MARRET ASSET MANAGEMENT INC.

Marret Investment Grade Hedged Strategies Fund

Class F, CAD | Monthly Commentary | July 2019

Date of Inception	October 1, 2010

Performance	As at July 31 2019
Since Inception	4.70%
MTD	0.60%
YTD	3.92%
1 YR	3.04%
3 YR	3.76%
5 YR	3.89%

Source: Marret Asset Management Inc.
July 31, 2019

Market Developments

Financial markets remained fixated on central bank policy and the expectation of proactive policy easing. In many respects, markets were satisfied as the Bank of Japan committed to further accommodation if required, the ECB stated they were preparing a policy stimulus package for their September meeting and the U.S. Federal Reserve cut rates by 25 basis points. This led to subdued volatility over the reporting period. Government bond yields in North America were close to unchanged while those in Europe continued to rally on weak economic data, low inflation and Brexit risks. Equity markets globally, registered modest gains while corporate credit spreads tightened.

Based on the Bloomberg Barclays Aggregate Corporate Average OAS Indices, cash corporate credit spreads tightened 7, 4, 13 and 6 basis points across the U.S., Canadian, European and UK markets respectively. The outperformance of credit spreads in Europe continues to be based on the need for yield, as Government bond yields remain low or negative, and expectations that further policy action by the ECB, might include further buying of corporate bonds.

Portfolio Performance

Fund returns for the month were 0.60% bringing year-to-date performance to 3.86%. Our benchmark, the FTSE Canada All Corporate Bond Index, returned 0.42% for the month and year-to-date is 7.27%. 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 Portfolio's modest exposure to the U.S. (20%) and Europe (1%) relative to the credit spread performance of these markets underscores that geographic positioning was a headwind to higher returns. The monthly returns were about equivalent to the excess returns of the Canadian investment grade corporate market. Relative to the monthly excess return in the U.S. investment grade credit market (ICE BofML U.S. Corporate Index and the ICE BofML Canada Corporate Index), the Portfolio underperformed by 16 basis points.

Lower credit market volatility limited trading opportunities to generate alpha. New issue trading and interest overlays contributed about 10% of the monthly returns. The banking sector, to which the Portfolio has about a 15% exposure, in aggregate across markets, posted modestly negative returns. Weakening economic growth and declining interest rates, leading to lower loan growth and compression in interest margins and hence bank profitability, are beginning to impact prospects for bank equities and declining interest rates, leading to lower loan growth and compression in interest margins and hence bank profitability, are beginning to impact prospects for bank equities.

Market Outlook

There has been no discernable positive change in the global macro-economic backdrop during the past month. In fact, we would argue that economic growth prospects continue to erode. Trade tensions remain elevated and show little sign of a breakthrough. Slowdowns in the auto, iPhone and semiconductor cycles continue to depress the manufacturing sector pushing manufacturing PMI data into contraction territory across many jurisdictions. In recent months, we have noted that the weakness in the manufacturing sector, is beginning to spread to the services sector. If this continues, employment growth and consumer confidence will be negatively impacted pressuring the one sector of the economy that has held up well to date. All of this convinces us, as it has for months, that it is preferable to remain defensive in terms of overall market risk and individual credit selection. This positioning is reinforced by credit fundamentals which are weak (high levels of leverage) and credit spreads which are tight (low compensation).

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	1.19%	0.47%	0.02%	0.62%	0.23%	0.74%	0.60%						3.92%
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., July 31, 2019

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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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