# MANAGEMENT REPORT OF FUND PERFORMANCE

This annual management report of fund performance contains financial highlights but does not contain the complete annual audited financial statements of the Global Educational Trust Plan ("Global Plan"). You may obtain an additional copy at no cost by visiting our Web site at www.globalfinancial.ca or SEDAR at www.sedar.com, or by calling Global Client Services at 1-877-460-7377. You may also write to us at 100 Mural St, Suite 201, Richmond Hill, Ontario L4B 1J3.

The Global Educational Trust Foundation (the Foundation) views corporate governance and compliance as important contributors to overall corporate performance and long-term investment returns. We support the proxy voting guidelines established by our Investment Managers. Investment restrictions contained in the Canadian Securities Administrators policy as well as the Foundation's investment policy result in the Foundation primarily investing in Federal and Provincial Government fixed income securities. As a result, proxy voting is not applicable at this time.

## Investment Objective and Strategies

Global Growth Assets Inc invests in a prudent manner, with the objective of protecting your principal and delivering a positive return on your Global Educational Trust Plan investment. GGAI invests primarily in Canadian fixed income securities including Canadian federal and provincial government bonds. For the fiscal year 2011 Scotia Asset Management L.P. ("Scotia Asset Management"), UBS Investment Management Canada Inc. ("UBS") and commencing August 8, 2011 Yorkville Asset Management. ("Yorkville"), managed assigned portions of the Global Plan's assets as portfolio advisors. The assets are allocated among different market sectors and different maturity segments at the portfolio advisors' discretion, but subject to the guidelines defined in GGAI's investment policies and mandates. GGAI's investment professionals actively manage the Global Plan, focusing on strategies where value can be added on a sustainable basis.

With the ongoing growth of the portfolio, the introduction of a third portfolio advisor Yorkville, was considered prudent in order to further diversify its overall risk and return, and by way of additional diversification, GGAI also continued its independent investment in the Pacific & Western Bank notes.

At December 31, 2011 the allocation of GGAI's assets under management at market value was as follows:

| Manager | $'000 | % |
|---|---:|---:|
| Scotia Asset Management | 329,097 | 76.78 |
| UBS | 47,134 | 11.00 |
| Yorkville Asset Management | 47,680 | 11.12 |
| Global Educational Trust Foundation | 4,727 | 1.10 |
| | 428,638 | 100.00 |

## Risk

Scotia Asset Management's investment philosophy, style and method remained the same for the fiscal year 2011. As the portfolio is primarily invested in fixed income instruments, the key risks associated with fixed income investing are interest rate risk, inflation risk and credit risk

In an effort to increase yield and return, UBS's approach to fixed income portfolio management has been to overweight higher yielding positions at the expense of duration risk. UBS achieved this by maintaining an overweight position in investment grade corporate bonds, while maintaining a lower duration than its benchmark.

The Pacific & Western Bank notes are privately placed securities in this schedule 1 Canadian chartered bank, carrying an average annual coupon rate of 7.98% p.a. The subordinated notes are not publically traded nor credit rated and are to be held to maturity in 2021. An average risk premium of 6% has been attributed to the discount rate with which these notes have been valued for these factors over and above that of comparable publically traded bonds. During the year one the $10MM subordinated notes was repaid. The investment was replaced with a $10MM GIC issued by Pacific & Western Bank.

## Results of Operations

For the fiscal year 2011, the Global Plan's net rate of return was 4.3% (2010 - 4.9%) after applicable Administration, Investment Counsel and Trustee Fees. This translates into $17.3 million (2010- $18.9 million) net increase in the value of plan assets added by net investment returns determined as above. The Plan's overall asset mix in 2011 did not experience material changes from the previous year. Exposure to bonds issued by financial institutions was increased in 2011, reducing the exposure to Government of Canada and provincial bond issues. Just as at the previous year-end, at December 31, 2011, 100.0% of the portfolio was invested in Federal and Provincial Government primary or guaranteed bonds and Treasury Bills, money market funds, Government of Canada treasury bills, Principal Protected Notes (Variable Rate Securities) and Corporate Bonds, including Financial Institution Bonds.

Scotia Asset Management and UBS in consultation with GGAI followed prescribed investment parameters of National Policy No.15 for scholarship plan dealers.

The Global Plan is measured against the DEX Universe Bond Index (All Government) for performance. This Index tracks the performance of Government issued bonds. It is designed to be a broad measure of the Canadian fixed income markets with the exclusion of corporate bonds.

Scotia Asset Management, Yorkville Asset Management Inc., and UBS, the Portfolio Advisors, have strategically managed their assigned portions of the Global Plan portfolio to hold an underweight position in both provincial and corporate bonds (including banks) relative to the benchmark (see below).

| **Sector** | **DEX Universe Bond Index** (All Government) | **Global Plan** |
|---|---|---|
| Federal | 59.61% | 16.6% |
| Provincial | 40.39% | 34.9% |
| Financial Institution | 0.0% | 17.5% |
| Variable Rate Securities | 0.0% | 18.4% |
| Money Market | 0.0% | 12.6% |

As at December 31, 2011, the portfolio was overweight in provincial and corporate securities while being underweight in federal securities. Duration of the portfolio was slightly shorter relative to the benchmark and the curve positioning was a 'barbell' with bond maturities concentrated in the 0-3 and 7-10 year areas of the yield curve.

At the end of each fiscal year GGAI is required to reflect its returns including unrealized gains or losses. This means that GGAI treats all of its investment holdings as if they were sold on that year-end date. This is regardless of any longer-term strategies that GGAI's Portfolio Advisors may have undertaken. Consequently, any single year return might not be as representative as a 3, 5, or 10 year return.

The following table illustrates the Global Plan's annualized returns compared to the Benchmark, for the periods ended December 31, 2011.

| | **1 Yr** | **3 Yrs** | **5 Yrs** | **10 Yrs** |
|---|---|---|---|---|
| Global Plan Return* | 6.89% | 5.92% | 5.65% | 5.76% |
| Benchmark - DEX Universe Bond Index (All Government) | 10.2% | 6.0% | 6.3% | 6.4% |

**Returns presented are annualized and gross of Administration fees and other Global Plan expenses.*

## Recent Developments

Scotia notes the Government of Canada yield curve continued to flatten in 2011 as short-term yields remained fairly steady, but longer term yields fell. The barbell strategy adopted in 2009 whereby the bond maturities were concentrated in the 0-3 and 7-10 year areas of the yield curve continued to contribute positively to performance in 2011. Due to the extraordinary events during the year Canadian federal bond yields pushed even lower than expected. As a result, the overweight position in the long maturity bond holdings had an overall positive effect on the portfolio.

In early 2011, the portfolio increased the exposure to federal bond issues and reduced exposure to provincial bond issues. As world events, from natural disasters in Japan to a near technical default of the US, tested investor confidence, the highest quality federal bonds were sought and provincial credit spreads started to widen. During this time, we opportunistically sold Federal bonds in favor for higher yielding Provincials. This shift contributed positively to the portfolio return as provincial credit spreads narrowed late in 2011. The portfolio's duration was kept relatively neutral to that of the benchmark index during the majority of the year and was modestly shorter than that of the index at the end of the year.

UBS maintains an underweight position in government bonds and recommends being underweight maturities of 7 years+. Government bond yields price in a dire economic outlook and do not adequately compensate for inflation, however, remain supported by an accommodative central bank, given their low probability of increasing rates in 2012. UBS keeps its biggest overweight position in corporate bonds, as they offer a better investment opportunity given their higher yields and robust corporate fundamentals.

Yorkville notes the yield curve flattened over 2011 as long term yields fell. Year to date the Government yield curve has been relatively static. While the Canadian economy has remained relatively unscathed by US/Global developments, it is expected that weakness in US and European growth and a pullback in commodity demand will impact domestic growth this year. It is expected that deleveraging in US/Global economies will lead to lower yields and portfolio structures are currently optimized for further curve flattening during 2012.

Demand for corporate debt has remained strong, driven partly by investor requirements for income in a lower yield environment and also by crossover equity investors in the lower credit quality space. Additions to credit exposure have tended towards defensive names (utilities, infrastructure) and overall exposure has been maintained below benchmarks in anticipation of economic weakness in 2012.

Bank debt has become more attractive as yield spreads of Canadian bank debt over Government bonds widened last year. This weakness was driven more by expectations of economic weakness than fear of balance sheet surprises.

**Financial and Operating Highlights**
(Dollar amounts in $'000)

The following table shows key financial data for the Global Plan for the past five fiscal years ended December 31, 2011.

| **Balance Sheet (Dollar amounts in $'000)** | **2011** | **2010** | **2009** | **2008** | **2007** |
|---|---|---|---|---|---|
| Total Assets | $432,489 | $365,259 | $302,038 | $242,163 | $193,324 |
| Net Assets | $164,391 | $133,800 | $101,165 | $80,731 | $60,985 |
| % Change in Net Asset | 22.9% | 32.3% | 25.3% | 32.4% | 30.7% |
| **Statement of Operations** | | | | | |
| EAP | ($2,712) | ($2,292) | ($2,056) | ($1,644) | ($997) |
| Canadian Education Savings Grant | ($3,299) | ($2,720) | ($2,302) | ($1,798) | ($1,323) |
| Net Investment Income | $9,591 | $10,361 | $7,405 | $6,696 | $5,399 |
| Net realized/unrealized gains/(losses) | $7,745 | $8,574 | $2,147 | $2,958 | ($748) |
| **Other** | | | | | |
| Total number of agreements | 86,422 | 78,025 | 70,127 | 64,254 | 57,825 |
| % Change in the total number of agreements | 10.8% | 11.3% | 9.1% | 11.1% | 13.2% |

## Expenses

Total expenses for the Global Plan for the year ended December 31, 2011 were $4.7 million (2010-$4.0million). From the Administration fees received by GESP, investment advisory fees and Trustee fees $548,000 were paid representing 12% of the total expenses. (2010 - $406,000 representing 10%) The net administration fee of $ 3.8 million representing 82% (2010-$3.0m and 78% respectively) of total fees, comprises Global Plan administration and financial reporting expenses accrued to the Foundation. The administration functions of the Global Plan include processing and call centre services related to new and existing agreements, payments, Canada Education Savings Grant (CESG), plan modifications, terminations, maturities and Education Assistance Payments (EAP).

## Related Party Transactions

Under the terms of an Administrative Services Agreement which is renewable on an annual basis, the Foundation has delegated certain administrative and distribution functions to Global RESP Corporation ("GESP"), which is registered as a scholarship plan dealer under securities legislation in each of the provinces and territories in which it sells scholarship plans. GESP is the primary distributor of the Global Educational Trust Plan.

GESP receives enrolment fees from Global Plan subscribers which are deducted from deposits made by subscribers. In exchange for its administrative services, GESP is entitled to receive administration fees of 1% per annum of the assets of the Plan. The GGAI retains 25% of the net administration fees and the Foundation retains 3% of the net enrollment fees paid to GESP, representing GESP's contractual contributions to the Foundation's Enhancement Fund. In addition, 20% to 40% of insurance premiums collected from subscribers who optionally take insurance and special service fees, which principally relate to amounts charged to subscribers in respect of dishonored and returned cheques, are remitted by the GGAI to GESP

At December 31, 2011 the Global Educational Trust Plan's accounts payable included $1,078,690 (2010 - $313,602) payable to the Foundation.

The Global Educational Trust Plan may be considered to be available to connected issuers of GESP. 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 mean that the dealer and the issuer may or may not be independent of each other. Global Maxfin Investments Inc. and Professional Investment Services (Canada) Inc. are connected issuers of GESP.

During the year, the Plan purchased securities issued by counterparties with which

Global Maxfin Capital Inc. ("GMCI"), an entity under common management, has acted as an advisor. No fees have been paid directly by the Plan for any services provided by GMCI to these counterparties.

## Enhancement Fund

The Foundation intends to enhance Educational Financial Assistance (EFA) payments paid each year to Qualified Students whose Subscribers have completed all their scheduled deposits. The amount of such enhancement payments shall be determined in the sole discretion of the Foundation, subject to the maximum limit described below, and shall be paid from the Enhancement Fund. The amount of such payment to a Qualified Student shall not exceed the amount of Enrolment Fees paid by the Subscriber in respect of the Qualified Student's participation in the Plan. The Enhancement Fund is funded from several sources, the primary funding being that of the Distributor GESP which pays 3% of its Enrolment Fee collected and GGAI which pays 25% of Administrative Fees to the fund. These discretionary payments from the Enhancement Fund are not guaranteed and may fluctuate each year. The Foundation has full discretion with respect to the amount of such payments and may, in any given year, choose to pay less than the amount available within the Enhancement Fund that year, in order to reserve funds within the Enhancement Fund for enhancement payments in future years.

Since the inception of the Global Plan in 1998, $6.78 million has been returned in enrollment fees to qualifying students, of which GESP paid $1.48 million, prior to the establishment of the Enhancement Fund in 2007.

## Summary of Investment Portfolio

The Global Educational Trust Plan is an individual pooled education savings plan where the funds held in trust are invested collectively and professionally managed.

For purposes of meeting target duration of the portfolio, cash and cash equivalents may include cash, debt securities with maturities of ninety days or less and short-term bonds. See the Statement of Investment Portfolio in the Audited Financial Statements for a listing of investments.

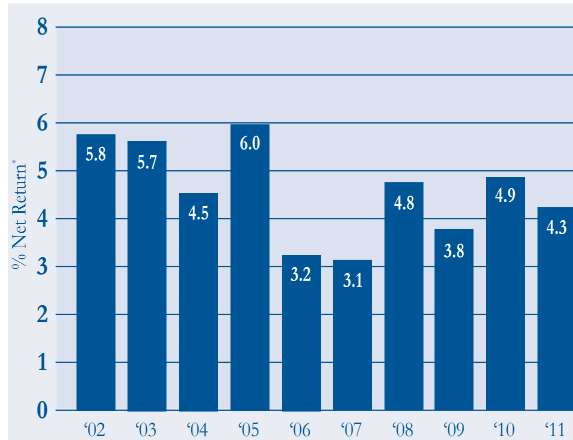
The combined subscriber contribution and government grant portfolio is summarized below:

| | Fair Value $ | Investment Portfolio % |
|---|---|---|
| Canada Housing Trust | 71,301,224 | 17% |
| Ontario Province | 67,389,764 | 16% |
| Cash & Cash Equivalents | 50,360,465 | 12% |
| Quebec Province | 35,021,312 | 8% |
| Pacific & Western Bank of Canada | 31,500,000 | 7% |
| BC Province | 24,095,572 | 6% |
| Royal Bank of Canada | 12,752,867 | 3% |
| BAC Canada Finance Principal Protected Notes | 12,630,000 | 3% |
| Toronto Dominion Bank | 11,083,511 | 3% |
| Hydro-Quebec | 10,625,068 | 2% |
| Bank of Nova Scotia | 10,568,616 | 2% |
| Bank of Nova Scotia Principal Protected Notes | 10,089,000 | 2% |
| Royal Bank of Canada Principal Protected Notes | 9,964,000 | 2% |
| Toronto Dominion Principal Protected Notes | 9,844,000 | 2% |
| Bank of Montreal | 5,321,435 | 1% |
| BAC Canada Finance | 5,232,600 | 1% |
| BC Municipal Financial Authority | 5,113,255 | 1% |
| BNP Paribas, Principal Protected Notes | 4,849,000 | 1% |
| City of Toronto | 4,740,577 | 1% |
| Great West Lifeco | 4,708,729 | 1% |
| National Bank | 4,280,389 | 1% |
| Manulife Financial | 4,156,024 | 1% |
| Sun Life Financial | 4,099,109 | 1% |
| CIBC Cap. Trust | 3,609,589 | 1% |
| Short Term Investments | 3,526,661 | 1% |
| Scotia Bank Tier I Trust | 2,898,435 | 1% |
| Canadian Imperial Bank | 2,315,440 | 1% |
| GE Capital Canada Funding | 1,633,688 | 0% |
| Financement Quebec | 1,387,400 | 0% |
| American Express Canada | 1,179,952 | 0% |
| Desjardins Capital | 753,510 | 0% |
| Bank of America | 459,561 | 0% |
| Manitoba Province | 390,089 | 0% |
| Nova Scotia Province | 387,457 | 0% |
| New Brunswick Province | 369,304 | 0% |
| **Total Investment Portfolio** | **428,637,603** | **100.0** |

## Annual Returns

The following table illustrates the Global Plan's annual performance in each of the past ten years to December 31, 2011.

**Global Plan Returns** Since 2002




*Returns presented are annualized and net of Administration fees and other Global Plan expenses.*

### Average Returns on Investments Held in Trust

The following table illustrates the Plan's Annualized net returns on investments for year ended December 31, 2011.

| Duration | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs |
|---|---|---|---|---|
| Period | 2011 | 2009-11 | 2007-11 | 2002-11 |
| Net Return % | 4.3% | 4.3% | 4.2% | 4.6% |

### Duration

GGAI's investment strategy is to buy and hold allowable investments while effectively trading to capitalize on investment opportunities in a changing interest rate environment.

## Investment Strategy and Philosophy

GGAI's investment philosophy has always been to safeguard the Global Plan holders' investments, while providing stable and consistent returns. In setting the Foundation's investment objective, we focused on two fundamental factors: matching assets to liabilities and the Global Plan's ability to assume risk. As described above, over ninety percent of the portfolio is actively managed by leading Canadian investment firms. Using an asset liability model, these firms assess the long-term risk and return tradeoffs of allocating a different mix of assets to bonds across several maturities, variable rate instruments, as well as short-term securities. Separate asset classes and benchmarks are established to evaluate investment management performance. The performance of each asset class is measured against benchmarks that simulate the results of the investment strategies employed by the investment managers. Past performance of the Global Plan is set out in the charts and the return tables above. Investment returns have been calculated using market values and time-weighted cash flows during the periods. The rates of return presented are net of administration fees and other Global Plan expenses. Past returns of the Global Plan do not necessarily indicate how it will perform in the future.

## Adoption of Future Accounting Standards

Canadian publicly accountable enterprises, which include investment funds, are required to prepare financial statements in accordance with IFRS, as issued by the International Accounting Standards Board. On December 12, 2011, the Canadian Accounting Standards Board ("AcSB") amended the deadline for adoption of IFRS for investment companies to fiscal years beginning on or after January 1, 2014. Accordingly, the Plan will adopt IFRS for the fiscal year beginning January 1, 2014, and will issue its initial financial statements in accordance with IFRS, including comparative information, for the interim period ending June 30, 2014.

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EDUCATIONAL TRUST PLAN

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