

# 2016

## INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended June 30, 2016

Offered by Educators Financial Group  
Portfolio Advisor: BMO Asset Management Inc., Toronto, Ontario

### Educators Dividend 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

For the six-month period ending June 30, 2016, the Fund provided a return of 4.42%, versus the S&P/TSX 60 Index (the "Benchmark") return of 8.66%. Note that investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in index returns.

The Fund's net assets increased by 5.0% to \$105.4 million at the end of June 2016, up from \$100.4 million at the end of December 2015.

During the period, the S&P/TSX 60 Index ("Index") delivered a solid 8.7% return. The Materials sector was the primary driver of the Index's performance. Precious metals registered a particularly strong performance. Gold prices rose by 24.6% and silver by 35.1%, as global growth concerns and potential implications of the U.K.'s EU Referendum ("Brexit") continued to weigh on investor risk sentiment. Meanwhile, as markets lowered the probability of a U.S. rate increase in 2016 following a weaker job report for May and Brexit, the opportunity cost of holding bullion fell, increasing investor appetite for this asset. The Energy sector was the Index's second-best performer. Despite a very weak market for oil in the first quarter, when prices declined below US\$30 per barrel, oil prices rebounded sharply amid production outages such as supply shortfalls in Nigeria's oil industry and wildfires in Canada. Natural gas also had a challenging first quarter, followed by a rebound in the second quarter when prices rose by 25.1%. The Financials sector added 4.8%, as Canadian bank management worried whether credit losses related to oil price volatility would remain manageable while focusing on delivering positive operating leverage. However, the Health Care sector detracted from the Index's performance. While this sector represents a small weight in the overall Index, the significant decline in shares of Valeant Pharmaceuticals International, Inc. made a notable impact on the Index.

The gold sub-sector almost doubled during the period because of macroeconomic risks, deflationary concerns and a falling U.S. dollar. As a result, the Fund's lack of gold holdings and gold stocks such as Barrick Gold Corporation significantly detracted from its performance. An underweight allocation in the Energy sector also detracted

from performance as commodity prices rose. Some U.S. holdings, and bank stocks in particular, underperformed in an environment of lower interest rate expectations and a declining U.S. dollar. U.S. bank stocks which detracted from performance included JPMorgan Chase & Co. and Wells Fargo & Company. Other individual detractors included American International Group, Inc., VISA Inc. and Starbucks Corporation.

A lack of exposure to the Canadian Health Care sector contributed to the Fund's performance. The Fund's overweight exposure and security selection in the Industrials sector, which was geared more toward defensive companies, also contributed to performance. Individual contributors to performance included Waste Connections, Inc. and Brookfield Infrastructure Partners L.P. The Fund had held a large position in Progressive Waste Solutions Ltd., which was acquired by Waste Connections, Inc., one of the most productive U.S. waste companies. Brookfield Infrastructure Partners L.P. performed very well and benefited from its unique positioning as a global infrastructure company backed by one of the most proficient asset managers, Brookfield Asset Management Inc.

The portfolio manager added new positions in Metro Inc., Alimentation Couche-Tard Inc. and Franco-Nevada Corporation to the Fund. Metro Inc., one of Canada's most efficient grocery chains, was purchased for its defensive characteristics. Alimentation Couche-Tard Inc. was added for its defensive business model operating gas stations and convenience stores, and its potential for growth from improving margins and acquisitions. Franco-Nevada Corporation is a well-diversified royalty gold company that should benefit in a rising gold price environment. The Fund's existing shares of Rogers Communications, Inc. were increased as the portfolio manager repositioned the portfolio to address rising concerns of slower economic growth. The Fund's holdings of Fortis Inc. were also increased, as a slower growth environment with extended low interest rates will benefit this utility.

The portfolio manager eliminated the Fund's position in CI Financial Corp. because of upcoming challenges to Canadian investment managers from the pressures of fee revenue and growth in exchange-traded fund ("ETF")

investing. Finning International Inc. was sold due to concerns that macroeconomic conditions would adversely affect the heavy equipment dealer. The Fund's position in AltaGas Ltd. was eliminated in favour of other investment opportunities. Wells Fargo & Company, American International Group, Inc. and JPMorgan Chase & Co. were trimmed to reduce the Fund's exposure to U.S. financial companies.

### Recent Developments

The portfolio manager believes that Brexit, while a significant event, will not derail the positive outlook for Canadian equities through the remainder of the year. Uncertainty will linger as the market tries to gauge the longer-term economic impact to the EU. That said, Bank of Canada policy will likely remain proactive, with the goal of ensuring optimal financial conditions and protecting the fragile state of an economy which continues to struggle with a recovering oil price. Economic data continues to suggest a U.S. economic engine moving ahead slowly due to rising consumer spending and the ongoing recovery in the housing market. The portfolio manager expects that this will lend support to the Canadian economic outlook. Reflecting this, the Fund remains biased toward high-quality businesses that will be able to grow free cash flow and dividend streams in this challenging environment.

### 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

BMO Asset Management Inc. (BMO AM), the Fund's portfolio adviser, is an affiliate of the BMO Financial Group. From time to time, BMO AM may on behalf of the Fund enter into transactions or arrangements with, or involving, other members of BMO Financial Group, or certain other persons or companies that are related or connected to the portfolio adviser of the Fund.

### Buying and Selling Securities

#### Bank of Montreal Common Shares

Bank of Montreal (BMO) is an affiliate of the Fund's portfolio adviser BMO AM. The Fund did not hold BMO common shares during the period.

#### Brokerage Fees

The Fund pays standard brokerage commissions at market rates to BMO Capital Markets, an affiliate of the portfolio adviser. The brokerage fees charged to the Fund were as follows:

	<u>2016</u> (June 30)	<u>2015</u> (Dec 31)
<i>Total Brokerage Fees</i>	\$18,446	\$20,939
<i>Brokerage Fees Paid to BMO Capital Markets</i>	\$712	\$1,677

In the first six months of 2016 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 ended June 30, 2016, and for each year ended December 31 for the past five years.

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

	Six months ended June 30 2016	2015	2014	2013	2012	2011
Net Assets, beginning of period	\$23.19	\$24.39	\$21.98	\$19.01	\$17.78	\$18.29
<b>Increase (decrease) from operations:</b>						
Total revenue	\$0.34	\$0.72	\$0.69	\$0.64	\$0.61	\$0.60
Total expenses, including transaction costs [excluding distributions]	\$(0.21)	\$(0.44)	\$(0.43)	\$(0.36)	\$(0.33)	\$(0.32)
Realized gains (losses) for the period	\$0.21	\$(0.55)	\$(0.08)	\$0.13	\$0.52	\$(0.02)
Unrealized gains (losses) for the period	\$0.68	\$(0.77)	\$2.36	\$2.81	\$0.54	\$(0.73)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$1.02</b>	<b>\$(1.04)</b>	<b>\$2.54</b>	<b>\$3.22</b>	<b>\$1.34</b>	<b>\$(0.47)</b>
<b>Distributions:</b>						
From net investment income (excluding dividends)	\$--	\$--	\$--	\$--	\$--	\$--
From dividends	\$0.09	\$0.17	\$0.16	\$0.22	\$0.15	\$0.08
From capital gains	\$--	\$--	\$--	\$--	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--	\$--
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$0.09</b>	<b>\$0.17</b>	<b>\$0.16</b>	<b>\$0.22</b>	<b>\$0.15</b>	<b>\$0.08</b>
<b>Net Assets , end of period</b>	<b>\$24.13</b>	<b>\$23.19</b>	<b>\$24.39</b>	<b>\$21.98</b>	<b>\$18.98</b>	<b>\$17.78</b>

<sup>(1)</sup> This information is derived from the Fund's interim financial report and 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)

	Six months ended June 30 2016	2015	2014	2013	2012	2011
Total Net Asset Value (000's) <sup>(1)</sup>	\$105,346	\$100,434	\$100,510	\$82,763	\$63,681	\$59,749
Number of units outstanding <sup>(1)</sup>	4,366,194	4,330,034	4,121,188	3,765,817	3,350,067	3,356,859
Management expense ratio <sup>(2)</sup>	1.73%	1.73%	1.73%	1.73%	1.74%	1.74%
Management expense ratio before waivers or absorptions <sup>(3)</sup>	1.81%	1.81%	1.81%	1.81%	1.82%	1.82%
Trading expense ratio <sup>(4)</sup>	0.04%	0.02%	0.01%	0.05%	0.04%	0.05%
Portfolio turnover rate <sup>(5)</sup>	10.87%	16.80%	9.01%	28.43%	22.26%	25.69%
Net Asset Value per unit	\$24.13	\$23.19	\$24.39	\$21.98	\$19.01	\$17.80

<sup>(1)</sup> This information is provided as at June 30 or 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.

- (3) 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.
- (4) 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.
- (5) 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 1.60%.

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

Approximately 13.4% of the management fees were used to pay for portfolio management services, with the remainder of the fees being allocated to custodial services, marketing, technology and Manager-Trustee operating expenses.

### PAST PERFORMANCE

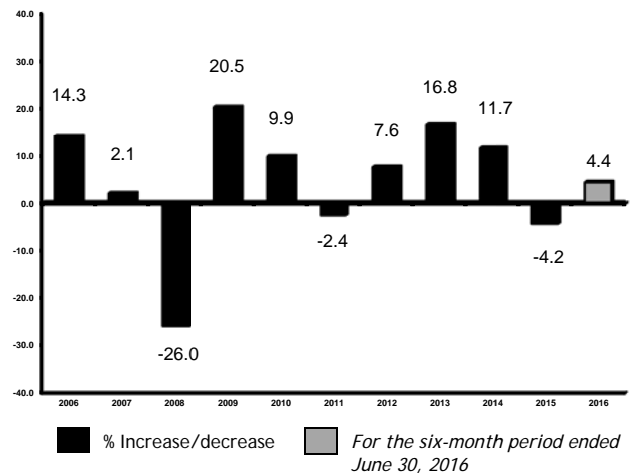
#### General

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.

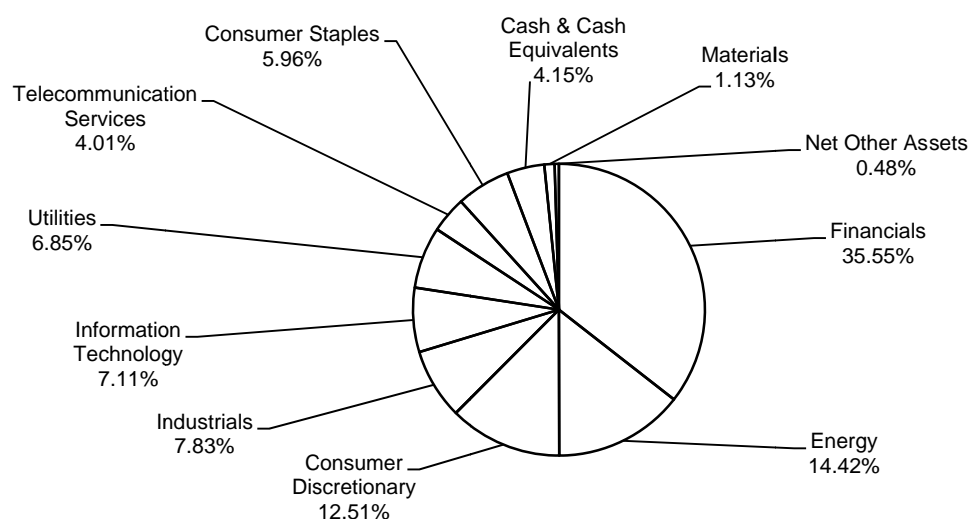
The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Please remember that how the Fund has performed in the past does not necessarily indicate how it will perform in the future.

### Year-by-Year Returns

The bar chart shows the Fund's performance for each of its past 10 financial years and illustrates how the Fund's performance has changed for the 6-month period ended June 30, 2016 and 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.



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



## Top 25 Holdings

Security Name	Percentage of Net Asset Value
Toronto-Dominion Bank	6.77%
Royal Bank of Canada	4.62%
Bank of Nova Scotia	4.62%
Brookfield Asset Management Inc., Class A	3.93%
Canadian National Railway Co.	3.51%
Enbridge Inc.	3.33%
Brookfield Infrastructure Partners LP	3.25%
Intact Financial Corp.	3.08%
Dollarama Inc.	2.75%
JPMorgan Chase & Co.	2.47%
Boyd Group Income Fund	2.19%
Visa Inc.	2.18%
TJX Cos., Inc.	2.14%
Microsoft Corp.	2.12%
Waste Connections Inc.	2.09%
Fortis Inc.	2.08%
Gildan Activewear Inc.	2.05%
Rogers Communications Inc.	2.04%
Walgreens Boots Alliance Inc.	2.01%
Wells Fargo & Co.	2.01%
TELUS Corp.	1.97%
TransCanada Corp.	1.92%
Loblaw Cos., Ltd.	1.90%
DH Corp.	1.85%
Manulife Financial Corp.	1.85%
<b>Total Net Assets (000's)</b>	<b>\$105,346</b>

The top 25 holdings represent approximately 68.73% of the total net assets of the Fund.

The summary of investment portfolio of the Fund is as at June 30, 2016 and may change due to the Fund's ongoing portfolio transactions. Updates are available quarterly.

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