Market Commentary
First Quarter 2018

CI Canadian Small/Mid Cap Fund

The portfolio of the fund is divided among three sub-advisors: Picton Mahoney Asset Management, Manulife Asset Management, and QV Investors Inc. The comments below pertain to each sub-advisor's portion of the portfolio.

Picton Mahoney Asset Management

The year started with a bang as global equities followed through (with some notable momentum) on the benign risk environment of 2017. February, however, was a rude awakening for trend-following investors, as a spike in volatility was exacerbated by structural deficiencies of certain products that some investors were using to short (profit from a continuing decline in) volatility. We have been noting evidence that classic late-cycle dynamics include more implied and realized volatility to manage. Thus, we view February's volatility episode and the choppiness of broader sector/thematic rotation in the market through March as validating our view.

Central bank policy globally has been decidedly more hawkish (late cycle) in recent times, and U.S. Federal Reserve Chairman Jerome Powell marked his first press conference with a distinctly higher estimate of interest rates in the longer-dated future. This dynamic has represented a regime shift, whereby market participants no longer feel central banks represent a "put" (downside protection) in risk assets. Additionally, the sabre rattling of trade disputes have markets finally testing the mettle of active managers and passive equity holders alike.

Canada remained a notable laggard among global equity indexes in the quarter, in both local currency and Canadian dollar terms – in short, our long-held view that structural challenges in Canada's economy will hamper its ability to fully benefit from late-cycle (inflationary) dynamics. As such, the portfolio maintains its largest active underweights in materials and energy.

Our positioning in information technology and energy added to performance. Top contributing securities to relative returns were Nemaska Lithium and Uni-Select. Our positioning in consumer staples and real estate detracted from relative performance. The largest individual detractors were Chemtrade Logistics Income Fund and Richelieu Hardware.

As noted above, recent volatility affirms our view that we are entering the late cycle/topping phase of the market. As such, we maintain a keen focus on security selection around our commitment to growth and positive change. Conversely, we actively avoid or underweight sectors and themes that are exhibiting negative change, especially when coupled with nascent signs of financial stress. Just as consumer leverage in Canada is a well-understood governor of consumption-led growth, we see

a parallel within Canadian publicly-traded companies whereby increasing financial leverage (debt largely taken on to fund share buybacks and increase dividends in many cases), could be the factor that makes Canada a far less compelling "relative value" trade within a broader global equity portfolio. This could be especially the case for smaller issuers.

Manulife Asset Management

In 2017, Canadian economic data exceeded expectations as gross domestic product growth rebounded, business confidence improved and job growth numbers accelerated. As a result of the economic strength and other factors, the Bank of Canada shifted its stance on interest rate policy. The central bank raised interest rates twice in 2017 and again in the first quarter of 2018.

Despite the positive economic momentum, Canada's equity market was one of the worst-performing markets in 2017. Weakness in Canadian equities was primarily the result of a decline in commodity prices in the first half of the calendar year and the benchmark's heavy weighting in the energy and materials sectors. On a global basis, purchasing managers' index numbers remained high, which supports the view that the synchronized global economic recovery will continue in 2018.

Canada's small-capitalization equity market declined over the period amid investor concerns about stock price valuations, inflationary pressures and the potential for higher interest rates. Within the benchmark, the top-performing sectors were industrials, health care and real estate, which delivered returns of -0.5%, -1.4% and -1.6%, respectively. The bottom-performing sectors were telecommunication services (-20.4%), energy (-12.0%) and consumer discretionary (-11.9%).

Over the period, security selections contributed to the strategy's relative performance. The top sector contributors were the strategy's underweight allocation to materials and overweight allocation to industrials. On an individual security level, the top positive contributors were Interfor and Parex Resources.

Sector underweight positions in health care and real estate detracted from the strategy's performance. On an individual security level, the top detractors were Chemtrade Logistics Income Fund and Ivanhoe Mines.

Overall, sector allocation had a neutral impact on the strategy's performance over the period.

We believe the combination of high levels of negative investor sentiment on commodities from 2017 and the potential for continued strength in the global economy may create the backdrop for a reversion trade into Canadian equities. We do not believe the Canadian equity market will continue to underperform other equity markets and, if investor sentiment towards Canadian equities improves, the reversion trade could lead to a significant rally in the stock market.

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QV Investors Inc.

Weak performance in the energy, materials and financials sectors accounted for most of the portfolio and benchmark declines. The fund's consumer discretionary sector had strong positive performance. Currency exposure from the fund's U.S. holdings positively impacted relative returns, due to the weakening of the Canadian dollar over the period. The strongest individual contributors to fund performance over the quarter were Macy's, Parkland Fuel and Alleghany. The largest negative contributors were Canadian Western Bank, AltaGas and Maxar Technologies.

No new positions were initiated during the quarter. The fund exited its position in Varian Medical Systems due to its above-average valuation risk.

Canada's equity returns continue to lag other global markets, and value stocks are still underperforming their growth counterparts. Trade disputes, slowing home sales, and stranded Canadian oil have weighed on the perception of Canadian corporate competitiveness and growth. Despite these headwinds, we believe our portfolio holdings will adapt over time to potential changes in cross-border trade policies and economic cycles.

The strategy continues to have less balance sheet and valuation risk than the benchmark, while providing healthy profitability.

Over the past year, lower quality companies that generate minimal revenues and earnings have outperformed. In this environment, we remain focused on businesses that are able to operate profitably throughout the cycle. We remain patient; managing risk by controlling the price we pay for quality assets. We will take advantage of opportunities that arise due to heightened volatility or broader market weakness.

Class F Returns (in %) as at March 31, 2018	**Year-to-date**	**1 year**	**3 year**	**5 year**	**10 year**
CI Canadian Small/Mid Cap Fund	-3.5	1.2	3.9	7.6	6.6

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