Market Commentary
Fourth Quarter 2017

CI Multi-Asset™ Management

Portfolio Series and Portfolio Select Series

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CI Multi-Asset Management

Happy New Year! We wish all of our investors and readers a healthy, joyful and prosperous 2018.

Market performance

There are two themes that dominated the capital markets in 2017. In equities, a fear of missing out prompted many investors to buy into any idea, including premature ones, without sufficient due diligence. Among the most extreme was Bitcoin – a virtual currency derived from intangible software and far from mainstream use – which rallied 1330% (in U.S. dollar terms). At current prices, the outstanding 16,779,725 bitcoins are worth over $250 billion. In fixed income, investors feared inflation and were extremely sensitive to all news. The U.S. Federal Reserve hiked interest rates three times in 2017, which raised short-term rates. Rising rates, however, raised concerns about weaker economic growth in the long term, causing long-term rates to fall and the yield curve to flatten. Fixed-income markets were generally more volatile as investors debated the consequences of rate hikes.

Foreign equity markets significantly outperformed our domestic markets, but a stronger Canadian dollar offset some of the gains. Foreign equities, represented by the MSCI World Index, outperformed the S&P/TSX Composite Index by 10%. In Canadian-dollar terms, the outperformance narrowed, albeit to a still-meaningful 5.6%. A similar "currency impact" story emerged in fixed income. U.S. high yield bonds gained 6.1% but lost 0.9% after converting the gains to Canadian dollars. Any unhedged foreign fixed-income exposure, whether high-yield or sovereign, would have eroded value against the FTSE/TMX Canada Universe Bond Index given the overwhelming currency factor.

Returns in % at December 31, 2017	**3 mo**	**1 yr**	**3 yr**	**5 yr**	**10 yr**
S&P/TSX Composite Index	4.4	9.1	6.6	8.6	4.6
S&P 500 Index (C$)	7.0	13.5	14.2	21.2	11.0
MSCI World Index (C$)	6.0	14.7	12.7	17.6	8.2
FTSE/TMX Canada Universe Bond Index	2.0	2.5	2.6	3.0	4.7

Source: Bloomberg, FTSE/TMX

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Given the extended period of market optimism and strength, it's worth reiterating the fundamental difference between "managing money" and simply "taking risks". We focus on managing money, which requires disciplined and thorough research, a prudent and commonsense investment approach, and ultimately paying a "reasonable" price for assets. Over the long term, this strategy is intended to yield a positive outcome – that is, the best risk-adjusted returns. In contrast, risk-taking alone is often characterized by bravado and, to a certain extent, naiveté. This approach can work well only in the short-term providing more investors climb aboard and push up an asset's value; however, history has shown that this upward trajectory is never sustainable.

Investing in highly speculative assets like bitcoin may have served some investors well in 2017 (with returns of 1330%), but we remain mindful of the fundamental problems and risks. In simple terms, given the difficulty in determining bitcoin's value, it's impossible to time the best entry and exit. Bitcoin is likely one of those investments that most investors will miscalculate in terms of the exit strategy and either regret selling too early (when the price rallies) and selling too late (when it tanks).

While we were concerned about valuations and certain parts of the market that appear to be overbought, our performance was constructive in 2017. We performed well against the benchmark. We added value through allocation to foreign markets including emerging markets, some currency management, and exposure to long-dated sovereign bonds. However, some value was diminished by holding extra cash and investing with a bias towards value and quality. For example, in the U.S. equity market, the value benchmark (S&P 500 Value Index) underperformed the growth benchmark (S&P 500 Growth Index) by 12%.

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Returns in % at December 31, 2017 (Class F returns shown)	3 mo	1 yr	3 yr	5 yr	10 yr
Portfolio Series Income Fund	2.2	4.6	4.8	6.4	6.1
Portfolio Series Conservative Fund	2.4	5.2	4.8	7.2	5.6
Portfolio Series Conservative Balanced Fund	2.4	6.1	5.4	8.3	5.8
Portfolio Series Balanced Fund	2.8	7.5	6.2	9.2	6.0
Portfolio Series Balanced Growth Fund	3.0	9.0	6.9	10.1	6.1
Portfolio Series Growth Fund	3.2	9.4	7.3	10.9	6.0
Portfolio Series Maximum Growth Fund	3.6	11.0	8.4	12.5	6.1
Select Income Managed Corporate Class	1.3	1.9	2.7	3.9	n/a*
Select 80i20e Managed Portfolio	1.8	3.8	3.7	5.5	5.1
Select 70i30e Managed Portfolio	2.0	4.5	4.0	6.2	4.1
Select 60i40e Managed Portfolio	2.3	5.4	4.4	7.0	5.4
Select 50i50e Managed Portfolio	2.5	6.1	4.8	7.8	5.5
Select 40i60e Managed Portfolio	2.8	7.0	5.4	8.7	5.6
Select 30i70e Managed Portfolio	3.1	7.9	5.8	9.5	5.7
Select 20i80e Managed Portfolio	3.4	9.1	6.7	10.5	5.9
Select 100e Managed Portfolio	4.0	11.0	7.7	12.2	6.0

**Since inception (Sept. 2010): 4.2%*

Select Income Managed Corporate Class

On the one hand, any investor in 2017 could have been "better off" simply taking risks without asking any questions. It would have been relatively easy to earn 1%, or even 10%, but only if you disregarded downside risk. On the other hand, for investors wanting to limit potential losses, achieving a 1% return was difficult. The Select Income portfolio generated income and additional capital gains, reflecting a conservative investment approach that sought to avoid extreme downside risks.

As we enter 2018 amid high valuations for equities, a tight credit spread, rising interest rates, a shrinking money supply and tax cuts in the U.S., we see a continuing rally in stocks (we're mindful that insufficient exposure could result in under-performance). We're also aware that the potential downside for every asset class is increasing (a high degree of correlation) and that inflation may return temporarily to trigger lower

bond prices (with the yield curve steepening). This backdrop highlights the potential for extreme results for investments – on the upside and downside. Investors who want a tight outcome should consider CI's multi-asset positioning.

We continue to enhance the portfolio by owning new asset classes and introducing new strategies. During the fourth quarter, we began building a gold bullion position – now at 3.8%. Gold bullion has been out-of-favour for years, suggesting gold isn't currently over-bought; it is expected to perform well if or when market conditions change. We decreased our credit exposure as the premium is too little to justify the risk. Also, we are utilizing derivatives to enhance the upside and downside characteristics of the sovereign bond portion. By selling call options on a covered basis, we earn additional income. From time to time, we may take a long position in call options in lieu of bonds, or own put options to limit any downside. We remain prepared for any inflation shocks.

We will likely continue to keep our U.S.-dollar exposure at no more than 10% as we recognize the greenback is at, or above, fair value. In summary, we are neither bearish nor bullish on any asset class. The portfolio generates an income of 3% and we want to limit the volatility that comes with that yield.

Outlook and positioning

We remain concerned about the global addiction to leverage. The expansion in debt has created an artificial demand for assets and this, in turn, has inflated prices. We're at the later stage of the economic cycle which means debt cannot continue to grow much longer without negative consequences for investors. In our view, the U.S. Federal Reserve's plan to shrink its balance sheet is a prudent step and will result in tighter lending conditions. While it may create a slowdown in the economy, it will add sustainability.

We favour asset classes such as gold and long-dated bonds that are expected to provide a negative correlation to the current hot trend in equities. We expect the yield curve to flatten further and will continue to monitor this actively with the assumption that inflation may return temporarily. Market volatility has been depressed due to money flows and should increase amid tighter monetary conditions. Our portfolios will benefit from spikes in market volatility as we have bought put options as protection. We don't believe our decision to hedge part of the portfolio, including the put option strategy, will result in any significant performance drag if the markets continue to reward risk taking. These strategies allow us to enhance the upside and downside characteristics and, hence, our risk-adjusted performance.

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