

MB Long Term Fixed Income Fund

Global politics key downside risk

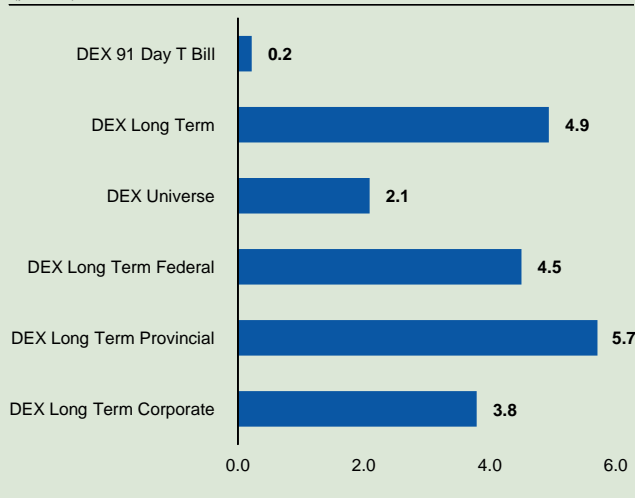
Global leading economic indicators, Europe aside, have improved. Policy errors offer the biggest source of downside risk to the domestic and global economy.

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

MARKET PERFORMANCE FOR THE QUARTER

(percent)



LONG-TERM PERFORMANCE (includes cash)

	3mo	1yr	2yrs	3yrs	4yrs	5yrs	7yrs	10yrs
Total Port	4.0	16.5	14.7	12.3	9.7	8.2	8.4	8.8
Benchmark*	4.9	18.1	15.3	11.9	9.5	8.3	8.4	8.9

*DEX Long Term

PERFORMANCE:

SHORT DURATION STRATEGY HURT BY FALL IN LONG-TERM YIELDS

The portfolio lagged the DEX Long Term 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

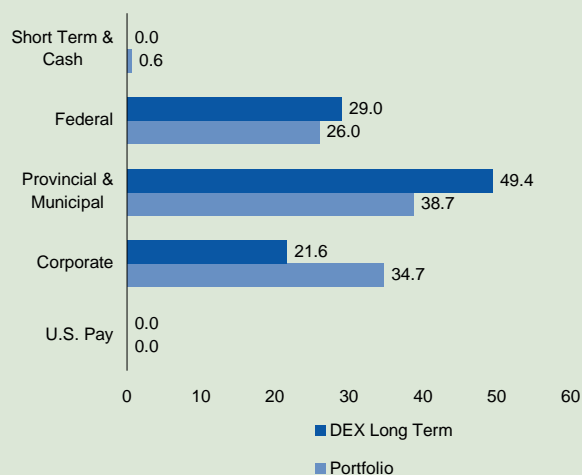
Over the course of the quarter, the portfolio's duration target was maintained at 1.8 years below that of the DEX Long Term Bond Index. Despite the ongoing flight-to-quality bid in the government bond market, global leading economic indicators have improved. The team believes that long term bonds appear 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

The portfolio maintained its relative overweight in corporate bonds, adding a position in AltaLink using the proceeds from the sale of bank deposit notes. The portfolio remains underweight provincial issues, relative to the Index, as the team sees better value and fundamentals in the corporate sector.

SECTOR POSITIONING AT QUARTER END

(percent)



MB Long Term Fixed Income Fund continued

FIXED INCOME DETAILS (PERCENT)

	Fixed Income Portfolio 9/30/11	Fixed Income Portfolio 12/31/11	DEX Long Term 12/31/11
Sector Distribution			
Short Term & Cash	0.9	0.6	0.0
Federal	27.2	26.0	29.0
Provincial & Municipal	36.5	38.7	49.4
Corporate	35.4	34.7	21.6
U.S. Pay	0.0	0.0	0.0
Total	100.0	100.0	100.0
Yield	3.58	3.46	3.39
Duration (years)	11.92	12.27	14.00