SIGNATURE
GLOBAL ASSET MANAGEMENT™

Signature Canadian Balanced Fund
First Quarter 2020 Commentary

Class F returns (in %) as at March 31, 2020	Year-to-date	1 year	3 year	5 year	10 year	Since inception (2000-08-08)
Signature Canadian Balanced Fund	-11.1	-5.7	0.2	1.2	4.9	5.4

Sources: Signature Global Asset Management, as at March 31, 2020.

Performance Summary

- Over the first quarter of 2020, Signature Canadian Balanced (the Fund) returned -11.1% compared with the -9.98% from its benchmark of 30% MSCI ACWI, 30% S&P/TSX Composite Index and 40% FTSE Canada Universe Bond Index.
- The Fund underperformed its benchmark slightly over the period primarily due to the performance of certain equity holdings in the financial and energy sectors. The broad coronavirus-induced market sell-off was more impactful to Canadian equities due primarily to our country's higher-than-average exposure to commodity sectors, which were hit particularly hard. This was somewhat offset by the Fund's relatively lower allocation to equities during the quarter, as well as a meaningful position in gold, which increased in value during the quarter. With respect to the fixed-income portion of the portfolio, an underweight exposure to government bonds detracted from performance as this typical safe-haven sector held up better than other asset classes during the market turmoil.

Contributors to Performance

- The Fund's exposure to gold helped to offset an otherwise difficult quarter in capital markets. Wheaton Precious Metals Corp. was up slightly during the quarter and the Fund's position in SPDR Gold Shares (GLD), which is backstopped by physical gold, increased by 3.6% (or 13.2% in Canadian-dollar terms) during the quarter. This was a better performance than the fixed income index, which it was designed to replace.
- Advanced Micro Devices Inc. (AMD) was relatively flat during the quarter, declining approximately 1% (but was up more than 8% in Canadian-dollar terms). The company continues to benefit from the long-term growth trajectory of its graphic and

microprocessor semiconductors broadly, the launch of new products and missteps of its primary competitor – Intel.

Detractors from Performance

- As the Fund's top equity holding, Manulife Financial's 33% decline during the quarter detracted from performance. The economic impact of the coronavirus will clearly affect earnings in the near-term with lower wealth management revenues, higher credit costs and negative underwriting experience. However, the earnings power of the franchise is not as impaired as current valuation would suggest. The business is well-diversified and its most valuable Asian businesses have demonstrated resilience under horrific circumstance. We expect the company to navigate current challenges relatively well, and the dividend yield of 7% is attractive.

- Teck Resources Ltd. detracted from the Fund's performance as its share price declined an astonishing 52.6% during the quarter due to the significant commodity price collapse as the coronavirus crisis unfolded. While most of the events have been outside of management's control, it has led to investors fleeing the resource sector, and resulted in poor share price performance. We continue to like Teck Resources for its strong balance sheet, its transition to a more balanced asset portfolio once current mine expansions are complete and its inexpensive exposure to copper.

Portfolio Activity

- The Fund's fixed-income weight was decreased significantly from a near neutral weight of 39% coming into the year, down to approximately 26% at the end of the quarter. This was primarily achieved through an approximate 11% reduction in government bond holdings. The incredible fall in interest rates across the globe to near-zero has caused us to look for better returns in other asset classes as well as portfolio diversification elsewhere – specifically in gold.
- We took advantage of the sharp market drop late in the quarter to increase the equity weighting from approximately 53% to approximately 65%. The Fund had been underweighted in equities for most of the quarter due to concerns around valuation levels, global geopolitical risks such as Brexit and poor U.S.-China trade relations, as well as what we believed to be relatively high valuations. The increase was spread across several sectors, new positions and increases to some of the Fund's existing holdings.

- The Fund's gold exposure was increased during the quarter to approximately 10%, split between some high-quality gold miners as well as direct exposure to the commodity through GLD. We continue to believe that in the current environment, gold has a strong place in multi-asset portfolios, as it provides an excellent hedge against negative real interest rates, which currently exists in many parts of the world and approaches ever closer in North American fixed-income markets.

Outlook

- We came into 2020 with a generally subdued equity outlook based upon relatively elevated market valuations combined with slowing global economic growth, but this was completely overwhelmed during the quarter by the onset of the coronavirus globally. The far-reaching impact of the virus makes all other forecasts somewhat meaningless until the duration and severity of the virus' impacts become more apparent. One bright spot in this current period of uncertainty is that governments and central banks have gone into action very quickly with a combination of interest rate reductions, quantitative easing measures, and broad fiscal support for consumers, businesses and markets. While the ultimate outcome remains uncertain, we believe that these measures, along with actions to contain the spread of the coronavirus, will result in a gradual normalization of economic activity and financial markets in the second half of the year.
- In light of this view, we have been reducing our fixed-income exposure – most specifically in government bonds – and increasing our equity exposure to take advantage of the significant decline and expected recovery of equity prices. While the timing of economic recovery post-coronavirus is uncertain, the example of countries that were first impacted shows that quarantine measures should ultimately lead countries back toward normalization.
- In the current environment where it is expected to see very low returns from government bonds, in order to maintain some balance in the portfolio, we continue to hold a significant position in gold. This should also provide some protection to the Fund if the incredible amount of stimulus ultimately results in higher inflation, which is not an insignificant possibility.

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