

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

## As of May 31, 2017

	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>0.08</b>	<b>0.23</b>	<b>0.36</b>	<b>0.84</b>	<b>0.88</b>	<b>0.97</b>	<b>4.01</b>
Custom Benchmark <sup>3</sup>	0.04	0.11	0.16	0.35	0.45	0.60	3.76
<b>MFA Intermediate Fund</b>	<b>0.07</b>	<b>0.25</b>	<b>0.49</b>	<b>1.15</b>	<b>1.26</b>	<b>1.31</b>	<b>3.64</b>
FTSE TMX Canada 365-Day Treasury Bill Index	0.03	0.08	0.20	0.39	0.58	0.72	3.26
<b>MFA Bond Fund</b>	<b>0.17</b>	<b>0.70</b>	<b>1.26</b>	<b>1.70</b>	<b>2.17</b>	<b>2.28</b>	<b>6.17</b>
FTSE TMX Canada Short Term Overall Bond Index	0.15	0.64	1.15	1.41	1.88	1.97	5.89

<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

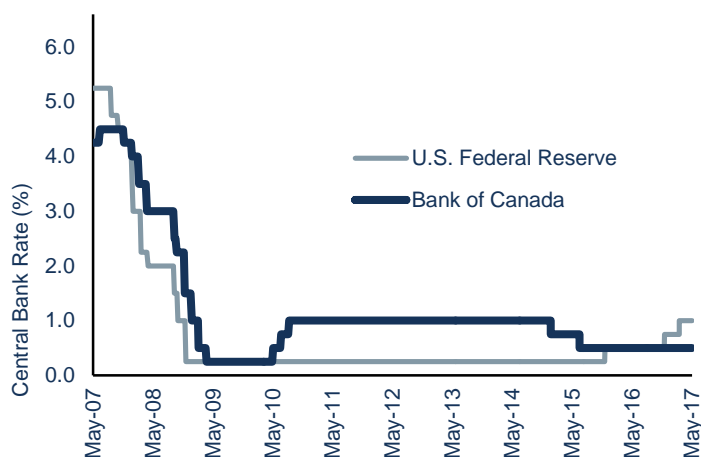
## Market Developments

### Market Interest Rates

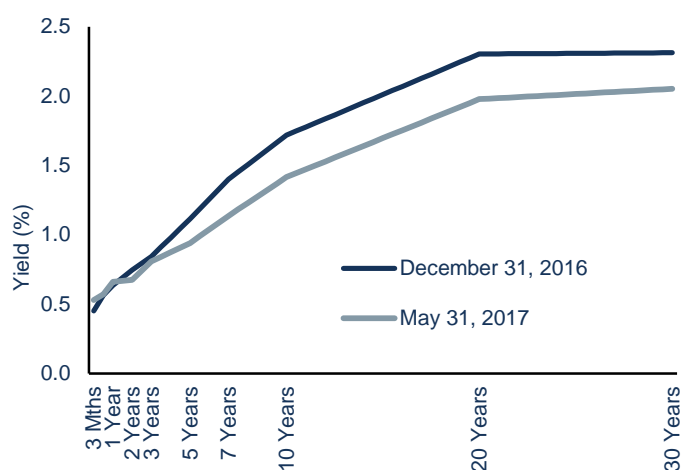
	March 31, 2017	April 30, 2017	May 31, 2017
3 Month T-bills	0.55%	0.53%	0.53%
2 Year Gov't of Canada Bonds	0.75%	0.72%	0.67%
5 Year Gov't of Canada Bonds	1.12%	1.00%	0.94%
30 Year Gov't of Canada Bonds	2.31%	2.16%	2.05%

Canadian interest rates trended higher to begin May as economic releases in Canada and the U.S. continued to support an improving economic backdrop. This momentum, however, reversed course mid-month as heightened uncertainty regarding the Trump administration's ability to move forward with its pro-growth, pro-inflation agenda resurfaced. Further, rising geopolitical tensions fuelled increased demand for the safety of bonds. Overall, this resulted in lower interest rates in Canada month-over-month, along with a flatter yield curve, as maturities beyond two years ended the month 5-10 basis points lower.

Central Bank Policy Interest Rates



Canadian Yield Curves



## Market Outlook

The Bank of Canada (BoC) met at the end of May and once again held the overnight rate steady at 0.5%. Domestic economic data remains encouraging as the economy's adjustment to lower oil prices has now been largely completed. That said, the BoC continues to highlight risks associated with a hot housing market, as well as weaker-than-anticipated non-energy exports. Overall, while the risk of a rate cut has dropped off, the most likely scenario is still for the BoC to remain on hold until the first half of 2018. As such, we expect the short end of the Canadian yield curve to remain anchored for some time yet.

The Federal Reserve (Fed) also met in May, and maintained the federal funds rate at the current 0.75% -1.0%. U.S. labour market statistics continued to show strengthening despite slower economic activity growth. Similarly, inflation risks remain balanced, with longer-run measures closer to the 2% target than short-term measures. With economic data continuing to support the Fed's hiking bias, expectations are for the Fed to continue raising its policy rate in June. Overall, we anticipate the short end of the U.S. yield curve to continue to move higher, in line with expectations surrounding the Fed's hiking cycle.

## Current Strategy

The Money Market Fund continues to be biased to yield enhancement strategies and building a high quality yield advantage; a strategy that has historically been a reliable way to outperform. As such, the fund continues to be fully invested in high-quality corporate money market securities, as these securities continue to provide an attractive incremental compensation over similar term government securities, especially relative to their incremental risk. 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 both also favour high quality yield enhancement strategies. The Intermediate Fund maintains a maximum allocation to corporate securities, while the government allocation is entirely invested in provincial securities given their attractive yield advantage relative to federal government securities. The Bond Fund is similarly structured with an emphasis on government agency and corporate credit, rather than federal bonds.

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	25.4%	0.8%	< 180	1.9%	-2.8%	< 1.0	15.4%	0.8%
31 - 60	10.0%	-12.9%	181 - 365	49.4%	-4.3%	1.0 - 2.5	33.8%	1.4%
61 - 90	23.1%	12.5%	366 +	48.7%	7.1%	2.5 - 4.0	26.5%	-0.9%
91- 120	5.0%	-10.9%				4.0 - 5.5	19.8%	-2.1%
121 +	36.5%	10.4%				5.5 - 7.0	4.5%	0.8%
Government	0.0%	0.0%	Government	30.1%	-0.2%	Government	44.9%	-2.1%
Corporate	100.0%	0.0%	Corporate	69.9%	0.2%	Corporate	38.5%	1.2%
						Mortgages	9.1%	-0.2%
						Net Cash	7.5%	1.1%
Average term	87 days	+5 days	Average term	1.0 yrs	+0.0 yrs	Average term	2.7 yrs	-0.1 yrs
Average yield*	0.86%	0.00%	Average yield*	0.84%	0.00%	Average yield*	1.05%	-0.02%
Total size	\$894.7 mil	-\$141.5 mil	Total size	\$310.1 mil	-\$6.3 mil	Total size	\$810.5 mil	\$4.7 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).