

# MB Canadian Equity Value Fund

## Disciplined focus on valuation

Portfolio construction continues to emphasize stocks possessing attractive relative valuations, solid balance sheets, and strong free cash flow generation.

### 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>3.2</b>	<b>-7.6</b>	<b>3.4</b>	<b>11.4</b>	<b>0.7</b>	<b>1.7</b>	<b>5.9</b>	<b>7.5</b>
<b>Benchmark*</b>	<b>3.6</b>	<b>-8.7</b>	<b>3.6</b>	<b>13.2</b>	<b>-0.7</b>	<b>1.3</b>	<b>6.5</b>	<b>7.0</b>

\*BMO/TSX CAP 10%

### PERFORMANCE:

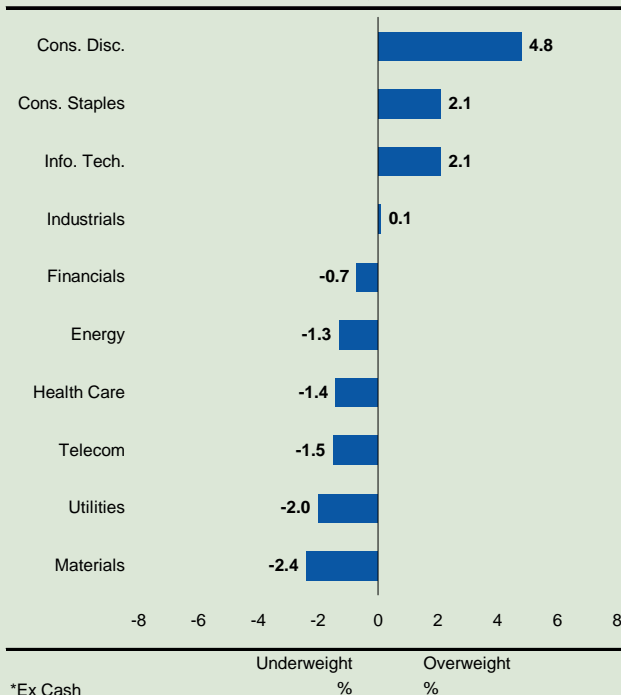
#### MODEST UNDERPERFORMANCE FOR THE QUARTER

Though the portfolio lagged the Index for the period, the underlying results were mixed as strong positive contributions from the portfolio's positioning in the financials and materials sectors were more than offset by relative weakness in energy and information technology. At the stock level, Osisko Mining, Research In Motion, and Gildan Activewear weighed on overall performance, while First Quantum Minerals, Canadian Natural Resources, Dollarama, and Trinidad Drilling experienced solid share price gains.

### DIVERSIFICATION

	Portfolio		BMO/TSX CAP 10%	
	09/30/11	12/31/11	09/30/11	12/31/11
Cons. Disc.	10.4 %	8.5 %	4.2 %	4.0 %
Cons. Staples	6.0	4.8	2.9	2.8
Info. Tech.	5.2	3.3	1.6	1.3
Industrials	6.1	5.8	5.2	5.8
Health Care	0.0	0.0	1.2	1.4
Financials	21.8	27.8	30.0	29.4
Telecom	4.1	3.6	5.0	5.2
Energy	24.3	25.1	25.2	27.1
Utilities	0.0	0.0	2.1	2.0
Materials	20.4	18.1	22.7	21.1
Cash	1.8	3.0	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:

#### INCREASED EXPOSURE TO FINANCIALS

The team trimmed several holdings across the portfolio to increase allocations to financial stocks. Select opportunities for repositioning in the energy, materials and consumer sectors were also identified. The portfolio continues to emphasize companies with solid balance sheets, compelling relative valuations, and ideally, a catalyst that will serve to improve valuation over time.

**ACTIVITY:**  
**ADDED TO FINANCIALS AND SELECT ENERGY AND MATERIALS STOCKS**

<b>New Holding(s)</b> Bank of Nova Scotia	<b>Holding(s) Eliminated</b> IAMGOLD, Loblaw, Research In Motion
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<b>Notable Increase(s)</b> Osisko Mining, Talisman Energy, Canadian Natural Resources, Intact Financial, TD Bank, Power Corp	<b>Notable Decrease(s)</b> Barrick Gold, Cenovus Energy, Magna International, Dollarama
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**NEW HOLDING(S):**  
**BANK OF NOVA SCOTIA ADDED WITHIN FINANCIALS**

The team initiated a position in **Bank of Nova Scotia** as the stock declined to attractive valuation levels which now adequately reflect Basel III capital issues. The bank provides additional diversification within the financials sector as it is well positioned to benefit from international growth while maintaining low exposure to the domestic mortgage market and the European sovereign debt crisis.

**HOLDING(S) ELIMINATED:**  
**EXITED POSITIONS IN FAVOUR OF BETTER OPPORTUNITIES**

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.

**Loblaw** was sold from the portfolio due to concerns over the competitive environment, slow top-line growth and the company's limited ability to pass cost increases through to consumers.

**IAMGOLD** was eliminated as the team continued to build the position in Osisko Mining.

**NOTABLE INCREASE(S):**  
**ADDED TO EXISTING HOLDINGS WITH COMPELLING VALUATIONS**

The team added to **Osisko Mining**, a Canadian gold miner with assets in Canada and Brazil. Given the location of the mines, the company faces low political risk and enjoys a global cost advantage at its Quebec operations.

In the energy sector, holdings in **Canadian Natural Resources** and **Talisman Energy** were increased as both stocks possess attractive risk-adjusted return potential.

The team continued to build its position in **Intact Financial**, Canada's largest provider of home, auto and business insurance. Elsewhere within the financials sector, positions in **Power Corp** and **TD Bank** were increased.

**NOTABLE DECREASE(S):**  
**TRIMMED HOLDINGS TO FUND BUYING OPPORTUNITIES**

**Barrick Gold** was trimmed in order to fund the addition to Osisko Mining.

**Cenovus Energy** was reduced based on the team's assessment of a stretched valuation with the proceeds deployed within the energy sector.

The portfolio's overall increased exposure to financial stocks was partially achieved by reducing holdings in the consumer discretionary sector including **Magna International** and **Dollarama**.