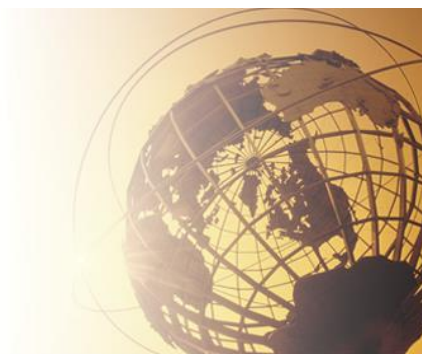


Currency market update

March 2016



Matt Strauss, Vice President and Portfolio Manager
Lorne Gavsie, Senior Currency Analyst

"Currency management, including foreign exchange hedging, is an integrated part of our comprehensive portfolio strategy."

Signature's approach to currency hedging across all funds is to provide its sector specialists the ability and freedom to actively seek the best investment opportunity, regardless of which currency the assets are denominated. We do not enter currency positions first and then go hunting for assets to hold. Our foreign exchange overlay approach means we assess the currency exposure derived from our asset mix and the underlying assets, and then make hedging decisions based on our view and level of conviction for each currency.

Currency exposures are actively managed to:

- mitigate currency risks
- reduce negative volatility
- capture currency moves where we have a particularly high conviction on the future direction of a currency pair.

Foreign exchange exposures are monitored daily and hedges are rebalanced on a regular basis. If there is little conviction in a particular currency pair we revert to our predetermined neutral hedge.

Foreign exchange hedging strategies	Minimum hedge	Maximum hedge	Neutral	Recent hedge ratios			
				USD	EUR	GBP	JPY
Global	0%	100%	0%	2%	50%	50%	30%
Domestic	0%	100%	50%	30%	45%	50%	50%
Yield	30%	70%	50%	32%	52%	50%	50%
Income	60%	100%	80%	71%	74%	80%	80%
* As at Feb. 29, 2016							

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A description of our foreign exchange strategies by type of mandate:

Global

With global-oriented mandates, anything less than full currency exposure would subtract from their global nature and risk minimizing their intended exposure. The neutral hedge target of zero allows for full exposure, while allowing for full flexibility between 0% and 100% hedged, should we become concerned about the currency exposure but still see reason to be invested in the underlying asset class.

Domestic

This strategy covers Canadian-oriented funds that allow for some foreign content. Given the domestic orientation, sensitivity to currency volatility is considered to be high. Therefore, we utilize a 50% neutral hedge to mitigate foreign exchange risk. A high-conviction view is required to see a meaningful shift towards either extreme of 0% or 100% hedged. The reduction in foreign exchange volatility through a 50% hedge provides more stability of returns, while the flexibility to adjust currency weightings around the 50% level provides the opportunity to manage the currency risk, cost of hedging and potential FX gains more actively depending on our currency views.

Yield

The funds within this category are diversified asset class funds designed to provide investors with a high yield in Canadian dollar terms. The dynamics among the various assets held in these mandates relative to energy prices and the Canadian dollar over the past two years have diverged significantly from historically reliable correlations. In recognition of this new relationship, an adjustment was made to the foreign exchange hedging policy for this group. The neutral hedge was recently lowered from a high hedge ratio typically reserved for income-oriented funds down to 50%. This allows for more flexibility, while maintaining a focus on stable yield-driven returns.

Income

The funds within this grouping are focused on generating a stable stream of income with some capital gains. As such, the high volatility in the foreign exchange market could subtract from the lower volatility, stable income profile of these mandates. The neutral hedge ratio for these funds is 80%, with a range of between 60% and 100% on all the major currency exposures. The high hedge ratios are intended to mitigate the volatility coming from the currency exposures.

Other

Finally, Signature has three funds that fall outside of the standard hedging categories – Signature Global Bond Fund, Signature Global Resource Fund and Signature Global Energy Corporate Class. For the resource funds, commodity prices are a key driver for both the performance of the underlying assets and for the Canadian dollar, creating a natural hedge at times. A special tactical hedging policy exists for the resource funds to bridge the gap when the natural hedge is less than

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effective. Signature Global Bond Fund is primarily invested in sovereign bonds, and is driven by views on interest rates that, in turn, are a key driver for currencies. Interest rate sensitives in different markets can be adjusted within a portfolio context so as to create effective hedges, offsetting part of the currency risk.

Outlook:

- After staging an early year drop, the Canadian dollar has appreciated 2.3% year-to-date vs. the U.S. dollar. We remain quite cautious on our medium-term outlook for the loonie.
- While non-energy manufacturing saw an uptick in January, the ability for Canada to compete in foreign markets remains a question. The recent currency strength is a negative, and labour costs remain high relative to competitors such as Mexico (where major automakers are building new facilities).
- Energy prices remain subdued. Though the tight correlation between the Canadian dollar and oil has subsided, a US\$50 per barrel price remains a barrier to any significant near-term Canadian economic growth.
- Further monetary stimulus may be warranted in the medium-term (rate cuts and quantitative easing, are possibilities). Fiscal measures may reduce some of the pressure on the monetary policy makers. The federal budget, to be released March 22, will provide some clarity.

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