

# 2018

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2018

Offered by Educators Financial Group  
Portfolio Manager: HSBC Global Asset Management (Canada) Limited, Toronto, Ontario

### **Educators Monitored Conservative Portfolio**



This annual management report of fund performance 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](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 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 Monitored Conservative Portfolio (the "Fund") is to provide income with some potential for low to moderate capital growth. It does this by maintaining a balance of investments across several asset classes. The Fund invests primarily in mutual funds that invest in securities of Canadian and foreign governments and corporations. The asset mix is varied depending on the outlook for the economy and financial markets. 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. Since inception of the Fund no changes affecting the overall level of risk of investing in the Fund were made to the Fund as at December 31, 2018.

### Results of Operations

#### Investment Performance

Class A and Class I units of the Educators Monitored Conservative Portfolio were launched on January 4, 2018. Due to policies issued by the Canadian Securities Administrators, investment performance data is not reported for funds in existence for less than one year. The Fund's benchmark is a weighted composite consisting of 5.5% MSCI EAFE Index C\$ (net of withholding taxes), 6.5% S&P 500 Index C\$ (net of withholding taxes), 16.0% S&P/TSX Composite Index, 51.5% FTSE TMX Canada Universe Bond Index, 15.5% FTSE TMX Canada Short Term Bond Index, and 5.0% FTSE TMX 91-Day T-Bill Index (the 'Benchmark'). Investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in index returns.

Market sentiment was weighed down in 2018 by fears of an economic slowdown, global trade tensions, and rising short-term interest rates. Against this backdrop, equities sharply declined in the fourth quarter, leading to negative year-to-date returns. However, this has occurred, despite reasonably solid global economic fundamentals.

The domestic bond market edged up 1.4% in 2018, while global equities fell 1.0% in Canadian dollar terms. Meanwhile, Canadian equities slid 8.9%. The energy sector was the poorest performer for the

year. Oil prices plummeted 25% for the year, ending at approximately US\$45 per barrel. The U.S. dollar gained 8.3% (*compared to the Canadian dollar*) in 2018.

Overall asset mix positioning detracted from performance during the year. The portfolio's allocation to global high yield bonds and global emerging market debt was responsible for the lion's share of the detraction amid a heightened level of investor pessimism. However, security selection in Canadian equities contributed positively to performance.

### Recent Developments

In October, we tactically reduced global inflation-linked bonds and redeployed into Canadian bonds. Later, we added to Canadian equity amid market declines.

Despite the sharp decline in investor sentiment, the macro picture still looks reasonable. For example, our internal measure of underlying activity suggests that global growth continues to track approximately 3%, although there are a number of political risks we are closely monitoring. The expansion has eased since 2017's synchronized growth backdrop, but data suggests that we are not yet at the end of this economic cycle.

Meanwhile, the Canadian economy turned in a solid performance, despite weakness from the energy sector and cooling household spending. The domestic unemployment rate continues to trend at multi-decade lows, while corporate profitability continues to rise. Elsewhere, a renegotiated NAFTA (*now USMCA*) also eased trade-related uncertainty.

There were three increases to the Bank of Canada rate in 2018, but similar to the U.S., we expect this pace to slow in 2019.

The sharp drop in global equity markets in 2018, despite indicators suggesting that we are not yet at the end of the cycle (*and amidst very strong earnings growth*), has enhanced the attractiveness of prospective equity returns. Government bond yields dropped dramatically in the fourth quarter (*prices rose*) amidst the equity decline and valuations are expensive.

The macro environment remains quite positive, with improved valuations for equities and corporate bonds, although it is somewhat less robust than in 2017. Recent market action to December 2018

appears to be driven more by sentiment than fundamentals. As such, we will look to tilt the fund towards equities and credit fixed income asset classes. We are also likely to keep a modest preference towards shorter duration mortgages for the time being.

### **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**

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 Mortgage Fund, Institution Series; HSBC Emerging Markets Debt Fund, Institutional Series; HSBC International Equity Pooled Fund; HSBC Global High Yield Bond Pooled Fund; HSBC Global Inflation Linked Bond Pooled Fund; and HSBC Emerging Markets Pooled Fund which are funds managed by the Fund's Portfolio Manager.

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**

As the Fund has recently been created no Financial Highlights are provided in this document. Financial Highlights will be provided in our next management report of fund performance (“MRFP”).

### **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 1.45% for the Class A Series. The Class I Series is identical in all aspects 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 15.6% of the total management fees collected from all series 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**

Regulatory restrictions limit publishing performance for investment funds with a history of less than one year.

#### **Year-by-Year Returns**

As the Fund has recently been created no Year-by-Year Returns are provided in this document. Year-by-Year Returns will be provided in our next management report of fund performance (“MRFP”).

## SUMMARY OF INVESTMENT PORTFOLIO

(Based on Net Asset Value)

As at December 31, 2018

Sector Mix	Percentage of Net Asset Value
Canadian Mutual funds	99.49%
Net Other Assets	0.36%
Cash	0.15%

## Top Holdings

Security Name	Percentage of Net Asset Value
Educators Bond Fund, Class I	37.18%
HSBC Mortgage Fund, Institutional Series	17.15%
Educators Dividend Fund, Class I	9.55%
Educators Growth Fund, Class I	5.96%
Educators U.S. Equity Fund, Class I	5.88%
HSBC Emerging Markets Debt Fund, Institutional Series	5.88%
Educators Money Market Fund, Class I	5.21%
HSBC International Equity Pooled Fund	4.69%
HSBC Global High Yield Bond Pooled Fund	3.86%
HSBC Global Inflation Linked Bond Pooled Fund	2.51%
HSBC Emerging Markets Pooled Fund	1.62%

**Total Net Assets (000's)** **\$11,080**

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. 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](http://www.sedar.com).

## 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)

