

2020

INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended June 30, 2020

Offered by Educators Financial Group
Portfolio Manager: BMO Asset Management Inc., Toronto, Ontario

Educators Dividend Fund



This interim management report of fund performance contains financial highlights but does not contain either the interim financial report or annual financial statements of the investment fund. You can get a copy of the interim financial report or 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 proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Results of Operations

The Fund's net assets decreased by 11.8% to \$138.6 million at the end of June 2020, down from \$157.2 million at the end of December 2019.

Investment Performance

For the period ending June 30, 2020 (the 'period'), the Educators Dividend Fund – Class A Series provided a negative return of 11.56% and the Class I Series provided a negative return of 10.77%, versus the S&P/TSX 60 Index (the 'Benchmark') return of negative 6.26%. Investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in index returns.

Early in 2020, there was healthy investor appetite for 'risk' assets. However, as COVID-19 began to spread (*and fear of an economic recession weighed on expectations for business and consumer spending*), stock markets declined around the world. In Canada, every equity sector was negatively impacted by the pandemic, although Information Technology stocks were the least affected. As investor concern regarding a prolonged economic recession started to fade, risk-on sentiment began to re-emerge in the second quarter. Central banks provided unprecedented monetary and fiscal support. In addition, most developed economies began to report fewer daily cases of COVID-19, lifting investor sentiment. The rally in Canadian stocks was supported by a gradual loosening of pandemic-related restrictions, bringing economic activity back to restaurants, hair salons, and other businesses. By the end of the period, the S&P/TSX 60 Index had climbed significantly off of its March lows, ending the period down just 6.3%—a stark improvement to the -18.5% return to start out the year at the end of March.

Over the period, the Fund underperformed its benchmark, the S&P/TSX 60 Index, due to sector allocation and stock selection. The Fund's overweight position in Real Estate stocks was the most significant detractor from performance. Further detractors included an underweight position in the Materials, sector (*as well as stock selection within it*), along with stock selection within Information Technology. The Fund's lack of exposure to strong-performing Shopify Inc., which does not pay a dividend and is therefore not held within the Fund, significantly detracted from performance. Other individual detractors from performance included overweight positions in Motorola Solutions Inc., Microsoft Corp., and Texas Instruments Inc.

On the flip side, the Fund's underweight position in the Energy sector and overweight position in Information Technology were positive

contributors to performance. Security selection within the Real Estate sector was the strongest contributor, followed by Utilities and Energy. Top individual contributors included Killam Apartment REIT, S&P Global Inc., and Northland Power Inc.

Killam Apartment REIT delivered strong quarterly results, while rent collection trends in the first few months of the pandemic highlighted the resilient nature of the company's cash flows.

S&P Global also proved to be resilient during the economic downturn, given that 63% of the company's revenues are subscription-based and 24% are tied to debt issuance activity.

Northland Power, an independent power producer, performed well as a result of its ability to generate predictable cash flows from assets backed by long-term contracts. The company's projects are advancing in Taiwan, South Korea, and Japan, providing long-term visibility to growth. Its recent quarterly results were particularly strong in response to favourable offshore wind performance.

The portfolio manager added new positions in Tricon Capital Group Inc. and Prologis Inc. during the period, while existing positions in Northland Power and Killam Apartment REIT were increased.

Tricon Capital is an asset management company that invests in residential real estate in North America. The holding was purchased based on the strength of its management team, which has a successful track record of capital allocation and value creation, in addition to the company's potential for above-average cash flow.

Positions in Alimentation Couche-Tard Inc. and Restaurant Brands International Inc. were eliminated from the Fund. Restaurant Brands International has very strong brands that it continues to bolster with innovation. However, the restaurant industry has undergone a wave of disruption as a result of the rise of e-commerce and delivery. The spread of COVID-19 has also dramatically increased the financial burden on the company's franchisees.

Recent Developments

Global equity markets have proven to be more resilient than widely expected just a few months ago given the economic shocks related to COVID-19, the surprise drop in oil prices, and heightened geopolitical tensions. Many stock markets have staged significant rebounds since their March lows.

The current recession is unique, with its own set of causes and impacts. Trying to anticipate the scale, shape or timing of the recovery is impossible, as significant risks remain. The portfolio manager believes financial market volatility could be higher than normal for some time. Recent economic data has shown improvements in response to slow easing of the lockdowns. Yet stock market strength should be driven by longer-term considerations, such as the success and pace of economic re-opening; the timing of a medical solution to the pandemic; and the actions of policymakers to protect citizens and support their local economies and financial markets.

The portfolio manager's investment strategy is to look for high-quality, sustainable businesses with safe and growing dividend streams. The Fund is invested in businesses with strong competitive advantages that are generating attractive returns on capital, as these tend to provide the best offense and defense throughout a business cycle.

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

BMO Asset Management Inc. (BMO AM), the Fund's portfolio manager, is an affiliate of the BMO Financial Group. From time to time, BMO AM may on behalf of the Fund enter into transactions or arrangements with, or involving, other members of BMO Financial Group, or certain other persons or companies that are related or connected to the portfolio manager of the Fund.

Buying and Selling Securities

Bank of Montreal Common Shares

Bank of Montreal (BMO) is an affiliate of the Fund's portfolio manager BMO AM. The maximum amount of BMO common shares held in the Fund during the period was approximately 3.0% and at the end of the period was approximately 2.4%.

Brokerage Fees

The Fund pays standard brokerage commissions at market rates to BMO Capital Markets, an affiliate of the portfolio manager. The brokerage fees charged to the Fund were as follows:

| | <u>2020</u> <i>(Jun 30)</i> | <u>2019</u> <i>(Jun 30)</i> |
|---|--------------------------------|--------------------------------|
| <i>Total Brokerage Fees</i> | \$20,809 | \$14,529 |
| <i>Brokerage Fees Paid to BMO Capital Markets</i> | \$3,240 | \$2,120 |

In the first six months of 2020 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 six-month period and for the past five years. Currently Class I units of the Fund are not being offered to purchase.



EDUCATORS DIVIDEND FUND

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

| | Six months ended June 30 | | Year ended December 31 | | | |
|---|--------------------------|---------------|------------------------|---------------|---------------|-----------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Net Assets, beginning of period | \$32.70 | \$26.38 | \$28.74 | \$25.86 | \$23.19 | \$24.39 |
| Increase (decrease) from operations: | | | | | | |
| Total revenue | \$0.48 | \$0.85 | \$0.79 | \$0.73 | \$0.68 | \$0.72 |
| Total expenses, including transaction costs [excluding distributions] | (\$0.28) | (\$0.57) | (\$0.51) | (\$0.49) | (\$0.44) | (\$0.44) |
| Realized gains (losses) for the period | (\$0.13) | \$0.89 | \$0.44 | \$0.74 | \$0.58 | (\$0.55) |
| Unrealized gains (losses) for the period | (\$3.99) | \$5.35 | (\$2.95) | \$1.99 | \$2.01 | (\$0.77) |
| Total increase (decrease) from operations ⁽²⁾ | (\$3.92) | \$6.52 | (\$2.23) | \$2.97 | \$2.83 | (\$1.04) |
| Distributions: | | | | | | |
| From net investment income (excluding dividends) | \$-- | \$-- | \$-- | \$-- | \$-- | \$-- |
| From dividends | \$0.20 | \$0.17 | \$0.14 | \$0.08 | \$0.16 | \$0.17 |
| From capital gains | \$-- | \$-- | \$-- | \$-- | \$-- | \$-- |
| Return of capital | \$-- | \$-- | \$-- | \$-- | \$-- | \$-- |
| Total Annual Distributions ⁽³⁾ | \$0.20 | \$0.17 | \$0.14 | \$0.08 | \$0.16 | \$0.17 |
| Net Assets, end of period | \$28.72 | \$32.70 | \$26.38 | \$28.74 | \$25.86 | \$23.19 |

Ratios and Supplemental Data (based on Net Asset Value)

| | Six months ended June 30 | | Year ended December 31 | | | |
|---|--------------------------|-----------|------------------------|-----------|-----------|-----------|
| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Total Net Asset Value (000's) ⁽⁴⁾ | \$132,068 | \$151,109 | \$125,811 | \$135,781 | \$114,203 | \$100,434 |
| Number of units outstanding ⁽⁴⁾ | 4,599,214 | 4,621,623 | 4,770,089 | 4,725,267 | 4,415,490 | 4,330,034 |
| Management expense ratio ⁽⁵⁾ | 1.81% | 1.80% | 1.73% | 1.73% | 1.73% | 1.73% |
| Management expense ratio before waivers or absorptions ⁽⁶⁾ | 1.81% | 1.81% | 1.81% | 1.81% | 1.81% | 1.81% |
| Trading expense ratio ⁽⁷⁾ | 0.03% | 0.02% | 0.02% | 0.02% | 0.04% | 0.02% |
| Portfolio turnover rate ⁽⁸⁾ | 7.07% | 9.99% | 14.49% | 12.77% | 19.37% | 16.80% |
| Net Asset Value per unit | \$28.72 | \$32.70 | \$26.38 | \$28.74 | \$25.86 | \$23.19 |

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

| | Six months ended June 30 | | Year ended December 31 | |
|---|--------------------------|---------------|------------------------|------|
| | 2020 | 2019 | 2018 | 2018 |
| Net Assets, beginning of period | \$11.42 | \$9.20 | \$10.00 | |
| Increase (decrease) from operations: | | | | |
| Total revenue | \$0.17 | \$0.30 | \$0.28 | |
| Total expenses, including transaction costs [excluding distributions] | \$-- | (\$0.01) | (\$0.01) | |
| Realized gains (losses) for the period | (\$0.06) | \$0.41 | \$0.11 | |
| Unrealized gains (losses) for the period | (\$1.22) | \$1.44 | (\$1.41) | |
| Total increase (decrease) from operations ⁽²⁾ | (\$1.11) | \$2.14 | (\$1.03) | |
| Distributions: | | | | |
| From net investment income (excluding dividends) | \$-- | \$-- | \$-- | |
| From dividends | \$0.17 | \$0.25 | \$0.20 | |
| From capital gains | \$-- | \$-- | \$-- | |
| Return of capital | \$-- | \$-- | \$-- | |
| Total Annual Distributions ⁽³⁾ | \$0.17 | \$0.25 | \$0.20 | |
| Net Assets, end of period | \$10.02 | \$11.42 | \$9.20 | |

Ratios and Supplemental Data (based on Net Asset Value)

| | Six months ended June 30 | | Year ended December 31 | |
|---|--------------------------|---------|------------------------|------|
| | 2020 | 2019 | 2018 | 2018 |
| Total Net Asset Value (000's) ⁽⁴⁾ | \$6,558 | \$6,069 | \$2,022 | |
| Number of units outstanding ⁽⁴⁾ | 654,533 | 531,550 | 219,663 | |
| Management expense ratio ⁽⁵⁾ | --% | 0.01% | 0.01% | |
| Management expense ratio before waivers or absorptions ⁽⁶⁾ | --% | 0.01% | 0.01% | |
| Trading expense ratio ⁽⁷⁾ | 0.03% | 0.02% | 0.02% | |
| Portfolio turnover rate ⁽⁸⁾ | 7.07% | 9.99% | 14.49% | |
| Net Asset Value per unit | \$10.02 | \$11.42 | \$9.20 | |

(1) This information is derived from the Fund's interim financial report and 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 June 30 or 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 1.60% 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 13.0% 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

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.

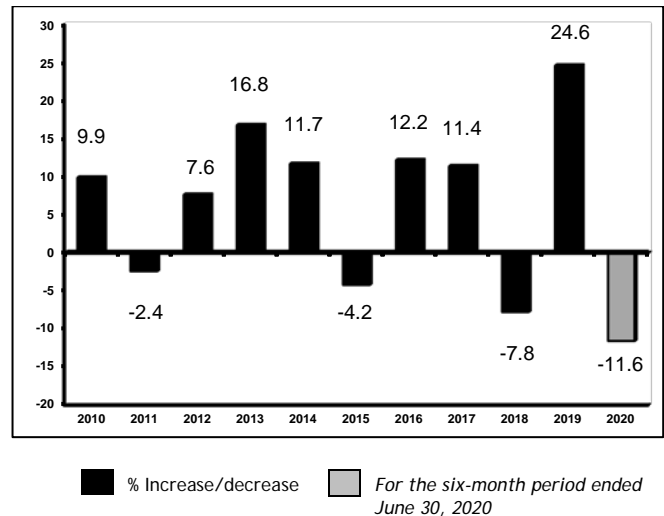
The performance information does not take into account sales, redemption, distribution, or other optional charges that would have reduced returns or performance. The performance of different fund series may vary for a number of reasons, including differences in management fees and expenses. Please remember that how the Fund has performed in the past does not necessarily indicate how it will perform in the future.

Year-by-Year Returns

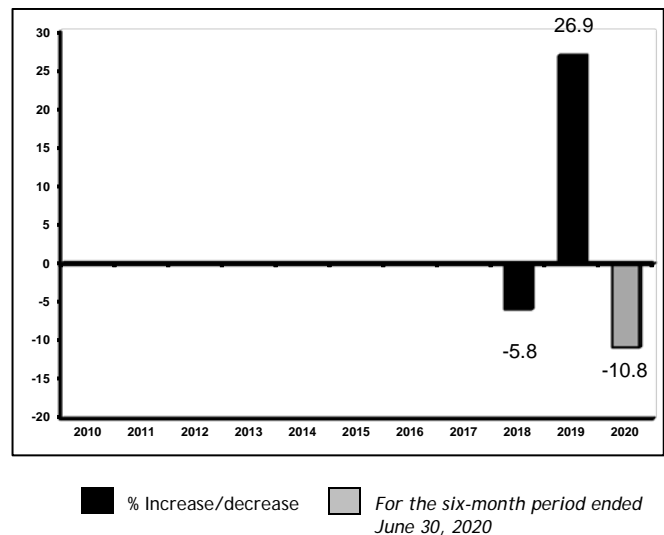
The bar chart shows the Fund's annual performance for each of the years shown and for the six-month period and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first

day of each financial 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 operations January 4, 2018

SUMMARY OF INVESTMENT PORTFOLIO

(Based on Net Asset Value)

As at June 30, 2020

| Sector Mix | Percentage of Net Asset Value |
|---------------------------|-------------------------------|
| Financials | 34.77% |
| Information Technology | 10.75% |
| Energy | 10.03% |
| Industrials | 9.96% |
| Utilities | 9.69% |
| Real Estate | 8.03% |
| Short-term Investments | 4.22% |
| Communication Services | 3.31% |
| Consumer Discretionary | 3.28% |
| Consumer Staples | 2.56% |
| Health Care | 1.81% |
| Materials | 1.10% |
| Net Other Assets | 0.27% |
| Cash and Cash Equivalents | 0.22% |

Top 25 Holdings

| Security Name | Percentage of Net Asset Value |
|--|-------------------------------|
| Royal Bank of Canada | 6.72% |
| Toronto-Dominion Bank | 6.12% |
| Bank of Nova Scotia | 5.21% |
| Brookfield Asset Management Inc. | 5.12% |
| Canadian National Railway Co. | 4.46% |
| Microsoft Corp. | 4.34% |
| Brookfield Infrastructure Partners LP | 3.99% |
| Enbridge Inc. | 3.30% |
| TC Energy Corp. | 3.15% |
| Visa Inc. | 2.90% |
| Waste Connections Inc. | 2.73% |
| Manulife Financial Corp. | 2.54% |
| Intact Financial Corp. | 2.43% |
| Bank of Montreal | 2.42% |
| Algonquin Power & Utilities Corp. | 2.22% |
| Rogers Communications Inc. | 2.20% |
| JPMorgan Chase & Co. | 2.17% |
| Texas Instruments Inc. | 2.15% |
| Killam Apartment Real Estate Investment Trust | 2.07% |
| S&P Global Inc. | 2.04% |
| Northland Power Inc. | 2.00% |
| TJX Cos Inc | 1.83% |
| Becton Dickinson and Co. | 1.81% |
| Allied Properties Real Estate Investment Trust | 1.59% |
| Pembina Pipeline Corp. | 1.55% |
| Total Net Assets (000's) | \$138,626 |

The top 25 holdings represent approximately 77.06% of the total net assets of the Fund.

The summary of investment portfolio of the Fund is as at June 30, 2020 and may change due to the Fund's ongoing portfolio transactions. Updates are available quarterly.

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