

# 2019

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2019

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

### Educators Dividend 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 Dividend Fund (the "Fund") is to provide investors with a stable and growing stream of after-tax income with long-term capital growth by investing primarily in dividend-producing preferred and common shares of Canadian corporations, aiming to take advantage of the favourable tax treatment generally available to individual Canadians who receive dividend income from Canadian corporations. To achieve lower volatility through diversification, the Fund also invests in debt securities. Non-Canadian securities are limited to no more than 25% 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 ending December 31, 2019.

### Results of Operations

The Fund's net assets increased by 23.0% to \$157.2 million at the end of December 2019, up from \$127.8 million at the end of December 2018.

#### Investment Performance

For the year ending December 31, 2019 (the 'period'), the Educators Dividend Fund – Class A Series provided a return of 24.64%, versus the S&P/TSX 60 Index (the 'Benchmark') return of 21.93%. Investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in index returns.

The Fund outperformed its benchmark throughout the period due to both strong sector allocation, with the top performing sectors being Information Technology and Utilities, and stock selection. While many central banks cut interest rates during this timeframe, the Bank of Canada (BoC) held interest rates steady.

Overweight exposure to the Information Technology and Utilities sectors and an underweight exposure to the Communication Services sector contributed to the Fund's strong relative performance. Security selection was strongest within Financials, followed by Industrials and Consumer Discretionary.

Top individual contributors to performance included holdings in S&P Global Inc. and Intact Financial Corp. Strong performance in S&P Global shares resulted from the company reporting robust financial results and announcing 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. Intact Financial benefitted from improving fundamentals and merger-and-acquisition activity as the company acquired On Side Restoration Services, a leading Canadian home restoration firm—as well as The Guarantee Company of North America and Frank Cowan Co.

Premium growth accelerated as all business segments saw strong price increases for the first time in over a decade, while claims costs are improving, driven by management actions.

Stock selection within the Information Technology sector detracted from the Fund's relative performance. This was driven by a lack of exposure to Shopify Inc.—which is a large benchmark weighting.

Individual detractors from performance included holdings in Visa Inc. and Rogers Communications Inc. While Visa continues to execute on its plans and deliver strong absolute returns, its shares underperformed the broader Information Technology sector. Rogers Communications also underperformed its sector amid increased wireless competition, specifically from Shaw Communications and a move to unlimited pricing within the wireless segment. In addition, the company's management reduced its earnings forecast for 2019.

The portfolio manager added new positions in Killam Apartment REIT and Motorola Solutions 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. Motorola Solutions was added based on its leading position in an attractive market with significant barriers to entry. It also has a strong capital allocation framework that supports continued dividend increases and share buybacks. Existing core positions in Rogers Communications, Alimentation Couche-Tard, Keyera, and TC Energy were all increased because of their attractive risk-return profiles.

ARC Resources, Activision Blizzard, and Boyd Group Income Fund were eliminated from the Fund amid weakening growth and dividend profiles—whereas Manulife Financial, Texas Instruments and Franco-Nevada were trimmed during the period.

## Recent Developments

While risks remain elevated following one of the strongest years in recent memory for global equities, the economic backdrop continues to suggest another positive year for Canadian equity performance. Although economic momentum slowed last year, recent incoming data has signaled a better tone—as trade talks have taken a positive step forward. Encouragingly, another round of policy stimulus in China, along with the accommodative shift in monetary policy by both the U.S. Federal Reserve Board and the Bank of Canada, all provide support to investors.

In other news—interest rates may remain lower for longer, with question marks over global growth, earnings momentum, and soft inflation ensuring that policymakers will do what is required to prevent the expansion from ending badly. At present, there are very few flags pointing to an imminent recession. While corporate leaders remain in wait-and-see mode with respect to capital spending intentions, consumers (*who are the driving force of the economy*) are still in decent shape—supported by robust labour markets, lower debt financing costs, and a U.S. economy set to exert a positive economic influence on Canada.

The spread of the Corona Virus (COVID-19), and the monetary response by Central Banks, is being carefully monitored by the portfolio manager. They will consider if changes are warranted to their investment strategies.

## Caution Regarding Forward-looking Statements

This report may contain forward-looking statements about the Fund, including its strategy, risks, 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 forward-looking 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 unless required by applicable law.

## 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 3.0%.

### 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> (Dec 31)	<u>2018</u> (Dec 31)
Total Brokerage Fees	\$22,844	\$27,952
Brokerage Fees Paid to BMO Capital Markets	\$2,120	\$1,962

In 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 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>

	Year ended December 31				
	2019	2018	2017	2016	2015
Net Assets, beginning of year	\$26.38	\$28.74	\$25.86	\$23.19	\$24.39
<b>Increase (decrease) from operations:</b>					
Total revenue	\$0.85	\$0.79	\$0.73	\$0.68	\$0.72
Total expenses, including transaction costs [excluding distributions]	\$(0.57)	\$(0.51)	\$(0.49)	\$(0.44)	\$(0.44)
Realized gains (losses) for the period	\$0.89	\$0.44	\$0.74	\$0.58	\$(0.55)
Unrealized gains (losses) for the period	\$5.35	\$(2.95)	\$1.99	\$2.01	\$(0.77)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$6.52</b>	<b>\$(2.23)</b>	<b>\$2.97</b>	<b>\$2.83</b>	<b>\$(1.04)</b>
<b>Distributions:</b>					
From net investment income (excluding dividends)	\$--	\$--	\$--	\$--	\$--
From dividends	\$0.17	\$0.14	\$0.08	\$0.16	\$0.17
From capital gains	\$--	\$--	\$--	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$0.17</b>	<b>\$0.14</b>	<b>\$0.08</b>	<b>\$0.16</b>	<b>\$0.17</b>
<b>Net Assets, end of year</b>	<b>\$32.70</b>	<b>\$26.38</b>	<b>\$28.74</b>	<b>\$25.86</b>	<b>\$23.19</b>

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

	Year ended December 31				
	2019	2018	2017	2016	2015
Total Net Asset Value (000's) <sup>(4)</sup>	\$151,109	\$125,811	\$135,781	\$114,203	\$100,434
Number of units outstanding <sup>(4)</sup>	4,621,623	4,770,089	4,725,267	4,415,490	4,330,034
Management expense ratio <sup>(5)</sup>	1.80%	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%
Trading expense ratio <sup>(7)</sup>	0.02%	0.02%	0.02%	0.04%	0.02%
Portfolio turnover rate <sup>(8)</sup>	9.99%	14.49%	12.77%	19.37%	16.80%
Net Asset Value per unit	\$32.70	\$26.38	\$28.74	\$25.86	\$23.19

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

	Year ended December 31	
	2019	2018
Net Assets, beginning of year	\$9.20	\$10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	\$0.30	\$0.28
Total expenses, including transaction costs [excluding distributions]	\$(0.01)	\$(0.01)
Realized gains (losses) for the period	\$0.41	\$0.11
Unrealized gains (losses) for the period	\$1.44	\$(1.41)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$2.14</b>	<b>\$(1.03)</b>
<b>Distributions:</b>		
From net investment income (excluding dividends)	\$--	\$--
From dividends	\$0.25	\$0.20
From capital gains	\$--	\$--
Return of capital	\$--	\$--
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$0.25</b>	<b>\$0.20</b>
<b>Net Assets, end of year</b>	<b>\$11.42</b>	<b>\$9.20</b>

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

	Year ended December 31	
	2019	2018
Total Net Asset Value (000's) <sup>(4)</sup>	\$6,069	\$2,022
Number of units outstanding <sup>(4)</sup>	531,550	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>	9.99%	14.49%
Net Asset Value per unit	\$11.42	\$9.20

(1) This information is derived from the Fund's audited annual financial statements. For financial years 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"). 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 rate 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 13.1% 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

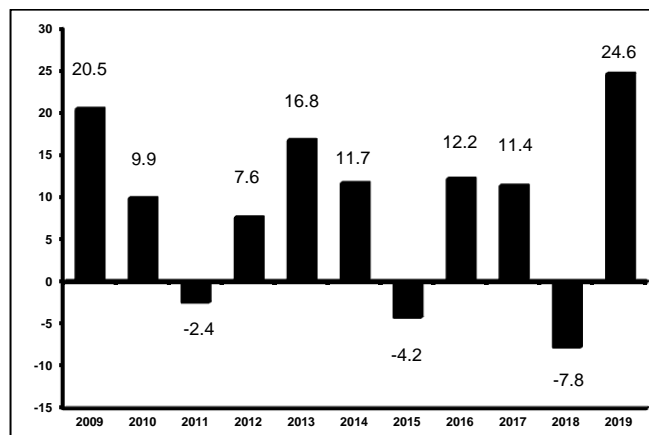
The Fund's performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund.

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.

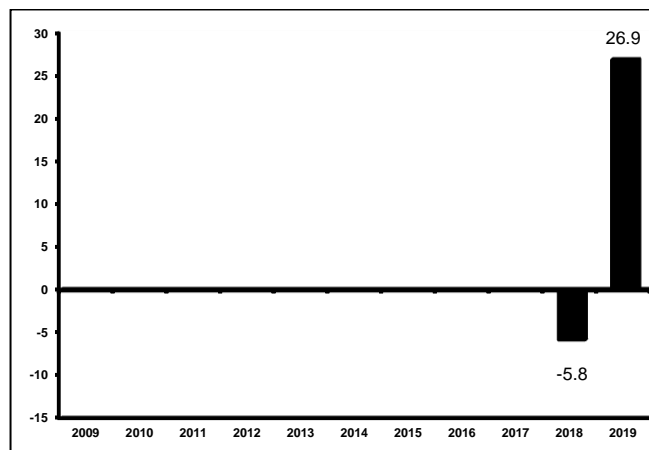
### Year-by-Year Returns

The bar chart shows the Fund's annual performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.

#### 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

### Annual Compound Returns

The following table compares the historical annual compound returns of the Fund with the performance of the Benchmark index, S&P/TSX 60 Index, a stock index of 60 large companies listed on the Toronto Stock Exchange.

Class A Series				
	1 Year	3 Year	5 Year	10 Year
Educators Dividend Fund	24.64%	8.61%	6.61%	7.58%
S&P/TSX 60 Index	21.93%	7.35%	6.73%	7.01%

Class I Series <sup>(1)</sup>	
	1 Year
Educators Dividend Fund	26.90%
S&P/TSX 60 Index	21.93%

<sup>(1)</sup> 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, 2019

Sector Mix	Percentage of Net Asset Value
Financials	37.68%
Energy	12.70%
Information Technology	9.30%
Industrials	8.68%
Utilities	8.56%
Consumer Discretionary	5.20%
Real Estate	4.06%
Consumer Staples	3.68%
Communication Services	3.51%
Short-term Investments	2.34%
Health Care	1.97%
Materials	1.54%
Net Other Assets	0.62%
Cash and Cash Equivalents	0.16%

### Top 25 Holdings

Security Name	Percentage of Net Asset Value
Royal Bank of Canada	6.61%
Toronto-Dominion Bank	6.57%
Bank of Nova Scotia	6.00%
Brookfield Asset Management Inc.	5.38%
Brookfield Infrastructure Partners LP	4.12%
Canadian National Railway Co.	3.85%
TC Energy Corp.	3.31%
Microsoft Corp.	3.28%
Visa Inc.	3.27%
Enbridge Inc.	3.24%
Manulife Financial Corp.	3.20%
Bank of Montreal	2.97%
Suncor Energy Inc.	2.78%
JPMorgan Chase & Co.	2.70%
Intact Financial Corp.	2.33%
Rogers Communications Inc.	2.29%
Waste Connections Inc.	2.24%
Becton Dickinson and Co.	1.97%
Pembina Pipeline Corp.	1.94%
S&P Global Inc.	1.91%
TJX Cos Inc	1.85%
Algonquin Power & Utilities Corp.	1.85%
Texas Instruments Inc.	1.82%
Allied Properties Real Estate Investment Trust	1.78%
Restaurant Brands International Inc.	1.74%
<b>Total Net Assets (000's)</b>	<b>\$157,177</b>

The top 25 holdings represent approximately 79.00% of the total net assets of the Fund.

The summary of investment portfolio of the Fund is as at December 31, 2019 and may change due to the Fund's ongoing portfolio transactions. Updates are available quarterly.

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