

Market Commentary

Second Quarter 2018



CI Global Health Sciences Corporate Class

CI Global Health Sciences Corporate Class outperformed during the second quarter. The dominant health care theme during the quarter was market-capitalization performance, as the small and mid-cap companies did better than the larger companies. This has resulted in a very healthy initial public offering (IPO) market for new biotechnology companies. It is also indicative of where the innovation is happening. However, in the short term, there is a danger that supply will outstrip demand.

Notwithstanding the above comments, it was good to see several of our smaller companies recover during the quarter. SeaSpine, NanoString, and Endologix all experienced operational issues last year. However, business model tweaks and the passage of time have ensured that these three companies saw strong performance this quarter. Q2 2018 results should reinforce these trends. Intercept Pharmaceuticals also performed well, as Ocaliva drug sales in primary biliary cholangitis are starting to grow again and we are closer to phase III results in non-alcoholic steatohepatitis.

On the negative side, AAC Holdings (owner/operator of addiction centres), one of our larger holdings, gave back all its first-quarter performance. AAC Holdings is a smaller company with a past history of disappointing results. While the last few quarters have been very strong, the market needs a little more convincing. We expect robust operational trends to continue and that this will be recognized by the market. Profarma, a Brazilian pharmacy and distributor, was also weak, as a nationwide trucking strike impacted its business. The strike is now over, and we expect Profarma to regain lost ground.

After attending the American Society of Gene and Cell Therapy and the American Society of Clinical Oncology, we added two small positions to the fund. Fate Therapeutics is in the process of developing a cell line that potentially could become the backbone of cell therapy. Surface Oncology is developing an antibody that blocks the “don’t eat me” signal. If you do not block this signal, key components of the immune system will not attack the tumour. We also added a position in CVS Health. The U.S. health care system is becoming more integrated, and we see at least four integrated systems dominating the landscape. Once CVS buys Aetna (a health insurance company), it will be one of these dominant systems. On the flipside, we sold the position in REGENXBIO, as it had reached our intrinsic value.

While we continue to find attractive health care investments, we are conscious of the amount of new public offerings in biotechnology. We have not participated; although some of the science looks interesting, we believe it is reflected in the valuations of these offerings. The fund continues to have a high exposure to the U.S. and remains unhedged in regard to the currency.

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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 Global Health Sciences Corporate Class	12.3	11.5	-0.8	11.6	13.6

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