Portfolio Select Series Commentary

Third Quarter – as of September 30, 2020

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Market performance

The COVID-19 pandemic has delivered a serious blow to global economies and unemployment rates, but it has not stopped investors from loving equity. From an investor's point of view, the index does not represent the economy. This notion can be seen in the U.S. where, for example, the S&P 500 Index is dominated by technology companies benefiting from the growing online shopping trend. In simple terms, while the pie has shrunk, the distribution of the pie has also changed to favour companies that carry a large weight in the S&P 500. In addition, companies like restaurants, bars and hair salons that have been hit the hardest are generally privately-owned small businesses, which are out of scope for the indexes. The Canadian market is essentially the opposite, with more old economy (financials and energy) and less new economy (technology), and has significantly underperformed other markets as a result.

Until a vaccine and remedy are widely available, one could expect continuous doses of both monetary and fiscal stimulus. What is surprising is that many Canadian households have earned less income from their employers, but have brought home more dollars due to government stimulus. This, in addition to deferred payments such as mortgages, means that many Canadians actually have more money to spend than before the pandemic.

Benchmark returns at September 30, 2020	3 months	1 year	3 years	5 years	10 years
S&P/TSX Composite Index	4.7%	0.0%	4.3%	7.2%	5.8%
S&P 500 Index (C$)	6.8%	15.8%	14.7%	14.1%	16.7%
MSCI World Index (C$)	6.0%	11.6%	10.7%	11.0%	12.9%
FTSE Canada Universe Bond Index	0.4%	7.1%	6.1%	4.3%	4.4%

Source: Bloomberg Finance L.P., FTSE

Portfolio performance

Markets have been extremely kind to investors. The S&P 500 Index saw outstanding performance over the last year, regardless of whether you consider the fact that we were in a pandemic for more than half of that period. We are pleased with the positive returns when we review the following table, however we acknowledge that we have not fully participated in the growth cycle of the technology sector. Our ongoing concern around the valuations of tech companies seems to be largely ignored by investors as; 1) growth is scarce, and 2) money is worth less due to central banks' increase in money supply. This has caused a rush to buy "growth at any price," which is a headwind for us as we strive to limit exposure to uncertainties in our portfolios.

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Contributors and Detractors	Contributors	Detractors
Income-Oriented Portfolios	Underweight exposure to government bonds	Value factor
	U.S. dollar currency hedging	Cash
	Gold	
Balanced Portfolios	Underweight exposure to government bonds	Value factor
	U.S. dollar currency hedging	Cash
	Gold	
Growth-Oriented Portfolios	Canadian equity	Value factor
	U.S. dollar currency hedging	Cash
	Gold	

Source: CI Multi-Asset Management

Returns at September 30, 2020 (Class F)	3 months	1 year	3 years	5 years	10 years
Select Income Managed Corporate Class	1.9%	3.7%	3.9%	3.3%	4.2%
Select 80i20e Managed Portfolio Corporate Class	2.0%	2.1%	3.3%	3.5%	4.7%
Select 70i30e Managed Portfolio Corporate Class	2.5%	2.0%	3.2%	3.7%	4.9%
Select 60i40e Managed Portfolio Corporate Class	3.0%	2.1%	3.3%	4.0%	5.5%
Select 50i50e Managed Portfolio Corporate Class	3.5%	2.1%	3.3%	4.2%	5.9%
Select 40i60e Managed Portfolio Corporate Class	4.2%	1.8%	3.2%	4.4%	6.3%
Select 30i70e Managed Portfolio Corporate Class	4.6%	1.1%	3.0%	4.6%	6.6%
Select 20i80e Managed Portfolio Corporate Class	5.2%	0.6%	2.8%	4.9%	7.1%
Select 100e Managed Portfolio Corporate Class	5.9%	1.0%	2.8%	5.5%	7.9%

Source: CI Investments Inc.

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Select Income Managed Corporate Class

Canadian federal and provincial governments have incurred very large deficits this year as they fight to minimize COVID-19's impact to the economy. The bad news is that Canadians will eventually have to pay. The Liberal government has suggested a tax on the wealthy, with no real definition of who the "wealthy" will be. In our opinion there are three groups that the government will target: 1) high income earners, 2) asset owners, and 3) spenders. The challenge is the first group already pays a marginal tax rate of over 50% and they cannot alone be responsible for paying down debts. This leaves the second and third groups, which effectively captures most of the retirees, who will be facing another battle – lower interest rates.

Select Income Managed Corporate Class was created to solve the problem of low interest rates by employing a multi-asset approach to income instead of focusing only on bonds. Since its inception, it has consistently delivered inflation "plus" returns with a more favourable capital gain tax structure. We recognize consistency is key and have positioned the portfolio to have a narrow range of outcomes, even if there are unpredictable shocks to the system, by offsetting the tail risk of one asset class with another.

The income portfolio is currently positioned with 20% equity and is represented by companies that are not highly valued and not overly sensitive to economic shifts. We are overweight corporate bonds at approximately 41%, as we generally prefer them to government bonds for their premium yield and ability to earn capital gains in an improving economy. Government bonds are currently set at 28% to offset equity risk, and we continue to hold some gold bullion, foreign currencies and cash to taper volatility. We are confident in this strategy to generate consistent income from yields and capital gains to beat inflation.

Outlook and positioning

For the foreseeable future, market volatility is in the hands of policymakers. Generally, they prefer low volatility versus high (bubble versus collapse), creating a positive backdrop for risky assets. The fine line is owning enough risk to ensure we participate in the upside while at the same time not getting caught in the decline. We are overweight stocks with a balance between growth and value opportunities after a recent asset mix update across our portfolios to add growth. In the income portion, we are underweight government bonds but favour long-duration bonds. We have reduced our hedge to the U.S. dollar, believing the Bank of Canada will prefer a weaker loonie to boost exports.

In the short term, we are monitoring the U.S. election. We expect some anxiety and uncertainty as the election is held during a pandemic and it may take longer for votes to count. In the end, we believe it is not so much the "who" that will matter to investors, but whether the winning party has a majority. Regardless of who the next president is, spending will be passed (with or without hiccups) but this will be of little concern to investors looking out over the long term. We hope we will see some semblance of returning to normal soon, but continue to prepare and monitor our portfolios for any challenges that arise.

Source: CI Multi-Asset Management, Bloomberg Finance L.P. and CI Investments as at October 8, 2020

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Portfolio Positioning

Asset Class	QoQ Change	Portfolio Positioning	100i	80i20e	70i30e	60i40e	50i50e	40i60e	30i70e	20i80e	100e
Investment-grade bonds	▼	Neutral Weight	20.7%	19.5%	17.1%	14.6%	12.2%	9.8%	7.3%	4.9%	0.0%
		30-Sep-20	29.1%	24.0%	20.5%	17.2%	13.3%	10.0%	7.1%	2.9%	0.0%
Government bonds	▲	Neutral Weight	60.2%	56.7%	49.6%	42.5%	35.5%	28.4%	21.3%	14.2%	0.0%
		30-Sep-20	27.8%	26.6%	22.4%	18.9%	15.4%	11.9%	8.3%	4.2%	0.0%
High-yield bonds	▲	Neutral Weight	4.0%	3.8%	3.3%	2.8%	2.4%	1.9%	1.4%	0.9%	0.0%
		30-Sep-20	10.6%	10.6%	8.9%	7.0%	6.0%	4.3%	2.5%	1.1%	0.0%
Canadian equity	▲	Neutral Weight	4.5%	6.0%	9.0%	12.0%	15.0%	18.0%	21.0%	24.0%	30.0%
		30-Sep-20	9.1%	9.3%	13.2%	16.7%	19.7%	23.1%	25.8%	29.9%	31.7%
Cash	▼	Neutral Weight	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		30-Sep-20	8.8%	7.5%	7.3%	7.1%	6.1%	6.0%	5.3%	4.9%	5.3%
U.S. equity	▼	Neutral Weight	5.3%	7.0%	10.5%	14.0%	17.5%	21.0%	24.5%	28.0%	35.0%
		30-Sep-20	7.8%	9.6%	12.9%	16.3%	19.7%	22.5%	26.3%	29.8%	32.8%
International equity	▲	Neutral Weight	5.3%	7.0%	10.5%	14.0%	17.5%	21.0%	24.5%	28.0%	35.0%
		30-Sep-20	3.7%	8.0%	11.3%	13.6%	17.0%	19.7%	22.5%	25.9%	29.2%
Commodities	▲	Neutral Weight	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		30-Sep-20	3.1%	4.4%	3.5%	3.2%	2.8%	2.5%	2.2%	1.4%	1.0%

Neutral weight refers to the targeted strategic asset allocation for the portfolio.
Source: CI Multi-Asset Management as at September 30, 2020

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Modern Portfolio Construction Tools

	100i	80i20e	70i30e	60i40e	50i50e	40i60e	30i70e	20i80e	100e
Liquid Alternatives									
Long/Short Equity	1.7%	3.3%	4.2%	5.1%	5.8%	3.6%	0.3%	0.2%	0.0%
Total	**1.7%**	**3.3%**	**4.2%**	**5.1%**	**5.8%**	**3.6%**	**0.3%**	**0.2%**	**0.0%**
Real Assets									
Real Estate	3.6%	2.9%	3.0%	3.1%	3.1%	3.2%	3.3%	3.4%	3.4%
Infrastructure	3.2%	2.9%	3.3%	3.8%	4.1%	4.5%	4.9%	5.4%	5.6%
Total	**6.8%**	**5.8%**	**6.3%**	**6.9%**	**7.2%**	**7.7%**	**8.2%**	**8.8%**	**9.0%**
ETFs									
Active	0.8%	0.6%	0.5%	0.4%	0.3%	0.2%	0.2%	0.1%	0.0%
Smart Beta	3.3%	2.7%	2.9%	3.2%	3.4%	3.6%	3.9%	4.2%	4.2%
Passive	4.8%	3.8%	3.8%	3.9%	3.8%	3.8%	3.8%	3.9%	3.8%
Total	**8.9%**	**7.1%**	**7.2%**	**7.5%**	**7.5%**	**7.7%**	**7.9%**	**8.2%**	**8.0%**

Source: CI Multi-Asset Management, as at September 30, 2020

Portfolio SELECT™ Series

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