FIRST ASSET
EXCHANGE TRADED FUNDS
A CI Financial Company

FIRST ASSET INVESTMENT GRADE BOND ETF
MANAGER COMMENTARY
DECEMBER 8, 2017
TSX: FIG

Income Generation

For the week ending December 8, 2017.

My apologies for not writing commentary the last two weeks. I was called away on an urgent family matter. Despite my absence from the office, I was fully engaged and trading markets, as was the rest of the team. There is never a time when I do not have my Bloomberg with me and as a team, we are following markets and making portfolio adjustments accordingly.

In a nutshell, both interest rate and risk markets have range-traded over the last two weeks. Government bond yields in Canada and Germany have drifted lower while those in the U.S. and the UK are higher. UK Government Bonds have been the underperformer, rising 6 basis points due to Brexit risks. Ten year Government bond yields in Canada, Germany and the U.S. are -2, -5 and +4 basis points, respectively over the period. Investment grade corporate bond spreads across all markets have been better bid with spreads 1-3 basis points tighter. The Media and Pharma sectors remain the exceptions to this tightening, as M&A deals and headlines remain a dominate theme.

Duration of the First Asset Investment Grade Bond ETF (the "Fund") has remained approximately 0.25 to 0.50 years below that of the benchmark. Benchmark duration is 6.4 years. From this short duration positioning, we have maintained a bias to actively trade interest rate momentum within the current range environment. About a dozen intra-day/intra-week duration trades were executed using U.S. Treasury futures and cash, as well as Canadian Government bond futures and cash.

In credit, we have been biased to add Canadian dollar risk to the Fund, as the Canadian corporate market is technically in better shape, new issues are still coming at a bit of a concession and the monetary policy bias in Canada is more favorable. New issue positions in Fairfax Financial 2027, Metro Inc. 2022/2027/2047 and Penske 2022 in Canadian dollars have all been added to the Fund's core portfolio.

In secondary trade, the Fund's 1.2% exposure to mortgage lender and servicer, First National Financial, was positively impacted by the successful completion of a new debt issue by its competitor MCAP. The First National 2020 bonds tightened 10 basis points.

Investment grade corporate new issue activity in Canada this week can be summarized as follows:

- Hospital for Sick Children $300mm 3.416% 12/07/2057 +118 bps.
- Penske Truck Leasing $375mm 2.85% 12/07/2022 +111.5 bps.
- IGM Financial $250mm 4.115% 12/09/2047 +190 bps. - MCAP $200mm 5.0% 12/14/2022 +333.2 bps.

As noted above, the Fund participated in the Penske new issue.

Portfolio Transactions

All of the changes to the Fund during the past two weeks have been noted above.

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 (877) 642-1289 | www.firstasset.com | info@firstasset.com

FIRST ASSET

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.

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