Portfolio Series Commentary

Second Quarter – 2020

Portfolio Series™

Alfred Lam, Senior Vice-President and Chief Investment Officer
Marchello Holditch, Vice-President and Portfolio Manager
CI Multi-Asset Management

Market performance

We hope you and your family are keeping well in this challenging time. It's been a dramatic first half to the year regardless of whether you are invested in the stock markets or not. Global economies operated with the door half shut and we have seen unprecedented central bank and government policies to rescue businesses, employees and investors. On an aggregate level, central bank liquidity and government spending and subsidies account for approximately 30% of world gross domestic product (GDP). At the extreme, individuals who had no savings were spending even with no income, companies that had no cash flows tapped into the credit market for financing and stocks reversed steep first-quarter losses with large gains during the second quarter.

Benchmark returns in % at June 30, 2020	3 months	1 year	3 years	5 years	10 years
S&P/TSX Composite Index	17.0	-2.2	3.9	4.4	6.3
S&P 500 Index (C$)	15.7	11.8	12.5	12.7	16.8
MSCI World Index (C$)	14.8	7.6	9.0	9.4	13.4
FTSE Canada Universe Bond Index	5.9	7.9	5.3	4.2	4.6

Source: Bloomberg Finance L.P., FTSE

Portfolio performance

Policy has driven the market rally since the end of March, and it's been a powerful force. Markets skipped the consolidation phase and went from bear market (in decline) to bull market (on the rise) in just weeks. This bull market was further extended by crowding as investors did not want to miss out. The NASDAQ-100 Index, which captures a lot of the major tech names, reached an all-time high. Confidence is growing as money is made quickly, but risk is also rising with frothy valuations.

The unexpected pandemic, unprecedented policy response and market volatility were each disruptive in their own way. However, our income-centric portfolios performed well during and after the bear market. They provided liquidity and capital preservation, as well as growth. With our equity-centric portfolios it felt more like a roller coaster ride now back on the ground. What did surprise us was investor behaviour. Stocks that were the most expensive, as measured by their price-to-earnings ratios, were outperformers, which was without doubt a headwind to many investors.

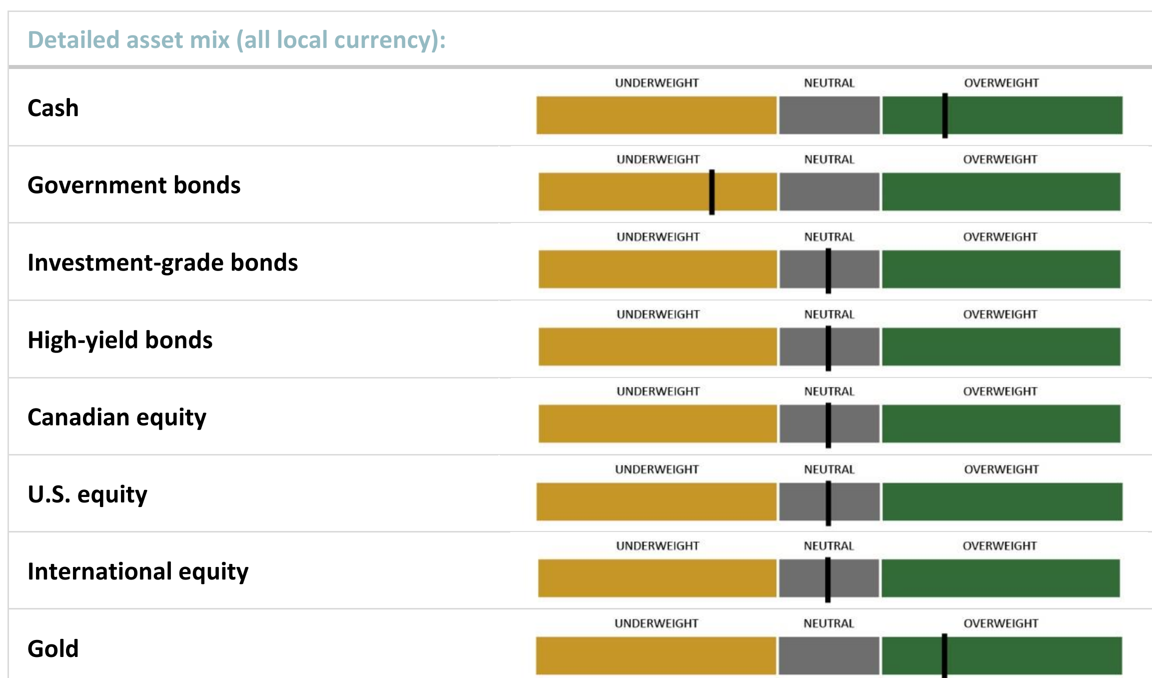
Portfolio Series Commentary

Second Quarter – 2020

Returns in % at June 30, 2020 (Class F)	3 months	1 year	3 years	5 years	10 years
Portfolio Series Income Fund	7.2	2.5	3.0	3.6	6.0
Portfolio Series Conservative Fund	9.3	3.3	3.7	3.8	6.5
Portfolio Series Conservative Balanced Fund	10.3	2.4	3.4	3.9	6.9
Portfolio Series Balanced Fund	11.3	1.5	3.2	3.9	7.2
Portfolio Series Balanced Growth Fund	14.0	0.8	2.8	3.9	7.5
Portfolio Series Growth Fund	15.5	0.5	3.1	4.4	8.0
Portfolio Series Maximum Growth Fund	16.9	-0.3	3.1	4.4	8.7

Source: CI Investments Inc.

Outlook and positioning



Neutral weight refers to the targeted strategic asset allocation for the portfolios.
Overweight/underweight is the amount the current asset allocation differs from the neutral weighting.

The COVID-19 pandemic was a major shock to everyone and is possibly the worst global crisis many people have experienced. It has brought substantial monetary and fiscal policies, which provide needed support for the time being but also bring unknowns to individuals, companies, governments and investors over the long term. The immediate effect of these policies was the dramatic rally in stocks, which benefited all investors. It is important to recognize that stimulus has more side effects and will shape the investment landscape for years to come. We've outlined some of these evolving effects below:

CI Multi-Asset™ Management

- It is expected that by the end of this year the U.S. Federal Reserve could add $5-7 trillion to the economy and markets. To give you some perspective, the Fed added less than $5 trillion to combat the global financial crisis of 2008-09 over five years. It then took four years to shrink by $0.8 trillion. Investors generally assumed the additional money supply was only temporary. If you consider how slowly money supply shrunk last time and how fast it was added this time, it is fair to assume this larger sum – we are counting trillions here – could last decades. While the U.S. dollar may not depreciate versus other currencies as other central banks were implementing the same easing measures, it is depreciating versus financial and hard assets, meaning you get less with your money.
- In many countries, interest rates have declined to zero. After the global financial crisis, the term "new normal" was created to describe how average rates for this cycle would be lower than the previous. We believe we are now entering a "*new* new normal" where rates will be closer to zero for probably at least a decade and potentially longer. Raising rates too early presents at least two issues; first, it would add additional deficit and debt to governments as they are large borrowers; second, higher rates will lead to lower bond prices that central banks own in their balance sheets. The Fed, in particular, has no revenue to pay for losses. Because of these consequences alone, we believe the Fed will tolerate higher inflation and zero interest rates for years to come.
- Governments came to the rescue with handouts and will be asking for a favour in the future. Even though we do not think governments have the appetite to aggressively lower deficits by raising taxes and cutting debt in the near term, they will do some to show integrity. Tax rates will rise, which will have implications on corporate earnings and their valuations. It is uncertain at this point what group(s) the governments will target.

Our priority is to protect the purchasing power of your money in this unusual paradigm. Investments such as stocks that give investors exposure to earnings and economic growth, and hard assets such as real estate, infrastructure and gold, serve that purpose. As rates are expected to be kept near zero, long-duration bonds that offer above 1% yield should be bought for capital gains.

Across our portfolios, we have been buying long-duration U.S. Treasuries, gold bullion and gold stocks, and cutting short-duration bond exposure, making the non-equity portion of our portfolios very different from a traditional bond portfolio or index. In a typical bond portfolio, we see limited yields being generated from both government and corporate bonds. They also provide very limited offset to equity risk as yields have limited room to compress when they are already so close to zero.

We expect the U.S. yield curve to flatten and long duration to generate significant capital gains as a result. Rates will be lower for longer than many are anticipating. Gold bullion is a hedge to geo-political risk and should also rise with money supply growth. Gold stocks generate additional upside as their businesses are levered to gold prices. These companies will report growing earnings, which will be unique in the current recessionary environment. We just had a recession for a few months and growth is already resuming as economies re-open. However, the growth will be bumpy and slow. We will keep the stock portion of our portfolios between neutral weight to overweight as asset inflation is a real threat and opportunity. We have rebalanced the portfolios for a more balanced investment style, recognizing some of the damages to so called "old economy stocks" will be permanent as people adjust their lifestyles with growing use of digital media and e-commerce. We are generally not as bearish on the U.S. dollar as we were. We have since reduced our hedge ratio and are increasing our exposure to the U.S. dollar across all portfolios.

We have entered a policy-dominant investment world, and it is new to all of us. You can rest assured knowing we are here to understand what these policies mean for the markets and economic growth so we can position our portfolios for the best outcome.

Source: CI Multi-Asset Management, Bloomberg Finance L.P. and CI Investments Inc. as at July 9, 2020.

Portfolio Series™

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 compounded total returns net of fees and expenses payable by the fund (except for figures of one year or less, which are simple total returns) including changes in security value and reinvestment of all dividends/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.

This commentary is published by CI Investments Inc. 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 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 comparisons presented are intended to illustrate the mutual fund's historical performance as compared with the historical performance of widely quoted market indices or a weighted blend of widely quoted market indices or another investment fund. There are various important differences that may exist between the mutual fund and the stated indices 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 indices or investment fund. Indices are unmanaged and their returns do not include any sales charges or fees. It is not possible to invest directly in market indices.

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.

CI Multi-Asset Management is a division of CI Investments Inc. CI Investments and the CI Investments design are registered trademarks of CI Investments Inc. Portfolio Series and the CI Multi-Asset Management design and logo are trademarks of CI Investments Inc.

Published July 16, 2020.

CI Multi-Asset™ Management