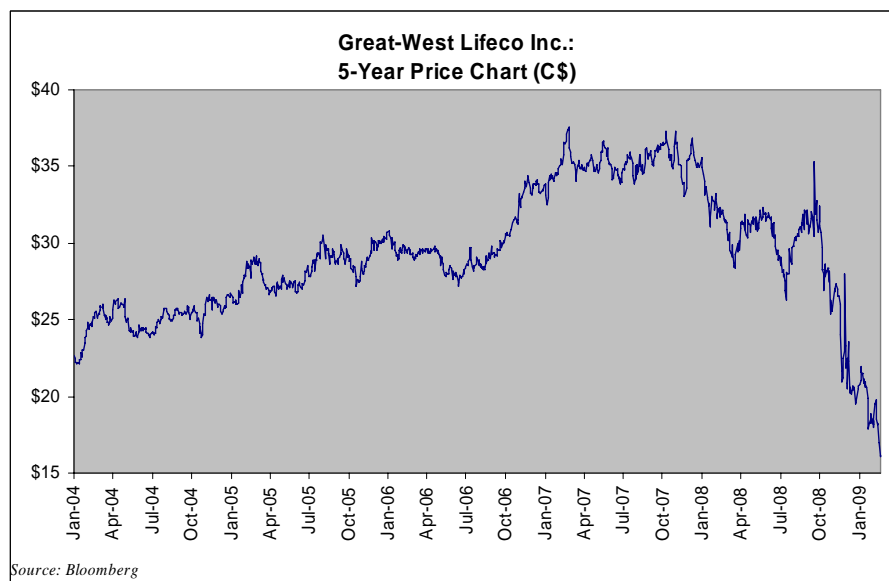
**Underperformance of U.S. asset management business.** Keeping in mind that Putnam's earnings contribution to consolidated results are fairly small at roughly 5% of net income, the U.S. asset management business has been a focal point for investors as this has been an underperforming asset since it was acquired in August 2007. GWO acquired Putnam Investments from Marsh & McLennan in August 2007 for US\$3 billion and this transaction provided the company with a significant presence in the mutual fund and institutional asset management industry in the US. At the time of the acquisition, Putnam had approximately US\$187 billion in assets under management but given market conditions over the past year, this has declined to US\$101 billion at the end of January 2009. With the market malaise continuing into February 2009, it is likely that assets under management have continued to deteriorate, resulting in sustained pressure on both fees and margins. Reflecting this, Putnam recently announced that it would reduce its workforce by approximately 10%; this is the second work force reduction implemented by the company over the past three months. As well, a number of strategic initiatives aimed at improving the operations have been deployed at Putnam in recent months including the hiring of a new CEO and CFO. While these are expected to be positive developments, it will likely take time for the benefits to be fully reflected in operating results and financial performance.

**Appreciation of the Canadian dollar.** With sizeable operations in Canada as well as US and Europe, material appreciation of the Canadian dollar will have a negative translation impact on results. To address some of the foreign exchange risk, management uses forward currency contracts to help mitigate foreign exchange volatility.

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**General investment and market risks.** As a part of its regular operations, the company manages asset portfolios to support policy liabilities and for investors in general. The portfolios are sensitive to changes in interest rates, economic data, and general market volatility in terms of equity, credit, and foreign exchange values. To help mitigate this risk, the company maintains strict investment policy guidelines to ensure prudent investment limits. With the market volatility we have seen over the past year, it is worth noting that GWO is one of the least sensitive lifecos to declines in equity markets; Scotia Capital estimates that a 10% decline in equity markets could potentially impact earnings per share by 3%.

**Insurance risks.** Insurance products involve commitments by the insurer to provide financial obligations and insurance coverage for extended periods of time. In turn, the insurer must design and price products to ensure that the premiums received and the investment income earned on those premiums will be sufficient to pay future claims associated with the various products sold. The profitability of the firm ultimately depends on a number of factors including market conditions, investment decisions, type of insurance product, and the assumptions used to structure the products.



## Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

### Ratings

#### 1-Sector Outperform

The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

#### 2-Sector Perform

The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

#### 3-Sector Underperform

The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

#### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

#### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

#### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

#### High

High financial and/or operational risk, low predictability of financial results, high stock volatility.

#### Caution Warranted

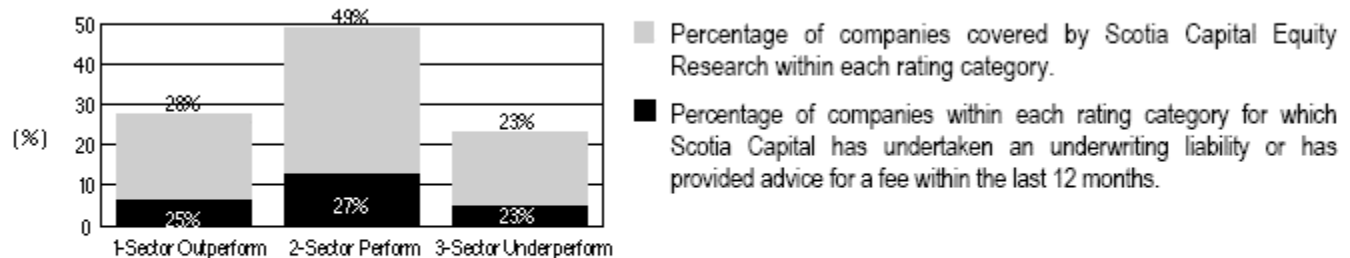
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

#### Venture

Risk and return consistent with Venture Capital. For risk-tolerant investors only.

## Scotia Capital Equity Research Ratings Distribution\*

### Distribution by Ratings and Equity and Equity-Related Financings\*



\*As at January 31, 2007.

Source: Scotia Capital.

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## Focus Stock Report

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None.*

*The supervisors of the Portfolio Advisory Group own securities of the following companies.  
None.*

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