

2020

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2020

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, 2020.

The impact of the coronavirus (*COVID-19*) pandemic on the financial performance of the Fund's investments will depend on future developments, including the duration and spread of the outbreak and related advisories and restrictions. This public health crisis and the impact of *COVID-19* on the financial markets and the overall economy are highly uncertain and cannot be predicted. If the financial markets and/or the overall economy are impacted for an extended period, the Fund's future investment results may be materially affected.

Results of Operations

The Fund's net assets increased by 12.0% to \$144.7 million at the end of December 2020, up from \$129.2 million at the end of December 2019.

Investment Performance

For the year/period ending December 31, 2020 (the 'period'), the Educators Mortgage & Income Fund – Class A Series provided a return of 4.30%, versus the FTSE Canada Short Term Bond Index (the 'Benchmark') return of 5.29%.

The Fund underperformed its Benchmark over the period. Unlike the Benchmark, the Fund's return is net of fees and expenses paid by the Fund. Please refer to the "Annual Compound Returns" in the Past Performance section for the returns of all classes of the Fund. Detailed performance is provided under the heading "Past Performance" in this report. Investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in index returns.

Financial markets unravelled over the latter half of the first quarter as *COVID-19* spread rapidly across the globe. A sudden stop to the world economy ensued, as health officials globally recommended social distancing and quarantine of non-essential workers to stop the spread of *COVID-19*. This demand shock caused a brief, but acute liquidity crisis, driving indiscriminate selling of financial assets across the globe. In a span of just over a month (*February 20 to March 23*), the S&P/TSX Composite and S&P 500 Indices fell 37.2% and 33.5% respectively—the quickest and sharpest drawdowns on record. Risk sentiment shifted quickly after the first quarter, as governments around the world enacted massive fiscal and monetary stimulus the likes of which the world had never seen in such a short period (*and in such a coordinated fashion*). The income support measures, and ultra-accommodative monetary policy drove a sustained recovery in financial markets for the rest of the year, as markets looked past ever-rising *COVID-19* case numbers (*toward a vaccine-driven recovery in the coming years*). Since the trough on March 23, markets have staged an impressive rebound with the S&P/TSX Composite and S&P 500 Indices rallying over 59% and 70% to the end the year, respectively.

In the first quarter, corporate credit spreads (*the difference between corporate bond yields and government bond yields*) weakened in tandem with other risk assets, as the FTSE Canada Short Term Bond Index corporate spread widened over 175 basis points in the quarter. The Index reversed all of the credit spread widening over the rest of the year, as attractive valuations and government support led to strong demand for short-term corporate debt. While earnings dipped in 2020, corporate balance sheets were generally resilient to the sharp economic contraction, as corporations drew down bank lines and issued debt to boost liquidity on-hand. To plug widening budget deficits from lower revenue and higher outlays to support the Canadian economy, federal and provincial debt issuance hit a record in 2020. Central banks enacted a multitude of asset purchase programs to ensure well-functioning financial markets, which helped absorb the increased supply from federal and provincial issuers (*and provided strong tailwinds for corporate and provincial debt in the final three quarters of the year*). Both the U.S. Federal Reserve and Bank of Canada cut their overnight rates to near zero in the first quarter and have guided the markets to not expect a rate hike for the next few years.

The Fund's return in 2020 was driven by the portfolio manager's active investment process after a challenging first quarter of performance. The Fund took advantage of exceptionally attractive corporate debt

valuations following the weak first quarter by increasing its allocation and average term to maturity in corporate bonds. Portfolio turnover increased, as the team reacted to rapidly changing markets and attractive opportunities. Despite its attractive yield advantage, the Fund's allocation to the HSBC Mortgage Fund was a detractor from performance versus the benchmark, due to its lower average term relative to the benchmark.

Recent Developments

While 2020 may have been one of the most challenging periods many have ever faced; it was encouraging to have ended the year with a ray of hope. Ongoing vaccination programs throughout 2021 could signify a shift towards markets slowly returning to normal. The portfolio manager is calling this phase the 'restoration economy' and it dominates their investment outlook as we move further into the year ahead. The scenario is one where global growth moderates after the extraordinary rebound experienced over the past nine months. It also refers to the portfolio manager's market expectations. Because of the unprecedented speed of the rally in most asset classes since the end of March, expected returns for 2021 are still positive, albeit somewhat less attractive than early in 2020. While the recovery will take many economies back to pre-COVID levels of activity in 2021, the portfolio manager expects that Canada will reach this milestone closer to early 2022. They maintain their view that the economic fallout from the pandemic is likely to dissipate, as aggressive policy moves continue to support liquidity and economic momentum. The fund manager also advises caution, emphasizing the importance of building resilience in the portfolio. The key risk to their central scenario remains the virus and its variants, or a stall in the rollout of vaccines. Changes in fiscal or monetary policy direction and the relationship between China and the U.S. are risks to monitor as well.

Valuations for many segments in the short-term Canadian fixed-income markets are closer to pre-COVID levels. However, the portfolio manager still sees pockets of the credit market that remain attractive, in addition to opportunities at various parts of the maturity spectrum. They expect policymakers to remain highly accommodative, particularly with monetary policy well into a recovery, which will help credit assets as investors seek income in a near-zero interest rate environment.

The Fund is modestly overweight in high-quality corporate bonds, versus its benchmark—given attractive valuations, versus government bonds. The FTSE Canada Short Term Bond Index yield closed the year at the lowest yield on record (0.54%). The portfolio manager expects the Fund's sizable yield advantage over the benchmark to drive attractive future relative returns. An allocation in mortgages (*consisting approximately half of the Fund*) continues to bolster performance with a strong yield advantage to the benchmark, as well as offering downside protection. In closing, 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, including the potential impact of the COVID-19 pandemic on the Fund and/or its operations.

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 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 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				
	2020	2019	2018	2017	2016
Net Assets, beginning of year/period	\$11.25	\$11.09	\$11.22	\$11.35	\$11.38
Increase (decrease) from operations:					
Total revenue	\$0.30	\$0.32	\$0.32	\$0.32	\$0.35
Total expenses, including transaction costs [excluding distributions]	(\$0.14)	(\$0.14)	(\$0.13)	(\$0.14)	(\$0.14)
Realized gains (losses) for the period	\$0.09	\$0.01	(\$0.13)	(\$0.05)	\$0.04
Unrealized gains (losses) for the period	\$0.23	\$0.17	(\$0.01)	(\$0.10)	(\$0.07)
Total increase (decrease) from operations ⁽²⁾	\$0.48	\$0.36	\$0.05	\$0.03	\$0.18
Distributions:					
From net investment income (excluding dividends)	\$0.15	\$0.19	\$0.19	\$0.17	\$0.21
From dividends	\$--	\$--	\$--	\$--	\$--
From capital gains	\$--	\$--	\$--	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--
Total Annual Distributions ⁽³⁾	\$0.15	\$0.19	\$0.19	\$0.17	\$0.21
Net Assets, end of year/period	\$11.58	\$11.25	\$11.09	\$11.22	\$11.35

Ratios and Supplemental Data (based on Net Asset Value)

	Year ended December 31				
	2020	2019	2018	2017	2016
Total Net Asset Value (000's) ⁽⁴⁾	\$144,701	\$129,221	\$140,483	\$188,011	\$199,421
Number of units outstanding ⁽⁴⁾	12,499,441	11,485,494	12,668,872	16,764,263	17,566,363
Management expense ratio ⁽⁵⁾	1.25%	1.24%	1.19%	1.19%	1.19%
Management expense ratio before waivers or absorptions ⁽⁶⁾	1.25%	1.25%	1.24%	1.25%	1.25%
Trading expense ratio ⁽⁷⁾	--	--	--	--	--
Portfolio turnover rate ⁽⁸⁾	40.79%	24.71%	30.75%	37.56%	59.84%
Net Asset Value per unit	\$11.58	\$11.25	\$11.09	\$11.22	\$11.35

- (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 11.3% 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

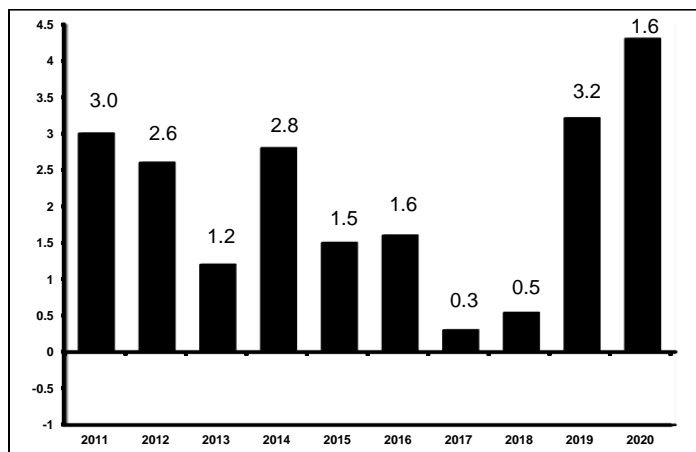
The Fund's performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund.

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 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.

Annual Compound Returns

The following table compares the historical annual compound returns of the Fund with the performance of the Benchmark index, FTSE 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	4.30%	2.67%	1.99%	2.09%
FTSE Canada Short Term Bond Index	5.29%	3.42%	2.26%	2.54%

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, 2020

Sector Mix	Percentage of Net Asset Value
Canadian Mutual Funds	49.93%
Corporate Bonds	30.37%
Government Bonds	16.08%
Asset-Backed Securities	2.31%
Short-term Investments	0.79%
Net Other Assets	0.44%
Cash and Cash Equivalents	0.08%

Top 25 Holdings

Security Name	Percentage of Net Asset Value
HSBC Mortgage Fund, Institutional Series	49.47%
Canada Housing Trust No 1, 1.95%, December 15, 2025	5.36%
Toronto-Dominion Bank, 3.11%, April 22, 2030	3.54%
Province of Manitoba, 2.60%, June 2, 2027	3.32%
Canada Housing Trust No 1, 1.90%, September 15, 2026	2.95%
Royal Bank of Canada, 2.09%, June 30, 2030	1.74%
Choice Properties REIT, 3.56%, September 9, 2024	1.63%
Empire Life Insurance Co., 3.38%, December 16, 2026	1.47%
Province of Saskatchewan Canada, 2.65%, June 2, 2027	1.41%
TMX Group Ltd., 4.46%, October 3, 2023	1.37%
BHP Billiton Finance Ltd., 3.23%, May 15, 2023	1.09%
Province of Alberta, 2.55%, June 1, 2027	1.04%
Granite REIT Holdings LP, 3.87%, November 30, 2023	0.96%
Brookfield Asset Management Inc., 4.82%, January 28, 2026	0.88%
Canadian Treasury Bill, 11.23%, March 18, 2021	0.79%
Brookfield Property Finance ULC, 4.35%, July 3, 2023	0.78%
Pembina Pipeline Corp., 3.77%, October 24, 2022	0.78%
Toronto-Dominion Bank, 3.22%, July 25, 2029	0.74%
Morgan Stanley, 3.00%, February 7, 2024	0.74%
Province of Ontario Canada, 1.05%, September 8, 2027	0.70%
Coast Capital Savings Credit Union, 5.00%, May 3, 2028	0.69%
City of Montreal Canada, 2.75%, September 1, 2026	0.68%
Genworth MI Canada Inc., 2.96%, March 1, 2027	0.67%
Genworth MI Canada Inc., 4.24%, April 1, 2024	0.67%
Institutional Mortgage Securities Canada Inc., 1.94%, September 12, 2024	0.67%

Total Net Assets (000's)

\$144,701

The top 25 holdings represent approximately 84.14% of the total net assets of the Fund.

The summary of investment portfolio of the Fund is as at December 31, 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.

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