Market Commentary
Third Quarter 2018

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GLOBAL ASSET MANAGEMENT™

Signature Global Energy Corporate Class

Benchmark crude prices (West Texas Intermediate (WTI) and Brent) were relatively benign during the quarter after a double-digit increase in Q2 of 2018. WTI was modestly down 1% in Q3 2018 while Brent was up 4%. Natural gas was also relatively flat for the quarter, ending up about 3%.

Both the S&P Energy and TSX Energy were down during the quarter, returning -6.6% and -5.7%, respectively. Energy equity performance was weak because of logistical issues in several North American basins. The fund (Class F) returned -3.0% for the quarter.

Global crude oil spare capacity is at historical lows. This should offer support for the crude markets over the next 12 months. Even though midland differential, which widened earlier this year, has narrowed, the ability of the U.S. to act as a swing producer is limited over the next three quarters given infrastructure constraints in the Permian.

While crude demand so far has been robust, the continued escalation of trade tensions between the U.S. and China and slower growth in China are key events that could impact crude demand. Trade tensions/conflicts have the potential to paralyze investments, slowing global growth, which will result in rationalizing crude demand.

Natural gas inventory is at the low end of the five-year range, however, the price has been range bound as there is plenty of low-cost natural supply available in North America.

The fund's performance was helped by holdings in international (Brent linked) names such as Saipem and Kosmos. However, our holdings in heavy oil that are exposed to wider Western Canadian Select (WCS) differential – such as Canadian Natural Resources and Devon Energy – underperformed.

There was a record refinery turnaround in Padd 2 (Mid-continent) during the third quarter, which was mostly anticipated. However, slower-than-predicted ramp-up in crude transport by rail caused the differentials (WCS and even Edmonton light differential) to widen significantly.

We continue to believe crude fundamentals are healthy in the medium term. Spare capacity is at historic lows. Currently, demand remains relatively robust, at close to 1.5 million barrels per day. We will continue to closely monitor China's growth and the trade tensions' impact on crude markets.

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Current general valuations of energy equities are not stretched from a historic standpoint. Year to date, the Brent price is up close to 20%, while the S&P energy and TSX energy indexes are both down about 6% to 7%.

We foresee the wider differentials in Canada due to pipeline constraints to continue for a few years. Crude by rail should continue to ramp up and will be able to clear the logistical issues by mid 2019.

The differentials should then settle down to the cost of railing crude out of the basin, which is around $25 per barrel, and not the shut-in economics that WCS is trading at currently (WCS was trading at one point $50 under WTI). Also, Cenovus just signed a rail deal with both CN and CP for under $20 per barrel.

We have recently increased our holding in Canadian Natural Resources. The company should be one of the beneficiaries of the narrowing of differential crude prices in Canada.

Class F Returns (in %) as at June 30, 2018	**Year-to-date**	**1 year**	**3 year**	**5 year**	**10 year**
Signature Global Energy Corporate Class	5.7	12.2	7.7	0.7	2.6

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Published October 2018.