

Results of Operations

Market Overview

- The fourth quarter of 2018 featured continued tightening of global financial conditions, and despite the U.S. Federal Reserve (Fed) delivering a dovish hike in December, markets experienced heightened volatility. Almost every major asset class ended the year with negative returns, while global government bonds outperformed, and U.S. three-month T-bills returned 1.8%.
- In developed markets, the U.S. continued to grow at a moderate pace and payroll growth remained robust even though the Fed raised rates by 100 basis points through the year. On the back of this monetary policy tightening, the dollar continued to strengthen against most G10 currencies in the fourth quarter, while the 10-year U.S. Treasury yield collapsed from a high of 3.23% in early October to 2.68% by the end of the year. The recent flattening of the U.S. Treasury yield curve is indicative of market worries about a policy misstep by the Fed.
- In Canada, the Bank of Canada (BoC) hiked its policy rate in October, the third time this year, to 1.75%. Since then, the collapse in energy prices has resulted in downward revisions to the growth and inflation outlook over the year ahead. Against this backdrop, the Canadian 10-year yield dropped by 46 basis points to 1.96% at year-end, while Canadian dollar almost declined by 6% against the U.S. dollar through the quarter.
- In Europe, recent economic data has worsened as Purchasing Managers' Indexes (PMIs) slumped further, particularly in France as the "gilets jaunes" protests have slowed down activity. Germany too has seen pronounced decline and, in line with other developed markets, the German 10-year yield also declined during the fourth quarter to end 2018 at 0.24%. From a political standpoint, Italy reached an agreement with the European Commission on its budget plan and this helped Italian government spreads outperform other peripheral spreads in Europe.

Performance summary and factors affecting fund performance

- The First Asset Long Duration Fixed Income ETF (the "Fund") advanced by 2.68% in the fourth quarter, outperforming the FTSE Canada Long Term Government Bond Index (the portfolio benchmark) by 0.34%.
- The total return outcome of the portfolio was primarily driven by a significant drop in Canadian interest rates, with some offset coming from a widening of Canadian government credit spreads.
- On a relative to Benchmark basis, government credit exposure and Canadian duration positioning were the most significant contributors to the Fund's performance.
- Duration and yield curve positioning added to portfolio alpha, stemming from our overweight duration position in 7-year to 10-year maturity Canadian bonds relative to longer maturities, and a decreasing underweight overall duration position, as interest rates fell and the yield curve steepened during the reporting period. The Government of Canada 10-year bond yield fell by some 46 basis points (bp) over the quarter, while the 10-year to 30-year segment of the yield curve steepened by 22bp in the same timeframe. Underweight government credit exposure was also alpha accretive, as spreads in this sector widened 16-20bp across the curve during the reporting period.

Portfolio activity and positioning

- Portfolio duration is about in line with the Benchmark, featuring an overweight in the 7-year to 10-year area and an underweight in the 20-year portion of the yield curve.
- In the spread product domain, we are underweight Canadian government agency debt.
- In the fourth quarter, we added to duration gradually in the 10-year and 30-year areas of the yield curve amid the shift lower in longer-term interest rates. Additionally, our underweight government credit position was held amid concerns that budgetary deficits and borrowing requirements of various levels of Canadian governments would rise in an environment of softer economic activity, leading to wider credit spreads in this sector.

Market Outlook

- Economic indicators in the U.S. seem mixed – While consumer sentiment and labour markets continue to be healthy, business activity is showing signs of slowing down. Given the recent communication from the Fed, it seems unlikely they can deliver more than one hike in 2019, and this should allow the U.S. economy to continue growing at a moderate pace, even as fiscal stimulus fades.
- The sharp repricing of rates across developed markets over the past few months has created opportunities for risky assets, leaving some room for credit spreads to narrow in the near term. As markets discount the end of Fed rate hikes alongside a slowing, but still growing above potential U.S. economy, the risk of weakness in the U.S. dollar begins to surface, which would in turn ease global and emerging markets financial conditions in 2019.
- Prospects for additional rate hikes by the BoC have eroded, with markets pricing in less than one 25bp increase over the next 12 months. The collapse in energy prices, tightening financial conditions and trade tensions between the U.S. and China are seen slowing the Canadian economy and dragging inflation below the 2% target of the BoC.
- On energy concerns, in particular, the discount for Canadian crude relative to global oil prices has eased of late courtesy of imposed production cuts, but additional pipeline capacity is required for this development to be sustained. Meanwhile, global oil prices remain at depressed levels that are unlikely to prompt a pick-up in energy sector capital expenditures.
- We believe that the European Central Bank may have missed its chance for policy normalization. Having ended quantitative easing in December, its next move in 2019 might be a loosening of policy through an extended targeted longer-term refinancing operations program that provides inexpensive funding for banks to lend to the real economy in hopes that this lending will be used to boost growth.
- In the U.K., the focus continues to be Brexit negotiations, with the March 29 deadline fast approaching and inadequate support in Parliament for the negotiated agreement.

Fund Performance

	1 Month	3 Month	6 Month	YTD	1 Year	2 Year	SI
First Asset Long Duration Fixed Income ETF	2.15%	2.68%	0.04%	-0.46%	-0.46%	2.21%	0.48%
FTSE Canada Long Term Government Bond Index CAD	1.96%	2.34%	-0.33%	0.50%	0.50%	3.46%	2.21%
FTSE Canada Universe Bond Index CAD	1.36%	1.76%	0.79%	1.41%	1.41%	1.96%	1.61%

Source: First Asset as at December 31, 2018

Inception date: May 11, 2016

Use of benchmark: FTSE Canada Long Term Government Bond Index is designed to track the performance of the long term (over 10 years) government of Canada bonds denominated in Canadian Dollars (CAD). The index is used as a benchmark to help you understand the Fund's performance relative to the performance of long-term government fixed income marketplace.

1. The indicated rates of return are the historical annual compounded total returns, including changes in unit value and do not take into account sales, redemption or optional charges or income taxes payable by a security holder that would have reduced returns.

**John Shaw, CFA**

Vice-President, Portfolio Management and Portfolio Manager
Signature Global Asset Management

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 \$50 billion as of December 31, 2018 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.

1 (877) 642-1289 | www.firstasset.com | info@firstasset.com

 **FIRST ASSET**
A CI Financial Company**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.

This communication is intended for informational purposes only and is not, and should not be construed as, investment and/or tax advice to any individual. Particular investments and/or trading strategies should be evaluated relative to each individual's circumstances. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Commissions, management fees and expenses all may be associated with investments in exchange traded funds. Please read the prospectus before investing. Exchange traded funds are not guaranteed, their values change frequently and past performance may not be repeated. You will usually pay brokerage fees to your dealer if you purchase or sell units of an ETF on the TSX. If the units are purchased or sold on the TSX, investors may pay more than the current net asset value when buying units of the ETF and may receive less than the current net asset value when selling them.

The indicated rates of return of the Fund are the historical annual compounded total returns, including changes in unit value and do not take into account sales, redemption or optional charges or income taxes payable by a security holder that would have reduced returns. Performance is calculated net of fees. The opinions contained in this document are solely those of the Portfolio Manager, Signature Global Asset Management, at the indicated date of the information and are subject to change without notice. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward-looking statements reflect the Portfolio Manager's current expectations or forecasts of future events and are based on information currently available to the Portfolio Manager. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. These factors include, but are not limited to, general economic, political and market factors globally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events. First Asset and the Portfolio Manager do not undertake any obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as expressly required by law. This document includes information that has been obtained from third party sources. Although the Portfolio Manager believes that these independent sources are generally reliable, the accuracy and completeness of such information is not guaranteed and has not been independently verified. Portfolio Manager and First Asset assume no responsibility for any losses or damages, whether direct or indirect, which arise from the use of this third party information and expressly disclaims liability for any errors or omissions in this information. The Fund is advised by Signature Global Asset Management and managed by First Asset Investment Management Inc. ("First Asset"), a subsidiary CI Financial Corp., which is listed on the Toronto Stock Exchange under the symbol "CIX". ™First Asset and its logo are trademarks of a subsidiary of CI Financial Corp. ©CI FINANCIAL is a registered trademark of CI Investment Inc., used under license. Signature Global Asset Management is a division of CI Investments Inc., and an affiliate of First Asset. Published on February 14, 2019.