2017

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2017

Offered by Educators Financial Group
Portfolio Adviser: Beutel, Goodman & Company Ltd., Toronto, Ontario

Educators Balanced Fund

Educators
FINANCIAL GROUP

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 Balanced Fund (the "Fund") is to provide a less volatile and more stable growth of assets by investing in a balanced asset mix of short-term fixed income securities, common and preferred shares, index participation units such as Standard & Poor's Depositary Receipts, and bonds. The Fund invests primarily in securities of Canadian governments and corporations. The asset mix is varied depending on the outlook for the economy and financial markets. There is no pre-determined percentage mix of securities. The fundamental investment objective of the Fund may not be changed without the prior approval of the unitholders.

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, 2017.

Results of Operations

For the year ending December 31, 2017, the Fund provided a return of 9.18%, versus a Benchmark return of 8.01%. The Benchmark comprises 40% FTSE TMX Canada Universe Bond Index, 35% S&P/TSX Composite Total Return Index, 12% S&P 500 Index (Canadian$) and 13% MSCI EAFE Total Return Index (Canadian$) (the "Benchmark"). Investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in Benchmark returns.

The Fund's net assets increased by 21.6% to $245.9 million at the end of December 2017, up from $202.2 million at the end of December 2016.

The Fund achieved a positive return for the year and outperformed its blended performance benchmark on a net of fees basis. Added value came from an underweight position in fixed income and overweight in equities, particularly the impact of an overweight in international equities. In addition, the Fund's Canadian, U.S., and international equity components outperformed their respective indices over the year.

As central banks tightened monetary policy and the U.S. Federal Reserve started to unwind its balance sheet, markets took their cue more from economic data than from central bank extraordinary stimulus. Global growth was buoyant, global PMIs trended higher, the Canadian and U.S. labour markets were robust, and consumer spending was resilient. The one piece of economic data that continued to disappoint was the lack of wage growth and inflation. While 2016 was all about headline risk (Brexit, Trump election); for the most part markets ignored the headlines in 2017. The concern that the euro zone would lay the seeds of its own destruction dissipated as the numerous European elections failed to deliver victories for the far right, Eurosceptic parties. While failing to deliver a new health care bill, the Trump Administration was successful in getting its tax reform passed and threats of government sequestration and breaching the debt ceiling were kicked down the road into 2018. The U.S. Federal Reserve followed through on hiking the Federal Funds rate three times, in line with their projections and commencing the unwind of their balance sheet. The Bank of Canada moved from being on hold to removing the 50 basis points of extraordinary monetary policy stimulus to being on hold again and then embarking on a slow, data-dependent hiking cycle. The Bank became cautious about the effect of the tightening on consumer debt and spending, uncertainty regarding NAFTA, and the appreciation of the Canadian dollar.

Oil prices rebounded during the year, most recently due to social unrest in Iran and the possibility of supply disruptions, along with OPEC's promised production cuts. WTI ended the period above $60, a gain of over 12% for the year.

The Canadian equity component of the Fund outperformed the return of the S&P/TSX Composite Index for the year. Added value was attributable to positive sector weighting effects, specifically an underweight in the Energy sector. The portfolio manager remained cautious on the sector, as valuations reflected overly optimistic views of the oil price and oil fundamentals. Security selection detracted overall from performance, largely driven by selection effects in the Energy sector. The Telecommunication Services sector was the top contributor as a result of both positive security selection and positive allocation effects, while Consumer Staples was the biggest laggard due to both negative selection and weighting effects. Rogers Communications was the most significant contributor to performance for the year. Magna and Brookfield also added significant value, while Cenovus, Molson Coors Canada, and Cameco were the largest detractors to performance.

The portfolio's U.S. component outperformed over the period, primarily due to stock selection. Sector allocation effects were slightly negative, with negative effects from an overweight in Telecommunications and underweights in Consumer

Discretionary and Information Technology outweighing positive effects from underweight positions in Energy, Utilities, and Real Estate. The largest contribution to stock selection came from the Industrials and Financials sectors. Parker Hannifin in Industrials was the largest contributor to performance over the period after reporting results that included posting strong organic growth, in addition to expanding margins. Financials holdings contributed significantly, with Ameriprise and American Express as main contributors over the period. Ameriprise posted good results, mainly due to net new money inflows and benefitted from strong markets generally, as Financials continued to rally in the index. American Express gained significantly on improving sentiment and business fundamentals, as the Costco loss has now been annualized.

The international equity component outperformed significantly over the period. Sector allocation added value slightly, as positive effects from overweight positions in Materials and Information Technology outweighed negative effects from an overweight in Telecommunications. The majority of the added value over the period came from security selection, led by positive stock selection in Financials, Consumer Staples, and Telecommunications. In Financials, DBS was a significant contributor over the period, as investors gained comfort that the oil and gas loan issues are behind them. Julius Baer added value on results that showed healthy asset growth as well as margin expansion and Deutsche Boerse performed well post the collapse of the deal to combine with LSE, aided further by more clarity on the company's stand-alone growth plans. Positive stock selection in Consumer Staples was due to strong performance from Kao, Carlsberg, and Unilever over the period. In Telecommunications, Vodafone and Telefonica Deutschland outperformed following important consolidation in Germany, arguably their most important market, as well as strong operational results. KPN also outperformed as signs of easing competitive pressure emerged in its market.
The Corporate, Provincial and Municipal sectors outperformed the Index, while the Federal sector underperformed. The fixed income component had a positive return, however underperformed the Index for the one-year period on a net of fees basis. Decisions that contributed to performance include: government sector allocation, as both provincials and corporates significantly outperformed federal bonds; the Fund's short duration positioning, as yields across the curve decreased by 24 basis points during the year; corporate sector allocation, as corporates outperformed federal bonds; and the Fund's foreign pay position, which was closed in the second quarter, but contributed positively to performance for the year, as the Fund benefitted from a depreciating currency at the time the position was in place. Decisions that detracted from performance include: corporate security selection, as the portfolio manager's preferred high-quality sectors underperformed versus other higher beta corporates; and curve positioning, as the Fund was not positioned for the initial flattening of the yield curve following the Bank of Canada's about face in monetary policy messaging, yet was positioned for the balanced of the flattening move.

Recent Developments

Global equity markets rallied strongly in 2017 and reached multi-year highs across many countries. The surprisingly synchronized global economic growth was the key reason behind the strong market movements. While no major economies are expected to grow at a particularly fast speed, all of them continue to show positive signs of improving growth momentum. In the U.S., the much anticipated tax reform seems within reach and may further strengthen business and investment confidence. In Europe, domestic consumption and construction show strong potential to catch up, after the EU political environment improved through the last two years. In Japan, inflation has finally showed up as a result of the record high employment and rekindled hope of triggering a new business investment cycle. China looks poised to return to the growth path the government charted out after its recent policy meetings. Even the Brexit-troubled UK has maintained a decent GDP growth outlook. Overall, global growth is likely to be robust and broad-based in 2018.

On the other hand, monetary policy and financial conditions are expected to get tighter, as central banks in developed countries are turning away from their quantitative-easing programs and entering a tapering phase. It's unpredictable whether the tapering process will have a visible impact on the real economy or the equity markets in the near term.

Given the relatively slow but steady economic recovery thus far, share price returns have run ahead of corporate revenue and earnings growth, leaving the record-breaking market performance to be driven by significant margin expansion and/or valuation multiple expansion. 2017 certainly saw market enthusiasm in some new technology areas, such as artificial intelligence, self-driving/electric vehicles, and cryptocurrencies, to name a few. The frenzy in those areas also led to a market rotation out of some strong, well-established (but "boring") businesses, offering opportunities to invest into those highly cash-generative businesses at unusually low valuations and always with the portfolio manager's required high hurdle rate of return. At the same time, the portfolio manager is applying a sharpened focus on downside risk mitigation to all portfolio investments. During the period, the portfolio manager's consistently applied valuation discipline and investment process prompted trims or exits in positions in the Fund as they reached their targets. These have been replaced with new names with high-quality businesses at compelling valuations, enhancing the portfolio manager's confidence that the fund is well positioned for the long-term.

From a fixed income perspective, both the Bank of Canada and the U.S. Federal Reserve are united in that they are both data dependent, monitoring how consumers and businesses react to higher interest rates and waiting to see if inflation will increase following the strong conditions in the labour markets and the underlying economies.

The outlook for U.S. growth remains bright, especially with the passage of U.S. tax reform. Financial conditions (low Treasury yields, narrower credit spreads, weaker U.S. Trade Weighted Dollar, and higher equity markets) have eased and historically have foreshadowed faster growth. While Canadian growth is expected to moderate after a robust first half of 2017, it will likely be held up by a strong U.S. economy and the recent strength in crude oil prices. While there is no doubt that the Canadian economy is strong and that the slack in the economy is being used up, there are a few areas of concern for the economic forecast. A significant amount of the strong growth has been led by the services sector and not by manufacturing, nor by the export sectors that the Bank of Canada had expected to benefit from a lower Canadian dollar. As the Bank of Canada has repeatedly warned, consumer indebtedness is at very high levels. While a slowdown in the housing market will likely not lead to a rash of foreclosures in Canada as it did in the U.S., it will likely constrain consumer spending as mortgage payments take up a greater share of the consumers' wallet. There remains concern that anti-trade and 'Buy America' policies, as well as differences in carbon regulations and corporate tax could also disadvantage Canadian industry, versus that of the U.S. These uncertainties are holding back business investment in Canada. After removing the 50 basis points of monetary policy stimulus, the Bank of Canada is embarking on a tightening cycle. The Canadian bond market has priced in more than two rate hikes by the Bank through to the end of 2018. The portfolio manager's base case is for the continuation of trends of relatively strong growth, steadily increasing inflation and gradual central bank tightening.

The fixed income component is short duration versus the benchmark. The portfolio manager believes that as central banks have adjusted their biases to removing monetary policy stimulus, both through hiking interest rates and tapering QE and balance sheets, interest rates will likely increase in accordance. The Canadian bond market has fully priced in a full tightening cycle by the Bank of Canada, in line with the portfolio manager's expectations, so there are no opportunities for rates to increase significantly in the short-end of the curve. We are positioned for the yield curve to continue to flatten as is reflective of tightening cycles. Projected roll return versus that of the benchmark remains positive. The Fund is overweight in corporate bonds and is maintaining its defensive and safe haven positioning. The Fund is underweight in Government of Canada bonds and slightly underweight in provincial bonds.

Caution Regarding Forward-looking Statements

This report may contain forward-looking statements about the Fund, including its strategy, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions.

In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

It should be stressed that the above-mentioned list of factors is not exhaustive. You are encouraged to consider these and other factors carefully before making any investment decisions and you are urged to avoid placing undue reliance on forward-looking statements. Further, you should be aware of the fact that the Fund has no specific intention of updating any forward-looking statements, whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Fund Performance.

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 Beutel Goodman American Equity Fund, Class I; Beutel Goodman International Equity Fund, Class I; and Beutel Goodman Small Cap Fund, Class I, all of which are funds managed by the Fund's portfolio adviser.

In 2017 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 the past five years.

The Fund's Net Assets per Unit [(1)]

	Year ended December 31				
	2017	2016	2015	2014	2013
Net Assets, beginning of year	$18.11	$17.11	$17.16	$16.38	$16.35
Increase (decrease) from operations:					
Total revenue	$0.47	$0.53	$0.51	$0.50	$0.60
Total expenses, including transaction costs [excluding distributions]	$(0.36)	$(0.34)	$(0.34)	$(0.33)	$(0.35)
Realized gains (losses) for the period	$0.36	$0.55	$0.31	$0.39	$1.93
Unrealized gains (losses) for the period	$1.18	$0.80	$(0.22)	$0.61	$(0.44)
Total increase (decrease) from operations [(2)]	$1.65	$1.54	$0.26	$1.17	$1.74
Distributions:					
From net investment income (excluding dividends)	$--	$--	$--	$0.01	$0.12
From dividends	$0.07	$0.19	$0.15	$0.16	$0.17
From capital gains	$0.08	$0.34	$0.18	$0.23	$1.41
Return of capital	$--	$--	$--	$--	$--
Total Annual Distributions [(3)]	$0.15	$0.53	$0.33	$0.40	$1.70
Net Assets , end of year	$19.62	$18.11	$17.11	$17.16	$16.38

(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				
	2017	2016	2015	2014	2013
Total Net Asset Value (000's) [(1)]	$245,879	$202,168	$180,771	$171,914	$152,046
Number of units outstanding [(1)]	12,529,872	11,162,886	10,565,315	10,017,434	9,280,357
Management expense ratio [(2)]	1.91%	1.93%	1.93%	1.93%	1.90%
Management expense ratio before waivers or absorptions [(3)]	1.95%	1.98%	1.98%	1.98%	1.98%
Trading expense ratio [(4)]	0.01%	0.01%	0.01%	0.01%	0.15%
Portfolio turnover rate [(5)]	71.81%	82.03%	104.56%	45.75%	207.27%
Net Asset Value per unit	$19.62	$18.11	$17.11	$17.16	$16.38

(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 1.65%. Effective from October 2, 2017 the annual management fee was reduced to a rate of 1.65% from 1.75%.

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

Approximately 13.0% of the management fees were used to pay for portfolio management services, with the remainder of the fees being allocated to custodial services, marketing, technology and Manager-Trustee operating expenses.

PAST PERFORMANCE

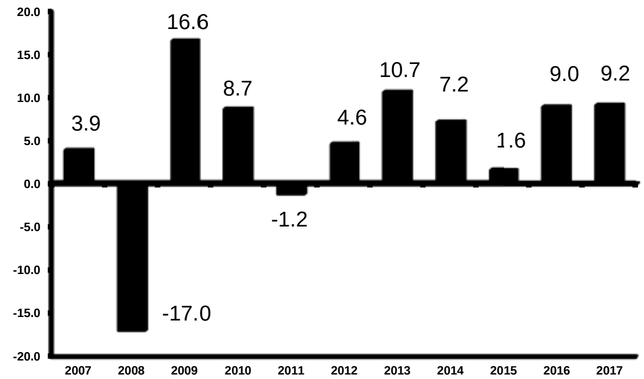
General

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.



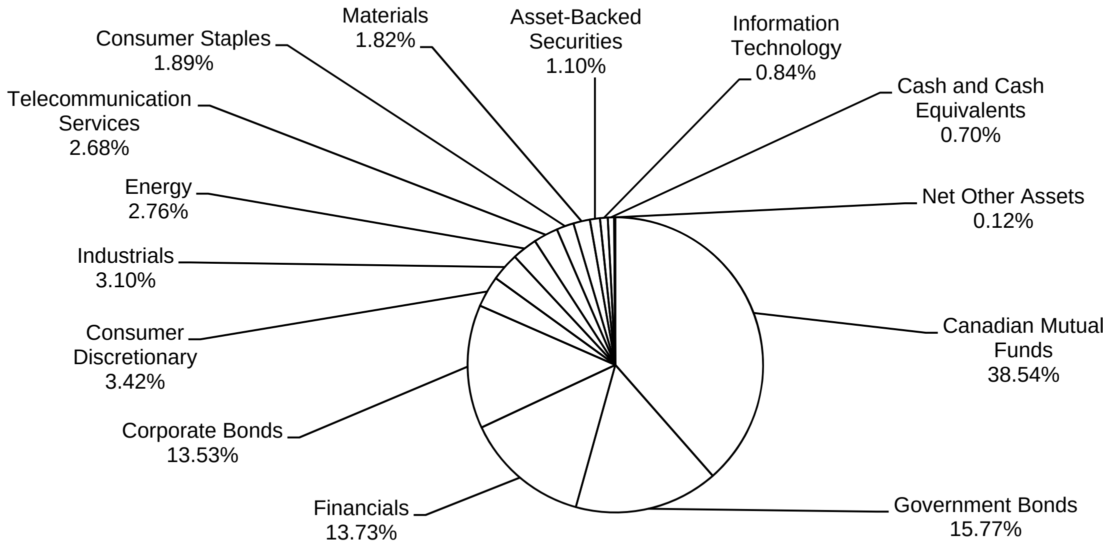
Annual Compound Returns

The following table compares the historical annual compound returns of the Fund with the performance of the blended Benchmark index comprised as follows: 40% FTSE TMX Canada Universe Bond Index, which is a broad measure of the total return of Canadian bonds that mature in more than one year, 35% S&P/TSX Composite Total Return Index (S&P/TSX Index), a capitalization-weighted index designed to measure the market activity of some of the largest float adjusted stocks listed on the Toronto Stock Exchange, 12% S&P500 Index (Canadian$), a stock market index based on the market capitalizations of 500 large companies having common stock listed on the New York Stock Exchange, and 13% MSCI EAFE Total Return Index (Canadian$) (MSCI Index).

	Educators Balanced Fund (%)	FTSE TMX Bond Index (%)	S&P/ TSX Index (%)	S&P500 Index (CDN$) (%)	MSCI Index (%)	Blended Index (%)
Past 10 years	4.54	4.67	4.65	10.40	4.40	5.66
Past 5 years	7.47	3.01	8.63	20.48	12.97	7.98
Past 3 years	6.52	2.56	6.59	13.65	10.66	6.55
Past year	9.18	2.52	9.10	13.15	16.82	8.01

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

SUMMARY OF INVESTMENT PORTFOLIO (Based on Net Asset Value)



Top 25 Holdings

Security Name	Coupon Rate	Maturity Date	Percentage of Net Asset Value
Beutel Goodman International Equity Fund, Class I			19.33%
Beutel Goodman American Equity Fund, Class I			16.69%
Royal Bank of Canada			3.12%
Toronto-Dominion Bank			3.08%
Beutel Goodman Small Cap Fund, Class I			2.52%
Bank of Nova Scotia			2.09%
Canadian Government Bond	1.00%	June 1, 2027	2.02%
Province of Ontario	4.65%	June 2, 2041	1.79%
Canadian Natural Resources Ltd.			1.78%
Rogers Communications Inc.			1.72%
Magna International Inc.			1.59%
Brookfield Asset Management Inc.			1.56%
Canadian Government Bond	2.75%	December 1, 2048	1.18%
Canadian National Railway Co.			1.08%
Canadian Tire Corp Ltd.			1.04%
Agrium Inc.			1.04%
Metro Inc.			0.99%
Great-West Lifeco Inc.			0.97%
Canadian Imperial Bank of Commerce			0.96%
TELUS Corp.			0.96%
Province of Quebec	5.00%	December 1, 2041	0.93%
Open Text Corp.			0.84%
Sun Life Financial Inc.			0.83%
Quebecor Inc.			0.79%
Finning International Inc.			0.72%
Total Net Assets (000's) ………………………………………………………………………			**$245,879**

The top 25 holdings represent approximately 69.62% of the total net assets of the Fund.

The summary of investment portfolio of the Fund is as at December 31, 2017 and may change due to the Fund's ongoing portfolio transactions. Updates are available quarterly. Information about the holdings of the Beutel Goodman 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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