

MB Canadian Equity Fund

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 (includes cash)

| | 3mo | 1yr | 2yrs | 3yrs | 4yrs | 5yrs | 7yrs | 10yrs |
|-------------------|------------|--------------|-------------|-------------|-------------|-------------|------------|------------|
| Total Port | 2.3 | -14.6 | -0.4 | 10.4 | -2.2 | -0.1 | 5.2 | 6.4 |
| Benchmark* | 3.6 | -8.7 | 3.6 | 13.2 | -0.7 | 1.3 | 6.5 | 7.0 |

*BMO/TSX CAP 10%

PERFORMANCE:

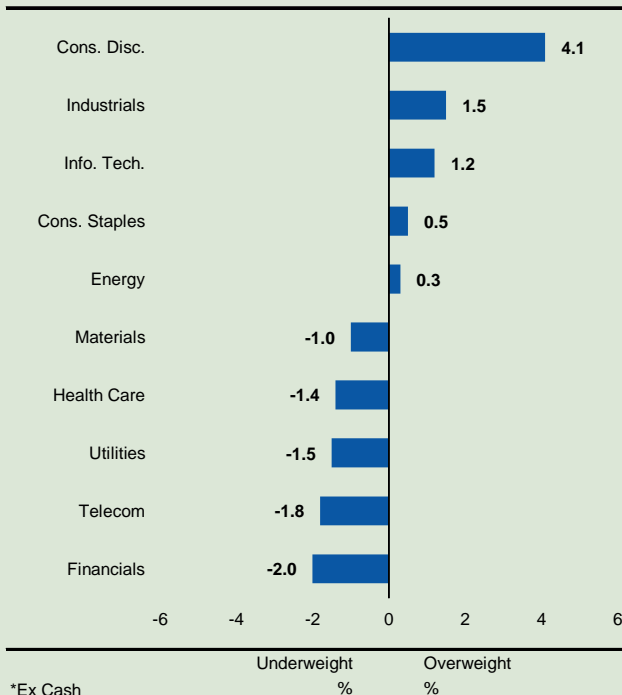
UNDERPERFORMANCE DUE TO WEAK STOCK SELECTION

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. | 9.5 % | 7.8 % | 4.2 % | 4.0 % |
| Industrials | 7.3 | 7.0 | 5.2 | 5.8 |
| Info. Tech. | 5.7 | 2.4 | 1.6 | 1.3 |
| Cons. Staples | 3.7 | 3.2 | 2.9 | 2.8 |
| Energy | 25.1 | 26.6 | 25.2 | 27.1 |
| Health Care | 0.0 | 0.0 | 1.2 | 1.4 |
| Utilities | 0.6 | 0.5 | 2.1 | 2.0 |
| Materials | 17.7 | 19.5 | 22.7 | 21.1 |
| Telecom | 3.4 | 3.3 | 5.0 | 5.2 |
| Financials | 24.4 | 26.6 | 30.0 | 29.4 |
| Cash | 2.6 | 3.1 | 0.0 | 0.0 |
| 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.