MARRET HIGH YIELD FUND: Class F, CAD

Monthly Commentary for December 2018

MARRET ASSET MANAGEMENT INC.

Fund Stats

Date of Inception	April 17, 2012

PERFORMANCE	As at Dec. 31, 2018
Since Inception	2.54%
Month to Date	(1.76%)
Year to Date	0.13%
1 Year	0.13%
3 Year	5.19%
5 Year	2.62%

Source: Marret Asset Management Inc.

High Yield Statistics

During the month, the HY market (H0A0) finished significantly higher, both on a yield basis (7.93% as of December 31st, vs. 7.26% at the end of November) and on a spread basis (537bps. as of December 31st, vs. 436bps. at the end of November). HY mutual funds and ETF outflows totaled $8.9bln. in December and $45.4bln. for 2018. Two high yield companies defaulted in December, bringing the par-weighted U.S. high-yield default rate to 1.81% for 2018. For reference, this is up from the 2017 year-end level of 1.28% but below the long-term historical average of 3.46% (excluding distressed exchanges).

Portfolio Overview & Positioning

The fund delivered negative returns during the month of December. The fund benefited from contribution out of total return positions (namely in the energy sector) and, mostly, from market hedges. Conversely, the fund's performance was negatively impacted by the exposure to certain pharmaceutical, metals & mining, and energy names. 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 went up in December, so did its duration (modestly).

Commentary

Looking forward, we believe the market has finally come to the realization that we are late in the economic cycle. An improving U.S. economy has allowed the U.S. Central Bank to continue to raise interest rates successively over the course of the year. Higher rates have started to negatively impact interest-rate sensitive sectors such as housing and autos, while trade tensions have further stifled global growth. Strong employment, improving wages and higher consumer confidence have all given the Federal Reserve comfort to continue raising rates, however, the market is now beginning to question whether all this tightening in aggregate may eventually be too much. Rising credit spreads have also effectively led to tightening credit conditions.

December marked the first month in nearly a decade that the high yield market was unable to underwrite any new issuance. The Federal Reserve, led by Chairman Powell, has finally taken notice. After initially brushing off the impact of the capital market's decline in an earlier press conference, the Fed undertook an unscheduled interview in late December to soften their stance on future rate hikes and to provide a more dovish tone. This did eventually stabilize the markets, which have subsequently rallied in the first few days of 2019. Nevertheless, we continue to remain cautious and retain our defensive bias for the time being, as we monitor our indicators to assess the impact on the real economy from all recent developments.

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.

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 ICE BofA Merrill Lynch US High Yield Index (H0A0). 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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