

MB Balanced 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

Equities

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

Risk controls: asset mix and underlying portfolios

All decisions are team-based

COMPOSITION

This Fund Contains:

- Canadian Equities (Segregated)
- Global Equities (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, 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	3.25	6.22
Fixed Income**	35.00	35.25	32.26
Total Cash & Fixed Income	40.00	38.50	38.48
Canadian Equities	30.00	27.99	29.34
Global Equities	30.00	33.51	32.18
Total Equities	60.00	61.50	61.52
Total Assets	100.00	100.00	100.00

*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
Total Portfolio	3.2	-3.2	2.4	6.9	1.2	1.2	4.2	4.6
Benchmark*	3.5	-0.1	4.8	8.3	1.5	1.7	4.6	4.8
Canadian Equities								
The Portfolio	2.7	-14.5	-0.2	11.0	-1.7	0.3	5.7	7.0
BMO/TSX CAP 10%	3.6	-8.7	3.6	13.2	-0.7	1.3	6.5	7.0
Global Equities								
The Portfolio	5.7	-5.6	-1.7	3.9	-3.7	-4.5	0.1	-0.2
MSCI World	5.5	-2.9	1.8	5.0	-3.8	-4.5	0.3	-0.4
Fixed Income								
The Portfolio	1.7	9.1	8.0	7.4	7.4	6.4	6.1	6.5
DEX Universe	2.1	9.7	8.2	7.3	7.0	6.4	6.0	6.5
Money Market								
The Portfolio	0.3	1.2	0.9	1.0	1.8	2.3	2.6	2.8
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 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
Cdn Eq	2.7	-14.5	-0.2	11.0	-1.7	0.3	5.7	7.0
Benchmark*	3.6	-8.7	3.6	13.2	-0.7	1.3	6.5	7.0

*BMO/TSX CAP 10%

PERFORMANCE:

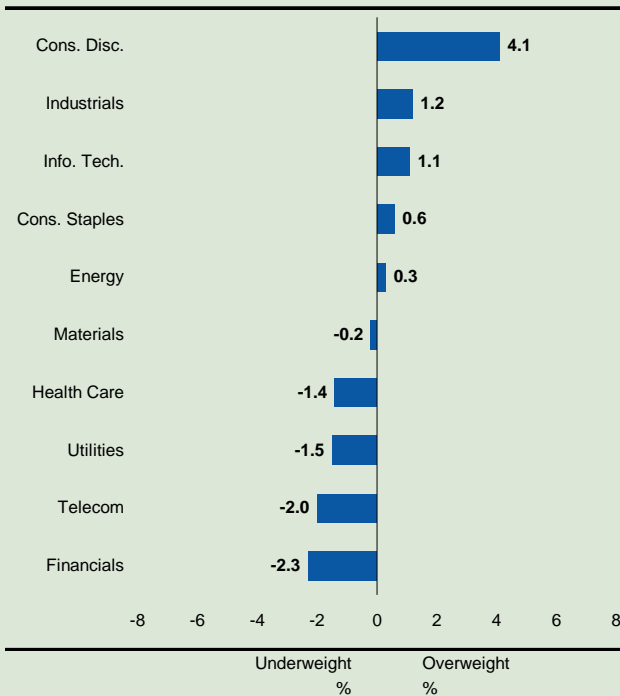
UNDERPERFORMANCE DUE TO WEAK STOCK SELECTION

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.	10.0 %	8.1 %	4.2 %	4.0 %
Industrials	7.4	7.0	5.2	5.8
Info. Tech.	5.8	2.4	1.6	1.3
Cons. Staples	4.1	3.4	2.9	2.8
Energy	25.4	27.4	25.2	27.1
Materials	18.2	20.9	22.7	21.1
Health Care	0.0	0.0	1.2	1.4
Utilities	0.6	0.5	2.1	2.0
Telecom	3.6	3.2	5.0	5.2
Financials	24.9	27.1	30.0	29.4
Total	100.0 %	100.0 %	100.0 %	100.0 %

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**

New Holding(s) Detour Gold, Yamana Gold	Holding(s) Eliminated IAMGOLD, Loblaw, Research In Motion
Notable Increase(s) Osisko Mining, Goldcorp, Barrick Gold, Talisman Energy, Bank of Nova Scotia, TD Bank, Intact Financial, TransCanada	Notable Decrease(s) 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.

Global Equities (Core)

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

	3mo	1yr	2yrs	3yrs	4yrs	5yrs	7yrs	10yrs
Global Eq	5.7	-5.6	-1.7	3.9	-3.7	-4.5	0.1	-0.2
Benchmark*	5.5	-2.9	1.8	5.0	-3.8	-4.5	0.3	-0.4

*MSCI World

PERFORMANCE:

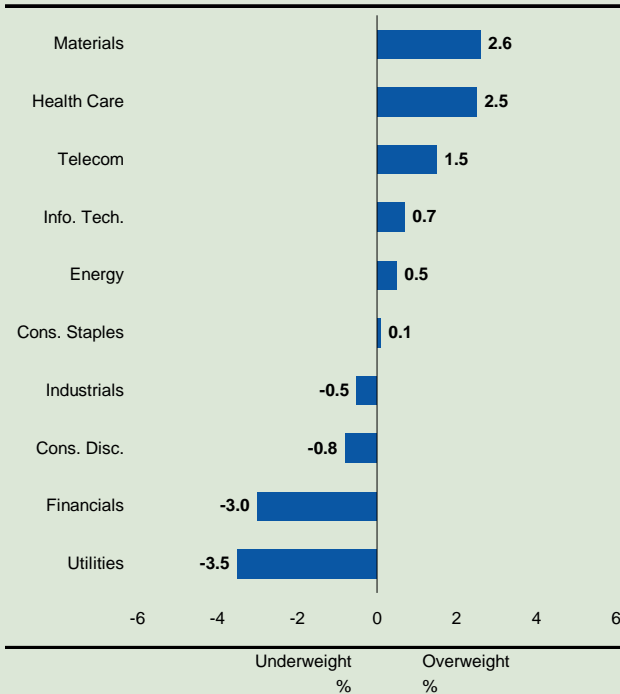
OUTPERFORMANCE DURING A VOLATILE QUARTER

The portfolio outpaced 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
Materials	8.5 %	9.8 %	7.3 %	7.2 %
Health Care	12.9	13.0	10.5	10.5
Telecom	6.6	5.9	4.6	4.4
Info. Tech.	14.7	12.7	12.2	12.0
Energy	10.1	12.3	10.9	11.8
Cons. Staples	11.3	11.1	11.0	11.0
Industrials	10.1	10.6	10.7	11.1
Cons. Disc.	9.3	9.5	10.4	10.3
Financials	15.4	14.6	18.1	17.6
Utilities	1.1	0.5	4.2	4.0
Total	100.0 %	100.0 %	100.0 %	100.0 %

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.

Global Equities (Core) continued

**ACTIVITY:
OPPORTUNITIES IDENTIFIED IN VOLATILE MARKETS**

New Holding(s)	Holding(s) Eliminated
Royal Dutch Shell, Transocean	Lenovo, EDF, Electronic Arts, Research In Motion, Nintendo
Notable Increase(s)	Notable Decrease(s)
CME Group, Atlas Copco	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.

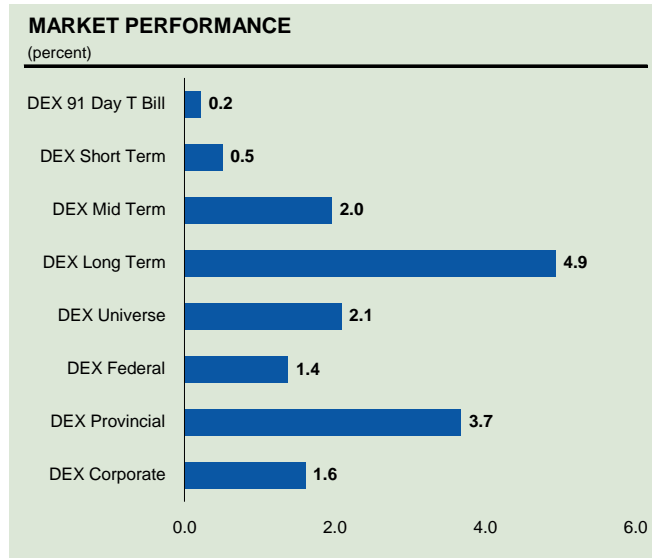
Fixed Income

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
Fixed Inc	1.7	9.1	8.0	7.4	7.4	6.4	6.1	6.5
Benchmark*	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:

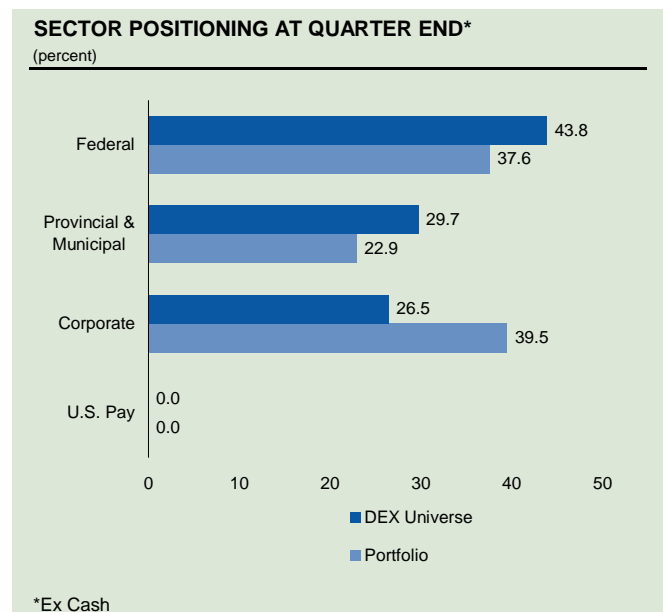
SHORT DURATION STRATEGY MAINTAINED

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
Sector Distribution			
Federal	38.0	37.6	43.8
Provincial & Municipal	22.3	22.9	29.7
Corporate	39.7	39.5	26.5
U.S. Pay	0.0	0.0	0.0
Total	100.0	100.0	100.0
Maturity Profile			
Less than 3 years	42.9	43.7	7.4
3 to 10 years	36.4	33.9	45.1
Over 10 years	20.7	22.4	47.5
Total	100.0	100.0	100.0
Yield	2.48	2.46	2.33
Duration (years)	5.44	5.60	6.90

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
Money Mkt	0.3	1.2	0.9	1.0	1.8	2.3	2.6	2.8
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	-7.15 %	4.12 %
Canada Guaranteed	43.40	47.41
Provincial Guaranteed	1.60	5.06
Bankers' Acceptances and Commercial Paper	62.15	43.41
Total	100.00 %	100.00 %
Average Term (days)	61	76
Yield	1.10 %	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.