Signature Dividend Fund
First Quarter 2019

Performance Summary

- Over the first quarter of 2019, Signature Dividend Fund, Class F (the "Fund") returned 7.5%, outperforming the 6.2% return of the Fund's blended benchmark (40% MSCI ACWI Global High Dividend Yield Index, 35% BMO Capital Markets 50 Preferred Index and 25% S&P/TSX Composite Index) over the same period.

- Domestic equity holdings, which represented more than 18% of the Fund, generated returns roughly in line with the S&P/TSX Composite Index's return of 13.3%. Foreign equity positions, which represented approximately 41% of the Fund, generated local-currency returns above 13%, which exceeded the 10.0% return (in local-currency terms) of the MSCI ACWI Global High Dividend Yield Index. Preferred shares, which represent approximately 37% of the Fund, returned about 2%, which outperformed the -0.24% return of the BMO Capital Markets 50 Preferred Index.

- he Fund's positions in the global financials sector returned more than 16% on average, in local currencies. Superior stock selection in the health care, industrials and information technology sectors also enhanced relative performance. An underweight position in the consumer staples sector, which performed strongly in the period, impaired our relative performance.

Contributors to Performance

- Synchrony Financial stock, a top Fund holding by weight in the portfolio, advanced 36% during the quarter. The company beat fourth-quarter 2018 earnings estimates as loan growth, net interest margins and credit costs remained resilient. Although many market participants expected credit quality to deteriorate, Synchrony Financial's portfolio continues to show strong asset quality. Walmart Inc. dropped its lawsuit against Synchrony Financial and at the same time the company was able to agree on the sale of the Walmart credit card portfolio to Capital One Financial Corp. at a reasonable price. Synchrony Financial was also able to renew and extend its relationship with Sam's Club (owned by Walmart). This was viewed as unlikely as the market assumed that Synchrony Financial would lose this relationship in 2021 given the deterioration in the Walmart relationship. Synchrony Financial also renewed and extended its relationship with Amazon.com, Inc. earlier than anticipated. All this combined helped the company's stock rebound from near-liquidation valuation levels to a more reasonable one, but Synchrony Financial is still offering a significant upside to our price target for the company's stock.

- Citigroup Inc. stock advanced almost 20% during the quarter. The main reason behind Citigroup's good performance in the quarter is its strong quarterly earnings result, which again showed the persistent progress the bank is making on delivering on its business plan. The bank has consistently improved returns over the past number of years by streamlining businesses and controlling costs while also enjoying high returns from international businesses. Mexican operations negatively impacted the bank in in the fourth quarter of 2018 since the new Mexican government announced measures to limit fee income earned by banks in the country. During the first quarter of 2019, it became apparent that the measures are not going to be as punitive as originally thought, which helped sentiment towards Citigroup stock. We believe Citigroup will continue to deliver on its target of improving returns, and the company's stock is currently trading at very attractive levels compared with its current and potential return levels.

- Cisco Systems, Inc. advanced almost 25% during the quarter. The company continues to benefit from robust enterprise spending as companies pursue the digital transformation of their businesses. Cisco Systems has a refreshed portfolio, based on its Catalyst 9000 new computing architecture, that is resonating with customers. Margin pressure due to rising component costs should not be a concern in 2019, and the company's long-term shift to software will keep margins at an attractive level. Shareholder renumeration is a positive as the company continues with its share buybacks and dividend increases. Valuation remains attractive relative to the high market valuations of its peers, especially in the context of growth rebounding.

- Enbridge Inc. returned almost 16% during the quarter. The company's stock benefited from a positive macroeconomic environment around energy and interest rates, as well as an expectation of positive regulatory developments and a solid fourth-quarter 2018 earnings result.

- Manulife Financial Corp. returned almost 18% for the quarter. The company's stock recovered from a poor showing in 2018. The alarming lawsuit that was brought forward by a hedge fund against the company was struck down in a Saskatchewan court during the period. The lawsuit claimed that certain life policy contracts guaranteeing a relatively high fixed rate of return have unlimited deposit levels. That was an important win for Manulife Financial that should put the saga to rest. The company is still facing pressure on its long-term care reserve levels, but we believe the current market valuations more than account for that. With strong potential growth in Asia, a solid balance sheet position that is still being optimized and improving operational efficiencies through cost reductions, we believe Manulife Financial's stock is offering good value at these levels.

Detractors from Performance

- Pfizer Inc.'s stock declined almost 3% during the quarter as the company's share price performance lagged its peers, largely due to a disappointing 2019 revenue and earnings-per-share (EPS) forecast that was below consensus estimates. Although the basic story at Pfizer is one of longer-term growth acceleration, patent expiries and non-operational challenges (such as foreign exchange rates) were somewhat more impactful than expected. We added to the Fund's position in Pfizer on the company's relative underperformance.

- The Coca-Cola Co.'s stock declined 1% over the quarter following an earnings miss announced on Valentine's Day. Coca-Cola is the world's largest and the most diversified beverage company. The stock's decline during the quarter came after hitting a new five-year high of US$50.50. Coca-Cola posted weak fourth-quarter 2018 results, missing estimated operating profit by 10%, as well as flat year-over-year fiscal 2019 EPS growth guidance largely on foreign-exchange losses, as well as higher interest expense post the company's acquisition of Costa Ltd. Despite the stock's correction following the company's fourth-quarter 2018 results, we remain positive on Coca-Cola, which has a 4% top-line growth and an expected high-single-digit EPS growth, which would place Coca-Cola at the high end of companies in the consumer packaged goods field in the 2019 fiscal year. Coca-Cola stock remains one of the top 10 holdings of Warren Buffett via his investment company, Berkshire Hathaway Inc.

Portfolio Activity

- Prudential PLC has been added as a material new position in the Fund. We have generally maintained some exposure to the relatively high-growth Asia life insurance industry with Fund positions at times in AIA Group Ltd.; Ping An Insurance Company of China, Ltd.; Manulife Financial; or Prudential. Recently, Manulife Financial and Prudential stocks have excessively lagged the performance of AIA Group and Ping An and look slightly more attractive than these pure Asian exposures. Prudential is spinning off its U.K. businesses within the next 12 months and will become increasingly comparable to AIA Group, which should support a recovery in Prudential's share price.

- Morgan Stanley is a notable Fund position added during the quarter. The company is a top-tier global investment bank with a leading wealth management franchise. The recent revenue environment has been challenging, which has hurt the company's relative stock price performance and created, in our view, an opportunity to buy the company's stock. We have not owned the company in quite some time as we viewed its regulatory burden in regard to stress test capital requirements as overwhelming. However, the currently less demanding valuation of the company and improving regulatory tone in the U.S. encouraged us to get involved.

- The Boeing Co. is a notable exit from the Fund's portfolio as the position in the company has been held for quite some time. The decision to sell was made promptly following the second 737 Max plane crash, a plane made by Boeing. It's a great company, and we are confident in its resilience; however, we see preferred risk-adjusted opportunities elsewhere.

- During the quarter, we sold the Fund's position in Chemours Co. post its fourth-quarter 2018 results. We liked the company for its low-cost leadership position in titanium dioxide – a chief ingredient in paint for its opacity properties – as well as its near duopoly position in ozone-friendly fluorogases (used in air conditioners of cars and homes, and industrial refrigeration). As a low-cost leader in titanium dioxide, Chemours is pursuing a value-over-volume strategy. Unfortunately, in an environment where its customers are destocking their supply chain, this strategy is susceptible to even greater volume shrinkage than anticipated.

Outlook

- The powerful rally in government bond prices in March pushed U.S. long-term bonds yields below short-term bond yields – a so-called inversion of the term structure (or curve) of bond yields. This development was attributable to Fed policy changes and soft economic data. This extreme circumstance has prompted comparisons of global bond markets to Japan where structurally low interest rates have been unable to stimulate inflation. Signature Global Asset Management's view is that lower yields will serve as a stabilizing force to growth rather than a precipitator of a deflationary contraction, which we believe is the prevailing view of the bond market. Barring an external shock, our view is a recession is unlikely in the short term.

- Given the near-zero interest rate starting point, policy-makers and politicians are promoting fiscal tools to counter future downturns.

- Lyft, Inc.'s initial public offering (IPO) at the end of March began what we expect to be a flurry of global technology IPOs being brought to the market in the second quarter of 2019. Many of these "unicorn" deals will test the market's appetite to sponsor extremely fast-growing, but as yet unprofitable, business models. The overall technological wave is sweeping across a broad set of sectors and is having a hugely disruptive impact on traditional businesses. Large sectors such as automotive and finance, to name a few, will need to adapt quickly or otherwise be swept aside by the speed and ferocity of these changes.

- The relentless technological wave is disrupting business models at an accelerating rate. In response, we expect to see profound industry adjustments, with mergers to achieve sufficient scale to make the technology investments required to survive. The scale of these changes in the auto industry and finance sector alone will impact labour markets.

- Currency markets are important elements in national competitiveness. We expect the Canadian dollar to see further weakness as Canada's growth slowdown continues. Furthermore, a weaker dollar will soften the adjustment in asset prices, which helps domestic banks and households.

- Valuations are fair in equity markets and credit markets given the growth and inflation mix. We anticipate low interest rates and low growth to persist long into the future, resulting in lower returns across many asset classes. We see room for equity risk premiums to decline, although we currently prefer less cyclical exposures. The outlook for U.S. interest rates being low for the long term increases our appetite to own emerging market exposures. We believe that modest economic growth will support bumpy yet acceptable returns from equities relative to the rather limited investment alternatives.

- The outlook for preferred shares is positive for the remainder of the year, given our belief that the global economy is going to stabilize with central banks on hold and investor demand for carry assets. We believe the Canadian preferred share market is attractively priced.

Class F returns (in %) as at March 31, 2019	Year-to-date	1 year	3 year	5 year	10 year
Signature Dividend Fund	7.5	1.0	7.0	5.4	10.0

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