

# Annual Management Report of Fund Performance

for the period ended December 31, 2018



## First Asset Enhanced Government Bond ETF

**Fund:**

First Asset Enhanced Government Bond ETF

**Securities:**

Common Units - Listed Toronto Stock Exchange ("TSX"): FGO

US\$ Common Units - Listed TSX: FGO.U

**Manager & Trustee:**

First Asset Investment Management Inc. ("First Asset")

2 Queen Street East, Suite 1200

Toronto, ON M5C 3G7

(416) 642-1289 or (877) 642-1289

[www.firstasset.com](http://www.firstasset.com) - [info@firstasset.com](mailto:info@firstasset.com)

**Portfolio Manager:**

Marret Asset Management Inc.

2 Queen Street East, 12<sup>th</sup> Floor

Toronto, ON M5C 3G7

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This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-877-642-1289, by writing to us at First Asset Investment Management Inc., 2 Queen Street East, Suite 1200, Toronto, ON, M5C 3G7 or by visiting our website at [www.firstasset.com](http://www.firstasset.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## INVESTMENT OBJECTIVES AND STRATEGIES

The investment objective of the First Asset Enhanced Government Bond ETF (the "Fund") is to provide long-term total returns through interest income and capital appreciation. The Fund will primarily invest in government debt but may also invest in other debt instruments across the credit spectrum including cash, corporate debt, and debt and credit derivatives.

## RISKS

Securityholders should refer to the prospectus of the Fund as it contains a detailed discussion of risk and other considerations relating to an investment in the Fund. The prospectus is available free of charge on our website at [www.firstasset.com](http://www.firstasset.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

## RESULTS OF OPERATIONS

As at December 31, 2018, the net asset value of the Fund was \$65.7 million. The Fund had net sales of \$64.8 million for the period. The Fund paid distributions totalling \$0.1 million while the portfolio's performance increased assets by \$1.0 million.

During the period, global growth prospects declined as a result of a manufacturing slowdown and trade tensions between the U.S. and China, and the European Union and the U.K. Oil prices also weakened. There was an inversion of the U.S. overnight indexed swap curve, which is an indicator of the U.S. Federal Reserve Board's ("Fed") interest rate expectations. This inversion was a result of a perceived increase in the probability of recession within the next 12 months.

The Fund duration positioning (interest rate sensitivity) contributed to its performance as government bond yields rebounded. Individual contributors to the Fund's performance included a U.S. Treasury bond (3.125%, Nov. 2028).

The Fund's duration hedges detracted from performance as yields rose. Individual detractors from performance included a five-year U.S. Treasury Note Future (Mar. 2019).

## RECENT DEVELOPMENTS

Global growth prospects are likely to remain challenged and asset market valuations will likely remain volatile in the coming period. The Fed is likely close to neutral and the probability of a policy mistake is elevated. The risk of supply-demand imbalances pressuring U.S. government bond market yields higher remains.

## RELATED PARTY TRANSACTIONS

First Asset and the Portfolio Manager are deemed to be related parties to the Fund. Please refer to the "Management Fee" section which outlines fees paid to First Asset. Effective January 1, 2019, F.A. Administration Services Inc. amalgamated with First Asset.

The Fund has received standing instructions from the Independent Review Committee ("IRC") with respect to the certain related party transactions: (a) trades in securities of CI Financial Corp. (referred to as "Related Issuer Trades"), which indirectly owns and controls First Asset; (b) purchases or sales of securities of an issuer from or to another investment fund managed by First Asset (referred to as "Inter-Fund Trades"); (c) purchases or sales by the Fund of securities of another investment fund managed by First Asset (referred to as "Related Fund Trades"); and (d) mergers of funds with another fund that is subject to National Instrument 81-102 ("Fund Mergers").

The applicable standing instructions require that related party transactions be conducted in accordance with First Asset's policies and procedures. First Asset is required to advise the IRC of any material breach of a condition of the standing instructions. The standing instructions require, among other things, that the investment decision in respect to related party transactions (a) are made by First Asset free from any influence by any entities related to First Asset and without taking into account any consideration to any affiliate of First Asset; (b) represent the business judgment of First Asset uninfluenced by considerations other than the best interests of the Fund; and (c) are made in compliance with First Asset's policies and procedures. Transactions made by First Asset in respect of the Fund under the standing instructions are subsequently reviewed by the IRC on a semi-annual basis to monitor compliance.

Except as otherwise noted below, First Asset, the Portfolio Manager and the Fund were not party to any related party transactions during the period ended December 31, 2018.

# First Asset Enhanced Government Bond ETF

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## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance since inception.

### THE FUND'S NET ASSETS PER SECURITY <sup>(1) \*</sup>

	Period from Inception to Dec. 31, 2018
Common Units	\$
Commencement of operations July 26, 2018	
<b>Net assets, beginning of period</b>	10.00
<b>Increase (decrease) from operations</b>	
Total revenue	0.07
Total expenses	(0.05)
Realized gains (losses) for the period	(0.17)
Unrealized gains (losses) for the period	0.33
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	0.18
<b>Distributions</b>	
From income (excluding dividends)	(0.02)
From dividends	-
From capital gains	-
Return of capital	-
<b>Total distributions <sup>(3)</sup></b>	(0.02)
<b>Net assets, end of the period <sup>(4)</sup></b>	10.08

### RATIOS AND SUPPLEMENTAL DATA

Total net asset value (\$000's) <sup>(5)</sup>	51,895
Number of securities outstanding <sup>(5)</sup>	5,150,000
Management expense ratio (%) <sup>(6)</sup>	0.97
Management expense ratio before waivers or absorptions (%) <sup>(6)</sup>	1.12
Portfolio turnover rate (%) <sup>(7)</sup>	75.62
Trading expense ratio (%) <sup>(8)</sup>	0.12
Net asset value per security (\$)	10.08
Closing market price (\$) <sup>(9)</sup>	10.09

\*Footnotes for the tables are found at the end of the Financial Highlights section.

# First Asset Enhanced Government Bond ETF

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## Financial Highlights (cont'd)

### THE FUND'S NET ASSETS PER SECURITY <sup>(1)</sup>

	Period from Inception to Dec. 31, 2018
US\$ Common Units	\$
Commencement of operations July 26, 2018	
<b>Net assets, beginning of period</b>	US\$ 10.00
<b>Increase (decrease) from operations</b>	
Total revenue	US\$ 0.07
Total expenses	(0.04)
Realized gains (losses) for the period	0.39
Unrealized gains (losses) for the period	0.56
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	US\$ 0.98
<b>Distributions</b>	
From income (excluding dividends)	US\$ (0.01)
From dividends	-
From capital gains	(0.03)
Return of capital	-
<b>Total distributions <sup>(3)</sup></b>	US\$ (0.04)
<b>Net assets, end of the period <sup>(4)</sup></b>	US\$ 10.09

### RATIOS AND SUPPLEMENTAL DATA

Total net asset value (\$000's) <sup>(5)</sup>	13,782
Number of securities outstanding <sup>(5)</sup>	1,000,000
Management expense ratio (%) <sup>(6)</sup>	1.04
Management expense ratio before waivers or absorptions (%) <sup>(6)</sup>	1.20
Portfolio turnover rate (%) <sup>(7)</sup>	75.62
Trading expense ratio (%) <sup>(8)</sup>	0.12
Net asset value per security (\$)	US\$ 10.09
Closing market price (\$) <sup>(9)</sup>	US\$ 10.10

#### Notes:

(1) This information is derived from the Fund's audited annual financial statements. The term "net assets" used in this report and the term "net assets attributable to holders of redeemable securities" used in the Fund's financial statements are interchangeable.

(2) Net assets and distributions are based on the actual number of securities outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of securities outstanding over the financial period.

(3) Distributions were paid in cash.

(4) This is not a reconciliation of the beginning and ending net assets per security.

(5) This information is provided as at December 31 of the period shown.

(6) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

(7) The Fund's portfolio turnover rate indicates how actively First Asset manages the Fund's portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between high turnover rate and the performance of a fund.

(8) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

(9) Closing market price.

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## Management Fee

First Asset manages and administers the business operations and affairs of the Fund. First Asset has retained the Portfolio Manager to provide portfolio management services required by the Fund. As compensation for the services it provides to the Fund, the Fund pays First Asset an annual management fee on Common Units and \$US Common Units at the maximum rate set out below. The fee is based on the net asset value of the relevant class, and is calculated daily and paid monthly in arrears. First Asset pays the Portfolio Manager out of its management fee. The services provided by First Asset to the Fund include, without limitation, the proper oversight to ensure implementation of the Fund's investment strategies, negotiating contracts with certain third-party service providers, authorizing the payment of operating expenses incurred on behalf of the Fund, maintaining certain accounting and financial records, calculating the amount of distributions by the Fund, ensuring that securityholders are provided with financial statements and other reports as are required from time to time by applicable law, ensuring that the Fund complies with all other regulatory requirements including continuous disclosure obligations under applicable securities law and administering redemptions and other transactions in securities. Where the Fund invests in other investment funds, in accordance with the provisions of National Instrument 81-102, First Asset ensures that there is no duplication of management fees charged by the Fund and any other underlying investment fund for the same service.

	Maximum annual management fee rate	As a percentage of management fee	
		Dealer compensation	General administration and profit
Common Units	0.60%	-	100%
US\$ Common Units	0.60%	-	100%

For the period ended December 31, 2018, First Asset waived or absorbed expenses of the Fund totalling \$16,112.

## Past Performance

The Fund was not a reporting issuer throughout the entire period, therefore we have not provided past performance information.

# First Asset Enhanced Government Bond ETF

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## Summary of Investment Portfolio as at December 31, 2018

Category	% of Net Asset Value	Category	% of Net Asset Value	Top 25 Holdings	% of Net Asset Value
<b>Country allocation</b>		<b>Sector allocation</b>			
<b>Long Positions</b>		<b>Long Positions</b>			
U.S.A.	58.5	U.S. Federal Bonds & Guaranteed	52.8	United States Treasury Bond, 3.13%, November 15, 2028	20.7
Canada	28.5	Government of Canada & Guaranteed	24.1	Cash and Cash Equivalents	13.8
Cash and Cash Equivalents	13.8	Cash and Cash Equivalents	13.8	United States Treasury Bond, 2.75%, September 30, 2020	7.4
Netherlands	2.4	Health Care	5.7	Government of Canada, 0.50%, February 1, 2019	6.7
Other Net Assets (Liabilities)	0.5	Consumer Discretionary	2.2	Government of Canada, 0.75%, September 1, 2021	5.4
Luxembourg	0.3	Communication Services	1.7	United States Treasury Bond, 2.63%, August 31, 2020	5.0
U.K.	0.1	Real Estate	0.8	Government of Canada, 0.75%, September 1, 2020	4.7
<b>Total Long Positions</b>	<b>104.1</b>	Energy	0.6	Government of Canada, 0.75%, August 1, 2019	3.9
		Materials	0.5	United States Treasury Bond, 2.88%, October 15, 2021	2.5
		Financials	0.5	Teva Pharmaceutical Finance Netherlands III BV,	
		Other Net Assets (Liabilities)	0.5	1.70%, July 19, 2019	2.4
<b>Short Positions</b>		Industrials	0.4	United States Treasury Bond, 2.75%, August 15, 2021	2.4
U.S.A.	(4.1)	Information Technology	0.2	United States Treasury Bond, 2.75%, September 15, 2021	2.2
<b>Total Short Positions</b>	<b>(4.1)</b>	Consumer Staples	0.2	Government of Canada, 2.00%, June 1, 2028	2.1
		Utilities	0.1	United States Treasury Bond, 1.50%, June 15, 2020	1.8
		<b>Total Long Positions</b>	<b>104.1</b>	United States Treasury Bond, 2.88%, August 15, 2028	1.6
				United States Treasury Bond, 2.88%, October 31, 2020	1.3
		<b>Short Positions</b>		United States Treasury Bond, 3.38%, November 15, 2048	1.2
		U.S. Federal Bonds & Guaranteed	(4.1)	Bausch Health Cos. Inc., 6.50%, March 15, 2022	1.1
		<b>Total Short Positions</b>	<b>(4.1)</b>	HCA Inc., 4.25%, October 15, 2019	1.0
				United States Treasury Bond, 2.88%, September 30, 2023	1.0
				United States Treasury Bond, 3.00%, August 15, 2048	1.0
				Government of Canada, 1.75%, March 1, 2019	0.9
				GLP Capital L.P. / GLP Financing II Inc.,	
				4.88%, November 1, 2020	0.8
				Hughes Satellite Systems Corp., 6.50%, June 15, 2019	0.8
				1011778 B.C. ULC / New Red Finance Inc.,	
				4.63%, January 15, 2022	0.7
				<b>Total Net Asset Value</b>	<b>\$65,676,850</b>

This is a summary only and will change due to ongoing portfolio transactions of the Fund. A quarterly update is available on [www.firstasset.com](http://www.firstasset.com).

## A NOTE ON FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective," and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any

forward-looking statement made by the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchanges rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.