ivari Portfolio Commentary

Fourth Quarter – 2019

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CI Multi-Asset Management

Market performance

Markets persevered through geopolitical uncertainties very well in 2019. We witnessed the ongoing trade dispute between the U.S. and China, tensions in the Middle East, the impeachment of President Donald Trump, continued Brexit negotiations and the U.K. election, as well as our own federal election. These events were overcome by lax central bank policies globally, which helped to boost the broader fixed-income and equity markets. It is worth noting that Canada performed in line with other markets, even though our economic performance was weaker. This was due to low expectations from investors, and they were not disappointed. The low valuation for the Canadian market helped to offset the impact of lower actual growth rates of Canadian companies.

Benchmark returns in % at December 31, 2019	1 year	3 years	5 years	10 years
S&P/TSX Composite Index	22.9	6.9	6.3	6.9
S&P 500 Index (C$)	25.1	14.0	14.2	16.0
MSCI World Index (C$)	22.1	11.9	11.8	12.4
FTSE Canada Universe Bond Index	6.9	3.6	3.2	4.3

Source: Bloomberg Finance L.P., FTSE

Portfolio performance

Markets grew consistently throughout 2019 and there was no better entry point than the beginning of the year. From an asset allocation perspective, we made a decisive call to overweight equity following the U.S. Federal Reserve's dramatic change in tone from an interest rate hike in December 2018 to easing in January 2019. This pivot by central banks effectively removed the risk of overly hawkish policies causing a global recession in the near term. Those who did not see it as a significant event missed the opportunity. Our overweight position in equity was expressed primarily in North American equities, which was effective as those markets not only performed positively, but outperformed on a relative basis. Emerging markets and small caps on the other hand, underperformed relative to their large cap developed market peers. We expect low valuations will eventually play a positive role in their performance and are comfortable maintaining these positions.

Contrary to many investors who believed central banks would keep raising interest rates in 2019, we were more constructive and positioned our portfolios with a healthy bond exposure entering 2019. This led to strong upside capture in our fixed-income focused funds. Overall, it was a positive year for returns.

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ivari CI Portfolios are available as Guaranteed Investment Portfolios within select ivari segregated funds contracts and as Managed Portfolio Index Interest Options within select ivari Universal Life Products. Segregated Fund Net Returns below are for the ivari Guaranteed Investment Funds product. Returns are after the management expense ratio (MER) has been deducted. The MER includes the management fee, the insurance cost for segregated fund guarantees, operating expenses and the applicable taxes of the fund. Policyholders do not pay for these expenses directly. The MER reduces the return of the investment. The Manager, at its discretion, may waive or absorb a portion of the operating expenses otherwise payable by a Fund class. These waivers may be terminated at any time by the Manager. MER and MER before waiver can be found in the ivari Segregated Fund Financial Statement under the section "Financial Highlights." For details please refer to the Information Folder and contract, and to www.ivari.ca for the returns on other products.

Segregated fund net total returns in % at December 31, 2019	1 year	3 years	5 years	10 years
ivari CI Conservative GIP	8.6	2.8	2.8	4.5
ivari CI Canadian Balanced GIP	10.5	3.0	2.6	4.5
ivari CI Balanced GIP	11.1	3.4	3.5	5.1
ivari CI Growth GIP	13.9	4.0	4.0	5.8
ivari CI Maximum Growth GIP	16.2	4.1	4.2	6.0

Any amount that is allocated to a segregated fund is invested at the risk of the contract holder and may increase or decrease in value. Past results should not be construed as indicative of future performance. Actual fund performance is expected to vary.
On September 21, 2012, the Transamerica TOP GIPs began investing in a new portfolio managed by CI Investments Inc. The Transamerica TOP GIPs are now referred to as ivari CI GIPs.

Outlook and positioning

In our view, central banks effectively pushed a recession further down the road in 2019 by cutting rates with the sentiment more may come and maintaining quantitative easing. Although recent survey data has been weak, we expect consumer and business confidence to bottom early in 2020 as investors get more clarity on a potential U.S.-China trade deal. The markets are looking for certainty, good news or bad, and it is important to be nimble and realistic. We expect economic growth in 2020 to be slow but positive, and we believe that the manufacturing slowdown we experienced at the end of the summer will end and growth will rebound.

What matters to investors in the next 12 to 18 months is central bank policy. We think that expectations for interest rate cuts in the near term are elevated above what central banks are willing to provide and economies must improve significantly for central banks to be comfortable in withdrawing the additional stimulus that has been in place since 2019. A withdrawal should have little impact on stocks, but fixed income will likely have negative returns as capital losses from repricing yields tend to outweigh the yield being generated. Our base case calls for the U.S. Federal Reserve to pause interest rate cuts at least for the next six months and the Bank of Canada to hold rates at current levels. Accommodative monetary policy will keep interest rates low or negative, depending on the region, which will allow companies to comfortably cover their interest expenses. We expect that the low cost of capital will continue to drive volume in share buybacks and mergers and acquisitions. Demand for risky assets could also grow as money supply increases, a trend that we have seen in the last decade.

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Over the long-term, we believe an overweight position in equities is justified. Stock multiples expanded in 2019, but valuations are in line with historical valuations and we believe current levels are reasonable. Investors are generally under invested and are carrying large amounts of cash; we believe that investors are waiting to deploy this money in a market sell-off, which should provide support on the downside. We also like the liquidity equity provides, which is a key reason we are using equity over high yield in our bucket of risky assets. We have been adding to cyclical sectors as we expect them to benefit from a pickup in economic activity in 2020 and believe defensive sectors, which performed well in 2019, will lag as interest rates rise and valuations pull back. On the currency front, we see value in the U.S. dollar versus the Canadian dollar.

Regionally, the bar for Canadian businesses is low and our equity market trades at a discounted multiple, but it may take time before the value of Canadian equities is realized. U.S. equities are relatively expensive, however, a premium is justified for world class companies in a market with depth. Europe and Asia have had growing pains due to aging demographics and restrictive policies and regulations. We have a neutral weight and partner with active stock pickers to help navigate these challenges and separate the wheat from the chaff.

Looking at fixed income, we are underweight government bonds as yields are low or negative and expected returns are decreasing. We expect a minor correction as markets come to realize that they will get fewer rate cuts than expected, and we are actively repositioning the fixed-income portion of the portfolios to give investors the best chance to earn a decent return. We hold gold to add additional downside protection in lieu of government bonds. In credit, we believe that the probability of recession in 2020 is low, so there is no imminent risk for investment-grade and high-yield corporate bonds. However, we are underweight high-yield bonds to ensure our portfolios have sufficient liquidity and are closely monitoring our credit portfolio to ensure that we can extract our capital if liquidity dries up and prefer shorter-duration, higher-quality issues.

While investors found success in 2019 by dialing up risk at the right times, risk management will be more important in 2020. We believe that liquidity risk, or the risk of not being able to sell to rebalance our asset mix, outweighs the risk of holding equity. We will be closely monitoring policy risk in 2020. If central banks change their tune or governments move to radically reform fiscal policy, we will be ready to reposition our portfolios accordingly.

Source: CI Multi-Asset Management, Bloomberg Finance L.P. and CI Investments Inc. as at January 13, 2020.

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