

# MB Balanced Plus 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. We remain underweight cash as rates are near historic lows.

### INVESTMENT PROCESS

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

### 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

### COMPOSITION

This Fund contains:

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

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, raising cash to a slightly smaller underweight. Within equities, we prefer foreign stocks over Canadian equities.

### ASSET ALLOCATION

	Policy Asset Mix (%)	Sep 30/11	Dec 31/11
Cash & Equivalents*	5.00	5.24	4.68
Fixed Income**	40.00	39.93	38.12
<b>Total Cash &amp; Fixed Income</b>	<b>45.00</b>	<b>45.17</b>	<b>42.80</b>
Canadian Equities	20.00	18.40	19.39
Global Equities	35.00	36.43	37.81
<b>Total Equities</b>	<b>55.00</b>	<b>54.83</b>	<b>57.20</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>-1.6</b>	<b>2.3</b>	<b>5.6</b>	<b>1.4</b>	<b>0.9</b>	<b>3.5</b>	<b>3.8</b>
<b>Benchmark*</b>	<b>3.3</b>	<b>1.2</b>	<b>4.8</b>	<b>7.3</b>	<b>1.8</b>	<b>1.5</b>	<b>4.1</b>	<b>4.2</b>
<b>Canadian Equities</b>								
<b>The Portfolio</b>	<b>2.5</b>	<b>-14.8</b>	<b>-0.1</b>	<b>11.2</b>	<b>-1.7</b>	<b>0.3</b>	<b>5.6</b>	<b>6.9</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>5.1</b>	<b>-5.6</b>	<b>-1.9</b>	<b>3.0</b>	<b>-3.8</b>	<b>-4.6</b>	<b>0.0</b>	<b>-0.4</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>1.2</b>	<b>9.7</b>	<b>8.0</b>	<b>6.3</b>	<b>7.7</b>	<b>6.3</b>	<b>5.8</b>	<b>6.3</b>
Bond Benchmark**	1.6	9.7	7.9	6.4	7.1	6.1	5.7	6.3
<b>Money Market</b>								
<b>The Portfolio</b>	<b>0.2</b>	<b>1.0</b>	<b>0.7</b>	<b>0.8</b>	<b>1.6</b>	<b>2.1</b>	<b>2.5</b>	<b>2.5</b>
DEX 91 Day T Bill	0.2	1.0	0.8	0.7	1.4	2.0	2.3	2.4

\* Benchmark: 20% BMO/TSX CAP 10%, 35% DEX Universe, 35% MSCI World, 5% DEX 91 Day T-Bill, 5% Citigroup 7 GBI

\*\* Bond Benchmark: 87.5% DEX Universe, 12.5% Citigroup 7 GBI

**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 energy, information technology, and consumer discretionary sectors. The asset mix decision had an overall limited impact.

# Canadian Equities (Core)

Focus is on underappreciated high quality companies

Companies with steady growth opportunities and durable franchises remain the focus. These companies offer the potential for superior risk-adjusted returns.

## 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>2.5</b>	<b>-14.8</b>	<b>-0.1</b>	<b>11.2</b>	<b>-1.7</b>	<b>0.3</b>	<b>5.6</b>	<b>6.9</b>
Benchmark*	3.6	-8.7	3.6	13.2	-0.7	1.3	6.5	7.0

\*BMO/TSX CAP 10%

## PERFORMANCE:

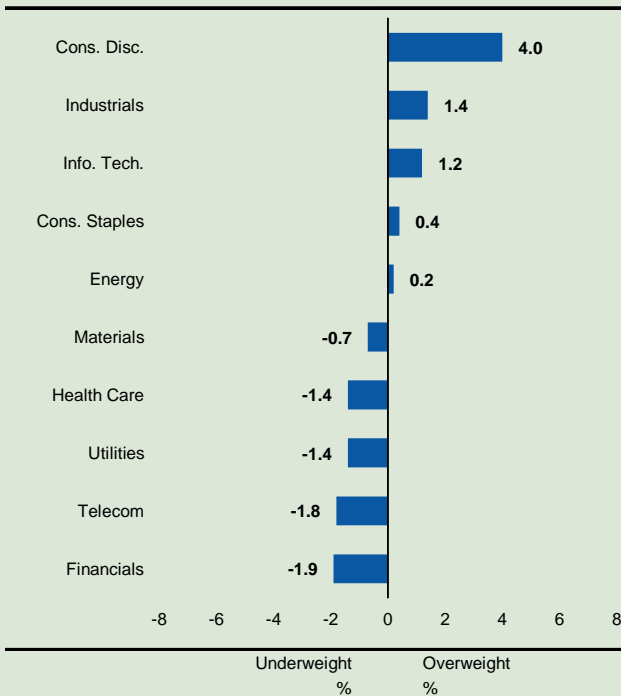
### UNDERPERFORMANCE DUE TO WEAK STOCK SELECTION

The portfolio's return lagged the benchmark during a modest bounce-back quarter for Canadian equities. Weak stock selection in the energy (Cameco, Encana), information technology (Research In Motion) and consumer discretionary (Gildan Activewear) sectors hindered the portfolio's return. However, this was partially offset by solid performance from Canadian Natural Resources and Royal Bank, the latter outperforming both the financials sector and the overall Index, as well as strong selections in materials (Teck Resources, Inmet Mining).

## DIVERSIFICATION

	Portfolio		BMO/TSX CAP 10%	
	09/30/11	12/31/11	09/30/11	12/31/11
Cons. Disc.	9.6 %	8.0 %	4.2 %	4.0 %
Industrials	7.5	7.2	5.2	5.8
Info. Tech.	5.9	2.5	1.6	1.3
Cons. Staples	3.9	3.2	2.9	2.8
Energy	25.7	27.3	25.2	27.1
Materials	18.2	20.4	22.7	21.1
Health Care	0.0	0.0	1.2	1.4
Utilities	0.7	0.6	2.1	2.0
Telecom	3.5	3.4	5.0	5.2
Financials	25.0	27.5	30.0	29.4
<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:

### COMPANIES WITH SUSTAINABLE FUNDAMENTALS AND DURABLE BUSINESS MODELS IN FOCUS

Capital was re-allocated to companies with visible earnings and cash flow growth and durable business models. New positions were established in companies with underappreciated earnings growth potential at attractive valuations. Companies with industry-leading positions and high-quality balance sheets dominate the portfolio.

**ACTIVITY:  
OPPORTUNITIES IN MATERIALS, ENERGY AND  
FINANCIALS DROVE ACTIVITY**

<b>New Holding(s)</b> Detour Gold, Yamana Gold	<b>Holding(s) Eliminated</b> IAMGOLD, Loblaw, Research In Motion
<b>Notable Increase(s)</b> Osisko Mining, Goldcorp, Barrick Gold, Talisman Energy, Bank of Nova Scotia, TD Bank, Intact Financial, TransCanada	<b>Notable Decrease(s)</b> Canadian National Railway, Cenovus Energy

**NEW HOLDING(S):  
ESTABLISHED NEW POSITIONS IN THE MATERIALS  
SECTOR**

The team initiated a position in **Detour Gold**, a Canadian domiciled 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 miner 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.

**HOLDING(S) ELIMINATED: LACK OF EXECUTION AND  
EXTENDED VALUATIONS LED TO SALES IN  
INFORMATION TECHNOLOGY, MATERIALS AND  
CONSUMER STAPLES**

The team eliminated **Research In Motion** from the portfolio. Despite a solid subscriber base and strong international growth, the company has been plagued by very few operational successes of late. RIM's most recent product launches have done little to mitigate negative sentiment regarding the company's growth prospects. Moreover, new software launches have once again been delayed.

**IAMGOLD**, which had been reduced in the third quarter, was eliminated from the portfolio. The team sees better valuation and growth prospects in other Canadian gold companies, namely Detour Gold, Yamana Gold and Osisko Mining.

A small position in **Loblaw** was also eliminated from the portfolio.

**NOTABLE INCREASE(S):  
ADDED TO EXISTING HOLDINGS BASED ON RELATIVE  
VALUATION AND EARNINGS GROWTH POTENTIAL**

The team made additional purchases of **Osisko Mining**. The company continues to offer a strong combination of solid potential for production growth and a low cost structure across its operations.

Additional purchases were made in both **Goldcorp** and **Barrick Gold**. Gold stocks have underperformed the nominal and real price of bullion since 2003. As a result, the team believes these stocks have a strong potential to outperform both bullion and the Index so long as gold is viewed as a sound store of value during a challenging and uneven global economic recovery.

The team added to **Talisman Energy** as its shares pulled back despite attractive asset value and favourable long-term business fundamentals. Elsewhere in the energy sector, the relatively stable **TransCanada** was increased to counterbalance the portfolio's exposure to more oil price-sensitive companies.

Within financials, the team added to positions in **Intact Financial**, **Bank of Nova Scotia** and **TD Bank**. Intact Financial is Canada's largest provider of home, auto and business insurance. Bank of Nova Scotia has unique international banking assets that offer superior growth relative to more mature domestic assets. Its wealth management division is also well-positioned for growth. TD Bank offers a superior domestic retail banking franchise as well as opportunities for profit growth at its U.S. operations.

**NOTABLE DECREASE(S):**

**Cenovus Energy** and **Canadian National Railway** were reduced following strong relative share price performance with the proceeds directed to other companies with strong prospects not yet reflected in current share prices.

# MB Global Equity Fund

## Global equities bounce back

Equity markets rebounded during the past quarter but significant risks remain. The team maintains a focus on high-quality, large capitalization companies with strong balance sheets and sustainable earnings growth.

### 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	10yrs
<b>Total Port</b>	<b>5.1</b>	<b>-5.9</b>	<b>-2.0</b>	<b>2.9</b>	<b>-3.9</b>	<b>-4.7</b>	<b>-0.1</b>	<b>-0.6</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>	<b>-0.4</b>

\*MSCI World

### PERFORMANCE:

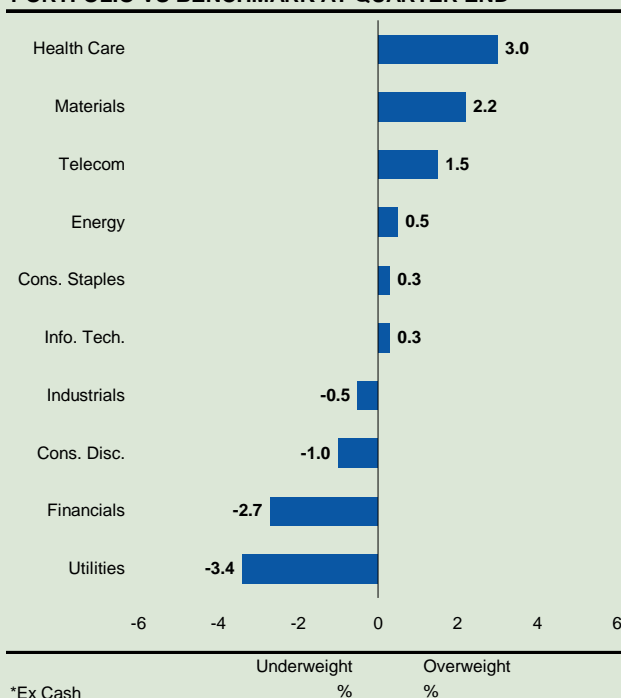
#### UNDERPERFORMANCE DURING A POSITIVE BUT VOLATILE QUARTER

The portfolio lagged the MSCI World Index for the quarter. Industry sector allocation was a positive factor due primarily to an underweight in the relatively weak utilities sector. Stock selection produced mixed results as strong contributions in the health care (Merck, Pfizer) and consumer staples (Estée Lauder, Wal-Mart de Mexico) sectors were offset by weak performance in energy (Peabody Energy, Transocean) and financials (Bank of America, Credit Suisse). Other top relative detractors included Research In Motion and Newcrest Mining; top relative contributors included International Paper and financial services firm ACE Limited.

### DIVERSIFICATION

	Portfolio		MSCI World	
	09/30/11	12/31/11	09/30/11	12/31/11
Health Care	12.5 %	13.3 %	10.5 %	10.5 %
Materials	8.6	9.3	7.3	7.2
Telecom	6.5	5.8	4.6	4.4
Energy	10.1	12.1	10.9	11.8
Cons. Staples	10.7	11.1	11.0	11.0
Info. Tech.	14.4	12.1	12.2	12.0
Industrials	9.4	10.5	10.7	11.1
Cons. Disc.	9.0	9.2	10.4	10.3
Financials	15.1	14.8	18.1	17.6
Utilities	1.1	0.6	4.2	4.0
Cash	2.7	1.2	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:

#### POSITIONED FOR LONG-TERM GROWTH

The portfolio currently favours exposure to industry-leading companies with sustainable earnings growth and strong balance sheets in the materials and health care sectors. Utilities and financials remain the most significantly underweight sectors.

**ACTIVITY:**

**OPPORTUNITIES IDENTIFIED IN VOLATILE MARKETS**

**New Holding(s)**

Royal Dutch Shell,  
Transocean

**Holding(s) Eliminated**

Lenovo, EDF, Electronic Arts,  
Research In Motion, Nintendo

**Notable Increase(s)**

CME Group, Atlas Copco

**Notable Decrease(s)**

Credit Suisse

**NEW HOLDING(S):**

**ADDITIONS IN ENERGY**

**Royal Dutch Shell** 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.

The team re-introduced a position in **Transocean**, an offshore deep water oil driller, after the company's shares basically halved due to concerns over the Gulf of Mexico liability from the Macondo Deep Horizon oil spill. Any liability from the spill appears to be priced into the stock. While possibly early on this name, the team believes the stock – which has an 8% dividend yield – is at or close to its lows and a recovery should be close at hand.

**HOLDING(S) ELIMINATED:**

**REPOSITIONED INTO MORE ATTRACTIVE INVESTMENTS**

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.

The position in **Electronic Arts** was sold on recent strength on the basis that the company lacks momentum in their product development. In addition, the video-game maker is more heavily reliant on sports games which are most popular with the youth market, a segment where the team feels less comfortable.

**Lenovo** was sold on recent strength due to lower input costs and solid PC and notebook sales. In a commoditized sector, the stock's performance is cyclical and unsustainable in the long term, hence the decision to exit.

**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.

**EDF** was sold as the company remains snared by government policy that seeks to limit energy price increases for consumers. In addition, in the fall out from Fukushima, French regulators have demanded higher safety measures for France's older nuclear reactors which are expected to cost billions of euros, thereby limiting the potential for significant stock price appreciation.

**NOTABLE INCREASE(S):**

**INCREASED POSITIONS IN FINANCIALS AND INDUSTRIALS**

**CME Group** was increased during the quarter. The company trades at an attractive valuation and does not face the same balance sheet risks as other financials names.

The team added to **Atlas Copco** as the stock suffered a significant and, in the team's assessment, overdone correction during the "risk-off" trade.

**NOTABLE DECREASE(S):**

**REDUCING DUE TO CHALLENGES AHEAD**

**Credit Suisse** was trimmed as its investment banking operations will continue to face challenges.

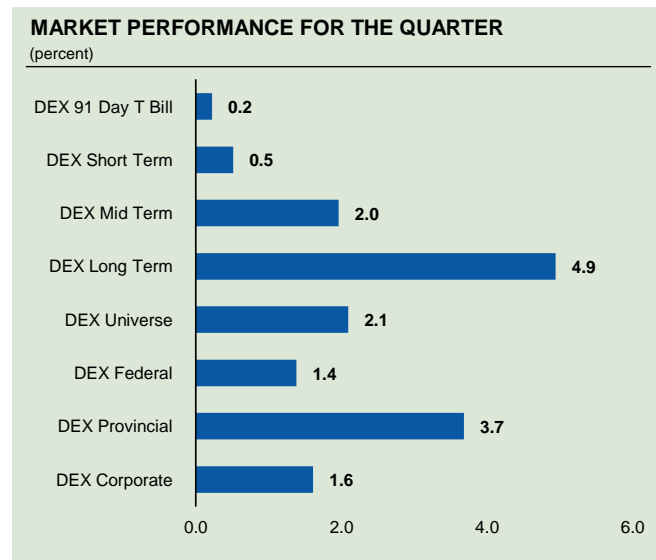
# MB Fixed Income Fund

## 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 (includes cash)**

	3mo	1yr	2yrs	3yrs	4yrs	5yrs	7yrs	10yrs
<b>Total Port</b>	1.6	8.9	7.9	7.3	7.2	6.3	6.0	6.4
<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:

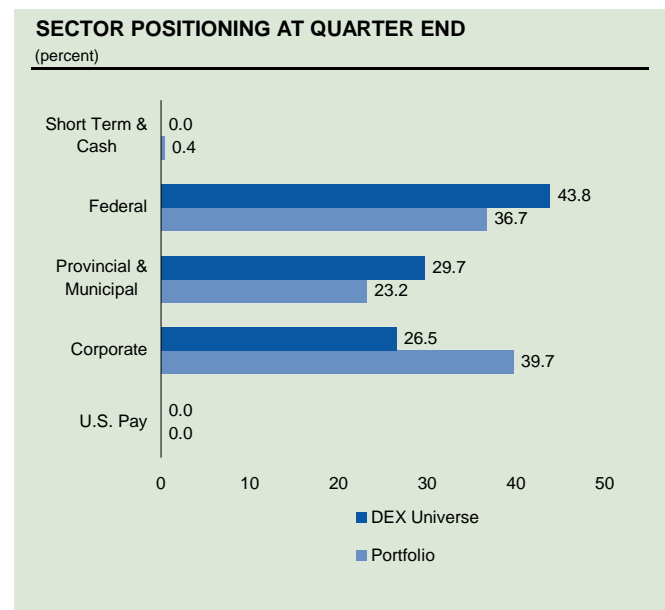
#### SHORT DURATION STRATEGY MAINTAINED

##### 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.



MB Fixed Income Fund 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>			
Short Term & Cash	0.4	0.4	0.0
Federal	37.4	36.7	43.8
Provincial & Municipal	22.4	23.2	29.7
Corporate	39.8	39.7	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	44.2	45.1	7.4
3 to 10 years	34.5	32.3	45.1
Over 10 years	21.3	22.6	47.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Yield</b>	<b>2.47</b>	<b>2.46</b>	<b>2.33</b>
<b>Duration (years)</b>	<b>5.44</b>	<b>5.59</b>	<b>6.90</b>

# McLean Budden Global Bond Fund

## 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
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- Automated pre-trade and post-trade compliance

#### LONG-TERM PERFORMANCE (includes cash)

	3mo
Total Port	-2.2
Benchmark*	-2.1

\*Citigroup Group of 7 GBI

### PERFORMANCE:

**SHORT DURATION STRATEGY HURT PERFORMANCE; UNDERWEIGHT IN ITALIAN BONDS A POSITIVE OFFSET**

The portfolio's return for the fourth quarter fell just shy of the Citigroup Group of 7 Global Bond Index. The underperformance was primarily due to the tilt toward holdings of bonds with shorter term-to-maturities relative to the benchmark. This was partially offset by an overweight in U.S.-pay securities and an underweight in Italian bonds which saw their yields rise 55 basis points during the quarter. The total exposure to euro-denominated bonds was below benchmark, which underperformed as the region's sovereign debt crisis took a toll on the currency, which fell 3.2%.

### STRATEGY:

**MAINTAINED SHORT DURATION STRATEGY**

#### Duration and Maturity Profile

Over the course of the quarter, the portfolio's duration target was reduced 0.1 of a year to 1.2 years below that of the Citigroup G7 Government Bond Index. While global economic growth remains slow, the team's research suggests overvaluation in government bonds. In addition, there are signs that leading economic indicators are improving. The team expects yields to begin rising toward their fair values; in such a scenario, a shorter-than-benchmark duration strategy should provide capital protection.

#### Sector Profile

The position in U.S. bonds was decreased from 52% to 46%, still a significant overweight relative to the Index weight of 32%. Euro-denominated bonds were increased 2% to 17% versus an Index weight of 21%. The team also initiated a 3% position in Canadian bonds.

**FIXED INCOME DETAILS (PERCENT)**

<b>Region</b>	<b>Bond Exposure</b> %	<b>Currency Exposure</b> %	<b>Benchmark</b> %
North America	48.3	49.3	34.0
Asia	26.0	30.4	38.0
Europe & U.K.	25.7	20.3	28.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

	<b>Fund</b> %	<b>Benchmark</b> %
<b>Yield</b>	1.99	1.40
<b>Duration (years)</b>	5.67	6.80

# 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>0.2</b>	<b>1.0</b>	<b>0.7</b>	<b>0.8</b>	<b>1.6</b>	<b>2.1</b>	<b>2.5</b>	<b>2.5</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	2.76 %	-6.91 %
Canada Guaranteed	97.24	106.91
Total	100.00 %	100.00 %
Average Term (days)	69	52
Yield	0.97 %	0.88 %

### 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 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.