Market Commentary
First-Quarter 2019

EPOCH Investment Partners

CI American Value Fund

Market Overview

- Equity markets rallied in the first quarter of 2019, rebounding from the previous quarter's sell-off. Most of the gains came in January and early February as fears of a recession in the U.S. subsided and the U.S. Federal Reserve (the "Fed") halted its series of interest rate hikes. Fed Chairman Jerome Powell backed away from the hawkish language of previous statements, saying the Fed would watch "patiently and carefully" as it considers monetary policy in 2019.

- All 11 industry sectors in the U.S. were positive, with many providing quarter-over-quarter double-digit increases. The best returns came from companies in the information technology and energy sectors, with the latter helped by rising crude oil prices following production cuts in December by members of the Organization of the Petroleum Exporting Countries (better known by its acronym, OPEC). The health care and financials sectors lagged. Banks, in particular, came under pressure as the yield curve flattened, and the 10-year U.S. Treasury yield slipped to 2.41%.

- Strong equity returns came despite evidence economic growth rates were slowing globally, and that U.S. corporate earnings would grow more slowly or possibly decline following the boost from tax savings afforded by the U.S. government tax cuts of 2017. Investors took in stride a series of lowered revenue forecasts from high-profile technology and industrial companies, a 35-day shutdown of the U.S. federal government and the ongoing U.S.-China trade dispute.

Performance Summary

- Over the first quarter of 2019, Class F of CI American Value Fund (the "Fund") returned 10.3%, underperforming its benchmark, the S&P 500 Index, which was up 11.2% over the same period.

Contributors to Performance

- Top contributors to the Fund's results included Universal Display Corp. The company's shares rose after increasing its guidance for 2019 sales growth. The company now expects sales to grow 37% in the current fiscal year. In addition, Apple Inc. signalled its intent to fully convert its iPhone product line to organic light emitting diode (OLED) technology by 2020. Going forward, while we believe quarterly results will be volatile due to variances in large customer orders, we expect Universal Display will be able to grow its cash flow at an above-average rate over the long term, in conjunction with a surge in the adoption rate of OLED technology.

- Also, after serving as a bottom contributor the previous quarter, Apple's shares rose in the first quarter of 2019 after the company reported revenue from products and services, apart from iPhone, grew 19% over the quarter. Revenue from iPhone sales was down 15%, consistent with the company's guidance in January that sales of its iPhone would be lower than expected. The quarter's strongest growth was from the combined wearables, home and accessories category, which jumped 33% year-over-year, followed by a 19% increase in services and a 17% increase in iPad revenue. The company also reported its active installed base of devices reached an all-time high of 1.4 billion in the quarter. Almost 20% of the company's market capitalization is in net cash, which Apple has already indicated would continue to be used to buy back stock. In our view, the advent of new form-factor models, including foldable or bendable smartphones, represents an opportunity for the company to expand upon its track record for innovation. The technology could be ready within the next two years, which could represent another important growth opportunity in Apple's iPhone product cycle.

Detractors from Performance

- The largest detractor from the Fund's performance was CVS Health Corp. CVS Health's shares dropped sharply after the company reported its results would be dragged down by rising costs from its 2015 acquisition of Omnicare Inc. and CVS Health's current integration of Aetna Inc., which was purchased last year. Our view was that post the close of the Aetna takeover, the company's fully integrated channel (managed care, pharmacy benefits management (PBM) and drug retail combined) would differentiate CVS Health and lead to share gains. Since then, however, new information has been disclosed, including the resignation of the company's CFO, challenges from PBM rebate guarantees and greater-than-expected pricing pressure in retail pharmacy. Because of the uncertainty surrounding these factors, we opted to exit the Fund's position in the company.

Portfolio Activity

- During the quarter, we purchased several new companies that fit well with our emphasis on cash generation and optimal capital deployment. In the communication services sector, Electronic Arts Inc. develops, markets, publishes and delivers games and services that can be played on a variety of platforms, including consoles (Xbox, PS4), personal computers, mobile phones and tablet computers. The company's games consist of a mix of wholly owned properties (e.g., Battlefield, Mass Effect, Need for Speed, The Sims, Plants vs. Zombies, Anthem) and licensed games (e.g., FIFA, Madden NFL and Star Wars). We believe the current fiscal year will see increased revenue growth for Electronic Arts from improved FIFA monetization, new releases, positive sales from fiscal-year 2019 releases and growth in FIFA properties in Asia. We also believe margins should expand from continued growth in digital purchases of games and content, which have higher incremental margins than the company's base

business. We also expect the company's free cash flow per share to grow in the high single-digits over the next few years, driven by top-line growth, margins improvement, and share buybacks.

- Also in the communication services sector, we purchased Facebook, Inc. Facebook is the world's largest online social network, with more than two billion monthly active users. In addition, the company owns Facebook Messenger, Instagram and WhatsApp. The company estimates at least one of these services is used daily by two billion people worldwide. Facebook's stock has corrected significantly since its July 2018 peak, when it had announced significant investment in operating and capital expenses for the safety and security of its network, and a slowdown in revenue growth as the company transitions its monetization strategy to stories from newsfeeds on both Facebook and Instagram. Since lowering its guidance in July on future earnings, the company has reported two consecutive quarters of better-than-expected revenue growth, indicating, we believe, that its revenue transition, while difficult, won't be as challenging as expected. In our view, the company's current valuation does not reflect a return to double-digit growth in 2020.

- The Fund sold out of investments in Allergan PLC; CVS Health; Starbucks Corp.; Discover Financial Services, Inc.; and Fortune Brands Home & Security, Inc.

Outlook

- We remain optimistic that the U.S. economy and corporate profits will grow for the remainder of the year. Recent events have served to alter policy initiatives that had previously contributed to concerns over the direction of the economy. First, in just a few months, the Fed changed the emphasis and likely near-term path of its monetary policy. In its published statements, the Federal Open Market Committee changed its outlook, indicating it would be "patient" in making policy, and it removed a clause indicating the Fed was likely to continue raising interest rates. Second, U.S. administration talks with China appear to be proceeding to a conclusion that will not alter the status quo too much. The prospects of further tariff increases seem to be receding as both Chinese and U.S. negotiators seem relatively optimistic that progress can be made in the trade negotiations.

Class F returns (in %) as at March 31, 2019	Year-to-date	1 year	3 year	5 year	10 year
CI American Value Fund	10.3	7.4	10.6	11.2	13.0

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