

## **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 Flex First (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 (the latter with a minimum BBB credit rating at the time of acquisition), Canadian equity securities, and U.S. equities via an exchange-traded fund (ETF), both of which must be traded on a stock exchange in Canada or the U.S.

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 accordance with the Plan's investment policy. Pursuant to the Knowledge First Financial Inc.'s (the "Knowledge First Financial") Undertaking with the Ontario Securities Commission (OSC), the Plan is permitted to invest a portion of the Plan's assets (up to 40% of 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. The Plan started investing in Canadian equities securities and US equities via ETFs in fiscal 2015.

Guardian Capital LP ("Guardian") manages the Plan's assets. The assets were allocated amongst different market sectors with different maturity segments for fixed income securities and industry sectors for equity securities. Guardian seeks to achieve diversification subject to the investment objectives and policies for the Plan. Our investment manager actively manages the Plan's fixed income securities through sector allocation, duration management, credit research and yield curve strategies. Guardian selects Canadian equity securities with a bias towards high-quality companies and invests passively in BMO US equity ETFs to provide additional diversification.

### **Risk**

The Plan is a conservative balanced investment fund suitable for investors focusing on a long-term savings program, intended to fund post-secondary education. It is suited for those investors having a lower tolerance for risk. The Plan's investment philosophy, style and method remains unchanged since equities were introduced to the Plan's portfolio in 2015. The risk of investing in the Plan and its suitability for investors remain as discussed in the Prospectus for the Plan.

### **Results of Operations**

During the year ended December 31, 2020, net assets attributable to subscribers and beneficiaries of the Plan increased by 48.1% from \$240.6 million as of December 31, 2019 to \$356.2 million as of December 31, 2020. The increase primarily resulted from subscribers' contributions (31.9%) and grants (34.0%). Income earned on the investments in the Plan (net of payments out) was a strong contributor as well, representing 11.7% of the net asset growth.

### **Investments**

At December 31, 2020, about 60% of total investments were invested in fixed income, mainly federal, provincial and corporate bonds. The remaining 40% was invested in equities (a mix of Canadian equities held directly, and US equities held through exchange-traded funds).

Over the past five years, the Plan's net rate of return was 5.1% per annum. For fiscal 2020, the Plan's overall net rate of return was 11.0% versus a return of 8.7% for the FTSE Canada Universe All Government Bond Index (formerly called DEX All Government Bond Index). S&P 500 Index returned 18.4%, while TSX Composite returned 5.6% in 2020. The Plan's return is after the deduction of independent review committee fees and management fees.

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.

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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 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**

Pursuant to the updated 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**

Knowledge First Foundation (the "Foundation") is the sponsor of the Plan. The Knowledge First Financial, a wholly owned subsidiary of the Foundation, carries out the general administration of the Plan on its behalf that includes processing and call center services related to new agreements, payments, government grants, plan modifications, terminations, maturities and EAPs and other back office functions such as accounting, reporting, compliance, legal and human resources. Under the fund management agreement dated May 1, 2013, in consideration for its administrative services (inclusive of depository, audit, portfolio management and custodial fees), the Knowledge First Financial is entitled to receive from the Plan an annual management fee of up to 1.5% of all funds on deposit related to the Plan. The actual management fee charged in the year ended December 31, 2020 was 1.30% plus HST. Management fees charged to the Plan were \$4.1 million, inclusive of HST (December 31, 2019 - \$2.8 million (1.30%)).

The 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.

**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 \$4 thousand (December 31, 2019 - \$3 thousand).

**Enrolment Fees**

The Knowledge First Financial, as the Plan’s distributor, deducts enrolment fees from subscribers’ deposits to the Plan based on the total contribution goal the subscriber has set for the Plan. This fee will not exceed 9.5% of the total contribution goal. All the subscribers’ deposits to the Plan are applied against the enrolment fee until the total enrolment fee has been paid. Enrolment fees for the year ended December 31, 2020 were \$29.4 million (December 31, 2019 - \$21.1 million).

**Special Processing Fees**

Special processing fees are one-time fees for specific transactions in the subscribers’ savings account. 100% of special processing fees are paid to Financial as these fees are directly related to plan administration activities. Special processing fees for the year ended December 31, 2020 were \$60 thousand (December 31, 2019 - \$25 thousand).

**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 last five fiscal years. This information is derived from the Plan’s audited annual financial statements.

(\$ 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
<b>Statements of Financial Position</b>					
Total Assets <sup>(1)</sup>	\$ 360,769	\$ 243,518	\$ 161,915	\$ 112,023	\$ 82,243
Net Assets <sup>(2)</sup>	356,224	240,582	159,758	110,500	81,094
% Change of Net Assets	48.1%	50.6%	44.6%	36.3%	90.3%
<b>Statements of Changes in Net Assets Attributable to Subscribers and Beneficiaries</b>					
Educational Assistance Payments	(583)	(373)	(156)	(43)	(22)
Government Grants (net) <sup>(3)</sup>	30,834	23,010	17,309	9,827	12,002
<b>Statements of Comprehensive Income</b>					
Net Investment Income <sup>(4)</sup>	\$ 1,834	\$ 1,721	\$ 1,067	\$ 412	\$ 327

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

<sup>(2)</sup> “Net Assets” represents total assets less total liabilities.

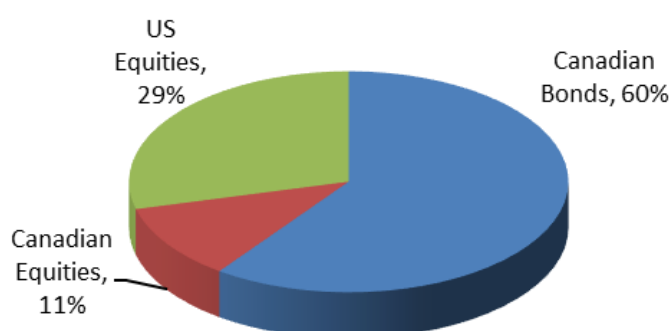
<sup>(3)</sup> Government grants are net of repayments to beneficiaries upon eligibility and grants transferred to or from other institutions and plans.

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

**Summary of Investment Portfolio**

The asset allocation as of December 31, 2020 is presented in the chart below:

### Flex First Asset Mix



The following table indicates the largest 25 holdings of the Plan as of December 31, 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
BMO S&P 500 HEDGED TO CAD INDEX ETF			21.9%
BMO S&P 500 INDEX ETF			7.1%
BANK OF MONTREAL	3.19%	2028-03-01	3.5%
PROVINCE OF ONTARIO	2.60%	2027-06-02	2.4%
PROVINCE OF BRITISH COLUMBIA	2.95%	2028-12-18	2.2%
PROVINCE OF ALBERTA	2.20%	2026-06-01	2.2%
PROVINCE OF ONTARIO	6.50%	2029-03-08	2.1%
PROVINCE OF ONTARIO	2.60%	2025-06-02	1.9%
PROVINCE OF ONTARIO	5.85%	2033-03-08	1.9%
PROVINCE OF ONTARIO	3.50%	2024-06-02	1.5%
PROVINCE OF BRITISH COLUMBIA	2.85%	2025-06-18	1.5%
GREAT-WEST LIFE CO INC	2.38%	2030-05-14	1.4%
BANK OF NOVA SCOTIA	3.10%	2028-02-02	1.4%
ROYAL BANK OF CANADA	2.33%	2023-12-05	1.4%
ROYAL BANK OF CANADA	2.35%	2024-07-02	1.4%
GOVERNMENT OF CANADA	5.75%	2033-06-01	1.4%
ROYAL BANK OF CANADA	1.94%	2025-05-01	1.3%
PROVINCE OF ONTARIO	4.65%	2041-06-02	1.3%
CANADIAN IMPERIAL BANK OF COMMERCE	3.30%	2025-05-26	1.3%
TORONTO-DOMINION BANK	3.06%	2032-01-26	1.2%
PROVINCE OF ONTARIO	2.40%	2026-06-02	1.2%
TORONTO-DOMINION BANK	3.11%	2030-04-22	1.2%
PROVINCE OF QUEBEC	2.75%	2028-09-01	1.2%
CANADIAN IMPERIAL BANK OF COMMERCE	2.35%	2024-08-28	1.1%
PROVINCE OF SASKATCHEWAN	2.55%	2026-06-02	1.1%
<b>Largest 25 holdings as a % of total investments</b>			<b>66.1%</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.

Category	Fair Value (\$000s)	% of Total Investments
Equities & ETFs	\$ 135,148	39.5%

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Corporate	95,851	28.1%
Provincial	90,200	26.5%
Federal	17,981	5.3%
Short-term	1,965	0.6%
<b>Total</b>	<b>\$ 341,145</b>	<b>100.0%</b>

### Past Performance

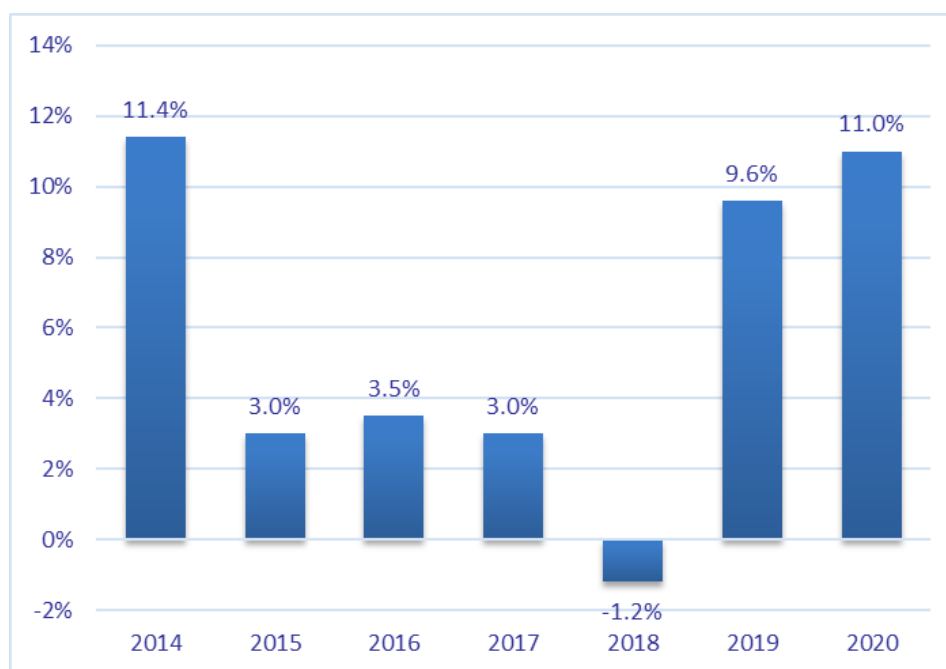
Past performance of the Plan is set out in the following chart and compound returns table. Investment returns have been calculated using market values and time-weighted cash flows during the year(s). Rates of return shown below for the Plan are:

- For the investment portfolio only;
- After the management and independent review committee fees have been deducted; and
- Assume that all of the income, interest earned, dividends 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 over the past seven years to December 31, 2020 (the Plan was established in November 2012). 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, 2020.

	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>
Flex First Plan	11.0%	6.3%	5.1%

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S&P 500 in USD	18.4%	14.2%	15.2%
S&P 500 Index (in CAD)	16.1%	14.7%	13.3%
FTSE Universe All Government Bond Index*	8.7%	5.5%	3.9%
S&P TSX Composite Index**	5.6%	5.7%	9.3%

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\* The FTSE TMX 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.