Market Commentary
Third Quarter 2017

Signature High Income Fund

So far 2017 has surprised many investors. Missteps and the checks and balances of the U.S. legislative system have stymied U.S. President Donald Trump's agenda in health care, diminishing the hope for aggressive tax reform to stimulate the U.S. economy and unleash the "animal spirits." Nonetheless, equity indexes have hit all-time highs, volatility across a number of asset classes is at record lows, yet government bond yields are lower year-to-date. There is still concern that the tightening monetary policy associated with the upcoming reduction in the U.S. Federal Reserve's balance sheet will derail U.S. economic growth. Looking domestically, just as the Fed turned dovish about future tightening given the lack of inflation, the Bank of Canada turned hawkish, quickly raising overnight interest rates by 50 basis points. We felt caution may have been warranted given the preceding currency appreciation, mortgage regulatory reform, pending NAFTA re-negotiation and minimum wage increases in two large provinces. Corporate borrowers continue to demonstrate credit quality improvement via earnings growth and to a lesser extent, debt reduction.

Signature High Income Fund performed well over the quarter as strong security selection mitigated the impact from the stronger Canadian dollar. Contributing positively to performance were the fund's positions in financials, especially Citigroup, and European transportation infrastructure, notably Abertis Infraestructuras and Fraport. On the fixed-income side of the fund, financial preferred shares were meaningful contributors to performance, especially RBS and Lloyds Bank. Detractors from relative performance were the real estate sector and a few specific telecommunication stocks. New positions include Royal Dutch Shell, Cheniere Energy and American Homes 4 Rent in the equity sleeve, and the Canada Goose L+400 term loan and Rite Aid 6.125% bonds due 2023 on the fixed-income side. The position in General Growth Properties was exited while positions in Transurban Group and Citigroup were reduced. Exiting the fund due to early calls and tenders include the Wynn Macau 5.375% bonds due 2020 and Mattamy Homes 6.875% and C$6.5% bonds due 2020.

Valuations across most asset classes are challenged but supported by durable economic growth and central bank caution on further tightening actions. Spreads for example are still 100 basis points wide of the all-time tights experienced between 2004 and 2007. Nonetheless, they are on the expensive side of historical averages so "crowded but not dangerous" may be the best turn of phrase. Easy access to cheap credit should fuel further mergers and acquisitions and, should the "animal spirits" catch, a capital expenditure cycle on renewed optimism for growth. As a result, we believe we are at an inflection point between companies pursuing balance sheet repair strategies and shareholder-friendly, re-leveraging behaviour. This has us inclined to tilt the portfolio more toward equities although we remain vigilant in the long-term on when this behaviour will become egregious and counter-productive.

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Class A Returns (in %) as at September 30, 2017	Year-to-date	1 year	3 year	5 year	10 year
Signature High Income Fund	1.5	2.1	2.5	5.3	5.5

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