

For the week ending July 21, 2017.

Our apologies for not writing for the last two weeks, a period when there has been considerable volatility, particularly in interest rate markets. At the end of June, the date of our last weekly commentary, ten year Government bond yields in the U.S., Canada, Germany and UK were 2.27%, 1.76%, 0.46% and 1.25% respectively. Ten year yields across these jurisdictions increased 10-15 basis points in early July but the rally back from these levels has been very mixed. Ten year U.S. Treasuries are 4 basis points lower than where they closed at the end of June. Canada Government bonds are 13 basis points higher, U.K. Gilts (Government bonds) 8 lower and Germany Bunds (equivalent to U.S. Treasuries) 4 points higher. The relative performance across these markets is the result of political events and central bank policy concerns. The U.S. and UK Government bond markets have rallied on the view that political turmoil in Washington and Brexit negotiations will subdue economic growth. In Canada and Europe, better than expected economic growth momentum and as a result, shifts in central bank monetary policy accommodation, have push bond yields in these markets higher.

The First Asset Investment Grade Bond ETF (the "Fund") has only 60% of its exposure in the Canadian market with the U.S. and Europe representing approximately 32% and 3% respectively. (Note that at the start of the year the Fund was 82% weighted in the Canadian market). As a result of this change in geographic composition and active management of our duration, we have performed well on a relative basis to other Canadian core bond funds in the recent yield back up. During the recent retraction in Government bond yields the Fund was up to two years short duration relative to its benchmark.

Throughout the period, investment grade corporate credit spreads have continued to tighten. This has been additive to Fund performance. Higher government bond yields have prompted aggressive buying of corporate bonds and this along with strong fund flows, good Q2 earnings and strength in global stock markets has supported corporate credit. The U.S. Investment Grade Corporate Credit Default Index ("CDX") has tightened four basis points in the last three weeks. Cash corporate credit spreads are 3-5 basis points tighter over the same period. The energy sector has been the clear outperformer as spreads have tightened 5-15 basis points.

The second quarter earnings season along with the summer months have slowed corporate new debt issuance across markets. In Canada, we had the following new issues in the investment grade corporate market this week:

- TD Bank \$1.5bn 3.224% 07/25/2029 +156.1 bps (NVCC, callable 07/24)
- Couche-Tard \$700mm 3.056% 07/26/2024 +133 bps

The Fund participated in the Couche-Tard new issue in Canada. Couche-Tard also issued debt in the U.S. this week in the 5/10/30 year terms. The Fund participated in the 5 and 10 year U.S. debt issues.

Portfolio Transactions

Although our commentary has been dormant for a few weeks, our trading activity has not, particularly as it pertains to duration management. Benchmark duration is approximately 6.50 years. Over the past few weeks, as Government bond yields rose, duration was reduced as much as two years below benchmark for a period. We have subsequently added duration largely via U.S. Treasuries and U.S. credit. In addition, we have traded duration on an intra-day basis on at least eight occasions over the past few weeks using a combination of U.S. Treasury cash and futures and Canadian Government cash bonds. Fund duration is currently about 0.75 years below that of the benchmark. We are maintaining a modestly cautious stance on duration as the U.S. Government bond market rally has taken yields close to the lower end of our target band while those in Canada and Europe are on the cheaper side. This may prompt some geographical repositioning at some point.

In terms of changes to the core Fund portfolio, the following changes were made:

- Increased our position in 10-year US Treasuries to add duration.
- Sold our positions in Energias de Portugal 2024 and Reckitt Benckiser 2024 and 2027 on a duration weighted basis versus US Treasuries. Both of these were recently purchased new issues which had tightened 10 basis points. They are close to fully valued in our view.
- Bought Citigroup 2028 new issue in the U.S. market as well as the above noted Canadian and U.S. dollar debt issues of Couche-Tard.



Paul Sandhu
Vice-President and Portfolio Manager
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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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