2016

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2016

Offered by Educators Financial Group
Portfolio Adviser: Beutel, Goodman & Company Ltd., Toronto, Ontario

Educators Balanced 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 Balanced Fund (the "Fund") is to provide a less volatile and more stable growth of assets by investing in a balanced asset mix of short-term fixed income securities, common and preferred shares, index participation units such as Standard & Poor's Depositary Receipts, and bonds. The Fund invests primarily in securities of Canadian governments and corporations. The asset mix is varied depending on the outlook for the economy and financial markets. There is no pre-determined percentage mix of securities.

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, 2016.

Results of Operations

For the twelve-month period ending December 31, 2016, the Fund provided a return of 8.96%, versus a Benchmark return of 8.55%. The Benchmark comprises 40% FTSE TMX Canada Universe Bond Index, 35% S&P/TSX Composite Total Return Index, 12% S&P 500 Index (Canadian$) and 13% MSCI EAFE Total Return Index (Canadian$) (the "Benchmark"). Note that investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in Benchmark returns.

The Fund's net assets increased by 11.8% to $202.2 million at the end of December 2016, up from $180.8 million at the end of December 2015.

The Beutel Goodman Balanced portfolio achieved a positive return in the one year ending December 31, 2016, and outperformed its blended performance benchmark on a net of fees basis. Added value came from an underweight position in fixed income and overweight in equities, particularly the impact for much of the year of an overweight in Canadian equities, which was the best performing developed market in 2016. In addition, the Fund's fixed income, U.S. and international equity components outperformed their respective indices over the year.

The year started off in a state of pessimism with thoughts of recession, and contagion from a weakening Chinese economic outlook. Positive economic data and further central bank stimulus served to reverse the early year trends until the results of the British referendum on membership in the European Union caught markets completely off guard. Immediate market reaction to Brexit was visceral, with a massive flight to quality trade that sent stocks plummeting, bond yields spiraling down, gold up, oil down, the euro and pound freefalling and the U.S. dollar appreciating. Some relative calm returned to the market as it became clear that it will be a long and winding path for Great Britain to exit the European Union. A great deal of market reaction to the referendum result reversed and attention then shifted to economic data releases, central bank think and the U.S. election.

Once again, the polls and the markets got the results incorrect and the Donald Trump presidential election victory was mostly a shock. The first reaction in the early hours after it looked like Trump would win was the risk-off safe haven flow that most had predicted, reflecting the uncertainty of a Trump presidency. Sentiment quickly shifted as the markets embraced Trump's promises of massive debt-financed infrastructure spending and tax cuts - believing that the campaign promises would be enacted as laid out thereby leading U.S. economy out of economic malaise with strong growth and higher inflation.

There was also hope that a Republican controlled presidency and Congress would end the gridlock of the past several years. In a repeat of the extreme volatility of May 2013, bond yields increased rapidly in the days following the election from repressed and oversold levels to levels more in line with fair value given the economic backdrop. Prior to the election, U.S. economic data was improving, but the market was more focussed on the election uncertainty rather than the data so there was also some catch up being played during the bond market sell-off. Stock markets and the U.S. trade-weighted dollar were also strong post-election. Markets enter 2017 with visions of growth, inflation and rate hikes dancing in their heads.

A continued recovery for oil was a main story in the Canadian market. Prior to the Brexit vote, the benchmark WTI price had steadily moved up from this year's low of $33 to just over $50. After the Brexit vote, oil prices came under pressure, but the Energy sector was able to hold on to a good portion of its gains. A major catalyst for gains later in the period was an agreement by the Organization of the Petroleum Exporting Countries (OPEC) to cut production. After falling under $44 in November on signs of dissension among OPEC members, oil prices then rose after the agreement was announced on November 30, to end the year just below $54.

The Canadian equity component of the Fund underperformed the return of the S&P/TSX Composite Index slightly for the year. While sector weighting effects added value slightly over the period, this was offset by negative effects from stock selection. In spite of being underweight, the sector allocation of the two top performing sectors, Materials and Energy, which returned 41% and 35% respectively over the period, added value primarily due to a lack of exposure to Health Care. Stock selection in Energy was the largest detractor to performance. A lack of exposure to the overvalued pipelines earlier in the period detracted. In addition, stock specific issues weighed on the Fund's energy holdings. Cameco declined in the period on weakness in the uranium price and the overhang of an ongoing tax dispute with the CRA and Ensign detracted over the period, prior to being sold in the first quarter due to reduced upside potential. Selection in Materials detracted, primarily due to a lack of exposure to gold and precious metals in the first half of the year and an overweight exposure to the fertilizers.

The portfolio's U.S. component outperformed significantly over the period, primarily due to stock selection, but with positive effects from sector allocation as well. In spite of negative effects from an underweight Energy and an overweight in Health Care, sector allocation added value due to overweights in Industrials, Financials and Telecommunications and an underweight in Consumer Discretionary. The largest contribution to stock selection came from Industrials, as Parker Hannifin, Ingersoll-Rand and Caterpillar outperformed significantly over the period. Selection in Health care added value as holdings in Baxter, Baxalta, Merck & Co and Johnson & Johnson all had double digit returns over the period, significantly outperforming the negative return of the sector. Selection in Energy added value due to the Fund's single holding in the sector, Halliburton.

The international component produced a positive return, significantly outperforming the negative return of the benchmark. Added value came primarily from stock selection, while sector allocation slightly added value. On a sector allocation basis, added value came from overweights in Materials and Industrials and underweight positions in Consumer Discretionary, Financials and Utilities, which outweighed negative effects from an underweight Energy and overweights in Consumer Staples and Telecommunications. Stock selection in Consumer Staples was the largest contributor to performance over the period, primarily due to Familymart, the Japanese convenience store operator. It outperformed many of its peers and the Index on its inclusion in the Nikkei 225, with the associated fund repositioning, and was also helped by a strong Japanese yen. In Industrials the largest contribution came from Konecranes, the Finnish industrial crane manufacturer, which added significant value after announcing and receiving unconditional approval from the U.S. and conditional approval from the European Union to acquire Terex's Materials Handling and Port Solutions business. Positive stock selection in Health Care was due to the Fund's holding in Merck KGaA, the German health care and specialty chemical company, which added significant value on a string of solid quarterly results, particularly in its Life Science business following the completion of the Sigma Aldrich acquisition.

For the one year period under review, the FTSE TMX Canada Bond Universe Index increased 1.66% on a total return basis. The Corporate, Provincial and Municipal sectors outperformed the Index while the Federal sector underperformed. Yields increased across the Canadian yield curve over the period, with the largest movement occurring in the long area of the curve. Corporate credit spreads tightened over the period, with the yield spread of the FTSE TMX Canada All Corporate Index versus the FTSE TMX Canada Government Bond Index decreasing by approximately 26 basis points. More recently, most new issues were well over-subscribed, came with little or no concession to secondary spreads, and performed well in the after-market. The strong demand for new issues spilled over into the secondary market and helped to tighten spreads. Corporate spread performance was also helped by positive business sentiment and strong stock market performance post the U.S. election.

The fixed income component added value over the period. Credit strategy added value, as corporate credit spreads narrowed significantly during the year, which led the corporate sector to strongly outperform both the provincial and federal sectors. The Fund was considerably overweight corporates during the year. In addition, corporate security selection contributed positively, with Energy and Infrastructure, where we have most of our credit exposure, finishing among the top performing corporate sectors during the year. Negative effects came from the Fund's choice of provincial exposure and the duration of the portfolio relative to the index and how the fund was positioned along the yield curve.

Recent Developments

By year end, a good proportion of pro-growth sentiment had been brought forward. Anticipation of fiscal stimulus and regulatory relief has raised earnings expectations and/or expanded multiples across all but the most defensive, interest-sensitive areas of the market. The risk in this situation is that valuations run ahead of reality or fail to discount the less favourable consequences of accelerated growth such as inflation and higher capital costs. At present, this is the case with some resource stocks that have moved up well ahead of any U.S. policy or spending announcements. We continue to take a longer-term view in these situations, reviewing the valuations of our current positions and candidate investments against a commodity pricing environment that is truly sustainable in terms of fundamentals of supply and demand.

Valuations for the Fund's domestic and foreign holdings in the Industrial, Consumer, Health Care, Financial, Information Technology and Telecom sectors are not stretched and continue to offer attractive upside potential. While many have had good performance of late, from a valuation perspective, most are just catching up to the improved business conditions after having lagged in 2016 on an excess of caution. As always, the portfolio manager will continue to execute their disciplined investment process, selling holdings that reach their full business value and reinvesting proceeds into stocks that meet strict quality and return criteria.

From a fixed income perspective, the portfolio manager remains cautious on the Canadian economy and has concerns over where growth and leadership will come from. The main engine of economic growth in Canada for the past several years has been related to the housing market, which could slow given new mortgage rules. With high levels of consumer debt, it is not clear how much the economy can rely on the consumer to drive economic growth especially with rising interest rates. Therefore economic leadership will likely have to come from a stronger U.S. economy, firmer commodity prices and/or infrastructure spending. As an additional concern, anti-trade and "Buy America" policies, as well as differences in carbon regulations, could also disadvantage the Canadian industry versus that of the U.S. With that backdrop, Canada and the U.S. continue on diverging paths for monetary policy. The Federal Reserve has tightened twice, whereas the Bank of Canada is more likely to ease or at the very least keep the overnight rate at its current 0.50% level for a lengthy period of time. While the Federal Reserve has finally entered its tightening phase, the portfolio manager believes that this phase will be unlike any other in history. First, this tightening phase will likely be, as indicated by the Federal Reserve, gradual and data dependent. Second, the terminal rate will likely be lower than in previous tightening cycles mostly attributable to aging demographics and reduced productivity.

The fixed income component is neutral duration versus the benchmark, but is looking for opportunities to shorten duration. The Fund is positioned in the short-end of the curve for the Bank of Canada to remain on hold or ease. Projected roll return versus that of the Index remains positive. The Fund is positioned underweight Government of Canada bonds, overweight corporates, and slightly overweight provincials. The portfolio manager believes that we are late in the credit cycle, that corporate leverage is creeping up and credit metrics are deteriorating. The Fund's defensive and safe haven strategy for corporates becomes even more important, especially as the corporate market becomes vulnerable to credit events.

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

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 Beutel Goodman American Equity Fund, Class I; Beutel Goodman International Equity Fund, Class I; and Beutel Goodman Small Cap Fund, Class I, all of which are funds managed by the Fund's portfolio adviser.

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

The Fund's Net Assets per Unit (1)

	Year ended December 31				
	2016	**2015**	**2014**	**2013**	**2012**
Net Assets, beginning of year	$17.11	$17.16	$16.38	$16.35	$15.81
Increase (decrease) from operations:					
Total revenue	$0.53	$0.51	$0.50	$0.60	$0.51
Total expenses, including transaction costs [excluding distributions]	$(0.34)	$(0.34)	$(0.33)	$(0.35)	$(0.32)
Realized gains (losses) for the period	$0.55	$0.31	$0.39	$1.93	$0.20
Unrealized gains (losses) for the period	$0.80	$(0.22)	$0.61	$(0.44)	$0.34
Total increase (decrease) from operations (2)	$1.54	$0.26	$1.17	$1.74	$0.73
Distributions:					
From net investment income (excluding dividends)	$--	$--	$0.01	$0.12	$0.02
From dividends	$0.19	$0.15	$0.16	$0.17	$0.18
From capital gains	$0.34	$0.18	$0.23	$1.41	$--
Return of capital	$--	$--	$--	$--	$--
Total Annual Distributions (3)	$0.53	$0.33	$0.40	$1.70	$0.20
Net Assets , end of year	$18.11	$17.11	$17.16	$16.38	$16.33

(1) 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.

(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.

Ratios and Supplemental Data (based on Net Asset Value)

	Year ended December 31				
	2016	**2015**	**2014**	**2013**	**2012**
Total Net Asset Value (000's) (1)	$202,168	$180,771	$171,914	$152,046	$136,187
Number of units outstanding (1)	11,162,886	10,565,315	10,017,434	9,280,357	8,327,242
Management expense ratio (2)	1.93%	1.93%	1.93%	1.90%	1.90%
Management expense ratio before waivers or absorptions (3)	1.98%	1.98%	1.98%	1.98%	1.99%
Trading expense ratio (4)	0.01%	0.01%	0.01%	0.15%	0.05%
Portfolio turnover rate (5)	82.03%	104.56%	45.75%	207.27%	99.68%
Net Asset Value per unit	$18.11	$17.11	$17.16	$16.38	$16.35

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

(2) 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 1.75%.

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

Approximately 13.7% 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

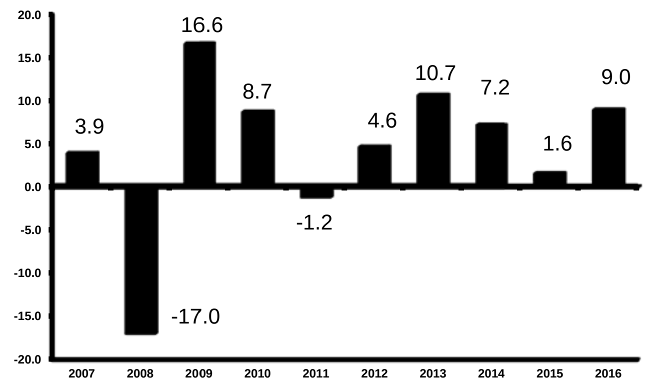
General

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 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.



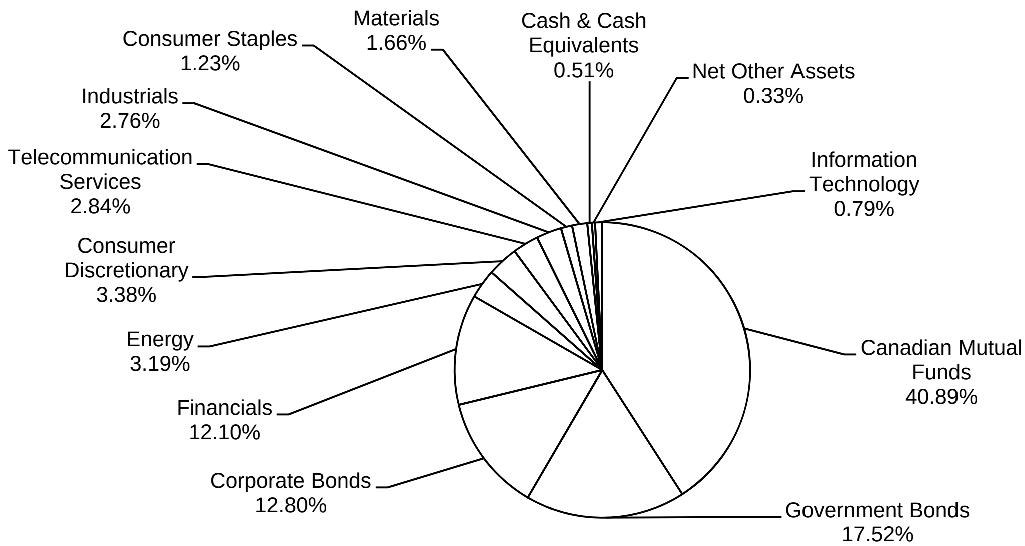
Annual Compound Returns

The following table compares the historical annual compound returns of the Fund with the performance of the blended Benchmark index comprised as follows: 40% FTSE TMX Canada Universe Bond Index, which is a broad measure of the total return of Canadian bonds that mature in more than one year, 35% 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, 12% S&P500 Index (Canadian$), a stock market index based on the market capitalizations of 500 large companies having common stock listed on the New York Stock Exchange, and 13% MSCI EAFE Total Return Index (Canadian$) (MSCI Index).

	Educators Balanced Fund (%)	FTSE TMX Bond Index (%)	S&P/ TSX Index (%)	S&P500 Index (CDN$) (%)	MSCI Index (%)	Blended Index (%)
Past 10 years	4.03	4.79	4.72	8.47	2.67	5.30
Past 5 years	6.56	3.22	8.25	21.21	13.08	7.66
Past 3 years	5.87	4.61	7.06	17.67	6.82	7.29
Past year	8.96	1.66	21.08	8.62	-2.00	8.55

The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

SUMMARY OF INVESTMENT PORTFOLIO (Based on Net Asset Value)



Top 25 Holdings

Security Name	Coupon Rate	Maturity Date	Percentage of Net Asset Value
Beutel Goodman International Equity Fund, Class I			19.69%
Beutel Goodman American Equity Fund, Class I			18.82%
Toronto-Dominion Bank			2.78%
Royal Bank of Canada			2.77%
Beutel Goodman Small Cap Fund, Class I			2.38%
Rogers Communications Inc.			1.98%
Bank of Nova Scotia			1.93%
Cenovus Energy Inc.			1.50%
Magna International Inc.			1.31%
Brookfield Asset Management Inc.			1.27%
Canadian Imperial Bank of Commerce			1.17%
Canadian Natural Resources Ltd.			1.16%
Province of Ontario	4.00%	June 2, 2021	1.15%
Canadian Government Bond	2.75%	December 1, 2048	1.05%
Province of Ontario	3.50%	June 2, 2024	1.04%
Province of Ontario	2.80%	June 2, 2048	1.01%
Canada Housing Trust No. 1	1.95%	June 15, 2019	0.99%
Agrium Inc.			0.98%
Great-West Lifeco Inc.			0.98%
Canadian Tire Corp., Ltd., Class A			0.97%
Canadian National Railway Co.			0.95%
Manulife Financial Corp.			0.92%
Province of Ontario	2.90%	December 2, 2046	0.88%
TELUS Corp.			0.86%
Province of Ontario	2.10%	September 8, 2018	0.82%
Total Net Assets (000's) ………………………………………………………………………			**$202,168**

The top 25 holdings represent approximately 69.36% of the total net assets of the Fund.

The summary of investment portfolio of the Fund is as at December 31, 2016 and may change due to the Fund's ongoing portfolio transactions. Updates are available quarterly. Information about the holdings of the Beutel Goodman 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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