

# 2020

## INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended June 30, 2020

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

### Educators Mortgage & Income 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](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 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 increased by 1.5% to \$131.2 million at the end of June 2020, up from \$129.2 million at the end of December 2019.

### Investment Performance

For the period ending June 30, 2020 (the 'period'), the Educators Mortgage & Income Fund – Class A Series provided a return of 2.45%, versus the FTSE TMX Canada Short Term Bond Index (the 'Benchmark') return of 4.04%. Investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in index returns.

It was a tale of two quarters for risk sentiment, with a sharp downturn in March and a steady recovery over the second quarter. Financial markets unraveled over the latter half of the first quarter, as COVID-19 spread rapidly across the globe. A sudden stop to the world economy ensued, with health officials everywhere recommending social distancing and the quarantine of non-essential workers to stop the spread of the virus. This demand-shock prompted a global margin call (or *cash crunch*), which caused an indiscriminate worldwide selling of financial assets. In just over a month (February 20 - March 23), the S&P/TSX Composite Index and S&P 500 Index fell 37.2% and 33.5%, respectively—the quickest and sharpest drawdowns on record. Since the trough on March 23<sup>rd</sup>, risk markets have staged an impressive rebound, with both the S&P/TSX Composite and S&P 500 Indexes rallying over 39% to the end of the second quarter. The tide shifted, not by a turn in the health care crisis, but by a rather massive fiscal and monetary stimulus—the likes of which the world had never seen in such a short period of time (and in such a coordinated fashion).

In the first quarter, the difference between corporate bond yields and government bond yields (known as the *credit spread*), weakened in tandem with equities—as the FTSE Short Term Bond Index corporate spread widened over 150 basis points (1.50%) in March.

Over the second quarter, the index recovered over 60% of the credit spread widening in March, as attractive valuations and government support led to strong demand for corporate debt. Companies and Provinces took advantage of the rise in risk tolerance to shore up their funding requirements and issued a record amount of bonds in the second quarter.

The Bank of Canada (*BoC*) cut its policy rate to 0.25% in March and initiated multiple bond purchase programs to ensure well-functioning

fixed income markets. The BoC expects to keep its policy rate near zero and purchase facilities in force, until a recovery is well underway.

Although the Fund generated a strong positive return in the period, it fell short of its Benchmark. The allocation to mortgages (*approximately half of the Fund*) was the primary detractor of performance over the period, as Government bond yields declined more than mortgage rates (*yields and prices move in opposite directions*). The Fund trimmed its exposure in certain corporate bonds over the first two months of the year to lessen exposure to economically sensitive sectors.

### Recent Developments

The fastest bear market of all time has given way to the equally fastest recovery, driven by a reduction in downside risks and stragglers catching up. Valuations on many segments within the Canadian fixed income markets remain attractive but have deteriorated since March. Meanwhile, the macroeconomic and corporate outlook remains tricky and is tilted to the downside of absent continued government support. The portfolio manager expects policymakers to remain highly accommodative, particularly with monetary policy well into a recovery. This will help risky asset classes, as investors seek income in a near-zero interest rate environment.

The Fund is modestly overweight in positions relative to its benchmark in high-quality corporate bonds, given attractive valuations (*versus government bonds*). At the end of the second quarter, the FTSE Canada Short Term Bond Index yield closed at the lowest yield on record. The Fund's yield advantage (*versus the index*) has widened through 2020, as Government bond yields have declined more than Mortgage rates. The portfolio manager believes mortgages look even more attractive than usual versus the FTSE Canada Short Term Bond Index, given the uncharacteristically large yield advantage the Fund currently carries—despite its conservative risk profile. The Fund is well positioned in the current 'lower for longer' interest rate environment.

### 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 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 Mortgage & Income Fund – Class A Series – Net Assets per Unit <sup>(1)</sup>

	Six months ended June 30		Year ended December 31			
	2020	2019	2018	2017	2016	2015
Net Assets, beginning of period	\$11.25	\$11.09	\$11.22	\$11.35	\$11.38	\$11.44
<b>Increase (decrease) from operations:</b>						
Total revenue	\$0.16	\$0.32	\$0.32	\$0.32	\$0.35	\$0.37
Total expenses, including transaction costs [excluding distributions]	(\$0.07)	(\$0.14)	(\$0.13)	(\$0.14)	(\$0.14)	(\$0.14)
Realized gains (losses) for the period	\$0.04	\$0.01	(\$0.13)	(\$0.05)	\$0.04	\$0.00
Unrealized gains (losses) for the period	\$0.14	\$0.17	(\$0.01)	(\$0.10)	(\$0.07)	(\$0.06)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$0.27</b>	<b>\$0.36</b>	<b>\$0.05</b>	<b>\$0.03</b>	<b>\$0.18</b>	<b>\$0.17</b>
<b>Distributions:</b>						
From net investment income (excluding dividends)	\$0.09	\$0.19	\$0.19	\$0.17	\$0.21	\$0.23
From dividends	\$--	\$--	\$--	\$--	\$--	\$--
From capital gains	\$--	\$--	\$--	\$--	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--	\$--
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$0.09</b>	<b>\$0.19</b>	<b>\$0.19</b>	<b>\$0.17</b>	<b>\$0.21</b>	<b>\$0.23</b>
Net Assets, end of period	\$11.43	\$11.25	\$11.09	\$11.22	\$11.35	\$11.38

### 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) <sup>(4)</sup>	\$131,211	\$129,221	\$140,483	\$188,011	\$199,421	\$204,316
Number of units outstanding <sup>(4)</sup>	11,479,557	11,485,494	12,668,872	16,764,263	17,566,363	17,955,859
Management expense ratio <sup>(5)</sup>	1.25%	1.24%	1.19%	1.19%	1.19%	1.19%
Management expense ratio before waivers or absorptions <sup>(5)</sup>	1.25%	1.25%	1.24%	1.25%	1.25%	1.25%
Trading expense ratio <sup>(7)</sup>	--	--	--	--	--	--
Portfolio turnover rate <sup>(8)</sup>	19.30%	24.71%	30.75%	37.56%	59.84%	28.07%
Net Asset Value per unit	\$11.43	\$11.25	\$11.09	\$11.22	\$11.35	\$11.38

(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 1.10% 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

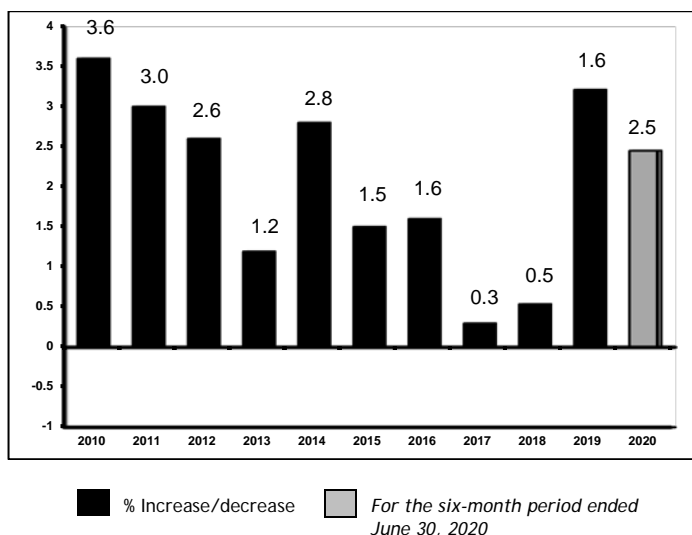
The Fund's performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund.

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 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

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

### SUMMARY OF INVESTMENT PORTFOLIO (Based on Net Asset Value)

As at June 30, 2020

Sector Mix	Percentage of Net Asset Value
Canadian Mutual Funds	49.52%
Corporate Bonds	35.74%
Government Bonds	10.59%
Asset-Backed Securities	3.17%
Short-term Investments	0.64%
Net Other Assets	0.27%
Cash and Cash Equivalents	0.07%



**Top 25 Holdings**

Security Name	Percentage of Net Asset Value
HSBC Mortgage Fund, Institutional Series	49.04%
Province of Manitoba, 2.60%, June 2, 2027	3.64%
Toronto-Dominion Bank, 3.11%, April 22, 2030	3.31%
Royal Bank of Canada, 2.09%, June 30, 2030	1.86%
Bank of Nova Scotia, 2.29%, June 28, 2024	1.60%
Canadian Government Real Return Bond, 6.94%, Dec. 1, 2021	1.50%
TMX Group Ltd., 4.46%, October 3, 2023	1.50%
Royal Bank of Canada, 3.30%, September 26, 2023	1.32%
Canada Housing Trust No.1, 1.90%, September 15, 2026	1.30%
Province of Alberta, 2.35%, June 1, 2025	1.30%
City of Montreal Canada, 2.75%, September 1, 2026	1.25%
Goldman Sachs Group Inc., 2.43%, April 26, 2023	1.16%
Province of Alberta, 2.55%, June 1, 2027	1.13%
Granite REIT Holdings LP, 3.87%, November 30, 2023	1.03%
Brookfield Asset Management Inc., 4.54%, March 31, 2023	1.02%
BHP Billiton Finance Ltd., 3.23%, May 15, 2023	0.98%
Pembina Pipeline Corp., 3.77%, October 24, 2022	0.86%
Brookfield Property Finance ULC, 4.35%, July 3, 2023	0.84%
Empire Life Insurance Co., 3.38%, December 16, 2026	0.83%
Anheuser-Busch InBev Finance Inc., 2.60%, May 15, 2024	0.82%
Toronto-Dominion Bank, 3.22%, July 25, 2029	0.80%
Morgan Stanley, 3.00%, February 7, 2024	0.80%
Sun Life Financial Inc., 3.05%, September 19, 2028	0.80%
Toronto-Dominion Bank, 2.85%, March 8, 2024	0.80%
Heathrow Funding Ltd., 3.25%, May 21, 2025	0.79%
<b>Total Net Assets (000's)</b>	<b>\$131,211</b>

The top 25 holdings represent approximately 80.28% 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. 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)

