

Greystone Canadian Bond Fund

Fund Commentary

Canadian bond yields surged higher to end 2016. The 10-year Government of Canada (“GoC”) yield rose 73 basis points (“bps”) for the largest quarterly backup since 1994. Canadian rates followed a repricing of global bond yields, driven by higher inflation and real growth expectations around the world.

The Bank of Canada remained on hold given weaker core inflation in Canada. Shorter term bond yields rose but were anchored relative to longer maturities, which were influenced more by global rates. The GoC yield curve steepened with 10-year and 2-year rates ending at 1.7% and 0.7%, respectively.

Corporate bonds benefitted relative to government bonds amid rising global economic growth expectations. Spreads on indicative 10-year A-rated credit narrowed 23 bps on the quarter and 61 bps over the calendar year.

Given the degree of backup in yields in a relatively short time period, technical indicators of bond pricing were flagging oversold conditions by year-end.

Bonds lost value over the quarter, wiping out much of the capital gain experienced earlier in the year. The Fund added value in the sell-off given a below-benchmark

duration position. An overweight to corporate bonds was also beneficial.

During the quarter, the Greystone Canadian Bond Fund outperformed its benchmark, the FTSE TMX Canada Universe Bond Index.

Current Positioning

While still positioned for defense, Greystone has scaled relative duration closer to the index given oversold conditions and positive real yields. Corporate bond positioning remains above benchmark but risk has been moderated due to tighter credit spreads.

About Greystone

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headquartered in Regina, with offices in Toronto, Winnipeg and Hong Kong.

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Fundamentals

	FUND	INDEX
Average Maturity	9.75	10.29
Average Duration	6.93	7.39
Current Yield	2.18%	2.14%
Average Coupon	3.25%	3.49%

	FUND	INDEX
AAA (includes cash)	30.27	41.05
AA	41.21	27.23
A	20.34	21.31
BBB	8.18	10.40
<BBB	0.00	0.00

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Quarterly Additions/Deletions

Additions
Province of Quebec 4.5% Dec 01/18
Bank of Montreal 1.61% Oct 28/21
Province of Ontario 1.00% Oct 27/21
Province of Saskatchewan 2.75% Dec 02/46
Government of Canada 2.25% Jun 01/25
Government of Canada 1.50% Jun 01/26
Province of Ontario 4.00% Jun 02/21
Province of Quebec 4.25% Dec 01/21
Province of Ontario 4.4% Jun 02/19
Choice Properties LP 3.60% Sep 20/21
HSBC Holdings PLC 3.196% Dec 05/23
Hydro One Inc 1.48% Nov 18/19
Government of Canada 2.50% Jun 01/24
Canada Housing Trust 3.15% Sep 15/23
Canada Housing Trust 2.00% Dec 15/19
Bank of Montreal 1.61% Oct 28/21
Inter Pipeline Ltd 3.484% Dec 16/26

Deletions
Province of Manitoba 4.40% Sep 05/25
Toronto Dominion Bank 1.00% Jun 24/25
Enbridge Pipelines Inc. 3.45% Sep 29/25
Trans Canada Pipelines 3.69% Jul 19/23
Bank of Montreal 1.61% Oct 28/21
Toronto Dominion Bank 1.68% Jun 08/21
Province of Quebec 4.5% Dec 01/18
Choice Properties REIT 3.554% Jul 05/18
HSBC Bank Canada 2.449% Jan 29/21
Alberta Cap Finance Auth 4.45% Dec 15/25
Canada Housing Trust 1.00% Mar 15/18
National Bank of Canada 1.95% Dec 11/17
Government of Canada 1.50% Jun 01/26
National Bank of Canada 1.00% Jun 14/18
Altalink LP 3.668% Nov 06/23
Canada Housing Trust 1.00% Sep 15/19

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