



MD Financial
Management Inc.

MD Funds and MDPIM Pools

2018 ANNUAL REPORT OF THE INDEPENDENT REVIEW COMMITTEE

As at December 31, 2018

Dear Unitholder:

The members of the Independent Review Committee (“IRC”) of the MD Funds and the MDPIM Pools are pleased to submit our report to unitholders of the funds listed in Schedule A (collectively, the “Funds” or individually, the “Fund” or “Pool”) for the period October 3, 2018 to December 31, 2018 (the “Reporting Period”).

On October 3, 2018, the Bank of Nova Scotia, through a wholly-owned subsidiary, acquired control of the manager of the Funds, MD Financial Management Inc. (the “Manager” or “MDFM”). As at that date, the former IRC members ceased to be members and the current IRC members were appointed.

We encourage you to read the Report to Investors of the MD Funds and the MDPIM Pools submitted by the former members of the IRC for the period January 1, 2018 to October 3, 2018. That Report is available on the [website](#) of the Manager and on SEDAR at [sedar.com](#).

Securities regulators have given the IRC a mandate to review conflict of interest matters identified and referred to the IRC by the Manager and to give its approval or recommendation, depending on the nature of the conflict of interest matter. The IRC’s focus is on the question of whether the Manager’s proposed action achieves a fair and reasonable result for the Funds.

We are very pleased to have been appointed to act as the IRC of the MD Funds and the MDPIM Pools. We look forward to serving in the best interests of the Funds and working effectively and openly with the Manager.



Carol Perry
Chair of Independent Review Committee

Independent Review Committee for MD Funds and MDPIM Pools

Report to Investors for the Period January 1, 2018 to December 31, 2018

IRC Members during the Reporting Period

Name	Term of Office
Stephen Griggs	Appointed: October 3, 2018
Simon Hitzig	Appointed: October 3, 2018
Heather Hunter	Appointed: October 3, 2018
Carol S. Perry (Chair)	Appointed: October 3, 2018
Jennifer Witterick	Appointed: October 3, 2018

(collectively, the "Members")

Each member of the IRC also serves as a member of the independent review committees of the Scotia Funds, the Scotia Private Pools, the Pinnacle Portfolios, the Scotia ETFs, Dynamic Funds and Marquis Investment Program managed by 1832 Asset Management and of the pooled funds managed by Jarislowsky Fraser Limited, a subsidiary of the Bank of Nova Scotia. Stephen Griggs also serves as a member of the independent review committee of the funds managed by Tangerine Investment Management Inc., a subsidiary of the Bank of Nova Scotia. None of the members of the IRC serve as a member of an independent review committee for investment funds managed by an investment fund manager not affiliated with the Bank of Nova Scotia.

Holdings

(a) Funds

As at December 31, 2018, the percentage of units of each class of each Fund beneficially owned, directly or indirectly, in aggregate, by all members of the IRC did not exceed 10 per cent.

(b) Manager

As at December 31, 2018, no member of the IRC beneficially owned, directly or indirectly, any class or series of voting or equity securities of the Manager.

(c) Service Providers

As at December 31, 2018, the percentage of securities of each class or series of voting or equity securities of any company or entity providing services to the Funds or the Manager beneficially owned, directly or indirectly, in aggregate, by all members of the IRC was less than 0.01 per cent.

Compensation and Indemnities

The aggregate compensation payable by the Funds to the IRC for the Reporting Period was \$28,750.

No indemnities were paid to the IRC by the Manager of the Funds during the Reporting Period.

At least annually the IRC conducts a review of its compensation. During the Reporting Period the IRC confirmed its compensation giving consideration to the following:

1. the best interests of the Funds;
2. industry best practices, including industry averages and surveys on IRC compensation;
3. the number, nature and complexity of the mutual funds for which the IRC acts;
4. the nature and extent of the workload of each member of the IRC, including the commitment of time and energy that is expected from each member; and
5. any recommendations concerning IRC compensation made by the Manager.

Conflict of Interest Matters

During the Reporting Period the IRC considered conflict of interest matters that the Manager referred to it for its recommendation or, where applicable, its approval pursuant to its charter and in accordance with the requirements of the Canadian securities regulators for independent review committees of publicly offered mutual funds set forth in National Instrument 81-107 ("NI 81-107").

The IRC considers conflict of interest matters referred to it and makes recommendations to the Manager on whether or not the IRC believes the proposed actions of the Manager will achieve a fair and reasonable result for the applicable Funds. Where appropriate, the IRC gives the Manager standing instructions ("Standing Instructions") which enable the Manager to act in a particular conflict of interest matter on a continuing basis provided the Manager complies with its policies and procedures established to address that conflict of interest matter and reports periodically to the IRC on the matter.

The Manager has an obligation to report to the IRC any instance in which it acted in a conflict of interest matter but did not meet a condition imposed by the IRC through an approval or recommendation. The Manager is also required to notify the IRC if it proposes to act in a conflict of interest matter where the IRC did not provide a positive recommendation. As of the date of this report, the Manager has informed the IRC that it is not aware of any such instances. The IRC is required to advise the Canadian securities regulators if it determines an action by the Manager was not made in accordance with its recommendations or any approvals granted. No such reports to the regulators are required as of the date of this report.

During the Reporting Period the Manager referred to the IRC conflict of interest matters that emanated from the Manager's new relationship as a subsidiary of the Bank of Nova Scotia. As permitted by Canadian securities legislation, including NI 81-107 and exemptive relief granted by the Canadian securities regulators the IRC provided approval in the form of Standing Instructions, subject to terms and conditions, in respect of the following two conflict of interest matters:

- 1. Purchase, Holding and Sale of Securities of a Related Party:** which provides approval for the investment in both equity and debt securities of related issuers, including securities issued by the Bank of Nova Scotia;
- 2. Principal Trading with a Related Party:** which provides approval for the purchase or sale of securities from or to the account of a related party, including Scotia Capital Inc., where the related party is acting for its own account on a principal basis.

The IRC also considered and provided positive recommendations in the form of Standing Instructions, subject to terms and conditions, in respect of the following three conflict of interest matters referred to it by the Manager and arising out of Manager's new relationship with the Bank of Nova Scotia:

- 1. Agency Trading with a Related Party:** which provides the circumstances and trading terms under which commissions paid for by the Funds may be paid to a related party, including Scotia Capital Inc. in its capacity as broker to execute securities transactions.
- 2. Entering into Over-the-Counter ("OTC") Derivatives with a Related Party:** which provides the circumstances and trading terms under which commissions, spreads or other trading costs may be paid for by the Funds to a related party, including Scotia Capital Inc. in its capacity as broker or counterparty for entering into OTC derivative transactions.
- 3. Trading Foreign Exchange with a Related Party:** which provides the circumstances and trading terms under which spreads or other trading costs paid for by the Funds to a related party, including Scotia Capital Inc. in its capacity as broker for executing foreign exchange transactions.

During the Reporting Period the IRC reaffirmed the following existing Standing Instructions relating to conflict of interest matters that had been identified by the Manager and had received positive recommendations, and approval in the case of Inter-Fund Trades, by the former IRC members:

- 1. Changing Investment Advisors – Change in Fees-** The Manager hires external investment advisors for the MD Funds and MDPIM Pools. A change in the investment advisor may result in lower fees paid to the new investment advisor. There is a potential for the Manager to have a conflict of interest if the new investment advisor is chosen based on its significantly lower fees, rather than its performance or abilities.

- 2. Charging Fees for Administrative Services –** The MD Funds pay the Manager a fee for administrative services based on a percentage of the net asset value of the Fund. There is a potential for the Manager to have a conflict of interest if it sets the percentage rates significantly higher than necessary to allow for cost recovery on the administrative services.
- 3. Client Complaints-** There is a potential for the Manager to have a conflict of interest if it ignores, or fails to adequately respond to, a legitimate client complaint regarding a MD Fund or MDPIM Pool. Such failure to respond may be driven by potential adverse consequences to the Manager and not the best interests of the Fund or Pool.
- 4. Corporate Use of MD Funds-** A conflict could arise where the Manager or related parties transact in the securities of an MD Fund or MDPIM Pool.
- 5. Correcting Valuation Errors-** On occasion, the Manager may have to correct valuation errors for a MD Fund or MDPIM Pool. Because the correction could require the Manager to reimburse the Fund or Pool or a unitholder, there is a potential for the Manager to have a conflict of interest when it determines whether and how the correction is made.
- 6. External Investment Manager Due Diligence-** The Manager hires external investment advisors for the MD Funds and MDPIM Pools. The actions of an outside investment advisor could result in a conflict of interest in relation to a Fund or Pool. A conflict of interest may arise from the investment advisor's processes regarding the Fund or Pool (such as allocation of investments or proxy voting), its trading practices (such as best execution) and the personal trading activities of the investment advisor's employees, any of which may not protect the interest of the Fund or Pool.
- 7. Fair Valuing Portfolio Securities-** On occasion, the Manager may have to "fair value" a security held by a MD Fund or MDPIM Pool, where market values are not available from independent pricing sources or are not reliable. Because fair valuing affects the net asset value of the Fund or Pool, and the Manager's management fee revenues, there is a potential for the Manager to have a conflict of interest when it determines fair value.
- 8. Fund Performance Calculation-** On occasion, the Manager may have control over the calculation of investment performance for the MD Funds. It may have a financial interest or other interest in presenting inaccurate investment results.
- 9. Gifts and Entertainment-** Employees of the Manager may be offered gifts or entertainment by persons who have a key business relationship which affects a MD Fund or MDPIM Pool. There is a potential for the Manager to have a conflict of interest if an employee is influenced to cause the Manager to take certain actions with respect to a Fund or Pool which are not in the best interests of the Fund or Pool.
- 10. Inter-Fund Trades-** On occasion, the Manager may trade securities among MD Funds and MDPIM Pools. Because the trades do not take place on the open market, there is a potential for the Manager to have a conflict of interest if the terms of the trade are less beneficial than those available in arm's length transactions in the open market. Inter-fund trades require the approval of the IRC under NI 81-107.

- 11. Internal Tactical Asset Allocation-** Tactical Asset Allocation (“TAA”) decisions are made by an internal MDFM team, the Tactical and Risk Allocation Committee (“TRAC”). MDFM charges the clients a fixed management or account fee and benefits financially by lowering the overall sub-advisory costs.
- 12. Investment Advisor Conflict between Asset Allocation Mandate and Fund Investment Mandate-** There is a potential for conflict when a Sub-Advisor is selected for two Alternative Investment Pools as they currently provide asset allocation services to the Manager and the Sub-Advisor could benefit by allocating excessive assets to the Alternative asset class. Under the Standing Instruction the Manager is required to follow its Strategic Asset Allocation Policy to ensure that all recommendations are reasonable and consistent with MD’s internal investment view.
- 13. Oversight of Investment Advisors – Fund of Funds-** There is a potential for the Manager to have a conflict of interest when it includes or continues to include a MD Fund or other fund in a MD Fund of Funds. The Manager may have a financial or other interest in ensuring a particular fund is included or continues to be included in the Fund of Funds. A specific Standing Instruction is in place where particular financial arrangements or fee arrangements are made between the Manager and an Investment Advisor.
- 14. Personal Trading-** Employees of the Manager may not use non-public information related to the purchase, sale or investment decisions or investment advisors to a MD Fund or MDPIM Pool for their own benefit, putting their interests ahead of the Fund or Pool.
- 15. Reimbursement of Overdraft Interest-** The custodian charges the MD Funds and the MDPIM Pools interest on any overdraft balances in the fund/pool accounts. A conflict may arise with respect to these expenses as the Manager may exercise judgement in determining when to reimburse the fund/pool.
- 16. Securities Lending-** The Manager may have a conflict whenever it allows the securities of an MD Fund or MDPIM Pool to be lent under a securities lending program by the custodian. In particular, a conflict issue could arise where the Manager may take excessive risks in an attempt to maximize the securities lending revenue provided to the custodian in furtherance of lower direct costs.
- 17. Short-Term Trading-** Short-term trading (a sale by a unitholder within 60 days of purchase) may affect the cash levels in a MD Fund, its rate of return and transaction costs. There is a potential for the Manager to have a conflict of interest if it allows certain clients to engage in short-term trading.
- 18. Trade Error and Client Error Correction-** A perception of conflict arises when a trade error or client error occurs which would result in an obligation to make the client whole. This Policy sets the expectations for how the Manager will correct Trade Errors and Client Errors.
- 19. Use of Client Brokerage Commissions-** A conflict situation may arise when MDFM, as Manager and Advisor (Portfolio Manager) of the Funds, receives financial benefits which it will use to acquire certain research goods and services, as a result of the direction of client brokerage commissions by the investment managers of the Funds and by the Manager to specified brokers, who have agreed to provide MDFM with “commission credits” to use to acquire research goods and services. The use of commission dollars (“soft dollars”) benefits the Manager because it will not be required to pay for “research goods and services” out of its own revenues.

During the Reporting Period the IRC rescinded the Standing Instruction “**Investing in Related Managers**” as it determined that the conflict of interest matter covered under that Standing Instruction is included in the newly adopted Standing Instruction “**Purchase, Holding and Sale of Securities of a Related Party**”.

Schedule A

MD Funds

MD Money Fund
 MD Bond Fund
 MD Short-Term Bond Fund
 MD Precision Canadian Balanced Growth Fund
 MD Precision Canadian Moderate Growth Fund
 MD Dividend Growth Fund
 MD Equity Fund
 MD Select Fund
 MD American Growth Fund
 MD American Value Fund
 MD International Growth Fund
 MD International Value Fund
 MD Growth Investments Limited
 MD Strategic Yield Fund
 MD Strategic Opportunities Fund
 MD Fossil Fuel Free Bond Fund
 MD Fossil Fuel Free Equity Fund

MD Precision Portfolios

MD Precision Conservative Portfolio
 MD Precision Balanced Income Portfolio
 MD Precision Moderate Balanced Portfolio
 MD Precision Moderate Growth Portfolio
 MD Precision Balanced Growth Portfolio
 MD Precision Maximum Growth Portfolio

MDPIM Pools

MDPIM Canadian Bond Pool
 MDPIM Canadian Long Term Bond Pool
 MDPIM Dividend Pool
 MDPIM Canadian Equity Pool
 MDPIM US Equity Pool
 MDPIM International Equity Pool
 MDPIM Strategic Yield Pool
 MDPIM Strategic Opportunities Pool
 MDPIM Emerging Markets Equity Pool
 MDPIM S&P/TSX Capped Composite Index Pool
 MDPIM S&P 500 Index Pool
 MDPIM International Equity Index Pool



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