Market Commentary
Third Quarter 2017

SIGNATURE
GLOBAL ASSET MANAGEMENT™

Signature Preferred Share Pool

Canada's preferred share market had a volatile third quarter in line with the global market for risky assets. Interest rates in Canada moved higher in the quarter amid signs the economy was heating up. For the most part, risky assets globally were positive with the S&P 500 Index rising 4.5%. Oil recovered from the previous quarter, gaining 12% to close the three-month period at $51.60.

The BMO Capital Markets 50 Preferred Share Index rose 2.3% in the third quarter, also based on higher interest rates (the Bank of Canada increased rates by a total of 50 basis points in two hikes over the quarter). The five-year Government of Canada bond moved 36 basis points higher to 1.75%, following the rate increases, and on expectations of further hikes. Preferred shares continue to benefit from strong retail demand and institutional demand, which improved on higher rates.

Issuance of preferred shares fell in the third quarter versus the second quarter, with five issues totalling $1.25 billion. Redemptions totaled $500 million across two issues for a net increase of only $0.750 billion. Issuance is likely to remain relatively low following two notable developments in the bond market. First, TransCanada, the Calgary-based energy infrastructure company, and Enbridge issued their inaugural Canadian-dollar hybrid corporate bonds (junior subordinated debt), which support their senior bond credit ratings. This represents less costly funding than preferred shares, which had filled the same role. Second, as the quarter drew to a close, Bank of Nova Scotia announced plans to issue the first Additional Tier 1 bond from a Canadian bank in U.S. dollars. Both structures can raise larger amounts of debt at a lower cost for the issuer, and will likely take substantial issuance away from Canada's preferred share market.

The U.S. Federal Reserve (Fed) left rates on hold in the third quarter but has signalled that more increases are likely, although at a more gradual pace than previously. In Canada, where rates were raised twice over the quarter, the bond market priced in further rate increases over the next year at a faster pace than the preferred share market. Consequently, valuations in the rate reset market are attractive to fair. (In the rate reset market, investors are offered a product that comes with a fixed rate for the first five years. After that they are offered new preferred shares with the same spread over five-year Canada bonds. That option occurs after the issuer decides whether or not to redeem).

In contrast to the BMO 50 Preferred Share index's 2.3% total return for the third quarter, the broader S&P/TSX Preferred Index returned 1.73%, due to its lower weighting in floating-rate preferred shares. Within the BMO index, floating rate preferred shares, or "floaters", led the index for the third consecutive quarter with an 8.33% return. Rate reset preferred shares returned 2.84% and perpetual preferred shares, or "perpetuals", generated -1.45%.

Market Commentary
Third Quarter 2017

The outlook for the preferred share market remains positive as higher interest rates in Canada support rate resets and floaters – representing the bulk of the market. Additionally, with Canadian banks and utilities taking advantage of lower-cost bond structures, future issuance will likely decrease. Consequently, preferred shares will remain well bid. We expect preferred shares to gain 5-6% over the next year with only a modest increase in rates.

Class A Returns (in %) as at September 30, 2017	Year-to-date	1 year	3 year	5 year	10 year	Since inception	Inception date
Signature Preferred Share Pool	7.4	10.8	N/A	N/A	N/A	10.2	12/17/2015