Market Commentary
Second Quarter 2019

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CI American Small Companies Fund

Market Overview

- Trade negotiations between the U.S. and China, which were expected to conclude in April 2019, 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 Small Companies Fund (the "Fund") returned 0.6%, slightly outperforming its benchmark, the S&P 1000 Total Return Index, which returned 0.4% over the same period.

- Only five of 11 market sectors posted a positive return for the period. Against this backdrop, the Fund's less-than-index weight in energy and real estate, two of the weakest-performing sectors, contributed to performance.

- While security selection was positive in the communication services, consumer staples, industrials and materials sectors, selection in other sectors more than offset that advantage.

- Certain holdings detracted from results during the quarter, including those in the consumer discretionary, financials and information technology sectors.

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Contributors to Performance

- A top contributor to the Fund's results during the quarter included CarMax Inc., whose shares continued to appreciate after the company reported fiscal first-quarter 2019 revenue and profits that exceeded consensus expectations. Same-store sales rose by 9.5%, the best since 2013. Factors that supported share prices during the quarter included lift from omnichannel rollouts and strong execution, narrowing new-versus-used price spreads, increasing demand from credit tier-2 and tier-3 customers, and tax refunds.

- In consumer discretionary, LGI Homes, Inc. reported that May 2019 home closings grew at 19.1% year-over-year, as compared to the 3.6% year-over-year growth in May 2018. Consensus revenue growth for the next four quarters is in the double-digits, which seems realistic based on the easier comparisons from last year, an accelerating community count, stronger pricing power due to constrained entry level supply, and the recent decline in interest rates that makes home ownership more affordable.

Detractors from Performance

- In the consumer discretionary sector, shares of Stamps.com Inc. continued to decline after the company announced its intent to end its exclusive partnership with the United States Postal Service. The company cited a new strategic initiative to seek contractual arrangements with Amazon.com, Inc.; FedEx Corp.; United Parcel Service Inc.; and DHL International GmbH. While the shift in strategy will depress the company's revenue growth in the short run, we believe the company's results should benefit over the long term from open arrangements with more competitive partners. After the announcement, the United States Postal Service also signalled its desire to renegotiate contracts with over 125 e-commerce customers of Stamps.com, putting additional pressure on the company's financial results. While the shift in strategy will depress revenue growth in the short run, we believe the company's results should benefit over the long term from open arrangements with more competitive partners.

- In energy, Core Laboratories N.V. reported first-quarter revenue and profits that exceeded consensus expectations. However, both the top and the bottom lines were lower than in the previous year. Lower contribution from the company's reservoir description and product enhancement segments led to weaker results. Nonetheless, our view is that the reservoir description segment is finally starting to see core and fluid samples from deep-water projects sanctioned in 2017. There were 20 projects sanctioned in 2017 and 30 in 2018, and there are an estimated 30 projects that will be sanctioned in 2019. Therefore, the segment should see a multi-year pickup in business, assuming oil prices hold up. The production enhancement segment has begun to pick up after a lull in U.S. completions in the fourth quarter of 2018 and should continue to grow faster than completions, as producers add more chargers per stage.

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 consumer discretionary, Monarch Casino & Resorts, Inc. owns and operates the Atlantis Casino Resort Spa, a hotel/casino facility in Reno, Nevada, and the Monarch Black Hawk Casino in Black Hawk, Colorado. Its business strategy is to maximize revenues, operating income and cash flow primarily through its casino, food and beverage operations and, at the Atlantis, its hotel operations. Going forward, expansion at Black Hawk will drive share gains and there is potential to grow the market with incremental traffic given increased high-quality hotel capacity in the area.

- In health care, PRA Health Sciences, Inc. is a global contract research organization that provides drug development and clinical trial services to pharmaceutical and biotechnology firms. In 2017, PRA Health Sciences acquired Symphony Health Solutions Corp., a health-care data and analytics provider. Shares of PRA Health Sciences recently traded off over concerns that the company will not meet its 2019 targets. In our opinion, analysis of historical earnings guidance suggests that the company is on track.

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 (08/08/2000)
CI American Small Companies Fund	10.0	-4.5	7.2	8.9	13.0	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.