

## CI International Equity Value Private Pool Third Quarter 2019

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### Market Overview

- In the third quarter, international markets actually gained, measured in local currency, but weakness in non-U.S. currencies versus the U.S. dollar more than offset underlying gains. Dovish central banks and subdued inflation supported equities, but tepid profit growth, weakening economic indicators, sizeable debt levels and escalating geopolitical risk (e.g., the U.S.-China trade war, U.S. politics, Brexit and developments in the Middle East) contributed to volatility that will likely persist. Aggregate portfolio risk, measured by beta, is well below market levels and we continue to emphasize attractively priced business in which our underlying investment thesis are not related to the broad economy.

### Portfolio Activity

- We initiated three new positions in the Fund during the third quarter. Among these was AXA S.A., a French multinational insurer. AXA has steadily shifted its mix to business lines where it has greater margin control, stronger market positions and less interest-rate sensitivity. This, combined with better underwriting profits, helped offset the industry issue of low interest rates and drove return on equity to levels comparable to global peers. Despite these improvements, AXA trades at a considerable discount to the group, as investors doubt the sustainability of profits and dislike recent capital allocation decisions. We expect shares to re-rate higher as the company shows continued underwriting discipline, sees tailwinds from improving industry pricing dynamics, successfully integrates the misunderstood XL Group acquisition and distributes considerable dividends to shareholders.
- During the quarter, we exited from two Fund positions, including ING Groep N.V. We purchased ING with the view that it was a well-run core European retail bank that offered a leading digital banking platform. Recently, however, we grew increasingly worried about poor corporate governance, including the rumour of a value-destructive acquisition of Commerzbank AG, ongoing poor anti-money laundering oversight and a return to geographic expansion. Given these risks, we elected to sell the stock.

## Outlook

- We are mindful of economic and geopolitical risks, and incorporate related considerations into our financial models and risk appraisals, influencing our determination of a company's margin of safety. We have been significantly underweight economically cyclical businesses largely due to their valuations, mediocre fundamentals, and vulnerable earnings prospects. Among these are western banks, materials, and industrials, although value is beginning to emerge.

Sources: Bloomberg Finance L.P.; Morningstar Direct; FactSet, MSCI, and Altrinsic Global Advisors, LLC, as at September 30, 2019.

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