MARRET ASSET MANAGEMENT INC.

Marret Investment Grade Hedged Strategies Fund | Class F, CAD

February 2019 Commentary

FUND STATISTICS

Date of Inception	October 1, 2010

PERFORMANCE As at February 28, 2019

Since Inception	4.67%
MTD	0.47%
YTD	1.66%
1 YR	0.96%
3 YR	5.11%
5 YR	4.09%

Source: Marret Asset Management Inc. February 28, 2019

Market Developments

The disconnect between the fundamental economic data and the price action in risk assets continued in February. That is, the global economic data (including in the U.S. for the first time) continued to show broad-based weakness while equity and credit markets traded higher. The softening tone of the macro-economic backdrop was acknowledged decisively by the BOE, ECB and RBA, as these central banks all turned dovish during the month, in terms of monetary policy. Risk assets appeared to be trading on expectations of better things to come: 1) a positive conclusion to China/U.S. trade talks 2) an end to the U.S. Government shutdown 3) a smooth Brexit transition 4) effective central bank policy 5) a continued recovery in commodity prices and 6) an uptick in corporate earnings.

Investment grade corporate credit spreads built on January's tightening. Based on the Bloomberg Barclays Aggregate Corporate Average OAS Indices, investment grade corporate credit spreads tightened 7 basis points in the U.S., Canadian, and UK markets. European credit spreads, as per the same reference index, tightened 14 basis points. Credit spreads in Europe appeared to be playing catch-up to the more aggressive rally in North American credit spreads in the previous month. This was impressive, given the abysmal economic data for this region during the month and the heavy supply of new issuance. Year to date, investment grade credit spreads have tightened 32, 23, 24 and 19 basis points in the U.S., Canadian, European and UK markets respectively.

The year-to-date rally in credit spreads has been highly biased to high quality names. This is consistent with the risk-taking behavior we are witnessing across asset classes, as investors seek exposure, but only safe exposure. This has resulted in some AA and A rated corporate bonds trading at or through their previous tights in spread. Selectively, we have begun to establish small short positions in these securities.

Fund returns for the month were 0.47% bringing year-to-date performance to 1.66%. Our benchmark, the *FTSE Canada All Corporate Bond Index, returned 0.31% for the month and year-to-date is 2.00%. 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.

Based on the performance of the Bloomberg Barclays Aggregate Corporate Average OAS Indices, relative to the Fund's geographic exposure and leverage, the Portfolio underperformed by approximately 24 basis points. Three

MARRET ASSET MANAGEMENT INC.

factors account for the bulk of this underperformance: 1) a short position in the European Xover index 2) the spread underperformance of lower quality names such as Bacardi and Anheuser-Busch Inbev and 3) modest short positions in credits/sectors that have outperformed relative to the index and are trading near last year's tights.

Market Outlook

Year-to-date, investment grade spreads have had an impressive rally. A correction from December's oversold levels, aggressive foreign buying, tempered central bank rate hike expectations and low new issuance have all supported credit spreads. Continued deterioration in the macro-economic backdrop, potential for weaker earnings growth and excessive corporate leverage have been relegated to the sidelines for now.

Given that the positive performance of credit spreads has largely been based on market technicals outweighing fundamentals, we have elected to position the Portfolio conservatively. Technicals can bolster valuations for short periods but in the long run, both supportive economic and credit fundamentals will be required to substantiate this rally. Thus far in 2019, we have not seen either. The economic data globally has continued to deteriorate, based on Q4 2018 earnings reports, credit fundamentals are not improving, and there is increasing concern that companies will face margin pressure in an environment of declining revenue growth, hence an earnings recession.

We are intensely monitoring the economic data across the developed economies as well as China, in order to identified signs of a stabilization in growth. We believe the March and April data will be critical in determining if this current economic cycle is nearing an end or has a modest chance of being extended. In the absence of positive news, the Portfolio will continue to maneuver as follows: 1) reduced long hedged credit exposure 2) increased short (1-2 year) unhedged credit for carry 3) additional short hedged credit positions 4) supplementary short credit index hedges and 5) long duration overlays.

FUND PERFORMANCE %, CLASS F, CAD

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2019	1.19%	0.47%											1.66%
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.
February 28, 2019

* 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.

IMPORTANT DISCLAIMER

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.

This commentary has been prepared for Marret Asset Management Inc. is confidential and may not be redistributed. It is for general information purposes only and is not intended to provide personal investment advice. Investors should consult their own professional advisor for specific investment advice tailored to their needs and based on the latest available information.

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.

This document is provided as a general source of information and should not be considered personal, legal, accounting, tax or investment advice, or an offer or a solicitation to buy or sell securities. Every effort has been made to ensure that the material contained in this document is accurate at the time of publication. Market conditions may change which may impact the information contained in this document. All charts and illustrations in this document are for illustrative purposes only. They are not intended to predict or project investment results. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Investors should consult their professional advisors prior to implementing any changes to their investment strategies.

All opinions, projections and estimates herein reflect the author's judgment as of the date of the document, may not be realized, and are subject to change without notice. The information contained in this document, including information relating to interest rates, market conditions, tax rules and other investment factors are subject to change without notice. Nothing in this document is or should be relied upon as a promise or representation as to the future.

Marret Asset Management Inc. is a partly owned subsidiary of CI Financial Corp. and an affiliate of CI Investments Inc.

Source: Marret Asset Management Inc., February 28, 2019   Publication date: March 15, 2019