Market Commentary
Fourth Quarter 2018

Marret Asset Management Inc.

Marret Short Duration High Yield Fund

U.S. risk assets fell sharply in the final quarter of the year, erasing all previous year-to-date gains for most asset classes. Rising interest rates, continuing U.S.-China trade tensions, and weak global economic growth, alongside the commencement of quantitative tightening by the U.S. Federal Reserve Board (Fed), finally tipped markets, resulting in a steep risk sell-off. 2018 managed to be one of the worst years on record with respect to the number of asset classes registering negative returns in U.S. dollar terms. High-yield spreads widened just over 200 basis points (bp) to approximately 530bps, while yields rose to nearly 8%. This marked the steepest rise in spreads since 2016 and resulted in the broad high-yield market index recording a negative 4.67% return for the quarter (unhedged), finishing 2018 with a negative 2.26% return for the year (unhedged).

The fund's core short duration bonds performed well in Q4 18, but the fund still posted negative returns. The fund benefited from short duration credit selection (Reynolds and Teva Pharmaceuticals, notably), but the fund's performance was negatively affected by a turn lower in the market appetite for health care (Endo International, notably). In commodities, Tapstone Energy and Calumet Specialty Products were notable detractors to the fund's performance. Likewise, exposure to certain metals & mining and energy names detracted from the fund's performance. The fund outperformed the broader high-yield market in Q4 18 and, importantly, did so while maintaining a substantially shorter duration profile.

Marret High Yield Bond Fund

The fund delivered negative returns in Q4 18, but outperformed the broad high-yield market. The largest contributors to the fund's fourth quarter performance were: Netflix, Harvest Oil and Gas, Tesla, L Brands, and Reynolds. Conversely, exposure to certain pharmaceuticals, health care, energy, and metals & mining names detracted from the fund's performance. The higher level of volatility observed in 2018 is a reminder of the late stage of this credit cycle and how sensitive the markets are at this juncture to monetary, fiscal, and geopolitical factors. 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. At the same time, we are monitoring our indicators closely for any signs of further economic deterioration.

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MARRET ASSET MANAGEMENT INC.

Outlook

Looking forward, we believe the market has finally come to the realization that we are late in the economic cycle. An improving U.S. economy has allowed the U.S. central bank to continue to raise interest rates successively over the course of the year. Higher rates have started to negatively impact interest-rate-sensitive sectors such as housing and autos, while trade tensions have further stifled global growth. Strong employment, improving wages, and higher consumer confidence have all given the Fed comfort to continue raising rates; however, the market is now beginning to question whether all this tightening in aggregate may eventually be too much. Rising credit spreads have also effectively led to tightening credit conditions.

December marked the first month in nearly a decade that the high yield market was unable to underwrite any new issuance. The Fed, led by Chairman Jerome Powell, has finally taken notice. After initially brushing off the impact of the capital markets decline in an earlier press conference, the Fed undertook an unscheduled interview in late December to soften its stance on future rate hikes and to provide a more dovish tone. This did eventually stabilize the markets, which have subsequently rallied in the first few days of 2019. Nevertheless, we continue to remain cautious and retain our defensive bias for the time being, as we monitor our indicators to assess the impact on the real economy from all recent developments.

Class F Returns (in %) as at December 31, 2018	Year-to-date	1 year	3 year	5 year	Since inception (2/14/2014)
Marret Short Duration High Yield Fund	1.6	1.6	3.1	N/A	2.4
Marret High Yield Bond Fund	-0.3	-0.3	4.5	N/A	2.2

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CI Investments Inc.("CI") is the portfolio manager to the Marret Short Duration High Yield Fund and Marret High Yield Bond Fund and Marret Asset Management Inc. is the portfolio sub-adviser to the fund. CI is responsible for the investment advice provided by the portfolio sub-advisers.

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