

PURPOSE STRATEGIC YIELD FUND – JANUARY 2019 COMMENTARY

QUICK FACTS

ETF	SYLD
MGMT FEE	0.80%
SERIES F	LGQ802
MGMT FEE	0.80%
SERIES B (FE)	LGQ800
MGMT FEE	1.55%
INCEPTION DATE	August 19, 2011
CURRENT YIELD*	5.8%

*Series F, as at January 31, 2019



SANDY LIANG, CFA

Sandy Liang has more than 25 years of experience managing credit investments. He spent 17 years in Wall Street, leading fixed income for Cobalt Capital Management, and as a Senior Managing Director at Bear, Stearns & Co., where he was voted to Institutional Investor Magazine's All-America Fixed Income Research Team for seven consecutive years.

Fund Performance

January was exceptionally strong for risk assets after the fourth quarter correction. Volatility, as measured by the CBOE Volatility Index (VIX), has recently normalized. We believe the market has now come to terms with 2% real economic growth in the US for 2019. We expect an economic downturn, part of the normal ebbs and flows of the business cycle, but no near-term recession in the US. If anything, this business cycle is being lengthened through dovish global central bank tendencies.

Curiously, conflicting signals were sent out by the bond market in January, with longer term bond yields signaling weaker growth (by going lower) and the stock market strength signaling an increase in growth expectations from the manic fourth quarter. We view the recent period of increasing bond prices as transitory. We expect the bear market in traditional bonds to resume for an indefinite period, given the oversupplied government debt market. There is going to be more than US\$1-trillion of new debt issued in the US alone in 2019, which should adversely affect bond yields (higher yields with increased supply).

Passive high yield debt for Canadians returned 4.5% in January (as measured by the Canadian dollar hedged iShares US High Yield Bond Index ETF). Against that backdrop, Purpose Strategic Yield Fund returned 3.1% in the month. The Fund lagged the overall market for a couple of reasons, including a relatively high cash balance and a low weighting in large, interest-sensitive bond issues that are staples in the passive ETFs.

The largest contributors to Fund return in January were CURO Financial Technologies Corp 8.25% of 2025, Enova International Inc 8.5% of 2024 and Golden Nugget, Inc. 6.75% of 2024. CURO, the US non-prime consumer lender, was a performance detractor in the fourth quarter but recently

reported sequentially better earnings at the high end of its guidance range. Enova is another non-prime consumer lender that recently reported strong earnings. Golden Nugget is a significant privately-held US operator of casinos and restaurants.

Outlook

While our larger picture view is that the bear market in Treasury bonds began in mid-2016, there has been a near-term respite from higher bond yields due to inflation taking a pause (helped along by lower oil prices). The increased supply of US government debt due to large budget deficits will likely be absorbed by households, given recent financial market volatility. As financial markets get attuned to the lower-growth environment, we expect a resumption of higher bond yields in the coming year. Historically, high yield corporate debt has outperformed investment grade corporate debt in periods of rising rates.

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Purpose Strategic Yield Fund	1 month	3 month	6 month	YTD	1 year	3 year	Since inception
Series F	3.08%	-0.76%	-1.44%	3.08%	0.86%	6.25%	9.62%
Series B	3.01%	-0.97%	-1.85%	3.01%	0.03%	5.38%	8.72%

All performance as at January 31, 2019.

All data sourced to Bloomberg unless otherwise noted.

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