

# MFA of B.C. Pooled Investment Results<sup>1</sup>

## As of September 30, 2018

	1 Month Non-annualized %	3 Months Non-annualized %	Year-to-Date Non-annualized %	1 Year %	3 Years Annualized %	5 Years Annualized %	Since Inception Annualized % <sup>2</sup>
<b>MFA Money Market Fund</b>	<b>0.14</b>	<b>0.43</b>	<b>1.18</b>	<b>1.48</b>	<b>1.04</b>	<b>1.03</b>	<b>3.88</b>
Custom Benchmark <sup>3</sup>	0.10	0.28	0.78	0.95	0.55	0.59	3.62
<b>MFA Intermediate Fund</b>	<b>0.09</b>	<b>0.39</b>	<b>1.15</b>	<b>1.53</b>	<b>1.13</b>	<b>1.25</b>	<b>3.50</b>
FTSE TMX Canada 365-Day Treasury Bill Index	0.06	0.17	0.91	1.12	0.42	0.62	3.11
<b>MFA Bond Fund</b>	<b>-0.21</b>	<b>-0.02</b>	<b>0.54</b>	<b>0.85</b>	<b>0.91</b>	<b>1.71</b>	<b>5.87</b>
FTSE TMX Canada Short Term Overall Bond Index	-0.22	-0.04	0.39	0.62	0.51	1.40	5.58

<sup>1</sup>Portfolio and benchmark performance is net of total fees and expenses of 15 basis points per annum (Money Market Fund) and 20 basis points per annum (Intermediate & Bond Fund).

<sup>2</sup>Inception dates: Money Market Fund – May 1, 1989; Intermediate Fund – March 30, 1994; Bond Fund – May 1, 1989

<sup>3</sup>Represents custom benchmark: changed from FTSE TMX Canada 91-day T-Bill Index to FTSE TMX Canada 30-day T-Bill Index effective Jan. 1, 2013

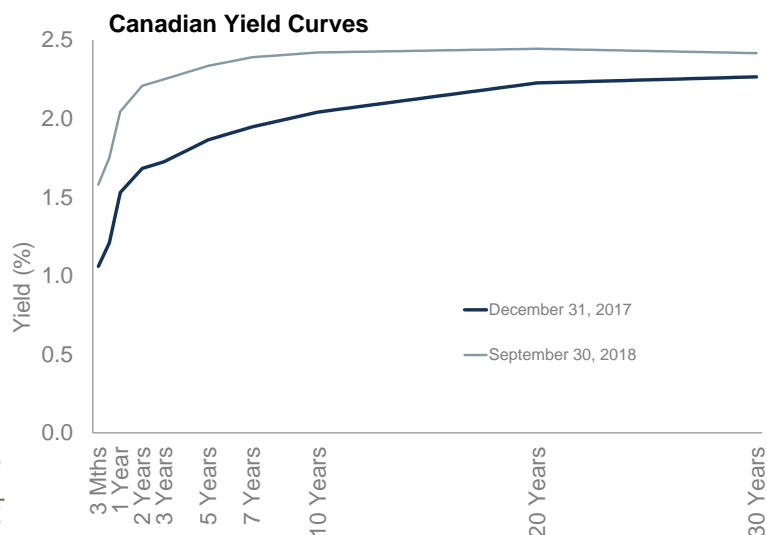
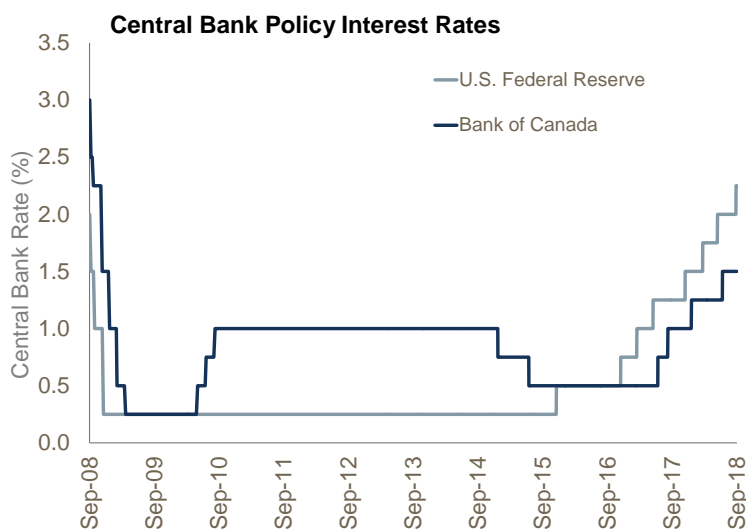
## Market Developments

### Market Interest Rates

	July 31, 2018	August 31, 2018	September 30, 2018
3 Month T-bills	1.45%	1.54%	1.58%
2 Year Gov't of Canada Bonds	2.07%	2.06%	2.21%
5 Year Gov't of Canada Bonds	2.22%	2.16%	2.34%
30 Year Gov't of Canada Bonds	2.33%	2.25%	2.42%

Government of Canada bond yields hit their lows of the month in the first week, reaching a high towards the end of September. During the Bank of Canada (BoC) policy announcement on September 5, Senior Deputy Governor Wilkins reiterated that although recent economic data warrants higher interest rates, the BoC will maintain its gradual, data-guided approach. Additionally, the BoC will continue to take into consideration the ongoing NAFTA negotiations, and their impact on the inflation outlook. To this end, a new trade agreement, the United States–Mexico–Canada Agreement (USMCA) was also established, providing additional clarity for Canada's economic outlook going forward.

Overall, during the month of September following the relatively upbeat news, Canada yields increased by approximately 15 basis points in the front end and 20 basis points in the long end of the curve, while credit spreads tightened slightly.



## Market Outlook

The Bank of Canada (BoC) met at the beginning of September and, as was largely expected, held the overnight rate steady at the current 1.5% level. The accompanying policy statement, coupled with Senior Deputy Governor Wilkins' speech the following day, had little impact on the market's expectation for an October rate hike. This view was further supported by continued strong economic data during the month. As a result, anticipation that the BoC will raise its policy rate at its next meeting in October remains entrenched, though this is likely to be the last for 2018. With this in mind, we expect the short-end of the Canadian yield curve to move higher in line with expectations of the BoC's gradual approach to monetary policy normalization.

The U.S. Federal Reserve (Fed) also met in September. As was fully expected by market participants, it raised its policy rate by 0.25% to end the month at a range of 2.0% to 2.25%. Looking forward, expectations remain for the Fed to continue its quarterly rate hike pace until it reaches its longer-run median policy rate of 3.0%. Notably, in the accompanying statement, the Fed dropped the reference to monetary policy being accommodative, further suggesting that it is nearing its longer-term neutral policy rate. Overall, we expect short-term U.S. interest rates to trend higher as the Fed continues along the path to its long-term neutral policy rate.

## Current Strategy

The Money Market Fund remains focused on building a high quality yield advantage, a strategy which has historically proven to be a reliable way to outperform the benchmark. With this in mind, the Money Market Fund continues to be fully invested in high-quality corporate money market instruments given their attractive risk-adjusted incremental yield over similar-term government securities. Similarly, the Money Market Fund also maintains an allocation to longer-dated corporate money market securities, which results in a longer-than-benchmark average maturity profile.

The Intermediate and Bond Funds also both favour high quality yield enhancement strategies. The Intermediate Fund maintains a maximum allocation to corporate securities, with the government allocation invested entirely in provincial securities given their attractive yield advantage relative to federal government securities. Similarly, while the Bond Fund continues to have a more defensive risk budget, it maintains a bias towards government agency and corporate credit, rather than federal bonds. The incremental yield gained from these holdings should provide a helpful tailwind to performance.

Structure – As a Percentage of Total Portfolio								
Money Market Fund			Intermediate Fund			Bond Fund		
Term (Days)	Position	Change	Term (Days)	Position	Change	Term (Years)	Position	Change
< 30	30.2%	-5.9%	< 180	2.1%	-1.4%	< 1.0	8.8%	-1.2%
31 - 60	28.1%	7.3%	181 - 365	43.9%	-4.3%	1.0 - 2.5	30.7%	-3.7%
61 - 90	17.4%	-5.3%	366 +	54.0%	5.7%	2.5 - 4.0	29.1%	-0.3%
91 - 120	14.0%	6.8%				4.0 - 5.5	28.7%	5.0%
121 +	10.3%	-2.9%				5.5 - 7.0	2.7%	0.2%
Government	0.0%	0.0%	Government	30.1%	0.0%	Government	49.82%	0.5%
Corporate	100.0%	0.0%	Corporate	69.9%	0.0%	Corporate	41.27%	0.8%
						Mortgages/MBS	7.02%	0.0%
						Net Cash	1.89%	-1.3%
Average term	57 days	+2 days	Average term	1.1 yrs	+0.1 yrs	Average term	3.0 yrs	+0.2 yrs
Average yield*	1.75%	0.03%	Average yield*	2.19%	0.10%	Average yield*	2.43%	0.18%
Total size	\$1,161.2 mil	-\$24.0 mil	Total size	\$282.8 mil	-\$45.3 mil	Total size	\$549.8 mil	-\$10.8 mil

\*Average yield information is referenced net of total fees and expenses of 15 basis points per annum (Money Market Fund) and 20 basis points per annum (Intermediate & Bond Fund).