Market Commentary
Second Quarter 2020

CI American Value Fund

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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 (2000-11-17)
CI American Value Fund	-7.9	-0.7	6.1	7.1	12.7	4.1

Source: Epoch Investment Partners, Inc., as at June 30, 2020.

Market Overview

- Stocks rebounded from the first quarter's sell-off, which hit its low point on March 23. Sentiment improved as the rate of COVID-19 infections declined and countries began gradually reopening their economies, although infections in the United States picked up again in June. Stocks also got a lift from the U.S. Federal Reserve (the Fed), which unveiled plans to lend directly to municipalities and businesses, and to buy bonds issued by companies that had recently lost their investment-grade status. Investors looked past a steep drop in earnings, and escalating tensions between the United States and China. In addition to retaliatory trade restrictions on each side, the United States said it would no longer treat Hong Kong as an autonomous entity after China approved a plan to implement new national security laws in the city, bypassing the Hong Kong government.

- Economically sensitive sectors had the best results during the quarter. The consumer discretionary, information technology and materials sectors were among the strongest performers, along with the energy sector as oil prices stabilized in May and then steadily crept higher. Consumer staples and utilities lagged.

- Gross domestic product in the United States fell at a 5% rate in the first quarter, which was a steeper drop than expected. Continuing jobless claims jumped into the tens of millions—an unprecedented level—while unemployment surged to 14.7%, the highest since the Great Depression. Consumer spending plummeted in April and partially rebounded in May. Banks reported they were bracing for a higher level of loan defaults.

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Performance Summary

- CI American Value Fund Class F (the Fund) returned 16.9% during the second quarter, outperforming its benchmark, the S&P 500 Total Return Index, which returned 15.4% during the same period.

- Performance was helped by strong security selection primarily in the communication services and financials sectors.

Contributors to Performance

- In communication services, a top contributor to results included Facebook, Inc., which reported first-quarter revenue that was better than expected. The company's revenue came in at US$17.7 billion, up nearly 18% year-over year from the US$15.1 billion reported in the first quarter of 2019. Facebook, Inc. said it counts 2.99 billion monthly users across its family of apps, compared to 2.89 billion in the previous quarter. While the company reported a steep decline in ad revenue in March due to the coronavirus pandemic, investors were buoyed by the fact that the first few weeks of April began to show stability, injecting optimism into the stock. Facebook, Inc. is one of the world's most profitable companies. It has made significant investments towards transitioning its monetization strategy on both Facebook, Inc. and Instagram. The company is focused on increasing its average revenue per user. Advertising revenue has been fuelling this growth, as Facebook continues to find new ways of increasing ad space within its platforms without diluting the end-user experience. In our opinion, the current valuation does not reflect the company's eventual return to annual double-digit growth.

- In financials, seven out of 10 companies held in the Fund beat the index sector return for the period, including Morgan Stanley, Bank OZK, Equitable Holdings Inc., American International Group, Inc., Willis Towers Watson PLC, Western Alliance Bancorp. and MetLife Inc. In general, investors had become too pessimistic over the outlook for banks and insurance companies during the onset of the COVID-19 pandemic. Banks and insurance companies are better capitalized today than during the financial crisis in 2007-2008. During the second quarter, the group developed much greater visibility into the impact of the pandemic and companies updated their guidance, with near-term profitability coming in marginally better for many. When combined with better economic data, this reinforces our view that dividends should be able to be sustained at current levels across the group, even if we see higher stress-related capital buffers imposed as a result of this year's capital adequacy review that took place on June 25.

Detractors from Performance

- In information technology, despite reporting first-quarter revenue and earnings growth that came in ahead of or in line with expectations, the stock price of Arista Networks Inc. underperformed the index sector return for the period. Arista Networks had modestly reduced its guidance for the second quarter due to supply constraints. It had also assumed a more cautious stance on likely weakness in enterprise and small-account spending in the current environment. Company results should improve in 2021 when growth in cloud spending resumes.

Portfolio Activity

- Since the advent of the COVID-19 pandemic, we have sought to actively practice both risk mitigation and opportunistic investing simultaneously within the Fund. We have sold any company whose business model has been impaired over the longer term. We have invested in new ideas, companies whose business models should perform well both during the current period, but also during the eventual post-pandemic recovery. We used the period to add to positions in some of our highest-conviction ideas at a reduced price. We have taken advantage of the decline in stock prices to purchase companies that we have admired historically but were previously deemed too expensive from a valuation perspective.

- Examples of new purchases include Lam Research Corp., which manufactures equipment used to fabricate semiconductors. The firm focuses on the etch, deposition and clean markets, which are key steps in the semiconductor manufacturing processes. Lam Research Corp. has benefitted from the sharp rise in etch, deposition and clean steps required as a result of major inflections, including FinFET and planar to 3D NAND that feature multiple patterning and vertical layers well suited for Lam Research's advanced etch and deposition offerings. Consequently, Lam Research is poised to grow faster than the overall equipment industry, as we think it can capture a larger share of the market with technically superior tools.

- Added in health care, Merck & Co. Inc. makes pharmaceutical products to treat several conditions in a number of therapeutic areas, including cardiovascular disease, asthma, cancer and infections. Within cancer, the firm's immuno-oncology platform is growing as a major contributor to overall sales. The company also has a substantial vaccine business, with treatments to prevent hepatitis B and pediatric diseases, as well as HPV and shingles. Additionally, Merck & Co. sells animal health-related drugs. The company is streamlining its existing diversified global healthcare portfolio into a more focused and higher-growth biopharmaceutical company.

- Added in industrials, Northrop Grumman Corp. is a defence contractor that is diversified across short-cycle and long-cycle businesses. After a substantial boom in defence spending over 2018-2019 to

modernize the military, we're expecting a slowdown in defence budget growth to inflationary levels. However, we think that prime contractors will still grow because of a shifting focus toward defending against great-powers conflicts within the 2018 National Defense Strategy. The three main stock-specific growth opportunities we see for Northrop Grumman are the Ground Based Strategic Deterrent, the further militarization of space and the development of the B-21 bomber. Regulated margins, mature markets, customer-paid research and development, and long-term revenue visibility allow the defence primes to deliver a lot of cash to shareholders, which we view positively. In our view, the growth and stability in the company's forward cash flows is undervalued.

- We exited Boing Co. in the second quarter. Of note, our decision to initially remain invested in Boeing after the onset of the COVID-19 pandemic was partly based on the perception that the commercial aviation industry, in general, and Boeing's customers in particular, would remain solvent and begin the process of recovery over the next several months. However, recent events, including United Airline Inc.'s failed bond offering and China's threat to reduce Boeing's orders, resulted in a critical change in our investment thesis. Based on the large increase in the near-term risk to the company's customer base and its future deliveries, we opted to sell our position in Boeing. (Subsequent to our decision to sell, Boeing's CEO David Calhoun on May 11 provided a negative outlook for the industry, which included a prediction that a "major" airline bankruptcy was likely in the next several months. He also said that it will be "three solid years" before the industry returns to pre-COVID normal, extending previous forecasts).

Outlook

- Despite the magnitude of the current economic downturn, the combination of highly negative sentiment and attractive valuations makes this a rewarding time to invest, in our opinion. We expect the recession to be short lived, with recovery likely starting in the second half of the year. And while earnings and cash flows will undoubtedly fall in the months ahead, many stocks currently have cash flow yields in the high single-digits, making them attractive on a relative basis.

- Already there are signs that the economy is beginning to recover. A better-than-expected jobs report in June indicated that 4.8 million jobs had been added and the unemployment rate had fallen to 11.1%. We expect that the Fed will keep monetary policy accommodative for the foreseeable future and inflation isn't an immediate threat.

- Another significant takeaway from the quarter is that growth surpassed value, and equity factors were very volatile. This should present an opportunity for active managers who focus on stock picking, as the main winners year-to-date were speculative growth stocks trading at high valuations.

- As a result, we believe it is important to continue to invest in high-quality companies with stronger balance sheets, high return on invested capital and positive cash generation. Many are now trading at more attractive valuations as a result of the recent market sell-off. Companies that fit this profile will be in a better position to recover quickly when the economic recovery commences.

Source: Bloomberg Finance L.P., Morningstar Direct and Epoch Investment Partners, Inc.

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