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GLOBAL ASSET MANAGEMENT™

Signature Canadian Balanced Fund
Second-Quarter 2020 Commentary

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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 Canadian Balanced Fund	-2.7	1.4	3.3	3.5	6.3	5.9

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

Performance Summary

- Signature Canadian Balanced Fund Class F (the Fund) returned 9.4% during the quarter, underperforming its benchmark, 30% MSCI ACWI, 30% S&P/TSX Composite Index, 40% FTSE Canada Universe Overall Bond Index, which returned 11.6% over the same period.

- The Fund increased strongly during the period but underperformed its benchmark primarily due to an overall underweight position in equities, an overweight in the underperforming financials sector and an underweight in the information technology sector. The quarter was largely characterized by a strong market recovery after the worst impacts of coronavirus began to subside in March. Canadian equities performed about in line with global market averages during the quarter, as Canada's hard-hit commodity sectors staged a strong rebound. An overall underweight position in fixed income, particularly government bonds, added to performance during the quarter, as returns in this area, though positive, lagged both equity and commodity markets. Gold continued to perform strongly, up almost 14% during the quarter.

Contributors to Performance

- Microsoft Corp. shares rose 29% during the quarter. As one of the Fund's main equity positions, this added meaningfully to performance. While personal computer sales have been weaker for the company, Microsoft has seen a huge surge in demand for its online services, with the company 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 both their cloud service applications and online collaborative tools, such as Teams, have been rapidly accelerating.

- The Fund's exposure to gold continued to perform strongly, with both bullion and gold-related equities increasing strongly during the quarter. The gold holdings are a key source of diversification for the Fund, as we continue to believe that they provide a better return profile than the portfolio's more typical government bond component. The Fund's position in Wheaton Precious Metals Corp. increased 54% during the quarter, as equity investors took more notice of the gold and silver price rally. The Fund's position in SPDR Gold Trust, which is backstopped by physical gold, continued its upward momentum and increased by 13% (8.5% in Canadian-dollar terms) during the quarter.

Detractors from Performance

- The Fund's key detractor during the quarter was its almost 10% cash position. With virtually all risk assets recovering from the COVID-related first-quarter market sell-off, any un-invested capital dragged on performance as even the most low-risk government debt staged a modest recovery. The Fund was overweight in equities for the early part of the quarter, but we reduced the weight as markets rallied to levels that we believed were well ahead of economic fundamentals.

- The Fund's holding in Loblaw Companies Ltd. detracted from performance during the quarter. The shares declined almost 9% in an otherwise strong equity market as investors shifted away from defensive equities. This was partially giving back some of the first-quarter gains and the stock is essentially flat year-to-date. Loblaws' results trailed peers from a topline perspective largely due to timing differences and a higher proportion of general merchandise. COVID-19-related costs were higher than those reported by Canadian and international peers, and is partially attributed to the company's decision to include elevated e-commerce costs in this calculation. We continue to like Loblaws for its leading market position, digital initiatives and free cash flow profile; we expect recent elevated cost pressures to gradually subside.

Portfolio Activity

- We came into the quarter with an equity weight of about 64%, having increased it significantly during the first-quarter market sell-off. After markets rallied strongly, we reduced the weighting back down to the mid-50s range in late April. We believe that equity

markets have run ahead of economic fundamentals. The rebound in economic activity looks to have stalled in the United States, as a still-high unemployment rate, ongoing tensions with China, and increasing COVID-19 cases in several large states make the pace of recovery from here somewhat more challenging. This uncertain outlook leads us to position the Fund for a multitude of possible outcomes.

- The Fund's fixed income weight was maintained in the high-20s range, significantly below the benchmark weight of 40%. Other asset classes (particularly when compared to government bonds) continue to look more attractive to us in the era of low and negative interest rates.

- Related to this, the Fund's overall gold exposure held relatively steady at about 10%. We continue to like gold as source of diversification for the Fund, as we believe that it provides a better return profile than the portfolio's more typical government bond component.

Outlook

- With the strong rebound in the second quarter, global equity markets have recovered much of their first-quarter losses. At June 30, the S&P 500 Index was down about 4% year-to-date, while the resource-heavy S&P/TSX Composite Index was down about 9%. This is despite a severe global COVID-19 pandemic and the generational global economic downturn that it is causing. As many countries got COVID-19 somewhat under control, the early economic recovery rate was strong and helped to propel markets higher. But recent high-frequency economic data is suggesting that the recovery is stalling, which is not surprising given the resurgence of COVID-19 cases in many jurisdictions that now appear to have re-opened too quickly.

- While we were initially encouraged by the quick action of governments and central banks around the world, we believe that financial markets have become overly reliant on these ongoing stimulus and liquidity injections, and are not paying enough attention to the slow underlying economic activity, high-and-increasing debt levels, possible longer-term headwinds from the pandemic, and lofty market valuations being accorded to equity markets, particularly for "growth" companies. As such, we continue to take a slightly defensive posture to this market and our position within equities. A line from a recent Merrill Lynch report probably summed up our view best: "Buy the lockdown, sell the re-opening." So far, we have done exactly that.

- The world of near-zero interest rates causes us to take a somewhat dim view of the prospect for government bonds. The policy-driven market can certainly support credit markets and we maintain a reasonable exposure to investment-grade credit markets, but our underweight to government bond markets is maintained.

- In most of our multi-asset funds, the underweight to government bonds is offset by maintaining an overweight position in gold. Given the zero-rate world in which we find ourselves, this involves little give-up in terms of interest carry, while offering the Fund what we believe to be meaningful protection potential currency devaluation, debt monetization, or the more distant possibility of higher inflation.

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

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