Market Commentary
Second Quarter 2018

SIGNATURE
GLOBAL ASSET MANAGEMENT™

Signature Global Technology Corporate Class

World Cup summers are supposed to be idyllic ones in which billions of viewers tune in to watch soccer, the beautiful game, and tune off developments in the capital markets. The technology market was anything but calm in June, however, as it transformed itself into a bizarre two-headed beast with diametrically opposing views.

The early part of June reflected an aggressive, confident persona with the technology market looking solid and investors seeking more risk. More risk meant smaller capitalized Chinese Internet stocks and early-stage technology innovators. Both are attractive for different reasons.

On the Chinese internet side, there is a keen interest among investors to find companies in China that mirror successful Western analogs. For example, we know that Netflix has been a huge success in North America and Europe, so who will be the "Netflix" of China? Well, a first-mover contender for that role is iQIYI, one of China's leading online video platforms.

Despite a challenging start to iQIYI's IPO, in which we participated, the stock became a stellar performer in the weeks that followed as investors got wise to the opportunity ahead. The same was true for other Chinese analogs including GDS, HUYA and Bilibili, which provide cloud and gaming services, respectively.

Early-stage technology innovators also looked attractive, but for different reasons. With more businesses migrating their operations to the cloud, an entirely different compute architecture is required. First-movers such as MuleSoft, Okta, Zscaler and others have launched radically new products in middleware, software-defined networking and security. Starting with a cloud-first perspective instead of a legacy one, these companies can create superior products that are attractive to clients moving to the cloud. Often, there are no competitive alternatives. This is translating into high growth coming at the expense of legacy vendors; we are positioning the portfolio accordingly to benefit from this trend.

There was no surprise that with technology in vogue, both of our Chinese internet and early-stage technology companies had terrific runs and were huge positive contributors to our investment portfolios. But just when the pieces in this "beautiful game" seemed to settle, along came the not-so-beautiful escalation of a global trade war between the United States, China and just about everyone else.

We are technology experts, not trade experts, so we want to avoid the rabbit hole that encompasses the consequences of global trade tariffs. And as we write, some of these tensions are being unwound as cooler heads prevail. But we are exposed to these tiffs, as semiconductors and technological intellectual property are at the heart of these disputes.

For us, this meant selling down our positions in NXP and Qualcomm when they hovered at their highs, based on M&A as we believed that neither the United States nor China would allow these entities to merge or be purchased due to their strategic significance. We also raised the spectre of a possible export ban of dual-purposed products, civilian goods that could be used for military purposes, and investment restrictions in sensitive industries. The White House was clearly circling around these issues, as seen in the tone of their press releases at the end of June (https://www.whitehouse.gov).

Understandably, this sabre rattling triggered the diametrically opposite side of the market – a rapid shift to lower risk as the quarter closed. We de-risked our higher-beta positions in the context of this uncertainty and bought some protection in the form of put options. It seemed overly prudent but as July unfolded, the rationale for caution became clear as Facebook and others saw unprecedented volatility. We had already de-risked Facebook a few months ago, as mentioned in a prior commentary. The reason was not fear of mass subscriber cancellations following their data breech, but rather other revenue headwinds such as data privacy and saturation in key markets.

The FANG+ Index aside – and we are not concentrated in that small nexus of names – we continue to see great opportunities in the broader investment universe. Large positions such as semiconductor company AMD are contributing positively to our portfolio, and the long-term outlook for technology continues to be revolutionary.

Artificial Intelligence (AI) passed another milestone this quarter when Google's virtual assistant (Duplex) passed the Turing test by engaging in a machine-to-human conversation that was indistinguishable from a human-to-human one. AI capabilities continue to exceed expectations and AI is advancing faster than we could have ever guessed.

Despite the overhang of diametrically opposed markets, trade disputes and the elimination of World Cup favourites, our thesis remains steadfast. This thesis is that every business must transform into a digital business to stay globally relevant. With this comes a rich landscape of investment opportunities for Signature, and trillions of dollars of business opportunities still ahead.

Stay tuned as this World Cup of technological innovation continues to play on.

Class F Returns (in %) as at June 30, 2018	Year-to-date	1 year	3 year	5 year	10 year
Signature Global Technology Corporate Class	17.0	34.0	22.1	24.8	19.9

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