SIGNATURE
GLOBAL ASSET MANAGEMENT™

Signature Corporate Bond Fund
Third-quarter 2020 Commentary

Class F returns (in %) as at September 30, 2020	Year-to-date	1 year	3 year	5 year	10 year	Since inception (2003-07-15)
Signature Corporate Bond Fund	1.8	2.9	4.0	4.9	5.4	5.4

Source: Signature Global Asset Management, as at September 30, 2020.

Performance Summary

- Over the quarter ended September 30, 2020, Class F of Signature Corporate Bond Fund (the Fund) returned 3.8%, outperforming its benchmark, a 50/50 combination of the ICE BofAML U.S. High Yield Total Return Index and the FTSE Canada Universe + Maple All Corporate Bond Total Return Index, which was up 1.6% over the same period.

- Security selection in both high-yield and investment-grade bonds and benefiting from a slight overweight position in high-yield bonds aided the Fund's outperformance over the quarter. Having only a small position in government bonds and some unhedged exposure to the U.S. dollar were slight drags on performance.

Contributors to Performance

- The main contributor to performance for the quarter was the fund's increasing position in high yield bonds and preferred shares. We added these as the investment grade (IG) spreads had tightened significantly and it was felt the total return potential was better in U.S. High Yield and Canadian preferred shares as the economy came out of the lockdown.

- The largest contributors in the Fund were all financial sector AT1s or preferred shares, as investors searched for higher yielding assets as Central Banks indicated they would continue to hold rates low for years. Ally Financial FRN L+578 2040, JP Morgan 4.6% prep, and CIBC 4.4% Ser 45 perp were the largest contributors.

- The 4.25% convertible bonds of cruise ship operator Royal Caribbean were a positive contributor to performance in the third quarter. While limited sailings have recommenced in Europe and the winter Caribbean season is uncertain, advance bookings for the 2021 season are strong.

- Another contributor to the Fund over the quarter was the euro-denominated Volkswagen Leasing 1.0% 02/16/2023. As the highest weighted euro-denominated corporate in the portfolio – at 1%. As credit markets improved and investors sought out higher beta credit, names like VW benefitted from spread tightening and the tailwind of the unhedged portion of a rising euro.

Detractors from Performance

- The Fund's holding of Brookfield Property REIT Inc. 5.75% bonds due 2026 detracted from performance during the quarter. Brookfield Property REIT owns and operates best-in-class retail properties in the United States. In the broader real estate investment trust (REIT) sector, rent collections have stabilized, while the mall REITs, which have been more directly impacted by COVID-19, have improved sequentially but have not yet stabilized. After some early optimism in the second quarter of 2020, markets has given back that recovery as we wade through an environment that has a more protracted COVID-19 impact.

- Holding Global Aircraft Leasing Co., Ltd. 6.50% bonds due 2024 also detracted from performance. Global Aircraft Leasing has been adversely impacted by the COVID-19 global pandemic and the resulting dramatic reduction in air passenger traffic, raising concerns about the solvency of airline companies. Airlines are the main customers for Avolon Aerospace Leasing Ltd., an aircraft lessor for which Global Aircraft Leasing, with a 70% stake, is a holding company. While it is yet unclear how long-lived this crisis will be, over the longer term we believe air passenger traffic will recover and the underlying lease collateral (i.e., airplanes) will be integral.

Portfolio Activity

- During the quarter, we sold the Fund's holding in TD Capital Trust 6.631% bonds due June 2108–21. These non-viability contingent capital AT1 bonds lose 100% of their capital treatment in 2021, so the market rightly prices these bonds for takeout to June 30, 2021. As the bonds moved inside of one year to maturity, demand for the bond drove in the spread.

Outlook

- The combination of low current yields, record duration for investment-grade bonds and record fixed-income assets under management portends poorly for future government bond

returns on both real and nominal bases. Corporate bond returns are a function the carry plus price gains or losses. Those price movements are themselves a function of idiosyncratic cash-flow growth, deleveraging, supply and demand, and sentiment. The trajectory of credit improvement is uncertain and is reliant, like many other aspects of the financial markets and the real economy, on continued monetary and fiscal stimulus, even as we find ourselves more optimistic about COVID-19 testing and vaccine development.

- While further spread tightening is our base case, the change in market structure with shorter-dated issuance now the norm favours carry over price appreciation as the primary driver of returns. Investors should look at current yields (as of September 30, 2020, 5.7% for ICE BofAML U.S. High Yield Index and 1.9% for FTSE Canada All Corporate Bond Index) as a guidepost for future returns.

Sources: Bloomberg Finance L.P. and Signature Global Asset Management, as at September 30, 2020.

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