

# MB Balanced Growth Fund

## Modest Equity Overweight Maintained

The equity target weight remained slightly above the benchmark while the bond target moved to a larger underweight as downside risks to the economy appear largely reflected in relative asset valuations.

### INVESTMENT PROCESS

- Global sector-based research
- Bottom up fundamental research
- Efficient team-based decisions
- Targeted stock weights
- Risk controls: industry sectors, single security

### COMPOSITION

This Fund contains:

- Canadian Equities (Segregated)
- Global Equities (Pooled & Segregated)
- Fixed Income (Segregated)
- Money Market (Segregated)

### MFS McLean Budden's Asset Mix View

Global economic growth remains constrained by a multi-year process of private and public sector de-leveraging in advanced economies. Fresh headwinds to growth are emanating from Europe's sovereign debt crisis, with the region in recession and financial market contagion a possibility. On the positive side, world central bankers continue to prime the liquidity pump and the U.S. economy

finished the year with considerable momentum. While downside risks to the growth and profit outlook remain, we believe that relative asset class valuations more than reflect these risks. We maintained our relative overweight target for equities and increased our underweight target on bonds. Within equities, we prefer foreign stocks over Canadian equities.

### ASSET ALLOCATION

	Policy Asset Mix (%)	Sep 30/11	Dec 31/11
Cash & Equivalents*	5.00	4.43	3.89
Fixed Income**	35.00	35.48	34.27
<b>Total Cash &amp; Fixed Income</b>	<b>40.00</b>	<b>39.91</b>	<b>38.16</b>
Canadian Equities	30.00	28.27	29.22
Global Equities	30.00	31.82	32.62
<b>Total Equities</b>	<b>60.00</b>	<b>60.09</b>	<b>61.84</b>
<b>Total Assets</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

\*Includes cash at component levels, if applicable

\*\*Market values of the portfolio's Fixed Income holdings include accrued interest.

**LONG-TERM PERFORMANCE (for the Fund)**

	3mo	1yr	2yrs	3yrs	4yrs	5yrs	7yrs	10yrs
<b>Total Portfolio</b>	<b>2.9</b>	<b>-7.6</b>	<b>0.4</b>	<b>6.8</b>	<b>0.1</b>	<b>0.5</b>	<b>3.8</b>	<b>4.1</b>
<b>Benchmark*</b>	<b>3.5</b>	<b>-0.1</b>	<b>4.8</b>	<b>8.3</b>	<b>1.5</b>	<b>1.7</b>	<b>4.6</b>	<b>4.8</b>
<b>Canadian Equities</b>								
<b>The Portfolio</b>	<b>1.5</b>	<b>-21.5</b>	<b>-4.2</b>	<b>9.8</b>	<b>-4.6</b>	<b>-1.5</b>	<b>4.8</b>	<b>5.8</b>
BMO/TSX CAP 10%	3.6	-8.7	3.6	13.2	-0.7	1.3	6.5	7.0
<b>Global Equities</b>								
<b>The Portfolio</b>	<b>5.9</b>	<b>-11.5</b>	<b>-3.6</b>	<b>4.2</b>	<b>-4.6</b>	<b>-5.4</b>	<b>-0.6</b>	<b>-1.2</b>
MSCI World	5.5	-2.9	1.8	5.0	-3.8	-4.5	0.3	-0.4
<b>Fixed Income</b>								
<b>The Portfolio</b>	<b>1.7</b>	<b>9.1</b>	<b>8.0</b>	<b>7.5</b>	<b>7.4</b>	<b>6.4</b>	<b>6.1</b>	<b>6.5</b>
DEX Universe	2.1	9.7	8.2	7.3	7.0	6.4	6.0	6.5
<b>Money Market</b>								
<b>The Portfolio</b>	<b>0.3</b>	<b>1.1</b>	<b>0.9</b>	<b>0.9</b>	<b>1.8</b>	<b>2.3</b>	<b>2.6</b>	<b>2.6</b>
DEX 91 Day T Bill	0.2	1.0	0.8	0.7	1.4	2.0	2.3	2.4

\*30% BMO/TSX CAP 10%, 35% DEX Universe, 30% MSCI World, 5% DEX 91 Day T Bill

**PERFORMANCE:  
POSITIVE ABSOLUTE RETURN DURING A VOLATILE  
QUARTER**

The Fund's quarterly return lagged that of its benchmark during a modest bounce-back quarter for global equity markets. The performance shortfall was primarily a result of relatively weak stock selection within the Canadian equity component, particularly in the consumer discretionary, energy, and information technology sectors. The asset mix decision had an overall limited impact.

# Canadian Equities (Growth)

## Continued focus on long-term earnings growth potential

A continuation of the market's volatility created opportunities for the repositioning of selected holdings, consistent with a focus on long-term earnings growth potential.

### INVESTMENT PROCESS

- Global sector-based research
- Bottom up fundamental research
- Efficient team-based decisions
- Targeted stock weights
- Risk controls: industry sectors, single security

### LONG-TERM PERFORMANCE

	3mo	1yr	2yrs	3yrs	4yrs	5yrs	7yrs	10yrs
<b>Cdn Eq</b>	<b>1.5</b>	<b>-21.5</b>	<b>-4.2</b>	<b>9.8</b>	<b>-4.6</b>	<b>-1.5</b>	<b>4.8</b>	<b>5.8</b>
Benchmark*	3.6	-8.7	3.6	13.2	-0.7	1.3	6.5	7.0

\*BMO/TSX CAP 10%

### PERFORMANCE:

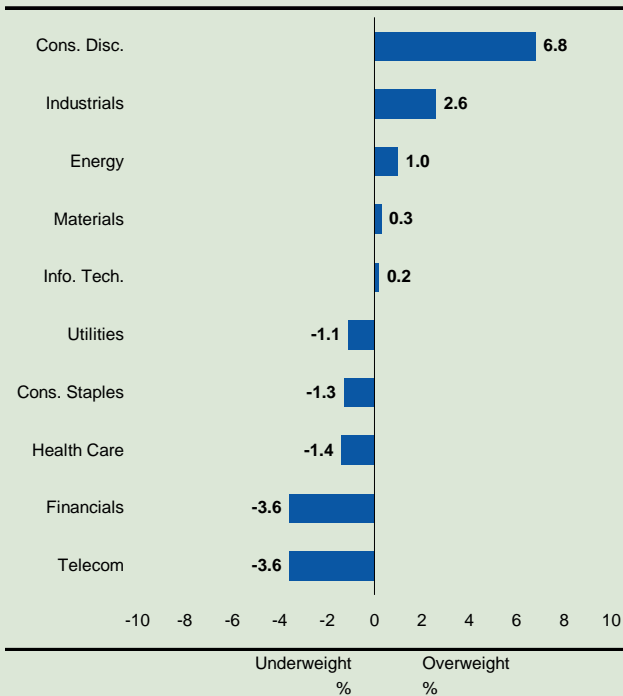
#### STOCK SELECTION LED TO UNDERPERFORMANCE

The portfolio lagged the benchmark during another volatile quarter for Canadian equities. The portfolio's return was hindered by weak stock selection, particularly within the consumer discretionary (Gildan Activewear), energy (Cameco, Encana, Talisman Energy) and information technology (Research In Motion) sectors. Stronger performance from Canadian Natural Resources and TransCanada, as well as sound selections within financials (Royal Bank) and materials (Inmet Mining, Teck Resources), were partial offsets.

### DIVERSIFICATION

	Portfolio		BMO/TSX CAP 10%	
	09/30/11	12/31/11	09/30/11	12/31/11
Cons. Disc.	14.3 %	10.8 %	4.2 %	4.0 %
Industrials	8.4	8.4	5.2	5.8
Energy	25.4	28.1	25.2	27.1
Materials	14.6	21.4	22.7	21.1
Info. Tech.	5.9	1.5	1.6	1.3
Utilities	1.1	0.9	2.1	2.0
Cons. Staples	1.6	1.5	2.9	2.8
Health Care	0.0	0.0	1.2	1.4
Financials	27.2	25.8	30.0	29.4
Telecom	1.5	1.6	5.0	5.2
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

### PORTFOLIO VS BENCHMARK AT QUARTER END



### STRATEGY:

#### FEARS OF ANOTHER RECESSION ARE DRIVING UNCERTAINTY OVER LONG-TERM EARNINGS GROWTH

Capital was re-allocated to companies with earnings levered to global economic growth and whose share prices had fallen well below our assessment of their long-term potential. New positions were established in companies possessing sustainable earnings growth at attractive valuations. Companies with exposure to the modest global economic recovery, industry-leading positions and high-quality balance sheets dominate the portfolio.

*Canadian Equities (Growth) continued*

**ACTIVITY:**

**MODEST ADJUSTMENTS AMID MARKET VOLATILITY**

**New Holding(s)**

Barrick Gold, Detour Gold, Dollarama, Intact Financial, TransCanada, Yamana Gold

**Holding(s) Eliminated**

Research In Motion

**Notable Increase(s)**

Finning International

**Notable Decrease(s)**

Canadian National Railway, Gildan Activewear, Magna International, Manulife, Royal Bank, Teck Resources

**NEW HOLDING(S):**

**ESTABLISHED NEW POSITIONS IN SEVERAL SECTORS**

The portfolio was broadened to include three strong names in the materials sector. Gold stocks have underperformed the nominal and real price of bullion since 2003 and history suggests that at some point the stocks will reverse the recent trend. The team believes this will also coincide with gold stocks outperforming the Index, so long as gold is viewed as a credible store of value. The team sees no end to the "beggar thy neighbour" policy of currency devaluation.

**Barrick Gold** is the world's largest gold producer with 26 operating mines, a growing pipeline of projects and a proven operational track record. The company is considered an industry leader and has an established dividend which the team believes will be raised over time.

The team added a position in **Detour Gold**, a Canadian-based gold miner with a large development-stage mining project in Northern Ontario. The project is scalable, low-cost, and has a large reserve and resource base. The company's shares trade at an attractive valuation and should offer superior risk-adjusted returns as project development progresses.

The team also initiated a position in **Yamana Gold**, another Canadian domiciled gold mining company with assets in Brazil, Chile and Argentina. Its shares trade at an attractive valuation for a company with the potential to grow its production base by up to 50% over the next two years.

**Dollarama** is the largest dollar store operator in Canada with over 660 corporate stores. Dollarama has a simple, growth-oriented business model supported by strong margins, cash flow and direct sourcing advantages.

**Intact Financial** is Canada's largest provider of property and casualty insurance. Intact Financial acquired AXA Canada during the third quarter and, in a related transaction, sold AXA Canada's life insurance business to SSQ.

**TransCanada** is well positioned for exposure to North American energy infrastructure in both development and operations.

**HOLDING(S) ELIMINATED:**

While **Research In Motion's** most recent quarterly results were disappointing, management's guidance for the near future was clouded by delays and marketing missteps. Much potential had been tied to the launch of the BB10 operating system (formerly QNX) allowing Blackberry smartphones to align with the Playbook tablet. But additional delays in chipsets have pushed this launch beyond well into 2012 and potentially 2013. Thus, faith in management's ability to deliver has been eroded and the reputational damage has reached critical levels, raising concerns of significant changes that could further disrupt the company's focus and profitability. Risks surpassing the near-term potential dictated an exit from the position.

**NOTABLE INCREASE(S):**

**BASED ON VALUATION AND MISPRICED GROWTH POTENTIAL**

**Finning International** was increased following a pullback in the company's share price. The stock was pressured by the Bucyrus dealership acquisition cost concerns, the painful ERP system implementation in Canada that disrupted the lucrative parts supply, and a strike in BC. With these difficulties largely behind them, the company's long-term prospects are attractive.

**NOTABLE DECREASE(S):**

**RE-ALLOCATED TO NEW OPPORTUNITIES**

**Canadian National Railway, Magna International, Royal Bank** and **Teck Resources** were reduced following strong relative share price performance.

**Gildan Activewear** was reduced to reflect the short-term sensitivity to commodity pricing as cotton prices have stretched and shrunk to extremes in the last year.

Despite market leadership in its key operating businesses, **Manulife's** share price continues to be highly sensitive to equity market and long term interest rate fluctuations. The team feels a lower weight is justified until more progress is made to minimize these negative market effects.

# MB Global Equity Growth Fund

## Valuations are attractive

Despite the rebound in the fourth quarter, we believe that high-quality, well managed growth stocks still offer strong upside potential and are poised to outperform.

### INVESTMENT PROCESS

- Global sector-based research
- Bottom up fundamental research
- Efficient team-based decisions
- Targeted stock weights
- Risk controls: industry sectors, single security

### LONG-TERM PERFORMANCE (includes cash)

	3mo	1yr	2yrs	3yrs	4yrs	5yrs	7yrs
<b>Total Port</b>	<b>5.4</b>	<b>-11.6</b>	<b>-4.1</b>	<b>4.0</b>	<b>-4.7</b>	<b>-5.3</b>	<b>-0.5</b>
<b>Benchmark*</b>	<b>5.5</b>	<b>-2.9</b>	<b>1.8</b>	<b>5.0</b>	<b>-3.8</b>	<b>-4.5</b>	<b>0.3</b>

\*MSCI World

### PERFORMANCE:

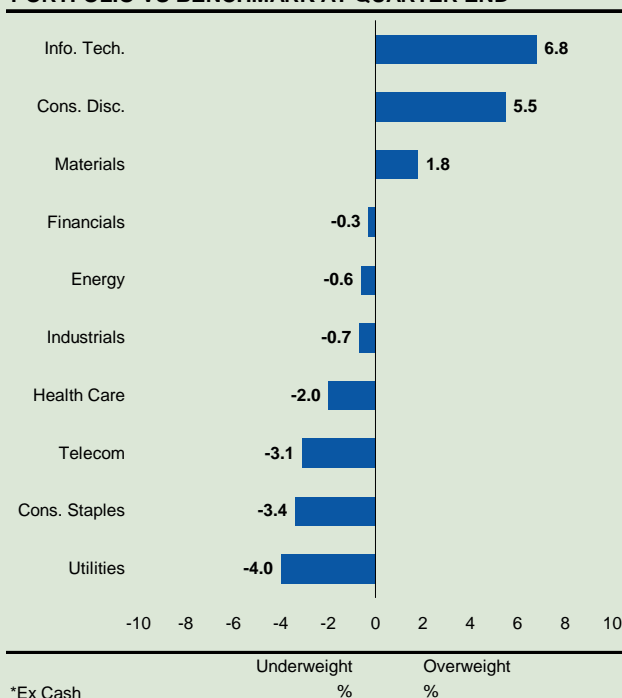
#### POSITIVE QUARTER TO END THE YEAR

The portfolio posted a return virtually in-line with that of the Index during a much better quarter for global equities. Strong stock selection in health care (Pfizer, Merck), materials (Teck Resources, Monsanto), consumer discretionary (Yum! Brands, Urban Outfitters) and industrials (Outotec, Honeywell) was offset by selections in financials (Credit Suisse, Bank of America) and energy (Transocean, Peabody Energy).

### DIVERSIFICATION

	Portfolio		MSCI World	
	09/30/11	12/31/11	09/30/11	12/31/11
Info. Tech.	21.7 %	18.2 %	12.2 %	12.0 %
Cons. Disc.	14.7	15.3	10.4	10.3
Materials	8.3	8.7	7.3	7.2
Financials	17.8	16.7	18.1	17.6
Energy	9.8	10.8	10.9	11.8
Industrials	9.1	10.0	10.7	11.1
Health Care	7.8	8.2	10.5	10.5
Telecom	1.4	1.3	4.6	4.4
Cons. Staples	7.4	7.4	11.0	11.0
Utilities	0.0	0.0	4.2	4.0
Cash	2.0	3.5	0.0	0.0
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

### PORTFOLIO VS BENCHMARK AT QUARTER END\*



### STRATEGY:

#### HIGHER GROWTH POTENTIAL DESERVES A PREMIUM

We are confident that a long-term strategy of selecting well managed companies with solid fundamentals poised to outgrow their peers over a full market cycle will add value in the long run. We believe that large, fast-growing, industry-leading multinationals with solid balance sheets and strong management teams are not currently attracting the valuations they deserve and are well positioned to outperform the broader market.

**ACTIVITY:**

**FUNDS REALLOCATED FROM TECHNOLOGY HOLDINGS TO BETTER GROWTH OPPORTUNITIES IN ENERGY AND INDUSTRIALS**

**New Holding(s)**

Royal Dutch Shell

**Holding(s) Eliminated**

Nintendo  
Electronic Arts  
Research In Motion

**Notable Increase(s)**

None

**Notable Decrease(s)**

None

**NEW HOLDING(S):**

**PRICE WEAKNESS PROVIDED AN OPPORTUNITY WITHIN ENERGY**

**Royal Dutch Shell** is engaged in the business of producing, refining, storing, transporting, supplying and distributing petroleum and petroleum products. Through its operating companies it is engaged in various activities related to oil and natural gas, chemicals, power generation and renewable resources in over 135 countries. The company has greater exposure to Asian growth markets than its peers, a deep portfolio of long-term up-stream opportunities, favourable earnings leverage from large investments made in the past several years, and an undemanding valuation, all of which suggest strong upside potential.

**HOLDING(S) ELIMINATED:**

**POOR EXECUTION, A CHANGING LANDSCAPE AND LOWER EXPECTED RETURNS TRIGGERED CHANGES IN TECHNOLOGY**

While **Research In Motion's** most recent quarterly results were disappointing, management's guidance for the near future was clouded by delays and marketing missteps and was the primary catalyst behind our decision to eliminate RIM from the portfolio. Much potential had been tied to the launch of the BB10 operating system (formerly QNX) allowing Blackberry smartphones to align with the Playbook tablet. But additional delays in chipsets have pushed this launch well into 2012 and potentially 2013. Thus, faith in management's ability to deliver has been eroded and the reputational damage has reached critical levels, raising concerns of significant changes that could further disrupt the company's focus and profitability. Risks surpassing the near-term potential dictated an exit from the position.

**Nintendo** was sold as its stock came under pressure following falling sales and a recent price cut for its new 3D portable gaming device. The company is further threatened as smartphones are increasingly being used as gaming devices, exposing weakness in Nintendo's business model.

We also exited the position in **Electronic Arts** based on recent strength. The proceeds were used to fund the purchase of Royal Dutch Shell.

**NOTABLE INCREASE(S):**

**MARKET VOLATILITY PROVIDED AN OPPORTUNITY IN INDUSTRIALS**

We added to our position in **United Technologies**. The industrial conglomerate has strong market positions in both aerospace/defense and global infrastructure with a portfolio that includes: Carrier, Otis, Hamilton Sundstrand, Pratt & Whitney, Sikorsky and Fire & Security. We believe that a focus on end-market and product diversification provide a hedge during periods of economic uncertainty. The stock is attractively valued and should outperform as its conservative balance sheet and strong free cash flow generation allow for continued share buybacks and acquisitions.

**NOTABLE DECREASE(S):**

None.

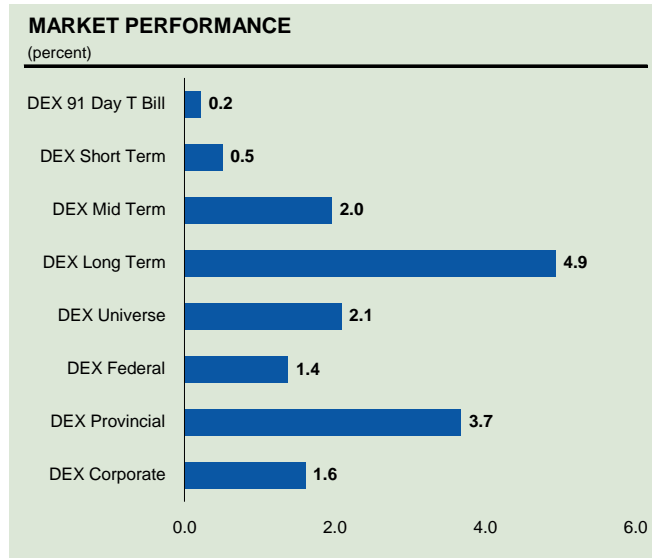
# Fixed Income

## Global politics key downside risk

Global leading economic indicators, Europe aside, have improved. Policy errors offer the biggest source of downside risk to the domestic and global economy.

### INVESTMENT PROCESS

- Proprietary strategic and tactical models
- Moderate duration adjustments with a long-term focus
- Optimized yield using high-quality corporates and provincials
- Formal daily, weekly & monthly Fixed Income meetings
- Risk controls: duration, mid-term, credit sector and quality, U.S. pay bonds
- Automated pre-trade and post-trade compliance



**LONG-TERM PERFORMANCE**

	3mo	1yr	2yrs	3yrs	4yrs	5yrs	7yrs	10yrs
<b>Fixed Inc</b>	1.7	9.1	8.0	7.5	7.4	6.4	6.1	6.5
<b>Benchmark*</b>	2.1	9.7	8.2	7.3	7.0	6.4	6.0	6.5

\*DEX Universe

### PERFORMANCE:

#### SHORT DURATION STRATEGY HURT BY FALL IN LONG-TERM YIELDS

The portfolio lagged the DEX Universe Bond Index during a quarter in which bonds recorded solid gains as long-term yields declined. As a result, longer duration bonds outperformed those with shorter durations within each of the market's sectors. The portfolio maintained a shorter-than-Index duration target which was the main reason for underperformance. The portfolio's return was also negatively impacted by an overweight position in corporate bonds, which underperformed amid a flight-to-quality bid for Government of Canada issues.

### STRATEGY:

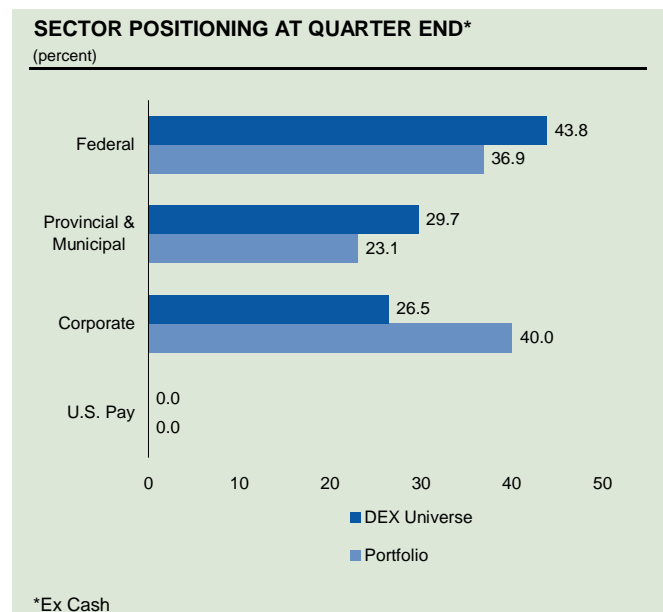
#### SHORT DURATION STRATEGY MAINTAINED

##### Duration and Maturity Profile

Over the course of the quarter, the portfolio's duration was trimmed by a modest 0.1 of a year to 1.3 years below that of the DEX Universe Bond Index. Despite the flight-to-quality bid in the government bond market, global leading economic indicators have improved. The team believes that long term bonds appear overvalued and a shorter-than-Index strategy should provide capital protection based on the expectation that yields will begin moving toward their fair-valuations.

##### Sector Profile

There were no major changes to the portfolio's sector profile. The relative overweight position in corporate bonds was maintained. Notable additions to the portfolio during the quarter included John Deere Credit and Manulife Tier-1 issues.



*Fixed Income continued*

**FIXED INCOME DETAILS (PERCENT)**

	Fixed Income Portfolio 9/30/11	Fixed Income Portfolio 12/31/11	DEX Universe 12/31/11
<b>Sector Distribution</b>			
Federal	36.5	36.9	43.8
Provincial & Municipal	22.3	23.1	29.7
Corporate	41.2	40.0	26.5
U.S. Pay	0.0	0.0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Maturity Profile</b>			
Less than 3 years	43.5	44.1	7.4
3 to 10 years	35.9	33.5	45.1
Over 10 years	20.6	22.4	47.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Yield</b>	<b>2.50</b>	<b>2.49</b>	<b>2.33</b>
<b>Duration (years)</b>	<b>5.44</b>	<b>5.59</b>	<b>6.90</b>

# Money Market

## Bank of Canada maintains key interest rate at 1%

Improved economic growth in North America was overshadowed by financial uncertainty in Europe.

### INVESTMENT PROCESS

- Formal weekly team meetings
- Minimum credit rating of R1 Low
- Corporate weight 0 to 70%
- Government weight 30 to 100%

### LONG-TERM PERFORMANCE

	3mo	1yr	2yrs	3yrs	4yrs	5yrs	7yrs	10yrs
<b>Money Mkt</b>	<b>0.3</b>	<b>1.1</b>	<b>0.9</b>	<b>0.9</b>	<b>1.8</b>	<b>2.3</b>	<b>2.6</b>	<b>2.6</b>
Benchmark*	0.2	1.0	0.8	0.7	1.4	2.0	2.3	2.4

\*DEX 91 Day T Bill

### PORTFOLIO DISTRIBUTION

	09/30/11	12/31/11
Cash	-2.19 %	4.07 %
Canada Guaranteed	40.10	60.61
Provincial Guaranteed	15.24	0.00
Bankers' Acceptances and Commercial Paper	46.85	35.32
Total	100.00 %	100.00 %
Average Term (days)	63	54
Yield	1.06 %	0.98 %

### PERFORMANCE AND STRATEGY:

The Bank of Canada maintained the overnight lending rate at 1% during the fourth quarter. Although economic growth in North America was considerably more upbeat, the ongoing political and economic issues in Europe capped 3-month Treasury Bill yields below 0.9%, indicating the potential for interest rate cuts. However, the team does not foresee lower administered rates and has therefore maintained the portfolio's term to maturity target to below that of the Index's 90-days. A significant position in high-quality corporate and provincial holdings was also maintained to boost overall yield.