MARRET ASSET MANAGEMENT INC.

Marret Investment Grade Hedged Strategies Fund
January 2019 Commentary

FUND STATISTICS

Date of Inception	October 1, 2010

PERFORMANCE As at January 31, 2019

Since Inception	4.66%
MTD	1.19%
YTD	1.19%
1 YR	0.08%
3 YR	4.92%
5 YR	4.31%

Source: Marret Asset Management Inc.
January 31, 2019

Market Developments

With the exception of the U.S., the economic data globally during the month was weaker than expected. The breadth of the slowdown prompted the IMF to cut its global growth forecast for both 2019 and 2020. This was followed by economic growth revisions lower by the ECB, BOE, and BOC. With headwinds to global growth increasing, the PBOC responded by cutting the reserve requirement ratio for Chinese banks and introducing a series of simulative measures. The U.S. FED unexpectedly turned from a cautious, but still hiking stance in terms of monetary policy, to dovish. Additionally, the FED hinted that the unwind of the QE balance sheet would be less than previously expected.

These developments, despite the weakening globally growth backdrop, rallied financial assets across the board. Major industrialized country equity markets reversed November/December losses and rose 4% to 8%. Credit spreads erased most of December's widening and ten-year Government bond yields declined 5-10 basis points in North America and Europe.

Based on the Bloomberg Barclays Aggregate Corporate Average OAS Indices, investment grade corporate credit spreads tightened 25, 16, 10 and 12 basis points in the U.S., Canadian, European and UK markets respectively. The tightening of credit spreads was broad-based across sectors with the Energy and Banking names registering the best performance. Cyclical sectors such as automotive and building materials/construction lagged considerably. Furthermore, the rally was concentrated in liquid names and higher quality credits. In Canada, there was specific focus on longer-dated credit, as the rally in Government bond yields, forced all-in yield buyers into the market.

Fund returns for the month were 1.19% versus 1.68% for our benchmark, the *FTSE Canada All Corporate Bond Index. This is a long only Canadian corporate bond index, whereas the Fund invests long/short across U.S. Canadian and European investment grade corporate bonds on an interest rate hedged basis.

The Portfolio was not optimally positioned for the significant rally in credit spreads, as we did not have leveraged exposure to credit markets. Given both credit fundamentals and technicals, the strategy reduced hedged credit exposure throughout 2018. This significantly aided our performance from an excess return perspective last year. We maintained this conservative positioning in January given the weak economic fundamentals.

Based on excess returns of investment grade credit as per the ICE BofA ML U.S. and Canadian Corporate Bond Indices, and our exposure to each respective market, Fund returns should have been 1.41%. We underperformed this return due to our lower exposure to Canadian financials, a short position in the Xover credit index and a short position in a ten-year Goldman Sachs U.S. dollar denominated security.

Market Outlook

Central banks came to the rescue of risk assets in January. They responded to a deteriorating global growth backdrop, rising financial asset price volatility and tightening financials conditions. The U.S. Federal Reserve in particular, did a 180, moving from hawkish in October to cautious in December to dovish in January. Whether the central bank response will be enough to arrest volatility, stabilize economic growth and instill corporate/consumer confidence remains to be seen. As we have noted in previous commentaries: 1) we believe we are late in the economic cycle and 2) the headwinds to global growth are not U.S. centric, but are flowing from Asia and Europe. Accordingly, this not about the FED it is about: 1) the stabilization of growth in the rest of the world and 2) recovery in corporate earnings.

There is no doubt, that with trade negotiations between China and the U.S. improving, central banks moving to dovish, China aggressively adding stimulus and commodity prices (specifically oil) recovering, there is room for hope. There is potential to avert the slowdown in economic growth. However, we have seen few fundamental signs of this thus far. The economic data globally, continues to disappoint to the downside, and central banks in some cases, look like they are just pushing on a string. Until we see an improvement in the Asian and European economic data, we will treat the current price action as a correction of oversold market conditions, not a resumption of the bull trend. Undoubtedly, it is an aggressive correction. One that will test our fortitude.

From a portfolio perspective we will maintain a conservative positioning (i.e. unleveraged market exposure). Alongside of this, we will continue to look for short term opportunities in the new issue markets and oversold/overbought conditions in our overlays, to generate alpha.

FUND PERFORMANCE %, CLASS F CAD

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2019	1.19%												1.19%
2018	0.80%	-0.40%	-0.47%	0.37%	-0.38%	-0.24%	0.88%	0.27%	0.18%	-0.43%	-0.49%	-0.38%	-0.30%

Source: Marret Asset Management Inc.

* 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.

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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.

Class 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 Class 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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