Market Commentary
Third Quarter 2018

MARRET ASSET MANAGEMENT INC.

CI Investment Grade Bond Fund

The period was dominated by a significant rise in government bond yields globally. Central bank confidence in the economic outlook, rising inflation and a reduction in emerging market risks provided the impetus for the move in interest rates. The U.S. Federal Reserve, Bank of Canada and the Bank of England all raised their overnight policy interest rates during the period. Ten-year Government bond yields rose 20, 26, 29 and 17 basis points in the U.S., Canada, U.K. and Germany respectively. Ten-year bond yields in Germany outperformed other markets modestly over the period as political developments in Italy and Spain led to a flight-to-quality bid in Bunds.

Investment-grade corporate credit spreads, as defined by the Bloomberg Barclays Aggregate Corporate Average OAS Indices, declined by 17, 8 and 4 basis points in the U.S., Europe and the U.K. Credit spreads in the U.S. dragged other markets lower on strong stock performance (S&P 500 Index up 7.7% for the quarter). Additionally, U.S. credit spreads were supported by all-in yield buying, reduced new issue supply and a pick-up in foreign buying. Canadian corporate credit spreads, which outperformed in previous periods, widened slightly as long corporate bonds were subjected to duration-related selling.

The fund derives its return from the movement in government bond yields and credit spreads. For the quarter, the fund returned -0.45%. The comparable return for our benchmark, the FTSE Russell All Corporate Bond Index was -0.46%. The benchmark is a Canadian-dollar denominated index.

The portfolio maintained a lower duration than the benchmark (average 5.7 years versus 6.3 years) over the period, which was beneficial given interest rates rose. The fund's exposure by currency (fully-hedged) over the period was approximately 45% U.S., 54% Canada and 0.3% Europe. The fund benefitted from: 1) a lower duration than that of the benchmark given interest rates were rising and 2) exposure to U.S.-dollar-denominated corporate bonds which tightened in spread relative to those in Canada and Europe. The portfolio's modest outperformance relative to the benchmark was dampened by a strong countertrend rally in interest rates which took place in August. Not only did interest rates rally while the fund had lower duration, but Canadian government bonds outperformed almost all global counterparts in the rally and therefore we underperformed given the currency exposure mix of the portfolio. In August, the benchmark returned 0.82% while portfolio returns were 0.59%. The fund's exposure to Broadcom, Campbell Soup, Comcast and Canadian Airports were also a headwind to better performance, as credit spreads in these names widened due to company-specific developments.

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Market Outlook

In our view, the current economic cycle is becoming very mature. Our reasons for suggesting this are as follows:

- In our view, global growth peaked in the fourth quarter of 2017 following a strong synchronized growth period across both developed and emerging markets. Risk asset prices typically peak 4-5 quarters following this.

- Risk asset prices usually near their peak about four quarters after investment-grade credit spreads reach their lows. Credit spreads bottomed in January 2018.

- Quantitative easing, that is, central bank balance sheet expansion, which has been a significant contributor to the rally in risk assets, peaked in May 2018. In early 2019, quantitative easing will turn to quantitative tightening as central balance sheets, in aggregate, will begin to shrink.

This later stage economic cycle narrative warrants continued reduction in credit exposure. That is because credit spreads have reached their lows and the probability of spread widening increases. Positive excess returns from long credit exposure can become negative. This, combined with corporate balance sheets that are highly leveraged make the risk/reward in credit uncompelling. The fund is reducing its exposure to credit in aggregate and specifically in the U.S. market.

Interest rate volatility also tends to rise late in the economic cycle. This is because central banks continue to tighten monetary policy as the output gap diminishes. This requires increased active management of duration, but also a recognition that duration may need to be increased as interest rates back up, rather than reduced, as the end of cycle raises risk asset volatility and a core bond fund must deliver negative correlation to a risk asset selloff. Additionally, at the end of the cycle, central banks move from tightening monetary policy to easing, and this is when longer duration historically delivers the best returns in fixed income.

Class F Returns (in %) as at September 30, 2018	**Year-to-date**	**1 year**	**3 year**	**5 year**	**Since inception (12/30/2014)**
CI Investment Grade Bond Fund	-0.5	0.5	3.2	N/A	3.6

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Published November 6, 2018.