

# Market Commentary

## First Quarter 2013



### Portfolio Series and Portfolio Select Series

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#### Market performance

Stocks finished another quarter with very strong results. Foreign markets continue to outperform the domestic markets amid weakness in the commodity sector and the Canadian dollar. Investors seem to be more worried about the risk of not capturing the upside than the downside risk of any unfavourable economic and political events: the Cypriot banking sector was effectively insolvent and there was also the threat that North Korea would launch a nuclear war with South Korea and the United States.

Returns in % at March 31, 2013	3 mth	1 yr	3 yr	5 yr	10 yr
S&P/TSX Composite Index	3.3	6.1	4.9	2.1	10.0
S&P 500 Index (C\$)	13.2	16.1	12.7	5.6	4.6
MSCI World Index (C\$)	10.4	14.6	9.1	2.6	5.5
DEX Universe Bond Index	0.7	4.5	6.5	5.9	6.1

Source: Bloomberg, PC Bond

Key stock indexes, including the Dow Jones Industrial Average and the S&P 500 Index, have recently reached new all-time highs. On this basis alone, it is tempting to conclude that the U.S. equity market in general is overvalued. An effective way to evaluate the relative attractiveness of a company's stock price is its price-to-earnings ratio (P/E ratio). This measures the price an investor pays for \$1 of a company's future earnings or profits. It's a gauge of whether a stock is cheap or expensive. If a stock is trading at \$10 a share and the company is expected to earn a \$1 per share over the next year, its forward P/E would be 10 – \$10 divided by \$1. Despite the recent market rally, as illustrated in the chart below, investors in the stocks that make up the S&P 500 Index are still paying less than what they generally have in the past for a dollar of future profits.



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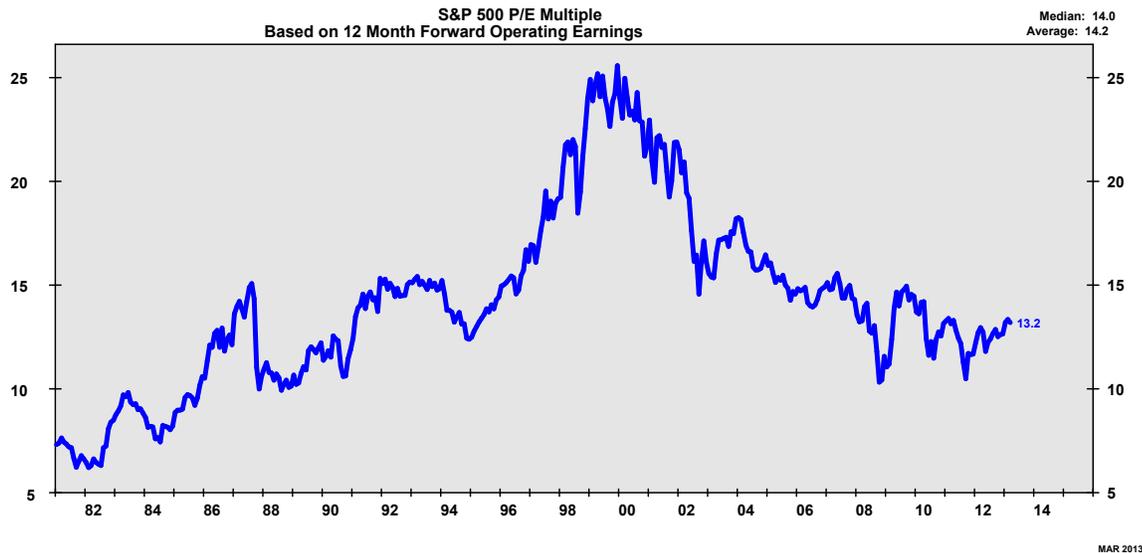
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Source: TD Securities

### Portfolio Series and Portfolio Select Series

The world is constantly going through change. In general, it is not the strongest or the most intelligent that survive. It is those that are most adaptable.

On the political front, we have seen changes in Europe and most recently new leaders elected in China and Japan. The new regime in China has stressed that it will make a priority of social spending and other measures to help narrow the gap between China's wealthy elite and poor majority. The governments in Japan and Europe are committed, if not eager, to print money and increase spending in efforts to stimulate economic growth. These developments will affect the global economy and our portfolios. As investment managers, we need to be aware of the forces shaping the economy and adjust our portfolio positioning, when necessary, to capture opportunities and minimize risk.

With a rising market in the first quarter, it was not a challenge for investment managers to generate positive returns for their investors. We are pleased to tell you that our portfolios have performed positively and also compared strongly to the benchmark indexes. Allocations to corporate bonds, foreign stocks and foreign currencies are driving significant outperformance. In addition, our cautious positioning in the resource sector, and gold in particular, helped to protect our portfolios from unwanted market volatility. Historically, the resource sector and the Canadian dollar have been viewed as high-beta investments: they would produce higher returns than the broader markets when stocks were rising. However, more recently, in a rising market, these investments have not outperformed. In our opinion, this is due largely to their premium valuations.

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Returns in % at March 31, 2013	3 mo	1 yr	3 yr	5 yr	10 yr	Life
Portfolio Series Income Fund	3.4	7.4	7.1	5.5	5.9	5.2 (Dec. 97)
Portfolio Series Balanced Fund	5.7	8.2	6.0	3.3	6.2	6.8 (Nov. 98)
Portfolio Series Growth Fund	6.9	9.1	6.0	2.5	5.5	3.2 (Dec. 01)
Select Income Advantage Managed	1.9	6.3	n/a	n/a	n/a	4.5 (Sept. 10)
Select 70i30e Managed Portfolio	4.0	7.9	5.7	4.0	n/a	3.1 (Nov. 06)
Select 50i50e Managed Portfolio	5.3	8.8	5.9	3.5	n/a	2.5 (Nov. 06)
Select 30i70e Managed Portfolio	6.7	9.8	6.2	3.1	n/a	1.7 (Nov. 06)

*All fund returns are for Class A units/shares*

Volatility in the currency markets has worked in our favour as we were able to earn extra returns by adjusting our currency exposures. In general, we are bearish on the Canadian dollar versus the U.S. dollar. We remain skeptical about the outlook for the euro and the British pound.

We are pleased to share with you the news that Portfolio Series Income Fund was named Best Global Fixed Income Balanced Fund at the 2013 Lipper Fund Awards gala. The Lipper awards honour funds that have excelled in delivering consistently strong risk-adjusted performance, relative to peers. We thank the industry for the recognition and our clients for their continued support and trust.

### Select Income Advantage

Select Income Advantage continues to meet its goal by earning stable returns. It outperformed the DEX Universe Bond Index benchmark and at the same time had less volatility. Added value came from our allocations to high-yield bonds (albeit an underweight position compared to the benchmark), U.S. dollar (overweight position) and high dividend stocks (overweight).

The fund had a significant cash balance at the end of the quarter. This reflects our view that there are currently a limited number of opportunities to earn attractive risk-adjusted returns in the fixed-income market because of high valuations. In this environment we are avoiding full exposure to the fixed-income market.

### Outlook and positioning

There are certain areas in the markets that we believe are somewhat overvalued. We have trimmed our exposure to high-yield bonds by reducing the allocation to Signature High Income Fund in the income-centric Portfolio Series funds and removing Signature High Yield Bond Corporate Class Fund from the growth-centric funds. In the Portfolio Select Series accounts, we have implemented the same tactic through asset mix changes in Select Income Advantage, which is owned in every Portfolio Select Series client portfolio. As a result of these changes, the cash weighting in all funds has increased substantially. Allocation to cash serves two purposes: to reduce volatility and allow us to take advantage of future opportunities when they arise.

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*Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Unless otherwise indicated and except for returns for periods less than one year, the indicated rates of return are the historical annual compounded total returns including changes in security value. All performance data assume reinvestment of all distributions or dividends and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. This commentary is provided as a general source of information and should not be considered personal investment advice or an offer or solicitation to buy or sell securities. ©CI Investments and the CI Investments design are registered trademarks of CI Investments Inc. ™Portfolio Select Series and Portfolio Series are trademarks of CI Investments Inc. Lipper Fund Awards are given by Lipper, Inc. to recognize funds that have provided superior consistency and risk-adjusted returns when compared to a group of similar funds. Awards are given to the fund with the highest value within its category for the time periods of three, five and 10 years according to the Lipper Leader ratings for Consistent Return, which reflect funds' historic returns, adjusted for volatility, relative to peers. Lipper Leader ratings change monthly. For more information, see [lipperweb.com](http://lipperweb.com). Although Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Lipper. Users acknowledge that they have not relied upon any warranty, condition, guarantee, or representation made by Lipper. Any use of the data for analyzing, managing, or trading financial instruments is at the user's own risk. This is not an offer to buy or sell securities. Portfolio Series Income Fund (Class A) was named Best Global Fixed Income Balanced Fund in February 2013 for the three and five-year periods ending Oct. 31, 2012, out of a category total of 26 and 19 funds, respectively. Performance for the fund for the one, three, five and 10-year periods ending December 31, 2012 was 6.6%, 6.4%, 5.0% and 5.3%. Document published April 2013.*