Signature Market Roundup

Fourth Quarter 2015

Global outlook

Eric Bushell
Chief Investment Officer

Testing policy limits

Are there limits to the effects of unconventional monetary policy on asset markets? That is the central question that investors are dealing with in the first quarter of 2016.

Signature views the current market setback as part of a larger series of episodic market shocks related to the unwinding of quantitative easing, following similar sell-offs in May 2013, the fall of 2014 and fall 2015. In each instance, central banks in the U.S., Europe and/or Japan responded with robust policies designed to resuscitate risk appetite, and were successful. Over time, however, market participants have become more skeptical about the potency of the central bank actions, especially after the Fed has moved to a tightening phase. European Central Bank President Mario Draghi is currently testing the limits of quantitative easing by pledging more stimulus – it will be interesting to see how markets react.

The QE effect

Since 2009, QE has worked to stimulate the economy by moving interest rates lower. But if a central bank pursues a zero interest rate policy and is unable to push rates lower, how can it defer stimulus to the financial markets to build confidence that will filter through to the real economy? The answer is by providing ample liquidity to reduce market volatility. Investors do not need to price risk as aggressively, as it is assumed that central banks will continue to control the environment if defaults, for example, begin to rise.

For years, this trend pushed investors further along the yield curve, supporting assets such as emerging market and high-yield equities. Now, the opposite dynamic – quantitative tightening – is occurring as the Fed attempts to raise rates. As liquidity becomes scarcer and volatility rises, those assets that benefited the most from QE are falling the hardest.

Investors of all stripes in all geographies migrated into higher-yielding, riskier assets as a result of QE, including institutions, corporations, etc. With the unwinding of QE, large capital pools are now mobilizing to re-establish the liquidity balance in their portfolios. If this migration happens gradually there will not be a huge dislocation in markets, but a large credit event would cause severe disorder.

Suppressed volatility

Market volatility has been exceedingly low in recent years. While it seems that markets have become increasingly volatile since mid-2014, we are in fact just returning to the long-term average over 20-25 years. Part of the recent increase in volatility can be attributed to higher bank liquidity requirements through the Volcker Rule in the U.S. and Basel rule in Europe. Banks are carrying smaller and less risky positions on their balance sheets to meet capital requirements, and are not acting to absorb risk as investors attempt to exit higher-risk positions.

Lower liquidity and higher volatility, therefore, are not just concepts. They are having real consequences for banks, insurance companies, brokerage firms, asset management firms and hedge funds as higher volatility forces them to reduce risk and shrink the quantity of their exposures.

Emerging markets and commodities

This also means that the vast money flows into emerging markets that continued until 2014 are reversing, and financial conditions are tightening in emerging markets. Signature is

closely monitoring emerging market bonds for signs of stress, as much of the countries' debt must be repaid in more expensive U.S. dollars.

The collapse of commodity prices has implications for emerging market commodity producers such as Latin America, South Africa and Indonesia. Almost all commodities remained oversupplied, including copper, iron ore and oil. Low commodity prices have triggered the rebalancing process, but until oversupply issues are resolved, Signature believes most commodity producing companies are still overvalued in the short term.

Signature's outlook

The unwinding of QE and financial regulatory changes together are tightening financial conditions, which is slowing growth and will likely trigger credit issues over the next 12 months. We will be watching the markets closely for higher credit defaults, the ability of U.S.-dollar borrowers to refinance their debt, stress in the banking sector and more U.S. dollar strength, which could result in further market shocks.

While we do not expect to see a major deflationary bust, we do foresee an extended period of higher credit defaults and muted returns for equities. Therefore, our portfolio positioning remains cautious, and we continue to seek opportunities in high-quality, higher-yielding assets as investors shed risk.

We could change our outlook and become more bullish if the U.S. Fed reverses course and takes steps to loosen monetary policy, or if economic data from China surprises to the upside, which could provide a strong tailwind for commodities.

Emerging markets

Matthew Strauss
Vice-President, Portfolio Management,
Portfolio Manager
and Global Strategist

Emerging markets faced another challenging year in 2015, closing the year only 2.4% higher in Canadian dollar terms. The gains were a direct result of the weaker Canadian dollar, as the 2015 return turned sharply negative when expressed in U.S. dollar terms. In fact, 2015 was the worst performing year for emerging market equities since 2011 in U.S. dollar terms.

A large number of factors weighed on emerging market economies throughout 2015. After a decent start to the year (partly thanks to aggressive monetary policy easing by the European Central Bank), emerging market equities gained additional momentum late in the first quarter after the U.S. Federal Reserve postponed its first rate hike. The strong rally in Chinese equities provided a further boost to emerging market sentiment in the second quarter. However, a turnaround in Chinese equities, renewed weakness in commodity prices, including oil, and increasing concerns about emerging markets as exports to developed markets failed to recover led to a prolonged downturn in sentiment during the summer. The token devaluation of the Chinese currency in August added further pain. Apart from the brief rally at the beginning of October when markets climbed just more than 10% in less than two weeks, emerging market sentiment remained cautious into year-end.

Domestic growth concerns in China, a Chinese devaluation, lower commodity prices, the impact of a tightening cycle in the U.S. and political trepidations in a number of emerging markets (Brazil, South Africa, Turkey-Russia and even India) kept the equity bulls largely at bay during the second half of 2015. Unfortunately, these concerns remain highly relevant for the 2016 outlook. Instead of subsiding, some of these risks increased meaningfully during the early part of 2016, particularly Chinese growth concerns and the possibility that China might weaken its currency considerably in 2016 as it allows the renminbi to float more freely.

Overall, growth in emerging markets should be only slightly higher in 2016 compared to 2015, with risks skewed to the downside. Another leg down in commodity prices in early 2016 is already challenging the notion that growth in emerging markets will be higher than last year. In addition, higher inflation

is once again becoming a concern for many Latin American and African economies, limiting the central banks' ability to stimulate their respective economies.

As a result, we maintain our defensive stance and are focusing on (1) countries with the political will and ability to reform and pursue economic growth; (2) industries with stable and positive earnings potential, and; (3) companies with healthy balance sheets. We remain wary that the dire economic conditions of 2015 might still spill over into more defaults and strained balance sheets in 2016. Overweight allocations to India, Mexico and non-industrial China and underweights to commodity companies and politically vulnerable economies reflect our current concerns and views.

Global resources

Bob Lyon
Senior Vice-President, Portfolio Management and Portfolio Manager

The fourth quarter of 2015 gave investors more bad news from the energy sector, combined with a mixed set of outcomes in the materials sector. Energy equities fell during the quarter as oil prices continued to decline, while materials stocks were up. On a global basis (using the MSCI World Index), the energy subsector declined 1.4% and the materials subsector rose 4%. This capped off a horrible year in 2015, for which the energy and materials subsectors were down 25% and 17.2%, respectively. In Canada, both the S&P/TSX energy and materials subsectors performed slightly worse than their global counterparts.

The macro trends that have been affecting commodities for some time remained in place during the fourth quarter: weak demand growth, over-supplied commodity markets, and the somewhat bearish (for commodity markets) effects of a rising U.S. dollar.

Energy

Oil prices continued their downward trajectory, with the benchmark West Texas Intermediate crude oil price falling 18% to end the year at US$37.04 per barrel – its lowest monthly closing price in more than 10 years. Much of the decline came in the latter part of the quarter as OPEC once again failed to take any actions that would limit oil supply to help halt the price slide. In fact, our understanding is that this was one of the more contentious OPEC meetings in decades, with participants essentially unable to agree on anything whatsoever. This does not bode well for upcoming meetings, and puts the onus on market forces (i.e. low prices) to eventually rebalance the oil market.

We continue to believe that the underlying supply-demand balance for oil should show a steadily improving trend over the coming quarters. Energy companies have little ability to grow production at current oil prices, and global energy demand continues to rise. The question is how long it will take for this rebalancing to occur. With OPEC's help, it could happen quite quickly. Without OPEC's help – which is how it looks at the moment – the process will take longer.

Materials

Mining prices broadly followed energy prices lower during the quarter with gold, silver, copper, nickel and zinc all declining in a 5%-15% range. One small positive for the sector is that prices have hit such low levels that we are beginning to see some capacity closures. What we have seen to date looks like a good start, but more mine closures will be necessary in order to close the oversupply gap.

Lumber prices staged what looks like a seasonal rebound from their recent third quarter lows. The main driver of this rebound is a combination of inventory restocking and a recovering U.S. housing market. Whether U.S. demand strength can continue to offset global weakness for a lengthy period of time, however, remains to be seen.

Materials sector equities held up better than the underlying commodity prices during the quarter. Lumber stocks rallied alongside the lumber price, while gold equities rallied slightly despite the 5% drop in the gold price. With respect to gold equities, we believe the rally was short term in nature: gold has rallied quite strongly in the early months of the past two years, and we believe some investors were trying to position themselves ahead of another hoped-for rally in early 2016.

Outlook

Overall, the key macro trends of economic weakness in China, combined with a strengthening U.S. dollar, continue to be headwinds for the sector. Further pressure could come from what seems to a desire on the part of Chinese authorities for a weaker Chinese currency. This would potentially make China's exports more competitive, but it also has the effect of making resource imports more expensive to Chinese buyers, which would likely be negative for demand.

2015 was a difficult year for resource investors, to put it mildly. We attempted to hold a defensive posture in Signature Global Resource Fund during the year, but this proved to be extremely difficult as virtually every resource subsector posted significantly negative returns. To become more positive, we will need to see a combination of better supply-demand fundamentals in the various commodities and/or lower equity prices. Until that time, we maintain our generally defensive stance.

Financial Services

John Hadwen
Vice-President, Portfolio Management and Portfolio Manager

Opportunity knocks!

Following the dramatic recent sell-off in global equity markets, we could see the global financial benchmark offering 30% upside if it rebounds to the 2015 high. We don't foresee weak growth in China, nor tremendous distress in the energy sector, derailing returns across the group. The market has failed to recognize the progress global banks have made in improving the durability of their franchises. Many of our positions suddenly appear to be trading at two-thirds of what we deem to be fair value.

Successful portfolio management requires the purchase of excessive pessimism and the sale of excessive optimism. Global banking franchises have recently traded in a fashion similar to the 1998 and 2008 crises – we believe this is nonsense! Yes, credit losses will pick up from pristine levels thanks to energy exposure, and low GDP growth limits revenue growth opportunities. These views have pressured valuations prior to the most recent dramatic sell-off. The massive increase in capital requirements in recent years has negatively impacted valuations, while tremendously reducing risk, and we think the market is failing to recognize this difference relative to other periods of market volatility. At Signature, we have had good success in generating attractive returns from the financials sector in recent years and view current risk/reward at extremely compelling levels.

Canadian financials valuations look extremely undemanding, but not quite as compelling as global alternatives. The risk premium on Canadian banks appears to be at least at a 15-year high, excluding a month during the spring of 2009, which was a terrific buying opportunity. This is despite significant improvement in capital strength and demonstrated durability during the recent, severe crisis. Share prices for life insurance companies have suffered as well, and when you consider how they benefit from U.S. dollar strength, their valuations look extremely interesting.

Consumer products

Stephane Champagne
Vice-President, Portfolio Management and Portfolio Manager

In 2015, the MSCI World Consumer Staples Index, with a return of 4.24%, outperformed the broader MSCI World Index by 698 basis points and the Consumer Discretionary Index by 0.26 basis points. The outperformance of the staples index reflected a weaker global economic environment in the second half of the year and a volatile market during the fourth quarter, mainly due to the weaker economic data coming from China and other emerging markets, specifically Brazil. The anticipation of a U.S. interest rate hike by year-end also helped the staples sector.

In the U.S., the environment for discretionary spending is still favourable for 2016, with income likely to continue growing at around 4%, supported by lower gasoline prices, continued job creation and low food inflation. Results from December retail sales excluding automobiles and gasoline were flat at 0% vs. an expectation of 0.4% in 2015. During December, results were mixed, with six of the 13 major categories showing declines even while promotional activities remained intense and inventories were high due to warm weather. During that period, we continued to observe a significant disparity in performance. Furniture and home furnishings completed their best year since the recession and building material store sales posted above-average growth. On the other hand, apparel was soft due to the abnormally warm weather and electronic sales declined due to the lack of new products. At the same time, health and personal care store sales outgrew food and beverage store sales by 250 basis points. We remain optimistic that the consumer sector in the U.S. will continue to progress during 2016, supported by job creation, real wage increases and low inflation.

Consumer spending in Canada has been volatile over the past year due to the oil shock and pared-down business exports and investments. Despite this, spending has been surprisingly resilient and has been Canada's main source of growth, as low interest rates and cheaper gasoline have helped boost spending on big-ticket items like homes, cars and appliances. The warm weather in Canada during the holidays, however, is expected to weigh negatively on apparel sales. We remain very cautious regarding Canadian consumer stocks for 2016, and believe they remain fairly valued. Slowing housing activity, higher unemployment rates in Western Canada, and slow recovery of export activity in Eastern Canada could weigh negatively on consumption trends.

In Europe, consumer confidence continued to improve due to job creation, recovery in wage growth and low inflation. On the other hand, the warm weather across Europe in the fourth quarter is expected to weigh negatively on apparel retail sales. More specifically, British retail consortium numbers have been resilient during 2015 but decelerated during the fourth quarter. This trend was led by weaker clothing sales and continued food deflation due to intense promotional activities coming from the four big supermarket chains. Retail sales in Spain, Germany and Italy improved during 2015 but were also negatively impacted in the fourth quarter by the weather, while France continues to demonstrate weaker retail sales trends. For 2016, we continue to favour domestic-focused retailers, mainly in the U.K., Italy and Spain. Consumption trends in France remain the question mark after lagging the other European countries in 2015.

Eastern European retail sales are still in challenging territory. Russia's sales were down 13.1% in November, and the region faces high inflation due to the continued depreciation of the ruble. In 2016, we will continue to avoid Eastern Europe because of weak consumer confidence and high inflation.

In Latin America, consumer fundamentals got weaker in the fourth quarter, especially in Brazil, where unemployment reached 7.6%. Continued currency depreciation and higher inflation limited consumer spending. During that period, retail sales in Colombia and Peru remained weak, but we observed signs of stability in Chile and continuous improvement in Mexico. Except for Mexico and Chile, we remain cautious in terms of consumption trends for the region due to high inflation and currency depreciation.

Retail sales in Asia, Hong Kong and China continued to be weak during the fourth quarter as they were through 2015. China's unemployment rate in the manufacturing sector is causing negative pressure on consumer confidence and real estate activity remains slow. We remain cautious on Chinese consumption trends, but over the long term strong job creation in the services sector and the positive impact on higher disposable income could benefit the sector.

We continue to favour sectors supported by sustainable fundamentals, strong global brands, free cash flow generation and return of capital to shareholders, led by share buybacks or dividend increases.

High-yield bonds

Geof Marshall
Senior Vice-President, Portfolio Management and Portfolio Manager

As we begin 2016 we find ourselves addressing serious questions about the impact of market illiquidity, tightening financial conditions and the precipitous drop in energy prices on high-yield bond valuations, defaults, economic growth, sentiment, and ultimately, returns. Some knowledge with how the market has responded to similar shocks in the past can go a long way in thinking about when to re-engage the high-yield market.

There are three good analogies in high-yield bond history that relate to the current environment, although they did not happen at the same time:

1. If you are inclined to believe the Dodd-Frank Act has diminished dealers' ability to trade and there is a liquidity issue in the market, the 1990-1992 period is informative. At the time, Drexel Burnham Lambert had a 50% market share in new issue and secondary high-yield bond trading, but trading losses and SEC fines pushed it into bankruptcy in 1990. This was a liquidity disruption event and a recession followed later that year. High-yield bond spreads widened 320 basis points and the market lost 4.4% that year.

2. Representative of emerging market stress, U.S. dollar strength and tightening financial conditions were present in 1997-1998. This episode included the Asian Crisis, the Russia devaluation of the ruble and default, and the collapse of hedge fund operator Long-Term Capital Management. Spreads widened by 400 basis points, but returns stayed on the right side of positive throughout 1997-1999.

3. If you are concerned that losses in energy bonds will sour sentiment and presage outflows, the analogy of a sector bust was 2001. At that time, telecom bonds comprised about 25% of the high-yield bond market and the hangover from the 1990's dot-com bust and telecom overbuild was hitting the markets. This, plus a recession in 2001, drove a spike in defaults and high-yield spreads grew to 600 basis points. The cumulative return from the 2000-2002 period was -2.7%. A significant rally followed in 2003 that drove the cumulative four-year return 27 points higher.

In each of these periods, high-yield bond spreads widened to approximately 1000 basis points before rallying. The current spread widening of 320 basis points has taken spreads to +740 basis points. The market could be vulnerable to further widening, but for context, 150 basis points of widening only lowers the 12-month return to the low single-digits, or the same return offered on Government of Canada bonds, assuming rates stay level.

Market fear is an opportunity, and buying high-yield bonds at lower prices is actually less risky. This sounds intuitive but it is not. Portfolio managers fall all over themselves to buy bonds at par, but if general or security-specific sentiment sours and yields climb/prices fall past some always moving target (e.g. 90 cents on the dollar, or 80 cents), investors flee, even if the credit risk has not materially changed. We are staying cautious but feel that there will be an attractive re-entry point sometime this year. In the meantime, the high-yield value proposition – less volatility than stocks for comparable returns – should hold. The fact that high yield has held up much better than stocks so far in 2016 is a good sign.

Interest rates

Kamyar Hazaveh
Vice-President, Portfolio Management, and Portfolio Manager

Looking back – misguided tightening

The U.S. Federal Reserve (the Fed) started the tightening cycle in December with 0.25% increase in the overnight interest rate. The Fed tightening is a global tightening and financial assets have reacted predictably, with general weakness and increased volatility. Despite the rate hike, 10-year bond yields in major jurisdictions were about unchanged in the fourth quarter.

In Europe, European Central Bank President Mario Draghi was quick to seize on the weakness in global trade, commodities, emerging markets and inflation expectations to introduce further stimulus by extending the ECB's quantitative easing (QE) program. The Bank of Japan also added to its version of QE by increasing the purchases of long bonds and equities.

In Canada, economic numbers continued to deteriorate as the weakness from the energy sector spreads. This is partly offset by the weakness of the Canadian dollar, which benefits domestic producers. The Canadian dollar depreciated by another 3% in the fourth quarter. The Canadian bond market remained one of the best-performing bond markets globally.

In the U.S., after months of communication disarray and uncertainty, the Fed raised interest rates in an environment where both real and nominal GDP growth rates are slowing both domestically and globally. This is the main reason why the entire fixed-income complex is trading late stage, with credit spreads making multi-year highs.

Looking forward – hope is not a strategy

Investing in higher-yielding assets relative to risk-free government bonds results in better portfolio yield by introducing new risks (equity risk, credit risk, etc.) into the portfolio. The fall in risk premia over the years since the global financial crisis made "yield-seeking" strategies outperform government bonds handsomely. It is worth noting that this strategy was aligned with the Fed's desired "portfolio rebalancing" channel as long as the QE program was in place.

The consensus is long risk and hoping that the Fed tightening cycle will be fine for risky assets. The reality is that with the Fed's noisy path to exit, higher yields come with substantially higher risk than in previous years. It is in this environment that constructing well-diversified portfolios in duration, curve, credit and currencies and tactical asset allocation is critical for fixed-income portfolios. The best case scenario for risky investments remains poor U.S. economic data, leading to a change of course for the Fed in the coming year.

Positioning – duration, curve and currencies

In our valuations, the U.S. benchmark 10-year bonds are trading in the middle of the range of about 1.85%-2.5%.

Our global bond strategies remain underweight euros and yen relative to the portfolio benchmark. The major change in the fourth quarter was adding allocations to long bonds in Germany and Japan, and adding to our Canadian dollar position at the expense of other commodity currencies. In our Canadian bond strategies, we remain flat duration and are concentrated in the five to 10-year part of the curve to collect better income. We are slightly long select corporate credit exposure. The major change in the fourth quarter was to add to the belly of the curve at the expense of the back end, as we anticipate the current weakness in the commodity complex to prompt the Bank of Canada into action.

Foreign exchange

Matthew Strauss
Vice-President, Portfolio Management, Portfolio Manager and Global Strategist

For another consecutive year, broad-based U.S. dollar strength dominated the currency markets. On a trade-weighted basis, the U.S. currency rallied just more than 11% in 2015, slightly more than the strong rally of 10.5% in 2014. Policy divergences amongst the major central banks played a meaningful part in supporting the strong U.S. dollar against other major currencies: the U.S. Fed finally hiking rates, almost seven years after taking rates to zero, the European Central Bank formally engaging quantitative easing early in 2015, and the Bank of Japan continuing to expand its monetary policy reach by buying more equity ETFs. Apart from policy divergences, concerns about the health of the global economy, especially emerging market economies and the continued decline in commodity prices, weighed on emerging market currencies as well as developed market commodity currencies. Currencies falling into the latter category, such as the Canadian dollar, the Norwegian krone and the Australian dollar, all fell by more than 10% against the U.S. dollar in 2015. The sharp sell-off in the Canadian dollar in December as economic data (excluding housing data) disappointed saw the Canadian dollar moving to the bottom of the developed market currency performance table for 2015, with a decline of 16% against the U.S. dollar.

Although the consensus outlook is for another solid year for the U.S. dollar in 2016, the extreme trend moves of the last 18 months are unlikely to be repeated, although volatility will continue to be an issue that needs to be managed through active currency hedging decisions. Although the euro runs the risk of repeating its 2014 and 2015 performances when it fell by roughly 10% per annum, the Canadian dollar is unlikely to fall another 25% over the next 12 to 18 months, despite a challenging start to 2016. A rebound in oil prices could lift the Canadian dollar, but weak economic conditions domestically, underlying structural problems in the economy and talks about monetary loosening by the Bank of Canada should cap rallies. These latter factors are expected to outweigh the positives affecting the Canadian currency over the medium term.

Emerging market currencies remain vulnerable and a continued depreciation of the Chinese currency is posing a significant downside risk to Asian and other emerging market currencies. An environment of tighter U.S. monetary policy and global growth concerns should also keep these currencies from staging any significant and durable rallies during the early part of 2016. Furthermore, sharp currency depreciations in the politically and economically exposed economies like Brazil, South Africa and Turkey continue to be a meaningful risk.

Investment-grade corporate bonds

John Shaw
Vice-President, Portfolio Management, and Portfolio Manager

After falling in the third quarter, investment-grade corporate bonds rose in the fourth quarter and performed in line with Government of Canada bonds as interest rates fell and corporate bond spreads widened. Credit markets remained concerned throughout the quarter about slowing global growth and the fall in commodity prices, especially oil. Additionally, credit markets are concerned about slowing corporate earnings, higher capital market volatility and geopolitical risk in many regions. The market tone was weak at the end of the quarter as Canadian spreads widened nine basis points in December.

Global GDP growth expectations continued to trend downward on the back of concerns emanating from China and commodity-based economies. West Texas Intermediate crude oil fell 20% to $37 per barrel during the quarter, which put continued pressure on the Canadian economy. As a sign of the pending weakness, the Canadian dollar declined 4% to US$1.384. The U.S. Fed raised its overnight rate by 25 basis points in December, indicating it was finally moving off of its zero interest rate policy. However, the market does not believe that Fed will raise rates four times in 2016. Most bond investors believe the global economy is too weak for the Fed to raise rates at this pace or at all, thus the reason for falling 10-year yields.

To date, most Canadian investors remain overweight investment-grade bonds. New issuance needs wider concessions to attract new money, which is hurting the current outstanding bonds. This has led to poor liquidity in secondary bonds and wider spreads as the market tries to find the clearing level.

Corporate credit quality continues to weaken as leverage creeps higher and event risk has risen, especially in the oil and gas, pipeline and energy infrastructure sectors. Company earnings have peaked as growth slows. In the late stage of the credit cycle, companies turn to debt-financed mergers and acquisitions and corporate financial engineering.

The Canadian investment-grade index returned 0.63% in the fourth quarter, just behind the performance of Government of Canada bonds at 0.66%, as spreads widened six basis points over the period. That amount of spread widening equals the quarterly carry and thus the reason for the matched performance. Spreads zigzagged during the quarter – up three basis points in October, down six in November, and finally up nine in December. Spreads widened 35 basis points over the year. Spread curves steepened as longer-term corporate bonds widened more than front-end corporate bonds over the quarter and during the year. The BBB rated corporate bonds continue to underperform the market as concern for riskier assets abound.

The outlook for Canadian investment-grade debt is weak as we enter 2016. The market may have another 15 to 25 basis points of widening to digest, as the large amount of debt that matures this year needs to be refinanced. As well, the credit market continues to exhibit signs that usually occur at the end of a credit cycle, including increased shareholder-friendly activity, slowing earnings growth and higher leverage. Therefore, we remain cautiously overweight corporate bonds at the front end of the curve for the carry, but underweight at the long end.

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