

2017

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2017

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. The fundamental investment objective of the Fund may not be change 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 0.32%, versus the FTSE TMX Canada Short Term Bond Index (the "Benchmark") return of 0.08%. 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 5.7% to \$188.0 million at the end of December 2017, down from \$199.4 million at the end of December 2016.

Global growth continued to gain momentum in the fourth quarter. With a further rebound in U.S. data following the softer readings in the first half of the year and growth in Europe and the Pacific Rim on an improving trend. In Canada, while the labour market continued to be healthy, overall economic activity slowed from the very strong pace shown early in the year. However, Canada is still on pace to deliver the strongest growth amongst the G7 in 2017 making synchronizing global growth a key story in 2017 (and it should be an

equally important narrative in 2018). This improving fundamental backdrop has prompted many key central banks (including the U.S. Federal Reserve, the Bank of England, and even the European Central Bank began) to signal that global policy rates are likely to be moving higher in concert following years of aggressive, coordinated monetary stimulus. This shift in policy direction was also witnessed here in Canada, with the Bank of Canada raising policy rates twice in the third quarter. While the messaging from the central bank has been more cautious in recent months, they are likely not yet finished tightening policy and further rate hikes are expected in 2018. Overall, the increasing evidence of a more universal global expansion continues to provide a positive backdrop for equity markets and challenging outlook for fixed income assets going forward.

For global fixed income markets, this resulted in mixed returns across different sectors and terms. The 5-year Government of Canada bond yield (commonly looked at as a proxy for the broad short-term market) rose by 76 basis points (bps) to 1.87% in 2017. It rose by 12 bps in the fourth quarter, having ended the third quarter at 1.75%, the second quarter at 1.39%, and the first quarter at 1.12%. The yield curve flattened further in the fourth quarter, with the difference between 2-year and 10-year Government of Canada falling 22 bps to 36 bps on the quarter, after starting the year at 97 bps. Overall, short-term Government bond yields increased 11 bps on the quarter to 2.05%.

Broad posted mortgage rates were higher on the quarter, with the yield on the FTSE/TMX Residential Mortgage Index rising to 3.74% from 3.59% at the end of the third quarter and 3.39% at the end of the second quarter. The yield differential between 5-year fixed mortgage rates and the 5-year Government of Canada bond therefore narrowed in the fourth quarter to 315 bps (from 319) at the end of the third quarter and 325 bps at the end of the second quarter. Overall mortgages outperformed short-term government bonds due to their higher running yield and the narrowing of mortgage yield

spreads. We believe that mortgage rates still represent attractive value at current levels. While the yield spread is now slightly tighter than its long-term historical average, the incremental yield advantage is still considerable given the historically low interest rate environment.

Over the past year, the Canadian short-term bond market returned 0.08%, with some divergence in sector returns. Federal government, provincial government, and corporate bonds returned -0.60%, +0.15%, and +1.03%, respectively.

The Fund's overweight positions in corporate bonds, including high-yield and residential mortgages, helped performance overall in 2017, as did the Fund's exposure to medium-term corporate bonds. The Fund's lower duration, or interest rate risk, had a small positive impact on relative performance. Security selection within corporate bonds was a small positive contributor to relative returns.

Recent Developments

While pro-growth policy initiatives (tax cuts, deregulation, and infrastructure spending among others) in the U.S. are expected to boost not only U.S. but also global growth in the next few years, the challenges of the legislative process remain. The resumption of the U.S. Federal Reserve's tightening of monetary policy and likely rate hikes in Canada and the UK, may also dampen expectations somewhat. However, this global tightening cycle is expected to see rates raised at a measured pace. In addition, while global monetary policy appears set to move in a similar direction, central banks will stand ready to provide renewed support to their economies if need be. Expansionary fiscal policy, which has been mostly absent in recent years, is also now expected to support a number of economies around the world with infrastructure spending in Canada as an example. Overall, coordinated global growth is expected to gain momentum in 2018.

The Canadian economy is expected to continue to be one of the strongest developed economies. That said, tensions surrounding trade policies, particularly in North America, remain a key risk to the domestic economy. While the Bank of Canada is expected to further tighten monetary policy in 2018, expectations for the magnitude of policy tightening have been tempered in recent months. The central bank has indicated that there is no predetermined path for monetary policy and the market is currently discounting two additional rate hikes by the end of 2018.

With longer-term yields expected to rise modestly over 2018, the objective is to maintain the Fund's interest rate exposure at or below the benchmark in the near term. Potential risks to our central outlook include disappointing global growth and a longer than anticipated road to recovery in the domestic economy. We feel that the corporate sector remains fundamentally sound with defensively positioned balance sheets and an improving earnings outlook in 2017. Valuations in credit markets continue to look attractive, which is why we continue to prefer residential mortgages and corporate bonds over Government of Canada bonds and we will look to remain overweight these sectors.

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 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 each year ended December 31 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	\$11.35	\$11.38	\$11.44	\$11.38	\$11.50
Increase (decrease) from operations:					
Total revenue	\$0.32	\$0.35	\$0.37	\$0.38	\$0.39
Total expenses [excluding distributions]	\$(0.14)	\$(0.14)	\$(0.14)	\$(0.14)	\$(0.14)
Realized gains (losses) for the period	\$(0.05)	\$0.04	\$0.00	\$0.03	\$(0.03)
Unrealized gains (losses) for the period	\$(0.10)	\$(0.07)	\$(0.06)	\$0.05	\$(0.09)
Total increase (decrease) from operations ⁽²⁾	\$0.03	\$0.18	\$0.17	\$0.32	\$0.13
Distributions:					
From net investment income (excluding dividends)	\$0.17	\$0.21	\$0.23	\$0.25	\$0.25
From dividends	\$--	\$--	\$--	\$--	\$--
From capital gains	\$--	\$--	\$--	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--
Total Annual Distributions ⁽³⁾	\$0.17	\$0.21	\$0.23	\$0.25	\$0.25
Net Assets , end of year	\$11.22	\$11.35	\$11.38	\$11.44	\$11.38

⁽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
Net Asset Value (000's) ⁽¹⁾	\$188,011	\$199,421	\$204,316	\$205,273	\$206,956
Number of units outstanding ⁽¹⁾	16,764,263	17,566,363	17,955,859	17,939,038	18,192,370
Management expense ratio ⁽²⁾	1.19%	1.19%	1.19%	1.19%	1.20%
Management expense ratio before waivers or absorptions ⁽³⁾	1.25%	1.25%	1.25%	1.25%	1.25%
Trading expense ratio ⁽⁴⁾	--	--	--	--	--
Portfolio turnover rate ⁽⁵⁾	37.56%	59.84%	28.07%	27.89%	40.50%
Net Asset Value per unit	\$11.22	\$11.35	\$11.38	\$11.44	\$11.38

⁽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 1.10%.

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

Approximately 12.0% 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

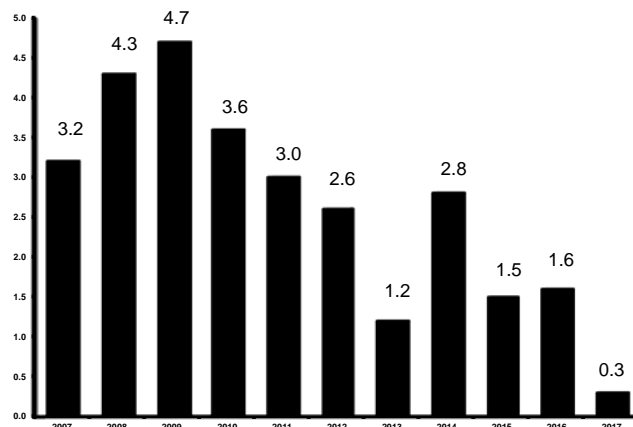
General

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.



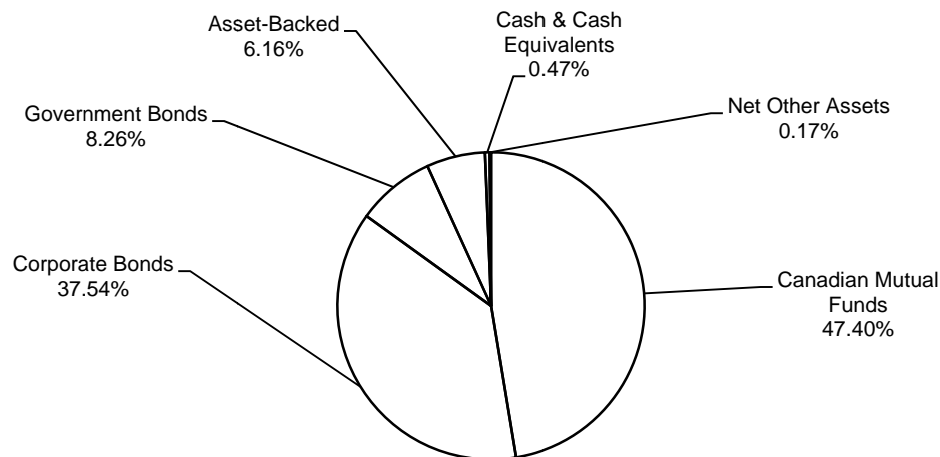
Annual Compound Returns

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	2.54	3.16
Past 5 years	1.47	1.70
Past 3 years	1.14	1.23
Past year	0.32	0.08

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			44.41%
Canada Housing Trust No. 1	1.90%	September 15, 2026	5.16%
HSBC Emerging Markets Debt Fund, Institutional Series			1.89%
Genworth MI Canada Inc.	5.68%	June 15, 2020	1.75%
Province of Alberta	2.20%	June 1, 2026	1.29%
Citigroup Inc.	3.39%	November 18, 2021	1.27%
AT&T Inc.	3.83%	November 25, 2020	1.23%
Aviva PLC	4.50%	May 10, 2021	1.19%
Bank of Nova Scotia	1.90%	December 2, 2021	1.16%
Brookfield Asset Management Inc.	5.30%	March 1, 2021	1.15%
TMX Group Ltd.	4.46%	October 3, 2023	1.12%
HSBC Global High Yield Bond Pooled Fund			1.10%
BP Capital Markets PLC	3.50%	November 9, 2020	1.10%
National Bank of Canada	1.81%	July 26, 2021	1.06%
Saputo Inc.	2.20%	June 23, 2021	1.05%
Suncor Energy Inc.	3.10%	November 26, 2021	1.02%
Ford Credit Canada Ltd.	2.58%	May 10, 2021	1.01%
Real Estate Asset Liquidity Trust	2.56%	October 12, 2049	1.00%
BAA Funding Ltd.	4.00%	July 3, 2019	0.98%
Canadian Government Real Return Bond	6.70%	December 1, 2021	0.97%
Royal Bank of Canada	3.31%	January 20, 2026	0.94%
Bank of Montreal	1.88%	March 31, 2021	0.93%
Goldman Sachs Group Inc.	2.43%	April 26, 2023	0.91%
Institutional Mortgage Securities Canada Inc.	1.94%	September 12, 2024	0.88%
Canadian Natural Resources Ltd.	3.31%	February 11, 2022	0.86%
Total Net Assets (000's)			\$188,011

The top 25 holdings represent approximately 75.43% 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 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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