Update by Eric Bushell, James Dutkiewicz and Scott Vali
Signature Global Advisors
May 4, 2011

Eric Bushell, Chief Investment Officer

- Signature Global Advisors is based on the concept that asset classes across different geographies are extraordinarily interconnected. And, today's markets have validated the investment management structure that we put in place over the course of the past decade.
- With the credit crisis behind us, it is clear that a broadening of asset management capabilities is underway, in which asset managers have to acquire expertise, not only in their sector, but also in foreign exchange, global interest rates, credit and property in order for them to do their job. By the end of the month, nearly two-thirds of our assets under management will be global.
- The second round of quantitative easing, or QE2, that began nine months ago has triggered a commodities boom. There have been supply shocks in specific commodities – particularly agricultural and energy and this has had a destabilizing effect on many economies in developing countries.
- We expect interest rates to remain low. As a result, the many smaller segments of the debt markets are being re-invigorated and brought back into mainstream use. Low rates are causing capital to be driven into more risky areas of debt markets to increase yield. Overall, we find equity income markets more interesting than credit markets.
- In equity markets there has been a lot of shareholder friendly activity, including increased dividend payouts, share buybacks, mergers and acquisitions and a trend by companies to invest in areas of organic business growth.
- We are into a period of lower growth and the uncertain outlook for inflation has made it difficult to value equities. Typical U.S. stock multiples are expected to be 12 to 14 times earnings. Companies with significant foreign exposure should have higher multiples, while consumer-linked stocks will be on the lower side.
- Significantly lower valuations have made the healthcare sector attractive. Multiples have fallen to below 10 from the mid 20s. This is an uncorrelated area of the equity market, i.e., it is less affected by developments in China than many other sectors. Investors should be careful not to have all their assets in QE2 aligned areas.
- We like the Australian real estate market and REITs are trading at big discounts – 20% to 25% – to their asset values. We have exited the U.S. REIT market because prices have become too high.

James Dutkiewicz, Vice-President, Portfolio Management and Portfolio Manager

- Bonds are a bit expensive because prices have rallied along with equities. We expect some adjustment to prices in the wake of QE2, but are unsure if this will occur in the U.S. Treasury market.
- It is essential that U.S. Treasuries continue to be considered risk-free – which means below 4%. We are confident this will occur because there appears to be

consensus in Washington that a debt reduction plan to the tune of US$2 trillion is necessary.

- While Treasuries are showing some characteristics similar to those of the debt-troubled European countries (Greece, Ireland, Spain and Portugal), the important difference is that the U.S. is a reserve currency economy.
- We believe that foreign debtholders will continue to fund a country's debt position as long as they are confident the debt eventually will be repaid. Cash has been made available to Ireland and Portugal and the European Union has been able to separate these situations from the overall EU picture.
- Spreads have narrowed considerably among corporate issues since the credit crisis, and we now see interest rate risk in these securities.
- Among analysts, the consensus is that the Canadian dollar would be fairly valued at 5¢-10¢ below parity. There could be some profit taking in Canadian dollar that might push it back to parity. The Canadian dollar has not kept pace with the euro versus the U.S. dollar. This is partly because, unlike the euro, our dollar is unable to act as a replacement base currency for the U.S. dollar.

Scott Vali, Vice-President, Portfolio Management and Portfolio Manager

- We expect investment fundamentals to support commodity prices as the year goes on, particularly in the energy sector.
- Natural disasters such as the drought in China and the earthquake and tsunami in Japan have sharply increased the global demand for coal. Hydro capacity in China is much lower than normal and Japan's nuclear energy supply has been hit hard. Demand for coal is also rising in India.
- Indonesia is big supplier of coal to China, but the tropical rainy season will challenge its ability to meet the increased demand. Other suppliers will benefit, most notably Columbia, South Africa and Australia.
- These energy shortages also will boost demand for diesel fuel, which in turn will raise gasoline prices, as oil refiners switch capacity over to diesel. We expect the price of Brent crude to remain well above US$100 a barrel this year.
- Gold prices have been supported as the metal is being used as an inflation hedge. Silver has been a popular alternative to expensive gold – particularly in retail products. Longer term, we are much more positive on gold than silver.
- It is difficult to predict movement in uranium prices amid the new fears over nuclear energy production. This is because the uranium market is very opaque. There are relatively few suppliers and buyers and details of contracts tend not to be made public. Adding to the pricing challenge is the fact that uranium inventories normally are more than a two-year supply.

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