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GLOBAL ASSET MANAGEMENT™

Signature Emerging Markets 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 Emerging Markets Fund	-15.7	-10.2	2.0	1.7	3.9	4.8

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

Performance Summary

- Over the quarter ended March 31, 2020, Class F of Signature Emerging Markets Fund (the Fund) declined 15.7%, slightly outperforming its benchmark, the MSCI Emerging Markets Total Return Index, which was down 16.1% over the same period.

- The Fund's marginal outperformance versus the benchmark during the quarter was largely because of country selection and defensive asset allocation. The Fund's overweight position in China and underweight positions in India and Saudi Arabia added to the Fund's relative performance, although this was partially offset by being underweight in Brazil. The Fund's cash level and a put option on emerging-market equities also added to relative performance as equities sold off during the quarter.

Contributors to Performance

- GDS Holdings Ltd. is the leading data centre developer in China, with several projects in the pipeline and with customers already committed for most of these projects. The company has a clear and well-articulated expansion strategy to secure new land reserves. Data centres and computing power demand are in a secular uptrend to fulfill the surging demand of data usage, which will likely receive a further demand boost due to the COVID-19 pandemic. Data centre business in China has a natural moat against foreign companies as it is a protective and sensitive industry. GDS Holdings is a good proxy for investment in Chinese data centres.

- Yonyou Network Technology Ltd. is a leading provider of enterprise services in China, offering cloud computing, software and financial services. With 70% of revenue from traditional enterprise resource planning software businesses in China, Yonyou Network Technology has

a dominant market share of over 60% as it primarily focuses on state-owned enterprises and large enterprises. When migrating to a cloud-computing business, the company's customers have a better potential to convert into a software-as-a-service model because they have bigger budgets and higher financial capabilities with which to facilitate such a transition. Kingdee International Software Group Co. Ltd., as the number-two software company in China, is focusing more on small and medium-sized enterprises.

- China Overseas Property Holdings Ltd. is one of the leading property management companies in China. Its parent company, China Overseas Land & Investment Ltd., is a state-owned enterprise and a top-five property developer in China. China Overseas Property Holdings is considered to have the best management in the industry, good at cost control and disciplined in mergers and acquisitions, and it has strong brand recognition. The company is expected to continue to take market share. Because of its high earnings growth, strong positive cash flow from property management fees, asset-light business model and strong balance sheet (net cash), the company became a "safe-haven" asset for investors during the quarter.

Detractors from Performance

- Banco Do Brasil S.A. is one of the biggest banks in Brazil and is controlled by the government. The bank has made some impressive progress over the past number of years and is inching closer to returns of private banks. The sell-off of the bank's stock in the quarter was driven mainly by risk aversion to emerging markets in general and Brazil in particular as it relates to the country's ability to fight the COVID-19 disease. In addition, there is still some worry that the bank will be used by the government as a policy tool, something we see as unlikely with the current government in place. We still have a positive view on the bank's stock as we believe the rerating towards the multiples of private banks should continue while the bank's returns improve.

- Sberbank of Russia is the biggest bank in Russia, with over 30% market share in loans and deposits. Over the past number of years, the bank has transformed itself by heavily investing in technology and optimizing costs. With such a big market share in Russia, the bank is used as a proxy for Russian sentiment and its stock usually sells off when there are negative Russian headlines. However, the sell-off of the bank's stock during the quarter was related to declining oil prices as the Organization of the Petroleum Exporting Countries and Russia failed to reach an agreement on oil production cuts. Fears over the spread of the COVID-19 disease also added to the sell-off. Sberbank stock still trades at attractive valuation levels relative to the bank's return potential.

- As one of the mining companies most exposed to copper, First Quantum Minerals Ltd. suffered along with the approximate 21% decline in the price of the metal during the quarter. The price reaction was amplified by the company's leverage to finance the Cobre Panama project, which is now ramping up to full production. The impact of current low copper prices on the company's debt covenants is mitigated by the company's copper hedges in 2020. The Cobre Panama mine is one the largest sources of copper supply growth in 2020. We continue to like First Quantum Minerals for its position as of one of the purer plays on copper and for having a growth profile and asset portfolio that is attractive to both diversified miners and Chinese mining companies.

Portfolio Activity

- During the quarter, we eliminated the Fund's holding in NARI Technology Co., Ltd., the biggest beneficiary of the push by State Grid Corp. of China (SGCC) for electric internet of things. Nari Technology's share price came under pressure during the second half of 2019 due to the market's misjudgement of SGCC's announcement that it will slow down grid investments in the future. The decision on slowing down grid investments relates to investments on new transmission and distribution lines. Even though NARI Technology would be the biggest beneficiary of SGCC's new investment strategy, the recent COVID-19 pandemic's impact in China further weighed on the company's share price.

- Following a strong performance in fiscal 2018, restaurateur BK Brasil Operacao e Assessoria a Restaurantes S.A. reported results for the first nine months of 2019 that were in line with expectations for revenue but below consensus estimates for same-store sales and profitability. The latter was driven by a higher promotional environment and elevated commodity costs. During the quarter, we exited the Fund's holding in the company.

- Han's Laser Technology Industry Co., Ltd. is one of the top producers of laser-processing equipment globally and the largest laser equipment supplier in China, supplying 70% of Apple Inc.'s laser tools. The company's main products include laser markers, laser welders, laser cutters and laser engravers, and it also provides equipment for the production and processing of electronic components, LED display panels, printed circuit boards, consumer packages, auto parts and other consumer electronics products. During the quarter, we added to the Fund a position in Han's Laser Technology Industry after the sell-off in March.

Outlook

- With markets having found a tentative bottom since March 23, 2020 and valuations looking compelling across many countries and sectors, some investors are starting to look at opportunities to re-engage emerging markets. This is not surprising given the record outflows of emerging-market assets during the second half of the quarter. The pace of these outflows surpassed any period in history.

- The bottoming of equity markets seems justifiable given the wave of fiscal and monetary policy stimulus and hope that the COVID-19 pandemic might be peaking in Europe, with North America (Canada and the U.S.) hopefully to follow within a few weeks. Further support comes from the injection of U.S.-dollar liquidity into global markets at the end of March and early April, improved credit conditions and the consensus view that most developed-market economies will start recovering from the third quarter of 2020 onwards.

- Although the duration of the economic disruption due to the COVID-19 pandemic and the ability to recover from it will depend on many factors, it ultimately boils down to what extent permanent damage can be avoided. Key in determining the difference between temporary shocks and permanent damage will be the number of unemployed people returning to work and the number of businesses resuming operation after governments relax social-distancing restrictions.

- However, the case for a recovery in developed-market equities and economies in the second half of 2020 is much stronger than that for emerging-market equities and economies. Historically, emerging-market equities have tended to outperform in an upswing given their cyclical nature, but we would caution in reading too much into this historical correlation.

- Despite the tentative bottoming, uncertainties remain high: the spread and peaking of the COVID-19 disease by country, the full impact of social-distancing measures on economies, the efficacy of government stimulus, the timing and pace of the expected economic recovery, the probability of a second wave of the pandemic and social unrest.

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

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