FIRST ASSET ENHANCED GOVERNMENT BOND ETF
MANAGER COMMENTARY
MARCH, 2019
TSX: FGO TSX: FGO.U (USD)

Global Macro Outlook

March was packed full of dovish surprises, even surpassing the market's already dovish expectations. This backdrop kept rates strongly bid throughout the month. The first of these surprises started with the European Central Bank (ECB) meeting, when ECB President Mario Draghi announced the launch of a new bank lending operation (TLTRO III) and, even after publishing significant cuts to the ECB staff's economic projections, kept the language that "risks remain tilted to the downside." Draghi, himself, highlighted the uniqueness of retaining this phrase. Not to be outdone, the U.S. Federal Reserve (the "Fed") followed up with its own meeting that was ripe with dovish announcements and projections. The dot plot, which denotes their projections for future interest rates in subsequent years and in the longer run, was revised substantially lower, essentially showing no further interest rate hikes this year, while U.S. economic growth projections were revised lower. Importantly, the Fed's balance sheet run-off was also announced to end by this upcoming September, earlier than some U.S. Federal Open Market Committee members had suggested in speeches and interviews leading up to the meeting. The crescendo was a very weak German manufacturing Purchasing Managers' Index print that had rate markets break through 2.50% on 10-year U.S. Treasuries, while 10-year German Bunds dove toward -0.10%. This caused traders and hedgers alike to cover short exposures, at the same time as passive investors had month- and quarter-end rebalancing (i.e., forced buying). This dynamic left rate markets exiting March tactically overbought and vulnerable to any sort of positive news.

The First Asset Enhanced Government Bond ETF (the "Fund") increased duration to approximately 7.0 years in the days after the Fed meeting; however, the Fund reduced duration back into a range of 5.0-6.0 years into month-end, as it is our expectation that interest rates may rise in the short-term on positive economic news coming out of China or Germany.

Fund Positioning

Overall duration: Moderately underweight
Cross-currency: Modestly overweight in the U.S. vs Canada
Maturity: Overweight in 10-year vs front-end and 30-year

Key Transactions & Hedges

- Increased duration, primarily with U.S. Treasury 30-year bonds. The Fund sold 5-year Canada bonds.

Portfolio Characteristics

Current Yield*	2.27%
Average Duration	5.98

Source: Marret Asset Management Inc. as at March 31, 2019

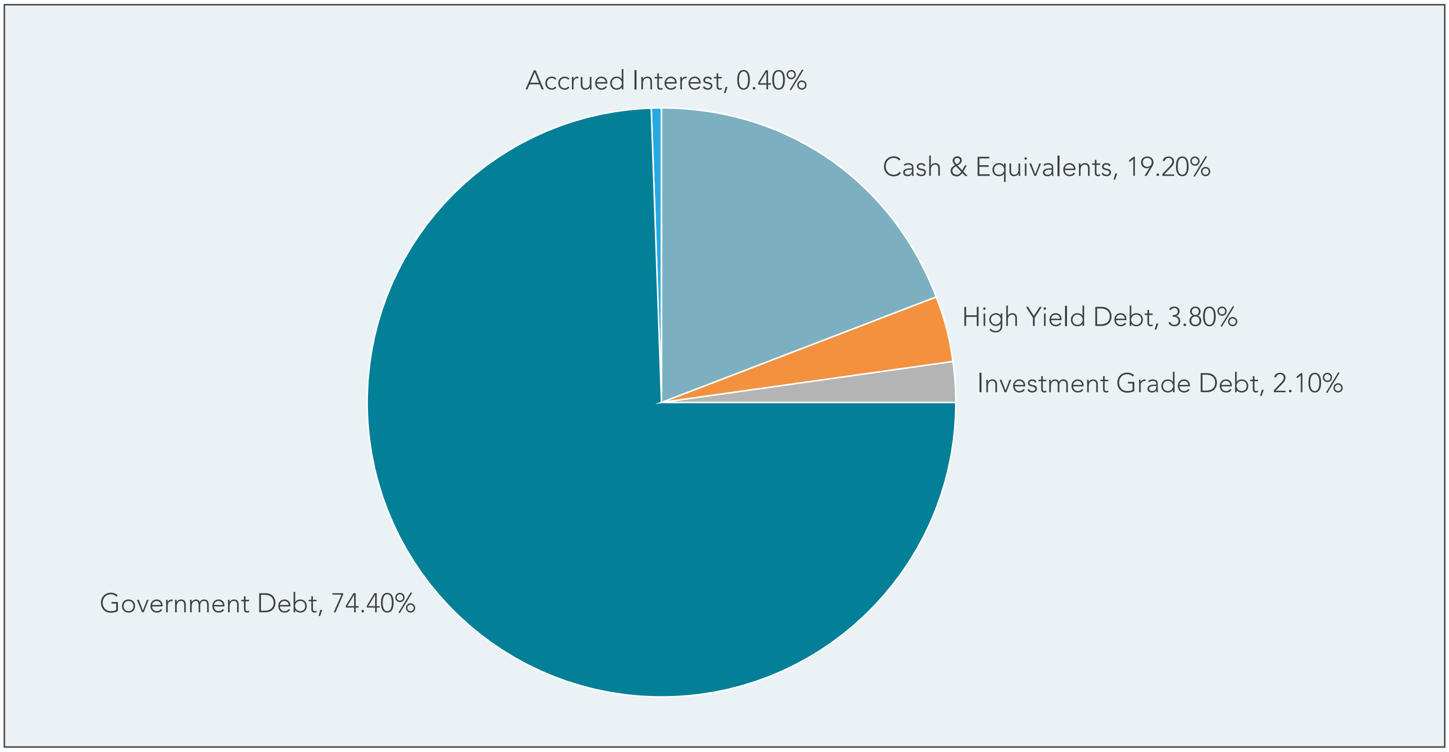
**Current Yield represents the gross yield on FGO's underlying portfolio of securities. It is not the yield or distribution that investors will receive by virtue of an investment in the fund.*

Maturity Breakdown

Years to Maturity	Government Bonds	Corporate Bonds
0 to 3	26.8%	97.3%
3 to 5	5.9%	2.7%
5 to 10	40.8%	0.0%
Over 10	26.5%	0.0%

Source: Marret Asset Management Inc. as at March 31, 2019

Asset Class Breakdown



Source: Marret Asset Management Inc. as at March 31, 2019

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