

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

## As of October 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>0.10</b>	<b>0.26</b>	<b>0.77</b>	<b>0.91</b>	<b>0.87</b>	<b>0.96</b>	<b>3.96</b>
Custom Benchmark <sup>3</sup>	0.07	0.15	0.37	0.43	0.41	0.57	3.71
<b>MFA Intermediate Fund</b>	<b>0.25</b>	<b>0.38</b>	<b>0.67</b>	<b>0.77</b>	<b>1.15</b>	<b>1.23</b>	<b>3.58</b>
FTSE TMX Canada 365-Day Treasury Bill Index	0.22	0.20	0.07	0.05	0.41	0.61	3.19
<b>MFA Bond Fund</b>	<b>0.60</b>	<b>0.55</b>	<b>0.53</b>	<b>-0.01</b>	<b>1.68</b>	<b>1.91</b>	<b>6.05</b>
FTSE TMX Canada Short Term Overall Bond Index	0.59	0.52	0.24	-0.33	1.34	1.61	5.77

<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

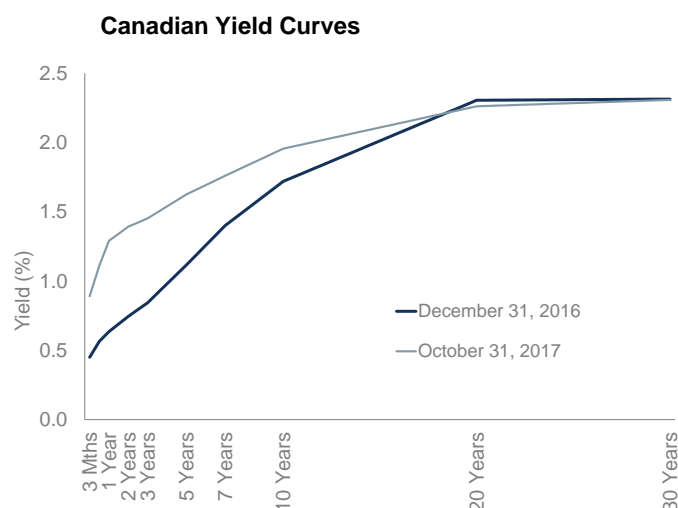
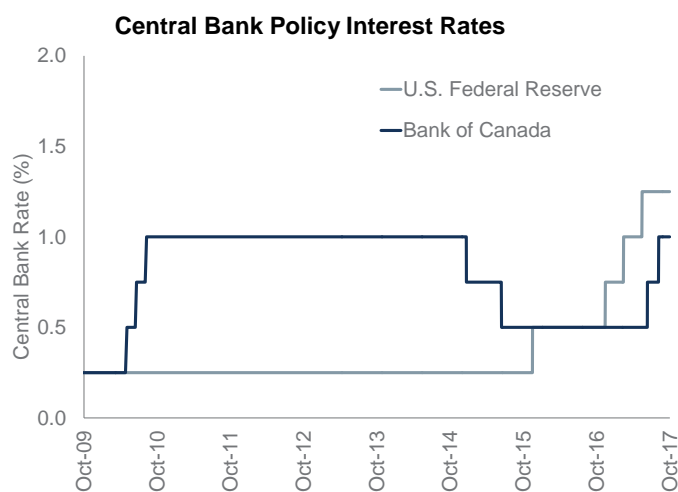
## Market Developments

### Market Interest Rates

	August 31, 2017	September 30, 2017	October 31, 2017
3 Month T-bills	0.76%	1.00%	0.89%
2 Year Gov't of Canada Bonds	1.27%	1.51%	1.39%
5 Year Gov't of Canada Bonds	1.48%	1.75%	1.62%
30 Year Gov't of Canada Bonds	2.26%	2.47%	2.31%

After a persistent move higher through September, Canadian yields retraced their steps in October, largely offsetting the negative returns experienced last month. Several factors contributed to lower Canadian interest rates. Through the first part of the month, Canadian interest rates moved lower in sympathy with their U.S. counterparts, which saw downward pressure due to a hurricane related drop in employment growth as well as a modestly more cautious tone from the U.S. Federal Reserve (Fed). The latter part of October brought weaker-than-expected Canadian economic data, which further weighed on Canadian interest rates.

All told, the shape of the Canadian yield curve was largely unchanged over the month, with yields 10 to 15 basis points lower across the curve.



## Market Outlook

The Bank of Canada (BoC) met at the end of October and, as was largely expected, maintained the target for the overnight rate at 1.0%. The BoC noted in its statement that, while inflation had started to pick up and economic growth both globally and domestically continued to show strength, material downside risks to the economic outlook remain.

Correspondingly, the BoC reiterated its data-dependent view on future rate hikes. Overall, market participants continue to expect two hikes over the next year. Looking forward, we anticipate that short-term Canadian interest rates will continue to move higher as the BoC pursues a more “normal” monetary policy stance over the medium term.

The U.S. Federal Reserve (Fed) met over the month-end period, and similar to the BoC, held its policy rate steady at the current 1.0% to 1.25% level. Economic activity continued to rise at a reasonable pace; that said, the Fed noted hurricane-related disruptions in the near-term data, most notably in terms of employment. Overall, expectations have not changed materially, with market participants still expecting another one to three rate hikes through the end of 2018. As the Fed continues to move towards normalizing monetary policy, we expect short-term interest rates in the U.S. to follow suit.

## Current Strategy

The Money Market Fund remains focused on building a high quality yield advantage as this has historically proven to be a reliable way to add value. With this in mind, the Money Market Fund continues to be fully invested in high-quality corporate money market instruments, as these securities continue to provide an 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 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. Similarly, while the Bond Fund has reduced its overall risk over the past few quarters, it maintains an bias towards 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	42.8%	-6.0%	< 180	4.7%	4.3%	< 1.0	7.5%	0.7%
31 - 60	19.2%	-6.6%	181 - 365	62.0%	4.8%	1.0 - 2.5	32.7%	-0.1%
61 - 90	10.8%	3.1%	366 +	33.3%	-9.1%	2.5 - 4.0	33.9%	-1.1%
91- 120	8.1%	6.5%				4.0 - 5.5	21.0%	-0.5%
121 +	19.1%	3.1%				5.5 - 7.0	4.9%	1.0%
Government	0.0%	0.0%	Government	30.1%	0.0%	Government	59.8%	0.5%
Corporate	100.0%	0.0%	Corporate	69.9%	0.0%	Corporate	30.7%	-0.2%
						Mortgages/MBS	9.1%	-0.1%
						Net Cash	0.4%	-0.2%
Average term	58 days	+7 days	Average term	0.9 yrs	-0.1 yrs	Average term	2.9 yrs	-0.1 yrs
Average yield*	1.23%	0.06%	Average yield*	1.36%	-0.14%	Average yield*	1.79%	0.03%
Total size	\$1,175.9 mil	-\$28.9 mil	Total size	\$347.6 mil	-\$6.1 mil	Total size	\$778.0 mil	\$0.7 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).