Market Commentary
First Quarter 2018

SIGNATURE GLOBAL ASSET MANAGEMENT™

Signature Emerging Markets Fund

Emerging market equities, after rallying 37.5% in 2017 (in U.S. dollar terms) and following a surprisingly robust start to 2018 (equities were up 8.3% during January), consolidated in a volatile fashion during the last two months of the quarter. The correction was driven by a spike in equity volatility, a rally in the U.S. dollar and U.S interest rate fears. However, the subsequent selloff in cyclical assets was brief as volatility quickly subsided, the U.S. dollar rally proved fleeting and U.S. rates started falling again. In line with other cyclical assets, emerging market equities entered a consolidation phase after recovering around two-thirds of the losses sustained during the early-February selloff. The fragile pause was interrupted by news that the U.S. would increase tariffs on a wide range of Chinese imports. Although not a tipping point itself, the risk and fear of a looming trade war saw another round of risk shedding across geographies and asset classes. Emerging market equities ended the quarter with mere gains of 1.4% amid wild daily and weekly swings.

Consumer discretionary was the worst performing sector, dragged down by the selloff in the auto sector. Defensively oriented sectors, such as health care and utilities, performed well. Also on the positive side, oil prices above US$60 throughout the quarter provided solid support for the rally in energy stocks. On a country basis, Brazil and Russia stood out for their stellar performance while India, the Philippines and Indonesia made up the other end of the performance spectrum. Although not the only reason, the return difference of oil producers versus oil consumers during the quarter was telling, although we do think this theme has largely run its course with oil unlikely to break above recent highs of US$71/barrel in the near future.

Despite the volatile start to the year, we have not altered our view that emerging market equities could return between 8% to 12% this year, although both the downside risk to this view and the expected volatility of returns during the quarter have increased meaningfully. As a result, we have scaled back our technology overweight but continue to see the banking sector as an outperformer as the normalization of global rates continues at a pedestrian pace and therefore in a non-disruptive manner. Within emerging markets, we believe Asia has the greatest potential. On the risk side, unlike the increased tension in global trade, other political risks are down from a few months ago and should not be a big distraction to overall emerging market returns this year. The outcome of the National People's Congress in China should ensure policy continuity, greater reforms and decent growth in the short to medium term. U.S. inflation, a stronger U.S. dollar, trade protectionism and a policy mistake in China top our list of downside risks with escalating trade tensions quickly becoming the most critical and immediate risk. Our base case remains for a constructive 2018.

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Class F Returns (in %) as at March 31, 2018	Year-to-date	1 year	3 year	5 year	10 year
Signature Emerging Markets Fund	1.8	20.6	7.3	7.7	4.0

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