Market Commentary
Fourth Quarter 2018

MARRET ASSET MANAGEMENT INC.

CI Investment Grade Bond Fund

Concern regarding declining global economic growth, weaker oil and commodity prices, increasing trade tensions between the U.S. and China, stalled Brexit negotiations and difficult Italian budget discussions resulted in a significant risk-off sentiment in the final quarter of 2018. Major industrialized country equity markets declined 10% to 14% during the period. Investment grade corporate credit spreads, as defined by the Bloomberg Barclays Aggregate Corporate Average OAS indices, widened by 47, 38, 38 and 33 basis points in the U.S., Canada, Europe and the U.K. respectively. Conversely, government bond yields rallied in a flight to quality response. Ten-year bond yields declined 37, 46, 23, and 29 basis points in the U.S., Canada, Germany and the U.K. respectively. The Canadian government bond market outperformed on relative basis due to: 1) a large duration index extension 2) repricing of interest rate expectations from the Bank of Canada due to further economic weakness and 3) nominal government and corporate new issuance.

Performance

The fund derives its return from the movement in government bond yields and credit spreads. For the period, the Fund returned 0.91%. The comparable return for our benchmark, the FTSE/TMX All Corporate Bond Index was 0.86%. The benchmark is a Canadian-dollar denominated index.

The fund maintained an average duration during the period of 5.48 years relative to 6.14 years for the benchmark. The Fund, on average during the period, had 61.8% exposure to corporate bonds versus 100% for the benchmark. The following were contributors to performance: 1) a lower credit weighting and credit duration relative to the index 2) alpha generated by active trading of the credit indexes and 3) active trading of portfolio duration during a period of high volatility in government bond yields.

Market Outlook

In the final quarter of 2018, we expressed great concern about the vulnerability of risk assets and how much tightening was priced into interest rate markets. We warned that stocks and credit were overvalued and that North American government bond forward markets, were pricing in levels of tightening beyond our view of the terminal rate. Given the corrections in markets we have witnessed over the past few months, one might ask the question, “Are we there yet?” In other words, have risk and rates markets returned to fair value? In our view, further corrective price action in markets is a high probability. This view is based on fundamentals, technicals and market positioning which are summarized below.

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Fundamentally, our greatest consideration is always the trajectory of global growth. Global growth peaked in the fourth quarter of 2017 and there are few signs that economic growth is stabilizing. The world's two largest economies, the U.S. and China, are continuing to slow – China due to trade tensions and the U.S. as government spending is expected to provide less stimulus. Commodity price weakness is now pressuring business investment spending, and this is taking a toll on growth prospects in emerging markets and countries like Canada and Australia. Europe of course, has a myriad of problems which are creating economic uncertainty such as Brexit, populism and a weak banking system. If you add to this, high government and corporate debt loads as well as shrinking central bank balance sheets, we find it difficult to project a constructive global economic growth backdrop.

Technically, a significant amount of chart damage has occurred. We are always cautious to jump to technical conclusions when the price action occurs during periods of reduced liquidity such as the last few weeks of December. As a result, we look for consecutive daily closes along with weekly closes below important support levels before we conclude that short, intermediate and long-term trend changes have taken place. There is no doubt that the short and intermediate technicals have turned bearish for risk assets and bullish for interest rates. If the S&P 500 Index spends a full week below the 2540-45 area and the 10-year U.S. Treasury contract a full week above 120-27, we would suggest that long term reversals have occurred, likely pointing to a recession scenario.

Positioning across risk assets continues to be overweight. This is due to years of low interest rate policy and central bank balance sheet expansion. This has led to considerable growth in some risk asset markets while regulatory policy has reduced the ability for market makers to provide liquidity. We believe this is a very unhealthy combination which can only add to volatility. Additionally, we are concerned that risk has been forced into weak hands making it vulnerable to forced liquidation.

In terms of outlook and return expectations for the CI Investment Grade Bond Fund, we note the following:

- Interest rate headwinds, which negatively impacted fixed-income returns in 2018, are largely behind us. We expect central bank policy to be on hold but look for high volatility in government bond yields. For the first half of the year, we look for 10-year Government bond yields to trade in a range of 2.55% to 3.05% (U.S.), 1.75% to 2.20% (Canada), 1.10% to 1.60% (U.K.) and 0.10% to 0.50% (Germany). We would look to add duration on a pullback in interest rates. At 2.85% to 2.90% in ten-year UST we would look to go neutral duration at 6.25 years. At 3.0% to 3.10% we would expect to have a duration of 7 years.

- We continue to believe that the risk/reward in investment-grade corporate credit, despite the 2018 widening in spreads, remains skewed to further deterioration in credit spreads. Credit

fundamentals (balance sheet leverage) are weak, economic growth and therefore earnings prospects are diminishing, and the probability of credit downgrades is heightened. We expect to see the U.S. investment grade corporate credit default index widen to 115 basis points (currently 89) and cash credit to widen 20-25 basis points (base case). As a result, exposure to credit will produce another year of negative excess return. Portfolio exposure to investment grade credit was reduced significantly in 2018. With the exception of a pocket of short-dated, 1-4 year, corporate bonds, which represent about 25% of the portfolio for yield purposes, we want to completely reduce credit exposure. Furthermore, we will continue to actively trade credit indices in order to generate credit alpha.

- The Fund began the year with a running yield of approximately 2.85%. Consistent with previous years, we expect to generate alpha via active interest rate and credit index trading. If the slowdown in global growth accelerates and fears of a recession increase, a rally in government bond yields could occur.

Are we too “beared” up about economic growth and risk assets? There is no doubt that the consensus view on risk assets is now to be cautious. We note however, that we were bearish on risk well before the consensus, so it appears the market is just catching up with us. Our views on economic growth and an extension of the current economic cycle would adjust if some of the following changed:

- The policies currently being put in place in China to stimulate domestic demand and encourage infrastructure spending stabilize growth in the 6.0% to 6.5% area.
- There is a comprehensive agreement between the U.S. and China on trade policy.
- The U.S. Federal Reserve limits the Fed funds terminal rate to 2.50% to 2.75%.
- Commodity prices stabilize and oil (WTI) trades above $55.

A combination or all of these events in aggregate, would provide a positive impulse to sentiment and global growth. The question then becomes, would it be just short-term or have a lasting impact beyond 2020?

Class F Returns (in %) as at December 31, 2018	**Year-to-date**	**1 year**	**3 year**	**5 year**	**Since inception (12/30/2014)**
CI Investment Grade Bond Fund	0.35	0.35	3.21	N/A	3.63

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The comparison presented is intended to illustrate the mutual fund's historical performance as compared with the historical performance of FTSE/TMX all corporate bond index to show how the fund performs compared to what the index represents. There are various important differences that may exist between the mutual fund and the stated (index) indices that may affect the performance of each. The objectives and strategies of the mutual fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable index. Indices 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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