

# 2019 Annual Management Report of Fund Performance

for the year ended December 31, 2019



## Marret High Yield Strategies Fund

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*Management Report of Fund Performance for the year ended December 31, 2019*

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This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. 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., 2 Queen Street East, Twelfth Floor, Toronto, ON, 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 fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

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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 (the Private Portfolio) at this time. The Private Portfolio consists of equity and bonds issued by Cline Mining Corp. (Cline).

## RISK

The risks of investing in the Fund remain as discussed in 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 net asset value of the Fund decreased by \$9.7 million to \$16.9 million from December 31, 2018 to December 31, 2019. The portfolio's performance decreased assets by \$9.7 million. The Fund returned -36.5% after fees and expenses for the one-year period ended December 31, 2019. Over the same time period, the Fund's benchmarks returned 15.0%, 22.9% and 25.1%. The benchmarks are the ICE BofAML U.S. High Yield Total Return Index, the S&P Composite Total Return Index and the S&P 500 Total Return Index, respectively.

As previously announced, the Fund has continued in order to hold Private Portfolio. Marret's 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 or other fees will be charged by Marret for overseeing the liquidation of the Private Portfolio.

The value of the Private Portfolio consists of equity and bonds issued by Cline.

## RECENT DEVELOPMENTS

On January 21, 2020, Cline entered into a binding agreement (Agreement) for the sale by Cline to Allegiance Coal Ltd. (Allegiance) of all the shares in New Elk Coal Co. LLC (NECC). The Agreement reflects the term sheet originally signed by Cline and Allegiance on July 15, 2019 (the LOI).

The purchase price for the shares in NECC will be U.S.\$1, plus the assumption of certain obligations owed by NECC to Cline, equal to the balance owed on the Cline senior secured indebtedness of C\$55 million (Debt), which represents a total acquisition cost of C\$55,000,001.31.

Completion of the sale must take place before July 15, 2020 (Completion) and is subject to various conditions, including a feasibility study and financing arrangements acceptable to Allegiance and to final binding legal documents.

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The Debt will be repaid by NECC to Cline as follows:

- U.S.\$3M in cash on Completion;
- U.S.\$3M in Allegiance shares issued on Completion, subject to a voluntary 12-month hold period;
- U.S.\$5M on Completion to replace the Colorado State Mine reclamation bond;
- the remainder of the Debt to be repaid by Cline receiving 60% of NECC's retained earnings after NECC makes prudent provision for any preferred debt payments and obligations, and maintenance and working capital, until the Debt is paid in full, but in any event within 10 years of Completion. The Debt will not bear interest; and
- the Debt will be reduced by the amount of mine care and maintenance costs funded by Allegiance until Completion. Such costs are fixed at U.S.\$150,000 per month, with funding having begun on September 1, 2019.

The Debt will be evidenced by NECC issuing a promissory note, secured against the assets of NECC and subject only to indebtedness and security granted in respect of the preferred debt issued by NECC to a maximum of U.S.\$40 million.

The transaction is subject to normal conditions for similar transactions and to Allegiance raising start-up capital for the mine, which Allegiance currently estimates at U.S.\$30 million.

Effective July 31, 2019, the Board of Directors of Marret has appointed Paul Sandhu as President, Chief Executive Officer and Chief Investment Officer of Marret.

## RELATED PARTY TRANSACTIONS

### ***Independent Review Committee***

The Fund has standing instruction from the Fund's Independent Review Committee (IRC) with respect to the following related party transactions: trades in securities of CI Financial Corp.

The applicable standing instruction requires, amongst others, that related party transactions be conducted in accordance with the Manager's policies and procedures and applicable law and that the Manager advise the IRC of any material breach of such policies. The standing instruction also requires that investment decisions in respect of related party transactions (a) are free from any influence by an entity related to the Manager and without taking into account any consideration relevant to an entity related to the Manager; (b) represent the business judgment of the Manager uninfluenced by considerations other than the best interests of the Fund; (c) are made in compliance with the Manager's policies and procedures; and (d) achieve a fair and reasonable result for the Fund. Transactions made by the Manager under the standing instruction are subsequently reviewed by the IRC on a quarterly basis to monitor compliance.

During the year ended December 31, 2019, the Fund was not a party to any related party transactions.

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## 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.

### NET ASSETS PER UNIT <sup>(1)(2)(7)</sup>

| Class A<br>Commencement of operations June 17, 2009      | Year Ended    | Year Ended    | Year Ended    | Year Ended    | Year Ended    |
|--|---------------|---------------|---------------|---------------|---------------|
|  | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2016 | Dec. 31, 2015 |
|  | \$            | \$            | \$            | \$            | \$            |
| Net assets at the beginning of year <sup>(2)</sup>       | 0.72          | 0.73          | 0.73          | 0.73          | 0.99          |
| <b>Increase (decrease) from operations:</b>              |               |               |               |               |               |
| Total revenue  | -             | -             | -             | -             | 0.16          |
| Total expenses (excluding distributions)                 | -             | -             | -             | -             | -             |
| Realized gains (losses) for the year                     | -             | -             | -             | -             | 0.37          |
| Unrealized gains (losses) for the year                   | (0.26)        | -             | -             | -             | (0.08)        |
| Total increase (decrease) from operations <sup>(2)</sup> | (0.26)        | -             | -             | -             | 0.45          |
| <b>Distributions:</b>                                    |               |               |               |               |               |
| From net investment income (excluding dividends)         | -             | -             | -             | -             | -             |
| From dividends   | -             | -             | -             | -             | -             |
| From capital gains                                       | -             | -             | -             | -             | -             |
| Return of capital  | -             | -             | -             | -             | (0.70)        |
| Total distributions <sup>(2)(3)</sup>                    | -             | -             | -             | -             | (0.70)        |
| Net assets at the end of the year shown <sup>(2)</sup>   | 0.46          | 0.72          | 0.73          | 0.73          | 0.73          |
| <b>Ratios and Supplemental Data</b>                      |               |               |               |               |               |
| Total net assets (\$) <sup>(7)</sup>                     | 16,883,214    | 26,602,821    | 26,681,504    | 26,708,027    | 26,764,866    |
| Number of units outstanding <sup>(7)</sup>               | 36,729,002    | 36,729,002    | 36,729,002    | 36,729,002    | 36,729,002    |
| Portfolio turnover rate (%) <sup>(5)</sup>               | -             | -             | -             | 2.47          | 81.78         |
| Trading expense ratio (%) <sup>(6)</sup>                 | -             | -             | -             | -             | -             |
| Management expense ratio after taxes (%) <sup>(4)</sup>  | 0.30          | 0.34          | 0.37          | 0.35          | 0.12          |
| Closing market price (\$)                                | 0.14          | 0.05          | 0.14          | 0.14          | 0.05          |

(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) 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 expenses charged to the Fund (excluding commissions and other portfolio transaction costs) and is expressed as an annualized percentage of daily average net asset value for 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) This information is provided for the years ended December 31.

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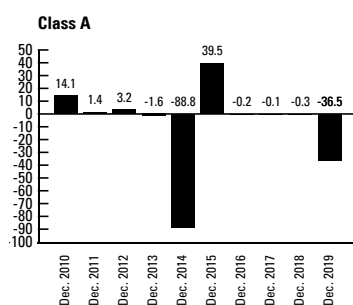
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## PAST PERFORMANCE

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.



### Annual Compound Returns

The following table shows the Fund's annual compound returns for each year indicated, compared to the ICE BofAML U.S. High Yield Total Return Index, the S&P/TSX Composite Total Return Index and the S&P 500 Total Return Index.

The ICE BofAML U.S. High Yield 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 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 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 benchmarks is found in the Results of Operations section of this report.

|   | One Year (%) | Three Years (%) | Five Years (%) | Ten Years (%) | Since Inception (%) |
|---|--------------|-----------------|----------------|---------------|---------------------|
| <b>Class A</b>                                | (36.5)       | (14.2)          | (2.5)          | 0.0           | n/a                 |
| ICE BofAML U.S. High Yield Total Return Index | 15.0         | 6.3             | 6.1            | 7.5           | n/a                 |
| S&P/TSX Composite Total Return Index          | 22.9         | 6.9             | 6.3            | 6.9           | n/a                 |
| S&P 500 Total Return Index                    | 25.1         | 14.0            | 14.2           | 16.0          | n/a                 |

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## SUMMARY OF INVESTMENT PORTFOLIO as at December 31, 2019

| <b>Category</b>                | <b>% of Net Assets</b> | <b>Category</b>                | <b>% of Net Assets</b> | <b>Top Holdings</b>   | <b>% of Net Assets</b> |
|--------------------------------|------------------------|--------------------------------|------------------------|---|------------------------|
| <b>Country allocation</b>      |                        | <b>Sector allocation</b>       |                        |   |                        |
| Canada                         | 99.0                   | Canadian Corporate Bonds       | 99.0                   | Cline Mining Corp., Floating Rate,<br>2022/07/08                | 90.9                   |
| Short-Term Investments         | 0.9                    | Short-Term Investments         | 0.9                    | Cline Mining Corp., Floating Rate,<br>2022/07/08                | 8.1                    |
| Other Assets, Less Liabilities | 0.1                    | Other Assets, Less Liabilities | 0.1                    | Royal Bank of Canada Bankers' Acceptance,<br>2.180%, 2019/01/15 | 0.9                    |
| Canadian Equities              | 0.0                    | Canadian Equities              | 0.0                    | Cline Mining Corp., Convertible                                 | 0.0                    |
|                                |                        |                                |                        | <b>Total Net Assets (in \$)</b>                                 | <b>\$16,883,214</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.