

## Management Report of Fund Performance

For the fiscal year ended December 31, 2019

This document contains the Annual Management Report of Fund Performance (“MRFP”) for the Family Single Student Education Savings Plan (the “Plan”).

This MRFP contains financial highlights but does not contain the complete annual financial statements of the Plan. You can obtain a copy of the annual financial statements of the Plan at your request, and at no cost, by calling us at 1-800-363-7377 or by writing to us at 50 Burnhamthorpe Road West, Suite 1000, Mississauga, Ontario, L5B 4A5. Alternatively, you can visit our website at [www.knowledgefirstfinancial.ca](http://www.knowledgefirstfinancial.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).

The investment policies of the Plan, as well as those contained in the Canadian Securities Administrators (“CSA”) policies, limit the Plan’s investments to government bonds, guaranteed investment certificates, guaranteed mortgages, mortgage backed securities and corporate debt instruments of financial institutions (the latter with a minimum A credit rating at the time of acquisition).

Any decision on security voting matters has been delegated to each of our portfolio managers as described in their respective Investment Management Agreements

### Topics Covered in this Report

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  - Investment Objectives and Strategies
  - Risk
  - Results of Operations
  - Recent Developments
  - Related Party Transactions
- Financial and Operating Highlights
- Other Fees
- Summary of Investment Portfolio
- Past Performance
  - Year by Year Returns
  - Annual Compound Returns

### Management Discussion of Fund Performance

#### Investment Objectives and Strategies

The investment objectives of the Plan are foremost to protect the principal of the investor and maximize return over the long term in a conservative manner, in accordance with the Plan’s investment policy. The Plan invests in Canadian fixed income securities including Canadian federal, provincial, municipal and corporate bonds.

#### Risk

The Plan is a conservative investment fund suitable for investors seeking to save for a child’s post-secondary education. It is particularly suited for those investors having a lower tolerance for risk. In fiscal 2019, there were no significant changes to the Plan’s portfolio and overall level of risk. Furthermore, the Plan’s investment philosophy, style and method remained the same.

#### Results of Operations

The net assets in the Plan increased by 8.5% over the fiscal year from \$100.9 million as of December 31, 2018 to \$109.4 million as of December 31, 2019. New deposits (inclusive of government grants), transfers in and income earned on the investments contributed by strong equity markets in the Plan exceeded payments to existing subscribers and beneficiaries of the Plan.

#### *Investments*

Over the past five years, the Plan’s net rate of return was 1.7% per annum. For fiscal 2019, the Plan’s net rate of return was 4.2% versus a return of 6.4% for the FTSE Canada Universe All Government Bond Index (formerly called DEX All Government Bond Index). Unlike the Index, the Plan’s return is after fees for administration, portfolio management, custodian and the independent review committee.

The Plan's overall investment mix did not change significantly from the previous fiscal year. At December 31, 2019, 86% of the assets were invested in government bonds.

Despite a negative market in late 2018, 2019 was very positive for both bonds and equity markets. Accommodative policies from the central banks around the world, somewhat easing trade tensions, more clarity surrounding Brexit after the majority Conservative government victory, strong labor markets, and renewed optimism about the economic outlook despite slowing economic growth - all helped to deliver robust returns across the markets for both risky and risk-off assets, which was unusual.

After the sharp fall in equities at the end of the last year, the global central banks signaled a reversed course, where instead of increasing interest rates they would provide more accommodative policy to support the economic expansion. This resulted in strong bonds' performance despite the historically low level of interest rates. The yield curve moved down and partially inverted. 5Y Canadian government bond yield decreased from its high of 1.96% at the beginning of the year, to the lowest of 1.13% for the year in August before recovering to 1.68% at the end of the year. 10Y Canadian government bond yield followed suit decreasing from the highest 2.03% in January to the lowest of 1.09% in August before recovering to 1.7% at the end of the year. Canadian Government bonds returned 6.4%, and Corporate spreads tightened resulting in Canadian Corporate bonds returning 8.1%.

### Recent Developments

Effective February 1, 2019, Guardian Capital LP was appointed portfolio manager, replacing Fiera Capital Corporation.

Prior to February 1, 2019, Fiera Capital Corporation managed the Plan's assets. Since February 1, 2019, Guardian Capital LP took over the management of the assets. The assets were allocated amongst different fixed income categories at our investment manager's discretion and subject to the investment policy for the Plan. Our investment manager actively managed the securities through sector allocation, duration management, credit research and yield curve strategies.

On May 30, 2019, subscribers of the Family Group Education Savings Plan ("Family Group Plan") voted in favour of amendments to Family Group Plan's Education Assistance Agreement ("EAA"), granting the Foundation discretion to transfer the assets from Family Group Plan to the Plan and to allow the Foundation to enter into an EAA for the Plan on behalf of each subscriber, in the manner described in the Management Information Circular of the Group Plan dated April 1, 2019 and to terminate the Group Plan's EAA.

As noted in the Management Information Circular, the asset transfer from Family Group Plan to the Plan occurred on January 1, 2020, after which the management has taken steps to formally wind-up Family Group Plan. The total assets transferred from Family Group Plan to the Plan in the beginning of January 2020 were \$3.3 billion. Before the transfer, as at December 31, 2019, the Plan had invested 100% of AUM in bonds. As at December 31, 2019, Family Group Plan had \$3.3 billion of AUM with 33% assets invested in equities (23% in US equities and 10% in Canadian equities) and the rest in bonds. At the end of January 2020, the combined AUM was \$3.5 billion, and the combined Plan had 34% invested in equities (24% in US equities and 10% in Canadian equities), and remainder in bonds.

On May 30, 2019, subscribers of the Plan voted in favour of amendments to the Plan's EAA to eliminate the Depository Fees, Administration Fee, Custodian Fees and Portfolio Management Fees, and replace these fees with a single, consolidated Management Fee not to exceed 1% per annum of all funds on deposit related to the Plan, plus applicable taxes, with such changes not to take effect for a minimum of seven (7) months and by no later than thirteen (13) months, following the date by which these changes were approved, for all existing and future subscribers to the EAA. The proposed changes were described in the Management Information Circular of the Plan dated April 1, 2019. The Management Fee rate of 0.79% went in effect starting January 1, 2020 as approved by the Foundation.

### Related Party Transactions

Any applicable sales taxes are added to the fees shown below and are included in the total amounts for the year ended December 31, 2019.

#### Administration Fees

The Foundation is the sponsor and promoter of the Plan. Knowledge First Financial Inc. (Financial), a wholly owned subsidiary of the Foundation, provides various corporate administrative services to the Foundation including processing and call centre services related to new agreements, payments, government grants, plan modifications, terminations, maturities and Education Assistance Payments (EAPs). An annual administration fee (inclusive of audit fees) of \$797 thousand (\$504 thousand for the year ended December 31, 2018) was paid to Financial.

Pursuant to the Fund Management Agreement dated May 1, 2013, administration fees are paid 100% to Financial. Financial is entitled to receive a depository fee payable by subscribers and also an annual fee of up to 0.5% of all funds on deposit related to the Plan. The administration fee is calculated and paid monthly by the Plan to Financial.

Knowledge First Financial Plans, which include the Plan, may be considered to be connected issuers of Financial. A connected issuer includes an issuer distributing securities that has a relationship with a securities dealer or certain parties related to that dealer, which may lead a reasonable prospective investor to question if the dealer and the issuer are independent of each other.

### Enrolment Fees

Financial, as the Plan's distributor, deducts enrolment fees from subscribers' deposits to the Plan equivalent to \$100 per unit purchased. All of the subscribers' deposits to the Plan are applied against the enrolment fee until one half of the total enrolment fee has been paid. Thereafter, one half of subsequent deposits to the Plan are applied against the enrolment fee until the fee is paid in full. Enrolment fees in fiscal 2019 were \$56 thousand (\$50 thousand in the year ended December 31, 2018.)

### Depository and Special Processing Fees

Depository and special processing fees of \$42 thousand (\$49 thousand for the year ended December 31, 2018) were deducted from subscribers' deposits. The depository fee is an annual fee for processing subscribers' deposits. This fee is dependent upon the deposit frequency chosen by the subscriber: monthly, annual or single deposit. Special processing fees are one-time fees for specific transactions in the subscribers' savings account. Pursuant to the Fund Management Agreement dated May 1, 2013, 100% of the depository fees collected from subscribers and 100% of special processing fees are paid to Financial as these fees are directly related to plan administration activities.

### Insurance Premiums

Insurance premiums of \$20 thousand (\$22 thousand for the year ended December 31, 2018) were deducted from subscribers' deposits prior to depositing the balance into the Plan. The insurance premium for the embedded group life and total disability insurance is calculated at 1.7% of subscribers' deposits. No premium is deducted for one-time deposits or if the subscriber is under the age of 18 or over the age of 64. Pursuant to the Fund Management Agreement dated May 1, 2013, 100% of insurance administration-related fees are paid to Financial. Insurance administration fees are estimated to be 25% to 30% of the insurance premium.

### Financial and Operating Highlights (with comparative figures)

The following table shows key financial and operating data for the Plan and is intended to help you understand the Plan's financial and operating results for the past five fiscal periods. This information is derived from the Plan's audited annual financial statements.

| (\$ in thousands)  | Year ended<br>December 31,<br>2019 | Year ended<br>December 31,<br>2018 | Period ended<br>December 31,<br>2017 | Year ended<br>April 30,<br>2017 | Year ended<br>April 30,<br>2016 |
|--|------------------------------------|------------------------------------|--------------------------------------|---------------------------------|---------------------------------|
| <b>Statements of Financial Position</b>  |                                    |                                    |                                      |                                 |                                 |
| Total Assets <sup>(1)</sup>  | 148,076                            | 125,980                            | 105,994                              | 80,491                          | 75,075                          |
| Net Assets Attributable to Subscribers and Beneficiaries <sup>(2)</sup>                  | 109,416                            | 100,877                            | 87,936                               | 73,734                          | 66,109                          |
| % Change of Net Assets   | 8.5%                               | -3.9%                              | 19.3%                                | 11.5%                           | 8.4%                            |
| <b>Statements of Changes in Net Assets Attributable to Subscribers and Beneficiaries</b> |                                    |                                    |                                      |                                 |                                 |
| Scholarship Awards (Educational Assistance Payments).                                    | 21,493                             | 16,701                             | 11,530                               | 13,107                          | 10,320                          |
| Government Grants (net) <sup>(3)</sup>   | (3,823)                            | (3,697)                            | (5,059)                              | (1,354)                         | (1,352)                         |
| <b>Statements of Comprehensive Income</b>  |                                    |                                    |                                      |                                 |                                 |
| Net Investment Income <sup>(4)</sup>   | 2,289                              | 1,813                              | 819                                  | 1,124                           | 1,068                           |

<sup>(1)</sup> "Total Assets" represents cash, investments, and receivables.

<sup>(2)</sup> "Net Assets Attributable to Subscribers and Beneficiaries" represents total assets less total liabilities.

<sup>(3)</sup> Government grants are net of repayments to beneficiaries upon eligibility and grants transferred to or from other institutions and other plans.

<sup>(4)</sup> Net investment income excludes realized gains (losses) on investments and the net change in unrealized gains (losses) on investments.

### Other Fees

Any applicable sales taxes are added to the fees shown below and are included in the total amounts for the year ended December 31, 2019.

### Investment Counsel Fees

Investment Counsel fees of \$114 thousand (\$168 thousand for the period ended December 31, 2018) were paid to the Plan's investment managers. Fees are calculated as a percentage of the total market value of the investment portfolio in the Plan and during the current and prior years ranged from 0.09% to 0.27% on a graduated scale. Investment counsel fees paid for the year amounted to 0.085% (0.15% for the year ended December 31, 2018) of the total fair value of the investment portfolio in the Plan.

### Independent Review Committee Fees

The Plan paid the Independent Review Committee, a committee mandated by legislation, fees of \$2 thousand (\$3 thousand for the year ended December 31, 2018) to Independent Review Inc. (IRI). The Independent Review Committee reviews all conflict of interest matters referred to it by the Foundation.

### Summary of Investment Portfolio

The following table indicates the largest 25 holdings of the Plan at the end of fiscal 2019. This summary of investment portfolio may change due to ongoing portfolio transactions. The Plan is prohibited from holding short positions in securities.

|    | Name                               | Coupon | Maturity Date | % of Investment |
|----|------------------------------------|--------|---------------|-----------------|
| 1  | GOVERNMENT OF CANADA               | 5.75%  | 2033-06-01    | 13.9%           |
| 2  | GOVERNMENT OF CANADA               | 2.00%  | 2028-06-01    | 7.3%            |
| 3  | PROVINCE OF ONTARIO                | 2.60%  | 2025-06-02    | 6.9%            |
| 4  | PROVINCE OF ONTARIO                | 2.40%  | 2026-06-02    | 6.4%            |
| 5  | PROVINCE OF ALBERTA                | 2.35%  | 2025-06-01    | 5.4%            |
| 6  | PROVINCE OF QUEBEC                 | 2.75%  | 2027-09-01    | 4.9%            |
| 7  | PROVINCE OF ONTARIO                | 2.60%  | 2027-06-02    | 4.7%            |
| 8  | GOVERNMENT OF CANADA               | 5.75%  | 2029-06-01    | 4.5%            |
| 9  | GOVERNMENT OF CANADA               | 1.50%  | 2026-06-01    | 4.2%            |
| 10 | BANK OF MONTREAL                   | 3.19%  | 2028-03-01    | 3.8%            |
| 11 | CANADA HOUSING TRUST               | 2.90%  | 2024-06-15    | 3.7%            |
| 12 | BANK OF NOVA SCOTIA                | 3.10%  | 2028-02-02    | 3.4%            |
| 13 | PROVINCE OF BRITISH COLUMBIA       | 2.95%  | 2028-12-18    | 3.1%            |
| 14 | PROVINCE OF SASKATCHEWAN           | 3.20%  | 2024-06-03    | 3.0%            |
| 15 | PROVINCE OF BRITISH COLUMBIA       | 5.70%  | 2029-06-18    | 2.9%            |
| 16 | CANADIAN IMPERIAL BANK OF COMMERCE | 3.30%  | 2025-05-26    | 2.8%            |
| 17 | PROVINCE OF ONTARIO                | 3.50%  | 2024-06-02    | 2.1%            |
| 18 | GOVERNMENT OF CANADA               | 2.25%  | 2025-06-01    | 1.7%            |
| 19 | GOVERNMENT OF CANADA               | 2.50%  | 2024-06-01    | 1.5%            |
| 20 | PROVINCE OF ONTARIO                | 6.50%  | 2029-03-08    | 1.4%            |
| 21 | PROVINCE OF QUEBEC                 | 3.75%  | 2024-09-01    | 1.4%            |
| 22 | CANADIAN IMPERIAL BANK OF COMMERCE | 2.97%  | 2023-07-11    | 1.2%            |
| 23 | BANK OF NOVA SCOTIA                | 2.29%  | 2024-06-28    | 1.1%            |
| 24 | PROVINCE OF BRITISH COLUMBIA       | 2.85%  | 2025-06-18    | 1.0%            |

## Family Single Student Education Savings Plan

|  |                              |       |            |              |
|--|------------------------------|-------|------------|--------------|
| 2  | PROVINCE OF BRITISH COLUMBIA | 6.35% | 2031-06-18 | 1.0%         |
| 5  |                              |       |            |              |
| <b>Largest 25 holdings as a % of investments</b> |                              |       |            | <b>93.3%</b> |

The following table illustrates the Plan's assets in appropriate sub-groups and indicates the percentage of the overall investment asset value that each sub-group represents, excluding cash.

| Category               | Fair Value (\$000s) | % of Total Investments |
|------------------------|---------------------|------------------------|
| Federal                | 52,564,049          | 38.2%                  |
| Provincial             | 64,369,581          | 46.7%                  |
| Corporate              | 19,256,067          | 14.0%                  |
| Short term investments | 1,572,560           | 1.1%                   |
| <b>Total</b>           | <b>137,762,257</b>  | <b>100%</b>            |

### Past Performance

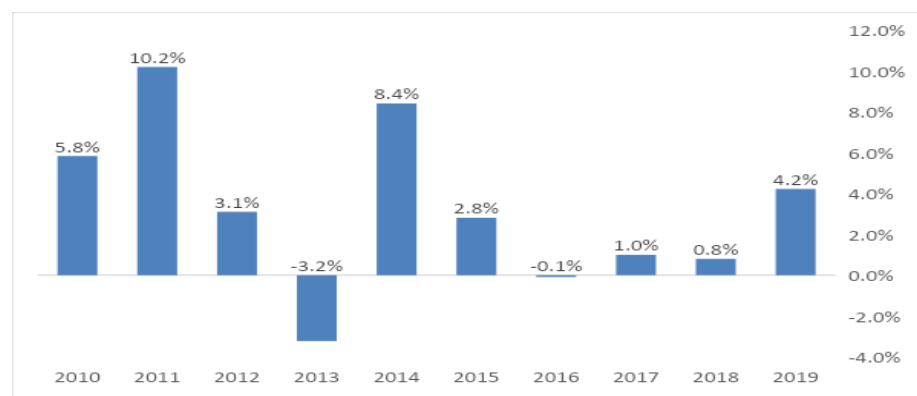
Past performance of the Plan is set out in the following chart and compound returns table. Investment returns have been calculated using market values and time-weighted cash flows during the year(s). Rates of return shown below for the Plan are:

- For the investment portfolio only;
- After administration, investment counsel, custodial and independent review committee fees have been deducted; and
- Assume that all of the income, interest earned, and capital gains distributions are reinvested in the Plan.

Past performance does not necessarily indicate how the Plan's investment portfolio will perform in the future.

### Year by Year Returns

The following bar chart illustrates the Plan's annual performance in each of the past ten fiscal years to December 31, 2019. The chart illustrates in percentage terms how much an investment made in the investment portfolio on the first day of each financial year would have increased or decreased by the last day of that financial year.



### Annual Compound Returns

The following table illustrates the Plan's annual compound returns for the periods shown ended December 31, 2018.

|            | 1 Year | 3 Year | 5 Year | 10 Year |
|------------|--------|--------|--------|---------|
| The Plan   | 4.2%   | 2.0%   | 1.7%   | 3.3%    |
| Benchmark* | 6.4%   | 3.4%   | 3.0%   | 4.1%    |

\* The FTSE Canada Universe All Government Bond Index (formerly called DEX All Government Bond Index) measures Canadian investment grade fixed income securities including bonds issued by the Government of Canada (including Crown Corporations), provincial bonds (including provincially-guaranteed securities) and municipal bonds.

Subsequent note

**Subsequent event**

Since the latter part of February 2020, the financial markets have been very volatile in response to the developing COVID-19 pandemic and the equity markets in particular have experienced significant declines. The investment portfolio of the Plan has been subject to these market fluctuations and are expected to continue to experience significant volatility as the situation evolves.