MARRET ASSET MANAGEMENT INC.

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MARRET INVESTMENT GRADE HEDGED STRATEGIES FUND

Monthly Commentary | October 2022

PERFORMANCE (As at October 31, 2022)

	MTD	YTD	1 YR	3 YR	5 YR	10 YR	Since Inception
Marret Investment Grade Hedged Strategies Fund, Series F, CAD	(0.73%)	(3.16%)	(3.29%)	4.05%	3.57%	4.57%	4.55%

Date of Inception: October 1, 2010

Source: Marret Asset Management Inc., October 31, 2022

FUND SUMMARY

KEY FACTS	
NAV/unit (Series F)	$12.4524
Distribution YTD	0.7098
Management fee (Series F)	100 bps
Performance fee	15%
Hurdle rate	5%
Yield to worst	5.39%
Average duration	0.77 years
Liquidity	Monthly
Series F Fund Code	CIG 44500 (C$) CIG 46000 (US$)

USE OF LEVERAGE

EXPOSURE	
Gross Exposure	247.8%
Net Exposure	24.7%

ASSET CLASS BREAKDOWN

ASSET CLASS	LONG	SHORT	NET
Cash & Equivalents	60.9%	-1.3%	59.6%
Accrued Interest	0.4%	-	0.4%
High Yield	7.6%	-	7.6%
High Grade	112.2%	-	112.2%
Government Bonds	16.5%	-96.5%	-80.0%
Government Futures	-	-	-
Equities	-	-	-

Market Developments

Risk assets performed well in October against a backdrop of persistent negative macro trends. The improved performance was likely due to more attractive starting valuations after recent sell-offs, induced by the UK fiscal/political turmoil, and the beginning of divergence in central bank policy.

Global economic growth continues to weaken as financial conditions tighten. China’s 20th Party Congress provided no fiscal stimulus or softening of their COVID zero policy that could provide a growth tailwind. Inflation continues to be elevated; the most recent data reaffirmed the stickiness in core components. Energy prices also jumped after OPEC+ cut oil production by 2 million barrels per day. The labour market continues to show resilience, as indicated by strong jobless claims and non-farm payrolls data. And, central banks continue to tighten monetary policy.

However, some central banks began to slow the pace of tightening. The RBA only hiked 25bps, down from their previous four 50bps increases. It reiterated an expectation to increase rates further, but also highlighted the tradeoffs between inflation and economic growth. The BoC only hiked 50bps when many expected 75bps. It reiterated an expectation to increase rates further, but also highlighted it was getting closer to the end of the tightening phase.

These small divergences in policy from the Fed’s more inflation focused approach could be considered green shoots to the long-awaited pause/pivot. Risk markets were buoyed by expectations for a more moderate pace of central bank tightening. Equities rallied and credit spreads tightened. Government bonds suffered losses as yields increased further when the hopes of a more moderate tightening pace were contrasted with worries of higher peak rates. Canadian bonds outperformed the U.S. based on its decreased pace of tightening.

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FUND EXPOSURE

ISSUER COUNTRY	GROSS EXPOSURE
Canada	75.1%
United States	16.5%
Other	8.4%

TOP FIVE HOLDINGS

HOLDING	WEIGHT
CTB 0 11/10/22	9.4%
T 1 3/8 01/31/25	3.3%
BNS 1.85 11/02/26	3.3%
DOLCN 3.55 11/06/23	3.3%
CHPUCN 3.556 09/09/24	2.3%

MATURITY PROFILE

YEARS TO MATURITY	GOVERNMENT BONDS	CORPORATE BONDS
0 to 3	-10.4%	37.0%
3 to 5	-35.3%	30.4%
5 to 10	-23.7%	31.5%
10+	-10.6%	21.0%

Source: Marret Asset Management Inc., October 31, 2022

Ten year Government bond yields in the U.S., Canada and Germany increased by 22, 8 and 3 basis points respectively in October. UK Government bond yields reversed the steep September sell-off, rallying 57 basis points upon the change in political leadership and fiscal agenda.

Cash investment grade credit spreads, with the exception of those in Canada, tightened modestly. However, credit indices, specifically those in Europe tightened aggressively after the political and financial events in the UK.

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 +59 basis points in the U.S. and -54 basis points in Canada. Utilizing these excess returns and adjusting for the Portfolio's geographic positioning (Canada 84% and U.S. 16%) and leverage (1.2x), the monthly return would have been -44 basis points. Portfolio returns for the period were -73 basis points.

All of the Portfolio's underperformance during the month is attributable to credit index hedges. For a number of months, the Portfolio has maintained short positions in the CDX IG and Xover credit indices. Up until this month, these hedges have generated positive alpha as credit spreads, particularity in Europe, have been widening on weaker macro-economic fundamentals. These indices saw significant volatility during the UK political crisis, widening materially initially and then gapping tighter aggressively once the UK political and fiscal situation moderated. A portion of the index hedge position was unwound at the wides and then reinitiated. In hindsight, the trade was reinitiated early, based on our medium-term view of wider credit spreads on further economic and credit fundamental weakness. The Xover index traded an unprecedented 100 basis point range during the month and settled down 86 basis points.

Market Outlook

Navigating markets late in the monetary policy cycle (classic cyclical recession scenario) is always challenging and is complicated by: 1) central banks awaiting weakening labour and inflation data in order to reduce or pause the rate of monetary policy tightening; 2) investors anticipating central banks signaling peak rates in order to gain comfort with the depth of the economic slowdown; and, 3) the lag between monetary policy changes and its economic effects. Changes in these dynamics will result in high near-term volatility as markets receive further data and central bank communications.

Performance % | Series F, CAD

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC	YTD
2022	(0.73%)	(0.86%)	0.27%	(1.11%)	(0.08%)	0.30%	0.67%	0.17%	(1.09%)	(0.73%)			(3.16%)
2021	0.63%	0.03%	0.00%	0.41%	0.42%	0.26%	0.29%	0.20%	0.42%	0.32%	(0.62%)	0.49%	2.87%

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The Yield Information reported is representative of the strategy and not any individual client yield. These figures are compiled from third-party sources believed to be reliable, however, care should be taken when relying on these figures as the information is obtained from third party sources that may or may not be verified. All data presented is unaudited.

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.

Series 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 Series F securities, which means MAMI can charge a lower management fee compared to Series A of the same Fund. A lower management fee may positively impact the performance data shown when compared to Series 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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