

Signature Select Global Fund: A new approach to global investing

Signature's expertise now available in a global equity mandate

Signature Global Advisors is one of Canada's strongest investment management teams, with excellent performance and numerous Canadian Investment Awards to their credit, including 2009 Morningstar Equity Fund Manager of the Year for Chief Investment Officer Eric Bushell. CI Investments is pleased to offer Signature's investment expertise in a global equity mandate – Signature Select Global Fund and Signature Select Global Corporate Class.

The fund has a history that dates to October 2006, when it was introduced to institutional investors as the KBSH Private Global Value Fund, a private equity pool. The fund, which invests primarily in equity and equity-related securities of companies throughout the world, moved to Signature in 2007 when CI Investments purchased KBSH Capital Management. Effective July 2010, CI renamed the fund, and launched a corporate class version. With this "re-launch," we asked Mr. Bushell, the lead portfolio manager, to discuss the fund and his team's outlook for global markets.

Why are you making this fund available now?

For over a decade, Signature Global Advisors has been a strong believer in the need to invest from a global perspective. The size and scope of the Canadian marketplace is simply too small to allow for proper diversification. Over the years, Signature has built a strong team of portfolio managers and analysts who have been covering their sectors, and building their knowledge and relationships on a global basis. At the same time, we have built up a significant global component to our equity mandates. Currently, we manage \$6 billion in global equities. With our global expertise and capability, the next step was to make a global equity fund available to our

retail Canadian clients. It was a logical move to convert our existing private global equity fund – which we have been managing for three years and which has achieved excellent relative returns over that period – into a retail fund.

Another reason for launching Signature Select Global Fund reflects the current state of the global economy. The Great Recession of 2008-2009 will be seen as a watershed event that marked the rise of emerging nations as critical drivers of the global economy and the peak of the developed economies. In effect, it is the transition from the G7 nations leading the world economy to the countries of the G20. China, India and Brazil have all become engines of corporate profits, asset prices and the global economy. We believe Canadian investors need options that reflect today's reality – ones that are not constrained by outdated historical benchmarks. Many fund managers tend to restrict their coverage to developed countries and ignore the current drivers of the global marketplace. Signature has always sought to avoid constraints on our investment universe. Signature Select Global allows investors to benefit from our investment philosophy in a global context and complements our existing funds such as Signature Select Canadian Fund and Signature Global Income & Growth Fund.

The Canadian equity market has been one of the best-performing markets in the developed world over the past five to 10 years and still has excellent prospects. What does global investing offer Canadians?

Chiefly diversification. While Canada has been one of the best-performing markets globally, investors must be aware that almost 80% of the Canadian market, represented by the S&P/TSX Composite Index, is made up of two broad sectors – resources, including energy and mining, and financials. Over the past decade, Canada has been one of the biggest beneficiaries of China’s rising appetite for resources and it will continue to be. But the nature of China’s economic growth is evolving. As consumption and services become more important to the Chinese economy, we expect its resource intensity to decline. With this evolution, investment opportunities will broaden beyond resources to include consumer goods, health care, technology, and other services. We believe the main beneficiaries of these trends will be global multinational companies and emerging local companies.

The strength of the Canadian dollar has also contributed to Canada’s strong global performance in recent years and is a reflection of our strong resource-based economy. A strong dollar depresses returns generated outside Canada. To deal with that risk, Signature’s currency specialists actively manage the foreign currency exposure of our global holdings so that Canadian investors can benefit from the absolute returns of the investment, while moderating the influence of currency fluctuations. We believe this active currency management is another advantage that Signature Select Global has over many competitors.

With most developed markets having limited growth prospects, has global economic leadership decisively shifted to developing economies? What other trends do you see in global markets?

The U.S. will remain the dominant global economy for years to come and we do not envision a collapse of developed economies. However, we believe that the need for developed countries to pay down debt to sustainable levels will act as a drag on their economies for the next five years or so. Developing economies usually grow at a faster pace than their developed counterparts. Today, it is the sheer size of those developing economies that allows them to be a major driver of global growth. It is critical for investors to understand how important China and other key emerging

economies are to rebalancing of the global economy. In a nutshell, global rebalancing requires more saving and less spending in the U.S. and less saving and more spending by Chinese consumers.

As we enter a new decade, it is useful to ask what the world might look like in 2020. After all, in 2000, no one fully appreciated how different the world economy would be in 2010 – especially how the rise of China would affect global economies and asset prices. This year, China became the second-largest economy in the world, surpassing Japan. The Chinese economy already exceeds one-third the size of the U.S. economy and 10 years from now, a very different picture could emerge. We expect China to exceed two-thirds the size of the U.S. by 2020, while some forecasters expect that it could even surpass the U.S. economy in that time.

Whatever the forecast, it is clear that China has become the key driver of global economic growth. Just as important for investors is that China has also become the key driver of global consumption. Since 2008, Chinese consumers have added more to global consumption in U.S. dollar terms than U.S. consumers. With the rapid growth of the urban middle class in China, that country’s consumers have replaced U.S. consumers as the world’s most important market. Yet, we are still at the early stages of penetration for most consumer goods and services. The development history of other countries demonstrates that Chinese income levels are at a stage where growth in consumer spending is likely to accelerate. We expect this trend to continue in the coming decade and this will have a significant impact on global asset prices. In the global economy, the past decade was all about a supply shock from the rise of the Chinese worker. Now, however, we are in the early stages of a demand shock from the rise of the Chinese consumer.

As for other trends, we expect technology to continue to dramatically alter the way the world lives, communicates, and does business. Watch for India and some African nations to harness structural reform to drive their economies and increase living standards. Watch for demographics and the aging baby boom generation in the West to radically change health care and social norms regarding the elderly. And don’t write off Europe just yet. The crisis in the Eurozone is forcing structural adjustments that could, if successful, lead to a much stronger and more vibrant Europe beyond 2012. For investors, the current euro concerns mean that several of Europe’s leading global companies with businesses geared to the global, not domestic, economy can be purchased at very compelling valuations.

How is the fund positioned currently and where do you see investment opportunities?

Currently, the fund is fully invested with about 50% exposure to the U.S., where we are overweight financials, technology and health care relative to the benchmark. We see significant upside in companies such as Bank of America, as earnings continue to recover over the next two years and the Bank emerges as a much stronger global player following integration of Merrill Lynch. We are also positioning the fund to benefit from the growth in global business spending. With governments and consumers expected to reduce spending, corporate sector balance sheets are robust and cash flows are near record highs. We are beginning to see business spending pick up and U.S. technology companies, such as Cisco and Intel, will continue to benefit, as will machinery companies such as Weir Group of the U.K. and Fanuc in Japan. Digital Realty, a leading operator and consolidator of independent data centres in the U.S., is in a unique position as to benefit from the strong growth in electronic storage needed to support the booming mobile data market.

In both health care and telecommunications, we see companies in the U.S. and Europe, such as Eli Lilly and Vodafone, trading at extremely attractive valuations with strong dividend yields near 6% supported by robust cash flows and underappreciated growth potential. Close to 30% of the fund is in Europe, where our holdings include global consumer product names such as Diageo and Unilever. We recently added Unibail, Europe's leading operator of top-quality shopping malls, after the sell-off in Europe lowered the stock to attractive valuation levels.

Along with investments in the U.S. and Europe, we are selectively increasing our 15% exposure to emerging markets and Asia. As discussed above, we have long considered Asia, and China in particular, an important driver of the global economy and asset prices, but valuations and the experience of many of the local companies were less compelling. Today, that is not the case. Emerging market valuations are in line with global peers, but many companies have better growth prospects and under-leveraged balance sheets. While emerging markets account for over one-third of the global economy, they are only about 12% of the global equity market indexes – up from about 21% and 4%, respectively, a decade ago. We expect this trend to continue.

Signature funds have had cash levels exceeding 10% or more at times. How is cash used at Signature and in this fund?

As in all our funds, we actively adjust our cash levels to reflect our market outlook and degree of conviction. Throughout 2007 and 2008, we maintained elevated levels of cash, reflecting our concerns about the economy. Since the summer of 2009, we were close to fully invested with cash at less than 5%. In April this year, we raised cash to 12% in response to our concerns about Europe but have since returned to a fully invested stance in response to the strong policy response seen in Europe since May. We will continue to use both cash and gold as safe havens to protect investor capital, according to our outlook.

What is the performance record of the fund?

The fund has performed well, outperforming its benchmark, the MSCI World Index in Canadian dollars, and the global equity fund category average, over the one, two and three-year periods ending June 30, 2010 by significant margins.

In summary, why is this fund a better alternative to other global funds available in the market?

There are three key features that distinguish Signature Select Global from its peers. First is the Signature philosophy of managing all of our funds with an integrated team of global specialists and a flexible “go-anywhere” approach, subject to a fund's mandate, to achieve the best risk-adjusted returns for our investors. Second, our global sector specialists allow us to integrate emerging market exposure directly into the fund. At Signature, this means that emerging markets are not isolated as a separate asset class that is managed by a separate team. Our distinctive structure allows us to weigh the attractive growth potential in these markets against valuations in any market at any given time. This is a definite advantage for investors who may be unsure of how much exposure they should have to these markets. Lastly, as Canadian-based global investment managers, we are very aware of the impact of currency fluctuations on our funds' returns and so we add value through active management of the currency exposure.

Thank you Eric.