

2019

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2019

Offered by Educators Financial Group
Portfolio Manager: 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, 2019.

Results of Operations

The Fund's net assets decreased by 8.0% to \$129.2 million at the end of December 2019, down from \$140.5 million at the end of December 2018.

Investment Performance

For the year ending December 31, 2019 (the 'period'), the Educators Mortgage & Income Fund – Class A Series provided a return of 3.21%, versus the FTSE TMX Canada Short Term Bond Index (the 'Benchmark') return of 3.10%. Investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in index returns.

2019 was a strong year for risk and safe-haven assets alike, as more accommodative monetary policy eased investors' angst over protectionist trade measures and fears of recession. While industrial production and trade activity decelerated over 2019, global growth stabilized in the second quarter as the services sector and consumption continued to expand.

The Canadian economy expanded at a more modest pace, averaging 1.5% GDP growth and surprisingly strong employment growth—with an average of 26,000 jobs created per month. Core inflation measures spent most of the year around the Bank of Canada's (BoC) 2% target, with wage growth expanding over 2.5% for the year.

The U.S. Federal Reserve (*Fed*) cut its target rate three times over the latter half of 2019. On the other hand, the BoC remained on hold amid strong employment and at-target inflation, which justified holding rates steady (*despite global trade tensions*). The BoC was not as aggressive as the Fed in hiking rates from 2015 to mid-2019, only hiking rates five times—versus nine hikes from the Fed.

The Canada yield curve (*2-year, versus 5-year*) ended 2019 flatter by 3 basis points (*1 basis point inverted*)—despite inverting as much as 18 basis points in August. The U.S. curve (*2-year, versus 5-year*) steepened nearly 12 basis points, as the Fed's interest rate cuts buoyed front-end bonds. Among all G7 nations, Canada is the only yield curve that is both inverted and the flattest (*for 2-year and 5-year curves*).

The Canadian bond market, however, posted strong returns in 2019, as the FTSE Canada Short Term Bond Index gained 3.1% for the year. Corporate bonds led the way for the Short Index (4.55%), outpacing Provincials (3.02%) and Federal debt (2.14%).

The spread between conventional mortgage rates and government bond yields widened sharply over the first eight months of the year, as 5-year Government of Canada (*GoC*) yields fell nearly 80 basis points (*bond prices rose*)—while mortgage rates only fell marginally. Over the ensuing four months, the 5-year GoC yield rose by nearly 50 basis points (*bond prices fell*), as risk tolerance improved and safe-haven assets sold off.

Throughout 2019, the Fund benefitted from higher than benchmark yields and cash flow, as well as an overweight position in corporate bonds and security selection within the corporate universe. A shorter average term to maturity was a detractor from Fund performance, albeit a modest one.

The portfolio manager increased the Fund's allocation to mortgages in the latter half of the year to take advantage of the widened spread between mortgage rates and bond yields. Given the attractive yield and return profile compared to other fixed income options, the portfolio manager expects to maintain this increased mortgage allocation for the foreseeable future.

Recent Developments

Global financial markets started the fourth quarter of 2019 with increased levels of volatility, as negative headlines from U.S./China trade talks, impending Brexit deadlines, and weakening economic data endorsed *risk-off* sentiments. However, as the quarter progressed, the U.S. and China announced Phase I of their trade deal. The Fed subsequently added reserves to the banking system and economic data stabilized, propelling equities (*S&P 500*) to close the year at all-time highs and bond yields (*10-year Treasuries*) to trade near their highest levels since August.

As the year progresses, the Fund manager continues to see a low risk of recession in North America. Strong employment, low interest rates, and growing corporate profits continue to provide a reasonably positive macro backdrop. While the Fed has turned to a more neutral stance where interest rates are concerned, the market is still expecting *one more* rate cut from the Fed in 2020 and a slightly more than *50/50* chance that the BoC will cut its own overnight rate. The Fund manager expects the BoC to remain data-dependent—so they will be monitoring the situation closely to see if the weakening trend of data from late 2019 persists into 2020.

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

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; and HSBC Mortgage Fund, Institution Series which are funds managed by the Fund’s Portfolio Manager.

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 Mortgage & Income Fund – Class A Series – Net Assets per Unit ⁽¹⁾

	Year ended December 31				
	2019	2018	2017	2016	2015
Net Assets, beginning of year	\$11.09	\$11.22	\$11.35	\$11.38	\$11.44
Increase (decrease) from operations:					
Total revenue	\$0.32	\$0.32	\$0.32	\$0.35	\$0.37
Total expenses, including transaction costs [excluding distributions]	(\$0.14)	(\$0.13)	(\$0.14)	(\$0.14)	(\$0.14)
Realized gains (losses) for the period	\$0.01	(\$0.13)	(\$0.05)	\$0.04	\$0.00
Unrealized gains (losses) for the period	\$0.17	(\$0.01)	(\$0.10)	(\$0.07)	(\$0.06)
Total increase (decrease) from operations ⁽²⁾	\$0.36	\$0.05	\$0.03	\$0.18	\$0.17
Distributions:					
From net investment income (excluding dividends)	\$0.19	\$0.19	\$0.17	\$0.21	\$0.23
From dividends	\$--	\$--	\$--	\$--	\$--
From capital gains	\$--	\$--	\$--	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--
Total Annual Distributions ⁽³⁾	\$0.19	\$0.19	\$0.17	\$0.21	\$0.23
Net Assets, end of year	\$11.25	\$11.09	\$11.22	\$11.35	\$11.38

Ratios and Supplemental Data (based on Net Asset Value)

	Year ended December 31				
	2019	2018	2017	2016	2015
Total Net Asset Value (000's) ⁽⁴⁾	\$129,221	\$140,483	\$188,011	\$199,421	\$204,316
Number of units outstanding ⁽⁴⁾	11,485,494	12,668,872	16,764,263	17,566,363	17,955,859
Management expense ratio ⁽⁵⁾	1.24%	1.19%	1.19%	1.19%	1.19%
Management expense ratio before waivers or absorptions ⁽⁶⁾	1.25%	1.24%	1.25%	1.25%	1.25%
Trading expense ratio ⁽⁷⁾	--	--	--	--	--
Portfolio turnover rate ⁽⁸⁾	24.71%	30.75%	37.56%	59.84%	28.07%
Net Asset Value per unit	\$11.25	\$11.09	\$11.22	\$11.35	\$11.38

- (1) 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.
- (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 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 is 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 11.4% of the total management fees collected 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.

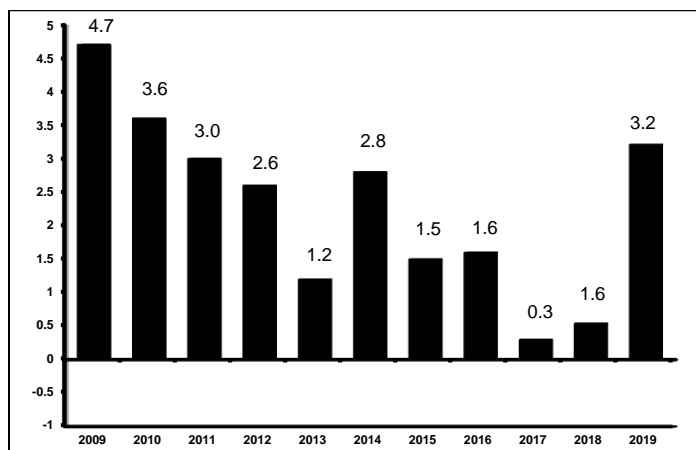
The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. The performance of different fund series may vary for a number of reasons, including differences in management fees and expenses. Please remember 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 annual performance 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

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

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 Short Term Bond Index, 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.

Class A Series				
	1 Year	3 Year	5 Year	10 Year
Educators Mortgage & Income Fund	3.21%	1.35%	1.43%	2.02%
FTSE TMX Canada Short Term Bond Index	3.10%	1.69%	1.74%	2.37%

Class I Series				
Currently Class I units of the Fund are not being offered to purchase.				

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
Canadian Mutual Funds	50.88%
Corporate Bonds	36.64%
Government Bonds	8.12%
Asset-Backed Securities	3.83%
Short-term Investments	0.25%
Net Other Assets	0.23%
Cash and Cash Equivalents	0.05%

Top 25 Holdings

Security Name	Percentage of Net Asset Value
HSBC Mortgage Fund, Institutional Series	49.78%
Canadian Government Real Return Bond, 6.99%, December 1, 2021	2.93%
Province of Manitoba, 2.60%, June 2, 2027	2.18%
Royal Bank of Canada, 3.30%, September 26, 2023	1.56%
Bank of Nova Scotia, 2.29%, June 28, 2024	1.55%
TMX Group Ltd., 4.46%, October 3, 2023	1.49%
Bank of Montreal, 2.70%, September 11, 2024	1.21%
Municipal Finance Authority of British Columbia, 2.60%, Apr. 23, 2023	1.18%
Goldman Sachs Group Inc., 2.43%, April 26, 2023	1.16%
Brookfield Property Finance ULC, 4.35%, July 3, 2023	1.13%
Province of Alberta, 2.55%, June 1, 2027	1.10%
HSBC Emerging Markets Debt Fund, Institutional Series	1.09%
Brookfield Asset Management Inc., 4.54%, March 31, 2023	1.03%
Citigroup Inc., 3.39%, November 18, 2021	1.03%
Granite REIT Holdings LP, 3.87%, November 30, 2023	0.98%
BHP Billiton Finance Ltd., 3.23%, May 15, 2023	0.98%
Toronto-Dominion Bank, 1.99%, March 23, 2022	0.93%
Institutional Mortgage Securities Canada Inc., 1.94%, Sept. 12, 2024	0.88%
QVC Inc., 4.85%, April 1, 2024	0.87%
Canadian Natural Resources Ltd., 3.31%, February 11, 2022	0.87%
Pembina Pipeline Corp., 3.77%, October 24, 2022	0.86%
Alimentation Couche-Tard Inc., 3.90%, November 1, 2022	0.85%
Empire Life Insurance Co., 3.38%, December 16, 2026	0.84%
Anheuser-Busch InBev Finance Inc., 2.60%, May 15, 2024	0.81%
Heathrow Funding Ltd., 3.25%, May 21, 2025	0.79%

Total Net Assets (000's) \$129,221

The top 25 holdings represent approximately 78.08% 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. 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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