# Market Commentary
# Fourth Quarter 2018

EPOCH Investment Partners

## CI Global High Dividend Advantage Fund

Stocks experienced a sharp downturn in the quarter, pulling returns for the full year into negative territory. Investors grew concerned about a slowing global economy, higher costs pressuring profit margins, tighter monetary policies and the escalating trade dispute between the U.S. and China. Small cap stocks fared worse than large caps. The International Monetary Fund lowered its forecasts for global economic growth, citing rising trade protectionism and instability in emerging markets.

The U.S. economy continued to exhibit strength, helped by robust consumer confidence and spending. Unemployment touched a 49-year low and wage growth picked up. Housing remained a soft spot. The yield curve flattened as the U.S. Federal Reserve Board raised short-term interest rates for the fourth time in 2018 while 10-year Treasury yields fell by 54 basis points from early November through December.

Eurozone GDP slowed sharply in the third quarter, attributed in part to a slowdown in German auto production and a stagnant Italian economy. France witnessed violent protests against president Macron's economic policies by the "gilets jaunes." The U.K. government was in turmoil over Brexit, with the increasing likelihood of either a second referendum or a "hard Brexit." Italy's populist government reached a budget deficit compromise to avoid European Union sanctions.

The fund (Class F) generated negative returns of -4.6% in the fourth quarter, though strongly outperforming the broader market, which declined 8.6% for the quarter as measured by the MSCI World Index in Canadian dollars. The utilities sector was the largest positive contributor to absolute results, while the industrials and energy sectors detracted. From a country perspective, stocks in the U.K. followed by the U.S. and France were the largest detractors while Italy was the largest positive contributor to absolute returns. In relative terms, the fund strongly outperformed the benchmark, though the fourth quarter was a difficult period for the markets as well as the strategy. Investors favoured more defensive sectors such as utilities, and the strategy upheld its downside protection. An overweight to utilities was the largest positive contributor to relative returns, bolstered by stock selection in the sector. As opposed to the first three quarters of the year, when high-growth technology companies were in favour, the strategy's underweight and stock selection in the information technology sector proved beneficial during the fourth quarter as investors revalued momentum-driven companies.

Stock selection in consumer staples detracted from relative results, largely due to exposure to tobacco as the markets reacted negatively to the FDA's proposed regulatory changes and remained


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concerned over the longer-term growth prospects. We remain comfortable with the tobacco industry's ability to adapt to changing regulations and the industry's ability to continue to drive cash flow growth through pricing and cost discipline.

We added two stocks to the fund's portfolio during the period: Broadcom and Chevron. Broadcom is a designer and manufacturer of digital and analog semiconductors focused on connectivity. It also develops and maintains software for mainframe applications. It invests in leading-edge technology to remain at the forefront of cloud, enterprise and wireless connectivity technology solutions. Cash flow growth is driven by expanding connectivity needs on the wired side requiring faster speeds and greater bandwidth in wired connections and the increasing complexity of today's cellular networks on the wireless side. The software portfolio is transitioning to a subscription model, which will reduce costs and increase cash flow. Broadcom returns cash to shareholders via an attractive dividend with a target of paying out 50% of free cash flow. The balance of cash generation is used to fund debt reduction, share repurchases and/or accretive mergers and acquisitions. Chevron is a global integrated energy company that explores, produces and markets crude oil and natural gas. It also owns and operates downstream assets that include refining, chemicals, lubricants and additives, and fuel retail and marketing. Its integrated business model, geographic and product diversification, strong balance sheet and continued efforts to manage costs and improve capital efficiencies allow the company to generate sustainable cash flow through commodity price cycles. Cash flow growth is driven by production volume growth, structural margin improvements and expansion into new markets. Chevron returns cash to shareholders via an attractive and growing dividend and share repurchases using excess cash.

We also recently closed positions in a few companies, including Equinor and Swisscom. Equinor is an offshore oil and gas producer in Norway with an expanding global footprint. Management delivered faster and deeper cost reductions during the commodity down cycle, which brought down project break-evens significantly and led to strong cash flow generation when commodity prices recovered. Shares performed well, leading to a lower dividend yield. We exited the position to fund more attractive shareholder yield companies. Swisscom is the leading communication provider in Switzerland, offering wireless, traditional wireline telephone and services of cable, internet and telephony. Through Fastweb, Swisscom is a leading provider of cable, internet and telephony in Italy. The company pays a regular annual dividend that is supported by strong underlying free cash flow. Potential competitor consolidation in Switzerland and expanded ambitions in Italy decrease visibility into medium-term cash flow growth, and as such we exited the name.

As we enter a new year we are mindful that the quantitative easing, which supported valuations and suppressed volatility, is now moving in the other direction. And industries whose profit margins have benefited from global trade are grappling with setbacks. At the same time, companies that can successfully apply new technologies will be able to operate with less capital. Each of these trends will influence industries and individual companies in markedly different ways. We believe


our investment approach is well suited to this environment, where investment returns are more closely linked to company fundamentals. As always, we seek companies that can generate a growing stream of free cash flow and can allocate that cash effectively for the benefit of shareholders.

| Class F Returns (in %) as at December 31, 2018 | Year-to-date | 1 year | 3 year | 5 year | 10 year |
|---|---|---|---|---|---|
| CI Global High Dividend Advantage Fund | -4.6 | -4.6 | 3.1 | 5.9 | 8.7 |

***IMPORTANT INFORMATION***

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*Published January 2019.*