CI First Asset Enhanced Government Bond ETF (TSX: FGO, FGO.U)
Manager Commentary
April 2019

Global Macro Outlook

Over the past month, there was a growing narrative that the U.S. Federal Reserve (the "Fed") might provide "insurance" cuts on interest rates, which would be bullish for both rate and stock markets. While central banks aren't contemplating pulling back on their pivot to a cautious and patient stance on changing interest rates, they did throw some cold water on the developing dovish exuberance in markets regarding prospects for economic growth.

Market participants were focused on speeches by prominent members of the Fed's Federal Open Market Committee (FOMC) that highlighted the worrying dynamics of chronically low inflation and reminisced about past examples when the FOMC cut interest rates in reaction to heightened risks and uncertainty during a tightening cycle. What was unknown was whether the signalling from these members aligned with the thinking of Fed Chairman Jerome Powell. For clarification, markets awaited Powell's prepared remarks for the news conference at the May 1 meeting of the FOMC. Disappointingly for the bulls, Powell's message was one of balance, at least relative to the market's expectations. He pointed to "some transitory factors" holding down core inflation and noted the moderation of risks related to trade, overseas growth and financial conditions. This is not the language investors would expect if Powell wanted to affirm the insurance-cut messaging. If there was any doubt, during the Q&A that followed his remarks, Powell stated "we don't see a strong case for moving in either direction."

This was followed by a Bank of England meeting where Governor Mark Carney warned that if there was a smooth "resolution around Brexit, … it will require interest rate increases over that period, and it will require more, and more frequent, interest rate increases than the market currently expects."

These collective comments forced markets to reassess market conditions, with both stocks and bonds pulling back. Our view is that we are in an environment of muted but stable inflation, mixed growth dynamics and with central banks that aren't looking to be pre-emptive about monetary policy but will continue to have a dovish tilt.

At the end of March, we believed rate markets were overbought and vulnerable to better growth developments overseas. We opportunistically reduced the Fund's duration at the beginning of the month to 5-6 years and added duration back on weakness to get to a duration range of 6-7 years. We continue to expect range-bound price action, with trade and growth developments dictating the direction of travel within the range. Our expected duration range is 6-8 years. However, we will be watching our indicators closely with a bias toward increasing duration aggressively if we feel the FOMC is moving closer to an interest rate cut.

Fund Positioning

Overall duration: Near benchmark
Cross-currency: Modestly overweight the U.S. vs Canada
Maturity: Overweight 10-year bonds vs front-end and 30-year bonds

Key Active Transactions and Hedges

The CI First Asset Enhanced Government Bond ETF (the "Fund") reduced the duration at the beginning of the month and increased it throughout the month.

Portfolio Characteristics

Current Yield*	2.30%
Average Duration	6.33 years

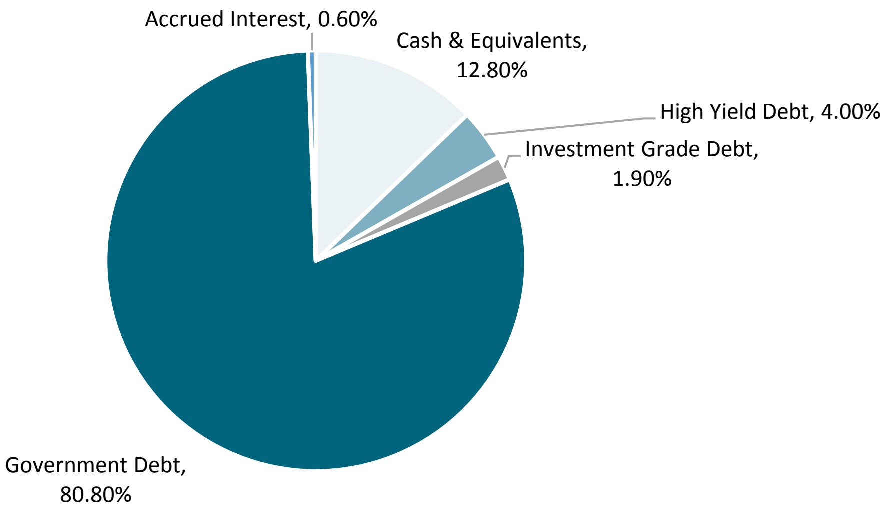
Source: Marret Asset Management Inc. as at April 30, 2019
*Current Yield represents the gross yield on FGO's underlying portfolio of securities. It is not the yield or distribution that investors will receive by virtue of an investment in the fund.

Maturity Breakdown

Years to Maturity		
0 to 3	18.5%	5.7%
3 to 5	13.9%	0.1%
5 to 10	23.0%	0.0%
Over 10	25.5%	0.0%

Source: Marret Asset Management Inc. as at April 30, 2019

Asset Class Breakdown



Source: Marret Asset Management Inc. as at April 30, 2019

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