MARRET ASSET MANAGEMENT INC.

Marret Diversified Opportunities Fund

Class F, CAD | Q2 Commentary

Date of Inception	June 8, 2018

Performance	As at Jun. 30, 2020
Since Inception	8.70%
MTD	1.08%
YTD	11.77%
1 YR	14.16%
3 YR	N/A%
5 YR	N/A%
NAV	10.5810
Distribution YTD*	1.0189

*Current Period Distribution: 0.9075
Source: Marret Asset Management Inc., June 30, 2020

Risk markets rallied significantly despite one of the deepest economic contractions in modern history. Unprecedented policy response proved to be successful in restoring market confidence, as many governments and central banks around the world swiftly enacted massive fiscal and monetary policy measures in response to the COVID-19 pandemic. The S&P 500 Index surged higher, posting its strongest quarterly return in over two decades, up over 20%. Credit markets were stronger as well, as the Federal Reserve expanded its asset purchase program to include high grade corporate bonds and ETFs, and more recently also included some areas of high yield credit. This led to a surge of inflows into both high grade and high yield credit funds, despite rising corporate defaults. The increased liquidity was met with increased corporate bond issuance, as companies took advantage of favorable market conditions to shore up liquidity in the face of extreme economic uncertainty, with June marking the largest monthly supply of high yield bonds on record. High yield spreads rallied as well, finishing just under 650bps, more than 220bps lower than where they began the quarter, while yields closed at approximately 6.85%. The dramatic decline in yields came as investors grew more confident in an economy that was repairing itself quicker than feared as many states and regions around the world moved from lockdown to reopening. Despite this widespread optimism, risk markets faded from their highs earlier in June, as some U.S. states registered a further wave of new cases, with daily cases in some areas surpassing previous highs which preceded the original stay at home orders issued earlier this year. Nonetheless, the continued belief in a variety of health-care solutions, including progress with respect to prospective vaccines, as well as the abundant liquidity provided by central banks still seems to be the primary driver for markets for the time being.

The Fund generated attractive risk adjusted returns in the quarter and, most importantly, generated positive returns consistently each month this year despite having to navigate through one of the steepest drawdowns in the history of credit markets. The Fund aggressively added credit risk throughout March after spreads had widened, which was possible due to our defensive stance earlier in the year when spreads were tight. The Fund also benefitted to a lesser degree from its core view that central bank liquidity would continue to remain abundant as central bank balance sheets aggressively expanded, which provided a tailwind to our gold position, although one which we tactically reduced towards the end of the period. Interest rate volatility provided attractive trading opportunities in rates products, while an aggressive rate cut cycle instituted by central banks globally benefitted our front-end government exposure. The Fund also maintained a core government curve steepening bias given the extreme monetary accommodation and more positive risk sentiment. However, in early June with long rates rising the Fund reduced its curve position – locking in profits. Concurrently, the Fund tactically added duration with long U.S. Treasuries, which were subsequently sold after a strong rally.

Looking forward, it is clear there remains a significant amount of uncertainty with respect to both the economy as well as the evolution of the virus. We are closely watching for any growing stress on hospitalization rates to assess whether any further broad-based economic lockdown may be required. We are also closely watching for any positive developments with respect to a wide variety of healthcare treatment solutions, which if successful, may provide us with a bridge toward economic normalization. Yet, other uncertainties remain, including the future path of fiscal support, upcoming U.S. elections, as well as questions with respect to the behaviour of consumers, businesses, and investors as we re-open. With uncertainty running this high, the only thing we know for certain is that central banks have committed to an endless amount of policy support and we expect this to remain the case until economic health is restored. As a result, we continue to look towards building positions centered on themes including growing central bank balance sheets, massive fiscal deficits, continued positive performance in higher quality risk assets, as well as tactically, at times, looking to exploit the reflation trade. We are also interested in creating positive convexity pairs trades that will provide healthy returns in the event that there are positive surprises towards economic normalization. Nonetheless, based on current valuation we maintain our bias towards quality for the core of the portfolio as we assess the damage to the real economy and the resulting impact on our companies. However, we will also remain tactical and are comfortable adding opportunities across the credit spectrum as they arise. As always, we will look to be balanced and prudent in our approach and try to keep correlation between trade types low.

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

Source: Marret Asset Management Inc., June 30, 2020 Publication date: July 31, 2020