

For the week ending April 13, 2018.

Canadian Government bonds underperformed their global counterparts over the week. A combination of provincial and corporate new issue supply and the largest sale of ten year Canadian Government bond futures contracts pushed yields higher. Ten year government bond yields in Canada closed 10 basis points higher to 2.24%. Ten year Government bond yields in the U.S., UK and Germany rose 5, 4 and 1 basis points, respectively, in comparison.

During the recent whip-saw price action in Government bonds yields globally, the First Asset Investment Grade Bond ETF (the "Fund") has remained about 1.5 years short duration relative to its benchmark. Alongside of this structural short positioning, we have continued to actively trade the duration. This week's duration was adjusted 5 times. On three occasions, this was done with U.S. Treasury futures contracts and once each with 30 year cash Government bonds, in Canada and the U.S. Each of these trades has been unwound at a profit.

Despite continued friction on trade between and the U.S. and China, and expectations of U.S. military action against Syria, equities firmed on positive initial reports of first quarter earnings. This gave investment grade corporate credit spreads a boost. The U.S. Investment Grade Corporate Credit Default Index (CDX) tightening 4 basis points on the week. Cash credit spreads in the U.S., Canada and Europe were 2-3 basis points tighter. Outperforming sectors in credit included energy (higher oil prices), telecom and Yankee Banks (foreign banks with significant operations in the U.S.)

New issue activity this week in Canada was concentrated in the provincial sector. The investment grade corporate sector saw the following new issues:

- Enbridge Inc. \$750mm 6.625% 04/12/2078 +445bps (subordinated hybrid)
- CCL Industries \$300mm 3.864% 04/13/2028 +166.9 bps
- Bank of Nova Scotia \$2.25bn 2.98% 04/17/2023 +84 bps

The Fund participated in the CCL Industries new issue. This was the company's inaugural bond issue. The issue tightened 8 basis points, post-new issue pricing.

Portfolio Transactions

In addition to the duration adjustment and new issue trades noted above, the Fund sold a portion of the Anheuser-Busch 2026 bonds that was purchased as a new issue. This took advantage of the recent tightening in secondary credit spreads.



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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First Asset - Smart Solutions™

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