Market Commentary
Second Quarter 2020

CI Canadian Small/Mid Cap Fund

The portfolio of CI Canadian Small/Mid Cap Fund (the Fund) is divided among three sub-advisors: Picton Mahoney Asset Management, Sentry Investment Management and QV Investors Inc. Sentry Investment Management was appointed portfolio manager of a portion of the Fund on June 15, 2020, replacing Manulife Investment Management. The comments below pertain to each sub-advisor's portion of the portfolio.

Class F returns (in %) as at September 30, 2020.	Year-to-date	1 year	3 year	5 year	10 year	Since inception (2005-06-29)
CI Canadian Small/Mid Cap Fund	1.9	6.8	4.4	6.8	7.2	5.9

Source: Picton Mahoney Asset Management, Sentry Investment Management and QV Investors Inc., as at September 30, 2020.

Performance Summary

- Over the third quarter of 2020, Class F of CI Canadian Small/Mid Cap Fund (the Fund) returned 8.2%, compared with its blended benchmark (50% S&P 1000 Total Return Index/50% S&P/TSX Small Cap Total Return Index), which returned 6.4% over the same period.

- Performance contribution within the benchmark continues to be very narrow, with one sector – materials – generating more than 47% of its return this quarter. While our strategy's focus on more resilient business models continues to result in an underweight allocation to materials, our holdings in this sector significantly outperformed those of the benchmark and represented the largest source of our outperformance for the quarter. Positioning within financials also benefitted relative returns.

Picton Mahoney Asset Management

Contributors to and detractors from performance

- Our stock selection in the healthcare and financials sectors added to relative performance.

- The Fund's top-performing individual holdings were Trisura Group Ltd. and Dye & Durham Ltd., while our underweight positions in Silvercorp Metals Inc. and Trillium Therapeutics Inc. were the biggest performance detractors.

Portfolio Activity

- Trisura offers insurance services in Canada and the United States. specializing in risk solutions, surety, corporate insurance and other reinsurance services. The company's shares rose during the period, driven by solid results led by strong premium growth from their U.S. division. In our view, we believe there is upside to the valuation as investors recognize Trisura's growth potential and expanding profitability as it executes its strategy.

- Dye & Durham is a leading provider of cloud-based software and technology solutions designed to improve efficiency and increase productivity for legal and business professionals. The company's cloud-based platform automates the process of due-diligence searches, document creation and electronic-records filing for commercial and real-estate transactions. Dye & Durham made an initial public offering during the quarter in which we participated, given the company's strong growth potential and attractive valuation. The shares re-rated higher following the initial listing and we continue to see upside going forward.

- During the quarter, we also introduced a position in Canadian Western Bank, and sold Boralex Inc.

- Canadian Western Bank is a Schedule 1 chartered bank that provides commercial loans, real-estate financing, and offers consumer loans and deposits. It has spent the better part of the past five years modernizing its franchise. We are seeing early signs of these investments paying off through its improved deposit mix and more stable volume growth. The bank's return on equity is set to move higher and soon it will be able to return to its roots as a fast-growing, mid-market lender. This should command a share-price premium to its Canadian bank peers. Historically, in periods of accelerating earnings-per-share (EPS) growth (ahead of the industry), Canadian Western has traded at a premium, with EPS as high as 13 to 14 times.

Outlook

- The economy and equity markets rapidly rebounded from the March lows, fueled by extraordinary levels of monetary easing, a record level of fiscal transfers to households, and pent-up consumer demand. Looking ahead, with consumer income support fading and parts of the economy remaining at reduced operating capacity due to social distancing, the economic recovery is expected to lose steam. We anticipate heightened market volatility amid a moderating economic backdrop and the upside appeal of equities due to extremely low interest rates and accommodative central banks.

Sentry Investment Management

Contributors to performance

- Cargojet Inc. provides time-sensitive air cargo and charter services to domestic and international destinations. The company's air cargo business activities include operating an overnight co-load network between 15 North American cities, as well as providing dedicated aircraft to customers operating between points in Canada, North and South America, and Europe. The company also operates scheduled international routes. The business has been relatively insulated from the COVID-19 pandemic because it is an essential service, and Cargojet has seen a surge in business in response to a significant uptick in e-commerce activity. We remain long-term investors because of positive industry trends related to e-commerce, the company's competitive positioning as a monopoly and its strong management team.

- Dye & Durham Corp. provides cloud-based software and technology solutions designed to improve efficiency and productivity for legal firms and business professionals. The company products include solutions for public record due diligence searches, associated document preparation, lien registration, and litigation and real estate conveyancing. Dye & Durham shares performed well during the third quarter because of strong execution of its acquisition strategy, which drove earnings growth. Given the highly recurring nature of Dye & Durham's revenue and the compelling value proposition of its solutions, we remain optimistic about the company's outlook.

Detractors from Performance

- Morneau Shepell Inc. provides human resource consulting and outsourced administrative services designed to help employers manage the financial security, health and the productivity of employees. The company's revenue came under pressure during the third quarter in response to the unfavourable macroeconomic backdrop. That said, we remain positive regarding the long-term outlook for Morneau Shepell given the recurring nature of the company's revenue profile, stable margins and its leadership position in the growing mental health and well being space. For these reasons, we continue to hold the stock within the Fund.

- Cigna Corp. is a global health benefits company with a comprehensive portfolio of insurance and related products. The company's share price declined in the third quarter in response to concern about potential regulatory changes following the November election, as well as relatively high unemployment rate stemming from the pandemic. The Fund continues to own Cigna because we believe the company can make it through these intermediate-term challenges and grow its business over the long term.

Portfolio Activity

- During the period, we added a new position in Restaurant Brands International Inc. The company owns, operates and franchises restaurants under the Tim Hortons, Burger King and Popeyes brand names. We have become more positive on the outlook for the company in response to its recent investments in menu innovation and digital capabilities. We are also encouraged by the company's efforts to improve quality, simplify the menu and increase customer loyalty at its Tim Hortons restaurants.

- M&T Bank Corp. offers a range of retail and commercial banking, trust and wealth management, and investment services. We have become more negative on the prospects for M&T in response to the current macroeconomic environment, which has led to credit losses and has put pressure on loan growth and fee income. For these reasons, we exited the Fund's position in M&T Bank during the period.

Outlook

- We expect equity market volatility to remain elevated as the world grapples with a second wave of COVID-19 and its economic ramifications, which should continue to unfold over the coming months. Markets will also be impacted by the labour market, fiscal and monetary stimulus, and ongoing global trade tensions.

- We believe the upcoming U.S. election and concerns about its legitimacy will likely contribute to market volatility as well.

- We continue to favour names with positive long-term characteristics that can endure any economic environment, as well as businesses with short-term challenges that are trading at prices well below their intrinsic values.

- We also continue to place an emphasis on balance sheet resilience and liquidity, which are critical for a business's survival in an uncertain macroeconomic environment.

- We continue to favour U.S. equities. Given the level of fiscal and monetary stimulus being employed as a percentage of gross domestic product, we expect the U.S. economy to rebound relatively quickly in comparison to Canada and other developed nations.

- Despite progress on the Trans Mountain Pipeline, businesses leveraged to the Canadian energy sector face structural pressures that continue to inhibit returns on capital and growth potential. We remain underweight the energy sector relative to the benchmark.

QV Investors Inc.

Contributors to Performance

- The largest individual contributors were Leon's Furniture Ltd., Stella-Jones Inc. and Empire Co. Ltd.

- Stella-Jones is one of North America's largest railway-tie & utility-pole producers, activities that have generated profits in all types of economic environments. The company experienced record revenue and income during the first half of 2020.

- Cost controls, online sales capability and the healthy balance sheet at Leon's have contributed to business stability.

- Empire Co, a consumer-staples holding, has experienced additional costs due to the pandemic, but has had significant increase in demand as individuals changed their spending patterns.

Detractors from Performance

- The largest individual detractors were Pason Systems Inc. and Knight Therapeutics Inc.

- Pason's end markets continue to be weak due to oil-and-gas drilling activity levels; however, its net cash balance sheet provides flexibility to weather the current operating environment.

- Knight has recently deployed some of its available cash on hand into a new division focused on Latin America. The current environment has created delays in implementing initiatives, impacted revenues and elevated costs. In the next 12 months, Knight will seek to demonstrate the cash generation from its newly acquired business, which will further support its already sound cash position.

Portfolio Activity

- We added to Major Drilling Group International Inc., a key supplier to the mining industry. The company maintains greater geographic, commodity and business-line diversification, significantly reducing the comparable risks of owning junior metals producers directly. Its management team has maintained a balance sheet with minimal debt, positioning the company to respond quickly to increases in customer demand.

- We exited Alleghany Corp. and MSC Industrial Direct Co. during the quarter.

Outlook

- With more capital chasing gold and growth, we are finding outsized opportunities in areas that have been garnering less attention but fit our well-defined investment philosophy of investing in enduring businesses that offer attractive value. While the macro outlook includes significant economic, political and health-related uncertainty, our strategy maintains its bias toward cash-generative businesses, controlled balance sheet risks and improving franchises. Our focus on select companies with the ability to reduce costs, produce above-average organic growth and/or expand into new markets positions the Fund to provide higher-than-GDP growth and attractive long-term returns in the years ahead.

Source: Bloomberg Finance L.P., Picton Mahoney Asset Management, Sentry Investment Management and QV Investors Inc.

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