

2018

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2018

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

Educators Bond 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 Bond Fund (the "Fund") is to earn a high rate of income return by investing, directly or indirectly, primarily in fixed-income securities of Canadian governments and corporate issuers. While investments in foreign fixed income securities are permitted, this is not a key strategy for the Fund, which focusses on creating a high quality portfolio diversified across Government of Canada, provincial government and corporate 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, 2018.

Results of Operations

The Fund's net assets increased by 74.4% to \$15.7 million at the end of December 2018, up from \$9.0 million at the end of December 2017.

Investment Performance

For the year ending December 31, 2018 (the 'period'), the Educators Bond Fund – Class A Series provided a return of 0.46%, versus the FTSE TMX Canada Universe Bond Index (the 'Benchmark') return of 1.41%. Investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in index returns.

The Bank of Canada (BoC) hiked the overnight rate by 25 basis points three times in the January 1 to December 31, 2018 period—bringing the overnight rate to 1.75%.

At the time of the last rate hike in October of 2018, the BoC sounded a fairly upbeat tone on the Canadian economy, noting the reduction in trade uncertainty after the USMCA (*the U.S.–Mexico– Canada Agreement that replaced NAFTA*) was secured. This positive tone also reflected the likelihood of increased business investment and a Canadian economy that was operating close to its potential with the composition of growth more balanced.

Fast-forward to the Bank's monetary policy release in December and all of the perceived hawkishness was removed. The BoC noted signs had emerged that trade conflicts were weighing more heavily on global demand and growth has slowed in major economies, with the exception of the U.S. For Canada, the major change was the sharp decline in oil prices, which the BoC estimated would materially weaken activity in the energy sector. The BoC also cautioned that data suggested there was less momentum for the Canadian economy going into the fourth quarter than previously expected.

Consistent with the previous outlook statement, the BoC continues to gauge the impact of higher interest rates on consumption and housing and monitor global trade policy developments. New to the outlook statement was that the persistence of the oil price shock, along with the evolution of business investment and the Bank's assessment of the economy's capacity, will also factor into decisions about the future stance of monetary policy.

In the U.S., the Federal Reserve (*Fed*) continued its monetary tightening in the period, hiking the federal funds rate by 25 basis points in each of the four quarters of 2018 to end the year at a target range of 2.25-2.5%, in-line with market expectations. The Fed highlighted continued strength in the U.S. labour market and strongly rising economic activity, but noted in December that further increases would be data-dependent (*i.e., consistent with sustained economic activity, strong labour market conditions, and inflation near the 2% symmetric target over the medium term*). In his post-meeting press conference, Fed Chairman Jerome Powell warned growth is expected to moderate in 2019 and that tightening financial conditions, as well as signs of weaker growth abroad, had led members of the Federal Open Market Committee (*FOMC*) to mark down their inflation and growth projections. The Chair further said he believed the federal funds rate is currently at the bottom end of the estimates of neutral and that there is real uncertainty about the pace and destination of further rate increases. He also stated that there is no change to the balance sheet runoff.

For the 2018 period, the FTSE Canada Universe Bond Index increased by 1.41% on a total-return basis. The Federal sector outperformed the Index, returning 2.39%. The Provincial, Municipal and Corporate sectors underperformed the Index, returning 0.66%, 0.87% and 1.10%, respectively.

Against this backdrop, the Fund underperformed the benchmark for the period. A long tactical duration position in May and June helped add value for the year, as it captured downward movements in rates. Curve positioning detracted slightly, as the curve flattened over the period. Government and corporate security selection also contributed, as higher-quality securities outperformed riskier ones. Relative to its stated investment objectives and strategies, the Fund has maintained its quality and diversification standards.

Recent Developments

The normalization of rates by central banks and the withdrawal of extraordinary monetary policy stimulus have led interest rates on a steady march upwards. As mentioned previously, the Bank of Canada and the U.S. Federal Reserve hiked rates three and four times, respectively, in 2018. Central bank tightening has flattened the yield curve as moves in the administered rates are felt more in the short-end of the curve and the term premium remains compressed. The BoC and the Fed 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 with tight conditions in labour markets (*and economies that are operating at potential*).

With both central banks well into their tightening cycles, focus now shifts to when (*and possibly if*) they will reach the neutral rate, or r^* , the inflation-adjusted, short-term interest rate that is consistent with full use of economic resources and steady inflation. However this is proving to be a moving target. BoC Governor Poloz believes the neutral rate is between 2.5% and 3.5%, but there is sufficient uncertainty as to its level. Fed Chair Powell stated in an interview in October that the Fed Funds rate was a long way from neutral, only to say two months later that the rate was just below neutral. Perhaps it is as President of the NY Fed, John Williams, believes—that the neutral rate becomes more difficult to measure and less relevant as central banks get further into their tightening cycles.

Moving away from a focus on the 'neutral' rate, the key theme is that central banks and the markets are at odds with each other. Both the BoC and the Fed expect to continue to tighten, whereas markets are pricing in chances of less than one hike for each bank for the year. Whichever party proves correct has ramifications for duration positioning and the shape of the yield curve.

Overall, the portfolio manager believes we are late in the economic cycle. Central banks have moved short-term rates close to neutral rate levels, yield curves are flat, and economic growth is slowing. The portfolio manager does not necessarily believe a recession is imminent; however, the Canadian economy is being strained by the low price of oil and slowing housing market, so they are watching the broader impacts of housing and oil carefully.

As yields near 2.5%, the portfolio manager will likely extend duration, concentrate the portfolio's weighting in bonds with medium-term maturities, and once again reduce credit exposure.

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 general economic, political and relevant market factors, such as interest rates, foreign exchange rates, equity and capital markets, and the general business environment, in each case assuming no changes to applicable tax or other laws or government regulation. Expectations and projections about future events are inherently subject to, among other things, risks and uncertainties, some of which may be unforeseeable. Accordingly, assumptions concerning future economic and other factors may prove to be incorrect at a future date..

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 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 past five years. Currently Class I units of the Fund are not being offered to purchase.

Educators Bond Fund – Class A Series – Net Assets per Unit ⁽¹⁾

| | Year ended December 31 | | | | |
|---|------------------------|---------------|---------------|---------------|----------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Net Assets, beginning of period | \$9.84 | \$9.82 | \$9.93 | \$10.06 | \$9.78 |
| Increase (decrease) from operations: | | | | | |
| Total revenue | \$0.28 | \$0.23 | \$0.29 | \$0.32 | \$0.32 |
| Total expenses, including transaction costs [excluding distributions] | (\$0.12) | (\$0.12) | (\$0.13) | (\$0.13) | (\$0.13) |
| Realized gains (losses) for the period | (\$0.15) | (\$0.37) | \$0.08 | (\$0.02) | (\$0.07) |
| Unrealized gains (losses) for the period | \$0.01 | \$0.40 | (\$0.19) | (\$0.11) | \$0.37 |
| Total increase (decrease) from operations ⁽²⁾ | \$0.02 | \$0.14 | \$0.05 | \$0.06 | \$0.49 |
| Distributions: | | | | | |
| From net investment income (excluding dividends) | \$0.13 | \$0.10 | \$0.17 | \$0.19 | \$0.20 |
| From dividends | \$-- | \$-- | \$-- | \$-- | \$-- |
| From capital gains | \$-- | \$-- | \$0.04 | \$-- | \$-- |
| Return of capital | \$0.00 | \$0.02 | \$-- | \$-- | \$-- |
| Total Annual Distributions ⁽³⁾ | \$0.13 | \$0.12 | \$0.21 | \$0.19 | \$0.20 |
| Net Assets, end of period | \$9.75 | \$9.84 | \$9.82 | \$9.93 | \$10.06 |

Ratios and Supplemental Data (based on Net Asset Value)

| | Year ended December 31 | | | | |
|---|------------------------|---------|-----------|---------|---------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Total Net Asset Value (000's) ⁽⁴⁾ | \$6,880 | \$8,953 | \$10,140 | \$8,903 | \$8,868 |
| Number of units outstanding ⁽⁴⁾ | 705,316 | 909,935 | 1,032,691 | 896,328 | 881,460 |
| Management expense ratio ⁽⁵⁾ | 1.25% | 1.25% | 1.25% | 1.25% | 1.25% |
| Management expense ratio before waivers or absorptions ⁽⁶⁾ | 1.25% | 1.25% | 1.25% | 1.25% | 1.25% |
| Trading expense ratio ⁽⁷⁾ | --% | --% | --% | --% | --% |
| Portfolio turnover rate ⁽⁸⁾ | 199.01% | 123.27% | 6.90% | 9.17% | 6.05% |
| Net Asset Value per unit | \$9.75 | \$9.84 | \$9.82 | \$9.93 | \$10.06 |

Educators Bond Fund – Class I Series – Net Assets per Unit ⁽¹⁾

| | Year ended December 31 | |
|---|------------------------|--|
| | 2018 | |
| Net Assets, beginning of period | \$10.00 | |
| Increase (decrease) from operations: | | |
| Total revenue | \$0.28 | |
| Total expenses, including transaction costs [excluding distributions] | \$0.00 | |
| Realized gains (losses) for the period | (\$0.04) | |
| Unrealized gains (losses) for the period | \$0.12 | |
| Total increase (decrease) from operations ⁽²⁾ | \$0.36 | |
| Distributions: | | |
| From net investment income (excluding dividends) | \$0.26 | |

| | |
|--|---------------|
| From dividends | \$-- |
| From capital gains | \$-- |
| Return of capital | \$0.00 |
| Total Annual Distributions ⁽³⁾ | \$0.26 |
| Net Assets, end of period | \$9.96 |

Ratios and Supplemental Data (based on Net Asset Value)

| | Year ended December 31 | |
|---|------------------------|--|
| | 2018 | |
| Total Net Asset Value (000's) ⁽⁴⁾ | \$8,848 | |
| Number of units outstanding ⁽⁴⁾ | 888,105 | |
| Management expense ratio ⁽⁵⁾ | 0.01% | |
| Management expense ratio before waivers or absorptions ⁽⁶⁾ | 0.01% | |
| Trading expense ratio ⁽⁷⁾ | -- | |
| Portfolio turnover rate ⁽⁸⁾ | 199.01% | |
| Net Asset Value per unit | \$9.96 | |

⁽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 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 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.

⁽⁸⁾ The Fund's portfolio turnover rate indicates how actively the Fund's portfolio manager 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 manager, 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% for the Class A Series. The Class I Series are identical in all respects 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 27.8% of the total management fees collected from all series 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

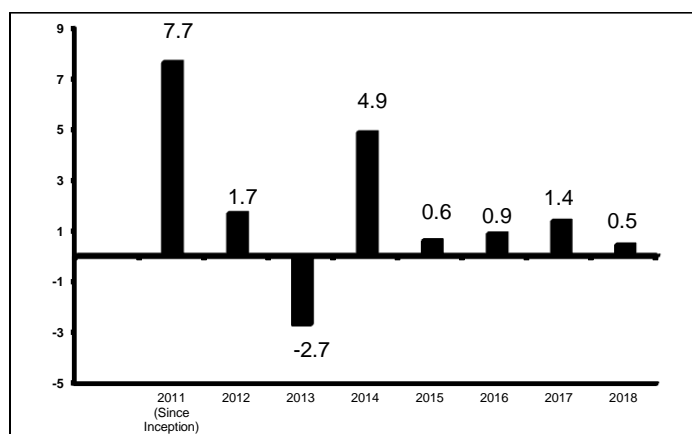
The Fund's performance information shown assumes that all distributions made by the Fund in the period(s) shown were reinvested in additional units of the Fund.

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.

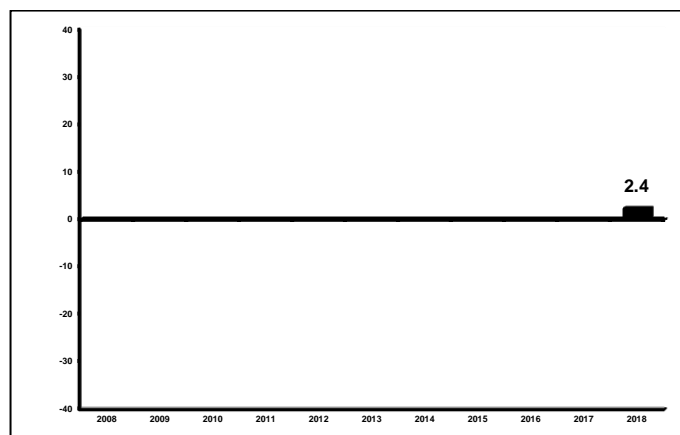
Year-by-Year Returns

The bar chart shows the Fund's performance since inception 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 Returns – Class A Series



Annual Returns – Class I Series ⁽¹⁾



⁽¹⁾ The Class I Series commenced operation January 4, 2018

Annual Compound Returns

This table compares the compound returns of the Fund since inception with the Benchmark, the 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.

Class A Series

| | 1 Year | 3 Year | 5 Year | 10 Year |
|-------------------------------------|--------|--------|--------|---------|
| Educators Bond Fund | 0.46% | 0.92% | 1.64% | NA |
| FTSE TMX Canada Universe Bond Index | 1.41% | 1.86% | 3.54% | 4.16% |

Class I Series ⁽¹⁾

| | Since Inception |
|-------------------------------------|-----------------|
| Educators Bond Fund | 2.39% |
| FTSE TMX Canada Universe Bond Index | 2.23% |

⁽¹⁾ The Class I Series commenced operation January 4, 2018

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)

As at December 31, 2018

| Sector Mix | Percentage of Net Asset Value |
|-------------------------|-------------------------------|
| Government Bonds | 51.12% |
| Corporate Bonds | 43.50% |
| Asset-Backed Securities | 3.12% |
| Short-term Investments | 1.58% |
| Net Other Liabilities | 0.68% |

Top 25 Holdings

| Security Name | Percentage of Net Asset Value |
|---|-------------------------------|
| Canadian Government Bond, 2.75%, December 1, 2048 | 6.63% |
| Province of Ontario, 2.60%, June 2, 2025 | 4.17% |
| Province of Quebec, 2.75%, September 1, 2028 | 3.89% |
| Toronto-Dominion Bank, 2.05%, March 8, 2021 | 3.10% |
| Province of Alberta, 2.90%, December 1, 2028 | 3.04% |
| Canadian Government Bond, 2.00%, June 1, 2028 | 2.94% |
| Province of Ontario, 2.90%, June 2, 2028 | 2.71% |
| Bank of Nova Scotia, 2.27%, January 13, 2020 | 2.58% |
| Royal Bank of Canada, 2.03% March 15, 2021 | 2.54% |
| Province of British Columbia, 2.95%, December 18, 2028 | 2.32% |
| Province of Ontario, 2.90%, June 2, 2049 | 2.13% |
| Bank of Montreal, 2.10%, October 6, 2020 | 2.05% |
| Royal Bank of Canada, 3.30%, September 26, 2023 | 2.00% |
| Province of Quebec, 3.50%, December 1, 2048 | 1.97% |
| Bank of Montreal, 1.61%, October 28, 2021 | 1.87% |
| Canadian Imperial Bank of Commerce, 1.90%, April 26, 2021 | 1.77% |
| Canadian Government Bond, 1.25%, February 1, 2020 | 1.73% |
| Province of Alberta, 2.35%, June 1, 2025 | 1.68% |
| Canadian Mortgage Pools, 1.62%, March 1, 2022 | 1.66% |
| Lower Mattagami Energy LP, 4.33%, May 18, 2021 | 1.65% |
| Toronto-Dominion Bank, 2.69%, June 24, 2025 | 1.64% |
| Toronto-Dominion Bank, 3.59%, September 14, 2028 | 1.61% |
| Canadian Imperial Bank of Commerce, 2.04%, March 21, 2022 | 1.56% |
| Province of Ontario, 2.80%, June 2, 2048 | 1.47% |
| Province of Ontario, 2.60%, September 8, 2023 | 1.47% |

Total Net Assets (000's) \$15,728

The top 25 holdings represent approximately 60.17% of the total net assets of the Fund.

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

Web: www.educatorsfinancialgroup.ca

