MARRET DIVERSIFIED OPPORTUNITIES FUND

Monthly Commentary | March 2021

PERFORMANCE (As at March 31, 2021)

	MTD	YTD	1 YR	3 YR	5 YR	Since Inception
Marret Diversified Opportunities Fund, Series F, CAD	0.35%	0.44%	9.65%	NA	NA	7.96%

Date of Inception: June 8, 2018 Source: Marret Asset Management Inc., March 31, 2021

FUND SUMMARY

KEY FACTS	
NAV/unit (Series F)	$10.6633
Distribution YTD	0.1181
Management fee (Series F)	60 bps
Performance fee	15%
Hurdle rate	10-Yr Canada Benchmark Bond Yield + 2%
Yield to worst	2.38%
Average duration	2.79 years
Liquidity	Monthly
Class F Fund Code	CIG 47700 (C$) CIG 47750 (US$)

USE OF LEVERAGE

EXPOSURE	
Gross Exposure	109.9%
Net Exposure	84.3%

ASSET CLASS BREAKDOWN

ASSET CLASS	LONG	SHORT	NET
Cash & Equivalents	15.1%	-	15.1%
Accrued Interest	0.6%	-	0.6%
Commercial Paper	4.5%	-	4.5%
Bank Loans	0.5%	-	0.5%
High Yield	51.2%	-0.5%	50.7%
High Grade	11.1%	-0.2%	10.9%
Government Debt	18.8%	-11.8%	7.0%
ETFS	5.4%	-0.2%	5.1%
Equities	5.5%	-	5.5%

U.S. Treasury yields posted one of their sharpest increases since the 2013 Taper Tantrum, over 80 basis points on the 10-year note, creating indigestion across many markets. Heavy government supply to fund massive fiscal deficits led to poor auction results throughout the quarter. Risk markets had a strong finish despite the steep rise in U.S. government bond yields. The S&P 500 Composite Index climbed to fresh highs after a 4% drawdown in early March. The root cause of many of these market moves was the January election runoff result, completing a “Blue Wave”. The Democrats wasted no time in passing an aggressive new stimulus package and quickly proposed a large infrastructure bill to follow. The scale of these fiscal measures following emergency spending in 2020, an accommodative Federal Reserve, and rising optimism in the reopening recovery prompted inflation fears across fixed income markets. This resulted in losses of almost 5% for both U.S. government and Investment Grade bonds. High Yield was also weighed down by rising rates but managed to generate marginally positive returns with spreads almost 40bps tighter. Equities were the biggest beneficiaries of the reflationary theme as large inflows generated strong returns. In particular, cyclical stocks and COVID-sensitive names outperformed as confidence grew in the reopening momentum with continued vaccine rollout success.

The Fund generated a small gain during the quarter. It benefited from its active management of government bond positions, hedges that reduced the impact of rising interest rates on investment grade holdings, increasing exposure to high yield credit, and increased exposure to equities, including Shaw and Rogers shares that generated M&A related gains. The Fund’s gold position detracted from performance. We continue to maintain a core exposure to high yield credit and tactical exposure to equities, positioning for considerable economic

FUND EXPOSURE

ISSUER COUNTRY	GROSS EXPOSURE
Canada	27.1%
United States	70.0%
Other	2.9%

TOP FIVE HOLDINGS

HOLDING	WEIGHT
US Treasury N/B 1.125% 15Feb2031	11.5%
Bolton Canadian Delta Fund	3.9%
Canadian Government 0.5% 01Dec2030	3.2%
Tenet Healthcare Corp 4.625% 15Jul2024	2.7%
iShares iBoxx High Yield Corporate Bond ETF	2.0%

MATURITY PROFILE

YEARS TO MATURITY	GOVERNMENT BONDS	CORPORATE BONDS/LOANS
0 to 3	0.1%	12.2%
3 to 5	0.4%	15.4%
5 to 10	10.0%	28.5%
10+	-3.5%	4.7%

Source: Marret Asset Management Inc., March 31, 2021

improvement over the coming quarters. A strong savings rate, pent up demand, and improving employment should all contribute to some of the strongest quarterly GDP growth rates in decades. This backdrop should lead to default rates falling to pre-pandemic levels and credit rating upgrades outnumbering downgrades, both providing a strong fundamental underpinning to the credit market. Nevertheless, the Fund is underweight both lower quality credit and COVID-sensitive names. There is little price appreciation left in these pockets of credit as the extremely easy monetary policy conditions of the past year have compressed spreads to reflect the most optimistic outcomes. As a result, the spread differential between stable companies and those with cyclical exposure still awaiting fundamental improvement appears to be too narrow. While we maintain a higher quality bias, the Fund has tactically increased its credit exposure during bouts of weakness. We expect this shift to provide the benefits of additional yield over the course of the year and modest capital appreciation.

Outlook

Looking forward, the biggest risk to credit and equity markets are higher interest rates. Given the steep rise in government bond yields this year, there's the potential to transition to a rangebound rate market, or at least slow the pace of ascent. Any semblance of rate stability would provide a better backdrop for risk, particularly credit. If rates destabilize further, we are wary of a dislocation in risk. Markets have already displayed their sensitivity to rates rising too quickly. Therefore, we remain cautious on both rates and unhedged credit. Our preference is to be tactical and not necessarily structural in either. We are actively managing and trading our government duration exposure. We will also remain active in managing our risk exposure, focusing on the best risk reward opportunities in what feels likely to become an increasingly fully-valued market. For now, high yield credit remains the most attractive area of fixed income and should continue to provide modestly positive returns as the economy normalizes.

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

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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.

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