FIRST ASSET
EXCHANGE TRADED FUNDS
A CI Financial Company

FIRST ASSET INVESTMENT GRADE BOND ETF
MANAGER COMMENTARY
SEPTEMBER 15, 2017
TSX: FIG

For the week ending September 15, 2017.

Since we last wrote three weeks ago, the paths of industrialized countries' monetary policy have continued to diverge. The Bank of Canada has instituted a surprise 25 basis point hike in the bank rate and the Bank of England has signaled that some monetary policy stimulus may need to be withdrawn in the coming months. Ten year bond yields in Canada and the UK have risen 21 and 28 basis points, respectively, over the period. This compares with a 4 basis point increase in 10 year U.S. Treasury yields and 6 in German Bunds over the same timeframe.

Frankly, we were surprised by the timing of the Bank of Canada's rate hike and subsequent hawkish commentary. Although a rate hike was largely priced in for the October meeting, the fact that it happened in September along with a hawkish tone, caught us and the market off guard. Canadian Government bond yields are now pricing in almost two full additional hikes of 25 basis points. We believe this is a bit aggressive given the economic data in Canada is beginning to weaken and this trajectory would put the Bank of Canada on a path that is more aggressive than the Federal Reserve System.

Going into the Bank of Canada meeting, the First Asset Investment Grade Bond ETF's (the "Fund") duration was about 1.25 years shorter than that of the benchmark. Since the hike, it has ranged from 1.25 to 1.75 years shorter than that of the benchmark. The short duration position, subsequent active management of duration and only 60% Fund portfolio exposure to Canadian interest rates have benefitted our performance on a relative basis. However, positioning the Fund more constructively to divergent monetary policy is a critical component to our management value-added proposition and we only hit a single here when our goal is to hit a double or triple. The Fund has no exposure to UK interest rates

Investment grade corporate cash bond credit spreads widened 3-8 basis points on outright valuations, concerns about heavy autumn supply and geopolitical tensions involving North Korea. However, the minor correction in spreads, along with higher Government bond yields and a weaker U.S. dollar (which motivated overseas buying) have, in the past week, given credit spreads a strong bid, especially in the U.S. market. Accordingly, credit spreads over the period are unchanged in the U.S. and Europe, and 1-2 basis points wider in Canada and the UK. Higher Government bond yields have not benefitted credit spreads in Canada as duration related selling and concerns about corporate supply have dominated the market.

New issue supply worries were realized in Canada this week with the following deals priced:

- Empire Life Insurance $200mm 3.664% 03/15/2022/28 +188.8bps
- Ford Credit Canada $600mm 3.349% 09/19/2022 +157.6
- Capital Power $450mm 4.284% 09/18/2024 +237 bps
- Morguard $200mm $4.333% 09/15/2022 +255.3 bps
- TransCanada Pipeline$300mm 3.39% 03/15/2028 +132.1bps
- TransCanada Pipeline $700mm 4.33% 09/16/2047 +190 bps
- Bank of America $500mm 3.407% 09/20/2024/25 +149 bps
- Finning International $200mm 2.845% 09/29/2021 +114.5

The Fund participated in the Bank of America new issue which has tightened 4 basis points in the secondary market.

Portfolio Transactions

In addition, to participating in the Bank of America new issue outlined above, Fund portfolio duration was adjusted on four occasions intra-week using 30 year U.S. Treasury futures. Each of these trades was unwound at profit.

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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