Signature Dividend Fund
Third-quarter 2019 Commentary

Class F returns (in %) as at September 30, 2019	Year-to-date	1 year	3 year	5 year	10 year	Since inception (09/28/2001)
Signature Dividend Fund	8.9	-0.7	4.9	4.6	7.1	6.3

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

Market Overview

- Markets were quite volatile during the third quarter of 2019 as economic indicators weakened, the U.S.-China trade-war rhetoric ratcheted up and Brexit dragged on. Global risky assets were mixed as the S&P 500 Index was up 1.7% for the quarter and the price of West Texas Intermediate crude oil fell 7.5% to close at US$54.07 per barrel at quarter-end.

- The U.S. Federal Reserve cut its policy interest rate twice during the quarter, by 25 basis points (bps), or 0.25 percentage points, each time, referring to them as “mid-cycle adjustments” and not the start of a monetary easing cycle. The Bank of Canada maintained a neutral stance as it was correct in assessing a pickup in the Canadian economy.

- The five-year Government of Canada bond yield, which drives the performance of rate reset preferred shares, had a volatile third quarter of 2019 – falling almost 48 bps from peak to trough – but ended the quarter relatively unchanged. This move brought with it an equally volatile move in preferred shares. The Canadian preferred shares market suffered a sharp sell-off in August 2019 as retail investors exited the market with falling five-year rates. By the end of August, bargain hunters and institutional investors began buying the oversold market and pushed it back up in September 2019.

Performance Summary

- Over the quarter ended September 30, 2019, Class F of Signature Dividend Fund (the “Fund”) returned 0.8% while its blended benchmark (40% MSCI ACWI Global High Dividend Yield Total Return Index, 35% BMO Capital Markets 50 Preferred Total Return Index and 25% S&P/TSX Composite Total Return Index) was up 1.6% over the same period.

- The Fund's performance was rather flat during the quarter. The S&P/TSX Composite total Return Index was up 2.5% during the quarter while the MSCI ACWI High Dividend Yield Total Return Index gained 2.1% (in Canadian-dollar terms). Domestic equity holdings, which represented approximately 16% of the Fund during the quarter, generated positive returns of approximately 2%. Foreign equity positions, which represented approximately 36% of the Fund during the quarter, generated a return that was slightly positive in local currencies and basically unchanged in Canadian dollars.

- Preferred shares, which represented approximately 39% of the Fund during the quarter, experienced a positive return of 1.7% compared to the BMO Capital Markets 50 Preferred Share Total Return Index's return of 0.4%. The Fund's underweight position in rate-reset preferred shares and an overweight position in perpetual preferred shares, plus security selection in this sector, drove the Fund's outperformance.

- The Fund's underperformance relative to the benchmark in domestic equities is primarily attributed to the Fund's position in Teck Resources Ltd., whose share price declined 28.5% in the quarter.

- Underperformance of the Fund's global equity holdings relative to the benchmark is primarily attributed to disappointing stock selection results in sectors other than consumer staples, utilities, real estate and energy.

- The Fund's relative returns were diluted by the Fund's average cash weight of almost 9% during the quarter.

Contributors to Performance

- The Bank of Nova Scotia returned 8% during the quarter, outperforming other large Canadian banks. This outperformance seemed to be a function of the market's desire to reduce positioning in Canadian banks whose U.S. franchises had supported outperformance, as the U.S. franchises again faced significant pressure on their net interest margins. Bank of Nova Scotia had lagged other domestic banks in performance and caught up somewhat during the quarter. We continue to view the bank favourably on valuation and relative medium-term growth prospects.

- The U.S. consumer staples sector advanced 5.3% during the quarter, and The Proctor & Gamble Co. had one of the stronger stocks, appreciating 14%, including the company's quarterly dividend. The company's strong performance was primarily a function of a stable, healthy business in an uncertain world, which supported multiple expansion of the company's shares.

- Loblaw Cos. Ltd.'s stock returned 12% over the quarter as investors increased weightings in more defensive exposures.

- The price of gold price moved up slightly during the quarter and the share price of Agnico Eagle Mines Ltd. did slightly better, which is fair given the company's positive leverage to higher gold bullion prices. Helping the company during the quarter was a tour of its Nunavut mines in August 2019, which highlighted that the company's two main projects (Amarug underground and Meliadine Phase 2) are on track and ramping up well. With the company's main capital projects complete, Agnico Eagle Mines is in a good position to generate free cash flow that will be used to pay down debt and return cash to shareholders.

Detractors from Performance

- As noted above, the share price of Teck Resources declined 28.5% over the quarter. The company's exposure to copper hurt its performance as the price of copper fell by 13% and 5%, respectively, over the six- and three-months periods ended September 30, 2019. However, with one half of its EBITDA (earnings before interest, tax, depreciation and amortization) coming from metallurgical (steel-making) coal, the company was particularly sensitive to a decline in the price of the commodity. Metallurgical coal prices fell 34% (from US$212/t to US$140/t) and 29% (from US$196/t to US$140/t) over the same periods.

- Burford Capital Ltd., a leader in global litigation finance, suffered a 47% drop in its share price during the quarter on an attack by a short seller. We reviewed the short seller's arguments and the company's response, and subsequently added to the Fund's holding in Burford Capital as our reasons for investing in the business were largely unaffected. We believe the company's business fundamentals should support growth in a large niche business with attractive returns on capital.

- Cisco Systems, Inc.'s share price was down 9% during the quarter, which was a material hit given the Fund's large position in the company at approximately 2.5% of Fund assets. The example of Cisco Systems reminded investors that, indeed, technology companies are not immune from macroeconomic challenges. While the company's reported earnings for the quarter ended July 2019 were robust, the company's forward outlook tempered investor enthusiasm. Specifically, Cisco Systems management cited 1) weaker-than-expected enterprise orders, 2) a slowing macroeconomic environment (e.g., Brexit), and 3) weakness in revenue from China.

- We are enthusiastic about Prudential PLC's long-term growth prospects in Asia, including Hong Kong and China. However, recent protesting activity in Hong Kong and the resulting drop in visits from those in mainland China to Hong Kong will materially reduce the company's near-term premium sales, and that supported a 13% loss in the Fund's investment in Prudential during the quarter. We have added to the Fund's position in the company on share-price weakness as we believe the longer-term story of Prudential is exciting and the company's valuation quite undemanding.

- Pfizer Inc.'s stock declined more than 16% in the quarter. Pfizer's shares sold off sharply after the company surprisingly announced plans to merge its off-patent drug portfolio, Upjohn, with generic drug manufacturer Mylan N.V. The rationale behind the deal has merit; however, communication of the earnings potential of 'new Pfizer' and 'new Mylan' was poorly handled and corporate governance of the post-combination Mylan remains a concern. While timing and communication of the deal were not ideal, we believe a more focused and growth-oriented Pfizer is attractive and that the company's current valuation represents a reasonable risk/reward profile.

Portfolio Activity

- During the quarter, we reduced the Fund's exposure to the energy sector, selling Fund holdings in Encana Corp., Cenovus Energy Inc. and Chevron Corp., as we developed a more cautious view regarding oil and gas commodity prices.

- Within the financials sector, we switched the Fund's investment in Citigroup Inc. into Berkshire Hathaway Inc. in July 2019 as a means of increasing the Fund's defensive positioning. We also sold Mexican bank Grupo Financiero Banorte, S.A.B. de C.V. and invested the proceeds into Banco do Brasil S.A. as these companies had very comparable valuations and our macroeconomic outlook is more promising for Brazil than Mexico. Also in July, we sold Crédit Agricole S.A. as the company's valuation had become relatively demanding, and the proceeds were initially reinvested into Beazly PLC, a leader in global cyber insurance. Beazly's stock moved upwards to a level where we became a seller, and proceeds were reinvested in Bank of Ireland Group PLC, which had experienced a significant sell-off. Domestically, we added Bank of Montreal when the bank's stock dipped below $90 on an earnings miss as the stock looks like good value at that level. Later in the quarter, we added a new, small Fund position in UniCredit S.p.A., whose management we recently met, and became more constructive given the company's undemanding valuation.

- In the consumer discretionary sector, we sold Tyson Foods, Inc. following strong price appreciation of the company's shares as our investment thesis for the company had played out and appeal for the company's declined as its stock rallied. Late in the quarter, we added a position in newly listed Budweiser Brewing Co. APAC Ltd., having participated in the initial public offering of the company's shares.

- Also during the quarter, we took significant action in the industrials sector as a means of reducing economic sensitivity of the Fund's portfolio. Industrials sector positions exited during the period included Emerson Electric Co., Siemens AG, and Pirelli & C. S.p.A. Some of the proceeds from these sales were reinvested in acquiring shares of Thales S.A., a company that designs and builds aerospace and defence electrical systems.

- A general decline in sentiment in India's equity market created what we believe was a good buying opportunity in Bharat Electronics Ltd., an experienced market leader in defence industry electronics. Our view of a softer global economic outlook in the medium term was supportive of increasing the Fund's weighting in less cyclical industrials.

- The Fund's weight in preferred shares was increased modestly during the quarter as the preferred share market sold off and then recovered in August and September 2019.

Outlook

- Prolonged U.S.-China trade tensions have destabilized corporate confidence, forcing companies to adjust supply chains and defer capital investments. As a result, global economic growth rates and profit forecasts are being revised lower.

- Developed- and emerging-market central banks have reacted to this risk recently. The U.S. Federal Reserve has cut interest rates twice, the European Central Bank has also cut rates and introduced an open-ended asset purchase program, and the Bank of Japan is "re-examining" economic developments.

- We question the efficacy of accommodative monetary policy given the low starting point of interest rates and broadly take the view that monetary policy cannot resolve trade-related shocks, which we see as permanent.

- Furthermore, global economic growth faces challenges elsewhere. China is defusing its domestic credit risks by unwinding shadow bank lending and forcing weak banks to recapitalize. Chinese fixed-asset investment, mainly property, is slowing as credit tightens. Predictably, demand for materials and regional trade volumes are struggling.

- Secular challenges facing the global auto industry have materially impacted global manufacturing, leading to a slowdown in Europe and manufacturing weakness in the U.S. The consumer appears resilient in the U.S., but services activity and employment require monitoring.

- Fiscal initiatives and political developments were bright spots in September 2019: India cut corporate taxes, Germany proposed fiscal plans and concerns over Brexit and Italy diminished. Hopes of stabilization supported equities.

- The information technology sector has led returns in 2019 but has been unable to make new highs – perhaps on account of regulatory and antitrust risks. Public markets brought a healthy discipline to high private valuations at Uber Technologies Inc.; Lyft, Inc.; and Slack Technologies, Inc. The initial public offering of The We Company (more popularly known as WeWork) was withdrawn, possibly bursting the “unicorn” bubble.

- As the U.S. Democratic Party presidential candidates’ debates advance, a distinctly anti-capitalist policy set is forming. From health care and banking to tax policy and regulation, the stakes are rising for the U.S. market.

- Valuations are fair in equity markets and credit markets given the growth and inflation mix. We anticipate low interest rates and low growth to persist long into the future, resulting in lower returns across many asset classes. We see room for equity risk premiums to decline although we currently have a preference for less cyclical exposures. A lower-for-longer U.S. interest-rate outlook increases our appetite for Fund exposure to emerging markets. We believe modest economic growth will support bumpy yet acceptable returns from equities relative to the rather limited investment alternatives.

- The Fund is modestly overweight in preferred shares due to the relative return expectation of equities. Overall, we believe the Canadian preferred share market is attractively priced with a current yield of 5.65% but that retail investors will continue to shy away from the market, which tempers our return outlook, especially as we enter tax-loss selling at the end of the year.

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