Market Commentary
Fourth Quarter 2018

SIGNATURE GLOBAL ASSET MANAGEMENT™

Signature Select Canadian Fund

Performance summary

- In the fourth quarter, Signature Select Canadian Fund (Class F) returned -15.3% compared with the combined benchmark (MSCI ACWI Index and S&P/TSX Composite Index) return of -8.91%.
- The fund underperformed the benchmark as a result of overweight positions in the financials and energy sectors. Both stock selection and allocation were sources of underperformance for both sectors. Consumer staples and utilities were the lone sectors to have contributed positively, thanks to a number of large defensive consumer and utilities names.

Contributors to performance

- Loblaw Companies, the large Canadian supermarket chain, was a positive contributor, thanks to its announced spinout of its 62% share of Choice Properties REIT, the real estate property name that holds Loblaws grocery stores and other real estate assets. George Weston, who owns 50% of Loblaws, will own 62% of Choice Properties REIT.

Detractors from performance

- In energy, Encana, the large Canadian exploration and production (E&P) company operating in both Western Canada as well as the Permian in Texas, was a large detractor from performance. The Permian remains one of the most prolific of the shale oil regions in the U.S. Clearly the drop in oil prices was the source of the underperformance but we believe oil will rebound in 2019 as supply is curtailed and demand remains stable. Ultimately our long-term positive outlook for oil prices resides around the underinvestment of the last five years on a global level.
- In financials, The Bank of Nova Scotia was a detractor because of its meaningful emerging market exposure. The resulting fall in emerging markets, generally, negatively impacted the Bank of Nova Scotia disproportionately relative to many other Canadian financials.
- Citigroup was another detractor given its large international exposures as well. Over half of Citigroup's revenues are from outside the U.S.

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Portfolio activity

- In the quarter, we added Banco Santander, Spain's largest bank and one of Europe's largest. We like Banco Santander because Spain is well past the 2008 crisis with decent growth rates and operates a more consolidated banking sector. We believe the end of quantitative easing in Europe will see higher levels of interest rates, benefiting bank margins. Longer term we also like Banco Santander's emerging market exposure, which we do not believe is fully priced into their shares. Banco Santander is inexpensive with a healthy and sustainable 5.3% dividend yield.

- We also added to Tourmaline Oil, the Canadian exploration and production company with a prominent presence in Western Canada. We like the business model of the company with its growth profile at an attractive long-term valuation. We were admittedly too early in making this position but have confidence in the management team, which has a long-term track record.

- In the quarter, we eliminated our position in Micron Technology, manufacturer of semiconductors including DRAM and SRAM memory chips. This was the result of lowering the weight in technology, which began this past summer. The semiconductor industry is very linked to global growth. The continued global slowdown, combined with the China–U.S. trade war, led us to further take down our technology weight, and Micron was the more economically and cyclically challenged.

- We also reduced our position in Canada Goose, the high-end winter clothing company, because of valuations that we believe were too high even if we like the company's long-term prospects. We reduced the position by 50% in November 2018.

Market outlook

- The last quarter was one of the worst on record for equity markets, and we enter 2019 with very oversold conditions. The market appears to be anticipating a significant economic slowdown, but we do not expect a U.S. recession in 2019 as the consumer remains healthy, employment growth remains strong, wages are now growing over 3%, and jobs are plentiful. Recent market moves confirm that the U.S. is not immune to a global slowdown and its equity market has caught up to the rest of the world.

- Now what does the rest of the world hold in store? China, in our opinion, is stabilizing thanks to targeted stimulus and easing of monetary policy, while Europe is bottoming. Some of that stimulus should help stabilize metals like copper in 2019. We believe the global economy should re-accelerate in 2019 but the road is likely choppy and risks remain. Top risks include the China-U.S. trade war, which needs a resolution, and the Trump factor, which is the increased risk of unpredictable policy now that many key and established advisors have left the administration. Our thinking is that these will be overcome in due course and thanks to markets that have re-priced to more attractive valuations, combined with a global economic recovery, equity prices will follow positively by year end, albeit with some volatility.

Class F Returns (in %) as at December 31, 2018	Year-to-date	1 year	3 year	5 year	10 year
Signature Select Canadian Fund	-13.3	-13.3	5.1	5.3	8.6

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Published January 2019.