CI Digital Roadshow
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SIGNATURE
GLOBAL ASSET MANAGEMENT™

"RIP Global Financial Crisis"
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Signature Global Asset Management, led by Chief Investment Officer Eric Bushell, is CI Investments' largest in-house management group. It employs a global multi-asset, sector-specialist model based on the thesis that global markets and economies are becoming progressively more interconnected.

Outlook for growth and interest rates

- The group will continue to focus on two key themes in 2018 – the technology sector, specifically ongoing digital disruption, and Asia, where it will examine further investment opportunities. It also believes that the interest rate market is the key sector to watch in 2018-2019 given its potential to impact all other markets.

- With the end of the Global Financial Crisis – heralded by Brexit in 2016 – Signature believes financial markets are operating from a much sounder foundation. As we progress through 2018, growth may pick up and inflation may increase.

- Higher interest rates and the end of central bank asset buying are unlikely to collapse housing, bonds and equity values in 2018. Signature believes the inflation regime and monetary policy normalization will remain tepid, fundamentals will be supportive and interest rates are unlikely to climb significantly within the next few years.

- The U.S. yield curve is likely to remain flat over the next two years with short-term rates projected to climb by only 1% or so per year.

- Any market risks in 2018 are unlikely to be driven necessarily by global economic forces, which generally remain strong. One of the biggest challenges is the Trump administration's impact on the global economic architecture, including trade policy, currency, anti-trust, the environment and others.

Equity bench strength

- Signature has been refocusing efforts on its equity franchise – expanding the team and advancing processes, skills and risk management among other things to improve outcomes for clients.

- The group is focused on uncovering companies with strong franchises and a competitive advantage in their sector that haven't been properly valued in the marketplace. Citigroup, for example, was a major investment in 2017. Having reached the end of its required capital strength following its longstanding recapitalization efforts, Citigroup was able to increase its dividend

payouts. It was also a large beneficiary of rising interest rates and, more recently, will benefit from U.S. deregulation and corporate tax cuts. Other strong contributors to performance were Shopify and Micron.

Technology: AI is a game changer

- Signature believes it's well positioned with investments in semiconductors, cloud computing and e-commerce, as well as in the latest platform – artificial intelligence (AI).

- AI combined with cloud computing opens new opportunities to address billions of dollars in global business services – cloudsourcing. Signature's investee companies are at the centre of this universe. Ping An, for example, is a China-headquartered, Asia-wide insurance company that uses AI to assess the damage done to a car following an accident.

- Signature sees multiple examples of digital disruption among the 2,500 companies it visits each year. It aims to own the digital winners, at the same time increasing returns by cutting out the digital "losers", i.e. those companies that are ripe for disruption.

- Signature monitors and analyzes the drivers of price appreciation among the top 1,200 technology companies and has concluded that recent appreciation is justified. It largely reflects positive fundamentals, with market expansion based on earnings growth.

- Signature is a global investor, locating opportunities in every region and relying on deep knowledge of global supply-chain relationships in each country. For example, when Apple was rumoured to be adding 3D sensors to its latest iPhones, Signature was not only invested in Apple but also owned certain suppliers in that space. In addition, it was able to follow the entire product chain of the Taiwanese companies that assembled the end product for customers in North America.

Income solutions tailored to more risk-sensitive investors

- Signature's income strategy targets income assets (mainly real assets: high-yield bonds, real estate and infrastructure) with significantly less volatility.

- The group sees a continuing trend in income asset classes into 2018 with growth assets likely to outperform income and value assets.

- Signature's high-yield assets are generally market weight (i.e. the current credit spread is in line with expectations). It expects tax reform will be largely positive for credit, including high yield and investment grade, although not fully priced in where deleveraging is evident. This may translate into fewer debt-financed share repurchases, less corporate bond issuance and possibly more M&A, which could be positive for credit markets.

- The group also sees some idiosyncratic or *ad hoc* opportunities in the high-yield bond market such as an investment in Vertiv. Formerly Emerson Network Power, Vertiv designs, builds and services critical infrastructure that enables vital applications for data centres, communication networks and commercial and industrial facilities. Signature considers data centres as a potentially large beneficiary of digital disruption and the credit team worked closely with the tech sector team to invest in Vertiv – a deal that generated a significant return in 2017.

- Signature is underweight real estate and sees a disconnect between the public equity and private markets (a 25% discount to net asset value in the public markets). Despite being at the later stage of the cycle, Signature doesn't expect a downturn. Leverage is in check and supply dynamics are moderating. The return on underlying assets remains good at 6-7% (yield and rent growth); however, the rate headwinds and better growth in general equities means returns aren't palatable enough to draw general investors back into real estate investment trusts (REITs).

- Tricon American Homes, a leading owner and operator of single-family homes in the U.S, is one of Signature's "high-conviction" holdings (Signature is also its largest shareholder). It was attracted by the capital-gains potential of the underlying single-family homes market in the U.S. Beyond its 2.4% dividend payout, Tricon is considered a total returns story. The company reinvests into higher-return opportunities like developing masterplan communities.

- In the infrastructure market, the tailwind of low rates is abating. Like real estate, there is a persistent bid from smart investors like private-sector institutions for scarce assets, where the value proposition (high persistent cash flow and low volatility) continues.

- Signature owns many companies that it believes could sell at a significant premium. A prominent example is Ferrovial, a builder and operator of marquee infrastructure (such as Toronto's Highway 407 and London's Heathrow Airport). Highway 407 is widely considered a leading infrastructure asset with pass-through pricing, excellent location, strong growth and a lack of competition. Signature considers Heathrow to have strong growth potential (despite Brexit) largely with the addition of a third runway. Overall, Ferrovial's growth potential remains strong based on its construction and development pipeline.

What to own

- Go for growth, over-weight equities, including emerging markets.
- Corporate bonds are probably "ok"; they absorb most of the rate move with spread tightening, but returns are unlikely to be as good in 2018 as they were in 2016-2017.
- Government bonds – most of the rate move may be behind us. Signature expects the yield curve to flatten and the long rate may be capped. The expectation of a modest negative return is probably reasonable in 2018.

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Funds to consider

- **Signature Global Income & Growth Fund**: Deeply resourced in all asset classes, the fund is uniquely positioned to allocate between these asset classes and can add value based on asset allocation and security selection. In January 2018, the fund is mostly split between equity and high yield. The remainder is allocated in negatively correlated assets like rates, gold and cash.
- **Signature Corporate Bond Fund**: Split between high-yield and investment-grade bonds. It targets a high-yield return but with the volatility of the Canadian bond market, which equates to half the volatility of the high-yield market. This is not a strategy that you can replicate with a high-yielding or investment-grade exchange traded fund. The active share in this fund is high at 80%.

Final thoughts

- Signature's defining characteristics include: a strong culture (incentivized investment professionals and a "no-jerks" policy); solid resources that take into account interconnected asset classes; and effective scale which makes Signature relevant to issuers and underwriters among others. These features allow it to gain access to critical relationships. In turn, these relationships allow it to access important information that can then be converted into conviction and, ultimately, alpha and capital preservation in down markets.

- Overall, Signature's approach can benefit investors because it can expand your exposure to innovative ideas and offer unique investments that are largely inaccessible to Canadian individuals, demonstrating differentiation and value-added service.