

2017

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2017

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

Educators U.S. Equity Fund
(formerly Educators North American Diversified 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 U.S. Equity Fund (the "Fund") is to provide long-term capital growth by investing primarily in common shares of established U.S. corporations and other equity securities. The Fund may hedge all, or a portion of, the U.S. or other foreign currency exposure to protect the Fund's capital. 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 period January 1 to September 14, 2017 the Fund provided a return of 1.81%, versus a Benchmark return of 6.12%. The Benchmark comprises 55% S&P/TSX Composite Total Return Index, 40% S&P 500 Total Return Index (U.S.\$) and 5% MSCI 1750 U.S. Small Cap Index (the "Benchmark"). For the period from September 15 to December 31, 2017 the Fund provided a return of 8.93%, versus the S&P 500 Total Return Index (CAD\$) return of 10.10%. 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 3.8% to \$99.5 million at the end of December 2017, up from \$95.9 million at the end of December 2016.

On September 15, 2017, the unitholders of the Fund approved a change to the fundamental investment objective of the Fund. This change converted the Fund from a mutual fund investing in Canada and the United States equity securities, to a fund investing primarily in United States equity securities. In conjunction with this change, the name of the Fund has been changed to

"U.S. Equity Fund" and Beutel Goodman & Company Ltd. has been appointed as the Fund's portfolio adviser. The sale of the securities held by the Fund prior to the investment objective change and the purchase of the initial securities to meet the changed investment objective were completed by September 18, 2017. A capital gain of \$3.48 per unit was distributed to unitholders on September 29, 2017. The Management Expense Ratio has remained unchanged and portfolio turnover rate has increased for the year.

As central banks tightened monetary policy and the U.S. Federal Reserve started to unwind its balance sheet, markets took their cue more from economic data than from central bank extraordinary stimulus. Global growth was buoyant, global PMIs trended higher, the U.S. labour market was robust, and consumer spending was resilient. The one piece of economic data that continued to disappoint was the lack of wage growth and inflation. While 2016 was all about headline risk (Brexit, Trump election), markets ignored the headlines for the most part in 2017. The concern that the Euro zone would lay the seeds of its own destruction dissipated as the numerous European elections failed to deliver victories for the far right, euro skeptic parties. While failing to deliver a new health care bill, the Trump Administration was successful in getting its tax reform passed and threats of government sequestration and breaching the debt ceiling were kicked down the road into 2018. The U.S. Federal Reserve followed through on hiking the Federal Funds rate three times, in line with their projections and commencing the unwind of their balance sheet. The Fed believes that the labour market has continued to strengthen and that economic activity has been rising at a solid rate. Inflation remains a thorn in the central bank's side, as the Fed noted that on a 12-month basis, both overall inflation and inflation ex-food and energy have declined and are running below 2%. Additionally, market-based measures of inflation compensation remain low and measures of longer-term inflation expectations are little changed. The Fed mostly

stuck to its cautious language concerning the pace of future rate hikes.

The Fund underperformed the S&P 500 C\$ Index on a net of fees basis for the September 16 to December 31, 2017 period in which the Portfolio Manager managed the mandate. Underperformance for the period was primarily due to stock selection. Information Technology and Consumer Staples were the largest detractors with respect to stock selection. In Information Technology, Oracle was weak following disappointing results and Symantec declined after reporting results and lowering forward guidance. In Consumer Staples, CVS Health announced they would acquire managed care company Aetna, an enormous deal which will fundamentally change the make-up of the company and its business model to a state where determining its long-term business value is exceedingly difficult. The portfolio manager exited the position over the period. Major contributors for the quarter included AutoZone in Consumer Discretionary, outperforming as the perceived threat of online competition dissipated, in addition to optimism that the U.S. tax reform bill would pass, benefitting AutoZone's business mix. Parker Hannifin in Industrials outperformed after reporting results that included posting strong organic growth, in addition to expanding margins. Financial holdings Ameriprise and American Express were also main contributors over the period. Ameriprise posted good results, mainly due to net new money inflows and benefitted from strong markets generally, as Financials continued to rally in the index. American Express gained on improving sentiment and business fundamentals, as the Costco loss has now been annualized. In Health Care, AmerisourceBergen was a positive contributor, after rebounding from the previous quarter with stabilizing industry-pricing trends. Further outperformance came from our Materials holding LyondellBasell. Sector weighting effects were slightly positive due to a lack of exposure to Utilities and an overweight in Consumer Staples. An overweight positioning in Telecommunications Services and underweight in Information Technology offset these positive effects.

Recent Developments

The Portfolio Manager believes that the best form of risk control is being aware of what you own and what it is worth. The only factors one can control to protect investor capital on the downside and deliver superior long-term returns are: finding great franchises to own over the long-term ensure you're paying the right price for them, and maintaining the sell discipline to lock-in gains when they are fully valued. The Portfolio Manager continues to spend all of its time searching for the next great franchise.

Given the relatively slow but steady economic recovery thus far, share price returns have run ahead of revenue and earnings growth, leaving the outperformance to be driven by significant margin expansion and/or valuation multiple expansion. Finding new opportunities that meet the Portfolio Manager's high hurdle rate remains a challenge. While there are still large swathes of the market that are currently too expensive relative to fundamental values, the Portfolio Manager is starting to see wider dispersions in share price performance that is leading to some potential opportunities for the fund down the road. Stocks that face near term headwinds have tended to deviate further from their intrinsic values, while richer multiple 'can't miss' stocks have tended to garner even richer multiples. While sparse, there remains a growing pool of potential great franchises that meet the Portfolio Manager's high and strict investment guidelines and return thresholds.

Given recent portfolio actions, sector weights shifted slightly over the period. Due to trimming Teradyne on valuation, the Fund's exposure to the technology sector decreased slightly. The addition of Harley-Davidson as a new position increased the Fund's overweight to the Consumer Discretionary sector. The Fund also continued to build its position in Campbell Soup in Consumer Staples, but this was offset by a full sale of CVS. Sector weights continue to reflect bottom-up fundamentals, rather than specific investment calls on sectors.

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 each year ended December 31 for the past five years.

The Fund's Net Assets per Unit ⁽¹⁾

	Year ended December 31				
	2017	2016	2015	2014	2013
Net Assets, beginning of year	\$20.18	\$18.56	\$19.13	\$17.81	\$15.04
Increase (decrease) from operations:					
Total revenue	\$0.45	\$0.40	\$0.43	\$0.43	\$0.38
Total expenses, including transaction costs [excluding distributions]	\$(0.44)	\$(0.41)	\$(0.42)	\$(0.41)	\$(0.34)
Realized gains (losses) for the period	\$4.34	\$0.94	\$0.12	\$1.20	\$1.42
Unrealized gains (losses) for the period	\$(2.27)	\$0.67	\$(0.68)	\$0.09	\$1.32
Total increase (decrease) from operations ⁽²⁾	\$2.08	\$1.60	\$(0.55)	\$1.31	\$2.78
Distributions:					
From net investment income (excluding dividends)	\$--	\$--	\$--	\$--	\$--
From dividends	\$--	\$--	\$--	\$--	\$0.01
From capital gains	\$3.61	\$--	\$--	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--
Total Annual Distributions ⁽³⁾	\$3.61	\$--	\$--	\$--	\$0.01
Net Assets , end of year	\$18.59	\$20.18	\$18.56	\$19.13	\$17.81

⁽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				
	2017	2016	2015	2014	2013
Total Net Asset Value (000's) ⁽¹⁾	\$99,517	\$95,876	\$94,454	\$101,688	\$93,476
Number of units outstanding ⁽¹⁾	5,353,332	4,750,945	5,089,059	5,316,626	5,249,793
Management expense ratio ⁽²⁾	1.93%	1.93%	1.93%	1.93%	1.90%
Management expense ratio before waivers or absorptions ⁽³⁾	1.98%	1.98%	1.98%	1.98%	1.98%
Trading expense ratio ⁽⁴⁾	0.10%	0.11%	0.15%	0.15%	0.21%
Portfolio turnover rate ⁽⁵⁾	125.26%	70.96%	64.04%	97.70%	135.21%
Net Asset Value per unit	\$18.59	\$20.18	\$18.56	\$19.13	\$17.81

⁽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 14.6% 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

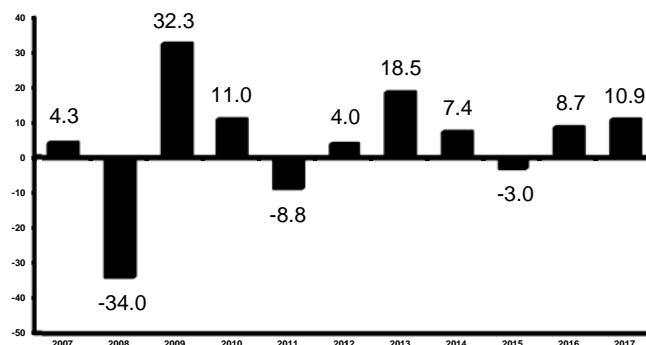
General

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.



Annual Compound Returns

The following table compares the historical annual compound returns of the Fund with the performance of the S&P 500 Total Return Index (CAD\$), a stock market index based on the market capitalizations of 500 large companies having common stock listed on the New York stock exchange.

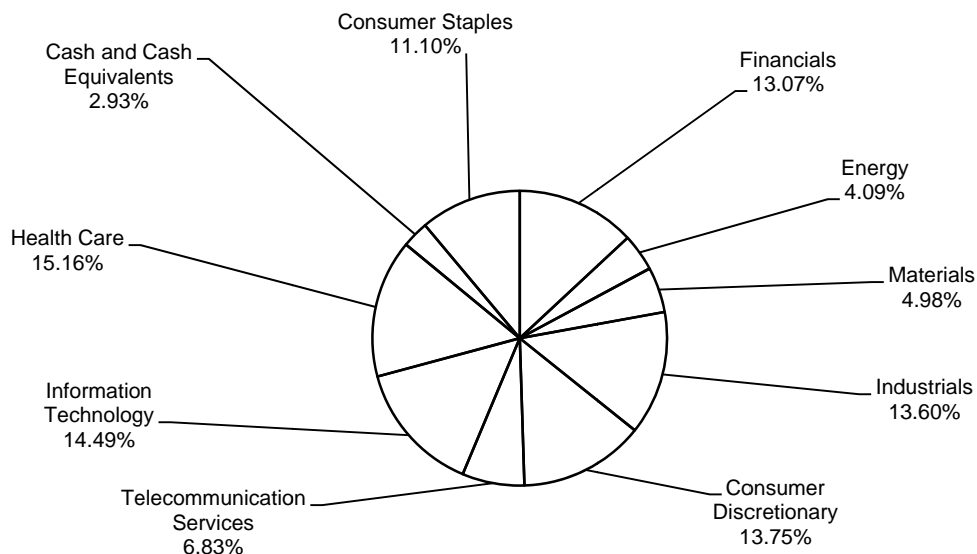
	Educators U.S. Equity Fund (%)	S&P500 Index (CAD\$) (%)
Past 10 years	3.17	11.03
Past 5 years	8.29	21.35
Past 3 years	5.38	14.30
Past year	10.91	13.80

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.

As noted in the results of operations above the objective of the Fund was changed during the year. Had the new objective been in effect throughout the reporting period the fund's performance could have been different, and such differences could have been material.



SUMMARY OF INVESTMENT PORTFOLIO (Based on Net Asset Value)



Top 25 Holdings

Security Name	Percentage of Net Asset Value
Vulcan Materials Co.	6.83%
Parker-Hannifin Corp.	6.26%
AmerisourceBergen Corp.	6.07%
AutoZone Inc.	5.84%
Ingersoll-Rand PLC	5.65%
Oracle Corp.	5.56%
Amdocs Ltd.	5.26%
Kellogg Co.	5.12%
LyondellBasell Industries NV	4.98%
Omnicom Group Inc.	4.94%
Eli Lilly & Co.	4.92%
American Express Co.	4.56%
Halliburton Co.	4.09%
Ameriprise Financial Inc.	3.70%
Campbell Soup Co.	3.53%
Harley-Davidson Inc.	2.99%
Symantec Corp.	2.70%
Wells Fargo & Co.	2.50%
Canada Treasury Bill	2.49%
Procter & Gamble Co.	2.45%
JPMorgan Chase & Co.	2.32%
Merck & Co Inc.	1.72%
Baxter International Inc.	1.45%
Allegion PLC	1.00%
Johnson & Johnson	0.99%
Total Net Assets (000's)	\$99,517

The top 25 holdings represent approximately 97.92% 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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