Market Commentary
Fourth Quarter 2018

EPOCH Investment Partners

CI American Small Companies Fund

Stocks experienced a sharp downturn, falling by double-digits in U.S. dollar terms, and pulling returns for the full year into negative territory. Investors grew concerned about a slowing global economy, higher costs pressuring profit margins, a hawkish U.S. Federal Reserve Board (Fed), and the escalating trade dispute between the U.S. and China. Small cap and Nasdaq stocks fared worse than the broad large cap indexes. Growth indexes declined more than value indexes.

The energy, financials, industrials, and materials sectors had the steepest drops. Energy stocks tumbled, with crude oil falling into a bear market on fears of weakening demand combined with oversupply; production rose in Russia and the U.S. and hit an all-time high in Saudi Arabia prior to OPEC and Russia agreeing to production cuts in December. The U.S. became the world's largest oil producer in 2018. Within financials, banks suffered under a flattening yield curve as the Fed raised short-term interest rates for the fourth time in 2018 while 10-year Treasury yields fell by 54 basis points from early November through December. In contrast, utilities and health care stocks had strong positive returns.

Security selection was positive in the communication services, consumer discretionary, consumer staples, health care, industrials, and materials sectors. Alternatively, security selection in the energy, financials, and real estate sectors detracted somewhat from results. Starting in September, a dramatic rotation into defensive stocks began as global equity indexes experienced a sharp sell-off. Typically in this type of environment, short-term investors, including hedge funds, program traders, and momentum traders, either go to cash or favour the more defensive sectors. This is what happened in the fourth quarter particularly within the utilities sector. Against this backdrop the fund's less-than-index weight to utilities acted as a headwind to the strategy's results.

The largest individual contributors to performance were Dorman Products, B&G Foods, Casey's General Stores, LGI Homes, and Berry Global Group. The largest individual detractors were XPO Logistics, Core Laboratories, Bank OZK, Coherent, and Texas Capital Bancshares.

During the period, we purchased several new companies that fit well with our emphasis on cash generation and optimal capital deployment. Investments in Charles River Laboratories, Liberty Media, NVR, and Cambrex were made during the period.

Charles River Labs is a leading provider of drug discovery and development services. With roughly 50% of market share worldwide, it is the leading provider of laboratory testing for drug development. The remainder of Charles River's revenue comes from its preclinical services segment, which offers discovery, toxicology, pathology, and manufacturing testing analysis to

pharmaceutical, biotechnology, and device companies. The company is a top-three competitor in all markets served and has limited scaled competitors. Several catalysts should propel results going forward, including ongoing strong demand in the current biotech innovation cycle, increased outsourcing in all of its business segments, and an opportunity to further consolidate the safety and manufacturing segments via acquisitions.

In communication services, Liberty Formula One Group is a holding company that owns interests in media, communications, and entertainment businesses including Formula One, which runs the motorsports business. Formula One controls a rare asset, a global sport with an estimated 500 million followers with high barriers to entry, and long-term contracted revenue with material room to improve the product offering. The business model also has relatively high EBITDA margins, high free-cash-flow conversion rates, and an asset that appears to be significantly undermonetized in many potential high-growth areas. In addition, Formula One is a play on the continued heightened competitive environment in the distribution business, which has already resulted in deals that will drive a significant increase in rights fees in the U.K. in 2019. The entrance of Internet players into potentially bidding on sports rights is a key potential tailwind in the medium/long term. Expanding races from 20 to up to 25 appears to be an obvious way to also improve results, as well as a much more aggressive effort on the advertising/sponsor side and perhaps a potential meaningful opportunity in OTT/gaming/e-sports.

The fund sold out of investments in Sabre, Hanesbrands, Bank of Hawaii, Healthcare Services Group, Oil States International, Inphi, Compass Minerals International, Reliance Steel & Aluminum, and Cypress Semiconductor.

As we enter a new year we are mindful that the quantitative easing, which supported valuations and suppressed volatility, is now moving in the other direction. And industries whose profit margins have benefited from global trade are grappling with setbacks. At the same time, companies that can successfully apply new technologies will be able to operate with less capital. Each of these trends will influence industries and individual companies in markedly different ways. We believe our investment approach is well suited to this environment, where investment returns are more closely linked to company fundamentals. As always, we seek companies that can generate a growing stream of free cash flow and can allocate that cash effectively for the benefit of shareholders.

Class F Returns (in %) as at December 31, 2018	Year-to-date	1 year	3 year	5 year	10 year
CI American Small Companies Fund	-8.8	-8.8	3.0	7.9	12.4

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IMPORTANT INFORMATION

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