MARRET ASSET MANAGEMENT INC.

MARRET DIVERSIFIED OPPORTUNITIES FUND

Monthly Commentary | June 2021

PERFORMANCE (As at June 30, 2021)

	MTD	YTD	1 YR	3 YR	5 YR	Since Inception
Marret Diversified Opportunities Fund, Series F, CAD	0.43%	1.91%	5.96%	7.86%	NA	7.80%

Date of Inception: June 8, 2018   Source: Marret Asset Management Inc., June 30, 2021

FUND SUMMARY

KEY FACTS	
NAV/unit (Series F)	$10.6732
Distribution YTD	0.2637
Management fee (Series F)	60 bps
Performance fee	15%
Hurdle rate	10-Yr Canada Benchmark Bond Yield + 2%
Yield to worst	1.04%
Average duration	0.01 years
Liquidity	Monthly
Class F Fund Code	CIG 47700 (C$) CIG 47750 (US$)

USE OF LEVERAGE

EXPOSURE	
Gross Exposure	76.9%
Net Exposure	40.8%

ASSET CLASS BREAKDOWN

ASSET CLASS	LONG	SHORT	NET
Cash & Equivalents	52.7%	-	52.7%
Accrued Interest	0.5%	-	0.5%
Commercial Paper	4.9%	-	4.9%
Bank Loans	2.2%	-	2.2%
High Yield	36.2%	-0.5%	35.7%
High Grade	6.3%	-4.1%	2.2%
Government Bonds	4.4%	-7.4%	-3.0%
Government Futures	-	-6.1%	-6.1%
ETFs	0.6%	-	0.6%
Equities	4.3%	-	4.3%

Risk markets posted strong gains in June, despite some mid-month volatility surrounding the Federal Reserve's policy meeting. Yields on longer-term Treasuries continued to fall over the course of the month, providing a tailwind for equities and credit. Investors became more comfortable that inflation will soon peak and indeed be transitory. However, interest rates did show some volatility across the curve as the Fed surprised markets with a more "hawkish" tone. Not only was there finally clear acknowledgement of a strengthening economy and an expectation of persistently improving labour conditions, but committee members also pulled forward their anticipation of lift-off as shown on their dot plot. This surprise initially led to selling across the curve, with most pressure seen in the belly, as 5-year treasury yields adjusted higher to account for the Fed Funds rate rising sooner than expected. Longer-term Treasuries, however, started to rally shortly thereafter, as the central bank was now seen to be responsible once again, providing a clear message that they would act rationally and remove liquidity as required when the economy and jobs recover. After some initial turbulence, risk markets responded positively as well. The S&P 500 composite index advanced to new record highs, while investment grade spreads rallied to fresh cycle lows. High yield performed well, however, trailed investment grade, given the strong move higher in longer dated government bonds.

The Fund generated positive returns for the month. It also has produced meaningfully positive returns for the first half of the year, during a difficult fixed income environment. The Fund has benefitted from its high yield credit positions which have provided the largest contribution to returns for both the current month and year to date period. Equities as well as tactical positioning in government bonds have also contributed positively, while unhedged investment grade bond positions have been a small detractor. We have maintained our core fixed income exposure in credit, primarily high yield, given a firm

FUND EXPOSURE

ISSUER COUNTRY	GROSS EXPOSURE
Canada	29.9%
United States	66.1%
Other	3.9%

TOP FIVE HOLDINGS

HOLDING	WEIGHT
Tenet Healthcare Corp 4.625% 15Jul2024	4.2%
Canadian Government 0.5% 01Dec2030	2.1%
Bolton Canadian Delta Fund	2.0%
Ford Credit Canada Co 2.71% 23Feb2022	1.5%
Ford Credit Canada Co 3.279% 02Jul2021	1.2%

MATURITY PROFILE

YEARS TO MATURITY	GOVERNMENT BONDS	CORPORATE BONDS/LOANS
0 to 3	-0.8%	10.9%
3 to 5	0.1%	12.6%
5 to 10	-1.7%	18.6%
10+	-0.5%	-2.0%

Source: Marret Asset Management Inc., June 30, 2021

economic backdrop, improving credit fundamentals and significant policy support. We expect volatility to remain benign in the very near term given range-bound interest rates for now as inflation expectations have stabilized. While this environment remains supportive for credit, we are also cognizant of the fact that credit spreads have narrowed considerably, and valuations are becoming quite full. Strong overseas buying of investment grade has pushed spreads through their tightest levels of 2018 and left them only a few basis points off their all-time tights, set in the early 2000s when duration was lower and credit quality was higher. The carry per unit of risk appears to have never been worse. While high yield spreads are still above their all-time lows, all-in yields have fallen to their lowest levels in history, leaving little upside in a market trading at a premium to par and the call constrained nature of the market. Lower-quality credit performed well this year, benefitting from ample liquidity and the reopening of the economy. While it offers a bit more carry, we feel it provides inadequate compensation for any uptick in default risk as the cycle matures. Accordingly, we have focused on maintaining our core exposure in higher-quality high yield credit in order to participate with the tailwinds of the current environment. We have significantly reduced our exposure to investment grade given valuation, with the fund now having negative duration to investment grade credit due to short positions in longer duration bonds. We have also started reducing high yield as well.

Outlook

Looking forward, it appears that the market is becoming increasingly confident in its view of a "goldilocks" environment persisting. Interest rate volatility has been the dominant risk factor for most markets this year and it has been steadily declining since March. While accelerating growth destabilized rates earlier this year, the rate of improvement in growth has clearly started to slow, giving the bond market comfort that peak growth is behind us. Worries shifted to inflation after CPI registered its highest monthly level since 2008 and core CPI posted its highest reading in decades. However, with the Fed clarifying the committee's new reaction function under the AIT (average inflation targeting) framework, the main message was clear: don't bet on the Fed being irrationally easy if inflation expectations rise further. With peak growth behind us and the prospect of inflation peaking soon, excess cash has pushed up valuations in most markets to levels previously unseen. While caution has not been rewarded in this recovery, one underestimated risk, in our view, is peak liquidity. While fundamentals have improved considerably, much of the improvement has been driven by accommodative monetary and fiscal policy. With a responsible Fed now acknowledging the outlook for a sustained improvement in the economy, good news may start to become bad news. As easily as markets have moved to record highs with cash flowing into the system, a withdrawal of extremely accommodative monetary policy will be a headwind to markets going forward. While we are currently positioned to participate in the low volatility environment, we are slowly starting to reduce risk across markets. We are watching employment data very closely because we expect improving jobs data over the coming months to bring volatility back into markets, as the prospect of tapering and tightening becomes more of a reality. Additionally, we are keeping a close eye on inflation trends to see if they moderate as the market anticipates. Our internal research shows that core inflation is likely to remain stubbornly high. Any persistence in inflation above expectations will likely disrupt the current low volatility environment. As always, we will look to take advantage of tactical opportunities that may present themselves across all markets over the coming quarter as expected volatility resurfaces.

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

Source: Marret Asset Management Inc., June 30, 2021 Publication date: July 13, 2021