Signature Global Equity Fund
Second-Quarter 2020

Eric Bushell, CFA, Senior Vice-President and Chief Investment Officer

Class F returns (in %) as at June 30, 2020	Year-to-date	1 year	3 year	5 year	10 year	Since inception (2000-08-08)
Signature Global Equity Fund	-4.5	1.1	5.3	5.9	10.2	2.3

Sources: Bloomberg Finance L.P., Morningstar Research Inc. and Signature Global Asset Management, as at June 30, 2020.

Performance Summary

- Signature Global Equity Fund Class F (the Fund) returned 13.6% during the quarter, underperforming its benchmark, the MSCI All Country World Total Return Index, which returned 14.3% over the same period.

- The Fund's performance lagged its benchmark as cash and gold allocations were not able to offset material equity weakness within the consumer discretionary and financials sectors.

Contributors to Performance

- Snap, Inc. Class A reported better-than-expected results in its latest earnings report despite noting a deceleration in March. User engagement accelerated compared to last year and the shift to performance-based advertising is showing signs of progress. Profitability is improving but the company is expected to continue to invest in the platform. Snap offers gaming and mapping platforms, and recently announced a deal to expand gaming by partnering with leading casual game vendor Zynga Inc. Niche and targeted advertising platforms are having an easier time attracting advertisers who want clean content that they can associate with their brand. Politically charged, COVID-19-related and inflammatory social media platforms are increasingly losing advertisers seeking to avoid controversy, which should benefit as advertising dollars shift to more benign yet targeted platforms, such as Snap.

- Microsoft Corp. helped gains during the quarter. Despite warning on weakness in near-term personal computer sales, Microsoft is seen as a relatively defensive investment in the context of the COVID-19 pandemic. The company has seen a huge surge in demand for its online services, noting that they have seen nearly two years of cloud service adoption in two months. This bodes well for the company's positioning with clients, as engagement with their cloud service applications and online collaborative tools such, as Teams, have been rapidly accelerating. Microsoft has an excellent balance sheet and remains one of the few large-capitalization stocks that can continue to tap financial markets and engage in shareholder-friendly return of capital initiatives despite economic headwinds in general.

Detractors from Performance

- Our overweight cash position of 4.4% was the main detractor from performance in the quarter. We intended to use this cash to help companies recap; however the need for capital injections was alleviated by the U.S. Federal Reserve's speedy actions, after which the markets rallied significantly and holding excess cash dragged on performance.

Portfolio Activity

- Over the quarter, we maintained the Fund's defensive positioning and the majority our of equity holdings. We tactically sold out of First Quantum Minerals Ltd., as the move up in copper prices did not reflect our expectations for a slower return to more normalized demand and, thus, a more balanced market. The Fund participated in the initial purchase offerings (IPOs) of Kingsoft Cloud Holdings Ltd. (Chinese cloud infrastructure provider) and Net Ease Inc. (Chinese gaming and music streaming) in May. The Fund also participated in the secondary equity offering of Embassy Global REIT, a company we have been involved with since the Indian REIT's IPO in early 2019.

Outlook

- Financial conditions are volatile. Should the U.S. dollar fall and fuel the easy money backdrop further, a bubble will take shape. Long-term investors should harvest gains in that event because the market is extremely dependent on policy.

- We have a firm long-term view that interest rates will remain low and growth will remain scarce. The Fund is tilted towards secular growth and defensive income-generating sectors, and away from cyclicals. The supposed rotation to value and cyclicals in early June was not credible to us.

- The fiscal consequences of COVID-19 are devastating. Government borrowing needs to bridge the shock are testing the markets' capacity to absorb. The temptation to finance via central banks is problematic and must only be temporary. The likelihood of higher tax rates post COVID-19 recovery is now absolute.

- The U.S. election in 2020 is less than six months away and could prove to be a turning point for U.S. participation on the global stage.

- China's assertiveness in Hong Kong signifies a tack in direction toward a more domestic economic model. Capital markets and technology will play important roles in the next chapter of Chinese growth.

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

Published July 15, 2020.