

# 2017

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2017

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

### Educators Money Market 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 Money Market Fund (the "Fund") is to produce a high level of interest income consistent with the goal of preserving invested capital. The Fund invests primarily in Canadian government treasury bills and other high quality short-term Canadian corporate debt instruments of not more than one year to maturity, selecting a variety of investment maturities based on the interest rate outlook, analyzing the credit-worthiness of various issuers and achieving a diversified portfolio by allocating investments among government and corporate securities. 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 0.20%, versus the FTSE TMX Canada 91 Day Treasury Bill Index (the "Benchmark") return of 0.56%. Investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in index returns.

The Fund's net assets decreased by 14.6% to \$14.6 million at the end of December 2017, down from \$17.1 million at the end of December 2016.

At the end of 2017, the Fund held 28.4% of its investments in a combination of R-1 high-rated corporate paper; R-1 high-rated bank-sponsored asset-backed commercial paper; and bankers' acceptances with the balance of the portfolio invested in Government of Canada Treasury Bills. The term of the portfolio has remained in-line with that of the Benchmark and averaged 90 days over the year.

In the first half of 2017, the Bank of Canada (BoC) continued with a very dovish stance on the monetary outlook for Canada; however, in mid-June, the BoC rattled markets by suggesting that the 2015 rate cuts resulted in reducing the excess capital in the economy. With an abrupt change in tone from the first quarter, markets saw bond yields rise significantly, the Canadian dollar strengthen, and expectations for rates to increase as soon as July 2017, which came to fruition. In the third quarter, the second rate increase by the BoC caught markets off guard, as it was not anticipated. Subsequently, the BoC moved to a more cautious tone in both its October 25<sup>th</sup> and December 6<sup>th</sup> policy announcements.

According to the BoC's October Monetary Policy Report (MPR), real GDP is forecasted to grow 3.1% in 2017, an increase from the 2.8% as noted in the July MPR report. Growth was revised up, mainly because of unexpected strength in household consumption and business investment in the second quarter. Headline CPI inflation accelerated to 2.1% in November from 1.4% in October, due to a surge in gasoline, food, and apparel prices. Core inflation also increased to a nine-month high of 1.8%, year-over-year. Until November, persistently weak inflation had been the main arguments against further interest-rate increases. However, with the trend reaching the 2% target, economists continue to monitor these monthly readings to assess whether this trend will remain.

Canadian employment numbers continue to surprise the markets. The jobless rate fell to 5.7% from 5.9% in December, the lowest since 1976, according to Bloomberg. Canada has added 422,500 jobs for the full year, which is the best annual increase since 2002.

### Recent Developments

On December 6<sup>th</sup>, the Bank of Canada kept the overnight rate at 1%, which was widely expected by the markets, yet, many economists were puzzled by the dovish tone to the statement especially with the recent

run of strong jobs data and record low unemployment rate. The Canadian dollar depreciated by a full cent, versus the U.S. dollar, after the December 6<sup>th</sup> announcement. Following the December release of strong inflation, retail sales, and employment data, Government of Canada treasury yields increased substantially fully pricing-in one rate hike by March, with a 45% chance of a rate hike estimated for January (compared to only 26%, after the December 6<sup>th</sup> policy meeting). Investors began anticipating multiple interest rate-hikes from the BoC by the end of 2018, with the caveat that the Bank remains in data dependent mode and is awaiting further clarifications on the NAFTA negotiations and on the outcome of the new OSFI mortgage rules that came into effect January 1, 2018. After leaving the Fed funds target rate unchanged at 1-1.25% on November 1<sup>st</sup>, the FOMC did raise their policy rates by 25 basis point on December 13<sup>th</sup>, in what was the third rate hike for 2017. The Summary of Economic Projections (SEP) were bullish, reflecting higher GDP, lower unemployment and unchanged core inflation, suggesting three rate hikes in 2018. The Fed is also expected to continue to unwind Quantitative Easing, as first noted in the third quarter.

The portfolio manager continues to focus on selecting securities with maturities that present the most attractive yields and diversifying the portfolio to include non-government short-term investments, which provide a yield in excess of treasury bills, while maintaining a duration that is in-line with that of the Benchmark.

Within the Fund, the portfolio manager continues to take advantage of yield-enhancing opportunities, as they arise. The Fund will continue to hold between 25-30% in a combination of commercial paper, provincial guaranteed paper, bank-sponsored asset-backed commercial paper, and banker's acceptances to complement the Fund's holdings in Government of Canada treasury bills.

#### ***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**

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 period	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
<b>Increase (decrease) from operations:</b>					
Total revenue	\$0.08	\$0.06	\$0.08	\$0.10	\$0.11
Total expenses [excluding distributions]	\$(0.06)	\$(0.05)	\$(0.06)	\$(0.06)	\$(0.06)
Realized gains (losses) for the period	\$--	\$--	\$--	\$--	\$--
Unrealized gains (losses) for the period	\$--	\$--	\$--	\$--	\$--
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$0.02</b>	<b>\$0.01</b>	<b>\$0.02</b>	<b>\$0.04</b>	<b>\$0.05</b>
<b>Distributions:</b>					
From net investment income (excluding dividends)	\$0.02	\$0.01	\$0.02	\$0.04	\$0.05
From dividends	\$--	\$--	\$--	\$--	\$--
From capital gains	\$--	\$--	\$--	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$0.02</b>	<b>\$0.01</b>	<b>\$0.02</b>	<b>\$0.04</b>	<b>\$0.05</b>
<b>Net Assets , end of period</b>	<b>\$10.00</b>	<b>\$10.00</b>	<b>\$10.00</b>	<b>\$10.00</b>	<b>\$10.00</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)

	Six-months ended June 30				
	2017	2016	2015	2014	2013
Net Asset Value (000's) <sup>(1)</sup>	\$14,624	\$17,129	\$19,434	\$20,163	\$20,931
Number of units outstanding <sup>(1)</sup>	1,462,438	1,712,916	1,943,435	2,016,314	2,093,122
Management expense ratio <sup>(2)</sup>	0.58%	0.53%	0.53%	0.59%	0.59%
Management expense ratio before waivers or absorptions <sup>(3)</sup>	0.62%	0.61%	0.61%	0.62%	0.62%
Trading expense ratio <sup>(4)</sup>	N/A	N/A	N/A	N/A	N/A
Net Asset Value per unit	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00

<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.

**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, the Manager-Trustee is entitled to receive a fee payable monthly, calculated daily, and based on the Net Asset Value of the Fund, at a maximum annual rate of 0.55%.

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

Approximately 19.5% 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**

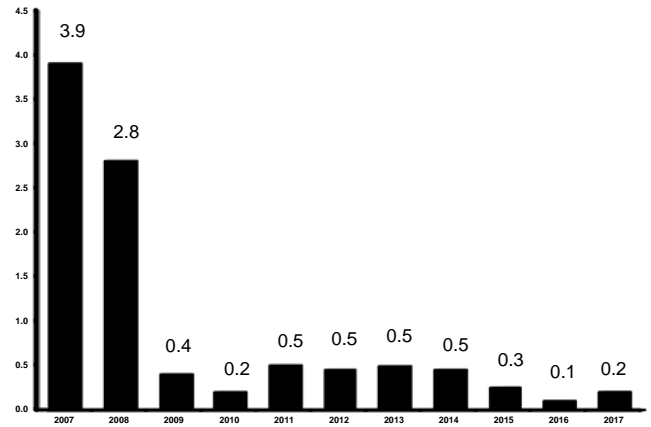
**General**

The Fund’s performance information shown assumes that all distributions made by the Fund in the 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.

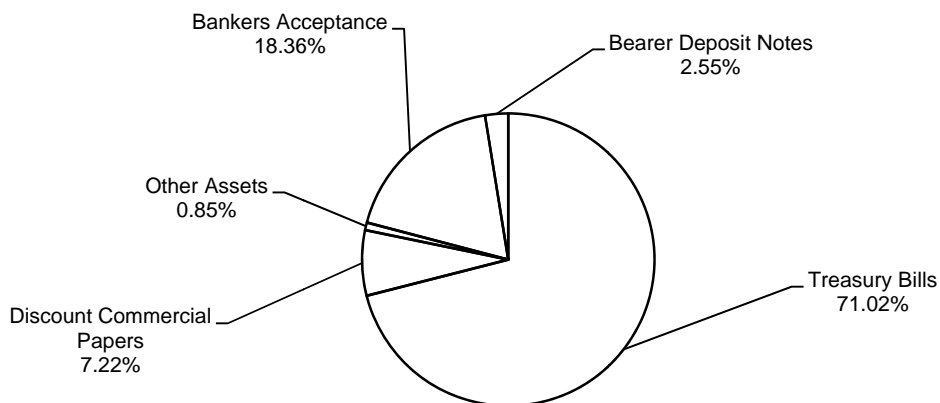
**Year-by-Year Returns**

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.





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



**Top Holdings**

Security Name	Coupon Rate	Maturity Date	Percentage of Net Asset Value
Canada Treasury Bill	1.05%	April 5, 2018	15.81%
Canada Treasury Bill	0.98%	January 25, 2018	13.35%
Canada Treasury Bill	1.14%	May 3, 2018	11.74%
Canada Treasury Bill	1.02%	March 22, 2018	11.51%
Bank of Montreal	1.48%	February 26, 2018	4.42%
Canada Treasury Bill	1.00%	March 8, 2018	4.15%
Canadian Imperial Bank of Commerce	1.31%	March 5, 2018	4.09%
OMERS Finance Trust	1.33%	January 16, 2018	4.09%
Canada Treasury Bill	1.12%	June 14, 2018	3.26%
Clarity Trust	1.38%	February 26, 2018	3.13%
Canada Treasury Bill	1.16%	June 28, 2018	2.99%
Canada Treasury Bill	1.14%	May 31, 2018	2.72%
Bank of Nova Scotia	1.46%	May 1, 2018	2.65%
Toronto-Dominion Bank	1.52%	May 23, 2018	2.55%
Royal Bank of Canada	1.43%	May 7, 2018	2.14%
Canada Treasury Bill	1.25%	July 26, 2018	1.97%
Royal Bank of Canada	1.52%	June 12, 2018	1.76%
Toronto-Dominion Bank	1.28%	January 8, 2018	1.70%
Bank of Nova Scotia	1.29%	January 8, 2018	1.60%
Canada Treasury Bill	1.05%	May 17, 2018	1.57%
Canada Treasury Bill	0.94%	February 22, 2018	1.16%
Canada Treasury Bill	0.96%	January 8, 2018	0.79%
<b>Total Net Assets (000's)</b>			<b>\$14,624</b>

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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