Market Commentary
Third Quarter 2019

CI American Value Fund

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Class F returns (in %) as at September 30, 2019	Year-to-date	1 year	3 year	5 year	10 year	Since inception (11/17/2000)
CI American Value Fund	16.9	4.3	10.6	11.1	12.5	4.3

Sources: Bloomberg Finance L.P.; Morningstar Direct; and Epoch Investment Partners, Inc., as at September 30, 2019.

Market Overview

- The third quarter began with investors anticipating easier monetary policy and an easing of the U.S.-China trade dispute. Dovish comments from U.S. Federal Reserve Chair Jerome Powell early in the quarter left little doubt that a cut in interest rates was coming. However, investors were disappointed with it, describing the cut as a "mid-cycle adjustment" and not the beginning of a rate-cutting cycle. On the trade front, the Trump administration levied additional tariffs, which now cover virtually all Chinese goods. The White House also stated it was considering limiting U.S. investments in China, highlighting the potential for the trade war to spill into capital markets.

- The U.S. economy continued to expand, albeit at a more moderate pace. U.S. gross domestic product slowed to a 2.0% annual rate in the second quarter, with personal spending offsetting a decline in business investment. While manufacturing showed signs of slowing, consumers remained confident and kept spending, as job growth continued and wages ticked up. The 10-year Treasury note yield briefly dropped below the two-year note, while the 30-year Treasury bond yield temporarily slipped below 2% for the first time.

Performance Summary

- Over the third quarter of 2019, the CI American Value Fund (the “Fund”) returned 1.2%, underperforming its benchmark, the S&P 500 Total Return Index, which was up 3.0% over the same period.

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- Security selection in the Fund during the quarter was negative, especially in the health care and information technology sectors.

- Nine of 11 market sectors posted a positive return for the period. Against this backdrop, the Fund's less-than-benchmark weight in energy, the weakest-performing sector for the period, was a positive factor.

Contributors to Performance

- A top contributor to results included Alphabet Inc., which reported total revenue of US$38.9 billion representing a 19% increase from the same period last year. The company reported a profit of US$9.9 billion during the quarter, nearly triple what it made last year when it paid a large European Commission fine. The significant cash generated from the Google search business allows Alphabet to remain focused on innovation and long-term growth opportunities.

- In industrials, after serving as a bottom contributor early this year, shares of XPO Logistics Inc. rose after the company reported third-quarter profits that came in ahead of expectations. The North American less-than-truckload business was strong, and the company's new business pipeline growth is accelerating. Our view is that general industry trends remain favourable, as volumes are growing and tailwinds remain from growth in e-commerce.

Detractors from Performance

- Security selection in the health care sector was the leading detractor for the period. We suspect that the decline in health care stocks in general (healthcare was the second-worst performing group after energy), and of some of our health care service providers, including Centene Corp. and UnitedHealth Group Inc., can be attributed to the ongoing political and media focus on a potential Medicare-for-All solution. This would seek to eliminate private companies. As proponents have risen in the polls, media coverage on the issue has increased, pressuring health care stocks. Our view is that the prospect of a government-run healthcare system is remote in the near term. In the meantime, the Fund's companies continue to execute well on a fundamental basis.

- Centene offers healthcare plans to corporations and U.S. government-sponsored healthcare programs. The company primarily focuses on uninsured individuals and helps them access care facilities, and social services through government-subsidized programs. State government outsourcing initiatives provides the company with strong long-term growth prospects.

- UnitedHealth is the largest private health insurance provider in the United States, offering medical benefits to nearly 50 million members across its U.S. and international businesses. Due to its size and scale, UnitedHealth possesses a strong competitive advantage that enables it to negotiate larger discounts with healthcare providers while simultaneously leveraging its fixed-cost operations over a large membership base.

Portfolio Activity

- During the period we purchased several new companies that fit well with our emphasis on cash generation and optimal capital deployment. For example, Tiffany & Co. is a mono-brand jeweler with a 180-year history. It is vertically integrated, with around 60% of jewellery produced internally. Tiffany is present in over 20 countries globally, with over 300 owned stores. Its biggest market is its home market, the United States.; however, Europe and Asia-Pacific have shown the strongest growth in recent years. We expect that revenue and free cash flow will increase under a new management team that is focused on fixing the flagship store, product assortment, and more effective advertising.

Outlook

- Looking ahead, economic growth is moderating worldwide as the economic cycle matures, trade frictions take hold and the manufacturing sector begins to contract. Growth in the U.S., while slowing, remains supported by consumers, backed by a strong job market and incrementally higher wages. Growth in Europe is more tentative, with some countries (notably Germany) appearing on the verge of recession. The Chinese economy has stabilized for the time being, but excess leverage that we expect is higher than official statistics is a concern.

- The economic slowdown, combined with a lack of inflationary pressure, has led the major central banks to lean toward easier monetary policies. Lower policy rates and the resumption of quantitative easing have suppressed bond yields to new lows. In fact, more than half of all global sovereign bonds now trade at negative interest rates.

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