Market Commentary
Third Quarter 2018

Marret Asset Management Inc.

Marret Short Duration High Yield Fund

Risk assets in the U.S. continued to perform well in Q3 2018, as U.S. economic growth remained firm despite a continued soft economic global backdrop. Positive developments on the trade front (ex-China), as well as some stability in the U.S. dollar, allowed risk assets to continue their climb higher. High yield credit spreads tightened to post-crisis lows helped by low default rates and rising oil prices. After remaining range-bound for most of the quarter, U.S. treasury yields resumed their rise, after the Federal Reserve continued forward on its rate-hiking path in mid-September, raising rates an additional 25 basis points (bps). Notably, the yield on the 10-year treasury bond decisively broke out and stayed above 3%, after strong indications that the economy was on firm footing. High yield managed to outperform, absorbing much of this rate rise, seeing both lower yields and tighter spreads. Yields in the high-yield spectrum ended the period at approximately 6.2%, while spreads narrowed to approximately 320 bps.

As was the case in Q2 2018, the fund's core short duration bonds performed well in Q3 2018. Short duration and high-yield credit remained strong as U.S. rates widened early in the quarter, notably on positive U.S. GDP numbers. The high yield market recorded its strongest year-to-date monthly performance in July. The fund benefited from short duration credit selection (Reynolds and Bausch Health, notably) but also from the market appetite for health care (Endo International). In commodities, Tapstone Energy and Parkland Fuel were notable contributors. Conversely, exposure to certain metals and mining, and energy names detracted from the fund's performance. The fund underperformed the broader high-yield market in Q3 2018 but importantly, provided relatively stable returns across larger market fluctuations while maintaining a substantially shorter duration profile.

Marret High Yield Bond Fund

The fund benefited from credit selection and total return names' performance, predominantly in the health care sector (notably in pharmaceuticals), and to a lesser extent within the energy sector. The continued market appetite for oversold health care names and stronger oil prices further supported the fund's performance. The largest contributors to the fund's third quarter performance were Endo International, Bausch Health, Teva Pharmaceutical, Tapstone Energy and JBS S.A. Conversely, exposure to certain automotive, energy, and metals and mining names detracted from the fund's performance. Despite some volatility in early October, we continue to believe that a recession is not

imminent, and risk markets may still perform well in the next six to nine months. Volatility is likely to pick up, though perhaps in short, somewhat violent episodes. Our inclination, as before, is to conservatively shift the fund's exposure to sectors and credits that present favourable valuation without adding undue risk and/or duration to the portfolio.

Outlook

Looking forward, we still believe we are in the late stages of the economic cycle. We continue to remain invested but are doing so cautiously. As front-end yields rise, we prefer adding exposure to short-dated credit as yields have become more attractive, yet remain more insulated from higher rates. U.S. growth remains strong and default rates are still low. As a result, we continue to look for selective credit opportunities. At the same time, we are monitoring our indicators closely for any signs of further economic deterioration.

The widening growth differential between the U.S. and the rest of the world is a concern, resulting in continued strength in the U.S. dollar, which is putting additional pressure on emerging market economies. Furthermore, central banks remain on their path of removing excess liquidity, which will eventually have a negative impact on credit spreads. At this time, we are convinced that the most prudent approach is to remain on a slow and steady path of reducing lower-quality credit risk.

Class F Returns (in %) as at September 30, 2018	**Year-to-date**	**1 year**	**3 year**	**5 year**	**Since inception (2/14/2014)**
Marret Short Duration High Yield Fund	2.4	2.6	3.6	N/A	2.7
Marret High Yield Bond Fund	2.7	2.6	5.0	N/A	3.0

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MARRET ASSET MANAGEMENT INC.

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