

CI North American Small/Mid Cap Equity Private Pool Second-quarter 2020 Commentary

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Class F returns (in %) as at June 30, 2020	Year-to-date	1 year	3 year	5 year	10 year	Since inception (2018-10-29)
CI North American Small/Mid Cap Equity Private Pool	1.3	6.6	-	-	-	6.8

Source: Picton Mahoney Asset Management, as at June 30, 2020.

Performance Summary

- Over the second quarter ended June 30, 2020, Class F of CI North American Small/Mid Cap Equity Pool (the “Fund”) returned 33.6%, compared with a 17.9% return for its benchmark, consisting of 70% S&P/TSX Small Cap Index and 30% Russell 2000 Total Return Index (C\$).

Contributors to and Detractors from Performance

- During the quarter, the Fund’s top contributing investments were Kinaxis Inc. and Pan American Silver Corp. The largest relative detractors were our underweight holdings in Fortuna Silver Mines Inc. and Seabridge Gold Inc.
- Kinaxis is a software company that provides planning and response management solutions. It offers an enterprise cloud solution for supply-chain management, sales and operations planning, and other components for enterprise-grade customers. COVID-19 is disrupting supply chains worldwide and Kinaxis’s software helps companies deal with these challenges. Over the last three months the company has released a new module, RapidValue Solutions, Inc., and recently acquired an artificial-intelligence company, Rubikloud Technologies Inc., which will increase its capabilities over time. As a result of these enhancements, we expect Kinaxis to continue to win new customers in 2020, and we have a favourable view of the company.

- Pan American Silver is primarily a silver producer with operations in Mexico, Peru, Argentina, Bolivia and the United States. The company staged a strong rebound this quarter as its mines in South America returned to production by the end of May after being impacted by COVID-19. On March 23, Pan American temporarily suspended six out of its nine operating mines in Peru, Bolivia and Argentina as a result of governments' quarantine response prompted by the virus. These mines were expected to contribute over 60% of the company's production for 2020. Mexico followed suit in early April, suspending all mining operations in that country, which impacted two Pan American mines. These temporary measures lasted till the end of May, when a majority of the company's operations began to reopen after mining was reclassified as a part of essential services in these Latin American countries. We continue to view Pan American favourably, owing to its strong free-cash-flow generation potential following its acquisition of Tahoe Resources Inc. Other positive factors were its significant project optionality (namely the La Colorada skarn discovery and Escobal restart, as well as management's overall proven track record.

Portfolio Activity

- During the quarter, we introduced positions in Dundee Precious Metals Inc. and Bombardier Recreational Products Inc. (BRP), and exited our holding in Extendicare Inc.
- We added Dundee Precious Metals, a global gold producer, to increase the portfolio's overall precious-metals weight. In our view, the company has entered into a period of free-cash-flow harvest mode after the company successfully ramped up its Ada Tepe operation in Bulgaria at the end of last year. As Dundee continues to deliver on its operations, we expect the stock to re-rate from its current valuation of approximately 1 times the price to net asset value to the peer average of about 1.2 times. COVID-19 has had very little impact on the company, as the Bulgarian government did not require a shutdown -- another reason why we are comfortable holding onto this stock even when production disruption remains a prevalent risk in the mining sector.
- BRP designs, manufactures and distributes recreational vehicles including snowmobiles, all-terrain vehicles, side-by-side vehicles and personal watercraft. The company has for years successfully introduced new product lines to consumers, as well as increasing its market share in existing lines. The stock sold off aggressively during March on fears that consumer spending would decline, which was the case in March and April. Since then, we have seen the outlook become more positive as consumers look to spend more time on outdoor activities, to which BRP's products cater. We have a positive outlook for the company.

Outlook

- As the global economy slowly reopens, we continue to see leading indicators not only moving higher (from admittedly very depressed levels) but also broadening in scope. We understand there may be setbacks along the way, but have identified a number of opportunities for relative performance, based on themes and outcomes with respect to COVID-19 and its ongoing impact on economic activity. We believe this will benefit equity investors, particularly against the backdrop of a pro-cyclical impulse in the broader global economy. Where many investors tend to focus on large benchmark weights, we believe a willingness to dig deeper will provide ample opportunities to drive alpha from security selection.

Source: Bloomberg Finance L.P. and Picton Mahoney Asset Management.

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