



MD Financial
Management Inc.

MD Funds and MDPIM Pools
2019 Annual report of the
Independent Review Committee

As at December 31, 2019

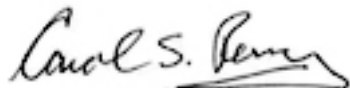
Dear Unitholder:

The members of the Independent Review Committee (“IRC”) of the MD Funds and the MDPIIM 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 January 1, 2019 to December 31, 2019 (the “Reporting Period”).

Securities regulators have given the IRC a mandate to review mutual fund 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.

At least annually, the IRC reviews and assesses the adequacy and effectiveness of the Manager’s policies and procedures relating to conflict of interest matters in respect of the Funds. The IRC also conducts annually a self-assessment of its independence, compensation and effectiveness.

The members of the IRC look forward to continuing to serve in the best interests of the Funds and working effectively and openly with the Manager.

A handwritten signature in black ink, appearing to read "Carol S. Perry". The signature is written in a cursive style with a horizontal line underneath the name.

Carol S. Perry
Chair of the Independent Review Committee

2019 Annual report of the Independent Review Committee

IRC Member Biography

IRC Member	Date of Appointment	Length of Service	Biography
Stephen Griggs	October 3, 2018	1 year, 3 months	Mr. Griggs is the Chief Executive Officer of Smoothwater Capital Corporation, a private investment company. Mr. Griggs is Executive Chair of TSX listed Genesis Land Development Corp. and Chair of the Board of Haventree Bank, a federally regulated bank controlled by Smoothwater. Mr. Griggs has also held senior executive positions with OPTrust, Legg Mason Canada Inc., and two leading Canadian mutual fund companies. Mr. Griggs also served for three years as Executive Director of the Canadian Coalition for Good Governance. Mr. Griggs was also a corporate/commercial and securities law partner with the Toronto law firm Smith Lyons (now Gowlings) until 1994 and remains a member of the Law Society of Ontario with a J.D. from the University of Toronto Law School. He has been an adjunct professor at Osgoode Hall Law School teaching in the area of corporate governance and lectures at the Directors College.
Simon Hitzig	October 3, 2018	1 year, 3 months	Mr. Hitzig is the President & Chief Executive Officer of Toronto based Accord Financial Corp., a TSX-listed independent commercial finance company. Prior to joining Accord Financial Corp. Mr. Hitzig joined Dynamic Funds™ in 1987 which was a part of Dundee Wealth Inc. at the time. Over the span of two decades to 2009, Mr. Hitzig held executive positions in marketing, product development and distribution strategy. Mr. Hitzig completed his MBA at Georgetown University in Washington DC and has a BA from York University in Toronto.
Heather Hunter	October 3, 2018	1 year, 3 months	Ms. Hunter has over 40 years of experience in the investment industry, most recently as Vice-President and Head of Canadian Equities at Invesco, a global investment manager from where she recently retired. Previously, Ms. Hunter held senior positions at Ontario Teachers' Pension Plan Board and Confederation Life. She served as a director of Maple Leaf Foods and NexGen Financial Corporation. Ms. Hunter received a Queen's Diamond Jubilee medal in recognition of her contributions to Easter Seals of Ontario as a director and chair. She is a member of the University of Toronto Investment Advisory Committee, and the Baycrest Foundation and Laidlaw Foundation investment committees. Ms. Hunter has an Honours BA from McGill University, an MBA from the University of Western Ontario, and a CFA.
Carol S. Perry (Chair)	October 3, 2018	1 year, 3 months	Ms. Perry is a corporate director. Previously, she was a Commissioner of the Ontario Securities Commission, and has served on adjudicative panels and acted as a director and Chair of its Governance and Nominating Committee. With over 20 years of experience in the financial services industry as an investment banker, Ms. Perry held senior positions with RBC Capital Markets, Richardson Greenshields of Canada Limited and CIBC World Markets and later founded MaxxCap Corporate Finance Inc., a financial advisory firm. Ms. Perry has an MBA from the University of Toronto, B. Eng. Sc. (Electrical) from the University of Western Ontario and is ICD.D accredited by the Institute of Corporate Directors.
Jennifer Witterick	October 3, 2018	1 year, 3 months	Ms. Witterick has been active in the investment industry for 30 years. She was the Founder & CEO of Sky Investment Counsel and a partner at Foyston, Gordon & Payne and Hamlin Watsa Investment Counsel. Ms. Witterick is a past President of the CFA Society Toronto and a member of the Institute of Corporate Directors, holding the ICD. D designation. She is a CFA charter holder and a graduate of the University of Western Ontario. Currently, Ms. Witterick is an international bestselling author.

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, 2019, 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, 2019, 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, 2019, the percentage of securities of each class or series of voting or equity securities of the Bank of Nova Scotia or any other 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 \$137,500. This amount was allocated amongst the Funds.

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, considering 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 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 were required.

Approvals

As permitted by Canadian securities legislation, including NI 81-107 and exemptive relief granted by the Canadian securities regulators, during the Reporting Period, the IRC provided approval in the form of Standing Instructions and subject to terms and conditions for the Funds to:

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. **Purchase of Securities Underwritten by a Related Party**, which provides approval for the investment in securities of an issuer where a related party, including Scotia Capital Inc., acts as an underwriter during the distribution of the securities and during the 60-day period following the completion of the distribution of such securities;
3. **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; and
4. **Inter-fund Trading**, which provides approval for the purchase of securities from or the sale of securities to, another Fund or pooled fund or segregated account managed by the Manager (also referred to as cross trading).

Recommendations

During the Reporting Period, the following are conflict of interest matters that have been identified by the Manager for the IRC to consider and for which the IRC reaffirmed its positive recommendations in the form of Standing Instructions:

1. **Agency Trading with a Related Party**, which provides the circumstances and trading terms under which commissions paid for by the Funds to a related party, including Scotia Capital Inc. in its capacity as a broker to execute securities transactions;
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. **Corporate Use of MD Funds** – A conflict could arise where the Manager or related parties transact in the securities of an MD Fund or MDPIIM Pool;
4. **Correcting Valuation Errors** – On occasion, the Manager may have to correct valuation errors for an MD Fund or MDPIIM 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;
5. **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 paid for by the Funds to a related party, including Scotia Capital Inc. in its capacity as a broker or counterparty for entering into OTC derivative transactions;
6. **External Investment Manager Due Diligence** – The Manager hires external investment advisors for the MD Funds and MDPIIM 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 an MD Fund or MDPIIM 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. **Gifts and Entertainment** – Employees of the Manager may be offered gifts or entertainment by persons who have a key business relationship which affects an 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;
9. **Internal Investment Adviser Due Diligence** – The Manager may choose to provide in-house investment adviser services for some MD Funds and MDPIM Pools. In making the determination to bring services in-house the Manager is expected to adhere to the same standards as are required of external investment advisers;
10. **Internal Tactical Asset Allocation** – Tactical Asset Allocation (“TAA”) decisions are made by an internal MDFMI team, the Tactical and Risk Allocation Committee (“TRAC”). MDFMI charges the clients a fixed management or account fee and benefits financially by lowering the overall sub-advisory costs;
11. **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;
12. **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 an MD Fund or other fund in an MD Fund of Funds. The Manager may have a financial or other interest in ensuring a 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;
13. **Personal Trading** – Employees of the Manager may not use non-public information related to the purchase, sale or investment decisions or investment advisors to an MD Fund or MDPIM Pool for their own benefit, putting their interests ahead of the Fund or Pool;
14. **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;
15. **Short-Term Trading** – Short-term trading (a sale by a unitholder within 60 days of purchase) may affect the cash levels in an 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;
16. **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;
17. **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; and
18. **Use of Client Brokerage Commissions** – A conflict situation may arise when MDFMI, 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 MDFMI 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.

On May 3, 2019 the IRC completed its review and provided a positive recommendation to a proposal by the Manager to engage 1832 Asset Management Inc. and Jarislowsky Fraser Limited, parties related to the Manager, as portfolio advisers to certain of the Funds.

On May 15, 2019 the IRC provided a positive recommendation to the Manager’s proposal to use deposit accounts provided by The Bank of Nova Scotia, a related party, to invest residual cash held in the Funds.

Rescission

During the Reporting Period, the IRC rescinded the following Standing Instructions in response to the Manager’s recommendation to the IRC that the matters are not conflict of interest matters within the meaning of National Instrument 81-107:

- Client Complaints
- Fund Performance Calculation
- Reimbursement of Overdraft Interest

The IRC also rescinded the Standing Instruction “Changing Investment Advisers – Change in Fees” in response to the Manager’s recommendation to the IRC that the conflict of interest matter is addressed in the “Internal Investment Adviser Due Diligence” and “External Investment Adviser Due Diligence” Standing Instructions.

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 Canadian Equity 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 Short-Term Bond Pool
MDPIM 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



**MD Financial
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