

Market Commentary

Second Quarter 2019



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CI American Value Fund

Market Overview

- Trade negotiations between the U.S. and China, which were expected to conclude in April, collapsed during the second quarter of 2019. U.S. tariffs on US\$200 billion of Chinese goods were subsequently raised from 10% to 25%, causing investors to worry about how that would influence economic growth. Stock prices reacted sharply to each piece of trade news throughout the period. (U.S. President Donald Trump and China President Xi Jinping declared a truce and a resumption of negotiations after the quarter-end.)
- Economic activity in the U.S. was broadly expected to moderate despite gross domestic product growing at a faster-than-expected 3.1% rate in the first quarter of 2019. U.S. investors appeared braced for a downturn, with fund managers raising cash. The labour market maintained its momentum, with unemployment declining to 3.6%, the lowest rate since 1969. Wage growth and housing were soft spots.

Performance Summary

- Over the second quarter of 2019, Class F of CI American Value Fund (the “Fund”) returned 4.7%, outperforming its benchmark, the S&P 500 Total Return Index, which was up 2.0% over the same period.
- Security selection in the Fund during the quarter was positive, especially in the consumer discretionary and information technology sectors.
- Nine of 11 market sectors posted a positive return for the period. Against this backdrop, the Fund’s less-than-benchmark weight in energy, the weakest-performing sector for the period, was also a positive factor.

Contributors to Performance

- During the quarter, Microsoft Corp.’s shares rose after the company reported fiscal third-quarter quarter revenue and earnings that came in ahead of consensus estimates. Sales increased by 14% in the quarter, as more large businesses outsourced their storage and data server needs to Microsoft’s Azure infrastructure.

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- Anadarko Petroleum Corp.'s shares surged by over 40% during the quarter after the company agreed to be acquired by Occidental Petroleum Corp. The transaction creates one of the world's largest energy companies, with a market capitalization over US\$100 billion.

Detractors from Performance

- Occidental Petroleum's shares declined during the quarter after the company agreed to acquire Anadarko Petroleum. The deal's total value is approximately US\$38 billion. Select analysts panned the deal as being expensive. Still, Occidental Petroleum has forecast over US\$2 billion in cost synergies to be realized over the next few years, and Anadarko Petroleum's 600,000 acres in the Permian Basin in southwestern U.S. are among the most profitable in the country.
- Also, Alphabet Inc.'s shares dropped after the company reported first-quarter 2019 net revenue that came in below expectations. Reported profits also came up short, primarily due to another big fine of US\$1.7 billion out of Europe for its online-advertising practices. Despite these short-term challenges, Alphabet remains attractive in our opinion. As the number of online users and usage increases, so will digital ad spending. Google LLC, which is owned by Alphabet, will remain one of the main beneficiaries.

Portfolio Activity

- During the period, the Fund purchased several new companies that fit well with its emphasis on cash generation and optimal capital deployment. For example, in financials, The Charles Schwab Corp. is a brokerage firm and a bank. It provides an electronic platform for trading common stocks, futures, options, exchange-traded funds, mutual funds and fixed-income investments. It also facilitates margin lending, cash management and registered investment advisor services. Charles Schwab's strong client asset growth, attractive platform for independent advisors and robust net interest income operation are likely to continue producing mid-to-high single-digit growth over time.
- In information technology, Arista Networks Inc. provides cloud networking solutions for data centres and computer environments. The company markets its products worldwide. Arista Networks has been gaining share in data-centre switching due to a unified architecture platform and software overlay that has proven to be more scalable and programmable than competing solutions from Cisco Systems, Inc., all at a lower cost. In addition, the use of merchant silicon and open application programming interfaces has enabled Arista Networks to maintain a first-mover advantage on technology transitions, which has led to share gains.

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Outlook

- Looking ahead, the U.S. economy appears relatively robust among developed markets. While slowing, it remains stronger than economies in Europe or Japan, where growth is tepid. That is due in part to favourable demographics, a more flexible workforce, a more favourable regulatory environment and less dependence on exports. Alternatively, trade tensions are likely to remain a market theme and a source of volatility. We are monitoring the impact on global supply chains and its potential negative influence on margins.

Class F returns (in %) as at June 30, 2019	Year-to-date	1 year	3 year	5 year	10 year	Since inception (11/17/2000)
CI American Value Fund	15.6	7.8	12.4	12.2	12.7	4.3

Sources: Bloomberg L.P.; Morningstar Direct; and Epoch Investment Partners, Inc., as at June 30, 2019.

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Published July 24, 2019.