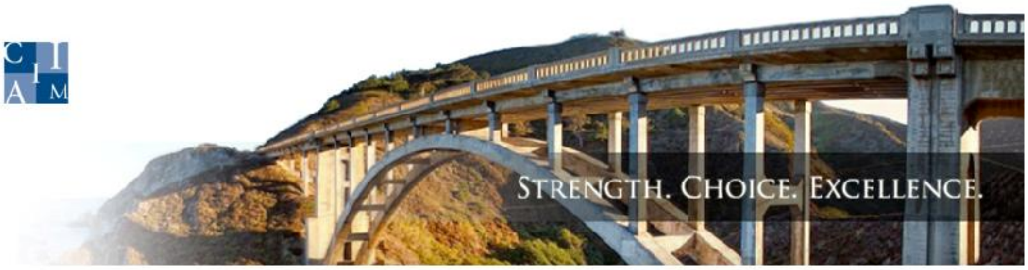
CI INSTITUTIONAL
ASSET MANAGEMENT



Signature's diversified income, balanced and dividend mandates By
Ryan Fitzgerald, Vice-President and Portfolio Manager and
John Hadwen, Vice-President and Portfolio Manager

Signature Global Asset Management manages several diversified income, balanced and equity funds that provide investment yield through regular monthly distributions. While there is some overlap between the various mandates, there are key differences in their geographic orientation, asset allocation and risk profile.

Type of mandate	Canadian-focused	Global	Current annual yield target*
Diversified income	Signature High Income Fund	Signature Diversified Yield II Fund	6%
Balanced	Signature Income & Growth Fund	Signature Global Income & Growth Fund	3%
Dividend equity	Signature Dividend Fund	Signature Global Dividend Fund	3-4%

*Yield targets are reviewed annually and adjusted based on market conditions.

<u>DIVERSIFIED INCOME MANDATES:</u>
Signature High Income Fund
Signature Diversified Yield II

- These funds seek to provide a high yield while protecting investor capital.
- Signature High Income, Signature Diversified Yield II and Signature Diversified Yield all invest approximately 40% of assets in high-yield bonds, with the remainder in high-yielding equities and cash. High-yielding equities include real estate investment trusts, companies with infrastructure assets such as airport and toll road operators, utilities, former income trusts and royalty trusts.
- The funds hold similar high-yield bond portfolios, currently yielding about 6.3%. At this level, the equity portion should aim to generate a total return of about 9% to meet the funds' costs and distribution targets. This is becoming more challenging.
- Because high-yield bonds are mostly U.S.-dollar denominated, we focus on high-yielding Canadian equities in Signature High Income to maintain its Canadian focus, including REITs, financials and former trusts.
- Signature Diversified Yield II has a similar asset allocation to Signature High Income, but its mandate is global in scope. Because it has a much broader investment universe, the equity holdings are also more diverse. This allows the fund to benefit more from tax-efficient capital gains as well as dividends and interest.
- Signature believes the demand for yield will remain strong as interest rates remain structurally low over the long term, even as central banks in the U.S. and abroad scale back their monetary policy interventions. Nevertheless, there could be periods of volatility as the stimulus is withdrawn.
- The high-yielding equities currently held in these funds pay out most of their cash flow to shareholders, and retain less for reinvestment than traditional stocks. They tend to be stable, mature businesses with strong,

inflation-linked cash flow streams. They are also interest-rate sensitive, so in a rising rate environment they will underperform the broader market. If rates remain low, these equities should perform very well.

- In an equity sell-off scenario without a rise in interest rates, high-yielding equities tend to outperform the broader market because of their stability, the value of their underlying assets, and the fact that their yields moderate the downside.
- The correlation between the funds in this category will rise and fall at certain points, depending on equity valuations in Canada and other countries.

BALANCED MANDATES:

Signature Income & Growth Fund
Signature Global Income & Growth Fund

- Signature's balanced funds are designed to provide a modest yield as well as growth of capital.
- Signature Global Income & Growth and Signature Income & Growth carry a similar high-yield bond component, as well as government and investment-grade bonds.
- The equity portion of these funds is invested in a broad range of stocks with returns coming mainly from dividends and growth. (While dividend-paying stocks can occasionally be found in Signature's diversified income mandates, this usually only occurs when valuations among the core high-yielding equities are stretched.)
- Signature Income & Growth's equity component is skewed toward Canadian equity holdings, while Signature Global Income & Growth invests in a wider global universe of stocks.

DIVIDEND MANDATES:

Signature Dividend Fund
Signature Global Dividend Fund

- These are pure equity funds that are conservatively managed to provide an annual equity yield with less risk than the broader equity markets.
- Signature Dividend is invested about 30% in Canadian preferred shares, 22% in Canadian equities and 44% in global equities, with the balance in cash.
- Preferred shares typically offer a modest yield, but can have a better risk/reward outlook than government bonds or cash. Supply is likely to be tight until the second half of 2014 as the Canadian banks call in about $5 billion in reset shares and await clarity from regulators on their replacement issues.
- Signature Global Dividend Fund does not invest in preferred shares, but in a global portfolio of high quality dividend-paying equities. Opportunities to invest in European bank hybrid preferred shares at high single-digit yields may arise in the 2014.
- We try to ensure that the holdings in both Signature Dividend and Signature Global Dividend have sustainable payout ratios below 50%, as we are targeting dividend growth rather than the highest yield. In Signature Global Dividend, the average earnings yield, which reflects dividends and retained earnings, is 7.4% and the average dividend yield is 3.3%, providing a payout ratio of about 45%.
- Conditions are supportive for equity momentum to continue into 2014. Bonds remain relatively expensive and

the earnings yield of the U.S. equity market is near normal levels at just under 6%. The operating environment for companies remains constructive, household debt levels in the U.S. are near 10-year lows, and bank deposits – mostly corporate cash – are 40% higher than in 2008, raising the possibility of growing capital expenditures and mergers and acquisition activity.

- All of the global names in Signature Global Dividend can also be found in Signature Dividend Fund. The Canadian banks, which offer a better yield than global financials, have performed very well and are now fairly priced. As a result, we are looking to exit some of those positions and reinvest in other areas such as utilities and telecommunications.
- European financial companies are up about 75% from their low point in mid-June. Asset quality and stress tests are coming up for most institutions, and they are being led through the process by local regulators. We recently reduced our exposure to European banks, shifting assets to insurance companies and investment managers, including Zurich, Credit Suisse and Aberdeen. European banks are likely to increase their dividends next year, but remain vulnerable to fiscal shocks.
- U.S. financials have also done very well. Dividends were cut from $30 billion before the financial crisis to about $7 billion and have recovered to $13 billion. Because their dividend plans must be approved by the U.S. Federal Reserve, the quality of the dividends is solid, providing smaller yields with less risk. They are also buying back shares.

2 Queen Street East, 19th Floor, Toronto, Ontario, M5C 3G7
T: 1-866-760-5274 • E: ciinstitutional@ci.com • www.ciinstitutional.com