# FIRST ASSET GLOBAL FINANCIAL SECTOR ETF

MANAGER COMMENTARY

Second Quarter 2018

**TSX: FSF**



The MSCI ACWI Financials Index (the "Benchmark") returned -3.10% during the quarter in local currency and -3.67% in Canadian dollars, significantly underperforming the broad market MSCI ACWI Index which was positive 2.71% in local currency. First Asset Global Financial Sector ETF ("FSF" or the "Fund") performed right in line with this financials Benchmark in the quarter. For the trailing year, in Canadian currency, the Fund returned 9.28%, nicely ahead of the Benchmark return of 0.7%.

North American Financials represent 48.4% of the Benchmark, and the Fund's average exposure was slightly lower at 45.4%. The Fund was generally market weight US Financials and underweight Canadian Financials during the period. Benchmark NA Financials declined 2.37% during the period while he Fund's positions did better, declining only 0.67%. Wells Fargo generated a positive return of 6.6% in the quarter and was the largest positive contributor to the Fund's performance. The company's Dodd Frank Stress Test (DFAST) and Comprehensive Capital Analysis and Review (CCAR) results were quite favourable, as we had hoped. Wells Faro is now expected to pay more than $2B per quarter in dividends while repurchasing at least $6B in stock per quarter, which is a 3% dividend yield and a 9% buyback yield. We continue to view this business as undervalued. Disappointments in NA security selection were primarily focused on investment managers including Invesco, AMG and Brightsphere. Weak global equity markets and poor flow headlines continue to weigh on these company valuations. We believe we adequately recognize challenges these businesses face yet find valuations extremely undemanding and attractive.

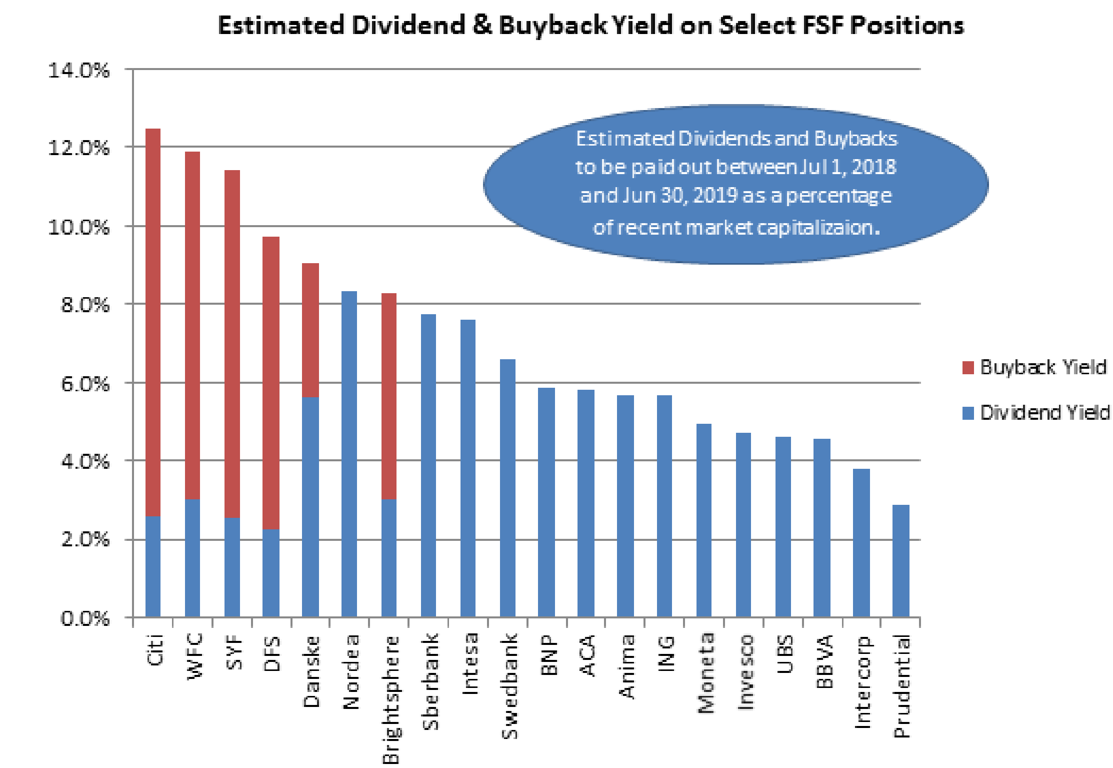
European & UK Financials represent approximately 24.4% of the Benchmark, but Fund exposure was materially overweight during the quarter, averaging more than 42%. This overweight hurt performance as our positions returned -4.5% relative to these regional Financial positions returning -2.5%. Our most damaging positions in the region included Sberbank, -18%; Anima -16% and Danske -11%. We continue to own these positions viewing market sentiment as unreasonably harsh. Danske is a name that will remain in the headlines as the bank continues to be reprimanded for weak money laundering supervision of its Estonian business years ago. The risks of fines and client loss appear to be well discounted in the bank's valuation. Danske is one of the few European banks with a significant stock buyback in place, we see the 5.5% dividend yield and anticipated 3.5% buyback yield as sufficiently rewarding. We did receive slightly positive performance from Sweden's Swedbank and in Norway our position in a small digital bank, Sbanken, advanced 14.5%. Our best trade during the quarter was participating in the IPO of Adyen, a Dutch global payments company. The stock advanced 85% on its first day, and we took profits, unfortunately, we received only a tiny position and just added a few basis points to performance.

Asia, including Japan and Australia represent approximately 23% of the Benchmark and average exposure of the Fund during the quarter was materially lower at 7.1%. Overall, this regions' Financial positions declined 2.9% in the period, and the Fund's regional exposures did much worse with a weighted average return of -10%. Our largest Asian exposure is India's ICICI Bank which performed poorly in the quarter and year to date. The company's valuation has recently suffered on corporate governance issues and slow progress in reducing non-performing corporate loan exposures. We continue to like the bank and its valuation and anticipate adding to the position on weakness. During the quarter we gave up on a Chinese fintech investment, Yixen, and added to our position in Ping An Financial which declined 8% in the period. We view Ping An as a growth stock with leading digital capabilities and yet its valuation is a low single digit price to earnings ratio. A large underweight in this region can be expected moving forward as we find many Hong Kong and Japanese financials do not adequately prioritize shareholder interests in managing their businesses. We tend to favour India, Indonesia and select opportunities within Australia in the region.

Latam Financials represent just 2.04% of Benchmark and 4.6% of Fund during the quarter. Benchmark performance of Latin American Financials was very poor with the region down 17.25%. The Fund's Latam exposures did relatively well with an overall loss of just 5.7% in the quarter. Chilean and Colombian markets are benefiting within the region as the only markets with political stability. Political uncertainty continues to weigh on Brazil and Mexico. The Mexican election is now behind us, and the market generally views the new President as unfriendly, however, he has been behaving so far, which may support a recovery in Mexican valuations. Our largest regional exposure remains Peru's Intercorp which had a positive return of 2% during the quarter. The bank continues to generate consistently high returns on equity despite the country's soft economy.

Currency Hedging – We have approximately 11% of the US currency and 50% of Euro currency exposure hedged to start the third quarter of 2018. During the quarter the Euro depreciated approximately 3.5% against the Canadian dollar, and so our Euro hedge was beneficial. The US dollar appreciated by almost 2% against the Canadian dollar in the quarter and thus our small US currency hedge worked against us. Overall hedge positioning was slightly beneficial.

Sector Yield - The chart below illustrates anticipated capital returns to shareholders via dividends and buybacks as a percentage of current market capitalization for select holdings in the Fund. Going forward we expect shareholders to enjoy attractive yields both in US and European financials. We view the financial sector as relatively appealing and unique given compelling yield opportunities that will likely benefit from increasing interest rates.




Source: Federal Reserve CCAR Release, Company Reports, Bloomberg as of June 30, 2018
For Illustrative Purposes Only: The chart shows estimates only, actual results may vary.

We remain constructive on the global Financial sector as risk premiums remain attractive relative to the market. The financial system is healthy, despite low interest rate earnings headwinds and, while peripheral Europe remains fragile, the region is making gradual progress in repairing balance sheets. US Financials are especially well positioned to benefit from lower US corporate tax rates and relaxed regulation. In addition, Financials are one of the key sectors that will benefit from gradually rising interest rates. We encourage sector investors to acknowledge our demonstrated ability to add value in the sector and consider the Fund as a serious contributor to their overall portfolio objectives.

**Fund Performance**


Source: First Asset as of June 29, 2018
The rate of return chart shown is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the Fund or returns on investment in the Fund.

| Performance (%) | 1 Month | 3 Month | 6 Month | YTD | 1 Year | 2 Year | 3 Year | SI[1] |
|---|---|---|---|---|---|---|---|---|
| First Asset Global Financial Sector ETF | -0.47 | -3.64 | -2.63 | -2.63 | 9.28 | 30.06 | 1.68 | 3.18 |
| MSCI ACWI Index Local | -0.01 | 2.71 | 0.80 | 0.80 | 10.81 | 14.91 | 8.52 | 8.11 |
| MSCI ACWI Financial Index TR Local | -1.66 | -3.10 | -4.74 | -4.74 | 5.07 | 18.43 | 6.78 | 7.29 |

Source: Morningstar Direct as at June 29, 2018

Inception date: Nov 21, 2014[1]

1. The Fund was originally launched as a TSX-listed closed-end fund on November 21, 2014, and converted into an exchange traded fund on April 25, 2016. Performance shown is since inception of the closed-end fund. In connection with the conversion, and pursuant to unitholder approval, the annual management fee payable by the Fund to First Asset, as manager, was reduced to 0.85% (from 1.00%) of the NAV per unit and certain changes were made to the investment objectives, strategies and restrictions applicable to the Fund. Material among these changes is the ability of the Fund to invest in securities of global financial issuers; thereby broadening the scope of eligible investments both geographically and by type of financial institutions.

Use of Benchmark: MSCI ACWI Index is a global equity index  and is designed to represent performance of the full opportunity set of large and mid-cap stocks across 23 developed and 24 emerging markets which covers more than 2,400 constituents across 11 sectors and approximately 85% of the free float-adjusted market capitalization in each market. This index is used as a benchmark to help you understand the Fund's performance relative to the general performance of global developed and emerging markets. The MSCI ACWI Financials Index captures large and mid-cap representation across 23 developed and 24 emerging market countries. This index is used as a benchmark to help you understand the Fund's performance relative to the general performance of the financial sector within global developed and emerging markets.

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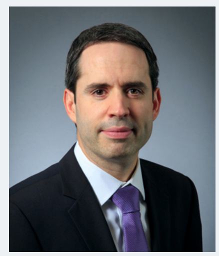

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*Signature Global Asset Management manages a diverse range of equity, balanced and income funds, and is CI Investments' largest in-house portfolio management group. The team of over 40 investment professionals, led by Chief Investment Officer Eric Bushell, manages over $55 billion and has offices in Toronto and Hong Kong.*

**Investment Philosophy**

The Signature investment philosophy is designed to deliver the best possible risk-adjusted returns in today's complex environment and is based on these key elements:

- The globalization of the world economy has resulted in increased complexity, requiring specialized knowledge.
- The increased interconnectivity of the global economy demands collaboration.

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First Asset, a CI Financial Company, is a Canadian investment firm delivering a comprehensive suite of smart ETF solutions. Rooted in strong fundamentals, First Asset's smart solutions strive to deliver better risk-adjusted returns than the broad market while helping investors achieve their personal financial goals.