CI Global Unconstrained Bond Private Pool
Second-quarter 2019 Commentary

Market Overview

- Corporate bonds achieved positive performance over the second quarter of 2019, with both high-yield and investment-grade issues benefiting from tightening yield spreads and falling interest rates. The global economic outlook softened, with inflation remaining uncomfortably low. Despite a de-escalation in the U.S.-China trade conflict during the recent G20 summit, the outcome of subsequent talks remains highly uncertain and continues to weigh on business sentiment and global economic growth.

- Anticipating economic deceleration, the U.S. Federal Reserve (the "Fed"), along with other central banks, took a dovish (i.e., cautious) stance, stating it was willing to cut interest rates should the U.S. economy continue to slow down and/or inflation remain below its 2% target.

- The ICE BofAML US High Yield Index (hedged 100% to the Canadian dollar) returned 2.3% for the quarter due to the carry of the bonds as spreads widened 5 basis points (bps) to 420 bps. Meantime, the FSTE Canada Universe + Maple Corporate Index gained 2.7% amid a 10-bp spread tightening and 10-year Government of Canada bonds falling 15 bps.

Fund Holdings

- During the quarter, CI Global Unconstrained Bond Private Pool (the "Fund") had a combined weight of approximately 80% in investment-grade and high-yield credit.

- Among individual securities, the Fund held U.S.-dollar-denominated Dresdner Funding Trust 1 junior subordinated debt (8.151%, due in 2031). This legacy tier-1 instrument loses all capital treatment for Dresdner bank at the end of 2021.

- The Fund also held USB Realty Corp.'s junior-subordinated, perpetual floater coupon, set on a quarterly basis at the three-month London Interbank Offered Rate plus 1.147%.

Portfolio Activity

- The was minimal shift in the Fund's sector allocation during the period as conditions from the previous quarter continued to prevail.

Outlook

- The global economic outlook has softened, with inflation remaining uncomfortably low and growth risks generally skewed to the downside. Against this backdrop, central banks around the world have signalled a bias to ease monetary policy, and markets have priced in this scenario. Overall, we hold a positive outlook for global interest rates.

- In Canada, the market continues to reflect anticipation of interest-rate cuts by the Bank of Canada, with an initial 25-bp drop now fully priced over the next 12 months. U.S.-led trade conflicts with other nations have increased the downside risks to already slowing global economic activity, and the Canadian economy is not immune to this. The Canadian yield on bonds remains inverted, although we anticipate this will narrow.

- We have a positive view of high-yield and investment-grade short-term bonds for a number of technical reasons and less so for fundamental credit-quality reasons. Spreads are tighter than earlier in the year, so valuations are not as compelling. But, we believe investors will benefit as central banks are supportive and investors are seeking yield.

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