CI Digital Roadshow
January 2018

MARRET ASSET MANAGEMENT INC.

Bear bond market? Not so fast…
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- Marret Asset Management is a Toronto-based portfolio management firm that specializes in high-yield and investment-grade corporate debt investments. It manages three funds for CI Investments: CI Investment Grade Bond Fund, Marret High Yield Bond Fund and Marret Short Duration High Yield Fund. The group's investment philosophy is a combination of top-down and bottom-up.

A break in the technical level does not a bear market make

- Investors shouldn't place undue emphasis on recent reports that argue high bond yields signal a significant bear market for bonds (based on a recent break in the 25-year trend line for 10-year yields). Historically, numerous trend lines have been broken over 13, 18 and 32-year periods; however, none of those breaks in technical levels have signaled a significant change in the direction of rates.

- By examining 10-year U.S. Treasuries over 30 years, Marret concludes that rates remain definitively within a similar range or channel (*See chart: Does this look like a bear market?*). At the time of publication, the 10-year Treasury was trading at 2.64%. Treasuries would have to break a level that's equivalent to around 3.05%-3.25% on the 10-year Treasury and maintain that for a full quarter to be technically significant and to signal a change in the secular (long-term) trend in interest rates.

- Any rise in interest rates this year will be shallow based on several critical features: high levels of government debt, modest global economic growth, inflation at or below central bank targets, an abundance of unutilized capacity, continued quantitative easing in the Eurozone, Japan and the U.K., and the fact that the U.S. appears to be normalizing rates as opposed to embarking on a tightening cycle.

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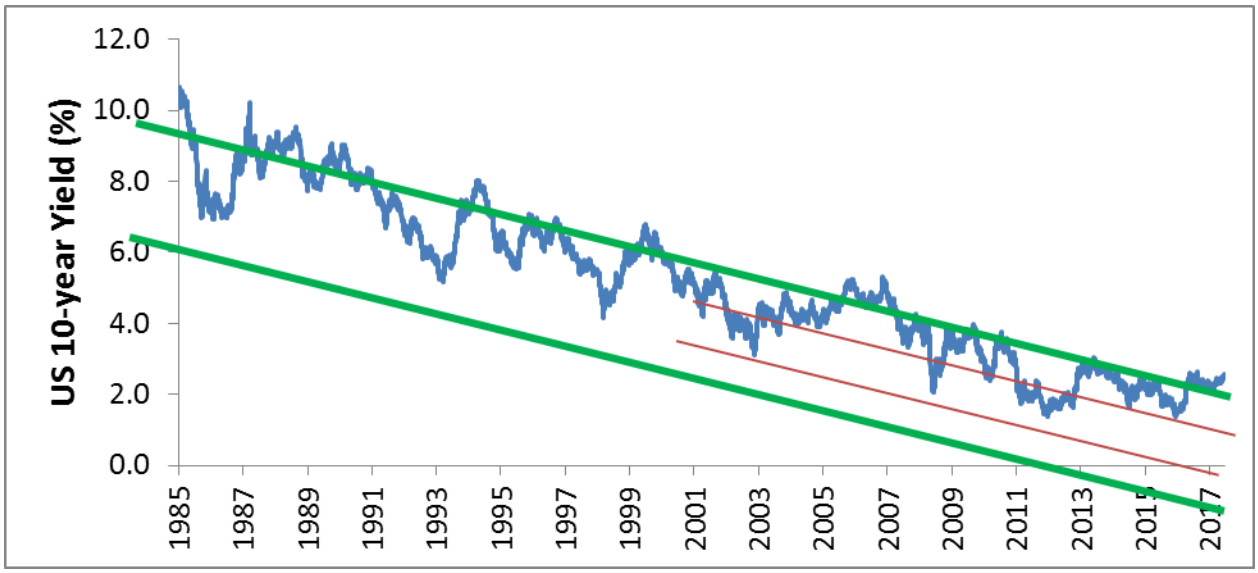
Does this look like a bear market?



Source: Bloomberg. As at January 15, 2018

What we're watching

- There is likely to be some volatility in interest rates this year. Marret is also monitoring inflation in the wake of higher oil prices and higher wages in parts of Canada where the minimum wage was hiked recently, along with tighter labour markets in Canada and the U.S.

- Core inflation (which excludes certain items that face volatile price movements such as food and energy; this measure is commonly used in monetary policy deliberations) is unlikely to see a significant uptick this year. Headline inflation (the raw inflation figure as reported through the Consumer Price Index) may rise slightly based on higher oil prices and may see some one-time effects from U.S. inflation moving out of the index around March and April. This could push up headline inflation but, in Marret's view, is unlikely to have a significant impact on core.

- The other important factor is the ability of the market to absorb the supply of debt. For the first time in many years, U.S. deficit funding is rising, which will likely prompt the U.S. Treasury to increase supply. It remains to be seen whether foreign buyers will continue to buy Treasuries.

- Marret expects less corporate issuance in the wake of substantial corporate bond supply both in the investment-grade and high-yield markets over the last few years. This scenario would leave room in the marketplace to absorb higher government supply, particularly in the U.S. Overall, these supply dynamics will likely create some volatility.

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CI Investment Grade Bond Fund: An overview

- Marret's strategy is focused on providing exposure to a high-quality and diversified portfolio of investment-grade corporate bonds. It can also opt for government bonds and remain in cash when appropriate.
- The fund invests globally, particularly in Canada, the U.S., Europe and the U.K. in the investment-grade corporate market; the strategy doesn't derive any return from currency, which is fully hedged.
- It has three main attributes: (1) **Active**: although Marret is an active manager, it has a systematic, methodical approach to managing duration and credit risk. It manages these risks largely "outside of the portfolio" using tools such as government bond futures to counter interest-rate risk and global credit indexes for credit risk. While this alleviates the need in the first instance to sell an unfavourable holding, Marret is vigilant in closely monitoring every holding and position; (2) It is a **core** investment providing incoming yield, low volatility and negative correlation to risk assets; (3) **Global**: investing globally allows Marret to generate alpha (extra return), particularly when bond yields are low. It does so by taking advantage of different monetary policy regimes and interest rates. It also looks to take advantage of diverse credit cycles, which differ between regions and countries, opting for regions where leverage is falling.