



Eric Bushell, Chief Investment Officer
and
Matt Strauss, Vice-President and Portfolio Manager
Signature Global Advisors
September 28, 2011

Eric Bushell:
Deleveraging continues

Three years after the collapse of Lehman Brothers, we are about halfway through the healing process in terms of corporate and consumer deleveraging, with government deleveraging not as far along. The ongoing European crisis is an intertwining of sovereign debt and a bank funding crisis. Europe's banks sold off dramatically in the last couple of months, and must repair their balance sheets by shrinking their wholesale funding operations in a managed liquidation that will include the sale of U.S.-dollar assets and will likely take three or more years to complete. The liquidation means Europe's small and medium-sized companies will lack access to capital, which will negatively affect economic growth. European banks have significant exposure to Greek bonds and will draw on equity and/or financial guarantees from European government agencies as part of the adjustment process.

Greek default this year

We expect Greece will default on its debt by the end of this year, with Europe likely slipping into recession in 2012. The U.S. will probably avoid a recession. The low-grade debt market is weak in Europe, but stronger in the U.S. Investors are becoming more demanding that companies use equity as opposed to debt to run their businesses.

Matt Strauss:
Optimism about emerging markets

Over the last few months, emerging market securities have sold off as much or more than in Europe, partly because investors' home-market bias has seen them shift assets back to their domestic markets. However, fundamentals are fairly strong in the developing markets and we are optimistic about those markets in 2012 and 2013. Most emerging nations enjoy debt-to-GDP ratios of less than 60%, in contrast to the developed world where the ratio is 80% or more. The relative fiscal strength of emerging markets gives them greater economic flexibility. This is in marked contrast to the Eurozone, where fundamentals are less sound and where quick, decisive action is impeded by having to get approval from 17 parliaments.



STRENGTH. CHOICE. EXCELLENCE.

Eric Bushell:

Focus on companies with strong balance sheets

The developed world will experience ongoing low growth, low interest rates and high unemployment. U.S. government debt will continue to be favoured as a safe haven by investors, as will debt of nations such as Canada, Australia and New Zealand.

At Signature, we are emphasizing in all of our mandates liquidity, and holding the securities of high-quality companies with strong balance sheets. The cash levels of our funds range from roughly 16% to 20%, positioning us to take advantage of buying opportunities in the fixed-income and equity markets. As Europe's crisis is resolved, we plan to shift cash into the markets, including emerging markets.