2018

INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended June 30, 2018

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

Educators Balanced Fund

This interim management report of fund performance contains financial highlights but does not contain either the interim financial report or annual financial statements of the investment fund. You can get a copy of the interim financial report or 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 proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Results of Operations

The Fund's net assets increased by 2.4% to $251.9 million at the end of June 2018, up from $245.9 million at the end of December 2017.

Investment Performance

For the six-month period ending June 30, 2018 (the 'period'), the Educators Balanced Fund – Class A Series provided a return of 0.68%, versus a Benchmark return of 2.13%. 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"). Investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in Benchmark returns.

During the period, the Educators Balanced Fund (the 'Fund') achieved a positive return, but underperformed its blended performance benchmark on a relative basis. Underperformance in U.S. equities was the primary detractor over the period, while the fixed income, Canadian, and international equity components added value.

The Bank of Canada (BoC) hiked the overnight rate by 25 basis points in the first quarter and kept the overnight rate unchanged at 1.25% in the second quarter. The BoC believes that economic data is supportive of its outlook for growth of 2% in the first half of 2018. The BoC also noted that while recent data points to some upside for the U.S. economy, ongoing uncertainty about trade policies is dampening global business investment, and stresses are developing in some emerging market economies. Changes to the BoC's outlook statement were perceived as hawkish, with the removal of the word "cautious" in its approach to removing stimulus, though the wording was replaced by a "gradual approach" to policy adjustments, guided by incoming data. In particular, the BoC will continue to assess the economy's sensitivity to interest rate movements and the evolution of economic capacity. The BoC also removed the phrase *"some monetary accommodation will still be needed to keep inflation on target."* Some market analysts are interpreting the change to mean that the BoC is setting the stage for a rate hike in July, as inflation is running above the BoC's 2% target.

The U.S. Federal Reserve (Fed) hiked the federal funds rate by 25 basis points in the first quarter and another 25 basis points in the second quarter, to a target range of 1.75-2%. The Fed believes that the labour market has continued to strengthen and that economic activity has been rising at a solid rate. The Fed expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labour market conditions, and inflation near the symmetric 2% objective over the medium-term. The Fed removed its previous wording that *"the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run."* That wording had been in place since rate hikes started in December 2015. In a press conference that took place after the meeting of the Federal Open Market Committee *(FOMC)* in June, Federal Reserve Chairman Jerome Powell stated that the sentence was removed because a year from now, the funds rate should be where the Fed thinks the neutral rate will be (2.75%).

Oil prices were volatile throughout the first half of the year. WTI traded below $60 amid inventory reports, and over $74 due to expectations of market undersupply resulting from production declines in Venezuela and the resumption of U.S. sanctions on Iran. An agreement by the Organization of the Petroleum Exporting Countries (OPEC) for modest output increases strengthened prices, as the market tried to balance itself between growing production in the U.S. and core OPEC countries, and declining production elsewhere in the world. Oil prices were further supported by the U.S.'s push for its allies to cut oil imports from Iran. At the end of the six-month period, WTI was trading at $74.15.

With respect to the Canadian equity component's outperformance, added value was mainly attributable to stock performance in the Energy and Consumer sectors. The Fund also benefitted from having a zero weight in Utilities, the worst performing sector in the index. Information Technology and Industrials were a source of weakness relative to the benchmark. The largest contributor to performance came from our holding in Nutrien in Materials. Nutrien announced the sale of a strategic stake in SQM 'A' shares at a premium to market, which will be utilized for debt-reduction and share buy-backs, and also benefitted from an index rebalance in the U.S., as Monsanto was delisted after being acquired by Bayer. In Consumer Staples, Metro was a strong contributor, as the business continues to perform well. The acquisition of Jean Coutu closed in May, with only modest divestitures requested by the Competition Bureau. Across the rest of the Fund, gains in TD Bank, Magna, Cameco, and Canadian Natural Resources made strong contributions to performance. The largest negative contribution to performance was from Bank of Nova Scotia in the Financials sector. Bank of Nova Scotia announced a large acquisition in the second quarter with equity financing that impacted the share price.

The U.S equity component's underperformance for the quarter was primarily the result of stock selection, with additional negative attribution from an underweight position in Information Technology and overweight in Telecommunications, Consumer Staples, and Industrials. Specific contributors to weak performance were software providers Oracle and Symantec in the Information Technology space, following intra-quarter earnings and corporate communication that dampened near-term visibility (despite both reporting solid earnings and cash flow). Parker Hannifin and Flowserve also detracted from results. Consumer names Campbell Soup and Harley-Davidson underperformed over the period. Campbell Soup lowered its full-year earnings outlook following the announcement of weakness in its Campbell Fresh business and unanticipated challenges in its newly-acquired snacks business, Snyder Lance. News of the removal of Campbell's CEO also pressured the shares. Harley-Davidson shares continued to struggle, with negative price action influenced by the company's plan to move some production for non-U.S. demand overseas in response to proposed European tariff announcements.

The international equity component outperformed the EAFE Index over the period. Positive effects from a large underweight in Financials outweighed the detraction from an overweight in Telecommunications. The Financials sector was the strongest positive contributor over the period, with Deutsche Boerse and DBS as strong contributors. DBS rallied on strong results and a special dividend announcement. Deutsche Boerse was trimmed after hitting its target and the remainder of the position was sold on risk reward. In Consumer Staples, Kao and FamilyMart were lead contributors, while Carlsberg and Unilever also outperformed. In Energy, TGS-Nopec posted a very strong return on the back of its results and was the lead contributor over the period. These positive effects were slightly offset by negative selection in Industrials and Materials. In Industrials, GEA and IMI detracted on disappointing results. Weak results continued to weight on GEA's stock, despite news that both the CEO and CFO would be replaced, mostly due to pressure from activists and other investors. In Materials, HeidelbergCement posted results that were softer than expectations. Weakness continued later in the period following its Capital Markets Day, which gave what some considered to be a muted longer-term forecast.

For the period the FTSE TMX Canada Universe Bond Index increased by 0.61% on a total return basis. The Corporate and Federal sectors outperformed the Index, returning 0.70% and 0.67% respectively. The Provincial sector underperformed the Index, returning 0.49%.

The fixed income component outperformed the FTSE TMX Canada Bond Universe Index for the period. Government security selection added value, mainly attributable to our overweight position in the western provinces of Alberta and BC, which outperformed their eastern counterparts (mainly Ontario and Quebec). A short duration position added value, as interest rates across the curve rose over the period. In addition, the Fund benefitted from the relative outperformance of corporates, both versus provincials, as well as the Fund's corporates versus other corporate sectors.

Recent Developments

With respect to fixed income, the path of interest rates in the near-term will likely be determined by the pace and magnitude of the withdrawal of monetary policy stimulus by the major central banks. This withdrawal is repricing yield curves and leading global interest rates higher. Additionally, central bank tightening has flattened the yield curve, as moves in the administered rates are felt more in the short-end of the curve. Both the BoC and the Fed are united in that they are both data-dependent, monitoring how consumers and businesses react to higher interest rates, and waiting to see if inflation will increase following strong conditions in the labour markets and underlying economies. The portfolio manager expects the Fed to hike interest rates two more times this year and the BoC most likely once, possibly twice. The BoC is likely to keep its overnight rate 50 basis points lower than the Fed in an effort to dampen any appreciation of the Canadian dollar. As we are late in this economic cycle, the bond markets will naturally start looking towards predicting the next recession. The yield curve generally moves from flat to inverted, then to steep, as expectations shift. Key in this analysis is determination of the terminal rate (the rate at which the central bank stops tightening). The portfolio manager believes that the next recession will be caused not by a bubble bursting (such as the great financial crisis), but that it will be more of a 'normal' recession caused mostly by the central banks overtightening, thereby squeezing economic growth.

While Canadian growth is expected to moderate after a robust 2017, it will likely be held up by a strong U.S. economy and by relatively robust and stable crude oil prices. While there is no doubt that the Canadian economy is currently running at full capacity, there are a few areas of concern for the economic forecast. As the BoC has repeatedly warned, consumer indebtedness is at very high levels. While a slowdown in the housing market will likely not lead to a rash of foreclosures in Canada (as it did in the U.S.), it will likely constrain consumer spending as mortgage payments take up a greater share of consumers' wallets. The portfolio manager's base case is for the continuation of relatively strong growth trends, steadily increasing inflation, and gradual central bank tightening. However, the outbreak of a global trade war has entered into the most likely outcome. The portfolio manager believes that NAFTA will not be abrogated outright, but negotiations will slow and be dragged out with the backdrop of elections in Mexico and the U.S. A tit-for-tat trade war, however, is a real risk to markets, especially as we do not believe that the risk is being fully priced-in. A full-blown trade war will likely lead to a decline in growth, supply chain disruptions, declines in business and consumer confidence, inflation, and a lower Canadian dollar. While this base case provides a constructive backdrop for credit spreads, the portfolio manager is mindful of the overall tightness of spreads currently (as credit metrics are deteriorating and leverage is creeping up), and of the potential harm to certain sectors from a trade war.

The fixed income component is positioned at a short duration versus the benchmark. The portfolio manager believes that as central banks have adjusted their biases to removing monetary policy stimulus, both through hiking interest rates and tapering QE and balance sheets, interest rates will likely increase in accordance. The Canadian bond market has fully priced-in a full tightening cycle by the BoC, (in line with expectations), so there are no opportunities for rates to increase significantly in the short end of the curve. The Fund is positioned for the yield curve to continue to flatten, as is reflective of tightening cycles. The Fund is overweight in corporate bonds and is maintaining a defensive and safe haven positioning. The Fund is underweight in Government of Canada bonds and is slightly underweight in provincial bonds.

With respect to equities, the current backdrop has been one of uncertainty due to heightened global trade tensions. In the potential event that a trade war escalates further and is sustained, 80 years of trade liberalization and efficiency gains could be lost, tariffs could increase considerably, and trade could decline. Extreme protectionism would result in economic losses as global trade slows. To date, the situation is fluid with plenty of uncertainty, fueling fears in the market.

The portfolio manager's bottom-up, stock-specific process identifies valuation opportunities in companies with resilient business models. Downside protection is ingrained in the process and mitigates risk, as stocks trading at a premium to business value are sold. When a tangible risk causes a material change in the fundamentals of a business, the portfolio manager's process requires a full review of the position. Owning a diversified group of high-quality companies gives confidence in the ability to capture upside potential and protect from downside risks.

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 manager.

In the first six months of 2018 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 six-month period and for the past five years. Currently Class I units of the Fund are not being offered to purchase.

Educators Balanced Fund – Class A Series – Net Assets per Unit (1)

Six months ended June 30		Year ended December 31				
	2018	2017	2016	2015	2014	2013
Net Assets, beginning of period	$19.62	$18.11	$17.11	$17.16	$16.38	$16.35
Increase (decrease) from operations:						
Total revenue	$0.17	$0.47	$0.53	$0.51	$0.50	$0.60
Total expenses, including transaction costs [excluding distributions]	($0.18)	$(0.36)	$(0.34)	$(0.34)	$(0.33)	$(0.35)
Realized gains (losses) for the period	$0.26	$0.36	$0.55	$0.31	$0.39	$1.93
Unrealized gains (losses) for the period	($0.11)	$1.18	$0.80	$(0.22)	$0.61	$(0.44)
Total increase (decrease) from operations (2)	$0.14	$1.65	$1.54	$0.26	$1.17	$1.74
Distributions:						
From net investment income (excluding dividends)	$--	$--	$--	$--	$0.01	$0.12
From dividends	$0.00	$0.07	$0.19	$0.15	$0.16	$0.17
From capital gains	$0.00	$0.08	$0.34	$0.18	$0.23	$1.41
Return of capital	$--	$--	$--	$--	$--	$--
Total Annual Distributions (3)	$0.00	$0.15	$0.53	$0.33	$0.40	$1.70
Net Assets, end of period	$19.76	$19.62	$18.11	$17.11	$17.16	$16.38

Ratios and Supplemental Data (based on Net Asset Value)

Six months ended June 30		Year ended December 31				
	2018	2017	2016	2015	2014	2013
Total Net Asset Value (000's) (4)	$251,886	$245,879	$202,168	$180,771	$171,914	$152,046
Number of units outstanding (4)	12,749,089	12,529,872	11,162,886	10,565,315	10,017,434	9,280,357
Management expense ratio (5)	1.87%	1.91%	1.93%	1.93%	1.93%	1.90%
Management expense ratio before waivers or absorptions (6)	1.87%	1.95%	1.98%	1.98%	1.98%	1.98%
Trading expense ratio (7)	0.01%	0.01%	0.01%	0.01%	0.01%	0.15%
Portfolio turnover rate (8)	42.40%	71.81%	82.03%	104.56%	45.75%	207.27%
Net Asset Value per unit	$19.76	$19.62	$18.11	$17.11	$17.16	$16.38

(1) This information is derived from the Fund's interim financial report and 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.

(4) This information is provided as at June 30 or December 31 of the year shown.

(5) 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.

(6) 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.

(7) 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.

(8) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio manager 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 manager, 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 1.65% for the Class A Series. The Class I Series is identical in all respects to the Class A Series, except that there is no management fee payable by the Fund in respect of the Class I units.

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

Approximately 12.2% of the total management fees collected 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

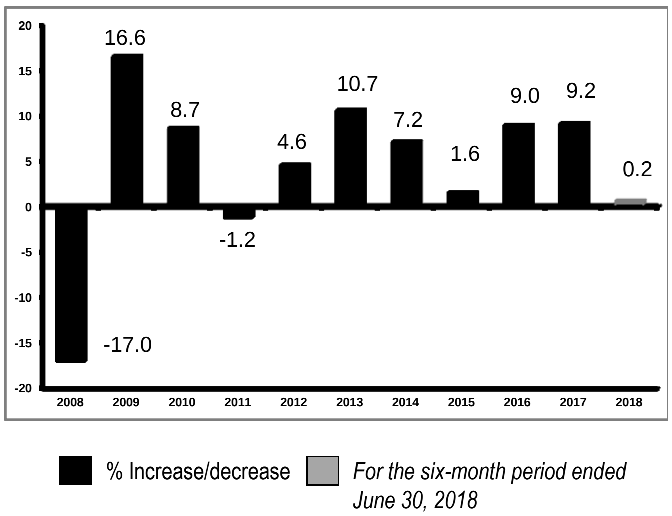
The Fund's performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund.

The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. The performance of different fund series may vary for a number of reasons, including differences in management fees and expenses. 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 the six-month period ended June 30, 2018 and 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 Returns – Class A Series



Annual Returns – Class I Series

Currently Class I units of the Fund are not being offered to purchase.

SUMMARY OF INVESTMENT PORTFOLIO
(Based on Net Asset Value)
As at June 30, 2018

Sector Mix	Percentage of Net Asset Value
Canadian Mutual Funds	38.57%
Government Bonds	15.52%
Corporate Bonds	13.78%
Financials	12.81%
Consumer Discretionary	3.27%
Industrials	3.04%
Telecommunication Services	2.90%
Consumer Staples	2.80%
Energy	2.48%
Materials	1.83%
Asset-Backed Securities	1.10%
Information Technology	0.83%
Cash and Cash Equivalents	0.88%
Net Other Assets	0.19%

Top 25 Holdings

Security Name	Percentage of Net Asset Value
Beutel Goodman International Equity Fund, Class I	19.27%
Beutel Goodman American Equity Fund, Class I	16.77%
Royal Bank of Canada	2.97%
Toronto-Dominion Bank	2.95%
Beutel Goodman Small Cap Fund, Class I	2.53%
Rogers Communications Inc.	2.16%
Canadian Government Bond, 2.75%, 12/01/2018	1.78%
Magna International Inc.	1.61%
Bank of Nova Scotia	1.50%
Nutrien Ltd.	1.49%
Brookfield Asset Management Inc.	1.46%
Metro Inc.	1.38%
Canadian Natural Resources Ltd.	1.35%
Province of Ontario, 2.90%, 06/02/2028	1.21%
Province of Ontario, 2.60%, 06/02/2025	1.07%
Canadian National Railway Co.	1.07%
Canadian Tire Corp. Ltd.	1.04%
Bank of Montreal	1.03%
Province of Alberta, 2.90%, 12/01/2028	0.97%
Canadian Government Bond, 1.25%, 09/01/2018	0.94%
Province of Quebec, 2.75%, 09/01/2028	0.92%
Great-West Lifeco Inc.	0.84%
Canadian Government Bond, 2.00%, 06/01/2028	0.83%
Open Text Corp.	0.83%
Royal Bank of Canada, 2.03%, 03/15/2021	0.83%
Total Net Assets (000's)	**$251,886**

The top 25 holdings represent approximately 68.80% of the total net assets of the Fund.

The summary of investment portfolio of the Fund is as at June 30, 2018 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

EDUCATORS FINANCIAL GROUP

2225 Sheppard Ave. East
Suite 1105
Toronto, Ontario M2J 5C2

Telephone: 416.752.6843
1.800.263.9541

Fax: 416.752.6649
1.888.662.2209

E-Mail: info@educatorsfinancialgroup.ca

Web: www.educatorsfinancialgroup.ca

Educators
FINANCIAL GROUP