CI Canadian Investment Fund
Third-quarter 2020 Commentary

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Class F returns (in %) as at September 30, 2020	**Year-to-date**	**1 year**	**3 year**	**5 year**	**10 year**	**Since inception (11/17/2000)**
CI Canadian Investment Fund	-0.1	5.1	5.5	7.5	7.0	7.9

Sources: Bloomberg Finance L.P., Morningstar Research Inc., Harbour Advisors and CI First Asset ETFs, as at September 30, 2020.

Market Overview

- The third quarter of 2020 brought on an alphabet soup of opinions on economic-recovery options: is its graph shaped as a V, W, U, L or K? The government stimulus programs, combined with highly accommodative central banks and a seemingly effective reduction in COVID-19 infection rates due to the second-quarter lockdown, supported an improving employment picture, boosted consumer spending and facilitated a gradual re-opening of various elements of the global economy. Spending on housing, vehicles and restaurants all increased through the quarter. This positive backdrop drove Canadian and U.S. stocks higher through July and August, including the S&P 500's strongest August returns since 1986.

- However, the confluence of factors that drove positive sentiment during the summer seemed to reverse in September. The U.S. government was unable to pass a follow-on stimulus package, which put unemployment benefits and business-support programs at risk. Concern over the back-to-school season became reality as COVID-19 infection rates began to rise. The one constant was central-bank support as there is a broad commitment in developed economies to keep interest rates low for a prolonged period of time.

- There are many unique elements to the dynamics of 2020 – and the breakdown of market returns is definitely one of them. Equity performance, particularly in the United States, has never been more concentrated. For example, as of the end of the quarter, Facebook Inc., Apple Inc., Amazon.com Inc, Netflix Inc., Alphabet Inc. and Microsoft Corp. combined to make up nearly 25% of the S&P 500 Index's value. During the first nine months of 2020, this "Super Six" group together was up more than 40%, whereas the index's remaining 494 stocks registered a collective gain of less than 3%. The result was an index that had produced a strong year-to-date gain, but the opportunities to generate strong positive returns were remarkably narrow. Similarly, in Canada, gold and one-stock-wonder Shopify Inc. had a tremendous influence on the returns of the S&P/TSX Composite Index. With Shopify's meteoric rise, it now has the largest weight in the index, surpassing Royal Bank of Canada.

- As stated in last quarter's commentary, we were most aggressive in moving to pro-growth positioning in March and have subsequently been progressively more cautious. We have owned select members of the Super Six and began to reduce some positions through the summer which, initially, hurt relative returns but brought some rewards in September. We remain focused on those areas of the economy that continue to function, while monitoring the more cyclical elements. We are maintaining a cautious stance toward a strong, broad-based recovery.

Performance Summary

- Over the third quarter ended September 30, 2020, Class F of CI Canadian Investment Fund (the Fund) returned 6.4%, compared with 4.7% for its benchmark, the S&P/TSX Composite Total Return Index.

- The TSX Composite's performance was driven by the industrials and financials sectors, as economic activity began to rebound during the period. Materials also made a strong contribution.

Contributors to Performance

- Among our individual holdings, Lowe's Companies Inc. made the largest contribution to our relative performance over the quarter. Lower interest rates are helping to drive a massive housing boom in the United States, which, coupled with people being forced to stay home, is supporting home-improvement spending and, in turn, good for Lowe's business.

- Apple Inc. was the second largest contributor to our return, with excitement around the new-product launches and a stock split, driving the share price to all-time highs during the quarter.

- Rounding out our top-five performance contributors were our holdings in Canadian Tire Corp. Ltd., Amazon.com Inc. and Thomson Reuters Corp.

Detractors from Performance

- From a relative perspective, the Fund's performance was hurt slightly by our underweight exposure to financials and industrials. Our absence from the gold sector was a significant detractor. We focus on owning great operating companies, and few gold miners meet our quality requirements.

- On an absolute basis, no holding was particularly destructive to returns, with Automatic Data Processing Inc. being the largest detractor.

Portfolio Activity

- We were fairly active again this quarter, although we remained disciplined in adhering to our buy-and-sell structure. The market's dramatic market moves prompted our active trading.

- We sold several stocks as they reached our fair-value targets, as we believed there were better opportunities elsewhere. Our eliminations of Apple Inc. and Abbott Laboratories were examples of this. We also exited our position in UnitedHealth Group Inc. Health care has historically been a lightening-rod issue during U.S. election cycles and, as a result, we felt it prudent to reduce our overall exposure to the sector.

- Several new positions were added, including defensive positions in Air Products & Chemicals Inc., Algonquin Power & Utilities Corp., Waste Connections Inc. and Intact Financial Corp. We also purchased Ross Stores Inc. and CME Group Inc., as we believe these companies' discount to fair value is sufficient to offset the near-term challenges these companies face due to the pandemic.

Outlook

- With COVID-19 case rising, a plateauing recovery and a contentious U.S. election, market volatility is likely to prevail into the fourth quarter. The economy and the stock market remain dependent on government stimulus as we move closer to a COVID-19 vaccine, which will be critical in moving past this chapter of history. When it comes to a market response, our view is that it matters less on who is elected U.S. president than there be a timely and constructive conclusion to the election. Business operators and investors disdain uncertainty and unfortunately President Trump is setting the stage to potentially dispute the election results if mail-in ballots determine the outcome.

- We are encouraged by both the progress toward a vaccine and the continual improvement in treatments for those that contract the virus. The fact that death rates have not escalated in line with infection rates and our ability to contact-trace to identify infection hotspots suggests that a broader economic shutdown might not be necessary. Instead, only select activities may need to be curbed to contain any outbreaks.

- We will remain disciplined despite the news headlines and use any volatility to seize opportunities to buy quality operators that we believe are exposed to resilient long-term trends.

Sources: Bloomberg Finance L.P., Morningstar Research Inc., Harbour Advisors and CI First Asset ETFs

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