

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

## As of November 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>0.15</b>	<b>0.45</b>	<b>1.48</b>	<b>1.58</b>	<b>1.10</b>	<b>1.06</b>	<b>3.87</b>
Custom Benchmark <sup>3</sup>	0.13	0.35	1.02	1.07	0.62	0.61	3.61
<b>MFA Intermediate Fund</b>	<b>0.28</b>	<b>0.47</b>	<b>1.53</b>	<b>1.49</b>	<b>1.20</b>	<b>1.26</b>	<b>3.49</b>
FTSE TMX Canada 365-Day Treasury Bill Index	0.25	0.38	1.24	1.13	0.53	0.64	3.10
<b>MFA Bond Fund</b>	<b>0.51</b>	<b>0.19</b>	<b>0.94</b>	<b>0.50</b>	<b>1.02</b>	<b>1.62</b>	<b>5.85</b>
FTSE TMX Canada Short Term Overall Bond Index	0.57	0.24	0.85	0.37	0.67	1.33	5.57

<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

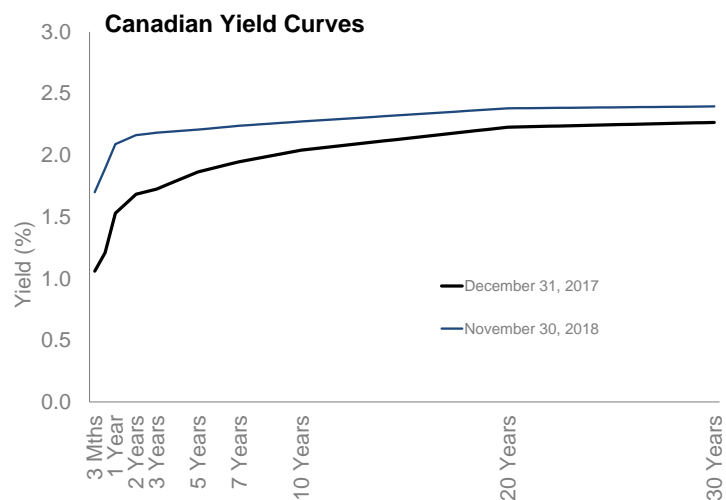
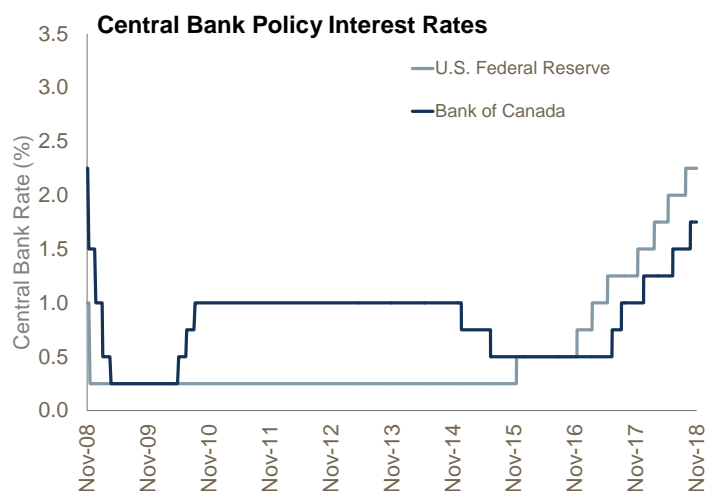
## Market Developments

### Market Interest Rates

	September 30, 2018	October 31, 2018	November 30, 2018
3 Month T-bills	1.58%	1.74%	1.70%
2 Year Gov't of Canada Bonds	2.21%	2.33%	2.16%
5 Year Gov't of Canada Bonds	2.34%	2.43%	2.21%
30 Year Gov't of Canada Bonds	2.42%	2.53%	2.40%

Government of Canada bond yields rose in the beginning of the month, but ultimately ended at their lowest point of the month on the last day of November in response to the renewed risk-off atmosphere that permeated the market. The increasing negative sentiment was due to a combination of geopolitical developments and uncertainty surrounding global trade prospects. Specifically, turbulent global equity markets, an increase in volatility, the massive decline in oil prices, particularly for Western Canadian Select (WCS), all contributed to the downturn.

Overall, Canada yields decreased by approximately 23 basis points in the front end and 14 basis points in the back end of the yield curve, while corporate credit spreads widened substantially on the back of weakening sentiment in global capital markets. This led to the outperformance of federal and provincial bonds compared to corporate bonds.



## Market Outlook

The U.S. Federal Reserve (Fed) met in early November and, as was expected, maintained its policy rate at the current 2.0% to 2.25% level. The accompanying statement was little changed from the prior meeting, which, in the context of more mixed U.S. economic data and falling oil prices, resulted in increased investor caution. Later in the month, Fed Chair Powell commented that policy rates “remain just below the broad range of estimates of the level that would be neutral for the economy,” which market participants interpreted as a signal that the Fed could be slowing, or even pausing, its current hiking cycle. That said, market expectations remain for the Fed to increase its policy rate in December as it continues to move towards what it deems as a neutral policy rate. With that in mind, we continue to expect short-term U.S. interest rates to trend higher over time as the Fed continues along the path to its long-term neutral policy rate.

The Bank of Canada (BoC) did not meet during November. Economic data through the month continued to support the BoC’s desire to reach a neutral monetary policy level with the economy operating close to capacity, unemployment remaining near multi-decade lows, and the average of core inflation measures close to the mid-point of the BoC’s target inflation range. That said, future rate hikes should continue to be viewed as data-dependent. Looking forward, market participants anticipate the next BoC rate hike to occur in the first quarter of 2019, with two to three hikes in total next year. As such, we expect the short-end of the Canadian yield curve to continue to trend higher in line with market expectations as the BoC moves toward a neutral policy rate.

## Current Strategy

The Money Market Fund remains focused on building a high quality yield advantage. As such, the Money Market Fund remains 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	36.0%	-7.1%	< 180	7.4%	3.5%	< 1.0	13.5%	-1.6%
31 - 60	28.3%	9.0%	181 - 365	30.0%	-2.3%	1.0 - 2.5	30.5%	-1.6%
61 - 90	12.1%	-9.4%	366 +	62.6%	-1.1%	2.5 - 4.0	25.7%	-1.8%
91- 120	5.8%	-0.5%				4.0 - 5.5	27.9%	5.6%
121 +	17.8%	8.1%				5.5 - 7.0	2.4%	-0.6%
Government	0.0%	0.0%	Government	30.1%	0.0%	Government	47.98%	5.7%
Corporate	100.0%	0.0%	Corporate	69.9%	0.0%	Corporate	42.29%	0.8%
						Mortgages/MBS	6.82%	-0.2%
						Net Cash	2.91%	-6.3%
Average term	58 days	+10 days	Average term	1.1 yrs	-0.0 yrs	Average term	2.8 yrs	+0.1 yrs
Average yield*	1.93%	0.12%	Average yield*	2.29%	-0.04%	Average yield*	2.39%	-0.18%
Total size	\$1,164.8 mil	-\$10.2 mil	Total size	\$271.4 mil	-\$1.6 mil	Total size	\$542.8 mil	-\$1.4 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).