

# 2019

## INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended June 30, 2019

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

**Educators Dividend 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](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 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 16.0% to \$148.3 million at the end of June 2019, up from \$127.8 million at the end of December 2018.

#### Investment Performance

For the period ending June 30, 2019 (the 'period'), the Educators Dividend Fund – Class A Series provided a return of 17.61%, versus the S&P/TSX 60 Index (the 'Benchmark') return of 15.90%. Investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in index returns.

For the first six months of 2019, Canadian equities, as measured by the S&P/TSX 60 Total Return Index (TSX 60), returned 15.9%. The Bank of Canada (BoC) kept interest rates steady during the six-month period. From a sector perspective, the strongest performers in the TSX 60 were Information Technology and Healthcare. The latest Canadian year-over-year gross domestic product figures published in April were 1.50%. Canadian year-over-year inflation rose above the 12-month trend, as the latest data published in May reported inflation at 2.40%. Canadian unemployment data continued to improve, as the latest data published in May measured unemployment at 5.40%.

The Fund outperformed the TSX 60 over the period. From a sector perspective, an overweight allocation to the Information Technology sector and underweight exposure to the Materials and Communication Services sectors contributed to the Fund's performance. Security selection in the Financials, Energy, and Industrials sectors also contributed to performance. Top individual contributors to performance included S&P Global Inc., Boyd Group Income Fund, and Brookfield Infrastructure Partners L.P. In addition, S&P Global reported strong financial results and announced its entry into the sizable Chinese bond ratings market, thereby increasing its coverage universe. Furthermore, an improving economic backdrop has strengthened investor confidence in the company's future growth prospects. Boyd Group's same-store-sales growth accelerated, driven by the increased frequency and severity of automobile repairs. The pace of store openings has also accelerated, with over 50 new locations added during the period. Brookfield Infrastructure Partners reported strong results, returning to double-digit organic growth of funds from operations with contribution from all four of its operating segments.

Detracting from returns was stock selection within Information Technology and, to a lesser degree, Healthcare. Individual detractors from performance included Bank of Nova Scotia, driven by weaker-

than-expected financial results, particularly in its Canadian property and casualty business and wealth management businesses. Other individual detractors from performance included U.S. stocks of Microsoft Corp., Texas Instruments Inc., and Visa Inc., which despite strong performance, underperformed the Canadian Information Technology sector.

The portfolio manager added new positions in Killam Apartment REIT and Northland Power Inc. Killam Apartment REIT was purchased for its attractive dividend, strong market share, history of value creation, and a notable level of future development opportunities. Northland Power Inc. offers a differentiated focus on renewable power, an above average development portfolio, and a solid yield at an attractive valuation. Existing core positions in Brookfield Infrastructure Partners L.P., TC Energy Corp., Rogers Communications Inc., Becton, Dickinson & Co., and Constellation Brands Inc. were increased for their attractive risk-return profile.

ARC Resources Ltd., Activision Blizzard Inc., and Canadian Pacific Railway Ltd. were eliminated from the Fund. Apple Inc. was also exited, given concerns over longer-term iPhone volumes and service revenue growth. Manulife Financial Corp., Waste Connections Inc., Texas Instruments Inc., Boyd Group Income Fund, Canadian National Railway Co., Microsoft Corp., and Visa Inc. were all trimmed during the period.

### Recent Developments

The backdrop appears favourable for Canadian equity performance. While economic momentum has slowed, global growth continues, supported by the recent policy stimulus in China and the shift in monetary policy by the U.S. Federal Reserve Board and the Bank of Canada. The portfolio manager believes that interest rates are likely to remain lower for longer, with policymakers standing ready to do what is required to prevent the economic expansion from ending poorly. Despite media headlines, there appear to be few flags pointing to an imminent recession. The Canadian labour market continues to be robust and the U.S. economy may provide a positive economic influence on Canada. Equity market volatility may remain elevated, given the array of political and trade-related hurdles.

With longer-term bond yields at recent lows, dividend stocks remain a compelling option for investors looking for yield, safety, and growth. The Fund remains biased toward advantaged business models in the Financials, Information Technology, and Consumer-related sectors that

benefit from their defensive attributes (such as lower earnings risk, and growing free cash flow and dividend streams).

### **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**

BMO Asset Management Inc. (BMO AM), the Fund's portfolio manager, is an affiliate of the BMO Financial Group. From time to time, BMO AM may on behalf of the Fund enter into transactions or arrangements with, or involving, other members of BMO Financial Group, or certain other persons or companies that are related or connected to the portfolio manager of the Fund.

### **Buying and Selling Securities**

#### *Bank of Montreal Common Shares*

Bank of Montreal (BMO) is an affiliate of the Fund's portfolio manager BMO AM. The maximum amount of BMO common shares held during the period in the Fund was approximately 3.7% and at the end of the period was approximately 3.4%.

#### *Brokerage Fees*

The Fund pays standard brokerage commissions at market rates to BMO Capital Markets, an affiliate of the portfolio manager. The brokerage fees charged to the Fund were as follows:

	<u>2019</u> <u>(Jun 30)</u>	<u>2018</u> <u>(Jun 30)</u>
<i>Total Brokerage Fees</i>	\$14,529	\$27,952
<i>Brokerage Fees Paid to BMO Capital Markets</i>	\$2,120	\$1,962

In the first six months of 2019 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 Dividend Fund – Class A Series – Net Assets per Unit <sup>(1)</sup>**

	Six months ended June 30	Year ended December 31				
	2019	2018	2017	2016	2015	2014
Net Assets, beginning of period	\$26.38	\$28.74	\$25.86	\$23.19	\$24.39	\$21.98
<b>Increase (decrease) from operations:</b>						
Total revenue	\$0.42	\$0.79	\$0.73	\$0.68	\$0.72	\$0.69
Total expenses, including transaction costs [excluding distributions]	\$(0.27)	\$(0.51)	\$(0.49)	\$(0.44)	\$(0.44)	\$(0.43)
Realized gains (losses) for the period	\$0.09	\$0.44	\$0.74	\$0.58	\$(0.55)	\$(0.08)
Unrealized gains (losses) for the period	\$4.42	\$(2.95)	\$1.99	\$2.01	\$(0.77)	\$2.36
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$4.66</b>	<b>\$(2.23)</b>	<b>\$2.97</b>	<b>\$2.83</b>	<b>\$(1.04)</b>	<b>\$2.54</b>
<b>Distributions:</b>						
From net investment income (excluding dividends)	\$--	\$--	\$--	\$--	\$--	\$--
From dividends	\$0.15	\$0.14	\$0.08	\$0.16	\$0.17	\$0.16
From capital gains	\$--	\$--	\$--	\$--	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--	\$--
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$0.15</b>	<b>\$0.14</b>	<b>\$0.08</b>	<b>\$0.16</b>	<b>\$0.17</b>	<b>\$0.16</b>
<b>Net Assets, end of period</b>	<b>\$30.87</b>	<b>\$26.38</b>	<b>\$28.74</b>	<b>\$25.86</b>	<b>\$23.19</b>	<b>\$24.39</b>

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

	Six months ended June 30	Year ended December 31				
	2019	2018	2017	2016	2015	2014
Total Net Asset Value (000's) <sup>(4)</sup>	\$144,739	\$125,811	\$135,781	\$114,203	\$100,434	\$100,510
Number of units outstanding <sup>(4)</sup>	4,689,029	4,770,089	4,725,267	4,415,490	4,330,034	4,121,188
Management expense ratio <sup>(5)</sup>	1.78%	1.73%	1.73%	1.73%	1.73%	1.73%
Management expense ratio before waivers or absorptions <sup>(6)</sup>	1.81%	1.81%	1.81%	1.81%	1.81%	1.81%
Trading expense ratio <sup>(7)</sup>	0.02%	0.02%	0.02%	0.04%	0.02%	0.01%
Portfolio turnover rate <sup>(8)</sup>	4.95%	14.49%	12.77%	19.37%	16.80%	9.01%
Net Asset Value per unit	\$30.87	\$26.38	\$28.74	\$25.86	\$23.19	\$24.39

**Educators Dividend Fund – Class I Series – Net Assets per Unit <sup>(1)</sup>**

	Six months ended June 30	Year ended December 31
	2019	2018
Net Assets, beginning of period	\$9.20	\$10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	\$0.15	\$0.28
Total expenses, including transaction costs [excluding distributions]	\$--	\$(0.01)
Realized gains (losses) for the period	\$0.04	\$0.11
Unrealized gains (losses) for the period	\$1.40	\$(1.41)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$1.59</b>	<b>\$(1.03)</b>
<b>Distributions:</b>		
From net investment income (excluding dividends)	\$--	\$--
From dividends	\$0.14	\$0.20
From capital gains	\$--	\$--
Return of capital	\$--	\$--
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$0.14</b>	<b>\$0.20</b>
<b>Net Assets, end of period</b>	<b>\$10.77</b>	<b>\$9.20</b>

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

	Six months ended June 30	Year ended December 31
	2019	2018
Total Net Asset Value (000's) <sup>(4)</sup>	\$3,515	\$2,022
Number of units outstanding <sup>(4)</sup>	326,273	219,663
Management expense ratio <sup>(5)</sup>	0.01%	0.01%
Management expense ratio before waivers or absorptions <sup>(6)</sup>	0.01%	0.01%
Trading expense ratio <sup>(7)</sup>	0.02%	0.02%
Portfolio turnover rate <sup>(8)</sup>	4.95%	14.49%
Net Asset Value per unit	\$10.77	\$9.20

<sup>(1)</sup> 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 after January 1, 2013, all references to "Net Assets" or "Net Assets per Unit" in these financial highlights are references to net assets attributable to holders of redeemable units determined in accordance with IFRS as presented in the financial statements of the Fund.

<sup>(2)</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

<sup>(3)</sup> Distributions were either paid in cash or reinvested in additional units of the Fund.

<sup>(4)</sup> 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 1.60% 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 13.4% of the total management fees collected from all series 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

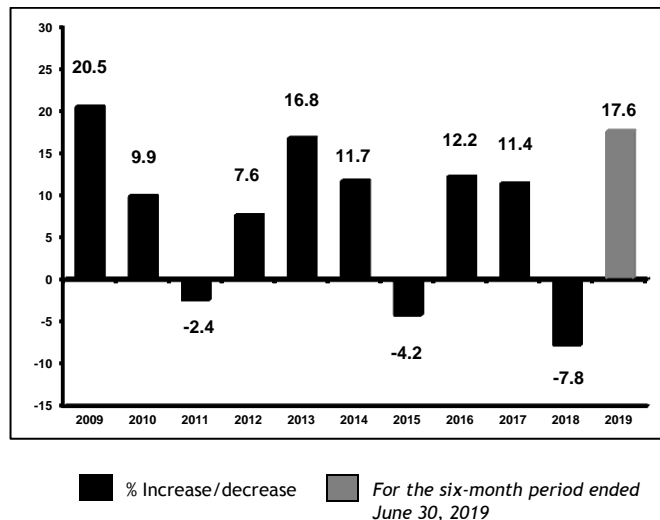
The Fund's performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund.

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.

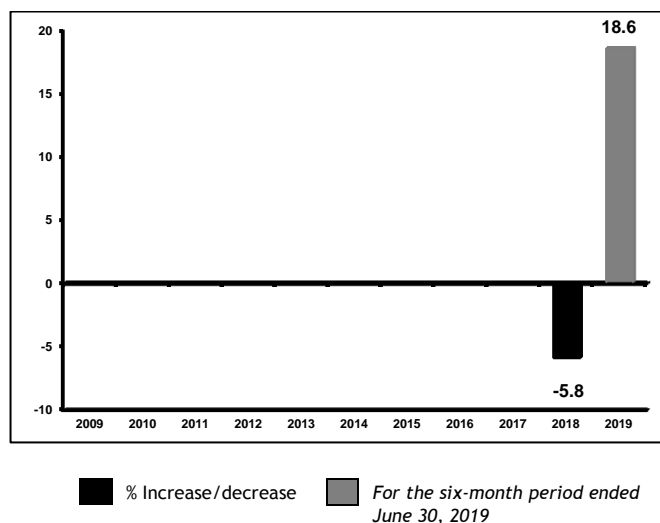
### Year-by-Year Returns

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 6-month period ended June 30, 2019 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 <sup>(1)</sup>



<sup>(1)</sup> The Class I Series commenced operations January 4, 2018

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

As at June 30, 2019

Sector Mix	Percentage of Net Asset Value
Financials	38.17%
Energy	12.70%
Industrials	10.19%
Information Technology	8.14%
Utilities	7.09%
Consumer Staples	4.50%
Consumer Discretionary	4.48%
Materials	3.56%
Real Estate	3.42%
Communication Services	3.26%
Health Care	1.95%
Short-term Investments	1.91%
Net Other Assets	0.58%
Cash and Cash Equivalents	0.05%

## Top 25 Holdings

Security Name	Percentage of Net Asset Value
Toronto-Dominion Bank	7.31%
Royal Bank of Canada	7.10%
Bank of Nova Scotia	6.10%
Brookfield Asset Management Inc.	4.76%
Canadian National Railway Co.	4.21%
Enbridge Inc.	3.56%
Bank of Montreal	3.40%
Visa Inc.	3.23%
Microsoft Corp.	3.18%
Manulife Financial Corp.	3.06%
TC Energy Corp.	3.06%
Brookfield Infrastructure Partners LP	3.00%
Suncor Energy Inc.	2.83%
Waste Connections Inc.	2.51%
Intact Financial Corp.	2.42%
JPMorgan Chase & Co.	2.32%
Alimentation Couche-Tard Inc.	2.17%
Pembina Pipeline Corp.	2.09%
Rogers Communications Inc.	2.00%
Becton Dickinson and Co.	1.95%
CCL Industries Inc.	1.90%
Dollarama Inc.	1.76%
Texas Instruments Inc.	1.74%
TJX Cos Inc.	1.72%
S&P Global Inc.	1.71%
<b>Total Net Assets (000's)</b>	<b>\$148,254</b>

The top 25 holdings represent approximately 79.09% of the total net assets of the Fund.

The summary of investment portfolio of the Fund is as at June 30, 2019 and may change due to the Fund's ongoing portfolio transactions. Updates are available quarterly.

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