MD Stable Income Fund is a segregated group annuity policy issued by MD Life Insurance Company. One of the unique features of MD Stable Income Fund is its steady $10 unit value. Maintaining this steady value requires an accounting method that is different from the one used with mutual funds.

**BOOK-BASED ACCOUNTING RESULTS IN MORE UNITS FOR INVESTORS**

A book-based accounting method is used in order to maintain a steady $10 unit value. Under this method, any income is translated into additional units at each month-end, rather than a rise in unit value. As a result, investors receive extra units on a regular basis, increasing the total value of their MD Stable Income Fund holdings, while the value of each unit remains at $10.

With book-based accounting, income includes interest; dividends; amortized premiums and discounts; and amortized capital gains and losses from the sale of a security before its maturity date. Book-based accounting is used on client statements.

**TAX-BASED ACCOUNTING SOMETIMES RESULTS IN HIGHER DOLLAR AMOUNTS ON TAX SLIPS**

The tax-based accounting method is used for generating annual tax slips (T3s/RL16s) and is closer to the method used by the mutual fund industry. Tax-based accounting reports interest income; dividends; and capital gains and losses as they are realized. Capital gains and losses are not amortized as they are under book-based accounting. As a result, distributions reported on tax slips may differ from the unit distributions shown on client statements.

In a stable or declining interest rate environment, the end result is sometimes a higher dollar figure on a tax slip (tax-based accounting) than the dollar figure on statements (book-based accounting). This can be due to the relative attractiveness of the bonds held by MD Stable Income Fund when new bonds in the marketplace are being issued with lower interest rates — and this can lead to increased capital gains. In a rising interest rate environment, on the other hand, things may shift the other way so that statements show higher dollar amounts than tax slips do.
Contact your MD Advisor* today.

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* MD Advisor refers to an MD Management Limited Financial Consultant or Investment Advisor (in Quebec).

MD Stable Income Fund is not a mutual fund. It is a segregated group annuity policy, issued by MD Life Insurance Company. Important information about this product, including potential restrictions or adjustments to redemptions, can be found in the MD Stable Income Fund Group Annuity Policy Certificate, which can be obtained by contacting the MD Trade Centre at 1 800 267-2332 or online at md.ca. Please read it carefully before purchasing. All MD employees dealing with clients regarding insurance products hold life licences.

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TAX-BASED ACCOUNTING AFFECTS THE ADJUSTED COST BASE

Distributions reported under the tax-based method affect an investor’s per-unit adjusted cost base (ACB).

A tax-based distribution that is greater than the book-based distribution causes the tax-based ACB to increase; a tax-based distribution that is less than the book-based distribution causes the tax-based ACB to decrease. This tax-based ACB is used to calculate gains or losses whenever an investor sells units of MD Stable Income Fund. If an investor’s tax-based ACB is higher than $10 per unit, the investor will have realized a capital loss after selling units of MD Stable Income Fund.

For example, if an investor has an ACB of $10.05 per unit and sells 100 units at $10 each, the investor receives $1,000 but has realized a capital loss of $5 [{(100 units x $10.05 ACB) – (100 units x $10 unit value)}] to declare on his or her income tax return. This capital loss is reported on a T3/RL16 tax slip and may be used to offset capital gains, according to Income Tax Act (Canada) rules.

SUMMARY

The bottom line is that income is amortized under the book-based method, while it is reported as realized under the tax-based method. This will likely result in a difference between the amount shown on tax slips and the distribution amount shown on statements. It also causes a difference between book-based and tax-based ACBs, which can lead an investor to have capital gains or losses to declare when units are sold. In a stable or declining interest rate environment, the tax slips generally show a higher number. In a rising interest rate environment, the reverse is often the case.

Either way, MD Stable Income Fund maintains a steady $10 unit value and is a conservative long-term investment focused on providing income and preserving capital.