Market Commentary
Third Quarter 2018

Signature High Income Fund

While the first half of 2018 was volatile, summer found a bid for risk assets. However, the onward march of U.S. interest rates and growing U.S.-China trade and political tensions triggered another bout of volatility late in the third quarter. Economic strength in the U.S. has been the dominant driver of financial markets this year and dollar strength is starting to impair the credit quality of emerging market sovereign and corporate bonds. Developed market corporate bond issuers are less affected and still seen as beneficiaries of U.S. tax cuts. Corporate bond spreads were largely rangebound over the period. More interesting moves were witnessed in Italy as sovereign yields widened on the new populist government's announcement of a 2.4% budget deficit, incongruent with earlier pledges.

Real estate performance in the fund during the quarter was relatively flat. Early gains in the quarter were pared back as global interest rates spiked. This macro event caused weakness in global real estate securities. Much like in the first quarter of this year, we believe this rate-induced selloff will open up opportunities in well-capitalized companies that are reinvesting in their moats. Contributors for the quarter were Brookfield Asset Management, Brookfield Property Partners and Dexus, while detractors were Hudson's Bay Company and Hudson Pacific Properties.

The yield difference between the U.S. 10-year Treasury bond and the 10-year German bond sat at a record 2.6% at the end of the third quarter. Should the European Central Bank begin hiking interest rates this time next year and the Bank of Japan raise rates to zero under the auspices of a new, more hawkish Governor next year, there is a risk that U.S. bond yields will become unanchored and break out of their current channel. In this case, higher yields, with the impact of tariffs, will begin to bite the consumer and corporations and bring the current prolonged economic expansion to an end (although that is not our base case). Our base case assumes U.S.-centric growth persists and earnings growth moderates but stays positive.

The October spike in U.S. government bond yields when the U.S. 10-year broached 3.2% and the S&P 500 Index subsequently sold off 6% was a clear signal that equity investors deem these borrowing costs as a brake on growth. More importantly, we witnessed a sector rotation during this period of volatility with technology especially vulnerable to outflows while the defensive sectors held up relatively well. We believe this is positive for investor sentiment in our target asset classes after two years of the broad market chasing growth. We think equities should outperform fixed income, and credit should outperform duration.

A bout of volatility, or policy uncertainty, could be healthy if it tames the animal spirits in the markets. Until then, many markets, including our target asset classes, lack identifiable positive or

negative catalysts, reliant on individual initiatives to drive value creation or otherwise subject to broader risk sentiment. Investors looking for a market turn signal from the high-yield bond market, traditionally reliable as the "canary in the coal mine" may be disappointed. Credit quality is relatively high, issuance is low, and outflows are ongoing, in stark contrast to the emerging market bond, investment-grade bond, and leverage loan markets. Cognizant that deterioration in those markets will pressure our core markets, we are gradually de-risking the fund.

Class F Returns (in %) as at September 30, 2018	Year-to-date	1 year	3 year	5 year	10 year
Signature High Income Fund	1.7	3.5	4.6	5.1	7.1

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