Signature Emerging Markets Fund
Second-quarter 2020 Commentary

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 Emerging Markets Fund	-0.9	5.7	6.1	5.5	6.2	5.6

Source: Signature Global Asset Management, as at June 30, 2020.

Performance Summary

- Over the quarter ended June 30, 2020, Class F of Signature Emerging Markets Fund (the Fund) returned 17.5%, slightly outperforming its benchmark, the MSCI Emerging Markets Total Return Index, which was up 13.0% over the same period.

- The Fund outperformed the benchmark during the quarter largely because of stock selection, an overweight position in the consumer discretionary sector and an underweight position in the consumer staples sector. Underweight positions in the energy and communication services sectors detracted from performance. Some country weights that worked well for the Fund during the first quarter of 2020, weighed on performance this quarter, with the underweight position in India being a case in point. The Fund's overweight position in China also falls into this category. However, we enter the third quarter with the Fund still underweight in India (COVID-19 pandemic concerns) and overweight in China (one of the few economies expected to record positive economic growth in 2020). Even though some defensive strategies employed during the first quarter were scaled back this quarter, cash and put options weighed on Fund performance, although the currency overlay partially offset these losses.

Contributors to Performance

- MercadoLibre Inc. is a beneficiary of the COVID-19 quarantine as more people in Brazil and other parts of Latin America have moved to online e-commerce given physical store closures. MercadoLibre reported solid financial performance in the quarter with strong results in April and strong e-commerce performance in a COVID-19 environment.

- 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 in China. The Chinese government has stressed the importance of cloud computing and data centres, and it understands the strategic benefit of these assets. Thus, data centre business in China has a natural moat against foreign companies as it's a protective and sensitive industry.

- Meituan Dianping, the world's largest on-demand food delivery service provider and China's largest e-commerce platform for in-store dining services, is also a beneficiary of the COVID-19 quarantine as more people in mainland China have migrated to online food ordering given the closure of physical restaurant service. The company is China's largest service e-commerce platform, dominating food-delivery and leads generation for restaurants and hotel bookings. There was an acceleration in China's service industry's growth rate over the past few months based on incentives from local governments and promotions from merchants.

Detractors from Performance

- Sunac China Holdings Ltd. is one of China's top five property developers. Earlier in the year, the company had stated it expects a 10% increase in contract sales in 2020. However, the COVID-19 pandemic disrupted the company's sales trend in the first half of 2020, and the company's share price underperformed as the company fell behind its fiscal-year 2020 guidance for earnings. Investors are concerned the company many not be able to overcome these losses in the second half of 2020, but the company's management has reiterated the company will be able to beat the targeted 10% increase in sales.

- Ping An Insurance (Group) Co. of China Ltd. is one of the largest financial conglomerates in China. The company provides products and services through its five ecosystems in financial services, health care, auto services, real estate services and smart city solutions. The company's share price was under pressure during the quarter as the investors were concerned about the slow recovery of the insurance business, which mainly requires face-to-face meetings. The company, however, mitigated the risks through widely adopted IT systems that assisted insurance agents to complete transactions through online systems.

- Banco do Brasil S.A. is one of the biggest banks in Brazil, and it is controlled by the government. The bank has made some impressive progress over the past number of years and is inching closer to achieving 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 impact of the COVID-19 pandemic and political concerns within the country.

Portfolio Activity

- During the quarter, we added Poya International Co., Ltd., which has 230 Poya stores and five Poya Home stories in Taiwan. Poya convenience stores focus on products such as household goods, skincare, cosmetics and accessories. Poya Home is equivalent to Home Depot in the North American market. The company started opening Poya Home stores in August 2019 and found the payback period and break-even point for Poya Home stores are better than for the Poya convenience stores. For its convenience stores, Poya International should benefit from the store closures in May 2020 of one of the company's competitors.

- Also during the quarter, we participated in a number of initial public offerings and secondary offerings of companies that were either a beneficiary of the work-from-home trend or the return-to-home situation. These involved dual listing of American depositary receipts on the Hong Kong stock market due to building political pressures in the United States. Sea Ltd. (gaming) and Kingsoft Cloud Holdings Ltd. (cloud computing) fall into the former and NetEase, Inc. (gaming) into the latter.

- The Fund's holding in Budweiser Brewing Co. APAC Ltd. was eliminated during the quarter. Budweiser Brewing Co. APAC is the largest beer company in the Asia-Pacific region by retail sales value and one of the most profitable Asia-based beer companies in terms of normalized earnings before interest, taxes, depreciation and amortization. However, the company operations were severely impacted by the COVID-19 pandemic, especially the high-margin nightlife channel, which contributes over 30% to the company's total revenue.

Outlook

- Following their best quarter in almost 11 years, emerging-market equities are facing a more challenging third quarter of 2020. The easier financial conditions, fiscal support and the COVID-19 pandemic peaking in many developed markets were enough to push both developed and emerging-market equities meaningfully higher in April and May, after bottoming late in March. The initial pace of the global economic recovery in the quarter also surprised to the upside as economic activity quickly restarted from very low levels following the introduction of strict social distancing requirements in March.

- The rise of emerging-market equities (18.5%) during the quarter almost kept pace with developed market equities (19.6%), but, unlike in many developed markets, the COVID-19 pandemic continued to spread aggressively across Latin America, Central Asia, the Middle East and Africa, and in Indonesia. For most of the quarter, investors seemed content to downplay this diverging gap, but the emergence of a second wave of infections in the U.S. might challenge this complacent view. Sovereign credit downgrades during the quarter (including Mexico, South Africa and India) also emphasized the limited fiscal room many emerging-market governments have to minimize the immediate adverse impact of the pandemic.

- Whether investors will be willing to build on the gains achieved in the quarter during the second half of the year, will not only depend on the development of the COVID-19 disease and possible vaccines, but also on how much structural damage was been inflicted during first phase of the pandemic. Consumer confidence, workers becoming permanently unemployed (as opposed to temporary layoffs due to forced social distancing) and the number of businesses not returning in a post-COVID-19 environment will be critical to the pace and duration of an economic recovery. Corporate default rates are also rising and need to be closely monitored as another gauge of the health of the economic recovery. In 2021, the slowing of monetary stimulus, fiscal support being cut back and, eventually, fiscal austerity (rising taxes, cutting spending) will further complicate the economic recovery. Lastly, investors will also have to navigate key political developments in the second half of 2020, including a worsening U.S.-China relationship and the U.S. elections.

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

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