

# 2015

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2015

Offered by Educators Financial Group  
Portfolio Advisor: Aegon Capital Management Inc., Toronto, Ontario

### **Educators Monthly 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](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

### Investment Objectives and Strategies

The investment objective of the Educators Monthly Income Fund (the "Fund") is to provide a consistent stream of monthly income and some capital appreciation by investing in a portfolio of fixed income, investment trust units and equity investments. A minimum of 6% and a maximum of 60% of the portfolio will be invested in fixed income securities, while a minimum of 40% and a maximum of 94% of the portfolio will be invested in Canadian equity securities. Non-Canadian securities are limited to no more than 15% of the Fund's assets. Foreign currency exposure is not hedged.

### 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 ended December 31, 2015.

### Results of Operations

For the twelve-month period ending December 31, 2015, the Fund provided a return of 2.10%, versus a Benchmark return of negative 4.90%. The Benchmark comprises 70% S&P/TSX Composite Total Return Index, 27% FTSE TMX Canada Bond Universe Index and 3% FTSE TMX Canada 91 Day Treasury Bill Index (the "Benchmark"). Note that investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in Benchmark.

The Fund's net assets increased by 22.3% to \$49.9 million at the end of December 2015, up from \$40.8 million at the end of December 2014.

The Fund ended the year with 55.7% in Canadian equities, 24.5% in U.S. equities, 17.6% in Canadian Fixed Income and 2.2% in cash.

Canadian and U.S. equity markets had a challenging year, mainly due to significant declines in energy and other commodity prices, and rising concerns of lower

than expected global growth, particularly in China and other emerging markets. Further, the long-anticipated 0.25% hike initiated by the U.S. Federal Open Market Committee (FOMC) in December caused additional volatility across global markets. In contrast, the Bank of Canada cut interest rates twice during 2015 to contend with the significant growth slowdown led by resource-oriented sectors.

Given the minimal growth and significant commodities exposure of the Canadian economy, the S&P/TSX Composite Total Return Index declined 8.3% for the year, led by double-digit declines in the Energy, Materials, Health Care and Industrial sectors. This was partially offset by positive returns in the relatively small Information Technology, Consumer Staples and Telecommunication sectors, and modest declines in the Financials, Utilities and Consumer Discretionary sectors.

As a result of its stronger economic momentum and lower resource exposure, the U.S. outperformed Canada for the fifth consecutive year, with the S&P 500 returning 1.4%, in U.S. dollars. Large-cap U.S. equities benefited from positive performance by the Consumer Discretionary, Consumer Staples, Health Care and Technology sectors, while resource and cyclical sectors such as Energy, Materials, Industrials and Financials, posted negative returns. Because of the resilience of the U.S. economy and its broader exposure to high-growth, non-resource sectors than the Canadian market, the Fund has maintained a significant U.S. overweight allocation, relative to its benchmark.

Within the equity allocation, the Fund was selectively overweight in the Health Care, Information Technology and Industrials sectors, while more neutrally positioned towards Consumer Staples and Financials. The Fund continues to underweight the resource-oriented Energy and Materials sectors, as well as the more interest-rate sensitive Telecommunications sector.

The Fund benefited from its underweight positions and good stock selection in Energy and Materials, as both sectors were defensively positioned. Within the Energy sector, the Fund had higher exposure to refiners, integrated oil companies and midstream stocks, which are less leveraged to commodity prices, as well as certain low-cost energy producers. In the Materials sector, the Fund is underweight in precious metals and base miners, while holding select positions in high-quality packaging, chemicals and fertilizer producers.

The Healthcare sector was another positive contributor, due to stock selection. The Fund's focus on large capitalization stocks with strong earnings and dividend growth was rewarded, and we believe demographic factors favour this sector for continued outperformance over the long term.

The Fund also benefited from good stock selection and an overweight position in Consumer Discretionary, as its exposure to specialty coffee, sports footwear and apparel, and media and entertainment has benefited from strong consumer demand, product innovation and impressive growth trends.

The Fund's market weight position in Financials was a modest detractor for the year, due to unfavourable stock selection which reflected increased market volatility, widening credit spreads and renewed expectations of "lower for longer" interest rates. This led to weaker relative performance across our holdings in the life insurance, asset management and real estate sub-sectors.

The Telecommunications sector also detracted, mainly due to our underweight position, as our stock selection added only modestly to performance. Market turmoil and continued low interest rates kept money flowing into a sector that is relatively expensive by historical standards. The flows were driven by investors seeking stable cash flow streams, as well as attractive absolute dividend yields.

Canadian fixed income returns were strong in 2015, as interest rates fell, returning 3.52%, as measured by the FTSE/TMX Canadian Bond Universe. Within the fixed income sleeve of the portfolio, the Fund was predominantly invested in corporate bonds, with a small complement of government bonds. Performance was enhanced by holdings in the Securitization sector and defensive positioning in the Energy sector, where the Fund's holdings have limited exposure to commodity prices. On a ratings basis, BBB rated securities had slightly weaker returns than higher-rated corporate securities. The enhanced yield of the portfolio versus its

Benchmark, coupled with the focus on security selection, provides downside protection in the current environment.

### **Recent Developments**

Global equity markets, including the U.S. and Canada, have had a challenging and volatile start to 2016. A number of global indices have entered bear market territory, which means that in recent months share prices have fallen by more than 20% from their most recent peak. The pullback reflects continued pressure on oil and other commodity prices, combined with rising concerns of slowing global growth, particularly in China and other emerging markets. While global growth has been slower than expected, we expect it to remain on a positive trajectory, led by the U.S. and other developed markets where the consumer sector is benefiting from healthy labour and housing markets, low interest rates, and energy prices. In addition, central banks across the globe are maintaining highly-accommodative monetary policies, which further reduce the probability of a widespread recession. As such, we expect corporate earnings growth outside of resource-oriented sectors to remain positive, which bodes well for future equity returns. In addition, stock valuations and dividend yields have become increasingly attractive as stock prices have decreased. We believe that during 2016 there will be periods of higher volatility, which underscores the importance of an appropriately-diversified and actively-managed portfolio.

Looking forward to the rest of 2016, we expect the Canadian economy to remain challenged by continued volatility in commodity markets, while the U.S. economy should continue to grow more strongly. Accordingly, the Fund will maintain its overweight position in U.S. equities, thereby enabling it to reap the benefits of potential higher growth and better performance, from sectors that we believe are under-represented in the Canadian marketplace. Across both the Canadian and U.S. holdings, the primary focus of the Fund remains the active management of large-cap dividend oriented equities, complemented by a fixed income portfolio predominantly invested in corporate bonds, which provide both yield and stability. We also continue to pursue investment opportunities in sectors in which we can identify high quality companies with above-average growth prospects, strong balance sheets and reasonable valuations.

### **Caution Regarding Forward-looking Statements**

This report may contain forward-looking statements about the Fund, including its strategy, 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 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 events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and economic factors.

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.

#### **Related Party Transactions**

Aegon Capital Management Inc. ("ACM"), the Fund's Portfolio Adviser, is an indirect wholly-owned subsidiary of Wilton Re Ltd., effective July 31, 2015. Wilton Re Ltd. Is not a publicly listed company..

In 2015 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 each year ended December 31 for the past five years.

### The Fund's Net Assets per Unit <sup>(1)</sup>

	Year ended December 31				
	2015	2014	2013	2012	2011
Net Assets, beginning of period	\$10.29	\$9.96	\$9.85	\$9.76	\$10.00
<b>Increase (decrease) from operations:</b>					
Total revenue	\$0.30	\$0.33	\$0.34	\$0.33	\$0.33
Total expenses, including transaction costs [excluding distributions]	\$(0.16)	\$(0.15)	\$(0.14)	\$(0.14)	\$(0.11)
Realized gains (losses) for the period	\$0.41	\$0.04	\$(0.09)	\$0.07	\$(0.18)
Unrealized gains (losses) for the period	\$(0.39)	\$0.67	\$0.77	\$0.57	\$0.55
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$0.16</b>	<b>\$0.89</b>	<b>\$0.88</b>	<b>\$0.83</b>	<b>\$0.59</b>
<b>Distributions:</b>					
From net investment income (excluding dividends)	\$--	\$--	\$--	\$--	\$0.01
From dividends	\$0.14	\$0.18	\$0.21	\$0.18	\$0.15
From capital gains	\$0.12	\$--	\$--	\$--	\$--
Return of capital	\$0.34	\$0.46	\$0.51	\$0.54	\$0.38
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$0.60</b>	<b>\$0.64</b>	<b>\$0.72</b>	<b>\$0.72</b>	<b>\$0.54</b>
<b>Net Assets, end of period</b>	<b>\$9.92</b>	<b>\$10.29</b>	<b>\$9.96</b>	<b>\$9.84</b>	<b>\$9.76</b>

<sup>(1)</sup> This information is derived from the Fund's audited annual financial statements. For the financial year 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").

For the financial year ended December 31, 2013, the financial highlights numbers were restated to comply with IFRS reporting.

For financial years beginning before January 1, 2013, the financial highlights were derived from the Fund's financial statements prepared in accordance with Canadian GAAP.

For financial years beginning after January 1, 2013, 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.

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

	Year ended December 31				
	2015	2014	2013	2012	2011
Net Asset Value (000's) <sup>(1)</sup>	\$49,881	\$40,835	\$29,633	\$18,035	\$5,192
Number of units outstanding <sup>(1)</sup>	5,030,870	3,968,159	2,976,702	1,830,790	531,471
Management expense ratio <sup>(2)</sup>	1.31%	1.31%	1.31%	1.32%	1.32%
Management expense ratio before waivers or absorptions	1.31%	1.31%	1.31%	1.32%	1.32%
Trading expense ratio <sup>(3)</sup>	0.10%	0.06%	0.13%	0.09%	0.17%
Portfolio turnover rate <sup>(4)</sup>	77.75%	44.85%	102.91%	79.16%	60.87%
Net Asset Value per unit	\$9.92	\$10.29	\$9.96	\$9.85	\$9.77

<sup>(1)</sup> This information is provided as at December 31 of the year shown.

<sup>(2)</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>(3)</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.

- (4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser 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 rates 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 adviser, 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 1.15%.

The Fund is responsible for paying any applicable tax owing on its management fee.

Approximately 14.8% of the management fees 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

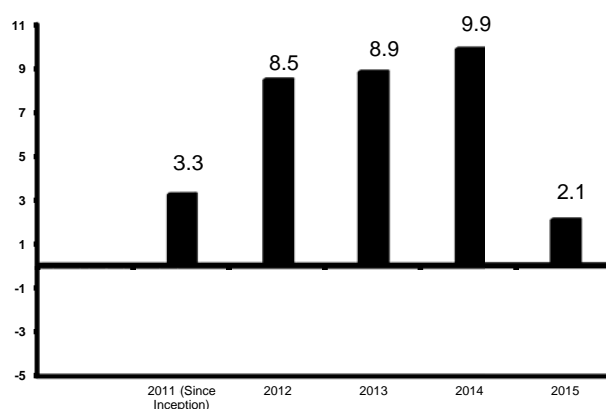
#### General

The Fund's performance information shown assumes that all distributions made by the Fund in the period(s) 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. 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 performance since inception and illustrates how the Fund's performance has changed for each 12-month period ending December 31. The 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.



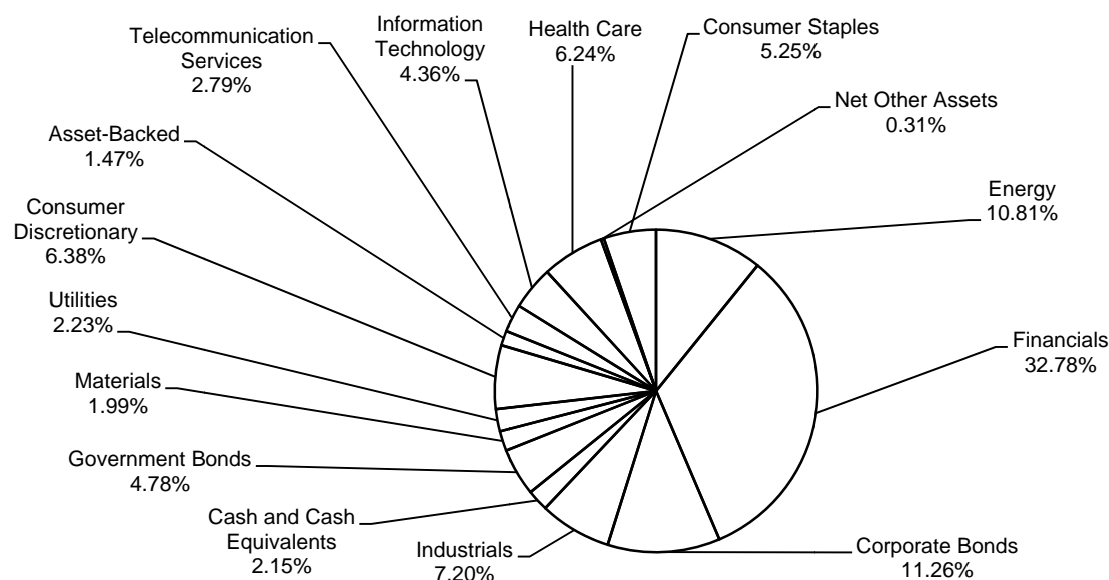
### Annual Compound Returns

This table compares the compound returns of the Fund since inception with the performance of a blended Benchmark index comprised as follows: 70% S&P/TSX Composite Total Return Index (S&P/TSX Index), a capitalization-weighted index designed to measure the market activity of some of the largest float adjusted stocks listed on the Toronto Stock Exchange, 27% FTSE TMX Canada Bond Universe Index, which is a broad measure of the total return of Canadian bonds that mature in more than one year and 3% FTSE TMX Canada 91 Day Treasury Bill Index, which measures the performance attributable to 91-day Treasury Bills of the provincial and federal governments.

	Educators Monthly Income Fund (%)	S&P/ TSX Index (%)	FTSE TMX Bond Index (%)	91 Day T-Bill Index (%)	Blended Index (%)
Past 10 years	N/A	4.38	5.03	1.74	4.71
Past 5 years	N/A	2.30	4.80	0.91	3.05
Past 3 years	6.89	4.62	3.63	0.85	4.32
Past year	2.10	-8.32	3.52	0.63	-4.90

Note that 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)



## Top 25 Holdings

Security Name	Coupon Rate	Maturity Date	Percentage of Net Asset Value
Manulife Financial Corp.			4.38%
Toronto-Dominion Bank			4.38%
Royal Bank of Canada			4.21%
Enbridge Inc.			3.45%
Canadian National Railway Co.			2.94%
Government of Canada	2.250%	June 1, 2025	2.59%
Bank of Montreal			2.07%
Rogers Communications Inc.			1.99%
Citigroup Inc.			1.95%
Visa Inc.			1.86%
JPMorgan Chase & Co.			1.82%
Gilead Sciences Inc.			1.69%
Brookfield Asset Management Inc.			1.65%
Alimentation Couche-Tard Inc.			1.59%
Intact Financial Corp.			1.58%
Boyd Group Income Fund			1.56%
Canadian Natural Resources Ltd.			1.54%
Allied Properties Real Estate Investment Trust			1.45%
Cisco Systems Inc.			1.38%
Costco Wholesale Corp.			1.35%
Keyera Corp.			1.32%
Restaurant Brands International Inc.			1.32%
Element Financial Corp.			1.30%
Pfizer Inc.			1.29%
Suncor Energy Inc.			1.27%
<b>Total Net Assets (000's)</b>			<b>\$49,881</b>

The top 25 holdings represent approximately 51.93% of the total net assets of the Fund.

The summary of investment portfolio of the Fund is as at December 31, 2015 and may change due to the Fund's ongoing portfolio transactions. Updates are available quarterly.

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