FIRST ASSET INVESTMENT GRADE BOND ETF
MANAGER COMMENTARY
November 23, 2018
TSX: FIG

For the week ending November 23, 2018.

Risk assets continued to trade poorly with a 10% decline in oil this week, adding to existing Brexit woes, Italian budget worries, trade tensions and concerns about slowing economic growth. Technology stocks, which lead this year's equity rally, took the post position this week in leading global stock markets lower. The price action in equities and the aggressive march lower in crude, was not a supportive combination for investment grade corporate credit spreads. As measured by the Bloomberg Barclays Aggregate Corporate Average OAS Indices, investment grade corporate credit spreads widened 3, 5, 6 and 7 basis points in the U.S., Canadian, European and UK markets, respectively.

In the cash market, investment grade corporate credit spreads in the Auto, Energy and European Banking sectors were specifically very weak. Energy names were clearly impacted by the decline in oil prices. Autos are feeling the pain of slowing sales and European Banks had the double whammy of the potential for failed Brexit and Italian budget deals.

Widening corporate credit spreads and poor liquidity have restricted new issuance. This week, only two new investment grade corporate bond deals came to market in Canada, both for high quality low volatility issuers. Details are as follows:

- CU Inc. $385mm 3.95% 11/23/2048 +152 bps
- Vancouver Airport $250mm 3.656% 11/23/2048 +124 bps

The First Asset Investment Grade Bond ETF (the "Fund") did not participate in these new issues.

Government bond prices, after rallying last week, were not able to muster much upside on the risk asset weakness. Ten year bond yields were 1-3 basis points lower in Canada, the U.S. and Europe. We believe the recent retracement in Government bond prices, goes beyond the volatility in equity markets. Lower oil prices, which will have a dampening effect on inflation, weakness in global economic indicators and tightening financial conditions due to wider credit spreads, all provide the basis for central banks to question the speed and path of monetary policy tightening. Accordingly, markets are pricing out some of the expected central bank rate hikes.

Despite the recent better bid in Government bond prices, the Fund has maintained a duration about 0.50 years shorter than that of the FTSE Canada All Corporate Bond Index (the "Benchmark"). We have preferred to remain structurally short and trade interest rate momentum on an intra-day/intra-week basis. This week, seven trades, all utilizing 30 year U.S.Treasury futures, were instituted to manage duration. All were unwound at a profit.

Portfolio Transactions

In addition to the duration trades outlined above, mid-week, the Fund initiated an index hedge to protect against a further widening in credit spreads. The hedge was executed using the European Xover Credit Index and represents about 2.5% of the NAV of the Fund. This position was in the money as of the close of markets on Friday.

In our commentary a few weeks ago. We noted that we took profits on two credit index trades initiated earlier in the fall. Given the continued pressure on credit spreads and poor liquidity in credit markets, an index hedge was reinstated in order to insulate Fund returns. This underscores the importance of active management in fixed income and the importance of having a diversified tool-kit to manage risk.

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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