

For the week ending March 2, 2018.

There was continued divergence across Government bond market performance this week. A lack of supply, weak economic numbers and the potential for trade friction with the U.S., allowed Canadian Government bond yields to decline 5 basis points in the ten-year sector. In the U.S., ten-year U.S. Treasury yields were 2 basis points lower while those in the UK and Germany were down 5 basis points and unchanged, respectively. UK Government bond yields improved on the back of rising political risks (Brexit) and weakness in the retail and housing sectors.

U.S. Government bonds, did rally following the volatility in equities, which occurred due to trade restrictions that were implemented on imports of steel and aluminum by President Trump. Ten-year U.S. Treasury yields declined briefly to 2.79%. However, the bias to sell strength, as we have seen consistently this year, combined with expectations that the \$40bn financing for the CVS Health/Aetna acquisition will come next week, weighed on the rally.

As we noted last week, the First Asset Investment Grade Bond ETF's (the "Fund") performance, for the short term, is trailing that of Canadian-centric funds, as the Fund has about a 20% exposure to U.S. dollar denominated securities. The Fund had further underperformance this week, given the differential in both interest rates and credit spreads between the Canadian and U.S. markets. In order to mitigate some of this underperformance, we instituted six duration adjustment trades using 10-and 30-year U.S. Treasury futures contracts and 30-year U.S. Treasury cash bonds. Each of these trades was unwound at profit, realizing some interest rate alpha for Fund.

It was a difficult week for investment grade corporate credit spreads as equity markets globally corrected recent strength. The U.S. Investment Grade Credit Default Index (CDX) widened 2 basis points. Cash credit spreads, however, were considerably weaker, particularly in the U.S. market. Cash investment grade credit spreads in the U.S. were 4-9 basis points wider. Although the weakness in equities contributed to the poor tone, the expected supply from the CVS/Aetna financing noted above, continued selling of short-term corporate bonds from companies repatriating cash and lessening foreign demand, are all weighing on the market. Cash credit spreads in the Canadian and European markets were 2-5 basis points wider.

There was a pick-up in activity in the Canadian investment grade corporate new issue market this week. The following is a summary of the deals:

- Great-West Lifeco \$500mm 3.337% 02/28/2028 +108.7 bps.
- Telus Corp \$600mm 3.625% 03/01/2028 +149.7 bps.
- Telus Corp \$475mm 4.7% 03/06/2048 +235 bps.
- Bank of Montreal \$1.25bn 3.19% 03/01/2028 +91.7 bps.
- Bruce Power \$600mm 3.969% 06/23/2026 +130.0 bps
- Bruce Power \$550mm 4.132% 06/21/2033 + 174.1 bps.
- Heathrow Airport \$400mm 3.4% 03/08/2028 +116,9 bps
- SNC Lavalin \$200mm 3.235% 03/02/2023 +118.0 bps

The Fund participated in the Great-West Life and Heathrow Airport transactions.

Portfolio Transactions

The new issue Great-West Life and Heathrow Airport deals were added to the Fund's core credit holdings. These were purchased with existing cash.



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.

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First Asset - Smart Solutions™

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