

# 2015 Annual Management Report of Fund Performance

for the year ended December 31, 2015



## Marret High Yield Strategies Fund

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment trust. You can get a copy of the annual financial statements at your request, and at no cost, by calling 416-214-5800, by writing to us at Marret Asset Management Inc., 200 King Street West, Suite 1902, Toronto, Ontario M5H 3T4 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 High Yield Strategies Fund

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## INVESTMENT OBJECTIVE AND STRATEGIES

The Marret High Yield Strategies Fund (the "Fund") is currently terminating pursuant to its Declaration of Trust which provides that, to the extent that the affairs of the Fund have not been completely wound up and all of the assets distributed to unitholders on or prior to the termination date (May 30, 2014), the Declaration of Trust shall continue in force and effect to the extent necessary or desirable to permit the Trustee to complete the winding up of the affairs of the Fund and distribute the remaining assets to unitholders as soon as practicable and, in such event, the Trustee shall carry on no activities on behalf of the Fund except for the purpose of winding up the affairs of the Fund. Previously, and up until the termination date, the Fund was created to achieve the following investment objectives: (i) to maximize total returns for unitholders, consisting of both tax advantaged distributions and capital appreciation and reducing risk, and (ii) to provide unitholders with attractive monthly tax advantaged cash distributions, initially targeted to be 8.00% per annum on the original issue price of \$10.00 per unit by obtaining exposure to the Portfolio, which is focused primarily on high yield debt.

As the Fund is terminating, it is only seeking to liquidate the Private Portfolio at this time.

## RISK

The risks of investing in the Fund remain as discussed its Initial Public Offering Prospectus. There can be no assurance that the Fund will be able to achieve its objectives of monthly distributions, preservation of capital and enhancing long-term total return. Investing in the Fund is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

## RESULTS OF OPERATIONS

The Fund's net assets decreased by \$9.4 million to \$26.8 million from December 31, 2014 to December 31, 2015. The Fund paid distributions totalling \$25.8 million while the portfolio's performance increased assets by \$16.4 million. The Fund's one-year return was 39.5%, compared to the returns of the benchmark of -4.6%. The benchmark is the Bank of America Merrill Lynch U.S. High Yield Total Return Index.

As previously announced, the Fund has continued in order to hold private positions (the "Private Portfolio"). The Manager intention is to distribute the net proceeds from the Private Portfolio when the holdings are sold and the proceeds are received by the Fund. No ongoing management fee will be charged by Manager for overseeing the liquidation of the Private Portfolio.

The Private Portfolio consists of equity and bonds issued by Cline Mining Corp. ("Cline"). Cline holds various mineral assets, including the New Elk Coal Mine in Colorado, which has almost 630 million tonnes of in-place coal. The Private Portfolio used to include bonds issued by Data & Audio-Visual Enterprises ("Mobicity"), but those bonds were retired this year as described more fully below.

## RECENT DEVELOPMENTS

### *Mobicity*

As announced on June 24, 2015, Mobicity agreed to a sale of its assets to Rogers Communications for a purchase price of \$465 million subject to certain adjustments. The sale was completed on July 2, 2015, and the proceeds were distributed to bondholders during the second half of 2015. The distribution of the proceeds to bondholders from the sale of Mobicity's assets was a very positive result for Fund holders. The prices received were significantly greater than where the Mobicity securities were previously marked and resulted in a positive return on the Fund's Mobicity investments over its lifetime. The Fund was able to make two distributions that totalled more than 70 cents from the proceeds it received from Mobicity.

### *Cline Mining*

Our focus for Cline remains on improving liquidity through the sale of non-core assets and the reduction of expenses. Following its emergence from the Companies' Creditors Arrangement Act in mid-2015, Cline has meaningfully reduced legal costs and headcount. Cline management remains focused on asset sales, including surplus land and Cline Gold, both of which are expected to be sold in the first half of 2016. As the mine remains on 'care and maintenance,' Cline management continues to sell used equipment into a challenging market. Sales of equipment and the non-core assets are being undertaken with an aim to maximize corporate liquidity until a buyer for the asset can be secured. Cline management is continuing to consider alternative strategies which may include outright liquidation.

The market for metallurgical coal remains very challenging due to weakness in the Chinese steel market and the strength in the U.S. dollar. Met coal prices have declined to the lowest levels in a decade, and are well below the break-even costs for most producers. While money-losing production has been shut in, the market remains oversupplied, and further cuts and/or a pickup in end-demand will be required to rebalance the market. The strong U.S. dollar has been a competitive headwind for U.S. producers versus their Canadian and Australian peers, given the weakness in those currencies. One offset to this is that Cline's debt is denominated in Canadian dollars; Australian and Canadian dollars tend to move in the same direction, so this acts as a partial buffer in Cline's favour.

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As coal markets remain distressed, Cline's strategy is to cut costs, enhance liquidity, and maintain the safety and integrity of the mine until markets improve. The bottoming process is underway, but it may be a multi-year process before coal prices improve.

## RELATED PARTY TRANSACTIONS

### **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 year.

# Marret High Yield Strategies Fund

Management Report of Fund Performance for the year ended December 31, 2015

## 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 five years, as applicable.

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

Class A	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012 <sup>A</sup>	Dec. 31, 2011 <sup>A</sup>
Commencement of operations June 17, 2009	\$	\$	\$	\$	\$
Net assets at the beginning of year <sup>(1)</sup>	0.99	9.00	9.75	10.14	10.79
<b>Increase (decrease) from operations:</b>					
Total revenue	0.16	-	-	-	-
Total expenses (excluding distributions)	-	(0.04)	(0.10)	(0.10)	(0.11)
Realized gains (losses) for the year	0.37	0.73	0.63	0.23	0.14
Unrealized gains (losses) for the year	(0.08)	(0.96)	(0.73)	0.14	0.02
Total increase (decrease) from operations <sup>(2)</sup>	0.45	(0.27)	(0.20)	0.27	0.05
<b>Distributions:</b>					
From net investment income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	(0.70)	(7.74)	(0.60)	(0.70)	(0.80)
Total distributions <sup>(2),(3)</sup>	(0.70)	(7.74)	(0.60)	(0.70)	(0.80)
Net assets at the end of the year shown <sup>(1)</sup>	0.73	0.99	9.00	9.75	10.14
<b>Ratios and Supplemental Data</b>					
Total net assets (\$) <sup>(8)</sup>	26,764,866	36,180,984	331,011,022	670,731,877	605,283,673
Number of units outstanding <sup>(8)</sup>	36,729,002	36,729,002	36,789,967	68,758,811	59,671,109
Portfolio turnover rate (%) <sup>(5)</sup>	81.78	0.01	-	25.03	8.31
Trading expense ratio (%) <sup>(6)</sup>	-	0.01	0.02	0.02	0.03
Management expense ratio after taxes (%) <sup>(4)</sup>	0.12	0.93	2.80	4.48	4.81
Closing market price (\$)	0.045	0.11	8.00	9.48	11.06

<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 audited 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) in net assets from operations per unit is based on the weighted average number of units outstanding over the fiscal year.

(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 December 31, 2015 and of the Fund and Marret HYS Trust for the prior years, including interest expense and issuance costs, and is expressed as an annualized percentage of daily average Net Asset Value of the year.

(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 year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year. 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 year, excluding cash and short-term investments maturing in less than one year, by the average market value of investments during the year.

(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 year.

(7) For financial years 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 years ended December 31.

# Marret High Yield Strategies Fund

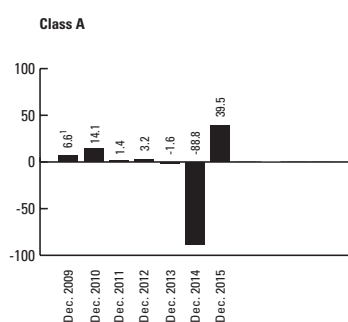
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## PAST PERFORMANCE

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



<sup>1</sup>This figure is for the period from June 17, 2009 to December 31, 2009.

### Annual Compound Returns

The following table shows the Fund's annual compound returns for each period indicated, compared to the Bank of America Merrill Lynch U.S. High Yield Total Return Index, the S&P/TSX Composite Total Return Index and the S&P 500 Total Return Index.

The Bank of America Merrill Lynch U.S. High Yield Total Return Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

The S&P/TSX Composite Total Return Index is a float adjusted market capitalization weighted index which is the principal broad measure of the Canadian equity market. It includes common stocks and income trust units of companies incorporated in Canada which are listed on the Toronto Stock Exchange.

The S&P 500 Total Return Index is an index composed of 500 stocks weighted by capitalization and representing all major U.S. industries. The Index is a broad measure of the stock performance of the largest U.S. companies with market capitalization in excess of US\$5.3 billion.

A discussion of the performance of the Fund as compared to the benchmark is found in the Results of Operations section of this report.

	One Year (%)	Three Years (%)	Five Years (%)	Since Inception (%)
Marret High Yield Strategies Fund	39.5	10.1	6.9	9.4
Bank of America Merrill Lynch U.S. High Yield Total Return Index	(4.6)	1.6	4.8	9.1
S&P/TSX Composite Total Return Index	(8.3)	4.6	2.3	6.7
S&P 500 Total Return Index	20.7	28.6	20.2	19.1

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## SUMMARY OF INVESTMENT PORTFOLIO as at December 31, 2015

Portfolio Breakdown		Portfolio Breakdown (cont'd)		Top Holdings	
Category	Percentage of Net Assets (%)	Category	Percentage of Net Assets (%)	Security Name	Percentage of Net Assets (%)
<b>Country allocation</b>		<b>Sector allocation</b>			
Canada	98.4	Canadian Corporate Bonds	98.4	Cline Mining Corp., Zero Coupon, 2022/07/08	90.4
Other Assets, Less Liabilities	1.6	Other Assets, Less Liabilities	1.6	Cline Mining Corp., Zero Coupon, 2022/07/08	8.0
				Data & Audio-Visual Enterprises Holdings Inc., Pay-In-Kind, Callable, 15.000%, 2018/09/25	-
				Cline Mining Corp., Convertible	-
				Data & Audio-Visual Enterprises Holdings Inc., Class 'B', Warrants, 2018/09/25	-
				Data & Audio-Visual Enterprises Holdings Inc., Warrants, 2018/09/25	-
				Pacific Coal Resources Ltd., Warrants, 2016/03/14	-
				Xinergy Ltd., Warrants, 2017/08/13	-
				<b>Total Net Assets (in \$)</b>	<b>\$26,764,866</b>

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.