

# 2018

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2018

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

### Educators Monthly Income 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 Monthly Income Fund (the "Fund") is to provide a consistent stream of monthly income and some capital appreciation by investing in a portfolio of fixed income, investment trust units and equity investments. A minimum of 6% and a maximum of 60% of the portfolio will be invested in fixed income securities, while a minimum of 40% and a maximum of 94% of the portfolio will be invested in Canadian equity securities. Non-Canadian securities are limited to no more than 30% 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 ended December 31, 2018.

### Results of Operations

The Fund's net assets decreased by 8.4% to \$59.8 million at the end of December 2018, down from \$65.3 million at the end of December 2017.

#### Investment Performance

For the year ending December 31, 2018 (the 'period'), the Educators Monthly Income Fund – Class A Series provided a negative return of 6.51%, versus a Benchmark return of negative 5.80%. The Benchmark comprises 70% S&P/TSX Composite Total Return Index, 27% FTSE TMX Canada Bond Universe Index and 3% FTSE TMX Canada 91 Day Treasury Bill Index. Investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in Benchmark.

Markets were volatile in 2018. Synchronized global growth was replaced with concerns of peak earnings and slowing growth, as central banks continued to reduce the accommodative nature of monetary policy. Rising risk premiums resulted in negative global equity market returns in 2018, including in Canada and the U.S.

The decline in the value of equities and commodities coincided with an increase in geopolitical and tariff-related tensions, less accommodative

monetary policy, and slower growth in China, which was partially associated with a crackdown on financial transactions outside the regular Chinese banking system (known as 'shadow banking').

The decline in stock prices was accompanied by continued growth in corporate earnings, resulting in significantly improved equity market valuations. With valuations now slightly below average, the portfolio manager believes the next move in share prices is dependent on continued growth in earnings and the level of interest rates.

Energy prices remain an important factor affecting corporate earnings. Global oil prices ended the year significantly lower than at the beginning of 2018. Despite some temporary setbacks, oil prices strengthened until the end of the third quarter, only to decline sharply in the fourth quarter. Prices were impacted by fears of slower global growth and increased oil production from Iran, following the provision of waivers (by the U.S.) to eight countries on Iran oil-related sanctions. Canadian heavy oil prices were extremely volatile throughout the period, with differentials against U.S. benchmarks expanding to their widest levels in response to transportation constraints; then collapsing to unsustainably narrow levels as companies reduced production and the capacity of crude by rail transportation increased.

The equity portfolio of the Fund underperformed its benchmark on a net of fees basis, during the period. The Fund's most economically sensitive holdings, particularly in the Consumer Staples and Communications sectors, detracted from performance. Additionally, the Fund's exposure to the Materials sector detracted, as weak performance from a mining company and a steel producer was only partially offset by the Fund's underweight position in this sector, relative to the Benchmark. However, the Fund benefited from strong stock selection in Healthcare, with holdings in U.S. pharmaceuticals. The Fund's U.S. Information Technology holdings in Microsoft and Visa contributed to performance, as did an above benchmark allocation to the sector. The Fund's holdings in Real Estate materially enhanced returns and included two holdings that were the subject of takeover bids. Strong relative performance as a result of the Fund's energy holdings, relative to the benchmark, was partially offset by an overweight position in this very weak sector, as oil prices declined during the year.

Within the Canadian fixed income market, corporate bonds underperformed the overall bond market during the year. On a ratings

basis, BBB-rated corporate bonds outperformed A-rated bonds. The fixed income portfolio benefitted from the additional risk premium earned in BBB-rated securities, as compared to higher-rated securities, which offset the negative effects of the spread widening on corporate bond performance. On a fixed income sector basis, the Securitization sub-sector enhanced the return of the Fund, as low issuance and market demand for high-quality subordinated asset backed securities remained high. The Infrastructure sub-sector underperformed the benchmark, as this sector is predominantly comprised of high-quality, high-rated, long duration bonds—which suffered as the yield curve rose. The portfolio's overweight position in this sub-sector, relative to its benchmark, detracted from performance. The Communications sub-sector also performed poorly during the year, as significant new issuance throughout the year impacted the valuations of secondary issues, leading the sub-sector to underperform other corporate sectors. The portfolio's overweight position in the Communications sub-sector, relative to the benchmark, detracted from performance.

Foreign exchange remains both a risk and an opportunity. The Canadian dollar declined over 8% against the U.S. dollar in 2018, resulting in positive currency translation for holdings with exposure to the U.S. dollar. The Fund hedges a portion of its currency exposure, maintaining the Fund's U.S. dollar exposure at approximately 10% of the Fund's NAV, to mitigate the impact of significant currency swings on performance.

The Fund's asset mix was shifted to a more conservative stance during the year. The Fund's holdings in equities were reduced, while the exposure to fixed income securities was increased. As of December 31, 2018, the Fund held 25.6% of its assets in Canadian fixed income and preferred shares, 70.4% in common stocks (54.4% in *Canadian stocks*, 16.0% in *U.S. stocks*) and 4.0% in Cash and equivalents. At the beginning of 2018, 19.4% of the Fund's assets were invested in Canadian fixed income, 78.7% in common stocks (64.1% *Canadian stocks*, 14.6% in *U.S. stocks*) and 1.9% in cash and equivalents. Early in the fourth quarter the Fund allocated 2.0% to the imaxx™ Short Term Bond Fund, in order to take advantage of the improved yield environment in short-term credit.

The geographic allocations within the equity portfolio are a function of the portfolio manager's bottom-up company selection process and resulted in an increase in exposure to U.S. equities, while Canadian stocks were reduced.

Valuations and quality characteristics have been emphasized in the portfolio. Individual stock valuation levels are of greater significance in a rising interest rate environment. The portfolio manager formally incorporated the principles of Responsible Investing into the security selection process at the beginning of 2018. Environmental, Social, and Governance (ESG) factors are considered part of the investment process, and contribute to the quality characteristics of the portfolio. There is a growing body of evidence that thoughtfully incorporating ESG considerations into security selection benefits long term risk-adjusted returns. Where possible, the investment team engages with companies to improve their ESG ratings, as opposed to simply selling a stock. In these circumstances, unitholders may benefit as the long term quality of the underlying investment is improved. Additionally, ongoing controversies (e.g. Johnson & Johnson, Facebook), demonstrate how

eliminating companies on an ESG basis can flag issues in a timely way. ESG screens frequently flag issues and concerns well ahead of the market.

The corporate weight of the fixed income portfolio and the concentration of BBB-rated securities decreased during the period. The portfolio managers took advantage of attractive valuations and liquidity to sell some corporate bonds, taking profit and reducing risk in the portfolio. The portfolio continued to remain overweight in corporate bonds, as compared to the benchmark, in order to benefit from the additional yield carry during the period.

### Recent Developments

Risks to global growth remain elevated. Given the potential binary outcomes of geopolitical events and the possibility of significant impact on stock markets, the portfolio manager shifted to a more conservative asset mix in 2018. They also believe that the Fund's quality characteristics and depth of diversification leave it well positioned to participate in potential returns, while managing geopolitical and economic uncertainties in both the long- and short-term. The equity portfolio of the Fund continues to be deeply diversified, exploiting equity opportunities throughout North America. The positioning of the fixed income portion of the Fund continues to place significant emphasis on quality, balance sheet strength, and liquidity, in order to enhance returns and provide downside protection during changing market conditions.

### 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 general economic, political and relevant market factors, such as interest rates, foreign exchange rates, equity and capital markets, and the general business environment, in each case assuming no changes to applicable tax or other laws or government regulation. Expectations and projections about future events are inherently subject to, among other things, risks and uncertainties, some of which may be unforeseeable. Accordingly, assumptions concerning future economic and other factors may prove to be incorrect at a future date.

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

On May 14, 2016, Foresters Financial, through Foresters Life Insurance Company, acquired 100 percent of the shares of Aegon Capital Management Inc.) and was renamed Foresters Asset Management Inc. ("FAM"). FAM the Fund's Portfolio Manager, is an indirect wholly-owned subsidiary of The Independent Order of Foresters, which is not a publicly listed company.

In 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 past five years. Currently Class I units of the Fund are not being offered to purchase.

#### Educators Monthly Income Fund – Class A Series – Net Assets per Unit <sup>(1)</sup>

	Year ended December 31				
	2018	2017	2016	2015	2014
Net Assets, beginning of period	\$10.33	\$10.12	\$9.92	\$10.29	\$9.96
<b>Increase (decrease) from operations:</b>					
Total revenue	\$0.31	\$0.33	\$0.29	\$0.30	\$0.33
Total expenses, including transaction costs [excluding distributions]	(\$0.15)	(\$0.15)	(\$0.15)	(\$0.16)	(\$0.15)
Realized gains (losses) for the period	\$0.44	\$0.27	\$--	\$0.41	\$0.04
Unrealized gains (losses) for the period	(\$1.27)	\$0.36	\$0.67	(\$0.39)	\$0.67
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>(\$0.67)</b>	<b>\$0.81</b>	<b>\$0.81</b>	<b>\$0.16</b>	<b>\$0.89</b>
<b>Distributions:</b>					
From net investment income (excluding dividends)	\$--	\$--	\$--	\$--	\$--
From dividends	\$0.16	\$0.16	\$0.14	\$0.14	\$0.18
From capital gains	\$0.45	\$0.02	\$--	\$0.12	\$--
Return of capital	\$--	\$0.42	\$0.46	\$0.34	\$0.46
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$0.61</b>	<b>\$0.60</b>	<b>\$0.60</b>	<b>\$0.60</b>	<b>\$0.64</b>
<b>Net Assets, end of period</b>	<b>\$9.07</b>	<b>\$10.33</b>	<b>\$10.12</b>	<b>\$9.92</b>	<b>\$10.29</b>

### Ratios and Supplemental Data (based on Net Asset Value)

	Year ended December 31				
	2018	2017	2016	2015	2014
Total Net Asset Value (000's) <sup>(4)</sup>	\$59,836	\$65,293	\$54,721	\$49,881	\$40,835
Number of units outstanding <sup>(4)</sup>	6,596,034	6,323,244	5,408,281	5,030,870	3,968,159
Management expense ratio <sup>(5)</sup>	1.31%	1.31%	1.31%	1.31%	1.31%
Management expense ratio before waivers or absorptions <sup>(6)</sup>	1.31%	1.31%	1.31%	1.31%	1.31%
Trading expense ratio <sup>(7)</sup>	0.07%	0.05%	0.09%	0.10%	0.06%
Portfolio turnover rate <sup>(8)</sup>	78.88%	62.06%	74.21%	77.75%	44.85%
Net Asset Value per unit	\$9.07	\$10.33	\$10.12	\$9.92	\$10.29

- (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 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 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 1.15% for the Class A Series. The Class I Series is identical on all respect 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 14.6% of the total management fees collected 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

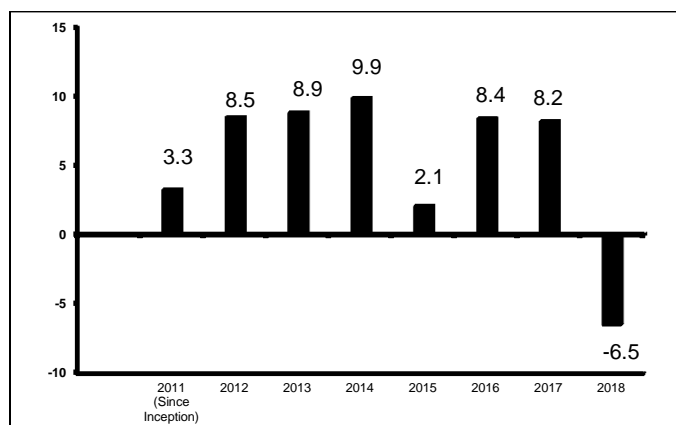
The Fund's performance information shown assumes that all distributions made by the Fund in the period(s) shown were reinvested in additional units of the Fund.

The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. 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 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 Returns – Class A Series



Annual Returns – Class I Series

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

### Annual Compound Returns

This table compares the compound returns of the Fund since inception with the performance of a blended Benchmark index comprised as follows: 70% S&P/TSX Composite Total Return Index (S&P/TSX Index), a capitalization-weighted index designed to measure the market

activity of some of the largest float adjusted stocks listed on the Toronto Stock Exchange, 27% FTSE TMX Canada Universe Bond Index, which is a broad measure of the total return of Canadian bonds that mature in more than one year and 3% FTSE TMX Canada 91 Day Treasury Bill Index, which measures the performance attributable to 91-day Treasury Bills of the provincial and federal governments.

### Class A Series

	1 Year	3 Year	5 Year	10 Year
Educators Monthly Income Fund	-6.51%	3.14%	4.25%	NA
70% S&P/TSX Composite Total Return Index (S&P/TSX Index), 27% FTSE TMX Canada Universe Bond Index, 3% FTSE TMX Canada 91 Day Treasury Bill Index	-5.80%	5.05%	3.90%	6.82%

### Class I Series

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

Note that 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)

As at December 31, 2018

Sector Mix	Percentage of Net Asset Value
Financials	22.33%
Energy	16.91%
Corporate Bonds	13.07%
Industrials	7.01%
Government Bonds	6.72%
Materials	6.58%
Short-term Investments	4.17%
Utilities	3.51%
Health Care	3.49%
Consumer Discretionary	3.27%
Information Technology	3.23%
Communication Services	2.25%
Asset-Backed Securities	2.18%
Mutual Funds	2.03%
Real Estate	1.92%
Consumer Staples	0.84%
Cash	0.49%

### Top 25 Holdings

Security Name	Percentage of Net Asset Value
Royal Bank of Canada	4.53%
Toronto-Dominion Bank	3.92%
Bank of Nova Scotia	3.45%
Enbridge Inc.	3.15%
Government of Canada, 2.75%, December 1, 2048	2.87%
Manulife Financial Corp.	2.82%
BCE Inc.	2.25%
Pembina Pipeline Corp.	2.23%
Bank of Montreal	2.13%
Suncor Energy Inc.	2.07%
IMAXX Short Term Bond Fund Class O (AFM5000)	2.03%
Agnico Eagle Mines Ltd.	1.86%
Aecon Group Inc.	1.77%
Canadian Natural Resources Ltd.	1.75%
Union Pacific Corp.	1.67%
Brookfield Asset Management Inc.	1.64%
Park Lawn Corp.	1.58%
Marathon Petroleum Corp.	1.52%
Vermilion Energy Inc.	1.49%
Teck Resources Ltd.	1.42%
Microsoft Corp.	1.41%
Canada Treasury Bill, 1.63%, February 7, 2019	1.34%
Algonquin Power & Utilities Corp.	1.33%
Pfizer Inc.	1.24%
Visa Inc.	1.20%
<b>Total Net Assets (000's).....</b>	<b>\$59,836</b>

The top 25 holdings represent approximately 52.70% of the total net assets of the Fund.

The summary of investment portfolio of the Fund is as at December 31, 2018 and may change due to the Fund's ongoing portfolio transactions. Updates are available quarterly.

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