FIRST ASSET
EXCHANGE TRADED FUNDS
A CI Financial Company

FIRST ASSET INVESTMENT GRADE BOND ETF
MANAGER COMMENTARY
MAY 19, 2017
TSX: FIG

For the week ending May 19, 2017.

Political turmoil in Washington and Brazil equaled "risk-off" leading to a somewhat unexpected rally in Government bond yields this week. Ten year Government bond yields in the U.S., intra-day, declined to 2.20% briefly before closing at 2.23%, 9 basis points lower on the week. In Canada, ten year Government bond yields also declined 9 basis points as Canada not only benefitted from the "risk-off" sentiment, but also from today's weaker than expected CPI and retail sales numbers.

Although gasoline prices rose in the month of April, strong declines in the price of autos and clothing drove headline and core inflation in Canada lower by 0.2% and 0.1% respectively versus the consensus estimates on a year-over-year basis. Headline inflation in Canada on a year-over-year basis printed at a modest 1.6%. This is definitely dovish in terms of Bank of Canada monetary policy. The retail sales figures were also below consensus estimates but a closer look reveals they were not as weak as they might appear at first glance. For one, the data from the two previous months was revised higher and two, on a volume basis, sales were actually higher month-over-month. It appears that heavy discounting played a role in the numbers looking weaker than expected. From the prospective of Gross Domestic Product, the retail sales numbers should still be slightly additive.

The politically induced "risk-off" tone was not productive for investment grade credit spreads. Recall that in Canada, credit spreads were already negatively impacted last week by the Moody's decision to downgrade the credit ratings of the six largest Canadian banks. That widened spreads at least five basis points and we were 5-7 basis points wider this week. Some of the recent outperformance of Canadian credit was certainly given back as a result. Investment grade credit spreads in the U.S. initially widened 5 basis points but about half of those losses were recovered as equity prices stabilized. On the week, we would call European cash investment grade credit 5 basis points wider despite the fact that the European Credit Default Index ("MAIN") was virtually unchanged on the week. The quick recovery in U.S. spreads and the European index demonstrates the continued strong technical bid that investment grade credit has on any modest deterioration in spreads.

It was an interesting week in the Canadian investment grade corporate new issue market. The market was greeted by two maple issues, with one of these issuers (UPS) being new to the market, and also a corporate hybrid security for Transcanada Pipeline. The details of this week's issues are as follows:

- United Parcel Service $750mm 2.125% 05/21/2024 +86.7 bps
- Transcanada Pipeline $1.25bn 4.65% 05/18/2077 +293.3bps (callable 2027, junior subordinated)
- Northwest Redwater $750mm 2.80% 06/01/2027 +125bps
- Northwest Redwater $750mm 3.65% 06/01/2035 +163bps
- Daimler Canada $400mm 1.57% 05/25/2020 +79.8bps
- AT&T $600mm 2.85% 05/25/2024 +170 bps
- AT&T $750mm 4.85% 05/25/2047 +280.2 bps

The First Asset Investment Grade Bond ETF (the "Fund") participated in the new issues from UPS and Transcanada. The UPS deal was priced prior to the mid-week sell-off in stocks but has maintained its new issue spread. The Transcanada deal was met with excessive demand and was also unexpectedly included in the Canadian bond index and as a result has trade $2 higher in price.

Portfolio Transactions

In secondary market trade, we continued to reduce our position in Aimia 2019 and have cut this position by over 50% since the company's earnings report on May 11. Our remaining position represents about 0.5% of the Fund.

Fund portfolio duration was adjusted on three occasions intra-week using 30 year U.S. Treasury futures. Each of these adjustments was unwound at a profit.

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.