

2016

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2016

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

Educators Bond 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 Bond Fund (the "Fund") is to earn a high rate of income return by investing, directly or indirectly, primarily in fixed-income securities of Canadian governments and corporate issuers. Currently, the Fund invests exclusively in the Beutel, Goodman Income Fund (the "BG Income Fund"), which in turn invests primarily in fixed income securities of Canadian government and corporate issuers. While investments in foreign fixed income securities are permitted, this is not a key strategy for the BG Income Fund, which focusses on creating a high quality portfolio diversified across Government of Canada, provincial government and corporate 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 0.91%, versus the FTSE TMX Canada Universe Bond Index (the "Benchmark") return of 1.66%. 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 13.5% to \$10.1 million at the end of December 2016, up from \$8.9 million at the end of December 2015.

It was a volatile year that saw interest rates end the year where they had started, but in the interim there was a wild ride of sentiment swings and black swan events. The Fund underperformed the FTSE TMX Canada Bond Universe Index for 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 mix of provincial ownership and slightly negative contributions from duration and curve positioning.

The year started off in a state of pessimism with thoughts of recession, and contagion from a weakening Chinese economic outlook. Interest rates fell and credit spreads widened. 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. Credit spreads were wider causing the greatest impact on the financial sector. 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 focused 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.

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.

Recent Developments

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 Fund 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 beta events. The portfolio manager has resisted the urge to relax their disciplined credit standards to gain extra basis points and are not enticed to chase yield at the expense of the proper evaluation of credit risk

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

Until such time as the Fund reaches a sufficient asset size to achieve appropriate portfolio diversification, the portfolio adviser intends to invest in I-Class units of the portfolio adviser's Income Fund (the "Underlying Fund"), another mutual fund managed by the portfolio adviser which has substantially similar investment objectives and strategies to the Fund.

The portfolio adviser invested almost all of the Fund's net assets in the Underlying Fund, as discussed above and in the Fund's disclosure documents. The Fund was not involved in any related party transactions other than as disclosed above.

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	\$9.93	\$10.06	\$9.78	\$10.26	\$10.35
Increase (decrease) from operations:					
Total revenue	\$0.29	\$0.32	\$0.32	\$0.32	\$0.38
Total expenses, including transaction costs [excluding distributions]	\$(0.13)	\$(0.13)	\$(0.13)	\$(0.13)	\$(0.13)
Realized gains (losses) for the period	\$0.08	\$(0.02)	\$(0.07)	\$(0.10)	\$0.01
Unrealized gains (losses) for the period	\$(0.19)	\$(0.11)	\$0.37	\$(0.37)	\$(0.08)
Total increase (decrease) from operations ⁽²⁾	\$0.05	\$0.06	\$0.49	\$(0.28)	\$0.18
Distributions:					
From net investment income (excluding dividends)	\$0.17	\$0.19	\$0.20	\$0.20	\$0.26
From dividends	\$--	\$--	\$--	\$--	\$--
From capital gains	\$0.04	\$--	\$--	\$--	\$0.01
Return of capital	\$--	\$--	\$--	\$--	\$--
Total Annual Distributions ⁽³⁾	\$0.21	\$0.19	\$0.20	\$0.20	\$0.27
Net assets, end of year	\$9.82	\$9.93	\$10.06	\$9.78	\$10.26

⁽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⁾	\$10,140	\$8,903	\$8,868	\$10,308	\$14,338
Number of units outstanding ⁽¹⁾	1,032,691	896,328	881,460	1,053,598	1,397,723
Management expense ratio ⁽²⁾	1.25%	1.25%	1.25%	1.26%	1.26%
Management expense ratio before waivers or absorptions	1.25%	1.25%	1.25%	1.26%	1.26%
Trading expense ratio ⁽³⁾	--%	--%	--%	--%	--%
Portfolio turnover rate ⁽⁴⁾	6.90%	9.17%	6.05%	6.96%	7.55%
Net Asset Value per unit	\$9.82	\$9.93	\$10.06	\$9.78	\$10.26

⁽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 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 1.10%.

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

Approximately 21.1% 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

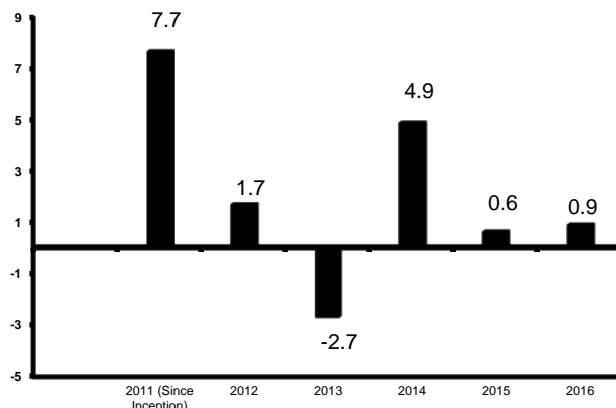
General

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.



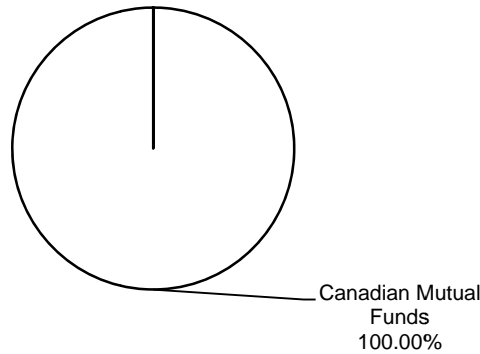
Annual Compound Returns

This table compares the compound returns of the Fund since inception with the Benchmark, the FTSE TMX Canada Universe Bond Index (FTSE TMX Bond Index), which is a broad measure of the total return of Canadian bonds that mature in more than one year.

	Educators Bond Fund (%)	FTSE TMX Bond Index (%)
Past 10 years	N/A	4.79
Past 5 years	1.06	3.22
Past 3 years	2.12	4.61
Past year	0.91	1.66

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 Holdings

Security Name	Coupon Rate	Maturity Date	Percentage of Net Asset Value
Beutel Goodman Income Fund – Class I			100.00%
Total Net Assets (000's)			\$10,140

Top 25 Holdings of Underlying Fund

Security Name	Coupon Rate	Maturity Date	Percentage of Net Asset Value
Government of Canada	2.75%	December 1, 2048	3.21%
Canada Housing Trust	1.95%	June 15, 2019	2.59%
Government of Canada	0.75%	September 1, 2021	2.08%
Government of Canada	0.50%	November 1, 2018	2.02%
Government of Canada	1.50%	June 1, 2026	1.77%
Government of Canada	1.75%	September 1, 2019	1.71%
Canada Housing Trust	1.25%	June 15, 2021	1.64%
Province of British Columbia	6.35%	June 18, 2031	1.34%
Province of Alberta	2.35%	June 1, 2025	1.08%
Government of Canada	0.50%	March 1, 2022	0.93%
Government of Canada	1.50%	March 1, 2017	0.82%
Province of Alberta	2.20%	June 1, 2026	0.79%
Province of British Columbia	3.20%	June 18, 2044	0.59%
Government of Canada	0.50%	February 1, 2019	0.54%
CPPIB Capital Inc.	1.10%	June 10, 2019	0.52%
Province of Manitoba	4.40%	September 5, 2025	0.42%
Province of British Columbia	2.25%	March 1, 2019	0.37%
Province of Manitoba	3.25%	September 5, 2029	0.34%
Province of Alberta	3.50%	June 1, 2031	0.30%
Province of Manitoba	4.60%	March 5, 2038	0.23%
Province of British Columbia	2.85%	June 18, 2025	0.19%
Province of Alberta	3.90%	December 1, 2033	0.10%
Province of Manitoba	3.75%	September 5, 2033	0.09%
Province of Manitoba	4.70%	March 5, 2050	0.07%
Province of British Columbia	4.30%	June 18, 2042	0.03%
Total Net Assets (000's)			\$697,636

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.

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