

## First-quarter 2019 Commentary

### Marret Short Duration High Yield Fund

After a steep sell-off in risk assets towards the end of 2018, markets rallied sharply through the first quarter of 2019. While trade negotiations between the U.S. and China are yet to be resolved, and thus injecting an element of uncertainty in global growth forecasts, the shift by the U.S. Federal Reserve (the “Fed”) to a more dovish stance during the quarter has been positively received by both credit and equity markets. Given this “risk-on” tone, volatility decreased significantly over the quarter, but its level remains subject to the ongoing development of geopolitical events, particularly U.S. trade policies. The Fed further solidified its dovish stance late in the quarter, thereby driving bond prices even higher and taking risk assets with them. While a dovish stance was expected, the extent of the changes surprised both us and the markets – particularly the Fed’s decision to stop shrinking its holding of U.S. Treasury bonds. This resulted in lower U.S. Treasury yields and further inversion at the front end of the yield curve. High-yield spreads narrowed approximately 130 basis points (bps) quarter-over-quarter, with the yield on the broader market decreasing to approximately 6.39%.

The core short duration bonds held in the portfolio of Marret Short Duration High Yield Fund (the “Fund”) performed well in the quarter, posting positive returns. The Fund benefited from short duration credit selection (notably, Endo International plc and Restaurant Brands International Inc.), but the Fund’s performance was negatively affected by a turn lower in the market’s appetite for certain energy companies (notably, Tapstone Energy, LLC). Likewise, exposure to certain chemical and consumer discretionary companies detracted from the Fund’s performance. The Fund underperformed the broader high-yield market over the quarter primarily due to its more conservative stance. Importantly, the Fund’s duration remains substantially shorter than the its benchmark index, the ICE BofAML 1-5 Year BB Cash Pay High Yield Index.

### Marret High Yield Bond Fund

Marret High Yield Bond Fund (the “Fund”) delivered positive returns in the first quarter of 2019; however, the Fund underperformed the broad high-yield market. The largest contributors to the Fund’s performance during the quarter were Endo International plc, Bausch Health Companies Inc., Teva Pharmaceutical Industries Ltd., Ortho-Clinical Diagnostics and First Quantum Minerals Ltd. Conversely, exposure to certain energy companies detracted from the Fund’s performance for the quarter. Given our view that we are late in the credit cycle, we continue to shift the Fund to a more conservative positioning, and we reduced the Fund’s exposure to risk over the quarter.

Additionally, we continue to monitor our economic indicators closely to assess the impact of all recent developments on the real economy, including the most recent actions by the U.S. Federal Reserve.

## Outlook

The U.S. economy has shown some signs of softening, while the global economy continues to remain fragile. Central banks have acknowledged this weak environment, and they have responded accordingly, providing a far more accommodative policy stance. Global bond yields have once again fallen dramatically, with a reasonably large subset of government bonds now providing negative yields once more. This has led to a resumption of yield-seeking behaviour, creating a snap back in both investment-grade and high-yield bond security prices. The credit rally, however, has been driven by higher-quality securities, thus leaving these valuations extended, and which keeps us cautious given their valuations. The U.S. government yield curve has also inverted at the front end of the curve, which has historically inferred a continuation of weakening growth trends to come. As a result, we continue to remain conservatively positioned. We are, however, keeping a close eye on whether global growth begins to stabilize, and whether the effects of previous Fed policy tightening lead to weakening in the U.S. economy.

Sources used: Marret Asset Management Inc. and Bloomberg L.P.

Class F returns (in %) as at March 31, 2019	Year- to-date	1 year	3 year	5 year	Since inception (2/14/2014)
Marret Short Duration High Yield Fund	2.3	3.5	4.0	2.7	2.7
Marret High Yield Bond Fund	4.8	4.9	6.0	2.9	3.0

Sources: Marret Asset Management Inc. and Bloomberg L.P. Data is as at March 31, 2019.

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