# Market Commentary
# Third Quarter 2018


EPOCH Investment Partners

## CI Global Small Companies Fund

Stocks rose, with strong returns in the U.S. and modest gains elsewhere. Emerging markets dipped into bear market territory from their January highs. The best results came from health care, information technology, and industrials. Energy stocks had negative returns despite Brent crude edging over $80 per barrel, a four-year high.

In Europe, quarterly profits grew but lagged those of U.S. counterparts while trade tensions and the sell-off in emerging markets dampened sentiment. The European Central Bank confirmed plans to wind down quantitative easing by halving monthly bond purchases starting in October, citing a strong labour market. Worries about the Italian budget putting that country's debt on an unsustainable course and exposure to the Turkish currency crisis weighed on bank shares, especially in the periphery. Italy's anti-establishment government widened its budget deficit target for 2019.

The Bank of England raised rates for the first time in 10 years, reversing its cut in August 2016 following the Brexit vote. The BOE said it would raise rates further to reduce an "extraordinary degree of accommodation" if growth continues.

In the Pacific, the Nikkei Index touched a 27-year intraday high while Prime Minister Shinzo Abe was elected to an unprecedented third term. The Japanese economy returned to growth despite deepening labour shortages and threats of a global trade war.

The fund (Class F) returned -4.4% for the quarter. Allocations to materials, real estate and information technology were positive contributors. The primary detractor was security selection within the financials, consumer discretionary, and information technology sectors, among others.

The largest individual contributors to performance were CyberArk Software, Universal Display, Encompass Health, HomeServe, and Daifuku. The largest individual detractors from performance were Altran Technologies, Playtech, Summit Materials, Megawide Construction, and TP ICAP.

Investments were made in Gran Tierra Energy, LogMeIn, Axos Financial, Kanematsu, CORESTATE Capital, WH Smith, Shanghai Jin Jiang International Hotels, Ryman Hospitality Properties, Universal Insurance Holdings, and MAXIMUS. Gran Tierra Energy is an exploration and production company with assets located in Colombia. The management team is from Canada and has locked in significant growth in medium to light oil over the next few years in a country that is a democracy and has a strong desire to grow its level of oil production to export to Europe. With direct access to the Atlantic Ocean, there are no transportation or bottleneck issues, and barriers to entry are high



because Gran Tierra has worked with the locals living near the wells in Colombia and the government for many years, which leads to a high degree of confidence in their ability to operate successfully there. Axos Financial has a sustainable low-cost competitive advantage in a commodity business (banking) through its internet-based business model. Given that a significant portion of bank transactions now occur outside of branches, banking subsidiary BofI Federal Bank isn't harmed from a competitive perspective and isn't encumbered with an expensive branch network. The company passes on a significant portion of this benefit to customers through better deposit and loan rates, creating a virtuous growth cycle.

The fund sold out of investments in Altran Technologies, Brunswick, Playtech, NIPPON GAS, The Cheesecake Factory, TP ICAP, Central Garden & Pet Company, Maxell Holdings, Papa John's, and CONMED. Playtech, the leading global provider of online gaming and betting software, has delivered several earnings disappointments in recent quarters. The company issued a profit warning in early July, ahead of its Q2 results, citing greater-than-expected competitive pressures in Asia (particularly China). This news, coming after previous disappointments on other ends of the business, sparked a sharp sell-off in the shares, and overwhelmed the positive news of Playtech's acquisition of a leading Italian gaming company. We assessed the impact of Playtech's various earnings headwinds and concluded the path for revenues and free cash flow has been materially impaired and decided to exit the position. The stock has continued to drift lower since.

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 Global Small Companies Fund | 1.5 | 7.9 | 7.9 | 11.1 | 10.7 |

***IMPORTANT INFORMATION***

*Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compound total returns net of fees (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 are not guaranteed, their values change frequently and past performance may not be repeated.*

*The statements contained herein are based on material believed to be reliable. Where such statements are based in whole or in part on information provided by third parties, they are not guaranteed to be accurate or complete. CI Investments Inc. and its affiliates and related entities are not liable for any errors or omissions in the information or for any loss or damage suffered.*

*The contents of this piece are not to be used or construed as investment advice or as an endorsement or recommendation of any entity or security discussed.*

*Certain statements in this document are forward-looking. Forward-looking statements ("FLS") are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as "may," "will," "should," "could," "expect," "anticipate," "intend," "plan," "believe," or "estimate," or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are by their nature based on numerous assumptions. Although the FLS contained herein are based upon what CI Investments Inc. and the portfolio manager believe to be reasonable assumptions, neither CI Investments Inc. nor the portfolio manager can assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on FLS. Unless required by applicable law, it is not undertaken, and specifically disclaimed that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise.*



*Published October 2018.*