

# 2017

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2017

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

### Educators Dividend 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 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 Dividend Fund (the "Fund") is to provide investors with a stable and growing stream of after-tax income with long-term capital growth by investing primarily in dividend-producing preferred and common shares of Canadian corporations, aiming to take advantage of the favourable tax treatment generally available to individual Canadians who receive dividend income from Canadian corporations. To achieve lower volatility through diversification, the Fund also invests in debt securities. Non-Canadian securities are limited to no more than 25% of the Fund's assets. Foreign currency exposure may or may not be hedged. The fundamental investment objective of the Fund may not be changed without the prior approval of the unitholders.

### 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, 2017.

### Results of Operations

For the year ending December 31, 2017, the Fund provided a return of 11.44%, versus the S&P/TSX 60 Index (the "Benchmark") return of 9.78%. 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 18.9% to \$135.8 million at the end of December 2017, up from \$114.2 million at the end of December 2016.

During the period, despite solid economic data in Canada in 2017 that included gains in the labour market, improved manufacturing activity and overall domestic economic activity, performance of Canadian equities did not fully reflect these positive developments. As a result, Canadian equities underperformed U.S. and EAFE

stocks, as the S&P/TSX 60 Index rose 9.8%. Weaker investor confidence in Canadian stocks (relative to other markets) can be attributed to external factors, such as the risk that the North American Free Trade Agreement (NAFTA) may be terminated as well as domestic drivers, such as market fears of overheating in the housing market. However, despite issues at Home Capital Group Inc. and challenges in the real estate market, improvements in economic fundamentals helped the Bank of Canada (BoC) change its policy guidance. The BoC increased its policy rate twice in 2017, benefiting the Financials sector as Canadian banks reacted by increasing their mortgage rates. Meanwhile, Energy sector stocks underperformed. Despite an agreement to cut oil production among members of the Organization of the Petroleum Exporting Countries and several other countries, oil prices were range-bound for most of 2017 and rallied toward the end of the year. However, Canadian Energy sector equities did not fully benefit from this uptick in oil prices. The Materials sector had solid performance as both precious metals and base metals, particularly copper, posted gains.

During the period, the fund reported strong relative performance. An underweight exposure to the Energy sector and overweight allocation to the Consumer Discretionary sector contributed to the Fund's performance, as did security selection in the Information Technology, Utilities and Financials sectors. Top individual contributors included holdings in Brookfield Infrastructure Partners L.P., Dollarama Inc. and Visa Inc. Brookfield Infrastructure Partners L.P. has a growing capital backlog, which should drive high single-digit organic growth, supplemented by acquisitions. Dollarama Inc. reported strong operating results, aided by better-than-expected same-store sales, improved margins, cost discipline and new store development. Visa Inc. benefited from strong global growth and a recent acquisition of Visa Europe, as well as operating cost discipline that drove margin expansion.

Individual detractors from the Fund's performance included Cineplex Inc., Whitecap Resources Inc., and Vermilion Energy Inc. Cineplex Inc. reported weak results during the first half of the year as the result of low box office numbers and fears of market disruption from video-on-demand competitors. Shares of the company's U.S. peers also came under pressure from lower than forecasted box office results. Whitecap Resources Inc. underperformed amid negative sentiment towards oil and gas equities in 2017. The company's business model, as a dividend-paying exploration and production firm with a focus on growth by acquisition, came under pressure from volatile commodity prices. Vermilion Energy Inc. shares declined as a result of negative sentiment towards oil and gas equities. As a global oil and gas company, it continued to benefit from diversification and is one of a few producers in a position to raise its dividend.

The portfolio manager added several new positions to the Fund over the year, including Activision Blizzard Inc., CCL Industries Inc., Costco Wholesale Corp., Morneau Shepell Inc., and Bank of Montreal. A new holding in Texas Instruments Inc., a high-quality global semiconductor company with a dominant and increasing market share, was also added. The portfolio manager likes the company's diversified business mix, stable long-term contracts and its high level of visibility with respect to revenue, profitability, and free cash flow growth. The company also has a shareholder-friendly capital deployment strategy, with 100% of free cash flow returned in the form of dividends and buybacks. Existing holdings of The Bank of Nova Scotia, Enbridge Inc., Franco-Nevada Corp., Keyera Corp., and Manulife Financial Corp. were all increased for their attractive risk/reward profiles.

The Fund's positions in DH Corp., Wells Fargo & Co., Inter Pipeline Inc., Peyto Exploration & Development Corp., RioCan REIT, Gildan Activewear Inc., and Walgreens Boots Alliance Inc. were eliminated in 2017. Boardwalk REIT was also exited amid concerns about the multi-family residential market in Alberta. These concerns were on both the supply side (a glut of new supply coming in late 2016 and early 2017) and the demand side (negative interprovincial migration and higher unemployment). Holdings in Brookfield Infrastructure Partners L.P., Loblaw Companies Ltd., Maxar Technologies Ltd., Rogers Communications Inc., and Boyd Group Income Fund were reduced given their higher valuations. Dollarama Inc. was also trimmed to realize some of the profit given its strong stock price performance. While the position was reduced, Dollarama remains a significant holding, as the portfolio manager believes that the company's strategy and business

model will help protect it from the threat of online retailers.

### **Recent Developments**

Looking ahead, the Canadian economy may not be as strong as it was over the past year, but business and consumer sentiment remains high, providing the driver for further job gains and discretionary income growth. These factors should translate into ongoing earnings growth for domestic equities. The direction of fiscal, trade and political policy in North America remains uncertain, which could add to market volatility, but the central banks remain cautious in their respective paths towards interest rate increases.

Reflecting this outlook, the Fund remains biased toward high-quality businesses in the Financials, Industrials and consumer-related sectors, which are able to grow free cash flow and dividend streams. The portfolio manager believes that the prospect of higher North American interest rates is unlikely to bring an end to the strong market for dividend stocks, which should remain attractive to investors searching for safe havens and greater yield.

### **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 maximum amount of BMO common shares held during the period in the Fund was approximately 2.8% and at the end of the period was approximately 2.8%.

*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>2017</u> <i>(Dec 31)</i>	<u>2016</u> <i>(Dec 31)</i>
<i>Total Brokerage Fees</i>	\$29,969	\$39,586
<i>Brokerage Fees Paid to BMO Capital Markets</i>	\$2,008	\$1,810

In 2017 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 past five years.

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

	Year ended December 31				
	2017	2016	2015	2014	2013
Net Assets, beginning of year	\$25.86	\$23.19	\$24.39	\$21.98	\$19.01
<b>Increase (decrease) from operations:</b>					
Total revenue	\$0.73	\$0.68	\$0.72	\$0.69	\$0.64
Total expenses, including transaction costs [excluding distributions]	\$(0.49)	\$(0.44)	\$(0.44)	\$(0.43)	\$(0.36)
Realized gains (losses) for the period	\$0.74	\$0.58	\$(0.55)	\$(0.08)	\$0.13
Unrealized gains (losses) for the period	\$1.99	\$2.01	\$(0.77)	\$2.36	\$2.81
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$2.97</b>	<b>\$2.83</b>	<b>\$(1.04)</b>	<b>\$2.54</b>	<b>\$3.22</b>
<b>Distributions:</b>					
From net investment income (excluding dividends)	\$--	\$--	\$--	\$--	\$--
From dividends	\$0.08	\$0.16	\$0.17	\$0.16	\$0.22
From capital gains	\$--	\$--	\$--	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$0.08</b>	<b>\$0.16</b>	<b>\$0.17</b>	<b>\$0.16</b>	<b>\$0.22</b>
<b>Net Assets , end of year</b>	<b>\$28.74</b>	<b>\$25.86</b>	<b>\$23.19</b>	<b>\$24.39</b>	<b>\$21.98</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				
	2017	2016	2015	2014	2013
Total Net Asset Value (000's) <sup>(1)</sup>	\$135,781	\$114,203	\$100,434	\$100,510	\$82,763
Number of units outstanding <sup>(1)</sup>	4,725,267	4,415,490	4,330,034	4,121,188	3,765,817
Management expense ratio <sup>(2)</sup>	1.73%	1.73%	1.73%	1.73%	1.73%
Management expense ratio before waivers or absorptions <sup>(3)</sup>	1.81%	1.81%	1.81%	1.81%	1.81%
Trading expense ratio <sup>(4)</sup>	0.02%	0.04%	0.02%	0.01%	0.05%
Portfolio turnover rate <sup>(5)</sup>	12.77%	19.37%	16.80%	9.01%	28.43%
Net Asset Value per unit	\$28.74	\$25.86	\$23.19	\$24.39	\$21.98

<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.

- (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 13.3% 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**

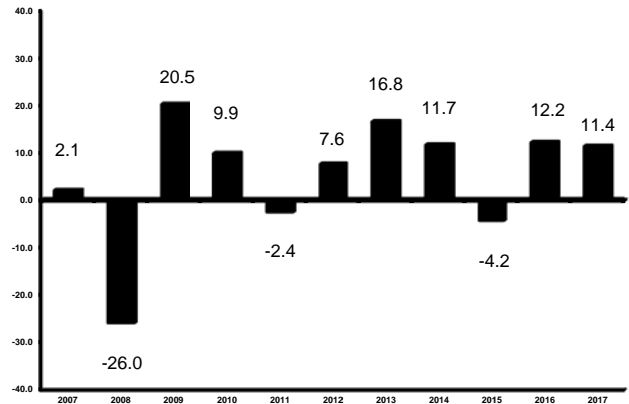
**General**

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.



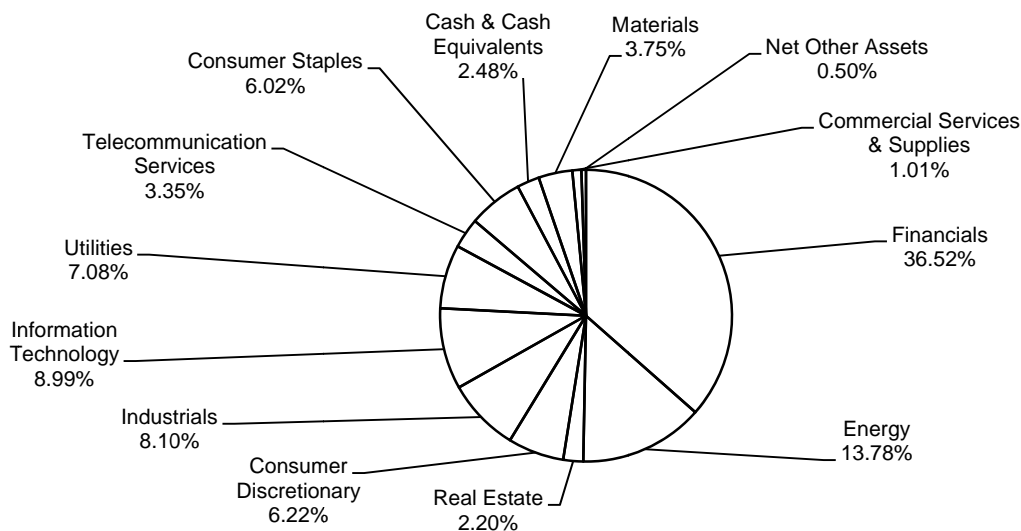
**Annual Compound Returns**

This table compares the historical annual compound returns of the Fund with the Benchmark, the S&P/TSX 60 Index, a stock index of 60 large companies listed on the Toronto Stock Exchange.

	Educators Dividend Fund (%)	S&P/TSX 60 Index (%)
Past 10 years	4.88	4.73
Past 5 years	9.35	9.34
Past 3 years	6.21	7.11
Past year	11.44	9.78

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	Percentage of Net Asset Value
Bank of Nova Scotia	7.00%
Toronto-Dominion Bank	6.98%
Royal Bank of Canada	6.63%
Brookfield Asset Management Inc.	4.27%
Enbridge Inc.	4.04%
Canadian National Railway Co.	3.69%
Manulife Financial Corp.	3.47%
Brookfield Infrastructure Partners LP	2.80%
Bank of Montreal	2.76%
Intact Financial Corp.	2.72%
JPMorgan Chase & Co.	2.69%
Microsoft Corp.	2.65%
TransCanada Corp.	2.64%
Dollarama Inc.	2.59%
Visa Inc.	2.50%
Waste Connections Inc.	2.32%
Suncor Energy Inc.	1.79%
Alimentation Couche-Tard Inc.	1.78%
Rogers Communications Inc.	1.73%
Fortis Inc.	1.70%
BCE Inc.	1.62%
Costco Wholesale Corp.	1.60%
Apple Inc.	1.53%
TJX Cos Inc.	1.50%
Franco-Nevada Corp.	1.49%
<b>Total Net Assets (000's)</b> .....	<b>\$135,781</b>

The top 25 holdings represent approximately 74.49% of the total net assets of the Fund.

The summary of investment portfolio of the Fund is as at December 31, 2017 and may change due to the Fund's ongoing portfolio transactions. Updates are available quarterly.

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