



MD Financial
Management Inc.

MD Funds and MDPIM Pools
2018 ANNUAL REPORT OF THE
INDEPENDENT REVIEW COMMITTEE

October 3, 2018

Dear Investor

As Chair of the Independent Review Committee (IRC), I am pleased to provide you with this Report to Investors for the MD family of mutual funds (the MD Funds) and the MDPIM Pools with respect to the activities we carried out as the IRC for the period from January 1, 2018 to October 3, 2018 (the Reporting Period).

On October 3, 2018, The Bank of Nova Scotia, through a wholly-owned subsidiary, acquired control of MD Financial Management Inc. (the Manager), which is the Manager of the MD Funds and the MDPIM Pools. As a result, each of us, as members of the IRC as of that date, ceased to be IRC members. We understand that the Manager will be immediately appointing the members of the independent review committee of the investment funds managed by 1832 Asset Management Inc., to act as the members of the IRC for the MD Funds and MDPIM Pools.

In accordance with applicable securities laws, the IRC reviews conflict of interest matters that may affect the ability of the Manager to act in good faith and in the best interest of the MD Funds and the MDPIM Pools, as required by law. The list of MD Funds and MDPIM Pools served by the IRC is attached as Schedule A to this Report.

We appreciate the standard of openness and integrity in our dealings with MD Financial Management Inc. We were very pleased to have undertaken this important role for the investors who hold the MD Funds and the MDPIM Pools. The Manager and the new members of the IRC will have access to the records of our activities to help facilitate a smooth transition.

Thank you for allowing us to act as your IRC.



Gerry Merkley
Chair
Independent Review Committee
for the MD Funds and MDPIM Pools

Independent Review Committee for MD Funds and MDPIM Pools

Report to Investors for the Period January 1, 2018 to October 3, 2018

This Report to Investors is provided for the period January 1, 2018 to October 3, 2018 (the Reporting Period) in relation to the MD Family of mutual funds (MD Funds) and the MDPIM Pools by the Independent Review Committee (the IRC). Schedule A to this Report to Investors lists the MD Funds and the MDPIM Pools. MD Financial Management Inc. (the Manager) is the manager of the MD Funds and the MDPIM Pools.

On October 3, 2018, The Bank of Nova Scotia, through a wholly-owned subsidiary, acquired control of MD Financial Management Inc. (the Manager), which is the Manager of the MD Funds and the MDPIM Pools. As a result, each of us, as members of the IRC as of that date, ceased to be IRC members. We understand that the Manager will be immediately appointing the members of the independent review committee of the investment funds managed by 1832 Asset Management Inc., to act as the members of the IRC for the MD Funds and MDPIM Pools.

IRC Members during the Reporting Period

Name	Term of Office
Lisa Johnson ¹	Appointed: April 1, 2007
Gerry Merkley, Chair	Appointed: January 1, 2013
Leslie Wood ²	Appointed: January 1, 2017

(collectively, the "Members")

Independence of Members

The IRC is not aware of any relationship during the Reporting Period that may have caused a reasonable person to question the independence of any Member.

In particular, during the Reporting Period, none of the Members owned, directly or indirectly:

- securities of any of the MD Funds or the MDPIM Pools where the aggregate level of ownership exceeded 10%;
- securities of the Manager; or
- securities of any person or company that provides services to the MD Funds or the MDPIM Pools or the Manager, as disclosed to the Members by the Manager, where the aggregate level of ownership exceeds 1%.

During the Reporting Period, the IRC reviewed and assessed, and was satisfied with, the independence of the Members and the effectiveness of the Members and the IRC.

Compensation, Indemnities and Other IRC Matters

During the Reporting Period, the aggregate compensation paid to the Members was \$49,500.00 plus applicable taxes.

No indemnities were paid to the Members during the reporting period.

The IRC reviewed and assessed the compensation of its Members during the Reporting Period.

The IRC considered:

- the best interests of the MD Funds and the MDPIM Pools;
- information on compensation being paid to Independent Review Committee members of other fund groups; and
- the number, nature and complexity of the MD Funds and the MDPIM Pools, the expected nature and extent of workload for the Members and the expected commitment of time and energy from the Members.

The IRC originally set its compensation level in 2007 and it has been subject to reasonable increases since that date. After a thorough review, no changes were made to the compensation level during the Reporting Period.

Conflict of Interest Matters – Recommendations and Approvals Relied upon during the Reporting Period

When a conflict of interest matter arises, the Manager refers the matter, and its proposed course of action, to the IRC. The Manager may request an approval or a recommendation concerning its proposed course of action, as well as a Standing Instruction which permits the Manager to proceed with a proposed course of action on an ongoing basis.

The Manager in the years prior to October 3, 2018, had referred its Policies regarding the following conflict of interest matters for our consideration. We had granted Standing Instructions to the Manager which allowed the Manager to take action in respect of the conflict of interest matter as set out in the Policy. The following Standing Instructions remain in place:

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.

¹ Ms. Johnson is also a member of the Independent Review Committees for the investment funds managed by Capital International Asset Management (Canada) Inc., and Guardian Capital LP.

² Ms. Wood is also a member of the Independent Review Committee for the ETFs managed by Wisdom Tree Asset Management Canada Inc.

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 of 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. As a result, inter-fund trades require the approval of the Committee under NI 81-107.
11. **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 overall sub-advisory costs.
12. **Investing in Related Managers** – Because of the non-arm's length relationship with the issuer or underwriter of the securities which may be purchased in a MD Fund or MDPIM Pool, the purchase of such securities requires the approval of the Committee under NI 81-107.
13. **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 MDFM 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.
14. **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.
15. **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.
16. **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.
17. **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.
18. **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.
19. **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.
20. **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.

Approvals

During the Reporting Period, no new approvals were requested.

Recommendations

During the Reporting Period, no new Recommendations were requested.

New Standing Instruction

During the Reporting Period, no new Standing Instructions were created.

Existing Standing Instructions

We did not review any of the existing Standing Instructions or the associated conflicts of interest policies of the Manager during the Reporting Period, since we generally did this during our meeting scheduled for the last quarter of the year. The Manager did not ask us to review any of our existing Standing Instructions and it did not present any amended Policies for our review and reassessment during the Reporting Period.

Compliance

We are not aware of any instance during the Reporting Period when the Manager acted in a conflict of interest matter referred to the IRC for which the IRC did not give a positive recommendation. The IRC is not aware of any instance during the Reporting Period when the Manager acted in a conflict of interest matter but did not meet a condition imposed by the IRC in its recommendation or approval.

Unitholders who would like additional details regarding the activities of the IRC may contact the Chief Compliance Officer:

Diane Woollard
c/o MD Financial Management Inc.
1870 Alta Vista Dr.
Ottawa, ON K1G 6R7
Diane.woollard@md.ca

Schedule A

MD Funds

MD Money Fund
MD Bond Fund
MD Short-Term Bond Fund
MD Precision Canadian Balanced Growth Fund (formerly, MD Balanced Fund)
MD Precision Canadian Moderate Growth Fund (formerly, MD Dividend Income 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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1870 Alta Vista Dr., Ottawa ON K1G 6R7

1 800 267-2332 | md.cma.ca