SIGNATURE
GLOBAL ASSET MANAGEMENT™

Signature High Yield Bond II Fund
Second Quarter 2019 Commentary

Market Overview

- In the second quarter of 2019, high-yield bonds continued their strong start to the year, posting a year-to-date return of 10.2% (in U.S.-dollar terms), as measured by the ICE BAML US High Yield Index, and making up all of the ground lost in the fourth quarter of 2018 and then some. Credit spreads actually widened 5 basis points (bps) to 420 during the quarter, with moderate widening in May proving to be a bit of a speed wobble.

- The expectation of further easing of financial conditions by central banks globally has played a large role in this performance, and we expect accommodative language from these banks to evolve into actual interest rate cuts and quantitative easing of monetary policy, particularly in Europe and Japan. Interestingly though, bonds rated CCC – the riskiest component of index returns – continue to lag the rally in high-yield bonds, in contrast to previous risk-on episodes, indicating a more skeptical attitude toward the most challenging credits.

- We agree that the changed outlook from central banks along with continued trade tensions warrants caution, but we remain constructive on high-yield bonds in so much as high yield compares favourably to many other income-producing asset classes and, thus far, earnings continue to meet expectations. That being said, all-in yields have now fallen to 6% and interest rate sensitivity has crept back into high-yield bonds, with the average bond rated BB yielding 4.4%. So, uneventful coupon clipping from here has become less assured.

Performance Summary

- Over the second quarter of 2019, Class F of Signature High Yield Bond II Fund (the "Fund") returned 2.1%.

- A handful of catalyst-driven situations that benefited the Fund this quarter include 3M Co.'s purchase of Acelity L.P. Inc., Chevron Phillips Chemical Co. LLC's proposed purchase of Nova Chemicals Corp. and promotion of Teck Resources Ltd.'s credit rating to investment grade.

Portfolio Activity

- Bonds of Keyera Corp.; MultiPlan, Inc.; and California Resources Corp. were all new additions to the Fund in the quarter.

Outlook

- As alluded to above, first-quarter 2019 earnings were in line with expectations, but we believe it's fair to say the full effects of the tariff war between the U.S. and China, and to a lesser extent trade disputes between the U.S. and other countries, have yet to be felt and the situation remains unresolved, to put it gently. Rising populism and a general lack of political leadership and competence are not new or revelatory issues to flag for investors; nevertheless, we are paying closer attention to such issues, with Brexit on the horizon and tensions burbling up once again in the Middle East.

- Our aim, as always, is to construct a high-yield bond portfolio to anticipate a range of economic scenarios, and if we can be agnostic toward large economic swings, all the better. At this point in the credit cycle, we see better value in shorter-duration securities, higher credit-quality securities or businesses and select, idiosyncratic situations where the catalyst for change is near-to-medium term in nature; for example, targets for mergers and acquisitions or companies with ratings upgrade potential.

- Another way to be indifferent to variable economic scenarios is to find a sector with a strong secular advantage. We see the financials sector as having such a tailwind, and we continue to have the Fund being overweight in that sector given the regulatory pressure for strong balance sheets in that sector.

Class F returns (in %) as at June 30, 2019	Year-to-date	1 year	3 year	5 year	10 year	Since inception (07/30/2013)
Signature High Yield Bond II Fund	7.2	5.9	7.7	5.7	N/A	6.5

Sources: Bloomberg L.P., ICE BofAML Indices and Signature Global Asset Management, as at June 30, 2019.

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