Market Commentary
Third Quarter 2018

EPOCH
Investment Partners

CI American Value Fund

Stocks had a strong quarter, touching all-time highs, shrugging off trade tensions, and benefiting from exceptional profit growth. Corporate profits jumped 16% year-on-year according to the Department of Commerce, helped by tax cuts and a robust domestic economy. There were, however, notable stumbles. Investors lost confidence in social media stocks as some reported disappointing quarterly results along with cautious outlooks for growth. Information technology stocks generally experienced an increase in volatility in an environment of heightened regulatory scrutiny. Specific stocks hurt by tariffs also made headlines. Large cap stocks beat small caps. Health care, industrials, information technology, telecommunication services, and large cap financials had strong returns. All sectors were positive except for energy, despite Brent crude edging over $80 per barrel, a four-year high. The 10-year U.S. Treasury yield closed the quarter above 3%.

The Federal Reserve Board raised interest rates for the third time in 2018 and signalled more rate increases were likely this year and next. U.S. GDP grew at a 4.2% rate in the second quarter amid a pickup in hiring. The consumer price index rose 2.7% from the previous year through August, offsetting modest wage gains. Nevertheless, consumer confidence rose to nearly an 18-year high. Tariffs on $250 billion worth of Chinese goods went into full effect during the quarter, with observers debating the influence they would have on consumers.

Stock selection within the information technology, industrials, and consumer staples sectors were positive contributors to the fund. The largest individual contributors were Apple, Microsoft, Universal Display, Pfizer, and Centene.

The primary detractors from fund performance was stock selection in the consumer discretionary, financials, and materials sectors, and high exposures to the materials and financials sectors. The largest individual detractors from performance were Applied Materials, Martin Marietta Materials, Bank of the Ozarks, Marvell Technology Group, and Hanesbrands. Low exposure to the consumer staples, energy, and utilities sectors also helped performance.

The portfolio added Everest Re Group during the period. As a successful underwriter of specialty risks and reinsurance, Everest has been a strong cash flow generator and capital allocator. We were looking for an opportune entry point, which presented itself as the market overreacted to unrealized natural catastrophe impacts in Q3.

The fund sold out of investments in BlackRock, Mohawk Industries, and Whirlpool. We sold our stocks in BlackRock because the stock had surpassed our most optimistic price target. Meanwhile,

net inflow and margin trends appear to have peaked, leading us to expect that cash flow generation will start slowing down. Investment margins are also coming under increased pressure with intense competition for low-cost quant-driven products.

Mohawk's Q2 was challenging because of higher cost inflation and new capacity additions. The fund sold its positions as we believe some of Mohawk's challenges are structural as competitor Luxury Vinyl tile takes share from Mohawk's core business. The fund closed its position in Whirlpool as the turnaround of the European business was taking longer than expected and we lost confidence in management's ability to execute over the near term.

Stocks have the support of a robust global economy, policy rates that remain negative in real terms, and the broad adoption of technology that reduces the need for capital and labour. The U.S. is also benefiting from the Tax Cuts and Jobs Act, which has boosted corporate profits. However, as its effect wanes and financial conditions tighten, we expect both economic and earnings growth to moderate. With trade frictions potentially increasing and interest rates likely to rise, the stage is set for higher volatility and a growing focus on company fundamentals. We believe our investment approach is well suited to this environment. 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 September 30, 2018	**Year-to-date**	**1 year**	**3 year**	**5 year**	**10 year**
CI American Value Fund	10.2	17.0	12.1	15.3	11.4

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