SIGNATURE
GLOBAL ASSET MANAGEMENT™

Signature Canadian Bond Fund
Second Quarter 2019

Market Overview

- The global economic outlook has softened since the first quarter of 2019, with inflation remaining uncomfortably low and growth risks generally skewed to the downside. Despite a de-escalation in the U.S-China trade conflict during the recent G20 summit, the outcome of subsequent talks remains highly uncertain and continues to weigh on business sentiment and global growth.

- Anticipating economic deceleration, central banks around the world stand ready to ease monetary policy. Accordingly, markets have priced in rate cuts from the U.S. Federal Reserve (the “Fed”) and the European Central Bank (ECB), precipitating a further decline in interest rates around the globe during the second quarter of 2019. As a point of reference, 10-year bond yields dropped 0.4% in the United States, 0.25% in Europe and 0.15% in Canada during the quarter.

- In the United States, despite moderate economic growth and a robust labour market, inflation continues to undershoot the Fed’s 2% target. Persistently low inflation is front and centre to the Fed’s dovish (i.e., cautious) tack earlier this year regarding any hikes in interest rates. More recently, the Fed cited concerns about the impact of escalating trade tensions and cross-currents from global growth, thereby cementing market expectations of so-called “insurance” rate cuts.

- Similarly, in Europe, a worsening economic outlook and uncertainty over Brexit emphasize the downside risks to growth. The ECB, alongside the Fed, has opened the door to additional monetary policy accommodation, including lowering forward guidance, interest-rate cuts and quantitative easing.

- The Bank of Canada had maintained its policy rate steady since October 2018. Recent Canadian economic and inflation data, helped by the recovery of the energy sector, had surprised to the upside relative to the Bank of Canada’s most recent economic forecasts. Nevertheless, escalated trade tensions and dimming global growth prospects continued to weigh on the economic outlook.

Performance Summary

- Over the second quarter of 2019, Class F of Signature Canadian Bond Fund (the "Fund") returned 2.5%, equalling the 2.5% return for its benchmark, the FTSE Canada Universe Bond Total Return Index, over the same period.

- The total-return outcome of the Fund's portfolio was primarily driven by a decline in Canadian interest rates, with further gains coming from a narrowing of Canadian government and corporate credit spreads.

- Relative to the benchmark, corporate credit exposure and duration positioning were the most significant contributors to Fund performance, while residual currency exposure (net of hedges) was the main detractor.

- Duration and yield-curve positioning added to the Fund portfolio's active return, stemming mainly from its overweight duration position in U.S. 10-year maturity bonds relative to similar maturity Canadian notes, as interest rates fell by a greater amount in the U.S. than in Canada during the quarter. The Government of Canada 10-year bond yield fell by about 15 basis points (bps) over the quarter, underperforming the U.S. 10-year Treasury bill by 25 bps.

- Overweight corporate credit exposure also added to the Fund's active return, as spreads in this sector narrowed about 15 bps during the quarter, supported by accommodative central bank policy motions.

- Conversely, the Fund's U.S.-dollar positions net of hedges reduced active return as the U.S. dollar weakened by 1.9% against the Canadian dollar over the quarter.

Portfolio Activity and Positioning

- The Fund's portfolio holds a small overweight duration position relative to the benchmark, which we added late during the quarter. Additionally, we have reduced the Fund's yield curve–steepening position.

- Within the spread product sphere, the Fund is overweight in corporate and provincial credit, and underweight in Canadian government agency debt, as the downward pressure on interest-rate expectations among major central banks has provided greater support for risky assets in the absence of further global economic deterioration.

- We shifted the Fund's duration exposure to the U.S. market during the quarter by selling 10-year Government of Canada bonds and buying U.S. Treasuries of the same maturity. This change reflected our concern that the Fed would likely be more responsive than the Bank of Canada to signs of a slowdown in economic activity, leading to a convergence of policy rates of the two central banks.

Outlook

- The global economic outlook has softened, with inflation remaining uncomfortably low and growth risks generally skewed to the downside. Against this backdrop, central banks around the world have signalled a bias to ease monetary policy, and markets have moved to price in such a scenario. Overall, we hold a positive outlook for interest rates globally.

- In the United States, with roughly 70 bps of Fed rate cuts by year-end currently priced into markets, a tactical approach is warranted. The near-term direction of government bond yields will depend on the evolution of economic data uncertainty around trade disputes. Longer term, however, we view the significant decline in government bond yields as part of a recalibration of market expectations to structurally lower interest rates.

- In Europe, the economic outlook has also weakened and inflation remains stubbornly low. The ECB has tacked cautious alongside the Fed, opening the door for lowering forward guidance, interest-rate cuts (deeper into negative territory) and expansion of quantitative-easing measures.

- Market pricing of the Bank of Canada's policy rate path continues to reflect an anticipation of interest-rate cuts, with an initial 25-bp move over the next 12 months near fully priced in. United States-led trade conflicts with other nations have increased the downside risks to already slowing global economic activity, and the Canadian economy is not immune to these risks. Inversion remains a feature of the Canadian yield curve for now. However, moving forward, we see the degree of inversion reduced.

Class F returns (in %) as at June 30, 2019	Year-to-date	1 year	3 year	5 year	10 year	Since inception (08/08/2000)
Signature Canadian Bond Fund	6.4	7.0	1.7	3.0	4.0	4.5

Sources: Bloomberg L.P. and Signature Global Asset Management, as at June 30, 2019.

IMPORTANT DISCLAIMERS

The comparison presented is intended to illustrate the mutual fund's historical performance as compared with the historical performance of widely quoted market indexes or a weighted blend of widely quoted market indexes or another investment fund. There are various important differences that may exist between the mutual fund and the stated indexes or investment fund, that may affect the performance of each. The objectives and strategies of the mutual fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable indexes or investment fund. Indexes are unmanaged and their returns do not include any sales charges or fees. It is not possible to invest directly in market indexes.

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