FIRST ASSET
EXCHANGE TRADED FUNDS
A CI Financial Company

FIRST ASSET INVESTMENT GRADE BOND ETF
MANAGER COMMENTARY
JUNE 16, 2017
TSX: FIG

For the week ending June 16, 2017.

Government bond yields in North America took divergent paths this week despite hawkish comments and policy pronouncements from both central banks. On Monday, a speech from Deputy Bank of Canada Governor Wilkins, which suggested that it might be appropriate for the Bank of Canada to start slowly putting on the brakes in terms of monetary policy (relative to a quick stop) startled a market which had become overly complacent with a dovish positioning. Over the week, ten year Canada government bonds moved 10 basis points higher in yield as a result. In our view, Wednesday's Federal Open Market Committee monetary policy statement also had a hawkish tilt. The Federal Reserve System (the "Fed") expected continued economic expansion, outlined the methodology to reduce the balance sheet (likely later this year) and the dot plot projected another rate hike this year which is currently not being priced in by the market. However, the fall in oil prices over the past week, declining inflation expectations, further weakness in economic data and the Fed's own reduction of its Consumer Price Index forecast allowed the back end of the U.S. Treasury curve to rally. U.S. Government ten year bond yields closed 5 basis points lower on the week. It is important to note that overseas buying, (particularly of the long end of the yield curve) is also currently having a significant impact on U.S. Treasury yields.

Investment grade corporate credit spreads in the cash market are marginally tighter, selectively, this week. The energy sector across all markets is the exception, as continued weakness in oil took spreads 2-8 basis points wider. In Canada, the REIT sector remains well offered as increased on-line shopping increases the vulnerability of bricks and mortar retail, and credit specific news on Cominar (potential ratings downgrade) and Granite (activism) act as headwinds.

- BMW Canada $500mm 1.88% 12/11/2020 +86.2 bps
- Canadian Western Bank $350mm 2.737% 06/16/2022 +157.4 bps
- Laurentian Bank $350mm 4.25% 06/22/2027 +308.6 bps
- Ford Credit Canada $600mm 2.766% 06/22/2022 +158.7 bps
- PSP Capital $1.75bn 1.73% 06/21/2022 +56.5 bps

The First Asset Investment Grade Bond ETF (the "Fund") did not participate in any of these new issues.

Portfolio Transactions

Given that the Fund's portfolio duration broadly remained about 0.75 years below that of the benchmark and approximately 64% of the portfolio is exposed to Canadian interest rates, the Fund was positioned more optimally from the pullback in Canadian bond yields this week. Additionally, the fall in U.S. Treasury yields acted as an offset in terms of portfolio performance.

On three occasions, intra-week, Fund duration was increased using U.S. Treasury 30 year futures. Each of these trades was unwound at a profit.

On Thursday afternoon, we utilized incoming cash to purchase 2 and 30 year Government of Canada bonds. This allowed us to maintain duration and to add Canadian exposure near the highs in yield on the week.

There were no changes to the Fund's core credit positions or hedges.

MARRET ASSET MANAGEMENT INC.

Paul Sandhu
Vice-President and Portfolio Manager
Marret Asset Management Inc.

Paul Sandhu has 29 years of domestic and international fixed income experience. Prior to joining Marret, Paul was responsible for the global distribution of Canadian fixed income and money market products at BMO Capital Markets. Through offices in Toronto, Montreal, Vancouver, New York, London and Hong Kong, Paul was directly responsible for advising the world's largest fixed income asset managers on portfolio strategy, asset mix, security selection and alpha/beta generation.

Paul's career also includes positions with Goldman Sachs and Citibank in Europe, the United States and Canada.

Paul holds a B.A. (Economics and Political Science) from the University of British Columbia and a Masters in Public Administration from the University of Victoria.

[1]Month-end index extension refers to the rebalancing of large portfolios that track Fixed Income indices in order to match the duration of the portfolio to that of the index based on end of the month numbers. If the duration of the index extended (increased) over the course of the month, portfolio managers must add duration to their portfolios.

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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.