CI AMERICAN VALUE FUND

Q1-2021 Commentary

CI GLOBAL ASSET MANAGEMENT

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR	S.I*
CI American Value Fund Series F	51.58%	13.17%	12.82%	13.63%	5.26%
Benchmark: S&P 500 Total Return Index	38.06%	15.79%	15.63%	16.87%	6.34%

* Inception date of CI American Value Fund, Series F: November 17, 2000.

Source: Epoch Investment Partners, Inc., as at March 31, 2021.

PERFORMANCE SUMMARY

- In the first quarter of 2021, CI American Value Fund, Series F (the Fund) returned 10.65% compared with the S&P 500 Total Return Index which returned 4.75%.
- The Fund outperformed its benchmark primarily as a result of stock selection in the energy, financials, and information technology sectors. An overweight allocation to the financials sector was another contributor to performance.

CONTRIBUTORS TO PERFORMANCE

A holding in Texas Pacific Land Trust contributed to the Fund's performance as the company reported strong sequential improvement in core oil and gas royalties as energy prices were driven higher. Its water business revenues fell, however, but the segment remains highly profitable. Cash flow from operations equaled US$46 million, and the company elected to increase its dividend by 10%. For the full-year period, its dividends totaled US$26 per share. With Texas Pacific's approximately US$316 million in cash and no debt, it is in an attractive position to benefit from any increase in energy production in West Texas. We expect that the company will remain focused on repurchasing stock and increasing its dividend.

Alphabet Inc. was another contributor to the Fund's performance after it reported fourth-quarter revenue and profit growth that exceeded consensus expectations. Its revenue grew by 24%, while operating income was up 69%. The company's operating margin increased to 28% up from 20% on a year-over-year basis. Importantly, the company now reports its results across three operating segments, including Google Services, Google Cloud and Other Bets. Google Services revenue equaled 93% of total firm revenue, and over 100% of its operating profit. The increase in revenue reflected broad-based growth led by an increase in advertiser spend in Search and YouTube as well as continued strength in Google Cloud and Play. As the number of online users and usage increases, so will digital ad spending, of which Google will remain one of the main beneficiaries. In addition, the significant cash generated allows Alphabet to remain focused on innovation and the long-term growth opportunities that new areas present.

DETRACTORS FROM PERFORMANCE

Electronic Arts Inc. (EA) stock price declined after it announced that it would acquire Glu Mobile Inc. for approximately US$2.1 billion. This represents the company's second acquisition announcement in just a few months. The Glu Mobile acquisition should further move EA into the mobile gaming space. EA believes the acquisition will provide a platform to further develop its EA titles within the casual sports and lifestyle mobile genres. While some investors remain concerned over the purchase price, we note that EA recently reported fourth-quarter revenue and profit growth that exceeded expectations. The company also raised its forecast for its 2021 results.

T-Mobile US Inc.'s stock price declined modestly after the company reported that it sees postpaid net customer additions in 2021 ranging from 4 million to 4.7 million versus the 5 million additions that had been expected. In addition, while the company's fourth-quarter revenue grew by 61% on a year-over-year basis, its reported profits declined by 31%, reflecting higher costs from integrating Sprint Corp. into the company. Despite this, we still note that, with the acquisition of Sprint, increased scale has made T-Mobile far more efficient, turning it from a cash burner to substantial cash generator over the past five years, removing questions about its viability. Based on solid execution, today T-Mobile offers attractive growth with a lower risk profile relative to many peers at an attractive valuation.

PORTFOLIO ACTIVITY

During the period, we added new positions in Ryman Hospitality Properties Inc. and United Rentals Inc. to the Fund. Ryman Hospitality is a real estate investment trust that focuses on group-oriented destination hotel assets in urban and resort markets in the United States. Its hotels operate under major brands, including Marriott and Gaylord. We expect Ryman Hospitality to slowly rebound from the impacts of pandemic. The company began to re-open hotel properties in June 2020 leading with the leisure segment. We expect transient business to begin to improve in 2021, and group bookings to improve in the second half of 2021 with greater improvement in 2022. United Rentals Inc. is an equipment rental company. The company generates maximum revenue from the general construction and industrial equipment from its general rentals segment. Scale and network effects allow United Rentals to be a low-cost operator and provides a large competitive advantage. With U.S. rental penetration at approximately 55%, the market has room to grow compared to Western Europe and Japan, which are at approximately 75-80% penetration each. Free cash flow generation should grow at an attractive rate as a result of gross domestic product (GDP) growth, market share gains and increased rental penetration.

We eliminated the Fund's holdings in Home Depot Inc., Universal Display Corp. and The Coca-Cola Co. Home Depot's shares had appreciated by over 55% during the last year, while Universal Display's had risen over 40% in just the last three months. Based on price performance, the positions were sold. Coca Cola has experienced a slower-than-expected recovery in the on-premises channel. Approximately 40% of its U.S. sales and 30% of international sales are generated in the on-premises channel including quick-serve restaurants, cinemas, airlines, schools /universities, workplaces, vending and entertainment. This should put a damper on the company's profit growth for some time. The company is entering a transition year as it undertakes a large brand rationalization and corporate restructuring, which we do not believe will benefit the company until at least 2022. As a result of these challenges, we opted to sell the position.

MARKET OVERVIEW

Over the long term, stock prices are driven by growth in profits, which accrues to shareholders. This was distorted during the pandemic lockdown, as interest rates dropped to near 0%, and stocks with low or no profit but high revenue growth outperformed the market. Now that investors anticipate a return to normalcy, the best profit growth should come from economically sensitive stocks, such as financials, consumer discretionary and industrials, which have led the market since last fall. We expect economically sensitive stocks to outperform as employment rebounds and GDP accelerates though the second half of 2021 and 2022.

Household savings has increased during the pandemic, and consumers' propensity to spend is high as shopping, restaurants, travel, and entertainment venues reopen. We expect higher interest rates and loan volumes to drive continuing profit growth for banks, and infrastructure spending should help drive industrials.

We see more opportunity and value in mid-capitalization stocks, as mega-capitalization stocks outperformed for the last few years, until the approval of COVID-19 vaccines in November. Smaller stocks have higher growth rates than their larger competitors yet sell at lower valuations. Stocks held in the Fund that exemplify this view include The TJX Companies Inc., Restaurant Brands International Inc., Signature Bank, Jacobs Engineering Group Inc., The Middleby Corp., Ryman Hospitality, United Rentals, Las Vegas Sands Corp., and Sabre Corp.

Source: Epoch Investment Partners, Inc

For more information, please visit ci.com.

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