

CI International Equity Value Private Pool First-Quarter 2019

Market Overview

- In the first quarter of 2019, equities rallied in response to U.S. Federal Reserve (the “Fed”) Chairman Jerome Powell backing away from plans to raise interest rates and shrink the Fed’s US\$3.7 trillion balance sheet, and growing optimism surrounding U.S.-China trade negotiations.

Fund Holdings

- In the communication services sector, the Fund has a position in Vodafone Group PLC. The key issue for Vodafone Group is its ability to sustain its current annual dividend of 10% given the pressures on the company’s operations in Spain and Italy and a multi-year period of high spectrum payments. Despite these issues, our view is that through the company’s cost-cutting initiatives and if its acquisition of Liberty Global PLC’s cable assets in Central and Eastern Europe is not approved, Vodafone Group can support its dividend level.
- Another Fund holding in the communication services sector is BT Group PLC. Though its consumer fixed and mobile business is delivering solid revenue and earnings before interest, tax, depreciation and amortization growth, competitive pressures in broadband are increasing for the company. However, we remain positive on the longer-term prospects for BT Group, especially with a new CEO starting in May, who we believe can significantly improve the company’s cost efficiencies.
- The Fund’s only holding in the real estate sector is Daito Trust Construction Co., Ltd. During the quarter, there were new reports that customers were complaining about the company’s down-payment return policies. We believe this is a manageable issue for the firm.
- Siemens AG and Babcock International Group PLC are two of the Fund’s holdings in the industrials sector. During the quarter, Siemens experienced continued weakness in its power generation business while Babcock was under pressure due to uncertainties surrounding Brexit and a slowdown in U.K. defence spending.

- Fund holdings in the energy sector include Tenaris S.A. and Schlumberger Ltd. Both companies are benefiting from increased optimism about demand for global oilfield services on the back of higher oil prices.
- In the consumer discretionary sector, the Fund has a position in Adidas AG. The *adidas* brand increased 5% for 2018 thanks to double-digit growth of sport-inspired products. Growth in running equipment was positive but offset by a sharp decline in soccer gear. And, supply shortages in North America will hurt sales in the first half of 2019. The company's management is confident it can secure additional supply in the coming quarters, but issues like this will be closely monitored.
- During the quarter, the utilities sector was partly influenced by the outlook for inflation and interest rates, as reflected by falling long-term bond yields in most major economies as well as company-specific drivers. The Fund has a position in Germany-based Uniper SE. An activist shareholder called for Uniper to enter into negotiations with its top shareholder, the Finnish utility Fortum Oyj, over a domination agreement. This comes a month after the two utilities announced fresh co-operation talks following a hostile takeover attempt by Fortum in 2017.

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