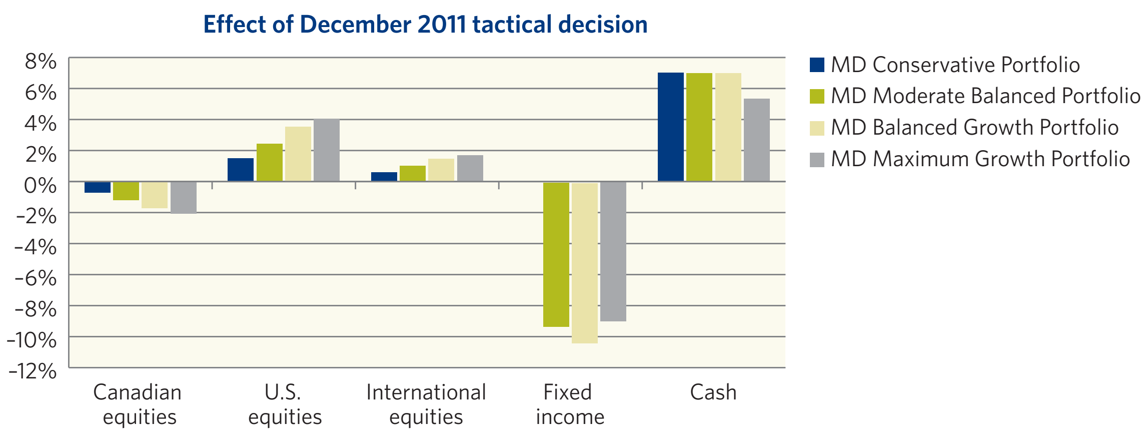
December 2011 tactical decision: MD portfolio funds

Background

A key benefit of the MD portfolio funds is their opportunity-seeking nature. On a quarterly basis, the asset allocation within each portfolio may be shifted, within a defined range and risk budget (the amount of risk that we allow for each portfolio). These quarterly tactical decisions are based on in-depth economic research that signals shorter-term (usually measured in months rather than multiple years), temporary opportunities to potentially add incremental value to portfolios. Research conducted looks at such variables as valuations, yield curve dynamics and other macroeconomic factors, and market sentiment. By then adding exposure to an asset class that is viewed as presenting more attractive risk and return profiles, and reducing exposure to less attractive ones, the actively managed portfolios have the flexibility to capture shorter-term potential for investors.

This decision

In December 2011, the MD Investment Management and Strategy department implemented the following asset allocation changes for the MD portfolio funds:



Bars that are above the 0% baseline indicate an overweight position; bars that are below the 0% baseline indicate an underweight position. "Underweight" and "overweight" are relative terms, tied to the strategic asset allocation outlined in the simplified prospectus. An "underweight" position indicates a lower weighting, generally an indication of the relative unattractiveness of an asset class. An "overweight" position indicates a higher weighting, generally an indication of the relative attractiveness of an asset class.

MD PHYSICIAN SERVICES
CMA COMPANIES

Rationale

- **Overweight equities versus bonds:** Bonds continue to look expensive when compared with equities, and bond yields are still below the rate of inflation in the United States, Canada, United Kingdom and Germany. As risk aversion brought about by the European debt crisis ebbs, we expect equities to outperform bonds.
- **Underweight Canadian equities:** Relative to other asset classes, Canadian equity momentum and mid- to long-term market expectations have declined, even though growth prospects for Canada are improving.
- **Overweight U.S. equities:** We are overweight in U.S. equities, primarily due to strong price momentum and positive mid- to long-term market expectations.
- **Overweight international equities:** While Europe, Australasia and Far East (EAFE) equity price momentum is relatively negative, there is a preponderance of positive factors that causes us to be slightly overweight: expectations of a recession are likely already factored into prices, their yield curve is steepening, and mid- to long-term market expectations are positive.
- **Underweight Canadian bonds, overweight cash:** As mentioned above, relative to equities, bonds look expensive and slightly unattractive over the shorter term. We are overweight in cash in order to further manage portfolio risk/return levels, as an increased weighting to equities and bonds' unattractiveness generate a need to use cash to reduce risk levels in portfolios. (Please note that the cash positions earn interest above typical bank rates.)

More information

For more information regarding the precise asset allocation for your MD portfolio fund, you can look at the monthly profiles, posted to **http://mdm.ca/solutions/investments/fund-of-funds** under 'Get the details'. Note that tactical changes will appear in the December profiles, posted on or about the 10th business day of January 2012.

As always, your MD advisor can answer any questions you may have about your MD portfolio funds, or any other product or service you have with MD.

The next decision

Our next tactical decision is scheduled for March 2012.

INV-11-00526