

# 2021

## INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended June 30, 2021

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](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

### Risk

The impact of the coronavirus (*COVID-19*) pandemic on the financial performance of the Fund's investments will depend on future developments, including the duration and spread of the outbreak and related advisories and restrictions. This public health crisis and the impact of *COVID-19* on the financial markets and the overall economy are highly uncertain and cannot be predicted. If the financial markets and/or the overall economy are impacted for an extended period, the Fund's future investment results may be materially affected.

### Results of Operations

The Fund's net assets increased by 0.4% to \$145.3 million at the end of June 2021, up from \$144.7 million at the end of December 2020.

#### Investment Performance

For the year/period ending June 30, 2021 (the 'period'), the Educators Mortgage & Income Fund – Class A Series provided a negative return of 0.51%, versus the FTSE Canada Short Term Bond Index (the 'Benchmark') return of negative 0.52%.

The Fund outperformed its Benchmark over the period. Unlike the Benchmark, the Fund's return is net of fees and expenses paid by the Fund. Detailed performance is provided under the heading "Past Performance" in this report. Investors cannot invest in the Benchmark without incurring fees, expenses and commissions which are not reflected in Benchmark returns.

Class F units of the Fund were first offered by prospectus dated May 14, 2021 however no Class F units had been offered for sale at June 30, 2021. Due to policies issued by the Canadian Securities Administrators, investment performance data is not reported for funds in existence for less than one year.

The first quarter of 2021 was highlighted by a faster than expected rollout of vaccinations in the U.S. and broadly resilient global economic data, despite renewed surges in *COVID-19* cases across multiple countries. The U.S. government added further fiscal stimulus under the new Biden Presidency following a Blue Wave victory in the Georgia Senate runoff, which allowed Democrats to push through fiscal policies without the need for Republican support in the Senate. While the *COVID-19* economic recovery differs in many ways from previous recessions, a clear distinction, however, was the scale and immediacy of fiscal stimulus from Governments around the world. The specter of higher inflation and strong GDP growth pushed investors to rotate out of last year's winners—such

as bonds, gold, and high-growth stocks, in favour of commodities and economically-sensitive sectors of the stock market. This recovery trade became a consensus and crowded position in the first quarter, as economic data handily beat estimates. Many worried the unprecedented levels of stimulus could lead to the U.S. economy overheating. Nevertheless, the consensus trades entering the quarter ended up performing very well as bond yields rose, yield curve steepened, inflation expectations increased, and high-growth stocks underperformed economically-sensitive stocks. The FTSE Canada Short Term Bond Index fell 0.59% over the first quarter, as 5-year Government of Canada bond yields rose over 55 basis points in the quarter.

As we have seen many times before in markets, positioning can overtake economic fundamentals over short-term horizons. From mid-May to the end of the quarter, there was a shakeout of crowded positioning built up over the past six months, which was highlighted by an aggressive flattening of the yield curve. While 30-year Government of Canada yields declined 35 basis points from mid-May to the end of the quarter, 2-year Government of Canada yields increased 12 basis points. The FTSE Canada Short Term Bond Index rose 0.07% over the second quarter, dramatically underperforming longer term debt. Despite the bond market volatility over the first half of 2021, equity and credit markets have performed extraordinarily well, with little volatility in steady grinding markets. The S&P/TSX Composite Index returned over 15% in the first half of the year and many investment-grade credit spreads are back to their pre-*COVID* levels.

The Bank of Canada did not renew many of the expiring asset purchase programs it enacted in 2020 over the first half of the year, as financial market conditions have dramatically improved over the past twelve months. The Bank also began tapering its Government Bond Purchase Program given technical concerns of owning too much of the Canada bond market. The Bank currently owns more than 40% of outstanding Canadian Government debt, well above U.S. Treasury levels held by the Federal Reserve. Markets are expecting the Bank of Canada to begin hiking rates in mid-2022, moving forward rate hike expectations from late 2022—given upside inflation surprises, expectations of strong growth over the second half of 2021, and less labour market scarring than expected.

### Recent Developments

The fastest bear market of all time in the first half of 2021 has given way to a fast but steady recovery, driven by a reduction in downside tail risks with the advent of effective *COVID-19* vaccines. The portfolio manager

expects policymakers to remain accommodative, but inflation concerns and strong growth will likely prompt a measured and gradual reduction of monetary policy over the coming years.

The Fund continues to hold a large allocation in mortgages, given their relative yield advantage versus the benchmark and other short-duration fixed income alternatives. The Fund continues to hold a modest underweight in duration versus the benchmark. The Fund is overweight relative to its benchmark in high-grade corporate bonds and underweight in Government securities.

### 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, including the potential impact of the COVID-19 pandemic on the Fund and/or its operations.

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

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, Institution Series which are funds managed by the Fund’s Portfolio Manager.

In the first six-month of 2021 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 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 <sup>(1)</sup>

	Six months ended June 30	Year ended December 31				
	2021	2020	2019	2018	2017	2016
Net Assets, beginning of year/period	\$11.58	\$11.25	\$11.09	\$11.22	\$11.35	\$11.38
<b>Increase (decrease) from operations:</b>						
Total revenue	\$0.14	\$0.30	\$0.32	\$0.32	\$0.32	\$0.35
Total expenses, including transaction costs [excluding distributions]	(\$0.07)	(\$0.14)	(\$0.14)	(\$0.13)	(\$0.14)	(\$0.14)
Realized gains (losses) for the period	\$0.01	\$0.09	\$0.01	(\$0.13)	(\$0.05)	\$0.04
Unrealized gains (losses) for the period	(\$0.14)	\$0.23	\$0.17	(\$0.01)	(\$0.10)	(\$0.07)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>(\$0.06)</b>	<b>\$0.48</b>	<b>\$0.36</b>	<b>\$0.05</b>	<b>\$0.03</b>	<b>\$0.18</b>
<b>Distributions:</b>						
From net investment income (excluding dividends)	\$0.07	\$0.15	\$0.19	\$0.19	\$0.17	\$0.21
From dividends	\$--	\$--	\$--	\$--	\$--	\$--
From capital gains	\$--	\$--	\$--	\$--	\$--	\$--
Return of capital	\$--	\$--	\$--	\$--	\$--	\$--
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$0.07</b>	<b>\$0.15</b>	<b>\$0.19</b>	<b>\$0.19</b>	<b>\$0.17</b>	<b>\$0.21</b>
<b>Net Assets, end of year/period</b>	<b>\$11.44</b>	<b>\$11.58</b>	<b>\$11.25</b>	<b>\$11.09</b>	<b>\$11.22</b>	<b>\$11.35</b>

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

	Six months ended June 30		Year ended December 31			
	2021	2020	2019	2018	2017	2016
Total Net Asset Value (000's) <sup>(4)</sup>	\$145,295	\$144,701	\$129,221	\$140,483	\$188,011	\$199,421
Number of units outstanding <sup>(4)</sup>	12,698,700	12,499,441	11,485,494	12,668,872	16,764,263	17,566,363
Management expense ratio <sup>(5)</sup>	1.25%	1.25%	1.24%	1.19%	1.19%	1.19%
Management expense ratio before waivers or absorptions <sup>(6)</sup>	1.25%	1.25%	1.25%	1.24%	1.25%	1.25%
Trading expense ratio <sup>(7)</sup>	0.02%	--	--	--	--	--
Portfolio turnover rate <sup>(8)</sup>	19.04%	40.79%	24.71%	30.75%	37.56%	59.84%
Net Asset Value per unit	\$11.44	\$11.58	\$11.25	\$11.09	\$11.22	\$11.35

- (1) This information is derived from the Fund's interim financial report and 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 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 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 1.10% for the Class A Series and 0.40% for the Class F 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 11.1% 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**

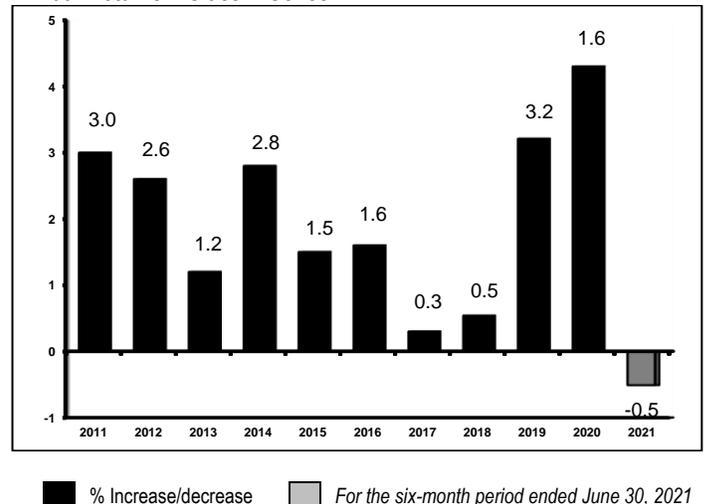
The Fund's performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund.

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 annual performance for each of the years shown and for the six-month period 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 period would have grown or decreased by the last day of each financial period.

Annual Returns – Class A Series



Annual Returns – Class F Series

Regulatory restrictions limit publishing performance for investment funds with a history of less than one year. As at June 30, 2021 no Class F units had been offered to purchase.

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, 2021

Sector Mix	Percentage of Net Asset Value
Canadian Mutual Funds	52.37%
Corporate Bonds	31.62%
Government Bonds	8.40%
Preferred Shares	3.84%
Asset-Backed Securities	2.09%
Short-term Investments	1.37%
Net Other Assets	0.21%
Cash and Cash Equivalents	0.10%

**Top 25 Holdings**

Security Name	Percentage of Net Asset Value
HSBC Mortgage Fund, Institutional Series	51.92%
Toronto-Dominion Bank, 3.11%, April 22, 2030	3.44%
Canada Housing Trust No 1, 1.90%, September 15, 2026	2.84%
Canada Housing Trust No 1, 1.95%, December 15, 2025	1.99%
Royal Bank of Canada, 2.09%, June 30, 2030	1.70%
Toronto-Dominion Bank, 3.60%	1.66%
Choice Properties Real Estate Investment Trust, 4.06%, November 24, 2025	1.61%
Coast Capital Savings Credit Union, 5.00%, May 3, 2028	1.52%
Canadian Treasury Bill, 0.13%, July 22, 2021	1.37%
BHP Billiton Finance Ltd., 3.23%, May 15, 2023	1.33%
Brookfield Asset Management Inc., 4.80%	1.21%
Canada Housing Trust No 1, 1.25%, June 15, 2026	1.14%
Province of Saskatchewan Canada, 2.65%, June 2, 2027	1.10%
Brookfield Asset Management Inc., 4.80%, January 28, 2026	1.02%
Granite REIT Holdings LP, 3.87%, November 30, 2023	0.94%
Canadian Imperial Bank of Commerce, 0.67%, June 10, 2024	0.82%
Pembina Pipeline Corp., 3.77%, October 24, 2022	0.77%
Brookfield Asset Management Inc., 4.50%	0.74%
Province of Manitoba, 2.60%, June 2, 2027	0.73%
Toronto-Dominion Bank, 3.22%, July 25, 2029	0.73%
Morgan Stanley, 3.00%, February 7, 2024	0.72%

First National Financial Corp., 2.96%, November 17, 2025	0.69%
Royal Bank of Canada, 1.94%, May 1, 2025	0.67%
Empire Life Insurance Co., 3.38%, December 16, 2026	0.66%
Empire Life Insurance Co., 3.66%, March 15, 2028	0.65%

**Total Net Assets (000's) \$145,295**

The top 25 holdings represent approximately 81.95% of the total net assets of the Fund.

The summary of investment portfolio of the Fund is as at June 30, 2021 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](http://www.sedar.com).

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