Marret Investment Grade Hedged Strategies Fund

Class F, CAD | Monthly Commentary | January 2020

Date of Inception	October 1, 2010

Performance	As at January 31, 2020
Since Inception	4.82%
MTD	0.66%
YTD	0.66%
1 YR	6.23%
3 YR	3.93%
5 YR	4.46%

Source: Marret Asset Management Inc.
January 31, 2020

Market Developments

There was considerable volatility in financial markets to start the year. At the outset of the month, there were military tensions between the U.S. and Iran. Subsequently, attention turned to China, where the spread of the coronavirus and resulting restrictions on mobility, plant and commercial closures and global supply chain distributions, increased concern about corporate earnings and global growth prospects.

These geo-political events, along with tepid U.S. inflation figures and a dovish nod to monetary policy in the UK and Canada, gave Government bond prices an aggressive bid. Ten-year Government bond yields in the U.S., Canada, Germany and the UK declined 41, 43, 24 and 30 basis points respectively. This was in sharp contrast to consensus expectations at the start of the year, which warned of a cyclical economic recovery and higher Government bond yields.

The performance of risk assets during the period was mixed. Concerns regarding a global health emergency due to the coronavirus, were offset by expectations that monetary and/or fiscal policy would counter most negative economic consequences. Investment grade credit spreads, based on the Bloomberg Barclays Aggregate Corporate Average OAS Indices, were 9 and 1 basis point wider in the U.S. and Europe respectively. In Canada, spreads were unchanged while in the UK, they tightened 5 basis points due to positive Brexit expectations. The underperformance of U.S. credit spreads was partially due to significant new issue supply during the month. Most major equity markets globally ended the period in negative territory.

Portfolio Performance

Based on the ICE BofA Corporate Indices, excess returns, that is the return from investment grade corporate credit spreads ex-duration, for the month were -64 basis points in the U.S and +38 basis points in Canada. Utilizing these excess returns and adjusting for the Portfolio's geographic positioning (Canada 80% and U.S. 19%), and leverage (1.5x), the monthly return would have been approximately 28 basis points. The Portfolio generated returns of approximately 66 basis points in the period. The Portfolio's higher returns, relative to those of the combined excess returns of the ICE BofA Corporate Indices, were largely due to a long Government bond overlay implemented as a hedge to volatility in credit spreads. Additionally, a modest short CDX credit index hedge, produced positive returns.

The FTSE/TMX All Corporate Bond Index, returned 2.68% for the month. 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.

Market Outlook

The volatility experienced during the opening month of the new decade is likely to be a persistent theme in 2020, as risk assets are priced for perfection, central bank policy is reaching limits and global growth is constrained. The latter due to low population growth, low productivity and high levels of global debt. As a result, Portfolio strategy will concentrate on 1) keeping outright exposure (leverage) modest 2) maintaining an aggressive short-term trading orientation and 3) tactically increasing exposure on credit spread widening.

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
2020	0.66%												0.66%
2019	1.19%	0.47%	0.02%	0.62%	0.23%	0.74%	0.60%	0.20%	0.58%	0.44%	0.76%	0.75%	6.79%

Source: Marret Asset Management Inc., January 31, 2020

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