

CI International Equity Alpha Private Pool First-quarter 2019 Commentary

Market Overview

Following a difficult fourth quarter of 2018, equity markets reversed course sharply in the first quarter of 2019. In U.S.-dollar terms, global stocks (as measured by the MSCI All Country World Index (ACWI)) rose 12.2% over the quarter as investors embraced signs of progress on U.S.-China trade negotiations while central bankers affirmed a continued accommodative stance on monetary policy.

In U.S.-dollar terms, all major global equity markets delivered a positive return. The U.S. market (as measured by the S&P 500 Index) was up 13.6%, outperforming developing markets (as measured by the MSCI Emerging Markets Index), which were up 9.9% in the quarter. On a geographic basis, stocks of companies based in China were the top performers, in aggregate, for the quarter as investors hoped progress would be made on trade talks between China and the U.S. and that China's pledges to further liberalize its domestic stock market to foreign investors would be seen through. High-profile initial public offerings (IPOs) helped increase interest in the tech sector with Lyft, Inc., the ride-hailing competitor to Uber Technologies Inc., coming to market with its IPO in late March.

While equity markets enjoyed a recovery, the global economy continued to show signs of slowing growth. China felt the impact of the trade war with the U.S. with its exports slowing, but trade wars are not fully to blame as exports slowed for Europe and Japan, as well as for the U.S. Many countries/regions have noted a slowing trend in global trade that has pressured growth, including Hong Kong, Japan, South Korea, France and Germany. Uncertainty over Brexit has not helped trade either as companies have delayed, diverted or halted investment within the U.K. and across the European Union. Recent data from the U.S. shows the U.S. economy is experiencing a slowdown as the economic boost from the 2017 tax cuts has faded. Consumer spending, which makes up approximately 70% of U.S. gross domestic product, and factory output have been more muted recently.

The bond market is signalling a slowdown in growth as well. Within the U.S., short-term yields have risen above long-term yields, resulting in an inverted yield curve, which for many investors indicates the risk of a recession is rising. Fixed-income investors pushed the yield on the 10-year U.S. Treasury down to levels not seen since 2017 amidst concerns over global growth.

In Europe, bond yields once again turned negative. For the first time since 2017, the German 10-year government bond yield fell below zero. The total amount of global government debt with a yield below zero has increased to over US\$10 trillion, up from a low of US\$5.7 trillion in early 2018.

From an earnings perspective, companies are facing a slowdown as a result of moderating global growth and tariff concerns. As growth slows, companies are also finding it harder to pass along the impacts of rising labour, transportation and raw materials costs to customers through price increases. In the U.S., earnings are also being dampened as some of the favourable effects of the 2017 tax cuts roll off. Broadly, corporate America is facing a year-over-year earnings contraction for the first time since 2015. Given the economic slowdown, it may be harder to justify elevated stock valuations as optimism around rising corporate earnings fades. However, offsetting this earnings concern is the continuation of low interest rates.

Stock buybacks have been a major contributor to rising equity markets over the past decade, particularly in the U.S. In 2018, U.S. companies spent a record US\$806 billion on stock buybacks, which eclipsed the prior record of US\$589 billion set in 2007. Corporate balance sheets have added leverage as the buybacks have been partially financed with low-cost debt. Recently though, buybacks have become politically contentious in the U.S. as politicians from both major parties have pushed the U.S. Securities Exchange Commission to restrict or eliminate them in an effort to encourage companies to invest more in their operations.

Fund Holdings

In the first quarter of 2019, holdings of CI International Equity Alpha Private Pool (the “Fund”) included ASM International N.V.; Cap Gemini S.A.; Altran Technologies S.A.; HeidelbergCement AG; Haier Electronics Group; SES S.A.; Morgan Advanced Materials PLC; Dentsu Inc.; Sinopharm Group Co., Ltd.; and Kunlun Energy Co., Ltd.

Portfolio Activity

During the quarter, there was one new purchase, Horiba, Ltd. and no outright sales.

Horiba is a Japan-based global manufacturer of precision instruments for measurement and analysis. The company makes instruments that measure and analyze automobile exhaust gas and environmental, medical and scientific applications.

Outlook

There are a multitude of macro-related issues that one could be concerned with currently, and we are cognizant of them as this is the environment in which companies operate. However, our strength lies in our ability to identify profitable companies versus attempting to forecast macroeconomic movements or the magnitude or direction of interest rates or markets. We continue to believe owning a concentrated, high-conviction portfolio of differentiated and sustainable businesses that are acquired at reasonable valuations is the best way we can deliver attractive long-term returns for the Fund. We will look to take advantage of future mispricing, volatility and irrational behaviour given our long-term horizon and expectations of increased volatility.

IMPORTANT DISCLAIMERS

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Certain statements contained in this communication are based in whole or in part on information provided by third parties and CI Investments Inc. has taken reasonable steps to ensure their accuracy. Market conditions may change which may impact the information contained in this document.

This commentary is published by CI Investments Inc. The contents of this piece are intended for informational purposes only and not to be used or construed as an endorsement or recommendation of any entity or security discussed. The information should not be construed as investment, tax, legal or accounting advice, and should not be relied upon in that regard. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Investors should consult their professional advisors prior to implementing any changes to their investment strategies. These investments may not be suitable to the circumstances of an investor. Some conditions apply.

Certain statements in this document are forward-looking. Forward-looking statements ("FLS") are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as "may," "will," "should," "could," "expect," "anticipate," "intend," "plan," "believe," or "estimate," or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are by their nature based on numerous assumptions. Although the FLS contained herein are based upon what CI Investments Inc. and the portfolio manager believe to be reasonable assumptions, neither CI Investments Inc. nor the portfolio manager can assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on FLS. Unless required by applicable law, it is not undertaken, and specifically disclaimed that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise.

CI PRIVATE POOLS™

CI Investments and the CI Investments design are registered trademarks of CI Investments Inc. CI Private Pools is a trademark of CI Investments Inc.

Published May 2019.