

## **Management Report of Fund Performance**

For the year ended December 31, 2020

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, L5B4A5. 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

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## **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 balanced 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. During the year ended December 31, 2020, 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**

During the year ended December 31, 2020, net assets attributable to subscribers and beneficiaries of the Plan increased by 3,234% from \$109.4 million as of December 31, 2019 to \$3,636.4 million as of December 31, 2020. The increase primarily resulted from merger with Family Group Plan on January 1, 2020 (94.5%), and income earned on the investments of the Plan (net of payments and expenses).

### **Investments**

Over the past five years, the Plan's net rate of return was 5.5% per annum. For fiscal 2020, the Plan's net rate of return was 10.8% versus a return of 8.7% 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-changed significantly from the previous fiscal year after the merger with Family Group Plan. At December 31, 2020, 25.9% of the assets were invested in government bonds, 36% in corporate bonds, and 38.1% in equities.

The year started with stocks in a bull market and equities reaching all-time highs in February 2020. Then the pandemic of the century, COVID-19 outbreak, hit worldwide and resulted in a global economic shock. Supply chains have been disrupted, borders have been closed, workplaces and schools have been shut down. Speed and magnitude of market moves was unprecedented, as the uncertainty over the duration and impact of the virus threat resulted in volatility levels not seen since the financial crisis.

To save local economies, Central banks around the world responded with aggressive monetary and fiscal stimulus measures by cutting interest rates, developing new policy response, and boosting asset purchases. Both the US Federal reserve bank and Bank of Canada cut their interest rates by 150 bps in March 2020.

The exceptional government response resulted in positive market reaction, and markets surged from their March lows. As at December 31, 2020, the S&P 500 (US equity market) was up 18.4%, TSX Composite (Canadian equity market) was up 5.6%, and the Global equity markets (MSCI World) was up 15.9%. The recovery was not even, and there was a large divergence between sector performance. Information Technology was the clear winner (up about 81% in Canada and 44% worldwide), while Energy (down more than 26% in Canada and 30% worldwide) suffered disproportionately.

On the bonds side, the initial flight to safety helped propel government bond prices higher and push yields to historic lows. The yield on the benchmark 10-year Government of Canada bond plummeted from a high of 1.62% at the beginning of the year to a low of 0.43% in summer. After the initial rise, corporate credit spreads came down due to the unprecedented government response around the world, which resulted in

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strong corporate bonds performance. Canadian bonds (FTSE Overall Universe) were up 8.7%, and the US Corporate and Government bonds (ICE BAML US Corp & Govt Master Index) were up 8.8% in 2020. The yield of the overall Canadian universe bond index decreased from 2.3% at December 31, 2019 to 1.2% at December 31, 2020.

The Canadian dollar closed 2020 near a three-year high versus the U.S. dollar, but the exchange rate varied significantly throughout the year. The loonie started the year at about 1.29 CAD/USD. Then in mid-March it reached the low of 1.45 CAD/USD. As the year progressed, the Canadian dollar appreciated and finished the year at 1.27 CAD/USD.

Overall, the capital markets closed on an optimistic note as countries around the world began to administer COVID-19 vaccines.

### **Recent Developments**

On May 30, 2019, subscribers of the Family Group Education Savings Plan (“Family Group Plan”) voted in favor of amendments to Family Group Plan’s Education Assistance Agreement (“EAA”), granting the Knowledge First Foundation (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 Family Group Plan’s EAA. The asset transfer from Family Group Plan to the Plan occurred on January 1, 2020 and the total assets transferred on January 1, 2020 were \$3,333.1 million.

In addition to Guardian Capital LP, which managed Family Single Student Plan prior to the merger, new portfolio managers were appointed to manage plan’s assets, including Fiera Capital Corporation (infrastructure bonds), TD Asset Management Inc (corporate bonds), Connor, Clark & Lunn Investment Management (Canadian equities) and BMO Asset Management Inc. (US equity ETFs). The portfolio advisors manage the assets of the Plans on a discretionary basis within set parameters established under the prospectus and the SIPP.

On May 30, 2019, subscribers of the Plan voted in favor of amendments to the Plan’s EAA to eliminate the Depository Fees, 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.

Pursuant to the updated Knowledge First Financial Inc.’s (the “Knowledge First Financial”) Undertaking with the Ontario Securities Commission (OSC), starting June 2020, the Plan is permitted to invest up to 40% of Plan’s Net Assets in equity securities, including exchange traded funds (ETFs) that replicate the performance of a widely quoted market index of Canadian or U.S. equity securities listed on a stock exchange in Canada or the U.S.

### **Related Party Transactions**

#### **Management Fees**

The Foundation is the sponsor of the Plan. The general management of the Plan is carried out on behalf of the Foundation by its wholly owned subsidiary, the Knowledge First Financial, and includes processing and call center services related to new agreements, payments, government grants, plan modifications, terminations, maturities and EAPs. Under a fund management agreement dated May 1, 2013, as amended

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following the results of the Plan' subscriber vote in 2019 set out above, in consideration for its administrative services (inclusive of audit fees, investment counsel fees, custodian fees and Independent Review Committee fees), Knowledge First Financial is entitled to receive from the Plan an annual management fee up to 1% plus HST on funds on deposit related to the Plan. For the year ended December 31, 2020, management fees charged to the Plan were \$30.5 million (0.79%), inclusive of HST (December 31, 2019 - \$797 thousand).

Knowledge First Financial Plans, which include the Plan, may 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.

### **Investment Counsel Fees**

For the year-ended December 31, 2020, Investment Counsel fees of \$nil (December 31, 2019 - \$114 thousand) were paid to the Plan's investment managers. Investment counsel fees paid for the year amounted to 0.12% (year ended December 31, 2019 - 0.09%) of the total fair value of the investment portfolio in the Plan. Effective January 1, 2020, investment counsel fees were included in the management fees paid to the Knowledge First Financial.

### **Independent Review Committee Fees**

The Independent Review Committee reviews all conflict-of-interest matters referred to it by the Foundation. For the year ended December 31, 2020, the Plan paid the Independent Review Committee, a committee mandated by legislation, fees of \$52 thousand (December 31, 2019 - \$2 thousand).

### **Enrolment Fees**

The Knowledge First Financial, as the Plan's distributor, deducts enrolment fees from subscribers' deposits to the Plan equivalent to \$100 per unit purchased. All 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 for the year ended December 31, 2020 were \$868 thousand (December 31, 2019 - \$56 thousand).

### **Special Processing Fees**

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 special processing fees are paid to the Knowledge First Financial as these fees are directly related to plan administration activities. For the year ended December 31, 2020, special processing fees deducted were \$184 thousand (December 31, 2019 - \$42 thousand).

### **Insurance Premiums**

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. For the year ended December 31, 2020, insurance premiums of \$2.3 million (December 31, 2019 - \$20 thousand) were deducted from subscribers' deposits prior to depositing the balance into the Plan.

### **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.

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(\$ in thousands)	Year ended December 31, 2020	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017	Period ended April 30, 2017	Period ended April 30, 2016
<b>Statements of Financial Position</b>						
Total Assets <sup>(1)</sup>	\$ 3,684,592	\$ 148,076	\$ 125,980	\$ 105,994	\$ 80,491	\$ 75,075
Net Assets	3,636,420	109,416	100,877	87,936	73,734	66,109
% Change of Net Assets	3,233.5%	8.5%	14.7%	19.3%	11.5%	8.4%
<b>Statements of Changes in Net Assets Attributable to Subscribers and Beneficiaries</b>						
Educational Assistance						
Payments	\$ 115,912	\$ 21,493	\$ 16,701	\$ 11,530	\$ 13,107	\$ 10,320
Government Grants (net) <sup>(2)</sup>	(594,748)	(3,823)	(3,697)	(5,059)	(1,354)	(1,352)
<b>Statements of Comprehensive Income</b>						
Net Investment Income <sup>(3)</sup>	\$ 43,492	\$ 2,289	\$ 1,813	\$ 819	\$ 1,124	\$ 1,068

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

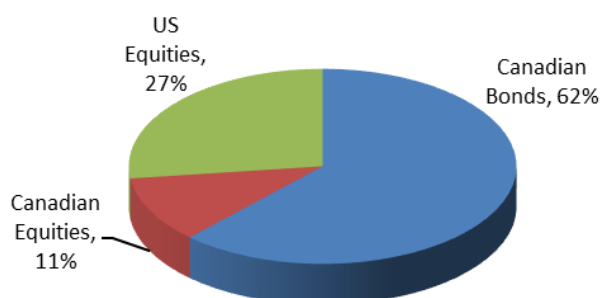
<sup>(2)</sup> Government grants are net of repayments to beneficiaries upon eligibility and grants transferred to or from other institutions and other plans.

<sup>(3)</sup> Net investment income excludes realized gains (losses) on investments and the net change in unrealized gains (losses) on investments.

### Summary of Investment Portfolio

Portfolio by Category as at December 31, 2020

#### Family Single Student Asset Mix



The following table indicates the largest 25 holdings of the Plan at the end of fiscal 2020. 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	BMO S&P 500 HEDGED TO CAD INDEX ETF			20.5%
2	BMO S&P 500 INDEX ETF			6.7%
3	PROVINCE OF ONTARIO	5.85%	2033-03-08	2.4%
4	PROVINCE OF ONTARIO	6.50%	2029-03-08	2.3%
5	PROVINCE OF ONTARIO	2.40%	2026-06-02	2.2%
6	PROVINCE OF ONTARIO	2.60%	2027-06-02	2.0%
7	PROVINCE OF BRITISH COLUMBIA	2.95%	2028-12-18	1.8%
8	PROVINCE OF ALBERTA	2.35%	2025-06-01	1.8%

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9	CANADIAN IMPERIAL BANK OF COMMERCE	3.30%	2025-05-26	1.6%
10	PROVINCE OF BRITISH COLUMBIA	5.70%	2029-06-18	1.5%
11	PROVINCE OF QUEBEC	2.75%	2027-09-01	1.4%
12	BANK OF MONTREAL	3.19%	2028-03-01	1.4%
13	GOVERNMENT OF CANADA	5.75%	2033-06-01	1.3%
14	PROVINCE OF BRITISH COLUMBIA	2.20%	2030-06-18	1.1%
15	PROVINCE OF ONTARIO	4.65%	2041-06-02	1.1%
16	TORONTO-DOMINION BANK	3.22%	2029-07-25	1.0%
17	HSBC BANK CANADA	3.25%	2023-09-15	1.0%
18	PROVINCE OF QUEBEC	2.75%	2028-09-01	0.9%
19	GREAT-WEST LIFECO INC	2.38%	2030-05-14	0.9%
20	CAPITAL DESJARDINS INC	4.95%	2026-12-15	0.8%
21	ROYAL BANK OF CANADA	1.97%	2022-03-02	0.8%
22	ROYAL BANK OF CANADA	1.94%	2025-05-01	0.8%
23	PROVINCE OF ALBERTA	3.10%	2050-06-01	0.7%
24	ROYAL BANK OF CANADA			0.7%
25	PROVINCE OF ONTARIO	2.60%	2025-06-02	0.7%
<b>Largest 25 holdings as a % of investments</b>				<b>57.4%</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.

<b>Category</b>	<b>Fair Value (\$000s)</b>	<b>% of Total Investments</b>
Equities	\$ 1,389,594	38.1%
Corporate	1,315,512	36.0%
Provincial	840,461	23.0%
Federal	87,973	2.4%
Short term investments	19,354	0.5%
<b>Total</b>	<b>\$ 3,652,894</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:

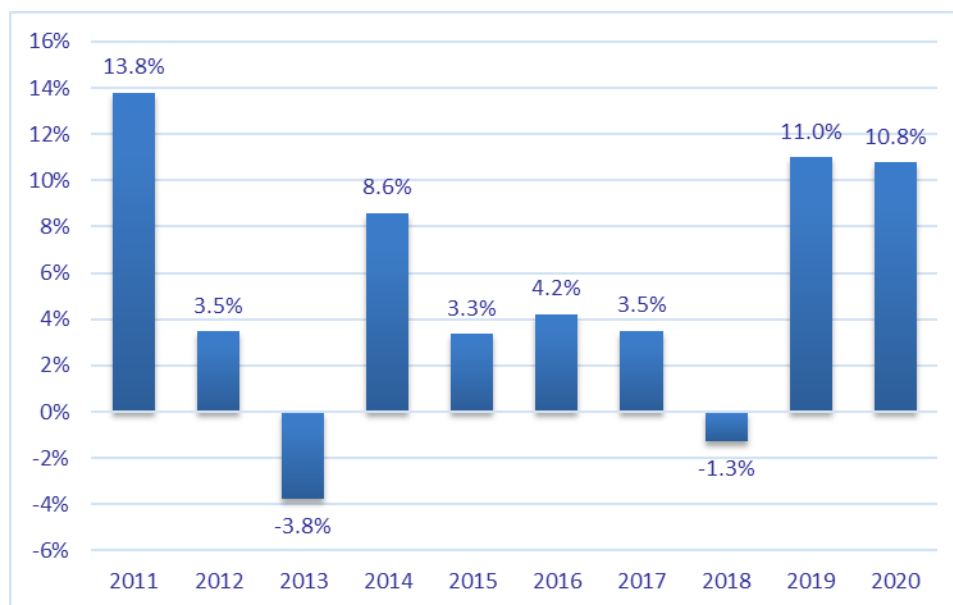
- For the investment portfolio only;
- After administration, investment counsel, custodial and independent review committee fees have been deducted; and
- Assume that all of the income, interest earned, and capital gains distributions are reinvested in the Plan.

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, 2020. 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.

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### Annual Compound Returns

The following table illustrates the Plan's annual compound returns for the periods shown ended December 31, 2020.

	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>	<b>10 Year</b>
Family Single Student Education Savings Plan*	10.8%	6.7%	5.5%	5.2%
FTSE Universe All Government Bond Index**	8.7%	5.5%	3.9%	4.3%
S&P TSX Composite Index***	5.6%	5.7%	9.3%	5.8%
S&P 500 Index	18.4%	14.2%	15.2%	13.9%
S&P 500 Index (\$C)	16.1%	14.7%	13.3%	16.7%

\* Annual compound returns reflect Family Group Plan returns which merged with Family Single Student Education Savings Plan on January 2, 2020.

\*\* 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.

\*\*\* The S&P/TSX Composite Index is the flagship index for the Canadian equity market and measures the performance of the largest stocks listed on the Toronto Stock Exchange. The S&P 500 Index is the flagship index for the US equity market and measures the performance of the largest 500 US stocks.