

# MD Balanced Fund

## Management Report of Fund Performance (December 31, 2011)

Series A, Series T and Series I

### Investment Objectives and Strategies

The MD Balanced Fund (the "Fund") seeks to achieve income and long-term capital growth in conjunction with capital conservation. The Fund invests in a mixture of mid to large-cap equities of Canadian and foreign companies, as well as both corporate and government fixed-income securities. This built-in portfolio diversification is designed to provide good upside potential as well as protection during down markets.

This is a multi-advisor fund utilizing the investment strategies of separate Investment Advisors. Mackenzie Financial Corporation - Mackenzie Sentinel investment team provides advice on the fixed income portion of the portfolio. Mackenzie Saxon provides advice on the Canadian and U.S. securities. Walter Scott & Partners Limited (Walter Scott) provides advice on the non-North American securities, and CIBC Global Asset Management (CGAM) advises on foreign currency and foreign cash management.

Mackenzie Sentinel applies a top-down, active portfolio management approach. They examine the strength of the economy through a constant review of economic indicators and trends, as well as monitor the political and fiscal situations domestically and abroad. With this information in hand, the Investment Advisor then determines ideal maturities, sector weights, industry weights and credit quality for the portfolio and selects the most appropriate securities to implement the Fund's strategy.

Mackenzie Saxon's selection process for North American equities is based on the principles of value investing—uncovering companies with a stock price trading below its fair market value. As they aim to produce a well-diversified portfolio that exhibits low volatility without sacrificing long-term returns, their research is disciplined both quantitatively and qualitatively.

Walter Scott relies heavily on its internal research, analyzing companies via proprietary methods, enabling it to compare stocks from around the world in a consistent way. They use financial analysis tools to highlight margin trends, cash generation, internal rate of return and financial structure. This financial analysis leads to an assessment of the business in order to understand the company and judge whether it can sustain its return structure into the future. Their "buy & hold" investment approach typically results in low portfolio turnover.

CGAM, in managing the foreign cash reserves, seeks to maintain the equity market exposure and minimize the impact of cash on the Fund's performance. They also manage the currency in the Fund and add value by managing the Fund's exposure to foreign currency. CGAM employs proprietary quantitative models focusing on key valuation, cyclical and momentum factors as well as qualitative analysis based on extensive internal research and insights from external sources

The Fund may not invest in companies that manufacture tobacco or tobacco-related products.

### Risk

At times, a portfolio can be subject to any number of investment risks. The risk level of the Fund did not change significantly during the year. Descriptions of the investment risks associated with this Fund are detailed in the Simplified Prospectus.

### Results of Operations

As part of the MD Physician Services Inc. investment management discipline, each Investment Advisor is carefully selected and integrated in a manner to ensure that the investment performance remains consistent with the long-term objectives of the Fund.

As of December 31, 2011 the assets in the Fund were allocated 69% to equities, 30% to fixed income, and the remainder in cash and cash equivalents.

The MD Balanced Fund's Series A units had a total return of -7.2% for 2011. The Fund's return was the result of numerous factors; however, the European debt crisis and expectations for slower global growth were two of the main drivers impacting Fund returns in 2011. This was particularly true in the third quarter, as investors moved assets into securities that were perceived to offer lower risk.

The fixed income portion made a positive contribution to the Fund's return in 2011. The Fund maintained close to half of its fixed income holdings in corporate bonds throughout the year. Although the Fund's return from its fixed income holdings were positive, the Fund did not fully participate in the outperformance of government issues as credit spreads widened during the year. In 2011, the DEX Provincial Bond Universe had a one-year return of 13.2%, the DEX Federal Government Bond Universe had a one-year return of 8.4%, and the DEX Corporate Bond Universe had a one-year return of 8.2%

Due to the Fund's large weighting in Canadian equities (71% of all equities) and the negative performance of the S&P/TSX Capped Composite Index, Canadian equities were the largest detractor to the Fund's performance. The next highest country weights in the equity portion of the Fund were the United States and Japan.

The Fund's equity portion was diversified among ten sectors; however, the Financials and Energy sectors had the most significant allocation. Although the Materials sector was not the most heavily weighted, falling commodity prices led to the most significant negative contribution within the equity portion of the Fund.

Contrary to last year, currency exposure provided a moderate positive contribution to the performance of the Fund as the Canadian dollar depreciated versus a basket of foreign currencies. More specifically, the Canadian dollar depreciated versus the U.S. dollar, the British Pound, and the Japanese Yen.

As at December 31, 2011, the total net asset value of the Fund was \$389 million, a decrease of 18% from the beginning of the year. The results from operations, net redemptions and distributions to unitholder all contributed to the reduction in the net asset value. Revenues and expenses were similar to the previous year.

### Disclosure

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can obtain a copy of the annual financial statements at your request, and at no cost, by calling 1 800 267-2332, by writing to us at MD Physician Services Inc., 1870 Alta Vista Drive, Ottawa, Ontario, K1G 6R7, or by visiting our website at [md.cma.ca](http://md.cma.ca) or SEDAR at [sedar.com](http://sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.



# MD Balanced Fund

## Management Report of Fund Performance (December 31, 2011)

### Recent Developments

#### Strategic Changes

There were no strategic changes to the Fund throughout the year. The Fund continues to be managed in a manner consistent with its investment mandate. The Investment Advisors have adhered to their investment disciplines and portfolio strategies, and they are in line to achieve the long-term objectives of the Fund.

#### Related Party Transactions

MD Physician Services Inc. is the Manager, Registrar and Trustee of the Fund. As Manager, MD Physician Services Inc. manages the overall business of the MD Fund and is responsible for; setting investment objectives, providing and/or retaining the services of third party service providers for fund accounting services, administration services, and promoting the sales of the Fund's units.

As Registrar, MD Physician Services Inc. keeps track of the owners of units of the MD Fund, processes purchase, transfer and redemption orders, issues investor account statements, and issues annual tax reporting information.

As the Fund is organized as a Trust, investing in the Fund means purchasing units of the Trust. As Trustee to the Fund, MD Physician Services Inc. holds actual title to the property in the Fund—the cash and securities the Fund invests in—on behalf of the unitholders.

The principal distributor is MD Management Limited. As principal distributor, MD Management Limited markets the units of the MD Fund through its offices across Canada. MD Management Limited is owned by the Fund Manager, MD Physician Services Inc., which is owned by CMA Holdings (2009) Inc.

#### Management Fees

MD Physician Services Inc. provides the Fund with investment management and administrative services, including fund accounting and unitholder record-keeping. In return, MD Physician Services Inc. receives a management fee and an administration fee based on the net asset value of the Fund calculated on a daily basis and paid weekly.

MD Physician Services Inc. pays MD Management Limited, a related party, a fee for providing financial planning services.

(As a percentage of management fees)

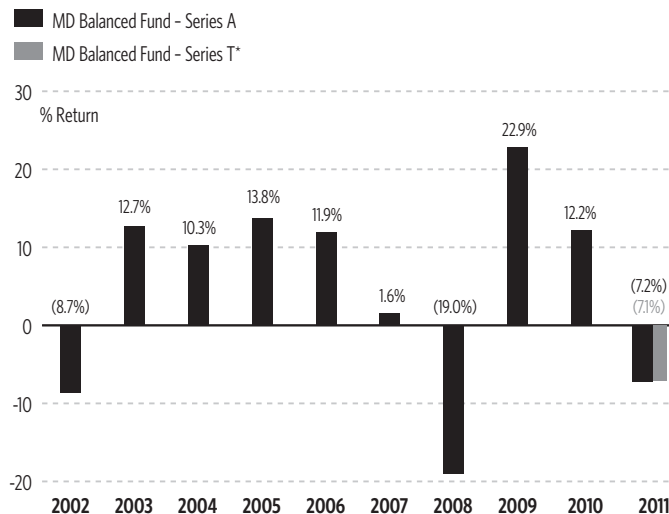
Financial Planning Services	39.1%
Investment management, administration and other	60.9%

#### Past Performance

The following bar chart shows the Fund's annual performance for each of the years shown, and illustrates how the Fund's performance changed from year to year. The chart shows, in percentage terms, how much an investment made on the first day of each calendar year would have grown or decreased by the last day of each calendar year.

The performance information assumes that all distributions made by the Fund were reinvested in additional units of the Fund and does not take into account sales, redemption, distribution or other optional charges that would reduce returns. How the Fund has performed in the past does not necessarily indicate how the Fund will perform in the future.

#### Year-By-Year Returns



To date there have been no sales of the Series I units, hence no performance data is available.

\* The fund established Series T units on November 22, 2010.

#### Annual Compound Returns

The following table shows MD Balanced Fund's historical annual compound returns for the past one, three, five, and ten year periods ended on December 31 and since inception of the series T, as compared to the return of a Blended Balanced Composite Index.

The individual indices that make up the Blended Balanced Composite Index are shown independently. They serve as a frame of reference only, as opposed to the blended benchmark, as they do not, independently, reflect performance of a Fund.

	1 year	3 years	5 years	10 years	Since Inception*
MD Balanced Fund - Series A	-7.2%	8.6%	1.1%	4.3%	
MD Balanced Fund - Series T	-7.1%				-4.8%
Blended Balanced Composite Index	-0.2%	9.3%	2.5%	5.6%	
DEX Universe Bond Index	9.7%	7.3%	6.4%	6.5%	
S&P/TSX Capped Composite Index	-8.7%	13.2%	1.3%	7.0%	
S&P 500 Index	4.6%	7.0%	-2.9%	-1.6%	
MSCI EAFE Index	-9.6%	1.4%	-6.8%	0.5%	

\*The Fund established series T units on November 22, 2010.

Management uses the Blended Balanced Composite Index as the benchmark for this Fund because it best represents the general weightings in the MD Balanced Fund. The index is comprised of:

- ▶ 40% DEX Universe Bond Index, which measures the returns on Canadian bonds with greater than one year to maturity;
- ▶ 40% S&P/TSX Capped Composite Index, which measures the aggregate common share returns of Canada's largest companies ;

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- ▶ 10% S&P 500 Index, which measures the aggregate common share returns of the U.S.'s largest companies; and
- ▶ 10% MSCI EAFE Index, which measures the aggregate returns of securities listed on exchanges in European, Australasian and Far Eastern markets.

Although index returns are hypothetical—as they do not reflect the true cost of owning or managing the underlying securities— they are one of several useful indicators. By comparing the Fund's performance to the movements of the benchmark, we are able to assess how the Fund is doing. For example, some short-term deviations can signal the need for change while others confirm the expectations of a longer-term strategy. If Management were to ascertain that a Fund's over or under performance was the result of excessive risk-taking or deviation from the investment mandate, we would, on behalf of all our unitholders, address these issues with the Investment Advisors, and make changes if necessary.

As the above table indicates, the Fund underperformed the Blended Balanced Composite Index for the most recent one year period. This year's relative performance is mainly the result of the Fund's position in Canadian equities relative to the Blended Balanced Composite Index.

### Regarding Forward-Looking Statements

This document contains forward-looking statements. Such statements are generally identifiable by the terminology used, such as "plan", "anticipate", "intend", "expect", "estimate", or other similar wording.

These forward-looking statements are subject to known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in securities prices; fluctuation in interest rates and foreign currency exchange rates; and actions by governmental authorities. Future events and their effects on the Fund may not be those anticipated. Actual results may differ materially from the results anticipated in these forward-looking statements.

# MD Balanced Fund

## Management Report of Fund Performance (December 31, 2011)

### Financial Highlights

The following tables show selected key financial information about the Fund and its financial performance for the past five years. This information is derived from the Fund's audited annual financial statements.

#### The Fund's Net Assets per Unit<sup>1</sup>

Series A	2011	2010	2009	2008	2007
Net assets - beginning of the year	\$ 23.56	\$ 21.23	\$ 17.53	\$ 22.82	\$ 24.19
Increase (decrease) from operations:					
Total revenue	\$ 0.62	\$ 0.61	\$ 0.58	\$ 0.71	\$ 0.58
Total expenses	\$ (0.34)	\$ (0.32)	\$ (0.29)	\$ (0.31)	\$ (0.36)
Net realized gains (losses) for the year	\$ 0.58	\$ 1.18	\$ (0.62)	\$ 0.55	\$ 2.04
Net unrealized gains (losses) for the year	\$ (2.52)	\$ 1.10	\$ 4.28	\$ (5.26)	\$ (1.85)
Total increase (decrease) from operations <sup>2</sup>	\$ (1.66)	\$ 2.57	\$ 3.95	\$ (4.31)	\$ 0.41
Distributions:					
From income (excluding dividends)	\$ —	\$ (0.03)	\$ (0.05)	\$ (0.09)	\$ (0.19)
From dividends	\$ (0.27)	\$ (0.23)	\$ (0.25)	\$ (0.19)	\$ (0.19)
From capital gains	\$ (0.05)	\$ —	\$ —	\$ (0.66)	\$ (1.35)
Return of capital	\$ —	\$ —	\$ —	\$ —	\$ —
Total annual distributions <sup>3</sup>	\$ (0.32)	\$ (0.26)	\$ (0.30)	\$ (0.94)	\$ (1.73)
Net assets - end of the year	\$ 21.55	\$ 23.56	\$ 21.23	\$ 17.53	\$ 22.82

Series T	2011	2010 <sup>4</sup>
Net assets - beginning of the year	\$ 10.19	\$ 10.00
Increase (decrease) from operations:		
Total revenue	\$ 0.26	\$ 0.02
Total expenses	\$ (0.15)	\$ (0.01)
Net realized gains (losses) for the year	\$ 0.16	\$ 0.08
Net unrealized gains (losses) for the year	\$ (1.42)	\$ 0.11
Total increase (decrease) from operations <sup>2</sup>	\$ (1.15)	\$ 0.20
Distributions:		
From income (excluding dividends)	\$ —	\$ —
From dividends	\$ (0.08)	\$ —
From capital gains	\$ (0.11)	\$ —
Return of capital	\$ (0.51)	\$ —
Total annual distributions <sup>3</sup>	\$ (0.70)	\$ —
Net assets - end of the year	\$ 8.79	\$ 10.19

<sup>1</sup> This information is derived from the Fund's audited annual financial statements. The net assets per unit presented in the financial statements differs from the net asset value per unit calculated for fund pricing purposes. An explanation of these differences can be found in Note 2 of the Notes to Financial Statements. Net assets per unit are presented for 2007 through 2011.

<sup>2</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial year.

<sup>3</sup> Distributions were paid in cash or reinvested in additional units of the Fund, or both.

<sup>4</sup> The results shown are for the period November 22 - December 31, 2010.

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## Management Report of Fund Performance (December 31, 2011)

### Financial Highlights (continued)

#### Ratios and Supplemental Data

Series A	2011	2010	2009	2008	2007
Total net asset value, end of the year <sup>1</sup>	\$ 388,498,796	\$ 473,052,553	\$ 464,215,690	\$ 409,616,674	\$ 552,503,130
Number of units outstanding	17,993,984	20,055,023	21,805,574	23,268,311	24,159,317
Management expense ratio <sup>2</sup>	1.51%	1.48%	1.45%	1.42%	1.41%
Management expense ratio before tax	1.38%	1.38%	1.38%	1.35%	1.33%
Management expense ratio before waivers or absorptions	1.51%	1.48%	1.46%	1.43%	1.42%
Trading expense ratio <sup>3</sup>	0.05%	0.06%	0.07%	0.06%	0.06%
Portfolio turnover rate <sup>4</sup>	44.50%	26.13%	34.74%	66.97%	71.27%
Net asset value per unit	\$ 21.59	\$ 23.59	\$ 21.29	\$ 17.60	\$ 22.87

Series T	2011	2010 <sup>5</sup>
Total net asset value, end of the year <sup>1</sup>	\$ 739,267	\$ 156,284
Number of units outstanding	84,005	15,320
Management expense ratio <sup>2</sup>	1.55%	1.06%
Management expense ratio before tax	1.38%	0.97%
Management expense ratio before waivers or absorptions	1.55%	1.06%
Trading expense ratio <sup>3</sup>	0.05%	0.06%
Portfolio turnover rate <sup>4</sup>	44.50%	26.13%
Net asset value per unit	\$ 8.80	\$ 10.20

<sup>1</sup> This information is provided as at December 31 of the year shown.

<sup>2</sup> Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. Effective July 1, 2010, goods and services tax ("GST") was replaced by the harmonized sales tax ("HST") in certain provinces and is applicable at higher rates than the GST. HST is being paid by the Fund and results in a higher MER than in previous years.

<sup>3</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

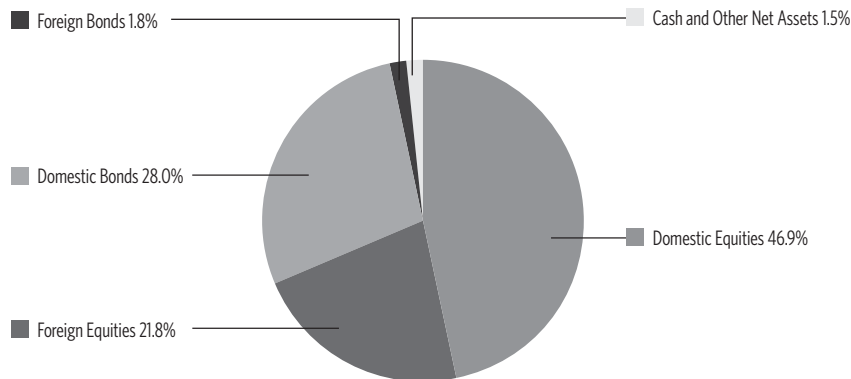
<sup>4</sup> The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

<sup>5</sup> The results shown are for the period November 22 - December 31, 2010.

# MD Balanced Fund

## Summary of Investment Portfolio (December 31, 2011)

Net Asset Value: \$389.2 million



### Portfolio Allocation

#### Domestic Equities

Consumer Discretionary	4.8%
Consumer Staples	2.3%
Energy	11.3%
Financials	11.4%
Industrials	5.4%
Materials	9.7%
Telecommunication Services	2.0%
<b>Total</b>	<b>46.9%</b>

#### Foreign Equities

Australia	1.0%
Belgium	0.2%
Bermuda	0.7%
Brazil	0.2%
China	0.1%
Denmark	0.4%
Finland	0.1%
France	0.8%
Germany	0.5%
Hong Kong	0.9%
Israel	0.3%
Japan	3.2%
Singapore	0.2%
Spain	0.2%
Sweden	0.2%
Switzerland	0.8%
Taiwan	0.2%
United Kingdom	2.0%
United States	9.8%
<b>Total</b>	<b>21.8%</b>

### Top 25 Holdings (Percentage of Net Asset Value)

Canada Housing Trust No 1 1.33% Jan 15/16	2.5%
Province of Quebec 4.50% Feb 01/20	2.4%
Royal Bank of Canada	1.7%
The Toronto-Dominion Bank	1.7%
Canadian Natural Resources Limited	1.6%
Canadian Imperial Bank of Commerce	1.6%
TransCanada Corporation	1.4%
Canadian Pacific Railway Limited	1.3%
Suncor Energy, Inc.	1.3%
EnCana Corporation	1.3%
TELUS Corporation Non-Voting	1.3%
Power Corporation of Canada	1.3%
Province of Ontario 6.50% Feb 08/29	1.3%
Goldcorp Inc.	1.3%
Loblaw Companies Limited	1.2%
Government of Canada 2.00% Jan 01/16	1.2%
ShawCor Ltd. Cl. A Sub. Voting	1.2%
Talisman Energy Inc.	1.2%
Progressive Waste Solutions Ltd.	1.2%
Genworth MI Canada Inc.	1.1%
Thomson Reuters Corporation	1.1%
Cash and Cash Equivalents	1.1%
Enbridge Inc.	1.1%
Agrium Inc.	1.1%
Province of Ontario 4.65% Apr 02/41	1.0%

#### Domestic Bonds

Asset Backed Securities	1.8%
Collateralized Mortgage Obligations	0.4%
Corporate Bonds	10.8%
Government of Canada Bonds	7.8%
Municipal Bonds	1.6%
Provincial Bonds	5.6%
<b>Total</b>	<b>28.0%</b>

#### Foreign Bonds

Australia	1.0%
Netherlands	0.1%
Norway	0.1%
South Korea	0.1%
United States	0.5%
<b>Total</b>	<b>1.8%</b>

**Cash and Cash Equivalents** 1.1%

**Other Net Assets** 0.4%

**Total Net Assets** 100.0%

Note: Summary of Investment Portfolio may change due to ongoing portfolio transactions of the investment fund. A quarterly update is available.

The Net Asset Value, Portfolio Allocation and Top 25 Holdings in the tables are based on the trading net asset value as at December 31, 2011.

