MARRET ASSET MANAGEMENT INC.

Marret Investment Grade Hedged Strategies Fund

Class F, CAD | Monthly Commentary | July 2020

Date of Inception	October 1, 2010

Performance	As at July 31, 2020
Since Inception	5.24%
MTD	2.00%
YTD	7.14%
1 YR	10.10%
3 YR	5.09%
5 YR	5.28%

Source: Marret Asset Management Inc.
July 31, 2020

Market Developments

As we noted in the conclusion of our June commentary, the technical backdrop for investment grade corporate credit spreads, was likely to stay supportive in the summer months. This assessment proved to be correct, as continued large inflows into bond funds, central bank buying, foreign account buying and the hunt for yield pushed credit spreads tighter. This, despite a continued decline in Government bond yields and as all-in yields began to merge toward all time lows.

Based on the Bloomberg Barclays Aggregate Corporate Average OAS Indices, investment grade credit spreads tightened 17, 21, 21 and 18 basis points in the U.S., Canadian, European and UK markets respectively. The advance in credit spreads was led by sectors which are more susceptible to the coronavirus such as autos and aviation, this likely on the further reopening of economic activity. The pipeline sector underperformed while non-financials continued to outperform financials.

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 +188 basis points in the U.S. and +122 basis points in Canada. Utilizing these excess returns and adjusting for the Portfolio's geographic positioning (Canada 69% and U.S. 30%) and leverage (1.3x), the monthly return would have been approximately +185 basis points. Portfolio returns for the period were +200 basis points.

The Portfolio's outperformance, relative to the weighted excess returns of the indices, was attributable to the following:

1. 27 basis points of return generated from the trading of our interest hedges, primarily U.S. Treasury futures contracts.
2. Strong gains on our positions in Occidental Petroleum 2025 and 2050.
3. Aggressive trading of new issues in Canada and the U.S.

Our benchmark, the FTSE/TMX All Corporate Bond Index, returned 1.85% for the month and year-to-date is 7.36%. Year-to-date, Fund returns are +7.47%. 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

Over the past two months, all financial assets have traded higher in price. There has been little negative correlation. Some might attribute this to summer illiquidity. We believe the rationale for this price action is embedded in the markets view that, at least for the short-term, central banks are modifying their reaction function. There appears to be a movement away from inflation targeting to focusing on the unemployment rate, nominal GDP or at minimum, a broader view of symmetric inflation mandates. This has resulted in stocks, currencies, commodities, credit and inflation breakevens adopting a reflation bias, they all go up. Government bond yields see the road to reflation as a long one, which keeps monetary policy anchored at the lower bound for years. Lower yields for longer, means grab yield NOW where there is some, forcing Government bond markets where there is positive yield, to rally and curves to flatten. Hence, everything melts up with limited volatility. This bias may continue to shape the price action in financial markets for the short-term. However, the Autumn is likely to bring some volatility as the U.S. election, Brexit talks, vaccine/no vaccine, second wave/no second wave, fiscal stimulus and the economic recovery take center stage.

It is for these reasons, that we are going into the latter part of the summer and early fall, with a positioning that gives us significant optionality. We have recently reduced credit exposure modestly, having benefitted from the strong rally in credit spreads. This will give us room to increase and trade exposure tactically on an uptick in volatility on macro events, the health pandemic progression and anticipated higher levels of corporate issuance in September.

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%	0.28%	(7.04%)	7.16%	1.85%	2.56%	2.00%						7.14%
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., July 31, 2020

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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.

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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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Source: Marret Asset Management Inc., July 31, 2020 Publication date: August 27, 2020