

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

## As of June 30, 2019

	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>0.47</b>	<b>0.97</b>	<b>1.88</b>	<b>1.34</b>	<b>1.16</b>	<b>3.84</b>
Custom Benchmark <sup>3</sup>	0.12	0.38	0.74	1.40	0.85	0.70	3.57
<b>MFA Intermediate Fund</b>	<b>0.11</b>	<b>0.54</b>	<b>1.44</b>	<b>2.59</b>	<b>1.54</b>	<b>1.46</b>	<b>3.48</b>
FTSE Canada 365-Day Treasury Bill Index	0.07	0.39	1.01	1.89	0.92	0.83	3.09
<b>MFA Bond Fund</b>	<b>0.20</b>	<b>1.00</b>	<b>2.67</b>	<b>3.91</b>	<b>1.56</b>	<b>1.97</b>	<b>5.85</b>
FTSE Canada Short Term Overall Bond Index	0.13	0.87	2.57	3.87	1.33	1.71	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

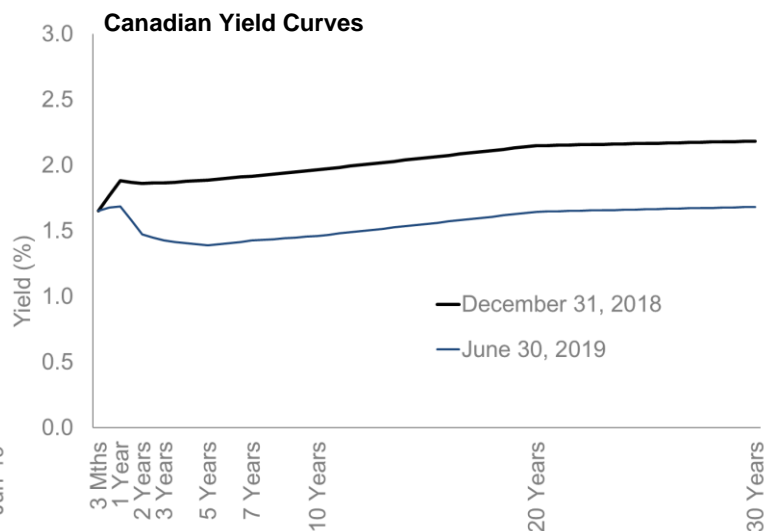
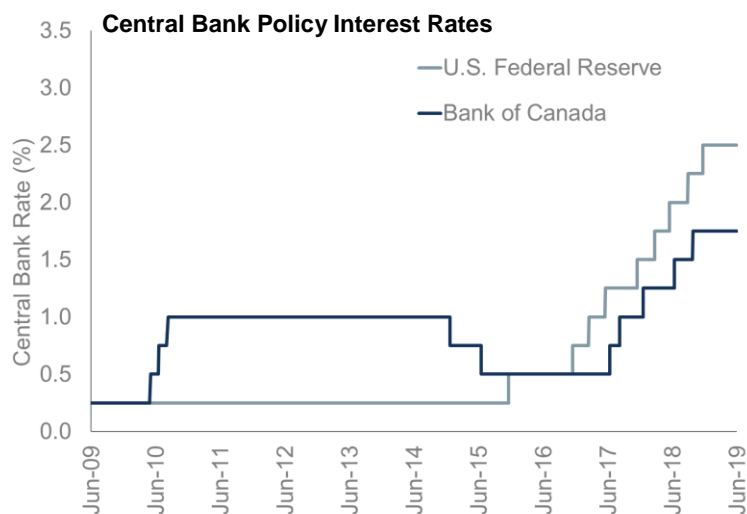
<sup>3</sup>Represents custom benchmark: changed from FTSE Canada 91-day T-Bill Index to FTSE Canada 30-day T-Bill Index effective Jan. 1, 2013

## Market Developments

### Market Interest Rates

	April 30, 2019	May 31, 2019	June 30, 2019
3 Month T-bills	1.67%	1.68%	1.66%
2 Year Gov't of Canada Bonds	1.56%	1.43%	1.47%
5 Year Gov't of Canada Bonds	1.54%	1.36%	1.39%
30 Year Gov't of Canada Bonds	1.99%	1.77%	1.69%

The domestic yield curve flattened as long-term Government of Canada bond yields declined and short term yields rose during June. Ongoing uncertainty surrounding the outcome of trade negotiations and the impact they will have on global economic growth continued to drive sentiment across global markets. Within Canada, this uncertainty resulted in further downward pressure on long term yields, while short term yields remain anchored to expectations surrounding future Bank of Canada policy rate decisions.



## Market Outlook

The Bank of Canada (BoC) did not meet in June, and as such, the overnight rate was unchanged at 1.75%. This level was maintained during the quarter, which was not a surprise to market participants as global trade tensions continued to create uncertainty surrounding expectations for future economic growth. While the BoC recognizes that trade restrictions are likely to have a direct impact on Canadian economic growth, it believes that the slowdown experienced in late 2018 and early 2019 was transitory in nature. With this in mind, expectations are for economic activity to pick up during the remainder of the calendar year, a view that has been supported by a series of economic data points that have exceeded expectations over the past month. This has led market expectations, which had been anticipating the potential for rate cuts, to transition closer toward no expected changes for 2019. Taking all of this into account, barring a change in economic momentum, short term Canadian interest rates are expected to remain close to current levels for the remainder of this year.

The U.S. Federal Reserve (Fed) met in mid-June and maintained its policy rate at the current 2.25% to 2.50% level, a decision that was widely expected by market participants. That said, with ongoing uncertainty surrounding trade negotiations and the Fed vowing to “act as appropriate to sustain the expansion”, market expectations have shifted towards a lower policy rate regime moving forward with the current view implying 0.75% of decreases before the end of the year. We view these expectations as excessively pessimistic, while not ruling out the possibility of policy rate decreases if trade tensions continue to create uncertainty surrounding the economic growth profile. Absent a material change in the economic environment, short term U.S. interest rates are likely to remain suppressed for the foreseeable future.

## 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	41.4%	3.6%	< 180	8.9%	-0.4%	< 1.0	11.4%	-2.5%
31 - 60	22.6%	-0.4%	181 - 365	43.4%	11.9%	1.0 - 2.5	41.2%	-2.4%
61 - 90	19.5%	1.1%	366 +	47.7%	-11.6%	2.5 - 4.0	27.9%	4.9%
91- 120	7.5%	0.1%				4.0 - 5.5	17.2%	-0.7%
121 +	8.9%	-4.4%				5.5 - 7.0	2.3%	0.7%
Government	0.0%	0.0%	Government	30.1%	0.0%	Government	46.55%	2.3%
Corporate	100.0%	0.0%	Corporate	69.9%	0.0%	Corporate	43.83%	1.1%
						Mortgages/MBS	7.31%	-0.2%
						Net Cash	2.30%	-3.1%
Average term	53 days	-5 days	Average term	1.0 yrs	+0.1 yrs	Average term	2.8 yrs	+0.2 yrs
Average yield*	1.83%	-0.01%	Average yield*	1.68%	-0.04%	Average yield*	1.67%	0.01%
Total size	\$1,118.5 mil	\$19.4 mil	Total size	\$218.5 mil	-\$0.1 mil	Total size	\$526.1 mil	\$1.0 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).