Market Commentary
Digital Roadshow

SIGNATURE GLOBAL ASSET MANAGEMENT™

Summary of a presentation by Signature Global Asset Management
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Outlook for the Income Sector
By Chief Investment Officer Eric Bushell, and Portfolio Managers Geof Marshal, Ryan Fitzgerald, John Shaw, and Kamyar Hazaveh

2016 Market Outlook

The unwinding of quantitative easing around the world will be the dominant force this year, and the policy-dependent market of the past few years is going through a withdrawal, said Eric Bushell. The following conditions likely will result:

- Volatility will normalize and head higher
- Credit spreads will remain wider
- Equity valuations will come under some pressure
- Emerging economies will become more volatile as winners and losers emerge with the withdrawal of QE.

This will create deflationary shock and suppress interest rates, although it remains to be seen what impact this will have on the real economy, and what policy options may be introduced to alter that course.

Rates in developed markets will remain range-bound this year, said Kamyar Hazaveh, and yields on 10-year U.S. Treasury bonds should be in the range of 1.85% to 2.25% for the rest of the year.

We are definitely in the later stages of this credit cycle, added John Shaw. There is a fairly wide yield gap between stable companies and weakening companies related to the energy sector. Slowing economic growth may increase those spreads, which, in turn, could lead to more attractive investment opportunities later in the year.

High-yield bonds a good long-term opportunity: Ryan Fitzgerald

Expectations for high-yield bonds have been low the past few years as valuations became quite high in 2012-13. These assets were the first and biggest beneficiaries of global quantitative easing, as

central banks cut rates and yields fell. This resulted in new money flowing in to higher-yielding assets, and the rising valuations prompted us to shift some holdings in broadly diversified assets.

In 2016, we believe our income funds are very compelling compared to alternatives. There is a good buying opportunity now for high-yield issues in the three-to-five-year horizon. We also are well positioned for the end of quantitative easing, and have been prepared for this since the Fed went through its "taper tantrum" in 2013, as markets dealt with postponements of the phasing out of the U.S. government's stimulus measures. Income funds had a tough run in that environment, unable to match the run by equity and balanced funds, which have had unhedged exposure to the dramatically rising U.S. dollar.

Within our income funds, we have a mandate to generate income for unitholders, and this leads us to higher-yielding income classes. We buy high-yield bonds as opposed to government issues, and on the equity side, we buy real-estate investment trusts (REITs), infrastructure companies, utilities and telecommunications services stocks. With all of the above asset classes selling off in 2015, good value now is surfacing in Signature High Income Fund's core components.

Although the market has been slow to pick up on this, we remain believers in rising demand for good yield. This is due to sustained, low interest rates, an aging demographic, and low volatility coupled with reasonable returns, compared to higher volatility in the stock market due to the end of quantitative easing.

Pattern Energy, a premier developer of wind and solar-power assets, is an example of a solid high-yield opportunity. The company's shares lost 35% from its 2014 high in last year's energy-related sell-off. Regardless of when its stock price might recover, we don't need capital growth for this investment to work. This is because Pattern Energy pays out all its cash flow as a dividend. As the company has very stable cash flow, we are confident in its dividend, which currently is 7.4%.

Signature High Income Fund well positioned for growth: Geof Marshal

With the newly favourable high-yield-market conditions, Signature High Income Fund offers investors an excellent way to gain investment growth through interest and dividend income. It offers excellent volatility metrics and access to high-yielding asset classes that are difficult to replicate in an individual investor's portfolio, along with active currency hedging.

Achieving capital growth was difficult over the past year, but with last year's selloff conditions have become more favourable. Income, in the form of interest and dividends, is an easier way to achieve returns today. The end of widespread government stimulus has contributed to U.S.-dollar strength, while concern about the Chinese economy has put pressure on commodities. Energy-related

equities have been hit hard by the halving of the price of oil. However, the energy sector represents only 15% of the high-yield market.

An example of the so-called "fallen angel" opportunities in the corporate bond market is the BBB-rated bonds of Freeport McMoRan, the world's largest copper producer. The broad commodity sell-off last year and the potential of a downgrade of the company's bonds into high yield pushed investors into a "sell at any level" mentality. However, the company has low operating costs, operates some of the world's highest-quality mines, and has excellent cash flow. We began buying the company's bonds late last year, after prices had fallen substantially.

Overall, Signature High Income Fund has a relatively small equity position at 33%, low exposure to direct commodity plays, a good U.S.-dollar position, and the highest running yield since 2008. The fund has low correlation to – and less volatility than – the major equity and fixed-income indexes, and has stronger risk-adjusted returns than the equity indexes.

Signature Tactical Bond Pool: a solid base for multi-asset portfolio – Kamyar Hazaveh

Today, the drivers of fixed-income return – interest rates, currency and credit spreads – are at multi-year lows, making it challenging to generate income returns. This fund is our solution to this challenge. The portfolio's focus is on achieving strong risk-adjusted returns relative to the benchmark, as measured by the Sharpe Ratio.

We have the ability to quickly capitalize on investment opportunities, manage risk and optimize allocations, which is of key importance for fixed income investing in this environment**.** Signature Tactical Bond Pool invests in high-quality securities such as Canadian and global government bonds, investment-grade corporate bonds and select high-yield and emerging markets bonds. The average credit quality of the portfolio will be investment-grade BBB or above. High-yield and emerging-market securities currently are limited to 10% of assets.

We ensure that no one component dominates the portfolio and we make adjustments if a situation emerges that might alter that diversification. Asset allocation is overseen by a committee of senior portfolio managers with expertise in each of the income asset classes.

Canadian dollar outlook

Eric Bushell on the outlook for the Canadian dollar: Two key factors have contributed to the dollar's decline. First, the energy sector – both natural gas and oil – has been devastatingly weak. And second, an interest-rate differential is increasingly opening up between Canada and the United States, hitting all-time wide spreads. The Canadian dollar is oversold, and may be headed still a bit lower, perhaps by as much as three to five cents, but the devaluation should be nearly complete. In

the meantime, we have been moving toward a more hedged position from the mostly unhedged position of past years.