

Marret Enhanced Government Bond Fund | Class F, CAD

July 2019 Commentary

FUND STATISTICS

Date of Inception	January 14, 2019
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PERFORMANCE	AS AT JUNE 30, 2019
Since Inception	4.15%
MTD	0.07%
YTD	4.15%
1 YR	NA
3 YR	NA
5 YR	NA

Source: Marret Asset Management Inc.
July 31, 2019

Fundamental | Technical Outlook

Communication challenges between central bankers and markets led to volatile intraday pricing swings. The trouble began in Europe with market disappointment relative to unrealistic easing expectations from the European Central Bank. Crossing the Atlantic, questionable phrasing in a Fed speech led markets to believe that Fed easing would be aggressive, but this lasted only a few hours as The Federal Reserve's (Fed) PR team acted 'quickly and swiftly' to clarify the speech's academic musings as not practically relevant. At the Federal Open Market Committee (FOMC) meeting, the Fed Chairman, Jerome Powell, 'dovishly' cut interest rates and ended the balance sheet reduction program early, but then 'hawkishly' commented that this was a 'mid-cycle adjustment', which didn't

necessarily mean 'just one' cut, but then noted 'in other cycles the Fed wound up raising rates again after a mid-cycle adjustment'. So more than one, but less than a lot. The Fed left the meeting 'somewhat' more accommodative, markets left more confused.

We're sympathetic to the views of both camps. Policymakers see the persistent headwinds emanating from weakening global trade and manufacturing and are comfortable affirming the tailwind of highly accommodative financial conditions, but they are *not* comfortable encouraging a further easing of financial conditions from these elevated levels. Lessons and financial stability consequences of past 'mid-cycle adjustments' (e.g. the dot-com bubble and the U.S. housing bubble) likely weigh heavily on the FOMC members' minds. Markets by contrast are focused on the heterogeneity of the headwinds across regions relative to those regions' abilities to provide offsetting stimulus. Unfortunately, areas under the greatest pressure, like Germany and Japan, are also the areas with the greatest constraints on their ability to provide additional easing. In an environment where these regions need to ease further, there's only one central bank with the ability and capacity to provide the necessary support – the Fed. The market's view is that the Fed needs to ease for their Basel buddies, not to achieve their domestic mandate.



Given the linkages of economies through confidence channels, supply chains, and financial markets, the Fed will likely have to continue to look through domestic data and focus on growth developments overseas. Therefore, global growth prospects will likely continue to have an outsized impact on the future direction of rates.

The Marret Enhanced Government Bond Fund (the “Fund”) entered July having lowered duration close to benchmark, looking for an opportunity to add. Better U.S. employment data and European Central Bank disappointment provided a brief window to increase duration to 9-yrs. to 10-yrs., which the Fund maintained through the FOMC meeting. The Fund’s tactical duration adjustments helped generate positive returns despite being overweight duration in a month where U.S. and Canadian government bond benchmarks both had modestly negative returns. In this environment, we continue to want to stay above benchmark duration but will remain tactical.

Fund Positioning

Overall duration: Above benchmark

Cross-currency: Overweight the U.S. vs Canada

Maturity: Overweight 10-yr. vs front-end and 30-yr.

Key Transactions

Reduced and then increased duration, primarily with UST 30-yr.

Sources: Marret Asset Management Inc., Bloomberg Finance L.P., FTSE Russell.

FUND PERFORMANCE %, CLASS F, CAD

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2019	0.45%	(0.18%)	1.43%	(0.41%)	2.30%	0.45%	0.07%						4.15%

Source: Marret Asset Management Inc.

July 31, 2019



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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. This commentary has been prepared for Marret Asset Management Inc. is confidential and may not be redistributed.

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