SIGNATURE
GLOBAL ASSET MANAGEMENT™

Signature Dividend Fund
Fourth-quarter 2019 Commentary

Class F returns (in %) as at December 31, 2019	Year-to-date	1 year	3 year	5 year	10 year	Since inception (09/28/2001)
Signature Dividend Fund	14.0	14.0	5.1	5.1	7.3	6.4

Sources: Bloomberg Finance L.P. and Signature Global Asset Management, as at December 31, 2019.

Performance Summary

- Over the quarter ended December 31, 2019, Class F of Signature Dividend Fund (the Fund) returned 4.7% 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 4.8% over the same period.

- Domestic equity holdings, which represented approximately 15.2% of the Fund, returned almost 7% in the period. Foreign equity positions, which represented approximately 37% of the Fund, returned 6.7% in Canadian currency. That was slightly positive in local currencies and basically unchanged in Canadian dollars.

- Preferred shares, which represent approximately 42.3% of the Fund, returned approximately 3.5% compared to the BMO Capital Markets 50 Preferred Share index, which returned 4.4%. The Fund's underweight position in rate re-sets and overweight of perpetual preferred shares, plus security selection drove the underperformance. Canadian preferred shares bounced back as global recessionary fears abated and a U.S.-China Phase One trade deal moved forward.

- Domestic equity outperformance relative to the S&P/TSX Composite benchmark is primarily attributed to overweight exposure to Manulife Financial Corp. and Power Financial Corp., which returned 9.5% and 15.2% respectively.

- Outperformance in global equity holdings relative to the MSCI ACWI High Dividend Yield benchmark is primarily attributed to superior stock selection in the financials and utilities sectors. During this reporting period, information technology and health care were the strongest sectors in the global benchmark, with returns of 12.7% and 11.2%, respectively. Within the Fund, the stronger results were generated in financials, 11%, and health care,

10.8%. The weakest sector for the Fund was consumer staples, where our positions declined 2.1% as investors reallocated to more cyclical holdings.

- Relative returns were diluted by the Fund's average cash weight of almost 5.5%.

Contributors to Performance

- Manulife returned 9.5% during the quarter, including the dividend. The position is our top equity holding, thus contributing meaningfully to returns in the period. Manulife has performed well yet the valuation remains undemanding. In March we visited Manulife's Hong Kong office and their significant competitors in that region and returned with confidence in a positive long-term outlook for the company's Asian operations. The company is still facing pressure on its long-term care reserve levels but we feel that the current market valuations more than account for that. With strong potential growth in Asia, a solid balance sheet position that is still being optimized, and improving operational efficiencies through cost reductions we feel Manulife stock is offering good value at current levels.

- Power Financial returned 15.2% during the period. Following aggressive and perhaps overdue buyback activity within the Power Group companies, including Great West Lifeco Inc. and Investors Group Inc., earlier in 2019, additional restructuring was announced in December. Power Corp. announced its intention to buy in Power Financial within the coming months. We support this transaction and continue to see relatively attractive value in the Power Financial and Power Corp. stocks.

- Enbridge Inc. returned 12.6% during the quarter and represented a material position. Enbridge displayed strength due to favourable court and regulatory rulings on its key Line 3 and Line 5 assets, as well as a re-filing of its application with regard to the Canadian Mainline system. Strong third-quarter results were announced and with them, the company guided to better cash flow and a larger-than-anticipated dividend increase for 2020, which allowed for some valuation expansion from the improved visibility.

- Moneta Money Bank AS, a Czech bank, represents a material position in the Fund and generated a Canadian-dollar return slightly above 24% during the quarter. The Czech economy remains a bright spot in Europe with strong employment, loan demand, wage inflation and naturally positive interest rate structure. This bank's valuation seems to be dragged down by its European peers and offers great value despite the rally during the

quarter. The bank also announced a modest acquisition that will add to earnings growth and scale.

- Samsung Electronics Co. Ltd. returned 15.2% in Canadian currency during the period. The company is benefitting from an upturn in the memory cycle, which had been depressed due to pricing and too much inventory at key hyperscaler customers. Memory pricing has rebounded strongly and this is the start of an uptrend in earnings that will continue into 2020. Analysts estimate that NOT-AND and dynamic random-access memory prices should bottom in the first quarter of 2020 as demand outpaces supply growth. Samsung is well-positioned in this next memory cycle as continued investments in capital spending have translated into more advanced production capabilities relative to the market. This places Samsung as the profit leader in the segment. Samsung has also been leading in regard to developing advanced memory modules, which also improves profitability in the mix. Improvements in the margins in semiconductors should offset weakness on the LCD side of the business, netting to better-than-expected earnings exiting 2019.

Detractors from Performance

- Loblaw Cos. Ltd. declined 11.5% after reporting third-quarter results which revealed weaker same-store sales in food primarily driven by lower traffic, intensifying competition and a Thanksgiving calendar shift. On the positive side, tonnage continued to improve sequentially compared with the second quarter and earnings per share were ahead of consensus. Same-store sales growth at Shoppers Drug Mart was ahead of consensus at 4.1%, with 5.3% growth in pharmacy and 3.1% growth in the front end. Management maintained its outlook for 2019, which includes positive net earnings growth driven by positive same-store sales growth and stable gross margin. Capital spending will be approximately $1.1 billion. A significant proportion of free cash flow will be allocated to share repurchases. We remain positive on Loblaw due to its cheap valuation relative to its Canadian peers and because the company is executing on its plan to grow net earnings through positive same-store sales growth, stable gross margin and a declining selling, general and administrative expenses rate. Most of the excess cash flow will be returned to shareholders through share buybacks and a growing dividend. Despite this stock price decline in the fourth quarter, the stock price finished the year up 9.8%.

- Cisco Systems Inc. returned -4.2% during the period, following the previous quarter's 9% loss. Cisco underperformed on its quarterly results, highlighting a steep decline in product orders. The cause of the weakness was cited as macro-related and it affected Cisco's

commercial and enterprise business lines. We still remain constructive on the forward outlook as we expect that the acquisition of Acacia Communications Inc. will give Cisco unique semiconductor expertise that will benefit the company as internet speeds increase in coming years. This benefit was highlighted in Cisco's recent strategic disclosure briefing.

- Unilever PLC, a global leader in consumer brands, declined 7% in local currency following a formal cut to its guidance to below 3% from 3-4% for underlying sales growth for its fiscal year 2019, with just one quarter left to report in the year. This implies that the fourth quarter will slow to 1-1.5% compared to the growth of 2.9% in the third quarter. The main weaknesses came from 1) A market slowdown in South Asia. In particular, growth in India is below 5% compared to above 10% a year ago due to weaknesses in rural areas; 2) A market slowdown in West Africa (Nigeria/Ghana) and liquidity crunches disrupting distributer buyer patterns; 3) A challenging environment in the United States. However, the company has also indicated that due to challenging markets, organic sales growth in fiscal year 2020 will be in the lower half of the 3-5% range in the second half of the year. Unilever reiterated its 20% earnings before interest and taxes margin target for 2020. We remain positive in the near term due to the company's reasonable valuation, its high exposure in high-growth emerging markets, which should recover over the near term, its 3.2% dividend yield and its annual free cash flow of approximately 7 billion euros per year. Despite this decline during the fourth quarter, the stock price finished 2019 up 8.8%.

Portfolio Activity

- Within financials, we slightly trimmed sector exposure on strength. Positions exited include Bank of America Corp., KBC Group NV, Wells Fargo & Co., TCF Financial Corp., UBS AG, Unicredit SPA and Berkshire Hathaway Inc. Financial holdings added to during the period included ABN Amro Bank NV, Visa Inc. and AIA Group Ltd.

- In the materials sector, we sold Teck Resources Ltd. on our subdued expectations for global economic strength. We realized a loss on this position.

- In the consumer staples sector, we added Tesco PLC prior to the U.K. election and that has worked out nicely so far. The company's stock trades at the low end of its peer group despite having stabilized margins and an improving topline outlook.

- The health care sector weight increased during the period as Amgen was added in October. There was a smaller addition to Eli Lilly & Co. and we exited the position in Takeda Pharmaceuticals Co. Ltd. of Japan, which had recovered strongly from its August lows.

- Thales was sold following a disappointing financial update and replaced with Mitsubishi Electric Corp. in the industrials sector. Caterpillar Inc. was added late in the quarter.

- Utilities exposure increased modestly as we added Enel SPA, Iberdrola SA and NTPC Ltd. of India, while exiting GDF Suez Energie SPA.

- Within investment technology and telecommunications, we exited Oracle Corp. and China Mobile Ltd., as fundamentals and execution were not supportive. Most of the proceeds were reinvested in Taiwan Semiconductor Manufacturing Co. Ltd., as our concerns regarding U.S.-China trade eased.

Outlook

- Global equity markets recovered extremely well from the fourth quarter 2018 sell-off. The Bloomberg World Exchange Market Capitalization increased from $69.6 trillion to $87 trillion over the past year. Even if we back out the $1.8 trillion addition of Saudi Aramco, that's a 22.4% increase in the market value of exchange-listed companies. This puts the index back to its January 2018 highs. The U.S. market capitalization outperformed with a climb of almost 28% over the year. Current U.S. market capitalization relative to U.S. GDP is now concerning relative to history.

- The U.S. Federal Reserve's three insurance cuts and liquidity provision prompted copycat monetary easing worldwide, which under normal circumstances should promote credit growth and investment. The U.S. Trade Representative Office delivered a Phase One deal with China in December, averting further tariff escalation and allaying fears of prolonged deglobalization. Despite these positive developments, we enter 2020 with a skepticism about the anticipated resurgence in economic activity. Ongoing geopolitical uncertainties and declines in secular growth potential in emerging and developed economies make effective stimulus a challenge. Meanwhile, markets have moved ahead and are now pricing in stabilization and recovery of trade and global GDP, leaving them vulnerable to disappointment. For instance, volatility fell across all asset classes to a degree that we find inconsistent with the risk outlook.

- Valuations accounted for the move higher in equities rather than earnings growth, which was anemic in 2019. This stands to reason as long-term risk-free rates fell sharply and credit spreads compressed, which should lower the earnings yield (elevate the price-earnings) of the stock market. Recall that in 2018 the opposite occurred – valuations compressed on fear and returns over a two-year period have been primarily driven by earnings and capital return. So, we need not panic over the level of valuations in the market, as long as those preconditions continue to be met. Conversely, in the unlikely case that bond yields rise sharply, expect to see valuations head lower, outside of financials.

- The market's trajectory will hinge on China. Chinese growth will dictate that of emerging economies and by extension, Europe. If China reaccelerates, expect a weaker dollar, firmer commodities, modestly higher rates and a cycle extension led by international markets. Here again we anticipate a more lacklustre outcome of further gradual slowing, a view consistent with interest rates remaining capped at low levels.

- Valuations are demanding, yet reasonable 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 expect that modest economic growth will support bumpy yet acceptable returns from equities relative to the rather limited investment alternatives. We anticipate a defensively positioned portfolio to be prudent.

- We are overweight preferred shares in the Fund, due to the relative return expectation compared to equities. Overall, we believe the Canadian preferred share market is attractively priced with a current yield of 5.5% even though it has dropped from 5.7% over the past quarter. We expect preferred shares to return 4.5–5.5% in 2020 with most of that coming in the first half of the year.

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