SIGNATURE
GLOBAL ASSET MANAGEMENT™

Signature Diversified Yield Fund
Fourth-quarter 2019 Commentary

Class F returns (in %) as at December 31, 2019	Year-to-date	1 year	3 year	5 year	Since inception (2/14/2011)
Signature Diversified Yield Fund*	16.7	16.7	5.6	4.9	6.6

*Formerly Signature Diversified Yield II Fund
Sources: Bloomberg Finance L.P., Morningstar Research Inc. and Signature Global Asset Management as at December 31, 2019.

Performance Summary

- Over the quarter ended December 31, 2019, Class F of Signature Diversified Yield Fund (the "Fund") returned 1.8% while its blended benchmark (40% ICE BofAML US High Yield Total Return Index, 20% MSCI ACWI Global High Dividend Yield Total Return Index, 20% MSCI ACWI Infrastructure Total Return Index and 20% MSCI World Real Estate Total Return Index) was up 1.5% over the same period.

- The Fund outperformed the benchmark in the quarter on strong security selection, partially offset by portfolio hedges in the form of U.S. Treasury holdings and U.S. dollars. The Canadian dollar rose about 1 cent against the U.S. dollar during the quarter. The 40% currency hedge on the approximately 62% of assets in U.S.-dollar-denominated assets was insufficient.

Contributors to Performance

- We established a Fund position in Liberty Property Trust on the thesis that its industrial real estate assets were trading at a 15–20% discount to net asset value, which was unjustified given the significant positives for industrial real estate due to shifts in the retailer supply chain. We believed that should the market not recognize this value, Liberty Property Trust would make an attractive takeout target, fuelled by the presence of an activist investor who was encouraging a sale of the company. The thesis played out in October 2019 when Prologis, Inc., also a Fund holding, agreed to acquire Liberty Property Trust in an all-stock transaction that valued the company at a 21% premium to its previous day's stock price.

- Brookfield Asset Management Inc., a core long-term Fund holding, continues to benefit from increased allocations by global institutions into alternative assets such as real estate, infrastructure and credit. The company has raised approximately US$30 billion in capital over the past 12 months from its clients, and with the acquisition of Oaktree Capital Management we believe fundraising should accelerate and position Brookfield Asset Management well for distressed credit opportunities should the market see a downturn. Brookfield Asset Management's capital-light structure allows it to grow fees at very attractive margins.

Detractors from Performance

- The Fund's holding of Pyxus International, Inc. 9.875% bonds due 2021 detracted from the Fund's relative and total returns during the quarter. Pyxus International is a global tobacco leaf merchant with an emerging business in industrial hemp, cannabis and e-liquids. The company has procured tobacco leaf for global cigarette manufacturers for over 100 years, and it is its knowledge of agronomy and the cash flow from the company's existing tobacco leaf business that positions Pyxus International well for these new and emerging markets. Upcoming bond maturities in 2021 have weighed heavily on the company's complex and a review of strategic alternatives is underway.

- The Fund's holding of 30-year U.S. Treasury bonds was also a detractor from the Fund's relative performance in the quarter. Purchased as insurance on year-end volatility, yields rose as investors believed the three interest-rate cuts in 2019 by the U.S. Federal Reserve (the "Fed") were sufficient to keep economic growth in positive territory.

Portfolio Activity

- After the Canadian preferred share market plummeted in late summer 2019, we began adding select companies to the Fund. We also added new Fund positions in Clipper Realty Inc., ESR Cayman Ltd. and AerCap Holdings N.V. 5.875% hybrid bonds. Holdings disposed during the quarter included Wells Fargo & Co.

Outlook

- Fixed income, and income investing, will likely neither excite nor disappoint investors in 2020. Markets will struggle to repeat the gains of last year as valuations are higher and, most importantly, the Fed's pivot from a hawkish to dovish (i.e., more accommodative) stance is behind us. Nonetheless, accommodation by the Fed should offset the uncertainty that will accompany election-year politicking in the U.S. in 2020.

- While valuations are a bit stretched, credit, real estate and infrastructure supply and demand are skewed favourably and fundamentals are generally fine, with pockets of weakness such as retail priced appropriately. Modest earnings growth should support the carry trade even as government bond yields back up slightly, such that mid-single-digit returns are achievable.

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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Published January 15, 2020.