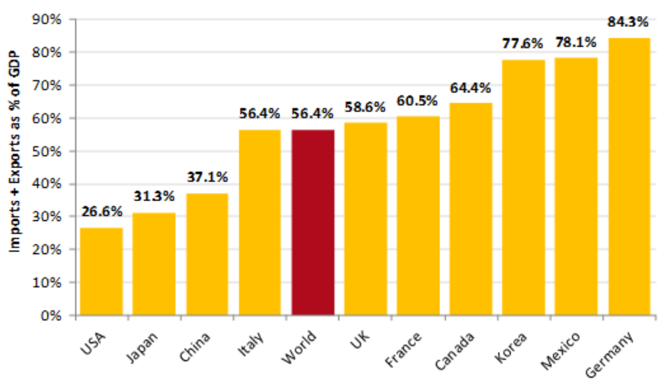
Market Commentary
Second Quarter 2018

SIGNATURE GLOBAL ASSET MANAGEMENT™

Signature Global Equity Fund

The second quarter of 2018 was dominated by rhetoric from the Trump administration on tariffs and trade wars. It began as a trade dispute but deteriorated into a trade war by the end of the quarter. The tariffs continue to be part of a tactic to drive concessions from U.S. trading partners, including China, Europe, Canada and Mexico.

The tariffs and threats of further escalation brought uncertainty for markets and negatively affected large trading nations in the second quarter, as can be seen in the chart below. Countries that are most dependent on trade, calculated by adding total export and total imports as a percentage of GDP, saw their markets drop the most year to date (to June 27, 2018). Germany, Korea and Canada suffered most. The U.S., which trades less than most nations, saw its stock market perform better, as did Japan.



	2018 YTD Total Return	
Country	Local Terms	USD Terms
USA	2.8%	2.8%
Japan	-1.0%	1.3%
Australia	4.8%	-0.7%
France	2.0%	-1.1%
UK	0.2%	-2.0%
Italy	0.1%	-2.9%
Canada	**1.8%**	**-4.2%**
Germany	-5.3%	-8.2%
Korea	-6.6%	-10.5%

Europe experienced a slowdown in economic activity from elevated levels and has stabilized at sustainable levels.

China is showing signs of slowing as its reform programs take effect, particularly on the deleveraging campaign of large corporations. This is having a negative impact on the domestic stock market which declined 15% in the past two months. There are mixed signals out of China between the China Banking and Insurance Regulatory Commission (CBIRC) which favours a continuing campaign to de lever and the PBOC (the central Bank) which seeks to maintain growth. The Politburo will meet early in the third quarter and may provide some direction for markets and indicate the degree to which authorities are willing to hold up the economy.

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It is also likely that the tariffs being imposed on China are affecting the nation's currency policy, as the RMB fell about 5% near the end of the quarter, even if officials claim the drop has nothing to do with trade.

The slowdown in China and the weaker currency is causing havoc for emerging markets that generally depend on China for exports. They are negatively affected by the Chinese economic slowdown which reduces their imports, and the lower Chinese currency which increases the cost of those imports. Emerging economies are also negatively impacted by the rising U.S. dollar since U.S.-dollar debt is high in many of these emerging economies.

In the U.S., the trade war has had a more benign effect because the country has less exposure to trade versus its peers. However, when one looks deeper, multinationals, who are generally exposed to trade and often dependent on seamless cross-border supply chains are underperforming small and mid-cap stocks that tend to be U.S.-centric.

Fund performance

The fund performed well during the quarter, returning 3.6%. Consumer discretionary and financials were the main contributors to performance.

In consumer discretionary, our long-term position in Amazon continued to perform well as it moves into new industries, the most recent being pharmaceutical drug distribution. The company is continuing on a path of further disruptions in established industries.

Large leisure shoe manufacturer Nike performed well after strong quarterly results and the launch of an online offering which will directly target consumers, providing an alternative channel to classic distribution through stores.

Financials also performed well thanks to strong stock selection as the sector, in which we are overweight, did not do well as a whole. Synchrony Financial, the white-label credit card company, once part of GE Capital, performed well as the U.S. economy continued to grow and consumer confidence remained high, encouraging consumption and leading to higher credit card balances.

Brookfield Asset Management, the leading Canadian asset manager focused on property, infrastructure and private equity also performed well for the fund.

Industrials holdings as well as European holdings detracted from performance.

Outlook:

The question on every investor's mind regarding the Trump Trade War is, where do we go from here? Escalation is a necessary part of the Trump strategy, but it entails risks.

Companies might prefer to wait before investing, whether in the U.S. or elsewhere, until there is more clarity on where all of this goes. This could undermine confidence and increase costs on companies that delay investment.

The European tariffs on Harley-Davidson are forcing the closure of some U.S. production. There will likely be more closures in the U.S. and other parts of the world. For now, this remains insignificant and should not be exaggerated even if it provides for intriguing headlines.

China is likely to want to find a negotiated solution with the U.S. but it also has a long-term domestic and global agenda which suggests it will not easily acquiesce to U.S. demands.

Politics in the U.S. is already toxic but Trump's tariffs are generally popular with his base and Republicans in general. Democrats are moving left and are also increasingly favourable to more protectionist measures. How much of Trump's trade war remains part of a lasting legacy with more protectionist politics remains to be seen. We would argue that protectionist politics is set to continue beyond Trump with negative long-term implications for markets.

The picture before us is a global economy that remains resilient but is becoming more fragile as the U.S. looks to raise rates further amid continued quantitative tightening, negatively affecting liquidity.

The slowdown in China should remain contained with authorities likely to support the economy, if needed, via fiscal stimulus. Continued confidence in this belief requires regular confirmation from the authorities. It is one of the reasons we have an office in China.

Our positioning remains neutral with a bias toward late-cycle sectors in equities, but we will move rapidly as events unfold over the next several months.

Class F Returns (in %) as at June 30, 2018	**Year-to-date**	**1 year**	**3 year**	**5 year**	**10 year**
Signature Global Equity Fund	4.7	14.8	9.3	12.7	7.2

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