

# Q1 INVESTMENT REPORT

# 2018



May 16, 2018

*westvancouver*

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# DISTRICT OF WEST VANCOUVER 2018 Q1 INVESTMENT REPORT

## 1. PURPOSE

To report on investment returns pursuant to the requirements of Cash Management and Investment Policy 02-30-369 (Policy).

## 2. CONTEXT

The Policy requires that investment returns be reported on a quarterly basis. This is the first report for 2018, addressing the status of the current investment portfolio and the investment environment in January – March 2018.

Regular cash demands as well as our conservative investment strategy require that we maintain a high degree of liquidity in our investment portfolio including both short and long term investments. Our short term investments, those with terms of less than one year and the highest degree of liquidity, are used to meet our working capital requirements. Short term investments include Municipal Finance Authority of BC (MFA) Pooled High Interest Savings Account (with CIBC), RBC cash account and MFA Money Market Fund.

Long term investments have terms of greater than one year. These investments are less liquid than our short term investments and are held both to manage the risk of interest rate fluctuations and for funding requirements of a longer term perspective. Long term investments include the MFA Intermediate Fund for investments from one to three years and the MFA Bond Fund for investments of more than three years.

### 3. INVESTMENT RESULTS

#### 3.1 Summary

A summary of investment results for the period from January 1, 2018 to March 31, 2018 is presented below:

**INVESTMENT RESULTS**  
**JANUARY 1, 2018 - MARCH 31, 2018**

	<b>MFA MONEY MARKET FUND</b>	<b>MFA BOND FUND</b>	<b>MFA INTERMEDIATE FUND</b>	<b>MFA POOLED HIGH INTEREST SAVINGS ACCOUNT</b>	<b>RBC CASH ACCOUNT</b>	<b>TOTAL</b>
<i>Opening Balance</i>	\$9,853	\$55,587,622	\$27,561	\$80,235,369	\$183,688	\$136,044,092
<i>Transfers/Adjustments</i>	\$ -	\$ -	\$ -	-\$16,107,254	\$5,113,189	-\$10,994,065
	\$9,853	\$55,587,622	\$27,561	\$64,128,115	\$5,296,877	\$125,050,027
<i>Interest Income</i>	\$35	\$124,972	\$97	\$314,266	\$28,439	\$467,809
	\$35	\$124,972	\$97	\$314,266	\$28,439	\$467,809
<b><i>Closing Balance</i></b>	<b>\$9,888</b>	<b>\$55,712,594</b>	<b>\$27,659</b>	<b>\$64,442,381</b>	<b>\$5,325,315</b>	<b>\$125,517,836</b>
<i>3 Mths. non-annualized %</i>	0.35%	0.22%	0.35%	0.43% <sup>1</sup>	1.03% <sup>2</sup>	
<i>1 Year %</i>	1.12%	-0.22%	0.83%	1.96%	1.70%	

#### 3.2 Investment statements

Investment statements for the period from January 1, 2018 to March 31, 2018 are presented in Appendix 1.

<sup>1</sup> Based on average monthly balance

<sup>2</sup> Based on average monthly balance

### 3.3 Comparison to Benchmarks

The benchmarks, defined in the District's Cash Management and Investment Guidelines 04-30-371, are set on the basis of MFA funds' performance objectives as follows:

- for short term (working capital) investments, the benchmark is the performance objective of the MFA Money Market Fund – to exceed the FTSE TMX Canada 30-Day Treasury Bill Index by 15 basis points, net of all expenses.
  - Q1 Benchmark =  $0.26\%^3 + 15 \text{ basis points} = 0.41\%$
  - Q1 Actual (all short term investments) =  $0.46\%^4$
  - Benchmark exceeded by 5 basis points
  
- for bond funds, the benchmark is the performance objective of the MFA Bond Fund – to achieve a return of 40 basis points over the FTSE TMX Canada Short Term Bond Index, net of all expenses
  - Q1 Benchmark =  $0.22\%^5 + 40 \text{ basis points} = 0.62\%$
  - Q1 Actual (investments in MFA Bond Fund) =  $0.22\%$
  - Benchmark missed by 40 basis points due to the underperformance of the MFA Bond Fund
  
- another long term investment, the MFA Intermediate Fund, performed better than the Bond Fund, with the 3 month non-annualized return of 0.35%. The MFA performance objective for the Intermediate Fund is to achieve a total return of 30 basis points over FTSE TMX 365-Day Treasury Bill Index, net of all expenses
  - Q1 MFA Performance objective =  $0.44\% + 30 \text{ basis points} = 0.74\%$
  - Q1 Actual (investments in MFA Intermediate Fund) =  $0.35\%^6$
  - Benchmark missed by 39 basis points due to the underperformance of the MFA Intermediate Fund

### 3.4 Analysis

The analysis of Q1 investment results and forward looking investment strategies for the period from January 1, 2018 to March 31, 2018 is presented in the monthly MFA Pooled Investment Results attached as Appendix 2.

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<sup>3</sup> 3 months non-annualized, as per MFA Q1 report

<sup>4</sup> Based on average across all short term investments

<sup>5</sup> 3 months non-annualized, as per MFA Q1 report

<sup>6</sup> 3 months non-annualized, as per MFA Q1 report

c/o Recordkeeping, CIBC Mellon GSS  
1 York Street, Suite 900  
Toronto, Ontario, M5J 0B6

Your Account Summary  
Statement Date January 1, 2018 to January 31, 2018

DISTRICT OF WEST  
VANCOUVER  
C/O THE TREASURER

000200  
DISTRICT OF WEST VANCOUVER  
C/O THE TREASURER  
750 17TH ST  
WEST VANCOUVER BC V7V 3T3

Investment Advisor or Dealer:  
HOUSE REP  
3680 UPTOWN BLVD  
UNIT 217  
VICTORIA BC V8Z 0B9

### Summary of Your Account

				MARKET VALUE
<b>Your Total Canadian \$ Investment on January 1, 2018</b>				<b>\$55,625,036.20</b>
	UNIT PRICE(\$)	# OF UNITS	BOOK COST	MARKET VALUE
MFABC SHORT TRM BOND	\$9.7071	5,712,694.176	\$57,108,089.87	\$55,453,693.64
MFABC INTERMEDIATE FUND	\$9.7501	2,828.935	\$28,272.94	\$27,582.40
MFABC MONEY MARKET FUND	\$10.0000	986.429	\$9,864.29	\$9,864.29
TOTAL Canadian \$ Investments January 31, 2018			<b><u>\$57,146,227.10</u></b>	<b><u>\$55,491,140.33</u></b>

### Transaction Summary

#### MFABC SHORT TRM BOND

DATE	TRANSACTION	GROSS AMOUNT(\$)	NET AMOUNT(\$)	UNIT PRICE(\$)	UNITS	TOTAL UNITS
01/01/18	Opening Balance					5,702,230.306
01/31/18	INCOME DISTRIBUTION	101,573.83	101,573.83	9.7071	10,463.870	5,712,694.176
01/31/18	Closing Balance					<b><u>5,712,694.176</u></b>

#### MFABC INTERMEDIATE FUND

DATE	TRANSACTION	GROSS AMOUNT(\$)	NET AMOUNT(\$)	UNIT PRICE(\$)	UNITS	TOTAL UNITS
01/01/18	Opening Balance					2,822.387
01/31/18	INCOME DISTRIBUTION	63.84	63.84	9.7501	6.548	2,828.935

We make efforts to ensure that the information contained in your statement is accurate. Please review this statement carefully and advise us of any inconsistencies with your records within 60 days.

c/o Recordkeeping, CIBC Mellon GSS  
1 York Street, Suite 900  
Toronto, Ontario, M5J 0B6

Your Account Summary  
Statement Date January 1, 2018 to January 31, 2018

DISTRICT OF WEST  
VANCOUVER  
C/O THE TREASURER

Investment Advisor or Dealer:

HOUSE REP  
3680 UPTOWN BLVD  
UNIT 217  
VICTORIA BC V8Z 0B9

Transaction Summary (cont'd)

01/31/18 Closing Balance						<b><u>2,828.935</u></b>
<b>MFABC MONEY MARKET FUND</b>						
DATE	TRANSACTION	GROSS AMOUNT(\$)	NET AMOUNT(\$)	UNIT PRICE(\$)	UNITS	TOTAL UNITS
01/01/18	Opening Balance					985.311
01/31/18	INTEREST	11.18	11.18	10.0000	1.118	986.429
01/31/18 Closing Balance						<b><u>986.429</u></b>

"Book cost" means the total amount paid to purchase a security, including any transaction charges related to the purchase, adjusted for reinvested distributions, returns of capital and corporate reorganizations.

The market value for the fund(s) shown within this statement is its "net asset value" as of the specified statement date.

Your monthly statement reports your ending units, average cost of your investment, and market values as of month end. Distributions made by the fund can be monthly or at other times of the year as determined by the management company, with all income and capital gains earned by the fund paid out to investors as of year end. Taxable investors will see distribution amounts recorded on their T3 slips.

The book cost of your investment listed on the statement is an average cost of your current unit balance, based on your initial purchase and any subsequent transactions or reinvested distributions. When taxable investors sell fund units, there can be a capital gain or loss at disposition depending on the current price of the investment being sold is higher or lower than the average cost of the units.

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Toronto, Ontario, M5J 0B6

Your Account Summary  
Statement Date February 1, 2018 to February 28, 2018

DISTRICT OF WEST  
VANCOUVER  
C/O THE TREASURER

000198  
DISTRICT OF WEST VANCOUVER  
C/O THE TREASURER  
750 17TH ST  
WEST VANCOUVER BC V7V 3T3

Investment Advisor or Dealer:  
HOUSE REP  
3680 UPTOWN BLVD  
UNIT 217  
VICTORIA BC V8Z 0B9

### Summary of Your Account

				MARKET VALUE
<b>Your Total Canadian \$ Investment on February 1, 2018</b>				<b>\$55,491,140.33</b>
	UNIT PRICE(\$)	# OF UNITS	BOOK COST	MARKET VALUE
MFABC SHORT TRM BOND	\$9.7187	5,722,070.243	\$57,199,530.77	\$55,611,084.07
MFABC INTERMEDIATE FUND	\$9.7459	2,834.944	\$28,331.58	\$27,629.08
MFABC MONEY MARKET FUND	\$10.0000	987.527	\$9,875.27	\$9,875.27
TOTAL Canadian \$ Investments February 28, 2018			<b><u>\$57,237,737.62</u></b>	<b><u>\$55,648,588.42</u></b>

### Transaction Summary

#### MFABC SHORT TRM BOND

DATE	TRANSACTION	GROSS AMOUNT(\$)	NET AMOUNT(\$)	UNIT PRICE(\$)	UNITS	TOTAL UNITS
02/01/18	Opening Balance					5,712,694.176
02/28/18	INCOME DISTRIBUTION	91,123.18	91,123.18	9.7187	9,376.067	5,722,070.243
02/28/18	Closing Balance					<b><u>5,722,070.243</u></b>

#### MFABC INTERMEDIATE FUND

DATE	TRANSACTION	GROSS AMOUNT(\$)	NET AMOUNT(\$)	UNIT PRICE(\$)	UNITS	TOTAL UNITS
02/01/18	Opening Balance					2,828.935
02/28/18	INCOME DISTRIBUTION	58.56	58.56	9.7459	6.009	2,834.944

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1 York Street, Suite 900  
Toronto, Ontario, M5J 0B6

Your Account Summary  
Statement Date February 1, 2018 to February 28, 2018

DISTRICT OF WEST  
VANCOUVER  
C/O THE TREASURER

Investment Advisor or Dealer:

HOUSE REP  
3680 UPTOWN BLVD  
UNIT 217  
VICTORIA BC V8Z 0B9

Transaction Summary (cont'd)

02/28/18 Closing Balance						<b><u>2,834.944</u></b>
<b>MFABC MONEY MARKET FUND</b>						
DATE	TRANSACTION	GROSS AMOUNT(\$)	NET AMOUNT(\$)	UNIT PRICE(\$)	UNITS	TOTAL UNITS
02/01/18	Opening Balance					986.429
02/28/18	INTEREST	10.98	10.98	10.0000	1.098	987.527
02/28/18 Closing Balance						<b><u>987.527</u></b>

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Toronto, Ontario, M5J 0B6

Your Account Summary  
Statement Date March 1, 2018 to March 31, 2018

DISTRICT OF WEST  
VANCOUVER  
C/O THE TREASURER

000197  
DISTRICT OF WEST VANCOUVER  
C/O THE TREASURER  
750 17TH ST  
WEST VANCOUVER BC V7V 3T3

Investment Advisor or Dealer:  
HOUSE REP  
3680 UPTOWN BLVD  
UNIT 217  
VICTORIA BC V8Z 0B9

### Summary of Your Account

				MARKET VALUE
<b>Your Total Canadian \$ Investment on March 1, 2018</b>				<b>\$55,648,588.42</b>
	UNIT PRICE(\$)	# OF UNITS	BOOK COST	MARKET VALUE
MFABC SHORT TRM BOND	\$9.7193	5,732,161.122	\$57,297,536.14	\$55,712,593.59
MFABC INTERMEDIATE FUND	\$9.7343	2,841.347	\$28,393.86	\$27,658.52
MFABC MONEY MARKET FUND	\$10.0000	988.789	\$9,887.89	\$9,887.89
TOTAL Canadian \$ Investments March 31, 2018			<b><u>\$57,335,817.89</u></b>	<b><u>\$55,750,140.00</u></b>

### Transaction Summary

#### MFABC SHORT TRM BOND

DATE	TRANSACTION	GROSS AMOUNT(\$)	NET AMOUNT(\$)	UNIT PRICE(\$)	UNITS	TOTAL UNITS
03/01/18	Opening Balance					5,722,070.243
03/29/18	INCOME DISTRIBUTION	98,076.28	98,076.28	9.7193	10,090.879	5,732,161.122
03/31/18	Closing Balance					<b><u>5,732,161.122</u></b>

#### MFABC INTERMEDIATE FUND

DATE	TRANSACTION	GROSS AMOUNT(\$)	NET AMOUNT(\$)	UNIT PRICE(\$)	UNITS	TOTAL UNITS
03/01/18	Opening Balance					2,834.944
03/29/18	INCOME DISTRIBUTION	62.33	62.33	9.7343	6.403	2,841.347

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C/O THE TREASURER

Investment Advisor or Dealer:

HOUSE REP  
3680 UPTOWN BLVD  
UNIT 217  
VICTORIA BC V8Z 0B9

Transaction Summary (cont'd)

03/31/18 Closing Balance						<b><u>2,841.347</u></b>
<b>MFABC MONEY MARKET FUND</b>						
DATE	TRANSACTION	GROSS AMOUNT(\$)	NET AMOUNT(\$)	UNIT PRICE(\$)	UNITS	TOTAL UNITS
03/01/18	Opening Balance					987.527
03/29/18	INTEREST	12.62	12.62	10.0000	1.262	988.789
03/31/18 Closing Balance						<b><u>988.789</u></b>

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	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>0.11</b>	<b>0.31</b>	<b>0.11</b>	<b>1.01</b>	<b>0.88</b>	<b>0.97</b>	<b>3.94</b>
Custom Benchmark <sup>3</sup>	0.07	0.18	0.07	0.52	0.40	0.56	3.68
<b>MFA Intermediate Fund</b>	<b>0.08</b>	<b>0.19</b>	<b>0.08</b>	<b>0.72</b>	<b>0.96</b>	<b>1.21</b>	<b>3.55</b>
FTSE TMX Canada 365-Day Treasury Bill Index	0.09	0.08	0.09	0.07	0.22	0.58	3.16
<b>MFA Bond Fund</b>	<b>-0.24</b>	<b>-0.52</b>	<b>-0.24</b>	<b>-0.21</b>	<b>0.70</b>	<b>1.74</b>	<b>5.98</b>
FTSE TMX Canada Short Term Overall Bond Index	-0.24	-0.59	-0.24	-0.55	0.30	1.44	5.69

<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

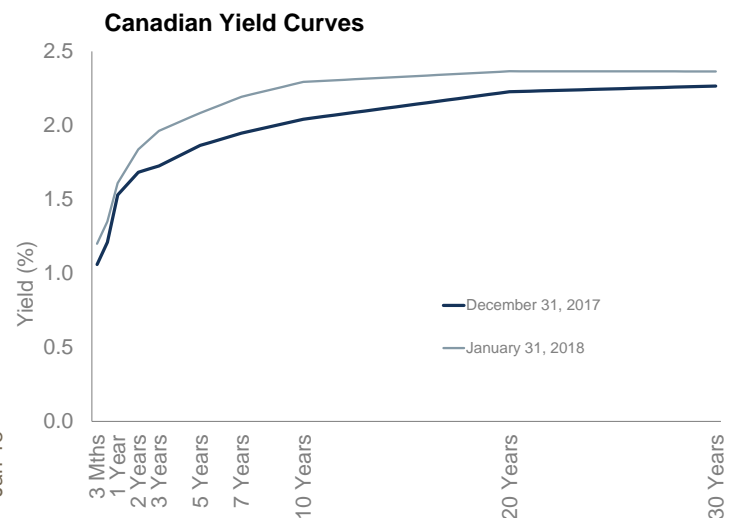
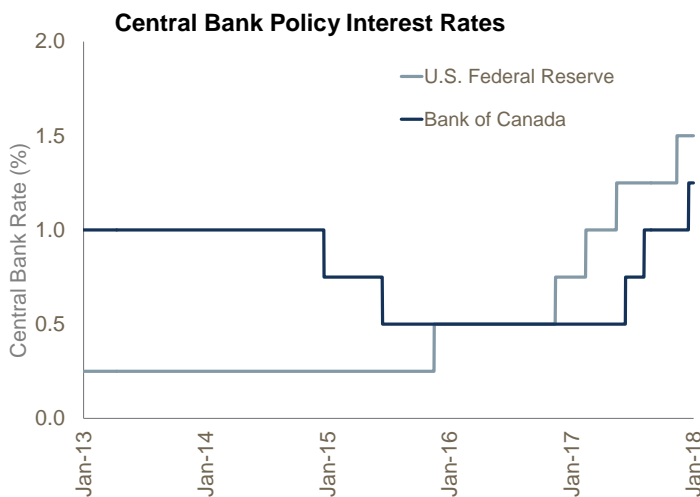
## Market Developments

### Market Interest Rates

	November 30, 2017	December 31, 2017	January 31, 2018
3 Month T-bills	0.88%	1.06%	1.20%
2 Year Gov't of Canada Bonds	1.43%	1.68%	1.84%
5 Year Gov't of Canada Bonds	1.63%	1.86%	2.08%
30 Year Gov't of Canada Bonds	2.23%	2.27%	2.36%

Policy developments in both Canada and the United States drove interest rates on both sides of the border higher during January, causing government bonds of most tenors to have negative absolute performance for the month. South of the border, the higher yields were a reflection of expectations of stronger economic growth, largely as a result of the newly passed tax legislation. In Canada, it was a similar story, with a policy rate increase by the Bank of Canada (BoC) pushing short-end rates higher, while continued above-potential economic growth and tighter labour market conditions helped mid- to long-term yields end the month modestly higher.

Overall, the Canadian yield curve continued to flatten with short maturity yields ending almost 20 basis points higher, while longer-term yields ended the month just under 10 basis points higher.



## Market Outlook

The BoC met in January and raised its policy rate a further 0.25% to 1.25%. In the accompanying statement, the BoC took a more cautious tone about future policy decisions, citing several concerns including uncertainty surrounding the future of NAFTA. The BoC stated that, while the Canadian economy will likely support higher interest rates in the future, it believes that some degree of continued monetary policy accommodation is required to keep the economy and inflation on track. That said, market participants continue to expect another two to three interest rate hikes before the end of the year. Overall, we anticipate short-term Canadian interest rates to trend higher as the BoC pursues a more “normal” monetary policy stance over the medium term.

The U.S. Federal Reserve (Fed) also met in January, but unlike the BoC, it maintained its policy rate at the current level of 1.25% to 1.5%. While the Fed highlighted strong economic activity, it also acknowledged that inflation continues to run below its target. That said, the Fed expects inflation to move higher this year as the U.S. economy continues to operate at or above full capacity. Looking forward, market expectations are for the Fed to follow a similar pattern in 2018 as we saw in 2017, with three policy rate increases over the year. We anticipate that short-term U.S. yields will move higher in tandem with expectations for future rate hikes by the Fed.

## 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. To this end, 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 primarily 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 a 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	23.1%	0.4%	< 180	5.7%	5.0%	< 1.0	9.4%	0.5%
31 - 60	14.7%	-19.5%	181 - 365	63.4%	-21.0%	1.0 - 2.5	37.3%	-3.6%
61 - 90	28.0%	13.7%	366 +	30.8%	16.0%	2.5 - 4.0	27.6%	0.4%
91- 120	13.7%	1.8%				4.0 - 5.5	22.3%	2.5%
121 +	20.5%	3.7%				5.5 - 7.0	3.4%	0.2%
Government	0.0%	0.0%	Government	30.1%	0.1%	Government	56.7%	-2.3%
Corporate	100.0%	0.0%	Corporate	69.8%	-0.1%	Corporate	35.1%	1.9%
						Mortgages/MBS	6.5%	0.0%
						Net Cash	1.7%	0.3%
Average term	76 days	+13 days	Average term	0.9 yrs	+0.0 yrs	Average term	2.9 yrs	+0.1 yrs
Average yield*	1.44%	0.14%	Average yield*	1.64%	0.12%	Average yield*	2.00%	0.18%
Total size	\$1,107.7 mil	-\$92.6 mil	Total size	\$314.7 mil	-\$25.8 mil	Total size	\$741.2 mil	-\$31.8 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).

	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>0.11</b>	<b>0.32</b>	<b>0.22</b>	<b>1.06</b>	<b>0.89</b>	<b>0.97</b>	<b>3.93</b>
Custom Benchmark <sup>3</sup>	0.08	0.19	0.15	0.58	0.42	0.56	3.67
<b>MFA Intermediate Fund</b>	<b>0.17</b>	<b>0.21</b>	<b>0.25</b>	<b>0.79</b>	<b>1.00</b>	<b>1.22</b>	<b>3.55</b>
FTSE TMX Canada 365-Day Treasury Bill Index	0.14	0.12	0.23	0.17	0.28	0.58	3.16
<b>MFA Bond Fund</b>	<b>0.28</b>	<b>-0.39</b>	<b>0.04</b>	<b>-0.27</b>	<b>0.80</b>	<b>1.68</b>	<b>5.97</b>
FTSE TMX Canada Short Term Overall Bond Index	0.26	-0.45	0.02	-0.60	0.41	1.36	5.69

<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

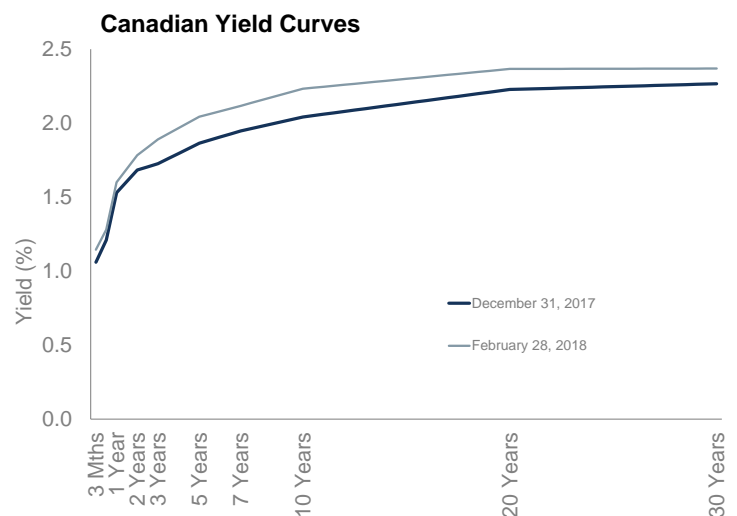
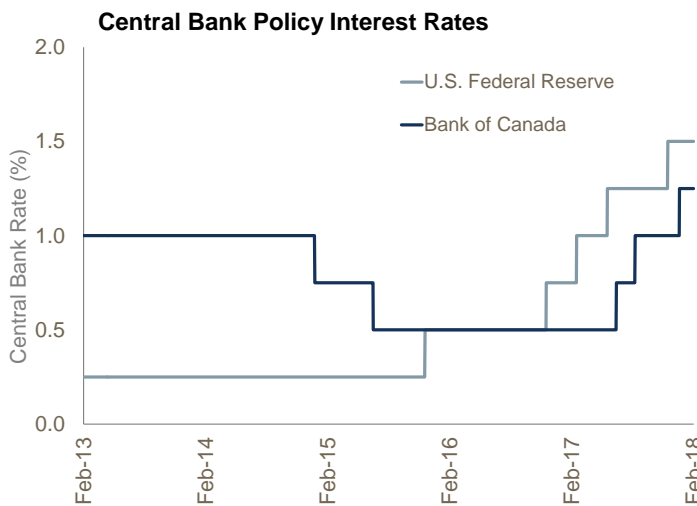
<sup>3</sup>Represents custom benchmark: changed from FTSE TMX Canada 91-day T-Bill Index to FTSE TMX Canada 30-day T-Bill Index effective Jan. 1, 2013

## Market Developments

### Market Interest Rates

	December 31, 2017	January 31, 2018	February 28, 2018
3 Month T-bills	1.06%	1.20%	1.15%
2 Year Gov't of Canada Bonds	1.68%	1.84%	1.78%
5 Year Gov't of Canada Bonds	1.86%	2.08%	2.04%
30 Year Gov't of Canada Bonds	2.27%	2.36%	2.37%

The beginning of the month was marked by a sharp sell-off in risk assets, which was exacerbated by rising market volatility. At the same time, Bank of Canada (BoC) Senior Deputy Governor Wilkins expressed concerns for the Canadian economy, citing the uncertain future of NAFTA, and the recent lacklustre economic data releases. These factors signalled that the BoC was not in a rush to tighten monetary policy. This is a stark contrast to the U.S. Federal Reserve (Fed), which saw policy rate hike expectations increase as inflation fears rose in the midst of the recently signed Bipartisan Budget Act, and Tax Cuts and Jobs Act. Overall, market sentiment shifted towards a risk-off environment. As a result, the Government of Canada yield curve steepened with most yields declining by 4 to 7 basis points, except the 30-year sector, which increased by 1 basis point.



## Market Outlook

The Bank of Canada (BoC) did not meet in February. Several factors continue to contribute to the ongoing cloud of uncertainty around the outlook for the Canadian economy, most notably the ongoing NAFTA negotiations. Additionally, a string of weaker economic data has led market participants to expect the data-dependant BoC to pause its current hiking cycle as it awaits greater clarity on the trajectory of the economy. As such, market expectations are for the BoC to remain on hold until the second half of the year, with only two more rate hikes through the remainder of 2018. Overall, we anticipate short-term Canadian interest rates to trend higher as the BoC moves towards the lower end of its neutral policy rate range.

The U.S. Federal Reserve (Fed) also did not meet in February. Unlike in Canada, U.S. economic data continues to show strength. Additionally, the U.S. congress signed into law the Bipartisan Budget Act, adding another dose of fiscal stimulus to the U.S. economy on top of the recent Tax Cuts and Jobs Act, stoking inflation concerns and the potential for a more aggressive Fed policy rate hiking regime. Further, the new Fed Chair, Jay Powell, who has shown a more hawkish bias than the prior Fed Chair, Janet Yellen, was sworn in. Going forward, market expectations are for the Fed to continue on its quarterly rate hiking schedule through the end of the year, equating to a total of four hikes in 2018. We anticipate that short-term U.S. yields will move higher in tandem with expectations for future rate hikes by the Fed.

## 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. To this end, 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 primarily 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 a 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	19.2%	-3.9%	< 180	4.9%	-0.8%	< 1.0	8.6%	-0.8%
31 - 60	24.1%	9.4%	181 - 365	53.6%	-9.8%	1.0 - 2.5	36.1%	-1.1%
61 - 90	30.4%	2.3%	366 +	41.4%	10.6%	2.5 - 4.0	28.4%	0.8%
91- 120	8.4%	-5.3%				4.0 - 5.5	23.7%	1.4%
121 +	17.9%	-2.6%				5.5 - 7.0	3.1%	-0.3%
Government	0.0%	0.0%	Government	30.1%	-0.1%	Government	56.7%	0.0%
Corporate	100.0%	0.0%	Corporate	69.9%	0.1%	Corporate	36.3%	1.2%
						Mortgages/MBS	6.3%	-0.3%
						Net Cash	0.8%	-0.9%
Average term	72 days	-4 days	Average term	0.9 yrs	+0.0 yrs	Average term	2.9 yrs	+0.0 yrs
Average yield*	1.49%	0.05%	Average yield*	1.63%	-0.01%	Average yield*	1.96%	-0.04%
Total size	\$1,084.4 mil	-\$23.4 mil	Total size	\$307.2 mil	-\$7.5 mil	Total size	\$741.2 mil	\$0.1 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).

	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>0.13</b>	<b>0.35</b>	<b>0.35</b>	<b>1.12</b>	<b>0.90</b>	<b>0.98</b>	<b>3.92</b>
Custom Benchmark <sup>3</sup>	0.08	0.23	0.23	0.62	0.43	0.56	3.67
<b>MFA Intermediate Fund</b>	<b>0.11</b>	<b>0.35</b>	<b>0.35</b>	<b>0.83</b>	<b>1.01</b>	<b>1.21</b>	<b>3.54</b>
FTSE TMX Canada 365-Day Treasury Bill Index	0.16	0.39	0.39	0.34	0.32	0.60	3.15
<b>MFA Bond Fund</b>	<b>0.18</b>	<b>0.22</b>	<b>0.22</b>	<b>-0.22</b>	<b>0.87</b>	<b>1.67</b>	<b>5.96</b>
FTSE TMX Canada Short Term Overall Bond Index	0.15	0.17	0.17	-0.57	0.47	1.36	5.67

<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

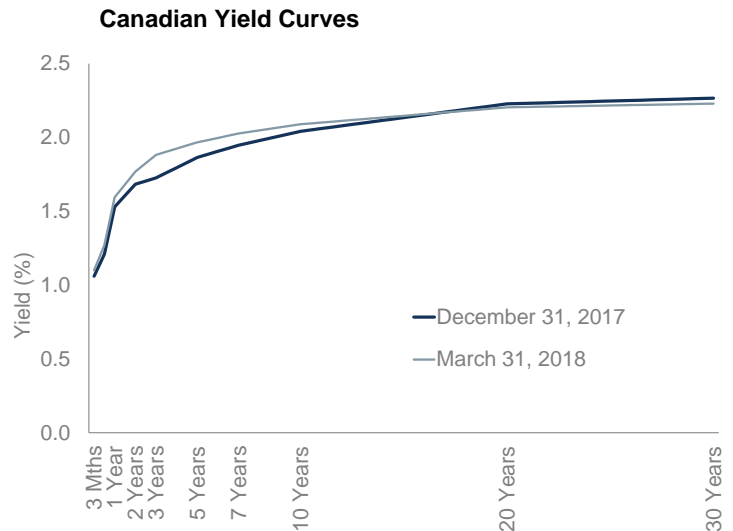
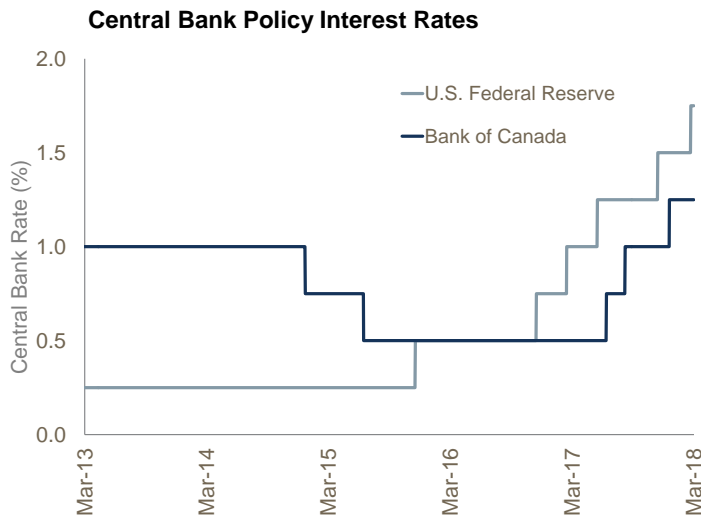
<sup>3</sup>Represents custom benchmark: changed from FTSE TMX Canada 91-day T-Bill Index to FTSE TMX Canada 30-day T-Bill Index effective Jan. 1, 2013

## Market Developments

### Market Interest Rates

	January 31, 2018	February 28, 2018	March 31, 2018
3 Month T-bills	1.20%	1.15%	1.10%
2 Year Gov't of Canada Bonds	1.84%	1.78%	1.77%
5 Year Gov't of Canada Bonds	2.08%	2.04%	1.97%
30 Year Gov't of Canada Bonds	2.36%	2.37%	2.23%

March was marked by weakness and increased volatility in equity markets, which bled into most other risk assets generally. This was stoked by fears of a global trade war on the back of protectionist rhetoric from the Trump administration, and the subsequent rounds of tariffs. First was the steel and aluminium tariff at the beginning of the month with an additional tariff on \$50 billion worth of Chinese goods later in the month. On top of the tariff fears, the tech sector was also hit as revelations surfaced about Facebook's privacy protection, or lack thereof, and President Trump's attacks on Amazon. In this environment, we saw all yields decline, with longer maturities declining by more than shorter maturities, leading to an overall flatter yield curve month-over-month.





## Market Outlook

The Bank of Canada (BoC) met in March and, as was expected, maintained the overnight rate at 1.25%. The BoC indicated a more cautious stance toward future policy rate moves in its statement, citing concerns related to NAFTA uncertainty as well as the Canadian housing sector and how elevated household debt would react to the previous policy rate increases. Overall, market expectations for policy rate moves from the BoC have been pushed out to the second half of 2018, with only two additional policy rate increases before year-end. While the BoC is expected to be on hold for the next few months, we continue to anticipate the short-end of the Canadian yield curve to move higher with expectations for future adjustments by the BoC as it moves towards the lower end of its neutral policy rate range.

The U.S. Federal Reserve (Fed) also met in March, and unlike the BoC, increased its policy rate by 0.25% to a range of 1.50% to 1.75%. Even with continued strength in U.S. economic data and labour markets, market expectations for future moves by the Fed remain in line with where they were at the end of last year. Broadly, market participants expect the Fed to maintain its current once-per-quarter rate hike pace for some time as the policy rate moves closer to its longer-run policy rate projection, translating to another three rate hikes through the end of 2018. We expect that short-term interest rates in the U.S. to trend higher as this occurs.

## 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. To this end, 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.

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61 - 90	16.9%	-13.5%	366 +	29.6%	-11.8%	2.5 - 4.0	35.1%	6.6%
91- 120	9.2%	0.8%				4.0 - 5.5	17.7%	-6.0%
121 +	14.3%	-3.6%				5.5 - 7.0	3.1%	0.0%
Government	0.0%	0.0%	Government	30.1%	0.0%	Government	55.0%	-1.7%
Corporate	100.0%	0.0%	Corporate	69.9%	0.0%	Corporate	34.9%	-1.4%
						Mortgages/MBS	5.9%	-0.3%
						Net Cash	4.2%	3.5%
Average term	65 days	-7 days	Average term	0.8 yrs	-0.1 yrs	Average term	2.8 yrs	-0.1 yrs
Average yield*	1.52%	0.03%	Average yield*	1.68%	0.05%	Average yield*	1.93%	-0.03%
Total size	\$1,065.5 mil	-\$18.9 mil	Total size	\$293.1 mil	-\$14.1 mil	Total size	\$757.3 mil	\$16.1 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).