Market Commentary
Fourth Quarter 2019

CI American Small Companies Fund

Justin Howell, Managing Director, Portfolio Manager and Senior Research Analyst
Michael Welhoelter, Managing Director, Co-CIO, Portfolio Manager, Head of Risk Management
David Pearl, Executive Vice President, Co-Chief Investment Officer and Portfolio Manager

Class F returns (in %) as at December 31, 2019	Year-to-date	1 year	3 year	5 year	10 year	Since inception (08/08/2000)
CI American Small Companies Fund	16.3	16.3	4.3	7.9	12.5	4.5

Sources: Bloomberg Finance L.P.; Morningstar Direct; and Epoch Investment Partners, Inc., as at December 31, 2019.

Market Overview

- Stocks rose to new highs on optimism over a U.S.-China trade deal, easier monetary policy, earnings that exceeded consensus expectations and hopes that the worst of the global slowdown was over. Health care and information technology stocks achieved double-digit gains, while large-cap financials also outperformed. Defensive sectors were weak, including real estate, utilities and consumer staples. Bond yields crept higher.

- Markets were sensitive to news on trade developments, most of which was positive. The United States and China closed in on a "phase one" deal despite missing the mid-November deadline for doing so. The U.S. Federal Reserve delivered its third interest rate cut since July, but signalled it was done lowering rates unless it saw signs of material weakness in the economy. Corporate earnings were on track to decline for a third consecutive quarter, but most were able to beat expectations. Wall Street analysts projected earnings growth to accelerate in 2020, easing recession fears. Purchasing managers' indexes in the manufacturing sector for November improved for most countries, including the United States and Germany, although they remained below 50, the threshold for expansion. Better than expected data on Chinese economic activity led some economists to raise their 2020 growth estimates.

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Performance Summary

- Over the fourth quarter of 2019, Class F of CI American Small Companies Fund (the "Fund") returned 5.3%, compared with 5.2% for its benchmark, the S&P 1000 Total Return Index.
- The Fund's security selection produced positive results in the health care, communication services and financials sectors, while select holdings in consumer discretionary and information technology detracted.
- Ten of 11 market sectors posted a positive return for the quarter.

Contributors to Performance

- Western Alliance Bancorporation was a top contributor to relative performance. Its shares rose sharply after the company reported record third-quarter earnings of US$127 million, up 14.6% from a year earlier. Loan totals rose by 20.4% year-over-year, with US$1 billion of growth coming from residential lending. Western remains one of the most profitable U.S. banks with a 19.4% return on equity. During the quarter, the company repurchased one million shares, bringing its buyback total to $3.6 million. Overall, the share count has been reduced by 3.4% through repurchases since the program began in the fourth quarter of 2018.
- Another positive contributor was Molina Healthcare Inc. The company's shares rose after it reported third-quarter revenue and profit that exceeded expectations. Molina also raised guidance for its 2019 profit. The company's medical loss ratio improved by 110 basis points year-over-year, benefitting from tailwinds generated by aging demographic trends, the passage of the Affordable Care Act (which increased health insurance rolls) and the outsourcing of government sponsored health care insurance and services. Earlier this year, stocks of health care services companies came under significant selling pressure, despite reporting overall profit growth. We suspect these declines were attributable to the political and media focus on government-controlled health care solutions proposed by some of the U.S. presidential candidates. These fears have subsided and the stocks of profitable health care companies are attractive.

Detractors from Performance

- In the information technology sector, shares of Plantronics Inc. came under pressure after the company reported quarterly revenue and earnings that came in below consensus expectations. In addition, at a subsequent analyst meeting, the Plantronics provided little forward guidance contrary to our expectations. The company is currently incurring additional costs related to its acquisition of

Polycom Inc. in 2018. While the company expects to realize significant combined value from this transaction, current fundamental weakness in revenue generation and profits, when combined with the lack of forward guidance, is a cause for concern. As a result, in December we opted to reduce our position in the stock.

- In consumer discretionary, after serving as a top contributor to the Fund's performance all year, shares of LGI Homes Inc. fell during the quarter, due to profit taking by select investors. The company recently announced record-breaking home closings of 2,515 units during the fourth quarter of 2019, compared with 1,852 in the fourth quarter of 2018, a 35.8% increase. The company had 7,690 home closings during 2019, surpassing its previous annual record of 6,512 home closings in 2018 by 18.1%. LGI Homes is well positioned from a macroeconomic and demographic perspective, given their focus on entry-level homebuilding in markets with strong population growth. We believe that new home affordability remains very attractive by historical standards and that the company should continue to post strong revenue and profit growth.

Portfolio Activity

- During the quarter, we purchased several new companies that fit well with our emphasis on cash generation and optimal capital deployment. Among these was Helen Of Troy Ltd., a consumer-products company with business segments in housewares, health and home and beauty. Products from all three segments are mainly sold through mass retailers and grocery stores, drugstores, warehouses, catalogs, and specialty stores in the United States. The company has a differentiated and diverse product portfolio, with a combination of durable and consumable products. This includes leadership brands with strong market shares, as well as a number of cash cow labels. Historically, Helen of Troy's management team has pursued a successful acquisition strategy, while improving the company's operating margins through enhanced efficiency. It has a conservative balance sheet and could improve shareholder returns by increasing leverage.

Outlook

- We expect two themes to be key influences in 2020 and beyond: lower for longer interest rates and an earnings-driven equity market. Additionally, we expect the current record-long U.S. economic expansion to continue through 2020.

- We believe our investment approach is well suited to this environment, in which 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 can allocate that cash effectively to the benefit of shareholders.

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