Market Commentary
Second Quarter 2018

Signature Global Resource Fund

The second quarter of 2018 saw a continuation of the first quarter with energy commodities continuing to outperform industrial metals.

Brent oil prices were up 13% (West Texas Intermediate up 14%) during the quarter. Oil markets are healthy with inventory levels close to the five-year average and global oil demand strong, outpacing supply. The recent decision by OPEC to increase production by one million barrels was accepted by the markets as necessary to offset production declines from Venezuela and sanctions on Iran. Questions on Saudi Arabia's remaining spare capacity have come into focus and are supportive of oil prices. Natural gas prices in the U.S. were up (Henry Hub was up 7%) while those in Canada (AECO) down roughly 17% during the quarter, highlighting the Canadian gas surplus. We continue to favour crude oil over natural gas.

The second quarter of 2018 saw a continuation of first quarter trends, namely a decline in metals prices, outside of nickel and steel and aluminum which received support from trade tariffs. Steel prices increased by 6% while aluminum prices were up by 6%. Nickel was up 12%. Copper prices were down 3% during the quarter, while zinc prices fell by almost 13% on concerns about the startup of new capacity. Precious metals prices reacted as expected given the 5% appreciation in the U.S. dollar. Gold was down 5% while silver declined by 1% in the quarter. Lumber prices increased by 10% in the quarter with logistics issues limiting supply. The prices for ethylene, the feedstock for many plastics, fell by 27% during the quarter as production capacity on the U.S. Gulf Coast increased while new downstream facilities that convert the ethylene to polyethylene had start-up issues. The risks of a trade war continue to weigh on global commodity prices, especially commodities where a meaningful percentage of demand derives from China.

A slight overweight in energy helped fund performance as the energy market had robust performance during the quarter. Performance was helped by holdings in the international (Brent – linked) names such as Hess, Parex Resources, Equinor and Royal Dutch Shell. However, our holdings in Permian names that were exposed to a wider Midland differential, such as RSP Permian and Concho Resources, underperformed. The logistical bottlenecks that caused the Midland differential to widen from $5 to $15 per barrel will be temporary and should narrow back to below $5 per barrel as new pipelines start up at the end of 2019.

During the quarter, a detractor in the materials sector was our underweight in Nutrien as the price of potash was more robust than anticipated due to start up issues of new capacity at two competitors (K+S Potash Canada and EuroChem). Our holdings in some of the junior miners were also a detractor in the quarter as market concerns about a trade war between the U.S. and China impacted base metal prices. Changes to the portfolio during the period include the addition of Chemours late in the quarter. Chemours is not only a low-cost producer of Ti02, a key component used in paints, it is one of only two producers of ozone-friendly refrigerants that will replace hydrofluorocarbons (HFCs) in automobiles and home air-conditioning units.

This stage of the economic cycle should be constructive for commodities. Years of underinvestment in new capacity while demand has continued to grow has created a more favourable supply-demand balance for many commodities. Offsetting this are the increased risks to global trade flows stemming from continuing trade rhetoric. However, we remain cautiously optimistic that trade tariffs will not trigger a global recession and we will be looking to take advantage of any pricing dislocations that occur in resource equities.

Class F Returns (in %) as at June 30, 2018	Year-to-date	1 year	3 year	5 year	10 year
Signature Global Resource Fund	4.2	20.7	4.0	3.4	-1.0