

2018

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2018

Offered by Educators Financial Group
Portfolio Manager: 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 the 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, 2018.

Results of Operations

The Fund's net assets decreased by 1.9% to \$97.6 million at the end of December 2018, down from \$99.5 million at the end of December 2017.

Investment Performance

For the year ending December 31, 2018 (the 'period') the Educators U.S. Equity Fund – Class A Series provided a negative return of 1.83%, versus the S&P 500 Total Return Index (CAD\$) (the 'Benchmark') return of 3.62%. Note that investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in Benchmark returns.

U.S. equity markets in the first three quarters of the January 1 to December 31, 2018 period were generally positive. However, the exuberant momentum that characterized much of 2018 was turned on its head at the end of the year as a confluence of factors drove many global indices into bear market territory. Solid economic data, central banks continuing on their gradual tightening, strong corporate earnings, the positive impact of tax reform, and stable equity markets all gave way in October to softer economic data—escalating political and trade tensions and a death spiral in oil prices. From the start of the period to September 30, the S&P500 Index (C\$) posted a return of 14.1%. However, by year-end, the market had given back much of those gains, posting a lower annual return of 4.2%.

The U.S. Federal Reserve (*Fed*) continued its monetary tightening in the period, hiking the federal funds rate by 25 basis points in each of the four quarters of 2018 to end the year at a target range of 2.25-2.5% (*in-line with market expectations*). The Fed highlighted continued strength in the U.S. labour market and strongly rising economic activity, but noted in December that further increases would be data-dependent (*i.e. consistent with sustained economic activity, strong labour market conditions, and inflation near the 2% symmetric target over the medium-term*). In his post-meeting press conference, Fed Chairman Jerome Powell warned growth is expected to moderate in 2019 and that tightening financial conditions, along with signs of weaker growth abroad, had led members of the Federal Open Market Committee (*FOMC*) to mark down their inflation and growth projections. The Chair further said he believed the federal funds rate is currently at the bottom end of the estimates of 'neutral' and that there is real uncertainty about the pace and destination of further rate increases. He also stated that there is no change to the balance sheet runoff.

Against this backdrop, the Fund underperformed the benchmark during the period. However, while the Fund underperformed the benchmark within the first three quarters of the year, it outperformed when the broad market plummeted in the fourth quarter. In the portfolio manager's opinion, this is an illustration of the success of their investment process, where preservation of capital is paramount. During bull markets, the portfolio manager may not always beat the Index, but is generally more successful at protecting investor capital on the downside.

At the sector level, the Fund's underperformance during the period was largely the result of stock selection in Consumer Discretionary, along with a mixture of stock selection and an underweight relative to the benchmark in Information Technology. This was offset somewhat by relative outperformance in Communication Services and Healthcare, primarily due to stock selection.

At the individual security level, the main contributors to absolute performance were Eli Lilly & Co., Autozone Inc., and Verizon Communications Inc. Eli Lilly is one of the top 15 major global pharmaceutical companies, focused on discovering, developing, manufacturing, and selling products for human and animal health. The stock rose relatively steadily throughout the period, due to strong operating results and continued improvement in fundamentals and

sentiment in the pharmaceutical industry. Autozone, the largest retailer of automotive replacements parts and accessories in the U.S., also outperformed, particularly in the second half of the year. This was due in part to improving same-store sales growth and a focus on shareholder returns, which led to a rebound in valuation from depressed levels. A high-conviction weighting in Verizon (*the world's second-largest telecommunications company by revenue and the largest wireless provider in the U.S.*), added value as the stock rose in the latter three quarters of the year, partly on better-than-expected earnings results.

Detractors included oil-field services provider Halliburton Co., which retraced first quarter gains amid increased oil price volatility, particularly in the final quarter of the year, and financial services company Ameriprise Financial Inc., which weakened due in part to a massive negative sentiment shift across all global asset and wealth management companies. Harley-Davidson Inc. also struggled in the period, as the company's topline challenges were compounded by a cautious tone from management for 2019.

During the period, we initiated positions in seven new holdings: Amgen Inc, Comcast Corp., Flowserve Corp., Kimberly-Clark Corp., KLA-Tencor Corp., BlackRock Inc. and Cummins Inc.

During the period, we also added to the Fund's positions in Ameriprise Financial, Omnicom, Harley-Davidson, Comcast, Halliburton, Symantec Corp., AmerisourceBergen and American Express.

To fund the additions, several holdings were trimmed, including Verizon, AutoZone, LyondellBasell, Parker Hannifin, Oracle, WellsFargo, LyondellBasell, Amdocs, JP Morgan. In addition, we completed process-driven one-third sales of Merck, Ingersoll-Rand and Eli Lilly, as holdings achieved their targets, and fully exited Procter & Gamble, Johnson & Johnson, Allegion PLC, Baxter, Teradyne and United Technologies, as the stocks offered minimal upside with increasing downside risk from valuation.

During the period, due to sector changes in the S&P 500 Index, two portfolio holdings – Omnicom Group Inc. and Comcast Corp. – were moved from the Consumer Discretionary sector to the newly renamed Communication Services (previously Telecommunication Services) sector.

Recent Developments

Looking ahead, there is no shortage of risks that may weigh on the markets, including gridlock in Washington and growing concerns about global trade. However, as bottom-up stock pickers, the portfolio manager generally ignores the short-term noise and focuses entirely on fundamentals. The portfolio manager believes the best form of risk control is to know what you own and what it is worth. The only factors they can control to protect investor capital on the downside and deliver superior long-term returns are finding great franchises they want to own forever, ensuring the right price is paid for them, and maintaining the sell discipline to lock in gains when they are fully valued.

As a result, the portfolio manager is quite optimistic moving into 2019, as the Fund added a number of high-quality businesses to the portfolio in 2018 at very attractive valuations. In the portfolio manager's view; the

portfolio is well positioned—both on a fundamental basis and versus the market. This does not necessarily mean U.S. equity markets will broadly outperform this year (*and large parts of the market appear overvalued*), but it gives significant confidence in the portfolio manager's outlook for the portfolio. In addition, the list of great franchises that meet the portfolio manager's high and strict investment guidelines and return thresholds is growing (*and equity valuations look more attractive following the fourth-quarter rout*).

All of the holdings in the portfolio continue to generate free cash flow and have strong balance sheets, as well as capital allocation policies—all features the portfolio manager feels provide the right mix of corporate needs and shareholder returns. High-quality business models and company-specific catalysts factor into attractive risk/reward profiles, and very importantly, downside protection. The portfolio continues to incorporate a high concentration of companies with under-levered balance sheets and managements that are well-aligned with shareholders, which the portfolio manager expects will continue to lead to positive corporate actions like share buy-backs, dividend increases, and value-enhancing deals.

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

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 each year ended December 31 for the past five years.

Educators U.S. Equity Fund – Class A Series – Net Assets per Unit
(1)

	Year ended December 31				
	2018	2017	2016	2015	2014
Net Assets, beginning of period	\$18.59	\$20.18	\$18.56	\$19.13	\$17.81
Increase (decrease) from operations:					
Total revenue	\$0.45	\$0.45	\$0.40	\$0.43	\$0.43
Total expenses, including transaction costs [excluding distributions]	(\$0.43)	\$(0.44)	\$(0.41)	\$(0.42)	\$(0.41)
Realized gains (losses) for the period	\$0.84	\$4.34	\$0.94	\$0.12	\$1.20
Unrealized gains (losses) for the period	(\$1.19)	\$(2.27)	\$0.67	\$(0.68)	\$0.09
Total increase (decrease) from operations (2)	(\$0.33)	\$2.08	\$1.60	\$(0.55)	\$1.31
Distributions:					
From net investment income (excluding dividends)	\$0.01	\$--	\$--	\$--	\$--
From dividends	\$--	\$--	\$--	\$--	\$--
From capital gains	\$0.58	\$3.61	\$--	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--
Total Annual Distributions (3)	\$0.59	\$3.61	\$--	\$--	\$--
Net Assets, end of period	\$17.64	\$18.59	\$20.18	\$18.56	\$19.13

Ratios and Supplemental Data (based on Net Asset Value)

	Year ended December 31				
	2018	2017	2016	2015	2014
Total Net Asset Value (000's) (4)	\$92,385	\$99,517	\$95,876	\$94,454	\$101,688
Number of units outstanding (4)	5,237,316	5,353,332	4,750,945	5,089,059	5,316,626
Management expense ratio (5)	1.93%	1.93%	1.93%	1.93%	1.93%
Management expense ratio before waivers or absorptions (6)	1.98%	1.98%	1.98%	1.98%	1.98%

Trading expense ratio (7)	0.04%	0.10%	0.11%	0.15%	0.15%
Portfolio turnover rate (8)	29.27%	125.26%	70.96%	64.04%	97.70%
Net Asset Value per unit	\$17.64	\$18.59	\$20.18	\$18.56	\$19.13

Educators U.S. Equity Fund – Class I Series – Net Assets per Unit (1)

	Year ended December 31
	2018
Net Assets, beginning of period	\$10.00
Increase (decrease) from operations:	
Total revenue	\$0.24
Total expenses, including transaction costs [excluding distributions]	(\$0.04)
Realized gains (losses) for the period	\$0.57
Unrealized gains (losses) for the period	\$(0.98)
Total increase (decrease) from operations (2)	(\$0.21)
Distributions:	
From net investment income (excluding dividends)	\$0.03
From dividends	\$0.00
From capital gains	\$0.36
Return of capital	\$--
Total Annual Distributions (3)	\$0.39
Net Assets, end of period	\$9.42

Ratios and Supplemental Data (based on Net Asset Value)

	Year ended December 31
	2018
Total Net Asset Value (000's) (4)	\$5,207
Number of units outstanding (4)	552,851
Management expense ratio (5)	0.01%
Management expense ratio before waivers or absorptions (6)	0.01%
Trading expense ratio (7)	0.04%
Portfolio turnover rate (8)	29.27%
Net Asset Value per unit	\$9.42

(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 1.75% for the Class A Series. The Class I Series is identical in 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 27.0% of the total management fees collected from all series 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

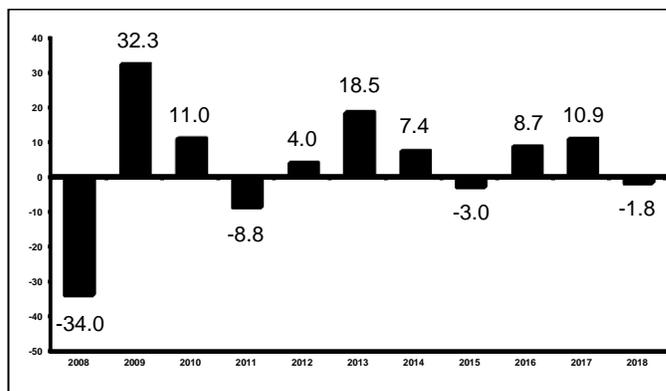
The Fund's performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund.

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

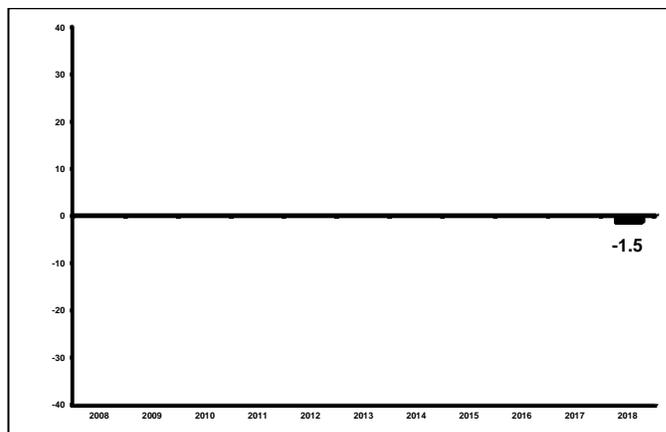
Year-by-Year Returns

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 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 ⁽¹⁾



⁽¹⁾ The Class I Series commenced operations January 4, 2018

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

Class A Series

	1 Year	3 Year	5 Year	10 Year
Educators U.S. Equity Fund	-1.83%	5.79%	4.30%	7.36%
S&P 500 Total Return Index (CAD\$)	3.62%	7.98%	13.38%	13.54%

Class I Series ⁽¹⁾

	Since Inception
Educators U.S. Equity Fund	-1.46%
S&P 500 Total Return Index (CAD\$)	-0.12%

⁽¹⁾ The Class I Series commenced operation January 4, 2018

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
Information Technology	16.11%
Financials	15.07%
Health Care	12.76%
Industrials	12.42%
Consumer Staples	11.38%
Telecommunication Services	9.69%
Materials	9.39%
Consumer Discretionary	8.01%
Energy	2.68%
Short-term Investments	2.34%
Net Other Assets	0.15%

Top 25 Holdings

Security Name	Percentage of Net Asset Value
Vulcan Materials Co.	6.70%
Omnicom Group Inc.	5.51%
Oracle Corp.	5.30%
American Express Co.	5.28%
Parker-Hannifin Corp.	4.98%
AmerisourceBergens Corp.	4.95%
Kimberly Clark Corp.	4.43%
Kellogg Co.	4.41%
AutoZone Inc.	4.27%
Comcast Corp.	4.18%
Amgen Inc.	4.11%
Amdocs Ltd.	3.90%
Harley-Davidson Inc.	3.75%

KLA-Tencor Corp.	3.74%
Ameriprise Financial Inc.	3.73%
Symantec Corp.	3.17%
Ingersoll-Rand PLC	3.15%
LyondellBasell Industries NV	2.69%
Halliburton Co.	2.68%
Blackrock Inc.	2.62%
Campbell Soup Co.	2.54%
Eli Lilly & Co.	2.31%
Flowserve Corp.	2.23%
Cummins Inc.	2.06%
JPMorgan Chase & Co.	2.06%

Total Net Assets (000's) \$97,592

The top 25 holdings represent approximately 94.74% 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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