# MARRET HIGH YIELD FUND: Class F, CAD
Monthly Commentary for September 2018

MARRET ASSET MANAGEMENT INC.

## Fund Statistics

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|---|---|
| Date of Inception | April 17, 2012 |

| PERFORMANCE | As at Sept. 30, 2018 |
|---|---|
| Since Inception | 3.10% |
| Month to Date | 0.52% |
| Year to Date | 3.06% |
| 1 Year | 3.45% |
| 3 Year | 6.22% |
| 5 Year | 3.54% |

*Source: Marret Asset Management Inc.*

## High Yield Statistics

As of month end, the HY market (H0A0) finished lower on both a yield basis (6.22% as of September 30th vs. 6.31% at the end of August) and on a spread basis (323bps. as of September 30th vs. 349bps. at the end of August). HY mutual funds and ETF saw outflows in September, with $2.3bln. making its way out of HY funds. Year-to-date outflows are now totaling ~$25.8bln. The par-weighted U.S. high-yield default rate remained flat m/m at 2.02% for the second consecutive month. For reference, this is a 95bps. increase year over year (excluding distressed exchanges).

## Portfolio Overview & Positioning

The fund delivered positive returns during the month of September. Similar to August, the fund benefited from contribution out of total return positions, namely in the pharmaceutical, energy and healthcare facilities sectors. Conversely, the fund's performance was negatively impacted by the exposure to certain energy, automotive and media names. Market hedges, to a lesser extent, also negatively affected the fund's performance. As before, we believe it remains prudent to hedge some of the portfolio exposure as we move closer to the end of this credit cycle. The portfolio yield came down in August, while its duration slightly increased.

## Commentary

We wrote last month about the leading indicators we are following, to help us determine when to construct hedges and build portfolios that will produce positive returns in a period of sustained widening credit spreads.

These were:

1. Inverted yield curve 10yr. vs. 2yr.
2. 10yr. yield above 3.25%
3. DXY above 100 – strong U.S. Dollar
4. Widening HY credit spreads

We are modifying this slightly and adding a further indicator.

Traditionally, High Yield credit spreads have consistently widened well before recession, or even before equities began to discount a recession. In the starkest example, spreads began to widen in 1998 prior to the 2001 recession, while equities did start to sell off until early 2000. In the last recession, spreads bottomed in Q2 2007, well before equities crashed in September 2008.

The ICE BofA Merrill Lynch US High Yield Index (H0A0) tracks performance of below investment grade, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Provided that the fund's mandate enables flexibility on geographies, strategies, and securities, we selected this index as the most representative amongst those available. The Fund may also invest in equity securities, such as common shares, preferred shares and warrants, and utilize other financial instruments, including exchange-traded funds and credit and/or index based derivatives. In addition, the Fund invests in both U.S. and Canadian dollar-denominated securities.

In this cycle, we believe credit spreads will be a leading indicator, but High Yield bond spreads may not be the best place to watch. The HY bond market has actually shrunk in the past five years, as leveraged deals have shifted to the leveraged loan market, and there has been enormous growth in the Investment Grade market due to U.S. fed and tax policy. Not only has the loan market grown, but the "Covenant Lite" portion has shown enormous growth. Leverage stats for IG companies have risen significantly, and average credit ratings have fallen. As a result, we are not only following HY credit spreads, but also leveraged loan spreads and Investment Grade spreads, as these markets may turn out to be better indicators this cycle.

The final statistic we have added is something we followed in 2008/2009, to help us to determine when to begin buying High Yield. We looked closely at the U.S. Jobless Claims for evidence that they were peaking, or at least the rise in claims was peaking. We expect that there may be some small evidence that Jobless Claims have bottomed this time around, with small but steady movement upward, indicating that labor markets are weakening.

Despite some volatility in early October, we continue to believe that recession is not imminent, and risk markets may still perform well in the next 6-9 months. Volatility is likely to pick up, though perhaps in short, somewhat violent episodes.

## IMPORTANT DISCLOSURES

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compound total returns net of fees (except for figures of one year or less, which are simple total returns) including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

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The offering of units of the Fund is made pursuant to its Offering Memorandum only to those investors who meet certain eligibility and minimum purchase requirements. Management fees and expenses all may be associated with investment funds. Eligible investors should read the Fund's Offering Memorandum before investing. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

The annualized rates of return are presented net of transaction costs, management fees and performance fees, assuming the reinvestment of dividends, interest, and other earnings. Additional information regarding the Firm's policies and procedures for calculating and reporting performance returns are available upon request. Series F securities are generally only available to clients who have a fee-based account with their dealer. MA MAMI does not pay trailing commissions to dealers who sell Class F securities, which means MAMI can charge a lower management fee compared to Class A of the same Fund. A lower management fee may positively impact the performance data shown when compared to Series A.

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