

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 Heritage Plans (the “Plans”).

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 or SEDAR at www.sedar.com.

Currently, the investments of the Plans are limited to specified government bonds, guaranteed investment certificates, short term investments and corporate debt securities with an approved credit rating, 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. The investment income earned in the Plans may be invested in exchange-traded funds and equity securities listed on a stock exchanges in Canada and US, such as the TSX.

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

Investments

Recent Developments

Related Party Transactions

Financial and Operating Highlights

Summary of Investment Portfolio

Past Performance

Year-by-Year Returns

Annual Compound Returns

Management Discussion of Fund Performance

Investment Objectives and Strategies

The investment objective of the Plans is to preserve capital while maximizing the long-term rate of return for investors, within guidelines set out in the Statement of Investment Policies & Procedures (“SIPP”). The subscribers' contributions and the government grants are invested in government securities, guaranteed mortgages, mortgage-backed securities where all of the underlying mortgages are guaranteed mortgages, cash equivalents, guaranteed investment certificates (“GICs”) and other evidences of indebtedness of Canadian financial institutions, where such securities of the financial institutions have an approved credit rating, under National Instrument 81-102. The investment income earned in the Plans may be invested in equity securities and exchange traded funds listed on a stock exchanges in Canada and US.

Jarislowsky Fraser Global Investment Management manages Canadian government and corporate bonds. Fiera Capital manages Canadian infrastructure bonds. Connor, Clark & Lunn Investment Management Ltd. (“CCL”) and BMO Global Asset Management (“BMO”) manage the investments in equities. CCL manages a strategy that employs a multi-factor quantitative approach that actively trades the Canadian equities. BMO manages US equities on a passive basis through a BMO sponsored, TSX-listed ETF.

Risk

The Plans are a conservative balanced investment fund suitable for investors focusing on a long-term saving program, intended to fund post-secondary education, and generally for those investors having lower tolerance risk. The risk of investing in the Plans and its suitability for investors, is discussed in the prospectus of the Plans.

Results of Operations

The net assets of the Plans were \$2.85 billion as at December 31, 2020 (2019 - \$2.68 billion). The increase in net assets is mainly due to net contributions received from subscribers' during the year and the appreciation in the market value of investments generated by strong markets. The asset mix for the Plans changed from the previous year largely due to the elimination of principal protected notes (“PPNs”) and addition of the US equities. The Plans are no longer distributed.

At December 31, 2020, 75.2% (2019 - 78.4%) of the Plans' portfolio was invested in government bonds, corporate debt and short-term investments, 8.5% (2019 - 6.2%) was invested in Canadian equities, and 16.3% (2019 - 15.4%) was invested in US equities.

Investments

Over the past five years, the Plan's net rate of return was 5.3% per annum. For fiscal 2020, the Plan's net rate of return was 9.4% 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. Unlike the Index, the Plan's return is after fees for administration, portfolio management, custody and independent review committee.

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.

In an effort 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.

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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.

Related Party Transactions

The Plans are sponsored by Heritage Education Foundation (the “Foundation”). During the year ended December 31, 2020, the Foundation and Knowledge First Financial Inc. (the “Knowledge First Financial”) were under a common management as the directors of the Knowledge First Financial constituted the board members of the Foundation.

Administration Fees

Administration fees are paid by the Plans to the Foundation, and then by the Foundation to Knowledge First Financial. The Foundation pays these fees to Knowledge First Financial for expenses incurred in assisting the Foundation with the administration of the Plans. The administration fees are annual fees of 0.5% from January to June and increased to 0.63% on July 1, 2020, charged on all funds related to the Plans’ net assets. For the year ended December 31, 2020, administration fees of \$17.5 million (2019 - \$14.6 million) were paid by the Foundation to Knowledge First Financial from the subscribers’ contributions received for the Plans. The account maintenance fee is an annual fee which is deducted quarterly from subscriber’s contributions.

Enrolment Fees

The Knowledge First Financial deducts enrolment fees from subscribers’ deposits to the Plans equivalent to \$100 per unit purchased. All the subscribers’ deposits to the Plans 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 Plans are applied against the enrolment fee until the fee is paid in full. For the year ended December 31, 2020, sales charges of \$5.9 million (2019 - \$13.3 million) were deducted from initial subscribers’ contributions and are paid by the Foundation to Knowledge First Financial.

Account Maintenance Fees

The account maintenance 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 and is deducted from subscriber contributions in accordance with the Prospectus of the Plans. For the year ended December

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31, 2020, account maintenance fees of \$1.7 million (2019 - \$1.9 million) were deducted from subscribers' deposits.

Insurance Premiums

The insurance premium for the embedded group life and total disability insurance is calculated at 5% 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 October 30, 2006 between the Foundation and the Knowledge First Financial, 100% of insurance administration-related fees are paid to the Administrator. For the year ended December 31, 2020, insurance premiums of \$4.0 million (2019 - \$4.4 million) were deducted from subscribers' deposits prior to depositing the balance into the Plans.

Investment Counsel Fees

Portfolio advisers provide advisory and discretionary managed account services with respect to purchasing, selling and otherwise dealing in securities and other investments of the Plans. The investment counsel fees are calculated on the market value of the assets in the Plans at the end of each quarter based on a graduated fee schedule and is paid on a quarterly basis. For the year ended December 31, 2020, investment counsel fees of \$2.5 million (2019 - \$2.3 million) for portfolio advisory services were paid by the Plans..

Independent Review Committee Fees

The Independent Review Committee for Investment Funds is an initiative of the Canadian Securities Administrators and is created pursuant to requirements of National Instrument 81-107 requiring that each publicly offered investment fund have an IRC. Its role is to oversee all decisions involving an actual or perceived conflict of interest between the Foundation or Distributor and the Plans. For the year ended December 31, 2020, a total fee of \$43 thousand (2019 - \$54 thousand) was paid to the Independent Review Committee ("IRC").

Financial Highlights

The following table shows selected key financial information about the Plans and are intended to help you understand the Fund's financial performance for the past five years.

\$ in thousands	2020	2019	2018	2017	2016
Statements of Financial Position					
Total Assets	\$ 2,847,010	\$ 2,680,258	\$ 2,540,881	\$ 2,566,306	\$ 2,523,035
Net Assets ⁽¹⁾	2,845,520	2,678,587	2,539,362	2,519,533	2,483,378
% Change of Net Assets	6.2%	5.5%	0.8%	1.5%	3.2%
Statements of Changes in Net Assets Attributable to Subscribers and Beneficiaries					
Educational Assistance Payments	\$ 74,682	\$ 75,200	\$ 70,179	\$ 83,192	\$ 80,020
Government Grants (net)* ⁽²⁾	6,288	37,894	36,639	29,170	25,732
Statements of Comprehensive Income					
Net Investment Income* ⁽³⁾	34,575	65,773	59,605	43,566	118,303
Other					
Total number of units outstanding	2,904 ⁽⁴⁾	3,115 ⁽⁴⁾	3,262 ⁽⁴⁾	3,773	3,737
% change in total number of units	(6.77%)	(4.51%)	(13.54%)	0.96%	1.49%

(1) "Net Assets" represents total assets less total liabilities.

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

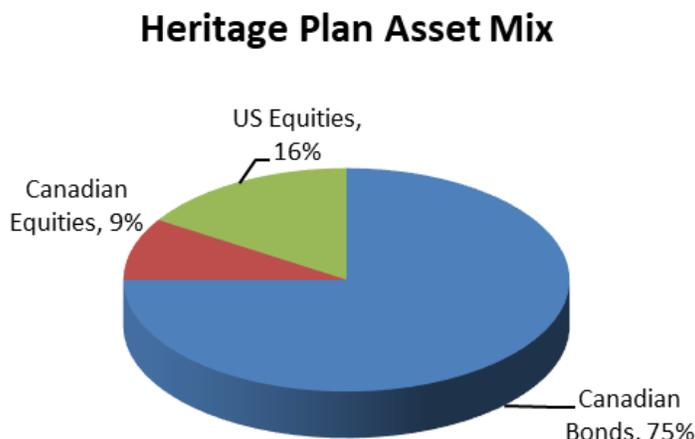
(3) Net investment income excludes realized gains (losses) on investments and the net change in unrealized gains on investments.

(4) 2020 and 2019 units outstanding only includes active agreements, whereas prior years reflect both active and matured agreements.

* For the year ended December 31, 2020, the calculation methodology has been changed to deduct expenses. Previous year calculation methodology has not been changed.

Summary of Investment Portfolio

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



The following table indicates the largest 25 holdings of the Plans at the end of fiscal 2020. This summary of investment portfolio may change due to ongoing portfolio transactions. The Plans are prohibited from holding short positions in securities.

	Name	Coupon %	Maturity Date	% of Investments
1	BMO S&P 500 HEDGED TO CAD INDEX ETF			12.3%
2	PROVINCE OF ONTARIO	2.05%	2030-06-02	7.4%
3	CANADA HOUSING TRUST	2.65%	2028-03-15	6.4%
4	PROVINCE OF ONTARIO	2.90%	2028-06-02	5.0%
5	BMO S&P 500 INDEX ETF			4.0%
6	PROVINCE OF ONTARIO	2.70%	2029-06-02	4.0%
7	CANADA HOUSING TRUST	1.90%	2026-09-15	3.7%
8	PROVINCE OF QUEBEC	2.50%	2026-09-01	2.5%
9	GOVERNMENT OF CANADA	1.25%	2030-06-01	2.4%
10	TORONTO-DOMINION BANK	3.23%	2024-07-24	2.3%
11	CANADIAN IMPERIAL BANK OF COMMERCE	3.30%	2025-05-26	1.8%
12	CANADA HOUSING TRUST	2.10%	2029-09-15	1.6%
13	NATIONAL BANK OF CANADA	2.58%	2025-02-03	1.3%
14	ROYAL BANK OF CANADA	2.95%	2023-05-01	1.3%
15	BANK OF NOVA SCOTIA	3.10%	2028-02-02	1.2%
16	BANK OF MONTREAL	2.89%	2023-06-20	1.2%
17	BANK OF MONTREAL	3.19%	2028-03-01	1.2%
18	CANADA HOUSING TRUST	1.10%	2031-03-15	1.1%
19	HSBC BANK CANADA	3.25%	2023-09-15	0.9%
20	MANULIFE BANK OF CANADA	1.50%	2025-06-25	0.9%
21	CANADA HOUSING TRUST	2.35%	2027-06-15	0.9%
22	ROYAL BANK OF CANADA	2.33%	2023-12-05	0.9%
23	GREAT-WEST LIFECO INC	2.38%	2030-05-14	0.8%
24	CANADIAN IMPERIAL BANK OF COMMERCE	2.97%	2023-07-11	0.8%
25	HONDA CANADA FINANCE INC	2.50%	2024-06-04	0.7%
Largest 25 holdings as a % of total investments				66.6%

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

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Category	Fair Value (\$000s)	% of Total Investments
Equities & ETFs	\$ 700,611	24.8%
Corporate	1,086,362	38.5%
Provincial	571,515	20.3%
Federal	453,274	16.1%
Short-term	7,150	0.3%
Total	\$ 2,818,912	100.0%

Past Performance

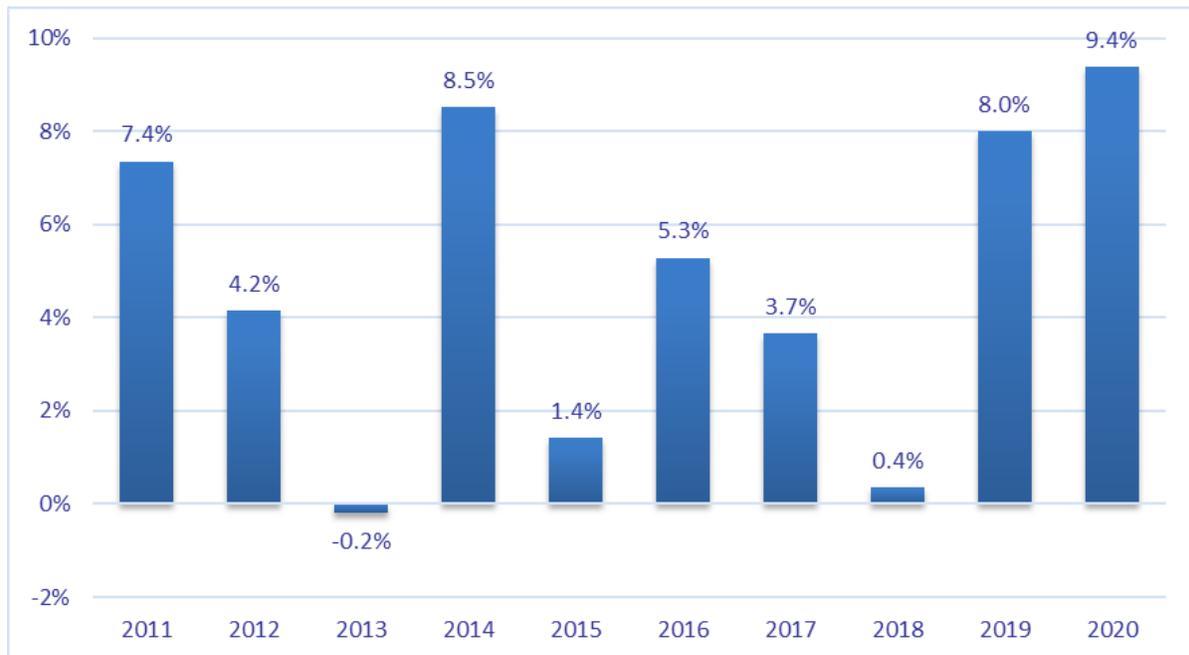
Past performance of the Plans is set out in the following chart and compound returns table. Investment returns have been calculated using market values and time-weighted cash flows during the relevant periods. The performance information shown:

- Assumes all income, interest earned, and capital gains distributions are reinvested in the Plans; and
- Is adjusted for the cash flows for administrative and investment counsel fee payments.

Past returns of the Plans do not necessarily indicate how it will perform in the future.

Year-by-Year Returns

The following bar chart illustrates the Plans' annual performance in each of the past ten years to December 31.



Annual Compound Returns

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

	1 Year	3 Years	5 Years	10 Years
The Plans	9.4%	5.8%	5.3%	4.7%
FTSE Universe All Government Bond Index	8.7%	5.5%	3.9%	4.3%

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S&P TSX Composite Index	5.6%	5.7%	9.3%	n/a
S&P 500 in USD	18.4%	n/a	n/a	n/a
S&P 500 Index (in CAD)	16.1%	n/a	n/a	n/a

The FTSE Canada Universe All Government Bond Index is designed to be a broad measure of the Canadian government fixed income market. It represents three main borrower categories: bonds issued by the Government of Canada (including Crown Corporations), Provincial bonds (including provincially guaranteed securities) and Municipal bonds. The Plans' returns are net of fees whereas the FTSE index does not include any fees.

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.