Market Commentary
Third Quarter 2019

EPOCH Investment Partners

CI Global 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 Global Small Companies Fund	6.0	-9.3	2.5	6.4	9.3	4.2

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

Market Overview

- Equity markets ended with nominal gains in U.S.-dollar terms, while bond yields slipped and the dollar strengthened, particularly against the euro. Equity investors shifted toward defensive sectors; utilities, real estate and consumer staples provided strong returns, while energy and materials stocks declined. Stock and bond prices were supported by monetary easing from central banks worldwide amid signs of a slowing global economy, an intensifying U.S.-China trade dispute and a cooling off in manufacturing. Widespread protests in Hong Kong and U.K. Brexit concerns also kept a lid on investor sentiment.

- In the United States, dovish comments from U.S. Federal Reserve Chair Jerome Powell early in the quarter left little doubt a cut in interest rates was coming. However, investors were disappointed when it arrived, describing it as a "mid-cycle adjustment" and not the beginning of a rate-cutting cycle. The U.S. economy continued to expand, albeit at a more moderate pace.

- European shares had negative returns in dollars and positive returns in local currency. The eurozone economy slowed in the second quarter, with the step-down in growth attributed to a contraction in the export-oriented manufacturing sector, particularly in Germany and Italy. Japan had the best return among large markets. Its economy expanded for the third consecutive quarter in the April to June period, although the pace of growth slowed due to a contraction in manufacturing activity and a decline in exports.

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Performance Summary

- Over the second quarter of 2019, Class F of CI Global Small Companies Fund (the "Fund") returned -1.1% while its benchmark, the MSCI World Total Return Index, returned 1.9%.

- The underperformance was mainly driven by stock selection.

Contributors to Performance

- Stock selection in the industrials sector was the biggest contributor, driven by XPO Logistics Inc., which reported third-quarter profits that came in ahead of expectations and increased guidance for full-year operating profit and cash flow. Also, Douglas Dynamics Inc. noted that pre-bookings of snow plow equipment for the coming season were stronger than expected, and Kyundenko Corp., did well after a better-than-expected June quarter-earnings report and a recovery in order growth. We continue to hold the stock as valuation is very supportive, and growth and margin expansion are reaccelerating.

- Stock selection in the consumer discretionary sector also contributed to performance and produced the quarter's other two top contributors. LGI Homes Inc., the top individual contributor, rose after announcing 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% increase year-over-year. Stamps.com Inc. rebounded in the third quarter after the company noted a positive shift in the United States Postal Service's negotiating position with its resale partners. As such, Stamps.com revised its 2019 outlook for the better, calling for an increase in revenue and earnings above current expectations.

- Stock selection in the energy, materials and consumer staples sectors also contributed to performance.

Detractors from Performance

- Stock selection in the financials sector was the largest detractor. This was largely driven by Burford Capital Ltd. whose share price declined 49% overnight due to a short report issued by Muddy Waters. The report accused the company of misrepresenting its returns. Burford's management responded with a thorough defense, refuting each allegation, and committed to several important governance changes.

- Selection in the real estate, communications, information technology and health care sectors also detracted from performance. Performance in the communications sector was driven by Macromill

Inc., which fell despite reporting a slightly better-than-guided full-year result. However, management did not give an earnings guidance for the next fiscal year citing uncertainties with customers' advertising budgets. The stock valuation is now very attractive and the long-term potential of digital marketing research is unchanged. Performance in the health care sector was hurt by Molina Healthcare Inc., which, despite reporting second-quarter revenue and profits that beat consensus expectations, dropped due to ongoing political and media focus on a proposed "Medicare-for-All" option. Also hurting performance in the sector was Clinigen Group PLC, which declined despite delivering solid revenue growth and upgrading its full-year guidance.

- Another top individual detractor was Japanese clinical testing firm, EPS Holdings Inc. EPS suffered from a labour shortage during the quarter and had to invest more than expected into training new employees. We expect the share price to recover as management is confident it will be able to increase prices to offset labour cost inflation in the second half of the year.

Portfolio Activity

- During the quarter, we added Globus Medical Inc., a medical device company that focuses on the spine and trauma market. Over the last 15 years, Globus has been able to take 8% market share from larger players by investing in innovation (they introduce 15-20 new products per year compared to 3-5 for incumbents), and excellent sales force management.

- We bought also Obic Co. Ltd., the market leader in the Japanese enterprise resource planning software for medium-size enterprises sector. The company has shown an impeccable record of growing both revenues and profits for over 20 years. It has achieved steady margin expansion by expanding the installed base with ever-increasing share of sales from recurring maintenance and now cloud subscription contracts.

- Valvoline Inc.'s shares had rebounded sharply from the low point reached in May 2019. While the company has been successful at accelerating its Quick Lube store growth, North American profits remain under pressure primarily due to a decline in do-it-yourself volume. As a result, we opted to sell the Fund's position in the company.

- We sold SCSK Corp. partly to fund the Obic purchase. SCSK had done reasonably well since purchase and it was no longer trading at a discount to peers. We were also concerned about the continuing Y3b annual investment into the automotive basic software platform without any material contract wins.

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Outlook

- Economic growth is moderating worldwide as the economic cycle matures, trade frictions take hold and the manufacturing sector begins to contract. Growth in the United States, while slowing, remains supported by consumers, backed by a strong job market and incrementally higher wages.

- On a positive note, the transition from "atoms" to "bits" implies a capital-light economy in which technology is being substituted for labour and physical assets. Companies that can successfully apply new technologies will be able to operate with less capital, making more available for distributions to shareholders.

- We believe our investment approach is well suited to this environment, where investment returns are more closely linked to company fundamentals. As always, we seek companies that can generate a growing stream of free cash flow and allocate that cash effectively for the benefit of shareholders.

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The comparison presented is intended to illustrate the mutual fund's historical performance as compared with the historical performance of widely quoted market indexes or a weighted blend of widely quoted market indexes or another investment fund. There are various important differences that may exist between the mutual fund and the stated indexes or investment fund, that may affect the performance of each. The objectives and strategies of the mutual fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable indexes or investment fund. Indexes are unmanaged and their returns do not include any sales charges or fees. It is not possible to invest directly in market indexes.

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