Signature Select Canadian Fund
Third-Quarter 2020

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Class F returns (in %) as at September 30, 2020	Year-to-date	1 year	3 year	5 year	10 year	Since inception (2000-08-08)
Signature Select Canadian Fund	-4.2	2.6	2.1	6.7	7.2	8.3

Sources: Bloomberg Finance L.P., Morningstar Research Inc. and Signature Global Asset Management, as at September 30, 2020.

Performance Summary

- Signature Select Canadian Fund Class F (the Fund) returned 7.8% over the third quarter of 2020, outperforming its benchmark, 50% MSCI ACWI Index, 50% S&P/TSX Composite Index, which returned 5.4% over the same period.

- The Fund's relative outperformance during the quarter was largely due to strong performance from its equity holdings, most specifically in the information technology and materials sectors. Equity markets in the third quarter continued to rebound from the earlier COVID-19 sell-off, though the gains were more muted than the very strong second-quarter bounce. During the third quarter, the information technology, consumer discretionary and industrial sectors led markets higher, while energy, health care and real estate lagged. The consumer discretionary sector performed particularly well. Strength in the sector early this year had been largely confined to the internet retailers, such as Amazon, but as the recovery in consumer spending continued, the gains became more broad-based within the sector.

Contributors to Performance

- Advanced Micro Devices Inc. (AMD) shares rose 55% during the quarter. The company continues to benefit from the new launch of products and production missteps from its primary competitor, Intel Corp. Intel's production problems are so severe that the company wrote an "apology letter" to customers accepting blame for the production problems and subsequent product shortages. This has been a catalyst for end clients to further diversify their suppliers and consider AMD for more products. AMD's valuation looks attractive given their product positioning in both graphic and microprocessor semiconductors relative to NVidia Corp. and Intel respectively. Investors are gaining comfort with the company's profit forecasts, as AMD demonstrates that it can ship better product than Intel and maintain market-share gains.

- The Fund's holding in West Fraser Timber Co. Ltd. also added to performance during the quarter. The company's shares were up 30% as lumber prices continued their steady march higher to reach record levels in mid-September before somewhat pulling back. A rebound in new-home construction and high levels of activity in the home-renovation market combined with a somewhat limited lumber supply to create very strong market conditions. This has proven to be one of the COVID-winning sectors of the market this year, and West Fraser is well positioned to benefit as one of North America's leading lumber producers.

Detractors from Performance

- The Fund's holding in Suncor Energy Inc. detracted from performance, as the shares were down 28% during the quarter, slightly worse than the broader integrated oil decline of 23%. The integrated oils, normally a somewhat defensive group within the broader energy sector, performed poorly as the International Energy Agency and BP Statistical Review released separate reports that provided downcast projections of long-term oil demand. Suncor was also impacted by a fire at one of its oilsands operations, thought the impact on cash flow is expected to be minimal. The company trades at a very reasonable valuation and generates an 8% free cash flow yield at low oil prices of around US$40/barrel WTI.

- First Energy Corp. was hit by a political scandal that involved the company's Ohio operation. The FBI investigation uncovered a scheme to corrupt Ohio legislators to influence decisions on energy and electricity policy. We sold part of the position as soon as the scandal broke and exited the remainder of the position as the potential scandal deepened. Despite having a high-quality suite of electric generation, transmission and distribution assets, the uncertainty created by the regulatory and legal investigations caused us to exit our position, as we are seeing opportunities elsewhere in the sector.

Portfolio Activity

- During the quarter, we sold down about half of our large AMD position. It was one of the Fund's largest holdings at approximately 4%, and we took some profits due to the strength of the share price (+78%) year-to-date. We continue to believe in the company's strong semiconductor market position, corporate execution and long-term growth prospects. Even after the recent trim we continue to hold a meaningful position.

- We also initiated a position in Sun Communities Inc. It is a leading owner and operator of manufactured housing and recreational vehicle communities in the United States and Ontario. The company has a strong track record of driving organic and external growth across economic cycles. The industry maintains strong tailwinds as supply growth remains constrained, while demand for affordable housing has remained strong. In late September, Sun Communities capitalized on its strong balance sheet and cost of capital advantage to acquire Safe Harbour Marinas LLC, a leading marina owner/operator in the United States, providing a complementary source of portfolio growth.

- We sold the Fund's position in First Energy Corp. The company's outlook changed materially with the revelation of a potential bribery scandal as discussed above.

Outlook

- While the overall rate of economic growth is slowing, this was largely expected given the strong initial post-COVID bounce and broad levels of economic activity that are now closer to normal. Moreover, the world is slowly learning to live with COVID-19, and with each passing month, we believe the likelihood of a vaccine draws nearer. As our confidence in the sustainability of the recovery continues to strengthen, we expect to gradually adjust the Fund's more defensive positioning from earlier in the year.

- Interest rates dropped in 2020 and have been perhaps the single main contributor to capital-market returns. While some back-up in rates would be expected as economies continue to recover, central banks have signalled their intention to keep rates low for an extended period of time. The combination of low current yields, record duration of investment-grade bonds, and record fixed income assets under management portends poorly for future government bond returns in both real (after-inflation) and nominal terms. Investors should look at current yields (5.7% for the ICE BAML US High Yield Index, 1.9% FTSE Canadian Corporate Bond Universe Index) as a guidepost for future returns.

- With the continued rebound in the third quarter, major global equity markets have now recovered to record or near-record levels. At September 30, the S&P 500 was up about 4% year-to-date, which is slightly down from its early September peak but still in line with then-record levels reached immediately before COVID hit in March of this year. The Canadian S&P/TSX Composite benchmark was down about 5% due largely to the drag of the energy sector, which still comprises a much larger share of the Canadian benchmark compared to its global peers. With a vaccine (hopefully) on the horizon and global economies on the mend, we believe equity markets can move higher. In this scenario, much of the market strength could well come from some of the underperforming year-to-date "COVID losers," such as cyclicals, financials and industrials.

Sources: Bloomberg Finance L.P. and Signature Global Asset Management, as at September 30, 2020.

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