SIGNATURE
GLOBAL ASSET MANAGEMENT™

Signature Emerging Markets Fund
Second Quarter 2019

Performance Summary

- Over the second quarter of 2019, Class F of Signature Emerging Markets Fund (the "Fund") returned 3.0% compared with a 2.7% return for its benchmark, the MSCI Emerging Markets Total Return Index, over the same period.

- The Fund outperformed the benchmark during the quarter largely because of stock selection and country allocation of its assets. The Fund's underweight positions in the information technology and consumer staples sectors slightly detracted from relative performance, but this was easily offset by the fund's overweight exposure to the financials and utilities sector, as well as an underweighting in the communication services sector.

Contributors to Performance

- Sberbank Rossii PAO (or Sberbank of Russia) added to the Fund's relative performance. It is Russia's biggest bank, with more than 30% market share in loans and deposits. In recent years, the bank has transformed itself by heavily investing in technology and optimizing costs. With such dominance in the country, Sberbank of Russia is used as a proxy for Russian sentiment and the company's stock usually falls when there is negative news about potential sanctions against the country. Fears of impeding sanctions have held back performance so far this year, including during the second quarter. However, Sberbank of Russia's fundamentals are solid and its stock still trades at very attractive valuation levels relative to its return potential.

- AIA Group Ltd., the Asian operation of global insurance giant American International Group Inc., continues to deliver on its growth targets. The company has been able to improve its growth and returns in recent years due to better agent productivity. The market is not only rewarding AIA Group for its improved operations but also because of its proven ability to grow its business in China. AIA Group is the only non-Chinese company that has a licence to independently operate in China's major cities. Although growth in new profitable business should normalize from the recent high growth rates, AIA Group should still offer an attractive growth opportunity into the underpenetrated life insurance market in China in particular and into Southeast Asian countries in general.

- ICICI Bank Ltd. is a successful turnaround story. Over the past number of years, the Indian bank endured a spike in non-performing loans (NPLs) as many of its corporate credit clients fell on hard times. Last year, ICICI Bank finally started showing signs of a turnaround in the quality of its assets. New NPLs declined and the bank was able to show that it was working through its existing NPL stock. In addition, a CEO change also helped the bank as the corruption investigation into the previous CEO had hurt the company's stock price. We anticipate ICICI Bank will continue to improve its NPL position and enjoy the benefits of less competition from the non-bank financial sector.

- Delivery Hero SE's stock appreciated during the quarter after the company raised its revenue estimates for fiscal 2019. The Germany-based online food-delivery provider, with operations in emerging market countries as well as in Europe, has managed to keep expenses flat, specifically customer-acquisition costs, while maintaining the same level of delivery orders. Delivery Hero has further upside from potential expansion through mergers and acquisitions, which would expand its geographic footprint. Moreover, the company's stock valuation looks attractive relative to its listed peers, and also in terms of private valuation and implied valuations of recent initial public offerings (IPOs), such as the one for Uber Technologies, Inc.

Detractors from Performance

- Cafe24 Corp.'s stock was a drag on the Fund's performance. The South Korean e-commerce company failed to manage operating expenses during the past six months, as it instead concentrated on accelerating investment in overseas expansion. The company's heavy investment cycle has been much longer than expected. While gross merchandize volume and revenue growth are regaining momentum, Cafe24 is taking a long time to become profitable, especially in a down market. We decided to exit the Fund's position in Café 24, but will continue to monitor the company.

- Yageo Corp. has underperformed mainly due to prolonged inventory digestion and price correction for multi-layer ceramic capacitors (MLCCs). The Taiwanese electronic-components manufacturer has seen demand for its products held back by economic uncertainty caused by escalating global trade wars. Given the latest supply chain check, prices of MLCCs in the company's third fiscal quarter of 2019 declined by less than 10%, compared with 30% in the first fiscal quarter and 15–20% down in the second quarter. We exited the Fund's holding in Yageo and are waiting for a clear indication that the company's share price has bottomed before deciding whether to reinvest in Yageo.

- MGM China Holdings Ltd. and the Macau gaming sector were negatively impacted by the U.S.-China trade war, which created investor concern about the region's gaming sector amid deteriorating growth and declining household confidence in the industry's high-end segment. Adding to investor worries was a decline in traffic from Hong Kong, as well as from other parts of China in general, as a result of mass protests in Hong Kong. However, we believe MGM China Holdings' operations and economics remain healthy on a longer-term view, and business at the company's Cotai resort in Macau continues to ramp up.

Portfolio Activity

- **Added:** Embassy Office Parks REIT, an owner of office campuses in India, was India's first real estate investment trust IPO in March 2019. The IPO was priced attractively, debuting with a double-digit discount to net asset value and an 8.25% distribution yield. Such favourable pricing for one of India's strongest portfolio of real-estate assets attracted demand from global institutional investors in addition to domestic retail investors.

- **Sold:** Cafe24 and Yageo were sold for reasons discussed above.

- **Sold:** We sold China Everbright Ltd. because while the company has delivered solid earnings growth since its IPO in 2016, its stock has not performed well in the markets. The Hong Kong asset manager's lack of stock liquidity seems to be a key culprit, as the company does not permit many institutional investors to hold its shares.

Outlook

- The three key market challenges of 2018 – trade tension between the United States and China, comments by U.S. Federal Reserve Chairman Jerome Powell that the federal funds rate was still far from "neutral," and a slowing Chinese economy – turned into market positives during the first quarter of 2019. This momentum carried into the second quarter. However, negotiations for the U.S.-China trade deal stumbled at the last moment, shocking global markets. Instead of reviving the talks, both sides dug in with their existing positions. The fundamental and possibly non-reconcilable differences in approach became very apparent, leaving investors worried about the impact on economic growth, both globally and in the two countries involved. Even though the trade talks have resumed, growth worries will linger, capping the duration of any rally in emerging-markets assets.

- Despite the changed expectations for interest rates in the United States, the U.S. dollar traded in a narrow range during May 2019 and the first half of June as other factors more than offset the decline in expectations of a cut in U.S. interest rates. These included rate cuts elsewhere, dovish (i.e., cautious) comments from other central banks, increased worries about global growth, and the lack of an effective alternative to holding U.S. dollars. The currency's weakness could support emerging-markets assets, but significant weakness in the U.S. dollar might not be forthcoming without political intervention.

- Investors are keenly waiting for a policy response from Beijing to ensure a clear floor in economic activity, but we believe Chinese policy-makers will do the bare minimum to ensure gross-domestic-product growth of above 6% in China. No major stimulus is expected.

- Politics and policies remain wild cards, with central banks becoming more politicized. Political intervention in currency markets increases uncertainty. On the positive side, but probably not fully offsetting the growth concerns, are dovish stances by central banks.

- We have turned cautious about emerging-markets assets and believe market rallies will be short-lived.

Class F returns (in %) as at June 30, 2019	**Year-to-date**	**1 year**	**3 year**	**5 year**	**10 year**	**Since inception (08/08/2000)**
Signature Emerging Markets Fund	10.0	-0.3	11.3	5.6	6.5	5.6

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

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