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Signature Global Advisors Update
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Drummond Brodeur – Update on Signature positioning

- At the beginning of 2011, we were generally fully invested. We stayed that way until the end of April when we reduced our equity positions and increased our cash levels.
- In June, we believed the European crisis had gotten out of hand. Capital markets were shutting down and we were seeing a replay of 2008. By mid-July, we had raised cash levels to 20%.
- In the first week of October, we started putting cash to work and we were fully invested for one and a half months, benefiting from the rally during that period. By the end of 2011, capital markets were still restricted and we had taken cash back up to 20%.
- At year-end, the European Central Bank announced a cash injection of €489 billion for European banks. It was a clear signal that the credit markets would stay open and we reduced cash to 10% – and that's where we are today.
- We have significantly increased our exposure to the markets, but we're still maintaining liquidity.

Global rebalancing

- Global rebalancing will continue in 2012. Structural adjustments take years – not months – to adjust. We believe the global shift will take five to seven years.
- It continues to be a two-speed world driven by underlying structural adjustments – deleveraging in the West and slower growth, and a global economy driven by emerging markets.
- For most of the year, Europe will be in recession and remain stagnant. The U.S. will continue to grow, but at a rate lower than pre-crisis levels of 3.5%-4%.
- The global economy has been in recovery since 2009. As long as there are no more exogenous shocks to curtail growth – such as sharply higher oil prices, or events like the Japanese tsunami – we should be able to move forward.
- The European debt crisis is the biggest risk to world growth.
- We are in the early stages of a manufacturing renaissance in the U.S., and some jobs have been repatriated. However, since it's an election year in the

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U.S., there will be nothing out of Washington – we will have to look to 2013, when the elections are over.
- In China, we see a "soft landing" though it will be slow for the first half of the year.

Policy-driven world

- It's a policy-driven world for investors. Monetary policy has been effective in reopening the markets.
- There's a saying – don't fight the Fed – don't underestimate the liquidity it can create. The Federal Reserve's "Operation Twist" will continue to suppress the long-term end of the yield curve. It will engage in a third round of quantitative easing if necessary.
- In Europe, there will be another cash infusion from the ECB at the end of February, and we expect looser policy in China and further quantitative easing in Japan.
- Central bank balance sheets have added $500 billion over the past three months.
- In Europe, the ECB bought time – banks and sovereigns can now roll over their debt, so the threat of a liquidity crisis is off the table, but they still need to fix the underlying challenges.

Euro imbalances

- The core of the problem is there are current account deficits in the periphery – Portugal, Greece and Spain – and surpluses in core countries like Germany. In a monetary union, they need to correct the imbalances.
- In the past 10 years, unit labour costs in the periphery have become uncompetitive, while Germany has become very competitive.
- This is due to structural rigidities. The cost of doing business in the periphery is expensive.

Valuations matter

- Equities are cheap and government bonds are expensive. In the market today, yields are less than 2% for long-term government bonds. Corporate bonds are yielding 5%, while the earnings yield is 8% for large-cap equities.
- Volatility won't disappear – it's a reality. Investors need to be flexible and adaptable.

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