

Greystone Canadian Bond Fund

Fund Commentary

Low inflation expectations contrasting tighter central bank policy was a theme for fixed income markets in the fourth quarter and for the calendar year. The Government of Canada (“GoC”) bond yield curve continued its flattening trend over the quarter with benchmark two-year yields rising approximately 17 basis points (“bps”) and 30-year yields falling by roughly 25 bps. Despite the fourth quarter drop in yields, the GoC 10-year bond ended higher year over year at 2%.

Corporate and provincial sectors outperformed GoC bonds for the quarter and calendar year as investor demand for yield enhancement was strong. The Energy sub-sector outperformed across the maturity spectrum as oil prices continued to push higher.

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

Current Positioning

Portfolio activity was focused on trading interest rate ranges through the quarter. While a below-benchmark interest rate

exposure was held over the quarter, the portfolio benefited from more duration to start the quarter, when GoC 10-year yields were close to 2.1%. A lower duration posture was gradually reinstated until mid-December as 10-year yields fell towards 1.8%.

Portfolio returns were in line with the benchmark for the quarter and ahead for the calendar year. A defensive interest rate exposure was beneficial for the year but detracted over the quarter. The portfolio has moved to a defensive corporate bond position through the year, which detracted value. Security selection in the federal sector added value owing to agency holdings.

Greystone views the economy as continuing to expand through later stages of the economic cycle. This increases the risk of inflationary pressures through 2018 with economies at or over capacity. Corporate bonds are also displaying high valuations associated with later stages of economic cycles. Greystone is cautious in both their interest rate and corporate bond positioning.

About Greystone

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Fundamentals

	FUND	INDEX
Average Maturity	9.52	10.49
Average Duration	7.02	7.59
Current Yield	2.46%	2.47%
Average Coupon	3.15%	3.36%

	FUND	INDEX
AAA	44.04	40.79
AA	24.87	31.71
A	18.80	16.96
BBB	12.29	10.53
<BBB	0.00	0.00

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Quarterly Additions/Deletions

Additions	Deletions
CANADA T BILL 0.01% Jan 25/18	Canada T-Bill 0.01% Dec 28/17
Toronto Dominion Bank 1.3592% Jan 25/18	Province of Ontario 3.15% June 02/22
Canada T BILL 0.01% March 08/2018	CANADA T BILL 0.01% Jan 25/18
Province of Ontario 6.50% Mar 08/29	Province of Ontario 6.20% Jun 02/31
Bank of Montreal 2.84% June 04/20	Toronto Dominion Bank 1.3592% Jan 25/18
Bank of Nova Scotia 1.3482% Mar 05/18	Canada T-Bill 0.01% Mar 08/2018
Canada T Bill 0.01% Apr 05/18	Royal Bank of Canada 2.82% Jul 12/18
Canada Imperial Bank 1.66% Jan 20/20	
Smart REIT 1.00% Dec 21/20	

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