

# **MD Family of Funds**

## 2011 Annual Financial Statements



PHYSICIAN  
SERVICES INC.  
A CMA COMPANY

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# A Message Regarding Your Financial Statements

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Dear MD Family of Funds Investor:

As part of our commitment to keeping you informed about your MD Fund investments, please find attached the 2011 annual financial statements.

The annual financial statements are produced on a fund-by-fund basis, and your report only includes information on the funds you owned as of December 31, 2011.

If you have any questions regarding these documents, please contact your MD advisor or the MD TradeCentre at **1 800 267-2332**. We thank you for your continued investment in the MD Family of Funds.

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## **Audited Annual Financial Statements for the Year Ended December 31, 2011**

These audited Annual Financial Statements do not contain the Annual Management Report of Fund Performance ("MRFP") of the investment fund. If you have not received a copy of the Annual MRFP with this report, you may obtain a copy of the Annual MRFP at your request, and at no cost, by calling the toll-free number 1 800 267-2332, by writing to us at MD Physician Services Inc., 1870 Alta Vista Drive, Ottawa ON K1G 6R7, by visiting our website at [md.cma.ca](http://md.cma.ca) or by visiting the SEDAR website 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 Physician Services Inc. either wholly owns or has a majority interest in its seven subsidiaries (the MD group of companies\*), provides financial products and services, is the fund manager for the MD family of mutual funds, offers investment counselling services, and also provides practice management services (such as consulting, EMR and Health Portal solutions) and related billing services.

\* For a detailed list of companies, visit [md.cma.ca](http://md.cma.ca).

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. The rate of return is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual fund or returns on investment in the mutual fund. Standard performance data assumes reinvestment of distributions only and does not take into account sales, redemption, distribution or optional charges payable by any securityholder which would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Please read the prospectus before investing. You may obtain a copy of the prospectus before investing by calling your MD advisor or the MD TradeCentre at 1 800 267-2332.

# MD Family of Funds

## Management's Responsibility for Financial Reporting

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Management acknowledges responsibility for the preparation and presentation of the financial statements of MD Money Fund, MD Bond Fund, MD Bond and Mortgage Fund, MD Balanced Fund, MD Dividend Fund, MD Income & Growth Fund, MD Equity Fund, MD Select Fund, MD American Value Fund, MD American Growth Fund, MD International Value Fund, MD International Growth Fund, MD Growth Investments Limited, MD Conservative Portfolio, MD Moderate Balanced Portfolio, MD Balanced Growth Portfolio, MD Maximum Growth Portfolio, MD PIM Canadian Equity Pool and MD PIM US Equity Pool (collectively "the Funds"). These financial statements have also been approved, in its capacity as trustee, by the Board of Directors of MD Physician Services Inc., with the exception of MD Growth Investments Limited, which has been approved by its own Board of Directors.

The financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Management has, where required, made these judgments and estimates on a reasonable basis to ensure that the financial statements are presented fairly in all material respects. Management also maintains strong internal controls to provide reasonable assurance that the financial information provided is reliable and accurate, that the funds' assets are appropriately accounted for and safeguarded, and that any compliance requirements arising under corporate legislation, securities regulations and internal codes of business conduct are strictly adhered to.

The Board of Directors of MD Physician Services Inc. and MD Growth Investments Limited are responsible to ensure that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the respective financial statements as outlined above.

The Board of Directors for MD Physician Services Inc. and MD Growth Investments Limited (the "Boards"), meet with the external auditors periodically to discuss internal control, accounting and auditing matters and financial reporting issues in order to satisfy themselves, that each party's Board of Directors has properly discharged its statutory responsibilities with regards to financial reporting. The Boards review unaudited semiannual financial statements and audited annual financial statements including the external auditors' report thereon. The Boards consider these findings when making their ultimate approval of the financial statements for issuance. The Boards also review the appointment of the external auditors annually.

The financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors, in accordance with Canadian generally accepted standards. PricewaterhouseCoopers LLP has full and free access to the MD Physician Services Inc. and MD Growth Investment Limited Boards.

Signed on behalf of MD Growth Investments Limited.



Guy Bélanger  
President and Chief Executive Officer  
MD Growth Investments Limited



Christine Allison  
Chief Financial Officer  
MD Growth Investments Limited

Signed on behalf of MD Physician Services Inc., in its capacity as trustee for MD Money Fund, MD Bond Fund, MD Bond and Mortgage Fund, MD Balanced Fund, MD Dividend Fund, MD Income & Growth Fund, MD Equity Fund, MD Select Fund, MD American Value Fund, MD American Growth Fund, MD International Value Fund, MD International Growth Fund, MD Conservative Portfolio, MD Moderate Balanced Portfolio, MD Balanced Growth Portfolio, MD Maximum Growth Portfolio, MD PIM Canadian Equity Pool and MD PIM US Equity Pool.



Brian Peters  
President and Chief Executive Officer  
MD Physician Services Inc.



Guy Bélanger  
Chief Financial Officer  
MD Physician Services Inc.



March 9, 2012

**Independent Auditor's Report**

**To the Unitholders and Trustee of:**

MD Money Fund	MD Equity Fund	MDPIM Canadian Equity Pool
MD Bond Fund	MD Select Fund	MDPIM US Equity Pool
MD Bond and Mortgage Fund	MD American Value Fund	MD Conservative Portfolio
MD Balanced Fund	MD American Growth	MD Moderate Balanced Portfolio
MD Dividend Fund	MD International Value Fund	MD Balanced Growth Portfolio
MD Income & Growth	MD International Growth Fund	MD Maximum Growth Portfolio

and

**To the Shareholders of:**

**MD Growth Investments Limited**

**(collectively the "Funds")**

We have audited the accompanying financial statements of each of the Funds, which comprise the statement of investment portfolio as at December 31, 2011 and the statements of net assets, operations and changes in net assets as at and for the periods indicated in note 1, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements of each of the Funds in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on the financial statements of each of the Funds based on each of our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are

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*PricewaterhouseCoopers LLP, Chartered Accountants*  
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\*PwC\* refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in each of our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements of each of the Funds present fairly, in all material respects, the financial position of each of the Funds, the results of each of their operations and the changes in each of their net assets as at and for the periods indicated in note 1 in accordance with Canadian generally accepted accounting principles

*PricewaterhouseCoopers LLP*

Chartered Accountants, Licensed Public Accountants

# MD Bond and Mortgage Fund

## Statement of Investment Portfolio as at December 31, 2011

(in \$000's except for number of shares)

	Maturity Date	Yield %	Maturity Value or Principal Amount (\$)	Average Cost (\$)	Fair Value (\$)
<b>Domestic Bonds</b>					
<b>Asset Backed Securities (12.16%)</b>					
Algonquin Credit Card Trust	3/15/36	4.56%	900	900	912
BMW Canada Auto Trust	9/22/14	3.05%	755	755	756
Cards II Trust	1/15/12	1.83%	3,000	3,000	2,987
Cards II Trust	1/15/15	3.10%	5,000	5,000	5,163
Cards II Trust	1/15/16	3.33%	400	400	414
Ford Auto Securitization Trust	1/15/13	2.75%	940	940	945
Ford Auto Securitization Trust	1/15/14	6.34%	1,400	1,400	1,437
Glacier Credit Card Trust	1/20/15	3.16%	1,800	1,800	1,849
Golden Credit Card Trust	1/15/16	3.51%	1,820	1,820	1,901
Golden Credit Card Trust	1/15/15	3.82%	6,000	6,044	6,321
NHA Mortgage Backed Securities	1/1/15	1.95%	6,670	6,706	6,718
NHA Mortgage Backed Securities	1/1/14	2.30%	3,989	3,911	4,056
NHA Mortgage Backed Securities	1/1/15	2.50%	5,180	5,298	5,295
<b>Total for Asset Backed Securities</b>			<b>37,854</b>	<b>37,974</b>	<b>38,754</b>
<b>Collateralized Mortgage Obligations (0.13%)</b>					
Claret Trust	3/15/33	4.71%	99	99	100
Solar Trust	1/12/16	4.65%	309	302	311
<b>Total for Collateralized Mortgage Obligations</b>			<b>408</b>	<b>401</b>	<b>411</b>
<b>Corporate Bonds (50.10%)</b>					
407 International Inc.	1/16/15	3.88%	2,100	2,100	2,230
AltaLink LP	1/5/13	5.43%	2,000	2,161	2,106
American Express Canada Credit Corp.	1/6/14	2.25%	1,300	1,300	1,297
American Express Canada Credit Corp.	1/3/14	4.85%	1,000	1,000	1,056
American Express Canada Credit Corp.	1/2/13	5.90%	500	499	522
Bank of Montreal	1/10/16	3.49%	3,900	3,876	4,068
Bank of Montreal	2/8/21	3.98%	5,170	5,201	5,358
BC Gas, Inc.	1/30/16	10.30%	1,600	2,179	2,152
bclMC Realty Corporation	1/29/15	3.38%	750	750	779
Bell Aliant Regional Communications LP	1/26/18	4.88%	1,250	1,250	1,319
Bell Aliant Regional Communications LP	1/26/14	4.95%	800	848	838
Bell Canada	1/2/15	3.60%	2,400	2,394	2,491
Bell Canada	1/30/14	4.85%	1,000	1,053	1,062
Caisse Centrale Desjardins de Quebec	1/4/14	3.11%	1,200	1,200	1,235
Caisse Centrale Desjardins de Quebec	1/5/17	3.50%	950	950	982
Canada Safeway Limited	1/31/14	3.00%	1,000	999	1,015
Canadian Capital Auto Receivables	1/17/12	2.00%	138	138	138
Canadian Capital Auto Receivables Asset Trust II	1/17/14	2.63%	2,000	2,000	2,015
Canadian Credit Card Trust	1/24/15	3.44%	3,200	3,200	3,332
Canadian Imperial Bank of Commerce	1/14/16	3.40%	700	699	728
Canadian Imperial Bank of Commerce	3/1/20	4.11%	4,500	4,742	4,712
Canadian Western Bank	1/26/13	1.98%	1,500	1,500	1,495
Canadian Western Bank	1/4/14	2.57%	3,000	3,000	3,019
Capital Desjardins Inc.	2/23/20	3.80%	3,000	3,000	3,058
CDP Financial Inc.	1/15/15	1.73%	4,000	4,001	3,995
Chip Mortgage Trust	1/1/16	3.97%	1,500	1,498	1,568
CI Financial Corporation	1/17/12	3.30%	1,800	1,800	1,816
CI Financial Corporation	1/14/16	3.94%	1,500	1,500	1,547
Co-operators Financial Services Limited	1/20/12	5.07%	250	254	253
Daimler Canada Finance Inc.	1/14/14	3.16%	2,300	2,300	2,328
Emera Inc.	1/20/14	4.10%	5,000	5,082	5,242
Enbridge Pipelines Inc.	1/8/15	2.93%	5,000	4,999	5,163

	Maturity Date	Yield %	Maturity Value or Principal Amount (\$)	Average Cost (\$)	Fair Value (\$)
FortisAlberta Inc.	1/31/14	5.33%	1,500	1,666	1,645
FortisBC Inc.	1/28/14	5.48%	950	1,049	1,044
George Weston Limited	1/25/16	3.78%	800	800	819
Greater Toronto Airports Authority	1/15/16	4.70%	2,000	2,163	2,197
Greater Toronto Airports Authority	1/17/18	5.26%	3,000	3,378	3,446
HSBC Bank Canada	1/4/17	3.56%	4,800	4,793	4,976
Hydro One Inc.	1/19/14	3.13%	5,000	5,011	5,184
Loblaws Companies Limited	1/8/14	4.85%	3,000	3,155	3,175
Manulife Financial Corporation	1/20/15	4.08%	6,000	6,000	6,114
Manulife Financial Corporation	1/2/14	4.90%	2,000	1,999	2,078
Manulife Financial Corporation	1/26/15	5.16%	430	454	453
Master Credit Card Trust	1/21/16	3.50%	1,900	1,900	1,983
Merrill Lynch Mortgage Loans, Inc.	1/1/16	2.97%	2,944	3,010	3,055
National Bank of Canada	1/26/16	3.58%	1,500	1,500	1,566
National Bank of Canada	1/26/15	4.03%	4,100	4,100	4,345
NAV Canada	1/29/13	1.68%	4,500	4,500	4,500
NAV Canada	1/24/16	4.71%	2,000	2,138	2,207
Nova Scotia Power Inc.	1/1/13	5.75%	1,600	1,740	1,708
Plenary Health Care Partnership Humber LP	1/18/15	2.63%	3,000	3,000	3,007
Plenary Properties LTAP LP	1/18/14	3.80%	2,200	2,231	2,280
RioCan Real Estate Investment Trust	1/21/16	4.50%	300	309	310
Rogers Communications, Inc.	1/26/16	5.80%	2,950	3,306	3,309
Royal Bank of Canada	1/15/14	1.63%	2,000	2,000	1,988
Royal Bank of Canada	1/1/16	2.35%	3,274	3,339	3,327
Royal Bank of Canada	1/6/18	5.00%	5,800	6,120	6,038
Sun Life Capital Trust II	10/31/08	5.86%	1,500	1,500	1,532
Sun Life Financial Inc.	3/2/23	5.59%	1,200	1,275	1,271
TELUS Corporation	1/25/16	3.65%	1,500	1,494	1,554
Teranet Holdings LP	1/16/15	3.53%	4,000	4,000	4,139
The Bank of Nova Scotia	1/20/12	1.73%	2,300	2,300	2,302
The Bank of Nova Scotia	1/27/18	4.99%	850	865	880
The Bank of Nova Scotia	1/31/18	5.30%	550	557	569
The Bank of Nova Scotia	1/3/18	6.00%	1,100	1,100	1,174
Vancouver International Airport Authority	1/13/15	5.02%	1,000	1,107	1,111
VW Credit Canada Inc.	1/18/13	2.55%	5,500	5,493	5,533
<b>Total for Corporate Bonds</b>			<b>153,356</b>	<b>156,825</b>	<b>159,738</b>
<b>Government of Canada Bonds (22.67%)</b>					
Canada Housing Trust	1/15/15	1.41%	8,000	8,000	8,006
Canada Housing Trust	1/15/14	1.65%	2,500	2,531	2,523
Canada Housing Trust No 1	1/15/16	1.33%	19,500	19,503	19,376
Canada Housing Trust No 1	1/15/16	2.75%	18,470	18,619	19,444
Government of Canada	1/1/17	1.50%	3,700	3,657	3,725
Government of Canada	1/1/16	2.00%	15,070	15,515	15,555
Government of Canada	1/1/12	3.75%	3,600	3,687	3,641
<b>Total for Government of Canada Bonds</b>			<b>70,840</b>	<b>71,512</b>	<b>72,270</b>
<b>Municipal Bonds (1.32%)</b>					
City of Edmonton	1/25/13	9.00%	2,802	3,271	3,063
Regional Municipality of York	1/29/19	5.00%	1,000	1,102	1,149
<b>Total for Municipal Bonds</b>			<b>3,802</b>	<b>4,373</b>	<b>4,212</b>

Percentages shown in brackets relate investments at fair value to total fair value of investments of the Fund. The accompanying notes are an integral part of these financial statements.

# MD Bond and Mortgage Fund

## Statement of Investment Portfolio as at December 31, 2011

(in \$000's except for number of shares)

	Maturity Date	Yield %	Maturity Value or Principal Amount (\$)	Average Cost (\$)	Fair Value (\$)
<b>Provincial Bonds (6.70%)</b>					
Financement Quebec	1/16/13	1.26%	5,000	4,948	4,992
Financement Quebec	1/2/16	1.55%	4,500	4,461	4,475
Financement Quebec	1/1/14	3.25%	7,500	7,548	7,848
Province of Ontario	2/2/20	4.20%	3,620	3,978	4,040
Total for Provincial Bonds			20,620	20,935	21,355
<b>Total for Domestic Bonds (93.08%)</b>			<b>286,880</b>	<b>292,020</b>	<b>296,740</b>

## Foreign Bonds

### Australia (3.55%)

Australia and New Zealand Banking Group Limited					
	1/22/15	3.75%	1,500	1,496	1,540
Commonwealth Bank of Australia	1/14/14	3.63%	2,250	2,250	2,293
Commonwealth Bank of Australia	2/9/20	5.15%	2,000	1,994	2,122
National Australia Bank Limited	1/20/15	4.19%	2,700	2,709	2,814
St George Bank Limited	1/23/17	4.65%	1,000	997	1,005
Westpac Banking Corporation	1/1/14	3.75%	1,500	1,496	1,539
Total for Australia			10,950	10,942	11,313

### India (1.91%)

ICICI Bank Limited	1/1/16	1.95%	1,927	1,926	1,939
ICICI Bank Limited	1/1/16	2.03%	1,118	1,117	1,124
ICICI Bank Limited	1/1/16	2.04%	1,018	1,017	1,022
ICICI Bank Limited	1/1/16	2.05%	1,991	1,978	2,006
Total for India			6,054	6,038	6,091

### Netherlands (0.35%)

Rabobank Nederland - Cooperatieve Centrale					
Raiffeisen - Boerenleenbank BA	1/5/15	3.13%	1,090	1,088	1,127
Total for Netherlands			1,090	1,088	1,127

### Norway (0.46%)

Kommunalbanken AS	2/27/21	3.74%	1,400	1,400	1,472
Total for Norway			1,400	1,400	1,472

### United States (0.65%)

Metropolitan Life Global Funding I	1/8/13	4.45%	1,000	1,008	1,036
New York Life Global Funding	1/19/14	4.30%	1,000	989	1,046
Total for United States			2,000	1,997	2,082

<b>Total for Foreign Bonds (6.92%)</b>			<b>21,494</b>	<b>21,465</b>	<b>22,085</b>
<b>Total for MD Bond and Mortgage Fund (100.00%)</b>			<b>\$308,374</b>	<b>\$313,485</b>	<b>\$318,825</b>

Percentages shown in brackets relate investments at fair value to total fair value of investments of the Fund. The accompanying notes are an integral part of these financial statements.

# MD Bond and Mortgage Fund

## Financial Statements

### Statement of Net Assets

as at December 31

(in \$'000's except for units outstanding and per unit amounts)

	2011	2010
<b>Assets</b>		
Investments, at fair value	\$ 318,825	\$ 325,163
Cash and short-term investments	31,588	29,821
Interest receivable	1,692	2,144
Net unrealized gain on derivatives	—	191
Subscriptions receivable	58	289
	352,163	357,608
<b>Liabilities</b>		
Redemptions payable	51	304
	352,112	357,304
<b>Net assets and unitholders' equity</b>		
	\$ 352,112	\$ 357,304
<b>Net Assets per Series</b>		
Series A	\$ 308,752	\$ 324,888
Series I	\$ 43,360	\$ 32,416
<b>Number of units outstanding (see Schedule of Fund Unit Transactions)</b>		
Series A	28,653,558	30,555,652
Series I	3,990,553	3,024,237
<b>Net assets per unit (see Schedule of Net Assets per Unit and Net Asset Value per Unit)</b>		
Series A	\$ 10.78	\$ 10.63
Series I	\$ 10.87	\$ 10.72

Approved by the Board of Directors of MD Physician Services Inc., Trustee



Director (signed by Guy Bélanger)



Director (signed by Brian Peters)

### Statement of Operations

for the years ended December 31

(in \$'000's except for per unit amounts)

	2011	2010
<b>Income</b>		
Interest	\$ 10,870	\$ 10,688
Gain (loss) on foreign exchange	(10)	41
Early redemption fee	29	26
Securities lending	26	21
	10,915	10,776
<b>Expenses</b>		
Management fees (Note 3)	2,938	2,934
Administration fees	242	243
	3,180	3,177
	\$ 7,735	\$ 7,599
<b>Net investment income (loss)</b>		
	\$ 7,735	\$ 7,599
<b>Realized and unrealized gain (loss) on investments and transaction costs</b>		
Net realized gain (loss) on sale of investments	\$ (159)	\$ 375
Net realized gain (loss) on sale of derivative instruments	340	133
Change in unrealized appreciation (depreciation) of investments and derivatives	4,708	(529)
	4,889	(21)
<b>Net gain (loss) on investments</b>		
	\$ 4,889	\$ (21)
<b>Increase (decrease) in net assets from operations</b>		
	\$ 12,624	\$ 7,578
<b>Increase (decrease) in net assets from operations per Series</b>		
Series A	\$ 10,550	\$ 7,164
Series I	\$ 2,074	\$ 414
<b>Increase (decrease) in net assets from operations per unit, for the period</b>		
Series A	\$ 0.36	\$ 0.24
Series I	\$ 0.49	\$ 0.25

The accompanying notes are an integral part of these financial statements.

# MD Bond and Mortgage Fund

## Financial Statements

### Statement of Changes in Net Assets

for the years ended December 31 (in \$'000's)

	2011	2010
<b>SERIES A</b>		
<b>Net assets - beginning of year</b>	\$ 324,888	\$ 295,622
Add (deduct) changes during the year:		
<b>Operations</b>		
Increase (decrease) in net assets from operations	10,550	7,164
<b>Unitholders</b>		
Proceeds from issue of units	78,334	140,907
Consideration paid for redemption of units	(104,901)	(118,685)
Securities issued on reinvestment of distributions	6,322	6,911
	(20,245)	29,133
<b>Distributions to unitholders</b>		
From net investment income	(6,441)	(7,031)
<b>Net assets - end of the year</b>	\$ 308,752	\$ 324,888

<b>SERIES I</b>		
<b>Net assets - beginning of year</b>	\$ 32,416	\$ —
Add (deduct) changes during the year:		
<b>Operations</b>		
Increase (decrease) in net assets from operations	2,074	414
<b>Unitholders</b>		
Proceeds from issue of units	21,930	32,062
Consideration paid for redemption of units	(13,060)	(60)
Securities issued on reinvestment of distributions	1,364	504
	10,234	32,506
<b>Distributions to unitholders</b>		
From net investment income	(1,364)	(504)
<b>Net assets - end of the year</b>	\$ 43,360	\$ 32,416

	2011	2010
<b>TOTAL FUND</b>		
<b>Net assets - beginning of year</b>	\$ 357,304	\$ 295,622
Add (deduct) changes during the year:		
<b>Operations</b>		
Increase (decrease) in net assets from operations	12,624	7,578
<b>Unitholders</b>		
Proceeds from issue of units	100,264	172,969
Consideration paid for redemption of units	(117,961)	(118,745)
Securities issued on reinvestment of distributions	7,686	7,415
	(10,011)	61,639
<b>Distributions to unitholders</b>		
From net investment income	(7,805)	(7,535)
<b>Net assets - end of the year</b>	\$ 352,112	\$ 357,304

The accompanying notes are an integral part of these financial statements.

# MD Bond and Mortgage Fund

## Financial Statements – Supplementary Schedules

### Schedule of Fund Unit Transactions

For the years ended December 31

	2011	2010
<b>SERIES A</b>		
Outstanding, beginning of year	30,555,652	27,842,724
Issued	7,905,832	13,837,108
Redeemed	(9,807,926)	(11,124,180)
<b>Outstanding, end of year</b>	<b>28,653,558</b>	<b>30,555,652</b>

### SERIES I

Outstanding, beginning of year	3,024,237	—
Issued	2,163,661	3,029,827
Redeemed	(1,197,345)	(5,590)
<b>Outstanding, end of year</b>	<b>3,990,553</b>	<b>3,024,237</b>

### Schedule of Securities on Loan

As at December 31 (in \$000's)

	2011	2010
Loaned	\$ 26,506	\$ 22,755
Collateral (non-cash)	\$ 27,193	\$ 23,356

### Schedule of Net Assets per Unit and Net Asset Value per Unit

As at December 31

	2011	2010
<b>SERIES A</b>		
Net asset value per unit	\$ 10.79	\$ 10.65
Bid price adjustment	(0.01)	(0.02)
<b>Net assets per unit</b>	<b>\$ 10.78</b>	<b>\$ 10.63</b>
<b>SERIES I</b>		
Net asset value per unit	\$ 10.88	\$ 10.74
Bid price adjustment	(0.01)	(0.02)
<b>Net assets per unit</b>	<b>\$ 10.87</b>	<b>\$ 10.72</b>

### Schedule of Fees

As at December 31

	2011
<b>Maximum annualized management fee</b>	
Series A	0.85%
Series I	0.00%
<b>Annual fixed administration fee rate</b>	
	0.07%

### Schedule of Tax Loss Carry Forwards

As at December 31 (in \$000's)

	2011
<b>Net capital loss carried forward</b>	\$ 5,971
<b>Non-capital losses expiring:</b>	
2012	\$ —
2013	—
in 2014 and thereafter	—
<b>Total</b>	<b>\$ —</b>

The Fund qualifies as a mutual fund trust under the provisions of the *Income Tax Act* (Canada) and, accordingly, is subject to tax on its income for the year, including net realized capital gains which is not paid or payable to its unitholders as at the end of the year. It is the intention of management that all annual net investment income and sufficient net realized taxable capital gains will be distributed to unitholders annually by December 31, such that there are no Canadian income taxes payable by the Funds, or that these are otherwise minimized.

As of the taxation year ended December 2011, the Fund has accumulated net realized capital losses and non-capital losses available for utilization against net realized gains or net income for tax purposes in future years. Capital losses have no expiry. Non-capital losses realized before 2004 can be carried forward for up to seven years. Non-capital losses realized in 2004 and 2005 can be carried forward for up to ten years. Non-capital losses realized in 2006 and after can be carried forward for up to twenty years. No benefit has been recorded by the Funds in their financial statements in respect of their unused losses as at December 31, 2011.

### Schedule of Mortgages

This fund has not purchased any mortgages for the years ended December 31, 2011 and 2010.

The accompanying notes are an integral part of these financial statements.

# MD Bond and Mortgage Fund

## Financial Instruments Risks

(in \$000's)

### Financial Instruments

MD Bond and Mortgage Fund (the "Fund") invests in Government of Canada, provincial, municipal, corporate, asset-backed and foreign bonds as shown in the Statement of Investment Portfolio. The Fund may invest in mortgages, however, has not invested in mortgages during the year. The Fund invests excess cash in high grade short-term notes with maturities of less than 1 year. These investments expose the Fund to risks associated with financial instruments. A description of the risks and how the Fund manages these risks is discussed in Note 5 of the Notes to the Financial Statements. The Fund's significant exposure and sensitivity to each risk is presented below.

### Credit Risk

The Fund's credit risk is concentrated in investments in debt instruments and forward currency contracts. The Fund's maximum exposure to credit risk is the carrying value of domestic and foreign bonds presented on the Statement of Investment Portfolio as well as the cash equivalents presented on the Statement of Net Assets which are invested in overnight deposits at schedule one chartered banks. As at December 31, 2011, the forward contracts were in an unrealized gain position of \$Nil (December 31, 2010—unrealized gain of \$191), which is the amount that is subject to credit exposure. All forward contracts are with counterparties with credit ratings of AA-.

As at December 31, 2011 and December 2010, the Fund invested in debt instruments with the following credit ratings:

Credit Rating	% of Net Assets December 31, 2011	% of Net Assets December 31, 2010
AAA / R-1 (High)	48.3%	47.0%
AA / R-1 (Mid)	21.2%	18.4%
A / R-1 (Low)	20.9%	23.0%
BBB	9.0%	8.0%
Unrated	—	2.9%
Total	99.4%	99.3%

All credit ratings are from external credit rating agencies such as Dominion Bond Rating Service, Standard & Poor's and Moody's.

### Currency Risk

Exposures to foreign currencies as at December 31, 2011 and December 31, 2010 are presented in the table below.

Currency	Cash and Other Net Assets (\$000s)	Invest- ments at Fair Value (\$000s)	Derivative Exposure (\$000s)	Net Currency Exposure (\$000s)	Percentage of Net Assets (%)
<b>December 31, 2011</b>					
U.S. Dollar	—	—	—	—	0.00%
<b>December 31, 2010</b>					
U.S. Dollar	2,970	3,007	(5,976)	1	0.00%

The accompanying notes are an integral part of these financial statements.

### Interest Rate Risk

The Fund's exposure to interest rate risk was concentrated in investments in domestic and foreign bonds presented in the Statement of Investment Portfolio. The amounts of these investments by term to maturity are presented in the table below. In general, longer terms to maturity result in increased interest rate risk.

The sensitivity represents the expected impact to Net Assets if interest rates for all maturities fluctuate by 25 basis points (parallel yield shift). If interest rates rise, Net Assets will decrease by the amount shown. Conversely, if interest rates fall, Net Assets will increase by the amount shown. These sensitivities are estimates. Actual results may vary and the variance may be significant.

As at December 31, 2011 and December 31, 2010 the Fund's exposures to debt instruments by maturity are presented in the table below:

Debt instruments by Maturity Date	December 31, 2011		December 31, 2010	
	Fair Value (\$000s)	Percentage (%)	Fair Value (\$000s)	Percentage (%)
Less than 1 year	11,138	3.2%	21,049	5.9%
1 to 4 years	159,890	45.4%	242,798	68.0%
4 to 7 years	120,505	34.2%	38,064	10.7%
7 to 9 years	15,080	4.3%	18,920	5.3%
9 to 12 years	6,831	1.9%	1,256	0.4%
12 to 20 years	1,271	0.4%	—	0.0%
More than 20 years	4,110	1.2%	3,076	0.9%
Total	318,825	90.6%	325,163	91.0%
Sensitivity (+/-)	1,993	0.6%	2,219	0.6%

\* Excludes cash and short-term investments, as applicable.

### Other Price Risk

The Fund does not hold equity securities and therefore does not have significant exposure to price risk.

# MD Bond and Mortgage Fund

## Financial Instruments Risks

(in \$000's)

### Fair Value Hierarchy

The following is a summary of MD Bond and Mortgage Fund's use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2), and internal models without observable market information (Level 3) in the valuation of the Fund's securities. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Total*
<b>December 31, 2011</b>			
Domestic Bonds	\$ —	\$ 296,740	\$ 296,740
Foreign Bonds	—	22,085	22,085
	—	318,825	318,825
Cash and Short-Term Investments	599	30,989	31,588
<b>Total</b>	<b>\$ 599</b>	<b>\$ 349,814</b>	<b>\$ 350,413</b>
<b>December 31, 2010</b>			
Domestic Bonds	\$ —	\$ 305,615	\$ 305,615
Foreign Bonds	—	19,548	19,548
	—	325,163	325,163
Cash and Short-Term Investments	167	29,654	29,821
Derivative Instruments	—	191	191
<b>Total</b>	<b>\$ 167</b>	<b>\$ 355,008</b>	<b>\$ 355,175</b>

\*MD Bond and Mortgage Fund does not hold any Level 3 investments.

There have been no significant transfers between Level 1 and Level 2 for the periods January 1, 2011 to December 31, 2011 and from January 1, 2010 to December 31, 2010.

The accompanying notes are an integral part of these financial statements.

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# Notes to Financial Statements

For the years ended December 31, 2011 and 2010

## 1. Name and formation of the Funds

### Establishment of the Funds

The MD Family of Mutual Funds (individually a “Fund” and collectively the “Funds”) are unincorporated mutual fund trusts formed under the laws of the Province of Ontario pursuant to the Declarations of Trust dated as follows:

	Series A Units	Series I Units	Series T Units	Private Trust Series
MD Money Fund	July 12, 1983			
MD Bond Fund	April 6, 1988	October 30, 2009		
MD Bond and Mortgage Fund	September 19, 1995	October 30, 2009		
MD Balanced Fund	September 9, 1992		October 25, 2010	
MD Dividend Fund	September 9, 1992	October 30, 2009	October 25, 2010	
MD Income & Growth Fund	January 4, 2007	October 30, 2009	October 25, 2010	
MD Equity Fund	March 1, 1966	October 30, 2009	October 25, 2010	
MD Select Fund	October 29, 1993	October 30, 2009	October 25, 2010	
MD American Value Fund	August 9, 2000	October 30, 2009	October 25, 2010	
MD American Growth Fund	September 9, 1992	October 30, 2009	October 25, 2010	
MD International Value Fund	January 5, 2004	October 30, 2009	October 25, 2010	
MD International Growth Fund	August 9, 2000	October 30, 2009	October 25, 2010	
MDPIM Canadian Equity Pool	June 16, 1999		October 25, 2010	August 9, 2000
MDPIM US Equity Pool	August 6, 1999		October 25, 2010	August 9, 2000
MD Conservative Portfolio	January 5, 2010			
MD Moderate Balanced Portfolio	January 5, 2010			
MD Balanced Growth Portfolio	January 5, 2010			
MD Maximum Growth Portfolio	January 5, 2010			

MD Growth Investments Limited is a mutual fund corporation incorporated under the laws of Ontario pursuant to the Letters Patent dated as follows:

	Series A	Series I
MD Growth Investments Limited	July 18, 1969	October 30, 2009

# Notes to Financial Statements

For the years ended December 31, 2011 and 2010

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MD Physician Services Inc. ("MDPSI") is the Manager of the Funds. Prior to June 2, 2010, MD Private Trust was the Manager and Trustee for the MDPIM Canadian Equity Pool and the MDPIM US Equity Pool.

On January 5, 2010, MDPSI launched four new funds, the MD Conservative Portfolio, the MD Moderate Balanced Portfolio, the MD Balanced Growth Portfolio and the MD Maximum Growth Portfolio.

The Statement of Investment Portfolio, Schedule of Tax Loss Carry Forwards and Schedule of Fees for each of the Funds are as at December 31, 2011. The Statement of Net Assets, Schedule of Net Assets per Unit and Net Asset Value per Unit and Schedule of Securities on Loan are as at December 31, 2011 and December 31, 2010 as applicable. The Statements of Operations, Statement of Changes in Net Assets, Schedule of Fund Unit Transactions and Schedule of Soft Dollar Commissions are for the years ended December 31, 2011 and December 31, 2010, except for the Funds established during either period, in which case the information provided relates to the period from inception to December 31, 2011 or to December 31, 2010. The Financial instrument risks for each of the Funds are as at December 31, 2011 and 2010.

Throughout these Notes to the Financial Statements, the shares of MD Growth Investments Limited have been referred to as "units" to simplify the presentation.

## Series of units

The MDPIM Canadian Equity Pool and MDPIM US Equity Pool Funds offer "Private Trust Series" and "Series T" units which may be purchased by either MD Private Investment Counsel or MD Private Trust Company clients who have appointed MD Private Investment Counsel (an operating division of MD Physician Services Inc.) to provide discretionary portfolio management services and advice to them or MD Private Trust Company to provide trust services. These funds also offer "Series A" units which are available to all qualified eligible investors. "Series A" units are closed to new subscribers. Investors holding "Series A" units of these Funds are allowed to hold their units, as well as subscribe for additional "Series A" units of the Funds.

Each of the MD Funds other than MDPIM Canadian Equity Pool and MDPIM US Equity Pool offer "Series A" units which are available to all MD Management Ltd. clients who are qualified eligible investors.

On October 30, 2009, "Series I" units were established to support the MD Conservative Portfolio, the MD Moderate Balanced Portfolio, the MD Balanced Growth Portfolio and the MD Maximum Growth Portfolio. These units are only available to the four Funds listed above, and are not charged management fees.

On November 22, 2010, "Series T" units were established in order to support a new tax-efficient investment solution for clients. The series T units will generate steady tax-efficient cash flow that does not increase taxable income or impact certain benefits such as Old Age Security.

## 2. Significant accounting policies

The financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Significant accounting policies followed by the Funds are as follows:

### Accounting estimates

The preparation of financial statements in accordance with GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expense during the reporting periods. Actual results could differ from those estimates.

### Investments - valuation

CICA Handbook - Accounting Section 3855, "Financial Instruments - Recognition and Measurement" ("Section 3855"), requires the fair value of financial instruments traded in active markets to be measured based on a security's bid price. The net asset value calculated in accordance with Section 3855 is referred to as "Net Assets" going forward.

In accordance with Section 3855, investments are categorized as held for trading and are recorded at fair value. In the case of securities traded in an active market, fair value is the latest bid price provided by independent pricing services. In the case of investments not traded in an active market, or for those securities for which the Manager feels the latest market prices are not reliable, fair value is estimated based on valuation techniques established by the Manager. Valuation techniques established by the Manager are based on observable market data except in situations where there is no relevant or reliable market data. The value of securities estimated using valuation techniques not based on observable market data, if any, is disclosed in the Financial Instruments Risks section of the financial statements.

### Cash and short-term investments

Cash is comprised of cash on deposit and short-term investments are comprised of short-term debt instruments with terms to maturity of less than one year at acquisition. These are measured at fair value upon initial recognition, and are held at amortized cost, which approximates fair value. Cash and short-term investments include foreign cash and foreign short-term investments.

# Notes to Financial Statements

For the years ended December 31, 2011 and 2010

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## Investment transactions, income recognition and transaction costs

Investment transactions are recorded on the trade date. Income from investments is recognized on an accrual basis. Interest income and estimated expenses are accrued daily. Dividend income and distributions to unitholders are recorded on the ex-dividend date. Distributions received from underlying funds out of interest, foreign income and related withholding taxes, Canadian dividends and net realized capital gains are recognized when declared. Realized gains or losses from investment transactions and the unrealized appreciation or depreciation of investments are computed on an average cost basis, which exclude brokerage commissions and other trading expenses. Brokerage commissions and other trading expenses are charged to income as incurred.

All income, realized and unrealized gains, losses and transaction costs are attributable to investments and derivatives, which are categorized as held for trading.

## Other assets and liabilities

Other assets such as accrued interest and dividends receivable, accounts receivable for investment transactions, subscriptions receivable, and amounts receivable for securities lending transactions are categorized as loans and receivables and are recorded at cost. Other liabilities such as accrued expenses, income taxes payable, distributions payable, accounts payable for investment transactions and redemptions payable are categorized as financial liabilities and are measured at cost, as cost closely approximates their fair value.

## Foreign exchange

Investments and other assets and liabilities denominated in foreign currencies are translated into Canadian Dollars at the rate of exchange prevailing on each valuation date. Transactions during the year in currencies other than Canadian Dollars are translated into Canadian Dollars at the rate of exchange prevailing on the trade date of the transaction. The difference in the foreign exchange rate between trade date and settlement date of a transaction is recognized in income on the Statement of Operations. The Funds do not separately report the effects of changes in foreign exchange rates from changes in the valuation of securities held. Such changes are included in net gains or losses on investments.

## Forward currency contracts

The Funds may enter into forward currency contracts for either hedging or non-hedging purposes where such activity is consistent with their investment objectives and as permitted by the Canadian securities regulatory authorities. Investments in forward currency contracts are entered into with approved counterparties and are recorded at fair value.

On a daily basis, the value of these contracts is the gain or loss that would be realized if the positions were to be closed out and is recorded in "Change in unrealized appreciation (depreciation) of investments and derivatives". Upon closing of the contracts,

the accumulated gains or losses are reported in "Net realized gain (loss) on sale of derivative instruments." Unrealized gains or losses on forward currency contracts are categorized as financial assets or liabilities held for trading.

The contractual amounts of open contracts are disclosed in the Statement of Investment Portfolio as the Schedule of Derivative Instruments.

## Futures contracts

Futures contracts are valued on each valuation day using the bid/ask price posted on the related public exchange. All gains or losses arising from futures contracts are recorded as part of "Change in unrealized appreciation (depreciation) of investments and derivatives" in the Statements of Operations until the contracts are closed out or expire, at which time the gains or losses are realized and reported as "Realized gain (loss) on investments" in the Statements of Operations.

## Unit valuation

The Funds' units are offered for sale on any business day and may be redeemed or issued at the Net Asset Value (NAV) per unit for the respective series on that business day. A business day refers to any day the Toronto Stock Exchange is open for business. The Net Asset Value for each series is computed daily by calculating the value of that series' proportionate share of net assets and liabilities of the Fund common to all series less liabilities attributable to that series. Expenses directly attributable to a series are charged to that series. Assets, common liabilities, revenues and other expenses are allocated proportionately to each series based upon the relative Net Asset Values of each series. The Net Asset Value per unit is determined by dividing the NAV of each series of a fund by the total number of units of that series outstanding.

Section 14.2 of National Instrument 81-106, "Investment Fund Continuous Disclosure" ("NI81-106") issued by the Canadian Securities Administration ("CSA") requires an investment fund to calculate the daily net asset value for the purchase and redemption of units based on the fair value of the investment fund's assets and liabilities ("Net Asset Value"). For these purposes, the Funds use the closing market prices to value securities held.

The Net Asset Value differs from Net Assets calculated in accordance with Section 3855 presented on the financial statements. A comparison between the Net Asset Value per unit and the Net Assets per unit is disclosed in the Schedule of Net Assets per Unit and Net Asset Value per Unit.

## Increase (decrease) in net assets from operations per unit

"Increase (decrease) in net assets from operations per unit" in the Statement of Operations represents the increase or decrease in net assets from operations attributable to the series of units for the period, divided by the average units outstanding in that series during the period.

# Notes to Financial Statements

For the years ended December 31, 2011 and 2010

## Securities lending transactions

A Fund may lend portfolio securities to earn additional income through a securities lending agreement with its custodian. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund receives collateral in the form of cash and/or securities deemed acceptable under National Instrument 81-102 ("NI81-102") of at least 102% of the fair value of securities on loan.

Income from securities lending is recorded as "Securities lending" on a monthly basis when it is receivable.

## Future Accounting Changes

On December 12, 2011, the Canadian Accounting Standards Board (AcSB) announced an IFRS deferral option for most investment funds until fiscal years beginning on or after January 1, 2014.

Accordingly, the MD Family of Funds will adopt IFRS for the fiscal period beginning January 1, 2013, and will issue their initial financial statements in accordance with IFRS, including comparative information, for the interim period ending June 30, 2014.

MD Physician Services Inc. continues to monitor and assess the impact of the transition to IFRS on Net Assets and Net Asset Value. MD Physician Services Inc. expects that the IFRS implementation on the MD Family of Mutual Funds' financial statements will result in additional disclosure and potentially different presentation of unitholder interests and certain other items.

## 3. Management fees and other fees and expenses

The management and administration fees are unique to each Fund and are unique to each series of units, and are disclosed on the Schedule of Fees.

MDPSI provides the Funds with investment management and administrative services. In return, MDPSI receives a management fee based on the Net Asset Value of the Funds calculated on a daily basis and paid weekly.

Prior to June 2, 2010, MD Private Trust Company provided the Series A units of MDPIM Canadian Equity Pool and MDPIM US Equity Pool with investment management and administrative services. In return, MD Private Trust Company received a management fee based on the Net Asset Value of the Funds calculated on a daily basis and paid weekly. Since June 2, 2010, these services are received from and fees paid to MDPSI.

No management or administration fee, or operating expenses are charged in respect of Series I units. These units are only available to be held by other MD Funds.

No management fee or operating expenses are charged in respect of units of the Private Trust Series units of MDPIM Canadian Equity Pool and MDPIM US Equity Pool. Investors in these series of units have agreed to pay a managed account fee directly to MD Private Investment Counsel (an operating division of MD Physician Services Inc.). These managed account fees are charged directly to each unitholder to a maximum rate of 1.00% per annum plus custodial fees.

MDPSI bears all of the operating expenses of the Funds (other than certain taxes and borrowing costs) in return for fixed annual rate administration fees ("Administration Fees"). Administration Fees are calculated as a fixed annual percentage of the Funds' assets under management.

## Short-term trading/early redemption fee

Clients who redeem or switch units or shares of an MD Fund are charged an early redemption fee equal to 2.00% of the amount redeemed or switched if the redemption or switch occurs within sixty (60) days of the date that the units or shares were purchased or switched.

The early redemption fee does not apply to redemptions or switches:

- ▶ of units of MD Money Fund;
- ▶ made in connection with any systematic and scheduled withdrawal program;
- ▶ where the amount of the redemption or switch is less than \$10,000;
- ▶ made as a result of the recommendation of your MD advisor related to a financial plan.

## 4. Capital units

With the exception of MD Growth Investments Limited, the Funds' capital is represented by an unlimited number of authorized units without nominal or par value. All series of units are redeemable on demand by unitholders at the respective Net Asset Value of that series. Each unit entitles the unitholder to one vote at unitholder meetings and participates equally, with respect to other units of the same series, in any dividends or distributions, liquidation or other rights of that series.

The relevant movements in capital for the period have been presented in the Statement of Changes in Net Assets. The Funds invest capital from subscriptions in financial instruments in accordance with the policies and risk management practices of the Funds, while maintaining sufficient liquidity to meet unitholder redemptions. The Funds' investment policies are set out in the prospectus and the risk management and liquidity management practices are disclosed in Note 5.

MD Growth Investments Limited is an incorporated company as opposed to a mutual fund trust and, as such, has issued share capital.

## 5. Financial instrument risk

The Funds use financial instruments in order to achieve their respective investment objectives. The Funds' investments are presented in the respective Statement of Investment Portfolio, which groups securities by asset type, geographic region and/or market segment.

# Notes to Financial Statements

For the years ended December 31, 2011 and 2010

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The use of financial instruments subjects the Funds to a variety of financial instrument risks. The Funds' risk management practices include setting investment policies to limit exposures to financial instrument risks and employing experienced and professional investment advisors to invest the Funds' capital in securities within the constraints of investment policies. The Manager regularly monitors the Fund advisors' performance and compliance with the investment policies.

The significant financial instrument risks, to which the Funds are exposed, along with the specific risk management practices related to those risks, are presented below. Fund specific disclosures are presented in the "Financial Instruments Risks" section of the financial statements.

## Credit risk

Credit risk is the risk that counterparty to a financial instrument will not honour its obligation under the terms of the instrument, resulting in a loss of capital. The Funds are exposed to credit risk through domestic and foreign bonds, derivative contracts, short-term debt investments, amounts due from brokers, dividends and interest receivable and other receivables. A Fund may engage in securities lending pursuant to the terms of an agreement which includes restrictions as set out in the Canadian Securities Legislation. Collateral held is in the form of highly rated fixed income instruments. All securities under lending agreements are fully collateralized. In addition, the Funds' custodian has indemnified the funds from borrower default.

Credit risks arising from fixed income securities, including bonds and preferred shares, are generally limited to the fair value of the investments as shown in the Statement of Investment Portfolio. The Funds limit exposure to individual issuers/sectors and credit quality levels. The credit worthiness of issuers in which the Funds invest are reviewed regularly, and the portfolios are adjusted as required to match the minimum requirement as set forth in each Fund's prospectus. Each individual Fund's exposure to credit risk, if any, is presented in the Financial Instruments Risk section attached to the Financial Statements.

Credit risks arising from short-term debt investments are limited to the carrying value of cash equivalents as shown on the Statement of Net Assets, except in the case of MD Money Fund, where the credit risk is limited to the fair value of investments as shown on the Statement of Investment Portfolio. The Funds manage credit risk on short-term debt by investing in high grade short-term notes with credit ratings of R-1 (low) or higher as well as limiting exposure to any single issuer.

Derivative contracts are subject to netting arrangements whereby if one party to a derivative contract defaults, all amounts with the counterparty are terminated and settled on a net basis. As such, the maximum credit loss on derivative contracts is the unrealized gain shown in the Schedule of Derivative Instruments, or nil if the contract is in a loss position. Each Fund manages credit risk on derivatives by only entering into agreements with counterparties that have an approved

credit rating as defined in NI81-102. The total unrealized gain (loss) of the derivative contract cannot exceed 10% of the Fund's Net Asset Value.

## Liquidity risk

Liquidity risk is the risk that the Funds will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. In addition, the Funds' units are redeemable on demand. In accordance with NI81-102, the Funds must provide payment for redeemed units within three business days of receipt of a redemption order. To manage this liquidity requirement, the Funds invest primarily in liquid securities that can readily be sold in active markets and each Fund may borrow up to 5% of its Net Asset Value. During the period, no Fund borrowed against its respective line of credit.

## Currency risk

Currency risk is the risk that the values of financial assets and liabilities denominated in foreign currencies fluctuate due to changes in foreign exchange rates. To the extent the Funds hold assets and liabilities denominated in foreign currencies, the Funds are exposed to currency risk. The Fund may also use forward contracts at the discretion of the Manager. Each individual Fund's exposure to currency risk, if any, is presented in the "Financial Instruments Risks" section of the financial statements.

## Interest rate risk

Interest rate risk is the risk that the fair value (measured as the present value) of cash flows associated with interest bearing financial instruments will fluctuate due to changes in the prevailing market rates of interest. In general, as interest rates rise, the fair value of interest bearing financial instruments will fall. Financial instruments with a longer term to maturity will generally have a higher interest rate risk.

The Funds' interest bearing financial instruments that subject the Funds to interest rate risk include domestic and foreign bonds, asset backed securities and collateralized mortgage obligations. Short-term money market instruments are also interest bearing and therefore subject to interest rate risk. However, due to the short-term nature of the securities, the interest rate risk is generally not significant.

Interest rate risk management practices employed by the Funds include setting target durations based on the appropriate benchmark indices and monitoring the Funds' durations relative to the benchmarks. If interest rates are anticipated to rise, the Funds' durations can be shortened to limit potential losses. Conversely, if interest rates are anticipated to fall, the durations can be lengthened to increase potential gains. Each individual Fund's exposure to interest rate risk, if any, is presented in the "Financial Instruments Risks" section of the financial statements.

# Notes to Financial Statements

For the years ended December 31, 2011 and 2010

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## Other Price risk

Other Price risk is the risk that the fair value of financial instruments may decline because of changes in market prices of the financial instruments, other than declines due to interest rate risk and currency risk. Other price risk stems from financial instruments' sensitivity to changes in the overall market (market risk) as well as factors specific to the individual financial instrument. Other price risk attributable to individual investments is managed through diversification of the portfolio and security selection and adjustments to fair value when there is significant volatility in international markets after markets are closed. Other price risk attributable to the general market is systematic and cannot be diversified away.

The maximum loss due to other price risk is limited to the fair value of the equity investments presented on the Statement of Investment Portfolio. Each individual Fund's exposure to other price risk, if any, is presented in the "Financial Instruments Risks" section of the financial statements.

Details of each Fund's exposure to financial instruments risks including fair value hierarchy classification are available in the "Financial Instruments Risks" section of the financial statements of each Fund.

## 6. Fair value measurement

The Funds classify fair value measurements within a hierarchy that prioritizes the inputs to Funds' valuation techniques used in measuring fair value. Under these provisions, an entity is required to classify each financial instrument into one of three fair value levels as follows:

Level 1 - for unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - for inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - for inputs that are based on unobservable market data

The classification of a financial instrument is based on the lowest level of input that is significant to the determination of fair value.

The extent of Funds' use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2), and internal models without observable market information (Level 3) in the valuation of securities is summarized in each Fund's "Financial Instruments Risks" section of the financial statements.

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