FIRST ASSET INVESTMENT GRADE BOND ETF

MANAGER COMMENTARY

MARCH 8, 2019

TSX: FIG

Government bonds rallied aggressively this week (taking back all of last week's pullback and then some) as both the Bank of Canada ("BOC") and European Central Bank ("ECB") expressed concerns about economic growth prospects in the near term. The BOC has gone from stating that interest rates would continue to be nudged higher to its neutral rate to officially being on hold. The change comes as the BOC's view - that weakness in consumer spending and housing would be offset by net exports and business investment spending - has not materialized. In essence, there is weakness across the board, dampening the BOC's previous view that the slowdown in some sectors would be temporary. The ECB cited "pervasive uncertainty" from geopolitical events (Brexit), trade negotiations and slowing growth in China and the U.S. as the rational for cutting, significantly, the growth and inflation forecasts for the region for 2019, 2020 and 2021. The ECB also added stimulus by introducing new targeted longer-term refinancing operations ("TLTROs" – cheap borrowing/lending facilities for banks) which extend into 2021.

Ten-year government bond yields in Canada and Germany declined 16 and 11 basis points, respectively, on the week. The yield downshift in these markets (10-year German yields now 7 basis points) was quickly mirrored in other jurisdictions, with 10-year Treasury yields dropping 11 basis points and similar maturity U.K. Gilts down 12 basis points in yield.

The rally in government bonds was tempered somewhat on March 8, 2019, following employment releases in the U.S. and Canada. Despite the BOC's concerns, the economy created 55,900 jobs versus a consensus estimate of 12,000 in February, the unemployment rate remained steady at 5.8%, and wages advanced from 1.7% to 2.2% year over year. These pushed 10-year Government of Canada bonds down from a low yield of 1.74% to close on March 8 at 1.77%. In the U.S., non-farm employment gains were only 20,000 versus estimates of 180,000. However, there were upward revisions from the previous two months as the unemployment rate declined from 4.0% to 3.8% and wages advanced from 3.3% to 3.4% year over year.

First Asset Investment Grade Bond ETF's (the "Fund") portfolio duration ranged from 5.1 to 5.5 years over the week, this is below the FTSE Canada All Corporate Bond Index (the "Benchmark") duration of 6.2 years. As a result, the Fund underperformed this reasonably solid rate move, after outperforming in the up move in yields last week. We did undertake 5 trades in 30-year U.S. Treasury futures and cash bonds that generated some interest rate alpha against this underperformance. With the Canadian bond market now pricing in a half of a 25-basis-point rate cut and 10-year U.S. Treasury yields back to the lows of the recent range we are maintaining this short duration positioning. However, we do note that equity market technicals have turned negative, and this may give government bonds a continued bid tone to which we need to be sensitive.

Some of the Fund's underperformance relative to the Benchmark, on the duration front, was made up on the credit side. The Fund's portfolio is underweight credit relative to the Benchmark. Investment grade corporate credit spreads, as per the Bloomberg Barclays Aggregate Corporate Average OAS Indices, widened three basis points across the U.S., Canadian and European markets over the week. U.K. credit spreads ended the week one basis point wider. Cash credit spreads were 2-9 basis points wider in the U.S. with energy, pharma and industrial sectors the underperformers. The Fund has a 5% short position in the iTraxx Europe Crossover Index. The index spread widened 8 basis points this week creating positive credit alpha for the Fund.

There was a notable pick-up in new issuance in the Canadian investment grade corporate market conditions moving from famine to feast in short order. The new supply began to pressure secondary spreads as investors needed to raise cash to buy new issues. Details of the week's deals are as follows:

- 407 International Inc. $300mm 3.14% 03/06/2030 +121 bps
- 407 International Inc. $500mm 3.67% 03/08/2049 +149 bps
- Bank of Montreal $2.0bn 2.85% 03/06/2024 +108.1 bps
- Daimler Canada Finance $300mm 2.97% 03/13/2024 +130.2 bps
- Fortified Trust $750mm 2.558% 03/23/2024 +89.4 bps (asset-backed)
- Northwestern Hydro $546mm 3.877% 12/31/2036 +178.8 bps
- Northwestern Hydro $538mm 3.94% 12/31/2038 +185 bps

The Fund participated in the 407 International and Bank of Montreal new issues.

Portfolio Transactions

We sold our entire position in Sun Life 2027s. This is consistent with reducing overall credit exposure and taking profits on sectors which have outperformed.

Trades related to Fund duration and new issues are noted above.

Standard Performance

Performance in %	1 Year	3 Year	5 Year	10 Year	Since Inception[1]
First Asset Investment Grade Bond ETF	2.43	4.13	2.59	N/A	4.00
Benchmark	3.35	3.44	3.51	N/A	4.70

Source: First Asset as at February 28, 2019

Government of Canada 10-Year Yield: (March 1) 1.94% (March 8) 1.77%
U.S. Treasury 10-Year Yield: (March 1) 2.75% (March 8) 2.63%

Fund Specifics

Current Yield[2]: (March 1) 2.69% (March 8) 2.65%
Current Duration: (March 1) 5.55 yrs (March 8) 5.05 yrs
Performance YTD (net of fees): +1.98%

1. The Fund was originally launched as a TSX-listed closed-end fund on October 23, 2009, and converted into an exchange traded fund on August 22, 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 increased to 0.65% (from 0.50%) 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 that the Fund is no longer able to utilize leverage in its portfolio. Had these changes been in effect prior to this date the performance of the Fund could have been different.

   Use of Benchmark: The FTSE Canada All Corporate Bond Index is comprised primarily of investment-grade corporate bonds issued domestically and denominated in Canadian dollars (CAD). This index is used as a benchmark to help you understand the Fund`s performance relative to the general performance of high grade Canadian corporate bonds.

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

Manager's commentary provided by Paul Sandhu, Vice-President and Portfolio Manager at Marret Asset Management Inc., the portfolio manager of the First Asset Investment Grade Bond ETF.

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.

First Asset - **Smart Solutions™**

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.

1903-0673_E (03/19)