CI North American Dividend 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 (08/21/2008)
CI North American Dividend Fund	-0.9	3.4	7.0	7.4	9.0	8.7

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 the CI North American Dividend Fund returned 6.9%, compared with 5.1% for its blended benchmark, 85% S&P/TSX Composite Total Return Index/15% S&P 500 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. The S&P 500 Index outperformed its Canadian counterpart on both a local and currency-adjusted basis, led by the information-technology and consumer-discretionary sectors.

Contributors to Performance

- Among individual securities, Apple Inc., Lowe's Companies Inc., Amazon.com Inc. and Abbott Laboratories included those that made meaningful contributions to our relative performance.

- Apple was the top contributor to our return, as the stock continued to work as excitement for their upcoming product cycle builds and they executed a 4-to-1 stock split in early August.

- Lowe's continues to benefit from low interest rates and the U.S. housing boom, which is a catalyst for home-improvement spending.

Detractors from Performance

- On an absolute basis, Automatic Data Processing Inc. was the biggest detractor to our performance. The stock fell about 8% during the quarter as the job-market recovery continued to be bumpy after reaching a trough in the second quarter.

- On a relative basis, materials and industrials were strong performers within the TSX Composite. We do not currently own any gold stocks and thus did not benefit from that sector's the strong performance. As we have noted in the past, we focus on quality operators that can compound wealth over time, characteristics that are rare among gold miners.

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 eliminated a few holdings, including Mastercard Inc., Fiserv Inc. and UnitedHealth Group Inc., to make room for more attractive opportunities and reduce exposure to U.S. health-care sector, as risks mount in relation to the future of the Affordable Care Act (Obamacare) mount.

- We initiated new positions in Fidelity National Information Services Inc. and Air Products & Chemicals Inc., as we believe these should offer compelling returns.

- Following strong returns early in the quarter, we trimmed several positions. including Apple Inc., Lowe's Companies Inc., Humana Inc., American Express Co. and U.S. Foods Holding Corp.

- In addition to adding new positions, we routinely take advantage of volatility in the market to add to existing investments already in the portfolio for which we have higher conviction. Examples include Alphabet Inc. (which has been a laggard among mega-cap technology stocks), Amazon.com Inc., Booking Holdings Inc. and Ross Stores Inc.

Outlook

- With COVID-19 cases 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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