

# 2022

## INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

June 30, 2022

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.

### **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

### Risk

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 18.4% to \$107.7 million at the end of June 2022, down from \$132.0 million at the end of December 2021.

#### Investment Performance

For the year/period ending June 30, 2022 (the 'period'), the Educators Mortgage & Income Fund – Class A Series provided a negative return of 4.74%, versus the FTSE Canada Short Term Bond Index (the 'Benchmark') return of negative 4.39%.

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.

The Fund's lower average term-to-maturity and higher yield from mortgages were the primary contributors to performance, while security selection and a higher-than-Benchmark weight to corporate bonds detracted from performance.

Inflation continued to be the major theme across markets over the first half of the year, as inflation in both Canada and the U.S. is at a level not seen since the 1980s. Fixed-income securities were sharply repriced in the first six months of 2022, as economic data, particularly employment data, has remained robust, in addition to central banks having been ultra-aggressive in raising rates and guiding markets to expect further outsized rate hikes over the rest of the year. The yield on the five-year Canada bond rose from 1.25% to 3.10% in six months, which produced a price decline of 7.8%. Corporate credit spreads (*the difference between corporate bond yields and their equivalent maturity government bond yield*) responded to harshly tighter financial conditions by widening nearly 70 basis points (*FTSE Canada Short Corporate spread*).

### Recent Developments

Heading into 2022, the U.S. Federal Reserve (*Fed*) Chair Jerome Powell retired the term 'transient' to describe inflation, which has proven to be more persistent than central banks had expected. Both the Fed and Bank of Canada have been surprised by the depth and

breadth of inflation plaguing their respective economies. Thus, the term 'transient' has given way to 'entrenched' in order to describe the current inflation environment. New COVID-19 variants, Russia's invasion of Ukraine, and continuing supply chain disruptions have all contributed to the rise in inflation over the first half of the year. However, stickier areas of the inflation basket have also increased in 2022, including owners' equivalent rent and wages. Furthermore, there has been a transition from expenditures on goods to expenditures on services at the same time as a massive labour shortage in the services sector. The Fed and the Bank of Canada have been clear they are ready to tackle inflation by attacking the demand-side of inflation. Over the past few months, markets have been pondering if central banks can curtail rampant and widespread inflation without pushing the economy into a recession.

The Bank of Canada started quantitative tightening and has raised its overnight rate by 125 basis points thus far in 2022. The market is expecting an additional 225 basis points of hikes by year-end, which would take the overnight rate to 3.5%, or double the highest rate (1.75%) seen since the global financial crisis over a decade ago. Such a sharp reduction of liquidity and financial conditions has weighed on sentiment indicators, which are pointing to a weakening in economic data in the coming months.

The portfolio manager has moved to a more cautious allocation, given the intensifying macroeconomic risks and increasing expectations for the peak of the central bank rate hikes. The portfolio manager has a modest preference for corporate bonds over government bonds, as credit spreads have widened to attractive levels. The Fund maintains a shorter average maturity and continues to favour mortgages in this rising rate environment.

The risks to the outlook include inflation remaining elevated, even after significant rate hikes, as well as the possibility of recession. The geopolitical environment and the ongoing COVID-19 situation are also key variables in the forecast.

### 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 the HSBC Mortgage Fund, Institutional Series which is a fund managed by the Fund's Portfolio Manager.

In the first six months of 2022 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 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				
	2022	2021	2020	2019	2018	2017
Net Assets, beginning of year/period	\$11.34	\$11.58	\$11.25	\$11.09	\$11.22	\$11.35
<b>Increase (decrease) from operations:</b>						
Total revenue	\$0.13	\$0.26	\$0.30	\$0.32	\$0.32	\$0.32
Total expenses, including transaction costs [excluding distributions]	(\$0.07)	(\$0.14)	(\$0.14)	(\$0.14)	(\$0.13)	(\$0.14)
Realized gains (losses) for the period	(\$0.16)	\$0.04	\$0.09	\$0.01	(\$0.13)	(\$0.05)
Unrealized gains (losses) for the period	(\$0.44)	(\$0.27)	\$0.23	\$0.17	(\$0.01)	(\$0.10)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>(\$0.54)</b>	<b>(\$0.11)</b>	<b>\$0.48</b>	<b>\$0.36</b>	<b>\$0.05</b>	<b>\$0.03</b>
<b>Distributions:</b>						
From net investment income (excluding dividends)	\$0.06	\$0.12	\$0.15	\$0.19	\$0.19	\$0.17
From dividends	\$--	\$--	\$--	\$--	\$--	\$--
From capital gains	\$--	\$--	\$--	\$--	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--	\$--
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$0.06</b>	<b>\$0.12</b>	<b>\$0.15</b>	<b>\$0.19</b>	<b>\$0.19</b>	<b>\$0.17</b>
<b>Net Assets, end of year/period</b>	<b>\$10.74</b>	<b>\$11.34</b>	<b>\$11.58</b>	<b>\$11.25</b>	<b>\$11.09</b>	<b>\$11.22</b>

### Ratios and Supplemental Data (based on Net Asset Value)

	Six months ended June 30	Year ended December 31				
	2022	2021	2020	2019	2018	2017
Total Net Asset Value (000's) <sup>(4)</sup>	\$105,933	\$130,448	\$144,701	\$129,221	\$140,483	\$188,011
Number of units outstanding <sup>(4)</sup>	9,859,507	11,499,952	12,499,441	11,485,494	12,668,872	16,764,263
Management expense ratio <sup>(5)</sup>	1.25%	1.25%	1.25%	1.24%	1.19%	1.19%
Management expense ratio before waivers or absorptions <sup>(6)</sup>	1.25%	1.25%	1.25%	1.25%	1.24%	1.25%
Trading expense ratio <sup>(7)</sup>	--	0.01%	--	--	--	--
Portfolio turnover rate <sup>(8)</sup>	30.11%	32.19%	40.79%	24.71%	30.75%	37.56%
Net Asset Value per unit	\$10.74	\$11.34	\$11.58	\$11.25	\$11.09	\$11.22

**Educators Mortgage & Income Fund – Class F Series – Net Assets per Unit <sup>(1)</sup>**

	Six months ended June 30 2022	Year ending December 31 2021
Net Assets, beginning of year/period	\$9.89	\$10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	\$0.11	\$0.10
Total expenses, including transaction costs [excluding distributions]	(\$0.02)	(\$0.02)
Realized gains (losses) for the period	(\$0.16)	\$0.03
Unrealized gains (losses) for the period	(\$0.35)	(\$0.15)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>(\$0.42)</b>	<b>(\$0.04)</b>
<b>Distributions:</b>		
From net investment income (excluding dividends)	\$0.10	\$0.10
From dividends	\$--	\$--
From capital gains	\$--	\$--
Return of capital	\$--	\$--
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$0.10</b>	<b>\$0.10</b>
<b>Net Assets, end of year/period</b>	<b>\$9.36</b>	<b>\$9.89</b>

**Ratios and Supplemental Data (based on Net Asset Value)**

	Six months ended June 30 2022	Year ending December 31 2021
Total Net Asset Value (000's) <sup>(4)</sup>	\$1,776	\$1,508
Number of units outstanding <sup>(4)</sup>	189,666	152,425
Management expense ratio <sup>(5)</sup>	0.46%	0.45%
Management expense ratio before waivers or absorptions <sup>(6)</sup>	0.46%	0.45%
Trading expense ratio <sup>(7)</sup>	--	0.01%
Portfolio turnover rate <sup>(8)</sup>	30.11%	32.19%
Net Asset Value per unit	\$9.36	\$9.89

<sup>(1)</sup> 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.

<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 June 30 and 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.

<sup>(6)</sup> 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.

<sup>(7)</sup> 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.

<sup>(8)</sup> 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 11.8% 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

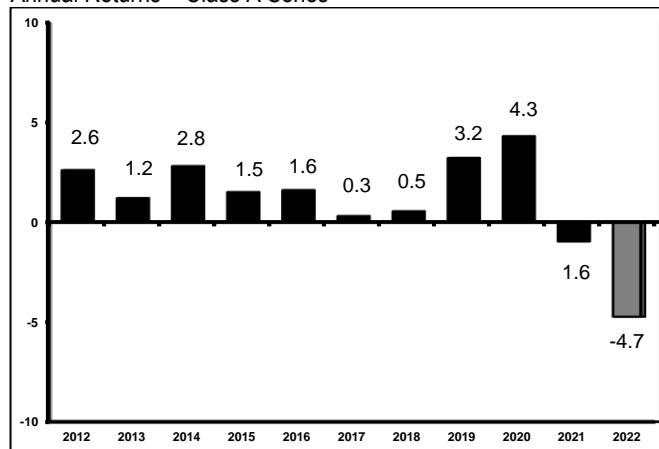
The Fund's performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund.

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.

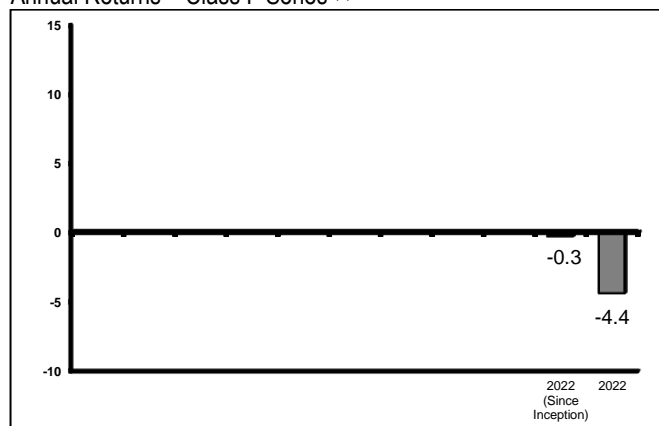
### Year-by-Year Returns

The bar chart shows the Fund's annual performance for each of the years shown and 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 F Series <sup>(1)</sup>



(1) The Class F Series commenced operation May 14, 2021

■ % Increase/decrease    ■ For the six-month period ended June 30, 2022

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, 2022

Sector Mix	Percentage of Net Asset Value
Canadian Mutual Funds	44.59 %
Corporate Bonds	36.90 %
Government Bonds	14.81 %
Preferred Shares	2.04 %
Asset-Backed Securities	0.97 %
Short-term investments	0.25 %
Net Other Assets	0.23 %
Cash and Cash Equivalents	0.21 %

## Top 25 Holdings

Security Name	Percentage of Net Asset Value
HSBC Mortgage Fund, Institutional Series	44.59 %
Canada Housing Trust No 1, 1.10%, December 15, 2026	14.81 %
Toronto-Dominion Bank, 3.11%, April 22, 2030	4.20 %
Royal Bank of Canada, 2.09%, June 30, 2030	1.96 %
Coast Capital Savings Credit Union, 5.00%, May 3, 2028	1.95 %
Granite REIT Holdings LP, 3.06%, June 4, 2027	1.77 %
Citigroup Inc., 4.09%, June 9, 2025	1.64 %
Toronto-Dominion Bank	1.60 %
Choice Properties Real Estate Investment Trust, 4.06%, November 24, 2025	1.36 %
Summit Industrial Income Real Estate Investment Trust, 2.25%, January 12, 2027	1.25 %
Brookfield Asset Management Inc., 4.82, January 28, 2026	1.22 %
MCAP Commercial LP, 3.74%, August 25, 2025	1.10 %
Bank of America Corp., 2.09%, March 16, 2026	0.89 %
Suncor Energy Inc., 3.00%, September 14, 2026	1.88 %
MCAP Commercial LP, 4.15%, June 17, 2024	0.87 %
First National Financial Corp., 2.96%, November 17, 2025	0.86 %
AIMCo Realty Investors LP, 2.20%, November 4, 2026	0.84 %
Canadian Imperial Bank of Commerce, 2.25%, January 7, 2027	0.84 %
Royal Bank of Canada, 1.94%, May 1, 2025	0.83 %
Canadian Natural Resources Ltd., 3.42%, December 1, 2026	0.83 %
Summit Industrial Income Real Estate Investment Trust, 2.15%, September 17, 2025	0.78 %
Canadian Imperial Bank of Commerce, 2.00%, April 17, 2025	0.65 %
Dream Industrial Real Estate Investment Trust, 2.06%, June 17, 2027	0.65 %
Bank of Nova Scotia, 1.85%, November 2, 2026	0.65 %
Royal Bank of Canada, 2.74%, July 25, 2029	0.62 %
<b>Total Net Assets (000's)</b>	<b>\$107,709</b>

The top 25 holdings represent approximately 87.64% of the total net assets of the Fund.

The summary of investment portfolio of the Fund is as at June 30, 2022 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).

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