Market Commentary

First Quarter 2015

CI Investment Consulting

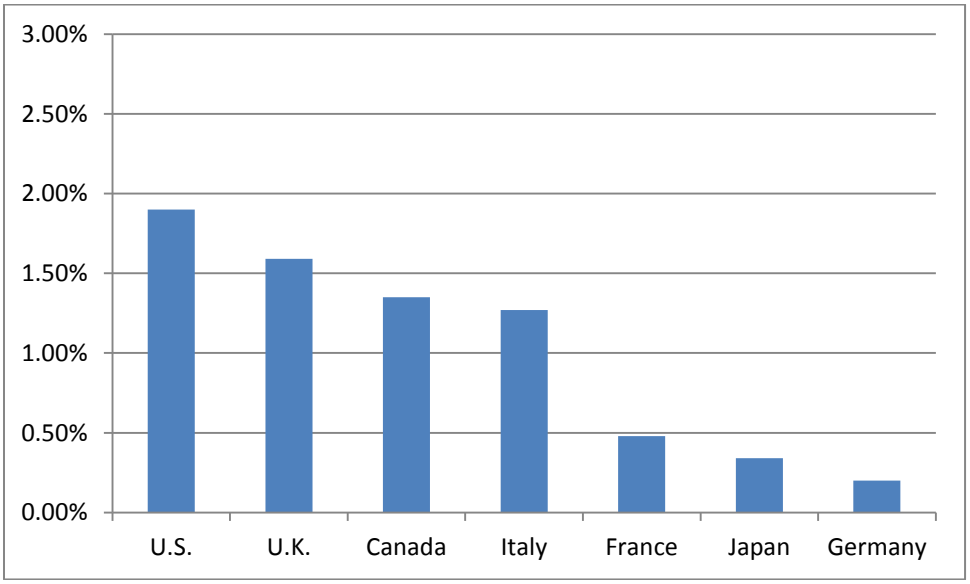
Portfolio Series and Portfolio Select Series

Alfred Lam, Vice-President and Portfolio Manager, CI Investment Consulting

Market performance

Stock and bond markets had another positive quarter with above-average returns. The European Central Bank's commitment to fight deflation and to grow the region's economy helped to boost investor confidence. The ECB announced its own version of quantitative easing, through which it is expected to buy as much as 60 billion euros of bonds issued by European governments, agencies and institutions. In Canada, our central bank surprised the markets by cutting overnight rates by 25 basis points in light of economic weakness due to struggles in the oil and energy sector. As a result, bond prices were up globally, while income yields, which measure the interest income investors will receive, were further depressed. There are no G7 government bonds that offer a yield above the major central banks' 2% inflation target (See chart). In other words, investors will lose purchasing power by investing their assets solely in government bonds today.

G7 10-year government bond yields



Source: Bloomberg, April 6, 2015

Market Commentary

Continued low interest rates and the ECB's new asset purchase program were also welcomed by stock investors. Despite continued challenges in the oil and energy sector, the Canadian stock market, as represented by the S&P/TSX Composite Index, earned 2.6% for the quarter. Foreign markets, as measured by the MSCI World Index, gained 4.9%, or 11.7% in Canadian dollar terms, with the extra boost provided predominantly by appreciation of the U.S. dollar.

Returns in % at March 31, 2015	3 mth	1 yr	3 yr	5 yr	10 yr
S&P/TSX Composite Index	2.6	6.9	9.6	7.4	7.4
S&P 500 Index (C$)	10.1	29.2	25.7	19.6	8.5
MSCI World Index (C$)	11.7	22.2	22.2	15.6	7.5
FTSE/TMX Canada Universe Bond Index	4.2	10.3	5.1	6.0	5.6

Source: Bloomberg, FTSE/TMX

Portfolio Series and Portfolio Select Series

All Portfolio Series and Portfolio Select Series funds earned a positive return during the first quarter. The income portion, which employs a diversified strategy, continued to produce steady growth for investors who want inflation–protected income. The equity portion enjoyed gains from both market growth and currency appreciation. Our exposure to foreign markets added value as they outperformed Canadian stocks. Investing in foreign markets also allows access to companies from sectors that are under-represented in Canada, including industrials, health care, and information technology.

Returns in % at March 31, 2015	3 mo	1 yr	3 yr	5 yr	10 yr	Since inception
Portfolio Series Income Fund	5.1	9.1	8.4	7.8	5.8	5.6 (Dec. 97)
Portfolio Series Conservative Fund	5.7	10.3	9.3	7.8	5.5	5.6 (Dec. 97)
Portfolio Series Conservative Balanced Fund	5.9	10.8	10.5	8.4	5.5	5.5 (Dec. 01)
Portfolio Series Balanced Fund	6.4	11.6	11.4	8.7	5.7	7.3 (Nov. 88)
Portfolio Series Balanced Growth Fund	6.7	11.2	12.2	9.1	5.5	5.3 (Dec. 01)
Portfolio Series Growth Fund	6.7	11.2	13.2	9.6	5.5	5.0 (Dec. 01)
Portfolio Series Maximum Growth Fund	7.5	12.4	14.8	10.3	5.5	4.6 (Dec. 01)
Select Income Managed	3.6	6.4	5.9	n/a	n/a	5.0 (Sept. 10)
Select 80i20e Managed Portfolio	4.1	7.4	7.6	6.4	n/a	4.5 (Nov. 06)
Select 70i30e Managed Portfolio	4.4	7.8	8.5	6.9	n/a	4.5 (Nov. 06)
Select 60i40e Managed Portfolio	4.6	8.3	9.3	7.4	n/a	4.4 (Nov. 06)
Select 50i50e Managed Portfolio	5.0	8.8	10.3	7.9	n/a	4.4 (Nov. 06)
Select 40i60e Managed Portfolio	5.3	9.4	11.2	8.5	n/a	4.5 (Nov. 06)
Select 30i70e Managed Portfolio	5.5	9.8	12.0	9.0	n/a	4.4 (Nov. 06)
Select 20i80e Managed Portfolio	5.9	10.5	13.1	9.5	n/a	4.4 (Nov. 06)
Select 100e Managed Portfolio	6.4	11.6	14.8	10.5	n/a	4.2 (Nov. 06)

All returns are for Class A units/shares.

Market Commentary

Investment Consulting

Select Income Managed Corporate Class

The bond markets, as represented by the FTSE/TMX Canada Universe Bond Index, earned attractive results for the quarter. However, positive returns were made only in January, not in February and March. Meanwhile, our actively managed income portfolio, Select Income Managed Corporate Class, earned a positive return in each of the three months for a total return of 3.6%.

During January, we participated in the domestic bond market rally that was driven by the unexpected central bank rate cut. We also collected regular interest income from our government and corporate bond holdings. In addition, our U.S. dollar exposure added extra returns to the portfolio. Stock markets rallied during February and our portfolio benefited. We took a more cautious stance heading into March by taking profits generally. That helped to reduce volatility and protected assets as major asset classes had a mild correction.

We recently increased the foreign bond allocations in the portfolio. In particular, we find U.S. Treasury bonds to be attractive. They offer the most generous yields out of the bonds of all G7 countries. In addition, the yield spread of a 10-year Treasury relative to cash is also the widest – this means U.S. bonds are priced with a larger cushion to weather future increases in interest rates. While we have added more bonds to the portfolio, the overall duration, a measurement of interest rate sensitivity, remains very low.

Outlook and positioning

We continue to manage interest rate risk in all Portfolio Series and Portfolio Select Series portfolios. We are gradually locking in profits from all asset classes when valuations get rich. Most recently, we have fine-tuned the strategic asset mixes after carefully balancing the risk and return potential. These changes include:

A. *Modestly reducing the U.S. large cap weighting and increasing the U.S. small cap weighting.* The U.S. economy continues to show strong indications of a continued expansion driven by its large consumer base. Lower energy prices are expected to be a net positive for the domestic economy over the long term. Smaller-capitalization firms in the U.S. are better able to capture the strength of the domestic economy compared to larger firms, which are generally more globally oriented. However, many large-capitalization firms in the U.S. continue to offer good diversification, are reasonably valued, and offer a strong risk-adjusted return profile; therefore, they should remain a core asset class in an investment portfolio. Our modest adjustments reflect our intention to capture growth opportunities while maintaining a large allocation to U.S. large caps.

B. *Modestly reducing international equity and increasing the emerging markets weighting.* Economies in Europe and Japan are struggling to achieve meaningful growth and are dealing with significant deflationary pressures due to a lack of demand and the sharp decline in oil prices. Meanwhile, valuations of European companies have gotten a boost recently due to the asset purchase program announced by the ECB. In contrast, developing economies continue to expand at a healthier rate, although the gap between the prosperous and less prosperous nations is wide. Emerging market equities are attractively valued in general and offer higher return potential, albeit with higher

expected volatility. Our modest adjustments reflect our measured efforts to enhance return potential while adhering to the risk profile of each portfolio.

Conclusion

We remain committed to adapting to changes in the investment environment and are focused on carefully managing all aspects of investors' total return. Our comprehensive and flexible process is designed to ensure that clients' portfolios remain positioned to achieve solid risk-adjusted returns throughout their investment horizon. We construct portfolios with a strategic asset mix that incorporates forward-looking expectations that capture shifting market dynamics, current valuations and long-term assumptions. Our ongoing review with our asset mix research partner State Street Global Advisors helps ensure that the asset mixes remain optimized. Our portfolio management groups provide additional value by selecting the best securities within each asset class to generate excess risk-adjusted returns. Our access to industry-leading resources helps us to craft high-quality portfolios that reflect evolving opportunities in global capital markets.