

2016

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2016

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 interim financial report, 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, 2016.

Results of Operations

For the twelve-month period ending December 31, 2016, the Fund provided a return of 1.63%, versus the FTSE TMX Canada Short Term Bond Index (the "Benchmark") return of 1.01%. 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 2.4% to \$199.4 million at the end of December 2016, down from \$204.3 million at the end of December 2015.

The first three quarters of 2016 brought with them no shortage of surprises, including a sharp sell-off in risk assets in Q1 and the shock result delivered in the UK's Brexit referendum. But the biggest surprise was left for the fourth quarter with Donald Trump's sensational victory in the US presidential election. Market expectations for the impact of a growth and reflation agenda from the newly elected administration quickly lent support to equity and credit markets while putting upward pressure on government bond yields. This upward pressure on yields was further magnified by the

Federal Reserve's decision to raise US overnight rates by 25 basis points in December.

For global fixed income markets the result was the worst quarterly performance in over a decade, wiping out a large portion of the gains produced earlier in the year. The 5-year Government of Canada bond yield, commonly looked at as a proxy for the broad short term market, rose by 49 basis points (bps), or 0.49%, to 1.11% in Q4, following an increase of 6 bps in Q3, with declines of 11 bps in the second quarter and 5 bps in Q1. This compares to a level of 0.73% at the end of 2015.

The yield curve steepened dramatically in Q4. The difference between 2 year and 10 year Government of Canada rose 50 bps to 98 bps on the quarter. This compares to 91 bps at the end of 2015.

Overall, short term Government bond yields rose 33 bps on the quarter to 0.98%. Broad posted mortgage rates were unchanged on the quarter, with the yield on the FTSE/TMX Residential Mortgage Index steady at 3.39%. The yield differential between 5-year fixed mortgage rates and the 5-year Government of Canada bond therefore narrowed in Q4 from 402 bps to 353 bps. Overall mortgages outperformed short-term government bonds in Q4 and 2016 overall thanks to their higher running yield and their tightening yield spread. We believe that mortgage rates still represent attractive value at current levels, with the yield spread wider than its historical average.

On the year the Canadian short term bond market returned 1.01%, with some divergence in sector returns. Federal government, Provincial government and Corporate bonds returned 0.13%, 0.87% and 2.29% respectively.

The Fund held an overweight position in corporate bonds, including high-yield overall in 2016. Residential mortgages also helped relative performance on the year,

while the Fund's lower duration, or interest rate risk, had little impact. The Fund's exposure to medium-term corporate bonds detracted from performance in Q4 but added value overall in 2016.

Recent Developments

Pro-growth policy initiatives (tax cuts, deregulation and infrastructure spending among others) in the US are expected to boost not only US but global growth in the next few years. The resumption of the US Federal Reserve's tightening of monetary policy may temper those expectations somewhat, but this tightening cycle is expected to see rates raised at a measured pace. In addition, the divergence of global monetary policy will continue to see the Bank of England, the European Central Bank and the Bank of Japan stand ready to provide additional support to their economies if need be.

As mentioned, expansionary Fiscal Policy which has been mostly absent in recent years is also now expected to support the Canadian economy as the Liberal government's spending program picks up the pace. HSBC forecasts full year growth of 1.6% for the U.S. economy in 2016, 2.3% in 2017 and 2.7% in 2018. Global growth is expected to increase by 2.2% in 2016, 2.5% in 2017 and 2.6% in 2018. In Canada, HSBC forecasts growth of 1.3% for 2016, 1.7% in 2017 and 1.6% for 2018. The consumer is less likely to add significantly to growth in 2016 while net exports and fiscal stimulus should be positive.

The Bank of Canada is expected to remain on hold in 2017. That said, one more cut remains possible if growth fails to improve as anticipated.

At this point, with longer term yields expected to rise modestly over the next year, the objective will be to maintain the Fund's interest rate exposure below the benchmark in the near term. Potential risks to our central outlook include disappointing global growth and a longer than expected road to recovery in the domestic economy.

We feel that valuations in the mortgage market are attractive, particularly when compared with money market securities, and will continue to invest excess cash on opportunities. Mortgage yield spreads relative to government bonds remains wider than their historical average. Fundamentally 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.

We believe that the corporate sector remains fundamentally sound with improving profit growth and defensively positioned balance sheets. With valuations in credit markets still attractively valued both on an absolute basis and in historical context, we continue to prefer corporate bonds over Government of Canada bonds and will look to remain overweight this sector.

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, Institution Series; and HSBC U.S. High Yield Bond Pooled Fund which are funds managed by the Fund's Portfolio Adviser.

In 2016 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				
	2016	2015	2014	2013	2012
Net Assets, beginning of year	\$11.38	\$11.44	\$11.38	\$11.50	\$11.46
Increase (decrease) from operations:					
Total revenue	\$0.35	\$0.37	\$0.38	\$0.39	\$0.40
Total expenses [excluding distributions]	\$(0.14)	\$(0.14)	\$(0.14)	\$(0.14)	\$(0.14)
Realized gains (losses) for the period	\$0.04	\$0.00	\$0.03	\$(0.03)	\$(0.08)
Unrealized gains (losses) for the period	\$(0.07)	\$(0.06)	\$0.05	\$(0.09)	\$0.11
Total increase (decrease) from operations ⁽²⁾	\$0.18	\$0.17	\$0.32	\$0.13	\$0.29
Distributions:					
From net investment income (excluding dividends)	\$0.21	\$0.23	\$0.25	\$0.25	\$0.26
From dividends	\$--	\$--	\$--	\$--	\$--
From capital gains	\$--	\$--	\$--	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--
Total Annual Distributions ⁽³⁾	\$0.21	\$0.23	\$0.25	\$0.25	\$0.26
Net Assets , end of year	\$11.35	\$11.38	\$11.44	\$11.38	\$11.49

- ⁽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				
	2016	2015	2014	2013	2012
Net Asset Value (000's) ⁽¹⁾	\$199,421	\$204,316	\$205,273	\$206,956	\$207,194
Number of units outstanding ⁽¹⁾	17,566,363	17,955,859	17,939,038	18,192,370	18,021,968
Management expense ratio ⁽²⁾	1.19%	1.19%	1.19%	1.20%	1.20%
Management expense ratio before waivers or absorptions ⁽³⁾	1.25%	1.25%	1.25%	1.25%	1.26%
Trading expense ratio ⁽⁴⁾	--	--	--	--	--
Portfolio turnover rate ⁽⁵⁾	59.84%	28.07%	27.89%	40.50%	32.41%
Net Asset Value per unit	\$11.35	\$11.38	\$11.44	\$11.38	\$11.50

- ⁽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 12.1% 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

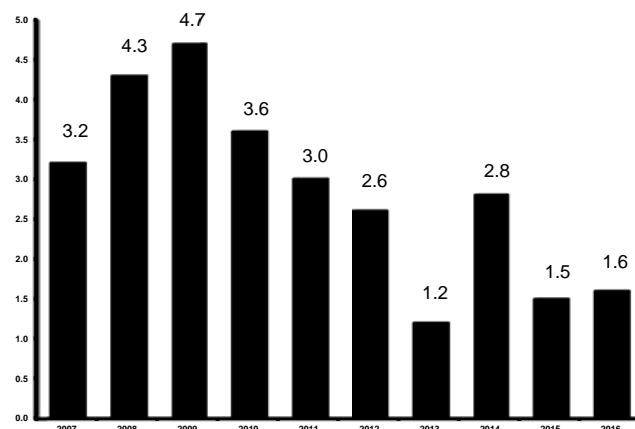
General

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.



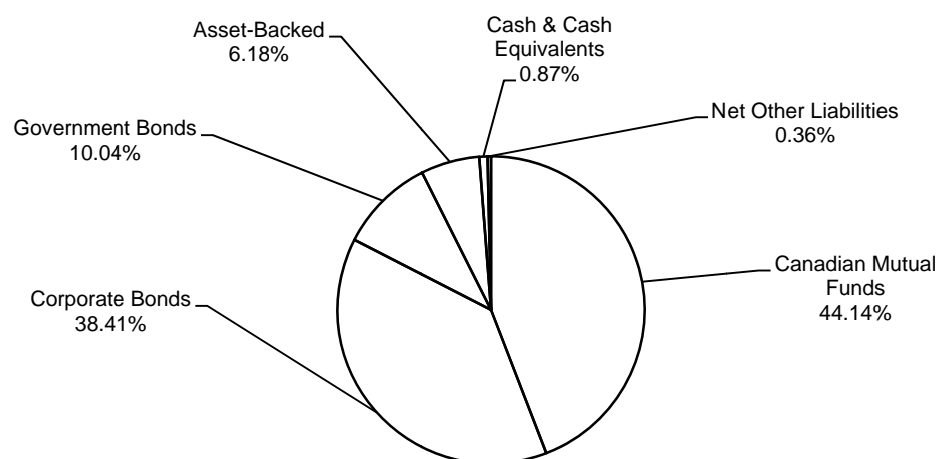
Annual Compound Returns

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	2.84	3.56
Past 5 years	1.92	2.08
Past 3 years	1.96	2.22
Past year	1.63	1.01

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			42.59%
Canada Housing Trust No. 1	1.90%	September 15, 2026	5.74%
Canadian Government Real Return Bond	6.60%	December 1, 2021	2.37%
AT&T Inc.	3.83%	November 25, 2020	1.99%
Genworth MI Canada Inc.	5.68%	June 15, 2020	1.99%
Goldman Sachs Group Inc.	5.20%	April 19, 2022	1.92%
BAA Funding Ltd.	4.00%	July 3, 2019	1.92%
Merrill Lynch & Co. Inc.	5.29%	May 30, 2022	1.58%
Cameco Corp.	5.67%	September 2, 2019	1.57%
HSBC Global High Yield Bond Pooled Fund			1.55%
Home Trust Co.	3.40%	December 10, 2018	1.29%
Canada Housing Trust No. 1	2.25%	December 15, 2025	1.26%
WestJet Airlines Ltd.	3.29%	July 23, 2019	1.23%
BP Capital Markets PLC	3.50%	November 9, 2020	1.18%
Royal Bank of Canada	3.31%	January 20, 2026	1.16%
Saputo Inc.	2.20%	June 23, 2021	1.13%
TMX Group Ltd.	4.46%	October 3, 2023	1.07%
Canadian Western Bank	3.08%	January 14, 2019	1.03%
Bank of Montreal	3.34%	December 8, 2025	1.02%
Manufacturers Life Insurance Co.	2.93%	November 29, 2023	1.02%
General Motors Financial of Canada Ltd.	3.08%	May 22, 2020	1.02%
Citigroup Inc.	3.39%	November 18, 2021	1.02%
Real Estate Asset Liquidity Trust	2.56%	October 12, 2049	0.99%
Canadian Mortgage Pools	1.30%	August 1, 2021	0.91%
Institutional Mortgage Securities Canada Inc.	1.94%	September 12, 2024	0.88%
Total Net Assets (000's)			\$199,421

The top 25 holdings represent approximately 79.43% of the total net assets of the Fund.

The summary of investment portfolio of the Fund is as at December 31, 2016 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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