

# Market Commentary

## Second Quarter 2018



### CI Global Value Fund

Quarterly investment performance was mixed across asset classes against a backdrop of stronger economic growth in the U.S. and China, election uncertainties, particularly in Italy and Mexico, intensifying trade tensions, and central banks' transition away from policy stimulus and quantitative easing and toward quantitative tightening. The fund underperformed during the second quarter of 2018. Positions in information technology, energy, and telecommunication services weighed on performance. Positive attribution was driven by holdings in the industrials, health care, and utilities sectors.

**Information technology:** Two Japanese holdings, Yahoo Japan and Nintendo, underperformed during the quarter. Yahoo Japan came under pressure after it announced plans to increase investment, further pressuring its operating profit, and management did not announce a share buyback from Altaba, which owns approximately 36% of its stock. Although disappointed in Yahoo Japan's plans to increase spending, we think the company is poised to benefit from the growth of online video advertising in Japan, which comes at a higher margin and should help to support profits. Nintendo's stock declined on fears of plateauing demand for the Switch. We trimmed our position as the stock neared our estimate of intrinsic value. However, the fund continues to hold the shares, as we see continued optionality around Nintendo's efforts to improve monetization of its intellectual property (IP) via mobile, licensing, and theme parks, among other venues.

**Energy:** Shares of Inpex, a Japanese exploration and production company, were weak during the quarter due to the poor market reception of its new five-year business plan. Especially disappointing was the lower implied dividend payout ratio despite the robust free cash flow from the company's Ichthys LNG project. Inpex shares now trade at one of the cheapest valuations and discount the overly pessimistic delivery of its guidance, which we believe is conservative and can be exceeded.

**Telecommunication services:** U.K.-based telecommunications holdings BT Group and Vodafone underperformed. BT reported a disappointing fiscal year 2018 and cut guidance. The company is facing pressure from the U.K. regulator and disappointing results in its B2B segments. However, BT announced a transformative cost-cutting plan and will be replacing the CEO. Vodafone underperformed despite a strong fiscal year 2018 and an accretive acquisition of Liberty Global's German cable assets. Vodafone is seeing an increase in price competition in Spain and Italy, but we believe these to be short-term issues.

**Industrials:** Our underweight exposure to industrials benefited performance, as did outperformance by Babcock, as it reported solid 2018 results and the unwinding of some of the working capital pressures, driving strong cash flow growth.

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**Health care:** Several of Intercept's earlier-stage competitors highlighted the opportunity in non-alcoholic steatohepatitis (NASH). However, Intercept is in late-stage clinical trials and could potentially be the first market entrant with a treatment for NASH. Shares of Shire have bounced around along with news about its pending merger with Takeda of Japan. This quarter, Takeda shareholders voted to endorse management and the acquisition of Shire, benefiting performance.

**Utilities:** The passage of legislation in New Jersey in support of nuclear power benefited holdings Public Service Enterprise Group and Exelon. This legislation follows similar bills in New York and Illinois, as states view nuclear as a carbon-free source of energy vital in ensuring a stable power supply.

<b>Class F Returns (in %) as at June 30, 2018</b>	<b>Year-to-date</b>	<b>1 year</b>	<b>3 year</b>	<b>5 year</b>	<b>10 year</b>
CI Global Value Fund	3.8	4.9	7.2	12.1	8.4

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