MARRET ASSET MANAGEMENT INC.

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MARRET INVESTMENT GRADE HEDGED STRATEGIES FUND

Monthly Commentary | July 2023

PERFORMANCE (As at July 31, 2023)

	MTD	YTD	1 YR	3 YR	5 YR	10 YR	Since Inception
Marret Investment Grade Hedged Strategies Fund, Series F, CAD	0.30%	2.22%	2.33%	2.52%	4.10%	4.51%	4.60%

Date of Inception: October 1, 2010 Source: Marret Asset Management Inc., July 31, 2023

FUND SUMMARY

KEY FACTS	
NAV/unit (Series F)	$12.5318
Distribution YTD	0.314262
Management fee (Series F)	100 bps
Performance fee	15%
Hurdle rate	5%
Yield to worst	5.27%
Average duration	0.70 years
Liquidity	Monthly
Series F Fund Code	CIG 44500 (C$) CIG 46000 (US$)

USE OF LEVERAGE

EXPOSURE	
Gross Exposure	120.4%
Net Exposure	43.5%

ASSET CLASS BREAKDOWN

ASSET CLASS	LONG	SHORT	NET
Cash & Equivalents	43.0%	-1.9%	41.1%
Accrued Interest	0.4%	0.0%	0.4%
High Yield	4.2%	0.0%	4.2%
High Grade	49.4%	-3.2%	46.2%
Government Bonds	28.3%	-19.7%	8.7%
Government Futures	0.0%	0.0%	0.0%
Equities	0.0%	0.0%	0.0%

Market Developments

Strong risk on sentiment drove market movements in July, against a backdrop of weaker economic data, disinflation, solid employment, and tightening monetary policy.

Economic data in Europe and China was weak while the US was more mixed. US manufacturing data appeared to base in some areas while service data softened. The disinflation theme was global with producer prices flat to negative and CPI continuing lower towards central bank targets. However, core inflation, while showing signs of improving, remained too sticky and labour markets continue to be resilient. Claims and jobs data has been quite strong, but if you correct for COVID seasonals and remove the government contribution, the underlying trends are weaker.

The Bank of Canada, Fed and ECB each hiked interest rates by 25bps in July and all emphasized data dependence going forward given high uncertainty. They remarked that monetary policy is restrictive and moving forward decisions are more about how long to maintain these high interest rates as opposed to whether they should move higher. That said, they all committed to further hikes if needed. The Bank of Japan then surprised markets by expanding the upper bands of its yield curve control policy.

The combination of disinflation, labor market strength, and suggestions that monetary policy tightening is nearing an end encouraged investors to assign a higher probability of a soft landing. Equities were strong and credit spreads tightened. Oil prices moved sharply higher. Government bonds suffered losses as interest rates moved higher and the curve steepened (long end moved up more than the front end). Corporate bonds generated positive returns as tighter spreads more than offset higher interest rates.

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FUND EXPOSURE

ISSUER COUNTRY	GROSS EXPOSURE
Canada	71.2%
United States	12.6%
Other	16.1%

TOP FIVE HOLDINGS

HOLDING	WEIGHT
CAN 2 1/2 06/01/24	7.9%
CAN 0 1/2 09/01/25	7.4%
DOLCN 3.55 11/06/23	3.8%
CAN 1 1/2 09/01/24	3.4%
CAN 2 1/4 03/01/24	3.3%

MATURITY PROFILE

YEARS TO MATURITY	GOVERNMENT BONDS	CORPORATE BONDS
0 to 3	22.1%	28.8%
3 to 5	-3.7%	8.8%
5 to 10	-7.3%	4.7%
10+	-2.4%	8.1%

Source: Marret Asset Management Inc., July 31, 2023

Ten-year government bond yields in the U.S., Canada, and Germany increased by 12, 23, and 10 basis points, respectively, but fell by 8 basis points in the UK. Investment grade corporate credit spreads were 11, 8, 16, and 19 basis points tighter the U.S., Canada, Europe, and the 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 +89 basis points in the U.S. and +53 basis points in Canada. Utilizing these excess returns and adjusting for the Portfolio's geographic positioning (Canada 84% and U.S. 16%) and leverage (0.6x), the monthly return would have been +35 basis points. Portfolio returns for the period were +22 basis points.

The Portfolio's underperformance was more than entirely due to the negative drag of short positions in the CDX IG and Xover credit indices held for protection in a risk off environment, which lost 15bps.

Our benchmark, the FTSE/TMX All Corporate Bond Index, lost 0.36% during the month. Year-to-date, the benchmark return is +2.60%. Portfolio returns YTD are +2.22%. 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 continue to expect central banks to keep interest rates at a restrictive level as inflation remains above target, leading to a downturn and a challenging risk market environment. Weakness in the labor market will likely be a requirement to shift to a risk-off sentiment in financial markets.

The Fund expects to maintain its defensive credit exposure while opportunistically removing CDX hedges and tactically positioning its duration.

The Fund has become more defensive, significantly reducing its exposure to credit spreads as they tightened. The Fund is focused on generating carry from short duration, high quality corporate as it awaits restrictive monetary policy to flow into the economy. It stands ready to add credit exposure on material spread widening.

Performance % | Series F, CAD

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC	YTD
2023	0.60 %	0.30%	(0.35%)	0.78%	0.27%	0.30%	0.30%						2.22%
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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