

# 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 U.S. Equity 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 U.S. Equity Fund (the "Fund") is to provide long-term capital growth by investing primarily in common shares of established U.S. corporations and other equity securities. The Fund may hedge all, or a portion of, the U.S. or other foreign currency exposure to protect the Fund's capital. 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 18.9% to \$116.0 million at the end of December 2019, up from \$97.6 million at the end of December 2018.

#### Investment Performance

For the year ending December 31, 2019 (the 'period') the Educators U.S. Equity Fund – Class A Series provided a return of 21.61%, versus the S&P 500 Total Return Index (CAD\$) (the 'Benchmark') return of 24.09%. Note that investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in Benchmark returns.

The Fund underperformed its benchmark on a net of fees basis for the one year period under review. The main sources of underperformance were stock-selection effects in the Communication Services and Energy sectors, along with a combination of stock selection and the impact of relative underweight positions in Information Technology (*which rose 42.69% during the period*). This was offset to a large degree by positive stock selection effects in Financials, Industrials, and Consumer Staples.

After a sharp correction late last year, U.S. markets rebounded within the period. In January of 2019, equities saw one of the best months in 30 years—with momentum continuing through April amid rising oil prices, signs the U.S. economy and job market were continuing to expand solidly, and a perceived dovish U-turn in monetary policy by the U.S. Federal Reserve (*the Fed*).

However, the mood turned somewhat risk-off by May, amid some weakness in economic data and growing concern that a quick

resolution to the U.S./China trade war was unlikely. By the third quarter, volatility had become a main theme. In addition to central bank easing, the laundry list of distractions included, but was not limited to—another 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. However, by the fourth quarter, the U.S. and China had shaken hands on a Phase I trade deal, the Fed had cut rates a third time, and Britons handed Boris Johnson a Conservative majority—along with a green light to get Brexit done, calming much of the uncertainty in equity markets. As a result, the S&P 500 Total Return Net Index (\$C) rose 24.84% during the period. The U.S. economic recovery from the Great Financial Crisis, clocking in at 126 months, is officially the longest economic expansion on record.

At the individual security level, notable contributors to performance on an absolute-return basis included KLA Corp. (*formerly KLA-Tencor Corp.*), Ameriprise Financial Inc., and Parker-Hannifin Corp.

KLA saw a relatively steady rise in 2019, benefiting from a flattening of memory prices, which the market took to indicate an inflection point in the cycle. The company also benefitted from a surprise increase in management's forward guidance.

Ameriprise strengthened during the period amid positive earnings reports, aggressive stock buybacks, a broad rebound in asset manager share prices, and the announced sale of its non-core property and casualty insurance business. The portfolio manager believes this represents a step by the company to limit its exposure to capital-intensive business.

Parker-Hannifin, which had come under pressure in 2019 (*as most other cyclicals had faced in the wake of the U.S./China tariff tensions*), rose in the weeks following U.S. President Trump's October 11th announcement that a Phase I deal had been reached with China.

Halliburton Company was the sole detractor from performance on an absolute-return basis, due to weakness in oil prices and spending in the U.S. shale industry, which weighed heavily on Halliburton's revenues. Despite what the portfolio manager believed to be a significant upside, the share price hit its downside target price and the position was exited, as the portfolio manager remained concerned that the end-market situation in North American land drilling remained under pressure.

During the period, the Fund initiated a new position in Gardner Denver Holdings Inc., a leading global provider of mission-critical flow control and compression equipment. While existing positions in Cummins Inc., Kellogg Co., Amgen Inc., Amdocs Limited, Symantec Corp. (*now called NortonLifeLock*), BlackRock Inc., AmerisourceBergen Corp., Harley-Davidson Inc., Ameriprise Financial, Oracle Corp., Omnicom Group Inc., and American Express, were all increased.

Following a process-driven one-third sale of Eli Lilly and Co. in the fourth quarter of 2018, a new target price was established, which the stock subsequently surpassed again. As a result, following a second process-driven one-third sale in the first quarter, the position was fully sold. Process-driven sales of AutoZone Inc., Ingersoll-Rand plc, Oracle Corp., American Express, KLA Corp., Merck & Co., and JPMorgan Chase & Co., were also completed during the period. Positions in American Express and KLA were further trimmed, and the Fund's position in Halliburton was fully sold.

### Recent Developments

In an environment of various geopolitical distractions and significant volatility, the S&P 500 Total Return Net Index (C\$) returned almost 25% in 2019. As S&P earnings growth in the year was essentially flat versus 2018, U.S. equity performance was driven primarily by multiple expansions, likely stemming from lofty expectations for 15% earnings growth in 2020. These expectations, in turn, are being fueled in part by mergers and acquisitions activity, along with company share buybacks funded largely through debt. Not, in the portfolio manager's view, the best setup for equities in 2020.

That being said, the Fund doesn't own the market—it owns a basket of what the portfolio manager views as quality companies that generate free cash flow; have strong balance sheets and capital allocation policies (*that it feels strike the right balance between corporate needs and shareholder returns*); and trade at a discount.

The portfolio manager has trimmed a number of positions over the past few quarters as they've reached their respective target prices. This has made finding *new* opportunities in the U.S. equity universe, all the more challenging (*something the portfolio manager has highlighted over the past year*).

Only one *new* business was added to the portfolio in 2019, versus eight in 2018. The portfolio manager believes this reflects how expensive the market has become—with far fewer *strong* companies trading at deep discounts. Despite the more challenging operating environment, the portfolio manager has not wavered from its disciplined and patient approach to investment management. As the market has become more expensive, the portfolio manager believes owning more of its gems (*i.e. increasing concentration*), is a better approach than simply forcing a decision on a stock that is marginal.

Moving into 2020, the portfolio is still trading at a discount compared to what the portfolio manager believes to be its true value (*and versus the market overall*). As a result, while the market appears to be expensive and expectations are high, the portfolio manager doesn't believe its

outlook for the growth and profitability of the businesses it owns is stretched by any means. Instead, the portfolio manager remains optimistic that more of the Fund's holdings will begin to outperform in the years ahead.

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 U.S. Equity 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	\$17.64	\$18.59	\$20.18	\$18.56	\$19.13
<b>Increase (decrease) from operations:</b>					
Total revenue	\$0.51	\$0.45	\$0.45	\$0.40	\$0.43
Total expenses, including transaction costs [excluding distributions]	(\$0.48)	(\$0.43)	(\$0.44)	(\$0.41)	(\$0.42)
Realized gains (losses) for the period	\$0.72	\$0.84	\$4.34	\$0.94	\$0.12
Unrealized gains (losses) for the period	\$3.06	(\$1.19)	(\$2.27)	\$0.67	(\$0.68)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$3.81</b>	<b>(\$0.33)</b>	<b>\$2.08</b>	<b>\$1.60</b>	<b>(\$0.55)</b>
<b>Distributions:</b>					
From net investment income (excluding dividends)	\$0.05	\$0.01	\$--	\$--	\$--
From dividends	\$--	\$--	\$--	\$--	\$--
From capital gains	\$0.12	\$0.58	\$3.61	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$0.17</b>	<b>\$0.59</b>	<b>\$3.61</b>	<b>\$--</b>	<b>\$--</b>
<b>Net Assets, end of year</b>	<b>\$21.28</b>	<b>\$17.64</b>	<b>\$18.59</b>	<b>\$20.18</b>	<b>\$18.56</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>	\$103,370	\$92,385	\$99,517	\$95,876	\$94,454
Number of units outstanding <sup>(4)</sup>	4,858,227	5,237,316	5,353,332	4,750,945	5,089,059
Management expense ratio <sup>(5)</sup>	1.97%	1.93%	1.93%	1.93%	1.93%
Management expense ratio before waivers or absorptions <sup>(6)</sup>	1.98%	1.98%	1.98%	1.98%	1.98%
Trading expense ratio <sup>(7)</sup>	0.03%	0.04%	0.10%	0.11%	0.15%
Portfolio turnover rate <sup>(8)</sup>	16.05%	29.27%	125.26%	70.96%	64.04%
Net Asset Value per unit	\$21.28	\$17.64	\$18.59	\$20.18	\$18.56

### Educators U.S. Equity Fund – Class I Series – Net Assets per Unit <sup>(1)</sup>

	Year ended December 31	
	2019	2018
Net Assets, beginning of year	\$9.42	\$10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	\$0.27	\$0.24
Total expenses, including transaction costs [excluding distributions]	(\$0.05)	(\$0.04)
Realized gains (losses) for the period	\$0.39	\$0.57
Unrealized gains (losses) for the period	\$1.63	(\$0.98)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$2.24</b>	<b>(\$0.21)</b>
<b>Distributions:</b>		
From net investment income (excluding dividends)	\$0.24	\$0.03
From dividends	\$--	\$--
From capital gains	\$0.07	\$0.36
Return of capital	\$--	\$--
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$0.30</b>	<b>\$0.39</b>
<b>Net Assets, end of year</b>	<b>\$11.37</b>	<b>\$9.42</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>	\$12,591	\$5,207
Number of units outstanding <sup>(4)</sup>	1,107,668	552,851
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>	0.03%	0.04%
Portfolio turnover rate <sup>(8)</sup>	16.05%	29.27%
Net Asset Value per unit	\$11.37	\$9.42

<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.

- (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 1.75% 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 28.0% 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

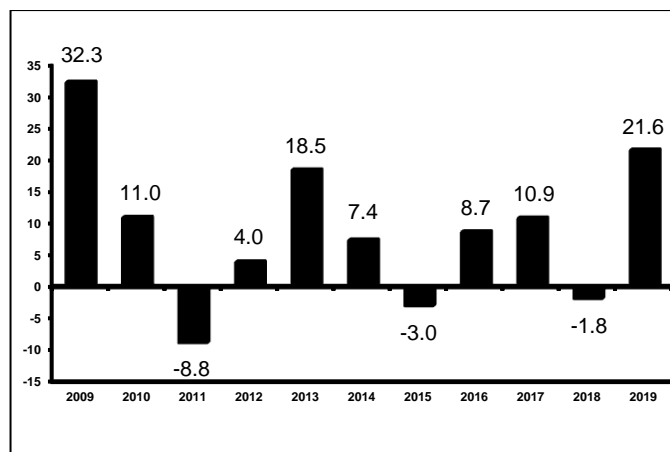
The Fund's performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund.

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.

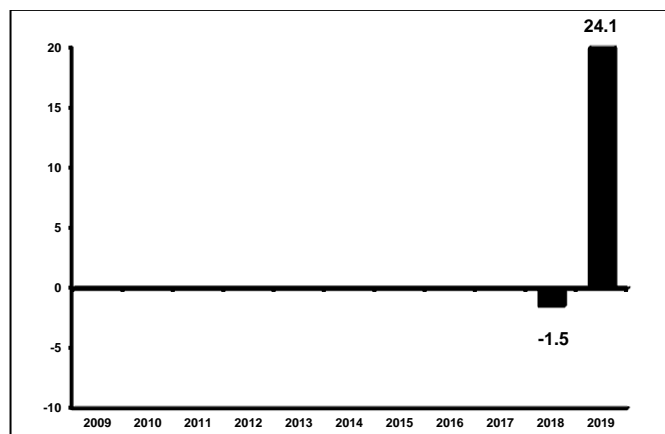
### Year-by-Year Returns

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 <sup>(1)</sup>



<sup>(1)</sup> The Class I Series commenced operations 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, S&P 500 Total Return Index (CAD\$), a stock market index based on the market capitalizations of 500 large companies having common stock listed on the New York stock exchange.

#### Class A Series

	1 Year	3 Year	5 Year	10 Year
Educators U.S. Equity Fund	21.61%	9.81%	6.92%	6.46%
S&P 500 Total Return Index (CAD\$)	24.09%	13.31%	13.55%	15.28%

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

	1 Year
Educators U.S. Equity Fund	24.05%
S&P 500 Total Return Index (CAD\$)	24.09%

<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
Industrials	18.55%
Information Technology	16.63%
Communication Services	15.26%
Financials	14.62%
Consumer Staples	12.26%
Health Care	10.99%
Consumer Discretionary	6.14%
Short-term Investments	3.09%
Materials	2.44%
Cash and Cash Equivalents	0.02%

### Top 25 Holdings

Security Name	Percentage of Net Asset Value
Verizon Communications Inc.	5.75%
NortonLifeLock Inc.	5.65%
Amgen Inc.	5.55%
Parker-Hannifin Corp.	5.40%
Ameriprise Financial Inc.	5.27%
Omnicom Group Inc.	5.15%
Kellogg Co.	5.07%
Amdocs Ltd.	4.88%
AmerisourceBergen Corp.	4.57%
Comcast Corp.	4.35%
Cummins Inc.	4.25%
Kimberly-Clark Corp.	4.21%
Gardner Denver Holdings Inc.	4.15%
Harley-Davidson Inc.	3.95%
Oracle Corp.	3.79%
American Express Co.	3.30%
BlackRock Inc.	3.21%
Campbell Soup Co.	2.99%
LyondellBasell Industries NV	2.44%
Ingersoll-Rand PLC	2.42%
Flowserve Corp.	2.33%
KLA Corp.	2.32%
AutoZone Inc.	2.19%
JPMorgan Chase & Co.	1.55%
Wells Fargo & Co.	1.30%
<b>Total Net Assets (000's)</b>	<b>\$115,961</b>

The top 25 holdings represent approximately 96.04% 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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