

**CI International Equity Alpha Private Pool  
Fourth-quarter 2019 Commentary**

*Richard Jenkins, Chairman and Managing Director  
Melissa Casson, Director of Global Equities  
Evelyn Huang, Director of Global Equities*

<b>Class F returns (in %) as at December 31, 2019</b>	<b>Year-to-date</b>	<b>1 year</b>	<b>3 year</b>	<b>5 year</b>	<b>Since inception (10/29/2018)</b>
CI International Equity Alpha Private Pool	15.8	15.8	N/A	N/A	14.1

Sources: Bloomberg Finance L.P., MSCI Inc., S&P Dow Jones Indices, Morningstar Research Inc., StatPro Group PLC and Black Creek Investment Management Inc., as at December 31, 2019.

**Market Overview**

- ) As we finish an extraordinary decade of asset price appreciation, Stein’s Law comes to mind (named for the late Herbert Stein, who was an American economist and advisor to former U.S. presidents Richard Nixon and Gerald Ford). It states that “if something cannot go on forever, it will stop” and was a response to those who think that if something cannot go on forever, steps must be taken to stop it. Stein believed in the self-correcting mechanisms of the economy and markets.
- ) We know that the current trends in interest rates and equity markets cannot go on forever. We know that negative nominal interest rates are an anomaly and cannot go on forever. We know that high-double-digit equity returns are unsustainable. We know that the ubiquitous rise in house prices and real estate will end at some point. We have faith in Stein’s Law; we just don’t know how these trends will come to an end. We also submit that nobody can forecast the future reliably; predictions of returns for 2020 and beyond are impossible.
- ) And so, 2019 was another year of attractive returns for equities and other asset classes, capping a decade of attractive returns driven by extraordinarily easy monetary policies around the world. In 2019, 10-year U.S. Treasuries produced a high-single-digit positive total return as yields declined from 2.69% to 1.92%, while the U.S. equity market, as measured by

the S&P 500 Total Return Index, was up 31.5%, in U.S.-dollar terms. Since corporate earnings in the U.S. were roughly flat year-over-year, the price-earnings ratio (based on 12-months trailing earnings) of the S&P 500 Index increased from 16.5 times at the start of the year to 21.4 times at year-end.

- ) Once more the U.S. equity market outperformed the rest of the world. Excluding the U.S., equity markets (as measured by the MSCI ACWI ex USA Total Return Index) were up 21.5% (in U.S. dollars), also outpacing earnings growth for the year. At year-end, the trailing price-earnings ratio for markets outside of the U.S. stood at 15.9 times, a substantial discount to the U.S.
- ) Most commentators attribute recent market gains to hopes for a resolution of the U.S.-China trade war, a slightly more accommodative U.S. Federal Reserve and fewer fears of an imminent recession. We cannot argue with these views but maintain that monetary policy is still providing the lion's share of the fuel for markets.
- ) Markets continue to narrow in the sense that fewer stocks are providing the bulk of returns for equity market indexes. The top 10 holdings of the MSCI All Country World Index (Apple Inc.; Microsoft Corp.; Amazon.com, Inc.; Facebook, Inc.; JPMorgan Chase & Co.; both classes of Google parent company Alphabet Inc.; Johnson & Johnson; Alibaba Group Holding Ltd.; and Visa Inc.) accounted for 12% of the index's weight by market capitalization and contributed 18% of the total return for the past year. In U.S. dollars, the simple average price appreciation for these 10 stocks in 2019 was about 43%, with an obvious overweight allocation in U.S. and technology stocks. The market narrowing is more pronounced in the U.S., where the top 10 holdings of the S&P 500 Index accounted for 23% of the index by weight and contributed nearly 30% of the total return in 2019.
- ) U.S. President Donald Trump continues to "talk up" foreign currencies that he believes are too cheap, and he denigrates the policies behind them. In this respect, he may be right. On a purchasing power parity basis, the U.S. dollar is currently overvalued by 4%, 11%, 25% and 9%, respectively, relative to the Japanese yen, British pound, euro and Canadian dollar.

### Performance Summary

- ) Over the quarter ended December 31, 2019, Class F of CI International Equity Alpha Private Pool (the "Fund") returned 10.3% while its benchmark, the MSCI EAFE Total Return Index, was up 6.0% over the same period.

### Fund Holdings

- ) During the quarter, among the Fund's top holdings were Morgan Advanced Materials PLC; STMicroelectronics N.V.; Haier Electronics Group Co., Ltd.; Glanbia PLC; ICICI Bank Ltd.; and Criteo S.A.

### Portfolio Activity

- ) During the quarter, two new holdings were added to the Fund: Hoshizaki Corp. and Ipsen S.A. Z Holdings Corp. (formerly Yahoo! Japan Corp.) was eliminated from the Fund.
- ) Hoshizaki is a Japan-based global producer of high-quality commercial kitchen equipment that specializes in ice machines and refrigeration products.
- ) Ipsen is a global specialty-driven biopharmaceutical group focused on innovation and specialty care. It develops, manufactures and markets pharmaceuticals used in oncology, neuroscience and rare diseases as well as consumer health care products.
- ) Z Holdings was sold from the Fund's portfolio for valuation reasons post a period of strong market performance.

### Outlook

- ) Our main focus and concern with respect to equity prices now are still the risks inherent with low and negative interest rates. Will we see bubbles in asset prices (do we have them now)? Can negative rates cause runs on banks? How badly must savers be treated before they revolt? Are we just starting to see the impact on pension funding, and who will bail them out? At what point do lenders say "No, I'm not going to lend to you anymore," with trillion-dollar deficits in mind? Can and will U.S. interest rates go negative? What are the unintended consequences that we have not yet seen? Too many questions, so few answers.
- ) With Stein's Law in mind, we take comfort in the fact that we own companies in portfolios that can and will adapt to changing circumstances. That is one of the advantages of owning businesses. We try to focus on what we call "winning" businesses; that is, those that offer real value propositions to their customers and ones that we think will win relative to their competitors over time. We also focus on economic earnings, not the accounting earnings that

have been so easy to manipulate in a world of low interest rates. Most of the Fund's company holdings continue to invest for the long term. While "value investing" is currently out of favour relative to momentum, technology and growth investing, making it difficult for us to beat the market in the short term, we have faith that in the longer term, value and valuation matter.

## **IMPORTANT DISCLAIMERS**

*Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compound total returns net of fees (except for figures of one year or less, which are simple total returns), including changes in security value and reinvestment of all distributions, and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.*

*The author and/or a member of their immediate family may hold specific holdings/securities discussed in this document. Any opinion or information provided are solely those of the author and does not constitute investment advice or an endorsement or recommendation of any entity or security discussed or provided by CI Investments Inc.*

*Certain statements contained in this communication are based in whole or in part on information provided by third parties and CI Investments Inc. has taken reasonable steps to ensure their accuracy. Market conditions may change which may impact the information contained in this document.*

*The contents of this piece are intended for informational purposes only and not to be used or construed as an endorsement or recommendation of any entity or security discussed. The information should not be construed as investment, tax, legal or accounting advice, and should not be relied upon in that regard. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Investors should consult their professional advisors prior to implementing any changes to their investment strategies. These investments may not be suitable to the circumstances of an investor. Some conditions apply.*

*Certain statements in this document are forward-looking. Forward-looking statements ("FLS") are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as "may," "will," "should," "could," "expect," "anticipate," "intend," "plan," "believe," or "estimate," or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are by their nature based on numerous assumptions. Although the FLS contained herein are based upon what CI Investments Inc. and the portfolio manager believe to be reasonable assumptions, neither CI Investments Inc. nor the portfolio manager can assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on FLS. Unless required by applicable law, it is not undertaken, and specifically disclaimed that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise.*

*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.*

*© 2020 Morningstar Research Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.*

*CI Investments and the CI Investments design are registered trademarks of CI Investments Inc. CI Private Pools™ is a trademark of CI Investments Inc.*

*Black Creek Investment Management Inc. is a portfolio sub-advisor to certain funds offered and managed by CI Investments Inc.*

*© CI Investments Inc. 2020. All rights reserved. "Trusted Partner in Wealth™" is a trademark of CI Investments Inc.*

*Published January 24, 2020.*