FIRST ASSET
EXCHANGE TRADED FUNDS
A CI Financial Company

FIRST ASSET INVESTMENT GRADE BOND ETF
MANAGER COMMENTARY
NOVEMBER 10, 2017
TSX: FIG

Income Generation

For the week ending November 10, 2017.

In the absence of much fundamental economic news, bond markets focused on supply and there was no lack of that this week. The U.S. Treasury monthly 3/10/30 year bond auctions, combined with $46bn in investment grade corporate bond issuance and a five year bond auction in Canada overwhelmed interest rate markets. Ten year Government bond yields in the U.S. and Canada moved 7 and 2 basis points higher, respectively, (note the Canadian market closed at 1pm on Friday due to the Remembrance Day holiday on Monday). In Germany and the UK, the corresponding levels were 4 and 8 basis points, respectively. There were two tipping points for rates: 1) the above noted Government bond supply came at the recent lows in bond yields, and 2) corporate supply significantly exceeded estimates for the week which were around $30bn. Furthermore, the corporate supply appeared to be forced into the market by issuers who wanted to lock in low rates and complete financing prior to U.S. Thanksgiving. This left buyers with more bonds than they had hoped for and credit spreads vulnerable to large new issue concessions. It was a lose/lose situation as a result, as both Government bond yields and credit spreads closed higher.

The U.S. and European credit markets were the worst performers, on a relative basis, on the week. U.S. investment grade corporate credit spreads, which have been the victim of idiosyncratic risks of late, faltered due to the sheer supply in the market. Cash investment grade credit spreads widened 1 to 10 basis points with the telco/media and pharma sectors once again being the underperformers. In Europe, it appears that the woes in the high yield sector, which fell for six consecutive days, combined with lackluster bank earnings, resulted in a bit of a reality check for credit spreads which have tightened aggressively for the last few months. Generically, European credit spreads were about 3 basis points wider. Bank credit was up to 10-15 basis points wider in the lower parts of the capital structure. Canadian credit spreads did succumb to the global pressure and were 1-2 basis points wider on the week. However, this widening was more focused on the financial and maple sectors, as energy held in on the continued strength in oil prices. The back-up in Government bond yields should be a bit of a silver-lining for credit spreads as the higher all-in-levels, should bring in buying.

The investment grade corporate new issuance in Canada was light compared to other markets this week. This supply technical continues to support credit spreads in this market and it is unlikely to change in the short-term. A summary of this week's deals is as follows:

- Bank of Nova Scotia $2.0bn 2.36% 11/08/2022 +72 bps.
- Translink $200mm 3.15% 11/16/2048 +93 bps

The First Asset Investment Grade Bond ETF (the "Fund") participated in both new issues.

Portfolio Transactions

The new issues noted above were added to the Fund with existing cash. There were no other changes to the Fund's core credit holdings this week.

The Fund undertook 9 trades utilizing U.S. Treasury 10/30 futures, Government of Canada Bond Futures (CGB), 10 year Canadian Government Bonds and 30 year U.S. Treasury Bonds to adjust duration intra-week. There was strong momentum in rates markets this week and this gave us the opportunity to use multiple instruments to generate interest rate alpha. Each of these trades was unwound at profit, thereby keeping the Fund's duration, at week's end, largely unchanged. The Fund remains about 1.4 years short duration relative to the benchmark. Being patient in maintaining our short duration positioning assisted relative performance this week.

MARRET ASSET MANAGEMENT INC.

Paul Sandhu
Vice-President and Portfolio Manager
Marret Asset Management Inc.

Paul Sandhu has 29 years of domestic and international fixed income experience. Prior to joining Marret, Paul was responsible for the global distribution of Canadian fixed income and money market products at BMO Capital Markets. Through offices in Toronto, Montreal, Vancouver, New York, London and Hong Kong, Paul was directly responsible for advising the world's largest fixed income asset managers on portfolio strategy, asset mix, security selection and alpha/beta generation.

Paul's career also includes positions with Goldman Sachs and Citibank in Europe, the United States and Canada.

Paul holds a B.A. (Economics and Political Science) from the University of British Columbia and a Masters in Public Administration from the University of Victoria.

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