

## **Management Report of Fund Performance**

For the 8-month period ended December 31, 2017

This document contains the Annual Management Report of Fund Performance (“MRFP”) for the Family Group Education Savings Plan (the “Plan”). The Plan has changed its financial year-end from April 30 to December 31.

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).

Subscribers may contact us using one of the above methods to also request a copy of the prior interim financial report.

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), Canadian equity securities, and US equities via an exchange-traded fund (ETF), both of which must be traded on a Canadian stock exchange.

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**

- Management Discussion of Fund Performance
  - 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 accordance with the Plan’s investment policy. The Plan invests in Canadian fixed income securities including Canadian federal, provincial and municipal government bonds and some corporate bonds with a minimum BBB rating or equivalent. The investment income earned in the Plan may be invested 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 Canadian stock exchange.

Baker Gilmore & Associates Inc., Fiera Capital Corporation, Guardian Capital LP and TD Asset Management Inc. manage the Plan’s fixed income assets. The assets were allocated amongst different market sectors with different maturity segments at our investment managers’ discretion and subject to the investment policy for the Plan. Baker Gilmore & Associates Inc., Fiera Capital Corporation and Guardian Capital LP actively managed portions of the Plan using strategies including sector allocation, duration management, credit research and certain yield curve strategies. TD Asset Management Inc. managed a portion of the Plan using an indexed investment management approach before May 1, 2017. After May 1, 2017 TDAM became an active manager.

The Plan’s Canadian equity securities are actively managed by Burgundy Asset Management and Connor, Clark & Lunn Investment Management. The US equity ETF is passively managed by BMO Asset Management Inc. In mid-December 2017, Burgundy was terminated, and its assets were transferred to CCL and a new BMO Canadian equity ETF. At the end of December 2017, 50% of the Canadian equities were actively managed by CCL, and 50% was passively managed by BMO Asset Management by way of an ETF.

**Risk**

The Plan is a conservative investment fund suitable for investors focusing on a long term savings program, intended to fund post-secondary education, and generally for those investors having a lower tolerance for risk. The risk of investing in the Plan and its suitability for investors, remain as discussed in the Prospectus for the Plan.

**Results of Operations**

The net assets attributable to subscribers and beneficiaries in the Plan declined by 4.1% over the fiscal year from \$3.5 billion as of April 30, 2017 to \$3.3 billion as of December, 31, 2017 as payments to existing subscribers and beneficiaries of the Plan exceeded new deposits offset by the income earned on the investments in the Plan.

*Investments*

Over the past five years, the Plan’s net rate of return was 3.1%. For the 8 month period ended December 31, 2017, the Plan’s net rate of return was 1% (5.5% for the year ended April 30, 2017) versus a return of -0.2% (2.3% for the year ended April 30, 2017) for the FTSE TMX Canada Universe All Government Bond Index (formerly called DEX All Government Bond Index) and 1.7% for the investment policy benchmark (6.6% for the year ended April 30, 2017). The policy benchmark consisted of approximately 72% Canadian bonds, 14% Canadian equities, and 14% US equities. Unlike the Index, the Plan’s return is net of the impact of administration, investment counsel, custodial and independent review committee fees.

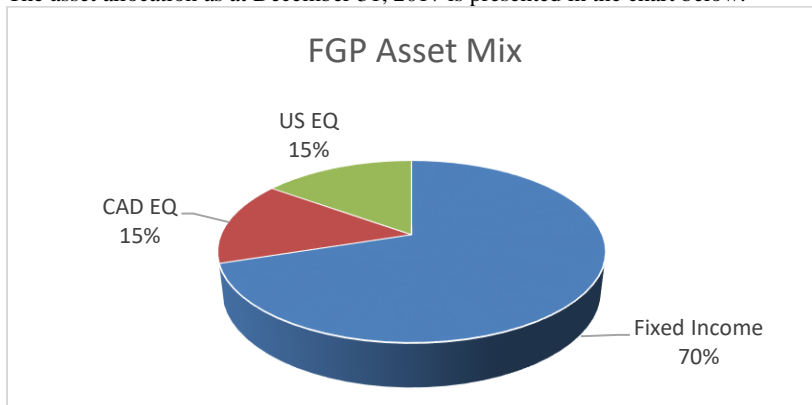
During 2017, the global economy displayed the strongest signs of synchronized growth in a decade. This growth was reflected in record corporate earnings, pushing equity markets to new highs. The Canadian equity market (S&P/TSX Composite) was up 9.1%, with all sectors, but Energy, recording positive returns. The US equity market (S&P 500) increased by 21.8%, reflecting both strong corporate profits and low unemployment rates.

The Canadian economy is currently estimated to have grown by 3% in 2017, ending five consecutive years of sub-3% growth. Canada’s unemployment rate fell to 5.7%, the lowest level in 40 years, while job growth was 423,000 for the full year of 2017, the best annual increase since 2002. The Canadian dollar appreciated by 6.7% during 2017 versus the US dollar, although the currency’s exchange rate with the US dollar was volatile during the year.

Given the stronger-than-expected economic performance around the world, Central Bank actions shifted from extraordinary monetary stimulus and historically low interest rates to more normal levels. The Bank of Canada raised its key policy interest rates twice (25 basis points each time), while the US Federal Reserve bank had three rate hikes during 2017 and announced that it expects three more rate increases in 2018.

North American bond yields generally ended the year modestly higher, while the yield curves in both the US and Canada continued to flatten as short-term rates rose more than longer-term yields during the year. Government of Canada bonds (FTSE TMX Government bond index) returned 2.2%, while Canadian investment grade corporate bonds (FTSE TMX Corporate bond index) were up 3.4%. Credit spreads versus federal bonds for provincial, investment grade corporate and high yield corporate bonds tightened during 2017, as the search for yield in riskier assets continued.

The asset allocation as at December 31, 2017 is presented in the chart below:



## Recent Developments

In fall 2017, the Investment Committee approved changes to the Family Group Plan's asset allocation which was implemented in December 2017. As a result, the allocation to equities was increased to 30% (15% to the US, and 15% to the Canadian Equities), and allocation to the Infrastructure bonds (managed by the Fiera Infrastructure team) was increased from 2% to 10% at the expense of the Provincial bonds.

The asset allocation changes also impacted the choice of Investment Managers. Burgundy Asset Management (active Canadian Equities) was terminated along with Baker Gilmore (active Fixed Income, Provincial bonds) and Fiera Capital (active Fixed Income, Provincial bonds). Allocation to the passive Canadian equities was initiated, with BMO Asset Management passively managing 50% of the Canadian Equity allocation by way of an ETF.

## Related Party Transactions

(Any applicable sales taxes are added to the fees shown below and are included in the total amounts for the eight months ended December 31, 2017.)

### Administration Fees

The Foundation is the sponsor and promoter of the Plan. Knowledge First Financial Inc. (Financial), a wholly owned subsidiary of the Foundation, is the distributor (as a Scholarship Plan Dealer) for the Plan. Financial provides various corporate administrative services to the Foundation including processing and call center 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 \$14.2 million was paid to Financial for the period ended December 31, 2017 (year ended April 30, 2017 - \$21 million), pursuant to the Fund Management Agreement dated May 1, 2013. Financial is entitled to receive a depository fee payable by subscribers and also an annual fee of up to 0.6% (effective March 1, 2014) of all funds on deposit related to the Plan. The administration fee is calculated and paid monthly by the Plan to Financial.

The 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. Out of the enrolment fees received by the distributor, approximately 62% of the enrolment fees are paid out as sales commissions to the licensed sales representatives and branch directors of the distributor.

### Depository and Special Processing Fees

Depository and special processing fees of \$1.7 million (\$2.5 million for the year ended April 30, 2017) 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' deposit 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 \$2.2 million (\$3.3 million for the year ended April 30, 2016) 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)	Period ended December 31, 2017	Year ended April 30, 2017	Year ended April 30, 2016	Year ended April 30, 2015	Year ended April 30, 2014
<b>Statements of Financial Position</b>					
Total Assets <sup>(1)</sup>	3,372,756	3,516,197	3,439,863	3,384,585	3,108,314
Net Assets Attributable to Subscribers and Beneficiaries <sup>(2)</sup>	3,314,555	3,456,394	3,351,505	3,329,710	3,058,095
% Change of Net Assets	(4.1)%	3.1%	0.7%	8.9%	94.2%
<b>Statement of Changes in Net Assets Attributable to Subscribers and Beneficiaries</b>					
Scholarship Awards (Educational Assistance Payments).	67,883	57,796	45,279	36,492	33,825
Government Grants (net) <sup>(3)</sup>	3,741	6,197	22,982	27,603	37,090
<b>Statement of Operations</b>					
Net Investment Income <sup>(4)</sup>	37,509	53,932	55,456	64,978	65,696
<b>Other</b>					
Total number of units outstanding	3,541,903	3,691,282	3,789,419	3,857,007	3,880,387
% change in total number of units	(4.0)%	(2.6)%	(1.8)%	(0.6)%	0.1%

<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 grants received or receivable from the government net of repayments, payments to beneficiaries upon eligibility and transfers 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 period ended December 31, 2017.)

### Investment Counsel Fees

Investment Counsel fees of \$3.0 million (\$4.2 million for the year ended April 30, 2017) 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 periods ranged from 0.45% to 0.02%, including the potential performance based fee, on a graduated scale. Investment counsel fees paid for the eight months, excluding the performance based fee, amounted to 0.08% (0.12% for the year ended April 30, 2017) of the total fair value of the investment portfolio in the Plan. One investment manager is eligible to qualify for a performance based fee of up to 0.125% dependent upon the performance of the investments under its management during any calendar year. This manager did not qualify for this performance based fee during the fiscal period ended December 31, 2017 or for the fiscal year ended April 30, 2017.

### Annual Custodial Fees

The Plan paid custodial fees of \$329 thousand (\$476 thousand for the year ended April 30, 2017) to RBC Investor & Treasury Services to settle all investment trades and disburse fees and other amounts in accordance with the terms of the Plan Agreement.

### Independent Review Committee Fees

The Plan paid the Independent Review Committee, a committee mandated by legislation, fees of \$91 thousand (\$83 thousand for the year ended April 30, 2017) 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 December 31, 2017. 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 Investments
1	BMO S&P 500 INDEX Hedged to CAD ETF			11.4%
2	BMO S&P/TSX CAPPED COMPOSITE ETF			8.6%
3	PROVINCE OF ONTARIO	2.60%	2025-06-02	5.7%
4	PROVINCE OF ONTARIO	3.50%	2024-06-02	5.0%
5	PROVINCE OF ONTARIO	3.15%	2022-06-02	3.9%
6	BMO S&P 500 INDEX ETF			3.7%
7	PROVINCE OF QUEBEC	3.50%	2022-12-01	2.6%
8	CANADA HOUSING TRUST	3.15%	2023-09-15	2.6%
9	PROVINCE OF ALBERTA	2.35%	2025-06-01	2.5%
10	PROVINCE OF BRITISH COLUMBIA	5.70%	2029-06-18	2.3%
11	PROVINCE OF BRITISH COLUMBIA	3.30%	2023-12-18	2.2%
12	PROVINCE OF ONTARIO	2.40%	2026-06-02	2.0%
13	BANK OF NOVA SCOTIA	3.04%	2024-10-18	1.6%
14	FEDERATION DES CAISSES	1.75%	2020-03-02	1.6%
15	WELLS FARGO CANADA CORP	3.04%	2021-01-29	1.6%
16	ROYAL BANK OF CANADA	2.99%	2024-12-06	1.6%
17	TORONTO DOMINION BANK	2.62%	2021-12-22	1.6%
18	PROVINCE OF ONTARIO	2.60%	2027-06-02	1.6%
19	HSBC BANK CANADA	2.91%	2021-09-29	1.5%
20	NATIONAL BANK OF CANADA	2.11%	2022-03-18	1.5%
21	TORONTO DOMINION BANK	2.05%	2021-03-08	1.5%
22	PROVINCE OF ALBERTA	2.20%	2026-06-01	1.4%
23	PROVINCE OF QUEBEC	3.75%	2024-09-01	1.3%
24	PROVINCE OF SASKATCHEWAN	3.20%	2024-06-03	1.2%
25	CANADA HOUSING TRUST	2.90%	2024-06-15	1.1%
<b>Largest 25 holdings as a % of total investments</b>				<b>71.6%</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
Federal Bonds	221,516	6.7%
Provincial Bonds	1,422,146	42.8%
Corporate Bonds	660,377	19.8%
Municipal	-	0.0%
Short-term	23,102	0.7%
Equities & ETFs	996,630	30.0%
<b>Total</b>	<b>3,323,771</b>	<b>100%</b>

## Past Performance

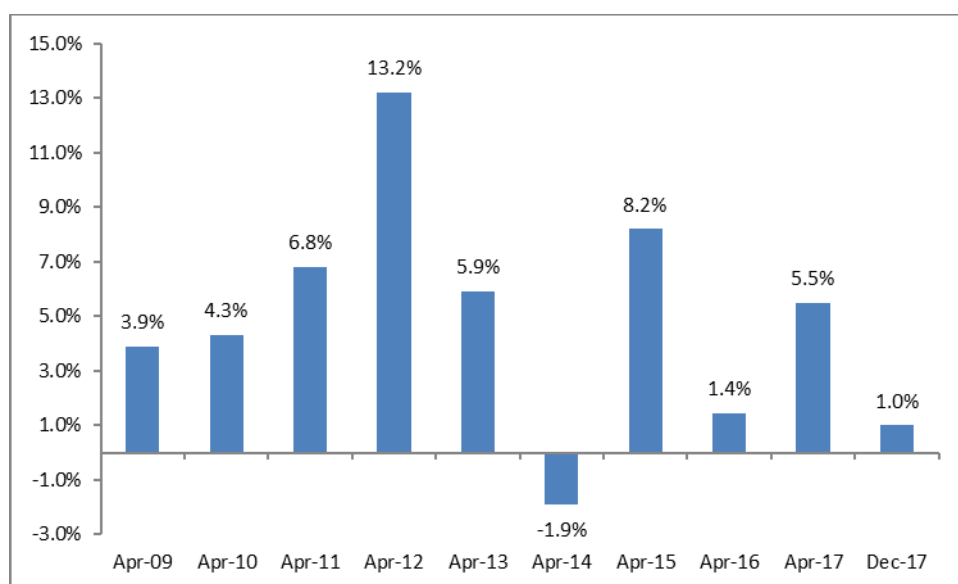
Past performance of the Plan is set out in the following chart and compound returns table. Investment returns have been calculated using market values and time-weighted cash flows. Rates of return shown below for the Plan are:

- 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 for the 8-month period ended December 31, 2017 and for each of the previous 12-month periods ended April 30. The chart illustrates in percentage terms how much an investment made in the investment portfolio on the first day of each fiscal period would have increased or decreased by the last day of that fiscal period.



## Annual Compound Returns

The following table illustrates the Plan's annual compound returns for the periods ended December 31, 2017.

	8 months	1 year	3 year	5 year	10 year
Family Group Plan	1.0%	3.5%	3.7%	3.1%	4.9%
DEX Universe All Government Bond Index	-0.2%	2.2%	2.3%	2.8%	4.3%
S&P 500 Index	13.7%	21.8%	11.4%	15.8%	8.5%
S&P TSX Composite Index	6.1%	9.1%	6.6%	8.6%	4.7%

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 headline index for the Canadian equity market and measures the performance of the largest by market capitalization stocks listed on the Toronto Stock Exchange.

The S&P 500 Index is a capitalization-weighted index of 500 largest US stocks.