

CI International Equity Alpha Private Pool Second-quarter 2020 Commentary

Richard Jenkins, CFA, Chairman and Managing Director

Melissa Casson, CFA, Director of Global Equities

Evelyn Huang, CFA, Director of Global Equities

Class F returns (in %) as at June 30, 2020	Year-to-date	1 year	3 year	5 year	Since inception (2018-10-29)
CI International Equity Alpha Private Pool	-10.7	-2.3	N/A	N/A	2.5

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 June 30, 2020.

Market Overview

- As we begin the second half of 2020, worldwide coronavirus cases have passed the 10 million mark and deaths have exceeded a half million. Virus hotspots include much of Latin America, India and Russia, and we are seeing a resurgence of new cases in the United States.
- Despite this situation, equity markets saw a strong recovery in the second quarter. Central bank stimulus, positive commentary on vaccine trials and investor hopes for a swift economic recovery led U.S. stocks (S&P 500 Index gained 20.5%) to their best quarterly gain since the fourth quarter of 1998. In U.S.-dollar terms, global stocks (as measured by the MSCI ACWI) rose 19.2%. We, like many observers, think there is a disconnect between market prices and the real economy, perhaps driven by continued easy monetary policies from the central banks.
- We can find some attractive opportunities in the United States but continue to prefer companies in developed and developing international markets. In a world of uncertainty, U.S. equities (as defined by the S&P 500 Index) are currently priced for perfection with a forward price to earnings (P/E) multiple of 24 times. Outside the United States, the MSCI World ex-USA and MSCI Emerging Markets indices have more reasonable forward P/E multiples of 17.1 times and 14.1 times, respectively.

Performance Summary

- CI International Equity Alpha Private Pool Class F (the Fund) returned 12.4% during the quarter, outperforming its benchmark, the MSCI EAFE Total Return Index, which returned 10.1% over the same period.
- The Fund's strong performance was primarily driven by stock selection within the information technology and materials sectors.

Contributors to Performance

- During the quarter, top contributors to performance included ASM International NV, Wienerberger AG and Capgemini SA.
- ASM International is a leading global supplier of semiconductor processing equipment used for wafer processing. Its technology, called atomic layer deposition, is used to help make chips smaller, but more powerful. Shares performed well during the second-quarter global stock rally on expectations of a recovery post the coronavirus demand shock.
- Wienerberger is a leading international supplier of building materials and infrastructure solutions, and is the largest manufacturer of bricks globally. The company's share price rallied along with other building materials stocks on expectations of increased infrastructure spending through government-funded fiscal stimulus programs.
- Capgemini is a French global consulting and technology company. Its shares participated in the second-quarter market rally off its March lows. During the quarter, the company stated that revenue rose in the first quarter led by its digital and cloud advisory businesses. The company stated that the integration of Altran Technologies SA was on track, and significant cost and commercial revenue synergies were expected. It also announced a decrease in its proposed dividend to remain prudent during the pandemic.

Detractors from Performance

- During the quarter, the top detractors from performance were Grifols SA, BAE Systems PLC and Glanbia PLC.

- Grifols is a Spanish-based specialist in therapies based on blood plasma. During the quarter, Grifols reported good first-quarter results, with revenue up nearly 12%. The company's share price fell on the news that the pandemic has caused a reduced number of donations and higher costs for obtaining blood plasma, which will impact profits in the short term. However, longer-term, the underlying demand for plasma derived therapies continues to grow worldwide given aging demographics and related diseases. Grifols has implemented a cost-containment plan of approximately 100 million euros to help offset the higher costs of collection.
- BAE Systems is a global defence, security, and aerospace firm. The company's shares declined on the news that it was going to defer its 2019 dividend to preserve cash during the COVID-19 uncertainty. An update on the dividend payment will be provided at the half-year results on July 30. Investors also have concerns that the pandemic has stressed global government borrowing, which could lead to reduced defense spending in the future. The company is in a strong position with respect to liquidity and has a project backlog of 45 billion British pounds, in a world where geopolitical tensions are on the rise.
- Glanbia is an Irish global nutrition group. It has leading market positions in sports nutrition, cheese, dairy ingredients, specialty non-dairy ingredients and vitamin and mineral premixes. The firm's share price held up well during the market downturn but lagged in the second-quarter recovery.

Portfolio Activity

- During the quarter, there were no new holdings added to or eliminated from the Fund.

Outlook

- We are currently in a world of little-to-no economic growth and facing a new redistribution of incomes and wealth. Equity investing will not be easy, but you wouldn't know that from looking at the stock indices recently. Passive investing and a narrowing of the markets to relatively few "must have" stocks (generally U.S. large-cap tech companies) has made traditional value investing challenging. The S&P 500 Index is supposed to be a broad and diversified representation of mid-to-large U.S. companies. However, the top five holdings (Microsoft Corp., Apple Inc., Amazon.com Inc., Facebook Inc. and Alphabet Inc.) now account for nearly a quarter of the index's market capitalization.

- We see much froth in certain equities now and the risk of a bubble in equities generally has increased. Investor interest in unprofitable concept IPOs has risen once again, with companies such as Nikola Corp., the electric and hydrogen truck maker, quickly garnering a market capitalization of over US\$20 billion before even selling a vehicle. We must continue to be aware of a changing world and find the best ideas we can. We are not traditional value investors who look for cheap stocks. We buy companies based on their underlying fundamentals, including their ability to grow future cash flows and earnings, but we are cognizant of value and valuation when buying and selling companies.

We wish all the best to you and your families and hope that you are healthy and safe. We thank you for your continued support and confidence.

Sources: Bloomberg Finance L.P. and Black Creek Investment Management Inc.

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.

The opinions expressed in the communication are solely those of the author and are not to be used or construed as investment advice or as an endorsement or recommendation of any entity or security discussed.

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.

CI Private Pools is a registered trademark of CI Investments Inc.

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

Published July 22, 2020.