

# 2018

## INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended June 30, 2018

Offered by Educators Financial Group  
Portfolio Manager: Foresters Asset Management Inc., Toronto, Ontario

### Educators Money Market Fund



This interim management report of fund performance contains financial highlights but does not contain either the interim financial report or annual financial statements of the investment fund. You can get a copy of the interim financial report or 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](http://www.educatorsfinancialgroup.ca) or SEDAR at [www.sedar.com](http://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

### Results of Operations

The Fund's net assets increased by 12.3% to \$16.4 million at the end of June 2018, up from \$14.6 million at the end of December 2017.

#### Investment Performance

For the six-month period ending June 30, 2018 (the 'period'), the Educators Money Market Fund – Class A Series provided a return of 0.37%, versus the FTSE TMX Canada 91 Day Treasury Bill Index (the 'Benchmark') return of 0.61%. Investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in index returns.

As of June 30, 2018, the Educators Money Market Fund (the 'Fund') held 24.4% of its investments in a combination of R-1 high-rated corporate paper, R-1 high-rated bank-sponsored asset-backed commercial paper, and banker's acceptances – with the balance of the Fund invested in Government of Canada Treasury Bills. The term of the Fund has remained in line with that of the Benchmark and averaged 90 days during the period.

Markets were volatile over the first six months of 2018, with the second quarter alone marked by an escalating global trade war, challenges to ongoing NAFTA negotiations, the election of Progressive Conservative leader Doug Ford as the new Premier of Ontario after 15 years of Liberal rule, and the unprecedented summit meeting between President Trump and the North Korean leader, Kim Jong-un.

After the Bank of Canada's (BoC) two meetings during the second quarter, the policy rates remained unchanged at 1.25%. Both decisions were widely anticipated by the markets. The April Money Policy Report (MPR) reflected revised growth expectations down to 2.0% for 2018 (from 2.2% in the January report), but more notably, revised growth upwards to 2.1% (from 1.6%) for 2019. Inflation was forecast to be modestly higher at 2.3% (from 2.0% in January) for 2018. Temporary factors such as elevated gasoline prices and the impact of the minimum wage increase are expected to more than offset the fading effects of electricity price rebates and low food price inflation. Inflation is expected to return to about 2.0% in 2019. However, the tone of the May 30 statement was perceived to be more hawkish and aggressive than expected, and appeared to indicate future near-term interest rate

hikes. The removal of the word "cautious" from the sentence regarding future rate hikes, as well as dropping the words "over time" after indicating that higher rates would be warranted, led market participants to judge that a rate hike in July was a possibility. The BoC did stress that future policy adjustments would come at a "gradual" pace, guided by incoming data.

On June 13, the Federal Open Market Committee (FOMC) raised the federal funds rate target range by 0.25% to 1.75%-2.00%. The accompanying statement was perceived as hawkish, as the committee plans for "further gradual increases in the target range for the federal funds rate", but the reference to "rates remaining below long-run levels for some time" was removed. Also, the pace of projected rate hikes was slightly increased in 2018 and 2019. As a result, two more interest rate hikes are projected for 2018, which is one more than was reflected in the March projections, while three rate hikes are anticipated for 2019. GDP growth in 2018 is now projected at 2.8% (originally 2.7%) and core inflation is projected at 2.0% (originally 1.9%).

During the period, the yield of the Fund's investment portfolio increased, reflecting the BoC's two interest rate hikes, as well as the greater likelihood of an additional interest rate hike by the BoC in the third quarter.

Throughout the second quarter, short-term treasury yields continued to trade at expensive levels, primarily due to a lack of supply, as clients remained short in anticipation of a BoC rate hike. Yields marginally increased at the end of June after the odds of a July rate hike had increased, but were held down by supply constraints. The increase in treasury yields increased the yield of the Fund's portfolio.

The yield of the Fund's portfolio remained above that of the Benchmark during the period, due to its allocation of Government of Canada treasury bills with maturities above 91 days, and to the Fund's composition of corporate money market instruments such as banker's acceptances and commercial paper. To mitigate interest rate risk, The Fund continued to maintain a neutral duration versus its Benchmark during the period.

### Recent Developments

On June 27, BoC Governor Poloz's speech in Victoria, B.C. titled "*Let Me Be Clear: From Transparency to Trust and Understanding*" garnered a lot of attention, as economists looked for signals of the BoC's intentions for the July 11 policy meeting. Expectations of an upcoming interest rate hike had slowly decreased due to Canada's escalating trade war with the United States, as well as some softer data released on CPI and retail sales. The speech did not reveal any significant outlook change, but did highlight that financial markets should react to unfolding economic data rather than specific directions from the BoC. The BoC also noted they would be incorporating the U.S. steel and aluminum tariffs, as well as any countervailing duties (along with housing and the impact of higher rates on households), into their July MPR forecasts. Policy is data-dependent and not headline-dependent. The probability of an interest rate hike on July 11 was 60% at the end of the period, as compared to 75% right after the May 30 statement. Given the data dependence, economists were focused on the upcoming real GDP and employment data as indicators for support for an interest rate hike. Furthermore, the Canadian labour market's strong wage gains in June were supportive, despite mixed labour market reports in 2018. At the July 11 meeting, the BoC raised its key interest rate by 0.25% to 1.75%.

The portfolio manager continues to focus on selecting securities with maturities that present the most attractive yields, and on diversifying the Fund to include non-government short-term investments, which provide a yield in excess of treasury bills while maintaining a duration that is in line with that of the Benchmark. Within the Fund, the portfolio manager continues to take advantage of yield-enhancing opportunities as they arise. The Fund will continue to hold between 25-30% in a combination of commercial paper, provincial-guaranteed paper, bank-sponsored asset-backed commercial paper, and banker's acceptances to complement the Fund's holdings in Government of Canada treasury bills.

### 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

In the first six months of 2018 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 six-month period and for the past five years.

#### Educators Money Market Fund – Class A Series – Net Assets per Unit<sup>(1)</sup>

	Six months ended June 30	Year ended December 31				
	2018	2017	2016	2015	2014	2013
Net Assets, beginning of period	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
<b>Increase (decrease) from operations:</b>						
Total revenue	\$0.07	\$0.08	\$0.06	\$0.08	\$0.10	\$0.11
Total expenses, including transaction costs [excluding distributions]	\$(0.03)	\$(0.06)	\$(0.05)	\$(0.06)	\$(0.06)	\$(0.06)
Realized gains (losses) for the period	\$--	\$--	\$--	\$--	\$--	\$--
Unrealized gains (losses) for the period	\$--	\$--	\$--	\$--	\$--	\$--
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$0.04</b>	<b>\$0.02</b>	<b>\$0.01</b>	<b>\$0.02</b>	<b>\$0.04</b>	<b>\$0.05</b>
<b>Distributions:</b>						
From net investment income (excluding dividends)	\$0.04	\$0.02	\$0.01	\$0.02	\$0.04	\$0.05
From dividends	\$--	\$--	\$--	\$--	\$--	\$--
From capital gains	\$--	\$--	\$--	\$--	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--	\$--
<b>Total Annual Distributions<sup>(3)</sup></b>	<b>\$0.04</b>	<b>\$0.02</b>	<b>\$0.01</b>	<b>\$0.02</b>	<b>\$0.04</b>	<b>\$0.05</b>
<b>Net Assets, end of period</b>	<b>\$10.00</b>	<b>\$10.00</b>	<b>\$10.00</b>	<b>\$10.00</b>	<b>\$10.00</b>	<b>\$10.00</b>

**Ratios and Supplemental Data (based on Net Asset Value)**

	Six months ended June 30		Year ended December 31			
	2018	2017	2016	2015	2014	2013
Total Net Asset Value (000's) <sup>(4)</sup>	\$15,591	\$14,624	\$17,129	\$19,434	\$20,163	\$20,931
Number of units outstanding <sup>(4)</sup>	1,559,063	1,462,438	1,712,916	1,943,435	2,016,314	2,093,122
Management expense ratio <sup>(5)</sup>	0.59%	0.58%	0.53%	0.53%	0.59%	0.59%
Management expense ratio before waivers or absorptions <sup>(6)</sup>	\$0.62	0.62%	0.61%	0.61%	0.62%	0.62%
Trading expense ratio <sup>(7)</sup>	N/A	N/A	N/A	N/A	N/A	N/A
Net Asset Value per unit	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00

**Educators Money Market Fund – Class I Series – Net Assets per Unit <sup>(1)</sup>**

Six months ended June 30	
	2018
Net Assets, beginning of period	\$10.00
<b>Increase (decrease) from operations:</b>	
Total revenue	\$0.07
Total expenses, including transaction costs [excluding distributions]	\$0.00
Realized gains (losses) for the period	\$--
Unrealized gains (losses) for the period	\$--
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	\$0.07
<b>Distributions:</b>	
From net investment income (excluding dividends)	\$0.07
From dividends	\$--
From capital gains	\$--
Return of capital	\$--
<b>Total Annual Distributions <sup>(3)</sup></b>	\$0.07
<b>Net Assets, end of period</b>	\$10.00

**Ratios and Supplemental Data (based on Net Asset Value)**

Six months ended June 30	
	2018
Total Net Asset Value (000's) <sup>(4)</sup>	\$825
Number of units outstanding <sup>(4)</sup>	82,516
Management expense ratio <sup>(5)</sup>	--
Management expense ratio before waivers or absorptions <sup>(6)</sup>	\$--
Trading expense ratio <sup>(7)</sup>	N/A
Net Asset Value per unit	\$10.00

- (1) This information is derived from the Fund's interim financial report and 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.
- (4) This information is provided as at June 30 or December 31 of the year shown.
- (5) 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.
- (6) 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.
- (7) 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.

**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 manager, as well as all administrative services required by the Fund. As compensation for these services, the Manager-Trustee is entitled to receive a fee payable monthly, calculated daily, and based on the Net Asset Value of the Fund, at a maximum annual rate of 0.55% for the Class A Series. The Class I Series is identical in all respect to the Class A Series, except that there is no management fee payable by the Fund in respect of the Class I units.

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

Approximately 20.0% 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**

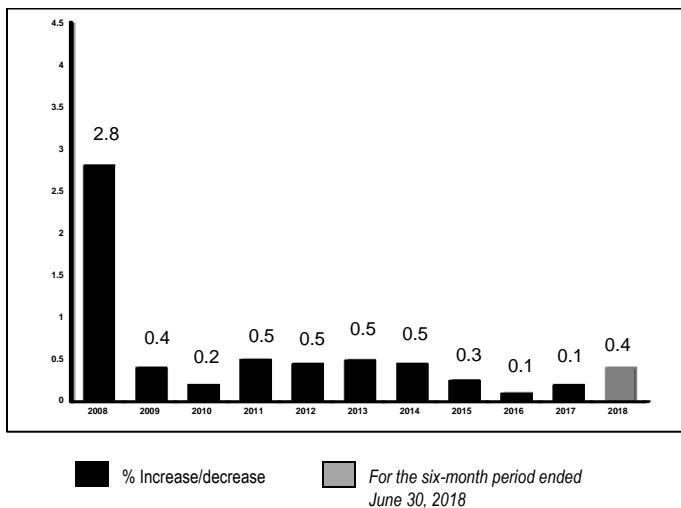
The Fund's performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund.

The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. The performance of different fund series may vary for a number of reasons, including differences in management fees and expenses. Please remember that how the Fund has performed in the past does not necessarily indicate how it will perform in the future.

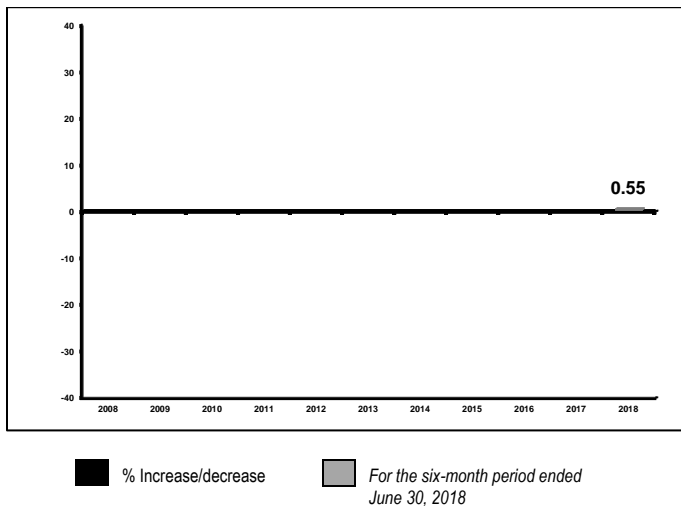
### Year-by-Year Returns

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 the 6-month period ended June 30, 2018 and 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 Returns – Class A Series



Annual Returns – Class I Series <sup>(1)</sup>



<sup>(1)</sup> The Class I Series commenced operations January 4, 2018

### SUMMARY OF INVESTMENT PORTFOLIO (Based on Net Asset Value)

As at June 30, 2018

Sector Mix	Percentage of Net Asset Value
Treasury Bills	78.00%
Bankers' Acceptances	15.04%
Discount Commercial Paper	5.34%
Bearer Deposit Notes	1.62%

### Top Holdings

Security Name	Percentage of Net Asset Value
Canada Treasury Bill, 1.24%, October 4, 2018	19.57%
Canada Treasury Bill, 1.19%, July 26, 2018	12.18%
Canada Treasury Bill, 1.27%, September 20, 2018	10.60%
Canada Treasury Bill, 1.24%, August 23, 2018	6.90%
Canada Treasury Bill, 1.29%, September 6, 2018	6.87%
Canada Treasury Bill, 1.45%, November 1, 2018	6.63%
Canada Treasury Bill, 1.21%, August 9, 2018	5.54%
Canada Treasury Bill, 1.43%, December 13, 2018	4.51%
Bank of Montreal, 1.63%, August 21, 2018	3.64%
Canadian Imperial Bank of Commerce, 1.64%, September 20, 2018	3.63%
OMERS Finance Trust, 1.64%, September 17, 2018	3.49%
Canada Treasury Bill, 1.47%, December 27, 2018	2.72%
Clarity Trust, 1.70%, August 28, 2018	2.61%
Canada Treasury Bill, 1.41%, November 29, 2018	2.48%
Bank of Nova Scotia, 1.86%, November 27, 2018	2.48%
Toronto-Dominion Bank, 1.86%, November 19, 2018	2.38%
Royal Bank of Canada, 1.79%, November 5, 2018	2.05%
Royal Bank of Canada, 1.81%, December 6, 2018	1.62%
Toronto-Dominion Bank, 1.80%, September 28, 2018	1.24%
Bank of Nova Scotia, 1.83%, September 25, 2018	1.15%

**Total Net Assets (000's) \$16,416**

The summary of investment portfolio of the Fund is as at June 30, 2018 and may change due to the Fund's ongoing portfolio transactions. Updates are available quarterly.

**EDUCATORS FINANCIAL GROUP**

2225 Sheppard Ave. East  
Suite 1105  
Toronto, Ontario M2J 5C2

Telephone: 416.752.6843  
1.800.263.9541

Fax: 416.752.6649  
1.888.662.2209

E-Mail: [info@educatorsfinancialgroup.ca](mailto:info@educatorsfinancialgroup.ca)

Web: [www.educatorsfinancialgroup.ca](http://www.educatorsfinancialgroup.ca)

