

Information Advantages Key To Consistent Outperformance

Signature Advisors is all about building a better, more competitive investment management model – that's the centrepiece of how we have designed our team. It's been five years in the making, starting with the belief in 2001 that there were underlying trends in the Canadian market that would shift performance opportunities to investment management groups that realigned themselves into a structure based on global sector specialists.

We have followed that model over the past five years, but it now makes more sense than ever because of the unprecedented consolidation of the Canadian stock market, which is reshaping the investment landscape.

At Signature, we firmly believe that consistent outperformance can only come from investment management teams that possess information advantages. With that in mind, we have created two distinct pathways in our organizational model to achieve this.

Global investment specialists

The first advantage is that we have adopted a structure based on global sector specialists, rather than the prevailing generalist structure. Our reason behind this is we feel the specialist has so much more to bring to a dialogue with a company. For example, when one of our consumer products specialists is talking to a Mexican beer company, he is able to talk about wide-ranging implications for the company, as well as beer in all different geographies. That brings value to the company because it puts the whole industry into a global perspective. It also creates value for us because we are able to look beyond one company and one market to see the bigger picture.

These sector specialists are relationship managers with all the companies and information sources in their respective

industries. Over time, they have developed robust information networks within those industries that to allow them to be better informed than the competition, their generalist counterparts in other organizations.

Investing across the spectrum

The second improvement we have made over the traditional investment management model is to have the professionals dredging each asset class for informational edges that can benefit our investments elsewhere. Our funds range across the full capital structure – from investment-grade to high-yield fixed income, international and domestic equities, to income trusts. There have been times when we have purchased a company's high-yield bonds for an equity fund rather than its stock. The reason – we decided that a 10% yield on a seven-year bond was as good as, if not better than our expected return on the stock, with far less risk to the investor.

We are not your typical investment shop. Our involvement across the spectrum of different asset classes gives us little bits of information that we use to squeeze more value out of another marketplace. It provides us with an informational edge that works as a model because everyone wins – everyone learns more and it makes for better investment decisions.

For the last 25 years you could be a generalist investment manager in Canada – you could know the whole landscape and know it well. But it doesn't work that way any more, not on a global scale. One person can't possibly know the whole international landscape, and that's why it's necessary to divide up the responsibility and move to a team model. Many Canadian managers are so accustomed to their way of working, they don't realize that their model is no longer tenable in today's environment.

Signature Advisors Investment Management Team

ERIC BUSHELL

Portfolio Manager
Chief Investment Officer

GLOBAL SECTOR SPECIALISTS			FIXED-INCOME ASSET CLASS SPECIALISTS	
MALCOLM WHITE Portfolio Manager Tech, Media and Telecom	MASSIMO BONANSINGA Portfolio Manager Aerospace, Auto	JOE D'ANGELO Portfolio Manager Industrials	JAMES DUTKIEWICZ Portfolio Manager Gov't, Investment Grade	GEOF MARSHALL Portfolio Manager High Yield
TBD Portfolio Manager Financials and REITs	STEPHANE CHAMPAGNE Portfolio Manager Consumers	SCOTT VALI Portfolio Manager Energy and Materials	JOHN SHAW Portfolio Manager Investment Grade, Preferreds	
RYAN FITZGERALD Research Analyst Utilities	YVONNE LAU Research Analyst Industrials	HOA HONG Research Analyst Energy and Materials	PAUL SIMON Portfolio Manager Money Market	BEN CHIM Research Analyst High Yield

Source: Signature Advisors

Reshaping the Canadian securities industry

Currently, there are two forces that are reshaping the Canadian securities industry and affecting all participants. The first is the consolidation that is taking place because of the unprecedented wave of mergers and acquisitions which has been sweeping corporate Canada.

According to the Financial Post Crosbie & Company database, which compiles statistics on Canadian mergers and acquisitions activity, in the first nine months of the year there were 1,400 mergers, for a total value of \$186.15 billion (see Chart 1). That's more than 60% higher in value and 30% higher in volume than was experienced in 2005 during the same period. In 2005, eight companies were removed from the S&P/TSX Composite Index because they had been purchased by non-Canadian companies. In addition, this summer Bloomberg News reported that Canadian public companies which have been bought out this year represented nearly 4% of the country's \$1.6 trillion market value. No doubt, the total will be higher by year-end with such big-name players as Inco, Falconbridge, and Hudson's Bay Co. being snapped up.

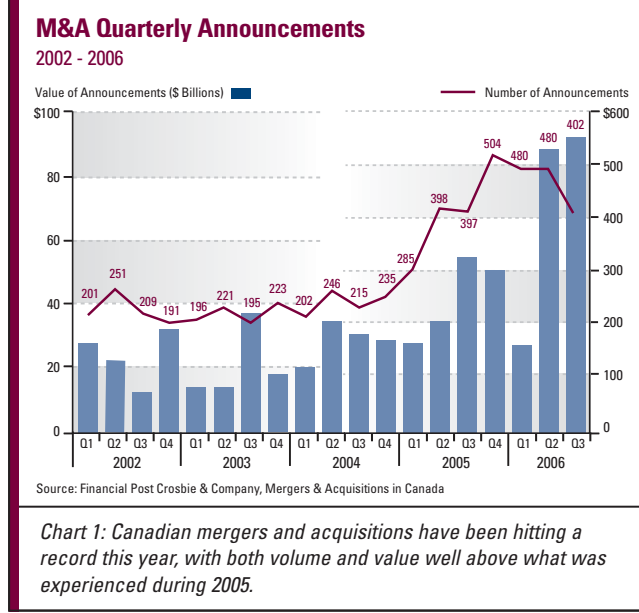


Chart 1: Canadian mergers and acquisitions have been hitting a record this year, with both volume and value well above what was experienced during 2005.

The consequence of all that activity is that our benchmark is becoming irrelevant as a baseline for investment because of the concentration. Currently there are three sectors – financial, energy and materials – that make up 75% of the S&P/TSX.



The second force was the removal of the foreign property rule last year, which means managers are now free to invest anywhere in the world without restrictions. For investment managers this has opened up a whole new set of opportunities. At Signature, our foreign content was always at the high end – around 25% or so. Now, we are closer to 35% on some of our funds, and pushing higher. That is a sizeable increase over the past year since the restrictions have been lifted. Personally, I believe there will be very few pure Canadian equity funds three to five years from now.

Investment managers need scale

If you are going to undertake investing in the global market you need to have scale in terms of your assets under administration. An investment manager has more access to quality global information simply because he is part of a large organization. By contrast, scale in Canada has its restrictions because it can limit manoeuvrability in the marketplace – but when you start talking globally, scale is the door opener.

The heightened M&A activity and the removal of the foreign property rule have both happened in the very short 2005-2006 window. I believe that when we look back at these two years a decade from now, they will mark an inflection point in the Canadian securities industry, affecting the brokerage houses, as well as the investment management side of the business. Both of these organizations have come to the realization that they need to adapt to stay relevant, competitive, and to succeed in this new generation of asset management.

For us, the answer was clear – we needed to build a global investment management capability. It takes five years to build up networks with brokers and companies around the world. After meeting with a company once or twice they know who you are, but after meeting with a company six times in three or four years, you're much more familiar with their situation and they are much more familiar with you.

That's why the investment management industry isn't any different than any other business. It's about relationships. Relationships take time to build and you need to be

invested in them because are about mutual respect. Our global industry specialists are relationship managers. They invest the time, because as specialists, rather than generalists, they have a better prospect of building those relationships.

So what does this mean for investors in our funds—how do they benefit? They profit because a good winning asset management structure attracts the best talent, which in turn drives consistently superior investment returns.

At Signature, it's about creating an environment for a winning team. Our investment specialists want to be part of that team, they want professional development, so that they're continually adding to their own value.

Both advisors and investors win at the end of the day because there's a better manager working for them – more knowledgeable, not as restricted by arbitrary investment definitions, greater freedom to be creative and the ability to move beyond those traditional boundaries to obtain the desired investment results.

*Eric Bushell, Chief Investment Officer
Signature Advisors*