# MARRET INVESTMENT GRADE HEDGED STRATEGIES FUND: Class F, CAD
Commentary for November 2018

MARRET ASSET MANAGEMENT INC.

## Fund Stats

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|---|---|
| Date of Inception | Sept. 30, 2010 |

| PERFORMANCE | As at Nov. 30, 2018 |
|---|---|
| Since Inception | 4.35% |
| Month to Date | (0.49%) |
| Year to Date | 0.08% |
| 1 Year | 0.57% |
| 3 Year | 4.11% |
| 5 Year | 4.42% |

*Source: Marret Asset Management Inc.*
*November 30, 2018*

## Market Developments

Risk aversion has quickly moved to "front and center" as a theme in financial markets. Concerns about declining global economic growth prompted stock market volatility. Adding to the malaise, were geopolitical uncertainties (Brexit and Italy), trade tensions (China/U.S.), a sharp drop in oil prices and negative Q3 GDP prints in Sweden, Italy, Switzerland and Japan. These unnerved markets creating a "get me out" behavior.

At first, weakness in equity markets pushed investment grade corporate credit spreads wider. However, as the month played out, poor price action in credit markets, prompted by single name credit events at GE, BAT, ABIBB and GS, began to unnerve equity markets, creating a modest vicious circle of negative price action. In our view, if this were to continue and begin to the impact the real economy via tighter financial conditions, recession risk will be heightened.

Although North American equity markets recovered their losses to close higher on the month, credit spreads did not. Investment grade corporate credit spreads as measured by the Bloomberg Barclays Aggregate Corporate Average OAS Index, widened 19, 17, 21 and 23 basis points in the U.S., Canada, Europe and the UK respectively during the month. Credit spreads in Europe continued to underperform on further concerns about the Italian budget deficit and lack of progress in Brexit negotiations. (The Fund maintains a 0.1% exposure to Euro denominated credit). The weak performance of North American investment grade corporate credit spreads can be attributed to: 1) the overall leverage of the market 2) the relative size of the BBB rated market and risk of downgrades 3) the sharp decline in the price of oil and commodities and 4) increasing trade tensions between the U.S and China. Additionally, declining liquidity based on reduced quantitative easing and revised rules for market makers, has prompted concern in the market.

Fund returns for the month were -0.49% bringing year-to-date performance to +0.09%. The FTSE/Russell All Corporate Bond Index, returned +0.43%for the month and year-to-date is +0.04%. The benchmark is a long only bond index. The Fund, conversely invests long/short across U.S., Canadian and European investment grade corporate bonds on a hedged basis.

The Fund's relative underperformance to the benchmark is largely attributable to the rally in Government bond prices. As risk assets (credit and equities) and Government bond prices are broadly negatively correlated, Government bond prices rose on the widening of corporate credit spreads. As the benchmark is a long only index, versus the Fund which is generally neutral Government bond exposure, the benchmark benefitted significantly from the decline in Government bond yields. During the month, 10yr. Government bond yields in Canada and the U.S. declined by 22 and 15 basis points respectively. Canadian Government bonds benefitted disproportionately from a large duration extension of the index at the end of the month.

Exposure to energy credits, namely Canadian Natural Resources and Pembina Pipeline were the Fund's worst performing single names over the month. Credit index hedges and Government bond overlays added approximately 8 basis points of positive return.

## Market Outlook

Although we recognized that declining global economic growth would begin to result in greater risk asset volatility, we certainly did not expect credit spreads to sell-off as precipitously as they did in November. Frankly, the month's price action has us concerned that we need to reduce credit exposure faster than we had anticipated (note, we have been cautious on investment grade credit spreads for several months). Market exposure to credit appears to be longer than we had estimated, some of that exposure is in weak hands, market liquidity is thin and global central balance sheet reduction (versus expansion) is beginning to weigh on the market.

In the short-term, we will continue to reduce long credit exposure on strength and increase our use of market hedges via credit default index short positions and trading of Government bond overlays. In the medium term, our objective is to establish a short position in credit spreads as the slowdown in global growth is accelerating and recession risks become more apparent.

* The strategy aims to generate better risk-adjusted returns over the cycle compared to long only mandates, making the FTSE Canada All Corporate Bond Index a suitable Canadian hedge fund index to compare against. There is no Canadian hedge fund index for a global long and short leveraged fund and most corporate fixed income assets in Canada are managed relative to this index. 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 invests in long and short bonds while employing currency hedging and a leverage strategy, whereas the index is a long only corporate bond index.

| Performance (%) | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Jun-18 | Jul-18 | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Marret Investment Grade Hedged Strategies Fund | 0.80% | -0.40% | -0.47% | 0.37% | -0.38% | -0.24% | 0.88% | 0.27% | 0.18% | -0.43% | -0.49% | |

IMPORTANT DISCLOSURES

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. 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. Commissions, trailing commissions, management fees and expenses all may be associated with investment funds.

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.

Series F securities are generally only available to clients who have a fee-based account with their dealer. 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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The comparison presented is intended to illustrate the Fund's historical performance as compared with the historical performance of the FTSE Canada All Corporate Bond Index. There are various important differences that may exist between the Fund and the stated index that may affect the performance of each. The objectives and strategies of the Fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable indices. Indices are unmanaged, and their returns do not include any sales charges or fees. It is not possible to invest directly in market indices.

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