

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

## As of December 31, 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>0.17</b>	<b>0.47</b>	<b>1.65</b>	<b>1.65</b>	<b>1.14</b>	<b>1.07</b>	<b>3.87</b>
Custom Benchmark <sup>3</sup>	0.12	0.37	1.15	1.15	0.65	0.62	3.60
<b>MFA Intermediate Fund</b>	<b>0.36</b>	<b>0.74</b>	<b>1.90</b>	<b>1.90</b>	<b>1.27</b>	<b>1.31</b>	<b>3.50</b>
FTSE Canada 365-Day Treasury Bill Index	0.38	0.70	1.62	1.62	0.63	0.70	3.11
<b>MFA Bond Fund</b>	<b>0.82</b>	<b>1.22</b>	<b>1.76</b>	<b>1.76</b>	<b>1.14</b>	<b>1.81</b>	<b>5.86</b>
FTSE Canada Short Term Overall Bond Index	0.85	1.31	1.71	1.71	0.80	1.53	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

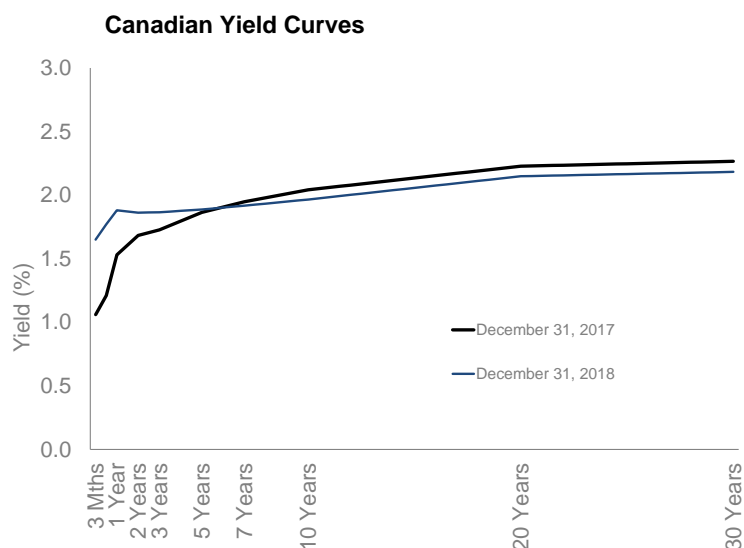
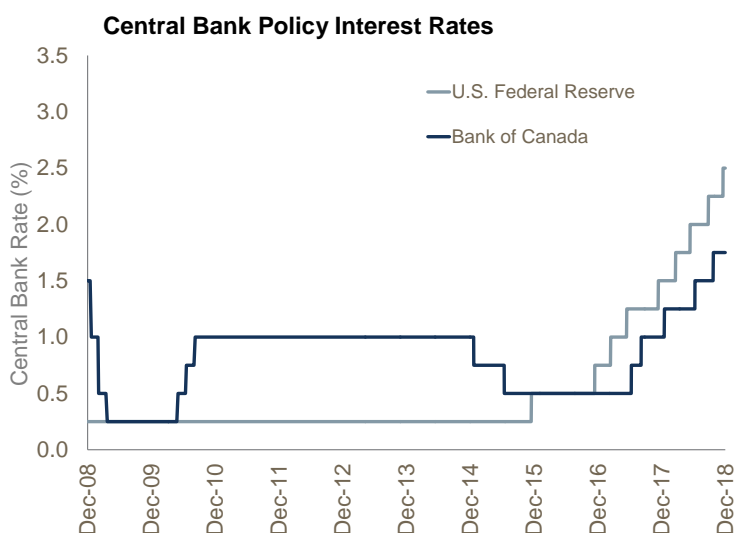
## Market Developments

### Market Interest Rates

	October 31, 2018	November 30, 2018	December 31, 2018
3 Month T-bills	1.74%	1.70%	1.77%
2 Year Gov't of Canada Bonds	2.33%	2.16%	1.86%
5 Year Gov't of Canada Bonds	2.43%	2.21%	1.89%
30 Year Gov't of Canada Bonds	2.53%	2.40%	2.18%

Negative sentiment continued to permeate the market as a result of concerns over global economic prospects.

Consequently, Government of Canada bond yields continued the downtrend established in the previous month, with yields reaching their lows on the last day of December. In response to the market turmoil, the Bank of Canada's (BoC) Stephen Poloz stated that future monetary policy actions will be dependent on a wide variety of factors, such as the effects of higher interest rates on consumption and housing; global trade policy developments; the persistence of the oil price shock; the evolution of business investment; and the BoC's assessment of the economy's capacity. Overall, Government of Canada yields decreased by approximately 30 basis points in the front end and 21 basis points in the back end of the yield curve during the month.



## Market Outlook

The BoC met in early December and kept its policy rate unchanged at 1.75%. Capital market volatility and a general risk-off tone had investors on edge to begin the month, with uncertainty over the BoC's policy rate outlook building prior to the meeting. While the new USMCA trade deal was supportive of the BoC continuing to increase its policy rate, falling oil prices and weaker-than-expected economic data more than offset any near-term market optimism from the new trade deal. As a result, the statement accompanying the BoC's decision struck a cautious tone, citing the sharp decline in oil prices as a larger source of continuing weakness than previously expected. Market anticipation of future rate hikes have since disappeared with no increases now expected in 2019. With this in mind, we believe the BoC is likely to pause for some time in order to evaluate the impact of higher interest rates on the economic growth profile.

The U.S. Federal Reserve (Fed) raised the federal funds rate by 0.25% in December to a target range of 2.25% to 2.50%. In its statement, the Fed signalled a slower pace to rate hikes in the coming year, acknowledging that "some crosscurrents have emerged" since mid-September. Market participants have subsequently adjusted expectations for future Fed rate hikes, with ongoing trade uncertainty and worry of slowing global growth erasing anticipation of any rate hikes in 2019. However, it is worth noting that FOMC median projections include two rate hikes in 2019, pointing to the possibility that the policy rate will continue to move higher in 2019.

## 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	52.4%	16.4%	< 180	11.7%	4.3%	< 1.0	10.1%	-3.4%
31 - 60	15.7%	-12.6%	181 - 365	36.7%	6.7%	1.0 - 2.5	41.6%	11.1%
61 - 90	12.2%	0.1%	366 +	51.6%	-11.0%	2.5 - 4.0	25.0%	-0.7%
91- 120	2.9%	-2.9%				4.0 - 5.5	20.0%	-7.9%
121 +	16.8%	-0.9%				5.5 - 7.0	3.4%	1.0%
Government	0.0%	0.0%	Government	30.2%	0.0%	Government	49.95%	2.0%
Corporate	100.0%	0.0%	Corporate	69.8%	0.0%	Corporate	42.31%	0.0%
						Mortgages/MBS	6.73%	-0.1%
						Net Cash	1.01%	-1.9%
Average term	47 days	-11 days	Average term	1.1 yrs	-0.1 yrs	Average term	2.8 yrs	+0.0 yrs
Average yield*	2.02%	0.09%	Average yield*	2.12%	-0.17%	Average yield*	2.22%	-0.16%
Total size	\$1,106.4 mil	-\$58.4 mil	Total size	\$265.1 mil	-\$6.3 mil	Total size	\$544.5 mil	\$1.7 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).