Market Commentary
First Quarter 2018

CI Multi-Asset™ Management

Portfolio Series and Portfolio Select Series
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CI Multi-Asset Management

Market performance

The “buy anything now, ask questions later” trend we saw in the capital markets in 2017 continued into 2018, although it lasted for less than a month. The sentiment was short-lived this year as substantial volatility returned in February and rocked investor confidence. For perspective, there were only four days in 2017 that the U.S. equity market, represented by the S&P 500 Index, lost 1% or more. In contrast, in the first three months of 2018 alone, the index chalked up 11 days of comparable losses.

Arguably, during the first quarter investors had a difficult time embracing Canadian assets amid uncertainty about the future of the North American Free Trade Agreement (NAFTA), which has significant repercussions for the Canadian economy. Canadian stocks generally under-performed in the first three months and the Canadian dollar depreciated against major currencies despite the Bank of Canada’s rate hike in January.

Returns in % at March 31, 2018	**3 month**	**1 year**	**3 year**	**5 year**	**10 year**
S&P/TSX Composite Index	-4.5	1.7	4.1	6.9	4.5
S&P 500 Index (C$)	2.2	10.6	11.4	18.8	12.0
MSCI World Index (C$)	1.7	10.7	9.2	15.7	9.0
FTSE/TMX Canada Universe Bond Index	0.1	1.4	1.2	2.9	4.4

Source: Bloomberg, FTSE/TMX

Portfolio Series and Portfolio Select Series

Although underweight Canada, the portfolios’ Canadian assets generated some downside over the three-month period. A number of factors have contributed to Canada’s relatively low valuation and past under-performance. These include a persistent high level of household debt, a lack of innovation (Canada was ranked 22 out of 50 countries in Bloomberg’s 2018 Innovation Index), and low oil prices. Compounding the market’s negative view of Canada is the country’s failure to reach a trade agreement with its biggest trading partner – a fact that could be detrimental to Canada’s economic growth. Nevertheless, we recognize potential opportunities as the valuation of Canadian assets falls.

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Hedging foreign currencies added value in 2017 but detracted slightly in the first quarter of 2018. We also utilized S&P 500 derivatives to taper portfolio volatility. They remain on and will be withdrawn when the risk-return trade-off is skewed in favour of investors.

Class F Returns in % at March 31, 2018	**3 month**	**1 year**	**3 year**	**5 year**	**10 year**
Portfolio Series Income Fund	-0.2	2.1	2.9	5.6	6.0
Portfolio Series Conservative Fund	-0.1	2.7	2.7	6.3	5.7
Portfolio Series Conservative Balanced Fund	-0.4	3.1	3.2	7.1	6.0
Portfolio Series Balanced Fund	-0.6	3.8	3.7	7.8	6.2
Portfolio Series Balanced Growth Fund	-0.9	4.2	4.3	8.5	6.3
Portfolio Series Growth Fund	-1.0	4.5	4.5	9.2	6.4
Portfolio Series Maximum Growth Fund	-1.3	5.3	5.3	10.5	6.5
Select Income Managed Corporate Class	-0.4	0.3	1.2	3.3	n/a*
Select 80i20e Managed Portfolio	-0.7	1.2	2.0	4.6	4.9
Select 70i30e Managed Portfolio	-0.8	1.6	2.2	5.2	4.0
Select 60i40e Managed Portfolio	-0.9	2.0	2.4	5.8	5.4
Select 50i50e Managed Portfolio	-1.0	2.3	2.7	6.4	5.5
Select 40i60e Managed Portfolio	-1.2	2.7	3.1	7.1	5.8
Select 30i70e Managed Portfolio	-1.3	3.1	3.4	7.7	5.9
Select 20i80e Managed Portfolio	-1.6	3.5	4.0	8.6	6.2
Select 100e Managed Portfolio	-1.9	4.4	4.7	9.9	6.5

* Since inception (Sept. 2010): 4.0%.

Select Income Managed Corporate Class

The fund's performance was at the low end of our expectations, reflecting the fact that opportunities for capital gains within the income sphere was limited. It's likely that the current economic cycle has run its course. We remain committed to our core objectives, which are to preserve capital and to beat inflation over a three-year period. The portfolio carries a yield of 3.2%. We expect to generate future capital gains based on effective asset-allocation decisions and, from time to time, by overweighting undervalued assets.

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The portfolio has a core government bond component to provide safety and income for investors. Interest-rate sensitivity is hedged by diversifying into other asset classes such as gold bullion, corporate bonds and stocks. Within the corporate bond portion, our term to maturity is short. This is intentional – we wish to receive payment more quickly as the global economy remains in the late stage of recovery.

Outlook and positioning

Our outlook has not significantly changed from last quarter. Stock valuations have likely peaked and earnings need to grow in order for markets to remain at current high levels. This is achievable, but there are many moving parts we continue to monitor closely. These include global trade, credit conditions, sovereign and household debt levels, and central bank policies. We own some derivatives to hedge against any adverse risks should conditions change dramatically.

We are concerned about the U.S. deficit and debt levels generally, and believe the situation will weaken the greenback. As indicated above, we are gradually moving towards a more favourable view of Canada, from an asset-mix standpoint, driven by more attractive valuation. We are also aggressively reducing our exposure to the U.S. dollar as we cut back on U.S. dollar-denominated assets and increase the currency hedge ratio.