

# Market Commentary

## Third Quarter 2018



### Signature Global Dividend Fund

The U.S. equity markets returned more than 7% during the quarter supporting a positive, but less robust 3.7% return from the MSCI ACWI Index, which includes both emerging and developed world markets. The MSCI ACWI High Dividend Yield Index outperformed the broader MSCI ACWI Index with a gain of 4.36% in U.S. currency.

The market value of global equities as measured by the Bloomberg World Exchange Market Capitalization Index at September 30, 2018 was 7% below its January 31, 2018 peak of \$86 trillion. The U.S. is back to representing more than 40% of global market value, a level it has not been at since early 2005. The fund has typically maintained a high exposure to U.S. equities which has been beneficial. However, moving forward it seems appropriate to moderately de-emphasize U.S. holdings which may be less undervalued than potential European or Asian opportunities. Outside of the U.S. market, volatility and equity risk premiums have risen significantly. We view equity market valuations as quite reasonable with global growth indicators generally remaining encouraging.

The fund (Class F) returned 1.5% for the quarter. Active currency hedges moderately benefited performance while our individual security selection performed poorly.

Sector results were quite varied during the period. Health care was the strongest sector. Unfortunately, our strong security selection in this sector did not offset our low allocation which detracted from performance. Pfizer was our strongest performer during the period with a 22% return. The rotation back into the defensive names of health care combined with a positive trial readout for one of the company's pipeline assets resulted in Pfizer's strong performance.

Our performance in consumer cyclicals and materials was negative during the quarter. Newell Brands declined a further 13.8% in the period and we have exited this unrewarding position. Newell's turnaround is taking more time than expected and better risk adjusted opportunities are available in other discretionary names at the moment, such as McDonald's, which has been added to the fund. In the materials sector, our position in The Chemours Company, a manufacturer of industrial and specialty chemicals, declined 10.6% on pricing pressure concerns which we feel are excessively discounted in the company's valuation.

One of the larger detractors during the quarter was Synchrony Financial, which experienced a negative return of 6.2%. Synchrony announced that a major client, Walmart, was taking its store card business to Capital One. This risk of potential client loss has been an overhang for some time and we incorrectly believed that Synchrony would be successful in renewing the Walmart contract. We like Synchrony because it generates a superior return on capital relative to other financials

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which supports significant returns to shareholders while reinvesting to support attractive growth. The loss of a major client relationship is alarming, however a client as large and dominant as Walmart can be overly demanding and potentially economically unprofitable. Synchrony is expected to continue to generate superior returns on capital relative to competitors and capital released from Walmart-related assets can be returned to shareholders through share repurchases. It is noteworthy that Synchrony's 2019 earnings per share estimates at September 30, 2018 were five cents higher than they were at June 30, 2018, before announcing the Walmart loss, demonstrating attractive resilience and discipline in Synchrony's business model.

Our significant exposure to the information technology sector was beneficial as our average return in the sector was a helpful 9.4% over the quarter. Microsoft's 16.4% return during the quarter added to portfolio performance.

We continue to have a constructive outlook. Our view is that equity risk premiums are reasonably attractive given the somewhat supportive global economic outlook, although potentially increasing trade friction is a risk that needs to be continually assessed. Equity market returns will be primarily dependent on earnings growth and dividend payments as there is only modest room for general multiple expansion. The U.S. economic outlook remains very appealing while the European region is making modest yet significant progress. Valuations outside the U.S. are becoming increasingly compelling. We believe that strengthening developed economies will support bumpy yet acceptable returns from equities relative to the rather limited investment alternatives.

<b>Class F Returns (in %) as at September 30, 2018</b>	<b>Year- to-date</b>	<b>1 year</b>	<b>3 year</b>	<b>5 year</b>	<b>Since inception (12/21/2012)</b>
Signature Global Dividend Fund	1.9	8.0	8.3	11.3	12.5

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