# Market Commentary
# Fourth Quarter 2017

**Signature Canadian Bond Fund**

Last year began with geopolitical tensions, fear of trade protectionism and the risk of the far right dominating European politics. The consensus expectations of an increase in wage growth, higher inflation, a stronger U.S. dollar and 10-year U.S. rates at 3% did not materialize through the year. Instead, momentum trades, low volatility, tighter spreads and tax reforms in the U.S. were the main stories in 2017.

Despite the hawkish tone of central bankers across the developed world, global financial conditions remained incredibly supportive and risk assets continued to outperform. This, perhaps, gave the U.S. Federal Reserve (the "Fed") the confidence to continue its tightening path and policy makers reiterated their support for a gradual approach to raising interest rates. Even after three rate hikes and the initiation of balance sheet normalization by the Fed, the 10-year U.S. rate ended the year at 2.46%. Weak inflation expectations only nudged up moderately in the fourth quarter, which helped rates remain range bound in 2017.

In Canada, the central bank raised rates twice in 2017 and remained concerned about valuations in the housing market and elevated household debt, which makes the economy more sensitive to higher future interest rates. The 10-year Canadian interest rate declined -0.07% in the fourth quarter, ending the year at 2.04%, 0.36% over 2017 starting levels.

Elsewhere, the European central bank ended 2017 on an optimistic note, raising its growth forecast for the next two years. However, underlying inflation in Europe, as well as in Japan, continues to fall short of central bank targets. Furthermore, the Bank of England took back the post-referendum emergency interest rate cut and hiked interest rates 0.25% as inflation in the U.K. reached a five-year high.

As developed markets started seeing rate hikes, some of the emerging economies facing low inflation, such as Brazil and Indonesia, cut rates in 2017 to stimulate their economies. However, in Mexico, despite the NAFTA overhang, the central bank tightened five times in 2017 to counter inflation that hit a 16-year high.

The total return of the fund was primarily driven by the drop in longer-term Canadian interest rates, along with further net compression of government and corporate credit spreads.

Duration and yield curve positioning detracted from performance due to our underweight duration position in longer maturity Canadian bonds, which performed well during the period. The underperformance of U.S. duration exposure relative to Canadian duration also negatively affected

performance, significantly outweighing the impact of residual U.S. dollar exposure. Portfolio foreign currency positions are actively managed through a hedging overlay. Within the spread product arena, overweight exposure to corporate credit, U.S. agency mortgages, inflation-linked bonds and emerging market spreads were all beneficial. These gains were partly offset by our underweight Canadian government credit position, where spreads experienced a significant tightening.

The fund is moderately underweight duration, primarily in the 20-year portion of the yield curve. Provincial bonds are used to manage this yield curve position, while collecting better income. In the spread product sphere, we are overweight corporate credit, underweight Canadian government agency debt, and hold positions in U.S. dollar investment-grade emerging market sovereign debt, agency mortgages and inflation-linked bonds.

Over the fourth quarter, we added a modest amount of Canadian duration mainly in longer maturities, and shifted exposure toward this area of the yield curve from shorter maturity Canadian bonds. In addition, we increased our U.S. inflation-linked bond positions, moving this exposure from the Canadian market via sales of federal debt.

Policy interest rates in the United States and Canada are expected to rise gradually in 2018. Markets have currently priced in four rate hikes for Canada and two for the U.S. over the coming year. Global growth continues to be strong, but weak inflation will put central banks to the test especially if the Fed tightens monetary policy too quickly. It also remains to be seen how Fed policy will change, if at all, under Jerome Powell, the new chairperson of the Fed starting in February 2018.

A number of downside risks, such as missteps by the current U.S. administration, correction in asset valuations, international trade concerns amidst NAFTA renegotiation and ever-changing U.S. trade policy continue to persist. Elections in multiple emerging countries such as Mexico, Brazil and Colombia could give rise to idiosyncratic risks and create opportunities.

The yield curve in the U.S. is the flattest it has been since the financial crisis in 2008-09, and we remain cautious in positioning our portfolios as the bond market begins to signal a decline in growth expectations.

| **Class F Returns (in %) as at December 31, 2017** | **Year-to-date** | **1 year** | **3 year** | **5 year** | **10 year** |
|---|---|---|---|---|---|
| Signature Canadian Bond Fund | 0.9 | 0.9 | 1.6 | 2.3 | 3.8 |

# Market Commentary
# Fourth Quarter 2017

*This commentary is published by CI Investments Inc. It is provided as a general source of information and should not be considered personal investment advice or an offer or solicitation to buy or sell securities. Every effort has been made to ensure that the material contained in this commentary is accurate at the time of publication. However, CI Investments Inc. cannot guarantee its accuracy or completeness and accepts no responsibility for any loss arising from any use of or reliance on the information contained herein. This report may contain forward-looking statements about the fund, its future performance, strategies or prospects, and possible future fund action. These statements reflect the portfolio managers' current beliefs and are based on information currently available to them. Forward-looking statements are not guarantees of future performance. We caution you not to place undue reliance on these statements as a number of factors could cause actual events or results to differ materially from those expressed in any forward-looking statement, including economic, political and market changes and other developments. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in security value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. ®CI Investments and the CI Investments design and logo are registered trademarks of CI Investments Inc. ™ Signature Global Asset Management and ™ Signature Funds are trademarks of CI Investments Inc. Published January 2018.*