Signature sound bites

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SIGNATURE GLOBAL ASSET MANAGEMENT™

Outlook on technology and financials
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John Hadwen – financials

- Canadian banks have been reporting solid earnings. Capital markets and trading held up better than expected and credit costs were lower than expected. Asset growth for the big five banks is about 5% year-over-year. However, Signature expects it to be in the 4-5% range going forward. Canadian house prices continue to rise and the market is unlikely to perform poorly if the U.S. is recovering.
- Investors are willing to pay more for life insurance companies because they are more sensitive to rising interest rates. However, Signature's view is that interest rates will not increase significantly, so this should not cause much of a tailwind.
- The return on equity for life insurance companies is lower than that of banks, even though earnings growth for life insurance companies over next few years will be stronger compared to banks because life insurance companies are growing from depressed levels. Signature believes the quality of earnings for life insurance companies is worse than banks. Asset growth is low for Canadian banks, so 75-80% of earnings are free cash flow, versus 50-60% for life insurance companies. Signature is willing to pay more for free cash flow earnings than earnings that have to be reinvested into balance sheets.
- Signature Select Canadian Fund is overweight Canadian banks at the expense of Canadian life insurance companies. TD is a large weighting in the portfolio. Signature recently sold its position in CIBC and bought Scotiabank, based on Scotia's underperformance due to emerging market fears. In Signature Select Global Fund, financials are market weight.
- In the long term, we see better growth potential in the U.S. than in Canada. Financial services companies we like outside of Canada include PNC Bank, J.P. Morgan, Citibank, Wells Fargo, Credit Suisse, UBS and Barclays.
- Although last year was difficult for the Thai banks, emerging markets have recently rallied and Signature's holdings have doubled in value compared to our purchase prices 4-5 years ago. We are now considering taking profits in Thailand.

Malcolm White – technology, media and telecommunications

- Borrowing rates are low and demand for credit is high, boosting mergers and acquisition activity because funding is inexpensive. Debt markets are currently wide open, allowing the best and worst companies to raise unprecedented amounts of debt.
- For example, U.S.-based Verizon Wireless waited for years until a funding window opened last September. The company raised US$60 billion dollars of debt at an acceptable 5%

interest rate to buy out Vodafone's interest in Verizon, one of the best run telecom companies in the world. In another illustration, French entrepreneur Patrick Drahi was recently also able to raise debt a 5% rate. This financing allowed his highly-leveraged holding company, Altice, to purchase communications company SFR. Both companies operate in France, one of the most challenging markets in Europe.

- The technology sector is awash with cash – the worst-returning asset. Technology companies spend little on manufacturing and focus mainly on design, so activist shareholders are pressuring these companies to reward shareholders in the form of dividends and share repurchases. Overall, large capitalization companies in the technology sector trade under the average market multiple, making them attractive for value investors, especially if they undertake shareholder-friendly actions such as increased buybacks or dividends.
- In the U.S. and Canada, retail companies focus on opening as many physical stores as possible to cater to customers that would typically shop in a mall. In China, traffic and a lack of transportation options make e-commerce a faster and more convenient way to shop. E-commerce company Alibaba has grown to become the largest online retailer in China and its initial public offering in the U.S. is highly anticipated.
- The Canadian telecommunication industry went through a tough period in the early 2000s, with financial stress followed by new competition. However many of the new competitors, like Mobilicity, are now going bankrupt. The government's vision of fostering competition did not materialize – this has been Signature's view for years. The sweet spot in the Canadian industry was in 2003-04, and it is now more challenging to understand the dynamics.
- Signature believes better telecommunication opportunities exist outside Canada. If U.S. Sprint and T-Mobile merge, the U.S. industry will become more attractive.
- A noteworthy holding in Signature's emerging market portfolios is China Mobile, which is undervalued in a sector where companies are generally well-valued. China's networks are being rebuilt to support 4G, which will present many broadband opportunities for the company.

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