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# Signature Core Bond Plus 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 (2015-12-21) |
|---|---|---|---|---|---|---|
| Signature Core Bond Plus Fund | 5.0 | 5.8 | 4.1 | N/A | N/A | 3.4 |

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

**Performance Summary**

- Signature Core Bond Plus Fund Class F (the Fund) returned 8.3% over the second quarter of 2020, outperforming the benchmark FTSE Canada Universe Bond Total Return Index, which returned 5.9%.

- The positive total returns for both the Fund and the benchmark were due to the tightening of corporate bond and provincial government bond spreads relative to Canadian government bonds.

**Contributors to Performance**

- An overweight exposure to a wide variety of credit spreads (high-yield bonds, investment-grade corporate bonds, U.S.-dollar denominated emerging market sovereign bonds and preferred shares and provincial government bonds) contributed to the Fund's total and alpha returns. The U.S. Federal Reserve (the Fed), Bank of Canada, and other central banks launched bond purchase programs and governments provided significant stimulus packages, stabilizing markets and providing investors with confidence to re-engage risky assets.

- The hybrid 5.5% bonds due 2077 of pipeline and midstream energy company Enbridge Inc. materially contributed to performance, recovering from March lows. As a split rated Ba1 (i.e. high yield) and BBB- (i.e. investment grade) security, in tail events, it can be more volatile than either asset class as it would be "non-core" to many investors.

**Detractors from Performance**

- An underweight exposure to Canadian interest rates relative to an overweight exposure to U.S. interest rates detracted from alpha returns, as Canadian interest rates fell throughout the quarter, while U.S. interest rates were unchanged.

- Securities in J. Crew Group Inc. detracted from performance. J. Crew is comprised of two retail concepts, the legacy J. Crew business, which has had well-publicized operational and management challenges and a new and emerging retail format called Madewell. Prior to the onset of COVID-19, IPO plans for this latter business were well advanced with strong double-digit comparable stores sales and improving profitability advancing those plans. With IPO plans on hiatus and impending debt maturities, the company filed for creditor protection in early May and we have since exited the position.

- An allocation to U.S.-dollar denominated bonds, net of currency hedges, detracted from both the Fund's total return and alpha return. A rebound in oil prices and general risk sentiment throughout the second quarter saw pro-cyclical currencies, including the Canadian dollar, outperform safe-haven currencies, such as the U.S. dollar.

**Portfolio Activity**

- The Fund's positions in U.S.-dollar high-yield corporate bonds, U.S.-dollar investment-grade corporate bonds, and U.S.-dollar emerging market sovereign bonds were significantly increased throughout the second quarter, as investor global risk sentiment rebounded alongside the global economic recovery. Canadian government and provincial government bonds were sold to raise the required cash.

- As the performance of our investment-grade and high-yield positioning largely surpassed expectations throughout the second quarter, we did a relative value trade to reduce investment-grade and high-yield corporate bonds and increase U.S.-dollar emerging market sovereign bonds towards the end of the reporting period.

- The Fund began to take profits on its U.S. Treasury inflation-protected security (TIPS) exposure throughout the second quarter by selling 30-year TIPS in favour of U.S.-dollar investment-grade corporate bonds.

**Outlook**

- Although the initial fiscal and monetary responses to the global pandemic were swift, decisive and effective, more policy support is expected in the coming months. Accommodative policies must remain in place for the next several years to help economies close their output gaps. If economic lockdowns will not be implemented again, even against a backdrop of a resurgence of COVID-19 cases, it could take the U.S. and Canadian economies up to three years to recover to 2019 GDP levels. Premature tapering of fiscal and monetary stimulus poses a risk to economic recoveries in North America and abroad.

- As debt levels climb higher from already elevated levels (pre-pandemic), ratings agencies are putting governments (sovereigns and sub-sovereigns) on negative watch or downgrading them. Fitch recently downgraded issuer ratings for the government of Canada and the province of Alberta. The market response has been limited, as debt burdens have deteriorated across the world, and as real interest rates have collapsed to zero or negative globally. With monetary policy expected to remain accommodative for the next several years, Canada and the individual provinces will be able to continue funding their debts at little to no cost despite ratings changes.

- While further credit spread tightening is our base case, returns from here will probably be comprised more from carry than capital gains but with subdued volatility compared with the first half of 2020. Active security selection and sector rotation will be key for the remainder of the year.

- Government bonds will struggle to rally a lot more from here should risky assets sell off again. As such, their diversification potential in portfolio construction will be diminished out to 10-years to maturity. Cash, foreign currencies, commodities and derivatives will grow in importance as defensive asset classes. Meanwhile, credit asset classes will provide much-needed carry and we expect investor appetite to remain strong for the foreseeable future.

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

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