Market Commentary
Second Quarter 2018

SIGNATURE GLOBAL ASSET MANAGEMENT™

Signature Preferred Share Pool

The Canadian preferred share market was volatile during the first quarter of 2018, but improved with the rise in the five-year Government of Canada bond yield in the second quarter. Trade war concerns continued, but the equity market made slow gains as a result of strong corporate earnings and solid economic news. Global assets with more perceived risk were volatile, and the U.S. equity market, as measured by the S&P 500 Index, declined 0.8% in the first quarter, but rose 3.4% during the second. West Texas Intermediate oil prices were up, closing the period at US$74.15 per barrel.

The BMO 50 Preferred Share Index posted a 1.2% total return in the second quarter, while the broader S&P/TSX Preferred Share Index was up 0.9%. The S&P/TSX Preferred Share Index underperformed as a result of its lower weighting in floating rate preferred shares. Within the BMO 50 Preferred Share Index, perpetual preferred shares led the Index, while rate reset preferred shares returned 1.3% and floating rate preferred shares, -0.4%. Supporting preferred share performance were rising Canadian interest rates and the rising five-year Government of Canada bond yield, which moved higher amid expectation that the Bank of Canada would raise interest rates by another 25 basis points (bps) in July. Trading volumes during the second quarter were lighter than normal as new issuance was low.

Issuance fell in the second quarter with three issues totalling $850 million and four redemptions announced for $550 million – a net increase of $300 million during the quarter. The new issues did not initially trade well in the secondary market. Issuance is expected to increase in the second half of 2018 as AltaGas will likely issue to help fund its WGL acquisition and as Canadian banks refinance legacy additional Tier 1 bonds.

The U.S. Federal Reserve Board raised interest rates by 25 bps at each of its March and June meetings, and signalled two more increases in 2018 and further increases in 2019. The Bank of Canada raised interest rates in January amid strong employment growth, but kept its overnight rate on hold during the second quarter. However, the Bank of Canada signalled that it would look to remove its accommodative monetary policy as the bank rate is still below the rate of inflation.

The pool returned 0.6% during the quarter. The main contributor to performance was positive security selection and significant exposure to floating rate preferred shares. Citigroup N benefited from rising Libor yields and the Federal Open Market Committee (FOMC) interest rate hike while holdings of Bank of Nova Scotia D and F benefitted from rising T-bill rates.

The main detractor was an underweight to the fixed and floating rate preferred share sector and security selection within the sector. The main individual detractors were BCE A, Capital Power C, TransAlta H, and Brookfield Property P.

Looking forward, the outlook for the preferred share market remains positive as higher interest rates in Canada should support the rate reset and floating rate preferred shares that make up the majority of the market. North American Free Trade Agreement negotiations, U.S. tariffs on aluminum and global trade war rhetoric are having a negative impact on the Canadian economy and thus, should moderate further interest rate increases.

Class F Returns (in %) as at June 30, 2018	Year-to-date	1 year	3 year	5 year	Since inception (12/21/2015)
Signature Preferred Share Pool	0.7	5.3	N/A	N/A	9.2