

2019

INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended June 30, 2019

Offered by Educators Financial Group
Portfolio Manager: HSBC Global Asset Management (Canada) Limited, Toronto, Ontario

Educators Mortgage & Income 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 decreased by 5.6% to \$132.6 million at the end of June 2019, down from \$140.5 million at the end of December 2018.

Investment Performance.

For the period ending June 30, 2019 (the 'period'), the Educators Mortgage & Income Fund – Class A Series provided a return of 2.90%, versus the FTSE TMX Canada Short Term Bond Index (the 'Benchmark') return of 2.67%. Investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in index returns.

Risk assets posted a strong recovery after a weak finish to 2018. The S&P 500 set a new high in April and corporate bonds recovered from the poor performance we saw in the fourth quarter of 2018. In Canada, oil posted a strong recovery as the West Texas Intermediate closed at \$58.47/bbl at the end of June 2019, up from \$45.41/bbl at the end of 2018.

Overall, short-term bond yields continued their decline (bond prices rose). They decreased another 15 basis points on the quarter to 1.81% from 1.96% in Q1, and from 2.36% at the end of 2018. There were some differences in performance across the various sectors of the short-term bond market, with Government of Canada bonds (2.03%) underperforming both provincial (2.63%) and corporate bonds (3.64%) in the first half of this year.

Broad posted mortgage rates were stable in the first six months of 2018, with the yield on the FTSE Residential Mortgage Index remaining at 4.29% from the end of 2018. The yield differential between 5-year fixed mortgage rates and the 5-year Government of Canada bond (referred to as the 'credit spread') widened to 395 basis points in Q2, up from 382 basis points in Q1 and from 346 bps at the end of 2018. Overall, mortgages outperformed short-term government bonds, as their higher running yield and the narrowing in mortgage yield spreads both contributed positively to performance.

We believe that mortgage rates still represent attractive value at current levels. With the yield spread now closer to its long-term historical average, the incremental yield advantage over government bonds is considerable given the historically low interest rate environment. The relatively high running yield of the Fund continues to be positive for returns and will help to offset some of the negative impacts if mortgage rates move higher.

The Fund's shorter average term to maturity (and hence lower interest rate risk) had a slight negative impact on performance relative to its benchmark. The Fund's positioning along the maturity spectrum was also a small negative for performance, but that was more than offset by improving bond prices, higher cash flow from better yielding securities, and allocations to emerging market bonds—all of which were positive contributors to performance.

Recent Developments

The global economy is moving away from the cyclical slowdown experienced at the end of 2018 as a result of improving momentum in both the U.S. and China. While ongoing trade tensions are a headwind for both market sentiment and overall growth, we continue to see a low risk of recession in North America for 2019 and 2020. Strong employment, low interest rates, and reasonable corporate profits continue to provide a reasonably positive backdrop for growth in both the U.S. and Canada. Growth is softer in the rest of the developed world, but supported by even more expansive policy, which should prevent further deterioration.

The Canadian economy expanded by only 0.4% in the first quarter of 2019, with positives from consumer spending and business investment, but a negative impact from trade. That said, following two consecutive disappointing quarters, indicators have improved in the second quarter of 2019. The central banks in both the U.S. and Canada have strongly indicated that in response to the recent growth slowdown, they stand prepared to lower rates if necessary. Market expectations for the next twelve months have moved sharply in response, pricing in three to four rate cuts in the U.S. and at least one rate cut in Canada. Given our more sanguine view of the economy, we foresee one to two rate cuts in the U.S. and likely stable rates in Canada over this timeframe.

At this point, with longer-term yields expected to rise modestly over the next year, the objective will be to maintain the Fund's interest rate exposure at, or slightly below, the benchmark in the near term. With yields at the short end of the yield curve now discounting a single rate cut of 25basis point, we would expect that upward pressure on longer-term yields will lead to a steepening of the yield curve.

We feel that the corporate sector still remains fundamentally sound with stable earnings growth and defensively positioned balance sheets. That said, we continue to prefer provincial and corporate bonds to

Government of Canada bonds and will look to remain slightly overweight in these sectors in the non-mortgage portion of the Fund.

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 HSBC Emerging Markets Debt Fund, Institutional Series; and HSBC Mortgage Fund, Institutional Series which are funds managed by the Fund's Portfolio Manager.

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 Mortgage & Income Fund – Class A Series – Net Assets per Unit ⁽¹⁾

	Six months ended June 30	Year ended December 31				
	2019	2018	2017	2016	2015	2014
Net Assets, beginning of period	\$11.09	\$11.22	\$11.35	\$11.38	\$11.44	\$11.38
Increase (decrease) from operations:						
Total revenue	\$0.17	\$0.32	\$0.32	\$0.35	\$0.37	\$0.38
Total expenses, including transaction costs [excluding distributions]	(\$0.07)	(\$0.13)	(\$0.14)	(\$0.14)	(\$0.14)	(\$0.14)
Realized gains (losses) for the period	(\$0.01)	(\$0.13)	(\$0.05)	\$0.04	\$0.00	\$0.03
Unrealized gains (losses) for the period	\$0.23	(\$0.01)	(\$0.10)	(\$0.07)	(\$0.06)	\$0.05
Total increase (decrease) from operations ⁽²⁾	\$0.32	\$0.05	\$0.03	\$0.18	\$0.17	\$0.32
Distributions:						
From net investment income (excluding dividends)	\$0.10	\$0.19	\$0.17	\$0.21	\$0.23	\$0.25
From dividends	\$--	\$--	\$--	\$--	\$--	\$--
From capital gains	\$--	\$--	\$--	\$--	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--	\$--
Total Annual Distributions ⁽³⁾	\$0.10	\$0.19	\$0.17	\$0.21	\$0.23	\$0.25
Net Assets, end of period	\$11.30	\$11.09	\$11.22	\$11.35	\$11.38	\$11.44

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) ⁽⁴⁾	\$132,591	\$140,483	\$188,011	\$199,421	\$204,316	\$205,273
Number of units outstanding ⁽⁴⁾	11,728,774	12,668,872	16,764,263	17,566,363	17,955,859	17,939,038
Management expense ratio ⁽⁵⁾	1.23%	1.19%	1.19%	1.19%	1.19%	1.19%
Management expense ratio before waivers or absorptions ⁽⁶⁾	1.25%	1.24%	1.25%	1.25%	1.25%	1.25%
Trading expense ratio ⁽⁷⁾	--	--	--	--	--	--
Portfolio turnover rate ⁽⁸⁾	5.23%	30.75%	37.56%	59.84%	28.07%	27.89%
Net Asset Value per unit	\$11.30	\$11.09	\$11.22	\$11.35	\$11.38	\$11.44

⁽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 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 1.10% 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 11.6% 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

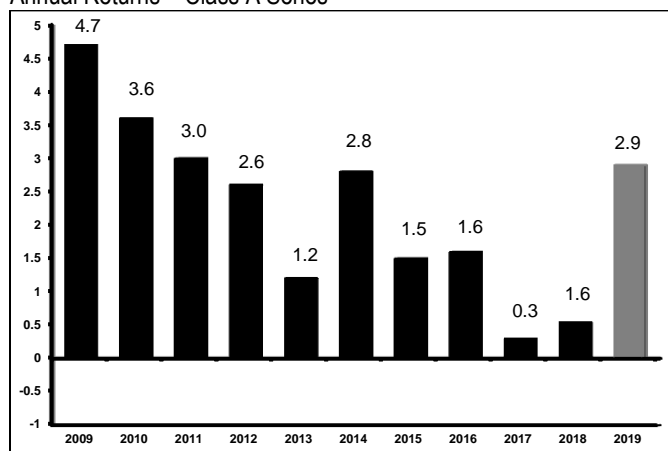
The Fund's performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund.

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



■ % Increase/decrease ■ For the six-month period ended June 30, 2019

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, 2019

Sector Mix	Percentage of Net Asset Value
Canadian Mutual Funds	50.94%
Corporate Bonds	36.37%
Government Bonds	6.43%
Asset-Backed Securities	5.59%
Short-term Investments	0.35%
Net Other Assets	0.26%
Cash and Cash Equivalents	0.06%

Top 25 Holdings

Security Name	Percentage of Net Asset Value
HSBC Mortgage Fund Institution	48.81%
Canadian Government Real Return Bond, 6.96%, December 1, 2021	2.91%
HSBC Emerging Markets Debt Fund Institutional Class	2.13%
Canada Housing Trust No 1, 2.35%, June 15, 2027	2.02%
Royal Bank of Canada, 3.30%, September 26, 2023	1.53%
Bank of Nova Scotia, 2.29%, June 28, 2024	1.52%
TMX Group Ltd., 4.46%, October 3, 2023	1.47%
Saputo Inc., 2.83%, November 21, 2023	1.37%
Real Estate Asset Liquidity Trust, 2.56%, October 12, 2049	1.20%
Bank of Montreal, 2.70%, September 11, 2024	1.19%
Instnl. Mortgage Securities Canada Inc., 1.94%, Sept. 12, 2024	1.14%
Goldman Sachs Group Inc., 2.43%, April 26, 2023	1.13%
Canadian Imperial Bank of Commerce, 1.64%, July 12, 2021	1.12%
Brookfield Property Finance ULC, 4.35%, July 3, 2023	1.10%
Province of Alberta, 2.20%, June 1, 2026	1.07%
Brookfield Asset Management Inc., 4.54%, March 31, 2023	1.01%
Citigroup Inc., 3.39%, November 18, 2021	1.01%
Granite REIT Holdings LP, 3.87%, November 30, 2023	0.96%
Canadian Western Bank, 2.74%, June 16, 2022	0.85%
Canadian Natural Resources Ltd., 3.31%, February 11, 2022	0.85%
Pembina Pipeline Corp., 3.77%, October 24, 2022	0.85%
QVC Inc., 4.85%, April 1, 2024	0.84%
Alimentation Couche-Tard Inc., 3.90%, November 1, 2022	0.83%
Empire Life Insurance Co, 3.38%, December 16, 2026	0.82%
Anheuser-Busch InBev Finance Inc., 2.60%, May 15, 2024	0.79%

Total Net Assets (000's)

\$132,591

The top 25 holdings represent approximately 78.52% 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. Information about the holdings of the HSBC 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.

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