

Market Commentary

First Quarter 2018



CI Global Health Sciences Corporate Class

The first quarter was characterized by a healthy financing market for small-capitalization biotechnology companies, a trend that was also strong in 2017. The larger-capitalization names did not fare as well, as investors see patent expiries, lack of diversification and company size as headwinds for growth. The mergers and acquisition market was also active with fund holding Sanofi announcing two acquisitions totalling \$13 billion.

Outside of drug companies, the health care supply chain made some dramatic announcements. Drug pricing has always been a “black box” with many players involved. Irrational as it is, many channel players actually prefer drug prices to go up. However, at some point the strain on budgets will become too great, the out-of-pocket expense for patients too large, and the public relations surrounding high prices unmanageable. The inefficiencies also attract outside players like Amazon (rumours only at this stage).

In response, we have seen a flurry of deals (including CVS/Aetna; United Healthcare/Davita; Cigna/Express Scripts; and possibly Walmart/Humana) that represent efforts to integrate and simplify the channel. To do this, a company needs to control the medical benefit (insurer), the pharmacy benefit (pharmacy benefit managers PBM), and access.

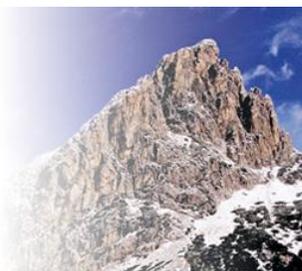
Using CVS/Aetna as an example, if an individual has insurance with Aetna, it may make it more attractive for him/her (lower out-of-pocket expenses) to get a physical at a CVS Minute Clinic rather than at an expensive doctor’s office. Aetna may also use the same technique if the individual fills a prescription at a CVS pharmacy. The goal of all these mergers is to capture more of the health care dollar within their network. U.S. regulators will have the final word as they review these deals.

The fund benefited from the performance of companies like American Addiction Centers (AAC), Akcea, Voyager Therapeutics and Astellas. AAC had a solid quarter operationally, continuing the trend of the last few quarters. It also helps that it provides a solution to the growing opioid problem in the U.S.

Akcea is a spinout from Ionis Pharmaceuticals. During the quarter, the company in-licensed another drug from Ionis that is expected to be approved by the second half of 2018. Separately, Voyager presented more positive data on its gene-therapy approach for the treatment of Parkinson’s disease. Meanwhile, Astellas, a Japanese pharmaceutical company, continued to see the reacceleration of its prostate drug Xtandi, a key value driver.

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Detracting from performance were names like Brookdale Senior Living, Ionis Pharmaceuticals and Endologix. Brookdale has been negatively impacted by increased competition in the markets it serves, as low interest rates have resulted in an increase in construction of assisted living facilities. Ionis underperformed when a competitor unexpectedly generated good results in the treatment of the condition transthyretin amyloidosis (TTR). These results certainly muddy the waters, but the overall clinical data for Ionis' drug is much more impressive. This ensures that Ionis will gain some market share. Endologix, a maker of aortic aneurysm grafts, had a series of operational setbacks in 2017 from which it has yet to recover. We believe its unique products and pipeline will allow Endologix to regain some of the market share that it lost in 2017.

Outlook

Looking forward, we will be monitoring the channel deals discussed above for investment opportunities. U.S. mid-term elections will probably mean that little will change with regard to healthcare regulation in 2018. Also, the characteristics of the Fund have not changed. We remain concentrated (43 names), unhedged with a large U.S. exposure, and skewed toward small- to mid-capitalization companies.

| Class F Returns (in %) as at March 31, 2018 | Year-to- date | 1 year | 3 year | 5 year | 10 year |
|--|--------------------------|---------------|---------------|---------------|----------------|
| CI Global Health Sciences Corporate Class | 2.9 | 7.1 | -4.3 | 11.5 | 12.4 |

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