

Market Commentary

First Quarter 2017



Portfolio Series and Portfolio Select Series
Alfred Lam, SVP and Chief Investment Officer
Yoonjai Shin, VP and Portfolio Manager
CI Multi-Asset Management

Market performance

The “Trump rally” continued this quarter, pushing stock prices and valuations higher. Compared to a year ago – approximately when a brief but aggressive market correction ended – major equity markets are 18-20% higher. Risk takers were very well rewarded for accepting higher volatility. On the other hand, government bonds have earned only modest returns for the same period. Expectation of higher interest rates and inflation has led to some price depreciation. Interest income, which is an important component of bonds' total return, offset the negative price action.

Returns in % at March 31, 2017	3 mo	1 yr	3 yr	5 yr	10 yr
S&P/TSX Composite Index	2.4	18.6	5.8	7.8	4.7
S&P 500 Index (C\$)	5.1	20.0	17.4	20.0	9.1
MSCI World Index (C\$)	5.5	18.2	12.9	16.5	6.3
FTSE/TMX Canada Universe Bond Index	1.2	1.5	4.1	3.5	4.8

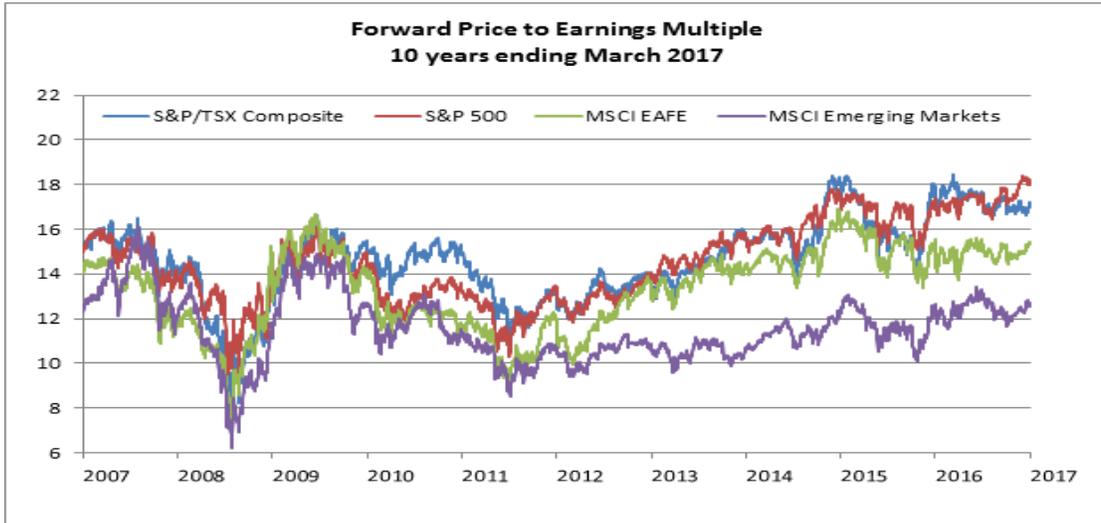
Source: Bloomberg, FTSE TMX

Portfolio Series and Portfolio Select Series

Stock valuations have been above average for quite some time but investors do not seem concerned. They are counting on earnings to rise at a stronger pace under Trump's leadership. The following chart shows the price-to-earnings ratios of the major equity markets during the last 10 years. Price-to-earnings is a measurement of how much investors are paying today for a dollar of future earnings. If economies and corporate earnings grow at faster pace, valuations will fall and acquiring shares at today's prices will be justifiable. On the other hand, if growth remains stuck at low rates, valuations are rich, as the current levels imply, and future returns will be below average.

We create investment portfolios based on our investors' risk tolerance and time horizon, and we pay attention to valuations. While this may sound simple, it requires a lot of discipline. We respect the possibility of both scenarios (higher growth or status quo, which is low growth) and are not drawing conclusions yet. So far, there is no evidence that Trump's growth policies will be implemented and successful. All of our portfolios are defensively positioned with investments that will do well in a growth environment and those that will perform during a period of slower growth. In other words, we are exposed to both scenarios.

Market Commentary



Source: Bloomberg

In a market condition of 2% bond yields and 4-5% earnings growth, we are pleased to report positive returns for all portfolios and returns of 9-10% in our core balanced funds for the one-year period ending March 31.

Returns in % at March 31, 2017	3 mo	1 yr	3 yr	5 yr	10 yr	Life
Portfolio Series Income Fund	2.0	6.3	4.6	6.0	4.8	5.3 (Dec. 97)
Portfolio Series Conservative Fund	2.1	7.3	4.4	6.2	3.9	5.1 (Dec. 97)
Portfolio Series Conservative Balanced Fund	2.2	8.8	4.9	7.1	4.0	5.0 (Dec. 01)
Portfolio Series Balanced Fund	2.6	10.3	5.4	7.7	3.9	6.9 (Nov. 88)
Portfolio Series Balanced Growth Fund	3.3	12.2	5.7	8.5	4.0	5.0 (Dec. 01)
Portfolio Series Growth Fund	3.3	13.1	5.9	9.1	3.9	4.7 (Dec. 01)
Portfolio Series Maximum Growth Fund	3.8	15.6	6.8	10.4	3.8	4.5 (Dec. 01)
Select Income Managed Corporate Class	0.9	3.8	2.7	3.8	n/a	3.7 (Sept. 10)
Select 80i20e Managed Portfolio	1.6	5.7	3.4	5.1	3.8	3.9 (Nov. 06)
Select 70i30e Managed Portfolio	1.9	6.5	3.5	5.6	3.8	3.9 (Nov. 06)
Select 60i40e Managed Portfolio	2.2	7.2	3.8	6.2	3.7	3.9 (Nov. 06)
Select 50i50e Managed Portfolio	2.4	8.2	4.1	6.8	3.8	3.9 (Nov. 06)
Select 40i60e Managed Portfolio	2.7	9.3	4.6	7.5	3.8	4.0 (Nov. 06)
Select 30i70e Managed Portfolio	3.0	10.3	4.9	8.1	3.8	4.0 (Nov. 06)
Select 20i80e Managed Portfolio	3.5	11.9	5.5	9.0	3.9	4.2 (Nov. 06)
Select 100e Managed Portfolio	4.0	14.0	6.3	10.3	3.8	4.1 (Nov. 06)

All fund returns are for Class A units/shares



Select Income Managed Corporate Class

Many investors may perceive Select Income Managed Corporate Class as a bond portfolio. That is incorrect. While it has approximately 75% of its assets invested in bonds, it also utilizes multiple strategies to hedge interest rate risk. We estimate the downside of a core Canadian bond portfolio is about 5% on an annual basis. No one, including us, can tell you in advance when that may happen. Experience has taught us not to be market timers. Our job is to prepare by building a diversified portfolio that will meet our investors' need to earn a return above inflation. Those people who do not prepare for surprises are often surprised; we do not intend to be one of them.

Our portfolio is diversified by country; as a result, we are not fully exposed to any single country's yield curve or interest rate policy. We also diversify the portfolio by credit quality and the term to maturity. Currently, about half of the fixed-income investments in the fund are corporate bonds. We have also taken advantage of shifts in the yield curve to buy short-term Canadian bonds. A year ago, lenders to the Canadian government received no premium over cash for investing in a three-year bond. Today, the premium is about 40 basis points.

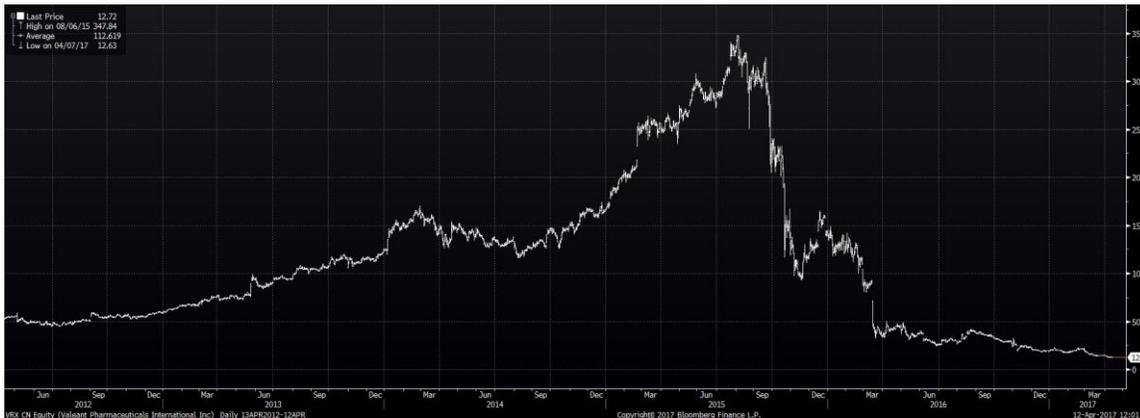
In addition to these strategies, we also hold some U.S. currency in our portfolio. Generally, if U.S. rates rise dramatically, the U.S. dollar should strengthen. The portfolio will have losses from its fixed-income component, but gains from the U.S. dollar position. The size of our U.S. dollar exposure over the last year has ranged from as low as 6% (when the U.S. dollar traded above C\$1.40) and as high as 30% (when it dipped below \$1.30). From time to time, we may also use derivatives, gold or floating rate fixed-income investments to hedge certain risks of the portfolio. We are very sensitive to the cost of derivatives and generally have used them infrequently.

Outlook and positioning

It is anybody's guess on how the big unknown, Trump, will play out. Will he really propose protectionist policies, cut taxes, and spend aggressively? And will they be approved by Congress? Those unknowns, accompanied by rich market valuations, are creating very wide potential outcomes for all investment asset classes. So far, we have seen stocks enjoying a rally as investors seem to expect these policies to be implemented with positive results.

Below is an example that highlights the risk of investing narrowly. It tracks the historical price of Valeant Pharmaceuticals, which was at one point the largest company by market capitalization on the Toronto Stock Exchange. Valeant traded at \$120 in August 2014 and peaked at \$350 a year later. The ride up was smooth and the return was juicy, but the problem was that many people would fail to sell in time. Those who bought at \$120 and held till today have lost 90%. Those who bought after the crash at a fraction of the peak, say at \$175, have lost 93% of their capital.

Market Commentary



Source: Bloomberg

We believe risk management is an important part of investing. Bull markets motivate investors to ignore certain principles and they end up learning the lesson only after suffering losses. Our efforts are not focused on capturing as much upside as possible but on narrowing the outcomes for our investors, such that the gap between their expectations and the reality is tight. This requires investing in quality businesses that can weather storms, owning a basket of low and negatively correlated assets, and holding some foreign currencies. Perhaps it sounds boring for a bull market, but it works!

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Unless otherwise indicated and except for returns for periods less than one year, the indicated rates of return are the historical annual compounded total returns including changes in security value. All performance data assume reinvestment of all distributions or dividends and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. This commentary is provided as a general source of information and should not be considered personal investment advice or an offer or solicitation to buy or sell securities. Every effort has been made to ensure that the material contained in this commentary is accurate at the time of publication. However, CI Investments Inc. cannot guarantee its accuracy or completeness and accepts no responsibility for any loss arising from any use of or reliance on the information contained herein. This report may contain forward-looking statements about the fund, its future performance, strategies or prospects, and possible future fund action. These statements reflect the portfolio managers' current beliefs and are based on information currently available to them. Forward-looking statements are not guarantees of future performance. We caution you not to place undue reliance on these statements as a number of factors could cause actual events or results to differ materially from those expressed in any forward-looking statement, including economic, political and market changes and other developments. ®CI Investments and the CI Investments design are registered trademarks of CI Investments Inc. ™Portfolio Select Series and Portfolio Series are trademarks of CI Investments Inc. Published April 2017.