

# MD Bond Fund

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

### Series A and Series I

### Investment Objectives and Strategies

The MD Bond Fund (the "Fund") seeks to conserve capital and produce income, with capital appreciation as a secondary objective. The Fund's total return can include interest income and capital gains. The Fund invests in a variety of Government of Canada, provincial, municipal, corporate and asset-backed bonds with mid to long-terms of maturity. It may also invest in foreign securities.

The Investment Advisor of the Fund is MD Private Trust Company. MD Private Trust Company utilizes the investment sub-advisory services of Mackenzie Financial Corporation - Mackenzie Sentinel investment team. 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, and monitor the political and fiscal situations domestically and abroad. With this information, Mackenzie Sentinel 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.

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 during the year. The primary investment risk, fixed income investments risk, continues to be managed as the Investment Sub-Advisor diversifies by issuer, term-to-maturity and sector. Foreign currency risk is managed with a rolling series of forward contracts that hedge U.S. dollar exposure. 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, we carefully select and monitor the Investment Advisor and Sub-Advisor to ensure the investment performance remains consistent with the long-term objectives of the Fund.

For the year ended December 31, 2011, the Fund's Series A units generated a total return of 7.6%.

The European debt crisis and expectations for slower global growth were two of the main drivers pushing fixed income yields lower in 2011 as investors moved assets into securities that were perceived to offer lower risk. The Canadian bond indices, the DEX Short-Term, DEX Mid-term and DEX Long-Term Universe Bond Indices, all had positive returns for 2011, however, the long-term bond prices received a disproportional amount of support from policy interventions such as the Federal Reserve extending the average maturity of its holdings through purchases of longer term debt. This realization was illustrated via a flattening yield curve in Canada, which means that the differential in yield between short and long term bonds decreased.

Although yields for corporate debt fell during the year, credit spreads widened as they did not fall to the same magnitude as their government counterparts. This means that corporate bond investors demanded a higher return to compensate them

for the perceived increase in risk. Within the DEX Bond Universe Index, provincial issues had the highest return in 2011 as investors showed a preference for higher yield versus federal government bonds without taking the perceived risk of investing in corporate issues.

Throughout the year, the Fund maintained a shorter than benchmark duration, which generally means a shorter maturity than the benchmark. In addition the Fund held a significant weight in debt issued by corporations. In September, the portfolio's duration was increased slightly to take advantage of the expectation that yields would continue to fall. At the end of the year, the MD Bond Fund held 3% in Cash and Cash Equivalents, 92% in Domestic Bonds and 5% in Foreign Bonds.

At December 31, 2011 the total net asset value of the Fund was approximately \$1.7 billion, which was slightly lower than the beginning of the year. Net redemptions and distributions from unitholder transactions offset the positive contributions from the Fund's operations. Revenues and expenses of the Fund were similar to the previous year.

### Recent Developments

#### Strategic Changes

The Fund continues to be managed in predominantly a top-down manner, with the Fund continuing to hold an overweight position in high-quality, investment-grade corporate bonds. The average term of the Fund may be lengthened or shortened based on the Investment Sub-Advisor's analysis of future interest rate direction.

### 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.

#### 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 Bond Fund

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

### 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)

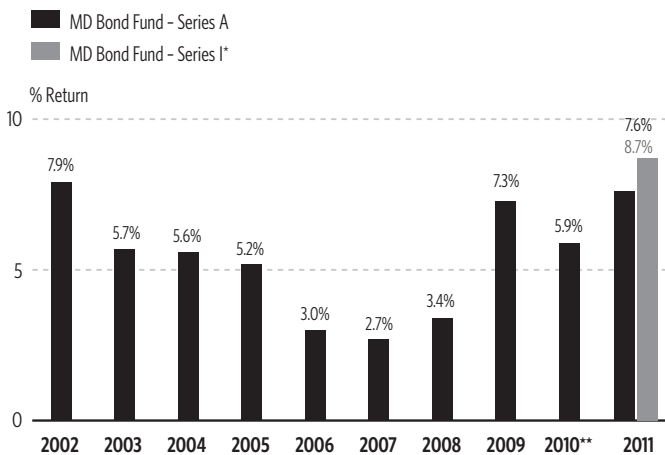
Financial Planning Services	62.7%
Investment management, administration and other	37.3%

### 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



\* Series I units do not charge a management fee at the fund level, and therefore may report higher returns. Series I units are available to qualified Institutional Investors who pay a separate negotiated management fee directly to MD Physician Services Inc.

\*\*Series I units are not reported in 2010 as they have been in existence for less than 12 months.

### Annual Compound Returns

The following table shows MD Bond Fund's historical annual compound return for the past one, three, five and ten year periods ended on December 31 and since inception of the series I, as compared to the return of the DEX Universe Bond Index.

	1 year	3 years	5 years	10 years	Since Inception*
MD Bond Fund - Series A	7.6%	6.9%	5.3%	5.4%	
MD Bond Fund - Series I	8.7%	—	—	—	7.6%
DEX Universe Bond Index	9.7%	7.3%	6.4%	6.5%	

\*The Fund established series I units on January 5, 2010. The series I units are available to institutional investors and pay a separate negotiated management fee and administration fee directly to MD Physician Services Inc.

Management uses the DEX Universe Bond Index as the benchmark for this Fund because it represents the returns on Canadian bonds with greater than one year to maturity. Although index returns are hypothetical — as they do not reflect the true cost of owning or managing the underlying bonds — 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 relative performance of the Fund. 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 Advisor, and make changes if necessary.

The MD Bond Fund's return is the result of falling yields amongst the fixed income securities in which it invests. As noted above, the Fund underperformed its benchmark over the most recent one year period. Although the Fund benefited from the appreciation of fixed income issues, a lack of exposure to the outperformance of government issues deterred from the Fund's performance versus the index. Further, the Fund maintained a shorter than benchmark duration to protect the portfolio from the potentially detrimental effect caused by rising yields and, therefore, did not participate in the appreciation of fixed income prices to the same extent as the noted benchmark.

### 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 Bond 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	\$ 7.55	\$ 7.38	\$ 7.14	\$ 7.14	\$ 7.28
Increase (decrease) from operations:					
Total revenue	\$ 0.29	\$ 0.30	\$ 0.34	\$ 0.37	\$ 0.34
Total expenses	\$ (0.08)	\$ (0.07)	\$ (0.07)	\$ (0.07)	\$ (0.07)
Net realized gains (losses) for the year	\$ 0.19	\$ 0.07	\$ 0.13	\$ (0.05)	\$ (0.04)
Net unrealized gains (losses) for the year	\$ 0.16	\$ 0.12	\$ 0.12	\$ (0.03)	\$ (0.05)
Total increase (decrease) from operations <sup>2</sup>	\$ 0.56	\$ 0.42	\$ 0.52	\$ 0.22	\$ 0.18
Distributions:					
From income (excluding dividends)	\$ (0.21)	\$ (0.23)	\$ (0.21)	\$ (0.21)	\$ (0.32)
From dividends	\$ —	\$ —	\$ —	\$ —	\$ —
From capital gains	\$ (0.03)	\$ (0.02)	\$ (0.07)	\$ (0.01)	\$ —
Return of capital	\$ —	\$ —	\$ —	\$ —	\$ —
Total annual distributions <sup>3</sup>	\$ (0.24)	\$ (0.25)	\$ (0.28)	\$ (0.22)	\$ (0.32)
Net assets - end of the year	\$ 7.87	\$ 7.55	\$ 7.38	\$ 7.14	\$ 7.14

Series I	2011	2010 <sup>4</sup>
Net assets - beginning of the year	\$ 7.74	\$ 7.43
Increase (decrease) from operations:		
Total revenue	\$ 0.29	\$ 0.30
Total expenses	\$ —	\$ —
Net realized gains (losses) for the year	\$ 0.20	\$ 0.09
Net unrealized gains (losses) for the year	\$ 0.23	\$ 0.01
Total increase (decrease) from operations <sup>2</sup>	\$ 0.72	\$ 0.40
Distributions:		
From income (excluding dividends)	\$ (0.29)	\$ (0.25)
From dividends	\$ —	\$ —
From capital gains	\$ (0.16)	\$ (0.05)
Return of capital	\$ —	\$ —
Total annual distributions <sup>3</sup>	\$ (0.45)	\$ (0.30)
Net assets - end of the year	\$ 7.96	\$ 7.74

<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 January 5 - December 31, 2010.

# MD Bond Fund

## 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>	\$ 1,543,909,933	\$ 1,617,789,737	\$ 1,597,933,519	\$ 1,511,696,608	\$ 1,451,617,685
Number of units outstanding	195,846,755	213,988,119	216,176,088	211,528,882	203,181,256
Management expense ratio <sup>2</sup>	1.02%	0.99%	0.97%	0.93%	0.94%
Management expense ratio before tax	0.92%	0.92%	0.92%	0.88%	0.88%
Management expense ratio before waivers or absorptions	1.02%	0.99%	0.98%	0.98%	0.97%
Trading expense ratio <sup>3</sup>	—	—	—	—	—
Portfolio turnover rate <sup>4</sup>	81.11%	48.67%	61.01%	150.62%	148.72%
Net asset value per unit	\$ 7.88	\$ 7.56	\$ 7.39	\$ 7.15	\$ 7.14

Series I	2011	2010 <sup>5</sup>
Total net asset value, end of the year <sup>1</sup>	\$ 155,153,012	\$ 117,084,350
Number of units outstanding	19,475,742	15,094,707
Management expense ratio <sup>2</sup>	—	—
Management expense ratio before waivers or absorptions	—	—
Trading expense ratio <sup>3</sup>	—	—
Portfolio turnover rate <sup>4</sup>	81.11%	48.67%
Net asset value per unit	\$ 7.97	\$ 7.76

<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.

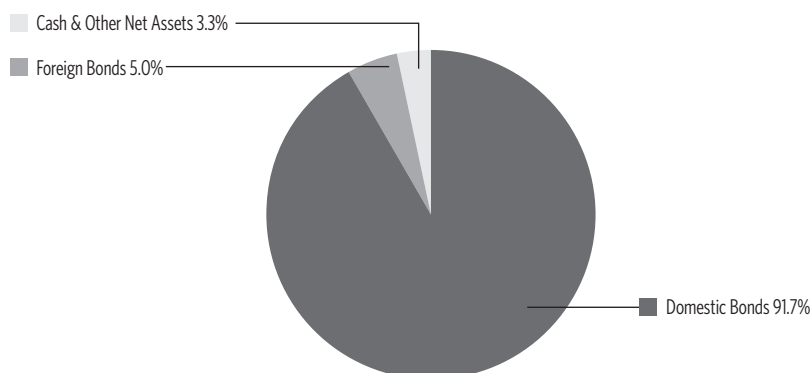
<sup>4</sup> The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's 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 January 5 - December 31, 2010.

# MD Bond Fund

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

Net Asset Value: \$1,699.1 million



### Portfolio Allocation

#### Domestic Bonds

Asset Backed Securities	6.8%
Collateralized Mortgage Obligations	1.1%
Corporate Bonds	37.6%
Government of Canada Bonds	23.3%
Municipal Bonds	4.4%
Provincial Bonds	18.5%
<b>Total Domestic Bonds</b>	<b>91.7%</b>

#### Foreign Bonds

Australia	3.1%
Netherlands	0.3%
Norway	0.4%
South Korea	0.2%
United States	1.0%
<b>Total Foreign Bonds</b>	<b>5.0%</b>

#### Cash and Cash Equivalents

2.7%

#### Other Net Assets

0.6%

#### Total Net Assets

100.0%

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

Province of Quebec 4.50% Feb 01/20	4.8%
Canada Housing Trust No 1 1.33% Jan 15/16	4.8%
Government of Canada 4.00% Apr 01/41	4.4%
Province of Ontario 6.50% Feb 08/29	3.9%
Province of Ontario 4.65% Apr 02/41	3.8%
Government of Canada 2.00% Jan 01/16	3.5%
Canada Housing Trust No 1 2.75% Jan 15/16	2.8%
Cash and Cash Equivalents	2.7%
Province of Ontario 4.20% Feb 02/20	2.1%
Government of Canada 3.75% Jan 01/12	2.1%
Canada Housing Trust 1.41% Jan 15/15	1.8%
NHA Mortgage Backed Securities 3.12% Feb 01/21	1.4%
National Bank of Canada 4.03% Jan 26/15	1.2%
Teranet Holdings LP 3.53% Jan 16/15	1.2%
Province of Quebec 5.00% Apr 01/41	1.2%
Royal Office Finance LP 5.21% Mar 12/32	1.2%
Government of Canada 2.00% Apr 01/41	1.1%
EnCana Corporation 5.80% Jan 18/18	1.1%
Province of Quebec 4.50% Jan 01/18	1.1%
City of Toronto 5.05% Jan 18/17	1.1%
Bank of Montreal 6.17% Feb 28/23	1.1%
Bank of Montreal 3.98% Feb 08/21	1.1%
Canadian Credit Card Trust 3.44% Jan 24/15	1.0%
Teranet Holdings LP 6.10% Apr 17/41	0.9%
Sun Life Financial Inc. 5.70% Jan 02/19	0.9%

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.



This page intentionally left blank.