Market Commentary
Second Quarter 2018

CI Multi-Asset Management

Portfolio Series and Portfolio Select Series
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CI Multi-Asset Management

Market performance

There was no shortage of surprises during the second quarter.

North and South Korean leaders Kim Jong-un and Moon Jae-in met in April and signed a declaration that commits the two countries to denuclearization and talks to bring a formal end to the 65-year conflict. Once a threat to global safety for possessing nuclear weapons, Kim Jong-un this time was perceived to be friendly and open-minded. In June, U.S. president Donald Trump met with Kim Jong-un in Singapore, and Kim was again reflected in a positive light. The price of gold, which is often regarded as a “safe-haven” currency, fell while the U.S. dollar strengthened.

Global trade got messy as the U.S. introduced tariffs on a wide range of Chinese imports and also on aluminum and steel imported from other trading partners, including the European Union, Canada and Mexico. The U.S. moved forward even though the affected countries complained to the World Trade Organization and threatened to retaliate by imposing countermeasures on imports from the U.S.

The effect of tariffs on global trade, employment and prices are yet to be determined. Central banks have largely ignored the threats of de-globalization and are moving forward with plans to normalize (raise) interest rates. This is not surprising as central banks have repeatedly stated their decisions are data dependent and the most recent data did not capture the impacts from tariffs. It is widely expected by bond investors that this threat will slow the hiking path for 2019 and 2020. As a result, the yield curve is flat and at risk of inverting should central banks hike too fast or if global growth slows as a result of tariffs. Long-term yields are likely capped at their recent highs, which are 3.11% for U.S. 10-year Treasuries and 2.52% for 10-year Government of Canada bonds.

Returns in % at June 30, 2018	**3 month**	**1 year**	**3 year**	**5 year**	**10 year**
S&P/TSX Composite Index	6.8	10.4	7.0	9.2	4.2
S&P 500 Index (C$)	5.4	15.7	13.9	18.5	13.0
MSCI World Index (C$)	3.9	13.0	11.0	15.6	9.7
FTSE/TMX Canada Universe Bond Index	0.5	0.8	2.0	3.5	4.5

Source: Bloomberg, FTSE/TMX

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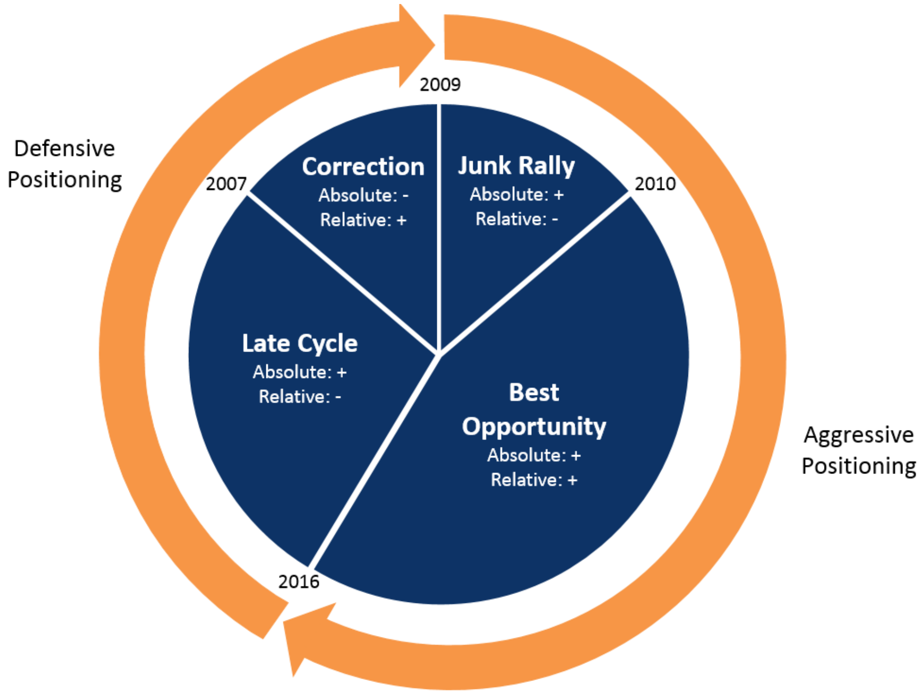
Market Commentary
Second Quarter 2018

Portfolio Series and Portfolio Select Series

We sometimes ask ourselves whether our job is to generate large returns to outperform peers and benchmarks or to deliver a pleasant investment experience for our investors. To generate large returns, we would need to aggressively position our portfolios all of the time. When we are right, we would do very well versus others. When we are wrong, we would be very wrong. Theoretically, investors can do this on their own. It leads to both excitement and disappointment. On the other hand, to deliver a pleasant experience, a disciplined risk management process is required. It starts by creating a portfolio with an asset mix that aims to play out within an investor's time horizon. If the time horizon is three years, we expect that at the end of the period, investors would have their capital returned and also would have earned some gains. We employ several risk management tools including currency and market risk hedges to enhance the risk-adjusted return profile of the portfolios. We also hire specialists to pick individual investments. They do their due diligence on the companies and ensure they pay a fair price to acquire shares. To us, it is not about proving ourselves over the short term. It's about delivering a pleasant and predictable investment experience.

Choosing to deliver a predicable range of outcomes can lead to short-term underperformance versus peers and benchmarks. The chart below outlines the cycle and how we expect to perform during each stage on an absolute and relative basis, including our estimation of the year of transition for each stage. Currently, we believe that we are in the late cycle stage of the market expansion. All the prerequisites are present: rising interest rates, a tight credit premium and high stock valuations. While equity returns are expected to be positive for a full cycle (approximately a 10-year period), return expectations are declining with increasing valuations. Downside risk, on the other hand, is increasing.



Our one-year returns were positive in almost all cases and may have been better if we were positioned more aggressively. For example, growth stocks have continued to outperform value stocks. We could have done better simply by allocating more assets to growth stocks. We didn't for several reasons. Growth has already outperformed value for 10 years and has gotten expensive relative to value stocks. The downside risk of growth stocks, especially the ones that have rallied dramatically (Netflix, Amazon, etc.), could be large. Most of these companies do not have a comfortable level of earnings to support their lofty valuations. They are vulnerable to changes in economic conditions as they are dependent on continued high growth.

The information technology sector represented half of the gains of the S&P 500 Index in the last 12 months. Within information technology, the "FANG" stocks (Facebook, Apple, Netflix and Google), significantly outperformed. These four companies alone contributed to almost half of the information technology sector return. In the consumer discretionary sector, Amazon represented 47% of the sector return. Investment managers who were not willing to pay for stocks with high valuations and large downside would have underperformed.

We are starting to see some bargains resurface. Recently, we have been getting excited about investing in Canadian stocks. Canada has been an out-of-favour market for various reasons. To name a few: there is uncertainty in the trade agreement with our largest trading partner; technology has been a major trend globally and, unfortunately, our economy and stock markets have had low exposure to this sector; and until recently, energy prices have been generally weak. Being underweight Canadian stocks in the last few years, including the last 12 months, has added value.

Share prices are reflecting these low expectations. The issues we identified above are not going to change anytime soon; however, Canada is "on sale" versus its peers, particularly the U.S. From a simple forward price-earnings matrix, it is estimated that the Canadian market, as represented by the S&P/TSX Composite Index, is trading at a 10% discount versus the U.S. market, as measured by the S&P 500 Index. The dividend yield of the S&P/TSX Composite Index is 2.8%, which is almost 1% higher than the S&P 500 Index. Inflation and interest rates are expected to rise only modestly, creating a positive economic backdrop for businesses. In addition, the volatility of the Canadian market has been subdued compared to others. We see the Canadian market as a place to collect a higher dividend, achieve lower volatility, and wait for valuations and earnings to improve.

Market Commentary
Second Quarter 2018

Class F Returns in % at June 30, 2018	3 month	1 year	3 year	5 year	10 year
Portfolio Series Income Fund	0.2	1.6	3.6	5.6	6.0
Portfolio Series Conservative Fund	0.8	2.6	3.6	6.4	5.7
Portfolio Series Conservative Balanced Fund	1.1	3.1	4.1	7.1	5.9
Portfolio Series Balanced Fund	1.2	3.9	4.6	7.8	6.1
Portfolio Series Balanced Growth Fund	1.3	4.3	5.1	8.5	6.3
Portfolio Series Growth Fund	1.7	5.1	5.4	9.2	6.3
Portfolio Series Maximum Growth Fund	2.1	6.2	6.3	10.4	6.5
Select Income Managed Corporate Class*	0.0	-0.3	1.7	3.4	n/a
Select 80i20e Managed Portfolio	0.4	0.8	2.5	4.6	4.9
Select 70i30e Managed Portfolio	0.5	1.4	2.7	5.1	4.1
Select 60i40e Managed Portfolio	0.7	2.0	3.0	5.7	5.3
Select 50i50e Managed Portfolio	0.9	2.5	3.4	6.3	5.5
Select 40i60e Managed Portfolio	1.1	3.1	3.8	6.9	5.7
Select 30i70e Managed Portfolio	1.3	3.6	4.2	7.5	5.9
Select 20i80e Managed Portfolio	1.5	4.2	4.9	8.3	6.2
Select 100e Managed Portfolio	2.0	5.5	5.7	9.5	6.5

* Since inception (Sept. 2010): 3.9%.

Select Income Managed Corporate Class

Select Income Managed Corporate Class is the most conservative portfolio in our lineup, with expected holding periods as short as three years. Like other fixed-income and market neutral equity portfolios, this fund has not had impressive returns recently. This is due mainly to choppy fixed-income markets driven by rising interest rates and an irrational and narrow stock market that favours risk taking at any price. Investors could only do better if they were willing to assume higher volatility and extend their investment horizon beyond three years.

We maintained a government bond component for safety and income. There was an opportunity to increase our weight as long-dated bonds sold off earlier this year. That trade helped recent performance as investors

are expecting trade wars to slow economies. We remain defensive on corporate bonds. Our high-yield exposure is lower than average and the duration is short. Short duration means our capital is expected to be returned from our borrowers within a short period of time. There will be a time when we want to lend long term again, but only at attractive yields.

The key to low downside risk is diversification and investing in low and negatively correlated asset classes. We do not expect this defensive positioning to persist for a long period. Our ability to reposition and capture the next opportunity is the key to generating a meaningful result. We are starting to see the value of investing in Canadian equity and selected sectors that have been overlooked by investors.

Outlook and positioning

Global economies have improved consistently since 2009, albeit at slow rate. This is one of the longest recoveries in history. Investors have become accustomed to stability and low interest rates without recognizing a few factors that are changing. Global trade is changing as a result of the U.S. introducing new tariffs, interest rates are rising and credit conditions are tightening, and growth in emerging markets is slowing. Some equity markets such as China, have entered into a bear market. Even with these obvious concerns, stock and credit market valuations are priced at elevated levels, reflecting the fact that investors are making their decisions based on the past, and not the future.

We are concerned that this late cycle could run for longer and cause short-term underperformance for being defensive. We are satisfied with the current equity weightings in all portfolios that are relatively neutral to their benchmark; the defensive positioning is generally expressed through derivatives that give us favourable asymmetric payoff. Within equity, value stocks and Canadian equity have been out of favour and offer attractive value. Sovereign bonds seem to have found support at this level even though rates are rising. We are participating in market growth, but what will really make a difference is when we utilize our risk budget to pick up bargains.

Market Commentary
Second Quarter 2018

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Unless otherwise indicated and except for returns for periods less than one year, the indicated rates of return are the historical annual compounded total returns including changes in security value. All performance data assume reinvestment of all distributions or dividends 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. This commentary is provided as a general source of information and should not be considered personal investment advice or an offer or solicitation to buy or sell securities. Every effort has been made to ensure that the material contained in this commentary is accurate at the time of publication. However, CI Investments Inc. cannot guarantee its accuracy or completeness and accepts no responsibility for any loss arising from any use of or reliance on the information contained herein. This report may contain forward-looking statements about the fund, its future performance, strategies or prospects, and possible future fund action. These statements reflect the portfolio managers' current beliefs and are based on information currently available to them. Forward-looking statements are not guarantees of future performance. We caution you not to place undue reliance on these statements as a number of factors could cause actual events or results to differ materially from those expressed in any forward-looking statement, including economic, political and market changes and other developments. CI Multi-Asset Management is a division of CI Investments Inc. ®CI Investments and the CI Investments design are registered trademarks of CI Investments Inc. ™Portfolio Select Series and Portfolio Series are trademarks of CI Investments Inc. Published July 2018.