Market Commentary
Second Quarter 2018

EPOCH Investment Partners

CI American Value Fund

U.S. stocks had positive returns over the quarter, helped by supportive economic data and strong corporate results. Tax expenses declined for many companies even as pretax income grew. Trade tensions undermined some of the positive sentiment as the U.S. and China unveiled plans for billions in tariffs.

The best returns came from the information technology sector, where strong results overcame calls for increased regulation after revelations about Facebook's handling of user data. Consumer discretionary stocks also had double-digit returns, supported by sharp gains for e-commerce stocks along with a rebound among more traditional companies that had recently underperformed. Energy stocks had solid gains; Brent crude ended the quarter near $80 per barrel amid signs of falling supply as uncertainties around the output from Iran and Venezuela mounted. Dispersion across sectors was wide. The telecommunication services, consumer staples, industrials, financials, and materials sectors had negative returns.

A primary contributor to results was stock selection within the energy, industrials, and health care sectors. Results were hindered by allocations in the financials and industrials sectors and lack of exposure to the real estate sector. Stock selection within the consumer discretionary, financials, and information technology sectors also detracted from results.

The largest individual contributors to performance were Apple, Occidental Petroleum, Microsoft, UnitedHealth Group, and Visa. The largest individual detractors were Applied Materials, Molson Coors Brewing, Morgan Stanley, Universal Display, and Starbucks.

Investments were made in Hanesbrands, Capital One Financial, Boston Scientific, AXA Equitable Holdings, XPO Logistics, United Technologies, Booking Holdings, AMETEK, Mohawk Industries, and MGM Resorts International during the period.

Hanesbrands is one of the largest manufacturers of intimate apparel, underwear, socks, t-shirts, and active wear in the United States, Canada, Mexico, and Europe. The company's brands include Hanes, Champion, Playtex, Maidenform, and Gear for Sports. Hanesbrands is one of the lowest-cost manufacturers in the space due to the fact that it owns the bulk of its factories. The company has historically been able to drive significant volume through its manufacturing footprint with very little incremental capital. Its ability to efficiently use its assets has made the company an ideal acquirer. Over time, the company looks to drive additional revenue opportunities from acquisition, by extending brands into new categories, and by adding premium products. Boston Scientific makes

medical supplies and devices used to diagnose and treat medical conditions, with an emphasis on cardiovascular products and cardiac rhythm management (CRM). The company markets its products in approximately 120 countries. While the U.S. is still Boston Scientific's largest single market, international sales have grown to make up approximately 45% of total sales. Its second-largest market is Japan, which brings in 10% of annual revenue. We expect that accelerating top-line revenue from new product launches and international expansion should drive free cash flow growth by mid-single digits over the next three years. Operational productivity will also serve to drive operating margin expansion, further enhancing free cash flow generation. In our opinion Boston Scientific shares don't currently reflect the acceleration of the business model and the sustainability of the increasing cash flows.

The portfolio sold out of investments in Molson Coors Brewing, Comcast, Signature Bank, First Data, Time Warner, Nielsen Holdings, AbbVie, and Ulta Beauty. Molson reported first-quarter revenue and profits that were significantly below expectations as sales to U.S. wholesalers declined sharply as distributor inventories were drawn down on weak sales of the company's traditional beer categories. Signature Bank reported extremely disappointing results as profits came in well below consensus expectations, and based on recent actions we believe there is an increased probability of future write-offs.

In the U.S., the labour market is tight, domestic demand is solid, and the production side of the economy has picked up markedly. This provides a robust backdrop for earnings in the coming quarters, with the Tax Cuts and Jobs Act providing a short-term boost to growth. Wage and price inflation is increasing, but by less than in a typical cycle, likely due to technology. Also supporting equities is the adoption of new technologies, which is positive for all three return-on-equity components: profit margins, asset utilization, and leverage. Among other things, this implies corporate margins can remain high for a prolonged period. It also suggests companies can return a higher proportion of cash to shareholders.

Offsetting these supportive elements is the shift from easing to tightening among central banks in North America and Europe. With this in mind, we do not expect equities to benefit from expanding valuation multiples. Along with quantitative tightening, there is a risk that soaring U.S. budget deficits and a wave of corporate bonds maturing could not only engender more volatility and wider credit spreads, but it could also push interest rates higher. Each of these outcomes would be a headwind for high-duration strategies. Finally, we expect trade tensions to remain a market theme, and a source of volatility, for years to come. While the risk of an outright trade war causing a recession is increasing, we think this outcome is unlikely.

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Class F Returns (in %) as at June 30, 2018	Year-to-date	1 year	3 year	5 year	10 year
CI American Value Fund	5.4	11.6	9.7	15.1	9.9