Market Commentary
Second 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

Over the second quarter of 2019, Class F of CI Canadian Small/Mid Cap Fund (the "Fund") returned 2.2% compared with a 0.5% return for its blended benchmark (50% the S&P/TSX Completion Total Return Index and 50% the S&P/TSX SmallCap Total Return Index) over the same period.

During the quarter, market participants shifted their expectations from a U.S. Federal Reserve (the "Fed") on hold regarding interest rate hikes to possibly making three rate cuts the remainder of the year. The Fed has not done much to combat these extremely dovish expectations, and thus risk assets continued to rally as U.S. Treasury yields collapsed and the U.S. dollar retreated.

During the quarter, relative to its benchmark, the Fund was underweight in the energy sector and overweight in the consumer discretionary, which added to relative performance. Top-performing holdings were Boyd Group Income Fund and Champion Iron Ltd. Not owning Transat A.T. Inc. was the largest individual detractor from performance.

Boyd Group Income Fund operates 626 company-owned collision repair shops in North America. In 2019, the company has been able to accelerate its merger-and-acquisition (M&A) strategy of acquiring additional locations due to two large competitors merging and focusing on integration rather than M&A. This has led to an opportunity for Boyd Group Income Fund to acquire more locations than expected. Also, the company reported stronger-than-expected organic growth in its fiscal first quarter of 2019 by bringing on additional labour to address its backlog, which had been a constraint on growth over the past number of quarters.

Champion Iron Ltd. is a Canada-based iron ore company operating the Bloom Lake mine in northern Quebec. The company's management team has created significant shareholder value by acquiring the Bloom Lake mine at the bottom of the iron ore price cycle and with key infrastructure and installations intact. Champion Iron generates significant free cash flow at spot prices, allowing it to internally fund an expansion of the Bloom Lake mine.

Transat A.T. Inc. is a Canadian airline specializing in holiday travel. During the quarter, the company received a takeover offer from Air Canada at a significant premium to its previous trading price. The Fund not owning Transat A.T. led to relative underperformance versus the benchmark.

In terms of portfolio activity, we added new Fund positions in Cominar Real Estate Investment Trust and Dundee Precious Metals Inc.

Cominar Real Estate Investment Trust holds office, retail and industrial properties. We added this new position as the fundamentals of the company's portfolio of holdings have been strengthening and high leverage levels declining due to its sale of some assets. The plan the company's new management team put in place is executing well on backfilling Sears vacancies, and the company is on track to complete asset sales of $300 million in 2019, which will be used to reduce leverage and remove underperforming assets.

Dundee Precious Metals acquires, explores and develops gold-mining properties. We view Dundee Precious Metals as a positive change story given the legacy problems with its smelter in Tsumeb, Namibia are largely behind it. Once its mine in Krumovgrad, Bulgaria mine enters full production, Dundee Precious Metals should generate a meaningful amount of cash flow. We expect to add to the Fund's holding in the company as it continues to execute and deliver on these positive changes.

Over the next several months, our probability-weighted base case expects macroeconomic and earnings data to continue to disappoint, cyclical sectors will remain under pressure and drag equity markets lower, and market declines will be limited to the low double digits, all setting the stage for a rally into the 2020 U.S. presidential election.

Since the 1980s, the Fed has not cut interest rates while corporate credit spreads remain relatively behaved, equity markets are close to highs and economic data is not deteriorating dramatically. A pre-emptive rate cut would be unprecedented. So too would the decision *not* to cut rates, as it would be in flagrant disregard for market expectations, which have been firmly priced-in of late.

Manulife Asset Management

Market Environment

For the three-month period ended June 30, 2019, the S&P/TSX SmallCap Total Return Index (the "Index") generated a total return of -0.3%. Within the Index, the top-performing sectors were consumer discretionary, materials and utilities, which delivered returns of 10.5%, 7.6% and 5.7%, respectively. The bottom-performing sectors were energy, health care and information technology, which delivered returns of 15.6%, -5.6% and -3.8%, respectively.

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After a strong recovery from oversold levels in the first quarter of 2019, the Canadian small-capitalization market declined in the second quarter. The market's performance was primarily driven by a negative return in the energy sector, which was impacted by higher supply levels and lower demand.

Portfolio Review

Over the quarter, sector allocation detracted from the Fund's performance and security selection contributed on a relative basis versus the Index. The Fund was positively impacted by an underweight allocation to the energy sector and negatively impacted by an underweight allocation to the materials sector and overweight allocation to the information technology sector.

Outlook

Our overall outlook is cautiously optimistic, and we have been closely watching the macroeconomic landscape, specifically movements by the Fed and the trade relationship between the U.S. and China, to gain some clarity on the global economy. Although the U.S. and China had constructive trade talks earlier in the year, the negotiations between the two countries have become more strained, and there are growing concerns that the talks are on hold. The U.S. has trade disputes with several of its key trading partners, and the Fed has become concerned that these trade wars are negatively impacting economic growth. The Fed is monitoring the impact of the trade wars, and it is signalling to the markets that it is prepared to cut interest rates if required.

If the trade issues cause economic growth to slow and central banks to cut interest rates, we believe the Canadian equity market may be negatively impacted as a result of its exposure to cyclical sectors and banks. Less global economic activity could lead to lower base metals and oil prices, as demand from China wanes, and lower interest rates would cause increased pressure on the earnings of Canadian banks as a result of lower net interest margins.

At quarter-end, the Fund's portfolio held sector overweight positions in the industrials, information technology and utilities sectors and underweight positions in the materials (owing to an underweight position in gold stocks), energy and health care sectors. The portfolio has cash equivalents of 6.8%.

QV Investors

In Canada, small-capitalization stocks have underperformed the broader market, primarily due to challenges in the energy and base metals–related segments of the market.

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PICTON MAHONEY Asset Management

Stable-to-improving operating results and a focus on strong business models by companies held within the Fund contributed to absolute returns over the quarter. On a sector basis, the Fund's overweight exposure to the utilities sector was the main driver of outperformance versus the benchmark.

Superior Plus Corp. is executing well on recent acquisitions and reducing leverage. In the quarter, the company also announced it will consider the sale of a non-core division, aimed at reducing debt and providing funding for additional growth.

The Fund's investment in AltaGas Ltd. was a top contributor to performance over the quarter as the company reported in May strong first-quarter 2019 results and announced the sale of a midstream asset. The company has demonstrated continued progress on its deleveraging plan and recently exported its first shipment of propane from its newly constructed Ridley Island terminal located in Prince Rupert, B.C.

During the quarter, shares of ARC Resources Ltd. remained under pressure alongside commodity prices. However, with its strong balance sheet, we continue to have confidence in the ability of ARC Resources to manage through difficult markets.

SNC-Lavalin Group Inc. felt further pressure after reporting weaker-than-expected first-quarter 2019 financial results. The company continues to work through contract issues from last year, but has recently won several new projects within its highly profitable engineering and design division. Furthermore, a change of CEO made during the quarter is a positive first step towards expediting the process of value realization.

Shares of MSC Industrial Direct Co., Inc., a highly profitable industrial distributor with a successful track record of growing and consolidating in a fragmented market, were added to the Fund during the quarter. 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. Strong free cash flow generation and a capital light business model give the company plenty of options to deploy capital for growth or share repurchases.

Winpak Ltd. was another Fund addition during the quarter. The company demonstrates industry-leading margins in the North American packaging space. The company's net cash position and consistent profitability improve the quality of the Fund's portfolio,

Looking ahead, we believe momentum stocks will continue to be a key driver of Canadian market performance. Although looser monetary policies have been welcomed by the market, corporate management teams' outlooks and investment decisions have been clouded by trade uncertainties.

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PICTON MAHONEY Asset Management

Concerns about Canadian energy companies' inability to receive global prices for their products and hurdles to getting projects completed in Canada continue to weigh on resources-related stocks.

Although our risk management process of maintaining high-quality businesses with below-average valuations limits the Fund's participation in areas of the market that are currently in vogue, we believe our defensive positioning of the Fund's portfolio will drive sound total returns over time.

The portfolio exhibits stronger income generation and profitability versus the average Canadian small/mid-cap company, while maintaining lower balance sheet risk.

Class F returns (in %) as at June 30, 2019	Year-to-date	1 year	3 year	5 year	10 year	Since inception (06/29/2005)
CI Canadian Small/Mid Cap Fund	14.1	-1.6	5.3	3.0	10.1	5.9

Sources: Bloomberg L.P., Picton Mahoney Asset Management, Manulife Asset Management Ltd. and QV Investors Inc., as at June 30, 2019.

IMPORTANT DISCLAIMERS

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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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