



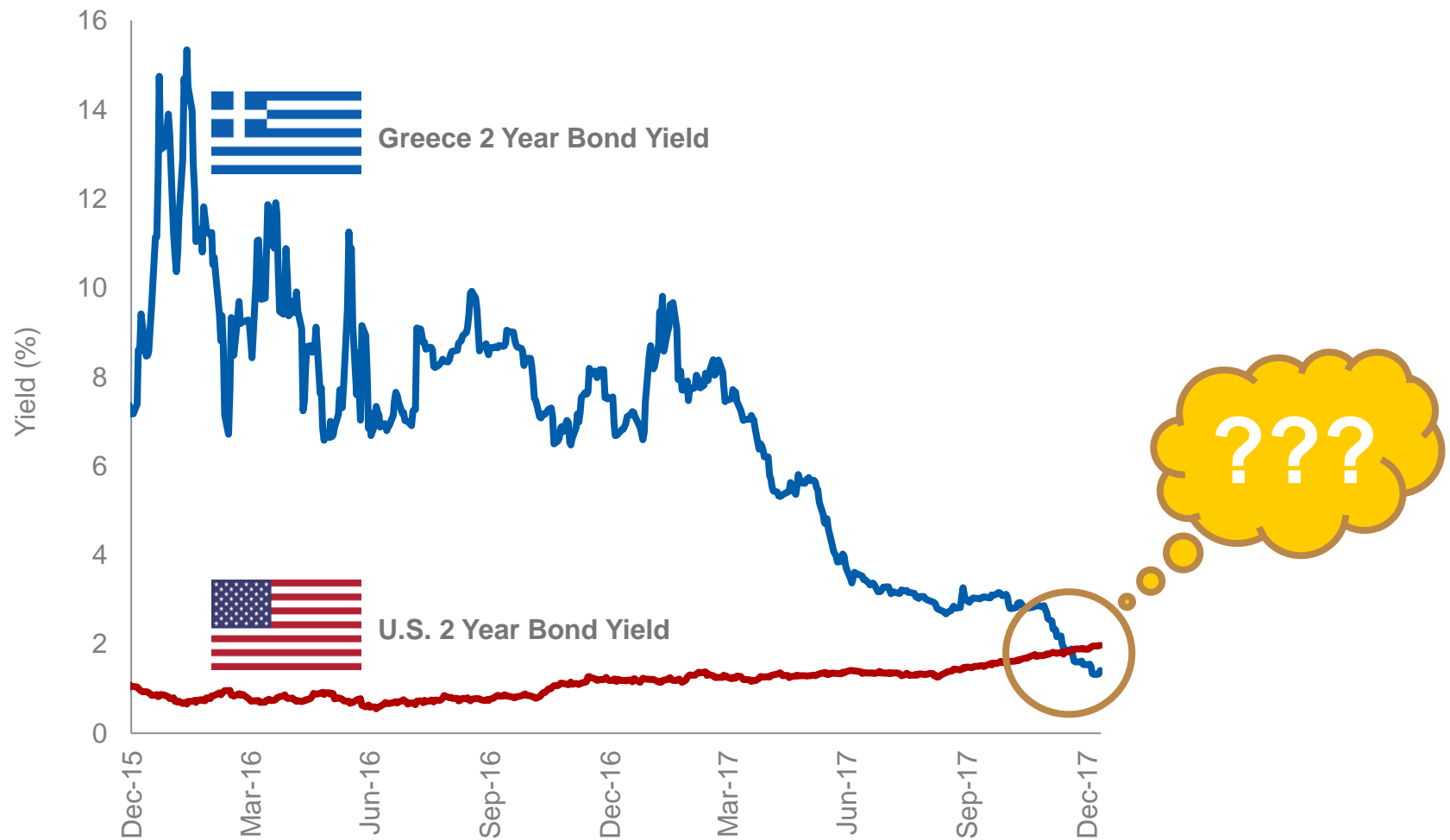
Bond Market Observations

March 22, 2018

Presented by
Kevin De Sousa, Vice President & Portfolio Manager



Greek Debt Safer Than US Treasuries?

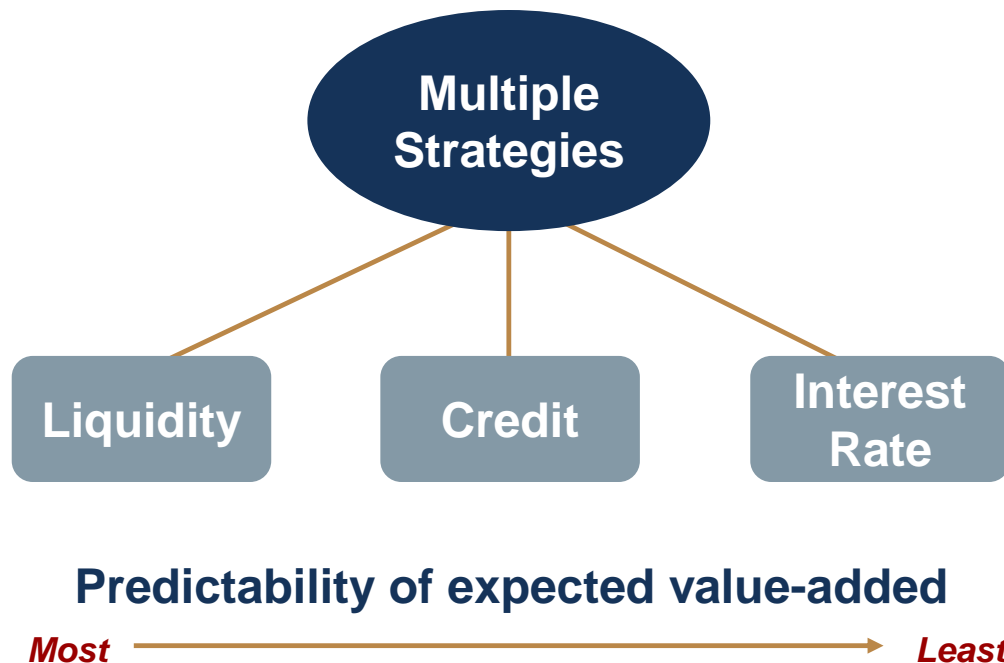


Bond Market Observations

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PH&N Fixed Income Investment Philosophy

Multiple Sources of Risk/Opportunity



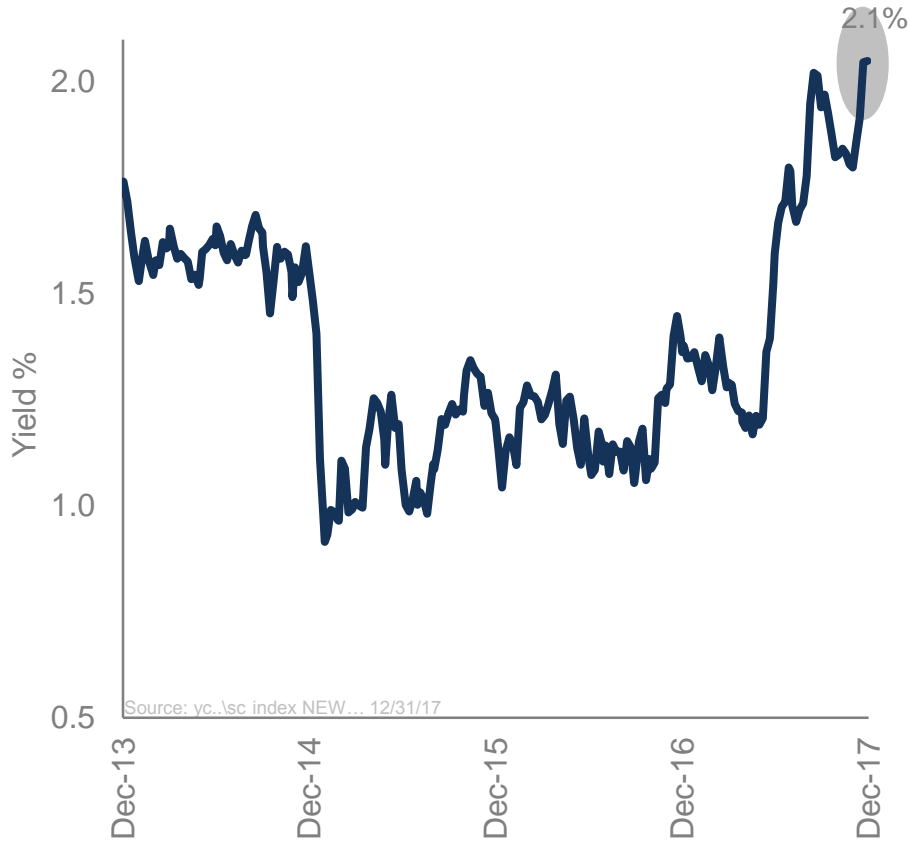
- Aim to provide consistent value-added
- Breadth of strategies is key
- Focus on return/risk relationship

Goal is to build a diversified portfolio with attractive relative returns

Bond Market Review

Short Term Bonds Fared Worse than Long Term Bonds on Year

FTSE TMX Canada Short Term Overall Bond Index Yields

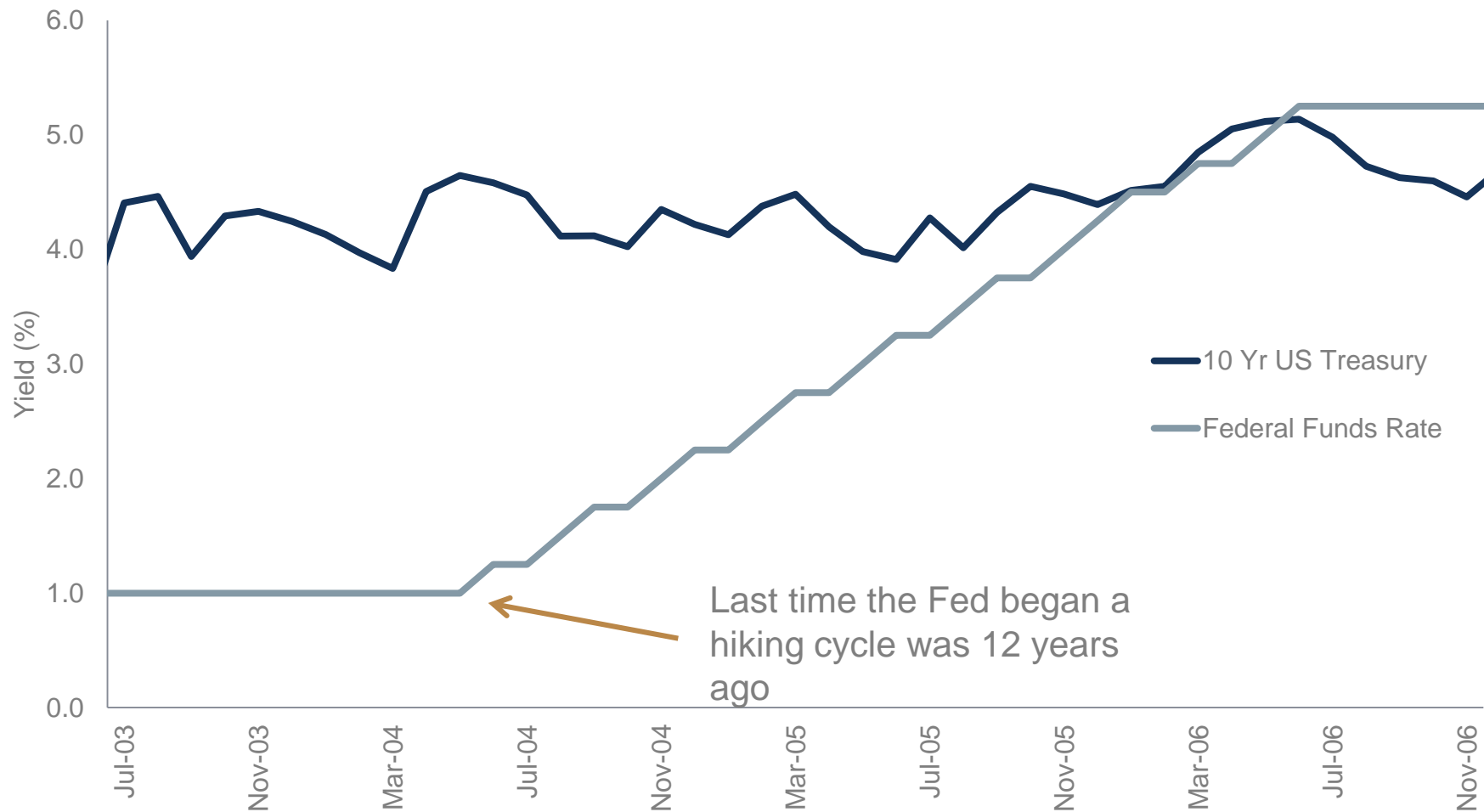


Source: FTSE TMX Global Debt Capital Markets Inc.

Total Returns As of December 31, 2017	1 Yr %	4 Yrs %
Short Term Overall Bond Index*	0.1	1.7
Universe Bond Index*	2.5	4.1
Long Term Overall Bond Index*	7.0	7.5
Sector (Short Term Overall Bond Index)		
Canada	-0.6	1.1
Provincial	0.2	1.8
Corporate	1.0	2.4

* Representative components of the FTSE TMX Canada bond indices

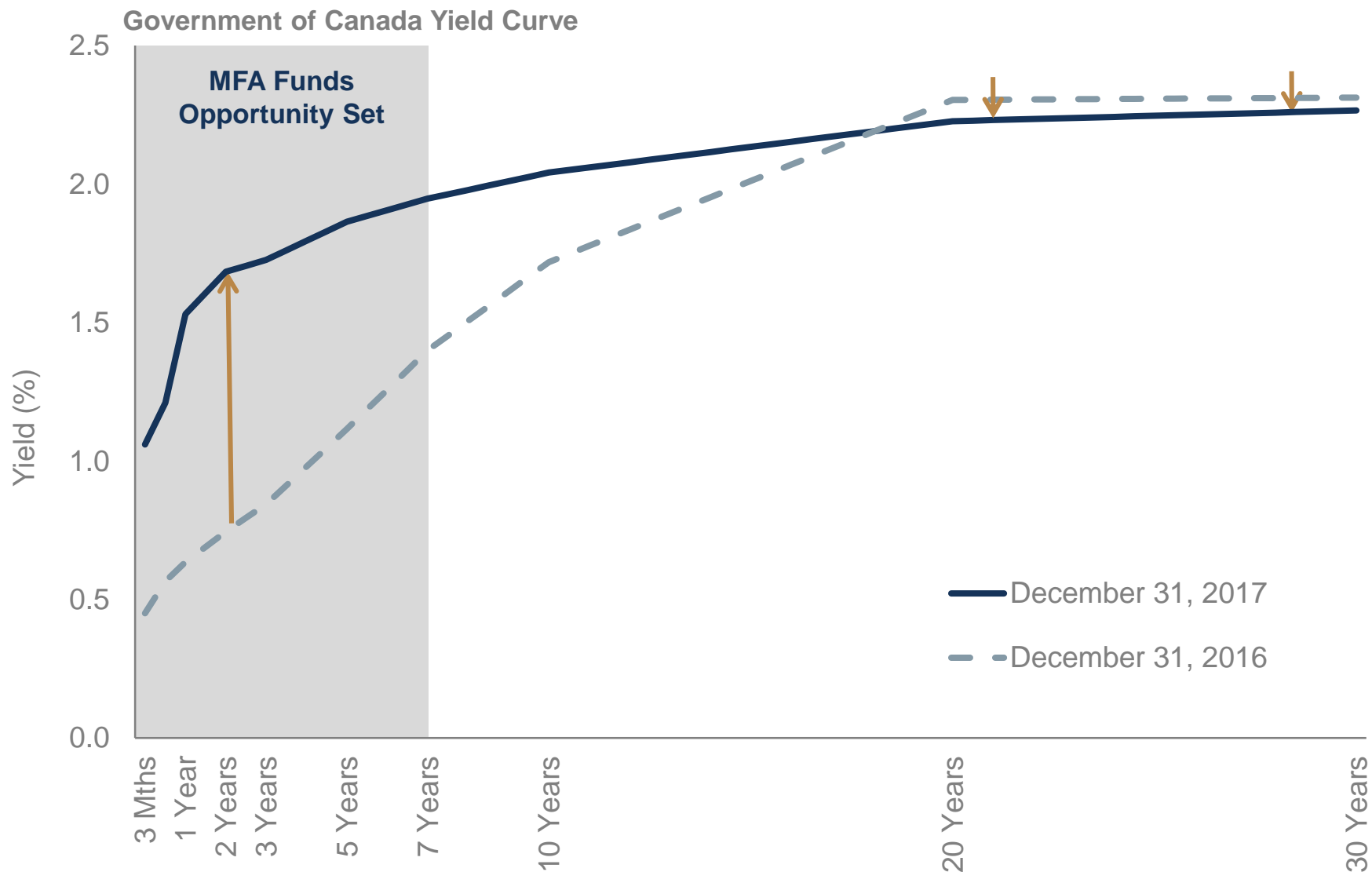
Higher Interest Rates on the Horizon? Fed Hiking Doesn't Necessarily Mean Higher Rates Across Curve



Source: Bloomberg, as of June 30, 2017

Yield Curve Flattened Over the Year

Short Term Rates Significantly Higher



Source: FTSE TMX Global Debt Capital Markets Inc.

Yields are Low....But Can Remain Low For Extended Periods

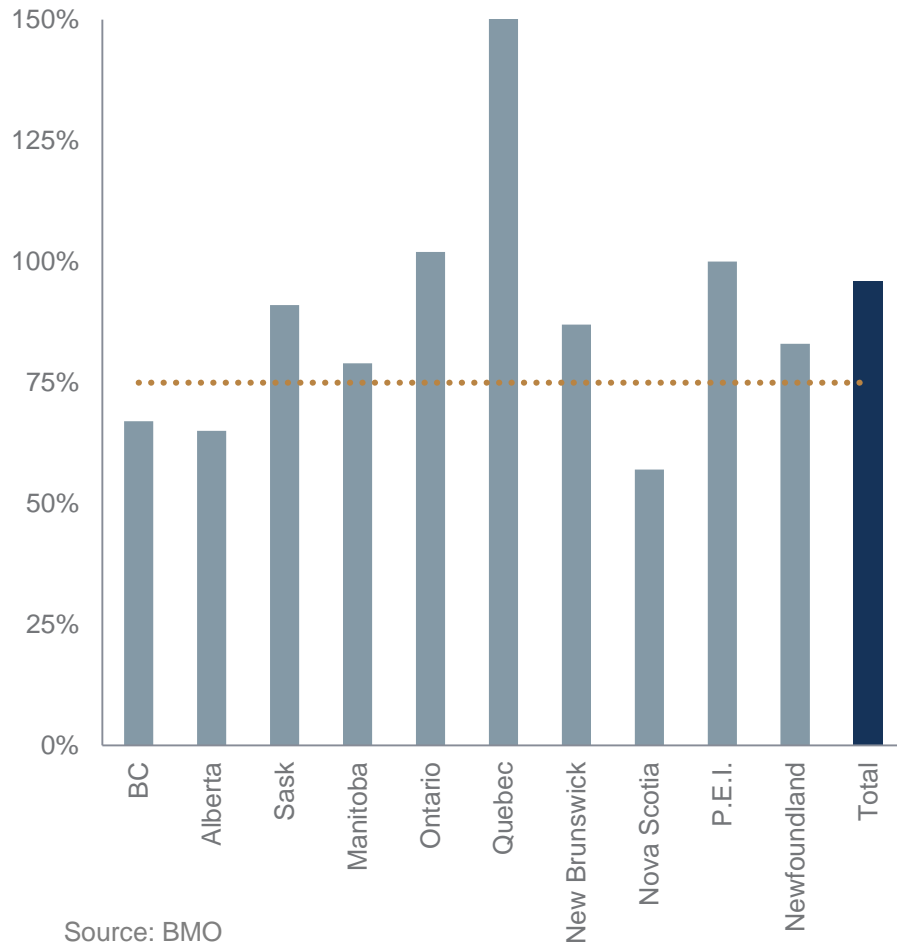


Source: Global Financial Data, FTSE TMX Global Debt Capital Markets

Provincial Bond Market

Strong Performance Influenced by Less Domestic Supply

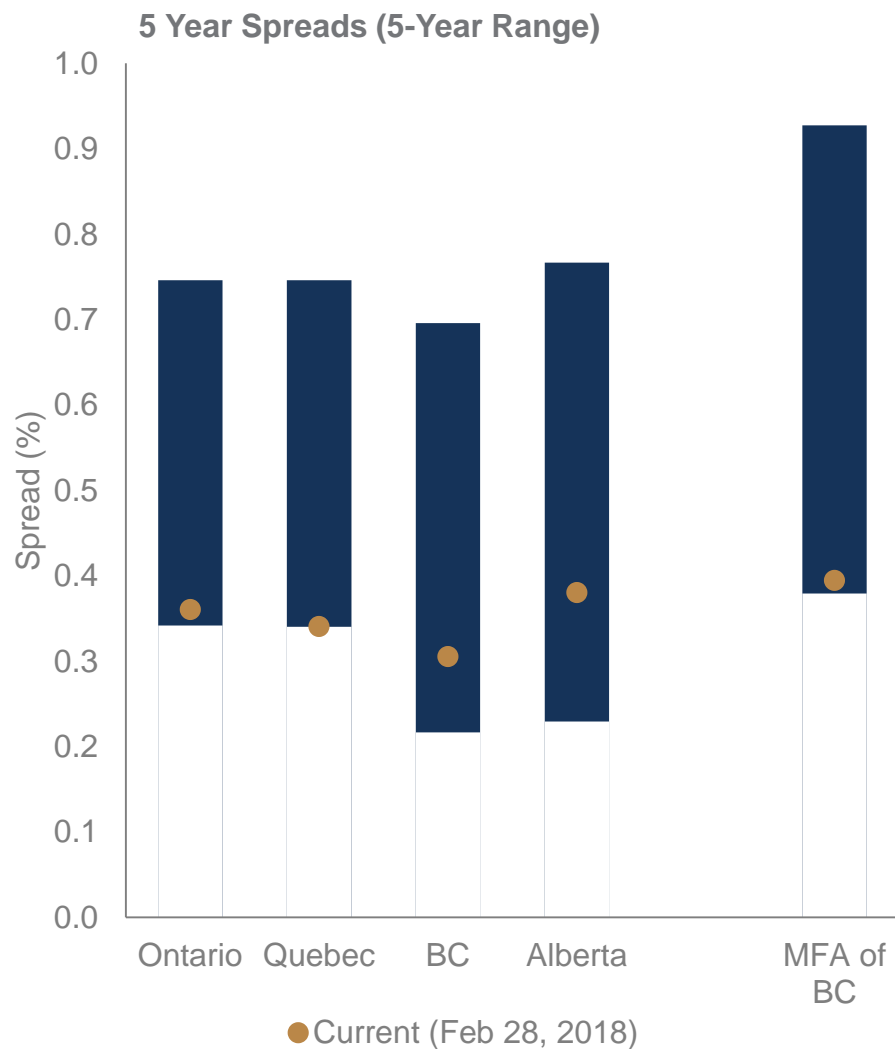
Borrowing Completed (% of Target)
Funding Schedule Fiscal Year 2017/2018



- Valuations at post-crisis lows, resulting from:
 - Focus on issuance outside of Canada
 - Investor demand for high quality yield
- Strong international demand allows provinces to:
 - Issue in large amounts, at attractive yields
 - Diversify source of funding
- Issuance well ahead of target
 - Only 75% through fiscal year
 - Less supply for domestic investors

Provincial Bond Market

Strong Demand Have Left Valuations at Low End of Range

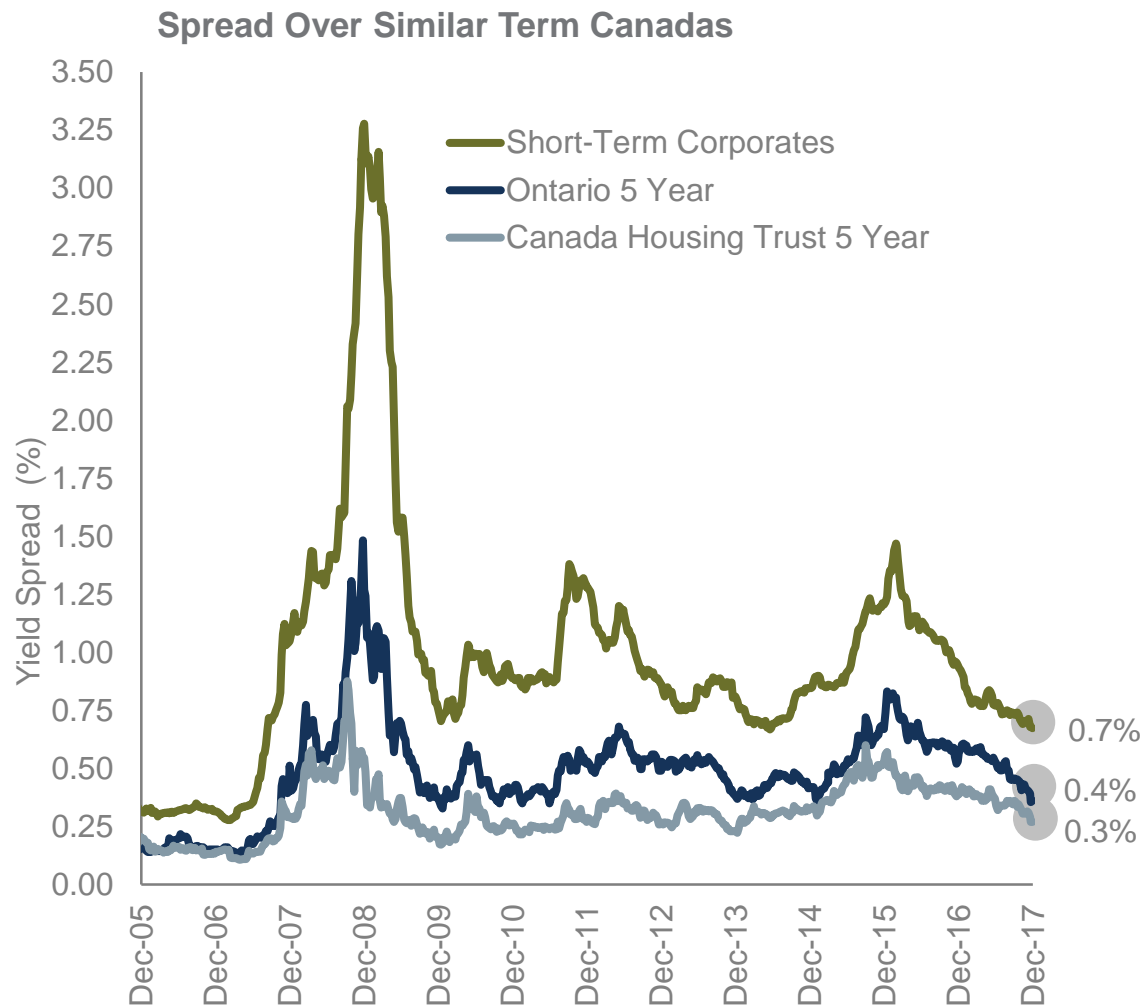


- Demand from international investors was a key theme in 2017
 - \$25B of international issuance, (2nd highest on record), \$10B more than 2016
 - \$52B of domestic issuance, lowest since 2010

Source: FTSE TMX Global Debt Capital Markets Inc.

Compensation for Credit Risk at Low Levels

Provincial and Agency Bonds Relatively More Attractive



- Defensively biased in corporate bonds
- Preference for Federal Agency and Provincial bonds over Government of Canada bonds

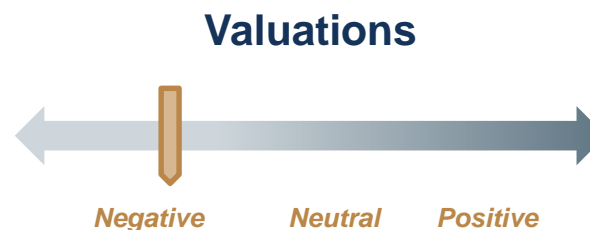
Source: FTSE TMX Global Debt Capital Markets Inc., BondLab

Corporate Bond Market Outlook – Current View

Increasingly Cautious

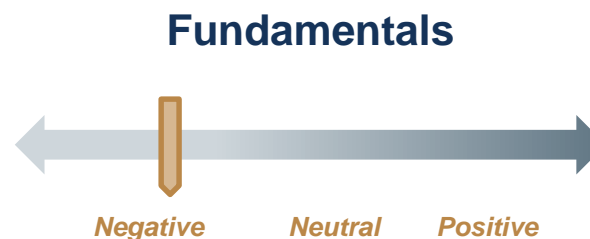
1. Valuations: Negative

- Spreads near post crisis lows



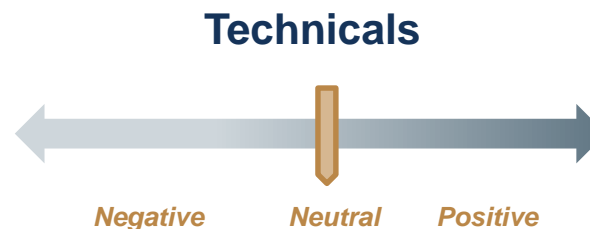
2. Fundamentals: Negative

- Elevated event risk
- Stretched corporate balance sheets
- Concerns: consumer leverage; housing markets; US protectionism



3. Technicals: Neutral

- Strong new issue demand
- Tightening of Canadian spreads likely to result in more domestic issuance
- Headwinds: liquidity, investor credit positioning, rising rates

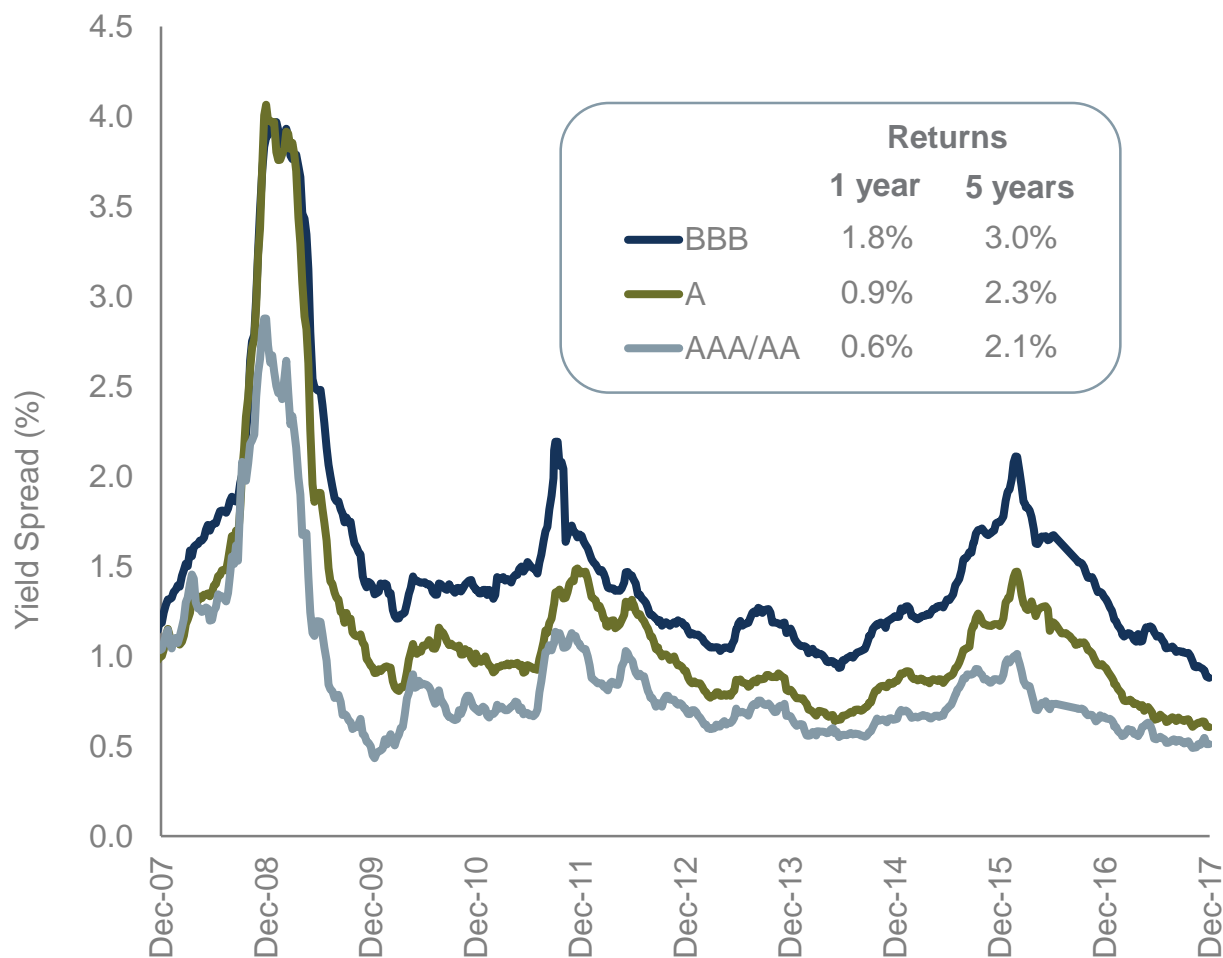


As of December 31, 2017

Corporate Bond Valuations Expensive

Reward-for-Risk Not Attractive

Short-Term Corporate Bond Spreads

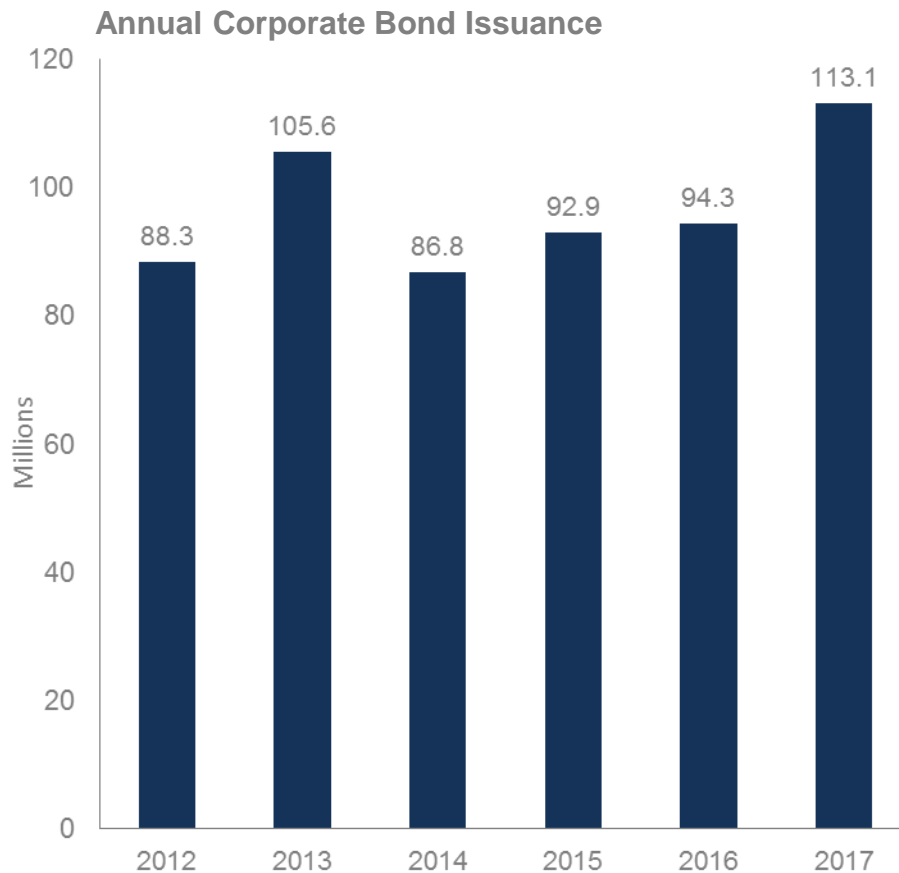


- Spreads near post crisis lows across all rating buckets
- Lower quality has outperformed higher quality
- Took profits and upgrading credit quality of your portfolio

Source: FTSE TMX Global Debt Capital Markets Inc., BondLab

Corporate Bond Issuance Reached Record Levels

Selective in Participation

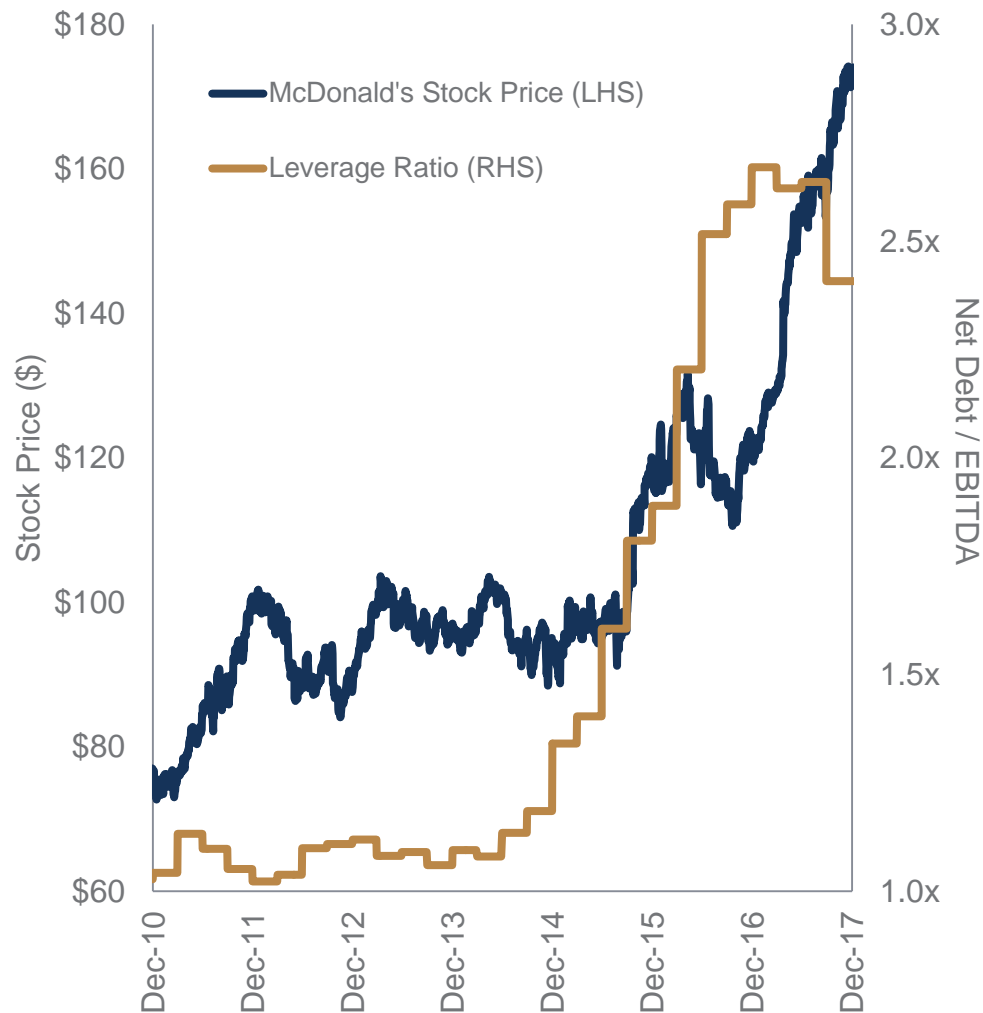


Source: BMO Capital Markets

- Record breaking corporate bond issuance in 2017 (20% higher than 2016)
- Maple bond issuance contributed \$15B (\$6B in 2016) – highest since financial crisis
- Spreads tighten despite record new supply: strong demand for yield
- Selective in our participation – 2017 we participated in 15% of new issues vs 40% in past 3 calendar years

Corporate Bond Fundamentals

Security Selection – Passed on McDonald's Maple Bond

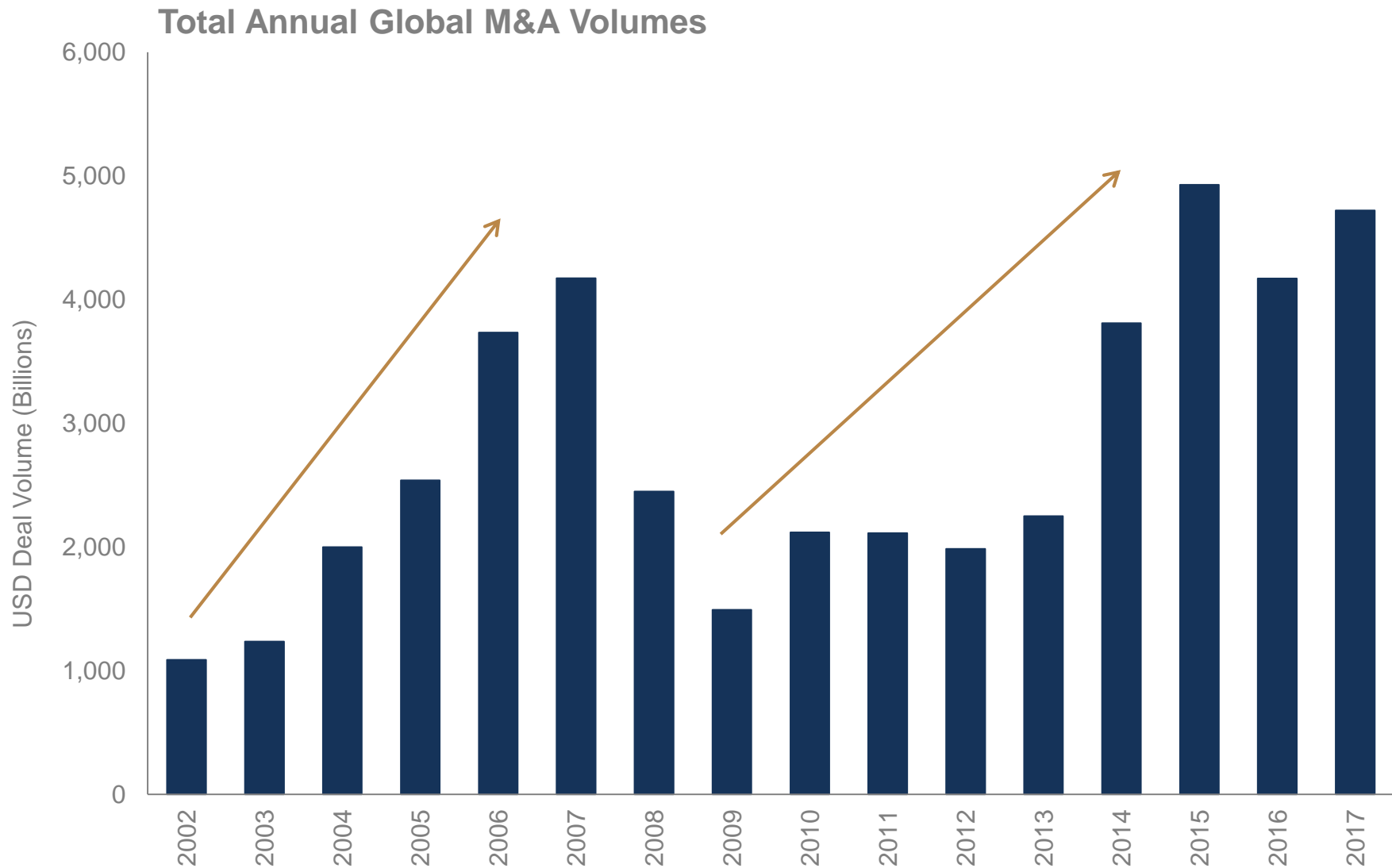


Source: Bloomberg

- **Fundamental credit risk concern** – bond issuance used to buy-back stock and increase dividends
- Shareholder-friendly actions negative for bondholders
- Passed on new issue as it did not offer adequate reward for concerns about fundamental risks

Corporate Bond Fundamentals

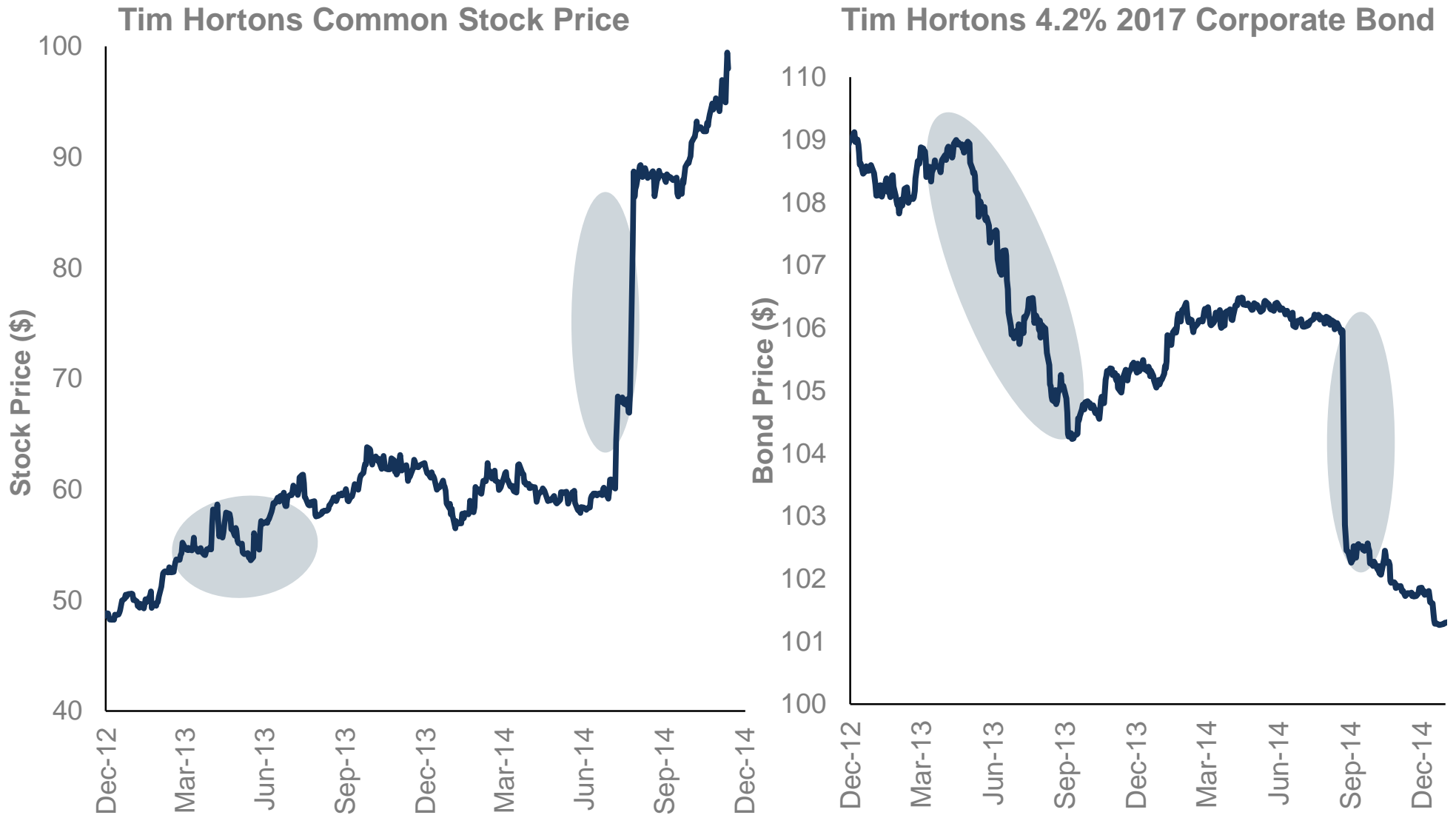
Cheap Funding = Lots of M&A Activity



Source: Bloomberg

Corporate Bond Fundamentals

“Quintessentially Canadian” M&A Portfolio Implications

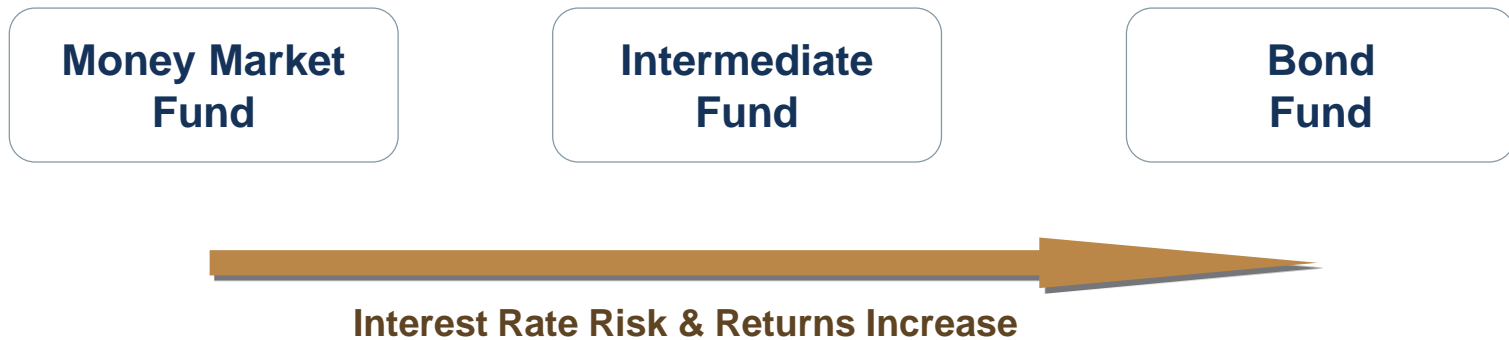


Source: FTSE TMX Global Debt Capital Markets

MFA Pooled Investment Funds

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MFA Pooled Fund Choices



Benchmark	30-Day T-Bills	1-Year T-Bills	FTC Short Term Bond Index
Key Guidelines	<ul style="list-style-type: none"> ■ Focus on high quality ■ Max. 366 day maturity 	<ul style="list-style-type: none"> ■ Focus on high quality ■ Max. 2 year maturity 	<ul style="list-style-type: none"> ■ Focus on high quality ■ Max. 7.25 years maturity
Investment Time Horizon	0-9 months	9-24 months	24 months - 5 years

MFA Funds Under Management

As at December 31, 2017

	<u>\$ Millions</u>	<u>%</u>
	<u>Dec 31, 2017</u>	<u>Dec 31, 2017</u>
Money Market	1,200	52%
Intermediate	341	15%
Bond	775	33%
Total	<u>\$2,316</u>	<u>100%</u>

MFA Funds Performance Review

As of December 31, 2017

Annualized Performance ¹	One Year %	Three Years %	Five Years %	Since Inception ² %
MFA Money Market Fund	1.12	1.02	1.11	4.10
<i>Benchmark³</i>	<u>0.63</u>	<u>0.56</u>	<u>0.70</u>	<u>3.84</u>
Value-Added	+0.49	+0.46	+0.41	+0.26
MFA Intermediate Fund	0.99	1.32	1.42	3.77
<i>Benchmark⁴</i>	<u>0.26</u>	<u>0.57</u>	<u>0.79</u>	<u>3.38</u>
Value-Added	+0.73	+0.75	+0.63	+0.39
MFA Bond Fund	0.45	1.58	2.00	6.21
<i>Benchmark⁵</i>	<u>0.08</u>	<u>1.23</u>	<u>1.70</u>	<u>5.93</u>
Value-Added	+0.37	+0.35	+0.30	+0.28

1. Information shown is gross of fee. Investment management fees are approximately 4bps annually. Other fees and expenses are approximately 11bps (Money Market) to 16bps (Intermediate and Bond Funds)

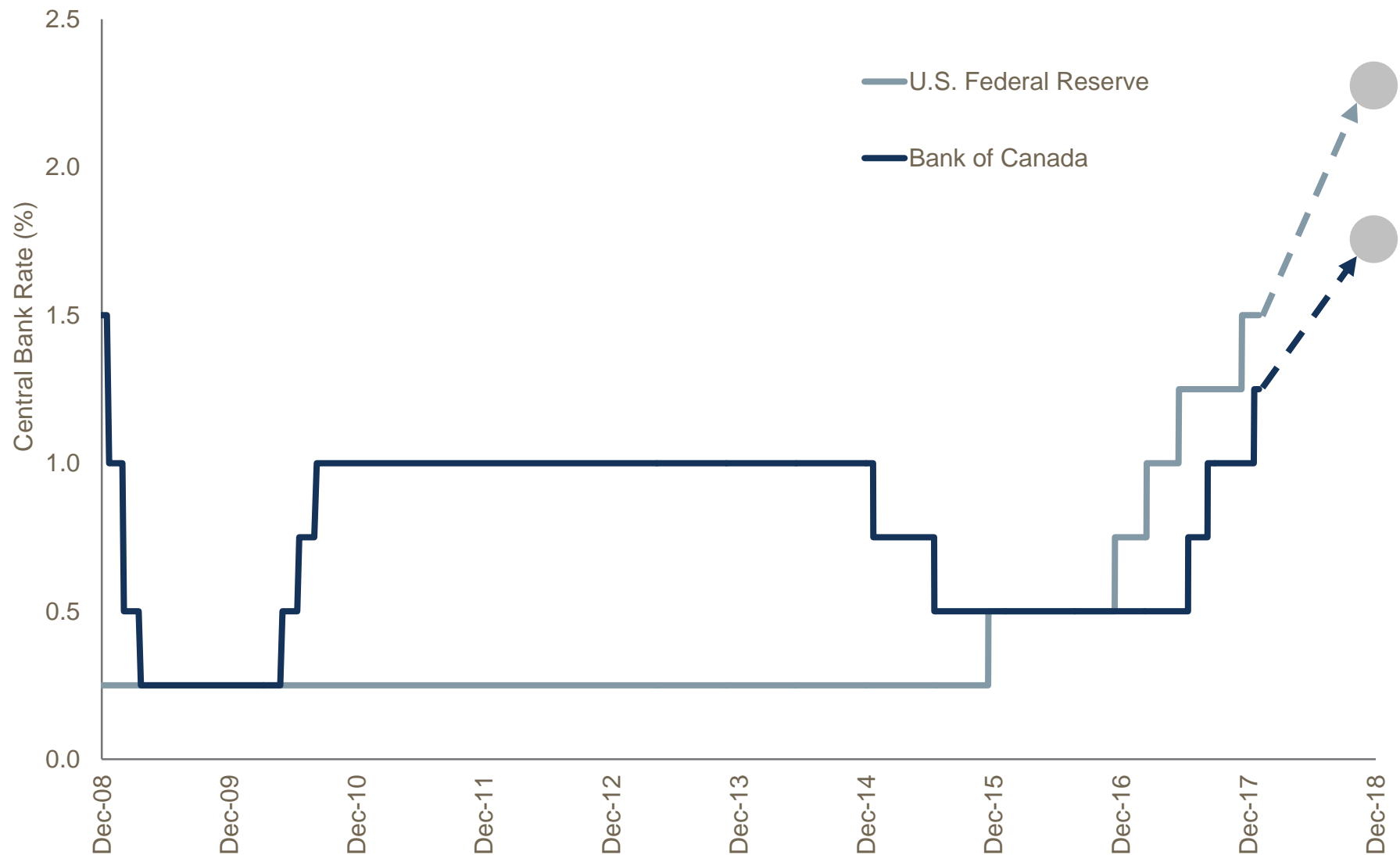
2. May 1989 for Money Market & Bond Fund; March 1994 for Intermediate Fund

3. FTSE TMX 91-Day T-Bill Index from May 1, 1989 to March 31, 1994; FTSE TMX 30-Day T-Bill Index from March 31, 1994 to July 31, 2001; FTSE TMX 91-Day T-Bill Index from July 31, 2001 to December 31, 2012; FTSE TMX 30-Day T-Bill Index thereafter

4. FTSE TMX Canada 365 day T-Bill Index

5. FTSE TMX Canada Short Term Bond Index

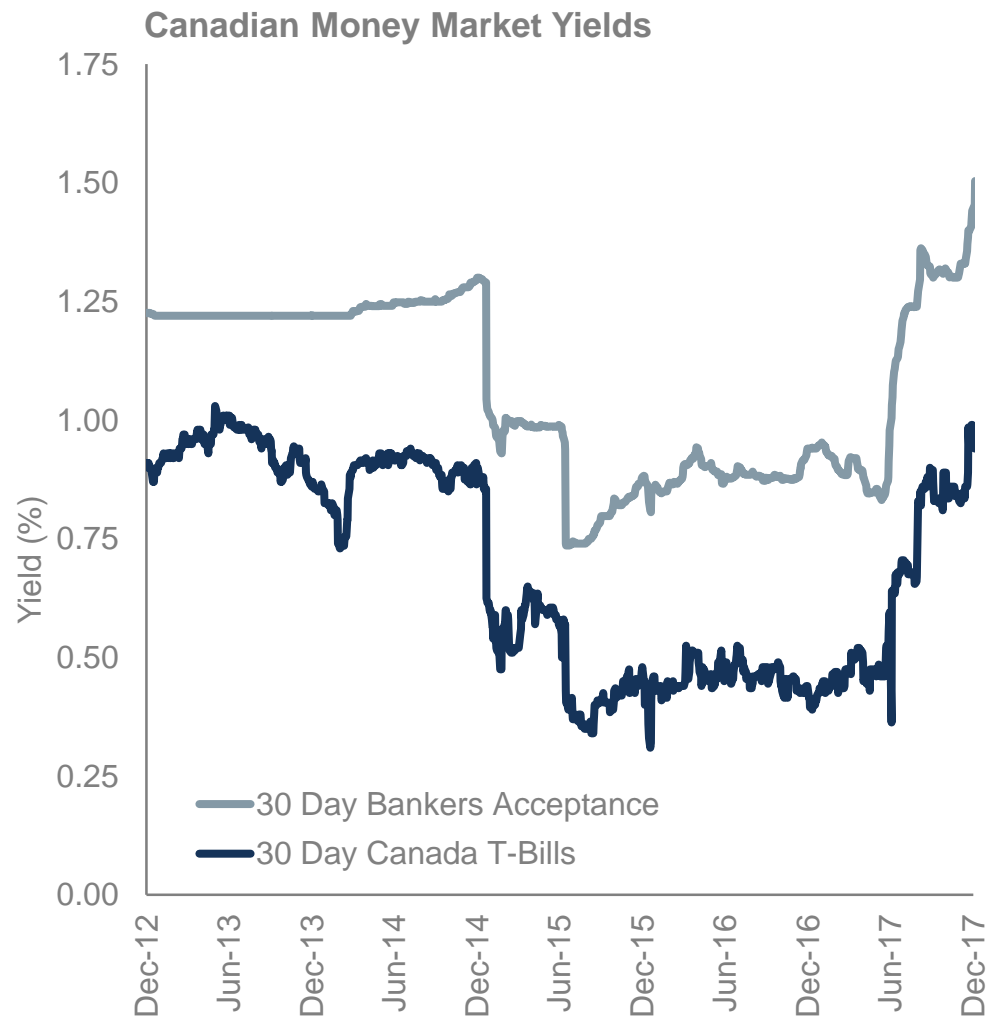
Higher Short-Term Interest Rates Expected Beneficial for Savers



Source: FTSE Global Debt Capital Markets, Bloomberg, CME Group

Canadian Money Market Portfolio

Focus on Yield Enhancing Strategies



Source: Bloomberg, FTSE TMX Global Debt Capital Markets Inc.

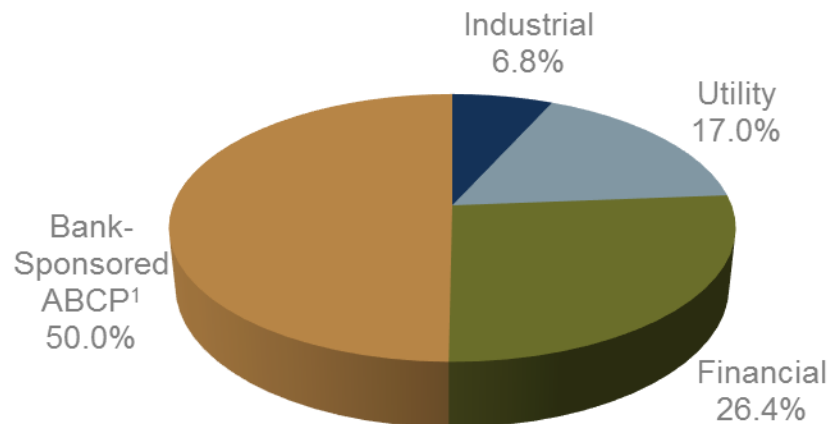
credit/corp paper ... 90days (yld chart BA & 3M) 3/31/16

- Focus on yield enhancing strategies
 - bias to high-quality corporates and commercial paper
 - longer than neutral maturity as longer-term securities maintain attractive yield advantage

MFA Money Market Fund

Portfolio Structure as at December 31, 2017

Sector Distribution



Average Term to Maturity: 63 Days

Portfolio Yield²: 1.45%

Benchmark³ Yield²: 0.99%

Incremental +0.46%

¹ Bank-Sponsored Asset Backed Commercial Paper

² Gross of fees

³ Benchmark is FTSE TMX Canada 30-Day T-Bill Index

- Corporate yields remain attractive relative to government securities
- Fully invested in high quality Corporate securities

High Quality Portfolio

R1High 62.0%

R1Mid 13.2%

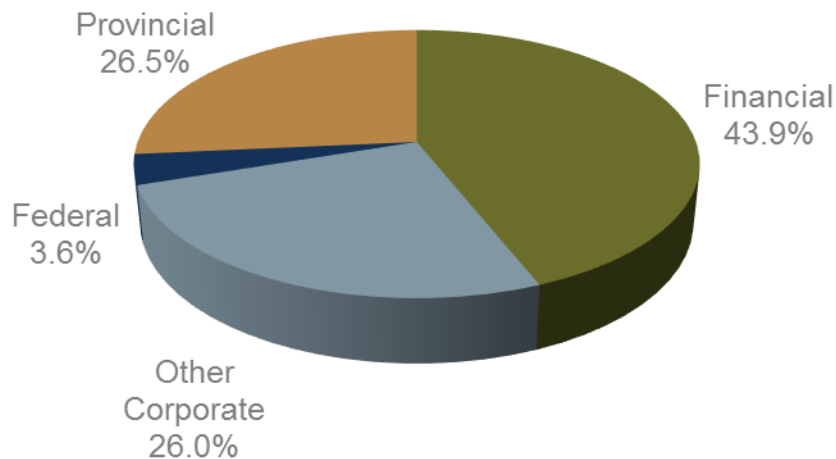
R1Low 24.8%

- Market Value: \$1.2 billion

MFA Intermediate Fund

Portfolio Structure as at December 31, 2017

Sector Distribution



Average Term to Maturity: 0.83 Years

Portfolio Yield¹: 1.72%

Benchmark² Yield¹: 1.53%

Incremental +0.19%

¹ Gross of fees

² Benchmark is FTSE TMX Canada 365-Day T-Bill Index

- Government allocation low in favor of yield enhancing credit strategies
 - Maximum allocation to corporate bonds
 - Government allocation made up of Provincial securities

High Quality Portfolio

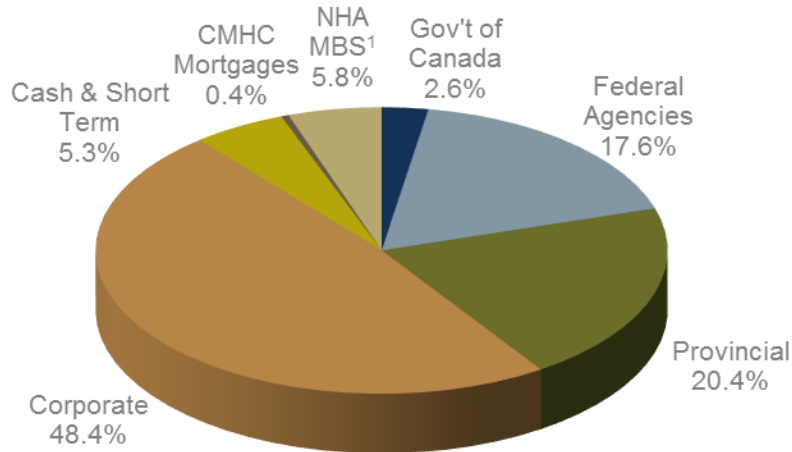
AAA/R1H	7.7%
AA/R1M	76.7%
A/R1L	15.6%
BBB	0.0%

- Market Value: \$341 million

MFA Bond Fund

Material De-Risking Since Oil Price Shock

March 31, 2016



Portfolio Duration: 2.58 yrs
 Benchmark² Duration: 2.80 yrs
 Relative -0.22 yrs

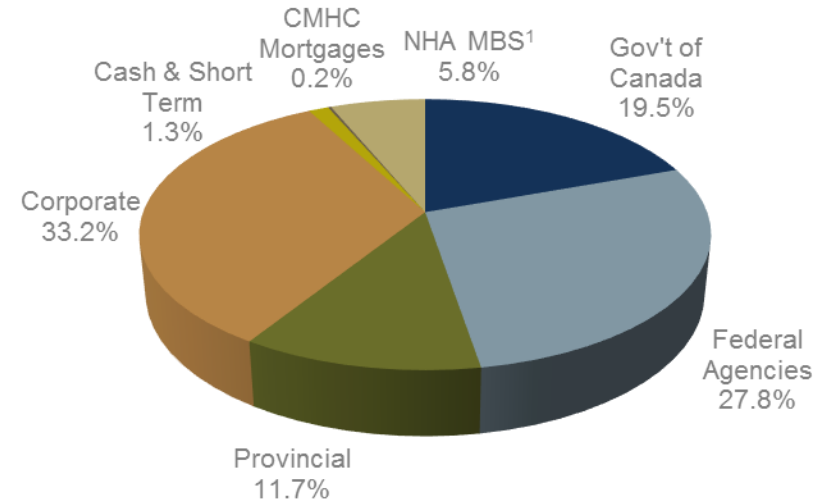
Portfolio Yield²: 1.43%
 Benchmark³ Yield²: 1.21%
 Incremental +0.22%

¹ NHA Mortgage Backed Securities

² Gross of fee

³ Benchmark is FTSE TMX Canada Short Term Bond Index

December 31, 2017



Portfolio Duration: 2.71 yrs
 Benchmark² Duration: 2.78 yrs
 Relative -0.07 yrs

Portfolio Yield²: 2.02%
 Benchmark³ Yield²: 2.05%
 Incremental -0.03%

¹ NHA Mortgage Backed Securities

² Gross of fee

³ Benchmark is FTSE TMX Canada Short Term Bond Index

Questions?

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