

The Canadian preferred share market followed the moves in the 5-year Canada bond yields to post a decent gain during the second quarter of 2018. The preferred share market was quite strong in May, as 5-year interest rates rose to 2.33%, before ending the quarter lower -as yields fell back to 2.07%- up only +0.10% on the quarter. Trade war concerns continued, but the equity market shrugged it off and slowly gained on the back of strong earnings and solid economic news throughout the quarter. Global risky assets were volatile, but the S&P 500 TR Index returned 5.54%, and WTI Oil continued its march higher up 15%, to close at \$74.15 per barrel.

The BMO Capital Markets 50 Preferred Share Index (the "BMO 50") posted a 1.19% total return for the quarter, while the broader Canadian S&P/TSX Preferred Share Index was up 0.85%, due to security selection of the Fixed/Floaters and Perpetuals that make up the former. Within the BMO 50, Perpetuals led the index for the first quarter since 2Q-16, while Rate Re-Sets returned 1.29% and Floaters -0.37%. Supporting preferred shares was 5-year Canadas, moving 10 bps higher to 2.07% on the back of the markets' expectation that the Bank of Canada (the "BoC") would raise rates by 25 bps in July. Trading volumes were lighter than usual in the quarter as investors felt the market was fairly priced and new issuance was low, thus, the lack of impetus to trade.

New issuance in the Canadian market fell in the 2Q-18 with three issues totaling just \$850m while there were four redemptions announced for \$550m for a net increase of only \$300m during the quarter. The three new issues all had fairly low re-set spreads, and the issues did not initially trade very well in the secondary market. Issuance is expected to be picked up in 2H-18 as AltaGas will likely issue to help fund its WGL acquisition and Canadian banks refinancing of legacy Additional Tier 1 bonds.

The US Federal Reserve (the "Fed") raised rates by 25 bps at its June meeting, with the Fed's Dot Plot (the projections of the 16 members of the Federal Open Market Committee) signaling two more increases in 2018 and continued hikes in 2019. The Fed increased its expected 2018 increased from 3 to 4 hikes. Therefore, it's on a course to raise rates 25 bps each quarter for the next year. The BoC was on hold during the 2Q-18 but signaled that it would look to remove its easy money policy as the bank rate is still below the inflation rate.

### Performance Summary

The First Asset Preferred Share ETF (the "Fund") returned +0.67% while its benchmark the Canadian S&P/TSX Preferred Share Index returned +0.85%, as interest rates rose slightly over the quarter. The Fund's preferred shares underperformed mainly due to an underweight in Fixed/Floaters sector that posted good returns.

### Contributors to Performance

The main contributor to performance was positive security selection and high overweight of Floating Rate preferred shares. Citigroup N benefited from rising Libor yields and the Federal Open Market Committee (the "FOMC") hike while holdings of Bank of Nova Scotia D benefitted from rising T-Bill rates. Power Financial Corp A, moved higher on the back of expected prime rate increasing.

Additionally, the Fund's Perpetuals helped performance both due to the over weight and the security selection. Sun Life Financial B, Loblaw B and Bank of Montreal Z led the strong performance of Perpetuals due to stable long-term interest rates over the quarter.

### Detractors from Performance

The main detractor was an underweight to Fixed /Floater sector and security selection within the sector. The main underperformance came from a large holding of Bell Canada Enterprises A that returned -2.9% over the quarter.

### Market Outlook

The outlook for the preferred market remains positive as higher interest rates in Canada supports the rate re-set and floating preferred shares that make up over 80% of the market. However, NAFTA negotiations, US Tariffs on aluminum, and global trade war talk is all bad for the Canadian economy and thus will moderate the rise of interest rates.



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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.

## Fund Performance (%)

	1 Month	3 Month	6 Month	YTD	1 Year	2 Year	SI <sup>1</sup>
First Asset Preferred Share ETF	0.27	0.67	0.88	0.88	5.23	9.77	10.10
BMO Capital Markets 50 Preferred Share Index	0.50	1.19	1.74	1.74	7.52	14.73	13.37
S&P/TSX Preferred Share TR Index CAD	0.29	0.85	0.70	0.70	5.23	12.30	11.85
S&P 500 TR Index USD	2.03	5.54	7.77	7.77	15.85	16.88	17.35

Source: First Asset as at June 29, 2018

Inception date: May 11, 2016<sup>1</sup>

Use of Benchmark: The BMO Capital Markets 50 Preferred Share Index (the "BMO Index") is a market value weighted index that represents the Canadian preferred share market and includes 50 Canadian preferred share issues that are listed on the TSX which satisfy specific inclusion criteria. The Index is used as a benchmark to help you understand the Fund's performance relative to the general performance of Canadian preferred shares within the broader Canadian preferred shares market. The S&P/TSX Preferred Share Index is designed to track the performance of the Canadian preferred stock market. The Index is used as a benchmark to help you understand the Fund's performance relative to the general performance of the broader Canadian preferred shares market. The S&P 500 Total Return Index tracks 500 large-cap U.S. stocks representing all major industries. The Index is used as a benchmark to help you understand the Fund's performance relative to the general performance of the broader U.S. equity market.

### Definitions:

**Floating Rate Preferred Shares (floaters):** A floating rate preferred share pays a quarterly (sometimes monthly) dividend that "floats" in relation to a reference rate, typically the prime rate.

**Rate Reset Preferred Shares (re-sets):** This kind of preferred share pays a fixed dividend rate until its reset date. Upon its reset date, if the preferred share is not called by the issuer, the holder has two options. A new fixed dividend rate reflecting the current interest rate environment can be locked-in until the next reset date; or at reset date, the holder can exchange the issue for a floating rate preferred share.

**Perpetual Preferred Shares:** This type of preferred share has no maturity date and pays a fixed dividend for as long as it remains outstanding. Due to its long duration, a perpetual preferred share can be very sensitive to credit spreads and interest rates.

**Risky Assets:** A risk asset is any asset that carries a degree of risk. Risk asset generally refers to assets that have a significant degree of price volatility, such as equities, commodities, high-yield bonds, real estate and currencies.

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### 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.

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