FIRST ASSET
A CI Financial Company

FIRST ASSET GLOBAL FINANCIAL SECTOR ETF
MANAGER COMMENTARY
First Quarter 2017
TSX: FSF

Global financial sector equities continued their recent advance in the first quarter of 2017, although they generally underperformed the overall market. A bit of a breather on a relative basis following fourth quarter's tremendous rally, should be viewed as quite natural. The MSCI ACWI Financial Index TR (the "Benchmark") returned 4.4% during the quarter in local currencies and the First Asset Global Financial Sector ETF (the "Fund") did much better with a 7.68% return in equity holdings; favourable stock selection supported this superior performance. We are happy to point out that the Fund has very significantly outperformed its Benchmark, as well as the largest U.S. listed passive global financial ETF (IXG), since April 18, 2016 (when Signature Global Asset Management commenced management of the ETF) with a return of 36.7% in Canadian dollars.

U.S. financials represent 37% of the Benchmark and averaged 52% of the Fund's equity positions during the quarter. The performance of U.S. component of the Benchmark was 2.6%, lagging the overall Benchmark average. A material overweight position in the U.S. did not hurt relative performance despite the region's underperformance, as positive security selection added sufficient value. Stock selection in the U.S. market was favourable as owned positions generated a return of close to 5.5% in the quarter. We continue to view the U.S. financial sector as offering very compelling opportunities in select companies. Broadly, positive returns in U.S. financials will be somewhat dependent on successful corporate tax reductions in the U.S. market.

The U.S. election results have significantly changed global sentiment in regards to growth, deflation risks, regulatory burdens, rate structures and U.S. tax rates. In recent years, we have viewed U.S. banks as offering extremely attractive long term valuations in an appalling operating environment. From November through February, the sector has somewhat transitioned from value to momentum as an improving operating environment is envisioned. In very recent weeks, that momentum has stalled as confidence in U.S. tax cuts and velocity of likely rate increases has waned. We continue to view a cut in U.S. corporate tax rates as a likely scenario which will support a vibrant U.S. economy and a modestly higher interest rate environment. We find ourselves much less excited about valuations and more encouraged by the operating environment. This suggests that the big outsized stock price moves are behind us, however, more consistent growth and improved capital generation which supports dividend growth is coming. We are confident that U.S. banking is becoming a better business which will benefit shareholders despite the somewhat more demanding valuations.

Synchrony Financial represented one of the Fund's largest holdings at quarter end. This consumer finance company was previously owned by GE Capital. Currently we view the credit card business as one of the best businesses within financial services as it remains resilient in a low rate environment and is a relatively more concentrated market. Synchrony is a leader in private label credit cards; margins in this business are less affected by competition compared to bank issued cards. Synchrony declined 5% during the quarter and, in our opinion, it remains extremely undervalued given superior growth rates and strong capital position.

The Wells Fargo exposure, which remains controversial, returned 4% this quarter. Our position in Wells Fargo warrants remains a favourite position. The company's shares suffered in Q3, 2016 as a result of significant reputational damage following recognition of extremely inappropriate, perhaps fraudulent, sales activity. The bank has historically been awarded a premium valuation based on a favourable business mix, above average returns, relatively consistent earnings progression and Warren Buffett's support. This alarming development resulted in the stock trading at a relative valuation discount to peers, which is an extremely rare occurrence. While the stock has rallied strongly with other U.S. financials, we continue to view the position as extremely compelling.

European & UK financials represent 23.5% of the Benchmark and Fund exposure was 29% during the quarter. Benchmark performance of European financials was approximately 5.5% with the strongest gains in Spain at 17%. Spanish and Italian banks have tremendous upside leverage to higher short term interest rates, and an improving outlook on that front has supported strong price appreciation of more than 20% during the quarter in names including UBI Banca of Italy, Sabadell of Spain, Caxiabank of Spain and Banco BPM of Italy. Greece, Russia and Hungary were the only markets that experienced negative returns in the quarter.
The Fund's positions within Europe outperformed the Benchmark returns in that region with average local currency returns exceeding 9%. Many European banks have rallied more than 50% over the past nine months, therefore further upside is likely to be much more moderate.

Banco BPM represented the Fund's top European gainer during the quarter with a 21% return. This bank is a result of a recent merger that has created Italy's third largest bank. The bank has a relatively attractive regional footprint in the country and has taken action to strengthen capital and non-performing loan coverage ratios. This bank remains in a very challenging situation with extremely high non-performing loans and we think all of 2017 pre-provision earnings should be used to increase coverage ratios. However, with our entry price of approximately 30% of tangible book value we viewed the company's challenges as adequately priced in.

BNP Paribas stock was relatively weak in February on French election concerns. We viewed the discounted risks as relatively excessive and acted on the opportunity to build the position. As a result of this action and BNP's strengthening share price toward quarter end, BNP represented a top contributor to performance in the quarter, benefiting the Fund by 57 basis points. We did trim the position back a bit in March despite our relatively relaxed view on French elections.

Canadian financials represent 6.7% of the Benchmark and 2.15% of the Fund's average equity positions during the quarter. Benchmark performance of Canadian financials was 3.5% during the quarter. Canadian financials performance during the quarter was led by banks as life insurance companies gave up some of their 4th quarter outperformance.

Canadian holdings in the Fund outperformed the regional return. We recognize that Canadian banks are amongst the most resilient banking franchises globally, however, we remain somewhat concerned with the relatively poor financial shape of Canadian households and housing affordability.

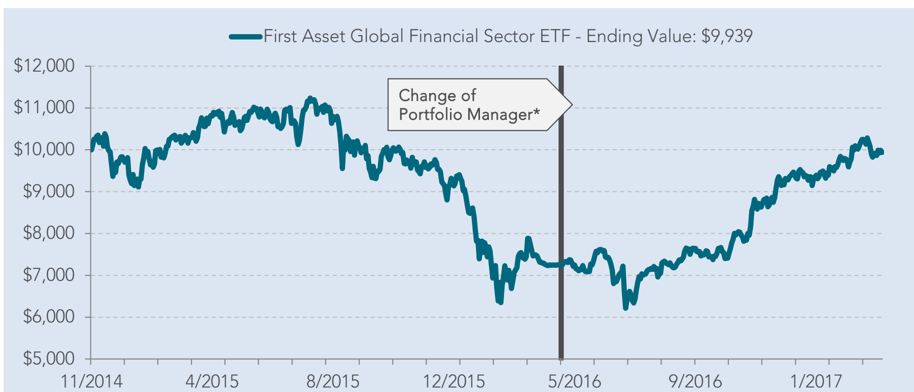
Asia, including Japan and Australia represent approximately 28% of the Benchmark and average exposure during the quarter was just above 12% of equity positions in the Fund. Japan financials declined 2% in the quarter. India was the strongest regional market with a 19% local currency return. The overall region combined for an estimated 5.6% return and we managed a return closer to 9% within our regional investments with slight overweight exposures in India and Indonesia contributing nicely. A large underweight in this region can be expected moving forward as we find many Hong Kong and Japanese financials do not adequately prioritize shareholder interests in managing their businesses. We tend to favour India, Indonesia and select opportunities within Australia within the region.

Latin American financials represent 3% of Benchmark and 3.5% of the Fund's equity positions during the quarter. Benchmark performance of Latin American financials was positive as Brazil financials returned 11% in the quarter. The Fund's positioning in Peruvian financials underperformed with approximately a break-even performance. The Fund is overweight in Peru and underweight in the rest of Latin America.

Currency Hedging: We did not feel compelled to become active in currency hedging during the quarter. We view some modest weakening of the Canadian dollar as a high probability.

We remain constructive on the global financial sector as risk premiums remain attractive relative to the market. The financial system is healthy, despite low interest rate earnings headwinds and while peripheral Europe remains fragile, the region is making gradual progress in repairing balance sheets. Following a decade of significant underperformance, global financials outperformance may take some time to get used to. U.S. financials are especially well positioned to benefit from lower U.S. corporate tax rates and relaxed regulation. In addition, financials are likely the only sector that will benefit from gradually rising interest rates. We encourage sector investors to acknowledge our demonstrated ability to add value in the sector and consider the Fund as a serious contributor to portfolio objectives.

Fund Performance



Source: First Asset

The rate of return chart shown is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the Fund or returns on investment in the Fund.

	1 Month	3 Month	6 Month	YTD	1 Year	2 Year	SI
First Asset Global Financial Sector ETF	1.56%	6.82%	33.19%	6.82%	36.88%	-3.28%	-0.26%
MSCI ACWI Financial Index TR CAD	0.93%	5.01%	20.35%	5.01%	29.48%	8.82%	13.15%
iShares Global Financials ETF CAD (IXG)	0.78%	4.54%	21.89%	4.54%	29.95%	8.775	13.00%

Source: Morningstar Direct as at March 31, 2017 Inception date: Nov 21, 2014[1]

The Fund was originally launched as a TSX-listed closed-end fund on November 21, 2014, and converted into an exchange traded fund on April 25, 2016. Performance shown is since inception of the closed-end fund. In connection with the conversion, and pursuant to unitholder approval, the annual management fee payable by the Fund to First Asset, as manager, was reduced to 0.85% (from 1.00%) of the NAV per unit and certain changes were made to the investment objectives, strategies and restrictions applicable to the Fund. Material among these changes is the ability of the Fund to invest in securities of global financial issuers; thereby broadening the scope of eligible investments both geographically and by type of financial institutions.

On April 18, 2016, Signature Global Asset Management, a division of CI Investments Inc., commenced investment advisory and portfolio management services for the Fund. Had these changes been in effect prior to this date the performance of the Fund could have been different.

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Signature Global Asset Management

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Signature Global Asset Management

Signature Global Asset Management manages a diverse range of equity, balanced and income funds, and is CI Investments' largest in-house portfolio management group. The team of over 40 investment professionals, led by Chief Investment Officer Eric Bushell, manages over $55 billion and has offices in Toronto and Hong Kong.

Investment Philosophy

The Signature investment philosophy is designed to deliver the best possible risk-adjusted returns in today's complex environment and is based on these key elements:

- The globalization of the world economy has resulted in increased complexity, requiring specialized knowledge.
- The increased interconnectivity of the global economy demands collaboration.

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First Asset - **Smart Solutions™**

First Asset, a CI Financial Company, is a Canadian investment firm delivering a comprehensive suite of smart ETF solutions. Rooted in strong fundamentals, First Asset's smart solutions strive to deliver better risk-adjusted returns than the broad market while helping investors achieve their personal financial goals.