

# Market Commentary

## First Quarter 2020



### CI International Value Fund

*John Hock, Chief Investment Officer, CFA*

| Class F returns (in %) as at March 31, 2020 | Year-to-date | 1 year | 3 year | 5 year | 10 year | Since inception (2001-12-18) |
|---|--------------|--------|--------|--------|---------|------------------------------|
| CI International Value Fund                 | -17.6        | -11.3  | -0.2   | 2.5    | 6.0     | 4.2                          |

Source: Altrinsic Global Advisors, LLC as of March 31, 2020.

#### Market Overview

- The first quarter of 2020 was one of the worst on record, with prices collapsing in March. In a matter of weeks, the COVID-19 virus that likely emerged from a wet market in Wuhan, China, brought the global economy to a halt. A Saudi-Russian-induced oil-price war exacerbated the decline. Only cash, select government bonds and gold provided refuge from the carnage. There is tremendous uncertainty in the near term, as policymakers inject wartime-like stimulus into economies, creating a bridge until health risks subside and economic activity recovers. Opportunities are emerging amid the associated uncertainty, and we have been taking a disciplined, opportunistic and incremental approach to capitalizing on them.

#### Performance Summary

- Over the first quarter ended March 31, 2020, Class F of CI International Value Fund (the Fund) returned -17.6%, compared with -15.2% (in Canadian-dollar terms) for its benchmark, the MSCI EAFE Total Return Index.
- The Fund underperformed due to its holdings in the consumer-staples, communication-services and utilities sectors.

#### Contributors to Performance

- During the quarter, Roche Holding AG and Japan Exchange Group Inc. were among individual holdings that made the largest contributions to relative performance.



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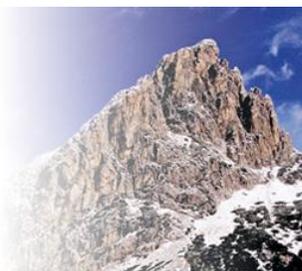
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- Most of Roche's drug revenue is derived from oncology. Despite a focus on treating COVID-19, cancer patients continue to receive life-saving medications. Roche has a drug that may alleviate the worse symptoms of hospitalized COVID-19 patients.
- Japan Exchange was a solid performer during a difficult time, as increased market volatility led to sharp growth in activity across its exchanges.

### **Detractors from Performance**

- Our positions in AB Amro Bank NV and Schlumberger Ltd. detracted from performance.
- ABN Amro's shares declined sharply during the quarter, as did those of all European banks. ABN announced higher-than-expected credit losses in the fourth quarter of 2019 and pre-announced the same for the first quarter of 2020. Capital was still manageable. Europe's bank regulator required ABN to withhold dividends until at least October 1, 2020. ABN is priced similar to the trough valuations seen by other banks during crises such as those to do with the euro currency, global credit and various emerging markets, but the regulatory interference is unlike anything that has occurred in the past.
- Shares of Schlumberger Ltd., a major oilfield-services and equipment provider, fell sharply during the quarter as its customers significantly cut spending in response to the record fall in oil prices. We believe Schlumberger is not well positioned to navigate the current downturn and capture upside, given its poor record of execution and stretched balance sheet, and we sold the stock.

### **Portfolio Activity**

- The Fund initiated nine new positions during the quarter. Among these was Bureau Veritas SA (BVI), a major player in the structurally attractive testing, inspection and certification market. Despite an appealing blend of revenues and benefits from secular trends, the stock trades at a material discount to peers largely due to cyclical downturns in oil & gas and marine and overreliance on mergers and acquisitions. Under a new chief financial officer, BVI is taking steps to improve cash generation, earnings quality and organic growth.
- We exited five positions, including Henkel AG & Co. KGaA. Henkel is a German chemicals company operating in adhesives, beauty products and laundry care. Sales growth has begun to decline and margins will likely follow.

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### Outlook

- Just as in prior crises, human ingenuity and grit, aided by science and technology, will prevail over COVID-19. The lasting changes render so-called historical factors even less relevant. It will be paramount to understand business drivers, in order to determine growth rates, profitability levels and cash-flow generation. These same attributes and tools that will allow us to defeat the virus are common among companies and management teams that will do well as we cross the post-pandemic bridge. We believe the common equity of attractively priced businesses with these characteristics are the best equipped among all asset classes to perform in the range of economic landscapes that may emerge.

Source: Morningstar Direct; FactSet; Intercontinental Exchange, Bank of America; Altrinsic Global Advisors, LLC.

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