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GLOBAL ASSET MANAGEMENT™

Signature Global 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 Global Bond Fund	7.8	9.3	3.7	3.3	4.7	3.9

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

Performance Summary

- Signature Global Bond Fund Class F (the Fund) returned 7.8% over the first quarter of 2020, underperforming its benchmark, the JPM Global Government Bond Index (CAD unhedged), which returned 13.1%.

- The positive total returns for both the Fund and the benchmark were largely attributed to the drop in global government bond yields and the depreciation of the Canadian dollar relative to its G10 peers throughout the first quarter.

Contributors to Performance

- An overweight exposure to U.S. and Canadian government bonds contributed positively to alpha returns as U.S. and Canadian bond yields fell more than their G10 peers over the first quarter.

- An underweight exposure to Italian and Spanish government bonds contributed positively to alpha returns, as European peripheral spreads widened due to coronavirus developments, which investors feel will lead to significant economic contractions in 2020 for those countries.

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Detractors from Performance

- An underweight exposure to euro-denominated bonds detracted from alpha returns as the Canadian dollar depreciated against its G10 peers throughout the first quarter.

- An overweight exposure to various forms of credit spreads (global investment-grade corporate bonds, U.S. dollar-denominated emerging market sovereign bonds, U.S. inflation-linked bonds and Canadian provincial government bonds) detracted from both the Fund's total and alpha returns. Credit spreads widened as the global coronavirus pandemic saw all risky assets sell off in February and March.

Portfolio Activity

- The Fund's underweight exposure to the euro was reduced as global sentiment around risky assets began to turn in the second half of February and investors flocked to the euro's safe-haven currency status.

- Exposure to U.S. dollar-denominated emerging market sovereign bonds, global investment-grade corporate bonds and Canadian provincial government bonds was reduced, as global investor sentiment on risky assets turned in the middle of the first quarter.

- Exposure to U.S. inflation-linked bonds was increased noticeably in March, as the U.S. Federal Reserve took swift action to ease financial conditions and provide stimulus to the U.S. economy, including announcing an aggressive quantitative easing program. The multi-trillion-dollar (in U.S. dollars) program encompasses U.S. Treasury bonds, U.S. inflation-linked bonds and U.S. mortgage-backed securities.

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.

Glossary of term

Alpha: A measure of performance. Alpha, often considered the active return on an investment, gauges the performance of an investment against a market index or benchmark which is considered to represent the market's movement as a whole. The excess return of an investment relative to the return of a benchmark index is the investment's alpha.

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