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MARRET ASSET MANAGEMENT INC.

# MARRET ENHANCED TACTICAL FIXED INCOME FUND

Monthly Update | May 2024 | Series F, CAD

| WEIGHTS | |
|---|---|
| Cash | 3.9% |
| Commercial Paper | 0% |
| Govt. Bonds | 41.7% |
| IG Bonds | 27.5% |
| HY Bonds | 26.0% |
| Bank Loans | 0% |
| Equities | 0% |

| YIELD INFORMATION | |
|---|---|
| Yield to Maturity | 5.23% |
| Current Yield | 4.0% |
| Yield to Worst | 5.17% |
| Average Duration | 1.61 Years |

| PERFORMANCE | |
|---|---|
| Since Inception | 2.87% |
| MTD | 0.67% |
| YTD | 1.27% |
| 1 YR | 4.06% |
| 3 YR | 1.56% |
| 5 YR | 2.07% |
| NAV | 10.5422 |
| Distribution YTD* | 0.1764 |

*Current Period Distribution: 0.0353
Date of Inception: November 28, 2014
Source: Marret Asset Management Inc., May 31, 2024

May saw generally weaker data. The U.S. had weaker JOLTS data (reduced job openings) and contractionary manufacturing data (i.e., below 50). April's change in non-farm payrolls came in at 175k, short of expectations for 240k. The unemployment rate rose, wage growth eased, and producer prices climbed. Inflation expectations saw a marginal increase, although CPI figures were in line with expectations, breaking the recent trend of higher-than-expected prints. Retail sales were also weak.

Canada's economic indicators were even more downbeat, outside of some resilient jobs data, which reversed some weakness seen in prior months.

With weaker data in hand, central bankers expressed confidence that inflation would eventually return to target but were still less confident on the timing of cuts. Market activity reflected the future policy uncertainty, with relatively large rate ranges while volatility remained subdued in other markets. Stocks performed well, gaining nearly 5%, while both Canadian and US rates decreased 15 to 20 basis points.

Credit markets traded mostly sideways. In the US, credit remained broadly expensive despite deteriorating fundamentals. Net leverage is the highest we've seen this cycle, while cash holdings and EBITDA margins have declined. Despite this, we remain near the richest levels in history.

In Canada, investors prepared for a large new issue in June by selling liquid bonds to build a cash buffer. As a result, the most liquid parts of the market and sectors related to the new issue cheapened 5-10 basis points, underperforming the broader index.

| Market Performance | 24-May | 31-May |
|---|---|---|
| **S&P 500** | | |
| Index Level | 5,305 | 5,278 |
| Pct. Chg. (%) | | -0.51% |
| **BofA Merrill Lynch U.S. High-Yield Index** | | |
| Yield | 7.96% | 8.04% |
| Yield Δ | | +8bps. |
| **Bloomberg Barclays U.S. Aggregate Corporate Index** | | |
| Spread | 86 | 84 |
| Spread Δ | | -2bps. |
| **UST 10Yr. Yield** | 4.47% | 4.50% |
| **3-Month CAD Bankers' Acceptance** | 4.98% | 4.95% |

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The Fund underperformed its benchmark in the month as its lower duration captured less benefit from falling rates (the maximum duration in this strategy is 2 years). The portfolio ended the month with a yield to maturity of 5.23%. Credit and rate duration ended at 0.53 years and 1.08 years, respectively. Nearly three quarters of the rate duration was held in Canada, as we believe Canada remains more economically vulnerable than the US. We made minor adjustments to rate duration in the month amidst the rally in government bonds and added selectively to credit. We continue to await opportunities to rotate into credit tactically or on the back of a more meaningful pullback. The strategy's risk/reward remains compelling, in our view, as elevated short-term rates, a high running yield and low credit sensitivity have the Fund well positioned to take advantage of emerging opportunities. Credit comprised 53.5% of the strategy's investment exposures at the end of May. We retain a balanced credit/rates posture.

Our outlook remains unchanged from the start of the year. We anticipate monetary policy to transition from a sustained hold to initial rate cuts. This shift is likely to be volatile and accompanied by contradictory data that could produce disproportionate market reactions. On the surface, the U.S. backdrop has remained resilient, but ongoing restrictive policies are methodically exerting their intended effects. This could culminate in either a soft or a hard landing. Policy duration will likely determine the outcome. In our view, persistent restrictive measures increase the likelihood for a weaker economic outcome. We remain poised to shift as greater clarity emerges.

In the interim, we continue to build front end yield, looking to decouple from broader credit market sensitivity – particularly as credit is richly priced here. We highlight again our earlier observation that credit fundamentals appear to be at the poorest levels we've seen this cycle.

With respect to rate positioning, we are focused on assertively trading tactical ranges. This is particularly true after initial central bank rate cuts, when longer dated rates can trade in choppy fashion.
Our strategy remains prudently responsive, focusing on short-term credit opportunities and tactical positioning in medium-term bonds, particularly in markets like Canada, which may be more sensitive to restrictive interest rates.

Sources: Marret Asset Management Inc., Bloomberg Finance L.P., May 31, 2024.

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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.

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