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Signature Corporate Bond Fund
Third Quarter 2019

Class F returns (in %) as at September 30, 2019	Year-to-date	1 year	3 year	5 year	10 year	Since inception (07/15/2003)
Signature Corporate Bond Fund	8.5	6.3	4.6	4.8	6.3	5.6

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

Market Overview

- Capital markets were quite volatile during the quarter, as economic indicators weakened, the U.S.-China trade war rhetoric ratchetted up and Brexit dragged on. Investors were generally concerned and confused by the U.S. and China announcements of future increases in tariffs in August, but also that negotiations will be going ahead as planned.

- The U.S. Federal Reserve cut overnight rates twice by 25 basis points (bps) each time during the quarter, referring to them as a "mid-cycle adjustments" and not the start of an easing cycle. Additionally, Mario Draghi, European Central Bank (ECB) president, announced at the last ECB meeting that it would lower rates by 10 bps and restart quantitative easing for an undetermined amount of time.

- The Bank of Canada has maintained its position that the Canadian economy is going to pick up, and it certainly did, posting 3.7% quarter-over-quarter growth in the second quarter of 2019. The U.S. economy has slowed but the consumer sector is still in very good shape. We expect the United States and Canada are unlikely to slip into a recession over the next year, but there is no question that the risks are rising.

- Global risky assets were mixed as the S&P 500 Index returned 1.7%, and West Texas Intermediate crude fell 7.5% to close at US$54.07 per barrel over the quarter.

Performance Summary

- Over the third quarter of 2019, Class F of Signature Corporate Bond Fund (the "Fund") returned 1.2%, while its benchmark, a 50/50 combination of the ICE BofAML U.S. High Yield

Total Return Index and the FTSE Canada Universe + Maple All Corporate Bond Total Return Index, was up 1.9% over the same period.

- The ICE BofAML U.S. High Yield Total Return Index (in Canadian dollars and fully hedged) returned 1.1% due to the carry of the bonds, as spreads tightened 5 bps to 402 bps over the period. U.S. high yield (excluding oil and gas) was relatively isolated from the global market concerns, as more companies are U.S.-domestically focused. Returns were fairly stable each month at just below the expected carry. The high yield bond market has, appropriately, turned discerning with middle-of-the-fairway, existing issuers able to fund easily where outliers are finding it more prohibitive.

- The FTSE Canada Universe + Maple All Corporate Bond Total Return Index returned 1.1% in the third quarter, outperforming the Government of Canada bond index by 27 bps due to the higher carry, as spreads widened 1 bp and the 10-year Government of Canada issue fell 10 bps. New-issue supply increased in the third quarter, as companies took advantage of lower all-in yields and continued investor demand. The quarter was very volatile but global investors' search for yield provided strong demand for North American corporate bonds.

Contributors to Performance

- The major contributor to Fund performance over the quarter was security selection within the high-yield and investment-grade sectors. Additionally, the Fund's U.S.-dollar assets that were not hedged provided positive performance as the Canadian dollar fell 1.1%.

- New Gold Inc. (6.25% bonds due 2022) also contributed. A new management team focused on balance sheet repair and improving the prospects of the company's Rainy River mine increased the prospects of a near-term refinancing, driving yield compression in this bond, the first in the capital structure.

- Bank of America Corp. (5.875% perpetual AT1 bonds) was another contributor during the quarter. This higher-yielding U.S.-dollar bond has attracted strong demand as investors grab for yield. The bank also posted good results.

Detractors from Performance

- Asset allocation was the main detractor from performance during the quarter. The out-of-benchmark allocation to preferred shares diminished results, as returns were lower than both high-yield and investment-grade bonds.

- Another detractor during the period was Calfrac Well Services Ltd. (8.5% bonds due 2026), a Canadian oilfield services company specializing in pressure pumping. Muted North American drilling activity on lower energy prices has led to a surplus of capacity, thus hurting profitability.

Portfolio Activity

- There was a small change in the asset mix over the quarter as the Fund's U.S. high-yield allocation was lowered 2% to 51%. The strong year-to-date performance is unlikely to continue. The investment-grade weight was increased 3% to 42%, and the position in government bonds was reduced 0.5%. We are slowly increasing credit quality.

Outlook

- We agree with the changed outlook from central banks, and that continued trade tensions warrant caution. However, we remain constructive on high-yield bonds insofar as high-yield compares favourably with many other income-producing asset classes and, thus far, earnings continue to meet expectations.

- Current high-yield bond spreads (about 460 bps) are fair for the current environment. We are constantly deciphering a collection of idiosyncratic signals (from corporates, consumers and data from asset-backed securities like credit cards, auto loans and mortgages) and watching for changes in credit conditions. We believe high-yield valuations will be supported by both fundamental and technical factors as issuance is expected to underwhelm. For now, the Fund remains slightly overweight high yield on expected good coupon clipping but we are beginning to let the weight fall.

- We are positive on the investment-grade sector but not as much as high yield. We are modestly positive on investment-grade credit, due to accommodative central banks and the strong global demand for higher-yielding assets, tempered by stretched credit fundamentals, geo-political risks and a slowing global economy. Spreads are tighter than earlier in the year

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so valuations aren't as compelling, but we expect we are still in a sweet spot for credit investors.

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