# FIRST ASSET INVESTMENT GRADE BOND ETF
## MANAGER COMMENTARY
JUNE 8, 2018
**TSX: FIG**



For the week ending June 8, 2018.

Markets remained on edge again this week as currency woes in several emerging markets (Turkey, Brazil and South Africa), worries about the end of the European Central Bank (the ECB) Quantitative Easing (QE) and global trade friction dominated the news. North American equity markets managed to close the week a bit higher, ignoring the developments on trade and instead focusing on improving U.S. economic growth prospects. Government bond yields once again exhibited significant volatility and closed the week higher. U.S. Treasuries were the beneficiary of some "flight to quality" flows, while the end of month index extension* trade, talk of reduced QE in Europe and stronger retail sales and industrial production data in the UK saw Canada, Germany and UK yields, respectively, underperform. 10-year Government bond yields in the U.S. were three basis points higher at 2.93%. The comparable figures in Canada, Germany and the UK are +6, +6 and +11, respectively.

The First Asset Investment Grade Bond ETF's (the Fund) duration is approximately 5.6 years, about 0.75 years shorter than that of the FTSE TMX Canada All Corporate Bond Index (the Benchmark). We adjusted the duration of the Fund on five occasions this week. The most significant of these was a reduction in duration of almost one year using 30-year United States Treasury (UST) futures contracts. This trade was both initiated and unwound overnight, based on a profit target generated by our quantitative model. It further demonstrates our approach to active management utilizing a systematic methodology and the importance of having adequate tools to implement on an around the clock basis.

The U.S. Investment Grade Corporate Credit Default Index (CDX) was one basis point wider on the week. The European Investment Grade Corporate Credit Default Index widened seven basis points. Political developments in Italy and expected less support from ECB QE played a role in this weak relative performance. Cash credit spreads for investment grade corporate bonds in Europe were +2 to +10 basis points wider. The Fund currently does not have any exposure to Euro denominated corporate bonds.

Cash credit spreads in U.S. investment grade corporate bonds were 1-3 basis points wider. However, lower credit rated companies/bonds as well as sectors such as Technology, Media, and Telecom (TMT), where there are ongoing M&A worries, are continuing to underperform. In Canada, spreads were broadly unchanged, except for energy names, which were 2-3 wider on weaker oil prices.

The following is a summary of the investment grade corporate new issues in the Canadian market this week:

- Caterpillar Financial Services $250mm 2.80% 06/08/2021 +75.1 bps
- Nouvelle Auto 30 Finance $179.2mm 3.742% 12/31/2032 +150 bps
- Nouvelle Auto 30 Finance $211.2mm 3.75% 03/31/2033 +150.8bps
- Nouvelle Auto 30 Finance $445.6mm 4.114% 03/31/2042 +180.1bps
- Nouvelle Auto 30 Finance $382.7mm 4.115% 06/30/2042 +180.2 bps

The Fund participated in the two shorter tranches of the Nouvelle Auto 30 new issues. All the tranches of this deal are amortizing bonds, with the two shorter tranches having an average life of about 10.5 years. Nouvelle Auto 30 is a toll road/bridge project near Montreal. From their new issue spreads, the tranches that we are involved in, tightened about 6-7 basis points. The bonds were purchased by selling 10-year Canadian Government bonds that the Fund owned against the new issues, on a duration weighted basis.

**Portfolio Transactions**

We sold the new issue Great West Life 2048 U.S. dollar denominated bonds we purchased a few weeks ago at a five basis point profit. All of the other changes/trades for the Fund this week are outlined above.

*Index extension refers to the rebalancing of bond portfolios that track indexes, which is done to reflect changes in the index due to the issuance of new bonds on one hand and coupon payments and redemptions on the other.

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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