Market Commentary
First-Quarter 2019

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, Manulife Asset Management Ltd. and QV Investors Inc. The comments below pertain to each sub-advisor’s portion of the portfolio.

Picton Mahoney Asset Management

Following a swift correction in equity markets in the fourth quarter of 2018, the narrative of the U.S. Federal Reserve (the “Fed”) quickly pivoted from a message of tightening to a pause stance on increasing interest rates as the Fed further assesses economic conditions. Equity markets cheered the less aggressive stance by the Fed sending equity markets in the first quarter of 2019 back close toward their highs of 2018. Meanwhile, during the quarter economic data deteriorated across the globe with Japan slashing its gross-domestic-product forecast and euro-zone manufacturing, as measured by the Purchasing Managers’ Index, contracting. With the yield curve for bonds inverting towards the end of the quarter, fixed-income investors are betting that economic data continues to deteriorate, leading to potential interest rate cuts by the Fed.

During the first quarter of 2019, Canadian equities outperformed most global peers in both local-currency and Canadian-dollar terms. On a sector level, performance of equities made a hard pivot in the period as information technology, real estate and industrials outperformed from the their late-December 2018 lows. After a challenging 2018 for Canadian energy producers due to concerns about the lack of take-away capacity, the outlook for Western Canadian oil pricing differentials improved due to the Alberta government curtailing production, increasing volumes on crude oil delivered by rail and approval of Enbridge Inc.’s Line 3 pipeline. Interest-rate sensitive sectors, such as real estate and utilities, also performed strong during the quarter as long-bond yields drifted lower.

Over the first quarter of 2019, Class F of the Fund returned 11.7%, underperforming the 13.2% return of its benchmark (a 50/50 combination of the S&P/TSX Completion Index and S&P/TSX SmallCap Index) over the same period. The Fund’s positions in the industrials and information technology sectors contributed positively to the Fund’s absolute performance. Top-performing holdings in our portion of the Fund’s portfolio were Champion Iron Ltd. and Boyd Group Income Fund. An overweight position in the consumer discretionary sector and underweight position in the utilities sector detracted from our portion of the Fund’s relative performance versus the benchmark. The largest individual detractors from performance in our portion of the Fund's portfolio were holdings in Village Farms International, Inc. and Eldorado Gold Corp.

The recent observation of an inverted yield curve for bonds has put investors on alert that the risk of a recession is heightened. From our perspective, there is nuance around the pace at which interest rates are declining. While there are similarities to the 2001 and 2007 experiences for the yield curve, the next three to six months should provide further evidence as to whether a recession is imminent. In the interim, tactical opportunities for Fund investment on more cyclical themes should present themselves.

Manulife Asset Management

Over the first quarter of 2019, the Canadian small-capitalization equity market aggressively recovered from oversold levels the previous quarter. The S&P/TSX SmallCap Index, which comprises half of the blended benchmark for the Fund, generated a total return of 10.7% for the quarter. Within the index, the top-performing sectors were utilities, real estate and industrials, which delivered returns of 23.5%, 17.8% and 17.4%, respectively. The bottom-performing sectors were consumer discretionary, health care and energy, which delivered returns of -1.3%, 3.3% and 7.1%, respectively. The market's strong performance was driven primarily by events abroad: 1) the Fed's shift in monetary policy to hold interest rates steady, and 2) positive developments in trade talks between the U.S. and China.

Over the quarter, Class F of the Fund returned 11.7% while its benchmark was up 13.2% over the same period. Both sector allocation and security selection contributed to the Fund's absolute performance. From a sector standpoint, the top contributors to the Fund's absolute performance were allocations to the information technology sector. An underweight allocation to the financials sector compared with the benchmark detracted from the Fund's performance.

At quarter-end, versus the benchmark, our portion of the Fund's portfolio held overweight positions in the industrials, information technology and utilities sectors, and underweight positions in the materials (owing to an underweight allocation to gold stocks), energy and health care sectors. In addition, we have maintained a zero weight for our portion of the Fund's portfolio in the communication services sector and increased the weight in cash equivalents of our portion of the Fund's portfolio to 7.2%.

Over the past several years, strong equity returns have been driven by healthy corporate fundamentals, U.S. tax reform, low inflation and stimulative interest rates. The market volatility at the end of 2018 was not indicative of poor fundamentals, but we believe investors became defensive owing to fewer positive equity catalysts, slower economic growth and a lack of confidence in geopolitical leadership. Although global economic growth expectations have been revised down and there are some pockets of weakness in the global economy, we believe investor sentiment has improved in 2019 as the result of a positive response from central banks and governments.

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Our overall outlook is cautiously optimistic, and we have been closely watching the macroeconomic landscape, specifically the Fed and the trade relationship between the U.S. and China, to gain clarity on the global economy. With the Fed and other central banks on pause for future interest rate increases and greater optimism that the U.S. and China will reach a favourable resolution to their trade war impasse, we believe the landscape for equities has improved. We expect the Fed's actions and positive trade talks to have the potential to extend the current equity cycle further into 2019.

QV Investors

For the quarter ended March 31, 2019, the Fund returned 11.7% compared with a gain of 13.2% for its benchmark. During the quarter, the U.S. dollar weakened 2.1% against the Canadian dollar. This detracted from the Fund's relative returns, as the Fund holds U.S. securities while the benchmark does not.

Canadian equities rebounded dramatically in the quarter. The recovery from the fourth quarter of 2018 was widespread, with all sectors comprising the benchmark posting positive returns. The Fund underperformed the benchmark primarily due to stock-specific weakness within the industrials sector, as further discussed below. Notwithstanding solid absolute returns, the Fund's financials holdings as a whole lagged those of the benchmark. This and the underweight allocation of our portion of the Fund's portfolio to the health care sector detracted from the Fund's relative performance versus the benchmark during the quarter.

During the quarter, the top-contributing investments in our portion of the Fund's portfolio were in AltaGas Ltd., ATCO Ltd. and Superior Plus Corp. The largest detractor from performance in our portion of the Fund's portfolio was SNC-Lavalin Group Inc. SNC-Lavalin Group has been facing heightened legal, political and operational challenges over the past few months. A new management team took swift action to overhaul the company's corporate governance and compliance procedures after bribery charges were laid in 2012. SNC-Lavalin Group was widely expected to negotiate a settlement on these past charges, but so far this has not occurred. Adding to negative sentiment, management pre-announced 2018 earnings that were significantly below initial expectations due to cost overruns at a large mining project and a softening oil and gas business. While headline risks are likely to cause continued near-term volatility for the company, we believe SNC-Lavalin Group's current share price understates the value of the company. We will continue to closely monitor key controllable operational milestones for the company.

At quarter-end, Canadian holdings represented 79.9% of our portion of the Fund's portfolio while U.S. holdings represented 13.8%. Cash comprised 6.3% of our portion of the Fund's portfolio. Our portion of the Fund's portfolio consists of 36 investments, of which 28 are domiciled in Canada and eight are U.S.-based.

During the quarter, we initiated Fund investments in MSC Industrial Direct Co., Inc. and Winpak Ltd.

MSC Industrial Direct is an industrial distributor with a successful track record of growing and consolidating in a fragmented market. The company trades at a 35% discount to its 10-year median price-earnings ratio and has a dividend yield of 3%, near an all-time high for the company. Strong free cash flow generation and a capital-light business model give the company plenty of optionality to deploy capital for growth or share repurchases. We believe the company's current share price presents an attractive risk/reward opportunity for long-term ownership.

Winpak is a leader in the packaging space. The company has enhanced the quality and balance-sheet characteristics of the Fund's portfolio, and Winpak is trading at a reasonable valuation relative to its history and less profitable peers.

The swift rebound in equity markets and accommodative shift in the tone of central banks globally have eased negative sentiment and tight capital market conditions. Despite the improvement in the markets, global trade concerns and domestic economic challenges persist. We believe our portfolio composition makes it flexible enough to benefit from various economic scenarios going forward. Amidst heightened volatility, we will continue to identify select opportunities to deploy capital at attractive rates.

Class F returns (in %) as at March 31, 2019	Year-to-date	1 year	3 year	5 year	10 year
CI Canadian Small/Mid Cap Fund	11.7	1.9	6.7	3.5	11.2

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Picton Mahoney Asset Management, QV Investors Inc. and Manulife Asset Management Limited are portfolio sub-advisors to certain funds offered and managed by CI Investments Inc.

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