

2021

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

December 31, 2021

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 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.

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.

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, 2021.

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 decreased by 8.8% to \$132.0 million at the end of December 2021, down from \$144.7 million at the end of December 2020.

Investment Performance

For the year/period ending December 31, 2021 (the ‘period’), the Educators Mortgage & Income Fund – Class A Series provided a negative return of 0.97%, versus the FTSE Canada Short Term Bond Index (the ‘Benchmark’) return of negative 0.93%.

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. 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 Benchmark returns.

Class F units of the Fund were first offered by prospectus dated May 14, 2021. Due to policies issued by the Canadian Securities Administrators, investment performance data is not reported for funds in existence for less than one year.

2021 was a challenging, absolute return environment for fixed income. The Fund benefitted from its allocation to mortgages, which outperformed short-term bonds due to their higher yield. Additionally,

the Fund’s modest allocation and active management of preferred shares drove strong contributions to Fund performance. Finally, security selection in corporate bonds and a lower than Benchmark weight to federal bonds, combined with a shorter average maturity, helped contribute to the Fund’s overall performance.

2021 was a decidedly ‘risk-on’ year, with equity markets producing very positive returns and government bond yields rising across the maturity spectrum. The bearish year for fixed income was in response to rising inflation and dramatic improvement in labour markets. The yield on the five-year Canada bond rose from 0.40% to 1.25% in 2021. This produced a full-year price decline of over 4%. Corporate credit spreads (*the difference in yield between corporate bonds and government bonds*) painted a more mixed picture versus equity market performance—as multiple sectors in the corporate market ended the year with wider credit spreads than 2020 acting as a drag on performance while some sector spreads narrowed helping to offset some of the negative impacts. Relative value opportunities arose throughout the year in corporate bond markets in another strong year for corporate issuance volumes.

Recent Developments

The dramatic government policy response to the pandemic, in most economies, saw stimulus delivered in ways that enabled growth to rebound quickly. At the same time, elevated commodity prices, ongoing supply chain issues, and a tight labour market, have all increased inflation expectations. Continued strong growth, combined with higher inflation, suggests the removal of monetary stimulus by central banks is now expected to occur earlier and more aggressively than previously expected. By the end of 2021, markets had priced-in expectations for rate increases of 75 basis points (0.75%) from the U.S. Federal Reserve in 2022 and 125 basis points (1.25%) from the Bank of Canada. The impact of the Omicron wave on economic activity, inflation, and ultimately the removal of stimulus, could be very significant and will be vital to monitor as we enter 2022. Consensus GDP forecasts for 2021/2022/2023 are currently 5.9%/4.4%/3.6% (global) and 4.6%/4.0%/2.9% (Canada) — source: Bloomberg.

The portfolio manager continues to run a pro-risk allocation in this environment. The emergence of COVID-19 variants, as seen with the uncertainty of the Omicron strain, cannot be discounted as creating headwinds to growth. With previous waves, swift recoveries in activity have followed partial shutdowns. The response to this latest episode will be key to the economic performance in 2022. The Fund continues to hold high-quality mortgages and is overweight in high-grade corporate bonds, given their attractive fundamentals, along with the positive economic backdrop into 2022. The portfolio manager is shorter average maturity versus the Benchmark, particularly in longer-term bonds and expects the Bank of Canada to raise its target rate in the first half of 2022.



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 2021 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. As the Class F units of the Fund have recently been created no Financial Highlights are provided in this document, Financial Highlights will be provided in our next interim management report of fund performance ("MRFP"). 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 | | | | |
|---|------------------------|----------------|----------------|----------------|----------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| Net Assets, beginning of year/period | \$11.58 | \$11.25 | \$11.09 | \$11.22 | \$11.35 |
| Increase (decrease) from operations: | | | | | |
| Total revenue | \$0.26 | \$0.30 | \$0.32 | \$0.32 | \$0.32 |
| Total expenses, including transaction costs [excluding distributions] | (\$0.14) | (\$0.14) | (\$0.14) | (\$0.13) | (\$0.14) |
| Realized gains (losses) for the period | \$0.04 | \$0.09 | \$0.01 | (\$0.13) | (\$0.05) |
| Unrealized gains (losses) for the period | (\$0.27) | \$0.23 | \$0.17 | (\$0.01) | (\$0.10) |
| Total increase (decrease) from operations ⁽²⁾ | (\$0.11) | \$0.48 | \$0.36 | \$0.05 | \$0.03 |
| Distributions: | | | | | |
| From net investment income (excluding dividends) | \$0.12 | \$0.15 | \$0.19 | \$0.19 | \$0.17 |
| From dividends | \$-- | \$-- | \$-- | \$-- | \$-- |
| From capital gains | \$-- | \$-- | \$-- | \$-- | \$-- |
| Return of capital | \$-- | \$-- | \$-- | \$-- | \$-- |
| Total Annual Distributions ⁽³⁾ | \$0.12 | \$0.15 | \$0.19 | \$0.19 | \$0.17 |
| Net Assets, end of year/period | \$11.34 | \$11.58 | \$11.25 | \$11.09 | \$11.22 |

Ratios and Supplemental Data (based on Net Asset Value)

| | Year ended December 31 | | | | |
|---|------------------------|------------|------------|------------|------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| Total Net Asset Value (000's) ⁽⁴⁾ | \$130,448 | \$144,701 | \$129,221 | \$140,483 | \$188,011 |
| Number of units outstanding ⁽⁴⁾ | 11,499,952 | 12,499,441 | 11,485,494 | 12,668,872 | 16,764,263 |
| Management expense ratio ⁽⁵⁾ | 1.25% | 1.25% | 1.24% | 1.19% | 1.19% |
| Management expense ratio before waivers or absorptions ⁽⁶⁾ | 1.25% | 1.25% | 1.25% | 1.24% | 1.25% |
| Trading expense ratio ⁽⁷⁾ | 0.01% | -- | -- | -- | -- |
| Portfolio turnover rate ⁽⁸⁾ | 32.19% | 40.79% | 24.71% | 30.75% | 37.56% |
| Net Asset Value per unit | \$11.34 | \$11.58 | \$11.25 | \$11.09 | \$11.22 |



- (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 and 0.40% for the Class F 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 11.1% 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.

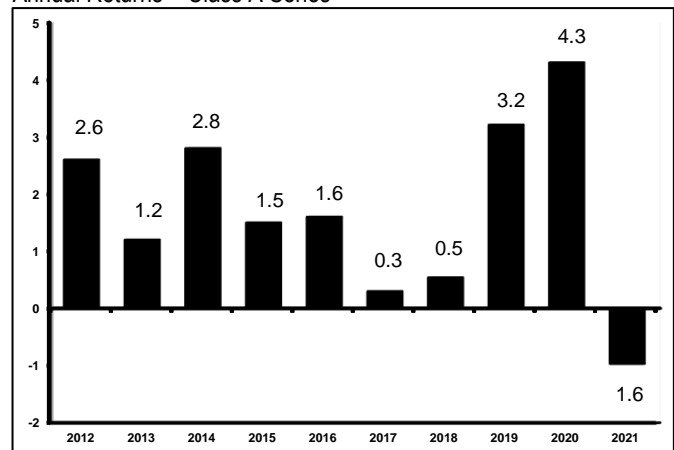
The performance information does not take into account sales, redemption, distribution, or other optional charges that would have reduced returns or performance. The performance of different fund series may vary for a number of reasons, including differences in management fees and expenses. Please remember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

Regulatory restrictions limit publishing performance for investment funds with a history of less than one year.

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.

| Educators Mortgage & Income Fund | 1 Year | 3 Year | 5 Year | 10 Year |
|--|--------|--------|--------|---------|
| Class A Series | -0.97 | 2.15 | 1.46 | 1.69 |
| Class F Series ¹ | NA | NA | NA | NA |
| Class I Series ² | -- | -- | -- | -- |
| <i>FTSE Canada Short Term Bond Index</i> | -0.93 | 2.45 | 1.87 | 1.97 |

¹ Not Available (in operation less than 1 year)

² Currently 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, 2021

| Sector Mix | Percentage of Net Asset Value |
|---------------------------|-------------------------------|
| Canadian Mutual Funds | 52.77% |
| Corporate Bonds | 32.10% |
| Government Bonds | 10.86% |
| Preferred Shares | 1.95% |
| Asset-Backed Securities | 1.59% |
| Short-term Investments | 0.19% |
| Cash and Cash Equivalents | 0.47% |
| Net Other Assets | 0.07% |

Top 25 Holdings

| Security Name | Percentage of Net Asset Value |
|--|-------------------------------|
| HSBC Mortgage Fund, Institutional Series | 52.77% |
| Toronto-Dominion Bank, 3.11%, April 22, 2030 | 3.71% |
| Canada Housing Trust No 1, 1.95%, December 15, 2025 | 3.55% |
| Canada Housing Trust No 1, 1.90%, September 15, 2026 | 3.08% |
| Canada Housing Trust No 1, 1.25%, June 15, 2026 | 1.89% |
| Royal Bank of Canada, 2.09%, June 30, 2030 | 1.73% |
| Coast Capital Savings Credit Union, 5.00%, May 3, 2028 | 1.65% |
| Toronto-Dominion Bank | 1.51% |
| Granite REIT Holdings LP, 3.06%, June 4, 2027 | 1.40% |
| Choice Properties Real Estate Investment Trust, 4.06%, November 24, 2025 | 1.21% |
| Province of Saskatchewan Canada, 2.65%, June 2, 2027 | 1.19% |
| Summit Industrial Income Real Estate Investment Trust, 2.25%, January 12, 2027 | 1.14% |
| Brookfield Asset Management Inc., 4.82%, January 28, 2026 | 1.09% |
| MCAP Commercial LP, 3.74%, August 25, 2025 | 0.97% |
| Province of Manitoba, 2.60%, June 2, 2027 | 0.79% |
| Suncor Energy Inc., 3.00%, September 14, 2026 | 0.78% |
| First National Financial Corp., 2.96%, November 17, 2025 | 0.76% |
| Canadian Imperial Bank of Commerce, 0.67%, June 10, 2024 | 0.76% |
| AIMCo Realty Investors LP, 2.20%, November 4, 2026 | 0.76% |
| MCAP Commercial LP, 4.15%, June 17, 2024 | 0.75% |
| Royal Bank of Canada, 1.94%, May 1, 2025 | 0.73% |
| Summit Industrial Income Real Estate Investment Trust, 2.15%, September 17, 2025 | 0.69% |
| Canadian Natural Resources Ltd., 3.42%, December 1, 2026 | 0.60% |
| Dream Industrial Real Estate Investment Trust, 2.06%, June 17, 2027 | 0.60% |
| Bank of Nova Scotia, 1.85%, November 2, 2026 | 0.59% |
| Total Net Assets (000's) | \$131,955 |

The top 25 holdings represent approximately 84.70% of the total net assets of the Fund.

The summary of investment portfolio of the Fund is as at December 31, 2021 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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