

MB Canadian Equity Growth Fund

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 (includes cash)

	3mo	1yr	2yrs	3yrs	4yrs	5yrs	7yrs	10yrs
Total Port	1.3	-21.6	-4.5	9.1	-5.3	-2.1	4.3	5.4
Benchmark*	3.6	-8.7	3.6	13.2	-0.7	1.3	6.5	7.0

*BMO/TSX CAP 10%

PERFORMANCE:

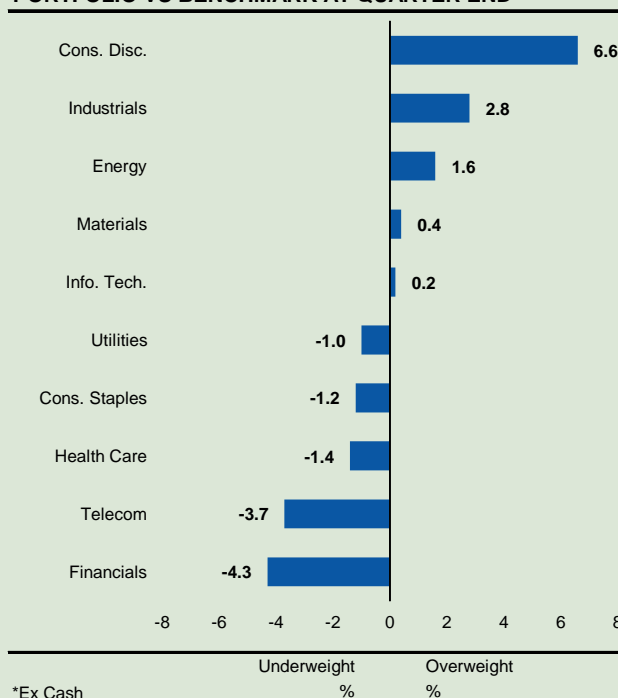
STOCK SELECTION LED TO UNDERPERFORMANCE

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.	13.8 %	10.5 %	4.2 %	4.0 %
Industrials	8.4	8.4	5.2	5.8
Energy	25.2	28.3	25.2	27.1
Info. Tech.	6.0	1.4	1.6	1.3
Materials	14.1	21.1	22.7	21.1
Utilities	1.1	1.0	2.1	2.0
Cons. Staples	1.6	1.5	2.9	2.8
Health Care	0.0	0.0	1.2	1.4
Telecom	1.5	1.5	5.0	5.2
Financials	26.7	24.7	30.0	29.4
Cash	1.8	1.5	0.0	0.0
Total	100.0 %	100.0 %	100.0 %	100.0 %

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.

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, Goldcorp

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 with the largest unhedged gold production, gold reserves and market capitalization. In addition, Barrick 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 well ahead of its competitors.

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 and was the primary catalyst behind the team's 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 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.

Goldcorp was increased to further diversify the portfolio's exposure to gold miners. The company offers one of the highest growth profiles in the industry, enjoys a strong management team and possesses a conservative balance sheet.

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 with the proceeds directed to other companies with strong prospects not yet reflected in current share prices.

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.

Manulife was reduced with partial proceeds directed to other insurance companies. Despite market leadership in its key operating businesses, the company's share price continues to be highly sensitive to equity market and long term interest rate fluctuations, both of which are largely out of the control of senior management. The team feels a lower weight is justified until more progress is made to minimize these negative market effects.