

2015

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2015

Offered by Educators Financial Group
Portfolio Adviser: HSBC Global Asset Management (Canada) Limited, Toronto, Ontario

Educators Mortgage & Income Fund



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 get a copy of the annual financial statements at your request, and at no cost, by calling 1.800.263.9541, by writing to us at Educators Financial Group, 2225 Sheppard Ave. East, Suite 1105, Toronto, Ontario, M2J 5C2, or by visiting our website at www.educatorsfinancialgroup.ca or SEDAR at www.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.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objectives and Strategies

The investment objective of the Educators Mortgage & Income Fund (the "Fund") is to provide income by investing in high quality fixed income securities including mortgages, mortgage-related securities, and corporate and government bonds. The Fund seeks to achieve lower volatility of return than the overall bond universe, adequate diversification of assets and a reasonable level of net real return while not being exposed to undue market risk.

Risk

The risks of investing in the Fund remain as discussed in the Simplified Prospectus. No changes affecting the overall level of risk of investing in the Fund were made to the Fund in the one-year period ending December 31, 2015.

Results of Operations

For the twelve-month period ending December 31, 2015, the Fund provided a return of 1.47%, versus the FTSE TMX Canada Short Term Bond Index (the "Benchmark") return of 2.61%. Note that investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in index returns.

The Fund's net assets decreased by 0.5% to \$204.3 million at the end of December 2015, up from \$205.3 million at the end of December 2014.

Heightened volatility characterized global financial markets throughout 2015. Key catalysts driving market swings included global monetary policy initiatives, geopolitical risks, global growth concerns and ongoing weakness in commodity prices. While growth uncertainty and low inflation kept upward pressure on interest rates at bay despite their low levels, risk aversion led to underperformance of credit relative to Government bonds. The 5-year Government of Canada bond yield, commonly looked at as a proxy for the broad market fell by 7 basis points in Q4 to 0.73%. This follows its 2 basis point decline in Q3, 6 basis point increases in Q2 and 58 basis point declines in Q1. The 5-year yield ranged from

0.58% to 1.34% in 2015 and finished the year down 61 basis points.

In 2015, the overall yield in the Canadian short-term bond market fell from 1.55% to 1.19% with a year-low of 0.91% in late February.

After a weak first half, economic growth in North America improved in the second half of 2015 driven primarily by the consumer. In response to the sharp decline in energy prices and its expected impact on business investment and domestic growth, the Bank of Canada proactively cut overnight rates in January and July. While the July cut was discounted by investors, the January move was counter to market expectations and resulted in a strong rally in the bond market in early 2015. Currently the market is predicting the Bank will remain on hold for the foreseeable future, but that a third rate cut remains a possibility given the continued weakness in commodity prices. After steepening dramatically in the first half of the year, the Canada 2- to 10-year yield curve flattened materially in Q3. Overall, the 2-10's yield curve was modestly flatter. The difference between 2-year and 10-year Government of Canada yields fell from 91 basis points to 78 basis points, as the short end of the market benefitted from the aggressive central bank actions in the first half of the year, while longer term yields fell in the second half on global growth concerns and uncertainty about US monetary policy.

Overall the Canadian short-term bond market returned 2.61% in 2015, following 2014's similar returns – a solid result in light of generational lows in yields. For the first time in a number of years, there was little divergence in the performance of the different sectors of the market. Provincial bonds (2.88%) were the best performing sector due to their longer average term to maturity. Short-term Corporate bonds (2.74%) had their run of outperformance versus Government of Canada bonds (2.42%). Continued strong fundamentals and reasonable valuations remain constructive for Corporate bonds. However, investor preference for liquidity and safety put

pressure on lower quality and longer-term corporate bonds. Canadian corporate Balance Sheets remained generally sound, with low leverage and plenty of liquidity, but the Income Statement is more challenging on average, with earnings declining in 2015 before an expected rebound in 2016. It is also notable that while investment grade corporate bonds enjoyed decent absolute returns, high yield debt struggled for the second straight year.

Despite the volatility in short-term government yields, broad mortgage rates changed little throughout the year, failing to keep pace with the decline in shorter-term bond yields. The yield on the FTSE/TMX Residential Mortgage Index decreased from 3.44% to 3.39%. The yield differential between 5-year fixed mortgage rates and the 5-year Government of Canada bond widened over the year, rising from 335 basis points to 390 basis points, having reached a peak spread of 405 basis points. This spread widening was offset by higher running yield on mortgages so that total returns on mortgages and short-term government bonds were similar on the year.

The Fund's overweight positions in lower-rated corporate bonds, including high-yield, detracted from performance, as did the Fund's lower duration, or interest rate risk. The Fund's residential mortgage exposure was neutral for relative returns while its exposure to medium-term bonds helped performance.

Recent Developments

The U.S. Federal Reserve increased its Policy rate by 25 basis points in December, the first such increase since 2006. The move reflected the continuing domestic economic expansion, which was powered by the consumer and evidenced by the continued improvement in the labour and housing markets. The move occurred despite a moderation in U.S. manufacturing activity and ongoing concerns surrounding the global economy, trade flows and very low inflation. In the Eurozone, Japan, and China, stimulus continued to increase as 2015 drew to a close. In Canada, after 25 basis point cuts in January and July, the Central Bank was on hold for the remainder of the year. However, one more cut remains possible in 2016, which would reflect how the failure of energy and other commodity prices to rebound in 2015 impacted business investment. WTI crude oil declined to approximately \$37 per barrel at year end, a decrease of 20% in the quarter and 40% for the year.

The U.S. economy accelerated by 2.0% in Q3, following gains of 0.6% and 3.9% in the first two quarters. HSBC forecasted full year growth of 2.5% for the U.S. economy in 2015 and 2.3% in 2016. Global growth is expected to

increase by 2.4% in 2015 and 2.5% in 2016. In Canada, Q3 growth, led by the consumer and external trade, was 2.3%. This followed a modest contraction in the first half of the year. HSBC forecasts growth for 2015 and 2016 at 1.3% and 1.6% respectively.

With longer-term yields expected to rise modestly over 2016, the objective will be to maintain the Fund's interest rate exposure below the benchmark in the near term. With yields at the short end of the yield curve relatively anchored, we would expect that further pressure on longer term yield will lead to a steepening of the yield curve.

We feel that the corporate sector remains fundamentally sound with improving profit growth and defensively positioned balance sheets. With valuations in credit markets having cheapened over the past few quarters, we prefer corporate bonds over Government of Canada bonds and will look to remain overweight this sector.

We believe that mortgage rates continue to represent attractive value at current levels with yield spreads relative to government bonds near multi-year highs. Residential mortgage quality remains strong and delinquencies continue to track near the lower end of their historical range. The relatively high running yield on residential mortgages continues to be a positive for returns, and will help to offset some of the negative impacts if yields and mortgage rates move higher going forward. The duration or interest rate risk on the portfolio's residential mortgage exposure is conservatively positioned below 2 years. Hence we will look to remain overweight in this asset class.

Related Party Transactions

Pursuant to the Fund's investment strategies included in the Fund's Simplified Prospectus, the Fund may invest in other mutual funds and for the period has invested in HSBC Emerging Markets Debt Fund, Institutional Series; HSBC Mortgage Fund, Institutional Series; and HSBC U.S. High Yield Bond Pooled Fund which are funds managed by the Fund's Portfolio Adviser.

In 2015 Educators Financial Group did not refer any conflict of interest matters to the Fund's Independent Review Committee (IRC) and accordingly did not rely upon any recommendation of the IRC in respect of any related party transactions.

Educators Financial Group is the Manager and Trustee of the Fund. Educators Financial Group is a wholly-owned subsidiary of the Ontario Secondary School Teachers' Federation ("OSSTF"). OSSTF may from time to time invest in units of the Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for each year ended December 31 for the past five years.

The Fund's Net Assets per Unit ⁽¹⁾

	Year ended December 31				
	2015	2014	2013	2012	2011
Net Assets, beginning of period	\$11.44	\$11.38	\$11.50	\$11.46	\$11.40
Increase (decrease) from operations:					
Total revenue	\$0.37	\$0.38	\$0.39	\$0.40	\$0.43
Total expenses [excluding distributions]	\$(0.14)	\$(0.14)	\$(0.14)	\$(0.14)	\$(0.14)
Realized gains (losses) for the period	\$0.00	\$0.03	\$(0.03)	\$(0.08)	\$(0.01)
Unrealized gains (losses) for the period	\$(0.06)	\$0.05	\$(0.09)	\$0.11	\$0.06
Total increase (decrease) from operations ⁽²⁾	\$0.17	\$0.32	\$0.13	\$0.29	\$0.34
Distributions:					
From net investment income (excluding dividends)	\$0.23	\$0.25	\$0.25	\$0.26	\$0.29
From dividends	\$--	\$--	\$--	\$--	\$--
From capital gains	\$--	\$--	\$--	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--
Total Annual Distributions ⁽³⁾	\$0.23	\$0.25	\$0.25	\$0.26	\$0.29
Net Assets , end of period	\$11.38	\$11.44	\$11.38	\$11.49	\$11.46

- ⁽¹⁾ This information is derived from the Fund's audited annual financial statements.
For the financial year beginning after January 1, 2014, the financial highlights were derived from the Fund's financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").
For the financial year ended December 31, 2013, the financial highlights numbers were restated to comply with IFRS reporting.
For financial years beginning before January 1, 2013, the financial highlights were derived from the Fund's financial statements prepared in accordance with Canadian GAAP.
For financial years beginning after January 1, 2013, all references to "Net Assets" or "Net Assets per Unit" in these financial highlights are references to net assets attributable to holders of redeemable units determined in accordance with IFRS as presented in the financial statements of the Fund.
- ⁽²⁾ 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 period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.
- ⁽³⁾ Distributions were either paid in cash or reinvested in additional units of the Fund.

Ratios and Supplemental Data (based on Net Asset Value)

	Year ended December 31				
	2015	2014	2013	2012	2011
Net Asset Value (000's) ⁽¹⁾	\$204,316	\$205,273	\$206,956	\$207,194	\$177,749
Number of units outstanding ⁽¹⁾	17,955,859	17,939,038	18,192,370	18,021,968	15,495,515
Management expense ratio ⁽²⁾	1.19%	1.19%	1.20%	1.20%	1.20%
Management expense ratio before waivers or absorptions ⁽³⁾	1.25%	1.25%	1.25%	1.26%	1.25%
Trading expense ratio ⁽⁴⁾	--	--	--	--	--
Portfolio turnover rate ⁽⁵⁾	28.07%	27.89%	40.50%	32.41%	23.66%
Net Asset Value per unit	\$11.38	\$11.44	\$11.38	\$11.50	\$11.47

- ⁽¹⁾ This information is provided as at December 31 of the year shown.
- ⁽²⁾ Management expense ratio is based on total expenses (excluding [distributions], 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.
- ⁽³⁾ The management expense ratio before waivers or absorptions shows what the management expense ratio of the Fund would have been if Educators Financial Group had not charged a lesser amount for its management fee.

- (4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
- (5) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser 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 rates 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.

Management Fees

Educators Financial Group is the Manager-Trustee, promoter and principal distributor of the Fund, and is responsible for the day-to-day management and administration of the Fund.

The Manager-Trustee monitors and evaluates the performance of the Fund, and pays for the investment management services of the portfolio adviser, as well as all administrative services required by the Fund. As compensation for these services, Educators Financial Group is entitled to receive a fee, payable monthly and calculated daily, based on the Net Asset Value of the Fund, at the annual rate of 1.10%.

The Fund is responsible for paying any applicable tax owing on its management fee.

Approximately 11.9% of the management fees were used to pay for portfolio management services, with the remainder of the fees allocated to custodial services, marketing, technology and Manager-Trustee operating expenses.

PAST PERFORMANCE

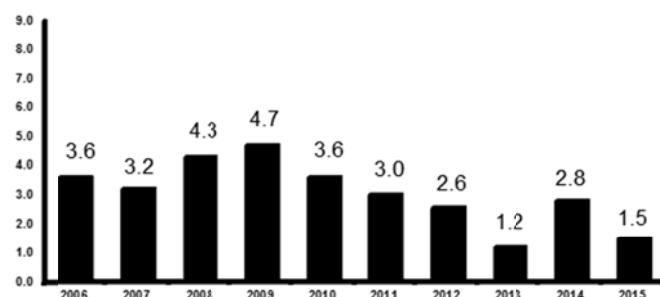
General

The Fund's performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund.

The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Please remember that how the Fund has performed in the past does not necessarily indicate how it will perform in the future.

Year-by-Year Returns

The bar chart shows the Fund's performance for each of its past 10 financial years and illustrates how the Fund's performance has changed for each 12-month period ending December 31. The chart shows, in percentage terms, how much an investment made on the first day of each financial period would have grown or decreased by the last day of each financial period.



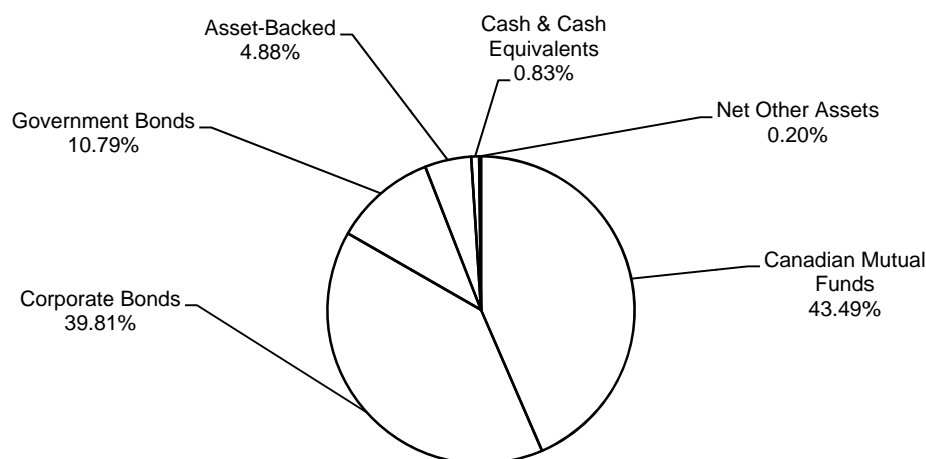
Annual Compound Returns

This table compares the historical annual compound returns of the Fund with the Benchmark, FTSE TMX Canada Short Term Bond Index. The FTSE TMX Canada Short Term Bond Index is a market capitalization weighted index consisting of a broadly diversified range of investment grade federal, provincial, municipal and corporate bonds with a term to maturity between one and five years.

	Educators Mortgage & Income Fund (%)	FTSE TMX Short Term Bond Index (%)
Past 10 years	3.03	3.87
Past 5 years	2.20	2.81
Past 3 years	1.80	2.47
Past year	1.47	2.61

The Benchmark returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark.

SUMMARY OF INVESTMENT PORTFOLIO (Based on Net Asset Value)



Top 25 Holdings

Security Name	Coupon Rate	Maturity Date	Percentage of Net Asset Value
HSBC Mortgage Fund, Institutional Series			41.05%
Canada Housing Trust No. 1	1.20%	June 15, 2020	7.62%
Canada Housing Trust No. 1	1.25%	December 15, 2020	3.17%
HSBC Global High Yield Bond Pooled Fund			2.44%
AT&T Inc.	3.83%	November 25, 2020	2.42%
Cameco Corp.	5.67%	September 2, 2019	2.28%
Genworth MI Canada Inc.	5.68%	June 15, 2020	2.21%
Heathrow Funding Ltd.	4.00%	July 3, 2019	1.91%
TMX Group Ltd.	3.25%	October 3, 2018	1.89%
BP Capital Markets PLC	3.50%	November 9, 2020	1.71%
CDP Financial Inc.	4.60%	July 15, 2020	1.54%
Merrill Lynch & Co. Inc.	5.29%	May 30, 2022	1.53%
WestJet Airlines Ltd	3.29%	July 23, 2019	1.51%
Goldman Sachs Group Inc.	5.20%	April 19, 2022	1.48%
General Motors Financial of Canada Ltd.	3.25%	May 30, 2017	1.24%
MCAP RMBS Issuer Corp.	2.17%	April 15, 2019	1.08%
Canadian Western Bank	3.08%	January 14, 2019	1.01%
Real Estate Asset Liquidity Trust	2.56%	October 12, 2049	1.00%
Manufacturers Life Insurance Co.	2.64%	January 15, 2025	1.00%
Royal Bank of Canada	3.04%	July 17, 2024	0.99%
Home Trust Co.	3.40%	December 10, 2018	0.97%
Granite Reit Holdings LP	4.61%	October 2, 2018	0.91%
Institutional Mortgage Securities Canada Inc.	1.94%	September 12, 2024	0.90%
Canadian Imperial Bank of Commerce	3.00%	October 28, 2024	0.82%
Intact Financial Corp.	5.41%	September 3, 2019	0.82%
Total Net Assets (000's)			\$204,316

The top 25 holdings represent approximately 83.50% of the total net assets of the Fund.

The summary of investment portfolio of the Fund is as at December 31, 2015 and may change due to the Fund's ongoing portfolio transactions. Updates are available quarterly. Information about the holdings of the HSBC Funds owned by the Fund is contained in their simplified prospectus, annual information form and fund facts documents available on SEDAR at www.sedar.com.

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