Market Commentary
Fourth Quarter 2016

MARRET ASSET MANAGEMENT INC.

Marret Asset Management

Marret Strategic Yield Fund

Higher yielding names like MEG Energy, Calfrac Well Services, and Intelsat added to performance, while pharmaceutical companies Concordia International and Valeant Pharmaceuticals were a drag. The fund performed well despite having elevated levels of cash during the period because of the elevated valuation of high yield. We continue to view the market as having below average risk-reward characteristics, with both short-term risk and medium-term reward being low, and we plan to maintain our conservative stance. We expect to be more aggressive in our tactical shifts when opportunities present themselves and believe that is the best way to invest in high yield at this time.

The fund remains overweight Canadian equities, largely based on the undervaluation of Canadian shares versus their U.S. peers. We continue to note the improvement in performance of "value" stocks over "growth" stocks, a trend that we expect to continue given high equity valuations in the U.S.

Financial stocks, driven by the increase in 10-year yields following the election of Donald Trump, also added to performance. The financial sector should be beneficiary of reduced regulation, which has been a meaningful headwind for the last several years. Among the names that contributed to performance were Bank of America, Manulife, TD Bank, and Royal Bank. We remain constructive on financial stocks given attractive valuations, strong dividend growth potential, and positive tailwinds from higher net interest margins.

We maintain exposure to attractively valued companies with strong management teams, good growth prospects, high recurring revenues, and sustainable dividends. Our equity positioning remains defensive with a bias towards conservatively managed, dividend-paying companies.

Marret Short Duration High Yield Fund

The fund maintained a lower risk profile during the period because our expectation for higher volatility lead us to prefer having the optionality to invest at more attractive levels as opposed to locking in low returns. Unfortunately, volatility was minimal throughout the period, even with the unexpected results of the U.S. election and the Italian referendum. As a result, we were unable to keep up with the market's grind higher through tactical positioning. We continue to view the market as having below average risk-reward characteristics, with both short-term risk and

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medium-term reward being low, and plan to maintain our conservative stance but more doggedly limit cash drag through investments in short-dated securities.

The largest contributors to performance during the quarter were Intelsat, Hovnanian Enterprises and First Data. Pharmaceutical companies were the main detractors with Valeant Pharmaceuticals and Concordia International leading the way.

Marret High Yield Bond Fund

The fund maintained a lower risk profile during the period because our expectation for higher volatility lead us to prefer having the optionality to invest at more attractive levels as opposed to locking in low returns. Unfortunately, volatility was minimal throughout the period, even with the unexpected results of the U.S. election and having to go through an Italian referendum. As a result, we were unable to keep up with the market's grind higher through tactical positioning. We continue to view the market as having below average risk-reward characteristics, with both short-term risk and medium-term reward being low, and plan to maintain our conservative stance. We expect to be more aggressive in our tactical shifts when opportunities present themselves and minimize our cash drag more doggedly than over the past quarter.

The largest contributors to performance during the quarter were higher yielding names like MEG Energy, Intelsat, and Hovnanian. Pharmaceutical companies were the main detractors with Valeant Pharmaceuticals and Concordia International leading the way.

Outlook

Turning to 2017, markets are entering the new year with considerable optimism, which is not unusual and probably more the norm than 2016 when sellers came in from day one. We see the consensus outlook currently as:

1. Stronger U.S. growth, perhaps as high as 4% real GDP.
2. Higher interest rates, with the Fed predicting three rate hikes.
3. A stronger U.S. dollar as interest rates rise relative to other countries.
4. Higher inflation as higher wages and rebounding oil prices feed through to CPI.

All of this should add up to higher prices for risk assets.

There is solid fundamental support for these four consensus views, but timing is very important and one must recognize that these views are actually contradictory in the long term. If you have stronger economic growth, absolutely and relatively, it is likely you will have higher inflation.

Higher inflation will likely lead to higher interest rates, especially if you also have higher deficits, and higher rates will lead to a stronger currency. These four factors can co-exist in the short term, but higher interest rates and a stronger U.S. dollar will eventually lead to weaker economic growth, lower inflation, and as we have seen in the past two years, lower corporate earnings. So we see this as a question of not what the economy does but what is currently discounted and what are the time lags for these factors to play out.

While we see many more risks than rewards for 2017 and uncertainty at unprecedented levels, we are not building recessionary portfolios. We are closely watching U.S. rates and the U.S. dollar and we see expectations as uncomfortably high. Nevertheless, we believe good risk-adjusted returns are possible this year by maintaining a core portfolio of cash substitutes and taking advantage of periods when valuations become attractive.