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MARRET ENHANCED TACTICAL FIXED INCOME FUND

Monthly Commentary | October 2023 | Series F, CAD

WEIGHTS	
Cash	8%
Commercial Paper	0%
Govt. Bonds	54%
IG Bonds	23%
HY Bonds	15%
Bank Loans	0%
Equities	0%

YIELD INFORMATION	
Yield to Maturity	5.93%
Current Yield	3.92%
Yield to Worst	5.93%
Average Duration	1.88 Years

PERFORMANCE	
Since Inception	2.68%
MTD	0.45%
YTD	2.66%
1 YR	3.46%
3 YR	0.66%
5 YR	1.74%
NAV	10.4147
Distribution YTD*	0.3496

*Current Period Distribution: 0.0350
Date of Inception: November 28, 2014
Source: Marret Asset Management Inc., November 10, 2023

In October, higher interest rates once again acted as a headwind across asset classes. Equities, corporate bonds, U.S. government bonds, and oil prices all suffered losses, while gold and Canadian government bonds generated gains.

In the U.S., resilient labour markets, sticky inflation data, and worries about increased bond supply pushed interest rates higher despite softening economic growth. The 10-year U.S. government bond briefly moved above 5%. As a result, Federal Reserve members began positing that the move higher in long-term interest rates could provide similar financial tightening to the additional rate hike predicted in the September dot plot. The idea that central banks, outside of Japan, could be done their hiking cycle helped contain the upward move in interest rates.

Canada had weaker data than the U.S. The Bank of Canada left its policy rate unchanged for a second consecutive meeting. After two months of near zero growth, it is increasingly worried about the balance of risks between tightening too much and achieving target inflation. This led to interest rates bear steepening in Canada, falling in the front end while modestly increasing in the long end.

Financial conditions remained tight into month end as investors awaited October jobs data, the Fed meeting, and the announcement of planned U.S. government debt issuance. For the first time in recent memory, the Treasury Quarterly Refunding announcement on November 1 was treated as a major monetary data release, highlighting the market's focus on the bond supply headwind.

Market Performance	3-Nov	10-Nov
S&P 500		
Index Level	4,358	4,415
Pct. Chg. (%)		1.31%
BofA Merrill Lynch U.S. High-Yield Index		
Yield	8.85%	8.97%
Yield Δ		+12bps.
Bloomberg Barclays U.S. Aggregate Corporate Index		
Spread	125	121
Spread Δ		-4bps.
UST 10Yr. Yield	4.57%	4.65%
3-Month CAD Bankers' Acceptance	5.28%	5.24%

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The Fund generated a gain but underperformed its benchmark. Gains on government bonds, investment grade bonds, and CDX hedges were partially offset by losses in high yield bonds. The main driver of relative underperformance was exposure to weaker performing U.S. bonds versus the all-Canadian benchmark. Government duration was reduced from its peak to 1.33 years, partially by adding a 10s-30s steepener where the fund is long 10-year bonds versus short 30-year bonds. The Fund continued adding to corporate credit as spreads and interest rates increased together. It also reduced its CDX hedges by a third.

We continue to expect central banks to maintain interest rates at a restrictive level, but also believe we've likely entered the pause phase of the tightening cycle. This is normally a strong positive for fixed income markets. Interest rates at these levels offer an opportunity to lock in yields not seen in decades, even as inflation continues to normalize and we near the end of the hiking cycle. There remains the possibility that central banks achieve target inflation by causing a significant economic slowdown, which would be a negative headwind for risk assets.

The Fund will continue to tactically increase and decrease its duration during bouts of interest rate volatility, though it is aware of the technical headwinds. It is focused on maintaining elevated duration and generating carry from high quality fixed income securities, while taking advantage of technical dislocations.

Sources: Marret Asset Management Inc., Bloomberg Finance L.P., November 10, 2023.

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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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