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Signature Core Bond Plus 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 (2015-12-21)
Signature Core Bond Plus Fund*	-3.0	0.2	1.4	N/A	N/A	1.7

*Effective November 22, 2019, Sentry Canadian Bond Fund has merged with Signature Core Bond Plus Fund, and this change may impact performance. Had these changes been in effect prior to this date, the performance of the fund could have been different.

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

Performance Summary

- Signature Core Bond Plus Fund Class F (the Fund) returned -3.0% over the first quarter of 2020. Over the same period, the Fund underperformed the benchmark FTSE Canada Universe Bond Total Return Index, which returned 1.6%.

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

Contributors to Performance

- Exposure to U.S. and Canadian government bonds contributed to the Fund's return as global government bond yields fell to record lows over the first quarter.

- An allocation to U.S.-dollar denominated bonds, net of currency hedges, helped the Fund's 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.

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- An underweight exposure to the entire complex of provincial government bonds contributed 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

- The Enbridge hybrid bonds sold off dramatically in the first quarter as the combination of energy exposure and being non-core to the investment-grade market proved humbling. Enbridge will likely see increased counterparty risk and lower volume growth, but credit quality is largely unimpaired.

- Exposure to credit spreads (U.S. high yield, U.S. dollar-denominated emerging market sovereign bonds, global investment-grade corporate bonds, U.S. inflation-linked bonds and preferred shares) detracted from the Fund's total ad 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.

- Nervous about a lack of volatility, only fair valuations and asymmetric upside/down, we put on high-yield hedge. The strategy was profitable but in hindsight was closed out too early.

- By the end of the quarter, as global credit conditions began to stabilize, we increased the high-yield and investment-grade corporate exposure by taking advantage of better opportunities in the U.S. corporate bond market. We established new, starting positions in the Fund in a number of fallen angels including Cenovus Energy Inc. and The Kraft Heinz Co.

The ratings downgrades occurred as the market was severely located providing the opportunity, in some cases, to buy these bonds between 40 to 60 cents on the dollar.

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 global economy will probably enter recession in the second and third quarters of 2020. Nonetheless, the investment-grade and high-yield bond markets have re-opened. There is a massive amount of stimulus, and likely more to come, that will bridge the markets and the real economy to a time when business activity returns to normal. This includes monetary policy stimulus such as interest rate cuts, quantitative easing, and commercial paper and corporate bond buying programs. Central banks and governments learned their lessons from 2008. Fiscal stimulus, including bridge loans, payroll subsidies, tax relief and more, should be sufficient to tide over small and large business. At the same time, a sea change in corporate behavior is back; fear has replaced greed. Fear, in terms of debt reduction, preserving credit quality, and conservative financial practices accrues to the benefit of lenders. Corporate bond spreads are once-in-a-decade compelling, even adjusting for increased credit risk in the form of ratings downgrades and defaults. Volatility should subside and returns over the next 12 months should exceed current yields. This is as bullish we have been since 2008 on the prospects for both high-yield and investment-grade bonds.

- 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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