# Market Commentary
# Third Quarter 2019

## CI American Small Companies Fund

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| Class F returns (in %) as at September 30, 2019 | Year-to-date | 1 year | 3 year | 5 year | 10 year | Since inception (08/08/2000) |
|---|---|---|---|---|---|---|
| CI American Small Companies Fund | 10.5 | -3.9 | 5.4 | 9.0 | 12.2 | 4.3 |

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

### Market Overview

- The third quarter began with investors anticipating easier monetary policy and an easing of the U.S.-China trade dispute. Dovish comments from U.S. Federal Reserve Chair Jerome Powell early in the quarter left little doubt that a cut in interest rates was coming. However, investors were disappointed with it, describing the cut as a "mid-cycle adjustment" and not the beginning of a rate-cutting cycle. On the trade front, the Trump administration levied additional tariffs, which now cover virtually all Chinese goods. The White House also stated it was considering limiting U.S. investments in China, highlighting the potential for the trade war to spill into capital markets.

- The U.S. economy continued to expand, albeit at a more moderate pace. U.S. gross domestic product slowed to a 2.0% annual rate in the second quarter, with personal spending offsetting a decline in business investment. While manufacturing showed signs of slowing, consumers remained confident and kept spending, as job growth continued and wages ticked up. The 10-year Treasury note yield briefly dropped below the two-year note, while the 30-year Treasury bond yield temporarily slipped below 2% for the first time.

### Performance Summary

- Over the third quarter of 2019, the CI American Small Companies Fund (the “Fund”) returned 0.5%, underperforming its benchmark, the S&P 1000 Total Return Index, which returned 1.2% over the same period.

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- Seven of 11 market sectors posted a positive return for the period. Against this backdrop, the Fund's less-than-index weight in energy, one of the weakest-performing sectors, contributed to performance.

- While security selection was positive in the communication discretionary, industrials and energy sectors, selection in other sectors more than offset that advantage.

- Certain holdings detracted from results during the quarter, including those in the financials and health care sectors.

**Contributors to Performance**

- A top contributor to results during the quarter included XPO Logistics Inc., whose shares rose after the company reported third-quarter profits that came in ahead of expectations. The North American less-than-truckload business was strong, and the company's new business pipeline growth is accelerating. Our view is that general industry trends remain favourable, as volumes are growing and tailwinds remain from growth in e-commerce.

- In consumer discretionary, LGI Homes Inc. announced record-breaking quarterly home closings of 1,944 during the second quarter of 2019 compared to 1,815 home closings in the second quarter of 2018, a 7.1% year-over-year increase. The company is extremely well positioned from a macroeconomic and demographic perspective given its focus on entry-level homebuilding in markets with strong population growth. We expect new home affordability to remain very attractive by historical standards, and that the company should continue to post strong revenue and profit growth.

**Detractors from Performance**

- Detractors from performance during the quarter included Molina Healthcare Inc., whose shares declined despite reporting second-quarter revenue and profits that beat consensus expectations. We suspect the decline in healthcare stocks in general (health care was the second-worst performing group after energy), and Molina in particular, can be attributed to the ongoing political and media focus on a potential Medicare-for-All solution. This would seek to eliminate private companies. As proponents have risen in the polls, media coverage on the issue has increased, pressuring health care stocks. Our view is that the prospect of a government-run healthcare system is remote in the near term. In the meantime, Molina has successfully improved its operating margins and is now targeting sustainable double-digit growth.

- In materials, shares of Berry Global Group Inc. declined after the company reported fiscal third-quarter revenue and profits that came in below expectations. Management cited volume weakness in its engineered materials, and health and hygiene specialty divisions as reasons for the shortfall. Longer term, the company has a proven track record of adding value through accretive acquisitions. The stock trades at a 15% free cash flow yield. The valuation gap should continue to narrow as the company establishes a consistent track record of paying down debt and doing accretive deals.

**Portfolio Activity**

- During the period we purchased several new companies that fit well with our emphasis on cash generation and optimal capital deployment. For example, Dropbox Inc. designs and develops document management software. The company offers a platform that enables users to store and share files, photos, videos, songs, and spreadsheets. Dropbox serves customers worldwide and is investing for growth.

- In consumer staples, we purchased Post Holdings Inc., a packaged food company that primarily operates in North America and Europe. The management team has an excellent track record of value creation focused on acquiring other companies/brands at attractive multiples and improving operations. Multiple catalysts over the next 12-24 months will both improve margins and de-lever the balance sheet. These catalysts include the initial public offering of its active nutrition business, likely in October 2019; the addition of a private-label cereal business acquired from TreeHouse Foods Inc.; remaining synergies from 2018 acquisition of Bob Evans Farms, LLC, and a new egg plant that will drive productivity and margins.

**Outlook**

- Looking ahead, economic growth is moderating worldwide as the economic cycle matures, trade frictions take hold and the manufacturing sector begins to contract. Growth in the U.S., while slowing, remains supported by consumers, backed by a strong job market and incrementally higher wages. Growth in Europe is more tentative, with some countries (notably Germany) appearing on the verge of recession. The Chinese economy has stabilized for the time being, but excess leverage that we expect is higher than official statistics is a concern.

- The economic slowdown, combined with a lack of inflationary pressure, has led the major central banks to lean toward easier monetary policies. Lower policy rates and the resumption of quantitative easing have suppressed bond yields to new lows. In fact, more than half of all global sovereign bonds now trade at negative interest rates.

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