Market Commentary
Second Quarter 2018

EPOCH Investment Partners

CI Global Small Companies Fund

Stocks had solid gains in local currency, helped by supportive economic data and strong corporate results. This was particularly true in the U.S., where tax expenses declined for many companies even as pretax income grew, leading to the strongest quarterly results in years. Trade tensions undermined some of the positive sentiment, however, as the U.S. and China unveiled plans for additional tariffs worth billions. The U.S. dollar strengthened against other major currencies. Emerging equity markets declined sharply.

Economic expansion in the Eurozone slowed from 2017's strong pace, with little agreement on whether this was due to temporary or structural factors. The main headlines, however, were political. The coalition government in Germany appeared increasingly fragile, the path to Brexit remained murky, and new governments came to power in Spain and Italy. The European Central Bank (ECB) laid out plans to wind down its bond-buying program by December, but gave assurances that interest rates would remain low through the summer of 2019. While ECB officials provided an upbeat assessment of the Eurozone economy, the Bank of England put rate hikes on hold due to weaker-than-expected economic data.

In the Pacific region, Japanese stocks had positive returns in local currency. However, the economy contracted, ending an eight-quarter streak of expansion. Australian stocks were up sharply after lagging in the previous year.

Performance was driven primarily by stock selection within the energy, consumer staples, health care, utilities, and industrials sectors. The portfolio's overweight allocation to information technology and underweight allocation to materials also helped results. The primary detractors from returns were stock selection in the financials, information technology, and real estate sectors and our allocations to the consumer discretionary, financials, and industrials sectors.

The largest individual contributors to performance were Parex Resources, CyberArk Software, Nippon Gas, Encompass Health, and B&G Foods. The largest individual detractors from relative performance were Daifuku, NFI Group, LGI Homes, PATRIZIA Immobilien, and Universal Display.

During the period, the fund made new investments in Bruker, J&J Snack Foods, SCSK, MorphoSys, DIP, Amano, Okamoto Industries, DFDS, LeMaitre Vascular, and AMN Healthcare Services.

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The fund sold out of Kingdee International Software Group, Gibraltar Industries, Orora, Red Rock Resorts, Nichias, Playa Hotels & Resorts, Pacira Pharmaceuticals, Black Hills, and Altran Technologies.

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.

Class F Returns (in %) as at June 30, 2018	**Year-to-date**	**1 year**	**3 year**	**5 year**	**10 year**
CI Global Small Companies Fund	6.2	13.2	9.0	13.8	9.8