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Signature Canadian Bond Fund
First-quarter 2020 Commentary

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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 Bond Fund	0.6	3.1	2.4	1.7	3.5	4.3

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

Performance Summary

- Signature Canadian Bond Fund Class F (the Fund) returned 0.6% over the first quarter of 2020. Over the same period, the Fund underperformed its benchmark, the FTSE Canada Universe Bond Total Return Index, which returned 1.6%.

- The positive total returns for both the Fund and the benchmark were due to the fall in Canadian government bond yields over the quarter.

Contributors to Performance

- An overweight exposure to U.S. government bonds contributed positively to alpha returns, as U.S. government bond yields fell more than Canadian government bonds yields over the first quarter.

- An allocation to U.S.-dollar denominated bonds, net of currency hedges, led to a positive contribution to the Fund's alpha return. The dual shock of a collapse in oil prices and a global flock to the U.S. dollar as a safe-haven currency, saw the U.S. dollar appreciate relative to a weak Canadian dollar in the first quarter.

- An underweight exposure to the entire complex of provincial government bonds contributed positively to alpha returns. Provincial spreads widened alongside other credit spreads as investors looked to reduce credit risk in the second half of the first quarter.

Detractors from Performance

- A small underweight exposure to Canadian government bonds (net of an overweight exposure to U.S. government bonds) modestly detracted from alpha returns, as real yields continued to fall into the end of the first quarter on the back of the monetary policy stimulus announced by the Bank of Canada in March.

- An overweight exposure to Canadian investment-grade corporate bonds detracted from both the Fund's total and alpha return. Credit spreads widened as the global coronavirus pandemic saw financial conditions deteriorate, corporate funding markets freeze up and all risky assets sell off in February and March.

Portfolio Activity

- As real yields fell, the Fund's duration was reduced and its curve-steepening exposure was increased by selling longer-dated (10 to 30 years to maturity) government bonds to buy shorter-dated government bonds (5 years to maturity and shorter).

- Alongside the duration reduction, exposure to provincial government bonds was significantly reduced by selling predominantly 30-year Quebec and Ontario government bonds. By the end of the first quarter, as credit conditions began to stabilize, we began to take profits on our underweight to provincial government bonds by repurchasing provincial government bonds in primary markets.

- As credit conditions deteriorated, we reduced our overweight exposure to Canadian investment-grade corporate bonds in the middle of the quarter. By the end of the quarter, as global credit conditions began to stabilize, we increased the investment-grade corporate exposure by taking advantage of better opportunities in the U.S. investment-grade corporate bond market.

Outlook

- The global (and Canadian) monetary and fiscal responses to the coronavirus pandemic have been swift, decisive and effective. The measures taken to date have helped broadly stabilize global financial conditions by providing consumers, businesses, and governments with access

to funding at mostly cheaper costs than the previous quarter. This has helped reduce the likelihood that a global health crisis could result in a broader systemic crisis. Ultimately, an effective global health policy is required for our working lives, economies and markets to normalize. Clearly, governments the world over were unprepared for such a health shock and are now scrambling to determine how best to respond. Time will bring more technology, data, testing, best practices and, eventually, a vaccine to this battle. We will very likely see a second wave of this outbreak in the fall and we expect that all of us (including governments) will be far more prepared.

- The economic toll of the coronavirus on Canada, the United States and other developed markets has only just begun and is far from over. The economic shock is compounded as both consumers and businesses are hard hit: the former by the unprecedented rise in unemployment in such a short period of time and the latter by both demand- *and* supply-side disruptions to their operations. Furthermore, in Canada, the global oil price war initiated by Saudi Arabia and Russia, generated severe economic and business stresses for commodity intensive provinces. This means that economic and financial stresses will persist, and ratings downgrades will rise from current levels – an expectation that capital markets have largely priced as spreads have widened and risky assets have fallen.

- The negative correlation between risk-free government bonds and risky assets persisted in the first quarter—a consolation prize for markets as portfolio diversification continued to work. Going forward, with government bond yields at record lows and central bank interventions aiming to keep interest rates low for the foreseeable future (i.e., the next few years), most short-to-medium-term government bonds (up to 10 years to maturity) will not be able to generate high positive returns if risky assets fall once more. Therefore, cash, foreign currencies, commodities and derivatives will grow in importance as defensive asset classes.

Source: Bloomberg Finance L.P. and Signature Global Asset Management.

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