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MARRET INVESTMENT GRADE HEDGED STRATEGIES FUND

Monthly Commentary | December 2022

PERFORMANCE (As at December 31, 2022)

	MTD	YTD	1 YR	3 YR	5 YR	10 YR	Since Inception
Marret Investment Grade Hedged Strategies Fund, Series F, CAD	0.97%	(1.43%)	(1.43%)	4.14%	3.76%	4.63%	4.63%

Date of Inception: October 1, 2010

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

FUND SUMMARY

KEY FACTS	
NAV/unit (Series F)	$12.5705
Distribution YTD	0.8130
Management fee (Series F)	100 bps
Performance fee	15%
Hurdle rate	5%
Yield to worst	5.83%
Average duration	0.62 years
Liquidity	Monthly
Series F Fund Code	CIG 44500 (C$) CIG 46000 (US$)

USE OF LEVERAGE

EXPOSURE	
Gross Exposure	249.7%
Net Exposure	18.3%

ASSET CLASS BREAKDOWN

ASSET CLASS	LONG	SHORT	NET
Cash & Equivalents	65.8%	-0.9%	64.9%
Accrued Interest	0.7%	0.0%	0.7%
High Yield	6.7%	0.0%	6.7%
High Grade	116.3%	0.0%	116.3%
Government Bonds	10.9%	-99.4%	-88.4%
Government Futures	0.0%	0.0%	0.0%
Equities	0.0%	0.0%	0.0%

Market Developments

In 2022, central banks tightened monetary policy at the fastest pace in over 40 years to fight elevated and persistent inflation. This tighter monetary policy was a headwind across asset classes with government bonds, corporate debt, and equities all suffering significant losses.

At the end of 2021, the Fed started to shift their views on inflation – no longer characterizing it as 'transitory' – and communicated an accelerated withdrawal of monetary accommodation would likely be needed. The markets' initial reaction was sanguine. Investors were skeptical of central banks' ability to tighten policy substantially without causing a growth slowdown. Only after employment and inflation data consistently came in stronger than expected, worsened by the supply side shock of Russia invading Ukraine, did markets begin to fear the magnitudes of the monetary tightening cycle.

Central banks began to aggressively hike interest rates mid-year. The Fed hiked 75bps four times in a row. The Bank of Canada hiked 100bps in July. The ECB (European Central Bank) hiked at least 50bps in four straight meetings. Markets drove government bond yields higher, pushing the terminal Fed Funds rate over 5% at times.

The second half of 2022 featured failed relief rallies for risk assets. Weaker economic data indicated tighter monetary policy may be achieving the desired growth slowdown that will reduce inflationary pressures. Investors began to anticipate a deceleration or pause in monetary policy tightening, which would remove the strong headwind. However, labour markets continued to show strength, and central banks remained steadfast in their messaging that combating inflation requires further tightening.

Overall, the S&P 500, U.S. 10 years, Canadian 10 years, investment grade corporates, and high yield corporates were down approximately -19%, -15%, -11%, -16% and -11%, respectively. Asset classes suffered across the board, except energy related securities that benefitted from strong demand and reduced supply due to sanctions against Russia.

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MARRET ASSET MANAGEMENT INC.

FUND EXPOSURE

ISSUER COUNTRY	GROSS EXPOSURE
Canada	76.8%
United States	14.8%
Other	5.16%

TOP FIVE HOLDINGS

HOLDING	WEIGHT
CHPUCN 4.903 07/05/23	4.2%
T 4 1/8 11/15/32	3.8%
PENSKE 5.44 12/08/25	3.8%
TD 2.26 01/07/27	3.3%
DOLCN 3.55 11/06/23	3.3%

MATURITY PROFILE

YEARS TO MATURITY	GOVERNMENT BONDS	CORPORATE BONDS
0 to 3	-24.9%	49.7%
3 to 5	-32.8%	31.3%
5 to 10	-20.6%	25.4%
10+	-10.1%	16.6%

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

In 2022, based on the Bloomberg Barclays Aggregate Corporate Average OAS Indices, investment grade credit spreads widened 36, 51, 72 and 79 basis points in the U.S., Canada, Europe and UK respectively.

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 +51 basis points in the U.S. and +48 basis points in Canada. Utilizing these excess returns and adjusting for the Portfolio's geographic positioning (Canada 89% and U.S. 12%) and leverage (1.3x), the monthly return would have been +63 basis points. Portfolio returns for the period were +97 basis points.

The Portfolio's outperformance for the month was due to positive returns from our index hedges (despite further tightening in cash credit spreads) and trading of our government bond overlays.

For the full year, based on the excess return metrics outlined above, the Portfolio underperformed by about 20 basis points (-120bps vs -141bps).

Our benchmark, the FTSE/TMX All Corporate Bond Index, returned -1.03% for the month. In 2022, the benchmark return was -9.87%. Portfolio returns were -1.41% for the full year. 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

We expect that coordinated global monetary tightening at a record-breaking pace into a synchronized global growth slowdown will result in a recession. Monetary policy is likely to stay too tight for too long as central banks focus on strength in lagging economic data (shelter/wages). Excess savings built up from pandemic fiscal stimulus have allowed the economy to remain resilient thus far. Those savings should be sufficiently drawn down and will stop providing support in 2023.

Investors have so far reacted positively to any hint of a thought of a pause in monetary policy tightening. Volatility will remain elevated and shifts in valuations will continue as markets try to anticipate the path of interest rates. We expect investors will still react positively to a pause. However, we believe that will be a failed rally as central banks can be expected to hold interest rates at a restrictive level, leading to a continued challenging risk market environment.

Given the significantly inverted yield curve, the Fund will focus on generating carry using short duration, high quality fixed income securities. Exposure to longer -dated investment grade credit hedged, where the risk/reward is less appealing, will be limited until there is a reasonable correction in valuations. Given our view, that there is a higher probability of a hard landing than is currently priced or is the consensus view, the Fund will maintain a conservative credit positioning and continue to actively trade its credit indices and Government bond overlays.

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In general, expectations of economic weakness, earnings decline, and valuations bias us to remain cautious on credit spreads in 2023. We see the key risks to our view as follows:

- Inflation declines meaningfully, allowing central banks to reverse policy tightening without a rise in the unemployment rate, soft landing.
- Despite economic and market volatility, credit spreads remain resilient supported by all-in yield buying, fund inflows and steady credit metrics.

At the outset of the year, we plan to generate return from the attractive front end carry and active trading. As the year progresses, if/when credit valuations correct, the Portfolio will look to add long credit exposure and utilize leverage more aggressively.

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%)	0.80%	0.97%	(1.43%)
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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Source: Marret Asset Management Inc., December 31, 2022 Publication date: January 18, 2023