Market Commentary
Fourth Quarter 2018

SIGNATURE
GLOBAL ASSET MANAGEMENT™

Signature Global Equity Fund

Performance Summary

- In the fourth quarter, Signature Global Equity Fund (Class F) returned -12.5% compared with the MSCI ACWI Index return of -7.74%.
- The fund underperformed the index as a result of overweight positions in the financials and energy sectors. Stock selection was a source of underperformance for both sectors while allocation was an issue in the case of energy only. (In other words, the overweight position in energy also hurt performance, while in financials the overweight position did not.) While information technology was one of the worst-performing sectors in Q4, our underweight position actually helped our relative performance.

Contributors to performance

- Disney was one of our main contributors in the newly created communication services sector. It resisted better than the rest in the face of the turmoil in the market. At one point earlier in the year, Disney had a lower enterprise value than Netflix, a company that has material negative free cash flow. While we believe in the long-term business model of Netflix, its valuation compared to Disney was out of proportion to what it should be.

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, Synchrony Financial was a detractor as the sector crumbled, and fears of recession in the U.S. rose. Synchrony is one of the largest consumer finance companies in the U.S. and is therefore vulnerable to a consumer pullback. We do not see a recession in the U.S. in 2019 nor do we believe the consumer is about to pull back given the continued levels of employment growth, wage growth, and availability of jobs generally. Its valuation remains at

recessionary levels which is not, in our opinion, justified. It remains one of our larger positions in the portfolio.

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 in 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 names like Encana, mentioned earlier in attribution, as well as Canadian Natural Resources, on the basis of attractive valuations. Canadian Natural Resources is one of Canada's largest E&P companies operating in Western Canada.
- 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.

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. 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 Global Equity Fund	-6.3	-6.3	4.3	7.8	9.6

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