Fund update

SIGNATURE
GLOBAL ASSET MANAGEMENT™

Signature Global Asset Management
Portfolio protection strategy
November 20, 2015

Signature Global Asset Management has undertaken a tactical portfolio protection strategy for the Signature balanced and income mandates. The market events of July and August of this year have shown us that while quantitative easing (QE) still provides a backdrop for positive market returns, investor skepticism over European, American and Chinese policy responses to global economic challenges is rising. We appear to be entering a different market environment than previously experienced during QE, specifically when it comes to market sell-offs. Our portfolios have historically benefited from diversification during sell-offs as the U.S. dollar strengthened and bonds rallied, but these trends appear to be mature and we don't expect them to add the same level of protection to the funds going forward. In considering these factors, we saw a need for hedges to protect the net asset values of the funds in the event of a market downturn, yet not hamper returns in a rising market. To achieve this, we purchased equity index puts to protect a portion of the portfolios until the summer of 2016.

What is the strategy?

- We purchased portfolio protection against a downturn in equity prices between now and late June 2016.
- Specifically, we purchased a package of put options on the S&P 500 and Russell 2000 indexes, with strike prices roughly 10% below current index levels.
- By doing this, we hedged a portion (but not all) of the equity component of the balanced and income portfolios. We have hedged 80% of the equity holdings in the balanced mandates, and about 40% of the equity holdings in the income portfolios. The lower hedge on the income portfolios reflects the fact that their equity content is already conservative in nature.

How did we select the hedge?

- We examined the fund composition and the drivers of portfolio behaviour, identifying the strongest and most stable relationships between various asset classes and our funds to select the appropriate hedging instruments. We sought to minimize the cost to the funds and maximize flexibility and liquidity.
- We then considered the expected behaviour of the hedge in different market scenarios. Our macro view determined the length of hedging period.
- We worked closely with CI's compliance department in the hedge selection process to ensure that every decision met the requirements of the funds' prospectuses and the regulations governing mutual funds, specifically those established for hedging transactions.

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