

# 2019

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2019

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](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 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, 2019.

### Results of Operations

The Fund's net assets increased by 113.4% to \$33.5 million at the end of December 2019, up from \$15.7 million at the end of December 2018.

#### Investment Performance

For the year ending December 31, 2019 (the 'period'), the Educators Bond Fund – Class A Series provided a return of 5.38%, versus the FTSE TMX Canada Universe Bond Index (the 'Benchmark') return of 6.87%. Investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in index returns.

The Fund underperformed its benchmark on a net of fees basis for the one year period under review. A looming recession and volatility stemming from significant geopolitical uncertainty were two of the underlying themes during the period. The laundry list of distractions included, but was not limited to—further escalation of trade tensions; growing fears of a hard Brexit; unrest in Hong Kong; concern about a potential recession in Europe; an attack on Saudi Arabian oil fields; and a whistleblower complaint that sparked an impeachment inquiry in the U.S. Against this backdrop, the U.S. Federal Reserve (*Fed*) paused the rate-hiking cycle and in the second half of 2019, administered three consecutive insurance cuts to the federal funds rate in an effort to extend economic growth. Meanwhile, the Bank of Canada (*BoC*) held the overnight rate steady throughout the period at 1.75%. This was due to a pickup in the economy in the second quarter and continued overall

strength in jobs, a low unemployment rate, and inflation that generally held around the bank's target 2% level.

By far the most pressing concern heading into the second half of the year was the stress in the repurchase agreement (*repo*) market. The stress originated in September, when demand for overnight cash surpassed supply of available loans—resulting in significant illiquidity and a spike of several hundred basis points in interest rates in money markets. The Fed responded quickly to liquidity needs in the market and repurchase operations appear to have been successful thus far. Fed Chairman Jerome Powell noted the Fed stands ready to adjust the details as appropriate in order to keep the federal funds rate in the target range. This goes to show the Fed will continue to use its balance sheet for liquidity going forward when necessary.

Another noteworthy event occurred in the final quarter of the year, when, after several quarters of uncertainty, the U.S. and China shook hands on a Phase I trade agreement between the two countries. While a fully fleshed-out Phase 2 trade deal is unlikely to follow anytime soon, the fact that both sides agreed to continue to talk and hammer out a real trade agreement appears to have calmed markets.

For the January 1 to December 31, 2019 period, the FTSE Canada Universe Bond Index increased by 6.87% on a total-return basis. Sector allocation was a contributor, as the portfolio was underweight in federal bonds and overweight in corporate bonds. Government security selection also added value, largely due to overweight positions in the provinces of Ontario and Quebec.

Corporate security selection, however, was a detractor—as higher-quality credits underperformed higher-beta credits amid continued strength in credit market sentiment. Duration also detracted from performance within the period, as the portfolio had a generally short duration position versus the benchmark in a falling bond yield environment—as did the Fund's overweight position in the mid part of the yield curve (*as the yield curve flattened in the period*).

In other news, central bank easing has reduced the risk of any near-term recession. This has prompted our shift to a slightly shorter duration. For now, the Fund's yield curve position remains bulleted, meaning its maturities remain concentrated in the mid part of the yield curve.

The Fund remains slightly overweight in credit, albeit with lower beta and more liquid corporate securities—as the portfolio manager is cognizant that there could be an unsustainable rise in prices building. From a provincial perspective, the Fund maintains overweight positions in the provinces of Ontario and Quebec and to a lesser extent, Alberta. The Fund remains fractionally underweight in British Columbia.

### Recent Developments

Effective January 2020, the Fund transitioned from core fixed income to core plus. The Fund's objective remains the same.

Moving into a new year, it appears the Fed's intervention may have bought the U.S. economy some time to recover. Both the Fed and the BoC are expected to remain on hold with respect to interest rates during 2020. However, as central banks have demonstrated recently, being data-dependent means that they can change tone and policy direction very quickly (*in response to financial and economic conditions*).

In addition, given President Trump's unpredictability, the portfolio manager would be remiss not to mention that unforeseen events can dramatically impact the best-laid plans for the global economy, as the January 3rd killing of Iranian General Soleimani by the U.S. has highlighted.

While central banks may have helped stave off recession in 2020, the portfolio manager is nonetheless concerned that the abundant liquidity could drive markets to riskier levels. Leverage is creeping up across all securities, even in A-rated credits. In fact, the spread of leverage between an A and a BBB+-rated credit is currently very narrow. If central banks continue to provide liquidity and markets maintain a belief that the global economy is ticking along; credit spreads will likely continue to narrow, thereby masking cracks in credit quality as investors continue to reach for yield. The portfolio manager's concern with this situation is that central banks may be setting themselves up for a scenario where they've issued so much liquidity; they may be forced to issue it ad infinitum—creating unsustainable bubbles and possibly inflation.

Employment gains have been somewhat soft this quarter. However, similar to the U.S., the Canadian job market remains strong overall—which supports consumer spending. In addition, inflation is on target. So we could see a fiscal boost from possible tax cuts and other fiscal measures meted out by the federal government (*and BoC policy is likely to remain unchanged in the months ahead, given Governor Poloz is stepping down in June*).

The portfolio manager also notes the Bank of Canada remains sensitive to a strengthening Canadian dollar. Faced with a slowing economy and an appreciating currency (*that is in part being fueled by higher crude oil prices*), the BoC may soften its recent hawkish commentary in an effort to weaken demand for the Canadian dollar.

In addition, the portfolio manager has been cautioning for some time now that we appear to be approaching the end of the cycle and it's not yet clear whether central banks have the firepower to navigate the

exogenous risks ahead. However, as long as hiring continues and people have jobs, they will spend money and the economy will expand. As a result, while caution is warranted, the portfolio manager will seek out opportunities to capitalize upon.

The spread of the Corona Virus (COVID-19), and the monetary response by Central Banks, is being carefully monitored by the portfolio manager. They will consider if changes are warranted to their investment strategies.

### Caution Regarding Forward-looking Statements

This report may contain forward-looking statements about the Fund, including its strategy, risks, 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 forward-looking 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 unless required by applicable law.

### Related Party Transactions

In 2019 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 <sup>(1)</sup>

	Year ended December 31				
	2019	2018	2017	2016	2015
Net Assets, beginning of year	\$9.75	\$9.84	\$9.82	\$9.93	\$10.06
<b>Increase (decrease) from operations:</b>					
Total revenue	\$0.28	\$0.28	\$0.23	\$0.29	\$0.32
Total expenses, including transaction costs [excluding distributions]	(\$0.13)	(\$0.12)	(\$0.12)	(\$0.13)	(\$0.13)
Realized gains (losses) for the period	\$0.23	(\$0.15)	(\$0.37)	\$0.08	\$(0.02)
Unrealized gains (losses) for the period	\$0.06	\$0.01	\$0.40	\$(0.19)	\$(0.11)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$0.44</b>	<b>\$0.02</b>	<b>\$0.14</b>	<b>\$0.05</b>	<b>\$0.06</b>
<b>Distributions:</b>					
From net investment income (excluding dividends)	\$0.14	\$0.13	\$0.10	\$0.17	\$0.19
From dividends	\$--	\$--	\$--	\$--	\$--
From capital gains	\$--	\$--	\$--	\$0.04	\$--
Return of capital	\$--	\$0.00	\$0.02	\$--	\$--
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$0.14</b>	<b>\$0.13</b>	<b>\$0.12</b>	<b>\$0.21</b>	<b>\$0.19</b>
<b>Net Assets, end of year</b>	<b>\$10.14</b>	<b>\$9.75</b>	<b>\$9.84</b>	<b>\$9.82</b>	<b>\$9.93</b>

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

	Year ended December 31				
	2019	2018	2017	2016	2015
Total Net Asset Value (000's) <sup>(4)</sup>	\$9,233	\$6,880	\$8,953	\$10,140	\$8,903
Number of units outstanding <sup>(4)</sup>	910,353	705,316	909,935	1,032,691	896,328
Management expense ratio <sup>(5)</sup>	1.25%	1.25%	1.25%	1.25%	1.25%
Management expense ratio before waivers or absorptions <sup>(6)</sup>	1.25%	1.25%	1.25%	1.25%	1.25%
Trading expense ratio <sup>(7)</sup>	--	--	--	--	--
Portfolio turnover rate <sup>(8)</sup>	130.70%	199.01%	123.27%	6.90%	9.17%
Net Asset Value per unit	\$10.14	\$9.75	\$9.84	\$9.82	\$9.93

### Educators Bond Fund – Class I Series – Net Assets per Unit <sup>(1)</sup>

	Year ended December 31	
	2019	2018
Net Assets, beginning of year	\$9.96	\$10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	\$0.29	\$0.28
Total expenses, including transaction costs [excluding distributions]	\$--	\$0.00
Realized gains (losses) for the period	\$0.21	(\$0.04)
Unrealized gains (losses) for the period	\$0.01	\$0.12
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$0.51</b>	<b>\$0.36</b>
<b>Distributions:</b>		
From net investment income (excluding dividends)	\$0.26	\$0.26
From dividends	\$--	\$--
From capital gains	\$--	\$--
Return of capital	\$--	\$0.00
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$0.26</b>	<b>\$0.26</b>
<b>Net Assets, end of year</b>	<b>\$10.39</b>	<b>\$9.96</b>

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

	Year ended December 31	
	2019	2018
Total Net Asset Value (000's) <sup>(4)</sup>	\$24,219	\$8,848
Number of units outstanding <sup>(4)</sup>	2,329,983	888,105
Management expense ratio <sup>(5)</sup>	0.01%	0.01%
Management expense ratio before waivers or absorptions <sup>(6)</sup>	0.01%	0.01%
Trading expense ratio <sup>(7)</sup>	--	--
Portfolio turnover rate <sup>(8)</sup>	130.70%	199.01%
Net Asset Value per unit	\$10.39	\$9.96

<sup>(1)</sup> This information is derived from the Fund's audited annual financial statements. For financial years 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"). 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> Distributions were either paid in cash or reinvested in additional units of the Fund.

<sup>(4)</sup> This information is provided as at December 31 of the year shown.

<sup>(5)</sup> 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.

<sup>(6)</sup> 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 rate 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 53.7% 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

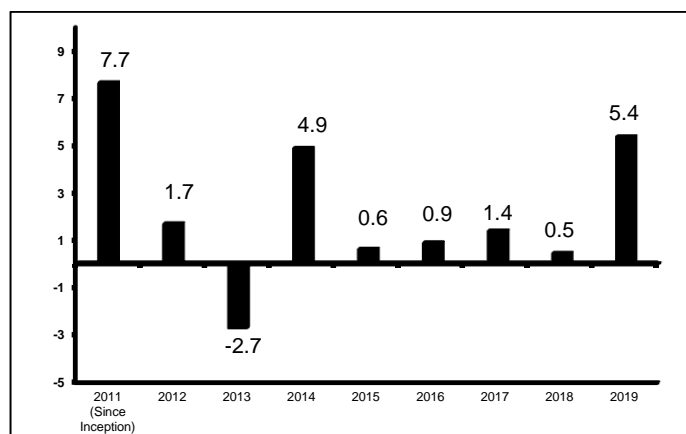
The Fund's performance information shown assumes that all distributions made by the Fund in the period(s) shown were reinvested in additional units of the Fund.

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.

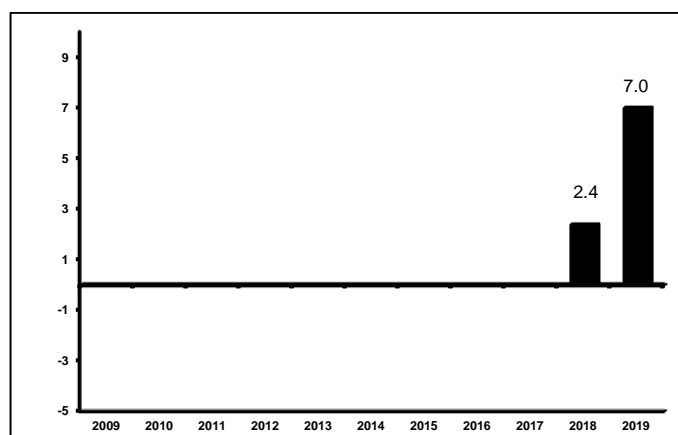
#### Year-by-Year Returns

The bar chart shows the Fund's annual performance since inception for each of the years shown and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.

Annual Returns – Class A Series



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



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

### Annual Compound Returns

The following table compares the historical annual compound returns of the Fund with the performance of the Benchmark index, 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	5.38%	2.39%	1.74%	NA
FTSE TMX Canada Universe Bond Index	6.87%	3.57%	3.18%	4.31%

#### Class I Series <sup>(1)</sup>

	1 Year
Educators Bond Fund	6.99%
FTSE TMX Canada Universe Bond Index	6.87%

<sup>(1)</sup> 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, 2019

Sector Mix	Percentage of Net Asset Value
Government Bonds	50.32%
Corporate Bonds	46.01%
Short-term Investments	2.01%
Asset-Backed Securities	1.30%
Net Other Assets	0.27%
Cash and Cash Equivalents	0.09%

### Top 25 Holdings

Security Name	Percentage of Net Asset Value
Province of Ontario, 2.40%, June 2, 2026	7.22%
Canadian Government Bond, 2.75%, December 1, 2048	6.14%
Canadian Government Bond, 2.25%, June 1, 2029	4.00%
Province of Ontario, 2.70%, June 2, 2029	3.74%
Province of Quebec, 2.30%, September 1, 2029	3.42%
Royal Bank of Canada, 2.61%, November 1, 2024	2.83%
Province of Ontario, 2.60%, June 2, 2025	2.78%
Canadian Imperial Bank of Commerce, 2.04%, March 21, 2022	2.61%
Province of Quebec, 3.10%, December 1, 2051	2.26%
Province of Alberta, 2.90%, December 1, 2028	2.18%
Canadian Government Bond, 1.50%, June 1, 2026	2.15%
Province of Ontario, 2.65%, December 2, 2050	2.10%
Bank of Montreal, 2.85%, March 6, 2024	2.07%
Toronto-Dominion Bank, 3.01%, May 30, 2023	1.99%
Toronto-Dominion Bank, 3.59%, September 14, 2028	1.97%
Canadian Treasury Bill, 1.65%, March 19, 2020	1.79%
Bank of Nova Scotia, 2.38%, May 1, 2023	1.78%
Canadian Imperial Bank of Commerce, 3.29%, January 15, 2024	1.71%
Royal Bank of Canada, 3.31%, January 20, 2026	1.60%
Province of British Columbia, 2.95%, December 18, 2028	1.54%
Toronto-Dominion Bank, 2.85%, March 8, 2024	1.51%
Canadian Government Real Return Bond, 6.99%, Dec. 1, 2021	1.51%
Bank of Montreal, 1.61%, October 28, 2021	1.48%
Royal Bank of Canada, 3.30%, September 26, 2023	1.47%
Province of Ontario, 2.60%, June 2, 2027	1.47%

Total Net Assets (000's)

\$33,452

The top 25 holdings represent approximately 63.32% of the total net assets of the Fund.

The summary of investment portfolio of the Fund is as at December 31, 2019 and may change due to the Fund's ongoing portfolio transactions. Updates are available quarterly.

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