

# 2016 Semi-Annual Management Report of Fund Performance

for the period ended June 30, 2016



## Marret Investment Grade Bond Fund

This semi-annual management report of fund performance contains financial highlights but does not contain the complete semi-annual or annual financial statements of the investment trust. You can get a copy of the semi-annual or annual financial statements at your request, and at no cost, by calling 416-214-5800, by writing to us at Marret Asset Management Inc., 2 Queen Street East, Twelfth Floor, Toronto, Ontario M5C 3G7 or by visiting our website at [www.marret.com](http://www.marret.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the investment trust's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

# Marret Investment Grade Bond Fund

*Management Report of Fund Performance for the period ended June 30, 2016*

---

## RESULTS OF OPERATIONS

The Fund's net assets decreased by \$35.3 million to \$89.3 million from December 31, 2015 to June 30, 2016. The Fund had net redemptions of \$36.5 million for the period. The Fund paid distributions totalling \$2.9 million while the portfolio's performance increased assets by \$4.1 million. The Fund's six-month return was 3.5%, compared to the returns of the benchmark of 4.7%. The benchmark is the FTSE/TMX Canada Mid-Term Corporate Bond Total Return Index.

In a nutshell, the period can be best described as one in which Government bond yields globally declined unexpectedly and corporate credit spreads exhibited significant volatility.

Ten year Government bond yields in the U.S., Canada and Germany declined by 80, 46 and 63 basis points respectively. Both economic fundamentals and market technicals contributed to this rally in yields. From a fundamental perspective, economic growth, particularly in the first quarter, disappointed to the downside. Additionally, inflationary pressures remained muted and regional political risks continued to be elevated. This prompted the Federal Reserve in the U.S. to refrain from increasing interest rates and led to the ECB and Bank of Japan expanding their quantitative easing programs. Technically, negative yields in Government bond markets in Europe and Japan incited investors to seek higher yields in alternative markets such as the U.S., Canada, UK and Australia.

As noted above, there were several bouts of turbulence in the credit markets during the period. The sell-off at the outset of New Year on a weak macro-economic backdrop and the post-Brexit referendum panic were the most notable. However, corporate credit proved resilient with central bank inaction (the FED) and action (the ECB) calming markets on the initial set back and bargaining hunting for yield counteracting the post-Brexit widening in spreads which was short-lived. In aggregate, investment grade corporate bond spreads ended the period moderately tighter. The tightening in credit spreads in the U.S. market was highly sector sensitive with energy, mining and metals showing the most improvement and financials lagging the overall move. In Canada, conversely, energy and financials were the best performing sectors while real estate and retail lagged.

The Fund derives its return from the movement in Government bond yields and credit spreads. The significant decline in Government bond yields and the simultaneous tightening in credit spreads during the period was beneficial for performance. For the period, the Fund returned 3.5% this compares to 4.7% for our benchmark, the FTSE/TMX Canada Mid-Term Corporate Bond Total Return Index. Two factors largely explain the Fund's relative performance to that of the index. First, the Fund maintained an average duration below that of the index. As a result, the Fund benefitted less than the benchmark from the decline in Government bond yields. Second, the composition of the Fund's credit exposure differs substantially from that of the index. The Fund's credit positioning is more concentrated, higher in beta and more illiquid. This is purposeful on our part as, since inception, the Fund's goal has been to ensure that it could comfortably make the monthly distribution while keeping the NAV stable. The performance objective is not necessarily to track or outperform the benchmark. The composition of the portfolio is designed to have a running yield consistent with the distribution and the expected performance of the asset class.

## RECENT DEVELOPMENTS

Even after the continued rally in yields in the first half of 2016, we believe that Government bond yields have further downside potential. Weak economic growth and low inflation provide the key basis for this view. However, the importance of continued central bank balance sheet expansion (ECB and BOJ) which is causing interest rates to turn negative in these regions cannot be discounted as a force driving interest rates in North America lower. We project that ten year Government bond yields in the U.S. and Canada will trade in a 1.20% - 1.70% and 0.80% - 1.30% range respectively. We would expect to add duration should rates back-up toward the higher end of these ranges.

Investment grade credit spreads have had a strong technical underpinning from significant foreign buying of North American credit. The hunger for yield is likely to continue to support this buying. However, this "relative yield" based buying is widening the gap between credit fundamentals and historic market valuations. In other words, investment grade corporate credit spreads are looking overvalued. In our view, this is cause for concern as the underlying risk is increasing while the appropriate compensation is declining. It resembles, in some ways, the behavior exhibited by investors during the tech bubble era and the pre-great recession period in 2006. Accordingly, we are biased to increase the credit quality of our portfolio or reduced credit exposure outright on further tightening of credit spreads. The U.S. investment grade corporate credit default index (CDX) closed at 77 basis points at the end of the quarter. A narrowing of CDX to 65 basis points would prompt us to significantly reduce credit exposure.

On or about August 22, 2016, the Fund will convert into an exchange traded fund.

In connection with the ETF Conversion:

The Fund's name will change to "First Asset Investment Grade Bond ETF" and its ticker symbol will change to FIG.

The Fund will modify its investment objectives, strategies and restrictions, fee structure and make certain other organizational changes in connection with the ETF Conversion.

# Marret Investment Grade Bond Fund

*Management Report of Fund Performance for the period ended June 30, 2016*

---

Marret Asset Management Inc. will continue to provide portfolio management services to the Fund. First Asset Investment Management Inc., will assume responsibility for the day-to-day administration and management of the Fund.

## RELATED PARTY TRANSACTIONS

### **Manager**

Marret Asset Management Inc. is the Manager of the Fund and in consideration of management fees of \$0.3 million, provided management services required in the day-to-day operations of the Fund for the period.

### **Management Fees**

100% of the management fees received for the period were used to pay for investment management and other general administration.

### **Independent Review Committee**

The Fund received standing instructions from the Independent Review Committee ("IRC") with respect to the following Related Party Transactions: trades in securities of CI Financial Corp. and Marret Resource Corp.

The applicable standing instructions require that Related Party Transactions be conducted in accordance with the Manager's policies and procedures. The Manager is required to advise the IRC of any material breach of a condition of the standing instructions. The standing instructions require, among other things, that the investment decision in respect to Related Party Transactions (a) are made by the Manager free from any influence by any entities related to the Manager and without taking into account any consideration to any affiliate of the Manager; (b) represent the business judgment of the Manager uninfluenced by considerations other than the best interests of the Fund; and (c) are made in compliance with the Manager's policies and procedures. Transactions made by the Manager under the standing instructions are subsequently reviewed by the IRC on a quarterly basis to monitor compliance.

The Fund relied on the IRC's standing instructions regarding Related Party Transactions during this reporting period.

# Marret Investment Grade Bond Fund

Management Report of Fund Performance for the period ended June 30, 2016

## FINANCIAL HIGHLIGHTS

The following table shows selected key financial information about the Fund and is intended to help you understand the Fund's financial performance for the past six periods, as applicable.

### NET ASSETS PER UNIT <sup>(1,2,8)</sup>

Class A	Six Months Ended	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended
	Jun. 30, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012 <sup>A</sup>	Dec. 31, 2011 <sup>A</sup>
Commencement of operations October 23, 2009	\$	\$	\$	\$	\$	\$
Net assets at the beginning of period <sup>(1)</sup>	11.02	11.53	11.51	12.17	11.56	12.04
<b>Increase (decrease) from operations:</b>						
Total revenue	0.33	0.55	0.08	-	-	-
Total expenses (excluding distributions)	(0.06)	(0.11)	(0.10)	(0.05)	(0.05)	(0.05)
Realized gains (losses) for the period	0.08	(0.27)	3.01	0.89	0.23	0.08
Unrealized gains (losses) for the period	0.03	(0.14)	(2.35)	(0.91)	1.04	0.09
Total increase (decrease) from operations <sup>(2)</sup>	0.38	0.03	0.64	(0.07)	1.22	0.12
<b>Distributions:</b>						
From net investment income (excluding dividends)	-	(0.35)	-	-	-	-
From dividends	-	-	-	-	-	-
From capital gains	-	-	(1.45)	-	-	-
Return of capital	(0.27)	(0.19)	(0.59)	(0.60)	(0.60)	(0.60)
Total distributions <sup>(2),(3)</sup>	(0.27)	(0.54)	(2.04)	(0.60)	(0.60)	(0.60)
Net assets at the end of the period shown <sup>(2)</sup>	11.13	11.02	11.53	11.51	12.17	11.56
<b>Ratios and Supplemental Data</b>						
Total net assets (\$) <sup>(8)</sup>	89,256,118	124,575,949	130,347,855	208,067,445	329,180,223	301,534,396
Number of units outstanding <sup>(8)</sup>	8,016,797	11,305,399	11,305,399	18,081,181	27,038,394	26,079,735
Portfolio turnover rate (%) <sup>(5)</sup>	17.50	156.62	67.40	-	8.82	-
Trading expense ratio (%) <sup>(6)</sup>	-	-	-	-	-	-
Management expense ratio after taxes (%) <sup>(4)</sup>	1.08	0.98	0.84	1.58	1.51	1.46
Closing market price (\$)	11.15	10.70	11.33	11.40	12.11	11.92

<sup>A</sup>Historical figures are based on Canadian GAAP, for more details refer to footnote 7.

(1) This information is derived from the Fund's semi-annual and annual financial statements.

(2) Net assets per unit and distributions per unit are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations per unit is based on the weighted average number of units outstanding over the fiscal period.

(3) Distributions to unitholders are based on the number of units outstanding on the record date for each distribution and were paid in cash.

(4) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) of the Fund for June 30, 2016 and December 31, 2015 and of the Fund and Marret HYS Trust for the prior periods, including interest expense and issuance costs, and is expressed as an annualized percentage of daily average Net Asset Value of the period.

(5) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher the Fund's portfolio turnover rate in a period, the greater the trading costs payable by the Fund in the period. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short-term investments maturing in less than one year, by the average market value of investments during the period.

(6) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value of the Fund during the period.

(7) For financial periods beginning on or after January 1, 2013 the financial highlights are derived from the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS allows net assets to be calculated based on the last traded market price for financial assets and financial liabilities where the last traded price falls within the day's bid-ask spread. There are no differences between the net assets calculated for purpose of processing unitholders transactions and the net assets attributable to holders of redeemable units used for financial statement reporting purposes. For financial years before January 1, 2013, the financial highlights are derived from the financial statements prepared in accordance with Canadian GAAP. Under Canadian GAAP net assets for financial statement purposes were calculated based on bid/ask price while for purpose of processing unitholder transactions net assets were calculated based on the closing market price.

(8) This information is provided for the period ended June 30, 2016 and the years ended December 31.

# Marret Investment Grade Bond Fund

Management Report of Fund Performance for the period ended June 30, 2016

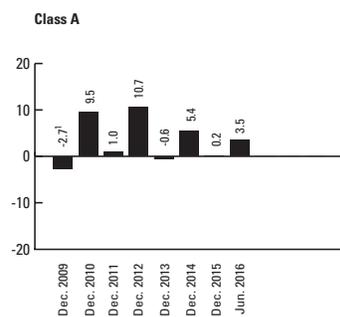
---

## PAST PERFORMANCE

This section describes how the Fund has performed in the past. Remember, past returns do not indicate how the Fund will perform in the future. The information shown assumes that distributions made by the Fund in the periods shown were reinvested in additional units of the Fund. In addition, the information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance.

### Year-by-Year Returns

The following chart shows the Fund's semi-annual and annual performance for each of the periods shown, and illustrates how the Fund's performance has changed from period to period. In percentage terms, the chart shows how much an investment made on the first day of each financial period would have grown or decreased by the last day of each financial period, except where noted.



<sup>1</sup>This figure is for the period from October 23, 2009 to December 31, 2009.

# Marret Investment Grade Bond Fund

Management Report of Fund Performance for the period ended June 30, 2016

## SUMMARY OF INVESTMENT PORTFOLIO as at June 30, 2016

Portfolio Breakdown		Top 25 Holdings		Top 25 Holdings (cont'd)	
Category	Percentage of Net Assets (%)	Security Name	Percentage of Net Assets (%)	Security Name	Percentage of Net Assets (%)
<b>Country allocation</b>		Viterra Inc., Callable,		Husky Energy Inc., Callable,	
<b>Long Positions:</b>		5.950%, 2020/08/01 (USD)	6.7	5.000%, 2020/03/12	3.7
Canada	103.1	Canadian Pacific Railway Co., Callable,		Algonquin Power Co., Restricted,	
Other Assets, Less Liabilities	7.7	6.450%, 2039/11/17	5.9	4.820%, 2021/02/15	3.6
International	7.6	Aimia Inc., Callable, 5.600%, 2019/05/17	5.7	Sydney Airport Finance Co. Pty Ltd.,	
U.S.	6.8	First National Financial Corp., Callable,		Callable, 4.602%, 2018/07/27	3.5
Foreign Currency Forward Contracts	-	4.010%, 2020/04/09	5.7	Alimentation Couche-Tard Inc.,	
Credit Default Swaps Contracts	(0.3)	EnerCare Solutions Inc., Callable, 4.600%,		3.319%, 2019/11/01	3.5
Cash and Cash Equivalents	(9.3)	2020/02/03	4.7	Choice Properties REIT, Series 'A',	
<b>Total Long Positions</b>	<b>115.6</b>	Capital Power Corp., 4.850%, 2019/02/21	4.6	Callable, 3.550%, 2018/07/05	3.5
<b>Short Positions:</b>		Rogers Communications Inc., Callable,		Cominar REIT, 4.230%, 2019/12/04	3.5
Canada	(6.5)	6.560%, 2041/03/22	4.5	First Capital Realty Inc., Series 'H',	
U.S.	(9.1)	Goldman Sachs Group Inc. (The), Variable Rate,		Callable, 5.850%, 2017/01/31	3.4
<b>Total Short Positions</b>	<b>(15.6)</b>	Callable, 5.200%, 2022/04/19	4.4	Penske Truck Leasing Canada Inc.,	
<b>Sector allocation</b>		IGM Financial Inc., Callable,		Callable, 3.650%, 2018/02/01	3.4
<b>Long Positions:</b>		6.000%, 2040/12/10	4.3		
Canadian Corporate Bonds	103.1	Bell Canada, Series 'M-17', Callable,		<b>Total Net Assets (in \$)</b>	<b>\$89,256,118</b>
Other Assets, Less Liabilities	7.7	6.100%, 2035/03/16	4.2		
International Bonds	7.6	Shaw Communications Inc., Callable,			
U.S. Corporate Bonds	5.3	6.750%, 2039/11/09	4.2		
U.S. Federal Bonds & Guaranteed	1.5	Intesa Sanpaolo SPA,			
Foreign Currency Forward Contracts	-	5.017%, 2024/06/26 (USD)	4.0		
Credit Default Swaps Contracts	(0.3)	Power Corp. of Canada, Callable,			
Cash and Cash Equivalents	(9.3)	7.570%, 2019/04/22	3.9		
<b>Total Long Positions</b>	<b>115.6</b>	Suncor Energy Inc., Callable,			
<b>Short Positions:</b>		5.390%, 2037/03/26	3.8		
Government of Canada & Guaranteed	(6.5)	Cogeco Cable Inc., Callable,			
U.S. Federal Bonds & Guaranteed	(9.1)	5.150%, 2020/11/16	3.7		
<b>Total Short Positions</b>	<b>(15.6)</b>	Bell Canada, Callable, 5.520%, 2019/02/26	3.7		
		Co-operators Financial Services Ltd.,			
		Callable, 5.778%, 2020/03/10	3.7		

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund and updates will be available on a quarterly basis.

### A NOTE ON FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective," and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause

actual events or results to differ materially from those expressed or implied in any forward-looking statement made by the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.