

Market Commentary

Second Quarter 2019



CI Can-Am Small Cap Corporate Class

Market Overview

- In Canada, small-capitalization stocks have underperformed the broader market, primarily due to challenges in the energy and base-metals-related segments of the market.

Performance Summary

- Over the second quarter of 2019, Class F of CI Can-Am Small Cap Corporate Class (the “Fund”) returned 0.6% compared with its blended benchmark (50% S&P 1000 Total Return Index/50% S&P/TSX Canadian SmallCap Total Return Index), which was up 0.1% over the same period.
- Stable to improving operating results within the Fund and a focus on companies with strong business models contributed to absolute returns over the quarter. Contributions from the Fund’s overweight exposure to the utilities sector was the main driver of outperformance versus the benchmark.

Contributors to Performance

- During the quarter, Superior Plus Corp. and AltaGas Ltd. were top contributors to Fund performance.
- Superior Plus benefited from recent acquisitions and by reducing leverage. During the quarter, the Toronto-based energy-distribution company announced it will consider the sale of a non-core division, the aim of which would be to reduce debt and provide funding for additional growth.
- AltaGas reported strong first-quarter 2019 earnings results and announced the sale of a midstream asset. The Calgary-based energy infrastructure company has demonstrated continued progress on its deleveraging plan, and it recently exported its first shipment of propane from its newly constructed Ridley Island terminal near Prince Rupert, B.C.

Detractors from Performance

- ARC Resources Ltd. and SNC-Lavalin Group Inc. detracted from Fund performance during the quarter.

Market Commentary

Second Quarter 2019



- Shares of ARC Resources declined alongside commodity prices. However, the Calgary-based oil-and-gas producer has a strong balance sheet, and we continue to have confidence in its ability to manage during difficult markets.
- SNC-Lavalin Group felt further pressure on its share price after reporting weaker-than-expected earnings results for the first quarter of 2019. The Montreal-based engineering and construction-services company continues to work through contract issues from last year, but the company has recently won several new projects within its highly profitable engineering and design division. Furthermore, a change of CEO during the quarter is a positive first step towards expediting the process of value realization.

Portfolio Activity

- We added MSC Industrial Direct Co. to the Fund's portfolio during the quarter. The U.S.-based company is a highly profitable industrial distributor with a successful track record of growing and consolidating in a fragmented market. MSC Industrial Direct trades at a 35% discount to its 10-year median price-earnings ratio and has a dividend yield of 3%, close to its all-time high. Strong free-cash-flow generation and a capital-light business model allow the company good opportunity to deploy capital for growth or share repurchases.
- Winpak Ltd. was also added to the Fund. The Winnipeg-based packaging manufacturer has industry-leading margins in North America. Winpak's net cash position and consistent profitability improve the quality of the portfolio, including balance sheet and growth characteristics.

Outlook

- Momentum stocks continue to be a key driver of Canadian market performance. Although investors have welcomed central banks' looser monetary policies, corporate management teams' outlooks and investment decisions have been clouded by trade uncertainties.
- Concerns over Canadian energy companies' inability to receive global prices for their products and hurdles to getting projects completed in Canada continue to weigh on resource-related stocks.
- Although our risk-management process of maintaining high-quality businesses with below-average valuations limits the Fund's participation in areas of the market that are currently in vogue, we believe portfolio positioning will produce good total returns over time.

Market Commentary

Second Quarter 2019



- The Fund's portfolio includes companies with strong income generation and profitability, while maintaining low balance-sheet risk. Over 90% of the Fund's holdings pay a dividend, supporting the Fund's higher-than-benchmark yield of 3.2%.

Class F returns (in %) as at June 30, 2019	Year-to-date	1 year	3 year	5 year	10 year	Since inception (11/30/2000)
CI Can-Am Small Cap Corporate Class	7.9	-8.5	1.7	1.2	9.1	9.3

Sources: Bloomberg L.P., Morningstar Direct and QV Investors Inc., as at June 30, 2019.

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Market Commentary

Second Quarter 2019



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