SIGNATURE PREFERRED SHARE FUND

Q1-2021 Commentary

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR	S.I*
Signature Preferred Share Fund, Series F	48.1%	4.5%	7.4%	N/A	6.8%
Benchmark: S&P/TSX Preferred Share Total Return Index	49.7%	3.3%	7.2%	2.6%	6.9%

* Inception date of Signature Preferred Share Fund Series F: December 21, 2015.

Source: CI Global Asset Management, as at March 31, 2021.

PERFORMANCE SUMMARY

- In the first quarter of 2021, Signature Preferred Share Fund, Series F (the Fund) returned 10.1% compared with the S&P/TSX Preferred Share Total Return Index, which returned 8.8%.
- Security selection within the rate-reset preferred share segment was the largest contributor to performance.
- The Fund outperformed the benchmark as a result of its exposure to preferred shares, which outperformed amid rising interest rates. Additionally, strong investor demand and shrinking supply also gave preferred shares a boost. The Canadian preferred share market moved higher along with global riskier assets.

CONTRIBUTORS TO PERFORMANCE

The largest individual contributor to the Fund's performance was Brookfield Canada Office Properties Series P rate-reset preferred shares. Brookfield Asset Management Inc. announced a bid to take over Brookfield Property Partners L.P., the parent company of Brookfield Office, which reassured investors in the office property market. Brookfield Office's Series E and R were also in the top five contributors to the Fund's performance. BCE Inc. Series C rate resets were another notable contributor to the Fund's performance. The holding started the year with an attractive current yield of 6.90%. As investors searched for yield, this and other BCE preferred shares outperformed the boarder market.

DETRACTORS FROM PERFORMANCE

The largest detractor from the Fund's performance was Citigroup Capital XIII, Series N U.S.-dollar floating-rate preferred shares. The price declined in mid-February amid rumours of a large seller but only slightly more trading than normal occurred. In mid-March, another company with a comparable security considered redeeming its preferred share. As the holding was trading at US$27.25, an at-par redemption would have resulted in loss of 8.25%. So far, neither company has redeemed their security, and the preferred shares recovered somewhat. The Fund's position in Sempra Energy Inc. Series A convertible preferred shares also detracted from performance. It underperformed as U.S. utilities shares declined as investors shifted away from more stable sectors into more economically sensitive ones as interest rates rose. This preferred share holding was converted into common shares in mid-January just as the shares were falling.

PORTFOLIO ACTIVITY

We increased the Fund's weighting in rate-reset preferred shares by 3% to take advantage of potentially higher returns in the future as interest rates rise and with significantly lower bank and insurance sector shares outstanding. Purchases were made targeting preferred shares that were at a discount and with reset dates many years in the future. This allocation was funded largely through perpetual shares.

MARKET OVERVIEW

Global risk assets had a good start to the year, including Canadian preferred shares. The COVID-19 vaccine rollout brought the opening of the economy closer as the pandemic continued in much of the world. Additionally, passing of the US$1.9 trillion stimulus package in the United States should provide a boost to the global economy, especially coming so quickly on the back of the US$900 billion package passed in December.

Unemployment remained high but continued to improve to 6.2% in the United States and 8.2% in Canada. Central banks reiterated their accommodative stance and commitment to keeping short-term interest rates low until the economy is on sound footing and inflation picks up. The U.S. Federal Reserve's (Fed) chair indicated that higher interest rates are a reflection of the market's positive view of future growth and not a concern for the Fed. U.S. investment-grade bond spreads tightened to 97 basis points while U.S. high-yield bond spreads tightened to 366 basis points. U.S. equities, as measured by the S&P 500 Index, rose 5.77% and the West Texas Intermediate oil price rose 21.9% to close at US$59.16 per barrel over the quarter.

Canadian preferred shares saw strong performance partly as a result of continued redemption of bank preferred shares along with the issuance from two insurance companies of limited recourse capital notes (LRCN). Insurance companies are expected to use more LRCNs or hybrid bonds than preferred shares in the future, thus further reducing the preferred share market. In addition, corporations are using hybrid bonds to lower financing costs and remove high-cost preferred shares. In all, $2.27 billion in preferred shares were announced for redemption during the quarter, up from $1.4 billion in the fourth quarter of 2020.

Canadian five-year government interest rates rose sharply, more than doubling during the quarter to 1.00% from 0.39% on the back of improving economic conditions and an expected re-opening of the economy. The floating-rate structure was the best-performing segment on the expectation of higher short-term rates sooner than previously expected. The overall index current yield dropped from over 5.24% at the end of 2020 to 4.90% because of the rebound in prices across all structures.

Investor sentiment among institutional and retail investors was good given the rising interest rate environment and supply and demand dynamics. Preferred share exchange-trade fund flows turned positive in March after outflows in January and February.

We believe the Canadian preferred share market is still attractively priced with a current yield of 4.90%, even after the strong performance of the past nine months. Although we are expecting more moderate returns and increases in interest rates, demand for preferred shares will remain strong given expectations of significant shrinking supply over the next few years and as investors search for yield amid low short-term interest rates.

Source: CI Global Asset Management

For more information, please visit ci.com.

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