

# CI LIQUID ALTERNATIVE INVESTMENT STRATEGIES



## CI Lawrence Park Alternative Investment Grade Credit Fund

DECEMBER 2020

CI Lawrence Park Alternative Investment Grade Credit Fund (the Fund) is an active credit-focused mandate designed to address the challenges of traditional fixed-income investing. Hedging the majority of interest rate risk and currency risk, the Fund aims to generate fixed-income alpha by capitalizing on inefficiencies and short-term dislocations in the investment-grade corporate credit markets. With an emphasis on capital preservation, the Fund seeks to provide consistent positive returns over the market cycle, with a low correlation to equity and fixed-income markets.

### PERFORMANCE SUMMARY (as at December 31, 2020)

|   | 1 MONTH | 3 MONTHS | 6 MONTHS | 1 YEAR | 2 YEAR | SINCE INCEPTION |
|---|---------|----------|----------|--------|--------|-----------------|
| CI LAWRENCE PARK ALTERNATIVE INVESTMENT GRADE CREDIT FUND CLASS F | 1.09    | 3.32     | 8.03     | 4.93   | 5.37   | 4.77            |
| FTSE CANADA ALL CORPORATE BOND INDEX                              | 0.73    | 1.80     | 3.16     | 8.72   | 8.39   | 8.53            |

Source: CI Global Asset Management & Morningstar Research Inc. as at December 31, 2020. Inception date: November 7, 2018.

### MONTHLY SUMMARY

Global credit finished the year on a strong note, with the Barclays Corporate Spread Index closing 2020 at 100 basis points (bps), 2bps wider than its 2019 closing level. As we start a new year, spreads are historically tight on an absolute basis, but still cheap in terms of their proportional contribution to yields. We expect that contribution to continue to revert towards historical norms through a combination of tightening spreads and rising government yields. With the Fed and Bank of Canada demonstrating their willingness to join the European Central Bank in buying corporate debt, volatility should remain moderate. In what we believe will be a yield-starved year, active management will play a significant role in generating fixed income returns in 2021. Investors will be rewarded for prudent selection and nimble risk management.

### CREDIT

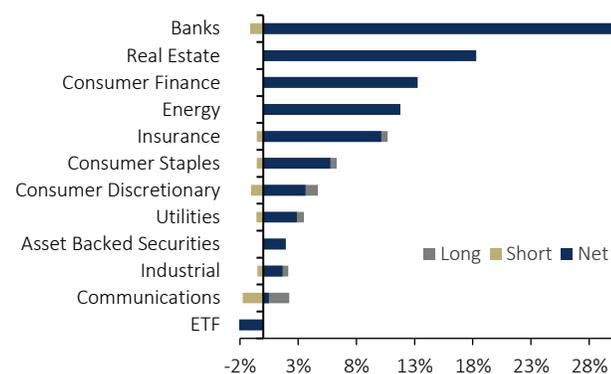
December is usually the month when most strategists turn their attention to an outlook for the coming year. There was strong consensus that credit would continue to tighten as consumers in a post-pandemic world return to traditional spending patterns and lagging sectors of the economy finally recover. News of a COVID-19 vaccine was enough to stimulate a risk-on tone, and as the month progressed, some of the spread tightening we expected in the first quarter of 2021 started in December.

### FUND SUMMARY

#### KEY FACTS

|                           |   |
|---------------------------|---|
| NAV/UNIT (CLASS F)        | \$10.59   |
| STRATEGY AUM              | \$418 million   |
| MANAGEMENT FEE (CLASS F)  | 0.80%   |
| PERFORMANCE FEE           | 10% of any returns (net of MER) above the Hurdle Rate, subject to a high-water mark |
| HURDLE RATE               | FTSE Canada All Corporate Bond Index  |
| INTEREST RATE DURATION    | 0-3 years   |
| LEVERAGE                  | 1-3x  |
| INVESTMENT-GRADE EXPOSURE | 99%   |
| CLASS F FUND CODE         | CIG 4190 (C\$)<br>CIG 4194 (US\$)   |
| CLASS A FUND CODE         | CIG 2190 (C\$)<br>CIG 2194 (US\$)   |
| ETF TICKER                | TSX: CRED (C\$ hedged)<br>CRED.U (US\$ hedged)                                      |

### SECTOR BREAKDOWN



Source: Lawrence Park Asset Management. Data as at December 31, 2020.

Sectors that suffered greatly during the initial spring lockdowns performed particularly well, and the portfolio enjoyed significant positive performance from Chartwell Retirement Services, energy names such as Suncor and Canadian Natural Resources, and auto manufacturer Nissan.

## RATES

Rate curve themes persisted throughout Q4. U.S. 10-year Treasury yields rose 7bps to finish the year at 0.92%, while the 2y-30y yield differential widened 9bps to finish at 152bps. Rising long term yields and steeper curves are a direct result of the Fed's zero interest rate policy and recently articulated willingness to let inflation rise beyond 2% as well as the U.S. government's increased borrowing requirements to fund stimulus programs. We expect these themes to continue into the first half of 2021. Canadian 10-year yields remained fairly flat in December, near 0.68%. However, interest rates in Canada will inevitably follow U.S. curves steeper the longer the situation persists.

## PORTFOLIO THEMES

During the month, we reduced the portfolio's three years and under holdings while adding five years and longer positions where we still see room for further tightening. Historically, a steeper rate curve supports our outlook for a flatter credit curve. At the same time, we reduced leverage, which meant the spread sensitivity of the portfolio finished lower despite extending our average term. Although we remain constructive on credit spreads, some trimming of overall risk felt prudent on a tactical basis given the potential for January event risks, like the Senate runoff, rising COVID-19 cases and a new U.S. administration.

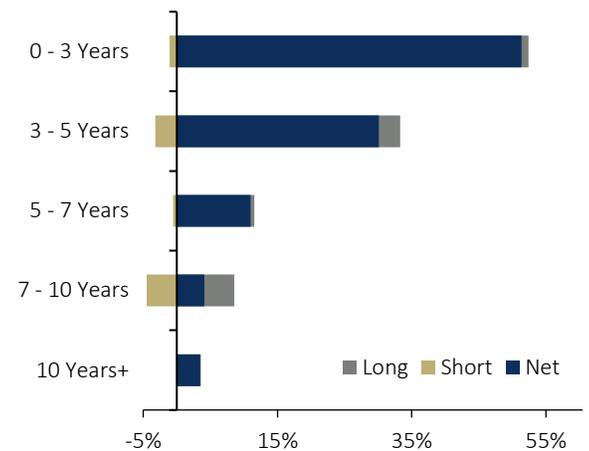
Our sector exposure remained fairly consistent, though we continued to reduce "COVID friendly" holdings such as media and technology in favour of traditional sectors including REITs.

## OUTLOOK

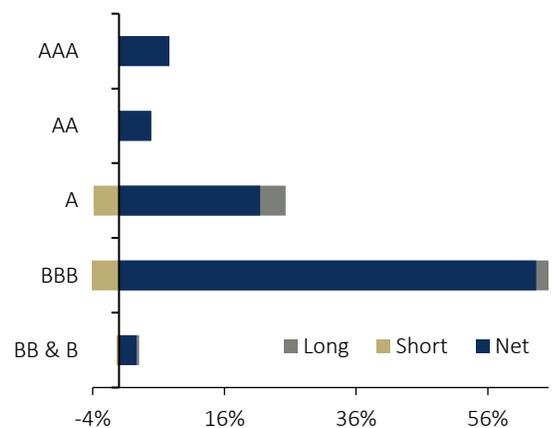
Global credit has finished the year almost exactly where it started, while domestic credit in Canada remains about 10 basis points from additional tightening. The portfolio remains overweight in Canada and we believe spreads here can outperform if volatility remains moderate. Credit spreads relative to low yields continue to look attractive and despite the recent rally, we see scope for further tightening. Q1 is traditionally a very busy period for new issue activity, offering plentiful opportunities for potential incremental returns through active and relative value trading.

The year 2021 begins with a yield-starved world. If inflation expectations continue to rise (U.S. 10-year breakeven inflation finished 2020 at 1.98%, up 35bps in Q4 2020) then generating positive returns from passive fixed income will become increasingly difficult. We feel confident the portfolio is

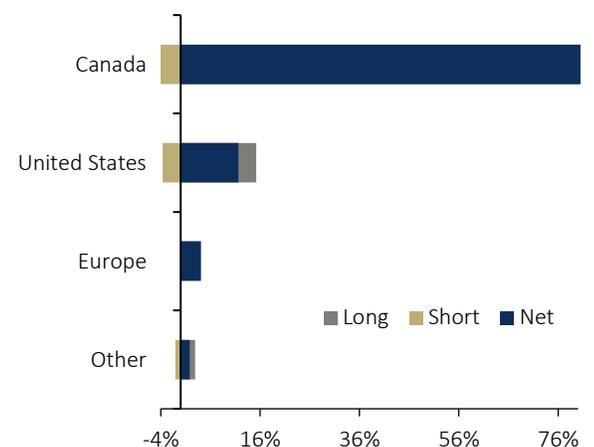
## MATURITY BREAKDOWN



## CREDIT QUALITY



## GEOGRAPHIC BREAKDOWN



Sources: CI Global Asset Management and Lawrence Park Asset Management. Data as at December 31, 2020.

positioned well. We are prepared to be nimble and can continue to add meaningful alpha throughout the year.

Source: Lawrence Park Asset Management, Bloomberg Finance L.P. as at December 31, 2020.



**LAWRENCE PARK**  
ASSET MANAGEMENT

**For more information, please visit [ci.com](http://ci.com).**

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## DEFINITIONS

**Duration:** A derivative is a financial security with a value that is reliant upon, or derived from, an underlying asset or group of assets. The derivative itself is a contract between two or more parties based upon the asset or assets. Its price is determined by fluctuations in the underlying asset

**Alpha:** A measure of performance. Alpha, often considered the active return on an investment, gauges the performance of an investment against a market index or benchmark which is considered to represent the market's movement as a whole. The excess return of an investment relative to the return of a benchmark index is the investment's alpha

## DISCLAIMERS

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund and exchange-traded fund (ETF) investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compound 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 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 and ETFs are not guaranteed, their values change frequently and past performance may not be repeated. You will usually pay brokerage fees to your dealer if you purchase or sell units of an ETF on recognized Canadian exchanges. If the units are purchased or sold on these Canadian exchanges, investors may pay more than the current net asset value when buying units of the ETF and may receive less than the current net asset value when selling them.

CI Liquid Alternative investment funds have the ability to invest in asset classes or use investment strategies that are not permitted for conventional mutual funds. The specific strategies that differentiate these investment funds from conventional fund structure include: increased use of derivatives for hedging and non-hedging purposes; increased ability to sell securities short; and the ability to borrow cash to use for investment purposes. While these strategies will be used in accordance with the investments funds' investment objectives and strategies, during certain market conditions they may accelerate the pace at which your investment decreases in value.

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The comparison presented is intended to illustrate the historical performance of CI Lawrence Park Alternative Investment Grade Credit Fund (the "Fund") as compared with the historical performance of a widely quoted market indices or a weighted blend of widely quoted market indices. There are various important differences that may exist between the Fund and the stated indices that may affect the performance of each. The objectives and strategies of the Fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable indices. Indexes are unmanaged and their returns do not include any sales charges or fees. It is not possible to invest directly in market indices.

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CI GAM is the portfolio manager of the Fund and Lawrence Park Asset Management is the portfolio sub-advisor to the Fund. CI GAM is responsible for the investment advice provided by the portfolio sub-advisors.

CI Financial Corp. holds a minority interest in Lawrence Park Asset Management.

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Published January 11, 2021.